

SriLankan Airlines

Management Presentation – 12 January 2023



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Speakers and key attendees



Government of Sri Lanka



Ashok Pathirage
SriLankan Airlines Chairman



Richard Nuttall
SriLankan Airlines Chief Executive Officer



Yasantha Dissanayake
SriLankan Airlines Chief Financial Officer



Suresh Kumar Shah
Head of Sri Lanka's SOE Restructuring Unit



Dr. M.K.C. Senanayake
Director General, Department of Fiscal Policy
Ministry of Finance



P.A.S Athula Kumara
Director General, Department of Public Enterprises
Ministry of Finance



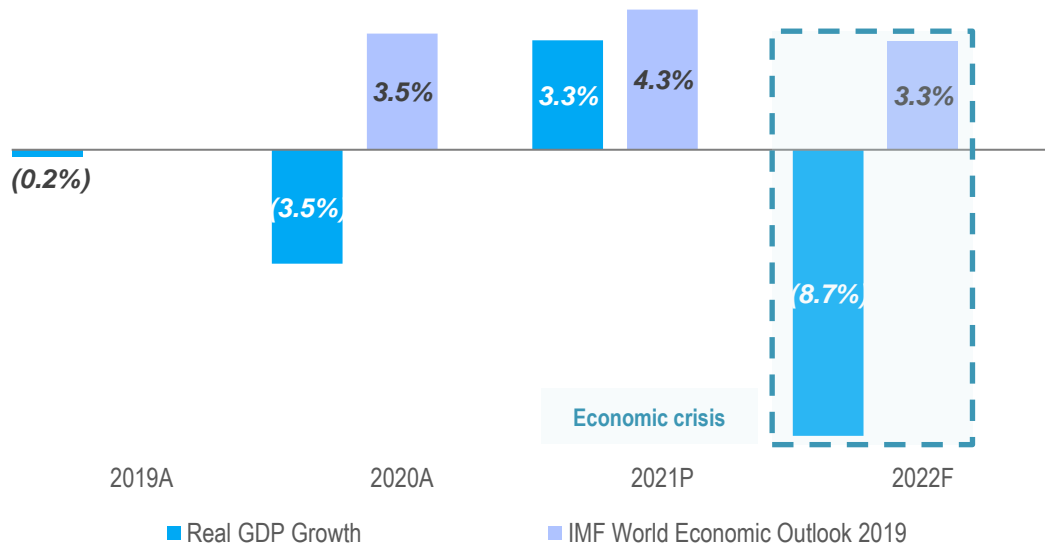
I Overview of Sri Lanka's Macroeconomic Situation and Overall Context of SriLankan Airlines Approach to Creditors

A very deteriorated macroeconomic environment in Sri Lanka...

The global COVID-19 pandemic and resulting global crisis have stunted Sri Lanka's growth projections and left the country exposed to the consequences of the energy and food crisis, including rising inflation

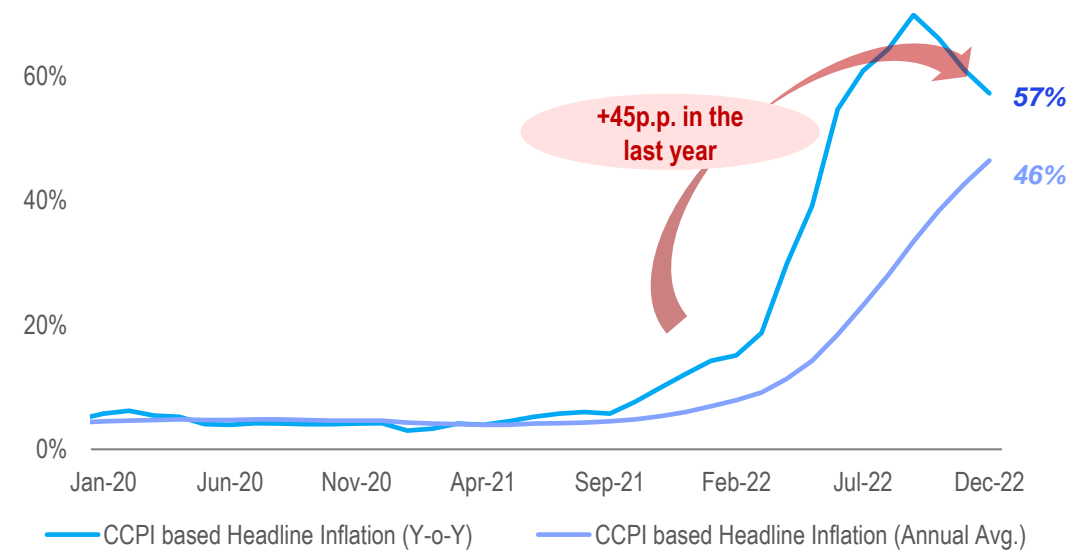
Yearly real GDP growth⁽¹⁾

In % y-o-y change



CCPI inflation

In y-o-y change and in annual average



The energy crisis further exacerbated the difficulties Sri Lanka has been facing since the outbreak of the COVID-19 pandemic and severely affected the country's weak public finances, with a primary deficit widening on the back of the necessary rise in public health spending (2020) and energy subsidies (2022)

