

Auditor General's Report on the Financial Statements



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தேசிய கணக்காய்வு அலுவலகம்
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எனது இல.
My No.

AAV/A/AASL/FA/25/99

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உமது இல.
Your No.

දිනය
திகதி
Date

08 June 2026

The Chairman

Airport and Aviation Services (Sri Lanka) (Private) Limited

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Airport and Aviation Services (Sri Lanka) (Private) Limited for the year ended 31 December 2025 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL) for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 and the statement of comprehensive income, 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 report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.

In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2025, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

- (a) Seven completed projects, totalling Rs. 1,238 million, had continued to be recorded under Work in Progress without being capitalized as at the end of the financial year 2025. As a result, these assets were not recognized under property, plant and



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equipment, and the corresponding depreciation had not been charged for the year 2025.

Consequently, property, plant and equipment and depreciation expense were understated, while the profit for the year was overstated.

- (b) Although ownership of the lands amounting to Rs. 671.1 million had already been transferred to the Civil Aviation Authority of Sri Lanka, those lands continued to be reported under Property, Plant and Equipment in the Company's financial statements.
- (c) A sum of Rs. 652.7 million included under contractor payables in Trade and Other Payables had already been settled prior to the reporting date but was still recorded as outstanding. Consequently, both Trade and Other Payables and Work in Progress (WIP) were overstated by the same amount in the financial statements.
- (d) Although the Provisional Acceptance Certificate for the "Supply, Installation, Testing and Commissioning of the Visual Docking Guidance System at BIA," valued at Rs. 325.7 million, had been issued on 20 October 2025, the related asset and liability had not been fully recognized in the financial statements as at 31 December 2025. Consequently, the corresponding liability was understated by Rs. 174.7 million, while the total asset value was understated by Rs. 325.7 million.
- (e) During the year 2025, although the Company incurred SSCL amounting to Rs. 7.3 million on the importation, 13 baggage scanners donated by the International Organization for Migration to the Company, valued at Rs. 269.5 million, had not been recognized in the financial statements. Consequently, Property, Plant and Equipment and grant were each understated by Rs. 269.5 million.
- (f) A discrepancy of Rs. 205.5 million was observed between the Embarkation Levy receivable and the actual balance submitted by CAASL to the Company. This difference resulted in an understatement of Embarkation Levy income in the financial statements for the year under review.
- (g) According to the information made available to audit, a discrepancy of Rs. 185.4 million was observed between the inventory balance of Rs. 849.3 million reflected in the general ledger and the corresponding inventory schedule balance of Rs. 1,034.7 million as at 31 December 2025.
- (h) A discrepancy of Rs. 129.3 million was observed in respect of eight fixed deposits between the balances reported in the financial statements and the corresponding

balances confirmed by the bank. Accordingly, a further discrepancy of Rs. 4.9 million was identified between the interest receivable balance reported in the financial statements and the independent calculation of interest receivable performed by the auditors based on the confirmed balances.

- (i) The Board of Survey for the year 2025 of the Company had not been completed and reconciled even as at 11 May 2026. However, out of a total of 37,102 asset items, 4,607 items with a cost value of Rs. 1,913.3 million and a net book value of Rs. 67.7 million had been identified as unavailable during the 2024 Board of Survey.
- (j) Under the Voice Recording System of the RMA Project (Project No. 5647), the entire project value of Rs. 153.6 million had been capitalized through the Work-in-Progress (WIP) account without separately adjusting the balance of Rs. 60.9 million recorded in the Goods in Transit (GIT) account. Consequently, the WIP account was understated by Rs. 60.6 million, while the GIT account was overstated by Rs. 60.9 million as at the reporting date.
- (k) A sum of Rs. 55.9 million, representing the 40 per cent share of Over Flying Levy payable to the Treasury, had been recorded both as an amount payable to the Treasury and under trade creditors. Consequently, trade creditors were overstated by the same amount.
- (l) Although payments for the supply of 12 VHF Air Band transceivers at BIA had been fully settled in 2022, a sum of Rs. 35.8 million continued to be recorded under trade creditors, resulting in an overstatement of liabilities. Further, despite the issuance of the Certificate of Acceptance on 08 March 2023, a sum of Rs. 15.6 million relating to the supply of three VHF Air Band transceivers at Batticaloa Airport continued to remain under Goods in Transit.
- (m) Although the disaster recovery hut received as a grant in 2022 was available for use, it had not been valued and capitalized, and the related duty amounting to Rs. 5.9 million included in Work in Progress had also not been capitalized. Consequently, property, plant and equipment and depreciation expense were understated, while profit for the year was overstated.
- (n) Eleven laptops valued at Rs. 4.5 million, which had been confirmed by the supplier's email dated 02 December 2025 as having been handed over to the Company on 28 August 2025, had not been capitalized in the financial statements.



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- (o) A quarter and its adjoining garage, which are not legally owned by the Company (AASL), had been incorrectly classified under the building and revalued in the accounting records at Rs. 3.2 million.
- (p) As per the Project Management Unit (PMU) records, outstanding payments to the consultant amounted to Rs. 46.6 million, whereas the financial statements reported Rs. 53 million. Accordingly, a discrepancy of Rs. 6.5 million was observed between the PMU records and the financial statements.
- (q) As per the confirmation received from the JAC consultant, amounts of Rs. 890.8 million relating to unpaid invoices and Rs. 711.5 million relating to amounts not yet invoiced were outstanding as at 31 December 2025. However, the Company had neither reconciled these balances nor adjusted them in the financial statements.

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 qualified opinion.

1.3 Emphasis of Matters

- (a) I draw attention to Note No. 30 and as per the circular dated 12 April 2022 on "Interim policy regarding the service of Sri Lanka's external public debt" issued by the Ministry of Finance, directions were given not to settle foreign loans obtained by the government entities. This adversely affected the on-going constructions of BIADP Phase II Stage 2 Project, as the contractor refused to continue the project since JICA stopped the loan disbursements with the issuance of circular.

Despite the circular issued by the Ministry of Finance, Company communicated to the Ministry of Finance that AASL has the financial capability to make loan repayments and continue the project as the company has adequate funds. Since that endorsement could not be issued due to IMF debt restructuring programme, the contractor Taisei Corporation terminated the contract with AASL, with effect from 09 December 2022.

As part of the way forward, Action plan of the project, with the approval of the Cabinet of Ministers, AASL initiated action carry out identified Protective Works utilising funds from AASL to immediately address deterioration of steel reinforcements in partially completed concrete structure at termination. Part of the

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requirement of steel reinforcement in this work was provided by AASL from materials taken over from the Terminated Contractor.

Following termination, Taisei Corporation submitted termination claims under several heads, including works executed up to the date of termination, consolidation claims, losses arising from termination (including loss of profit), and subcontractor claims. The Project Consultant appointed a specialist team comprising Quantity Surveyors and a Contract and Claims Specialist to evaluate the submitted claims.

The Project Consultant evaluated the statement of payment on termination submitted by Taisei Corporation and certified an interim payment amounting to JPY 12,794.8 million and Rs. 14,221.9 million as at 31 December 2025. Prior cabinet approval was obtained for the settlement of the certified interim payments.

In addition to the interim claims, the Contractor's monthly running costs up to finalization of the termination claim and formal contract closure will be accrued to the final claim. Certain claims remain disputed and have not been certified by the Consultant. The Contractor may refer such disputes to the Dispute Board (DB) appointed under the contract for resolution. As this process may be time-consuming, the final settlement amount may increase further.

- (b) I draw attention to Note 30(b) of the financial statements, relating to a judgement delivered by the Commercial High Court of Colombo on 06 February 2025 ordering AASL to pay Rs. 196.5 million to private company on a terminating a contract on implementation of a ERP system and AASL has filed appeal to the Supreme Court on the judgement. Based on legal advice received and management's assessment, it is not considered probable, as at the reporting date that an outflow of economic benefits will be required. Accordingly, no provision has been recognized in the financial statement.

My audit opinion remains unmodified in respect of these matters.

1.4 Other information included in the Company's 2025 Annual Report.

The other information comprises the information included in the company's 2025 Annual Report but does not include the financial statements and my auditor's report thereon, Which I have obtained prior to the date of this auditor's report. Management is responsible for the other information.



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

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

If based on the work I have performed on the other information that I have obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company 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 is 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.

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists.

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Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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



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2. Report on Other Legal and Regulatory Requirements

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

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

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

2.1.3 The financial statements presented includes all the recommendations made by me in the previous year, as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018 except the audit matters of 1.2(b), 1.2 (h) and 1.2(i) described in the basis for Qualified Opinion section of my report.

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

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

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

Reference to Laws, Rules
Regulations etc.

Non- Compliance

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| (a) Section 14 of the Civil Aviation Act No. 14 of 2010 | A detailed Master Plan is required to be prepared for each airport and submitted to the Civil Aviation Authority of Sri Lanka for review and approval. However, the Master Plan of Bandaranaike International Airport had not been updated since 1983, despite 43 years having elapsed, while Master |
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Plans for Jaffna International Airport and Batticaloa Airport had neither been prepared nor implemented.

- (b) Paragraph 2.6 (use of e-GP portal for shopping procedure) of PED circular No.08/2019 and dated 17 December 2019 and circular letters No. e-GP/ICT/Awards(sp)/2023 dated 05 August 2025 and No. E-GP/ICT/Awards (sp)/2023 dated 13 March 2026 issued by the Ministry of Finance, Economy and policy Development.
- All the procurements planned to be processed by PEs under the shopping procedure should be processed through the e-GP system gradually by PEs beginning 01 January 2020. However, e-GP portal for the shopping procedure was not followed by the company yet.
- (c) Section 2.2.2 (b) V of Public Enterprises circular No.01/2021 and dated 16th November 2021-Guideline on Corporate Governance for State Owned Enterprises
- Although the relevant circular requires the separation of the roles of Chairman and Chief Executive Officer (CEO) to ensure proper corporate governance, these roles had not been segregated, and both positions continued to be held by the same individual, contrary to the provisions of the circular.
- (d) Public Enterprises circular No.01/2021 and dated 16th November 2021-Operational manual on State Owned Enterprise
- (i) Section 2.3
- All SOEs are required to establish and maintain clearly defined systems, processes, and protocols covering all major operations, with regular reviews and updates. However, contrary to this requirement, a manual governing the leasing of hangars had not been prepared or submitted for audit.

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- (ii) Section 3.2 (i) and Section 3.4 of The Company had not obtained full approval from the Public Enterprises circular Department of Management Services for its Scheme of No.01/2021 and dated 16th Recruitment (SOR), pay structure, allowances, and new November 2021-Operational recruitments. Further, the existing SOR lacked essential manual on State Owned details such as job descriptions and modes of recruitment, Enterprise and Paragraph 4.1 while recruitments for Airport Service Assistants (ASA) and (New Recruitments) of circular Management Assistants (MA) had been carried out without PED circular No.01/2024 and the required approval from the Department of Management dated 28 February 2024 issued by Services.
the Ministry of Finance,
Economic stabilization and
National Policies.
- (iii) Section 5.3 Although the Operational Manual for State-Owned Enterprises requires at least 30% of profit after tax to be remitted to the Consolidated Fund, the Company had contributed only Rs. 8,873.8 million out of the expected Rs. 16,209.5 million during the financial years 2022 to 2024, representing only 55% of the required contribution.
- (e) Public Enterprises circular No.08/2022 and dated 21 December 2022 Although State-Owned Enterprises are required to settle dividends and/or taxes payable to the General Treasury before making leave encashment payments, the Company had paid Rs. 548.7 million as leave encashment to employees as at 31 December 2025 without fully distributing the dividends payable for the preceding years.
- (f) Section 2.1 of the public Audit observed delays in the recovery and adjustment of Enterprises Circulars No. PED bonus advances paid to employees, with outstanding 04/2023 dated 11 December 2023 balances amounting to Rs. 143.6 million for 2023 and and PED/02/2025 dated 02 additional balances relating to 2024 and 2025 remaining December 2025 and AP circular unrecovered as at 28 February 2026. Further, bonus advances AP/217 dated 05 October 2018 for 2026 had been paid without establishing the required Key and Cabinet¹ decision Performance Indicators (KPIs).
No.අමප/25/2415/814/115 dated
26 January 2026



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- (g) Public Enterprises Circular No PED 01/2021(iii) and dated 27th September 2023-Supplementary III Operational Manual for State Owned Enterprises. All SOEs are required to adopt their own administrative and financial manuals in line with the relevant provisions of this Manual, and such manuals should be approved by the Director General of the Department of Public Enterprises. However, the Company's administrative and financial manuals had not been approved by the Director General of the Department of Public Enterprises.

