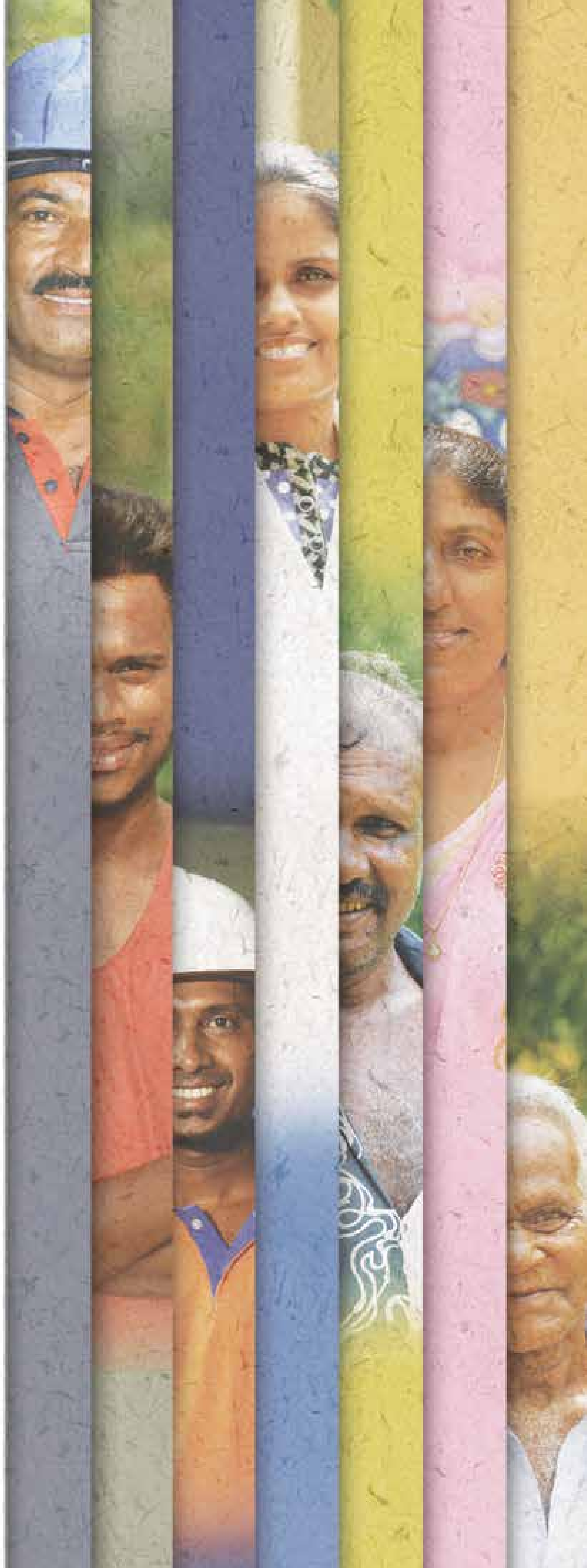
Vallibel Power
Erathna PLC

POWERING
LIFE

Annual Report 2017/2018



Content

About this Theme

This report's theme is centered on the lives Vallibel Power continues to transform and empower through its work.
- Copyline Creative Team -

POWERING LIFE

We may be in the business of powering the nation but our greatest passion lies in empowering our people. This includes our employees, the communities we work in close harmony with and the rest of our discerning stakeholders. We take great pains to ensure our activities are always in alignment with our sustainability goals and consider the impact of our actions on the lives of the communities we function. Ours is a vision for a sustainable future that life on earth can thrive in and we run a reforestation program that is on course to help us achieve just this by planting trees in a gamut of regions around the island. The unified vision our diligent employees share with us for a greener tomorrow is the key to our success as a leading clean energy provider and sustainability driver. Our trajectory of responsible profitable growth is set to continue as we move ahead with positivity and veracity; geared to power life, today, tomorrow and well into the future.

The Report Profile

Scope, Content and Boundaries

GRI - 102-46

We are happy to present our second integrated annual report for the year 2017/18. The aim of our integrated approach is continued as last year to enable our stakeholders, including investors, to make a more informed assessment of the value of Vallibel Power and its prospects. In this report we seek to fully integrate the operational, financial and sustainability reporting in line with the business practices which create the values to our stakeholders through financial capital, environmental capital, social and relationship capital, human capital and intellectual capital of the Company.

Reporting Cycle

GRI - 102-48,49,50,51,52

This report covers the annual reporting cycle of Vallibel Power Erathna PLC from 1 April 2017 to 31 March 2018 which is the financial year. Comparative information has been presented for the recent corresponding year ended 31 March 2017 without restating the information.

There is no any material changes of the scope and information reported in the current year, unless otherwise stated. We have identified the changes in material topics and boundaries which are disclosed in this report.

Reporting Framework

GRI - 102-12,54

This year as well, our reporting is aligned to the following legislative requirements, standards & practices.

Framework	Coverage
• Legislative requirements of Company's Act No. 07 2007	• Overall Report • Corporate Governance
• Regulatory requirements of Securities and Exchange Commission of Sri Lanka	• Overall Report • Corporate Governance
• Listing Rules of Colombo Stock Exchange	• Overall Report • Corporate Governance
• Integrated Reporting <IR>Framework	• Overall Report
• Sri Lanka Accounting & Auditing Standards Act No.15 of 1995 • Sri Lanka Financial Reporting Standards (SLFRS & LKAS) • Code of Best Practice on Corporate Governance	• Financial Statements • Corporate Governance
• GRI Sustainability reporting Standards ("In Accordance-Core" option)	• Economic, Social & Financial Reporting

Country Energy (Pvt) Ltd which is the subsidiary of the Company has been consolidated at the all information presented in this report. The report is structured on sustainable value creation process together with the related activities and performance in terms of both financial and non-financial facets for the reporting period. Wherever relevant, data relating to the preceding financial years are used to track trends and benchmark the performance of the year under review.

The information has been guided by the GRI Sustainability Reporting Standards in accordance with the GRI's Core reporting standards where the report is externally assured.

Methodology

GRI - 102-56

The financial data and information on performance is prepared using the accounting data for the period from 1st April 2017 to 31st March 2018, audited by M/s. Ernst & Young, Chartered Accountants. The non-financial information of Sustainability Reporting was audited by by M/s. Ernst & Young, Chartered Accountants according to the Sri Lanka Standard on Assurance Engagements (SLASE 3000) – "Assurance Engagements other than Audits or reviews of Historical Financial Information". The data and information on the macroeconomic environment and the power & energy industry are based on the available statistics published by the Central Bank of Sri Lanka, Ceylon Electricity board and other information sources.

Feedback

GRI - 102-53

While we do engage in stakeholder engagement continuously and constantly with each of our stakeholder segments, we also continue to seek new avenues of communication that would give us more feedback to improve our sustainability. This is thus, applicable to this report as well. We use this report and the feedback that would ensue in creating a skill and tool strength to strengthen our stakeholder relationships. We will use this feedback to identify gaps, stimulate solutions, promote communication between stakeholder groups and use this information to also plan our business and future investment strategy and policy, while maintaining a keen eye on challenges, trends and opportunities.

For more information;

www.vallibel-hydro.com

Scan this QR code from your smart phone to gain quick access to our website

Send us your feedback
To ensure that we report on issues that matter to our stakeholders please provide any feedback and questions to:

Vallibel Power Erathna PLC
27-2, East Tower,
World Trade Centre,
Echelon Square
Colombo 01

energy@vallibel.com

Improving communities

While we are grateful for the benefits availed to us as employees of the Company, we are proud to witness great improvements within our community. VPEL has contributed to the betterment of our village in many ways by improving infrastructure, constructing new buildings, and refurbishing our temple. It is also important to note that our Company takes great pains to ensure its activities are environmentally friendly.

Name : Mr. Harischandra Hennayaka
Designation : Building Maintenance In-charge
Age : 51 Years
Year of service : Since 2011

The Vallibel Power Story

History

GRI - 102-2

The story of Vallibel Power Erathna PLC demonstrates how, with the application of ingenuity, practical thinking and far-sighted planning, challenges can be transformed into opportunities - in this case, the forces of nature were successfully harnessed to power the nation.

It was the inability of state-run Ceylon Electricity Board (CEB) to meet the surging demands of a rapidly expanding nation that generated the advent of VPEL. The overload on the national grid as a result of the increased demand caused frequent power cuts during the mid-1990s. The shortfall in supply prompted the CEB to invite partnerships with the private sector and institutional investors to boost grid capacity. This sparked the idea in the Vallibel Group to expand to the mini hydropower sector as well.

The story begins on 7 November 2001 when the Company saw the first light of day as Zyrex Power Company Erathna Limited, and supplied electricity to the national grid on a BOO basis. The company's name was changed on 14 October 2004 to 'Power Company Erathna Limited.'

Power Company Erathna Limited successfully commissioned its first 10MW plant in July 2004, Erathna MHPP in Kuruwita in the Ratnapura District, to generate electricity from the Kuru Ganga. The plant was built by reputed German mini hydropower plant construction experts Voith Seimens, and over a decade later is still the largest MHPP in Sri Lanka. On 2 June 2005 the Company changed its name to 'Vallibel Power Erathna Limited', by which it is known to this day. Vallibel Power Erathna Limited listed its shares on the Colombo Stock Exchange on 17 May 2006 which fuelled a record over- subscription that generated substantial profits for its shareholders. October 2009 saw the Company placed on the main board of the Colombo Stock Exchange.

The 100% stake in Country Energy (Pvt) Ltd was acquired in November 2009 at which time construction of Denawaka Ganga MHPP and Kiriwaneliya MHPP had just commenced in Ratnapura and Norton Bridge respectively. The Kiriwaneliya Mini Hydropower project was commissioned in December 2011 with an installed capacity of 4.65 MW and built at a cost of Rs. 815 Mn, followed by Denawaka Ganga MHPP commissioned in February 2012 with an installed capacity of 7.2 MW a construction cost of Rs. 930 Mn. Now the Company holds 87.2% stake of Country Energy (Pvt) Ltd with effect from February 2013. Vallibel Power Erathna PLC contributed equity of Rs. 778 Mn to both projects. This structure of the Group is remained unchanged during the year under review.

GRI - 102-10

Today, VPEL generates a cumulative capacity of about 21.85 MW and supplies about 82 GWh of renewable electricity to the CEB annually. This green energy is estimated to reduce Co_2 emissions by a substantial 50,000 metric tons each year. Vallibel Power Erathna PLC is now the leading light in the mini hydropower energy sector and also the largest public quoted mini hydropower company in the country. The Company continues to fan the flames of entrepreneurship by investing in renewable energy sources in the local energy market and is now pursuing investment opportunities in renewable energy projects in the Asia Pacific region and the African continent.

Organisation Structure

GRI - 102-4,7

Vallibel Power Erathna PLC

87.2%

Country Energy (Pvt) Ltd

Erathna MHPP

Annual Average Energy
42 GWh

Year of Commissioning
2004

Net Head
420 Meters

Penstock Length
2,250 Meters

Channel Length
300 Meters

EM Plant Supplier
Voith Seimens

Location
Kuruwita, Rathnapura District

River
Kuru Ganga

Direct Workforce
24

http://www.vallibel-hydro.com/projects/erathna-hydro-power.php

Denawaka Ganga MHPP

Annual Average Energy
25 GWh

Year of Commissioning
2012

Net Head
33 Meters

Penstock Length
97 Meters

Channel Length
1,800 Meters

EM Plant Supplier
Dongfeng Electric

Location
Malwala, Rathnapura District

River
Denawaka Ganga

Direct Workforce
39

http://www.vallibel-hydro.com/projects/denawaka-hydro-power.php

Kiriwaneliya MHPP

Annual Average Energy
15 GWh

Year of Commissioning
2011

Net Head
200 Meters

Penstock Length
1,690 Meters

Channel Length
300 Meters

EM Plant Supplier
VS Hydro

Location
Norton Bridge, Nuwara Eliya District

River
Maskeli Oya

Direct Workforce
20

http://www.vallibel-hydro.com/projects/kiriwaneliya-hydro-power.php

Milestones of Success

2001/02

- Incorporation of Zyrex Power Company Erathna Limited on 7th November 2001 and commenced the construction of Erathna MHPP.

2004/05

- Commencement of commercial operations of Erathna project on 14th July 2004.

2005/06

- Change of the name as "Vallibel Power Erathna Ltd" On 2nd June 2005.

2006/07

- Listing of Company's shares on Secondary Board of Colombo Stock Exchange on 17th May 2006.
- Investment in shares of Fortress Resort Ltd.

2009/10

- Acquiring the stake of Country Energy (Pvt) Ltd in November 2009 as a subsidiary and commenced the Construction of Kiriwaneliya & Denawakaganga MHPPs.
- Transferring to the Main Board of Colombo Stock Exchange on 15th October 2009.

2011/12

- Commencement of commercial operations of Kiriwaneliya MHPP and Denawakaganga MHPP on 15th December 2011 and 14th February 2012 respectively.
- Bronze Award Winner-Service Sector in Annual Report Competition held by ICASL.

2012/13

- Gold Award Winner-Power & Energy Sector in Annual Report Competition 2012 held by ICASL.
- Winner of ACCA Sustainability Reporting Award 2012 in the First Time Reporting Category.
- Erathna MHP Project recognised as Bronze Award Winner at the National Green Award-2012 organised by CEA.
- Visiting of Erathna MHP Project by the Delegation of Seychelles government to study mini power projects industry.

2013/14

- Kiriwaneliya project and Denwakaganga project were qualified for Clean Development Mechanism (CDM) under United Nations Framework Convention on Climate Change (UNFCCC).
- Silver Award Winner-Power & Energy Sector in Annual Report Competition 2013 held by ICASL.
- Group turnover passed Rs. 1 Bn for the first time.

2014/15

- Company and its Subsidiary were certified for ISO 9001 & 14001 for the implementation of Quality and Environmental Management Systems.
- Group earned a Revenue of Rs.1.3 Bn.
- Silver Award Winner-Power & Energy Sector in Annual Report Competition 2014 held by ICASL.
- Kiriwaneliya MHP Project recognised as Bronze Award Winner at the National Green Award-2013 organised by CEA.
- Highest Dividend paid in the history; Rs. 747 Mn.

2015/16

- Company recognised as "Best Under A Bn Award" winner held by Forbes Asia
- Bronze Award Winner-Power & Energy Sector in Annual Report Competition 2015 held by ICASL.
- Kiriwaneliya MHP Project recognised as Silver Award Winner at the National Green Award-2015 organised by CEA
- Commencement of "Empowering Green" tree planting programe as a CSR initiative.

2016/17

- Bronze Award Winner-Power & Energy Sector in Annual Report Competition 2016 held by ICASL.
- Publishing of First Integrated Annual Report

2017/18

- Silver Award Winner-Power & Energy Sector in Annual Report Competition 2017 held by ICASL.
- Kiriwaneliya MHP Project recognised as Silver Award Winner at the National Green Award-2017 organised by CEA
- Winner of ACCA Sustainability Reporting Award 2017 in the "SME" Category.

Vision Mission and Our Values

GRI - 102-16

Our Vision

To be a significant producer of clean energy for the sustainable economic development of Sri Lanka

Our Mission

To generate the maximum amount of electricity from available water resources with minimal environmental pollution, by optimising the operational efficiencies of our assets

Our Values

Responsibility

We manage the assets of the Company responsibly and effectively to create wealth of shareholders

Integrity

We act with trust, honesty, fairness and transparency

Safety

We consider the safety of our people and the people beyond the organisation too

Exploration

We encourage innovation and seek new ways of renewable energy

CSR

We consciously manage our impact on the environment and host communities

Delivery to Our Key Stakeholders

Investors

We optimise the operational efficiencies of existing assets to give high returns and acquire new renewable energy opportunities to create shareholders' wealth.

Employees

We care for our employees and create a favourable and healthy working environment to increase their productivity.

Environment and Community

We minimise the impacts of our operations that would adversely affect the environment and conduct our business in a socially responsible manner through cordial engagement with communities.

Year at a Glance

GRI - 102-7

Operations

Increase in **Power Generation** of group **36%** to **82 GWh**

Increase in **Power Generation**

Erathna MHPP by **25%** to **44 GWh**

Denawaka Ganga MHPP by **49%** to **22 GWh**

Kiriwaneliya MHPP by **60%** to **16 GWh**

Power Generation **Outages 0.23%**

Due to plant failure

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Financial

Increase in **Revenue 29%** to **Rs. 1.1 Bn**

Increase in **NPAT 48%** to **Rs. 763 Mn**

Decrease in **Dividend 12%** to **Rs. 523 Mn**

Decrease in **MPS 3%** to **Rs. 7.30** per share

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People

Number of **Employees** increased to **104**

Recruitments during the year **10** Employees

Turnover during the year **10** Employees

Training for employees **3** Opportunities

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Environmental

Number of **Trees** planted **1,100**

Decrease in **Energy Consumption 25%** to **GJ 940**

Increase in **Reduction in Co_2 Emission 36%** to **51,342 MT**

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Accolades

Winner of **ACCA Sustainability Reporting Awards - 2017**

SME Sector

Silver Award of **CA Sri Lanka Annual Reports Awards - 2017**

Power & Energy Sector

Silver Award of **National Green Awards - 2017**

Renewable Energy Generation Project Category

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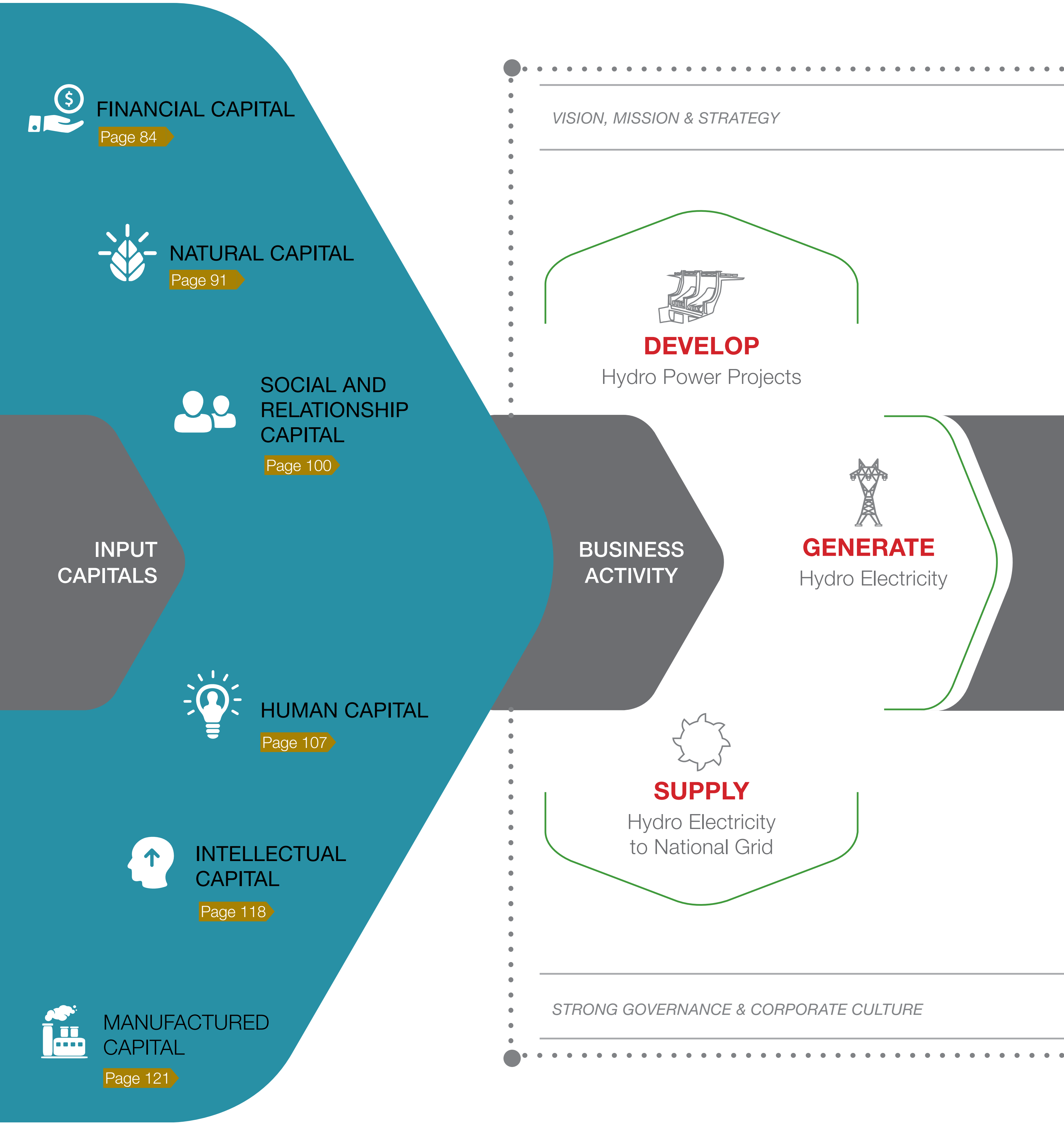
Our Value Creation Model



INTEGRATED RISK & CAPITAL MANAGEMENT

OUTPUT

779 GWh
Cumulative Hydro Electric Power Generation

Rs. 8.9 Bn
Gross Income from Operations up to date

ENVIRONMENTAL & CORPORATE SUSTAINABILITY

OUT COMES

Rs. 4.7 Bn
Distributed as Dividend

Rs. 611 Mn
Spent on Employees

Rs. 371 Mn
Paid as Taxes and Levies

Rs. 2.5 Bn
Paid as Capital and Repayments

Rs. 30 Mn
Spent on CSR and Donations

4,625 trees
Planted for Forest Cover

486,648 MT
Reduced in Co_2 Emission
(Approximately)

Assisting youth

VPEL has empowered youth in our region by supporting sports events in Erathna with cash grants for sports meets and clothing for football tournaments. Their assistance helped us win the race in the Inter Grama Niladhari Division after 11 years.

Name : Mr. P A Chanuka Jeewantha
Occupation : Trainer – Race under 100m and 200m
Age : 20 Years

Chairman's Message

GRI - 102-14

Your company has been in the business of developing green energy for the past 14 years and has embraced a risk-taking pioneering spirit with a long-term view of profit which has paid rich dividends, both literally and figuratively.

Rs. 1.1 Bn
Group Revenue

Rs. 849.1 Mn
Group Net Profit Before Tax

82.1GWh
Group Power Generation

Dear Shareholders,

It is my privilege to welcome you to the Annual General Meeting of Vallibel Power Erathna and present you with our Integrated Annual Report and Financial Statements for the financial year ended 31 March 2018.

I am pleased to state that your company delivered a solid performance across all business frontiers during the year of review, demonstrating considerable resistance to continuing challenges in the economy and the environment.

The worst drought in 40 years was followed by the most severe flooding in over a decade, which took their toll on our performance this year too, given the dependency of the hydropower business on the elements of the weather. However, despite the difficulties, we succeeded in generating more value for our shareholders this year too, by leveraging our synergies and strengths and practicing efficient and productive capital management.

Your company has many strengths to recommend us. These include, firstly and foremost, our decade-and-a-half of expertise in large- scale mini hydropower, generated from state-of-the-art MHPPs located in prime catchment areas, our sturdy financials, the strength of our capital assets and the competency of our people. To this is added the fact that we are the only local public quoted mini hydropower company that has provided our shareholders with the highest returns on their investment, the cumulative value of which amounts to Rs 4.7 Bn, to date. Good governance, prudent risk management, quality management and sound corporate social responsibility practices complete the healthy composition of the business that has kept us at the forefront of the sector from inception.

Local Energy Outlook

The Sri Lankan economy faltered on the growth front as GDP annualised growth hovered under 4% during the year. This was due partly to the harsh weather that devastated the agriculture sector (which usually generates around 7% of total GDP) and partly to contractionary fiscal consolidation efforts under the IMF programme. The consequent increases in taxes on consumption and production constrained household disposable incomes as well as corporate profits and raised inflation.

The Central Bank introduced strong macro-stabilisation initiatives to maintain economic and financial stability. Benchmark interest rates were kept unchanged to help bolster the economy and facilitate a sustainable growth recovery. These measures are planned to put the country back on a growth trajectory and grow the economy in 2018 by about 5.5%. This envisaged increase in GDP should result in a substantial growth in electricity demand since past experiences have demonstrated a direct correlation between electricity demand and the growth rate of the country's economy.

But the local hydropower industry faces many challenges today. The mini hydro power has contributed to the bulk of growth in the non-conventional renewable energy industry over the past 15 years, but this contribution is declining as the sector nears saturation. In 1995, 95% of grid electrical energy needs were met from conventional hydropower plants but this share has now reduced to 35%.

Mini hydro power still makes the largest contribution to the renewable energy sector but this lead may be short-lived. The CEB's Least Cost Long-Term Generation Expansion Plan 2018 – 2037 (LTGEP) states that about 516 MW of renewable energy power plants were connected to the national grid by end- 2016, led by mini hydro power that contributed 342.1 MW with the balance energy requirement contributed by biomass, solar and wind at 24.1MW, 21.3 MW and 128.4 MW respectively. Wind energy in the 20-year period is estimated to be 1205 MW, followed by 1232 MW of solar power and 80 MW of bio mass. According to LCGEP estimates, the contribution of mini hydro will be towards the bottom of the list, as they generate a cumulative capacity of 200 MW over the next 20 years, from 344 MW in 2018 to 544 MW in 2037.

The LTGEP identifies coal power development as being integral for catering to the future demands for energy in the country, and proposes coal- fired power plants as being lower cost and highly efficient when strict emission controls are imposed. It is a cause for concern that an energy mix that favours coal power development is seen to be viable on grounds of least cost economic valuation at the expense of embedded costs of externalities and environmental costs.

Chairman's Message

The proposition also contradicts the government's plan to move away from fossil fuels in pursuit of a zero-emission path that enables energy self-sufficiency from utilising 100% renewable energy sources by 2030, as outlined in the 'Sri Lanka energy sector development plan (2016-2025)'developed by the Ministry of Power and Energy.

Dependency on coal as a long-term solution needs rethinking. Due to its environmental impact, the introduction of coal plants violates several national commitments. For instance, the Nationally Determined Contributions (NDCs) submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in 2016, confirm Sri Lanka's commitment to reduce GhG emission through cuts in coal and petroleum and focuses on developing renewable energy source alternatives. As a member of the Climate Vulnerability Forum, Sri Lanka has also committed to become zero emission by 2050.

Sri Lanka needs to redefine its water-energy nexus to explore more sustainable solutions for the future. New approaches to optimise hydro potential could include introducing management practices that boost the efficiency of hydro power generation with new innovations as well as initiatives that address the adverse impacts of climate change.

The solutions should focus on the natural bounty of the country, on harnessing the inherent kinetic energy of its rivers and waterfalls and strengthening their output to fulfill the country's energy needs.

Deforestation and soil erosion, for instance, have caused siltation in many of the major reservoirs which have significantly reduced their water holding capacities. Steps should be taken to protect these catchments areas and manage them more efficiently to ensure storage at higher capacities during rainy seasons.

Your company has taken the lead here, by introducing a number of initiatives to protect the island's precious water resources and the ecosystems that depend on them. One of our initiatives is the planting of trees in denuded catchment areas as part of our 'Empowering Green' project, which is a key CSR initiative we will continue well into the future.

Other initiatives range from precautionary measures to prevent potential land erosion, to activities that consider the needs of other users of the environment, to methods that protect the safety of fauna and endemic species that accesses the project sites. Water quality is protected by providing buffer zones of pristine forest reserves that safeguard the immediate catchment areas. We also introduced mitigatory measures at all three projects from their construction stages to reduce slope failure and erosion of the river bank and carefully considered potential areas for soil erosion. More details of these initiatives are provided in the Natural Capital Report.

Global Energy Outlook

The year of review saw substantial shifts in world energy marked by plummeting costs of clean energy technology and increasing electrification. The ways in which the world met its expanding energy needs changed during the year when compared with the pattern of the past twenty-five years. Demand for natural gas and renewable rose, and substantial improvements in energy efficiency were achieved.

Oil and gas production in the United States revived, and a new group of major developing countries moved into the energy arena. China in particular transitioned to a cleaner energy mix and a more services-based economic model which focuses on electricity, natural gas and green energy. China's choices could determine global energy trends and could even facilitate a smoother global transition to clean energy.

Developing countries in Asia accounted for two-thirds of global energy growth and the balance growth was contributed mainly from the Middle East, Africa and Latin America, with energy demand in Southeast Asia growing at twice the pace of China. Renewable sources of energy are meeting 40% of the increase in primary demand and their explosive growth in the power sector heralds the start of the decline in the demand for coal-fired power generation which has grown in capacity by nearly 900 GW since 2000.

Renewables will be the energy of the future and are becoming the least-cost source of new energy generation. Two-thirds of global investment in power plants were in renewables. About 80% of new energy capacity in the European Union is in renewables.

The expansion in global growth to 3.3% during the year, from 2.7% in 2016 resulted in expanding incomes. This meant that many Mns of households purchased electrical appliances and installed cooling appliances, with escalated the demand for electricity. Electricity consumption is projected to comprise 40% of the rise in energy consumption to 2040, the same share of growth experienced by oil during the last 25 years.

But the demand for fossil fuels is far from over. China remains a significant presence in coal markets, although projections suggest that the use of coal peaked in 2013 and will decline over the next decades until 2040 by almost 15%.

Your Company's Performance

Your company has been in the business of developing green energy for the past 14 years and has embraced a risk-taking pioneering spirit with a long-term view of profit which has paid rich dividends, both literally and figuratively.

The erratic weather patterns that prevailed during the previous year continued into this year too, and prevented all three MHPPs - Erathna, Denawaka Ganga and Kiriwaneliya– from performing at their optimal capacities, although their output was substantially higher than during 2016/2017. The energy generation of Erathna improved by 25%, to 44.2 GWh, from 35.4 GWh in the previous financial year; Denawaka Ganga improved by 49% to 21.7 GWh from 14.5 GWh in 2016/2017, and the output of Kiriwaneliya improved to 16.2 GWh from the previous year's 10.2 GWh, a noteworthy increase of 60%.

This enabled the Group to increase its contribution to the national power grid this year by 36% to 82.1 GWh, from 60.1 GWh supplied in the previous year.

The improved performance enabled your company to record a Group Revenue of Rs. 1,117.6 Mn in the current year, which is an increase of 29% over the previous year's figure of Rs. 863.7 Mn. This contribution was from the improved revenues of the Erathna, Denawaka Ganga and Kiriwaneliya MHPPs , which increased during the year by 18%, 41% and 51%, to Rs. 601.3 Mn, Rs. 296.7 Mn and Rs. 219.5 Mn respectively, from the previous year's figures of Rs. 507.9 Mn, Rs. 210.5 Mn and Rs. 145.3 Mn respectively. The drop in tariff by 5.45% in the dry season to Rs. 15.43 from Rs. 16.32 per unit in the previous year and by 5.27% in the wet season to Rs. 13.47 per unit from Rs.14.22 per unit the previous year also impacted revenue. The surge in revenue had a positive effect on Net Profit after Tax as well, which rose during the year by 48 % to Rs. 763.3 Mn from Rs. 515.7 Mn in the preceding year. The Net Profit after Tax of Erathna MHPP saw a decline of 9% to Rs. 476.7 from the previous year's NPAT of Rs. 525.3 Mn.

Our Responsibility to Society

The impact we have made on the lives of members of society has been the yard stick by which we measure our success through the years. This is especially true in the case of the communities that have their homes in the vicinity of our power plants, whose lives have been intrinsically intertwined with ours from the time of the company's inception. Whether we created jobs within our own plants to uplift them economically or equipped them with the education that opened gateways to higher economic livelihoods, or provided those who lacked the financial or physical capabilities with the economic opportunities to realise their dreams, we have striven down the years to demonstrate our support as a responsible neighbour and a caring corporate citizen during key touch points in their lives. We will also continue our support of society at large by building infrastructure for schools, hospitals, temples and roads.

These initiatives are preceded only by efforts to promote environment sustainability in a rapidly changing climate that brings with it a continuous stream of natural disasters. We work diligently to preserve the pristine nature of the environment by introducing business practices that do the least harm to our surroundings and replenish, wherever possible, any natural resources used.

This year we took our flagship project 'Empowering Green' to schools as a learning initiative to inculcate in young minds the importance of environment preservation and restoration, in partnership with a number of state enterprises involved with the environment. Our initial short-term target is the planting of 100,000 trees around the country, which will be extended to planting many more trees in various locations in the country in the next phase of the project.

Chairman's Message

Corporate Governance

A professional, well-informed and independent Board of Directors is vital to ensuring the highest standards of corporate governance. The Board operates on the principle that sound governance practices are fundamental to earning the stakeholder trust that is critical to sustaining business performance and enhancing shareholder value.

Our governance structure provides for delegation of authority while the Board shares accurate information on our financials and performance, as well as makes timely disclosures related to our leadership and governance.

The Board of Directors follows the best practices set out by all regulatory authorities and the industry, and has introduced standards, systems and procedures that promote clean energy solutions that reduce the carbon footprints of our business and maintain a sustainable environment.

Looking to the Future

For the future, your company will continue to explore new opportunities in other renewable energy sources that will accrue higher returns with a low risk, both within the country as well as in overseas markets. These initiatives are well underway in the region as we pursue active discussions with overseas business partners .

Within the country, we aim to contribute actively to the government's goal of using 100% renewable energy sources to achieve self-sufficiency in electricity generation by 2030, by exploring viable options for setting up more renewable energy businesses, and may look beyond hydropower towards wind, solar and biomass energy. Although we are under no illusions that wind and other projects would be plain sailing throughout, dependent as they are on uncontrollable factors like the weather, we are confident that we have the necessary expertise and foresight to build beyond our success in mini hydropower to reach new frontiers in renewable energy. Our strengths combined with the support of the government and relevant agencies could create win-win opportunities that will ultimately benefit the country.

Need for Government Support

It is now in the hands of the government to extend support to the mini hydropower sector, and several steps could be taken to facilitate this. For instance, tariff formulation methodologies could be improved to reflect more realistic project development costs, and capacities within the Sustainable Energy Authority could be built to streamline land acquisition and approvals. The government could also perhaps look into granting extensions of projects that have completed their stipulated time period.

The Erathna Mini Hydropower project will complete its 15 year SPPA in July 2019, and we have been informed that an additional 5 year extension will be granted us - subject to the fulfilling of other requirements for the extended period - under the 3 tier tariff structure which provides 20 year-SPPAs to renewable energy plants commenced after 1st January 2012. Remuneration on this extension however, will place your Company on the final tier of the three- tier tariff structure since we are nearing completion of the first 15 years of operations. This will mean that the tariff we will be remunerated on will be only one-third of the avoided cost tariff we presently enjoy, which will reduce the Company's revenue by a substantial two-thirds.

This will have a significantly negative impact on the Company's bottom line. Denawaka Ganga and Kiriwaneliya have a further 9 years of operation before their SPPAs falls due. Only with government support can the Company sustain its business in such scenario.

The sector is ready and willing to support the government's plan to contribute 20% of the total electricity requirement with Renewable energy sources by 2020. The current capacity of renewable energy is 250 MW which must be increased to1335 by 2020 to achieve this. these and other initiatives that can be introduced to improve investment and increase investor confidence. It is a fact that new renewable energy projects under the current tender procedure are not profitable at present. This should also be re-looked at if sustainable and long-term investment in mini hydro power is to be promoted.

Despite the challenges faced in the local energy market we stayed ahead of the game, with the vision and foresights accumulated as the largest and longest-term player in the sector, fortified by the strength of the Vallibel brand. Since inception, we have been successful in creating value for all our stakeholders with a continuous record of the best power generation in the sector coupled with high revenue and a strong bottom line.

Awards and Accolades

I am delighted to report that VPEL was recognised for several awards during the year. We were once again, awarded by the Institute of Chartered Accountants of Sri Lanka (ICASL) at the Annual Report 2016/17 Awards, with the Silver award in the Power and Energy category of companies for our high standards of integrated reporting and disclosure. This marks the seventh consecutive year of placement within the top ICASL recognitions for clear and cohesive reportage. VPEL was adjudged Winner of the ACCA Sustainability Reporting Award 2017 in the SME Sector as well, and Kiriwaneliya MHPP was the proud recipient of the Silver Award in the National Green Awards 2017.

Dividend

I take pleasure in stating that the Board recommended the payout of two Dividends of cents 40 per share and cents 30 per share during the financial year 2017/2018, in appreciation of the loyalty and support over the years of you, our valued shareholders. This brings the dividend declared and paid for the full year to cents 70 per share which amounts to a total of Rs. 523 Mn.

Acknowledgment

In closure, I express my grateful thanks to my Board of Directors for their continued guidance and vision for taking the company forward. I take this opportunity to congratulate Mr S. H. Amarasekara who was appointed Deputy Chairman of Vallibel Power Erathna PLC from 28 July 2017. I wish him every success as he joins this august body to steer the company to new streams of success. I also wish to convey my heartfelt thanks to our esteemed shareholders, business partners and other stakeholders for their continued confidence in us. It is your trust and loyalty that fortified us to prove our mettle in these uncertain times and established us in our premier market position.

Dhammika Perera
Chairman

24 May 2018

Board of Directors

Mr. Dhammika Perera
Chairman –NED

Mr. Dhammika Perera is the quintessential strategist and business specialist with interests in a variety of key industries including Manufacturing, Banking and Finance, Hospitality and Hydropower generation. He has nearly thirty years of experience in building formidable business through unmatched strategic foresight.

Mr. Perera is the Chairman of Vallibel One PLC, Royal Ceramics Lanka PLC, Lanka Ceramic PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resorts PLC, Delmege Limited, and LB Microfinance Myanmar Company Limited. He is the Co-Chairman of Hayleys PLC, The Kingsbury PLC, Singer (Sri Lanka) PLC, Executive Deputy Chairman of LB Finance PLC and Deputy Chairman of Horana Plantations PLC. He is also the Executive Director of Vallibel Finance PLC and serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys Fabric PLC, Dipped Products PLC and Hayleys Global Beverages (Pvt) Limited.

S H Amarasekera
Deputy Chairman - INED

Mr. Harsha Amarasekera, President Counsel is a leading light in the legal profession in Sri Lanka having a wide practice in the Original Courts as well as in the Appellate Courts. His fields of expertise include Commercial Law, Business Law, Securities Law, Banking Law and Intellectual Property Law. He also serves as an Independent Director in several listed companies in the Colombo Stock Exchange including CIC Holdings PLC (Chairman), Chemanex PLC (Chairman), Vallibel One PLC, Royal Ceramics Lanka PLC, Expo Lanka Holdings PLC, Chevron Lubricants Lanka PLC, Keells Food Products PLC, Amana Bank PLC, Amaya Leisure PLC. He is also the Chairman of CIC Agri Business (Private) Limited.

P K Sumanasekera
Director - INED

Mr. Prabodha Sumanasekera holds B.Sc. in Physics from the Colombo University and has over 20 years experience in the small hydro power sector.

He has been involved in formulating and developing 15 small/ mini hydropower projects, including the ground breaking Dick- Oya mini hydropower project which is the first grid connected mini hydropower project in Sri Lanka. He is also a shareholder Director in several companies owning, developing and operating hydropower projects in Sri Lanka, Uganda & Kenya.

NED - Non-Executive Director, INED - Independent Non-Executive Director

H Somashantha
Director - NED

Mr. Haresh Somashantha is a member of the Institute of Chartered Accountants of Sri Lanka and an Associate member of CPA Australia. He also holds a Bachelor's Degree in Mathematics from the University of Kelaniya. He counts over 18 years of experience in audit, financial management and reporting, including strategic and corporate planning across different industries.

He is currently the Head of Finance & Treasury of Royal Ceramics Lanka PLC. He serves as a Director/Audit Committee Chairman of Hayleys Fabric PLC. Also he serves as a Director of Royal Porcelain (Pvt) Ltd., Unidil Packaging Limited and in several subsidiary companies in the Delmege Group. He is an Alternate Director of The Fortress Resorts PLC.

Shan Shanmuganathan
Director - INED

Mr. Shan Shamuganathan is an Accountant by Profession, Fellow Member of the Institute of Chartered Accountants of Sri Lanka and Fellow Member of the Chartered Institute of Management Accountants of London. He was appointed to the Board in January 2012.

He has extensive experience in the Financial Services Industry; initially with American Express Bank where he ended up as the Director Marketing and Deputy Country Head and later with Union Bank of Colombo where he was the Founder CEO/Managing Director.

He is currently the Managing Director of South Asian Public Affairs (Pvt) Ltd, a corporate advisory service provider and Shareholder/ Director in privately held companies engaged in the leisure and IT Industry and in addition also functions as Senior Advisor to large privately held corporate houses.

C V Cabraal
Director - NED

Chatura V. Cabraal is a Graduate (with Honours) in Mechanical Engineering (BSc.) with a focus in manufacturing and design from the Missouri University of Science and Technology.

He is currently working for CHEC Port City Colombo (Pvt) Ltd. in the Property Development Department. He previously worked at Brandix Lanka (Pvt) Ltd. as a Sustainability Engineer (2011-2014) in the Energy and Environment Department. He started his career in 2010 as a Management Trainee at John Keells Hotel Management Services.

He is also the co-owner and co-founder of Royal Orchids (Pvt) Ltd. which owns and operates a floriculture farm.

He also serves on the board of Kelani Valley Plantations PLC and The Fortress Resort and Spa PLC.

Joint Chief Executive Officers' Review

Managing our triple bottom line, known also as working with the impacts of profits, people and planet, is integral to business continuity. We extend our core business of powering the nation to embrace our passion of empowering our people - our employees, the communities whose lives we touch, and our diverse stakeholders.

Russell De Zilva
Jt. CEO

Rs. 30 Mn
Spent on Community up to date

4,625
Trees Planted up to date

66%
Workforce from local community

A K Dheerasinghe
Jt. CEO

The Company posted a satisfactory performance during the current financial year that to some extent, circumvented the incalcitrant climate, despite the fact that the year was not an exceptional one since the extreme weather patterns of the previous year were much in evidence this year too. This sturdy performance was the successful outcome of risk mitigation strategies introduced to promote resilience and enhance performance in all key business areas. As a result, Group output increased by 36% to 82.1 GWh, from 60.1 GWh supplied to the national grid in the previous year. The increased output of all three mini hydro plants augmented Group Revenue to Rs 1,117.60 Mn, a 29% increase over the previous year's revenue of Rs.863.7 Mn.

