2019

VALLIBEL POWER ERATHNA PLC
ANNUAL REPORT 2018 | 2019

CONTENTS

As Vallibel Power surges into the second phase of its long term strategy, we remain confident in our ability to switch gears as we prepare to settle into a more intensively sustainable aspect of our business. Even though, our practices and production are eco-friendly, we don't stop there as we extend our efforts into our social and environmental spheres. Having completed another year of profit, we are embarking on a new beginning in which we look to serving the nation, and helping it reach beyond its potential through what we do and we look forward to the next two decades in which we will assist in the upsurge of Sri Lanka

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THE REPORT PROFILE

VALLIBEL POWER ERATHNA PLC
IAR-2018/19

We are pleased to present our Integrated Annual Report (IAR) - Year 2018/19 for the third consecutive year. Our integrated reporting approach aims to enable our stakeholders to make a more informed assessment of the value of Vallibel Power Group and its prospects. In this report we seek to fully integrate 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.

Scope and Boundary

GRI - 102-12,46, 48, 49, ,50,51,52

This IAR covers the annual reporting cycle of Vallibel Power Erathna PLC from 1 April 2018 to 31 March 2019 which is the corporate financial year. It provides an overview of the Company and its subsidiary, Country Energy (Pvt) Ltd which has been consolidated the all information presented in this IAR. The report is structured on a sustainable value creation process together with the related activities and performance in terms of both financial and non-financial facets for the reporting period.

Comparative information has been presented for the recent corresponding year ended 31 March 2018 without restating information.

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

Methodology

GRI - 102-56

The financial data and information on performance is prepared using the accounting data for the period from 1 April 2018 to 31 March 2019, audited by Messrs. Ernst & Young, Chartered Accountants. The non-financial information of Sustainability Reporting was audited by Messrs. 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.

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

Reporting Framework

GRI - 102-12

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

Framework	Report Coverage Level			
	Overall Report	Financial Report	Corporate Governance	Sustainability Report
Company's Act No. 07 2007	√	-	√	-
Regulatory requirements of Securities and Exchange Commission of Sri Lanka	√	√	√	-
Listing Rules of Colombo Stock Exchange	√	√	√	-
Integrated Reporting <IR>Framework	√	-	-	-
Sri Lanka Accounting & Auditing Standards Act No.15 of 1995	-	√	-	-
Sri Lanka Financial Reporting Standards (SLFRS & LKAS)	-	√	-	-
Code of Best Practice on Corporate Governance	-	-	√	√
GRI Sustainability reporting Standards	-	-	-	√

Forward Looking Statements

This report contains forward looking statements with respect to Vallibel Power's financial position, results of operations, business strategies, operating efficiencies, growth opportunities for existing business, plans and objectives of management. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. As such, the Company does not undertake to review or revise such forward-looking statements.

For More Information;

GRI - 102-53

www.vallibel-hydro.com

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
Colombo 01

energy@vallibel.com

We possess the enviable reputation for championing the green energy movement.

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ABOUT THE COMPANY

GRI - 102-2

Vallibel Power Erathna's journey to the summit of success began with a quest to deliver sustainable energy to power the nation. The capacity shortfall of state-owned Ceylon Electricity Board (CEB) to single-handedly meet the demands of a burgeoning economy, ignited the vision of the Vallibel Group to fuel national development efforts in the energy sector. It was a master plan conceived in the boardroom and delivered by the forces of nature. 'Zyrex Power Company Erathna Limited began operations in 2001 and partnered the CEB in generating electricity to the national grid on a BOO basis. The Company changed its name to 'Power Company Erathna Limited' in 2004, and a year later, in 2005, to 'Vallibel Power Erathna Limited (VPEL), the name we retain today. VPEL went public in 2006 and listed its shares in the Colombo Stock Exchange.

We are presently one of the largest public quoted mini hydropower company in Sri Lanka and manage and operate three mini hydropower plants, namely Erathna Mini Hydropower Plant, Denawaka Ganga Mini Hydropower Plant and the Kiriwaneliya Mini Hydropower Plant. The plants which have a cumulative capacity of 21.85 MW and generate about 82 GWh to the National Grid annually.

Vallibel Power Erathna PLC

Erathna MHPP

One of the largest mini hydro power projects with a high head in Sri Lanka situated in Kuruwita, Rathnapura District. It is the best MHP in the VPEL's project portfolio from 2004.

10 MW Plant Capacity

42 GWh Annual Average Energy

87.2%

Country Energy (Pvt) Ltd

Denawaka Ganga MHPP

Second MHP commissioned finally in Rathnapura district in 2012 under its subsidiary Country Energy (Pvt) Ltd. It is a lower headed project, however with a lengthy channel.

7.2 MW Plant Capacity

25 GWh Annual Average Energy

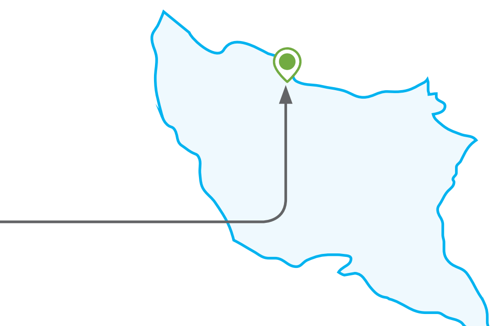
Kiriwaneliya MHPP

The second MHP project commissioned by Country Energy (Pvt) Ltd in 2011, which is situated in Nuwara Eliya District.

4.65 MW Plant Capacity

15 GWh Annual Average Energy

GRI - 102-4, 7

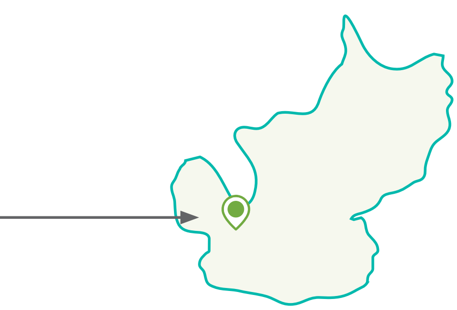


Erathna
Rathnapura District

Erathna MHPP	
Year of Commissioning	2004
Net Head	420 Meters
Penstock Length	2250 Meters
Channel Length	300 Meters
EM Plant Supplier	Voith Seimens
Location	Kuruwita, Rathnapura District
River	Kuru Ganga
Invested Company	Vallibel Power Erathna PLC
Direct Workforce	23

Malwala
Rathnapura District

Denawaka Ganga MHPP	
Year of Commissioning	2012
Net Head	33 Meters
Penstock Length	97 Meters
Channel Length	1800 Meters
EM Plant Supplier	Dongfeng Electric
Location	Malwala, Rathnapura District
River	Denawaka Ganga
Invested Company	Country Energy (Pvt) Ltd
Direct Workforce	38



Norton Bridge
Nuwara Eliya District

Kiriwaneliya MHPP	
Year of Commissioning	2011
Net Head	200 Meters
Penstock Length	1690 Meters
Channel Length	300 Meters
EM Plant Supplier	VS Energy
Location	Norton Bridge, Nuwara Eliya District
River	Maskeli Oya
Invested Company	Country Energy (Pvt) Ltd
Direct Workforce	20

HIGHLIGHTS OF THE YEAR

GRI - 102-7

OPERATIONS

Electricity Generation
Change -3%
79.9 GWh
2017/18 82.1 GWh

Erathna MHPP
Change -5%
41.8 GWh
2017/18 44.2 GWh

Denawaka Ganga MHPP
Change +6%
23.0 GWh
2017/18 21.7 GWh

Kiriwaneliya MHPP
Change -7%
15.1 GWh
2017/18 16.2 GWh

Outages
due to Plant and Grid Failures
1.79 %
2017/18 2.46%

FINANCIALS

Revenue
Change +15%
Rs. **1.3** Bn
2017/18 1.1 Bn

Gross Profit
Change +15%
Rs. **1.1** Bn
2017/18 0.95 Bn

Net Profit After Tax
Change +16%
Rs. **890** Mn
2017/18 763 Mn

Dividend
Change 0%
Rs. **523** Mn
2017/18 523 Mn

CSR Investments
Change +23%
Rs. **2.6** Mn
2017/18 2.1 Mn

NON-FINANCIALS

Employees
Change -4%
100
2017/18 104

Trees Planted
21,717 Trees
2017/18 1,100

Reduction of CO2 Emission
Change -3%
49,956 MT
2017/18 51,342 MT

Energy Consumption
Change -15%
797 GJ
2017/18 940 GJ

GRI - 102-7

Performance		2018/19	2017/18	Change %
Power Generation- Group	GWh	79.9	82.1	-2.7%
Revenue- Group	Rs.Mn	1,286.7	1,117.6	15.1%
Gross Profit	Rs. Mn	1,134.9	955.2	18.8%
Net Profit After Tax	Rs. Mn	889.9	763.4	16.6%
Dividend	Rs. Mn	522.9	522.9	Nil
Net Cash generated from Operating Activities	Rs. Mn	874.1	860.9	1.5%

Financial Position		2018/19	2017/18	Change %
Total Assets	Rs. Mn	3,072.2	2,805.6	9.5%
Total Debt	Rs. Mn	-	157.4	-100%
Shareholders Fund	Rs. Mn	2,561.1	2,245.1	14%
Net Current Assets	Rs.Mn	622.1	180.0	245%

Share Information (per share)		2018/19	2017/18	Change %
Earnings	Rs.	1.12	0.96	16.6%
Net Assets value	Rs.	3.43	3.01	14%
Dividend	Rs.	0.70	0.70	Nil
Market Price	Rs.	5.90	7.30	-19.2%

Other		2018/19	2017/18	Change %
Economic Value created	Rs.	1,284	1,078	19.1%
Total Energy consumed	GJ	797.5	940.4	-15.2%
Total workforce		100	104	-4%
No. of Trees planted		21,717	1,100	>999
Total CSR investment	Rs.Mn	2.6	2.1	23.8%

Awards and Accolades

Bronze Award - Power & Energy Sector

Annual Reports Awards -2018

Winner in "General Services (Utilities)" category

ACCA Sustainability Reporting Awards -2018

Winner as Asia's Best Integrated Report (SME)

Asia Sustainability Reporting Awards - 2018

Bronze Award - Sustainable Energy Generation Category

Presidential Environmental Awards- 2018

GRI - 102-16

VISION

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

MISSION

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

CORE VALUES

INTEGRITY

We act with trust, honesty, fairness and transparency

RESPONSIBILITY

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

SAFETY

We consider the safety of our people both within and outside the organisation

EXPLORATION

We encourage innovation and seek new and innovative renewable energy solutions

CORPORATE SOCIAL RESPONSIBILITY

We consciously manage our impact on the environment and indigenous communities in the vicinity of our plant sites

Delivery to Our Key Stakeholders

INVESTORS

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

EMPLOYEES

We care for our employees and create a positive and healthy working environment to give them pride in their work and increase their productivity

ENVIRONMENT AND COMMUNITY

We minimise the impact of our operations on the environment and conduct our business in a socially responsible manner through cordial engagement and partnership with communities

MILESTONES OF SUCCESS

2001 / 2002

Incorporation of the Company and commencement of the construction of Erathna MHPP.

2004 / 2005

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

2006 / 2007

Listing of Company's shares on Secondary Board of Colombo Stock Exchange.

Strategic investment made in shares of Fortress Resort Ltd.

2009 / 2010

Acquisition of Country Energy (Pvt) Ltd as a subsidiary.

Commencement of the construction of Kiriwaneliya & Denawakaganga MHPPs under the Subsidiary.

Transferring to the Main Board of Colombo Stock Exchange.

2011 / 2012

Commencement of commercial operations of Kiriwaneliya MHPP and Denawakaganga MHPP.

Bronze Award Winner- "Service Sector" - ICASL Annual Report Competition 2011.

2012 / 2013

Gold Award Winner-"Power & Energy Sector" - ICASL Annual Report Competition 2012.

Winner of ACCA Sustainability Reporting Award 2012- "First Time Reporting Category".

Bronze Award to Erathna MHP - 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 / 2014

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" - ICASL Annual Report Competition 2013.

VPEL Group reached to One Billion Rupees turnover.

2014 / 2015

Company and its Subsidiary were certified for ISO 9001 & 14001 for the implementation of Quality and Environmental Management Systems.

Silver Award Winner- "Power & Energy Sector" - ICASL Annual Report Competition 2014.

Bronze Award to Kiriwaneliya MHP - National Green Award-2013 organised by CEA.

Highest Dividend paid in the history - Rs. 747 Mn.

2015 / 2016

"Best Under A Billion Award" to the Company held by Forbes Asia.

Bronze Award Winner- "Power & Energy Sector "ICASL Annual Report Competition 2015.

Silver Award to Kiriwaneliya MHP - National Green Award-2015 organised by CEA

Commencement of "Empowering Green" tree planting programe as a CSR initiative.

2016 / 2017

Bronze Award Winner- "Power & Energy Sector" - ICASL Annual Report Competition 2016.

Publishing of First Integrated Annual Report

2017 / 2018

Silver Award Winner- "Power & Energy Sector" - ICASL Annual Report Competition 2017.

Silver Award to Kiriwaneliya MHP - National Green Award-2017 organised by CEA

Winner of ACCA Sustainability Reporting Award 2017 - "SME" Category.

2018 / 2019

Bronze Award Winner- "Power & Energy Sector" - ICASL Annual Report Competition 2018.

Bronze Award to Kiriwaneliya MHP - Presidential Environmental Awards-2018

Winner of ACCA Sustainability Reporting Award 2018 - "General Services (Utilities)" Category

Winner as Asia's Best Integrated Report - "SME Category" Asia Sustainability Reporting Awards - 2018 held in Singapore.

OUR BUSINESS MODEL

INPUT CAPITALS - *As at March 31, 2019*

Financial Capital
- Stated Capital - Rs. 1,174 Mn
- Revenue Reserves - Rs. 600 Mn
- Borrowings - Rs. 1.9 Bn (fully paid-off)

Pg. 89

Natural Capital
- Lands - 12.3 Ha
- Water Stream
- Energy

Pg. 96

Social and Relationship Capital
- Ceylon Electricity Board - National Grid
- Supplier base
- Community Consent

Pg. 104

Human Capital
- Talented Employees - 100

Pg. 112

Manufactured Capital
- Electro-Mechanical Equipments Rs. 1,084 Mn
- Civil Constructions - Rs. 1,725 Mn
- Other PPE - Rs. 56 Mn

Pg. 120

Intellectual Capital
- Government Licence & Approvals
- Awards and Accolades
- "Vallibel" Brand

Pg. 123

VALUE CREATION PROCESS

Exploration

We explore new ways of accessing renewable energy that could create maximum wealth for our shareholders as well as assure a sustainable future for the entire nation, which ensures that we do the least harm to people and the planet.

Development

At the building stage, we not only decide on plant capacity and output, but also plan and develop our business in a manner that maximises operational efficiency and minimises any negative impacts of our operations on the environment.

Generation

We carry out our core business of generating electricity to the national grid to fuel economic development in the country, by building an efficient operation right from the planning stage and ensuring that all business activities are conducted in a sustainable manner.

Supplying

Our contribution to the nation extends beyond supplying electrical energy, to seeking ways and means of supplementing our renewable portfolio with clean and green energy that will benefit the entire country.

Pg.10 Vision, Mission and Values

Pg. 38 Strong Governance & Corporate Culture

Our value creation model guides our day-to-day activities and is at the core of everything we do. It has been developed over time and fine-tuned after adopting compelling shareholder engagement processes and resource optimisation strategies that work for us, and shows the six critical capital resources we rely on to create value for our stakeholders while generating green energy for the national grid. The skills and experience of our workforce as well as the intelligence quotient of our management are vital to the success of our business, as are our technologically advanced infrastructure and processes. Our business is also sustained by our business partners and the communities and environment that surround us. Galvanised by our principles of sound corporate governance and our commitment to integrated risk management and corporate social

GRI - 102-10

OUTPUT

OUTCOMES

Cumulative as at March 31, 2019

VALUE CREATED THROUGHOUT
15 years

858 GWh	Rs. **10.2** Billions
Cumulative Clean Hydro Energy Generated	Gross Revenue Earned

Public Shareholders
- Distributed Rs. 5.2 Bn as Dividends
- Rs. 2.8 Bn of Net Assets

Employees
- Direct Salaries and post Employment Benefits - Rs. 503 Mn
- Other Employee Benefits - Rs. 195 Mn

Government
- Paid as Taxes and Levies - Rs. 479 Mn

Lenders of Capital
- Repayment of Capital - Rs. 1.9 Bn
- Payment of Interest - Rs. 786 Mn

Community
- Investment in CSR - Rs. 14.7 Mn
- Community Donations - Rs. 18.1 Mn
- Local Employments - 68

Environment
- Reduction in CO2 Emission - 536,604 MT (Approx)
- No. of Trees Planted - 26,342 trees

Pg. 57 Integrated Enterprise Risk Management

Pg. 64 Environmental & Corporate Sustainability

responsibility, we use these valuable inputs effectively and efficiently to create diverse forms of value for our varied stakeholders. Through integrated thinking we demonstrate throughout this Annual Report how these forms of value although varied, are intimately related to each other, and explain how, by continuously adding value to each input, we successfully enhance the overall value of our product. This has been the key to enabling us to generate greater profitability year by year.

During the year of review, there have been no significant changes in the structure, size, ownership, operations and supply chain of the business, including this business model.

CHAIRMAN'S MESSAGE

GRI - 102-14

" Despite these challenges, however, we will continue to operate from a position of strength to ensure that the best interests of each of our stakeholders are addressed. We will embark on the next phase of our journey with our strong social conscience in the forefront, upholding our pledge to uplift the lives of marginalised communities and preserving the pristine nature of vulnerable habitats. Having been in the vanguard of pioneering social and environmentally- friendly practices since inception, we are confident that our efforts have been changing lives for the better. It is this confirmation that powers our future in the industry."

Dear Shareholders,
It is my great pleasure to welcome you to the 18th Annual General Meeting of Vallibel Power Erathna PLC and to set out before you our 3rd Integrated Annual Report and Financial Statements for the financial year ended 31 March 2019.

I am happy to state that performance of your Company was satisfactory notwithstanding a drop in power generation. While Power Generation declined during the year to 79.9 GWh, which is 3% less than the 82.1 GWh generated in 2017/18, the Company achieved a Revenue of Rs. 1,286.7 million, which is a 15% increase over last year's figure of Rs. 1,117.6 million due to the tariff increase effected in 2018. Group Net Profit saw a corresponding rise to Rs. 890 million, which is 16.5% higher than the Rs. 763.4 million achieved in 2017/18.

Our main focus during the year of review was to keep costs in check in order to maximise revenue and thereby the returns to you, our esteemed shareholders. The year was a milestone one as it signified the conclusion of the first phase of the 15- year odyssey of the Erathna Plant , our principal power plant.. Our performance during the year was also satisfactory. I am happy to state that we will be embarking on our next phase of operations and have been in discussions with the government for a further 20 - year extension of the life of Erathna MHPP, which is significantly higher than the 5 years as was confirmed earlier. When finalised, the Company will keep the shareholders informed of the salient features of the extension and the rates as applicable.

However, this extension comes with certain constraints due to the fact that our operations over the next two decades will be based on a tariff, which, although it incorporates an in-built 3% escalation rate , will be substantially lower than the tariff for the current year/ for the past 15 years.

This is a cause for concern since it will undoubtedly narrow your Company's profit margins in the years to come and could, consequently, have repercussions on our returns on investment.

Despite these challenges, however, we will continue to operate from a position of strength to ensure that the best interests of each of our stakeholders are addressed. We will embark on the next phase of our journey with our strong social conscience in the forefront, upholding our pledge to uplift the lives of marginalised communities and preserving the pristine nature of vulnerable habitats. Having been in the vanguard of pioneering social and environmentally - friendly practices since inception, we are confident that our efforts have been changing lives for the better. It is this confirmation that powers our future in the industry.

We will intensify our focus on sustainability initiatives that embrace people and the planet. We will continue to uplift the living standards of the impoverished communities living in and around our catchment areas with continued investment in a variety of education, healthcare and social upliftment initiatives as part of our approach to help drive inclusive growth in the country.

We will also continue our initiatives in replenishing depleted vegetation with extensive plantation in our project areas through our flagship project 'Empowering Green' begun three years ago, which promotes the need for a green environment by planting trees around the country.

Our achievements over the past decade-and-a-half provide a robust platform for continued performance in the next

"The year was a milestone one as it signified the conclusion of the first phase of the 15- year odyssey of the Erathna Plant, our principal power plant. Our performance during the year was also satisfactory. I am happy to state that we will be embarking on our next phase of operations and have been in discussions with the government for a further 20 - year extension of the life of Erathna MHPP, which is significantly higher than the 5 years as was confirmed earlier. When finalised, the Company will keep the shareholders informed of the salient features of the extension and the rates as applicable."

CHAIRMAN'S MESSAGE

20 years. We will focus on maintaining operational excellence and draw on shared values to continue to generate sustainable returns to our people and planet.

Our 15- year journey in the power sector has marked some significant milestones. Erathna MHPP alone has contributed 600 GW to the national grid, which is, arguably, the highest amount of hydro energy generated by a mini hydropower company in Sri Lanka to date. This includes the over 850 GW contributed in total by all our three power plants. This, If measured in terms of fossil fuels is equivalent to a substantial 200 million litters of oil, which would have cost Sri Lanka a significant outlay in foreign exchange.

Our Industry expertise has been a key differentiator. We have played a lead role in raising the standards of the mini hydropower industry by harnessing the knowledge and specialised expertise gained over the years in a coherent and productive manner that has benefitted the industry as a whole. We have, in turn, learnt a great deal and gained hands- on experience in setting up and maximising the operations of large-scale mini hydropower entities.

Local energy outlook

The energy industry plays a lead role in Sri Lanka's development initiatives and the country has made significant progress in the electricity sector to date. Electricity generation has increased fourfold between 1992 and 2016, grid connectivity island-wide has doubled from just 50% in 1990 to 100% the population by 2018, and operational efficiencies have improved, with technical losses in transmission and distribution reduced to less than 10%.

However, the quantity of electricity presently available is still insufficient to meet the country's escalating energy needs because the reservoir-based hydro power plants lack the capacity to provide optimal power during the dry season The power crisis which led to power cuts as recently as in March to April 2019 brought home this stark reality. The prolonged drought caused the shortfall of a substantial 600 MW to the national grid, which confirms the need for the country to have a sustainable infrastructure in place if it is to rely on renewable energy. According to the Minister of Power and Renewable Energy, the government plans to turn to fossil fuels to meet this shortfall in power by introducing 4 LNG plants, 4 coal power plants and three more gas turbine power plants that will have a combined generating power of 2,500 MW. Unfortunately, no mention has been made about the importance of strengthening infrastructure to introduce clean energy like solar and wind power.

As a developing country with an expanding population, Sri Lanka's demand for electricity will increase in the future. Reducing the country's dependence on fossil fuels will result in significant savings that can be channelled to other developmental priorities. Economic growth could then be built on a foundation of long-term, low or zero carbon sustainability. It is therefore imperative that the country secures its energy future by focusing on the development and adoption of indigenous, renewable sources of energy.

However, several important considerations must be kept in mind during this transition. Sri Lanka has abundant potential for harnessing wind and solar energy and alternative clean energy resources which may be less dependent on the vagaries of the weather and are more readily available. Yet the conversion will involve high costs and technical challenges. Currently, the capacity utilisation levels of RE sources are much lower than conventional sources so a substantial amount of supporting infrastructure development will be needed to achieve 100% RE. This will require substantial investment to develop capacities and a proper mix is required to meet the evening peak demand when solar energy is not available.

