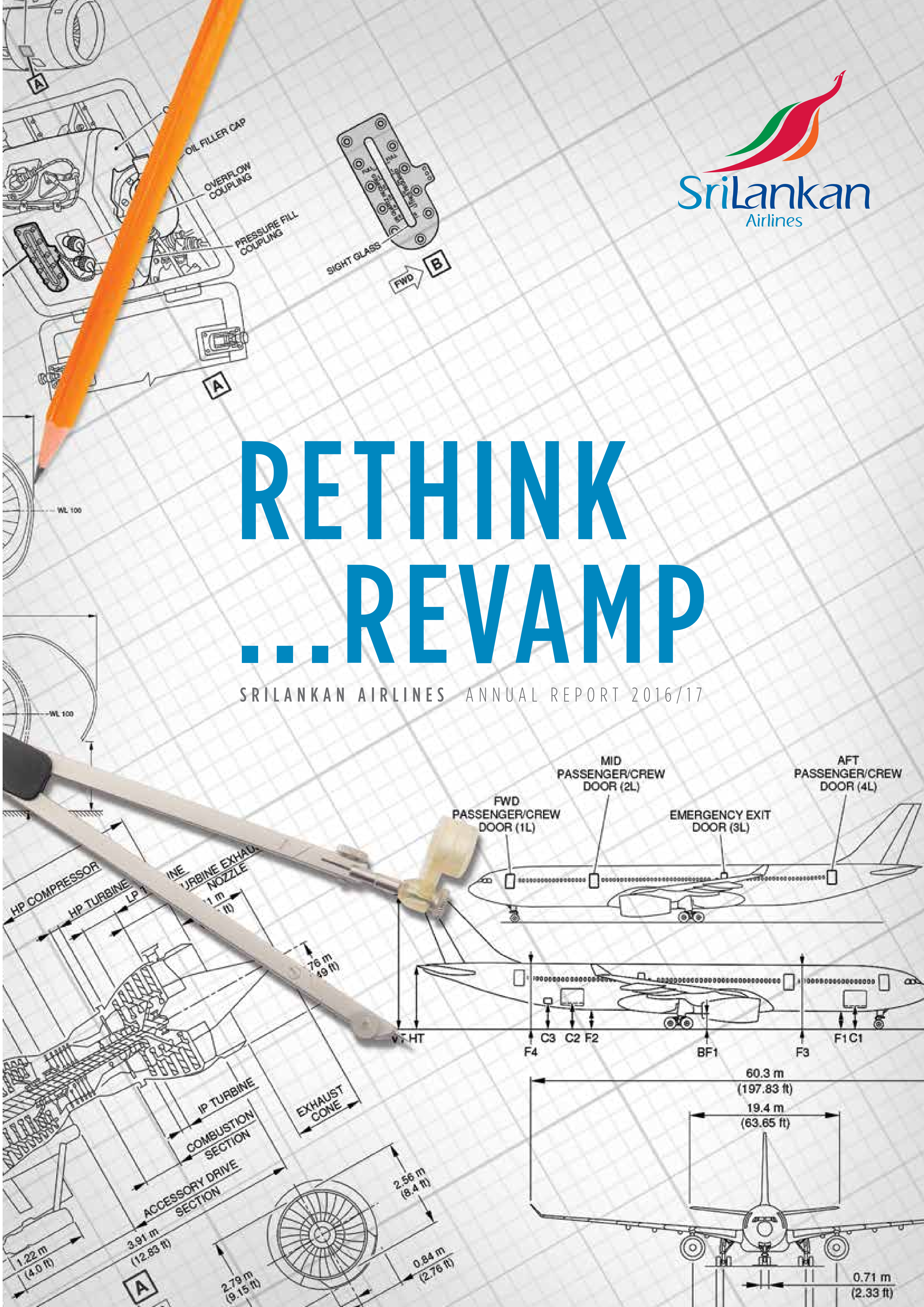
SriLankan Airlines

RETHINK ...REVAMP

SRILANKAN AIRLINES ANNUAL REPORT 2016/17



RETHINK
...REVAMP

It's an ongoing journey...to approach the challenges we face
and put in place the strategies and changes necessary for the future.
We have many hurdles before us – chiefly the rationalisation of fleet
and route network and aggressively addressing our cost base.
These we see as vital to the sustainable future of SriLankan.

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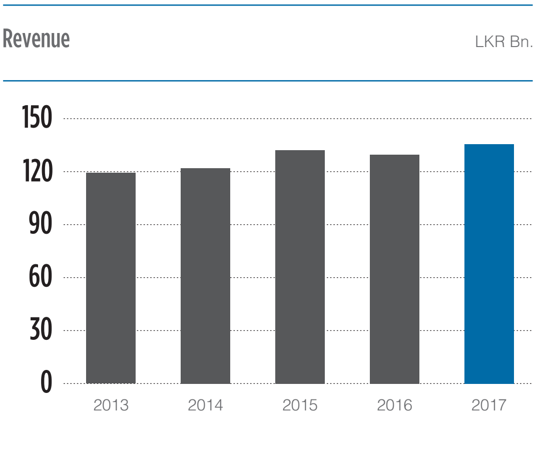
OUR **VISION**

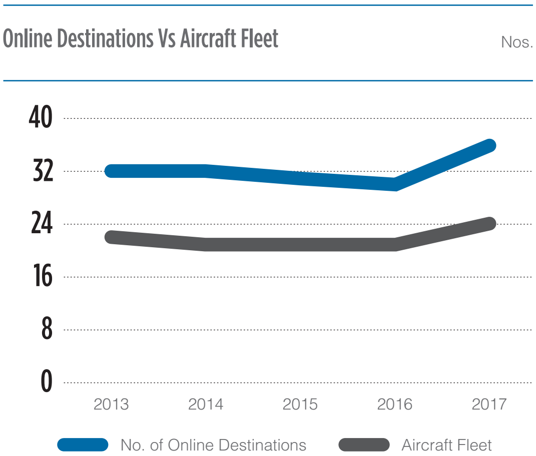
TO BE THE MOST PREFERRED AIRLINE IN ASIA

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.

		Group		Company	
		2017	2016	2017	2016
Financial					
Revenue	LKR Mn.	138,563.23	132,198.31	135,463.59	129,480.41
Operating Expenditure	LKR Mn.	(146,053.05)	(136,228.26)	(146,733.21)	(137,311.44)
Loss Before Tax	LKR Mn.	(28,314.26)	(12,086.55)	(28,929.99)	(12,621.69)
Net Loss for the Year	LKR Mn.	(28,339.51)	(12,083.62)	(28,929.99)	(12,621.69)
Total Assets	LKR Mn.	55,413.77	54,151.72	51,633.63	50,449.03
Shareholders' Funds	LKR Mn.	(107,793.52)	(80,447.11)	(115,766.64)	(87,781.26)
Traffic					
Passenger Capacity	ASK Mn.			15,608.10	15,790.28
Overall Capacity	ATK Mn.			2,167.92	2,165.21
Passengers Carried	RPK Mn.			12,455.05	12,727.66
Overall Load Carried	RTK Mn.			1,475.29	1,484.77
Passenger Load Factor	%			79.80	80.60
Overall Load Factor	%			68.05	68.57
Breakeven Load Factor	%			80.91	77.65
Staff Productivity					
Average Strength	Nos.	8,029	7,860	7,021	6,959
Revenue per Employee	LKR Mn.	17.26	16.82	19.29	18.61
Aircraft in Service at Year End					
A320-200	Nos.			6	6
A321-200	Nos.			3	2
A320neo	Nos.			2	–
A330-200	Nos.			6	6
A330-300	Nos.			7	7
Aircraft Fleet	Nos.			24	21





CHAIRMAN'S MESSAGE

Although our financial performance for the year is, on the face of it, less satisfactory than the year before, it has to be seen in the context of the numerous challenges which we faced.

The year ended 31st March 2017 has been one in which the Airline went through a major revamping and had to face up to several challenges, which included the temporary closure of the sole runway at Bandaranaike International Airport, exchange rate depreciation of key revenue generating currencies, and an increase in the intensity of competition in the Airline's leadership markets, to name a few. Subsequent events have now brought us to a critical juncture.

Although our financial performance for the year is, on the face of it, less satisfactory than the year before, it has to be seen in the context of the numerous challenges which we faced. The Airport closure, which was much needed due to the runway resurfacing, had a significantly adverse effect on both revenue and expenses.

Whilst it is not my intention to evade the necessity to do everything necessary to return SriLankan Airlines to economic health, it is pertinent to reflect on an industry acknowledged fact – that it is very difficult for any airline at present to attain a healthy profit on its air transport activities alone. Practically all airlines in the current context are making, only wafer thin margins on such operations which the slightest adverse fluctuation will push into the red. Most airlines' financial fortunes are thus viewed within the context of their Group activities, where subsidiary business units impact, often favourably, on their Balance Sheets. SriLankan must also leverage such synergies and its financial reporting must be viewed in such a context, in its pursuit of a healthy bottom line.

During the year, we also continued with a major strategic restructuring initiative. Our routes were rationalised, eliminating some underperforming European sectors while we added a number of new routes. Some of these were previously operated by Mihin Lanka, whilst others were added in SriLankan's own growth markets, in accordance with our business plans. We also intend to commence operations to Melbourne, Australia in October of this year.

Concurrently, we have completed the termination of four A350 aircraft leases entered into during the previous regime which have no relevance in the context of our current business plan to reposition as primarily a regional airline. This decision was already taken in 2015/16, but the financial impact is reflected in the accounts of the year under review. The above decisions were encapsulated in the restructuring plan that was presented to the Government in 2015, which envisaged our transformation into a more regionally focused Airline with India and China as our major markets. We believe this to be a sound commercial decision considering that Asia is the engine of growth of the global economy today.

Also with respect to the envisaged fleet, SriLankan Airlines faces serious challenge. The Airline has inherited a Purchase Agreement for the delivery of four A350 aircraft in 2020/21. These aircraft too have no relevance in the context of our restructured business plan. Production of these aircraft is due to start shortly, and it is imperative that negotiation with the suppliers towards exiting the deal be commenced as soon as possible.

We have also improved our product, which whilst continuing to reflect the world's best in quality and value, makes SriLankan one of the best full service airlines. This is affirmed by the many awards we have received both this year and over a long period of time.

The Government has decided to restructure the Airline by way of a Public-Private Partnership, and is in the process of soliciting a strategic investor. On its part, the Company has proactively submitted a restructuring plan as an alternative if a suitable party is not found. All stakeholders of the Airline will face a painful transition if the restructuring is implemented, as it involves rightsizing, but it will be in the long-term interest as well as the future sustainability of the Airline.

Among many key cost impacts is fuel pricing at Colombo's Bandaranaike International Airport. We are canvassing strongly for the Government to intervene and provide the airline aviation fuel at internationally competitive rates, which is not the case at the moment. Undercapitalisation has also been a perennial problem since the inception of the Airline, which also needs to be addressed.

One other factor that greatly hampers our operations is the method of interacting, reporting, decision-making and guidance prevailing through bureaucratic and political channels. The current processes including recruitment and movement of staff require Government approval at every stage. This consumes an inordinate amount of valuable time and resources of the Airline's Board, Management and staff, which in the context of decision-making and business momentum required of an international airline is unwieldy and unsustainable. We unreservedly accept the need for regular and transparent reporting to the Government, however, in the airline industry, where speedy decision-making is needed, the day-to-day decisions should be left in the hands of the Management team under the supervision of the Chairman and the Board of Directors.

An airline is a people-oriented business; employee satisfaction is a prerequisite for customer satisfaction. I am pleased to report that we have been successful in improving the morale of the rank and file to a great degree. The cooperation we have received from the major trade unions is commendable.

I wish to thank the Government for its support and commitment for the continuance of the Airline and my colleagues on the Board for the support and contribution in leading the business of the Airline. The Management and employees also deserve our whole-hearted appreciation for the resilience and contribution to bring the Airline to a successful position for a turnaround.

Ajith N. Dias
Chairman

4th August 2017

CHIEF EXECUTIVE OFFICER'S REVIEW

During the year under review we have carried out a strategic rationalisation of our routes and our fleet and repositioned ourselves as essentially a regional carrier.

At the commencement of the year under review, the Management team was in place and was about to embark on the changes that need to be made if the Airline was to recover from the state it found itself in.

Many significant decisions needed to be made and implemented without delay if the Company was going to have any hope of turning the corner. While these were generally successful there is yet more to be done. The year 2016/17 saw SriLankan Airlines going through some significant restructuring and revamping and also facing some major headwinds.

The closure of the Airport for runway resurfacing was the major operational and financial challenge of the year under review. In addition to the cancellation of over 600 flights, equivalent to a fortnight's flying, there were also supplementary operational costs. Additional staff were required at the Airport to handle congestion, aircraft needed to be diverted and kept on ground at Mattala Airport awaiting arrival slot times in Beijing and Shanghai and there were additional crew layovers at a number of Indian destinations.

The Airport and Ground Services staff must be commended for the efficiency and professionalism with which they faced up to a very difficult situation. Flight Operations, Engineering and our dispatch team also performed very creditably to ensure the flights went out in the restricted time windows with no major delays.

Precise quantification of the total impact on the bottom line is difficult, but as an approximation, had operations continued normally, we could have probably broken even on operations for the year. The first nine months of the year saw a significant improvement in performance which was negated by the three months of the runway closure. Though our revenue for the year increased only marginally over the year before, this is still commendable when viewed in context of the adverse impact of the Airport closure. Moreover the benefits of reductions in fuel charges were passed on to our passengers during the year.

During the year under review we have carried out a strategic rationalisation of our routes and our fleet and repositioned ourselves as essentially a regional carrier. While three destinations on the European continent were terminated during the year, London was retained for strategic and commercial reasons. SriLankan continues to provide its customers with an extensive range of European destinations through code share partners. We reaped the benefits of the absorption of the Mihin Lanka routes by commencing operations into certain new and lucrative markets (10 new destinations were added) while expanding some existing ones. We are also moving into Australia, commencing operations to Melbourne to serve an appreciable and lucrative market demand.

In terms of inventory, a one time cost had to be incurred for the termination of four leased aircraft which accounts for about half of our net loss for the year; this is still a positive measure in the long-term financial interest of the Airline.

We are faced with major constraints in increasing our revenue. While our geographical position is advantageous we have major hub airline competitors in both directions; in the Middle East as well as in South-East and East Asia. This limits our route-wise price competitiveness to routes that do not go beyond these hubs. Going forward the threat of overcapacity in the region is very much on the horizon. Indian as well as Middle Eastern and Chinese carriers have orders pending delivery that will tremendously expand their existing fleets. Growing capacity and particularly the phenomenon of overcapacity that we are already witnessing in Sri Lanka will reflect in increased pressure on already wafer thin margins.

The only remaining option for us to attain a healthier bottom line, is to dramatically trim our costs. During the year we made some progress in this regard, even in Rupee terms and more so in Dollar terms. The biggest component in our cost structure is fuel, and in 2016/17 it was reduced as a percentage of our total operating costs from 24.2% in the previous year to about 22.6% through the addition of more fuel efficient aircraft. We are negotiating with the Ceylon Petroleum Corporation to arrive at a pricing structure in Colombo, that is more competitive and reflects regional fuel costs. Areas we have to target for further cost reductions are lease cost and employee cost.

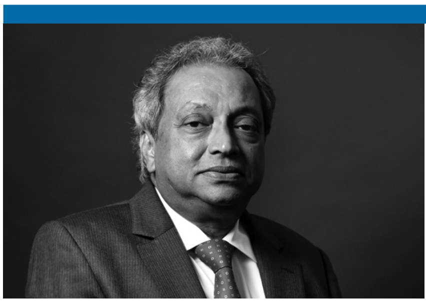
Given the constraints on making the air transport operations profitable, we look forward to increased contributions from the strategic business units. With increased flight frequencies in the year ahead, we anticipate business growth from Airport and Ground Services in both below-the-wing and above-the-wing operations. SriLankan Engineering is in the process of moving into a sophisticated repair, maintenance and overhaul model with dedicated production lines to carry out parallel maintenance checks. Spinning off Engineering as a separate legal entity is an attractive proposition provided favourable tax terms can be negotiated with the relevant authorities. If we can generate the capital for increase in hangar capacity there is great potential for expanding third party maintenance.

I thank the Chairman, Board of Directors, the management team, employees, shareholders and business partners for their commitment and support and our customers for their continued loyalty. We may have stormy weather ahead but I am confident that with our collective strengths we can face up to any challenges.

Capt. Suren Ratwatte
Chief Executive Officer

4th August 2017

BOARD OF DIRECTORS



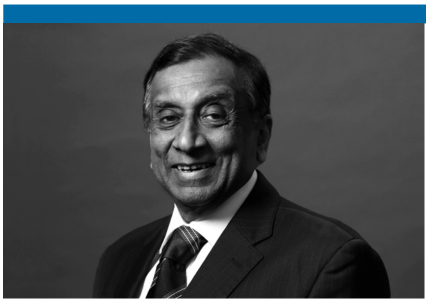
Ajith N. Dias
Chairman

Ajith N. Dias was appointed to the Board of SriLankan Airlines Limited on 12th February 2015 and serves as the Chairman of SriLankan Airlines, SriLankan Catering and Mihin Lanka (Private) Limited.

He is a Fellow Member of the Textile Institute, UK and a Chartered Textile Technologist from the University of Salford, UK.

He is a pioneer in the Apparel Industry and a Co-Founder of the Brandix Group. He has also been the Chairman of the Joint Apparel Associations Forum (JAAF), Free Trade Zone Manufacturers Association and Hotel Developers (Private) Limited – the owning Company of the Colombo Hilton.

He currently has business interests in agriculture, leisure and the food and beverage industry.



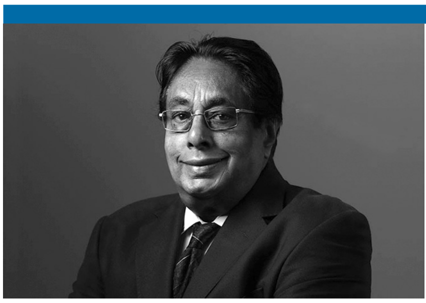
J. M. S. Brito

J. M. S. Brito was appointed to the Board of SriLankan Airlines Limited on 12th February 2015 and serves as a Director of SriLankan Catering Limited and Mihin Lanka (Private) Limited.

Has a LLB (University of London) and an MBA (London City Business School) degrees and is a Fellow of both, The Institute of Chartered Accountants of Sri Lanka and the Institute of Chartered Accountants in England and Wales.

Together with this multi-disciplined knowledge, he also brings with him a wealth of 35 years of international experience working with a number of international organisations including PricewaterhouseCoopers London and the World Bank.

Presently, he is the Deputy Chairman and the Managing Director of Aitken Spence PLC, Aitken Spence Hotel Holdings PLC and the Chairman of Elpitiya Plantations PLC. He is a former Chairman of DFCC Bank, SriLankan Airlines and The Employers' Federation of Ceylon.



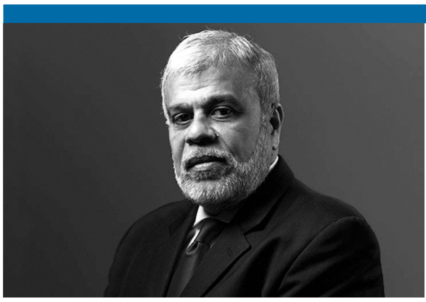
R. Chanaka D. de Silva

R. Chanaka D. de Silva was appointed to the Board of SriLankan Airlines Limited on 12th February 2015 and formerly served in the Board during the period 2002-2004.

He is also a Director of SriLankan Catering Limited.

Served as the Chairman of Kelani Tyres PLC since privatisation (1992) and the Chairman of CEAT Sri Lanka Group of Companies since the formation of the Joint Venture (1998) and presently the Chairman of Wheels Group of Companies.

He was also the Chairman of Union Commodities (Private) Limited founded by him up to 31st December 2013 and former Chairman of Sri Lanka Insurance Corporation, TransAsia Hotel, Club Robinson, Union Bank of Colombo Limited and served as a Director in Asian Alliance Insurance PLC, Delmege Forsyth Limited, Lewis Brown and Company Limited, Intercontinental Hotel and Oberoi Hotel.



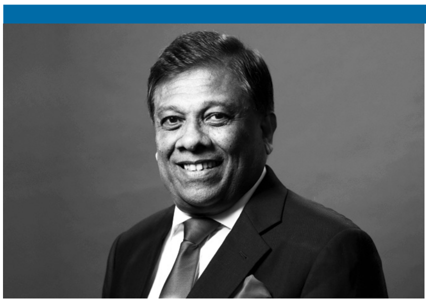
Mahinda P. Haradasa

Mahinda P. Haradasa was appointed to the Board of SriLankan Airlines Limited on 12th February 2015 and formerly served in the Board during the period 2002-2004.

He is also a Director of SriLankan Catering Limited and Mihin Lanka (Private) Limited.

He is a Lawyer by profession with 40 years of practice and presently the Senior Partner of VARNERS.

He is also a member of the Bar Association of Sri Lanka, Asian Patent Attorneys Association and Inter Pacific Bar Association.



Rakhita S. Jayawardena

Rakhita S. Jayawardena was appointed to the Board of SriLankan Airlines Limited on 20th February 2015 and serves as a Director of SriLankan Catering Limited and Mihin Lanka (Private) Limited.

He brings with him over 30 years of experience and exposure in the Global Airline Industry working in a senior capacity as President/CEO and General Manager, providing services to large legacy carriers, charters and low cost airlines, from the Americas to Europe, Asia Pacific and Africa, having been based in New York (USA), London (UK), Hong Kong and Sri Lanka.

His contribution to the Airline Travel Retail Industry has been recognised globally, with many awards and accolades.

- 2015 Fellowship Award, at the 'ISPY' Oscars in London
- Inflight Personality of the Year 2014, Airline Retail Conference
- Unanimously appointed as the Founding President of the Asia Pacific Travel Retail Association (APTRA), the voice of the industry, which has a turnover in excess of USD 10 Bn.

He is a full Member of the Institute of Marketing, London (M.Inst.M.).

Lt. Col. Sunil D. Peiris

Lt. Col. Sunil D. Peiris was appointed to the Board of SriLankan Airlines Limited on 12th February 2015 and serves as a Director of SriLankan Catering Limited and Mihin Lanka (Private) Limited.

He is a retired army officer with twenty-two years service.

He served as Director of John Keells Richard Pieris Plantations, Richard Pieris Natural Foams, Arpitalian Private Limited and Richard Pieris Distributors. He serves as Managing Director Amalgamated Graphite (Private) Limited. He was the Chairman of Plastipak Limited, Australia and Managing Director of Nippon Nature Foams (Private) Limited.

He is a Fellow Member of The Chartered Institute of Management (FICM) and holds a Master's in Political and International Studies MSc and has majored from the Staff College Camberley, UK.

Harendra K. Balapatabendi

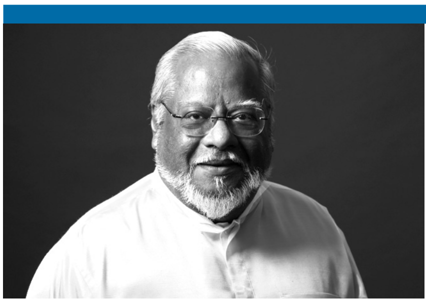
Harendra K. Balapatabendi was appointed to the Board of SriLankan Airlines Limited on 26th June 2015.

He is an accomplished entrepreneur with over 20 years experience ranging from Security Printing, Franchise Banking (Commonwealth Bank Australia), Luxury Home Development (Australia). He was instrumental in introducing Nike and Reebok brands to Sri Lanka and was a former Executive Director at Ceylon Shipping Lines. He has engaged with multinational corporations from France, USA, Australia, Netherlands, China and India on consulting assignments.

He is also the Chairman/CEO of Opel Group, which he founded. The group is engaged in Security Card Printing, Construction, Hotel/Property Development, Alternative Power, Oil Refining (BOI) and Represents Obertheur (France) and HID (USA) in Sri Lanka.

Educated in Sri Lanka, USA and Australia, he holds a degree in Business Management and Master's in Business Administration (AUS) and is a Member of the Association of Business Executives (MABE – UK). Fellow of the Chartered Management Institute (FCMI – UK)

Member – European Chamber of Commerce Sri Lanka (ECCSL)
Member – Sri Lanka-China Business Council.



Niranjan De Silva Deva Aditya

Niranjan De Silva Deva Aditya was appointed to the Board of SriLankan Airlines Limited on 26th May 2015.

He is an Aeronautical Engineer having obtained an Honours Degree in Aero Engineering from the Loughborough University of Technology, a Graduate of the Royal Aeronautical Society and the Institution of Mechanical Engineers. He was appointed by Prime Minister Margaret Thatcher to Chair the Committee on the De-regulation of European Air Transport in 1986; served on the Board of the Air Europe – the then second largest airline in the UK and served in the Government of John Major as Parliamentary Private Secretary in the Scottish Office with responsibility for transport. He served on the Transport Committee of the Europe Parliament and is now Vice-President of the Committee of Overseas Development, overseeing the 23 Bn. Euro Development budget.

He is a Conservative Member of the European Parliament representing eight million people of the South East England since 1999. He was previously a Member of Parliament (MP) in the British House of Commons from 1992 to 1997, representing the constituency of Brentford and Isleworth and was Vice-Chairman of the House of Commons Committee on air transport. He was the first non-white and Asian-born post-colonial person to be elected a Conservative Member of the House of Commons and was the first Asian-born person to be elected a Conservative Member of the European Parliament.

He is the Chairman of the EU-Korea delegation to bring peace between North Korea and South Korea.

He is the Chairman of the EU-China Parliamentary Friendship Group; Life President of the EU-India Chamber of Commerce. He has served as Her Majesty's Deputy Lieutenant for the Lord Lieutenancy of Greater London since 1985 representing Her Majesty the Queen in London and was knighted by the Catholic Church in 2011 and given the Vishwa Kirthi Sri Lanka Abhimani by the Buddhist clergy for his Tsunami Relief Work. Recently, he was appointed an Honorary Senior Advisor to the Prime Minister of Sri Lanka. He serves on various other publicly listed company boards in London and Colombo.

SENIOR MANAGEMENT TEAM

1 3 2 4 7 12 11 8

1. Capt. Suren Ratwatte
Chief Executive Officer

Capt. Suren Ratwatte was appointed as the Chief Executive Officer with effect from 15th October 2015.

He is an airline pilot with over 30 years of experience in the field. Since first joining AirLanka in 1984, he went onto Emirates in 1989 and has held various positions in that Company. With over 19,000 flying hours in a number of different aircraft types including the Boeing 777 and Airbus A380, he has wide experience in a global environment.

As a holder of Bachelor's and Master's Degree from Embry Riddle Aeronautical University, a Fellow of the Royal Aeronautical Society and the author of several published works. Suren has been deeply immersed in airline operations for many years.

He is also a well known Human Factors researcher and practitioner, having published a number of articles and essays in the field. His expertise includes a variety of senior instructional and management roles in airlines, most recently at Emirates Airlines.

2. Lalith Withana
Group Chief Finance and Administrative Officer

Lalith Withana holds responsibility for the Finance, Information Technology and Logistics Functions of SriLankan Airlines and also holds overall responsibility of the Group's only Subsidiary, SriLankan Catering as its General Manager. He has been in the forefront of the corporate arena at Senior Management level for more than 25 years. He has made a significant contribution to the industries he was involved in, namely Banking, Apparel, Manufacturing and Trading, where he has worked with industry giants like the Brandix Group, Ernst & Young, IBM and Carson Cumberbatch PLC. He has also held many Board positions throughout his multifaceted career including at Bank of Ceylon, Seylan Bank and Dankotuwa Porcelain PLC.

He holds an MBA from the University of Sri Jayewardenepura Colombo, BA (Hons.) from the University of Manchester Metropolitan (UK) and is a Fellow Member of The Chartered Institute of Management Accountants UK and The Institute of Chartered Accountants of Sri Lanka. He is also a qualified Project Management Professional (USA).

3. Siva Ramachandran
Chief Commercial Officer

Since his appointment as Chief Commercial Officer of the Airline, Mr. Ramachandran's inspirational leadership and guidance have empowered the Commercial Team to progressively enhance revenue through strategic focus on sales and route optimisation and innovative marketing activations.

With over four decades of experience in commercial aviation, he has served leading airlines such as Singapore Airlines, Qatar Airways, Kingfisher Airlines, Jet Airways and lastly Arik Air of Nigeria. From 1991-2002, he has served SriLankan's predecessor, AirLanka.

He has held several strategic positions with these airlines and worked in many locations in Asia, Middle East, Europe, North America and Africa. He was the Senior Vice-President – Commercial for the African Carrier Arik Air before joining SriLankan as the Chief Commercial Officer. While his main focus is commercial operations, his previous experience in Ground Services and insight into finance, flight operations and maintenance adds value to his contribution to the Airline.

4. Dinnaga Padmaperuma
Chief Technical Officer

Dinnaga Padmaperuma joined the Company in 2016 as Chief Technical Officer. Prior to joining the Company, he held senior positions in aircraft leasing companies, namely Amentum Capital and MCAP Europe Limited where he was involved in technical and commercial matters of acquiring aircraft from manufacturers and other lessors and leasing aircraft to airlines. Prior to this, he was attached to Lufthansa Technik (LHT) and held senior positions at LHT facilities in Ireland and in the Philippines. He holds a Bachelor of Science in Mechanical Engineering from North Carolina State University, USA and a Master of Science in Mechanical Engineering from Virginia Polytechnic Institute and State University, USA.

5. Dalrene Thirukumar
Company Secretary/
Head of Corporate Secretarial Services

Dalrene Thirukumar joined the Company in 2013. She is the Company Secretary and the Head of Corporate Secretarial Services. The Division provides Corporate Secretarial Services to SriLankan Airlines Limited, SriLankan Catering Limited and Mihin Lanka (Private) Limited and in addition, facilitates the Senior Management Payroll. She is a Trustee for the SriLankan Cares Trust.

She has over 20 years post-qualifying experience. During this period she has held very senior and responsible positions in public quoted diversified conglomerates in Sri Lanka.

She is an Associate Member of the Institute of Chartered Secretaries and Administrators in UK and holds a Master's of Business Administration (AUS).

6. Yasantha Dissanayake
Head of Financial Management

Yasantha Dissanayake joined the Company in 2004 and currently holds the position of Head of Financial Management. The Finance and Commercial Procurement functions of the Company report to him.

He has spearheaded many pioneering financing transactions for the Company, including the first International Bond issue and Islamic Financing which was recognised by two Asian Regional Awards. He was also instrumental in formulating pre-delivery financing (PDP) for the new A330-300 fleet, a transaction which was recognised by the Air Finance Journal as the 'PDP Financing Deal of the Year' in 2014. Prior to joining the Company, Yasantha held senior positions in the investment banking and telecommunications industries. He is an Accountant by profession (Fellow Member of the Chartered Institute of Management Accountants, UK) and holds a Master's Degree in Business Administration from the University of Wales, Cardiff.

7. Chanaka Olagama
Head of Cabin Services

Chanaka Olagama joined the Company in 1984 and was appointed as the Head of Cabin Services in 2016.