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

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

- (a) An amount of Rs. 18.7 million incurred on the construction of the Security Billet Complex during 2013 and 2014 had remained classified as Work-in-Progress (WIP), while the facility continued to be unusable despite the considerable lapse of time.
- (b) The completion of the project for the Supply, Installation, Testing, and Commissioning of the Visual Docking Guidance System at Bandaranaike International Airport (BIA) had been delayed by nearly one year due to contractor-related issues. However, liquidated damages amounting to Euro 74,508.85 and Rs. 3.9 million plus VAT had not been recovered or adjusted as at the audit date.
- (c) The procurement process for forty-six multifunction printers was repeatedly initiated and recalled due to technical deviations, bidder appeals, and evaluation issues, resulting in delays and raising concerns regarding transparency and value for money due to inadequate pre-bid clarifications and significant variances in market prices.
- (d) The Canteen and Grocery Building at Mattala International Airport, valued at Rs. 31.7 million, had remained idle for a prolonged period and was not utilized in the Company's operations during the year under review.



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- (e) During the year under review, the Company had planned 76 projects each valued at over Rs. 50 million, with a total estimated value of Rs. 36,062 million. Out of 45 projects, including 28 continuing projects scheduled for completion during the year 2025, only 12 projects had been completed as at the end of the year. Further, 08 projects had been placed on hold or cancelled, 19 projects had not yet commenced, 02 projects had encountered major issues or risks, and 13 projects had faced minor issues affecting their progress.

2.3 Other Matters

- (a) Although the Cash and Supply Advance Procedure of the Company requires supplier advances to be settled by the respective user within 14 working days, audit observed that this requirement had not been complied with. As at 01 December 2025, supplier advances amounting to Rs. 105.2 million remained unsettled for periods ranging from over 14 days to more than five years.
- (b) Supplier advances amounting to Rs. 3.2 million relating to Mattala Rajapaksa Airport and project advances amounting to Rs. 988,000 pertaining to the year 2021 remained unsettled up to the audit date.
- (c) Although the advances amounting to Rs. 26.2 million had been spent and GRN was issued during the year 2025, the advances had been remained unsettled up to date.
- (d) Unpaid supplier advances amounting to Rs. 5.9 million remained unsettled for periods ranging from over one to five years.
- (e) A dispute had arisen between the Company (AASL) and a duty-free operator at Bandaranaike International Airport (BIA) regarding the applicability of the Social Security Contribution Levy (SSCL) on concession fees and rental income. As a result, SSCL and related VAT amounting to Rs. 764.9 million remained outstanding as at 31 March 2026, while the matter was under litigation and recovery action had been restricted by an interim court injunction. Further, despite the expiry of the agreement, a short-term extension had been granted to avoid significant revenue losses arising from the discontinuation of operations.
- (f) A financial fraud involving Rs. 14.8 million, committed in the Airport Management Division by a Management Assistant through the misappropriation

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of cash collected from the issuance of entry passes, had remained without been recovered as of the date of this report.

- (g) Approval was given to allocate alternative land for the Akuregoda site and to provide Rs. 161 million for establishing a new high-frequency transmission center. However, the ownership of the land allocated from the Seetha Eliya Kandapola forest had not been transferred to the company, and no action had been taken to obtain the funds.
- (h) Since the company formation in 1983 until 31 December 2025, the Company had invested a sum of Rs. 111,564 million on Property, Plant, and Equipment, (excluding lands at BIA and lands and assets at Mattala) for airport infrastructure development as a statutory service provider, without obtaining concurrence from the Civil Aviation Authority of Sri Lanka.
- (i) The operating cost and the operating income of the Mattala Rajapaksa International Airport (MRIA) for the year under review was Rs. 2,523 million and Rs. 257 million respectively, while the operating loss and net loss after tax was Rs. 2,266 million and Rs. 4,906 million respectively. The cumulative net losses as at the end of the year under review was Rs. 67,765 million. Although the expected annual passenger movement was one million, only 462,191 passengers were recorded over seven years. In addition, company had paid interest amounting to CNY 183.6 million from the year 2015 up to date on the foreign loan obtained for the construction of the airport.
- (j) Audit examination of the staff quarters administration of the Company (AASL) revealed weaknesses in policy governance, transparency, and compliance, including outdated policies, deviations from standard government practices, irregular quarter allocations, delayed rent revisions, and inadequate recovery of water charges from occupants.
- (k) An expenditure of Rs. 405.1 million incurred on consultancy services for the BIA Development Project – Phase 2, Stage II had been identified as uneconomic, as the design prepared during 2008–2011 could not be reused due to subsequent changes in the capacity and scale of the passenger terminal building.
- (l) International and domestic landing and parking debtors amounting to Rs. 368.9 million and Rs. 67.9 million respectively, rental debtors of Rs. 179.1 million, aerobridge debtors of Rs. 21.2 million, overflying debtors of Rs. 222.5 million,



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concession turnover debtors of Rs. 342.1 million, and fuel debtors of Rs. 13.3 million had remained outstanding for periods ranging from over one to five years without recovery.

- (m) Audit observed that 146 confirmation letters were sent to debtors to verify account balances and transactions; however, only 7 responses were received as at the audit date, with approximately 95% of confirmations remaining outstanding. As a result, audit was unable to satisfactorily verify the accuracy and existence of the related debtor balances reported in the financial statements.
- (n) In the accounting system of the Company, five accounts related to transactions with a total balance of Rs. 1,868.9 million had not been reconciled as at the end of the year under review. Although these balances had been netted off to Rs. 234.2 million in the financial statements, the underlying accounts remained unsettled and unsupported by proper reconciliations.
- (o) The spares for passenger boarding bridges with a value of Rs. 13.9 million had continued as goods in transit since 30 January 2023 without being taken the further action.
- (p) A sum of Rs.203.4 million related to cost of the fuel sale in December 2025 had been remained in the stock clearing account as at 31 December 2025 without being settled.
- (q) An amount totalling Rs. 6.2 million incurred in relation to purchase of assets at Mattala Airport, which had already been received during the year 2025, was incorrectly retained under Goods in Transit.
- (r) Four physically existing vehicles had not been recorded in the financial statements, indicating deficiencies in asset recording and financial reporting controls.
- (s) **Phase II Step 2 of the Bandaranaike International Airport Development Project (BIADP)**

Initially, in year 2009 the project it is expected to expand the passenger movement capacity from 6 to 12 million. Accordingly, a sum of Rs. 405.15 million had incurred as consultancy expenses on designing works. Subsequently, the passenger movement capacity had been changed from 6 to 15 million through infrastructure upgrades and improved connectivity. As a result, the consultancy expenses incurred amounting to Rs. 405.15 million had resulted uneconomic, since the plan

designed for the earlier passenger movement could not be used for the revised passenger movement capacity.

A new consultancy agreement was signed on 3 March 2014, with a Japanese joint venture firm and amended in year 2016, 2023, and 2024 to meet AASL's updated requirements, extending the contract to July 2028. The total consultancy cost was set at USD 1.48 million, JPY 3,425.5 million, and Rs. 1,731.8 million. By 31 December 2025, AASL had paid a sum of Rs. 6,076.1 million, equivalent to JPY 2,932.8 million and US\$ 864,945, for planning and consultancy services.

Under the JICA funding arrangements and the loan agreements entered into in 2012 and 2016, the total approved project funding amounted to JPY 74,397 million. However, only JPY 27,872 million had been utilized as at 31 December 2025, indicating a significant underutilization of the available loan funds. The company had incurred commitment fees amounting to JPY 282.5 million as a consequence of the delay in utilization. The company had also incurred interest charges of JPY 131.7 million for this loan. Further, loan repayments had commenced from 16 March 2022 despite the substantial unutilized balance remaining in the loan accounts.

In addition, out of the loan obtained in 2022 amounting to JPY 28.9 billion, only JPY 26.8 billion had been utilized as at 31 December 2025, while a balance of approximately JPY 2.0 billion, representing 7.18 per cent of the loan proceeds, remained unutilized.

Construction works was divided into two packages namely A and B. Package B included a remote apron and taxiways to expand aircraft parking bays from 25 to 48. Although the work was scheduled to complete by October 2019, the actually completed in January 2022 at a cost of Rs. 8,448.6 million. However, 5 bays were blocked due to ongoing work, and 14 bays were deemed optimal use. Despite an agreement signed in February 2024 to re-mark the bays, it had not been completed yet.

Under Package A, the Passenger Terminal Building & Associated Works contract was awarded to Taisei Corporation on 4 March 2020 at a contract amount of Rs. 105,569.7 million (JPY 41,553.9 million and Rs. 35,135.8 million). The project was scheduled to be completed by 14 December 2023. However, the construction work was suspended on 9 December 2022, after JICA stopped the funding due to



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NATIONAL AUDIT OFFICE

a Ministry of Finance circular on foreign debt. At the time of suspension, the total payment made to the contractor was Rs. 37,239.8 million and the actual work completed was only 5.44 percent when compared with the planned 30 percent. However, according to the information submitted to audit, the consultant had subsequently reassessed and certified the actual physical progress as 6.85 per cent.

According to the information submitted by the Acting Project Director dated 11 March 2026, three items had been de-scoped from the project. However, although the costs relating to these items had been incurred using the Company's own funds, consultancy payments amounting to approximately Rs. 96.79 million relating to the same items had been charged to the project cost.

Materials valued at Rs. 1,995 million relating to the Construction of Passenger Terminal Building-II and associated works had been stored in private warehouses due to the suspension of construction activities, and warehouse rental charges amounting to Rs. 99.18 million inclusive of VAT had been incurred up to the end of the year 2025. Further rental expenses are also expected to be incurred until the recommencement of the project. In addition, commitment charges and project administration expenses amounting to Rs. 230 million incurred during the suspension period were observed to be uneconomical in nature, as no corresponding progress in construction activities had been achieved during that period.

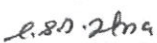
Further, at the time of termination of the contract, certain materials and equipment valued at Rs. 1,652.6 million remained overseas, most of which were in partially completed stages. Out of those materials and equipment, items valued at Rs. 636.6 million had been disposed of during the year 2025. However, the related accounting adjustments and financial reporting treatments for such disposals and the remaining materials had not been carried out even as at 31 December 2025.

Two contracts valued at Rs. 3,755.3 million had been entered into with a private company for carrying out protective works and other essential activities relating to Package A, and payments amounting to Rs. 2,935.9 million had been made from the Company's own funds by the end of March 2026. Audit observed that the cumulative work-in-progress relating to Package A amounted to Rs. 46,776.9 million. However, out of the expenditure of Rs. 436 million incurred on protective works, a sum of Rs. 101 million had been treated as repairs and maintenance expenses and charged to profit or loss.

Auditor General's Report on the Financial Statements |

According to the information submitted to audit, out of the total claims paid to the contractor during the year 2025 amounting to JPY 12,794.8 million and Rs. 14,221.9 million, a sum of JPY 7,769 million and Rs. 6,648.2 million had been paid as termination claims. This indicated that a substantial portion of the payments made during the year had arisen due to the termination of the contract, thereby resulting in significant additional financial burden to the project.

However, in order to recommence the BIADP Project, fresh tenders had been re-invited on 24 September 2024. The deadline for submission of bids had subsequently been extended on two occasions up to 25 March 2025, and the bids were opened on the same date. Audit further observed that the evaluation of technical proposals by the Technical Evaluation Committee (TEC) had been completed only on 17 November 2025, while the financial proposals were opened on 9 April 2026. The considerable time taken for the procurement and evaluation process indicated further delays in recommencement of the project, thereby increasing the risk of additional cost escalations, continued storage and administrative expenses, and further delays in achieving the expected project objectives.


