

reach
across the
world



reach across the world.

SriLankan Airlines was rebranded in July 1999, after privatization and a strategic partnership with Emirates saw massive re-structuring and revitalizing plans come into action. Over the years since then, considerable time and effort has been invested into taking the Airline to its present world class ranking, winning several international aviation awards and a reputation for fine service, reliability and in-flight comfort, comparable with the best in the industry.

Today, SriLankan Airlines offers a streamlined and efficient travel experience. Our high standards of safety, in-flight comfort, fine cuisine and the world-famously friendly service delivery, see a growing number of passengers flying across the world with us.

Intelligent route management is another vital factor in our success story. This year we are proud to announce that through direct flights and code-share combined, we have increased our destinations to fifty one, in twenty eight countries. We also fly to ten destinations in India on a weekly basis, plus fourteen destinations within Sri Lanka... a network that's expanding rapidly to reach every corner of the world.

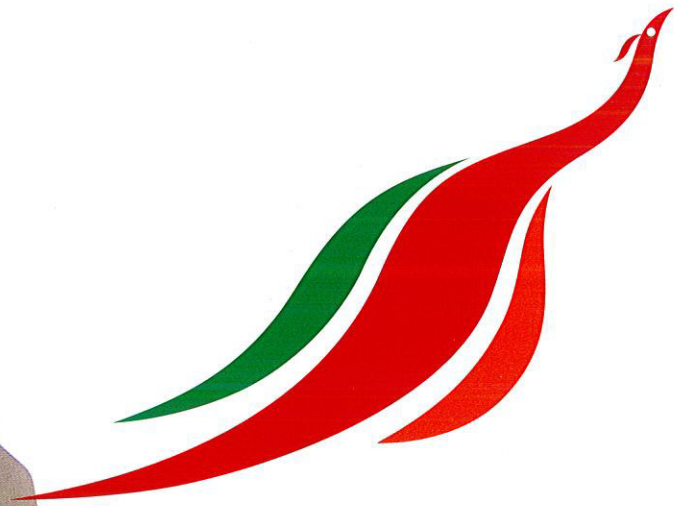
Our Vision

To be the most preferred airline in Asia

Our Mission

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

vision and mission statements



SriLankan

Airlines



reach across the world

comfort

51 destinations

Abu Dhabi	Jeddah
Amsterdam	Karachi
Bahrain	Kochi
Bangalore	Kuala Lumpur
Bangkok	Kuwait
Beijing	Larnaca
Belfast	Leeds
Birmingham	London
Brisbane	Male
Brussels	Manchester
Calicut	Melbourne
Chennai	Mumbai
Colombo	Munich
Dammam	Muscat
Delhi	New York
Doha	Paris
Dubai	Riyadh
Dublin	Singapore
Dusseldorf	Sydney
Edinburgh	Teesside
Frankfurt	Thiruvananthapuram
Glasgow	Tiruchirapally
Goa	Tokyo
Hong Kong	Vienna
Hyderabad	Zurich
Jakarta	

Our Global Presence



95 flights to 10 destinations in India

Chennai . Trichy . Trivandrum . Calicut . Kochi . Mumbai . New Delhi .
Hyderabad . Bangalore . Goa .

reliability

28 countries

Australia	Malaysia
Austria	Maldives
Bahrain	Netherlands
Belgium	Oman
China	Pakistan
Cyprus	Qatar
France	Saudi Arabia
Germany	Singapore
Hong Kong	Sri Lanka
India	Switzerland
Indonesia	Thailand
Ireland	United Arab Emirates
Japan	United Kingdom
Kuwait	United States

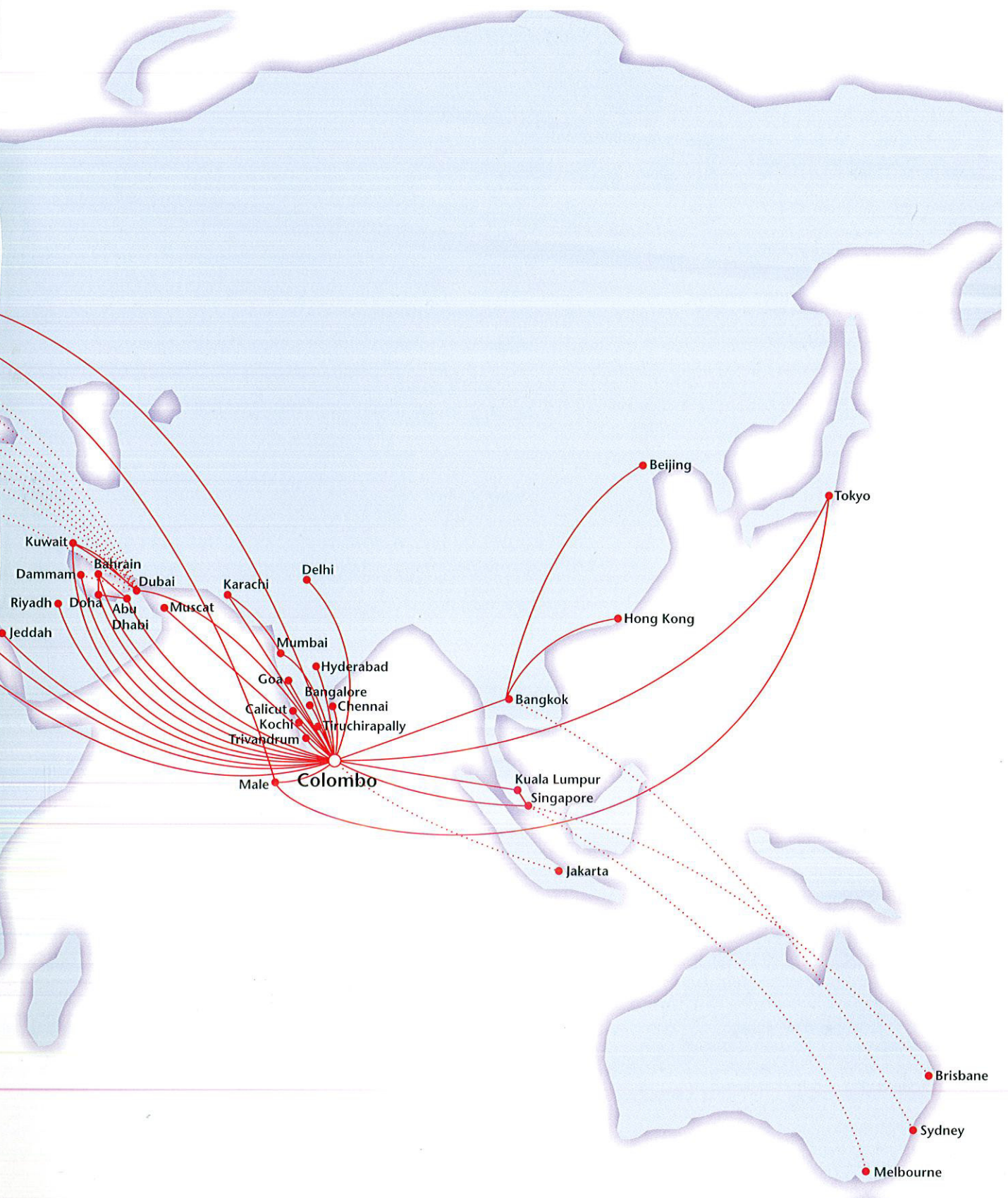
14 domestic destinations

Kandy . Bentota . Nuwara-Eliya . Hingurakgoda . Koggala . Weerawila . Ampara . Katunayake .
Ratmalana . Trincomalee . Sigiriya . Dikwella . Anuradhapura . Katukurunda .

service

our global presence





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corporate information

NAME OF THE COMPANY

SriLankan Airlines Limited

BANKERS

Bank of Ceylon
NDB Bank
Citi Bank N.A
Hong Kong & Shanghai
Banking Corporation
Hatton National Bank
Sampath Bank
Commercial Bank
Deutsche Bank

LEGAL FORM

Public Limited Liability Company
Incorporated in Sri Lanka 1979

COMPANY REGISTRATION NUMBER

PBS 1020

REGISTERED OFFICE

#22-01, East Tower
World Trade Center
Echelon Square
Colombo 1
Sri Lanka

DIRECTORS

D H S Jayawardena - Chairman
S Ukwatte
R A Chandiram
A N Wickremasinghe
T C Clark - Managing Director
G W Chapman
N J Hopkins
P M Hill
(Alternate to T C Clark)
M Flanagan
(Alternate to G W Chapman)
Ghaith Al Ghaith
(Alternate to N J Hopkins)

COMPANY SECRETARY

Mildred Peries

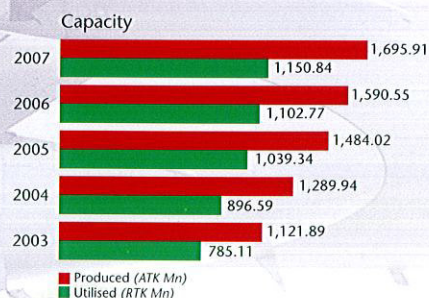
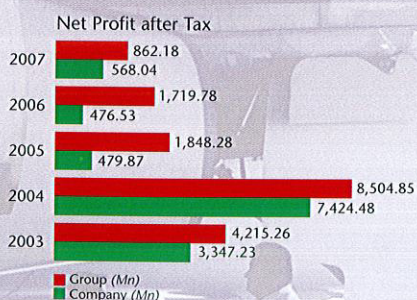
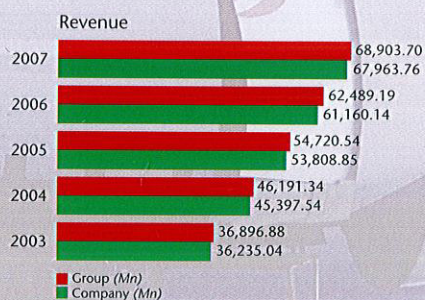
AUDITORS

Ernst & Young
Chartered Accountants
PO Box 101
Colombo 10



financial highlights 2006-2007

Year ended 31 March		Group			Company		
		2007	2006	% Change	2007	2006	% Change
Financial							
Revenue	Rs. Million	68,903.70	62,489.19	10.26	67,963.76	61,160.14	11.12
Operating Expenditure	Rs. Million	69,192.17	60,902.16	13.61	69,403.25	60,720.29	14.30
Profit from Operating Activities Before Tax	Rs. Million	930.06	1,816.39	(48.80)	571.89	512.65	11.56
Net Profit for the Year	Rs. Million	862.18	1,719.78	(49.87)	568.04	476.53	19.20
Total Assets	Rs. Million	41,592.71	41,708.06	(0.28)	37,916.19	38,003.50	(0.23)
Shareholders' Funds	Rs. Million	17,927.65	17,637.27	1.65	11,107.77	11,111.53	(0.03)
Traffic							
Passenger capacity	ASK Millions				12,375.62	11,934.86	3.69
Overall capacity	ATK Millions				1,695.91	1,590.55	6.62
Passengers carried	RPK Millions				9,535.79	9,050.44	5.36
Overall load carried	RTK Millions				1,150.84	1,102.77	4.36
Passenger load factor	%				77.05	75.83	1.22
Overall load factor	%				67.86	69.33	(1.47)
Breakeven load factor	%				72.34	72.03	0.31

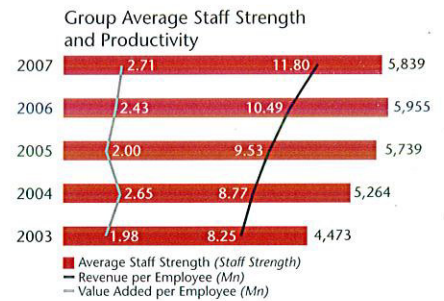
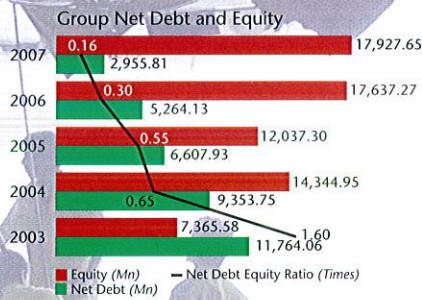
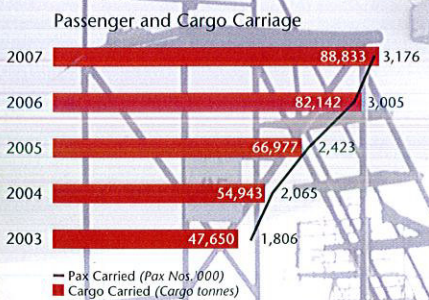


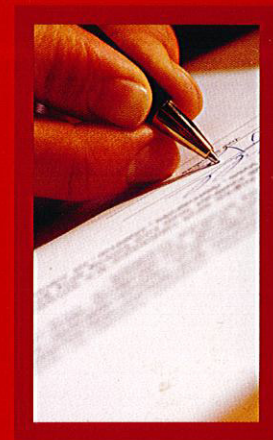
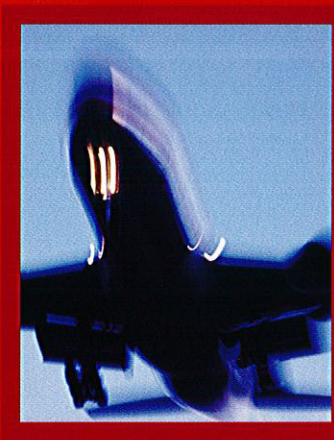


Year ended 31 March		Group			Company		
		2007	2006	% Change	2007	2006	% Change
Staff Productivity							
Average Strength	Nos.	5,839	5,955	(1.95)	5,272	5,395	(2.28)
Revenue per employee	Rs. Million	11.80	10.49	12.46	12.89	11.34	13.72
Value added per employee	Rs. Million	2.71	2.43	11.55	2.78	2.37	17.53

Aircraft Fleet as at 31 March 2007

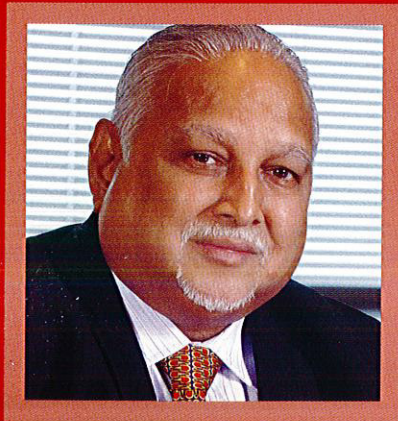
		On Operating Lease	Own
A320-200	Nos.	5	-
A330-200	Nos.	4	-
A340-300	Nos.	2	3
Turbo Otter	Nos.	-	2
Aircraft in service at year end	Nos.	11	5



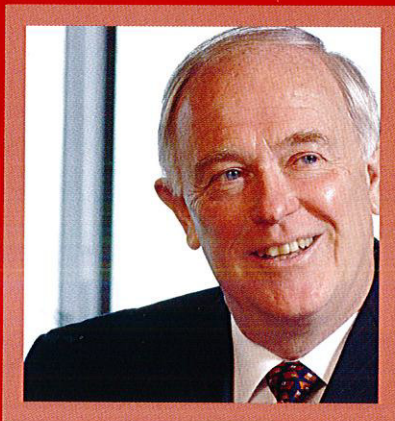


management reports & information

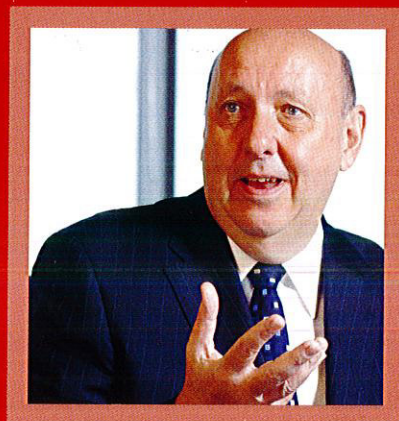
board of directors



DHS Jayawardene *Chairman*



Tim Clark *Managing Director*



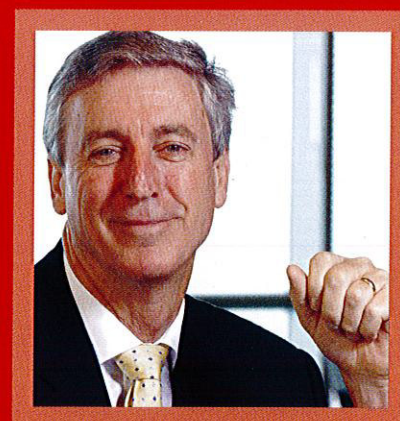
Peter Hill *CEO*



AN Wickremasinghe *Director*



Mildred Peries *Company Secretary*



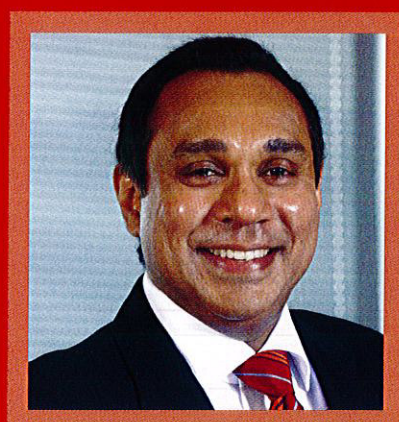
Gary Chapman *Director*



Nigel J Hopkins *Director*



R Chandiram *Director*



S Ukwatte *Director*



From left to right seated - Nigel O'Shea, Mrs. Pradeepa Dahanayake, Peter Hill, Captain Richard Hutton, Dilip Nijhawan and Chandana De Silva
From left to right standing - Vipula Gunatilleka and Manoj Gunawardena

Nigel O' Shea

Head of Service Delivery

An employee of Emirates Airline since 1995, Mr. Nigel O' Shea was seconded to SriLankan Airlines in 1998 initially as Head of Information Technology. In 2004, Mr. O' Shea was appointed as the Head of Service Delivery, responsible for Airport Services and In-flight Services. He served as the Chairman of the SITA Asian Airline Group (AAG) from 2002 to 2005 and served as Director of SITA for the same period.

Mrs. Pradeepa Dahanayake

Head of Human Resources

Mrs. Dahanayake joined the Company as Head of HR in April 2007. She has over 10 years of experience in HR Management. Prior to taking up the appointment at SriLankan, she worked for Ceylon Tobacco Company as HR Manager. She is currently responsible for all Human Resources Management and Development activities including Medical Services of the Airline.

Peter Hill

Chief Executive Officer

Seconded to the Airline in 1998 as its Chief Commercial Officer, Mr. Hill was appointed to the post of CEO in 1999. Mr. Hill's career in the Industry spans over 40 years having started

with British Airways, then BOAC, as a Commercial Trainee in 1961. His experience in airline related jobs includes stints with Gulf Air, DNATA and Emirates Airlines.

Captain Richard Hutton

Chief Technical Officer

Joined the Airline as its Chief Technical Officer in 1999 and is in charge of the Engineering and Maintenance and Flight Operations Divisions. A Pilot by profession Capt. Hutton has served in several international airlines in the capacity of a Pilot and also as a Technical Consultant. He possesses over 40 years experience in the field of Aircraft Engineering and Operations.

Dilip Nijhawan

Chief Executive Officer - SriLankan Catering (Private) Limited

Mr. Nijhawan joined the Airline in December 1998 and was seconded to SriLankan Catering the wholly owned subsidiary of the Company. Mr. Nijhawan is a Commerce Graduate from Calcutta with a Post Graduate Diploma in Hotel Management from the Oberoi School of Hotel Management - Delhi. Prior to joining SriLankan Airlines Mr. Nijhawan was the General Manager of The Oberoi Hotel in Jeddah, Saudi Arabia. Mr. Nijhawan counts over 28 years

experience in the hospitality trade overseas.

Chandana De Silva

Head of Corporate Communications

Mr. Chandana De Silva initially joined the Company's sales team in 1984 and moved to Emirates Airline's Country office in Sri Lanka as the Sales Manager. He re-joined SriLankan Airlines in 1998 in the capacity of Senior Manager, Sri Lanka and Maldives and was responsible for the Marketing and Sales functions of Sri Lanka and the Maldives. Mr. De Silva was appointed Head of Corporate Communications in 2002 and is currently responsible for Corporate Advertising, Promotions, Media Relations and Public Relations of the Airline. Mr. De Silva counts over 20 years experience in the Air Transportation Business.

Vipula Gunatilleka

Chief Financial Officer

Mr. Vipula Gunatilleka joined SriLankan Airlines in January 2005 as the Head of Financial Management and was appointed Chief Financial Officer in January 2006. A Chartered Accountant by profession with over 20 years experience, he has held senior accounting positions in some of the blue chip companies in Sri Lanka,

Singapore and Australia. Prior to taking up the appointment at SriLankan, he worked for the General Electric Group in Australia as a Controller. He is currently responsible for Finance, Treasury, Information Technology, Insurance and Procurement functions of SriLankan Airlines.

Manoj Gunawardena

Head Of Worldwide Sales

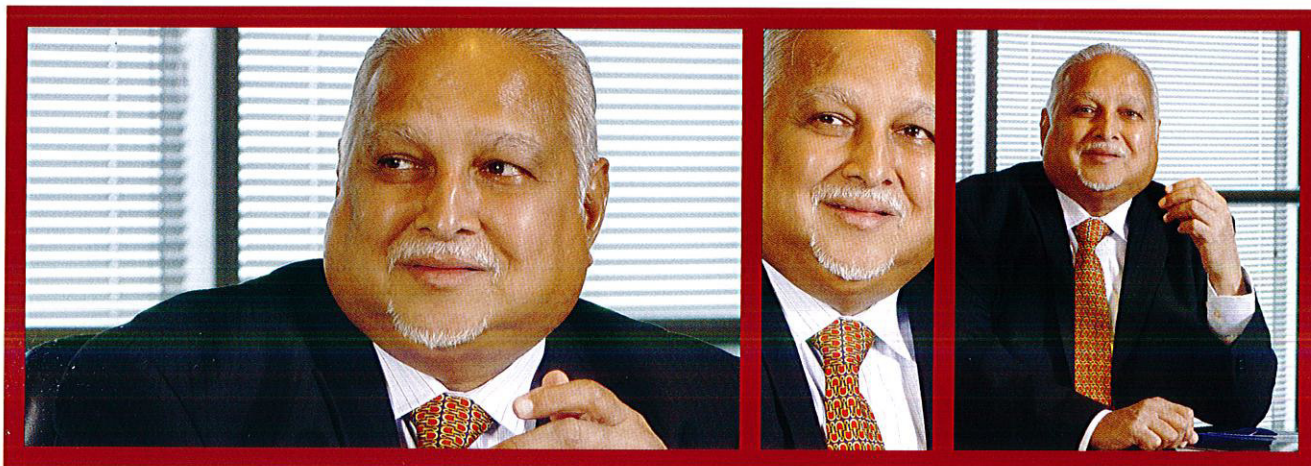
Mr. Manoj Gunawardena, has been in the airline for over 25 years and has over 17 years of direct sales and commercial experience with the Airline.

Mr. Gunawardena was appointed as Head of Worldwide Sales in May 2006 and is currently responsible for the Airline's global sales activities and the Airline's four regional managers report to him. Prior to being appointed Head of Worldwide Sales, he was Regional Manager UK, Europe and Americas, a position that he held from 2005.

Mr. Gunawardena is a Chartered Management Accountant (ACMA) and holds a post graduate diploma in Marketing from CIM United Kingdom.

senior management

chairman's report



INDUSTRY OUTLOOK

The global airline industry is expected to continue its overall growth over the next two years, according to forecasts by the International Air Transport Association (IATA). Over 1.6 billion people worldwide use air travel, and this number is expected to exceed 2.3 billion by 2010. In addition, over 40% of global trade, in terms of value of goods, is carried out by air.

The global air transport industry provides employment for 28 million people, directly and indirectly, a number which is expected to rise to 31 million by 2010.

The global aviation industry registered a Net Loss of USD 0.5 billion in the calendar year 2006, which was a considerable improvement from the Net Loss of USD 3.2 billion in the previous year.

Passenger revenue, recorded an annual growth of 5.2% in the calendar year 2006. IATA forecasts passenger revenue growth rates of 5.0% in 2007 and 6.0% in 2008. Cargo revenue, which recorded growth of 4.0% in 2006, is expected to see increased growth rates of 4.5% and 6.0% in 2007 and 2008 respectively.

IATA expects passenger volumes to grow strongest in the Middle East (7.0%) in the calendar year 2007, and Asia/Pacific (5.9%), following the current long-term global trend. Cargo volumes are expected to see strongest growth in Asia/Pacific (6.2%) and the Middle East (6.1%) during the same period.

“The global air transport industry provides employment for 28 million people, directly and indirectly, a number which is expected to rise to 31 million by 2010.”

However yields, which grew by 3.7% in 2006, are expected to decline to -0.5% in 2007 and -1.5% in 2008.

The cost of fuel, accounted for 26% of an Airline's operating expenses in 2006 as against the 22% recorded in previous year. In comparison, the cost of fuel formed only 13% of the industry's operating expenses as recently as 2002.

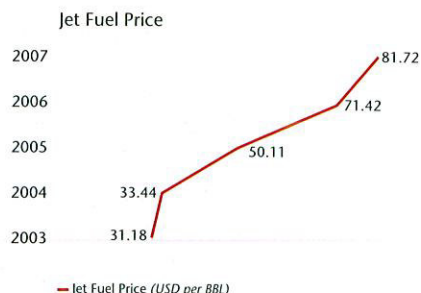
COMPANY PERFORMANCE

The financial year under review was so far the most challenging year for the Airline in its twenty-seven year history. The steep escalation in aviation fuel prices and the

downturn in tourist arrivals due to the deteriorating security situation in the Country were the two most significant factors that had a negative impact on the bottom-line of the Airline.

The average price of jet fuel reached USD 82/- per barrel in 2006, as against the USD 71/- in 2005. The annual fuel bill of the Company increased by 18% to reach USD 224.9 million in the financial year under review from USD 190.5 million in the previous year, mainly due to higher fuel prices.

The Company faced a double blow on fuel expenses during the year with Ceylon Petroleum Corporation increasing the handling fee on aviation fuel from the previous 13 US cents up to 20 US cents per US Gallon. This resulted in a negative impact of USD 4 million for the year.

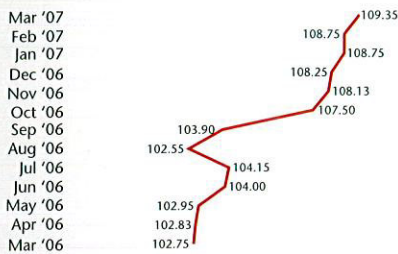


The sharp depreciation of the Sri Lankan Rupee versus all major currencies had a serious negative impact on the profits of the Company as all major aircraft related



expenses are made in US Dollars. During the year under review the US Dollar appreciated by 6.4%.

Spot Rates from March 2006 to March 2007



Passenger and cargo revenues recorded growth rates of 10.67% and 15.24% respectively against the previous year, though such improvements were not reflected in the bottom-line due to increased cost of aviation fuel.

On the network front, the Airline continued with its expansion plans, adding Goa and doubling frequencies to Mumbai, increasing the connections to India up to 95 flights per week, and commencing operations to Jeddah in the summer of 2007.

The Airline's business generated through paperless "E-Ticketing" continued to grow during the year under review and e-ticketing business accounted for 40% of the total business. Currently all online stations facilitate the check-in of e-ticketing passengers.

Engineering services expanded its in-house maintenance capabilities and undertook 3rd party maintenance work for Emirates and some start-up airlines from the Indian subcontinent, while continuing to perform all maintenance checks on the Company fleet.

The Company continued to strengthen its excellent relationship with its 5,272 member family of employees. During the year under review, Collective Agreements were renewed for 3-year periods with four employee unions, namely the Sri Lanka Nidahas Sevaka Sangamaya, Airline Pilots Guild of Sri Lanka, Association of Licensed Aircraft Engineers, and the Singapore Manual & Mercantile Workers' Union.

