

## **1. Financial Statements**

### **1.1 Opinion**

The audit of the consolidated financial statements of the Sri Lankan Airlines Limited (“Company”) and its subsidiaries (“Group”) for the year ended 31 March 2025 comprising the statement of financial position as at 31 March 2025 and the profit or loss statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company and the group give a true and fair view of the financial position of the Company and the Group as at 31 March 2025, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Opinion**

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

### **1.3 Emphasis of Matters**

#### **(a) Materiality Uncertainty**

##### **Related to Going Concern**

I draw attention to Note 2.1.1 to the financial statements that discloses the Group recorded a net loss of Rs.2,735.28 million during the year ended 31 March 2025 (2024- profit of Rs.7,925.01 million) with an accumulated loss of Rs.596,461.28 million (2024 – Rs.592,626.52 million) and, as of that date, the Group's current liabilities exceeded its current assets by Rs.346,479.55 million (2024 – Rs.327,144.66 million) and total equity of the Group as of the reporting date is a negative Rs. 379,519.61 million (2024 – negative Rs. 381,723.67 million). Further, Company recorded a net loss of Rs.7,594.56 million during the year ended 31 March 2025 (2024 – profit of Rs.3,870.86 million) with an accumulated loss of Rs. 616,306.06 million (2024 – Rs. 607,613.60 million) and, as of that date, the Company's current liabilities exceeded its current assets by Rs.368,296.84 million (2024 – Rs.344,130.60 million) and total equity of the Company as of reporting date is a negative Rs. 403,172.55 million (2024 – negative Rs. 400,534.71 million).

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

**(b) Aircraft Pre delivery Payments**

I draw attention to Note 5 to the financial statements, relating to the aircraft pre delivery payments as at 31 March 2025 amounting to Rs.5,692.34 million (USD 19.21 million), as the Company has made a claim for the recovery of the said amount together with damages through the dispute resolution mechanism set out in the agreement with the supplier.

My opinion is not modified in respect of these matters.

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

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

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

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company and the Group are required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company and the Group

**1.5 Audit Scope**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Group;
- Whether the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.6 Audit observations on the preparation of financial statements

### 1.6.1 Accounts Receivable and Payable

#### 1.6.1.1 Accounts Receivable

Audit Issue	Management Comment	Recommendation
<p>Out of the Rs.16,557.39 million in the trade debtors schedule, a sum of Rs.1,617.28 million had remained outstanding for more than five years. This included substantial amounts from government entities such as Mihin Lanka Ltd. (Rs.1,003.97 million), Presidential Secretariat (Rs.113.6 million), and Ministry of Foreign Relations (Rs.5.2 million) etc.</p>	<ul style="list-style-type: none"><li>• Mihin Lanka (Rs. 1,004 Mn) - currently under liquidation</li><li>• Presidential Secretariat- Rs. 113 Mn- continuous follow-up has been done with the Presidential Secretariat and the Ministry of Finance. However, recovery has not been successful. Assistance has been sought from the Secretary to the Treasury, requesting the allocation of funds from the budget to settle the same on multiple occasions.</li><li>• Ministry of Foreign Relations - Rs. 9Mn has been written off, obtaining approval from the Board of Directors in September 2024, as the ministry has declined to settle the same.</li><li>• BSP defaults in multiple countries - Rs. 486.78 Mn relates to. BSP refers to sales made through IATA agents, where IATA manages the sales, collection, and credit exposure based on the approved framework for each country. Significant balances are from Greece – LKR 298 Mn and Kuwait LKR 168 Mn, which are currently under litigation by IATA.</li></ul>	<p>The company should establish a formal recovery action plan with clear timelines for each debtor, prioritizing long-outstanding government entities.</p>

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Finance Act No.25 of 2003 Section 4(3)	According to the applicable regulations, any aircraft operator that fails to remit the Embarkation Levy to the competent authority within the stipulated time is considered to be in default, and interest is charged on the total outstanding amount. As per the company's financial statements for the year ended 31 March 2025, an amount of Rs. 21,507,739,800 is shown as payable to the Civil Aviation Authority of Sri Lanka (CAASL). However, the confirmation received from CAASL indicates that the delayed payments for the period from 01 January 2022 to 31 March 2025 amount to Rs. 26,302,032,244, comprising interest of Rs. 3,957,341,549 and Embarkation Levy of Rs. 22,344,690,694.	According to Note 28.2 of the FY 24/25 annual report, the payable balance to CAASL was LKR 26,286.53 Mn, which includes interest of LKR 3,957.34Mn.	The company should conduct an immediate reconciliation between its internal records and the confirmation received from the Civil Aviation Authority of Sri Lanka (CAASL). Upon identifying any discrepancies, management should take prompt corrective action and implement the necessary measures to minimize interest arising from delayed payments.
(b) Guidelines on Corporate Governance for State owned Enterprises of Public Enterprise Circular No; 01/2021 and dated 16 November 2021 Section 2.3	Although the company's official financial year runs from April 1 to March 31, it was noted that the action plan for the 2024/25 financial year was not	From 2024 onwards, in compliance with the NAO requirement, SLA has obtained board approval for the 24/25 action plan and submitted it, together with	The company should prepare its annual action plan in accordance with the financial reporting period.

prepared in alignment with this reporting period. Instead, the company developed and implemented an action plan covering the calendar year ending December 31, 2025.

the Budget, to the Line Ministry.

