

 SriLankan Airlines



Resilient Positive Focused

Annual Report 2022/23

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Resilient Positive Focused

Growth is an attitude and we at SriLankan Airlines have been fostering a positive mindset over the years, an integral factor in creating growth for the company. While navigating the dark skies that represented a post pandemic era and the aftermath of the financial crisis, our remarkable resilience helped us to inch towards our aspirations. With renewed confidence, laser sharp focus and seeking the positive in every challenge, we eagerly look forward to serve our customers with the best hospitality that Sri Lanka has to offer.

Resilient, Positive, Focused; will resonate with us in the years ahead...

OUR VISION

We aspire to be the airline of choice for travellers seeking a unique, authentic Sri Lankan experience, delivered with warmth, care, and hospitality.

OUR MISSION

To grow a sustainable, profitable airline that promotes Sri Lanka to the world, supports tourism, Sri Lankans overseas and the national economy whilst developing an air transport hub taking advantage of our unique Indian Ocean location.

To be an aviation centre of excellence, developing talent for the Airline and the wider industry.

We are committed to do business in an ethical manner, which yields long-term, sustainable benefits for the country and the communities we serve.





Introduction to the Report

This is the 45th Annual Report of SriLankan Airlines. The financial year 2022/23 covers the performance from 1st April 2022 to 31st March 2023.

SriLankan Airlines, the national carrier of Sri Lanka, has been in operation since 1979. As an award-winning airline, SriLankan Airlines has established a strong reputation for its high-quality service, comfort, safety, and reliability over the years. The airline's main activities include passenger and cargo operations and provision of ground handling services in addition to service provision through Subsidiary Business Units and ancillary service offerings.

The airline operates from its main hub, Bandaranaike International Airport in Colombo and provided convenient connections to a global network of 112 destinations in 58 countries during the financial year under review.

Scope and Boundary

The report contains information relating to financial and non-financial developments of the Group during the period under review including an inclusive coverage of operational results, financial performance, risk management, overview of corporate governance and practices providing our stakeholders a comprehensive portrait of the Group and its performance during the period under consideration.

Standards and Principles of Preparation

The financial statements presented in this Report have been prepared in accordance with the Sri Lanka Financial Reporting Standards, and the requirements of the Companies Act No.7 of 2007. The narrative on Corporate Governance complies with the Guidelines on Corporate Governance and Operational Manual for State Owned Enterprises issued under Public Enterprises Circular No. 01/2021.

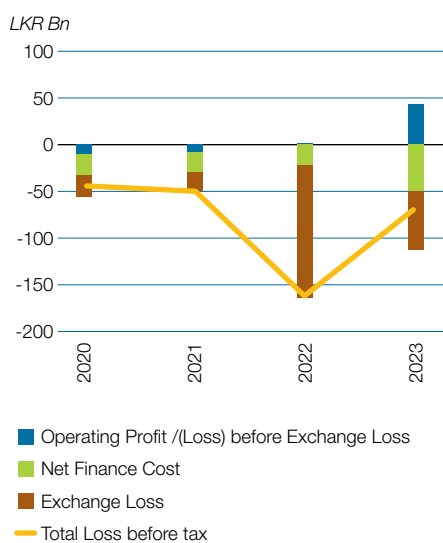
Forward-Looking Statements

This Report includes "forward-looking statements" that involve risks and uncertainties. It is important to note that the actual results and the Group's performance at a later date, may differ from those projected by forward-looking statements. Readers are therefore cautioned not to place undue reliance on such "forward-looking statements".

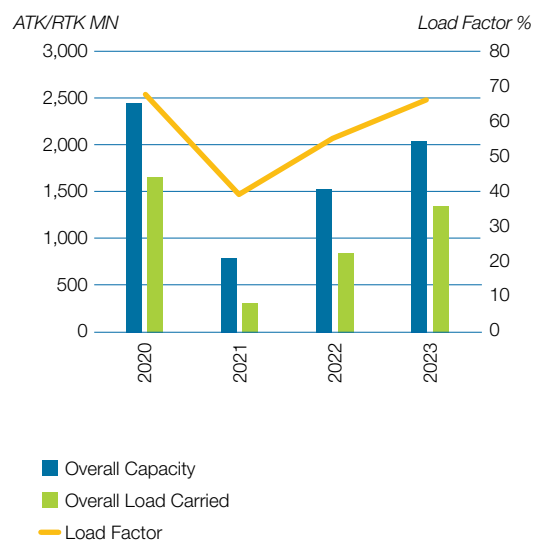
Financial Highlights

		Group 2023	Group 2022	Company 2023	Company 2022
Financial					
Revenue	LKR Mn	369,470.04	134,301.35	365,171.77	132,936.23
Operating Expenditure	LKR Mn	329,856.52	133,222.10	330,568.53	132,397.86
Operating Profit /(Loss) before Exchange Loss	LKR Mn	43,371.56	1,692.66	40,743.58	1,237.33
Loss for the Year	LKR Mn	(71,306.66)	(163,583.08)	(73,621.53)	(166,369.68)
Total Assets	LKR Mn	211,176.41	182,263.33	199,454.76	178,144.17
Shareholders' Funds	LKR Mn	(494,429.99)	(426,423.83)	(509,174.88)	(437,036.92)
Traffic					
Passenger Capacity	ASK Mn			15,188.00	10,144.12
Passengers carried	RPK Mn			11,793.72	4,968.59
Passenger Load Factor	%			77.65	48.98
Overall Capacity	ATK Mn			2,044.45	1,531.28
Overall Load carried	RTK Mn			1,355.99	847.33
Overall Load Factor	%			66.33	55.33
Staff Productivity					
Average strength	Nos.	6,203	6,849	5,440	5,833
Revenue per employee	LKR Mn	59.56	19.61	67.13	22.79
Aircraft Fleet					
Narrow body	Nos.			12	12
Wide body	Nos.			11	12
Aircraft in service at year end	Nos.			23	24

Financial Performance



Operational Performance



Chairman's Message

“The Group achieved an operational profit (before accounting for exchange losses) of LKR 43.4 billion, signifying a substantial improvement compared to the operating surplus of LKR 1.7 billion in the previous financial year.

With all the efforts, reaching financial stability amidst unparalleled challenges was a remarkable achievement.”

In 2022, the global economy faced a prolonged period of subdued performance that affected various industries worldwide. The aviation industry dealt with these challenges while addressing the growing demand for air travel. SriLankan Airlines remained optimistic and resilient, working to enhance its position during these tough times and strategically positioning the airline to take advantage of emerging market opportunities. As a result, in the latter part of the year, the airline demonstrated a recovery compared to the previous year, benefiting from a better operating environment and with the operational improvements made in response to the challenges faced.

Macroeconomic Environment

It was a year that brought forth a plethora of challenges. One of the primary challenges was the persistent rise in global inflation, which had a cascading effect on economic activities. It led to a cost-of-living crisis and the tightening of financial conditions in various regions. This situation was further exacerbated by geopolitical tensions, particularly the conflict in Ukraine, and the lingering impact of the COVID-19 pandemic. These macroeconomic challenges directly influenced the aviation industry, creating a distinct set of problems.

One significant issue that emerged in the aviation sector was the supply chain disruptions. These disruptions caused shortages of serviceable engines due to limited availability in maintenance slots, along with component shortages. These shortages had a direct impact on the industry, resulting in adjustments to flight schedules and a reduction in operational capacity. Additionally, the sector's cost base experienced added strain due to increasing fuel prices in the global market, leading to a noticeable surge in fuel expenses.

Against the backdrop of worldwide challenges, SriLankan Airlines had to

contend with domestic economic and political turmoil in the first half of the year. The economic crisis, coupled with political unrest, sustained substantial losses for the airline while increasing the debt obligation due to the depreciation of the currency and increase in interest rates. One critical drawback was the marked decrease in tourism, driven by travel advisories declaring ‘only essential travel’ to Sri Lanka, which, in turn, led to a significant reduction in travel demand. Adding to that, a severe shortage of jet fuel supply in Colombo from June to August 2022 resulted in changes to travel schedules and higher operational cost.

Strategic Approach

To navigate through this complex and challenging environment, SriLankan Airlines had to reassess its internal processes and implement a range of initiatives aimed at improving productivity. Hence, the airline embraced cost restructuring, and negotiated with key suppliers for payment terms. At the time, a key priority was tackling the challenge of maintaining a fleet of serviceable aircraft, which was frequently hindered by mandatory maintenance requirements. The airline addressed this situation by engaging in timely negotiations with service providers.

The issue of revenue generation amidst capacity constraints posed another significant challenge for the airline during this phase. In response, SriLankan Airlines conducted a comprehensive evaluation of its existing routes, identifying the most profitable ones, and optimising its capacity accordingly. The airline also resumed services to key destinations while increasing frequencies on existing routes.

Recognising the substantial decline in passenger arrivals due to the unfavourable situation in the country, SriLankan Airlines shifted its focus to generating revenue through transit traffic while strengthening cargo

Chairman's Message contd.

operations and ancillary services to drive revenue. The airline also concentrated on providing heavy maintenance services to other airlines through SriLankan Engineering, serving as an additional contributor to its income.

The customer experience being a vital parameter in determining both service quality and sustainable progress, SLA undertook measures to elevate service levels. The airline placed a strong emphasis on attention to detail and the customisation of its services to align with customer preferences. Further, internal process efficiencies were introduced, core airline systems were modernised, and the overall customer experience, both onboard and on the ground, was improved to fulfil customer expectations and enhance satisfaction.

Considering the negative perception of Sri Lanka as an unsafe travel destination in the aftermath of the economic crisis and preceding political unrest, SriLankan Airlines launched several marketing campaigns aimed at portraying the country as a tranquil and secure travel destination. These efforts were instrumental in laying the groundwork for the recovery and growth of Sri Lanka's tourism industry, positioning it as a premium destination.

Commendable Performance

All of these endeavours contributed to a financially successful year for SriLankan Airlines. The Group achieved an operational profit (before accounting for exchange losses) of LKR 43.4 billion, signifying a substantial improvement compared to the operating surplus of LKR 1.7 billion in the previous financial year. However, the Group recorded a net loss of LKR 71.3 billion, primarily driven by exchange loss amounting to LKR 63.1 Bn and the finance cost totaling LKR 51.5 Bn.

The Group experienced significant growth in both passenger and cargo revenue during the period. SriLankan Airlines' passenger revenue increased by 276%, mainly driven by a 137% increase in passengers compared to last year and due to the impact of the exchange depreciation. Cargo and other revenue also experienced an increase of 35% compared to the previous year.

Nevertheless, the Group's total expenditure increased by 48% compared to the financial year 2021/22, which was mainly owing to the heightened operational activities and the negative effects of the depreciating Sri Lanka Rupee against the US Dollar.

Key Highlights

This was a time that tested airline's ability to adapt, innovate, and persevere in the face of adversity. Therefore, with all the efforts, reaching financial stability amidst unparalleled challenges was a remarkable achievement. Sustaining a commendable performance is a further testament to airline's resilience, effective strategies, and the unwavering dedication of the employees. With all odds, SLA maintained the commitment to enhance service levels, and these endeavours were duly acknowledged with several awards during the year, recognising the airline's customer-centric service and outstanding global marketing communication initiatives.

Sustainable Airline

SLA's commitment to the environment holds significance as it aims to evolve into an environmentally sustainable airline. In light of the increased focus on climate change, the airline recognises the collective responsibility to safeguard the planet and have pledged to attain net-zero carbon emissions from aviation by 2050. In response, initiatives were carried out to reduce the airline's carbon footprint,

enhance fuel efficiency, and actively promote eco-friendly initiatives. In recognitions of the efforts taken, the airline was honoured with the "Best Aviation Sustainability Program - Socio-Economic Pillar" award at the 2022 Global Aviation Award ceremony.

Effective Governance

The solid governance structure that fortifies the organisation's foundation continues to empower the airline, steering it in the right direction for sustained growth. SriLankan Airlines advocate and maintain the highest governance standards, fostering a culture of fairness, responsibility, transparency, and accountability within the airline. This commitment is apparent in its work ethics, core values, and the robust framework of accountability and transparency, which undergoes constant evaluation and improvement.

Way Forward

As demand for air travel continues to grow, the prospects for the airline remain positive. Despite the increase of LKR 51.5 billion in interest, the airline recorded satisfactory profitability for the first time in a decade and a half (unaudited USD management accounts). SLA's prudent resource optimisation efforts and efficiency improvements, coupled with a more favourable macroeconomic environment that bolstered tourism and air travel in the latter part of the year, played pivotal roles in achieving this progress.

In positioning the airline on a trajectory toward expansion, SriLankan Airlines will improve operations across multiple fronts, encompassing service enhancements, human resource development, training programs, equipment upgrades, and process refinements, all aimed at sustaining service excellence and customer loyalty. It will also focus on expanding maintenance revenue by securing contracts with new customers in Sri

Lanka and the South Asian region. Additionally, the airline will remain committed to fleet assurance with the prompt execution of procurement initiatives while building a strong network through effective analysis of the most lucrative revenue-generating prospects.

In the Government's effort to restructure and privatise SriLankan Airlines, SLA is working closely with the State-Owned Enterprise Restructuring Unit (SOERU) in transforming into a financially sustainable, competitive, customer centric organisation that facilitates the achievement of Company's goals.

Sri Lanka's unique geographical location presents a significant opportunity for the Country to establish itself as an aviation hub, fostering economic and social development and bringing greater prosperity to the nation. Therefore, nurturing the aviation sector and developing an aviation blueprint to enhance the industry's competitiveness will be crucial for the future progress of SriLankan Airlines.

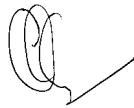
Acknowledgement

I would like to express my gratitude to the valued customers, both local and international passengers, for their unwavering loyalty and continued patronage. I extend my thanks to my colleagues on the Board for their support and expertise they bring to Board deliberations and, to the Chief Executive Officer, Mr. Richard Nuttall, for his leadership during this challenging period. I thank the Management Team for their readiness in navigating through challenging times to sustain the airline.

I would also like to convey my deep appreciation to the Government of Sri Lanka, His Excellency the President, the Honourable Minister of Ports, Shipping & Aviation, the Secretary to the Treasury, the

Secretary of the Ministry of Ports, Shipping & Aviation, and the officials of relevant institutions for their continued support and contribution to the airline's progress. I also acknowledge with thanks the support extended by all our shareholders.

I offer my profound gratitude to the dedicated and hardworking employees, who have been instrumental in sustaining the airline's operations and paving the way for future growth.



Asoka Pathirage
Chairman

Chief Executive Officer's Review

"SriLankan Airlines demonstrated notable progress, particularly during the second half of the year, as it successfully navigated the challenges posed by global developments, economic and political upheavals, and capacity constraints.

Throughout the year, one of SriLankan Airlines primary concerns was restoring operational stability to position itself for growth when opportunities arose."

I am pleased to present the Annual Report and Audited Financial Statements of SriLankan Airlines for the fiscal year 2022/23.

This year marked an exceptional period globally, as the world emerged from the pandemic, worked towards returning to normalcy, and sought to rebuild economies affected across nations and continents. The aviation industry was no exception to this transformative journey. While air travel gradually approached half of its pre-COVID levels worldwide, the challenges stemming from a weakened global economy hindered the industry's ability to meet the surging demand for air transport.

SriLankan Airlines faced these global headwinds, compounded by domestic economic and political turbulence during the initial half of the year. Nevertheless, the latter part of the fiscal year witnessed an encouraging improvement in both global and local macroeconomic conditions, creating a more conducive environment for the airline to overcome some of the significant hurdles facing the industry.

Industry Overview

In 2022, the aviation industry demonstrated remarkable resilience, with promising prospects for future growth. Passenger demand continued to rise due to eased travel restrictions in the post-COVID phase and stringent cost management measures implemented by airline amidst soaring fuel prices. However, persistent challenges such as recurrent travel restrictions in certain regions, labour shortages, escalating costs, supply chain disruptions, and economic uncertainties continued to cast a shadow on the industry's prospects, affecting its performance and profitability.

Nevertheless, the sector is anticipated to pick up speed in the short term, primarily due to increased efficiency and improving yields. Notably, the airline sector recorded net losses of USD 6.9 billion, an improvement compared to the USD 9.7 billion loss projected in the International Air Transport Association's (IATA) June outlook. This marked progress from the significant losses of USD 42.0 billion and USD 137.7 billion incurred in 2021 and 2020, respectively. As we chart a steady path to recovery, passenger yields are anticipated to continue growing, with expected profitability reaching USD 4.7 billion in 2023. (IATA. Press Release 56. 2022)

In the Sri Lankan aviation landscape, challenges during the initial half of the fiscal year included jet fuel unavailability, surging fuel costs due to the European conflict, a high-interest rate environment, inflationary pressures, reduced tourism stemming from travel advisories, insufficient MRO (Maintenance, Repair, and Overhaul) capacity, and supply chain constraints. Additionally, the industry grappled with a brain drain as skilled aviation professionals sought better opportunities abroad.

The latter half of the fiscal year brought a more favourable operating environment for the Sri Lankan aviation industry, marked by increased tourism arrivals, a stable jet fuel supply, and a reduction in exchange rate volatility. These factors alleviated some of the constraints faced by the airline, enhancing its commercial and operational agility.

Performance of SriLankan Airlines

In the fiscal year 2022/23, SriLankan Airlines demonstrated notable progress, particularly during the second half of the year, as it successfully navigated the challenges posed by global developments, economic and political upheavals, and capacity constraints. Diligent efforts to maximise revenue, despite these challenges, were reflected in the airline's financial performance.

As a result of the improved operating environment, including increased tourism, stable jet fuel availability, in the latter part of the year, the airline achieved a net profit in US Dollar terms—the primary functional currency of the business. The Airline reported a revenue of LKR 365 billion for the fiscal year, with an operating profit (before accounting for exchange losses) of LKR 40.7 billion, compared to an operating surplus of LKR 1.2 billion in the previous fiscal year. However, the devaluation of the Sri Lankan Rupee during the year led to an exchange loss of LKR 63.8 billion, resulting in a full-year company net loss of LKR 73.6 billion after accounting for exchange losses and finance charges.

The cargo services segment, contributing approximately 14% to SriLankan Airlines income, generated a revenue of LKR 51 billion during the year. However, this sector faced setbacks due to decreased demand for imports and exports, driven by hyperinflation and high interest rates, which reduced purchasing power and hampered trade volume growth, despite increased capacity.

Throughout the year, one of SriLankan Airlines primary concerns was restoring operational stability to position itself for growth when

opportunities arose. Resources were optimised, internal processes were made more efficient, and customer experience platforms were enhanced both onboard and on the ground. The introduction of a new onboard menu highlighting traditional Sri Lankan cuisine and improvements to the airline's website aimed at providing an enriched online booking experience for customers were noteworthy enhancements.

To sustain revenue generation, SriLankan Airlines identified more profitable strategies for business growth within the current circumstances. This included resuming travel to key destinations and increasing frequencies to existing destinations in the Indian subcontinent and the Far East. The airline also focused on transit traffic to generate revenue during periods of travel restrictions to Sri Lanka.

Furthermore, SriLankan Airlines expanded revenue streams from its subsidiary and business units. Leveraging SriLankan Engineering, the airline offered heavy maintenance services to other airlines, broadening its third-party maintenance services and launching a dedicated website for this purpose. In addition, the ground handling business maintained service excellence with limited capacity, introducing a self check-in System to ensure on-time service delivery. SriLankan Aviation College, the airline's training arm, continued to provide aviation training to global standards, with plans to offer degree-level courses in the future and expand its global presence to generate additional revenue.

The airline also conducted targeted marketing campaigns to showcase Sri Lanka as a premier tourist destination and a safe travel

destination, hosting events such as SriLankan Airlines' Global Sales Conference, which attracted prominent travel agents and tour operators from around the world. The airline also hosted the renowned French adventure, Raid Amazons 2022, and launched the 'Dill Full of Sri Lanka' campaign targeting Indian customers.

Significant Milestones

In the midst of an extraordinary year, sustaining operations and achieving satisfactory performance represented significant accomplishments. SriLankan Airlines receipt of the Resilience Award at the 15th Changi Airline Awards, recognising the airline's efforts to maintain uninterrupted air links and support passenger movements between Sri Lanka and Singapore, underscored its dedication and determination in the face of unprecedented challenges.

Sustainability Focus

As a responsible carrier, SriLankan Airlines recognises the need to address the environmental impact of aviation. The airline has undertaken initiatives to make air travel more sustainable, including projects aimed at reducing its environmental footprint. One key initiative is the 'Mathaka' SriLankan Airlines Upcycling project, which repurposes the airline's scrap materials into various lifestyle products. This project received the 'Global Aviation Award for Best Aviation Sustainability Programme' from Sheikh Mohammed Bin Rashid Al Maktoum (SMBR).

Future Outlook

The prudent measures taken to restore operational stability, enhance customer experiences, and reduce costs while addressing capacity constraints have enabled SriLankan Airlines to maintain satisfactory

Chief Executive Officer's Review contd.

financial performance. Looking ahead, the airline will leverage its strategic plan over the next five years, capitalising on its strategic geographical location in the Indian Ocean. The goal is to establish a robust aviation hub to attract air traffic from the region, particularly the Far East, contributing to Sri Lanka's economic prosperity. However, the ongoing brain drain due to the country's challenging economic situation remains a major obstacle for the industry. Thus, retaining and recruiting the right skills and talents to meet the evolving demands of the industry will be critical to the airline's future growth.

Acknowledgments

In closing, I extend my sincere gratitude to the Chairman, the Board of Directors, our Business Partners, and the Government of Sri Lanka for their unwavering support during this challenging period. I also express my appreciation to our valued customers for their continued loyalty and for choosing to fly with us. I want to recognise the dedication and steadfast commitment of our Management and employees in upholding service excellence despite numerous challenges stemming from macroeconomic developments. As the national carrier, SriLankan Airlines plays a vital role in facilitating connectivity to the global economy, thereby creating opportunities for economic growth in our country.



Richard Nuttall
Chief Executive Officer

Board of Directors

Mr. Asoka Pathirage

Mr. Asoka Pathirage was appointed to the Board of SriLankan Airlines Limited on 16 December 2019 and was subsequently appointed to the Board of SriLankan Catering Limited. He is the Chairman/Managing Director of Softlogic Holdings PLC, Asiri Hospital Holdings PLC, Asiri Surgical Hospital PLC and Odel PLC. He serves as the Chairman of Softlogic Capital PLC and Softlogic Life Insurance PLC, in addition to the other companies of the Group. He is also the Chairman of NDB Capital Holdings Limited.

He is recognised as a visionary leader of Sri Lanka's corporate world, the founding member of Softlogic Group, one of Sri Lanka's leading conglomerates. He manages over 50 companies with a pragmatic vision, providing employment to more than 10,000 employees. Mr. Pathirage gives strategic direction to the Group, which has a leading market presence in four vertical sectors – Retail & Telecommunications, Healthcare Services, Financial Services & IT and Leisure & Automotive.

Mr. Malik J. Fernando

Mr. Malik J. Fernando was appointed to the Board of SriLankan Airlines Limited on 8 January 2020 and was subsequently appointed to the Board of SriLankan Catering Limited. He is a member of the Audit Committee, Human Resources and the Remuneration Committee, and Board Group Risk Committee of SriLankan Airlines and its subsidiary.

He is the Co-Chair of MJF Holdings and Chairman of MJF Leisure/Resplendent Ceylon, the first local luxury resort brand, developing a remarkable circuit across Sri Lanka with a range of authentic experiences, while contributing towards local communities and the environment through the MJF Foundation and Dilmah Conservation. After the Easter Sunday Attacks, Mr. Fernando spearheaded the Sri Lanka Tourism Alliance to mobilise the private tourism sector with one voice under the "Love Sri Lanka" banner.

Mr. Fernando has a BSc in Business Management from Babson College in the US.

Dr. Shridhir Sariputta Hansa Wijayasuriya

Dr. Hansa Wijayasuriya was appointed to the Board of SriLankan Airlines Limited on 23 January 2020. He is a member of the Human Resources and the Remuneration Committee, Audit Committee, and the Board Group Risk Committee.

He is currently the Chief Executive Officer – Telecommunications Business of the Axiata Group and heads the pan-region Telecommunications Operations of the Group spanning the markets of Malaysia, Indonesia, Bangladesh, Nepal, Sri Lanka, and Cambodia. Axiata is Asia's second largest Telecommunications Group.

He serves on the Board of Directors of the Axiata Group and of Dialog Axiata PLC, in addition to being a Board Member of several other regional subsidiaries of the Axiata Group. Up to the year 2016, he functioned as the Group Chief Executive of Dialog Axiata PLC (Dialog). He also serves on the Board of John Keells Holdings PLC in the capacity of an Independent Director.

In the year 2016, he was honoured by the GSM Association as the first recipient of the 'Outstanding Contribution to the Asian Mobile Industry' Award. He is a past Chairman of GSM Asia Pacific – the regional interest group of the GSM Association. He was also named 'SriLankan of the Year' by Sri Lanka's premier business journal, LMD in 2008. Dr. Wijayasuriya is a past chair of the Ceylon Chamber of Commerce, Sri Lanka's premier business chamber.

Board of Directors contd.

Mr. Joseph Micheal Jayanth Perera

Mr. J.M. Jayanth Perera was appointed to the Board of SriLankan Airlines, effective 27 March 2021 and was subsequently appointed to the Board of SriLankan Catering Limited. He is the Chairman of the Group Board Risk Committee and member of the Audit Committee and Human Resources and the Remuneration Committee of the Company and its subsidiary.

Mr. Perera has over 40 years of experience in the financial sector with the majority of those years being at Senior Management and board levels.

He is a fellow of the Chartered Institute of Bankers (London) and has undergone extensive training in a host of International Financial Centers such as in London, New York, San Francisco, Hong Kong and Singapore.

He serves as an independent Non- Executive Director of Singer Finance PLC, McLarens Group of Companies – Main Board, Lanka Ratings Ltd, Interocean Energy (Pvt) Ltd, Qwest Destinations (Pvt) Ltd, Qwest Cruises Ltd, SriLankan Airlines Ltd., SriLankan Catering Services Ltd., ODEL PLC, Horana Plantations PLC, and Softlogic Stockbrokers (Pvt) Ltd.

He counts a long and illustrious career at Hatton National Bank PLC (HNB) where he worked as Senior Deputy General Manager- International, Business Development and Corporate Credit including Treasury Operations. He was also a Founding Director of HNB Assurance PLC. During his term at HNB, He was able to bring many reforms by coordinating with the Central Bank of Sri Lanka. He was also Managing Director of Acuity Stockbrokers (Pvt) Ltd including Acuity Securities and Acuity Partners – jointly owned by HNB and DFCC Bank. In these positions he contributed immensely towards business growth. He also served as Director of Lanka Ventures (Pvt) Ltd, LVL Energy and as a Board Member of the Credit information Bureau of Sri Lanka.

Mr. A.K.D.D.D Arandara

Mr. A.K.D.D.D Arandara was appointed to the Board of SriLankan Airlines Limited, 16th March 2023 and was subsequently appointed to the Board of SriLankan Catering Limited. He serves as a Director cum the Treasury Representative to the Board, and a member of the Human Resources and the Remuneration Committee, Audit Committee, and the Board Group Risk Committee.

Mr. Arandara is an Attorney-at-Law by profession and serves as the Additional Director General in the Department of Legal Affairs, Ministry of Finance.

Mr. A.M.A.A Lakmal Ratnayake

Mr. Lakmal Ratnayake was appointed to the Board of SriLankan Airlines Limited 10th April 2023 and was subsequently appointed to the Board of SriLankan Catering Limited. He is a member of the Human Resources and the Remuneration Committee of the company and its subsidiary.

Mr. Ratnayake is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Counsel who is in private practice for nearly 20 years. Mr. Ratnayake has represented individuals, cooperate entities both public and private and state institutions as an Attorney, In original and appellate courts as a lead counsel in civil and criminal matters and public law litigation.

Mr. Ratnayake previously held the post of Chairman of the National Institute of Co-operative Development from 2010 to 2015, and during his tenure as Chairman he developed the infrastructure of the National Institute of Co-operative Development and upgraded the NICD into a facility of international standard. Mr Ratnayake has also represented Sri Lanka at the International Cooperative Alliance General Assemblies held in Cancun Mexico, Manchester United Kingdom and Cape town South Africa in years of 2011, 2012 and 2013 and also represented the country at the

International Cooperative Alliance Conference held in Quebec, Canada in 2014.

Mr. Ratnayake has also held the post of Chairman of the Co-operative Wholesale Establishment (C.W.E.), Director of the Sri Lanka Ports Authority, Chairman of Sri Lanka Port Management & Consultancy Services (Private) Limited, Board Member of Hambantota International Port Services Company (Private) Limited, Lanka Coal Company (Private) Limited, Colombo International Container Terminals Limited and Hambantota International Port Group (Private) Limited.

Mr. Ratnayake currently holds positions as Chairman of the Jaya Container Terminals Limited which is a fully owned subsidiary of the Sri Lanka Ports Authority.

Mr. D.D. Shiran Chaminda Dammage

Mr. Shiran Dammage was appointed to the Board of SriLankan Airlines, effective 4th May 2023 and was subsequently appointed to the Board of SriLankan Catering Limited. He is the Chairman of the Audit Committee and member of the Group Board Risk Committee of the Company and its subsidiary.

He is a Director of Finance WSO2. He is responsible of Management of monthly global accounting closing, including preparation and communication of global close calendars, close progression, and acting as the global point person for related inquiries, review, and analysis of consolidated financial statements and global reporting packages.

Mr. Dammage has a MBA from university of Edith Coven Australia and MSC from university of West London in UK. He also holds Associate Member of Chartered Institute of Marketing (CIM) UK and Chartered Institute of Management Accounts (CIMA) UK. He holds association of business executives (ABE) UK. He has also Leadership & Strategic Management from Cornell University US.

Board of Directors contd.

Mr. Ananda Wijetilaka Atukorala

Mr. Ananda Atukorala was appointed to the Board of SriLankan Airlines Limited on 3rd February 2023 and was subsequently appointed to the Board of SriLankan Catering Limited.

He holds a BSc (University of Leeds, UK), MTT (North Carolina State University, USA) and a MBA. He was a former Director of the Sri Lanka Banks Association (Guarantee) Ltd. and the Credit Information Bureau of Sri Lanka (CRIB) and a Committee Member of the Banker's Club of Sri Lanka. He possesses extensive experience in banking extending over 40 years, having been with the ANZ Grindlays Banking Group in Sri Lanka, London. & other overseas territories and having served as Deputy General Manager of ANZ Grindlays Bank, Sri Lanka AND Country Manager - Sri Lanka of Mashreq Bank PSC,.

He was also a former advisor to the Ministry of Policy Development & Implementation. He has also served as a Member of the Technology Initiative for the Private Sector - an USAID sponsored project with the Ministry of Industrial Development, a Member of the Commercial Banking Sector of the Presidential Commission on Finance and Banking.

He currently serves as the Chairman of the NAPPP. He is also an Independent Non-Executive Director on the Boards of NDB Capital Holdings Ltd., NDB Securities (Pvt) Ltd, NDB Zephyr Partners Ltd, Mauritius., United Motors Lanka PLC., Unimo Enterprises Ltd., Colombo City Holdings PLC., Arni Holdings & Investments (Pvt) Ltd., and Unawatuna Boutique Resort (Pvt) Ltd.

He was formerly the Independent Non-Executive Chairman of NDB Bank PLC., and DHPL Ltd. He was also an Independent Non-Executive Director of DFCC Bank PLC., DFCC Vardhana Bank Ltd., Union Bank PLC., UB Finance Company Ltd., Orient Finance PLC and TVS Lanka Ltd.

Senior Management Team

Mr. Richard Nuttall

Chief Executive Officer

Mr. Richard Nuttall joined the airline as Chief Commercial Officer from the start of November 2021 and became Acting Chief Executive Officer from 1 January 2022. He was later appointed as Chief Executive Officer from 29th April 2022. He has 30 years experience in the aviation industry and has held a variety of senior roles in multiple carriers covering different operating models around the world.