“Engineering services expanded its in-house maintenance capabilities and undertook 3rd party maintenance work for Emirates and some of the start-up airlines from the Indian subcontinent, while continuing to perform all maintenance checks on the Company fleet.”

The Airline took a key policy decision to increase the retirement age for employees from the earlier 55 years up to 60 years. This is a win-win situation for both the Airline, which retains experienced and talented employees, and staff, who continue to enjoy rewarding employment for a further five years.

COMMITMENT TO THE COMMUNITY

It is with great pride that 'SriLankan Cares' the charitable arm of SriLankan Airlines completed the construction of Al Bahriya Maha Vidyalaya, the Tsunami-destroyed school in Kalmunai, on 27 October 2006. This laudable Rs. 78 million project was a model of international co-operation involving our business partners Lufthansa Technik, Help Alliance and GTZ, and gave new life to this school of 1,500 children.

Time and again, the National Carrier rose to the challenge of serving the Country. Five

'mercy flights' were carried out to Damascus to rescue Sri Lankan migrant workers who fled there following the outbreak of war in neighbouring Lebanon.

Our domestic service, SriLankan Air Taxi, added several new destinations to its wide-ranging network. However, its operations were hampered by the heightened security situation in the Country.

SriLankan Holidays, the leisure arm of the Airline, was re-launched with notable success during the year under review, and its greater focus and wider range of products made a significant contribution to the Company.

Our fully owned subsidiary, SriLankan Catering tripled its capacity with the commissioning of a state of the art flight kitchen facility in June 2006. The additional revenue generated due to the increased capacity contributed positively to the Group net results.

The Management of SriLankan Airlines and SriLankan Catering worked tirelessly to mitigate the impact of adverse factors, which our shareholders will no doubt appreciate. I am pleased to announce that the Group was able to maintain its profitability and recorded a Net Profit after Taxation of Rs.862.18 million.

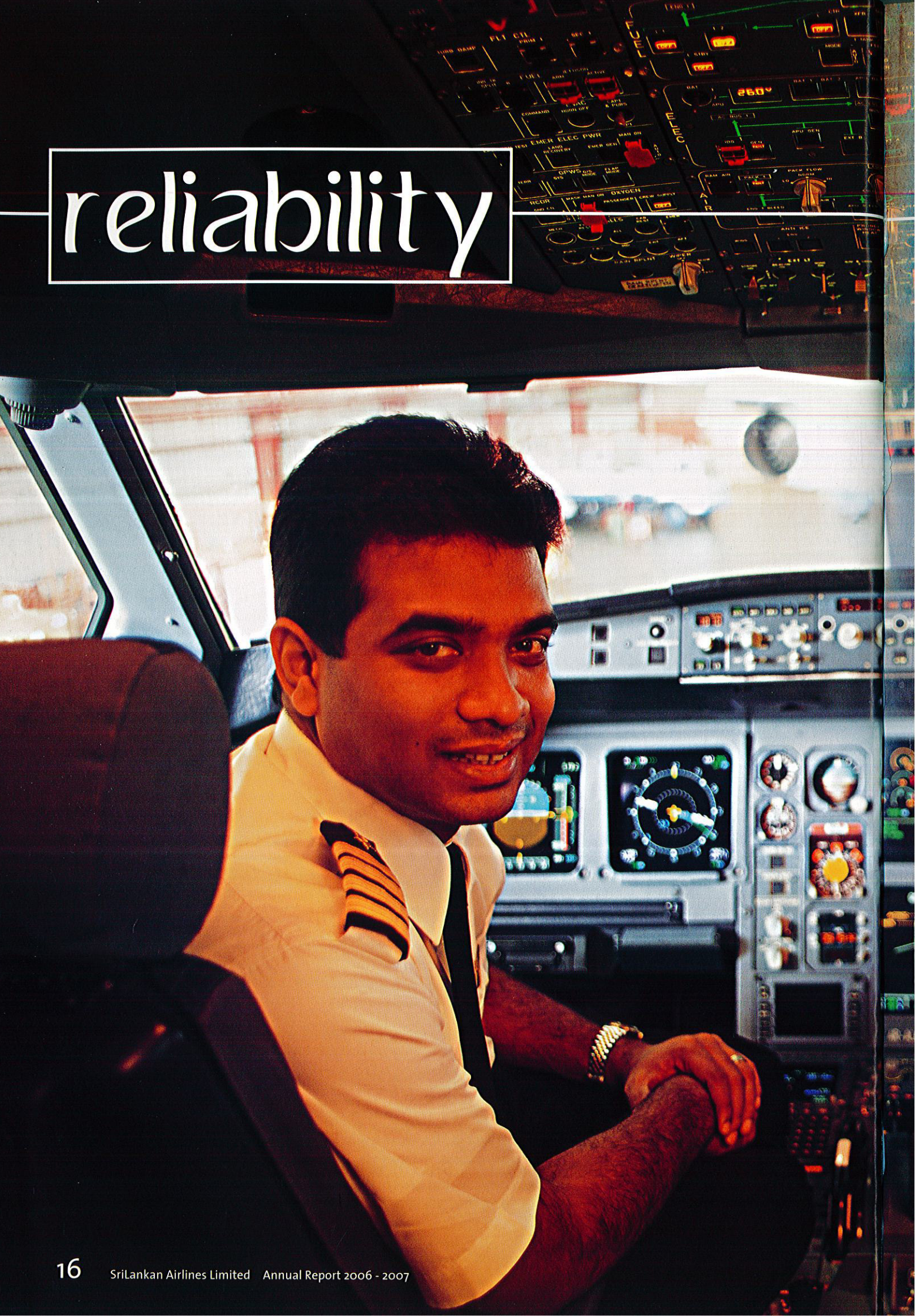
THE FUTURE

The year ahead of us will pose many new challenges in addition to escalating fuel prices and the adverse security situation in the Country. However, I am confident that the management and staff of SriLankan will overcome them successfully.

In conclusion, I would like to express my sincere gratitude to the Board of Directors, the Management Team, and especially every member of the staff for their unstinting efforts throughout a year that has proven to be the most challenging.

D H S Jayawardena
Chairman

28 May 2007

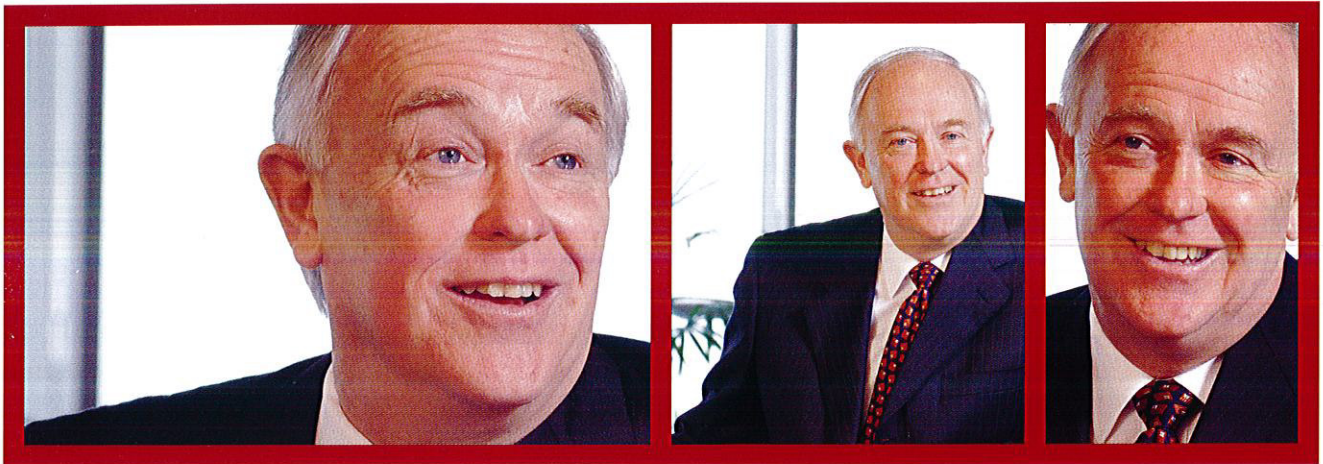


reliability



“One of the most experienced and reliable flight crew in the industry have given us our world-wide reputation for excellence in flight operations over the past several years. SriLankan Airlines has one of the world's best safety records and we intend to continuously update, review and train to ensure that this record stays intact.”

managing director's report



The year 2006/07 brought with it a new set of challenges for the management and staff of SriLankan Airlines, who were hoping for a return to greater profitability and commercial success.

The largest single factor that affected the Airline's bottom line was the wholly unforeseen return to hostilities in Sri Lanka's internal conflict. Despite the continued existence of a ceasefire, the reality proved to be near-total warfare throughout the Northeastern territory of the island, and violent incidents in other parts that caused much alarm although being sporadic in nature.

The resultant travel advisories against visiting Sri Lanka brought very serious consequences on tourist arrivals from traditional markets such as Japan, the United Kingdom, Germany and France. Hopes for an early return to negotiations have not been realized, and the Country's future continues to be uncertain.

The high price of aviation fuel continued to be a significant concern for the Airline. However, it is with great satisfaction that I note that our management team planned out and executed various strategies to mitigate the effects, including stringent cost control methodologies.

“SriLankan Airlines continued to play a major role in the development of the Country's travel and aviation industries. New innovations such as on-line bookings, e-tickets, upgraded computer systems, and increased automation of services have been rolled out during the year under review...”

The year under review saw an increase in competition from government supported carriers mainly in the Middle East, and from several new low cost carriers that are operating notably in the South Asian, Far Eastern and Middle Eastern regions. However, the continuing level of traditional SriLankan hospitality and service has enabled us to preserve our market share despite these developments.

Amidst the competition, passenger revenue grew 10.67% with a 5.36% increase in passenger traffic and a 5.66% growth in the yields. Cargo revenue increased by 15.24% with a 8.15% growth in the cargo carriage and a 7.42% increase in yield. As a result, revenue of the Airline grew by 11.12% to reach Rs. 67,963.76 million during the year.

Break even load factor of the Airline rose to 72.34% from 72.00% due to a rise in operating expenditure resulting from escalating fuel prices and the weakening of the Sri Lankan Rupee against major foreign currencies.

The aviation industry in Sri Lanka witnessed some notable developments during the year under review. Most notable among them was the continued expansion of Bandaranaike International Airport which maintained its



reputation as the finest in South Asia. Also of interest were plans to construct a second international airport in the south of the island, although this is likely to take several years before completion.

SriLankan Airlines continued to play a major role in the development of the Country's travel and aviation industries. New innovations such as on-line bookings, e-tickets, upgraded computer systems, and increased automation of services have been rolled out during the year under review, ensuring that SriLankan continues to keep pace with the global industry. The Airline cemented its position as the most frequent carrier into India, and we expect our weekly number of frequencies there to top 100 in the next financial year, a remarkable achievement indeed given the limited fleet of aircraft currently at the Airline's disposal. Plans have been drawn up to introduce services to several new destinations on three continents in the near future. Our domestic arm, SriLankan Air Taxi, also expanded its route network at a steady pace. However the future of this operation became increasingly uncertain during the year due to the Country's unpredictable security situation. By the end of the financial year, it appeared increasingly likely that the Airline would be obliged to temporarily suspend the domestic operation.

Despite the uncertainty surrounding the Country's conflict, SriLankan Airlines remains optimistic with regard to the future. The Company has drawn up and continuously revised plans for its future expansion. This includes a major re-fleeting programme which would significantly increase the number of aircraft. This in turn would provide SriLankan with the capability to rapidly expand its route network to new destinations, and further increase its frequencies on existing routes. The Airline's future commercial strategy is built around greatly strengthening Colombo as a hub for air traffic, providing rapid connections between various regions such as Europe, the Middle East, Africa, the Subcontinent, the Far East and Australia.

I wish to express my profound thanks to the Board of Directors, the Senior Management Team, and every member of the staff for all their support in facing the challenges of a difficult year.

T C Clark
Managing Director

28 May 2007

comfort





“Our inflight service is second to none and we plan to regain the title of ‘World’s Friendliest Cabin Crew’ this year as well, an award we have won for several years in a row. We have also improved the comfort levels and features in order to further enhance the flight experience for every traveller.”

chief executive officer's report



The Company focused its energies in 2006/07 on implementing dynamic strategies to mitigate the challenges posed by the deterioration in the Country's security situation and the attendant fallout on tourist arrivals and passenger numbers.

It is fortunate that SriLankan Airlines had successfully faced similar challenges in previous years, and was well positioned to use the strengths of its existing resources and route network to minimise any adverse impact.

POSITIONING COLOMBO AS THE GATEWAY TO INDIA

The Airline's focus on building Colombo as a hub between India and the rest of the world proved to be a great asset for both passenger and cargo business, as the focus was on moving traffic to and from the subcontinent, which was less affected by the conflict situation than direct arrivals to Sri Lanka.

The scheduling of flights was further improved to provide more rapid connectivity for transit passengers by reducing waiting times in Colombo.

EXPANSION OF ROUTE NETWORK

Despite the full utilization of the existing fleet, frequencies were increased where possible, and two new destinations, Goa and Jeddah, brought our route network to 51 cities in 28 countries. We now have 95 flights per week to 10 cities in India, which included the increase to twice daily services to the Country's commercial capital Mumbai. Our domestic service, SriLankan Air Taxi, also continued to widen its network, but faced major constraints due to the prevailing security situation in the Country.

PROMOTING TOURISM THROUGHOUT SOUTH ASIA

The Airline worked in excellent partnership with Sri Lanka Tourism and the tourism authorities of other nations such as India and the Maldives, to vigorously promote tourism and niche market travel. This was particularly advantageous in the sharing of expenses for marketing purposes.

However, SriLankan Airlines continued to be one of the Country's largest tourism promoters, and invested a sum of Rs. 350 million during the year under review on promoting Sri Lanka as a destination. This was quite apart from an array of other

campaigns that focused on the strengths of products and services offered by the Airline.

A YEAR FILLED WITH INNOVATION

SriLankan Holidays, the leisure arm of the Airline, was re-launched during the year, and greatly expanded its role in both outbound and inbound tourism, using the strengths of our route network to promote travel between exotic destinations by offering comprehensive travel solutions in partnership with hotels and tour operators.

Our fully owned subsidiary, SriLankan Catering (Pvt) Limited moved into its state-of-the-art USD 25 million Flight Kitchen at Katunayake, a point of pride for all Sri Lankans who now have a flight catering facility that is second to none globally, and is well positioned to meet the demands of commercial aviation well into the future.

FURTHER ENHANCING CUSTOMER SERVICE

The entire Group focused on working smarter and more efficiently, in order to provide greater customer satisfaction and control costs. I must stress that we did not compromise for a moment on providing an



even more delightful travelling experience to our passengers, despite the challenges. Indeed, SriLankan Airlines continued to gain recognition for service excellence, and added several more awards in the year under review. These included:

- Second Runner-Up at Avion Awards in Overall Inflight Entertainment (small fleet)
- Foreign Carrier of the Year for the South Asia Sector, at the inaugural Kuala Lumpur International Airport (KLIA) awards
- Changi Airline awards as one of top five airlines in Singapore in 2005

Our focus on customer service saw the launch of a special newsletter, Customer First, dedicated to the enhancement of service levels through customer feedback.

FINANCIAL PERFORMANCE

The SriLankan Airlines Group performed extremely creditably given the many challenges, to achieve a Net Profit After Tax of Rs. 862.18 million. This was a decline of 50% from the previous year's Rs. 1,719.78 million.

The Group's Revenue rose by 10.26% to total Rs. 68,903.70 million, in comparison to Rs. 62,489.19 million the previous year. Operating Expenditure increased by 13.61% to Rs. 69,192.17 million, as against the previous year's Rs. 60,902.16 million.

The Airline registered a Net Profit of Rs. 568.04 million, which included dividends declared by the subsidiary. Revenue increased by 11.12% to total Rs. 67,963.76 million, as opposed to Rs. 61,160.14 million in the previous year. Operating Expenditure grew by 14.3% to a total of Rs. 69,403.25 million, versus the previous year's Rs. 60,720.29 million.

Unit Cost increased by 7.12% to Rs. 40.30 per capacity tonne kilometer, up from Rs. 37.62 per capacity tonne kilometer.

Overall Yield grew by 6.68% to Rs. 55.71 per capacity tonne kilometer, up from the previous Rs. 52.22 per capacity tonne kilometer.

DIVERSIFICATION OF REVENUE STREAMS

Major efforts were made towards diversification of revenue streams in virtually all departments of SriLankan Airlines, in order to support the traditional revenue generating areas of the Airline. These included the strengthening of Maintenance Services offered to customer airlines, and the training of staff of other airlines. SriLankan Engineering has now acquired the European certification EASA 145, which would enable it to market major maintenance services to airlines in Europe, in addition to those in Asia and the Middle East.

The launch of the International Aviation Academy in June 2006 by SriLankan was another landmark event, which will further the education and training of young men and women in Sri Lanka and the region to embark on rewarding careers in all areas of the aviation industry.

Diversification was extended into areas such as pre-ordering Facilities of Duty Free items sold on board, and there is even a project going on to set up retail shops at BIA and in Colombo to sell SriLankan branded merchandise.

The Airline continued to make substantial investments towards improving the infrastructure and services at BIA, where we are the sole provider of ground services. These included modern systems, plush new counters and facilities for greater customer convenience, and the acquisition of more ground support equipment to serve aircraft – both our own and customer airlines. A new website for Ground Handling Services was launched to assist customer airlines.

CARGO SETS NEW RECORDS

SriLankan Cargo continued to set records for tonnage handled at the BIA Cargo Centre, once again demonstrating the wisdom of positioning Colombo as a hub for India and leveraging on the vast economic growth potential of our giant neighbour. SriLankan Cargo is eagerly awaiting the finalization of negotiations to move into the new cargo terminal at BIA.

SIMPLIFICATION & MODERNIZATION

Greater efforts were made in the control of costs, and all non-essential investments were deferred. However, the Airline did not shy away from making strategic investments that are expected to have an impact on modernization and customer convenience. Simplification of the business was a key area, using smart approaches to revolutionize traditional areas.

The rapid advent of E-commerce was one such area, particularly the move towards online bookings through the Company's websites, and E-ticketing which brought about significant cost reductions versus the use of paper tickets.

The ongoing project to fully implement the 5S System of Management at all levels in each department throughout the Company made considerable progress during the year under review, and results are already evident in streamlined processes, greater efficiency, and better working environments.

The Company is looking forward to moving most of its corporate offices from Colombo to Katunayake in the next financial year. This is expected to significantly reduce day to day costs on rent and overheads, and will serve to centralize operations and bring greater command and control. However, several departments that interact directly with customers, partners and suppliers, will remain in Colombo.

CONCLUSION

I am extremely proud of the performance of the SriLankan family of employees, ably led by the Management Team under the guidance and wisdom of the Board and the Managing Director. My thanks to each of them for more than playing their part in navigating through a year that was filled with challenges.

Peter Hill
Chief Executive Officer

28 May 2007

A photograph of a SriLankan Airlines cabin crew member in profile, wearing a white shirt, dark tie, and shoulder bag, standing in an airplane cabin. The cabin has wood-paneled walls and overhead luggage bins. A sign for SriLankan Airlines is visible at the top. A bouquet of pink flowers is on a table to the left.

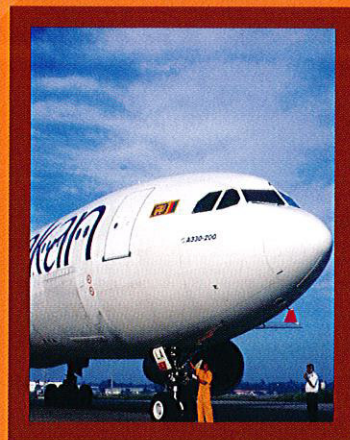
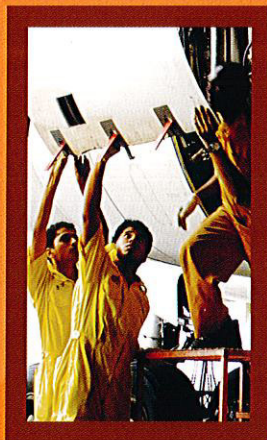
SriLankan
Airlines

customer-care



“The warm, natural Sri Lankan smile of the flight crew does much to enhance customer perception of the Airline, but a behind the scenes strategy links and bonds ground staff and cabin crew together, and this is the true springboard from which SriLankan Airlines’ quality service has been developed.”





operational

reports & information

Overview of the airline industry

In general, the year 2006 saw a turnaround in the industry after the slow progress of the post 9/11 five year period. The airline industry enjoyed a year of steady and more profitable passenger growth in 2006. International air passenger growth grew by 5.9% in 2006, slightly slower than the 7.6% seen in 2005 but consistent with long-term average growth rates of 5-6%. At the same, average passenger load factors in 2006 increased to 76.0%, up from 75.1% in 2005 which was a record level. Operating profitability has improved, as higher utilisation continued to support revenue growth while cost-cutting efforts by the industry helped to deliver further non-fuel cost efficiencies. The Middle East remained the fastest growing region, with growth in 2006 of 15.4% and 16.1% for passenger and freight traffic respectively. It was also the only region to see the rate of growth in both passenger and freight traffic increase in 2006 compared to 2005. All other regions saw a decline in their rate of growth in passenger traffic.

The following graphs highlight the performance of the industry over a decade. Figure 1 illustrates the growth in the number of passengers carried over a ten year period, to a total of approximately 2.1 billion passengers in 2006. Also depicted are the international and domestic components.

Similarly, Figure 2 shows the growth in freight tonnes transported during the same period, with a record 38.9 million tonnes transported last year. Figure 3 illustrates revenue tonne-kilometres, and available tonne-kilometres over a 10-year period (a tonne-kilometre is a combined measure of passengers, freight and mail traffic that takes into account the distance flown).

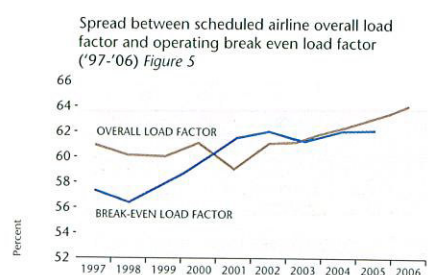
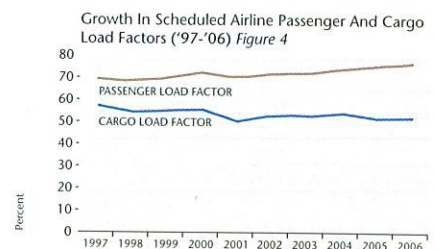
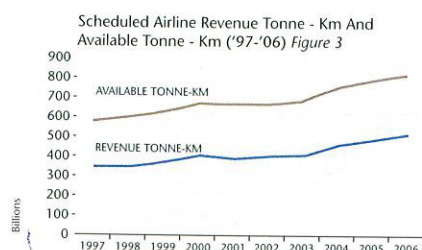
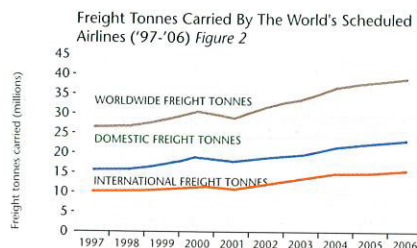
Also featured is a ten year comparison of worldwide passenger and cargo load factors (Figure 4). The passenger load factor has grown significantly, from 69% in 1997 to 76% in 2006, its highest level in the past decade. The trend is explained by a combination of traffic stimulation by the low-cost carriers and better capacity management by airlines generally.

As Figure 5 illustrates, the spread between the overall load factor and the break-even point has progressively narrowed over the past decade, with the break-even point exceeding the overall load factor in 2001 and 2002, resulting in operating losses. The trend was reversed around 2004, and it is anticipated that the world's scheduled airlines will continue to post an operating profit for the near future.

The demand environment remains positive for 2007, building upon the strong increases in volumes seen in the last quarter of 2006. Airlines will continue to face risks that could upset the positive demand growth, many of which (e.g. a global economic slowdown, security incidents, an avian flu pandemic) are beyond its control. On average, airlines have been able to use the positive demand environment to increase yields, though some have already reduced yields through lower fuel surcharges as the oil price has eased. Improvements in operating profitability look

set to stall in 2007 as the industry enters a slower revenue growth environment. Oil prices may be lower in 2007 than in 2006, but slower economic growth will bring with it a slower rate of growth in revenues. Further progress in improving operating profits will be challenging without additional supplier cost and regulatory improvements. Looking ahead, the majority of respondents expect to see strong competition from Low Cost Carrier airlines which will continue to place downward pressure on passenger yields in some markets.

A more in-depth look into the Asia Pacific region shows that Asian carriers are expected to make USD 1.2 billion in profits in 2007, lower than the USD 1.7 billion estimated for 2006, mostly due to cost pressures, increasing liberalisation, rising capacity growth and rising competition from new entrants. Peter Harbison, Executive Chairman of the Centre for Asia Pacific Aviation says, "Long-haul profitability will be weakened by rising competition from Middle East carriers and an intensified focus on Asia by European and North American airlines, as well as increasing long-haul activity by the region's low cost carriers." It has also been said that the generally favourable mood of equity markets towards airline stocks at the start of 2007 could provide a brief window of opportunity for some carriers seeking fresh funds. The main objective being to help





them fund fleet expansion plans and/or to assist them to restructure and modernize.

Strong revenues resulting from the passenger traffic growth of 5.9%, record high load factors of 76% and efficiency gains are behind the improved profit picture. The long-term forecast projects international passenger traffic in Asia to grow at an average annual rate of 5.7% between 2006 and 2010. The international passenger traffic growth in Asia Pacific is boosted by strong GDP growth, along with significant new capacity and new routes.

In spite of regional expectations being fairly high, the same cannot be said for the market conditions in the Country. Tourist arrivals to the Country on the national airline have increased by a mere 5.6% in 2006 but are expected to drop in the year 2007 due to the unresolved peace situation in the Country. The stagnation in the local tourism industry is also expected to have an impact on the performance of the Airline. Similarly with the commencement of the new government owned low cost carrier Mihin Lanka, it is likely that competition in the Middle East and Indian routes will intensify. In spite of these setbacks in the local market, the Airline will continue to develop strategies by which these drawbacks could be overcome.



“Strong revenues resulting from the passenger traffic growth of 5.9%, record high load factors of 76% and efficiency gains are behind the improved profit picture.”

A man wearing a bright yellow protective suit and white gloves is focused on working on the engine of an aircraft. He is leaning forward, and his attention is directed towards the engine components. The background shows the metallic structure of the aircraft, including a red railing and a blue strap. The overall scene conveys a sense of precision and technical expertise.

service excellence



ne

A close-up photograph of a person wearing a bright yellow shirt and white gloves, working on the metallic, riveted surface of an aircraft fuselage. The person is using a long, thin metal tool to inspect or adjust a component. The background is dark, suggesting an indoor hangar or workshop setting.

“The SriLankan team is a big one, and we have all worked diligently, from senior management to every level of staff, to create new levels of profitability and service excellence within the Company.

We plan to continue this fine effort into the future, improving operational efficiency and managing costs in all we do.”

reaching across the world

a management discussion and analysis

The year under review saw an increase in passenger revenue by 10.67% to Rs. 54,683 million from the previous year's Rs. 49,413 million. The number of passengers carried increased by 5.7% to reach 3,175,583 in the year under review, compared with 3,005,474 in the previous year. The Passenger Load factor registered an increase of 1.2 percentage points to reach 77.05%, against 75.83% previous year.

COMMERCIAL STRENGTHENS OUR ROUTE NETWORK

The heart of an airline's business is its route network. During the year under review the Company continued to expand its network with the existing fleet, however the growth was hampered as a consequence of investment constraints on new aircrafts. As of March 2007, the Company served 51 destinations in 28 countries in Europe, Asia, Middle East, Australia and North America which included code sharing flights.