His previous roles within the Company include Head of Service Delivery in charge of Ground Handling, Cargo Operations, Product Development, Customer Affairs and Security, Country Manager for Sri Lanka and Maldives, the United Kingdom, Ireland, Scandinavia, the United States of America and Canada, China, Kuwait, Jordan and Lebanon, Qatar and Bahrain.

He has experience in Flight Operations and Ground Handling as well.

He holds a Master's in Business Administration from the Cardiff Metropolitan University, London.

8. Pradeepa Kekulawala
Head of Human Resources

Pradeepa Kekulawala is a senior human resource development professional in the corporate sector with over two decades of managerial experience behind him. He has been holding key management positions in the disciplines of project management, general management, marketing and business development before focusing his interest and taking up the art of human resource development over 20 years ago. He has held the position of Head of Human Resources for many leading companies – in the education, office automation, engineering and apparel sectors; before joining SriLankan Airlines as its Head of Human Resources seven years back.

He holds Postgraduate qualifications in Management, HR and IT including an MBA from the Commonwealth of Learning and a MSc in Information Management specialising in Knowledge Management from the Sri Lanka Institute of Information Technology. He has had executive coaching in Human Resource Management from the National University of Singapore and the Postgraduate Institute of Management (PIM) in Sri Lanka.

9. Mayuka Ranasinghe
Head of Group Legal Affairs

Mayuka Ranasinghe joined the Company in 2009 and currently holds the position of Head of Group Legal Affairs of the SriLankan Group. He commenced his career in litigation and subsequently engaged in the telecommunication sector prior to joining the Airline. He possesses a wealth of experience gained by handling complex, structural and cross border commercial contracts at various levels, multi-jurisdictional litigation and dispute resolution, regulatory affairs, intellectual property and employment issues in various jurisdictions. An Attorney-at-Law by profession and he holds a Bachelor's in Law from the University of Colombo. He also holds a Master's in Law from the University of Colombo and a Master of Business Administration from the University of Wales.

10. Chamara Perera
Head of Information Technology

Chamara Perera joined the airline in 1999 and holds the position of Head of Information Technology since 2012. He overlooks the Aviation ICT from ground operations to on-board connectivity covering airports, worldwide offices and strategic business units of the airline and the Group.

He spearheaded the implementation of IATA Simplifying the Business (StB) programme which includes fast travel innovative solutions in Air Transportation. He also steered the compliance of globally recognised IT standards ensuring a holistic Airline IT Governance platform. SriLankan IT has been certified for ISO/IEC 27001:2013 Information Security Management, ISO 9001:2008 Software Quality Management and ISO/IEC 20000:2011 IT Service Management. He leads the Digital Transformation of the Airline Business and Operations with an array of well-integrated Airline IT Ecosystems.

He is an Engineer by profession holding a Bachelor of Science Degree in Electronics and Telecommunication Engineering from the University of Moratuwa, Sri Lanka and a Master's in Business Administration specialising in IT Management from the University of Leicester, UK.

11. Chamara Ranasinghe
Head of Cargo

Chamara Ranasinghe joined the Company in 2013 as the Head of Cargo.

Has over 16 years of experience in the airline cargo and aviation industry in the field of customer services, cargo reservations, cargo sales and marketing and airport cargo operations.

Prior to joining the Company, he held Senior Management positions in reputed international airlines operating to Sri Lanka.

12. Capt. Rajind Ranatunga
Head of Flight Operations

Capt. Rajind Ranatunga, the Head of Flight Operations joined the Company as a Cadet Pilot in 1987. He progressed his way as Second Officer and a First Officer on L1011 prior to operating the Airbus Fleet. Supplementing his role in the higher management, he is also a Type A Designated Check Pilot on his current fleet A330.

13. Sumudu Upatissa
Head of Revenue Management,
Planning and Commercial Support

Sumudu Upatissa joined the Company in 2000 as a Trainee Executive and upon successful completion of the programme, moved to the Commercial Division in 2001. He has 17 years of industry experience, with over 12 years managerial experience covering the areas of International Relations, Schedules Planning, Network and Revenue Planning, Revenue Management and was appointed as Head of Revenue Management, Planning and Commercial Support in 2017.

He is a graduate of the University of Sri Jayewardenepura, holding a Bachelor of Science Degree in Marketing Management, IATA Diploma in Airline Studies (Montreal) and a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing (UK) of which he is an Associate Member (ACIM).

14. Dimuthu Tennakoon
Head of Worldwide Sales and Distribution

Dimuthu Tennakoon counts for nearly 25 years of diverse experience in the fields of Finance, Marketing and Sales at SriLankan Airlines. He has also been based in many countries across the globe such as UAE, Canada, India and in China overlooking entire Far East region. He was the General Manager – Commercial Operations prior to his appointment as Head of Worldwide Sales and Distribution in 2017. During his tenure at Oman Air, he served as Country Manager – North India based in Mumbai.

He holds a Bachelor of Law (LLB) Degree from the University of Colombo.

15. Primal De Silva
General Manager, SriLankan Aviation College

Primal De Silva joined the Company in 1988 as a cabin crew member and continued until 2006 as a Purser. Currently holds the position of General Manager, SriLankan Aviation College and the responsibilities of the Accountable Manager (Part 147), Aircraft Maintenance and Training Organisation. Prior to this appointment his previous roles in the Company include, Cabin Safety Manager and Manager – Inflight Operations and Training.

16. Lt. Col. Bandula Weragama
General Manager, Airport and Ground Services

Lt. Col. Bandula Weragama joined the Company in 2012 with an unblemished service of 23 years in the Sri Lanka Army. Besides extensive experience in command and training within a tri-services environment he has also served the United Nations Department of Peace Keeping Operations. Having worked with the HR, Inflight and Security Divisions he was appointed to lead the Division of Airport and Ground Services in February 2016.

He holds a Master's in Defence Studies from the University of Kelaniya and a MSc from the University of Quetta, Pakistan.

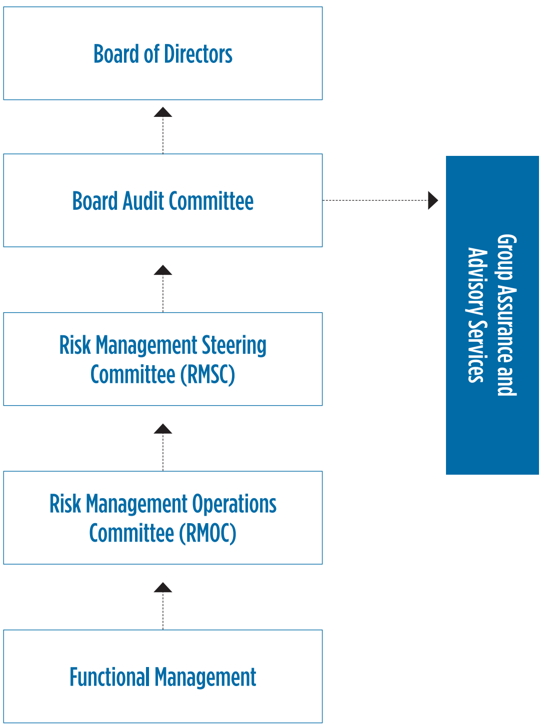
ENTERPRISE RISK MANAGEMENT FRAMEWORK

PROCESS OVERVIEW

The Enterprise Risk Management Framework of SriLankan Airlines is approved by the Board of Directors and is centrally facilitated by the Group Assurance and Advisory Services Division. SriLankan Airlines adopts a standard structure in identifying potential risks and drawing up action plans in mitigating the impact of the risks to SriLankan Airlines. Risks are identified at strategic, process and project levels, covering such aspects as operational, financial, information technology, safety and security, human resources, macroenvironment as well as industry specific risks.

The responsibility for implementing Enterprise Risk Management at SriLankan Airlines rests with the Risk Management Steering Committee (Senior Management Team), Risk Management Operations Committee (Risk Coordinators) and the Functional Management (Risk Owners).

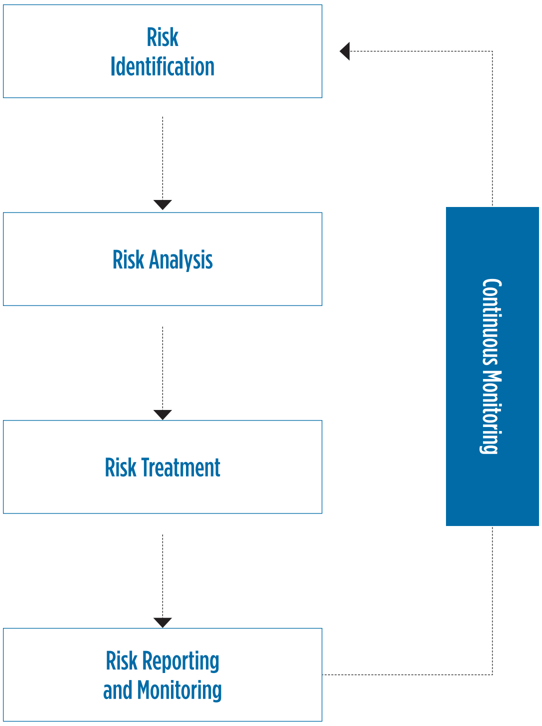
Risk Management Organisation Structure



Enterprise Risk Management is recognised as a key ingredient of good governance and SriLankan Airlines risk culture encourages all employees to make appropriate risk-based decisions.

RISK MANAGEMENT PROCESS

SriLankan Airlines risk management process comprises four key elements namely, risk identification, risk analysis, risk treatment and risk reporting and monitoring.



RISK IDENTIFICATION

SriLankan Airlines identifies factors both internal and external, that may cause any hindrance in achieving the functional and corporate objectives in the risk identification process. Risks are identified at functional level, through brainstorming sessions, interviews and questionnaires with the support of Group Assurance and Advisory Services Division. The functional management supports and provides all required information to the Divisional/Departmental Risk Coordinators to update the risk registers. The identified risks are reviewed by the Risk Management Steering Committee quarterly and reported to the Board Audit Committee biannually.

RISK ANALYSIS

The identified risks are analysed based on the likelihood and impact of the risk and rated as significant, high, medium or low based on the risk score. The risk score is computed by multiplying the likelihood rating with the impact rating.

RISK TREATMENT

Functional management is responsible in formulating action plans based on the risk ratings. The risk responses of SriLankan Airlines identified for risk treatment include mitigate, transfer, avoid and accept. The functional management is responsible in managing the risks identified and the action plans are reviewed on a quarterly basis by the Risk Management Steering Committee. The significant risk treatment actions are reviewed and approved by the CEO. The high risk treatment actions are approved by the Senior Management Team. Medium risk treatment actions are approved by the Departmental Managers. Low risks are managed within current controls and are monitored closely for changes in the risk rating.

RISK REPORTING AND MONITORING

Risk registers are reviewed by Divisional/Departmental Heads quarterly to monitor implementation of the action items in a timely manner. The Risk Management Steering Committee reviews the key risks and reports to the Board Audit Committee biannually. The Board Audit Committee reviews key corporate risks on a biannual basis and reports to the Board of Directors on a biannual basis, unless circumstances require immediate attention of the Board of Directors.

The Financial Risk Management is disclosed under Note 29 to the Financial Statements.

During the year, in the face of adverse circumstances, **we rethought our business strategy and revamped ourselves to cater to financial and commercial needs**. We strived to deliver value to our range of stakeholders – customers, employees, society and the environment.

The global economy showed a lackluster performance in 2016, with a growth of only around 3%. Advanced economies, especially the US-performed moderately well in comparison whilst the Chinese economy picked up compared with 2015.

Faced with both international and domestic headwinds, the Sri Lankan economy grew by 4.4% in 2016 compared with 4.8% in 2015. Growth was driven mainly by industry and services while there was a contraction in agriculture.

OPERATING ENVIRONMENT

GLOBAL AND LOCAL ECONOMY

The Airline Industry

Global Outlook

The global economy showed a lackluster performance in 2016, with a growth of only around 3%. Global trade too, performed poorly with a restricted growth of only 2%. Advanced economies, especially the US-performed moderately well in comparison. While China is in the process of moving away from a manufacturing dominated economy towards a service-oriented one and a consumer driven one, the Chinese economy picked up compared with 2015. There was a slowdown in some other emerging markets while terrorism and refugee problems caused further uncertainty together with the Brexit vote in the United Kingdom.

Despite a sluggish world economy, the aviation industry posted strong results and continued to deliver value to its customers. Global consumer spending on airline industry notched 0.9% of GDP while Revenue Passenger Kilometres (RPK) rose 7.1% over 2015 bolstered by falling air fares. The industry continued to contribute to global economic development by creating unique city pair connections, the number of which rose to 18,400 in 2016. This is expected to further increase to over 19,000 in 2017. This will not only generate enhanced travel options for passengers but also facilitate the flow of goods, capital and technology. Tourist spending on air travel in 2016 was USD 650 Bn. which is forecast to rise to USD 685 Bn. in 2017. However, global passenger yields continued to decline steadily as a result of heighted competition and reduction of fuel surcharges levied from passengers consequent to lower fuel prices.

The airline industry continues to be a driver of international trade. The total value of trade carried by airlines during 2016 was USD 5.5 Tn. and is forecasted to rise to USD 5.9 Tn. in 2017.

As reported by IATA, in 2016 the air cargo industry saw a 3.6% growth over the previous year, which was nearly double the industry's average growth rate of 2% over the last five years. All global regions, with the exception of Latin America saw an increase in demand, reflecting the strengthening and upward trend in global exports. Europe and Africa led the demand accounting for 16% and 13% Freight Ton Kilometers (FTK) growth respectively, while the Asia Pacific and the Middle East regions averaged a 10% growth for the year 2016. However, while the demand for air freight saw an increase in the period, due to an increase of cargo carrier capacity by 5.3% in 2016, freight load factors for the year stood at 43%, a decline in comparison to 43.6% in 2015.

IATA Director General and Chief Executive, further opined that the most significant headwind the air cargo industry is now experiencing is stagnant world trade, which is also facing threat of protectionist measures. He reiterated that Governments should not neglect the impact of this trade on growth and prosperity of their respective countries. He also stressed the necessity for improving competitiveness in the industry, achievable through digital processes, driving efficiency and customer satisfaction, in maximising the current momentum of renewed demand growth.

Local Outlook

Faced with both international and domestic headwinds, the Sri Lankan economy grew by 4.4% in 2016 compared with 4.8% in 2015. Growth was driven mainly by industry and services while there was a contraction in agriculture. A few large scale Government and private sector infrastructure projects contributed to this growth. Unfavourable weather, sluggish demand and low prices for agricultural commodities contributed to the contraction in agriculture.

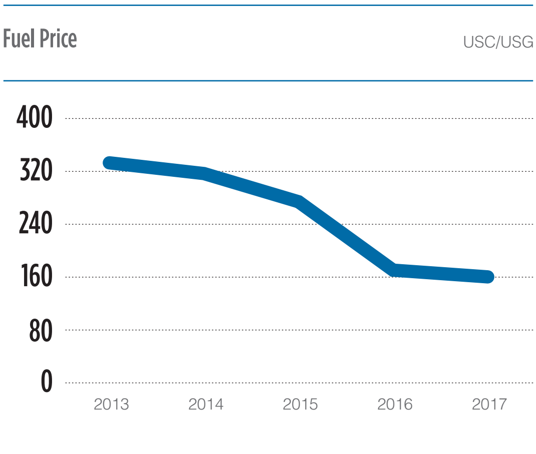
The picture for the tourism sector however was brighter, with earnings reaching over USD 3.5 Bn. in 2016 and over two million arrivals, a 16% increase in tourist arrivals against the previous year. This growth in tourist arrivals spurred an increase of other airline capacity into Sri Lanka. Etihad, FlyDubai, China Eastern, Kuwait Airways, Malindo Airways, Singapore Airlines, Thai Airways, Air India and Emirates all increased capacity into Sri Lanka. In addition, several airlines commenced new services into Sri Lanka including KLM, Gulf Air, Himalaya Airlines, Ukraine International Airlines and Thomson Airways. Overall other airline capacity into Sri Lanka recorded an 11% growth.

FINANCIAL REVIEW

Challenges in the operating environment, due to the closure of Bandaranaike International Airport's (BIA) runway for maintenance, excess market capacity and intense competition had an adverse impact on SriLankan's performance during the year, resulting in the Group recording an operating loss of LKR 7,489.82 Mn., compared to the LKR 4,029.95 Mn. deficit recorded in the previous year. The performance was further affected by unfavourable foreign exchange rates which resulted in higher outlay as a major proportion of industry expenses are in foreign currency and predominantly USD denominated. It is noteworthy that the Group made an operating profit up to 31st December 2016 prior to the runway closure at BIA.

In addition to the negative impact of the foreign currency fluctuations and the increased finance costs in comparison to the previous year, the Company had to incur a one-off cost of LKR 14,362.81 Mn. associated with the cancellation of three A350-900 aircraft lease agreements. The decision to terminate these lease agreements was based on a series of detailed evaluations and advice of international aviation consultants. Despite the negative impact on the current bottom line of the Company, the cancellation of these agreements was considered the most viable option to ensure the future sustainability of the Airline.

IMPACT OF THE EXTERNAL ENVIRONMENT

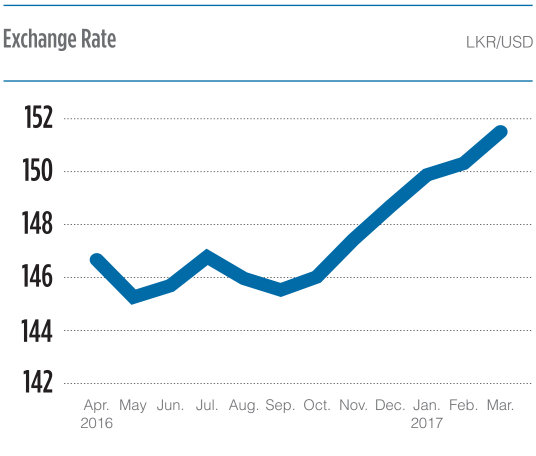


Fuel Price Movement

The declining trend of jet fuel prices in 2015 continued through 2016 and into early 2017. However, prices have gradually edged upward. Considering the rising price trend forecast by IATA, the average fuel spend is expected to increase by 4.1% in 2017. It is also forecast by IATA that fuel efficiency will improve by 1.5% in 2017 with most airlines acquiring new fuel efficient aircraft.

Impact on Us

With the benefit of reduced fuel prices and the addition of more fuel efficient aircraft, the Airline was able to keep overall fuel costs within 22.6% of the total operating costs of the Company. Furthermore, with the projected expansion of the fleet to include newer, more fuel efficient aircraft, the Company expects to further increase its fuel efficiency in 2017.



Currency Movement

The average USD/LKR exchange rate in the current year depreciated by 6.8% compared to the previous financial year. Furthermore, other currencies in which the Company derives revenue such as GBP and EUR, recorded a depreciation against the USD by 12% and 6% respectively.

Impact on Us

The fluctuation in the main currencies affected the Company's revenue significantly. Although an increase in revenue was recorded in LKR terms, in USD terms, passenger revenue was 5% lower than the previous year. The revenue loss due to the depreciation of key revenue generating currencies amounted to approximately USD 21.6 Mn. for the year compared to the previous year. This was further aggravated as a significant proportion of the Airline's costs are incurred in foreign currencies (mainly in USD).

REVENUE

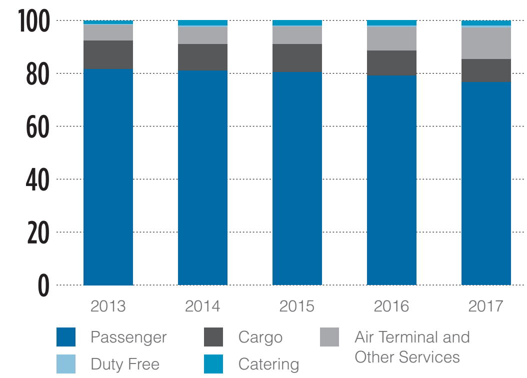
During the year under review, Group's revenue increased by 4.8% to LKR 138,563.23 Mn. The main reason for the increase is attributable to the significant growth recorded from air terminal and other services. The growth in the number of passengers carried, albeit at lower yields in USD terms, improved Group revenue further.

The revenue of the Company in LKR terms has increased by 4.6% to LKR 135,463.59 Mn. The increase in Company revenue is largely attributable to increased passenger demand driven by route rationalisation and fleet optimisation efforts, albeit partially offset by capacity reduction and compressed yields of passenger and cargo operations amidst intense competition, loss of revenue due to airport closure and the depreciation of key revenue-generating currencies. Moreover, passenger yields remained depressed due to fare reductions in key markets. Such fare reductions were consequent to the downward revision of fuel surcharges in light of reduced fuel prices and tactical promotions carried out to bolster loads.

Revenue growth in other services was buoyed by the new avenue of aircraft wet leasing revenue, pursuant to the commercial contract entered into with Pakistan International Airlines (PIA). Under this agreement, the Company wet leased an Airbus A330-300 aircraft with the latest on-board amenities to be used on PIA's newly launched Premier Service to select destinations.

The performance of SriLankan Airport and Ground Services also witnessed a significant improvement of 15% contributing to the increase in the Group's revenue.

Composition of Group Revenue %



During the year under review, the Company continued its restructuring efforts at an accelerated pace with a view to regaining a sustainable financial performance. These restructuring activities included adapting the route network to derive greater profitability as well as fleet optimisation and cost saving initiatives.

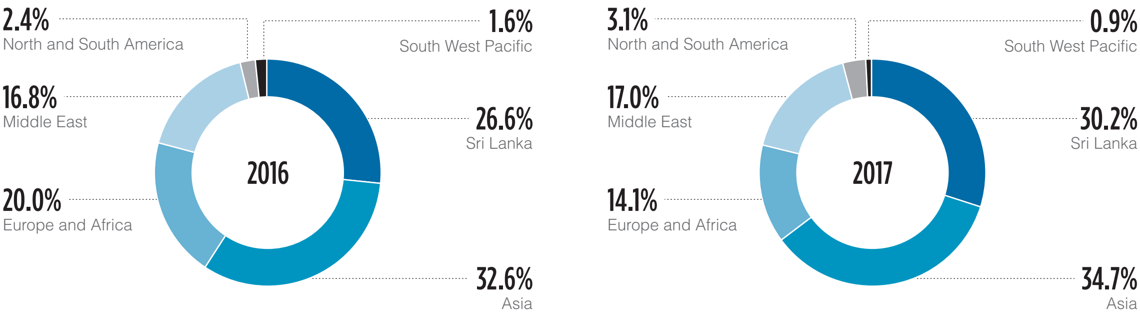
In 2016/17, Europe – one of the Airline's major long haul markets – experienced a period of uncertainty, following several terrorist attacks as well as Brexit in UK. Consequent to a detailed analysis as the performance of European routes have been below expectations for several years due to increasing competition and a careful consideration of the potential impact on tourist inflows, a decision was taken to discontinue operations of the underperforming routes of Frankfurt, Paris and Rome. Accordingly, the services to Rome were discontinued in April 2016, followed by Frankfurt and Paris in October 2016 and November 2016 respectively. SriLankan continues to maintain an active presence in Europe with its direct flights to London, United Kingdom and an expanded range of European destinations to passengers through its code share partners.

Following this decision, steps were taken to focus SriLankan's operations on the stronger performing regional routes, with an Asia-centric strategy. In line with the Government of Sri Lanka's decision to discontinue commercial operations of Mihin Lanka, SriLankan Airlines absorbed the Mihin Lanka route network in October 2016. This move added on ten new destinations in Africa, the Middle East, South Asia and Southeast Asia to the SriLankan network, in accordance with the Airline's new regional focus.

The new network strategy was further augmented with the launch of a new service to the Gan Island in Southern Maldives, in December 2016, making SriLankan the only airline in the world to operate international flights to two airports in this premium leisure destination.

Contribution

%



The increase in passenger revenue excluding excess baggage and non-scheduled services of LKR 1,056.55 Mn. is attributable to:

	LKR Mn.
3.23% increase in passenger yield in LKR	2,689.39
1.15% decrease in seat capacity	(961.42)
0.81% points decrease in passenger load factor	(671.42)
	1,056.55

Although an increase of 3.23% is reflected in passenger yield in LKR terms, due to the fact that 80% of the Company's revenue is generated in foreign currencies, this had an adverse impact on the passenger yield in US Cents (USC).

	2017	2016	Change %
Passenger yield in LKR	8.43	8.17	+3.23
Passenger yield in USC	5.72	5.91	-3.31

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

	LKR Mn.
1%-point change in passenger load factor, if yield and seat capacity remain constant	1,315.83
1% change in seat capacity, if yield and load factor remain constant	837.91
1% change in passenger yield, if passenger traffic remains constant	1,050.01

EXPENDITURE

The following table depicts year on year percentage changes in expenditure of the Group for the year ended 31st March 2016 and 2017:

	2017		2016		Variance	
	LKR Mn.	%	LKR Mn.	%	LKR Mn.	%
Aircraft Fuel Cost	33,129.60	19.8	33,198.90	22.9	(69.30)	(0.2)
Employee Cost	20,015.81	12.0	17,845.94	12.3	2,169.87	12.2
Airport Enroute and Passenger Expenses	21,302.32	12.7	20,541.28	14.2	761.04	3.70
Rentals on Leased Aircraft	22,789.22	13.6	20,129.91	13.8	2,659.31	13.2
Aircraft Maintenance and Overhaul Costs	17,644.09	10.5	14,515.22	10.0	3,128.87	21.6
Depreciation/Amortisation	2,326.30	1.4	2,989.44	2.1	(663.14)	(22.2)
Selling Marketing and Advertising Expenses	12,709.68	7.6	11,431.23	7.9	1,278.45	11.2
Crew Expenses	5,435.73	3.2	5,483.69	3.8	(47.96)	(0.9)
Exchange Loss	2,835.07	1.7	2,325.68	1.6	509.39	21.9
Other Expenses	7,865.23	4.7	7,766.97	5.4	98.26	1.3
Finance Charges	7,053.10	4.2	6,051.93	4.2	1,001.11	16.5
Compensation for Cancellation of Aircraft Lease Agreement	14,362.81	8.6	2,561.55	1.8	11,801.26	460.7
Total Group Expenses	167,468.96	100.0	144,841.74	100.0	22,627.16	15.6

Total Group expenses increased by LKR 22,627.16 Mn. compared to the previous year mainly as a result of the increase in the rentals on leased aircraft and aircraft maintenance and overhaul costs. In addition, the depreciation of the LKR resulted in an increase in the Group's exchange loss by 21.9%. The decision to make a one-off payment as compensation to cancel Aircraft Lease Agreements is considered as crucial for the future financial sustainability of the Group. However, the immediate impact of this decision created an adverse impact on the Group's bottom line in the year under review.

Pay revisions and the associated pension costs based on Collective Bargaining Agreements, resulted in a 12.2% increase in employee costs during the year. Compensation payments towards employees of the discontinued overseas locations in Europe also contributed to this increase.

Fuel which consists of about 19.8% of the Group's total costs, was LKR 69.30 Mn. less than last year as a result of:

	LKR Mn.
5.81% decline in fuel price	2,018.56
1.92% decline in volume uplifted	635.85
6.76% weakening of Rupee against the US Dollar	(2,585.11)
	69.30

The marginal reduction in aircraft fuel cost compared to 2016 was primarily due to the decrease in global fuel prices. The enhanced fuel efficiency of the new aircraft additions to the fleet was another contributing factor towards this decrease. However, this reduction was curtailed to some extent due to the depreciation of the Sri Lanka Rupee against the US Dollar in 2017.

Fuel productivity as measured by the Revenue Tonne – Km per US Gallon (RTK/USG) increased by 0.13 RTK/USG over the previous year to 10.71 RTK/USG.

The significant impact of the fuel price is such that a change in price of one US Cent per US Gallon (USG) affects the Group's annual cost by approximately LKR 205.47 Mn., if the US Dollar exchange rate and fuel consumption remain constant.

Similarly, a change in fuel productivity of 1% would impact the Group's annual fuel costs by approximately LKR 331.30 Mn., if the fuel price and US Dollar exchange rate remain constant.

Aircraft lease cost (entire fleet is on operating lease) increased by 13.2% to LKR 22,789.22 Mn. in 2017 compared to 2016. This was partly due to 2017 being the first full financial year in which all of the Airline's new A330-300 fleet was operational, as some aircraft were inducted only during the latter part of the previous financial year.

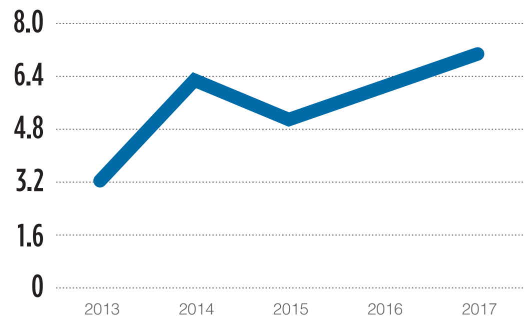
The aircraft maintenance and overhaul costs recorded an increase of LKR 3,128.87 Mn. in 2017 compared to 2016, by 21.6%. This was driven by the increase in the fleet count and operations, with two aircraft added from Mihin Lanka, as well as 2017 being the first full year of A330-300 operations.

The Company was able to successfully control the increase in expenditure of airport, enroute and passenger, crew and other expenses to only a marginal variance, through stringent cost control measures.

The Group operating loss increased by LKR 3,459.87 Mn. to LKR 7,489.82 Mn. in 2017, a 85.8% increase compared to the previous year (LKR 4,029.95 Mn. in 2016).

Rising interest rates on existing loan facilities and interest charge on new short-term foreign currency loan facilities which were obtained to finance working capital requirements, negatively impacted on the Group's finance charges. The finance charge increased by 16.5%, amounting to LKR 7,053.10 Mn. compared to LKR 6,051.93 Mn. in the previous year.

Finance Charges



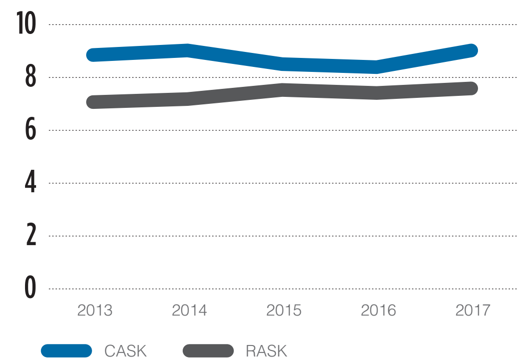
Accordingly, the Group loss before tax increased to LKR 28,314.26 Mn. in 2017 compared to LKR 12,086.55 Mn. in 2016.

OPERATIONAL PERFORMANCE

The operating environment in which the Airline functioned continued to pose challenges during the year, with a number of factors adversely affecting performance.

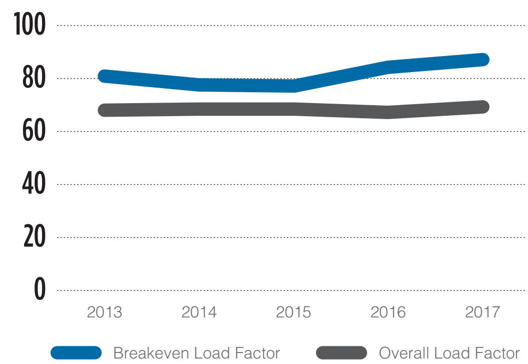
A 11% increase in seat capacity by foreign operators, surpassing the demand growth, resulted in overcapacity in the market and caused intense price competition among all airlines. This was the primary driver behind the decline in yield in USD terms.