He has held several roles within Saudia Airlines. Initially he was appointed as VP Commercial Transformation, subsequently progressing to VP Sales and assuming additional responsibilities for Product & Marketing. While he shared ownership of the commercial strategy for the airline with \$6 Bn in annual revenues, leading 2,700 staff globally, he also achieved an international passenger growth of 30% over 3 years, well above regional averages, leading to a 25% reduction in distribution costs. Furthermore, he played a leading role in a service initiative that raised the Airline's NPS score in line with the best in the industry. He was also the representative of Saudia Airlines to the Skyteam Supervisory Board where he later joined the Executive Board under a new governance model.

Previously he was appointed the Chief Commercial & Strategy Officer at Royal Jordanian where he led a team of business leaders and internationally renowned consultants to deliver a turnaround strategy, identifying 70 initiatives and creating a framework to track and measure performance. Consequently, he managed to return the Airline to profitability with an \$80 Mn improvement in the bottom line and 12% margin growth.

Amongst his other roles held, he served as CEO of Bahrain Air, Commercial Director at Kenya Airways, Senior Commercial Advisor of Philippine Airlines, VP Sales & Marketing – Americas for Polar Air Cargo, and a range of Management roles at Cathay Pacific Airways.

He holds a Mathematics degree from Oxford University and a Sloan Masters degree from London Business School.

Mr. Yasantha Dissanayake

Group Chief Financial Officer

Mr. Yasantha Dissanayake joined the airline in 2004 and currently serves as the Chief Financial Officer overseeing the Finance, Commercial Procurement, Logistics and Properties functions of the airline, all of which report directly to him.

He has also spearheaded many pioneering financing transactions for the airline, including the first International Bond issue and Islamic Financing facility that received recognition from two Asian Regional Awards.

Additionally, he was also instrumental in formulating pre-delivery financing (PDP) for the new A330-300 fleet, a transaction that received recognition from the Air Finance journal as the 'PDP Financing Deal of the Year' in 2014.

Prior to joining the airline, he 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.

Mrs. Dalrene Thirukumar

Group Head of Corporate Secretarial Services/ Company Secretary

Mrs. Dalrene Thirukumar joined the airline in 2013. She is the Group Head of Corporate Secretarial Services/ Company Secretary. The Division provides Corporate Secretarial Services to SriLankan Airlines Limited, SriLankan Catering Limited and AirLanka (Pvt) Ltd. She functions as the Secretary to the Board subcommittees – the Audit, Human Resources & Remuneration and the Group Board Risk Committee of the airline and its subsidiary. She is a Trustee for the SriLankan Cares Trust.

She has over 25 years of post-qualifying experience in the field of Company Secretarial Practice and has held very senior positions in public quoted diversified conglomerates in Sri Lanka. She is an Associate Member of the Chartered Governance Institute of the United Kingdom and Ireland and holds a Master's in Business Administration (AUS). She is a member of the Sri Lanka Institute of Directors (SLID) and is an active member of the Working Committee of the Board Secretaries Forum, representing SLID.

Mr. Chamara Perera

Group Head of Information Technology

Mr. Chamara Perera joined the airline industry in 1999 counting two decades with the National Carrier, having served in several management and senior management positions in the Airline. In 2012, he was appointed as the Head of Information Technology and in 2021, he was entrusted with the oversight of SriLankan Group Information Technology. He bears over two decades of skilled and professional experience in the

Senior Management Team contd.

Airline industry adding on extensive airline domain knowledge in aviation technology and business process automation delivering strategic leadership to Information Technology and Digital Transformation of the SriLankan Group.

He had the prestige of holding number of management positions within the airline prior to holding the position of Group Head of Information Technology thereby being responsible for Strategic Transformation of Aviation ICT and Digital Eco Systems of the Airline Group covering worldwide operations. Through the years, Mr. Perera spearheaded many pioneering implementations of technology innovation to establish passenger centric e-business solutions and services across multiple touch points in air transportation processes to uplift the technology use in aviation. IATA Simplifying the Business (StB) programme for fast travel technology adaptation, implementation of data driven Aviation platform to enable business operations, compliance in aviation sub systems to meet air transportation standards are some of the key initiatives under his leadership. He has also given the leadership to transform and replace expensive legacy airline systems with cost effective and innovative suite of applications to rationalise the overall technology spend of the National Carrier. Furthermore, SriLankan in-house developed applications and solutions have won national and international accolades under his guidance making marketable products and solutions for the Airline community.

SriLankan IT is certified for ISO/ IEC 27001:2013 Information Security Management, ISO 9001:2015 Software Quality Management and ISO/IEC 20000:2018 IT Service Management and ISO/IEC 27701:2019 Privacy Information Management.

Mr. Perera holds a Masters Degree in Business Administration, (MBA) specialising in IT Management from the University of Leicester (UK). He is an Engineer by profession, holding a Bachelor of Science Degree in Electronics & Telecommunication Engineering from the University of Moratuwa. He also holds professional qualifications and certifications in IT specialisations and renowned international accreditations.

Mrs. Buddhika Manage *Group Head of Human Resources and Head of Cabin Services*

Mrs. Buddhika Manage joined the airline in 2003 as a Management Trainee and started her career as an Executive in Commercial Procurement Department in 2004. She has 20 years of experience in the airline, serving as the Commercial Procurement Executive (Projects), Senior Inflight Service Executive (Admin and Crew Services), Inflight Service Manager (Admin and Crew Scheduling), Manager Human Resource Development and Business Partnering, Senior Manager Human Resource Development and Business Partnering and Head of Cabin Services. In addition to the position of Head of Cabin Services, she was appointed as the Acting Head of Human Resources from January 2020. She was permanently appointed as the Head for both the divisions; Human resources and Cabin Services and retitled as "Head of Human Resources and Head of Cabin Services" effective July 2020.

In September 2020, she was appointed as the Group Head of Human Resources in addition to holding the position of Head of Cabin Services, to provide leadership to the SriLankan Catering HR department in addition to her duties in the airline. She has been serving her duties under both roles as the first ever Group Head of Human Resources in the

history of the airline who is heading the main front-line division, Cabin Services, covering the whole Human Resources function of the group and the Cabin Crew administration and Inflight service operation of the airline.

She is also the only member of the Senior Management Team who is heading two main divisions at the same time.

She has shown her exemplary leadership in the areas of managing industry relations, establishing employee engagement and well-being initiatives, and employee centered training and development programs, specially focusing on career related skills and managing work life balance of employees. Her initiatives specially in the areas of restructuring of cadre and employee benefits schemes including the rewards and recognition policy of the organisation is commendable. As the head of cabin services, she has demonstrated her strategic leadership in managing the administration of cabin crew, onboard services, mandatory and recurring training, duty free sales and inflight operation.

She holds a BSc (Hons) Special degree in Statistics from the University of Colombo, MSc in Management from the University of Moratuwa. She is a Chartered Member of Chartered Institute of Personal Management (CIPM). She has obtained Professional Qualification in HRM from CIPM and qualifications in Labour Law, Supply Chain Management, and Information Technology. She is a Professional Member of AHRP (Association of Human Resource Professionals).

Mr. Dimuthu Tennakoon

Head of Worldwide Sales & Distribution

Mr. Dimuthu Tennakoon has over three decades of experience in the aviation industry specialising in airline sales, financial management, revenue management and commercial planning. He is the present Head of Worldwide Sales and Distribution of SriLankan Airlines, a position that he has held since 2017, and gives leadership to the worldwide passenger sales, channel management and sales operations of the airline.

Since joining the airline in 1992, he has served in multiple disciplines including finance, revenue planning, network planning, route management and pricing. He has furthermore held the posts of Sales Manager Dubai, Canada, Manager Maharashtra and Gujarat, Regional Manager Asia Pacific and Australasia and Regional Manager Middle East. Following his overseas stints, he worked in the capacity of General Manager Commercial Operations and led the departments of Regional Sales; Sales Development; Product Development; Customer Affairs; SriLankan Holidays; Industry Affairs; Customer Relations including the airline's loyalty programme; E-commerce; Global Call Centre; and Channel Management, demonstrating his solid expertise in airline commercial operations. In between working for SriLankan Airlines, he also briefly worked for Oman Air as the Country Manager-North India and overlooked Oman Air's North India operations.

He has gained a firm reputation in the airline industry for revolutionising sales growth amid contemporary challenges including fierce competition. An advocate for innovative and effective commercial practices, he is well-

known for his strategic planning acumen and track record for achieving commercial objectives of the airline. He is a passionate leader who envisions organisational growth and inspires the best in his team.

A graduate of the University of Colombo- Faculty of Law holding an International Master's in Business Administration from the Buckinghamshire New University, he also serves as the Chairman of Sri Lanka Board of Airline Representatives.

Capt. Patrick Fernando

Head of Flight Operations

Capt. Patrick Fernando joined the airline in 1992 when it was formerly known as Air Lanka as a cadet pilot on the L1011 fleet. Since then, he has flown L1011, A320,330 and A340 aircraft in the capacity of a Captain for over 20 years and an instructor for over 15 years. He joined the management in 2011 as Deputy Chief Pilot Training and Standards and later advanced to the position of Chief Pilot Training and Standards.

He is the current commander on the A320/330 fleet, Simulator and Line Instructor as well as a Designated Check Pilot for CAASL.

Mr. Saminda Perera

Head of Marketing

Mr. Saminda Perera spearheads SriLankan's Marketing and Strategic Communications Roadmap since June 2015. He counts over two decades in the air transport industry, specialising in strategic marketing and global sales. He also overlooks the Airlines' Corporate Social Responsibility (CSR) arm-SriLankan Cares, SriLankan Holidays, and Sustainability initiatives.

He joined the airline as a Management Trainee during the Emirates era and went on to hold many of the Airlines' prominent positions such as Acting Head of Corporate Communications, Commercial Manager -France, Regional Manager- Sri Lanka and Maldives and General Manager Worldwide Sales.

His expertise extends to the areas such as establishing the brand in newly established markets/ destinations, marketing innovation and customer-centric, holistic communication. He has led the Airlines' Marketing team in many globally acclaimed marketing communication endeavors that have been recognised at international forums.

He holds a Bachelor of Commerce degree in Financial Accounting and Auditing from the University of Mumbai and a Diploma in Airline Studies (Airline Marketing, Airline Finance, Accounting, Station Management) from the International Air Transport Association (IATA).

Mr. Arjuna Kapugeekiyana

Head of Engineering

Mr. Arjuna Kapugeekiyana joined the Engineering Division of SriLankan Airlines, then known as AirLanka in 1984 as an Apprentice. In May 2018, he was appointed as Senior Manager Aircraft Maintenance and in March 2023, was promoted as Head of Engineering. He is in charge of aircraft Engineering & Maintenance Division of the airline.

He is a Licensed Aircraft Maintenance Engineer with certifying privileges for Airbus A320/330/340 Aircraft. He held many managerial positions at Engineering & Maintenance Division. He had a brief stint at Gulf Aircraft maintenance Company from 1988 to 1991 in a multi-cultural environment.

Senior Management Team contd.

He possesses an Aircraft Maintenance license from Civil Aviation Authority of Sri Lanka, and holds a Master's in Business Administration from University of Cumbria (UK).

Mr. Sumudu Upatissa

Head of Strategy

Mr. Sumudu Upatissa joined the airline in 2000 as a Management Trainee and moved to the Commercial Division in 2001 after successfully completing the program. With 21 years of industry experience, he has over 16 years of managerial expertise in various areas, including International Relations, Schedules Planning, Network & Revenue Planning, Pricing & Revenue Management, and GSA Administration. In 2017, he was appointed as the Head of Revenue Management, Planning, and Commercial Support. In 2023, he assumed the role of Head of Strategy after completing a no-pay leave period of two years.

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

Mr. Chaminda Perera

Head of Cargo

Mr. Chaminda Perera joined the airline in January 2022. He has over 30 years of experience in the aviation industry in cargo commercial and ground handling operations. He commenced his career at SriLankan Airlines in the ground handling sector and his career aspirations in handling the commercial aspects of air cargo led him to transition to Lufthansa. He then advanced to a position with China Airlines, managing

a team, and handling commercial and ground handling operations as the Cargo Sales and Customer Services Manager. Subsequently, he transitioned to Emirates, working for a period of 16 years serving as Cargo Manager Sri Lanka at the time of leaving.

He holds a MSC in Aviation Management in the Digital Age from London Metropolitan University, UK, MSC in Marketing from Asia e-University, Malaysia and a Diploma in Transport from the Chartered Institute of Transport, UK. He is also a Chartered Member of the Chartered Institute of Logistics & Transport.

Mr. Primal de Silva

General Manager, SriLankan Aviation College

With a career spanning over three decades in the aviation industry, Mr. Primal De Silva joined the airline in 1988 as a member of the cabin crew. He ascended the ranks of Cabin Crew, gradually shouldering critical roles in in-flight services management. These responsibilities encompassed the management of cabin safety, Inflight Operations, and Training & Standards paradigms.

His proven track record led to the appointment as the head of the esteemed SriLankan Aviation College in 2014. Currently entrusted with the role of General Manager, he oversees the multi-layered facets of the institution. In his current capacity, he also bears the responsibilities of the Accountable Manager (Part 147) Aircraft Maintenance & Engineering Training Organisation.

He holds an Executive Master's in Business Administration conferred by University of Sri Jayewardenepura's Post Graduate Institute of Management (PIM) and a Master's Degree in Labour Relations and Human Resources Management from

University of Colombo's Faculty of Graduate Studies. Additionally, he carries a National Diploma in Training and Development, conferred by the Sri Lanka Institute of Training and Development.

Lt. Col. Bandula Weragama

General Manager Group Security

Col. Bandula Weragama joined the airline in 2012 with an unblemished service of 23 years in the Sri Lanka Army. In addition to having 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 currently leads the Group Security Division, a position he assumed in April 2020. He holds a Masters in Defense Studies from the University of Kelaniya and a MSc from the University of Quetta, Pakistan.

Mr. Deepal Pallegangoda

Senior Manager Airport & Ground Services

Mr. Deepal Pallegangoda joined the airline in 1991. In 1994, he departed from the airline and joined Doha Airport, where he played a key role in establishing Qatar Airways Handling. He rejoined the airline in 1995.

He has worked in all areas of Airport operation as Duty Manager, Aircraft Dispatcher, Instructor for Airport Services(local/Overseas) and Station Manager. He joined commercial team in 2010 and worked as Sales Executive, Assistant Sales Manager, Country Manager, Manager Government Travel and Public Affairs. He was later appointed as Senior Manager Airport and Ground Services in May 2023.

He holds a postgraduate diploma in Service Management from the University of Colombo and a Master of Business Administration from University of Cardiff (UK). Further he is a Certified Instructor from City and Guilds.

Mr. Kshanaka Saparamadu

Senior Manager Revenue Management

Mr. Kshanaka Saparamadu joined the airline in 2000 as a Management Trainee and has held various leadership roles throughout his career in the Commercial Division. With over 2 decades of experience in commercial aviation industry, including over 15 years in managerial roles, his specialisations are in Revenue Planning, Network Optimisation and Revenue Management.

He joined the Revenue Planning Department in 2001 and went on to lead the team as Revenue Planning Manager. He was thereafter elevated to the role of Manager Planning in 2010 with the enhanced responsibilities of leading both the Revenue Planning and Network Planning teams. He was subsequently appointed as Commercial Manager in the Revenue Management Department overlooking functions of Revenue Management for the European Region. He was then promoted to the role of Senior Manager Revenue Management directing the overall functions of Inventory and Pricing for the Europe and Far Eastern Regions. He currently leads the Division of Revenue Management, Network Planning & Research as well as the International Relations Department of the Airline.

He holds a bachelor's degree, specialising in Commerce from the University of Colombo and IATA Diploma in Airline Studies (Montreal). He is also a Passed Finalist of the Chartered Institute of Management Accountants (UK).

Mrs. Thushari Perera

Senior Manager Group Legal Affairs

Mrs. Thushari Perera holds the position of Senior Manager Group Legal Affairs of the SriLankan Group. She commenced her career with Human Resources Division of SriLankan Airlines Limited and was engaged in various aspects in Human Resources Management. She has gained a wealth of experience in industrial and labour relations and litigation on employee-related matters. Since joining Group Legal Affairs Department in 2013, she has been handling commercial and aviation contracts for the Group at all levels, corporate and regulatory matters, dispute resolution, multi-jurisdictional overseas and local litigation, intellectual property, industrial and labour relations and notarial work of the Group.

She is an Attorney-at-Law by profession and possesses Notary Licenses in English and Sinhala languages. She has successfully completed Aircraft Acquisition and Financing Course conducted by International Air Transport Association (IATA). She has also successfully completed National Diploma in Human Resources Management at Institute of Personnel Management and Management Development Programme conducted by the Postgraduate Institute of Management in addition to her legal education.

Capt. Sudath Madapatha

Senior Manager Group Safety & Operational Quality

Capt. Sudath Madapatha has over 27 years of airline experience, starting his aviation career at Ground Handling Load Control in 1995 and moving to Flight Operations as a licensed flight dispatcher in 1998. He was appointed as a direct entry First Officer on the Airbus A330 after being selected as a Cadet Pilot in 2001.

He joined Etihad Airways in 2006 as a Captain and has flown the A320, A330, A340 as well as the A380 Airbus Aircraft.

He was also assigned as Lead Auditor to Etihad's Safety and Quality department, where he performed internal and external audits as a quality assurance auditor encompassing a wide range of operational disciplines. He returned to SriLankan in 2019 as a Captain and was hired as a Consultant IOSA Auditor in preparation for the 2020 IOSA certification audit. He was then appointed Flight Safety Manager before being promoted to Senior Manager Group Safety in 2021. Currently he is overseeing Operational Quality in addition to Corporate Safety.

He has received extensive training in the Safety Management System and Quality Management System from EASA, IATA, Airbus, and Boeing, as well as airline internal training. He serves on the Ad Hoc Working Group for the Regional Aviation Safety Plan, a Member of oneworld Safety Best Practice Team and represents the airline in the development of the National Aviation Safety Plan by the Civil Aviation Authority of Sri Lanka.

Management Discussion & Analysis

Operating Environment

Global Macroeconomic Environment

Throughout 2022 and early 2023, a series of macro-economic challenges continued to hamper the global economy reducing the GDP growth rate from over 6% in 2021 to just below 3% in 2023. As global post-pandemic recovery was picking up steam, the world was beset by numerous issues. The conflict in Europe significantly affected energy and food prices. Moreover, many central banks adopted a tighter monetary policy in response to high inflation rates. Furthermore, global supply chain disruptions hindered access to spare parts for existing and the delivery of new aircraft, while fiercely competitive labour markets created headwinds for both the global economy and the aviation industry.

Despite facing obstacles, the global aviation industry during 2022 showcased its resilience and holds promising prospects for future expansion. This enhanced outlook primarily resulted from the strengthened yield propelled by improvement in passenger and cargo businesses and robust cost control measures adopted by the sector amidst rising fuel prices in the world market. Although slightly short of the anticipated growth projections, the industry was still on a growth trajectory steered by the increased demand for connectivity throughout the year.

Local Macroeconomic Landscape

The financial year 2022/23 witnessed one of the most severe economic downturn in Sri Lanka's history since gaining independence. The economy showed hints of challenges and increased uncertainties during the first half of the year but demonstrated indications of stabilisation in the latter half. This progress was supported by several policy interventions aimed at

guiding the economy towards stable growth over the medium term.

Despite being on a path to recovery after the COVID-19 pandemic, the emerging twin deficit in the government budget and external current account has slowed down the pace of progress. Consequently, the economy contracted during the first half of the year driven by the spillover effects of the unprecedented economic crisis, with all key sectors showcasing a subdued performance. Frequent power outages, prolonged fuel shortages that hampered supply channels, scarcity of raw materials, and the soaring cost of production, amidst price escalations in both domestic and global markets, significantly reduced economic activities in every sector of the economy. Furthermore, the ongoing shortage of funds in the local forex market resulted in considerable pressure on the exchange rate, with Sri Lankan rupee depreciating at 44.8% during the year up to the end of October 2022.

The recovery of the local tourism industry was also hampered by the economic crisis and the challenges faced by the sector persisted into late 2022 mainly due to travel restrictions imposed by various countries after a period of unrest and a prevailing currency crisis. These factors had a significant impact on both inbound and outbound tourism. Official data pointed out that tourist numbers which exceeded more than 100,000 in March have reduced to around 29,000 due to the unstable situation in the country.

Source:

1. Global Outlook for Air Transport - Sustained Recovery Amidst Strong Headwinds – December 2022 – IATA
2. Global Outlook for Air Transport - Highly Resilient, Less Robust – June 2023 – IATA
3. Recent Economic Development 2022. November 2022. Central

Bank of Sri Lanka. Downloaded from https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/red/2022/Chapter_1_e.pdf

4. Sri Lanka revises down 2022 tourism target to 800,000. October 2022. Downloaded from <https://economynext.com/sri-lanka-revises-down-2022-tourism-target-to-800000-100794/>

Our Operations

SriLankan Airlines' passenger and cargo operations play a pivotal role in delivering a seamless travel experience and ensuring the swift movement of goods across the globe. These two components collectively represent the key revenue streams of SriLankan Airlines, effectively driving the Company's economic viability and sustainability. Therefore, in a year marked by unprecedented challenges in the operating environment, the Company embarked on a series of strategic measures to promote growth in both segments. As such, the Company implemented cost management strategies and explored the development of alternative revenue streams to diversify the risk while strengthening its existing network in maintaining the airline's position as a distinguished leading airline in the South Asian subcontinent. These initiatives were supported by a robust technology platform that coordinates and optimises critical functions, resulting in streamlined processes, enhanced customer satisfaction, and the maximisation of operational efficiency.

Passenger Operations

The global and local macroeconomic challenges during the year significantly impacted passenger operations. The dramatic drop in tourism resulted a substantial reduction in passenger traffic, resulting in revenue falling short of forecasted targets. Subsequently, SLA experienced an extended recovery phase following

the pandemic, with certain key contributing countries in respective regions adopting a staggered approach to reopening their borders, which further impacted the anticipated passenger arrivals. Conversely, there were capacity constraints exacerbated by issues experienced due to the shortage of aviation fuel in the first half of the year and limited aircraft maintenance capacity which significantly hindered the airline's ability to cater to the growing demand as the year progressed.

The jet fuel shortage continued to hamper progress having contributed to a loss of approximately USD 20 Mn during the period. Consequently, SLA had to resort to operate all its long-haul flights including flights to Europe, Japan, and Australia via South Indian touch points of Trivandrum, Chennai and Cochin for refuelling purposes. Upon return, it was imperative to ensure that sufficient fuel was uplifted not only for the journey back to Colombo but also for the additional operating distance required to reach South India for refuelling.

There were other logistical adjustments that arose from the fuel crisis. The direct flights which were diverted through a South Indian touch point (indirect operations of flights), resulted in extended flying time incurring changes to the arrival time at destinations which contributed to a drop in passenger preferred choice. This necessity for multiple stops due to fuel issues led to a substantial decline in market confidence. Conversely, this alteration to the travel route also resulted in extra expenses related to landing, ground operations, and crew handling.

Under these circumstances, the airline was limited to generating revenue from a reduced number of passengers and had to implement prudent sales strategies to maintain operations and revenue generation. Hence, each destination was individually analysed in terms of fare potential

and achievable demand, to determine the most appropriate strategy on respective channels to meet revenue targets. In respective markets, stations engaged with sales agents and worked towards assigning targets to achieve the optimal yield through the appropriate channel. Sales through IBE (Internet Booking Engine) were also promoted during the period and have contributed 15% of the monthly revenue across the network.

SLA heavily concentrated on revenue optimisation through alternative strategies during this phase. In the first half of the year, when the point-to-point leisure traffic to Sri Lanka was severely affected due to adverse socio-economic conditions, the airline continued to generate revenue by effectively utilising its network to stimulate ethnic and VFR (Visiting Friends and Relatives) travel segment among the Sri Lankan diaspora to the greater effect. Further, transit traffic from the Indian Sub-continent to viable markets, specifically in the Far East region, was secured with seamless & convenient connectivity via the Colombo hub. As the year progressed into its latter half, the revenue base was further enhanced through the provision of ground handling services and catering to other airlines that recommenced operations to Sri Lanka, which was facilitated by the gradual resumption of demand for air travel.

Throughout the period, flights were scrutinised daily to identify route profitability, in making decisions on financial viability and determine the ideal aircraft allocation on respective routes to minimise cost. A robust strategy for aircraft-type rotation was also developed to further improve the utilisation of aircraft to boost revenue and optimise cost. These measures proved effective in achieving significant cost savings and maximising revenue generation. Further, the airline's entire network was extended with the addition of operations to Sydney and enhancing the frequency of flights

to already established destinations, primarily in the Indian sub-continent and Far East region. Facilitated by these network expansions, SriLankan Airlines successfully managed scheduled passenger flights to 34 online passenger destinations while also upholding codeshare partnerships with 78 destinations across the globe.

As a result, the airline recorded a total passenger revenue of LKR 293.3 Bn during the financial year. This is a significant increase of 276% compared to the previous year and a 97% achievement of pre-COVID level revenue. The passenger counts also saw a significant increase during this period, with 3.48 million travellers choosing to fly with SriLankan. This is an outstanding 137% growth compared to the prior year and a 75% achievement of pre-COVID passenger levels. Besides, the airline managed to attain a strong yield of 7.08 US cents per RPK (Revenue Passenger Kilometre) and a seat factor of 77.65%, demonstrating a 58.5% enhancement from the previous year.

Amidst a backdrop of favourable growth outlook, various risk factors persistently challenge the airline's growth forecast. Considering the prevailing economic volatility, that has already strained disposable income, there may be a reduced inclination to travel in the short term as well as increased pressure on yields. However, the tourism sector gaining traction towards the second half of the financial year fuelled by increased consumer confidence in Sri Lanka as a safe travel destination bodes well for the future revival of passenger traffic.

Strategic partnerships

The airlines' interline and codeshare partnerships also enhanced the value of operations, expanding its network to reach new markets and creating additional revenue opportunities. Leveraging these partnerships, SLA was able to expand its existing network of online

Management Discussion & Analysis contd.

destinations providing connectivity to offline destinations without additional improvements to the current fleet. Also, this enabled the airline to serve markets which are not financially viable to commence online operations.

These partnerships have also ensured a seamless travel experience for passengers with the option of travelling to destinations involving multiple airlines with a single ticket, the convenience of streamlined baggage, and the additional benefit of adequate protection in the event of delays, leading to increased satisfaction and confidence.

SLA has also been a member of the **oneworld** Alliance since 2014 and provides travellers with the opportunity to explore more than 1,100 **oneworld** destinations around the globe. As the first airline from the Indian Sub-Continent to be inducted into the Alliance, SLA shares membership with some of the largest and premium brands in the airline business such as – Alaska Airlines, American Airlines, British Airways, Cathay Pacific, Finnair, Iberia Airlines, Japan Airlines, Malaysia Airlines, Qantas, Qatar Airways, Royal Air Maroc and Royal Jordanian.

This partnership has fuelled the growth of the airline network expanding its brand value as a regional carrier to a global platform while strengthening its loyalty program to distinguish its customer segments, providing them personalised service. **oneworld** frequent flyer members enjoy various benefits, including business class check-in, priority standby waitlist, priority boarding, increased baggage allowance, and access to more than 550 lounges worldwide. Additionally, customers also can earn and burn frequent flyer miles on all the Alliance member carriers thus significantly increasing the options available to members.

During the financial year, SLA entered into an interline agreement with German Rail offering the customers the convenience of booking their entire journey from and to any location in Germany with a single booking when they travel SriLankan Airlines. Likewise, SLA also formed a codeshare partnership with Kuwait Airways offering improved connectivity and added convenience to customers of both airlines.

Cargo Operations

The financial year 2022/23 presented significant challenges for Cargo operations with the jet fuel crisis reducing the cargo-carrying capacity of flights, resulting in substantial loss of customers and business during the first half of the year. During the period, the overall cargo volumes declined by 17% to 0.8 Mn tonnes, leading to a reduction in cargo RTK (Revenue Tonne Kilometer) by 26%.

Within this timeframe, the worldwide financial crisis and economic downturn also led to a reduction in the buying power of customers which reduced trade sequentially causing a decline in demand for air freight. Lack of fertilizer imports also reduced crop yield in turn affecting the perishable exports impacting the export cargo segment. While the post-pandemic phase showcased a clear surge in online purchasing, which had a positive impact on the growth of the cargo segment, the challenges in the operating environment overshadowed this momentum. Thus, despite increased capacity towards the latter part of the year, the cargo segment suffered due to reduced demand.

However, regardless of a reduction in cargo volumes, the annual cargo revenue witnessed a 16% growth compared to the previous year reaching LKR 51 Bn. In the initial half of the year, amidst the political and economic instability of the Country, cargo operations improved revenue by

facilitating the transport of textile and perishable goods out of the Country, which enhanced access to markets outside the airline's online service destinations. This created fresh market opportunities for the cargo segment to generate revenue through transporting livestock, perishable goods, and ready-made exports.

SriLankan Cargo also transported nearly 10,000 metric tons of shipment from India, contributing significantly to the revenue and solidifying the recognition as the Best International Cargo Airline at the recently concluded India Cargo Awards 2023. Moreover, SriLankan Cargo was awarded "Gold" in the Airline category by the Sri Lanka Logistics & Freight Forwarders Association (SLFFA) in recognition of its innovative solutions.

The cargo segment in terms of pharmaceuticals and e-commerce areas showcased substantial growth (6% year-on-year growth) within the timeframe. Therefore, in the near term, SriLankan Cargo will prioritise these two areas to generate revenue. Furthermore, the landscape of cargo movement has undergone significant changes, as certain countries have shifted their manufacturing operations to Vietnam, India, Cambodia and Laos. This necessitates exploration of new business avenues, diverting us from traditional routes. Additionally, the African region holds promise as a growing market, particularly in the production of perishable goods.

Futuristic development plans for cargo operations to drive efficiency and the latest technological advancements are in place including the establishment of a new import terminal and the development of a courier and perishable centre.

Optimising Operations with Technology

SLA has embarked on the path of enhancing operations with timely technology interventions, revolutionising key aspects of the operational flows and reaffirming the commitment towards delivering an outstanding, reliable, and seamless customer experience.

1. New Revenue Management System

SriLankan Airlines is in the process of implementing an industry-leading Revenue Management System equipped with Origin and Destination functionality fuelled by enhanced forecasting capabilities driven by Artificial Intelligence (AI) and Machine Learning (ML) which will replace the existing legacy system introduced in 2004. The new system aims to facilitate a passenger-centric approach to revenue management by optimising the available inventory to provide personalised experiences, competitive pricing, and efficient services that are tailored to individual passenger needs and preferences.

SLA has also invested in a Group Management System to streamline the group management process to optimise group passenger volume and revenue. The project is currently in the user testing stage and will be implemented in the next financial year.

2. Automated New Flight Planning System

SLA implemented an automated new flight planning system revolutionising flight planning and enhancing efficiency and safety. This system provides information relating to fuel-efficient flight routes, real-time weather data and automated flight planning saving time for flight crews and enabling more accurate planning of flight schedules.

3. New Mobile Application

SLA launched an innovative mobile app with a user-friendly interface incorporating the latest technology available, offering several features for passengers to manage their flight bookings with ease and flexibility, purchase value-added services, and enrol for a FlySmiLes account. This application also empowers the passenger to choose their in-flight meal, reserve seats, change travel dates and sectors, buy value-added services such as excess baggage, travel insurance and duty-free items, and check-in for flights well in advance. The app was further enhanced through the latest 'My Trips' feature which organises and presents important information that a customer requires for an upcoming flight in a timely fashion on the app's homepage. This homepage also includes up-to-minute information on the flight schedule and allows users to search and stay on top of the departure and arrival times of flights with updates on the latest deals and promotional fares.

4. New Revenue Accounting System

SLA is currently in the process of implementing a complete transformation of its Passenger Revenue Accounting system. The implementation will encompass the integration of fully automated daily estimations, automated coupon processing to reduce manual intervention, and the capacity to account for revenue down to the aircraft registration level. Airline have also adopted a hosted solution that offers an improved user experience and responsive web design, providing easier access to critical information. Moreover, organisation is able to make more data-driven decisions leveraging on-demand reporting platform, augmented by the new reporting module.