New Destinations - Goa and Jeddah

The Indian coastal resort of Goa became the 50th destination of the Airline in October 2006, and the 10th in India. This was followed by the launch of services to Jeddah in Saudi Arabia, serving pilgrim and labour traffic. Results from both routes have been very encouraging, and the twice-weekly Goa service was expanded to three flights in February 2007.

Focusing on India

The Airline continued to focus on the lucrative Indian market and maintained its position as the most frequent foreign airline into the Country, with a total of 95 flights per week by the end of the financial year. This included the double daily service to Mumbai, which vastly expanded services from the previous daily frequency.

Increased Capacity to Existing Destinations

Direct flights were reintroduced to Paris, Frankfurt, Bahrain, and Doha providing greater passenger convenience through seamless connections to onward

“Recognizing the opportunities that e-commerce has to offer, SriLankan has been in the forefront in introducing e-ticketing, an internet booking engine, web services and a payment gateway which has enhanced sales whilst bestowing significant cost savings.”

destinations. Capacity was increased to existing destinations of Kuwait, Abu Dhabi, Doha, Bahrain, Bangalore and Calicut.

Innovating Rapidly to Enhance our Service

In keeping with the spirit of innovation and diversification, a 'Dial-a-Ticket Service' was introduced in partnership with the nation's largest financial services provider, Bank of Ceylon, to allow passengers to book tickets by phone and make the payment at any bank branch islandwide. This service has proved to be quite popular, with both rural and urban customers.

Recognizing the opportunities that e-commerce has to offer, SriLankan has been in the forefront in introducing e-ticketing, an internet booking engine, web services and a payment gateway which has enhanced sales whilst bestowing significant cost savings.

SriLankan Holidays Relunched

SriLankan Holidays has made considerable progress since its re-launch in mid 2006 providing an extensive range of travel packages throughout the SriLankan route network. These include the much popular 'Mega 999' packages and 'Red Hot Offers' of the month.

Air Taxi Spreads its Wings

SriLankan Air Taxi added several new destinations during the year, and returned to some destinations which include Tissamaharama and Kandy where services had been suspended temporarily. A new system was launched to provide Air Taxi coordinators at each destination detailed instructions on e-mail sent via mobile phones, which enhances the level of services provided by catering to the customer's specific needs.

However the Airline's domestic service operated under severe constraints due to security restrictions, which limited its opportunities to expand and cast a shadow over its future.

Colombo's Skywards Service Centre Maintains High Service Levels

Skywards, the award winning frequent flyer programme of SriLankan and its strategic partner Emirates, continued its rapid growth and counts more than 2.5 million members worldwide and 60,000 from Sri Lanka.

Skywards membership is in three tiers – Gold, Silver and Blue with points being awarded for each mile travelled, which can be redeemed for upgrades on flights or a wide array of products and services offered by partners in many sectors ranging from rent-a-car services to financial services, leisure, lifestyle, and hotel accommodation.

MICE Travel promotes niche market tourism

The Airline enhanced its efforts to promote the "niche market" of Meetings, Incentives, Conventions, and Exhibitions (MICE) travel to Sri Lanka since we are well established as a destination for business events in the South Asian region. The Airline has a separate department for MICE tourism that works with local partners to arrange numerous business events.



CARGO SETS NEW RECORDS

SriLankan Cargo enjoyed another successful year, with a 8.15% increase in the tonnage carried. Total cargo carried was 88,833 tonnes, as against the 82,142 tonnes the previous year. The Cargo Load Factor increased by 2.33 percentage points up to 58.44% from 56.11%.

Cargo Revenue grew at a healthy rate of 15.24% totaling Rs. 9,394 million, from last year's Rs. 8,152 million.

Cargo Centre for freight handling at Bandaranaike International Airport (BIA) set a new record by handling 14,784 tonnes in a single month. In the year under review total volumes handled at BIA increased to 164,831 tonnes, which is an increase of 1.1%. The enhanced business signifies growing customer confidence in the region for SriLankan Cargo. Increased frequencies to several destinations in India on the passenger fleet expanded the carrying capacity of SriLankan Cargo. However the increase in yields was fairly low due to the decline in tourism coupled with the rapid devaluation of the Sri Lankan Rupee.

Innovations by SriLankan Cargo included an in-house designed horse carriage and devising a new freighter loading platform using discarded equipment. The Charter Desk recorded moderate success with more revenue expected through improved business in the future. The Express Cargo market also registered a significant increase in operations.



"Direct flights were reintroduced to Paris, Frankfurt, Bahrain, and Doha providing greater passenger convenience through seamless connections to onward destinations. Capacity was increased to existing destinations of Kuwait, Abu Dhabi, Doha, Bahrain, Bangalore and Calicut."



The SriLankan Cargo brand was reinforced through selected marketing campaigns such as being a Platinum Sponsor at Air Cargo India.

Other planned investments include the upgrading of the cargo handling and processing system. The handling capacity at the BIA cargo centre remains to be a major constraint. Negotiations continue with Airport & Aviation Services (Sri Lanka) Ltd regarding the operation of the newly constructed second warehouse.

SRILANKAN CATERING COMMISSIONS NEW FLIGHT KITCHEN

In June 2006 SriLankan Catering celebrated the commissioning of its USD 25 million (Rs. 2.5 billion) state-of-the-art flight kitchen at Katunayake, a significant investment in the Sri Lankan aviation industry. The facility will enable SriLankan Catering to explore the growing opportunities in in-flight catering with the expansion of commercial aviation in the region.

The facility comprising of 143,000 square feet is located in a 5-acre property and has the latest machinery and equipment in service in the global flight catering industry. The building has a production capacity of 13,000 meals per day (nearly 5 million meals a year) with an option of doubling its capacity in two phases. As a result of tremendous staff effort and brilliant execution the transfer of

"In June 2006 SriLankan Catering celebrated the commissioning of its USD 25 million (Rs. 2.5 billion) state-of-the-art flight kitchen at the Bandaranaike International Airport, a significant investment in the Sri Lankan aviation industry."





operations from the old flight kitchen was seamless.

SriLankan Catering handles in-flight catering for all airlines that use Sri Lanka's international airport, which consists of over 20 carriers including SriLankan Airlines. It also operates two restaurants at the airport. SriLankan Catering is an ISO 9001:2000 certified award winning company which is a fully-owned subsidiary of the SriLankan Airlines Group.

The Company recorded revenue of Rs 2,942 million, a 2% growth over last year. The Company's main streams of revenue are as shown in Table 1 below.

The administration and other operating expenditure dropped by 0.5% as a result of the stringent cost control measures practiced throughout the Group. Net profit of the Company increased by 4% to reach Rs 1,294 million in 2007, primarily due to the 2% increase in the revenue and the 0.5% reduction in administration and other operating expenditure.

Table 2 summarises the year to year percentage changes in the financial results and key performance indicators.

Revenue Stream	2007 Rs M	2006 Rs M	Growth %
Flight Kitchen	2,559	2,500	2.36
Public Restaurant	25	19	31.58
Transit Restaurant	358	363	(1.38)
	2,942	2,882	2.08

Table 1

	2007	2006	Change
Net profit after tax (Rs M)	1,294	1,243	4.1%
Operating profit before finance costs (Rs M)	1,416	1,304	8.6%
Return on Turnover (%)	44.0	43.1	0.9 pts
Earnings per share (Rs)	1,294	1,243	4.1%
Total Assets (Rs M)	9,771	8,594	13.7%
Total Liabilities (Rs M)	2,906	2,023	43.6%
Shareholders' funds (Rs M)	6,865	6,571	4.5%
Return on Total Assets (%)	13.2	14.5	-1.3 pts
Return on Shareholders' funds (%)	18.85	18.92	-0.1 pts

Table 2

CORPORATE COMMUNICATIONS BUILDS THE BRAND

Several strategies were adopted to promote the "SriLankan" brand world wide in order to negate the adverse publicity that was bestowed on Sri Lanka. The key focus was on creating "brand awareness" and "brand recollection" so that SriLankan is associated with Sri Lanka.

Promoting Sri Lanka and India

Advertising was targeted at key markets in order to maximize brand responsiveness. A significant sum was invested in promoting Sri Lanka and India in reinforcing the Airline's commercial strategies and the corporate campaign for the Country. Another USD 2 million campaign was carried out to promote China with Sri Lanka Tourism.

As always, the National Carrier played a leading role in promoting Sri Lanka in conjunction with Sri Lanka Tourism at major travel industry events around the world including ITB in Berlin, Top Resa in France and the World Travel Mart in London. Other travel fairs included the Sri Lanka Travel Mart in Colombo and three trade fairs in China.

Carefully Targeted Publicity Campaigns

Several extremely successful advertising campaigns were carried out during the year under review. The 'Home Away from

Home' campaign appealed to the patriotic Sri Lankans to fly in their national pride, SriLankan. Other campaigns included collaborative advertising in the UK market, providing high visibility through brochures and encouraging tour operators. An internet campaign in Europe and the Far East included competitions with prizes of free air tickets. The Company's eleven PR agencies worked actively to promote the Airline and Sri Lanka throughout the route network by means of regular dialogue with the media. The Airline sponsored visits of over 100 media personnel to Sri Lanka which furnished the much needed publicity.

Corporate Events for Destination Marketing

By attracting media personnel for company sponsored events such as the Galle Literary Festival, Tea Festival and sporting events such as the Elephant Polo, awareness was created not only on the Airline's core products, but also support products such as Cargo, Catering, Holidays, and Air Taxi. The Airline continued to explore new avenues for publicity in niche markets, such as co-sponsoring the BBC's 'Spirit of Golf' which featured 95 international CEO's, who can promote Sri Lanka and organizing the SriLankan Airlines Golf Trophy in France.

SERVICE DELIVERY - WARM, FRIENDLY & CARING

Supporting the Expansion of BIA

The Airline's Ground Handling Services recorded a satisfactory 8.40% growth in revenue, totaling Rs. 3,470 million as against Rs. 3,201 million the previous year.

The Airline played a leading role in enhancing services offered at the BIA Terminal. These included the introduction of the 'Sathkara' meet-and-greet service; offering services of Airport Service Co-ordinators to other airlines and handling of charter flights, budget carriers and ad hoc flights.

The Serendib Business Class Lounge continued to be a focus of service excellence, and a monthly theme featuring the delights of a particular city on the Airline's network was added, which included cuisine, cocktails from that location, and décor. These activities support SriLankan Holidays to promote the destinations for which packages are offered.

Out of the array of services provided a specialized team was appointed to handle

the needs of passengers on delayed flights. Gate coordinators were trained to identify forged travel documents and assist the Airline in avoiding carrying such passengers and getting fined (this service also generates revenue from other airlines). Reinforcing operations at the Central Baggage Service Unit has reduced lost baggage compensation.

The continued modernization of BIA saw the expansion of the arrivals and departure areas, commissioning of a fifth baggage belt, electronic display signs, and opening of new shops. Revenue through excess baggage collection increased with close monitoring.

Innovations Enhance Service

On-Board duty free sales continued to be strong, and totaled Rs. 354 million, a marginal increase of 0.57% from the previous year's Rs. 352 million. An innovation in this area was the pre-order facility via the internet, assuring the availability of preferred items. SriLankan is making a concerted effort to market its services to other airlines and ad hoc carriers flying through the region providing a total handling package and launching a specialized website to assist clients.

The Aircraft Interior Servicing (AIS) section epitomized the new spirit of diversification at the Airline by carrying out deep cleaning operations on aircraft of other airlines.

Further diversification was seen in providing ancillary services to ad hoc carriers such as hotel arrangements, ground transportation as well as repairing of vehicles belonging to other airlines and handling of diplomatic pouches. Significant cost savings were made in repairing and modifying discarded equipment and converting them into other types of vehicles. Other areas of cost savings included strategic negotiation of ground handling rates paid by the Airline at other airports such as Bangkok and Singapore.

FLIGHT OPERATIONS RECEIVES ISO 9001:2000 ACCREDITATION

The Flight Operations Department achieved a significant milestone by receiving ISO 9001:2000 accreditation following the enhancement of its processes and systems, increasing efficiency in serving customers, as well as safety and other operational aspects.

The recruitment and training of Cadet Pilots was enhanced to fulfill the Airline's expanding operational requirements, inducting several groups during the year under review. They included two more female pilots. Opportunities were also made available for pilots of the Sri Lanka Air Force to join the Airline as Junior First Officers.

ENGINEERING - MARKETING SERVICES TO OTHER AIRLINES

The Engineering & Maintenance Department focused on increasing revenue through marketing of its abilities to provide major maintenance services for other airlines. In the year under review, two Airbus A330s of customer airlines underwent 4CSY checks, and a C - check was carried out on an A320. The Company invested in a new docking system for aircraft maintenance. The department's workshops were also reorganized to European Aviation Safety Agency (EASA) and IATA Operational Safety Audit (IOSA) standards, with investment in new equipment. Facilities at the Airline's engine workshop were also enhanced to enable 'Top Case Repairs' on more modern engines.

Several successful audits were completed by external agencies on the department during the year. Among them was an audit for accreditation to the European Aviation engineering standard EASA 145 that will enable the Airline to provide maintenance services for aircraft operated under this regulatory standard, and greatly increase its marketability. The Safety Audit required by IOSA was also completed well ahead of the deadline of end 2008 imposed by IATA.

The Technical Training School upgraded several of its programmes, ahead of seeking accreditation by EASA. A significant amount of training was carried out for Middle Eastern and Central Asian airlines, as well as SriLankan's own engineering staff.

INTERNATIONAL AVIATION ACADEMY OFFERS EXCITING CAREERS IN AVIATION

Last June, the Airline launched the International Aviation Academy (IAA), offering young men and women in the South Asian region the opportunity of commencing exciting careers in aviation.

The IAA's objective is to cater to the manpower requirements of airlines, airports, travel agents, and other aviation industry organizations throughout Asia and beyond, while at the same time contributing to the diversification of revenue of the Airline.

The IAA already offers external participants several airline-related disciplines which include Cabin Staff training, Air Cargo, Airline Ticketing at three levels (Basic, Intermediate and Advanced), Aircraft Weights & Balance, the International Civil Aviation Organization's Flight Dispatchers' Course, and Dangerous Goods Regulations.

The IAA has entered into partnerships with a number of prestigious global institutions and is also providing training for member organizations of the Travel Agents' Association of Sri Lanka, and the Sri Lanka Association of Inbound Tour Operators.

FINANCE - MAXIMIZING OUR RESOURCES

The year under review proved to be a year of consolidation in Finance. The key areas of focus were in consolidating gains on infrastructure investments in previous years, obtaining the maximum benefits by streamlining back office processes to support the Company's cost control and business objectives.

Better use of our existing ERP system (Oracle Financial) considerably improved reporting timelines, and provided the Board and Senior Management team with additional information in real time to assist in key decision-making. The streamlining of Finance processes helped to generate accounts rapidly and improved efficiency, including the speedy completion of audits. Important progress was made in the areas of expenditure control and cost management.

Although all non-essential investments were deferred, certain investments will be necessary in the near future to enhance current accounting software such as RAPID and Oracle, and also implement the COMET station accounting package in several stations where this has not been implemented yet.

The Airline focused on obtaining greater cost savings through increased efficiency in procurement. More assertive negotiations were held with suppliers to obtain greater value for money. Further evaluations are



being carried out to align procurement capabilities to meet the Company's business objectives.

IT PREPARES FOR THE FUTURE

The Information Technology division continued to play an important role operationally and strategically. Substantial advancement was made in building the e-ticketing platform. All SriLankan boarding points were e-ticket enabled, as well as interline arrangements with 22 airlines, and six of eight global distribution systems. The Airline's e-ticketing capabilities are expected to be completed well in advance of IATA's December 2007 deadline, bringing significant cost savings to the Company. E-ticketing is now being extended to non-airline travel segments, with a focus on German rail and other similar services in order to further enhance customer convenience.

The e-commerce area was further strengthened by enhancing the Internet Booking Engine, which now forms an integral part of all of the Airline's commercial operations and promotions. Phase II of this project is now in progress.

SriLankan introduced the Common User Terminal System (CUTS) in March 2007, a state-of-the-art passenger handling system that further enhanced the level of convenience for travellers at BIA. CUTS is designed for the sharing of information on a real-time basis between the airport ground handler – SriLankan - and the systems of operating carriers.



"The Engineering & Maintenance Department focused on increasing revenue through marketing of its abilities to provide major maintenance services for other airlines. In the year under review, two Airbus A330s of customer airlines underwent 4C5Y checks, and a C - check was carried out on an A320."



Another major project that was launched is the implementation of AuRA, a comprehensive new engineering maintenance, repair, overhaul and inventory control system which will replace the existing MAXI-MERLIN system. AuRA will have many features that will enhance the capabilities of SriLankan Engineering.

SriLankan Airlines seamlessly migrated to Microsoft Office 2003 software during the latter part of 2006. All users in the Airline's offices in Colombo, Katunayake, Kandy and Galle received MSOffice 2003, while those in overseas stations will be migrated in the near future.

Upgrading of PROS/PROMIS, revenue optimisation and forecasting systems for Commercial is in progress, with the aim of enhancing revenue optimization opportunities.

In-house development of important business applications continued to provide significant cost savings versus procuring from external suppliers. Among the systems were the ELEX system at the Legal Affairs Department, ASCO for the use of the Schedules Planning Department in slot co-ordination of flights at BIA, Holiday Wiz, SMS Broadcast, and Push-mail.

Another challenge was to bring down international communication costs, and several new projects were launched in this direction, towards achieving the goal of using the Internet and mobile technology for all non-critical communication. A number of initiatives are in progress to reduce licensing costs for systems and technology.

"SriLankan Airlines has no intention of resting on its laurels as the very best airline in South Asia. With its dedicated management team and enthusiastic staff its philosophy is simple – to continue to give its passengers the highest quality and best service an airline can offer. Without doubt it is succeeding..."





financial review

The Group recorded a moderate success in terms of the financial performance during the year under review, despite a decline in tourist arrivals to the Country, escalating fuel prices and weakening of the Sri Lankan Rupee against major foreign currencies.

The SriLankan Group achieved a net profit after tax of Rs 862.18 million for the financial year ended 31 March 07. The Company registered a net profit after tax of Rs 568.04 million for the financial year ended 31 March 07, which included the dividends declared by the subsidiary Company SriLankan Catering (Pvt) Limited.

The following table depicts the year to year percentage changes in financial results and the key performance /profitability ratios of the Group and the Company for the financial years ended 2007 and 2006.

	2007	2006	Change
Group			
Net profit after tax (Rs. M.)	862.18	1,719.78	-49.87%
Profit from Ordinary Activities before tax (Rs. M.)	930.06	1,816.39	-48.80%
Earnings per share (Rs.)	16.75	33.42	-49.88%
Return on Turnover (%)	1.25	2.75	-1.5pts
Return on Total Assets (%)	2.07	4.12	-2.05pts
Return on Shareholders' funds (%)	4.81	9.75	-4.94pts
Company			
Net profit after tax (Rs. M.)	568.04	476.53	19.20%
Profit from Ordinary Activities before tax (Rs. M.)	571.89	512.65	11.56%
Earnings per share (Rs.)	11.04	9.26	19.22%
Return on Turnover (%)	0.84	0.78	0.06pts
Return on Total Assets (%)	1.50	1.25	0.25pts
Return on Shareholders' funds (%)	5.11	4.29	0.82pts

REVENUE

On the revenue front, passenger and cargo demand was strong, producing the highest revenue for the Group of Rs 68,903.70 million for the financial year, which was 10.26% higher than in 2006. Similarly the revenue of the Company increased by 11.12% to reach Rs 67,963.76 million in 2007, from Rs 61,160.14 million in 2006.

The increase in Company revenue was underpinned by the growth in carriage and yields for passenger and cargo operations. Passenger yields increased primarily as a result of the higher fuel surcharges. Cargo tonnage carried was a record high for the Company. The increased seat factors driven by increased frequencies to existing destinations also contributed to the increased revenue. The Company's main revenue stream in terms of geographical area continued to be Asia, with a 13% increase from 2006. This was justifiable given that the Company's commercial campaign for 2007 was India and with the success of this strategy India is now the number one inbound market for Sri Lanka.

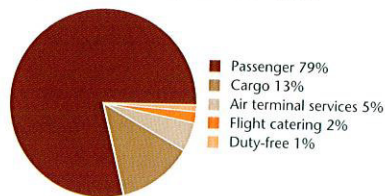
The following table depicts year to year percentage changes in Revenues of the Group & Company for the financial years ended 2007 and 2006.

	Group			Company		
	2007 Rs. M.	2006 Rs. M.	% Change	2007 Rs. M.	2006 Rs. M.	% Change
Passenger	54,683	49,413	10.67	54,683	49,413	10.67
Cargo	9,394	8,152	15.24	9,430	8,177	15.32
Air Terminal Services	3,471	3,201	8.43	3,497	3,218	8.67
Flight Catering	1,002	1,371	(26.91)	-	-	-
Duty Free	354	352	0.57	354	352	0.57
Total Revenue	68,904	62,489	10.27	67,964	61,160	11.12

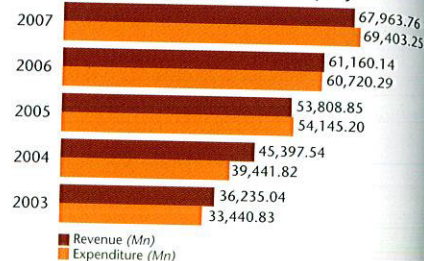
Composition of Group Revenue - 2007



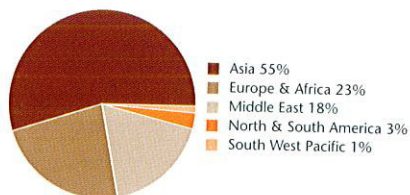
Composition of Group Revenue - 2006



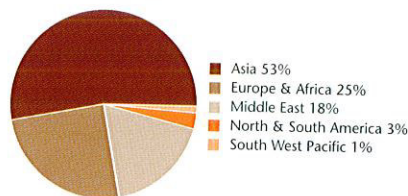
Revenue & Expenditure - Company



Composition of Company Revenue - 2007 by Area of Original Sale



Composition of Company Revenue - 2006 by Area of Original Sale



The increase in passenger revenue excluding excess baggage and non scheduled services of Rs 5,130.42 million was as a result of:

	Rs M
■ 5.36% increase in passenger traffic	
3.69% increase in seat capacity	1,799.70
1.22% points increase in passenger load factor	813.68
	<u>2,613.38</u>
■ 5.66% increase in passenger yield	2,517.04
	<u>5,130.42</u>

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

	Rs M
1% point change in passenger load factor, if yield and seat capacity remain constant	699.03
1% change in passenger yield, if passenger traffic remains constant	538.62

EXPENDITURE

The following table depicts year on year percentage changes in Operating Expenditure of the Group and Company for the years ended 31 March 2007 and 2006.

	Group			Company		
	2007 Rs. M.	2006 Rs. M.	% Change	2007 Rs. M.	2006 Rs. M.	% Change
Staff	9,699	8,192	(18.40)	9,370	7,867	(19.11)
Fuel	23,658	19,236	(22.99)	23,658	19,236	(22.99)
Aircraft Maintenance	5,693	5,266	(8.11)	5,693	5,266	(8.11)
Route	12,515	10,851	(15.33)	14,078	12,360	(13.90)
Aircraft Lease & Depreciation	9,474	8,832	(7.27)	9,474	8,832	(7.27)
Other expenses	8,153	8,525	4.36	7,130	7,159	0.41
Total Operating Expenditure	69,192	60,902	(13.61)	69,403	60,720	(14.30)



Staff costs of the Group increased by 18.4% mainly due to the pay revisions consequent to the signing of the collective agreements during the year. The costs associated with the provident fund and retirement gratuity were the other contributors to this increase. The number of employees in service as at 31st March 2007 was 5,839 (31st March 2006 – 5,955)

Expenditure on fuel excluding the oil cost was Rs 4,409 million higher than last year as a result of:

	Rs M
4.98% increase in volume uplifted	1,138
15.49% increase in weighted average fuel price	2,808
6.4% weakening of Rupee against the US Dollar	809
	<u>4,755</u>
Recoveries from fuel burn guarantee	<u>(346)</u>
	<u>4,409</u>

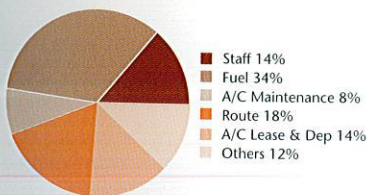
Aircraft maintenance costs of the Group increased by 8.11% as a result of a 5.24% increase in block hours coupled with the depreciation of the Sri Lankan Rupee against the US Dollar.

Route costs comprise mainly of flight operations cost, inflight meals and entertainment costs, landing and parking, ground handling and overflying charges. The increase of 15.33% was mainly due to the increase in frequencies by 3.43% and the increase in the handling rates of several handling agents and landing charges at international airports. The weakening of the Sri Lankan Rupee against most of the foreign currencies also affected this increase.

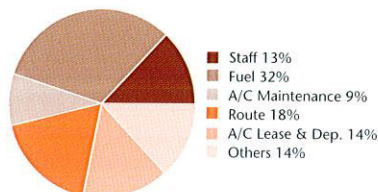
Aircraft lease and depreciation expenditure has increased by 7.27% due to the increase in interest rates and weakening of the Sri Lankan Rupee against the US Dollar.

Other expenses comprise mainly of marketing, advertising and administration costs which has decreased marginally due to stringent cost control measures adopted.

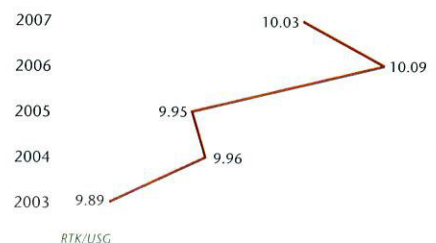
Composition of Group Expenditure - 2007



Composition of Group Expenditure - 2006



Fuel Productivity of Passenger Fleet



FUEL PRODUCTIVITY AND SENSITIVITY ANALYSIS

Fuel productivity as measured by the Revenue Tonne-Km per US Gallon (RTK/USG) decreased marginally by 0.59% over the previous year to 10.03 RTK/USG.

The impact of the fuel price is such that a change in price of one US cent per USG affects the Company's annual fuel cost by approximately Rs 120.74 million, if the US Dollar exchange rate movements and changes in fuel consumption remain constant.

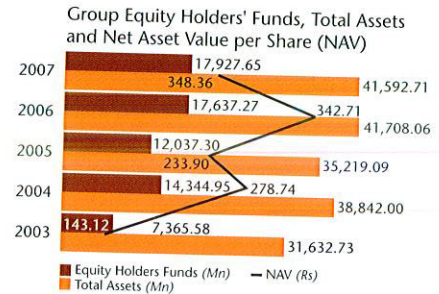
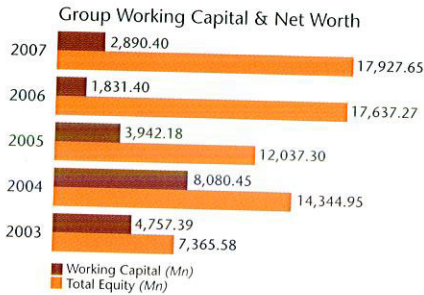
Similarly a change in fuel productivity of 1% would impact the Company's annual fuel costs by approximately Rs 250.35 million, if the changes in the fuel price and US Dollar exchange rate movements remain constant.

FINANCIAL POSITION

The Group's total assets stood at Rs 41,592.71 million as at 31 March 2007, which was a marginal drop of 0.28% from a year ago. The shareholder's funds have improved by 1.65% primarily due to the surplus on the revaluation of land and buildings, thereby increasing

the net asset value per share to Rs 348.36. As a result of adopting the revised Accounting Standards, maintenance expenditure on major engine overhauls were deferred over a 3.5 year period with the capitalization of such expenditure, which also contributed to the increase in shareholders' funds.

The Group's working capital increased by almost 57.82% to Rs 2,890.39 million to that of last year which was Rs. 1,831.41 million due to expiry of finance leases on aircraft.



