ANNUAL REPORT

2012 - 2013

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CORPORATE INFORMATION

LEGAL FORM

Public Limited Liability Company

COMPANY REGISTRATION NUMBER

PB 67

DIRECTORS

Nishantha Wickremasinghe – Chairman

Nihal Jayamanne PC

Kapila Chandrasena – Director/Chief Executive Officer

Shameendra Rajapakse

Manilal Fernando

Lakshmi Sangakkara

Sanath Ukwatte

Susantha Ratnayake

COMPANY SECRETARY

Mildred Peries

REGISTERED OFFICE

Airline Centre
Bandaranaike International Airport
Katunayake
Sri Lanka

AUDITORS

Ernst & Young
Chartered Accountants
201, Deseram Place
Colombo 10

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.

HIGHLIGHTS

		Group 2013	Group 2012	Company 2013	Company 2012
Financial					
Revenue	Rs. Million	121,407.66	94,638.60	119,570.90	92,867.93
Operating Expenditure	Rs. Million	143,961.21	111,647.29	143,972.27	111,775.88
Loss Before Tax	Rs. Million	(22,503.54)	(17,197.43)	(21,749.75)	(19,774.74)
Net Loss for the Year	Rs. Million	(22,518.78)	(17,208.38)	(21,749.75)	(19,778.03)
Total Assets	Rs. Million	92,388.40	68,998.50	89,447.13	65,807.97
Shareholders' Funds	Rs. Million	(7,160.42)	3,050.08	(11,695.70)	(2,248.39)
Traffic					
Passenger Capacity	ASK Millions			15,944.31	14,248.94
Overall Capacity	ATK Millions			2,186.96	1,978.33
Passengers carried	RPK Millions			12,968.74	11,270.23
Overall Load carried	RTK Millions			1,513.70	1,338.30
Passenger Load Factor	%			81.34	79.10
Overall Load Factor	%			69.22	67.65
Breakeven Load Factor	%			90.52	88.84
Staff Productivity					
Average strength	Nos.	7,241	6,367	6,359	5,594
Revenue per employee	Rs. Million	16.77	14.86	18.80	16.60
Value added per employee	Rs. Million	(1.12)	(0.65)	(1.14)	(1.32)
Aircraft Fleet					
A320-200	Nos.			8	7
A330-200	Nos.			7	7
A340-300	Nos.			6	6
Turbo Otter	Nos.			1	2
Aircraft in service at year end	**Nos.**			**22**	**22**

CHAIRMAN'S OVERVIEW

It is with great pleasure that I welcome you all to the 35th Annual General Meeting of SriLankan Airlines. Once again, I have the privilege to present to you the Annual Report and Audited Financial Statements of your Company, for the financial year 2012/13.

The year under review was themed 'the year of consolidation' in line with the global aviation industry direction and the local economic resurrection. We have indeed been able to consolidate our position by the optimal utilisation of our resources to meet the present and future requirements of the Company. It also showcases our greatest strength and asset – our team at SriLankan.

Sri Lanka's Economy – Holding Steady

Despite many advanced economies in the world experiencing a decline, the Sri Lankan economy grew at a healthy rate of 6.4 per cent in 2012 boosted by improved business and consumer confidence, due to the rebounding of the economic growth that the nation enjoyed in the preceding two years. In addition, inflation was maintained at single digits for a fourth consecutive year, despite several global and domestic challenges. This improved business and consumer confidence, which supported a robust economic growth of 8 per cent in the preceding two consecutive years, accompanied by high credit and monetary expansion and a widening trade deficit fuelled by high import demand.

The economy grew amidst the slow recovery in global demand and the multi-pronged policy measures introduced to strengthen macroeconomic stability, and all key sectors contributed positively. Growth in the Services sector moderated largely on account of the slowdown in external trade and the deceleration in the transport sub sector.

The Sri Lankan economy is expected to continue on a high growth path benefitting from improved infrastructure facilities and favourable macroeconomic fundamentals. Encouraging the private sector to reap the benefits of the Government's investments in infrastructure and facilitating them to expand productive capacity would be vital to achieving the envisaged medium term growth targets.

Sri Lanka Tourism – Gathering Momentum

The country's tourism industry continued to show its momentum in growth where Sri Lanka surpassed targets to reach a record breaking tourist arrivals figure of over one million. SriLankan Airlines was privileged to bring down the millionth passenger to the country from China. Tourist arrivals during the year increased by 17.5% as against the previous year and December 2012 marked the highest ever number of tourist arrivals to the country in the entire history of tourism in Sri Lanka. With the economic recovery especially in the European markets, Sri Lanka's tourist industry faces an even more positive outlook with an expected increase in arrivals, and achieving the targeted 1.25 million tourists by the end of 2013 is believed to be an attainable target, given that the industry and the authorities give priority to proper marketing and promotion for the destination. Sri Lanka Tourism is currently planning its marketing strategy along with the corporate and public sector, maintaining the existing markets while looking for new markets. A new business model to promote tourism is currently being looked at where regional markets and new markets can play a major role in filling the occupancy during the slow months.

A Year of Significance

The year past, saw two events of significance to the airline industry in Sri Lanka, a landmark year which marked a century of aviation in Sri Lanka, and the opening of the second international airport in the South of the island.

Celebrating 100 years of aviation in Sri Lanka

The nation was indeed proud to commemorate a centenary in aviation during the year under review and as the backbone of the country's civil aviation industry your Company was privileged to be an active partner in the celebrations that took place.

Mattala Rajapaksa International Airport opens

Another milestone in aviation history with high priority for the national carrier was the establishment of Sri Lanka's second international airport, the Mattala Rajapaksa International Airport (MRIA). SriLankan has already established within the airport its maintenance, ground handling, cargo and SriLankan Catering facilities to serve all carriers operating to and from MRIA.

A Year of Advancement

Long and short term fleet planning

In the short term, we are currently upgrading and modernising our existing aircraft and in the medium term, we intend to replace all Airbus A340s which have served us well over the years. We will be investing in six new Airbus A330-300s to replace the A340's and eventually replace the A330-200 fleet with new next generation airbus A350-900s aircraft. The long term re-fleeting plan is to have an entire fleet of 'next generation' fuel efficient modern wide body and narrow body aircraft. This will substantially transform the Airline's direct cost structure by reducing fuel burn and maintenance costs. New aircraft fitted with modern amenities and state-of-the-art seating and in-flight entertainment systems will rival or surpass competitive offerings and positively impact revenue generating opportunities.

Propelling the Progress of the Nation

As the national carrier, your Company continued to be the catalyst for the nation's economic growth with the undertaking of numerous initiatives:

- In line with the Government's vision of turning Sri Lanka into an aviation hub, we expanded our Maintenance Repair Overhaul (MRO) services to enhance revenue opportunities.
- The agreement signed for a second full flight A330 simulator in 2013/14 will enable us to offer a broader range of services to our existing customers.
- Additional investment in ground and cargo handling equipment is expected to improve the efficiency of ground handling at Colombo and Mattala, where the Company is the sole provider of third party services.
- SriLankan Holidays the leisure arm of the Company partners with many leading local hotels, tour operators and other tourism-related organisations to offer travellers a wide selection of holiday options to the country.

Achievements

Our long tradition of success is reflected in yet another year of winning accolades:

- 'Best in Region – Asia & Australasia' APEX Award (Airline Passenger Experience Association, New York) – 2012
- National Vidulka Energy Efficiency Awards for SriLankan Airlines 2012
- Enters IATA Premier Circle as one of Top Ten Training Centres in the world – March 2013.

A Year of Growth – Financial Overview for 2012/2013

- Company revenue for the fiscal year 2012/13 was Rs. 119,570.90M compared to Rs.92,867.93M in 2011/12, an increase of 28.75%
- Operating Expenditure was Rs. 143,972.27M compared to the previous year's Rs. 111,775.88M, an increase of 28.80%
- Passenger capacity increased to 15,944.31M Available Seat Kilometres (ASK) from 14,248.94M in the previous year
- Revenue Passenger Kilometres (RPK) totalled 12,968.74 RPK, compared to 11,270.23M RPK during the previous year
- Passenger Load Factor during 2012/13 was 81.34%, up from the 79.10% of the previous year.

However the Company's net loss increased to Rs. 21,749.75M in 2012/13 compared to Rs. 19,774.74M in the previous year mainly due to the following reasons:

- High fuel costs
- Less than satisfactory yields due to the recession in Europe and competition from other airlines
- Significant investments in acquiring additional capacity and enhancement of supporting services, including the cabin upgrade programme, the total benefit of which will be derived over the coming years

SriLankan Catering Limited

Recording another successful year, SriLankan Catering Limited (SLC) supported the bottom line of SriLankan Airlines. In addition, it further diversified its activities with the commencement of catering services to "Emirates Lounge" of the award winning carrier Emirates Airlines. Agreements were also signed during the year under review to provide catering services to several customer airlines which operate to BIA. SriLankan Catering is confident of attracting several more during the next financial year. Further investments were also made towards a new flight kitchen under construction at Mattala.

SriLankan Catering added to the Group's growing reputation for excellence by winning the following prestigious awards:

- Mercury Award for 'Healing food - Nature's way to good health' under "Inspirations" Category, from the International Travel Catering Association.
- National Vidulka Energy Efficiency Award 2012
- SLC remains one of the few Airline caterers to possess triple certification for Quality Management System, Food Safety Management System and Environmental Management System. During the year under review SLC completed audits to upgrade its standards in all these areas.

The Future – Poised for Take off

SriLankan is implementing a turn-around business plan focused on increasing the Airline's revenues by improving passenger yield and generating ancillary revenue and alliance benefits, while optimizing its network and maintaining its competitive cost base.

The Government of Sri Lanka has continued to show commitment to strengthening the Airline's balance sheet and supporting its fleet renewal with continued capital infusions over ensuing years up to 2016.

The Airline plans to maximize passenger revenue by:

- Capitalizing on its competitive advantage in non-stop service to Sri Lanka
- Increasing premium yields in line with the upgraded business class product
- Enhancing revenue management practices and systems to maintain high load factors at acceptable yields
- Attracting a greater proportion of passenger traffic through lower-cost internet booking channels

SriLankan also expects to benefit from:

- Increased demand for travel to Sri Lanka
- Increased premium traffic in the region
- Strong economic growth in the country and its major destinations
- Network alignment with key growing population and economic centres
- Significant government and international investment in expanding Colombo's airport and opening the nation's second international airport

Membership in the oneworld alliance will enable the Company to capture higher relative market share by coordinating schedules with its alliance partners to offer better global connectivity.

Conclusion

In conclusion, I express my heartfelt gratitude for the commitment extended by His Excellency the President of the Democratic Socialist Republic of Sri Lanka, for his continued dedication to the progress of the aviation and tourism industries in Sri Lanka. I also extend my appreciation to the Hon. Minister of Economic Development and the Hon. Minister of Civil Aviation for the continued support to the national carrier.

I also express my sincere thanks to the Members of the Board, the Chief Executive Officer, Management Team, and staff of the Company for their unwavering passion, dedication and support in all our endeavours. My gratitude also to all our shareholders including the Government of Sri Lanka for the support they continue to extend towards the progress of the national carrier – your Company, SriLankan Airlines. Thank you.

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Nishantha Wickremasinghe

Chairman

30 July 2013

CHIEF EXECUTIVE OFFICER'S REVIEW

It is once again my privilege to present to you the Review of Operations for the Financial Year 2012/13 and the 'Airline's plan' of progress for the future of your Company.

Aviation is a unique industry – bearing the highest load factor of any transport medium in the world with 24,000 commercial aircraft crisscrossing the skies operating 80,000 flights carrying over 10 million passengers, daily. Infusing USD 539 billion annually, it is a major contributor to the global economy with a high multiplier effect. However, within the aviation sector airline returns are generally the lowest in terms of direct return on investment in comparison to other industries, due to intense competition and high fuel cost, as well as the disadvantage of contributions not being directly measurable, making net profit rather elusive. Whilst air transport continues to create tremendous value for all its users in the value chain, it offers less gain for its airline equity investors.

As the national carrier, we continue to make a significant contribution to our country's economy – bringing in USD 1.3 billion a year – 2.2% of GDP, and with considerable potential to increase this contribution even further.

Year in Review

The year past, was a momentous one for us in many ways. It was a year of consolidation as well as the beginning of a new era in terms of investment and implementation, building upon a new chapter in the history of your Company initiated during the previous year. As economic and infrastructure development progresses in our nation, the national carrier too is steadily propelling itself to meet the required expectations. It was indeed another year of challenge with the general downward trend of the global industry which as always has an impact on the airline. However, we were able to stay on course with our Business Plan, despite the setbacks that affect our performance and make steady progress towards our goal. Operating costs continue to spiral upwards with Jet fuel prices increasing by 261% within the last decade. Jet fuel accounted for 47% of our operating expenditure last year, and revenue has not kept pace with the rise in fuel costs, in spite of our unit cost being competitive in relation to other airlines operating in the same arena. The second tranche of the USD 500 million investment approved by the GOSL in July 2011 was received in March 2013, giving us the opportunity to continue with the investments during the year under review. A significant step that will certainly take your Company on a new path of progress.

Despite the lag on investment in the past, we have accomplished much as the national carrier and our contribution to the nation has been immense. Some notable achievements from the year under review follow:

- Phased introduction of an upgraded Business Class product to increase the load factor – the business class passenger numbers increased by 48% compared to last year.
- Improved the revenue management function by introducing new systems, fare class re-alignment and adopting industry best practices which resulted in an increase in passenger yield.
- Invested in better data and tools to understand the market developments and to forecast more accurately.
- Launch of new value added revenue streams to increase ancillary revenue.
- Continuing with re-fleeting our existing narrow body aircraft with brand new, more fuel-efficient aircraft.
- Embarked on a programme to upgrade our technology in order to meet the challenges of a tough competitive environment with the introduction of the Amadeus Altea passenger service system. The first airline in the region to adopt this industry leading technology, it will truly modernise our IT processes, enhancing our service provision, whilst enabling us to become a more 'customer-centric' carrier than ever before. Effective from 2013/14, the coming financial year, this contract is highly significant for our employees, passengers and partners.
- Following the acceptance of our membership in the oneworld global alliance we have made substantial progress to meet the mandatory requirements to join the alliance in the next financial year.
- Introduced iPad based Electronic Flight Bags to improve productivity and achieve weight and fuel savings.
- Significantly, our operating margin improved by 6 percentage points during the year under review, compared to last year.

Membership in oneworld

Your airline was invited to join oneworld - the world's leading airline alliance during the year under review and is now on track to join in early 2014. Flying alongside some of the biggest and premier brands in the airline business, this is an important coalition that would increase our span with links to over 800 new destinations worldwide, supporting our growth strategy. oneworld is the current holder of five of the leading international "best airline alliance" awards.

SriLankan Airlines will be the first in the sub-continent to join any of the global airline alliances, thus enabling us to offer our customers more services and benefits: such as a wider route network, opportunities to earn and redeem frequent flyer miles on any one of the oneworld carriers. Members of FlySmiLes frequent flyer programme will enjoy privileges and benefits throughout the oneworld network, including, for top tier members, access to 550 plus airport lounges worldwide.

Expansion of Aircraft Fleet and Network

The acquisition of new aircraft continued during the year under review with the lease of one more aircraft making up a total of 22 in our fleet. The induction programme, begun in 2011/2012 included five A320, two A330, and one A340 aircraft. Expansion of the network during the year included, 17 frequency increases to India, Far East and the Middle East.

Transformation of our Passenger Cabins

The programme to offer a more luxurious product on our long-haul fleet was successfully completed, bringing our airline on par with the best in Business Class in the region. Deployed in all our long haul sectors, the transformation includes Flat Bed Seating and audio-video-on-demand (AVOD) entertainment systems in Business Class.

Service Delivery

Several improvements were made to all areas in Service Delivery. Initiatives to enhance the customer experience at the terminal included, branding of check in counters, lounge refurbishment , introduction of Check-in Kiosks, and the introduction of Hand Held Terminal check in. The inflight experience was also enhanced by improving greatly on the food and beverage offering on board, through the introduction of a broader range of menus with a wider choice. Improvements were also made in the areas of Inflight entertainment with increased movie content as well as options in several languages. Investments were also made on Ground Support Equipment to better handle the Airline's own aircraft as well as those of customer airlines.

Customer Feedback and Interaction

Obtaining the opinion of our customers is vital to us, and during the year under review we began to explore in a more structured manner, innovative ways to improve customer feedback and interaction - through active encouragement and facilitating easier means of offering feedback. In the coming year we will be taking further steps, through advanced technology, to get even closer to our customers, to understand them better in order to offer them improved service levels.

SriLankan Cargo

SriLankan Cargo made the highest revenue of US$ 98 M earned in a financial year in the history of the airline. It also carried the highest tonnage of 101,000 metric tonnes. Base station Colombo recorded an impressive revenue increase of 19% and 33% increase in tonnage, compared to the previous year. Colombo contributed 28% of the total network revenue whilst Far East, India, Europe revenue contribution is 29%, 16% and 19% respectively. Cargo revenue contribution to the total network was 12%.