The higher revenues strengthened the Company's bottom line and resulted in a 48% increase in Group Net Profit After Tax to Rs. 763.3 Mn, from Rs. 515.8 Mn in 2016/2017. The improved performance enabled the Company to pay out two Dividends during the year, of 40 cents per share and 30 cents per share, which enabled VPEL to maintain its reputation as the mini hydropower company that consistently provides shareholders with the highest returns in the sector.

However, the rise in revenue saw a corresponding 12% increase in tax expenditure to Rs. 85.7 Mn, from Rs.76.4 Mn in the preceding year. The Company has been taxed on the prevailing rate of 12% since conclusion of its tax holiday in 2014, Once the new Inland Revenue Act No. 24. of 2017 come into effect on 1 April 2018, however, this rate will be raised to 14% for a period of three years. So a marginal increase in expenses is envisaged for the following three years. After three years of period, taxation will be based on the prevailing rates of the country. Further, the current financial year marks the end of the six- year tax holiday enjoyed by the Subsidiary also. It will then be subjected to a tax rate of 15% starting from the next financial year, 2018/19. This is in accordance with the BOI agreement with the Company.

The avoided cost based tariff dropped by 5.45% in the dry season to Rs. 15.43 during the year 2017, from Rs. 16.32 per unit in the previous year and by 5.27% in the wet season to Rs. 13.47 per unit from Rs.14.22 per unit in the previous year. This did not impact revenues due to the increased output during the period.

Local Electricity Generation Sector Analysis

According to recent figures provided by the Central Bank of Sri Lanka (CBSL),electricity generation in the country continued to expand during the year, with a higher dependency on thermal power. Drought conditions coupled with sporadic disruptions to coal power generation were the cause of the high fuel oil-based power generation. Total electricity generation increased by 3.7% to 14,671 GWh in 2017, the power plants owned by the CEB contributing 72.9% while the remainder was purchased from independent power producers (IPPs). Total electricity generation in 2016 was 14,149 GWh.

Electricity sales grew by 5% during the year, the increase mainly driven by the industry, general-purpose and domestic sectors, which accounted for 30.1%, 20.7% and 32.7% shares, respectively, of total electricity sales.

The drought that continued from the latter part of 2016 prevailed during the first nine months of 2017, which significantly affected hydropower generation and increased the country's reliance on thermal power. Consequently, hydropower generation, excluding mini hydro generation, registered a decline of 12.1% to 3,059 GWh, whereas fuel oil-based power generation and coal power generation increased by 13.1% and 1.1%, to 5,045 GWh and 5,103 GWh, respectively.

Mini hydropower generation rose due to the rainfall received during the latter part of 2017 and electricity generation through non-conventional renewable energy (NCRE) sources increased by 26.3% to 1,464 GWh in 2017, compared to 1,160 GWh in 2016. Coal- based electricity generation accounted for the largest share in total generation followed by fuel oil, hydro and NCRE power generation, respectively, during 2017. This was despite the sporadic disruptions experienced in coal power generation due to the breakdown of some units of the Norochcholai coal power plant and scheduled maintenance activities.

It is crucial to expedite the expansion and diversification of energy generation to ensure energy security while minimising energy generation costs. The average cost of hydro, coal and fuel oil-based power generation by the CEB was Rs. 2.77, Rs. 9.74 and Rs. 25.72 per kWh, respectively. The average cost of electricity purchased by the CEB from IPPs was Rs. 23.72 per kWh. Therefore, the CEB's average cost of electricity at selling point amounted to Rs. 20.06 per kWh although the average tariff was only Rs. 16.49 per kWh. The average tariffs per kWh charged by the CEB from industry, domestic, general-purpose, government and hotel sectors were Rs. 14.74, Rs. 13.49, Rs. 23.78, Rs. 17.95, and Rs. 17.62, respectively. Financial losses of the Ceylon Electricity Board (CEB) widened due to increased reliance on thermal power generation owing to drought conditions.

The government strengthened the drive towards sustainable energy projects but this is as yet insufficient to make a significant difference in the energy mix.

Energy Concerns in the Global Context

The global energy industry is at a critical crossroads today. The need to reduce the use of fossil fuels is being expounded on every environment platform even as consensual contracts like the Paris Agreement commit to reducing the carbon foot print of countries, while more solutions in renewable energy supply options surface to address surging energy needs. Sri Lanka is one of many countries that has arrived at this transitional point and will face opportunities and challenges as the energy industry plays a lead role in fueling the growing economy of the country.

The country is now perched for take-off on the growth front. Economic growth is expected to reach 5.5% in 2018, from a disappointing growth of 3.1% in 2017, as macro-economic stability restores in response to the tight fiscal policy stance of the government. An energy mix that favours indigenous renewable resources over imported fossil fuels must be considered if the country is to meet its expanding energy needs and ensure environmental sustainability at the same time.

Significant strides were made in electrification during the year of review. Statistics supplied by the Ministry of Power and Renewable Energy confirm that national electrification ratio grew from 99.3% in 2016 to 99.7% as at October 2017 and has now reached 100% accessibility. This positions Sri Lanka as the only South Asian country to boast of 100% electricity accessibility with a 24-hour supply. Demand for electricity continues to grow at a rate of about 6% annually, average daily demand was about 40 GWh in 2017.To meet this growth, the government plans to increase the country's power generation capacity from the existing 4,043 MW to 6,900 MW by 2025, maximising development of renewable energy.

Responsibility to People and the Planet

Managing our triple bottom line, known also as working with the impacts of profits, people and planet, is integral to business continuity. We extend our core business of powering the nation to embrace our passion of empowering our people - our employees, the communities whose lives we touch, and our diverse stakeholders.

We empower communities by enhancing the quality of their lives, more so the lives of the disadvantaged communities in the vicinity of our power plants. Over the years, we have nurtured close and cordial relations with these communities and empowered them by providing them with a new outlook on life and enhancing livelihoods. We support them in areas like poverty, health and unemployment, which includes providing them with employment in our hydropower plants as well. Since we operate a run-of-the-river project our business does the least harm to environmental resources and the communities that depend on them, because we utilise the liquid resources of nature and re-channel them back to nature, in their former pristine condition, un depleted. This is in line with our unified vision for a greener tomorrow which commits us as a leading clean energy provider and sustainability driver,to preserve depleting and valuable resources and wherever possible, replenish the natural resources we use.

Our reforestation programme "Empowering Green" follows this vision. The programme has a short- term goal of planting 100,000 trees around the country and was initiated two years ago in collaboration with a number of statutory bodies involved in environment conservation. The programme was taken into a new area this year, in keeping with the Company's conviction that today's youth are the hope of tomorrow. We grew the programme in schools to teach school children the value of preserving the environment for generations to come. We also fine-tuned the programme to explore more opportunities to plant trees in various part of the country, especially in environmentally depleted areas, and concluded the financial year by planting more than 4,600 (no of trees planted) saplings.

We ensure sustainability in every aspect of our own business and our sites continue to be in compliance with international standards of quality and preservation of the environment. This commitment earned us the distinguished National Green Award for our Kiriwaneliya project this year as well.

Human Capital

We demonstrate our passion for empowering our employees bygrowing and developing them with training opportunities to improve their skills and keep them motivated. Having a competent and professional team on board gives us the edge over competition because they are key contributors to the growth and success of our business.

We have also been successful in taking employee volunteerism to a whole new level, by involving our employees in taking forward our flagship project "Empowering Green" in a manner that both empowers them as well as enables them to earn extra income. We built plant nurseries at all three power plants and encouraged employees to tend to the young plants in their spare time. Employees were also encouraged to grow seedling in their own homes and sell them to the Company. Both projects are adding value to the Company as well as generating extra income for our staff.

During the current financial year, we also allocated resources to educate our employees, especially those working in our MHPP, on health and safety practices in the energy sector as well as instructed them on environmental and operational best practices. This was with the dual purpose of continuing to ensure their safety as well as safeguarding the biological assets that ensure the smooth flow of the business.

Outlook for the Future

The future looks bright for NCREs. It is heartening to learn that the key state bodies in the energy sector are committing to exploring new opportunities in renewable energy. A draft National Energy Policy designed by the Sri Lanka Sustainable Energy Authority (SLSEA) under the Ministry of Power and Renewable Energyis now in place and is also tilted towards green energy. This is tacit acknowledgement of the government's commitment to increase renewable energy options and reduce dependency on fossil fuels. Kudos for the CEB for attaining 100% grid connectivity for the country. This major achievement places Sri Lanka on the same footing as much more advanced economies.

In support of the government's green initiatives, the Company is also exploring viable options in renewable energy with a focus on wind and solar power. The envisaged projects may be located locally or in the region, but wherever they are, as a commercial enterprise, we assure our stakeholders that we will pursue opportunities that reduce risk, enhance profitability and provide the most equitable terms of operation.

Meanwhile we will continue to support the country's electricity requirement by proactively introducing initiatives that optimise the generating capacities of our three mini hydropower plants, and commit to a long-term sustainable business in Sri Lanka. Within the next couple of years, the Erathna Mini Hydropower project enters a new phase of existence and we trust we will be granted a further extension at a competitive tariff to further this commitment.

Acknowledgement

We make our special thanks to our Chairman and Board of Directors who supported us with invaluable wisdom and guidance to meet the challenges and recognise the opportunities of the past year. Our progress in the face of adverse circumstances would not have been realised if not for the invaluable contributions of each of our many and varied stakeholders – our shareholders, the CEB, suppliers, government officials and members of the community. We are indebted to each of you for your commitment and loyalty and look forward to delivering more value in the years to come. Last but not least, we deeply appreciate the sincerity and commitment of our valued staff as we move forward together to face the challenges that future years will bring, in the hope that they will continue to usher in accountability, transparency and a well- regulated industry.

Russell De Zilva	A K Dheerasinghe
Jt. CEO	Jt. CEO

24 May 2018


Vallibel

Guiding employees

What I would cherish forever is the guidance our Company provided me throughout my career. On-the-job training I received as a trainee on all the aspects of the operation gave me the opportunity to develop my skills and the continuous increments, bonuses and company loans have lifted up the living standard for all of us. I'm proud to have witnessed the growth of this company from its inception.

Name : Mr. Susantha Sanjeewa Rankoddiwela
Designation : Operator Assistant
Age : 36 Years
Year of service : Since 2010

Corporate Governance

The Company is committed to achieving and demonstrating the highest standards of corporate governance. Adopting best practices in corporate governance focuses on strengthening the roles and responsibilities of the Board of Directors, improving the control environment, promoting disclosure and transparency whilst protecting stakeholder rights.

Overview

Corporate governance is a fundamental mechanism that ensures the best interests of all stakeholders. Synchronising such interests is vital in a corporate's journey towards achieving long-term sustainable growth.

The Company is committed to achieving and demonstrating the highest standards of corporate governance. Adopting best practices in corporate governance focuses on strengthening the roles and responsibilities of the Board of Directors, improving the control environment, promoting disclosure and transparency whilst protecting stakeholder rights. Our approach to governance remains unchanged from the previous year and is based on the current codes of best practices on corporate governance.

Value Creation through Good Corporate Governance

The Board operates on the principle that sound governance practices are fundamental to earning stakeholder trust, which is critical to sustaining business performance that creates value for all stakeholders.

Corporate responsibility is a driver of sustainable value creation for all our stakeholders. We also proactively determine ways to address environmental, social and governance issues in our day-to-day activities.

Chairman's Statement on Corporate Governance

As Chairman of the Board of Directors of Vallibel Power Erathna PLC, I am privy to the high standards of governance set by the Board. I confirm that stewardship and good governance of our Company remains a high priority for the Board and hereby affirm that we will continue to ensure that our strong governance framework and practices will be built upon and refined in step with changes to the governance agenda.

The Board perceives its role to be that of assuring the Company's success well beyond their own terms of office by ensuring that the Company is equipped to take advantage of economic trends and market conditions that will sustain its business well into the future.

The standards and values that define the integrity and competency of the Board are set out in the codes of best practices on corporate governance of the Company.

Dhammika Perera
Chairman

24 May 2018

Governance Structure

Internal Governance

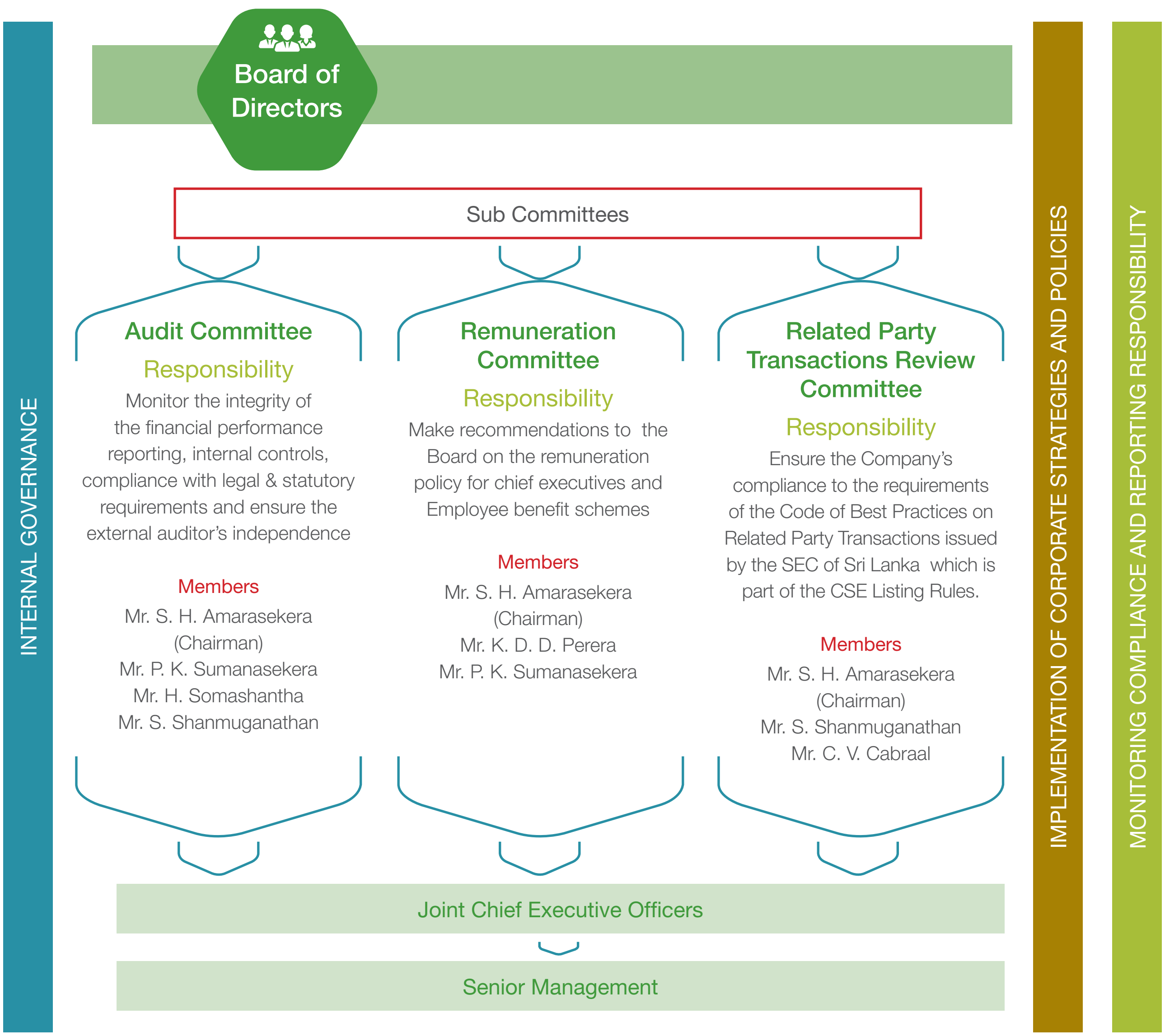
GRI - 102-18

The Company has a well-defined governance structure that facilitates delegation of authority from the top-down, as well as enables empowerment of employees bottom-up and laterally.

Overall responsibility for steering the Company lies with the Board who provide strategic guidance and effective management oversighton behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board has created the three committees itemised below from among its members to assist and supplement its role in implementing corporate strategies and policies and monitoring compliance and reporting responsibilities. Each of

GRI - 102-22



these committees has an established charter and operating procedures, which are reviewed on a regular basis. The Board may establish other committees from time to time to deal with matters of special importance and have access to the Company's executives and senior management, as well as to independent advisories.

Responsibilities of the Management

The day- to- day management of the company's affairs and implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Joint Chief Executive Officers.

The Joint Chief Executive Officers delegate the duties and responsibilities of implementing and achieving the corporate strategy to the senior management team within the Company.

The Board strongly believes in the individual as being the source of ideas, creativity and entrepreneurial spirit, and as such, supports the empowerment of staff based on integrity, accountability and fair play, and values their commitment and contribution to the productivity of the business.

Responsibilities delegated to the Joint Chief Executive Officers as well as those reserved to the Board, are set out in the Company's Code of Best Practices and these delegations are reviewed on a regular basis.

GRI - 102-18

As the VPEL is not having a specific sustainability committee, the Management is also takes full responsibility ensuring that all sustainability practices of the Company in relation to the communities it works with, the environment it works in as well as the mitigation of our business impact on people and the environment are conducted in accordance with acceptable norms.

External Governance

In pursuit of achieving the highest standards of corporate governance, the Company follows an approach that complies with all the regulations, codes and best practices adopted by different governing bodies.

EXTERNAL GOVERNANCE

- Companies Act No. 07 of 2007
- Listing Rules of the Colombo Stock Exchange
- Securities and Exchange Commission of Sri Lanka Act
- The Code of Best Practice on Corporate Governance as published by the Securities and Exchange Commission and the Institute of Chartered Accountants, Sri Lanka
- Sustainable Energy Authority Act, No. 35 of 2007
- Sri Lanka Electricity Act, No. 20 of 2009
- Public Utilities Commission of Sri Lanka Act No. 35 of 2002
- Other Legislative and Regulatory Authorities

Meetings of Board and Sub-Committees

GRI - 102-22

The number of meetings of the Board and the Audit Committee and individual attendance by members are as follows:

Name of Director	Directorship Status	Attendance		
		Board Meeting	Audit Committee Meeting	Related Party Transactions Review Committee
Mr. K D D Perera (Chairman)	Non Executive	1/4	NA	NA
Mr. S H Amarasekera	Independent Non-Executive	3/4	3/4	3/4
Mr. P K Sumanasekera	Independent Non-Executive	0/4	0/4	NA
Mr. H Somashantha	Non Executive	4/4	4/4	NA
Mr. S Shanmuganathan	Independent Non-Executive	4/4	4/4	4/4
Mr. C V Cabraal	Non Executive	4/4	NA	4/4

In pursuit of achieving the highest standards of corporate governance, the Company follows an approach that complies with all the provisions of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities & Exchange Commission of Sri Lanka as well as the disclosure requirements of the Colombo Stock Exchange.

The following table illustrates the extent of compliance to the Code describes as follows.

Code	Principle	Status	Level of Compliance
Section 01		The Company	
A	Directors		
A.1	The Board		
A.1.1	Board Meetings	Complied	The Board meets quarterly. Ad-hoc meetings are held as and when required. During the year under review, the Board met on four occasions. The attendances at these meetings have been depicted in the table given in this section.
A.1.2	Responsibilities of the Board	Complied	The Directors are responsible for ensuring:- • the formulation and implementation of a sound business strategy through skilled & experienced Joint Chief Executive Officers and management team; • ensuring effective systems to secure integrity of information, internal controls, business continuity; • ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations; and • fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned.
A.1.3	Compliance with the laws of the country and agrees to obtain independent professional advice	Complied	The Board collectively, and Directors individually act in accordance with the Laws and Regulations of the country, and to the Company's policies. At anytime, all the members of the Board are allowed to obtain independent professional advice where necessary, at the Company's expense.

Code	Principle	Status	Level of Compliance
A.1.4	Company Secretary	Complied	The advice and services of the Company Secretary, Messers P W Corporate Secretarial (Pvt) Ltd, are available to all members of the Board. They keep the Board informed of new laws and revisions, regulations and requirements coming into effect which are relevant to them as individual Directors and collectively to the Board. The removal of the Secretary would be made at Board's discretion.
A.1.5	Independent judgment of Directors	Complied	All Directors bring independent judgment on issues of strategy, performance, resources including key appointments and standards of business conduct.
A.1.6	Dedication of adequate time and effort of the Directors	Complied	The Board of Directors dedicates adequate time and effort to ensure their duties and responsibilities towards Company and Board are discharged. Sufficient time is dedicated before a meeting to review Board papers and call for additional information and clarification, and to follow up on issues consequent to the meeting. Hence, they are able to familiarise with the business changes, operations, risks and controls which ultimately help to satisfactorily discharge the duties and responsibilities owed to the Company.
A.1.8	Training for new and existing Directors	Complied	An induction program is in place for newly appointed Directors. In addition, Directors are also encouraged to participate in continuous professional and self-development activities.
A.2	Chairman and Joint Chief Executive Officers (Jt. CEOs)		
A.2.1	Division of responsibilities of Chairman and Jt. CEOs	Complied	Two Joint Chief Executive Officers function as the highest executive position in the Company who are not in the Board. A clear division of responsibility, power and authority is maintained between the Chairman and the Jt. CEOs ensuring that the balance of power and authority is reserved.

Code	Principle	Status	Level of Compliance
A.3	Chairman's role		
A.3.1	Chairman's role	Complied	The Chairman is responsible for the efficient conduct of Board meetings and ensures, inter alia, that : • The effective participation of all Directors are secured; • All Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company; • The view of Directors on issues under consideration are ascertained; • The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders. • The Chairman maintains close contact with all Directors
A.4	Financial Acumen		
A.4.1	Financial Acumen	Complied	The Board includes two Chartered Accountants, who possess the necessary knowledge and competence to offer the Board guidance on matters of finance. They serve as members of the Audit Committee too. Other members of the Board are having ample experience in handling the matters of finance by serving in different organisations. Hence the Board is equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.
A.5	Board Balance		GRI - 102-23
A.5.1	Non-Executive Directors	Complied	All Directors are Non-Executive Directors including Chairman.
A.5.2	Independence of Non-Executive Directors	Complied	Three of six Non-Executive Directors are independent. The Board has determined that three Non-Executive Directors satisfy the criteria for 'independence' set out in the Listing Rules.
A.5.3	Independence of Non-Executive Directors	Complied	Non-Executive Directors' profiles reflect their calibre and the weight their views carry in Board deliberations. Each is independent of management and free from any relationship that can interfere with independent judgment.
A.5.4	Annual declaration of independence of Non-Executive Directors	Complied	Each Non-Executive Director has been submitted declarations stating the independence or non-independence in a prescribed format. This information is made available to the Board.

Code	Principle	Status	Level of Compliance
A.5.5	Determination of independence of the Directors	Complied	The Board considered the declaration of independence submitted by each Non-Executive Director with the basis for determination given in Code of Best Practices as a fair representation and will continue to evaluate their independence on this basis annually. Brief resume of all the Directors is available on pages 22 and 23.
A.5.6	Alternate Director	Complied	There are not any Alternate Directors as at 31/03/2018.
A.5.7	Senior Independent Director	Complied	This does not arise as the Chairman does not performed the role of Chief Executive Officer.
A.5.8	Senior Independent Director's (SID) meetings with other Directors	Complied	This is not required as the particular position is not available.
A.5.9	Chairman's meetings with Non-Executive Directors	Complied	Separate meetings are not required since all the Directors are Non-Executive Directors.
A.5.10	Recording of concerns in the Board Minutes	Complied	Concerns raised by the Directors which could not be unanimously resolved during the year, if any, were recorded in the Board Minutes.
A.6	Supply of Information		
A.6.1	Timely and appropriate information to the Board	Complied	Management provides the Board with appropriate and timely information. When information volunteered by management is not enough, Directors make further inquiries. Chairman ensures all Directors are properly briefed on issues arising at meetings.
A.6.2	Information provided in advance to the Board meetings	Complied	The Directors are provided with minutes, the agenda and the Board papers in advance to prepare and clearly comprehend with the matters discussed or consent for an effective meeting.
A.7	Appointments to the Board		GRI - 102-24
A.7.1 & A.7.2	Appointment to the Board	Complied	New appointments to the Board are based on the collective decision of the Board, subject to Article 25(2) of the Articles of Association. In making new appointments, the Board considers the composition of the Board in order to assess whether they have the right mix of skills and experience to add value to the deliberations of the Board.
A.7.3	Disclosure of new appointments	Complied	Upon the appointment of a new Director to the Board, the Company discloses the following to the CSE; • brief resume of the Director; • the nature of his expertise in relevant functional areas; • the names of companies in which the Director holds directorships or memberships in Board Committees; and • 'independence' of such Director.

Code	Principle	Status	Level of Compliance
A.8	Re-Election		
A.8.1 & A.8.2	Re-election of Directors	Complied	The provisions of the Company's Articles require a Director appointed by the Board to hold office until the next Annual General Meeting, and seek re-appointment by the shareholders at that meeting. As per the provisions of Company's Articles, at each Annual General Meeting (AGM) one third of the Directors for the time being, subject to retirement by rotation, shall retire from office. Retiring Directors are generally eligible for re-election. In accordance with this provisions, Mr. S Shanmuganathan retires and offer him for re-election at the AGM.
A.9	Appraisal of Board Performance		
A.9.1, A.9.2 & A.9.3	Annual performance evaluation of the Board and its Sub Committees	Complied	The performance of the Board and Sub-Committee is evaluated annually on a self-assessment basis.
A.10	Disclosure of Information in Respect of Directors.		
A.10.1	Disclosures about Directors	Complied	Information in relation to Directors is disclosed as given below. • Name, qualifications, brief profile and nature of expertise - (Refer pages 22 to 23 of this Report) • Directors' interest in contracts (Refer page 182-183 of the Annual Report) • Number of meetings of the Board and Committees held, attendance, names of Committees in which the Director serves as the Chairman or member (Refer page 32 of this Report)
A.11	Appraisal of Chief Executive Officer		
A.11.1 & 11.2	Setting annual targets and appraisal of the performance of the Chief Executive Officer by the Board	Complied	At the commencement of every year, short, medium and long-term objectives including financial and non-financial targets that should be met by both Jt.CEOs are set. The annual appraisals of the Jt.CEOs are carried out by the Board at pre-agreed performance targets.

Code	Principle	Status	Level of Compliance
B.	Directors' Remuneration		
B.1	Remuneration Procedure		GRI - 102-35,36
B.1.1	Remuneration Committee	Complied	The Remuneration Committee makes recommendations to the Board within agreed Terms of Reference, on the Company's framework of remunerating certain senior management executives.
B.1.2 & B.1.3	Composition of Remuneration Committee	Complied	The Remuneration Committee consists of two independent Directors and one Non-Executive Director which is chaired by an independent Director. Mr. S. H. Amarasekara (Chairman) Mr. K .D. D. Perera Mr. P. K. Sumanasekara
B.1.4	Remuneration of the Non-Executive Directors	Complied	In terms of the Articles of Association of the Company, the remuneration of Non-Executive Directors, including members of the Remuneration Committee is determined by the Board as whole, within the limits set in the Articles of Association.
B.1.5	Consultation of the Chairman and access to professional advice.	Complied	The Committee consults the Chairman on proposals relating to the remuneration of the Senior management executives and has access to professional advice in discharging their duties.
B.2	The level and make up of remuneration		
B.2.1 & B.2.2	Levels of remuneration for Senior Management Executives	Complied	Remuneration package is designed to attract, retain and motivate the senior management needed to run the Company successfully but avoid paying more than necessary for this purpose. The Committee ensures that remuneration of executives at each level of management is competitive and in line with their performance. Surveys are conducted as and when necessary to ensure that the remuneration is on par with those of competitive companies.
B.2.3	Positioning Company remuneration levels relative to other companies	Complied	The Remuneration Committee is sensitive to remuneration and employment conditions of other Group companies, especially when determining annual salary increases.
B.2.4	Performance related elements of remuneration for Senior Management Executives	Complied	Performance based incentives have been determined to ensure that the total earnings of the Senior Management Executives is aligned with the achievement of objectives and budgets of the Company.

Code	Principle	Status	Level of Compliance
B.2.5	Executive share options	Complied	The Company does not have executive share option schemes.
B.2.6	Designing performance related Remuneration	Complied	Performance-related remuneration is designed by the Remuneration Committee based on the provisions set out.
B.2.7 & B.2.8	Compensation, commitments in the event of early termination and dealing with early termination	Complied	There are no provisions for compensation for early termination in the letter of contract. However, the Board of Directors would determine this on a case by case basis.
B.2.9	Levels of remuneration for Non-Executive Directors	Complied	The Remuneration Committee determines the levels of remuneration for Non-Executive Directors taking into account the time commitment and responsibilities of their role and market practices. Remuneration for non-executive Directors does not include share options. A Board approved policy on Directors' Remuneration is in place.
B.3	Disclosure of the remuneration		
B.3.1	Disclosure of Remuneration	Complied	Remuneration policy is disclosed in Remuneration Committee Report on page 55 of the Annual Report The total remuneration of the Directors is disclosed in Note 24.2 to the Financial Statements.
C	Relations with Shareholders		
C.1	Constructive use of the AGM and conduct of General Meetings		
C.1.1	Use of proxy	Complied	The Company counts all proxies lodged on each resolution and the percentage of votes for and against on each resolution.
C.1.2	Separate resolution for all separate issues at the Annual General Meeting	Complied	A separate resolution is proposed at the Annual General Meeting on each issue in particular in relation to the adoption of the Report of the Board of Directors and the Financial Statements of the Company.
C.1.3	Response to queries at the Annual General Meeting	Complied	The Chairman ensures that the Chairmen of the Sub-Committees are available to answer questions at the Annual General Meeting, if so required.
C.1.4	Notice of the Annual General Meeting and General Meetings	Complied	The Notice of the Annual General Meeting and the relevant documents are published and dispatched to the shareholders 15 working days prior to the meeting as required by Section 135(1) of the Companies Act No. 7 of 2007.

Code	Principle	Status	Level of Compliance
C.1.5	Procedures of voting at the Annual General Meeting	Complied	A summary of the procedures governing voting at the General Meetings is circulated to shareholders with every Notice of the General Meeting.
C.2	Communication with shareholders		
C.2.1 to C.2.7	Communication with shareholders	Complied	The Company disseminates information pertaining to the performance of the Company through the publication of the Interim Financial Statements and the Annual Report in a timely manner. Immediate announcements are also made to the Colombo Stock Exchange on any information which is considered price sensitive. Further publications are made available on the Company's web site. The Company Secretary could be contacted in relation to any shareholder matter.
C.3	Major and material Transactions		
C.3.1	Disclosure of Major Transactions to shareholders	Complied	There have been no transactions during the year under review which fall within the definition of "Major Transactions" as set out in the Companies Act No. 7 of 2007.
D	Accountability and Audit		
D.1	Financial Reporting		
D.1.1	Balanced and understandable information	Complied	The Board ensures that the quarterly and annual Financial Statements of the Company and Group are prepared and published in compliance with the requirements of the Companies Act No. 7 of 2007, Sri Lanka Accounting Standards (LKASs and SLFRSs) and the Rules of the Colombo Stock Exchange.
D.1.2	Directors' Report in the Annual Report	Complied	The Annual Report of the Board of Directors on the affairs of the Company is given on pages 128 to 131 of this Annual Report which contains the required declarations.
D.1.3	Statement of Directors' and Auditor's responsibility for the Financial Statements	Complied	The 'Statement of Directors' Responsibilities' for the preparation and presentation of Financial Statements is given on page 132 of this Annual Report and the Auditor's responsibilities are set out on the 'Independent Auditors' Report' on pages 133 to 136 of the Annual Report. Declaration on internal controls is given on page xx of the Annual Report.

Code	Principle	Status	Level of Compliance
D.1.4	Management Discussion and Analysis	Complied	A comprehensive coverage of key initiatives undertaken during the year, business model, capital management, stakeholder engagement, external impacts, internal performances, achievements and future outlook, awards won are available in the section of Management Discussion and Analysis (page 60 to page 81) and Capital Management Report (page 84 to page 123) of this Report.
D.1.5	Declaration of Going Concern	Complied	The declaration by the Board that the Company is a going concern is given in the Annual Report of the Board of Directors.
D.1.6	Summon an EGM to notify serious loss of capital	Complied	Reason for such an Extraordinary General Meeting has not arisen as yet but would be complied with if such situation arises.
D.1.7	Related party transactions	Complied	Company has adequate mechanism to record and disclose the Related Party Transaction in accordance to the continuing Listing Rules of CSE. All the transactions with related parties to the organisation are disclosed adequately and accurately in pages 182 to 183 of this report.
D.2	Internal Control		
D.2.1	Directors to review internal controls	Complied	The Board together with the Audit Committee is responsible and reviews the risks faced by the Company and the effectiveness of the system of internal controls quarterly.
D.2.2	Internal audit function	Complied	The Company has its own internal audit function and also employs independent professional accounting firms to complement the work done by them.
D.2.3	Review of effectiveness of the risk management and internal audit function	Complied	The Audit Committee carries out reviews of the process and the effectiveness of risk management and internal controls and document to the Board and the Board takes responsibility for the disclosure on the Company's system of internal controls.
D.2.4	Responsibility of Directors	Complied	Directors take responsibility in maintaining a sound system of internal controls and the Internal Control Statement as described in Schedule K is given on page 130 of this Report.
D.3	Audit Committee		
D.3.1	Composition of Audit Committee	Complied	The Audit Committee consists of Three Independent Directors and one Non-Executive Director. The Chairman of the Committee is an Independent Director appointed by the Board.

Corporate Governance

Code	Principle	Status	Level of Compliance
D.3.2	Duties of the Audit Committee	Complied	The Audit Committee is responsible for reviewing the scope and results of the Audit and effectiveness and the independence and the objectivity of the Auditors.
D.3.3	Terms of Reference of the Audit Committee	Complied	The Terms of Reference of the Audit Committee have been agreed to by the Board. This addresses the purpose of the Committee, its duties and responsibilities including the scope and functions of the Committee.
D.3.4	Disclosures of the Audit Committee	Complied	The members and its disclosures of the Audit Committee are reported in the Audit Committee Report which is given on pages 53 and 54 of this Report.
D.4	Code of Business Conduct and Ethics		
D.4.1	Disclosure on presence of Code of Business Conduct and Ethics	Complied	A comprehensive Corporate Governance and Code of Conduct and Business Governance have been adopted by the Board. All Directors and key management personnel have declared compliance with the Code of Conduct and Business Governance.
D.4.2	Affirmation of Code in the Annual Report by the Chairman	Complied	The Chairman affirms that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics in this Annual Report
D.5	Corporate Governance Disclosures		
D.5.1	Disclosure of Corporate Governance	Complied	This Report from pages 33 to 45 sets out the manner and extent to which the Company has complied with the principles and provisions of relevant Codes.
Section 02			Shareholders
E	Institutional Investors		
E.1	Shareholder Voting	Complied	All investors are invited to attend the Annual General Meeting and they are free to make comments/suggestions. The Company encourages dialogues with institutional investors. The Company appreciates the way of using the votes in AGM on the weight they had regarding all relevant factors noted.
E.2	Evaluation of governance disclosure	Complied	Institutional investors are encouraged to give due weight to all relevant factors drawn to their attention when evaluating company's governance arrangement particularly in relation to Board structure and composition.
F	Other investors		
F.1	Individual shareholders	Complied	Individual investors are encouraged to carry out adequate analysis or seek independent advice in making investing or divesting decisions.

Code	Principle	Status	Level of Compliance
F.2	Individual shareholders voting	Complied	Individual shareholders are encouraged to actively participate in the AGM of the Company and exercise their voting rights. The AGM gives an ideal platform for all shareholders to meet with the directors and obtain information and clarifications on the performance and the way forward of the Company.
G	Sustainability Reporting		
G.1.1	Economic sustainability	Complied	The Company takes responsibility for impact of the strategies, decisions and activities on economic performance and how this is integrated throughout the organisation.
G.1.2	The environment	Complied	The Company adopts an integrated approach that takes into account the direct and indirect economic, social, health and environmental implications of their decisions and activities, including pollution prevention, sustainable resource use, protection of environment and restoration of natural resources.
G.1.3	Labour practice	Complied	The Company has covered all policies and practices in relation to work performed by or on behalf of the Company.
G.1.4	Society	Complied	The company has performed to support and build the relationships with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community involvement.
G.1.5	Product Responsibility	Complied	Company operates the hydro power plants subject to the CEB regulations and guidelines given by the Standard Power Purchase Agreement. Further proper safety measures have been in placed
G.1.6	Stakeholder identification, engagement and effective communication	Complied	Internal and external stakeholder groups are identified in relation to Company's sphere of influence, impact and implication. Communication with them is proactive and transparent. Communications with stakeholders include reporting on economic, social, and environmental issues which are relevant, material, comparable with past performance and focuses on substance over form.
G.1.7	Sustainable reporting and disclosure	Complied	Sustainable reporting and disclosure is formalised as part of the Company's reporting process on a regular basis. Company's sustainability reporting is done based on the GRI standards.

Compliance with Corporate Governance Rules of the Colombo Stock Exchange

The Following disclosures are made in conformity with Section 7.10 of the Rules of the Colombo Stock Exchange;

CSE Rule No.	Rule	Compliance Status	Extent of Compliance
7.10.1	Non Executive Directors	Complied	All Directors are Non-Executive Directors. (Number of Directors is Six).
7.10.2	Independent Directors	Complied	Three of six Non-Executive Directors are independent. Each Non-Executive Director submits a signed and dated declaration annually.
7.10.3 (a)	Disclosure relating to Directors	Complied	The Board assessed the independence declared by the Directors and determined the Directors who are independent and disclosed same in the above table in relation to the Code of Corporate Governance issued by the SEC and CASL with reference to A.5.5 on page 36 of this Report.
7.10.3 (b)	Disclosure relating to Directors	Complied	The Board has determined that Three of Six Non-Executive Directors satisfy the criteria for “independence” set out in the Listing Rules. These independent directors are, Messrs S H Amarasekera, P K Sumanasekera and S Shanmuganathan.
7.10.3 (c)	Disclosure relating to Directors	Complied	A Brief resume of each Director is given on pages 22 to 23 of this Report.
7.10.3 (d)	Disclosure relating to New Directors	Complied	Brief resumes of new Directors appointed have been provided to the CSE when it required.
7.10.5 (a)	Composition of Remuneration Committee	Complied	Comprises of three Non-Executive Directors including two Independent Directors.
7.10.5 (b)	Functions of the Remuneration Committee	Complied	Please refer to the above table in relation to the Code of Corporate Governance issued by the SEC and CASL with reference to B.1.1 on page 38 and Remuneration Committee Report on page 55
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	Complied	Names of the Committee members are given in the above table in relation to the Code of Corporate Governance issued by the SEC and CASL as given under B.1.3 on page 38 and Remuneration Committee Report on page 55 The remuneration paid to the Directors is given in page 183 of this Report.

CSE Rule No.	Rule	Compliance Status	Extent of Compliance
7.10.6 (a)	Composition of the Audit Committee	Complied	The Audit Committee consists of Three Independent Directors and one Non-Executive Director which comprises two Chartered Accountants. The Chairman of the Committee is an Independent Director appointed by the Board.
7.10.6 (b)	Audit Committee Functions	Complied	Please refer to the above table in relation to the Code of Corporate Governance issued by the SEC and CASL with reference to D.3.2 on page 42 and Audit Committee Report on pages 53 and 54 for the details of the functions of the Audit Committee.
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	Complied	Refer above table in relation to the Code of the Corporate Governance of SEC and CASL with reference D.3.1 on page 41 for the details of the names of members of the Audit Committee. The basis of determination of the independence of the Auditors is given in the Audit Committee Report on pages 53 and 54 under section D.3.4 of the Code.

Enterprise Risk Management

The Company pursues an approach that supports adequate risk steering as opposed to merely minimising potential risk and the risk management process rests on the fact that risks are taken perceptively and with prudence.

Overview

Risk involves the probability that the actual return or outcome of an investment or activity could differ from the anticipated return, and considers the possibility of losing some or all of the original investment. Every project entails a range of uncertainties and risks, some inherent in the nature of the project undertaken and others that arise from the manner in which the project is carried out and financed. The degree of the risk could vary according to the threat, nature of the investment and the investment's vulnerability to risk.

It is therefore imperative that risks are managed. By managing risk, informed efforts are made to quantify the potential for losses, which enable appropriate action to be taken in line with investment objectives and risk tolerance.