CASK Vs RASK



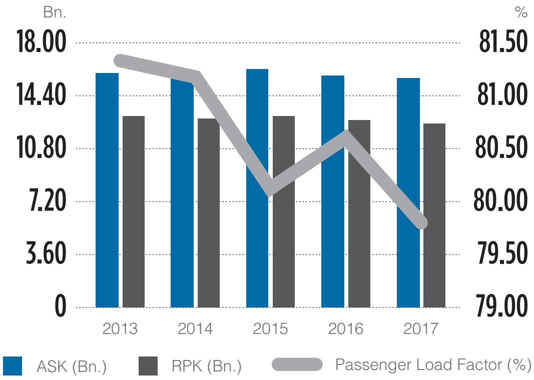
While the CASK in LKR terms is an increase of 6.9% from that of the previous year, the increase in the RASK was not in par and was only 1.8%. Due to continued pressure on the yields, there was no corresponding revenue increase to bridge this gap.

Breakeven Load Factor Vs Overall Load Factor

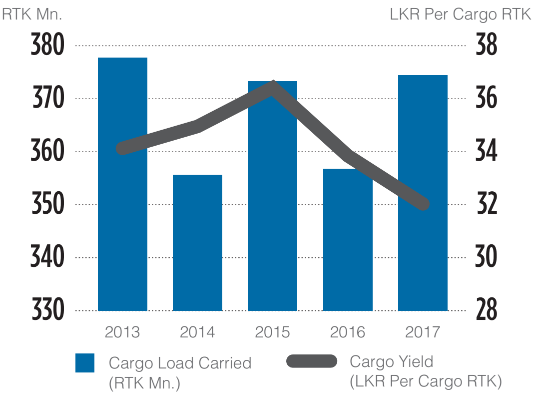


The breakeven load factor increased by 3.26 percentage points mainly due to the rising unit costs. The overall load factor decreased by 0.52 percentage points, to 68.1% in 2016 thereby widening the gap between the breakeven and actual load factors.

Capacity Vs Load Factor



Cargo Load Carried



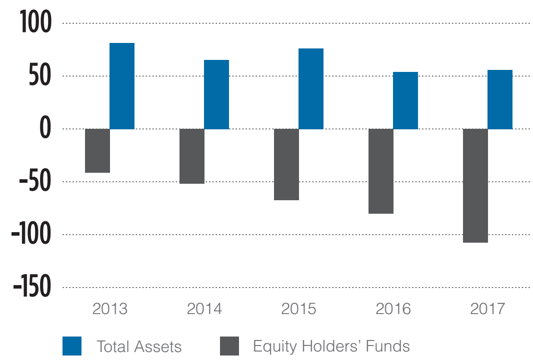
The global freight rate, as forecast by IATA dropped by almost 15% from 2016 to 2017 while the demand for freight saw an increase of 3.8%. This global trend was reflected in the Group's cargo operation, wherein the cargo revenue tonne kilometres increased by 5% while the yield saw a drop of 5% in comparison to the previous year. The former was mainly due to the capacity increase from the routes taken over from Mihin Lanka especially in the Far East and Indian Subcontinent, while the latter was adversely impacted by the increased competition from the freighters in these markets with over capacity. In spite of these headwinds and capacity reduction due to discontinuation of the European routes, the Company managed to limit the cargo revenue decrease to 0.7% compared to 2016.

FINANCIAL POSITION

The Group's total assets stood at LKR 55,413.77 Mn. as at 31st March 2017, which is an increase of 2.3% over to the previous year, mainly on account of the increase in aircraft maintenance reserves which was in line with the fleet expansion.

Group Equity Holders' Funds and Total Assets

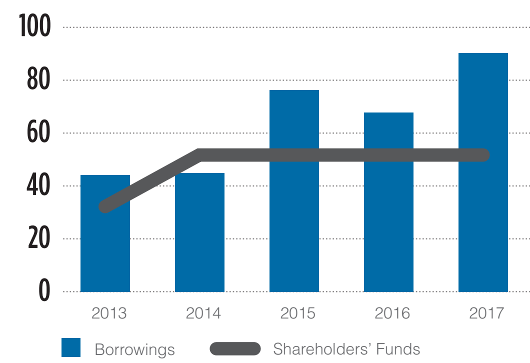
LKR Bn.



Funds attributable to the shareholders saw a reduction of 34%, to a negative LKR 107,793.52 Mn., as a result of the loss incurred in the current year.

Capital Structure

LKR Bn.



With the share capital remaining constant over the last three years, the Group continued to fund operations through increased borrowings which resulted in the Group's interest-bearing liabilities increasing by 33.6%, to LKR 90,337.84 Mn., in 2017.

The Group's capital expenditure on property, plant and equipment during the year was LKR 1,093.98 Mn., which remained more or less the same as last year. As part of the Group's stringent cost control measures, all capital expenditure was restricted to projects which were considered critical to meet operational requirements.

CUSTOMERS

THE SRILANKAN BRAND

During the year, we continued the drive to give our customers a memorable experience, building on the brand image we have already established. We seek to ensure that our products and services are second to none in the industry. In 2016/17, we inducted the first A320neo aircraft into our fleet, with more to follow in the year to come. The absorption of Mihin Lanka operated routes extended our network with several new destinations.

We also continued to build our brand image through social media and other promotions. We are fully leveraging the potential of social media to gauge the sentiments and provide appropriate responses. We also sponsor sports events, competitions and use celebrities as brand ambassadors to expand our reach and visibility.

As a result of our marketing efforts, SriLankan retains its position as one of the top 10 brands in the Country.

PROMOTING THE BRAND

During the year under review, many steps were taken to build the brand image across the entire spectrum of media and communication channels including print, electronic, web and social media.

The Airline appointed two creative agencies with a global presence to conceptualise and direct effective marketing campaigns to reach across its network. Among the innovative steps taken were, revamping its corporate image library, producing the new product video and the destination video 'Epic Journey of Sri Lanka on SriLankan Airlines', which won a Gold Award at the Golden City Gates Awards 2017 at ITB Berlin. The corporate website has also been given a facelift with availability in all three local languages, in addition to other international languages. The relaunched website has been in compliance with US DOT requirements.

The marketing campaigns also leveraged some of the important milestones during the year, such as the absorption of Mihin Lanka routes and the induction of Gan Island, which marked the unique addition of a range of destinations to the network within a short period. The team is well prepared and eagerly anticipates launching the new destination launch campaign of Melbourne, in order to promote SriLankan Airlines, Sri Lanka and other markets that will benefit from this connectivity. This will fill a long felt need of the South Asian community in Australia for connectivity with this region.

Mindful of the growing importance of social media, we constantly strive to enhance our visibility in this medium and gauge the sentiments of the market. We were able to conduct a number of successful social media campaigns through our corporate Facebook page. To leverage the interactive potential of social media, we are using a social media listening tool with a 24X7 listening set-up. We can thereby feel the pulse of our fans, potential customers and even our critics in real time; timely action can then be taken to counter any negative perceptions and opinions. This year, we also carried out a comprehensive social media audit to guide our efforts and introduce best practices to maximise effectiveness.

In the new financial year, the marketing team will be launching an extensive social media campaign in China, a market which is extremely diverse and impenetrable by the traditional mediums of advertising.

Crisis preparedness has been another area of focus. A highly reputed airline digital marketing agency, simplyflying, conducted an audit on crisis preparedness, the findings and recommendations of which have been shared with the relevant stakeholders. The next stage will be to engage the services of an internationally reputed institution, specialised in airline crisis management, who can share the benefits of their expertise, review and restructure the Airline's mechanisms to be in line with the industry best practices.

Another vital facet of our marketing activities has been promoting awareness through raising our visibility in the media, both local and international. PR agencies have also been appointed in China, India and in Colombo, which are considered the Airline's prime markets. A further step that is envisaged is sourcing foreign media to cover international sporting events sponsored by the Airline and engaging reputed international publications through advertising and advertorial opportunity to increase brand awareness and visibility.

INFLIGHT EXPERIENCE

The airline traveller today has a wide gamut of options to choose from and his on-board experience will no doubt be a major factor on whether he chooses to fly SriLankan again. Passengers today have high expectations of service beyond from the traditional including courtesy, connectivity and entertainment. We endeavour to provide the best in both food and beverage and as well as the new service offerings.

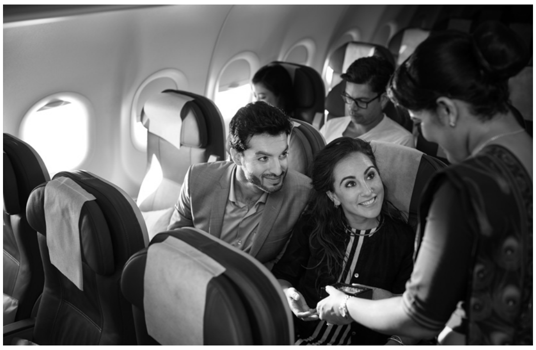
Cabin Crew

Sri Lanka has long had traditions of hospitality, generosity and friendliness. We therefore possess a natural advantage in providing an inflight service that will delight our customers. Our cabin crew are at the frontline of service and are our Brand Ambassadors. Our inflight service is tasked with transforming raw school leavers into competent, skilful and efficient and professional cabin crew. The training encompasses the entire range of services that a flight steward or stewardess may be called on to provide. They should have the poise and maturity to cope with any emergencies that can arise on-board and the necessary qualities need to be instilled in them. The services offered by the cabin crew reflects our traditions of hospitality, imbibing a warm, friendly and generous culture. We strive to give the customer a memorable experience from the time he boards the aircraft till the time he leaves. Since they serve the National carrier, our cabin crew promote not only the SriLankan Airlines Brand but the Sri Lanka Brand as well.

Services On Board

We strive to provide the best in all aspects of service, be it cuisine, entertainment or connectivity.

With all the value added facilities being provided, food and beverage remains an important aspect of service. Our meal offerings cater to a wide range of palates with some stress on regional flavours. Health conscious passengers will find their preferences also catered to. We also cater to specific preferences of our passenger profile on certain routes such as the Chinese sector. Business Class passengers have four options to choose, giving international diversity including a vegetarian meal, while our SkyBar is well stocked with high quality red and white wines. Economy class passengers are offered three choices of hot mains with either dessert or fruit. The quality of our food and beverage offerings is affirmed by the fact that our passenger survey feedback has consistently given it a favourable rating of over 80%.



Our policy of catering to a diversity of customer tastes extends to our inflight entertainment as well. Passengers in both Business and Economy class choose from wide range of films; Classics, Bollywood, Hollywood and local cinema. They can also access weather reports as well as international and Sri Lankan news channels. With our on-board Wi-Fi facility, we provide seamless mobile and internet connectivity.

OUR NETWORK AND FLEET

At the end of the year, SriLankan operated services to 36 destinations in 20 countries, from its hub in Colombo. Though the Airlines, direct longhaul network has been curtailed, we also have an extended virtual network through codeshare operations. At present, SriLankan has codeshare partnerships with Etihad Airways, Malaysia Airlines, Air Canada, Alitalia, Oman Air, AirBerlin, Finnair, Japan Airlines, Asiana Airways, Qantas Airways, Jetstar Asia Airways and Qatar Airways. Out of these airlines, existing partnerships with Etihad, Alitalia and Japan Airlines were expanded during the year, which resulted in several new destinations in Europe and the Far East.

This gives us the facility to issue passengers tickets to over 64 destinations in 27 countries spanning North America, Europe, Central Asia, Africa, Canada and Australia. A reciprocal codeshare agreement concluded with Qatar Airways during the year, has enabled SriLankan to service destinations in Europe, North America, the Middle East and Africa. In return, this has allowed Qatar Airways to use SriLankan flights to Colombo and onwards to Male.

At the end of the year, composition of the Airline's fleet stood at eleven A320/A321 family aircraft, seven A330-300s and six A330-200s. We have taken the step of tailoring our fleet to what is suitable for our present network and flight frequencies. With the higher frequencies on the regional routes in mind, we received a first of the recently introduced A320neo aircraft in February 2017. Five further A320neo family aircraft – including the first A321neo to be operated by an Asian airline are due to follow in 2017.

As at 31st March 2017, SriLankan was operating over 280 scheduled flights each week across 36 routes. Of this number, 10 were operated on South East Asian routes, 15 on regional routes, 10 on Middle Eastern routes and one to Europe.

Route Map

We took a strategic decision to withdraw from several European destinations during the year; Rome in April, Frankfurt in October and Paris in November. Several Middle Eastern airlines, increasing their capacity out of proportion and the continuing downward yield in the above destinations, drove this decision. A landmark step was the inauguration of services to Gan Island, Maldives. We are the pioneer international Airline to service Gan Island.

With the cessation of operations of Mihin Lanka, SriLankan had the benefit of being able to commence direct services to destinations served by Mihin Lanka. The new destinations are Lahore, Bahrain, Calcutta, Jakarta, Varanasi, Gaya, Madurai, Muscat, Dhaka and Seychelles. With the amalgamation of the Mihin routes, our revenue share from leadership markets have increased considerably. Leadership markets offer the best opportunity to secure high revenue and yields as they are least susceptible to fare volatility due to competitor activities and SriLankan is able to charge a premium on these services.

Through further emphasis on network optimisation and commencement of service to new underserved markets in 2017, SriLankan is expecting to increase its revenue share from leadership markets in its overall revenue composition.

For the FY 2016/17, the passenger revenue earned by the airline totalled USD 687.6 Mn. Since the revenue earned in FY 2015/16 was USD 726 Mn., this reflected a 5.3% reduction. The drop in revenue was mainly attributable to the reduction in Revenue Passenger Kilometres (RPK) as well as passenger yields. Currency depreciation, fare reductions in key markets and reduction of fuel surcharges were the main causes of the drop in passenger yields.

However, the drop in yield has to be seen in the context of the general performance of the industry. Globally, the industry suffered a drop in passenger yield of 8% compared with the previous year. At a regional airline level, on the Asia to Middle East routes, the decline was 10.5%, while on the Asian routes it was 10%. Comparatively SriLankan Airlines's yield dropped by only 3.3% in absolute terms while in exchange adjusted terms, there was no drop compared with 2015/16. The figures demonstrate yield-wise, SriLankan has sustained a better performance than the industry in general.

Regarding the other reasons for revenue loss, currency depreciation accounted for USD 21.6 Mn. while the capacity reduction from FY 2015/16 to FY 2016/17 is 1.15%. Taking into consideration the exchange loss and capacity reduction, the adjusted shortfall from FY 2015/16 to FY 2016/17 can be calculated as approximately USD 9 Mn. which is 1.3% below previous year.

During the year, we faced a major operational challenge due to the closure of the Bandaranaike International Airport for runway resurfacing. However, we can be proud of the efficiency and responsiveness with which our staff faced up to the situation and minimised the impact. Through careful network optimisation, SriLankan was able to contain the flight cancellations to only 48 flights for the week; being only 17% of the schedule.

FLIGHT OPERATIONS

The nature of an airline's operations make safety, adherence to standards and training paramount. The aviation industry operates in a highly regulated environment, where strict compliance to regulations, local and international, is imperative. Compliance is strictly monitored by a panel of Chief Pilots with a Manager – Compliance and Support, under the Leadership of Head of Flight Operations. SriLankan Airlines has a very commendable track record in safety. We strictly adhere to standards and required training, for all our Pilots and First Officers (flight deck crew), which maintains their technical prowess at a level second to none in the industry.

Taking off on time is a primary factor in an airline's reputation. We also give a great deal of importance to on-time-performance and cost monitoring to meet the requirements of our customers and other stakeholders.

Airline Operations Control Centre (AOCC)

AOCC is a command centre operating 24X7 to proactively manage the daily operations. It works in close coordination with all stakeholders involved with flight operations. It takes swift remedial action in disruptive situations, minimising any deviations from the flight schedule. AOCC also monitors global weather and other developments and provides inputs for any decisions regarding flight operations.

The Flight Dispatch Centre (FDC), which functions under AOCC, monitors all flights and routes to achieve maximum time efficiency and compliance with overflying regulations. FDC also carries out fuel tankering, which seeks to minimise cost by uplifting fuel from appropriate network stations. In the year under review, we were able to realise considerable cost savings by this exercise.

The runway resurfacing of the Colombo Airport, although a long felt need, was a major headwind we had to cope with during the year. However, AOCC faced up to the major challenge, liaising with all stakeholders to maintain a high on-time performance.

On-Time Performance (OTP)

Since on-time performance is an ongoing function, which has a very direct impact on customer satisfaction, reputation and cost the Airline is constantly trying to achieve consistency in this regard.

The on-time performances of SriLankan Airlines in the year under review are given below:

	Punctuality – <16 MIN		
Period	Departures	Arrivals	No. of Flights Operated
January to December 2016	81.67%	82.41%	27,290
January to May 2017	85.97%	86.26%	11,586
6th January to 6th April 2017 (During airport closure for runway resurfacing)	88.32%	86.24%	6,455

Fuel Monitoring

Fuel usage is a major component of the Airlines cost structure. Another key function of Flight Operations is monitoring of aviation fuel (Jet A-1) usage, maximising fuel efficiency and conservation. This monitoring process has given the Airline a total and detailed view of its fuel usage, providing a very useful input to operational decisions leading to minimising cost. The role Flight Operations has played in this regard has been greatly appreciated by all stakeholders.

The effectiveness of fuel monitoring is demonstrated by the fact that the Airline has achieved a fuel burn saving (in terms of actual fuel burn against planned fuel burn) of 0.5% in 2016/17. We are also proud of the fact that IATA rated us 8th among 51 airlines in 2016 with a similar business model, compared with the previous year (2015).

Emergency Response Plan (ERP)

Considering the nature of our business, we need to be proactive about crisis situations. We have a corporate emergency response plan in place to manage operations in all phases of a crisis situation: before, during and after. To ensure readiness for handling an emergency situation, training and simulation exercises are carried out periodically, involving all who will be stakeholders in an actual situation. In 2016/17, we have carried out necessary training, while having the Emergency Response infrastructure in place to deliver services in an emergency with minimum response time.

FLYSMILES

In common with the general trend in the airline world today, our Frequent Flyer Programme is an important facet of our marketing strategy. FlySmiLes is also a member of the **one**world alliance, which includes many of the leading global players in the airline industry. FlySmiLes's top three membership levels of platinum, gold and classic carry entry to the Emerald, Sapphire and Ruby tiers of **one**world. This membership brings our members the advantages of seamless travel and other privileges at many locations and routes globally.

In addition, to earn and burn facilities on **one**world member airlines, FlySmiLes brings the benefit of a host of other services on non-air partners. This includes financial, car rental, hospitality, telecommunication, retail and lifestyle services. Lounge facilities at 600 locations worldwide are available to our platinum and gold members. The total partner accrual revenue has increased by 7%, while partner redemptions have increased by 5%.

The membership base of FlySmiLes has now reached 476,000, with a very commendable growth of 19% over the previous year. The countries which have been the largest contributors to member numbers are Sri Lanka, UK, India, UAE and Maldives. The programme has been maintaining a healthy ratio of 60% of miles redeemed for 100% of miles accrued from 2015/16, in line with industry benchmarks.

We are continuously seeking to improve the facilities provided to our FlySmiLes members. The mobile application provided to the members has been continually improved with new functionalities. The popularity of the application is shown by the fact that it has been downloaded by 60% of the total member base to date. Another recent innovation is the FlySmiLes digital membership card. In addition to convenience, this will give to frequent flyers, this will also meet our goal of reducing any negative impact our operations have on the environment by eliminating plastic. A milestone shortly expected for the application is enabling FlySmiLes members to redeem miles on board for duty free purchases.

SRILANKAN HOLIDAYS

The business portfolio of SriLankan is not limited to air travel and transport but encompasses the totality of travel and transportation services. SriLankan Holidays, the leisure arm of the Airline, offers a range of services to both inbound and outbound passengers. The island has a tremendous edge in the fact that it offers diverse attractions all accessible within a few hours travel. SriLankan Holidays partners with a number of leading hotels, tour operators and other tourism-related organisations to leverage this advantage. The inbound arm networks with thirty SriLankan Holidays Franchise Operators, operating from all our destinations. Five new Franchise Operators came onstream in the financial year 2016/17, four of whom were from the Far Eastern market, resulting in a steady growth. The strategy of SriLankan Holidays as a result mirrors our overall strategy on concentrating on growth markets. Overall inbound business achieved a growth of 17.2%, against the financial year 2015/16.

In addition, the outbound arm of SriLankan Holidays provides travel services within our network to travellers from Sri Lanka and serves the passengers channelled through travel agents, as well as corporates and direct passengers. During the year, we further penetrated operations into outlying markets in Sri Lanka with the aim of establishing the SriLankan Holidays brand in all parts of the island. With this, the outbound business marked a growth of 16.9% against the previous year 2015/16.

In terms of cost management, many cost saving initiatives were also introduced into the Connecting Point Services Programme which resulted in a substantial saving for the Company. SriLankan Holidays affords travellers, whatever their nationality, origin or destination, a range of enjoyable holiday opportunities from which they can select according to their tastes and their budgets.

ANCILLARY SERVICES

Ancillary services saw a marked upturn in the financial year 2016/17 with a year-on-year growth of 11%. This is highly creditable in view of the fact that it was achieved amidst the changes in the network. Providing services to passengers and increasing convenience is an ongoing process at SriLankan Airlines. During the year, several value adding services were provided including prepaid baggage online and extending this service towards agent bookings and car rental services. The popular services of delivering special cakes, extra leg space, seat upgrades, car rental/transfer services and prepaid baggage, are among the existing services offered by the Airline. Looking forward, a number of new services are planned to be brought onstream in the year ahead.

GLOBAL CONTACT CENTRE

In the present milieu of globalisation and seamless connectivity, providing communication and information to customers at their fingertips is of utmost importance. To cater to this need, a new state-of-the-art 24X7 operational Global Contact Centre was inaugurated in August 2016. The Centre is operated by well known, Malaysian based, global contact centre operator 'Scicom'. At present, the centre provides services in, Sinhala, Tamil and English mediums. Recognising the growing importance of the Chinese market, we will soon extend it to Mandarin.

Through the Contact Centre, worldwide customers and FlySmiLes members have a one stop touch point to access numerous services, including new reservations, automated date changes and ancillary services. Other services offered include 24X7 call and email handling, connectivity with online destinations, payment options, special FlySmiLes services and social media monitoring.

REVIEW OF KEY BUSINESS UNITS

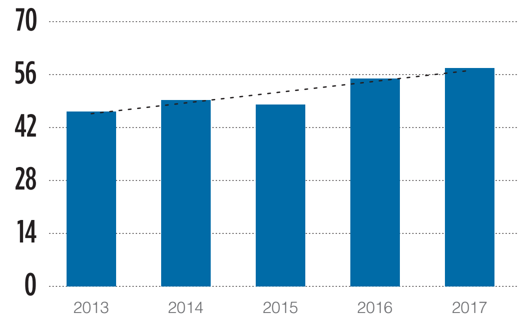
SRILANKAN AIRPORT AND GROUND SERVICES

Performance

SriLankan Airport and Ground Services (A and GS) moved full throttle to mark a successful year of operations in 2016/17.

Number of Flights Handled at BIA

Nos. '000

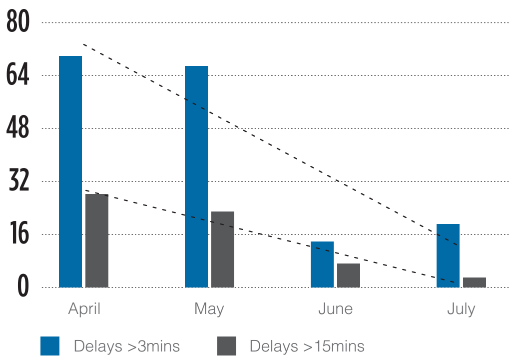


We recorded a revenue of USD 91.5 Mn., which is a 11% increase compared to financial year 2015/16. A and GS Division made a significant contribution to the bottom line mainly driven by the increased number of customer-airlines handled. Such an achievement speaks volumes of the efficiencies brought in especially when faced with the additional challenge of a three-month runway closure during the period under consideration.

The total number of passengers handled was 9.3 million during the year which was a 5% increase against the previous year. Total number of cargo handled during the year was 242 Mn. Kgs, a 12% increase compared to the previous year.

SriLankan Flight Delays due to Airport and Ground Service April – July 2016

Nos.

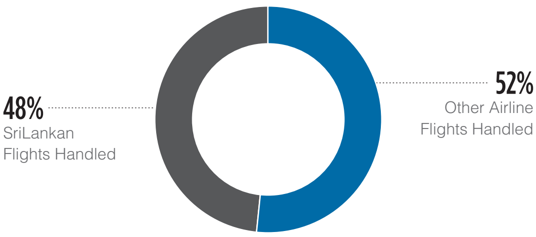


Passengers Handled – 2016/17

We take pride that SriLankan Airlines have forged ahead in terms of On Time Performance (OTP) having been rated amongst the most punctual airlines in the world as well as becoming the leader of the **one**world alliance in the fourth quarter.

In the financial year, we signed new contracts with airlines, expanded existing relationships and continued to satisfy our customers to the fullest. The new tagline – Safety, Precision and Service, commits us towards delivering the best quality in service and a 100% safe environment to customers.

Flights Handled – 2016/17



Runway Closure

Airport and Ground Services won great plaudit for the professionalism and efficiency with which, passengers, their baggage and general cargo were cared for under a hugely congested working environment during the period of runway closure. The team through precision planning took up the challenge in their stride by introducing ad hoc counters, effective queuing, increasing check-in times, deploying staff on special rosters and excellent liaison with sister organisations.

Improvements

The key focus being on training; Airport Service Staff were put through exercises using newly introduced interactive learning modules. The Serendib Lounge layout was changed to accommodate more passengers which is 137 passengers at a given time. The introduction of incentives tied to productivity has seen better staff attendance whilst improvements to rest rooms and other welfare facilities has created a better working environment. Amalgamation of all Mihin Lanka operated routes to SriLankan took place smoothly. Overseas Ground Handling Contract negotiations were driven vigorously bringing in huge savings in network operations. Capital investment on much needed Ground Support Equipment took place enhancing capability and improving service levels.

Future Developments

SriLankan Airport and Ground Services predicts a future with increases in flight frequencies during the next financial year. We also anticipate continued business growth in both below-the-wing and above-the-wing operations. Capital investments on new Ground Support Equipment (GSE), competency training for Airport Service Staff and re-engineering of processes shall take prime place of focus.

Further, the outlook of our cargo handling business is expected to increase with a growing volume of cargo. A factor contributing to this increase would be the removal of break bulk charge upon delivery, which will result in increase in volumes handled whilst facilitating savings to the customers. Negotiations are in progress to provide services to major agents through SriLankan warehouse and facilitate future industry growth. Further, with the existing cargo terminal capacity reaching an optimum level, SriLankan Cargo is in negotiations with Airport and Aviation Services (Sri Lanka) Limited for a new facility of 11,000 sq. mt. that will increase warehouse capacity and service efficiency.

Achievements

The management takes pride in proving compliance with regulatory standards of International Aviation Bodies such as IATA Ground Handling Council as well as winning plaudit for service excellence during stringent audits conducted against IATA Safety Audit for Ground Operations (ISAGO) and IATA Operational Safety Audit (IOSA) Certification in December 2016.

Team Airport and Ground Services stand a proud outfit committed to soar towards greater heights in service excellence.

SRILANKAN CATERING

Performance

SriLankan Catering Limited (SLC), a fully-owned Subsidiary of the Airline and the sole provider of inflight catering at the BIA saw a significant growth in performance during the year under review. The Company's revenue growth was mainly driven by increase in number of meals served in 'inflight catering' and increased turnover in Airport Restaurant. In total, inflight catering provided 6.27 Mn. (2015/16 – 5.90 Mn.) meals for the year.

SLC recorded another successful year, and made a very significant contribution to the bottom line of SriLankan Airlines. The Company's performance and profitability over the last ten years has given a clear indication of its strengths and potential. The Company has proved its ability to deliver an attractive return to its shareholder, even in the midst of adverse circumstances.

The Company also manages and operates airport restaurants cum lounges for transit passengers at the Bandaranaike International Airport (BIA) and Mattala Rajapaksa International Airport (MRIA).

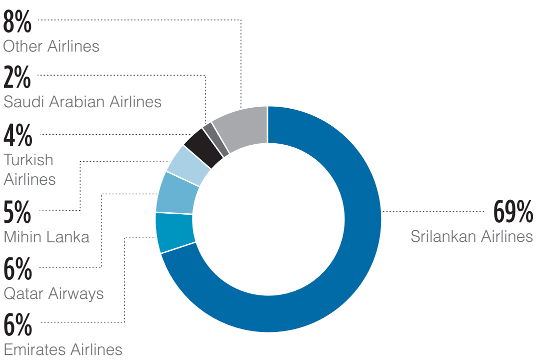
Revenue

During the year under review, the Company's revenue increased by 15% to LKR 7.22 Bn. (2015/16 – LKR 6.28 Bn.) with the contribution coming primarily from inflight catering and BIA Restaurant operations.

Inflight catering accounted for nearly 77% of the Company's turnover. The reported revenue of LKR 5.53 Bn. (2015/16 – LKR 4.97 Bn.) from inflight catering, notched a growth of 11% over the previous year. The main reason for the growth in revenue from inflight kitchen was the increase in the number of meals served during the period. Number of meals served in 2016/17 was 6.27 Mn. (2015/16 – 5.90 Mn.), which is nearly 6% over the previous year. The main customer was SriLankan Airlines, which bought nearly 70% (2015/16 – 70%) of the total meal production of the year. During the year, number of meals bought by SriLankan Airlines increased by 6% compared to the FY 2015/16. SriLankan Airlines contributed 48% (2015/16 – 56%) of the total revenue earned during the year.

Moreover, during the year, the Company catered to five new airlines namely Thomson Airways, KLM Royal Dutch Airlines, Himalaya Airlines, Royal Jet and Etihad Airways.

Meals Composition 2016/17 %



The contribution from Airport Restaurant at BIA was 15% (2015/16 – 14%) of the total revenue. Turnover from Airport Restaurant increased remarkably by 27% to LKR 1,104 Mn. (2015/16 – LKR 868 Mn.).

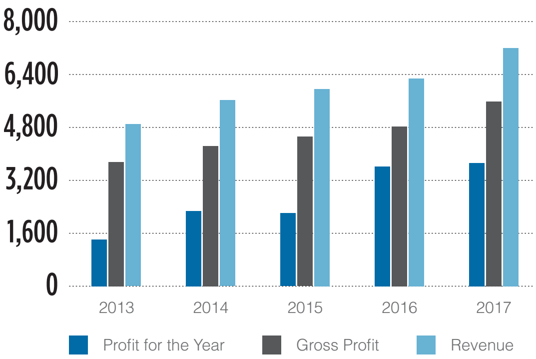
Operational Expenses

Total operational cost for the year 2016/17 was LKR 2.59 Bn. This is an increase of nearly 7% when compared to the previous year (2015/16 – LKR 2.42 Bn).