These considerations must be adequately addressed and a cohesive plan to gradually phase out fossil fuels must be drawn up in which the private sector can participates actively in terms of investment. The future will then be bright for renewable energy.

Global Energy Outlook

The global energy industry is in a state of transition. Electrification grows rapidly and renewables expand as upheavals in oil production take place and natural gas markets are globalised. The energy world is connecting in different ways because of shifting supply, demand and technology trends where carbon capture, utilisation and storage are pursued, new sources of energy are utilised, new ways of energy delivery are adopted and new energy uses are sourced.

These developments dictate that the future power market will be designed differently, and prompt governments around the world to realise the importance of achieving universal energy access whilst improving air quality and energy efficiency and exploring more options for renewable energy.

Based on present trends and country policies, global demand for energy is forecast to grow by more than 25% by the year 2040. Expanding incomes and an extra 1.7 billion people, mostly living in urban areas in developing economies, are pushing up global energy demand.

Policy support and technology cost reductions are leading to the rapid growth of variable renewable sources of generation, which puts the power sector in the vanguard of emissions reduction efforts. Renewable energy technologies are also paving the way to universal energy access as the costs of solar PV and wind continue to fall. The share of renewables in the power mix is forecast to rise from one-quarter today to two-thirds in 2040; in the provision of heat it will rise from 10% to 25% and in transport it will rises from 3.5% to 19% (including both direct use and indirect use, e.g. renewables-based electricity). In 2040, renewables and coal will change places in the power mix with the share of generation from renewables rising from the present 25% to around 40% in 2040.

Electricity is increasingly becoming the fuel of choice in economies that rely more on lighter industrial sectors, services and digital technologies. Although electrification brings benefits, notably by reducing pollution, it requires additional measures to decarbonise power supply if it is to unlock its full potential to meet climate goals. However, a much stronger push for electric mobility, electric heating and electricity access could lead to a 90% rise in power demand to 2040.

State Partnership

We deeply value our relationship with the government and our mutual partnership in creating value in the energy sector to promote sustainable development. We recognise that a balanced and disciplined development plan to take forward the industry is a prime responsibility of the State which we will support with capital investment wherever and whenever feasible. New developments in energy must set us on course for a long-term policy vision that allows innovation and outlines climate adaptation targets that reduce greenhouse gas (GHG) emissions as well.

However, the mini hydropower sector is reaching saturation today, having led the renewable energy sector for the past two decades. It could continue to play a significant role in supplying the grid with substantial power if the government rethinks its policies and tariff formulation structure to be more in line with the demands and challenges of current electricity power generation. Despite these challenges, we have committed to support state efforts to set up projects that promote renewables.

Awards and Accolades

The year has also been a rewarding one in terms of recognitions earned from a number of institutions for our professionalism and prowess in several operational areas. We were recipients of the Bronze Award at the Annual Reports Awards 2018 conducted by CA Sri Lanka and the Company was recognised as the Winner in two sustainability reporting awards events. These include the Asia Sustainability Reporting Award 2018 and the ACCA Sri Lanka Sustainability Reporting Awards 2018. The Kiriwaneliya MHPP also received the Bronze Award at the Presidential Environment Awards 2018.

Future

VPEL has always been a value driven company and we follow our value framework in all our aspects of business. We realize that our business principles have stood us well in terms of ethical business practices and sound business principles. We will continue to introduce new technologies and improve existing systems to further enhance efficiencies across the board, which will ensure the efficient operation of all three power plants into the future. We will pursue such also continue to manage our capital efficiently and ensure losses from operational breakdowns at a minimal level.

Your company will, in future years, draw on the many strengths that have continued to sustain us. The resistance developed to outside vagaries over the years has equipped us to weather the storms of adversity, a strength that powers our current performance. Our financial strengths and robust operational efficiencies not only mean that we are a company that has done well in the past but also that we can use them to our advantage in remaining competitive well in to the future.

Appreciations

In closing, take the opportunity to thank my Board of Directors for their vision and guidance which have been invaluable in taking the Company forward. I also wish to thank my management team and staff for their excellent stewardship and commitment to our values which have contributed substantially to the Company's success and defined our direction.

Dhammika Perera
Chairman

27 May 2019

JT. CEO'S STRATEGIC REVIEW

" We continued to adjust our ways of working and delivering efficiency throughout the year. Several measures were put in place across all business frontiers to make the Company more agile in terms of business deliverables. The results of these measures are being experienced already, and the Company is confident it will remain competitive and to retain its position as industry leader into the next decade. "

A Favourable Performance Climate

The current fiscal year was an improvement over the previous one in terms of both the business as well as natural environments. Revenue for the year grew by 15% to Rs. 1,286.7 million, from Rs. 1,117.6 million posted in 2017/2018, largely due to the increased tariff during the year. This boosted the growth of Group Net Profit by 16.5% to Rs. 890 million, from Rs. 763.4 million in 2017/18. However, despite favourable rainfall patterns during the calendar year 2018 that enabled higher generation to the grid, the dry period that started in the December 2018, reduced the generation capacity of the power plants, thereby negating the positive performance achieved in the first three quarters of the financial year. This resulted in a 3% reduction in power generation during the period to 79.9 GWh, from 82.1GWh generated in the same period last year. The gained profits were returned to shareholders in dividends of 70 cents per share with a total value of over Rs. 522.9 million.

We continued to adjust our ways of working and delivering efficiency throughout the year. Several measures were put in place across all business frontiers to make the Company more agile in terms of business deliverables. The results of these measures are being experienced already, and the Company is confident it will remain competitive and to retain its position as industry leader into the next decade.

The first phase of the Erathna mini hydropower plant will reach completion in mid-2019. The plant has consistently produced a considerable output to the national grid and been the mainstay of the Company. Over the past decade-and- a-half of its life, Erathna has generated substantial cash flows for the Company as a result of its operational efficiencies, and is still equipped to function at optimal capacity. Authoritative sources intimate that Erathna MHPP will be granted a further 20- year extension. Despite having an in-built escalation rate of 3%, the revised tariff will be Plant Factor Based which will be about 50% less than the Avoided Cost tariff we presently work with. This will negatively impact our profits of the future which could, in turn, reduce shareholder returns.

Local Electricity Generation Sector Analysis

Central Bank of Sri Lanka figures indicate that electricity generation during the calendar year increased by 4% to15,255 GWh over 2017 figures. It is gratifying to note that power generation through Non-Conventional Renewable Energy (NCRE) sources also increased by 17.3 % during the year to 1,716 GWh of which mini hydropower generation comprised the largest component, having risen by 27.3 % to 1,203.4 GWh due to more abundant rainfall in catchment areas. Mini hydropower was followed by solar power generation which increased by 15.3% during the year to 98.2 GWh. Of the total power generation in 2018, hydropower comprised 34 %, fuel oil and coal were 24 % and 31% respectively, while NCRE sources contributed 11 %. The CEB reported a power generation of 77.4 % during the year, an increase from 72.9 % in 2017,reducing overall transmission and distribution losses by 7.6 %, from 8.5 % in 2017, which is commendable. The balance 22.6% energy was purchased from independent power producers. Total electricity sales rose by 5.0 % to 14,100 GWh, from 13,430 GWh in 2017.

In this scenario it is a cause for concern that the Cabinet approved the national policy on the energy mix during the year. The approved energy mix is to be met by 2030 and will comprise 30 % LNG, 30 % coal, 25 % large hydropower, the balance 15 % will be from local furnace oil and NCRE. The low contribution of NCRE to the energy mix confirms the continued lack of state priority given to developing NCRE, despite global emphasis on phasing out fossil fuels. LNG and coal plants require expensive infrastructure investments and emit GHG. Furthermore, this mix refutes the CEB's Long Term Generation Expansion Plan (2018 - 2037) which claims to prioritise implementation of sustainable energy policies to increase the NCRE contribution to 50 % by 2030.

The government needs to rethink its priorities if Sri Lanka is not to be left behind in the race to transition to green energy. In the medium term, however, the country is perfectly positioned to operate a hybrid power system. With the existing hydro and thermal power plants in place, a plan to increase the power generation capacity to develop wind and solar is technically feasible. The Ministry of Power and Renewable Energy forecasts the demand for electricity to grow by 7% - 8% over the next decade. An equitable national electricity generation mix can be attained to cater to this demand only if policies support the outcome. This would pave the way for Sri Lanka to attain energy security while protecting its natural, human and economic wealth by embracing sustainability best practices.

A Sustainable Approach to Profitability

Sustainable profitability for our business means we provide a product that is both profitable and environmentally friendly. We have adapted our business model to take advantage of sustainability opportunities throughout the business and measure our profitability against acclaimed GRI standards. The sustainability awards we win YoY confirm the success of our sustainability strategy.

JT. CEO'S STRATEGIC REVIEW

Our commitment to social responsibility

The Company has, over the years, contributed substantially to building up impoverished and marginalised communities as well as the natural environment. We have given communities the power to improve their living standards, unlocked health and education opportunities, and ensured the safety of vulnerable people. This has helped them create strong communities which are now enabling them to thrive and not merely survive.

Our flagship project 'Empowering Green' has now spread its roots to many parts of the island and it is progressing successfully. The project has a dedicated nursery that houses over 50,000 young plants. 'Empowering Green' has added a new dimension to employee volunteerism by encouraging our workers to nurture young plants situated in nurseries built at our power plants, during slack periods of the working day. Employees are also encouraged to earn extra income by growing the seeds of valuable trees and shrubs supplied by the Company in their own homes and selling them to the Company.

Our People

Our people have been the cornerstone of our business. So, providing them with a safe and congenial working environment is our priority, and forms an integral part of our work procedures. Our policies are focused on developing human potential through skills upgrading and career enhancement to achieve organisational objectives. We motivate our employees through wages that are above the minimum wage rate and provide them with benefits commensurate with their positions and responsibilities.

Our staff is encouraged to interact with the indigenous communities in the vicinity of our power plants and, as mentioned above, is also actively involved in progressing our environmentally responsible project 'Empowering Green.' Employee volunteerism has become important in the aspect of employee engagement and has been a mutually beneficial and sustainable option for the Company. It has supported recruitment and retention, built relationships, and strengthened our internal culture. It has also been invaluable in our interactions with local communities.

Outlook for the Future

Sri Lanka is gaining a reputation globally for its expertise in renewable generation technologies and is being sought after to initiate RE programmes in other developing countries. Our experts have made significant contributions to developing the renewable energy sector in African region, and other countries are following suit. VPEL has a highly trained technical team well-equipped to get onto this bandwagon. This is yet another avenue that the Company may pursue to position renewable technology as a key foreign exchange earner for the country.

In step with this initiative, the Company continues to explore the options of investing in sustainable RE wind and/or solar power projects either locally or in international markets.

Acknowledgements

We would like to express our deep appreciation to our Chairman and Board of Director whose vision and business acuity guided us to achieve our goals. We also thank our many stakeholders for their confidence in the company and support over the years. Last but not least, our heartfelt thanks to our valued employees whose commitment and willingness to go the extra mile have placed us at the apex of sustainability, confirmed by awards won year after year.

Russell De Zilva
Jt. CEO

A K Dheerasinghe
Jt. CEO

27 May 2019

We implement the finest operational practices through responsible and accountable stewardship.

BUSINESS REVIEW

Industry Overview

Global outlook

The global energy industry is transforming. Electrification is growing, renewables are expanding, oil production is experiencing upheavals and natural gas markets are being globalised. Geopolitical factors are also exerting new and complex influences on energy markets, underscoring the critical importance of energy security. The most pertinent factor in all these changes across regions and fuels is that the policy choices made by governments today will determine the energy systems of the future.

Driving this transformation is the transition from an almost total dependence on large, centralised generation, transmission, and distribution technologies, to systems that also embrace distributed, digitally enhanced, and low-carbon technologies. The most important way to prepare for these changes is to identify opportunities that these energy industry trends present before they disrupt businesses. In the case of electricity, efficiencies gained from stringently trimming energy performance standards have been instrumental in curtailing electricity demand during the year, with several developed economies experiencing declines in electricity use since 2010. Electricity demand in developing economies will, however, double in the next two decades as economic development strives to keep pace with emissions reduction. Proper policy initiatives and incentives should enable NCRE sources bridge the gap between electricity demand and generation.

Electricity markets are undergoing a unique transformation with higher demand brought by the digital economy, electric vehicles and other technological change. As part of its deep-dive into the electricity sector this year, WEO 2018 examines what impact of higher electrification in transportation, buildings and industry. The analysis finds that higher electrification would lead to a peak in oil demand by 2030. Attempts will be made to reduce harmful local air pollutants but these would have a negligible impact on carbon emissions if stronger efforts are not made to increase the share of renewables and low-carbon sources of power.

Forecasts are that renewables will also increase to make up almost two-thirds of global capacity additions to 2040, if costs reduced and government policies support the transition. This will transform the global power mix, with the share of renewables in generation estimated to rise to over 40% by 2040, from 25% today, although coal will remain the largest source and gas will remain the second-largest.

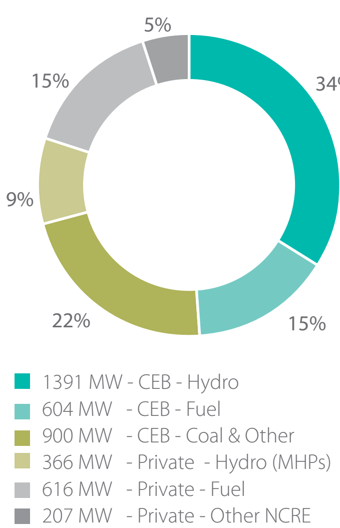
This expansion will bring major environmental benefits but also a new set of challenges that policy makers need to address. With higher variability in supplies, power systems will need to make flexibility the cornerstone of future electricity markets. Countries around the world are predicted to ramp up their share of solar PV and wind, which will require market reforms, grid investments, as well as improving demand-response technologies such as smart meters and battery storage.

Local Business Outlook

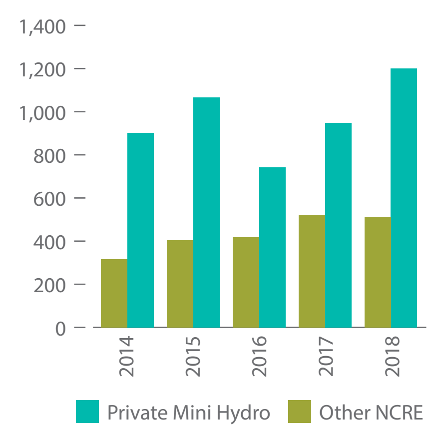
Over the past 10 years, the country doubled its Installed capacity from 2684 MW in 2009 to 4085 MW in 2019. Generation has also expanded substantially, from 9882 GWh in 2009 to 15, 255 GWh in the current year, which includes both state and private power contributions. However, despite this increase the power generated falls short of demand as the population expands and Sri Lanka progresses on its growth trajectory.

The installed capacity of private hydropower doubled during this 10 year period from 172 MW to 366 MW, generation more than doubling, from 525 GWh in 2009 to 1,203 GWh in 2018. It is the contribution of other NCREs – wind, solar and biomass to the national grid that has shown the most significant increase, however. Renewable has grown in leaps and bounds, from 23 GWh in 2009 to 510 GWh a decade later. This confirms the country's shift in focus to clean energy, which is a gratifying development and augurs well for the future.

Country's Power Plant Portfolio *(%)*



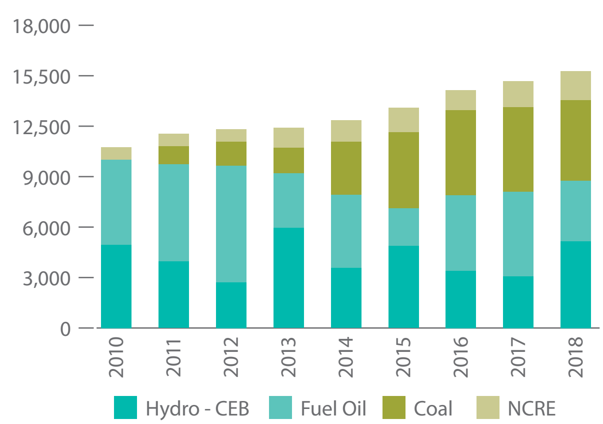
NCRE Performance *(GWh)*



Source: Central Bank Annual report 2018

The country's energy mix during the calendar year 2018 comprised - Hydropower including mini hydro 34%; Coal 31%; Fuel oil 24% and NCRE 11%. However, only 45% of the country's energy mix is produced indigenously to cater to escalating demand - biomass, large hydro and renewables such as solar, wind and mini hydro, of which mini hydropower is almost fully harnessed. The dearth of indigenous fuel resources forces Sri Lanka to import costly fossil fuels like petroleum and coal to meet the escalating energy demand. This increased dependence on fossil fuels has not only led to a steady rise in emissions but it has also placed a heavy load on the country's import bill because it comprises the major component. So, it imperative that the government takes steps to reduce the country's dependence on fossil fuels by stepping up production of indigenous green energy resource.

Electricity Generation Mix of Last Decade *(GWh)*



Source: Central Bank Annual report 2018

But little progress in this direction seems to have been made to date. On the contrary, according to Central Bank of Sri Lanka statics, the country seems to be increasing its dependence on fossil fuels: imports of almost all fossil fuels grew substantially in 2018 - crude oil increased by 38.9 %; refined products by 19.3 %; L.P. Gas by 14%. Only coal imports reduced by 9.5 % due to the increased generation of hydropower during the year. Reducing fossil fuel imports will also reduce the colossal financial losses experiences by the CEB as was experienced during the year. The weak financial performance of the CEB improved this year due to the savings incurred on reducing coal imports as a result of the increased hydropower generation, which reduced CEB losses by close to Rs.17 billion.

This is one more reason to support the increase of indigenous renewable energy production: if sufficient quantities are available, imports of fossil fuels can be reduced. A joint study by the UNDP and the ADB notes that the country's electricity needs will increase from the current 3,700 megawatts MW to about 34,000 MW by 2050.

Although the government does seem to realise the importance of leaning towards an energy mix that favours renewables, it seems unable to walk the talk. At the UN Climate Change Conference held in Marrakesh in 2016, Sri Lanka agreed to generate electricity from 100% renewable energy sources by 2050. The country's Nationally Determined Contributions (NDC) were re-submitted to the UNFCC in 2016, and outline a range of targets to facilitate this aim. These targets include: establishing large scale wind power farms to generate 514 MW; replacing planned thermal power plants by generating equivalent amounts of electricity; broadening the solar power electricity generation capacity with increased private sector participation and adopting of advanced internationally available technology; establishing solar power plants with a capacity of up to 115 MW; promoting the use of biomass (fuel wood) and waste (municipal, industrial and agricultural) by elevating their use in power generation projected to add 104.62 MW by 2025; promoting mini and micro hydro power generation projects with a targeted additional capacity of 176 MW; encouraging fuel switching to biomass in industries and adopting energy efficient and environmentally sustainable transport systems. However, little headway has been made in these areas, to date. Many of the pledges at the Paris Agreement and for meeting the world's sustainable development goals when actioned, must be met using digital applications and cheaper renewable energy technologies. The role played by electricity will become increasingly important here.

In the short to medium- term, however, the initial transition to RE energy sources could be made via a hybrid power system, for which the country is well geared as we speak. With the existing power plants in place (thermal + hydro), a programme could be initiated to increase the power generation capacity by aggressively pursuing the development of wind, solar, diesel plants and battery systems.

The private sector has a lead role to play in supporting and setting up renewable energy production. It is heartening to note that a number of large and medium private corporations are now actively participating in investing and developing RE. The transition also requires a robust investment climate.

BUSINESS REVIEW

VPEL's Business Overview

Run of River projects assure clean power and generate low GHG

All three projects are run-of-river (ROR) systems, which means they generate power by harnessing the natural energy of the water flows from the respective rivers near which they are located. The huge advantage here is that small, well-sited ROR projects can be developed with minimal environmental impacts, whereas larger projects have a host of environmental concerns.

Unlike large hydropower projects ROR systems do not have a reservoir, so no flooding of the river takes place, and communities can remain living near the river and existing habitats are preserved. Lack of a reservoir also means that the methane and carbon dioxide emissions caused by the decomposition of organic matter in the reservoir of a conventional hydro-electric dam do not occur. A disadvantage in not having a reservoir is that the quantity of power generated relies on the seasonal flows of the river, which in turn, is dependent on the rainfall in the catchment areas.

The limited availability of sites is a constraint to developing ROR systems. Due to the cost of upstream construction, MHPPs look for strong river flows or steep drops such as falls or rapids to generate the necessary water force, which are limited in any country, as is the case in Sri Lanka too.

Our Approach to a Sustainable and Strategically Positioned Business

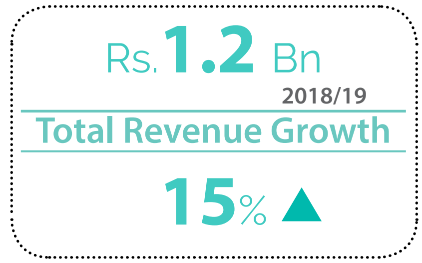
Whether exerting our power generation capabilities or exploring new options in renewable energy, our strong social conscience continues to deliver long- term benefits to people and the planet, while ensuring we stay profitable to meet the needs of our stakeholders. We embrace the vision to seize new opportunities and commit to acting ethically in all business activities, considering the environmental, social and governance (ESG) risks associated with our actions. We will continue to lead the mini hydro industry in integrating ESG factors into the power sector, and practice professionalism in every area of strategic business.

We remain in the forefront of developments in the energy sector, and commit to continue implementation of all our ESG integration activities through Group-wide corporate rules on risk management, governance and responsible investment.

(Information on our approach to a sustainable business is provided in more detail in the reports on the six capitals.)

Group Performance

The first three quarters of the current fiscal year experienced sufficient rainfall to enable the Company to generate a substantial output to the grid. However, early drought that commenced from the last month of the calendar year, substantially reduced output up to the conclusion of the fiscal year. which correspondingly reduced the cumulative total output for the current financial year. This setback resulted in the Company generating a cumulative output of 79.9 GWH during the year, reduced by 3% from 82.1 GWh generated in 2017/18. Despite this, a 15% rise in revenue to Rs. 1,286.7 million was achieved.



Avoided Cost Tariff History *(Rs. kWh)*

Avoided Cost Tariff (Rs./KWh)

	Wet	Dry
2018	15.70	17.58
2017	13.47	15.43
Increase	16%	14%

Profitability was maintained throughout this year too, with measures taken to contain costs and by pursuing high operational efficiencies in all areas. Plant maintenance schedules were followed systematically, and plant malfunctions were addressed immediately they arose.