(c) Operational Manual for State owned Enterprises of Public Enterprise Circular No; 01/2021 and dated 16 November 2021

(i) Section 2.2.5

The parent entity is required to have a Board-approved subsidiary policy addressing dividends, changes in equity and shareholding, and major transactions. Furthermore, the parent entity must establish a structure that facilitates effective oversight of the performance of its subsidiaries, in line with the provisions of the Companies Act. However, SriLankan Airlines Ltd. had not acted in accordance with these requirements.

SLA has instituted a governance framework to facilitate oversight of the subsidiary's performance. Specifically, all the directors on the Board of SriLankan Catering (SLC) are from the Board of SLA. This dual representation ensures strategic alignment and decision-making which includes dividends, changes in equity & shareholding, and major transactions. Performance is monitored at board meetings held periodically.

The company should establish a formal governance and oversight framework to monitor the performance, compliance, and strategic alignment of all subsidiaries in accordance with the requirements of the Companies Act.

(ii) Section 2.3 and Section 7.7 of supplementary III – Operational Manual for state owned enterprises No. PED 09/2021(III) dated 27 September 2023

(i) Although all SOEs are required to adopt their Administrative and Financial Manuals in line with the relevant provisions in this manual and should be approved by the Director General, Department of Public Enterprises (PED), 12 manuals had not been submitted for approval of the PED.

SLA currently has 135 manuals covering all operations. As per the SLA's Corporate Management Systems Manual, approved by the Board of Directors on 26th August 2022, Manuals are broadly classified into Corporate, Divisional/ Departmental, and Operations Manuals. Their classification shall determine the manuals' approving authority, which includes the BoD, the head of the division, and the respective external

The company should take immediate action to submit their Administrative and Financial Manuals to the Department of Public Enterprises (PED) for review and approval, in compliance with the prescribed guidelines.

governing authorities such as IATA, EASA and CAASL etc. We will liaise with PED on the way forward.

(ii) Although all major operational manuals should be reviewed and updated at least in every 5 years as per the Circular, out of 08 manuals of the Company 4 manuals had not been reviewed and updated as at the date of this report.

Of the 8 manuals, 4 have been updated, and the remaining are in progress and will be completed by January 2026.

The Company implement a formal mechanism to ensure that all operational manuals are reviewed and updated at least once every five years, in accordance with the relevant Circular.

(d) Section 2 of the Asset Management Circular No. 11/2022 dated 16 September 2022, issued by the Comptroller General.

Vehicles designated for disposal as scrap should be deregistered, and a copy of the deregistration document from the Department of Motor Traffic must be submitted to the Comptroller General's office after disposal. However, 36 vehicles not listed in the company's submitted vehicle list have not been processed as required.

SLA has formally requested DMT to blacklist those vehicles, and based on the feedback, they have informed us that no ownership change, or license renewal will be made by DMT, without prior notification and consent from SLA. At that point, the deregistration would be carried out upon the current user's request, if available. Accordingly, as of September 2025, two vehicles on this list have been deregistered.

The company should take immediate steps to identify and verify the status of the 36 vehicles not included in the submitted vehicle list. All vehicles designated for disposal as scrap should be properly deregistered with the Department of Motor Traffic, and a copy of the deregistration certificate must be submitted to the Comptroller General's office in accordance with the applicable procedures.

## 1.8 IT General Controls

Audit Issue	Management Comment	Recommendation
<p>(a) As per the section 4.5.9.3 - Administrator and operator logs in the “Corporate Information Security and Privacy Management Manual, Logging and activity monitoring must be enabled for all operations and systems support personnel, including system administrators and users in Positions of Trust. Group Data Protection and Compliance (GDPC) shall review Administrator and Operator logs bi-annually. However, the company had not performed bi-annual activity monitoring over administrator accounts during the financial period from 1 April 2024 to 31 March 2025, by violating the of above stated section.</p>	<p>Activities performed using administrator user accounts are already monitored and logged through multiple platforms in several ways on a regular basis. SriLankan has deployed the following controls:</p> <ol style="list-style-type: none"> <li>1. SIEM</li> <li>2. Darktrace Network Traffic Behaviour Analyzer</li> <li>3. SentinelOne EDR and Cortex XDR</li> <li>4. 24/7 Security Operations Centre (SOC) and IT Service Desk monitors logs, activities and alerts. Real-time Monitoring of user activities within applications is not practically feasible. Detailed logs are maintained for audit and compliance purposes that can also assist in forensic investigations as required. The manual has been revised to reflect the above.</li> </ol>	<p>The company should require to monitor the activities performed using administrator user accounts, as stated in the policy of the company, on a periodic basis, at application, operating system and database levels and to maintain adequate documentation, in order to establish that the procedure has been appropriately followed and recorded.</p>
<p>(b) The insecure practice of saving user credentials in PRA V20 system has been used by employees in the company by selecting “Remember Passwords” in the browser.</p>	<p>SriLankan Airlines digital eco system is built with strong security architecture that includes two-factor authentication (2FA), enforced at the application and device level.</p> <p>The first layer of security is for users to login to the device with the corporate credentials that follows a strong password policy and/or device level biometric verification.</p> <p>The second layer is to log in to the application that requires an OTP. Even if the passwords are stored in the browser, they are not stored in plain text or retrievable form. The password can only be retrieved with the secure corporate password. Hence the residual risk</p>	<p>It is important to disable the feature that allows user credentials to be saved within systems/ browsers and enforce policies that require users to manually enter their usernames and passwords each time they log in. Additionally, strong password management practices should be implemented, and regular awareness training should also be conducted to educate users on the risks associated with saving credentials and the importance of secure authentication practices.</p>

is minimum.

