



The power sector contributes 107 MW to the national grid, and comprises Heladhanavi Ltd., a 100MW thermal power plant and three mini hydro plants located in Giddawa, Lindula and Magal Ganga with a combined capacity of 7.0MW. The sector reported a consolidated net profit of Rs. 270 Mn for the year, which is a 37% reduction from the previous year. The reduction in financial performance was primarily due to two factors. Firstly, a prolonged drought caused a drastic reduction in our hydropower generation. Secondly, a marginal reduction in the avoided cost tariff affected our hydropower sector performance adversely. Despite financial setbacks, on growth initiatives we were able to advance several steps making significant progress on the pre-development work of our projects.

Heladhanavi Ltd., which stands amongst highest dispatch thermal plants due to its low operational cost, remained the largest contributor to our financial results for this year. The economical importance of the Heladhanavi plant was clearly evident during the year, being a poor-rainfall-year. The plant was dispatched at approximately 85% plant utilization despite a significant outage due

to scheduled maintenance work. The generation during the year stood at 748 GWh, which is 112 GWh more than the previous year's generation.

During the year under review, a drastic devaluation of LKR against the USD, led to a considerable reduction in net profits due to the exchange loss on translation. This exchange loss on translation will be recouped gradually in months to come through US Dollar revenue inflows from the Ceylon Electricity Board (CEB). Conversely, the conversion of a portion of LKR loans to US Dollar loans in 2010 enabled us to keep the finance cost low for the current financial year.

The 2.4MW Magal Ganga hydropower project was completed during the year under review. The project was commissioned in September 2011, about a month ahead of the scheduled completion date and currently is operational and is estimated to generate approximately 7.0 million units per year. The plant encountered a few teething problems on the technical front and also on the transmission line. This caused an energy generation loss resulting in the Magal Ganga plant dispatching 1.5GWh during the six months of operations

compared to the expected 3.5GWH. Both the technical and transmission-line related issues are now largely resolved.

Due to low rainfall, the hydro power segment's contribution to the sector's revenue was lower than expected. The 2.0MW Giddawa Power Plant operated at 35% plant-utilization-level for the year compared to the 40% expected level and the AgraOya Power Plant operated at 27% plant-utilization-level compared to the 33% expected level. The operational performances of both Giddawa and AgraOya were further impacted by the 7% decrease in tariff over the last year's tariff. The combined effect of low generation and tariff reduction reduced the net profit of Giddawa by 55% in comparison to its last year's profit, whereas AgraOya profits were down 59% over that of the previous year.

In the coming year, we will commence development of our first biomass power project with a capacity of 3MWs in the southern part of the country. All the approvals required for this project, its designs, technical specifications and the financing arrangements have been finalized. Taking stock of the country's available opportunities, we find it is most opportune to align our growth strategy on the renewable energy side. We have earmarked several hydropower sites in the country with development potential. We are currently exploring opportunities in East Africa for hydropower development in addition to expanding capacity in Sri Lanka.

Looking ahead, we foresee a surge in demand for power generation fuelled by greater economic activity. According to the CEB, total

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primary energy demand is expected to increase to about 15,000 kTOE by the year 2020 at an average annual growth rate of about 3%. It is crucial to generate power through renewable sources to meet this surge in demand as renewable energy is clearly the sustainable long term path for the sector. Conventional energy sources such as coal reserves and fossil fuels continue to dwindle at a rapid pace leading to higher costs for the use of these resources for power generation. Additionally, the use of these resources contributes to pollution and global warming. The Government has reinforced its commitment to sustainable energy by continuing to support renewable power projects. The previous National Energy Policy target to reach 10% of the country's energy generation through renewable energy sources by 2015 has now been revised to achieve a target of 20% by 2020. We are well placed to focus our efforts to be in line with the national policy of developing the renewable energy industry of Sri Lanka.

We remain strongly committed to pursue opportunities to acquire or develop viable hydropower projects while keeping a vigilant eye on emerging opportunities in other renewable energy segments.