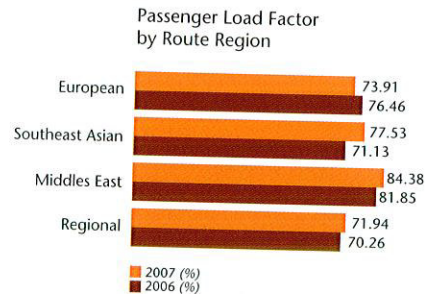
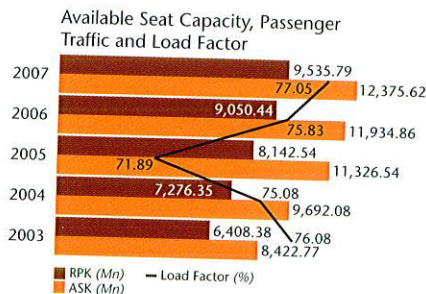
OPERATIONAL PERFORMANCE

Capacity production increased by 6.62% to reach 1,695.91 million available tonne kilometers, reflecting a better utilization of the fleet with increased frequencies to the Middle East, South East Asia, India and Europe by 3.43%.

Number of passengers carried grew by 5.65% to 3.18 million (2006: 3.01 million) while the carriage of cargo grew by 8.15% to 88,833 tonnes (2006: 82,142 tonnes). The increase in volume of traffic came principally from:

- Increased capacity to Kuwait, Abu Dhabi, Doha, Bahrain, Bangalore and Calicut.
- Re-commencement of direct flights to Paris, Frankfurt, Bahrain and Doha.
- Introduction of new passenger services to Goa.

Passenger load factor increased by 1.22 percentage points to 77.05% whilst overall load factor decreased to 67.86% from 69.33%. Overall yield improved by 6.68% to Rs. 55.71 per tonne kilometer due to fare increases as a result of higher fuel surcharges (2006: Rs. 52.22) whereas the unit cost increased by 7.12% to Rs.40.30 per capacity tonne kilometer mainly due to the escalating fuel prices (2006:Rs.37.62). This increase in unit cost resulted in the breakeven load factor rising to 72.34% from 72.03%.



A review of the Company's operating performance by route / region is as follows:

	Passenger Nos.			RPK's		
	2007 000's	2006 000's	Change %	2007 Rs. M.	2006 Rs. M.	Change %
Regional	1,320	1,261	4.68	1,084	1,036	4.63
Middle East	723	699	3.29	2,545	2,429	4.78
South East Asian	690	612	12.75	2,208	1,910	15.60
European	443	433	2.08	3,699	3,675	0.65
System-wide	3,176	3,005	5.62	9,536	9,050	5.37

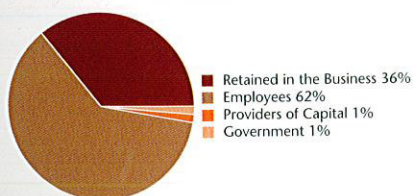


statement of value added

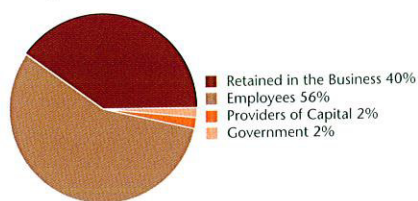
Value Added	Group		Company	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
Total Revenue	68,903.70	62,489.19	67,963.76	61,160.14
Less: Purchases of goods and services	53,423.33	48,317.72	53,614.21	48,650.25
Value added by the Company	15,480.37	14,171.47	14,349.55	12,509.89
Less: Deficit on sale of fixed assets	(14.43)	(0.15)	(3.43)	(0.15)
Investment Income	318.36	274.93	315.72	271.23
Non Operating Revenue	16.57	0.00	16.57	0.00
Total Value Added	15,800.87	14,446.25	14,678.41	12,780.97
Distribution of Value Added:				
To Employees - as remuneration	9,699.27	8,152.05	9,370.49	7,867.37
To Government - as corporation and other taxes as franchise fees to Airport & Aviation	67.88 150.11	96.61 145.19	3.85 111.83	36.12 106.97
To Providers of Capital - as interest	219.38	282.54	111.55	282.54
Retained for re-investment and future growth				
Depreciation	4,802.05	4,050.08	4,512.65	4,011.44
Retained Profits	862.18	1,719.78	568.04	476.53
Total Value Added	15,800.87	14,446.25	14,678.41	12,780.97

Value added is a measure of wealth created. This statement shows the value added and its distribution by way of payments to employees, government and to providers of capital. It also indicates the proportion retained for re-investment and future growth.

Group Distribution of Value Added - 2007



Group Distribution of Value Added - 2006



risk management

All business entities are exposed to various types of risks just as opportunities. The Airline industry which is exposed to a multitude of risks specific to the business is no exception. Numerous measures have been adopted to manage these risks at SriLankan Airlines to maintain long-term sustainable value to stakeholders. The risk management process at SriLankan Airlines involves assessing the impact of these various risks on the business, identifying appropriate risk management techniques and developing strategies to mitigate the risks.

EXTERNAL RISKS

Country Risk

The unfavourable travel advisories issued by some governments of key markets over the last one year had a severe impact on the leisure travel segment of the business. In order to mitigate this risk, the Company has continued to focus on its network strengths by positioning the Airline as the leading international airline serving India and Maldives. The Airline continued to develop the concept of promoting Colombo as a hub for South Asian traffic and as a gateway to the Far East.

Fuel Price Risk

Fuel prices which recorded all time high rates during the year also witnessed a sharp decline but have increased since then and have remained high throughout the year. The Company continued with its jet fuel risk management strategy of hedging with a view to minimizing the effect of price fluctuations. The Company policy is to hedge a major part of its fuel requirement for a maximum period of three years as per the policy approved by the Board of Directors.

Market Risk

With the emerging trend of low cost carriers especially in South Asia, the commercial aviation industry has become highly competitive. Accordingly the Company has adopted a number of strategies including direct marketing utilising new distribution channels such as the internet. 'SriLankan Online' and 'SriLankan Holidays' are examples of the strategies adopted in order to provide a total solution under one brand

to the leisure traveller, creating new revenue streams for the Airline and moving away from traditional thinking in commercial aviation. The Company continues to follow the product differentiation strategy by carrying out a rigorous programme which includes redesigning of the product as well as redefining the customer touch point experience. The investments carried out in implementing e-ticketing technology and the development of the internet based booking engines created new markets which were inaccessible to the Airline previously.

Credit Risk

Credit Risk arises with customer defaults. Credit exposure is monitored closely and credit is granted only as per Company credit policy which includes bank guarantee cover from all sales agents.

Exchange Rate Risk

The Company is exposed to exchange rate fluctuation risk due to the mismatch and timing differences in earning currency and payment currency. This risk is mitigated by identifying the time frames of receivables and payments and matching them to the maximum possible extent creating a natural hedge. The net exposure of major currencies, after matching are closely monitored and appropriate measures are taken to minimize the risk.

Interest Rate Risk

Interest rate risk arises due to loans/ aircraft leases and deposits being subject to interest rate fluctuations. This risk is closely monitored and appropriate measures are taken especially at the time of negotiating facilities depending on the total exposure and time period.

INTERNAL RISKS

Compliance Risk

International air transportation is subject to various regulations of many countries and organisations especially in relation to safety, competition, consumer protection and environmental aspects. The Legal, Insurance and Risk Management Divisions closely monitor all new developments in the regulatory environment and appropriate

action is initiated in a timely manner to ensure compliance with relevant legal and regulatory requirements.

Operational Risk

Human Resources are a key strength of the organisation and policies are designed to continuously enhance the employee productivity and retain qualified and experience staff. Contingency plans are developed and updated regularly to ensure that key positions are manned as per the minimum requirements to maintain operations without any disruptions. Open communication sessions and the Collective Agreements signed with all categories of unionised staff both locally and overseas ensure the smooth functioning of all critical operations.

System Risk

Information Technology (IT) systems have become critical to every aspect of business. IT risk includes security, availability, performance and compliance elements. Recognising these risks especially with the growth of e-commerce is vital to prevent cataclysmic failures, inadvertent damage that could occur with inadequately trained employees and threats from external forces. Therefore, a continuous process enforcement of network defences, significant migration to IP-based architecture, platform upgrading of the IT environment and adding skills and resources to the IT team is in place to mitigate these risks.

The services of a reputed external institution have been sought in carrying out a security assessment on IT infrastructure and critical applications. The IT disaster recovery plan covers all critical systems including redundancies and plans are underway to upgrade the data centres in stages with high-end servers in order to minimise risks associated with unsupported platforms.

The Internal Audit Department adopts various measures to ensure the adequacy and effectiveness of system of internal controls prevailing in the Company. A comprehensive internal audit plan put into place by the internal audit division is one such example. Internal Audit plan which is pre-approved by the Board covers both operational and



non-operational areas of the Airline. Audits are conducted as per the plan on a regular basis, observations and recommendations for improvements are reported to the Board and the Senior Management to take corrective action thereby minimising the risks associated with the weakness in the system of internal controls.

Safety Risk

The safety and security of the customers, employees and assets of the Company is of great concern whether in the air or on ground. Customer perception about safety has taken a toll after 9/11 and other terrorist attacks. Therefore, we take every possible measure to ensure the safety of our customers as well as our employees.

In order to enhance the quality standards of operational management and control systems, we are in the process of obtaining IATA Operational Safety Audit (IOSA) accreditation. We have been awarded the European Aviation Safety Agency (EASA) 145 accreditation which will permit us to carry out maintenance of aircraft and components for third parties who require this accreditation as part of their regulatory requirements. Obtaining these international accreditations will help us to continuously update standards to reflect regulatory revisions and reduce costs associated with non-compliance.

A comprehensive Emergency Response Plan is in place and all aspects relating to an aircraft related emergency situation is covered with resources drawn from all relevant departments and is headed by members of the Senior Management Team. These plans are being constantly tested and updated with a view to responding to any aircraft related emergency situation that may arise in Sri Lanka or abroad.

Cost Overrun Risk

Cost containment is an important function in a business environment where there is downward pressure on yields. Company adopts several measures to control operating costs in order to ensure that Unit Cost of Airline operations and overall costs of the Company are within expectations / budget.

Managing the fuel price risk and longer-term contractual agreements for procurement of goods and services are an integral part of managing the cost overrun risk. Monitoring mechanisms are in place to provide 'early warning indicators' whereby actual performances on a functional level as well as on a cost-centre level are reviewed against expectations / budget on a monthly basis. Significant variances are analysed and reported for appropriate action to be taken.

Procurement Risk

The Group depends on the continuous supplies of quality raw materials, spare parts and related items. Non-delivery or delays in delivery of these items would be crucial and could result in heavy losses to the Group. SriLankan Airlines takes every effort to establish and maintain a good relationship with its suppliers. SriLankan adopts a stringent process to identify quality suppliers and enters into contractual agreements with them to ensure timely and quality delivery of its supplies.

In addition to the above measures the Company wherever possible has entered into various insurance arrangements to mitigate the financial implications of risks arising from various uncertainties.

corporate governance

This statement of corporate governance describes the responsibilities and best practices exercised by the Board and the Executive Management of the Company with a view to providing strategic direction, ensuring that the company objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization resources are used responsibly.

The Board and Management will continue to uphold the highest standards of corporate governance within the Company in accordance with principles and provisions recommended by the Institute of Chartered Accountants of Sri Lanka.

BOARD OF DIRECTORS

Composition of the Board and Attendance

The Board of SriLankan Airlines comprises members with diverse experience and extensive knowledge within and outside the airline industry. The Board consists of members representing the Government of Sri Lanka and the Investor respectively. The Board meets regularly to discuss strategic issues, policies and set standards for strategic direction of the Company. The Board is supplied with comprehensive information which includes a detailed agenda, minutes of previous meetings, information relevant for decision making such as financial statements, productivity and performance indicators, budgets, forecasts and board papers on other policy and business issues in advance of each meeting.

The composition of the members of the Board as at 31 March 2007 and their

attendance at Board meetings during the financial year are set out in the table below.

Responsibility of the Board

The role of the Board is to provide entrepreneurial leadership to the Company within a framework of prudent and effective controls to protect and enhance long term stakeholder value whilst being committed to maintain the highest standards of integrity, accountability and transparency.

The principal functions of the Board include:

- Providing strategic direction and implementing and monitoring business strategies for the Company and its subsidiary.
- Reviewing and approving annual budgets, financial plans and monitoring performance, by reviewing monthly financial and management reports.
- Evaluating and approving major acquisitions and investment proposals.
- Adoption of annual Consolidated Accounts of the Company and the Group.
- Evaluating the external environment and assessment of business & financial risks that could impact the performance of Company and take actions to mitigate such risks.
- Evaluating & optimizing business opportunities.

- Ensuring compliance with all laws and regulations relevant to the business

RESPONSIBILITIES OF THE CHAIRMAN & THE CEO

There is a division of responsibilities between the Chairman and the Chief Executive Officer, to ensure a balance of power and authority within the Company.

ACCESS TO INFORMATION

The Directors have separate and independent access to the Company Secretary. The Directors are provided with Board papers well in advance of each meeting, to enable them to be properly informed of matters to be discussed and determined. The Directors also possess direct access to the Chief Executive Officer at all times.

SENIOR MANAGEMENT TEAM

The Senior Management Team of the Company comprises the Chief Executive Officer, Chief Financial Officer, Chief Technical Officer, Head of Service Delivery, Head of World-wide Passenger Sales, Head of Human Resources and Head of Corporate Communications. The Chief Executive Officer is responsible for the Company's overall performance; the Heads of Disciplines are responsible for the operations of the respective divisions of the Company.

The Senior Management Team has been set up to facilitate the two-tier governance structure. The Senior Management Team

Name Of Director	Designation	Date of Appointment	Nature of Appointment	Attendance	%
D.H.S JAYAWARDENA	Chairman	20.01.2006	Govt. Nominee	4/4	100%
T.C. CLARK	Managing Director	31.03.1998	Investor Nominee	4/4	100%
S. UKWATTE	Director	21.05.2004	Govt. Nominee	4/4	100%
R.A.CHANDIRAM	Director	13.05.2005	Govt. Nominee	4/4	100%
A.N.WICKREMASINGHE	Director	20.01.2006	Govt. Nominee	3/4	75%
G.W.CHAPMAN	Director	31.03.1998	Investor Nominee	3/4	75%
N.J.HOPKINS	Director	01.06.2005	Investor Nominee	4/4	100%



exercises its authority within the policy and ethical framework established by the Board and the business practices inherent to the Company, which demand best practices in dealing with customers, employees, suppliers and the community at large. The Senior Management Team which is headed by the Chief Executive Officer meets once a fortnight to discuss important day to day operational/business issues of the Company as well as to execute directives/policies issued by the Board.

FINANCIAL REPORTING

The Chief Financial Officer is responsible for all financial reporting of the Company, including monitoring all new financial accounting and reporting standards and assessing their impact on SriLankan Airlines. The Company is committed to adhering to Sri Lanka Accounting Standards in presenting the financial position of the Company and ensures adequate disclosures are made in the Annual Report giving a true and fair view of the Company's financial and operational performance.

The Financial Report of the Company is audited by the external auditors who express an 'Independent Opinion' on the financial statements. The Company also obtains tax advisory and other consultancy services from independent external parties.

INTERNAL CONTROLS

The Board of Directors and Management are responsible for the maintenance of the Company's systems of internal control including the internal financial controls to safeguard shareholder investment and the assets of the Company.

The Board ensures effectiveness of controls prevailing in the Company and provides reasonable assurance on safeguarding the assets against unauthorized use or disposal and maintenance of proper and reliable records of information. It includes all controls such as financial, operational, compliance and risk management. However, any system can ensure only reasonable and not absolute assurance that errors and irregularities are

prevented or detected within a reasonable timeframe.

The Board and the management also take into account the significant social, environmental and ethical aspects that relate to the Company's business and work practices. The Company's risk management policy is covered under pages 44 to 45 and the Environment and Corporate Social Responsibility is addressed in pages 49 to 52.

The Management has put in place an organizational structure with formally defined lines of reporting and appropriate limits of authority for different processes. There are also established procedures for planning and investment, and information and reporting systems to monitor the Company's business.

The Company maintains an independent internal audit department reporting directly to the Board of Directors and the Chief Executive Officer.

The internal audit plan which is approved by Board of Directors covers a period of three years. Adequacy & effectiveness of business controls of the Company are reviewed on an on-going basis both locally & overseas based on the three year plan prepared using a risk model covering high risk areas of the Company. The Group Internal Auditor has access to management and authority to seek information and explanation.

Key findings of the internal audit department is reported to the Board of Directors. The respective Heads of each Division is responsible for taking corrective action on audit findings and report follow-up to the Chief Executive Officer.

MANAGEMENT INFORMATION SYSTEMS

Information systems are developed to support the Company's long term objectives and are managed by professionally qualified staff.

A comprehensive management accounting system is in place providing financial and

operational performance measurement indicators to the management. Monthly 'Financial Review' is submitted to the members of the Board and Senior Management Team, which includes detailed management accounts, performance of each route by fleet type and explanations to variances with the budget, for decision making and corrective action.

HUMAN RESOURCE POLICIES AND PRACTICES

The professionalism and competence of staff is maintained both through rigorous recruitment policies and performance appraisal system which establishes targets, reinforces accountability and controls and identifies appropriate training requirements. Systems are in place to ensure that staff skills are developed and maintained to fulfill their responsibilities, and that the Company can meet its future staff requirements.

EMPLOYEE RELATIONS

The functions of SriLankan Airlines Human Resources includes improving and enhancing the worker relationship between the employees, increasing labour flexibility through the review and improvement of work place practices, complying with the Collective Bargaining Agreements negotiated with unions and reviewing ways to better motivate the work force through wage restructuring and wage reforms.

REMUNERATION COMMITTEE

The Group's remuneration policy is designed to attract, retain and motivate staff to optimise individual objectives and thereby improve the Group's overall performance. Remuneration rewards and promotions of staff based overseas are reviewed and approved by a Remuneration Committee consisting of the Chief Financial Officer, Head of Human Resources, Head of Services Delivery, Head of Worldwide Passenger Sales and Head of Cargo.

Remuneration of staff excluding the executive and managerial staff based in Sri

Lanka is in accordance with the Collective Bargaining Agreements with unions which are in line with industry norms.

The remuneration reward and promotion scheme of the Company is structured on the annual performance appraisal linked to Key Result Areas (KRA) and Key Performance Indicators which are monitored throughout the year. These KRA are formulated for each individual annually, based on the Company's set objectives for the year.

POSITION REQUEST COMMITTEE

Staff requirements are subject to scrutiny by the Position Request Committee which comprises the Senior Management Team (SMT) members, with the objective of managing recruitment. On the recommendations of the SMT, the requested position is filled by an internal promotion or an external appointment.

REGULATORY COMPLIANCES

The Company is committed to comply with the domestic and international rules and regulations governing the operations of the business. This includes, abiding by the rules and regulations established by The International Air Transportation Association (IATA), Civil Aviation Authority of Sri Lanka and various other agencies which have a bearing on the operations of the airline. Over the past years the Company has focused more on safety and security aspects due to the prevailing security situation in the country and the threat to international air travel in the aftermath of Sep 11, 2001.

Further, various divisions of the Company have been working towards certification in their respective fields - SriLankan Engineering on European Aviation Safety Agency (EASA) and the Flight Operations on International Operational Safety Audit (IOSA). In addition to this, to enhance the document flow and handling, "SS" procedures have been introduced in most of the departments within the Company.

TENDER BOARD

The procurement processes of the Company complies with relevant policies and procedures approved by the Board of Directors. Tender boards function as supervisory bodies to oversee and approve supplier selection and purchase of products and services in excess of Rupees five million. The Senior Tender Board comprises of the Chief Executive Officer/Chairman, Head of Worldwide Passenger Sales, Senior Manager - Legal Affairs, Company Secretary, Group Treasurer and the Group Internal Auditor as an independent member. The Junior Tender Board comprises of The Head of World-wide Passenger Sales/Chairman, Senior Manager Legal Affairs, Company Secretary, Group Treasurer, General Manager SriLankan Holidays and the Group Internal Auditor as an independent member. Purchases above Rupees Hundred Million require the approval of the Board of Directors.

GOING CONCERN

The going concern basis has been adopted in the preparation of the Company's Financial Statements. The Directors confirm that they are satisfied that the Company has sufficient resources to continue its operations in the foreseeable future.

TRANSPARENCY

The Board places great emphasis on complete disclosure of both financial and the non-financial information within the bounds of commercial reality, and on the early adoption of sound reporting practices.

The Chairman, the Managing Director and the Chief Executive Officer's reviews present a balanced assessment of the Company's performance and its future strategic direction.

The Statement of Directors Responsibilities in relation to the transparency of Financial Statement is set out on page 66.

EXTERNAL AUDITORS

The external auditors are primarily responsible for auditing the financial statements of the Company & reporting there on. Remuneration of the external auditors is approved by the Board of Directors on the recommendation of Chief Financial Officer. The external auditor's Management Letter which identifies areas of improvement in controls and management's response there to, is discussed by the Members of the Board with the auditors annually, on completion of the audit. The total remuneration paid to the external auditors amounted to Rs. 5.43 million for audit, tax advisory and other services.



corporate social responsibility

We at SriLankan Airlines believe that the National Carrier must play a leading role in instilling traditional values to the community, and act as a catalyst in making Sri Lanka a better place to live and work in. We are a service oriented organization, which is mindful that success is not spelled out merely by a company's bottom-line, but in the positive changes that it instills in all those around it.

This belief comes easily to a Company which has won the Silver Award in Corporate Social Responsibility in Sri Lanka, with a history and tradition of warmth, friendship and professionalism, which is completely focused on promoting the success of all its many stakeholders. These range from customers to shareholders, investors, employees, regulators, suppliers, the community, and the Country.

SRILANKAN CARES - A TOWER OF STRENGTH TO THE COMMUNITY AND COUNTRY

More than a quarter-century's tradition of serving Sri Lanka and Sri Lankans drives not just the company but all employees, from companywide projects to efforts by single departments. SriLankan Cares, the charity arm of the Airline, embodies the spirit of service that is so alive within the Company. Tasked with the responsibility of leading the National Carrier's numerous community service efforts, SriLankan Cares is today one of the foremost community service providers in the corporate sector. The main focus of SriLankan Cares is the upliftment through education of children of all ages - from pre-school to university. A few of the key projects are described below.

The Rebirth of the Kalmunai Tsunami School

The flagship project of SriLankan Cares saw the rise of Al Bahriya Maha Vidyalaya in Kalmunai from the ruins of the Tsunami. The Rs. 78 million effort was successfully concluded on 27 October 2006 with the support of the Airline's business partners - Lufthansa Technik, HelpAlliance, and GTZ - a model of teamwork and international co-operation. The project was a laudable achievement, given the remoteness of the area and its distance from Colombo.

The school, which serves 1,500 children, was provided with a new 3-storey building of 27,950 square feet with 18 classrooms. Three other badly damaged buildings which house 20 classrooms were reconstructed. The buildings include all support facilities such as a Music Room, Dance Room, Toy Room, Library, Counseling Rooms, Assembly Hall, Staff Room, a Library, and a Science Lab.

SriLankan Cares went further by equipping the school with two Computer Rooms with 42 PCs and 2 Servers, introducing young minds to the wonders of modern technology. SriLankan is providing continuous assistance to the school, which includes training teachers at the Company's facilities in Katunayake, and providing long-term hands-on technical support in the computer labs through on-site technicians.

The Kalawana School - A Remarkable Success Story

Meepagama Jayanthi Maha Vidyalaya was adopted by SriLankan Airlines in 2002 after floodwaters ravaged the area and the school was burdened by hundreds of students from other schools that had been damaged. The long-term commitment of the Airline

has sparked a visible transformation in the educational performance of its 1,000 students.

The National Carrier's efforts completely transformed the school with new buildings and modern amenities such as computer labs and a library, even providing teachers with training. SriLankan Cares provides scholarships for the neediest students, and it is with gratification that we witnessed several of them qualifying to enter university during the last year to follow degrees in Law and Arts.

"SriLankan Airlines' Aircraft Engineers carried out a Rs. 700,000 project to build a new Pre-School - Shri Sirisumedha Pera Pasala - for Tsunami-affected children in the southern town of Kosgoda."



Kalmunai School Reopening



School Development



Distribution of Books

Minuwangoda Shri Sugathapala Kanishtha Vidyalaya

The deep-rooted spirit of service was demonstrated yet again when the staff of SriLankan made urgent repairs to this school of 200 students, located in the nearby community at Minuwangoda. Several more projects have been planned for this school, to provide continuous support.

Building a Pre-school in Kosgoda

SriLankan Airlines' Aircraft Engineers carried out a Rs. 700,000 project to build a new Pre-School - Shri Sirisumedha Pera Pasala - for Tsunami-affected children in the southern town of Kosgoda. Funds were raised by the Aircraft Engineers and other staff, with generous contributions from colleagues at KLM Royal Dutch Airlines, once again demonstrating the spirit of international co-operation.

Diriya Daruwo Empowers Rural Youth

SriLankan is a supporting partner of the Diriya Daruwo programme, which is empowering young men and women throughout the Country's rural areas. The programme focuses on providing personality development training and communication skills in order to bring out the talent in youth.

Cabin Staff in Continuing Series of Service Projects

The Airline has underlined its philosophy of caring through a new policy that each freshly recruited group of Cabin Staff, one

every month, carries out a service project in support of children's homes, institutions for the elderly, children of women in prison, and other worthy causes. Our young cabin staff have embraced this project with great enthusiasm.

Supporting the National Hospital

The Company gifted the National Hospital with a dozen personal computers during the year under review, which have proven invaluable in administrative functions.

Career Development Assistance for the University of Kelaniya

The Toastmasters Club and Orators Club of the Company put their skills to excellent use by carrying out a career development programme at the University of Kelaniya, and a teambuilding project in Kandy for traumatized children.

Supporting Undergraduates of Many Universities

The Company this year expanded its longstanding programmes of providing opportunities for undergraduates to learn vital workplace skills and become familiar with the corporate environment. Projects included 6-months internships for Arts and Economics undergraduates of the University of Ruhuna, and internships for IT undergraduates of the Universities of Ruhuna, Moratuwa, and Peradeniya.

Blood Donation Campaign held for 20th consecutive time

It is with pride that the Company held its annual Blood Donation Campaign for the 20th consecutive time. The number of donors from among our staff continues to grow, and this year we had 117 employees giving the gift of life.

Distribution of Exercise Books

SriLankan also distributes approximately 30,000 school books to needy children around the Country every year, identifying the neediest schools in a large number of the Country's poorest regions.

Anti Drug Campaign

SriLankan Cares was approached by the Police Anti Narcotics Bureau to be a sponsor of its anti drug campaign. This campaign targeting school children will be conducted throughout the island spanning a period of 5 years. We have sponsored the mobile exhibition kiosk and leaflets containing information on negative effects of drug use.

Sponsorship of a Team of Pediatric Cardiac Surgeons

Very special fares were offered to a team of 15 surgeons, doctors and nursing sisters who are brought to Sri Lanka by a London based British charity on an annual basis to conduct open heart surgery on poor children.

EFFORTS TOWARDS SAFETY

The Company has given the highest priority to the development of a comprehensive Emergency Response Plan, and the training of hundreds of volunteers with skills on operating in any emergency. This was demonstrated most successfully during the emergency at BIA on 25 March 2007. SriLankan received much credit for handling the evacuation of passengers, diversion of incoming flights to alternate airfields, handling of more than 1,000 emergency phone calls from passengers and their family members; and the rapid reopening of BIA within 3 hours of the incident.



Anti-drug Campaign



Blood Donation Campaign



Service Project at Lady Ridgeway Hospital

Low vibration and low noise serve to protect breeding grounds of fish and birds. Particular care is exercised to ensure that routes are well clear of all wildlife reserves.