2FA for SMS or Authenticator app is not possible with the PRAV20 application. Risk register updated accordingly.

- (c) The company's "Corporate Information Security and Privacy Management Manual" outlines specific guidelines for labelling confidentiality levels across various formats in section 4.10.5. Information Labelling. These include requirements for paper documents, electronic files, information systems, emails, storage media, and oral communications. However, it was observed that several electronic and paper documents were incorrectly labelled, resulting in non-compliance with these established guidelines.
- The current Data Classification controls are applied on a voluntary basis, by the document creator/user, and labels are sometimes displayed on different places within the document. The current controls are reviewed and audited during the ISO audits by British Standards Institute (BSI) and accepted as sufficient. The audit requirement for ISO is to display a classification label within the document, and not particular about the location (left or right). SriLankan is currently in the process of implementing a Data Classification and Leakage Prevention solution that will enforce labelling, detect mislabelling, and prevent data leakage.
- It is imperative to establish clear labelling protocols and provide ongoing training for Employees on the importance of proper document management and compliance.
- (d) An outdated "Business Continuity Plan" document causes a possible situation which places the company at risk, such as the inability to maintain critical customer services, damage to market share, brand image, reputation, and failure to protect the company's assets, during the event of an actual disaster. Further, BCP is an ongoing management and governance process supported by senior management and resourced to ensure that necessary steps are taken to identify the impact of potential losses and maintain viable recovery strategies and plan for various emergencies and interruptions in order to ensure the recovery of critical business processes and information systems.
- SriLankan Airlines maintains its Business Continuity Management System (BCMS) as an ongoing process, with a significant revamp undertaken in 2022. Under the updated framework, Business Continuity Plans (BCPs) were implemented across the organization, alongside the introduction of departmental-level Business Impact Analysis (BIAs) and Functional Recovery Plans (FRPs). As per the BCMS Manual, an annual review is required. In 2023, the review was conducted, and an internal communication documented that no revisions were necessary for that year. In 2024, our primary focus remained on finalizing and embedding departmental-level BIAs and
- It is vital for the management to implement an updated "Business Continuity Plan"; document in order to ensure that the recovery procedures are effective and adequate in the event of disasters and incidents.

FRPs, which delayed the scheduled review of the BCMS Manual.

A review for the current year has now been completed. As a corrective action, the requirement for timely manual reviews has been re-emphasized and incorporated into the BCMS Manual to prevent recurrence.

- (e) As per the Section 4.1. Maintenance, in the IT Disaster Recovery Plan, “the frequency of reviews will depend on the level of activity atError! No text of specified style in document, but it should be reviewed at least once in every quarter”. However, the company has reviewed the IT Disaster Recovery Plan only once during the financial period from 1 st April 2024 to 31 st March 2025, which resulted in violation of the above-stated section in the “IT Disaster Recovery Plan.
- The IT Disaster Recovery Plan is reviewed at least annually or whenever there is a significant change to the SriLankan Group IT framework and/or Airline IT Systems.
- The incomplete sentence mentioned above was a typo, and it has already been corrected.
- It is imperative that the company establish a formal schedule to review and update the IT Disaster Recovery Plan at least annually, or more frequently if there are significant changes in IT infrastructure or business processes. Additionally, the review process should be documented, and any updates should be communicated to the relevant stakeholders to enhance disaster preparedness and compliance with the defined maintenance requirements.
- (f) The operation of Logistics and Properties module of Oracle EBS system has not functioned successfully, due to the failure in recovery, during the Disaster Recovery (DR) testing conducted on 21 st August 2024.
- Failure of DR testing may increase the risk of extended downtime, data loss, and disruption to business operations in the event of a disaster. It may also lead to non-compliance with regulatory or contractual requirements, financial loss, damage to reputation, and a lack of stakeholder confidence in the company’s ability to recover from major incidents in the event of a disaster.
- The identified incident was due to an incorrect function check performed by the user. Therefore, the reported failure was not a DR drill, system or process issue - but a user-related error. Refer INC000000639343 for details and user acceptance. A standard checklist has been developed and will be introduced for recovery tests.
- It is important for the company to thoroughly investigate the root cause of the Disaster Recovery (DR) testing failure and take corrective actions to address the identified issues. The DR plan should be updated based on lessons learned, and system configurations, recovery procedures, and infrastructure readiness should be reviewed and strengthened.