5. Cloud First IT strategy

SLA has executed a cloud-first IT strategy, accompanied by the "Pay as You Grow" model, to leverage the advantages of cloud technologies while ensuring scalability and flexibility. This approach has enabled the airline to effectively adapt IT resources to meet the evolving demands, streamlining expenses and resource allocation. By integrating cloud scalability with the "Pay as You Grow" model, SLA has been able to achieve operational agility, provide cutting-edge solutions and improve passenger experience through a streamlined and flexible digital infrastructure.

Our People

Our employees continue to serve as the cornerstone of our strategic initiatives and the primary force behind our value creation. They embody our mission and serve as the first impression of our brand to the world, directly influencing our customers' experience. Therefore, we remain committed to ensure their well-being and satisfaction at the workplace through the provision of opportunities for professional growth, a range of benefits including industry-par remuneration and opportunities for engagement. Their invaluable contribution is also duly acknowledged through timely rewards and recognition of their notable performance and loyalty to the Company.

As of financial year 2022/23, SriLankan Airlines comprised with a total of 5440 employees of which 69% are male and 31% are female employees. They are distributed among various strategic business units, with the majority falling within Grades 1-7.

Management Discussion & Analysis contd.

Gender breakdown of the total employees as of 2022/23

Gender	Number of Employees	Ratio
Female	1687	31%
Male	3753	69%
Total	5440	100%

Number of employees as of 2022/23 based on Category

Category	Number of Employees
Senior Management & other managers	263
Flight Crew	273
Cabin Crew	937
Aircraft Engineers & Technicians	645
Trainee, Graded & Executive Staff	3322
Total	5440

Diversity and Inclusion

SriLankan Airlines has fostered diversity, equality and inclusion in the workplace ensuring a discrimination-free environment for people to thrive regardless of gender, age, ethnicity, disability, religion, sexual orientation or cultural background. Consequently, the Company has attracted a diverse talent pool from various backgrounds who make an invaluable contribution to the overall business operations. These employees are given equal opportunities throughout the entire employee life cycle from recruitment, and professional development, to promotions or any advancement based on their performance and demonstrated capacity.

SriLankan Airlines' Human Resource Policy

Considering the increased demand witnessed in the airline industry during the year, marked by an increase in frequency of operations, SriLankan Airlines' HR division focused its people strategy to support the overall Company strategy of driving profitability amidst an environment that is challenged by capacity constraints, market volatility and resource limitations. As such, the HR division

focused on the following key areas of strategic importance during the period under review.

- People optimisation to support increased operations.
- Rewards and remuneration to motivate and engage employees.
- Capability building and nurturing of talent to ensure business continuity.
- Health and well-being of employees to ensure a productive workforce.
- Industrial harmony to foster a positive and cooperative work environment.

Recruitment & Retention

SriLankan Airlines fair and unbiased recruitment process is focused on attracting and recruiting the best candidates for a vacancy. Candidates are selected entirely based on their qualifications and suitability for the job role. In the selection process, they undergo a rigorous assessment that includes written, profile, behavior, and psychometric evaluations that would be completed with an interview. Further, reference checks are also carried out for managerial positions alongside verification of educational qualifications and experience.

The high employee turnover rate of 9% during the year was notably influenced by the ongoing economic and political instability. Many employees chose to opt for skilled migration with a tendency to seek employment with the expanding middle eastern carriers. Emerging trends showcased a high level of risk, especially in the categories of engineers, technicians, pilots, cabin crew and in the grades of Executives and Managers, where replacement of the same skill level takes a substantial amount of time.

In response to the high employee attrition, airline adopted several retention measures including salary increments, and provision of travel benefits.

Elevating HR with a Modernised Recruitment System

SriLankan Airlines introduced a state-of-the-art digital recruitment system to improve recruitment and human resource management. This allows digital applications (submitting job applications), automated screening (automated identification of suitable candidates based on predefined criteria) and data-driven decision-making (evaluation of the effectiveness of the recruitment strategies through data analytics).

Performance Evaluation

Performance-driven employees are generally more motivated to excel in their roles leading to increased productivity even exceeding performance expectations. Hence, SriLankan Airlines conducts annual and mid-year reviews of employees based on the KPIs designed at the strategic level. Besides, a series of initiatives were introduced during the financial year to reinforce the performance-driven culture within the organisation.

During the year, organisation focused on aligning individual goals with the divisional KPIs for the performance cycle while introducing a Performance Improvement Plan (PIP) for the underperformers, facilitating discussions with the line managers and the underperformers to mitigate the performance gaps. Likewise, airline developed and streamlined performance evaluation process, appeal process and guidelines for handling manual appraisals. The Company's remuneration strategy is directly linked to the performance of individuals where all annual increments are based on the performance ranks. These performance ranks are in turn taken into consideration during promotions and qualifying individuals

to be groomed for the next level of advancement.

Benefits

Offering benefits to employees can boost their work satisfaction and moral leading to better work outcomes. For this purpose, SriLankan Airlines provided several benefits to its employees in addition to the statutory benefits that are paid to the employees as required by law.

Benefits are mainly provided through the staff Welfare Society and include retail outlets, banking services, fruit stalls, annual and festival sales, hire purchase facilities, as well as a holiday bungalow facility. Additionally, the Welfare Society offers scholarship programs for children of the staff as a means to acknowledge and bolster their academic pursuits.

Furthermore, the Company has established a medical benefit scheme enabling employees to reimburse medical costs and a 24-hour medical centre to obtain medical services along with special consultancy and medical camps. There is also a 24-hour canteen facility and transport service for all staff based in Katunayake.

Learning & Development

Learning and development programs play a vital role in acquiring new skills and knowledge, empowering employees to perform their jobs with greater effectiveness and efficiency. Airline focused on Leadership Development training programs for all categories of employees during the year in addition to a series of soft skill training programs concentrated on building competencies to meet the performance standards of the organisation. Additionally key training programs focused on supervisory skill development and competency development for the newly promoted Executives and Engineers. While certain programs were facilitated by qualified internal resource panels, the programs for the Executives and

Management were facilitated through state universities.

Health and Safety

Airline understand its moral and ethical responsibility to ensure the health and safety of employees and thus consistently make an effort to protect their physical and mental well-being. We believe employees who are nurtured in a safe and healthy work environment have improved morale and productivity which would in turn bring out their best effort.

Therefore, the Company closely liaises with relevant authorities and national agencies to monitor any health-related developments/new regulations to ensure timely implementation of those recommended health and safety guidelines/standards. We have also altered the operational processes in line with the current international and local standards to minimise risks and to ensure a safe and healthy work environment.

Additionally, we regularly communicate regarding health and safety to our staff members through awareness campaigns, workshops, and medical camps in addition to giving employees the necessary training and guidelines to maintain safety within work premises. The entirety of work premises also being regularly monitored and conditioned to optimise hygienic standards. Besides, the health and safety of all staff are being closely monitored by the Corporate Safety Unit while a 24-hour on-call medical support is provided to all staff through the Company's Medical Centre, along with regular and mandatory health checks. A Safety Management Systems Manual is also in place and is updated in a timely manner.

Engagement & Work-Life Balance

After a period of reduced engagement due to the prevailing crisis situation, SriLankan Airlines reintroduced a range of corporate and themed

employee engagement activities to increase the moral, teamwork, and work-life balance of staff. Additionally, depending on the requirement additional events were organised to enhance engagement.

The Company celebrates special events to all ethnicities, awareness campaigns and CSR, initiatives throughout the year. Consequently, these events have been instrumental in maximising inter-unit and departmental collaborations, as well as relationships with trade unions. Apart from these initiatives, we arranged special collaborative events with industry partners, and external organisations to bring in exposure, cross-cultural experiences and knowledge-sharing.

Grievance Handling

SriLankan Airlines maintains a grievance and dispute handling policy which is updated in a timely manner. This empowers the employees to openly express their concerns to their immediate supervisors or Group Head of Human Resources without distressing about facing negative consequences. Upon receipt of grievances, we take immediate action to inquire/investigate the matter thereby taking corrective actions to address the issue. Further, a committee is also set up to handle harassment-related grievances.

Customer Experience

In today's highly competitive aviation landscape, where passengers have a range of options, the quality of customer service plays a significant role in determining the airlines' success and reputation. The journey of a passenger, from booking a ticket to disembarking, encompasses multiple touchpoints that collectively shape their perception of the airline. It is this perception that ultimately shapes the Company's brand image, leading to improved loyalty. Therefore, SriLankan Airlines consistently strives

Management Discussion & Analysis contd.

to improve the customer experience to meet their evolving requirements, fostering their loyalty and encouraging them to choose SriLankan for their future travel.

Product and Service Offerings

SriLankan Airlines continues to enhance its product offering to ensure a higher level of service to its valued customers. The airline's commitment to improve the onboard experience received due recognition when SriLankan was bestowed the 2023 Passenger Choice Awards for Best Seat Comfort and Best Food and Beverage in Central/Southern Asia by the Airline Passenger Experience Association (APEX), reaffirming the airline's position as a passenger favourite.

Furthermore, to provide an authentic "SriLankan experience" to passengers, the airline launched the "SriLankan Flavours Campaign" showcasing SriLankan food and its culinary history using traditional recipes and ingredients, to a global audience. This campaign was appraised at the 2023 Onboard Hospitality Awards under the category of "Catering Innovation" and was highly commended.

SriLankan Holidays

SriLankan Airlines promotes inbound and outbound tourism leveraging its network through SriLankan Holidays (SLH), the leisure arm of the national carrier. By partnering with many leading hotels, tour operators and other tourism-related organisations, SriLankan Holidays aims to provide travellers with a wide range of holiday opportunities including customised all-inclusive holiday packages.

The airline continues to prioritise the development of inbound tourism to Sri Lanka, strengthening inbound travel by maintaining flight operations to an extensive network of destinations.

Aside from that, SLH continue to focus on special travel interests, and adventure/sports tourism

opportunities that destination Sri Lanka offers, such as, but not limited to gravel road cycling which is gathering momentum. One of the highlights was the PAN India campaign, 'Dil Full of Sri Lanka,' a tactical offer combined with star-class hospitality, and specially curated tour itineraries to bring out the most attractive destination attributes.

To strengthen its on-ground presence across the Airlines' network, SLH continues to expand its network appointing new SLH Franchise Operators.

With regards to outbound tourism, the financial year 2022/23 showcased a drastic drop in incentive travel at the beginning of the year. However, SLH managed to attract a range of incentive groups such as "Graduating Ceremony Groups" for outbound travel. The airline also further continued to expand inbound tourism through establishing partnerships with five tour operators in UAE, Thailand, Nepal and Indonesia thereby tapping into their expertise to create more appealing and well-informed travel packages. Leveraging the partnership established with SriLankan Holidays Ground Operators (SHGO) in Vietnam, SLH promoted holiday packages to many offline destinations such as Vietnam/ Cambodia to expand its market reach.

SLH also promoted Meetings, Incentives, Conferences, and Exhibitions (MICE) tourism events to bring people together from different industries to foster connections, promote new ideas, and encourage growth. Hence, during the year, MICE Expo 2023 was successfully concluded with the participation of over 100 international participants and also arranging groups in partnership with Entrepreneurs' Organisation (EO) to Nepal, and India. Additionally, SLH organised the 55th Annual Scientific Conference of the Sri Lanka College of Obstetricians & Gynecologists for 84 visitors and a group of

229 participants for LUPIN India – Pharmaceutical Company.

Marketing and Communications

SriLankan Airlines' brand image was considerably impacted by the adverse developments in Sri Lanka during the year. As a result, the tourism industry showcased a subdued performance with travel advisories cautioning against travel to Sri Lanka. Against this backdrop, the airline was compelled to build its brand image addressing safety concerns and shortage of essential commodities that impeded the destination experience.

To address the situation, the airline initially focused on perception building among Indian travellers, India being a prime tourism source market for the country and the single largest market for the airline. The airline proactively took steps to build advocacy through India's leading agents and content creators on the country's security by facilitating a series of familiarisation tours, where they were given a first-hand experience of the destination. This was beneficial in gauging a true view of the current situation, as opposed to what was portrayed by the mainstream media reports. As the situation was gradually returning to normalcy, the airline extended these content creator collaborations to other markets such as Australia and the Middle East.

Raid Amazonas 2022

SriLankan Airlines became the airline partner of Raid Amazonas 2022, a prime French adventure trail that exclusively features female French athletes. The event which was held in two parts at Sigiriya amidst the fuel crisis, attracted over 500 athletes and accumulated a global media visibility worth over 10 million euros, as per the event organisers. SriLankan Airlines was the only country to host the event for two consecutive years in the event's 21-year history, with Raid returning to Sri Lanka in March 2023, as one one-part event with over 250 athletes.



Global Sales Conference 2022

In bolstering support for Sri Lanka as a safe tourist destination, the airline proactively organised the Global Sales Conference in November 2022, bringing together over 250 top travel trade partners from its worldwide network, all actively promoting the market in Sri Lanka. The airline received support from leading hospitality partners and tour companies for the event which comprised of pre-conference tours where the agents were shown around the country centered around carefully crafted experiences. The Conference, the biggest travel mart in the history of the country, facilitated over 500 appointments by Sri Lankan travel companies/tourism stakeholders to meet their international counterparts, providing a comprehensive experience within a single venue, which would typically require attendance at multiple international trade fairs.

Launch of the 'Around the Island' destination video

SriLankan Airlines launched its latest destination video 'Around the

Island,' a visual composition that showcases the country's enduring beauty and liveliness. This video symbolises various facets of island life, its enduring nature, and the timeless call to explore once again a land renowned for its beauty and inherent warmth.

Ride Sri Lanka 2023

At the beginning of 2023, SriLankan Airlines organised the Country's first-ever cross-country cycling tour, Ride Sri Lanka 2023, which had a star-studded rider lineup, including world champions from Australia, USA and Canada, once more drawing essential worldwide attention to Sri Lanka as a highly desirable destination. The cycling tour which was held between 23 -28 January 2023, was a global cycling expedition that spanned from North to South of Sri Lanka, traversing some of the country's most iconic landscapes and diverse terrain. This event was followed by Ride Sri Lanka, UK Influencers' Edition which was held between 13-23rd of June 2023, and featured around 10 cycling influencers and tour creators from the UK.

'Dil full of Sri Lanka' Campaign

Concentrating on India's market opportunities, the Airline launched the 'Dil full of Sri Lanka' tactical campaign providing a range of holiday packages featuring curated island experiences to suit the different demands and tastes of travellers. The campaign promotion includes agent collaborations, media interactions and roadshows.

FlySmiLes

SriLankan customers have access to FlySmiLes, SriLankan Airlines frequent flyer loyalty program that provides customers with an improved frequent flyer experience with a range of benefits from access to over 600 international lounges worldwide, preferential boarding to excess baggage allowances. In addition, the program also offers bonus miles and cash plus miles promotions including the introduction of a Student Club, rewarding the students with discounts, excess baggage and ensuring enhanced service for the student community.

Management Discussion & Analysis contd.

Furthermore, the members were provided with tier status extensions up to 31st March 2023 to retain customer loyalty in the post-pandemic era. The introduction of miles to be provided for service recovery was a welcome feature, giving unhappy passengers an option of obtaining due compensation. Top-tier members now enjoy an exclusive discount on upgrade surcharges at all Airports, while all redemption tickets have been made eligible for Airport surcharge upgrades.

During the year, it was decided to amalgamate the FlySmiLes office with the Colombo Ticket office for better synergy and seamless customer experience enabling passengers to be served at one destination. Additionally, focus group discussions were conducted with representation from all membership tiers to obtain their feedback to improve product and service offerings.

Customer Complaint Management System

As the airline strongly values the customer viewpoint in improving its products and service delivery, it is also beneficial in ensuring the non-repetition of errors. Therefore, passengers are encouraged to voice their concerns directly to the airline.

The airline has established an instant customer service recovery mechanism to proactively offer compensation to passengers with complaints that have been identified at the frontline itself to be implemented with the launch of the new Customer Affairs Management system.

System Improvements for better customer experience

Omni Channel Customer Feedback solution

SriLankan IT Systems deployed an Omni Channel Customer Feedback solution to adequately gauge the passengers' perceptions of the services offered by SriLankan Airlines.

This all-encompassing solution comprises a detailed Passenger Feedback Survey and an NPS (Net Promoter Score) Feedback-capturing solution, that allows the collection of passenger feedback across various channels supporting the airline to continually improve service levels to meet the customer requirements. SLA also addresses customer concerns through the feedback received via the passenger satisfaction survey on the web, and post-flight survey.

Reservation System for Connecting Point Services (CPSS)

To further promote inbound tourism, SriLankan Holidays introduced a reservation system for Connecting Point Services (CPSS). The system is used by a third party to create reservations. A cost-effective platform that was designed and developed by airline's in-house IT team, aims to minimise the time spent at the transfer desk. The key features of the system include a user-friendly interface, the ability to search for a reservation by PNR or Booking Voucher, availability of email and print options, real-time confirmation to hoteliers and report generation.

AI-Powered Customer Service

SriLankan Airlines implemented WhatsApp communication with passengers and is currently in the process of enabling push notifications to passengers through WhatsApp. The aim is to keep the passengers informed about flight schedules, delays, changes, and other important updates. Passengers will receive notifications via email, SMS, or the airline's mobile app, ensuring they remain informed throughout their journey.

FlySmiLes Mobile Application

SLA introduced a FlySmiLes mobile application, offering customers convenient access and user-friendly features. SLA also implemented QR code enrolment to drive membership at airports including overseas stations enhancing member convenience.

Empowering Communities

SriLankan Airlines comprehends its social responsibility towards the community in which it operates and strives to make a positive impact through various initiatives aimed at supporting and uplifting the lives of the less privileged. By empowering these communities and ensuring their long-term development, SLA endeavors to create a more equitable society where every individual can thrive and prosper. Concentrating on core areas of health, education and youth empowerment, SLA carries out its community initiatives through SriLankan Cares, the CSR arm of SriLankan Airlines, bringing together related programs towards uplifting children and youth throughout Sri Lanka. The Company is also involved in several infrastructure development projects and provides scholarships, and access to seminars and workshops in enhancing the quality of education and health of children. The majority of funding for these projects comes from employee contributions and partnerships with similar organisations.

Healthcare Assistance

SriLankan Cares continues to support the country's healthcare sector through a range of critical initiatives aimed at enhancing the overall well-being of underprivileged communities. By extending a helping hand to support these individuals with their medical needs, SriLankan Cares have successfully reached a segment of the population in the country who lack access to essential healthcare.

Support initiatives

In assisting the prevailing scarcity of medication to hospitals in Sri Lanka, SriLankan Cares offered free-of-charge airlifting of internationally donated essential medicines and medical equipment to hospitals.

Further, there is also a Medical Ticket Scheme established for financially disadvantaged children (under 18 years of age) hailing from low-income

backgrounds with life-threatening conditions to travel abroad for medical treatment unavailable in Sri Lanka. The Scheme offered redemption air tickets covering airfare of child patients and their parents to travel to a chosen destination to receive the necessary treatment. SriLankan Cares initiated a poster campaign in hospitals across the island to raise awareness about this previously unknown initiative, bringing it to the limelight of those in need of such assistance.

Furthermore, SriLankan Cares continuously strives to bring a smile and joy to those children who are undergoing medical treatment. Hence, in celebration of the SriLankan Airline's 43rd Anniversary, SriLankan Cares visited the Lady Ridgeway Children's Hospital in Colombo to distribute gift packs bringing them happiness and lifting their morale.

Medical Camps

SriLankan Cares also reached out to those communities who have limited access to medical facilities by conducting medical camps in deprived localities across the country. This initiative offered free-of-charge medical consultations and other essential medical requirements to both children and adults, offering them a platform to attend to their medical needs.

The first of these medical outreach events were carried out at Bopaththalawa Sinhala Vidyalaya situated in Nuwara Eliya while the second was arranged at Mahaberiya Tamil School in Digana. These medical camps offered free health checks, vision tests, treatments and medication to the students as well as other participants from the surrounding areas who cannot obtain essential health services as such services are not readily available in the vicinity.

Similar medical outreach events were organised at Dehigahalanda Maha Vidyalaya in Hambantota, at the Seeduwa Vocational Training Institute and Gangeyaya Primary School situated in Kottapitiya. These events reached out to students as well as families within those underserved localities.

SriLankan Cares partnered with other organisations for certain medical camps, and these include Liquid Island (Pvt) Ltd, Shangri-La Hambantota, Members of the Sri Lanka College of Military Medicine and the Youth Wing of Sri Lanka Association of Inbound Tour Operators (SLAITO).

Through all these initiatives, SriLankan Cares healthcare assistance reached a population of approximately 1000 individuals (both children and adults) during the financial year.



SriLankan Cares Conducted a Medical Camp in Bopaththalawa Sinhala Vidyalaya in Nuwara Eliya

Management Discussion & Analysis contd.

Educational Assistance

SriLankan Cares remain committed to providing educational assistance to schools in deprived areas, promoting access to education as a crucial means to eliminate poverty and improve living standards.

International Day Celebrations

SriLankan Cares continue to strengthen its connection with disadvantaged children through diverse activities. As such, in celebrating World Children's Day 2022, SriLankan Cares organised a special program for the children of a Child Development Centre. A regular event for the past few years, SriLankan Cares arranged an informative and fun-filled day for the children of the development centre with educational activities designed to introduce Sri Lanka's travel and tourism industry. These students who do not frequently enjoy the privilege of outside excursions were offered educational tours of Colombo city, the seaport, the airport and the interiors of an aircraft, providing them with a distinctive experience. This was a collaborative effort with the Galle Face Hotel and Ebert Silva Holidays.

Spreading the festive spirit and joy of the season on Christmas Day, SriLankan Cares reached out to

CCC Home, the transit residence for cancer outpatients and their caregivers who cannot afford to live in outside accommodation or travel long distances to and from their rural homes for treatment. The occupants of the CCC home (both adults and children) were donated with 578 packs of essential items to alleviate the financial strain of living away from their homes.

Another special program was organised for the students at the Ceylon School for the Deaf and Blind situated in Rathmalana where they were given a fun-filled day with festivities in the Colombo city and seaport, including a special Christmas party on board a ship. This provided a one-of-a-kind experience for the students who typically lack access to such entertainment.

Familiarisation Tours

During the year, SriLankan Cares arranged familiarisation tours for selected groups of students from Walpola Sri Rathanasara Primary School, Vocational Training Institute at Seeduwa, Ananda Balika National School situated in Hingurakgoda, Andiambalama Maha Vidyalaya, Negombo South International School Network and Dharmapala Primary

School situated in Depanama. These exposure tours were primarily designed to offer children to understand and experience the aircraft interiors, operational aspects, functionality and the aircraft maintenance arm, SriLankan Engineering.

Through all these initiatives, SriLankan Cares education assistance reached a population of approximately 3000 students attending schools during the financial year, empowering them to achieve their goals and contributing to their betterment.

Sustainability Performance

As the national carrier of the country, SriLankan Airlines remains steadfast in its commitment to fulfilling its national obligation of preserving the environment for future generations. In pursuit of this objective, SLA has embraced a planet-friendly approach, integrating sustainable practices into its daily operations. The airline continually seeks to explore novel avenues to drive impactful sustainable initiatives, reducing the environmental footprint of its operations and elevating its planet-friendly corporate philosophy to new heights.

SriLankan Airlines' Environmental Strategy

The Environmental Strategy of SriLankan Airlines adopts a six-pillar approach, outlined as follows;

1. Carbon Footprint Reduction	Reduce carbon emissions from direct and non-direct sources.
2. Resource Efficiency and Waste Reduction	Increase the efficiency in the use of electricity, water, and other inputs to the operation. Move towards environmentally friendly inputs.
3. Environmental Compliance	Ensure conformity of the airline operations to all applicable environmental regulations and policies.
4. Conservation and protection of Biodiversity	Conduct projects to enhance biodiversity and ecosystem preservation of the country.
5. Child and Youth Empowerment towards achieving environmental sustainability goals	Ensure environmental science skills and knowledge development within Sri Lanka.
6. Community Empowerment	Sustainable livelihoods for communities around sensitive ecosystems.

Key initiatives carried out during the financial year 2022/23

Mangrove Planting Project

Sri Lanka's mangrove forests are limited in size and diminishing rapidly, underscoring the urgency of conservation efforts. Mangroves remain the country's first line of defense from any natural threats from sea, ranging from coastal erosion to extreme events such as tsunamis. Mangroves also play a pivotal role in combating global warming due to their superior carbon sequestration capabilities. The challenges faced by mangroves from pollution and other human activities are making our coastal areas vulnerable.

In safeguarding these fast-depleting mangroves, SriLankan Airlines launched a mangrove project with the Department of Forest Conservation Sri Lanka as a collaboration for conservation of the Mangrove forests in the Negombo lagoon. As part of the initiative, SriLankan Airlines has donated a mangrove nursery to the Department of Forest conservation and has conducted mangrove planting activities in collaboration with the Department. Further, the airline plans to engage with relevant stakeholders in the conservation and protection of sensitive ecosystems around the island in the future.

Upcycling Project

SriLankan Airlines launched its signature upcycling project, 'Mathaka', in 2021, to support the environment through meaningful and effective measures. The project aims to upcycle discarded items from the airline in making new environmentally friendly products with commercial value. The airline uses waste material originating from its operations, such as seat covers, blankets, uniforms, and other items for upcycling, minimising the consequential long-term negative impact on the environment. The project was broadly recognised internationally, winning the international award for the best

aviation sustainability program under the socio-economic category at Sheikh Mohammed bin Rashid Al Maktoum Global Aviation Award in 2022.

Currently, SLA has implemented 3 successful product lines under this initiative with plans for further expansion in the next financial year. The project was instrumental in reducing the cost of disposing of used uniforms as well as in averting discarded material from going to landfills. These products are currently used as branded souvenirs and giveaway items.

There is also a strong humanitarian aspect to the project where it empowers women from low-income communities to earn a livelihood and support their families through the working relationship with our project partners House of Lonali and Women in Need (WIN).



SriLankan Airlines won the Best Aviation Sustainability Program Award for upcycle project, 'Mathaka.'

Decarbonising Initiatives

As part of its commitment to decarbonisation, SriLankan Airlines continues to adhere to the industry best practices to reduce its emissions. These include enhancing operational efficiency through the adoption of industry-recommended green operating procedures, optimising flight planning, and managing aircraft operating weight. While the Company promotes adherence to the Airbus Green Operations Manual in the flight operating area, it also conducts monitoring, reporting and verification of aircraft emission data under the ICAO CORSIA program.

Furthermore, the airline continuously take action to reduce its electricity consumption by implementing infrastructure-related energy efficiency improvement measures, awareness programs and good housekeeping measures. A biogas unit is also used to convert a portion of organic waste to kitchen fuels.

Facilitating Skills and Knowledge Development

SLA Hosted and sponsored a training conducted by seagrass expert Dr. Millica Stankovic from Prince Songkla University Thailand, for mapping seagrass beds using drone technology. This initiative aimed to build national capacity in Sri Lanka for scientists, research students, and officials at governmental agencies. Similarly, airline hosted the World Seagrass Day National Celebrations and conducted a Webinar on the "Potential of blue carbon eco systems and a blue economy towards a sustainable growth of a country".

Management Discussion & Analysis contd.

Further, SLA sponsored the air travel for Sri Lanka's representatives at the World Shark Conference in Spain where Sri Lanka won the bid to host the 5th Edition of the World Shark Conference. SriLankan Airlines facilitated travel for Dr. Guido Leurs from University of Groningen and the Royal Netherlands Institute for Sea Research for a workshop to address the capacity gap of shark tagging in Sri Lanka.

Raising Awareness

SriLankan Airlines regularly conducts extensive awareness campaigns regarding on-site and off-site environmental issues to keep staff knowledgeable on environmental concerns. The staff's understanding is further enriched through the organising of volunteer events and industry-specific training sessions on environmental sustainability.

Regulatory Compliance

Regulatory Compliance is paramount for an airline as it ensures the safety of passengers and an efficient operation. Strict adherence to aviation standards and procedures will prevent accidents and incidents, minimising the risk to human life and property. On the other hand, these rules and regulations provide a consistent framework for smooth business operations while establishing clear responsibilities and accountabilities within the organisation. Thus, SriLankan Airlines ensures strict adherence to all applicable local and international industry standards.

Safety Management System (SMS)

SriLankan Airlines has an approved Safety Management System (SMS) endorsed by the Accountable Manager (Chief Executive Officer) with a Safety Policy communicated throughout the organisation. The SMS encompasses a safety risk management system which allows

the company to identify hazards and conduct further analysis to implement mitigation measures. Hazard identification is achieved through a well-established safety reporting mechanism employed throughout the organisation. Furthermore, Safety Action Groups are established for each operational discipline, where functional-level decisions are made to ensure safe operations.

Workplace hazards are addressed through the Occupational Health & Safety program that ensures duties are carried out minimising injury to people and damage to equipment.

Aviation Standards & Procedure

SriLankan Airlines complies with all the necessary national and international regulations relevant to the aviation industry. These include regulations of the Civil Aviation Authority of Sri Lanka (CAASL), the International Air Transport Association (IATA), and the European Union Aviation Safety Agency (EASA) that publish regulations and standards for the aviation industry.

Quality Management Systems

The Engineering Quality and Operational Quality Departments have established quality management systems that involve processes for monitoring and assessing the status of compliance and conformity through audits, inspections, and observations. In the fiscal year, SriLankan Airlines was audited on 800+ standards during a 5-day IATA Operational Safety

Audits (IOSA) renewal audit by IATA accredited industry experts. The audit was completed successfully with minimal findings, renewing the SriLankan Airlines' IOSA registration till 26th January 2025.

Considering the Country's economic crisis and SriLankan Airlines' financial position, the Operational Quality Department conducted online

audits at overseas stations with the assistance of station managers as a cost-saving alternative to physically visiting all stations.

Cyber Security & Data Protection

SriLankan Airlines prioritises the security of passenger data and employs a range of technologies and measures including Artificial Intelligence (AI) and Machine Learning (ML) to enhance cyber security posture. These measures include Bot Detection and Mitigation, Endpoint Detection & Response, Vulnerability Assessments, Security Information & Event Management (SIEM), Network Behavioural and Analysis, Spam and Phishing Detection, and Encryption. Besides, the airline also continually improves operations to meet the requirements of the Data Protection Regulations, including, but not limited to, the European Union General Data Protection Regulation (GDPR) and Personal Data Protection Act No. 9 of 2022 (PDPA) of Sri Lanka.

To further bolster cybersecurity and safeguard data, SriLankan IT has consistently maintained compliance and obtained certifications that encompass ISO/IEC 27001:2013 Information Security Management System, ISO/IEC 27701:2019 Privacy Information Management System, ISO/IEC 20000:2018 IT Service Management System and ISO 9001:2015 Quality Management System for Software Development.

Financial Review

With the global aviation industry embarking on a resurgence, leaving behind the biggest crisis ever, SLA marked history with its significantly improved financial performance in the year under review, which stands as an inspiring story of resilience and success, particularly in the backdrop of challenging times. The achievement of increased operating profitability,

with a group operating surplus (before exchange loss) of LKR 43.4 Bn in comparison to the operating surplus of LKR 1.7 Bn in the preceding financial year, is a testament to the well-coordinated turnaround efforts driven by management initiatives and the unwavering dedication of our people. Moreover, SLA's continued efforts in establishing a robust network and maintaining its leading position as a prominent legacy carrier in the South Asian subcontinent have been instrumental in this significant accomplishment.

However, the transformational phase had been challenging to the national carrier of Sri Lanka, especially during a period of geopolitical tensions, economic crisis, inflation and fuel crisis. The severe shortage of jet fuel supply in the Country alone contributed to a loss of approximately USD 20 Mn during the period in concern amidst schedule restrictions and curtailed passenger and cargo payload to accommodate adequate fuel for the return journey. Moreover, the aforementioned operating profit was hindered by the notably elevated interest rates on the debt stemming from the previous financial years.

Consequently, the Group recorded a net loss of LKR 71.3 Bn primarily driven by exchange loss of LKR 63.1 Bn and the finance cost of LKR 51.5 Bn.