Sources: Central Bank of Sri Lanka, IMF

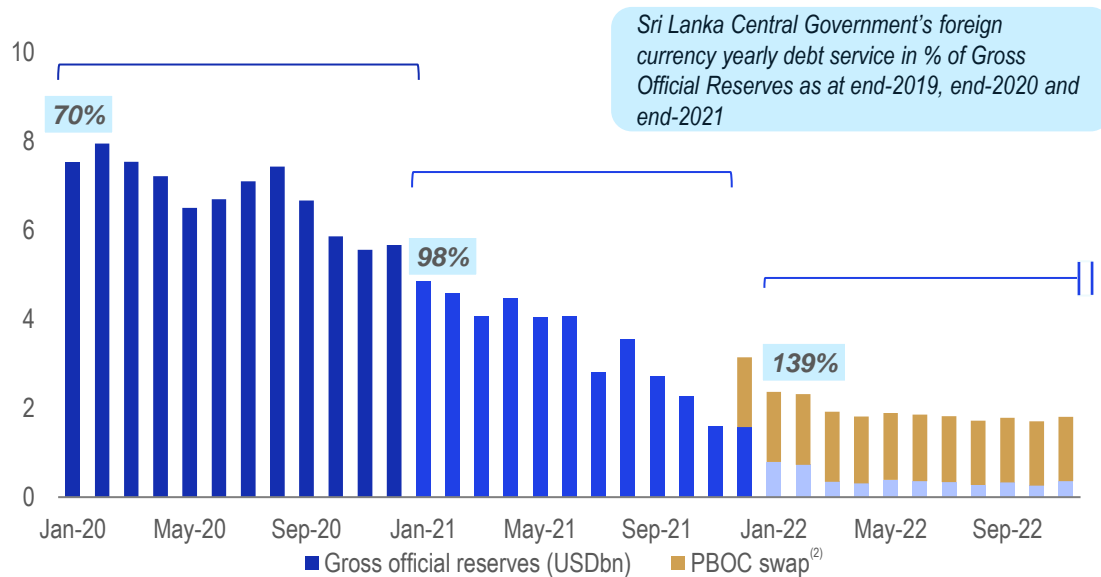
Note: (1) Actual GDP data for 2019, 2020 and 2021 are based on rebased GDP estimates (100=2015)

... leading to a very fragile external position for the Republic

Amidst high external pressures, foreign reserves were depleted in efforts to preserve citizens' access to basic needs while the Sri Lankan Rupee suffered from severe depreciation

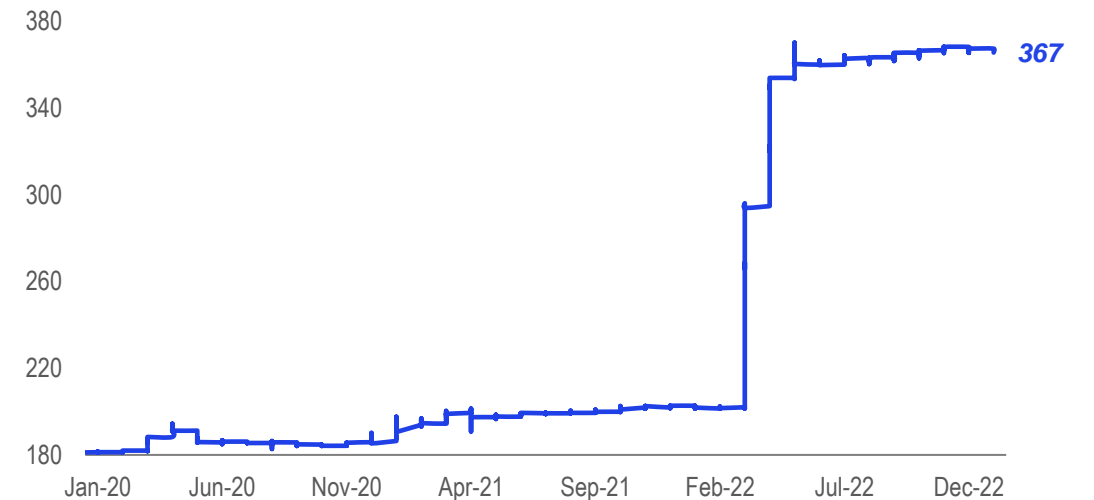
Foreign exchange reserves and debt service payments

Foreign exchange reserves in USDbn, yearly FX debt service in % of reserves as at end of previous year⁽¹⁾



Evolution of LKR per USD exchange rate

LKR/USD exchange rate



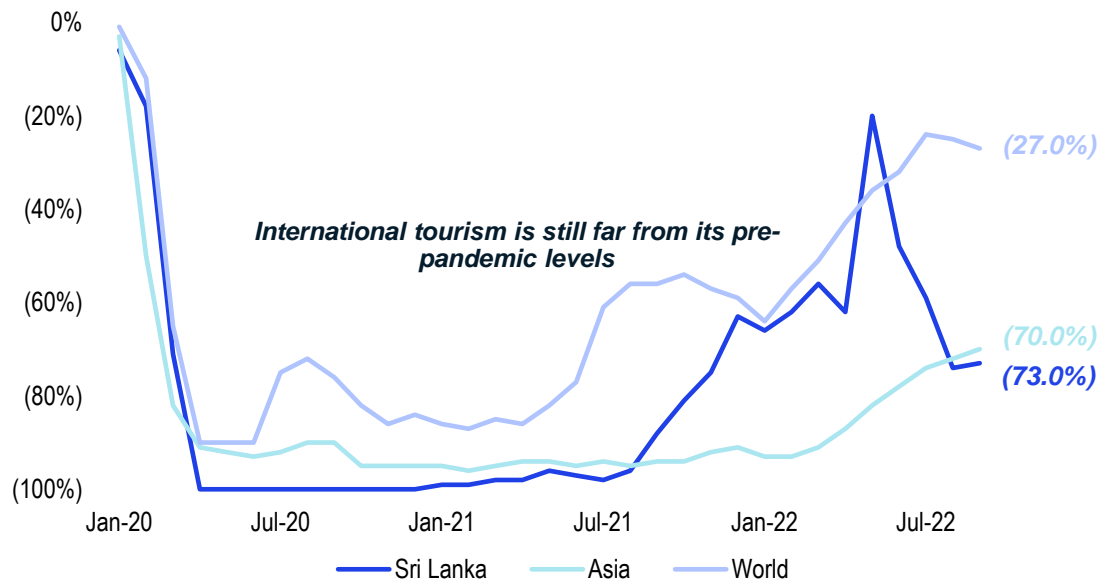
The decline in foreign reserves hampered Sri Lanka's ability to mitigate the effects of the crisis through the subsidization of imports, whilst its currency was steadily losing value due to persistently high inflation levels – leading to adverse conditions for all Sri Lankans, in particular the poor and vulnerable, and to shortages in basic utilities such as fuel

This unfavorable global environment, combined with high domestic pressures, also severely affected SriLankan Airlines¹

