in context

SriLankan Airlines

You're our world

oneworld

Annual Report 2013/14

Contents

in context

SriLankan Airlines belongs to the community of full service, international airlines operating around the world today. Analysis of global aviation over recent times reveals that almost every airline in this community is struggling to post adequate returns. They have reduced costs and improved product significantly over the years but have passed these benefits on to the customer often at the expense of margins.

This is the context within which airline performance and profitability need to be assessed.

We have put in place a 5 year business plan that is focused primarily on moving the airline towards profitability whilst continuing to deliver greater economic returns to the country.

This then is the context within which SriLankan will operate and be evaluated, in the coming years.

Our Vision

To be the most preferred airline in Asia

Our Mission

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

SriLankan Airlines, the National Airline of Sri Lanka was founded in 1979. It is an award-winning carrier reputed for its world-leading standards of service, comfort, safety, reliability and punctuality. The airline's hubs are located at Bandaranaike International Airport in Colombo and Mattala Rajapaksa International Airport, Hambantota; providing convenient connections to its global route network of 89 destinations in 44 countries in Europe, the Middle East, South Asia, Southeast Asia, the Far East, North America, Australia and Africa. SriLankan Airlines is a fully fledged member of the **one**world alliance of global airlines.

You're our world

SriLankan Airlines

oneworld

SriLankan Catering

SriLankan Engineering

FLY SMILES Frequent flyer rewards

SriLankan Economy

SriLankan Business

SriLankan Holidays A world of memories

SriLankan MICE Meet the world

SriLankan Cares

SriLankan Cargo

SriLankan Training Takeoff to the Future

SriLankan IT Systems

upgrád e-auction

Highlights

		Group		Company	
		2014	2013 (Restated)	2014	2013 (Restated)
Financial					
Revenue	LKR Mn.	124,154.62	121,407.66	121,585.83	119,570.90
Operating Expenditure	LKR Mn.	150,393.31	146,834.36	150,389.46	146,700.24
Loss Before Tax	LKR Mn.	(31,297.64)	(26,842.36)	(32,357.98)	(26,088.57)
Net Loss for the Year	LKR Mn.	(31,365.83)	(26,857.60)	(32,408.34)	(26,088.57)
Total Assets	LKR Mn.	65,386.97	81,184.77	62,366.70	78,243.50
Shareholders' Funds	LKR Mn.	(51,678.69)	(41,437.51)	(57,220.95)	(45,972.79)
Traffic					
Passenger Capacity	ASK Mn.			15,780.54	15,944.31
Overall Capacity	ATK Mn.			2,187.18	2,186.96
Passengers Carried	RPK Mn.			12,810.95	12,968.74
Overall Load Carried	RTK Mn.			1,466.74	1,513.70
Passenger Load Factor	%			81.18	81.34
Overall Load Factor	%			67.06	69.22
Breakeven Load Factor	%			84.07	87.03
Staff Productivity					
Average Strength	Nos.	7,475	7,241	6,578	6,359
Revenue per Employee	LKR Mn.	16.61	16.77	18.48	18.80
Value Added per Employee	LKR Mn.	(3.55)	(2.73)	(4.33)	(3.13)
Aircraft Fleet					
A320/1-200	Nos.			8	8
A330-200	Nos.			7	7
A340-300	Nos.			6	6
Turbo Otter	Nos.			–	1
Aircraft in Service at Year End	Nos.			21	22

Chairman's Message

As a full service, international airline and the National Airline of Sri Lanka, SriLankan Airlines supports the brand Sri Lanka. We have the infrastructure, products and services in place to provide a vital gateway to Sri Lanka.

I am pleased to welcome you to the 36th Annual General Meeting of SriLankan Airlines and to place in your hands the Annual Report and Audited Financial Statements of the airline for the financial year 2013/14.

During the year in review, your airline took several strategic initiatives that will shape and drive our enterprise and performance in the coming years.

Of vital importance to our progress is the adoption of a new five year business plan. This plan embodies the strategies and actions that will be needed to improve profitability and achieve healthier margins, whilst continuing to generate greater economic returns to the country.

An aspect which we endeavour to address through this report concerns context and perspective. SriLankan Airlines is often viewed through the prism of profitability. This is eminently understandable as expectations, particularly of a State-owned organisation are high. However, the refracted vision emanating from this 'prism' alone really does not do justice to the scope and substance of the airline's enterprise and achievements. This report contains material to help place SriLankan Airlines in context with industry trends and results.

The other development this year is the commencement of an evolution in our annual reporting format, which seeks to present a clearer and more contextual picture of the challenges, triumphs and failures your airline faced during the year in review.

Within this context therefore, I will now provide you with details of the airline's performance and its role in the greater scheme of things vis-a-vis the Nation, its people and their aspirations.

Key Performance Highlights

The airline earned revenue of LKR 121,585.83 Mn. for the fiscal year 2013/14, an increase of 2% over the previous year's LKR 119,570.90 Mn.

Our operating expenditure reached LKR 150,389.46 Mn., an increase of 3% over the previous year's LKR 146,700.24 Mn.

Passenger capacity, number of passengers carried and load factors maintained parity with last year's levels.

However, the airline's net loss increased to LKR 32,408.34 Mn. for the period under review, compared with a net loss of LKR 26,088.57 Mn. recorded the previous year.

This loss is attributable to an increase in aircraft maintenance and overhaul costs caused mainly by mandatory aircraft modifications and expenses related to return of aircraft, which amounted to LKR 2 Bn., as well as an escalation in finance expenses which amounted to LKR 6,197 Mn. (which includes LKR 2,100 Mn. attributed to the loss on Sale of Treasury Bonds) compared with LKR 3,138 Mn. the previous year.

Performance of the Subsidiary - SriLankan Catering Limited (SLC)

The Group's fully owned subsidiary, SLC, continued to provide strong financial support for the Group during the year under review and achieved an impressive profit after tax of LKR 2.3 Bn. compared to profit after tax of LKR 1.4 Bn. reported in previous financial year. This was the eighth time in the past that SriLankan Catering crossed LKR 1 Bn. in profit after tax.

SLC specialises in providing Inflight catering services to airlines that operate to Bandaranaike International Airport (BIA) and Mattala Rajapaksa International Airport (MRI). SLC signed new agreements during the year to provide catering services to several international airlines, and is confident of attracting several more during the next financial year. SLC also invested in a new flight kitchen which is under construction at MRI.

In addition to its core business of airline catering SLC has a diversified business portfolio which includes; operating Transit and Public Restaurants at BIA and MRI, management of and catering to airport lounges, managing the airport Transit Hotel at BIA, provision of Laundry Services (Aero Clean), Local Catering (Vanilla Pod) and operating the Semondu Restaurant in Colombo.

SriLankan Catering added to the Group's growing reputation for excellence by winning prestigious awards during the year. SLC remains one of the few Airline caterers to possess triple certification during the year under review and successfully completed audits to upgrade its quality management standards. SLC is a member of the International Travel Catering Association of (ITCA) and the Flight Food Service Association of the United States and the flight kitchen is halal certified.

SriLankan and Sri Lanka

The focal point of the national development thrust is the establishment of Sri Lanka as a strategically important economic centre of the world. This, the country hopes to attain by developing into Maritime, Aviation, Commercial, Tourism, Energy and Knowledge hubs - a strategically important link between the eastern and western hemispheres.

SriLankan Airlines as a full service, international airline and the National Airline of Sri Lanka, has the infrastructure, products and services in place to provide a vital gateway to Sri Lanka in aiding the gamut of activity that must ensue as these hubs come into being.

Of course our direct impact is to be seen in the aviation sector.

SriLankan Airlines accounts for over 50% of passenger travel into and out of Sri Lanka. Our operations bring gainful profit right across the industry supply chain, benefitting airports, hotels, travel agencies, freight forwarders among others.

We are an integral stakeholder in the country's tourism sector.

Sri Lanka's growing economy and rapid development have been key catalysts for the growth of tourism. Tourists arrivals at 1.3 Mn grew by 27% as at December 2013 and we are well on track to achieve the target of 2.5 Mn. visitors by 2016. Total revenue from tourism up to December 2013 reached USD 1 Bn.

Despite this growth in visitor numbers, we feel that the sector remains underdeveloped in comparison to other countries in the region. This is an opportunity that industry, airline and Government can seize and turn to singular advantage.

SriLankan Airlines' contribution to the national interest stretches far.

Our membership, just attained, in the prestigious **one**world global airline alliance has significantly expanded our reach and offer with access to more than 900 destinations operated by our alliance partner airlines across the globe. This is a quantum leap in enhancing - access to more places around the globe for the international traveller as well as the country's image and standing as it develops the aviation hub concept.

The airline has begun a fleet renewal process to phase out inefficient aircraft, replacing them with newer and more economical units. This process will take place from 2014 onwards. The new fleet will yield significant economies in terms of fuel and maintenance and incorporate the best of on board products all of which will place SriLankan in the company of some of the best airlines in the world. The process will also embellish the 'Sri Lankan proposition' as a Nation on the move.

Several of our ancillary business units such as our Technical Training School, Flight Academy and International Aviation Academy are fully internationally accredited bodies and whilst they meet the needs of SriLankan Airlines, they also have extensive training programmes for third parties.

Similarly the Maintenance Repair and Overhaul facility planned at the Mattala Rajapaksa International Airport in Hambantota will be a state-of-the-art centre capable of handling narrow body aircraft maintenance.

Apart from being valuable 'centres of knowledge', thus contributing to the national vision of establishing Sri Lanka as a knowledge hub, they are also employment generators of the highest quality and remunerative capacities leading to improving per capita income levels and living standards.

Sri Lanka and SriLankan

The Government of Sri Lanka continues to extend steady support to the progress of the national carrier. In recognition of SriLankan's supportive role in the national landscape of development and the overall aspirations of the country, the Government has supported the airline's financial stability with strategically planned capital infusions, the current status of which is as follows:

In terms of financial support of SriLankan, the Government has been a committed shareholder of the airline since its establishment. In 2012, the Government approved an investment of up to USD 500 Mn. over a period of five years. In fulfilment of this undertaking, the Government provided capital infusions as follows: 2012 - LKR 14.3 Bn. 2013 - LKR 12.6 Bn., 2014 - LKR 19.6 Bn. The Government also provided a guarantee for USD 175 Mn. bank facility in 2012 and another guarantee of USD 50 Mn. against a USD 150 Mn. bank facility in 2014.

The Government intends to invest a further USD 125 Mn. in the airline during the period 2015 - 2016 as a component of the overall USD 500 Mn. investment envisaged.

On the regulatory front, the Government has put in place regulations and policies that support not only the growth of the country's aviation sector, but also that of tourism in Sri Lanka, which in turn supports the development of SriLankan Airlines.

The Government's policies reflect the fact that the airline is viewed by it as an integral partner in the continued economic and social transformation of Sri Lanka. The aviation sector has been identified as one of the 'thrust industries' central to such transformation.

Looking to the Future

We will adhere to the strategies and actions enunciated in our five year business plan with a focus on better revenue management and cost improvement, whilst optimising our network.

The continued impressive growth of demand out of Sri Lanka, which stands at an annual growth rate of 9% achieved over the past two years plus a similar growth in demand in to Sri Lanka augurs well and promises much for the future.

In Conclusion

I wish to thank most sincerely, His Excellency the President for his enduring belief in the airline and the role it plays and will continue to play in the development and progress of the Nation, the aviation industry and the tourism industry. I also extend appreciation to the Hon. Minister of Civil Aviation and the Hon. Minister of Economic Development for their continued support of the national carrier.

I am very grateful to the Board of Directors, the Chief Executive Officer, the Management Team and all staff of the airline for the contribution all have made with such passion and loyalty in helping to chart a course of success for the airline.

I thank our shareholders and the Government of Sri Lanka for their continued support and faith in SriLankan Airlines.

Nishantha Wickremasinghe
Chairman
31st July 2014

Chief Executive Officer's Review

The realities that give shape and form to the global aviation 'ecosystem' are what lend context and perspective to the airline.

SriLankan Airlines operates within an 'ecosystem', as is true of any organisation or being. As an international flag carrier, SriLankan is another member of the family of global flag carriers as well as an integral partner in the development and well-being of its home country Sri Lanka.

These two aspects are not incompatible.

This is an aspect of SriLankan Airlines that has not found its way into the columns of its Annual Report over the years, in as comprehensive a manner as we would wish.

The realities that give shape and form to this 'ecosystem' are what lend context and perspective to the airline.

It is this aspect we wish to bring to the fore this year.

In this Report, we endeavour to place before you an account of our performance as well as the context within which our enterprise has been conducted.

The Global Aviation Industry

Aviation is a large and unique industry. Across the world on any given day, 99,700 flights operated by over 1,300 airlines, and over 24,000 aircraft, are in the air, whilst over 10 Mn. seats are sold on these services and over USD 17.5 Bn. worth of goods are carried.

Demand for air travel remains strong. A comparative analysis with other transport mediums, carried out by International Air Transport Association (IATA) and the Air Transport Action Group (ATAG) reveals that overall, airlines have the highest load factor of 77% amongst other popular forms of passenger transport such as train (40%) and bus (60%). This is because airlines have better resource utilisation levels than many other transport providers.

Air transport also remains an integral part of the global economy, contributing as much as USD 2.4 Tn. in terms of direct and indirect means, and supporting 3.4% of the global GDP.

Moreover, the global aviation industry is also a substantial employment provider. Statistics from IATA show that the industry generates over 58 Mn. jobs across several strata - the airlines, Indirect sources (direct and indirect suppliers to the industry), Induced (spending by direct/indirect suppliers and employees) and catalytic (via the impact the industry has on tourism and related industries). Aviation jobs are, on average, 3.6 times more productive than other jobs.

The foregoing is an excellent example of the multiplier effect that the industry provides to a country's and the global economy.

IATA has published a very revealing statistical analysis of the multiplier effect, which puts the direct output of airlines in proper perspective. Airlines around the world are most often judged purely on their direct output and it is a fact that across almost every airline, margins are wafer thin and under threat from the slightest shock.

IATA postulates that the real output that accrues from the airlines' direct output through the multiplier effect that runs across entities operating within the indirect, induced and catalytic categories, is substantially high in most markets.

The GDP multiplier in Asia Pacific region - to which SriLanka belongs - ranges from 3 to 13 times. Simply put, every unit generated as direct output by airlines let's say, in the Asia-Pacific region is, through the multiplier effect, enhanced by this factor. In a sense, this is the real value generated by airline operation across the globe.

This is a prime reason behind countries taking a balanced view towards their national carriers; they see the bigger picture and invest in the value generated, through the multiplier effect, not only across the immediate air transport supply chain but across wider national interests.

Though I digress from our main topic, global aviation, I believe the ensuing point must be made within this context. Sri Lanka's goal to establish an aviation hub is being substantially furthered through the enterprise of SriLankan Airlines as the catalyst for the contributions that cascade throughout the value chain.

Elsewhere in this Report we have dealt with the subject of the somewhat uneven or even inefficient distribution of returns across the air transport supply chain. The fact of the matter is that the airlines are the 'reason for being' of all other entities in the supply chain. After having faced the second highest volatility of returns or risk, exacerbated by many factors outside of their control, for example fuel costs, and passed on to customers, the substantial benefits earned from cost saving factors such as fuel efficient aircraft, airline margins remain the lowest in the supply chain.

Consonant with possible remedies to this situation some airlines have forged partnerships with other entities in the supply chain and opted for vertical integration where they could exert a measure of control and derive profit from the activities of these partners.

However in most cases their direct output still remains as low as or lower than the majority of the world's airlines.

Were they to be judged on direct output alone, they would be no different to the majority of airlines flying international skies today.

It's all about perspective and context.

The Context of Our Business Plan

The conflict in Sri Lanka meant there had been little or no investment in the airline during the past fifteen years. Our in-flight product was getting outdated and infrastructure whilst adequate was not geared to take the airline forward. With the dawn of peace in 2009 came the blueprint for national development embodying the positioning of Sri Lanka as a strategic hub in the region. Targets were set for the development of an aviation hub and the vigorous promotion of tourism. Similar development initiatives were set in motion across many other areas too.

As an integral stakeholder in the aviation hub concept and in tourism, SriLankan Airlines took a long, and detailed look at the 'way ahead' with the objective of positioning the airline to support the forward momentum of the nation in as viable a manner as it could.

Now to the present and the airline has formulated a 5 year business plan to comprehensively identify the challenges and opportunities it will face in operations.

In summary, what needs to be done is to replace our older and inefficient fleet with modern, and more efficient aircraft, optimise a route network that is currently displaying the 'right mix', employ more robust revenue management practices and introduce a variety of revenue and cost improvement initiatives.

A combination of a better revenue environment and cost controls is expected to improve the bottom-line performance.

Working to Plan

The Government in approving our business plan also pledged funding in a total sum of USD 500 Mn. This helped us to begin the fleet renewal, which will play out in phases from the year 2014 onwards. The modernisation of the fleet will allow us to offer a significantly enhanced on-board experience to the passenger, making us current and relevant vis-a-vis the competition and also yield substantial economies in the areas of lower fuel consumption and lower maintenance costs.

When in operation, this single move will provide a platform for the airline to optimise costs (via fuel and maintenance efficiencies) and increase revenue (via a better product offering).

Our current fleet stands at 21 units comprised of - 8 Airbus A320-200s, 7 Airbus A330-200s and 6 Airbus A340-300s. Our plan envisages the replacement of the A340-300s and the A330-200s commencing in 2014, with 6 A330-300s and 7 A350-900s respectively. We are also progressively evaluating our future narrow-body aircraft fleet, with a possibility to increase the overall fleet size. Other initiatives we will take to achieve the goals of our business plan include - maximising revenue from our strategic business units such as engineering and maintenance, cargo, catering services, ground handling and training.

That's the way ahead. Now I'd like to track performance for you, over the recent past, which when placed in context, provides a realistic assessment of the airline's progress up to now.

Performance in Recent Years

With the conflict prevailing in Sri Lanka up to the year 2009, no major additions were made to the fleet, which stood at 12 units. However, fleet augmentation began in the year 2010/11 with the addition of two units and as at date our total aircraft fleet stands at 21. This constitutes a near 100% increase.

What fuelled this need for capacity addition was the fact that, whilst our route network grew marginally (to 32 destinations), in response to demand, frequency was increased with more flights per destination as the desired outcome.

Thus flight frequency increased from 7,505 in 2010/11 to 12,399 in 2013/14.

These decisions, I believe were taken for the right reasons, when you consider that passenger numbers increased from 2.9 Mn. in 2010/11 to 4.2 Mn. in 2013/14 and the passenger load factor increased from 77% to 81%, during the same period. The increase in passenger numbers was driven by an almost doubling of tourist arrivals consequent to the return of peace in the country and the numbers also reflect both people whose destination was Sri Lanka (point to point) as well as those transiting Sri Lanka and travelling on to other destinations in our network.

Another aspect to consider is the strategic importance of the additional capacity added by SriLankan during that period. I do believe that while as the national carrier we are committed to the welfare of Sri Lanka and therefore added the capacity needed to meet the demand, not many other operators would have stepped up to the plate to add such a large scale of capacity, based on their assessment of their opportunity costs and other commercially driven parameters.

Also historically, there were no grounds to assume anyone other than SriLankan would take up this duty - SriLankan Airlines and Mihin Lanka account for the major share of the market capacity with 54% and 7% respectively. The balance is fragmented between all other carriers operating to Sri Lanka.

Over the years another serious challenge loomed in the shape and form of fuel costs. Over the decade, jet fuel prices have risen a staggering 242%. The average fuel price as measured in US Cents per gallon rose from just above 90 in 2003/04 to well over 300 in 2013/14 - the steepest increase of which was noted between 2011 and 2013.

Whilst fuel cost escalation was a worldwide phenomenon, the fact remains for us to grapple with - that some countries in Indian Sub-Continent, where a majority of our operations take place, charge one of the highest jet fuel prices in the world.

The fact of the matter is that during the past years fuel prices have driven our costs up. All of these costs could not be passed on to the customer. Therefore revenue had not been able to keep up with escalating costs, leading to our losses.

An analysis of SriLankan's unit cost in comparison with other airlines is very revealing. Despite operating an older and inefficient fleet and purchasing majority of our fuel requirement in areas where pricing is high, we have one of the lowest unit costs of all.

The way I see it, SriLankan Airlines is not cost heavy in any region other than fuel acquisition. Judicious expenditure in other areas is necessary to help the airline remain competitive in terms of products and services, as befits a full service international airline.

An analysis of SriLankan's unit revenue vis-a-vis other airlines reveals where the problem lies.

We have one of the lowest levels of revenue per ASK in the market.

Thus while managing costs we need to focus on revenue.

The measures we are adopting to address this include significantly enhancing the product through newer aircraft, a better on-board experience for passengers with the latest cabin appointments, seating and entertainment, optimising our route network and flight frequencies and leveraging the desirability of Sri Lanka as a destination of choice around the world. Our membership in **one**world will also provide us with revenue enhancement opportunities.

Contributing to the Economy of Sri Lanka

We have analysed the financial flows into the economy as a direct result of SriLankan Airline's presence as the national carrier. The analysis spans the strata - direct, indirect, induced and catalytic and includes the direct output of the airline, the output of suppliers who rely on SriLankan, the spending of those whose employment is supported by the airline and flows generated as a result of tourist activity supported by the airline.

The contribution from SriLankan to Sri Lanka's GDP reached 2.1% during the year under review.

This 2.1% equates to approximately USD 1.4 Bn.

The Airline's Initiatives during 2013/14

This material has been covered extensively in the chapter Management Discussion and Analysis appearing from page 21 of this report.

However, there are some points of interest I wish to comment on.

When we joined the oneworld alliance of airlines as an invited member, it not only enhanced our product through access to a worldwide network and the services of some of the best airlines in the world but it also brought significant brand exposure, appreciation and value. The oneworld alliance is excellent company to keep if you are an international airline on the move as SriLankan is.

The new systems and processes adopted in revenue management are bearing fruit. Our passenger yield recorded an increase from the prior year, and reached the highest yield ever reached in the Company history. But we still have some more way to go.

Looking to the Future

The future looks bright in terms of airline passenger traffic out of Sri Lanka. While formulating our Business Plan, we estimated using multiple reputed global forecasts for the period of 2012/13 to 2017/18, which indicated that Sri Lanka's airline passenger traffic is set to grow over 51%. Demand out of Sri Lanka has grown at an impressive CAGR of 9% over the past two years, which is very healthy.

Similarly demand to Sri Lanka, analysed over the same period holds very good growth prospects. Asian countries will lead this growth with China having the highest growth potential of 72%. It is to take advantage of this opportunity that we recently initiated non-stop services from Sri Lanka to Beijing and Shanghai in China, both of which have been met with excellent demand from the market - driving triple digit growth in Chinese tourists into Sri Lanka.

Several other Asian countries, including India and Malaysia too hold similar opportunities for Sri Lanka.

Within the Asia Pacific countries an encouraging trend emerging is the growth of the middle income class and the potential spending power they will wield in the coming years. It is forecast that the Asian middle income class population will grow four-fold during the next twenty years. This is an area of opportunity for both Sri Lanka and the airline to tap into this traffic thereby developing tourism and air travel in tandem.

Sri Lanka is enviably situated along some of the world's strongest and fastest growing regional travel flows. This is a huge opportunity for country and airline to seize and promote the aviation hub. It will however need great strategising and commitment by all players.

Analysing SriLankan's outlook over the years from 2014/15 to 2016/17, we have taken a capacity increase up front, expecting to maintain a fleet of 21 aircraft across the period. We don't envisage any additions during the period.

The destination mix is right, so we plan to maintain a network of 32 destinations whilst considering the addition of Melbourne, Australia in the near future and perhaps one or two destinations in India and China. But we are always keeping an open eye for new opportunities, while also being agile to respond to market changes.

