

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Mobitel (Private) Ltd (“the Company”) and the consolidated financial statement of the company and its subsidiaries (“the Group”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report. To carry out this audit, I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2024, and of their financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

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

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

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

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

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

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

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

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

- 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 Group'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 Group's 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.

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

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

1.5 Accounts Receivable and Payable

1.5.1 Payables

Audit Issue	Management Comment	Recommendation
Payable balances totaling Rs. 78.17 million, outstanding for over 5 years, have been identified across several accounts including infrastructure sharing, domestic interconnection, External Gateway Operations, roaming, and others. These represent amounts due to suppliers with received invoices but unpaid as at 31 December 2024.	Payable other: Pending invoices under other payable accounts mainly represents disputed invoices, payment returns and stale cheques. We are in the process of reviewing and taking corrective actions and some of the invoices have already been paid. Infrastructure sharing/ Domestic interconnection/ External Gateway Operation – These balances remain as unpaid mainly due to disputes with suppliers.	Detailed review of the outstanding balances to determine their validity and cause for delay payments. Any discrepancies or disputes should be resolved promptly.

1.6 IT General Controls

Audit Issue	Management Comment	Recommendation
(i) As per Section 8.1 of the Information Security Policy (Version 4.0), the policy should be reviewed annually. However, the Company is operating under an outdated version last reviewed in June 2021, as shown in the document control records.	Agreed.	The information security policy document must be reviewed and updated annually to ensure continued relevance and effectiveness.
(ii) The Company had not properly	Agreed.	Management should enforce

configured application-level password settings as required by Section 16.6.3 of the Information Security Policy Version 4.0.

adequate password configurations in information systems.

(iii) Significant delays exists in user account deactivation process of resigned employees in 21 accounts of Mcash and 21 accounts of Identity Access Management (IAM) system. Due to possible mismatches between resignation dates and department head approvals, Human Resource division may delay user account termination requests until all necessary approvals are received. User accounts of resigned employees should be deactivated without delay.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 1,877 million and the corresponding loss in the preceding year amounted to Rs. 1,825 million. Therefore, an improvement amounting to Rs. 3,702 million of the financial result was observed. The main reason for the increase of the financial result was the increase of revenue from contracts with customers amounting to Rs. 3,144 million.

2.2 Trend Analysis of major Income and Expenditure items

The analysis of Revenue, Interest Income, and Finance Cost for the year under review compared with the preceding year with the percentage of increase or decrease are as follows.

Description	2023	2024	Variance Amount Increase/(Decrease)	Variance	Reason for the Variance
	Rs. Mn.	Rs. Mn	Rs. Mn.	(%)	
Revenue	42,636	45,780	3,144	7	Revenue has increased by Rs. 3,144 Million when compared to the previous year due to the Increased Cellular operations – Domestic and sale of Hand Set, Modems, Sim Cards.
Interest income	390	276	(114)	(29)	Interest Income has decreased by Rs. 114 Million when compared to the previous year due to the interest rate deduction and depreciation of exchange rate.
Finance Cost	1,039	1,483	444	42	Finance Cost has increased by Rs.444 Million when compared to the previous year due to the increased interest expenses and related

charges for Rupee Loans.

2.3 Ratio Analysis

According to the information made available to audit, some important ratios for last three years of the Group are as follows.

Ratio	2024	2023	2022
Current ratio	79.77%	71.66%	84.34%
Quick Ratio	77.53%	69.80%	82.33%
Earnings per share (EPS)	Rs. 0.11	(Rs. 2.77)	(Rs. 0.09)
Gross Profit Ratio	66%	62%	66%
Net Profit Ratio	0.30%	(8.56%)	(0.27%)
Return on Equity	1.05%	(27.65%)	(0.91%)
Debt Ratio	58%	56%	50%
Asset Turnover Ratio	0.55 times	0.54 times	0.60 times
Return on Total Asset	0.17%	(4.66%)	(0.16%)
Equity Ratio	42%	44%	50%
Debt Equity Ratio	3.66 times	3.32 times	2.86 times

- (i) Compared to the year 2023, the current ratio had increased from 71.66 to 79.77 per cent and the quick asset ratio has increased from 69.80 to 77.53 per cent in year 2024. Accordingly, an increase in Group's liquidity had been observed in year 2024 as compared to the year 2023. However, these ratios had not reach the levels recorded in the year 2022.
- (ii) It was observed that the profitability of the Company & its subsidiaries had increased as the gross profit ratio had increased from 62 to 66 per cent.
- (iii) Though the Company reported a significant net loss in the year 2023, net profit ratio had increased from negative 8.56 to 0.30 percent in 2024. The Company & its subsidiaries returned to a positive net profit, but the profit relative to equity was observed as very low. The business is barely generating returns to its shareholders.
- (iv) It was further observed that the earning per share of the Company and its subsidiaries had increased from negative Rs. 2.77 in 2023 to Rs.0.11 in 2024. The substantial loss in 2023

had a pronounced negative impact on earnings per share (EPS), but the positive turnaround in 2024 indicated initial signs of recovery and improved operational performance.