Several new projects were also completed during the period under review: Live Animal Holding room, Radio Active Storage facility; Increasing the height of the storage racks system giving an additional 30% space enhancement; Installation of Heavy Duty Screening Machine with lifting machines to name a few.

SriLankan Cargo set up the Cargo Revenue Management Unit effective June 2013 enabling the airline to realize incremental revenue benefits. Negotiations are currently underway with the mega carriers to acquire block space to Europe, to overcome the capacity constraints. We are also in the process of opening new Cargo Sales Agencies in our offline stations to promote our business. Recording a successful year, the overall enhanced business signified growing customer confidence throughout the network for SriLankan Cargo.

SriLankan Engineering

SriLankan Engineering completed another successful year on the major engineering programmes and routine maintenance activities on aircraft of SriLankan Airline's own fleet and customer airlines as well, including the cabin upgrading programmes for both Business Class and Economy Class cabins on 03 wide-body aircraft.

Our Engineering Division made great strides in our goal to be a major Maintenance Repair and Overhaul (MRO) facility, providing high quality professional services to our clients. IndiGo - India's largest low-fare carrier has been one of our main customers and securing their entire C- check programme for the fifth consecutive year has seen a steady growth in the number of C-checks performed. The line maintenance section too increased its share of third party work at BIA and Male, being the predominant technical service provider at both airports. Our line maintenance facility at the MRIA provides technical handling to SriLankan and third party operators using the airport.

Enhancing the facilities of SriLankan Engineering at BIA, a dedicated hangar for A320 aircraft was constructed, to be commissioned shortly. Due to this, the turn-around time for A320 aircraft will be reduced substantially enabling us to grow our third party maintenance activities even further.

SriLankan Air Taxi

The Air Taxi operations were scaled down due to the higher operational costs involved. Accordingly the number of aircraft was reduced to one, and a basic schedule was maintained to destinations with the highest demand, allowing more aircraft time for charter flights with higher revenue potential. We also explored more cost effective, alternate business models to continue operations, maintaining our brand presence.

FlySmiLes Frequent Flyer Programme

SriLankan FlySmiles recorded a year of success with both growth in numbers and revenues. The membership grew to 61,000 new members. Furthermore, new partners were added to the programme with the objective of providing more benefits, accrual and redemption options.

Information Technology

Significant strides were made to improve passenger experience by introducing state-of-the-art technology thereby reducing the cost of operations. Kiosks that allow Self-Check-in and Hand-held devices with scanner and boarding card printer facility at the airport to provide a speedy check-in were introduced during the year. The Baggage Reconciliation System was upgraded for fast tracking and reducing baggage mishandling. Internal systems namely, Flight Delay Cost Analysis System, Cabin Crew Assessment System, Application Consolidation with Management Information to bring a tremendous enhancement to the business to improve efficiency. Technology was seamlessly extended from BIA to the new MRIA. Integration of overseas station accounting with Oracle E-Business Suite to centralise accounting process giving access to overseas stations to update their station cost and accounts included some of the successful initiatives made during the financial year.

The high-tech services have brought pride to our Information Technology Division by receiving ISO9001:2008 Certification for Quality Management System and ISO27001:2005 Information Security Management System.

People Learning & Culture

In the year past, HR Development and the management function aligned itself even more towards the needs of the organization from a business partnering perspective. The key initiative being the identification of a pool of successors to fill the future management and leadership needs of the organization from high performers and high potential staff of the Company. Furthermore, leadership development, mentoring and continuous professional development of high performing staff were initiated as on-going projects and high performers were duly recognized and rewarded. A knowledge management system was launched to pool the collective learning and knowledge of the organization for business continuity and also initiated many strategies for employee knowledge and product enhancement.

SriLankan Technical Training

With the prestigious EASA 147 certification from the European Aviation Safety Agency, we continue to provide technical training not only to SriLankan Engineering but to overseas customer airlines and individuals as well. Our aircraft maintenance course for beginners, type specific training and mandatory regulatory training are performed at this facility. At present there are three batches following the basic two year course in aircraft maintenance.

SriLankan Flight Academy

The airline obtained Type Rating Training Organisation (TRTO) approval from the Civil Aviation Authority of Sri Lanka (CAASL) to conduct Type Rating Training for third party technical crew for Airbus A320 type aircraft.

The Flight Simulator Centre was granted the European Aviation Safety Agency (EASA) qualification for the A320-200 Flight Simulator Training Device (FSTD). We expect to further develop our ability to train third party technical crew, and plan to launch an integrated SriLankan Training to cater for the human resource requirements of the fast growing aviation sector in Asia.

International Aviation Academy

The IAA made significant strides in expansion of product portfolio, growth in revenue and profit over the last 2 years. The external business earnings of the Academy covered in excess of 90 % of the Company's on-the-job and recurrent training expenses. The IATA programmes offered by IAA increased by 4 fold and we were able to produce 6 prize winners. The culmination of these achievements was being adjudged one of the top ten IATA training partners in the world – a significant recognition of our consistent performance.

Corporate Social Responsibility

During 2012/2013 too, CSR activities continued as in the previous years with additional focus on the go-green team and green initiatives. In keeping with our Green Vision "To be a Planet Friendly Airline accomplishing sustainable and advantageous business development" we carried out several programs which considerably reduced our "Carbon footprint". We were also adjudged the winner of the silver award at the National Green Efficiency Awards Ceremony.

Continuing our commitment to the community, two noteworthy projects were initiated, in addition to the activities we carry out on a yearly basis:

SriLankan Cares signed an MOU with the Ministry of Health and Lady Ridgeway Hospital, Colombo to build a Multi-Disciplinary Child Psychiatry Ward. Construction was begun in March 2013, and it is expected to be completed by September 2013. This will be the first dedicated child psychiatry ward in Sri Lanka.

As part of celebrating 100 years in aviation, SriLankan Cares took 125 children from ten orphanages on a memorable scenic flight around the country, making their dreams a reality. A familiarisation tour at the BIA, SriLankan flight hanger and inflight services were also included in the programme.

Several fuel efficiency improvement initiatives were also undertaken by Flight Operations through aviation fuel management which also contributed towards minimising carbon emission:

- Implemented RNAV (Required Navigation) / PBN (Perform Based Navigation) approaches on a couple of sectors to enhance fuel efficiency
- Working with Airport and Aviation of Sri Lanka to reduce carbon emission during aircraft ground movements
- Implemented a zero fuel weight monitoring mechanism across the network to minimize variances in fuel weight thereby reducing extra fuel uplift

Overall Strategy in the Year Ahead

During the next three years we will focus on enhancing customer care, increasing revenue and improving the bottom line aiming towards achieving breakeven as per our Business Plan. We also expect to focus more on Asia Pacific and Middle East, maximising on our strategic geographic location to make Sri Lanka the aviation hub of Asia.

To increase revenue, we will continue to utilise modern technology, taking informed decisions based on market information and insights. These include continued revenue management changes in terms of fare structures to optimise revenue and adjustment of fares. Further a new initiative aimed at providing better utilization of unsold business class seats known as "Plusgrad" is being implemented. The entry into oneworld would also provide additional codeshare revenue, especially in the European market and also enable our valued customers to have connectivity to a wider network. Investment on better data and tools would ensure that we gain more insight into competitor activities, enabling us to better forecast the impact on new markets and competitor changes. A more aggressive pricing programme will be followed to enable us to take fare hikes on markets that have a high load factor. This initiative will also enable us to introduce on going flexibility in pricing structures.

The airline's wide body re-fleeting programme will see six new Airbus A330-300's replacing the existing fleet of six A340's and eventually the new next generation Airbus A350-900s will replace the A330-200 fleet. This new fleet of fuel efficient modern wide body aircraft will enable the airline to maximise on fuel efficiencies as well as further improve the cost structure. These aircraft fitted with modern and state of the art seating and inflight entertainment systems will enable the airline to offer a more competitive product to our customers.

Thank You

As a year of consolidation underpinned by investment and implementation, the year under review was an important milestone for us at SriLankan Airlines, and I am grateful to all who have stood by us. I express my appreciation to His Excellency the President and the Government of the Democratic Socialist Republic of Sri Lanka, the Hon. Minister of Civil Aviation and the Secretary to the Ministry of Civil Aviation for their continued support and assistance; my gratitude to our Chairman, my colleagues on the Board, and the Senior Management Team for their continued guidance and steadfast support.

I also express my sincere thanks to all employees and employee unions, who are collectively known as the SriLankan Family for their continued dedication and hard work.

There were many institutions that extended their support to us: our financiers, both overseas and in Sri Lanka; Sri Lanka Tourism; Airport & Aviation Services and all the airlines that operate to BIA and MRIA; our suppliers and business partners; and most of all our customers, whose patronage we value. Together, let us continue to look ahead to a new year of promise and performance.

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Kapila Chandrasena

Director / Chief Executive Officer

30 July 2013

DIRECTORS' PROFILE

Nishantha Wickremasinghe

Appointed to the Board in January 2006. Appointed Executive Director in April 2008. He was appointed Acting Chairman in September 2008 and Chairman since June 2009. He is also the Chairman of SriLankan Catering Limited and Mihin Lanka (Private) Limited and Director of Udapussellawa Plantations PLC and Hapugastenne Plantations PLC.

Kapila Chandrasena

Appointed to the Board in December 2008. In addition appointed as Chief Executive Officer in August 2011. A marketer by profession he is currently a Director of SriLankan Catering Limited and CEO of Mihin Lanka (Private) Limited. Mr Chandrasena is also the Acting CEO of Sri Lankan Telecom Mobitel (Pvt) Limited.

Nihal Jayamanne PC

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

Shameendra Rajapakse

Appointed Director in August 2009. He is a Computer Engineering professional currently holding the position of Private Secretary to the Hon. Minister of Finance. He is also a Director of Sri Lanka Telecom PLC, SLT Hong Kong Limited, SLT Publications (Private) Limited and SriLankan Catering Limited.

Manilal Fernando

Appointed to the Board in May 2010. He is currently the Chairman of Stallion Holdings (private) Limited. A lawyer by profession he also holds several other directorships amongst which are Aitken Spence & Co PLC, Ceylon Investment PLC and Shipping & Cargo Logistics (Private) Limited.

Lakshmi Sangakkara

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

Sanath Ukwatte

Has been on the Board from 2004 – 2008, 2008 -2010 and thereafter from September 2011 to date. A Hotelier by profession he is currently the Chairman of Mount Lavinia Hotel Group. He is a Member of the Board Audit Committee and a Director of SriLankan Catering Limited.

Susantha Ratnayake

Appointed to the Board in December 2011. He is the Board Audit Committee Chairman and Independent Director of SriLankan Catering Limited. He is the current Chairman and CEO of John Keells Holding PLC and several other listed and un-listed companies within the JKH Group. He is also the Chairman of Ceylon Tobacco Company PLC.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of SriLankan Airlines Limited, take pleasure in presenting the Annual Report for the year ended 31 March 2013.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal business activities of the Company is the operation of international, scheduled/non-scheduled air services for the carriage of passengers, freight and mail as the designated carrier of Sri Lanka. Providing air terminal services at the Bandaranaike International Airport ("BIA") and the Mattala Rajapaksa International Airport ("MRIA"), sale of duty-free goods on-board, marketing inbound and outbound holiday packages and operation of domestic Air Taxi services for passenger transport constitute other main activities of the Company. Providing third party maintenance, provision of flight operation services 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 SriLankan Catering Limited, whose principal activity is the provision of Inflight Catering Services to airlines operating through BIA and MRIA. Other ancillary activities consist of operating public and transit restaurants, provision of laundry services and managing the transit hotel.

FINANCIAL STATEMENTS AND AUDITORS' REPORT

The complete Financial Statements duly signed by the Head of Finance and the Directors and the Auditors' Report thereon for the year ended 31 March 2013 are attached to this Report.

ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 25 to 38.

GROUP TURNOVER

The turnover of the Group amounted to Rs. 121,408 million (2011/12: Rs. 94,639 million). A detailed analysis of Group Turnover is given in Note 18 to the Financial Statements.

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

RESULTS

Group results before taxation amounted to a deficit of Rs. 22,503 million (2011/12: Group deficit Rs. 17,197 million). After adjusting Rs. 15 million (2011/12: Rs. 11 million) for taxation, the Group result for the year was a deficit of Rs. 22,519 million (2011/12: Group deficit of Rs. 17,208 million).

The consolidated Statement of Income for the year is given on page 21.

GROUP INVESTMENT

Group capital expenditure during the year on property, plant and equipment amounted to Rs. 2,139 million (2011/12: Rs. 2,692 million).

PROPERTY, PLANT AND EQUIPMENT

The net book value of the Property, Plant and Equipment of the Group as at the reporting date amounted to Rs. 8,155 million (2011/12: Rs. 7,234 million). Details of Property, Plant and Equipment and their movements are given in Note 3 to the Financial Statements.

STATED CAPITAL

The Stated Capital of the Company amounts to Rs 32,033 million (2011/12: Rs 19,433 million).

During the year the Government of Sri Lanka ("GOSL") invested Rs.12,600 million as Advance towards Share Capital in the form of a Treasury Bond. The Board of Directors subject to shareholder approval in terms of Article 9 of the Articles of Association of the Company has authorized the issue of Ordinary Shares by way of a private placement to the GOSL.

The Shareholders' approval for the issue of these shares will be sought at the Extraordinary General Meeting to be held on 26 September 2013.

RESERVES

Total Group Reserves as at 31 March 2013 amount to a negative Rs. 39,193 million (2011/12: negative Rs. 16,383 million). This consists of accumulated losses of Rs. 40,743 million (2011/12: Rs. 18,163 million), Capital Reserves of Rs. 2,523 million (2011/12: Rs. 2,523 million), Fair value Reserves of a negative Rs 1,027 million (2011/12: negative Rs. 796 million), Revenue Reserves of Rs. 0.63 million (2011/12: Rs. 0.63 million), and General Reserves of Rs. 53 million (2011/12: Rs. 53 million). Movement in these Reserves is shown in the Statement of Changes in Equity in the Financial Statements.

CORPORATE DONATIONS

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

TAXATION

The Company enjoys a tax holiday up to 31 March 2013 in terms of its agreement with the Board of Investment of Sri Lanka. The Company has been exempted from all taxes in respect of all its business activities up to 31 March 2021 under the provisions of the Inland Revenue Act No.10 of 2006 as amended by the Inland Revenue (Amendment) Act No. 22 of 2011.

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

In the case of the wholly owned Subsidiary, SriLankan Catering Limited the income derived from the Flight Kitchen and Transit Restaurant is exempted from taxation with effect from 1 June 2006, in terms of its agreement with the Board of Investment of Sri Lanka. The income derived from other sources are liable at the normal rate.

SHARE INFORMATION

Share information as at 31 March 2013 is as follows:

Share Ownership	No. of Shares	% of Holding
Government of Sri Lanka	26,275,436	51.06%
Bank of Ceylon	12,115,570	23.54%
People's Bank	4,236,135	8.23%
National Savings Bank	4,236,135	8.23%
Employees Provident Fund	1,863,676	3.62%
Others	2,736,511	5.32%

The share information above is excluding the Rs. 26.89 billion advance towards share capital made by The Government of Sri Lanka.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent Liabilities as at 31 March 2013 and Commitments made on Capital Expenditure as at that date are given in Note 23 to the Financial Statements.

EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date that would require adjustment or disclosure, other than those disclosed in Note 25 to the Financial Statements.

EMPLOYMENT POLICIES

Employment policies of the Group respect the individual and offer equal career opportunities regardless of sex, race or religion. Occupational health and safety standards receive substantial attention. The number of persons employed by the Company and its Subsidiary at the year-end was 7,241 (2011/12: 6,367).

STATUTORY PAYMENTS

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

ENVIRONMENTAL PROTECTION

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

CORPORATE GOVERNANCE/INTERNAL CONTROL

Adoption of good governance practices has become an essential requirement in today's corporate world.

The Directors acknowledge their responsibility for the Group's system of internal control. The system is designed to provide assurance, inter alia, on the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can ensure only reasonable and not absolute assurance that errors and irregularities are prevented or detected within a reasonable time. The Report of the Board Audit Committee forms part of this Annual Report.

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

GOING CONCERN

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

DIRECTORATE - CURRENT

The current Directorate of the Company is set out below.

Mr Nishantha Wickramasinghe	-	Chairman
Mr Nihal Jayamanne PC	-	Director
Mr Kapila Chandrasena	-	Director
Mr Shameendra Rajapakse	-	Director
Mr Manilal Fernando	-	Director
Mrs Lakshmi Sangakkara	-	Director
Mr Sanath Ukwatte	-	Director
Mr Susantha Ratnayake	-	Director

Ms W A Nalani who was a Director as at 01 April 2012 resigned from the Board with effect from 04 July 2012.