We expect passenger numbers to grow from just over 4 Mn. in 2014/15 to close upon 5 Mn. in 2016/17. This is a conservative estimate. We can see a maturing in this sector after the early pent-up demand in the years immediately post conflict.

We are actively working with the authorities and others in the supply chain, to effect a more favourable pricing structure for aviation fuel. Should we make gains in this area, we can make serious inroads into further reducing our deficit and bring our operating margins at least into single digit territory by 2016/17.

I am very confident that SriLankan Airlines has the correct strategy to negotiate the coming years successfully, continuing to make a real contribution to the Nation and its people, whilst improving substantially its own well-being both financial and from the operational perspective.

I would like to conclude by thanking His Excellency the President Mahinda Rajapaksa, all Ministers and relevant Ministry staff, for their belief and support in the true context and operation of SriLankan and the role we are honoured to play from the national perspective. I also thank our Chairman and my colleagues on the Board for their invaluable guidance and support in handling the affairs of the airline. Thanks are also due to our banks and aircraft lessors both in Sri Lanka and overseas, Sri Lanka Tourism, Airport and Aviation Services and all suppliers and business partners.

To our customers I owe a debt of gratitude - thank you for your patronage of SriLankan Airlines.

Likewise, to all employees and employee unions, I extend sincere thanks; you are the backbone of this enterprise and all our strategies would remain on the drawing board if not for your efforts in giving life to them.

Exciting times lie ahead for the airline and the Nation. During 2014, we will take delivery of our first brand new Airbus A330-300 aircraft, representing the fruits of a major investment and placing SriLankan on a different competitive platform. These aircraft will feature an innovative on-board product that will make SriLankan competitive with the leaders of the industry, and enhance our revenue earning ability. Our membership in the oneworld alliance, and the benefits that our passengers receive will further cement this. Through these initiatives we aim to further improve the consistency and quality of our customer service. Our newly launched SriLankan Training arm will empower local youth to reach greater heights with an aviation career, while our planned MRO at Mattala Rajapaksa International Airport will further Sri Lanka's drive to become an aviation hub. Our focus on performance improvement is relentless, and we are committed to doing our best.

Kapila Chandrasena
Chief Executive Officer
31st July 2014

Profiles of the Directors

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.

He serves as a Non-Executive Director at Hapugastenne and Udapussellawa Plantations PLC and as an Independent Non-Executive Director at Horana Plantations PLC.

Mr. Wickremasinghe is the Past Chairman of Mihin Lanka (Private) Limited.

Kapila Chandrasena

Appointed to the Board in December 2008 . In addition appointed as Chief Executive Officer in August 2011. A marketeer by profession he is currently a Director of SriLankan Catering Limited.

He also served as the Chief Executive Officer of Mihin Lanka (Private) Limited and Mobitel (Private) Limited.

Nihal Jayamanne PC

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

Shameendra Rajapaksa

Appointed to the Board in August 2009. He is a Computer Engineering professional and currently holds the position of Private Secretary to the Hon. Minister of Finance. He is a member of the Human Resources and Remuneration Committee.

He also serves as a Director/Member of Sri Lanka Telecom PLC, SLT Hong Kong Limited, SLT Publications (Private) Limited, SLT Property Management (Private) Limited and SriLankan Catering Limited.

Manilal Fernando

Appointed to the Board in May 2010. He is a member of the Human Resources and Remuneration Committee. He is the Chairman of Stallion Holdings (Private) Limited, Hyundai Lanka (Private) Limited, Dynamic AV Technologies (Private) Limited.

A lawyer by profession he also holds several other directorships amongst which are Ceylon Investment PLC, Ceylon Guardian Investment Trust PLC, Aitken Spence & Co. PLC and as a Trustee at Joseph Fraser Memorial Hospital.

Lakshmi Sangakkara

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

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 Audit Committee and the Human Resources and Remuneration Committee. He holds several other directorships amongst which are Ceylon Hotels Limited, Security Systems (Private) Limited, Bentota Management (Private) Limited, International Hotel School of Ceylon (Private) Limited, Paradise Resort Pasikudah (Private) Limited and SriLankan Catering Limited.

Mr. Ukwatte is also the Honorary Consul of the Republic of Slovenia in Sri Lanka.

Susantha Ratnayake

Appointed to the Board in December 2011. He chairs the Audit Committee and is a member of the Human Resources and Remuneration Committee. He is a Director of SriLankan Catering Limited and is the current Chairman and CEO of John Keells Holdings PLC and several other listed and un-listed companies within the JKH Group.

He is also the Chairman of Ceylon Tobacco Company PLC.

Key Members of Management

G. T. Jeyaseelan

Joined the Company in 1980 and was appointed as the Chief Marketing Officer in 2011. Prior to being appointed as the Chief Marketing Officer, he served as the Company's Head of Commercial and Head of Service Delivery. During his time with the Company, he has held various roles in schedule planning, corporate planning, market research, market planning, product development, marketing services and service delivery. He has also served as the Company's country manager in Saudi Arabia, UAE, Bahrain, Germany, Austria, Japan, Korea, China, Sri Lanka and the Maldives.

Mr. Jeyaseelan is a member of the Chartered Institute of Transport (London) and was the former Chairman of its Sri Lankan branch. He holds a Bachelors in Mathematics and Statistics from the University of Jaffna, Sri Lanka and a Masters in Business Administration, specialising in aviation management, from Concordia University, Montreal, Canada.

Captain Druvida Perera

Joined the Company in 1990 and was appointed as the Chief Operations Officer in 2012. His previous roles within the Company include Head of Flight Operations, Chief Pilot A330 and Chief Facilitator of the Crew Resource Management Programme.

Manique Gunasekera

Joined the Company in 1995 and was appointed as the Chief Strategy Officer in 2013.

During her time with the Company, she has held various roles in international relations, commercial planning and insurance. Prior to joining the Company, Mrs. Gunasekara worked for Westpac Banking Corporation, Australia as an assistant manager and James Berry and Associates, Dubai. She holds a Bachelors in Law from the University of Colombo, Sri Lanka and a Masters in Law from Harvard Law School, United States of America.

Yasantha Dissanayake

Joined the Company in 2004 and was appointed as the Head of Finance in 2009. Prior to joining the Company, Mr. Dissanayake held senior positions in the investment banking and telecommunications industries. He is an accountant by profession (member of the Chartered Institute of Management Accountants, UK) and holds a Masters Degree in Business Administration from the University of Wales, Cardiff.

Priyantha Rose

Joined the Company in 1980 and was appointed as the Head of Engineering in 2010. He has more than 33 years of experience in the air transportation industry.

Mohamed Fazeel

Joined the Company in 1979 and was appointed as the Head of Commercial Operations in 2011. He has held various roles in the Company in areas such as schedule planning, market research, market planning, product development, marketing services, revenue management and sales. His previous roles within the Company include Head of Worldwide Sales, Regional Manager for Middle East and Africa, Regional Manager for Asia Pacific Region and Regional Manager for Europe and Americas. Mr. Fazeel is a member of the Chartered Institute of Management Accountants (UK) and Chartered Institute of Marketing (UK). He holds a Masters in Business Administration from the University on Westminster, London.

Chanaka Olagama

Joined the Company in 1984 and was appointed as the Head of Service Delivery in 2011. His previous roles within the Company include the Company's country manager in Qatar and Bahrain, Kuwait, Lebanon, Jordan, China, the United Kingdom, Ireland, Scandinavia, the United States of America and Canada and Sri Lanka and the Maldives. He has experience in Flight Operations and Ground Handling as well.

Pradeepa Kekulawala

Joined the Company in 2011 as the Head of Human Resources. Prior to joining the Company, he was the head of human resources for a number of leading companies in the education, office automation, engineering and apparel sectors. He has also been a consultant and skill development facilitator in the corporate sector for over a decade.

Mr. Kekulawala holds a Masters of Business administration from Commonwealth of Learning and holds a Postgraduate Diploma in Information Technology from the Sri Lanka Institute of Information Technology. He serves as a founding steering Committee member of the Geneva based International Air Transport Association's (IATA) Human Capital Council.

Mr. Kekulawala is currently reading for his PhD in management at the University of Colombo with research in organisation behaviour.

Major General P. Chandrawansa

Joined the Company in 2012 as the Head of Group Security Logistics and Administration. He joined the Sri Lanka Army in 1976 and served until 2006, when he retired as a Major General.

Following his retirement from the Sri Lanka Army, he was appointed as an Executive Director of the Consumer Affairs Authority.

Lal Perera

Joined the Company in 1980 and was appointed as the Head of World Sales in 2012. He has more than 32 years of experience in the air transport industry. His previous roles with the Company include Regional Manager of the Middle East and Africa and Regional Manager of the Indian Subcontinent. He has also served as the Company's country manager in India, Sri Lanka, UAE and Kuwait.

Chamara Perera

Joined the Company in 1999 and was appointed as the Head of Information Technology in 2013. During his time with the Company, Mr. Perera has held various information technology related roles. He holds a Bachelors of Science in Electronics and Telecommunications from the University of Moratuwa, Sri Lanka and a Masters in Business Administration from the University of Leicester, United Kingdom.

Chamara Ranasinghe

Joined the Company in 2013 as the Head of Cargo. Mr. Ranasinghe has over 14 years' experience in the airline cargo and aviation industry in the fields of customer services, cargo reservations, cargo sales and marketing and airport cargo operations. Prior to joining the Company, he held senior positions in reputed international airlines operating in Sri Lanka.

Operating Environment

The phenomenal demand for air transport services and the clear value created and passed on to the customer has not resulted in adequate returns to airlines.

Global

The global air transport industry continues to be one of the single most powerful agents of transformation of the world. The rapid connectivity it provides has enabled globalisation, which has shaped modern business and the experiences of individuals.

These sentiments are contained in the foreword to a seminal study conducted by IATA on Profitability and the Air Transport Value Chain, which report forms the basis for our analysis of the global operating environment in respect of aviation.

Airlines and the wider air transport supply chain have created substantial value for consumers and the broader economy. The proof of this value creation lies in the fact that over the past 40 years, air travel has expanded tenfold and air cargo fourteenfold whilst the world's GDP has recorded only a three to fourfold rise.

Phenomenal as this demand for air transport services has been and the clear value created and passed on to the customer, the reality today is that airlines all over the world are struggling to make adequate profits.

A recent study of worldwide airline financial results per departing passenger reveals that airlines generated a little over USD 228 per passenger as revenue, which included just over USD 12 per passenger in ancillary revenues. However, after paying tax and debt interest, net profits per passenger amounted to just USD 2.56. So thin is the margin, that it would not take much in the way of a rise in costs, tax or demand shock to wipe out profit altogether.

Also, over a 40-year period from the 1970s to 2010, the industry has managed to successfully halve unit costs in real terms; however, all of these efficiency gains have been passed through to customers via lower prices. This has created substantial value for the customer, which in itself is a good thing. But the problem is that it has left airlines with impossibly thin margins and airline equity investors unrewarded for the capital they invest.

The airline industry is unusual in persistently generating return on capital below cost of capital. Whilst there are some airlines that consistently deliver reasonable profit margins and value to their equity owners, these are in the minority. This is the scenario across most airline models including low cost carriers and across all geographies and markets, whether mature or developing. Thus, it may be said that neither geography nor business model appear to have a causative effect on low profitability.

The ubiquity of this under performance points to system wide issues affecting all airlines - either a problem with the supply chain or with industry structure.

An analysis of the supply chain and distribution pertaining to the global aviation industry where we examine returns versus cost of capital reveals that airlines are the poorest off, earning returns of around 4% against cost of capital which ranges from 7% to 10%. Almost all other players in the chain do much better. There are problems in the value chain that need fixing. A lack of

competition in some sectors leads to process and investment returns being much higher than a competitive market would deliver. It is apparent then, that returns are unevenly and inefficiently distributed across the supply chain.

Fuel is a key cost component for the airline industry. Fuel costs have risen dramatically between 2004 and 2011 - comprising 17% to 30% of operating costs. However, fuel costs are not high due to poor technology or inefficient operations. Over the past 40 years, the amount of fuel used to fly a tonne kilometre has more than halved because of improved engine and air frame technologies. Airlines have also substantially improved their utilisation of aircraft.

At current price levels, air transport generates very substantial profits for the fuel industry estimated at between USD 16 and USD 48 Bn.

Some other factors that drive costs in the industry are labour, a lack of competitive pressure across the supply chain that leads to inefficiency and risk (very unevenly distributed across the air transport supply chain - the airline sector earns the lowest return on capital yet faces the highest volatility of returns or risk).

What then are the actions required to be taken by airlines and their business partners to improve the economic efficiency of the value chain, in order to increase the value it creates and ensure its financial stability?

The range of changes that would improve value creation include – reducing inefficiency, reducing and evening out 'excess' profits (i.e., the higher returns awaiting investors elsewhere in the supply chain exacerbated by a lack of true competition in certain areas of the supply chain), reducing risk and improving the customer experience.

Outside of the supply chain there remain factors to be addressed such as industry structure and the nature of competition.

The most productive way forward in many circumstances may lie in partnership - between airlines and all their business partners in the air transport supply chain, where there are benefits to both parties in doing business differently.

Several other measures such as vertical integration, the circulation of better and more transparent information to help supplier markets work better and cost benchmarking to aid more efficient commercial negotiations are also relevant.

Over the next 20 years and beyond, the airline industry is expected to triple or even quadruple its services to meet the demand for air travel and cargo services generated by the expansion of the middle income classes in Asia-

SriLankan Airlines as the national carrier and pre-eminent airline operating in Sri Lanka is viewed as an integral partner in national development.

Pacific and emerging economies in Latin America, MENA and sub-Saharan Africa.

It is estimated that worldwide, new capital of USD 4 to USD 5 Tn. would be required over the next two decades to buy aircraft to meet the needs of expansion in the Asia-Pacific and other improving regions.

Local

The Sri Lankan economy reflected a real GDP growth of 7.3% in 2013, up from the growth of 6.4% achieved in 2012. This result was driven by positive performance from all contributing sectors to the economy. Also favourable weather conditions and gradual recovery in external demand were key contributory factors.

The Government's blueprint for national development involves the establishing of Sri Lanka as a regional aviation hub, among several others in key strategic areas of endeavour. To this end the establishment of Sri Lanka's second International Airport at Mattala in the Southern Province in 2013, as well as the concerted effort to develop the tourism and leisure sector are key drivers within the national development blueprint.

SriLankan Airlines as the national carrier and pre-eminent airline operating in Sri Lanka is viewed as an integral partner in such initiatives.

In addition to its economy, Sri Lanka's tourism industry is enjoying a period of significant growth. It is the Government's policy to transform Sri Lanka into an important strategic economic centre through the development of, among other aspects, tourism. Tourist numbers to Sri Lanka have grown steadily from approximately 448,000 visitors in 2009 to over 1.3 Mn. in 2013, according to the Sri Lanka Tourism Development Authority.

Moreover, when one considers that the projected growth of global travel lies within the markets of the Asia-Pacific region, Colombo is located in an enviable position to capture some of the strongest and fastest growing regional travel flows in the world.

With specific relevance to SriLankan Airlines, the Government of Sri Lanka once again became the majority shareholder of the airline when it purchased the 43.63% stake held by Emirates Airline in 2010, marking the end of a partial privatisation agreement and 10-year partnership between SriLankan and the Dubai-based carrier.

Since then, the Government has been fully committed to the development of the airline by supporting its growth. Among other constraining forces operating in the local market, the cost of aviation fuel continues to be a significant factor impacting airline profitability. The effects are discussed in the message segment of this Report.

Goals and Strategies

The airline has put in place a strategic business plan. It is primarily concerned with reversing SriLankan's loss making trend and achieving significant improvement in the airline's bottom line. The plan takes into account the 'state of play' in the industry, both globally and locally and also critically examines the airline's performance and the challenges faced currently and to come.

In a current scenario where capacity increases have outpaced traffic demand, the airline will look to narrow this gap. Thus strong demand will be met with a realignment of capacity growth, which will result in significantly higher loads and a more realistic fare structure.

In addition, the airline is implementing a host of initiatives that will help it achieve the desired goals.

During the year under review, SriLankan laid the ground work to join the **one**world alliance, one of the most prestigious airline alliance networks in existence today. Membership has since been achieved, post-balance sheet, on 1st May 2014.

SriLankan has also initiated a fleet renewal programme to replace its older aircraft with more fuel efficient and maintenance cost friendly Airbus A330s and A350s. The new aircraft will be inducted over the period 2014 onwards.

The airline will remain in constant pursuit of value addition in terms of its customer offering from a state-of-the art on-board product to the use of cutting edge technology to offer a seamless end-to-end journey.

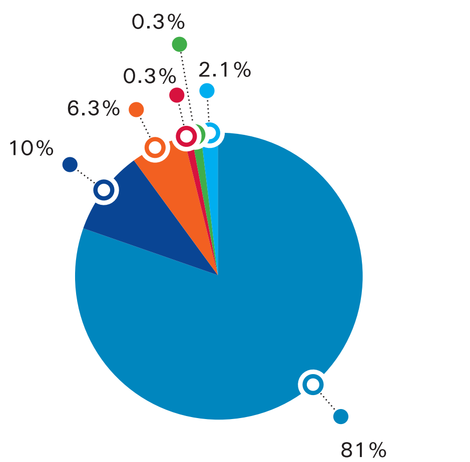
Also, the airline is adopting a more robust revenue management practices, a variety of revenue and cost improvement initiatives and is also actively pursuing an optimisation of the network.

Financial Performance

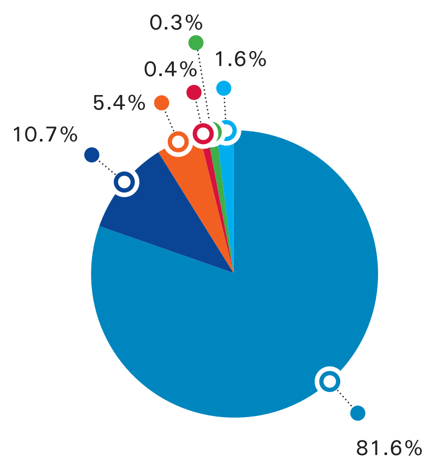
Revenue

The following depicts the composition of the Group's revenue for the financial years ended 2014 and 2013.

Composition of Group Revenue



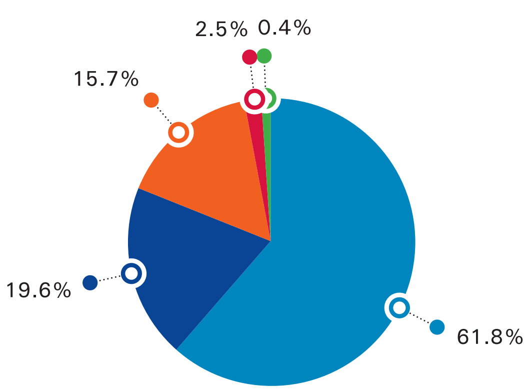
2014



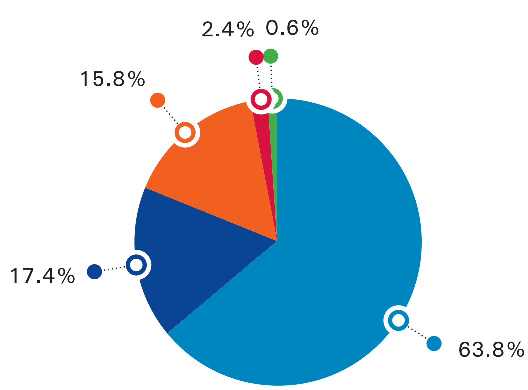
2013

Passenger & Excess Baggage   Cargo & Mail   Air Terminal & Other Services   Duty Free   Non-Scheduled Services   Flight Catering

Revenue by Geographical Segment - (Revenue by Origin of Sale)



2014



2013

Asia   Europe & Africa   Middle East   North & South America   South West Pacific

On the revenue front, passenger and cargo were the highest contributors to the Group's revenue of LKR 124,154.62 Mn. which was 2.26% higher than the year before.

To a greater extent, traffic in terms of capacity, passengers carried and load factors during the year remained at the previous year's levels. Significant growth in revenue from air terminal and other services and flight catering, due to the increase in number of other airline flights handled by the Group which has increased from 10,560 in 2013 to 12,046 in 2014, caused the total revenue for the year to grow by LKR 2.75 Bn. or 2.26%.

The highest revenue contribution in terms of geographical segments was from Asia which accounted for nearly 61.8% of total Group's revenue whilst maintaining the same level as the year before. The contribution from Europe represents 19.6% of Group's revenue and recorded a growth of 15% when compared to 2013.

Change in Accounting Policy

The Company has voluntarily changed its' accounting policy in relation to accounting for major overhauls of aircraft engines and landing gear on its operating leases. This has been adopted as the new accounting policy which provides more relevant information on the underlying transaction.

Under the previous accounting policy, the costs of heavy maintenance visits, major overhauls to engines and landing gear that provide future economic benefits for more than one period were capitalised as 'Major Overhauls and Upgrade of Aircraft Engines', and were amortised over either the estimated flying hours until the next major overhaul or the remaining lease period, whichever was shorter.

With the adoption of new accounting policy the heavy maintenance visits, engine overhaul, landing gear overhaul expenses and aircraft return cost are accounted on an accrual basis. Provision for the above expenses is made progressively in the Financial Statements based on utilisation or time depending on the nature of the overhaul. Accordingly, no asset will be recognised at the time of the major overhauls to engines and landing gear and the resultant cost is offset against the related provision. The difference between the provision and the actual overhaul cost is recognised in the Income Statement for the period in which the expenditure is incurred.

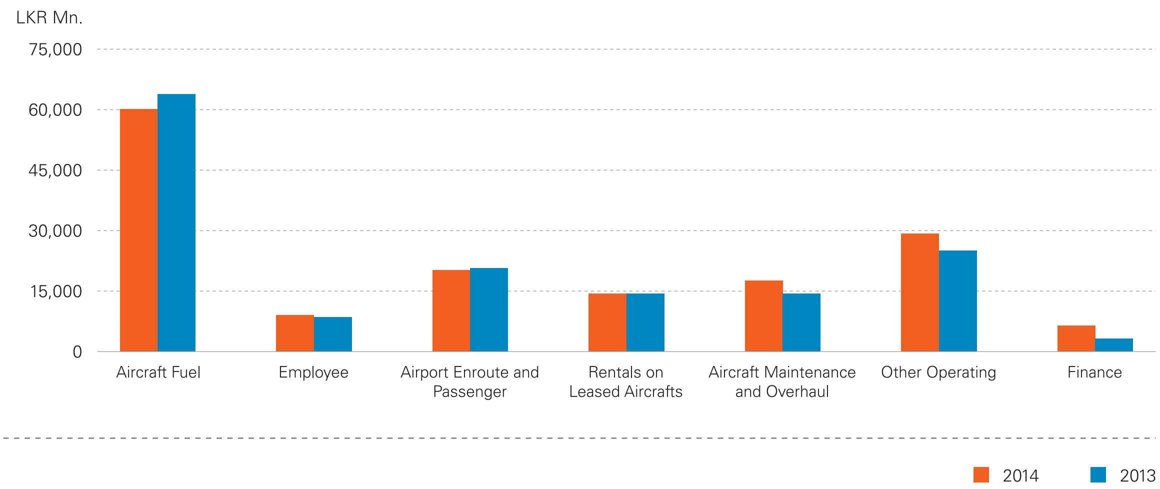
The effect of change in accounting policy is more fully disclosed in Note 2.5 to the Financial Statements.