- (g) The SOC 2 Type 2 report was not available for CAE (Sabre) system for the financial period, which results in failure over assurance on the IT control environment of the respective service provider of the system, which operate as either in cloud infrastructure or Software As A Service operation.
- CAE:  
SOC 2 Type 2 reports are not available with them as at yet. However, they are compliant and certified for ISO 27001 Information Security Management Systems. Non-availability of the report is raised to Enterprise Risk Management (reference - R585-25).
- It is vital for the management to understand the importance of obtaining the SOC 2 reports from service provider/s and establish a process to review such reports and take appropriate actions and approvals to ensure that adequate and appropriate controls have been implemented effectively in the environment of service provider/s.
- (h) The company had not updated the documentation of “Corporate Information Security and Privacy Management Manual” which had been last reviewed in 2023.
- The current Manual (version 7.0) is the most up-to-date and active version.  
The corporate practice is to update the manual only when there is a change and not when the manual is reviewed – which happens very frequently and prior to each internal and external audits (including ISO audits by British Standard Institute).  
This has been officially communicated within the management and to the internal and external audits. Evidence presented to the EY.
- It is essential to employ policies and procedures containing the reviewed and updated clauses, within the company, which should be communicated to all the relevant stakeholders.
- (i) The current IT Disaster Recovery Plan of the company did not included the Recovery Point Objective (RPO), which defines how much of the data the company can afford to lose during a disaster.
- Any incident, problem or disaster is centrally liaised through the IT Service Desk.  
As such, there are two mandatory documents that are formalized and practiced within IT during a Disaster or DR Drill.  
The Recovery Point Objective (RPO) is clearly outlined in the IT Service Catalogue, which is maintained by the SriLankan IT Service Desk along with IT DR Plan.  
The references to each manual/policy are available within IT Service Management Manual and Corporate Information
- It is important that the company define and document a clear Recovery Point Objective (RPO) as part of its IT Disaster Recovery Plan. This should be based on a thorough assessment of business needs, the criticality of data, and the maximum acceptable data loss for each system.

Security and Privacy Management Manual.

- (j) The current IT Disaster Recovery Plan does not include a call tree or communication hierarchy to be followed during a disruption or emergency.
- Any incident, problem or disaster is centrally liaised through the IT Service Desk. As such, the call tree is maintained and liaised through IT Service Desk. Reference to the call tree has incorporated to DR plan. The references to each manual/policy are available within IT Service Management Manual and Corporate Information Security and Privacy Management Manual.
- It is important that the management should update the IT Disaster Recovery Plan to include a structured call tree with contact details and escalation paths to ensure effective and timely communication during a disruption or emergency.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.2,735.28 million and the corresponding profit in the preceding year amounted to Rs. 7,925.01 million. Therefore decrease amounting to Rs. 10,660.29 million of the financial result was observed. The reasons for the decrease are mainly due to the Passenger Income decreased by Rs.41,768.5 million representing 15.12%, increased Aircraft Maintenance and Overhaul Costs by Rs.3,424.72 million representing 8.5 % and increased net finance cost representing 221.63 % by Rs.21,726.57 million.

### 2.2 Trend Analysis of major Income and Expenditure items

	2024/25	2023/24	2022/23	2021/22	2020/21	Improvement / (Deterioration)	
Revenue	Rs.Mn	Rs.Mn	Rs. Mn	Rs. Mn	Rs. Mn	2024/25 - 2023/24	
						Rs. Mn	Percentage (%)
Passenger, Cargo, Excess Baggage & Mail	268,981	309,991	347,671	123,376	43,979	(41,010)	(13)
Air Terminal, Duty Free, Non Schedule Services & Flight Catering	34,113	29,600	21,799	10,926	6,950	4,513	15

Other income & gains	1,661	1,486	3,758	613	17,062	175	12
<b>Expenditure</b>							
Aircraft Fuel Cost	91,687	115,119	155,559	42,759	10,569	(23,432)	(20)
Employee Cost	32,799	32,261	26,553	17,416	17,112	538	2
Airport, Enroute and Passenger Expenses	38,601	39,187	40,761	17,753	7,308	(586)	(1)
Aircraft Maintenance and Overhaul Costs	43,783	40,359	39,300	23,088	13,695	3,424	8
Depreciation/Amortization	15,975	14,138	15,153	14,656	16,745	1,837	13
Rental on Short Term Lease Aircraft and Spare Engines	3,556	10,723	504	44	2265	(7,167)	(67)
Selling Marketing and Advertising Expenses	20,286	22,082	24,643	7,250	2,065	(1,796)	(8)
Crew Expenses	9,469	9,701	7,661	3,231	1,680	(232)	(2)
Other Operating Expenses	17,949	17,786	16,822	7,026	4,671	163	1
Exchange gain/(Loss)	1,262	1,943	(24,749)	(34,730)	(6,339)	(681)	(35)
Unscheduled Repair Cost Of Neo Engines	2,228	11,572	2,900	0	0	(9,344)	(81)
Net Finance Cost	31,574	9,847	88,568	130,120	35,302	21,727	221
Penalty Charges on Breach of Agreement	0	11,837	0	0	0	(11,837)	(100)

The following observations are made.

- (a) During the year under review, the total revenue generated from Passenger, Cargo, Excess Baggage, Mail, and other income and gains experienced a significant decline of Rs. 41,010 million compared to the preceding year.
- (b) During the year under review, Net Finance Cost increased by Rs. 21,727 million, representing a sharp rise of 221% compared to the preceding year.
- (c) During the year under review, Aircraft Maintenance and Overhaul Costs increased by Rs. 3,424.72 million, representing a rise of 8.5% compared to the previous year.