The airline industry was one of the industries that was most affected by the COVID-19 pandemic, as travel completely halted in 2020. As international tourism was showing signs of rebound in 2021, skyrocketing oil prices coupled with FX shortages in the country prevented any envisageable return to standard levels of operation for SriLankan Airlines

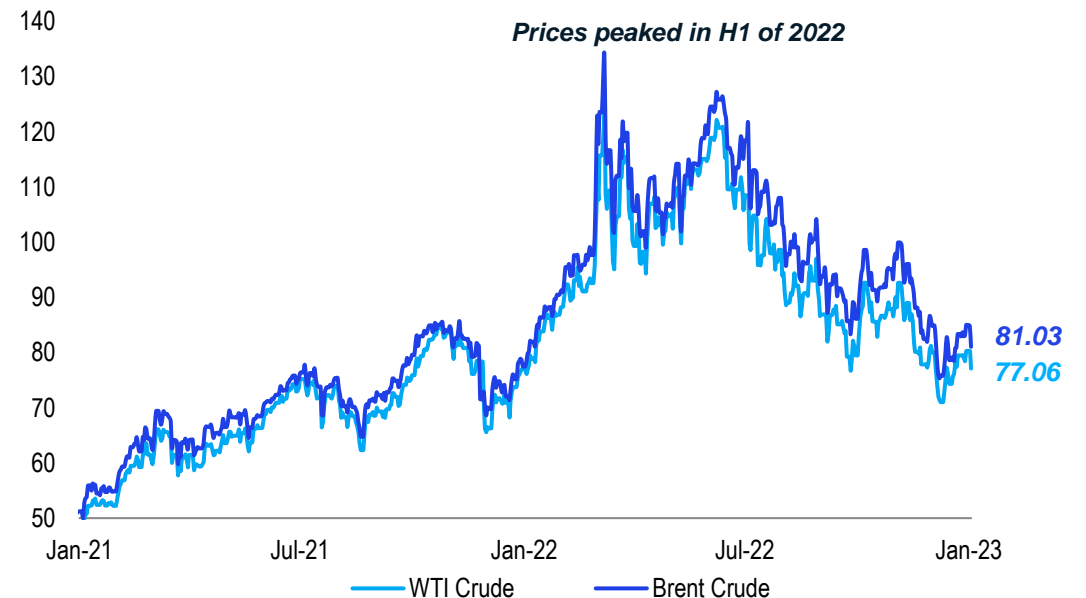
International tourism has been widely disrupted by the COVID-19 pandemic

International tourist arrivals, YTD change compared to 2019 (in %)



The sharp rise in oil prices has put further pressure on the airline sector, notably for companies operating in non-oil exporting countries

In USD/Bbl



These unfavorable macroeconomic conditions combined with the negative impact of domestic political instability on the tourism sector weighed on SriLankan Airlines' recovery

Sources: UNWTO, Bloomberg

Notes: (1) Also referred to as "SLA" or the "Company"

In light of the FX reserves scarcity, the Government of Sri Lanka imposed a moratorium on external debt service payments and engaged in Program discussions with the IMF...

These measures aimed at stabilizing the economy while rebuilding the foreign currency buffers to secure Sri Lankan citizens' basic needs



As FX debt service payments became unfeasible in view of dire shortfalls in basic needs, the Sri Lankan Authorities announced on 12 April 2022 an **Interim Debt Policy** to address this situation, whereby Sri Lanka suspended the servicing of affected external public debt obligations

- SriLankan Airlines' Bonds were included in the affected debt perimeter; regardless, the Company decided to pay from its own funds the June 2022 coupon before the expiration of the grace period, due to the political uncertainty around the formation of the new Government



On September 1st, after months of negotiations and in a major step towards addressing the country's ongoing crisis, the Sri Lankan Authorities reached a Staff-level Agreement with IMF Staff on a set of comprehensive economic policies supported by a 4-year US\$2.9 billion Extended Fund Facility

The Staff-level Agreement provides a roadmap in terms of policy implementation, envisaging five pillars that will anchor the economic recovery:

1. Fiscal reforms, including revenue-based fiscal consolidation and fiscal structural reforms to protect the poor and vulnerable
2. Restore public debt sustainability
3. Restore price stability and rebuild external buffers
4. Safeguard financial system stability
5. Reduce corruption vulnerabilities and foster growth

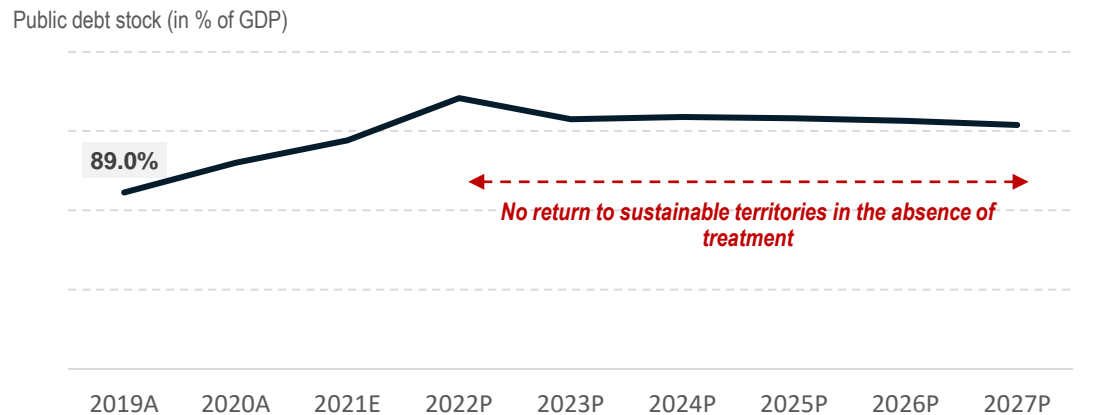
The key next step for the Government is to secure the IMF Board's approval of the IMF Program, which will unlock the IMF and other development partners' much-needed financing

...IMF Program which requires the Republic to bring its public debt back on a sustainable path while ensuring the financial viability of its SOEs

As Sri Lanka’s public debt was deemed unsustainable by the IMF, the IMF Program foresees an upfront treatment of its public debt. Additionally, the Government intends to undertake critical reforms of Sri Lanka’s SOEs to ensure that they do not create additional pressure on government finances

1 The IMF Program requires Sri Lanka to restructure its public debt including the SriLankan Airlines Bonds

Sri Lanka’s public debt is set to remain at unsustainable levels for the coming years...



