



Power



## Management Discussion and Analysis

### Power

The Power Sector currently reflects the performance of Heladhanavi Ltd which owns and operates a 100 MW thermal power plant in which the group has a 50% stake. This year marks the fourth year of the power plant's operations, supplying power to the National Grid through an on-going 10 year Power Purchase Agreement (PPA) with the Ceylon Electricity Board. The power plant performed commendably during the year meeting our expectations while operating in a tough macro environment. Heladhanavi has contributed an aggregate of 2.128Bn units to the National Grid from inception to 31st March 2008.

For the year under review, the Power sector recorded a turnover of Rs.5.3Bn realizing a net profit of Rs. 307.4Mn. This reflects a top-line growth of approximately 44.5% and a increase in net profits by 1.0%. The increase in turnover mainly resulted from a higher plant dispatch and increase in the pass through cost as a result of unprecedented fuel price increases. Net profit margin reduction was mainly attributed to higher finance costs and unrealised exchange losses.

During the year, several rounds of furnace oil price increases were witnessed. These increases which amounted to approximately 48% year-on-year compelled us to constantly expand our working capital facilities at high interest rates. This contributed to finance costs of Rs.264Mn, an increase of 21.1% over the previous year.

The development of our maiden 2.2 MW hydropower project in Giddawa, Kandy, marks our entry into renewable energy, and the project has progressed well amidst a few challenges. Being a very high rain-fall year, with unexpected rainfall recorded during most of the year's usually dry period, meeting construction deadlines have proved to be a challenge. However, as of now, we are optimistic that the plant will be commissioned as scheduled in July 2008. During the course of the year we added a new project into our hydropower portfolio by securing the rights to develop a 1.2MW project on Magalganga in the Kegalle District.

The establishment of the Sri Lanka Sustainable Energy Authority which is mandated to promote development of renewable energy projects encompassing hydro, wind and bio-mass power generation in 2007 provides a regulatory framework that encourages investment in this sector.

Going forward, the main focus of the sector will be on developing and expanding our portfolio of renewable energy projects. That said, the country will need to continuously augment power generation capacities using fossil fuels in order to keep pace with demand which is estimated to grow at 8% p.a. In this context, we remain ready to commit further investments in the thermal power sector, as and when attractive investment opportunities present themselves.

Segment vs Group (%)



Revenue & Net Profit after Taxation (Rs. Mn.)