L.S.I. Jayaratna

Auditor General.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED

**FINANCIAL STATEMENTS
31 DECEMBER 2025**

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
FINANCIAL STATEMENTS - 31 DECEMBER 2025

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AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Sri Lankan Rupees)

	Note	Year ended 31 December	
		2025	2024
Revenue	5	49,991,199,284	43,750,204,235
Other Income	6	157,196,025	147,125,607
		<u>50,148,395,309</u>	<u>43,897,329,842</u>
Administration and Establishment Expenses	7	<u>(23,380,761,171)</u>	<u>(24,317,232,283)</u>
Operating Profit		26,767,634,138	19,580,097,559
Finance Income		7,356,343,501	7,742,971,965
Finance Cost		<u>(465,739,337)</u>	<u>1,348,014,727</u>
Net Finance Income	8	<u>6,890,604,164</u>	<u>9,090,986,693</u>
Profit Before Tax		33,658,238,302	28,671,084,252
Income Tax Expenses	9	<u>(7,725,501,411)</u>	<u>(7,563,533,219)</u>
Profit for the Year		<u>25,932,736,891</u>	<u>21,107,551,033</u>
Basic Earning Per Share	10	129,662	105,537
Other Comprehensive Income			
Actuarial Gain/(Loss) on Retirement Benefit Obligations	23	188,181,878	(1,584,154,286)
Revaluation Gain on Fixed Assets	19	188,239,517	3,887,322,433
Deferred Tax on Actuarial Gain/(Loss) and Revaluation Gain	13	(112,926,419)	475,246,286
Total Other Comprehensive Income		<u>263,494,977</u>	<u>2,778,414,433</u>
Total Comprehensive Income for the Year		<u>26,196,231,868</u>	<u>23,885,965,466</u>

The notes on pages 5 to 34 form an integral part of these financial statements.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
STATEMENT OF FINANCIAL POSITION
(All amounts in Sri Lankan Rupees)

	Note	As at December 31	
		2025	2024
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	11	46,406,776,734	46,691,988,899
Investment Properties	11	4,240,153,587	4,350,666,207
Right of Use Assets	11	3,803,078	4,108,917
Capital Work in Progress	11	53,863,810,096	49,646,447,011
Intangible Assets	12	183,468,367	118,145,699
Deferred Tax Assets	13	3,460,735,063	3,511,980,247
		108,158,746,925	104,323,336,980
Long Term Investments			
Long Term loans		8,321,500	9,188,500
Long Term Debenture Investments	14.1	1,500,000,000	1,754,300,000
Long Term Bank Deposits	14.2	-	5,141,085,264
Loans Granted to Company Staff	16.1	145,768,357	124,009,193
		1,654,089,857	7,028,582,957
Current Assets			
Inventories	15	1,034,674,034	2,015,239,563
Trade and Other Receivables	16	13,847,757,741	10,710,000,768
Short Term Debenture Investments	14.1	254,300,000	445,000,000
Short Term Bank Deposits	14.2	128,720,489,816	93,427,415,884
Cash and Cash Equivalents	17	1,535,745,407	4,519,586,238
		145,392,966,998	111,117,242,454
Total Assets		255,205,803,780	222,469,162,390
EQUITY AND LIABILITIES			
Equity			
Stated Capital	18	20,000,200	20,000,200
Reserves	19	11,021,961,061	10,864,853,399
Retained Earnings	20	102,583,356,654	79,408,637,223
Total equity		113,625,317,914	90,293,490,821
Non-Current Liabilities			
Interest-bearing borrowings	21	93,002,817,309	71,031,712,452
Lease liabilities	11	7,636,956	8,422,060
Debentures	22	4,000,000,000	4,000,000,000
Retirement Benefit Obligation	23	9,873,526,088	9,365,305,451
Deferred Tax Liability	13	10,262,031,161	10,439,696,649
Deferred Grants	24	1,272,025,859	1,240,393,529
		118,418,037,373	96,085,530,141
Current Liabilities			
Trade and Other Payables	25	10,006,405,496	9,037,706,557
Interest-bearing borrowings	21	9,433,485,478	24,775,111,060
Lease liabilities	11	993,600	454,087
Deferred Grants	24	99,729,282	73,490,290
Income Tax Payable	26	3,621,834,637	2,203,379,433
		23,162,448,493	36,090,141,428
Total Liabilities		141,580,485,866	132,175,671,569
Total Equity and Liabilities		255,205,803,780	222,469,162,390

The Board of Directors are responsible for the preparation and presentation of these Financial Statements. These Financial Statements were authorised by the Board of Directors on 25th February 2026.

.....
W W S Mangala
Chairman (Actg.)

.....
Cyril Wannigama
Vice Chairman

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act, No. 07 of 2007.

.....
J A M D S S Abeywardena
Head of Finance and Strategy

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
STATEMENT OF CHANGES IN EQUITY
(All amounts in Sri Lankan Rupees)

	Note	Stated Capital	Other Reserves	Retained Earnings	Total
Balance at 1 January 2024		20,000,200	6,846,530,966	60,744,660,339	67,611,191,508
Prior Year Adjustments		-	-	82,333,851	82,333,851
Profit for the Year		-	-	21,107,551,033	21,107,551,033
Other Comprehensive Income					
Actuarial Loss on Retirement Benefit Obligations		-	-	(1,584,154,286)	(1,584,154,286)
Deferred Tax on Actuarial Loss		-	-	475,246,286	475,246,286
Revaluation Gain on Fixed Assets		-	3,887,322,433	-	3,887,322,433
Other Comprehensive Income		-	3,887,322,433	(1,108,908,000)	2,778,414,433
Total Comprehensive Income		-	3,887,322,433	19,998,643,033	23,885,965,466
Dividend Paid	28	-	-	(1,286,000,000)	(1,286,000,000)
Transfer-Reserve for Lightning Damages		-	131,000,000	(131,000,000)	-
Balance at 31 December 2024		20,000,200	10,864,853,399	79,408,637,223	90,293,490,822
Balance at 1 January 2025		20,000,200	10,864,853,399	79,408,637,223	90,293,490,822
Prior Year Adjustments	29	-	-	66,595,225	66,595,225
Profit for the Year		-	-	25,932,736,891	25,932,736,891
Other Comprehensive Income					
Actuarial Gain on Retirement Benefit Obligations		-	-	188,181,878	188,181,878
Deferred Tax on Actuarial Gain		-	-	(56,454,563)	(56,454,563)
Revaluation Gain on Fixed Assets		-	188,239,517	-	188,239,517
Deferred Tax on Revaluation Gain		-	(56,471,855)	-	(56,471,855)
Other Comprehensive Income		-	131,767,662	131,727,315	263,494,977
Total Comprehensive Income		-	131,767,662	26,064,464,206	26,196,231,868
Dividend Paid	28	-	-	(2,931,000,000)	(2,931,000,000)
Transfer-Fixed Assets Revaluation reserve			(2,660,000)	2,660,000	-
Transfer-Reserve for Lightning Damages		-	28,000,000	(28,000,000)	-
Balance at 31 December 2025		20,000,200	11,021,961,061	102,583,356,654	113,625,317,914

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
STATEMENT OF CASH FLOWS
(All amounts in Sri Lankan Rupees)

	Note	Year ended 31 December	
		2025	2024
Cash Flows from Operating Activities			
Profit Before Income Tax Expense		33,658,238,302	28,671,084,252
Adjustment for :			
Depreciation	11	2,911,252,753	3,788,754,633
Amortisation of right-of-use assets	11	305,839	305,840
Amortization of Intangible Assets	12	45,007,784	44,574,911
Adjustments for PPE Transfers		-	4,477,356,408
Exchange (Gain) / Loss on Loans Conversion	8	5,643,588,397	(13,266,244,433)
Exchange (Gain) / Loss on Fixed Deposits Conversion	8	(6,749,287,064)	8,835,297,942
Income from Investment	8	(6,908,252,245)	(7,495,522,963)
(Profit)/Loss on Sales of Property, Plant and Equipment		6,944,800	1,157,767
Prior Year Adjustments		-	245,174,814
Amortization/Receipt of Deferred Grants	24	(100,106,094)	(73,927,995)
Adjustments for Staff Loan interest		(26,261,817)	(8,037,658)
Finance Cost	8	2,248,526,137	2,515,661,418
Provision for Retirement Benefit Plan	23	1,531,893,521	1,459,477,173
Operating Profit Before Working Capital Changes		32,261,850,313	29,195,112,106
(Increase)/ Decrease in Inventories		1,072,339,726	1,494,160,911
(Increase)/ Decrease in Trade and Other Receivables		(1,908,986,977)	(1,808,728,485)
Increase/ (Decrease) in Trade and Other Payables		521,499,363	(3,091,872,557)
Cash generated from operating activities		31,946,702,425	25,788,671,976
Defined Benefit Plan Costs Paid	23	(835,491,006)	(672,233,663)
Interest Paid		(1,787,803,504)	(790,737,613)
Income Tax Paid	26	(6,546,392,929)	(5,933,212,438)
Net Cash Generated from Operating Activities		22,777,014,986	18,392,488,261
Cash Flows From Investing Activities			
Acquisition of Property, Plant and Equipment	11	(6,604,554,089)	(26,513,468,465)
Acquisition of Intangible Assets	12	(110,330,453)	(50,727)
Net Withdrawals in Debentures	14	445,000,000	800,000,000
Net (Investments) in Bank Deposits		(23,425,009,890)	(19,686,993,694)
Loan Recovered from Sport Club		1,200,000	1,200,000
Loan Granted to Sport Club		(333,000)	-
Proceeds From Sale of Property, Plant and Equipment		6,940,350	-
Interest Received		5,972,011,130	10,384,007,557
Staff Loans Granted		(211,800,000)	(98,000,000)
Staff Loans Receipt		112,122,858	110,589,164
Net cash used in investing activities		(23,814,753,094)	(35,002,716,165)
Cash Flows from Financing Activities			
Payment of lease liabilities	11	(993,600)	(993,600)
Dividend Paid	28	(2,931,000,000)	(1,286,000,000)
Loan Receipt	21	3,139,427,867	20,468,769,311
Loan Repayment	21	(2,153,536,990)	(1,223,359,109)
Net Cash (Used in)/Generated from Financing Activities		(1,946,102,723)	17,958,416,602
Net Increase/(Decrease) in Cash and Cash Equivalents		(2,983,840,832)	1,348,188,699
Cash and Cash Equivalents at the Beginning of the Year	17	4,519,586,238	3,171,397,540
Cash and Cash Equivalents at the End of the Year	17	1,535,745,407	4,519,586,238

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED

Notes to the Financial Statements

1 Corporate Information

1.1 General

Airport and Aviation Services (Sri Lanka) (Private) Limited ("Company") is a private limited company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at Bandaranaike International Airport, Katunayake.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were management of airports at internationally accepted standards, provision of air navigational services for inbound aircraft and aircraft flying through the Sri Lanka Flight Information Region (FIR) and providing other necessary facilities to the users of the airports.

1.3 Date of Authorization for Issue

The financial statements of Airport and Aviation Services (Sri Lanka) (Private) Limited for the year ended 31 December 2025 were authorised for issue in accordance with a resolution of the Board of Directors on 25th February 2026.

2 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements have been prepared in accordance with and comply with Sri Lanka Accounting Standards (SLFRSs/LKAS). The financial statements are prepared under the historical cost basis, as modified by fair valuation of certain financial assets and liabilities, and present value of defined benefit obligations and lease liabilities.

The preparation of financial statements in conformity with SLFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Company's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

These financial statements are presented in Sri Lanka Rupees. The preparation and presentation of these financial statements is in compliance with the Companies Act, No 07 of 2007.

2.1.1 Amalgamation

These financial statements present the amalgamated position of the Company including:

- a) The Voted Fund representing the government grants for capital expenditure; and
- b) The Retained Revenue Fund,

Which were prepared and presented separately up to the year 2011 pending an opinion from the Attorney General.