... Requiring a comprehensive public debt¹ treatment – including SriLankan Airlines’ international Bonds

	Foreign Currency	Local Currency	Total	
	Total	Total	USDbn	as a % of GDP ⁽²⁾
<i>As of end-June 22, in USDbn equiv.</i>				
Central Government Debt	37.7	32.4	70.1	127.2%
Guaranteed SOEs Debt	4.9	1.7	6.6	12.0%
<i>of which SLA Bonds</i>	<i>0.175</i>		<i>0.175</i>	<i>0.3%</i>
Central Bank of Sri Lanka Debt	3.2	-	3.2	5.8%
TOTAL	45.8	34.1	79.9	145.0%

2 The IMF Program also foresees the restructuring of all SOEs including SriLankan Airlines to ensure their return to financial viability

- The fiscal reforms envisaged by the IMF Program include the introduction of automatic fuel and electricity pricing mechanisms to mitigate fiscal risks arising from SOEs, and implementing comprehensive reforms to strengthen SOEs’ governance and ensure that they do not weigh on government finances. **SriLankan Airlines will be subject to such reforms**
- The Sri Lankan Authorities have also established a SOEs Restructuring Unit to implement critical reforms and determine the best restructuring plan to regain financial and operational soundness of all SOEs

II Focus on SriLankan Airlines Operational and Financial Status

It is critical for Sri Lanka to maintain operation of its national carrier

Sri Lanka's national carrier is instrumental to the country's sustainable economic recovery and in ensuring FX inflows



Sri Lanka strategically needs its carrier, as an island nation



It provides the country with much needed foreign currency, especially in turbulent economic times

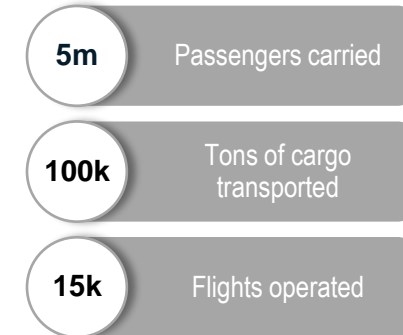


It supports the tourism industry, a staple of Sri Lanka's economy and an important job-creating industry

The SriLankan Airlines Group spans across multiple business units, and includes a fully-owned subsidiary



SriLankan Airlines in a typical year...



AIRLINE OPERATION

- Network of 35 cities spanning from London to Sydney and Tokyo
- Member of Oneworld alliance 
- IATA Operational Safety Audit (IOSA) passed - the benchmark for global airline safety management
- A predominantly **FX-earning business**, expected to generate **USD 1.1bn in revenues in 2023/24**

GROUND HANDLING

- Sole ground handler at Colombo and Mattala
- Certified with IATA Safety Audit for Ground Operations (ISAGO) – the global audit standard applicable for ground handlers
- **Expected to generate USD 60m in revenues in 2023/24**

SRILANKAN CATERING

- Exclusive flight catering provider in Sri Lanka
- State-of-the-art facilities in compliance to global standards
- **Expected to generate USD 42m in revenues in 2023/24**

SRILANKAN AIRLINES BUSINESS UNITS

- Other business units include the Aircraft Maintenance, Repair and Overhaul (MRO) Unit and the Aviation College