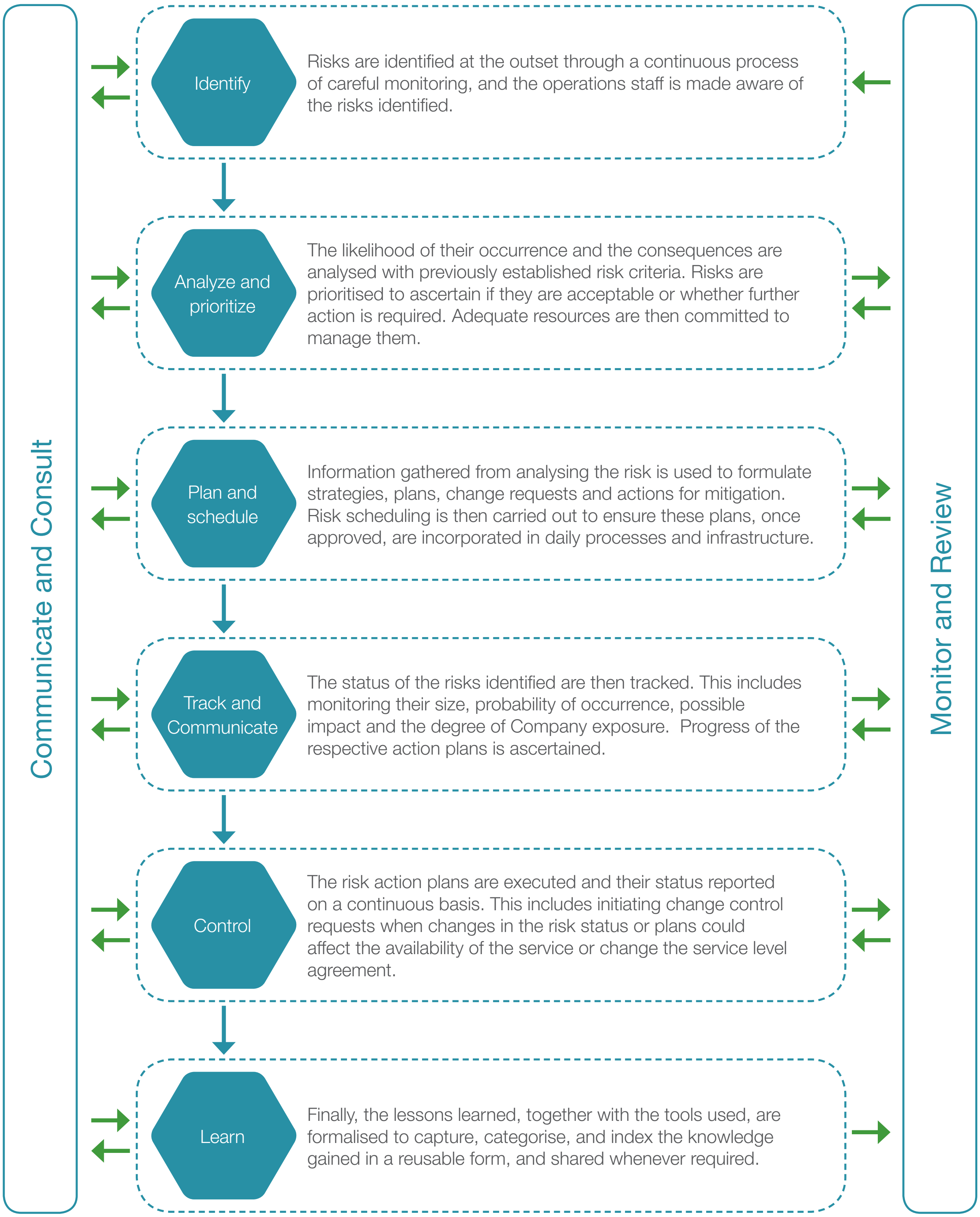
Risk management in the hydropower business requires a multi-stakeholder approach and dialogue, as well as development of assessment tools designed to consider hydropower sustainability issues.

Mini hydropower developments are not usually considered speculative ventures so the risks are somewhat offset by the normally long-term stability of the energy resource. Risk in mini-hydropower operations can be quantified as being the product of various strategic pressures that could result in failures in hydropower operations. For instance, the success and continuity of run- of - river mini hydro power plants depend on the prevailing flow rate and can present problems of reliability if the flow varies greatly with the season or weather. Effectively managing such risks is therefore critical to achieving the Company's strategic objectives in a competitive and uncertain environment. In addition to these normal industry risks and uncertainties, the Company's risk profile is also influenced by political, legal and regulatory challenges and changes in the competitive environment.

The Company's risk management report outlines the potential risks faced by the Company. identifying these risks forms the basis for monitoring their occurrence and mitigating their severity.

Risk Management Process

The Company has in place a risk management process that comprises a series of steps which, when undertaken in sequence, enable continued enhancements in risk management and mitigation, which consequently improve decision-making. Prior to commencing a risk identification exercise, the limits, objectives and scope of the activity or issue under examination is defined, based on the following six steps.

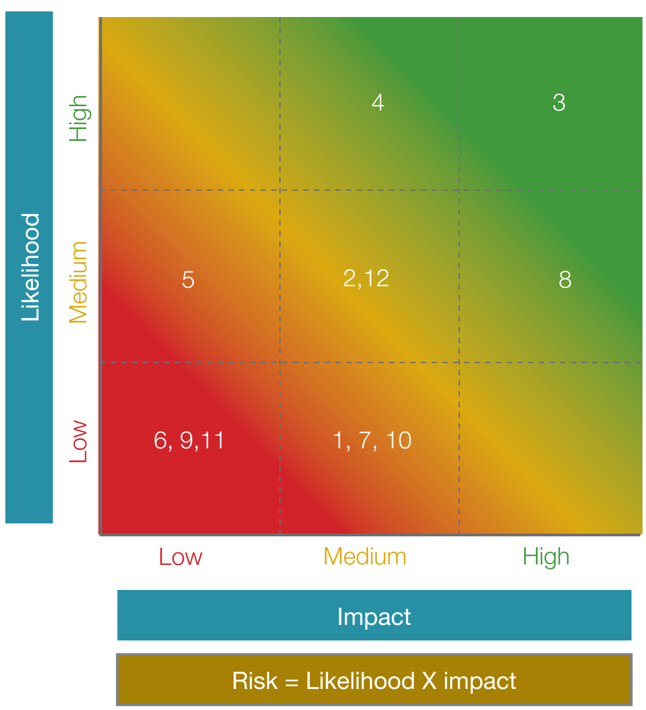

Communicate and Consult
Identify
Risks are identified at the outset through a continuous process of careful monitoring, and the operations staff is made aware of the risks identified.
Analyze and prioritize
The likelihood of their occurrence and the consequences are analysed with previously established risk criteria. Risks are prioritised to ascertain if they are acceptable or whether further action is required. Adequate resources are then committed to manage them.
Plan and schedule
Information gathered from analysing the risk is used to formulate strategies, plans, change requests and actions for mitigation. Risk scheduling is then carried out to ensure these plans, once approved, are incorporated in daily processes and infrastructure.
Track and Communicate
The status of the risks identified are then tracked. This includes monitoring their size, probability of occurrence, possible impact and the degree of Company exposure. Progress of the respective action plans is ascertained.
Control
The risk action plans are executed and their status reported on a continuous basis. This includes initiating change control requests when changes in the risk status or plans could affect the availability of the service or change the service level agreement.
Learn
Finally, the lessons learned, together with the tools used, are formalised to capture, categorise, and index the knowledge gained in a reusable form, and shared whenever required.
Monitor and Review

Enterprise Risk Management

The Company pursues an approach that supports adequate risk steering as opposed to merely minimising potential risk and the risk management process rests on the fact that risks are taken perceptively and with prudence. Risks and challenges are managed in a manner that safeguards and maximises shareholders' wealth and keeps all other stakeholders' satisfaction at optimal levels.

Risk Mapping and Assessment

A risk map is designed to assess the likelihood of occurrence and the consequence of an event or set of events in order to prioritise management actions, based on the following matrix:



A culture of risk has been integrated throughout the organisation as part of routine management, which embraces attitudes, values, skills and ways of acting toward risks that are incorporated into all processes, including decisions on change management and strategic and business planning. Our risk management process has been streamlined with regular meetings, targets, internal systems and control reviews as well as internal and external audits. This has equipped us to identify, assess, monitor and manage each type of risk that the Company is exposed to, which is important to our stability, performance, reputation and future success.

The following risk map covers the main risk categories in which the Company has its most significant exposures, current and/or potential, facilitating this identification and their level of severity to the Company.

Our risk culture and risk perspective define and establish our risk appetite. The Company ensures that its risk profile is maintained within the levels set by its risk appetite and adopts the necessary corrective and mitigation measures to maintain risk levels in line with defined objectives.

The following key elements define our risk appetite:

- A risk profile that priorises the interests of a wide and varied group of stakeholders.
- Concern for mitigating our business footprint on the environment.
- A strong capital and liquidity base to remunerate shareholders.
- An organisational structure based on subsidiaries that are self-sufficient in capital and liquidity.
- A management structure with the capability to monitor risks and the competency to oversee systems, processes and resources.
- The availability of sufficient staff, systems and tools that guarantee maintenance of a risk profile that is compatible with our risk appetite.

GRI - 102-15

Risk Identification	Risk Evaluation		Risk Managing Strategies	System Maintenance	Regular control Review
	Level	Reason			
01. Investment Risk					
Failure in investments/ inability to achieve expected objectives. This affects the future profitability and sustainability of the Company.	Low	The risk is only at new investments. Currently no new investments are available under the Company.	• Any proposed investments are subjected to a rigorous evaluation and feasibility process by seeking expert advice to ensure maximum returns on investment and Board approval prior to embarking on a proposed investment. • Further we closely monitor the progress to ensure project deliverables are achieved within the given budgets and timelines.	Adopted	✓
02. Operational Risk					
The risk of a change in value caused by actual losses incurred for inadequate or failed internal processes, people and systems, or from external events	Moderate	There is a risk in the operational activities of hydro power projects.	• Prompt maintenance of machineries and equipment whilst upgrading health and safety measures on a regular basis, conducting workshops, meetings, etc. • Adopting an effective human resource policy. • We are committed to a Quality Management System complying with international Standards. • Conduct periodic internal audit reviews and report to the Audit Committee	Adopted	✓
03. Business Risk					
Revision of Avoided Cost Based Tariff adversely and low potentiality for the growth of the mini hydro power industry.	High	All three MHPPs are paid under Avoided Cost Based Tariff which is subjected to annual revision and the lack of support from the government on new developments	• Put the collaborative effort at industry levels for positive changes • Exploring other local renewable opportunities and explore overseas.	Adopted	✓

Enterprise Risk Management

Risk Identification	Risk Evaluation		Risk Managing Strategies	System Maintenance	Regular control Review
	Level	Reason			
04. Hydrological					
Risk of lower power generation caused by a lower water flow.	High	The inherent risk of lower rainfall is uncontrollable. However there may be a risk of designing of projects based on hydrological data.	Hydrological risk primarily comprises drought risk. The projects are designed based on past hydrological data analysis to minimise the risk of any deviation from their designed energy.	Adopted	✓
05. Financial Risks					
05.1. Interest Risk Adverse impact on profitability due to high interest cost resulting from increase in interest rates	Low	Risk is present due to the floating lending rates	Group's borrowings will be fully repaid within the next year. However, VEPL Group uses appropriate financial strategies and It's credibility, reputation, strength and financial dependability help to negotiate the concessionary rates.	Adopted	✓
05.2. Credit Risk Risk of loss of principal or loss of financial reward stemming from a borrower's failure to repay a loan or to meet a contractual obligation	Low	No failures experienced at repayments	The Group has an effective mechanism for recoveries which protects through legally enforceable agreements.	Adopted	✓
06. Economic & Political					
The likelihood of an investment being affected by adverse macroeconomic conditions including Government regulations, exchange rates and political stability.	Low	The risk is only at the stage of new investments.	The Company carries out periodical in- depth macro-economic analysis and economic feasibility prior to project investments	Adopted	✓

Risk Identification	Risk Evaluation		Risk Managing Strategies	System Maintenance	Regular control Review
	Level	Reason			
07. Regulatory & Legal					
Risk of changes in laws and regulations with material impact on business in the cost of operating and the attractiveness of Investments	Moderate	Risk is present at the change of government and its policies	Compliance with any new laws or regulations that are from time to time introduced for good governance.	Adopted	✓
08. Human Resource Risk					
Lack of employee relation and the risk of talent acquisition and retaining talent people	High	The risk will result the low productivity in the business and industrial disputes.	A healthy environment is set up for the employees while maintaining a close relationship. Also remunerations are kept in line with the industry level. A comprehensive human resource policy is adopted.	Adopted	✓
09. Reputation Risk					
Adverse impact of the business on society and unfavourable response from the public	Low	Risk is low due to the well maintained relationships	The Group has adopted a good mechanism for stakeholder engagement to build better relationships	Adopted	✓
10. Environmental					
Risk of imposing actual and potential threats of adverse impacts on the environment and inhabitants from effluents and resource depletion arising from the organisation's activities	Moderate	No environmental enforcements were experienced. However there may be a possibility.	We are committed to an Environmental Management System that complies with international standards. Care is also taken to mitigate any adverse environmental impacts.	Adopted	✓

Enterprise Risk Management

Risk Identification	Risk Evaluation		Risk Managing Strategies	System Maintenance	Regular control Review
	Level	Reason			
11. IT Risk					
Includes the risk of system failure, outdated systems and loss of data	Low	Use of information technology is less than in other industries	Existing IT system is established using new technology. Regular maintenance and upgrades in processes while avoiding unauthorised access to the information system	Adopted	✓
12. Social					
Negative impacts to the organisation from local communities which are linked with the surrounding areas of the project.	Moderate	Risk is low due to the well maintained relationships. However there may be a possibility.	The Group has developed relationships with the community, religious and other voluntary groups by helping them uplift their livelihoods.	Adopted	✓

Audit Committee Report

Composition of the Audit Committee

The Audit Committee, appointed by the Board of Directors of Vallibel Power Erathna PLC comprises of following four Non- Executive Directors.

Name of Director	Directorship Status
Mr. S H Amarasekera (Chairman)	Independent Non-Executive
Mr. P K Sumanasekera	Independent Non-Executive
Mr. H Somashantha	Non Executive
Mr. S Shanmuganathan	Independent Non-Executive

The Chairman of the committee, Mr. Harsha Amarasekara is an Independent Non -Executive Director. He is a President Counsel having wide experience in Commercial Law, Business Law, Securities Law, Banking Law and Intellectual Property Law. Additionally, it comprises two members of the Institute of Chartered Accountant of Sri Lanka and one industry expert.

Brief profiles of each member are given on pages 22 and 23 of this report.

Company secretary acts as the secretary to the Audit Committee. Two Joint Chief Executive Officers and Accountant attend these meetings by invitation. The other officials of the Company attend the meetings by invitation on need basis. The external auditors and internal auditors are present at the Audit Committee Meetings when matters pertaining to their functions come up for consideration.

Meetings

Four meetings of the Committee were held during the year. The attendance of the members at these meetings is as follows:

Name of Director	Attendance				
	26/05/2017	28/07/2017	27/10/2017	26/01/2018	Total
Mr. S H Amarasekera	-	✓	✓	✓	3/4
Mr. P K Sumanasekera	-	-	-	-	0/4
Mr. H Somashantha	✓	✓	✓	✓	4/4
Mr. S Shanmuganathan	✓	✓	✓	✓	4/4

Role of the Committee

The key purpose of the Audit Committee of Vallibel Power Erathna PLC is to assist the Board of Directors in fulfilling its responsibilities for;

1. the integrity of the Financial Statements in accordance with Sri Lanka Accounting Standards.
2. the Company's compliance with legal and regulatory requirements.
3. ensuring the external auditor's independence.
4. the performance of the Company's internal audit functions in order to ensure that the Company's internal controls and risk management are adequate.

Internal Audits

The Committee assess the effectiveness of the Internal Controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The functions of Internal Audits are outsourced to a leading audit firms, Messers KPMG in line with an agreed annual audit plan. The Committee has recommended to the Board of Directors that Messrs KPMG be re-appointed as the internal auditors of the Group for the next financial year.

Audit Committee Report

External Audits

The Committee meets the External Auditors at least once a year to review their findings, issues raised, as well as the effectiveness of the internal controls in place.

The Committee has recommended to the Board of Directors that M/s Ernst & Young, Chartered Accountants, be re-appointed as the auditors of the Company for the financial year ending 31st March 2019, subject to the approval of the Shareholders at the Annual General Meeting. The Audit Committee is of the view that Messes Ernst & Young is an independent entity as per their declaration made to the Company and the Audit Committee concurs with their declaration.

Conclusion

The Audit Committee is of the view that adequate controls are in place to safeguard the Company's assets and that the financial position and the results disclosed in the Audited Accounts are free from any material misstatements.

Harsha Amarasekera
Chairman
Audit Committee

24 May 2018

Other Members
P K Sumanasekera
S Shanmuganathan
H Somashantha

Remuneration Committee Report

The Remuneration Committee, appointed by the Board of Directors, currently consists of three Non- Executive Directors.

The Chairman of the Remuneration Committee is Mr. S. H. Amarasekera P. C. who is an Independent Non- Executive Director and the other members are Messrs K. D. D. Perera, Non-Executive Director and P. K. Sumanasekera an Independent Non-Executive Director.

The Remuneration Committee met once this year and will meet more often if required. Its role is to make recommendations to the Board on the following.

- Remuneration policy and specific packages for certain Senior Executives.
- Employee benefits and long terms incentive schemes.

The Company's remuneration policy is based on the following principles.

- To deliver improved shareholder value by ensuring that individual performance and reward reflect and reinforce the business objectives of the Company.
- To support the recruitment, motivation and retention of highly qualified Senior Executives.
- To ensure that performance is the key factor in determining individual rewards.

The Committee is not responsible for setting the level of remuneration of Non-Executive Directors, which is determined by the Board.

Harsha Amarasekera
Chairman
Remuneration Committee

24 May 2018

Other Memebers
K. D. D. Perera
P. K. Sumanasekera

Related Party Transactions Review Committee Report

Composition of the Audit Committee

The Related Party Transaction Review Committee (RPTRC) is appointed by the Board of Directors of Vallibel Power Erathna PLC in terms of Code of Best Practice on Related Party Transactions, as issued by the Securities and Exchange Commission of Sri Lanka (SEC).

The committee comprises of following three Non- Executive Directors as stipulated by the Listing Rule 9.2 on Related Party Transactions Review Committee issued by the Colombo Stock Exchange.

Name of Director	Directorship Status
Mr. S. H. Amarasekera (Chairman)	Independent Non-Executive
Mr. S. Shanmuganathan	Independent Non-Executive
Mr. C. V. Cabral	Non-Executive

Company secretary acts as the secretary to the Audit Committee. Two Joint Chief Executive Officers and Accountant attend these meetings by invitation.

Role of the Committee

The key duties of the committee;

- To develop a Related Party Transaction Policy as directed by the CSE & SEC and to recommend the adoption of them to the Board of Directors of the Company and its subsidiary.
- To review in advance all related party transactions prior to the transaction executed.
- To update the Board of Directors on the related party transactions of each company of the Group.
- To make immediate market disclosures on applicable related party transactions, as required by Section 9 of the Continuing Listing Requirements of the CSE.
- To monitor all related party transactions of the entity which are transacted on normal commercial terms to make sure that they are not prejudicial to the interests of the entity and its minority shareholders.
- To make appropriate disclosures on RPT in the Annual Report, as required by Section 9 of the Continuing Listing Requirements of the CSE.

Meetings

Four meetings of the Committee were held during the year. The attendance of the members at these meetings is as follows:

Name of Director	Attendance				
	26/05/2017	28/07/2017	27/10/2017	26/01/2018	Total
Mr. S. H. Amarasekera	-	✓	✓	✓	3/4
Mr. S. Shanmuganathan	✓	✓	✓	✓	4/4
Mr. C. V. Cabraal	✓	✓	✓	✓	4/4

Task of the Committee

The Committee re-viewed the related party transactions and their compliances of Vallibel Power Erathna PLC and communicated the same to the Board.

The Committee in its re-view process recognized the adequate of the content and quality of the information forwarded to its members by the management.

Disclosures

A detailed disclosure of the recurrent related party transactions entered into by the Company during the year under review is disclosed in Note 24 to the Financial Statements given in pages 182 and 183 of this report. There was not any non-recurrent related party transactions during the year under review.

Declaration

It is declared by the committee that the Company is in compliance with Rule 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the year under review.

S. H. Amarasekara
Chairman
Related Party Transaction Review Committee

24 May 2018

Other Members
S. Shanmuganathan
C. V. Cabraal

Developing infrastructure

VPEL has contributed to the development of Erathna's infrastructure and has also helped improve the community's health by reconstructing ward 01 and 02 at Erathna Hospital. Their assistance has made the hospital cleaner and more pleasant.

Name	: Dr. Ms. Manju Rasika Kumbukage
Occupation	: Government Medical Officer
Age	: 39 Years
Year of service	: 4 years

Business Review

The Company enhanced profitability in the year of review as a result of the rainfall received in the latter part of the year which considerably restored river flow, combined with process optimisation measures that improved efficiencies across- the- board.

Global Energy Environment and Outlook

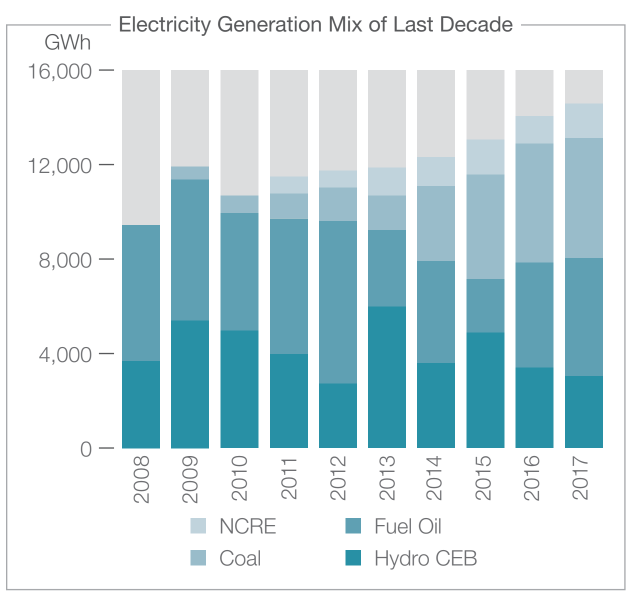
The robust global economy growth of 3.3% during 2017, spurred increased economic activity. As a result, energy demand more than doubled to 2.1% over the previous year's growth of 0.9%. This surge in global energy demand was concentrated in Asia, with China and India together representing more than 40% of the increase. About 72% of the increased demand was met by fossil fuels and a quarter by renewables.

Renewables made significant strides during the year, recording the highest growth rate of all fuels. Renewables-based electricity generation rose by 6.3%, driven by the expansion of wind, solar and hydropower in many key economies. The growth was led by China and the United States, which together contributing about half of the increase in renewables-based electricity generation, followed by the European Union, India and Japan. Wind power accounted for 36% of the growth in renewables-based energy demand in all advanced economies and contributed more than one-fifth of global energy demand growth. Solar PV is set to lead capacity additions in renewables, influenced by its deployment in China and India, while in the European Union, wind is set to become the leading source of electricity post-2030. Global increases in electricity requirements and renewed interest in renewable energy sources also focused renewed interest on the development of the small hydropower (SHP) sector.

However, the demand for fossil fuels continued to grow, led by natural gas which grew by 3%, the highest growth of all fossil fuels, with China alone accounting for nearly a third of the growth. Oil demand grew by 1.6%, which is more than twice the average annual growth rate seen over the past decade, driven by the transport sector as well as a rising demand for petrochemicals. Coal demand rose by about 1%, reversing declines over the previous two years, driven by an increase in coal-fired electricity generation mostly in Asia. This resulted in an escalation of carbon emissions during the year, the highest since 2014, which was equivalent to the emissions of 170 Mn cars, which brings home necessity of renewables comprising a much higher component of the energy mix in the near future.

According to the World Energy Outlook -2017, evolution of the global energy system during the next two decades will be determined by four main forces: the United States, which is predicted to become the global leader in oil and gas; the increase of renewables as a result of falling costs; the increase of electricity in the energy mix; China's new strategy of pursuing clean energy, which could significantly impact global energy markets, and probably act as an impetus to facilitate a speedier transition to green energy the world over.

The Local Energy Environment

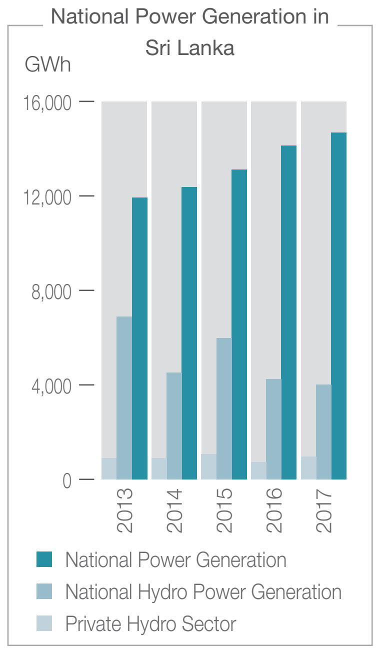


The drought conditions that prevailed since the latter part of 2016 continued into 2017, which had a negative impact on hydropower generation in the country and increased Sri Lanka's dependence on thermal power. However, despite the negative start, rainfall patterns improved towards the latter half of the year, which contributed to the improved performance of the mini hydropower sector by the end of the year,

According to Central Bank statistics, electricity generation continued to expand in 2017 as well, with total electricity generation increasing by 3.7% to 14,671 GWh in 2017, from 14,149 GWh in 2016.However, hydropower generation, excluding mini hydro generation, declined by 12.1% to 3,059 GWh, although fuel oil-based power generation and coal power generation increased by 13.1% and 1.1% to 5,045 GWh and 5,103 GWh, respectively.

Due chiefly to the increase in mini hydropower generation as a result of the rainfall received during the latter part of 2017, the electricity generated through non-conventional renewable energy (NCRE) sources expanded by 26.3 % to 1,464 GWh during 2017 when compared with the previous year's figures. Coal based electricity generation accounted for the largest share of 34.8%, followed closely by fuel oil at 34.4%, hydro (excluding mini hydro)at 20.8% and NCRE bringing up the rear at 10%, mini hydro contributing the major portion of 64% of NCRE due to improvements in power generation as a result of more favourable weather towards the latter part of the year. NCRE saw a marginal increase over the previous year's contribution of 8.2%, here, too hydro contributed the major share of 63% from NCRE. Throughout the past decade, mini hydropower plants have been contributing the major share of NCRE in the country.

The CEB recorded a substantial financial loss during 2017 due to lower hydropower generation and the country's increased reliance on fuel oil-based power. Drought conditions added to disruptions to the coal power generation resulted in high fuel oil-based power generation during 2017. However, the CEB's overall transmission and distribution loss as a percentage of total power generation continued to decline during the year due to measures taken to mitigate such losses through improved distribution efficiency.



Figures are presented on calender year basis
Source: Central Bank Annual report 2017

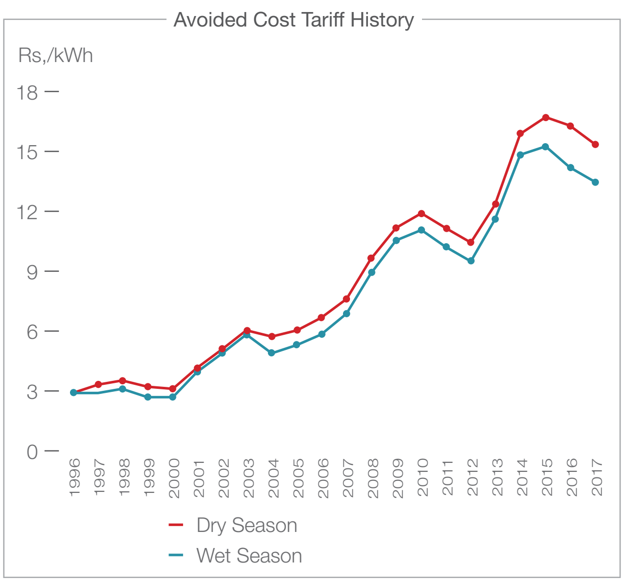
The power plants owned by the CEB contributed 72.9% to the total power generation in 2017, while the CEB purchased the remainder from independent power producers (IPPs). Electricity sales grew by 5%, the increase mainly driven by the industry, general-purpose and domestic sectors, which accounted for 30.1%, 20.7% and 32.7% of the total electricity sales in 2017.

It is imperative that energy generation is diversified in order to ensure country's energy security and minimised energy generation cost. The average cost of hydropower generation was Rs. 2.77 as against coal and fuel oil-based power generation which was substantially higher, at Rs. 9.74 and Rs. 25.72 per kWh, respectively. The substantially low unit cost for hydro reinforces this argument which favours increase of capacity of hydropower in the country, apart from the fact of the sector's high sustainability of the environment.

Avoided-Cost Tariff

The avoided cost tariff has been steadily declining in recent years by an average of 5%. This year, the tariff dropped by 5.45% in the dry season to Rs. 15.43 per unit from Rs. 16.32 per unit and by 5.27% in the wet season to Rs. 13.47 per unit from Rs. 14.22 per unit. The period

2016/2017 saw a 2.5% reduction in the tariff per unit in the dry season, to Rs. 16.32, from the previous year's Rs. Rs. 16.74, and a 6.7% drop during the wet season to 14.22, from the preceding year's Rs.15.24 per unit.



New Developments

A key development during 2017 was the approval of the CEB's Least Cost Long-Term Generation Expansion Plan (LCLTGEP). The Plan sets out CEB's strategy for the next 20 years with a view to ensuring energy security while considering both the financial and economic costs of energy generation. The LTGEP proposes coal-fired power plants as being the answer to the country's energy needs, stating that they are lower- cost and more efficient when strict emission controls are imposed. The LCLTGEP aims to add 242 MW of major hydro, 215 MW of mini hydro, 1,389 MW of solar, 1,205 MW of wind, 85 MW of biomass, 4,800 MW of liquefied natural gas (LNG), 320 MW of furnace oil and 105 MW of gas turbine-based power plants to the country's installed capacity between 2018 and 2037.

Another noteworthy achievement during the year was the strides made in electrification. According to the Ministry of Power and Renewable Energy, national electrification expanded from 99.3% in 2016 to 99.7% as at October 2017and has now reached 100% accessibility. This is a significant achievement, as Sri Lanka as the only South Asian country to boast of 100% electricity accessibility. Demand for electricity grows at a rate of about 6% p.a. with average daily demand presently at about 40 GWh. The government plans to increase the country's power generation capacity from the existing 4,043 MW to 6,900 MW by 2025 by maximising development of renewable energy to meet this growth.

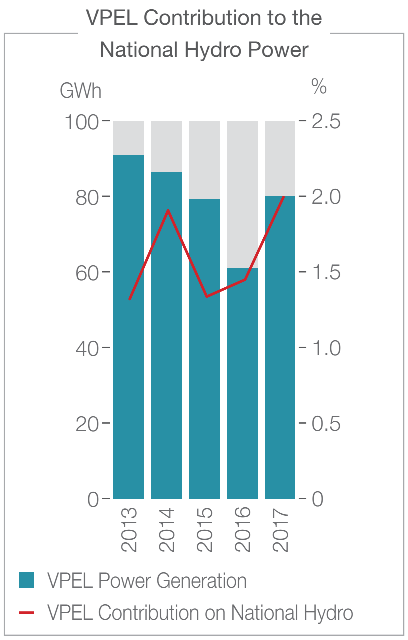
A draft National Energy Policy designed by the Sri Lanka Sustainable Energy Authority (SLSEA) under the Ministry of Power and Renewable Energy has been introduced to take this goal forward. The policy outlines the ways and means of steering the energy sector to attain more security, affordability and sustainability with the least environmental damage and aligns Sri Lanka with Goal 7 of the UN Sustainable Development Goals. It also sets out strategies to reduce the country's dependence on fossil fuels to below 50% of the primary energy supply and increase the country's renewable energy capacity to achieve the status of carbon neutrality by 2050.

Implementing this plan is vital as the country is now perched on the brink of growth estimated by the government, to reach 5.5% in 2018, from a lackadaisical 3.1% growth in 2017.An energy mix that favours renewable resources must be followed if Sri Lanka is to increase the resilience of its energy supply, meet its expanding energy needs, and also ensure environmental sustainability.

Groups' Performance

The Company enhanced profitability in the year of review as a result of the rainfall received in the latter part of the year which considerably restored river flow, combined with process optimisation measures that improved efficiencies across- the- board.

Group output was increased by a satisfactory 36% to 82.1 GWh, from 60.2 GWh generated in 2016, which is the aggregate contribution of all three mini hydropower plants whose power generation capacities improved substantially in the current year when compared with the output in: Erathna (+25%) Denawaka Ganga (+49%) and Kiriwaneliya (+60%), having generated 44.2 GWh, 21.7 GWh and 16.2 GWh, respectively, when compared with the previous year's corresponding output of 35.4 GWh, 14. 5 GWh and 10.1 GWh. It was a remarkable contribution to the Country when consider the calendar year figures published by the Central Bank Annual Report 2017.



Figures are presented on calender year basis
Source: Central Bank Annual report 2017

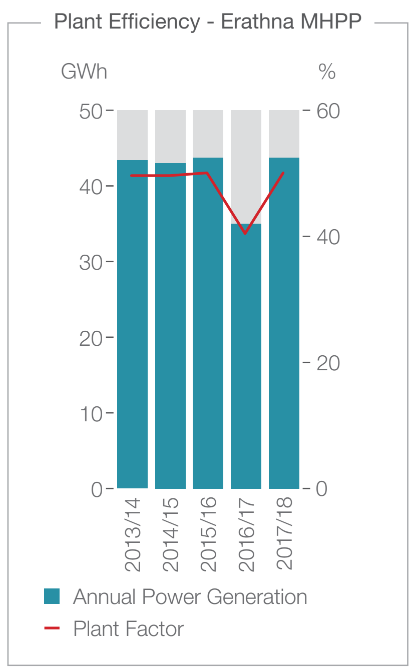
The increased output of all three mini hydro plants augmented Group Revenue to Rs 1,117.60 Mn, which is a 29% increase from the previous year's revenue of Rs. 863.7 Mn. This revenue was the composite of the revenues contributed by Erathna, Denawaka Ganga and Kiriwaneliya MHPPs during the year of Rs. 601.36 Mn, Rs. 296.7 Mn and Rs. 219.54 Mn respectively, which increased by 18%, 41% and 51% over the plant revenues contributed in 2016/2017 of Rs. 507.9 Mn, Rs. 210.5 Mn and Rs. 145.3 Mn respectively.

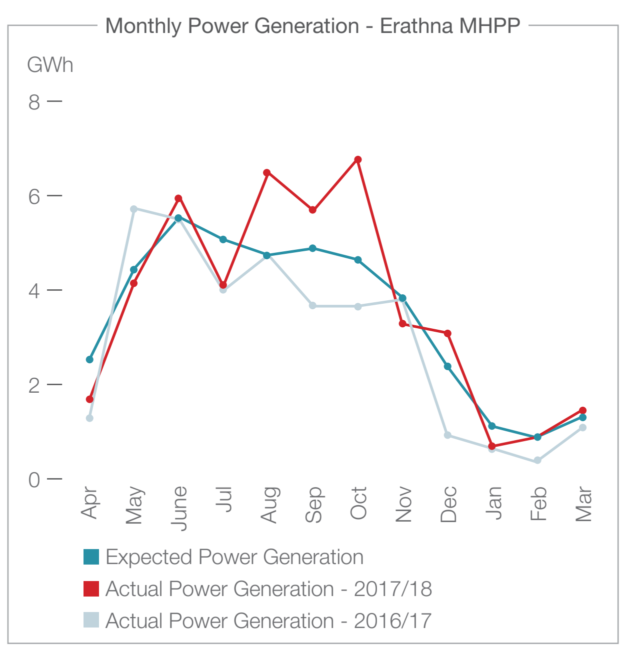
Individual Performance of Power Plants

Vallibel Power Erathna PLC - Erathna MHPP

The Erathna Mini Hydropower plant situated within the Kuruwita Divisional Secretariat of the Ratnapura district is a 'run-of-river' project that uses the water flow of the upper reaches of the Kuru Ganga. The infrastructure is built on 4.7 ha. of land and spans the villages of Pelendakanda and Adavikanda. The plant has a generating capacity of 40 GWh.

During the period 2017/2018, Erathna generated 44,195,032 GWh of power to the national grid, which brought in a revenue of Rs. 601.36 Mn, when compared with the generated power of 35,437,707 GWh in 2016/2017, which realised a revenue of Rs. 507.86 Mn. This year's generation increased revenue from the plant by a satisfactory 18%, which is a marked improvement over the previous year's loss of 26%, which was the result of substantially improved rainfall during the wet season of the current year.





Outages caused by machine failures increased to 0.37% this year over the previous year's 0.27%, which is a marginal rise when considering the substantially increased generation this year. Grid failures, which are beyond the Company's control, rose significantly during the year to 2.76%, from 1.03% experienced last year. The combined failures in machinery and grid resulted in a 3.3% loss on total revenue. Operational efficiencies have ensured Erathna MHPP's high plant factor of 50.5%.

As a result of the 25% increase in power generation during the year, NBPT rose to Rs. 555 Mn from Rs. 580 Mn of year 2016/17.

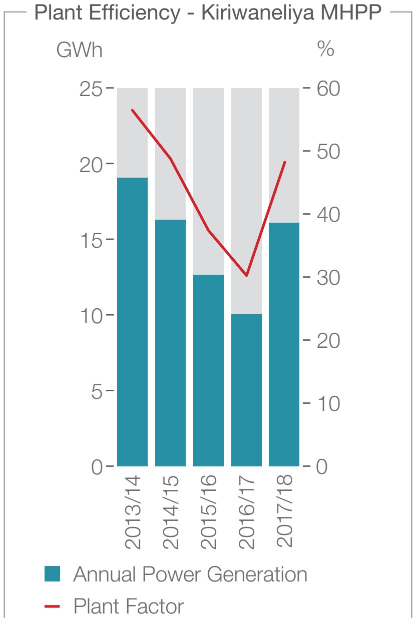
Country Energy (Pvt) Ltd - Subsidiary

Kiriwaneliya MHPP

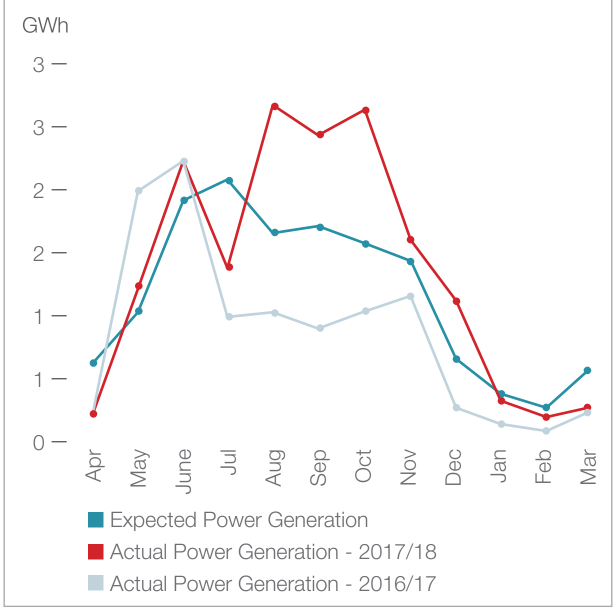
Kiriwaneliya MHPP is being operated by VPEL's fully owned subsidiary Country Energy (Pvt) Ltd and situated in the Central province, in the Kiriwaneliya village of the Norton Bridge, Nuwara Eliya district. The project, also a run-of-river hydropower project, utilises the flow of Maskeli Oya to generate electricity and has a total installed capacity of 4.65 MW and designed energy of 16 GWh.

In the year of review, the plant supplied the national grid with a generated power of 16.2 GWh, compared with the generated power of 10.2 GWh In 2016/2017, which earned revenue of Rs. 219.54 Mn compared to the Rs. 145.33 Mn achieved last year. The substantial increase in the power supplied to the grid increased revenues by 51%.

Plant Efficiency - Kiriwaneliya MHPP



Monthly Power Generation - Kiriwaneliya MHPP



Outages caused by machine failure reduced during the year to 0.15%, from the previous year's 0.19% as a result of efficient machinery maintenance. Grid failures during the year that are beyond the company's control were also reduced to 2.02%, from 4.24% in the previous year, which impacted revenue increase. The total impact on revenue as a result of machinery and grid failure was 2.28% (4.42% in 2016/2017). The substantially improved performance resulted in a plant factor increase to 39.8%.

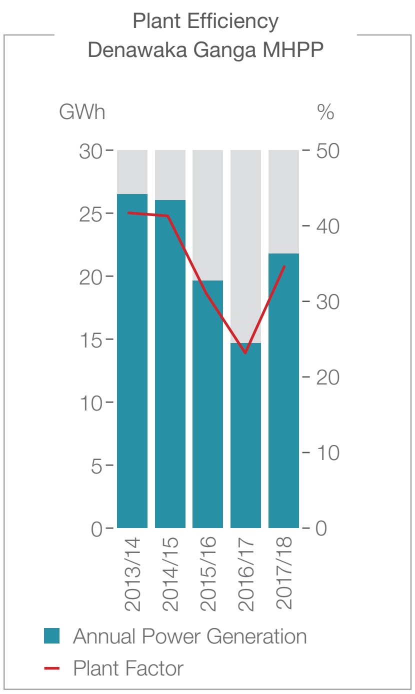
The substantial increase in power generation increased net profits, with NPBT during the year rising to Rs 164.2 Mn, compared with Rs. 79.8 Mn achieved the previous financial year.

Denawaka Ganga MHPP

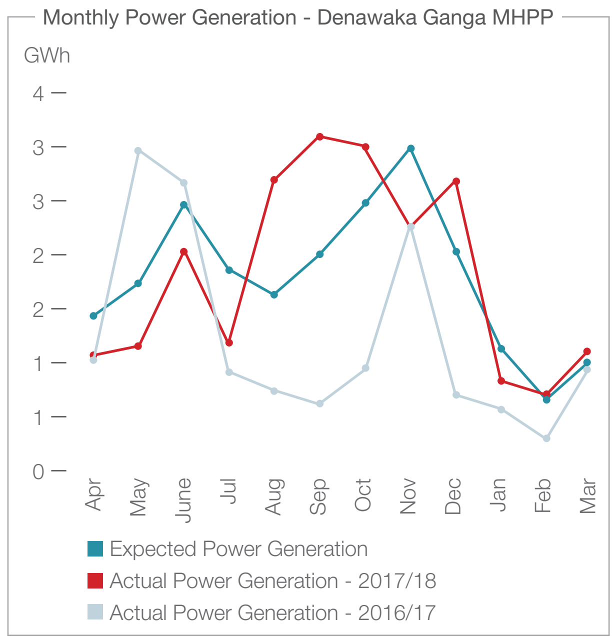
Denawaka Ganga MHPP is also managed by Country Energy (Pvt) Ltd. and situated in the Rathnapura district near Durekkanda. The water flow of the Denawaka Ganga, a main tributary of the Kalu Ganga, is utilised for this project which is also a run-of-river mini hydropower project and has an installed capacity of 7.2 MW. The plant is expected to generate emission free electricity of approximately 25 GWh annually to the national grid.

During the current financial year, the plant supplied the national grid with a generated power of 21.7 GWh, as against 14.6 GWh generated in the preceding financial year, which earned revenue of Rs. 296.7 Mn in the current year as against Rs. 210.5 Mn earned last year. The increased power supplied to the grid resulted in revenues increasing by 41%.

This plant maintained machinery outages at a minimal level of 0.01% during the year, a further reduction from the 0.8% achieved in 2016/2017. Except for uncontrollable grid failures, which were also reduced from 3.83% in the previous year to a negligible 1.3% this year, the plant functioned at near- optimal efficiency. Total loss of revenue as a result of the combined failures of machinery and grid was 1.37% during the year, compared with 3.91% in 2016/2017. As a result of improved efficiencies, the plant factor increased to 34.4%.