DIRECTORATE – SRILANKAN CATERING

The current Directorate of SriLankan Catering is as follows:-

Mr Nishantha Wickremasinghe	-	Chairman
Mr Nihal Jayamanne PC	-	Director
Mr Shameendra Rajapakse	-	Director
Mr Kapila Chandrasena	-	Director
Mr Susantha Ratnayake	-	Director
Dr Nalaka Godahewa*	-	Director
Mr Sanath Ukwatte	-	Director

* Independent Director

DIRECTORS' REMUNERATION

Directors' remuneration is disclosed in Note 26 to the Financial Statements.

DIRECTORS' SHAREHOLDINGS

By virtue of office two of the Government of Sri Lanka (GOSL) Nominee Directors including Chairman are holders of 03 Ordinary Shares of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts of the Company are disclosed in Note 26 to the Financial Statements and have been declared at Meetings of the Directors. The Directors have no direct or indirect interest in any other contracts or proposed contracts with the Company.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 26 September 2013.

AUDITORS

In accordance with the Companies Act No.07 of 2007, a resolution proposing the re-appointment of Messrs. Ernst & Young, Chartered Accountants, as Auditors of the Company will be submitted at the Annual General Meeting.

Details of audit fees are set out in Note 21 to the Financial Statements. The Auditors, do not have any relationship (other than of an Auditor) with the Company or it's Subsidiary.

By Order of the Board

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Mildred Peries

Company Secretary

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Director Director

30 July 2013

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 19.

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

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

The Directors continue to adopt the going concern basis in preparing the Financial Statements. The Directors, after making enquiries and following a review of the Group's Budget for the financial year ending 31 March 2013 including cash flows, borrowing facilities and having considered the balance of the approved USD 500 million funding in respect of the equity to be infused by the Government of Sri Lanka, determined that the Group has adequate resources to continue in operation.

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

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

By Order of the Board

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Mildred Peries
Company Secretary
30 July 2013

BOARD AUDIT COMMITTEE REPORT

The Role and Responsibilities

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

BAC Composition and Meetings

The BAC comprises of three (3) members and one (1) independent observer. The members of the BAC as at 31 March 2013 were Mr. Susantha Ratnayake (Chairman), Mr. Sanath Ukwatte (Member) and Mrs. Lakshmi Sangakkara (Member). The independent observer was Mr. S. M. Chandrapala who is the representative of the Ministry of Civil Aviation.

During the financial year ended 31 March 2013, BAC held five (5) meetings. The members of the management attended the meetings upon invitation to brief the BAC on specific issues. In addition BAC had meetings with the external auditors M/s Ernst and Young to ascertain the nature, scope and approach of the external audit and to review the financial statements and the management reports.

Group Assurance and Advisory Services

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

Key Activities of the BAC during the Financial Year

- Reviewed the audit findings on system of internal controls including IS/IT controls and the status of audit recommendations.
- Directed management to undertake the Corporate Manual project in order to document all corporate policies and procedures for the purpose of better system of control and continuity of business functions at expected service levels.
- Recommended to outsource the station audit of India and Middle East stations to identify control weakness of station processes.
- Review the key corporate level risks and procedures adopted by management to mitigate the effects of business risks.
- Directed the management to develop the Business Continuity Plan to establish a structured framework in line with best practices in order to minimise the effects of risks from business interruptions/disasters.
- Reviewed and approved the Corporate Information Security Manual to minimise the effects of business risks faced in terms of information access, protection, communication, usage, retention and disposal.
- Reviewed the Company's compliance dashboard on a quarterly basis to determine that all relevant laws and regulations are complied with.
- Reviewed the results of the external audit report and management response to the issues highlighted.
- Reviewed the SLFRS Gap Analysis report in order to identify gaps in the existing financial reporting framework and the new SLFRS framework to be adopted.

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Susantha Ratnayake
Chairman-Board Audit Committee
24 July 2013

EY
Building a better working world

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GSM/NJ

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SRILANKAN AIRLINES LIMITED

Report on the Financial Statements

We have audited the accompanying Financial Statements of SriLankan Airlines Limited ("Company"), the Consolidated Financial Statements of the Company and its Subsidiary, which comprise the Statements of Financial Position as at 31 March 2013, and the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2013 and the Financial Statements give a true and fair view of the Company's financial position as at 31 March 2013 and its performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position as at 31 March 2013 and its performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its Subsidiary dealt with thereby, so far as concerns the shareholders of the Company.

Without qualifying our opinion we draw attention to note 2.1.2 in these financial statements.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 151(2) and 153 (2) to 153(7) of the Companies Act No. 07 of 2007.

Ernst & Young

Ernst & Young
Chartered Accountants
30 July 2013
Colombo

STATEMENT OF FINANCIAL POSITION
As at 31 March 2013

	Note	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
ASSETS							
Non-Current Assets							
Property, Plant and Equipment	3	8,154.80	7,234.01	4,647.69	6,380.13	5,312.22	2,558.82
Major Overhauls and Upgrade of Aircraft Engines	4	11,430.46	6,684.88	6,080.36	11,430.46	6,684.88	6,080.36
Aircraft Maintenance Reserve	5	13,570.76	15,209.12	8,763.58	13,570.76	15,209.12	8,763.58
Aircraft and Spare Engine Deposits		2,967.38	3,056.59	2,113.03	2,967.38	3,056.59	2,113.03
Intangible Assets	6	150.91	60.53	111.69	150.74	60.20	110.07
Investments	7.2	0.40	13,370.21	0.40	42.44	13,412.25	42.44
		36,274.71	45,615.34	21,716.75	34,541.91	43,735.26	19,668.30
Current Assets							
Inventories	8	5,021.85	4,513.76	4,490.19	4,664.89	4,232.38	4,259.99
Trade and Other Receivables	9	15,320.25	14,233.25	10,781.06	14,509.85	13,498.51	10,282.99
Aircraft Maintenance Reserve	5	6,331.17	2,608.50	2,506.16	6,331.17	2,608.50	2,506.16
Aircraft and Spare Engine Deposits		160.97	-	-	160.97	-	-
Investments	7.1	25,597.78	-	-	25,597.78	-	-
Cash and Bank Balances	10.1	3,681.67	2,027.65	1,757.24	3,640.56	1,733.32	1,455.17
		56,113.69	23,383.16	19,534.65	54,905.22	22,072.71	18,504.31
Total Assets		92,388.40	68,998.50	41,251.40	89,447.13	65,807.97	38,172.61
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated Capital	11	32,032.75	19,432.67	5,146.35	32,032.75	19,432.67	5,146.35
Reserves	12	1,549.42	1,780.59	1,840.05	877.71	1,108.88	1,168.34
Accumulated Loss		(40,742.59)	(18,163.18)	(766.65)	(44,606.16)	(22,789.94)	(2,823.76)
Total Equity		(7,160.42)	3,050.08	6,219.75	(11,695.70)	(2,248.39)	3,490.93
Non-Current Liabilities							
Preference Shares	13	1,000.00	1,000.00	1,000.00	-	-	-
Interest Bearing Liabilities	14	26,373.61	3,752.26	1,824.63	27,210.76	4,595.47	2,645.96
Other Deferred Liabilities	15	5,531.49	5,232.48	4,211.97	5,247.39	4,962.06	3,990.46
		32,905.10	9,984.74	7,036.60	32,458.15	9,557.53	6,636.42
Current Liabilities							
Trade and Other Payables	16	48,627.15	46,550.59	21,121.67	50,509.90	48,906.30	21,510.26
Income Tax Payable		230.46	211.03	204.98	175.45	175.45	175.45
Interest Bearing Liabilities	14	17,786.11	9,202.06	6,668.40	17,999.33	9,417.08	6,359.55
		66,643.72	55,963.68	27,995.05	68,684.68	58,498.83	28,045.26
Total Equity and Liabilities		92,388.40	68,998.50	41,251.40	89,447.13	65,807.97	38,172.61

These Financial Statements are in compliance with the requirements of the Companies Act No. 7 of 2007.

....
Head of Finance

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

....
Director Director

The accounting policies and notes on pages 25 through 63 form an integral part of these Financial Statements.

Colombo
30 July 2013

STATEMENT OF INCOME
Year ended 31 March 2013

	Note	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Revenue	18	121,407.66	94,638.60	119,570.90	92,867.93
Cost of Sales		(129,688.50)	(100,451.90)	(131,598.38)	(101,830.07)
Gross (Loss)/Profit		(8,280.84)	(5,813.30)	(12,027.48)	(8,962.14)
Other Income and Gains	19	1,615.83	1,196.66	4,155.05	421.70
Sales and Marketing Cost		(9,851.25)	(7,472.12)	(9,851.25)	(7,472.13)
Administrative Expenses		(4,421.46)	(3,723.27)	(2,522.64)	(2,473.68)
Finance Cost	20.1	(3,222.38)	(1,642.30)	(3,138.40)	(1,537.89)
Finance Income	20.2	1,656.56	256.90	1,634.97	249.40
Loss Before Tax	21	(22,503.54)	(17,197.43)	(21,749.75)	(19,774.74)
Income Tax Expense	22	(15.24)	(10.95)	-	(3.29)
Loss for the Year		(22,518.78)	(17,208.38)	(21,749.75)	(19,778.03)

The accounting policies and notes on pages 25 through 63 form an integral part of these Financial Statements.

	Note	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Loss for the Year		(22,518.78)	(17,208.38)	(21,749.75)	(19,778.03)
Other Comprehensive Income					
Acturial Loss on Retirement Benefit Obligation	15.1	(60.63)	(188.15)	(66.47)	(188.15)
Revaluation of Land and Building	12.1	-	736.67	-	736.67
Net Loss on Available for Sale Investments	12.3	(231.17)	(796.13)	(231.17)	(796.13)
Total Other Comprehensive Income for the Year, Net of Tax		(291.80)	(247.61)	(297.64)	(247.61)
Total Comprehensive Income for the Year, Net of Tax		(22,810.58)	(17,455.99)	(22,047.39)	(20,025.64)

The accounting policies and notes on pages 25 through 63 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2013

GROUP	Note	Stated Capital Rs. M	Revaluation Reserve Rs. M	Available for Sale Reserve Rs. M	Revenue Reserve Rs. M	General Reserve Rs. M	Accumulated Loss Rs. M	Total Rs. M
Balance as at 1 April 2011		5,146.35	1,785.98	-	0.63	53.44	(766.65)	6,219.75
Loss for the year		-	-	-	-	-	(17,208.38)	(17,208.38)
Other Comprehensive Income		-	736.67	(796.13)	-	-	(188.15)	(247.61)
Total Comprehensive Income		-	736.67	(796.13)	-	-	(17,396.53)	(17,455.99)
Advance towards Share Capital	11	14,286.32	-	-	-	-	-	14,286.32
Balance as at 31 March 2012		19,432.67	2,522.65	(796.13)	0.63	53.44	(18,163.18)	3,050.08
Loss for the year		-	-	-	-	-	(22,518.78)	(22,518.78)
Other Comprehensive Income		-	-	(231.17)	-	-	(60.63)	(291.80)
Total Comprehensive Income		-	-	(231.17)	-	-	(22,579.41)	(22,810.58)
Advance towards Share Capital	11	12,600.08	-	-	-	-	-	12,600.08
Balance as at 31 March 2013		32,032.75	2,522.65	(1,027.30)	0.63	53.44	(40,742.59)	(7,160.42)

COMPANY	Note	Stated Capital Rs. M	Revaluation Reserve Rs. M	Available for Sale Reserve Rs. M	Revenue Reserve Rs. M	General Reserve Rs. M	Accumulated Loss Rs. M	Total Rs. M
Balance as at 1 April 2011		5,146.35	1,114.27	-	0.63	53.44	(2,823.76)	3,490.93
Loss for the year		-	-	-	-	-	(19,778.03)	(19,778.03)
Other Comprehensive Income		-	736.67	(796.13)	-	-	(188.15)	(247.61)
Total Comprehensive Income		-	736.67	(796.13)	-	-	(19,966.18)	(20,025.64)
Advance towards Share Capital	11	14,286.32	-	-	-	-	-	14,286.32
Balance as at 31 March 2012		19,432.67	1,850.94	(796.13)	0.63	53.44	(22,789.94)	(2,248.39)
Loss for the year		-	-	-	-	-	(21,749.75)	(21,749.75)
Other Comprehensive Income		-	-	(231.17)	-	-	(66.47)	(297.64)
Total Comprehensive Income		-	-	(231.17)	-	-	(21,816.22)	(22,047.39)
Advance towards Share Capital	11	12,600.08	-	-	-	-	-	12,600.08
Balance as at 31 March 2013		32,032.75	1,850.94	(1,027.30)	0.63	53.44	(44,606.16)	(11,695.70)

The accounting policies and notes on pages 25 through 63 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOW
Year ended 31 March 2013

	Note	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Cash Flows From/(Used in) Operating Activities					
Loss before Income Tax Expense		(22,503.54)	(17,197.43)	(21,749.75)	(19,774.74)
Adjustments for					
Depreciation / Amortisation		4,522.77	3,689.90	4,256.71	3,434.06
Finance Cost	20.1	3,222.38	1,642.30	3,138.40	1,537.89
Loss on disposal of Property, Plant and Equipment		2.90	8.87	6.48	8.87
Finance Income	20.2	(1,656.56)	(256.90)	(1,634.97)	(249.40)
Dividend Income		-	-	(150.00)	(150.00)
Reversal of Provision for Bad & Doubtful Debts		(47.58)	-	(47.58)	-
Provision for Slow Moving Inventory		211.07	101.40	211.07	101.40
Provision for Doubtful Recoveries of Maintenance Reserve-Net of Interest		972.53	148.69	972.53	148.69
Effect on Unrealised Exchange (Gain) / Loss		(1,888.74)	(1,065.21)	(1,823.55)	49.02
Write Back of Sales in Advance		(967.03)	(3,775.09)	(967.03)	(3,775.09)
Provision for Gratuity	15.1	489.28	451.20	443.42	382.14
Operating Loss before Working Capital Changes		(17,642.52)	(16,252.27)	(17,344.27)	(18,287.16)
Increase in Inventories		(719.16)	(124.97)	(643.58)	(73.79)
Increase in Trade and Other Receivables		(312.54)	(2,648.11)	(236.83)	(2,424.05)
Increase in Trade and Other Payables		2,579.27	27,735.61	2,237.08	28,922.11
Increase in Maintenance Reserves		(3,297.88)	(4,326.70)	(3,297.88)	(4,326.70)
Increase In Aircraft Security Deposits		(91.13)	(552.97)	(91.13)	(552.97)
Cash Generated From/ (Used in) Operations		(19,483.96)	3,830.59	(19,376.61)	3,257.44
Finance Cost Paid		(2,714.62)	(1,087.41)	(2,568.20)	(917.67)
Gratuity Paid	15.1	(246.26)	(112.22)	(219.92)	(92.08)
Income Tax Paid		-	(13.60)	-	-
Net Cash flows From/ (Used in) Operating Activities		(22,444.84)	2,617.36	(22,164.73)	2,247.69
Cash Flows From/(Used in) Investing Activities					
Interest Received		1,098.83	20.30	1,098.83	13.42
Investment in Shares		-	(0.87)	-	(0.87)
Acquisition of Property, Plant and Equipment		(2,021.85)	(1,503.93)	(1,904.44)	(1,428.75)
Payments made on Engine Overhauls		(8,129.65)	(3,199.40)	(8,129.65)	(3,199.40)
Acquisition of Intangible Assets		(140.78)	(1.55)	(140.24)	(1.40)
Proceeds from Disposal of Property, Plant and Equipment		8.38	12.60	5.42	12.60
Net Cash Used in Investing Activities		**(9,185.07)**	**(4,672.85)**	**(9,070.08)**	**(4,604.40)**
Cash Flows From/(Used in) Financing Activities					
Repayment of Interest Bearing Liabilities		(7,536.70)	(2,548.83)	(9,741.32)	(2,239.87)
Proceeds from Interest Bearing Loans and Borrowings		37,966.97	5,119.05	40,029.71	5,119.05
Net Cash from Financing Activities		**30,430.27**	**2,570.22**	**30,288.39**	**2,879.18**
Net Increase/(Decrease) in Cash and Cash Equivalents		**(1,199.64)**	**514.73**	**(946.42)**	**522.47**
Cash and Cash Equivalents at the beginning of the year	10	**(3,338.39)**	**(3,853.12)**	**(3,632.72)**	**(4,155.19)**
Cash and Cash Equivalents at the end of the year	10	**(4,538.03)**	**(3,338.39)**	**(4,579.14)**	**(3,632.72)**

The accounting policies and notes on pages 25 through 63 form an integral part of these Financial Statements.

1. CORPORATE INFORMATION

1.1 General

Company

SriLankan Airlines Limited ("the Company") is a Limited Liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at Airline Center, Bandaranaike International Airport, Katunayake, Sri Lanka.