Profitability

The Company's net profit after taxation (PAT) was LKR 3.74 Bn. (2015/16 – LKR 3.64 Bn.) which is an increase of nearly 3% compared to the previous year. Exchange gain reported for the year was LKR 0.83 Bn. (2015/16 – LKR 1.39 Bn.). Accordingly, the net profit (excluding the exchange gain) earned for the year was LKR 2.91 Bn. (2015/16 – LKR 2.24 Bn.) which is an increase of nearly 29% compared to the previous year.

Revenue Vs Profitability LKR Mn.



Improvements

SLC is in the process of increasing its capacity in order to take advantage of the growth potential, which is being generated by rapid expansion of air travel in the Asian Region. SLC has invested approximately LKR 20 Mn. to expand inflight facilities to its customer airlines during the year under review. At present, SLC produces on average of 17,000 meals per day and has the capacity to produce 25,000 meals per day by fully, utilising its existing facilities. With the expansion in services, SLC looks forward to utilising the capacity in the coming year.

In order to enhance the accounting, financial reporting and internal control systems of the SLC, the Company successfully implemented Oracle EBS finance system in January 2017 which is an important milestone achieved by SLC. The new system is expected to yield significant benefits in cost control.

During the year, SLC has been able to increase its customer base by another three airlines namely; Himalaya Airlines, KLM and Thomson Airways. The demand for inflight catering is expected to increase further, both through new airlines operating to BIA as well as increasing frequencies of existing airlines. Currently, SLC is negotiating for catering services with three airlines, namely; Silk Air, Singapore Airlines and Air China, which will be operating through BIA next year.

Achievements

SriLankan Catering has, through its history, distinguished itself by winning many prestigious awards. During the year under review, SriLankan Catering was awarded for 'Excellent Ontime Performance in 2016' by Malaysia Airlines Berhad which is also a significant landmark event in our history.

Future Developments

SLC has drawn up plans to modernise its Airport Restaurant located at BIA and increase its capacity to cater to the increasing demand at a cost of LKR 75 Mn. approximately. The hygienic and food safety standards at the airport are in the process of being improved. Security is a major concern today in the aviation industry. SLC has also invested approximately LKR 150 Mn. in a project to enhance security at SLC in order to address these concerns and to meet the ICAO security standards. This will bring SLC on a par with international standards of security requirements of the aviation industry of inflight catering. Another venture that is in the pipeline is construction building of a training and a welfare facility for the outsourced staff. Total cost of the project is estimated to be LKR 41 Mn. The completion of this project will enhance the quality of life, work-life balance and job satisfaction of the staff and outsourced employees working at the SLC premises. This facility will also be a profit centre by attracting prospective productive employees for training.

SRILANKAN CARGO

SriLankan Cargo achieved a revenue of USD 81.5 Mn. in the financial year 2016/17, accounting for 10% of the total SriLankan Airline's Traffic Revenue. This was a significant achievement considering that it was notwithstanding the loss of route capacity on the historically key cargo hubs, Paris, Frankfurt and Rome. The Airline recorded a total carriage of 116,221 metric tonnes for the financial year, an 13.85% increase over the financial year 2015/16, achieved despite the global overcapacity in several key SriLankan Cargo markets and through strategic cargo initiatives.

The Colombo base station, which accounted for 26% of the revenue achieved in the financial year, reported a 3% increase in volumes, in the face of increased competition in the region. China, accounting for 25% of the cargo revenue saw a 28% increase in volumes handled, achieved mainly through maximisation of the allocated A330-300 capacities on the routes. Other Indian Subcontinent, Other Far East, Europe and Middle East stations accounted for 24%, 9%, 8% and 5% of cargo revenue achieved respectively.

Cargo operations achieved the highest tonnage handled to date of 242,000 metric tons, maintaining a 99.95% handling reliability throughout the financial year. Total revenue contribution from cargo operation amounted to USD 29 Mn. Keeping in line with the need to improve efficiency by digital improvisation in the cargo industry, the cargo operations moved to encourage e-AWB movements. This has resulted in a 70% penetration in the Colombo market.

SriLankan Cargo was not able to avoid the impact of the loss caused by the discontinuation of European routes during the period. However, the Division was able to maximise the revenue potential with the existing network through mitigating capacity restraints, inclusive of charter operations in the regional sectors through a third-party freighter operation on an ACMI (Aircraft, Crew, Maintenance, Insurance) basis. The operations were mainly focused on driving sales through the low freight factor Middle Eastern Sectors with a high demand into the Indian Subcontinent. In addition, the capacity constraints on the UL network in the region were mitigated by high demand from the key Indian Subcontinent points Bangalore, Mumbai and Dhaka. Due to the high demand, special freighter operations were also planned into Male during the peak seasons. Special Prorated Agreements (SPAs) with partner carriers continued to play a key role in facilitating additional capacity on key high demand sectors such as China and Hong Kong and thereby enhanced the overall cargo network reach for customers.

SriLankan Cargo was also able to capitalise on the significant boom in the e-commerce from China and Europe, which accounted for the total P.O. Mail revenue contribution to the Airline of USD 1.4 Mn. Further, key initiatives are being mounted to enhance this segment in the coming financial year.

Allocating our capacity throughout the network in relation to cargo demand will continue to be a challenge for the Cargo Division. However, the team is poised to rise to the challenge of capitalising on the foreseeable upward demand trend in the air freight industry through the support of key strategic initiatives targeted at enhancing the revenue contribution to the Airline in the coming financial year.

SRILANKAN ENGINEERING

SriLankan Engineering – the Engineering and Maintenance Division of SriLankan Airlines – is a CAASL and EASA Part 145 approved aircraft maintenance organisation providing line and base maintenance services for both SriLankan Airlines and third-party customers. SriLankan Engineering also holds approvals from numerous national aviation authorities including India, Pakistan, Qatar, UAE and most recently the Peoples' Republic of China. In addition to its main base in Katunayake, SriLankan Engineering operates two satellite line stations in Maldives and Chennai, India.

During the year under review, two new Airbus A320neo aircraft were inducted into the fleet in keeping with the Airline's new strategic focus on regional expansion. A lucrative wet lease agreement with Pakistan International Airlines was successfully completed with SriLankan Engineering personnel providing comprehensive on-site maintenance support for the Airbus A330-300 aircraft in both Lahore and Islamabad. Following the successful completion of type training for its engineers, during the year under review, SriLankan Engineering commenced line certification of Boeing 737 aircraft in Colombo and Male. Plans are also underway to establish new line stations in Dhaka, Bangladesh and Gan Island, Maldives.

SriLankan Engineering provides maintenance services for third-party customers, though this has unfortunately been constrained by hangar capacity limitations. While over 40 'C' checks were performed in 2016 for the Indian low cost carrier IndiGo, a request for a 100% increase in the number of slots could not be accommodated. Similarly, requests from Jet Airways, Flynas and Air Blue had to be turned down due to capacity limitations. However, to capitalise on the demand and exploit the opportunities, approval is currently being sought for the construction of a new state-of-the-art 3-bay Hangar in Katunayake.

SriLankan Engineering keeps itself on the forefront of industry trends and incorporates current best practices. Accordingly, changes are being made both in the maintenance organisation structure and the management structure for continuous improvements.

Accordingly, the unit is currently in the process of transitioning into a Maintenance, Repair and Overhaul (MRO) model with dedicated production lines to carry out parallel maintenance checks. Accordingly, base maintenance now comprises one 'A' check line and three 'C' Check lines capable of carrying out checks up to 4C/6Y. Similarly, line maintenance is being restructured with teams functioning as five separate production lines with one being dedicated to third-party transit checks. The management structure has also been revised in order to optimise the use of available expertise.

SRILANKAN AVIATION COLLEGE

SriLankan Aviation College (SLAC), inaugurated in December 2014, caters to the training needs of SriLankan Airlines while also providing training for other institutes/individuals. It has two training arms; the International Aviation College (IAA) and SriLankan Technical Training (STT). Building on exemplary aviation training experiences, SLAC has achieved a very laudable performance considering the short span of time it has been in existence.

The contribution that the College is making is not limited to SriLankan Airlines; it is also making its mark felt in the Travel and Tourism industry throughout the Asia Pacific region.

SLAC's training portfolio consists of programmes in many different specialised fields in the air transport industry. These fields are categorised under the seven faculties.

Among the accolades that SriLankan Aviation College (SLAC) has received are accreditation by the International Air Transport Association (IATA), European Aviation Safety Agency (EASA) and the TRAINAIR PLUS Programme of the International Civil Aviation Organisation (ICAO). Only a few aviation training institutes globally have such recognition. SLAC is also approved by the Civil Aviation Authorities of Sri Lanka, Nepal, Pakistan and the Maldives Islands.

SLAC is amongst only a dozen training organisations worldwide and the first in Sri Lanka to obtain ISO 29990:2010 certification for learning services for non-formal education and training. The College is also accredited with IATA as being one of the elite group of twenty-five Regional Training Partners in the world having the sole authority to conduct internationally recognised high demand IATA courses in Sri Lanka. Another milestone that should be reached shortly is to affiliate the academy with highly ranked universities from the UK and Australia to offer BSc in Aircraft Maintenance and BSc in Aviation Management. Discussions for this are presently underway.

Another innovation by SLAC is the introduction of the Airbus Competency Trainer suite (ACT) which is the latest tool introduced by Airbus to deliver aircraft maintenance type courses. With the installation of the ACT trainer SLAC has the ability to deliver state-of-the-art Airbus A330/A320 and A320neo type courses for engineering personel. The Technical Training Division of the Academy is in the process of venturing to use a non-airworthy pressurised jet aircraft to provide more hands on experience to the students of the aircraft maintenance and engineering stream.

Further expansion of the training facility at Katunayake was carried out in order to facilitate the increased demand in aviation. The expanded facility is now in operation.

Another new field that SLAC will be entering is providing proficiency in language and communication to corporate clients through its new Faculty of Languages. These training programmes offer students the opportunity to study in a learner-friendly industry-based environment. SLAC also offers a mobile-learning platform for distance learners. The College has built a strong corporate client base that ranges from overseas airlines, other stakeholders in the overseas airline industry, local aviation stakeholders and other industries., In the process, we work closely with the client, identify their requirements and deliver a value added service.

SriLankan Aviation College strives to have a broad social and environmental impact beyond the confines of the aviation industry. Among the events it organises and sponsors are career guidance sessions, and workshops related to aviation education in SriLankan schools and universities across the country, through these activities we seek to open the eyes of youngsters to the opportunities afforded by a career in the global aviation and hospitality industries.

Under the guidance of the College hundreds of schools throughout the country have launched aviation clubs which have spread awareness of the industry among schoolchildren. SLAC organised the first ever Inter School Aviation Quiz Competition in Sri Lanka, inviting 21 prestigious schools in Colombo District. The programme is to be expanded to other districts and also taken to the national level.

The college produces around 500 graduates, both local and international annually. The diversity of the student population of the academy is demonstrated by the fact that currently there are over 120 overseas students representing Maldives, India, Pakistan, Oman, Nepal, Bangladesh and the UAE.

INFORMATION TECHNOLOGY

Our strategy at SriLankan Airlines has been to align our technology vision with our goals for improving the Airline's business and operations. In the process, we seek to delight our customers with seamless travel experience and personalisation while adding value to our other business services. Information Technology enriches the futuristic aim to leverage the ongoing and fast-changing digital transformation to achieve a competitive edge in the airline industry. The Information Technology Division – branded as 'SriLankan IT Systems' strives to deliver the latest technological solution to the business by understanding the ever-evolving requirements and thus serving its customers through delivering more value to it.

This financial year, SriLankan Airlines Information Technology showcased a high set of critical outcomes that made a game-changing impact to the sustainability and growth of the Airline.

Enhancing Passenger and Crew Connectivity

We utilise the potential of mobile and information technology to the fullest to provide connectivity and information access to our customers and staff. While on-board our connected aircraft, passengers can now conveniently obtain real time information of their arrival and onward travel details at the touch of their fingertips via on air Wi-Fi and also through the In-Flight Entertainment (IFE) System. They can now avail themselves of seamless credit and debit card transactions for on-board real-time purchases with secured credit card transactions.

Similarly, Air to Ground connectivity with Ground Service Units such as Airline Operational Control Centre, Maintenance Control Centre, Catering, Crew Scheduling and Inflight Services is provided to flight cabin crew using Wi-Fi and data (3G) in our connected aircraft.

Improving Online Presence with Higher Passenger Reach

SriLankan Airlines Corporate website is now modernised and improved with 11 languages enabling an extended reach around the globe. A further step, a complementary mobile-friendly site (m.srilankan.com) was introduced as a lite site to the corporate website; this allows passengers to connect easily and seamlessly from mobile devices. The SriLankan Mobile App has been further modernised to be more user-friendly including online bidding and adorned with more options combined with FlysmiLes loyalty programme. During this year, the passenger reach in the online sphere has improved noticeably leveraging the potential of information technology.

Keeping the Business Aligned with Systematic Budgetary Controls

SriLankan introduced streamlined financial management and enhanced budgetary controls through its Enterprise Resource Planning (ERP) System. This enforces strict budgetary constraints on business departments and facilitates efficient planning and consumption of budgetary allocations.

We also implemented a budget planning system inclusive of budget reviewing, and budget tracking with several expected new functionalities which has saved considerable amount of time and cost with improved operations.

Implementation of Learning Management System (LMS)

SriLankan Airlines introduced a Learning Management System (LMS) to smoothly and efficiently manage student administration functions in the Airline training wing (SriLankan Aviation College – SLAC). Student enrollment through the SLAC website and the proceeding administrative processes are now automated with advanced technology. The system has improved the learning management operations with higher visibility, control and administration and will be upgraded to include payments with the Internet Payment Gateway (IPG) facility.

Service Management Excellence

SriLankan Airlines Information Technology was awarded one of the most highly recognised Service Management Standard 'ISO/IEC 20000-1:2011 Certification' for excellence in IT service management in January 2017 from APMG International. It certifies a set of management processes that outlines the IT service framework, policy, process and workflow to ensure the effective delivery of outstanding IT services to the business and customers.

SriLankan IT Systems is also certified for ISO/IEC 27001:2013 for Information Security Management System and ISO 9001:2008 for Quality Management Systems in Software Engineering.

Future Digitisation

SriLankan IT strives to drive innovation and transformation while integrating Information and Communication Technology (ICT) throughout the Airline. A new Management Information System (MIS) is underway during the upcoming financial year, consisting of a Self-Service Business Intelligence (BI) platform integrated with Mobile dashboards and Predictive Analytics. SriLankan IT systems intends to transform the Airline's journey through innovation and cost reduction through this MIS solution. Furthermore, SriLankan IT systems aims to drive SriLankan Airlines to the next digital revolution and mitigate the impact of potential digital disruptions by continuously enhancing business processes through latest and upcoming digital trends such as robotic automated solutions, beacons and Internet of Things (IoT) to meet anticipated passenger demand and planned induction of connected aircraft to Airline's fleet.

EMPLOYEES

Our operations require extremely varied talents and capabilities with diverse skill sets. Our HR function has the task of blending these diverse skills and talents so that they will align with corporate strategies and work in unison towards the goals of the Organisation. Our staff needs to be trained and motivated to fulfil their duties. We also need to act proactively to groom them to be ready for whatever roles they may have to play in the future.

OUR HR STRATEGY

During the year under review, SriLankan Human Resources Function was realigned to cater to the needs of the Company in the context of overall strategy and the operating environment; the challenge is to drive the Company towards the state of profitability within the constraints of competition, market volatility and limited resources. Employees need to be motivated to be more innovative and creative. We also need to impart the necessary skills and capabilities to maximise productivity. The roadmap the HR Department has adopted to achieve its goals is harmony, innovation, productivity, engagement and resourcing (HIPER).

The division focused on four main areas of strategic importance for business continuity.

1. Business Partnering Service

In the present backdrop, HR function cannot be a passive service function, merely playing a recruitment and record keeping role. It needs to evolve into a dynamic player, playing a vital part in strategy formulation and implementation. To fulfil this need, the HR structure was modified with the HR Department, playing a business partnering role with a specialised focus on different business units. Business partners were assigned to each department to play a facilitatory role across the entire gamut of HR related functions; communication, employee engagement, redefining job roles and key result areas, identifying training and development needs, identifying cadre requirements and driving performance appraisals.

2. The Other Key Initiative was to Inculcate a Culture for Greater Engagement and Commitment to Enhance Productivity

Employee Communication

Since we consider employee commitment towards the Organisation's strategic goals, operational policies and activities to be paramount, two-way communication became of vital importance. Interactive sessions were held to obtain the necessary buy-in; constructive feedback from the staff was welcome. In an environment where 95% of the staff is unionised, harmony and industrial peace are indispensable.

In addition, 'Town Hall meetings' were conducted with the Chief Executive Officer on a regular basis to give the employees an opportunity for direct interaction with a member of the top management. The staff too had an opportunity to present their views on high level strategic matters.

Introduction of SriLankan Varna – Employee Recognition Programme

Any organisation has a group of high achievers whom it needs to retain, nurture and motivate. They are those who may have the potential to take up leadership positions in the future. We need to give them the necessary support and recognition so that they may realise their potential and continue to blossom. SriLankan Varna created a framework recognising outstanding contributors and motivating them so that the Company may reap the fruits of their talents.

3. The Third Thrust was Towards Development of a Leadership Pipeline to Groom Future Leaders of the Organisation

Potential successors to senior and mid-level positions have been identified and are undergoing competency and leadership development training. The training endeavours to build up the blend of hard and soft skills that such positions will need. These trainees are being targeted at positions both at strategic and tactical levels. Under a 'Future Leaders Programme' twenty management trainees, young graduates and professionals, were recruited into the track to take up management positions in the future; the relevant vacancies are anticipated due to attritions and retirements. However, the broad training the trainees received will enable them to fit into a variety of roles and areas.

4. The Fourth Key Initiative was to Focus on Capability Building and Nurturing of Talent

We at HR are strong believers in the notion that "To develop business, we must first develop our people". We believe that each and every employee is unique and possesses a diverse set of skills. Therefore, we have placed a strong emphasis on developing and harnessing the human talent that resides within the Organisation and derive the maximum benefit.

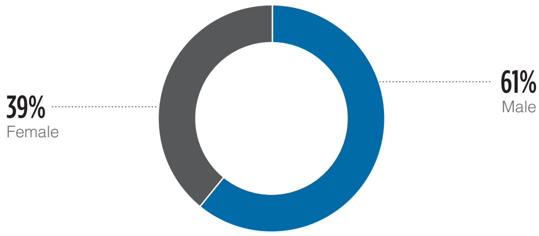
RECRUITMENT AND RETENTION

The challenge is attracting the right talent and retaining them, especially because of the salary masters such as the Middle Eastern Carriers, which offer impressive rewards and also other industry avenues that seek millennials.

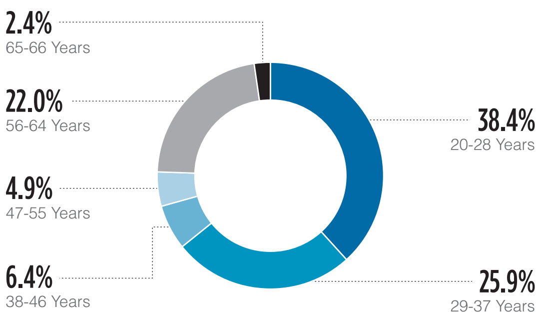
We have three incitements that would do us justice:

- We have set up talent pipelines from State Universities through means of internships and also through career fair mediums.
- We nurture talent through our very own Aviation College which offers entry level school leavers the prospects to enter the Aviation Industry.
- We identify the high potentials/high performers, develop succession pools and take them through a leadership development and mentoring to create a long-term process for managing the talent roster across the Organisations. They are natural allies because they resonate with a vital and fundamental goal: getting the right skills in the right place and creating future leaders. Going a step further, we have also taken a new batch of management trainees so as to create a reliable pipeline of leadership talent.
- Staff strength as at 31st March 2017 – 7,021.

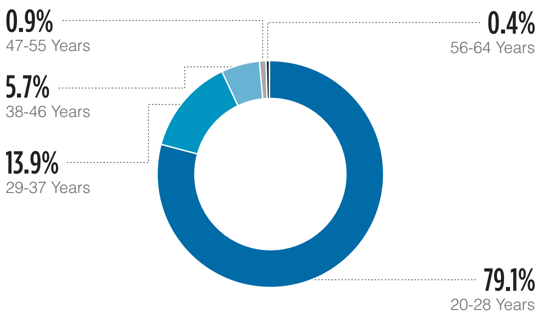
Exits – Gender Analysis %



Staff Exits – Age Analysis %



Recruitment – Age Analysis %



TRAINING AND DEVELOPMENT

In order to develop and harness the human talent several Learning and Development initiations have been taken.

- Management skill development programmes affiliated with leading universities such as the Postgraduate Institute of Management and University of Colombo. Leadership and management is fundamental to the delivery of aspects of our strategy. The aim of the HR Strategy is to develop high quality leadership at all levels of the Organisation. It focuses on identifying and developing leaders for middle and senior management roles, as similar to the succession planning process. With the view of filtering down employee development to all levels of employees within the Organisation and ensuring development of capability in all such levels, an employee performance development programme was created together with a State University (University of Colombo) for the Executives and Managers and for the Officer and Supervisory level staff at the 'National Institute of Business Management' which is affiliated with the University of Dublin.
- Initiation of cross functional training to better understand the business. We want to make our high potentials versatile in all areas. Therefore the identified staff are sent for cross-functional training in other departments to get a deeper understanding of the overall business. This will enable us with a readymade pool which is conversant in all areas of the business.
- Management Trainee Programme concluded after a year of extensive training, which was multifaceted. This was done through means of classroom training, which furnished the trainees with in-depth knowledge on the Aviation Industry, including an IATA examination and the Harvard Manage Mentor Certification. The second stage consisted of cross-functional training and the trainees were divided into groups of four, each mentored by a member of the Senior Management Team. Special Leadership Skills Development programme and an outbound training were also part of the overall training process, where a series of Workshops, Business Simulations and Business Forums were conducted. Each of which, aimed at developing essential soft skills, keen understanding of real business situations, essential tools in management and leadership were offered.

BENEFITS AND REWARDS

The Organisation has defined salary bands for each grade, which provides the basis of the compensation structure. A key principle of our new compensation policy is tied up with performance. The performance related portion of increments has been gradually increased and at present pay for performance is a fully fledged concept across all levels of employees. The business strategy goals are aligned, using a top down process, to the individuals. The rewards are categorised based on performance ranking. The high performers will get a higher percentage in their annual increment and productivity pay, which will motivate them to perform more and at the same time will encourage others to improve their performance.

Team collaboration and cost control is taken into account in terms of distribution of increment budgeted and allocated for each team. Where team contribution is significant and is reflected in performance levels, distribution of increment allocated is moderated at team level without a moderation of ranking. The market focus is maintained by conducting salary surveys through specialists.

OCCUPATIONAL HEALTH AND SAFETY

SriLankan Airlines places special emphasis on and believes it is of paramount importance that its employees work in a safe and healthy environment.

In order to meet all legal and regulatory requirements, an occupational health and safety policy has been formulated.

The belief being, that with such a policy, all levels of employees are brought together, working towards one common goal, 'a safe workplace'.

This ensures a healthy productive workforce, which drives the Company forward and staff performing at the highest levels.

Recognising knowledge as a basic ingredient in cultivating best practices, staff are subjected to frequent awareness programmes, ranging from communicable to non-communicable diseases.

To facilitate early detection of non-communicable disease such as cardio vascular disease, diabetes, cancer, etc. regular medical testing is carried out.

Frequent Open Day programmes are conducted by the Group Medical Officer, together with a multitude of consultants from other disciplines, so that the staff are encouraged and educated on the dos and don'ts and the importance of healthy living.

EMPLOYEE GRIEVANCE HANDLING

Employee grievance handling is accounted for in the grievance and dispute handling procedure. A structured grievance system is in place to ensure a fair and equitable treatment to our employees and deal with their complaints in the workplace and resolve problems. Open Days are scheduled on the last Friday of each month, so as to address any employees' grievances.

Another avenue is through the appointed Business partners, staff can also bring their concerns to light. A Special policy against harassment is also in place so as to keep the work environment free of any form of harassment. This protects employees against hostile, offensive, intimidating, humiliating or inappropriate activity or practice that constitutes harassment. We seek to prevent employees from resorting to harassment of other staff or any other individuals. And lastly, we aspire to create a conducive work environment through the elimination of harassment and the strong enforcement of this policy.

REWARDS ALONG THE WAY – 2016/17

SriLankan's Human Resource best practices were recognised by the following accolades.

- National Human Capital Management Awards 2016 – Overall Silver Award
- National Human Capital Management Awards 2016 – Special Category award for Best Employee Engagement Initiatives
- Best HR Strategy, in line with business strategy at the 7th Asia's Best Employer Brand Awards 2016, Singapore
- 'Training Excellence' at the 7th Asia's Best Employer Brand Awards 2016, Singapore
- Community Development Award, South Asian Business Excellence Awards 2016
- 'Best Employer Brand Awards', South Asian Business Excellence Awards 2016

COMMUNITY

OUR COMMITMENT TO SOCIETY

SriLankan Airlines manifests the traditional Sri Lankan values of charity, caring and generosity. We have taken a pioneering step in setting up SriLankan Cares, the charitable arm of the Company. We are the first private sector commercial company to set up a specialised institution for its charitable activities. The staff have also been drawn into the CSR activities to give them the satisfaction of also making a social contribution.

We believe that any social responsibility programme has to be targeted at specific groups and types of activities, if it is to be effective. After a study of possible priority areas, we identified health, education and youth development as areas we should focus on. SriLankan Cares also promotes awareness raising about the needy children of the country.

Some of the key projects spearheaded in 2016/17 financial year are described below:

Village Heartbeat Project

Our signature project has been the Village Heartbeat Project (VHP) we are executing in a long-term partnership with the Foundation of Goodness. This project aims to change the lives of people from poorer communities in Oddusuddan and Mullaitivu in the Northern Province. The focus of VHP is to uplift people at the grassroots level through educational skills training and empowerment programmes. The facilities we are providing include a Community Centre, Computer Centre and a well equipped library.

Courses that were provided free of charge included English, Computer Training, Mathematics and year five scholarship classes. To bridge gender disparities in society, womens' enterprise courses and womens' empowerment programmes were also introduced. Giving consideration to the necessity for mental well being, spiritual training is also provided.

Health and Disaster Relief Projects

The chronic kidney disease, especially in the North and the North Central Province, has become a national issue. We have made our contribution to alleviating this problem by donating Reverse Osmosis Drinking Water Filtration Systems to rural communities. Four filtration plants were installed in Point Pedro, Medawachchiya and at Kebithigollewa.

Another major health related CSR measure we took was to assist 15 low income patients to undergo surgeries, which could not be performed in Sri Lanka. The patients and a guardian were provided with free air passage.

Flood and landslide victims in the Western and the Sabaragamuwa Provinces were also assisted by provision of relief supplies such as drinking water, dry/precooked food items, clothes and medicine. We were also able to assist some of the victims to rebuild their houses and resettle them with the assistance of the staff.

In recognition of our efforts at developing and enhancing the child education and healthcare across the country, SriLankan Cares, was awarded with the prestigious Community Development Award for impactful CSR projects at South Asian Partnership Summit and Business Excellence Awards 2016.

Educational Familiarisation Tours

We believe that children should be educated on aviation and given an exposure to airline functions at a young age. Five airline familiarisation tours were conducted for rural school children.

CSR Projects with Cabin Crew and Trainees

In line with our policy of involving our cabin crew in our CSR projects, they (and trainees) were involved in six projects involving caring for the children, elderly and the differently abled. This exposure will stand them in good stead in carrying out their duties.

ENVIRONMENT

Airlines are undeniably a contributor to global warming and as a socially conscious organisation, we consider it our responsibility to alleviate the damage. We endeavour, both in our airline operations and by way of our other CSR projects, to contribute to preserving a liveable planet.

OUR COMMITMENT TO PRESERVE THE 'GREEN-NESS' OF OUR PLANET

SriLankan Airlines has gained a worldwide reputation as a pioneer of conservation in the global air transport industry. We embarked on this road by being the first Airline in Asia to introduce the concept of 'Planet Friendly Flights' back in 2009. The International Air Transport Association (IATA) has often highlighted SriLankan Airlines as being among the world's most conservation minded airlines. Reaffirming that statement, the Airline achieved another milestone by becoming one of the six airlines worldwide to obtain the prestigious Quality Assurance Standard (QAS) accreditation for its Voluntary Carbon Offset Programme, 'flygreen'. It has also been recognised as the second lowest carbon emitter airline in the Asia Pacific region by 'Business Traveller' magazine in 2016 and has proven its conservation minded efforts, quality and transparency by getting accredited by QAS.

QAS (www.qascarbonneutral.com) is an accreditation that is awarded, following a comprehensive independent audit system for companies who wish to evaluate their carbon offsets against a globally accepted standard. QAS audits evaluate companies' carbon offsetting against a 40-point checklist. SriLankan is also now authorised to display the QAS Carbon Neutral Quality Mark, demonstrating that it is using the global best practices for carbon offsetting.

The efforts that SriLankan Airlines has taken to safeguard the environment were recognised when the prestigious Business Traveller magazine ranked it as having the second lowest carbon footprint among airlines in the Asia and Asia-Pacific regions.

Ajith N. Dias, SriLankan Airlines' Chairman, said: 'SriLankan Airlines takes great pride in being among the best corporate citizens in our country, in both state and private sectors, especially when it comes to sustainable practices with regard to our community, our customers and our employees'.

We also contribute to environmental protection by way of education and spreading the message. Many such activities were conducted during the year for staff and school children. Some of the programmes conducted are:

Earth Hour to emphasise the benefits of energy savings, Environment Day, focusing on protecting wildlife and putting a stop to the illegal wildlife trade, many onsite training to school children on various environmental subjects and also volunteer work with other partners.

Also reaching a broader audience, SriLankan Environment shares its experiences with national and international forums such as ENCOM (Environment Committee) by IATA, 'Foresight & Innovation' by UNDP, Aviation stakeholder working group by Civil Aviation Authority of Sri Lanka and also AirMac committee by the Ministry of Environment.

All of these efforts are targeted to reach, inspire and guide many as possible towards responsibly living an environmentally savvy life and developing business practices that will benefit the future generations.

CONTRIBUTING TO PROTECT WILDLIFE

The diversity of wildlife is a heritage that nature has bestowed on us and if it is lost, it cannot be regained. Preservation of wildlife is another social responsibility area where SriLankan Airlines is making its mark.

The 'Unite for Wildlife' initiative was created by the Royal Foundation of The Duke and Duchess of Cambridge and Prince Harry of the UK, bringing together seven leading wildlife charities to create a global movement for change in wildlife conservation particularly to protect critically endangered species. 'Unite for Wildlife' is amounting a global effort to clamp down on the illegal trade in wild animals that has threatened many rare species with extinction. Airlines have a part to play in this effort as the airline network is being used by criminal elements to smuggle animals. Together with several of its peer airlines, SriLankan pledged its support to end this criminal activity, at the annual general meeting of the International Air Transport Association (IATA) on 2nd June in Dublin, Ireland.