The increase in power generation resulted in an increase in NPBT of Rs. 187.6 Mn over the Rs. 94.9 Mn of year 2016/17.



Extension of SPPA of Erathna MHPP

Following the expiry of the SPPA of the Erathna Mini Hydropower in July 2019, the government has indicated to the Company that a further five- year extension will be granted. The tariff applicable to this extension, however, will be substantially reduced, to one-third of the avoided cost tariff presently enjoyed. This challenge has promoted the Company to pursue more lucrative opportunities in related areas of business, both locally and overseas. VPEL will, on completion of the five year period, look to the government for a more feasible refurbishment rate, given the high business costs and the many challenges faced in operating a sustainable business in the current environment. Denawaka Ganga and Kiriwaneliya have a further 9 years of operation before their SPPAs falls due.

Improving the Sustainability Scorecard

The Company continued to improve its sustainability scorecard by growing its lead project, ‘Empowering Green’ in schools during the year, in partnership with several environment-related state organisations. The programme was received enthusiastically by the schools, and inculcated in the schoolchildren the value of environment awareness and protection from a young age. One of the programme’s many initiatives during the year was planting trees in denuded catchment areas. The project progressed to many parts of the country and is well on the way to achieving its short-term goal of planting 100,000 trees throughout Sri Lanka, in a bid to replace the rapidly decreasing forest cover in the country.

Awards and Accolades

The Company was recognised in several areas of business and sustainability this year too.

The highlights are:

- Silver Award in the Power and Energy category at the Annual Report 2016/17 Awards conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL), for high standards of reporting and disclosure.

- "Winner" rank of ACCA Sustainability Reporting Award 2017 in the SME Sector recognised our position of sustainability reporting aspects.

- Silver Award in the National Green Awards 2015, won by the Kiriwaneliya mini hydropower plant, by the Central Environment Authority, for unique contribution to environment conservation and protection.

Dividend

Two dividends of cents 40 per share and cents 30 per share were paid during the financial year 2017/2018, which brings the dividend declared and paid for the full year to cents 70 per share which amounts to a total of Rs. 523 Mn.

Outlook for the Future

GRI - 102-15

The Company plans to use a cohesive growth strategy over the next few years, to expand its market share in targeted segments, while maintaining the standards of excellence that enable the Company to occupy the premier position in the local mini hydropower industry. New opportunities in other renewable energy areas that will accrue higher returns with a low risk will be rigorously pursued, both within the country as well as in overseas markets. Diversification into related areas would generate better value to stakeholders as it will further the Company's unique resources, build better brand value and put its core values into action.

The market intelligence and insights gained throughout this journey of success will achieve the necessary synergies across all business platforms and realise the Company's vision of being a significant producer of clean energy for the sustainable economic development of this country, while continuing to generate substantial value for all stakeholders.

Economic Value Creation

GRI - 201-1 / 203-2

Overview

As a corporate with a deep sense of responsibility towards people and the planet, Vallibel Power Erathna PLC identifies, creates, develops and distributes the value generated from our business operations to enhance the wealth of our stakeholders. We believe this process to be essential for achieving our business objective sand attaining our growth aspirations. We have generated considerable value over the years, some of which is quantifiable and some of which is not. The ways in which we determine and deliver the quantifiable values are given below.

Year 2017/18

Total Clean Energy Generated

81.2 GWh

Rs. 1,078 Mn

Economic Value Distributed

29%

Increase

Compared to Rs. 833 Mn in year 2017/18

Share of contribution to national hydro power generation

2%

Rs. 1,150 Mn		Rs. 72 Mn		Rs. 1,078 Mn
Direct Economic Value Generated	−	Cost of material and services obtained	=	Economic Value Distributed

The activities that link our value chain form a systematic and continuous process during which we efficiently employ all six capitals to generate substantial value for all participants in the value chain. This is the process that ensures our progress and confirms our prosperity well into the future.

Economic Value Creation

As industry pace-setters since inception, the starting point of our track record of success begins with generating and supplying electricity to our sole customer, the CEB, as we overcome many hurdles along the way. The monetory value we receive from this transaction is then dispersed to meet business costs (payments for raw materials and overheads).The value that remains once our obligations are met, is then value distributed to our many stakeholders, in recognition of their intrinsic contribution to the business and the worth of the relationships made along the way. We sprint to the finish line, flushed with success, only once this final step is completed and our business has made a lasting contribution towards enriching lives.

The chart below gives a concise description of how we detemine and distribute our business value to our various stakeholders within the year under review.

Distribution of Economic Value Created

Shareholders	Employees	Government	Lenders of Capital	CSR and Donation	Retained on Depreciation	Profits for reinvestments
Rs. 531 Mn	**Rs. 92 Mn**	**Rs. 85 Mn**	**Rs. 531 Mn**	**Rs. 2 Mn**	**Rs. 94 Mn**	**Rs. 27 Mn**
2016/17	*2016/17*	*2016/17*	*2016/17*	*2016/17*	*2016/17*	*2016/17*
Rs. 347 Mn	*Rs.87 Mn*	*Rs.91 Mn*	*Rs. 207 Mn*	*Rs. 3 Mn*	*Rs. 92 Mn*	*Rs. 6 Mn*

Distribution of Non-monetary Value Created

Total Employment	Local Employment	No.of Trees planted	Reduction in Co_2 Emmssion
104 employees	**70 employees**	**1,100**	**51,342 MT**
2016/17- 102	*2016/17- 68*	*2016/17- 2,930*	*2016/17- 37,617 MT*

Methods of Economic Value Disribution

Beneficiary	Distribution method and values - 2017/18
Shareholders	The value created from its operations enabled the Company to enhance shareholder wealth through dividend payments to equity holders of our parent company, which amounted to Rs. 522 Mn, and to the minority shareholders of our subsidiary, which amounted to Rs. 17 Mn.
Employees	Rs. 84 Mn was distributed to employees by way of salaries, bonuses and related expenses (including payments for post- employment benefits).Rs. 6 Mn was apportioned for staff training, welfare and medical expenses. An additional Rs. 10 Mn was set aside to meet retirement benefit obligations.
Government	Income tax paid to the government was Rs. 75 Mn. Other taxes and levies paid amounted to Rs. 10 Mn. These included payments for water rights, land leased from the government, municipality and other agencies, as well as for indirect taxes.
Lenders of Capital	Rs. 208 Mn was allocated for the re-payments on loans taken on capital. Interest paid on loans obtained and other financing expenses was Rs. 35 Mn.
Retained on Depreciation	Rs. 78 Mn from profits was retained to provide for the depreciation of assets. Rs. 12 Mn was also set aside profits for the amortisation of Intangible asset created from the Group's Right to generate hydropower.
Community	Additional amounts were apportioned as donations for CSR activities to uplift lives by improving the health and education of indigenous communities. Specific amounts were also provided to meet the expenses of organisational events in Colombo, as well as for sundry sponsorships of stakeholder activities and events.

Our Stakeholders and Engagement

We are committed to developing and maintaining strong relationships with key stakeholders across our business, to ensure we understand and respond to their unique interests and concerns.

Our aim is to practice open, honest and transparent communication, including when the feedback is challenging to hear. We recognise the mutual benefits to our stakeholders and the business that results from genuine and productive engagement, and embrace opportunities to enhance the way we do things.

The key stakeholder groups that contribute to our ability to create value in the short, medium and long term are wide ranging. They include our people and their representatives, public shareholders, Regulatory Bodies and Government, our sole customer; Ceylon Electricity Board, suppliers and service providers, the neighbouring communities around our operations, Bank & Financial Institutions, Industry Bodies/Associations, environmental organisations, media and our partners. We recognise that the individual stakeholders within these groups are diverse, often with different interests and concerns. We will continue to invest effort into improving our understanding of the specific issues of interest to different stakeholders, and finding the best ways to engage with stakeholders, both individually and collectively.

We are committed to developing and maintaining strong relationships with key stakeholders across our business, to ensure we understand and respond to their unique interests and concerns.

GRI - 102-40

External Stakeholders

1. Public Shareholders
2. Ceylon Electricity Board
3. Regulatory Bodies & Government
4. Bank & Financial Institutions
5. Industry Bodies/Associations
6. Environmental Organisations
7. Community & Enviroment
8. Suppliers & Service Providers

Internal Stakeholders

9. Employees

GRI - 102-42

Stakeholder Mapping

As our stakeholders are the foundation of the company their influence is very critical for the business operations and its future. Following chart illustrate the priority to be given and ascertain key stakeholders for focused engagement.

Public Shareholders

As the owners of the company, we must make every effort to increase shareholder value.

High Interest

High Influence

Manage closely

Customer (Ceylon Electricity Board)

The nature of this business is such that the input is a natural resource and output is sold to a government institution (CEB) which is completely governed by the SPPA & other legislations set out by the state owned institutions

High Interest

High Influence

Manage closely

Employees

They are the most valuable asset of the company, its value creating resource. Through commitment, hard work, expertise, creativity, skills, talents and skills and determination, they achieve the company's short term and long term goals.

High Interest

Low Influence

Keep informed

Regulatory bodies and Government

They enable the company's legislative environment, and engagement with them helps the company address economic, social and environmental matters.

High Interest

Low Influence

Keep informed

Bank & Financial Institutions

Projects will not realized without debt finance through the financial agents as investments carry significant portions of debt which reaches 70% in most cases.

High Interest

Low Influence

Keep informed

Industry Bodies/ Associations

As a business entity clustering with other entities for collaborative purpose promote business synergies necessary for the company's success.

High Interest

Low Influence

Keep informed

Our Stakeholders and Engagement

Environmental Associations

We need to give them a hearing since our business is directly connected to nature. Furthermore, accurate understanding of issues will avoid conflicts.

High Interest

Low Influence

Keep informed

Community & Environment

We tap a natural resource that had been part of the lives of the communities in the area. The business cannot be moved or separated from the community and environment as they are strongly interconnected.

Low Influence

High Influence

Keep informed

Suppliers & Service Providers

Compared to manufacturing or other service organisations, the company does not have a strong and regular supply chain. A good suppliers' network for construction materials is required at the construction phase, but this is not very critical at the operational phase, as less raw material inputs are needed. But routine deals continue to take place for the procurement process and other utilities.

Low Influence

High Influence

Keep informed

The following table outlines our key stakeholder groups, method of engagement, matters engaged upon and our approach for the responses.

GRI - 102-43,44

Stakeholder	Method of Engagement	Matters Engaged Upon	Response and Engagement Process
Public Shareholders	Mainly through: • Quarterly Interim Financial Reports • Annual Report • Annual General Meeting • Dividend payout • Reinvestment proposal in new projects	No material issues were raised during the year, but routine inquiries were welcomed and answered.	Timely response with necessary details and information supplied, while maintaining good relationships through regular communication.

Stakeholder	Method of Engagement	Matters Engaged Upon	Response and Engagement Process
Customer (Ceylon Electricity Board)	• Consultation with them on operational matters when required. • Apart from the customers' perspective, the company complies with their regulatory requirements as a government regulator. • Monthly invoicing for power fed to the grid and realising payments on time	No material issues were raised during the year. But routine deals happen continuously.	Continue regular contacts. maintain good relationships and constant communication.
Employees	• Annual staff performance appraisals • Regular staff meetings • Involvement in negotiations when required • Training and workshops • Performance based salary increments and bonus • Welfare • team building and annual cricket tournament	• Revision of Human Resource Policies • Review of remuneration structures • Identification of training needs • Continuous professional development programmes • Sourcing of potential medical insurance scheme	• Updated all the policies and communicated all changes to employees. • Revised the performance rating method to eliminate remuneration anomalies. • Advising on welfare society's operations.
Regulatory bodies and Government	By complying with their regulatory requirements though regular monitoring for compliance with the standards set.	No material issues were raised during the year. Communications were limited to routine engagements and inquiries.	Responded to all inquiries, and compliance requirements were followed promptly.
Bank & Financial Institutions	• Regular meetings, dialogues and interactions • Publish Accounts and Annual Reports	No material issues were raised other than on matters related to the borrowings, repayments and investment solutions.	Good relationship through: punctual repayments interest rates negotiations, investment in short term deposits while maintaining property under mortgage in good condition.

Our Stakeholders and Engagement

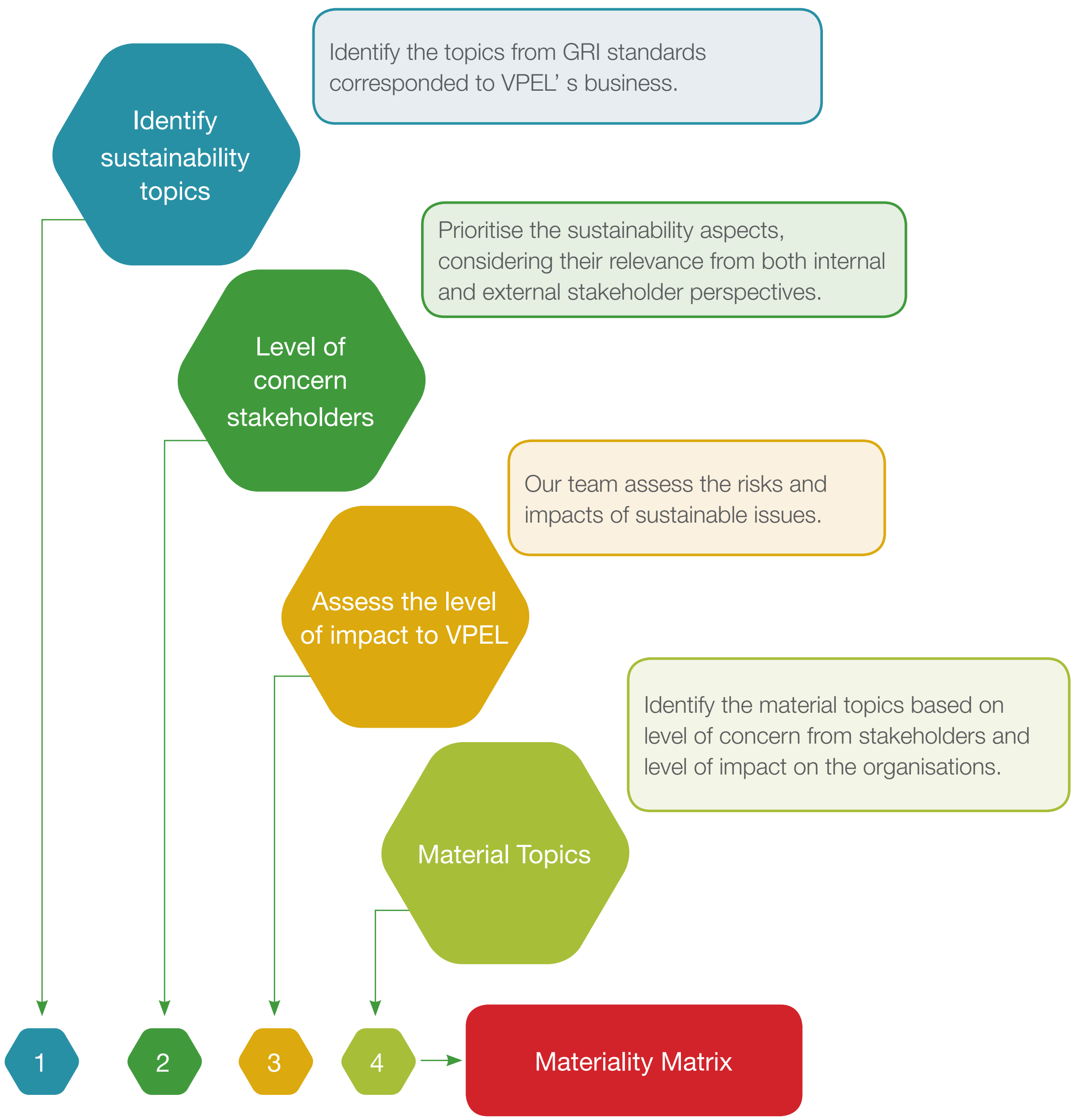
Stakeholder	Method of Engagement	Matters Engaged Upon	Response and Engagement Process
Industry Bodies/Associations	• Obtain the consultancy • Keep dialogues with members	No material issues engaged other than the discussion having on tariff issue which will effect of the year expiration of SPPA	• Provide timely information in response to any request. • Obtain advice, consultancy services and any information on matters that have occurred. • Keep close dialog and actively participate for the meetings
Environmental Associations	• Communicate the facts as needed • Provide related information on their request	No material issues engaged with.	Follow good environmental practices to mitigate issues. Listen to what they have to say.
Community (This include both social and environmental aspects)	• Community meetings • Infrastructure development programmes • Sponsorships for community developments • Forest plantation programmes in the surrounding areas • Annual budget allocated for CSR activities • Environmental impact mitigation and protection programmes • Employment provided to villagers	No material topics of concern were raised by the community. All other matters were solved at the initial stages.	Good interactive relationships through; • Continued support for community events/ needs • Involvement in infrastructure development in surrounding areas • "Empowering Green" forest plantation programme conducted by the company.
Suppliers & Service Providers	• Calling for the price quotations at real time intervals or tendering when required. • Supplier meetings as required	No specific of concerns were raised by suppliers other than routine engagement.	Very good relationship with the overseas and local suppliers, provide the required details and specifications while entertaining impartial bid/ quote/tender processes, also maintain a transparent evaluation and selection process.

Assessment of Material Topics

GRI - 102-46

Determining Materiality

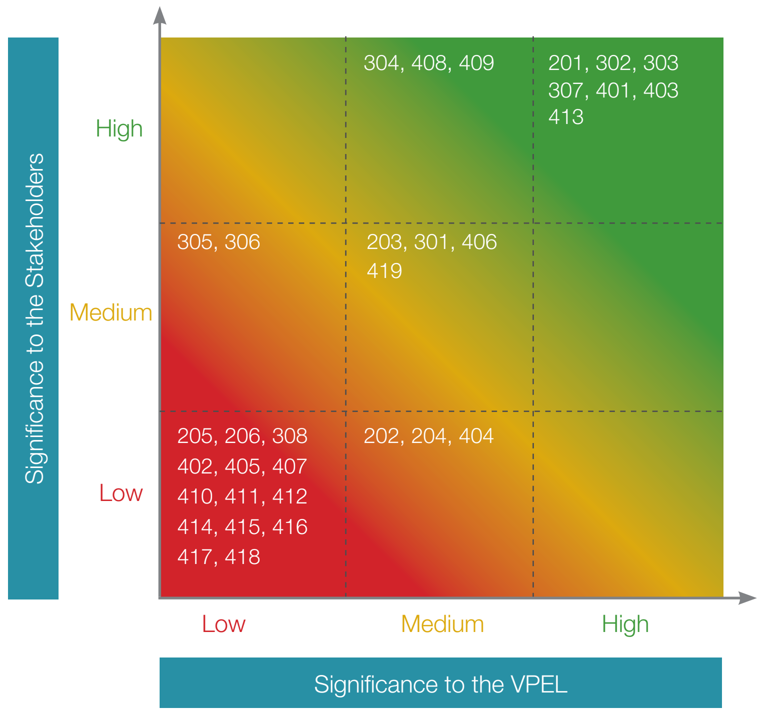
Our annual sustainability reporting process is determined by a detailed materiality assessment that identifies and evaluates the topics that had the most impact on our business and our stakeholders during the year of review and will continue to have a bearing on the progress of the Company into the future. A topic is material to us if it either has an influence on business development, reputation, risk or expenditure or if it affects our stakeholders' perception of us or behaviour towards us.



Assessment of Material Topics

Materiality Matrix

We broadened the scope of our material assessment this year to include considerations of new opportunities and emerging local and global economic trends, which are relevant to the evolving renewable energy industry. Results revealed that stakeholder concerns remain largely unchanged from the previous year. Our materiality analysis is based on the Company's value creation processes, corporate planning initiatives and findings of stakeholder engagements. These aspects were determined as having either high or medium or low levels of influence and are indicated accordingly in the materiality matrix given here.



GRI - 102-47 / 103-1

Identification of Standards

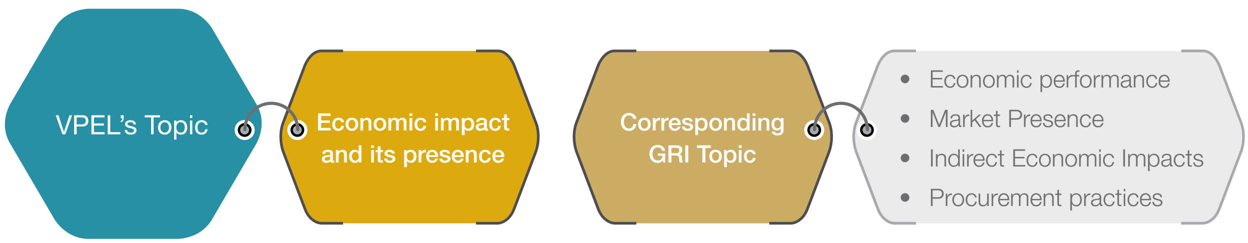
Topic - Specific Standards		Significance to VPEL's operations	Materiality	
			To VPEL	To the stakeholders
Economic Topics	GRI 201: Economic performance	High	High	High
	GRI 202: Market Presence	Moderate	Moderate	Low
	GRI 203: Indirect Economic Impacts	Moderate	Moderate	Moderate
	GRI 204: Procurement practices	Moderate	Moderate	Low
	GRI 205: Anti - Corruption	Low	Low	Low
	GRI 206: Anti-competitive	Low	Low	Low

Topic - Specific Standards		Significance to VPEL's operations	Materiality	
			To VPEL	To the stakeholders
Environmental Topics	GRI 301: Materials	Moderate	Moderate	Moderate
	GRI 302: Energy	High	High	High
	GRI 303: Water	High	High	High
	GRI 304: Biodiversity	Moderate	Moderate	High
	GRI 305: Emissions	Moderate	Low	Moderate
	GRI 306: Effluents and Waste	Moderate	Low	Moderate
	GRI 307: Environmental Compliance	High	High	High
	GRI 308: Supplier Environmental Assessment	Low	Low	Low
Social Topics	GRI 401: Employment	High	High	High
	GRI 402: Labour / Management Relations	Low	Low	Low
	GRI 403: Occupational Health and Safety	High	High	High
	GRI 404: Training and Education	Moderate	Moderate	Low
	GRI 405: Diversity and Equal Opportunity	Low	Low	Low
	GRI 406: Non-Discrimination	Moderate	Moderate	Moderate
	GRI 407: Freedom of Association and Collective Bargaining	Low	Low	Low
	GRI 408: Child Labour	Moderate	Moderate	High
	GRI 409: Forced or Compulsory Labour	Moderate	Moderate	High
	GRI 410: Security Practices	Low	Low	Low
	GRI 411: Rights of Indigenous Peoples	Low	Low	Low
	GRI 412: Human Rights Assessment	Low	Low	Low
	GRI 413: Local Communities	High	High	High
	GRI 414: Supplier Social Assessment	Low	Low	Low
	GRI 415: Public Policy	Low	Low	Low
	GRI 416: Customer Health and Safety	Low	Low	Low
	GRI 417: Marketing and Labeling	Low	Low	Low
	GRI 418 : Customer Privacy	Low	Low	Low
	GRI 419 : Socioeconomic Compliance	Moderate	Moderate	Moderate

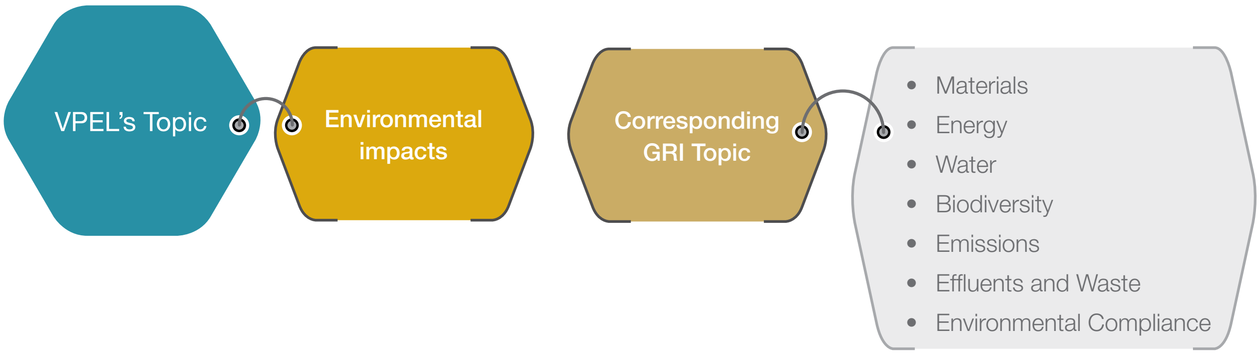
Assessment of Material Topics

Management Approach on Material Topics

Our materiality process identifies the following areas based on the intensity of their impact on the Company's ability to create value in the short, medium and long term. VPEL's operations have been reviewed, taking into account both financial and non-financial aspects to ascertain any perceived changes from the assessment carried out in the preceding year. It was determined that no notable changes that affect any of the materiality aspects considered in this report took place during the year of review. The materiality aspects of significance to the Company are outlined below.



Reasons for Materiality GRI - 103-1	The economic impacts of the Company's performance is significant to materiality because it influences our external and internal stakeholders and influences their informed long-term decisions on investment, partnerships and employment with the Company. This is to say that the goodwill of all stakeholders is vital for business success. It is only by creating value for human, social relationship and environment capital will their goodwill and support be obtained to take the Company forward. Our mini hydropower industry is especially dependent on local support to create a sustainable business. Therefore the company recognises the need to sustain the business in its various locations by contributing to indirect local development and paying close attention to the legal aspects of our engagement with stakeholders.
Management Approach GRI - 103-2	We measure our performance by setting annual goals, targets and objectives during the preceding year, these are assessed against current year performance. The company performance is reported in line with Sri Lanka Accounting and Auditing Standards. Also a strategy is in place to manage the capitals in a way that ensures maximum returns to our stakeholders in a sustainable manner. This does not, however, mean that we neglect distribution of other economic value additions to the rest of society. In this approach we prioritise indigenous needs as well as follow best practices with suppliers and ensure our internal stakeholders are provided with a sustainable income. Our strategies also explore ways in which the Company can contribute to the sustainable growth of the country.
Evaluation Method GRI - 103-3	We have external assurances by way of financial audits to validate the success of our approach and strategy as well as third party assurances on sustainable reporting. These procedures provide in-depth analysis on Company performance. An internal mechanism is also built to evaluate the compliance levels on regulatory requirements and other sustainability mandatories. Further grievance mechanisms is in place that address any concern of our stakeholders.



Reasons for Materiality GRI - 103-1	Since our core activity is to generate renewable hydropower energy, environment aspects are mandatory for sustaining the business. The availability of water is the key requirement of the business, so preserving the environment that sustains the water source is essential to ensuring an uninterrupted flow. It therefore follows that stakeholder influence on the business is very high, and indigenous communities lead the list. As a clean energy business, emissions and effluents generated are negligible when compared with other industries. Although our consumption of fossil fuel energy is relatively low, we are nevertheless a producer of clean energy, so energy is a topic of material significance to the business.
Management Approach GRI - 103-2	Our business of providing green energy has given us an in-depth understanding of the value of preservation and the adverse consequences of pollution of the environment, which has prompted us to introduce sustainability in all aspects of the business. Our environmental management activities help us reduce our impact upon the environment to a level that is as low as reasonably practicable. We will not knowingly compromise our environmental standards to meet operational objectives. We have a Quality and Environmental Policy designed to address every aspect of managing the environment. This Policy is enforced by an environmental monitoring programme that is strictly implemented at all three project sites and evaluates all operational activities according to their impact on the environment, and ensures safe disposal in a responsible manner as well as systematic reductions in the use of contaminants. Monitoring is continuous to ensure that appropriate mitigatory measures are taken in the event of any perceived breach. The Company is developing only projects that conform to stipulated environment criteria and ensures that a process is in place that guarantees continuous monitoring for compliance.

Assessment of Material Topics

Evaluation Method GRI - 103-3	Our projects and activities are periodically reviewed through a systematic internal mechanism that is designed to improve compliance with sustainability standards. We also rigorously conform with all environment-related national policies and legislation as well as keep to relevant multilateral agreements and declarations. We are in the process of ensuring that all three projects have in place the necessary infrastructure to qualify for the highest ratings in the Green Award presented by the Central Environment Authority and its reporting to the stakeholders as well. These awards and accolades received are proof of our projects' compliance with sustainability standards.

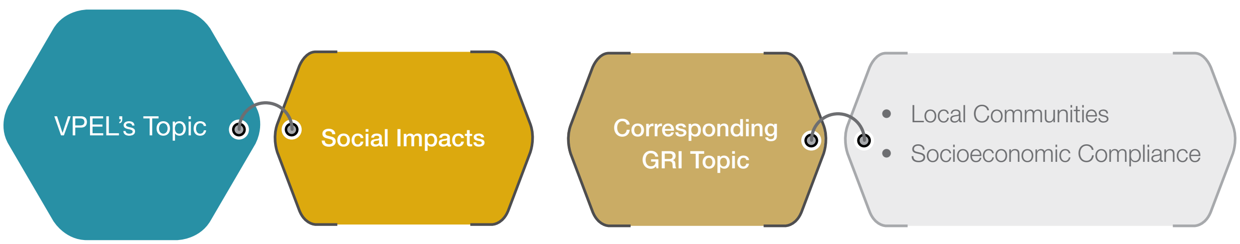
VPEL's Topic: Human Capital Management

Corresponding GRI Topic:

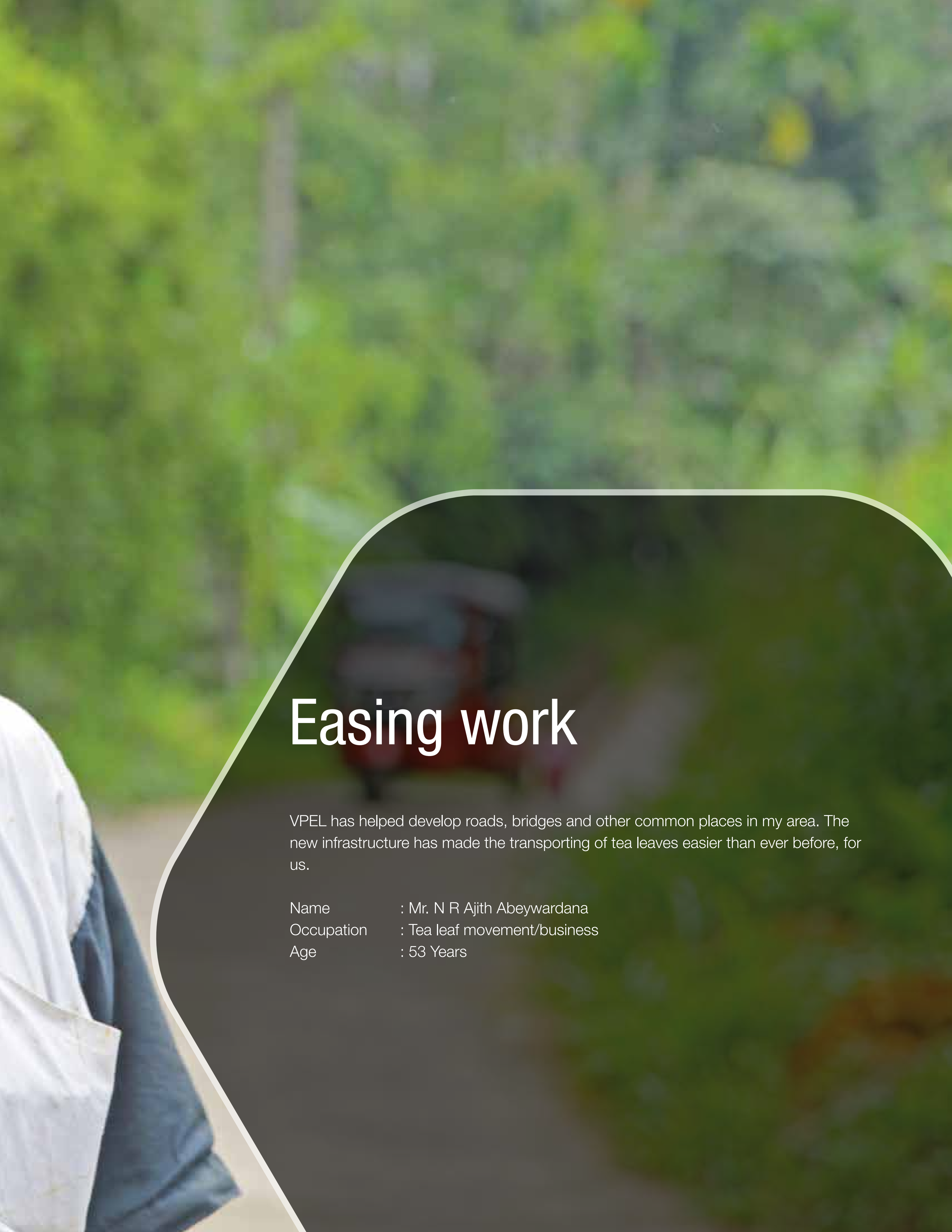
- Employment
- Occupational Health and Safety
- Training and Education
- Non-Discrimination
- Child Labour
- Forced or Compulsory Labour

Reasons for Materiality GRI - 103-1	Our employees are integral to the Company's success and we recognise that our business success is strongly related to our ability to recruit, retain and motivate high calibre, skilled employees. We therefore seek to treat our people fairly, offer them meaningful professional development that meet industry standards and provide rewards commensurate with performance. Occupational health and safety of our workers is a key concern for the Company, both as an employer who cares for the well-being of our people, and more so because, as a generator of hydro electric power, they are exposed to a hazardous output, mainly electricity, from which workers must be safeguarded with the appropriate safety measures. In the process of sourcing and recruitment we realise the importance of complying with all local and international labour laws.
Management Approach GRI - 103-2	Taking care of our people is as critical to us as is maintaining our assets and being good stewards of the environment, and is part and parcel of running a sustainable business. We also take a proactive approach to occupational health and safety because we understand the gravity of potential consequences of failure to introduce adequate health and safety measures. We have in place a comprehensive Human Resources policy which includes and H & S policy, focused on creating an environment that is a 'great place to work'. The policy takes a holistic approach to human resources by considering every aspect of human capital in a bid to ensuring the optimal performance of our people as well as forging their long term loyalty to the Company. Initiatives and incentives are in place that develop them, safeguard their health and assure them of an income that promotes an acceptable standard of living.

Evaluation Method GRI - 103-3	The HR Policy is systematically checked against actual performance and fine-tuned to meet contemporary requirements. Employee engagement surveys conducted through the staff meetings confirm the efficacy of our initiatives to forge employee loyalty and build an environment that is a 'great place to work.' Performance appraisals evaluate and address gaps in skills as well as other employee concerns . Bi-annual checks on fire and safety equipment are carried out to ensure conformity to safety standards . Annual safety drills are also held to promote top-of-mind awareness among staff of the importance of safety. We have in place a grievance mechanism that addresses any concern of our employees.



Reasons for Materiality GRI - 103-1	We recognise the value of building strong relationships with indigenous communities, and providing them with lasting socio-economic benefits. Support of the communities in the vicinity of our plants is integral to the progress and continuity of the business. As such, they are key stakeholders of the Company, and much time, effort and wealth is expended to maintain cordial relationships. This is not only the correct approach to take, but, it is also essential to support our broader social licence to operate, and our long-term business success.
Management Approach GRI - 103-2	We have developed a proactive relationship with the indigenous communities through a structured approach that provides a range of benefits that have substantially elevated the people and infrastructure of the area. This is a reciprocal relationship with them that assures a win-win situation on both sides because it promotes community goodwill as well as enhances the Company's reputation. This contributes to the ultimate aim of the Company: to ensure future sustainability. We keep them apprised of all stages of our projects through an interactive process of communication, and continue to maintain an open dialog which encourages their feedback and support.
Evaluation Method GRI - 103-3	We have established a transparent system of evaluation that assesses our community activities, ascertains impact and compares the results with the Company's goals and objectives. Periodic adjustments are made based on community needs and the Company's focus. We have in place grievance mechanisms that address any concern of the community or other stakeholders.



Easing work

VPEL has helped develop roads, bridges and other common places in my area. The new infrastructure has made the transporting of tea leaves easier than ever before, for us.

Name : Mr. N R Ajith Abeywardana
Occupation : Tea leaf movement/business
Age : 53 Years

Financial Capital

Overview

As businesses face mounting and unplanned risks in the volatile business environment of today, their survival depends on how prudently they manage their funds.

Prudent financial management determines how a company allocates its funds to achieve profitability and growth, determined by its financial objectives and long-term and short-term goals. Financial management of a company is aimed at achieving sustainable growth while generating significant competitive advantages. Effectively managing and prioritizing its financial resources is also essential if a company is to achieve its vision and mission.

Key Performance Indicators - 2017/18

29%	68%	38%	70cents
Revenue Growth	NP Margin	ROE	DPS

Management Approach

The Company manages its financial capital by complying with the best practices and standards of all relevant statutory and regulatory bodies, and places effective safeguards to deal with uncertainty and associated risks.

The management oversees the financial capital with due diligence in order to integrate and balance all the other capitals to achieve the ultimate objectives of every stakeholder and the vision and mission of the Company. Discipline in making financial decisions and transparency in every transaction are key factors that sustain the financial position of VPEL and have placed us at the apex of the local mini hydropower industry.

The Company operates under the following financial advantages that place us on a solid financial foundation:

- Proactively managing cash flow that ensures the availability of sufficient funds for business continuity
- Pursuing opportunities for process and cost efficiencies
- Maintaining a healthy statement of financial position
- Pursuing investments that provide the best returns
- Enhancing credibility and establishing bonds with stakeholders by distributing returns
- Reducing overheads through effective strategies that reduce energy and manage waster

The financial capital of VPEL comprises a pool of funds that are available for use in all activities connected to the generation of electricity for the national grid. These funds are generated from the investments of shareholders and raised from banks. The financial management objective of the Company is to achieve sustainable growth while generating significant returns on investment. The debt of Vallibel Power Erathna PLC has been fully paid up, but the subsidiary, Country Energy (Pvt) Ltd., will continue to have debt in its books for a period less than one year. Total inflows are paid fully to the equity holders when no new investments have taken place during the financial year, in keeping with the Company's aim of distributing the added value to shareholders.

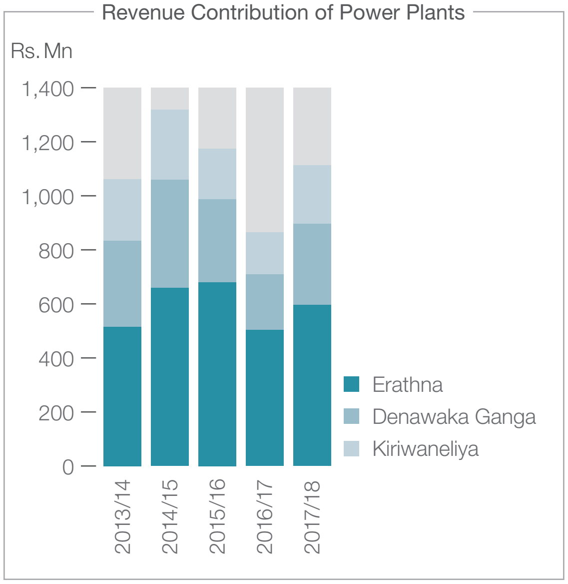
Financial Performance

Group Performance at a Glance.

Item	2017/18	2016/17	Change		
	Rs. Mn	Rs. Mn	Rs. Mn	%	Key Factor
Revenue	1,117.6	863.7	253.9	29%	Increase of hydropower generation
Cost of sales	162.3	149.7	12.6	8%	Import of spare parts for the plants
Administration Expenses	100.8	102.9	(2.1)	2%	Increase of general overheads
Other operating expenses	2.6	3.4	(0.8)	22%	Decrease of CSR activities
Finance income	32.9	43.4	(10.5)	24%	Decrease of short-term investments.
Finance expenses	35.6	59.3	(23.7)	40%	Depreciation of borrowings.
Tax expense	85.7	76.4	(9.3)	12%	Increase of Revenue and Deferred tax effect on future tax rate increase from 12% to 14%.

Revenue of the Year

Group Revenue during the current financial year increased by 29% to Rs. 1,118 Mn, from Rs. 864 Mn recorded last year as a result of the increase in power generation by 36% due to high rainfall. However, despite the increase in output, revenue did not increase as much as was anticipated due to the downward revision in tariff.



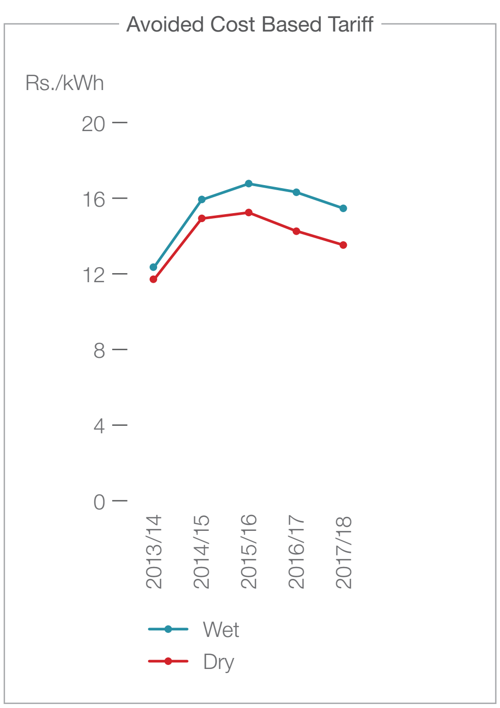
Financial Capital

Segmental Revenue

Company		VPEL	CEPL		Total
Project		Erathna MHPP	Denawakaganga MHPP	Kiriwaneliya MHPP	
Generation (GWh)	2017/18	44.2	21.7	16.2	82.1
	2016/17	35.4	14.6	10.2	60.2
	Change	25%	49%	60%	36%
Revenue (Rs. Mn)	2017/18	601.3	296.7	219.5	1,117.6
	2016/17	507.9	210.5	145.3	863.7
	Change	18%	41%	51%	29%

NCRE Tariff Impact

Average Revenue per kWh during the year saw a 5% decrease from the previous year as a result of to the negative impact of the revised Avoided Cost Tariff revision of NCRE which was effective from 1 January 2017. The tariff dropped by 5.4% in the dry season to Rs. 15.43 per unit, from Rs. 16.32 per unit in the previous year and by 5.3% in the wet season to Rs.13.47 from the previous year's Rs.14.22 per unit, which had a further adverse impact on revenue.