### 2.3 Ratio Analysis

#### Company

	2024/25	2023/24	2022/23	2021/22	2020/21	2019/20	2018/19
Current Assets to Current Liabilities (Number of Turns)	0.12	0.15	0.13	0.15	0.13	0.13	0.18
Percentage of Net Profit/(Loss) to Revenue Increase / (Decrease) percentage in Revenue	(2.56) (11.12)	1.16 (8.64)	(20.16) 174.70	(125.15) 162.23	(89) (72)	(26) (0.1)	(24) 11.7

#### Group

	2024/25	2023/24	2022/23	2021/22	2020/21	2019/20	2018/19
Current Assets to Current Liabilities (Number of Turns)	0.13	0.17	0.15	0.16	0.13	0.14	0.19
Percentage of Net Profit/(Loss) to Revenue Increase / (Decrease) percentage in Revenue	(0.90) (10.75)	2.33 (8.09)	(19.30) 175.11	(121.80) 163.70	(97.60) (72.25)	(24.05) (0.31)	(22.65) 11.82

The following observations are made.

- (a) The Current Assets to Current Liabilities ratio (current ratio) remained relatively stable over the period, ranging between 0.12 and 0.18. The latest value of 0.12 in 2024/25 indicates that current liabilities significantly exceed current assets, suggesting liquidity pressure and potential challenges in meeting short-term obligations.

- (b) The company's financial performance shows weak liquidity and unstable profitability over the years. The current ratio remained below 1, indicating potential short-term cash flow issues. Although revenue experienced sharp growth in 2021/22 and 2022/23, it declined again in the following years, reflecting volatile business performance.

### 3. Operational Review

#### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>In 2024/25, company incurred USD 4.16 million in costs due to flight delays, a 44% increase from the previous year, reflecting a concerning upward trend over four years. Out of 46,518 scheduled flights, only 23,055 were operated, with 29% of them delayed. Key issues included technical faults, crew shortages, late aircraft arrivals, and poor maintenance planning. On-Time Performance (OTP) remained low at 65% for arrivals and 66% for departures. .</p>	<p>Flight disruptions were primarily due to Fleet limitations as a result of inability to replace aircraft returned after lease expiry due to global shortage of aircraft, including delayed aircraft maintenance caused by global supply chain issues, unanticipated events such as bird strikes, lack of skilled employees due to high demand from overseas entities, the age of SLA aircraft fleet leading to unforeseen technical issues and operational challenges, and unavailability of contingent/spare aircraft.</p> <p>In FY 2024/25, 15% of the disruption-related costs from compensation payable to passengers as required by EU regulations for two major flight delays/cancellations in London and Paris due to technical issues, while other expenses remained at the same level as the previous year.</p> <p>Of the budgeted 24,718 sectors, 23,154 were operated, representing 94%. Out of the sectors operated, 29% experienced delays of 15 minutes or more, and 18% experienced delays of 30 minutes or more.</p> <p>According to company policy and industry standards, including oneworld's On-Time Performance (OTP) criteria, a flight is considered on time if it arrives or departs within 15 minutes of its scheduled time.</p> <p>This standard is referenced on page 03</p>	<p>The company should take immediate measures to reduce flight delays and associated costs.</p>

of Attachment 3 of the oneworld OTP report. Accordingly, the flight figures mentioned in the query require correction. Pls refer to Attachment 4 for the updated table.

On-time performance is a Key Performance Indicator (KPI) for the airline, which is continuously monitored, and possible corrective actions are taken. As a result, by September 2025, both arrival and departure OTPs had improved to 76%.

(b) It was observed the poor seat utilization, particularly in Business Class, where 1,068,662 seats remained unutilized, resulting in an estimated revenue loss of Rs. 71,725.52 million. Additionally, 27,456 non-revenue seats contributed to a further loss of Rs. 1,842.76 million, while the conversion of 1,766 Business Class seats to Economy class further diminished premium revenue potential. The airline also experienced operational inefficiencies, with 25 out of its 33 routes operating at a loss.

SLA reported a seat utilization rate of 78.6% for FY24/25, a slight drop of 0.4% from the previous year. As per IATA statistics, the industry-wide passenger load factor is 83.5% for 2024. SLA is slightly lower than the global average due to the product offering arising from the age of the fleet and the disruptions mentioned above.

The company should take immediate steps to improve seat utilization and revenue management, particularly in Business Class.

In 24/25, Business class and Economy class seat factors were 55.99% and 80.82%, respectively (FY 23/24: Business class - 52.64% and Economy class - 81.53%). It's important to note that achieving a 100% load factor is practically unattainable in real-world operations due to the seasonal nature of air travel and directional imbalance.

(c) Sri Lankan Airlines faced significant financial penalties due to a breach of contract with Rolls Royce. The airline violated the terms of Select Care agreement regarding engines for A350 aircraft. As a result, Rolls Royce filed a claim for loss of business. The Board of Directors, in a decision dated January 25, 2024, approved the establishment of a provision to cover the financial impact of this breach.