INNOVATING TO DRIVE ENERGY SAVING PROJECTS

Our staff and business units have also made their creative contributions to environmental conservation. An example was the solar powered motor bike developed by the Team of the Properties and Facilities Department. The bike is run by a recycled battery to be charged using solar energy. This is a pioneering invention in Sri Lanka, which combines renewable energy with recycling techniques to achieve zero carbon emission. The usability of the bike has been tested by being used for internal travel purposes. It is capable of running 60-70km each charge. The cost of about LKR 60,000 was funded entirely by the electrical team. This achievement demonstrates the extent to which the Airline has succeeded in inculcating environmental consciousness into the staff.

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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 2017.

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 aircraft maintenance, provision of flight operation services and conducting aviation-related training 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 AUDITORS' REPORT

The complete Financial Statements duly signed by the Group Chief Financial and Administrative Officer and the Directors and the Auditors' Report thereon for the year ended 31st March 2017 are attached to this Report.

ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 63 to 73.

GROUP TURNOVER

The turnover of the Group amounted to LKR 138,563 Mn. (2015/16 – LKR 132,198 Mn). A detailed analysis of Group turnover is given in Note 20 to the Financial Statements.

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

RESULTS

The Group's net loss for the year after taxation is LKR 28,340 Mn. (2015/16 – LKR 12,084 Mn.). During the year the Group incurred a cost of LKR 14,363 Mn. (2015/16 – LKR 2,562 Mn., as compensation for the cancellation of lease agreements for three A350-900 aircraft. Therefore the Group Loss before compensation for the cancellation and taxation amounts to LKR 13,951 Mn. (2015/16 – LKR 9,525 Mn).

The Statement of Profit or Loss for the year is given on page 59.

GROUP INVESTMENT

Group capital expenditure during the year on property, plant and equipment amounted to LKR 1,094 Mn. (2015/16 – LKR 1,040 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 9,834 Mn. (2015/16 – LKR 10,753 Mn.). Details of property, plant and equipment and their movements are given in Note 4 to the Financial Statements.

STATED CAPITAL

The stated capital of the Company amounts to LKR 51,617 Mn. (2015/16 – LKR 51,617 Mn.).

RESERVES

Total Group reserves as at 31st March 2017 amount to a negative LKR 159,411 Mn. (2015/16 – negative LKR 132,065 Mn.). This consists of accumulated losses of LKR 163,620 Mn. (2015/16 – LKR 135,585 Mn.), Capital Reserves of LKR 4,209 Mn. (2015/16 – LKR 3,521 Mn.). Movement in these Reserves is shown in the Statement of Changes in Equity in the Financial Statements.

CORPORATE DONATIONS

The Group made donations amounting to LKR 2.49 Mn. during the year. (2015/16 – 1.38 Mn.).

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. Thereafter the Company has been exempted from all taxes in respect of all its business activities up to 31st 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 1st 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 2017 is as follows:

Share Ownership	No. of Shares	% of Holding
Government of Sri Lanka	511,574,169	99.11
Employees' Provident Fund	1,863,676	0.36
Others	2,736,510	0.53

COMPLIANCE WITH LAWS AND REGULATIONS

The Company has at all times ensured that it complied with the applicable laws and regulations. The Management Officers responsible for compliance, tables a report on the compliance at the quarterly meetings of the Audit Committee.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 28 to the Financial Statements.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent liabilities as at 31st March 2017 and commitments made on Capital Expenditure as at that date are given in Note 25 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 27 to the Financial Statements.

HUMAN RESOURCE/ EMPLOYMENT POLICIES

The Company continued to invest in human capital development and implement effective workforce aligned around new business priorities and to ensure that its employees are developing the skills and knowledge required for the future success of the Company.

Employment policies of the Group respect the individual and offer equal career opportunities regardless of gender, race or religion. Occupational health and safety standards receive substantial attention.

The number of persons employed by the Company at the year end was 7,021 (2015/16 – 6,959) and by the Subsidiary was 1,022 (2015/16 – 902).

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.

The Company's net assets are less than half of its stated capital and face a serious loss of capital situation in terms of Section 220 of the Companies Act No. 07 of 2007. The Board of Directors held an Extraordinary General Meeting on 16th June 2015 in accordance with the said Act.

THE BOARD OF DIRECTORS

In accordance with Article 79 of the Articles of Association of the Company all the Directors were appointed by the Government of Sri Lanka and held office as at the Reporting date. Brief profiles are given on pages 10 to 13 of this Annual Report.

Other than Mr. Rakhita S. Jayawardena, who was appointed Executive Director – Compliance and Communication w.e.f. 29th June 2017, all other Directors are Non-Executive Directors as of date.

Mr. Ajith N. Dias – Chairman
Mr. J. M. S. Brito
Mr. R. Chanaka D. de Silva
Mr. Mahinda P. Haradasa
Mr. Rakhita S. Jayawardena
Lt. Col. Sunil D. Peiris
Mr. Harendra K. Balapatabendi
Mr. N. De Silva Deva Aditya

APPOINTMENT OF DIRECTORS WHO ARE OVER 70 YEARS OF AGE

Upon the recommendation of the Board, it is recommended that Mr. R. Chanaka D. de Silva who is over 70 years of age be reappointed Director of the Company for a further period of one year from the conclusion of the Annual General Meeting and that the age limit stipulated in Section 210 of the Companies Act No. 07 of 2007 shall not apply.

It is also recommended that Mr. J. M. S. Brito who is over 70 years of age be reappointed Director of the Company for a further period of one year from the conclusion of the Annual General Meeting and that the age limit stipulated in Section 210 of the Companies Act No. 07 of 2007 shall not apply.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

The primary objective of the Human Resources and Remuneration Committee is to establish a formal and transparent procedure for the engagement and development of people, ensure an objectively structured and fair remuneration policy. The Committee also addresses human resources policy and organisation structures and cadre budgets annually.

The Committee is responsible for screening and approving key positions at Senior Managerial level and for overseeing the mechanisms of succession planning. The Committee serves as an approving authority on behalf of the Board to the Airline's Management in Human Resources Development policy and activity.

The Committee is chaired by Lt. Col. Sunil D. Peiris and the Committee meets every quarter or sooner if required.

The Human Resources and Remuneration Committee of the Company comprises the following Board members:

Lt. Col. Sunil D. Peiris – Chairman
Mr. J. M. S. Brito
Mr. R. Chanaka D. de Silva
Mr. Mahinda P. Haradasa
Mr. Rakhita S. Jayawardena

MEMBERS OF AUDIT COMMITTEE

The Audit Committee of the Company comprises the following Board members:

Mr. J. M. S. Brito – Chairman
Mr. R. Chanaka D. de Silva
Mr. Mahinda P. Haradasa
Mr. Rakhita S. Jayawardena
Lt. Col. Sunil D. Peiris

The Audit Committee Report is given on page 55 of this Annual Report.

DIRECTORS' MEETING ATTENDANCE

Thirteen Board meetings were convened during the financial year and the attendance of the Directors was as follows:

Director	Meetings Attended (Out of 13)
Mr. Ajith N. Dias	13
Mr. J. M. S. Brito	13
Mr. R. Chanaka D. de Silva	11
Mr. Mahinda P. Haradasa	09
Mr. Rakhita S. Jayawardena	13
Lt. Col. Sunil D. Peiris	11
Mr. N. De Silva Deva Aditya	08
Mr. Harendra K. Balapatabendi	13

DIRECTORATE – SRILANKAN CATERING

The Directorate of SriLankan Catering Limited is as follows:

Mr. Ajith N. Dias – Chairman
Mr. Rakhita S. Jayawardena*
Mr. J. M. S. Brito
Mr. R. Chanaka. D. de Silva
Mr. Mahinda P. Haradasa
Lt. Col. Sunil D. Peiris

** Mr. Rakhita S. Jayawardena was appointed Executive Director w.e.f. 1st August 2017.*

DIRECTORS' REMUNERATION

Aggregated Directors' fees paid to the Non-Executive Directors of the Company is disclosed under Note 28 on page 96 of this Report as per the requirements of Section 168 (1) (f) of the Companies Act No. 07 of 2007. Mr. Ajith N. Dias – Chairman does not avail himself the Directors' fees.

DIRECTORS' SHAREHOLDINGS

By virtue of office, two of the Government of Sri Lanka (GOSL) nominee Directors including Chairman and Mr. J. M. S. Brito are holders of three ordinary Shares of the Company.

INTERESTS REGISTER

The Company maintains the Interests Register conforming to the provisions of the Companies Act No. 07 of 2007. All Directors of the Company have disclosed their interests in other companies to the Board and those interests are recorded in the Directors' Interests Register conforming to Sections 192 (1) and 192 (2) of the Companies Act No. 07 of 2007.

The Interests Register is available for inspection as required under the Companies Act No. 07 of 2007.

DIRECTORS' INTERESTS IN CONTRACTS

The Directors have had no direct or indirect interest in any other contracts or proposed contracts in relation to the business of the Company.

ANNUAL GENERAL MEETING

The 39th Annual General Meeting of the Company will be held on Monday the 25th day of September 2017 at 10.00 a.m. at the Auditorium of The Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka. The Notice of the Annual General Meeting is on page 110 of the Annual Report.

AUDITORS

In accordance with Article 36 of the 19th Amendment to the Constitution the Auditor General is hereby appointed Auditors of the Company.

Details of audit fees are set out in Note 22 to the Financial Statements. The Auditors do not have any relationship (other than that of an Auditor) with the Company or its Subsidiary.

Signed on behalf of the Board,

Ajith N. Dias
Chairman

J. M. S. Brito
Director

Dalrene Thirukumar
Company Secretary/
Head of Corporate Secretarial Services

4th August 2017
Colombo

BOARD AUDIT COMMITTEE REPORT

THE ROLE AND RESPONSIBILITIES

The Board Audit Committee of SriLankan Airlines scope and responsibilities are governed by the Audit Committee Charter approved and adopted by the Board of Directors. The Board Audit Committee focuses primarily on assisting the Board in fulfilling its duties by providing an independent and objective review of financial reporting process, the process of risk identification and mitigation, internal controls, reviewing procedures for statutory, regulatory and related compliance, adequacy and effectiveness of the internal audit function, independence of External Auditors. The proceedings of the Audit Committee were regularly reported to the Board of Directors, through submission of minutes.

COMPOSITION AND MEETINGS

The Board Audit Committee comprises five members. The members of the BAC as at 31st March 2017 were Mr. J. M. S. Brito (Chairman), Mr. R. Chanaka D. de Silva (Member), Mr. Mahinda Haradasa (Member), Lt. Col. Sunil D. Peiris (Member) and Mr. Rakhita S. Jayawardena (Member).

During the financial year ended 31st March 2017, the Board Audit Committee held four meetings. The members of the Management attended the meetings upon invitation to brief the Board Audit Committee on specific issues. In addition Board Audit Committee had meetings with Auditor General's representative, Messrs KPMG 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 SriLankan Airlines internal audit function is conducted by Group Assurance & Advisory Services Division (GAAS) and reports directly to the Board Audit Committee. The GAAS provides an independent and objective evaluation of adequacy, efficiency and effectiveness of the system of internal controls including IS/IT controls, financial reporting process and facilitates the implementation of the Enterprise Risk Management (ERM) framework. GAAS also provides advisory services to the Management on the Business Continuity Management System.

KEY ACTIVITIES OF THE BAC DURING THE FINANCIAL YEAR

- Reviewed the implementation of annual audit plan and the key audit findings on system of internal controls including IS/IT controls and status of audit recommendations.
- Reviewed the Business Risk Management processes and procedures adopted by the Company to mitigate the effects of such risks.
- Reviewed the Company's compliance framework to determine that it provides reasonable assurance that all relevant laws, rules and regulations have been complied with.
- Reviewed and recommended to Board for approval the Treasury Manual and Marketing Manual. Revisions to Financial Accounting Manual, Corporate Credit Control Manual, and Corporate Information Security Manual were adopted.
- Reviewed and approved the Related Party Transactions and Donations policies and procedures in order to strengthen the Corporate Governance framework.
- Reviewed the implementation of the Business Continuity Plans in order to minimise the effects of risks from business interruptions/disasters.
- Met with External Auditors before commencement of External Audit to ascertain the nature, scope and approach of the external audit.
- Reviewed the year-end draft Financial Statements and recommended their adaptation to the Board.
- Reviewed the Internal Audit Function, including the independence and authority of its reporting obligations and carrying out of the internal audit plan.

JMS Brito

J. M. S. Brito
Chairman
Board Audit Committee

12th July 2017

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 57.

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, consider that the Group has adequate resources to continue in operation, after considering the GOSL's continuous support to the Company by way of providing letters of comfort to obtain bank facilities and GOSL's efforts to attract an investor/joint partner to establish a Public-Private Partnership with a view to strengthening the Operational and Financial Position of the Company. Further, the GOSL by way of Cabinet approval dated 18th July 2017 has confirmed that the GOSL will extend the required financial support to the Company to continue its operations as a Going Concern until the proposed restructuring process is completed as described under Note 3 to the Financial Statements.

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/
Head of Corporate Secretarial Services

4th August 2017

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. } AVA/C/SLAL/06/17/38 ඔබේ අංකය / உமது இல. / Your No. }

දිනය / திகதி / Date } 14 August 2017

TO THE SHAREHOLDERS OF SRILANKAN AIRLINES LIMITED

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE SRILANKAN AIRLINES LIMITED FOR THE YEAR ENDED 31ST MARCH 2017

The audit of the accompanying financial statements of the SriLankan Airlines Limited ('the Company') and the consolidated financial statements of the Company and its subsidiaries ('Group') for the year ended 31st March 2017 comprising the statement of financial position as at 31st March 2017 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors ('Board') is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st March 2017 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

EMPHASIS OF MATTER

I draw attention to Note 3 to the consolidated financial statements, which indicates that the Group incurred a net loss of LKR 28,339.51 Mn during the year ended 31st March 2017 and, as of that date, the Group's current liabilities exceeded its current assets and total liabilities exceeded its total assets by LKR 91,904.32 Mn and LKR 107,793.52 Mn respectively. As stated in Note 3, these events and conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Having taken into account the mitigating factors as disclosed in Note 3 along with the Cabinet approval on 18th July 2017 as notified by letter dated 26th July 2017 confirming the support of the Government of Sri Lanka (GOSL) to the Company to continue its operations as a 'Going Concern' based on the letter issued by the Secretary to the Treasury on 23rd December 2016, these financial statements have been prepared using going concern assumption. My opinion is not modified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Section 163 (2) of the Companies Act No. 07 of 2007, I state the following:

(a) The basis of opinion, scope and limitations of the audit are as stated above.

(b) In my opinion:

- I have obtained all the information and explanations that were required for the audit and, as far as appears from my examination, proper accounting records had been kept by the Company,
- The financial statements of the Company give a true and fair view of the financial position as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
- The financial statements of the Company and the Group comply with the requirements of Sections 151 and 153 of the Companies Act No. 07 of 2007.

REPORT TO PARLIAMENT

My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.

H. M. Gamini Wijesinghe
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34 +94-11-2887223 oaggov@sltnet.lk www.auditorgeneral.gov.lk

STATEMENT OF FINANCIAL POSITION

As at 31st March	Note	Group 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2017 LKR Mn.	Company 2016 LKR Mn.
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	4	9,834.07	10,753.23	7,712.19	8,546.30
Aircraft Predelivery Payments	5	2,528.12	2,420.08	2,528.12	2,420.08
Aircraft Maintenance Reserve	6	8,135.68	6,585.21	8,135.68	6,585.21
Aircraft and Spare Engine Deposits		5,616.48	4,973.99	5,616.48	4,973.99
Intangible Assets	7	653.36	984.59	625.65	979.99
Investments	8	0.40	0.40	42.44	42.44
		26,768.11	25,717.50	24,660.56	23,548.01
Current Assets					
Inventories	9	4,502.67	4,940.29	4,215.57	4,703.11
Trade and Other Receivables	10	15,515.18	14,365.42	14,559.72	13,294.38
Aircraft Maintenance Reserve	6	6,501.62	3,612.16	6,501.62	3,612.16
Aircraft and Spare Engine Deposits		72.84	1,245.76	72.84	1,245.76
Cash and Bank Balances	11	2,053.35	4,270.59	1,623.32	4,045.61
		28,645.66	28,434.22	26,973.07	26,901.02
Total Assets		55,413.77	54,151.72	51,633.63	50,449.03
EQUITY AND LIABILITIES					
Capital and Reserves					
Stated Capital	12	51,617.44	51,617.44	51,617.44	51,617.44
Reserves	13	4,209.36	3,520.86	2,371.38	1,680.97
Accumulated Losses		(163,620.32)	(135,585.41)	(169,755.46)	(141,079.67)
Total Equity		(107,793.52)	(80,447.11)	(115,766.64)	(87,781.26)
Non-Current Liabilities					
Preference Shares	14	1,000.00	1,000.00	–	–
Interest-Bearing Liabilities	15	27,914.74	27,904.67	27,914.74	27,904.67
Other Long-Term Liabilities	16	13,742.57	10,546.95	13,182.98	9,991.18
		42,657.31	39,451.62	41,097.72	37,895.85
Current Liabilities					
Sales in Advance of Carriage	17	18,778.71	17,570.40	18,778.71	17,570.40
Trade and Other Payables	18	39,136.89	37,695.20	44,925.29	42,894.95
Income Tax Payable		211.28	186.02	175.45	175.45
Interest-Bearing Liabilities	15	62,423.10	39,695.59	62,423.10	39,693.64
		120,549.98	95,147.21	126,302.55	100,334.44
Total Liabilities		163,207.29	134,598.83	167,400.27	138,230.29
Total Equity and Liabilities		55,413.77	54,151.72	51,633.63	50,449.03

These Financial Statements are prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

Lalith Withana
Group Chief Finance and Administrative Officer

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

Ajith N. Dias
Director

J. M. S. Brito
Director

The Accounting Policies and Notes on pages 63 through 102 form an integral part of these Financial Statements.

4th August 2017
Colombo

STATEMENT OF PROFIT OR LOSS

Year ended 31st March	Note	Group 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2017 LKR Mn.	Company 2016 LKR Mn.
Revenue	20	138,563.23	132,198.31	135,463.59	129,480.41
Expenditure					
Aircraft Fuel Cost		(33,129.60)	(33,198.90)	(33,129.60)	(33,198.90)
Employee Cost		(20,015.81)	(17,845.94)	(18,797.04)	(16,748.43)
Airport, Enroute and Passenger Expenses		(21,302.32)	(20,541.28)	(23,788.17)	(22,642.21)
Rentals on Leased Aircraft		(22,789.22)	(20,129.91)	(22,789.22)	(20,129.91)
Aircraft Maintenance and Overhaul Costs		(17,644.09)	(14,515.22)	(17,644.09)	(14,515.22)
Depreciation/Amortisation		(2,326.30)	(2,989.44)	(2,041.63)	(2,683.91)
Selling, Marketing and Advertising Expenses		(12,709.68)	(11,431.23)	(12,657.28)	(11,431.23)
Crew Expenses		(5,435.73)	(5,483.69)	(5,435.73)	(5,483.69)
Other Operating Expenses		(10,700.30)	(10,092.65)	(10,450.45)	(10,477.94)
Operating Loss	22	(7,489.82)	(4,029.95)	(11,269.62)	(7,831.03)
Other Income and Gains	21	501.52	481.12	3,565.27	3,622.24
Finance Income	23.1	89.95	75.76	60.09	65.90
Finance Cost	23.2	(7,053.10)	(6,051.93)	(6,922.92)	(5,917.25)
Compensation for Cancellation of Aircraft Lease Agreement	18.1	(14,362.81)	(2,561.55)	(14,362.81)	(2,561.55)
Loss Before Taxation		(28,314.26)	(12,086.55)	(28,929.99)	(12,621.69)
Income Tax Expense	24	(25.25)	2.93	–	–
Loss for the Year		(28,339.51)	(12,083.62)	(28,929.99)	(12,621.69)

The Accounting Policies and Notes on pages 63 through 102 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31st March	Note	Group 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2017 LKR Mn.	Company 2016 LKR Mn.
Loss for the Year		(28,339.51)	(12,083.62)	(28,929.99)	(12,621.69)
Other Comprehensive Income/(Loss)					
Other Comprehensive Income/(Loss) Not to be Reclassified to Profit or Loss in Subsequent Periods (Net of Tax):					
Actuarial Gain/(Loss) on Retirement Benefit Obligation	16.2	302.69	(243.16)	254.20	(235.63)
		302.69	(243.16)	254.20	(235.63)
Other Comprehensive Income/(Loss) will be Reclassified to Profit or Loss in Subsequent Periods (Net of Tax):					
Net Movement on Cash Flow Hedge		690.41	(818.04)	690.41	(818.04)
		690.41	(818.04)	690.41	(818.04)
Total Other Comprehensive Income/(Loss) for the Year, Net of Tax		993.10	(1,061.20)	944.61	(1,053.67)
Total Comprehensive Income/(Loss) for the Year, Net of Tax		(27,346.41)	(13,144.82)	(27,985.38)	(13,675.36)

The Accounting Policies and Notes on pages 63 through 102 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

Group	Stated Capital LKR Mn.	Revaluation Reserve LKR Mn.	Cash Flow Hedge Reserve LKR Mn.	Accumulated Losses LKR Mn.	Total LKR Mn.
Balance as at 31st March 2015	51,617.44	4,355.27	–	(123,265.57)	(67,292.86)
Adjustment on Super Gain Tax (Note 24.3)	–	–	–	(9.43)	(9.43)
Loss for the Year	–	–	–	(12,083.62)	(12,083.62)
Other Comprehensive Income/(Loss)	–	–	(818.04)	(243.16)	(1,061.20)
Total Comprehensive Income/(Loss)	–	–	(818.04)	(12,326.78)	(13,144.82)
Reversal of Surplus on Revaluation due to Disposal during the Year	–	(16.37)	–	16.37	–
Balance as at 31st March 2016	51,617.44	4,338.90	(818.04)	(135,585.41)	(80,447.11)
Reversal of Surplus on Revaluation due to Disposal during the Year	–	(1.91)	–	1.91	–
Loss for the Year	–	–	–	(28,339.51)	(28,339.51)
Other Comprehensive Income	–	–	690.41	302.69	993.10
Total Comprehensive Income/(Loss)	–	–	690.41	(28,036.82)	(27,346.41)
Balance as at 31st March 2017	51,617.44	4,336.99	(127.63)	(163,620.32)	(107,793.52)

Company	Stated Capital LKR Mn.	Revaluation Reserve LKR Mn.	Cash Flow Hedge Reserve LKR Mn.	Accumulated Loss LKR Mn.	Total LKR Mn.
Balance as at 31st March 2015	51,617.44	2,514.89	–	(128,238.23)	(74,105.90)
Loss for the Year	–	–	–	(12,621.69)	(12,621.69)
Other Comprehensive Income/(Loss)	–	–	(818.04)	(235.63)	(1,053.67)
Total Comprehensive Income/(Loss)	–	–	(818.04)	(12,857.32)	(13,675.36)
Reversal of Surplus on Revaluation due to Disposal during the Year	–	(15.88)	–	15.88	–
Balance as at 31st March 2016	51,617.44	2,499.01	(818.04)	(141,079.67)	(87,781.26)
Loss for the Year	–	–	–	(28,929.99)	(28,929.99)
Other Comprehensive Income	–	–	690.41	254.20	944.61
Total Comprehensive Income/(Loss)	–	–	690.41	(28,675.79)	(27,985.38)
Balance as at 31st March 2017	51,617.44	2,499.01	(127.63)	(169,755.46)	(115,766.64)

The Accounting Policies and Notes on pages 63 through 102 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31st March	Note	Group 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2017 LKR Mn.	Company 2016 LKR Mn.
Cash Flows from/(used in) Operating Activities					
Loss before Income Tax Expense		(28,314.26)	(12,086.55)	(28,929.99)	(12,621.69)
Adjustments for					
Depreciation/Amortisation/Impairment		2,337.54	3,011.94	2,041.63	2,683.91
Finance Cost	23.2	7,053.10	6,051.93	6,922.92	5,917.25
Loss/(Gain) on Disposal of Property, Plant and Equipment and Intangible Assets		(24.50)	(6.71)	(2.99)	(7.04)
Gain from Redemption of Preference Shares	21	–	–	–	(1,000.00)
Finance Income	23.1	(89.95)	(75.76)	(60.09)	(65.90)
Provision for Impairment of Receivables		781.36	12.80	728.96	11.81
Security Deposit forgone on Cancellation of Aircraft Lease Agreement		1,095.30	–	1,095.30	–
Provision for Slow Moving Inventory	9.1	797.40	549.42	797.40	544.73
Provision for Impairment of Maintenance Reserve	6.2	2,637.43	3,631.23	2,637.43	3,631.23
Effect on Unrealised Exchange Loss		2,468.01	1,385.35	3,168.30	2,666.83
Write Back of Sales in Advance		(2,462.04)	(2,882.22)	(2,462.04)	(2,882.22)
Provision for Gratuity	16.2	964.07	792.49	888.07	718.69
Operating Loss before Working Capital Changes		(12,756.54)	383.92	(13,175.10)	(402.40)
(Decrease)/Increase in Inventories		(369.55)	(91.85)	(319.63)	(169.64)
Increase in Sales in Advance of Carriage		3,670.35	2,249.41	3,670.35	2,249.41
(Increase)/Decrease in Trade and Other Receivables		86.91	2,965.38	23.74	3,326.03
Increase/(Decrease) in Trade and Other Payables		5,084.04	(3,188.00)	4,972.35	(4,049.95)
(Increase)/Decrease in Maintenance Reserves		(6,960.78)	2,062.01	(6,960.78)	2,062.01
Increase in Aircraft Security Deposits		(289.37)	(1,259.02)	(289.37)	(1,259.02)
Cash Generated from/(used in) Operations		(11,534.94)	3,121.85	(12,078.44)	1,756.44
Finance Cost Paid		(7,092.71)	(6,293.48)	(6,962.53)	(6,148.88)
Gratuity Paid	16.2	(414.66)	(291.64)	(390.98)	(239.02)
Income Tax Paid		–	(9.62)	–	–
Net Cash Flows used in Operating Activities		(19,042.31)	(3,472.89)	(19,431.95)	(4,631.46)
Cash Flows from/(used in) Investing Activities					
Interest Received		89.95	75.76	60.09	65.90
Acquisition of Property, Plant and Equipment		(1,131.77)	(1,129.04)	(921.14)	(1,102.69)
Net (Payment)/Receipts from Aircraft Redelivery Payments		(108.04)	17,172.94	(108.04)	17,172.94
Acquisition of Intangible Assets		(146.28)	(48.59)	(121.01)	(47.12)
Proceeds from Disposal of Property, Plant and Equipment and Intangible Assets		27.36	38.83	3.94	19.87
Proceed from Redemption of Preference Shares		–	–	–	1,000.00
Net Cash (used in)/from Investing Activities		(1,268.78)	16,109.90	(1,086.16)	17,108.90
Cash Flows (used in)/from Financing Activities					
Repayment of Interest-Bearing Liabilities		(11,258.27)	(32,560.79)	(11,256.29)	(32,538.91)
Proceeds from Interest-Bearing Loans and Borrowings		26,172.36	23,058.30	26,172.36	23,058.30
Net Cash from/(used in) Financing Activities		14,914.09	(9,502.49)	14,916.07	(9,480.61)
Net Increase/(Decrease) in Cash and Cash Equivalents		(5,397.00)	3,134.52	(5,602.04)	2,996.83
Cash and Cash Equivalents at the Beginning of the Year	11	(383.90)	(3,518.42)	(608.88)	(3,605.71)
Cash and Cash Equivalents at the end of the Year	11	(5,780.89)	(383.90)	(6,210.92)	(608.88)

The Accounting Policies and Notes on pages 63 through 102 form an integral part of these Financial Statements.

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 aircraft maintenance, flight operation services and conducting aviation-related trainings 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 2017 were authorised for issue by the Board of Directors on the 4th August 2017.

2. GENERAL ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The Financial Statements of the Company and the Group have been prepared on an accrual basis and under historical cost convention, except for land and buildings and Flight Kitchen Equipment that has been measured at fair value.

All values are presented in Sri Lankan Rupees and 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 Comparative Information

The accounting policies and estimates adopted by the Group are consistent with those of the previous financial year.

The previous year's figures and phrases have been rearranged whenever necessary to confirm to the current year presentation. Reclassifications made to the Financial Statements are disclosed in Note 30.

2.2 BASIS OF CONSOLIDATION

The Consolidated Financial Statements comprise the Financial Statements of the Company and its Subsidiaries as at 31st March 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a Subsidiary begins when the Group obtains control over the Subsidiary and ceases when the Company loses control of the Subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Company. When necessary, adjustments are made to the Financial Statements of

Subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a Subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a Subsidiary, it derecognises the related assets, liabilities and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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 3 these Financial Statements have been prepared and presented on a going concern basis.

(ii) Contingent Liabilities – Litigations

As disclosed in Note 25.3 the Group has several pending litigations with various parties at the end of the Reporting period. The Board of Directors, after due consultation with the Group's legal counsel, assess the merits of each case and make necessary provisions when it is determined that there would be a possibility of an outflow of resources in the future.

(iii) Finance and Operating Leases

A lease is classified as a finance lease when substantially all the risks and rewards of ownership are transferred to Group. In determining the appropriate classification, the substance of the transaction rather than the form is considered. Factors considered include but not are limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is expected to be sufficiently lower than the fair value on exercise date; the lease term is for the major part of economic life of the asset even of the title is not transferred and at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased assets.

(b) Estimates

(i) Depreciation/Amortisation of Property, Plant and Equipment and Intangible Assets

Management assigns useful lives and residual values to property, plant and equipment and intangible assets based on the intended use of assets and the economic lives of these assets. Management reviews the residual values, useful lives and depreciation/amortisation method at each Reporting date and ensures consistency with previous estimates and patterns of consumptions of the economic benefits that embodies 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) and 2.4.4]

(ii) Frequent Flyer Programme

Award credits are accounted for as a separately identifiable component of revenue. The consideration is allocated to award credits based on their fair value and is accounted as a liability (deferred revenue) in the Consolidated Statement of Financial Position.

Estimation techniques are used to determine the fair value of mile credits and reflect the weighted average of a number of factors i.e. fare per sector, flight upgrades and partner rewards. Historical trend are used as the basis of the fair value calculations.

Adjustments to the fair value of miles are also made for miles not expected to be redeemed by members and for expired miles.

A level of judgment is exercised by Management due to the diversity of inputs that go into determining the fair value of miles.

(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 or passage of time. 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 6)

(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 utilisation or time depending on the nature of the overhaul. 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 are based on various 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 end of Reporting period.

(vi) Inventories

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

(vii) Impairment of Non-Financial Assets

The Group assesses at each Reporting date whether there is an indication that an asset may be 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.

(viii) 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 2.4.15)

(ii) Revaluation of Property, Plant and Equipment

Land and building and flight kitchen equipment are 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 4.