1.2 Principal Activities and Nature of Operations

Company

The principal activities of the Company consist of operating international scheduled, non-scheduled air services for the carriage of passengers, freight and mail as the designated carrier of Sri Lanka. Providing Air Terminal services at the Bandaranaike International Airport ("BIA") and Mattala Rajapaksa International Airport ("MRIA"), sale of duty free goods on-board, marketing inbound and outbound holiday packages and operation of domestic Air Taxi services for passenger transport constitute other main activities. Providing third party maintenance, flight operation services and conducting aviation related training programmes constitute ancillary activities of the Company.

Subsidiary – SriLankan Catering Limited

The principal activity of SriLankan Catering Limited ("the Subsidiary") is to provide in-flight catering services to airlines operating through BIA and MRIA. Other ancillary activities consist of operating public and transit restaurants, provision of laundry services and managing the transit hotel.

1.3 Date of Authorisation for Issue

The financial statements for the year ended 31 March 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 30 July 2013.

2. GENERAL ACCOUNTING POLICIES

2.1 Basis of Preparation

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

For all periods up to and including year ended 31 March 2012, the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards ("SLAS") applicable as at 31 March 2012. These Financial Statements for the year ended 31 March 2013 are the first the Group has prepared in accordance with SLFRS (Refer Note 2.6 for explanation of the transition).

The Group has consistently applied the accounting policies used in the preparation of its opening SLFRS statement of financial position at 1 April 2011 through all periods presented, as if these policies had always been in effect.

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

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

2.1.1 Statement of Compliance

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

2.1.2 Going Concern

During the current year the Company recorded a loss of Rs. 21,749.75 million (2012 - Rs. 19,778.03 million) with an accumulated loss of Rs. 44,606.16 million (2012 - Rs. 22,789.94 million). Further, the Company's current liabilities exceeded its current assets by Rs. 13,779.46 million (2012 - Rs. 36,426.12 million) and the total equity of the Company as at reporting date has declined to a negative Rs. 11,695.70 million (2012 - negative Rs. 2,248.39 million).

The downturn in the performance of the global air transport industry in the recent past continued during the year under review. In addition, the continuing high fuel prices and the recessionary conditions in Europe were some of the external factors which hindered the performance of the Company. However the Company took many steps during the year to mitigate the negative impact of these external forces, the results of which are expected to be realised in the future.

The Government of Sri Lanka (GOSL) continued to demonstrate its commitment to the Company by making the second capital infusion of Rs. 12,600.08 million (2012 - Rs. 14,286.32 million) as per the recapitalization plan approved for the Company in July 2011. This funding was timely, and the capital infusion strengthened the Company's financial position. However, such infusion was not in the form of liquid cash and the challenges of cash constraints continued to prevail. The cash constraints impacted the Company's plans for expansion/modernization and its business operations. On a positive note, subsequent to Reporting date the said Treasury Bonds have been used by the Company to (Financial Year 2013/14 onwards) raise cash. Consequently, it is expected that such cash proceeds would greatly enhance the cash flow position.

Despite the challenges, the Company was able to significantly invest in expanding and modernizing the airline and required infrastructure over the last 3 year period in order to increase operational efficiencies and also to deliver a competitive product to the customer. In line with this objective, the Company made a decision during the year to proceed with a re-fleeting exercise to replace its wide-body fleet, especially the six A 340-300 aircraft fleet which as at reporting date has an average age exceeding 15 years. These aircraft will be replaced when their lease terms expire between third quarter 2014/15 to third quarter 2015/16 by a modern fleet of twin engined A330-300 aircraft. This will bring in much needed operational efficiencies (reduced fuel burn and maintenance costs) and the airline would also be in a position to offer a product with all modern passenger comforts which is on par or better than what is offered by competitor airlines. The Company expects this re-fleeting exercise to yield a significant positive impact on its future revenue generating capacity.

During the year the Company also took several other important operational decisions such as the redeployment of capacity from Europe to more profitable sectors in Middle East and South Asia and the strengthening of its network to India. This optimization of the route network combined with the planned entry to the oneworld alliance in early 2014 is expected to boost the Company's revenue generating capacity. The implementation of a new passenger services system during the same time (Altea system by Amadeus) is expected to further increase operational efficiencies.

In line with the GOSL's vision for Sri Lanka's future and the tourism industry, SriLankan Airlines as the national carrier intends to contribute strongly to achieve these national objectives. Accordingly the five year Business Plan was updated taking into consideration the significant external and internal developments such as the wide-body re-fleeting plans and the continued support from the GOSL by way of capital infusions.

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

2.2 Basis of Consolidation

The consolidated financial statements comprise of the financial statements of SriLankan Airlines Limited and its wholly owned subsidiary SriLankan Catering Limited. The financial statements of the subsidiary are prepared for the same reporting year as the Company, using consistent accounting policies, unless stated otherwise.

All intra–group balances, transactions, income and expenses, gains and losses, dividends resulting from intra–group transactions are eliminated in full.

The Subsidiary is fully consolidated from the date of incorporation, being the date on which control commences and continues to be consolidated until the date that control ceases.

2.3 Significant Accounting Estimates, Assumptions and Judgments

The preparation of financial statements of the Group require the management to make judgments, estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expense and disclosures at the reporting date. The key judgments, estimates and associated assumptions are assessed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following key judgments, estimates and assumptions addresses amongst others that are subjective and have significant effect on the amounts recognised in the financial statements.

(a) Judgments

(i) Going Concern
As disclosed in Note 2.1.2 these financial statements have been prepared and presented on a going concern basis.

(ii) Contingent Liabilities – Litigations
As disclosed in Note 23 the Group has several pending litigations with various parties as at the current financial year end. The Board of Directors, after due consultation with the Group's legal counsel, assess the merits of each case and make necessary provisions when it is determined that there would be a likely possibility of an outflow of resources in the future.

(iii) Operating Leases
The Company has entered into commercial lease arrangements in relation to aircraft and engines. Based on such agreed terms and conditions, where it is established that the Company does not retain all significant risks and rewards incidental to ownership, such assets are recognised as operating leases and do not form a part of property, plant and equipment of the Company.

(b) Estimates

(i) Depreciation of Property, Plant and Equipment
Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of these assets. Management reviews the residual values, useful lives and depreciation method at each reporting date and ensures consistency with previous estimates and patterns of consumption of the economic benefits that embodies in these assets. Changes in useful lives and residual values of these assets may result in revision of future depreciation charges. (Refer Policy 2.4.3. (b))

(ii) Amortisation of Major Overhaul Cost of Aircraft Engines
Company is required to carry out heavy maintenance checks on engines and landing gears in line with the agreed lease agreement terms. The Company capitalises such cost, on completion of such checks and when these assets are ready for use. The cost to be capitalised is based on the best estimate in the absence of vendor invoices and takes into account agreed credit notes and prefunds for such checks. Any differences between the amounts incurred and the amounts capitalised are effected prospectively. Thereafter, such cost is amortised over the shorter of the estimated flying hours/cycles between such heavy maintenance checks and the remaining period of lease. (Refer Note 4)

(iii) Frequent Flyer Programme

Company operates a frequent flyer programme 'FlySmiLes' that provides travel awards to members of the program based on accumulated mileage. A portion of passenger revenue attributable to the award of frequent flyer benefits is deferred until they are utilised. The deferment of the revenue is estimated based on historical trends of redemption, which is then used to project the expected utilisation of these benefits. The fair value of credits awarded is estimated by reference to the fair value of the services for which the award credits may be redeemed. These estimates are reviewed at each reporting date and the liability is adjusted accordingly.

(iv) Maintenance Reserve

The Company makes monthly payments to lessors on account of several aircraft and engines which are under operating leases based on agreed terms towards maintenance. These monthly payments are based on the number of hours or cycles flown. Periodically management evaluates the recoverability of such payments based on best estimates of the amounts recoverable. When the carrying amount of an asset exceeds its' recoverable amount, the asset is considered impaired and is written down to its recoverable amount. (Refer Note 5)

(v) Inventories

Company reviews the existence and usability of inventories based on a perpetual inventory count. Provisions are made when Management determines obsolete stock and/or assesses a reduction in recoverable value. (Refer Note 8)

(vi) Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Management uses judgment in estimating such impairment considering the duration of outstanding and any other factors management is aware of that indicates uncertainty in recoverability.

(c) Assumptions

(i) Defined Benefit Plan

The cost of the retirement benefit plan of staff based in Sri Lanka is determined using an actuarial valuation. The actuarial valuation is based on assumptions concerning the rate of interest, rate of salary increase, special premium, retirement age and going concern of the Company. Due to the long term nature of the plan, such estimates are subject to significant uncertainty. (Refer Note 2.4.15)

(ii) Revaluation of Property, Plant and Equipment

Property, Plant and Equipment is measured at revalued amounts using the services of an independent qualified valuer. Such valuer uses assumptions and valuation techniques to determine the fair value. The basis of valuation is disclosed in Note 3.

2.4 Summary of Significant Accounting Policies

2.4.1 Foreign Currency Translation

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

2.4.2 Taxation

(i) Current Income Tax

Company

(a) Local Taxation

The Company was granted flagship status in August 1994 by the Board of Investment of Sri Lanka, which extended the then existing tax exemption period up to 31 March 1998. In March 1998, the Board of Investment of Sri Lanka granted a further extension of the tax exemption period up to 31 March 2013. In February 2011, under the provisions of the Inland Revenue Act No.10 of 2006 as amended by the Inland Revenue (Amendment) Act No. 22 of 2011, the Company is entitled for a tax exemption period of 10 years for all its business activities effective from 1 April 2011 to 31 March 2021.

(b) Overseas Taxation

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

Subsidiary - SriLankan Catering Limited

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Income from Flight Kitchen and Transit Restaurant is exempted from income tax up to 31 May 2021 as per the agreement with Board of Investment (BOI). The income from other sources are liable at the normal rate.

(ii) Deferred Income Tax

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

Company

As the Company is in its tax holiday period the provisions of the Inland Revenue Act will not apply and temporary differences do not exist during the tax exemption period. Accordingly no deferred taxation has been provided for in these financial statements.

Subsidiary – SriLankan Catering Limited

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

The principal temporary differences arise from depreciation on property, plant and equipment, tax losses carried forward and provisions for defined benefit obligations.

Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.4.3 Property, Plant and Equipment

(a) Cost and Valuation
All items of property, plant and equipment are initially recorded at cost. Cost includes expenditure that is directly attributable to the acquisition or construction. Where items of property, plant and equipment are subsequently revalued such revalued property, plant and equipment are carried at revalued amounts less any subsequent depreciation thereon and impairment. All other property, plant and equipment are stated at historical cost less depreciation and/or accumulated impairment losses, if any.

When an asset is revalued, any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Valuations are performed with an adequate frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Subsequent cost are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured.

Cost of repairs and maintenance are charged to the Statement of Income during the period in which they are incurred.Property, plant and equipment includes amongst others the following:

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

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

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

Aircraft related Equipment	-	over shorter of 8 years or lease period
Plant & Equipment	-	over periods ranging from 1 to 10 years based on the type of equipment
Buildings	-	over the expected useful life subject to a maximum of 20 years

The residual values, useful lives and depreciation method are reviewed at each reporting date and adjusted prospectively when appropriate.

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

(c) Derecognition
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of income in the year the asset is derecognised.

2.4.4 Intangible Assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the assets will flow to the entity and the cost of the assets can be measured reliably. Accordingly, these assets are stated in the statement of financial position at cost less accumulated amortisation and any accumulated impairment losses.

The cost of acquisition or development of computer software that is separable from an item of related hardware is capitalised separately and amortised over a period not exceeding 5 years on a straight line basis. The amortisation period and the amortisation method is reviewed at each reporting date. The carrying value of this asset is reviewed periodically for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

2.4.5 Major Overhaul of Aircraft Engines

Cost of major overhauls to engines and landing gears that provide future economic benefits for more than one period are capitalised net of prefunds and warranty claims and amortised over the shorter of flying hours estimated until the next major overhaul and the remaining lease period.

2.4.6 Leases

(a) Operating Leases
Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are treated as operating leases. Operating lease payments are recognised as an operating expense in the statement of income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the users benefit.

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

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

Capitalised leased assets are disclosed as property, plant and equipment and depreciated over the period the Company is expected to benefit from the use of the leased assets. Refer accounting policy 2.4.3.

(c) Sale and Leaseback
Profits arising on sale and leaseback transactions which result in operating leases are recognised in the statement of income immediately to the extent that the sales proceeds do not exceed the fair value of the assets concerned.

(d) Deferred Engine Upgrade Cost
The present value of deferred engine upgrade cost in line with the return conditions of the related operating lease agreements is included as part of Non-Current Assets and amortised over the shorter of useful life of the asset and lease period with the corresponding liability measured in accordance with LKAS 37 and grouped under Other Deferred Liabilities in the statement of financial position.

2.4.7 Inventories

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

2.4.8 Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing is required for an asset, the Company makes an assessment of the assets' recoverable amount. When the carrying amount of an asset exceeds its' recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.4.9 Financial Instruments – Initial Recognition and Subsequent Measurement

2.4.9.1 Financial Assets

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

All financial assets are recognised initially at fair value.

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

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

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

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

(c) Derecognition
A financial asset is derecognised when:
-The rights to receive cash flows from the asset have expired.
-The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay

the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(d) Impairment of Financial Assets

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

(i) Financial Assets carried at Amortised Cost

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

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

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

(ii) Available-for-sale financial assets

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

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

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

2.4.9.2. Financial Liabilities

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

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

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

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

(a) Loans and Borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the EIR amortisation process.

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

(b) Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

(c) Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

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

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 17.

2.4.10 Aircraft Maintenance Reserve

Aircraft maintenance reserve consists of payments made to lessors on a monthly basis for the future overhaul of engines, airframes and aircraft components in terms of operating lease agreements. Company recovers the cost incurred on overhauls of engines, airframes and aircraft components (up to the amount already paid to the reserve) from lessors against such reserve on completion of the maintenance event.

Based on the nature Aircraft Maintenance Reserve has been classified under loans and receivables and the relevant accounting policy for this category of financial assets are stated in note 2.4.9.1 (a) above.

2.4.11 Trade and Other Receivables

Trade debtors, including amounts owing by subsidiary, deposits and other debtors (excluding non financial assets classified under deposits and other receivables which are measured at cost) classified and accounted for as loans and receivable. Based on the nature the relevant accounting policy for this category of financial assets are stated in note 2.4.9.1 (a) above.

2.4.12 Investments

(i) Investment in Treasury Bond
Investments in Treasury Bond is classified as "Available for Sale" financial asset. After the initial recognition the investment is measured at fair value. The accounting policy for this category of financial assets is stated in note 2.4.9.1 (b).

(ii) Investment in Subsidiary
In the Company's financial statements, investment in subsidiary company has been accounted for at cost, net of any impairment for other than temporary diminution in value.

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

2.4.13 Cash and Cash Equivalents

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

For the purpose of cash flow statement, cash and cash equivalents consist of cash at bank, cash in hand and call deposits in banks net of outstanding bank overdrafts. Investments with short maturities (i.e. three months or less from date of acquisition) are also treated as cash equivalents. Bank overdrafts are disclosed under Interest Bearing Liabilities in the statement of financial position.

2.4.14 Provisions

(i) General
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income net of any reimbursement.

(ii) Deferred Engine Upgrade Liability

The Group records a provision for Deferred Engine Upgrade costs for certain Aircraft Engines on operating lease. Deferred Engine Upgrade costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as separate asset (Note 15). The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the Deferred Engine Upgrade costs. The unwinding of the discount is expensed as incurred and recognised in the statement of income as a finance cost. The estimated future costs of Engine Upgrade are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

2.4.15 Retirement Benefit Obligation

(a) Defined Benefit Plan-Gratuity

The Company measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an Actuary every year using the Projected Unit Credit method.

The Company/Group recognises the actuarial gain/loss arising from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in the statement of comprehensive income.

The key assumptions used by the actuary include the following:

	The Company			The Subsidiary		
	2013	2012	2011	2013	2012	2011
i) Rate of interest	11%	11%	10%	10%	10%	12%
ii) Rate of Salary Increase						
-LKR	10%	10%	10%			
-USD	2%	2%	2%			
-Executives				10%	10%	10%
-Non Executives				20%	20%	17%
iii) Retirement Age -Years	60	60	60	55	55	55

(iv) The entity will continue as a going concern

The gratuity liability is not externally funded. This item is grouped under "Other Deferred Liabilities" in the statement of financial position. Overseas-based employees are covered under social security schemes applicable in their home countries.

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

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

2.4.16 Frequent Flyer Programme

The Company operates a frequent flyer programme called "Flysmile" that provides travel awards to programme members based on accumulated mileage. A portion of passenger revenue attributable to the award of frequent flyer benefits, estimated based on expected utilisation of these benefits, is deferred until they are utilised. These are included under deferred revenue on the statement of financial position.

2.4.17 Revenue Recognition

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

(a) Airline Revenue
Revenue is generated principally from the carriage of passengers, cargo and mail, rendering of airport terminal services, engineering services, domestic air taxi operations, air charters and related activities.