	2022/2023	% Contribution to Loss	2021/2022	% Contribution to Loss
Finance Cost	51.48	72%	22.90	14%
Exchange Loss	63.13	89%	142.61	87%

Nevertheless, SLA maneuvered through the challenging period by prioritising cost-saving initiatives, mitigating cash depletion, and strategically opting for routes that presented more favourable revenue prospects. This has been reflected through the Company's Management Accounts prepared in USD due to 75% of our expenses being in USD and 85% of our revenues derived or denominated in foreign currencies. The Company witnessed a remarkable improvement in its net results in US Dollar terms (Unaudited), achieving a historic milestone of breaking even after a decade and a half.

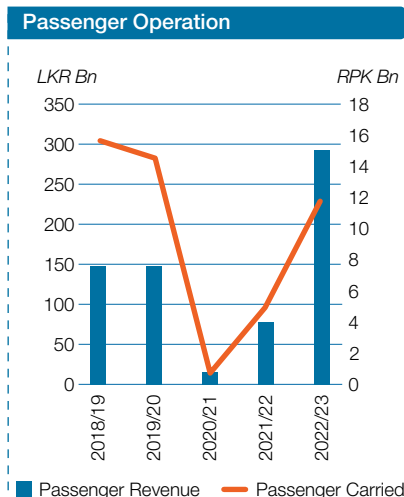
Earnings

While the political and economic turmoil led to a notable decline in tourist arrivals to the country in the first half of the year, the SLA found itself compelled to shift its focus toward generating revenue through transit traffic. Nonetheless, as the nation gained more stability in the latter part of 2022, the Airline's earnings surged by providing handling services and catering to other airlines that recommenced their operations to Colombo. This was bolstered further by the earnings generated from cargo operations responsible for transporting

exports out of the country and by the heavy maintenance services offered to other airlines by SriLankan Engineering.

The Group revenue surpassed LKR 369.5 Bn, a growth of 175% compared to the previous financial year. Nevertheless, in the context where SLA had to grapple with unforeseen challenges associated with the reliability and maintenance of Airbus A320/1 neo engines that affected operators on a global scale, and with manufacturers currently in the process of developing solutions, the Airline was compelled to ground a majority of these aircraft and operate with reduced frequencies to specific destinations, leading to a decline in revenue towards the latter part of the financial year under review.

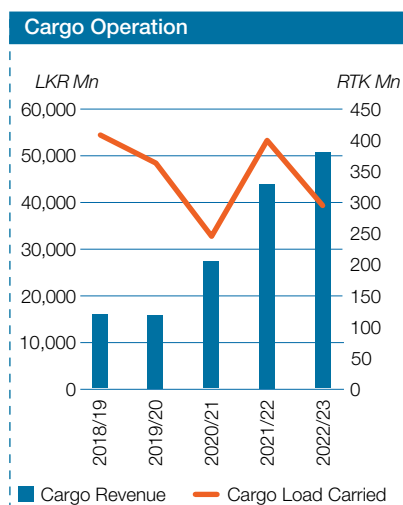
Passenger revenue for the financial year 2022/23 stood at LKR 293.3 Bn, with an increase of 276% in comparison to the preceding year. The number of passengers carried during the period amounted to 3.48 Mn, experiencing a notable increase of 137% in contrast to the previous year.



The annual cargo revenue reached LKR 51 Bn, reflecting a 16% growth when compared to the financial year 2021/22. Amid the political and economic instability of the Country in the early months of the year under review, SLA's cargo operations played a pivotal role in strengthening its revenue through the transportation of fabrics and perishable goods out of the Country. This initiative not only contributed to revenue enhancement but also facilitated the establishment of connectivity to markets beyond the Airline's online destinations, while effectively meeting cargo demands by transporting livestock, perishable goods, and ready-made exports.

Management Discussion & Analysis contd.

Despite the revenue increase, the overall cargo volumes experienced a decline of 17% to 0.8 Mn tonnes.



The year under review SLA made significant strides in enhancing its service quality to deliver a customer-centric experience. SLA also expanded its range of ancillary services, which encompassed revenue sources such as FlySmiles redemptions, flight upgrades, Plusgrade premium seating options, excess baggage handling, advanced seat reservation, duty-free sales, pre-order cake & meal services and charter operations, fulfilling the demand from both local and international passengers.

Expenditure

The Group's total expenditure amounted to LKR 444 Bn with a significant rise of 49% in comparison to the financial year 2021/22. This increase in expenses was attributable to heightened operational activities and the adverse impact of the weakening of the Sri Lanka Rupee against the US Dollar. This was further increased with the contribution from foreign currency translation loss amounting to LKR 63.13 Bn, accounting for 14% of the total costs. The detailed breakdown of the Group's expenses is depicted in the table below.

	2023		2022		Variance	
	Value (LKR Mn)	Contribution (%)	Value (LKR Mn)	Contribution (%)	Value (LKR Mn)	Contribution (%)
Aircraft Fuel Cost	155,559	35.00%	42,759	14.31%	112,800	263.80%
Aircraft Maintenance and Overhaul Costs	42,199	9.49%	23,088	7.73%	19,111	82.77%
Employee Cost	26,553	5.97%	17,416	5.83%	9,137	52.47%
Airport, Enroute and Passenger Expenses	40,761	9.17%	17,753	5.94%	23,008	129.60%
Selling, Marketing and Advertising Expenses	24,643	5.54%	7,250	2.43%	17,393	239.92%
Crew Expenses	7,661	1.72%	3,231	1.08%	4,430	137.11%
Depreciation/Amortisation	15,153	3.41%	14,656	4.91%	497	3.39%
Other Operating Expenses	16,822	3.78%	7,026	2.35%	9,796	139.41%
Rentals on Short Term Leases Aircraft and Spare Engines	504	0.11%	43.66	0.01%	460	1054.37%
Exchange Loss	24,749	5.57%	34,730	11.63%	-9,981	-28.74%
Operating Expenses	354,604	79.78%	167,952	56.22%	186,653	111.13%
Finance Cost	51,483	11.58%	22,904	7.67%	28,579	124.78%
Exchange Loss on interest bearing liabilities	38,379	8.63%	107,881	36.11%	-69,502	-64.42%
Finance Expenses	89,862	20.22%	130,785	43.78%	-40,923	-31.29%
Total Expenses	444,466	100.00%	298,736	100.00%	145,730	48.78%

The Aircraft fuel cost accounted for 35% of the Company's total expenses, in contrast to the 14% recorded in the previous financial year. The significant increase in fuel cost was primarily a result of increase in fuel prices after Russia's invasion of Ukraine. This, together with the scarcity of jet fuel in Colombo, led to elevated base prices for fuel and the need for additional technical stops for refuelling, incurring higher costs to sustain uninterrupted connectivity to the Country. Aligned with increased flight frequencies and passenger volumes, both airport enroute and passenger-related expenses experienced a significant surge of 130%. The expenditure on aircraft maintenance and repair amounted to LKR 42 Bn, representing 9% of the total expenses. This expense category observed an 83% surge from the previous year, predominantly due to the rise in engine repair and overhaul requirements. Furthermore, selling, marketing and advertising expenses recorded a substantial increase of 240% compared to the preceding year.

Despite the rise in certain expenditures, SLA managed to uphold a comparatively competitive cost structure compared to its regional competitors. This accomplishment was mainly attributable to a series of cost-saving strategies executed throughout the year, especially during the pandemic.

Financial position

As of 31 March 2023, the Group's total assets stood at LKR 211 Bn, primarily consisting of right-of-use assets totalling LKR 70.5 Bn and other receivables in the form of short-term and long-term securities provided for lessors amounting to LKR 70 Bn. Group carried a total debt of LKR 532.8 Bn, excluding short-term trade and other payables. The lease liability made up 30% of the Group's total liabilities.

Cash position

SLA effectively upheld a positive cash position throughout the year under review, as evidenced by the enhancement in Company net cash flows from operating activities, which rose from LKR 14 Bn to LKR 36.8 Bn in the financial year 2022/23. In addition, SLA has been actively engaged in continuous negotiations with aircraft leasing companies to defer lease and maintenance reserves payments. This approach, coupled with the implementation of deferred payment arrangements and negotiated reductions with other key suppliers, has contributed to establishing a sense of financial predictability during the year.

Business Unit Performance

SriLankan Airport & Ground Handling Services

Overview

SriLankan Airport and Ground Services (A&GS), the Ground Handling arm of the SriLankan Airlines caters to a local and large number of international airlines operating from Bandaranaike International Airport (BIA) and Mattala Rajapakse International Airport (MRIA). Currently, it serves over 30 regular customer Airlines and ad hoc carriers leveraging the strength of approximately 2000 employees who are well trained and experienced in Ground Handling operations. With over 30 years of expertise, the Strategic Business Unit (SBU) has established a reputation for high-quality service delivery in accordance with its core values of safety, precision and exceptional service.

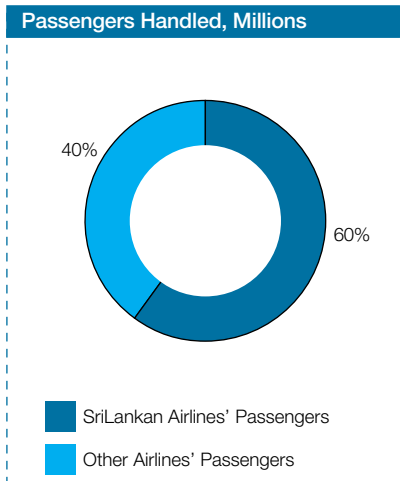
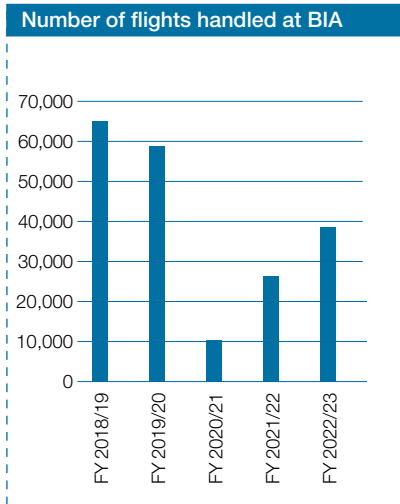


Performance

The financial year presented significant challenges for all Airport and Ground Services operations, as they had to manage recovery efforts and accommodate a surge in flight and passenger volumes while working with limited resources. There were also other constraints that impeded the operations. The country's financial predicament, fuel crisis, disturbance due to a fuel hydrant upgrade at BIA, infrastructure limitations, and staff and Ground Service Equipment (GSE) shortages all presented a hurdle to seamless operations. A&GS was required to cater to the increasing demand amidst these constraints.

Management Discussion & Analysis contd.

Nonetheless, A&GS managed to achieve higher financial returns recording a total revenue of USD 34.86 Mn during the financial year, a 24% increase compared to the last financial year. (USD 28Mn). While the total number of flights handled increased by 46% compared to the previous year recording 38,497 flights, the passenger count also accelerated by 80% compared to the previous financial year to 5.8Mn. Further, 160,000 MT of cargo was also handled by the Ground Services during the period. The division maintained a SLA handling reliability of 97.7% and customer airline (CAL) handling reliability of 99.9%. The mishandled baggage rate remained at 0.74 per 1000 passengers.



Key Strategies

Due to the increased volume of passenger airlines throughout the year, A&GS made an effort to address the capacity issue by expanding its workforce through recruitment. In addition, a Self Check-in system was implemented to increase efficiency and eliminate delays saving time for both the passengers and the staff. A&GS also deployed SLA staff to take over the entire check-in process, passport control, and luggage check-in in our premier Gold Route service at BIA while allocating crew check-in counters to ensure hassle-free check-in for crew avoiding operational delays.

Key Highlights

A key milestone during the period was the commissioning of a New Baggage Reconciliation System (BRS) to track and expedite passenger baggage delivery minimising irregularities.

Future Outlook

As the market is growing with increased demand for air travel, there is a need to expand the capacity to accommodate the growing demand. Hence, A&GS will continue to invest in human resources, providing relevant training for the staff and investing in ground handling equipment to enhance service levels in the near term. Currently, the SBU is planning to introduce supervisory handling at BIA (Perform a supervisory and a coordinating role for aspects related to landing, parking, navigation approvals, handling of passengers & their baggage, ramp and cargo operations related to ad hoc customer airline flights using state of the art processes and systems in order to dispatch such flights in a safe and timely manner) as a revenue-generating initiative and are further exploring the possibility of offering ground handling services at other international airports. As the initial and final point of contact for travellers coming to the country, SriLankan Airport and Ground Services are confident that

these ongoing enhancements will significantly improve the quality of their customer experience.

SriLankan Engineering (SLE)

Overview

As the sole engineering arm of SriLankan Airlines, SriLankan Engineering (SLE) has over three decades of first-hand expertise in aircraft maintenance. Operating from three locations; Colombo, Male and Matthala, SLE provide a range of services that include end-to-end Maintenance, Repair, and Overhaul (MRO) services of aircraft and related components. SLE currently serve SriLankan Airlines and many other global operators with an intent to further expand its service offerings to a wide clientele in the near term.

Comprising a team of over 800 EASA 147 trained, highly qualified and committed engineering employees, SLE maintains consistency in its service offerings by leveraging state-of-the-art technology. SLE is accredited by the Civil Aviation Authority of Sri Lanka (CAASL), the European Aviation Safety Agency (EASA) and several other National Aviation Authorities (NAAs) for its comprehensive aircraft maintenance services provided in the region.

Performance

During the financial year, SriLankan Engineering made the transition from primarily being the Engineering & Maintenance division of SriLankan Airlines to a full MRO service division catering to a wider customer base across the globe. This enabled us to harness better opportunities from small and medium customers in the region reaching a year-end profit from third party operations of USD 1.87Mn.

Evaluating the operational performance, SLE managed to maintain an average dispatch reliability of 98.5 for both A320 and A330 aircraft categories.

Key Strategies

During the period under review, SLE's main objective was to harness new opportunities for business growth, expanding third-party maintenance to new customer airline. As such, the SLE Base Maintenance arm focused on capturing small and medium customers within the regions of the Middle East, South Asia, and Southeast Asia increasing its presence and brand across the closest geographical regions and allowing SLE the flexibility to move around the availability of slots in the hangars.

Over the long term, SLE will continue to strengthen its capacity by increasing Base Maintenance production lines, boosting capabilities in the engine types we cater to, and obtaining Boeing 737 family base maintenance capabilities. As for Line Maintenance, SLE will continue to maintain and grow the market shares and customer bases in Sri Lanka and the Maldives. In terms of Component Maintenance, SLE will reach out to existing Base Maintenance customers to obtain the first component maintenance business from foreign airline.



Key Highlights

A key milestone during the financial year was the SLE signing an exclusive Base Maintenance agreement with Serene Air and signed the first C check on an aircraft and engine type combination not within the SriLankan Airlines' fleet (Airbus A330 with GE CF6 engines). SLE also signed its first Component Maintenance international agreement with Air Sial during the financial year.

Furthermore, SLE designed and launched the first SriLankan Engineering website (srilankanengineering.com) in collaboration with SriLankan IT to highlight SLE's third-party Aircraft

Maintenance, Repair and Overhaul (MRO) capabilities providing simplified access to service-related information and ground slot reservations for both current and prospective customers. Additionally, a business development team was also established to focus on identifying, networking, and acquiring new clients and business opportunities for growth.

Future Outlook

Moving forward, SLE will prioritise the successful completion of all the planned aircraft re-deliveries, aircraft inductions and heavy maintenance on SriLankan Airlines' fleet. There will be an increase in revenue from Line Maintenance with the

signing of new customers in Sri Lanka and the Maldives while the Component Maintenance revenues are also anticipated to increase with the signing of new international customers.

SriLankan Aviation College

Overview

With over three decades of excellence in aviation training to global standards, SriLankan Aviation College (SLAC) is the esteemed training division of SriLankan Airlines, providing a diverse array of training catering to both the nation and the region. SLAC is the sole institution in Sri Lanka holding multiple international accreditations

Management Discussion & Analysis contd.

and Civil Aviation approvals whilst also being among one of the select few across Southeast Asia to carry a wide range of prestigious accreditations. In collaboration with globally renowned training and academic institutions, the college provides comprehensive aviation and corporate training opportunities with first-hand exposure for both aspiring students and experienced professionals alike.

SLAC is recognised by esteemed industry bodies including the European Union Aviation Safety Agency (EASA), the International Air Transport Association (IATA), the International Organisation for Standardisation (ISO), the Civil Aviation Authority of Sri Lanka, the Civil Aviation Authority of Pakistan, and the Civil Aviation Authority of Maldives. SLAC is also a distinguished member of prestigious organisations such as the Royal Aeronautical Society (RAES) and the European Aviation Maintenance Training Committee (EAMTC).

Performance

SLAC plays a vital role in supporting the country's foreign exchange earnings by attracting international students. Over the past four financial years, the college has contributed to generating a commendable revenue of approximately USD 3 million, defying industry fluctuations. The academy's contribution was also instrumental in mitigating foreign currency outflow through the provision of access to internationally recognised aviation qualifications for local students within the island.

Key Highlights

In emerging as a pioneer in providing top-tier aviation training opportunities, SLAC continue to strengthen its position through establishing vital academic and industry collaborations, thereby supporting the positioning of Sri Lanka as a hub for aviation training in the South Asian region.

SLAC has formed partnerships with renowned aviation education

institutions, including the internationally esteemed Embry-Riddle Aeronautical University and Kingston University London. These collaborations facilitate the provision of postgraduate qualifications tailored for aviation professionals. Additionally, SLAC has forged collaborations with industry giants Boeing Group and Airbus Training, allowing the academy to offer an extensive portfolio of aviation training that caters to the ever-evolving demands of the aviation sector. Locally, SLAC is in partnership with General Sir John Kotelawala Defence University collaborating on the BSc in Aircraft Maintenance degree. SLAC also collaborates with the British College of Applied Sciences (BCAS) expanding its reach in the Northern and Eastern regions of Sri Lanka offering a comprehensive training portfolio to the students in the regions, increasing their career prospects.

The college's continued commitment to quality has earned SLAC the National Vocational Qualification (NVQ) status for its academic programs. This has not only empowered the students to obtain vocational qualifications but paved the way for lateral entry into degree programs at local and international universities.

Future Outlook

Firmly grounded on a trajectory of continued growth and innovation, SLAC is currently engaged in discussions with the Ministry of Higher Education and the Ministry of Aviation to attain the esteemed status of a degree-awarding higher education institute. This, once achieved, will be a catalyst to provide students in the region with an opportunity to study at an internationally accredited aviation university.

In its continued quest for excellence, the college is in the process of acquiring the Approved Training Organisation (ATO) certification from the Civil Aviation Authority of Sri Lanka. This milestone would make SLAC the premier institution

specialising in comprehensive aviation professional studies to be officially certified as an ATO in Sri Lanka, thereby furthering our students' recognition globally on an academic scale.

While currently an Accredited Training Center (ATC) of IATA and positioned amongst the top ten Authorised Training Centers (ATC), SLAC is poised to take a significant step forward by becoming an IATA Regional Training Partner (RTP), thus becoming one of the thirty top training centres in the world, reaching new heights in SLAC's collaboration with IATA.

Moreover, SLAC will continue to expand its footprint on the global stage including in Bangladesh and Nepal, providing aspiring students a reliable pathway towards a rewarding aviation career. Notably, SLAC proudly stands as the first institution to establish an EASA-approved examination centre in the Maldives, further cementing its regional influence.

As we look ahead, SLAC remains committed to shaping the future of aviation education, nurturing talents, and contributing to the growth of the aviation industry both locally and internationally.

SriLankan Catering Limited

Overview

SriLankan Catering Limited (SLC), fully owned Subsidiary of SLA, is the sole airline catering company in Sri Lanka and is a Limited Liability Company registered under the Company's Act No. 07 of 2007. The core business activity of SLC is the inflight catering to SriLankan Airlines and other international airlines that operate from Bandaranaike International Airport (BIA), Mattala Rajapaksa International Airport (MRIA) and Colombo International Airport Ratmalana (CIAR). SLC also provides an array of services for the airport's lounges and restaurants, including

catering, laundry, and restaurant management. With over four decades of experience in delighting the passengers of some of the world's finest airlines, SLC continues to serve its customers with a level of expertise and professionalism in all its business activities on par with the best Airline Caterers in the world. SLC is an active member of the International Flight Catering Association (IFCA) and the International In-flight Food Services Association (IFSA).

Considering the nature of its business operations, SLC takes substantial precautions to maintain thorough standards of hygiene upholding strict quality control procedures and adheres to the following key guidelines.

- ISO 9001:2015 – Quality Management System with UKAS (United Kingdom Accreditation Service) accreditation.
- ISO 22000:2018 – Food Safety Management System with SAS (Swiss Accreditation System) accreditation.
- HACCP – Food Safety Assurance with Hazard Analysis and Critical Control Points.
- ISO 14001:2015 – Environmental Management System with SAS (Swiss Accreditation System) accreditation.
- HALAL Certification - Certified by Malaysian Airlines
- Food Act, No. 26 Of 1980 As Amended by Food (Amendment) Act, No.20 of 1991.



Performance

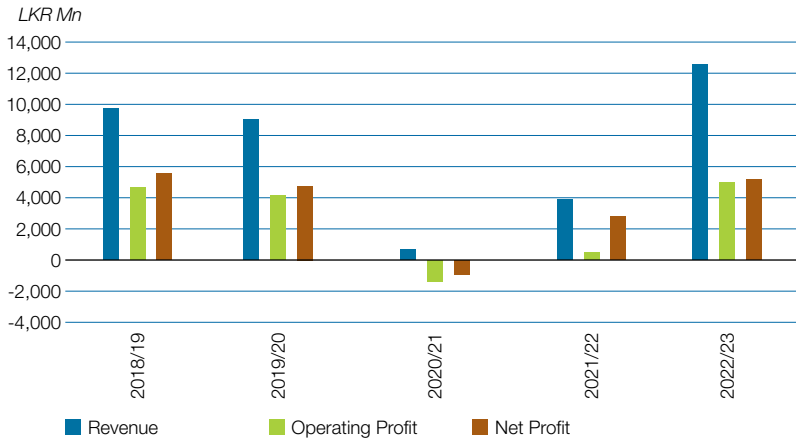
SLC demonstrated a remarkable performance during the financial year recording a profit with a turnover of LKR 12,543 Mn, a 221% growth compared to the previous financial year. All key performance indicators increased significantly, owing to the increase in passenger arrivals and commencement of operations by a few airlines following the pandemic and the improved macroeconomic environment.

SLC also recorded operating profit during the year of LKR 5,010 Mn (2021/22 – LKR 474 Mn) while the net profit before tax increased to LKR 5,701 Mn by 76% compared to the last financial year (LKR 3,231 Mn). This also includes an exchange gain of LKR 706 Mn (2021/22 – LKR 2,823 Mn) which arose owing to the depreciation of the Sri Lankan Rupee against the US Dollar throughout the financial year.

Management Discussion & Analysis contd.

SLC's income tax expenses increased by 134% compared to last year (LKR 429 Mn) due to an increase in taxable income.

Financial Performance



Key Strategies

During the year under review, SLC actively scrutinised revenue-generating avenues through existing business units and was able to secure new contracts with some prominent airlines. SLC expanded its ready-to-eat meal segment, Cuisine Gastronomer, to the local as well as export markets, taking advantage of its vast production and operational capabilities. Currently, SLC is exporting this range of meals to Australia, USA and Canada with the objective of further expansion of export and local markets in the near term.

SLC also made continuous efforts to manage operational costs while emphasising resource optimisation to drive cost efficiencies. Consequently, SLC rightsized the staff cadre and reduced the other direct operating expenses in proportion to the decreased level of operations. Further, SLC also postponed major capital expenditure projects only focusing on the critical and urgent capital requirements to improve revenue generation activities and cost management initiatives.

Key Highlights

One of the key milestones during the financial year was the significant increase in revenue compared to the previous financial year due to the improved performance of the flight kitchen and restaurant segments.

The increase was mainly attributable to the increase in revenue of Inflight Catering by 221% (LKR 6,701 Mn) and BIA Restaurant by 193% (LKR 932 Mn) compared to the previous year.

The number of meals produced at Flight Kitchen during the year significantly increased by 106% to 4.5 Mn meals per annum compared to 2.2 Mn meals produced in the previous financial year. SriLankan Airlines, being the main customer of Inflight Catering, contributed to 73% of the total Inflight Catering turnover and utilised 82% of the total number of meals produced during the year.

The Airport Restaurant (public and transit) at BIA contributed 11% to the total revenue of the Company marking a revenue increase of 193% to LKR 1,416 Mn compared to the previous financial year (2021/22 – LKR 483 Mn). Furthermore, the turnover from other ancillary business activities also increased by 258% to LKR 1,397 Mn (2021/22 – LKR 390 Mn).

Future Outlook

As the macroeconomic environment becomes more favourable for the tourism industry and air travel experiences a subsequent increase, the Company's outlook remains optimistic. Capitalising on this improved environment, SLC is currently in discussion with other airlines to recommence catering which was suspended due to the pandemic. Concurrently, SLC is considering broadening its supplier base with a view to improving the quality, efficiency, and productivity of its processes in addition to revamping its IT systems for better operational synergies.

Corporate Governance Report

The Board and Management of SriLankan Airlines believe that sound Corporate Governance is essential for the sustainability of the Company's performance and that adoption of good governance practices is an essential requirement in State Owned Enterprises as the Board of Directors discharge fundamentally a role of stewardship.

The Company is committed to continuously enhance the standards of Corporate Governance principles and practices to improve and maintain a healthy balance of fairness, responsibility, transparency, and accountability.

SriLankan Airlines is in compliance with the following frameworks of legislation, codes and voluntary practices as part of its Corporate Governance adopted by the Board of Directors.

- The Companies Act No. 7 of 2007
- Articles of Association of the Company
- Guidelines on Corporate Governance and Operational Manual for State Owned Enterprises issued under Public Enterprises Circular No. 01/2021 dated 16 November 2021.
- Internal Company rules and processes and industry specific rules and regulations.

The Board of Directors

Composition of the Board

In terms of the Articles of Association of the Company, the Government of Sri Lanka acting through the Secretary to the Treasury appoints the Board of Directors as long as the Government holds more than 50 percent of the shares of the Company. The Government appoints the Directors to the Board through a selection committee to ensure that the Board consists of qualified, and talented personnel with the ability to make the State-Owned Enterprises successful ventures. As the public ownership of enterprises is vested

in the government, the Board of Directors is directly accountable to the Government.

The role of the Board

The Board provides strategic direction to support the achievement of the objective of the Company and ensures that the strategic plan is aligned with the national policies and priorities.

The Board demarcates a clear division of responsibilities amongst the management that facilitates the balance and power and authority.

Board's core responsibilities are to;

- ensure that adequate delegation of authority to the Management especially in making operational decisions facilitating the effective implementation of the strategic directives.
- ensure that the Company is in possession of a sound and reliable Management information system which facilitates decision making and accountability.
- ensure the integrity of the accounting and financial reporting systems, control systems such as risk management and operational control, uphold compliance with the laws, regulations, and relevant standards.
- ensure that the key processes and procedures including the operational, administrative and financial processes are properly documented and updated periodically.
- ensure disclosure of maximum information of both financial and non-financial nature to its stakeholders without compromising any statutory or operational requirements through the Company's website.

The following processes are in place in order to provide timely and accurate information to Directors to perform their responsibilities

- All Directors receive accurate, relevant, timely, clear and balanced information

- The Company Secretary acts as the point of contact for the flow of information between Committees, the Board and Directors, and other key Management.
- The CEO along with the respective Heads of Divisions present their submissions to the Board and provide the necessary clarifications requested by the Board.
- In addition, all Board Papers are made available in electronic format, in line with the Company's sustainability initiatives.

Board functions are supported by robust Information Technology, enabling Board members to access their Board Papers via a secure connection and participate at meetings even remotely.

Delegation to Board Subcommittees

The Airline has in place Board subcommittees to fulfil better governance and best practices. These committees comprise directors who can bring their expertise and experience to the assigned committees. The duties are set out in formal Terms of Reference. The Secretary to the Board subcommittees is the Company Secretary.

The committees meet regularly to consider and discuss matters falling within their authority and accountability specified in the Terms of Reference. Their observations and recommendations are regularly reported to the Board.

Indemnities to Directors

In accordance with the Articles of Association of the Company, the Directors are granted an indemnity from the Company to the extent permitted by law in respect to liabilities incurred as a result of the performance of their duties in their capacity as Directors to the Company. The indemnity would not provide any coverage to the extent the Director is proven to have acted fraudulently or dishonestly. The Company has

Corporate Governance Report contd.

maintained Directors and Officers Liability Insurance cover throughout the year.

Role of the Chairman and Chief Executive Officer

Distinction between strategic and operational matters is clearly established in terms of division of responsibility of the Chairman and the Chief Executive Officer. The Chairman of the Board of Directors is a non-executive appointment and focuses on strategic issues and monitor the business and Senior Management Team. He ensures Board procedures are followed and all Board Members effectively participate during meetings.

The CEO is responsible for day-to-day management of the business and leadership of the senior management team, and execution of the Group's strategic and operational plans. The Chairman meets with the CEO regularly to discuss any issues pertaining to the Company's performance, operational matters and human resources.

Internal Control and Enterprise Risk Management

Internal control framework currently in place is set by the enterprise risk management framework, financial control, internal audit and supporting policies. The aim of the Company's internal control framework is to assure that operations are effective and well aligned with the strategic goals. The internal control framework intends to ensure correct, reliable, complete and timely financial reporting and management information. The framework endorses ethical values, good corporate governance and risk management practices.

Statutory Compliance

The Board of Directors, to the best of their knowledge and belief, are satisfied that all statutory payments related to employees of the Airline have been made in a timely manner.

Enterprise Risk Management

SriLankan Airlines recognises that risk management is a crucial element in its daily operations for attaining the organisation's corporate objectives. Therefore, SriLankan Airlines has established a structured risk management framework that encompasses all business units, which empowers the Company to proactively identify potential risks that could impact the organisation, assess their consequences, and formulate strategies to mitigate risks to its operations.

SriLankan Airlines Risk Management Framework is structured based on risk management standards and industry requirements and is approved by the Board of Directors.

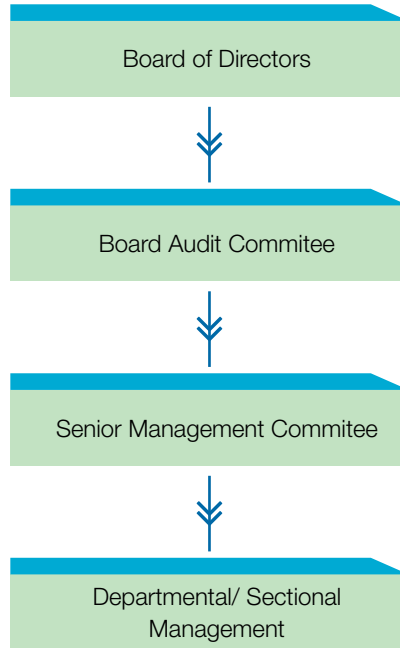
Risk Governance

The Board of Directors is responsible for risk oversight of SriLankan Airlines and has approved the Company's Risk Management framework. The Audit Committee assists the Board in its oversight responsibilities by reviewing procedures that are established at the management level for the identification, evaluation and management of business risks.

The Chief Executive Officer offers strategic direction in risk management and ensures that organisational decision-making involves the explicit consideration of risks and the application of risk management principles.

The Senior Management Committee reviews the respective risk profiles of the business units and formulates strategies to effectively manage these risks. Departmental / Sectional Managers bear the responsibility of identifying risks within their purview and creating action plans for their management.

Risk Governance Framework



Following the end of the financial year, in accordance with the Guidelines on Corporate Governance for State-owned enterprises, a Group Board Risk Committee was formed to address the impact of operational risks and undertake appropriate actions to mitigate any adverse impact.

Risk Management Process

The SriLankan Airlines' risk management process consists of risk identification, risk analysis, risk treatment and risk reporting & monitoring.

The responsibility of identifying, measuring, managing and reporting risks lies with the business units. The identified risks are analysed based on the likelihood of occurrence and its impact and are rated as significant, high, medium or low according to the risk score.

The action plans are formulated based on the risk ratings and the risk score while the CEO/respective Senior Management Committee member reviews the actions taken to address significant risks.

SLA also maintains Risk registers in a centralised database, and these are regularly reviewed and updated by the risk owners of business units, with the guidance of the Group Assurance & Advisory Services division.