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 Group'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 Profit or Loss. 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

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 1st April 2011 to 31st 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.

The income from Flight Kitchen and Transit Restaurant is exempted from income tax up to 31st 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 land and buildings and flight kitchen 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.

Land and buildings and Flight Kitchen equipment measured at revalued amounts and any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Profit or Loss, in which case the increase is recognised in the Statement of Profit or Loss. A revaluation deficit is recognised in the Statement of Profit or Loss, 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 Profit or Loss during the period in which they are incurred.

Property, plant and equipment includes amongst others the following:

(i) Aircraft Rotable Spares

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

(ii) Capital Work in Progress

Capital work in progress is stated at cost which include all costs incurred from the date of acquisition to the date on which it is commissioned. When commissioned, capital work in progress is transferred to the appropriate category under property, plant and equipment and depreciated over the estimated useful life.

(b) Depreciation

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

Aircraft-Related Equipment	– over shorter of 8 years or lease period
Plant and Equipment	– over periods ranging from 3 to 10 years based on the type of equipment
Buildings	– over the expected useful life ranging from 15 to 50 years

Improvements on aircraft on operating leases – over shorter of 10 years or lease period.

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 Profit or Loss in the Reporting period the asset is derecognised.

2.4.4 Intangible Assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the assets will flow to the entity and the cost of the assets can be measured reliably. Accordingly, these assets are stated in the 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 five 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 at each Reporting date 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 Profit or Loss 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 reconfiguration of assets under operating leases are capitalised and depreciated over the shorter of the useful life and the remaining lease period. (Refer Accounting Policy 2.4.3).

(b) Finance Leases

Leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, 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 Profit or Loss.

Capitalised leased assets are disclosed as property, plant and equipment and depreciated over the period the Group 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 Profit or Loss immediately to the extent that the sales proceeds do not exceed the fair value of the assets concerned.

2.4.6 Inventories

Inventories consist of Aircraft and Ground Service-related stocks, Raw materials and Consumables.

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is the sum of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Weighted Average Cost method is applied in the calculation of cost of inventories. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

2.4.7 Impairment of Non-Financial Assets

The Group 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 Group 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 Fair Value Measurement

The Group measures its land and buildings and flight kitchen equipment at fair value. Fair value-related disclosures are disclosed in the Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of such assets is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All the assets for which fair value is measured are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each Reporting period.

External valuers are involved for valuation of significant assets, such as property, plant and equipment. Selection criteria for external valuers include market knowledge, reputation, independence and whether professional standards are maintained. The Group decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.4.9 Financial Instruments – Initial Recognition and Subsequent Measurement

2.4.9.1 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 subsequent measurement, impairment and derecognition 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 method.

(b) 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.

(c) 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.

(d) 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 Profit or Loss.

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 in the Statement of Profit or Loss.

2.4.9.2 Financial Liabilities

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, other financial liabilities or derivatives designated as hedge instruments constituting an effective hedge 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, net of 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) Subsequent Measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(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 Profit or Loss.

(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.

2.4.9.3 Cash Flow Hedge Reserve

The Company designated its identified foreign currency loans as a hedging instrument against its highly probable, specifically identified future revenue in foreign currency. Through which the Company hedged the risk of changes in value of the identified foreign currency loans, caused by the fluctuations in foreign exchange rates.

The effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the Statement of Profit or Loss as other operating expenses. Amounts recognised as Other Comprehensive Income are transferred to Statement of Profit or Loss when the hedged transaction occurs (when the forecast revenue realises). If the forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in Other Comprehensive Income is transferred to the Statement of Profit or Loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in Other Comprehensive Income remains in equity until the forecast transaction occurs as per the hedge agreement.

2.4.10 Aircraft Maintenance Reserve

Aircraft maintenance reserve consists of payments made to lessors on a monthly basis for the future overhaul of engines, airframes and aircraft components in terms of operating lease agreements. 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 is stated in Note 2.4.9.1 (a) above.

2.4.11 Trade and Other Receivables

Trade debtors, including 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 receivables. Based on the nature, the relevant accounting policy for this category of financial assets is stated in Note 2.4.9.1 (a) above.

2.4.12 Investments

Investment in Subsidiary

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

2.4.13 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.

In the Statement of Cash Flows, cash and cash equivalents consist of cash at bank, cash in hand and call deposits in banks net of outstanding bank overdrafts and restricted cash. 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.

2.4.14 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 Profit or Loss net of any reimbursement.

(ii) Aircraft Maintenance and Overhaul Costs

The Group recognises aircraft maintenance and overhaul expenses (except aircraft heavy maintenance, engine overhaul and landing gear overhaul expenses) on an incurred basis. Aircraft heavy maintenance, engine overhaul and landing gear overhaul expenses are accounted as specified in Note 2.3 (b) (iv). 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 agreement.

2.4.15 Retirement Benefit Obligation

(a) Defined Benefit Plan – Gratuity

Gratuity is a defined benefit plan, the Company and its Subsidiary are liable to pay in terms of the relevant statute. The Group measures the present value of the defined benefit plan with the advice of an Actuary every year using the Projected Unit Credit method.

The 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 Profit or Loss.

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 host countries.

(b) Defined Contribution Plans – Employees' Provident Fund and Employees' Trust Fund.

Employees based in Sri Lanka are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with the respective statutes and regulations. The Company contributes 15% and 3% of gross emoluments to Employees' Provident Fund and Employees' Trust Fund whilst the Subsidiary contributes 12% and 3% respectively.

2.4.16 Frequent Flyer Programme

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 weighted average 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. Miles accrued through utilising the services of programme partners and paid for by the participating partners are also accounted for as deferred revenue until they are utilised. A liability is not recognised for miles that are expected to expire.

2.4.17 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.

(a) Airline Revenue

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

(i) Passenger, cargo, excess baggage sales and other related fees are recognised as operating revenue when the transportation/facility 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 they remain unutilised and expire 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, interest income or expense is recorded using the effective interest method.

(f) Other Income

Other income is recognised on an accrual basis.

2.4.18 Expenditure Recognition

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

2.4.19 Borrowing Costs

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

2.4.20 Segment Reporting

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

Primary segments are determined based on the geographical spread of operations as the Group'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 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and amendments/improvements to existing standards have been published, that are not effective as of 31st March 2017 Reporting periods. None of those have been early adopted by the Group/Company.

SLFRS 9 – Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 – 'Financial Instruments: Recognition and Measurement'. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of held-to-maturity, loans and receivables and available-for-sale are removed.

SLFRS 9 is effective for annual periods beginning on or after 1st January 2018, with early adoption permitted.

SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 – 'Revenue', LKAS 11 – 'Construction Contracts' and IFRIC 13 – 'Customer Loyalty Programmes'.

SLFRS 15 is effective for annual Reporting periods beginning on or after 1st January 2018, with early adoption permitted.

SLFRS 16 – Leases

SLFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16 replaces existing leases guidance including LKAS 17 – 'Leases', IFRIC 4 – 'Determining' whether an Arrangement contains a Lease, SIC 15 – 'Operating Leases – Incentives' and SIC 27 – 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard is effective for annual periods beginning on or after 1st January 2019. Early adoption is permitted for entities that apply SLFRS 15 – 'Revenue from Contracts with Customers' at or before the date of initial application of SLFRS 16.

Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9, SLFRS 15 and SLFRS 16 is not reasonably estimable as of the Reporting date.

3. GOING CONCERN

During the current year, the Company recorded a loss of LKR 28,929.99 Mn. (2016 – LKR 12,621.69 Mn.) with an accumulated loss of LKR 169,755.46 Mn. (2016 – LKR 141,079.67 Mn.) as at 31st March 2017. Further, the Company's current liabilities exceeded its current assets by LKR 99,329.48 Mn. (2016 – LKR 73,433.42 Mn.) and the total equity of the Company as at Reporting date has declined to a negative LKR 115,766.64 Mn. (2016 – negative LKR 87,781.26 Mn.).

Several key restructuring measures have been initiated by the Board of Directors since 2015 with a view to strengthening the financial position of the Company. The restructuring process of SriLankan Airlines consists of five key areas, namely restructuring of the Route Network, Aircraft fleet, Overheads, Debt (Recapitalisation) and Organisational structure. The first two areas have largely been addressed through identification of a number of perennially unprofitable routes, restructuring the network and concentrating on short and medium haul routes with few exceptions. The new generation long range aircraft which were ordered previously to serve long-haul routes have been cancelled and additional narrow body aircraft which are more suitable for the present network have been inducted. The Board of Directors and the Management are continuously focusing on reducing overheads and are working with the Government of Sri Lanka (GOSL) to implement the complete restructuring of the key areas described above.

The GOSL continuing with its effort to attract an investor/joint venture partner to establish a Public Private Partnership (PPP), with a view to strengthening the operating and financial position of the Company. The GOSL continued to support the Company and during the year under review, has approved the issuance of new Letters of Comfort to the value of USD 150 Mn. to state banks in order to obtain short-term loan facilities. Further, the GOSL by way of a Cabinet approval dated 18th July 2017 has confirmed that the GOSL will continue to extend the required financial support to the Company to continue its operations as 'Going Concern' until the proposed restructuring process is complete.

However, the net loss increased by 124% compared to the previous year, primarily due to the LKR 14,362.81 Mn. (USD 98 Mn.) incurred for the cancellation of three A350-900 aircraft, which were scheduled to be delivered in 2016. Even though the cancellation of these lease agreements resulted in a significant one-off cost, the Directors are of the view that this is an essential step towards ensuring the long-term sustainability of the Airline.

The Board of Directors, having considered the restructuring initiatives and the GOSL confirmation of continued financial support to the Company, are confident that the Company would improve its financial position and continue to operate as a going concern.

4. PROPERTY, PLANT AND EQUIPMENT

4.1 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 2016	4,690.29	6,553.96	3,217.46	8,271.77	3,118.47	85.60	25,937.55
Acquisitions/Modifications/ Improvements	22.55	584.65	–	437.33	–	49.45	1,093.98
Transferred from WIP	48.16	59.54	–	–	–	(107.70)	–
Transfers/Adjustments	(17.60)	16.50	(27.66)	(82.43)	64.84	–	(46.35)
Reclassifications	2.74	(3.09)	–	0.35	–	–	–
Disposals/Retirements	(99.41)	(168.05)	(893.56)	(30.67)	–	–	(1,191.69)
Balance as at 31st March 2017	4,646.73	7,043.51	2,296.24	8,596.35	3,183.31	27.35	25,793.49
Accumulated Depreciation							
Balance as at 1st April 2016	722.46	4,877.55	2,266.07	6,233.49	1,058.93	25.82	15,184.32
Charge for the Year	194.29	591.63	443.32	376.95	380.95	–	1,987.14
Transfers/Adjustments/ Impairment	14.46	0.86	(4.30)	(8.21)	1.46	(25.82)	(21.55)
Reclassifications	3.75	(3.87)	–	0.12	–	–	–
Disposals/Retirements	(99.18)	(167.34)	(893.56)	(30.41)	–	–	(1,190.49)
Balance as at 31st March 2017	835.78	5,298.83	1,811.53	6,571.94	1,441.34	–	15,959.42
Net Book Value as at 31st March 2017	3,810.95	1,744.68	484.71	2,024.41	1,741.97	27.35	9,834.07
Net Book Value as at 31st March 2016	3,967.83	1,676.41	951.39	2,038.28	2,059.54	59.78	10,753.23

4.2 (a) The Fair Value of the land and buildings of the Group and the flight kitchen equipment of the Subsidiary were determined by means of a revaluation carried out respectively by Ranjan J. Samarakone (A.I.V Sri Lanka – Corporate Valuer) and Mr. P. B. Kalugalgedara (Chartered Valuation Surveyor), independent valuers during the financial year ended 31st March 2015.

Details of Group's land, building and other plant and equipment stated at valuation are indicated below:

Asset	Method of Valuation	Effective Date of Valuation	Significant Unobservable Inputs	Sensitivity of Fair Value to Unobservable Inputs	Level of Fair Value Hierarchy
Land – Colombo	Open market value method	31st March 2015	Estimated price per perch LKR 12 Mn	Positively correlated sensitivity	Level 3
Buildings – Colombo/ Katunayake	Depreciated replacement cost	31st March 2015	Estimated price per square foot LKR 475/- – LKR 9,000/-		
Flight Kitchen Equipment Included under Plant and Equipment – Katunayake	Open market value method	31st March 2015	Fair value was derived using the open market value approach for each equipment		

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

Class of Asset	Cost LKR Mn.	Cumulative Depreciation if Assets were Carried at Cost LKR Mn.	Net Carrying Amount 2017 LKR Mn.	Net Carrying Amount 2016 LKR Mn.
Land and Buildings	2,767.31	1,077.66	1,689.65	2,095.68
Plant and Equipment	2,087.66	1,871.67	215.99	52.67

(b) During the year, the Group acquired property, plant and equipment to the aggregate value of LKR 1,093.98 Mn. (2016 – LKR 1,039.56 Mn.). Cash payments amounting to LKR 1,131.77 Mn. (2016 – LKR 1,129.04 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 9,356.27 Mn. (2016 – LKR 9,471.19 Mn.).

4.3 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 2016	3,162.33	5,605.24	3,217.46	8,271.77	3,118.47	26.06	23,401.33
Acquisitions/Modifications/ Improvements	22.46	387.67	–	437.33	–	37.56	885.02
Transferred from WIP	48.16	–	–	–	–	(48.16)	–
Transfers/Adjustments	(17.60)	16.50	(27.66)	(82.43)	64.84	–	(46.35)
Reclassifications	2.74	(3.09)	–	0.35	–	–	–
Disposals/Retirements	(99.41)	(165.84)	(893.56)	(30.67)	–	–	(1,189.48)
Balance as at 31st March 2017	3,118.68	5,840.48	2,296.24	8,596.35	3,183.31	15.46	23,050.52
Accumulated Depreciation							
Balance as at 1st April 2016	683.21	4,613.33	2,266.07	6,233.49	1,058.93	–	14,855.03
Charge for the Year	155.00	337.16	443.32	376.95	380.95	–	1,693.38
Transfers/Adjustments	14.46	(24.96)	(4.30)	(8.21)	1.46	–	(21.55)
Reclassifications	3.75	(3.87)	–	0.12	–	–	–
Disposals/Retirements	(99.18)	(165.38)	(893.56)	(30.41)	–	–	(1,188.53)
Balance as at 31st March 2017	757.24	4,756.28	1,811.53	6,571.94	1,441.34	–	15,338.33
Net Book Value as at 31st March 2017	2,361.44	1,084.20	484.71	2,024.41	1,741.97	15.46	7,712.19
Net Book Value as at 31st March 2016	2,479.12	991.91	951.39	2,038.28	2,059.54	26.06	8,546.30

4.4 (a) The fair value of the Company's land and buildings was determined by means of a revaluation by Mr. Ranjan J. Samarakone (A.I.V. Sri Lanka – Corporate Valuer) an independent valuer during the financial year ended 31st March 2015. The results of such revaluation were incorporated in the Financial Statements effective from 31st March 2015.

Details of Company's land and buildings stated at valuation are indicated below:

Asset	Method of Valuation	Effective Date of Valuation	Significant Unobservable Inputs	Sensitivity of Fair Value to Unobservable Inputs	Level of Fair Value Hierarchy
Land – Colombo	Open market	31st March 2015	Estimated price per perch LKR 12 Mn.	Positively correlated sensitivity	Level 3
Buildings – Colombo/ Katunayake	Depreciated replacement cost	31st March 2015	Estimated price per square foot LKR 475/- – LKR 9,000/-		

(b) The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

Class of Asset	Cost LKR Mn.	Cumulative Depreciation if Assets were Carried at Cost LKR Mn.	Net Carrying Amount 2017 LKR Mn.	Net Carrying Amount 2016 LKR Mn.
Land and Buildings	1,184.42	525.44	658.98	950.63

(c) During the year, the Company acquired property, plant and equipment to the aggregate value of LKR 885.02 Mn. (2016 – LKR 1,012.14 Mn.). Cash payments amounting to LKR 921.14 Mn. (2016 – LKR 1,102.69 Mn.) were made during the year to acquire property, plant and equipment.

(d) Property, plant and equipment of the Company includes fully-depreciated assets having a gross carrying amount of LKR 9,043.60 Mn. (2016 – LKR 9,451.08 Mn.).

5. AIRCRAFT PREDELIVERY PAYMENTS

Predelivery payments as at the Reporting date consists of predelivery payments made for four Airbus A350-900 aircraft to be delivered in 2020 and 2021 amounting to LKR 2,528.12 Mn. (USD 19.21 Mn.). The Company has informed Airbus on the requirement to revisit the Purchase Agreement for the four A350-900 aircraft in the light of the restructuring plan approved by the Government of Sri Lanka in 2015 and as at the Reporting date there is an amount of USD 0.68 Mn. in unpaid predelivery payments to Airbus. The Company has been in discussion with Airbus and Airbus has indicated the possibility of amending the said Purchase Agreement as one of the options. In such an event, the Board does not anticipate a loss of the predelivery payments or penalties arising from the renegotiation. Accordingly, the Board expects to find an amicable solution acceptable to Airbus, in consultation with Ministerial Committee appointed by the Government of Sri Lanka on 26th July 2017.

6. AIRCRAFT MAINTENANCE RESERVE

	Group/Company	
	2017 LKR Mn.	2016 LKR Mn.
Balance as at 1st April	21,853.57	22,048.82
Payments	7,070.67	7,201.23
Adjustments*	(3,574.27)	(7,156.59)
Recoveries	(109.90)	(2,106.65)
Exchange Gain	1,192.33	1,866.76
	26,432.40	21,853.57
Less: Provision for Impairment (Note 6.2)	(11,795.10)	(11,656.20)
Net Recoverable Balance as at 31st March (Note 6.1)	14,637.30	10,197.37

** Impact on Statement of Profit or Loss represents the net impact of write-back of Provision for Aircraft Maintenance and Overhaul Cost (Note 16) and the set-off of net Aircraft Maintenance Reserve amounts (Note 6).*

6.1 CURRENT/NON-CURRENT CLASSIFICATION

	Gross LKR Mn.	Provision for Impairment LKR Mn.	Net LKR Mn.	Amount Recoverable within One Year LKR Mn.	Amount Recoverable after One Year LKR Mn.
Balance as at 31st March 2017	26,432.40	(11,795.10)	14,637.30	6,501.62	8,135.68
Balance as at 31st March 2016	21,853.57	(11,656.20)	10,197.37	3,612.16	6,585.21

6.2 MOVEMENT OF PROVISION FOR IMPAIRMENT

	Group/Company	
	2017 LKR Mn.	2016 LKR Mn.
Balance as at 1st April	11,656.20	9,769.46
Charged during the Year	2,637.43	3,631.23
Adjustments	(3,006.29)	(2,784.65)
Exchange Loss	507.76	1,040.16
Balance as at 31st March	11,795.10	11,656.20

7. INTANGIBLE ASSETS

	Group			Company		
Computer Software	Software LKR Mn.	Capital Work-in-Progress LKR Mn.	Total LKR Mn.	Software LKR Mn.	Capital Work-in-Progress LKR Mn.	Total LKR Mn.
Cost						
Balance as at 1st April 2016	2,176.70	30.46	2,207.16	2,140.15	30.46	2,170.61
Acquisitions/Modifications/Improvements	42.26	5.66	47.92	17.00	5.66	22.66
Transferred from WIP	6.79	(6.79)	–	6.79	(6.79)	–
Transfers/Adjustments	13.88	(21.08)	(7.20)	13.88	(21.08)	(7.20)
Balance as at 31st March 2017	2,239.63	8.25	2,247.88	2,177.82	8.25	2,186.07
Accumulated Amortisation						
Balance as at 1st April 2016	1,222.57	–	1,222.57	1,190.62	–	1,190.62
Charge for the Year	350.28	–	350.28	348.13	–	348.13
Transfers/Adjustments	21.67	–	21.67	21.67	–	21.67
Balance as at 31st March 2017	1,594.52	–	1,594.52	1,560.42	–	1,560.42
Net Book Value as at 31st March 2017	645.11	8.25	653.36	617.40	8.25	625.65
Net Book Value as at 31st March 2016	954.13	30.46	984.59	949.53	30.46	979.99

As at the Reporting date Intangible Assets of the Group and the Company include fully-amortised assets having a gross carrying amount of LKR 446.25 Mn. and LKR 420.93 Mn. (2016 – LKR 444.85 Mn. and LKR 417.30 Mn.) respectively.

8. INVESTMENTS

As at 31st March	Group 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2017 LKR Mn.	Company 2016 LKR Mn.
Non-Current Investments				
Investments in Subsidiary in Sri Lanka				
– SriLankan Catering Limited [(940,268,456 Shares, 100% Holding) (Directors' Valuation Based on Net Asset Value LKR 8.07 Bn. (2016: LKR 7.38 Bn.))]	–	–	42.24	42.24
– 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 and has not been consolidated due to immateriality.*

9. INVENTORIES

As at 31st March	Group 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2017 LKR Mn.	Company 2016 LKR Mn.
Engineering-related Stock	5,259.41	5,125.62	5,259.41	5,125.62
Ground Service-related Stock	433.34	516.45	433.34	516.45
Raw Materials and Consumables	807.12	838.00	501.78	575.58
	6,499.87	6,480.07	6,194.53	6,217.65
Less: Provision for Slow Moving Stock (Note 9.1)	(1,997.20)	(1,539.78)	(1,978.96)	(1,514.54)
	4,502.67	4,940.29	4,215.57	4,703.11

9.1 PROVISION FOR SLOW MOVING STOCK

	Group 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2017 LKR Mn.	Company 2016 LKR Mn.
Balance as at 1st April	(1,539.78)	(999.96)	(1,514.54)	(979.41)
Provision made during the Year	(797.40)	(549.42)	(797.40)	(544.73)
Written off during the Year	339.98	9.60	332.98	9.60
Balance as at 31st March	(1,997.20)	(1,539.78)	(1,978.96)	(1,514.54)

10. TRADE AND OTHER RECEIVABLES

As at 31st March	Group 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2017 LKR Mn.	Company 2016 LKR Mn.
Trade Receivables	12,630.95	11,275.62	11,879.53	10,442.68
Less: Movement for Provision for Impairment of Receivables (Note 10.2)	(980.65)	(210.21)	(927.37)	(205.26)
	11,650.30	11,065.41	10,952.16	10,237.42
Other Debtors	124.02	164.41	124.02	164.41
Deposits, Advances and Prepayments	3,670.15	3,059.87	3,431.14	2,834.84
	1 5,444.47	14,289.69	14,507.32	13,236.67
Loans and Advances to Company Officers (Note 10.3)	70.71	75.73	52.40	57.71
	1 5,515.18	14,365.42	14,559.72	13,294.38

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

10.1 AS AT 31ST MARCH THE AGEING ANALYSIS OF TRADE RECEIVABLES IS AS FOLLOWS:

As at 31st March 2017, Trade receivables amounting to LKR 980.65 Mn. related to Group and LKR 927.37 Mn. related to Company were impaired and fully provided for. Refer below Note 10.2 for the movement in provision for impairment of trade receivables:

As at 31st March 2017	Total LKR Mn.	Neither Past Due Nor Impaired LKR Mn.	Past Due Nor Impaired 30-60 LKR Mn.	Past Due Nor Impaired 61-90 LKR Mn.	Past Due Nor Impaired 91-180 LKR Mn.	Past Due Nor Impaired >180 LKR Mn.
Company	10,952.16	9,520.52	1,235.03	13.25	183.36	–
Group	11,650.30	10,050.36	1,345.79	38.82	208.20	7.13

10.2 MOVEMENT FOR PROVISION FOR IMPAIRMENT OF RECEIVABLES

	Group 2017 LKR Mn.	Company 2017 LKR Mn.
Balance as at 1st April	210.21	205.26
Provision for the Year*	781.36	728.96
Written-off during the Year	(10.92)	(6.85)
Balance as at 31st March	980.65	927.37

** Provision for impairment of receivables includes provision of LKR 744.54 Mn. Group and LKR 692.14 Mn. Company made in respect of a related party – Mihin Lanka (Private) Limited.*

10.3 LOANS TO COMPANY OFFICERS:

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

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Balance as at 1st April	1.28	1.06	0.04	0.05
Loans Granted during the Year	0.21	2.75	–	–
Repayments	(0.17)	(2.53)	(0.02)	(0.01)
Balance as at 31st March	1.32	1.28	0.02	0.04

11. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Components of Cash and Cash Equivalents

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
11.1 FAVOURABLE CASH AND CASH EQUIVALENT BALANCES				
Cash and Bank Balances	1,299.18	3,655.31	869.15	3,436.61
Short-Term Deposits	754.17	615.28	754.17	609.00
	2,053.35	4,270.59	1,623.32	4,045.61
11.2 UNFAVOURABLE CASH AND CASH EQUIVALENT BALANCES				
Bank Overdrafts (Note 15)	(7,541.30)	(2,141.92)	(7,541.30)	(2,141.92)
	(5,487.95)	2,128.67	(5,917.98)	1,903.69
11.3 Restricted Cash [Note 15.2 (a)]	(292.94)	(2,512.57)	(292.94)	(2,512.57)
Total Cash and Cash Equivalents for the Purpose of Statement of Cash Flows	(5,780.89)	(383.90)	(6,210.92)	(608.88)

12. STATED CAPITAL

12.1 ISSUED CAPITAL

	Group		Company	
	2017	2016	2017	2016
Number of Ordinary Shares Issued and Fully-Paid (Mn.)				
As at 1st April	516.17	516.17	516.17	516.17
As at 31st March	516.17	516.17	516.17	516.17

12.2 MOVEMENT IN STATED CAPITAL

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
As of 31st March				
Ordinary Shares Issued and Fully-Paid	51,617.44	51,617.44	51,617.44	51,617.44
Preference Shares	1,000.00	1,000.00	–	–
	52,617.44	52,617.44	51,617.44	51,617.44
Less: Preference Shares Reclassified (Note 14)	(1,000.00)	(1,000.00)	–	–
	51,617.44	51,617.44	51,617.44	51,617.44

13. RESERVES

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Revaluation Reserve	4,336.99	4,338.90	2,499.01	2,499.01
Movement in Cash Flow Hedge Reserve (Note 13.1)	(127.63)	(818.04)	(127.63)	(818.04)
	4,209.36	3,520.86	2,371.38	1,680.97

13.1 MOVEMENT IN CASH FLOW HEDGE RESERVE

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Balance as at 1st April	(818.04)	–	(818.04)	–
Net Movement of Cash Flow Hedge Reserve	690.41	(818.04)	690.41	(818.04)
Balance as at 31st March	(127.63)	(818.04)	(127.63)	(818.04)

14. PREFERENCE SHARES

PREFERENCE SHARES – EMPLOYEES' PROVIDENT FUND

Non-Voting Redeemable Cumulative Preference Shares held by Employees' Provident Fund are mandatorily redeemable on the date of maturity (16th May 2020). The holder is entitled to a fixed preference dividend of 13.01% per annum.

15. INTEREST-BEARING LIABILITIES

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Current Liabilities				
Long-Term Loans (Note 15.1)	819.39	10,431.60	819.39	10,431.60
Finance Lease Liability (Note 15.3)	952.66	798.03	952.66	796.08
Short-Term Loan	53,109.75	26,324.04	53,109.75	26,324.04
Bank Overdraft	7,541.30	2,141.92	7,541.30	2,141.92
	62,423.10	39,695.59	62,423.10	39,693.64
Non-Current Liabilities				
Long-Term Loans (Note 15.1)	26,687.24	26,121.82	26,687.24	26,121.82
Finance Leases (Note 15.3)	1,227.50	1,782.85	1,227.50	1,782.85
	27,914.74	27,904.67	27,914.74	27,904.67

15.1 LONG-TERM LOANS

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
(a) Current/Non-Current Classification				
Payable Within One Year Included Under Current Liabilities	819.39	10,431.60	819.39	10,431.60
After One Year but not more than Five Years	26,687.24	26,121.82	26,687.24	26,121.82
	27,506.63	36,553.42	27,506.63	36,553.42
(b) Movement in Long-Term Loans				
Balance as at 1st April	36,553.42	45,341.08	36,553.42	45,341.08
Additions during the Year	173.88	288.89	173.88	288.89
Payments during the Year	(10,708.94)	(12,593.60)	(10,708.94)	(12,593.60)
Unrealised Exchange Loss	1,488.27	3,517.05	1,488.27	3,517.05
Balance as at 31st March	27,506.63	36,553.42	27,506.63	36,553.42

	Group		Company	
	2017 Mn.	2016 Mn.	2017 Mn.	2016 Mn.
(c) Long-Term Loans Denominated in Foreign Currencies				
Long-Term Loans – USD Denominated	182.37	238.18	182.37	238.18
Long-Term Loans – AED Denominated	–	61.22	–	61.22

15.2 COMPANY

Lender	Balance as at 31st March 2017 LKR Mn.	Balance as at 31st March 2016 LKR Mn.	Repayment Term	Security	
(a) Bank Loans					
Interest Linked to LIBOR					
Syndicated Loan through Standard Chartered Bank	–	7,254.70	Monthly instalments ending March 2017.	Ticket Sales collected by IATA from Kuwait, Bahrain, UAE, Saudi Arabia, Oman, UK, China, France, India and a Government Guarantee for USD 50 Mn. and 3 Loan Instalments being maintained as security.	
Standard Chartered Bank	4,097.25	–	Payment on maturity March 2018.	Ticket Sales collected by IATA from Kuwait, Bahrain, UAE, Saudi Arabia, Oman, UK, China, France, India.	
Bank of Ceylon	–	43.35	Monthly instalments ending April 2016.	Mortgage over Ordinary shares of SriLankan Catering Limited.	
Commercial Bank of Ceylon PLC	331.32	659.34	Monthly instalments ending February 2018	USD 750,000 Fixed Deposit	Ticket sales collected by IATA from Qatar and cargo sales collected by IATA from the United Kingdom
Commercial Bank of Ceylon PLC	124.94	277.97	Monthly instalments ending December 2017.	USD 350,000 Fixed deposit and mortgage over the ground handling equipment imported under the facility	
Commercial Bank of Ceylon PLC	450.24	675.69	Monthly instalments ending September 2019.	USD 800,000 Fixed Deposit	

Lender	Balance as at 31st March 2017 LKR Mn.	Balance as at 31st March 2016 LKR Mn.	Repayment Term	Security
Amãna Bank Limited	200.31	260.10	Monthly instalments ending December 2021.	Restriction on SLA to sell, lease, alienate or mortgage A320 hanger and simulator building excluding land
Bank of Ceylon	4,931.88	–	Payment on maturity December 2017.	Letter of comfort from Ministry of Finance
Bank of Ceylon	6,449.38	–	Payment on maturity October 2017.	Letter of comfort from Ministry of Finance
People's Bank	4,931.88	–	Payment on maturity December 2017.	Letter of comfort from Ministry of Finance
People's Bank	6,449.38	–	Payment on maturity October 2017.	Letter of comfort from Ministry of Finance
Interest Linked to AWPLR				
Bank of Ceylon	12,900.00	12,900.00	Payment on maturity March 2018.	Letter of comfort from Ministry of Finance
People's Bank	13,350.00	13,350.00	Payment on maturity March 2018.	Letter of comfort from Ministry of Finance
Fixed Interest Rate				
CITI Bank	–	74.05	90 days rolling facility.	None

(b) International Bond

Fixed Interest Rate				
International Bond	26,556.25	25,287.50	Payment on maturity in June 2019	Government Guarantee for USD 175 Mn.