(i) Passenger and cargo sales are recognised as operating revenue when the transportation is provided.
(ii) The value of unused tickets and airway bills is included in current liabilities as sales in advance of carriage. The value of unused tickets and airway bills are recognised as revenue if remains unutilised and expired after one year.
(iii) Revenue from the provision of airport terminal services is recognised upon rendering of services.
(iv) Revenue from provision of third party maintenance services is recognised upon completion of such event.
(v) Revenue from the provision of flight operation services is recognised upon rendering of services.

(b) Revenue from Airline catering services
Sale of Goods
Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added sales taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and continuing management involvement with the goods.

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

(d) Rental income
Rental income is recognised on an accrual basis.

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

(f) Other income
Other income is recognised on an accrual basis.

2.4.18 Expenditure Recognition

Expenses are recognised in the statement of income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the statement of income. For the purpose of presentation of the statement of income, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the Company's and Group's performance.

2.4.19 Borrowing Costs

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

2.4.20 Segment Reporting

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

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

Management considers that there is no suitable basis for allocating assets and related liabilities to geographical segments. Accordingly, segment assets, segment liabilities and other segment information by geographical segment are not disclosed. The secondary reporting by business segment is based on the nature of services provided by the Group. The Group is engaged in two main business segments - Air transportation and in-flight catering services through its subsidiary.

2.5. Standards Issued but not yet Effective

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

(i) SLFRS 9 -Financial Instruments: Classification and Measurement
SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

(ii) SLFRS 13 -Fair Value Measurement
SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements.
SLFRS 9 and SLFRS 13 will be effective for financial periods beginning on or after 01 January 2015 and 2014 respectively.
In addition to the above, following standards have also been issued and will be effective from 01 January 2014.
SLFRS 10 - Consolidated Financial Statements
SLFRS 11 - Joint Arrangements
SLFRS 12 - Disclosure of Interests in Other Entities

2.6 First-Time Adoption of SLFRS

Reconciliation of Financial Position as at 1 April 2011 (date of transition to SLFRS)

	Note	Group SLAS 01.04.2011 Rs. M	Remeasure -ment Rs. M	Group SLFRS 01.04.2011 Rs. M	Company SLAS 01.04.2011 Rs. M	Remeasure -ment Rs. M	Company SLFRS 01.04.2011 Rs. M
ASSETS							
Non-Current Assets							
Property, Plant and Equipment		4,647.69	-	4,647.69	2,558.82	-	2,558.82
Major Overhauls and Upgrade of Aircraft Engines		6,080.36	-	6,080.36	6,080.36	-	6,080.36
Aircraft Maintenance Reserve	A	8,849.84	(86.26)	8,763.58	8,849.84	(86.26)	8,763.58
Aircraft and Spare Engine Deposits	A	2,156.38	(43.35)	2,113.03	2,156.38	(43.35)	2,113.03
Intangible Assets		111.69	-	111.69	110.07	-	110.07
Investments	A	65.36	(64.96)	0.40	107.40	(64.96)	42.44
		21,911.32	(194.57)	21,716.75	19,862.87	(194.57)	19,668.30
Current Assets							
Inventories		4,490.19	-	4,490.19	4,259.99	-	4,259.99
Trade and Other Receivables	A	10,553.71	227.35	10,781.06	10,055.27	227.72	10,282.99
Aircraft Maintenance Reserve		2,506.16	-	2,506.16	2,506.16	-	2,506.16
Cash and Bank Balances		1,757.24	-	1,757.24	1,455.17	-	1,455.17
		19,307.30	227.35	19,534.65	18,276.59	227.72	18,504.31
Total Assets		41,218.62	32.78	41,251.40	38,139.46	33.15	38,172.61
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated Capital		5,146.35	-	5,146.35	5,146.35	-	5,146.35
Reserves		1,840.05	-	1,840.05	1,168.34	-	1,168.34
Accumulated Loss	A&B	(683.85)	(82.80)	(766.65)	(3,097.87)	274.11	(2,823.76)
Total Equity		6,302.55	(82.80)	6,219.75	3,216.82	274.11	3,490.93
Non-Current Liabilities							
Preference Shares		1,000.00	-	1,000.00	-	-	-
Interest Bearing Liabilities	B	1,824.63	-	1,824.63	2,914.21	(268.25)	2,645.96
Other Deferred Liabilities		4,211.97	-	4,211.97	3,990.46	-	3,990.46
		7,036.60	-	7,036.60	6,904.67	(268.25)	6,636.42
Current Liabilities							
Trade and Other Payables	C	21,006.09	115.58	21,121.67	21,482.97	27.29	21,510.26
Income Tax Payable		204.98	-	204.98	175.45	-	175.45
Interest Bearing Liabilities		6,668.40	-	6,668.40	6,359.55	-	6,359.55
		27,879.47	115.58	27,995.05	28,017.97	27.29	28,045.26
Total Equity and Liabilities		41,218.62	32.78	41,251.40	38,139.46	33.15	38,172.61

Notes to the Reconciliation of Financial Position as at 1 April 2011 (SLFRS 1)

A Financial Assets carried at Amortised Cost
Financial assets which are recognised in the statements of financial position as at the transition date were remeasured at amortised cost. The resulting differences have been reclassified under other receivables and other payables as appropriate. The unwinding of such adjustments were accounted for as finance cost and finance income as appropriate through the statement of income.

B Fair valuation of Intercompany Loans and Borrowings
Intercompany borrowings at below market rate were remeasured at the market rate. The unwinding of such adjustments were accounted for as finance cost or finance income as appropriate through the statement of income.

C Straightlining of Operating Lease Payments
Lease payments under operating leases are recognised as an expense on a straight line basis over the lease term.

*Based on Sri Lanka Accounting Standards ("SLAS") as at 1 April 2011. (Date of transition)
**Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS ("SLFRS") as at 1 April 2011. (Date of transition)

2.6 First-Time Adoption of SLFRS (Contd.)

Reconciliation of Financial Position as at 31 March 2012

	Note	Group SLAS 31.03.2012 Rs. M	Remeasure -ment Rs. M	Group SLFRS 31.03.2012 Rs. M	Company SLAS 31.03.2012 Rs. M	Remeasure -ment Rs. M	Company SLFRS 31.03.2012 Rs. M
ASSETS							
Non-Current Assets							
Property, Plant and Equipment		7,234.01	-	7,234.01	5,312.22	-	5,312.22
Major Overhauls and Upgrade of Aircraft Engines		6,684.88	-	6,684.88	6,684.88	-	6,684.88
Aircraft Maintenance Reserve	A	15,372.86	(163.74)	15,209.12	15,372.86	(163.74)	15,209.12
Aircraft and Spare Engine Deposits	A	3,131.57	(74.98)	3,056.59	3,131.57	(74.98)	3,056.59
Intangible Assets		60.53	-	60.53	60.20	-	60.20
Investments	A & D	14,232.17	(861.96)	13,370.21	14,274.21	(861.96)	13,412.25
		46,716.02	(1,100.68)	45,615.34	44,835.94	(1,100.68)	43,735.26
Current Assets							
Inventories		4,513.76	-	4,513.76	4,232.38	-	4,232.38
Trade and Other Receivables	A	13,897.30	335.95	14,233.25	13,160.92	337.59	13,498.51
Aircraft Maintenance Reserve		2,608.50	-	2,608.50	2,608.50	-	2,608.50
Cash and Bank Balances		2,027.65	-	2,027.65	1,733.32	-	1,733.32
		23,047.21	335.95	23,383.16	21,735.12	337.59	22,072.71
Total Assets		69,763.23	(764.73)	68,998.50	66,571.06	(763.09)	65,807.97
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated Capital		19,432.67	-	19,432.67	19,432.67	-	19,432.67
Reserves	D	2,576.72	(796.13)	1,780.59	1,905.01	(796.13)	1,108.88
Accumulated Loss	A&B	(17,855.84)	(307.34)	(18,163.18)	(22,776.58)	(13.36)	(22,789.94)
Total Equity		4,153.55	(1,103.47)	3,050.08	(1,438.90)	(809.49)	(2,248.39)
Non-Current Liabilities							
Preference Shares		1,000.00	-	1,000.00	-	-	-
Interest Bearing Liabilities	B	3,752.26	-	3,752.26	4,788.03	(192.56)	4,595.47
Other Deferred Liabilities		5,232.48	-	5,232.48	4,962.06	-	4,962.06
		9,984.74	-	9,984.74	9,750.09	(192.56)	9,557.53
Current Liabilities							
Trade and Other Payables	C	46,211.85	338.74	46,550.59	48,667.34	238.96	48,906.30
Income Tax Payable		211.03	-	211.03	175.45	-	175.45
Interest Bearing Liabilities		9,202.06	-	9,202.06	9,417.08	-	9,417.08
		55,624.94	338.74	55,963.68	58,259.87	238.96	58,498.83
Total Equity and Liabilities		69,763.23	(764.73)	68,998.50	66,571.06	(763.09)	65,807.97

Notes to the Reconciliation of Financial Position as at 31 March 2012 (SLFRS 1)

A Financial Assets carried at Amortised cost
Financial assets which are recognised in the statements of financial position as at the transition date were remeasured at amortised cost. The resulting differences have been reclassified under other receivables and other payables as appropriate. The unwinding of such adjustments were accounted for as finance cost and finance income as appropriate through the statement of income.

B Fair Valuation of Intercompany Loans and Borrowings
Intercompany borrowings at below market rate were remeasured at the market rate. The unwinding of such adjustments were accounted for as finance cost or finance income as appropriate through the statement of income.

C Straightlining of Operating Lease Payments
Lease payments under operating leases are recognised as an expense on a straight line basis over the lease term.

D Financial Assets carried at Fair Value
Financial assets that are classified as Available for sale investments as per LKAS 39 as at 31 March 2012 was remeasured at fair value. The resulting differences are recognised in a seperate reserve within equity.

*Based on Sri Lanka Accounting Standards ("SLAS") as at 31 March 2012.
**Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS ("SLFRS") as at 31 March 2012.

2.6 First-Time Adoption of SLFRS (Contd.)

Reconciliation of statement of income for the year ended 31 March 2012

	Note	Group SLAS 31.03.2012 Rs. M	Remeasurement Rs. M	Group SLFRS 31.03.2012 Rs. M	Company SLAS 31.03.2012 Rs. M	Remeasurement Rs. M	Company SLFRS 31.03.2012 Rs. M
Revenue	A	92,257.04	2,381.56	94,638.60	90,544.22	2,323.71	92,867.93
Cost of Sales	A & D	(97,946.07)	(2,505.83)	(100,451.90)	(99,395.48)	(2,434.59)	(101,830.07)
Gross Loss		(5,689.03)	(124.27)	(5,813.30)	(8,851.26)	(110.88)	(8,962.14)
Other Income and Gains		1,196.66	-	1,196.66	421.70	-	421.70
Sales and Marketing Cost	B	(7,479.92)	7.80	(7,472.12)	(7,479.93)	7.80	(7,472.13)
Administrative Expenses	B	(3,751.00)	27.73	(3,723.27)	(2,501.41)	27.73	(2,473.68)
Finance Cost	C	(1,642.30)	-	(1,642.30)	(1,462.20)	(75.69)	(1,537.89)
Finance Income	C	204.56	52.34	256.90	197.68	51.72	249.40
Loss Before Tax		(17,161.03)	(36.40)	(17,197.43)	(19,675.42)	(99.32)	(19,774.74)
Income Tax Expense		(10.95)	-	(10.95)	(3.29)	-	(3.29)
Loss for the Year		(17,171.98)	(36.40)	(17,208.38)	(19,678.71)	(99.32)	(19,778.03)

Notes to the Reconciliation of Income Statement for the year ended 31 March 2012 (SLFRS 1)

A Revenue and Cost of Sales
On adoption of SLFRS, the Group recognises revenue and cost of sales gross of agent's commission.

B Administration and Marketing Expenses
The Group has changed its accounting policy on recognition of Actuarial losses and gains. Accordingly the actuarial gains/(losses) from transition date are recognised through Other Comprehensive Income.

C Finance Cost and Finance Income
As per SLFRS, amortised cost of financial assets includes cumulative amortisation using Effective Interest Rate (EIR).

D Straightlining of Operating Lease Payments
Lease payments under operating leases are recognised as an expense on a straight line basis over the lease term.

*Based on Sri Lanka Accounting Standards ("SLAS") as at 31 March 2012.
**Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS ("SLFRS") as at 31 March 2012

3 PROPERTY, PLANT AND EQUIPMENT

3.1 GROUP

	Land and Buildings	Plant & Equipment	Improvements to Aircraft / Engines on Operating Leases	Aircraft Related Equipment	Leasehold Plant & Equipment	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 2011	2,936.32	4,748.07	560.96	5,469.99	-	197.80	13,913.14
Acquisitions/Modifications/Revaluation	552.11	271.89	415.25	388.61	1,208.03	877.62	3,713.51
Transfers/Adjustments	0.05	(33.61)	-	-	-	(553.56)	(587.12)
Disposals/Retirements	(82.97)	(91.40)	-	(22.56)	-	-	(196.93)
Balance as at 31 March 2012	3,405.51	4,894.95	976.21	5,836.04	1,208.03	521.86	16,842.60
Acquisitions/Modifications/Revaluation	194.79	549.99	898.48	469.47	-	1,381.91	3,494.64
Transfers/Adjustments	-	(4.06)	-	(3.57)	-	(1,347.68)	(1,355.31)
Disposals/Retirements	(74.49)	(91.44)	-	-	-	-	(165.93)
Balance as at 31 March 2013	3,525.81	5,349.44	1,874.69	6,301.94	1,208.03	556.09	18,816.00
Accumulated Depreciation							
Balance as at 01 April 2011	662.11	3,613.77	516.44	4,473.13	-	-	9,265.45
Charge for the Year	142.38	340.28	46.00	240.97	-	-	769.63
Transfers/Adjustments	(264.63)	(27.46)	-	(0.93)	41.99	-	(251.03)
Disposals/Retirements	(79.50)	(91.40)	-	(4.56)	-	-	(175.46)
Balance as at 31 March 2012	460.36	3,835.19	562.44	4,708.61	41.99	-	9,608.59
Charge for the Year	169.17	416.75	236.28	265.69	122.52	-	1,210.41
Transfers/Adjustments	(0.35)	0.34	-	(0.24)	-	-	(0.25)
Disposals/Retirements	(65.93)	(91.62)	-	-	-	-	(157.55)
Balance as at 31 March 2013	563.25	4,160.66	798.72	4,974.06	164.51	-	10,661.20
Net Book Value as at 31 March 2013	2,962.56	1,188.78	1,075.97	1,327.88	1,043.52	556.09	8,154.80
Net Book Value as at 31 March 2012	2,945.15	1,059.76	413.77	1,127.43	1,166.04	521.86	7,234.01
Net Book Value as at 01 April 2011	2,274.21	1,134.30	44.52	996.86	-	197.80	4,647.69

3.2 (a) The fair value of the Company's Land and Buildings were determined by means of a revaluation during the last financial year by Mr. Ranjan J. Samarakone an independent valuer based on Market based evidence and on depreciated replacement cost . The results of such revaluation were incorporated in these Financial Statements effective from February 2012. The surplus arising from the revaluation was transferred to a revaluation reserve.

The fair value of the Subsidiary's Property, Plant & Equipment was determined by means of a revaluation during the year ended 31 March 2011 by Mr. P.B Kalugalagedara an independent valuer. Land and Buildings were valued on Net Income basis and remaining Plant & Equipment were valued on depreciated replacement cost basis. The results of such revaluation were incorporated in these Financial Statements from its effective date which is December 2010. The surplus arising from the revaluation was transferred to a revaluation reserve.

(b) During the year, the Group acquired property, plant and equipment to the aggregate value of Rs. 2,139.33 million (2012 - Rs. 2,692.37 million). Cash payments amounting to Rs.2,021.85 million (2012 - Rs. 1,503.93 million) were made during the year to acquire property, plant and equipment.

(c) Group Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs. 8,456.14 million (2012- Rs. 8,451.82 million).