Expenditure

The following data depicts the composition of Group's expenses for the years ended 2014 and 2013:

	2014 LKR Mn.	2013 LKR Mn.
Aircraft Fuel Cost	59,947	63,865
Employee Cost	9,102	8,675
Airport Enroute and Passenger Expenses	20,296	20,646
Rentals on Leased Aircraft	14,555	14,514
Aircraft Maintenance and Overhaul Costs	17,356	14,330
Other Expenses	29,137	24,804
Finance Expenses	6,294	3,222

Composition of Group Expenses



Total expenses excluding finance expenses grew by LKR 3,559 Mn. or 2.42%, as a result of all major categories of operating expenses other than aircraft fuel cost and airport enroute and passenger expenses. It is noteworthy that the aircraft fuel cost came down by LKR 3,918 Mn. or 6.13% for the year under review mainly due to the efficient use of existing aircraft fleet and reduction in world fuel prices in terms of USC/AG to 315.57 in 2014 compared to 333.25 in 2013. This caused the ratio of aircraft fuel cost to revenue from scheduled services to improve from 56.96% in 2013 to 53.06% in 2014.

Aircraft maintenance and overhaul costs increased mainly due to mandatory aircraft modifications and expenses related to return of aircraft approximating to LKR 2 Bn.

Other operating expenses recorded an increase mainly due to the exchange loss of LKR 380 Mn. from adverse exchange rate movement in 2014 and an exchange gain of LKR 1,466 Mn. recognised in 2013 due to the favourable exchange rate movement.

In the circumstances, the operating loss increased by LKR 812 Mn. or 3.19%.

Finance expenses have increased mainly due to the loss of LKR 2 Bn. on disposal of Treasury Bond which was issued by the Government of Sri Lanka as a capital infusion to the Company and increased interest on borrowings to finance the working capital requirement of the Company. These caused the loss before tax to increase by 16.60% from LKR 26,842 Mn. in 2013 to LKR 31,297 Mn. in 2014.

Customers

SriLankan is a fully-fledged member of the oneworld alliance.

SriLankan Airlines is the quintessential service organisation. Every facet of our operations is geared to serve the customer with a premium portfolio of products and services whilst generating real value.

Here are the highlights of the year.

Joining oneworld

In a highly significant move achieved within a relatively short qualifying process, SriLankan Airlines became a fully-fledged member of one of the world's leading global airline alliances - **one**world. We are the first airline from the Indian sub-continental region to enjoy this honour.

Established in 1998, the alliance today includes 15 of the world's leading airlines and 30 affiliates within its membership.

The synergies and benefits that accrue to SriLankan from its alliance membership are many.

The migration to the Amadeus Altea passenger service system has truly modernised the airline's technology platform by adopting this next generation IT suite. It has introduced a quantum leap in managing mission critical reservations, ticketing, inventory and departure control systems to bring our customer experience on par with the world's leading airlines.

In addition, the airline's frequent flyer programme FlySmiLes benefits immensely by being able to offer an array of privileges and benefits to members on **one**world airlines thereby retaining their loyalty to SriLankan. Frequent flyers members of **one**world airlines will also be rewarded and recognised so that they will choose SriLankan when they fly to Colombo.

We expect to enter into codeshare relationships with additional four **one**world member airlines within the next finanacial year.

We expect to enter into codeshare relationships with four other airlines in addition to the two **one**world member airlines with whom we have such arrangements.

Overall, our acceptance into the **one**world fold validates SriLankan's service and operational standards and performance.

Fleet Renewal

The airline has embarked on fleet renewal that will see its older wide bodied aircraft gradually being replaced with more fuel efficient and maintenance cost friendly models from the Airbus family.

The current fleet comprises 8 A320-200s, 7 A330-200s and 6 A340-300s. Currently on order are 6 Airbus A330-300s and 7 Airbus A350-900s which will join the fleet from 2014 through to 2020.

The new additions are a strategic fit with the airline's business plan and offer significant advantages in terms of operating economies, range and in-cabin product.

The new aircraft yield up to 12% lower CASK, 18% reduction on fuel burn and 48% reduction on maintenance costs in comparison to the incumbent A340 fleet. They also have extended range allowing SriLankan to reach across Europe, Asia, Australia and Africa with ease.

Cabin appointments feature state-of-the-art seating in Business Class (lie flat, all aisle access) and premium Inflight Entertainment.

Network Optimisation

SriLankan will continue to optimise its network to support and accomplish its business strategies. Over the next four years, we will concentrate on phasing out the use of Bangkok as a mini-hub, which will help strengthen Colombo as our main hub.

We will concentrate on high growth markets such as the Middle East, China and Southern India.

Reducing overlap between routes of SriLankan and Mihin Lanka is another area of focus.

Airline plans to re-commence flights to Melbourne, Australia.

We will also aim to enhance utilisation by strategically increasing the airline's average flight frequencies on its current and new routes.

Route Network and Schedule

SriLankan flies to 32 destinations in 20 countries serving most key capital cities in Europe, the Middle East, the Far East and the Indian sub-continent. Through direct codeshare operations, we offer passengers access to 50 additional destinations in 27 countries across North America, Europe, Central Asia, Africa, Canada and Australia. In addition, as a member of the **one**world alliance, we offer our passengers the opportunity to fly to over 1800 **one**world destinations worldwide, on a single ticket.

As at 31st March 2014, SriLankan has operated a total of 250 scheduled flights per week across 32 routes. (This is on par with the previous year.) Of this number, 11 were operated on regional routes, 08 on Middle Eastern routes, and 05 were on European routes.

Sales and Marketing

SriLankan operates 6 offices throughout the world, from where it conducts its sales and marketing activities. It also has 72 representative offices. In addition to general sales and marketing, the airline offers packages through SriLankan Holidays, to its customers comprising flights accommodation and tours provided by the airlines partners.

The airline advertises primarily in Sri Lanka but also runs targeted campaigns in other markets.

Commercial and Worldwide Sales

It was yet another challenging year for commercial and passenger sales. The airline was faced with increased levels of competition from its main competitors introducing newer aircraft with added capacity in to our key markets.

During the year, we increased capacity to the Middle East, specially focussing on Saudi Arabia, where we had experienced minimal capacity growth over the past years due to bilateral constraints. This strategic move would help to capitalise on growth in demand between Middle East and South Asia.

European operations were re-aligned specially with the deployment of cost efficient aircraft, effectively matching capacity to demand. This enabled us to achieve higher load factors and higher revenue per seat kilometre in the region despite intense competition.

Indian markets faced multiple challenges during the year, largely due to local currency depreciation and prevailed

adverse market conditions. This resulted in a drop in demand for travel between key Indian markets and Sri Lanka, thus frequencies to Chennai were reduced in response to the drop in passenger demand.

The Far East region saw a decline in passenger traffic due to a weakening of demand to Thailand from the Chinese markets which has been a significant revenue generating segment for the airline. This was largely driven by the political instability in Thailand. In order to mitigate this dependency; with rapid growth forecasts in China and in light of the strong bilateral ties with Sri Lanka, a redevelopment of the network strategy of the region was looked at and direct operations between Sri Lanka and China were introduced. The airline worked closely with Sri Lanka Tourism to promote the launch of direct services.

Several new revenue management measures with the view of driving up passenger yields were introduced. These resulted in a more effective optimisation structure, enabling the establishment of additional market specific fare levels to cater for high demand situations and overall, providing room to achieve higher network revenue in relation to passenger demand growth.

Changes were introduced to the pricing strategy enabling more focus on market share and competition. Thus a more market oriented focus was reflected in fare structures, which in turn would support revenue management.

Despite the challenges faced, passenger sales were able to overcome many obstacles achieving revenue and yield growth and was able to end the period with a positive outlook for the coming financial year.

The planned introduction of new aircraft in order to phase out the older fleet will significantly boost the product and the airline is poised to effectively compete with other airlines and achieve better results. The potential to attract premier business travellers is an area of focus for the upcoming year which would help to further increase passenger revenue. With new development initiatives by the Government and promotion of Sri Lanka as a destination by Sri Lanka Tourism, we expect a rise in the demand for high-end business and leisure travel. This stands to ease the current pressure on the economy cabin, which has proven to be difficult whilst competing effectively with the increased capacity from competitors in the market.

The benefits of joining the **one**world alliance is an opportunity for us to increase the reach in global markets establishing greater market presence

SriLankan Holidays offers unique and exciting packages to its customers.

SriLankan Holidays
A world of memories

The SriLankan inflight experience embodies excellence and modernity.

SriLankan Business

as well as tapping into potential market demand. The extended network reach from **one**world will create new market opportunities and access to the alliance's frequent flyer network which is an additional revenue stream with high potential for growth. Further this opportunity will help drive our FlySmiles membership and create greater awareness of its member base. This would significantly increase the attractiveness of the frequent flyer value proposition and boost the member base growth prospects.

Implementation of a world class customer-centric reservations system has raised system efficiency as well as the scope for service development, of which we expect to reap the full benefits over the coming years. A new management information system is in development and will be rolled out early next year. This will help support effective decision making and will bring down the lead time in implementation of market initiatives leading to growth in revenue.

Extending Reach via Code Sharing

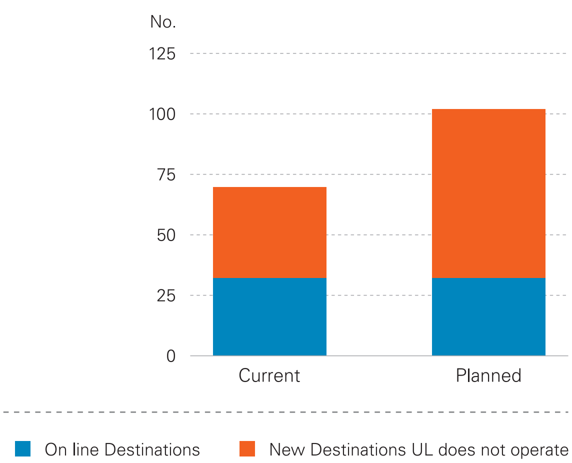
During the period under review, SriLankan Airlines expanded co-operation with existing codeshare partners Etihad, Malaysia Airlines and Mihin Lanka resulting in the addition of several new destinations in Europe, South East Asia, Australia and Africa.

Additionally, SriLankan successfully concluded reciprocal codeshare agreements with Oman Air and Siberia Airlines. These agreements enabled SriLankan to extend its reach to several key destinations such as Zurich, St Petersburg, Novosibirsk and Volgograd whilst at the same time allowing those partner carriers to use SriLankan's services to promote passengers to Colombo and via Colombo to Male and Bangkok as well.

The Airline commenced codeshare discussions with **one**world member airlines such as American Airlines , Finnair, Qatar Airways, Qantas, and Japan Airlines in anticipation of its impending entry into the prestigious **one**world airline alliance. A codeshare agreement was also initiated with South Korea's Asiana Airlines to promote traffic between Seoul and Colombo via Narita/Tokyo.

At present, SriLankan partners with Etihad Airways, Malaysia Airlines, Air Canada, Alitalia, Saudi Arabian Airlines, Oman Air, Royal Jordanian, Air India, Siberia Airlines and Mihin Lanka to various destinations on codeshare basis.

Code-share Operations



Inflight

The inflight experience is one aspect of air travel that lingers longest in the mind of the passenger. Getting the on-board experience just right is vital.

The SriLankan cabin of today is on par with its peers. Flat bed seating and audio-video-on-demand (AVOD) in Business Class are special features.

Getting 'cabin economics' right is always an area of focus. During the year in review, we made some significant advances on this score, without sacrificing either quality or passenger satisfaction. Areas we were able to enhance were the maintenance of galley/inflight equipment, provision of inflight entertainment content and inflight meals.

The expected fleet renewal heralds exciting times for both airline and passenger.

With new aircraft comes a new Business Class product featuring industry leading Zodiac Cirrus lie-flat suites, which offer 6' 5" lie-flat seats/beds arranged in reverse herringbone configuration, providing every passenger with direct aisle access.

The Inflight entertainment experience will also see significant improvement with large screen systems in both Economy and Business classes. In seat power outlets, noise cancelling headsets for all passengers and cellular data links supporting SMS and e-mail services are also on the cards.

At the Airport

During the year in review, we introduced a multi-lingual self-check in system, KIOSK, as well as a Hand Held check in with Smart Tabs at the Bandaranaike International Airport. The new systems were brought on line by our own Information Technology department, who also provided us with other mobile applications used at check in.

We have also deployed Customer Relations Agents who welcome every customer arriving at the airport, in an endeavour to ensure the desired 'airport/travel experience' begins from the initial contact point itself.

From an infrastructure perspective, SriLankan has invested in new Ground Support Equipment to improve efficiency

SriLankan Airlines - sole ground handling service provider to all airlines calling at BIA and MRIA.

and the quality of the overall product/ service delivered both to our airline as well as the customer airlines we serve.

Another IT-aided aspect introduced an enhanced baggage claim processing system that facilitates retrieval of mishandled baggage and historical data pertaining to this subject.

SriLankan Airlines provides ground handling services for all airlines calling at the Bandaranaike International Airport (BIA), Katunayake. According to statistics revealed by the airport's administrators, Airport and Aviation Services (Sri Lanka), the BIA handled 7.4 Mn. passengers during the year under review, which is an increase of 4% over the previous year.

The total number of aircraft movements handled at BIA increased to 50,370 during the year in review, which indicates a growth of 5%.

The Mattala Rajapaksa International Airport (MRIA) is Sri Lanka's second international airport. Here too, SriLankan provides ground handling services for all airlines operating via MRIA. The airline has already set up the infrastructure and systems to handle maintenance, ground handling, cargo movement as well as catering, the latter via our fully-owned subsidiary SriLankan Catering.

Listening to the Customer

Here is a great example of how the world of technology and human touch dovetail seamlessly in a vital area of business.

SriLankan's IT department helped commission a Real Time Passenger Feedback System and Operational Dashboards towards our 'Know Your Customer First' drive. The ease of capturing data helps drive passenger centric services and contributes to management information systems.

The leveraging of these applications translates into better airline to passenger (and vice versa) contact protocols and ultimately helps to embellish the human to human perspective so vital to this area of enterprise.

SriLankan Cargo

SriLankan Cargo made a revenue contribution of USD 95 Mn. during the year under review, with an overall network yield increase of 3% over the previous year. The airline carried 94,410 metric tonnes of cargo, which is considered to be a remarkable achievement given that the airline recorded an overall passenger cabin factor of 81.18% and market conditions were extremely challenging.

Our base station Colombo increased revenue by 5%, whilst also achieving an impressive yield increase of 12%. Analysing contribution from the network, Colombo contributed 30% of total revenue, whilst the Far East, Europe and India contributed 30%, 19% and 18% respectively.

From a route perspective, Rome, Beijing, Tokyo and Paris contributed immensely due to high yield increases achieved during the year.

Cargo revenue contribution for the total network was 11.3%.

The Cargo Operations division achieved a milestone - the highest tonnage handled to date of 185,000 metric tonnes, whilst also maintaining a 99.95% level of handling reliability throughout the year in review. They also successfully implemented and met initial targets regarding the use of e-documentation, ensuring that 25% of all consignments out of Colombo used e-Air Way Bills by year end. Cargo Operations generated a total revenue contribution of USD 15 Mn. for the period in review.

Block space agreements on third party freighter operations dedicated to SriLankan Cargo were effectively utilised to negate capacity constraints to selected destinations. Freighter operations mainly supported movements from the Middle East to Indian destinations such as Bangalore, Kochi and Mumbai. In view of capacity constraints to the Far East, plans are underway to introduce an MD 82 freighter operation via a third party to augment the freighter network.

The Skychain Cargo system is being upgraded with the addition of several features that will help optimise cargo revenue generation and allow for seamless cargo operations.

SriLankan Cargo has also partnered with Techwings to utilise their Revenue Plus Budget tool to help generate incremental revenue.

We have also expanded cargo network movement by signing up Special Prorated Agreements (SPAs) with other carriers.

SriLankan Cargo has set up a Global Accounts Management Unit during the year in review, in partnership with top agencies DHL and MAS to maximise capacity by securing year-round business.

SriLankan Engineering

SriLankan Engineering apart from been approved by the CAASL also holds the prestigious EASA Part 145 certification awarded by the European Aviation Safety Agency and several other National Aviation Authorities (NAAs), performing comprehensive Air frame maintenance for SriLankan fleet as well as for the Third party Aircraft.

It achieved an impressive 99.46% technical dispatch reliability whilst adhering to strict Safety and Quality standards during which period 14,979 flight legs were operated.

41 "C" checks were performed apart from the many other lesser checks and engine and component changes during this period which included 27 'C' checks on the biggest third party customer Indigo Airlines.

The department has also been heavily involved in the configuration and induction activities of the new A330-300 aircraft that will join the fleet shortly.

Whilst satisfying the total maintenance requirements of the airline's fleet of aircraft the department also continued its focus on growing the MRO activities bringing in revenue of USD 14 Mn. during the year under review providing services to third party customers.

A significant milestone of the year was the opening of the new Narrow body Hangar, which represented the single biggest investment made in engineering facilities for the last two decades.

Technical Training School

With more than three decades of experience in aviation engineering, SriLankan's Technical Training facility (STT) remains one of the few institutions in Asia that is EASA Part 147 approved to conduct both basic training in avionics and mechanical streams fulfilling the standards of ASAS Part 66 and Type Training for the Airbus A320 family, A330 and A340.

Whilst fulfilling all the technical training requirements of the airline's own Engineering Department, it also provides training services to other airlines in the region as well as to local and foreign individuals who have an interest in pursuing careers in aircraft engineering.

In January 2014, STT's basic course comprised a record intake of 18 foreign and 35 local students.

STT structured a new product at the preliminary/entry point stage of aircraft maintenance to enable students with GCE (O/L) qualification to follow a course in Aircraft Maintenance Training - Airplane Turbine (Category A1). The course was set to commence in June 2014. It is expected to cater to the upcoming MRO facility at MRIA.

Developing the MRO Thrust

SriLankan is further expanding with the establishment of a new Maintenance Repair and Overhaul (MRO) facility at MRIA. The new facility will be a custom-built, stand-alone, state-of-the-art unit housing four servicing bays capable of performing both base and airframe maintenance on narrow body aircraft such as those belonging to the Boeing B737 and Airbus A320 families.

When in operation, which is targeted for latter half of 2015, the MRO will handle up to 110 maintenance procedures per year and employ up to 400 personnel.

SriLankan Engineering achieved an impressive 99.46% technical dispatch reliability.

SriLankan Engineering

Our EASA qualified Flight Academy puts more pilots in the cockpit.

Flight Safety Management

SriLankan Airline's flight safety management protocols continue to function at exemplary levels. Several factors highlight our track record to date.

The airline continues to maintain an accident free safety record.

We have also been commended by the **one**world alliance for our Emergency Response Plan.

We have introduced a corporate 'Safety Management System' thus extending safety awareness beyond operational areas. Similarly, regular awareness programmes are conducted at all levels, through divisional Safety Action groups.

Our Flight Operations Training Division has embarked on an accelerated cadet pilot training programme through which we have recruited 32 cadet pilots during the year under review.

SriLankan Flight Academy

Following the granting of the European Aviation Safety Agency's (EASA) qualification of its A320-200 flight simulator training device, the Academy commissioned its A330 simulator in August 2013. This will significantly increase its ability to train more pilots as we expect the airline's new A330-300 fleet to come on stream in the coming years.

The Academy has also received the accreditation of the Civil Aviation Authority of Sri Lanka as a Type Rating and Training organisation.

The increased training capacity afforded by the in-house A320 and A330 simulators has allowed the Academy to increase its intake of cadet pilots.

The Academy also continues to develop its ability to train third party technical crews and also to further plans to launch an integrated Aviation Training Academy to cater to human resource requirements in the fast growing Asian aviation sector.

Our plans for the future include growing third party business opportunities.

International Aviation Academy

Currently rated one of the top ten IATA training facilities in the world for non-technical professional training, SriLankan's Aviation Academy has also the honour of being nominated as an IATA top ten authorised training centre in South Asia in 2012 and was also awarded 'Premier Circle Member' status as one of the world's best authorised training centres.

The Academy's training portfolio spans introductory level IATA Diplomas for subjects pertaining to Cargo, Cabin Crew, Travel and Tourism, training programmes of the airline for Airport Passenger Handling, Dangerous Good Regulation, Flight Dispatchers and all potential functional training areas of an airline.

Our training portfolio extends even further to encompass image consultancy, grooming and etiquette among other areas.

The Academy has been responsible for training more than 3,000 internal staff and over 600 external students annually.

SriLankan Training
Takeoff to the Future

Employees

People, Learning and Culture

During the year under review, SriLankan's Human Resource function focused on three main areas of strategic importance to enable business continuity.

One key initiative was the development of an identified pool of successors to fill anticipated voids, especially at the strategic and tactical levels of management; within senior and middle management. We have now mapped a succession plan for critical job roles and leadership and competency development is ongoing with the identified talent.

The other thrust was towards right sizing the organisation with needs based work force planning and a revisit of our job evaluation process, the competency framework of the airline and our performance management systems, all with a view to arriving at the best way to support the evolving organisation's needs and business dynamics vis-a-vis the future plan.

Thirdly and most importantly, productivity enhancement was the end objective of all 'people initiatives', existing work patterns, compensation philosophy and people engagement practices. All of these were reviewed and re-designed in the context of the overarching need, which of course is a constant improvement process.

During the year under review, the IT department facilitated industry leading New Crew Management System and a dedicated Crew Call Centre to handle crew resource optimisation and crew assistance was introduced.

It is pleasing to report that SriLankan enjoyed positive and highly conducive industrial harmony throughout the year.

Now let's look at some numbers.

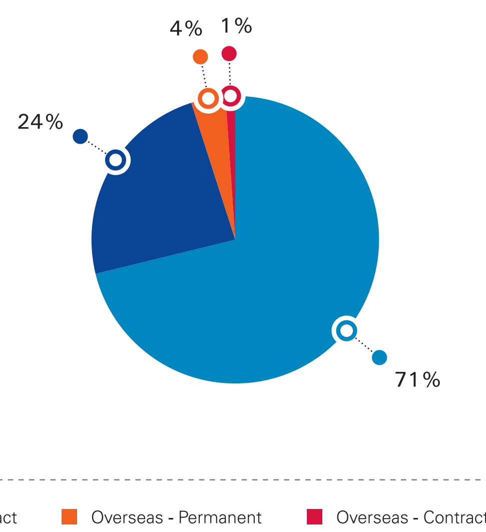
Staff Strength

SriLankan Airlines employs a total of 6,578 persons, the figure being accurate as at 31st March 2014.

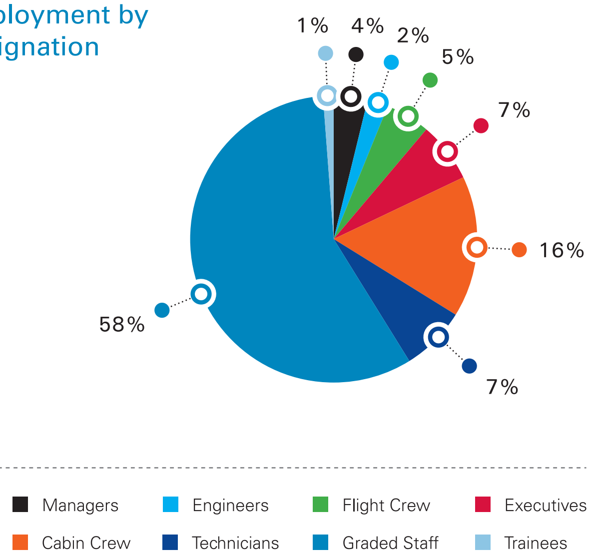
The chart appearing below indicates employment by type and designation.