BUSINESS REVIEW

Individual Performance Score Card

ERATHNA MHPP

41.8 GWh
2018/19
Power Generation

47.7%
2018/19
Plants Factor

1.42%
2018/19
Plant Outages

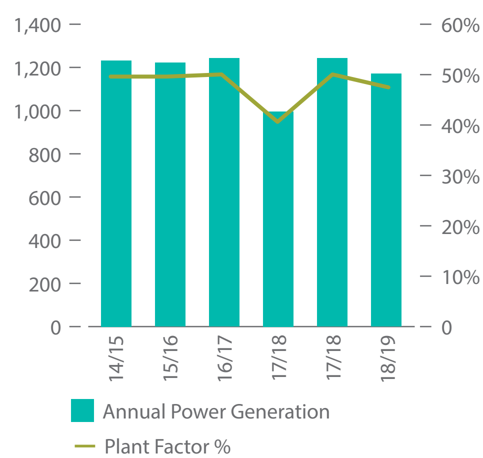
Project Name	Erathna MHPP
Installed Capacity	10 MW
Average Annual Energy	42 MW

Operational Highlights			
	2018/19	2017/18	Variance
Power Generation (GWh)	41.8	44.2	-5%
Plant Factor	47.7%	50.5%	-5%
Financial Highlights			
	2018/19	2017/18	Variance
Revenue (Rs. Mn)	671.6	601.3	12%
Segment NPBT (Rs. Mn)	750.8	555.1	35%
Tariff	Avoided Cost Tariff		

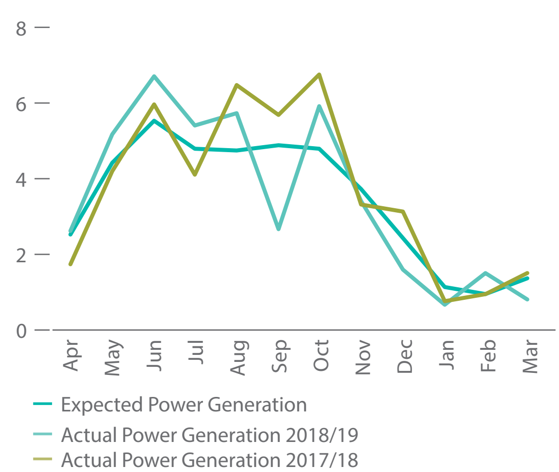
**Note - % of Plant outages includes outages due to both plant and Grid failures*

The Erathna MHPP generated 41,796,220 KWh during the year of review which earned the Company a revenue of Rs. 671.66 million, against the preceding financial year during which a generation of 44,195,032 KWh earned a revenue of Rs. 601.36 million. Considerable drop in generation experienced in September, October and dry season started in December 2018 resulted to the lower output Erathna MHPP than we expected. Although generation declined by 5% during the year, the higher tariff provided during the year resulted in the 11.7% increase in revenue.

Annual Power Generation *(GWh)*



Monthly Power Generation *(GWh)*



DENAWAKA GANGA MHPP

23 GWh
2018/19
Power Generation

36.5%
2018/19
Plants Factor

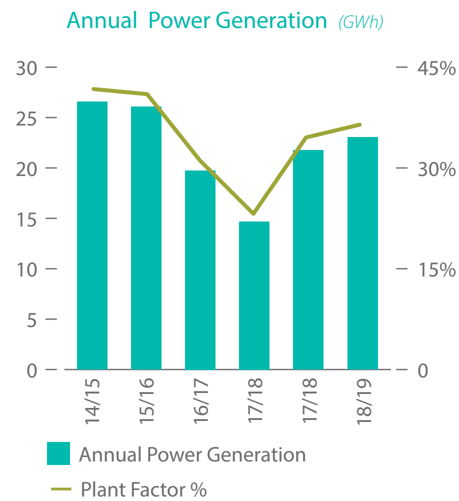
1.09%
2018/19
Plant Outages

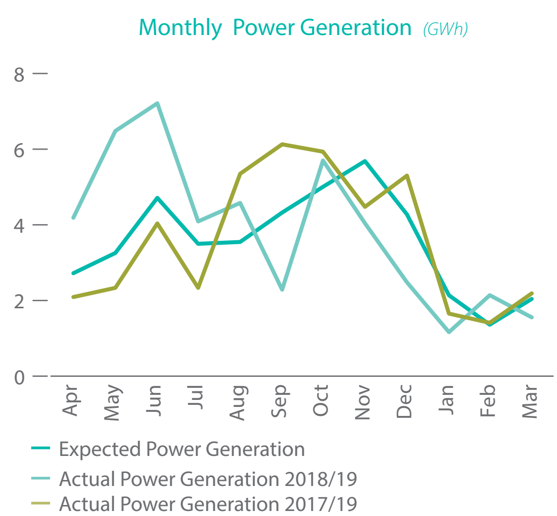
Project Name	Denawaka Ganga MHPP
Installed Capacity	7.2 MW
Average Annual Energy	25 MW

Operational Highlights			
	2018/19	2017/18	Variance
Power Generation (GWh)	23.0	21.7	6%
Plant Factor	36.5%	34.4%	6%
Financial Highlights			
	2018/19	2017/18	Variance
Revenue (Rs. Mn)	374.3	296.7	26%
Segment NPBT (Rs. Mn)	299.7	187.6	60%
Tariff	Avoided Cost Tariff		

**Note - % of Plant outages includes outages due to both plant and Grid failures*

The year of review saw the plant supply the national grid with 23,002,642 million KWh of generated power which is a 6% increase over the previous year's 21,723,421 million KWh, which earned a revenue of Rs. 374.3 million in the current year as against Rs. 296.7 earned last year. This was the only power plant improved the performance during this year, due to expected level of rainfall what we experienced in its catchment area.





BUSINESS REVIEW

KIRIWANELIYA MHPP

Project Name	Kiriwaneliya MHPP
Installed Capacity	4.65 MW
Average Annual Energy	15 MW

Operational Highlights			
	2018/19	2017/18	Variance
Power Generation (GWh)	15.1	16.2	-7%
Plant Factor	37.1%	39.8%	-7%
Financial Highlights			
	2018/19	2017/18	Variance
Revenue (Rs. Mn)	240.8	219.5	10%
Segment NPBT (Rs. Mn)	204..3	164.2	24%
Tariff	Avoided Cost Tariff		

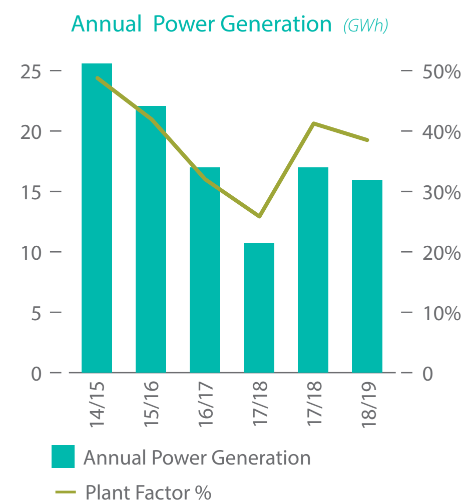
**Note - % of Plant outages includes outages due to both plant and Grid failures*

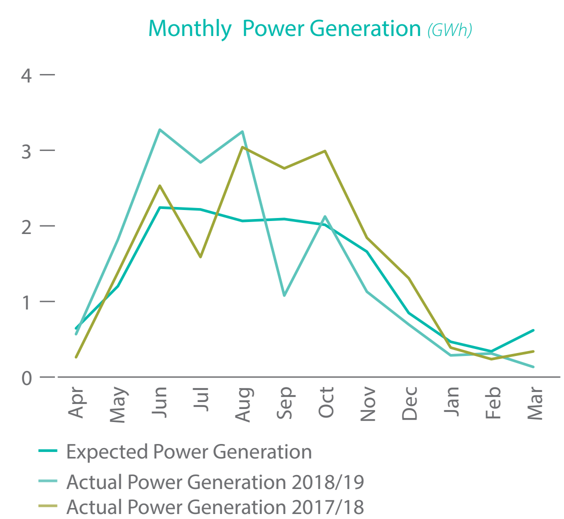
During the current fiscal year, the plant supplied 15,131,104 KWh of power to the grid, a 7% drop from the previous year's 16.228,272 KWh due to the adverse rainfall pattern experienced compared to the last year. However, despite the decreased generation, the MHPP earned a revenue of Rs. 240.8 million which is a rise from Rs 219.5 million achieved in 2017/18 due to the increased tariff during the current year.

15.1 GWh
2018/19
Power Generation

37.1%
2018/19
Plants Factor

3.85%
2018/19
Plant Outages





Awards and Accolades

The year was a triumph for the Company, as it was recognised and rewarded by many leading institutions for its achievements in several spheres, especially for its active involvement in the areas of sustainability.

Recognitions received include:

- Bronze Award Winner at the Annual Reports Awards 2018 (Power & Energy Sector) conducted by CA Sri Lanka.
- Winner of the Asia's Best Integrated Report (SME) Award at the Asia Sustainability reporting Awards (ASRA) 2018 presented by CSR Works International Pte Ltd., Singapore. Our commitment to sustainability initiatives in Sri Lanka also received a special commendation at the awards ceremony.
- Winner in the "General Services (Utilities)" category of the ACCA Sri Lanka Sustainability Reporting Awards 2018.
- Bronze Award for Kiriwaneliya MHPP at the Presidential Environment Awards 2018 (Sustainable Energy Generation Project category) conducted by the Central Environment Authority in partnership with the Ministry of Mahaweli Development & Environment.

Despite the uncertainties however, the future for green energy shines bright, more so given the escalating demand for energy as populations expand, both within the country and globally. The fact that the government has pledged complete conversion to renewable energy by 2050 also brings new hope. Even should this scenario not be completely realised in three decades it is a step in the right direction and sets the country on the path to an emission-free future.

The fact that the country is fast gaining a reputation for technological expertise in NCRE, given its decades-long experience in the subject, invites a further area of exploration. As one of the longest -staying and the leader in the small hydropower sector, Vallibel Power Erathna PLC has fine-tuned its prowess in green technology and is now equipped with the expertise to communicate this knowledge to other partners nationally and internationally. The time is ripe for the Company to continue to build on the strength of its brand and reputation to further its mission of harnessing and furthering sustainable business practices for the betterment of people and the planet.

GRI - 102-15

Prospects for the Future

Global emphasis on the immense benefits of renewable energy dictate the future of clean technology in Sri Lanka. However, the mini hydropower sector in Sri Lanka is now almost fully saturated, which prompts the Company to actively pursue other RE options in wind and solar power, both in Sri Lanka and overseas. In view of this, we were gratified by the granting of a further 20 year extension to the operations of Erathna MHPP, our highest performing power plant. However, the future of mini hydro hangs in the balance, weighed down by policy uncertainties, weather fluctuations and macroeconomic changes in the global energy industry. The fact that new RE projects need massive investments in terms of infrastructure changes is a key concern in view of the present uncertain eco political climate of the country.

BUSINESS REVIEW

VPEL's SWOT Analysis

STRENGTHS

- Strength of the "Vallibel" brand.
- Prime geographical locations of the projects.
- Specialised nature of the mini hydro industry.
- Good financial, people and manufactured capital strength.
- Good governance, risk management, quality management and CSR practices.
- Company's willingness to pursue new investment opportunities.
- Vallibel Group synergies.

WEAKNESSES

- Expiration of the existing SPPAs signed at Avoided Cost Tariff.
- Inherent risk of fluctuations in rainfall to the catchment area of the power plants.
- Lack of opportunities for new mini hydro projects.
- Investments which do not conform to strategic objectives.
- Limited opportunities for diversification.

OPPORTUNITIES

- Extension of existing SPPAs for further 20 years.
- Increasing demand of energy in Sri Lanka.
- Need for Renewable Energy.
- Foreign investment opportunities.
- Government pledge to convert to 100% renewable energy by 2050.

THREATS

- Local macroeconomic uncertainties and government policy changes.
- Barriers from civil organisations for every environmental project.
- Climate change and its impact on rainfall.
- Country risk for foreign investments in the present eco-political situation.

STATEMENT OF VALUE ADDITION

Overview

An organisation can survive without earning profits, but it cannot survive without adding value. Our Value Added Statement appraises our performance in creating value or wealth during the current fiscal year by utilising the combined efforts of those who provide the capital for our business. We use it as a barometer for assessing the productivity of the capitals that we employ as well as our operational efficiency in generating the value that enables us to fulfil our social obligations. VPEL has consistently generated both quantifiable and unquantifiable value during our 15 years of business.

Rs. **1,284** Mn
2018/19

Economic Value Distributed

19 % ▲

GRI - 201-1

	2018/19 Rs. Mn	2017/18 Rs. Mn
Total Revenue from Power Generation	1,286	1,117
(+) Other Income	58	33
Direct Economic Value Generated	1,345	1,150
(-) Cost of supplies (Goods and services obtained)	(60)	(72)
Economic Value Distributed	1,284	1,078

We create value efficiently by utilisiing the resources available to us in the form of six capitals. They are: human capital - the manual and technical skills we use in our three power plants to generate electricity; intellectual capital - the business acumen of our management and executives who plan the policies, processes and forecasts that determine the Company's success; manufacturing capital - the purpose- built high tech machinery used to generate the electricity to the national grid; natural capital - the liquid wealth in the catchment areas which is the main input used in the generation electricity; financial capital – the money we utilise to finance the entire operation; social and relationship capital - the communities in the catchment areas whose support sustains the business, and the suppliers whose products are used as inputs to enhance our generation capability and operational efficiency.

Our manufacturing process begins with using the natural resource of water that goes through a conversion process to generate electricity. This output becomes a new utility with a market value that is separate and different from the original value of the water used in the generation. The excess of this market value over the cost of raw materials and overheads used in the production process is the value we create in our business. This value we then distribute to our stakeholders in various forms, in recognition of their joint efforts and invaluable contribution towards our growth and continuity. This value we create along the value chain is the value we contribute to the national income. It is also the wealth that determines our value to society at large.

STATEMENT OF VALUE ADDITION

GRI - 203-2

The chart below describes the various forms in which the value we createdin the year under review was distributed to our various stakeholders.

Value Distribution - 2018/ 19

Rs. 550 Mn

Shareholders

We enhanced shareholder wealth through dividend payments to equity holders of our parent company, which amounted to Rs. 523 million, and to the minority shareholders of our subsidiary, which amounted to Rs. 27 million.

2017/18 - Rs. 531 Mn

Rs. 94 Mn

Employees

Rs. 90.4 million was distributed to employees by way of salaries, bonuses and related expenses (including payments for post- employment benefits).Rs. 1.8 million was apportioned for staff training, welfare and medical expenses. An additional Rs. 1.7 million was set aside to meet retirement benefit obligations.

2017/18 - Rs. 100 Mn

Rs. 193 Mn

Government

Income tax paid to the government was Rs. 185 million. Other taxes and levies paid amounted to Rs. 8 million. These included payments for water rights, land leased from the government, municipality and other agencies, as well as for indirect taxes.

2017/18 - Rs. 85 Mn

Rs. 162 Mn

Lenders of Capital

Rs. 157 million. was allocated for the re-payments on loans taken on capital. Interest paid on loans obtained and other financing expenses was Rs. 5 million.

2017/18 - Rs. 243 Mn

Rs. 2.6 Mn

CSR and Donation

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 as sundry sponsorships of stakeholder activities and events.

2017/18 - Rs. 2 Mn

Rs. 90 Mn

Retained on Depreciation

Rs. 78 million. from profits was retained to provide for the depreciation of assets. Rs. 12 million. was also set aside profits for the amortisation of Intangible asset created from the Group's Right to generate hydropower.

2017/18 - Rs. 90 Mn

Rs. 192 Mn

Re-invested Profits

2017/18 - Rs. 27 Mn

We are managed by a forward-thinking leadership team, who are united in vision and spirit.

BOARD OF DIRECTORS

K D D Perera
Chairman – NED

Mr. Dhammika Perera is the quintessential strategist and business specialist with interests in a variety of key industries including manufacturing, banking & finance, leisure, aluminum extrusion, packaging, plantations, lifestyle, healthcare, consumer and hydro power generation.

He has over 30 years of experience in building formidable businesses through unmatched strategic foresight and extensive governance experience gained through membership of the Boards of quoted and un-quoted companies.

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

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 leading listed companies in the Colombo Stock Exchange including CIC Holdings PLC (Chairman), Swisstek (Ceylon) PLC (Chairman), & Swisstek Aluminium Limited (Chairman) Vallibel One PLC, Royal Ceramics Lanka PLC, Expolanka Holdings PLC, Chevron Lubricants Lanka PLC, Amana Bank PLC, Ambeon Capital PLC, and Amaya Leisure PLC He is also the Chairman of CIC Agri Business (Private) Limited,.

P K Sumanasekera
Director - INED

Mr. Prabodha Sumanasekera holds a Degree in Physics from the Colombo University and has over 25years experience in the small hydro power sector.

He has been involved in formulating and developing 35 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, and in Africa.

H Somashantha
Director - NED

Mr. Haresh Somashantha counts over 19 years of experience in audit, financial management and reporting, including strategic and corporate planning across several industries including manufacturing, leisure, banking, plantation& etc.

He is a member of the Institute of Chartered Accountants of Sri Lanka and an Associate member of CPA Australia, further to holding Bsc in Mathematics.

He is the Head of Finance & Treasury of Royal Ceramics Lanka PLC (Rocell Group). He serves on the Board of Hayleys Fabric PLC further to being its Audit Committee Chairman. Mr. Somashantha also serves as a Director/Audit Committee Member on the Board of Unidil Packaging Limited. His further Directorships include Royal Porcelain (Pvt) Ltd and several subsidiary companies in the Delmege Group. He represents as an Alternate Director at The Fortress Resorts PLC.

S 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. as Assistant Manager – Estate Management 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.

CORPORATE GOVERNANCE

Overview

Corporate governance dictates the shared philosophy, practices and culture of an organisation, and comprises the various duties, obligations and rights that control and direct it. In short, it balances the interests of a company's many stakeholders such as shareholders, the board of directors, senior management executives, customers, suppliers, financiers, the government, and the community, and provides the framework for achieving a company's objectives. This means that it covers virtually every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Approach

VPEL recognises that sound principles of Corporate Governance are essential for maintaining the Company's public image because such principles increase accountability by clearly and equitably defining responsibilities among those who participate in the various activities and areas of management of the Company.

As such, the Company ensures that it maintains the highest levels of corporate governance by creating a transparent set of rules and controls in which shareholders, directors, and officers of the Company have aligned incentives. This is achieved by strengthening roles and controls and promoting transparency and disclosures.

The Company's approach to corporate governance remains unchanged from the rules and principles adopted in the preceding year and is based on the current codes of best practice.

Chairman's Statement on Corporate Governance

As Chairman of the Board of Directors of Vallibel Power Erathna PLC, I endorse 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 updated and refined in accordance 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.

I affirm that VPEL's Code of Conduct and Ethics as well as the procedure for disseminating, monitoring and compliance with that code has been introduced throughout the Company. I am not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics, to date.

Dhammika Perera
Chairman

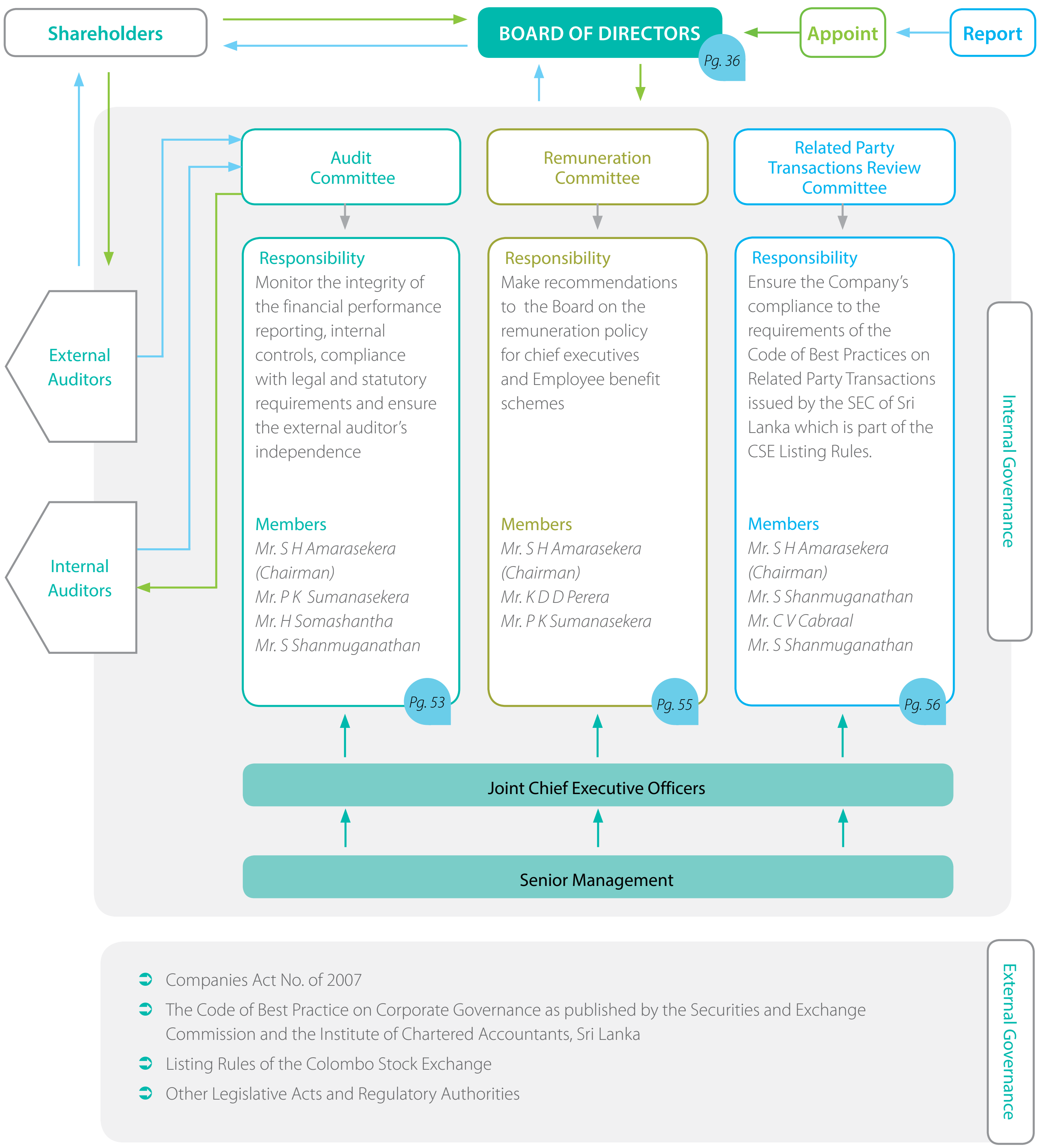
May 27, 2019

Corporate Governance Integral to Mitigate Risk

VPEL recognises the value of Corporate Governance in ensuring the continuity of business and utilises it as a self-policing function that ensures honesty and ethical dealings that build stakeholder trust, which, in turn, creates sustainable value. To ensure and enhance this value, the Company has developed corporate governance practices with risk management as a priority, because it understands that careful risk management is essential to success in every area of business.

GRI - 102-18, 22

Governance Structure



CORPORATE GOVERNANCE

Internal Governance

The Company has in place a comprehensive internal framework of governance that assures a four-fold objective;

a) to enhance accountability to shareholders and other stakeholders,

b) to ensure timely and accurate disclosures of all material matters,

c) to deal fairly with shareholders and other stakeholder interests, and

d) to maintain high standards of business ethics and integrity.

It has been designed specifically to enable VPEL to discharge its statutory duty of ensuring risks are managed prudently while pursuing its business objectives.

The Board of Directors headed by the Chairman has the overall responsibility of running the company. VPEL's Board comprises six Non-Executive Directors of whom three are Independent. In principle, the Board of Directors meets quarterly to consider important management proposals made by the Chairman, the highest authority for corporate management who is responsible for protecting investors' interests and for overseeing the Company as a whole. The six outside Directors apply their specialised expertise in diverse areas of management by engaging in decision making and oversight of business execution. Furthermore, the Board of Directors can request reports on matters that are decided by the Jt. Chief Executive Officers. In this manner, the Company strengthens governance from the perspectives of sharing information and monitoring, thereby creating systems for better ensuring the soundness of management.

Three committees, namely the Audit, Remuneration and Related Third Party Transactions Committees have been appointed by the Board from among its members, they are to extend its implementation and monitoring functions. Each committee has a charter and operating procedures which is reviewed regularly. The Board also has the right to establish other committees it deems be necessary to address matters of special importance.