SLA entered into an agreement in 2015 with Rolls-Royce (RR) for the maintenance of engines of A350 aircraft (3 leased and 4 direct purchases). However, as SLA did not take these aircraft, the agreement was in breach, and as a partial settlement for the same, a new agreement was entered into to maintain A330 engines. However, during COVID, as the fleet was grounded, one aircraft was returned to the lessor (2 engines), and one engine

The company should strengthen its contract management and compliance monitoring processes to prevent future breaches of critical agreements, such as the Select Care agreement with Rolls Royce. The

Consequently, the company recorded as a provision sum of Rs.13,451.21 million in its financial statements as at 31 March 2025, reflecting the cost of the agreement

was returned without an overhaul. Accordingly, RR is claiming damages

company should conduct a thorough

breach with Rolls Royce, including accrued interest.

for this and for the 4 direct purchase aircraft.

Negotiations with Rolls-Royce are currently at an advanced stage for waiver of the penalty, in light of the potential new business opportunities associated with the planned lease term extension of six A330 aircraft. The provision was made in the previous financial year.

review of all existing contractual obligations and ensure that appropriate oversight mechanisms, including legal and operational reviews, are in place to monitor compliance.

(d) During the financial year 2023/24, SriLankan Airlines encountered significant operational disruptions arising from widespread failures of CFM LEAP engines powering its A320neo aircraft fleet. The airline operates six such aircraft, equipped with a total of 13 engines, of which 11 were reported inoperable due to a global technical issue affecting this engine type. Despite the known risks associated with the CFM LEAP engines at the time of selection, no adequate audit evidence was made available to clarify the basis for the airline's decision to procure and lease these engines. The Board of Directors recognized the company's contractual obligation under existing lease agreements to undertake the necessary engine repairs and accordingly directed that the financial impact be reflected in the financial statements for the year ended 31 March 2025. Consequently, a provision amounting to Rs. 8,363.33 million (net value) was recorded in the financial statements to account for the estimated unscheduled repair costs of the affected NEO engines. It was further noted that an amount of Rs. 1,361.94 million had been adjusted against the gross provision, reflecting a credit note expected to be realized during the current reporting period. However, the lack of sufficient and appropriate audit evidence regarding the identification of engine failures and the rationale for initial

As of 31st October 2025, 10 out of 13 engines have been repaired and are now serviceable. 3 engines have been sent for repairs. There are significant delays in repairs due to the unavailability of slots at repair organizations, as all airlines with these engines are sending the engines for repair at the same time.

The estimated cost increased significantly based on the findings once the repairs commenced. Accordingly, the required provisions were made based on the Engineering management's best estimate, net of manufacturer support expected from CFM. Based on the advice of the Attorney General Department and foreign legal counsel and with the approval of the Board, an agreement has been entered into with CFM for a commercial settlement to share the cost in September 2024.

The evaluation of engine suitability for the A320/A321 Neo at the time of selection considered both approved engines- CFM (LEAP-1A) and Pratt & Whitney (PW1130G) for this type of aircraft.

Financial and operational analysis had been carried out prior to selection based on manufacture and Airbus data as this was a new technology at that time. factoring in fuel efficiency, maintenance costs, shop visit intervals, and manufacturer guarantees, and it

The company should strengthen its procurement, technical evaluation, and risk assessment processes related to the selection and leasing of aircraft and critical components such as engines.

engine selection has been highlighted as a key audit limitation.

was concluded that the CFM engine offered superior long-term value.

However, after entering into operation, both engine types required unplanned repairs (which was a global issue), especially in hot and harsh environments, notably in regions like the Middle East and South Asia.

However, as the cost increase was significant, the new Board of Directors has reinitiated the negotiation process with CFM, in order to secure additional financial support.

- (e) According to the need assessment of the Sri Lankan Airlines Limited (SLAL) currently operates with the 22 aircraft fleet. It was observed that six aircraft remained non-operational for periods ranging from 1 to 12 months during the financial year 2024/2025. Lease installment payments totaling USD 13,818,396 were incurred for these aircraft during their non-operational periods. Furthermore, aircraft maintenance and repair expenses of the company for the year under review were recorded at Rs. 43,783 million, reflecting an increase of 8% compared to the preceding year.

Out of the 6 aircraft, 4 aircraft are NEO aircraft, which were grounded due to the unavailability of serviceable engines, of which 3 have been made serviceable in October 2024, February 2025, and March 2025, respectively. Currently, one NEO aircraft is grounded awaiting serviceable engines. The remaining two aircraft were grounded for 6-year and 12-year scheduled heavy maintenance checks in accordance with the standard Airbus maintenance program.

The company should take immediate steps to enhance fleet utilization and optimize related costs.

These maintenance activities are considered Heavy maintenance checks and require time to complete. Since the aircraft are leased, the lease payments need to be serviced based on the lease agreement as the serviceability of the aircraft is the responsibility of the lessee.

Compared to FY23/24, the aircraft maintenance cost has increased mainly due to increased component overhaul cost and engine maintenance cost.

In addition, 12 engines recorded minimal utilization during the financial year, with usage ranging from only 55 to 458 flight hours. The prolonged low utilization of these engines may indicate inefficiencies in asset deployment and fleet planning. Such underutilization could lead to unnecessary holding costs, increased maintenance expenses due to calendar-based servicing requirements, and higher depreciation without corresponding operational benefit.