	Total	%
Local - Permanent	4,683	71
Local - Contract	1,627	24
Overseas - Permanent	233	4
Overseas - Contract	35	1
Total	6,578	100

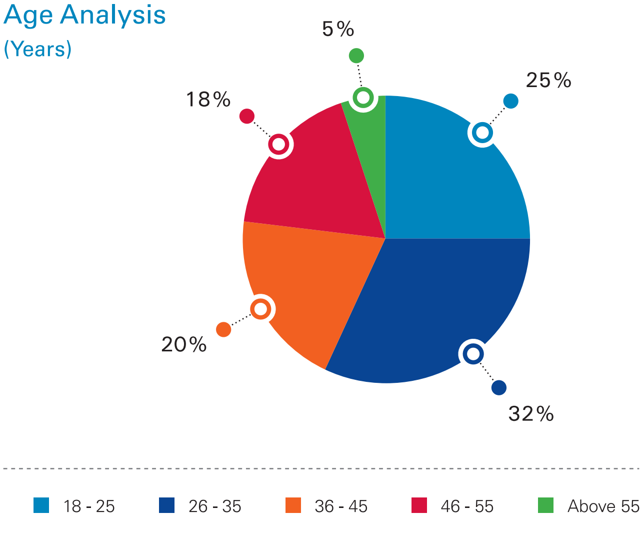
Employment by Type



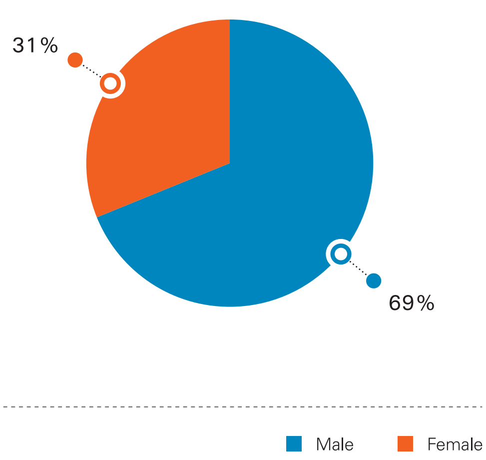
Employment by Designation



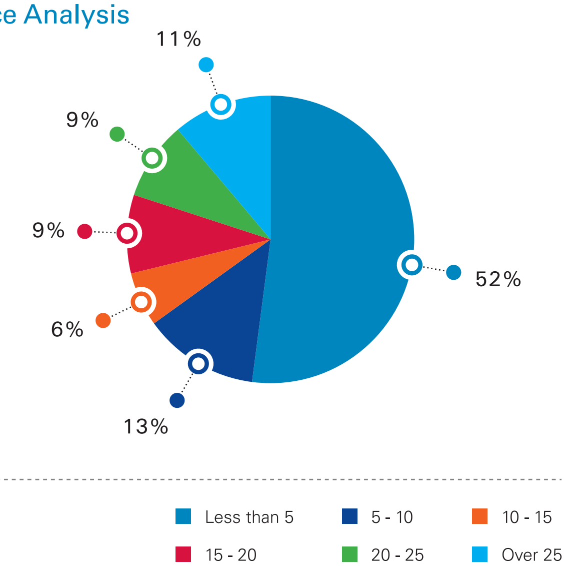
Age Analysis
(Years)



Gender Analysis



Service Analysis
(Years)



Attrition Rates

The airline's attrition rates are favourable and on track as regards the targets set.

- Rostered operation average per year - 4.8% - Target 4%
- Office operation average per year - 4.1% - Target 5%

Retention Rate

Our retention rates are high, testifying to the desirability of SriLankan as an employer and the employees' desire to build a career with the airline.

- Rostered operation average per year - 95.2%
- Office operation average per year - 95.9%

Employee Benefits

Employees and in many instances, their family members enjoy a host of benefits including medical, use of holiday bungalows, staff transport and other benefits (free and rebated air travel).

Scholarship Programme

Scholarships are granted annually by our Staff Welfare Society to the three staff members' children who have obtained the best results in the year 5 Scholarship Examination in a given year. At any one time, a minimum of 24 children will be supported. Each is supported financially in the following manner: Years 6-9: LKR 6,000 annually, Years 10-11: LKR 9,000 annually, Years 12-13: LKR 12,000 annually, Entering university: One-time payment of LKR 25,000.

Training

The airline's training regime for staff fall broadly into two categories - regulatory and non-regulatory. The table appearing below detail training hours and the number of participants pertaining to activity during the year under review.

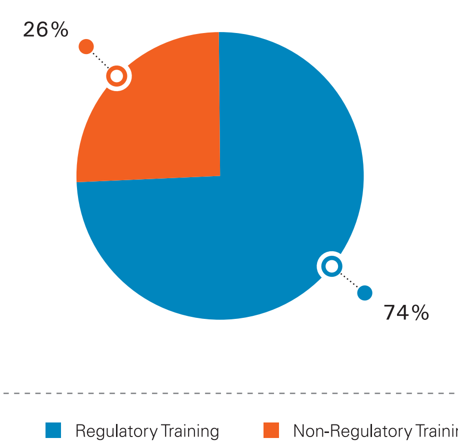
	No. of Staff Trained	No. of Training Hours
Regulatory Training	10,170	61,020
Non-Regulatory Training	3,553	21,318

Our HR Strategy Rewarded

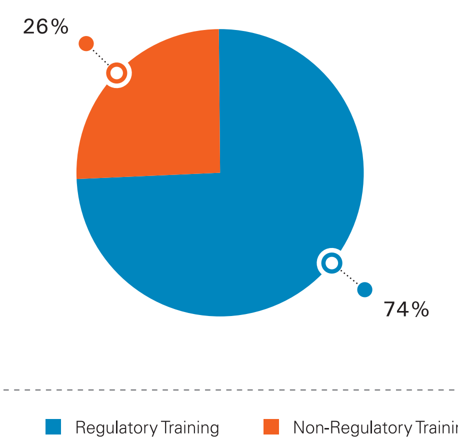
SriLankan's Human Resource Strategy was recognised and rewarded by winning the "Best HR Strategy in line with Business Strategy" at the 5th Asia's Best Employer Brand Awards held in Singapore recently.

The award vindicates an exemplary twinning of SriLankan's HR Strategy with Business Strategy as enacted across the entire airline.

No. of Staff Trained



No. of Training Hours



Social and Environmental Responsibility

Society

SriLankan Cares, the community development arm of the airline was born in 2003. Since then it has spearheaded a wealth of initiative in the realm of social responsibility, bringing SriLankan and Sri Lankans closer through genuine caring.

In the main, SriLankan Cares has focused on the welfare of children throughout the country.

Children's health and education have been two focal areas in Sri Lanka for a good few years now.

SriLankan Cares brings together and institutionalises the airlines many programmes that have been independently worked out, in order that they may all uplift needy children across Sri Lanka more cohesively and effectively.

Here are our initiatives for the year 2013/14.

- Donated stationery items and cash to two of the most deserving Montessoris in Mullaitivu and Kilinochchi - generous donations from SLA staff helped us collect LKR 200,000/- and substantial quantities of stationery. Additionally we are fabricating items of furniture, reusing timber from cargo pallets.
- 'Disability is Possibility' - Benefit Concert. SriLankan Airlines organised a charity concert featuring Emmanuel Kelly, the X Factor star, himself physically challenged, together with guest artistes Bathiya and Santhush. The profits from the concert are invested in improving the Preethipura Children's Homes as an ongoing project of SriLankan Cares.
- Heart Project 2 - SriLankan Cares assisted the second Heart Project of the Lady Ridgeway Children's Hospital by flying in five overseas paediatric cardiac specialists from Southampton University Hospital, UK.
- The Little Engineer - this was a collaborative initiative between SriLankan Cares and Airbus Industrie, Middle East to enhance the knowledge and welfare of youth. The programme sought to educate young minds and increase public understanding and appreciation of Science, Technology, Engineering and Mathematics via interactive programmes. Fifty students from five different schools participated.
- SriLankan Cares was closely involved in 'Beefy's Big Walk', with volunteers from the Airline walking for the cause, whilst refreshments and medical support was also given to participants on the Colombo leg. This initiative of Sir Ian Botham seeks to ensure the welfare of children around the world and in Sri Lanka as well, to raise funds for disadvantaged children, particularly those from tsunami affected areas.
- SriLankan Cares in collaboration with SriLankan Airlines and Mihin Lanka have embarked on a project to develop infrastructure facilities at Thammana Kanishta Vidyalaya in Pallama in the North Western province. The project is expected to cost LKR 3 Mn. Already the foundation stone for the new library building has been laid.
- SriLankan Cares also provides guidance and knowledge to cabin crew to hone their skills and aptitude in handling children, the elderly and the disabled in the course of their duties.

The Environment

Airlines and environmental protection have often an uneasy relationship. Whilst airlines are often cited as transgressors in relation to environmental protection, there are also significant measures that airlines have taken to minimise this effect. At SriLankan we take this matter seriously and no efforts are being spared to 'walk the talk' where our environmental protection initiatives are concerned.

In recognition of its obligations in this area, a Corporate Environmental Policy was formulated and endorsed by the Airline in 2008 and the Airline's Environmental Unit was formed concurrently.

Here is an account of our efforts and accomplishments in this area for the year under review.

Reducing our Carbon Footprint

Fuel Conservation

The airline has an ongoing fuel conservation programme spearheaded by our Flight Operations Department. This programme is guided by IATA recommendations.

RNAV Approaches is a most recently employed initiative in collaboration with the Civil Aviation Authority and Air Traffic Controllers with potential fuel savings in the region of 110 to 200 kilogrammes per landing.

There is also the Re-Despatch Procedure, which yields around 1,200 kilogrammes of fuel on every flight from Europe to Colombo.

Other fuel saving measures include - Flap 3 landings, single engine taxi in, minimised use of reverse thrust during landings, flying shorter routes whenever feasible and re-evaluation of the airline's alternative airports.

In addition, SriLankan's Aviation Fuel Division closely monitors the subject maintaining optimum efficiency at all times.

For the year 2013/14, fuel savings on Jet A 1 fuel was 434 tonnes and carbon emission saving was 1,370 CO_2t.

Voluntary Carbon Offset Programme

SriLankan Airlines signed an agreement with IATA's Carbon Offset Development division to help the airline reduce its carbon footprint.

IATA's carbon offset programme monitors carbon emission through the IATA Carbon Emission Calculator, which is based on ICAO methodology. It then provides passengers with an opportunity to compensate for flight related emissions by investing in carbon reduction projects that generate carbon credits.

SriLankan will be investing and contributing towards the local carbon offset project.

IATA has taken the initiative to administer the whole process on behalf of airlines, offering necessary expertise on project selection, arranging the purchase of carbon credits, managing the operation and facilitating offset tracking.

The entire contribution from passengers will go straight to sponsored carbon offset projects. Ensuring full transparency, passengers will be provided with comprehensive details of the amount of CO_2 emitted from their flight, the cost of offsetting same and the project in which their compensatory payments will be invested.

Supporting Environmental Efficiencies

In-house Biogas System

The airline has put in place a biogas system which runs on the waste generated from SriLankan's main staff canteen. Organic waste is broken down through a process of anaerobic digestion. The biogas so generated is rich in methane. Its flammable properties make it ideally suited for use as cooking gas or as fuel.

The system is expected to generate 4,500 kilogrammes of gas per annum; already we have replaced a 5 kW/hr boiler, which will result in savings of nearly LKR 600,000/- per annum.

SriLankan Cares focuses on the welfare of children throughout the country.

Waste Water Treatment Plant

The airline has set up a waste water treatment plant for the 747 Hangar, which is designed to clean wastewater emanating from workshops at the Engineering Division.

Some factors that influenced the cleaning mechanism of the plant were - the degree and consistency of treatment required; quality of water to be treated and the required quality of treated water among others.

The plant meets the general parameters set by the Central Environmental Authority.

Solatube Lighting System for Engineering

We introduced the revolutionary new Solatube lighting system at the Engine Module Shop, which employs a most cost effective process to bring natural sunlight into the premises.

Since the shop functions during daylight hours, the solution is very apt.

Solatube is a far more efficient process than a traditional drywall skylight shaft, which can lose over half of the potential illuminating capacity.

Another plus is that Solatube filters out UV and infrared spectrums which largely reduces solar heat gain, which in turn leads to savings on air conditioning load requirements.

The savings accruing from this system has reached LKR 800,000/- for the year.

CFLs and LEDs Replace Incandescent Tubes

The introduction of CFL lighting at the Airline Centre has resulted in an annual saving of LKR 6.2 Mn.

The airline also began to replace its three-tube incandescent magnetic ballast bulbs with LED lighting. One to one replacement of tubes with LED 12 W bulbs brought an annual saving of LKR 13.6 Mn.

Regenerating Sealed Batteries

The airline has been regenerating sealed batteries for a while now generating an annual saving in the region of LKR 9 Mn.

Sealed batteries can be regenerated up to 3 times in their lifecycle and can be used for up to 5 years between regeneration.

Systems that help Reduce Environmental Impact

SriLankan launched LIDO a new flight planning system that in aiding flight optimisation, leads to significant fuel efficiency.

The airline entered into an agreement with Lufthansa Systems to obtain the LIDO flight solution.

The system offers SriLankan's flight dispatchers with numerous optimisation options in respect of flight time, fuel consumption and costs of each flight.

Environmental Assessment Programmes Launched

IEnvA Implemented

The IATA Environmental Assessment (IEnvA) Programme is an evaluation system designed to independently assess and improve the environmental performance of an airline. It is a voluntary programme based on the core principles of compliance with environmental obligations and a commitment to continual environmental management improvement.

SriLankan launched this programme during the year under review.

ISO 14001:2004 Environmental Management System

The airline is in the process of implementing this protocol which will help us to manage our entire environment and energy related activities.

Environmental Awareness

Community Based Initiatives

Project BLUEprint

Project BLUEprint is a renowned Eco-tourism project run in collaboration with Whale and Dolphin Conservation, (WDC) UK to promote responsible whale and dolphin watching in the seas off Sri Lanka. SriLankan Airlines is a partner in the project.

Both the airline and WDC UK are working in tandem to jointly develop a community-based responsible whale and dolphin watching industry off the coast of Sri Lanka.

The partnership will engage local stakeholders and the wildlife tourism industry which will help to fund and promote Project BLUEprint.

SriLankan will also raise money by offering whale plush toys for sale on board its flights, with all profits accruing to WDC UK.

Miscellaneous Activity

The airline also conducts awareness and training programmes for school children on energy and waste management and environmental conservation.

Similar programmes are conducted in-house for staff to enhance their knowledge and competence in these areas.

The SriLankan Environment Unit publishes news articles through the Company's Monthly Magazine "Monara" to convey all environment related projects, standards and processes to staff.

An art competition on the Environment is conducted annually by the Environment unit, focussed on the world environment day amongst the children of staff.

Our Efforts Rewarded

SriLankan won two awards at the Vidulka National Energy Efficiency Awards, organised by the Sri Lanka Sustainable Energy Authority. These awards recognise and reward institutions who excel in Energy Efficiency and Optimisation practices.

Awards won:

- The Bronze for Energy Efficiency and Optimisation - State Sector Large Enterprise
- Outstanding Energy Manager Merit Award

Partnerships and Collaborations

Towards Conservation of Biodiversity

SriLankan is working with the International Union for Conservation of Nature (IUCN) on programmes to conserve and protect biodiversity.

Some common areas we meet on are:

- Development of a national carbon offsetting programme for passengers. (described earlier)
- Preparation of a documentary on conservation to be screened on board SriLankan's flights.
- Conduct of awareness programmes at the airline on conservation trends and the work of the IUCN and other relevant agencies.
- SriLankan's Green Team get engaged in ongoing IUCN projects and provide their support.
- Conduct of awareness programmes on environmental conservation for schools and local communities in the vicinity of the Mattala Rajapaksa International Airport.

SriLankan Enjoys Observer Status at IATA's ENCOM

The Environment Committee (ENCOM) is one of six IATA Industry Committees. It advises IATA's main administrative and ruling bodies on all matters environmental and acts as the focal point in IATA on environmental issues.

Receiving observer status at ENCOM is an accomplishment and an opportunity that SriLankan values greatly. Such a presence on the big stage with major stakeholders in aviation offers great value and exposure for the Airline.

SLA Studying Best Practice of British Airways

SriLankan's Green Team visited British Airways' environment team in a learning exercise geared to study BA's strategy on the environment, energy conservation and to share experiences on compliances with the new ETS framework.

SLA in CAASL's Working Group

SriLankan actively participates at the Aviation stakeholder working group to help develop the country's aviation green regulations in line with ICAO and EU Guidelines.

Financial Reports

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 31st March 2014.

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 ('BIA') and the Mattala Rajapaksa International Airport ('MRIA'), sale of duty-free goods on-board, marketing inbound and outbound holiday packages constitute other main activities of the Company. Providing third party maintenance, provision of flight operation services and conducting aviation-related training programmes constitute ancillary activities of the Company.

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

The Group consists of the Company and its wholly-owned Subsidiary SriLankan Catering Limited, whose principal activity is the provision of Inflight Catering Services to airlines operating through BIA and MRIA. Other ancillary activities consist of operating public and transit restaurants, provision of laundry services and managing the transit hotel.

Financial Statements and Auditor's Report

The complete Financial Statements duly signed by the Head of Finance and the Directors and the Auditor's Report thereon for the year ended 31st March 2014 are attached to this Report.

Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 59 to 69.

Group Turnover

The turnover of the Group amounted to LKR 124,155 Mn. (2012/13 - LKR 121,408 Mn.). A detailed analysis of group turnover is given in Note 19 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 LKR 31,298 Mn. (2012/13 - Group deficit LKR 26,842 Mn.). After adjusting LKR 68 Mn. (2012/13 - LKR 15 Mn.) for taxation, the Group result for the year was a deficit of LKR 31,366 Mn. (2012/13 - Group deficit of LKR 26,858 Mn.).

The Consolidated Statement of Income for the year is given on page 55.

Group Investment

Group capital expenditure during the year on property, plant and equipment amounted to LKR 3,202 Mn. (2012/13 - LKR 2,092 Mn.).

Property, Plant and Equipment

The net book value of the property, plant and equipment of the Group as at the reporting date amounted to LKR 9,856 Mn. (2012/13 - LKR 8,382 Mn.). 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 LKR 51,617 Mn. (2012/13 - LKR 32,033 Mn.).

During the year, the Government of Sri Lanka ('GOSL') invested LKR 19,585 Mn. as advance towards Share Capital in the form of a Treasury Bond.

Reserves

Total Group reserves as at 31st March 2014 amount to a negative LKR 103,296 Mn. (2012/13 - negative LKR 73,470 Mn.). This consists of accumulated losses of LKR 105,873 Mn. (2012/13 - LKR 75,020 Mn.), Capital reserves of LKR 2,523 Mn. (2012/13 - LKR 2,523 Mn.), nil Fair value reserves (2012/13 - negative LKR 1,027 Mn.), revenue reserves of LKR 0.63 Mn. (2012/13 - LKR 0.63 Mn.), and general reserves of LKR 53 Mn. (2012/13 - LKR 53 Mn.). 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 enjoyed a tax holiday up to 31st 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 Act No. 10 of 2006 as amended by 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 31st March 2014 is as follows:

Share Ownership	No. of Shares	% of Holding
Government of Sri Lanka	295,139,476	92.14
Bank of Ceylon	12,115,571	3.78
People's Bank	4,236,136	1.32
National Savings Bank	4,236,135	1.32
Employees' Provident Fund	1,863,676	0.58
Others	2,736,509	0.86

Contingent Liabilities and Capital Commitments

Contingent liabilities as at 31st March 2014 and commitments made on capital expenditure as at that date are given in Note 24 to the Financial Statements.

Events Occurring After the Reporting Date

No circumstances have arisen since the reporting 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 7,475 (2012/13 - 7,241).

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 Wickremasinghe - 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

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 Director*

Directors' Remuneration

Directors' remuneration is disclosed in Note 27 to the Financial Statements.

Directors' Shareholdings

By virtue of office two of the Government of Sri Lanka (GOSL) Nominee Directors including Chairman are holders of 3 Ordinary Shares of the Company.

Directors' Interests in Contracts

Directors' interests in contracts of the Company are disclosed in Note 27 to the Financial Statements and have been declared at meetings of the Directors. The Directors have no direct or indirect interest in any other contracts or proposed contracts with the Company.

Annual General Meeting

The Annual General Meeting will be held on 6th October 2014.

Auditors

In accordance with the Companies Act No. 07 of 2007, a resolution proposing the reappointment 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 21 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,

Dalrene Thirukumar
Company Secretary

Director

Director
31st July 2014

Board Audit Committee Report

Role and Responsibilities

The Board Audit Committee (BAC) of SriLankan Airlines scope and responsibilities are governed by the Board Audit Committee Charter approved by the Board of Directors. The primary role of BAC is to assist the Board of Directors in fulfilling its duties by providing an independent review of the system of internal controls, the financial reporting system, the management of business risks, Company's process for monitoring compliance with laws and regulations, the independence of the External Auditor and the internal audit function.

Committee Composition

The BAC comprises of four (4) members and one (1) independent observer. The members of the Audit Committee as at 31st March 2014 were: Mr. Susantha Ratnayake (Chairman), Mr. Nihal Jayamanne (PC), Mr. Sanath Ukwatte and Mrs. Lakshmi Sangakkara. The independent observer was Mr. S. M. Chandrapala who is the representative of the Ministry of Civil Aviation.

Meetings

The BAC formally met four (4) times during the year ended 31st March 2014. The members of the management attended the meetings upon invitation to brief the BAC on specific issues. In addition, Audit Committee had meetings with the External Auditors Messrs Ernst and Young to ascertain the nature, scope and approach of the external audit and to review the Financial Statements and the management reports.

Group Assurance and Advisory Services

The Group Assurance and Advisory Services (GAAS) function of SriLankan Airlines reports directly to the BAC. The GAAS provides an independent and objective evaluation of adequacy, efficiency and effectiveness of the system of internal controls including IS/IT controls and facilitates the implementation of the Enterprise Risk Management (ERM) framework. GAAS also provides advisory services to the management with regard to corporate assignments.

Functions of the Committee

- Reviewed and approved the annual audit plan of GAAS Division which was prepared after a careful assessment of the business activities and the various risks the Company is exposed to.
- Reviewed the internal audit findings on system of internal controls including IS/IT controls and ensured the follow-up action is taken by Heads of Divisions in a timely manner.
- Reviewed and approved the Corporate Manuals relating to Finance Division (Revenue Accounting, Financial Services, Procurement, Management Accounting and Credit Control). Recommended improvements for corporate policies and procedures for the purpose of better system of control and continuity of business functions at expected service levels.
- Reviewed the key corporate level risks and departmental risks including procedures adopted by management to mitigate the effects of business risks.
- Reviewed and approved the Corporate Business Continuity Manual to establish a structured framework in line with best practices in order to minimise the effects of risks from business interruptions/disasters.
- Reviewed the Company's compliance dashboard on a quarterly basis to determine that all relevant laws and regulations are complied with.
- Discussed in detail the external audit findings and observations of the External Auditors and agreed on the timelines to implement audit recommendations.

Susantha Ratnayake
Chairman

Board Audit Committee
29th July 2014

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 53.

The Companies Act No. 07 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. 07 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 31st March 2014 including cash flows and borrowing facilities and having considered the balance of the approved USD 500 Mn. funding in respect of the equity to be infused and the provision of guarantees by the Government of Sri Lanka, consider that the Group has adequate resources to continue in operation.

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

The Directors confirm that to their best of knowledge, all taxes, levies and financial obligations of the Company and its Subsidiary as at the reporting date have been paid or adequately provided for in the Financial Statements.

By Order of the Board,

Dalrene Thirukumar
Company Secretary
31st July 2014

Independent Auditor's Report

Building a better working world

Ernst & Young
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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 Statements of Financial Position as at 31st March 2014, and the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows 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 policies 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 31st March 2014 and the Financial Statements give a true and fair view of the Company's financial position as at 31st March 2014 and its performance 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 financial position as at 31st March 2014 and its performance 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 the financial statements which describes the unfavourable financial conditions together with the management assessment of these conditions and the mitigating factors.