Noise levels of the entire Srilankan fleet continue to be well within the limits stipulated by the International Civil Aviation Organization (ICAO Chapter 3, Annex 16) which also enables flying in to airfields where noise limitations are in effect.

Waste management measures in place at the Airline include recycling of waste paper, maximum re-use of packing materials; recycling of obsolete ground equipment through indigenous innovations; and use of tetra packs on flights instead of cans and plastic bottles.

The Airline's concern for the environment was extended to support the efforts of external organizations in promoting awareness and best practices. One such programme was the sponsorship of a project by the Colombo Municipal Council to install different coloured bins at schools throughout the capital city to segregate different types of waste products, and raise awareness among school children.

The Airline's new water treatment plant at Katunayake is a model of safeguarding the environment, providing modern treatment methods to remove effluents from waste water before it is released.

"The performance of Srilankan Air Taxi's Turbo Otter floatplanes was stringently monitored by both the Airline and the Central Environmental Authority;"

performance levels of all possible types of aircraft for the expected expansion of the fleet. Criteria include fuel efficiency, and noise levels of engines.

The Flight Operations Department implemented several measures in route planning for our existing operations, which lessen levels of environmental impact through reduced levels of fuel burn. The reduction in amounts of fuel carried on board, subject to safety limitations and weather patterns, through a hands-on process that is calculated differently for each route and flight, has greatly reduced fuel burn.

The performance of Srilankan Air Taxi's Turbo Otter floatplanes was stringently monitored by both the Airline and the Central Environmental Authority, especially with the introduction of several new destinations. The aircraft proved yet again to be extremely environment-friendly, both in terms of minimal noise levels and emissions.

A new Flight Data Monitoring Programme was successfully instituted to assist all pilots in identifying possible weaknesses and improving on them through training. This too is a completely non-punitive measure, and has served to further reduce the possibility of incidents in an Airline that has a sterling safety record.

The Company also made a significant investment in a Slide Ratt Trainer at Katunayake, to provide comprehensive in-house training for cabin staff and pilots in ditching of aircraft and survival in the water, to further enhance safety of passengers.

A comprehensive Company Safety Policy was launched during the year under review, which included the guarantee of Penalty Free Safety Reporting for all staff. This has significantly reduced safety risks in the work environment.

We at Srilankan enhanced our continuing efforts at providing near-complete safety in the airside areas of BIA through the standardization of operating procedures and the continuous education of staff, especially drivers of vehicles and operators of equipment, in accordance with rules set by the Airport Handling Manual of IATA. A significant reduction was recorded in the number of accidents. All safety related incidents, however minor, undergo a thorough investigation with the aim of taking corrective action to prevent such occurrences in the future.

SAFEGUARDING THE ENVIRONMENT

We at Srilankan are actively taking into consideration the environmental



Waste Product Awareness For School Children



Air Taxi Monitoring Programme



Flight Operation Safety Measures

Vast strides have been made towards energy conservation at the Company's premises through investment in automatic control systems that regulate lighting and air-conditioning and include power-factor correction capacitor banks, significantly reducing demand on the national grid.

PROMOTING OUR SUPPLIERS & PARTNERS

SriLankan has adopted best practices in dealings with suppliers and business partners, which are intended to promote stable business relationships by providing continuous support.

One of the most important areas has been the staunch support that we provide to promote Sri Lanka as a destination for global tourism. During the year under review, the National Carrier spent more than Rs. 350 million in popularizing Sri Lanka, independently of our marketing of the Airline's own products and services. A large number of initiatives were carried out in partnership with Sri Lanka Tourism, both in Sri Lanka and overseas.

The National Carrier also leveraged the power of leading corporate players such as HSBC and Singer by entering into partnerships to host the Airline's corporate events. This greatly enhanced the level of visibility for both the Airline and the Country, and also served to promote the interests of our partner organizations.

Another area in which we at SriLankan provide constant support for our partners in the industry is in giving discounted fares for travel trade partners to travel overseas for trade fairs. The scope of this assistance can be appreciated only when one considers that Sri Lanka's travel trade is present at dozens of fairs throughout the world, and often sends as many as 50 persons for a major fair. Discounted rates are also provided for the large amounts of cargo carried by trade partners, which include many tonnes of promotional materials for distribution overseas.

The Airline continued its programmes of providing training for Travel Agents in Colombo and Kandy in areas such as Ticketing and IATA mandated subjects.

We at SriLankan have also streamlined our procurement process to promote the one-vendor concept. This guarantees a constant stream of business for our suppliers, and contributes to their financial success.

The Airline made a major effort to increase its use of local products whenever possible. This was especially so in the case of ingredients for inflight menus such as fish, fruits, vegetables and spices. Airline staff are involved in inspecting the operations of such suppliers, ensuring that their production processes are up to the Airline's strict standards, and providing advice on desired changes.

PIONEERING CUSTOMER SERVICE ACROSS THE COMPANY

SriLankan spared no efforts to introduce better ways to delight our customers. Numerous projects were carried out through

which the Company raised its service levels for the benefit and greater convenience of our passengers.

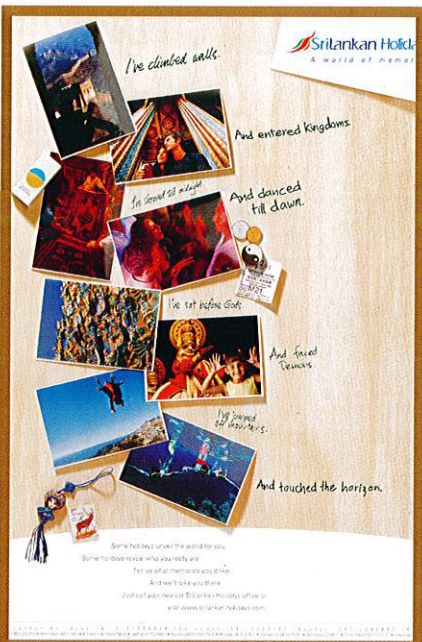
Delay Handling Teams were formed at BIA to take care of passengers during flight delays. This has served to provide immediate assistance for passengers on delayed flights, reducing levels of frustration, and ensuring rapid solutions to problem situations.

The Airline provided amazing low fares to Europe which introduced thousands of first-time travellers to the exciting world of international air travel and exploration of foreign cultures. This also allowed entire families to travel together to Europe on vacation, an opportunity they would normally not have due to the cost factor.

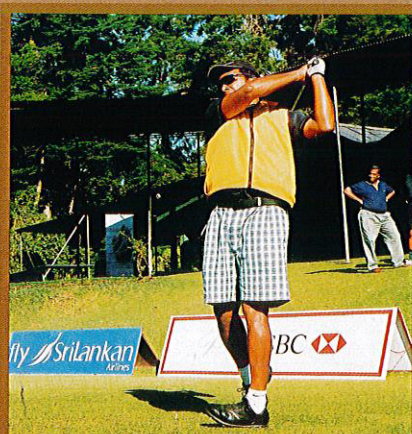
The Customer Affairs Department was reorganized for greater focus and spearheaded the Airline's drive to ensure complete satisfaction for all customers, to a level that is not found among the vast majority of airlines.

A new quarterly newsletter 'Customer First' was introduced to provide encouragement and constructive feedback to staff from passengers. This is widely distributed among staff, and serves as a reminder of the highest regard that we at SriLankan have for our customers.

The Airline also constantly carries out customer surveys on board flights, in order to obtain immediate and firsthand feedback and suggestions on how to improve customer service.



Amazing Low Fares To Europe



SriLankan Strokes



Customer Service



Our strength lies in our human wealth

We at SriLankan Airlines believe that our greatest asset is our family of employees. We continuously strive towards developing a high performing and motivated team of staff. The quality of knowledge, experience and innovation that our staff bring into the Company has formed the foundation of our strength over the years and continues to be so.

It has been said that talented and experienced employees enrich a company's knowledge base and stability. Similarly at SriLankan Airlines, the retention of long standing and talented employees is one of the highest as almost 50% of our staff has over 10 years of service. This beyond doubt shows that the Company's efforts towards being an 'employer of choice' have been a success. In appreciation and recognition of these employees the Company annually holds a ceremony at which the long service employees are felicitated. As at to date, 88% of the Company's staff strength consisted of permanent staff, while the remaining 12% were on contract. The following table illustrates the service analysis of the permanent staff as at to date:

Service Analysis	No of Permanent staff
< 1 year	411
1 - 5 years	1,310
6 - 10 years	701
10 - 15 years	860
15 - 20 years	599
20 - 25 years	549
> 25 years	276
	4,706

The Company's staff strength continues to be a combination of the young and dynamic and the mature and experienced work force. This blend in the human capital enables the Company to be flexible towards the changes taking place while at the same time retain the traditional operational practices where required. The following table depicts an analysis of this combination for the permanent staff as at to date:

Age	No of Permanent staff	%
> 55	56	1.19
35 - 54	2,531	53.78
25 - 34	1,400	29.75
< 25	719	15.28
	4,706	100.00

The commitment to our staff was evident by the way in which the Company maintained its proud tradition of being an employer of choice in the Country. This was achieved by being proficient in recruitment procedures, training, career development, succession planning, development of ancillary skills, cross-functional training to enable further opportunities in career development, overseas training, and welfare measures.

FOCUSING ON CAREER DEVELOPMENT

The Company provides an extensive range of career development programmes, all aimed at bringing out the talent of employees

and providing them with the skills and opportunities to maximize their potential.

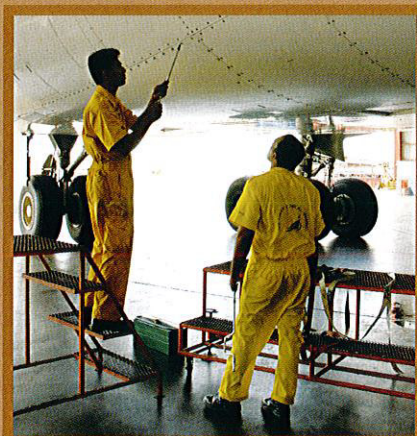
These include cross-functional training to provide employees with the skills to take up positions in other departments. This highly successful programme is a key component of the Airline's policy of encouraging staff to seek avenues of career advancement in any of the many disciplines in the Company.

Another key programme has been the development of communication skills of staff at all levels. Specific measures taken in this respect include the highly successful SriLankan Airlines Toastmasters Club which is affiliated with Toastmasters International and the launch of the unique Orators Club in Sinhala and English, which promotes communication skills among employees whose preferred language is one other than English. The year under review saw the first ever Speech Contest in the Company, which was open to all staff.

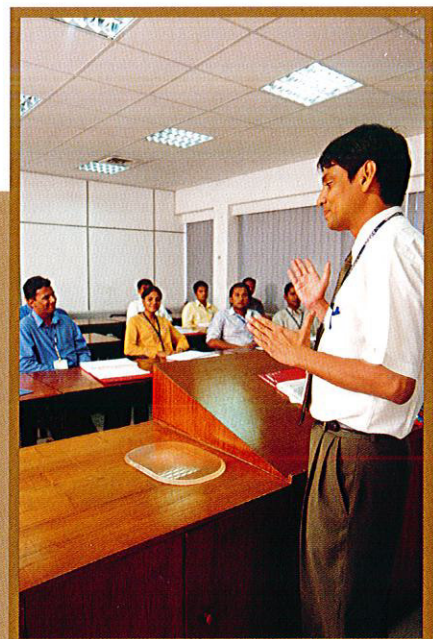
The Airline continued its highly successful "People Leading" training for Managers and Executives to provide better leadership of staff. This is under the stewardship of international management guru Doug Adams. Virtually all senior and junior level managers throughout the Company have



Awards Night



Maintenance Training



Technical Training

participated in the programme, and follow up sessions are now in progress to evaluate their progress.

The Company provides Officer and Supervisor Development Programmes to empower employees in lower grades with skills to further their careers. These programmes are open to all staff who wish to acquire skills necessary to further their careers through promotion to higher grades.

The Country Managers Programme was expanded and is now a prerequisite for Managers who wish to apply for the coveted posts of Country Managers at SriLankan. This programme has provided Managers and Executives outside the Commercial Division the knowledge necessary for this position.

During the year under review, SriLankan hosted four management and leadership courses from IATA at the International Aviation Academy in Katunayake, providing Managers at SriLankan with the opportunity to keep abreast of the latest developments in these disciplines in the global airline industry.

Employees of SriLankan are provided opportunities to further their careers through programmes of study at the Airline's International Aviation Academy, which is accredited by many prestigious global

educational and vocational institutions such as City & Guilds, IATA, Asian Institute of Technology, Edexcel International, the Association of Certified Chartered Accountants (ACCA), Chartered Institute of Management Accountants of the United Kingdom (CIMA-UK), and the Institute of Chartered Accountants (ICA).

REWARDS & EMPLOYEE PARTICIPATION

The Airline has a variety of programmes which reward employee performance, apart from promotions and increments.

One such programme provides a two year secondment to Dubai to work as the staff of the Company's strategic partner Emirates. Employees are able to earn international standard salaries and gather much valuable experience of working in a global travel hub, while at the same time having guaranteed employment upon their return.

The Staff Welfare Society of the Airline expanded its year 5 scholarship programme for the 6th consecutive year, rewarding the finest performers among children of staff at this examination. One unique aspect is that the criteria include the work performance of the parent, as well as other factors such as the grade of the employee, and the district the child is studying in.

Other methods of rewarding exceptional work include the ongoing Prasansa, Sankalpa, Employee of the Quarter, and Employee of the Year programmes companywide.

COLLECTIVE AGREEMENTS TO MAXIMIZE CO-OPERATION

SriLankan continued with its long-term practice of negotiating Collective Agreements with all of its employee unions. These include the Sri Lanka Nidahas Sevaka Sangamaya, the Pilots Guild of Sri Lanka, the Flight Attendants Union, the SriLankan Airlines Aircraft Technicians Association, the Association of Licensed Aircraft Engineers, the Foreign Airlines Employees Union Peninsular Malaysia, and the Singapore Manual & Mercantile Workers' Union. Several of the agreements were renegotiated and renewed during the year under review.

These agreements, which cover a wide variety of subjects ranging from salaries to promotions, serve to safeguard the interests of employees and provide a more stable environment for development of their careers. They also provide the Company with a more contented workforce, which increases the competitiveness and business capabilities of the Airline.

PERFORMANCE BASED INCREMENTS

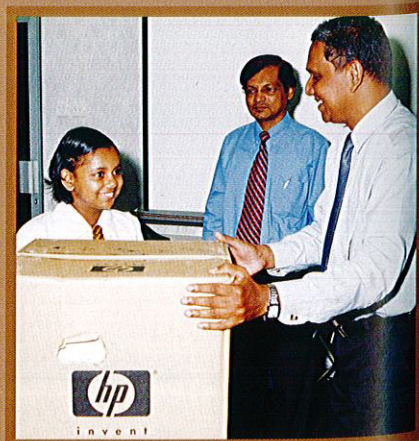
In keeping with international practices, we at SriLankan are instituting a system of annual increments for Executives and Managers which will take into consideration their individual performances for the review period and prevailing market trends for their grades. In this process, the previous practice of an annual fixed increment will come to



Christmas on Wings



Orators Club In Sinhala & English



Scholarship Programme



an end, and instead, a higher portion will be based on performance thus motivating the employees to perform at their best. In order to conform to a standard, a performance evaluation is carried out on a yearly basis for all non-executive staff as well.

A UNIQUE POLICY AGAINST HARASSMENT

SriLankan Airlines was the first organization in the Country to implement a comprehensive Policy Against Harassment in the workplace. This guarantees a safe and comfortable work environment for every member of the staff and a productive workplace that fosters high morale and low employee turnover. This comprehensive policy covers all forms of harassment, ranging from physical, verbal, psychological or sexual acts or threats.

All members of staff have access to two external Ombudsmen namely Mr. Bradman Weerakoon and Mrs. Manoli Jinadasa (Attorney-at-Law) to lodge any complaints.

Complaints are inquired into within a stipulated time period, and punitive measures implemented against those found guilty. A variety of precautionary measures are also in place to prevent any retaliatory action against complainants. The policy is under the direction of a cross-functional committee that reports directly to the CEO.

PROMOTING SPORTS FOR HEALTHIER LIFESTYLES

SriLankan Airlines continues to provide more opportunities for its employees to participate in nearly two dozen different types of sports, in the firm conviction that building healthier lives and lifestyles will be of immense benefit to careers and to the Company.

The Airline celebrated yet another outstanding year in sports, winning many titles at the national, mercantile or travel trade levels in more than a dozen different types of games.

The SriLankan Airlines Sports Council promotes no less than 22 sports, ranging from chess to wushu, and encourages all of its 6,000 employees to participate. This includes providing coaching facilities for practises, leave to attend tournaments, and sponsorship of overseas travel for sporting events.

During the year under review, the Airline became champions or runners-up at various tournaments in archery, athletics, badminton, basketball, billiards, bowling, cricket, elle, karate, netball, prokarting, rugby, soccer, squash, swimming, table tennis, volleyball and tennis.

The emphasis on building healthy minds and bodies has been extended to include the families of staff, with free gymnasium and pool facilities at Colombo, Negombo, Wattala, and Gampaha.

EXPANSION OF WELFARE ACTIVITIES

The Company continued to strengthen the large number of welfare activities that it carries out for staff. These included support for staff and their families through scholarships, bereavement donations and financial assistance, and medical programmes such as the Cancer Detection Project. The annual cultural programmes range from Bakthi Gee to Bak Maha Ulela celebrations and Christmas on Wings.

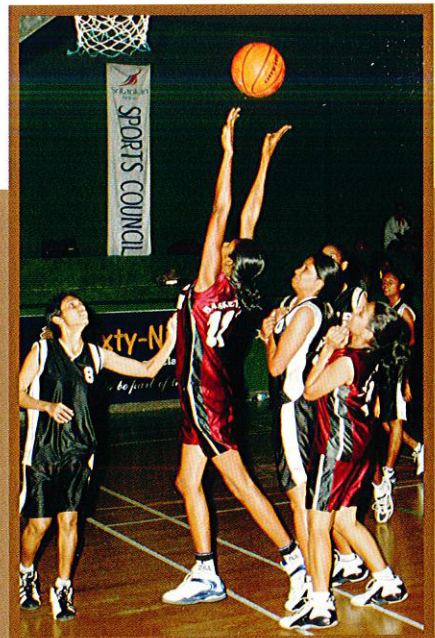
The Company sought to set an example to the community in relation to harmony among the Country's races and religions, with a unique ceremony to commemorate its 27th anniversary, with blessings and sermons by clergy of all four faiths Buddhism, Christianity, Hinduism, and Islam gathered together on one stage.



Bakthi Gee



Bak Maha Ulela Celebrations



Mercantile Basketball Tournament

milestones

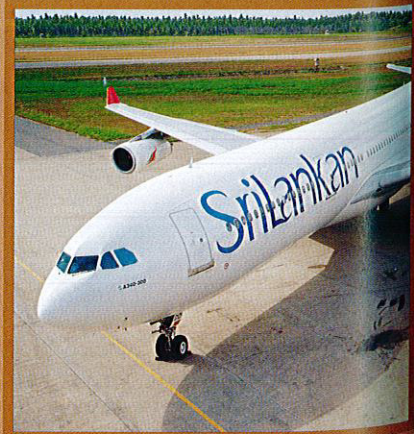
- **1979** Government of Sri Lanka announces the formation of new National Carrier with management assistance from Singapore Airlines and Air Lanka is incorporated
- **1979** First Boeing 707 is acquired
- **1979** Maiden flight to Bangkok on 1st September. Services are launched to Bahrain, Frankfurt, London, Singapore, Kuala Lumpur, Dubai, Paris, Zurich, Madras and Male
- **1980** Air Lanka Catering Services is launched as a joint venture between Air Lanka and Thai Airways
- **1980** Acquisition of first Lockheed L1011 Tristar
- **1980** Air Lanka acquires a Boeing 737
- **1984** Air Lanka obtains a Boeing 747-200
- **1993** Air Lanka acquires its first Airbus A320-200
- **1994** Delivery of first Airbus A340-300
- **1998** Partial privatization of Air Lanka. Emirates Airline acquires 40% stakeholding and receives a 10-year management contract
- **1998** Thai Airways' shares in Air Lanka Catering Services are purchased by Air Lanka
- **1999** Air Lanka becomes SriLankan Airlines with new logo and livery
- **1999** Delivery of first A330-200
- **2000** Launch of SriLankan Cargo's dedicated freighter service using Antonov 12 Freighter
- **2003** Launch of SriLankan Air Taxi domestic service with Cessna Caravan aircraft
- **2004** Launch of SriLankan Cares charity arm of the Airline
- **2004** SriLankan Air Taxi acquires two Turbo Otter aircraft
- **2006** SriLankan Catering commissions new state of the art Flight Kitchen
- **2006** Launch of International Aviation Academy
- **2006** Launch of SriLankan's 50th destination - Goa



AirLanka L1011 Tristar



Cargo freighter AN 12



SriLankan Airbus A340-300



significant events during the year

April '06

- Changi Airline Award as one of top five airlines in Singapore in 2005

June '06

- SriLankan Catering commissions new state-of-the-art Flight Kitchen
- Launch of International Aviation Academy

July '06

- Major maintenance check (4C5Y) carried out on an Emirates Airbus A330-200

September '06

- Second Runner-Up for Overall Inflight Entertainment at Avion Awards
- SriLankan enters into partnership with government of Kerala to promote tourism

October '06

- Goa becomes SriLankan's 50th destination
- Opening of Al Bahriya Maha Vidyalaya in Kalmunai by SriLankan Cares

November '06

- Named Foreign Carrier of the Year for South Asia at the inaugural Kuala Lumpur International Airport Awards

December '06

- Dial-a-Ticket service introduced in partnership with Bank of Ceylon
- Air Taxi launches services to Tissamaharama
- Flight Operations Department receives ISO 9001:2000 accreditation

January '07

- Launch of Double Daily service to Mumbai
- Launch of SriLankan Ground Services website

February '07

- Launch of third weekly flight to Goa

March '07

- Launch of services to Jeddah
- Codeshare agreement signed with Saudi Arabian Airlines



Launch of International Aviation Academy



Goa becomes SriLankan's 50th destination



Codeshare Agreement with Saudi Arabian Airlines

accolades

AN AWARD WINNING AIRLINE WITH A GLOBAL REPUTATION

SriLankan Airlines has in recent years won several awards in the global airline industry. Some of these awards include:

- Second Runner-Up at Avion Awards for Best Overall Inflight Entertainment 2006
World Airline Entertainment Association
- KLIA Award for Foreign Carrier of the Year for South Asia Region 2005
Kuala Lumpur International Airport
- Changi Airline Award for Top Five Airlines by growth in passenger carriage 2005
Civil Aviation Authority of Singapore
- Silver Award at the Community Leader Awards 2006 (Large Business Sector)
CIMA/Business Club
- Certificate of Excellence in recognition of exceptional levels of Service, Luxury & Quality November 2006 to December 2008
Imperial Mark
- Merit Certificate for Excellence in Annual Reports in the service organisations category 2006
The Institute of Chartered Accountants of Sri Lanka.
- 11 medals for SriLankan Catering at Culinary Art 2006
Chefs' Guild of Sri Lanka.
- Best Airline in South Asia 2005
Travel Trade Gazette (Asia)
- Frequent Flyer Programme of the Year 2005
Freddie Awards
- First Runner-Up at OAG Awards for Best Global Airline Marketing Campaign 2005
Official Airline Guide
- Mercury Award for SriLankan Catering in Food & Beverage category 2005
International Flight Catering Association
- Best Airline in Central Asia 2004
Skytrax
- Best Airline in South Asia 2004
Travel Trade Gazette (Asia)
- World's Best Overall Inflight Entertainment 2004 (for a fleet size of 20 or less)
World Airline Entertainment Association
- Best Airline Turnaround of the Year 2004
Centre for Asia Pacific Aviation
- SLIM Award for Campaign of the Year 2004
Sri Lanka Institute of Marketing
- Best Eastbound International Airline 2004-05
Galileo Indian Express



Changi Airline Award



Avion Entertainment Award



Kuala Lumpur International Airport Award



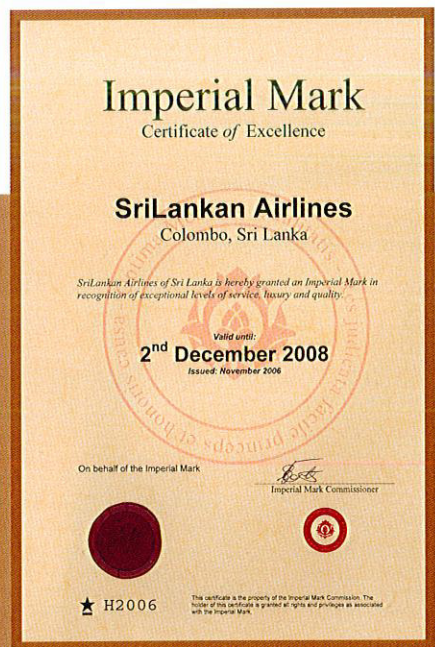
- Taiki Akimoto 5S Merit Award for Cargo Centre 2004
Jasteca
- Best Airline in Central Asia 2003
Skytrax
- The Runner Up at National Human Resources Management Awards 2003
Post Graduate Institute of Management
- World's Best Airline (Economy Class) 2003
Reise & Preise (Germany) World's Most
- Frequent Flyer Programme of the Year 2003
Freddie Awards
- Reliable Operator of Airbus A330s (small fleet) 2002/03
Airbus Industrie.
- World's Best Overall Inflight Entertainment 2003 (for a fleet size of 20 or less)
World Airline Entertainment Association
- Taiki Akimoto 5S Merit Award for Cargo Centre 2003
Jasteca
- Four Gold Medals at SLIM Awards 2003
Sri Lanka Institute of Marketing
- Best Airline in Central Asia 2002
Skytrax
- Best Airline in South Asia 2002
Travel Trade Gazette (Asia)
- World's Friendliest Cabin Staff 2002
Skytrax
- Best Airline to India from the UK 2002
Selling Long Haul
- First Runner-up for World's Best Cabin Staff 2002
Skytrax
- Overall Human Resources Management Awards 2002
Post Graduate Institute of Management
- Best Airline in Central Asia 2001
Skytrax
- Three Gold Medals at SLIM Awards 2001
Sri Lanka Institute of Marketing



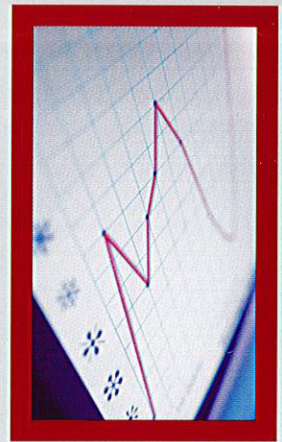
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financial calendar

31 January 2007

Limited Review of the Financial Statements

31 March 2007

Financial Year End

28 May 2007

Adoption of Financial Reports by the Board

8 August 2007

29th Annual General Meeting

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report of the directors

The Directors of SriLankan Airlines Ltd., take pleasure in presenting the Directors Report and Consolidated Financial Statements for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal business activities of the Company is the operation of international, scheduled/non-scheduled air services for the carriage of passengers, freight and mail as the designated carrier of Sri Lanka. Providing air terminal services at the Bandaranaike International Airport, sale of duty-free goods on-board and operation of an Air Taxi service within Sri Lanka to carry passengers constitute other main activities of the Company. Providing third party maintenance and conducting aviation related training programs constitute ancillary activities of the Company.

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

The Group consists of the Company and its wholly owned Subsidiary Sri Lankan Catering (Pvt) Limited, whose principal activity is the provision of Inflight Catering Services to airlines operating through Sri Lanka.

A review of the Group's progress and performance during the year, with comments on the financial results and prospects, is contained in the Chief Executive Officer's report.