- (v) The debt ratio increased from 50 per cent in 2022 to 58 per cent in 2024, indicating a growing dependence on debt financing and reduced reliance on equity, which reflects increased financial leverage.
- (vi) The asset turnover ratio declined from 0.60 times in 2022 to 0.54 times in 2023 had reported a marginal improvement to 0.55 times in 2024, indicating a low efficiency of asset utilization to generate revenue.
- (vii) The equity ratio declined from 50 per cent in 2022 to 42 Per cent in 2024, indicating a decreasing proportion of assets financed by shareholder's equity over the period.
- (viii) The debt to equity ratio increased from 2.86 times in 2022 to 3.66 times in 2024, indicating greater reliance on debt financing relative to equity for the Group's operations.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Company had continued to provide M-Ticketing services worth Rs. 1.149 billion, to the passengers who buy train tickets online for over a year without executing a new agreement. Although Section 2.2.2 of the previous agreement requires weekly remittance of daily collections to the Railway Department, remittances in 2024 were delayed by 8 to 36 days, indicating non-compliance with contractual terms.	We do acknowledge that the formal agreement expired on 31.12.2023. On numerous occasions, as per the practice followed, the payments have generally been made on every 10 days basis and usually three payments are made in settlement of the monthly collection.	Should promptly formalize the agreement and remit the collected funds within a weekly timeframe as per the agreement.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
The primary objectives for which the Company were established include designing, building, operating, and managing cellular mobile telephone networks, as well as importing, marketing, and retailing telecommunication equipment, computer hardware, and software, in accordance with the Articles of Association of the Company. While management had directed the company towards achieving these objectives, the Annual Business Plan for the year under review contained a budgeted revenues of Rs. 48,621 million. However, the Performance Report indicated actual revenues of Rs. 45,524 million. Accordingly, the difference between expected revenue and actual revenue was observed to be a decrease of 6 per cent.	The initial 2024 Annual Business Plan was presented to the Board in December 2023. In light of the company's revenue decline over the preceding two years, the Board emphasized the need for more ambitious financial targets, with the objective of surpassing revenue levels last achieved in 2021. In response, management submitted a revised plan with enhanced revenue and profitability goals. During 2024, a significant market development was the merger between two competitive companies, which substantially strengthened their market dominance and competitive positioning. This merger, along with other competitor's aggressive and disruptive tariff strategies, intensified market competition and posed challenges to Mobitel's revenue growth. Despite these external pressures, Mobitel successfully reversed its two-year revenue decline and returned to	Need to improve the accuracy of revenue forecasting and enhance the positive shift in performance in future as well.

profitability in 2024, marking a positive shift in performance.

3.3 Procurement Management

Audit Issue	Management Comment	Recommendation
(i) It was observed that the Company had not obtained the approval of the Board for the procurement policy it follows. Furthermore, Contrary to Section 1.3 of the Procurement Policy approved by the Company's Senior Management Team in August 2022, a Procurement Plan and Procurement Calendar were not prepared for the year 2024. As a result, it was not possible to ascertain whether procurements were conducted in a reasonable manner or to assess the progress made as at 31 December 2024.	In line with Procurement Policy, the procurement division prepared a Category Procurement Plan and calendar. Finalized in 2024 and shared with stakeholders on 10 April 2024, the plan outlined annual procurement priorities based on a detailed review.	Should be prepared Procurement plan & calendar according to the procurement policy & Policy should be approved by the Board.
(ii) It was observed a deviation from Section 4.4.4 of the Procurement Policy, approved by the Company's Senior Management Team in August 2022, where the Company's registered supplier list had not	Currently does not practice annual vendor registration. New vendors can register anytime via the website or through category buyers as needed. In 2024, 64 new vendors were registered. Based	Should maintain an updated registered suppliers list according to the Procurement Policy of the Company.

been updated on a periodic basis with some entries dating as far back as 2016. This lack of regular updating had limited opportunities for potential new suppliers and is not aligned with Clause 1.6 of the Procurement Policy, which emphasizes equal opportunity through continuous review and inclusion.