The Attorney General's opinion was sought by the Civil Aviation Authority based on a request made by the Company to the Ministry of Aviation to initiate action to commence the statutory amendments mentioned under paragraph 3.5 of the Cabinet Memorandum given in the Cabinet approval dated 17 August 2005 to amalgamate the assets and liabilities of the airport with those of the Company along with the necessary legislative amendments.

The necessity for the above Cabinet approval was due to the ownership of only part of the assets held by the former Airport Authority has been transferred to the Company in 1983 with the formation of the Company and dissolution of the Airport Authority with the remaining assets and liabilities been held and accounted under the voted and the retained revenue funds.

The Board of Directors of the Company on 28 June 2013 approved the amalgamation in order to comply with the Sri Lanka Accounting Standards (SLFRS/LKAS), on the basis that the Company in engaging in its principal activities deriving economic benefits from the use of the assets recorded in the two funds and also accounting for obligations on debt servicing without recording the related liability, thus deviating from fundamental accounting concepts.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED

Notes to the Financial Statements (Contd)

2.1.2 Statement of Compliance

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act and the SLFRSs/LKAS.

The statement of financial position, statements of comprehensive income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31 December 2025 and for the year then ended together with the comparative information are comply with the Sri Lanka Accounting Standards (SLFRS/LKAS) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act. These Standards are listed at www.casrilanka.com.

2.1.3 Comparative Information

The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1.4 Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

Short-term investments classified under Amortized Cost are initially recognized at fair value plus transaction costs, if any. They are subsequently measured using the effective interest rate (EIR) method.

Net Defined Benefit Liability - Liability is recognised as the present value of the Defined Benefit Obligations plus unrecognized actuarial gains, less unrecognised past service cost and unrecognised actuarial Losses

2.1.5 Functional and Presentation Currency

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the Functional Currency). These Financial Statements are presented in Sri Lankan Rupees, the Company's Functional and Presentation Currency. There was no change in the Company's Presentation and Functional Currency during the year under review.

2.1.6 Presentation of Financial Statements

The assets and liabilities of the Company presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. Financial Assets and Financial Liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle permitted by an Accounting Standard or Interpretation, and as specifically disclosed in the Accounting Policies of the Company.

2.1.7 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

2.1.8 Use of Judgments and Estimates

The preparation of the Financial Statements of the Company require the conformity with SLFRSs and management to make judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively when necessary.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED

Notes to the Financial Statements (Contd)

2.1.9 Going Concern

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

2.1.10 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity.

2.1.11 Deferred Tax Assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Assumptions are made to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

2.1.12 Fair Value Measurement

A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either,

- (a) in the principal market for the asset or liability; or
- (b) in the absence of a principal market, in the most advantageous market for the asset or liability

2.1.13 Changes in Accounting Policy and Disclosures

New and amended standards and interpretations

No significant impact resulted on the financial statements of the Company due to changes in Accounting Standards and disclosures during the year.

The new and amended standards and interpretations are disclosed below.

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

Amendments to LKAS 1 relate to classification of liabilities with covenants as current or non-current. The amendments clarify that if an entity's right to defer settlement of a liability is subject to the entity complying with the required covenants only at a date subsequent to the reporting period ("future covenants"), the entity has a right to defer settlement of the liability even if it does not comply with those covenants at the end of the reporting period. The requirements apply only to liabilities arising from loan arrangements

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

Lease Liability in a Sale and Leaseback - Amendment to SLFRS 16

The amendments to SLFRS 16 Leases specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. A seller-lessee applies the amendment retrospectively in accordance with LKAS 8 to sale and leaseback transactions entered into after the date of initial application.

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

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED

Notes to the Financial Statements (Contd)

Disclosures: Supplier Finance Arrangements - Amendments to LKAS 7 and SLFRS 7

The amendments clarify the characteristics of supplier finance arrangements and require an entity to provide information about the impact of supplier finance arrangements on liabilities and cash flows, including terms and conditions of those arrangements, quantitative information on liabilities related to those arrangements as at the beginning and end of the reporting period and the type and effect of non-cash changes in the carrying amounts of those arrangements.

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

International Tax Reform—Pillar Two Model Rule - Amendments to LKAS 12

The amendments to LKAS 12 introduce a mandatory exception in LKAS 12 from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes. An entity is required to disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

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

2.2 Foreign Currency Translation

Transactions and Balances

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period

- Foreign currency monetary items shall be translated using the closing rate
- Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction
- Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise.

2.3 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the Statement of Comprehensive Income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Statement of Financial Position date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority.

2.4 Inventories

Inventories are stated at the lower of cost or net realizable value after making due allowances for obsolete and slow moving items.

Spare parts and consumables for fire equipment brought before 31 December 2003 are valued based on a valuation and thereafter on weighted average basis.

The cost incurred in bringing inventories to its present location and conditions are accounted using the weighted average basis other than fuel which is valued at First-in, First-out (FIFO) basis.

The Company provides an allowance for inventories that have remained non-moving for a period exceeding 10 years, based on management's assessment of their recoverability and net realizable value.

2.5 Trade and Other Receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. Collection is expected in the normal operating cycle of the business, and they are classified as current assets. Trade receivables are recognized initially at their transaction price unless they contain significant financing components, in which case they are recognized at fair value. AASL holds trade receivables with the objective of collecting contractual cash flows and, therefore, subsequently measures them at amortized cost using the effective interest method.

Other receivables generally arise from transactions outside the usual operating activities of the AASL

2.6 Cash and Cash Equivalents

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

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

2.7 Property, Plant and Equipment

All property, plant and equipment is initially recorded at cost and stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All repairs and maintenance costs are charged to Statement of Comprehensive Income during the financial period in which they are incurred.

Cost of long term capital projects are carried forward in capital projects work-in-progress until the projects are completed and the related assets are available for use.

The Company applies the cost model for all classes of Property, Plant and Equipment, except for Land & Buildings and Motor vehicles, which are measured using the revaluation model after initial recognition. Under the revaluation model, Land & Buildings and Motor vehicles are carried at their revalued amounts, representing fair value at the date of revaluation, less any subsequent accumulated depreciation (in the case of buildings and Motor vehicles) and any accumulated impairment losses incurred after the date of valuation. To ensure that the carrying amounts reflect fair value, the Company conducts revaluations of Land & Buildings and Motor Vehicles at least once every ten years, or more frequently if there is a significant difference between the fair value and carrying amount as at the reporting date.

Depreciation begins when an item of property, plant and equipment is available for use and will continue until it is derecognized, even if during that period the item is idle. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

The useful lives of the assets are estimated as follows:

Buildings	Over 50 Years
Plant and Machinery	Between 04 to 20 Years
Motor Vehicles	Between 04 to 15 Years
Furniture, Fittings and Office Equipment	Between 02 to 10 Years
Communication and Navigation Equipment	Between 05 to 10 Years
Other Equipment	Between 02 to 10 Years
Airport Infrastructure	Between 08 to 50 Years

An asset's carrying amount is written down immediately to its recoverable amount if the asset carrying amount is greater than its estimated recoverable amount.

When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition 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 Comprehensive Income in the year the asset is de-recognized.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other income / (losses) net, in the statement of comprehensive income.

Any revaluation surplus is recorded in Other Comprehensive Income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the Statement of Profit or Loss, the increase is recognised in the Statement of Profit or Loss. A revaluation deficit is recognised in the Statement of Profit or Loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount the assets are written down to their recoverable amount. Impairment losses are recognized in the Statement of Comprehensive Income unless it reverses a previous revaluation surplus for the same asset.

2.7.1 Investment Properties

Investment properties are recognized at cost, including directly attributable transaction costs. Subsequent to initial recognition, they are measured using the Cost Model, carried at cost less accumulated depreciation and impairment losses.

The portion of the building that generates rental income has been classified as Investment Property, as it is held to earn rentals. Certain assets generate variable income to the entity based on the revenue generated by tenants operating within the premises of AASL. Accordingly, the total earnings from such assets depend on the rental arrangements specified in the respective agreements.

2.7.2 Right of use assets

Entity recognizes right of use assets when the underlying asset is available for use. Right of use assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognized.the recognized right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life or the lease term.

2.8 Intangible assets

An Intangible asset is recognised if it is probable that future economic benefits associated with the assets will flow to the company and cost of the asset can be reliably measured.

Intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

2.9 Stated Capital

Ordinary shares are classified as equity.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

2.10 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Liabilities classified as trade and other payables in the Statement of Financial Position are those which fall due for payment on demand or within one year from the Statement of Financial Position date. Items classified as non-current

liabilities are those which fall due for payment beyond a period of one year from the Statement of Financial Position date. Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

2.11 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

2.12 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.13 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.14 Retirement Benefit Obligations

(a) Defined Benefit Plan

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED

Notes to the Financial Statements (Contd)

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the actuarial valuation. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The company has obtained an independent actuary valuation services for the year for the computation of defined benefit obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(b) Defined Contribution Plans

All employees of the company in Sri Lanka are members of the Employees' Provident Fund and Employees' Trust Fund, to which the Company contributes 12% and 3% respectively, of such employees' basic or consolidated wage or salary.

2.15 Grants and Subsidies

Grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value.

2.16 Impairment of Non-Financial Assets

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Financial Assets

2.17.1 Classification

The Company classifies its financial assets in the following categories: Amortised cost, at fair value through profit or loss and fair value through other comprehensive income. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

(a) Amortised Cost

The asset is measured at the amount recognized at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount, and any loss allowance. Interest income is calculated using the effective interest method and is recognized in profit and loss. Changes in fair value are recognized in profit and loss when the asset is derecognized or reclassified.

(b) Fair Value through Other Comprehensive Income

Loans and receivables - Interest revenue, impairment gains and losses, and a portion of foreign exchange gains and losses, are recognized in profit and loss on the same basis as for Amortized Cost assets. Changes in fair value are recognized initially in Other Comprehensive Income (OCI). When the asset is derecognized or reclassified, changes in fair value previously recognized in OCI and accumulated in equity are reclassified to profit and loss on a basis that always results in an asset measured at fair value through other comprehensive income (FVOCI) having the same effect on profit and loss as if it were measured at Amortized Cost.

Investments in equity instruments - Dividends are recognized when the entity's right to receive payment is established, it is probable the economic benefits will flow to the entity and the amount can be measured reliably. Dividends are recognized in profit and loss unless they clearly represent recovery of a part of the cost of the investment, in which case they are included in OCI. Changes in fair value are recognized in OCI and are never recycled to profit and loss, even if the asset is sold or impaired.

(c) Fair Value through Profit or Loss

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income (FVOCI) are measured at fair value through profit or loss (FVPL)

2.17.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade-date - the date on which the company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within other gains/(losses) - net, in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the Statement of

Comprehensive Income as part of other income when the company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

2.18 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED

Notes to the Financial Statements (Contd)

2.19 Impairment of Financial Assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principle payment, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that co- relate with defaults.

SLFRS 9 requires to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Loss allowance for trade receivables is always measured at an amount equal to lifetime Expected Credit Loss (ECL). When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 365 days past due.

The Company recognises loss allowances for Expected Credit Losses (ECL) on trade receivables in accordance with SLFRS 9. Trade receivables are monitored on an ongoing basis. Receivables that are overdue for more than 365 days from the invoice date are considered to be credit-impaired, and impairment provision is recognised, unless there is reasonable and supportable evidence that the amount is recoverable.

Notwithstanding the above, where there is objective evidence that a debtor is unlikely to settle the outstanding balance, an impairment provision is recognised irrespective of the ageing of the receivable.

The adequacy of the loss allowance is reviewed at each reporting date, taking into account historical collection experience, current conditions and reasonable and supportable forward-looking information, including prevailing economic conditions.