(c) Loans from Other Institutions

Interest Linked to LIBOR				
Deferred Payment Arrangement from a Supplier	–	2,355.27	Quarterly instalments ending July 2016.	None
Fixed Interest Rate				
Aircraft Lessor	10.93	41.62	Monthly instalments ending July 2017.	None

** Interest-bearing liabilities denominated in USD were converted to Sri Lankan Rupees at the exchange rates of LKR 151.75 (2016: USD/LKR 144.5 and AED/LKR 39.83) as at 31st March 2017.*

15.3 FINANCE LEASE LIABILITY

(a) Current/Non-Current Classification

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Payable Within One Year Included Under Current Liabilities	952.66	798.03	952.66	796.08
After One Year but not more than Five Years Included Under Non-Current Liabilities	1,063.68	1,391.20	1,063.68	1,391.20
More than Five Years Included Under Non-Current Liabilities	163.82	391.65	163.82	391.65
After One Year Included Under Non-Current Liabilities	1,227.50	1,782.85	1,227.50	1,782.85

(b) Finance Leases Denominated in Foreign Currencies

	Group/Company	
	2017 Mn.	2016 Mn.
Finance Leases – EUR Denominated	7.82	8.93
Finance Leases – GBP Denominated	0.03	0.05
Finance Leases – USD Denominated	5.65	7.03

(c) Movement in Finance Lease Liabilities

	Gross Payable LKR Mn.	Finance Charges for Future Periods LKR Mn.	Net Payable 2017 LKR Mn.	Net Payable 2016 LKR Mn.
Group				
Balance as at 1st April	3,142.93	(562.05)	2,580.88	2,727.78
Additions during the Year	46.53	(2.77)	43.76	39.07
Payments during the Year	(641.29)	166.42	(474.87)	(451.09)
Exchange (Gain)/Loss	17.85	12.54	30.39	265.12
Balance as at 31st March	2,566.02	(385.86)	2,180.16	2,580.88
Company				
Balance as at 1st April	3,140.90	(561.97)	2,578.93	2,703.95
Additions during the Year	46.53	(2.77)	43.76	39.07
Payments during the Year	(639.27)	166.35	(472.92)	(429.21)
Exchange (Gain)/Loss	17.85	12.54	30.39	265.12
Balance as at 31st March	2,566.01	(385.85)	2,180.16	2,578.93

16. OTHER LONG-TERM LIABILITIES

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Provision for Aircraft Maintenance and Overhaul Cost (Note 16.1) (b)	8,095.72	5,146.81	8,095.72	5,146.81
Retirement Benefit Obligation (Note 16.2)	5,569.72	5,323.00	5,087.26	4,844.37
Deferred Tax Liability	77.13	77.14	–	–
	13,742.57	10,546.95	13,182.98	9,991.18

16.1 PROVISION FOR FUTURE AIRCRAFT MAINTENANCE AND OVERHAUL COST

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
(a) Movement				
As at 1st April	12,253.24	13,479.50	12,253.24	13,479.50
Provisions during the Year	6,029.15	5,406.38	6,029.15	5,406.38
Adjustments (Note 6)	625.86	(4,260.65)	625.86	(4,260.65)
Utilisation	(5,988.86)	(2,371.99)	(5,988.86)	(2,371.99)
As at 31st March	12,919.39	12,253.24	12,919.39	12,253.24

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
(b) Current/Non-Current Classification				
Payable with in One Year Included Under Trade Payables (Note 18)	4,823.67	7,106.43	4,823.67	7,106.43
After One Year Included Under Long-Term Liabilities	8,095.72	5,146.81	8,095.72	5,146.81
	12,919.39	12,253.24	12,919.39	12,253.24

16.2 RETIREMENT BENEFIT OBLIGATION – GRATUITY

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Balance as at 1st April	5,323.00	4,578.99	4,844.37	4,129.07
Current Service Cost and Interest Cost	964.07	792.49	888.07	718.69
Actuarial (Gain)/Loss	(302.69)	243.16	(254.20)	235.63
Payments during the Year	(414.66)	(291.64)	(390.98)	(239.02)
Balance as at 31st March	5,569.72	5,323.00	5,087.26	4,844.37

The actuarial valuation was carried out by a professionally qualified Actuary, Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Limited for the years ended 31st March based on the following key assumptions:

	Company		Subsidiary	
	2017	2016	2017	2016
(i) Rate of Interest			12%	10%
– LKR	13%	13%		
– USD	5%	7%		
(ii) Rate of Salary Increase				
– LKR				
– Senior Staff	10%	3%		
– Non-Senior Staff	10%	13%		
– USD	3%	3%		
– Executives and Non-Executives			12%	12%
(iii) Retirement Age – Years	60	60	55	55
(iv) The Entity will Continue as a Going Concern				
(v) Expected Remaining Service Life – Years	8	13.26	9.04	9.16

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 Retirement Benefit Obligation			
		2017		2016	
		Company LKR Mn.	Subsidiary LKR Mn.	Company LKR Mn.	Subsidiary LKR Mn.
1%	–	(326.64)	(29.27)	(355.57)	(29.27)
-1%	–	370.49	32.77	382.69	32.77
–	1%	375.17	34.09	384.52	34.09
–	-1%	(334.80)	(31.01)	(341.95)	(31.01)

17. SALES IN ADVANCE OF CARRIAGE

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

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Trade and Other Payables	28,258.39	28,099.30	34,046.79	33,299.05
Provision for Future Aircraft Maintenance and Overhaul Cost (Note 16.1) (b)	4,823.67	7,106.43	4,823.67	7,106.43
Compensation for Cancellation of Lease Agreements (Note 18.1)	6,054.83	2,489.47	6,054.83	2,489.47
	39,136.89	37,695.20	44,925.29	42,894.95

18.1 During the year, the Company has entered into a Termination and Amendment Agreement (Agreement) with a Lessor to cancel three A350-900 aircraft, which were scheduled to be delivered during the third quarter of 2016/17 at a cost of USD 98 Mn. (LKR 14,362.81 Mn.). As per the terms of the Agreement, the Company was required to pay a cancellation fee of USD 90.5 Mn. of which USD 39.9 Mn. (LKR 6,054.83 Mn.) was payable as at the Reporting date and this amount has been subsequently settled in full.

During the year 2016, Company cancelled a lease agreement to obtain one A350-900 Aircraft, which was scheduled to be delivered on November 2017. As per the terms of the cancellation agreement, the Company was required to pay a total lease cancellation charge amounting to USD 17.77 Mn. (LKR 2,561.55 Mn.).

19. FINANCIAL INSTRUMENTS

19.1 CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and liabilities in the table below are split in to categories in accordance with LKAS 39:

	Group			
	2017		2016	
	Loans and Receivables LKR Mn.	Financial Liabilities at Amortised Cost LKR Mn.	Loans and Receivables LKR Mn.	Financial Liabilities at Amortised Cost LKR Mn.
Financial Assets				
Trade and Other Receivables	13,127.34	–	12,065.83	–
Aircraft Maintenance Reserve	14,637.30	–	10,197.38	–
Aircraft Spare Engine Deposits	5,689.32	–	6,219.75	–
Cash and Bank Balances	2,053.35	–	4,270.59	–
	35,507.31	–	32,753.55	–
Financial Liabilities				
Interest-Bearing Loans and Borrowings	–	90,337.84	–	67,600.26
Provision for Aircraft Maintenance and Overhaul Cost	–	12,919.39	–	12,253.24
Trade and Other Payables	–	36,697.06	–	27,198.50
Total	–	139,954.29	–	107,052.00

	Company			
	2017		2016	
	Loans and Receivables LKR Mn.	Financial Liabilities at Amortised Cost LKR Mn.	Loans and Receivables LKR Mn.	Financial Liabilities at Amortised Cost LKR Mn.
Financial Assets				
Trade and Other Receivables	12,386.48	–	11,113.80	–
Aircraft Maintenance Reserve	14,637.30	–	10,197.36	–
Aircraft Spare Engine Deposits	5,689.32	–	6,219.75	–
Cash and Bank Balances	1,623.32	–	4,045.61	–
	34,336.42	–	31,576.52	–
Financial Liabilities				
Interest-Bearing Loans and Borrowings	–	90,337.84	–	67,598.32
Provision for Aircraft Maintenance and Overhaul Cost	–	12,919.39	–	12,253.24
Trade and Other Payables	–	35,956.39	–	32,554.88
Total	–	139,213.62	–	112,406.44

The Following Methods and Assumptions were used to Estimate the Fair Values:

The Management assessed the fair value of cash and bank balances, trade and other receivables, trade and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Management assessed the fair value of long-term variable rate borrowings approximate their carrying amounts largely due to the market based interest rates. Therefore, the carrying amounts of Group/Company financial instruments are reasonable approximation of their fair values.

20. REVENUE AND SEGMENT INFORMATION

20.1 REVENUE

		Group		Company	
		2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Scheduled Services	– Passenger	105,001.10	103,944.55	105,001.10	103,944.55
	– Cargo	11,987.12	12,074.39	11,987.12	12,074.39
	– Excess Baggage	926.73	841.96	926.73	841.96
	– Mail	218.43	384.09	218.43	384.09
		118,133.38	117,244.99	118,133.38	117,244.99
Air Terminal and Other Services		16,671.49	11,481.75	16,744.17	11,523.50
Duty Free		579.22	572.61	579.22	572.61
Non-Scheduled Services		6.82	139.31	6.82	139.31
Flight Catering		3,172.32	2,759.65	–	–
Total		138,563.23	132,198.31	135,463.59	129,480.41

20.2 SEGMENT INFORMATION

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

	Sri Lanka LKR Mn.	Asia (Excluding Sri Lanka) LKR Mn.	Europe and Africa LKR Mn.	Middle East LKR Mn.	North and South America LKR Mn.	South West Pacific LKR Mn.	Total 2017 LKR Mn.
Revenue 2017							
Scheduled Services							
– Passenger	19,150.88	40,702.68	17,975.83	21,766.20	4,198.22	1,207.29	105,001.10
– Cargo	4,693.57	5,678.12	958.64	620.50	33.00	3.29	11,987.12
– Excess Baggage	104.21	285.17	28.82	506.49	1.11	0.93	926.73
– Mail	94.71	68.45	39.97	–	–	15.30	218.43
	24,043.37	46,734.42	19,003.26	22,893.19	4,232.33	1,226.81	118,133.38
Air Terminal and Other Services	16,671.49	–	–	–	–	–	16,671.49
Duty Free	–	319.77	76.47	182.98	–	–	579.22
Non-Scheduled Services	6.82	–	–	–	–	–	6.82
Flight Catering	3,172.32	–	–	–	–	–	3,172.32
Segment Revenue	43,894.00	47,054.19	19,079.73	23,076.17	4,232.33	1,226.81	138,563.23

	Sri Lanka LKR Mn.	Asia (Excluding Sri Lanka) LKR Mn.	Europe and Africa LKR Mn.	Middle East LKR Mn.	North and South America LKR Mn.	South West Pacific LKR Mn.	Total 2016 LKR Mn.
Revenue 2016							
Scheduled Services							
– Passenger	17,670.57	36,380.59	23,907.25	20,788.91	3,118.34	2,078.89	103,944.55
– Cargo	4,918.65	5,242.20	1,534.13	369.33	10.08	–	12,074.39
– Excess Baggage	93.92	249.77	34.09	460.72	2.54	0.92	841.96
– Mail	93.32	51.16	228.11	0.01	–	11.49	384.09
	22,776.46	41,923.72	25,703.58	21,618.97	3,130.96	2,091.30	117,244.99
Air Terminal and Other Services	11,481.75	–	–	–	–	–	11,481.75
Duty Free	–	317.31	141.69	113.61	–	–	572.61
Non-Scheduled Services	139.31	–	–	–	–	–	139.31
Flight Catering	2,759.65	–	–	–	–	–	2,759.65
Segment Revenue	37,157.17	42,241.03	25,845.27	21,732.58	3,130.96	2,091.30	132,198.31

(b) Secondary Reporting by Business Segment

	Business Segment				Business Segment			
	Airline LKR Mn.	Flight Catering LKR Mn.	Inter-Segment Eliminations LKR Mn.	Group 2017 LKR Mn.	Airline LKR Mn.	Flight Catering LKR Mn.	Inter-Segment Eliminations LKR Mn.	Group 2016 LKR Mn.
Revenue								
Sales to External Customers	135,463.59	7,216.13	(4,116.49)	138,563.23	129,480.41	6,283.18	(3,565.28)	132,198.31
Results								
Profit/(Loss) After Tax	(28,929.99)	3,736.39	(3,145.91)	(28,339.51)	(12,621.69)	3,637.87	(3,099.80)	(12,083.62)
Other Segment Information								
Total Assets	51,633.63	10,571.49	(6,791.35)	55,413.77	50,449.03	9,700.82	(5,998.13)	54,151.72
Total Liabilities	167,400.27	2,503.93	(6,696.91)	163,207.29	138,230.29	2,324.45	(5,955.91)	134,598.83
Acquisition of Property, Plant and Equipment	885.02	208.96	–	1,093.98	1,073.38	27.42	–	1,100.80
Acquisition of Intangible Assets	22.66	25.26	–	47.92	47.11	1.48	–	48.59
Depreciation and Amortisation	2,041.63	284.67	–	2,326.30	2,683.91	305.53	–	2,989.44
Finance Cost	6,922.92	130.18	–	7,053.10	5,917.25	188.93	(54.25)	6,051.93
Finance Income	60.09	862.36	(832.50)	89.95	65.90	1,403.67	(1,393.81)	75.76
Tax	–	25.25	–	25.25	–	(2.93)	–	(2.93)
Operating Expenses	146,733.21	4,216.38	(4,896.54)	146,053.05	137,311.44	3,876.45	(4,959.63)	136,228.26
Trade Debtor Written off	6.85	4.07	–	10.92	–	4.24	–	4.24
Inventory Written off	332.98	7.00	–	339.98	9.60	–	–	9.60

21. OTHER INCOME AND GAINS

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Profit on Disposal of Property, Plant and Equipment	24.50	–	2.99	–
Miscellaneous	477.02	481.12	468.80	467.99
Dividends from SriLankan Catering Limited	–	–	3,093.48	2,154.25
Gain from Redemption of Preference Shares	–	–	–	1,000.00
	501.52	481.12	3,565.27	3,622.24

22. OPERATING LOSS

Stated after Charging/(Crediting)	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Aircraft Insurance	485.26	471.74	485.26	471.74
Franchise Fees	383.59	318.48	383.59	318.48
Provision for Slow Moving Inventory	797.40	549.42	797.40	544.73
Auditors' Remuneration				
– Audit	9.26	8.92	8.06	6 .40
– Other Services	4.38	4.24	3.72	4.03
Provision for Impairment of Receivables	781.36	12.80	728.96	11.81
Provision for Impairment of Property, Plant and Equipment	11.24	11.24	–	–
Exchange Loss	2,835.07	2,325.68	3,667.57	3,719.48

23. FINANCE INCOME AND COST

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
23.1 FINANCE INCOME				
Interest Income	89.95	75.76	60.09	65.90
23.2 FINANCE COST				
Interest Cost on Borrowings, Bank Overdrafts and Overdue Supplier Balances	6,746.49	5,717.60	6,746.41	5,715.53
Finance Charges on Lease Liabilities	176.51	201.72	176.51	201.72
Preference Share Dividend	130.10	132.61	–	–
	7,053.10	6,051.93	6,922.92	5,917.25

24. TAXATION

	Group	
	2017 LKR Mn.	2016 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 (Note 24.1)	25.25	5.92
Under/(Over) Provision of Current Taxes in Respect of Prior Years	–	(8.85)
	25.25	(2.93)

24.1 RECONCILIATION BETWEEN CURRENT TAX EXPENSE AND THE PRODUCT OF ACCOUNTING LOSS

	Group	
	2017 LKR Mn.	2016 LKR Mn.
Accounting Loss before Tax	(28,314.26)	(12,086.55)
Income not Subject to Tax	28,364.18	12,093.35
Statutory Income Applicable Under Tax Rate of 28%	49.92	6.80
Taxable Profit	49.92	6.80
Statutory Tax Charge at Tax Rate 28%	13.98	1.90
Tax Effect of Net Non-Deductible Expenses	1.30	(0.55)
Tax on Other Income	9.97	5.40
	25.25	6.75
Less: Tax Effect of Losses Set Off	–	(0.83)
Current Income Tax Expense	25.25	5.92

24.2 UNRECOGNISED DEFERRED TAX (ASSETS)

The net deferred tax asset resulting from temporary taxable deductions has not been recognised by the Group.

Group

Deferred tax assets attributable to the following items has not been recognised:

	Assets		Liability		Net Asset/(Liability)	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Property, Plant and Equipment	4.20	4.06	(906.70)	–	(902.50)	4.06
Employee Benefits	1,496.80	71.80	–	–	1,496.80	71.80
	1,501.00	75.86	(906.70)	–	594.30	75.86

Movement in Temporary Differences during the Year:

	Balance as at 31st March 2015 LKR Mn.	Movement during the Year LKR Mn.	Balance as at 31st March 2016 LKR Mn.	Movement during the Year LKR Mn.	Balance as at 31st March 2017 LKR Mn.
Property, Plant and Equipment	27.01	0.08	27.09	(3,237.32)	(3,210.23)
Employee Benefits	449.92	28.71	478.63	5,091.09	5,569.72
	476.93	28.79	505.72	1,853.77	2,359.49

Company

	Assets		Liability		Net Asset/(Liability)	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Property, Plant and Equipment	–	–	(906.70)	–	(906.70)	–
Employee Benefits	1,424.43	–	–	–	1,424.43	–
	1,424.43	–	(906.70)	–	517.73	–

Company

The Company has measured the deferred tax for temporary differences, where reversals of such differences extend beyond the tax exemption period: i.e. after 2021. The rate of tax used is 28% which is the tax rate that is expected to be applied to the temporary differences when they reverse, based on the tax laws enacted as at the Reporting date since no other rate is available which is expected to apply after the tax exemption period. However, the Company has not recognised net deferred tax asset amounting to LKR 517.73 Mn. as at 31st March 2017 as it is not probable that the future taxable profits will be adequate to utilise the available deferred tax assets in the foreseeable future.

Subsidiary

Deferred tax liability on revaluation gain on the building improvements has been recognised (Note 16). Other revaluation gains do not give rise to deferred tax as they reverse within the tax holiday period. Deferred tax assets have not been recognised because of the tax holiday of the Company that extended up to 2021 and thereafter a concessionary rate will apply for another eight years. Therefore, the tax impact would be offset over the remaining five years and any remaining amounts is considered immaterial. Deferred tax is quantified at the rate of 15%.

24.3 SUPER GAIN TAX

As per the provisions of Part III of the Finance Act No. 10 of 2015, the Subsidiary was liable for Super Gain Tax of LKR 9.43 Mn. According to the Act the Super Gain Tax shall be deemed to be an expenditure in the Financial Statements relating to the year of assessment which commenced on 1st April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards and hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by The Institute of Chartered Accountants of Sri Lanka, dated 24th November 2015.

25. COMMITMENTS AND CONTINGENCIES

25.1 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:

	Group/Company	
	2017 LKR Mn.	2016 LKR Mn.
Authorised and Contracted but not Provided for		
Tangible*	163,890.77	155,545.79
Intangible	5.86	15.93
	163,896.63	155,561.72
Authorised but not Contracted for		
Tangible	247.09	278.83
Intangible	145.39	20.31
	392.48	299.14
	164,289.11	155,860.86

** As of 31st March 2017, an amount of LKR 163,323.06 Mn. (USD 1,076 Mn.) [2016: LKR 155,520 Mn. (USD 1,076 Mn.)] representing the list price, excluding cost of any additional features and credits available for the purchase of four A350-900 Aircraft have been considered under capital commitment.*

25.2 FINANCIAL COMMITMENTS

(a) Total future minimum lease commitment under non-cancellable operating leases as at 31st March were as follows:

	Group/Company	
	2017 LKR Mn.	2016 LKR Mn.
Within One Year	25,055.34	24,869.68
After One Year but not more than Five Years	98,090.83	108,656.13
Later than Five Years	116,434.10	163,750.81
	239,580.27	297,276.62

(a) Lease commitments as at 31st March 2017 includes Lease Commitments on the following aircraft expected to be delivered between the years 2017 to 2018. Four A321neo and one used A330-200 aircraft amounting to LKR 36,325.02 Mn. and LKR 9.924.45 Mn. respectively. The above lease commitment has been based on the Base Rental which excludes adjustments for Standard Airbus escalation, interest rate adjustments and the cost of any additional features which, will be adjusted at delivery. However, estimated lease commitment as at 31st March 2017 including above adjustments at delivery in respect of Four A321neo and one used A330-200 aircraft will amount to LKR 37,207.90 Mn. and LKR 9.924.45 Mn. respectively.

Lease commitments as at 31st March 2016 includes lease commitments on the following aircraft expected to be delivered between the years 2016 to 2018. Three A350-900, Four A321neo and Two A320neo aircraft amounting to LKR 75,845.16 Mn., LKR 34,589.55 Mn. and LKR 15,606.00 Mn. respectively. The above lease commitment has been based on the Base Rental which excludes adjustments for Standard Airbus escalation, interest rate adjustments and the cost of any additional features which, will be adjusted at delivery. However, estimated lease commitment as at 31st March 2016 including above adjustments at delivery in respect of Three A350-900, Four A321neo and Two A320neo aircraft will amount to LKR 89,266.32 Mn., LKR 38,689.29 Mn. and LKR 17,002.19 Mn. respectively.

(b) As at 31st March 2017, the Company has issued Letters of Credit with the value of LKR 1,050.89 Mn. (USD 6.93 Mn.) [2016 – LKR 1,145.18 Mn. (USD 7.93 Mn.)] as Security deposits for leased Aircraft.

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

	Group		Company	
	2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
Instalment Payable:				
Within One Year	780.00	740.40	648.77	666.25
After One Year but not more than Five Years	2,000.09	1,799.64	1,600.40	1,519.45
Later than Five Years	2,303.98	2,560.40	1,897.79	2,286.88

25.3 CONTINGENCIES

Company

The contingent liabilities are based on claims made of LKR 3,315.53 Mn. as at 31st March 2017 (2016 – LKR 125.85 Mn.). The Contingent Liability of LKR 3,315.53 Mn. includes claims made by several suppliers of aircraft parts as a result of cancellation of aircraft lease agreements amounting to LKR 1,801.77 Mn. (USD 11.87 Mn.), a penalty levied by an overseas tax authority pertaining to payment of airport taxes amounting to LKR 601.51 Mn. (USD 3.96 Mn.), a claim of LKR 338.94 Mn. (USD 2.23 Mn.) made by a supplier pursuant to the discontinuation of a contract and Service Tax disputes with an overseas tax authority amounting to LKR 479.57 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 course of business of the Company in respect of legal actions, other claims and potential claims being made against the Company by customers, suppliers and employees.

Further, refer Note 5 to the Financial Statements.

Subsidiary

In the opinion of the Company's lawyers, there are no pending litigations against the Company other than the following case that will have an impact on the reported financial results or the future operations of the Company.

The Labour Tribunal Case (LT Case No. 21/337/2015) – K. D. L. J. Kamalpem Vs SriLankan Catering Limited that is going on. Further, there are 21 cases which have been appealed by the Company as at the date of financial position. A deposit of LKR 27,374,985/- has been deposited for such appealed cases.

26. ASSETS PLEDGED

Company/Group

Refer Note 15.2 for details of the assets pledged against facilities obtained.

27. EVENTS OCCURRING AFTER THE REPORTING DATE

COMPANY

A term loan of USD 125 Mn. was obtained from a foreign Bank in May 2017.

Short-term facilities of USD 50 Mn. was obtained from state banks on the strength of 'Letters of Comfort' issued by the GOSL Treasury.

SUBSIDIARY

There are no events occurring after the Reporting date that require adjustments to or disclosure in the Financial Statements.

28. RELATED PARTY DISCLOSURES

28.1 GROUP AND COMPANY

28.1.1 Transactions with Key Management Personnel (KMP)

Related parties include KMPs defined as those persons having authority and responsibility for planning, directing and operating 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.

In line with the Group/Company policy which stipulate that any transaction between the Company and the related party (where the affiliates of the Company, the Directors, Employees or their close family members have an interest) shall be disclosed, the associated declarations made by the KMPs have been considered.

The significant transactions carried out by the KMP in the ordinary course of business during the Reporting period are as follows:

	2017 LKR Mn.	2016 LKR Mn.
Short-Term Benefits	323.21	196.40
Post-Employment Benefits	39.40	21.67

The above includes Directors' fee paid during the year amounting to LKR 9.86 Mn. (2016 – LKR 9.11 Mn.) and privilege and other firm air tickets amounting to LKR 19.55 Mn. which include Free of Charge Business Class travel on SriLankan Airlines by the Directors, their spouses and dependent children during their term of office. In addition to the above, the other Key Management Personnel and their spouses and dependent children are also entitled for free of charge air tickets.

28.2 GROUP

The Government of Sri Lanka (GOSL) being the major shareholder of the Company has the controlling power over the Group.

The following significant transactions have been carried out with entities controlled by the GOSL in the ordinary course of business:

Name of the Company	Relationship	Nature of Transactions	Transaction Amount 2017 LKR Mn.	Transaction Amount 2016 LKR Mn.	Receivable/(Payable) Balance 2017 LKR Mn.	Receivable/(Payable) Balance 2016 LKR Mn.
Ceylon Petroleum Corporation	Government-Owned	Fuel	(19,921.07)	(18,765.08)	(10,327.05)	(9,328.16)
		Deferred Supplier Payments	–	(4,349.77)	–	(2,355.27)
		Finance Cost on Overdue Payments	(368.64)	(759.23)	(445.21)	(417.79)
Airport and Aviation Services Limited	Government-Owned	Landing, Parking, Aero Bridge, Lounge, Rent, Franchise Fees and Garbage Incineration Charges	(3,415.30)	(3,932.84)	(1,210.65)	(3,386.74)
Civil Aviation Authority	Government-Controlled	Licenses, Permits and Levies	(6,484.09)	(4,692.43)	(0.21)	(1.10)
Mihin Lanka (Private) Limited	Government-Owned	Sales	6,123.54	7,238.89	744.54	839.70
		Purchases	(5,560.40)	(7,137.61)	–	–
Sri Lanka Insurance Corporation	Government-Owned	Insurance Services	(407.88)	(524.69)	–	–
Bank of Ceylon	Government-Owned	Loan Repayments	(43.35)	(497.31)	(24,281.25)	(12,943.35)
		Loan Received	11,381.25	7,900.00	–	–
		Short-Term Deposits	–	–	216.04	183.75
		Interest	(2,175.33)	(899.64)	–	–
		Bank Overdraft	–	–	(6,805.31)	(1,767.39)
People's Bank	Government-Owned	Loan Received	11,381.25	13,350.00	(24,731.25)	(13,350.00)
		Interest	(2,137.39)	(827.10)	–	–
Employees' Provident Fund	Shareholder of the Subsidiary	Preference Share Dividend	(130.10)	(132.61)	(64.87)	(64.87)
		13.01% Non-Voting Redeemable Cumulative (Five Years) Preference Shares	–	–	(1,000.00)	(1,000.00)

As of the Reporting date the Group has utilised Bank Guarantee facility of LKR 1,159.94 Mn. (2016 – LKR 1,299.21 Mn.) from Bank of Ceylon.

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.

The Group has impaired trade receivables from related parties amounting to LKR 744.54 Mn. during the year. As of the Reporting date provision for impairment relating to related parties amounted to LKR 872.85 Mn. (2016 – LKR 132.75 Mn.).

Limited disclosures have been made in accordance with LKAS 24 – 'Related Party Disclosures' for transactions that are individually significant because of their size and due to the impracticability of capturing and disclosure of all transactions which have been carried out with all Government controlled/related entities.

Following are some of such other Government controlled/related entities with whom the Group has transacted with, during the year:

- Ceylon Electricity Board
- Department of Inland Revenue
- State Pharmaceutical Corporation
- Ministry of Foreign Affairs
- Ceylon Tourist Board
- Sri Lanka Postal Authority
- Sri Lanka Tourism Promotion Bureau
- Presidential Secretariat

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

Company

Transactions with the related party took place at commercial terms.

Subsidiary

Sales made to SriLankan Airlines Limited and Mihin Lanka (Private) Limited is at a discounted prices including a volume discount. Transactions with the other related party took place at commercial terms.

28.3 COMPANY

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

Name of the Company	Relationship	Nature of Transactions	Transaction Amount		Receivable/(Payable) Balance	
			2017 LKR Mn.	2016 LKR Mn.	2017 LKR Mn.	2016 LKR Mn.
SriLankan Catering Limited	Subsidiary	Freight Services	20.03	14.45	–	–
		Flight Catering and Other Services	(4,096.48)	(3,550.84)	(6,707.47)	(5,955.87)
		Dividend	3,093.48	2,100.00	–	–
		15% Non-Voting Redeemable Cumulative (Five Years) Preference Shares	–	54.25	–	–
		Redemption of Preference Shares	–	1,000.00	–	–
Ceylon Petroleum Corporation	Government-Owned	Fuel	(19,813.14)	(18,673.29)	(10,327.05)	(9,328.16)
		Deferred Supplier Payments	–	(4,349.77)	–	(2,355.27)
		Finance Cost on Overdue Payments	(368.64)	(759.23)	(445.21)	(417.79)
Airport and Aviation Services Limited	Government-Owned	Landing, Parking, Aero Bridge, Lounge, Rent, Franchise Fees and Garbage Incineration Charges	(2,940.50)	(3,537.51)	(1,294.15)	(3,462.53)
Civil Aviation Authority	Government-Controlled	Licences, Permits and Levies	(6,484.09)	(4,692.43)	(0.21)	(1.10)
Mihin Lanka (Private) Limited	Government-Owned	Sales	5,869.73	6,901.97	692.14	540.81
		Purchases	(5,560.40)	(7,137.61)	–	–
Sri Lanka Insurance Corporation	Government-Owned	Insurance Services	(407.88)	(524.69)	–	–
Bank of Ceylon	Government-Owned	Loan Repayments	(43.35)	(497.31)	(24,281.25)	(12,943.35)
		Loan Received	11,381.25	7,900.00	–	–
		Short-Term Deposits	–	–	216.04	183.75
		Interest	(2,175.33)	(899.64)	–	–
		Bank Overdraft	–	–	(6,805.31)	(1,767.39)
People's Bank	Government-Owned	Loan Received	11,381.25	13,350.00	(24,731.25)	(13,350.00)
		Interest	(2,137.39)	(827.10)	–	–

As of the Reporting date the Company has utilised Bank Guarantee facility of LKR 1,159.94 Mn. (2016 – LKR 1,299.21 Mn.) from Bank of Ceylon.

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.