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 and relevant governing bodies.

Responsibilities of the Management

The Jt. Chief Executive Officers report directly to, and are accountable to, the Board of Directors for the performance of the Company. They manage the daily affairs of the Company and are responsible for leading the development and execution of the Company's short and long-term strategies, with the goal of increasing shareholder value. These functions are formally delegated to them by the Board.

The Jt Chief Executive Officers are responsible for delivering results according to the strategic plan, within the policies and budgets approved by the board. Implementation of the strategic plan is delegated by the Joint CEOs to the top-level management team, which has the varied set of skills and experience to action the plan.

The responsibilities of the Board and the Joint Chief Executive Officers are itemised in the Company's Code of Best Practices and are reviewed regularly.

VPEL does not have a dedicated sustainability committee because the management assumes full accountability for ensuring the implementation of sustainability within the Company. This especially involves to ensuring sustainable practices in to the communities and the environment it functions in.

Meetings of Board and Sub-Committees

GRI - 102-22

The number of meetings of the Board and the Audit Committee and the 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	4/4	NA	NA
Mr. S H Amarasekera (Deputy Chairman)	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	3/4	3/4	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 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. And the following operational and financial information are considered at the meetings; ➲ Financial and operational results with KPIs. ➲ Financial performance compared to previous periods, budgets and targets. ➲ Impact of risk factors on financial and operating results and actions to mitigate such risks. ➲ Forecast for the next period, compliance with laws and regulations and any non-compliances of operations. ➲ Internal control breaches or frauds during the period and related actions taken which is subjected to the internal audit reports for such periods. ➲ Financial and operational decisions taken by the Joint Chief Executive Officers within their delegated authority. ➲ Share trading of the Company and related party transactions by Key Management Personnel and the further indications as mentioned in the section of D.1.8 on page 49. ➲ Any other matters the board be aware of. The attendance at these meetings have been depicted in the table given in this section.

CORPORATE GOVERNANCE

Code	Principle	Status	Level of Compliance
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.; • Approving budgets and major capital expenditure. • Ensuring compliance with laws, regulations and ethical standards. • Ensuring all stakeholder interests are considered in corporate decisions. • Recognising sustainable business development in Corporate Strategy, decisions and activities and consider the need for adopting "integrated reporting." • ensuring effective systems to secure integrity of information, internal controls, business continuity • establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks • Ensuring that a process is established for corporate reporting on annual and quarterly basis or more regularly as relevant to the Company. • 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.
A.1.4	Company Secretary	Complied	The advice and services of the Company Secretary, Messrs 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 individual Directors and collectively to the Board. The removal of the Secretary would be at the discretion of the Board.
A.1.5	Independent judgment of Directors	Complied	All Directors bring independent judgment to bear, in discharging their duties and responsibilities on matters relating to the Board including strategy, performance, resource allocation, risk management, compliance and standards of business conduct.

Code	Principle	Status	Level of Compliance
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 programme 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 at the highest executive position in the Company who are not members of 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.
A.3	**Chairman's Role**		GRI - 102-23
A.3.1	Chairman's role	Complied	The Chairman is responsible for the efficient conduct of Board meetings and ensures, inter alia, that : ➲ The agenda for board meetings is developed in consultation with the Joint CEOs, Directors and the Company Secretary taking in to consideration matters relating to strategy, performance, resource allocation, risk management and compliance. ➲ Sufficiently detailed information of matters included in the agenda are provided to Directors in a timely manner. ➲ All directors are made aware of their duties and responsibilities and the board and committee structures through which it will operate in discharging its responsibilities. ➲ 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; ➲ All directors are encouraged to seek information considered necessary to discuss matters on the agenda of meetings and to request inclusion of matters of corporate concern on the agenda. ➲ A balance of power between Executive and Non-executive Directors is maintained. ➲ The views of Directors on issues under consideration are ascertained and a record of such deliberations reflected in the minutes. ➲ The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders.

CORPORATE GOVERNANCE

Code	Principle	Status	Level of Compliance
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 have 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**		
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 caliber 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.
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 36 and 37. The Board believes the Independency of Mr. S H Amarasekera and Mr. P K Sumanasekara is not compromised by being a Board members for more than nine years.
A.5.6	Alternate Director	Complied	There are no Alternate Directors as at 31/03/2019.
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	No concerns have been raised by the Directors which could not be unanimously resolved during the year.
A.6	**Supply of Information**		
A.6.1	Timely and 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, the agenda and the Board papers in advance to prepare and clearly comprehend with the matters discussed or consent for an effective meeting. The minuets of the meetings are ordinarily provided within the considerable time frame.

Code	Principle	Status	Level of Compliance
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.
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, the Mr. C V Cabraal retires and offer himself for re-election at the AGM.
A. 8.3	Resignation of Directors	Complied	No resignation during the year. In the event of a resignation of a Director prior to completion of his appointed term, the director should provide a written communication to the Board of his reasons for resignation.
A.9	**Appraisal of Board Performance**		
A.9.1, A.9.2, A.9.3& A.9.4	Annual performance evaluation of the Board and its Sub Committees	Complied	The performance of the Board and Sub-Committees are 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 36 to 37 of this Report) ➲ Directors' interest in contracts (Refer pages 171 to 173 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)

CORPORATE GOVERNANCE

Code	Principle	Status	Level of Compliance
A.11	**Appraisal of Chief Executive Officer**		
A.11.1 & A.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 the both Jt.CEOs are set. The annual appraisals of the Jt.CEOs are carried out by the Board at pre-agreed performance targets.
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. It is chaired by an independent non-Executive Director who appointed by the Board. 1. Mr. S H Amarasekara (Chairman) 2. Mr. K D D Perera 3. 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 and has access to professional advice in discharging their duties.
B.2	**The Level and Make Up of Remuneration**		
B.2.1 & B.2.3	Levels of remuneration For members of the Board and Senior Management Executives	Complied	Remuneration package is designed to attract, retain and motivate both executive and Non-Executive Directors and Senior Management needed to run the Company successfully . 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.2.4	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.2.6	Executive share options	Complied	The Company does not have executive share option schemes.
B.2.7	Designing performance related Remuneration	Complied	Performance-related remuneration is designed by the Remuneration Committee based on the provisions set out.
B.2.8 & B.2.9	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.

Code	Principle	Status	Level of Compliance
B.2.10	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 27.5 to the Financial Statements.
C	**Relations with Shareholders**		
C.1	**Constructive use of the AGM and conduct of General Meetings**		
C.1.1	Notice of the AGM and related papers	Complied	Company arranges for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting
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	Use of proxy	Complied	The Company counts all proxies lodged on each resolution and the percentage of votes for and against on each resolution. Also that the following information is given at the meeting • the number of shares in respect of which proxy appointments have been validly made; • the number of votes for the resolution; • the number of votes against the resolution; • the number of shares in respect of which the vote was directed to be withheld. • When, in the opinion of the Board, a significant proportion of votes have been cast against a resolution at any general meeting, the Board take steps to understand the reasons behind the vote results and determine if any actions are required.
C.1.4	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.1.5	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.

CORPORATE GOVERNANCE

Code	Principle	Status	Level of Compliance
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& C.3.2	Disclosure of Major Transactions to Shareholders and rules and regulation of Securities Exchange Commission and by the CSE	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	Publishing of annual report including financial statements	Complied	The Company presents an annual report including financial statements that is true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations and any deviation being clearly explained.
D.1.2	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.1.3	Declaration of Joint CEO and Accountant with regard to the Financial Statements	Complied	The Board reflect on, before it approves the Company's financial statements for a financial period, obtain from its Chief Executive Officer and Accountant a declaration that, in their opinion, the financial records of the entity have been properly maintained and comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the system of risk management and internal control was operating effectively.
D.1.4	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 129 to 131 of this Annual Report which contains the required declarations.
D.1.5	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 page 133 of the Annual Report.

Code	Principle	Status	Level of Compliance
D.1.6	Management Discussion and Analysis	Complied	A comprehensive coverage of key initiatives undertaken during the year, business model, capital & risk management, stakeholder engagement, external impacts, internal controls and performances, achievements and future outlook, human resources / industrial relation actives, awards won are available in the relevant sections of this integrated annual report.
D.1.7	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 a situation arises.
D.1.8	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 171 to 173 of this report.
D.2	**Risk Management and Internal Control**		
D.2.1	Directors to review internal controls	Complied	The Board together with the Audit Committee are responsible and reviews the risks faced by the Company and the effectiveness of the system of internal controls quarterly.
D2.2	Directors Confirmation	Complied	The Directors have carried out a assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. This has been addressed in the Chairman's Message, Joint CEOs' Report and Business Reports of this annual Report
D.2.3	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.2.4	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.2.5	Responsibility of Directors	Complied	Directors take responsibility in maintaining a sound system of internal controls and the Internal Control Statement as described in Annual Report of the Board of Directors on the Affairs of the Company is given on pages 129 to 131 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.
D.3.2	Terms of Reference, Purpose, Duties and responsibilities of the Audit Committee	Complied	The Terms of Reference of the Audit Committee has 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.3.3	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 page 53 of this Report.

Code	Principle	Status	Level of Compliance
D.4	**Related Party Transactions Review Committee**		
D.4.1	Identification of Related Party Transaction	Complied	The related party transactions were identified and disclosed under the LKAS 24 and relevant disclosures are given on Pages 171 to 173 of this Report.
D.4.2	Compassion of Related Party Transaction Committee	Complied	The related Party Transaction committee consists of two independent Non- Executive Directors with One Non-Executive Director.
D.4.3	Terms of Reference of Related Party Transaction Committee	Complied	The Terms of Reference of the Related Party Transactions Review Committee has 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. The report of Related Party Transaction Review Committee is give on the page 56 of this report.
D.5	**Code of Business Conduct and Ethics**		GRI - 102-16
D.5.1	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.5.2& D.5.3	Monitoring and Disclosure of material and price sensitive information and share purchasing transactions.	Complied	The Company has a process in placed to ensure that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations process for monitoring, and disclosure of shares purchased by any director, Key Management Personnel or any other employee involved in financial reporting.
D.5.4	Affirmation of code in the annual report by the chairman	Complied	The chairman affirms that company has a code of business conduct and ethics in placed and which are not violated as stated in the Chairman's Statement on Corporate Governance in page 38 of this Report.
D.6	**Corporate Governance Disclosures**		
D.6.1	Disclosure of Corporate Governance	Complied	This Report from pages 38 to 52 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.
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	Investing / Divesting Decision	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	Shareholder 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.
H	**Environment, Society and Governance (ESG)**		
H.1	**ESG Reporting**		
H1.1	Provide sufficient information relating to ESG risks	Complied	Annual Report contains relevant information of ESG to assess how risks and opportunities are recognised, managed, measured and reported in the relevant parts of this integrated Annual Report.
H.1.2.1 & H.1.3.1	Environmental and Social Factors	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. Direct and indirect economic, social, and environmental implications of Company policies and activities are discussed on Natural Capital Report, Social and Relationship Capital Reports on pages 96 to 125 on this report.
H.1.4.1	Governance	Complied	The Company has established a governance structure supporting the Company's ability to create value and manage risk at all time on all pertinent aspects of ESG. The Company has well-recognised the key resources deployed in the business. Financial and non financial measures are established to ensure governance is carried out smoothly. The Company has identified risks and taken actions to mitigate the risks which have an impact on the sustainability of the business and these are discussed in the Enterprise Risk Management report on pages 57 to 62.
H.1.5.1	Board's role on ESG factors	Complied	The Board is committed to environment, social and governance aspects and these ESG factors have been discussed in the report under the framework of Integrated Reporting and guidelines of GRI.

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.

CORPORATE GOVERNANCE

CSE Rule No.	Rule	Compliance Status	Extent of Compliance
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 44 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, Mr. S H Amarasekera, Mr. P K Sumanasekera and Mr. S Shanmuganathan.
7.10.3 (c)	Disclosure relating to Directors	Complied	A brief resume of each Director is given on pages 36 and 37 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 44 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 46 and Remuneration Committee Report on page 55. The remuneration paid to the Directors is given in page 173 of this Report.
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 46 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 49 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.3.3 of the Code.

REPORT OF THE AUDIT COMMITTEE

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 36 and 37 of this report.

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 and Meetings Dates				
	23/05/18	24/07/18	26/10/18	31/01/19	Total
Mr. S H Amarasekera	√	√	-	√	3/4
Mr. P K Sumanasekera	-	-	-	-	0/4
Mr. H Somashantha	√	-	√	√	3/4
Mr. S Shanmuganathan	√	√	√	√	4/4

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.

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, Messrs 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.

REPORT OF THE AUDIT COMMITTEE

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 Messrs Ernst & Young, Chartered Accountants, be re-appointed as the auditors of the Company for the financial year ending 31st March 2020, subject to the approval of the Shareholders at the Annual General Meeting. The Audit Committee is of the view that Messrs 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

27 May 2019

Other Members
P K Sumanasekera
S Shanmuganathan
H Somashantha

REPORT OF THE REMUNERATION COMMITTEE

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

Name of Director	Directorship Status
Mr. S H Amarasekera (Chairman)	Independent Non-Executive
Mr. K D D Perera	Non-Executive
Mr. P K Sumanasekara	Independent Non-Executive

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

27 May 2019

Other Members
K D D Perera
P K Sumanasekera

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Composition of the 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 Cabraal	Non-Executive

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 and
- 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 and Meeting Dates				
	23/05/18	24/07/18	26/10/18	31/01/19	Total
Mr. S H Amarasekera	√	√	-	√	3/4
Mr. S Shanmuganathan	√	√	√	√	4/4
Mr. C V Cabraal	√	√	√	√	4/4

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

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 recognised 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 27 to the financial statements given in pages 171 to 173 of this report. There was not any non-recurrent related party transactions during the year under review.

Declaration

It is declared affirmatively 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

27 May 2019

Other Members
S Shanmuganathan
C V Cabraal

ENTERPRISE RISK MANAGEMENT

Overview

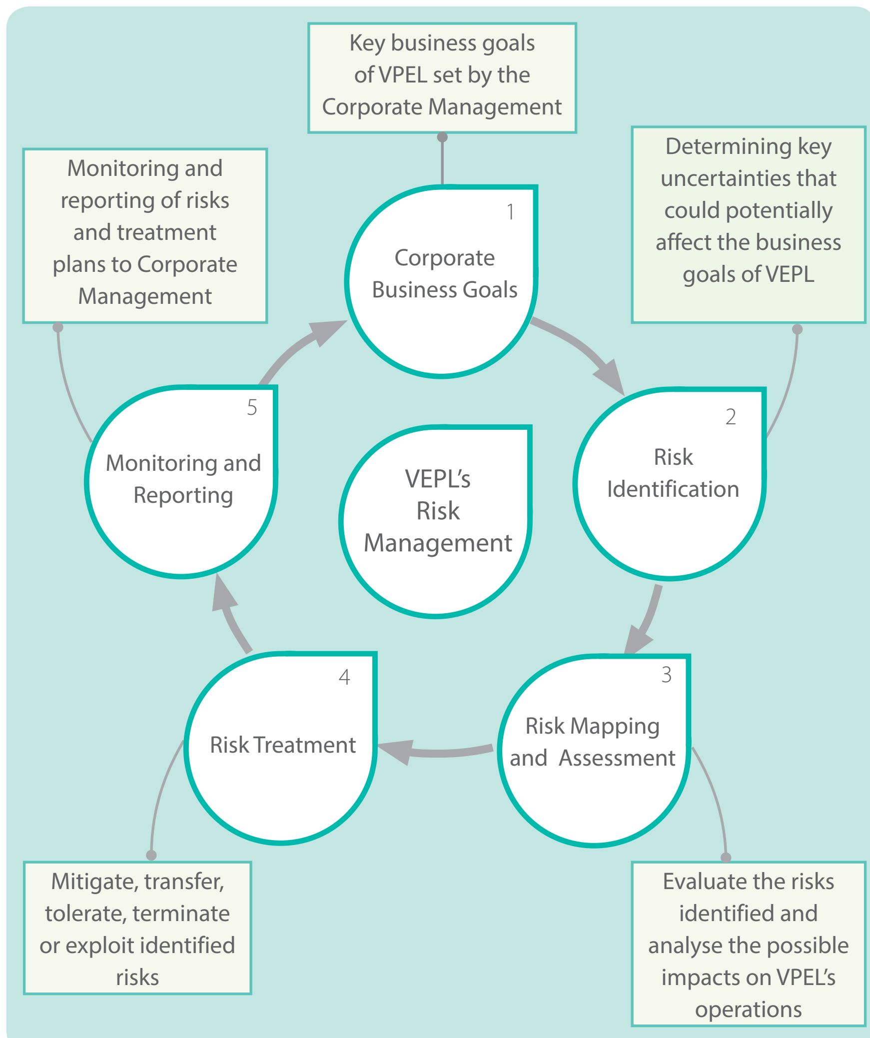
Risk can be defined as being any action that could affect the achievement of company objectives, and Risk Management is the process of identifying, classifying, analysing, assessing and controlling those actions. The effectiveness of managing risk can mark the fine line between the success or failure of a business. It therefore follows that the intelligent and proactive management of risk is essential for the long-term continuity of a company.

No company operates in a completely risk- free environment. Companies in the hydropower industry are especially susceptible to risk due to the various economic, socio-political and environmental factors that shape their success. Their reliance on a natural resource, namely water, the quantity of which depends on factors like the weather and the environment, dictates that hydropower plants are becoming progressively more vulnerable to increasing frequencies in climate vagaries. Risk mitigation has become imperative and more challenging in this sector.

Approach and Process

The Company recognises that strategic risk management in the mini hydropower sector ensures cost-effective, qualitative operations that are also safe and environmentally sustainable. We understand that sustainability is a multifaceted concept that encompasses the environment, economy and society. In the environmental dimension, sustainability means protecting and strengthening the production and renewal capacity of the hydrological systems and access to infrastructure while ensuring preservation of the quality of natural resources and associated services and putting in place safeguards against natural hazards like landslides. In the economic dimension, sustainability means maximising the current and future benefits of economic development as well as augmenting revenue. Socially, sustainability means improving social acceptance, which ranges from social issues like relationships with indigenous communities to buffering against political/regulatory changes and ensuring protection from terrorism and sabotage.

The Company follows a comprehensive risk assessment procedure that comprises five steps which are sequentially undertaken to manage and mitigate identified risk.



01. Corporate Business Goals

The Company views Risk Management as being an indispensable component of the decision- making process. Managing risk contributes toward the demonstrable achievement of corporate business goals, which improves performance and ultimately creates business value.

ENTERPRISE RISK MANAGEMENT

02. Risk Identification

Identifying potential problems before they occur ensure that risk-mitigation activities are planned and initiated when needed in order to mitigate adverse impacts that hamper the continuity of a business and deter it from achieving its objectives.

Therefore, Identifying risk is the fundamental requirement of the process.

The following risks have been identified by the Company during its operation from the inception of business.

1. Business Risk
2. Investment Risk
3. Operational Risk
4. Hydrological Risk
5. Financial Risks
   - Interest Risk
   - Credit Risk
6. Economic & Political
7. Regulatory & Legal
8. Human Resource Risk
9. Reputation Risk
10. Environmental
11. IT Risk
12. Social Risk

03. Risk Mapping and Assessment

Once identified, a risk map is designed to determine the likelihood or probability of occurrence of the risk and the consequence of such occurrence, based on the following matrix:

04. Risk Treatment

This next step works out the most effective strategy for controlling and mitigating the risk. A wide range of strategies designed to reduce, remove, avoid, transfer or otherwise alter the risk are considered by the Company in a risk mitigation process known as risk treatment. The Company creates and uses specific treatment strategies to address specific risks identified, however, treatment strategies could differ based on the risk context.

05. Monitoring and Reporting

The process of monitoring risks also involves controlling them and the Company utilises a number of tools and techniques to facilitate this. These include risk reassessment, risk audits, technical performance measurements and status meetings. Such processes serve to determine whether the actions adopted resulted in the achievement of the goals planned.

GRI - 102-15

The table below provides a comprehensive analysis of the risks identified by the Company during the course of its operation, as well as the evaluation and mitigatory actions adopted during the year of review.

Risk Identification	Risk Evaluation		Risk Managing Strategies	System Maintenance	Regular control Review
	Level	Reason			
01. Business Risk					
• Extension of SPPA. • Revision of current Avoided Cost Based Tariff on adverse terms. • Low potentiality for growth of the mini hydro power industry.	High	• All three MHPPs are currently paid under Avoided Cost Based Tariff up to SPPA expiration, subjected to annual revision. • Tariff decisions are controlled by government regulatory bodies. • Lack of resources and opportunities for new developments.	• Collaboration at industry level in pursuit of positive change • Exploration of other local and overseas opportunities for renewable energy.	Adopted	✓
02. 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 the stage of new investments. Currently no new investments have been carried out by the Company.	• Any proposed investments are subjected to a rigorous evaluation and feasibility process supported seeking expert advice to ensure maximum returns on investment, and Board approval is obtained prior to embarking on a proposed investment. • Furthermore, the Company closely monitors progress to ensure project deliverables are achieved within given budgets and time lines.	Adopted	✓

ENTERPRISE RISK MANAGEMENT

Risk Identification	Risk Evaluation		Risk Managing Strategies	System Maintenance	Regular control Review
	Level	Reason			
03. 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.	➲ Timely maintenance of machineries and equipment whilst upgrading health and safety measures on a regular basis, conducting of workshops, meetings, etc. to apprise employees of same. ➲ Adoption of an effective human resource policy. ➲ The Company is committed to a Quality Management System that complies with international Standards. ➲ Conduct of periodic internal audit reviews and submission of reports to the Audit Committee.	Adopted	✓
04. Hydrological Risk					
Risk of lower power generation caused by a lower water flow.	High	The inherent risk of lower rainfall is uncontrollable. There may be a risk of designing projects based on hydrological data.	Hydrological risk primarily comprises drought risk. The projects are designed based on past hydrological data analyses 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	The Group's borrowings has been fully repaid within the year.	The appropriate financial strategies have been adopted in terms of, the Group's credibility, reputation, strength and financial dependability which influence the negotiation of concessionary rates at any debt requirement.	Adopted	✓
05.2. Credit Risk Risk of impact on the cash liquidity due to borrower's failure to repay contractual obligation (Ex: Payment settlements from CEB).	Low	No serious failures experienced in the past.	The Group has an effective mechanism for recoveries which provides protection through legally enforceable agreements.	Adopted	✓

Risk Identification	Risk Evaluation		Risk Managing Strategies	System Maintenance	Regular control Review
	Level	Reason			
06. Economic & Political					
The likelihood of an investment being affected by adverse macroeconomic conditions including government regulations, exchange rates and political stability.	Low	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	✓
07. Regulatory and Legal					
Risk of changes in laws and regulations that have material impact on business costs of operation and the attractiveness of Investment in the business.	Moderate	Risk is present during a change of government and new policies introduced.	Compliance with any new laws or regulations that are from time to time introduced for good governance.	Adopted	✓
08. Human Resources Risk					
Lack of positive employee relations and risk of an inability to acquire and retain suitable talent.	High	The risk will result in low productivity in the business as well as industrial disputes.	A healthy work environment is provided for all employees and close and cordial worker relationships have been created. Remuneration is also kept at industry levels. A comprehensive human resource policy has been adopted.	Adopted	✓
09. Reputation Risk					
Adverse impact of the business on society and unfavourable response from the public.	Low	Risk is low due to established and continuously maintained relationships.	The Group has adopted an effective mechanism for stakeholder engagement to build better relationships.	Adopted	✓
10. Environmental Risk					
Risk of actual and potential threats to the environment and inhabitants as a result of effluents and resource depletion arising from the organisation's activities.	Moderate	No environmental enforcements were experienced. However the possibility of such an event must be considered.	We are committed to an Environmental Management System that follows exacting international standards. Care is also taken to mitigate any adverse environmental impacts immediately they arise.	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.	The existing IT system has been established using modern technology. regular maintenance and upgrades in processes are carried out and unauthorised access to the information system prevented.	Adopted	✓
12. Social Risk					
Negative impacts on the organisation from local communities which are linked with the surrounding areas of the project.	Moderate	Risk is low due to established and continuously maintained relationships. But the possibilities must be considered nevertheless.	The Group has developed relationships with communities, religious and other voluntary groups by helping them uplift their lives and livelihoods.	Adopted	✓

We embrace sustainable practices to ensure that the world we live in is thriving and protected.