2.20 Financial Liabilities

The Company's financial liabilities include trade and other payables, bank loans and other borrowings and unfavorable currency forward contract. All other financial liabilities except for financial liabilities at fair value through profit or loss are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

2.21 Revenue Recognition

The Company recognizes revenue in accordance with SLFRS 15 – Revenue from Contracts with Customers and follows the five-step model prescribed by the standard. Revenue is recognized when the Company satisfies a performance obligation by transferring control of promised goods or services to the customer, at an amount that reflects the transaction price to which the Company expects to be entitled. The transaction price is the consideration the Company expects to receive in exchange for goods or services, net of trade discounts, rebates, and applicable taxes. The following specific criteria are used for the purpose of recognition of revenue.

(a) Rendering of Services

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed.

(b) Interest

Interest Income is recognized as the interest accrues unless collectability is in doubt.

(c) Rental Income

Rental income is recognised as specified in the rental agreements on an accrual basis.

(d) Franchise Fee and Concessions

Franchise fees and concessions are recognized on an accrual basis in accordance with the substance of the relevant agreement and recognised on an accrual basis.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

(e) Landing & Parking Income International / Domestic

Landing and parking income is based on the maximum take off weight (MTOW), subject to a minimum charge and parking duration in the apron of the airport and recognised on an accrual basis.

(f) Overflying Income

Overflying income is calculated based on the MTOW of aircraft and the distance flown recognised on an accrual basis. Company is liable to pay 40% of collection on overflying Income to General Treasury with effect from 16.03.2023

(g) Aerobridge Charges

Aerobridge income is calculated based on usage time of aerobridge and type of aircraft. Income is recognised on an accrual basis.

(h) Embarkation Levy

Embarkation levy is collected by Civil Aviation Authority of Sri Lanka as per the Finance Act and USD 9.75 is remitted to AASL. Revenue is recognised on accrual basis.

(i) Entry Permit Fees, Parking Fees (Vehicles), Paging Board

Revenue is collected and recognised on cash basis

(j) Others

Lounge income is recognised on cash and accrual basis depending on the payment method.

Incinerator income is recognise on accrual basis.

Other income sources is recognized on cash and accrual basis depending on the payment method.

3 Financial Risk Management

3.1 Financial Risk Factors

The company's activities expose it to a variety of financial risk: market risk (including foreign currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

(a) Market Risk

(i) Foreign Exchange Risk

The company is sensitive to the fluctuations in exchange rates and is principally exposed to fluctuations in the value of the Sri Lanka Rupee (LKR) against the United States Dollar (USD) and Japanese Yen. The company's functional currency is LKR in which most of the transactions are denominated, and most of other currencies are considered foreign currencies for loan repayment purposes. Certain trade and other receivables and trade and other payables are denominated in foreign currencies.

The Company's financial statements which are presented in Sri Lankan Rupees, are affected by foreign exchange fluctuations through both translation risk and transaction risk. Changes in foreign currency exchange rates may affect the company's profits or losses. For example weakening of the Sri Lanka Rupee against the United States Dollar can have adverse effects on the company's profitability through its impact on repayment of loans taken by foreign currencies through Department of Treasury.

The sensitivity analysis below illustrates the impact on profit for the year of a reasonably possible change in the exchange rates of the Sri Lankan Rupee (LKR) against USD and JPY, based on the closing exchange rates at the reporting date, assuming all other variables remain constant.

For the purpose of this sensitivity analysis, foreign currency denominated borrowings outstanding at the reporting date have been considered. The sensitivity has been calculated by applying the assumed percentage change in exchange rates to the LKR carrying amount of these borrowings..

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

Sensitivity of Profit to Changes in the Exchange Rate of JPY against LKR	2025	2024
	Increase/ (Decrease) in profit (LKR)	Increase/ (Decrease) in profit (LKR)
Depreciation of JPY		
10%	6,001,798,995	5,662,248,406
15%	9,002,698,492	8,493,372,609
20%	12,003,597,989	11,324,496,812
Appreciation of JPY		
10%	(6,001,798,995)	(5,662,248,406)
15%	(9,002,698,492)	(8,493,372,609)
20%	(12,003,597,989)	(11,324,496,812)
Sensitivity of Profit to Changes in the Exchange Rate of USD against LKR		
Depreciation of USD		
10%	4,241,831,284	3,918,433,945
15%	6,362,746,926	5,877,650,918
20%	8,483,662,568	7,836,867,891
Appreciation of USD		
10%	(4,241,831,284)	(3,918,433,945)
15%	(6,362,746,926)	(5,877,650,918)
20%	(8,483,662,568)	(7,836,867,891)

(ii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long term borrowings denominated in USD and Japanese Yen. These are issued at fixed rates and thus it mitigates the cash flow interest rate risks on borrowings. This will further mitigated by the cash held at variable rates. Borrowings issued at fixed rates expose the company to fair value interest rate risk.

The Company has considered movements in these interest rates over the last years and has concluded that the movement in interest rates is not deemed to have a material effect on equity.

(b) Credit risk

The credit risk arises from trade and other receivables from outside parties.

(c) Liquidity risk

Cash flow forecasting is performed by the finance division. The finance division monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal Statement of Financial Position ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

Surplus cash held by the company over and above balance required for working capital management are invested in short term government securities to mitigate the liquidity risk.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

3.2 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The company assesses solvency prior to declaration of dividend to maintain the dividend ratio.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as total debt divided by total capital (debt plus equity)

For the purpose of this calculation, debt comprises interest-bearing borrowings, debentures, and lease liabilities, including both current and non-current portions, as presented in the Statement of Financial Position

Total capital comprises total equity together with total debt, as shown in the Statement of Financial Position.

The gearing ratio at the reporting date is as follows

	2025	2024
Interest-bearing borrowings	102,436,302,786	95,806,823,512
Debentures	4,000,000,000	4,000,000,000
Lease liabilities	8,630,556	8,876,147
Total debt	106,444,933,342	99,815,699,659
Total Equity	113,625,317,914	90,293,490,821
Total capital (Debt + Equity)	220,070,251,257	190,109,190,481
Gearing ratio	48%	53%

The above loan wholly consists of loans obtained through General Treasury for the development of Airports under sovereign guarantee, Debenture issued for the settlement of outstanding balance of Contractor of Mattala Rajapakse International Airport. The fair value of borrowings equals their carrying amount as the impact of discounting is not significant.

3.3 Fair Value Estimation

The Company had no financial instruments measured at fair value.

4 Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(a) Defined Benefit Plan - Gratuity

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. Other key assumptions for defined benefit plan are based in part on current market conditions. Additional information is disclosed in Note 23.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)
(b) Provisions

The Company recognizes provisions when it has a present legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. The recording of provisions requires the application of judgments about the ultimate resolution of these obligations. As a result, provisions are reviewed at each Statement of Financial Position date and adjusted to reflect the company's current best estimate.

5 Revenue

	2025	2024
Aeronautical	8,234,536,489	7,767,625,053
Non-Aeronautical	41,756,662,795	35,982,579,182
	49,991,199,284	43,750,204,235
Aeronautical Revenue		
Landing & Parking Income	5,089,842,129	4,685,661,143
Overflying Income	3,567,890,817	3,320,426,705
- 40% Contribution on overflying revenue to Treasury	(1,427,156,327)	(1,229,060,261)
Aerobridge Income	985,315,071	972,658,608
Domestic Landing & Parking Income	18,644,799	17,938,858
	8,234,536,489	7,767,625,053
Non-Aeronautical Revenue		
Embarkation Levy	11,670,201,888	8,721,057,950
Concession	14,224,564,707	12,959,625,830
Rental	9,513,627,676	7,857,351,225
Entry Permits	942,892,453	877,997,880
Fuel Throughput Chargers	319,393,309	294,718,859
Franchise Fee on Ground Handling - SLA	1,625,054,607	1,312,216,802
Franchise Fee - SLCS	935,540,017	773,381,475
Parking Fees - Vehicles	317,453,030	326,131,964
Domestic Ground Handling CIAR / BIA	4,656,964	9,770,084
Gross Profit from Lounges	1,065,969,863	1,139,723,303
Other Non-Aeronautical Income	1,137,308,280	1,710,603,809
	41,756,662,795	35,982,579,182
Total Aeronautical and Non-Aeronautical Revenue	49,991,199,284	43,750,204,235

6 Other Income

	2025	2024
Amortization of Grants	100,106,094	73,927,995
Gross Profit from Fuel Filling Station (Note 6.1)	57,089,931	73,197,612
	157,196,025	147,125,607

6.1 Gross Profit from Fuel Filling Station

	2025	2024
Sales	2,414,676,506	2,531,840,644
Less: Cost of Sales	(2,357,586,575)	(2,458,643,032)
Gross Profit	57,089,931	73,197,612

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

7 Administration and Establishment Expenses

	2025	2024
Directors' Emoluments	5,056,345	12,310,349
Staff Cost	10,259,223,165	10,072,258,508
Defined Contribution Plan Costs	1,251,161,624	1,236,872,476
Defined Benefit Plan Costs	1,531,893,521	1,459,477,173
Bonus	494,469,922	664,670,021
Overtime	827,115,403	848,490,802
Auditor's Remuneration	2,699,000	1,850,000
Depreciation (Note 11)	2,911,252,753	3,788,754,633
Amortization (Note 11 & 12)	45,313,624	44,880,751
Provision for Debtors Impairment	541,476,507	209,501,156
Repair and Maintenance	1,244,873,858	1,573,885,418
Electricity Expenses	1,714,914,966	1,992,918,323
Legal Fees	3,635,274	5,014,480
Donations	-	2,350,000
Other Expenses	2,547,675,210	2,403,998,194
	23,380,761,171	24,317,232,283

8 Net Finance Income

2025 2024

8.1 Finance Income

Interest on Treasury Bills under Repurchase Agreements	33,044,031	29,134,176
Interest on USD Bank Account	5,753,753	5,454,882
Interest on USD Fixed Deposits	6,138,416,271	6,523,623,592
Interest on Rupee Fixed Deposits	389,389,686	489,588,519
Interest on Debenture Investments	341,648,505	447,721,794
Interest on Loan Sports Club	322,212	322,212
Interest on Staff Loans	26,261,817	3,943,685
Interest on Security Deposits	3,463,028	3,691,673
Default Interest Income	418,044,198	239,491,431
	7,356,343,501	7,742,971,965

8.2 Finance Cost

	2025	2024
Loan Interest	(2,248,526,137)	(2,515,661,418)
Net Foreign Exchange Gain / (Loss) on Transactions	159,449,051	(234,477,391)
Exchange Gain / (Loss) on Loans Conversion	(5,643,588,397)	13,266,244,433
Exchange Gain / (Loss) on Fixed Deposits Conversion	6,749,287,064	(8,835,297,942)
Exchange Gain / (Loss) on Other Accounts Conversion	517,639,083	(332,792,954)
	(465,739,337)	1,348,014,727
Net Finance Income	6,890,604,164	9,090,986,693

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

9 Income Tax Expense

The major components of Income Tax Expense for the year ended 31 December 2025 are as follows :

	2025	2024
Current Income Tax		
Current Tax Charge	7,964,848,134	5,862,347,313
Income Tax	7,964,848,134	5,862,347,313
Deferred Income Tax		
Charge / (Reversal) in respect of Deferred Taxation (Note 13)	(239,346,723)	1,701,185,905
Total Tax Expense	7,725,501,411	7,563,533,219

	2025	2024
Profit Before Tax	33,658,238,302	28,671,084,252
Tax calculated at the effective tax rate of (30%)	10,097,471,491	8,601,325,276
Tax effect on Expenses not deductible for tax	3,441,811,812	4,694,257,414
Tax effect on Expenses/Income deductible for tax	(5,574,435,168)	(7,433,235,376)
Deferred Tax Charge / (Reversal)	(239,346,723)	1,701,185,905
Total Tax Expense	7,725,501,411	7,563,533,219

10 Basic Earnings per Share

Basic Earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

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

	2025	2024
Net Profit attributable to Shareholders	25,932,736,891	21,107,551,033
Weighted average number of Ordinary Shares issued	200,002	200,002
Basic Earning per Share	129,662	105,537

11 Property, Plant and Equipment

- (i) Land and building includes land amounting to LKR.941,277,941 as at 31 December 2025 (2024 - LKR.941,277,941) which is located at Katunayake.
- (ii) **Ownership of Land used by AASL**
Ownership of the lands used by AASL is vested with the Civil Aviation Authority of Sri Lanka (CAASL).
As per the Gazette Reference No. 2422/38 and 2422/39 dated 6th February 2025, the Civil Aviation Authority of Sri Lanka (CAASL) is in the process of making arrangement for the legal transfer of the possession of the properties to Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL). There are no barriers for AASL being the only statutory operator to carry out its investments on these lands and the annual charges as per the gazettes will be applicable from the agreement dates as confirmed by CAASL
- (iii) Part of the buildings of the Katunayake airport are constructed on Government land.
- (iv) Property, Plant, and Equipment include fully depreciated assets amounting to LKR 24,578,622,821 as at 31 December 2025 (2024: LKR 22,605,532,993).
- (v) Buildings at Piduruthalagala were revalued during the financial year 2025 by Mr. Anurada Senevirathna, Deputy Chief Valuer of the Department of Government Valuation, who is an independent professional valuer.
- (vi) Prior year adjustment includes repair and maintenance costs related to Protective Work Project of BIA-Phase 2 Stage ii, as well as PMU salaries and storage charges during project termination period, which were initially recorded under Capital Work in Progress account and subsequently those have been transferred to the Prior Year Adjustment Account.