Risk Landscape

In the ever-changing business landscape, SriLankan Airlines faced a multitude of risks throughout the fiscal year 2022/23. The airline was affected by the macroeconomic factors of the global aviation industry and the economic and political instability of Sri Lanka. Specifically, the airline grappled with elevated fuel costs, bottlenecks in the airline supply chain, and capacity constraints resulting from an insufficient fleet to support the ideal network operations.

Furthermore, the economic crisis in Sri Lanka resulted in social and political unrest, which, in turn, diminished the influx of tourism into the country, and prompted international travel advisories cautioning against travel to Sri Lanka. Besides, as a consequence of the economic crisis, the unavailability of jet fuel in Colombo necessitated fuel tankering, leading to flight schedule disruptions. Apart from that, the increased demand for skilled employees globally and the surge of economic migration affected the airline significantly in retaining and attracting a skilled workforce, especially in the aviation and professional categories.





**Resilient through challenges...
Positive for the future...
Focused on our targets...**



Annual Report of the Board of Directors

The Board of Directors of SriLankan Airlines Limited, take pleasure in presenting the Annual Report for the year ended 31 March 2023.

Principal Activities and Business Review

The principal business activities of the Company are 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 MRJA. Other ancillary activities consist of operating public and transit restaurants, heat-to-eat frozen meal range, provision of laundry services and managing the transit hotel.

Financial Statements and Auditor's Report

The complete Financial Statements duly signed by the Chief Financial Officer and the two Directors and the Auditor's Report thereon for the year ended 31 March 2023 are attached to this Report.

Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 63 to 75.

Group Turnover

The turnover of the Group amounted to LKR 369,470 Mn (2021/22: LKR 134,301 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 71,307 Mn (2021/22: LKR 163,583 Mn). Group incurred a taxation expense of LKR 1,361 Mn (2021/22: LKR 426 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 1,309 Mn (2021/22: LKR 474 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 11, 460 Mn (2021/22: LKR 6,251 Mn).

Details of Property, Plant and Equipment and their movements are given in Note 3 to the Financial Statements.

Stated Capital

The Stated Capital of the Company amounts to LKR 96,361 Mn.

Share Information

Share information as at 31 March 2023 is as follows;

Share Ownership	No. of shares	% of holding
Government of Sri Lanka	959,006,469	99.52%
Employees Provident Fund	1,863,676	0.19%
Others	2,736,510	0.29%

Compliance with Law and Regulations

The Company 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.

Reserves

Total Group Reserves as at 31 March 2023 amount to a negative LKR 590,791 Mn (2021/22: negative LKR 522,785 Mn). This consists of accumulated losses of LKR 601,782 Mn (2021/22: LKR 529,213 Mn).

Capital Reserves of LKR 10,991 Mn (2021/22: LKR 6,428 Mn). Movement in these Reserves is shown in the Statement of Changes in Equity in the Financial Statements.

Corporate Donations

The Group did not make any donations during the year (2021/22: Nil).

Taxation

The Company is liable for income tax for all its business activities with effect from 1 April 2018 based on the Inland Revenue act No 24 of 2017. The Company is liable for tax on its overseas operations in countries where there are no double tax treaties at present.

The Income from Flight Kitchen and Transit Restaurant was exempted from income tax up to 31 May 2021 and then taxable at concessionary rate of 15% for 8 years ending on 31 May 2029 as per the agreement with Board of Investment (BOI). The income from other sources are liable at the normal rate.

Related Party Transactions

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

Contingent Liabilities and Capital Commitments

Contingent Liabilities as at 31 March 2023 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 5,440 (2021/22: 5,833) and by the Subsidiary was 763 (2021/22 – 819).

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.

Going Concern

As noted in the Statement of Directors' Responsibilities, the Directors have adopted the going concern basis in preparing the Financial Statements based on the assurance of the Secretary to the Treasury/Ministry of Finance, Economic Stabilisation and National Policies that the Government of Sri Lanka will provide financial support, if needed, to the Company for the year 2022/23 to continue as a going concern until the entity is restructured.

The Board of Directors

In accordance with Article 79 of the Articles of Association of the Company, the Directors are appointed by the Secretary to the Treasury. Brief profiles of the Directors are given on pages 13 to 16 of the Annual Report.

Fourteen Board Meetings were convened during the financial year and the attendance of the Directors were as follows;

Name of the Director during the Financial Year 2022/23	No. of Board Meetings Attended for the Period of Directorship
Mr. Asoka Pathirage (Chairman)	14/14
Mr. Malik J. Fernando	14/10
Mr. Manohara Ratnavibhushana De Silva PC (Resigned w.e.f. 18th August 2022)	14/03
Mr. Samantha Ratwatte PC (Resigned w.e.f. 18th August 2022)	14/03
Dr. Shridhir Sariputta Hansa Wijayasuriya	14/13
Mr. Joseph Jayanth Michael Perera	14/14

Name of the Director during the Financial Year 2022/23	No. of Board Meetings Attended for the Period of Directorship
--	---

Mr. Ananda Wijetilaka Atukorala (Appointed w.e.f. 03rd February 2023)	14/02
Mr. A.K.D.D.D. Arandara/ Treasury Representative (Appointed w.e.f. 16th March 2023)	14/01
*Mr. A.M.A.A. Lakmal Ratnayake - (Appointed w.e.f. 10th April 2023)	
*Mr. D.D. Shiran Chaminda Dammage - (Appointed w.e.f. 4th May 2023)	
*Mr. Sanjaya Mohottala (Resigned w.e.f. 29th April 2022)	

Members of Audit Committee

The following members comprise of the Audit Committee.

Committee Members Financial Year 2022/23	No. of Meetings Attended
--	--------------------------

Mr. Malik J. Fernando	2/2
Dr. Shridhir Sariputta Hansa Wijayasuriya	2/0
Mr. Joseph Jayanth Michael Perera	2/2
Mr. A.K.D.D.D. Arandara/Treasury Representative (Appointed w.e.f. 16th March 2023)	-
*Mr. D.D. Shiran Chaminda Dammage/Audit Committee Chairman - (Appointed to the Committee on 26th May 2023)	
*Mr. Sanjaya Mohottala (resigned w.e.f. 29th April 2022)	
*Mr. Manohara Ratnavibhushana De Silva PC (Resigned w.e.f. 18th August 2022)	
*Mr. Weerasinghe Achchige Sarath Kumara (Appointed w.e.f. 26th August 2022/ Resigned w.e.f. 3rd February 2023).	

The Audit Committee Report is given on page 52 of this Annual Report.

Annual Report of the Board of Directors contd.

Board Human Resources and Remuneration Committee

The primary objective of the Human Resources and Remuneration Committee is to lead to establish a formal and transparent procedure for the development of a remuneration policy and the establishment of a remuneration structure.

A remuneration policy has been formulated based on market and industry factors and individual performance for the Group. The Human Resources and Remuneration Committee meets as required.

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

Committee Members Financial Year 2022/23	No. of Meetings Attended
Mr. Malik J. Fernando – Chairman	3/3
Dr. Shridhir Sariputta Hansa Wijayasuriya	3/3
* Mr. A.M.A.A. Lakmal Ratnayake (Appointed w.e.f. 28th April 2023)	
* Mr. Joseph Jayanth Michael Perera (Appointed w.e.f. 31st March 2023)	
* Mr. A.K.D.D.D. Arandara/Treasury Representative (Appointed w.e.f. 26th May 2023)	
*Mr. Manohara Ratnavibhushana De Silva PC (Resigned w.e.f. 18th August 2022)	
*Mr. Samantha Ratwatte PC (Resigned w.e.f. 18th August 2022)	

Board Group Risk Committee (BGRC)

The Board Group Risk Committee is required to identify and assess the risks that could have an impact on the business operations of the entity, quantify the impact of such risks both financial and non-financial. The deliberations of the BGRC should facilitate the Board of Directors to address the impact of the risks affecting the operations of the entity and take appropriate actions to mitigate any adverse impact.

The following members of the Board comprises of the Board Group Risk Committee;

Committee Members
Mr. Joseph Jayanth Michael Perera – Chairman
Mr. Malik J. Fernando
Dr. Shridhir Sariputta Hansa Wijayasuriya
Mr. A.K.D.D.D. Arandara
Mr. D.D. Shiran Chaminda Dammage
Mr. Ananda Wijetilaka Atukorala (Observer)

Directorate – SriLankan Catering Limited

The current Board of Directors of SriLankan Catering Limited:-

Mr. Asoka Pathirage (Chairman)

Mr. Malik J. Fernando

Mr. Manohara Ratnavibhushana De Silva PC (Resigned w.e.f. 11th July 2022)

Mr. Samantha Ratwatte PC (Resigned w.e.f. 11th July 2022)

Mr. Sanjaya Mohottala (Resigned w.e.f. 29th April 2022)

Mr. Joseph Jayanth Michael Perera

Mr. Weerasinghe Achchige Sarath Kumara (Treasury Representative appointed w.e.f. 30th September 2022/ Resigned w.e.f. 03rd February 2023)

Mr. Ananda Wijetilaka Atukorala (Appointed w.e.f. 13th March 2023)

Mr. A.K.D.D. Arandara (Treasury Representative appointed w.e.f. 31st March 2023.

Mr. A.M.A.A. Lakmal Ratnayake (Appointed w.e.f. 10th April 2023)

Mr. D.D. Shiran Chaminda Dammage (Appointed w.e.f. 04th May 2023)

Directors' Remuneration

There were no compensation or remuneration paid to the Non-Executive Directors of the company.

Directors' Shareholdings

By virtue of office, the Government of Sri Lanka Nominee Director Mr. A. K. Pathirage/Chairman holds 03 Ordinary Shares of the Company.

Interests Register

The Company maintains the Interests Register conforming to the provisions of the Companies Act No.7 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 confirming to Sections 192 (1) and 192 (2) of the Companies Act, No. 7 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 other than those disclosed in Note 28 to the Financial Statements.

Annual General Meeting

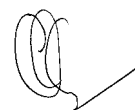
The Forty Fifth Annual General Meeting of the Company will be held on Thursday, 30th November 2023 at 3.00 p.m. at 'Cinema Lounge' Bandaranaike Memorial International Conference Hall (BMICH), Bauddhaloka Mawatha Colombo 7, Sri Lanka.

The notice of the Annual General Meeting is on page 121 of the Annual Report.

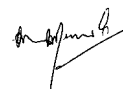
Auditors

In accordance with Article 154 (1) of the Constitution Democratic Socialist Republic of Sri Lanka, 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 of an Auditor) with the Company or its Subsidiary.

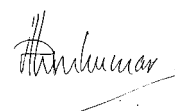
Signed on behalf of the Board,



Asoka Pathirage
Chairman



Jayanth Perera
Director



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

23 October 2023

Katunayake

Board Audit Committee Report

Role and Responsibilities

The Board Audit Committee (BAC) of SriLankan Airlines scope and responsibilities are governed by the Board Audit Committee Charter approved and adopted by the Board of Directors. The purpose of the Board Audit Committee is to assist the Board of Directors of SriLankan Airlines Ltd. in fulfilling its oversight responsibilities by providing an independent review of the system of internal controls, the financial reporting system, the risk management process, the governance process, the internal audit and external audit functions and the process for monitoring compliance with laws and regulations.

Committee Composition

The Board members who served on the BAC during the year ended 31 March 2023 were Mr. Sanjaya Mohottala (Chairman, resigned 29 April 2022), Mr. Sarath Kumara (Chairman, appointed 26 August 2022, resigned 03 February 2023), Mr. Jayanth Perera (Member and appointed as the Pro-tem Chairman on 31 March 2023), Mr. Malik Fernando (Member), Dr. Hansa Wijayasuriya (Member), Mr. Manohara De Silva (Member, resigned 18 August 2022), Mr. A.K.D.D Arandara (Member, appointed 31 March 2023).

Subsequent to the year-end Mr. Shiran Dammage was appointed as the Audit Committee Chairman on 26 May 2023.

Ms. A.D. Dilrukshi, Superintendent of Audit, National Audit Office attended Audit Committee meeting as an independent observer.

Meetings

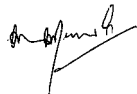
The Board Audit Committee held two (2) meetings during the year ended 31 March 2023. The members of the SriLankan Airlines management attended the meetings upon invitation to brief the Board Audit Committee on specific issues.

Group Assurance and Advisory Services Division

The Group Assurance and Advisory Services (GAAS) Division of SriLankan Airlines conducts internal audits and reports functionally to the Board Audit Committee.

Key Activities of the BAC During the Financial Year

- Reviewed the year-end Audited Financial Statements and recommended for Board approval.
- Reviewed the Internal Audit function to ensure the independence and authority of its reporting obligations.
- Reviewed and approved the internal audit plan.
- Reviewed the internal audit reports and monitored management action taken by Heads of Departments.
- Reviewed the SLA Corporate Risk Register and procedures undertaken to mitigate key business risks.
- Reviewed and recommended to the Board for approval the revised Corporate Information Security & Privacy Manual and the Business Continuity Management Manual.
- Reviewed the Company's quarterly compliance dashboards to determine that all relevant laws and regulations are complied with.
- Reviewed IT compliance on Data Protection
- Reviewed waiver approval granted due to operational/commercial reasons.
- Reviewed the Related Party Transaction details submitted on quarterly basis.
- Reviewed the topmost debtors on a quarterly basis.



Mr. Jayanth Perera
Chairman (In the Chair)

Board Audit Committee

23 October 2023

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 55.

The Companies Act No.7 of 2007 requires the Directors to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at end of the financial year and of the Profit or Loss of the Company and the Group for the financial year. In preparing the Financial Statements, appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made, and applicable accounting standards have been followed.

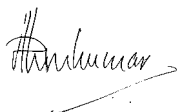
The Directors are responsible for ensuring that the Company and its Subsidiary keep sufficient accounting records to disclose with reasonable accuracy of the financial position of the Company and the Group for ensuring that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act No.7 of 2007. They are also responsible for taking reasonable measures to safeguard the assets of the Group, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors continue to adopt the 'Going Concern' basis in preparing the Financial Statements, after considering the Government of Sri Lanka's (GoSL) continuous support to the Company by way of providing letters of comfort to obtain bank facilities, and also considering GoSL's efforts in the restructuring of the Company in a view to strengthen the Operational and Financial Position of the Company. Further the GoSL by way of Cabinet approval dated 15 June 2023 (and the letter issued by the Secretary to the Treasury on 21 September 2023) 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 of Directors,



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

23 October 2023

Independent Auditor's Report



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



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எனது இல. }
My No. }

AAV/B/SLAL/FA/2022/38
මගේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி } 01 November 2023
Date }

**Chairman
SriLankan Airlines Limited**

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the SriLankan Airlines Limited and its subsidiary for the year ended 31 March 2023 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the SriLankan Airlines Limited ("Company") and its subsidiary (Group) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2023, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Emphasis of Matter

(a) Materiality Uncertainty Related to Going Concern

I draw attention to Note 2.1.1 to the financial statements that discloses the Group incurred a net loss of Rs.71,306.66 million during the year ended 31 March 2023 (2022 Rs.163,583.08 million) with an accumulated loss of Rs.601,781.56 million (2022 – Rs.529,212.71 million) and, as of that date, the Group's current liabilities exceeded its current assets by Rs.418,568.67 million (2022 – Rs.292,420.15 million) and total liabilities exceeded its total

assets by Rs.494,429.99 million (2022 – Rs.426,423.83 million). Further, Company incurred a net loss of Rs.73,621.53 million during the year ended 31 March 2023 (2022 – Rs.166,369.68 million) with an accumulated loss of Rs.612,376.11 million (2022 – Rs.537,505.15 million) and, as of that date, the Company's current liabilities exceeded its current assets by Rs.431,624.55 million (2022 – Rs.302,702.50 million) and total liabilities exceeded its total assets by Rs.509,174.88 million (2022 – RS.437,036.92 million).

The existence of such events or conditions, along with other matters as set forth in Note 2.1.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's/ the Company's ability to continue as a going concern.

(b) Aircraft Predelivery Payments

I draw attention to Note 5 to the financial statements, relating to the aircraft predelivery payments as at 31 March 2023 amounting to Rs.6,288.68 million (USD 19.21 million), as the Company had made a claim for the recovery of the said amount together with damages through the dispute resolution mechanism set out in the agreement with the supplier.

අංක 306/72, පොල්දූව පාර, මත්තරමුල්ල, ශ්‍රී ලංකාව

இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை.

No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.

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+94 11 2 88 72 23

ag@auditorgeneral.gov.lk

www.naosl.gov.lk



My opinion is not modified in respect of these matters.

1.4 Other information included in the Company's 2022 Annual Report.

The other information comprises the information included in the Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance

of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company and the Group are required to maintain proper books and records of all their income, expenditure, assets

and liabilities, to enable annual and periodic financial statements to be prepared of the Company and the Group.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and



obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control of the Company and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the

related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

2.1 National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (2) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;



2.2.1 to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018.

2.2.3 to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.

2.2.4 to state that the resources of the Company had not been procured and utilised economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne
Auditor General

Statement of Financial Position

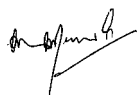
As at 31 March 2023		Group		Company	
ASSETS	Note	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Non-current Assets					
Property, Plant and Equipment	3	11,459.71	6,250.74	7,164.89	4,206.28
Right of Use Assets	4	70,496.87	82,808.36	70,320.69	82,539.30
Aircraft Predelivery Payments	5	6,288.68	-	6,288.68	-
Aircraft Maintenance Reserve	6	43,116.59	30,391.33	43,116.59	30,391.33
Aircraft and Spare Engine Deposits	7	5,713.80	5,439.55	5,713.80	5,439.55
Intangible Assets	8	135.79	78.78	125.72	66.63
Investments	9.1	0.40	0.40	42.44	42.44
		137,211.84	124,969.16	132,772.81	122,685.53
Current Assets					
Inventories	10	5,972.97	4,268.37	5,392.52	4,015.64
Trade and Other Receivables	11	33,534.74	27,807.64	28,266.13	27,052.31
Aircraft Maintenance Reserve	6	18,857.02	16,966.56	18,857.02	16,966.56
Aircraft and Spare Engine Deposits	7	2,346.66	937.40	2,346.66	937.40
Investments	9.2	2,253.13	1,937.38	1,826.00	1,681.78
Cash and Bank Balances	12	11,000.05	5,376.82	9,993.62	4,804.95
		73,964.57	57,294.17	66,681.95	55,458.64
Total Assets		211,176.41	182,263.33	199,454.76	178,144.17
EQUITY AND LIABILITIES					
Equity					
Stated Capital	13	96,360.67	96,360.67	96,360.67	96,360.67
Reserves	14	10,990.90	6,428.21	6,840.56	4,107.56
Accumulated Losses		(601,781.56)	(529,212.71)	(612,376.11)	(537,505.15)
		(494,429.99)	(426,423.83)	(509,174.88)	(437,036.92)
Non-current Liabilities					
Interest Bearing Liabilities	15	154,201.38	215,585.08	153,472.18	214,699.18
Other Liabilities	16	58,871.78	43,387.76	56,850.96	42,320.77
		213,073.16	258,972.84	210,323.14	257,019.95
Current Liabilities					
Sales in Advance of Carriage	17	53,390.92	28,704.31	53,390.92	28,704.31
Other Liabilities	16	31,260.34	23,653.30	31,260.34	23,653.30
Trade and Other Payables	18	172,817.98	132,862.79	179,116.25	141,522.63
Income Tax Payable		528.16	216.54	175.45	175.45
Interest Bearing Liabilities	15	234,535.84	164,277.38	234,363.54	164,105.45
		492,533.24	349,714.32	498,306.50	358,161.14
Total Liabilities		705,606.40	608,687.16	708,629.64	615,181.09
Total Equity and Liabilities		211,176.41	182,263.33	199,454.76	178,144.17

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

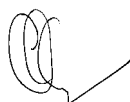


Yasantha Dissanayake
Chief Financial Officer

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



Jayanth Perera
Director



Asoka Pathirage
Director

The Accounting Policies and Notes on pages 63 through 112 form an integral part of these Financial Statements.

23 October 2023
Colombo

Statement of Profit or Loss

Year ended 31 March 2023		Group		Company	
	Note	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Revenue	20.	369,470.04	134,301.36	365,171.77	132,936.23
Expenditure					
Aircraft Fuel Cost		(155,559.11)	(42,759.12)	(155,559.11)	(42,759.12)
Employee Cost		(26,552.99)	(17,415.80)	(24,341.47)	(15,969.51)
Airport, Enroute and Passenger Expenses		(40,761.00)	(17,752.91)	(48,474.28)	(19,272.39)
Aircraft Maintenance and Overhaul Costs		(42,199.29)	(23,088.11)	(42,199.29)	(23,088.11)
Depreciation/Amortisation		(15,153.46)	(14,655.59)	(14,685.12)	(14,188.27)
Rentals on Short Term Leases Aircraft and Spare Engines		(504.44)	(43.66)	(504.44)	(43.66)
Selling, Marketing and Advertising Expenses		(24,643.41)	(7,249.61)	(24,627.60)	(7,180.41)
Crew Expenses		(7,660.86)	(3,230.96)	(7,660.86)	(3,230.96)
Other Operating Expenses		(16,821.96)	(7,026.34)	(12,516.36)	(6,665.43)
		39,613.52	1,079.26	34,603.24	538.37
Other Income and Gains	21.	3,758.04	613.40	6,140.34	698.96
Operating Profit / (Loss) before Exchange Loss		43,371.56	1,692.66	40,743.58	1,237.33
Exchange Loss excluding Interest Bearing Liabilities		(24,748.95)	(34,729.60)	(25,560.09)	(37,812.00)
Operating Profit / (Loss) after Exchange Loss		18,622.61	(33,036.94)	15,183.49	(36,574.67)
Net Finance cost					
Finance Income	23.1	1,293.58	664.17	1,220.87	639.25
Finance Cost	23.2	(51,482.84)	(22,903.90)	(51,394.83)	(22,813.07)
Exchange Loss on Interest Bearing Liabilities	23.3	(38,379.05)	(107,880.72)	(38,273.72)	(107,621.19)
		(88,568.31)	(130,120.45)	(88,447.68)	(129,795.01)
Loss Before Taxation		(69,945.70)	(163,157.39)	(73,264.19)	(166,369.68)
Income Tax (Expense) / Reversal	24.	(1,360.96)	(425.69)	(357.34)	-
Loss for the Year		(71,306.66)	(163,583.08)	(73,621.53)	(166,369.68)

The Accounting Policies and Notes on pages 63 through 112 form an integral part of these Financial Statements.

Statement of Comprehensive Income

Year ended 31 March 2023		Group		Company	
	Note	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Loss for the Year		(71,306.66)	(163,583.08)	(73,621.53)	(166,369.68)
Other Comprehensive Income / (Loss)					
Other comprehensive income/ (loss) not to be reclassified to profit or loss in subsequent periods:					
Actuarial Gain/(Loss) on Gratuity	16.3	(1,142.09)	636.51	(1,135.92)	598.05
Deferred Tax Impact on Actuarial Gain/(Loss) on Gratuity	24.1	1.85	(5.77)	-	-
Actuarial Gain/(Loss) on Leave Encashment	16.3	(125.63)	22.83	(113.57)	-
Deferred Tax impact on Actuarial Gain/(Loss) on Leave Encashment	24.1	3.62	(3.42)	-	-
Revaluation of Property, Plant and Equipment	3	5,346.90	-	2,733.06	-
Deferred Tax impact on Revaluation of Property, Plant and Equipment	24.1	(784.15)	-	-	-
Total Other Comprehensive Income/ (Loss) for the Year, Net of Tax		3,300.50	650.15	1,483.57	598.05
Total Comprehensive Income/ (Loss) for the Year, Net of Tax		(68,006.16)	(162,932.93)	(72,137.96)	(165,771.63)

The Accounting Policies and Notes on pages 63 through 112 form an integral part of these Financial Statements.

Statement of Changes in Equity

GROUP Year ended 31 March 2023	Stated Capital LKR. Mn	Revaluation Reserve LKR. Mn	Capital Reserve LKR. Mn	Accumulated Losses LKR. Mn	Total LKR. Mn
Balance as at 01 April 2021	79,352.43	5,441.27	-	(366,284.57)	(281,490.87)
Advance to Stated Capital (Note 13)	(27,734.99)	-	-	-	(27,734.99)
Issue of Shares (Note 13)	44,743.23	-	991.74	-	45,734.96
Transfer of surplus on revaluation due to disposal during the year	-	(4.80)	-	4.80	-
Loss for the year	-	-	-	(163,583.08)	(163,583.08)
Other Comprehensive Income	-	-	-	650.15	650.15
Total Comprehensive Income / (Loss)	-	-	-	(162,932.93)	(162,932.93)
Balance as at 01 April 2022	96,360.67	5,436.47	991.74	(529,212.71)	(426,423.83)
Transfer of surplus on revaluation due to disposal during the year	-	(0.06)	-	0.06	-
Loss for the year	-	-	-	(71,306.66)	(71,306.66)
Other Comprehensive Income	-	4,562.75	-	(1,262.25)	3,300.50
Total Comprehensive Income / (Loss)	-	4,562.75	-	(72,568.91)	(68,006.16)
Balance as at 31 March 2023	96,360.67	9,999.16	991.74	(601,781.56)	(494,429.99)
COMPANY	Stated Capital LKR. Mn	Revaluation Reserve LKR. Mn	Capital Reserve LKR. Mn	Accumulated Losses LKR. Mn	Total LKR. Mn
Balance as at 01 April 2021	79,352.43	3,115.82	-	(371,733.52)	(289,265.27)
Advance to Stated Capital (Note 13)	(27,734.99)	-	-	-	(27,734.99)
Issue of Shares (Note 13)	44,743.23	-	991.74	-	45,734.96
Loss for the year	-	-	-	(166,369.68)	(166,369.68)
Other Comprehensive Income	-	-	-	598.05	598.05
Total Comprehensive Income / (Loss)	-	-	-	(165,771.63)	(165,771.63)
Balance as at 01 April 2022	96,360.67	3,115.82	991.74	(537,505.15)	(437,036.92)
Transfer of surplus on revaluation due to disposal during the year	-	(0.06)	-	0.06	-
Loss for the year	-	-	-	(73,621.53)	(73,621.53)
Other Comprehensive Income	-	2,733.06	-	(1,249.49)	1,483.57
Total Comprehensive Income / (Loss)	-	2,733.06	-	(74,871.02)	(72,137.96)
Balance as at 31 March 2023	96,360.67	5,848.82	991.74	(612,376.11)	(509,174.88)

The Accounting Policies and Notes on pages 63 through 112 form an integral part of these Financial Statements.

Statement of Cash Flows

Year ended 31 March 2023	Note	Group		Company	
		2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Cash Flows From / (Used in) Operating Activities					
		(69,945.70)	(163,157.39)	(73,264.19)	(166,369.68)
Adjustments for:					
		15,153.46	14,655.59	14,685.12	14,188.27
	23.2	51,482.84	22,903.90	51,394.83	22,813.07
		5.05	24.89	5.05	4.61
	23.1	(1,293.58)	(664.17)	(1,220.87)	(639.25)
	11.3	205.94	125.63	190.13	88.38
	10.1	408.17	349.35	362.11	405.29
	6.2	10,670.39	3,836.65	10,670.39	3,836.65
	15.3	(203.10)	(339.91)	(122.30)	(191.99)
		38,247.00	143,139.73	38,141.67	145,580.83
		(768.87)	(2,506.13)	(768.87)	(2,506.13)
	16.3	1,336.83	1,241.51	1,200.99	1,159.11
		45,298.43	19,609.65	41,274.06	18,369.16
Operating profit/ (Loss) before Working Capital Changes					
		(2,092.14)	38.03	(1,718.36)	62.11
		25,455.48	20,013.68	25,455.48	20,013.68
		(11,699.33)	(12,666.72)	(7,053.04)	(12,174.95)
		49,492.47	8,052.86	47,261.15	8,186.48
		(15,660.04)	(4,613.74)	(15,660.04)	(4,613.74)
		(914.29)	471.80	(914.29)	471.80
		89,880.58	30,905.59	88,644.96	30,314.53
		(50,800.90)	(15,859.69)	(50,800.90)	(15,768.86)
	16.3	(1,287.66)	(456.36)	(1,208.26)	(438.69)
		(948.89)	(46.58)	(357.34)	-
		36,843.13	14,542.96	36,278.46	14,106.98
Net Cash flows from/ (Used in) Operating Activities					
Cash Flows From/(Used in) Investing Activities					
		52.04	419.22	23.39	396.73
		(1,227.76)	(490.55)	(1,166.66)	(365.11)
		(167.61)	(329.13)	(167.61)	(329.13)
		(14.86)	(32.15)	(12.44)	(31.68)
		-	(19.46)	-	(19.46)
		(5.05)	12.62	(5.05)	10.86
		(1,363.24)	(439.45)	(1,328.37)	(337.79)
Cash Flows From/(Used in) Financing Activities					
		-	17,317.57	-	17,317.57
		(4,034.96)	(7,475.82)	(4,034.96)	(7,474.82)
	15.3	(23,951.12)	(18,623.57)	(23,855.88)	(18,678.12)
		-	200.75	-	200.75
		(27,986.08)	(8,581.07)	(27,890.84)	(8,634.62)
		7,493.81	5,522.44	7,059.25	5,134.57
	12.	(16,146.88)	(21,669.31)	(16,718.75)	(21,853.32)
	12.	(8,653.07)	(16,146.88)	(9,659.50)	(16,718.75)

The Accounting Policies and Notes on pages 63 through 112 form an integral part of these Financial Statements.

Notes to the 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.

SriLankan Airlines Limited is the ultimate parent of the Group.

Subsidiary – SriLankan Catering Limited

SriLankan Catering Limited ("the Subsidiary") a fully owned subsidiary of SriLankan Airlines 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 MRJA. 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 31 March 2023 were authorised for issue by the Board of Directors on the 23 October 2023.

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, unless otherwise indicated including for land and buildings and Flight Kitchen Equipment that has been measured at fair value.

All values are presented in Sri Lankan Rupees Millions, except when otherwise indicated.

2.1.1 Going Concern

During the year under review, the Group recorded a loss of LKR. 71,306.66 Mn (2022 – LKR. 163,583.08 Mn) and an accumulated loss of LKR. 601,781.56 Mn (2022 – LKR. 529,212.71 Mn) as at 31 March 2023. Furthermore, the Group's current liabilities exceeded its current assets by LKR. 418,568.67 Mn (2022 – LKR. 292,420.15 Mn) and the total equity of the Group as of the reporting date has declined to a negative LKR. 494,429.99 Mn (2022- negative LKR. 426,423.83 Mn).

The Company recorded a loss of LKR. 73,621.53 Mn (2022 – LKR. 166,369.68 Mn) and an accumulated loss of LKR. 612,376.11 Mn (2022 – LKR. 537,505.15 Mn) as at 31 March 2023. Furthermore, the Company's current liabilities exceeded its current assets by LKR. 431,624.55 Mn (2022 – LKR. 302,702.50 Mn) and the total equity of the Company as of reporting date has declined to a negative LKR. 509,174.88 Mn (2022 - negative LKR. 437,036.92 Mn).

The primary business of the Company, which is the carriage of passengers, was severely hampered due to the pandemic and related cross-border travel restrictions worldwide during 2020 and 2021. However, passenger traffic was recovering strongly during the first four months of 2022 with countries easing strict border controls imposed during the peak of the pandemic. However, the economic situation of the country severely deteriorated during the year 2022, and the government declared a unilateral moratorium on servicing sovereign debt owed to international lenders in April 2022. Social unrest and shortage of fuel in the county including the complete unavailability of jet fuel for two months during the year under review had a significant negative impact on the Company's revenue-generating ability as well as increased the airline operating cost. Many countries issued adverse travel advisories during this period which affected international travel into the country.

The government entered into negotiations with the IMF which culminated with the entering into a staff-level agreement with the IMF in September 2022. The economic situation gradually improved from this time onwards and adverse travel advisories were gradually lifted during the latter part of the year under review. As a result, international air travel to

Notes to the Financial Statements contd.

the country recovered rapidly during the latter part of the year under review.