SRILANKAN AIRLINES SUBSIDIARY

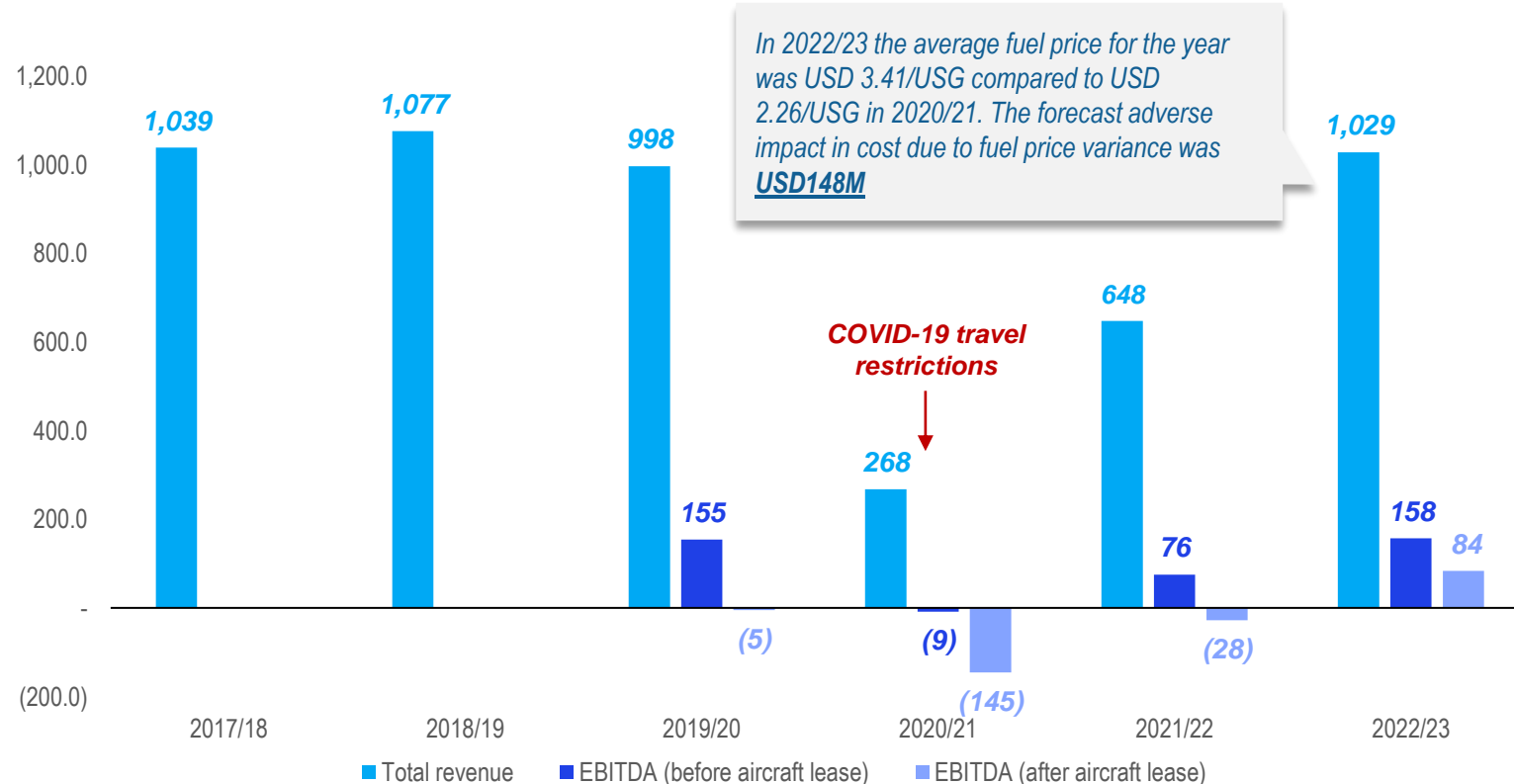
- 100% owned by SLA Group

Financially, SriLankan Airlines has suffered from Sri Lanka's sociopolitical and economic hardships, compounded by an unfavorable global context

The global energy crisis led to the explosion of fuel prices, in Sri Lanka this was exacerbated by scarcity

SriLankan Airlines' revenues were heavily affected by the COVID-19 pandemic and the country's unfavorable economic outlook

Total revenues¹ and EBITDA² in USDm



Impact of the depreciation of the Sri Lankan Rupee on SriLankan Airlines' financials

- The Sri Lankan Rupee suddenly devalued in March/April 2022, going from around 200 LKR/USD to 360 LKR/USD
- ✓ 80% of the Company's revenue is in foreign currency and the local sales are priced in USD
- ✗ However, the depreciation resulted in a significant exchange loss in FY2021/22 - which accounted for **LKR 143bn** arising from **the revaluation of the monetary assets and liabilities**³

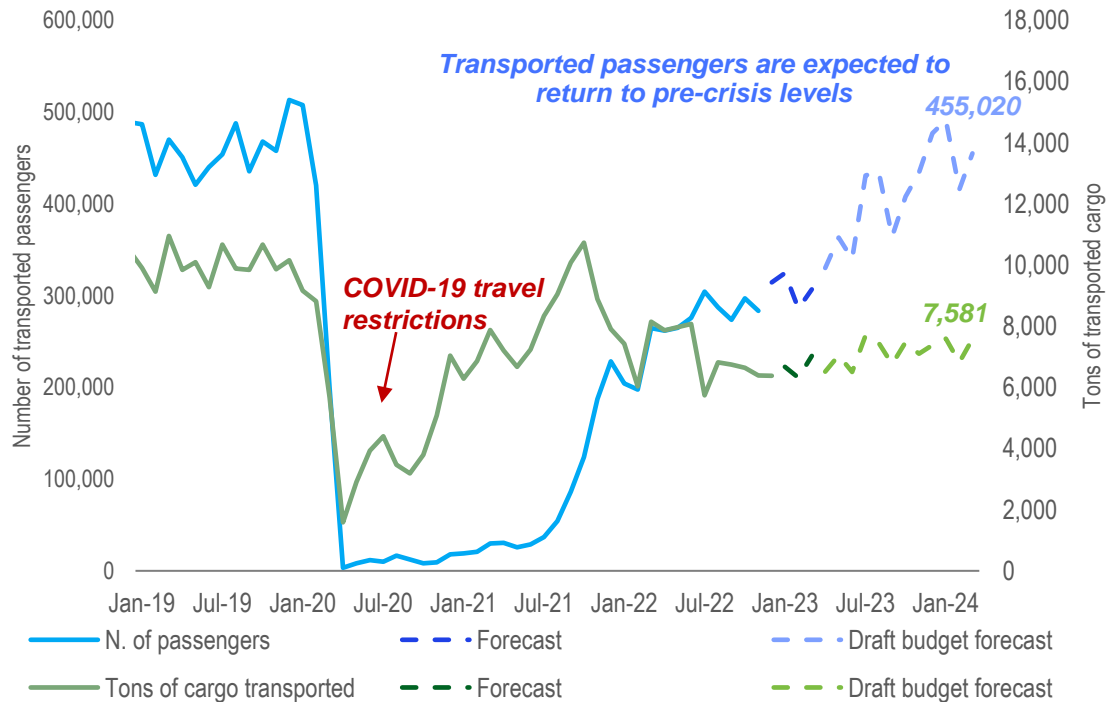
Source: SriLankan Airlines

Notes: (1) Total revenues exclude SriLankan Catering revenue, (2) EBITDA prior to 2019/20 is not comparable due to the adoption of IFRS/SLFRS16 in 2019/20, (3) Sri Lanka's financial accounts are in LKR although management accounts are in USD

SriLankan Airlines' operational situation is gradually improving after being heavily impacted by the COVID-19 pandemic, as passenger traffic and travel gradually resume