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED**Notes to the Financial Statements (Contd)**

- (vii) A total asset value of LKR 17.6 Billion relating to MRIA is included in the amalgamated Property, Plant & Equipment as at 31.12.2025.

The Cabinet, on January 19, 2026, per the Cabinet Paper No. 26/0195/814/008, decided to revoke the cabinet decision taken on 25 April 2024 and 13 May 2024 per Cabinet Paper No CP No24/0540/628/028 and CP No.24/0882/628/028-I respectively, and granted approval to;

1.Call for fresh Expression of Interest from prospective investors to effectively utilize resources of MRIA and thereafter call Request for Proposals from Eligible Investors.

2.Authorize Secretary of Ministry of Finance, Planning and Economic Development, to appoint a Cabinet Appointed Negotiating Committee and a Project Committee for procurement process.

- (viii) **Right of use assets**

	2025	2024
Cost		
Balance as at 1 January	8,057,513	8,057,513
Accumulated amortisation		
Balance as at 1 January	3,948,596	3,642,756
Charge for the year	305,839	305,840
Balance as at 31 December	4,254,435	3,948,596
Carrying value as at 31 December	3,803,078	4,108,917

The right-of-use assets include two leased lands: the Kataragama land, leased from the Government of Sri Lanka under a 30-year lease agreement, and the International Airport at Mattala (MRIA) land, leased from the Government of Sri Lanka under a 99-year lease agreement.

- (ix) **Lease liabilities**

The lease liability is initially measured at the present value of the lease payments and discounted using the interest rate implicit in the lease or, if that rate can not be readily determined, the Company's incremental borrowing rate. The movement of Lease creditor for the period is as follows;

	2025	2024
Balance as at 1 January	8,876,147	9,104,368
Interest charged for the year	748,009	765,379
less: Payments made during the year	(993,600)	(993,600)
Balance as at 31 December	8,630,556	8,876,147
Current	993,600	454,087
Non Current	7,636,956	8,422,060
Total lease liabilities as at 31 December	8,630,556	8,876,147

12 Intangible Assets

	2025	2024
At the beginning of the Year		
Cost	298,855,416	298,804,688
Accumulated Amortisation	(180,709,717)	(136,134,806)
	118,145,699	162,669,883
Movement during the year		
Opening Net Book Amount	118,145,699	162,669,883
Additions	110,330,453	50,727
Disposals - Cost	(1,288,296)	-
Disposals - Amortisation	1,288,296	-
Amortisation during the year	(45,007,784)	(44,574,911)
Closing Net Book Amount	183,468,367	118,145,699
At the end of the Year		
Cost	407,897,573	298,855,416
Accumulated Amortisation	(224,429,206)	(180,709,717)
Closing Net Book Amount	183,468,367	118,145,699

The useful lives of the software assets are estimated as 4 years

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

13 Deferred Income Tax

	Statement of Financial Position		Statement of Comprehensive Income	
	2025	2024	2025	2024
Deferred Tax Liability on :				
Depreciation & Amortization	10,262,031,161	10,439,696,649	(177,665,488)	1,228,206,917
	10,262,031,161	10,439,696,649	(177,665,488)	1,228,206,917
Deferred Tax Assets on :				
Defined Benefit Plan	2,962,057,826	2,809,591,635	(152,466,191)	(711,419,341)
Provisions for Inventory & Debtors	496,088,070	308,223,465	(187,864,604)	687,573,645
Deferred Grants & Lease liabilities	2,589,167	394,165,146	391,575,979	21,578,399
	3,460,735,063	3,511,980,247	51,245,184	(2,267,298)
Deferred Income Tax Charge	3,460,735,063	3,511,980,247	51,245,184	(2,267,298)

Other Comprehensive Income

Deferred Tax on Actuarial Gain/(Loss) and Revaluation Gain	(112,926,419)	475,246,286
Deferred Tax Charge / (Reversal) (Note 9)	(239,346,723)	1,701,185,905

Deferred Income Tax Assets and Liabilities are offset when there is a legally enforceable right to offset current tax against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The Net Deferred Tax amount is as follows;

Deferred Tax Asset	3,460,735,063	3,511,980,247
Deferred Tax Liability	(10,262,031,161)	(10,439,696,649)
Deferred Tax Asset (Net)	(6,801,296,098)	(6,927,716,402)

14 Investments

14.1 Investments in Debentures

Investments in Debentures wholly consists of investments in 5 - 7 year Redeemable Debentures of Bank of Ceylon and Hatton National Bank . The carrying value of the investment, held to maturity equals the fair value.

	2025	2024
Debentures at weighted average rates of interest		
Debentures at Fixed Rate (12.8% - 29.0%)	1,754,300,000	2,199,300,000
	1,754,300,000	2,199,300,000

Date of Issue	Date of Redemption	Amount of Investment	
		2025	2024
29.03.2018	29.03.2025	-	445,000,000
23.09.2019	23.09.2026	254,300,000	254,300,000
30.12.2022	30.12.2027	500,000,000	500,000,000
27.12.2023	27.12.2028	1,000,000,000	1,000,000,000
		1,754,300,000	2,199,300,000

Classification of debenture investments based on maturity date is as follows,

	2025	2024
Long Term Debenture Investments	1,500,000,000	1,754,300,000
Short Term Debenture Investments	254,300,000	445,000,000
	1,754,300,000	2,199,300,000

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

14.2 Bank Deposits

	2025	2024
Long Term Bank Deposits	-	5,141,085,264
Short Term Bank Deposits	128,720,489,816	93,427,415,884
	128,720,489,816	98,568,501,148

Bank of Ceylon has granted Rs.5 Bn worth of credit facilities to AASL for Letter of Credit and Rs.50 Mn credit facility for Letter of Guarantee. LKR Fixed deposit ref: 89151481 opened on 24.6.2022 amounting to 530,199,157.62 is held as a security against this credit facility.

15 Inventories

	2025	2024
General	374,059,136	203,489,912
Electronics	91,484,861	103,220,821
Engineering	223,897,639	204,399,848
Fuel	26,499,492	26,183,960
Fire Equipment Spare Parts	40,632,418	36,482,792
Goods in Transit	285,077,910	1,442,453,617
Stocks -(Motor Spares)	92,414,050	81,297,600
Stock - Lounge	290,199	198,522
	1,134,355,704	2,097,727,071
Less : Allowance for Slow Moving Inventory	(99,681,669)	(82,487,508)
	1,034,674,034	2,015,239,563

The General Inventory includes painting items, stationeries, staff uniform and other hardware items, etc..

16 Trade and Other Receivables

	2025	2024
Trade Debtors	10,871,105,481	8,280,669,222
Less: Impairment of Trade Receivables	(1,553,945,230)	(944,924,053)
	9,317,160,251	7,335,745,168
Interest & Other Receivables	3,884,885,152	2,938,194,699
Advances and Prepayments	538,709,735	373,266,589
	4,423,594,887	3,311,461,288
Loans to Company Officers (Note 16.1)	107,002,603	62,794,312
	107,002,603	62,794,312
	13,847,757,741	10,710,000,768

Loans to Company officers are receivable from employees in equal monthly installments over the loan period not exceeding 4 years. Interest is charged on employee loans at a rate of 4.2% per annum. As per accounting policy, the employee loans are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method at each reporting date. The Effective Interest Rate (EIR) applied to employee loans represents the monthly Average Weighted Lending Rate (AWLR) prevailing at the date of loan inception, which reflects the market rate of interest.

16.1 Loans to Company Officers

	2025	2024
- Current portion (repayable within one year)	107,002,603	62,794,312
- Non-current portion (repayable after one year)	145,768,357	124,009,193
	252,770,960	186,803,505

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

17 Cash and Cash Equivalents

	2025	2024
Short Term Bank Deposits	-	2,401,527,619
Treasury Bills under Repurchase Agreements	20,007,638	165,945,394
Cash and Bank Balance		
Cash at Bank	1,508,802,269	1,948,539,725
Cash in Hand	6,935,500	3,573,500
	<u>1,515,737,769</u>	<u>1,952,113,225</u>
Total Cash and Cash Equivalents	<u>1,535,745,407</u>	<u>4,519,586,238</u>

18 Stated Capital

	Number of Shares	2025	2024
Stated Capital	200,002	20,000,200	20,000,200
		<u>20,000,200</u>	<u>20,000,200</u>
All issued shares are fully paid			

19 Reserves

	2025	2024
Net Assets taken over from Airports Authority	892,726,769	892,726,769
Fixed Assets Revaluation Reserve	9,777,234,292	9,648,126,630
Reserve for Lightning Damages to Property, Plant and Equipment	352,000,000	324,000,000
	<u>11,021,961,061</u>	<u>10,864,853,399</u>

The reserves consist of net assets transferred to the Company from the Airports Authority which was dissolved upon the incorporation of the Company, Revaluation reserve of assets and the reserve created from retained earnings amount of LKR 352 Million (5% of annual asset additions of electronic, electrical, communication & other equipment) for fire damages to property plant and equipment due to lightning with effect from 2013.

20 Retained Earnings

	2025	2024
As at beginning of the year	79,408,637,223	60,744,660,340
Current year Profit	25,932,736,891	21,107,551,033
Prior Year Adjustments	66,595,225	82,333,851
Other Comprehensive Income /(Expenses)	131,727,315	(1,108,908,000)
Transfer from Reserve Account	2,660,000	-
Transfer to Reserve Account	(28,000,000)	(131,000,000)
Dividend paid during the year	(2,931,000,000)	(1,286,000,000)
As at end of the year	<u>102,583,356,654</u>	<u>79,408,637,223</u>

21 Interest-bearing borrowings

Borrowings represent foreign loans .

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED

Notes to the Financial Statements (Contd)

21.1 Foreign Loans

Loans	2025	2024
Balance at the beginning of the year	95,806,823,512	89,914,434,108
Loans obtained during the year	3,139,427,867	20,468,769,311
	98,946,251,379	110,383,203,419
Loans settled during the year	(2,153,536,990)	(1,223,359,109)
Prior Year Adjustments	-	(86,776,364)
Exchange (Gain)/Loss on translation	5,643,588,397	(13,266,244,433)
Balance at the end of the year	102,436,302,786	95,806,823,512

Classification of Loans

Current Portion of Borrowings	9,433,485,478	24,775,111,060
Non - Current Portion of Borrowings	93,002,817,309	71,031,712,452
	102,436,302,786	95,806,823,512

Maturity Analysis of the Borrowings

	2025	2024
Less than one year	9,433,485,478	24,775,111,060
More than one year but less than five years	18,776,577,026	19,875,774,740
More than five years	74,226,240,283	51,155,937,712

As per the circular dated 12th April 2022 issued by the Ministry of Finance on "Interim Policy regarding the servicing of Sri Lanka's External Public Debt", AASL had to cease the repayment of three foreign loans obtained for below purposes.