The Government of Sri Lanka (GoSL) continued to support the Company and made a policy decision at a Cabinet meeting held on 13 March 2023 to restructure and/or divest its shareholding in the Company. The State Owned Enterprise Restructuring Unit (SOERU) under the Ministry of Finance, Economic Stabilisation and National Policy (MoF) has been authorised by the Cabinet to carry out the restructuring/ divesting activities on behalf of the GoSL. As a first step in the restructuring process, the Cabinet approved by decision dated 26 June 2023 a capital infusion of LKR 102.5 billion which has to be utilised by the Company in full to repay the outstanding debt to the Ceylon Petroleum Corporation (CPC). It is expected that this will result in an interest cost saving of approximately USD 36 million per annum based on interest rates previously charged by the CPC. As per the Cabinet decision, this process must be completed by 15 December 2023 and the CPC has halted the accruing of interest on the outstanding debt from May 2023 onwards. Discussions are ongoing with the SOERU/ MoF on the restructuring of remaining debt of the Company. Further, the Cabinet by decision dated 10 July 2023, has approved the appointment of the International Finance Corporation (IFC) as the transaction advisor to the GoSL for the divestment of the its shareholding in the Company.

During the year under review the GoSL through the General Treasury approved the re-issuance of all Letters of Comfort and Treasury Guarantees that expired during the period, amounting to USD 359Mn and LKR 117 Bn, in favour of two state banks, in order to continue with the provision of short term credit facilities.

The GoSL by the cabinet decision dated 28 November 2022, approved the fleet replacement exercise for no more than ten aircraft via replacement aircraft, lease extension of existing Aircraft or a combination of both. Accordingly, the Company commenced a procurement process to acquire the required aircraft on lease and is presently in the process of finalising lease arrangements for the lease of two narrow-body aircraft and also to extend the lease period of three narrow-body aircraft already taken on lease. The procurement process is ongoing for the lease of wide-body aircraft.

Furthermore, the GoSL, by way of a Cabinet approval dated 5th June 2023 and the letter issued by the Secretary to the Treasury on 21 September 2023, has confirmed that the GoSL will continue to extend the required financial support to the Company to continue its operations as a Going Concern until the implementation of the proposed restructuring process is completed.

Management believes that the significant improvement in the operating environment and measures taken as detailed above including the restructuring of debt will improve the Company's liquidity position in the future. Based on the above, the Board of Directors are of the view that the preparation and presentation of these financial statements as a going concern is appropriate.

2.1.2 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.

2.1.3 Comparative Information

The presentation and classification of the Financial Statements of the previous years have been amended, where relevant for better presentation and to be comparable with those of the current year.

2.1.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Group's functional and presentation currency. All financial information presented in Sri Lankan Rupees Million, unless otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 01 on 'Presentation of Financial Statements'.

2.2 Basis of Consolidation

The Financial Statements comprise of Financial Statements of the Company and its subsidiary for the year ended 31 March 2023. Financial Statements of the Company's subsidiary has been prepared for the same reporting year using consistent accounting policies.

2.2.1 Business Combination

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated

in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2.2.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

2.2.3 Non-controlling Interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree

either: at fair value; or at proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Acquisition of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore, no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

2.2.4 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2.2.5 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.3 Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

2.3.1 Significant Accounting Judgements, Estimates And Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

(a) Judgements

(i) Contingent Liabilities – Litigations

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, assesses the merits of each case and makes necessary provisions when it is determined that there would be a possibility of an outflow of resources in the future.

Where the Directors do not anticipate any significant liability in respect of any contingent liabilities arising in the course of business of the Group in respect of legal actions, other claims and potential claims being made against the Group by customers, suppliers and employees, the amounts concerned are disclosed in Note 25.2.

(ii) Leases

Contract are assessed for whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Factors considered to assess whether

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a contract conveys the right to control the use of an identified asset are; the contract involves the use of an identified asset, the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the lease period; and the Group has the right to direct the use of the asset.

(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 or amortisation 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 a mile/credit and reflect the weighted average of a number of factors i.e. fare per sector, flight upgrades and partner rewards. Historical trends of redemption 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 judgement 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 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 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 the reasonability. Any revision in assumptions and estimations that causes a material effect to the provision would be adjusted prospectively in the financial statements. (Refer note 16.1)

(v) Provision for aircraft return conditions

Company is obliged to re-deliver leasehold aircraft at a certain condition which lessors specified in the lease agreements. Aircraft return conditions includes assumptions relating to expected costs, escalation rates, discount rates commensurate with the expected obligation maturity. In arriving at the provision, assumptions are made on the expected condition of the asset at the time of redelivery, the estimated material and overhead costs to be incurred at the time of the redelivery. These assumptions are formed based on past experience and are annually reviewed to ensure they are reasonable Any revision in assumptions and estimations that causes a material effect to the provision would be adjusted prospectively in the financial statements. (Refer note 16.2)

(vi) 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 the Reporting period.

(vii) Inventories

The Group reviews the existence and usability of inventories based on physical verification and expiry. Provisions are made when Management determines obsolete stock .

(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, security 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 increases, retirement age, other demographic factors and going concern of the Company. Due to the long term nature of the plan, such estimates are subject to significant uncertainty. (Refer Note 2.4.16 (a))

(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 3.

2.4 Summary of Significant Accounting Policies

2.4.1 Foreign Currency Translation

The financial statements are presented in Sri Lanka Rupees, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling during the period 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 prevailing at the period of the initial transactions.

2.4.2 Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI. The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(i) Current Income Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Company

(a) Local Taxation

The Company is liable for income tax for all its business activities with effect from 1 April 2018 based on the Inland Revenue act No 24 of 2017

(b) Overseas Taxation

The Company is liable for tax on its overseas operations in countries where there are no double tax treaties at present.

Subsidiary - SriLankan Catering Limited

The Income from Flight Kitchen and Transit Restaurant was exempted from income tax up to 31 May 2021 and then taxable at concessionary rate of 15% for 8 years ending on 31 May 2029 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.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.4.3 Property, Plant and Equipment

(a) Cost and Valuation

All items of property, plant and equipment are initially recorded at cost. Cost includes expenditure that is directly attributable to the acquisition or construction. Where land and buildings and flight kitchen

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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 rotatable spares, which are treated as tangible assets, are initially recorded at cost and depreciated over the estimated useful life. This item

is grouped under "Aircraft Related Equipment".

(ii) Capital Work-in-Progress

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

(b) Depreciation

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

Aircraft Related Equipment	over shorter of 8 years or lease period
Plant & 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 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) De-recognition

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 derecognition 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 5 years on a straight line basis. The amortisation period and the amortisation method are 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

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether: –

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Group has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

2.4.5.1 Right of Use (ROU) Assets

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the present value of future lease payments adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset to the required return condition, less any lease incentives received.

(a) Lease of Aircraft and Spare Engines

The Company leases Aircraft and Engines in its fleet. The leases of Aircraft and Spare Engines typically run for a period of 2 to 15 years.

The Aircraft leases include a provision for the Return Condition of the Aircraft; an estimate of costs to be incurred by the lessee in restoring the underlying asset to the condition required by the terms and conditions of the leases (Note 15.3) are added to the ROU asset as the obligation is created. Other aircraft maintenance and overhaul expenses (except aircraft heavy maintenance, engine overhaul and landing gear overhaul expenses) are recognised in the Statement of Profit or Loss on an incurred basis, the respective accounting policy disclosed in Note 2.4.15.

The payment of the deposit at the inception of the lease and the other lease payments all originate from the same transaction. Therefore, the difference between the present value and the principal amount of the deposit paid at inception is regarded as an additional amount payable by the lessee.

The deposit is within the scope of SLFRS 9 and must initially be accounted for at fair value and the excess between the principal amount of the deposit over its fair value is within the scope of SLFRS 16 Leases. The accounting policy for Deposits is given under Note 2.4.9.

Lease of Aircraft for which the lease term ends within 12 months have not been considered and is accounted in the same way as short-term leases and included and disclosed under Rentals on Leased Aircraft in the Statement of Profit or Loss

(b) Lease of Land and Buildings

The Group leases its land and buildings in Sri Lanka and overseas.

Some leases of land and buildings contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility.

The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

(c) Lease of Vehicles

The Group leases vehicles over terms of 2 to 5 years.

Depreciation of Right of Use of Assets

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2.4.5.2 Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate prevailing at the inception of the lease. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability

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comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2.4.5.3 Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2.4.5.4 COVID-19-related rent concessions

The Group has applied COVID-19-Related Rent Concessions – Amendment to IFRS 16. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

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 03.

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

2.4.9.1 Financial Assets

Initial Recognition and Measurement

Financial Assets are classified as Amortised cost, Fair value through other comprehensive income (FVOCI) and Fair value through profit or loss (FVTPL).

Financial assets (including assets designated at fair value through profit or loss) are initially recognised on the transaction date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset is measured initially at fair value. For an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue is considered.

Subsequent Measurement

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by-instrument basis.

The Group has Trade and Other Receivables, Aircraft Maintenance Reserve, Aircraft and Spare Engine Deposits, Short Term Investments and Cash and Bank Balances classified as Financial Assets subsequently measured at amortised cost.

De-recognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of:

- (i) the consideration received (including any new asset obtained less any new liability assumed) and
- (ii) any cumulative gain or loss that had been recognised in Other Comprehensive Income is recognised in profit or loss.

Impairment of Financial Assets

The Group recognises a loss allowance for expected credit losses on financial assets measured at amortised cost or at fair value through other comprehensive income.

The Group uses simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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The judgements and associated assumptions have been made that reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances.

2.4.9.2 Financial Liabilities

Initial Recognition and Measurement

All Financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the transaction date at which the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired; Fair value through profit or loss (FVTPL) or other financial liabilities.

A financial liability is measured initially at fair value. For an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue is considered.

Subsequent Measurement

The Group has Interest Bearing Loans and Borrowings, Provision for Aircraft Maintenance and Overhaul Cost, Trade and Other Payables classified as Financial Liabilities.

Subsequent to initial recognition, financial liabilities are measured at amortised cost.

The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount.

De-recognition

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 de-recognition 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.

2.4.9.3 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.

2.4.10 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 lease agreements. The 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 as a financial asset and the relevant accounting policy for this category of financial assets is stated in Note 2.4.9.1 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 receivable. Based on the nature the relevant accounting policy for this category of financial assets is stated in Note 2.4.9.1 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 Short term Investments

Short term Investments are the fixed deposits at Banks with maturity more than three months. Short term investment has been measured at its amortised cost.

2.4.14 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. 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.

2.4.15 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 2.3.1 (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

(iii) Provision for aircraft return conditions

Provision for aircraft return conditions (restoration obligations) represents the estimate of the cost to meet the contractual lease end obligations on certain aircraft and engines at the time of re-delivery. At lease commencement, the present value of the expected cost for each restoration obligation considering the existing fleet plan and long-term maintenance schedules is recognised as a provision and are capitalised as part of the right-of-use asset and depreciated over the lease term. Unwinding of the associated discount is recognised as a finance cost over the lease term. Subsequent changes to the estimated cost for each restoration obligation is accounted for as a remeasurement to the provision for aircraft return conditions with a corresponding impact to the related right-of-use asset, if available, and depreciated over the remaining lease term. Otherwise, the remeasurement is

accounted in the statement of Profit or Loss. The basis of estimation specified in Note 2.3.1 (b) (v).

2.4.16 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 Gratuity Act No. 12 of 1983 and the Minimum Retirement Age of Workers Act, No. 28 of 2021. The Group measures the present value of the defined benefit plan of the local employees with the advice of an Actuary every year using the Projected Unit Credit method.

The retirement benefit of overseas station employees are estimated based on the applicable legislation.

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 Long Term Liabilities” in the statement of financial position.

Overseas-based employees are covered under legislations/ schemes applicable in their host countries.

(b) Defined Benefit Plan-Leave encashment

The Group is liable for the accumulated leave which is unutilised from the end of the reporting period based on local employment contracts at retirement. The Group’s net obligation towards unutilised accumulated leave is measured at the present value of the defined benefit plan of the local employees with the advice of an Actuary every year using the Projected Unit Credit method.

The Group recognises the actuarial gain/loss arising from leave encashment in other comprehensive

income and expenses related to leave encashment in the statement of profit or loss.

The leave encashment liability is not externally funded. This item is grouped under “Other Liabilities” in the statement of financial position.

(c) 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.

Overseas-based employees are covered under legislations/ schemes applicable in their host countries.

2.4.17 Frequent Flyer Programme

The Company operates a frequent flyer programme ‘FlySmiLes’ that provides travel awards to members of the program based on accumulated mileage. A portion of passenger revenue attributable to the award of frequent flyer benefits is deferred until they are utilised. The deferral of the revenue is estimated based on historical trends of redemption, which is then used to project the expected utilisation of these benefits. The fair value of credits awarded is estimated by reference to the 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.

Notes to the Financial Statements contd.

2.4.18 Revenue Recognition

The Group recognises revenue based on a five-step model on revenue arising from contracts with customers.

Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

(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 at defined expiry.
- (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) Sale of Goods

The Group recognises revenue as and when the entity satisfies a performance obligation by transferring a promised good or service to a customer. 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.

(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.

2.4.19 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 and right of use asset 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.

2.4.20 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.

2.4.21 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 New Accounting Standards issued but not yet effective as at Reporting Date

The new and amended standards and interpretations that are issued up to the date of issuance of the Group's financial statements but are not effective for the current annual reporting period, are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective

2.5.1 Definition of Accounting Estimates - Amendments to LKAS 8

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

2.5.2 Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to LKAS 12

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

2.5.3 Disclosure of Accounting Policies - Amendments to LKAS 1 and IFRS Practice Statement 2

Amendments to LKAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies.
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

2.5.4 Classification of Liabilities as Current or Non-current - Amendments to LKAS 1

Amendments to LKAS 1 Presentation of Financial Statements specify the requirements for classifying liabilities as current or non-current. The amendments clarify -

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification
- Disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

2.5.5 SLFRS 17 Insurance Contracts

This standard does not apply to the group, so it has no effect in this context.

Notes to the Financial Statements contd.

3. PROPERTY, PLANT AND EQUIPMENT

3.1 Group

	Land and Buildings	Plant & Equipment	Improvements to Aircraft on Leases	Aircraft Related Equipment	Advances /Capital Work-in-Progress	Total 2023	Total 2022
	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn
Cost/ Revaluation							
Balance as at 01 April	4,615.16	10,076.38	1,951.78	9,840.24	4.57	26,488.13	26,075.66
Acquisitions/ Modifications/ Improvements	13.31	361.80	-	934.22	-	1,309.33	474.22
Reclassifications	(13.79)	13.79	-	-	-	-	-
Disposals/Retirements	(0.24)	(23.17)	-	(60.01)	(4.57)	(87.99)	(61.75)
Revaluation during the year	3,182.58	2,164.31	-	-	-	5,346.90	-
Adjustment on Revaluation	(1,419.51)	(1,207.22)	-	-	-	(2,626.73)	-
Balance as at 31 March	6,377.51	11,385.89	1,951.78	10,714.45	-	30,429.64	26,488.13
Accumulated Depreciation							
Balance as at 01 April	1,224.53	8,456.37	1,850.65	8,705.84	-	20,237.39	18,847.15
Charge for the Year	290.72	710.80	55.89	383.47	-	1,440.88	1,448.84
Reclassifications	(1.51)	1.51	-	-	-	-	-
Disposals/Retirements	(0.24)	(23.17)	-	(58.22)	-	(81.63)	(58.60)
Adjustment on Revaluation	(1,419.51)	(1,207.22)	-	-	-	(2,626.73)	-
Balance as at 31 March	93.99	7,938.29	1,906.54	9,031.09	-	18,969.91	20,237.39
Net Book Value as at 31 March	6,283.52	3,447.60	45.24	1,683.36	-	11,459.71	6,250.74

3. PROPERTY, PLANT AND EQUIPMENT (Contd.)

3.2(a) The Fair Value of the land and buildings of the Company were determined by means of a revaluation carried out respectively by Ranjan J Samarakone (A.I.V Sri Lanka – Corporate Valuer) during the financial year ended 31 March 2023 and the Fair Value of the buildings and the flight kitchen equipment of the Subsidiary were determined by Mr. A.R.Ajith Fernando, an incorporated chartered valuer as at 31 March, 2023.

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	Revalued Amount LKR Mn.	Sensitivity of fair value to unobservable inputs	Level of Fair value Hierarchy
Land - Colombo	<p>Open Market Value This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for difference in size, nature and location of the property.</p>	31-Mar-23	Estimated price per perch LKR.20 Mn	715.00	Positively correlated sensitivity	Level 3
Buildings - Colombo / Katunayake	<p>Depreciated Replacement Cost This method considers the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.</p> <p>Further, in relation to buildings on leasehold premises, the underlying properties have been considered as "freehold basis" in assessing the related fair values. This assumption is based on Management's assessment that there will be uninterrupted continuation of the relevant leases which are of strategic importance for the continuation of the underlying operations.</p>	31-Mar-23	Estimated price per square feet LKR. 850-LKR. 15,000 Management's assessment of uninterrupted continuation of relevant land leases	3,804.48	Positively correlated sensitivity	Level 3

Notes to the Financial Statements contd.

Asset	Method of Valuation	Effective date of valuation	Significant unobservable inputs	Revalued Amount LKR Mn.	Sensitivity of fair value to unobservable inputs	Level of Fair value Hierarchy
Subsidiary						
Buildings - Katunayake	<p>Depreciated Replacement Cost This method considers the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.</p> <p>Further, in relation to buildings on leasehold premises, the underlying properties have been considered as “freehold basis” in assessing the related fair values. This assumption is based on Management’s assessment that there will be uninterrupted continuation of the relevant leases which are of strategic importance for the continuation of the underlying operations.</p>	31-Mar-23	<p>Estimated price per square feet Rs 4,000 - Rs 12,000 Management’s assessment of uninterrupted continuation of relevant land leases</p>	1,762.70	Positively correlated sensitivity	Level 3
Flight Kitchen Equipment included under Plant and Equipment - Katunayake	<p>Depreciated Replacement Cost This method considers the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.</p>	31-Mar-23	Fair value was derived using the Net Replacement Cost (NRC) approach for each equipment	2,532.03	Positively correlated sensitivity	Level 3

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

Class of Asset	Cost	Cumulative Depreciation If assets were carried at cost	Net Carrying Amount 2023	Net Carrying Amount 2022
	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn
Land and Buildings	3,077.72	2,378.46	699.26	803.78
Plant and Equipment	2,548.13	2,322.52	225.60	286.19

- (b) During the year, the Group acquired property, plant and equipment to the aggregate value of LKR. 1,309.33 Mn (2022 - LKR. 474.22 Mn). Cash payments amounting to LKR. 1,227.76 Mn (2022 -LKR.490.55 Mn) were made during the year to acquire property, plant and equipment.
- (c) Group and Company property, plant and equipment includes fully depreciated assets having a gross carrying amount of LKR. 15,346.53 Mn (2022- LKR. 13,230.51 Mn).
- (d) There are no property, plant and equipment mortgaged for bank facilities.

3.3 Company

	Land and Buildings LKR. Mn	Plant & Equipment LKR. Mn	Improvements to Aircraft on Leases LKR. Mn	Aircraft Related Equipment LKR. Mn	Advances /Capital Work-in- Progress LKR. Mn	Total 2023 LKR. Mn	Total 2022 LKR. Mn
Cost/Revaluation							
Balance as at 01 April	2,986.55	8,521.01	1,951.78	9,840.24	4.57	23,304.15	23,010.01
Acquisitions/ Modifications/ Improvements	7.60	306.41	-	934.22	-	1,248.23	348.78
Reclassifications	(13.79)	13.79	-	-	-	-	-
Disposals/Retirements	(0.24)	(23.17)	-	(60.01)	(4.57)	(87.99)	(54.64)
Revaluation during the year	2,733.06	-	-	-	-	2,733.06	-
Adjustment on Revaluation	(1,098.45)	-	-	-	-	(1,098.45)	-
Balance as at 31 March	4,614.74	8,818.04	1,951.78	10,714.45	-	26,099.00	23,304.15
Accumulated Depreciation							
Balance as at 01 April	969.51	7,571.87	1,850.65	8,705.84	-	19,097.87	18,106.81
Charge for the Year	224.70	352.26	55.89	383.47	-	1,016.32	1,045.70
Reclassifications	(1.51)	1.51	-	-	-	-	-
Disposals/Retirements	(0.24)	(23.17)	-	(58.22)	-	(81.63)	(54.64)
Adjustment on Revaluation	(1,098.45)	-	-	-	-	(1,098.45)	-
Balance as at 31 March	94.01	7,902.47	1,906.54	9,031.09	-	18,934.11	19,097.87
Net Book Value as at 31 March	4,520.73	915.57	45.25	1,683.36	-	7,164.89	4,206.28

Notes to the Financial Statements contd.

3. PROPERTY, PLANT AND EQUIPMENT (Contd.)

3.4 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 31 March 2023. The results of such revaluation were incorporated in the Financial Statements effective from 31 March 2023.

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

Asset	Method of Valuation	Effective date of valuation	Significant unobservable inputs	Revalued Amount LKR Mn.	Sensitivity of fair value to unobservable inputs	Level of Fair value Hierarchy
Land - Colombo	<p>Open Market Value</p> <p>This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for difference in size, nature and location of the property.</p>	31-Mar-23	Estimated price per perch LKR.20 Mn	715.00	Positively correlated sensitivity	Level 3
Buildings - Colombo/ Katunayake	<p>Depreciated Replacement Cost</p> <p>This method considers the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.</p> <p>Further, in relation to buildings on leasehold premises, the underlying properties have been considered as "freehold basis" in assessing the related fair values. This assumption is based on Management's assessment that there will be uninterrupted continuation of the relevant leases which are of strategic importance for the continuation of the underlying operations.</p>	31-Mar-23	Estimated price per square feet LKR. 850- LKR. 15,000 Management's assessment of uninterrupted continuation of relevant land leases	3,804.48	Positively correlated sensitivity	Level 3

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

Class of Asset	Cost	Cumulative Depreciation If assets were carried at cost	Net Carrying Amount 2023	Net Carrying Amount 2022
	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn
Land and Buildings	1,246.74	984.47	262.27	281.11

- b) During the year, the Company acquired property, plant and equipment to the aggregate value of LKR. 1,248.23 Mn (2022 - LKR 348.78 Mn). Cash payments amounting to LKR 1,166.66 Mn (2022 - LKR 365.11 Mn) were made during the year to acquire property, plant and equipment.
- c) Property, plant and equipment of the Company includes fully depreciated assets having a gross carrying amount of LKR 15,346.53 Mn (2022 - LKR 13,230.51 Mn).
- d) There are no property, plant and equipment mortgaged for bank facilities.

4. RIGHT OF USE ASSETS

4.1 Right of Use Asset Movement

Group	Aircraft and Spare Engines LKR. Mn	Land & Building LKR. Mn	Vehicles LKR. Mn	Aircraft Simulator LKR. Mn	Total 2023 LKR. Mn	Total 2022 LKR. Mn
Cost						
Balance as at 01 April	125,154.77	2,010.79	76.50	3,510.95	130,753.01	127,254.54
Additions	855.25	185.24	12.17	-	1,052.66	2,660.46
Disposals	-	(20.44)	-	-	(20.44)	(105.64)
Adjustments	379.51	(54.12)	-	-	325.39	943.65
Balance as at 31 March	126,389.53	2,121.47	88.67	3,510.95	132,110.62	130,753.01
Depreciation						
Balance as at 01 April	44,560.94	966.22	66.92	2,350.57	47,944.65	34,798.66
Depreciation	13,153.34	293.74	8.47	230.63	13,686.18	13,169.37
Disposals	-	(17.08)	-	-	(17.08)	(43.91)
Adjustments	-	-	-	-	-	20.53
Balance as at 31 March	57,714.28	1,242.88	75.39	2,581.20	61,613.75	47,944.65
Net Book Value as at 31 March	68,675.25	878.59	13.28	929.75	70,496.87	82,808.36

Notes to the Financial Statements contd.

4. RIGHT OF USE ASSETS CONTD.

4.1 Right of Use Asset Movement contd.

Company	Aircraft and Spare Engines LKR. Mn	Land & Building LKR. Mn	Vehicles LKR. Mn	Aircraft Simulator LKR. Mn	Total 2023 LKR. Mn	Total 2022 LKR. Mn
Cost						
Balance as at 01 April	125,154.77	1,334.98	76.50	3,510.95	130,077.20	126,636.79
Additions	855.25	185.24	12.17	-	1,052.66	2,647.22
Disposals	-	(20.44)	-	-	(20.44)	(105.64)
Adjustments	379.51	(0.53)	-	-	378.98	898.83
Balance as at 31 March	126,389.53	1,499.25	88.67	3,510.95	131,488.40	130,077.20
Depreciation						
Balance as at 01 April	44,560.94	559.47	66.92	2,350.57	47,537.90	34,465.72
Depreciation	13,153.34	254.46	8.47	230.63	13,646.89	13,116.09
Disposals	-	(17.08)	-	-	(17.08)	(43.91)
Balance as at 31 March	57,714.28	796.85	75.39	2,581.20	61,167.71	47,537.90
Net Book Value as at 31 March	68,675.25	702.40	13.28	929.75	70,320.69	82,539.30

Short Term leases

The Group has elected not to recognise Right of Use Assets and lease liabilities for short-term leases of Aircraft, Land and Buildings and Vehicles that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Rentals on Leased Aircraft / Spare Engines	504.44	43.66	504.44	43.66
Rentals on Land & Buildings	411.26	206.48	411.26	206.48
Rentals on Vehicles	104.35	60.67	104.35	60.67

Low Value Assets

The Group has elected not to recognise right-of-use assets and lease liabilities of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

5. AIRCRAFT PREDELIVERY PAYMENTS

“Pre-delivery payments (PDPs) as of 31 March 2023 consist of PDPs made for four Airbus A350-900 aircraft which were to be delivered in 2020 and 2021 amounting to LKR 6,288.68 Mn (USD 19.21 Mn).

The Company has made a claim for the recovery of the above amount together with damages through the dispute resolution mechanism as set out in the agreement with the Supplier. The process of recovery is being carried out with the advice of the Hon. Attorney General of Sri Lanka and the Solicitors in the United Kingdom appointed by the Company. Timelines for the process have been agreed by the parties which spans for more than one year. Accordingly, the related balance has been classified as non-current.

There is no information available to the Company at this point of time to believe that the outcome of the recovery of PDPs could be unfavorable to the Company.

In accordance with paragraph 92 of LKAS 37, we are constrained in terms of the applicable rules and regulations of the dispute resolution mechanism to provide information where confidentiality requirements need to be maintained.

6. AIRCRAFT MAINTENANCE RESERVE

	Group / Company	
	2023 LKR. Mn	2022 LKR. Mn
Balance as at 01 April	75,164.56	50,517.71
Additions	21,213.70	9,056.00
Amounts setoff upon redelivery (Note 16.2/Note 7)	(473.83)	(5,181.18)
Recoveries	(5,553.66)	(4,442.26)
Exchange gain	7,414.54	25,214.29
	97,765.31	75,164.56
Provision for impairment (Note 6.2)	(35,791.70)	(27,806.67)
Net Recoverable Balance as at 31 March (Note 6.1)	61,973.61	47,357.89

6.1 Current / Non-current Classification

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 31 March 2023	97,765.31	(35,791.70)	61,973.61	18,857.02	43,116.59
Balance as at 31 March 2022	75,164.56	(27,806.67)	47,357.89	16,966.56	30,391.33

Notes to the Financial Statements contd.

6.2 Movement of Provision for impairment

	2023 LKR. Mn	2022 LKR. Mn
Balance as at 1 April	27,806.67	15,636.24
Charged during the year	10,670.39	3,836.65
Amounts setoff upon redelivery	-	(5,181.18)
Adjustments*	(5,122.39)	3,376.84
Exchange loss	2,437.03	10,138.12
Balance as at 31 March	35,791.70	27,806.67

*Adjustments represents transfer of provisions between Maintenance Reserve and Future Aircraft Maintenance and Overhaul cost as a result of schedule or scope changes in several overhaul events. The corresponding adjustment of the same is reflected in provision for future Aircraft Maintenance and Overhaul cost given under Note 16.

7. AIRCRAFT SECURITY DEPOSITS

7.1 (a).Movement

	Group / Company	
	2023 LKR. Mn	2022 LKR. Mn
Balance as at 01 April	6,376.95	4,641.55
Additions	914.29	29.65
Adjustments	(379.51)	(101.97)
Unwinding effect	473.79	258.01
Recoveries	-	(501.45)
Exchange gain	674.94	2,051.16
	8,060.46	6,376.95

(b).Current / Non-current Classification

	2023 LKR. Mn	2022 LKR. Mn
Receivable with in one year	2,346.66	937.40
Receivable after one year	5,713.80	5,439.55
	8,060.46	6,376.95

8. INTANGIBLE ASSETS

INTANGIBLE ASSETS	Group				Company			
	Software	Capital Work-in Progress*	Total 2023	Total 2022	Software	Capital Work-in Progress	Total 2023	Total 2022
	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn
Cost								
Balance as at 1 April	1,463.69	12.63	1,476.32	1,452.30	1,365.63	12.63	1,378.26	1,354.70
Acquisitions/ Modifications/ Improvements	26.63	56.80	83.43	24.02	24.20	56.80	81.00	23.56
Balance as at 31 March	1,490.32	69.43	1,559.75	1,476.32	1,389.83	69.43	1,459.26	1,378.26
Accumulated Amortisation								
Balance as at 1 April	1,397.54	-	1,397.54	1,360.16	1,311.63	-	1,311.63	1,285.15
Charge for the Year	26.41	-	26.41	37.38	21.91	-	21.91	26.48
Balance as at 31 March	1,423.95	-	1,423.95	1,397.54	1,333.54	-	1,333.54	1,311.63
Net Book Value as at 31 March	66.37	69.43	135.79	78.78	56.29	69.43	125.72	66.63

As at the reporting date, Intangible Assets of the Group and Company include fully amortised assets having a gross carrying amount of LKR 1,314.41 Mn and LKR 1,288.69 Mn (2022 - LKR 1,290.74 Mn and LKR 1,228.68 Mn) respectively.

9. INVESTMENTS

9.1 Non-current Investments

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Investments in Subsidiary in Sri Lanka				
- SriLankan Catering Limited (940,268,456 shares, 100% holding)	-	-	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 materiality.

Notes to the Financial Statements contd.

9.2 Current Investments

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Fixed Deposits at Bank	2,253.13	1,937.38	1,826.00*	1,681.78

*This has been placed as security for Letters of Credit Issued to Lessors.

10. INVENTORIES

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Engineering related stock	7,088.23	5,975.86	7,088.23	5,975.86
Ground Service related stock	585.15	521.48	585.15	521.48
Raw materials and Consumables	1,739.80	823.70	1,035.47	493.15
	9,413.18	7,321.04	8,708.85	6,990.49
Allowance for obsolete stock (Note 10.1)	(3,440.21)	(3,052.67)	(3,316.33)	(2,974.85)
	5,972.97	4,268.37	5,392.52	4,015.64

The cost of inventory recognised as an expense in profit or loss amounted to LKR 7,938.32 Mn and LKR 4,792.91 Mn for Group and Company respectively. (2022 - LKR 2,297.01 Mn and LKR 1,282.67 Mn).

10.1 Allowance for Obsolete Stock

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Balance as at 01 April	3,052.67	2,732.99	2,974.85	2,599.23
Provision made during the year	408.17	349.35	362.11	405.29
Written-off during the year	(20.63)	(29.67)	(20.63)	(29.67)
Balance as at 31 March	3,440.21	3,052.67	3,316.33	2,974.85

11. TRADE AND OTHER RECEIVABLES

11.1 Trade and Other receivables

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Trade Receivables	29,067.44	22,731.70	23,953.95	21,945.01
Provision for Impairment of Receivables (Note 11.3)	(2,443.36)	(2,244.18)	(2,274.97)	(2,091.61)
	26,624.08	20,487.52	21,678.98	19,853.40
Aircraft Predelivery Payments (Note 5)	-	5,649.09	-	5,649.09
Deposits, Advances, Prepayments and other receivables	6,842.79	1,624.03	6,519.28	1,512.64
	33,466.87	27,760.64	28,198.26	27,015.13
Loans and Advances to Company Officers	67.87	47.00	67.87	37.18
	33,534.74	27,807.64	28,266.13	27,052.31

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

11.2 As at 31 March the Age Analysis of Trade Receivables is as follows :

As at 31 March 2023, Trade receivables amounting to LKR. 2,443.36 Mn. related to the Group and LKR. 2,274.97 Mn. related to the Company were impaired and fully provided. Refer below Note 11.3 for the movement in provision for impairment of trade receivables.