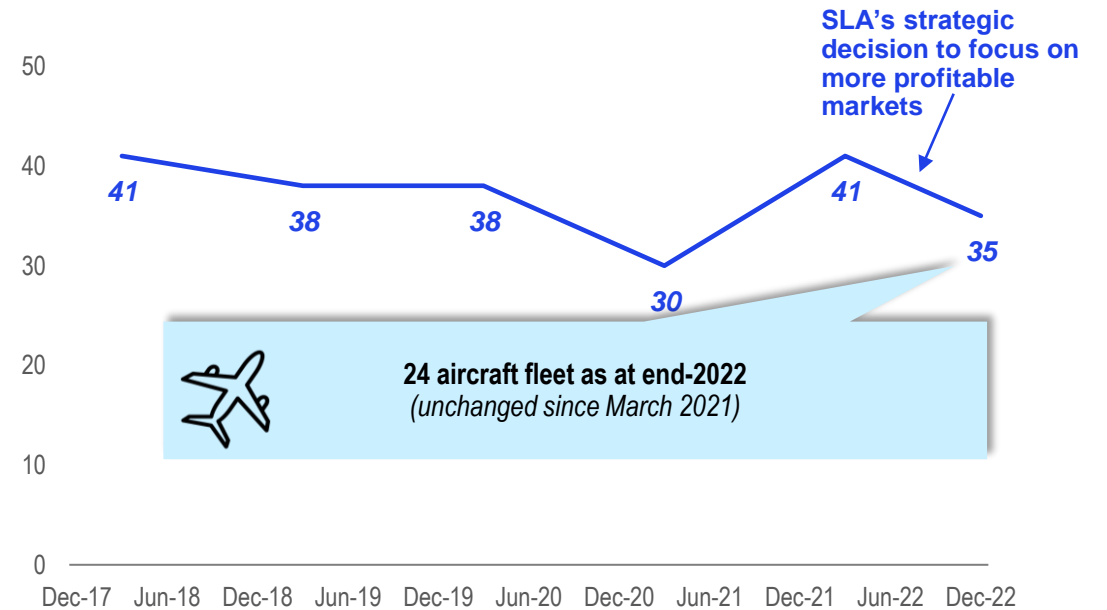
The number of transported passengers is progressively recovering following the 2020 fall in air traffic, while cargo transport proved resilient

Number of transported passengers per month and transported tons of cargo per month



SLA is now flying to 35 destinations with a focus on more profitable markets

Number of destinations



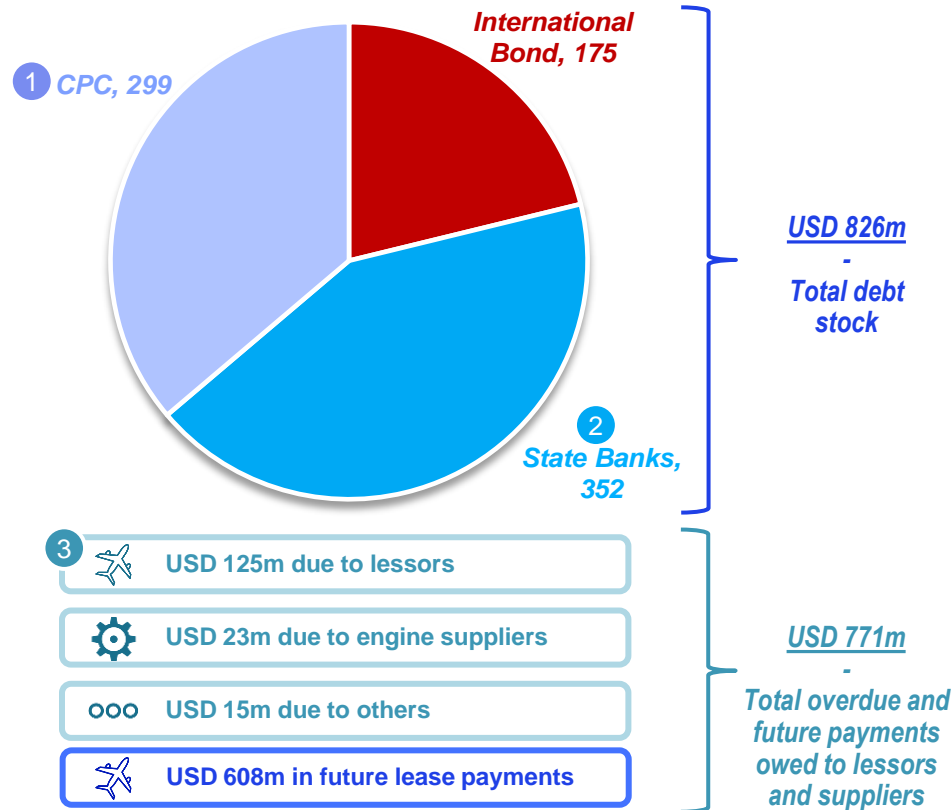
SriLankan Airlines' operations have proved resilient to the COVID-19 pandemic and the subsequent global energy crisis, and are steadily returning to pre-crisis levels thanks to the rebound in air traffic

Source: SriLankan Airlines

SriLankan Airlines was left with a tight cash flow position and lack of funds, despite the support of Government, lessors and suppliers

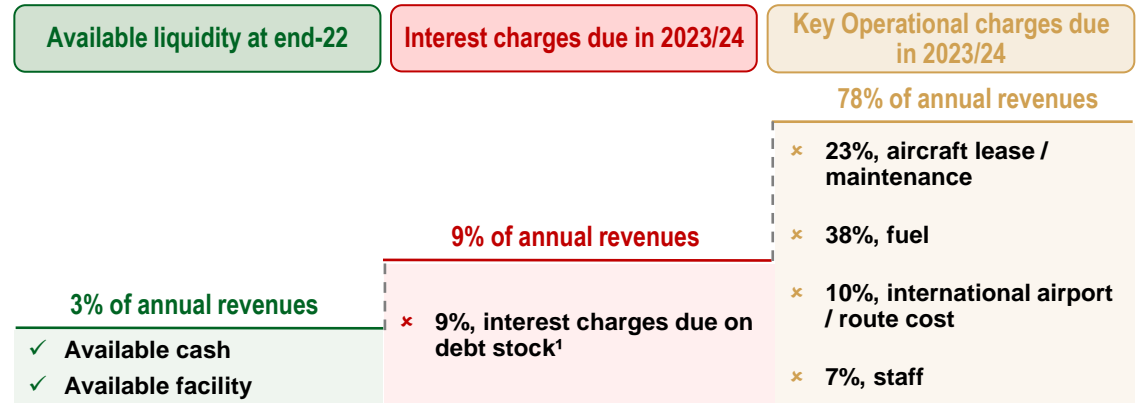
SLA is facing a high debt burden, and owes significant amounts to its lessors and suppliers

Debt outstanding in USDm, as at end-2022



This debt burden, combined with important operational commitments, puts further pressure on SLA's already fragile liquidity position...