- (f) The procurement of the Learning Management System (LMS) of USD 390,000 by SriLankan Aviation College showed serious issues in planning, compliance, and execution. Although a

The contract does not include a clause requiring full payment in the event the system fails. Payments are due only upon the supplier's completion of contractual milestones and SLA's

SriLankan Aviation College should urgently review and strengthen its procurement

17-member team evaluated the bids, the system did not meet user needs. Board approval was obtained only after the contract was awarded, and student numbers used for financial justifications were overstated. Despite requiring only basic digitization, a complex and expensive system was developed, causing major delays, over 143 weeks, and additional financial strain. Misleading information was given to Maldives auditors about system implementation, and the contract included a clause requiring full payment even if the system fails, with customization costs alone making up 59% of the total.

acceptance. Accordingly, only USD 111,360 out of the total implementation fee of USD 278,400 has been paid to date.

As of date, 14 foreign students have already enrolled, leaving only 3 more students needed to fully recover the investment fully, only taking into account the profit from the Aircraft maintenance program.

Additionally, LMS was procured with a view to being utilized by the entire company. Accordingly, as of 07th November, 60 training programs have already been completed with further programs scheduled to be conducted. This covers mandatory training in safety, security, and ground handling, etc.

The delay in implementation was primarily due to the extended time required to develop the unique user and functional requirements.

Also, the customization was mainly to automate SLAC's back-office functions, leading to efficiencies. Consequently, the implementation timeline was revised to accommodate these factors. The second phase is expected to be implemented in April 2026, which will further enhance the service.

SLAC closed the audit finding in accordance with Maldivian regulations, which permit only two extensions and prohibit extending a Level 2 finding beyond one year. The SLAC team determined the system was ready to go live, as key issues, such as student delays, had been resolved. With Phase 1 implemented, SLAC is now compliant with Maldivian CAA requirements.

planning, evaluation, and contract management processes to ensure full compliance with established procurement guidelines and governance frameworks.

(g) SriLankan Airlines initially contracted Lufthansa Systems (Lido) for its Flight Planning System (FPS), later switching to Jeppesen in 2023 under a five-year agreement valued at Rs. 273 million.

SLA contracted Jeppesen as its flight planning system in 2023 as this was the technically compliant lowest cost option at that time. FPS is crucial system that is used for

The company should strengthen procurement and contract management

However, due to persistent operational issues, the Jeppesen system was terminated after two years, and Lido was re-engaged in June 2025 at a cost of Rs. 152.6 million. The audit found that the termination lacked proper documentation, with no written ministry approval provided. A User Acceptance Certificate for Jeppesen was prematurely signed despite known system failures, and 55 issues were later identified, indicating poor validation and oversight. Despite these shortcomings, the company paid Rs. 165.98 million to Jeppesen, representing a significant financial loss. Furthermore, the procurement of the new Lido system did not comply with the Government Procurement Guidelines - 2024 including the failure to secure mandatory performance security, exposing the company to further financial and operational risks due to weak contract management.

flight planning including deciding the flight route and quantity of fuel, etc. as Jeppesen was not performing as expected. SLA reverted to the LIDO FPS for 2.5 years to maintain critical operations. A new procurement process will be conducted within this time period.

SLA obtained approval from both the Board of Directors and the Enterprise Procurement Committee to continue using LIDO during this interim period. Charges for LIDO for these 2.5 years are lower than the charges for Jeppesen.

SLA conducted UAT for Jeppesen in line with project governance standards, confirming that all core functionalities worked as expected, aside from three issues noted in the UAT certificate, which did not hinder the Go-live decision. Post Go-live, however, system reliability concerns and intermittent feature failures emerged during live operations.

SLA continued to utilize the FPS for its daily operations until July 2025. Through negotiations, SLA secured notable cost savings, including USD 65,116.33 by reducing the invoiced aircraft count from 22 to 16 and deferring payment until August 2024 to allow time to resolve system issues. Jeppesen also agreed to waive the USD 240,232 termination fee.

The procurement of the FPS was conducted in full compliance with the applicable procurement guidelines at each stage, with all necessary approvals obtained through the EPC. Initiated under the 2006 Government Procurement Guidelines, which did not mandate Performance Security for service contracts, the requirement was not applied. Instead, SLA implemented contractual safeguards, including milestone-based payments and support provisions.

practices to prevent recurrence of similar issues.