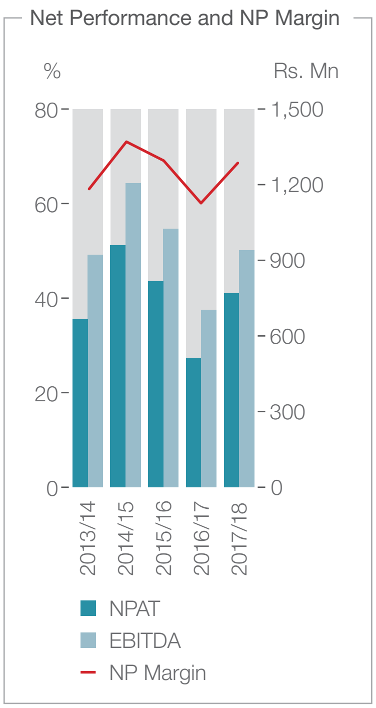
Cost of Sales

The Group's cost of sales increased by 8% from Rs. 149.7 Mn the previous year to Rs. 162.3Mn in the current year, mainly due to an increase in the cost of spare parts imported to maintain plant and machinery, which amounted to Rs 10 Mn, as well as an overall increase in the cost of general overheads.

Profitability

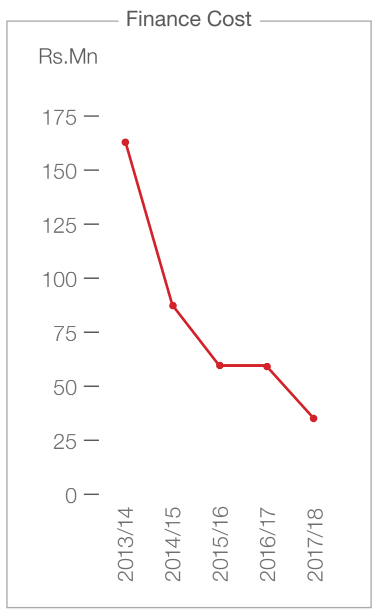
Group profitability increased substantially during the year, following an increase of 48% in Group Net Profit after Tax (NPAT) to Rs. 763.4 Mn, from Rs. 515.8 Mn in the previous financial year. This increased the EBITDA by 35% to Rs. 942 Mn, compared to Rs. 700 Mn in the previous year. This was due to the increase in revenue and the considerable decrease in interest cost due to the repayment of borrowings.

This resulted in the achievement of a noteworthy Net Profit margin of 68% (2016/17 - 60%), the high level attained in the industry to date.



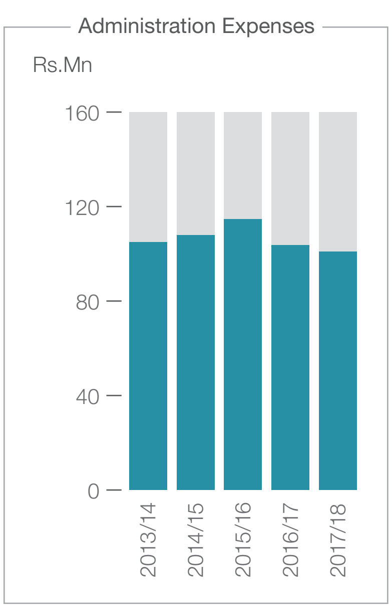
Finance Cost

The Finance Cost of the Group decreased substantially by 39%, from Rs. 59.4 Mn in 2016/2017 to Rs. 35.6 Mn in the current financial year, which had a positive impact on profits. Since the debt capital obtained for the projects are reaching their maturity, interest cost was reduced during the financial year and all borrowings will be fully repaid during the next financial year.



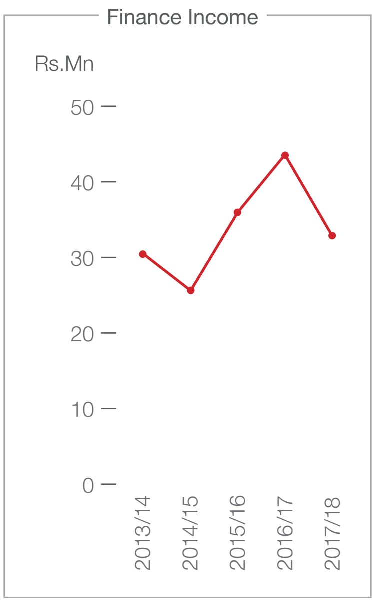
Administration Expenses

The Group was able to manage and contain administration costs at optimal levels, which resulted in the decrease in administration expenses by Rs.2.1 Mn (2%), from Rs. 102.9 Mn in the previous financial year to Rs. 100.8 Mn this year.



Finance Income

The Finance Income of the Group, which represents interest income from short term deposits, decreased by 24% to Rs. 33 Mn in the current year, from Rs. 43.4 Mn last year. This was due to a decrease in investments in fixed deposits.



Taxation

The Total Income Tax Expenses of the Group increased by 12% during the year to Rs. 85.7 Mn from last year's figure of Rs. 76.5 Mn.

- VPEL completed its 10 year tax holiday in 2014, so the Company's business income and other income at taxed at the prevailing rate of 12% and 28% in the current financial year.
- As per the new IRD Act (w.e.f. 01/04/2018), renewable energy projects that have entered into a Standardized Power Purchase Agreement on or before November 10, 2016 with the Ceylon Electricity Board to provide electricity generated using renewable resources, will be taxed at 14% for the first 3 years and after will be taxed at prevailing rate.
- Tax holiday of Subsidiary (CEPL) is ended in the current financial year 2017/18. Therefore, the Subsidiary's business income will be taxable at 15% from 2018/19 in according to the pre-agreed rate given by the BOI, and the other income will be taxable at the prevailing rate.

In addition to the tax expenditure charged to the Statement of Profit or Loss, the tax impacts on actuarial valuation of retirement benefit obligation and the revaluation surplus of freehold land have being recognised in the Statement of Other Comprehensive Income.

Following table showcase the detailed tax costs of the Group.

Tax Component	2017/18	2016/17	Change		
	Rs. Mn	Rs. Mn	Rs. Mn	%	Key Factor
Income tax on business income	60.7	50.5	10.2	20%	Increase of revenue
Income tax on other income	9.2	12.2	(3)	-24%	Decrease of finance income
Deferred tax charge/(reversal)	10.3	(3.3)	13.6	412%	Increase of tax rate from 12% to 14% w.e.f. 01/04/2018
Tax on Inter-company Dividend	5.5	17.1	(11.6)	68%	Decrease of Dividend received from CEPL-Subsidiary.
Total	85.7	76.5	9.2	12%	

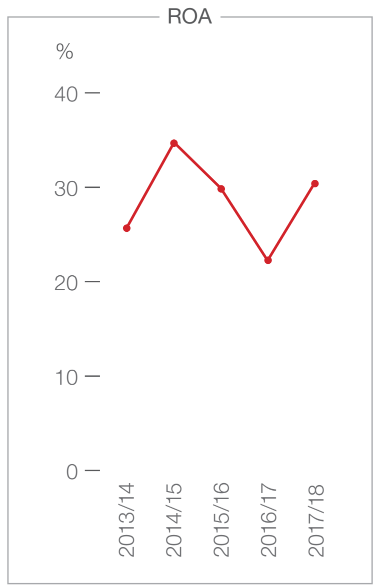
Return on Capital Employed (ROCE) and Return on Equity (ROE)

The Group's Return on Capital Employed (ROCE) and Return on Equity (ROE) in the year under review are 33% and 38% respectively, which increased from 23% and 29% respectively over the previous year.

The increase in profitability that occurred as a result of the substantial increase in Group Revenue was the main reason for the above mentioned decline in ROCE and ROE.

Return on Assets

The Group's Return on Assets (ROA) in the year of review was 30%, an increase of 22% over the previous year. This signifies more effective asset utilisation than in the previous year.

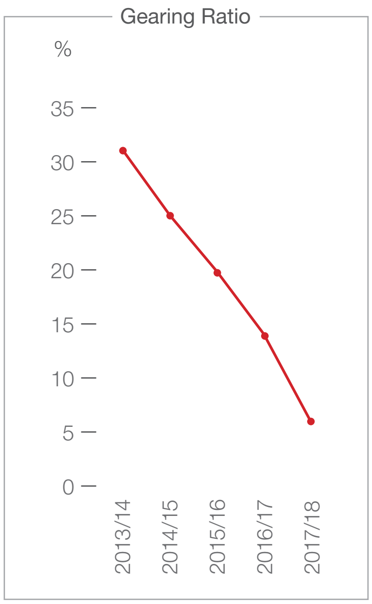


Group Capital Structure and Gearing

Net Assets attributable to the equity holders of the Company increased by 8% during the year, compared to 2016/2017 figures, while total borrowings reduced by 57% over the previous year. This was due to the repayment of loans taken by the subsidiary, which resulted in a decrease in the gearing ratio of the Group, from 14% in 2016/17 to 6% in 2017/2018.

Nature	2017/18 Rs. Mn	2016/17 Rs. Mn	Change Rs. Mn
Net assets attributable to the equity holders	2,245	2,073	172
Non-controlling interest	199	163	36
Borrowings	157	366	(209)
Capital Employed	2,601	2,602	(1)

Financial Capital



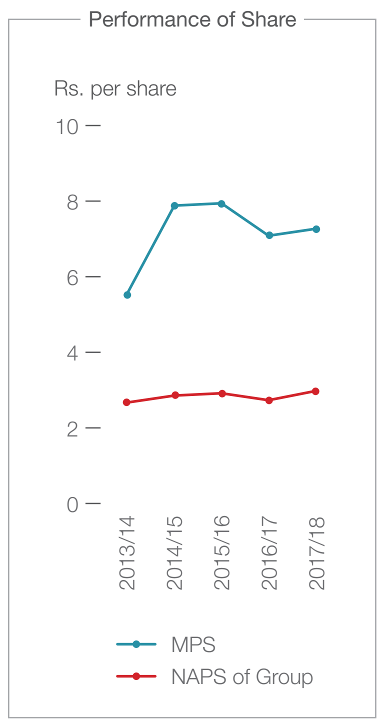
Working Capital

Working capital in the current financial year increased to Rs. 180 Mn, compared to the marginal increase to Rs. 4 Mn last year. Therefore, although the previous year's liquidity position resulted in 1 times of the current ratio, the Company was able to increase this position to 1.8 times by the end of the current year.

Performance of Share

The increase in performance escalated the Group's Net Assets per Share to Rs. 3.01, from Rs. 2.78 in 2016/2017. This increase was reflected in the increase of the Market price per share to Rs. 7.30, from Rs 7.10 in the previous calendar year.

However, the Dividend paid by the Company during the current financial year was 70 cents per share, which was a drop of 12% when compared to last year's dividend payment. This was mainly due to the decrease in the EPS of the Company to 64 cents, from 70 cents of last year caused by the less Dividend income received from the Subsidiary during the year 2017/18.



Natural Capital

GRI - 302-4

Overview

All organisations rely on natural capital and conduct business activities that have an environmental impact to some degree, some more than others. Every organisation also consumes energy and creates waste. Therefore, organisations are being increasingly made aware of the need to limit their use of the natural environment and to operate within set limits of use so as to ensure that their businesses have minimal impact on the environment.

The business of hydropower generation is one of the businesses that has the highest reliance on the availability, quality and quantity of natural resources, chief among these resources being water. This imposes a tremendous responsibility on the industry to protect valuable water resources if it is to sustain business continuity

1,100 Trees planted

25% Reduction of Energy Consumption

Zero Environmental non-compliances

51,342MT Reduction in Co_2 Emission

Approach

Concerns of natural capital touch our business at several points. As a producer of sustainable energy, we advocate the importance of reducing our environment footprint by moving away from the harmful consequences of non renewable energy sources. But as a generator of hydropower energy, the very nature of our business compels us to utilise the sources of rivers, which places us in the heart of vulnerable ecosystems that depend on the water flows for their sustenance and survival.

This has compelled us to walk the talk on sustainability in every area of business operation. We firmly believe that we have been tasked with the mission of teaching others how to reduce their impact on the environment by showing them how it is done.

Natural Capital

Our Quality and Environmental Policy

"We aspire to be a significant producer of clean energy for the sustainable economic development of Sri Lanka by generating the maximum amount of electricity as per stakeholder requirements from the available water resources while preventing pollution and protecting the environment around us.

To meet the above objective, we are committed to an Integrated Quality and Environmental Management System complying with International Standards, comply with all applicable legislation and other environmental requirements related to us, set quality and environmental objectives for processes of our organization and review achievement of those objectives at periodic intervals for continual improvement."

Protecting Precious Water Resources

GRI - 303-2 / 306-1 ,5

Water is the liquid wealth of our business because it is the primary material we use to generate electricity for the national grid, and is drawn from the rivers that flow near our three power plants. The Erathna Mini Hydropower Project, located in the Ratnapura district, utilises the water resources of the Kuru Ganga, the Denawaka Ganga MHP, also in the Ratnapura district, utilises the water of the Denawaka Ganga, while the Kiriwaneliya Mini Hydropower Project, located in the Nuwara Eliya district, utilises the water of the Maskeli Oya to generate electricity.

Water is also the source of life for the sustenance and continuity of the communities, fauna, flora and eco systems that surround these rivers. Our operations preserve and protect the pristine quality of rivers because all three projects are run-of-river mini hydropower projects (MHPPs). What this means is that the water drawn directly from the streams to power the turbines that generate electricity is then returned to the river, unchanged in quality and quantity. Mini hydropower projects do not deplete the water or change its quality in anyway, so there is no identified negative impact on the rivers sources as a result of this withdrawal and replenishment.

There is a tacit and mutually reciprocal arrangement between Mother Nature and us: when we protect the river and the lives that depend on it, nature assures continuity of the water resources, and this ensures the continuity of our business.

Water is the primary resource of the business, but we utilise other inputs as well, which are mainly maintenance materials needed to ensure the smooth-functioning of the power plant equipment.

Usage Water as an Input

GRI - 301-1,2 / 303-1,3 / 306-1

Although it is difficult to measure the daily intake and outflow of the surface water used in our power generating business, an established formula for the purpose has been used to provide estimated figures as given below. It was assumed that each power plant was running at the optimum efficiency throughout the year.

Erathna MHPP

Plant Capacity (MW)	10	
Designed Flow (m3/s)	2.7	
Destination of Withdrawal	Kuru Ganga, Warnagala	
Destination of Discharging	Kuru Ganga, Adawikanda	
	2017/18	2016/17
Power Generation (kWh)	44,195,032	35,437,707
Plant Factor %	50%	40%
Volume of water used (m3/per annum)	42,957,571	34,445,451

Denawaka Ganga MHPP

Plant Capacity (MW)	7.2	
Designed Flow (m3/s)	27	
Destination of Withdrawal	Denawaka Ganga, Rambukpitiya	
Destination of Discharging	Denawaka Ganga, Durekkanda	
	2017/18	2016/17
Power Generation (kWh)	21,723,421	14,578,335
Plant Factor %	34%	23%
Volume of water used (m3/per annum)	293,266,184	196,807,523

Kiriwaneliya MHPP

Plant Capacity (MW)	4.65	
Designed Flow (m3/s)	3	
Destination of Withdrawal	Maskeli Oya, Koththellana	
Destination of Discharging	Maskeli Oya, Kiriwaneliya	
	2017/18	2016/17
Power Generation (kWh)	16,228,272	10,171,564
Plant Factor %	40%	25%
Volume of water used (m3/per annum)	37,691,470	23,624,278

Natural Capital

Apart from the power generation, an insignificant amount of the surface water of the rivers are used by the site staff for the living purposes which has not been quantified. Staff at the head office utilised bottled water. Nor ground water or municipal water are being used.

	Bottled Water (m3)	
	2017/18	2016/17
Head Office	13.27	13.19

GRI - 301-3

According to the hydro power industry specifics, no recycled inputs (recycled water) or reclaimed products are being used for the operations.

Lands

GRI - 304-1,2

Although we occupy lands that have a biodiversity impact, all approvals obtained from state authorities were based on the understanding that the projects would cause minimal disruptions to the bio diversity of the area. We rigorously ensure compliance with this undertaking, with internal reviews conducted in a timely and systematic manner.

Land extents of the projects are as follows:

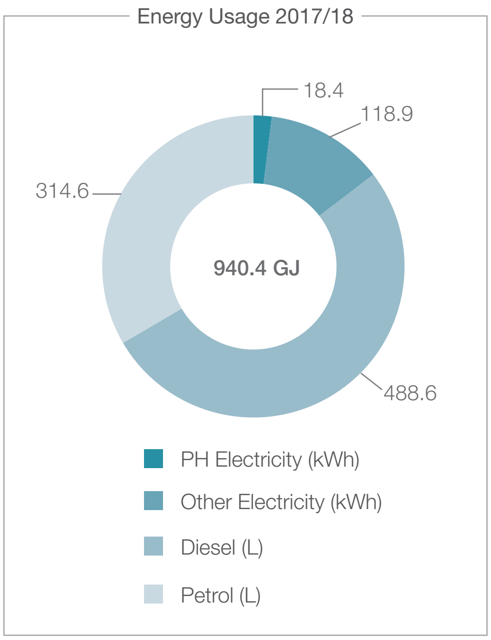
Unit	Land Holdings				
	Extent (Ha)				Location
	Freehold/ Private	State Owned	LRC	JEDB	
Erathna MHPP	2.27	0.28	2.2	Nil	Erathna, Kuruwita - Rathnapura District
Denawaka Ganga MHPP	0.53	2.76	Nil	1.2	Durekkande, Malwala - Rathnapura District
Kiriwaneliya MHPP	3.03	Nil	Nil	Nil	Vidulipura, Norton Bridge - Nuwara Eliya District
Head Office	NA	NA	NA	NA	World Trade Center, Colombo 01
Total	5.83	3.04	2.2	1.2	

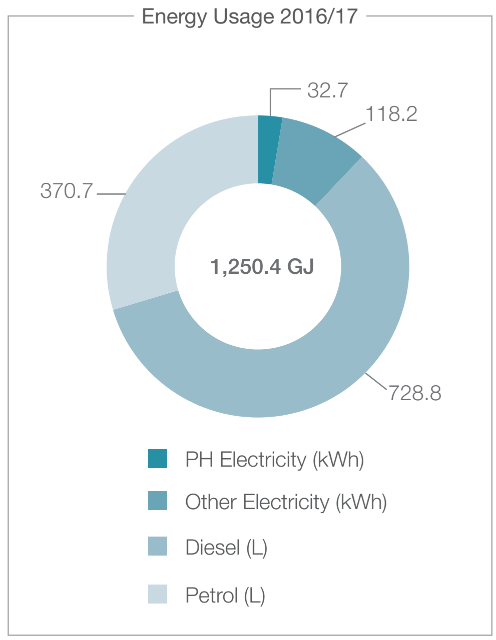
Ensuring Reduced Energy Use

GRI - 302-1,2,4

We are both creators and users of energy. We generate green energy and promote the importance of reducing fossil fuel use because we know its detrimental effects on the environment. So we try, as far as possible to reduce consumption of non-renewable energy, but are at times, compelled to resort to fossil fuel use for lack of an alternative. Our energy consumption comprises electricity used in the power houses, staff quarters and company offices as well as petrol and diesel consumed by the alternative generators and Company's vehicles.

Over the years, we have taken concrete steps to gradually reduce our dependency on fossil fuels, and these initiatives are generating quantifiable results.





GRI - 102-11

Preserving the Pristine Nature of the Environment

The Company considers it to be of paramount importance that its business activities do minimal harm to the ecosystem and have minimum impact on the indigenous communities and fauna and flora in the vicinity. As such, each project is designed in a manner that has, as far as possible, low impact on the environment it is located, by considering the other users of ecosystem services, be they human, fauna or flora.

From day 1 of the projects, the following five perspectives were carefully observed when carrying out construction:

1. Leaving nature undisturbed if an alternative path of construction could be pursued;
2. Replenishing, wherever possible, the natural resources depleted as a result of the operations;
3. Taking preventive and/or mitigatory measures in construction areas that could have the potential to harm to the environment;
4. Considering the needs of other users, both human and animal and designing the construction accordingly;
5. Considering the safety of other users, be they human or animal, and making the necessary adjustments to the design.

01. Leaving Nature Undisturbed

The constructions attempted to ‘go with the flow’ in the true sense of the word.

The headrace channel was made without disturbing or tapping natural streams in the area. The streams that flowed across the channel path were enabled with underpasses constructed with a drainage system. This structure also reduces soil erosion and the potential for river bank failure.

Drainage system to allow natural water paths to flow to the river

Drainage system constructed under the channel

02. Replenishing depleted resources

We believe in giving back to nature some of the bounty that she has been provided us.

On completion of construction activities, the surface vegetation was re-developed to prevent soil erosion due to the project structures.

Trees have also been replanted in the project areas to replace the trees removed at the time of construction. All trees removed were with the permission received in writing from the local Government Authorities.

Empowering Green

Many saplings were planted in denuded areas of the catchment during the year, under the company's flagship project 'Empowering Green.'

Company intensified its efforts during the year to meet the project's short term goal of planting 100,000 trees, by taking the project to schools, with the aim of inculcating the importance of environment protection to children at an early age.

An enthusiastic response was received in Gonaganara, Buththala, where, in partnership will environment-related state organisations, the Company inspired a children's society by setting them the goal of planting 500 trees during the year. Each group of 50 children was given the responsibility of planting 10 trees and nurturing them to grow and thrive. The Company will reward the most successful groups with prizes at the end of the period. This strategy was effective in instilling the children with a sense of responsibility and providing them with goals for achievement, which will be invaluable for their personal development in the future. The project was also taken to Pelmadulla, Rathnaputa, where, with the support of the National Water Supplies and Drainage Board, 500 trees were planted in the catchment areas managed by the Board.

Efforts of surface vegetation developed to prevent soil erosion

Planting 500 plants at Gongan Ara, Buttala

Planting 600 plants at Pelmadulla, Rathnapura

03. Preventive and Mitigatory Measures

A number of measures were taken to either prevent the projects from having negative environment impacts, or wherever unavoidable, to reduce their impact on the environment. Project areas that may have the potential for negative environment impacts in the future were carefully assessed and the necessary precautionary measures taken.

Many measures were taken at various points of the infrastructure to prevent soil erosion and failure of the river bank. This including carrying out construction activities during the dry months of the year.

Concrete channel for Forebay spill way to prevent soil erosion

The penstock pipes that connect the forebay tanks with the power houses were installed with minimum impact to the neighbouring ecosystems and the support structures strengthened to ensure that the pipes do not cause soil erosion.

Natural water paths were also facilitated through the channel path and forebay tank via drainage systems to enable the water to flow to the river without eroding the soil.

River bank failure is prevented at the tail race by sending the water released from the power house through a concrete channel through to the river. Retaining walls were also built at the tail race and reinforced with tightly packed boulders to prevent soil erosion from natural flooding. To prevent soil erosion when a high volume of water is released from the forebay tank to the river, a concrete channel constructed at the spillway takes the water to the river.

Additionally, the entire infrastructure has been built to blend in with the surrounding environment. This includes pipes and other infrastructure that is cleverly camouflaged in earthy colours to make them less noticeable in the verdant jungles.

04. Considering the Needs of Other Users

Each project releases water throughout the year for the use of people as well as fauna and flora.

Despite the fact that the river between the intake to the powerhouse is seldom used for agriculture, animal husbandry or for drinking water purposes due to the difficult terrain, the Company ensures that a sufficient and uninterrupted quantum of water is discharged to this area in line with Central Environmental Authority approvals. This effectively maintains the eco system balance and meets the water needs of fauna and flora in the vicinity.

The project structures also incorporate concrete or steel steps to give all jungle inhabitants a throughway in all project sites. Soil filled paths are built specially to facilitate animal movement across the channel.

Environment release openings have been made to ensure the release of sufficient water for the needs of other users of the catchment areas. The forebay operator records this water flow daily to ensure that the water released is continuous and sufficient.

05. Considering the Safety of Other Users

All projects have been constructed to enable the safe and easy movement of people and animals across the water channels and have in- built safeguards to prevent animals from entering the water conveyance system.

Natural Capital

At Erathna MHPP, the entire head race channel is closed with a concrete slab to prevent animals from falling in, which also forms a bridge for people and animals to walk across the site to access other areas of the forest.

Closed head race channel and protective hand rails

Concrete steps to facilitate movement of inhabitants across the channel

Reducing Emissions

Reducing Noise and Vibration

The noise and vibration that usually occur in power plant operations have been substantially reduced with special soundproofing material used to muffle sounds in the powerhouses. Additionally, as a health and safety measure, all employees are provided with ear muffs and ear plugs that must be used at all times within the powerhouse.

Green initiatives have also been used to reduce noise. All projects have the avenues of bamboo tress planted along the tail race to absorb the noise of the gushing water when it is returned to the river.

Bamboo trees planted at tailrace to minimise noise

GRI - 305-1, 2, 5

Reducing Co_2 Emission

Direct greenhouse gas emissions (Scope 1) of the Group arises mainly from fuel consumed by standby generators at the project sites, but this is not a continuous cost. Vehicles operated by the company are also a source of GHG emissions but these are few in number, so emissions are negligible. (Scope 2) electricity is consumed by the power houses, living quarters of staff at the project sites and company offices.

	Emission of Co_2 - MT		
	2017/18	2016/17	Change
Scope-1	54.7	75.1	-37%
Scope-2	23.5	25.7	-8.5%

The very nature of hydropower generation reduces GHG emissions by producing, clean, renewable energy. Our projects are estimated to reduce carbon emissions by 50,000 MT approximately in every year, other than to the carbon emission which arise from the other energy consumption.

	Reduction in Co_2 - MT	
	2017/18	2016/17
Erathna MHPP	27,622	22,149
Denawaka Ganga MHPP	13,577	9,111
Kiriwaneliya MHPP	10,142	6,357

GRI - 306-2

Recycling Waste and Minimising Effluents

The Company follows a strict policy of grading the waste generated in both its plants as well as its offices. Solid waste is collected under the broad category of bio degradable and non bio degradable waste, and non biodegradable waste is segregated into glass, polythene, and cardboard. Food waste is categorised under biodegradable waste.

The Company embarked on a paper recycling initiative in its head office in the latter part of the year. As paper is one of the main consumables, conscious efforts were made during the year to reduce the amount of paper used. Paper management is carried out according to the 3R concept of reduce-reuse-recycle and used papers are given for recycling by third parties. This initiative had not been quantified as of the year end. However, it will be practiced from the next year onward in a formal way.

Decaying vegetation on the plant sites and the natural debris in the river water are collected daily and used as compost for cultivation purposes.

Non-biodegradable waste at the sites comprises oil and lubricants as well as cleaning material used to maintain powerhouse operations. These are collected systematically and provided to licensed operators who in turn, supply these waste materials for use in other industries.

Adequate sanitation facilities are also provided to staff, to prevent pollution and contamination of the environment.

The Company has not quantified the quantity of waste disposed of during the year under review.

Composted Waste for use of cultivations at Power House

Waste Segregation at Power House

GRI - 307-1

Ensuring Compliance

We take all possible steps to ensure that our projects comply with the environmental rules, regulations and requirements stipulated by the relevant statutory bodies, and have a comprehensive Integrated Quality and Environment System that addresses all key aspects of environmental management and complies with similar standards of environment management internationally. We follow all environment-related rules and regulations, especially the stipulations of the Central environment Authority. We also strictly implement an environmental monitoring programme at all three project sites which evaluates all operational activities according to their impact on the environment and takes appropriate steps to mitigate any potential violation well in advance. There have been no incidents of non -compliance of environmental laws and regulation during the year.

Environmental Grievance Mechanism

The Company has placed a Stakeholder Complaints Log at the project offices of every site for the communities to register any complaints against company operations and environmental concerns as well as offer suggestions for improving current practices.

To date, there have been no complaints on any material issues concerning the impacts of the company's business on the environment impact of the projects.

Social and Relationship Capital

GRI - 203-1

Overview

Until recently, companies developed their sustainability platforms with little consideration of their stakeholders. Today, however, social responsibility is increasingly being recognised as an important area of strategic value creation. Sustainability initiatives that reflect stakeholder involvement are seen to be fundamental to the goals and decisions of industry leaders, and stakeholder engagement is recognised as being critically important to the future sustainability and success of companies.

This paradigm shift has resulted in a win-win situation for both companies as well as and their stakeholders, as integrating stakeholder thinking into strategy processes is enabling understanding of how to allocate limited resources while keeping stakeholders satisfied. This knowledge has increased competitiveness, improved financial performance and enhanced corporate image.

Key Performance Indicators - 2017/18

Rs. 2 Mn
Spent on Community

>5,000
No. of Beneficiaries

GRI - 413-1

Approach

The Company sets tremendous store on the value of the relationships we have built with our numerous stakeholders over the years, and invests in a series of initiatives to nurture and strengthen these relationships. We understand that it is the support of our stakeholders that ensures continuity of our business because these cooperative relationships are essential to shaping the perceptions of our Company among the community at large.

The Company takes this strategy a step further, by exploring ways to make engagement with our stakeholders a more meaningful and collaborative exercise that enables continuous and cordial communication and interaction that builds mutual respect and trust.

As a part of our approach on the management of Social and Relationship capital, we ensure that a feasibility study is carried out, which provides a detailed assessment of the impact on the any community engagement event including the operational activities, prior to engaged with it. We pursue the project if, and only if, it has a positive impact on the community.

The Company defines its stakeholders as belonging to 5 main groups, namely, indigenous communities, customer, suppliers, the government and the general community.

Caring for Communities

The Company has contributed substantially to the sustainable growth and development of the indigenous communities that live in the vicinities of our power plants. This support has, over the years, improved infrastructure, enhanced their health and education and increased their income, all of which has contributed to empowering them and giving them hope for a brighter future. We consider these communities to be key stakeholders of the Company, whose support is essential for sustainable business continuity. As such, we have a symbiotic relationship with them: we provide them with innumerable benefits that enhance their lives and they, in turn, reciprocate with goodwill and support of our operations in their localities. The resultant gain to the Company's reputation has been unquantifiable.

The Company has introduced a process of regular engagements with these communities that follows a dedicated social development plan which provides them with benefits based on their immediate needs as well as their future development.

- Participation

Regular participation in community events has developed close and cordial relationships with our communities. These events include public meetings and group discussions as well as by sponsoring community and infrastructure development programmes. We have also involved ourselves in their personal life events, on invitation, and helped with contributions in cash and kind.

The project teams have successfully integrated into the lives of these communities by playing active roles at these events. The Company views participation and support in community activities as being integral to building, nurturing and sustaining these precious relationships into the future.

- Inclusion

Initiatives introduced to meet immediate community needs include providing them with employment at the power plants. Our Human Resources Policy also supports indigenous talent as an important component of our policy on inclusive recruitment. Eligible employees build their career with the Company by joining at entry level and on demonstration of potential and promise, are promoted to more responsible areas for which the Company builds capacity by exposure to relevant skills training programmes.

This approach has succeeded in attaining an elevated standard of living within the communities that only a regular income can provide, and has resulted in a trickle- down effect that has improved overall living standards throughout the communities.

- Development

We also develop the infrastructure of the areas that circle our sites, ensuring that these activities cause minimal disturbance to the flora and fauna that the natural inhabitants.

These initiatives include rebuilding community roadways in close proximity to our sites. We provide them with the necessary material and manpower.

Responding to Social Needs

The Company's commitment to communities focused in the year of review, to meeting the needs and upgrading the living standards of the communities in the vicinity of the Erathna power plant, as they were identified as being the most needy within the Company's sphere of influence during this period.

The four main areas pursued during the year were to improve health, uplift education and sports, and promote the spiritual well- being of these communities, as these areas were seen as being the stepping stones to building a fulfilled life. The Company considers children to be the hope of the country's future, so many efforts were made to meet their needs in the three areas.

Our weekly donation of milk packets to the three Sunday schools in the vicinity of the Erathna MHPP was continued through this year too. This initiative was begun some years ago and was one of many commitments that the Company has been deeply involved in. The programme gave us a tremendous sense of purpose and accomplishment because it provided these needy children with an essential requirement for their growth and development.

The Company also sponsored the re-structuring and setting up of the main gate of the Erathna Maha Vidyalaya. This effort was welcomed by the principle, staff and parents of the school as being a significant step towards improving the security of their school children.

Social and Relationship Capital

The Company refurbished and painted the rural Erathna hospital, by contributing both material and labour. This was well received by the administration, doctors and patients alike, who said this was a long-felt need and were pleased that VPEL stepped forward to meet it.

Under the “Nila Sevana” initiative, the Company supported, with a donation in cash, on preparation of the land for setting up a building to house the government officials engaged in alleviating the living standards of the Erathna community.

The Company supported construction of a football field that will benefit the youth of Erathna area, with a donation of iron GI pipes. This was at the request of the United Sports Club, Erathna, which also requested the Company for sponsorship of its sportswear, a request the Company met.

In the spiritual sphere, sponsorship of the “Ma Piya Vandana” programme improved the spiritual life of the children in the Erathna community.

The needs of children were also met with the donation of school shoes for students from impoverished families in Durekkanda, in the Ratnapura district.

With the vision of empowering the youth, Company donated a laptop to and undergraduate student of Eastern University which would enabled efficient and convenient learning.

Cementing Relationships with Suppliers and Contractors

As a responsible corporate citizen, we ensure that our local and foreign suppliers are responsibly sourced. Both groups of suppliers are evaluated on set criteria to ensure conformity to our stringent standards of quality, and follow ethical business practices. Although we do not have a set screening process to determine labour and human rights violations, reliance on longstanding relationships with tried and tested suppliers and the market reputations of new suppliers have proved effective barometers for determining the professionalism and credibility of our suppliers. Most of our key suppliers are certified by the International Standards organisations which confirm business best practices and their solid market reputations.

GRI - 203-2

Our procurement procedure gives preference to reputed local suppliers wherever feasible, and, additionally, commits to supporting local suppliers and contractors from the areas of our projects. This has been an effective contributor to the economic growth of those areas.

All payments to suppliers and contractors are met within the agreed credit periods, except in the case of a dispute. Should a dispute occur, we ensure that the issue is sorted out as fast as possible in a manner acceptable to both parties.

Supply Chain

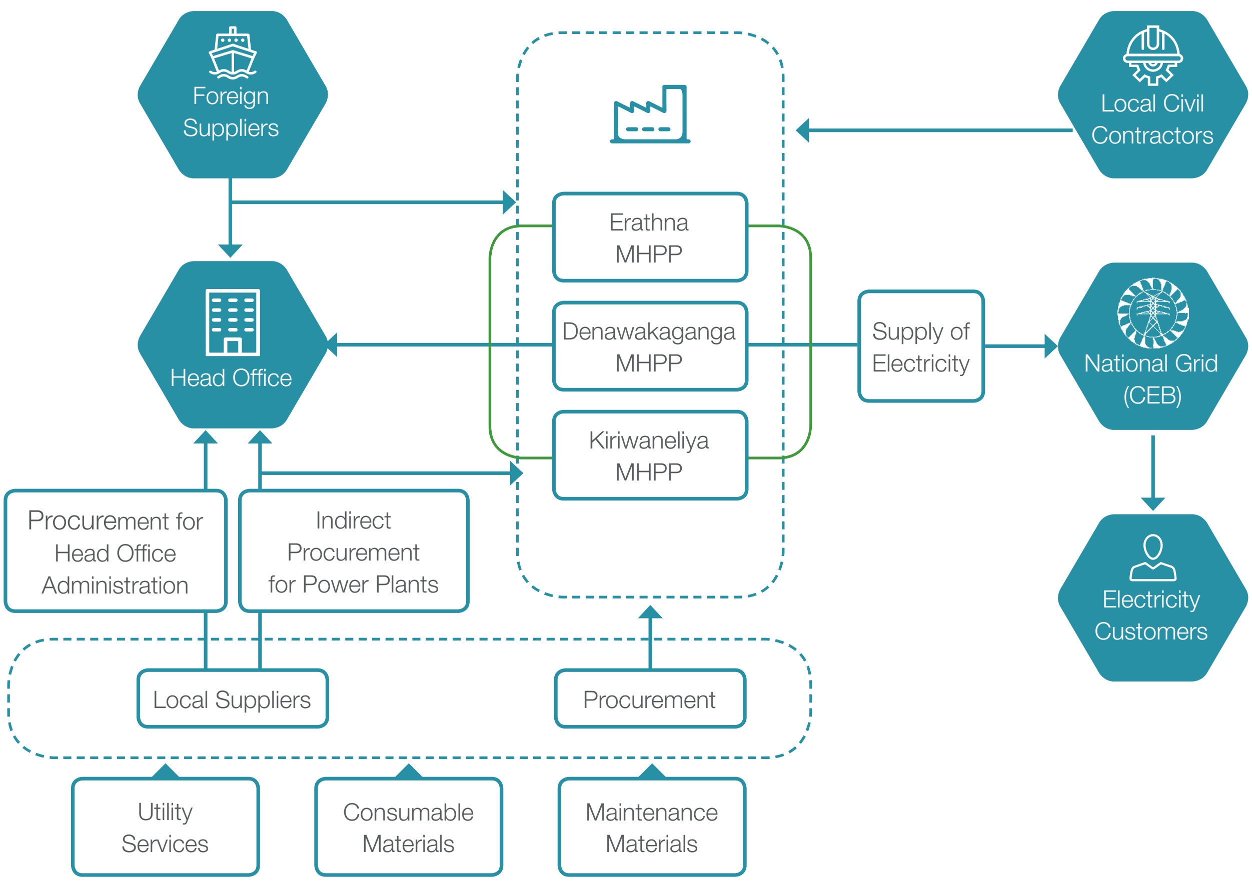
GRI - 102-9,10

The Company has an established supply chain management procedure that creates value, builds competitive advantage, leverages logistics locally and internationally, as well as effectively synchronises supply with demand.

A hydropower business such as ours does not keep a large supplier base because we do not require extensive purchases throughout the year, the main inputs, namely the machinery, having been procured at the commencement of our operations, mainly from reputed overseas suppliers. We continue to keep cordial dialogues with these overseas suppliers and patronise them for the purchase of machinery spare parts for the machinery maintenance and repair required for our ongoing operations. Local contractors were also involved in building the infrastructure of the power plants at the initial stages of the projects, and continue to be provide their services for ongoing maintenance.

Procurement of supplies for the Company's day-to-day operations is centralised with the Procurement department at the head office in Colombo, which purchases most of the consumables, maintenance material as well as the utility services needed, which are provided by local suppliers. The three project offices in the three power plants also purchase some of the consumables, maintenance material as well as utility services required for the daily operations of their respective plants. Purchase of machinery spares from foreign suppliers however, is only carried out by the head office since involves technical related expertise. These inputs are then used to operate the machinery that generates the electricity supplied to the national grid.

Following chart illustrates the simple structure of supply chain of VPEL Group;



This supply chain has not been changed yet since the commencement of commercial operations.

The extent of suppliers' participation and the amounts that spread on them during the financial year under review are given in the table below:

GRI - 204-1/102-9

Expenditure type	Location of Supplier	Amount (Rs. Mn)	% on Total
Import of machinery spare parts	Foreign suppliers	11.7	16%
Civil construction works on maintenance	Local Civil Contractors	1.4	2%
Maintenance materials	Local Suppliers	11.8	16%
Utilities & other services	Local Service providers	43.2	60%
Consumable goods	Local Suppliers	4.3	6%
Total		72.4	

In this table, suppliers of goods and services in Sri Lanka have been identified as the Local Suppliers. It has not measured the values spread to the suppliers on our geographical operations basis.

GRI - 102-6 / 416-2

Creating Customer Connections

The hydropower generation business is unique in that its customer focus is, by and large, limited to a single entity, as the electrical power generated is supplied to the country's national grid, which is under the purview of the Ceylon Electricity Board (CEB), who is therefore our sole customer.

We continue to maintain close and cordial relationships with the CEB, built over the years, with substantial support of the Board's activities and projects. This facilitates amicable and continuous communication with CEB officials at the CEB head office in Colombo as well as in the area offices situated in the localities of our power plants, which is vital to ensure the smooth flow of business.

The SPPA (Standardised Power Purchase Agreement) signed by both parties at the commencement of every power generation project, establishes our relationship with the CEB. This Agreement sets out the CEB's stipulations and conditions that oversee the Company's supply of clean energy to the national grid, which the Company must follow if it is to continue to enjoy the license to operate a sustainable hydropower business.

There have been no incidents with the CEB for non-compliance with applicable laws and regulations, breach of SPPA provisions or violation of safety regulations on project sites or on shortfall in any other operational areas, during the year of review, nor, for that matter, during anytime preceding.

GRI - 419-1

Relationships with the Government and other Statutory Bodies

The Company maintains continuous and amicable contacts with state bodies, as it is in our interests to do so, since business continuity rests on the granting of licenses and approvals of the government and other statutory bodies related to our industry. We ensure compliance with all relevant local and national laws and in doing so, ensure that we create a climate of consent that will continue to provide us with the license to operate. During the year we did not experience any kind of non compliance with local laws and regulations.

In order to reinforce these relationships, we take this partnership beyond sponsoring their organisational events to a higher level that involves a deeper commitment, by eliciting their support in our community efforts. This strategy has proved judicious, and we are now working with a number of environment -focused state partners in growing our flagship project, 'Empowering Green' to many areas of the country.

GRI - 413 -1

Interactive Grievance Mechanism

A Stakeholder Complaints Log introduced at the project offices of each site keeps a record of any complaints against the company, for societal or environmental violations. The Log also encourages stakeholders to offer suggestions for improving current practices. All entries are responded to within 7 days of writing and the necessary action if required, is promptly taken.

No grievances were raised from the communities during the current year.

GRI - 205 -1

Effective Safeguards for Anti – Corruption and Compliance

The Company has established safeguards against anti-corruption and compliance, but was not assessed for anti-corruption practices during the year under review. Nor have any fines or sanctions of any kind been imposed on the Company in any area of non-compliance during the year.