In % of annual revenue, 2022/23 forecast



... even with a significant support from Government, lessors and suppliers

- As at end-2022, **past dues to CPC remained mostly unpaid** whilst only day-to-day fuel expenses are paid in advance. Further settlements will be included in the restructuring plan for SriLankan Airlines
- The Government of Sri Lanka has assisted SLA by **extending the validity of Letters of Comfort and guarantees** in respect of its borrowings from state banks. Accordingly, state banks have extended their loans. During COVID-19, the Government also extended its support to SLA in the form of **equity** of USD 240m
- SLA maintains a continuous dialogue with lessors who have **reduced the lease rent** (~18% concession on lease rent has been given) **and in addition granted payment deferrals**, as well as with **engineering suppliers in relation to repayment of the delayed payments**. Both parties have indicated their continuous support going forward

Even after considering the support to SLA from its creditors other than bondholders, the Company would struggle in making timely payments while maintaining its operational viability

SriLankan Airlines requires restructuring to ensure profitability and long-term viability on a stand-alone basis

Despite tangible improvements in its operating performance and significant efforts to mitigate the effects of the crisis...

- In the recent years, **SLA has significantly improved its operating performance** building on:
 - ✓ **Significant improvements in its cost base**, notably thanks to extensive negotiations of its key contracts
 - ✓ **A greater revenue performance**, notably thanks to its improved approach to sales and revenue management
 - ✓ **Redeployment of capacity to optimize profitability**

... a restructuring of SLA is necessary

- Despite these improvements, SLA struggles to **break even after interest charges, faces increasing challenges in meeting its payment obligations, and has no access to capital**, owing to the **country's precarious economic situation** and also due to:
 - × **Its large debt burden**
 - × **Its overdue payments to key suppliers**
 - × **Its inadequate equity capital**
- **A restructuring of the Company should address these issues and enable SLA to return to profitability**

Such a restructuring will allow SLA to benefit from the growing demand environment and its great growth potential

- **Growth perspectives:** SLA anticipates demand to recover in the near-term and to resume growth in the medium-term
 - **Strategic positioning:** SLA has some of the world's largest air travel markets within 6 hours and industry forecasts predict these markets to grow rapidly over the next five years
- **It is critical to provide SLA with the necessary financial capacity to ensure that it can benefit from this favorable growth environment**

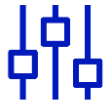
III Rationale and Main Features of the Consent Solicitation

To ensure the continuation of such critical operations SLA needs time to build the optimal restructuring strategy for the Company going forward

SriLankan Airlines is operationally profitable, but its full P&L and cashflow is hampered by its unsustainable debt, exacerbated by the COVID-19 pandemic and sovereign debt crisis. Deferring interest payments will allow SLA to continue operations relying on current cashflows, while undertaking a comprehensive restructuring in the next 12 months



To provide time for the Government, under the SOEs restructuring unit, to develop an appropriate restructuring plan for the Company, in line with the Government's commitment to the IMF



To review various reorganization options and decide on the best process to restore SriLankan Airlines financial and operational viability



To undertake technical and analytical work underlying the reorganization strategy



To find an equitable solution for all creditors including the bondholders, by way of a proactive and transparent engagement

Proposed amendments to the Bonds and main features of the Consent Solicitation

Proposed amendments of the Consent Solicitation ('CS'): four Extraordinary Resolutions ('ER')

PRELIMINARY ER	Modify the Schedule of the Trust Deed	<ul style="list-style-type: none"> Modify Schedule 4 of the Trust Deed (<i>Provision for Meetings of Bondholders</i>) to: <ul style="list-style-type: none"> Reduce the number of days required between a meeting and an adjourned meeting from “not less than 14 nor more than 42 days” to “not less than 4 nor more than 42 days” Reduce the number of days of notice required for such an adjourned meeting from 10 days to 4 days 											
ER I	Defer interest payment	<ul style="list-style-type: none"> Defer interest payments otherwise due on 25 December 2022 and 25 June 2023 ('Deferred Interest Amounts') until 25 December 2023 Additional Interest shall be payable on Deferred Interest Amounts (accruing at the contractual interest rate of the SLA bond, 7.00%) <ul style="list-style-type: none"> On the expiry of the interest deferral period, Deferred Interest Amounts and Additional Interest in respect of the Bonds will become due and payable 	<table border="1"> <tr> <td style="background-color: #ADD8E6;">Interest deferral period</td> <td style="background-color: #ADD8E6;">12 months</td> </tr> <tr> <td style="background-color: #ADD8E6;">End of interest deferral period</td> <td style="background-color: #ADD8E6;">25 December 2023</td> </tr> <tr> <td style="background-color: #ADD8E6;">Deferred interest amounts (amt)</td> <td style="background-color: #ADD8E6;">USD 12.25m</td> </tr> <tr> <td style="background-color: #ADD8E6;">Interest on interest (%)</td> <td style="background-color: #ADD8E6;">7.00%</td> </tr> <tr> <td style="background-color: #ADD8E6;">Additional Interest over interest deferral period (amt)</td> <td style="background-color: #ADD8E6;">USD 1.29m</td> </tr> </table>	Interest deferral period	12 months	End of interest deferral period	25 December 2023	Deferred interest amounts (amt)	USD 12.25m	Interest on interest (%)	7.00%	Additional Interest over interest deferral period (amt)	USD 1.29m
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		Interest on interest (%)	7.00%										
Additional Interest over interest deferral period (amt)	USD 1.29m												
ER II	Waive Events of Default	<ul style="list-style-type: none"> Waive SLA's continuing Events of Default for a period of 12 months (as a result of Sri Lanka's moratorium and cross-default clause) 											
ER III	Rescind Bond acceleration	<ul style="list-style-type: none"> Allow holders of not less than 50% of the aggregate principal amount of the Bonds outstanding to direct the Trustee in writing to rescind and annul any notice given by the Trustee to SLA to accelerate the Bonds following the occurrence of an Event of Default 											