3 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

3.3 COMPANY

	Land and Buildings	Plant & Equipment	Improvements to Aircraft / Engines on Operating Leases	Aircraft Related Equipment	Leasehold Plant & Equipment	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 2011	1,688.12	3,852.20	560.96	5,469.99	-	197.80	11,769.07
Acquisitions/Modifications/Revaluation	552.11	184.57	415.25	388.61	1,208.03	877.62	3,626.19
Transfers/Adjustments	0.05	(33.61)	-	-	-	(553.56)	(587.12)
Disposals/Retirements	(82.97)	(91.40)	-	(22.56)	-	-	(196.93)
Balance as at 31 March 2012	2,157.31	3,911.76	976.21	5,836.04	1,208.03	521.86	14,611.21
Acquisitions/Modifications/Revaluation	187.75	494.39	898.48	469.47	-	1,326.79	3,376.88
Transfers/Adjustments	-	(4.06)	-	(3.57)	-	(1,347.68)	(1,355.31)
Disposals/Retirements	(74.49)	(91.00)	-	-	-	-	(165.49)
Balance as at 31 March 2013	2,270.57	4,311.09	1,874.69	6,301.94	1,208.03	500.97	16,467.29
Accumulated Depreciation							
Balance as at 01 April 2011	655.56	3,565.12	516.44	4,473.13	-	-	9,210.25
Charge for the Year	79.97	148.28	46.00	240.97	41.99	-	557.21
Transfers/Adjustments	(264.62)	(27.46)	-	(0.93)	-	-	(293.01)
Disposals/Retirements	(79.50)	(91.40)	-	(4.56)	-	-	(175.46)
Balance as at 31 March 2012	391.41	3,594.54	562.44	4,708.61	41.99	-	9,298.99
Charge for the Year	105.69	214.87	236.28	265.69	122.52	-	945.05
Transfers/Adjustments	(0.35)	0.33	-	(0.24)	-	-	(0.26)
Disposals/Retirements	(65.93)	(90.69)	-	-	-	-	(156.62)
Balance as at 31 March 2013	430.82	3,719.05	798.72	4,974.06	164.51	-	10,087.16
Net Book Value as at 31 March 2013	1,839.75	592.04	1,075.97	1,327.88	1,043.52	500.97	6,380.13
Net Book Value as at 31 March 2012	1,765.90	317.22	413.77	1,127.43	1,166.04	521.86	5,312.22
Net Book Value as at 01 April 2011	1,032.56	287.08	44.52	996.86	-	197.80	2,558.82

3.4 (a) The fair value of the Company's Land and Buildings were determined by means of a revaluation during the last financial year by Mr Ranjan J Samarakone an independent valuer based on Market based evidence and on depreciated replacement cost. The results of such revaluation were incorporated in these Financial Statements effective from February 2012. The surplus arising from the revaluation, was transferred to a revaluation reserve. The carrying amount of revalued assets that would have been included in the financial statements had the assets been carried at cost less depreciation is as follows:

Class of Asset	Cost	Cumulative Depreciation if assets were carried at cost	Net Carrying Amount 2013	Net Carrying Amount 2012	Net Carrying Amount 01 April 2011
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Land and Buildings	1,176.97	324.23	852.74	898.82	1,013.58

(b) During the year, the Company acquired property, plant and equipment to the aggregate value of Rs. 2,029.21 million.(2012 - Rs. 2,605.05 million). Cash payments amounting to Rs. 1,904.44 million (2012 - Rs. 1,428.75 million) were made during the year to acquire property, plant and equipment.

(c) Property, plant and equipment of the Company includes fully depreciated assets having a gross carrying amount of Rs. 8,456.14 million (2012 - Rs. 8,451.82 million).

4. MAJOR OVERHAULS AND UPGRADE OF AIRCRAFT ENGINES

GROUP / COMPANY

	2013 Rs. M	2012 Rs. M
Cost		
Balance as at 01 April	14,085.91	11,738.70
Incurred during the year (Net)	8,011.91	3,425.85
Derecognised during the year	(1,869.71)	(1,078.64)
Balance as at 31 March	20,228.11	14,085.91
Accumulated Amortisation		
Balance as at 01 April	7,401.03	5,658.34
Amortisation for the Year	3,266.33	2,821.33
Derecognised during the year	(1,869.71)	(1,078.64)
Balance as at 31 March	8,797.65	7,401.03
Net Book Value as at 31 March	11,430.46	6,684.88

5 AIRCRAFT MAINTENANCE RESERVE

GROUP / COMPANY

	2013 Rs. M	2012 Rs. M
Balance as at 01 April	18,658.19	11,987.43
Payments	8,559.36	6,483.41
Day one difference present value adjustment	(60.12)	(105.57)
Interest Accrued	84.19	101.54
Recoveries	(5,261.48)	(2,156.71)
Unrealised Exchange (Loss) / Gain	(242.56)	2,348.09
	21,737.58	18,658.19
Less: Provision for doubtful Recoveries (Note 5.2)	(1,835.65)	(840.57)
Net Recoverable Balance as at 31 March (Note 5.1)	19,901.93	17,817.62

5.1 Current/ Non Current Classification

	Gross Rs. M	Provision for doubtful recoveries Rs. M	Net Rs. M	Amount Recoverable Within 1 Year Rs. M	Amount Recoverable After 1 Year Rs. M
Balance as at 1 April 2011	11,987.43	(717.69)	11,269.74	2,506.16	8,763.58
Balance as at 31 March 2012	18,658.19	(840.57)	17,817.62	2,608.50	15,209.12
Balance as at 31 March 2013	21,737.58	(1,835.65)	19,901.93	6,331.17	13,570.76

5.2 Movement of Provision for doubtful recoveries

	2013 Rs. M	2012 Rs. M
Balance as at 1 April	840.57	717.69
Charged during the year	1,056.72	208.48
Unrealised Exchange Gain	(61.64)	(85.60)
Balance as at 31 March	1,835.65	840.57

6 INTANGIBLE ASSETS

Computer Software Cost	Software Rs. M	Capital work-in-progress Rs. M	Group Total Rs. M	Software Rs. M	Capital work-in-progress Rs. M	Company Total Rs. M
Balance as at 01 April 2011	681.87	-	681.87	654.03	-	654.03
Acquisitions/Modifications	1.54	4.43	5.97	1.40	4.43	5.83
Transfers/Adjustments	17.75	-	17.75	17.75	-	17.75
Balance as at 31 March 2012	701.16	4.43	705.59	673.18	4.43	677.61
Acquisitions/Modifications	48.84	134.00	182.84	48.30	134.00	182.30
Transfers/Adjustments	(3.31)	(42.06)	(45.37)	(3.31)	(42.06)	(45.37)
Disposals	(46.88)	(2.94)	(49.82)	(46.88)	(2.94)	(49.82)
Balance as at 31 March 2013	699.81	93.43	793.24	671.29	93.43	764.72
Accumulated Amortisation						
Balance as at 01 April 2011	570.18	-	570.18	543.96	-	543.96
Charge for the Year	56.95	-	56.95	55.52	-	55.52
Transfers/Adjustments	17.93	-	17.93	17.93	-	17.93
Balance as at 31 March 2012	645.06	-	645.06	617.41	-	617.41
Charge for the Year	46.03	-	46.03	45.33	-	45.33
Transfers/Adjustments	(1.97)	-	(1.97)	(1.97)	-	(1.97)
Disposals	(46.79)	-	(46.79)	(46.79)	-	(46.79)
Balance as at 31 March 2013	642.33	-	642.33	613.98	-	613.98
Net Book Value as at 31 March 2013	57.48	93.43	150.91	57.31	93.43	150.74
Net Book Value as at 31 March 2012	56.10	4.43	60.53	55.77	4.43	60.20
Net Book Value as at 01 April 2011	111.69	-	111.69	110.07	-	110.07

Intangible Assets of the Group/Company includes fully amortised assets having a gross carrying amount of Rs. 538.56 million (2012 Rs. 419.44 million).

7 INVESTMENTS

7.1 Current Investments

	Group 2013 Cost Rs. M	Group 2012 Cost Rs. M	Group 1 April 2011 Cost Rs. M	Company 2013 Cost Rs. M	Company 2012 Cost Rs. M	Company 1 April 2011 Cost Rs. M
Available for Sale Investments						
Investment in Treasury Bonds (Note 7.3)	25,597.78	-	-	25,597.78	-	-

7.2 Non- Current Investments

	Group 2013	Group 2012	Group 1 April 2011	Company 2013	Company 2012	Company 1 April 2011
Available for Sale Investments						
Investment in Treasury Bonds (Note 7.3)	-	13,369.81	-	-	13,369.81	-
Investments in Subsidairy in Sri Lanka						
-SriLankan Catering Limited 100% Holding (Directors' Valuation based on Net Asset Value Rs. 3.7 bn (2012 - Rs. 4.53 bn)	-	-	-	42.24	42.24	42.24
-Air Lanka (Private) Limited (40,000 Shares)	0.40	0.40	0.40	0.20	0.20	0.20
	0.40	0.40	0.40	42.44	42.44	42.44
	0.40	13,370.21	0.40	42.44	13,412.25	42.44

7 INVESTMENTS (CONTD.)

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

Bond	Cost of the Investment Rs. M	Face value Rs. M	Maturity date	Coupon interest rate	Fair value as at 31 March 2013 Rs. M	Fair value as at 31 March 2012 Rs. M
8.00%2017A	14,286.32	15,423.08	1 Jan 2017	8.00%	13,904.57	13,369.81
8.5%2018D	12,600.08	13,125.40	31 May 2018	8.50%	11,693.21	-
					25,597.78	13,369.81

During the year, the Government of Sri Lanka (GOSL) invested in the Company in the form of a Treasury Bond with a face value of Rs. 13.12 billion. The Board of Directors, subject to shareholder approval has authorised the issue of Ordinary Shares by way of a private placement to the GOSL. The shareholders' approval for the issue of shares in respect of both treasury bonds will be sought at an Extraordinary General Meeting to be held on 26 September 2013.

8 INVENTORIES

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
Consumables and Spares	5,408.72	4,853.46	5,135.18	5,308.73	4,757.39	5,059.83
Raw Materials	261.45	189.79	159.33	-	-	-
Duty Free Merchandise	2.37	54.79	68.02	2.37	54.79	68.02
Less: Provision for Slow moving stock (Note 8.1)	(650.69)	(584.28)	(872.34)	(646.21)	(579.80)	(867.86)
	5,021.85	4,513.76	4,490.19	4,664.89	4,232.38	4,259.99

8.1 Provision for Slow moving stock

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
Balance as at 01 April	(584.28)	(872.34)	(777.43)	(579.80)	(867.86)	(772.95)
Provision made during the year	(211.07)	(156.65)	(207.16)	(211.07)	(156.65)	(207.16)
Write off during the year	144.66	389.46	3.30	144.66	389.46	3.30
Reversals during the year	-	55.25	108.95	-	55.25	108.95
Balance as at 31 March	(650.69)	(584.28)	(872.34)	(646.21)	(579.80)	(867.86)

9 TRADE AND OTHER RECEIVABLES

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
Trade Receivables	11,769.97	11,208.17	8,500.45	11,154.97	10,676.17	8,248.65
Less: Allowance for Doubtful Debts (Note 9.2)	(286.53)	(334.11)	(334.11)	(261.86)	(309.44)	(309.44)
	11,483.44	10,874.06	8,166.34	10,893.11	10,366.73	7,939.21
Other Debtors	962.65	1,625.90	1,143.65	962.65	903.97	1,143.15
Deposits, Advances and Prepayments	2,792.04	1,669.92	1,423.87	2,589.28	2,177.07	1,158.91
	15,238.13	14,169.88	2,567.52	14,445.04	13,447.77	2,302.06
Loans and Advances to Company Officers (Note 9.3)	82.12	63.37	47.20	64.81	50.74	41.72
	15,320.25	**14,233.25**	**10,781.06**	**14,509.85**	**13,498.51**	**10,282.99**

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

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

As at 31 March 2013, Trade Receivables of an intial value of Rs. 261.86 million related to Company and Rs. 286.53 million related to Group were impaired and fully provided for. See below for the movement in impairment of Trade Receivables.

			Past Due not impaired			
Balances as at 31 March 2013	Total Rs.M	Neither Past due nor impaired Rs.M	30-60 Rs.M	61-90 Rs.M	91-180 Rs.M	>180 Rs.M
Company	10,893.11	9,637.31	30.76	503.66	553.92	167.46
Group	11,483.44	10,124.04	116.49	525.70	569.45	147.76

9.2 Movement for Allowance for Doubtful Debts

	Group Rs. M	Company Rs. M
Balance as at 01 April 2011	334.11	309.44
Balance as at 31 March 2012	334.11	309.44
Unused Amounts Reversed	(47.58)	(47.58)
Balance as at 31 March 2013	**286.53**	**261.86**

9.3 Loans to Company Officers:

Given below are particulars of loans granted to Company officers:

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
Balance as at 01 April	21.65	18.31	12.90	2.26	2.61	2.52
Loans granted during the year	3.44	12.71	9.52	2.10	2.69	2.74
Repayments	(22.20)	(9.37)	(4.11)	(2.22)	(3.04)	(2.65)
Balance as at 31 March	**2.89**	**21.65**	**18.31**	**2.14**	**2.26**	**2.61**

10 CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Components of Cash and Cash Equivalents	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
10.1 Favourable Cash and Cash Equivalent Balances						
Cash and Bank Balances (Note 10.3)	2,887.81	1,749.57	1,660.96	2,846.70	1,455.24	1,358.89
Short Term Deposits	793.86	278.08	96.28	793.86	278.08	96.28
	3,681.67	2,027.65	1,757.24	3,640.56	1,733.32	1,455.17
10.2 Unfavourable Cash and Cash Equivalent Balances						
Bank Overdrafts (Note 14)	(6,849.32)	(5,366.04)	(5,610.36)	(6,849.32)	(5,366.04)	(5,610.36)
	(3,167.65)	(3,338.39)	(3,853.12)	(3,208.76)	(3,632.72)	(4,155.19)
10.3 Restricted Cash (Note 14.2(a))	(1,370.38)	-	-	(1,370.38)	-	-
Total Cash and Cash Equivalents for the purpose of Cash Flow Statement	(4,538.03)	(3,338.39)	(3,853.12)	(4,579.14)	(3,632.72)	(4,155.19)

11 STATED CAPITAL

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
51,463,463 Ordinary Shares-Issued and Fully Paid	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	5,146.35
Advance towards Share Capital (Note 7.3)	26,886.40	14,286.32	-	26,886.40	14,286.32	-
Preference Shares	1,000.00	1,000.00	1,000.00	-	-	-
	33,032.75	20,432.67	6,146.35	32,032.75	19,432.67	5,146.35
Less: Preference Shares Reclassified (Note 13)	(1,000.00)	(1,000.00)	(1,000.00)	-	-	-
	32,032.75	19,432.67	5,146.35	32,032.75	19,432.67	5,146.35

12 RESERVES

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
Revaluation Reserve (Note 12.1)	2,522.65	2,522.65	1,785.98	1,850.94	1,850.94	1,114.27
Revenue Reserve	0.63	0.63	0.63	0.63	0.63	0.63
General Reserve (Note 12.2)	53.44	53.44	53.44	53.44	53.44	53.44
Available for Sale Reserve (Note 12.3)	(1,027.30)	(796.13)	-	(1,027.30)	(796.13)	-
	1,549.42	1,780.59	1,840.05	877.71	1,108.88	1,168.34

12.1 Revaluation Reserve

(a) Movement in Capital Reserve

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Balance as at 01 April	2,522.65	1,785.98	1,850.94	1,114.27
Surplus on revaluation of property, plant and equipment	-	736.67	-	736.67
Balance as at 31 March	2,522.65	2,522.65	1,850.94	1,850.94

(b) Capital Reserves of the Group/Company comprise of surplus arising from the revaluation of property, plant and equipment.

12.2 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.