Report on Other Legal and Regulatory Requirements

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

31st July 2014
Colombo

Statement of Financial Position

As at 31 March

	Note	Group 2014 LKR Mn.	Group 2013 (Restated) LKR Mn.	Group 2012 (Restated) LKR Mn.	Company 2014 LKR Mn.	Company 2013 (Restated) LKR Mn.	Company 2012 (Restated) LKR Mn.
Assets							
Non-Current Assets							
Property, Plant and Equipment	3	9,855.74	8,381.63	7,775.21	8,371.32	6,606.96	5,853.42
Aircraft Predelivery Payments	4	4,053.25	–	–	4,053.25	–	–
Aircraft Maintenance Reserve	5	7,350.71	13,570.76	15,209.12	7,350.71	13,570.76	15,209.12
Aircraft and Spare Engine Deposits		3,087.46	2,967.38	3,056.59	3,087.46	2,967.38	3,056.59
Intangible Asset	6	2,313.21	150.91	60.53	2,307.29	150.74	60.20
Investments	7.2	0.40	0.40	13,370.21	42.44	42.44	13,412.25
		26,660.77	25,071.08	39,471.66	25,212.47	23,338.28	37,591.58
Current Assets							
Inventories	8	5,040.23	5,021.85	4,513.76	4,749.74	4,664.89	4,232.38
Trade and Other Receivables	9	17,091.66	15,320.25	14,233.25	15,959.49	14,509.85	13,498.51
Aircraft Maintenance Reserve	5	9,384.01	6,331.17	2,608.50	9,384.01	6,331.17	2,608.50
Aircraft and Spare Engine Deposits		603.67	160.97	–	603.67	160.97	–
Investments	7.1	–	25,597.78	–	–	25,597.78	–
Cash and Bank Balances	10	6,606.63	3,681.67	2,027.65	6,457.32	3,640.56	1,733.32
		38,726.20	56,113.69	23,383.16	37,154.23	54,905.22	22,072.71
Total Assets		65,386.97	81,184.77	62,854.82	62,366.70	78,243.50	59,664.29
Equity and Liabilities							
Capital and Reserves							
Stated Capital	11	51,617.44	32,032.75	19,432.67	51,617.44	32,032.75	19,432.67
Reserves	12	2,576.72	1,549.42	1,780.59	1,905.01	877.71	1,108.88
Accumulated Loss		(105,872.85)	(75,019.68)	(48,101.45)	(110,743.40)	(78,883.25)	(52,728.21)
Total Equity		(51,678.69)	(41,437.51)	(26,888.19)	(57,220.95)	(45,972.79)	(32,186.66)
Non-Current Liabilities							
Preference Shares	13	1,000.00	1,000.00	1,000.00	–	–	–
Interest-Bearing Liabilities	14	23,175.52	26,373.61	3,752.26	23,830.99	27,210.76	4,595.47
Other Long-Term Liabilities	15	7,504.76	25,942.99	23,290.47	7,147.59	25,658.89	23,020.05
		31,680.28	53,316.60	28,042.73	30,978.58	52,869.65	27,615.52
Current Liabilities							
Sales in Advance of Carriage	16	17,037.51	18,055.30	14,802.79	17,037.51	18,055.30	14,802.79
Trade and Other Payables	17	46,420.09	33,233.81	37,484.40	49,438.18	35,116.56	39,840.11
Income Tax Payable		193.48	230.46	211.03	175.45	175.45	175.45
Interest-Bearing Liabilities	14	21,734.30	17,786.11	9,202.06	21,957.93	17,999.33	9,417.08
		85,385.38	69,305.68	61,700.28	88,609.07	71,346.64	64,235.43
Total Equity and Liabilities		65,386.97	81,184.77	62,854.82	62,366.70	78,243.50	59,664.29

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 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 59 through 98 form an integral part of these Financial Statements.

Colombo
31st July 2014

Statement of Income

Year Ended 31 March

	Note	Group 2014 LKR Mn.	Group 2013 (Restated) LKR Mn.	Company 2014 LKR Mn.	Company 2013 (Restated) LKR Mn.
Revenue	19	124,154.62	121,407.66	121,585.83	119,570.90
Expenditure					
Aircraft Fuel Cost		(59,946.90)	(63,864.94)	(59,946.90)	(63,864.94)
Employee Cost		(9,102.15)	(8,675.47)	(8,352.93)	(7,938.49)
Airport, Enroute and Passenger Expenses		(20,296.42)	(20,645.75)	(21,959.90)	(22,555.63)
Rentals on Leased Aircraft		(14,555.03)	(14,514.05)	(14,555.03)	(14,514.05)
Aircraft Maintenance and Overhaul Costs		(17,356.23)	(14,329.86)	(17,356.23)	(14,329.86)
Depreciation/Amortisation		(1,886.63)	(1,453.08)	(1,602.79)	(1,187.02)
Selling, Marketing and Advertising Expenses		(10,250.27)	(9,652.76)	(10,250.27)	(9,652.76)
Crew Expenses		(8,992.43)	(8,140.91)	(8,992.43)	(8,140.91)
Other Operating Expenses		(8,007.25)	(5,557.54)	(7,372.98)	(4,516.58)
Operating Loss	21	(26,238.69)	(25,426.70)	(28,803.63)	(27,129.34)
Other Income and Gains	20	260.50	150.16	1,673.46	2,544.20
Finance Income	22.1	974.81	1,656.56	969.11	1,634.97
Finance Cost	22.2	(6,294.26)	(3,222.38)	(6,196.92)	(3,138.40)
Loss Before Taxation		(31,297.64)	(26,842.36)	(32,357.98)	(26,088.57)
Income Tax Expense	23	(68.19)	(15.24)	(50.36)	–
Loss for the Year		(31,365.83)	(26,857.60)	(32,408.34)	(26,088.57)

The Accounting Policies and Notes on pages 59 through 98 form an integral part of these Financial Statements.

Statement of Comprehensive Income

Year Ended 31 March

	Note	Group 2014 LKR Mn.	Group 2013 (Restated) LKR Mn.	Company 2014 LKR Mn.	Company 2013 (Restated) LKR Mn.
Loss for the Year		(31,365.83)	(26,857.60)	(32,408.34)	(26,088.57)
Other Comprehensive Income					
Actuarial Gain/(Loss) on Retirement Benefit Obligation	15.2	512.66	(60.63)	548.19	(66.47)
Net Gain/(Loss) on Available-for-Sale Investments	12.2	1,027.30	(231.17)	1,027.30	(231.17)
Total Other Comprehensive Income/(Loss) for the Year, Net of Tax		1,539.96	(291.80)	1,575.49	(297.64)
Total Comprehensive Income/(Loss) for the Year, Net of Tax		(29,825.87)	(27,149.40)	(30,832.85)	(26,386.21)

The Accounting Policies and Notes on pages 59 through 98 form an integral part of these Financial Statements.

Statement of Changes in Equity

Year Ended 31 March

	Note	Group						
		Stated Capital LKR Mn.	Revaluation Reserve LKR Mn.	Available-for-Sale Reserve LKR Mn.	Revenue Reserve LKR Mn.	General Reserve LKR Mn.	Accumulated Loss LKR Mn.	Total LKR Mn.
Balance as at 1 April 2012		19,432.67	2,522.65	(796.13)	0.63	53.44	(18,163.18)	3,050.08
Effect of Change in Accounting Policy	2.5	–	–	–	–	–	(29,938.27)	(29,938.27)
Balance as at 1 April 2012 (Restated)		19,432.67	2,522.65	(796.13)	0.63	53.44	(48,101.45)	(26,888.19)
Loss for the Year		–	–	–	–	–	(26,857.60)	(26,857.60)
Other Comprehensive Income/(Loss)		–	–	(231.17)	–	–	(60.63)	(291.80)
Total Comprehensive Income/(Loss)		–	–	(231.17)	–	–	(26,918.23)	(27,149.40)
Advance Towards Share Capital	11.2	12,600.08	–	–	–	–	–	12,600.08
Balance as at 31st March 2013 (Restated)		32,032.75	2,522.65	(1,027.30)	0.63	53.44	(75,019.68)	(41,437.51)
Loss for the Year		–	–	–	–	–	(31,365.83)	(31,365.83)
Other Comprehensive Income		–	–	1,027.30	–	–	512.66	1,539.96
Total Comprehensive Income/(Loss)		–	–	1,027.30	–	–	(30,853.17)	(29,825.87)
Advance Towards Share Capital	11.2	19,584.69	–	–	–	–	–	19,584.69
Balance as at 31st March 2014		51,617.44	2,522.65	–	0.63	53.44	(105,872.85)	(51,678.69)

	Note	Company						
		Stated Capital LKR Mn.	Revaluation Reserve LKR Mn.	Available-for-Sale Reserve LKR Mn.	Revenue Reserve LKR Mn.	General Reserve LKR Mn.	Accumulated Loss LKR Mn.	Total LKR Mn.
Balance as at 1 April 2012		19,432.67	1,850.94	(796.13)	0.63	53.44	(22,789.94)	(2,248.39)
Effect of Change in Accounting Policy	2.5	–	–	–	–	–	(29,938.27)	(29,938.27)
Balance as at 1 April 2012 (Restated)		19,432.67	1,850.94	(796.13)	0.63	53.44	(52,728.21)	(32,186.66)
Loss for the Year		–	–	–	–	–	(26,088.57)	(26,088.57)
Other Comprehensive Income/(Loss)		–	–	(231.17)	–	–	(66.47)	(297.64)
Total Comprehensive Income/(Loss)		–	–	(231.17)	–	–	(26,155.04)	(26,386.21)
Advance Towards Share Capital	11.2	12,600.08	–	–	–	–	–	12,600.08
Balance as at 31st March 2013 (Restated)		32,032.75	1,850.94	(1,027.30)	0.63	53.44	(78,883.25)	(45,972.79)
Loss for the Year		–	–	–	–	–	(32,408.34)	(32,408.34)
Other Comprehensive Income		–	–	1,027.30	–	–	548.19	1,575.49
Total Comprehensive Income/(Loss)		–	–	1,027.30	–	–	(31,860.15)	(30,832.85)
Advance Towards Share Capital	11.2	19,584.69	–	–	–	–	–	19,584.69
Balance as at 31st March 2014		51,617.44	1,850.94	–	0.63	53.44	(110,743.40)	(57,220.95)

The Accounting Policies and Notes on pages 59 through 98 form an integral part of these Financial Statements.

Statement of Cash Flow

Year Ended 31 March

	Note	Group 2014 LKR Mn.	Group 2013 (Restated) LKR Mn.	Company 2014 LKR Mn.	Company 2013 (Restated) LKR Mn.
Cash Flows From/(Used in) Operating Activities					
Loss before Income Tax Expense		(31,297.64)	(26,842.36)	(32,357.98)	(26,088.57)
Adjustments for:					
Depreciation/Amortisation		1,886.63	1,453.08	1,602.79	1,187.02
Finance Cost	22.2	6,294.26	3,222.38	6,196.92	3,138.40
(Gain)/Loss on Disposal of Property, Plant and Equipment and Intangible Asset		(9.08)	2.90	(9.08)	6.48
Finance Income	22.1	(974.81)	(1,656.56)	(969.11)	(1,634.97)
(Reversal)/Provision for Impairment of Receivables		97.51	(47.58)	118.75	(47.58)
Provision for Slow Moving Inventory	8.1	303.83	211.07	302.78	211.07
Provision for Impairment of Maintenance Reserve	5.2	3,061.11	1,056.72	3,061.11	1,056.72
Effect on Unrealised Exchange (Gain)/Loss		318.47	(1,888.74)	656.77	(1,823.55)
Write Back of Sales in Advance		(1,357.28)	(967.03)	(1,357.28)	(967.03)
Provision for Gratuity	15.2	544.48	489.28	492.17	443.42
Operating Loss Before Working Capital Changes		(21,132.52)	(24,966.84)	(22,262.16)	(24,518.59)
Increase in Inventories		(322.21)	(719.16)	(387.63)	(643.58)
Increase in Sales in Advance of Carriage		339.49	4,219.54	339.49	4,219.54
(Increase)/Decrease in Trade and Other Receivables		187.36	(312.54)	487.89	(236.83)
Increase/(Decrease) in Trade and Other Payables		19,433.95	(2,358.58)	19,975.02	(2,853.60)
(Increase)/Decrease in Maintenance Reserves		(3,635.17)	(3,382.07)	(3,635.17)	(3,382.07)
Increase In Aircraft Security Deposits		(448.90)	(91.13)	(448.90)	(91.13)
Cash Generated From/(Used in) Operations		(5,578.00)	(27,610.78)	(5,931.46)	(27,506.26)
Finance Cost Paid		(3,920.77)	(2,714.62)	(3,765.51)	(2,568.20)
Gratuity Paid	15.2	(194.53)	(246.26)	(179.76)	(219.92)
Income Tax Paid		(54.29)	(2.83)	–	–
Net Cash Flows Used in Operating Activities		(9,747.59)	(30,574.49)	(9,876.73)	(30,294.38)
Cash Flows From/(Used in) Investing Activities					
Interest Received		974.81	1,098.83	969.11	1,098.83
Acquisition of Property, Plant and Equipment		(1,770.87)	(2,021.85)	(1,725.90)	(1,904.44)
Reversal of Advance Payment on Property, Plant and Equipment		51.77	–	–	–
Aircraft Predelivery Payments		(6,799.00)	–	(6,799.00)	–
Acquisition of Intangible Asset		(706.42)	(140.78)	(700.28)	(140.24)
Proceeds from Disposal of Property, Plant and Equipment and Intangible Asset		15.94	8.38	15.94	5.42
Net Cash Used in Investing Activities		(8,233.77)	(1,055.42)	(8,240.13)	(940.43)
Cash Flows From/(Used in) Financing Activities					
Repayment of Interest-Bearing Liabilities		(31,117.71)	(7,536.70)	(31,090.39)	(9,741.32)
Proceeds from Disposal of Treasury Bonds		22,477.99	–	22,477.99	–
Proceeds from Interest-Bearing Loans and Borrowings		28,740.00	37,966.97	28,739.98	40,029.71
Net Cash from Financing Activities		20,100.28	30,430.27	20,127.58	30,288.39
Net Increase/(Decrease) in Cash and Cash Equivalents		2,118.92	(1,199.64)	2,010.72	(946.42)
Cash and Cash Equivalents at the Beginning of the Year	10	(4,538.03)	(3,338.39)	(4,579.14)	(3,632.72)
Cash and Cash Equivalents at the End of the Year	10	(2,419.11)	(4,538.03)	(2,568.42)	(4,579.14)

The Accounting Policies and Notes on pages 59 through 98 form an integral part of these Financial Statements.

Notes to the Financial Statements

Year Ended 31st March 2014

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 Centre, 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 ('BIA') and Mattala Rajapaksa International Airport ('MRIA'), sale of duty free goods on-board, marketing inbound and outbound holiday packages constitute other main activities. Providing third party maintenance, flight operation services and conducting aviation related training programmes 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 BIA and MRIA. Other ancillary activities consist of operating public and transit restaurants, provision of laundry services and managing the transit hotel.

1.3 Date of Authorisation for Issue

The Financial Statements for the year ended 31st March 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 31st July 2014.

2. General Accounting Policies

2.1 Basis of Preparation

The Consolidated Financial Statements of the Group have been prepared in accordance with Sri Lanka Accounting Standards comprising SLFRS and LKAS (hereafter 'SLFRS') as issued by The Institute of Chartered Accountants of Sri Lanka.

The Financial Statements of the Company and the Group have been prepared on a historical cost basis, except for land and building and Available-for-Sale financial assets that have been measured at fair value.

The consolidated Financial Statements are presented in Sri Lankan Rupees (LKR) and all values are rounded to the nearest Million Rupees, except when otherwise indicated.

2.1.1 Statement of Compliance

The Financial Statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS) as issued by The Institute of Chartered Accountants of Sri Lanka. The preparation and presentation of these Financial Statements is in compliance with the Companies Act No. 07 of 2007.

2.1.2 Going Concern

During the current year the Company recorded a loss of LKR 32,408.34 Mn. (2013 - LKR 26,088.57 Mn.) with an accumulated loss of LKR 110,743.40 Mn. (2013 - LKR 78,883.25 Mn.). Further, the Company's current liabilities exceeded its current assets by LKR 51,454.84 Mn. (2013 - LKR 16,441.42 Mn.) and the total equity of the Company as at reporting date has declined to a negative LKR 57,220.95 Mn. (2013 - negative LKR 45,972.79 Mn.).

The main challenges of high jet fuel prices and a weak global economy, especially across Europe, continued to have an adverse impact on Company profitability. Despite these continuing challenges, the Company has taken many steps to mitigate the negative impact of these external forces, and also continued to invest in improving its operating efficiency, the results of which are expected to be realised in the future.

As part of its strategic initiative to replace the wide body fleet, the Company entered into agreements with Airbus Industries for the purchase of six new Airbus A330-300s with expected delivery in end 2014 and 2015 and four Airbus A350-900s with expected delivery between 2020 and 2021. Further, the Company expects to induct three new Airbus A350-900 aircraft directly from lessors in 2016. These aircraft will replace the entire widebody aircraft fleet of the Company. The Company has now finalised the financing of the six A330-300 aircraft with international lessors which will replace the ageing A340 fleet. The Company managed to secure financing from recognised lessors for the A330s without any credit enhancements, owing to our long standing strong relationship/credibility in the industry. The new A330 and A350 aircraft will provide the Company with significant cost improvements and operational efficiencies notably, reduced fuel burn and maintenance costs, compared to its existing wide-body aircraft. In addition to cost savings, the new A330 and A350 aircraft will provide the Company with a product that is on par with the competition and enhance opportunities for revenue growth.

Also being a member of the 'oneworld' alliance since May 2014 gives the Company significant revenue enhancement opportunities through access to over 950 destinations worldwide. The Company is therefore focused on maximising revenue opportunities by capitalising on our geographic location amidst rapidly-developing economies, realigning the network to capture high-yielding traffic and strengthening connectivity to high growth markets, and increasing premium traffic in line with the upgraded business class product.

Further, the Company concentrated on modernising its systems and has migrated to the Amadeus Altéa passenger services system during the year. The Amadeus Altéa passenger services system is a technologically advanced airline reservation and passenger information system used by many of the world's leading airlines and will replace the Company's previous generation reservation system which dates back to the 1990s. Other initiatives to improve operating efficiency and reduce operating costs include: reducing the dependency on global distribution systems, optimising crew costs through introduction of a new crew management system, cross-training staff to optimise efficiency and increase automation, reducing overseas station costs by converting Sri Lankan offices into general sales agents, and reducing Connection Point Service (CPS) costs through improved network connectivity.

Ancillary services such as SriLankan Engineering and Training play an important role in executing the Government's vision of turning Sri Lanka into a regional aviation hub and provide further revenue generating opportunities for the Company. The Company has already taken initial steps to establish a dedicated maintenance repair organisation ('MRO') at the Mattala Mahinda Rajapaksa International Airport dedicated to serving narrow body aircraft.

The Government of Sri Lanka continued to demonstrate its commitment to SriLankan through strong financial support. The third capital infusion of LKR 19,584.69 Mn. was made in March 2014, proceeds of which have been used to ease the cash constraints faced by the Company. (The first capital infusion of LKR 14,286.32 Mn. was made by the GOSL in 2011/12 and the second capital infusion in 2012/13 of LKR 12,600.08 Mn. as part of the recapitalisation plan approved for the Company in July 2011). As a further commitment the GOSL has also supported the Company through the provision of an irrevocable guarantee for a USD 175 Mn. International Bond issue in June 2014 and a USD 50 Mn. guarantee in March 2014 to secure a USD 150 Mn. facility through a syndicate of banks. The proceeds of same are currently being used to support the wide body re-fleeting programme, working capital and other operational requirements of the Company.

Based on the continued support extended by the GOSL and the Company's strategic initiatives, the Directors are confident that the Company would improve its financial position and continue in operation as a going concern into the foreseeable future.

2.1.3 Comparative information

The accounting policies adopted by the Group are consistent with those of the previous financial year except for the effects of the change in accounting policy disclosed in Note 2.5.

The Group changed the presentation of the Statement of Income from the 'function of the expenses' method to the 'nature of expenses' method as it is believed to be more reflective of Group's operations. The previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year 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. 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, Assumptions and Judgments

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) Judgments

i. Going Concern

As disclosed in Note 2.1.2 these Financial Statements have been prepared and presented on a going concern basis.

ii. 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 legal counsel, assess the merits of each case and make necessary provisions and/or disclosures when it is determined that there would be a likely possibility of an outflow of resources in the future.

iii. Operating Leases

The Company has entered into commercial lease arrangements in relation to 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, 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 reporting date and ensures consistency with previous estimates and patterns of consumptions of the economic benefits that are embodied in these assets. Changes in useful lives and residual values of these assets may result in revision of future depreciation charges. [Refer Policy 2.4.3. (b)].

ii. Frequent Flyer Programme

Company operates a frequent flyer programme '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 deferment 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 reporting date and the liability is adjusted accordingly.

iii. 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 or cycles flown. Periodically management evaluates the recoverability of such payments based on best estimates of the amounts recoverable. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount (Refer Note 5).

iv. Provision for Aircraft Maintenance and Overhaul Costs

The Company is obligated to carry out heavy maintenance checks on the airframe, engines and landing gears, which are under operating leases based on agreed terms towards maintenance. Provision for heavy maintenance cost is made progressively in the Financial Statements based on the number of flight hours or cycles. In arriving at the provision, assumptions are made on the estimated condition of the asset at the time of check, the material and overhead costs to be incurred and the timing of when the check is to be carried out. These assumptions are formed based on past experience, and are regularly reviewed to ensure they approximate to the actual. Any revision in assumptions and estimations that causes a material effect to the provision would be adjusted prospectively in the Financial Statements.

v. Provisions for air Transportation Services Related Direct Operating Expenses

The operation of air transportation services inevitably involves the making of various provisions on direct expenses, such as fuel, ground handling charges, landing and parking charges, inflight meals, reservation systems booking fees and information technology related expenses. The estimates and associated assumptions used are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making provisions for carrying values of liabilities as at the financial year end.

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 (Refer Note 8).

vii. Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Management uses judgment in estimating such impairment 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 (Refer Note 2.4.14).

ii. Revaluation of Land and Building

Land and building 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 basis of valuation is disclosed in Note 3.

2.4 Summary of Significant Accounting Policies

2.4.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lankan 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 reporting date. The resultant foreign exchange gains and losses are recognised in the Statement of Income. 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 31st March 2013. In February 2011, under the provisions of the Inland Revenue Act No. 10 of 2006 as amended by the Inland Revenue (Amendment) Act No. 22 of 2011, the Company is entitled for 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 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 reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

Subsequently land and buildings are measured at revalued amounts with any revaluation surplus recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Income, in which case the increase is recognised in the Statement of Income.
A revaluation deficit is recognised in the Statement of Income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Valuations are performed with an adequate frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Subsequent cost 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 Statement of Income during the period in which they are incurred.

Property, plant and equipment includes amongst others the following:

i. Aircraft Rotable Spares

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

ii. Capital Work-in-Progress

Capital work-in-progress is stated at cost which includes 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 instalments.

Aircraft-Related Equipment	- over shorter of 8 years or lease period
Plant and 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 reporting date and adjusted prospectively when appropriate.

The depreciation rates stated above are applicable to all periods presented.

(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 Statement of Income in the year the asset is derecognised.

2.4.4 Intangible Asset

Intangible asset are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. Accordingly, these assets are stated in the Statement of Financial Position 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 reporting 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.