GRI - 206 -1

Zero Convictions on anti-Competitive Behaviour, Anti-trust, Monopoly Practices

There have not been any actual or potential negative impacts on society, for negative labour practices or negative human rights impacts in the supply chain during the year under review, nor has legal action been taken against us for anti-competitive behaviour, anti-trust, and monopoly practices by the customer, a supplier or contractor.

Zero Convictions on Human Rights Violations on the Value Chain

There have been no actual or potential negative human rights impacts on the value chain in the year of review.

Human Capital

GRI - 202-1 / 203-2

Overview

People are the most important resource of an organisation, and its most powerful tool. It is they who give the organisation the foresight to react speedily and intelligently to the uncertainties of a fast-evolving business landscape. It is they who provide the inspiration, creativity, vision and motivation that keep the organisation dynamic and responsive. They are the producers of the goods and services that keep an organisation functional, and the skills and competencies that ensure its continuity.

Key Indicators - 2017/18

104 Total Workforce

67% Employees from local community

10 New Recruitments

10% Average Staff Turnover

1.03 Minimum Wage Ratio

Zero Lost Workday Case Accidents

GRI - 102 -16

Approach

The guiding principle of our human resources management practices is to treat people at all levels with dignity and respect and to ensure that all dealings with staff are a transparent and two-way process. Our Human Resources Department partners the business units by identifying operational areas that could be fortified with the right people in place. At the power plants, our HR strategy prioritises recruitment from indigenous communities in order to uplift the lives of these impoverished communities. This strategy supports the company goals of enriching lives and providing new hope for the marginalised.

Our HR strategy is also designed to understand and cater to our employees' needs and aspirations. We achieve sustainable success by equipping our human capital with the resources needed for personal and professional development combined with business know-how. This has been our formula for ensuring a high- performance culture over the years and the secret of our excellent human resources record.

As a part of our strategy, each new recruit is given a familiarisation tour on his/ her first day of work, during which the Company's values, mission, vision and other information relevant to their job role is communicated to them. Every employee has access at any time during working hours, to the Company's Human Resource Policy, which is a manual written in English and available with the HR department.

GRI - 406 -1 / 202-2

The Synergies of Diversity and Inclusion

Diversity is viewed as being an essential aspect of the Company's talent acquisition and management strategy, and we capitalise on the synergies gained from infusing our human resources with a strong diversity component. To us, diversity and inclusion is not a mere HR programme but a work ethic that is inculcated into all aspects of the operation.

By promoting a culture based on diversity and inclusion, we realise that exposure to people from different backgrounds, experiences and working styles provides us with the opportunity to expand our horizons and to take a holistic approach to decision- making. This approach has enabled us to look further afield, to identify talent that slips through the cracks of the recruitment processes of most other coporates.

As stated above, a main consideration when replenishing our talent pool is the recruitment of talent from the vicinities of our power plants. We look beyond the narrow confines of class and creed to embrace the differently abled as well, and have committed to recruit at least one differently abled person from within the communities that surround our projects. Our non- discriminatory policy has ensured that we have not faced incidents of discrimination at any point in the course of our business. Additionally, our well structured policies ensure that we have no violation incidents on indigenous people's rights.

Although the positions are open for both males and females, no female candidates have as yet applied for electro-mechanical jobs in power house operations However, women have a significant presence in the Company's offices and enjoy the same benefits, rates of pay and performance-based promotions afforded their male colleagues.

There have not been any recruitment made to the employment category of Senior Management from the local community as to date.

Note - As our plants are being operated in the districts of Rathnapura and Nuwara Eliya, the communities within those districts are considered as the local community in this reporting.

GRI - 102-8, 405-1

Employee Mix as of Reporting Date

Employment Type	Gender & Age Analysis										
	18-25 Years		26-35 Years		36-45 Years		Above 45 Years		Total		Total
	M	F	M	F	M	F	M	F	M	F	
Corporate Mgt	0	0	0	0	2	0	0	0	2	0	2
Middle Mgt	0	0	2	1	1	1	1	0	4	2	6
Executive	0	0	8	3	3	1	0	0	11	4	15
Clerical	0	2	0	0	0	0	0	0	0	2	2
Technical	0	0	10	0	3	0	1	0	14	0	14
Skilled	1	0	3	0	10	0	6	0	20	0	20
Semi Skilled	0	0	12	0	15	0	9	0	36	0	36
Un-skilled	3	0	5	0	0	0	1	0	9	0	9
Total	4	2	40	4	34	2	18	0	96	8	104

All the employees are full time permanent employees other than 10 employees who are worked under the fixed term contract as of the year end.

Employee Distribution by Region (Districts);

Districts	18-25 Years		26-35 Years		36-45 Years		Above 45 Years		Total		
	M	F	M	F	M	F	M	F	M	F	Total
Colombo	1	1	1	1	2	1	1	0	5	3	8
Gampaha	0	0	1	2	1	0	0	0	2	2	4
Kandy	0	0	1	1	1	0	2	0	4	1	5
Kegalle	0	0	2	0	1	0	0	0	3	0	3
Kalutara	0	1	4	0	1	0	0	0	5	1	6
Ratnapura	1	0	19	0	22	0	13	0	55	0	55
Kurunegala	0	0	1	0	0	0	0	0	1	0	1
Nuwaraeliya	2	0	5	0	6	0	2	0	15	0	15
Polonnaruwa	0	0	1	0	0	0	0	0	1	0	1
Mathale	0	0	2	0	0	0	0	0	2	0	2
Matara	0	0	3	0	0	1	0	0	3	1	4
Total	4	2	40	4	34	2	18	0	96	8	104

GRI - 401-1

Employee Recruitments During the Year by Employment Type and Region

Employment Type	Gender and Age Analysis										Total
	18-25 Years		26-35 Years		36-45 Years		Above 45 Years		Total		
	M	F	M	F	M	F	M	F	M	F	
Corporate Mgt	0	0	0	0	0	0	0	0	0	0	0
Middle Mgt	0	0	0	0	0	0	0	0	0	0	0
Executive	0	0	3	0	0	0	0	0	3	0	3
Technical	0	0	2	0	0	0	0	0	2	0	2
Clerical	0	1	0	0	0	0	0	0	0	1	1
Skilled	2	0	1	0	0	0	0	0	3	0	3
Semi Skilled	0	0	0	0	0	0	0	0	0	0	0
Un-skilled	1	0	0	0	0	0	0	0	1	0	1
Total	3	1	6	0	0	0	0	0	9	1	10

Employee Recruitments during the Year by Region (Districts);

Districts	18-25 Years		26-35 Years		36-45 Years		Above 45 Years		Total		
	M	F	M	F	M	F	M	F	M	F	Total
Colombo	2	0	1	0	0	0	0	0	3	0	3
Kegalle	0	0	1	0	0	0	0	0	1	0	1
Kalutara	0	1	0	0	0	0	0	0	0	1	1
Ratnapura	0	0	2	0	0	0	0	0	2	0	2
Nuwaraeliya	1	0	1	0	0	0	0	0	2	0	2
Polonnaruwa	0	0	1	0	0	0	0	0	1	0	1
Total	3	1	6	0	0	0	0	0	9	1	10

Employee Turnover during the Year by Employment Type and Region

Employment Type	Gender & Age Analysis										
	18-25 Years		26-35 Years		36-45 Years		Above 45 Years		Total		
	M	F	M	F	M	F	M	F	M	F	Total
Corporate Mgt	0	0	0	0	1	0	0	0	1	0	1
Middle Mgt	0	0	0	0	1	0	0	0	1	0	1
Executive	0	0	1	0	0	0	0	0	1	0	1
Technical	0	0	1	0	0	0	0	0	1	0	1
Clerical	0	0	0	0	0	0	0	0	0	0	0
Skilled	1	0	1	0	1	0	1	0	4	0	4
Semi Skilled	0	0	1	0	0	0	0	0	1	0	1
Un-skilled	1	0	0	0	0	0	0	0	1	0	1
Total	2	0	4	0	3	0	1	0	10	0	10

Districts	18-25 Years		26-35 Years		36-45 Years		Above 45 Years		Total		
	M	F	M	F	M	F	M	F	M	F	Total
Colombo	1	0	1	0	0	0	0	0	2	0	2
Gampaha	0	0	0	0	2	0	0	0	2	0	2
Kegalle	0	0	1	0	1	0	0	0	2	0	2
Ratnapura	1	0	1	0	0	0	1	0	3	0	3
Kurunegala	0	0	1	0	0	0	0	0	1	0	1
Total	2	0	4	0	3	0	1	0	10	0	10

Salaries and Incentive Packages for Right Talent

As part of providing an enabling work environment that engages workers, we provide them with competitive compensation packages, benefits, welfare facilities and other perks that ensure their well-being. These salaries and benefits are on par with, and at times exceed, industry standards, and have been successful in attracting and retaining the best talent to the Company.

Employees also receive performance-related benefits that include increments and promotions as well as performance bonuses. The category-wise ratio of basic salary and the remuneration of women to men is the same.

All salaries and wages are above the minimum wage and all statutory payments such as EPF, ETF and gratuity are made in accordance with local labour laws.

Additional benefits which are provided to the employees are given below.

GRI - 401-2,3

Type of benefit	VPEL's Policy	No. of employees entitled/obtained during the year
Interest free staff loan Scheme	Permanent employees confirmed in service are granted a facility of applying for an interest free loan tied to their service period, which must be guaranteed by two member of the permanent staff. The loan is recovered from monthly salary deductions that commence from the following month.	33 employees
Festival Advance	The employees are entitled to an annual festival allowance of one month's salary either during April or December, which is recovered in equal monthly deductions from their salary commencing from the next full month.	67 employees
Insurance covers on work life	Personal Accident insurance scheme covers head office and site employees whose duties require them to travel. Staff with desk- bound jobs are protected by Workman's Compensation Insurance.	All employees
Healthcare	An in-house medical scheme is established for employees at and above executive grade and entitles the employee and three other members of his/her family (spouse and two children), to healthcare benefits borne by the Company.	One employee

Type of benefit	VPEL's Policy	No. of employees entitled/obtained during the year
Maternity/ Paternity Leave	A female employee is granted maternity leave/ pregnancy leave in terms of the Shop and Office Employees Act No. 19 of 1954. All female employees are entitled to utilize maternity leave. A male employee in the permanent cadre is allowed a period of 3 working days of paternal child care leave with pay in respect of the birth of a child to his spouse. This leave must be utilised within three months from the date of the birth of the child.	• One female employee has utilized the maternity leave and no paternity leave was utilised during the year. • All employees who utilized the leave benefit has returned to employment, thus, Employee return rate is 100% • Retain rate cannot be calculated as no employee has utilized the maternity / paternity leave during the previous review period.
Emergency Accident Leave	This leave is for injury sustained while at work and can be extended, with full pay, to 90 working days based on a doctor's recommendation.	Nil
Uniforms	All on-site staff are provided with uniforms, and according to work type and environment, are also supplied with appropriate footwear and Personal Protective Equipment (PPE). It is mandatory that these items are worn in accordance with Company safety procedures.	All employees at power plants
Foods and beverages	Company has facilitated for the preparation of meals for the shift workers of power plants and other snacks and tea are provided too.	All shift based employees at power plants
Accommodation	Staff quarters are located at each power plant for the purpose of accommodation facility to shift workers.	All shift based employees at power plants

Minimum Wage

Every employee is paid above the minimum wage of Rs. 13,500/- stipulated by Wages Board Ordinance No. 27 of 1941 and National Minimum Wage of Workers Act, No. 3 of 2016, in addition to many other benefits.

By properly compensating our employees, we show them how much they are valued as workers and as human beings, because we know that employees who feel valued have high morale and are motivated to come to work and do a good job.

Engagement, Rewards and Recognition

The Company firmly believes that engaged employees hold the key to achieving the Company's mission of pursuing a sustainable business. Engaged employees have high self-esteem, feel a connection with the Company and are confident that the Company appreciates and values their contribution to its prosperity and success. This increases their job satisfaction and motivates them to work harder. The Company, in turn, benefits immensely from their increased productivity.

The Company has a reward system that recognises top performance and motivate employees to attain optimal performance. This has established a strong performance-based culture among at all levels of staff.

Empowering Our People

We create an environment that fosters initiative, creativity and innovation by helping our people to explore their potential and build their capacities both as employees as well as human beings, thereby ensuring that VPEL is a great place to work. The initial step to achieving this is to enhance their job skills as well as soft skills.

This approach has resulted in a win-win situation for the Company as well as its people year after year, and has been an effective retention strategy as well. It is beneficial to the Company because a knowledgeable and productive employee helps work towards achieving organisational goals, and it benefits the employee because he/she has acquired a set of skills that could be utilised for a lifetime, which improves morale and self-esteem.

We took personal empowerment to a new level that had positive impacts on the Company and its people in whatever way it was looked at. We motivated employee involvement in our flagship project "Empowering Green" by planting nurseries at all three power plants and encouraged employees to tend to the young plants in their spare time and earn extra income. We also encouraged employees to grow seedling in their own homes and sell them to the Company at market rates. This enabled the employee to have a profitable side-business that involved his family and could be continued into the future. It also helped reinforce the Company's commitment to the environment by eliciting employee support for the continuity of 'Empowering Green,' in an innovative, effective and personal way.

VPEL's employees contribution on "Empowering Green"

VPEL's employees contribution on "Empowering Green"

Reinforcing a Performance Based Culture

The Company has introduced a series of initiatives that promote the standards of excellence that hold the key to a strong performance-based culture. These initiatives are reinforced by a systematic and transparent performance management process linked to talent development interventions.

Training and Development to meet Evolving Market Needs

Developing talent is central to the Company strategy of developing its resources to meet the dynamic and evolving needs of customers and other stakeholders. Studies show that talent development also motivates staff, reduces absenteeism and employee turnover as well as considerably increases productivity and efficiency.

VPEL aims to develop a learning culture throughout the Company, through on- the- job training with company and industry experts, carried out either locally or overseas, depending on the area of training and the availability of the trainers. Knowledge gaps are identified and filled with training to upgrade employees' knowledge, teach them new skills and improve their sense of self-worth.Staff at all levels are provided with training opportunities which are geared to ensuring that they benchmark the best talent in the industry.

GRI - 404-2

Details of training provided to employees;

Type of Training	Total Hours of training	No. of Participants	Employee Category	Gender
Certificate in Power Electrical Technology	168	1	Technical	Male
Fire Training	34	17	All employees at power house	Male
Spoken English	259	1	Executive	Male
Total	461	19		

GRI - 404-3

PAS for Climbing the Corporate Ladder

The Company has introduced a job competency matrix that matches the skills required for a particular job function against the skills of the employee. The first step to assessing the potential of an employee and bridging any skills gaps is the Annual Performance Review. This review is conducted for all employees in the executive, clerical, as well as technical cadres at the beginning of each calendar year, through a Performance Appraisal System (PAS).

The PAS is an effective system of evaluation that assesses the performance of each employee against ten key competencies The appraisal system involves two appraisers. The first appraiser is the employee's supervisor and the next is a member of the Management. The performance of each employee during the previous year is assessed on an Evaluation Score on which salary increments and promotions in the next year are determined. Next year's needs are gauged by the member of the Management staff through a process of discussions with the employee, supported by his/her supervisor when necessary. Any shortfalls between targeted performance and actual performance are carefully assessed, the reasons determined and necessary remedial action taken. Any skills gaps identified as being necessary to improve performance are bridged with training and development. The PAS is also an effective tool for career advancement and identifies high achievers and the potential of performers.

GRI - 404-2

Programmes to Manage Skills

On completion of the PAS, the assessor's conclusions and recommendations are forwarded to the HR department that then identifies the necessary training. On conclusion of the training, employees are mentored and monitored to ensure the training has been effectively implemented.

The dynamic environment in which we function today also demands regular updating of job requirements. This makes it necessary to ensure that the people in place have the skills and qualifications for the changed job role. The Company regularly reviews its HR policies and practices to identify roadblocks and opportunities for improvement in line with new and updated thinking.

The training provided is to address areas identified in the PAS to:

- fill existing gaps in skills and knowledge, for improved performance
- expand the employee's knowledge in a new area or skill with a view to career development and advancement, and future promotions to new or additional responsibilities

During the reporting period, employees were trained in the following areas that are considered vital for improving their skills on the job which covered a total of 461 training hours:

GRI - 404-1

Average training hours per employee				
On Total Employees	By Gender		By Employee Category	
	Male	Female	Executive and Above	Technical, Skilled and semi-skilled
4.43 Hours	4.8 Hours	Nil	11.2 hours	2.5 Hours

GRI - 403-2,3

Developing a Culture of Safety

VPEL is committed to creating a culture of safety throughout its operations, because it knows that a safe work environment enhances brand value and goodwill as well as reduces insurance claims. A rigorous system of safety is therefore in place throughout the three power plants because the Company is fully aware that potential injury, or death, could not only result in loss of labour hours but would negatively impact our reputation.

As a responsible corporate, we recognise the tremendous responsibility towards people and the planet that accompanies hydropower operation and management, since this generation has a powerful and potentially hazardous outcome.

Accordingly, a range of safeguards have been introduced to protect the people who operate the power plants and machinery as well as those who visit the sites. These are in line with international standards of industrial safety and a monitored and updated on an ongoing basis.

All staff working on the plant sites are provided with PPE – boots, gloves and other outerwear; to ensure that they are equipped to perform their duties in the security and confidence that they are well protected against possible hazards.

There are no workers who are involved in occupational activities who have a high incidence or high risk of specific diseases and no work-related accident or occupational disease has been reported in the year of review. This also means that the company has lost no operational days due to occupational injuries, diseases or work-related fatalities. However, an Accident Log is made available at all power plants to log an accident / incident / injury if it occurred while on duty.

GRI - 403-1

Although a formal Committee is not established to function on the health and safety topics of the organisation, an internal mechanism is in placed to overcome the matters arisen from them.

Safety Guidelines

These are guidelines designed to reinforce the Company's safety culture in the mindset of all stakeholders and are placed at the security offices of each power plant. All visitors, suppliers and contractors are required to read and follow the guidelines on arrival, which set out the safety procedures that are mandatory for every person who enters the sites.

Additionally, safety signboards are placed in strategic locations throughout the power plants to create awareness about prospective hazards.

Employees equipped with personal protective equipments

Effective Labour Practices that Ensure Amicable Relationships

The Company complies with all national and international regulations, ordinances and standards on labour, including the provisions laid out by the International Labour Organisation.

GRI - 408-1 / 409-1

Zero Tolerance of Child, Forced or Compulsory Labour

Child labour is considered an exploitative practice by the Company, and is strictly prohibited in its offices are well as power plants. The Company follows the principles set out by the International Labour Organisation (ILO) and strongly upholds all regulations pertaining to child labour in any form. This extends to manual and semi-skilled work at our power plants. VPEL's minimum age of recruitment has been maintained at 18 years from inception.

Although we have not established a written policy on the subject, the Company also ensures, as far as is possible, that none of our suppliers employ child labour in any area of their business. We do not partner with stakeholders who fail to comply with these principles, and should such a situation come to light following the establishment of a partnership with any supplier, the said partnership is immediately rescinded.

We do not subscribe to situations of forced or compulsory labour either, as we strongly believe in the rights of the individual. We are committed to eliminate all forms of this labour and do not engage with suppliers who support situations of forced or compulsory labour.

GRI - 102-41

Enhancing Workforce Relations

The Company knows that harmonious worker relations is vital to its smooth operations and continuity, and is therefore committed to ensuring this. Maintaining harmonious relations with the workers includes understanding their right to be treated with dignity, respect and fair play, and paying attention to any concerns. VPEL has a two- way approach to industrial relations that engages workers in open dialogue, which promotes trust and improves performance. The management of Industrial Relations is well maintained across the Company and its three power plants through applicable laws, regulations, statutory obligations, awards, agreements and guidelines and national codes of practice.

We have no collective bargaining agreements because the open and friendly work environment does not necessitate this. However, employees are given the freedom to bring forward such agreement if employees ever require. Employees are apprised of all changes in operations and process as and when these are implemented. As there are no formal unions to determine aspects of health and safety, the Company takes extra care to ensure that checks on health and safety are regularly carried out, and has in place a rigorously monitored and updated system of H & S that follows local and international guidelines on occupational health and safety.

The open and egalitarian atmosphere promoted by the Company has not created the need for trade or labour unions, and a Welfare Society has been set up to take care of worker needs. A Grievance Mechanism that Improves Our Record of Retention.

An open, proactive and healthy dialogue is maintained with the workers, which addresses any grievance or concern at the onset. An extensive grievance handling mechanism is in place to resolve any conflicts by arriving at a workable solution that ensures amicable labour relationships and minimal work disruptions.

The employee first presents his/ her concern to the immediate superior, who, either by assessing the matter himself/ herself, or in discussion with the management, depending on the issue raised, will then revert to the employee with a suggested resolution of the concern. This discussion could be recorded If the superior deems it necessary. However, if the employee is not satisfied with the resolution proposed, he/ she is given the freedom to communicate the grievance, in writing, to the CEO. The CEO then takes the matter up and personally reviews the grievance by determining every aspect, and then arrives at his own conclusions. An equitable resolution is then communicated in writing to the employee and a copy sent to the HR division that will be included in the employee's personnel file.

The grievance procedure has been carefully designed to ensure that a cordial and mutually beneficial relationships is maintained between management and employees at all times to promote trust. This is one more step the Company takes to ensure that its employees' concerns are addressed and respected, which has been another effective tool for employee retention.

There were no grievances on labour practices filed and address in the year of review.

Recharging and Rejuvenating for Optimal Performance

The Company believes that opportunities to recharge and rejuvenate from the demands of their jobs is essential for the emotional and physical well-being of our staff. We also recognise the fact that this 'downtime' benefits Company performance by improving worker productivity.

Therefore, regular staff activities that promote camaraderie and team spirit are organised throughout the year, the highlights of which were:

- Cricket tournaments were organised project-wise and in house teams competed with one another in friendly games that built team spirit. Prizes and trophies were presented to the winning teams.

- Annual trips for staff and their families were also organized project-wise due to the distances between the Company's locations.

- Spiritual blessings were also invoked to further the prosperity of the Company and a Pirith ceremony was held at Erathna MHPP which was well attended.

Staff also engaged in voluntary work during their recreation time, to improve the living standards of the poor and marginalised.

Intellectual Capital

Overview

Intellectual capital refers to the valuable and intangible knowledge-based resources used by an organisation to create value through productive activities. This capital is critical to an organisation's progress and prosperity and is the most important source of its competitive strength.

Intellectual capital is defined as being the knowledge resources of an organisation. It is a combination of human capital- the brains, skills, insights, and potential - or the employees in an organisation- as well as its structural capital- its processes, databases, brands, systems and controls.

Key Performance Indicators - 2017/18

3 Awards

Corporate Awards for Compliances, Sustainability and Reporting

Management Approach

As a savvy leader in a fast- evolving business landscape, we leverage on the strengths of our intellectual capital to give us the edge in a competitive marketplace and equip us to meet stakeholder expectations. We understand that it is the value of our corporate reputation, the diverse skills of our people and the effectiveness of our processes and procedures that have enabled us to continue to lead the mini hydropower sector during a decade-and-a-half of demanding operations in a climate of incalcitrant weather and uncertain regulations.

An Intelligent Approach to Business

We have attained the invaluable knowledge and expertise that is vital to operating a sustainable mini hydropower business, but have now gone beyond business requirements to view the business holistically. This has enabled us to attain the insights to grow and develop an intelligent business. We learned to formulate smart strategies to counter unusual risks and transformed disruptive threats into innovative opportunities, all the while ensuring the operational excellence that keeps us at the apex of our industry.

The fact that our business of hydropower generation is based in catchment areas, has placed us in the heart of vulnerable indigenous communities and sensitive eco systems. This has given us deep insights into the needs and susceptibilities of these groups and inspired a culture of caring throughout the Company that enables us conduct our operations in a manner that causes least harm to the ecosystems and gives new hope for the future to these communities. These are achievements that, we believe, are unquantifiable and have added substantial deposits to our bank of intellectual capital.

These outstanding successes as well as our business prowess have been possible only because of our skilled, intelligent and perceptive VPEL employees in the Vallibel family. Therefore, we make every effort to safeguard them, develop them both personally and professionally, and mould them into happy, well balanced individuals who make a positive contribution to society. We develop their technical as well as professional competencies through trainings by certified bodies.

The business of hydropower generation requires a team of technically skilled and experienced staff with the competencies to operate and manage high-powered state-of-the-art hydro equipment, which also has the potential of hazard if mishandled. It is noteworthy to mention that all three power plants have been operated at optimal capacity since inception, depending on the quantum of river flow, and to date, no project failures have been experienced and machinery break down have been minimal, This confirms that our technical team has the required skills and experience to operate this complex machinery. Our professional and experienced team at the head office are also well equipped with the necessary skills, qualifications and experience to take the business forward in a challenging environment.

The Building Blocks of Our Business

The systems, processes and procedures we have on board are the building blocks of the business, designed and documented in line with our business strategy. They are continually updated and upgraded to ensure they reflect current activities and are relevant. The systems, processes and procedures used include an Environmental Management System, which is an essential guideline for our operations in sensitive environments, sundry process manuals that serve as guidelines for enhanced operations. as well as controls for financial and accounting systems. They provide the confirmation that the Company does business within the framework of established legal and statutory requirements and are reviewed systematically by independent professional third parties to ensure they conform to the regulations of the industry and are in line with business aims.

Reputation Built on Trust

Our corporate reputation stems from, and is augmented by, the high reputation of the Vallibel brand. It is at the same time, However, separate and distinctive from our august parent, because we have established our reputation and identity as a premier player in the power sector. This reputation has been built on the trust and confidence our stakeholders have in us because of our ethical practices, technical competencies and established market presence as the leader in the sector. We can confidently say now that we walk the talk of our mission of maximising electrical output from water resources with minimal damage to the environment, while optimising the operational efficiencies of our assets.

Certification

Our subsidiary, Country Energy (Pvt) Ltd is registered with Clean Development Mechanism (CDM) under the United Nations Framework Convention on Climate Change. The company has a substantial bank of CERs which it is waiting to sell to companies that wish to reduce their carbon footprint, once an equitable market price is reached.

Awards and Accolades

We have earned numerous accolades since inception, both for good performance and for our contribution to environment sustainability. This year was no exception.

VPEL won the Silver award in the Power and Energy category for high standards of reporting and disclosure of Annual Report 2016/17 at the Annual Report Awards 2017 conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

By being a good sustainability reporter in the country, VPEL was recognised as "Winner" of ACCA Sustainability Reporting Award 2017 under the category of SME Sector.

The Kiriwaneliya power plant won the Silver Award at the National Green Awards 2017 conferred by the Central Environment Authority, for its unique contribution to environment conservation and protection. Kiriwaneliya has been recognised with the National Green Award several times earlier as well, as was Erathna.

GRI - 102-13

Membership in associations

VPEL is a member of the following associations which establish the Company's professionalism in the industry and its adherence to industry regulations:

- Small Hydropower Developers Association
- The Ceylon Chamber of Commerce
- The Employers' Federation of Ceylon (EFC)

Manufactured Capital

Overview

As Businesses face mounting and unplanned risks in the volatile business environment of today, their survival depends on how prudently they manage their funds.

Prudent financial management determines how a company allocates its funds to achieve profitability and growth, determined by its financial objectives and long-term and short-term goals. Financial management of a company is aimed at achieving sustainable growth while generating significant competitive advantages. Effectively managing and prioritizing its financial resources is also essential if a company is to achieve its vision and mission.

Key Performance Indicators - 2017/18

1.8Mn
Spent on CAPEX

Rs. 20Mn
Spent on Plant Maintenance

Zero
Incidents of Major Brake Bowns

Management Approach

The manufacturing capital of the Company broadly covers the machinery and equipment in our power plants, the constructions that house them and the land on which they are built.

Manufacturing capital is key to our process of value creation because it comprises the major portion of the Company's investments. More than 70% of our project cost is embedded in the technically advanced electro-mechanical equipment and related civil constructions in our three mini hydropower projects.

Power Plant Installations

All the electromechanical equipment at our three hydropower plants is designed and provided by suppliers with international expertise in the manufacture of hydro power equipment. They range from European (Voith Siemens of Germany) manufacturers of Erathna MHPP, Asian (Dongfeng Electric of China) manufacturers of Denawaka Ganga MHPP, to local manufacturers of Kiriwaneliya (VS Hydro of Sri Lanka). All these suppliers are specialists in the manufacture of electromechanical equipment and the installations are manufactured to stringent standards of quality and reliability.

Power Plant Infrastructure

The infrastructure that support the power plants, which include channels, weirs, forebay tanks, penstocks turbines and all other relevant components, were built at the initial stage of construction to facilitate uninterrupted water flow to and from the power plants. No major additions have since been made because the infrastructure was found to be capable of sustaining the inflows and outflows.

Environmental guidelines were followed to minimise environmental impacts both during construction as well as when in the operation of the power plants and infrastructure, on which more information is available in the Natural Capital report.

Manufactured Capital

Details of the assets of the three power plants are given below.

	Erathna MHPP	Denawaka Ganga MHPP	Kiriwaneliya MHPP
Installed Capacity	10 MW	7.2 MW	4.65 MW
Year of Commissioning	2004	2012	2011
Net Head	420 Meters	33 Meters	200 Meters
Penstock Length	2,250 Meters	97 Meters	1,690 Meters
Channel Length	300 Meters	1,800 Meters	300 Meters
EM Plant Supplier	Voith Seimens	Dongfeng Electric	VS Hydro
Country of Origin	German	China	Sri Lanka
Key Costs of Manufactured Capital As of 31/03/2018			
• EM Equipments	Rs. 577.7 Mn	Rs. 234.4 Mn	Rs. 271. 7 Mn
• Civil Constructions	Rs. 530.9 Mn	Rs. 685.2 Mn	Rs. 507.8 Mn

Manufactured building holdings of the Group;

Unit	Location	Building Holdings Owned Buildings*		Leased Premises	
		Quantity	Total Sq. ft.	Quantity	Total Sq. ft.
Erathna MHPP	Erathna, Kuruwita - Rathnapura District	6	16,705	Nil	Nil
Denawaka Ganga MHPP	Durekkande, Malwala - Rathnapura District	3	13,450	Nil	Nil
Kiriwaneliya MHPP	Vidulipura, Norton Bridge - Nuwara Eliya District	3	4,610	Nil	Nil
Head Office	World Trade Center, Colombo 01	Nil	Nil	1	4,567
Total		12	34,765	1	4,567

**Note - Buildings other than to the civil concrete structures attached to the power plant.*

Maintenance

Efficient operation of all equipment and infrastructure is essential for business continuity. The Company has a planned preventive maintenance schedule that ensures the power plants as well as all infrastructure are maintained systematically, not only to assure optimal performance but also to determine that the systems and structures pose no danger to humans, fauna or flora as a result of a malfunction or breakdown. The maintenance schedule follows all relevant safety guidelines, the manufacturers' manuals and guidelines as well as environment regulations.

These maintenance schedules are rigorously implemented. For instance, the penstock line of each power plant is inspected weekly to eliminate any prospect of danger. In the case of the power plants, systematic checks are made to ensure that all plants and infrastructure are working at full capacity to generate optimum levels of electricity to the national grid. Maintenance is scheduled in such a way as to minimise losses in operating hours as a result of idling assets. Consequently, maintenance is carried out on the power plants and their infrastructure during the dry season when water flow is reduced. Un-scheduled maintenance is also done, as far as is possible, in a manner that minimises losses. The Company ensures that it has in stock sufficient spare parts for maintenance and repairs throughout the year.

All operational staff has been professionally trained to operate and maintain the electro-mechanical equipment.

Regular maintenance work of Transformers

Regular Inspection of Penstock line

Spending on Manufactured Capital

We have a planned and pragmatic approach when purchasing machinery, equipment and other supplies. High value purchases were completed during the construction stages, so our purchases mainly involve spare parts and other equipment and office supplies necessary for the day to day running of the business.

We follow a proper procurement procedure to ensure that best practices are observed when selecting our contractors and other suppliers, and that all such parties with whom the Company deals, adhere to ethical business practices.

(More information on our dealings with suppliers is provided in the Social and Relationship Capital section of this Report.)

Detailed costs incurred by the Group on manufactured capital during the year are set out below;

	2017/18 (Rs.'000)	2016/17 (Rs.'000)
CAPEX		
• Plant & Machinery	Nil	Nil
• Civil Constructions	238	Nil
• Equipments	159	2,458
• Furniture & Fixtures	123	1,811
• Infrastructures	199	482
• Motor Vehicles	1,056	420
• Computers	Nil	106
• Other	42	78
	1,817	5,355
Machinery spares and maintenance cost of plants	20,335	10,620
Total	22,152	15,975

Safety Measures

The Company has introduced stringent procedures that secure the areas of the power plants and ensure no unauthorised access. The premises, including the control rooms of the power plants, are well fortified with warning signs that deter trespassers. Regulations also make it mandatory for all authorised personnel to wear the prescribed PPE when entering specific areas.

Insurance Protection

All equipment in the plants are protected with comprehensive insurance covers taken at their market value against all envisaged perils. These include the risks of fire, machinery breakdown, hazards to electronic equipment as well as natural disasters.

Inspiring eco consciousness

Contributing to a greener future for the nation's children is a priority to VPEL. They remain one of the school's biggest donors and supporters and have renovated the entrance to the school playground, sponsored many school events and continue to encourage students to plant trees every year.

Name : Ms. Y H P S Kavisigama
Occupation : Principle at Erathna Maha Vidyalaya
Age : 50 Years
Year of service : 5 years

Annual Financial Statements

Financial Calendar

Financial Reports	Year 2017/18	Year 2016/17
Interim Financial Statements - 1st Quarter	July 28, 2017	July 27, 2016
Interim Financial Statements - 2nd Quarter	October 27, 2017	November 09, 2016
Interim Financial Statements - 3rd Quarter	January 26, 2018	February 07, 2017
Interim Financial Statements - 4th Quarter	May 24, 2018	May 26, 2017
Annual Report	May 24, 2018	May 26, 2017

Dividend Payments	Year 2017/18		Year 2016/17	
	Rs. Per Share	Date	Rs. Per Share	Date
1st Interim Dividend Payment	Cents 40	November 21, 2017	Cents 50	September 23, 2016
Final Dividend Payment	Cents 30	February 22, 2018	Cents 30	March 02, 2017

	Year 2017/18	Year 2016/17
Annual General Meeting	June 28, 2018	June 29, 2017

Annual Report of the Board of Directors on the Affairs of the Company

The Directors of Vallibel Power Erathna PLC have pleasure in presenting to the shareholders their Report together with the Audited Financial Statements of the Company and the Group for the year ended 31st March 2017.

Legal Status

The Company was incorporated on 7th November 2001 under the name of "Zyrex Power Company Erathna Limited" and later changed its name to "Power Company Erathna Limited" on 14th October 2004. Thereafter, on 2nd June 2005 the name of the Company was changed to "Vallibel Power Erathna Limited". The shares of the Company were listed on the Colombo Stock Exchange on 17th May 2006.

Principal Activity

The principal activity of the Company is generation of electricity using hydro resources and transmitting such electricity to the national grid of the Ceylon Electricity Board.

Business Review

A review of the operations of the Group business during the financial year and results of those operations are contained in the Chairman's Massage on pages 16 to 21 of the Annual Report. This report forms an integral part of the Annual Report of the Directors.

Summarised Financial Position

The summarized financial position of the Company is as follows:

As at 31st March	2018 Rs. '000	2017 Rs. '000
Accumulated profit brought forward	525,445	597,097
Net profit for the year	476,796	525,340
Other comprehensive Income/(loss) recognized in the accumulated profit	(23,212)	696
Dividends	(522,977)	(597,688)
Accumulated profit carried forward	456,051	525,445

The Financial Statements of the Company and the Group are given in pages133 to 185 of the Annual Report.

Financial Statements

The Financial Statements of the Company and the consolidated Financial Statements of the Company and its subsidiary, duly signed by two Directors on behalf of the Board and the Auditors are included in this Annual Report and form part and parcel hereof.

Independent Auditors' Report

The Report of the Auditors on the group Financial Statements of the Company is attached with the Financial Statements.

Stated Capital

The Stated Capital as at 31st March 2018 was Rs.1,174,365,278/- (2016/17-Rs. 1,174,365,278/-).

Accounting Policies

The accounting policies adopted by the Company in the preparation of Financial Statements are given on pages 143 to 160 and are consistent with those of the previous period.

Reserves

The reserves of the Company stand at Rs. 456,050,947/- comprising revenue reserves of Rs. 456,050,947/- (2016/17 – Rs. 525,444,554/-).

Taxation

Pursuant to the Supplementary Agreement dated 8th October 2008 entered into with the Board of Investment of Sri Lanka under section 17 of the Board of Investment Law, the Company enjoyed a tax holiday of 10 years which ended on 14/07/2014. For the year under review, the Company was liable for income tax arising from the business of the generation of hydropower at 12%. Other income is taxable at 28%.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments in relation to the government and the employees have been made up to date.

Dividends

The Company made two interim dividend payments for the financial year 2017/2018 of Forty Cents (Rs.0.40 cents) and Thirty Cents (Re.0.30 cents) per share which were paid on 21st November 2017 and on 22nd February 2018 respectively.

Capital Expenditure

The total capital expenditure incurred on the acquisition of fixed assets during the year amounted to Rs. 189,630/- (2016/17 – Rs. 2,607,396/-) details of which are given in Note 3 on page 161 of the Annual Report.

Property, Plant & Equipment

The movement in property, plant and equipment of the Company are given in Note 3 to the Financial statements on page 161 of the Annual Report.

Shareholdings

As at 31st March 2018 there were 4,273 registered shareholders. The distribution of shareholders is indicated on pages 189 and 190 of the Annual Report.

Share Information

Information on share trading is given on page 191 of the Annual Report.

Directorate

The names of the Directors who held office as at the end of the financial year are given below and their brief profiles appear on pages 22 to 23.

Mr. K D D Perera (Chairman)
Mr. S H Amarasekera (Deputy Chairman)
Mr. P K Sumanasekera
Mr. H Somashantha
Mr. S Shanmuganathan
Mr. C V Cabraal

Mr. S Shanmuganathan retires by rotation in terms of Article 25(10) of the Articles of Association of the Company and being eligible are recommended by the Directors for re-election.

The period of service of Messers H S Amarasekera and P K Sumanasekera exceeds nine years. The Board is of the view that the period of service and the Directorships of Messers S H Amarasekera and P K Sumanasekera do not compromise their independence and objectively in discharging their functions as Directors and therefore based on declarations submitted by the said Directors, has determined that those Directors shall nevertheless be “Independent” as per the Listing Rules.

Directors of the subsidiary company as at the end of the accounting period:

Country Energy (Private) Limited

Mr. G A R D Prasanna
Mr. K D A Perera
Mr. K D H Perera
Mr. P K Sumanasekera
Mr. J P Lenihan

Interest Register

The Interest Register is maintained by the Company as per the Companies Act No. 7 of 2007. All Directors have disclosed their interests pursuant to Section 192(2) of the said Act.

Annual Report of the Board of Directors on the Affairs of the Company

Directors' Holding

The Directors' Interest in shares of the Company as at the Balance Sheet date are as follows.

As at 31st March	2018	2017
Mr. K D D Perera	144,812,225	144,812,225
Mr. P K Sumanasekera	150,000	150,000
Mr. S H Amarasekera	30	30
Mr. H Somashantha	15,000	15,000
Mr. S Shanmuganathan	Nil	Nil
Mr. C V Cabraal	Nil	Nil

Directors Remuneration

The Directors Remuneration is disclosed under key management personnel compensation in Note 24.2 to the Financial Statement on Page 183 of the Annual Report.

Land and Building Holdings

The Company and Subsidiary hold freehold lands, leasehold lands and state lands within the districts of Rathnapura and Nuwara Eliya. The details of the land holdings and building holdings are stated in the page 94 of this Annual Report.

Investments

Details of the Company's quoted and unquoted investments as at 31st March 2018 are given in Note 4.1 to the Financial Statements on page 165 of the Annual Report.

Donations

The Company made donations amounting to Rs. 1,156,330/- (2016/17 – Rs. 1,554,613/-) in total, during the year under review.

Risk Management

An ongoing process is in place to identify and manage the risks that are associated with the business and operations of the Company. The Directors review this process through the Audit Committee and the Integrated Risk Management Committee.

Specific steps taken by the Company in managing the risks are detailed in the section on Risk Management on pages 46 to 52 of the Annual Report.

Corporate Governance

The report on Corporate Governance is given on pages 30 to 45 of the Annual Report.

Internal Controls

The Directors acknowledge their responsibility for the Company's system of internal controls. The system is designed to give assurance, inter alia, regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can only ensure reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board, having reviewed the system of internal controls, is satisfied with its effectiveness of these controls for the period up to the date of signing the Financial Statements.

Going Concern

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. For this reason we continue to adopt the going-concern basis in preparing the Financial Statements.

Events Occurring after the date of Statement of Financial Position

No circumstances have arisen and no material events have occurred since the date of financial positions, which would require adjustments to, or disclosure in the accounts other than those disclosed in the Financial Statements and this Report.

Auditors

The Financial Statements for the year ended 31st March 2018 have been audited by Messrs Ernst & Young, Chartered Accountants who offer themselves for re-appointment.

In accordance with the Companies Act No. 07 of 2007, a resolution relating to their re-appointment and authorizing the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting. The audit fee and expenses of Messrs Ernst & Young for the current year was Rs. 721,000/-, (2016/2017 – Rs. 693,500/-). In addition they were paid Rs. 165,000/- (2016/17 – Rs. 127,500/-) by the Company for solvency provisions and other opinions. As far as the Directors were aware, the Auditors do not have any relationship other than that of the Auditor with the Company.

Annual General Meeting

The 17th Annual General Meeting of the Company will be held at the Kingsbury Hotel, Colombo 1 on Thursday, 29th day of June 2018 at 9.00 a.m. The Notice of the Annual General Meeting is on page 203 of this Report.

For and on behalf of the Board

S H Amarasekara
Director

S H Somshantha
Director

P W Corporate Secretarial (Pvt) Ltd
Secretaries

Colombo
May 24, 2018

Statement of Directors' Responsibility

The responsibility of the Directors, in relation to the Financial Statements of the Company differ from the responsibilities of the Auditors, which are set out in the Report of the Auditors on page 135.

The Companies Act No. 07 of 2007 stipulates that the Directors are responsible for preparing the Annual Report and the Financial Statements. Company law requires the Directors to prepare Financial Statements for each financial year, giving a true and fair view of the state of affairs of the Company at the end of the financial year, and of the profit or loss of the Company for the financial year, which comply with the requirements of the Companies Act.