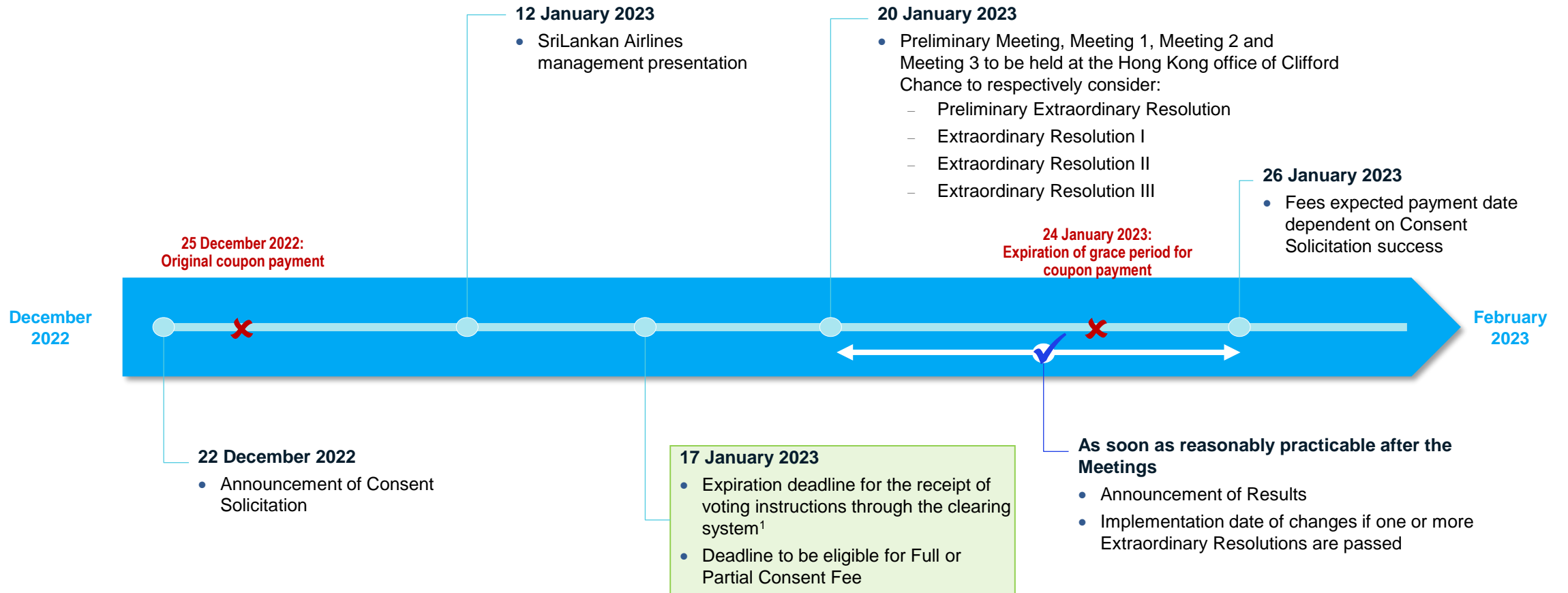
Other features of the Consent Solicitation

Other features of the Consent Solicitation		Terms of the features	
Consent and participation fee	<ul style="list-style-type: none"> A full consent fee may be attributed to Eligible Bondholders¹ conditional on (i) a positive vote to all four Extraordinary Resolutions by the set deadline, (ii) not seeking to attend the meeting in person, and (iii) all four ERs being passed A partial consent fee may be attributed to Eligible Bondholders¹ conditional on (i) a positive vote to all Extraordinary Resolutions other than ER III by the set deadline, (ii) not seeking to attend the meeting in person, (iii) not being eligible for the full consent fee, and (iv) all four ERs other than ER III being passed A participation fee may be payable to Ineligible Bondholders who express an abstention from voting in respect of all four Extraordinary Resolutions 	Full consent fee (bps)	15bps on outstanding amount
		Partial consent fee (bps)	12.5bps on outstanding amount
		Participation fee (bps)	5bps on outstanding amount

Source: Consent Solicitation Memorandum. Bondholders should refer to the Consent Solicitation Memorandum for additional information and details

Note: (1) An "Eligible Bondholder" means a Bondholder who is: (a) (i) located and resident outside the United States and is not a U.S. person (as defined in Regulation S under the Securities Act) or (ii) a qualified institutional investment buyer (within the meaning of Rule 144A under the Securities Act); and (b) otherwise a person to whom the relevant Consent Solicitation can be lawfully made and that may lawfully participate in the Consent Solicitation

Expected timeline for the Consent Solicitation process



If meetings scheduled on 20 January 2023 do not reach the sufficient quorum, such meetings will be adjourned for a period of minimum 4 days to a maximum of 42 days (if the preliminary Extraordinary Resolution shortening the notice requirements for an adjourned meeting is approved, else minimum 14 days to a maximum of 42 days)

Note: (1) Please coordinate with custodians to ensure meeting of deadlines

Q&As

Contact information

- **SriLankan Airlines thanks all attendees for their kind attention**
- **Bondholders should contact the following for further information:**
 - **The Information and Tabulation Agent**
 - Morrow Sodali Limited
 - In London: 103 Wigmore Street, W1U 1QS, Telephone: +44 20 4513 6933
 - In Hong Kong: The Hive, 33-35 Hillier Street, Sheung Wan, Telephone: +852 2319 4130
 - In Stamford: 333 Ludlow Street, South Tower, 5th Floor, Stamford, CT 06902, Telephone: +1 203 6094910
 - Email: srilankanairlines@investor.morrowsodali.com
 - Consent Website: <https://projects.morrowsodali.com/srilankanairlines>
 - **Trustee and Principal Paying Agent**
 - Deutsche Bank AG
 - Hong Kong Branch, Level 60 International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.
 - **Financial and Legal Advisors**
 - Lazard and Clifford Chance can be contacted at Lk.investors@lazard.com and srilanka@cliffordchance.com