2.4.5 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. Operating lease payments are recognised as an operating expense in the Statement of Income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the users benefit.

Cost incurred on re-configuration of assets under operating leases are capitalised and amortised over the shorter of the useful life and the remaining lease period.

(b) Finance Leases

Leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Statement of Income.

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).

(c) Sale and Leaseback

Profits arising on sale and leaseback transactions which result in operating leases are recognised in the Statement of Income 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 current assets and amortised over the shorter of useful life of the asset and lease period with the corresponding liability measured in accordance with LKAS 37 and grouped under Other Deferred Liabilities in the Statement of Financial Position.

2.4.6 Inventories

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

2.4.7 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.

2.4.8 Financial Instruments - Initial Recognition and Subsequent Measurement

2.4.8.1 Financial Assets

Financial assets are recognised on the Statement of Financial Position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are classified as Fair Value through Profit or Loss (FVTPL), loans and receivables, held to maturity investments or Available-for-Sale (AFS) as appropriate. Management determines the classification of its financial assets at initial recognition and the classification depends on the nature of the asset and the purpose for which the assets were acquired.

All financial assets are recognised initially at fair value.

Company's financial assets consist of loans and receivables and investments categorised as AFS. Group policy on recognition, initial and subsequent measurement, impairment and de-recognition of such items are set out below;

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate ('EIR'), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR method. The amortisation is included in finance income in the Statement of Income.

(b) Available-for-Sale Financial Assets

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

Available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the Statement of Income in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

(c) Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(d) Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or the group of debtors is experiencing significant financial difficulty, default of the payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows.

i. Financial Assets Carried at Amortised Cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the Statement of Income.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the Statement of Income.

ii. Available-for-Sale Financial Assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Income is removed from Other Comprehensive Income and recognised in the Statement of Income. Impairment losses on equity investments are not reversed through the Statement of Income; increases in their fair value after impairment are recognised directly in Other Comprehensive Income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Income.

2.4.8.2 Financial Liabilities

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings and financial guarantee contracts.

The subsequent measurement of financial liabilities depends on their classification as described below:

(a) Loans and Borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the Statement of Income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Statement of Income.

(b) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Income.

(c) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(d) Fair Value of Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions.
- Reference to the current fair value of another instrument that is substantially the same.
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 18.

2.4.9 Aircraft Maintenance Reserve

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

Based on the nature Aircraft Maintenance Reserve has been classified under loans and receivables and the relevant accounting policy for this category of financial assets are stated in Note 2.4.8.1 (a) above.

2.4.10 Trade and Other Receivables

Trade debtors, including amounts owing by subsidiary, deposits and other debtors (excluding non-financial assets classified under deposits and other receivables which are measured at cost) classified and accounted for as loans and receivable. Based on the nature the relevant accounting policy for this category of financial assets are stated in Note 2.4.8.1 (a) above.

2.4.11 Investments

i. Investment in Treasury Bond

Investments in Treasury Bond is classified as 'Available-for-Sale' financial asset. After the initial recognition the investment is measured at fair value. The accounting policy for this category of financial assets is stated in Note 2.4.8.1 (b).

ii. Investment in Subsidiary

In the Company's Financial Statements, investment in the subsidiary has been accounted for at cost, net of any impairment for other than temporary diminution in value.

iii. Other investments

Other long-term investments include investments in equity securities. As there is no active market for the trading of these investments and fair value cannot be reliably measured, these investments are stated at cost.

2.4.12 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 Statement of Financial Position.

2.4.13 Provisions

i. General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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 Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Income net of any reimbursement.

ii. Aircraft Maintenance and Overhaul Costs

The Group recognises aircraft maintenance and overhaul expenses (except heavy maintenance visits, engine overhaul and landing gear overhaul expenses) on an incurred basis. Heavy maintenance visits, engine overhaul and landing gear overhaul expenses are accounted on an accrual basis. Provision for heavy maintenance visits, engine overhaul and landing gear overhaul expenses is made progressively in the Financial Statements based on utilisation or time depending on the nature of the overhaul. For engine overhaul costs covered by 'power by-hour' third-party maintenance agreements, the cost is expensed at an agreed fixed rate per hour over the tenure of the agreements.

iii. Deferred Engine Upgrade Liability

The Group records a provision for Deferred Engine Upgrade costs for certain Aircraft Engines on operating lease. Deferred engine upgrade costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as separate asset (Note 17). The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the Deferred Engine Upgrade costs. The unwinding of the discount is expensed as incurred and recognised in the Statement of Income as a finance cost. The estimated future costs of engine upgrade are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

2.4.14 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 Company/Group recognises the actuarial gain/loss arising from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in the Statement of Comprehensive Income.

The gratuity liability is not externally funded. This item is grouped under 'Other Deferred Liabilities' in the Statement of Financial Position. 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.

2.4.15 Frequent Flyer Programme

The Company operates a frequent flyer programme called 'FlySmile' 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 Statement of Financial Position.

2.4.16 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable. Revenue for the Group excludes inter-company transactions.

(a) Airline Revenue

Revenue is generated principally from the carriage of passengers, cargo and mail, rendering of airport terminal services, engineering services, air charters and related activities.

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) Revenue from Airline Catering Services

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.

(c) Dividend Income

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

(d) Rental Income

Rental income is recognised on an accrual basis.

(e) Interest Income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the Effective Interest Rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the Statement of Income.

(f) Other Income

Other income is recognised on an accrual basis.

2.4.17 Expenditure Recognition

Expenses are recognised in the Statement of Income 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 Statement of Income. For the purpose of presentation of the Statement of Income, the 'nature of expenses' method has been adopted, on the basis that it presents fairly the elements of the Company's and Group's performance.

2.4.18 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.

2.4.19 Segment Reporting

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

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

Management considers that there is no suitable basis for allocating assets and related liabilities to geographical segments. Accordingly, segment assets, segment liabilities and other segment information by geographical segment 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 Changes in accounting policies and disclosures

During the financial year, the Company voluntarily changed its accounting policy in relation to accounting for major overhauls and upgrades of aircraft engines and landing gears on its operating leases as the new accounting policy provides more relevant information on the underlying transaction.

Under the previous accounting policy the costs of heavy maintenance visits, major overhauls to engines and landing gears that provide future economic benefits for more than one period are capitalised as 'Major Overhauls and Upgrade of Aircraft Engines', and are amortised over either the estimated flying hours until the next major overhaul or the remaining lease period, whichever is shorter.

With the adoption of new accounting policy the heavy maintenance visits, engine overhaul and landing gears overhaul expenses are accounted on an accrual basis. Provision for heavy maintenance visits, engine overhaul and landing gear overhaul expenses is made progressively in the Financial Statements based on utilisation or time depending on the nature of the overhaul. Accordingly no asset will be recognised at the time of the major overhauls to engines and landing gear and the resultant cost is offset against the related provision. The difference between the provision and the actual overhaul cost is recognised in Income Statement in the period in which the expenditure is incurred.

This voluntary accounting policy change, in line with LKAS 8 has been accounted for retrospectively and the following adjustments were made to the current and previous Financial Statements:

Group/Company

	2014 LKR Mn.	2013 LKR Mn.
Impact on Statement of Income		
Increase/(Decrease)		
Aircraft Maintenance and Overhaul Cost	3,002.72	7,408.52
Depreciation/Amortisation	(5,281.15)	(3,069.70)
Loss for the Year	(2,278.43)	4,338.82

	2014 LKR Mn.	2013 LKR Mn.	2012 LKR Mn.
Impact on Statement of Financial Position			
Increase/(Decrease)			
Property, Plant and Equipment	98.25	226.83	541.20
Major Overhauls and Upgrade of Aircraft Engines	(11,343.34)	(11,430.46)	(6,684.88)
Trade and Other Payables	16,353.95	2,661.96	5,736.61
Other Long-term Liabilities	4,399.61	20,411.50	18,057.99
Accumulated Losses	31,998.66	34,277.09	29,938.27

2.6 Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of these Financial Statements are set out below. The Group will adopt these Standards when they become effective. Pending a detailed review, the financial impact of these Standards is not reasonably estimable.

SLFRS 9 - Financial Instruments: Classification and Measurement

This Standard was originally effective for annual periods commencing on or after 1 January 2015. However, effective date has been deferred subsequently.

In addition to the above, following standards have also been issued and will be effective from 1st January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 - Joint Arrangements

SLFRS 12 - Disclosure of Interests in Other Entities

SLFRS 13 - Fair Value Measurements

3. Property, Plant and Equipment

3.1 Group

	Land and Buildings LKR Mn.	Plant and Equipment LKR Mn.	Improvements to Aircraft on Operating Leases LKR Mn.	Aircraft Related Equipment LKR Mn.	Leasehold Plant and Equipment LKR Mn.	Advances/ Capital Work-in-Progress LKR Mn.	Total LKR Mn.
Cost/Revaluation							
Balance as at 1st April 2013	3,525.81	5,349.44	3,133.31	6,301.94	1,208.03	556.09	20,074.62
Acquisitions/Modifications/Revaluation	338.24	777.78	415.49	593.22	1,431.58	194.13	3,750.44
Transfers/Adjustments	110.22	17.15	(0.02)	(2.56)	–	(673.51)	(548.72)
Disposals/Retirements	(2.84)	(41.41)	(347.09)	–	–	–	(391.34)
Balance as at 31st March 2014	3,971.43	6,102.96	3,201.69	6,892.60	2,639.61	76.71	22,885.00
Accumulated Depreciation							
Balance as at 1st April 2013	563.25	4,160.66	1,830.51	4,974.06	164.51	–	11,692.99
Charge for the Year	199.69	451.10	561.39	303.10	210.41	–	1,725.69
Transfers/Adjustments	–	2.33	–	(0.41)	–	–	1.92
Disposals/Retirements	(2.84)	(41.41)	(347.09)	–	–	–	(391.34)
Balance as at 31st March 2014	760.10	4,572.68	2,044.81	5,276.75	374.92	–	13,029.26
Net Book Value as at 31st March 2014	3,211.33	1,530.28	1,156.88	1,615.85	2,264.69	76.71	9,855.74
Net Book Value as at 31st March 2013	2,962.56	1,188.78	1,302.80	1,327.88	1,043.52	556.09	8,381.63

3.2 a. The fair value of the Company's Land and Buildings was determined by means of a revaluation during the last financial year by Mr. Ranjan J. Samarakone an independent valuer based on Market based evidence and 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 31st 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 LKR 3,201.72 Mn. (2013 - LKR 2,091.84 Mn.). Cash payments amounting to LKR 1,770.87 Mn. (2013 - LKR 2,021.85 Mn.) 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 LKR 7,518.51 Mn. (2013 - LKR 8,456.14 Mn.)

3.3 Company

	Land and Buildings LKR Mn.	Plant and Equipment LKR Mn.	Improvements to Aircraft on Operating Leases LKR Mn.	Aircraft Related Equipment LKR Mn.	Leasehold Plant and Equipment LKR Mn.	Advances/ Capital Work-in-Progress LKR Mn.	Total LKR Mn.
Cost/Revaluation							
Balance as at 1st April 2013	2,270.57	4,311.09	3,133.31	6,301.94	1,208.03	500.97	17,725.91
Acquisitions/Modifications/Revaluation	326.90	745.06	415.49	593.22	1,431.58	194.13	3,706.38
Transfers/Adjustments	110.22	17.15	(0.02)	(2.56)	–	(621.74)	(496.95)
Disposals/Retirements	(2.84)	(41.41)	(347.09)	–	–	–	(391.34)
Balance as at 31st March 2014	2,704.85	5,031.89	3,201.69	6,892.60	2,639.61	73.36	20,544.00
Accumulated Depreciation							
Balance as at 1st April 2013	430.82	3,719.05	1,830.51	4,974.06	164.51	–	11,118.95
Charge for the Year	133.70	234.55	561.39	303.10	210.41	–	1,443.15
Transfers/Adjustments	–	2.33	–	(0.41)	–	–	1.92
Disposals/Retirements	(2.84)	(41.41)	(347.09)	–	–	–	(391.34)
Balance as at 31st March 2014	561.68	3,914.52	2,044.81	5,276.75	374.92	–	12,172.68
Net Book Value as at 31st March 2014	2,143.17	1,117.37	1,156.88	1,615.85	2,264.69	73.36	8,371.32
Net Book Value as at 31st March 2013	1,839.75	592.04	1,302.80	1,327.88	1,043.52	500.97	6,606.96

3.4 a. The fair value of the Company's Land and Buildings was determined by means of a revaluation during the last financial year by Mr. Ranjan J. Samarakone an independent valuer based on market based evidence and 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 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:

	Cost	Cumulative Depreciation if Assets Were Carried at Cost	Net Carrying Amount		
			2014	2013	2012
Class of Asset	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Land & Buildings	1,176.97	374.36	802.61	852.74	898.82

b. During the year, the Company acquired property, plant and equipment to the aggregate value of LKR 3,209.43 Mn. (2013 - LKR 2,029.20 Mn.). Cash payments amounting to LKR 1,725.90 Mn. (2013 - LKR 1,904.44 Mn.) 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 LKR 7,515.20 Mn. (2013 - LKR 8,456.14 Mn.).

4. Aircraft Predelivery Payments

The predelivery payments consist of payments made by the Company based on the purchase agreement with Airbus for the purchase of six A330 - 300 and four A350 - 900 aircraft for delivery between 2014 to 2021. Predelivery payments amounting to LKR 2,745.75 Mn. is included under trade and other receivables.

5. Aircraft Maintenance Reserve

		Group/Company	
		2014	2013
	Note	LKR Mn.	LKR Mn.
Balance as at 1st April		21,737.58	18,658.19
Payments		8,739.21	8,559.36
Adjustments		(123.47)	24.07
Recoveries		(4,916.86)	(5,261.48)
Unrealised Exchange Gain/(Loss)		825.19	(242.56)
		26,261.65	21,737.58
Less: Provision for Impairment	5.2	(9,526.93)	(1,835.65)
Net Recoverable Balance as at 31st March	5.1	16,734.72	19,901.93

5.1 Current/Non-Current Classification

	Gross	Provision for Impairment	Net	Amount Recoverable Within One Year	Amount Recoverable After One Year
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Balance as at 31st March 2014	26,261.65	(9,526.93)	16,734.72	9,384.01	7,350.71
Balance as at 31st March 2013	21,737.58	(1,835.65)	19,901.93	6,331.17	13,570.76

5.2 Movement of Provision for Impairment

	Group/Company	
	2014	2013
	LKR Mn.	LKR Mn.
Balance as at 1st April	1,835.65	840.57
Charged during the Year	3,061.11	1,056.72
Charged Against the Provision for Future Maintenance & Overhaul Cost	4,566.46	–
Unrealised Exchange (Gain)/Loss	63.71	(61.64)
Balance as at 31st March	9,526.93	1,835.65

6. Intangible Asset

	Group			Company		
	Software LKR Mn.	Capital Work-in-Progress LKR Mn.	Total 2014 LKR Mn.	Software LKR Mn.	Capital Work-in-Progress LKR Mn.	Total 2014 LKR Mn.
Computer Software						
Cost						
Balance as at 1st April	699.81	93.43	793.24	671.29	93.43	764.72
Acquisitions/Modifications	2,360.96	470.76	2,831.72	2,354.82	470.76	2,825.58
Transfers/Adjustments	32.95	(535.70)	(502.75)	32.95	(535.70)	(502.75)
Disposals	(223.07)	(5.76)	(228.83)	(223.07)	(5.76)	(228.83)
Balance as at 31st March	2,870.65	22.73	2,893.38	2,835.99	22.73	2,858.72
Accumulated Amortisation						
Balance as at 1st April	642.33	–	642.33	613.98	–	613.98
Charge for the Year	157.95	–	157.95	157.56	–	157.56
Transfers/Adjustments	1.86	–	1.86	1.86	–	1.86
Disposals	(221.97)	–	(221.97)	(221.97)	–	(221.97)
Balance as at 31st March	580.17	–	580.17	551.43	–	551.43
Net Book Value as at 31st March 2014	2,290.48	22.73	2,313.21	2,284.56	22.73	2,307.29
Net Book Value as at 31st March 2013	57.48	93.43	150.91	57.31	93.43	150.74

Intangible Asset of the Group/Company includes fully amortised asset having a gross carrying amount of LKR 409.56 Mn. (2013 LKR 538.56 Mn.).

7. Investments

7.1 Current Investments

		Group		Company	
	Note	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
Available-for-Sale Investments					
Investment in Treasury Bonds	7.3	–	25,597.78	–	25,597.78

7.2 Non-Current Investments

	Group		Company	
	2014	2013	2014	2013
	Cost LKR Mn.	Cost LKR Mn.	Cost LKR Mn.	Cost LKR Mn.
Investments in Subsidiary in Sri Lanka				
- SriLankan Catering Limited 100% Holding	–	–	42.24	42.24
(Directors' Valuation based on Net Asset Value LKR 4.65 Bn. (2013 - LKR 3.7 Bn.)				
- Air Lanka (Private) Limited (40,000 Shares)*	0.40	0.40	0.20	0.20
	0.40	0.40	42.44	42.44

**50% of Share Capital of Air Lanka (Private) Limited is held by the Company and the remaining 50% is held by the Subsidiary Company. Air Lanka (Private) Limited is a dormant Company since inception.*

7.3 Details of the Investment in Treasury Bonds are as Follows:

	Cost of the Investment LKR Mn.	Face Value LKR Mn.	Maturity Date	Coupon Interest Rate %	Fair Value As At 31st March 2014 LKR Mn.	Fair Value As At 31st March 2013 LKR Mn.
Bond						
8.00% 2017A	14,286.32	15,423.08	1 Jan 2017	8.00	–	13,904.57
8.5% 2018D	12,600.08	13,125.40	31 May 2018	8.50	–	11,693.21
					–	25,597.78

8. Inventories

	Note	Group 2014 LKR Mn.	Group 2013 LKR Mn.	Company 2014 LKR Mn.	Company 2013 LKR Mn.
Consumables and Spares		5,568.10	5,408.72	5,474.06	5,308.73
Raw Materials		201.98	261.45	–	–
Duty Free Merchandise		2.21	2.37	2.21	2.37
Less: Provision for Slow Moving Stock	8.1	(732.06)	(650.69)	(726.53)	(646.21)
		5,040.23	5,021.85	4,749.74	4,664.89

8.1 Provision for Slow Moving Stock

		Group 2014	Group 2013	Company 2014	Company 2013
Balance as at 1st April		(650.69)	(584.28)	(646.21)	(579.80)
Provision made During the Year		(303.83)	(211.07)	(302.78)	(211.07)
Written-off During the Year		222.46	144.66	222.46	144.66
Balance as at 31st March		(732.06)	(650.69)	(726.53)	(646.21)

9. Trade and Other Receivables

	Note	Group 2014 LKR Mn.	Group 2013 LKR Mn.	Company 2014 LKR Mn.	Company 2013 LKR Mn.
Trade Receivables		11,017.39	11,769.97	10,168.27	11,154.97
Less: Provision for Impairment of Receivables	9.2	(384.04)	(286.53)	(380.61)	(261.86)
		10,633.35	11,483.44	9,787.66	10,893.11
Other Debtors		193.68	962.65	193.68	962.65
Aircraft Predelivery Payments		2,745.75	–	2,745.75	–
Deposits, Advances and Prepayments		3,445.39	2,792.04	3,176.86	2,589.28
		17,018.17	15,238.13	15,903.95	14,445.04
Loans and Advances to Company Officers	9.3	73.49	82.12	55.54	64.81
		17,091.66	15,320.25	15,959.49	14,509.85

Trade receivables are non-interest bearing and are generally on 30 days credit term.

9.1 As at 31 March the Ageing Analysis of Trade Receivables is as Follows:

As at 31st March 2014, Trade Receivables of an initial value of LKR 380.61 related to Company and LKR 384.04 related to Group were impaired and fully provided for. See below Note 9.2 for the movement in impairment of Trade Receivables.

	Total	Neither Past Due Nor Impaired	Past Due Not Impaired			
			30-60 Days	61-90 Days	91-180 Days	>180 Days
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Balance as at 31st March 2014						
Company	9,787.66	8,782.00	51.19	120.39	211.28	622.80
Group	10,633.35	9,399.42	195.39	140.25	271.53	626.76

9.2 Movement for Provision for Impairment of Receivables

	Group 2014 LKR Mn.	Company 2014 LKR Mn.
Balance as at 1st April	286.53	261.86
Provision for the year	97.51	118.75
Balance as at 31st March	384.04	380.61

9.3 Loans to Company Officers

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

	Group		Company	
	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
Balance as at 1st April	2.89	21.65	2.14	2.26
Loans Granted During the Year	2.80	3.44	–	2.10
Repayments	(4.17)	(22.20)	(1.40)	(2.22)
Balance as at 31st March	1.52	2.89	0.74	2.14

10. Cash and Cash Equivalents in the Cash Flow Statement

Components of Cash and Cash Equivalents

	Note	Group		Company	
		2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
10.1 Favourable Cash and Cash Equivalent Balances					
Cash and Bank Balances		5,500.14	2,887.81	5,350.83	2,846.70
Short-Term Deposits		1,106.49	793.86	1,106.49	793.86
		6,606.63	3,681.67	6,457.32	3,640.56
10.2 Unfavourable Cash and Cash Equivalent Balances					
Bank Overdrafts	14	(7,342.76)	(6,849.32)	(7,342.76)	(6,849.32)
		(736.13)	(3,167.65)	(885.44)	(3,208.76)
10.3 Restricted Cash	14.2 (a)	(1,682.98)	(1,370.38)	(1,682.98)	(1,370.38)
Total Cash and Cash Equivalents for the purpose of Cash Flow Statement		(2,419.11)	(4,538.03)	(2,568.42)	(4,579.14)

11. Stated Capital

As of 31st March

	Note	Group		Company	
		2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
320,327,503 (2013 - 51,463,463) Ordinary Shares-Issued and Fully Paid	11.1	32,032.75	5,146.35	32,032.75	5,146.35
Advance towards Share Capital	11.2	19,584.69	26,886.40	19,584.69	26,886.40
Preference Shares		1,000.00	1,000.00	–	–
		52,617.44	33,032.75	51,617.44	32,032.75
Less: Preference Shares Reclassified	13	(1,000.00)	(1,000.00)	–	–
		51,617.44	32,032.75	51,617.44	32,032.75

11.1 Ordinary Shares Issued and Fully Paid

	Note	Group 2014 LKR Mn.	Group 2013 LKR Mn.	Company 2014 LKR Mn.	Company 2013 LKR Mn.
As at 1st April		5,146.35	5,146.35	5,146.35	5,146.35
Issued during the year		26,886.40	–	26,886.40	–
As at 31st March		32,032.75	5,146.35	32,032.75	5,146.35

11.2 Advance Towards Share Capital

	Note	Group 2014 LKR Mn.	Group 2013 LKR Mn.	Company 2014 LKR Mn.	Company 2013 LKR Mn.
As at 1st April		26,886.40	14,286.32	26,886.40	14,286.32
Advances Received during the year	11.3	19,584.69	12,600.08	19,584.69	12,600.08
Shares Issued during the year		(26,886.40)	–	(26,886.40)	–
As at 31st March		19,584.69	26,886.40	19,584.69	26,886.40

11.3 During the year the Government of Sri Lanka (GOSL) invested in the form of a Treasury Bond with a face value of LKR 17.92 Bn.