STATEMENT OF SUSTAINABILITY

Our Commitment to a Sustainable Energy Future

As a Company that engages in an inherently sustainable industry, we have a comprehensive approach to sustainability that stems from our goal to nurture and develop a safe and profitable business in an open and transparent manner, respect the communities in which we live and work, as well as preserve the environment. With this in mind, we have integrated sustainability functions across the business. A key aspect of our sustainability strategy is to provide sustainable solutions for our stakeholders and help lead the transition to a more sustainable future. Our sustainable governance, stakeholder engagement, sustainability reporting, core values of teamwork, commitment, professionalism and respect, and our healthy financial position are key indicators of a sustainable business.

By integrating economic, social and environmental risks and considerations into our corporate strategies, we have committed to delivering sustainable outcomes on every project where ever we operate.

We will also continue to minimise our impact on the environment although this is negligible since we generate clean energy and our carbon footprint throughout our value chain is negligible, and we are committed to being a good corporate citizen through our investment in the marginalised communities around us .

Our roadmap to sustainability

We have embedded sustainability into our culture and fabric and worked to ensure that this value becomes a core function of our company. This amounts to reducing risk and ensuring continuity, enhancing our brand value, and driving positive business results.

During the year of review. we made great strides along our sustainability journey, receiving recognition from sustainability organisations both local and international. We were the proud recipients of Awards that not only acknowledge our efforts, but also confirm the commitment, ability, and above all, excellence realized by our organisation.

ACCA

Winner in "General Services (Utilities)" category

ACCA Sustainability Reporting Awards -2018

asra

Winner as Asia's Best Integrated Report (SME)

Asia Sustainability Reporting Awards - 2018

Sustainable Development Goals (SDG)

The 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals were designed and adopted by the United Nations in September 2015 at a historic UN Summit to help society and business focus on solving global sustainability challenges. The SDGs provide a vision for a sustainable future and propose actionable targets for today's major sustainability challenges.

Our Approach to SDGs

We have identified the Sustainable Development Goals (SDG) under the three sustainability topics viz, Economic, Environmental and Social. The charts below illustrate how the Company aligns to the SDGs for a sustainable future. More information with regard to the adoption of SDGs can be found in the capital management reports.

How we aligned to SDGs;

Economic

- Set remuneration levels on par with industry and regulations.
- Introduced zero interest loan schemes for employees.
- Employees were hired from local communities.
- Continued investment in community development.
- Complied with government tax laws.
- Balanced economic value distribution.
- Created a sustainable and qualitative living environment.
- Used energy and materials productively.

Environmental

- Reduced CO2 emissions by renewable energy generation.
- Planted trees for re-forestation - through our "Empowering Green project".
- Followed a policy for zero-contamination of water.
- Ensured minimal impact on bio-diversity.
- Managed energy consumption.
- Ensured waste management and recycling processes.

Social

- CSR activities focused on education, youth. empowerment, health and spiritual activities.
- Employee diversity and equal opportunity.
- VPEL's non-discrimination policy.
- Complied with Acts, rules and regulations.
- Being a good corporate citizen.
- Being a partner in generation of renewable energy to the country.
- Environmental friendly operations.

STAKEHOLDERS ENGAGEMENT AND ANALYSIS

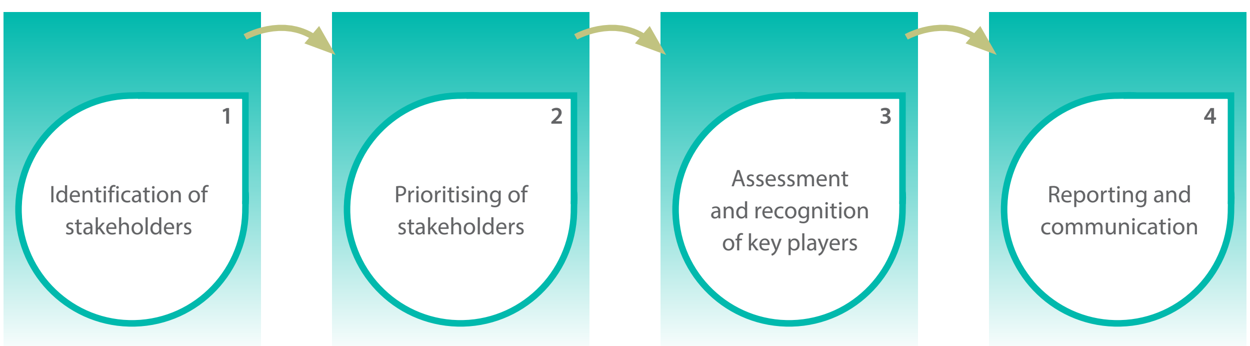
Developing relationships with our stakeholders results in increasing their trust in our business and approach, and where there is trust, people work together more easily and effectively, which ultimately contributes to the Company's progress. We Invest considerable effort in building relationships with our stakeholders because positive stakeholder relationships have been proven to increase confidence across the business frontier, minimises uncertainty, and speeds problem- solving and decision-making. Communication is key to building these relationships, and our aim has always been to practice open, honest and transparent communication. We encourage stakeholder feedback even when negative, because we view it as being key to building a better business.

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 the government, the Ceylon Electricity Board who is our sole customer, suppliers and service providers, the local communities around our operations, banks and 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 efforts into improving our understanding of the specific issues of interest to the different stakeholders, and find the best ways in which to engage with them, both individually and collectively.

Our Approach and Engagement Process

GRI - 102-42

We have in place a carefully designed strategy that broadly comprises four key steps in the Stakeholder Engagement Process.



01. Identification of Stakeholder

GRI - 102-40

Stakeholders must be identified as the first step in the stakeholder engagement process, only then can we determine the ways in which stakeholders are to be managed.

VPEL's internal and external stakeholders are stated below.

External Stakeholders

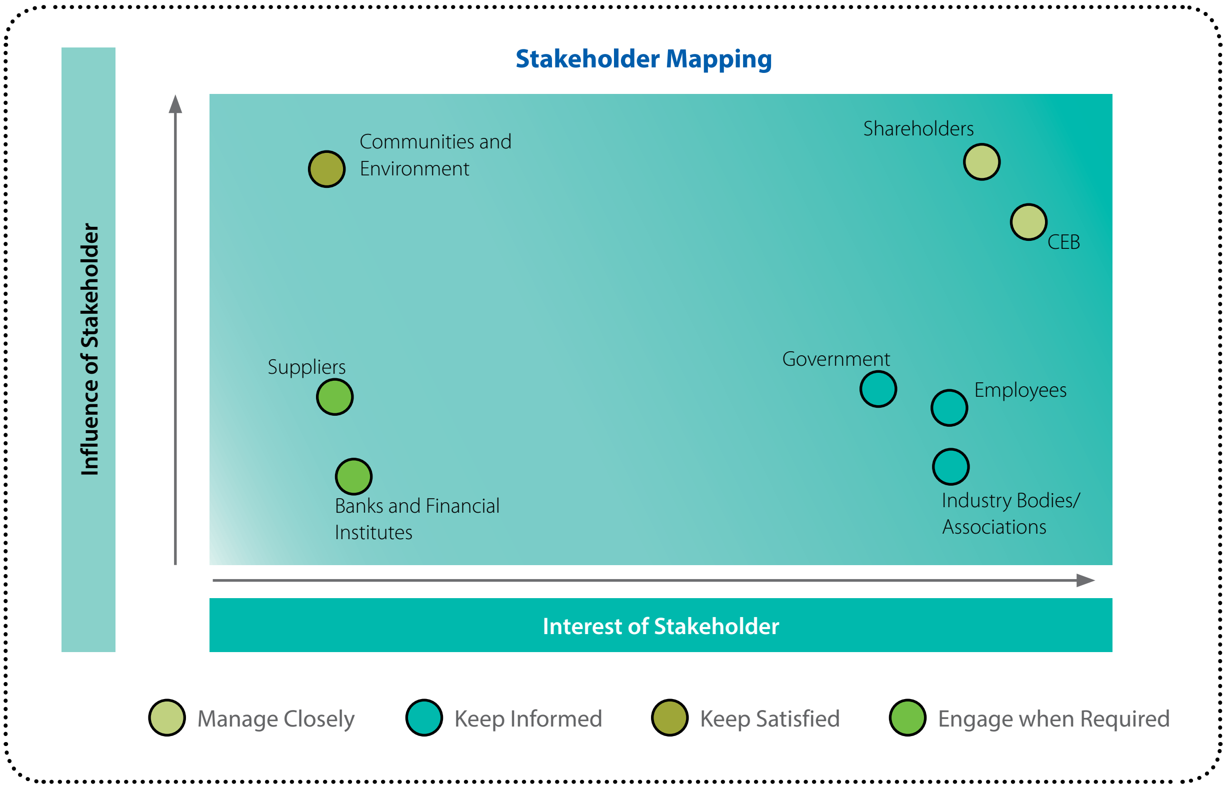
- Shareholders
- Ceylon Electricity Board
- Regulatory Bodies and Government
- Bank & Financial Institutions
- Industry Bodies/Associations
- Community & Environment
- Suppliers & Service Providers

Internal Stakeholders

- Employees

02. Prioritising of stakeholder

Identified stakeholders should be prioritised considering their influence and interest to the organisation prior to engaging with them. As such, we have prioritised our stakeholders according to the stakeholder mapping chart given below.



03. Assessment and Recognition of key players

Based on the stakeholder mapping above, we assess and recognise the key players in VPEL's stakeholder groups that are of material interest and influence to the Company, and plan our actions and performance based on the priority given to each stakeholder.

04. Reporting and communication

We have developed various methods of communicating with each stakeholder group for which understanding them and determining their interests and concerns is critical. This has ensured continuous and positive interactions that have contributed to the Company's performance.

The tables on pages 68 to 71 describe how VPEL engages, interacts and communicates with our stakeholders in the value creation process.

STAKEHOLDERS ENGAGEMENT AND ANALYSIS

	Objective	Key Concerns	Response and Engagement Process
Shareholders	As the owners of the Company, every effort must be made to create shareholder value.	• Profit and growth • Wealth creation • Future prospects • Responsible corporate management • Sustainability aspects	Timely response with necessary details and information supplied, while maintaining good relationships through regular communication.
Customer	As the sole customer, the Ceylon Electricity Board (CEB) must be kept satisfied with all aspects of the business.	• Matters relating to compliance with Standard Power Purchase Agreement (SPPA) • Monthly invoicing and settlements • NCRE Tariff • Routine operational matters	Continue regular contacts. maintain good relationships and constant communication.
Employees	As vital stakeholders, employees are critical to helping the company to achieve its corporate objectives and goals.	• Remuneration • Profit and growth • Responsible corporate management • Occupational health and safety • Better work life balance • Career stability and future prospects	• 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	Since they enable the Company's legislative environment, engagement with them helps the Company address economic, social and environmental matters.	• Profitability and growth • Regulatory approvals and legal compliances • Sustainability aspects • Responsible corporate management	• Responded to all inquiries, and compliance requirements were followed promptly.
Banks and Financial Institutions	They help meet the Company's capital budgeting needs by providing supportive financial solutions.	• Recoverability of debt • Profitability and growth • Investment opportunities	Good relationship through: punctual repayments interest rates negotiations, investment in short term deposits while maintaining property under mortgage in good condition.

GRI - 102-42, 43, 44

	General Methods of Engagement	Highlights of year 2018/19
	• Quarterly Interim Financial Reports • Annual Report • Annual General Meeting • Dividend payouts • Corporate disclosures • Press releases • Open-door-policy	**• Plant visit of shareholders** **• Re-issue and revalidation of unclaimed Dividends** 
	• Consultations with them on operational matters as and when required. • Over and above the customer's requirements, the Company complies with their regulatory requirements in their capacity as a government regulator • Monthly invoicing in accordance with the SPPA and recoveries	**• Negotiations carried out for the extension of the SPPA**
	• Annual staff performance appraisals • Regular staff meetings • Involvement in negotiations when required • Training and workshops • Performance based salary increments and bonuses • Welfare • Team building activities and programmes	**• Out bound training provided for employees.** **• Annual cricket tournament and annual staff outing** 
	• Obtaining all required approvals and licenses • Payment of taxes and levies • Compliance with other periodical statutory requirements • Industry-level meetings	**• Processing of application for the approvals and license for SPPA extension**
	• Repayment of loans on time • Regular meetings, dialogues and interactions • Publishing of Accounts and Annual Reports	**• The Group has fully paid-off total borrowings**

STAKEHOLDERS ENGAGEMENT AND ANALYSIS

	Objective	Key Concerns	Response and Engagement Process
Industry Bodies/ Associations	As a business entity, interactions with other entities for collaborative purposes promote business synergies necessary for the Company's success.	• Company performance • Quality and standards • Regulatory and legal compliance • Synergy with the industry	• 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
Community & Environment	The Company taps a natural resource that is intrinsically intertwined with the lives of the communities in the area, so the business cannot be considered as an entity separate from the communities and the environment that surround it.	• Sustainability aspects • Environmental effects • Corporate social responsibility initiatives	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 and Service Providers	Since they partner the business, right engagement is must be facilitated, relationships strengthened and the supply chain developed.	• New business opportunities • Price and profitability • Settlements and credit periods • Reliability • Sustainable business practices	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.

	General Methods of Engagement	Highlights of year 2018/19
	• Industry- related meetings • Obtain consultancies • Keep continuous dialogues with members	• **Synergised industry associations for the SPPA extension and tariff**
	• Community meetings • Infrastructure development activities/programmes • Sponsorships for community developments • Forest plantation programmes in the surrounding areas • Compliance with environmental regulations • Environmental impact mitigation and protection programmes • Hiring of local employees	• **Acceleration of the "Empowering Green" programme by the planting of a further 21,717 trees** • **The operation reduced CO2 emissions by 49,956 MT during the year**
	• Regular dialogue and interactions • Continuation of good procurement practices	• **No specific concerns were raised by suppliers during routine engagements.** Empowering GREEN **VPEL's 1,000,000 trees planting programme**

ASSESSMENT OF MATERIAL TOPICS

GRI - 102-46

As a Company committed to best practices in reporting, we have in place a sustainability reporting process that follows GRI guidelines. This incorporates a detailed materiality assessment that determines whether or not a matter is material in terms of whether it affects, or has the potential to affect, our organisational strategy, business model, or one or more of our capitals. A topic is material to us if it is critical to the success of our business. This means that it should either have the potential to impact our business by negatively affecting our reputation, increasing risk or expenditure, or by substantively influencing the perceptions and decisions of our stakeholders. We assess its degree of importance by evaluating either the magnitude of its effect on the business or the likelihood of its.

Classifying the topics outlined in GRI standards that correspond to VPEL's business.

1 Identify Sustainability Topics

Prioritising the sustainability aspects by considering their relevance from both internal and external stakeholder perspectives.

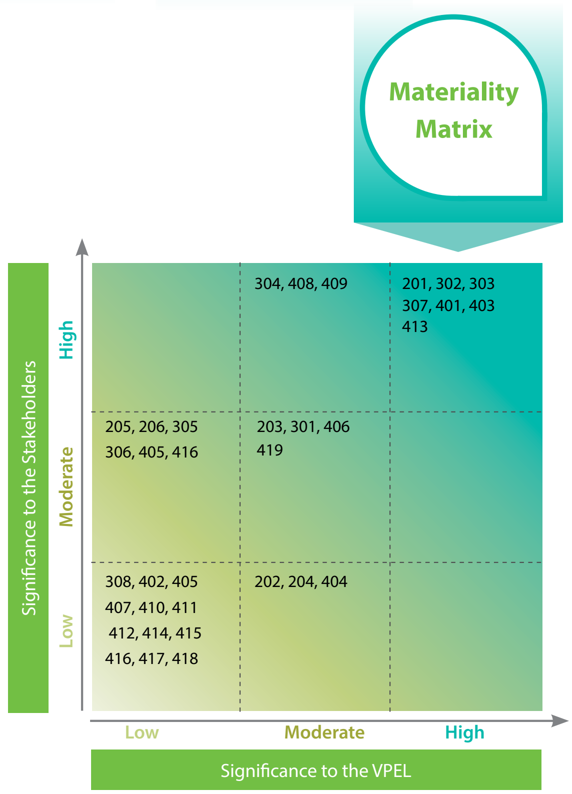
2 Rate Level of Concern to Stakeholders

Apprising the risks and impacts of sustainable issues to the organisation.

3 Assess Level of Impact to VPEL

Categorising the material topics based on their level of concern to stakeholders and their level of impact on the organisation

4 Determine Material Topics



We determined the scope of our material assessment this year as similar to the previous 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 influence which are reported and aspects determined as low level of influence are not reported.

Determining Materiality

The Company manages its materiality through its routine operations during which areas are identified based on the intensity of their impact on our ability to create value in the short, medium and long terms. If deemed necessary, resources based on the significance of each material topic are then allocated to enable the realization of our strategic initiatives.

Our operations are reviewed considering both financial as well as non-financial aspects to ascertain any perceived changes over the assessment carried out in the preceding year. It was determined that no notable changes that influence any of the materiality aspects of the business considered in this Annual Report took place during the year of review. The materiality aspects of significance to the Company are as follows.

Topic: Economic Impact and its Presence

GRI - 102-47

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	Moderate	Low	Moderate
	GRI 206: Anti-competitive	Moderate	Low	Moderate

Corresponding Material GRI topic

- Economic performance
- Market Presence
- Indirect Economic Impacts
- Procurement practices

GRI - 103-1

Reasons for Materiality

The economic impacts of the Company's performance are material to the business because the continuity of our business depends on how we create value for our human, social relationship and environment capital. Creating value for our stakeholders generates their goodwill, which is vital for business success because it influences the informed decisions they make, whether to invest, partner, or seek employment with us. This goodwill rests on their approval of our approach to the business and the way in which we conduct our activities.

ASSESSMENT OF MATERIAL TOPICS

Topic: Economic Impact and its Presence

GRI - 103-2

Management Approach

We set goals, targets and objectives during the preceding year, which are assessed against performance in the current year or during a specific period. These objectives could be designed for achievement in the short, medium or long term.

We have also introduced a carefully designed capital management strategy that assures maximum and sustainable returns to our stakeholders. In this approach we prioritise indigenous needs as well as follow best practices with suppliers and also ensure our internal stakeholders are provided with a sustainable income. Other economic value additions are distributed to general public in various forms.

Our strategies also explore the ways and means by which the Company could contribute to the sustainable growth of the country at large. These strategies have proved effective and we have, over the years, contributed to a range of social and economic growth initiatives across the country.

GRI - 103-3

Evaluation Method

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. The targets and objectives set are used as yardsticks to measure current performance which is compared with the performance of the previous year to evaluate achievements or shortfalls. 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.

Furthermore, grievance mechanisms are in place to address any stakeholder concerns.

Topic: Environmental Impacts

GRI - 102-47

Identification of Standards

Topic - Specific Standards		Significance to VPEL's Operations	Materiality	
			To VPEL	To the Stakeholders
Economic 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

Corresponding Material GRI topic

- Materials
- Energy
- Water
- Biodiversity
- Emissions
- Effluents and Waste
- Environmental Compliance

GRI - 103-1

Reasons for Materiality

Supplying green and clean energy has made us realise the importance of preserving the pristine environment and take measures to prevent the adverse consequences of pollution. The availability of water is critical to our business of generating renewable, so preserving the environment that sustains this liquid resource is essential to ensuring its uninterrupted flow. 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.

ASSESSMENT OF MATERIAL TOPICS

Topic: Environmental Impacts

GRI - 103-2

Management Approach

We have introduced environment managing activities to help reduce our impact on the environment to as low a level as is possible in the context of generating a renewable source. As such, the Company contributes to a circular economy in which waste is minimised and materials are recycled and re-used as far as possible. Waste is disposed in a responsible manner and the use of contaminants, systematically reduced.

We have introduced a targeted and especially designed Quality and Environmental Policy to address every aspect of managing the environment in a hydropower business. The Policy is enforced by an environmental monitoring programme that is strictly implemented at all three project sites, which are evaluated for their operational activities according to their impact on the environment. Monitoring is continuous to ensure compliance with set safety standards and appropriate mitigatory measures are taken in the event of a breach.

GRI - 103-3

Evaluation Method

Our projects and activities are periodically reviewed to ensure compliance with sustainability standards. We also ensure conformity with all national policies and legislation on environment and follow relevant multilateral agreements and declarations on the subject.

We have now introduced a process to ensure that all three projects have the necessary green infrastructure to qualify for the highest ratings in the Green Award presented by the Central Environment Authority. We have a number of awards and accolades as confirmation of our compliance with established sustainability standards.

Topic: Human Capital Management

GRI - 102-47

Identification of Standards

Topic - Specific Standards		Significance to VPEL's Operations	Materiality	
			To VPEL	To the Stakeholders
Social Topics	GRI 401: Employment	High	High	High
	GRI 403: Occupational Health and Safety	High	High	High
	GRI 404: Training and Education	Moderate	Moderate	Low
	GRI 405: Diversity and Equal Opportunity	Moderate	Low	Moderate
	GRI 406: Non-Discrimination	Moderate	Moderate	Moderate
	GRI 408: Child Labour	Moderate	Moderate	High
	GRI 409: Forced or Compulsory Labour	Moderate	Moderate	High

Corresponding Material GRI topic

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

GRI - 103-1

Reasons for Materiality

Our employees are the cornerstone of the Company's success. We strongly believe that the many achievements of our business rest on our ability to recruit, motivate and retain high-calibre, skilled staff lone-term. It is they who realise the Company's goals and objectives, and build the relationships that sustain our present and future progress.

ASSESSMENT OF MATERIAL TOPICS

Topic: Human Capital Management

GRI - 103-2

Management Approach

We have re-framed our employee relationships by treating our employees as valued customers. This has enabled us to achieve our ultimate goal of creating a favourable work atmosphere that helps employees give of their best to their jobs. We assure them of an income that ensures an acceptable standard of living and safeguard their health. We also offer our people professional and personal development that fulfils life goals, meets industry standards and rewards them in line with performance.

We have in place a comprehensive Human Resources policy that takes a holistic approach to human resources management by considering every aspect and nuance of our human capital. It deals with issues related to salaries and benefits, compensation, performance management, wellness, motivation and training. It also encompasses a Health and Safety policy. The occupational health and safety of our workers is a key concern both as an employer who cares for the well-being of our people, and also because of their exposure to hazardous outputs, mainly electricity, on the job. We take a proactive approach to ensuring their occupational health and safety because we understand the grave implications of failure to introduce adequate health and safety measures. We comply with all local and international labour laws as well.