12.3 Available for Sale Reserve

Movement in available for sale reserve

	Group/Company 2013 Rs. M	Group/Company 2012 Rs. M
Balance as at 01 April	(796.13)	-
Net loss on Available For Sale investments	(231.17)	(796.13)
Balance as at 31 March	(1,027.30)	(796.13)

13 PREFERENCE SHARES

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

14 INTEREST BEARING LIABILITIES

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
Current Liabilities						
Long-term Loans (Note 14.1)	10,618.20	534.18	870.19	10,834.30	752.42	561.34
Finance Leases (Note 14.4)	84.86	83.14	-	81.98	79.92	-
Short Term Loan	233.73	3,218.70	187.85	233.73	3,218.70	187.85
Bank Overdraft	6,849.32	5,366.04	5,610.36	6,849.32	5,366.04	5,610.36
	17,786.11	9,202.06	6,668.40	17,999.33	9,417.08	6,359.55
Non-Current Liabilities						
Long-term Loans (Note 14.1)	25,507.76	2,754.36	1,824.63	26,353.39	3,605.69	2,645.96
Finance Leases (Note 14.4)	865.85	997.90	-	857.37	989.78	-
	26,373.61	3,752.26	1,824.63	27,210.76	4,595.47	2,645.96

14.1 Long-term Loans

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
Payable within one year included under Current Liabilities	10,618.20	534.18	870.19	10,834.30	752.42	561.34
After one year but not more than five years	25,507.76	2,754.36	1,824.63	26,353.39	3,605.69	2,645.96
	36,125.96	3,288.54	2,694.82	37,187.69	4,358.11	3,207.30
Long term Loans denominated in foreign currencies						
Long Term Loans - USD denominated	202.64	25.69	24.39	211.01	35.55	31.45
Long Term Loans - AED denominated	310.16	-	-	310.16	-	-

Movement in Long-term Loans

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Balance as at 01 April	3,288.54	2,694.82	4,358.11	3,207.30
Additions/transfers during the year	39,334.11	1,032.39	39,283.40	1,032.39
Payments during the year	(4,470.46)	(879.88)	(4,413.22)	(496.03)
Unrealised Exchange (Gain) /Loss	(2,026.24)	441.21	(2,040.60)	614.45
Balance as at 31 March	36,125.95	3,288.54	37,187.69	4,358.11

14 INTEREST BEARING LIABILITIES (CONTD.)

14.2 COMPANY

Lender	Original Facility	Repayment Term	Interest	Security
(a) Bank Loans				
Syndicated Loan through Mashreq Bank	$175,077,294	42 monthly installments for capital commencing December 2012	Variable (LIBOR/EIBOR plus margin)	Ticket Sales collected by IATA in Kuwait, Baharain,UAE, UK and France and a Government Guarantee for $ 175,077,294, two loan installments being maintained as security.
Bank of Ceylon	$18,000,000	60 monthly installments commencing May 2011	Variable (LIBOR plus margin)	Mortgage over Ordinary shares of SriLankan Catering Ltd.
Commercial Bank of Ceylon PLC	$11,900,000	60 monthly installments commencing March 2013	Variable (LIBOR plus margin)	US$ 750,000/- Fixed Deposit
Commercial Bank of Ceylon PLC	$5,500,000	60 monthly installments commencing January 2013	Variable (LIBOR plus margin)	US$ 350,000/- Fixed Deposit
(b) Loans from other institutions				
Subsidiary	$13,452,915	5 annual installments commencing December 2011	Variable (LIBOR)	
Deferred payment arrangement from a supplier	$121,170,992	16 quarterly installments commencing October 2012	Variable (LIBOR plus margin)	
Aircraft Lessor	$1,000,000	60 monthly installments commencing August 2012	Fixed	

14.3 SUBSIDIARY

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

14 INTEREST BEARING LIABILITIES (CONTD.)

14.4 Finance Lease Liabilities

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Payable within one year included under Current Liabilities	84.86	83.14	81.98	79.92
After one year but not more than five years included under Non-Current Liabilities	393.44	386.66	384.96	378.54
More than 5 Years included under Non-Current Liabilities	472.41	611.24	472.41	611.24
	950.71	1,081.04	939.35	1,069.70

Finance Leases denominated in Foreign Currencies

At the reporting date Finance leases amounting to Rs. 926.44 Mn (31 March 2012 : Rs. 1,054.45 Mn) are denominated in Euro.

Movement in Finance Lease Liabilities

Group	Gross Payable Rs. M	Finance Charges for future periods Rs. M	Net Payable 2013 Rs. M	Net Payable 2012 Rs. M
Balance as at 01 April	1,535.16	(454.12)	1,081.04	-
Additions during the year	5.32	(2.08)	3.24	1,198.29
Payments during the year	(163.00)	81.73	(81.27)	(228.26)
Unrealised Exchange (Gain)/Loss	(73.00)	20.70	(52.30)	111.01
Balance as at 31 March	1,304.48	(353.77)	950.71	1,081.04

Company	Gross Payable Rs. M	Finance Charges for future periods Rs. M	Net Payable 2013 Rs. M	Net Payable 2012 Rs. M
Balance as at 01 April	1,523.82	(454.12)	1,069.70	-
Additions during the year	-	-	-	1,186.14
Payments during the year	(158.66)	80.61	(78.05)	(227.45)
Unrealised Exchange (Gain)/Loss	(73.00)	20.70	(52.30)	111.01
Balance as at 31 March	1,292.16	(352.81)	939.35	1,069.70

15 OTHER DEFERRED LIABILITIES

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
Retirement Benefit Obligation (Note 15.1)	3,264.95	2,961.30	2,434.17	2,983.76	2,693.79	2,215.57
Deferred Engine Upgrade Cost (Note 15.2)	2,263.63	2,268.27	1,774.89	2,263.63	2,268.27	1,774.89
Deferred Tax Liability	2.91	2.91	2.91	-	-	-
	5,531.49	5,232.48	4,211.97	5,247.39	4,962.06	3,990.46

15.1 Retirement Benefit Obligation - Gratuity

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Balance as at 01 April	2,961.30	2,434.17	2,693.79	2,215.57
Current year service cost and interest cost	489.28	451.20	443.42	382.15
Actuarial Loss	60.63	188.15	66.47	188.15
Payments during the year	(246.26)	(112.22)	(219.92)	(92.08)
Balance as at 31 March	3,264.95	2,961.30	2,983.76	2,693.79

15 OTHER DEFERRED LIABILITIES (CONTD.)

15.2 Deferred Engine Upgrade cost is recognised in line with Accounting Policy No. 2.4.14 (ii). The unwinding effect of the discount is recognised in the Income Statement as a finance cost as it occurs with the corresponding increase in the carrying amount of the deferred engine upgrade cost.

16 TRADE AND OTHER PAYABLES

	Group 2013 Rs. M	Group 2012 Rs. M	Group 1 April 2011 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M	Company 1 April 2011 Rs. M
Trade & Other Payables	30,497.06	31,672.80	8,129.26	32,454.60	34,103.51	8,592.75
Sales in Advance of Carriage	18,055.30	14,802.79	12,917.51	18,055.30	14,802.79	12,917.51
Dividend Payable	74.79	75.00	74.90	-	-	-
	48,627.15	46,550.59	21,121.67	50,509.90	48,906.30	21,510.26

17 FINANCIAL INSTRUMENTS

17.1 Classifiation of Financial Instruments

Group	2013			2012		
	Loans and Receivables Rs. M	Available for sale Investments Rs. M	Financial Liabilities at Amortised Cost Rs. M	Loans and Receivables Rs. M	Available for sale Investments Rs. M	Financial Liabilities at Amortised Cost Rs. M
Financial Assets						
Trade and Other Receivables	12,528.21	-	-	12,563.33	-	-
Aircraft Maintenance Reserve	19,901.93	-	-	17,817.62	-	-
Aircraft Spare Engine Deposits	3,128.35	-	-	3,056.59	-	-
Investments	-	25,597.78	-	-	13,369.81	-
Cash and Bank Balances	3,681.67	-	-	2,027.65	-	-
Total	39,240.16	25,597.78	-	35,465.19	13,369.81	-
Financial Liabilities						
Interest Bearing Loans and Borrowings	-	-	44,159.72	-	-	12,954.32
Trade and Other Payables	-	-	30,571.85	-	-	31,747.80
Total	-	-	74,731.57	-	-	44,702.12
Company						
Financial Assets						
Trade and Other Receivables	11,920.57	-	-	11,321.44	-	-
Aircraft Maintenance Reserve	19,901.93	-	-	17,817.62	-	-
Aircraft Spare Engine Deposits	3,128.35	-	-	3,056.59	-	-
Investments	-	25,597.78	-	-	13,369.81	-
Cash and Bank balances	3,640.56	-	-	1,733.32	-	-
Total	38,591.41	25,597.78	-	33,928.97	13,369.81	-
Financial Liabilities						
Interest Bearing Loans and Borrowings	-	-	45,210.09	-	-	14,012.55
Trade and Other Payables	-	-	32,454.60	-	-	34,103.51
Total	-	-	77,664.69	-	-	48,116.06

17 FINANCIAL INSTRUMENTS (CONTD.)

17.2 Fair Values

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

	2013		2012	
Group	Carrying Amount Rs. M	Fair value Rs. M	Carrying Amount Rs. M	Fair value Rs. M
Financial Assets				
Trade and Other Receivables	12,528.21	12,528.21	12,563.33	12,563.33
Aircraft Maintenance Reserve	19,901.93	19,901.93	17,817.62	17,817.62
Aircraft spare engine deposits	3,128.35	3,128.35	3,056.59	3,056.59
Investments	25,597.78	25,597.78	13,369.81	13,369.81
Cash and bank balances	3,681.67	3,681.67	2,027.65	2,027.65
Total	64,837.94	64,837.94	48,835.00	48,835.00
Financial Liabilities				
Interest Bearing Loans and Borrowings	44,159.72	44,159.72	12,954.32	12,954.32
Trade and Other Payables	30,571.85	30,571.85	31,747.80	31,747.80
Total	74,731.57	74,731.57	44,702.12	44,702.12
Company				
Financial Assets				
Trade and Other Receivables	11,920.57	11,920.57	11,321.44	11,321.44
Aircraft Maintenance Reserve	19,901.93	19,901.93	17,817.62	17,817.62
Aircraft Spare Engine Deposits	3,128.35	3,128.35	3,056.59	3,056.59
Investments	25,597.78	25,597.78	13,369.81	13,369.81
Cash and bank balances	3,640.56	3,640.56	1,733.32	1,733.32
Total	64,189.19	64,189.19	47,298.78	47,298.78
Financial Liabilities				
Interest Bearing Loans and Borrowings	45,210.09	45,210.09	14,012.55	14,012.55
Trade and Other Payables	32,454.60	32,454.60	34,103.51	34,103.51
Total	77,664.69	77,664.69	48,116.06	48,116.06

Financial instruments of the Group/Company includes Trade and other receivables, Aircraft maintenance reserve, Aircraft and spare engine deposits, investments in treasury bonds, cash and cash equivalents, Interest bearing loans and borrowings and trade and other payables.
The fair value of these financials instruments are determined at the value of the underlying amounts that could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:
Cash and bank balances, trade and other receivables, trade and other payables approximate their carrying amounts largely due to the short-term maturities of the underlying amounts.
Long term variable-rate borrowings approximate their carrying amounts largely due to the market based interest rates.
Fair value of Government bonds is based on observable data in the market at the reporting date.
Hence the carrying amounts of Group's/Company's financial instruments reasonably approximate their fair values.

Fair Value Hierarchy
As at 31 March, the Group/Company held the following financial instruments carried at fair value on the statement of financial position. The Group/Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

	Group/Company	
	Level 2 2013 Rs. M	Level 2 2012 Rs. M
Financial Assets measured at Fair value		
Available for sale investments		
-Investment in Treasury Bonds	25,597.78	13,369.81

18 REVENUE AND SEGMENT INFORMATION

18.1 Revenue

		Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Scheduled services	- Passenger	98,581.74	74,730.65	98,581.74	74,730.65
	- Cargo	12,887.18	10,819.03	12,895.61	10,828.42
	- Excess Baggage	509.02	407.85	509.02	407.85
	- Mail	141.97	102.96	141.97	102.96
		112,119.91	86,060.49	112,128.34	86,069.88
Air Terminal and Other Services		6,544.50	5,842.85	6,564.08	5,860.88
Duty Free		521.45	721.11	521.45	721.11
Non-Scheduled Services		357.03	216.06	357.03	216.06
Flight Catering		1,864.77	1,798.09	-	-
Total		121,407.66	94,638.60	119,570.90	92,867.93

18.2 Segment Information

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

Revenue		Asia Rs. M	Europe & Africa Rs. M	Middle East Rs. M	North &South America Rs. M	South West Pacific Rs. M	Total 2013 Rs. M
Scheduled services	- Passenger	57,782.10	19,124.45	18,266.95	2,816.63	591.61	98,581.74
	- Cargo	10,287.51	1,882.40	608.16	46.06	63.05	12,887.18
	- Excess Baggage	233.57	36.30	235.56	2.58	1.01	509.02
	- Mail	91.36	48.96	0.08	0.03	1.54	141.97
		68,394.55	21,092.11	19,110.75	2,865.30	657.21	112,119.91
Air Terminal and Other Services		6,544.50	-	-	-	-	6,544.50
Duty Free		342.63	61.63	117.19	-	-	521.45
Non-Scheduled Services		357.03	-	-	-	-	357.03
Flight Catering		1,864.77	-	-	-	-	1,864.77
Segment Revenue		77,503.48	21,153.74	19,227.94	2,865.30	657.21	121,407.66

Revenue		Asia Rs. M	Europe & Africa Rs. M	Middle East Rs. M	North &South America Rs. M	South West Pacific Rs. M	Total 2012 Rs. M
Scheduled services	- Passenger	41,339.08	18,560.65	11,893.60	2,209.62	727.70	74,730.65
	- Cargo	8,575.97	1,460.55	726.87	38.94	16.70	10,819.03
	- Excess Baggage	177.22	25.41	202.55	2.34	0.33	407.85
	- Mail	77.59	25.28	0.07	0.02	-	102.96
		50,169.86	20,071.89	12,823.09	2,250.92	744.73	86,060.49
Air Terminal and Other Services		5,842.85	-	-	-	-	5,842.85
Duty Free		453.23	115.74	152.14	-	-	721.11
Non-Scheduled Services		216.06	-	-	-	-	216.06
Flight Catering		1,798.09	-	-	-	-	1,798.09
Segment Revenue		58,480.09	20,187.63	12,975.23	2,250.92	744.73	94,638.60

18 REVENUE AND SEGMENT INFORMATION (CONTD.)

(b) Secondary Reporting by Business Segment

	Business Segment			Business Segment		
	Airline	Flight Catering	Group	Airline	Flight Catering	Group
	2013 Rs. M	2013 Rs. M	2013 Rs. M	2012 Rs. M	2012 Rs. M	2012 Rs. M
Revenue						
Sales to external customers	119,542.89	1,864.77	121,407.66	92,840.51	1,798.09	94,638.60
Inter-segment Sales	28.01	3,028.18	-	27.42	2,366.00	-
Total Revenue	119,570.90	4,892.95		92,867.93	4,164.09	
Results						
Profit / (Loss) After Tax	(21,749.75)	1,415.62	(22,518.78)	(19,778.03)	2,506.72	(17,208.38)
Other Segment Information						
Assets	89,447.13	6,678.63	92,388.40	65,807.97	7,598.49	68,998.50
Liabilities	101,142.83	2,973.89	99,548.82	68,056.36	2,963.90	65,948.42
Acquisition of Property, Plant and Equipment	2,029.20	62.64	2,091.84	2,605.05	87.32	2,692.37
Cost incurred on Major Overhauls	8,011.91	-	8,011.91	3,425.85	-	3,425.85
Acquisition of Intangible Assets	140.24	0.53	140.77	1.40	0.15	1.55
Depreciation and Amortisation	4,256.71	266.06	4,522.77	3,434.06	255.84	3,689.90
Operating Expenses	139,715.56	2,779.07	139,438.44	108,341.82	2,337.97	107,957.39

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

19 OTHER INCOME AND GAINS

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
(Loss)/Profit on Disposal of Property, Plant and Equipment	0.13	(8.87)	-	(8.87)
Exchange Gain	1,465.66	916.88	1,610.85	-
Miscellaneous (Note 19.1)	150.04	288.65	144.20	280.57
Dividend	-	-	2,400.00	150.00
	1,615.83	1,196.66	4,155.05	421.70

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

20.1 FINANCE COST

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Interest Cost on Borrowings, Bank Overdrafts and Overdue Supplier balances	2,854.39	1,295.91	2,920.41	1,341.50
Finance Charges on Deferred Engine Upgrade	137.38	164.10	137.38	164.10
Finance Charges on Lease Liabilities	80.61	32.29	80.61	32.29
Preference Share Dividend	150.00	150.00	-	-
	3,222.38	1,642.30	3,138.40	1,537.89

20.2 FINANCE INCOME

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Interest Income	191.21	72.64	169.62	65.14
Interest on Treasury Bonds	1,465.35	184.26	1,465.35	184.26
	1,656.56	256.90	1,634.97	249.40

21 LOSS FROM OPERATING ACTIVITIES

stated after charging/(crediting):

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Included in Cost of Sales:				
Staff Costs	11,878.84	9,235.21	11,878.84	9,235.21
Defined Benefit Plan Costs - Gratuity	365.56	315.33	365.56	315.33
Defined Contribution Plan Costs - EPF & ETF	1,098.00	896.12	1,098.00	896.12
Operating Lease Rentals	14,514.05	10,207.72	14,514.05	10,207.72
Depreciation / Amortisation	4,066.13	3,287.48	4,066.13	3,286.06
Provision for Slow Moving Inventory (Net)	66.41	101.40	66.41	101.40
Aircraft Fuel Cost	63,754.50	48,702.87	63,754.50	48,702.87
Franchise Fees	193.94	187.46	193.94	187.46
Included in Administrative Expenses:				
Staff Costs	1,944.72	1,659.71	1,306.65	1,109.80
Defined Benefit Plan Costs - Gratuity	111.34	142.78	65.48	46.52
Defined Contribution Plan Costs - EPF & ETF	207.83	176.96	156.05	130.68
Allowance for/(Reversal) of Doubtful Debts	(47.58)	0.07	(47.58)	0.07
Depreciation / Amortisation	437.16	384.29	171.10	129.88
Loss on Exchange	-	-	-	386.23
Auditors' Remuneration	6.94	6.09	4.89	4.89
Included in Sales & Marketing Costs:				
Advertising Costs	438.11	429.53	438.11	429.53
Staff Costs	1,480.39	1,207.61	1,480.39	1,207.61
Defined Benefit Plan Costs - Gratuity	12.38	20.29	12.38	20.29
Defined Contribution Plan Costs - EPF & ETF	108.45	94.74	108.45	94.74
Depreciation / Amortisation	19.48	18.12	19.48	18.12
Marketing Fees Charge FlySmiLes	7.88	4.03	7.88	4.03

22 TAXATION

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Tax Expense				
The major components of income tax expense are as follows:				
Current income tax				
Current Tax Expense on Ordinary Activities for the Year (Note 22.1)	15.24	10.65	-	-
Under/(Over) Provision of current taxes in respect of prior years	-	0.30	-	3.29
	15.24	10.95	-	3.29

22.1 Reconciliation between Current Tax Expense/ (Income) and the product of Accounting Loss.

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Accounting Loss before Tax	(22,503.54)	(17,197.43)	(21,749.75)	(19,774.74)
Income not subject to Tax	22,523.91	17,235.47	21,749.75	19,774.74
Statutory Income applicable under Tax Rate of 28%	20.37	38.04	-	-
Taxable Profit	20.37	38.04	-	-
Statutory Tax Charge at Tax Rate 28%	5.70	10.65	-	-
Tax effect of net non deductible expenses	0.96	-	-	-
Tax on other income	8.58	-	-	-
Current Income Tax Expense	15.24	10.65	-	-

23 COMMITMENTS AND CONTINGENCIES

23.1 Capital Expenditure Commitments

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

	2013 Rs. M	2012 Rs. M
Contracted but not provided for		
Tangible	802.30	111.25
Intangible	40.25	15.16
Engine Overhaul	2,028.00	1,530.30
Cabin Retrofit	418.28	1,031.71
	3,288.83	2,688.42
Authorised by the Board, but not contracted for		
Tangible	501.96	103.33
Intangible	-	31.95
	501.96	135.28
	3,790.79	2,823.70

23.2 Financial Commitments

(a) Company's total future minimum lease commitment under non-cancellable operating leases as at 31 March were as follows:

	Company 2013 Rs. M	Company 2012 Rs. M
Within one year	13,112.14	13,269.28
After one year but not more than five years	29,256.80	41,761.83
Later than five years	9,491.80	22,964.35
	51,860.74	77,995.46

23 COMMITMENTS AND CONTINGENCIES (CONTD.)

23.2 Financial Commitments (Contd.)

(b) As at 31 March 2013 the Company has issued Letters of Credit with the value of Rs. 864.58 Mn (USD 6.82 Mn) as security deposits for leased Aircrafts.