Details of the Treasury Bond is as follows:

	Cost of the Investment LKR Mn.	Face Value LKR Mn.	Maturity Date	Coupon Interest Rate %
Bond				
10.60% 2019A	19,584.69	17,924.09	01.07.2019	10.60

12. Reserves

	Note	Group 2014 LKR Mn.	Group 2013 LKR Mn.	Company 2014 LKR Mn.	Company 2013 LKR Mn.
Revaluation Reserve		2,522.65	2,522.65	1,850.94	1,850.94
Revenue Reserve		0.63	0.63	0.63	0.63
General Reserve	12.1	53.44	53.44	53.44	53.44
Available-for-Sale Reserve	12.2	–	(1,027.30)	–	(1,027.30)
		2,576.72	1,549.42	1,905.01	877.71

12.1 General Reserve

General reserve of LKR 53.44 Mn. 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.

12.2 Available-for-Sale Reserve

	Group/Company	
	2014 LKR Mn.	2013 LKR Mn.
Movement in Fair Value Reserve		
Balance as at 1st April	(1,027.30)	(796.13)
Loss on Available-for-Sale Investments	–	(231.17)
Realised on Sale during the Year	1,027.30	–
Balance as at 31st March	–	(1,027.30)

13. Preference Shares

The Group Statement of Financial Position reflects 10 Mn. 15% Non-Voting Redeemable Cumulative Convertible (10-year) Preference Shares. The investment is held by a Government controlled entity.

14. Interest-Bearing Liabilities

		Group		Company	
	Note	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
Current Liabilities					
Long-term Loans	14.1	11,065.54	10,618.20	11,293.38	10,834.30
Finance Leases	14.4	449.50	84.86	445.29	81.98
Short-term Loan		2,876.50	233.73	2,876.50	233.73
Bank Overdraft		7,342.76	6,849.32	7,342.76	6,849.32
		21,734.30	17,786.11	21,957.93	17,999.33
Non-Current Liabilities					
Long-term Loans	14.1	21,211.26	25,507.76	21,869.32	26,353.39
Finance Leases	14.4	1,964.26	865.85	1,961.67	857.37
		23,175.52	26,373.61	23,830.99	27,210.76

14.1 Long-Term Loans

	Group 2014 LKR Mn.	Group 2013 LKR Mn.	Company 2014 LKR Mn.	Company 2013 LKR Mn.
a. Current/Non-Current Classification				
Payable within one year Included under Current Liabilities	11,065.54	10,618.20	11,293.38	10,834.30
After One Year but not more than Five Years	21,211.26	25,507.76	21,869.32	26,353.39
	32,276.80	36,125.96	33,162.70	37,187.69
b. Long-term Loans Denominated in Foreign Currencies				
Long-term Loans - USD Denominated	209.83	202.64	209.05	211.01
Long-term Loans - AED Denominated	183.65	310.16	183.65	310.16

	Group 2014 LKR Mn.	Group 2013 LKR Mn.	Company 2014 LKR Mn.	Company 2013 LKR Mn.
c. Movement in Long-term Loans				
Balance as at 1st April	36,125.96	3,288.54	37,187.69	4,358.11
Additions/Transfers during the year	19,805.34	39,334.12	19,805.34	39,283.40
Payments during the year	(24,717.21)	(4,470.46)	(24,927.67)	(4,413.22)
Unrealised Exchange (Gain)/Loss	1,062.71	(2,026.24)	1,097.34	(2,040.60)
Balance as at 31st March	32,276.80	36,125.96	33,162.70	37,187.69

14.2 Parent

Lender	Original Facility	Repayment Term	Interest	Security
a. Bank Loans				
Syndicated Loan through Standard Chartered Bank	USD 100,000,000 AED 183,650,000	36 fixed capital instalments for USD and AED	Variable (LIBOR plus margin)	Ticket Sales collected by IATA from Kuwait, Bahrain, UAE, Saudi Arabia, Oman, UK, China, France, India and a Government Guarantee for USD 150 Mn., 3 Loan Instalments being maintained as security
Bank of Ceylon	USD 18,000,000	60 monthly instalments commencing May 2011	Variable (LIBOR plus margin)	Mortgage over Ordinary shares of Sri Lankan Catering Limited
Commercial Bank of Ceylon PLC	USD 11,900,000	60 monthly instalments commencing March 2013	Variable (LIBOR plus margin)	USD 750,000/- Fixed Deposit
Commercial Bank of Ceylon PLC	USD 5,500,000	60 monthly instalments commencing January 2013	Variable (LIBOR plus margin)	USD 350,000/- Fixed Deposit
Amana Bank Limited	USD 1,900,000	72 months including a grace period of 12 months which shall commence from the date of 1st drawn	Variable (LIBOR plus margin)	Restriction on SLA to sell, lease, allianate or mortgage A320 hanger and simulator building excluding land
CITI Bank	USD 2,000,000	Within 90 days	Fixed Interest Rate	No securities pledged for this facility as it is a rolling over balance between 90 days.
Bank of Ceylon	USD 20,000,000	Repayment by 31st August 2014 or until bond proceeds received whichever is earlier	Variable (LIBOR plus margin)	Letter of undertaking from SLA to repay the loan from the proceeds of international bonds to be issued for USD 175 Mn.
b. Loans from Other Institutions				
Subsidiary	USD 13,452,915	5 annual instalments commencing December 2011	Variable (LIBOR)	
Deferred payment arrangement from a supplier	USD 121,170,992	16 quarterly instalments commencing October 2012	Variable (LIBOR plus margin)	
Aircraft Lessor	USD 1,000,000	60 monthly instalments commencing August 2012	Fixed	

14.3 Subsidiary

Lender	Original Facility	Repayment Term	Interest	Security
a. Bank Loans				
Commercial Bank of Ceylon PLC	USD 3,000,000	60 monthly instalments	Variable (LIBOR plus margin)	Unconditional & Irrevocable payment guarantee for USD 3,000,000/- executed by SriLankan Airlines Limited
Commercial Bank of Ceylon PLC	USD 300,000	48 monthly instalments	Variable (LIBOR plus margin)	Mortgage Bond for USD 200,000/- over Machinery executed by the Subsidiary

14.4 Finance Lease Liability

	Group		Company	
	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
a. Current/Non-Current Classification				
Payable within one year included under Current Liabilities	449.50	84.86	445.29	81.98
After one year but not more than five years included under Non-Current Liabilities	968.65	393.44	966.06	384.96
More than 5 Years included under Non-Current Liabilities	995.61	472.41	995.61	472.41
After one year included under Non-Current Liabilities	1,964.26	865.85	1,961.67	857.37

	Company	
	2014 Mn.	2013 Mn.
b. Finance Leases denominated in Foreign Currencies		
Finance Leases - EUR denominated	12.42	5.72
Finance Leases - GBP denominated	0.10	–
Finance Leases - USD denominated	0.31	–

	Group			
	Gross Payable LKR Mn.	Finance Charges for Future Periods LKR Mn.	Net Payable 2014 LKR Mn.	Net Payable 2013 LKR Mn.
c. Movement in Finance Lease Liabilities				
Balance as at 1st April	1,304.48	(353.77)	950.71	1,081.04
Additions during the Year	2,068.88	(614.43)	1,454.45	3.24
Payments during the Year	(246.80)	145.76	(101.04)	(81.27)
Unrealised Exchange (Gain)/Loss	164.42	(54.78)	109.64	(52.30)
Balance as at 31st March	3,290.98	(877.22)	2,413.76	950.71

	Company			
	Gross Payable LKR Mn.	Finance Charges for Future Periods LKR Mn.	Net Payable 2014 LKR Mn.	Net Payable 2013 LKR Mn.
Balance as at 1st April	1,292.16	(352.82)	939.35	1,069.70
Additions during the Year	2,068.88	(614.43)	1,454.45	–
Payments during the Year	(240.40)	143.92	(96.48)	(78.05)
Unrealised Exchange (Gain)/Loss	164.42	(54.78)	109.64	(52.30)
Balance as at 31st March	3,285.06	(878.11)	2,406.96	939.35

15. Other Long-Term Liabilities

		Group			Company		
	Note	2014 LKR Mn.	2013 LKR Mn. (Restated)	2012 LKR Mn. (Restated)	2014 LKR Mn.	2013 LKR Mn. (Restated)	2012 LKR Mn. (Restated)
Provision for Future Engine Overhaul	15.1	4,399.61	20,411.50	18,057.99	4,399.61	20,411.50	18,057.99
Retirement Benefit Obligation	15.2	3,102.24	3,264.95	2,961.30	2,747.98	2,983.76	2,693.79
Deferred Engine Upgrade Cost	17.1	–	2,263.63	2,268.27	–	2,263.63	2,268.27
Deferred Tax Liability		2.91	2.91	2.91	–	–	–
		7,504.76	25,942.99	23,290.47	7,147.59	25,658.89	23,020.05

15.1 Provision for Future Aircraft Maintenance and Overhaul Cost

		Group		Company	
	Note	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
As at 1st April		23,073.46	23,794.60	23,073.46	23,794.60
Provisions for the Year (Net of Adjustments)		3,002.72	7,408.52	3,002.72	7,408.52
Utilisation		(3,767.61)	(8,129.66)	(3,767.61)	(8,129.66)
As at 31st March		22,308.57	23,073.46	22,308.57	23,073.46
a. Current/Non-Current Classification					
Payable within one year Included Under Trade Payables	17	17,908.96	2,661.96	17,908.96	2,661.96
After One Year Included under Long-term Liabilities		4,399.61	20,411.50	4,399.61	20,411.50
		22,308.57	23,073.46	22,308.57	23,073.46

15.2 Retirement Benefit Obligation - Gratuity

	Group		Company	
	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
Balance as at 1st April	3,264.95	2,961.30	2,983.76	2,693.79
Current Year Service Cost and Interest Cost	544.48	489.28	492.17	443.42
Actuarial (Gain)/Loss	(512.66)	60.63	(548.19)	66.47
Payments during the Year	(194.53)	(246.26)	(179.76)	(219.92)
Balance as at 31st March	3,102.24	3,264.95	2,747.98	2,983.76

The Actuarial Valuation was carried out by professionally qualified actuary, M. Poopalanathan of Actuarial and Management Consultants (Private) Limited for the year ended 31st March 2014 based on the following key assumptions;

	Company		Subsidiary	
	2014	2013	2014	2013
i. Rate of Interest	10%	11%	10%	10%
ii. Rate of Salary Increase				
- LKR	7%	10%		
- USD	2%	2%		
- Executives			12%	10%
- Non-Executive			12%	15%
iii. Retirement Age - Years	60	60	55	55
iv. The Entity will Continue as a Going Concern				
v. Expected Remaining Service Life - Years	11.6	10.45	7.8	7.7

Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employee benefit liability measurement. The sensitivity of the Statement of Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Escalation Rate	Effect on Change to Statement of Comprehensive Income		Effect on Employee Benefit Obligation	
		Company LKR Mn.	Subsidiary LKR Mn.	Company LKR Mn.	Subsidiary LKR Mn.
1%	*	(176.59)	(22.28)	(176.59)	(22.28)
-1%	*	199.49	24.93	199.49	24.93
**	1%	209.50	25.89	209.50	25.89
**	-1%	(187.78)	(23.82)	(187.78)	(23.82)

** Salary Escalation Rate 7% for Company and 12% for Subsidiary*

*** Discount Rate - 10%*

16. Sales in Advance of Carriage

Sales in advance of carriage represents the value of unutilised tickets up to 12 months.

17. Trade and Other Payables

		Group			Company		
		2014	2013	2012	2014	2013	2012
	Note	LKR Mn.	LKR Mn. (Restated)	LKR Mn. (Restated)	LKR Mn.	LKR Mn. (Restated)	LKR Mn. (Restated)
Trade and Other Payables		25,956.50	30,497.06	31,672.79	29,049.38	32,454.60	34,103.50
Deferred Engine Upgrade Cost	17.1	2,479.84	–	–	2,479.84	–	–
Provision for Future Aircraft Maintenance and Overhaul Cost	15.1	17,908.96	2,661.96	5,736.61	17,908.96	2,661.96	5,736.61
Dividend Payable		74.79	74.79	75.00	–	–	–
		46,420.09	33,233.81	37,484.40	49,438.18	35,116.56	39,840.11

17.1 Deferred Engine Upgrade cost is recognised in line with Accounting Policy No. 2.4.13 (iii). The unwinding effect of the discount is recognised in the Statement of Income as a finance cost as it occurs with the corresponding increase in the carrying amount of the deferred engine upgrade cost.

18 Financial Instruments

18.1 Classification of Financial Instruments

	Group					
	2014			2013		
	Loans and Receivables LKR Mn.	Available-for-Sale Investments LKR Mn.	Financial Liabilities at Amortised Cost LKR Mn.	Loans and Receivables LKR Mn.	Available-for-Sale Investments LKR Mn.	Financial Liabilities at Amortised Cost LKR Mn.
Financial Assets						
Trade and Other Receivables	10,900.52	–	–	12,528.21	–	–
Aircraft Predelivery Payments	6,799.00	–	–	–	–	–
Aircraft Maintenance Reserve	16,734.72	–	–	19,901.93	–	–
Aircraft Spare Engine Deposits	3,691.13	–	–	3,128.35	–	–
Investments	–	–	–	–	25,597.78	–
Cash and Bank Balances	6,606.63	–	–	3,681.67	–	–
	44,732.00	–	–	39,240.16	25,597.78	–
Financial Liabilities						
Interest-Bearing Loans and Borrowings	–	–	44,909.82	–	–	44,159.72
Trade and Other Payables	–	–	46,420.09	–	–	33,233.81
Total	–	–	91,329.91	–	–	77,393.53

	Company					
	2014			2013		
	Loans and Receivables LKR Mn.	Available-for-Sale Investments LKR Mn.	Financial Liabilities at Amortised Cost LKR Mn.	Loans and Receivables LKR Mn.	Available-for-Sale Investments LKR Mn.	Financial Liabilities at Amortised Cost LKR Mn.
Financial Assets						
Trade and Other Receivables	10,036.88	–	–	11,920.57	–	–
Aircraft Predelivery Payments	6,799.00	–	–	–	–	–
Aircraft Maintenance Reserve	16,734.72	–	–	19,901.93	–	–
Aircraft Spare Engine Deposits	3,691.13	–	–	3,128.35	–	–
Investments	–	–	–	–	25,597.78	–
Cash and Bank Balances	6,457.32	–	–	3,640.56	–	–
	43,719.05	–	–	38,591.41	25,597.78	–
Financial Liabilities						
Interest-Bearing Loans and Borrowings	–	–	45,788.92	–	–	45,210.09
Trade and Other Payables	–	–	49,438.18	–	–	35,116.56
Total	–	–	95,227.10	–	–	80,326.65

18.2 Fair Values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the Financial Statements.

	Group			
	2014		2013	
	Carrying Amount LKR Mn.	Fair Value LKR Mn.	Carrying Amount LKR Mn.	Fair Value LKR Mn.
Financial Assets				
Trade and Other Receivables	10,900.52	10,900.52	12,528.21	12,528.21
Aircraft Predelivery Payments	6,799.00	6,799.00	–	–
Aircraft Maintenance Reserve	16,734.72	16,734.72	19,901.93	19,901.93
Aircraft Spare Engine Deposits	3,691.13	3,691.13	3,128.35	3,128.35
Investments	–	–	25,597.78	25,597.78
Cash and Bank Balances	6,606.63	6,606.63	3,681.67	3,681.67
Total	44,732.00	44,732.00	64,837.94	64,837.94
Financial Liabilities				
Interest Bearing Loans and Borrowings	44,909.82	44,909.82	44,159.72	44,159.72
Trade and Other Payables	46,420.09	46,420.09	33,233.81	33,233.81
Total	91,329.91	91,329.91	77,393.53	77,393.53

	Company			
	2014		2013	
	Carrying Amount LKR Mn.	Fair Value LKR Mn.	Carrying Amount LKR Mn.	Fair Value LKR Mn.
Financial Assets				
Trade and Other Receivables	10,036.88	10,036.88	11,920.57	11,920.57
Aircraft Predelivery Payments	6,799.00	6,799.00	–	–
Aircraft Maintenance Reserve	16,734.72	16,734.72	19,901.93	19,901.93
Aircraft Spare Engine Deposits	3,691.13	3,691.13	3,128.35	3,128.35
Investments	–	–	25,597.78	25,597.78
Cash and Bank Balances	6,457.32	6,457.32	3,640.56	3,640.56
Total	43,719.05	43,719.05	64,189.19	64,189.19
Financial Liabilities				
Interest Bearing Loans and Borrowings	45,788.92	45,788.92	45,210.09	45,210.09
Trade and Other Payables	49,438.18	49,438.18	35,116.56	35,116.56
Total	95,227.10	95,227.10	80,326.65	80,326.65

Financial instruments of the Group/Company include trade and other receivables, aircraft maintenance reserve, aircraft and spare engine deposits, cash and cash equivalents, interest bearing loans and borrowings and trade and other payables.

The fair value of these financial instruments are determined at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:
Cash and bank balances, trade and other receivables, trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term variable-rate borrowings approximate their carrying amounts largely due to the market-based interest rates.
Fair value of Government Bonds is based on the observable data in the market at the reporting date.

Hence the carrying amounts of Group's/Company's financial instruments are reasonable approximation of their fair values.

Fair Value Hierarchy

At 31st March, the Group/Company held the following financial instruments carried at fair value on the Statement of Financial Position. The Group/Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

	Group/Company	
	Level 2 2014 LKR Mn.	Level 2 2013 LKR Mn.
Financial Assets Measured at Fair Value Available-for-Sale Investments		
Investment in Treasury Bonds	–	25,597.78

19. Revenue and Segment Information

19.1 Revenue

		Group		Company	
		2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
Scheduled Services	- Passenger	99,669.52	98,581.74	99,669.52	98,581.74
	- Cargo	12,416.17	12,887.18	12,425.19	12,895.61
	- Excess Baggage	715.16	509.02	715.16	509.02
	- Mail	185.81	141.97	185.81	141.97
		112,986.66	112,119.91	112,995.68	112,128.34
Air Terminal and Other Services		7,836.33	6,544.50	7,856.27	6,564.08
Duty Free		410.82	521.45	410.82	521.45
Non-Scheduled Services		323.06	357.03	323.06	357.03
Flight Catering		2,597.75	1,864.77	–	–
Total		124,154.62	121,407.66	121,585.83	119,570.90

19.2 Segment Information

a. Primary Reporting by Geographical Segment - Revenue by Origin of Sale

		Asia LKR Mn.	Europe & Africa LKR Mn.	Middle East LKR Mn.	North & South America LKR Mn.	South West Pacific LKR Mn.	Total 2014 LKR Mn.
Revenue							
Scheduled services	- Passenger	54,404.64	22,888.37	18,821.15	3,067.40	487.96	99,669.52
	- Cargo	10,773.75	1,302.64	322.40	11.83	5.55	12,416.17
	- Excess Baggage	392.52	50.29	269.85	2.19	0.31	715.16
	- Mail	128.00	48.62	0.05	0.19	8.95	185.81
		65,698.91	24,289.92	19,413.45	3,081.61	502.77	112,986.66
Air Terminal and Other Services		7,836.33	–	–	–	–	7,836.33
Duty Free		271.14	49.30	90.38	–	–	410.82
Non-Scheduled Services		323.06	–	–	–	–	323.06
Flight Catering		2,597.75	–	–	–	–	2,597.75
Segment Revenue		76,727.19	24,339.22	19,503.83	3,081.61	502.77	124,154.62

	Asia LKR Mn.	Europe & Africa LKR Mn.	Middle East LKR Mn.	North & South America LKR Mn.	South West Pacific LKR Mn.	Total 2013 LKR Mn.
Revenue						
Scheduled Services - Passenger	57,782.10	19,124.45	18,266.95	2,816.63	591.61	98,581.74
- Cargo	10,287.51	1,882.40	608.16	46.06	63.05	12,887.18
- Excess Baggage	233.57	36.30	235.56	2.58	1.01	509.02
- Mail	91.36	48.96	0.08	0.03	1.54	141.97
	68,394.54	21,092.11	19,110.75	2,865.30	657.21	112,119.91
Air Terminal and Other Services	6,544.50	–	–	–	–	6,544.50
Duty Free	342.63	61.63	117.19	–	–	521.45
Non-Scheduled Services	357.03	–	–	–	–	357.03
Flight Catering	1,864.77	–	–	–	–	1,864.77
Segment Revenue	77,503.47	21,153.74	19,227.94	2,865.30	657.21	121,407.66

b. Secondary Reporting by Business Segment

	Business Segment		Group	Business Segment		Group
	Airline	Flight Catering		Airline	Flight Catering	
	2014	2014	2014	2013	2013	2013
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Revenue						
Sales to External Customers	121,556.87	2,597.75	124,154.62	119,542.89	1,864.77	121,407.66
Inter-Segment Sales	28.96	3,030.54	–	28.01	3,028.18	–
Total Revenue	121,585.83	5,628.29		119,570.90	4,892.95	
Results						
Profit/(Loss) after Tax	(32,408.34)	2,262.53	(31,365.83)	(26,088.57)	1,415.62	(26,857.60)
Other Segment Information						
Assets	62,366.70	7,734.88	65,386.97	78,243.50	6,678.63	81,184.77
Liabilities	119,587.65	3,078.13	117,065.66	124,216.29	2,973.89	122,622.28
Acquisition of Property, Plant and Equipment	3,209.43	44.09	3,201.72	2,029.20	62.64	2,091.84
Acquisition of Intangible Asset	2,320.97	6.15	2,327.11	140.24	0.53	140.77
Depreciation and Amortisation	1,602.79	283.84	1,886.63	1,187.02	266.06	1,453.08
Operating Expenses	150,389.46	3,372.24	150,393.31	146,700.24	2,779.07	146,834.36

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

20. Other Income and Gains

		Group		Company	
		2014	2013	2014	2013
	Note	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Profit on Disposal of Property, Plant and Equipment		26.88	0.13	14.84	–
Miscellaneous	20.1	233.62	150.03	233.62	144.20
Dividend		–	–	1,425.00	2,400.00
		260.50	150.16	1,673.46	2,544.20

20.1 Miscellaneous Income includes receipts from insurance claims and interest on Aircraft security deposits and maintenance reserves.