The Directors consider that, in preparing Financial Statements set out on pages 137 to 185 of the Annual Report, appropriate accounting policies have been selected and applied in a consistent manner and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed. The Directors confirm that they have justified in adopting the going concern basis in preparing the Financial Statements since adequate resources are available to continue operations in the foreseeable future.

The Directors are responsible for keeping proper accounting records, which disclose reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure the Financial Statements comply with the Companies Act No. 7 of 2007.

They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal control.

The Directors are required to prepare Financial Statements and to provide the external auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their independent audit opinion.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and other known statutory dues as were due and payable by the Company as at the Balance Sheet date have been paid or, where relevant provided for, in arriving at the financial results for the year under review.

For and on behalf of the Board
VALLIBEL POWER ERATHNA PLC

P W CORPORATE SECRETARIAL (PVT) LTD
Secretaries

Colombo
May 24 2018

Independent Auditors' Report

EY
Building a better working world

Ernst & Young
Chartered Accountants
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Colombo 10
Sri Lanka

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eysl@lk.ey.com
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BW/CSW/SJJC
To the Shareholders of Vallibel Power Erathna PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Vallibel Power Erathna PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at March 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our 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 March 31, 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditors' Report

<table>
<tr><th>Key Audit Matter</th><th>How our Audit Addressed the Key Audit Matter</th></tr>
<tr><td colspan="2">Carrying value of Plant & Machinery and Civil Constructions – Erathna Plant</td></tr>
<tr><td>Property plant & Equipment includes Rs. 685Mn worth of Plant & Machinery and Civil Constructions relating to Erathna power Plant as described in Note 03. Brought about by the probable downward revisions of the rate per energy unit upon future renewal of Power Purchase Agreement with the Ceylon Electricity Board, the Management performed an impairment test with respect to above specified assets.

Management assessed the recoverability of such assets using significant judgements and estimates, as disclosed in Accounting Policy Note 2.29.2 to the financial statements, of which a probable change could lead to significant differences in the estimated recoverable amount of the related assets.

This assessment was important to our audit due to the magnitude of the carrying value of the related assets as well as the subjective assumptions and judgment involved.</td><td>Our audit procedures focused on the assessment of the recoverable amount of specified assets, included the following, among others:

• We engaged our internal specialised resources to assist us in evaluating the appropriateness of the key assumptions and cash flow projections made on power project by the Company's management.
• Read and understood the demand for hydro electric energy through CEB publicly available resources to corroborate the management's assessment/ assumptions.
• Evaluated the adequacy of the related disclosures given in Accounting Policy Note 2.29.2 in the financial statements</td></tr>
</table>

Other information included in the 2017/18 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 determines 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs 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 SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 controls of the Company and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditors' Report

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is M-2440.

Ernst & Young

Ernst & Young
No 201
De Saram Place
Colombo 10

24 May 2018

Statement of Profit or Loss

For the year ended 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Revenue	14	601,358,614	507,868,739	1,117,601,888	863,722,046
Cost of Sales		(64,651,757)	(52,928,318)	(162,349,933)	(149,702,512)
Gross Profit		536,706,857	454,940,421	955,251,954	714,019,534
Other Income	15	49,050,264	154,119,600	89,865	536,385
Administration Expenses		(48,552,992)	(48,507,869)	(100,852,165)	(102,927,802)
Other Operating Expenses		(1,592,267)	(1,944,386)	(2,640,037)	(3,401,636)
Finance Income		19,694,750	22,000,133	32,881,179	43,429,794
Finance Cost	16	(188,976)	(146,221)	(35,644,835)	(59,393,648)
Profit Before Taxation	17	555,117,636	580,461,678	849,085,961	592,262,627
Income Tax Expense	18.1	(78,321,766)	(55,122,266)	(85,702,924)	(76,462,854)
Net Profit for the Year		**476,795,870**	**525,339,412**	**763,383,037**	**515,799,773**
Attributable To:					
Equity Holders of the Parent		476,795,870	525,339,412	718,588,393	493,966,513
Non-Controlling Interest		-	-	44,794,644	21,833,260
		476,795,870	525,339,412	763,383,037	515,799,773
Basic Earnings Per Share	19	0.64	0.70	0.96	0.66
Dividend Per Share		0.70	0.80	0.70	0.80

The Accounting Policies and Notes on Pages 143 through 185 form an integral part of the Financial Statements.

Statement of Comprehensive Income

For the year ended 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Net Profit for the year		476,795,870	525,339,412	763,383,037	515,799,773
Other Comprehensive Income / (Loss)					
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):					
Actuarial Gain/(loss) on Defined Benefit Plans	11	(3,325,348)	791,117	(4,749,895)	1,951,093
Deferred tax impact on Actuarial Gain/(loss)	18.2	465,549	(94,934)	679,231	(268,930)
Deferred tax impact on revaluation surplus of land		(20,352,866)	-	(20,352,866)	-
		(23,212,665)	696,183	(24,423,530)	1,682,163
Other comprehensive income / (loss) for the year, net of tax		(23,212,665)	696,183	(24,423,530)	1,682,163
Total comprehensive income for the year, net of tax		**453,583,205**	**526,035,595**	**738,959,507**	**517,481,936**

Figures in brackets indicate deductions.

Attributable To:				
Equity Holders of the Parent	453,583,205	526,035,595	694,319,853	495,522,472
Non-Controlling Interest	-	-	44,639,654	21,959,464
	453,583,205	526,035,595	738,959,507	517,481,936

The Accounting Policies and Notes on Pages 143 through 185 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
ASSETS					
Non-Current Assets					
Property, Plant & Equipment	3	839,276,408	871,304,392	2,293,948,755	2,370,671,974
Investments	4.1	821,619,980	821,619,980	-	-
Intangible Assets	5	1,600,000	3,200,000	93,035,425	104,992,089
Deposit on Leasehold Land	6	-	-	4,500,000	4,500,000
Deferred Tax Asset	12	-	-	12,305,159	10,332,335
		1,662,496,388	1,696,124,372	2,403,789,339	2,490,496,397
Current Assets					
Trade & Other Receivables	7	54,179,369	39,264,659	100,647,500	72,274,406
Amount Due from Related Parties	8	2,832,330	2,854,049	1,156,218	1,067,593
Short Term Investment	4.2	66,398,930	72,958,162	266,601,729	161,575,339
Cash and Bank Balances		22,840,142	13,006,567	33,442,347	19,884,034
		146,250,771	128,083,437	401,847,794	254,801,372
Total Assets		1,808,747,159	1,824,207,809	2,805,637,133	2,745,297,770
EQUITY AND LIABILITIES					
Equity attributable to Equity Holders of the Parent					
Stated Capital	9	1,174,365,278	1,174,365,278	1,174,365,278	1,174,365,278
Accumulated Profit		456,050,947	525,444,554	1,070,765,201	899,422,159
		1,630,416,225	1,699,809,832	2,245,130,479	2,073,787,436
Non-Controlling Interest		-	-	199,340,454	162,694,800
Total Equity		1,630,416,225	1,699,809,832	2,444,470,933	2,236,482,236
Non Current Liabilities					
Interest Bearing Loans and Borrowings	10	-	-	-	157,403,056
Retirement Benefit Obligations	11	18,120,442	13,929,171	25,946,318	18,785,895
Deferred Tax Liability	12	113,328,544	81,377,602	113,328,544	81,377,602
		131,448,986	95,306,773	139,274,862	257,566,554
Current Liabilities					
Trade and Other Payables	13	23,871,620	26,470,707	42,038,024	38,730,972
Interest Bearing Loans and Borrowings	10	-	-	157,403,048	208,320,382
Tax Payables		23,010,328	2,620,496	22,450,266	4,197,626
		46,881,948	29,091,203	221,891,338	251,248,980
Total Equity and Liabilities		1,808,747,159	1,824,207,809	2,805,637,133	2,745,297,770

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Sajithra Thanoj
Accountant

Russell De Zilva
Jt. CEO

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by.

Dhammika Perera
Chairman

Harsha Amarasekara
Deputy Chairman

The Accounting Policies and Notes on Pages 143 through 185 form an integral part of the Financial Statements.

24 May 2018
Colombo

Statement of Changes In Equity

For the year ended 31 March Company	Stated Capital Rs.	Accumulated Profit Rs.	Total Rs.
Balance as at 1 April 2016	1,174,365,278	597,096,745	1,771,462,023
Net Profit for the Year	-	525,339,412	525,339,412
Other Comprehensive Income/(Loss)	-	696,183	696,183
Dividends	-	(597,687,785)	(597,687,785)
Balance as at 31 March 2017	1,174,365,278	525,444,554	1,699,809,832
Net Profit for the Year	-	476,795,870	476,795,870
Other Comprehensive Income/(Loss)	-	(23,212,665)	(23,212,665)
Dividends	-	(522,976,812)	(522,976,812)
Balance as at 31 March 2018	1,174,365,278	456,050,947	1,630,416,225

Group	Stated Capital Rs.	Accumulated Profit Rs.	Non-controlling Interest Rs.	Total Rs.
Balance as at 1 April 2016	1,174,365,278	1,001,587,474	165,859,338	2,341,812,090
Net Profit for the Year	-	493,966,513	21,833,260	515,799,773
Other Comprehensive Income/(Loss)	-	1,555,957	126,206	1,682,163
Dividends	-	(597,687,785)	(25,124,004)	(622,811,789)
Balance as at 31 March 2017	1,174,365,278	899,422,159	162,694,800	2,236,482,237
Net Profit for the Year	-	718,588,393	44,794,644	763,383,037
Other Comprehensive Income/(Loss)	-	(24,268,539)	(154,991)	(24,423,530)
Dividends	-	(522,976,812)	(7,994,000)	(530,970,812)
Balance as at 31 March 2018	1,174,365,278	1,070,765,201	199,340,454	2,444,470,933

The Accounting Policies and Notes on Pages 143 through 185 form an integral part of the Financial Statements.

Statement of Cash Flows

For the year ended 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Cash Flows From / (Used in) Operating Activities					
Net Profit before Tax Expense		555,117,636	580,461,678	849,085,961	592,262,627
Adjustments for					
Amortization of Intangible Assets	5	1,600,000	1,600,000	11,956,664	11,956,664
Depreciation	3	32,210,949	32,571,983	78,512,633	79,747,755
Provision for Retirement Benefits Obligation	11	3,218,037	2,753,820	4,828,810	4,788,329
Dividend Income	15	(49,032,899)	(154,103,396)	-	-
(Profit) / Loss on Disposal of Property, Plant & Equipment		6,664	(16,204)	(44,471)	33,635
Finance Income		(19,694,750)	(22,000,133)	(32,881,179)	(43,429,794)
Finance Costs	16	188,976	146,221	35,644,835	59,393,648
Operating Profit/(Loss) before Working Capital Changes		523,614,613	441,413,968	947,103,254	704,752,864
(Increase)/ Decrease in Trade and Other Receivables		(15,741,099)	(6,146,364)	(28,189,248)	(9,251,523)
(Increase)/Decrease in Amounts Due from Related Parties		21,719	(53,264)	(88,624)	(81,422)
Increase /(Decrease) in Trade and Other Payables		(1,348,930)	(25,043,894)	4,893,329	(26,947,064)
Increase/(Decrease) in Amounts Due to Related Parties		-	-	-	-
Cash Generated from /(used in) Operating Activities		506,546,302	410,170,446	923,718,711	668,472,855
Finance Costs Paid		(188,976)	(146,221)	(35,980,944)	(59,481,100)
Finance Income Received		20,521,139	22,054,834	32,715,954	44,793,423
Retirement Benefits Obligations Paid	11	(2,352,114)	-	(2,436,915)	(458,550)
Taxes Paid		(45,868,309)	(76,193,597)	(57,145,798)	(99,221,165)
Net Cash from/(used in) Operating Activities		478,658,043	355,885,462	860,871,008	554,105,462
Cash Flows from / (Used in) Investing Activities					
Acquisition of Property, Plant & Equipment		(189,630)	(2,607,396)	(1,817,443)	(5,355,355)
Proceeds from Disposal of Property, Plant & Equipment		-	541,559	72,500	541,559
Net Investment in Fixed Deposits		23,771,746	70,299,765	(46,089,743)	211,653,998
Dividend Received		49,032,899	154,103,396	-	-
Net Cash Flows from/(Used in) Investing Activities		72,615,015	222,337,324	(47,834,686)	206,840,202

Statement of Cash Flows

For the year ended 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Cash Flows from /(Used in) Financing Activities					
Repayments of Interest Bearing Loans & Borrowings		-	-	(207,786,740)	(206,346,743)
Dividend Paid		(524,226,969)	(598,384,220)	(532,220,971)	(623,508,224)
Lease Rental Paid		-	-	-	-
Net Cash Flows from/(Used in) Financing Activities		(524,226,969)	(598,384,220)	(740,007,711)	(829,854,967)
Net Increase/(Decrease) in Cash and Cash Equivalents		27,046,089	(20,161,434)	73,028,611	(68,909,303)
Cash and Cash Equivalents at the Beginning of the Period (Note A)		19,006,567	39,168,001	66,238,065	135,147,368
Cash and Cash Equivalents at the end of the Period (Note B)		**46,052,656**	**19,006,567**	**139,266,676**	**66,238,065**
Note A					
Cash and Cash Equivalents at the beginning of the period					
Cash in Hand & at Bank		13,006,567	8,068,001	19,350,384	28,394,388
Savings Accounts & REPO		6,000,000	31,100,000	46,887,681	106,752,980
		19,006,567	**39,168,001**	**66,238,065**	**135,147,368**
Note B					
Cash and Cash Equivalents at the end of the period					
Cash in Hand & at Bank		22,840,142	13,006,567	33,442,347	19,350,384
Savings Accounts & REPO		23,212,514	6,000,000	105,824,329	46,887,681
		46,052,656	**19,006,567**	**139,266,676**	**66,238,065**

The Accounting Policies and Notes on Pages 143 through 185 form an integral part of the Financial Statements.

Notes to the Financial Statements

GRI - 102-45

1. REPORTING ENTITY

Vallibel Power Erathna PLC is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No 27 – 02, East Tower, World Trade Centre, Echelon Square, Colombo 01 and the Company's power generating plant is situated at Erathna, Rathnapura.

The Consolidated financial statements of the company for the year ended 31 March 2018 comprise the Company and its Subsidiary namely Country Energy (Pvt) Ltd (together referred as the "Group").

The Company has 87.2% holding of Country Energy (Pvt) Ltd which is engaged in hydro power generation too. It comprises two power generating plants situated at Malwala in Rathnapura District & Norton Bridge in Nuwara Eliya District.

All the companies in the group have a common financial year, which ends on 31 March.

1.1 Principal Activities and Nature of Operations

During the year, the principal activities of the company were generation and sale of hydro electric energy to the Ceylon Electricity Board.

1.2 Parent Enterprise and Ultimate Parent Enterprise

In the opinion of the Directors, the Company's parent undertaking and ultimate parent undertaking and controlling party is Vallibel Power Limited, which is incorporated in Sri Lanka.

1.3 Date of Authorisation for Issue

The financial statements of Vallibel Power Erathna PLC for the year ended 31 March 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 24 May 2018.

2. BASIS OF PREPERATION

2.1 Statement of Compliance

The Financial Statements of the Company and the Group which comprise the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and Cash Flow Statement together with Accounting Policies and Notes to the Financial Statements (the "Consolidated Financial Statements") have been prepared in accordance with Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, which requires compliance with Sri Lanka Accounting Standards promulgated by The Institute of Chartered Accountants of Sri Lanka (CASL), and with the requirements of the Companies Act No. 07 of 2007.

2.2 Basis of Measurement

These Consolidated Financial Statements have been prepared in accordance with the historical cost convention.

No adjustments have been made for inflationary factors in the Consolidated Financial Statements.

2.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (Rs.), which is the Group's functional and presentation currency. All financial information presented in Sri Lankan Rupees has been given to the nearest rupee, unless stated otherwise.

2.4 Materiality and Aggregation

Each material class of similar items is presented separately in the Consolidated Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.5 Summary of Significant Accounting Policies

The accounting policies set out below are consistent with those used in the previous year. Accounting policies of subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5.1 Comparative information

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year unless otherwise stated.

2.5.2 Going Concern

The Consolidated financial statements have been prepared on the assumption that the company is a going concern. The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of trading, to justify adopting the going concern basis in preparing these financial statements.

2.5.3 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 March 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.5.4 Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any Non-Controlling Interest in the acquiree. For each business combination, the Group elects whether it measures the Non-Controlling Interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of LKAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of LKAS 39, it is measured in accordance with the appropriate SLFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.6 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non -current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.7 Fair Value Measurement

The Group measures financial instruments at fair value at each statement of financial position date. Fair value related disclosures for financial instruments that are measured at fair value are disclosed, in respective notes:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets and significant liabilities. Involvement of external valuers is decided upon annually by the Management Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Management Committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.8 Foreign Currencies

The Group's consolidated financial statements are presented in Sri Lankan Rupees, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2.9 Cash dividend and non-cash distribution to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

2.10 Taxes

Company

Pursuant to the supplementary agreement dated 08th October 2002 entered into with Board of Investment under section 17 of the Board of Investment Law, the Company is exempt from income tax arising from the business of the generation of hydropower, for a period of 10 years commencing from 15th July 2004. After the expiration of the aforesaid period the provisions of the Inland Revenue Laws for the time being in force shall apply to the company. However, other income is taxed at the applicable tax rate.

Subsidiary

Pursuant to the agreement entered into with the Board of Investment of Sri Lanka, the Company is exempt from income tax for a period of 06 years reckoned from the year of assessment as may be determined by the Board. For the above purpose the year of assessment shall be reckoned from the year in which the enterprise commences to make profit in relation to its transactions in that year or any year of assessment not later than 02 years from the date of commencement of commercial operations of the enterprise, whichever year is earlier, as may be specified in a certificate issued by the Board. After the expiration of the aforesaid tax exemption period referred to in above, the profits and income of the enterprise shall for any year of assessment be charged at the rate of 15%.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Tax on Dividend

Tax on dividend income if any from the subsidiaries are recognized as an expense in the Consolidated Profit or Loss Statement.

2.11 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

2.12 Research and Development

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

2.13 Financial Instruments

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

2.13.1 Financial Assets

i) Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, short term investments, trade and other receivables.

ii) Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as described below:

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in finance income or finance costs in the Profit or Loss Statement.

The Group has not designated any financial assets as at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the Profit or Loss Statement. The losses arising from impairment are recognised in the Profit or Loss Statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

Loans and receivables comprise of trade receivables, amounts due from related parties, deposits, advances and other receivables.

(c) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Profit or Loss Statement. The losses arising from impairment are recognised in the Profit or Loss Statement in finance costs.

(d) Available for sale financial investments

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

iv) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired and if such has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

v) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

vi) Available for sale financial Assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

2.13.2 Financial liabilities

i) Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

ii) Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by LKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in LKAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

(b) Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognised in the Profit or Loss Statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortization process.

Other financial liabilities comprise interest bearing loans and borrowings, trade payables, other payables, income tax payables and amounts due to related parties.

iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Profit or Loss Statement.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.14 Financial Risk Management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arise directly from its operations. Accordingly the Group has exposure to namely Credit Risk, Liquidity Risk, Currency Risk and Interest Rate Risk from its use of financial instruments:

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

2.14.1 Credit Risk

Credit Risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Group's receivable from customers.

2.14.2 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

2.14.3 Currency Risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Group.

2.14.4 Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group has not engaged in any interest rate swap agreements.

2.15 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 – (interest free). Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.16 Property, Plant & Equipment

Cost

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group derecognises the replaced part, and recognises the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to Significant accounting judgments, estimates and assumptions and Provisions for further information about the recorded decommissioning Provision.

Depreciation

Depreciation is calculated by using a straight-line method on the cost of all property, plant and equipment, other than freehold land, in order to write off such amounts over the estimated useful economic life of such assets.

Asset	Years
Civil Constructions	40
Plant & Machinery	33 1/3
Furniture, Fittings & Other Equipment	10
Generator	10
Project Equipment	05
Motor Vehicle	05
Web Development	05
Computers	04
Tools & Accessories	03
Motor Cycle	03
Mobile Phones & Accessories	02

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

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

2.17 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.18 Impairment of Non-Financial Assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 March and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 March at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.19 Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) 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. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Profit or Loss Statement net of any reimbursement.

2.20 Employees Benefits

(a) Defined Contribution Plans - Provident Funds and Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

The Company contributes 12% on consolidated salary of the employees to Employees' Provident Fund (EPF).

All the employees of the Company are members of the Employees' Trust Fund, to which the Company contributes 3% on the consolidated salary of such employees.

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(b) Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plan is the present value of the defined benefit obligation at the Reporting date. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates 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 liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as in retained earnings through other comprehensive income. Past service costs are recognised immediately in Profit or Loss Statement.

The provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19, Employee Benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The Liability is not externally funded.

The key assumptions used in determining the retirement benefit obligations are as follows.

	2018	2017
Discount Rate	10%	12%
Expected Salary Increment Rate	10%	10%
Staff Turnover Rate	13%	10%
Normal Retirement Age	55 Years	55 Years

2.21 Trade and Other Payables

Trade and other payables are stated at their costs.

2.22 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the Group have been disclosed in the respective Notes to the Financial Statements.

2.23 Events Occurring after the Reporting Date

All material events after the Statement of Financial Position date have been considered where appropriate; either adjustments have been made or adequately disclosed in the Financial Statements.

2.24 Earnings per Share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.25 Profit or Loss Statement

For the purpose of presentation of Profit or Loss Statement, the function of expenses method is adopted, as it represents fairly the elements of the group's performance.

2.26 Expenses

All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency is charged to revenue in arriving at the profit or loss for the year.

2.27 Statement of Cash Flow

The Statement of Cash Flow has been prepared using the 'indirect method'. Interest paid received is classified as operating cash flows, dividends received are classified as investing cash flows while dividends paid are classified as financing cash flows, for the purpose of presenting the Cash Flow Statement.

2.28 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts. The following specific criteria are used for the purpose of recognition of revenue.

a) Rendering of Services

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

b) Interest Income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

c) Dividends
Revenue is recognized when the group's right to receive the payment is established, which is generally when shareholders approve the dividend.

d) Rental Income
Rental income is recognized on an accrual basis.

e) Gains and Losses
Net gains and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non current assets including investments are accounted for in the statement of profit or loss, after deducting from proceeds on disposal, the carrying amount of the assets and related selling expenses. On the disposal of revalued Property, Plant and Equipment, the amount remaining in the Revaluation Reserve, relating to that particular asset is transferred directly to Retained Earnings.

Gains and losses arising from activities incidental to the main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

f) Other Income
Other income is recognized on an accrual basis.

2.29 Use of Estimates and Judgments

The preparation of Financial Statements in conformity with SLFRS/ LKAS requires management to make judgments, estimates and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period and any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

2.29.1 Measurement of Retirement Benefit Obligation

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the retirement benefit obligations are given in Note 11. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

2.29.2 Renewal of Power Purchase Agreement (PPA).

Group policy is to depreciate Plant & Machinery and Civil Constructions over 33 years and 40 years respectively, which is the estimated useful life of those assets. However, with the expiration of the SPPA of Erathna and the probable downward revisions of the rate per energy unit upon renewal, the Management assessed the recoverability of such assets using following significant judgments and estimates.

1) Another 5 years extension of SPPA has been informed by the Ceylon Electricity Board.
2) As per Sri Lanka Sustainable Energy Authority (SEA) Act No 35 of 2007, at the end of 20 years, the Board of SEA may , at request of the developer (Company) and in consultation with the Committee, extend the period, of validity of the permit by further period, not exceeding 20 more years.
3) Currently, Hydro is the cheapest renewable energy option available and this aspect was considered by the CEB in forecasting country's energy requirement. (20 years plan)
4) Cash flow forecast prepared by the company using following assumptions reveals positive net cash flows on the power plant.

a) Cash Flow forecast is prepared for next 25 years period.
b) Average generation for last 14 years considered for future forecast.
c) The tariff for 1st 5 years is expected as per the given 3rd tier of Three Tier tariff structure (applicable for NCRE w.e.f.01/01/2012). 4.5% annual escalation rate is expected in the escalable component .
d) Rs. 9/kWh is considered for the next 20 years period. Assumed prevailing non-escalable and escalable components will be continued.
e) Operating and maintenance costs are projected based on prevailing general inflation.

2.29.3 Segment Information

Reporting Segment

The segments are determined based on the company's geographical spread of operations. The geographical analysis of turnover and profit are based on location.

Segment information has been prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the company.

No operating segment have been aggregated to form the above reportable operating segments. An individual segment manager is determined for each operating segment and the results are regularly reviewed by Chief Executive Officer. The Chief Executive Officer monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explain in the operating segment information, is measured differently form operating profit or loss in the financial statements.

2.30 Standards Issued but not Yet Effective

Standards issued but not yet effective up to the date of issuance of the company's financial statements are listed below. This listing of standards and interpretations issued are those that the company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The company intends to adopt these standards when they become effective.

Impending Accountings standards/ Standards issued not yet effective

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 March 2018 reporting periods. None of those have been early adopted by the Company.

SLFRS 9 Financial Instruments: Classification and Measurement

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company has performed an impact assessment of all three aspects of SLFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its financial position and equity

SLFRS 15 - Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

SLFRS 15 introduces a five step approach for revenue recognition from contracts with customers and replaces all other currently applicable revenue Standards and related interpretations. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. According to the impact analysis done by the management, the Company does not have any material impact from the adoption of SLFRS 15 in the year 2018.

SLFRS 16 – Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('Lessee'] and the supplier ('Lessor']. SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new Standard requires a lessee to:

- recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and
- present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating lease or finance lease, and to account for those two types of leases differently.

SLFRS -16 will become effective on 1st January 2019. The impact on the implementation of the above Standard has not been quantified yet.

2.31 Amendments to Existing Accounting Standards

LKAS 7 - Statement of Cash Flows

The amendment requires an entity to disclose information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Accordingly an entity shall disclose the following changes in liabilities arising from financing activities:

- Changes from financing cash flows
- Changes in fair values and
- Other changes

3. PROPERTY, PLANT & EQUIPMENT

	Company			
Year Ended 31 March 2018	Balance As at 01.04.2017	Additions for the Year	Disposals/ Transfers	Balance As at 31.03.2018
Gross Carrying Amounts	Rs.	Rs.	Rs.	Rs.
At Cost				
Free Hold Land	150,000,000	-	-	150,000,000
Civil Constructions	530,938,434	-	-	530,938,434
Plant & Machinery	577,692,396	-	-	577,692,396
Project Equipment	1,400,194	6,050	-	1,406,244
Tools & Accessories	3,256,074	-	-	3,256,074
Motor Vehicle	8,758,500	-	-	8,758,500
Motor Bicycle	475,560	-	-	475,560
Furniture & Fittings	10,009,216	122,655	-	10,131,871
Computer	3,967,155	-	-	3,967,155
Office Equipment	1,256,332	40,325	(15,680)	1,280,977
Fire Extinguisher	908,551	-	-	908,551
Generator	1,246,000	-	-	1,246,000
Site Fixtures & Fittings	4,148,354	-	-	4,148,354
Web Development	1,888,305	-	-	1,888,305
Mobile Phones & Accessories	82,724	20,600	-	103,324
	1,296,027,795	189,630	(15,680)	1,296,201,745
Total	1,296,027,795	189,630	(15,680)	1,296,201,745

Depreciation At Cost	Company Balance As at 01.04.2017 Rs.	Charge for the year/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2018 Rs.
Civil Constructions	171,367,429	13,273,461	-	184,640,890
Plant & Machinery	221,188,685	17,330,772	-	238,519,457
Project Equipment	1,133,860	103,967	-	1,237,827
Tools & Accessories	3,029,935	176,707	-	3,206,642
Motor Vehicle	8,758,500	-	-	8,758,500
Motor Bicycle	475,561	-	-	475,561
Furniture & Fittings	6,627,632	939,419	-	7,567,051
Computer	3,701,487	145,065	-	3,846,552
Office Equipment	658,257	111,366	(9,016)	760,607
Fire Extinguisher	524,600	38,395	-	562,996
Site Fixtures & Fittings	4,148,354	-	-	4,148,354
Generator	1,214,833	11,000	-	1,225,833
Web Development	1,834,272	54,033	-	1,888,305
Mobile Phones & Accessories	59,999	26,764	-	86,763
	424,723,404	32,210,949	(9,016)	456,925,337
Total	424,723,404	32,210,949	(9,016)	456,925,337
Carrying Amount	871,304,392			839,276,408

The cost of fully depreciated Property, Plant & Equipment which are still in use at the reporting date is Rs. 28,875,444/= (Rs.24,555,187/- as at 31/03/2017)

	Group			
Gross Carrying Amounts	Balance As at 01.04.2017 Rs.	Additions for the Year Rs.	(Disposals)/ Transfers Rs.	Balance As at 31.03.2018 Rs.
At Cost				
Free Hold Land	177,181,919	-	-	177,181,919
Civil Constructions	1,723,965,311	-	-	1,723,965,311
Plant & Machinery	1,083,774,316	-	-	1,083,774,316
Project Equipment	1,644,269	6,050	-	1,650,319
Tools & Accessories	7,654,402	238,200	(522,500)	7,370,102
Motor Vehicle	32,146,378	835,000	-	32,981,378
Motor Bicycle	1,473,200	220,950	(116,180)	1,577,970
Furniture & Fittings	10,939,597	122,655	(7,275)	11,054,977
Computer	4,831,155	-	-	4,831,155
Office Equipment	2,375,083	153,384	(50,920)	2,477,547
Fire Extinguisher	1,343,386	-	-	1,343,386
Generator	3,273,265	-	-	3,273,265
Site Fixtures & Fittings	4,148,354	-	-	4,148,354
Web Development	1,888,305	-	-	1,888,305
Mobile Phones & Accessories	490,231	42,500	(125,012)	407,719
	3,057,129,172	1,618,739	(821,887)	3,057,926,023
WIP - Civil Constructions	482,370	198,704	-	681,074
Total	3,057,611,542	1,817,443	(821,887)	3,058,607,097

Depreciation At Cost	Group Balance As at 01.04.2017 Rs.	Charge for the year/ Transfers Rs.	(Disposals)/ Transfers Rs.	Balance As at 31.03.2018 Rs.
Civil Constructions	324,886,076	43,099,133	-	367,985,209
Plant & Machinery	300,108,868	32,513,230	-	332,622,098
Project Equipment	1,133,860	103,967	-	1,237,827
Tools & Accessories	6,050,518	791,289	(522,500)	6,319,307
Motor Vehicle	31,777,629	125,750	-	31,903,379
Motor Bicycle	1,435,948	12,274	(116,180)	1,332,042
Furniture & Fittings	7,160,434	1,029,709	(4,752)	8,185,391
Computer	4,562,620	147,931	-	4,710,551
Office Equipment	1,107,179	230,993	(35,403)	1,302,768
Fire Extinguisher	730,592	81,878	-	812,471
Site Fixtures & Fittings	4,148,354	-	-	4,148,354
Generator	1,637,948	213,726	-	1,851,674
Web Development	1,834,271	54,033	-	1,888,304
Mobile Phones & Accessories	365,271	108,720	(115,023)	358,968
	686,939,568	78,512,633	(793,858)	764,658,343
Assets on Finance Lease				
Motor Vehicle	-	-	-	-
	-	-	-	-
Total	686,939,568	78,512,633	(793,858)	764,658,343
Carrying Amount	2,370,671,974			2,293,948,755

The cost of fully depreciated Property, Plant & Equipment which are still in use at the reporting date is Rs.49,904,518 /= (Rs.45,030,630/- as at 31/03/2017)

3.1 Written Down Value of Assets

Year Ended 31 March 2018	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Free Hold Land	150,000,000	150,000,000	177,181,919	177,181,919
Civil Constructions	346,297,544	359,571,005	1,355,695,802	1,399,079,235
Plant & Machinery	339,172,939	356,503,711	751,674,718	783,665,448
Project Equipment	168,417	266,334	412,492	510,409
Tools & Accessories	49,433	226,139	812,595	1,603,884
Motor Vehicle	-	-	1,077,999	368,749
Motor Bicycle	-	-	245,928	37,252
Furniture & Fittings	2,564,820	3,381,584	2,869,586	3,779,163
Computer	120,603	265,668	120,604	268,535
Office Equipment	520,370	598,075	1,174,779	1,267,904
Fire Extinguisher	345,555	383,951	530,915	612,794
Generator	20,167	31,167	1,421,591	1,635,317
Site Fixtures & Fittings	-	-	-	-
Web Development	-	54,033	-	54,034
Mobile Phones & Accessories	16,561	22,725	48,751	124,960
WIP - Civil Constructions	-	-	681,074	482,370
	839,276,408	871,304,392	2,293,948,755	2,370,671,974

4. INVESTMENTS

As at 31 March	Holding %		No. of Shares		Company	
	2018	2017	2018 No.	2017 No.	2018 Rs.	2017 Rs.
4.1 Non Current Investments						
Investment in Equity Securities (Un -Quoted)						
Investment in Subsidiary						
Country Energy (Pvt) Limited	87.2%	87.2%	77,829,998	77,829,998	821,619,980	821,619,980
					821,619,980	821,619,980

4.2 Short Term Investments

As at 31 March	Company		Group	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Investment in Fixed Deposits	43,186,417	66,958,162	160,777,400	114,687,658
Repo	23,212,514	6,000,000	105,824,329	46,887,681
	66,398,930	72,958,162	266,601,729	161,575,339

4.3. Summarized Financial Information of Subsidiary,

This information is based on amounts before the inter company eliminations,

For the year ended 31 March	2018 Rs.	2017 Rs.
Statement of Profit or Loss		
Revenue	516,243,273	355,853,307
Cost of Sales	(88,808,177)	(87,884,195)
Other Income	72,500	520,181
Finance Income	13,186,429	21,429,661
Administration Expenses	(52,299,172)	(54,419,932)
Other Operating Expenses	(1,047,771)	(1,457,250)
Finance Cost	(35,455,860)	(59,247,427)
Profit Before Tax	351,891,222	174,794,345
Tax Expense	(1,933,059)	(4,217,989)
Net Profit for the Year	349,958,163	170,576,356
Other Comprehensive Income	(1,210,865)	985,980
Total Comprehensive Income	**348,747,298**	**171,562,336**
Attributable to Non Controlling Interest	44,639,654	21,959,464
Earnings Per Share	3.91	1.92
Statement of Financial Position		
Non Current Assets	1,484,435,843	1,528,624,918
Curruent Asset	257,963,387	128,504,390
Total Assets	1,742,399,230	1,657,129,308
Non Current Liabilities	7,825,875	162,259,779
Current Liabilities	177,375,766	223,944,240
Total Liabilities	185,201,641	386,204,020
Net Assets	**1,557,197,589**	**1,270,925,288**
Cash Flows		
Net Cash Flows from Operating Activities	387,651,072	215,342,597
Net Cash Flows used in Investment Activities	(71,406,811)	138,606,276
Net Cash Flows used in Financing Activities	(270,261,740)	(402,696,743)
Total Net Cash Flows	**45,982,521**	**(48,747,870)**
Dividend Paid to Non Controlling Interest	**7,994,000**	**25,124,004**
Dividend Per Share	0.70	2.20

5. INTANGIBLE ASSET - Right to Generate Hydro Power

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Cost				
Gross carrying amount B/F	24,000,000	24,000,000	179,350,000	179,350,000
Gross carrying amount C/F	24,000,000	24,000,000	179,350,000	179,350,000
Amortisation				
Accumulated amortisation B/F	20,800,000	19,200,000	74,357,911	62,401,247
Amortization for the period	1,600,000	1,600,000	11,956,664	11,956,664
Accumulated amortisation C/F	22,400,000	20,800,000	86,314,575	74,357,911
Net carrying amount at the end of the year	1,600,000	3,200,000	93,035,425	104,992,089

The above balance represents amount paid to purchase an exclusive right to generate hydro electric power. Company amortise this right over 15 years on a straight line basis beginning from the year of commercial operations.

6. DEPOSIT ON LEASEHOLD LAND

As at 31 March	Group 2018 Rs.	Group 2017 Rs.
At the Beginning of the year	4,500,000	4,500,000
Paid during the year	-	-
At the End of the year	4,500,000	4,500,000

The above balance represents refundable security deposit paid to the Janatha Estate Development Board in respect of Land obtained on a operating lease basis for a period of 30 years subject to review the rental amendment at the laps of every 05 years.

Operating lease rentals charged during the year on lease hold land are as follows,

For the year ended 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Lease Rental	248,224	141,021	5,878,624	5,738,781
	248,224	141,021	5,878,624	5,738,781

7. TRADE AND OTHER RECEIVABLES

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Advances & Pre Payments	12,257,787	10,257,099	17,350,773	15,340,783
Trade Receivable	39,049,977	25,365,428	76,295,465	50,899,588
Staff Debtors	2,681,176	2,625,314	4,939,440	4,137,437
Interest Receivable	190,429	1,016,818	2,061,823	1,896,598
	54,179,369	39,264,659	100,647,500	72,274,406

8. AMOUNT DUE FROM RELATED PARTIES

As at 31 March	Relationship	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Country Energy (Pvt) Ltd	Subsidiary Company				
- Kiriwaneliya MHPP		696,292	677,886	-	-
- Denewakaganga MHPP		1,110,013	1,108,571	-	-
Alternate Power Systems (Pvt) Ltd	Related Company				
- Current Account Balance		977,395	980,247	977,395	980,247
Greenerwater Ltd	Related Company				
- Current Account Balance		48,630	87,346	178,822	87,346
		2,832,330	2,854,049	1,156,218	1,067,593

9. STATED CAPITAL

As at 31 March	Company 2018	Company 2017	Group 2018	Group 2017
Issued and Fully Paid Number of Shares				
Ordinary Shares	747,109,731	747,109,731	747,109,731	747,109,731
Value of Issued and Fully Paid Shares				
Ordinary Shares	1,174,365,278	1,174,365,278	1,174,365,278	1,174,365,278

10. INTEREST BEARING LOANS AND BORROWINGS

	Group		
	Long Term Loan Rs.	Bank Overdraft Rs.	Total Rs.
Balance as at 31 March 2017 (Note 10.1)			
Repayable within one year from year-end	207,786,732	533,650	208,532,976
Repayable between 2 and 5 years from year-end	157,403,056	-	157,403,056
	365,189,788	533,650	365,723,438
Balance as at 31 March 2018			
Repayable within one year from year-end	157,403,048	-	157,403,048
Repayable between 2 and 5 years from year-end	-	-	-
	157,403,048	-	157,403,048

10.1 Long-Term Loans

				Group	
As at 31 March				2018	2017
	DFCC Rs.	HNB Rs.	Commercial Bank of Ceylon PLC Rs.	Rs.	Rs.
At the beginning of the year	139,880,848	147,258,940	78,050,000	365,189,788	571,536,531
Repayments during the year	(80,613,270)	(80,613,470)	(46,560,000)	(207,786,740)	(206,346,743)
Obtained during the year	-	-	-	-	-
At the end of the year	59,267,578	66,645,470	31,490,000	157,403,048	365,189,788
Analysis of Long-Term Interest Bearing Loans & Borrowings by Year of Payment					
Repayable within one year from year-end	59,267,578	66,645,470	31,490,000	157,403,048	207,786,732
Repayable between 2 and 5 years from year-end	-	-	-	-	157,403,056
	59,267,578	66,645,470	31,490,000	157,403,048	365,189,788

10.2 Details of Long Term Loans (Group)

Lender	Approved Facility	Purpose	Repayment Terms	Security
Subsidiary				
DFCC Bank	Rs. 200,000,000/-	To part finance Kiriwaneliya Mini Hydro Project	72 equal monthly instalment after a grace period of 24 months	1. Rs. 166.5 Mn by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment 2. Rs. 33.5 Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of the Company. 3. Lodgement of Project documents
DFCC Bank	Rs. 253,000,000/-	To part finance Denawaka ganga Mini Hydro Project	78 varied monthly instalment after a grace period of 18 months	1. Rs. 210.6 Mn a). by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment b) primary concurrent mortgage over freehold land as additional security 2. Rs. 42.4 Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of the Company. 3. Lodgement of Project documents
Hatton National Bank PLC	Rs. 200,000,000/-	To part finance Kiriwaneliya Mini Hydro Project	72 equal monthly instalment after a grace period of 24 months	1. Rs. 166.5 Mn by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment 2. Rs. 33.5 Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of the Company. 3. Irrevocable Power of Attorney in favour of the bank with the right to transfer the shares of the Company

Lender	Approved Facility	Purpose	Repayment Terms	Security
Hatton National Bank PLC	Rs. 253,000,000/-	To part finance Denawaka ganga Mini Hydro Project	78 varied monthly instalment after a grace period of 18 months	1. Rs. 210.6 Mn a) by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment b). primary concurrent mortgage over freehold land as additional security 2. Rs. 42.4 Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of the Company. 3. Irrevocable Power of Attorney in favour of the bank with the right to transfer the shares of the Company
Commercial Bank of Ceylon PLC	Rs. 253,000,000/-	To part finance Denawaka ganga Mini Hydro Project	78 varied monthly instalment after a grace period of 18 months	1. Rs. 210.6 Mn a) by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment b). primary concurrent mortgage over freehold land as additional security 2. Rs. 42.4 Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of the Company. 3. Lodgement of Project documents

10.3 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans & borrowings affected. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows.

	Increase /Decrease of interest rate	Effect on profit before tax (Rs.)
2017/18	+1%	2,364,063
	-1%	(2,364,063)
2016/17	+1%	4,709,864
	-1%	(4,709,864)

10.4 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group does not concentrate on a single financial institution, thereby minimizing the exposure to liquidity risk through diversification of funding sources. The Group aims to fund investment activities of the individual and Group level by funding the long-term investment with long term financial sources and short term investment with short term financing.

The Table below summarizes the maturity profile of the Groups financial liabilities based on contractual undiscounted payments.