1. Mattala Rajapakse International Airport (China EXIM Bank)
2. Runway Overlay (HSBC Hong Kong)
3. BIA Development Project Phase II Stage 2 (JICA) SL-P104

As per the instructions of the Ministry of Finance, AASL continued to transfer the loan installments of BIADP Phase II Stage 1 - JICA loan to the Treasury. BIADP Phase II Stage 2 - JICA Loan SL-P114 loan is still in the disbursement stage.

JICA Loan SL-P104 (BIADP Phase II Stage 2 Project)

Government of Sri Lanka (GoSL) had signed a MOU on 26.06.2024 with the Official Creditor Committee (OCC) for debt restructuring of JICA loans including SL-P104 loan granted to AASL in March 2012 for the BIADP Phase II Stage 2 project, under a sovereign guarantee from the Treasury. Original loan amount is JPY 28,969,000,000. Under the Debt Restructuring MoU, loan utilized balance as at 18.3.2022 amounting to JPY 15,091,857,367 had been restructured with the revised repayment terms granting a 5 year grace period from 1.1.2023-31.12.2027. Accordingly AASL signed the loan amendment agreement with JICA in June 2025.

Remaining non-rescheduled portion of loan of SL-P104 amounting to JPY 13,426,321,054.00, remains under its original agreement. Revised amortization schedule for this non-rescheduled loan amount has been issued and the repayment commenced from September 2025. Interest has been accounted as per the Loan Agreement.

China EXIM Bank Loan (MRIA Stage I Project)

GoSL has completed the debt restructuring process in June 2024. As per the Cabinet decision reference CP/23/0154/604/014 dated 07.02.2023, Ministry of Finance has to sign a MoU to transfer the loan to the government debt stock and AASL to remit the debt servicing installments to the General Treasury directly instead of China EXIM Bank. Interest has been accounted as per the Loan Agreement.

HSBC Hong Kong Loan (Runway Overlay Project)

GoSL is in the process of restructuring the loan with the lender. Interest and default Interest have been accounted as per the

The fair values are based on cash flows discounted using rates based on each of the following loans :

	2025	2024
United States Dollar (USD)	(%)	(%)
- Mattala Rajapakse International Airport	2.00	2.00
- Runway Overlay	SOFR + CAS + 2%	LIBOR + 2
Japanese Yen		
- BIA Development Project	1.80	1.80
- BIA Development Project Phase II Stage 1	0.75	0.75
- BIA Development Project Phase II Stage 2	0.20	0.20
United States Dollar (USD)	135,163,346	131,924,919
Japanese Yen	29,711,876,211	29,645,279,612

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

22 Debentures

	2025	2024
Debentures (at amortized cost)	4,000,000,000	4,000,000,000
	4,000,000,000	4,000,000,000

Company issued 40,000,000 guaranteed unlisted redeemable senior debentures at the rate of AWPLR+2.00% per annum payable semi-annually at par value of LKR100/- each with a maturity period of 15 years to National Savings Bank in May 2019 to raise LKR 4 Billion to settle outstanding payments to the China Harbour Engineering Company, the contractor of Mattala Rajapakse International Airport.

23 Retirement Benefit Obligations

Movement in the liability recognized in the Statement of Financial Position is as follows:

	2025	2024
As at beginning of the year	9,365,305,451	6,993,907,655
Current Service Cost	547,661,926	550,269,177
Interest Cost	984,231,594	909,207,995
Payments made during the year	(835,491,006)	(672,233,663)
Actuarial (Gain) / Loss on Retirement Benefit Obligations	(188,181,878)	1,584,154,286
As at end of the year	9,873,526,088	9,365,305,451

The principle assumptions used in determining the cost of employee benefits using the projected unit credit method to calculate the liability for Defined Benefit Obligations at year end were:

	2025	2024
Discount rate	10.5%	11%
Rate of Future Salary Increases	10%	1% - 10%
Cost of Living Allowance Increment Rate	10%	10%
Rate of Staff Turnover	1.8%	1.5%
Retirement Age	60 years	60 years

The provision for Retirement Benefit Obligations for the year is based on the Actuarial Valuation carried out by professionally qualified actuaries Units Actuaries & Consultants Pvt Ltd as at 31st December 2025.

The liability for Defined Benefit Obligations is not externally funded.

24 Deferred Grant

Treasury Grant and Foreign Grant	2025	2024
At the beginning of the year	1,313,883,820	1,385,811,815
Received during the year	157,977,416	2,000,000
Amortization for the period	(100,106,094)	(73,927,995)
At the end of the year	1,371,755,141	1,313,883,820
Current	99,729,282	73,490,290
Non Current	1,272,025,859	1,240,393,529
	1,371,755,141	1,313,883,820

During the year ended 31 December 2025, the Company received a grant amounting to Rs. 157,977,416 from the International Organization for Migration (IOM)

25 Trade and Other Payables

	2025	2024
Trade Payable	1,283,138,179	940,521,327
Interest Payable	3,988,489,217	3,474,212,706
Refundable Deposits	594,917,844	556,062,086
Contractor Payables	652,733,720	652,733,720
Other Payables	3,487,126,537	3,414,176,719
	10,006,405,496	9,037,706,557

AIRPORT AND AVIATION SERVICES (SRI LANKA) (PRIVATE) LIMITED
Notes to the Financial Statements (Contd)

26 Income Tax Payable

	2025	2024
Balance at the beginning of the year	2,203,379,433	2,024,162,700
Prior Year Adjustments		250,081,858
Provisions for the year	7,964,848,134	5,862,347,313
Payments during the year	(6,546,392,929)	(5,933,212,438)
Balance at the end of the year	3,621,834,637	2,203,379,433

27 Financial Instruments by Category

(a) Financial Instruments

	2025	2024
Financial Assets		
Amortised Cost		
Trade and other Receivables (Excluding prepayments, Advances) (Note 16)	13,202,045,403	10,273,939,868
Cash and Bank Balances (Note 17)	1,515,737,769	1,952,113,225
	14,717,783,171	12,226,053,093
Investment in Debentures (Note 14)	1,754,300,000	2,199,300,000
Long term Bank Deposits	-	5,141,085,264
Investments in Treasury Bills under Repurchase Agreements (Note 17)	20,007,638	165,945,394
Short Term Bank Deposits	128,720,489,816	93,427,415,884
	130,494,797,454	100,933,746,542
Financial Liabilities		
Other Financial Liabilities		
Borrowings (Note 21)	102,436,302,786	95,806,823,512
Debentures (Note 22)	4,000,000,000	4,000,000,000
Trade and Other Payables (excluding non financial liabilities) (Note 25)	10,006,405,496	9,037,706,557
	116,442,708,282	108,844,530,069

(b) Credit Quality by Class of Financial Assets

The credit quality of Financial Assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

31 December 2025

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Trade receivables (Note 16)	5,432,468,690	3,884,691,561	1,553,945,230	10,871,105,481
Loans to Company Staff	252,770,960	-	-	252,770,960
Total financial assets	5,685,239,650	3,884,691,561	1,553,945,230	11,123,876,442

31 December 2024

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Trade Receivables (Note 16)	5,308,771,696	2,026,973,472	944,924,053	8,280,669,222
Loans to Company staff	186,803,505	-	-	186,803,505
Total Financial Assets	5,495,575,201	2,026,973,472	944,924,053	8,467,472,726

Cash at Bank and Short-Term Bank Deposits

	2025	2024
AA-(lka)	130,229,292,085	100,517,040,873
Total	130,229,292,085	100,517,040,873

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28 Dividend

During the financial year 2025, The Company paid an interim dividend amounting to LKR 2,931 million in respect of the year 2025. During the financial year 2024, Final dividend of LKR 1,286 million was paid in respect of the year 2024.

29 Prior Year Adjustments

During the financial year 2025, several accounting treatments, relating to previous periods were identified. These have been addressed through prior year adjustments, which have been recorded as part of retained earnings.

One adjustment relates to repair and maintenance costs applicable to the Protective Work Project at BIA amounting to LKR 101,242,597.27. Another adjustment relates to the accounting treatment in respect of bonus advances and recoveries made up to 31 December 2024, resulting in a net adjustment of LKR 155,419,000.00. In addition, an adjustment was made for items reclassified to goods in transit amounting to LKR 17,241,586.87, and a provision for non-moving stocks relating to previous years amounting to LKR 13,301,906.80.

Further, adjustments relate to loan interest on the MRIA loan. This includes understated loan interest after the loan rescheduling for the period from 1 January 2024 to 31 December 2024 amounting to LKR 102,970,528.27, and the reversal of overstated interest amounts recorded up to the loan rescheduling date of 31 December 2023 amounting to LKR 59,846,723.16. In addition, an adjustment was made for overstated interest income on USD fixed deposits amounting to LKR 24,533,184.86.

Import payments were recorded in ERP as a direct entry through mixed payments. At the point of raising GRNs relating to imports, entries were passed to the corresponding account and the clearing account (Received not invoiced). Certain adjustments relating to those transactions were recorded through prior year adjustments amounting to LKR 63,541,884.51 to clear the clearance account.. In addition, an adjustment relating to staff benefits on staff loans up to 31 December 2024 amounted to LKR 32,818,035.08.

30 Contingencies

It was noted that the following incidents exist as at the reporting date and are considered to be material contingent liabilities of the Company.

(a) Background and Contract Termination

In terms of the circular dated 12 April 2022 titled “Interim Policy regarding the Servicing of Sri Lanka’s External Public Debt” issued by the Ministry of Finance, directions were given not to settle foreign loans obtained by government entities. As a result, JICA suspended loan disbursements in July 2022, which adversely affected the ongoing BIA Development Phase II – Stage 2 Project (Package A: Construction of Passenger Terminal Building and Associated Works).

Despite the said circular, AASL formally communicated to the Ministry of Finance that it possessed adequate financial capacity to continue loan repayments and sustain project implementation using internal funds. Concurrently, JICA requested an endorsement from the Ministry of Finance confirming the continuation of loan servicing. However, such endorsement could not be issued due to the IMF-supported debt restructuring programme. Consequently, Taisei Corporation terminated the contract with effect from 9 December 2022.

Contractual Implications

In accordance with the FIDIC Multilateral Development Bank Harmonised Conditions of Contract (June 2010), following termination by the Contractor, the Contractor becomes entitled to claims upon termination:

- Plant and materials purchased or delivered to site become the property of, and are at the risk of, the Employer; and
- The Employer is required to pay costs related to removal of temporary works and equipment, together with other reasonable costs incurred by the Contractor in anticipation of completing the works.

Post-Termination Arrangements

Following termination, responsibility for the care of works, including security, safety, maintenance, and environmental management, was transferred to AASL. Site maintenance has been carried out by AASL since termination. In addition, AASL arranged, using its own funds, to extend the two insurance policies previously obtained by the Contractor, namely:

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- Contractor's All Risks Insurance Policy; and
- Global Aerospace Airport Contractor's Liability Insurance Policy.

Way Forward Action Plan

As part of the way forward, Action Plan of the project, with the approval of the Cabinet of Ministers, AASL initiated action to carry out Identified Protective Works utilizing funds from AASL to immediately address deterioration of steel reinforcements in partially completed concrete structures at termination. Part of the requirement of steel reinforcement in this work was provided by AASL from materials taken over from the terminated Contractor.

As the second step, AASL initiated actions to carryout following selected priority works under Package A scope using internal funds until JICA loan disbursements resume.

Identified Scope of Terminal 2 substructure works: Construction of remaining piles, pile caps, and ground beams at MTB and Piers 2 & 3 through local contractors under the supervision of Japanese Project Consultant. Materials taken over from Taisei Corporation were used in this construction where feasible. Most of the sub-structure works (Foundations) were completed under this scope.

Landside Washroom Facility: After the previously demolished public washroom facility at the arrival area this new construction was commenced in early 2025 considering the operational need and opened for public in October 2025.