21. Operating Loss

	Group		Company	
	2014	2013	2014	2013
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Stated after Charging/(Crediting):				
Aircraft Insurance	539.58	613.68	539.58	613.68
Franchise Fees	229.24	193.94	229.24	193.94
Provision for Slow Moving Inventory	303.83	211.07	302.78	211.07
Auditors' Remuneration	6.40	6.19	4.95	4.89
Provision/(Reversal) for Impairment of Receivables	97.51	(47.58)	118.75	(47.58)
Realised/Unrealised Exchange(Gain)/Loss	380.38	(1,465.67)	653.76	(1,610.85)

22. Finance Income/Cost

22.1 Finance Income

	Group		Company	
	2014	2013	2014	2013
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Interest Income	58.16	191.21	52.46	169.62
Interest on Treasury Bonds	916.65	1,465.35	916.65	1,465.35
	974.81	1,656.56	969.11	1,634.97

22.2 Finance Cost

	Group		Company	
	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
Interest Cost on Borrowings, Bank Overdrafts and Overdue Supplier Balances	5,858.38	2,854.39	5,911.04	2,920.41
Finance Charges on Deferred Engine Upgrade	141.84	137.38	141.84	137.38
Finance Charges on Lease Liabilities	144.04	80.61	144.04	80.61
Preference Share Dividend	150.00	150.00	–	–
	6,294.26	3,222.38	6,196.92	3,138.40

23. Taxation

		Group		Company	
	Note	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
Tax Expense					
The Major Components of Income Tax Expense are as Follows:					
Current Income Tax					
Current Tax Expense on Ordinary Activities for the Year	23.1	15.42	15.24	–	–
Economic Service Charge Written-off		50.36	–	50.36	–
Under/(Over) Provision of Current Taxes in Respect of Prior Years		2.41	–	–	–
		68.19	15.24	50.36	–

23.1 Reconciliation between Current Tax Expense and the Product of Accounting Loss

	Group	
	2014 LKR Mn.	2013 LKR Mn.
Accounting Loss before Tax	(31,297.64)	(26,842.36)
Income not Subject to Tax	31,334.00	26,862.67
Statutory Income Applicable Under Tax Rate of 28%	36.36	20.31
Taxable Profit	36.36	20.31
Statutory Tax Charge at Tax Rate 28%	10.18	5.70
Tax Effect of Net Non-Deductible Expenses	0.26	0.96
Tax on Other Income	4.98	8.58
Current Income Tax Expense	15.42	15.24

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:

	2014 LKR Mn.	2013 LKR Mn.
Contracted but not provided for -		
Tangible*	36,230.26	802.30
Intangible	15.82	40.25
Cabin Retrofit	1,293.08	418.28
	37,539.16	1,260.83
Authorised by the Board, but not contracted for -		
Tangible	161.08	501.96
Intangible	26.49	–
Cabin Retrofit	314.09	–
	501.66	501.96
	38,040.82	1,762.79

**As of 31st March 2014, an amount of LKR 140,720 Mn. (USD 1,184 Mn.) represents the list price excluding cost of any additional features and credit available for the purchase of the four A350-900 Aircraft.*

24.2 Financial Commitments

a. Company's total future minimum lease commitments under non-cancellable operating leases as at 31st March were as follows:

	Company	
	2014 LKR Mn.	2013 LKR Mn.
Within One Year	14,414.83	13,112.14
After One Year but not more than Five Years	84,205.19	29,256.80
Later than Five Years	162,391.91	9,491.80
	261,011.93	51,860.74

Lease Commitments as at 31st March 2014 Include:

- Lease commitments on five A330-300 Aircraft amounting to LKR 111,593.61 Mn. for which the MOU's are entered into during the year.
- Lease commitments on one A330-300 Aircraft amounting to LKR 20,664.06 Mn. for which the Lease Agreement is entered into during the year.
- Lease commitments on three A350-900 Aircraft amounting to LKR 79,578.18 Mn. for which the Lease Agreements are entered into during the year.

b. As at 31st March 2014, the Company has issued Letters of Credit with the value of LKR 996.46 Mn. (USD 7.62 Mn.) (2013 - LKR 864.58 Mn. in USD 6.82 Mn.) as security deposits for leased Aircraft (of which USD 1.62 is for the A350 new Aircraft).

c. The remaining lease rental commitment for the land and buildings leased by the Group and the Company is as follows:

	Group		Company	
	2014	2013	2014	2013
	LKR Mn.	LKR Mn.	LKR Mn.	LKR Mn.
Instalment Payable				
Within One Year	396.47	396.68	372.47	390.28
After One Year but not more than Five Years	1,688.84	1,690.43	1,572.84	1,526.49
Later than Five Years	3,098.34	3,121.03	2,756.34	3,175.16

24.3 Contingencies

Company

The management estimates contingent liabilities at LKR 421.88 Mn. as at 31st March 2014 (2013 - LKR 2,976.20 Mn.). No provision has been made in these Financial Statements as the Directors do not anticipate any significant liability in respect of any contingent liabilities arising in the ordinary course of business of the Company in respect of legal actions, other claims and potential claims being made against the Company.

The Company has guaranteed a loan facility of USD 3 Mn. (2013 - USD 3 Mn.) obtained by it's subsidiary for the construction of the Flight Kitchen at MRIA.

Subsidiary

In the opinion of the company's lawyers, there are no pending significant litigations against the company as at 31st March 2014 (2013 - No Significant Pending Litigation).

25. Assets Pledged

Group/Company

Refer Note 14.2 and 14.3 for details of the assets pledged against banking facilities obtained.

26. Events Occurring after the Reporting Date

26.1 In April 2014 and in July 2014, the Company entered into financing arrangements amounting to USD 159.81 Mn. for part financing of predelivery payments due on five A330-300 aircraft.

26.2 In June 2014, the Company issued an International Bond with a face value of USD 175 Mn. Listed in Singapore Stock Exchange. The tenure of the Bond is five years and carry a fixed interest rate of 5.3% per annum payable semi-annually. The Bond is guaranteed by GOSL.

26.3 The Company entered into **one**world Alliance on 1st May 2014.

27. Related Party Disclosures

27.1 Group and 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.

	2014 LKR Mn.	2013 LKR Mn.
Short-Term Benefits	183.10	152.05
Post Employment Benefits	9.30	9.55

The above includes Directors' remuneration paid during the year amounting to LKR 49.2 Mn. (2013 - LKR 46.6 Mn.). In addition to the above benefits disclosed, the KMP, their spouses and dependent children are entitled to Free of Charge Business Class Travel on SriLankan Airlines online services during their term of office.

27.2 Group

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

	2014 Receipts/ (Payments) LKR Mn.	2013 Receipts/ (Payments) LKR Mn.
Sales	4,988.82	5,226.70
Loans - Receipt	4,119.27	761.64
- Repayment Including Interest	(2,236.72)	(4,547.37)
Purchase of Goods/Services and Statutory Dues*	(58,449.39)	(30,955.27)

** Purchase of Goods/Services and Statutory Dues include payments made under the deferred arrangements.*

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

- Short-term loan amounting to USD 20 Mn. (2013 - USD 11.1 Mn.)
- Overdraft facilities amounting to USD 45 Mn. (2013 - USD 51 Mn.)
- Bank guarantee facilities amounting to USD 10 Mn. (2013 - USD 10 Mn.)

27.2.2 As at the reporting date the following assets and liabilities exists with entities controlled by the GOSL:

- Net outstanding payable balance of LKR 31,012.71 Mn. (2013 - LKR 39,677.64 Mn.)*
- Short-Term Deposits to the value of LKR 469 Mn. (2013 - LKR 31 Mn.)
- 10 Mn. 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 and Interest-Bearing Liabilities in the Statement of Financial Position.*

27.2.3 During the ordinary course of business the Group carried out significant transactions with the following Government controlled entities:

Airport and Aviation Services Limited
Ceylon Petroleum Corporation
Department of Inland Revenue
Civil Aviation Authority
Bank of Ceylon
Sri Lanka Insurance Corporation
Mihin Lanka Limited
Employee Provident Fund

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.

	2014 Receipts/ (Payments) LKR Mn.	2013 Receipts/ (Payments) LKR Mn.
Nature of Transaction		
Freight Services	9.02	8.44
Flight Catering and Other Services	(3,010.59)	(3,008.58)
Dividend	1,425.00	2,400.00
Repayment of Long-term Loan Including Interest	(235.40)	(236.93)

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

- Amounts due amounting to LKR 3,611.61 Mn. (2013 - LKR 2,441.19 Mn.).
- Loan balance amounting to LKR 988.51 Mn. (2013 - LKR 1,253.93 Mn.). The interest applicable is one month LIBOR subject to an agreed cap.
- 10 Mn. 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.

	2014 Receipts/ (Payments) LKR Mn.	2013 Receipts/ (Payments) LKR Mn.
Sales	4,740.63	5,018.27
Loans - Receipt	4,119.27	761.64
- Repayment Including Interest	(2,086.72)	(4,397.37)
Purchase of Goods/Services and Statutory Dues*	(57,987.02)	(30,502.97)

** Purchase of Goods/Services and Statutory Dues include payments made under the deferred arrangements.*

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

27.3.4 As at the reporting date the following Assets and Liabilities exist with entities controlled by the GOSL:

- Net outstanding payable balance LKR 31,338.23 Mn. (2013 - LKR 39,945.93 Mn.).*
- Short-Term Deposits to the value of LKR 469 Mn. (2013 - LKR 31 Mn.).

** Balances from/to entities controlled by the GOSL are included under Trade and Other Receivables/Payables and Interest-Bearing Liabilities in the Statement of Financial Position.*

27.3.5 List of Government - controlled entities with whom the Company carried out significant transactions are same as those disclosed under the Group (Note 27.2.3).

28. Financial Risk Management Objectives and Policies

The Company's principal financial liabilities comprise loans and borrowings, trade and other payables and other financial liabilities. The main purpose of these financial liabilities is to finance the Company's operations. The Company's financial assets comprise of trade and other receivables and cash and short-term deposits that are derived directly from its operations.

The corporate management periodically reviews and updates a comprehensive risk management matrix and has identified the following financial risks that have a significant impact:

i. Market Risk
   - Interest rate risk
   - Currency risk

ii. Liquidity risk

iii. Credit Risk

The Company reviews its risk management policies and procedures on regular basis to reflect changes in markets and other financial risk taking activities and these are governed by appropriate policies and procedures to ensure that risks are identified, measured and managed in accordance with set policies and procedures.

i. Market Risk

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company's policy is to maintain an appropriate balance between fixed and variable rate borrowings including aircraft leasing in order to mitigate the effect of interest rate fluctuations.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings and the investment in bonds. With all other variables held constant, the Group's/Company's loss before tax is affected through the impact on floating rate borrowings as follows:

	Effect on Loss before Tax			
	Group		Company	
	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
Increase/(Decrease) in Interest Rate				
+1%	798.94	611.29	806.59	613.43
-1%	(798.94)	(611.29)	(806.59)	(613.43)

** Increase in interest rates result in an increase in losses.*

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Company is exposed to the effect of foreign exchange rate fluctuations because of its foreign currency denominated revenue, expenses, borrowings and other financial instruments.

Company manages its foreign exchange exposure by a policy of matching as far as possible, receipts and payments in each individually significant currency.

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's/Company's loss before tax (due to changes in the fair value of monetary assets and liabilities).
The Group's exposure to foreign currency changes for all other currencies is not material.

	Effect on Loss before Tax			
	Group		Company	
	2014 LKR Mn.	2013 LKR Mn.	2014 LKR Mn.	2013 LKR Mn.
Increase/(Decrease) in Interest Rate (USD)				
+3%	617.75	742.72	644.33	725.96
-3%	(617.75)	(742.72)	(644.33)	(725.96)

** Increase in exchange rates (USD) result in an increase in losses.*

ii. Liquidity Risk

The liquidity risk is the risk that the Company may not be able to meet its present and future cash obligations when they fall due. The Company monitors its risk of shortage of funds using a daily/weekly/monthly and annual cash management and budgeting process. Company obtains multiple sources of funding from financial institutions including long-term and short-term loans, bank overdraft facilities and finance/operating leases in order to mitigate the risk.

As a part of the capital infusion programme, GOSL has invested in the Company by way of Treasury Bonds. During the financial year, the Company encashed the Treasury Bonds before its maturity to strengthen the liquidity position.

The table below summarises the maturity profile of the Group's/Company's financial liabilities based on contractual undiscounted payments:

	2014					
	On Demand LKR Mn.	Less than Three Months LKR Mn.	3 to 12 Months LKR Mn.	1 to 5 Years LKR Mn.	More than 5 Years LKR Mn.	Total LKR Mn.
Group						
Interest-Bearing Liabilities	7,342.76	4,032.95	11,288.87	25,464.06	1,477.53	49,606.17
Trade and Other Payables	4,160.47	42,259.62	–	–	–	46,420.09
Preference Shares	–	–	–	–	2,050	2,050
	11,503.23	46,292.57	11,288.87	25,464.06	3,527.53	98,076.26
Company						
Interest-Bearing Liabilities	7,342.76	4,005.83	11,207.49	25,461.40	1,477.53	49,495.01
Trade and Other Payables	4,160.47	45,277.71	–	–	–	49,438.18
	11,503.23	49,283.54	11,207.49	25,461.40	1,477.53	98,933.19

	2013					
	On Demand LKR Mn.	Less than Three Months LKR Mn.	3 to 12 Months LKR Mn.	1 to 5 Years LKR Mn.	More than 5 Years LKR Mn.	Total LKR Mn.
Group						
Interest-Bearing Liabilities	6,849.32	3,191.91	8,851.75	29,433.58	735.29	49,061.85
Trade and Other Payables	10,418.00	22,815.81	–	–	–	33,233.81
Preference Shares	–	–	–	–	2,200	2,200
	17,267.32	26,007.72	8,851.75	29,433.58	2,935.29	82,295.66
Company						
Interest-Bearing Liabilities	6,849.32	3,133.00	8,675.04	28,400.38	735.29	47,793.03
Trade and Other Payables	10,418.00	22,036.60	–	–	–	32,454.60
	17,267.32	25,169.60	8,675.04	28,400.38	735.29	80,247.63

iii. Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk mainly from its operating activities (primarily for trade receivables).

The sale of passenger and cargo transportation is primarily through IATA accredited sales agents. The credit risk of such sales is relatively small owing to a broad diversification. Settlements from these agents are collected by IATA through their passenger and cargo settlement schemes. The funds collected are settled directly to the airline by IATA which gives further assurance of the credit worthiness of such agents.

Receivables and payables among major airlines are primarily settled via the IATA Clearing House. Receivables and payables are generally netted and settled at weekly intervals, which lead to a clear reduction in the risk of default. For other service relationships, collateral is required depending on the nature and scope of the services rendered. Such collaterals from debtors include bank guarantees and security deposits.

Impairment is made for doubtful accounts receivable whenever risks are identified.

Capital Management

Based on the approved business plan as more fully described in Note 2.1.2 to these Financial Statements, the Government of Sri Lanka has demonstrated its commitment to infuse the required funding (Refer Note 11).

Group management continuously reviews and monitors the capital structure and appropriate action is taken to make adjustments to reflect the current market conditions and operations of the Group.

Ten Year Review

		Company									
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Statement of Income											
Revenue	LKR Mn.	53,808.85	61,160.14	67,963.76	79,128.56	73,307.77	62,363.58	77,125.45	92,867.93	119,570.90	121,585.83
Operating Expenditure	LKR Mn.	54,145.20	60,720.29	69,406.68	82,154.01	84,794.86	69,026.74	81,334.34	111,775.88	146,700.24	150,389.46
Net Profit/(Loss)	LKR Mn.	479.87	476.53	568.04	4,428.23	(9,305.94)	(2,698.20)	(381.61)	(19,778.03)	(26,088.57)	(32,408.34)
Statement of Financial Position											
Share Capital/ Stated Capital	LKR Mn.	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	19,432.67	32,032.75	51,617.44
Non-Current Assets	LKR Mn.	10,908.79	16,136.77	16,568.73	15,730.43	19,333.18	28,531.75	19,862.87	37,591.58	23,338.28	25,212.47
Current Assets	LKR Mn.	22,303.26	21,866.73	21,347.46	32,209.67	15,008.38	15,910.82	18,276.59	22,072.71	54,905.22	37,154.23
Total Assets	LKR Mn.	33,307.94	38,003.50	37,916.19	47,940.10	34,341.56	44,442.57	38,139.46	59,664.29	78,243.50	62,366.70
Current Liabilities	LKR Mn.	22,381.67	25,485.05	25,006.65	29,134.89	25,012.31	28,399.92	28,017.97	64,235.43	71,346.64	88,609.07
Yield/Unit Cost											
Overall Yield	LKR tkm	48.1	52.2	55.71	61.01	64.85	54.94	60.27	64.47	74.31	77.26
Unit Cost	LKR tkm	36.2	37.62	40.30	46.48	50.71	43.37	45.92	57.28	64.68	64.96
Break-Even Load Factor	%	74.9	72.0	72.34	76.18	78.19	78.94	76.19	88.84	87.03	84.07
Revenue per RPK	LKR/RPK	5.1	5.3	5.6	6.5	6.8	5.8	6.3	6.6	7.6	7.8
Production											
Passenger Capacity	ASK Mn.	11,326.54	11,934.86	12,375.62	12,599.58	11,731.56	10,724.83	12,481.41	14,248.94	15,944.31	15,780.54
Overall Capacity	ATK Mn.	1,484.02	1,590.55	1,695.91	1,741.10	1,635.62	1,541.03	1,755.23	1,978.33	2,186.96	2,187.18
Traffic											
Passengers Carried	No. '000	2,423	3,005	3,176	3,196	2,735	2,558	2,867	3,459	4,255	4,175
Passengers Carried	RPK Mn.	8,142.54	9,050.44	9,535.79	9,793.05	8,546.44	8,357.89	9,584.02	11,270.23	12,968.74	12,810.95
Passenger Load Factor	%	71.89	75.83	77.05	77.73	72.85	77.93	76.79	79.10	81.34	81.18
Cargo Carried	Tonnes	66,977	82,142	88,833	93,161	73,106	72,058	86,053	87,750	101,100	94,410
Cargo Load Carried	RTK Mn.	296.68	300.73	325.97	350.35	302.36	283.83	332.98	345.67	377.75	355.59
Overall Load Carried	RTK Mn.	1,039.34	1,102.77	1,150.84	1,232.62	1,065.15	1,028.11	1,184.13	1,338.30	1,513.70	1,466.74
Cargo Load Factor	%	56.95	56.11	58.44	61.60	53.17	56.42	56.80	53.78	53.89	49.79
Overall Load Factor	%	70.04	69.33	67.86	70.80	65.12	66.72	67.46	67.65	69.22	67.06
Staff											
Average Strength	Nos.	5,163	5,395	5,272	5,113	4,837	4,614	4,998	5,594	6,359	6,578
Revenue per Employee	LKR	10,422,012	11,336,449	12,891,457	15,475,955	15,155,627	13,516,164	15,431,263	16,601,346	18,803,412	18,483,708
Capacity per Employee	Tonne-km	287,433	294,820	321,683	340,523	338,148	333,991	351,186	353,652	343,916	332,499
Load Carried per Employee	Tonne-km	201,305	204,406	218,293	241,077	220,210	222,825	236,922	239,238	238,041	222,976
Fleet											
A320/1-200	Nos.	5	5	5	5	3	3	4	7	8	8
A330-200	Nos.	4	4	4	4	4	4	5	7	7	7
A340-300	Nos.	5	5	5	5	5	5	5	6	6	6
Turbo Otter	Nos.	2	2	2	–	–	–	2	2	1	–
Aircraft in Service at Year-End	Nos.	16	16	16	14	12	12	16	22	22	21

Route Map

SriLankan Direct Flights

Code share route with Mihin Lanka

Code share route with Alitalia

Code share route with Air Canada

Code share route with Etihad Airways

Code share route with Finn Air

Code share route with Malaysia Airlines

Code share route with Oman Air

Code share route with Siberian Airlines

SriLankan Airlines You're our world

oneworld

SriLankan Airlines now operates to
89 Destinations in 44 Countries

Milestones

2004/05

- Launch of SriLankan Cares charity arm of the Airline.
- The Company took delivery of an Airbus A320 aircraft under an operating lease agreement in April 2004.

2006/07

- SriLankan Catering commissions new state-of-the-art flight kitchen.
- Launch of International Aviation Academy.

2007/08

- SriLankan becomes first foreign carrier to have 100 flights per week to India.

2008/09

- The Company took delivery of one airbus A320 Aircraft under an operating lease agreement.
- Management control of the Company held by Emirates for a period of ten years, expired in March 2008. Consequentially, commencing from 1 April 2008 management of the Company has been vested in the Government of Sri Lanka.
- Induction of "FlySmiles" a frequent flyer programme operated by the Company.

2009/10

- The Company took delivery of two airbus A320 Aircrafts under an operating lease agreement.

2010/11

- The Company took delivery of one Airbus A320 Aircraft and one Airbus A330 Wide-body Aircraft under operating lease agreements.
- In July 2010 the Government of Sri Lanka facilitated the purchase of the 43.63% equity stake held by Emirates in the Company.

2011/12

- The Company took delivery of four Airbus A320 aircraft, two Airbus A330 wide-body aircraft and one Airbus A340 wide-body aircraft under operating lease agreements.
- The Cabinet approved an equity investment of USD 500 Mn. by the GOSL in order to recapitalise the airline.

2012/13

- Invitation to join **one**world - a world's leading Airline Alliance.
- Commissioning of First Flight Simulator in Sri lanka for training of A320 pilots.
- The Company took delivery of one Airbus A320 Aircraft under an operating lease agreement.
- Commencing international flights from Mattala Rajapaksa International Airport.
- In May 2012, the Company entered into a financing arrangement with a syndicate of foreign banks to secure financing amounting to USD 175 Mn.

2013/14

- Commissioning of Flight Simulator for Airbus A330 pilot training.
- In order to replace the Wide-body fleet, in June 2013, the Company entered into Purchase Agreements with Airbus for the purchase of six A330-300 and four A350-900 aircraft for delivery between 2014 to 2021 and also entered into Lease agreements to take delivery of further three new A350-900 aircraft in 2016.
- In December 2013, the Company cutover the Passenger Services System to Amadeus Altea.
- In March 2014, the Company entered into financing arrangement with a syndicate of banks to secure a USD 150 Mn medium-term financing.

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.

Break-Even Load Factor
The load factor required to equate revenue from scheduled airline operations with operating costs.

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.

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.

Revenue Passenger Kilometres (RPK)
The product of passengers carried and the distance over which they are carried.

Revenue Per RPK
The revenue per RPK relates the passenger revenue to RPK.

Revenue Tonne Kilometres (RTK)
The product of passenger and cargo carried in tonnes and the distance over which they are carried.

Unit Cost
The unit cost relates the total operating cost to ATK.

Notice of Meeting

Notice is hereby given that the Thirty-Sixth Annual General Meeting of the Shareholders of SriLankan Airlines Limited will be held on Monday, 6th October 2014 at 9.00 a.m. at the 'Committee Room D' of Bandaranaike Memorial International Conference Hall (BMICH), Bauddhaloka Mawatha, Colombo 7, for the following purposes:

Agenda

1. To receive and consider the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2014 with the Report of the Auditors thereon.
2. To reappoint Messrs Ernst & Young as Auditors and authorise the Directors to determine their remuneration.

By Order of the Board,

Dalrene Thirukumar
Company Secretary

31st July 2014
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.

Form of 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. Nihal Jayamanne PC

Mr. Kapila Chandrasena

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-Sixth Annual General Meeting of the Shareholders of SriLankan Airlines Limited to be held on Monday, 6th October 2014 at 9.00 a.m. at the 'Committee Room D' of Bandaranaike Memorial International Conference Hall (BMICH) and at any adjournment thereof.

Signed this ………….. day of…………………….……………. Two Thousand and Fourteen.

…………………………………………………

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

Corporate Information

Name of the Company
SriLankan Airlines Limited

Company Registration Number
PB 67

Legal Form
Public Limited Liability Company

Board of Directors
Mr. A. N. Wickremasinghe (Chairman)
Mr. K. Chandrasena (Director/CEO)
Mr. N. M. Jayamanne PC
Mr. S. P. Rajapaksa
Mr. V. M. Fernando
Mrs. L. Sangakkara
Mr. S. Ukwatte
Mr. S. C. Ratnayake

Audit Committee
Mr. S. C. Ratnayake (Chairman)
Director
Mr. N. M. Jayamanne PC (Member)
Director
Mrs. L. Sangakkara (Member)
Director
Mr. S. Ukwatte (Member)
Director

Human Resources and Remuneration Committee
Mr. N. M. Jayamanne PC (Chairman)
Director
Mr. S. C. Ratnayake (Member)
Director
Mr. V. M. Fernando (Member)
Director
Mr. S. P. Rajapaksa (Member)
Director
Mr. S. Ukwatte (Member)
Director

Company Secretary
Mrs. Dalrene Thirukumar

Bankers
National Development Bank PLC
Bank of Ceylon
Standard Chartered Bank
The Hongkong Shanghai Banking Corporation Limited
CITI Bank N.A.
Sampath Bank PLC
Nations Trust Bank PLC
Deutsche Bank A.G.
Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Amāna Bank Limited

Auditors
Ernst & Young
Chartered Accountants
201, De Saram Place
Colombo 10

Registered Office
Airline Centre
Bandaranaike International Airport
Katunayake
Sri Lanka

Corporate Website
www.srilankan.com

This Annual Report is Carbon Neutral

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SriLankan Airlines

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Bandaranaike International Airport
Katunayake
Sri Lanka

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