GRI - 103-3

Evaluation Method

The Human Resources Policy is systematically checked against actualities and up-dated to meet the dynamic needs of the changing HR landscape. We have introduced annual Performance Appraisals that address employee concerns and remedy gaps in skills and competencies.

Our employees' satisfaction with their jobs is gauged through Employee Engagement surveys. The results of recent surveys confirm the success of our initiatives to forge employee loyalty by building an environment of trust and a 'great place to work' This has been effective in retaining employees long term.

Fire and safety equipment is checked twice-yearly to ensure conformity with international standards of safety. Safety drills are also held to promote top-of-mind staff awareness of the importance of safety in all aspects of the business. Additionally, we have on board a grievance mechanism that speedily addresses employee concerns.

Topic: Social Impact

GRI - 102-47

Identification of Standards

Topic - Specific Standards		Significance to VPEL's Operations	Materiality	
			To VPEL	To the Stakeholders
Social Topics	GRI 413: Local Communities	High	High	High
	GRI 416: Customer Health and Safety	Moderate	Low	Moderate
	GRI 419 : Socioeconomic Compliance	Moderate	Moderate	Moderate

Corresponding Material GRI topic

- Local Communities
- Socioeconomic Compliance

GRI - 103-1

Reasons for Materiality

Being in a business that utilises a renewable natural resource like water that flows from rivers in remote areas of the country, means that we must consider the indigenous people and the pristine areas around our construction sites.

Impoverished communities have lived for generations in the vicinities of our power plants, and play a key role in protecting natural resources and hold a unique position in preserving traditional knowledge. We realise that their support is essential to the continuity of our business and as such, recognise them as being key stakeholders of the Company.

Building strong relationships with them is therefore essential for our own well-being and progress, and vital to procuring our social license to operate in these sensitive catchment areas.

ASSESSMENT OF MATERIAL TOPICS

Topic: Social Impact

GRI - 103-2

Management Approach

We have developed a reciprocal relationship by adopting a structured approach to communicate with them. This relationship is founded on two-way communication, honesty, and an equitable sharing of the liquid wealth and other benefits of the environment.

They are apprised of all stages of our projects through an interactive process of open dialogue that encourages feedback. They have also been provided with a range of benefits that have substantially elevated their living standards and the infrastructure of the area. This includes providing them with employment in our power plants.

Considerable time, effort and resources are spent continuously to nurture and maintain this cordial relationship. This has assured 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, namely, to ensure our future sustainability.

GRI - 103-3

Evaluation Method

We have 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 to the system based on changing community needs and the Company's focus.

We also have in place a grievance mechanism that addresses concerns of the communities or other stakeholders.

INDEPENDENT ASSURANCE REPORT ON SUSTAINABILITY REPORTING

EY
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 Integrated Annual Report-2018/19

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- 2018/19 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 33 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 ("ICASL").

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 guideline publication, 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 03 May 2019. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or 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 ICASL.

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 company 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 the Company on a sample basis through recalculation.

INDEPENDENT ASSURANCE REPORT ON SUSTAINABILITY REPORTING

- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 March 2019.
- 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 page 33 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2019.
- 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

Ernst & Young
Chartered Accountants

27 May 2019
Colombo

GRI STANDARDS CONTENT INDEX

Global Reporting Initiative (GRI) Content Index - "In Accordance" - Core

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102-3	Location of headquarters	Corporate Information	IBC
102-4	Location of operations	About the Company	07
102-5	Ownership and legal form	Corporate Information	IBC
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102-49	Changes in reporting	The Report Profile	02
102-50	Reporting period	The Report Profile	02
102-51	Date of most recent report	The Report Profile	02
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103-3	Evaluation of the management approach	Assessment of Material Topics	74, 76, 78, 80
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409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Human Capital	118
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413-2	Operations with significant actual and potential negative impacts on local communities	Social and Relationship Capital	105
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We link the well-being of the society at large to our financial equation.

FINANCIAL CAPITAL

By efficiently managing its financial capital over the years, the Company is at the cusp of realising its vision of being a sustainable producer of clean energy that ensures sustainable economic returns.

Overview

Businesses need to be financially agile in the fast-paced, high-risk and competitive world if they are to continue and prosper. Financial agility means that sound financial management must be practiced in all aspects of the business, at all times. Financial developments in the external environment must be carefully followed, and the company's financial resources and cash flow prudently managed to ensure that funds are available to meet typical expenses.

With good financial management, corporate decision-making is informed and focused, and decision-makers have the foresight to meet and overcome unexpected issues with sufficient resources that keep the company in the black even during the most challenging circumstances.

Management Approach

The financial capital of the Company comprises shareholder funds and debt capital, which is used to meet all generation and associated costs of supplying energy to the National Grid. VPEL has been practicing prudent financial management since inception, and uses its financial capital to maximise shareholder wealth and raise economic business value. The total cash inflows are paid fully to shareholders when no new investments have taken place during the period.

As the VPEL Group is a debt free Company, now it has an excessive cash flow to be managed efficiently ensuring the maximum return to the shareholder while meeting its all expenditures. Costs are kept as low as possible by purchasing mainly from reputed and long- standing suppliers at cost-effective rates and evaluated terms. Maintenance schedules are also followed rigorously to minimise machinery breakdowns, and overheads are curtailed with effective cost management strategies that successfully reduced general overhead costs in this year.

Presented below is an overview of our financial performance which includes information on our profitability, solvency, capital and asset structures, all of which confirm the robust health of the business.

KPI Dashboard 2018/19

Revenue Growth
15%

Net Profit Margin
69%

Return on Equity
39%

Return on Assets
34%

Dividend per Share
70 Cents

Gearing
Zero

FINANCIAL CAPITAL

Some of key contributors to generating the Company's financial results during the year are:

- Growth in Revenue
- Reduction of Overheads
- Long-term Growth in Cash Flow
- Strong Profitability
- Higher Return on Assets

Financial Performance

Group performance at a glance.

Item	2018/19	2017/18	Change		
	Rs. Mn	Rs. Mn	Rs. Mn	%	Key Factor
Revenue	1,286.7	1,117.6	169.1	15%	Increase of tariff
Cost of sales	151.8	162.3	(10.5)	7%	Decrease of power plants maintenance & spares
Administration Expenses	99.8	100.8	(1)	1%	Decrease of general overheads
Other operating expenses	3.3	2.6	0.7	27%	Increase of CSR activities
Finance income	49.0	32.9	16.1	49%	Increase of short-term investments.
Finance expenses	4.7	35.6	(30.9)	87%	Full Settlement of borrowings
Tax expense	195.3	85.7	109.6	128%	Taxation of Subsidiary added after the tax holiday and Group Dividend tax effected at 14%.
Net Profit After Tax	890.0	763.4	126.6	17%	Increase of tariff and full settlement of the loan.

Revenue for the year

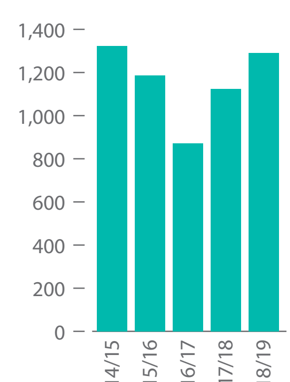
Group Revenue during the current financial year increased by 15% to Rs. 1,287 million, from Rs. 1,118 million recorded last year. This was as a result of the increase in Avoided Cost Tariff effective from 1 January 2018. However, the Group experienced a 3% drop in power generation which had a negative impact of Rs. 9.8 million compared to last year.

Year	2018/19 GWh	2017/18 GWh
Erathna MHPP	41.8	44.2
Denawaka Ganga MHPP	23.0	21.7
Kiriwaneliya MHPP	15.1	16.2
Total	**79.9**	**82.1**

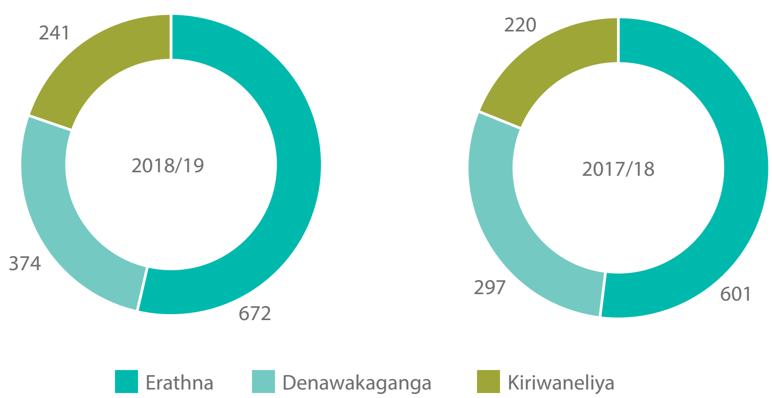
Drop of Power Generation

3%

Group Revenue *(Rs. Mn)*

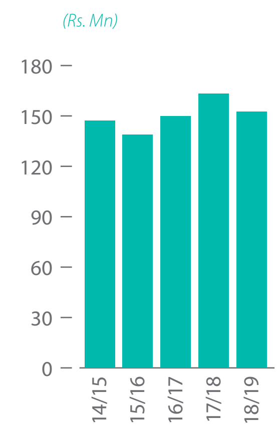


Revenue Composition



Cost of Sales

The Group's cost of sales reduced by 7% to Rs. 151.8 million this year from Rs. 162.3 million in the previous year, mainly due to the cost of spares incurred last year which was higher than in other years. All other direct expenses related to power generation remained unchanged.



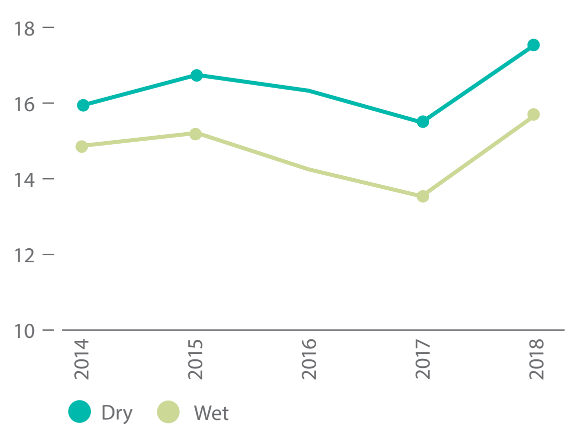
NCRE Tariff Impact

The Avoided Cost Tariff for NCRE was revised positively in 2019 and was effective from 1 January 2018. The wet tariff increased by 17% and the dry tariff increased by 14%. The impact on revenue due to the tariff revision was Rs. 179 million.

Avoided Cost Based Tariff *(KWh)*

Dry (Rs./ KWh)	
2018	17.58
2017	15.43

Wet (Rs./ KWh)	
2018	15.70
2017	13.47



Average increase of Avoided Cost Tariff

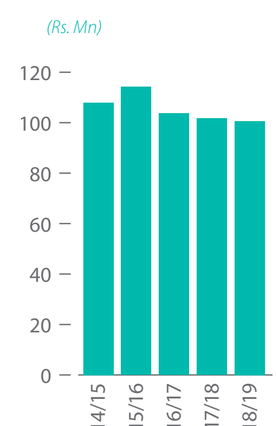
15%

Impact on revenue due to tariff revision

Rs. 179 Mn

Administration Expenses

The Group was able to manage and contain administration costs at optimal levels, which resulted in a decrease in administration expenses by Rs.1 million (1%), from Rs. 100.8 million in the previous financial year to Rs. 99.8 million this year.

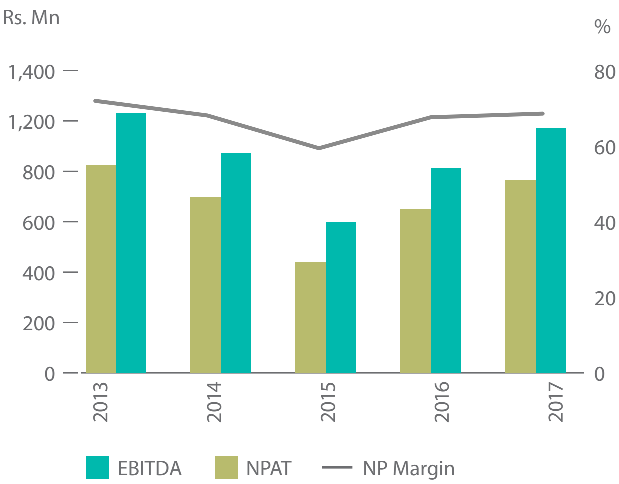


FINANCIAL CAPITAL

Profitability

Group profitability increased substantially during the year, following an increase of 17% in Group Net Profit After Tax (NPAT)to Rs. 890 million, from Rs. 763.4 million in the previous financial year. This increased the EBITDA by 20% to Rs. 1,131 million, from Rs. 942 million in the previous year. This was due to the increase in revenue, and the considerable decrease in interest costs due to the full repayment of borrowings.

This resulted in the achievement of a noteworthy Net Profit margin of 69% (2017/18 - 68%), the higher achievement in the industry.



Increase of NPAT

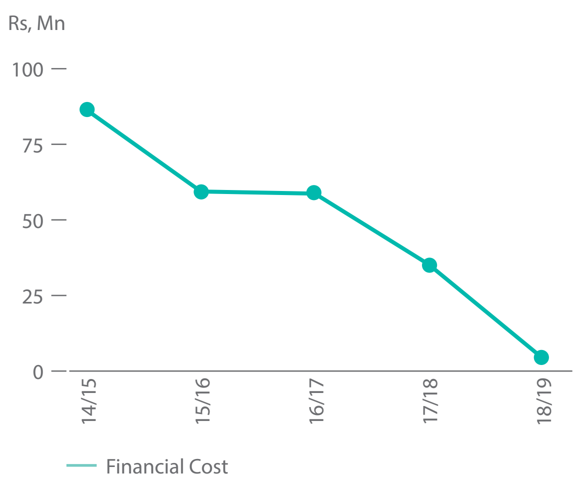
17%

Dividend Income from Subsidiary

Rs. 160 Mn

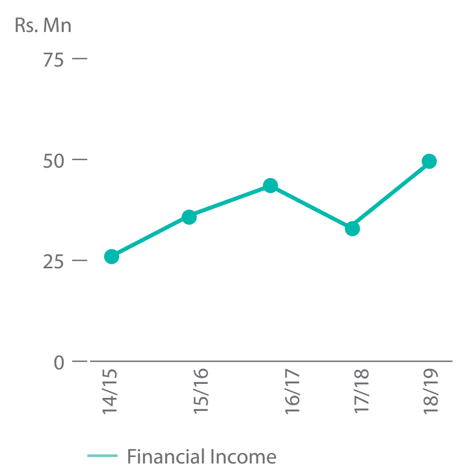
Finance Cost

Since the debt capital obtained for the all projects was fully settled by the 1st quarter of the current financial year, the finance cost of the Group decreased by a substantial 87%, from Rs. 35.6 million in 2017/2018 to Rs. 4.7 million in the current financial year. This had a positive impact on profits.



Finance Income

Due to the excess cash retained by the Subsidiary after the full settlement of loans, short term investments increased drastically. The Finance Income of the Group represents the interest income from short term deposits which increased by 49% to Rs. 49 million in the current year, from Rs. 33 million last year.



Taxation

The Total Income Tax Expenses of the Group increased by 128% during the year to Rs. 195.3 million, from last year's figure of Rs. 85.7million.

The following table showcases the detailed tax costs of the Group.

Tax Component	2018/19 Rs. Mn	2017/18 Rs. Mn	Change Rs. Mn	%	Key Factor
Income tax on business income	145.5	60.7	84.8	139.70%	➲ Subsidiary is liable for income tax on business profit w.e.f. 1 April 2018. ➲ Income tax rate of VPEL increased to 14% from 12%.
(-) Reversal of over provision	-0.8	-	-0.8	100%	Reversal of over provision made to the tax liability of 2017/18.
Income tax on other income	13.7	9.2	4.5	49%	Increase of finance income
Deferred tax charge/(reversal)	10.7	10.3	0.4	3.90%	Reversal of Subsidiary's deferred tax asset by Rs. 14.7 million and reversal of deferred tax liability of VEPL by Rs. 4 million.
Tax on Inter-company Dividend	26.2	5.5	20.7	376%	Increase of dividend received from CEPL - Subsidiary.
Total	**195.3**	**85.7**	**109.6**	**128%**	

- As per the provisions of the Inland Revenue Act No.24 of 2017 related to the "Temporary Concessions" given in the Sixth Schedule and notwithstanding anything in the First Schedule, any person, who has entered into a Standardised Power Purchase Agreement on or before November 10, 2016 with the Ceylon Electricity Board to provide electricity generated using renewable resources shall be taxed at the rate of fourteen percent (14%) for the three years from 01.04.2018. Therefore, the Company's business profits and income are liable for income tax at 14% and other income is liable for income tax at the rate of 28%.
- The tax holiday of the Subsidiary (CEPL)ended in 2017/18. Therefore, the Subsidiary's business income will be taxable at 15%from the current financial year onwards according to the pre-agreed tax rate given by the BOI, and other income will be taxable at the prevailing rate of 28%.
- The Company received Rs. 186.8 million as a gross dividend from the Subsidiary, which is subjected to 14% withholding tax. Therefore, the net dividend of Rs. 160.64 was received after deducting Rs. 26.1 million as dividend taxes.

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

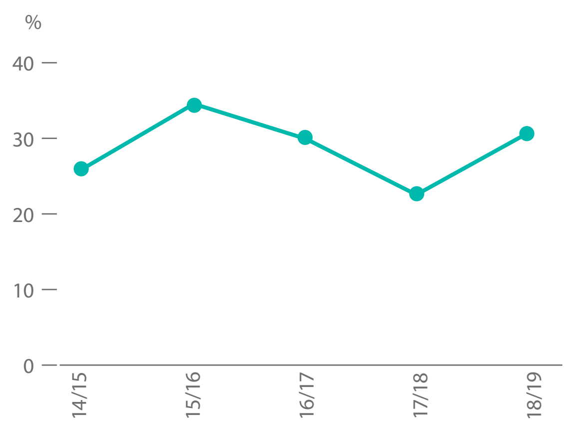
The Group's Return on Capital Employed (ROCE) and Return on Equity (ROE) in the year under review are 37% and 39% respectively, which increased from 33% and 35%respectively over the previous year.

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.

FINANCIAL CAPITAL

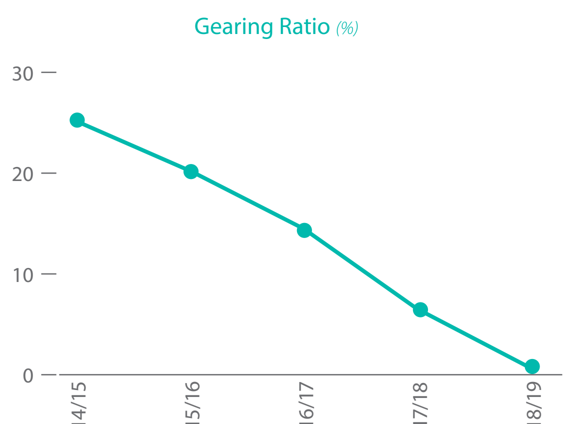
Return on Assets

The Group's Return on Assets (ROA) in the year of review was 34%, an increase of 30% over 2017/2018. This represents more effective asset utilisation than in the previous year.



Group Capital Structure and Gearing

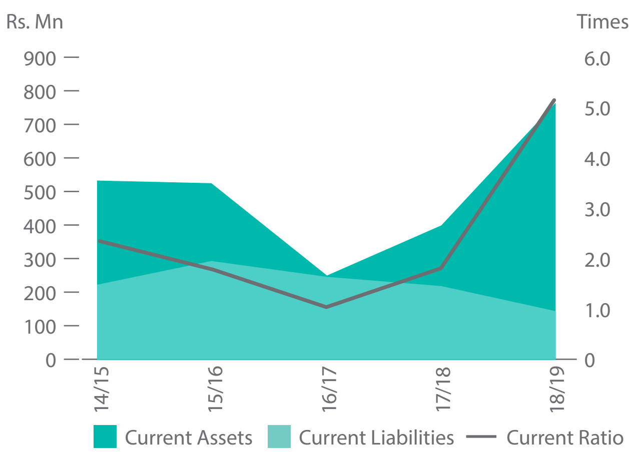
The Group is now debt free as the project loans taken have currently been fully paid. Net Assets attributable to the equity holders of the Company increased by 14% during the year, compared to 2017/2018 figures.



Nature	2018/19 Rs. Mn	2017/18 Rs. Mn	Change Rs. Mn
Net assets attributable to the equity holders	2,561	2,245	316
Non-controlling interest	226	199	27
Borrowings	-	157	-157
Capital Employed	2,787	2,601	186

Working Capital

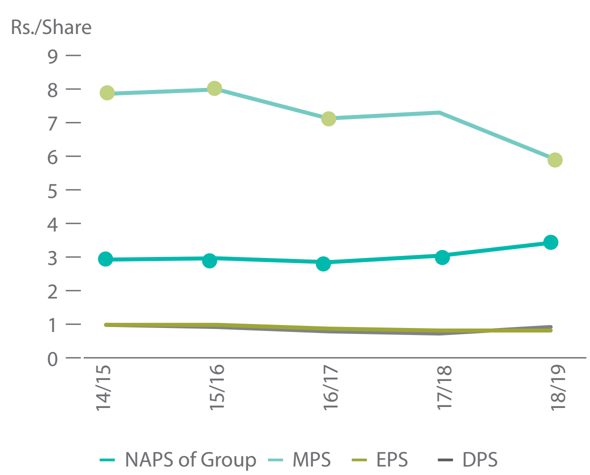
Working capital in the current financial year increased to Rs. 622 million, compared to Rs. 180 million last year. This was mainly due to the increased trade debtors (CEB receivables) and short- term investments as at year end. This improvement reflects 5.2 times in the current ratio at the end of the year.



Share Performance

The increased performance escalated Group's Net Assets per Share by 14% to Rs. 3.43, from Rs. 3.01 in 2017/2018.The Dividend payout in the current financial year was also maintained at the earlier level of 70 cents per share where the Company's basic EPS stood at cents 89 (2017/18 - cents 64).

However, the market price of the share declined by 19% to Rs. 5.90 as at year end compared to Rs. 7.30 in the previous year.



NATURAL CAPITAL

We conduct our daily operations with minimal disturbances to the nature that surrounds us and cause no interruption to ecosystem services. As such, each project prioritises the needs of the other users of ecosystem services, be they human, fauna or flora, and ensures availability of sufficient water for their needs.

Overview

Although run-of-river mini hydropower operations do not pollute the water or the environment, the hydropower facilities themselves could have substantial environmental impacts if not responsibly managed. The constructions could change the environment and threaten natural habitats and land use as the projects need to be set up in sensitive catchment areas with relatively unspoiled habitats due to the fact that they need to harness the power of rivers. It is therefore important that MHPP operations take steps to reduce their environment impacts.

Management Approach

The Company is fully cognizant of the potential consequences of its actions on the environment, and follows a multi-faceted approach to mitigate them.

We use the following initiatives to manage our precious Natural Capital:

- Focus on Quality & Environmental Policy
- Waste Management
- Constructional Impact Management
- Conservation
- Operational Impact Management
- Communication and Engagement

GRI - 302-4

KPI Dashboard 2018/19

Reduction of Energy Usage

15%

No. of trees planted

21,717

Reduction in CO_2 Emission

49,956 MT
(Approx)

Environmental Non-compliances

Zero

Focus on Quality & Environmental Policy

We have a comprehensive Quality and Environment policy in line with similar international guidelines on environment management. It addresses all key aspects of environment protection, and compliance with it is strictly enforced. In keeping with its stipulations, we ensure that all three projects comply with the standards and regulations imposed by the statutory bodies pertaining to environment conservation, particularly with the rules and standards imposed by the Central Environment Authority.