The Company has impaired trade receivables from related parties amounting to LKR 692.14 Mn. during the year. As of the Reporting date, provision for impairment relating to related parties amounted to LKR 872.36 Mn. (2016 – LKR 128.79 Mn.).

Limited disclosures have been made in accordance with LKAS 24 – 'Related Party Disclosures' for transactions that are individually significant because of their size and due to the impracticability of capturing and disclosure of all transactions which have been carried out with all Government controlled/related entities.

Following are some of such Other Government-controlled/related entities with whom the Company has transacted with, during the year:

- Ceylon Electricity Board
- Department of Inland Revenue
- State Pharmaceutical Corporation
- Ministry of Foreign Affairs
- Ceylon Tourist Board
- Sri Lanka Postal Authority
- Sri Lanka Tourism Promotion Bureau
- Presidential Secretariat

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).

Transactions with the related party took place at commercial terms.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group'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 Group's operations. The Group's financial assets comprise 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 Group 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 Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group'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. With all other variables held constant, the Group/Company loss before tax would have been affected through the impact on floating rate borrowings as follows:

	Effect on Loss before Tax		Effect on Loss before Tax	
	Group 2017 LKR Mn.	Company 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2016 LKR Mn.
Increase/(Decrease) in Interest Rate				
+1%	462.72	462.72	359.45	359.45
-1%	(462.72)	(462.72)	(359.45)	(359.45)

** 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 Group is exposed to the effect of foreign exchange rate fluctuations because of its foreign currency denominated revenue, expenses, borrowings and other financial instruments.

Group manages its foreign exchange exposure by a policy of matching as far as possible, receipts and payments in each individually significant currency and hedging identified foreign currency loans against its highly probable, specifically identified future revenue in foreign currency.

The following table demonstrates the sensitivity to a reasonably possible change in Sri Lankan Rupee (LKR) against US Dollar (USD), with all other variables held constant, of the Group/Company loss before tax (due to changes in the fair value of outstanding monetary assets and liabilities recorded in Statement of Financial Position as of the Reporting date). The Group's exposure to foreign currency changes for all other currencies is not material.

	Effect on OCI		Effect on Loss before Tax		Effect on OCI		Effect on Loss before Tax	
	Group 2017 LKR Mn.	Company 2017 LKR Mn.	Group 2017 LKR Mn.	Company 2017 LKR Mn.	Group 2016 LKR Mn.	Company 2016 LKR Mn.	Group 2016 LKR Mn.	Company 2016 LKR Mn.
Appreciation/(Depreciation) of USD against LKR								
+3%	11.07	11.07	1,330.14	1,644.65	345.97	345.97	409.85	924.68
-3%	(11.07)	(11.07)	(1,330.14)	(1,644.65)	(345.97)	(345.97)	(409.85)	(924.68)

** Appreciation of USD results in an increase in losses.*

(II) LIQUIDITY RISK

The liquidity risk is the risk that the Group may not be able to meet its present and future cash obligations when they fall due. The Group monitors its risk of shortage of funds using a daily/weekly/monthly and annual cash management and budgeting process. Group 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.

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

	2017					
	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	7,541.30	1,218.78	55,323.39	30,202.57	176.49	94,462.53
Aircraft Maintenance and Overhaul Cost	1,409.25	689.74	2,724.68	5,561.65	2,534.07	12,919.39
Trade and Other Payables	–	36,697.06	–	–	–	36,697.06
Preference Shares	–	65.05	65.05	1,276.46	–	1,406.56
	8,950.55	38,670.63	58,113.12	37,040.68	2,710.56	145,485.54
Company						
Interest-Bearing Liabilities	7,541.30	1,218.27	55,321.87	30,202.57	176.49	94,460.50
Aircraft Maintenance and Overhaul Cost	1,409.25	689.74	2,724.68	5,561.65	2,534.07	12,919.39
Trade and Other Payables	–	35,956.39	–	–	–	35,956.39
	8,950.55	37,864.40	58,046.55	35,764.22	2,710.56	143,336.28

	2016					
	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	2,141.92	3,662.01	37,182.34	30,336.70	418.24	73,741.21
Aircraft Maintenance and Overhaul Cost	1,092.88	1,672.12	3,926.94	4,753.80	807.50	12,253.24
Trade and Other Payables	–	27,321.94	–	–	–	27,321.94
Preference Shares	–	65.05	65.05	1,406.56	–	1,536.66
	3,234.80	32,721.12	41,174.33	36,497.06	1,225.74	114,853.05
Company						
Interest-Bearing Liabilities	2,141.92	3,661.51	37,180.82	30,336.70	418.24	73,739.19
Aircraft Maintenance and Overhaul Cost	1,092.88	1,672.12	3,926.94	4,753.80	807.50	12,253.24
Trade and Other Payables	–	32,554.88	–	–	–	32,554.88
	3,234.80	37,888.51	41,107.76	35,090.50	1,225.74	118,547.31

(III) CREDIT RISK

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group 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 on 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 3 to these Financial Statements, the Government of Sri Lanka has demonstrated its commitment to infuse the required funding by way of equity infusion and sovereign guarantee/letters of comfort to raise debt financing.

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.

30. COMPARATIVE INFORMATION

The following items in the Statement of Profit or Loss and Statement of Financial Position have been reclassified in order to achieve better presentation:

	Group			Company		
	2016 LKR Mn.	Reclassifications LKR Mn.	2016 Reclassified LKR Mn.	2016 LKR Mn.	Reclassifications LKR Mn.	2016 Reclassified LKR Mn.
Statement of Profit or Loss						
Expenditure						
Employee Cost	(11,790.83)	(6,055.11)	(17,845.94)	(10,693.32)	(6,055.11)	(16,748.43)
Airport, Enroute and Passenger Expenses	(20,170.97)	(370.31)	(20,541.28)	(22,271.90)	(370.31)	(22,642.21)
Selling, Marketing and Advertising Expenses	(11,314.97)	(116.26)	(11,431.23)	(11,314.97)	(116.26)	(11,431.23)
Crew Expenses	(11,538.80)	6,055.11	(5,483.69)	(11,538.80)	6,055.11	(5,483.69)
Other Operating Expenses	(10,462.96)	370.31	(10,092.65)	(10,848.25)	370.31	(10,477.94)
Other Income and Gains	364.86	116.26	481.12	3,505.98	116.26	3,622.24
Impact to the Loss for the Year		–			–	
Statement of Financial Position						
Trade and Other Receivables	14,292.69	72.73	14,365.42	13,221.65	72.73	13,294.38
Trade and Other Payables	(37,659.40)	(35.80)	(37,695.20)	(42,859.15)	(35.80)	(42,894.95)
Sales in Advance of Carriage	(17,533.47)	(36.93)	(17,570.40)	(17,533.47)	(36.93)	(17,570.40)
Impact to the Net Assets		–			–	

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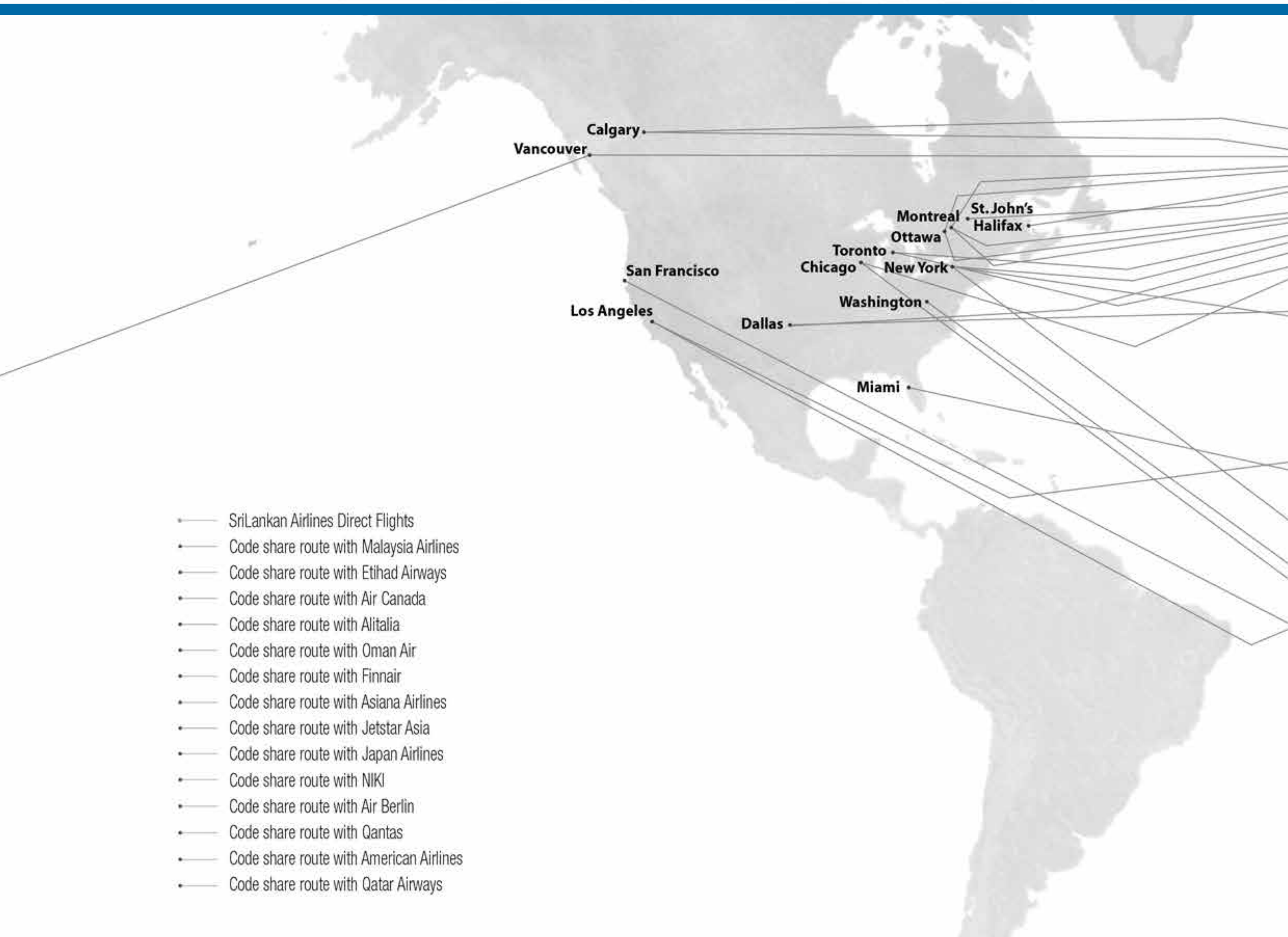
Company		2017	2016	2015
Statement of Profit or Loss				
Revenue	LKR Mn.	135,463.59	129,480.41	131,922.13
Operating Expenditure	LKR Mn.	146,733.21	137,311.44	145,983.35
Net Profit/(Loss)	LKR Mn.	(28,929.99)	(12,621.69)	(16,494.66)
Statement of Financial Position				
Share Capital/Stated Capital	LKR Mn.	51,617.44	51,617.44	51,617.44
Non-Current Assets	LKR Mn.	24,660.56	23,548.01	22,836.77
Current Assets	LKR Mn.	26,973.07	26,901.02	49,721.49
Total Assets	LKR Mn.	51,633.63	50,449.03	72,558.26
Current Liabilities	LKR Mn.	126,302.55	100,334.44	103,414.31
Yield/Unit Cost				
Overall Yield	LKR tkm	80.08	79.06	80.32
Unit Cost	LKR tkm	64.79	61.39	61.88
Breakeven Load Factor	%	80.91	77.65	77.03
Revenue Per RPK	LKR/RPK	8.4	8.2	8.2
Production				
Passenger Capacity	ASK Mn.	15,608.10	15,790.28	16,180.27
Overall Capacity	ATK Mn.	2,167.92	2,165.21	2,224.87
Traffic				
Passengers Carried	Nos. '000	4,446	4,328	4,348
Passengers Carried	RPK Mn.	12,455.05	12,727.66	12,963.71
Passenger Load Factor	%	79.80	80.60	80.12
Cargo Carried	Tonnes	116,221	102,082	101,878
Cargo Load Carried	RTK Mn.	374.46	356.76	373.32
Overall Load Carried	RTK Mn.	1,475.29	1,484.77	1,519.93
Overall Load Factor	%	68.05	68.57	68.32
Staff				
Average Strength	Nos.	7,021	6,959	6,987
Revenue Per Employee	LKR	19,294,059	18,606,181	18,881,084
Capacity Per Employee	Tonne-km	308,776	311,139	318,430
Load Carried Per Employee	Tonne-km	210,126	213,359	217,537
Fleet				
A320-200	Nos.	6	6	6
A321-200	Nos.	3	2	2
A320neo	Nos.	2	–	–
A330-200	Nos.	6	6	7
A330-300	Nos.	7	7	2
A340-300	Nos.	–	–	4
Turbo Otter	Nos.	–	–	–
Aircraft in Service at Year End	Nos.	24	21	21
Aircraft Utilisation				
A320-200	Blk. Hrs. Per Day	11.70	12.43	12.86
A321-200	Blk. Hrs. Per Day	12.08	12.65	13.10
A330-200	Blk. Hrs. Per Day	11.67	12.59	14.11
A330-300	Blk. Hrs. Per Day	14.03	14.66	13.43
A340-300	Blk. Hrs. Per Day	–	–	11.42
Fleet	Blk. Hrs. Per Day	12.44	12.02	12.90

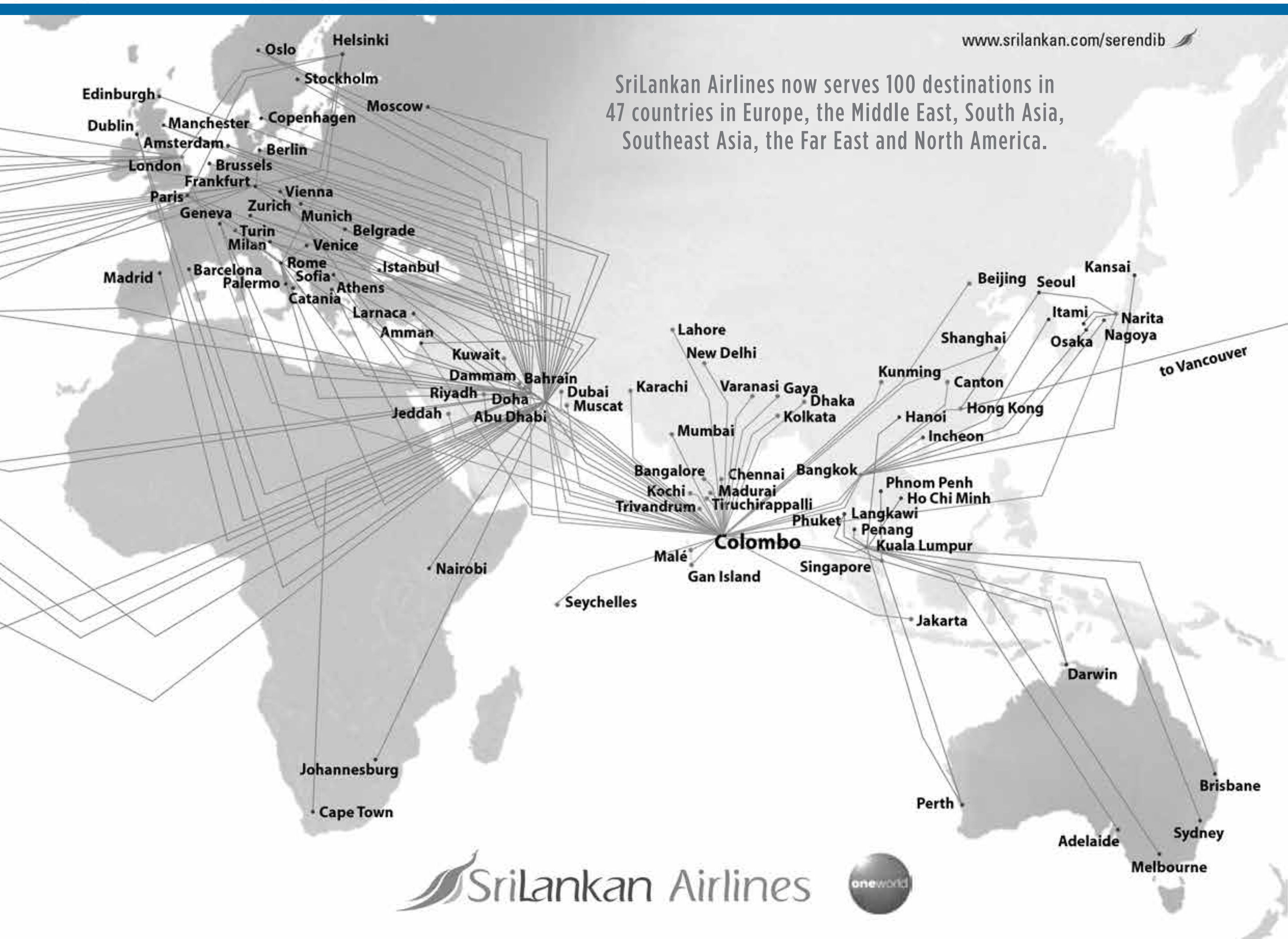
2014	2013	2012	2011	2010	2009	2008
121,585.83	119,570.90	92,867.93	77,125.45	62,363.58	73,307.77	79,128.56
150,389.46	146,700.24	111,775.88	81,334.34	69,026.74	84,794.86	82,154.01
(32,408.34)	(26,088.57)	(19,778.03)	(381.61)	(2,698.20)	(9,305.94)	4,428.23
51,617.44	32,032.75	19,432.67	5,146.35	5,146.35	5,146.35	5,146.35
25,212.47	23,338.28	37,591.58	19,862.87	28,531.75	19,333.18	15,730.43
37,154.23	54,905.22	22,072.71	18,276.59	15,910.82	15,008.38	32,209.67
62,366.70	78,243.50	59,664.29	38,139.46	44,442.57	34,341.56	47,940.10
88,609.07	71,346.64	64,235.43	28,017.97	28,399.92	25,012.31	29,134.89
77.26	74.31	64.47	60.27	54.94	64.85	61.01
64.96	64.68	57.28	45.92	43.37	50.71	46.48
84.07	87.03	88.84	76.19	78.94	78.19	76.18
7.8	7.6	6.6	6.3	5.8	6.8	6.5
15,780.54	15,944.31	14,248.94	12,481.41	10,724.83	11,731.56	12,599.58
2,187.18	2,186.96	1,978.33	1,755.23	1,541.03	1,635.62	1,741.10
4,175	4,255	3,459	2,867	2,558	2,735	3,196
12,810.95	12,968.74	11,270.23	9,584.02	8,357.89	8,546.44	9,793.05
81.18	81.34	79.10	76.79	77.93	72.85	77.73
94,410	101,100	87,750	86,053	72,058	73,106	93,161
355.59	377.75	345.67	332.98	283.83	302.36	350.35
1,466.74	1,513.70	1,338.30	1,184.13	1,028.11	1,065.15	1,232.62
67.06	69.22	67.65	67.46	66.72	65.12	70.80
6,578	6,359	5,594	4,998	4,614	4,837	5,113
18,483,708	18,803,412	16,601,346	15,431,263	13,516,164	15,155,627	15,475,955
332,499	343,916	353,652	351,186	333,991	338,148	340,523
222,976	238,041	239,238	236,922	222,825	220,210	241,077
8	8	7	4	3	3	5
–	–	–	–	–	–	–
–	–	–	–	–	–	–
7	7	7	5	4	4	4
–	–	–	–	–	–	–
6	6	6	5	5	5	5
–	1	2	2	–	–	–
21	22	22	16	12	12	14
12.11	11.79	11.21	11.77	11.23	10.76	11.27
9.54	–	–	–	–	–	–
14.68	13.82	14.30	14.56	12.86	13.45	14.92
–	–	–	–	–	–	–
11.44	13.10	15.22	15.16	14.31	15.04	15.85
12.76	12.82	13.48	14.05	13.05	13.15	13.96

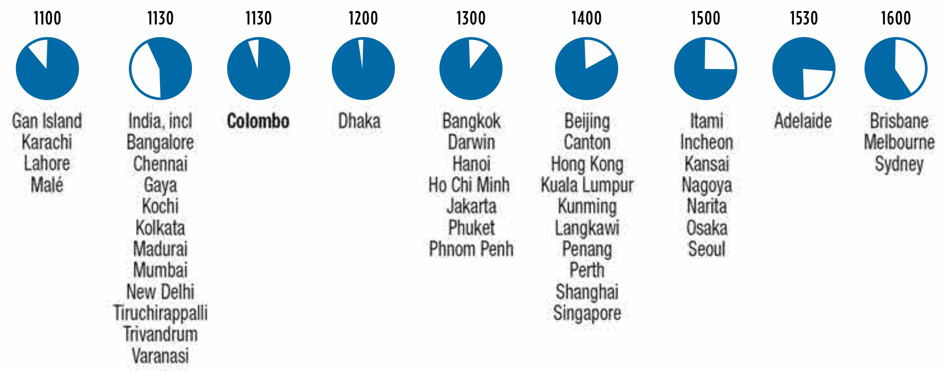
ROUTE MAP



2200	2300	2400	0100	0200	0230	0600	0700	0800	0900	1000
Los Angeles San Francisco Vancouver	Calgary	Chicago Dallas	Montreal Miami New York Ottawa Toronto Washington	Halifax	St. John's	Dublin Edinburgh London Manchester	Amsterdam Barcelona Belgrade Berlin Brussels Catania Copenhagen Frankfurt Geneva Madrid Milan Munich Oslo Palermo Paris Rome Stockholm Turin Venice Vienna Zurich	Amman Athens Cape Town Helsinki Istanbul Johannesburg Larnaca Sofia	Bahrain Dammam Doha Jeddah Kuwait Nairobi Riyadh	Abu Dhabi Dubai Moscow Muscat Seychelles

TIME ZONES ALL TIMES IN GMT, WHERE COLOMBO IS AT 1130


www.srilankan.com/serendib
SriLankan Airlines now serves 100 destinations in 47 countries in Europe, the Middle East, South Asia, Southeast Asia, the Far East and North America.
Helsinki
Oslo
Stockholm
Edinburgh
Moscow
Dublin
Manchester
Copenhagen
Amsterdam
Berlin
London
Brussels
Frankfurt
Paris
Vienna
Geneva
Zurich
Munich
Turin
Belgrade
Milan
Venice
Rome
Istanbul
Madrid
Barcelona
Sofia
Palermo
Athens
Catania
Larnaca
Amman
Kuwait
Dammam
Bahrain
Riyadh
Doha
Dubai
Muscat
Jeddah
Abu Dhabi
Lahore
New Delhi
Karachi
Varanasi
Gaya
Dhaka
Kolkata
Mumbai
Bangalore
Chennai
Bangkok
Kochi
Madurai
Trivandrum
Tiruchirappalli
Phuket
Colombo
Malé
Gan Island
Nairobi
Seychelles
Beijing
Seoul
Kansai
Itami
Narita
Shanghai
Osaka
Nagoya
Kunming
Canton
to Vancouver
Hanoi
Hong Kong
Incheon
Phnom Penh
Ho Chi Minh
Langkawi
Penang
Kuala Lumpur
Singapore
Jakarta
Darwin
Johannesburg
Cape Town
Perth
Brisbane
Sydney
Adelaide
Melbourne
SriLankan Airlines
oneworld


1100
Gan Island
Karachi
Lahore
Malé
1130
India, incl
Bangalore
Chennai
Gaya
Kochi
Kolkata
Madurai
Mumbai
New Delhi
Tiruchirappalli
Trivandrum
Varanasi
1130
Colombo
1200
Dhaka
1300
Bangkok
Darwin
Hanoi
Ho Chi Minh
Jakarta
Phuket
Phnom Penh
1400
Beijing
Canton
Hong Kong
Kuala Lumpur
Kunming
Langkawi
Penang
Perth
Shanghai
Singapore
1500
Itami
Incheon
Kansai
Nagoya
Narita
Osaka
Seoul
1530
Adelaide
1600
Brisbane
Melbourne
Sydney

2006/07

- SriLankan Catering commission 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. Consequently commencing from 1st 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 aircraft 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 Flights A320 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 service 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.

2014/15

- The Company entered into **one**world alliance in May 2014.
- In June 2014, the Company for the first time issued a five-year International Bond.
- The Company took delivery of three Brand New A330-300 aircraft in October 2014 and March 2015 respectively as part of a wide-body aircraft re-fleeting programme.

2015/16

- The Airline was shortlisted for four prestigious titles: Best in Region Asia and Australasia, Best Inflight Publication, 'Best Inflight Video' and Best Ground Experience at APEX Passenger Choice Awards 2015. This is the first time the Airline has been nominated for four categories. The Airline won superior Achievement Award for Passenger Experience in the Asia and Australasia – September 2015 APEX Portland Oregon and best full service airline, Central and South Asia – Future Travel Experience Awards Asia 2015 – Singapore.
- The Company took delivery of four Brand New A330-300 aircraft in August and November and two aircraft in December 2015, as part of the wide-body aircraft re-fleeting programme.

2016/17

- Induction of two A320neo aircraft in February 2017 and March 2017 – the first two A320/A321 Family New Engine Option Aircraft joined the fleet.
- SriLankan launched services to eleven exciting new destinations – Lahore, Jakarta, Dhaka, Calcutta, Madurai, Varanasi, Bodhgaya, Muscat, Bahrain, Seychelles and Gan Islands.
- The Company was awarded "Top Travel Award Best Airline in South Asia", "Best Full Service Airline in Central and South Asia for the second consecutive year at the Future Travel Experience Asia 2016", The Airline claimed the "Training Excellence Award" and "Best HR Strategy in line with Business" at the 7th Asia Employer Brand Awards.

AVAILABLE SEAT KILOMETRES (ASK)

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

AVAILABLE TONNE KILOMETRES (ATK)

This is the measure of transport production.

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

REVENUE PASSENGER KILOMETRES (RPK)

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

REVENUE TONNE KILOMETRES (RTK)

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

LOAD FACTOR

The percentage relationship of revenue load to capacity provided.

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

REVENUE PER RPK

The revenue per RPK relates the passenger revenue to RPK.

UNIT COST

The unit cost relates the total operating cost to ATK.

OVERALL YIELD

Overall Yield relates the net traffic revenue to RTK.

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

BREAKEVEN LOAD FACTOR

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

NOTICE OF MEETING

NOTICE is hereby given, that the Thirty-Ninth Annual General Meeting of the Shareholders of SriLankan Airlines Limited, will be held on Monday, 25th September 2017 at 10.00 a.m. at the Auditorium of The Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 7, for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2017, together with the Report of the Auditors thereon.
2. To re-elect Mr. R. Chanaka D. de Silva, who is over 70 years of age as a Director of the Company and to consider and if deemed fit, to pass the following Resolution:
   "IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act No. 07 of 2007, shall not be applicable to Mr. R. Chanaka D. de Silva who is 75 years of age and that he be re-elected a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year."
3. To re-elect Mr. J. M. S. Brito, who is over 70 years of age as a Director of the Company and to consider and if deemed fit to pass the following Resolution:
   "IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act No. 07 of 2007, shall not be applicable to Mr. J. M. S. Brito who is 71 years of age and that he be re-elected a Director of the Company from the conclusion of the Annual General Meeting, for a further period of one year."
4. In accordance with Section 36 of the 19th Amendment to the Constitution, the Auditor General will audit the Company and the Directors are hereby authorised to determine their remuneration.

By Order of the Board,

Dalrene Thirukumar
Company Secretary/Head of Corporate Secretarial Services

4th August 2017
Katunayake

Notes:

1. A member is entitled to appoint a proxy to attend and vote instead of him/herself. A proxy need not be a member of the Company. A Form of Proxy accompanies this Notice.
2. The completed Form of Proxy must be deposited at the Registered Office, 'Airline Centre', Bandaranaike International Airport, Katunayake not later than 10.00 a.m. on the 23rd September 2017, being 48 hours before the time appointed for holding of the meeting.
3. A person representing a Corporation, is required to carry a certified copy of the Board Resolution authorising him/her to act as the representative of the Corporation. A representative need not be a member.

FORM OF PROXY

SRILANKAN AIRLINES LIMITED

*I/We,……………………………………………………..…………………………...…………………………………….………of

……….…………………………………………………………………………………………………….……………….…………………

being a Member/Members of SRILANKAN AIRLINES LIMITED hereby appoint: ……...............................…………

………………………………………………………………………………………........…………………….………….......... of

…………….…………………………………………………….......…….………………….…….….…… or failing *him/her,

one of the following Directors:

Mr. Ajith N. Dias
Mr. J. M. S. Brito
Mr. R. Chanaka D. de Silva
Mr. Mahinda P. Haradasa
Mr. Rakhita S. Jayawardena
Lt. Col. Sunil D. Peiris
Mr. Harendra K. Balapatabendi
Mr. Niranjan De Silva Deva Aditya

as *my/our proxy to represent *me/us and vote for *my/our behalf at the Thirty-Ninth Annual General Meeting of the Shareholders of SriLankan Airlines Limited to be held on Monday, 25th September 2017 at 10.00 a.m. at the Auditorium of The Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 7 and at any adjournment thereof.

	For	Against
1. To receive and consider the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2017, together with the Report of the Auditors thereon.		
2. To re-elect Mr. R. Chanaka D. de Silva, who is over 70 years of age a Director of the Company.		
3. To re-elect Mr. J. M. S. Brito, who is over 70 years of age a Director of the Company.		
4. In accordance with Section 36 of the 19th Amendment to the Constitution, the Auditor General will audit the Company and the Directors are hereby authorised to determine their remuneration.		

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

……………………
Signature/s

Note:

*(a) * Please delete the inappropriate word*

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/she 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.

CORPORATE INFORMATION

Name of the Company
SriLankan Airlines Limited

Company Registration Number
PB 67

Legal Form
Public Limited Liability Company

Board of Directors
Mr. Ajith N. Dias (Chairman)
Mr. J. M. S. Brito
Mr. R. Chanaka D. de Silva
Mr. Mahinda P. Haradasa
Mr. Rakhita S. Jayawardena
Lt. Col. Sunil D. Peiris
Mr. Harendra K. Balapatabendi
Mr. N. De Silva Deva Aditya

Audit Committee
Mr. J. M. S. Brito (Chairman)
Mr. R. Chanaka D. de Silva
Mr. Mahinda P. Haradasa
Lt. Col. Sunil D. Peiris
Mr. Rakhita S. Jayawardena

Human Resources and Remuneration Committee
Lt. Col. Sunil D. Peiris (Chairman)
Mr. J. M. S. Brito
Mr. R. Chanaka D. de Silva
Mr. Mahinda P. Haradasa
Mr. Rakhita S. Jayawardena

Chief Executive Officer
Capt. Suren Ratwatte

Company Secretary/Head of Corporate Secretarial Services
Mrs. Dalrene Thirukumar

Bankers
Bank of Ceylon
People's Bank
National Development Bank PLC
Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited
Citibank NA
Sampath Bank PLC
Nations Trust Bank PLC
Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Amãna Bank PLC

Auditors
Auditor General
Auditor General's Department
306/72,
Polduwa Road,
Battaramulla.

Registered Office
Airline Centre
Bandaranaike International Airport,
Katunayake,
Sri Lanka.

Corporate Website
www.srilankan.com

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