GROUP TURNOVER

The turnover of the Group amounted to Rs.68,903.70 million (2005/06: Rs.62,489.19 million). A detailed analysis of Group Turnover is given in Note 3 to the Financial Statements.

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

RESULTS

Group profit before taxation amounted to Rs. 930.06 million (restated 2005/06: Rs.1,816.39 million). After deducting Rs.67.88 million (2005/06: Rs.96.61 million) for taxation, Group profit for the year was Rs.862.18 million (restated 2005/06: Rs. 1,719.78 million).

The consolidated income statement for the year is given on page 68.

GROUP INVESTMENT

Group capital expenditure during the year on property, plant and equipment amounted to Rs.3,124.52 million (restated 2005/06: Rs.4,010.53 million).

VALUE OF PROPERTY, PLANT AND EQUIPMENT

The net book value of the property, plant and equipment amounted to Rs.15,421.36 million (restated 2005/06: Rs.16,129.73 million).

SHARE CAPITAL

The issued and paid up share capital of the Company is Rs.5,146.35 million (2005/06: Rs. 5,146.35 million) comprising 51,463,463 Ordinary Shares with a par value of Rs.100/-.

RESERVES

Total Group Reserves as at 31 March 2007 amount to Rs. 12,781.30 million (restated 2005/06: Rs.12,490.92 million). This consists of accumulated profits of Rs.11,649.93 million (restated 2005/06: Rs.12,331.65 million), Capital Reserves of Rs. 1,077.30 million (2005/06: Rs. 105.20 million), Revenue Reserves of Rs. 0.63 million (2005/06: Rs. 0.63 million), and General Reserves of Rs. 53.44 million (2005/06: Rs. 53.44 million). Movement in these reserves is shown in the Statement of Changes in Equity in the Financial Statements.

CORPORATE DONATIONS

The Company has not made any cash donations during the year. No donations were made for political purposes.

TAXATION

The Company enjoys a tax holiday up to 31 March 2013 in terms of its agreement with the Board of Investment of Sri Lanka.

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

The Subsidiary is exempted from tax for income derived from flight kitchen and the transit Restaurant with effect from 1 June 2006 under the regulations of the Board of Investment of Sri Lanka.

SHARE INFORMATION

The authorized share capital of the Company is 150,000,000 Ordinary Shares of Rs. 100/- each. The nominal value of the authorized share capital of the Company is Rs. 15,000.00 million (2005/06: Rs. 15,000.00 million). See table below.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent Liabilities as at 31 March 2007 and Commitments made on Capital Expenditure as at that date are given in Note 21 to the Financial Statements.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No circumstances have arisen since the Balance Sheet date that would require adjustment, other than those disclosed in Note 22 to the Financial Statements.

EMPLOYMENT POLICIES

Employment policies of the Group, respect the individual and offer equal

career opportunities regardless of sex, race or religion. Occupational health and safety standards receive substantial attention. The number of persons employed by the Company and its subsidiary at the year-end was 5,839 (2005/06: 5,955).

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to employees and the government of Sri Lanka have been made up to date.

ENVIRONMENTAL PROTECTION

The Group's business activities can have direct and indirect effects on the environment. It is the Group's policy to keep adverse effects on the environment to a minimum and to promote co-operation and compliance with the relevant authorities and regulations.

CORPORATE GOVERNANCE/ INTERNAL CONTROL

Adoption of good governance practices has become an essential requirement in today's corporate world. The practices followed by the Group are explained in the Corporate Governance statement .

The Directors acknowledge their responsibility for the Group's system of internal control. The system is

designed to provide assurance, inter alia, on the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can ensure only reasonable, and not absolute assurance that errors and irregularities are prevented or detected within a reasonable time.

The Board is satisfied with the effectiveness of the system of internal control for the period up to the date of signing of the Financial Statements.

GOING CONCERN

As noted in the Statement of Directors' Responsibilities, the Directors have adopted the going concern basis in preparing these Financial Statements.

DIRECTORS IN OFFICE

The names of the present Directors of the Company are listed below:-

Mr. D H S Jayawardena
Chairman
Mr. S Ukwatte
Mr. R A Chandiram
Mr. A N Wickremasinghe
Mr. T C Clark
Managing Director
Mr. G W Chapman
Mr. N J Hopkins
Mr. P M Hill
Alternate to T C Clark
Mr. M Flanagan
Alternate to G W Chapman
Mr. Ghaith Al Ghaith
Alternate to N J Hopkins

The above Directors have been in office during the period 1 April 2006 to 31 March 2007.

Share Ownership	No. of Shares	% of Holding
Government of Sri Lanka	26,275,436	51.05%
Emirates	22,451,516	43.63%
Employees	2,736,511	5.32%
	<u>51,463,463</u>	<u>100.00%</u>



The current directorate of SriLankan Catering (Pvt) Limited is as follows:-

Mr D H S Jayawardena
Chairman

Mr G W Chapman
Director

Mr S Ukwatte
Director

Mr R A Chandiram
Director

Mr D Nijhawan
Alternate Director to G W Chapman

These Directors have been in office during the period 1 April 2006 to 31 March 2007.

The Directors were not in receipt of any emoluments and/or any other payment that constitute a payment for participation/attendance at Board Meetings during the period ended 1 April 2006 to 31 March 2007.

DIRECTORS' SHAREHOLDINGS

By virtue of office three of the Government of Sri Lanka (GOSL) nominee Directors including the Chairman are holders of 01 Ordinary Share each of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts of the Company are disclosed in Note 24 to the Financial Statements, and have been declared at meetings of the Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 8 August 2007.

AUDITORS

In accordance with the Companies Act No. 17 of 1982, a resolution proposing the re-appointment of Messrs. Ernst & Young, Chartered Accountants, as Auditors to the Company will be submitted at the Annual General Meeting.

By Order of the Board

Milred Peries
Company Secretary

28 May 2007

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 67.

The Companies Act No.17 of 1982 requires the Directors to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at end of the financial year and of the Profit or Loss of the Company and the Group for the financial year. In preparing the financial statements, appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgements and estimates have been made, and applicable accounting standards have been followed.

The Directors are responsible for ensuring that the Company and its subsidiary keep sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and the Group, for ensuring that the financial statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act No.17 of 1982. They are also responsible for taking reasonable measures to safeguard the assets of the Group, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the

prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the Financial Statements. The Directors, after making enquiries and following a review of the Group's Budget for the financial year ending 31 March 2008 including cash flows and borrowing facilities, consider that the Group has adequate resources to continue in operation.

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

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

By Order of the Board



Mildred Peries
Company Secretary

28 May 2007



report of the auditors



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

■ Telephone : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
E-Mail : eysl@lk.ey.com

TO THE MEMBERS OF SRILANKAN AIRLINES LIMITED

We have audited the balance sheet of SriLankan Airlines Limited as at 31 March 2007, the consolidated balance sheet of the Company and of its Subsidiary (Group) as at that date and the related statements of income, changes in equity and cash flows for the year then ended, together with the accounting policies and notes as set out on pages 68 to 97 of this Annual Report.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing and presenting these financial statements in accordance with Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements,

assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

OPINION - COMPANY

In our opinion, so far as appears from our examination, the Company has maintained proper books of account for the year ended 31 March 2007 and proper returns adequate for the purpose of our audit have been received from stations not visited by us and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, changes in equity, cash flows and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act. No 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 March 2007, and its profit and cash flows for the year then ended.

OPINION - GROUP

In our opinion, the consolidated balance sheet and statements of income, changes in equity, cash flows and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act. No. 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31 March 2007, and the profit and cash flows for the year then ended of the Company and its Subsidiary dealt with thereby, so far as concerns the members of the Company.

DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

According to the information made available to us, the Directors' of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31 March 2007, except as stated in Note 24 to these financial statements.

Ernst & Young
Chartered Accountants

Colombo
28 May 2007

■ Partners : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA
Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA ACMA
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)
A S M Ismail FCA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA
Ms. L C G Nanayakkara FCA FCMA

income statement

	Note	GROUP		COMPANY	
		2007 Rs. M	2006 Restated Rs. M	2007 Rs. M	2006 Restated Rs. M
<i>Year ended 31 March</i>					
Revenue	3	68,903.70	62,489.19	67,963.76	61,160.14
Cost of Sales		(59,021.64)	(51,072.03)	(60,311.79)	(51,986.24)
Gross Profit		9,882.06	11,417.16	7,651.97	9,173.90
Other Operating Income	4	1,437.91	511.90	2,122.93	355.34
Sales and Marketing Costs		(6,799.00)	(6,931.86)	(6,760.72)	(6,893.64)
Administrative Expenses		(3,371.53)	(2,898.27)	(2,330.74)	(1,840.41)
Finance Cost	6	(219.38)	(282.54)	(111.55)	(282.54)
Profit from Ordinary Activities Before Tax	5	930.06	1,816.39	571.89	512.65
Income Tax Expense	7	(67.88)	(96.61)	(3.85)	(36.12)
Profit for the Year		862.18	1,719.78	568.04	476.53
Basic Earnings Per Share (Rs.)	8	16.75	33.42	11.04	9.26
Dividends Per Share (Rs.)	23	30.00	-	30.00	-

The accounting policies and notes on pages 72 through 97 form an integral part of these financial statements.

Colombo
28 May 2007



balance sheet

	Note	GROUP		COMPANY	
		2007 Rs. M	2006 Restated Rs. M	2007 Rs. M	2006 Restated Rs. M
<i>As at 31 March</i>					
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	9	15,421.36	16,129.73	12,761.39	13,410.55
Aircraft Maintenance Reserves		3,597.32	2,573.19	3,597.32	2,573.19
Intangible Assets	10	129.94	79.81	114.12	57.13
Investments	11	25.50	25.50	95.90	95.90
		<u>19,174.12</u>	<u>18,808.23</u>	<u>16,568.73</u>	<u>16,136.77</u>
Current Assets					
Inventories	12	3,581.29	3,240.73	3,465.56	3,169.92
Trade and Other Receivables	13	10,177.93	9,999.33	9,286.38	9,356.73
Aircraft Maintenance Reserves		2,106.50	918.28	2,106.50	918.28
Cash and Bank Balances	14	6,552.87	8,741.49	6,489.02	8,421.80
		<u>22,418.59</u>	<u>22,899.83</u>	<u>21,347.46</u>	<u>21,866.73</u>
Total Assets		<u>41,592.71</u>	<u>41,708.06</u>	<u>37,916.19</u>	<u>38,003.50</u>
EQUITY AND LIABILITIES					
Capital and Reserves					
Issued Capital	15	5,146.35	5,146.35	5,146.35	5,146.35
Reserves	16	1,131.37	159.27	1,101.14	129.04
Accumulated Profits		11,649.93	12,331.65	4,860.28	5,836.14
Total Equity		<u>17,927.65</u>	<u>17,637.27</u>	<u>11,107.77</u>	<u>11,111.53</u>
Non-Current Liabilities					
Interest Bearing Liabilities	17	2,249.85	1,528.69	35.51	38.81
Other Deferred Liabilities	18	1,887.01	1,473.68	1,766.26	1,368.11
		<u>4,136.86</u>	<u>3,002.37</u>	<u>1,801.77</u>	<u>1,406.92</u>
Current Liabilities					
Trade and Other Payables	19	18,642.10	17,133.05	24,369.93	21,566.70
Income Tax Payable		180.14	199.93	175.45	183.34
Interest Bearing Liabilities	17	705.96	3,735.44	461.27	3,735.01
		<u>19,528.20</u>	<u>21,068.42</u>	<u>25,006.65</u>	<u>25,485.05</u>
Total Equity and Liabilities		<u>41,592.71</u>	<u>41,708.06</u>	<u>37,916.19</u>	<u>38,003.50</u>

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board by:

Director

Director

The accounting policies and notes on pages 72 through 97 form an integral part of these financial statements.

statement of changes in equity

GROUP	Note	Share Capital Rs. M	Capital Reserve Rs. M	Revenue Reserve Rs. M	General Reserve Rs. M	Accumulated Profits Rs. M	Total Rs. M
Balance as at 31 March 2005		5,146.35	105.20	0.63	53.44	6,259.47	11,565.09
Effects of Change in Accounting Policy	20	-	-	-	-	4,352.40	4,352.40
Restated Balance as at 31 March 2005		<u>5,146.35</u>	<u>105.20</u>	<u>0.63</u>	<u>53.44</u>	<u>10,611.87</u>	<u>15,917.49</u>
Restated Profit for the year		-	-	-	-	1,719.78	1,719.78
Restated Balance as at 31 March 2006		<u>5,146.35</u>	<u>105.20</u>	<u>0.63</u>	<u>53.44</u>	<u>12,331.65</u>	<u>17,637.27</u>
Dividend	23	-	-	-	-	(1,543.90)	(1,543.90)
Surplus on Revaluation of Land and Buildings	16.1	-	972.10	-	-	-	972.10
Profit for the year		-	-	-	-	862.18	862.18
Balance as at 31 March 2007		<u>5,146.35</u>	<u>1,077.30</u>	<u>0.63</u>	<u>53.44</u>	<u>11,649.93</u>	<u>17,927.65</u>

COMPANY	Note	Share Capital Rs. M	Capital Reserve Rs. M	General Reserve Rs. M	Accumulated Profits Rs. M	Total Rs. M
Balance as at 31 March 2005		5,146.35	75.60	53.44	1,007.21	6,282.60
Effects of Change in Accounting Policy	20	-	-	-	4,352.40	4,352.40
Restated Balance as at 31 March 2005		<u>5,146.35</u>	<u>75.60</u>	<u>53.44</u>	<u>5,359.61</u>	<u>10,635.00</u>
Restated Profit for the year		-	-	-	476.53	476.53
Restated Balance as at 31 March 2006		<u>5,146.35</u>	<u>75.60</u>	<u>53.44</u>	<u>5,836.14</u>	<u>11,111.53</u>
Dividend	23	-	-	-	(1,543.90)	(1,543.90)
Surplus on Revaluation of Land and Buildings	16.1	-	972.10	-	-	972.10
Profit for the year		-	-	-	568.04	568.04
Balance as at 31 March 2007		<u>5,146.35</u>	<u>1,047.70</u>	<u>53.44</u>	<u>4,860.28</u>	<u>11,107.77</u>

The accounting policies and notes on pages 72 through 97 form an integral part of these financial statements.

Colombo
28 May 2007



cash flow statement

	Note	GROUP		COMPANY	
		2007 Rs. M	2006 Restated Rs. M	2007 Rs. M	2006 Restated Rs. M
<i>Year ended 31 March</i>					
Cash Flows From / (Used in) Operating Activities					
Profit before Income Tax Expense		930.06	1,816.39	571.89	512.65
Adjustments for					
Depreciation / Amortisation		4,802.05	4,050.08	4,512.65	4,011.44
Finance costs		219.38	282.54	111.55	282.54
Transferred from Property, Plant and Equipment		-	22.36	-	22.36
Amortisation of Pre-delivery Payments		98.23	98.23	98.23	98.23
Profit on disposal of Property, Plant and Equipment		(14.43)	(0.15)	(3.43)	(0.15)
Reversal for Impairment of Property, Plant and Equipment		-	(10.31)	-	-
Provision for Prolongation Claims		89.03	-	-	-
Provision for Bad & Doubtful Debts		22.20	6.39	22.20	6.39
Provision for Slow Moving Inventory		114.13	40.10	114.13	40.10
Provision for Gratuity		505.42	234.04	483.36	232.30
Currency Loss		56.78	-	56.78	-
Operating Profit before Working Capital Changes		6,822.85	6,539.67	5,967.36	5,205.86
(Increase) in Inventories		(454.69)	(452.51)	(409.77)	(461.46)
(Increase) in Aircraft Maintenance Reserves		(2,212.35)	(1,338.23)	(2,212.35)	(1,338.23)
(Increase) in Trade and Other Receivables		(299.02)	(1,121.11)	(50.08)	(808.61)
Increase in Trade and Other Payables		1,671.30	2,017.11	3,077.77	2,952.42
Cash Generated from Operations		5,528.09	5,644.93	6,372.93	5,549.98
Finance Costs Paid		(219.38)	(241.42)	(111.55)	(241.42)
Gratuity Paid		(92.09)	(88.12)	(85.21)	(81.49)
Income Tax Paid		(75.93)	(94.46)	-	(34.03)
Net Cash flows from Operating Activities		5,140.69	5,220.93	6,176.17	5,193.04
Cash Flows From / (Used in) Investing Activities					
Acquisition of Property, Plant and Equipment		(3,369.48)	(3,869.56)	(3,170.29)	(2,542.11)
Acquisition of Intangible Assets		(74.93)	-	(74.04)	-
Proceeds from Disposal of Property, Plant and Equipment		20.30	4.02	9.30	4.02
Net Cash used in Investing Activities		(3,424.11)	(3,865.54)	(3,235.03)	(2,538.09)
Cash Flows From / (Used in) Financing Activities					
Repayment of Interest Bearing Liabilities		(76.42)	(130.36)	(76.42)	(130.36)
Principal Payments under Finance Leases		(2,984.44)	(3,220.58)	(2,984.44)	(3,220.58)
Proceeds from Interest Bearing Loans and Borrowings		969.15	1,489.88	-	-
Dividends Paid		(1,540.10)	-	(1,540.10)	-
Net Cash used in Financing Activities		(3,631.81)	(1,861.06)	(4,600.96)	(3,350.94)
Net Increase / (Decrease) in Cash and Cash Equivalents		(1,915.23)	(505.67)	(1,659.82)	(695.99)
Cash and Cash Equivalents at the					
beginning of the year	14	8,020.96	8,526.63	7,701.70	8,397.69
Cash and Cash Equivalents at the end of the year	14	6,105.73	8,020.96	6,041.88	7,701.70

The accounting policies and notes on pages 72 through 97 form an integral part of these financial statements.

notes to the financial statements

1. CORPORATE INFORMATION

1.1. Legal Status and Domicile

SriLankan Airlines Limited is a Limited Liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at # 22-01, East Tower, World Trade Centre, Echelon Square, Colombo 01, Sri Lanka and the principal place of business is situated at Bandaranaike International Airport, Katunayake, Sri Lanka.

1.2. Principal Activities and Nature of Operations

The Company

The principal activities of the Company is the operation of international scheduled, non-scheduled air services for the carriage of passengers, freight and mail as the designated carrier of Sri Lanka. Providing Air Terminal services at the Bandaranaike International Airport, sale of duty free goods on-board, marketing inbound and outbound holiday packages and operation of Air Taxi services within Sri Lanka to carry passengers constitute other main activities. Providing third party maintenance and conducting aviation related training programs constitute ancillary activities of the Company.

The Subsidiary

The principal activity of the Company is the provision of inflight catering service to Airlines operating through the Bandaranaike International Airport, Katunayake, Sri Lanka.

1.3. Date of Authorisation for Issue

The financial statements of SriLankan Airlines Limited, for the year ended 31 March 2007, were authorized for issue, in accordance with the resolution of the Board of Directors on 28 May 2007.

2. GENERAL ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements presented in Sri Lankan Rupees have been prepared on a historical cost basis, except for certain land and buildings that have been stated at valuation as explained in Accounting Policy No. 2.5.8 (a) to these financial statements. All values are rounded to the nearest one hundred thousand (Rs. M) Sri Lankan Rupees except when otherwise indicated.

2.1.1 Statement of Compliance

The consolidated financial statements of SriLankan Airlines Limited and its subsidiary have been prepared in accordance with Sri Lanka Accounting Standards.

2.1.2 Comparative Information

Certain prior year figures (including Note 10 to these financial statements) and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

2.2 Basis of Consolidation

- (a) The consolidated financial statements comprise the financial statements of SriLankan Airlines Limited and its subsidiary as at 31 March each year. The financial statements of the subsidiary are prepared for the same reporting year as the parent Company, using consistent accounting policies.
- (b) All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets are eliminated in full.
- (c) Subsidiary is fully consolidated from the date of incorporation,

being the date on which the Group obtains control and continues to be consolidated until the date that control ceases.

2.3 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows; The Company has adopted the following new/revised Sri Lanka Accounting Standards (SLAS) during the year.

- SLAS 3 (Revised) - Presentation of Financial Statements
- SLAS 5 (Revised) - Inventories
- SLAS 10 (Revised) - Accounting Policies, Changes in Accounting Estimates & Errors
- SLAS 12 (Revised) - Events after the Balance Sheet Date
- SLAS 14 (Revised) - Income Taxes
- SLAS 18 (Revised) - Property, Plant and Equipment
- SLAS 19 (Revised) - Leases
- SLAS 21 (Revised) - The Effects of Changes in Foreign Exchange Rates
- SLAS 26 (Revised) - Consolidated and Separate Financial Statements
- SLAS 30 (Revised) - Related Party Disclosures
- SLAS 34 (Revised) - Earnings per Share
- SLAS 41 - Impairment of Assets

The principle effects of these changes are as follows,

SLAS 18 (Revised) Property, Plant and Equipment

In accordance with revised SLAS 18, Company has changed its accounting policy in accounting for major engine overhaul costs. Cost of major engine overhaul is capitalized and depreciated over the period to the next major



overhaul. Refer Note 20 to these financial statements for the impact of this change.

SLAS 30 (Revised) Related Party Disclosures

Revised SLAS 30 requires additional disclosure on related party transactions and outstanding balances, together with the names of any parties who can control the reporting entity. The Group made the required disclosure to these financial statements.

2.4 Significant Accounting Estimates and Judgments

In the preparation of the consolidated financial statements, a number of estimates and associated assumptions have been made relating to the application of accounting policies and reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are assessed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following discussion addresses amongst other significant accounting policies that require subjective and complex judgments, often as a result of the need to make estimates.

(a) Depreciation of Property, Plant and Equipment

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management has reviewed the residual values and useful lives of major items of property, plant and equipment

and determined that no adjustment is necessary.

(b) Defined Benefit Plan

The cost of the retirement benefit plan of local staff of the Company is determined using an actuarial valuation. The actuarial valuation is based on assumptions concerning the rate of interest, rate of salary increase, special premium, retirement age and going concern of the Company. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

(c) Passenger Revenue Recognition

Passenger sales are recognised as operating revenue when the transportation is provided. The value of unused tickets is included as sales in advance of carriage in the balance sheet and recognised in revenue at the end of three years. This is based on historical trends and experiences of the Company whereby ticket uplift occurs mainly within the first three years.

2.5 Summary of Significant Accounting Policies

2.5.1 Foreign Currency Translation

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

using the exchange rates as at the dates of the initial transactions.

2.5.2 Taxation

(i) Current Income Tax

The Company

(a) Local Taxation

The Company has signed an agreement under Section 17 of the Greater Colombo Economic Commission Law No. 4 of 1978 which exempts it from the payment of income tax in respect of profit and income derived from the operation of the business of a commercial airline, providing international air transportation and all other ancillary and related services thereto, tax on dividend and royalties for an initial period of seven years from 1 September 1979, subsequently extended for a period of three years from 1 August 1986, and thereafter a period of five years from 1 August 1989. In August 1994 the Board of Investment of Sri Lanka granted flagship status to the Company, extending the tax exemption period up to 31 March 1998. In March 1998 the Board of Investment of Sri Lanka granted a further extension extending the tax exemption period up to 31 March 2013.

Income derived from the operation of "Air Taxi" services within Sri Lanka, third party maintenance services and conducting aviation related training programs are liable for income tax in terms of the provisions of the Inland Revenue Act No.38 of 2000 and amendments thereto at the prevailing income tax rates.

The Subsidiary - SriLankan Catering (Pvt) Limited.

Income from the Flight Kitchen and the Transit Restaurant operated by the subsidiary was exempted from income tax for a period of 15 years, up to 19 August 1995 in terms of agreement

No. 139 of 29 June 1983 supplemented by agreement No. 110 of 20 August 1995 entered into with the Board of Investment of Sri Lanka (BOI) in terms of Section 17 of BOI Law No. 4 of 1978, subsequent to this period the Company is liable to pay income tax at 2% on Flight Kitchen and Transit Restaurant turnover for a period of 11 years with effect from 20 August 1995. The income derived from Public Restaurant is liable at the prevailing tax rate. With effect from 1 June 2006 the Flight Kitchen and Transit Restaurant sales are exempted from tax owing to the additional investment as per BOI regulations.

(b) Overseas Taxation

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

(ii) Deferred Income Tax

Deferred Income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The Company

No deferred taxation has been provided for in these financial statements, since the Company is in its tax holiday period.

The Subsidiary – SriLankan Catering (Pvt) Limited

Deferred taxation in respect of temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts of the Public Restaurant have

not been provided due to the carried forward tax losses of Rs. 92.05 million as at 31 March 2007.

(iii) Value Added Tax (VAT)

The Company

As per section 7(b) of the Value Added Tax Act No. 14 of 2002 the revenue from international air transportation and ground handling is Zero rated whilst revenue from Air Taxi services and miscellaneous income is subject to 15%.

The Subsidiary - Sri Lankan Catering (Pvt) Limited.

Services provided by SriLankan Catering (Pvt) Limited, to any airline being services directly connected with international transportation services provided by that airline is zero rated. All other revenue would be liable at the rate of 15%.

(iv) Economic Service Charge (ESC)

The Company and Subsidiary is liable to ESC on the revenue relating to the activities within Sri Lanka. The rate of ESC relating to the revenue referred in the BOI agreement where the corresponding profit is exempt from income tax is 0.25% and the rate relating to other income is 1%.

(v) Social Responsibility Levy (SRL)

As per the provisions of the Finance Act No. 5 of 2005 and amendments thereto, as amended by the Finance Act No. 11 of 2006, SRL was in force with effect from 1 January 2005. SRL is payable at the rate of 1% on all taxes and levies chargeable as specified in the first schedule of the Act.

2.5.3 Borrowing Costs

Borrowing costs amounting to

Rs. 554.28 million incurred on long-term loans obtained to meet pre-delivery payments in respect of new aircraft have been capitalized during financial years 1992/93 to 1994/95 as part of the cost of such aircraft.

Exchange losses on such long-term loans obtained to meet pre-delivery payments in respect of new aircraft are regarded as an adjustment to borrowing costs. Such exchange losses amounting to Rs. 242.15 million have been capitalised during the financial years 1992/93 to 1994/95 as part of the cost of aircraft, in line with Sri Lanka Accounting Standard No. 20 – Borrowing Costs.

Borrowing costs incurred which does not fall under the above two categories are recognised as an expense in the income statement, in the period in which they are incurred.

2.5.4 Intangible Assets

Intangible assets are capitalized at cost only when future economic benefits are probable. Cost includes purchase price together with any directly attributable expenditure. Intangible assets are amortised on a straight-line basis over the estimated useful life of 5 years.

2.5.5 Inventories

The Company

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

The Subsidiary - SriLankan Catering (Pvt) Limited

Inventories are valued at lower of cost and net realisable value. The cost is based on the weighted average cost



method and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Net realizable value is estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

2.5.6 Trade and Other Receivables

Trade Receivables are stated at the amounts that they are estimated to realise. Provision has been made in the financial statements for bad and doubtful receivables.

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

2.5.7 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and demand deposits in banks net of outstanding bank overdrafts. Investments with short maturities (i.e. three months or less from the date of acquisition) are also treated as cash equivalents.

2.5.8 Property, Plant and Equipment

(a) Cost and Valuation

All items of property, plant and equipment are initially recorded at cost. Where items of property, plant and equipment are subsequently revalued such revalued property, plant and equipment are carried at

revalued amounts less any subsequent depreciation thereon. All other property, plant and equipment are stated at historical cost less depreciation.

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

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

Cost on repair and maintenance are charged to the income statement during the period in which they are incurred.

Property, plant and equipment includes amongst others the following:

(i) Fleet

Additions to the fleet are reflected at cost. The Company receives credits from manufacturers in connection with the acquisition of certain aircraft and engines. These credits are recorded as a reduction of the cost of the related aircraft and engines except where the aircraft is held under an operating lease, in which case the credits are deferred and reduced from the operating lease rentals on a straight-line basis over the period of the related lease as deferred credits.