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 organisation and review achievement of those objectives at periodic intervals for continual improvement."

The Company also implements environmental monitoring programmes at the sites of all three projects, which incorporate a procedure for evaluating operational activities according to their impact on the environment, and take measures to mitigate them.

Constructional Impact Management

GRI - 102-11

Our plants were carefully designed to manage and reduce their impacts on nature. Prior to commencement of the project, we carried out an impact assessment survey to understand the environment we would affect and the extent of our impact. We then took a series of measures to ensure our actions did the least harm to the environment. Several catchment areas comprise tropical rain forests that are home to endemic species of animals, marine life and plants. The continuity of the ecosystems as well as the preservation of the pristine nature of the catchment areas rest on the survival and growth of this fauna and flora.

Mitigatory measures were introduced at all three projects during the construction stages. We know that efficient land management practices minimise erosion and reduce problems downstream, and took several steps to reduce slope failure and erosion of the river bank.

The construction process of all three MHPPs carefully considered areas that had the potential for soil erosion and took precautionary measures to minimise erosion. The weir was strengthened with flood barrier walls, and this structure was used as the base for constructing the headrace channel. Streams in the vicinity were left undisturbed when the headrace channels and forebay tank were constructed. Natural water paths were carved through the channel path/forebay tank through a drainage system that enables the discharged water to return to the river, and the water released was confined to a concrete channel to minimise bank erosion when constructing the tail race.

Concrete channel of Forbay spill to prevent soil erosion

The projects were also constructed to ensure that there is little or no ponding caused upstream, so no land is inundated and consequently destroyed.

The constructions also facilitate the safe and easy movement of people and animals in and around the project site, and every project was built with safeguards to protect animals from being harmed when entering the water conveyance system.

The entire headrace channel path at Erathna MHPP and Kiriwaneliy MHPP are closed with a concrete slab that forms a bridge for people and animals to walk across. Soil filled paths are especially built to facilitate animal movement across the channel. All jungle inhabitants also have a throughway across the project along concrete and steel steps that span the length of the project. All three plants also have a trash rack at the Intake to prevent animals from falling into the water.

NATURAL CAPITAL

Closed channel and soil filled path to facilitate movement of inhabitants across the channel

All maintenance of infrastructure of the three plants is conducted in the vicinity of the streams only during the dry months, which leaves natural vegetation and habitats undisturbed.

On completion of the construction, surface vegetation was grown in the area to prevent soil erosion, which increased the natural capital of the area. All project sites were landscaped with trees and plants that blend with the natural beauty of their surroundings.

Surface vegetation and draining system to prevent soil erosion

Land Use

GRI - 304-1, 2

Our three power plants occupy state and private lands for which we pay annual rentals. State lands were provided by Divisional Secretaries, the LRC and the JEDB. We take our role as custodians of these lands very seriously, and make it our mission to protect and utilise their resources effectively.

Most of these lands are not within protected areas, nor are they in areas of high biodiversity value outside protected areas.

Although most of the lands what we occupy 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	

Operational Impact Management

We conduct our daily operations with minimal disturbances to the nature that surrounds us and cause no interruption to ecosystem services. As such, each project prioritises the needs of the other users of ecosystem services, be they human, fauna or flora, and ensures availability of sufficient water for their needs, in accordance with and in compliance with the environment flow requirement of a MHPP project.

The Kiriwaneliya MHPP, for instance, is in an area of the Maskelioya which is not utilised for the human needs of agriculture, animal husbandry or drinking water. Despite this, the Company ensures that a sufficient and uninterrupted quantity of water is continuously discharged to the area. This effectively maintains the eco system balance and meets the water needs of fauna and flora in the vicinity.

Managing noise and vibration

The powerhouses have been designed to muffle the noise and reduce the vibration that usually occur with the power plant operations. Additionally, all employees are provided with ear muffs and ear plugs that are mandatory for use in the power house during all times of power plant operations, as an additional measure to promote health and safety.

Noise Control Panel Installed at Erathna MHPP

Green initiatives have also been undertaken to reduce noise. All projects have an avenue of Bamboo tress planted along the tail race to absorb the noise of the gushing water as it is returned to the river.

Bamboo trees planted at tailrace to minimise noise

There have been no complaints on any material issues concerning the impacts of the Company's business on the environment, including noise and vibration during operation of the project.

Minimising CO2 Emissions

By its very nature, hydropower plants generate renewable energy, and are therefore responsible for zero GHG emissions. Direct GHG emissions (SCOP1) of the Group arise, however from the fuel consumed by standby generators on the project sites, but this is only an occasional occurrence. Vehicles operated by the company are also identified as a source of GHG emission but these are few in numbers, so emission has not been quantified. Here, too, we follow the stipulations of our environment policy that all machinery used on site should be in good condition. We are therefore confident that whatever emissions discharged are at lower and manageable levels.

GRI - 305-1, 2

	Emission of CO2 - MT (Approx.)		
	2018/19	2017/18	Change %
Scope-1	47.5	54.7	-13%
Scope-2	16.9	23.5	-28%

The very nature of MHPP hydropower operations assured the generation of green energy which emits zero CO2 to contaminate the atmosphere and environment. All electromechanical equipment at our three MHPP plants are also supplied by renowned suppliers from Europe and China, and manufactured according to internationally accepted industry standards of quality and reliability. These conditions of quality are also strictly imposed by our Q & A policy.

GRI - 305-5

Project	Reduction in CO2 - MT (Approx.)	
	2018/19	2017/18
Erathna MHPP	26,122	27,622
Denawaka Ganga MHPP	14,376	13,577
Kiriwaneliya MHPP	9,456	10,142

Reducing Transport Impacts

Impacts of motorised transport are very low at the project sites due to the natural footpaths and concrete passageways at all the sites that facilitate safe and uninterrupted through ways. A high proportion of the on-site workers are from in the surrounding communities and travel either by foot or push bike.

Although, the Company's head office in Colombo operates a proportion of motor vehicles in carrying out its daily activities, these are few in quantity and therefore their GHG impacts are negligible.

Responsible Use of Energy

As both creators and users of energy, we have a responsible focus on this vital subject area. We generate clean and green energy with the ultimate aim of reducing fossil fuels that are detrimental to the environment. Given the country's dependence on fossil fuels however, we are compelled to rely on them for lack of an alternative energy at specific times. Given this scenario, we try as far as possible to reduce our fossil fuel consumption. Accordingly, our power houses, staff living quarters and head office utilise electricity for the purposes of operating equipment, lighting and cooling.

NATURAL CAPITAL

Use of energy approximately is given below.

GRI - 302-1, 2, 4

Energy Source		2018/19 (GJ)	2017/18 (GJ)	Change
Electricity	Primary	18.95	18.4	3%
	Other	80.12	118.9	-33%
Diesel		401.69	488.6	-18%
Petrol		296.73	314.6	-6%
Total		797.49	940.44	-15%

Conservation

GRI - 301-1, 303-2, 3, 306-5

All three projects are run-of-the-river MHPPs which means that they draw water directly from the streams as the renewable input material to power the turbines that generate electricity then return the water to the river, unchanged both in quality and quantity. Once the water flow is discharged to the river after generation no any reuse or recycling is happened as our industry nature. Therefore, the mini hydropower projects have no negative impact on water sources as a result of this system of water use.

Surface Water Usage/Water Flow used for Hydropower Generation *(Approx.)*

GRI - 303-1, 306-1

	Erathna MHPP		KI MHPP		DE MHPP		Total	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Plant Capacity (MW)	10	10	4.65	4.65	7.2	7.2	21.85	21.85
Power Generation (kWh)	41,796,220	44,195,031	15,131,104	16,228,272	23,002,642	21,723,422	79,929,966	82,146,725
Plant Factor %	48%	50%	37%	40%	36%	34%		
Designed Flow (m3/s)	2.7	2.7	3	3	27	27		
Volume of water used (m3/per annum) approximately	40,625,926	42,957,570	35,143,209	37,691,470	310,535,667	293,266,197	386,304,802	373,915,238
Destination of Withdrawal	Kuru Ganga - Warangala, Erathna		Maskeli Oya - Koththellana		Denawaka Ganga			
Destination of Discharging	Kuru Ganga - Adawikanda, Erathna		Maskeli Oya - Kiriwaneliya		Denawaka Ganga			

Note - It is assumed each plant was running at the optimum efficiency throughout the year.

To ensure that water quality is maintained at all times, the water released from the three plants is tested whenever necessary. The Company pays a tax to Government for the diversion of water flow on the basis of plant capacity. In the year of review, the taxes paid by the Company amount to Rs.2.1 million.

Apart from the water utilised in power plant operations, a negligible amount of water is consumed by onsite staff for drinking and bathing purposes. This, has not been quantified, but the water consumed at the head office in Colombo has been quantified as follows:

GRI - 303-1

Location	Ground Water (litres)		Municipal Water (litres)		Bottled Water (litres)	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Head Office	Nil	Nil	Nil	Nil	9.42	13.19
Erathna MHPP	Nil	Nil	Nil	Nil	Nil	Nil
KI MHPP	Nil	Nil	Nil	Nil	Nil	Nil
DE MHPP	Nil	Nil	Nil	Nil	Nil	Nil
Total	-	-	-	-	9.42	13.19

GRI - 301-2, 3

Usage of other Materials

According to the hydro power industry specifics, the negligible quantities of other materials were consumed in comparison with the value of the business and no any recycled input or reclaimed products are being used for the operations.

Waste Management

GRI - 306-2

The Company follows a strict policy of grading waste and minimising effluents on its plant sites as well as its offices. Our waste management practices are based on the 3R concept of 'reduce, recycle and re-use.

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

Water is the liquid wealth of our business, and we return it unaltered in quality and quantity in the process of generating energy to the grid. There is therefore no necessity whatsoever to ensure the recycling of water for usage in the business.

Solid waste at the sites is collected then separated into bio-degradable and non- bio-degradable. Food waste is collected under bio-degradable waste. Non- degradable waste is further separated into polythene, glass and cardboard waste and responsibly disposed of to third party contractors. Non-bio- degradable waste at the site also includes oil, lubricants and waste material used in the operation and maintenance of the power plants. These are collected regularly by licensed operators and disposed of for use in accordance with internationally accepted Q & E standards.

Natural bin for Compost waste and waste segregation ant site premises

455 Kg

2018/19

Recycled Waste Papers

The project sites use negligible quantities of paper, but paper is one of the main consumables in the daily operations of the head office. This paper is collected under a paper recycling programme initiated last year and provided to third party suppliers for recycling. The Company has also introduced initiatives to reduce the quantities of waste paper generated, which include encouraging staff to not print e-documents unless absolutely necessary. Other bio degradable waste is not quantified during the year.

Sanitation

The Company provides adequate sanitation on-site for employees with modern flush facilities.

The areas reached and the numbers of trees planted are during the year as follows:

Location	No. of trees planted	Location	No. of trees planted
Alawwa	500	Mathara	750
Ambilipitiya	500	Monaragala	1000
Balangoda	500	Narammala	360
Galigamuwa	525	Norton-bridge	100
Gampola	500	Opanayaka	5000
Gonaganara	2,282	Pelmadulla	100
Kegalla	4,635	Rathnapura	2190
Kuruwita - Erathna	1,300	Siyambalanduwa	500
Mathale	75	Udawalawa	900
Total			**21,717**









Communication and engagement

The Company is committed to reach out to its stakeholders to spread its message of environment protection and thereby inculcate best practices of environment awareness and protection. This will ensure preservation of the environment for the well-being and enjoyment of future generations.

Awareness programe for "Empowering Green"

Empowering Green

With this aim in mind, we initiated our flagship project 'Empowering Green.'. The project has since grown to phenomenal proportions in just four years and this year, spread its roots to several more areas of the most remote regions of the country. Trees were planted in areas of sparse vegetation and the message of conservation was spread to more schools and communities. We set a new record for employee volunteerism and community engagement this year, by planting over 21,000 trees in the various part of the country. Our staff as well as many communities participated enthusiastically.

Empowering
GREEN
VPEL's 1,000,000 trees planting programme

This project also helps us replenish the natural resources we were compelled to diminish as a result of our project constructions. Some, not all, projects required the removal of trees during the construction period which was carefully carried out, based on approvals obtained from the pradeshiya sabha of the area.

So as an environmentally responsible citizen, we are now giving back to nature the plant resources we were compelled to deplete as a result of our activities. This further reduces our carbon footprint on the planet.

Ensuring Compliance

GRI - 307-1

We take all possible steps to ensure that our projects comply with the environmental rules routinely, regulations and requirements stipulated by the relevant statutory bodies. There have been no incidents of non-compliance of environmental laws and regulations during the year of review.

Grievances

A Stakeholder Complaints Log is also placed 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

Continuous relationships built up over time not only assure continuity but are also important in identifying in advance, any perceived threats that could be addressed immediately with remedial actions. This avoids any negative fallout that may arise as a result of a deteriorating relationship.

Overview

This capital defines the relationships a company has established with its stakeholders, who range from customers, shareholders and communities to suppliers and regulators. Social and Relationship Capital is among the most valuable assets of a business, and integral to its value creation process. Strong relationships with the network of people a company regularly interacts withhold the key to the development and growth of a business. These are the company's stakeholders, and their lack of support of the company and its activities could place business continuity at risk.

Management Approach

The Company views actively building up its relationship capital as being of strategic importance to its business plan. Continuous relationships built up over time not only assure continuity but are also important in identifying in advance, any perceived threats that could be addressed immediately with remedial actions. This avoids any negative fallout that may arise as a result of a deteriorating relationship.

Accordingly, the Company has introduced a strategic plan for communicating with each stakeholder group at various touch points in its interactions with them, which consider a range of criteria including the type of relationship and its importance to business continuity, the strength of the relationship as well as the type of collaboration needed to further the connection.

Social Capital

Collaboration with Communities

Indigenous communities are a critical stakeholder group, and building cordial and positive relationships with them is of the utmost importance to the Company's growth and development into the future. Our mini hydropower projects are developed in areas inhabited by these communities who have lived there for generations, and our projects have a direct impact on their lives, lifestyles, activities and the environment they live in. We ensure that our impact is positive by building reciprocal relationships with them and when doing so, consider for both ethical and practical reasons these impacts from their own perspectives. In so doing, we have gained insight into the fact that these communities are not against development per se, but rather, want to benefit from the development and be involved in the development process.

GRI - 203-1

KPI Dashboard 2018/19

Spent on community

Rs. **2.5** Mn

Direct and Indirect Beneficiaries

> 5,000

Grievances

Zero

Non-compliance Issues

Zero

Accordingly, we have provided them with a host of benefits that have substantially enhanced their lives and livelihoods, and they have reciprocated by continuing to support business progress. This has been a win-win situation for both parties from the inception of our power plant operations in the catchment areas.

Mitigating the Impacts of our Actions

GRI - 413-1, 2

We carried impact assessment surveys prior to commencement of each project, and whenever needed thereafter. We ensure that our business activities are carried out in a manner that causes least harm to the inhabitants, both to people and to the planet. By mitigating the impact of our activities, we demonstrate our strong social conscience. Thereby we not experienced any significant actual or potential negative impacts on society caused from our operations.

Corporate Social Responsibility (CSR) Budget

GRI - 203-2

We have introduced a dedicated annual CSR budget devoted to supporting forthcoming community activities. This allocation is based on assessments submitted by onsite staff and evaluations made by visiting teams, while a substantial component is also allocated to meet unplanned need-based requests.

Details of CSR activities carried out during the year:

Type of CSR Activity	Amount Spent During the Year (Rs.)
Contribution for Community Development (Including Environment)	1,009,025
Uplifting of Education within the Community	524,249
Partnering for Religious Activities	627,930
Uplifting of Healthcare and Sanitary of Community	38,630
Sponsorships for Welfare and Civil Associations	356,256
Total	2,556,090

SOCIAL AND RELATIONSHIP CAPITAL

Hiring from the Inhabitants

Our Human Resources Policy prioritises hiring from indigenous communities in the vicinities of our three power plants, for staffing the power plants. The response to this has been very positive through the years. Hiring from the local inhabitants has succeeded in providing the employees and families with a living and continuous wage, which has successfully raised their standard of living and increased their aspirations and hopes for the future. Although the initial hire is at entry level, several of these employees have slowly and surely risen up the ranks over the years, supported by training and development programmes provided by the Company, although none have as yet entered the senior management cadre.

Engaging in Events

Our main aim in community interactions is to introduce initiatives that reduce poverty. The Company has introduced a regular programme of activities that involves participation in public meetings and discussions at community level, sponsorship of community activities as well building the infrastructure in and around the communities in the vicinities of the power plants. These initiatives have been cordially received and have served to strengthen our community relationships and interactions through the years.

Donation of dry rations to impoverished families in Adhikarigoda, Kalutara

GRI - 203-1

Building Infrastructure

At the commencement stages of our projects, infrastructure in their vicinities was at a very basic stage, which caused untold hardships to communities and staff alike. As the years progressed, however, the Company slowly and surely built up the infrastructure. This included approach roads as well as certain community dwellings. This has substantially improved access and facilitated connections of these remote communities with the outside world.

Additionally, the Company has a need-based approach for providing these communities with a range of benefits that have substantially enhanced their lifestyles, livelihoods and personal growth.

Donation of building materials for construction of a pre-school in Paladeniya

Education

This support includes supplying students and schools with items essential for furthering educational initiatives. It ranges from providing personal items for the use of bright and needy students to pursue their aspirations of higher education, to supplying essential equipment and infrastructure to promote education in impoverished schools.

Donation of Laptop computer to a student of University of Sri Jayawardhanapura

Donation of stationary items to the Kiriwaneliya pre-school

Donation of sound system to ErathnaMaha Vidyalaya

Sponsorship for building of fence atPaladeniya school

Religion

Spirituality is intrinsically woven into the fabric of community life and the Company actively supports the religious observances of the communities with donations in cash and kind.

Donation of milk packets to school children attending the dahampasala (Sunday school at the temple)

8,424

No. of Milk Packets Donated for Sunday Schools

Rs. **244,294**

Total Cost of Milk Packets Donation

Health

Support to improve community health is another key area the Company is committed to. We believe that healthy members of the community are essential for active participation in community life, the eradication of non-communicable diseases and the longevity of the community as a whole.

Sponsorship for sign boards placed at the Erathna Hospital

GRI - 413-1

Grievance Mechanism

Should these many initiatives prove insufficient to forge community ties, we provide communities with opportunities to have placed a Stakeholder Complaints Log at the project offices at every power plant site to enable communities to register any complaints against the Company, its operations and environmental concerns, or offer suggestions for improving current practices. We have established a procedure to respond to all entries recorded within 7 days of the written submission and take actions as necessary.

No grievances were raised from the society during the year.

Relationship Capital

We have built positive and cordial relationships with all our other stakeholders as well, which we have carefully nurtured over our many years in the business. Every effort continues to be made to promote mutual cooperation and goodwill through sharing knowledge, solving problems and establishing strong social connections. This have been an effective approach that has enabled us to reap many benefits in terms of reduced costs and better service standards.

GRI - 102-6

The source of our Value Creation - our Sole Customer

Despite being a commercial organisation, unlike the traditional concept of business, we do not have a range of customers for an extensive range of products. As a mini hydro power company, we sell only one product, namely electricity, to one customer, the Ceylon Electricity Board (CEB), who purchases our output to the national grid. The CEB remains our sole customer from business inception to end, and as such, is the source of our value creation. Relationship with the CEB is governed by the SPPA (Standardised Power Purchase Agreement)which is signed by both parties before the commencement of each mini hydro electric project. Plant operations are carried out in accordance with CEB stipulations and guidelines which the Company must follow if we are to enjoy the license to continue to operate a sustainable hydropower business that generates clean, green emission-free energy.

We have maintained close and cordial relationships with the CEB since inception, through generous donations for Board projects and programmes. We also continue to maintain amicable and continuous communication with CEB officials at the head office in Colombo as well as in the area offices situated in the localities of our power plants, which is vital to ensuring the smooth flow of a successful business.

SOCIAL AND RELATIONSHIP CAPITAL

GRI - 416-2

During the year of review, we have had no incidents with the CEB for non-compliance with applicable laws and regulations, breach of SPPA provisions or for substandard engineering inputs and violation of safety regulations and look forward to have two more decades of cordial relationships with the CEB with our expected SPPA extension which have been informed,

The suppliers of our value chain – our Suppliers and Contractors

Sourcing

As a responsible business entity, we commit to responsibly sourcing our suppliers. Our approach to sourcing suppliers is built mainly on-long term relationships usually established from the inception of the Company.

We have established a procurement procedure that evaluates our local and foreign suppliers to ensure that they conform to stipulated standards of quality and ethics and follow sustainable business practices. Although we do not as yet have a screening process to assess labour and human rights violations of our suppliers, we rely on longstanding relationships and reputations built on trust, nurtured and developed over the years to determine their integrity. The majority of our key suppliers have ISO certification and other quality standards that confirm business best practices. We have not established a procedure to screen, new suppliers either, but base our assessment of new suppliers on their market reputation for ethical and socially responsible business practices. In our procurement practices, we give preference to reputed local suppliers wherever feasible. This practice we have extended to our indigenous communities as well, and have committed to creating value for local suppliers and contractors from the areas of the projects, by prioritising procurement from those areas. These procurement practices support our commitment to increasing the economic growth of the country and the communities

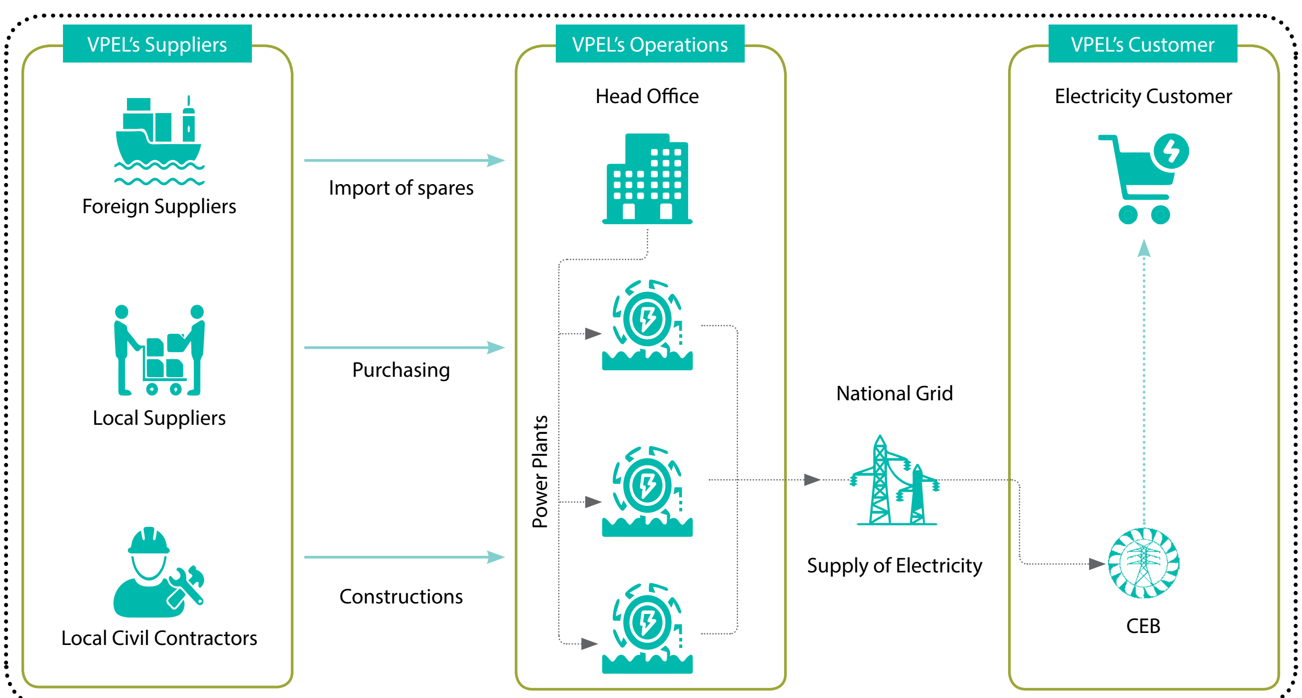
Supply Chain Management

The Company has in place an effective strategy and procedure for managing its supply chain, which leverages local and overseas logistical advantages and synchronises supply with demand in a seamless operation.