Solid Waste Disposal System: This scope of work includes the civil works and installation of the incinerator plant already taken over from Taisei Corporation at the time of contract termination. Upon completion, the project will meet the increasing solid waste disposal requirements and address the current issues associated with the aging incinerator plant at BIA. Bidding documents are being prepared and the procurement could be commenced in early 2026.

Summary of Completed Priority Works

No.	Work Description	Contract Sum (Rs.)	Status
1	Identified Protective Works (Completion of two partially completed slabs and utility tunnel)	499,864,083.65	Completed
2	Identified Scope of Works (Remaining piles, pile caps, tie beams, UUT works)	3,255,520,946.19	Completed
3	Landside Public Washroom Facilities (Departure and cargo areas)	137,875,476.09	Completed

There were both permanent and temporary materials procured by the Contractor for implementation of the project. Certain materials, including timber, plywood, and steel reinforcement, had deteriorated over time prior to the recommencement of the balance works. Accordingly, with the approval of JICA, AASL made arrangements to auction timber and plywood and to utilize the steel reinforcement for the identified protective and identified scope of works.

Subsequently, under Cabinet Decision No. 23/0191/628/013 dated 8 March 2023, issued in respect of the Cabinet Memorandum titled "Package 'A' – Termination of Package 'A' Contract by the Contractor and Way Forward", approval was granted to carry out priority works of the project on a limited scale using AASL funds until JICA loan disbursements are recommenced.

In line with the above approval, tenders were called from local contractors and awarded on 5 April 2024 to execute the identified scope of works at MTB, Pier 2, and Pier 3 (part of the Terminal 2 scope) at BIA, at a total contract value of approximately Rs. 3.2 billion. The works commenced in April 2024 and were completed in September 2025, utilizing AASL funds and under the direct supervision of the Project Consultant, JV – Japan Airport Consultants, Inc. – Nippon Koei Co. Ltd.

Following termination, Taisei Corporation submitted termination claims under several heads, including works executed up to the date of termination, consolidation claims, losses arising from termination (including loss of profit), and subcontractor claims. The Project Consultant appointed a specialist team comprising Quantity Surveyors and a Contract and Claims Specialist to evaluate the submitted claims.

The Project Consultant evaluated the statement of payment on termination submitted by Taisei Corporation and certified an interim payment amounting to JPY 12,794,827,112 and LKR 14,221,923,323.86 as at 31 December 2025. Prior cabinet approval was obtained for the settlement of the certified interim payments.

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In addition to the interim claims, the Contractor's monthly running costs up to finalization of the termination claim and formal contract closure will be accrued to the final claim. Certain claims remain disputed and have not been certified by the Consultant. The Contractor may refer such disputes to the Dispute Board (DB) appointed under the contract for resolution. As this process may be time-consuming, the final settlement amount may increase further.

Project Materials

As a consequence of the contract termination, project materials and equipment delivered to Sri Lanka were taken over by AASL in accordance with the recommendations of committees appointed by the Chairman of AASL and the Project Consultant. Accordingly, the majority of the materials and equipment delivered to Sri Lanka have been taken over and stored in warehouses rented by AASL or by respective agents.

No	Item	Invoice Value (Rs.Mn)	Store location
1	Roofing Materials	1,241	Warehouse rented by AASL -Seeduwa
2	Incinerator	754	Warehouse at Biyagama -rented by agent
3	Generator sets (3 Nos.)	392	Warehouse rented by AASL- Seeduwa
4	GI Pipes	159	BIA Yard 2 and 3
5	Reinforcement steel	434	Used for Protective and substructure construction Works at BIA (Terminal 2)

Further, at the time of contract termination, certain project materials and equipment were located overseas, most of which were in partially completed stages. Based on the recommendations of the committees appointed by the Chairman of AASL, together with the recommendations of the Project Consultant, decisions were finalized on whether such materials and equipment should be imported to Sri Lanka or disposed of at their overseas locations.

Following materials and equipment which were available overseas at the time of termination.

No	Item	Invoice Value (Rs.Mn)	Store location	Present Status
1	Roof steel structure partly fabricated and raw materials.	632	India	Disposal commenced in November 2025 and completed the whole process at the end of January 2026. The scrap value of the steel disposed of will be recovered and accounted based on the further inputs of the Contractor and Consultant.
2	Roof Insulation Materials	76	India	The Contractor's claim on these materials was rejected. No liabilities to AASL.
3	Baggage Handling System	536	Malaysia	Imported to Sri Lanka and took over by AASL stored in outside warehouse
4	IT Structured cabling system	404	Singapore	Imported to Sri Lanka and took over by AASL (kept under agent's care)
5	Passenger Boarding Bridge	4.6 Updated claim	Spain	Materials already disposed and recovered the scrap value.

The process of taking over of above materials and equipment was informed to the cabinet of Ministers and the cabinet decisions were conveyed by memo number CP/23/0974/628/013-II dated 13th June 2023. With the settlement of due payments to the terminated Contractor, the balance available amount of the JICA loan will not be sufficient to complete the total remaining scope of Package 'A1' (Completion of Package 'A' - Passenger Terminal Building and Associated Works). Accordingly, it is necessary to obtain additional funding to complete the remaining scope of this project.

All remaining project materials and equipment taken over from the terminated Contractor will be offered to the next Contractor and necessary provision have been made in the bidding document of package A1. Tenders were called for Package A1 on 24th September 2024 and closed on 25th March 2025. Bid evaluation is in progress and it is anticipated to award the Contract in mid-2026.

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Further, with the termination of the Contract package A, the services of the Consultant, JV - Japan Airport Consultants, Inc. - Nippon Koei Co. Ltd had to be retained for the conclusion of the termination process including the evaluation of the claim, preparation of re-bidding documents, supervision of identified scope of works etc. as additional services which have been claimed by the Consultant, JV - Japan Airport Consultants, Inc. - Nippon Koei Co. Ltd and the Contract Agreement for Amendment No. 3 to the Design and Post Design Consultancy services was signed on 01st November 2024.

Discussion with JICA, GoSL and AASL are being progressed for the funding of Package 'A1' (Completion of Package 'A' - Passenger Terminal Building and Associated Works) and Aide Memoire was signed between the above parties on 11th November 2024 and loan appraisal process is being continued.

- (b) On 06/02/2025, the Commercial High Court of Colombo delivered a judgement ordering AASL to pay LKR 196,526,136.83 to E W Information Systems Limited on a terminating a contract on implementation of a ERP system and AASL has filed appeal to the Supreme Court on the judgement. Based on legal advice received and management's assessment, it is not considered probable, as at the reporting date, that an outflow of economic benefits will be required. Accordingly, no provision has been recognized in the financial statement.

31 Commitments

31.1 Capital Expenditure Commitments

	2025	2024
Contracted but not provided for	4,332,514,156	11,202,776,102
Authorized by the Board, but not contracted for	16,166,782,844	14,573,692,735
	20,499,297,000	25,776,468,837

31.2 Financial Commitments

There are no any other financial commitments other than those disclosed under Borrowings (Note 21 & 22).

32 Transactions with Key Management Personnel

	2025	2024
Emoluments and Fees	5,056,345	12,310,349
	5,056,345	12,310,349

The Board of Directors have been considered as Key Management Personnel of the Company.

33 Related Party Transactions

AASL as a fully owned Government Company , the following significant transactions have been carried out with entities controlled by the Government in the ordinary course of business.

During the year, below transactions were noted as over Rs.50Million transactions with related parties.

Name of the Entity	Relationship	Nature of the Transaction	2025 LKR Million	2024 LKR Million
Civil Aviation Authority	Government Owned	Embarkation levy Income	11,670	8,721
Department of Inland Revenue	- Do -	Taxes	11,371	9,942
General Treasury	- Do -	Dividend Payments	2,931	1,286
Ceylon Petroleum Corporation	- Do -	Fuel Purchases	2,785	2,464
Ceylon electricity board	- Do -	Electricity Payments	1,728	2,003
General Treasury	- Do -	Loan Repayments	2,154	1,223
Sri Lankan Airlines	- Do -	Franchise Fee Income	1,625	1,312
Sri Lankan Catering Ltd	- Do -	Franchise Fee Income	936	773
Central Bank of Sri Lanka	- Do -	EPF	1,001	989
Sri Lankan Catering Ltd	- Do -	Catering Services	796	902
Ceylon Petroleum Corporation	- Do -	Franchise Fee Income	319	295
Employees Trust Fund Board	- Do -	ETF	250	247
General Treasury	- Do -	Interest Payments	119	126
Ministry of Port and Civil Aviation	- Do -	Vehicle Transfer	69	-
General Treasury	- Do -	40 % on Overflying Collection	1,366	1,197
National water supply	- Do -	Water Supply	120	-
Urban Council	- Do -	Rates Payments	59	59

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At the end of the year, below balances were noted as receivable balances over Rs.10Million from related parties.

			2025	2024
			LKR Million	LKR Million
Receivables				
Bank of Ceylon	Government Owned	Investments	124,881	101,043
National Saving Bank	- Do -	Investments	5,340	1,427
Civil Aviation Authority	- Do -	Embarkation levy Income	1,338	1,546
Sri Lankan Airlines	- Do -	Franchise Fee Income	560	445
Sri Lankan Catering Ltd	- Do -	Franchise Fee Income	76	119
Ceylon Petroleum Corporation	- Do -	Concession income	37	33

At the end of the year, below balances were noted as payable balances over Rs.10Million to related parties.

			2025	2024
			LKR Million	LKR Million
Payables				
Department of Inland Revenue	Government Owned	Taxes	621	554
Ceylon electricity board	- Do -	Electricity	145	147
Sri Lankan Catering Ltd	- Do -	Purchases	104	83
Employees Trust Fund Board	- Do -	ETF	21	21
Central Bank of Sri Lanka	- Do -	EPF	151	21
General Treasury	- Do -	40 % on Overflying Collection	125	100

Limited disclosures have been made in accordance with LKAS 24 'Related Party Disclosures' for transactions that are individually significant because of their size and due to the impracticability of capturing and disclosure of all transactions which have been carried out with all Government controlled / related entities.

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.

34 Contingent Asset – Embarkation Fee Receivable from Civil Aviation Authority of Sri Lanka (CAASL)

SriLankan Airlines, by letter dated 29 May 2025 addressed to Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL), has confirmed the total embarkation fees payable to the Civil Aviation Authority of Sri Lanka (CAASL). Based on this confirmation, AASL has computed its entitlement in respect of embarkation fees for the years 2023 and 2024, amounting to a total of LKR 3,360,803,212.30, as detailed below:

FY 2023: LKR 795,708,603.14
FY 2024: LKR 2,565,094,609.16

In terms of the prevailing arrangement, one-sixth (1/6) of the embarkation levy collected by CAASL is allocable to AASL, after deducting a 2.5% service charge retained by CAASL.

In terms of SLFRS 15 – Revenue from Contracts with Customers, revenue can be recognized only when a contract with a customer exists. One of the mandatory conditions for the existence of a contract, as set out in paragraph 9(e) of SLFRS 15, is that it must be probable that the entity will collect the consideration to which it is entitled.

Management have assessed that collectability of the above amounts is not probable, based on the following evidences

Extended non-settlement of embarkation levy amounts relating to 2023 and 2024, despite repeated follow-ups. The formal confirmation was received on 29 May 2025, but the amounts remain unsettled as of the date of this report. The financial condition of SriLankan Airlines such as significant accumulated losses, negative equity and ongoing cash flow constraints.

Based on management's assessment as at 31 December 2025, the collectability of the above amounts from CAASL is not considered probable. Accordingly, the criteria for recognizing revenue under SLFRS 15 have not been met.

Consistent with the requirements of applicable accounting standards and the prudence concept, revenue has not been recognized in respect of the above amount, as its realization is not considered reasonably certain as at the reporting date. Accordingly, the amount has been disclosed as a contingent asset and will be recognized in the financial statements only when the uncertainty relating to collectability is resolved.

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35 Events after the reporting period

There have been no material events occurring after the reporting period that require adjustment to, or disclosure in, the financial statements.