(ii) Aircraft Rotable Spares

Aircraft rotatable spares, which are treated as tangible fixed assets, are recorded in the balance sheet at cost. This item is grouped under "Aircraft Related Equipment".

(iii) Capital Projects

Capital projects are stated at cost together with financing costs incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital projects are transferred to the appropriate category under property, plant and equipment and depreciated in accordance with Company policies.

(iv) Major Engine Overhaul Expenditure

Cost of major engine overhauls that provides future economic benefits during more than one period are capitalized and disclosed as "Aircraft and Related Equipment" and "Improvements to Aircraft / Engines on Operating Leases" in these financial statements.

(b) Depreciation

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

New aircraft and spare engines

over 16 years after making a 10 percent allowance for residual value

Used aircraft and spare engines

over the estimated remaining useful life, which is currently estimated to be 8 years

Aircraft rotatable spares

over 8 years

Engine overhaul

3 - 4 Years

Equipment

over periods ranging from 1 to 10 years according to the type of equipment

Buildings

over the expected useful life subject to a maximum of 20 years

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

(c) Derecognition

An item of property, plant and equipment is derecognized 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 is included in the income statement in the year the asset is derecognized.

2.5.9 Leases

(a) Finance Leases

Property, plant and equipment on finance leases, which effectively transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased items are capitalised at the inception of the lease at the fair value of the leased property or if lower, at the present value of the minimum lease payments. Capitalized leased assets are disclosed as property, plant and equipment and depreciated over the period the Company is expected to benefit from the use of the leased assets (i.e. depreciated over the shorter of the estimated useful life of the asset or the lease term). The corresponding principle amount payable to the lessor is shown as a liability. The interest on lease liability is accrued at the time when the lease rentals fall due.

(b) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases. Rentals paid under operating leases are recognized as an expense in the income statement in the period in which it is incurred.

Cost of major engine overhauls that provides future economic benefits during more than one period are capitalized and disclosed as "Improvements to Aircraft / Engines on Operating Leases" and depreciated over the period to the next major overhaul.

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

(c) Sale and Lease back

Profits and losses which arise from sale and lease back transactions, which result in operating leases are recognized in the income statement immediately.

2.5.10 Investments

(a) Long-term investments

Long-term investments are stated at cost. The cost of investments is the cost of acquisition. The carrying amount of long-term investments is reduced to recognise a decline other than temporary in the value of investments determined on an individual investment basis.

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

2.5.11 Impairment of Assets

The carrying amounts of the Company's non-financial assets are reviewed at each balance sheet date to determine

whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is charged to the Income statement unless it reverses a previous revaluation credited to equity, in which case it is charged to equity. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount.

2.5.12 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

2.5.13 Retirement Benefit Plan

(a) Defined Benefit Plan-Gratuity
The Company

The Company measures the present value of the contracted retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary every 2 years using Project Unit Credit Method.

The key assumptions used by the actuary include the following:

i)	Rate of Interest	- 10%
ii)	Rate of Salary Increase	- LKR 10% - USD 5%
iii)	Special Premium Retirement Age	- LKR 10% - Male 60 years - Female 60 years
iv)	The Company will continue as a going concern	



Based on these assumptions, the present value of the accrued benefits as at 31 March 2007 is Rs. 1,644.27 million. The amount recognised as an expense for the current year is Rs. 460.69 million. The gratuity liability is not externally funded. This item is grouped under "Other Deferred Liabilities" in the Balance Sheet.

Overseas-based employees are covered under social security schemes applicable in their home countries.

The Subsidiary - SriLankan Catering (Pvt) Limited

Provision for gratuity has been made in accordance with the payment of Gratuity Act No. 12 of 1983 and has been made for employees who have completed more than one year of service with the Company, in accordance with Sri Lanka Accounting Standard No. 16 - Retirement Benefit Costs. This fund is not externally funded and nor actuarially valued. The basis for provision is as follows;

Years of Service	No. of months salary for each completed year
1 to 10 years	½
Over 10 years	1

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

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

2.5.14 Frequent Flyer Programme

Emirates and the Company operate a frequent-flyer programme "Skywards". Pooled costs and revenue relating to the programme are shared amongst Emirates and the Company, in proportion to the Skywards frequent flyer miles issued to members on the flights operated by the Emirates and Company.

2.5.15 Commitments and Contingencies

Provisions are made for all obligations existing as at the balance sheet date when it is probable that such an obligation will result in an outflow of resources and reliable estimate can be made of the quantum of the outflow. All contingent liabilities and commitments are disclosed as a Note to these financial statements unless the outflow of resources is remote.

2.5.16 Revenue Recognition

(a) Airline Revenue Recognition
Revenue is generated principally from the carriage of passengers, cargo and mail, the rendering of airport terminal services, engineering services, air charters and related activities. Revenue for the Group excludes dividends from subsidiary company and inter-company transactions.

(i) Passenger and cargo sales are recognised as operating revenue when the transportation is provided. The value of unused tickets and airway bills is included in current liabilities as sales in advance of carriage. The value of unused tickets and airway bills are recognised as revenue if unused after three years.

(ii) Revenue from the provision of airport terminal services is

recognised upon rendering of services.

(iii) Revenue from provision of third party maintenance services is recognised upon the completion of such event.

(b) Dividend and Interest
Dividend income and interest income are accounted for on a cash basis.

(c) Rental Income
Rental income is recognised on an accrual basis.

(d) Others
Other income is recognized on a cash basis.

2.5.17 Expenditure Recognition

Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining property, plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

For the purpose of presentation of the income statement, the Directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such a presentation method is adopted.

2.5.18 Fuel Risk Management

The Company's fuel risk management strategy aims to provide the Airline with protection against sudden and significant escalation of oil prices thereby ensuring that the Airline is not competitively disadvantaged in an adverse manner in the event of a substantial increase in the price of fuel.

The strategy has enabled to mitigate the impact of the increases in the price of jet fuel. The net gain on the fuel risk management program was USD 10.07 million (Rs.1,051.07 million) for the financial year ended 31 March 2007. Three fuel hedging contracts remain outstanding as at 31 March 2007. The negative marked to market value of these three contracts amount to USD 1.28 million (Rs. 139.75 million).

2.5.19 Segment Reporting

A segment is a distinguishable component of the group that is engaged in providing services within a particular economic environment which is subject to risks and rewards that are different from those of other segments. In accordance with Sri Lanka Accounting Standards No. 28 – Segment Reporting, segmental information is presented in respect of the Group.

Primary reporting is based on the geographical spread of operations as the Group's risks and rates 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 identified to a particular segment are not segregated and disclosed.

The major revenue earning asset of the Company is the aircraft fleet which is employed across its worldwide route network. Management considers that there is no suitable basis for allocating such assets and related liabilities to geographical segments. Accordingly, segment assets, segment liabilities and other segment information by geographical segment is not disclosed.

The secondary reporting by business segment is based on the Group's nature of services provided. The Group is engaged in two main business segments - Air transportation and Inflight Catering services through its subsidiary.

2.5.20 Cash Flow Statement

The cash flow of the Company and the Group has been presented using the indirect method in accordance with Sri Lanka Accounting Standard No. 9 – Cash Flow Statements.

2.6 Events Occurring after the Balance Sheet Date

All material events occurring after the balance sheet date are considered and where necessary adjustments made in these financial statements.



3 REVENUE

3.1 Revenue Analysis

Year ended 31 March	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
Scheduled Services - Passenger	53,862.32	48,731.90	53,862.32	48,731.90
- Excess baggage	690.73	668.25	690.73	668.25
- Cargo	9,317.78	8,085.13	9,354.17	8,109.97
- Mail	76.36	67.33	76.36	67.33
	<u>63,947.19</u>	<u>57,552.61</u>	<u>63,983.58</u>	<u>57,577.45</u>
Non-Scheduled Services	130.19	12.78	130.19	12.78
Duty Free	353.69	351.96	353.69	351.96
Air Terminal and Other Services	3,389.37	3,117.03	3,415.20	3,134.47
Air Taxi Services	81.10	83.48	81.10	83.48
Flight Catering	1,002.16	1,371.33	-	-
Total	<u>68,903.70</u>	<u>62,489.19</u>	<u>67,963.76</u>	<u>61,160.14</u>

3.2 Segment Reporting

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

	Asia	Europe & Africa	Middle East	North & South America	South West Pacific	Total
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Scheduled Services - Passenger	24,483.39	15,328.30	11,689.26	1,680.18	681.19	53,862.32
- Excess baggage	388.40	15.10	270.91	15.49	0.83	690.73
- Cargo	7,970.96	747.42	515.40	57.97	26.03	9,317.78
- Mail	72.25	3.53	0.18	0.39	0.01	76.36
	<u>32,915.00</u>	<u>16,094.35</u>	<u>12,475.75</u>	<u>1,754.03</u>	<u>708.06</u>	<u>63,947.19</u>
Non-Scheduled Services	130.19	-	-	-	-	130.19
Duty Free	90.51	118.66	95.85	-	48.67	353.69
Air Terminal and Other Services	3,389.37	-	-	-	-	3,389.37
Air Taxi Services	81.10	-	-	-	-	81.10
Flight Catering	1,002.16	-	-	-	-	1,002.16
Total	<u>37,608.33</u>	<u>16,213.01</u>	<u>12,571.60</u>	<u>1,754.03</u>	<u>756.73</u>	<u>68,903.70</u>

NOTES TO THE FINANCIAL STATEMENTS

(b) Secondary Reporting by Business Segment

	BUSINESS SEGMENT			GROUP	BUSINESS SEGMENT		GROUP
	Airline	Flight Catering	2007 Rs. M	2007 Rs. M	Airline	Flight Catering	2006 Rs. M
	2007 Rs. M	2007 Rs. M			2006 Rs. M	2006 Rs. M	
Revenue	67,963.76	2,941.58	68,903.70	61,160.14	2,882.44	62,489.19	
Net Profit After Tax	568.04	1,294.13	862.18	476.53	1,243.25	1,719.78	
Assets	37,916.19	9,771.21	41,592.71	38,003.50	8,594.58	41,708.06	
Liabilities	26,808.42	2,905.91	23,665.06	26,891.97	2,023.42	24,070.79	
Operating Expenses	64,792.37	1,381.99	64,161.70	56,610.62	1,657.99	56,714.72	
Depreciation and Amortisation	4,610.88	289.40	4,900.28	4,109.67	38.64	4,148.31	
Acquisition of Property, Plant and Equipment	2,902.08	222.44	3,124.52	2,683.08	1,327.45	4,010.53	

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

4 OTHER OPERATING INCOME

Year ended 31 March	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
Interest Income	318.36	274.93	315.72	271.23
Rental Income	0.24	0.24	0.24	0.24
Gain/(Loss) on Exchange	1,013.68	129.87	751.83	(22.37)
Miscellaneous Income	89.06	106.86	88.57	106.24
Net Income on Third Party Maintenance	16.57	-	16.57	-
Dividend from SriLankan Catering (Pvt) Limited	-	-	950.00	-
	<u>1,437.91</u>	<u>511.90</u>	<u>2,122.93</u>	<u>355.34</u>



5 PROFIT FROM OPERATING ACTIVITIES STATED AFTER CHARGING/(CREDITING):

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>Year ended 31 March</i>				
Staff Costs	8,491.76	7,356.74	8,204.43	7,092.82
Defined Benefit Plan Costs - Gratuity	505.42	234.04	483.36	232.30
Defined Contribution Plan Costs - EPF & ETF	702.10	561.27	682.71	542.25
Operating Lease Rentals	7,297.17	6,752.05	7,297.17	6,752.05
Advertising Costs	973.18	990.77	973.18	990.77
Bad Debts	22.20	6.39	22.20	6.39
Depreciation / Amortisation	4,802.05	4,050.08	4,512.65	4,011.44
Profit on Disposal of Property, Plant and Equipment	(14.43)	(0.15)	(3.43)	(0.15)
Reversal for Impairment of Property, Plant and Equipment	-	(10.31)	-	-
Amortisation of A330 Pre-delivery Payments	98.23	98.23	98.23	98.23
Auditors' Remuneration				
- Audit	4.08	4.00	3.50	3.50
- Non Audit	1.35	0.92	1.35	0.47
Provision for Slow Moving Inventory	114.13	40.10	114.13	40.10
Net Gain on Fuel Risk Management Program	(1,051.07)	(1,162.08)	(1,051.07)	(1,162.08)
Franchise Fees	214.18	206.98	111.83	106.97
Provision for Prolongation Claim	89.07	-	-	-

6 FINANCE COST

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>Year ended 31 March</i>				
Interest Cost on Borrowings and Bank Overdrafts	123.40	17.86	15.57	17.86
Finance Charges on Lease Liabilities	95.98	264.68	95.98	264.68
	<u>219.38</u>	<u>282.54</u>	<u>111.55</u>	<u>282.54</u>

7 TAXATION

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>Year ended 31 March</i>				
Tax Expense				
Current Tax Expense on Ordinary Activities for the Year (7.1)	25.77	58.72	11.74	1.31
Economic Service Charge	-	34.00	-	34.00
10% WHT on Dividend	50.00	-	-	-
Under/(Over) Provision of current taxes in respect of prior years	(7.89)	3.89	(7.89)	0.81
	<u>67.88</u>	<u>96.61</u>	<u>3.85</u>	<u>36.12</u>

7.1 Reconciliation between Current Tax Expense / (Income) and the product of Accounting Profit

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>Year ended 31 March</i>				
Accounting Profit (before Tax)	930.06	1,816.39	571.89	512.65
Aggregate Disallowed Items	-	5.19	-	-
Aggregate Allowable Expenses	-	(2.47)	-	-
Income not subject to Tax	(895.99)	(1,818.08)	(537.82)	(519.34)
Assessable Income under Normal Rate of Tax	34.07	1.03	34.07	(6.69)
Turnover at Specified Rate of Tax (2%)	701.56	2,863.56	-	-
Total Assesable Income	735.63	2,864.59	34.07	(6.69)
Set-Off of Current Year loss	(11.92)	(2.34)	(11.92)	(2.34)
Taxable Profit	723.71	2,862.25	22.15	(9.03)
Specified Tax Rate 2%	14.03	57.26	-	-
Statutory Tax Charge at Normal Rate of Tax	11.62	1.31	11.62	1.31
Social Responsibility Levy @ 1%	0.12	0.15	0.12	0.00
Current Income Tax Expense	<u>25.77</u>	<u>58.72</u>	<u>11.74</u>	<u>1.31</u>



8 EARNINGS PER SHARE

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

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

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>Year ended 31 March</i>				
Profit attributable to Ordinary Shareholders for Basic Earnings Per Share (Rs. Million)	862.18	1,719.78	568.04	476.53
Weighted average number of Ordinary Shares in issue	51,463,463	51,463,463	51,463,463	51,463,463
Basic Earnings Per Share Rs.	16.75	33.42	11.04	9.26

9 PROPERTY, PLANT AND EQUIPMENT

9.1 Group

	Land and Buildings	Equipment	Improvements to Aircraft / Engines on Operating Leases	Aircraft Related Equipment	Aircrafts & Related Equipment on Finance Lease	Capital Work-in-Progress	Total
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Cost/Revaluation							
Balance as at 01 April 2006 - Restated	1,274.92	3,612.65	6,463.04	4,659.71	18,854.15	3,380.27	38,244.74
Acquisitions/Modifications/Revaluations	2,539.47	1,614.09	1,736.90	329.67	1,102.56	190.75	7,513.44
Transfers/Adjustments	(620.26)	(8.40)	-	(13.15)	-	(3,416.82)	(4,058.63)
Disposals	(99.29)	(260.82)	(1,744.08)	(6.54)	(364.03)	-	(2,474.76)
Balance as at 31 March 2007	3,094.84	4,957.52	6,455.86	4,969.69	19,592.68	154.20	39,224.79
Accumulated Depreciation							
Balance as at 01 April 2006 - Restated	989.62	2,802.87	3,782.92	3,285.01	11,254.59	-	22,115.01
Charge for the Year	122.78	625.41	1,951.39	349.80	1,727.87	-	4,777.25
Transfers/Adjustments	(619.94)	-	-	-	-	-	(619.94)
Disposals	(99.29)	(260.75)	(1,744.08)	(0.74)	(364.03)	-	(2,468.89)
Balance as at 31 March 2007	393.17	3,167.53	3,990.23	3,634.07	12,618.43	-	23,803.43
Net Book Value as at 31 March 2007	2,701.67	1,789.99	2,465.63	1,335.62	6,974.25	154.20	15,421.36
Net Book Value as at 31 March 2006	285.30	809.78	2,680.12	1,374.70	7,599.56	3,380.27	16,129.73

9.1 (a) The land and buildings at valuation of the Company are disclosed under Note 9.2 (a).

(b) Group Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs. 5,988.77 million (2006 - Rs. 4,704.60 million).

9 PROPERTY, PLANT AND EQUIPMENT CONTD.

9.2 Company

	Land and Buildings	Equipment	Improvements to Aircraft / Engines on Operating Leases	Aircraft Related Equipment	Aircrafts & Related Equipment on Finance Lease	Capital Work-in-Progress	Total
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Cost/Revaluation							
Balance as at 01 April 2006 - Restated	1,175.63	3,153.26	6,463.04	4,659.71	18,854.15	695.16	35,000.95
Acquisitions/Modifications/Revaluations	1,011.91	234.09	1,736.90	329.67	1,102.56	190.75	4,605.88
Transfers/Adjustments	(620.26)	(8.40)	-	(13.15)	-	(731.70)	(1,373.51)
Disposals	-	(4.24)	(1,744.08)	(6.54)	(364.03)	-	(2,118.89)
Balance as at 31 March 2007	1,567.28	3,374.71	6,455.86	4,969.69	19,592.68	154.21	36,114.43
Accumulated Depreciation							
Balance as at 01 April 2006 - Restated	890.33	2,377.55	3,782.92	3,285.01	11,254.59	-	21,590.40
Charge for the Year	65.49	401.05	1,951.39	349.80	1,727.87	-	4,495.60
Transfers/Adjustments	(619.94)	-	-	-	-	-	(619.94)
Disposals	-	(4.17)	(1,744.08)	(0.74)	(364.03)	-	(2,113.02)
Balance as at 31 March 2007	335.88	2,774.43	3,990.23	3,634.07	12,618.43	-	23,353.04
Net Book Value as at 31 March 2007	1,231.40	600.28	2,465.63	1,335.62	6,974.25	154.21	12,761.39
Net Book Value as at 31 March 2006	285.30	775.71	2,680.12	1,374.70	7,599.56	695.16	13,410.55

9.2 (a) The following Land and Buildings were revalued in January and February of 2007.

Location	NBV as at 31 March 2007	Revaluation Surplus	Carrying Amount at cost 31 March 2007
	Rs. M	Rs. M	Rs. M
SriLankan Administration & Training Building (excluding the land) at Katunayake	179.33	175.81	3.52
Human Resources Development Centre Building (excluding the land) at Katunayake	62.84	63.30	(0.46)
Flight Operations Building (excluding the land) at Katunayake	61.51	62.03	(0.52)
Engineering Hanger (excluding the land) at Katunayake	552.40	525.79	26.61
Property situated at No 14, Sir Baron Jayathilaka Mawatha, Colombo 1	145.36	145.17	0.19
	<u>1,001.44</u>	<u>972.10</u>	<u>29.34</u>

Revaluation was carried out by Mr. Ranjan J. Samarakone - Corporate Valuer, using the 'Open Market Value' method.

The results of above revaluations have been incorporated in these financial statements from its effective date. The surplus arising from the revaluation has been transferred to a capital revaluation reserve (Note 16.1).



- (b) Effective 1 April 2006, useful lives of certain computer equipment were reduced from 5 years to 3 years. Additional depreciation of Rs. 49.20 million due to this revision was charged to the income statement.
- (c) During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 2,902.08 million (2006 - Rs. 2,683.08 million). Cash payments amounting to Rs. 3,170.29 million (2006 - Rs. 2,542.10 million) were made during the year to acquire property, plant and equipment.
- (d) Property, plant and equipment of the Company includes fully depreciated assets having a gross carrying amount of Rs. 5,964.95 million (2006 - Rs. 4,241.17 million).
- (e) Ownership of aircraft on finance leases were transferred to the Company during the year on expiry of finance lease terms.

10 INTANGIBLE ASSETS

Effective 1 April 2006, Company reclassified cost and accumulated amortisation charge of computer software that is distinct from any associated hardware, from tangible fixed assets to intangible assets.

COMPUTER SOFTWARE

	GROUP	COMPANY
	2007	2007
	Rs. M	Rs. M
Cost		
Balance as at 01 April 2006	404.48	379.80
Acquisitions/Modifications	74.93	74.04
Provision for Impairment	-	-
Disposals	-	-
Balance as at 31 March 2007	479.41	453.84
Accumulated Amortisation Charge		
Balance as at 01 April 2006	324.67	322.67
Charge for the Year	24.80	17.05
Transfers/Adjustments	-	-
Disposals	-	-
Balance as at 31 March 2007	349.47	339.72
Net Book Value as at 31 March 2007	129.94	114.12
Net Book Value as at 31 March 2006	79.81	57.13

11 INVESTMENTS - NON QUOTED

11.1 Group

Name of Company	Country of Incorporation	Holding %	Cost	Directors' Valuation	Cost	Directors' Valuation
			2007	2007	2006	2006
<i>As at 31 March</i>			Rs. M	Rs. M	Rs. M	Rs. M
SITA INC Foundation	Netherlands	0.8%	25.50	25.50	25.50	25.50
			<u>25.50</u>	<u>25.50</u>	<u>25.50</u>	<u>25.50</u>

11.2 Company

Name of Company	Country of Incorporation	Holding %	Cost	Directors' Valuation	Cost	Directors' Valuation
			2007	2007	2006	2006
<i>As at 31 March</i>			Rs. M	Rs. M	Rs. M	Rs. M
SriLankan Catering (Pvt) Limited	Sri Lanka	100%	70.40	70.40	70.40	70.40
SITA INC Foundation	Netherlands	0.8%	25.50	25.50	25.50	25.50
			<u>95.90</u>	<u>95.90</u>	<u>95.90</u>	<u>95.90</u>

The above investments are stated at cost. The Directors have assessed the fair value of these investments to be at cost since these investments are not marketable. The investment in SITA INC Foundation, represents unquoted depositary certificates without fixed maturity.

12 INVENTORIES

	GROUP		COMPANY	
	2007	2006	2007	2006
<i>As at 31 March</i>	Rs. M	Rs. M	Rs. M	Rs. M
Consumables and Spares	3,527.89	3,208.63	3,412.16	3,137.82
Duty Free	53.40	32.10	53.40	32.10
	<u>3,581.29</u>	<u>3,240.73</u>	<u>3,465.56</u>	<u>3,169.92</u>



13 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>As at 31 March</i>				
Trade Receivables	5,589.44	5,590.05	5,508.65	5,484.23
Less: Provision for doubtful debts	(408.71)	(476.32)	(408.54)	(476.32)
	<u>5,180.73</u>	<u>5,113.73</u>	<u>5,100.11</u>	<u>5,007.91</u>
Receivables from Related Parties (13.1)	191.29	97.61	60.69	31.38
Other Debtors	1,745.77	1,924.35	1,745.77	1,924.35
Advances and Prepayments	3,023.93	2,848.52	2,346.38	2,380.80
	<u>10,141.72</u>	<u>9,984.21</u>	<u>9,252.95</u>	<u>9,344.44</u>
Loans and Advances to Company Officers (13.2)	36.21	15.12	33.43	12.29
	<u>10,177.93</u>	<u>9,999.33</u>	<u>9,286.38</u>	<u>9,356.73</u>

13.1 Receivables from Related Parties:

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>As at 31 March</i>				
Emirates	191.29	97.61	60.69	31.38
	<u>191.29</u>	<u>97.61</u>	<u>60.69</u>	<u>31.38</u>

13.2 Loans to Company Officers:

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

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>As at 31 March</i>				
Balance as at the beginning of the year	3.36	2.21	0.66	0.18
Loans granted during the year	5.20	2.33	2.90	0.70
Repayments	(3.96)	(1.18)	(0.89)	(0.22)
Balance as at the end of the year	<u>4.60</u>	<u>3.36</u>	<u>2.67</u>	<u>0.66</u>

14 CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>As at 31 March</i>				
14.1 Favourable Cash and Cash Equivalents Balance				
Cash and Bank Balances	924.20	1,171.75	860.35	852.06
Short Term Deposits	5,628.67	7,569.74	5,628.67	7,569.74
	<u>6,552.87</u>	<u>8,741.49</u>	<u>6,489.02</u>	<u>8,421.80</u>
14.2 Unfavourable Cash and Cash Equivalents Balance				
Bank Overdrafts	(447.14)	(720.53)	(447.14)	(720.10)
Total Cash and Cash Equivalents for the purpose of Cash Flow Statement	<u>6,105.73</u>	<u>8,020.96</u>	<u>6,041.88</u>	<u>7,701.70</u>

15 SHARE CAPITAL

15.1 Authorized

			COMPANY	
			Par Value Rs.	
<i>As at 31 March</i>			2007 Number	2006 Number
Number of Shares	Ordinary Shares	100/-	150,000,000	150,000,000
			<u>150,000,000</u>	<u>150,000,000</u>
			Rs. M	Rs. M
Nominal Value	Ordinary Shares	100/-	15,000.00	15,000.00
			<u>15,000.00</u>	<u>15,000.00</u>

15.2 Issued and Fully Paid

			COMPANY	
			Par Value Rs.	
<i>As at 31 March</i>			2007 Number	2006 Number
Number of Shares	Ordinary Shares	100/-	51,463,463	51,463,463
			<u>51,463,463</u>	<u>51,463,463</u>
			Rs. M	Rs. M
Nominal Value	Ordinary Shares	100/-	5,146.35	5,146.35
			<u>5,146.35</u>	<u>5,146.35</u>



16 RESERVES

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>As at 31 March</i>				
Capital Reserves (16.1)	1,077.30	105.20	1,047.70	75.60
Revenue Reserves	0.63	0.63	-	-
General Reserves (16.2)	53.44	53.44	53.44	53.44
	<u>1,131.37</u>	<u>159.27</u>	<u>1,101.14</u>	<u>129.04</u>

16.1 Capital Reserves

(a) Movement in Capital Reserve

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
Balance as at 01 April	105.20	105.20	75.60	75.60
Surplus on revaluation of land and buildings	972.10	-	972.10	-
Balance as at 31 March	<u>1,077.30</u>	<u>105.20</u>	<u>1,047.70</u>	<u>75.60</u>

- (b) Capital Reserves of the Company/ Group comprise of surplus arising from the revaluation of property, plant and equipment which amounted to Rs. 75.60 million and Rs. 972.10 million relating to prior and current year respectively. (Note 9.2 (a))
- (c) Reserve on Consolidation Rs. 8.00 million
- (d) Bonus issue Rs. 21.6 million

16.2 General Reserve

General Reserve of Rs. 53.44 million represent transfers from Capital Reserves in prior years relating to exchange differences capitalised in 1987/88 and in 1988/89 in respect of property, plant and equipment which have been financed through foreign currency loans.

17 INTEREST BEARING LIABILITIES

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>As at 31 March</i>				
Current Liabilities				
Finance Leases (Note 17.1(b))	-	2,939.48	-	2,939.48
Long-term Loans (Note 17.2(b))	258.82	75.43	14.13	75.43
Bank Overdraft	447.14	720.53	447.14	720.10
	<u>705.96</u>	<u>3,735.44</u>	<u>461.27</u>	<u>3,735.01</u>
Non-Current Liabilities				
Long-term Loans (Note 17.2(b))	2,249.85	1,528.69	35.51	38.81
	<u>2,249.85</u>	<u>1,528.69</u>	<u>35.51</u>	<u>38.81</u>

17.1 (a) Finance Lease Liabilities

	2007 Rs. M	2006 Rs. M
Balance as at 01 April	2,939.48	6,012.29
Additions during the year	-	-
Payments during the year	(2,984.44)	(3,220.58)
Restatements	44.96	147.77
Balance as at 31 March	<u>-</u>	<u>2,939.48</u>

17.1 (b) Finance Lease Liabilities

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 USD M	2006 USD M
<i>As at 31 March</i>				
Payable within one year included under Current Liabilities	<u>-</u>	<u>2,939.48</u>	<u>-</u>	<u>28.61</u>

Interest rates applicable to the finance leases ranged from 6.01 percent to 9.11 percent per annum.
Conversion rate - 1 US Dollar = Rs. 109.35 (Rs. 102.75 in 2006).