As at 31st March 2018 Group	On Demand Rs.	Less than 3 Months Rs.	3 to 12 Months Rs.	2 to 3 years Rs.	Total Rs.
Borrowings	20,390,227	41,620,886	103,758,891	-	165,770,004
	20,390,227	41,620,886	103,758,891	-	165,770,004

The management assessed that trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

11. RETIREMENT BENEFIT OBLIGATION

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
At the beginning of the year	13,929,171	11,966,468	18,785,895	16,407,209
Current Service cost	1,546,536	1,317,844	2,574,502	2,819,465
Interest cost	1,671,501	1,435,976	2,254,308	1,968,864
Actuarial (gain)/loss	3,325,348	(791,117)	4,749,895	(1,951,093)
	20,472,556	13,929,171	28,364,600	19,244,445
Benefit paid	(2,352,114)	-	(2,436,915)	(458,550)
Transfer-in	-	-	18,633	-
At the end of the year	**18,120,442**	**13,929,171**	**25,946,318**	**18,785,895**

The weighted average duration of the Defined Benefit Plan Obligation of the Company and Subsidiary at the end of the reporting period is 5.39 years and 6.58 years respectively.

The following payments are expected from the Defined Benefit Plan Obligation in future years.

As at 31 March	Company 2018	Company 2017	Group 2018	Group 2017
Within the next 12 months	4,237,857	1,591,548	5,209,600	1,650,254
Between 2 and 5 years	6,460,028	655,786	9,981,436	1,153,206
Beyond 5 years	7,422,557	11,681,837	10,755,282	15,982,435
	18,120,442	13,929,171	25,946,318	18,785,895

Sensitivity Analysis

Values appearing in the financial statements are very sensitive to the changes in financial and non-financial assumptions used. A sensitivity was carried out as follows:

Company	Rs.	Rs.
A one percentage point change in the discount rate.	+1%	-1%
As at 31 March 2018	(854,895)	938,914
As at 31 March 2017	(1,261,080)	1,442,792
A one percentage point change in the salary increment rate.	+1%	-1%
As at 31 March 2018	979,870	(907,573)
As at 31 March 2017	1,499,920	(1,328,797)

Group	Rs.	Rs.
A one percentage point change in the discount rate.	+1%	-1%
As at 31 March 2018	(1,299,534)	1,436,896
As at 31 March 2017	(1,692,078)	1,851,768
A one percentage point change in the salary increment rate.	+1%	-1%
As at 31 March 2018	1,506,807	(1,385,812)
As at 31 March 2017	1,908,896	(1,749,313)

12. DEFFERED TAX ASSET /LIABILITY

12.1 Deferred Tax Asset

	Company		Group	
As at 31 March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
At the beginning of the year	-	-	10,332,335	8,724,013
Originating of the asset recognised to Profit/(Loss)	-	-	1,759,141	1,782,317
Decreasing of the asset recognised to Other Comprehensive Income/(Loss)	-	-	213,682	(173,996)
At the end of the year	-	-	12,305,159	10,332,335

12.1.1 As at 31 March

Group	2018 Temporary Difference Rs.	2018 Tax Effect Rs.	2017 Temporary Difference Rs.	2017 Tax Effect Rs.
As at 1 April	68,882,235	10,332,335	58,160,088	8,724,013
Asset originating during the year	13,152,158	1,972,824	10,722,147	1,608,322
As at 31 March	**82,034,393**	**12,305,159**	**68,882,235**	**10,332,335**
Temporary difference on Property, Plant and Equipment	74,208,522	11,131,278	64,025,512	9,603,827
Temporary difference on Retirement Benefit Obligation	7,825,871	1,173,881	4,856,723	728,508
As at 31 March	**82,034,393**	**12,305,159**	**68,882,235**	**10,332,335**

12.2 Deferred Tax Liability

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
At the beginning of the year	81,377,602	82,862,224	81,377,602	82,862,224
Charge/(Reversal) recognised to Profit/(Loss)	12,063,625	(1,579,556)	12,063,625	(1,579,556)
Charge/(Reversal) recognised to Other Comprehensive Income/(Loss)	19,887,317	94,934	19,887,317	94,934
At the end of the year	**113,328,544**	**81,377,602**	**113,328,544**	**81,377,602**

12.2.1 As at 31 March

Company	2018 Temporary Difference Rs.	2018 Tax Effect Rs.	2017 Temporary Difference Rs.	2017 Tax Effect Rs.
As at 1 April	678,146,688	81,377,602	690,518,536	82,862,224
Amount originating/(reversing) due to changes in Tax rate	-	13,282,240	-	-
Amount originating on revaluation surplus of land	145,377,613	20,352,866	-	-
Amount originating/(reversing) during the year	(14,034,698)	(1,684,164)	(12,371,848)	(1,484,622)
As at 31 March	**809,489,603**	**113,328,544**	**678,146,688**	**81,377,602**
Temporary difference of Property, Plant and Equipment	682,232,432	95,512,540	692,075,860	83,049,103
Revaluation surplus on freehold land	145,377,613	20,352,866	-	-
Temporary difference of Retirement Benefit Obligation	(18,120,442)	(2,536,862)	(13,929,172)	(1,671,501)
As at 31 March	**809,489,603**	**113,328,544**	**678,146,688**	**81,377,602**

12.2.2 As at 31 March

Group	2018 Temporary Difference Rs.	2018 Tax Effect Rs.	2017 Temporary Difference Rs.	2017 Tax Effect Rs.
As at 1 April	678,146,688	81,377,602	690,518,536	82,862,224
Amount originating/(reversing) due to changes in Tax rate	-	13,282,240	-	-
Amount originating on revaluation surplus of land	145,377,613	20,352,866	-	-
Amount originating / (reversing) during the year	(14,034,698)	(1,684,164)	(12,371,848)	(1,484,622)
As at 31 March	809,489,603	113,328,544	678,146,688	81,377,602
Temporary difference of Property, Plant and Equipment	682,232,432	95,512,540	692,075,860	83,049,103
Revaluation surplus on freehold land	145,377,613	20,352,866	-	-
Temporary difference of Retirement Benefit Obligation	(18,120,442)	(2,536,862)	(13,929,172)	(1,671,501)
As at 31 March	809,489,603	113,328,544	678,146,688	81,377,602

The effective tax rate used to calculate the deferred tax liability of the Company for all the temporary differences is 14% (2016/17 - at 12%) and tax rate of 15% is used for deferred tax asset of the Subsidiary (2016/17- at 15%)

13. TRADE AND OTHER PAYABLES

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Accrued Expenditure	2,849,136	3,983,300	17,986,434	12,937,670
Retention Money	138,696	77,662	140,264	79,231
Other Payable	20,883,788	22,409,745	23,911,325	25,714,071
	23,871,620	26,470,707	42,038,024	38,730,972

14. REVENUE

For the year ended 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Sales from Electricity Generation:				
Erathna MHPP	601,358,614	507,868,739	601,358,614	507,868,739
Denawakaganga MHPP	-	-	296,703,829	210,520,951
Kiriwaneliya MHPP	-	-	219,539,445	145,332,356
	601,358,614	507,868,739	1,117,601,888	863,722,046

Company and the subsidiary has entered into an agreement (Standardized Power Purchase Agreement) with the Ceylon Electricity Board to sell energy output generated from the power project. This agreement shall continue for a period of 15 years beginning on the commercial operations date. The commercial operations of the projects of the Group were started on 15th July 2004, 15 December 2011 and 14 February 2012 respectively. Further extension of this agreement will have to be agreed with the Ceylon Electricity Board after the expiry of the aforesaid 15 years. As per the Article 11 of the Standardized Power Purchase Agreement, Ceylon Electricity Board shall have the right of first refusal on terms identical to those offered by a third party to the company, to purchase any electrical energy to be sold from the project.

15. OTHER INCOME

For the year ended 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Dividend Income	49,032,899	154,103,396	-	-
Sundry Income	17,365	16,204	89,865	536,385
	49,050,264	154,119,600	89,865	536,385

16. FINANCE COST

For the year ended 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Loan Interest	-	-	35,290,455	59,090,676
Bank Charges & OD Interest	188,976	146,221	354,380	302,972
	188,976	146,221	35,644,835	59,393,648

17. PROFIT / (LOSS) BEFORE TAXATION

	Company		Group	
For the year ended 31 March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Stated after Charging / (Crediting):				
Directors' Remuneration	3,688,889	4,333,333	3,688,889	4,333,333
Auditors' Remuneration	721,000	693,000	976,374	938,552
Depreciation & Amortisation	33,810,950	34,171,982	90,469,297	91,704,419
Personnel Costs includes				
- Defined Benefit Plan Cost - Retirement Benefit Obligation	3,218,037	2,753,820	4,828,770	4,788,330
- Defined Contribution Plan Costs - EPF & ETF	2,803,636	2,793,977	7,838,898	7,784,012
- Staff Salaries	18,690,914	18,626,514	52,259,325	51,893,411
- Other Staff Costs	8,319,383	7,813,395	23,810,811	22,823,668

18. INCOME TAX EXPENSES

Pursuant to the supplementary agreement dated 08th October 2002 entered into with Board of Investment under section 17 of the Board of Investment Law, the company is exempt from income tax arising from the business of the generation of hydropower, for a period of 10 years commencing from 15th July 2004. After the expiration of the aforesaid period the provisions of the Inland Revenue Laws for the time being in force shall apply to the company. Accordingly,currently the Company is liable for income tax arising from the business of the generation of hydropower at the rate of 12% from 15th July 2014. However, other income is taxable at the applicable tax rate from the inception.

Pursuant to the agreement entered into with the Board of Investment of Sri Lanka, the subsidiary is exempt from income tax for a period of 06 years reckoned from the year of assessment as may be determined by the Board. For the above purpose the year of assessment shall be reckoned from the year in which the enterprise commences to make profit in relation to its transactions in that year or any year of assessment not later than 02 years from the date of commencement of commercial operations of the enterprise, whichever year is earlier, as may be specified in a certificate issued by the Board. After the expiration of the aforesaid tax exemption period referred to in above, the profits and income of the enterprise shall for any year of assessment be charged at the rate of 15%. However, other income is taxed at the applicable tax rate.

18.1 Statement of Profit or Loss

For the year ended 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
(I) Current Tax Expense				
Income tax on current year profit (Note 18.3)	66,258,140	56,701,822	69,950,340	62,702,127
Dividend Tax	-	-	5,448,100	17,122,600
	66,258,140	56,701,822	75,398,440	79,824,727
(II) Deferred Tax Expense				
Deferred Taxation Charge / (Reversal) (Note 12)	12,063,625	(1,579,556)	10,304,484	(3,361,873)
Tax charge reported in the Statement of Profit or Loss	78,321,766	55,122,266	85,702,924	76,462,854

18.2 Statement of Other Comprehensive Income

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Deferred Tax effect on actuarial gains and loss of Defined Benefit Plans (Note 12)	(465,549)	94,934	(679,231)	268,930
Deferred tax effect on revaluation surplus of land (Note 12)	20,352,866	-	20,352,866	-
Tax charged directly to other comprehensive income	**19,887,317**	**94,934**	**19,673,635**	**268,930**

Due to changes in Tax Laws w.e.f. April 01, 2018, deferred tax effect on revaluation surplus has been recognised in the current financial year

18.3 Reconciliation Between Tax Expense and the Product of Accounting Profit

For the year ended 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Net profit before tax	555,117,636	580,461,678	849,085,961	592,262,627
Add: Disallowable Expenses	42,180,955	39,448,204	101,760,080	100,415,554
Less: Allowable Expenses	(22,374,187)	(22,624,814)	(133,542,207)	(133,806,537)
Total Statutory Income	**574,924,404**	**597,285,067**	**817,303,834**	**558,871,644**
Less: Tax exempted profit from business	(49,032,901)	(154,103,396)	(278,225,898)	(94,260,311)
Taxable Income;	**525,891,503**	**443,181,671**	**539,077,932**	**464,611,333**
liable @ 12%	506,196,754	421,181,538	506,196,754	421,181,538
liable @ 28%	19,694,750	22,000,133	32,881,179	43,429,795
	525,891,503	443,181,671	539,077,932	464,611,333
Income Tax @ 12%	60,743,610	50,541,785	60,743,610	50,541,785
Income Tax @ 28%	5,514,530	6,160,037	9,206,730	12,160,342
Income Tax Expense on Liable Income	**66,258,140**	**56,701,822**	**69,950,340**	**62,702,127**
Effective Tax Rate	13%	12%	13%	13%

19. EARNINGS/(LOSS) PER SHARE

Basic Earnings Per Share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and share data used in the basic Earnings Per Share computations.

	Company		Group	
For the year ended 31 March	2018	2017	2018	2017
Amounts Used as the Numerators:	Rs.	Rs.	Rs.	Rs.
Profit Attributable to Ordinary Shareholders for basic Earnings Per Share (Rs.)	476,795,870	525,339,412	718,588,393	493,966,513
Number of Ordinary Shares Used as Denominators:				
Weighted Average number of Ordinary Shares in issue	747,109,731	747,109,731	747,109,731	747,109,731
Basic Earnings Per Share (Rs.)	0.64	0.70	0.96	0.66

20. DIVIDENDS PAID DURING THE YEAR

	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
Rs. 0.70/- per share by the Company (2016/2017 - Rs..80/-)	522,976,812	597,687,785	522,976,812	597,687,785
	522,976,812	597,687,785	522,976,812	597,687,785

21. EVENTS OCCURING AFTER THE REPORTING DATE

There have been no material events occurred subsequent to the reporting date that require adjustments or disclosure in the Financial Statements.

22. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

There are no capital commitments as at the reporting date .

Contingencies

There are no contingent liabilities exist as at the reporting date .

23. FINACIAL ASSETS AND LIABILITIES BY CATEGORIES

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets and liabilities that are carried in the financial statements.

23.1 Financial Assets

	Company				Group			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
As at 31 March	2018	2017	2018	2017	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Loans and Receivables at amortised cost:								
Trade & Other Receivables	54,179,369	39,264,659	54,179,369	39,264,659	100,647,501	72,274,406	100,647,501	72,274,406
Amount Due from Related Parties	2,832,330	2,854,049	2,832,330	2,854,049	1,156,218	1,067,593	1,156,218	1,067,593
Short Term Investment	66,398,930	72,958,162	66,398,930	72,958,162	266,601,729	161,575,339	266,601,729	161,575,339
Cash and Bank Balances	22,840,142	13,006,567	22,840,142	13,006,567	33,442,347	19,884,034	33,442,347	19,884,034
Total	146,250,771	128,083,437	146,250,771	128,083,437	401,847,795	254,801,371	401,847,795	254,801,371

23.2 Financial Liabilities

	Company				Group			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
As at 31 March	2018	2017	2018	2017	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Other Financial Liabilities at amortised cost:								
Interest Bearing Loans & Borrowings	-	-	-	-	157,403,048	365,723,438	157,403,048	365,723,438
Trade and Other Payables	23,871,620	26,470,707	23,871,620	26,470,707	42,038,024	38,730,972	42,038,024	38,730,972
Total	23,871,620	26,470,707	23,871,620	26,470,707	199,441,072	404,454,410	199,441,072	404,454,410

Fair value of the above assets and liabilities approximate their carrying amount largely due to the short term maturities of such assets and liabilities.

24. RELATED PARTY DISCLOSURES

The details of the significant related party disclosures are as follows.

24.1 Transactions with the Company

For the year ended 31 March Company	Relationship	Nature of Transaction	2018 Rs.	2017 Rs.
Country Energy (Pvt) Ltd. (CEPL)	Subsidiary	Net operating Expenses incurred on behalf of CEPL	(23,542,814)	(24,531,878)
	Company	Reimbursement of expenses by CEPL	23,522,964	24,560,035
		Other Transactions		
		Dividend Received from CEPL	49,032,898	154,103,396
Vallibel Finance PLC	Related Company	Investment in Fixed Deposits	(314,313,829)	(343,527,850)
		Withdrawals of Fixed Deposits	337,969,108	413,827,615
		Interest Received	14,530,357	19,030,944
LB Finance PLC	Related Company	Investment in Fixed Deposits	(116,040,104)	(10,480,822)
		Withdrawals of Fixed Deposits	116,040,104	10,480,822
		Interest Received	3,584,081	534,247
Alternate Power Systems (Pvt) Ltd (APSL)	Related Company	Net operating Expenses incurred on behalf of APSL	(13,515,136)	(13,705,080)
		Funds received from Alternate Power Systems (Pvt) Ltd	13,517,986	13,711,004
Greener Water Limited (GWL)	Related Company	Operating Expenses incurred on behalf of GWL	(9,024,161)	(5,751,799)
		Reimbursement of expenses by GWL	9,062,876	5,664,453
The Kingsbury PLC	Related Company	Payments made for services obtained	(338,580)	(338,580)

For the year ended 31 March Company	 Relationship	 Nature of Transaction	2018 Rs.	2017 Rs.
Transaction with the Subsidiary				
LB Finance PLC	Related Company	Investment in Fixed Deposits	(18,511,736)	-
		Withdrawals of Fixed Deposits	12,170,137	58,321,052
		Interest Received	570,671	5,905,204
Vallibel Finance PLC	Related Company	Investment in Fixed Deposits	(262,500,906)	(63,364,752)
		Withdrawals of Fixed Deposits	240,568,701	157,322,243
		Interest Received	6,636,871	9,240,535
Greener Water Limited (GWL)	Related Company	Operating Expenses incurred on behalf of GWL	(1,546,360)	-
		Reimbursement of expenses by GWL	1,416,439	-

The above transactions were carried out on normal trading terms.

24.2 Transactions with the Key Management Personnel of the Company

The key management personnel are the members of the Board of Directors and Jt. CEOs of Vallibel Power Erathna PLC.

Key Management Personnel Compensation

	2018 Rs.	2017 Rs.
Directors' Emoluments	3,688,889	4,333,333
Other Key Management Personel	5,749,896	5,226,836

No other significant transactions had been taken place during the year with the parties/entities in which key management personnel or their close family members were involved.

24.3 Related Party Transactions

There are no related party transactions other than those disclosed in Notes 4, 8 & 23 to the Financial Statements.

25. Operating Segmennt Information

	Erathna MHPP		Denawaka Ganga MHPP		Kiriwaneliya MHPP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Revenue	601,359	507,869	296,704	210,521	219,539	145,332	1,117,602	863,722
Cost of sales	(64,652)	(52,928)	(54,515)	(52,596)	(34,293)	(35,288)	(162,350)	(149,703)
Gross profit	536,707	454,940	242,189	157,925	185,246	110,044	955,252	714,020
Other income	49,050	154,120	-	-	73	520	90	536
Administrative expenses	(48,553)	(48,508)	(35,577)	(36,354)	(16,722)	(18,066)	(100,852)	(102,928)
Other expenses	(1,592)	(1,944)	(616)	(788)	(432)	(669)	(2,640)	(3,402)
Finance Income	19,695	22,000	4,916	13,512	8,270	7,918	32,881	43,430
Finance Cost	(189)	(146)	(23,264)	(39,368)	(12,192)	(19,879)	(35,645)	(59,394)
Profit before tax	555,118	580,462	187,648	94,926	164,243	79,868	849,086	592,263
Tax expenses	(78,322)	(55,122)	(362)	(2,828)	(1,571)	(1,562)	(85,703)	(76,463)
Profit after tax	476,796	525,339	187,286	92,098	162,672	78,306	763,383	515,800
Other comprehensive income/(loss)	(23,213)	696	(959)	1,561	(251)	(401)	(24,424)	1,682
Total comprehensive income	453,583	526,036	186,327	93,659	162,421	77,905	738,960	517,482
Segmental assets								
Non-current assets	1,662,496	1,696,124	795,351	819,906	689,085	708,719	2,403,789	2,490,496
Current assets	146,251	128,083	119,038	72,997	138,365	55,507	401,848	254,801
Total assets	1,808,747	1,824,208	914,389	892,903	827,450	764,226	2,805,637	2,745,298
Segmental liabilities								
Borrowings	-	-	99,070	240,723	58,333	125,000	157,403	365,723
Deferred tax liability	113,329	81,377	-	-	-	-	113,329	81,377
Retirement benefit obligations	18,120	13,929	6,382	3,940	1,444	916	25,946	18,786
Current liabilities	46,882	29,091	16,140	11,506	3,273	4,119	64,488	42,929
Total liabilities	178,331	124,397	121,592	256,169	63,050	130,035	361,166	508,815
Other Segment Information								
Total depreciation	32,211	32,572	24,970	25,090	21,330	22,086	78,513	79,748
Amortisation	1,600	1,600	1,000	1,000	467	467	11,957	11,957
Capital expenditure	190	2,607	244	1,023	1,384	1,725	1,817	5,355

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31st March 2018 are disclosed below.

The funds borrowed by the Company are given in Note 10.

	Company Interest-Bearing Borrowings
Balance as at 01 April 2017	365,189,788
Net Cash flows from Financing Activities	(207,786,740)
Non Cash Changes	-
Balance as at 31 March 2018	157,403,048

Strengthening spirituality

Our children's religious and spiritual welfare has been improved upon greatly with VPEL donating desks for each class. Milk donations have helped improve their health, while their sponsoring of religious ceremonies at the Dahampasala has improved their religious knowledge and morale.

Name : Mr. R M Dissanayaka
Occupation : Teacher at Dahampasala (Retired graduate teacher)
Age : 77 Years
Year of service : 15 years

Ten Years Financial Summary

	2017/18 Rs'000	2016/17 Rs'000	2015/16 Rs'000	2014/15 Rs'000	2013/14 Rs'000	2012/13 Rs'000	2011/12 Rs'000	2010/11 Rs'000	2009/10 Rs'000	2008/09 Rs'000
Operating Results										
Revenue	1,117,602	863,722	1,181,807	1,317,931	1,064,991	693,032	399,665	533,588	437,692	365,826
Gross profit	955,252	714,020	1,043,214	1,171,084	929,273	557,140	345,257	497,120	396,821	330,441
Other Income	90	536	38	44,394	64	704	10,356	10,876	36,882	29,743
Administration expenses	100,852	102,928	114,134	107,584	104,242	99,752	73,083	64,607	50,378	35,966
Finance cost	35,645	59,394	59,713	87,024	162,716	181,645	46,627	20,989	14,394	2,008
Net profit before tax	849,086	592,263	900,179	1,042,342	688,857	302,078	248,616	425,380	418,675	310,793
Net profit after tax	763,383	515,800	813,028	960,092	667,111	293,891	244,006	422,179	414,081	305,848
Funds Employed										
Stated capital	1,174,365	1,174,365	1,174,365	1,174,365	1,174,365	1,174,365	1,174,365	1,174,365	1,174,365	1,174,365
Revenue reserves	1,070,765	899,422	1,001,587	973,852	823,343	648,389	562,094	547,041	303,647	76,343
Non-controlling interest	199,340	162,695	165,859	149,135	122,340	99,585	92,087	63,067	-	-
Borrowings (Both non-current & current)	157,403	365,723	573,723	758,879	947,300	1,173,247	1,292,463	476,001	145,051	8,207
	2,601,874	2,602,205	2,915,534	3,056,232	3,067,348	3,095,585	3,121,009	2,260,475	1,623,063	1,258,915
Assets Employed										
Non Current Assets	2,403,789	2,490,496	2,575,812	2,658,887	2,830,474	2,923,021	3,005,032	2,144,961	1,525,072	1,182,753
Current Assets	401,848	254,801	529,048	537,950	357,875	276,885	264,490	217,904	123,108	85,637
Current Liabilities	(64,488)	(42,929)	(90,057)	(39,810)	(23,683)	(22,209)	(67,868)	(21,307)	(20,412)	(7,533)
Retirement Benefit Obligations	(25,946)	(18,786)	(16,407)	(16,505)	(11,629)	(9,714)	(7,116)	(7,088)	(4,704)	(1,942)
Diferred tax liability	(113,329)	(81,378)	(82,862)	(84,290)	(85,689)	(72,398)	(73,529)	(73,995)	-	-
	2,601,874	2,602,205	2,915,534	3,056,232	3,067,348	3,095,585	3,121,009	2,260,475	1,623,063	1,258,915
Key Indicators										
Earnings Per Share - Company (Rs.)	0.64	0.70	0.89	0.98	0.65	0.37	0.37	0.60	0.53	0.41
Net Assets Per Share - Company (Rs.)	2.18	2.27	2.37	2.47	2.51	2.47	2.37	2.31	1.95	1.67
Market Price of Share-Closing (Rs.)	7.30	7.10	8.00	7.90	5.60	5.60	6.60	8.60	5.25	3.10
Dividend Per Share (Rs.)	0.70	0.80	1.00	1.00	0.60	0.25	0.25	0.20	0.25	0.41
Price earning ratio (times)	11.41	10.14	8.99	8.06	8.59	15.14	17.84	14.33	9.91	7.56
Dividend payout (%)	109.38	114.29	112.36	102.04	92.06	67.57	67.57	33.33	47.17	100.00

Investor Information

1. General

Stated Capital	Rs. 1,174,365,278
The number of shares representing the Stated Capital	747,109,731

2. Stock Exchange Listing

Vallibel Power Erathna PLC, is a quoted public company and the issued ordinary shares of which are listed in the Colombo Stock Exchange of Sri Lanka. (Stock Code - VPEL.N0000)

3. Public Shareholding

The percentage of Ordinary Shares held by the public was 40.413% of the issued share capital as at 31st March 2018. It represents 4,266 of shareholders as at 31st March 2018.

4. Distribution of Shareholding as at 31st March 2018

There were 4,273 Registered shareholders as at 31st March 2018.

No. of Shares held		No. of Shareholders	% of Shareholders	Total Holding	% of Total Holding
1	1,000	1,760	41.19	707,011	0.09
1,001	10,000	1,707	39.95	7,248,116	0.97
10,001	100,000	643	15.05	20,803,247	2.78
100,001	1,000,000	142	3.32	39,339,838	5.27
Over 1,000,000		21	0.49	679,011,519	90.89
Total		4,273	100.00	747,109,731	100.00

5. Analysis report of Shareholders as at 31st March 2018

Category	No. of Shareholders	% of Shareholders	Total Holding	% of Total Holding
Individuals	4,105	96.07	262,575,494	35.15
Institutions	168	3.93	484,534,237	64.85
Total	4,273	100.00	747,109,731	100.00
Resident	4,227	98.92	737,362,232	98.70
Non-resident	46	1.08	9,747,499	1.30
Total	4,273	100.00	747,109,731	100.00

6. Twenty Major Shareholders as at 31st March 2018

	Name of the Shareholder	Number of shares as at 31.03.2018	(%) in issued Capital	Number of shares as at 31.03.2017	(%) in issued Capital
1	Vallibel Power Limited	299,425,830	40.08	299,425,830	40.08
2	Mr. K D D Perera	144,812,225	19.38	144,812,225	19.38
3	Seylan Bank PLC/Thirugnanasambandar Senthilverl	85,570,167	11.45	84,026,526	11.25
4	Sampath Bank PLC/Dr T Senthilverl	53,203,175	7.12	54,024,835	7.23
5	Mr. K D A Perera	18,750,000	2.51	18,750,000	2.51
6	Mr. K D H Perera	18,750,000	2.51	18,750,000	2.51
7	Commercial Bank of Ceylon PLC / Metrocorp (Pvt) Ltd	9,936,723	1.33	9,636,723	1.29
8	Ms. K D C Samanthi	9,375,000	1.25	9,375,000	1.25
9	Ayenka Holdings Private Limited	7,750,000	1.04	-	-
10	Employees Trust Fund Board	5,197,715	0.70	5,197,715	0.70
11	Mr. P P Subasinghe	4,553,395	0.61	3,803,235	0.51
12	Mr. B C Tay	3,000,000	0.40	3,000,000	0.40
13	Perera and Sons (Bakers) Limited	2,900,000	0.39	1,900,000	0.25
14	Seylan Bank PLC/Lasantha Chandika Ranaweera Pathirana	2,803,326	0.38	2,176,503	0.29
15	DFCC Bank PLC A/C 1	2,400,000	0.32	2,400,000	0.32
16	Mr. D D Gunaratne	2,100,000	0.28	2,040,000	0.27
17	Dr. T Senthilverl	2,033,300	0.27	-	-
18	Deutsche Bank AG AS Trustee to Candor Opportunities Fund	2,000,000	0.27	2,000,000	0.27
19	Mr. M F Hashim	1,717,489	0.23	1,666,154	0.22
20	Mr. M H M Nazeer	1,500,000	0.20	1,500,000	0.20
	Total	677,778,345	90.72	664,484,746	88.94
	Others	69,331,386	9.28	82,624,985	11.06
	Grand Total	747,109,731	100.00	747,109,731	100.00

7. Share Trading Information

	2017/2018	2016/2017
Highest (Rs.)	8.90	9.70
Lowest (Rs.)	7.10	6.90
Closing (Rs.)	7.30	7.10
Value of Shares Trades (Rs)	331,483,181	345,861,184
No. of Shares Traded	43,126,896	40,056,363
No. of Trades	6,245	5,536

8. Equity Information

	2017/2018	2016/2017
Earnings per share (Rs.)	0.64	0.70
Dividend per sahre (Rs.)	0.70	0.80
Net Asset Value per share (Rs.)	2.18	2.27
Dividend pay out ratio (%)	109.38	114.29

Independent Assurance Report on Sustainability Reporting

Building a better working world

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Independent Assurance Report to Vallibel Power Erathna PLC on the Sustainability Reporting Criteria Presented in the Annual Report-2017/18

Introduction and scope of the engagement

The management of Vallibel Power Erathna PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report-2017/18("the Report").

- Reasonable assurance on the information on financial performance as specified on pages 67 and 68 of the Report.
- Limited assurance on other information presented in the Report,prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' - Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' - Core guidelinepublication,publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company's responsibility for the Report

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 02 April 2018. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Companyor for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by theCompany on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 March2018.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: In accordance' - Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on pages 67 and 68 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2018.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.

Ernst & Young

Chartered Accountants

24 May 2018

Colombo

GRI Standards Content Index

GRI - 102-55

Global Reporting Initiative (GRI) Content Index - "In Accordance" - Core

GRI Standard Disclosures		Reference in the Report	Page number(s) of Reference
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102-1	Name of the organisation	Corporate Information	IBC
102-2	Activities, brands, products and services	The Vallibel Power Story and Corporate Information	IBC, 06
102-3	Location of headquarters	Corporate Information	IBC
102-4	Location of operations	The Vallibel Power Story	07
102-5	Ownership and legal form	Corporate Information	IBC
102-6	Markets served	Social & Relationship Capital	105
102-7	Scale of the organisation	The Vallibel Power Story and Year at a Glance	07, 11
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102-9	Supply chain	Social and Relationship Capital	104, 105
102-10	Significant changes to the organisation and its supply chain	The Vallibel Power Story and Social & Relationship Capital	06, 104
102-11	Precautionary Principle or approach	Natural Capital	95
102-12	External initiatives	The Report Profile	02
102-13	Membership of associations	Intellectual Capital	120
Strategy			
102-14	Statement from senior decision-maker	Chairman's Message	16
102-15	Key impacts, risks, and opportunities	Enterprise Risk Management and Business Review	49, 66
Ethics and Integrity			
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Stakeholder Engagement			
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102-51	Date of most recent report	The Report Profile	02
102-52	Reporting cycle	The Report Profile	02
102-53	Contact point for questions regarding the report	The Report Profile	02
102-54	Claims of reporting in accordance with the GRI Standards	The Report Profile	02
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102-56	External assurance	The Report Profile	02

GRI Standards Content Index

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Management Approach			
103-1	Explanation of the material topic and its Boundary	Assessment of Material Topics	76 to 81
103-2	The management approach and its components	Assessment of Material Topics	78 to 81
103-3	Evaluation of the management approach	Assessment of Material Topics	78 to 81
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GRI 201: Economic Performance			
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202-2	Proportion of senior management hired from the local community	Human Capital	108
GRI 203: Indirect Economic Impacts			
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204-1	Proportion of spending on local suppliers	Social and Relationship Capital	105
GRI 205: Anti - Corruption			
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GRI 304: Biodiversity			
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304-2	Significant impacts of activities, products, and services on biodiversity	Natural Capital	94
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GRI Standards Content Index

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GRI 401: Employment			
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408-1	Operations and suppliers at significant risk for incidents of child labour	Human Capital	116
GRI 409: Forced or Compulsory Labour			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Human Capital	116
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GRI 416: Customer Health and Safety			
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Social and Relationship Capital	105
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Glossary of Financial & Non Financial Terms

Financial Terms

Accounting policies
The specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting Financial Statements.

Accrual Basis
Recording revenues & expenses in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Available-for-Sale (AFS)
Non-derivative financial asset that are designated as available-for-sale or are not classified as loans and receivable, held-to-maturity investment or financial assets at fair value through profit and loss.

Basic earnings per share
Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period.

Borrowings
All interest-bearing liabilities.

Capital employed
Total equity, minority interest and interest-bearing borrowings.

Cash equivalents
Liquid investments with original maturity periods of three months or less.

Contingent liability
A condition or situation existing at the balance sheet date due to past events, where the financial effects is not recognized because;

01. The obligation is crystalised by the occurrence or non occurrence of one or more future events or,
02. A probable outflow of economic resources is not expected or,
03. It is unable to be measured with sufficient reliability.

Current ratio
Current assets divided by current liabilities. A measure of liquidity.

CSR
Corporate Social responsibility

Deferred taxation
The tax effect of timing differences deferred to/from other periods, which would only qualify for inclusion on a tax return at a future date.

Dividends
Distribution of profits to holders of equity investments.

Dividend cover
Profit attributable to ordinary shareholders divided by dividend. Measures the number of times dividend is covered by distributable profit.

Dividend yield
Dividend per share as a percentage of the market price. A measure of return on investment.

EBITDA
Abbreviation for Earnings Before Interest, Tax, Depreciation and Amortisation.

Effective tax rate
Income tax expense divided by profit from ordinary activities before tax.

Equity
Shareholders' fund.

Equity Instruments
Is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Financial Instruments
Is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Fair value
Fair Value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable willing seller in an arm's length transaction.

Gearing
Proportion of total interest-bearing borrowings to capital employed.

Key management personnel
Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Market capitalisation
Number of shares in issue multiplied by the market value of a share at the reported date.

Net assets per Share
Shareholders' funds divided by the weighted average number of ordinary shares in issue. A basis of share valuation.

Non-controlling interest
Is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Price earnings ratio
Market price of a share divided by earnings per share as reported at that date.

Related parties
Parties who could control or significantly influence the financial and operating policies of the business.

Retirement benefits
- Present value of a defined benefit obligation

Present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

- Current service cost

Increase in the present value of the defined benefit obligation resulting from employee service in the current period.

- Interest cost

Increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

- Actuarial Gains and Losses

Effect of difference between the previous actuarial assumptions and what has actually occurred and effects of changes in actuarial assumption.

Revaluation reserves
Excess value identified between the fair value and carrying value of the revalued assets.

Return on equity - ROE
Attributable profits to the shareholders divided by shareholders' funds.

Return on capital employed - ROCE
Profit before tax plus net interest cost divided by capital employed.

Return on assets
Profit before tax plus net interest cost divided by total assets.

Revenue reserves
Reserves considered as being available for distribution and investments.

Segments
Constituent business units grouped in terms of similarity of operations and location.

Subsidiary
A subsidiary is an entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the parent).

SLAS
Sri Lanka Accounting Standards. Also known as LKAS and SLFRS.

SLFRS/LKAS
Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards.

Value addition
The quantum of wealth generated by the activities of the Group measured as the difference between turnover and the cost of materials and services bought in.

Working capital
Capital required to finance day-to-day operations computed as the excess of current assets over current liabilities.

Non-Financial Terms

ACCA
Association of Chartered Certified Accountants

ICASL/CA Sri Lanka
The Institute of Chartered Accountants of Sri Lanka

CEPL
Country Energy (Pvt) Ltd - Subsidiary

CSE
Colombo Stock Exchange.

CEB
Ceylon Electricity Board.

CSR
Corporate Social Responsibility

CEA
Central Environment Authority

Glossary of Financial & Non Financial Terms

CER
Certified Emission Reduction

Co_2
Carbon Dioxide.

CDM
Clean Development Mechanism.

FDI
Foreign Direct Investments

Giga watt (GW)
Equal to one billion watts or to 1000 megawatts.

Giga Joules (GJ)
Equal to one billion joules or to 1000 mega joules. Joule is a derived unit of energy transferred or used.

GWh
Giga watt hours. Equal to one million kilowatt hours.

GRI
Global Reporting Initiatives.

GDP
Gross Domestic Product

GSSB
Global Sustainability Standards Board

GHG
Greenhouse Gas

JEDB
Janatha Estate Development Board

Kilowatt (kW)
Equal to 1000 watt.

LTGEP
Long-Term Generation Expansion Plan

LRC
Land Reform Commission

Mega watt (MW)
Equal to one million watts or to 1000 kilowatts

MHPP
Mini Hydro Power Project

NCRE
Non Conventional Renewable Energy

PUCSL
Public Utility Commission of Sri Lanka.

SLSEA
Sri Lanka Sustainable Energy Authority.

SPPA
Standard Power Purchase Agreement

VPEL
Vallibel Power Erathna PLC - Company

Watt-hour
Unit of energy which expended for one hour of time.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Seventeenth Annual General Meeting of Vallibel Power Erathna PLC will be held at the Kingsbury Hotel, Colombo 1, on Thursday, 28th June 2018 at 9.00 a.m. for the following purposes:

1) To receive and consider the Annual Report of the Board of Directors, Statements of Accounts and the Balance Sheet of the Company, for the year ended 31st March 2018 together with the Report of the Auditors thereon.

2) To re-elect Mr. S Shanmuganathan who retires by rotation in terms of Article 25 (10) of the Articles of Association, as a Director of the Company.

3) To re-appoint Messrs.' Ernst & Young, as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.

4) To authorize the Directors to determine and make donations for the year ending 31st March 2019 and up to the date of the next Annual General Meeting.

By Order of the Board
VALLIBEL POWER ERATHNA PLC

P W CORPORATE SECRETARIAL (PVT) LTD
Secretaries

Colombo
24 May 2018

Note:

- A shareholder entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a shareholder, to attend instead of him/her.
- A form of Proxy is enclosed in this Report.
- The completed form of Proxy should be deposited at the Registered Office of the Company, No. 27-2, East Tower, World Trade Centre, Echelon Square, Colombo 01, by 9.00 a.m. on 26th June 2018.
- For security reasons shareholders / proxy holders are requested to bring their National Identity Card or Passport when attending the meeting

Notes

Notes

Form of Proxy

*I/We……

of ………………………………………………………………………… being* a member/ members of VALLIBEL POWER ERATHNA PLC,

do hereby appoint ………………………………………………………… of ………………………………………………………… or failing *him/her

Mr. K D D Perera	of Colombo or failing him
Mr. P K Sumanasekera	of Colombo or failing him
Mr. S H Amarasekera	of Colombo or failing him
Mr. H Somashantha	of Colombo or failing him
Mr. S Shanmuganathan	of Colombo or failing him
Mr. C V Cabraal	of Colombo

as *my/our Proxy to represent *me/us and to speak and vote for *me/us on *my/our behalf at the 17th ANNUAL GENERAL MEETING OF THE COMPANY to be held at the Kingsbury Hotel, Colombo 1, on Thursday, the 28th day of June 2018 at 9.00 a.m, and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

	FOR	AGAINST
1) To receive and consider the Annual Report of the Boardof Directors, Statements of Accounts and the Balance Sheet of the Company for the year ended 31st March 2018 together with the Report of the Auditors thereon.		
2) To re-elect Mr. S Shanmuganathan who retires by rotation in terms of Article 25(10) of the Articles of Association of the Company, as a Director of the Company.		
3) To re-appoint Messrs Ernst & Young, as Auditors and to authorize the Directors to determine their remuneration.		
Special Business 5) To authorize the Directors to determine and make Donations for the financial year 2018/2019 and up to the date of the next Annual General Meeting.		

Signed this ………………………………………… day of ………………………………………… Two Thousand and Eighteen.

…………………………………………
*Signature/s

Note:
1) *Please delete the inappropriate words.
2) Instructions as to completion are noted on the reverse thereof.

Instructions as to Completion

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address and sign in the space provided. Please fill in the date of signature.

2. A Member entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a member, to attend and vote instead of him. Please indicate with an "X" in the boxes provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy in his discretion will vote as he thinks fit.

3. In the case of a Corporate Member, the Form of Proxy must be completed under its Common Seal, which should be affixed in the manner prescribed by the Articles of Association.

4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy, in the manner prescribed by the Articles of Association.

5. The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 27-2, East Tower, World Trade Centre, Echelon Square, Colombo 01, by 9.00 a.m. on 26th June 2018.

Please provide the following details:

Shareholder's NIC/ Passport/ Company Registration No.	Shareholder's Folio No.	Number of shares held	Proxy Holder's NIC No. (if not a Director)

Corporate Information

Name of Company
GRI - 102-1

Vallibel Power Erathna PLC

Legal Form
GRI - 102-5

A Public quoted company with limited liability incorporated under the Provisions of the Companies Act, No. 07 of 2007.

Date of Incorporation
07 th November 2001

Company Registration Number
P.Q. 103

Financial Year End
31st March

Nature of the Business
GRI - 102-2

Generate and Supply Electric Power to the National Grid.

Stock Exchange Listing
The ordinary shares of the Company are listed with the Colombo Stock Exchange of Sri Lanka (Stock Code : VPEL. N0000)

Board of Directors
Mr. K D D Perera – Chairman
Mr. S H Amarasekera
Mr. P K Sumanasekera
Mr. H Somashantha
Mr. S Shanmuganathan
Mr. C V Cabraal

Head Office and Registered Office
GRI - 102-3

27-2, East Tower, World Trade Center
Echelon Square, Colombo 01.
Telephone: 011 2381111
Fax: 011 2381115
E-mail: energy@vallibel.com
Web Site: www.vallibel-hydro.com

Subsidiary Companies
Country Energy (Pvt) Ltd. (unquoted)

Company Secretaries
P W Corporate Secretarial (Pvt) Limited
No.3/17, Kynsey Road,
Colombo 08.
Telephone:011- 4640360
Fax :011- 4740588
E-mail :pwcs@pwcs.lk

Auditors
Ernst & Young
Chartered Accountants
No.201, De Saram Place
Colombo 10.

Bankers
Commercial Bank of Ceylon PLC
DFCC Vardhana Bank PLC
DFCC Bank PLC
Hatton National Bank PLC
Pan Asia Banking Corporation PLC

Concept & Designed by
Copyline a great equation
Printed by Printel (Pvt) Ltd

Vallibel Power
Erathna PLC

www.vallibel-hydro.com