Balances as at 31 March 2023	Total LKR. Mn	Neither Past Due nor Impaired LKR. Mn	Past Due and Impaired				
			30-60 LKR. Mn	61-90 LKR. Mn	91-180 LKR. Mn	181-365 LKR. Mn	>365 LKR. Mn
Group							
Trade Receivables	29,067.44	21,057.15	2,531.68	872.13	1,336.28	271.19	2,999.02
Provision for Impairment of Receivables (Note 11.3)	(2,443.36)	-	-	-	(105.18)	(271.19)	(2,066.99)
	26,624.08	21,060.19	2,531.68	872.13	1,231.10	-	932.03
Company							
Trade Receivables	23,953.95	18,847.29	2,531.68	166.38	236.16	271.19	1,901.25
Provision for Impairment of Receivables (Note 11.3)	(2,274.97)	-	-	-	(102.53)	(271.19)	(1,901.25)
	21,678.98	18,847.29	2,531.68	166.38	133.63	-	-

Notes to the Financial Statements contd.

11. TRADE AND OTHER RECEIVABLES (CONTD..)

11.2 As at 31 March the Age Analysis of Trade Receivables is as follows (contd.):

Balances as at 31 March 2022	Total LKR. Mn	Neither Past Due nor Impaired LKR. Mn	Past Due and Impaired				
			30-60 LKR. Mn	61-90 LKR. Mn	91-180 LKR. Mn	181-365 LKR. Mn	>365 LKR. Mn
Group							
Trade Receivables	22,731.70	17,083.44	2,522.43	1,107.62	4.34	17.77	1,996.10
Provision for Impairment of Receivables (Note 11.3)	(2,244.18)	-	(6.71)	(219.26)	(4.34)	(17.77)	(1,996.10)
	20,487.52	17,083.44	2,515.72	888.36	-	-	-
Company							
Trade Receivables	21,945.01	16,472.84	2,492.20	1,103.92	-	-	1,876.05
Provision for Impairment of Receivables (Note 11.3)	(2,091.61)	-	-	(215.56)	-	-	(1,876.05)
	19,853.40	16,472.84	2,492.20	888.36	-	-	-

11.3 Movement for Provision for Impairment of Receivables

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Balance as at 1 April	2,244.18	1,617.51	2,091.61	1,534.14
Provision for the year	205.94	125.63	190.13	88.38
Exchange Loss	(6.77)	501.04	(6.77)	469.09
Balance as at 31 March	2,443.36	2,244.18	2,274.97	2,091.61

As at the Reporting date provision for impairment relating to related parties amounted to LKR 1,284.43 Mn and LKR 1,183.97 Mn for Group and Company respectively. (2022- LKR 1,230.35 Mn for Group and LKR 1,129.89 Mn for Company).

12. CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

Components of Cash and Cash Equivalents

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
12.1 Favourable Cash and Cash Equivalent Balances				
Cash and Bank Balances	11,000.05	5,376.82	9,993.62	4,804.95

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
12.2 Unfavourable Cash and Cash Equivalent Balances				
Bank Overdrafts (Note 15)	(19,653.12)	(21,523.70)	(19,653.12)	(21,523.70)
Total Cash and Cash Equivalents for the purpose of statement of cash flows	(8,653.07)	(16,146.88)	(9,659.50)	(16,718.75)

13. STATED CAPITAL

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
13.1 Ordinary shares issued and fully paid as at 31 March	96,360.67	96,360.67	96,360.67	96,360.67

13.2 Ordinary shares issued and fully paid

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
As at the 1 April	96,360.67	51,617.44	96,360.67	51,617.44
Issued during the year	-	44,743.23	-	44,743.23
As at 31 March	96,360.67	96,360.67	96,360.67	96,360.67

Movement in number of shares

	Nos.	Nos.	Nos.	Nos.
As at the 1 April	963,606,655	516,174,355	963,606,655	516,174,355
Issued during the year	-	447,432,300	-	447,432,300
As at 31 March	963,606,655	963,606,655	963,606,655	963,606,655

Notes to the Financial Statements contd.

13.3 Advance to Share Capital

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
As at the 1 April	-	27,734.99	-	27,734.99
Advance received	-	17,999.98	-	17,999.98
Issue of shares	-	(44,743.23)	-	(44,743.23)
Transfer to Reserve*	-	(991.74)	-	(991.74)
As at 31 March	-	-	-	-

Previous year, the Government of Sri Lanka (GoSL) invested in the form of Treasury Bonds with the face value of LKR 18 Bn (2021 - LKR 26.8 Bn) and 447,432,300 number of ordinary shares were issued to the GoSL.

*The transfer to Capital reserve from Advance to share capital represents the difference between the face value and the fair value of the bonds received as consideration for Equity. The Company issued shares for the face value of the bonds with the consultation of the Attorney General.

14. RESERVES

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Revaluation Reserve	9,999.16	5,436.47	5,848.82	3,115.82
Capital Reserve (Note 13.3)	991.74	991.74	991.74	991.74
Balance as at 31 March	10,990.90	6,428.21	6,840.56	4,107.56

15. INTEREST BEARING LIABILITIES

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Current Liabilities				
Long-term Loans / Bonds (Note 15.1)	57,206.95	-	57,206.95	-
Lease Liability (Note 15.3)	59,831.15	47,469.44	59,658.85	47,297.51
Short Term Loan	97,844.62	95,284.24	97,844.62	95,284.24
Bank Overdraft (Note 12)	19,653.12	21,523.70	19,653.12	21,523.70
	234,535.84	164,277.38	234,363.54	164,105.45
Non-current Liabilities				
Long-term Loans / Bonds (Note 15.1)	-	51,327.01	-	51,327.01
Lease Liability (Note 15.3)	154,201.38	164,258.07	153,472.18	163,372.17
	154,201.38	215,585.08	153,472.18	214,699.18

15.1 International Bond

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
(a) Current / Non-current Classification				
Payable within one year included under Current Liabilities	57,206.95	51,327.01	57,206.95	51,327.01
Payable after one year but not more than five years	57,206.95	51,327.01	57,206.95	51,327.01

This bond comes under the moratorium declared by the Government of Sri Lanka on international debt repayment.

The Company did not service the coupon interest payment which fell due on 25 December 2022. Following the expiry of the relevant grace period on 25 January 2023, an event of default has occurred and is continuing. Currently, the Company plans to engage with the bondholders, to find a balanced and equitable solution going forward in line with the government debt restructuring initiative. Pending the same, as of reporting date, the Company has classified the total outstanding as a current liability.

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
(b) Foreign currency denomination				
Long - term Loans / Bonds - USD denominated	175.00	175.00	175.00	175.00

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
(c) Movement in Long-term Loans / Bonds				
Balance as at 01 April	51,327.01	39,364.09	51,327.01	39,364.09
Payments /Amortisation	-	(4,419.49)	-	(4,418.49)
Unrealised exchange loss	5,879.95	16,382.41	5,879.95	16,381.41
Balance as at 31 March	57,206.96	51,327.01	57,206.96	51,327.01

Notes to the Financial Statements contd.

15. INTEREST BEARING LIABILITIES (CONTD...)

15.2 Interest bearing Borrowings - Terms and Repayment Schedule

Company Lender	Balance as at 31 March 2023 LKR. Mn	Balance as at 31 March 2022 LKR. Mn	Repayment Term	Security
(a) Bank Loans				
Interest linked to LIBOR				
Bank of Ceylon	10,636.79	9,555.00	Payment on maturity December, 2023.	Letter of Comfort from Ministry of Finance
Bank of Ceylon	13,909.64	12,495.00	Payment on maturity October, 2023.	Letter of Comfort from Ministry of Finance
Bank of Ceylon	8,182.14	7,350.00	Payment on maturity February, 2024.	Letter of Comfort from Ministry of Finance
Bank of Ceylon	1,636.43	1,470.00	Payment on maturity May, 2023.	Treasury Guarantee
Bank of Ceylon	-	294.00	Payment on maturity June, 2022.	LKR Deposit equivalent to 125% of USD 1.0M
Bank of Ceylon	-	407.19	Payment on maturity September, 2022.	Letter of Comfort from Ministry of Finance
Peoples Bank	10,636.79	9,555.00	Payment on maturity December, 2023.	Letter of Comfort from Ministry of Finance
Peoples Bank	13,909.64	12,495.00	Payment on maturity October, 2023.	Letter of Comfort from Ministry of Finance
Peoples Bank	8,182.14	7,350.00	Payment on maturity February, 2024.	Letter of Comfort from Ministry of Finance
Peoples Bank	1,761.64	1,582.47	Payment on maturity November, 2023.	Treasury Guarantee
Peoples Bank	-	229.64	Payment on maturity September, 2022.	Letter of Comfort from Ministry of Finance
Interest linked to AWPLR				
Bank of Ceylon	12,900.00	12,900.00	Payment on maturity June, 2023.	Letter of Comfort from Ministry of Finance
Bank of Ceylon		450.00	Payment on maturity May, 2022	Treasury Guarantee
Bank of Ceylon		156.32	Payment on maturity August, 2022.	Letter of Comfort from Ministry of Finance
Peoples Bank	13,350.00	13,350.00	Payment on maturity June, 2023.	Letter of Comfort from Ministry of Finance
Peoples Bank	1,351.90	1,351.90	Payment on maturity November, 2023.	Treasury Guarantee
Peoples Bank	1,387.50	1,387.50	Payment on maturity May, 2023.	Treasury Guarantee
Peoples Bank		177.77	Payment on maturity September, 2022.	Letter of Comfort from Ministry of Finance
(b) International Bond				
Fixed Interest Rate				
International Bond	57,206.95	51,327.01	Payment on maturity in June 2024	Government Guarantee for USD 175 Mn.

15. INTEREST BEARING LIABILITIES (CONTD...)

15.2 Interest bearing Borrowings - Terms and Repayment Schedule (contd.)

Lender	Balance as at 31 March 2023 LKR. Mn	Balance as at 31 March 2022 LKR. Mn	Repayment Term	Security
(c) Overdraft Facility				
Interest linked to LIBOR				
Bank of Ceylon	18,408.22	17,129.68	USD 70 Mn Revolving	Mortgage over the shares of Subsidiary - SriLankan Catering Limited
			USD 30 Mn repaid by July, 2022.	Treasury Guarantee
Interest linked to AWPLR				
Peoples Bank	1,244.90	4,394.01	Payment on maturity July, 2023.	Treasury Guarantee
(d) Loans from other institutions				
Fixed Interest Rate				
Deferred payment arrangement from a supplier	-	2,727.45	Monthly instalments ending September, 2022.	None

* Interest bearing liabilities denominated in USD were converted to Sri Lankan Rupees at the exchange rate of LKR. 327.2857 (2022 - LKR. 294) as at 31 March 2023.

15.3 Lease Liability

(a) Current / Non-current Classification

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Payable within one year included under Current Liabilities	59,831.15	47,469.44	59,658.85	47,297.51
After one year but not more than five years included under Non-Current Liabilities	132,560.20	126,509.45	131,831.00	125,623.55
More than 5 Years included under Non-current Liabilities	21,641.18	37,748.62	21,641.18	37,748.62
Total lease liabilities as at 31 March	214,032.53	211,727.51	213,131.03	210,669.68

(b) Lease Liability denominated in Foreign Currencies

	Group		Company	
	2023 Mn	2022 Mn	2023 Mn	2022 Mn
Denominated in EUR	4.16	5.36	4.16	5.36
Denominated in USD	641.80	656.55	641.80	653.80

Notes to the Financial Statements contd.

15.3 Lease Liability

(c) Movement in Lease Liability

Group	Gross Payable 2023 LKR. Mn	Finance Charges for future periods 2022 LKR. Mn	Net Payable 2023 LKR. Mn	Net Payable 2022 LKR. Mn
Balance as at 01 April	257,026.79	(45,299.28)	211,727.51	161,508.46
Additions during the year	1,338.53	(285.90)	1,052.63	2,616.21
Payments during the year	(36,820.29)	12,869.17	(23,951.12)	(18,623.57)
Concession received on rent	(203.10)	-	(203.10)	(339.91)
Adjustments	(86.19)	0.05	(86.14)	(139.91)
Disposal	(3.70)	0.08	(3.62)	(76.99)
Exchange loss / (gain)	31,129.66	(5,633.29)	25,496.37	66,783.22
Balance as at 31 March	252,381.70	(38,349.17)	214,032.53	211,727.51

Company	Gross Payable 2023 LKR. Mn	Finance Charges for future periods 2022 LKR. Mn	Net Payable 2023 LKR. Mn	Net Payable 2022 LKR. Mn
Balance as at 01 April	253,382.03	(42,712.36)	210,669.67	160,673.21
Additions during the year	1,338.56	(285.90)	1,052.66	2,614.39
Payments during the year	(36,637.04)	12,781.16	(23,855.88)	(18,678.12)
Concession received on rent	(122.30)	-	(122.30)	(191.99)
Adjustments	(0.59)	0.05	(0.54)	(194.52)
Disposal	(3.70)	0.08	(3.62)	(76.99)
Exchange loss / (gain)	31,024.34	(5,633.29)	25,391.04	66,523.70
Balance as at 31 March	248,981.30	(35,850.26)	213,131.03	210,669.68

(d) Rent concessions

The Group negotiated rent concessions for certain building leases as a result of the severe impact of the COVID-19 pandemic during the year. The Group applied the practical expedient for COVID-19 related rent concessions consistently to eligible rent concessions relating to its building leases. The amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Group and Company has applied the practical expedient for COVID-19 related rent concessions are LKR 203.1 Mn and LKR 122.30 Mn respectively (2022: Group and Company has applied the practical expedient for COVID-19 related rent concessions are LKR 339.91 Mn and LKR 191.99 Mn respectively).

16. OTHER LIABILITIES

Payable after one year	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Provision for Aircraft Maintenance and Overhaul Cost (Note 16.1 (b))	43,799.39	29,541.41	43,799.39	29,541.41
Aircraft Return Cost Liability (Note 16.2.(b))	5,748.03	6,718.04	5,748.03	6,718.04
Retirement Benefit Obligation (Note 16.3 (b))	8,013.23	6,696.33	7,303.54	6,061.32
Deferred Tax Liability (Note 24.2)	1,311.13	431.98	-	-
	58,871.78	43,387.76	56,850.96	42,320.77
Payable within one year				
Provision for Aircraft Maintenance and Overhaul Cost (Note 16.1 (b))	27,131.51	21,511.04	27,131.51	21,511.04
Aircraft Return Cost Liability (Note 16.2.(b))	4,128.83	2,142.26	4,128.83	2,142.26
	31,260.34	23,653.30	31,260.34	23,653.30

16.1 Provision for Future Aircraft Maintenance and Overhaul Cost

(a) Movement

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
As at 1 April	51,052.45	34,296.78	51,052.45	34,296.78
Provisions during the year	12,403.03	7,424.68	12,403.03	7,424.68
Adjustments (Note 6)	5,122.39	(3,376.84)	5,122.39	(3,376.84)
Utilisation	(3,239.04)	(3,245.92)	(3,239.04)	(3,245.92)
Exchange loss	5,592.07	15,953.75	5,592.07	15,953.75
As at 31 March	70,930.90	51,052.45	70,930.90	51,052.45
(b) Current / Non-current Classification				
Payable within one year included under Other Liabilities	27,131.51	21,511.04	27,131.51	21,511.04
After one year included under Other Long Term Liabilities	43,799.39	29,541.41	43,799.39	29,541.41
	70,930.90	51,052.45	70,930.90	51,052.45

Notes to the Financial Statements contd.

16.2 Aircraft Return Cost

(a) Movement

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
As at 1 April	8,860.30	4,897.51	8,860.30	4,897.51
Unwinding effect of Return cost	603.84	265.56	603.84	265.56
Settlements	(88.78)	(1.46)	(88.78)	(1.46)
Amounts setoff upon redelivery (Note 7)	(473.83)	-	(473.83)	-
Adjustments	-	1,035.47	-	1,035.47
Exchange loss	975.33	2,663.22	975.33	2,663.22
As at 31 March	9,876.86	8,860.30	9,876.86	8,860.30
(b) Current / Non-current Classification				
Payable within one year included under Other Liabilities	4,128.83	2,142.26	4,128.83	2,142.26
After one year included under Other Long Term Liabilities	5,748.03	6,718.04	5,748.03	6,718.04
	9,876.86	8,860.30	9,876.86	8,860.30

16.3 Retirement Benefit Obligation

(a). Gratuity

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Balance as at 01 April	6,349.94	6,517.46	5,748.07	5,938.95
Current service cost	501.43	370.18	460.84	325.85
Interest cost	774.30	554.10	684.02	520.01
Actuarial loss / (gain)	1,142.09	(636.51)	1,135.92	(598.05)
Payments during the year	(1,103.17)	(455.29)	(1,028.51)	(438.69)
Balance as at 31 March	7,664.59	6,349.94	7,000.34	5,748.07

16.3 (b) Provision for Leave Encashment

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Balance as at 01 April	346.39	53.06	313.25	-
Current service costs	-	313.25	-	313.25
Interest cost	61.10	3.98	56.13	-
Actuarial (gain)/loss during the year	125.63	(22.83)	113.57	-
Benefits paid during the year	(184.50)	(1.07)	(179.75)	-
Balance as at 31 March	348.64	346.39	303.20	313.25
Total Retirement Benefit Obligation	8,013.23	6,696.33	7,303.54	6,061.32

The Actuarial Valuation was carried out by professionally qualified actuary, Mr. M.Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd for the Reporting Date based on the following key assumptions;

	Company		Subsidiary	
	2023	2022	2023	2022
(i) Rate of Interest				
-LKR	18.0%	15.8%	18.0%	15.0%
-USD	8.0%	7.5%	-	-
(ii) Rate of Salary Increase				
-LKR	15.0%	10.0%	17.0%	15.0%
-USD	3.0%	3.0%	-	-
(iii) Retirement Age - Years	60	60	60	60
(iv) The entity will continue as a going concern				
(v) Average Expected Remaining Service Life	13.07 Years	14.02 Years	11.15 Years	12.15 Years

The Company uses market yields (at the end of the reporting period) on treasury bonds issued by the Government of Sri Lanka (T-bonds) to determine the discount rate. However, due to the economic conditions prevailing in the country as at the period end, the exceptionally high T-bond market yields would not be a reasonable reflection of the time value of money. Therefore, period end T-bond market yields have been adjusted for the credit risk spread to derive the rate used to discount the defined benefit obligation. Such adjustment has been made based on the method set out in illustration 1 of the Frequently Asked Questions (FAQs) on Use of Discount Rate under the uncertain economic conditions issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Credit risk spread has been calculated based on Sovereign Default and Recovery Rates published by Moody's. Adjusted discount rates have been calculated for tenors available, and estimated using the yield curve for any remaining maturities and corresponds with the remaining average working life of the employees of the Company.

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	Increase/ (Decrease) in Exchange Rate	Effect on Retirement Benefit Obligation				
			2023		2022		
			Company LKR. Mn	Subsidiary LKR. Mn	Company LKR. Mn	Subsidiary LKR. Mn	
1%	-	-	(436.97)	(46.12)	(357.37)	(46.12)	
-1%	-	-	494.63	52.12	404.64	52.12	
-	1%	-	519.28	54.44	419.87	54.44	
-	-1%	-	(464.05)	(48.90)	(374.51)	(48.90)	
-	-	1%	25.12	-	24.73	-	
-	-	-1%	(25.12)	-	(24.73)	-	
Maturity Analysis							
			Less than three months	3 to 12 Months	1 to 5 year	More than 5 years	Total
Group			211.20	567.46	3,011.92	3,874.01	7,664.59
Company			211.20	535.37	2,871.28	3,382.49	7,000.34

Notes to the Financial Statements contd.

17. SALES IN ADVANCE OF CARRIAGE

Sales in advance of carriage generally represents the value of unutilised tickets and related balances which have not expired.

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Trade and Other Payables	172,817.98	132,862.79	179,116.25	141,522.63

19. FINANCIAL INSTRUMENTS

19.1 Classification of Financial Instruments

Financial assets and liabilities in the table below are split into categories in accordance with SLFRS 9 - Financial Instruments.

	Company	
	2023 LKR. Mn	2022 LKR. Mn
Group		
Financial Instruments measured at amortised cost		
Financial Assets		
Trade and Other Receivables, excluding Advances and Prepayments	26,624.08	20,994.33
Aircraft Maintenance Reserve	61,973.61	47,357.89
Aircraft and Spare Engine Deposits	8,060.46	6,376.95
Investments	2,253.13	1,937.38
Cash and Bank Balances	11,000.05	5,376.82
	109,911.33	82,043.37
Financial Liabilities		
Interest Bearing Loans and Borrowings	174,704.69	168,134.95
Lease Liability	214,032.53	211,727.51
Provision for Aircraft Maintenance and Overhaul Cost	70,930.90	51,052.45
Return Cost Provision	9,876.86	8,860.30
Trade and Other Payables	164,549.80	127,379.17
	634,094.78	567,154.38
Company		
Financial Instruments measured at amortised cost		
Financial Assets		
Trade and Other Receivables, excluding Advances and Prepayments	25,182.55	20,350.42
Aircraft Maintenance Reserve	61,973.61	47,357.89
Aircraft and Spare Engine Deposits	8,060.46	6,376.95
Investments	1,826.00	1,681.78
Cash and Bank balances	9,993.62	4,804.95
	107,036.24	80,571.99
Financial Liabilities		
Interest Bearing Loans and Borrowings	174,704.69	168,134.95
Lease Liability	213,131.03	210,669.68
Provision for Aircraft Maintenance and Overhaul Cost	70,930.90	51,052.45
Return Cost Provision	9,876.86	8,860.30
Trade and Other Payables	170,848.07	136,407.84
	639,491.55	575,125.22

20. REVENUE AND SEGMENT INFORMATION

20.1 Revenue

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Scheduled services -Passenger	293,328.87	77,999.36	293,328.87	77,999.36
-Cargo	50,774.13	43,975.08	51,059.58	43,975.08
-Excess Baggage	3,066.99	1,156.78	3,066.99	1,156.78
-Mail	501.16	244.43	501.16	244.43
	347,671.15	123,375.65	347,956.60	123,375.65
Air Terminal and Other Services	15,462.67	9,038.33	15,708.51	9,132.42
Duty Free	1,428.08	245.55	1,428.08	245.55
Non-Scheduled Services	78.58	182.61	78.58	182.61
Flight Catering	4,829.56	1,459.22	-	-
Total	369,470.04	134,301.36	365,171.77	132,936.23

20.2 Segment Information

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

Revenue 2023	Sri Lanka	Asia (excluding Sri Lanka)	Europe & Africa	Middle East	North & South America	Australia/ Pacific	Total 2023
	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn
Scheduled services							
- Passenger	68,292.31	91,068.03	41,313.33	48,060.35	11,647.96	32,946.89	293,328.87
- Cargo	17,380.93	21,091.56	6,709.86	2,992.69	8.46	2,590.63	50,774.13
- Excess Baggage	432.78	1,075.78	142.09	1,095.41	148.10	172.83	3,066.99
- Mail	293.31	188.83	2.92	-	-	16.10	501.16
	86,399.33	113,424.20	48,168.20	52,148.45	11,804.52	35,726.45	347,671.15
Air Terminal and Other Services	15,462.66	-	-	-	-	-	15,462.66
Duty Free	-	714.04	142.81	528.39	-	42.84	1,428.08
Non-Scheduled Services	78.58	-	-	-	-	-	78.58
Flight Catering	4,829.56	-	-	-	-	-	4,829.56
Segment Revenue	106,770.13	114,138.24	48,311.01	52,676.84	11,804.52	35,769.29	369,470.04

Notes to the Financial Statements contd.

20. REVENUE AND SEGMENT INFORMATION (CONTD.)

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

Revenue 2022	Sri Lanka	Asia (excluding Sri Lanka)	Europe & Africa	Middle East	North & South America	Australia/ Pacific	Total 2022
	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn
Scheduled services							
- Passenger	15,002.46	24,249.36	10,616.35	18,117.11	1,627.78	8,386.30	77,999.36
- Cargo	15,009.90	21,741.97	4,016.24	1,569.92	0.61	1,636.44	43,975.08
- Excess Baggage	150.04	364.58	70.10	461.11	50.60	60.35	1,156.78
- Mail	107.84	43.48	93.11	-	-	-	244.43
	30,270.24	46,399.39	14,795.80	20,148.14	1,678.99	10,083.09	123,375.65
Air Terminal and Other Services	9,038.33	-	-	-	-	-	9,038.33
Duty Free	-	111.26	33.35	90.58	-	10.36	245.55
Non-Scheduled Services	182.61	-	-	-	-	-	182.61
Flight Catering	1,459.22	-	-	-	-	-	1,459.22
Segment Revenue	40,950.40	46,510.65	14,829.15	20,238.72	1,678.99	10,093.45	134,301.36

(b) Secondary Reporting by Business Segment

Secondary Reporting by Business Segment	Business Segment				Business Segment			
	Airline	Flight Catering	Inter- segment eliminations	Group	Airline	Flight Catering	Inter- segment eliminations	Group
	2023 LKR. Mn	2023 LKR. Mn	2023 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn	2022 LKR. Mn	2022 LKR. Mn	2022 LKR. Mn
Revenue								
Sales to external customers	365,171.77	12,542.85	(8,244.58)	369,470.04	132,936.23	3,898.95	(2,533.82)	134,301.36
Results								
Profit / (Loss) After Tax	(73,621.53)	4,697.21	(2,382.34)	(71,306.66)	(166,369.68)	2,802.68	(16.08)	(163,583.08)
Other Segment Information								
Assets	199,454.76	19,536.99	(7,815.34)	211,176.41	178,144.17	13,495.56	(9,376.43)	182,263.33
Liabilities	708,629.64	4,750.01	(7,773.25)	705,606.40	615,181.10	2,840.49	(9,334.39)	608,687.18
Acquisition of Property, Plant and Equipment	1,248.23	61.10	-	1,309.33	348.78	125.44	-	474.22
Acquisition of Intangible Assets	81.00	2.43	-	83.43	23.56	0.46	-	24.02

20. REVENUE AND SEGMENT INFORMATION (CONTD.)

(b) Secondary Reporting by Business Segment contd.

Secondary Reporting by Business Segment	Business Segment				Business Segment			
	Airline	Flight Catering	Inter-segment eliminations	Group	Airline	Flight Catering	Inter-segment eliminations	Group
	2023 LKR. Mn	2023 LKR. Mn	2023 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn	2022 LKR. Mn	2022 LKR. Mn	2022 LKR. Mn
Depreciation and Amortisation	14,685.12	468.34	-	15,153.46	14,188.27	467.32	-	14,655.59
Finance Cost	51,394.83	88.01	-	51,482.84	22,813.07	90.83	-	22,903.90
Exchange loss on Interest Bearing Liabilities	38,273.72	105.33	-	38,379.05	107,621.19	259.53	-	107,880.72
Finance Income	1,220.87	72.71	-	1,293.58	639.25	24.92	-	664.17
Tax Expense / (Reversal)	357.34	1,003.62	-	1,360.96	-	425.69	-	425.69
Operating Expenses excluding exchange loss	330,568.53	7,532.53	(8,244.54)	329,856.52	132,397.86	3,426.44	(2,602.20)	133,222.10
Inventory written off	20.63	-	-	20.63	29.67	-	-	29.67

21. OTHER INCOME AND GAINS

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Profit on Disposal of Property, Plant and Equipment	5.05	9.47	5.05	10.86
Miscellaneous Income	3,752.99	603.93	3,752.99	688.10
Dividends from SriLankan Catering Ltd.	-	-	2,382.30	-
	3,758.04	613.40	6,140.34	698.96

Notes to the Financial Statements contd.

22. OPERATING PROFIT/(LOSS)

Stated after charging:	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Aircraft Insurance	1,225.45	619.04	1,225.45	619.04
Franchise Fees	892.99	355.44	892.99	355.44
Allowance for Slow Moving Inventory	408.17	349.35	362.11	405.29
Auditors' Remuneration				
- Other Services	-	0.39	-	-
- Audit	8.58	8.58	7.43	7.43
Provision for Impairment of Receivables	205.94	125.63	190.13	88.38

23. NET FINANCE COST

23.1 Finance Income

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Interest Income from Treasury Bonds	-	298.72	-	298.72
Interest Income Other	1,293.58	365.45	1,220.87	340.53
	1,293.58	664.17	1,220.87	639.25

23.2 Finance Cost

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Interest on Loans and International Bond	32,330.48	11,227.12	32,330.48	11,227.08
Loss on disposal of Treasury Bonds	-	682.41	-	682.41
Interest Cost Bank Overdrafts and Overdue Supplier Balances	5,679.35	2,052.33	5,679.35	2,052.33
Finance Charges on Lease Liabilities	12,869.17	8,676.48	12,781.16	8,585.69
Unwinding effect of Return cost	603.84	265.56	603.84	265.56
	51,482.84	22,903.90	51,394.83	22,813.07

23.3 Exchange Loss on Interest Bearing Liabilities

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Exchange loss on Loans / International Bond	12,882.68	41,097.49	12,882.68	41,097.49
Exchange loss Lease Liabilities	25,496.37	66,783.23	25,391.04	66,523.70
	38,379.05	107,880.72	38,273.72	107,621.19
Net Finance Cost	88,568.31	130,120.45	88,447.68	129,795.01

24. TAXATION

Tax Expense	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
The major components of income tax expense are as follows:				
Current income tax				
Current tax expense on ordinary activities for the year (Note 25.1)	1,260.49	87.71	357.34	-
Deferred tax expense	100.47	337.98	-	-
	1,360.96	425.69	357.34	-

24.1 Reconciliation between Current Tax Expense and the product of Accounting Loss

	Group		Company	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Accounting Loss before Tax	(69,945.70)	(163,157.39)	(73,264.19)	(166,369.68)
Less: (Profit)/ Loss exempt from income tax	-	591.94	-	-
Profit / (Loss) liable for income tax	(69,945.70)	(162,565.45)	(73,264.19)	(166,369.68)
Non deductible expenses	105,765.20	85,454.15	105,645.71	87,920.46
Tax Losses incurred	35,819.50	(77,111.30)	32,381.52	(78,449.22)
Taxable Profit arising from the company	2,382.30		2,382.30	
Taxable Profit arising from the subsidiary	5,820.33	641.67	-	-
Less: Losses set off	-	(56.93)		
	5,820.33	584.74	2,382.30	
Income tax liability at 15%	1,221.82	87.71	357.35	-
Income tax liability at 24%	17.19			
Income tax liability at 30%	21.49			
Current Income Tax Expense	1,260.50	87.71	357.35	-

24.2 Deferred Tax Liability- Subsidiary

	2023 LKR. Mn	2022 LKR. Mn
Balance at the beginning of the year	431.98	84.81
Charged to profit & loss	100.47	337.98
Charged to the other comprehensive income	778.68	9.19
Balance at the end of the year	1,311.13	431.98

Notes to the Financial Statements contd.

24. TAXATION (CONTD.)

24.2 Deferred Tax Liability- Subsidiary contd.

Deferred Tax Relates to the Following:		Recognised in profit or loss		Recognised in OCI
Deferred Tax Liability Arising on:	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Property, Plant and Equipment	52.68	60.85	(8.17)	-
Revaluation of Property, Plant and Equipment	966.05	181.90	-	784.15
Intangible Assets	1.15	1.60	(0.45)	-
ROU Asset	26.54	40.36	(13.82)	-
Unrealised exchange gain	595.31	420.70	174.61	-
	1,641.73	705.41		
Deferred Tax Assets Arising on:				
Gratuity	(199.27)	(90.28)	(107.14)	(1.85)
leave encashment liability	(13.63)	(4.97)	(5.04)	(3.62)
Allowance for obsolete and slow-moving inventory	(19.37)	(11.67)	(7.70)	-
Provision for trade debtors	(8.84)	(7.82)	(1.02)	-
Lease Liability	(89.48)	(158.67)	69.19	-
	(330.59)	(273.41)	-	-
Net deferred tax liability	1,311.14	432.00		
Net deferred tax expense			100.47	778.68

Deferred tax liability has been calculated based on the future tax rates applicable to each segment. According to the BOI agreement for Flight Kitchen, Transit Restaurants, Transit Hotel, and airline laundry are liable at a concessionary rate of 15% until 31 May 2029, and other income at 30% which is the tax rate effective from 01 October 2022 as per the Inland Revenue Act No 24 of 2017. The impact on deferred tax of income tax rate change is Rs. 54.38 Mn.