17.2 (a) Long-term Loans

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
Balance as at 01 April	1,604.12	244.61	114.24	244.61
Additions during the year	969.15	1,489.88	-	-
Payments during the year	(76.42)	(136.84)	(76.42)	(136.84)
Restatements	11.82	6.47	11.82	6.47
Balance as at 31 March	<u>2,508.67</u>	<u>1,604.12</u>	<u>49.64</u>	<u>114.24</u>

17.2 (b) Long-term Loans

Company <i>As at 31 March</i>	2007 Rs. M	2006 Rs. M	2007 USD M	2006 USD M
Payable within one year included under Current Liabilities	14.13	75.43	0.13	0.73
Between :				
- One and two years	15.12	12.25	0.14	0.12
- two and three years	16.18	12.25	0.15	0.12
- three and four years	4.21	12.25	0.04	0.12
- four and five years	-	2.06	-	0.02
Payable after one year included under				
- Non Current Liabilities	35.51	38.81	0.33	0.38
	<u>49.64</u>	<u>114.24</u>	<u>0.46</u>	<u>1.11</u>

Group <i>As at 31 March</i>	2007 Rs. M	2006 Rs. M	2007 USD M	2006 USD M
Payable within one year included under Current Liabilities	258.82	75.43	2.37	0.73
Between :				
- One and two years	561.87	359.04	5.14	3.50
- two and three years	562.93	359.04	5.15	3.50
- three and four years	550.96	359.04	5.04	3.50
- four and five years	574.09	348.82	5.25	3.40
- after five years	-	102.75	-	1.00
Payable after one year included under				
- Non Current Liabilities	2,249.85	1,528.69	20.58	14.90
	<u>2,508.67</u>	<u>1,604.12</u>	<u>22.95</u>	<u>15.63</u>

Loans during the year are repayable at varying interest rates, which ranged from 6.01 percent to 9.11 percent per annum for the Company and 5.25 percent to 7.71 percent per annum for the Subsidiary.

Conversion rate - 1 US Dollar = Rs. 109.35 (Rs. 102.75 in 2006).

18 OTHER DEFERRED LIABILITIES

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
Retirement Benefit Obligation				
Balance as at 01 April	1,473.68	1,327.76	1,368.11	1,217.30
Charge for the year	505.42	234.04	483.36	232.30
Payments during the year	(92.09)	(88.12)	(85.21)	(81.49)
Balance as at 31 March	<u>1,887.01</u>	<u>1,473.68</u>	<u>1,766.26</u>	<u>1,368.11</u>

19 TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>As at 31 March</i>				
Trade Payables	7,365.64	7,041.85	7,237.97	6,995.95
Payables to Related Parties (Note 19.1)	41.68	52.23	6,078.16	4,874.24
Dividend Payable	6.10	2.30	6.10	2.30
Sales in Advance of Carriage	10,805.97	9,336.25	10,805.97	9,336.27
Provisions, Accrued Expenses and Other Payables	422.71	700.42	241.73	357.94
	<u>18,642.10</u>	<u>17,133.05</u>	<u>24,369.93</u>	<u>21,566.70</u>

19.1 Payables to Related Parties

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
<i>As at 31 March</i>				
SriLankan Catering (Pvt) Limited	-	-	6,036.48	4,822.01
Emirates	41.68	52.23	41.68	52.23
	<u>41.68</u>	<u>52.23</u>	<u>6,078.16</u>	<u>4,874.24</u>

20 EFFECTS OF CHANGE IN ACCOUNTING POLICY

	COMPANY	
	2007 Rs.M.	2006 Rs.M.
<i>As at 31 March</i>		
Prior Year Accumulated Profits after Adjustments		
At the beginning of the year as previously stated	1,805.14	1,007.21
Change in Accounting policy - Adjustment resulting from adoption of revised SLAS 18	4,031.00	4,352.40
Adjusted balance brought forward	<u>5,836.14</u>	<u>5,359.61</u>



In accordance with SLAS 18 (revised 2005), Property, plant and equipment, cost on major engine overhaul is capitalized and depreciated over the period to the next major overhaul. Previously such cost have been charged to the income statement as repairs and maintenance on an incurred basis.

This change in accounting policy has been applied in line with SLAS 10 with retrospective effect and accordingly the comparative figures of 2005/06 have been restated.

Opening retained earnings as at 1 April 2006 has been increased by Rs. 4,352.40 million being the adjustment relating to prior periods.

The effect of this change in accounting policy on the financial statements of the Company is as follows:

	2007 Rs.M.	2006 Rs.M.
Increase in Property, Plant and Equipment	2,824.54	1,763.52
Increase in Depreciation Charge	2,285.35	2,135.74
Decrease in Maintenance Expenditure	2,824.54	1,814.34
Increase in Profit / (Loss) before Income Tax	539.19	(321.40)

21 COMMITMENTS AND CONTINGENCIES

21.1 Capital Commitments

The Group and Company's commitment for acquisition of property, plant and equipment incidental to the ordinary course of business as at 31 March, is as follows:

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
Contracted but not provided for	1,317.13	74.36	1,317.13	74.36
Authorized by the Board, but not contracted for	60.95	94.45	60.95	94.45
	<u>1,378.08</u>	<u>168.81</u>	<u>1,378.08</u>	<u>168.81</u>

21.2 Financial Commitments

(a) The Company's annual commitment for minimum lease payments under non-cancellable operating leases as at 31 March were as follows:

	2007 Rs. M	2006 Rs. M
Within one year	7,313.78	6,552.69
Between one and five years	22,371.12	26,022.52
	<u>29,684.90</u>	<u>32,575.21</u>

21.2 Financial Commitments Contd.

(b) The commitment for rental on the lease agreement for the land in Katunayake, leased by the Company and Subsidiary for a period of 30 years from 1 April 1998 and 20 April 2004 respectively, is as follows:

	GROUP		COMPANY	
	2007 Rs. M	2006 Rs. M	2007 Rs. M	2006 Rs. M
Less than one year	157.12	157.12	147.62	147.62
More than one year	4,812.40	4,969.53	4,193.99	4,341.62

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

21.3 Commitment on Guarantee of Loan

The Company has guaranteed the loan of USD 22.5 million obtained by its Subsidiary SriLankan Catering (Pvt) Limited, for the construction of the new flight kitchen.

21.4 Contingencies

Company

- No provision has been made in these financial statements in respect of contingent liabilities arising in the normal course of business of the Company in respect of legal actions, other claims and potential claims being made against the Company. The management estimates contingent liabilities at Rs. 9,547.82 million.
- All employees based in Sri Lanka with 5 or more years of service with the Company are entitled for gratuity, under the Payment of Gratuity Act. No. 12 of 1983. An actuarial valuation of the gratuity liability of the Company as at 31 March 2007 was undertaken in February 2007 by Actuarial and Management Consultants (Pvt) Ltd. The assumptions used comprise of salary escalation rate of 10% per annum in respect of salaries denoted in Sri Lanka Rupees, a salary escalation rate of 5% per annum in respect of salaries denoted in US Dollars, and a discount rate of 10% per annum. Based on these assumptions the present value of accrued benefits, as at 31 March 2007 is Rs. 1,644.39 million. If the method of making a provision for all employees as required under the Payment of Gratuity Act No. 12 of 1983 were to be adopted, the gratuity liability of the Company as at 31 March 2007 would be Rs. 2,581.31 million. Hence there is a contingent liability of Rs. 936.92 million which would crystallise if the Company ceases to be a going concern.

Subsidiary

Labour tribunal cases of 21/41/00,21/addl/8675/98,21/631/0,21/520/01,21/534,538/01
 21/537,540-42/01,21/544/01,21/551-553/01,21/554/01,21/524-528/01,21/532,533,535,536&539/01
 21/558/01,21/561-3/01,21/572-574/01,21/579/01,21/addl/122/02,21/addl/123/02,21/addl/124/02
 21/addl/125/02,21/addl/129/02,21/addl/148/02,21/addl/116/02,21/addl/117/02,21/addl/118/02
 21/addl/173/03,21/addl/180/03,21/addl/227/03,21/addl/230-23&240/03,21/addl/278/04, are pending at Labour Tribunal Negombo.

In the opinion of the Directors and in consultation with the Company lawyers, the above tribunal cases will not have a material impact on the reported financial results of the Subsidiary.



22 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Following the decision by the Government of Sri Lanka to impose night curfew at Bandaranaike International Airport (BIA), the Company rescheduled its flights (in-bound and out-bound) to operate between 5.00 a.m. and 9.00 p.m commencing from 4 May 2007.

23 DIVIDEND

A dividend of Rs. 1,543.90 million (30%) relating to last year was declared from brought forward accumulated profits and paid during the year.

24 DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

24.1 The Government of Sri Lanka has nominated four Directors to the Board of the Company. The nominee Directors as at 31 March 2007 and holding office as at date are:

Mr. D H S Jayawardena - *Chairman*
 Mr. S Ukwatte
 Mr. R A Chandiram
 Mr. A N Wickremasinghe

The above Directors have been in office during the period 01 April 2006 to 31 March 2007.

During the year the Company had transactions with the following Companies in which the above Directors held Directorship.

Director	Organisation	Position	Nature of transaction	Amount Rs.
Mr. D H S Jayawardena	Sri Lanka Insurance Corporation Limited	Chairman	Insurance premiums paid	671,080,847
Mr. S Ukwatte	Mount Lavinia Hotel Limited	Director	Hotel charges for conferences	5,822,149
	MaCallum Breweries (Ceylon) Limited	- do -	Inflight purchases	1,307,986

The above transactions were carried out on an arms length basis in the ordinary course of business.

24.2 Emirates, which holds 43.63% of the Issued Share Capital of the Company as at balance sheet date, together with Management Control of the Company for a period of ten years from 31 March 1998 and in accordance with Article 80 of the Articles of Association of the Company has nominated and appointed three Directors to the Board of the Company. The nominee Directors as at 31 March 2007 and holding office as at date are:

Mr. T C Clark	- <i>Managing Director</i>
Mr. G W Chapman	
Mr. N J Hopkins	
Mr. P M Hill	- <i>Alternate Director to Mr. T C Clark</i>
Mr. P M Flanagan	- <i>Alternate Director to Mr. G W Chapman</i>
Mr. Ghaith Al Ghaith	- <i>Alternate Director to Mr. N J Hopkins</i>

The above Directors have been in office during the period 01 April 2006 to 31 March 2007. The Company has entered into a number of agreements with Emirates and Dnata which are disclosed in Note 25.1.2 to these Financial Statements.

The Company has nominated four Directors to the Board of SriLankan Catering (Pvt) Limited, with whom the Company has a contract for catering, the value of which is disclosed in Note 25.1.1 to these Financial Statements.

The current Directors of SriLankan Catering (Pvt) Limited, are;

Mr. D H S Jayawardena	- <i>Chairman</i>
Mr. G W Chapman	
Mr. S Ukwatte	
Mr. R A Chandiram	
Mr. D Nijhawan	- <i>Alternate Director to Mr. G W Chapman</i>

25 RELATED PARTY TRANSACTIONS

25.1 Company

25.1.1 SriLankan Catering (Pvt) Limited, provides flight catering services to the Company, and the Company provides passenger and freight services to the Subsidiary in the ordinary course of business.

During the year ended 31 March 2007, the value of flight catering services provided to the Company amounted to Rs. 1,939.42 million, while freight and air tickets provided by the Company to SriLankan Catering (Pvt) Limited, amounted to Rs. 62.22 million.



25.1.2 Emirates holds 43.63% of the Issued Share Capital of the Company. The Company has entered into a number of specific related party agreements in the normal course of business to obtain goods and services from Emirates Group on commercial terms. The Company has also entered into an exclusive marketing and sales agreement with Emirates, trading as Galileo Emirates, for the purpose of distributing Galileo CRS for use in Sri Lanka.

Transactions between the Company, Emirates and Dnata are summarised as follows:

	2007		2006	
	USD Receipts/ (Payments)	Rs. Receipts/ (Payments)	USD Receipts/ (Payments)	Rs. Receipts/ (Payments)
(a) Purchase of computer systems and services	(11,219,955)	(1,191,623,241)	(7,889,265)	(799,888,270)
(b) Purchase of other goods and services	(1,065,453)	(112,392,547)	(3,399,645)	(343,330,183)
(c) Net receipt on transactions relating to international air transport, settled through the IATA Clearing House	2,865,316	301,410,899	2,386,548	240,922,021
(d) Galileo segment commission	1,548,529	162,894,301	358,762	36,217,047
(e) Frequent flyer programme	888,816	92,926,688	(925,577)	(94,910,964)
(f) Net Sales	3,048,992	320,732,363	2,823,960	285,335,760
(g) Ground Handling Services	(2,400,962)	(253,828,349)	(1,677,142)	(169,307,498)
(h) Revenue on C-Check carried out on Emirates aircraft	1,061,540	111,666,514	-	-
Total	(5,273,177)	(568,213,372)	(8,322,359)	(844,962,087)

25.1.3 Transactions including the following have been carried out with entities controlled by the Government of Sri Lanka on an arms length basis in the ordinary course of business.

	Rs. M.
Purchase of Aviation fuel from Ceylon Petroleum Corporation	12,657.18
Amounts paid to Airport and Aviation Services of Sri Lanka for Landing and Parking, Franchise Fees and Ground Rent	1,168.74

Related party transactions disclosed above should be read in conjunction with Note 24 to these financial statements.

25.2 Subsidiary

SriLankan Catering (Pvt) Limited, has entered into following related party transactions in the ordinary course of business during the year.

Organisation	Nature of transaction	Amount Rs.
Emirates	Inflight Meals	456,740,083
Stassen Exports (Pvt) Limited	Purchase of Materials	7,414,925
Lanka Milk Foods (CWE) Limited	Purchase of Materials	3,578,815
Lanka Dairies (Pvt) Limited	Purchase of Materials	2,727,117
Sri Lanka Insurance Corporation Limited	Insurance	14,476,162
Browns Beach Hotels Limited	Laundry	2,954,324

Subsidiary transactions with SriLankan Airlines Limited are disclosed under Note 25.1.1.

decade at a glance - company

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
INCOME STATEMENT											
Revenue	Rs. Million	17,592.00	19,171.43	24,354.32	30,437.09	29,352.91	36,235.04	45,397.54	53,808.85	61,160.14	67,963.76
Operating expenditure	Rs. Million	14,657.41	16,139.49	23,423.18	31,817.28	31,307.87	33,440.83	39,441.82	54,145.20	60,720.29	69,403.25
Net profit/(loss)	Rs. Million	1,641.59	1,272.93	3,661.34	(4,734.89)	(2,048.95)	3,347.23	7,424.48	479.87	476.53	568.04
BALANCE SHEET											
Share capital	Rs. Million	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35
Non current assets	Rs. Million	17,882.38	16,359.69	17,525.99	14,952.28	12,826.78	12,229.44	13,072.68	10,908.79	13,410.55	12,761.39
Current assets	Rs. Million	11,196.80	16,090.86	14,930.23	14,247.30	12,061.52	18,713.33	24,954.44	22,303.26	21,866.73	21,347.46
Total assets	Rs. Million	29,109.58	32,520.95	32,526.62	29,269.98	24,958.70	31,038.66	38,123.01	33,307.94	38,003.50	37,916.19
Current liabilities	Rs. Million	9,224.37	11,477.25	13,528.69	16,886.18	11,578.40	16,641.12	20,612.84	22,381.67	25,485.05	25,006.65
YIELD/UNIT COST											
Overall yield	Rs. tkm	29.3	31.3	31.8	30.2	38.6	43.0	47.3	48.1	52.2	55.71
Unit cost	Rs. tkm	20.8	20.4	22.9	24.5	27.5	31.5	34.8	36.2	37.62	40.30
Breakeven load factor	%	70.9	65.3	72.0	81.1	71.3	73.3	68.7	74.9	72.0	72.34
Revenue per RPK	Rs./RPK	3.2	3.3	3.4	3.1	3.8	4.3	4.9	5.1	5.3	5.6
PRODUCTION											
Passenger capacity	ASK Millions	5,672.66	6,209.80	8,038.31	10,891.61	8,556.92	8,422.77	9,692.08	11,326.54	11,934.86	12,375.62
Overall capacity	ATK Millions	757.42	832.69	1,088.38	1,454.78	1,148.73	1,121.89	1,289.94	1,484.02	1,590.55	1,695.91
TRAFFIC											
Passengers carried	Nos. Thousands	1,201	1,260	1,475	1,891	1,615	1,806	2,065	2,423	3,005	3,176
Passengers carried	RPK Millions	4,154.46	4,417.55	5,459.65	7,447.87	5,862.09	6,408.38	7,276.35	8,142.54	9,050.44	9,535.79
Passenger load factor	%	73.24	71.14	67.92	68.38	68.51	76.08	75.08	71.89	75.83	77.05
Cargo carried	Tonnes	36,478	35,566	41,670	58,618	46,067	47,650	54,943	66,977	82,142	88,833
Cargo load carried	RTK Millions	173.62	156.61	195.67	266.75	186.47	200.45	240.90	296.68	300.73	325.97
Overall load carried	RTK Millions	547.14	554.90	703.28	932.72	711.72	785.11	896.59	1,039.34	1,102.77	1,150.84
Cargo load factor	%	65.40	57.50	57.53	54.77	44.19	46.22	52.08	56.95	56.11	58.44
Overall load factor	%	72.24	66.64	64.62	64.11	61.96	69.98	69.51	70.04	69.33	67.86
STAFF											
Average strength	Nos.	4,823	4,832	5,070	5,196	4,049	4,182	4,714	5,163	5,395	5,272
Revenue per employee	Rs.	3,647,522	3,967,597	4,803,614	5,857,792	7,249,422	8,664,524	9,630,365	10,422,012	11,336,449	12,891,457
Capacity per employee	Tonne-km	157,043	172,329	214,670	279,981	283,706	268,266	273,640	287,433	294,820	321,683
Load carried per employee	Tonne-km	113,444	114,838	138,713	179,507	175,777	187,735	190,197	201,305	204,406	218,293
FLEET											
L1011-500	Nos.	2	2	-	-	-	-	-	-	-	-
L1011-100	Nos.	1	1	-	-	-	-	-	-	-	-
L1011-50	Nos.	1	1	-	-	-	-	-	-	-	-
A320-200	Nos.	2	2	2	2	1	2	3	5	5	5
A330-200	Nos.	-	-	4	6	4	4	4	4	4	4
A340-300	Nos.	3	3	4	4	3	3	5	5	5	5
Turbo Otter	Nos.	-	-	-	-	-	-	-	2	2	2
Aircraft in service at year end	Nos.	9	9	10	12	8	9	12	16	16	16

The Income Statement and the Balance Sheet has been restated from the year 2003 to incorporate the effects of change in accounting policy due to the adoption of revised (year 2005) SLAS 18.



glossary

AVAILABLE SEAT KILOMETRES (ASK)

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

AVAILABLE TONNE KILOMETRES (ATK)

This is the measure of transport production.

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

REVENUE PASSENGER KILOMETRES (RPK)

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

REVENUE TONNE KILOMETRES (RTK)

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

LOAD FACTOR

The percentage relationship of revenue load to capacity provided.

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

REVENUE PER RPK

The revenue per RPK relates the passenger revenue to RPK.

UNIT COST

The unit cost relates the total operating cost to ATK.

OVERALL YIELD

Overall Yield relates the net traffic revenue to RTK.

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

BREAK-EVEN LOAD FACTOR

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

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16th Floor Mayapada Tower, Suite 16-05 JL Jend
Sudirman Kav 28, Jakarta 12910
Tel: (021) 521 2009
Fax: (021) 521 2006
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Ireland (code +353)

Belfast
SriLankan Airlines, c/o Aer Lingus,
46-48 Castle St, Belfast, Northern Ireland
Tel: (94) 42 2725

Israel (code +972)

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TAL Aviation Limited, 29, Ben Yehuda Street,
Tel Aviv 63 807
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Italy (code +39)

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06 48771399 (Direct)
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Hommmachi Bldg, 4F, 3-2-6 Hommmachi,
Chuo-ku, Osaka 541 0053.
Tel: (06) 6251 3480
Fax: (06) 6251 8981

Tokyo

SriLankan Airlines,
Toranomon Dai 2 Waiko Bldg 8F, 5-2-6, Toranomon,
Minato-ku, Tokyo 105-0001
Tel: Sales (03) 3431 6611
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SriLankan Airlines, Res/tktg,
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Amsterdam
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Qatar (code +974)

Doha
SriLankan Airlines,
c/o Ali Bin Ali Travel Bureau, Al Saad St,
PO Box 2197, Doha
Tel: Gen 4441161 (8 lines)
Res: 436 0286/444 1217
Fax: 444 1160
Cargo: 462 1571
Fax: 444 1241
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Republic of Ireland (code +353)

Dublin
SriLankan Airlines, c/o Castle Transport & Marketing
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SITA

DUBGSUL, Email: srilankan@eircom.net
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Saudi Arabia (code ++966)

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SriLankan Airlines,
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Jeddah

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SriLankan Airlines, c/o Kanoo Travel, Kanoo Tower, PO
Box 753, King Abdul Aziz St, Riyadh 11421
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Airport office 220 3810, Fax: 478 6869
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Singapore
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Solomon Islands (code +677)

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Durban

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Cape Town

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100 814
Tel: (2) 318 3721/2/3/4/5
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Email: selppa@unitel.co.kr

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Fax: 1 42 86 83 20
Email: commercialsupport.paris@srilankan.aero

Sri Lanka (code +94)

Colombo
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Echelon Square, Colombo 1
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Fax: 019733 5122
Res: 242 1161
Reconfirmation: 019733 5500
Flight information: 019733 1377/2377
Customer affairs: 019733 1413
Fax: 019733 5145
Email: customer@srilankan.aero

Skywards:

Level 3, East Tower, World Trade Centre,
Colombo 1,
Tel: 019733 3333
Fax: 019733 5333
Email: skywards.cmb@srilankan.aero
Ticketing: Level 3, World Trade Centre,
Colombo 1
Tel: General Enquiries 019733 3723
Business Class: 019733 3729
Business Class Fax: 019733 5312
Government travel: 019733 3833
Skywards/Bus Class: 019733 3842
Skywards/Bus Class Fax: 019733 5367
Skywards/Ticketing: SriLankan Airlines,
Bandaranaike Int' Airport
Tel: 019733 2424 (24 hours)

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Matara

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Ratnapura

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Bank of Ceylon Bldg. Super Grade Branch
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Seeduwa

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Email: ulseeduwa@slt.net.lk

Trincomalee

SriLankan Airlines Ltd.,
250, Dock Yard Road, Trincomalee
Tel: 26 22 21101 / 11, Fax 26 22 21101
Email: ultrinco@yahoo.com
Vavuniya: SriLankan Airlines Ltd.,
76, 1st Cross Street, Vavuniya
Tel: 24 22 24392 / 23480
Fax: 24 22 24392

Sultanate of Oman (code +968)

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Muscat

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PO Box 629, Muscat PC 113
Tel: Res/tktg: 78 4545,
Pax/ 78 5871, Fax: 78 5872
Email: ulmct@omantel.net.om

Salalah

SriLankan Airlines,
Mezzoon Travels, PO Box 1076, Salalah-PC211
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**Sweden (code +46)**

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Switzerland (code +41)

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Res, 02 236 8450
Fax: Sales & Res, 02 236 8456
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Ajman

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PO Box 641, Ajman
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Al Ain

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Al Dhaheeri Bldg, PO Box 17670, Al Ain
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Tktg: (0) 4294 0094, ext 2
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DNATA - Airline Centre,

Sheikh Zayed Road, P.O.Box 1515, Dubai
Tel: Res: (0) 43166792, Fax (0) 43211064
Fujairah: Fujairah National Air Travel Agency,
PO Box 96, Fujairah
Tel: (0) 9222 2316
Fax: (0) 9222 2555
Email: fnatafjr@emirates.net.ae

Ra's al-Khaimah

Ras Al Khaimah National Travel Agency, PO Box 5214,
Ras Al Khaimah
Tel: (0) 7228 1536, Fax: (0) 7228 1255
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Sharjah

Sharjah National Travel Agency, Sharjah Tower, PO
Box 17, Sharjah
Tel: (0) 6568 4411
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Umm al-Qaiwain

Umm al-Qaiwain National Travel Agency,
PO Box 601, King Faizal St, Umm Al Quwain
Tel: (0) 6765 6615 (5 lines)
Fax: (0) 6765 5549
Email: untaair@emirates.net.ae

United Kingdom (code ++44)**London**

SriLankan City Office
SriLankan Airlines, Central House, 3, Lampton Road,
Hounslow, Middlesex TW3 1HY.
Tel: General (0)20 8538 2000
Reservations (0)20 8538 2001
Fax: (0)20 8572 0808

SriLankan Airport Office

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Hounslow, Middlesex, UK
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Fax: (0)20 8745 6649

SriLankan Cargo

Building 560, Shoreham Road West,
London Heathrow Airport, Hounslow,
Middlesex TW6 3RA
Tel: (0)20 8897 7877
Fax: (0)20 8897 7875, SITA: LHRSFUL
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United States of America (code +1+)**New Jersey**

Sri Lankan Travel Inc.,
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111 Wood Avenue South,
Iselin, New Jersey, NJ 08830
Tel: (732) 205 0017
Gen: (877) 915 2652
Fax: (732) 205 0299
Email: sales@srilankanusa.com
dillan@srilankanusa.com

Los Angeles

Sri Lankan Travel Inc.,
1936, Wilshire Boulevard,
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Tel: (213) 483 8808, Gen: (877) 915 2652
Fax: (213) 483 8600
Email: sales@srilankanusa.com
nalini@srilankanusa.com

notice of meeting

Notice is hereby given that the Twenty Ninth Annual General Meeting of the Shareholders of SriLankan Airlines Limited will be held at the 'Cat's Eye Ballroom' of the Ceylon Continental Hotel, No.48 Janadhipathi Mawatha, Colombo 1, on 8 August 2007, at 3.30 p.m for the following purposes.

Note:

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

AGENDA

1. To receive and consider the Financial Statements for the year ended 31 March 2007 together with the Reports of the directors and the Auditors thereon.
2. To re-appoint M/s Ernst & Young as Auditors and authorize the Directors to fix their remuneration.

By Order of the Board



Mildred Peries
Company Secretary

10 June 2007
Colombo



proxy

SRILANKAN AIRLINES LIMITED

I/We,of

.....

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

..... or failing him/her

- | | |
|-----------------------|---------------------------|
| Mr D H S Jayawardena | of Colombo or failing him |
| Mr S Ukwatte | of Colombo or failing him |
| Mr R A Chandiram | of Colombo or failing him |
| Mr A N Wickramasinghe | of Colombo or failing him |
| Mr T C Clark | of Dubai or failing him |
| Mr G Chapman | of Dubai or failing him |
| Mr N J Hopkins | of Dubai |

as my/our proxy to represent me/us and on my/our behalf at the Twenty Ninth Annual General Meeting of the Shareholders of SriLankan Airlines Limited to be held on 8 August 2007 at 3.30 p.m and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting.

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

.....

Signature

Note:

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

instructions for completion

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

By Order of the Board

Company Secretary
SriLankan Airlines Limited
#22-01, East Tower
World Trade Centre
Colombo 1

10 June 2007



reach across the world