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

	Group 2013 Rs. M	Group 2012 Rs. M	Company 2013 Rs. M	Company 2012 Rs. M
Instalment payable:				
Within one year	414.49	408.51	390.28	384.30
After one year but not more than five years	1,644.08	1,641.94	1,526.49	1,522.93
Later than five years	3,539.85	3,956.48	3,175.16	3,569.00

23.3 Contingencies

Company

The management estimates contingent liabilities at Rs. 2,988.94 million as at 31 March 2013 (2012: Rs. 2,976.20 million). No provision has been made in these financial statements as the Directors do not anticipate any significant liability in respect of any contingent liabilities arising in the ordinary course of business of the Company in respect of legal actions, other claims and potential claims being made against the Company.

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

Subsidiary

There are several cases pending before the Labour Tribunal against the Company as at 31 March 2013. No provision has been made in the financial statements as the amount of the obligation cannot be measured with sufficient reliability and the Directors consider that such liability will not materially affect these financial statements.

24 ASSETS PLEDGED

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

25 EVENTS OCCURRING AFTER THE REPORTING DATE

In March 2013 the Company entered into a Memodrandum of Understanding with an aircraft lessor to take delivery of two A321 aircraft for delivery in 2014.

In June 2013, the Company entered into Purchase Agreements with Airbus for the purchase of six A330-300 and four A350-900 aircraft for delivery between 2014 to 2021.

In July 2013 the Company disposed Rs 17 billion worth of Treasury Bonds.

26 RELATED PARTY DISCLOSURES

26.1 GROUP & COMPANY

26.1.1 Transactions with Key Management Personnel (KMP)

Related parties include KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company and it's Subsidiary. Such KMPs include the Board of Directors, Chief Executive Officer and Other Senior Management Executives of the Group who meet the criteria described above.

	2013 Rs. M Receipts/ (Payments)	2012 Rs. M Receipts/ (Payments)
Short Term benefits	150.66	118.13
Post Employment Benefits	9.55	18.97

The above includes Directors' remuneration paid during the year amounting to Rs. 46.6 million (2012: Rs. 34.73 million). In addition to the above benefits disclosed, the KMP, their spouses and dependent children are entitled to FOC Business Class travel on SriLankan Airlines online services during their term of office.

26.2 GROUP

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

		2013 Rs. M Receipts/ (Payments)	2012 Rs. M Receipts/ (Payments)
Sales		5,226.70	171.85
Loans	- Receipt	761.64	2,558.99
	- Repayment including Interest	(4,547.37)	(725.59)
Purchase of Goods/Services and Statutory Dues*		(30,955.27)	(7,834.62)

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

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

- Short term loan amounting to USD 11.1 million (2012: USD 20 million)
- Overdraft facilities amounting to USD 51 million (2012: USD 31 million)
- Bank guarantee facilities amounting to USD 10 million (2012: USD 10 million)

26.2.2 As at the Reporting date the following Assets and Liabilities exists with entities controlled by the GOSL:

- Net outstanding payable balance of Rs. 39,677.64 million (2012: Rs. 26,549.71 million)
- Short Term Deposits to the value of Rs. 31 million (2012: Rs. 91.78 million)
- Investment in Treasury Bond with a face value of Rs.28.55 billion (Note 7.3)
- 10 million 15% Non-Voting Redeemable Cumulative Convertible (10 year) Preference Shares.

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

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

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

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

26 RELATED PARTY DISCLOSURES (CONTD.)

26.3 COMPANY

26.3.1 Transactions including the following have been carried out with the Subsidiary in the ordinary course of business.

Nature of transaction	2013 Rs. M Receipts/ (Payments)	2012 Rs. M Receipts/ (Payments)
Freight Services	8.44	9.38
Flight Catering and Other Services	(3,008.58)	(2,347.97)
Dividend	2,400.00	150.00
Repayment of Long Term Loan	(236.93)	(232.37)

26.3.2 As at the Reporting date the outstanding balances with the Subsidiary were as follows:

- Amounts due amounting to Rs. 2,441.19 million(2012: Rs.2,869.98 million)
- Loan balance amounting to Rs. 1,253.93 million (2012: Rs. 1,494.13 million). The interest applicable one month LIBOR subject to an agreed cap.
- 10 million 15% Non-Voting Redeemable Cumulative (5 year) Preference Shares

26.3.3 Transactions including the following have been carried out with entities controlled by the GOSL in the ordinary course of business.

	2013 Rs. M Receipts/ (Payments)	2012 Rs. M Receipts/ (Payments)
Sales	5,018.27	37.73
Loans - Receipt	761.64	2,558.99
- Repayment including Interest	(4,397.37)	(575.59)
Purchase of Goods/Services and Statutory Dues*	(30,502.97)	(7,693.17)

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

List of facilities obtained by the Company are same as those disclosed under Note 26.2.1 (b).

26.3.4 As at the Reporting date the following Assets and Liabilities exists with entities controlled by the GOSL:

- Net outstanding payable balance Rs. 39,945.93 million (2012: Rs. 26,606.68 million) *
- Short Term Deposits to the value of Rs. 31 million (2012:Rs. 91.78 million).
- Investment in Treasury Bond with a face value of Rs.28.55 billion (Note 7.3).

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

26.3.5 List of Government controlled entities with whom the Company carried out significant transactions are same as those disclosed under the Group (Note 26.2.3).

27 FINANCIAL RISK MANAGEMENT OBEJECTIVES AND POLICIES

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

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

(i) Market Risk
  - Interest rate risk
  - Currency risk

(ii) Liquidity risk
(iii) Credit Risk

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

(i) Market Risk

Interest Rate Risk

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

The Company's policy is to maintain an appropriate balance between fixed and variable rate borrowings including aircraft leasing in order to mitigate the effect of interest rate fluctuations. The Company has also entered into specific transactions using derivative instruments to cap part of its exposure to interest rate fluctuations on its variable rate borrowings.

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

	Effect on Loss before Tax		Effect on Other Comprehensive Income	
	Group Rs. M	Company Rs. M	Group Rs. M	Company Rs. M
Increase/(Decrease) in Interest Rate				
+1%	(611.29)	(613.96)	(921.43)	(921.43)
-1%	611.29	613.96	921.43	921.43

* Increase in interest rates result in an increase in losses

Foreign Currency Risk

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

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

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

	Effect on Loss before Tax	
	Group Rs. M	Company Rs. M
Increase/(Decrease) in Exchange Rate (USD)		
+3%	742.72	725.96
-3%	(742.72)	(725.96)

27 FINANCIAL RISK MANAGEMENT OBEJECTIVES AND POLICIES (CONTD.)

(ii) Liquidity Risk

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

As a part of the capital infusion program, GOSL has invested in the company by way of Treasury Bonds. The Company is in the process of en-cashing the Treasury Bonds before its maturity which will strengthen the liquidity position during the next financial year.

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years
	Rs. M	Rs. M	Rs. M	Rs. M	Rs. M
Group					
Interest Bearing Liabilities	6,849.32	3,191.91	8,851.75	29,433.58	735.29
Trade and Other Payables	10,418.00	20,153.85	-	-	-
Preference Shares	-	-	-	-	2,200.00
	17,267.32	23,345.76	8,851.75	29,433.58	2,935.29
Company					
Interest Bearing Liabilities	6,849.32	3,133.00	8,675.04	28,400.38	735.29
Trade and Other Payables	10,418.00	22,036.60	-	-	-
	17,267.32	25,169.60	8,675.04	28,400.38	735.29

(iii) Credit Risk

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

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

Receivables and payables among major airlines are primarily settled via the IATA Clearing House. Receivables and payables are generally netted and settled at weekly intervals, which lead to a clear reduction in the risk of default.

For other service relationships, collateral is required depending on the nature and scope of the services rendered. Such collaterals from debtors include bank guarantees and security deposits.

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

Capital Management

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

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

TEN YEAR REVIEW - COMPANY

		2004	2005	2006
INCOME STATEMENT				
Revenue	Rs. Million	45,397.54	53,808.85	61,160.14
Operating Expenditure	Rs. Million	39,441.82	54,145.20	60,720.29
Net Profit/(Loss)	Rs. Million	7,424.48	479.87	476.53
BALANCE SHEET				
Share Capital / Stated Capital	Rs. Million	5,146.35	5,146.35	5,146.35
Non Current Assets	Rs. Million	13,072.68	10,908.79	16,136.77
Current Assets	Rs. Million	24,954.44	22,303.26	21,866.73
Total Assets	Rs. Million	38,123.01	33,307.94	38,003.50
Current Liabilities	Rs. Million	20,612.84	22,381.67	25,485.05
YIELD/UNIT COST				
Overall Yield	Rs. tkm	47.3	48.1	52.2
Unit Cost	Rs. tkm	34.8	36.2	37.62
Breakeven Load Factor	%	68.7	74.9	72.0
Revenue per RPK	Rs./RPK	4.9	5.1	5.3
PRODUCTION				
Passenger Capacity	ASK Millions	9,692.08	11,326.54	11,934.86
Overall Capacity	ATK Millions	1,289.94	1,484.02	1,590.55
TRAFFIC				
Passengers carried	Nos. Thousands	2,065	2,423	3,005
Passengers carried	RPK Millions	7,276.35	8,142.54	9,050.44
Passenger Load Factor	%	75.08	71.89	75.83
Cargo carried	Tonnes	54,943	66,977	82,142
Cargo Load carried	RTK Millions	240.90	296.68	300.73
Overall Load carried	RTK Millions	896.59	1,039.34	1,102.77
Cargo Load Factor	%	52.08	56.95	56.11
Overall Load Factor	%	69.51	70.04	69.33
STAFF				
Average strength	Nos.	4,714	5,163	5,395
Revenue per employee	Rs.	9,630,365	10,422,012	11,336,449
Capacity per employee	Tonne-km	273,640	287,433	294,820
Load carried per employee	Tonne-km	190,197	201,305	204,406
FLEET				
A320-200	Nos.	3	5	5
A330-200	Nos.	4	4	4
A340-300	Nos.	5	5	5
Turbo Otter	Nos.	-	2	2
Aircraft in service at year end	Nos.	12	16	16

TEN YEAR REVIEW - COMPANY

2007	2008	2009	2010	2011	2012	2013
67,963.76	79,128.56	73,307.77	62,363.58	77,125.45	92,867.93	**119,570.90**
69,406.68	82,154.01	84,794.86	69,026.74	81,334.34	111,775.88	**143,972.27**
568.04	4,428.23	(9,305.94)	(2,698.20)	(381.61)	(19,778.03)	**(21,749.75)**
5,146.35	5,146.35	5,146.35	5,146.35	5,146.35	19,432.67	**32,032.75**
16,568.73	15,730.43	19,333.18	28,531.75	19,668.30	43,735.26	**34,541.91**
21,347.46	32,209.67	15,008.38	15,910.82	18,504.31	22,072.71	**54,905.22**
37,916.19	47,940.10	34,341.56	44,442.57	38,172.61	65,807.97	**89,447.13**
25,006.65	29,134.89	25,012.31	28,399.92	28,045.26	58,498.83	**68,684.68**
55.71	61.01	64.85	54.94	60.27	64.47	**74.31**
40.30	46.48	50.71	43.37	45.92	57.28	**67.27**
72.34	76.18	78.19	78.94	76.19	88.84	**90.52**
5.6	6.5	6.8	5.8	6.3	8.2	**9.2**
12,375.62	12,599.58	11,731.56	10,724.83	12,481.41	14,248.94	**15,944.31**
1,695.91	1,741.10	1,635.62	1,541.03	1,755.23	1,978.33	**2,186.96**
3,176	3,196	2,735	2,558	2,867	3,459	**4,255**
9,535.79	9,793.05	8,546.44	8,357.89	9,584.02	11,270.23	**12,968.74**
77.05	77.73	72.85	77.93	76.79	79.10	**81.34**
88,833	93,161	73,106	72,058	86,053	87,750	**101,100**
325.97	350.35	302.36	283.83	332.98	345.67	**377.75**
1,150.84	1,232.62	1,065.15	1,028.11	1,184.13	1,338.30	**1,513.70**
58.44	61.60	53.17	56.42	56.80	53.78	**53.89**
67.86	70.80	65.12	66.72	67.46	67.65	**69.22**
5,272	5,113	4,837	4,614	4,998	5,594	**6,359**
12,891,457	15,475,955	15,155,627	13,516,164	15,431,263	16,601,346	**18,803,412**
321,683	340,523	338,148	333,991	351,186	353,652	**343,916**
218,293	241,077	220,210	222,825	236,922	239,238	**238,041**
5	5	3	3	4	7	**8**
4	4	4	4	5	7	**7**
5	5	5	5	5	6	**6**
2	-	-	-	2	2	**1**
16	14	12	12	16	22	**22**

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.

SriLankan

NOTICE OF MEETING

Notice is hereby given that the Thirty Fifth Annual General Meeting of the Shareholders of SriLankan Airlines Limited will be held on **Thursday - 26 September 2013 at 3.00 p.m** at the 'Committee Room D' of **Bandaranaike Memorial International Conference Hall (BMICH)**, Bauddhaloka Mawatha, Colombo 7 for the following purposes:

Agenda

1. To receive and consider the Annual Report of the Board of Directors and the Financial Statements for the year ended 31 March 2013 with the Report of the Auditors thereon.

2. To re-appoint M/s Ernst & Young as Auditors and authorize the Directors to determine their remuneration.

By Order of the Board

Company Secretary
Mildred Peries

30 July 2013
Katunayake

Note:

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

PROXY

SRILANKAN AIRLINES LIMITED

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

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

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

…….. of

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

one of the following Directors;

Mr Nishantha Wickremasinghe
Mr Nihal Jayamanne PC
Mr Kapila Chandrasena
Mr Shameendra Rajapaksa
Mr Manilal Fernando
Mrs Lakshmi Sangakkara
Mr Sanath Ukwatte
Mr Susantha Ratnayake

as my/our proxy to represent me/us and vote on my/our behalf at the Thirty Fifth Annual General Meeting of the Shareholders of SriLankan Airlines Limited to be held on Thursday – 26 September 2013 at 3.00 p.m and at any adjournment thereof.

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

…………………………………………………
Signature

NOTE:

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

INSTRUCTIONS AS TO COMPLETION:

1. Perfect the Form of Proxy after filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.

2. In the case of Resident/Non-Resident shareholders, the stamping will be attended to on return of the completed Form of Proxy to the Company.

3. The completed Form of Proxy should be deposited at the Registered Office of the Company at the under noted address not less than 48 hours before the time appointed for the holding of the meeting.

By Order of the Board

Company Secretary
SriLankan Airlines Limited
Airline Centre
Bandaranaike International Airport
Katunayake