24. TAXATION (CONTD..)

24.2 Deferred Tax Liability - Company

Deferred Tax Liability Arising on:	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn
Property, Plant & Equipment	(677.32)	(325.88)	351.44
Revaluation of Land - Colombo	(205.38)	(147.15)	58.23
Revaluation of Buildings	(1,549.27)	(600.65)	948.62
Net Right of Use Assets and Liabilities	42,843.10	50,560.72	7,717.62
Retirement Benefit Obligation	2,191.06	1,454.72	(736.34)
Provision for Slow Moving Stocks	994.90	713.96	(280.94)
Provision for Impairment of Receivables	682.49	212.13	(470.36)
Provision for Aircraft Maintenance and Overhaul Cost	21,279.27	12,252.59	(9,026.68)
Aircraft Return Cost	2,963.06	2,126.47	(836.59)
	68,521.91	66,246.91	(2,275.00)

Company

The rate of tax used is 30% (2022 - 24%) 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. A net deferred tax asset amounting to LKR 68,521.91 Mn as at 31 March 2023 was not recognised in the financial statements as it is not probable that the future taxable profits will be adequate to utilise the available deferred tax assets in the foreseeable future.

Deferred tax asset is not computed on tax losses carried forward at the reporting date amounting to LKR 213,626.78 Mn (2022-LKR 181,245.26).

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	
	2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Authorised and contracted but not provided for				
Tangible	426.52	273.35	426.52	273.35
Intangible	558.78	1.71	558.78	1.71
	985.30	275.06	985.30	275.06
Authorised but not contracted for				
Tangible	1,047.28	1,335.42	1,047.28	1,335.42
Intangible	143.51	922.36	143.51	922.36
	1,190.79	2,257.78	1,190.79	2,257.78
	2,176.09	2,532.84	2,176.09	2,532.84

Notes to the Financial Statements contd.

25. COMMITMENTS AND CONTINGENCIES (CONTD.)

25.2 Contingencies

Company

The Contingent liabilities are based on claims made of LKR. 16,322.03. Mn as at 31 March 2023 (2022: LKR. 6,259.66 Mn). The Contingent Liability includes claims made by several suppliers of aircraft parts and engines as a result of cancellation of aircraft lease agreements and purchase contracts amounting to LKR 11,412.09 Mn (USD 34.84 Mn), a penalty levied by an overseas tax authority pertaining to payment of airport taxes amounting to LKR 480.28 Mn, Service Tax disputes with an overseas tax authority amounting to LKR 2,443.67 Mn and employee related claims of LKR 1,985.99 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.

Subsidiary

In the opinion of the Company's lawyers , there are no pending litigations against the Company, other than the several pending Labour tribunal cases that will have an impact on the reported financial results of the future operations of the Company. A sum of LKR 3.74 Mn has been deposited for these cases.

26. ASSETS PLEDGED

Group / Company

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

27. EVENTS OCCURRING AFTER THE REPORTING DATE

Group/ Company

- a) As disclosed in Note 15.2, the repayment dates of short-term facilities totalling LKR 29,273 Mn which have fallen due before the approval for release of these financial statements, have been extended subsequent to the reporting date along with the related treasury guarantees and comfort letters issued by the GOSL.
- b) The Company did not service the coupon interest payment of the International Bond which fell due in June 2023. The Company plans to engage with the bondholders, to find a balanced and equitable solution going forward in line with the government debt restructuring initiatives. Refer Note 15.1
- c) Company has obtained required approval to extend the lease term of three narrow body Aircraft and enter in to new lease agreements for two narrow body Aircraft. Two agreements have been already signed and the remainder is in the final stage.

28. RELATED PARTY DISCLOSURES

28.1 Group & 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 controlling the activities of the Company and its Subsidiary. Such KMPs include the Board of Directors, Chief Executive Officer and Other Senior Management Executives of the Group who meet the criteria described above.

In line with the Group/ Company policy which stipulate that any transaction between the Group 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.

(a) The significant transactions carried out by the KMP in the ordinary course of business during the reporting period are as follows;

	2023 LKR. Mn	2022 LKR. Mn
Short Term Benefits	306.07	208.62
Post-employment Benefits	45.41	35.66
Termination Benefits	-	4.96

No privilege and other firm air tickets were provided to directors during the year. Key Management Personnel and their spouses and dependent children are also entitled for free of charge air tickets on seat availability basis.

(b) KMPs of the Group holds positions in other companies, which had trading transactions with the Group during the year and which are identified below;

- ▶ Mr. Ashoka Pathirage, Chairman of the Group serves in Softlogic Holding PLC and its Subsidiaries, Asiri Hospital Holding PLC and its Subsidiaries and Odel PLC and its Subsidiaries in the capacity of Chairman / Managing Director/ Director respectively. During the year Group had transactions LKR 27.62 Mn with Asiri Hospital Holding PLC and the balance outstanding as at 31 March 2023 was LKR 0.01 Mn, LKR 0.03 Mn with Softlogic Holdings PLC and the balance outstanding as at 31 March 2023 was LKR 0.38 Mn. (2022 -Group had transactions LKR 32.5 Mn with related companies).
- ▶ Dr. Shridhir Sariputta Hansa Wijayasuriya a Director of the Company also serves as a Director in Dialog Axiata PLC. During the year Group had LKR 3.72 Mn transactions with Dialog Axiata PLC and the balance receivable as at 31 March 2023 was LKR 1.24 Mn. (2022 - Group had transactions amounting to LKR 4.56 Mn with related Companies).
- ▶ Mr. Jayanth Perera, a director of the Company also serves the Board of Mclarens Group of Companies. During the year, Group had transactions LKR 3.46 Mn with Mclarens Group of Companies and the outstanding balance as at 31 March 2023 was LKR 0.08 Mn. (2022 - Group had transactions amounting to LKR 0.87Mn with related Companies).

Notes to the Financial Statements contd.

28. RELATED PARTY DISCLOSURES (CONTD.)

28.1 Group & Company (Contd.)

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 collectively 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		Receivable/ (Payable) Balance	
			2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
Ceylon Petroleum Corporation	Government owned	Fuel	(59,578.74)	(23,338.20)		
		Finance Cost on Overdue Payments	(11,739.36)	(3,523.04)	(101,414.20)	(87,050.40)
Airport and Aviation Services Ltd.	Government owned	Landing, Aero Bridge, Lounge, Rent, Franchise fees & Garbage Incineration charges, etc	(6,453.84)	(2,971.90)	(2,093.81)	(2,231.21)
Civil Aviation Authority	Government controlled	Licenses, permits and Levies	(25,186.50)	(4,657.97)	(5,444.54)	(1,607.33)
Mihin Lanka (Pvt) Ltd	Government owned	Warehouse Rent	0.58	0.58	1,167.36	1,102.36
Sri Lanka Insurance Corporation	Government owned	Insurance Services	(1,363.83)	(706.57)	-	-
Bank of Ceylon	Government owned	Loan	-	200.75	(47,265.00)	(45,077.51)
		Short term Deposits	-	-	2,073.56	2,443.58
		Bank Overdraft	-	-	(18,408.22)	(17,129.68)
		Interest	(9,594.47)	(3,490.51)	-	-
Peoples Bank	Government owned	Loan	-	-	(50,579.60)	(47,479.28)
		Short term Deposits	-	-	3.49	4.08
		Bank Overdraft	-	-	(1,244.90)	(4,394.01)
		Interest	(9,418.42)	(2,871.61)	-	-

As of the Reporting date the Company has utilised Bank Guarantee facility of LKR 3,007.46 Mn (2022 - LKR 2,952.47 Mn) from Bank of Ceylon.

Refer note 15.2 for details of government guarantees and letters of comfort provided on behalf of the company.

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.

As at the Reporting date provision for impairment relating to related parties amounted to LKR 1,284.43 Mn and LKR 1,183.97 Mn for Group and Company respectively. (2022- LKR 1,230.35 Mn for Group and LKR 1,129.89 Mn for Company).

Limited disclosures have been made applying the exemption available in LKAS 24 - 'Related Party Disclosures' for transactions with all government controlled/ related entities.

28. RELATED PARTY DISCLOSURES (Contd.)

28.3 Company

Significant Transactions including the following collectively 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	
			2023 LKR. Mn	2022 LKR. Mn	2023 LKR. Mn	2022 LKR. Mn
SriLankan Catering Limited	Subsidiary	Freight Services	277.19	94.09		
		Flight Catering and Other Services	(13,138.86)	(2,439.73)	(9,843.31)	(9,334.39)
		Dividend	2,382.30	-		
Ceylon Petroleum Corporation	Government owned	Fuel	(59,200.78)	(23,266.45)		
		Finance Cost on Overdue Payments	(11,739.36)	(3,523.04)	(101,414.20)	(87,050.40)
Airport and Aviation Services Ltd.	Government owned	Landing, Aero Bridge, Lounge, Rent, Franchise fees & Garbage Incineration charges	(5,527.85)	(2,793.54)	(2,237.53)	(2,231.21)
Civil Aviation Authority	Government controlled	Licences, permits and Levies	(25,186.50)	(4,657.97)	(5,444.54)	(1,607.33)
Mihin Lanka (Pvt) Ltd	Government owned	Warehouse Rent	0.58	0.58	1,055.53	1,001.90
Sri Lanka Insurance Corporation	Government owned	Insurance Services	(1,363.83)	(706.57)	-	-
Bank of Ceylon	Government owned	Loan	-	200.75	(47,265.00)	(45,077.51)
		Short term Deposits	-	-	2,073.56	2,443.58
		Interest	(9,594.47)	(3,490.51)	-	-
		Bank Overdraft	-	-	(18,408.22)	(17,129.68)
Peoples Bank	Government owned	Loan	-	-	(50,579.60)	(47,479.28)
		Short term Deposits	-	-	3.49	4.08
		Interest	(9,418.42)	(2,871.61)	-	-
		Bank Overdraft	-	-	(1,244.90)	(4,394.01)

As of the Reporting date the Company has utilised Bank Guarantee facility of LKR 2,987.92 Mn (2022 - LKR 2,952.47 Mn) from Bank of Ceylon.

Refer note 15.2 for details of government guarantees and letters of comfort provided on behalf of the company.

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.

As at the Reporting date provision for impairment relating to related parties amounted to LKR 1,183.97 Mn . (2022- LKR 1,129.89 Mn)

Limited disclosures have been made applying the exemption available in LKAS 24 - 'Related Party Disclosures' for transactions with all government controlled/ related entities.

Notes to the Financial Statements contd.

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 of trade and other receivables and cash and short-term deposits that are derived directly from its operations.

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

- (i) Market Risk
 - Interest rate risk
 - Currency risk
- (ii) Liquidity risk
- (iii) Credit Risk

The 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 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			
	2023		2022	
	Group LKR. Mn	Company LKR. Mn	Group LKR. Mn	Company LKR. Mn
Increase/(Decrease) in Interest Rate				
+5%	5,455.20	5,455.20	4,759.61	4,759.61
-5%	(5,455.20)	(5,455.20)	(4,759.61)	(4,759.61)
*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.

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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

	Effect on Loss before Tax			
	2023		2022	
	Group LKR. Mn	Company LKR. Mn	Group LKR. Mn	Company LKR. Mn
Appreciation/(Depreciation) of USD against LKR				
+10%	52,641.01	52,120.25	50,118.25	50,103.77
-10%	(52,641.01)	(52,120.25)	(50,118.25)	(50,103.77)
* Appreciation of USD results in an increase in losses.				

USD denominated assets and liabilities were converted to Sri Lankan Rupees at the exchange rate of LKR. 327.2857(2022 LKR. 294) as at 31 March 2023.

(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, supplier financing, 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.

2023	Undiscounted Contractual Cash Flows						Carrying Value LKR. Mn
	On demand	Less than three months	3 to 12 Months	2 to 5 year	More than 5 years	Total	
	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	
Group							
Interest Bearing Liabilities	19,653.12	29,273.93	125,777.64	-	-	174,704.69	174,704.69
Lease Liability	30,462.69	10,383.28	29,052.54	157,224.66	22,759.62	249,882.79	214,032.53
Aircraft Maintenance and Overhaul Cost	-	-	27,131.51	43,799.39	-	70,930.90	70,930.90
Return Cost Liability	-	-	4,128.83	5,748.03	-	9,876.86	9,876.86
Trade and Other Payables	-	164,549.80	-	-	-	164,549.80	164,549.80
	50,115.81	204,207.01	186,090.52	206,772.08	22,759.62	669,945.04	634,094.78
Company							
Interest Bearing Liabilities	19,653.12	29,273.93	125,777.64	-	-	174,704.69	174,704.69
Lease Liability	30,462.69	10,383.28	28,880.24	156,495.46	22,759.62	248,981.29	213,131.03
Aircraft Maintenance and Overhaul Cost	16,603.69	3,092.27	6,668.53	35,099.77	9,466.64	70,930.90	70,930.90
Return Cost Liability	1,949.35	1,949.35	1,949.35	1,949.35	1,949.35	9,746.74	9,876.86
Trade and Other Payables	-	170,848.07	-	-	-	170,848.07	170,848.07
	68,668.85	215,546.90	163,275.76	193,544.58	34,175.61	675,211.69	639,491.55

Notes to the Financial Statements contd.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(ii) Liquidity Risk

2022	Undiscounted Contractual Cash Flows					Total	Carrying Value
	On demand	Less than three months	3 to 12 Months	2 to 5 year	More than 5 years		
	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn	LKR. Mn		
Group							
Interest Bearing Liabilities	21,523.70	33,038.27	65,847.47	56,852.25	-	177,261.69	168,134.95
Lease Liability	0.17	10,768.36	32,305.09	155,528.06	40,776.09	239,377.77	211,727.51
Aircraft Maintenance and Overhaul Cost	5,424.85	4,039.89	12,046.30	25,758.16	3,783.27	51,052.47	51,052.45
Return Cost Liability	355.76	-	1,795.08	2,405.84	4,303.62	8,860.30	8,860.30
Trade and Other Payables	-	127,379.17	-	-	-	127,379.17	127,379.17
	27,304.48	175,225.69	111,993.94	240,544.31	48,862.98	603,931.40	567,154.38
Company							
Interest Bearing Liabilities	21,523.70	33,038.27	65,847.47	56,852.25	-	177,261.69	168,134.95
Lease Liability	0.17	10,725.38	32,176.14	154,977.44	40,440.83	238,319.96	210,669.68
Aircraft Maintenance and Overhaul Cost	5,424.85	4,039.89	12,046.30	25,758.16	3,783.27	51,052.47	51,052.45
Return Cost Liability	355.76	0.00	1,795.08	2,405.84	4,303.62	8,860.30	8,860.30
Trade and Other Payables	-	136,407.84	-	-	-	136,407.84	136,407.84
	27,304.48	184,211.38	111,864.99	239,993.69	48,527.72	611,902.26	575,125.22

(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, security deposits and other mechanisms.

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

Capital Management

Based on the factors more fully described in Note 2.1.1 to these Financial Statements, the Government of Sri Lanka has demonstrated its commitment to support the Group by way of Providing sovereign guarantees/letters of comfort for debt financing together with proposed Capital Infusion and restructuring of debt.

Glossary

Available Seat Kilometres (ASK)

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

Available Tonne Kilometres (ATK)

This is the measure of transport production.

The ATK produced by a flight is 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 loads 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 costs from airline operations excluding finance charges 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 from scheduled and non-scheduled services.

Ten Year Review

		2014	2015	2016	2017
INCOME STATEMENT					
Revenue	LKR Mn	121,585.83	131,922.13	129,480.41	135,491.19
Operating Expenditure	LKR Mn	150,389.46	145,983.35	137,311.44	146,760.80
Net Profit/(Loss)	LKR Mn	(32,408.34)	(16,494.66)	(12,621.69)	(28,929.99)
BALANCE SHEET					
Share Capital / Stated Capital	LKR Mn	51,617.44	51,617.44	51,617.44	51,617.44
Non Current Assets	LKR Mn	25,212.47	22,836.77	23,548.01	24,660.56
Current Assets	LKR Mn	37,154.23	49,721.49	26,901.02	26,973.07
Total Assets	LKR Mn	62,366.70	72,558.26	50,449.03	51,633.63
Current Liabilities	LKR Mn	88,609.07	103,414.31	100,334.44	126,302.55
YIELD/UNIT COST					
Overall Yield	LKR. tkm	77.26	80.32	79.06	80.08
Unit Cost (exc. Finance cost)	LKR. tkm	65.00	62.00	58.72	61.61
Revenue per RPK	LKR/RPK	7.8	8.2	8.2	8.4
PRODUCTION					
Passenger Capacity	ASK Mn	15,780.54	16,180.27	15,790.28	15,608.10
Overall Capacity	ATK Mn	2,187.18	2,224.87	2,165.21	2,167.92
TRAFFIC					
Passengers carried	Nos. Thousands	4,175	4,348	4,328	4,446
Passengers carried	RPK Mn	12,810.95	12,963.71	12,727.66	12,455.05
Passenger Load Factor	%	81.18	80.12	80.60	79.80
Cargo carried	Tonnes	94,410	101,878	102,082	116,221
Cargo Load carried	RTK Mn	355.59	373.32	356.76	374.46
Overall Load carried	RTK Mn	1,466.74	1,519.93	1,484.77	1,475.29
Overall Load Factor	%	67.06	68.32	68.57	68.05
STAFF					
Average strength	Nos.	6,578	6,987	6,959	7,021
Revenue per employee	Rs.	18,483,708	18,881,084	18,606,181	19,297,991
Capacity per employee	Tonne-km	332,499	318,430	311,139	308,776
Load carried per employee	Tonne-km	222,976	217,537	213,359	210,126
FLEET					
Narrow body	Nos.	8	8	8	11
Wide body	Nos.	13	13	13	13
Aircraft in service at year end	Nos.	21	21	21	24
Aircraft Utilisation	Blk. Hrs. per day	12.76	12.90	12.02	12.44

	2018	2019	2020	2021	2022	2023
	161,433.87	180,340.32	180,151.02	50,693.85	132,936.23	365,171.77
	175,883.85	206,344.66	190,321.69	81,405.99	170,209.86	330,568.53
	(17,213.57)	(44,022.67)	(47,197.86)	(45,231.46)	(166,369.68)	(73,621.53)
	51,617.44	51,617.44	51,617.44	79,352.43	96,360.67	96,360.67
	37,476.46	36,596.59	150,013.50	122,471.42	122,685.53	132,772.81
	30,090.50	40,742.41	31,176.10	31,909.99	55,458.64	66,681.95
	67,566.96	77,338.99	181,189.60	154,381.41	178,144.17	199,454.76
	130,358.61	227,081.67	242,821.23	253,218.98	358,161.14	498,306.50
	84.24	91.32	99.03	146.86	147.06	253.97
	65.74	74.31	74.22	105.23	89.02	163.87
	8.6	9.4	10.2	21.8	15.0	24.4
	18,487.54	18,925.40	18,041.41	3,816.40	10,144.12	15,188.00
	2,549.88	2,577.53	2,454.30	794.52	1,531.28	2,044.45
	5,839	5,663	5,256	167	1,468	3,484
	15,280.78	15,689.19	14,547.97	748.13	4,968.59	11,793.72
	82.65	82.90	80.64	19.60	48.98	77.65
	132,958	125,753	113,971	56,406	97,695	80,827
	401.66	408.71	363.31	244.93	400.16	294.56
	1,749.14	1,806.58	1,664.49	312.26	847.33	1,355.99
	68.60	70.09	67.82	39.30	55.33	66.33
	7,019	6,794	6,693	5,965	5,833	5,440
	22,999,555	26,544,057	26,916,333	8,498,550	22,790,370	67,127,164
	363,283	379,383	366,697	133,196	262,520	375,819
	249,201	265,908	248,691	52,349	145,265	249,263
	13	13	13	12	12	12
	13	14	12	12	12	11
	26	27	25	24	24	23
	13.25	12.60	12.18	2.98	7.21	10.14

Route Map

SriLankan Airlines now serves 111 destinations in 56 countries in Europe, the Middle East, South Asia, South East Asia, the Far East, Australia and North America



- Direct Flights
- Code Share Flights

* The number of destinations is subject to change without prior notice.



Destinations in 56 Countries

SriLankan Airlines brings more of the world to you



Milestones

2011/2012

The Company took delivery of four Airbus A320 aircraft, two Airbus A330 wide-body aircraft and one Airbus A340 wide-body aircraft under an operating lease agreement.

The Cabinet approved an equity investment of USD 500 Mn by the GoSL in order to recapitalise the Airline.



2012/2013

Commissioning of First Flight A320 Simulator in Sri Lanka for training of Airbus A320 pilots.

The Company took delivery of one Airbus A320 aircraft under an operating lease agreement.

Commencing international flights from Mattala 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.



2013/2014

Commissioning of Flight Simulator for Airbus A330 pilot training. In December 2013, the Company cutover the passenger services system to Amadeus Altea.

In March 2014, the Company entered into financing arrangement with a syndicate of banks to secure a USD 150 Mn. medium-term loan.

2015/2016

The Airline was shortlisted for four prestigious titles: Best in the 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.



2014/2015

The Company entered into oneworld alliances 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.



2016/2017

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 Services 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.



2017/2018

The Company took the delivery of three brand new airbuses A321-200neo aircraft in June 2017, October 2017 and December 2017 accordingly as part of the aircraft fleet.

SriLankan, launched services to four new destinations- Melbourne, Hyderabad, Coimbatore and Visakhapatnam.

The airline received a four star rating of excellence from airline passenger experiences association (APEX) and at Future Travel Experiences Award 2017- Singapore. The Airline walked away with an award for outstanding services for the third consecutive year. The Company also won the “Innovation in commercial airlines cabins” award at the In-flight Asia Pacific Awards in Singapore -2017.

2019/2020

SriLankan Airlines celebrated 40 years of service in September 2019. National Carrier received the global 'Best Marketing Innovation' award from the Airline Passenger Experience Association (APEX). SriLankan also secured a Four-Star rating in the major airlines' category for the 3rd consecutive year.

SriLankan Airlines won PATA Gold award for 'Two Cities, One Spirit' campaign and another three awards in Golden City Gate awards, ITB Berlin 2019.

The Company received the First Star awards in 3 categories ("Airline International", "Music International" and "Campaign") at Golden City Gate Awards ITB - Berlin 2020.

SriLankan Airlines won the prestigious 'World's Leading Airline' and 'Asia's Leading Airline to the Indian Ocean' title at World Travel Awards Asia & Oceania.

2018/2019

The Company took delivery of another brand new Airbus A321neo aircraft in July 2018, which completed the induction of the Neo fleet.

SriLankan Airlines became the world's most punctual airline in the month of September 2018 in the key categories of 'Global Airlines' and 'Major Airlines', rated by the flight data analysis company Flightstats.com.

SriLankan Airlines maintained the Airline Passenger Experiences Association (APEX) four star rating for the second consecutive year and also received several prestigious international awards. These include the World's Leading Airline to the Indian Ocean for the third consecutive year and three Golden City Gate Awards at ITB Berlin.

2020/21

Awarded the Platinum Standard status by APEX Health Safety for passenger safety and wellbeing during air travel, post-COVID.

Awarded "Four Star rating for Major Official Airline" for 2021 by The Airline Passenger Experience Association (APEX), at the Future Travel Experience (FTE) Virtual Expo Award ceremony.

Cargo flights were incorporated into the schedule for the very first time, in order to support SriLankan exporters during the global pandemic and with a view to find alternative revenue streams in the face of declining passenger travel.

Operated special passenger flights in order to repatriate Sri Lankans stranded overseas due to border closures arising from the pandemic and special cargo flights were operated to help with the transport of urgent medical supplies.

2021/22

Awarded the Diamond Status- APEX Health and Safety Audit powered by Simplyflying 2021 and "Best in managing health at work" Asian Leadership Awards 2021 for passenger safety and wellbeing during air travel, post-Covid.

SriLankan Airlines won the prestigious World's Leading Airline to the Indian Ocean and Asia's Leading Airline to the Indian Ocean at the World Travel Awards 2021 for the consolidated presence in the South Asian region as well as the Marketing Carrier- PATA Gold Awards 2021 for the campaign, 'Say Bonjour to Paris'.

2022/23

Awarded the APEX Passenger Choice Award - Best Food & Beverage and Best Seat Comfort, in Central/Southern Asia at APEX Asia EXPO, Singapore, 2023.

Won the Best Aviation Sustainability Program Award at the Sheikh Mohammed Bin Rashid Al Maktoum (SMBR) Global Aviation Awards, 2022.

Secured the Gold Award - "Marketing - Carrier", at the Pacific Asia Travel Association (PATA) Gold Awards, 2022.

Recognised as the Airline of the Year - Visitors' Choice, at the South Asian Travel Awards (SATA), 2022.

Awarded the World's Leading Airline to the Indian Ocean at the World Travel Awards, 2022.

Corporate Information

Name of the Company

SriLankan Airlines Limited

Company Registration Number

PB 67

Legal Form

Limited Liability Company

Board of Directors

Mr. Asoka Pathirage (Chairman)

Mr. Malik J. Fernando

Dr. Shridhir Sariputta Hansa Wijayasuriya

Mr. Joseph Micheal Jayanth Perera

Mr. Ananda Wijetilaka Atukorala

Mr. A.K.D.D.D. Arandara/Treasury Representative

Mr. A.M.A.A. Lakmal Ratnayake

Mr. D.D. Shiran Chaminda Dammage

Mr. Sanjaya Mohottala (Resigned w.e.f. 29th April 2022)

Mr. Manohara Ratnavibhushana De Silva PC (Resigned w.e.f. 18th August 2022)

Mr. Samantha Ratwatte PC (Resigned w.e.f. 18th August 2022)

Mr. Weerasinghe Achchige Sarath Kumara - (Appointed w.e.f. 18th August 2022/
Resigned w.e.f. 3rd February 2023)

Audit Committee

Mr. D.D. Shiran Chaminda Dammage (Chairman)

Mr. Joseph Micheal Jayanth Perera

Mr. Malik J. Fernando

Dr. Shridhir Sariputta Hansa Wijayasuriya

Mr. A.K.D.D.D. Arandara

Board Human Resource and Remuneration Committee

Mr. Malik J. Fernando (Chairman)

Dr. Shridhir Sariputta Hansa Wijayasuriya

Mr. Joseph Jayanth Michael Perera

Mr. A.M.A.A. Lakmal Ratnayake

Mr. A.K.D.D.D. Arandara

Board Group Risk Committee

Mr. Joseph Micheal Jayanth Perera (Chairman)

Mr. Malik J. Fernando

Dr. Shridhir Sariputta Hansa Wijayasuriya

Mr. Ananda Wijetilaka Atukorala (Observer)

Mr. A.K.D.D.D. Arandara

Mr. D.D. Shiran Chaminda Dammage

Company Secretary/ Group Head of Corporate Secretarial Services

Mrs. Dalrene Thirukumar (ACG)

Bankers

Bank of Ceylon

People's Bank

Standard Chartered Bank

Citibank

Sampath Bank

Nations Trust Bank

Hatton National Bank

Commercial Bank of Ceylon

Cargills Bank

Auditors

Auditor General

National Audit Office

306/72

Polduwa Road

Battaramulla

Registered Office

SriLankan Airlines Limited

Airline Centre

Bandaranaik International Airport

Katunayake

Sri Lanka

Corporate Website

www.srilankan.com

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Forty Fifth Annual General Meeting of SriLankan Airlines Limited will be held on Thursday, 30th November 2023 at 3.00 p.m. at the 'Cinema Lounge' Bandaranaike Memorial International Conference Hall (BMICH), Bauddhaloka Mawatha, Colombo 7, Sri Lanka, for the following purposes:

1. To consider the Annual Report of the Board of Directors and the Financial Statements for the year ended 31 March 2023 together with the Report of the Auditors thereon.

2. To re-appoint Mr. A.W. Atukorala as a Director of the Company who is over seventy years of age and to consider and if deemed fit to pass the following Ordinary 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. A.W. Atukorala, who is 74 years of age and that he be re-appointed as a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year."

3. To re-appoint Mr. J.M. Jayanth Perera as a Director of the Company who is over seventy years of age and to consider and if deemed fit to pass the following Ordinary 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. Jayanth Perera who is 70 years of age and that he be re-appointed as a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year."

The Auditor General shall audit the Organisation in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

The Annual Report of SriLankan Airlines for 2022/23, is available on the

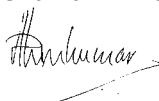
- (i) Corporate website – https://www.srilankan.com/en_uk/corporate/annual-reports
- (ii) Shareholder Community site - www.srilankan.com/shareholdercommunitysite

Members may also access the Annual Report and Financial Statements on their mobile phones by scanning the following QR code.



This report will only be available in PDF format in terms of the Public Enterprise Circular no. 04/2022 dated 8th August 2022 which requests for all State Owned Enterprises to shift to electronic communication platform and reduce paper usage as much as possible.

By Order of the Board of
Srilankan Airlines Limited



Mrs. Dalrene Thirukumar

Group Head of Corporate Secretarial Services/Company Secretary

23rd October 2023

Katunayake

Notes:

1. A member is entitled to appoint a proxy to attend and vote instead of him/herself.
2. A proxy need not be a Member of the Company.
3. Members are encouraged to vote by Proxy through the appointment of a member of the Board of Directors to vote on their behalf and to include their voting preferences on the resolutions to be taken up at the Meeting in the Form of Proxy.
4. To be valid, the completed Form of Proxy must be lodged at the Registered Office of the Company not later than 48 hours before the meeting.
5. A person representing a Corporate Body is required to carry a certified copy of its Board Resolution authorising him/her to act as the representative of that Corporation.
6. In the event the Company is required to take any action in relation to the Annual General Meeting due to any communications, guidelines, directives or orders issued by the Government of Sri Lanka, Notice of such action shall be given by way of publication on the Company website- www.srilankan.com/AGM, Shareholder Community site www.srilankan.com/shareholdercommunitysite and the National Newspapers.

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. Asoka Pathirage
- Mr. Malik J. Fernando
- Dr. Shridhir Sariputta Hansa Wijayasuriya
- Mr. Joseph Jayanth Michael Perera
- Mr. Ananda Wijetilaka Atukorala
- Mr. A.K.D.D.D. Arandara/Treasury Representative
- Mr. A.M.A.A. Lakmal Ratnayake
- Mr. D.D. Shiran Chaminda Dammage

as *my/our proxy to represent *me/us and vote on *my/our behalf at the Forty Fifth Annual General Meeting of SriLankan Airlines Limited to be held on Thursday, 30th November 2023 at 3.00 p.m. at 'Cinema Lounge' Bandaranaike Memorial International Conference Hall (BMICH), Bauddhaloka Mawatha, Colombo 7, Sri Lanka., and at any adjournment thereof.

	For	Against
1. To consider the Annual Report of the Board of Directors and the Financial Statements for the year ended 31 March 2023 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-appoint Mr. A.W. Atukorala who is over seventy years of age as a Director of the Company and who retires in terms of Section 210 of the Companies Act No. 7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint Mr. J.M. Jayanth Perera who is over seventy years of age as a Director of the Company and who retires in terms of Section 210 of the Companies Act No. 7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>

The Auditor General shall audit the Organisation in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Signed this day of.....Two Thousand and Twenty Three.

..... 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:

- 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.
- The completed Form of Proxy must be deposited at the Registered Office, SriLankan Airlines Limited, 'Airline Centre', Bandaranaike International Airport, Katunayake not later than 3.00 p.m. 28th November 2023 being 48 hours before the time appointed for holding of the meeting.
- 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.



www.srilankan.com

Airline Centre,

Bandaranaike International Airport, Katunayake, Sri Lanka.