### 3.2 Identified Losses

Audit Issue	Management Comment	Recommendation
<p>A sample audit revealed that SriLankan Holidays (SLH) launched Institutional Quarantine (IQ) packages in May 2021 to comply with GACA regulations in Saudi Arabia. However, SriLankan Airlines subsequently appointed Jetwing Travels to also sell these packages, despite both entities utilizing the same aggregator, Arjaa Travel and Tourism. This move failed to generate additional business value and instead fragmented the existing market, leading to a sharp decline in SLH’s sales. Notably, Jetwing had no prior presence in the Saudi Arabian market and was introduced by the airline’s own Sales Department, which also provided them with free back-office support. These decisions resulted in an estimated revenue loss of Rs. 119 million and a profit loss of Rs. 27 million for SLH, raising serious concerns regarding internal controls and the effectiveness of business decision-making within the organization.</p>	<p>This is relevant to the period 2021. This matter was examined previously by Internal Audit and reported to the Audit Committee. This was concluded by the previous Board in 2022. As per the minutes, the BOD (circular resolution no: CR/08/2022 dated 25th May 2022), has concluded that “there is no emergence of fraud nor evidence to suggest that any staff had benefited in the subject matter and that Management has acknowledged that matters of this nature would comply with all manuals and procedures going forward”. This matter was again queried by the Line Ministry in late 2024, seeking clarification. The company provided the internal audit reports. Thereafter, SLA has requested the Auditor General on 03rd December 2024 to conduct an independent review of the above incident and recommend appropriate action on the same.</p>	<p>The company should implement stronger internal controls and governance mechanisms over strategic business decisions, particularly those involving partnerships, market entry strategies, and revenue-generating subsidiaries such as SriLankan Holidays (SLH).</p>

### 3.3 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p>Nesma Travels independently arranged IQ packages for 1,000 laborers without involving SriLankan Holidays (SLH), bypassing established protocols. The SLAL Country Manager in Saudi Arabia failed to seek required Board approval for a contract exceeding Rs. 150 million. A critical letter from Nesma dated May 25, 2021, was only acknowledged on September 12, 2021, with no valid reason for the delay. As a result, 626 passengers bypassed SLH services, causing a revenue loss of Rs. 103.8 million and a profit</p>	<p>The Internal Audit conducted and released a Special Review on KSA Institutional Quarantine provided by Nesma Travels in November 2021. The report was tabled at the Audit Committee meeting held on 7 January 2022 and was concluded by the previous Board in 2022. As per the minutes, the BOD (circular resolution no: CR/08/2022</p>	<p>The company should conduct a thorough investigation into the actions taken by the Country Manager in Saudi Arabia in connection with the unauthorized arrangement of Institutional Quarantine (IQ) packages by Nesma Travels.</p>

loss of Rs. 23.8 million. Additionally, 85 passengers were processed under SLH indemnity forms through deceptive means, leading to further losses of Rs. 13.8 million in revenue and Rs. 3.4 million in profit.

dated 25th May 2022 has concluded that “there is no emergence of fraud nor evidence to suggest that any staff had benefited in the subject matter and that Management has acknowledged that matters of this nature would comply with all manuals and procedures going forward”. This matter was again queried by the Line Ministry in late 2024, seeking clarification. The company provided the internal audit reports. Thereafter, SLA has requested the Auditor General on 03rd December 2024 to conduct an independent review of the above incident and recommend appropriate action on the same.

### 3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) As of 31 March 2025, the approved employee cadre was 6,402, with 331 vacancies across 17 divisions. However, the audit revealed that 832 officers had been recruited under Service Providers in 12 divisions. Consequently, the actual number of employees was 6,903, exceeding the approved cadre by 501 positions. This indicates that 501 employees were appointed in excess of the approved staffing levels.	The company operates with two distinct manpower structures: the approved company cadre and the outsourced service provider cadre, each managed independently. The approved cadre comprises budgeted positions filled by directly employed staff, while the service provider cadre consists of personnel hired through external contractors under contractual arrangements. These outsourced roles are not part of the company’s official headcount and do not contribute to any excess in staffing. Any additional SP requirements requested by the Divisions are approved by the CEO and reflected in the subsequent HRRC paper. These are included under the corporate budget approved by the Board of Directors.	The company should take immediate measures to align staffing levels with the approved employee cadre.

(b) In the recruitment for the Head of Engineering position, the selected candidate did not meet the required qualifications, possessing only a single-type approval (instead of multi-type) and 7 years and 4 months of managerial experience, below the required 10 years. Despite this, the candidate was appointed with Board approval, citing a clause in the Talent Resourcing Policy Manual that did not validly justify the exception. Additionally, the Board increased the remuneration from USD 7,500 to USD 10,000 per month, along with extra allowances and benefits, based on the candidate's request.

To ensure business continuity and regulatory compliance, the vacancy was advertised both locally and internationally, attracting 44 external applications (19 local and 26 expatriate). After evaluation, no local applicants met the required qualifications, while 10 expatriate candidates were initially eligible. Of these, five were above the company's retirement age, and three later withdrew, leaving two candidates for the final round. Following interviews, one candidate withdrew, and the remaining candidate was found suitable by the interview panel, which included the Chairman, CEO, and a Director. Although the selected candidate did not fully meet the advertised qualifications (short of three years of managerial experience and holding only one aircraft type approval), the Board approved the appointment due to the urgency of the role, the candidate's strong potential, and the low likelihood of attracting a stronger pool through re-advertisement. The Human Resources and Remuneration Committee (HRRC) endorsed the selection and approved exceptions to the qualification criteria and revised remuneration package, aligned with industry standards for expatriate professionals. The recruitment and selection process complied with the Talent Resourcing Policy and relevant corporate governance principles. The Board of Directors, vested with the authority to deviate from standard policies, when necessary, formally approved the appointment.

The company should strengthen its recruitment and appointment processes to ensure full compliance with the qualifications and experience criteria outlined in approved job descriptions and policy manuals.