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| <p>(iii) In 2024, the Company disposed of a Land Rover, a fuel bowser, and three trailers. The bowser and trailers were initially valued at LKR 14 million for sale. However, as bids received were below this valuation, the tender was cancelled, necessitating a new tender process. Despite this, the assets were sold at the highest bid of LKR 9.1 million without new tender, resulting in a loss of LKR 4.9 million for the Company.</p> | <p>As per the established practice at Company, the fuel bowser and container trailer were awarded to the highest bidder following a transparent bidding process. The market valuation report by the assessor has been taken by the user division for the reference purpose.</p> | <p>Need to have sale values above minimum bid value based on the assessed value.</p> |
| <p>(iv) The Company initially estimated a cost of Rs. 12 million for the procurement for installation of a 25KW Solar Panel System, an Electric Vehicle (EV)</p> | <p>Initial cost estimate was conducted by user division only by considering prices within the organization as this was the first time, we have conducted a procurement</p> | <p>The Company Should adopt a more comprehensive cost estimation approach in future.</p> |

Charging Unit & Roof-top for process for similar projects. fuel tanks at the Welikada Hence, actual awarded price Corporate Office. However, can be higher than the initial following the completion of estimated cost for this nature the technical evaluation, the of projects.

EV charging unit was excluded from the procurement scope without obtaining a proper approval. Despite this exclusion, the installation of the solar panel system and rooftop was carried out at a cost of Rs. 14.21 million. This resulted the Company to incur an excess cost of Rs. 2.21 million over the initial estimate without obtaining the necessary approval.

3.4 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
A vehicle equipped with specialized tools worth of Rs. 16.68 million for mobile signal testing, is occasionally used as a pool vehicle, risking equipment security and misuse. Additionally, the absence of a designated responsible department for the Security of	The vehicle is used for pool purposes only during critical incidents. To reduce risk, the transport division will issue a memo and transfer vehicle ownership to the relevant user division.	Should be formally assigned responsibility to a particular department for this vehicle and its equipment to establish clear accountability.

the equipment raises accountability concerns in case of damage or loss.

3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
(i) The Company does not have an approved Recruitment policy and Promotion policy, which is necessary for the smooth functioning of human resource operations.	Drafting of comprehensive Recruitment and Promotion policies have been initiated as a formal guidelines highlighting the general processes & procedures. These policies will be reviewed by the internal Control Team and forwarded for Management approval to be effective by 31 st January 2026.	Recruitment policy and Promotion policy for each post should be prepared & approved for smooth functioning of Human resource.
(ii) Employee turnover from 2022 to 2024 revealed that the turnover ranged between 14 Per cent and 16 Percent. Further analysis of employee departure in 2024 showed that the majority of those left had been with the company for less than three years.	Management recognizes this as an area requiring attention and has already initiated several measures to address attention. To address this issue, Management proposes to conduct an industry salary survey and with the approval of the Chief Operating Officer,	It is recommended to minimize the staff turnover to ensure the smooth functioning of the Company's operations.

Chief Executive Officer & the Board of Directors propose to align the internal salary structures in line with the prevailing industry standards subject to the financial performance of the Company.

- (iii) Although assessing staffing needs, preparing, and periodically updating an organizational cadre is important, the absence of an approved cadre for audit review poses a risk. This gap may impede timely recruitment of suitable personnel, potentially affecting the organization's ability to meet its strategic objectives. While staff requirements are assessed and recruitments are carried out based on operational needs time to time with management approvals, currently, head-to-head replacements are facilitated with approvals and new recruitments are facilitated with management approval only upon submission of valid business justifications for critical roles by the user division. Board approved carder should be there and recruitments should be made accordingly.
- (iv) The Company had not established a formal succession planning framework for key manage persons and operational positions. The absence of such a mechanism presents a substantial risk to organizational continuity, particularly in scenarios involving unforeseen retirements, resignations, or development plans to ensure It is planned to initiate the succession planning programme, with completion targeted by Q2-2026, after which it will be continued as an ongoing process. This framework will include identifying critical roles, assessing potential successors and implementing targeted development plans to ensure The succession plan of the company should be prepared.

extended absences of personnel in critical roles. organizational continuity and smooth transitions in the event of foreseen resignations, retirements or extended absences in critical positions.