A mini hydropower business is not required to keep an extensive supplier base since the majority of our purchases were completed at the initial stages of operations, at the point of building the power plants. At the construction stage, we utilised the products and services of a range of local and international suppliers and contractors.

Following chart illustrates our supply chain process.

GRI - 102-9



Procedure

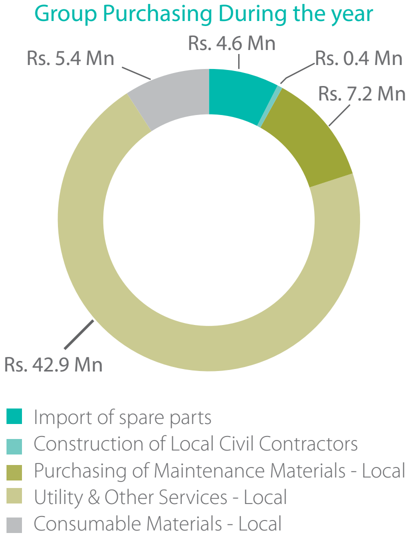
Procurement is centralised at the Head Office in Colombo, which coordinates the purchase of most of the consumables, maintenance material and utility services provided by local suppliers. Purchase of machinery spares from foreign suppliers is also carried out by the head office. The three project offices in the three power plants are given limited jurisdiction to also purchase some of the consumables, maintenance material as well as utility services required for the daily operations of their respective plants.

We ensure that all due payments are met promptly met within 30 days, except in the event of a dispute. In such an instance, we take steps to effect a speedily resolution that is acceptable to both parties. Our approach in addressing disputes is to have open dialogue that resolves matters amicably.

These well-thought-out initiatives have been effective in continuing these essential relationships in a manner that benefits both parties, and have resulted in the procurement of products and services of the best quality.

GRI - 204-1

Group Purchasing During the year



> 200 Suppliers | **91 %** 2018/19

Purchasing from Local Suppliers

8 Suppliers | **9 %** 2018/19

Purchasing from Foreign Suppliers

In this chart, 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.

There have not been any negative impacts for labour practices or negative human rights impacts in the supply chain during the year of review.

GRI - 419-1

The regulators of our Value Creation - Statutory Bodies and Institutions

We operate under the licences and approvals granted by a range of government institutions and statutory bodies pertaining to the mini hydro sector. It is therefore in our best interests to establish and continue amicable relationships with these bodies due to their power to influence business continuity. Over the years we have ensured that our activities assure compliance with all relevant local statues and national laws and have created a climate of consent through our actions that continue to provide us with the support of these august bodies.

Extension of the SPPA of Erathna MHPP will confirm the continuity of our relationships further with our regulators and statutory bodies by a further 20 years. We look forward to building stronger ties with these authorities by working with them in compliance with all necessary laws and statues.

Our relationships with our key stakeholders have been further fortified with the support we received for our Empowering Green initiative from our strategic partnerships, which include several state bodies. This included the National Water Supply and Drainage Board, which, in commemoration of its World Water Day initiatives, awarded us a certificate at an event held in 14 March 2019, in appreciation of our commitment to sustainability of the environment. Our partnership with these type of Government bodies has promoted a mutually supportive relationship for both organisations.

Certificate of appreciation from NWSDB

During the year of under review we did not experience any kind of non-compliance with local laws and regulations in the socio-economic area.

SOCIAL AND RELATIONSHIP CAPITAL

GRI - 413-1

Interactive Grievance Mechanism

A Stakeholder Complaints Log is introduced at the project offices of each site to record any complaints received against the Company for societal or environmental violations. Stakeholders are also encourage to log any suggestions for improving current practices. All entries are responded to within 7 days of writing and any necessary action is taken promptly.

No grievances were raised by any stakeholder during the current fiscal year.

GRI - 205-1

No violations of Corruption or Non-compliance

The Company has established safeguards against anti- corruption and non- 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

No legal action been taken against the Company for anti-competitive behaviour, anti-trust, and monopoly practices by the customer, a supplier or a contractor in the reporting period.

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

We have maintained open and transparent communication in all aspects of our dealings with our workforce, from inception. It is this strategy that has promoted good worker relations, which we consider to be essential to our smooth operations.

Overview

Human resource management and practice is an integral part of organisations in the power sector because the very nature of the business dictates the need for skilled manpower. This is a capital and technology- intensive sector, so specialised technical skills are essential for its growth and development. From the initial project construction phase right through to the operation and maintenance of the power plants, experienced engineers, technicians and semi-skilled workers are required to staff the plants, while trained professionals with the capabilities to respond to the exigencies of the business are essential for staffing the offices.

Management Approach

The technical and managerial competencies of our human resources is critical for ensuring efficient delivery of KPIs and optimal performance of the business. On the other hand, the competencies of our people are also vital for their own personal growth and development. This prompts the human resources management practices of the Company to focus on the all- round development of our people which we foster in an environment of continuous learning. We regard this as being a win-win situation that holds the key to our record of high staff retention and human resource practices that are well reputed for people excellence. We give our employees the flexibility of options and choices within a congenial working environment because we believe that when employees know their employers are concerned about them as individuals they find coming to work a pleasant experience. This keeps them happy and productive.

Human Resources Policies and Manual

Our human resources policies focus on developing human potential through skills upgrading and career enhancement to achieve organisational objectives.

An HR manual in English is available with the Human Resources Department, to which all employees have access during working hours. The facility is available to translate specific clauses or content to Sinhala on the request of employees.

Organisational Culture

A congenial and effective work culture has been established throughout the organisation, which supports empowerment, transparency and accountability. We recognise and reward individual effort so that people feel that their contributions matter to the Company.

GRI - 202-1, 203-2

KPI Dashboard 2018/19

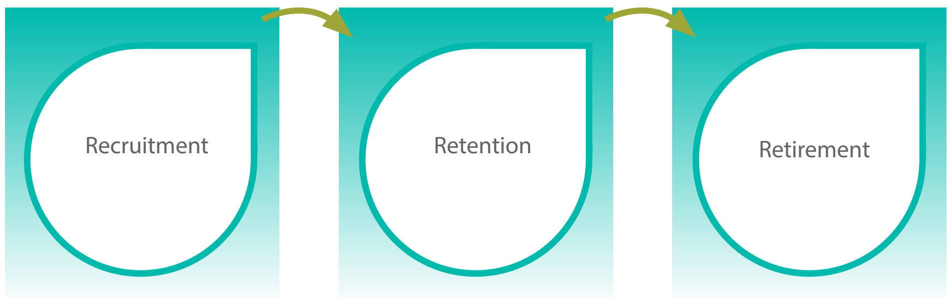
Total Employees
100%

Employees from Local Community
68%

Minimum wage ratio
1.1

Lost Workday Case Accidents
Zero

To provide a holistic overview of the work life of our employees, we take you step-by step through their experience at VEPL, from recruitment to retirement.



GRI - 406-1

Recruitment

Diversity and inclusiveness for a congenial work environment

We create a collaborative and supportive work environment free from harassment which supports diversity and inclusiveness, in which all workers are accepted and respected irrespective of their race, religion, gender, social status or disability. We have not faced any incidents of discrimination at any point of the course of business during the year as we have on board a policy on non discrimination and take steps to ensure that this is enforced at all times.

This is a precept we are committed to, from inception, which has shown visible results in terms of increased productivity due to enhanced worker participation and contribution. It is also a strategy that is proven by extensive research, that companies embracing diversity and inclusion in all aspects of their business statistically outperform their peers. This focus is introduced from the stage of recruitment, in which the only criteria we specify is that the candidate should be suitable, in terms of knowledge and skills, for the available job.

The Company also strives for gender equality at all levels, although this is more so in the office environment than in the power plants. Despite having an open policy for recruitment to the technical cadre of the power plants, females are yet to take us up on the offer due to the 24- hour nature of the shift work. However, women compete alongside men in manual, clerical and professional office jobs that do not have physical or traditionally introduced cultural barriers. Their pay and benefits in these positions are on par with their male counterparts.

Our inclusive recruitment process reaches out to forgotten member of society as well, namely the differently abled and marginalised. Especially in the vicinity of our power plants, we prioritise recruitment of marginalised communities, and we commit to recruit at least one differently abled person from these communities. This extends the talent pool from which we recruit, and identifies talented people who may have otherwise been overlooked, which contributes to the richness of our diversity.

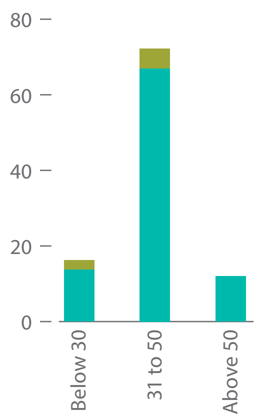
GRI - 202-2

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

Analysis of Employees and Governance Body as of March 31, 2019

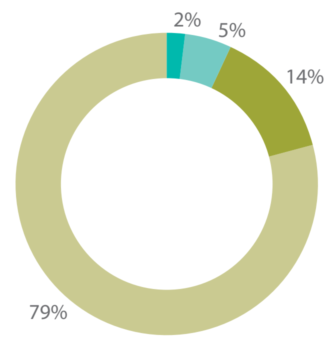
GRI - 102-8, 405-1

Employees by Age



Percentage of employees by;	
Age	
Below 30 Years	- **16%**
30 - 50 Years	- **72%**
Above 50 Years	- **12%**
Gender	
Male	- **93%**
Female	- **17%**

Employees by Job Category



	Male	Female	Total
Corporate Mgt.	2%	-	2%
Middle Mgt.	3%	28%	5%
Executive	12%	43%	14%
Below Executive	83%	29%	79%
	100%	**100%**	**100%**

Employees by Region, Gender and Employment Type

	Permanent		Fixed Term Contract	
	Male	Female	Male	Female
Colombo	2	3	2	-
Gampaha	2	1	-	-
Kandy	4	1	-	-
Kegalle	2	-	1	-
Kalutara	5	-	-	1
Ratnapura	49	-	4	-
Kurunegala	1	-	-	-
Nuwara Eliya	12	-	3	-
Polonnaruwa	1	-	-	-
Mathale	2	-	-	-
Matara	3	1	-	-
Total	83	6	10	1

Percentage of members of governance body by;	
Age	
Below 30 Years	- **Nil**
30 - 50 Years	- **50%**
Above 50 Years	- **50%**
Gender	
Male	- **100%**
Female	- **Nil**

Note:

- The districts of Sri Lanka are considered as regions and the districts where the power plants are located are considered in determining of local community.
- All employees of the group are full time employees.
- The members of the Board of Directors are considered as governance body and not considered as employees.

HUMAN CAPITAL

GRI - 401-1

Recruitment of the year	
1 Employee	**1% on Total Employees**
Age Category	Below 30 Years =1
Region	Nuwara Eliya = 1
Gender	Male =1

Turnover of the year	
5 Employees	**5% on Total Employees**
Age Category	Below 30 Years =3 30-50 Years =1 Above 50 =1
Region	Colombo = 1 Gampaha = 1 Rathnapura = 2 Nuwara Eliya = 1
Gender	Male =4 Female =1

Induction

GRI - 102-16

We have introduced a carefully thought-out induction programme for newly hired employees and schedule a number of induction processes to familiarise them with the Company and help them fit into its culture. The Vision, Mission and values of the Company are explained to the employee during this process, as well as any other information pertinent to their jobs. This thorough grounding has helped new employees to settle in immediately and avoided workplace issues in the future.

Salary and benefits that build long-term commitment

We provide our employees with salaries and benefits on par with, as well as, in many instances, in excess of, industry standards. We regard this as being a key motivator for employees and yet another aspect of our successful retention strategy, based on our belief that a happy worker is a productive one because he feels valued by the Company and therefore gives of his best and stays as long as he can, which is of immense benefit to the Company. The salaries and benefits on offer differ with the position held, and are discussed and explained at the final interview with the employee.

GRI - 401-2, 3

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

Type of benefit	No. of employees entitled/obtained during the year	VPEL's Policy
Interest free staff loan Scheme	58 employees	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 members of the permanent staff. The loan is recovered from monthly salary deductions that commence from the following month.
Festival Advance	68 employees	The employees are entitled to an annual festival allowance of one month's salary either during the month of December, which is recovered in equal ten monthly deductions from their salary commencing from the next full month.
Insurance covers on work life	All employees	Personal Accident insurance scheme covers head office and site employees whose duties require them to travel. Staffs with desk- bound jobs are protected by Workman's Compensation Insurance.
Healthcare	11 employees	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.
Maternity/ Paternity Leave	➲ No any female employee has utilised the maternity leave and nobody was entitled for parental leave. ➲ All employees who utilised the leave benefit has returned to employment, thus, Employee return rate is 100% ➲ Retain rate cannot be calculated as no employee has utilised the maternity / paternity leave during the previous review period.	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 utilise 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.
Medical Leave	02 employees	Medical leave entitlement of an employee shall be 7 days per year which is not included in the Shop & Office Employees Act.
Short leave	All employees	An employee of the Company will enjoy short leave up to total duration of 3 hours which is not given according to the Shop and Office Employees Act.
Emergency Accident Leave	Nil	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.
Uniforms & Safety Packs	All employees at power plants	All on-site staff is 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.

HUMAN CAPITAL

Type of benefit	No. of employees entitled/obtained during the year	VPEL's Policy
Food and beverages	All shift based employees at power plants & all employees at head office	Company has facilitated for the preparation of meals for the shift workers of power plants and other snacks and tea are provided too. Also Lunch are provided free of charge to Head Office staff by during working days.
Accommodation	All shift based employees at power plants	Staff quarters are located at each power plant for the purpose of accommodation facility to shift workers.
Incentives to Employees	All employees	The Company may pay employees who have completed 12 months of service including the probationary period, a Special Incentive Payment based on the annual performance evaluation of the employee.
Gifts / Alimonies	08 employees	In the event of a death of a family member of the employee, employee is granted a Funeral Allowance of Rs. 25,000.00.In the event of a wedding of the employee, employee is granted sum of Rs. 25,000.00 as a wedding gift.
Training & Development	77 employees	The company would provide and fund for the training & development programs and study courses if it is beneficial to the Company and to the employees

Minimum Wage

GRI - 202-1

All employees are paid above the minimum wage stipulated by the government, as well as provided with a host of other benefits, both monetary and non-monetary, which ensure they have a living wage. The National minimum wage as per Wages Board Ordinance & National minimum Wage of Workers Act. No.03 of 2016 is Rs. 13,500 whereas the Minimum basic wage paid by the Group is Rs. 14,862/-.

Retention

Rewarding and Recognising top performers and out-of-the box performance

Recognising our employees is integral to building the performance culture of the organisation. To this end, we celebrate achievements and recognise the contributions behind every success. This is a key deposit in our bank of employee satisfaction initiatives, which provides high returns on the Company's investment in its people.

GRI - 404-3

Performance Appraisal System (PAS)

Our system of rewards and recognition is based on an annual Performance Appraisal System that has been designed to encourage those who take initiative and innovate. Based on a fair and objective evaluation of individual performance, it identifies performance-related benefits that include performance-related bonuses, increments and promotions. PAS also identifies shortfalls in skills and knowledge and prioritises career development and learning opportunities by ensuring employees' training requirements are aligned with business needs. This is one of the many ways in which we facilitate employee engagement.

All employees were appraised during the year and 78% of employees scored over 70%, which confirms the quality of VPEL staff.

GRI - 404-2

Training, teaching and taking talent to the next level of achievement

The human resource department works in collaboration with other departments to identify training needs. Our employees are provided with opportunities to grow and succeed and to realise their true potential through a variety of trainings. We continually improve the competencies and efficiencies of our people to support a safe, reliable and cost- effective operation that fosters a continuous learning and performance- based culture. We believe that constantly upgrading the skills and knowledge of staff is vital for the Company to maintain its market reputation for professionalism as well as for empowering our staff to reach higher levels of achievement by developing themselves to improve the quality of their output, which will stand them in good stead in the future.

The annual PAS session is designed to help identify existing gaps that need to be bridged by training and development initiatives in order to optimise future performance. These identified gaps could be due either to a) a shortfall between the targeted performance and actual performance, or b) to competencies needed to develop the career of the employee for further career advancement or c) to expand knowledge on soft skills for personal development that will open up opportunities in the future.

The skills identified are based on a Job Competency Matrix for every job category which is updated to conform to industry benchmarks. It is the HR department's role to identify and provide the training necessary to bridge these gaps. Employees are mentored and monitored to ensure that they benefit by the training and meet their goals, and are encouraged to discuss any concerns with the HR department or the management.

During the current fiscal year training was provided in the following areas;

Training Type	No. of Participants	Total Training Hours
English Language & Literature	1	108
Fire Training	15	30
Out Bound Training	7	52.5
Therapeutic Lifestyle Change Improving Health Through TLC	3	24
Workshop on Corporate transparency & sustainability	2	5
CSE sustainability reporting	1	3.5
Exchange Knowledge Training	1	4
Fire Training	41	205
Out Bound Training	5	37.5
Certificate in Power Electrical Technology	1	180
	77	649.5

GRI - 404-1

65 Hours

Average Training Hours per Employee

5.5 Hrs per employee

2.6 Hrs per employee

Executive and above 7.1Hrs per employee

Below Executive 3.7Hrs per employee

GRI - 403-1, 2, 3

Creating a culture of safety to enhance brand value and goodwill

Managing a hydropower operation could prove hazardous if not responsibly managed, and we understand the gravity of the potential consequences of failing to operate safely. Keeping our people and assets safe is paramount in our objective of being good stewards of the People and the Planet.

To ensure that we walk our talk, we have introduced a range of safeguards on health and safety in our plants as well as our offices, which conform to international standards of industrial safety.

We have created a culture of safety over the years and our proactive approach to health and safety closely monitors the impacts of potential hazards and takes steps to eliminate these hazards.

HUMAN CAPITAL

We are gratified to report that no work-related accident or occupational disease or hazard occurred during the current fiscal year. This translates to the fact that company lost no operational days due to occupational injuries, diseases or work-related fatalities. An Accident Log is available at all power plant offices to enter details of any accident / incident / injury if it occurred while on duty.

No formal committee has been established to function on the health and safety aspects of the organisations but the Company has an internal mechanism in place that addresses any matters related to H & S.

Nevertheless, as a preventive measure, we provide PPE to employees to enhance their safety during the performance of duties within the precincts of the power plant and in other operational areas where PPE is required. Safety signboards are placed around the power plant premises to alert visitors to prospective hazards.

Emergency Evacuation Drill

This is a drill held annually in which it is mandatory for both operational as well as head office staff to participate. The drill prepares participants for safe evacuation from danger zones in the event of an emergency.

Fire training session at site

Safety Guidelines

Our commitment to a safe working environment is reinforced with safety guideline made available at the Security office of each power plant. This is available to all visitors on arrival, which includes suppliers/ contractors/ visitors and ensure that all safety policies and regulations stipulated by the Company are rigorously followed by every person to visit the site.

Employees equipped with ppe

Good Labour Practices And Relations

We follow all national and international regulations, statutes and standards on labour, including the stipulations of the International Labour Organisation.

GRI - 408-1, 409-1

Child Labour/ Underage Labour

We have zero tolerance of child labour and comply with the principles set out by the International Labour Organisation (ILO) on this subject. We support no situations of forced or compulsory labour anywhere in our operations, either on the sites of our power plants or in our offices, and are committed to eliminate all forms of this labour, by supporting all initiatives for eliminating child labour.

Although we do not have a set policy on the subject, we also ensure that our suppliers follow our policies on child labour and do not partner with stakeholders who fail to comply with these principles. Nor do we engage suppliers who subscribe to situations of forced or compulsory.

GRI - 102-41

Workforce Relations

We have maintained open and transparent communication in all aspects of our dealings with our workforce, from inception. It is this strategy that has promoted good worker relations, which we consider to be essential to our smooth operations. We continue to introduce initiatives to improve industrial relationships, by affirming their right to be treated with dignity and respect. We comply with all applicable industrial laws, regulations, statutory obligations, awards, agreements and national codes of practice and guidelines. An extensive grievance handling mechanism has also been introduced to resolve any potential conflict, focused on ensuring that work is carried out with minimal disruptions and harmonious industrial relations.

We have had no collective bargaining agreements since inception, but due to our open and congenial work environment, we keep all employees informed of all operational changes immediately they occur. Although no formal unions to deal with topics of health and safety have been established, the Company provides regular health and safety updates to workers, in conformity with our occupational health and safety guidelines

The Company has no trade or labour unions and the freedom of association and expression is encouraged among all employees, who actively participate in a Welfare Society that takes care of their needs. We do not support suppliers who do not share our approach to providing employees with a free and open work environment that promotes this freedom.

Grievance mechanism

Communication has been interactive and a two-way process throughout our operations. Although the Company makes every effort to promote harmonious working relationships, dissatisfaction could arise. In such an event, the Company has an established procedure for grievance handling that encourages an acceptable resolution of the issue through discussions and mediation. The Employee may present their concern to their immediate superior, who will then respond to the grievance by discussing it with the employee or after consultation with the management. If necessary, the immediate superior will record the discussion. Should the issue remain unresolved, the employee is given the facility of written communication with the Chief Executive Officer. The CEO may then personally review the grievance and form his own conclusions. He will then personally inform the employee of his decision and forward his written response to the HR division for inclusion in the employee's personal file.

This process is designed to develop mutually beneficial relationships between management and staff, and promote trust and confidence. This is a further step to ensuring efficiency and effectiveness in the work environment. No grievances have arisen in the year of review.

Balancing work with the demands of personal life

We do not measure a healthy work-life balance merely in terms of hours spent in or out of office but instead, we take a the work-life balance to describe the overall workplace experience. We believe that cultivating a happy workplace environment is the foundation of a healthy work-life balance. When employees are happy in their roles, the workplace will feel more like a second home, so we prioritise comfortable office conditions, opportunities for personal growth and time for establishing social connections. This ensures that employees have the time they need to be away from the office as well as enjoy the time they spend in office. Creating a flexible and happy work environment for all is our proven strategy for retaining our talent.

With this in mind, several new people-centric initiatives were introduced during the year, which successfully built social connections and promoted camaraderie and team spirit. These included:

Outbound training provided for site staff

Annual outing of head office staff

Spiritual blessing at the beginning of the year

Annual Cricket tournament

Retirement

The age of retirement from the Company is 55 years. Loyal employees with an excellent track record of service are felicitated at a special event at which their long service is recognised and rewarded. All retirement benefits and entitlements under the Shop and Office Act are provided to them, including gratuity and assistance with their employment benefits from the state. Retirees may also have the opportunity to re-join the Company on a contract basis in the event of a vacancy arising that is commensurate with their qualifications and experience, and they have a history of loyal service with the Company.

MANUFACTURED CAPITAL

Well designed plants, machinery, civil constructions and general infrastructure throughout our projects enable us to minimise generation and supply of electric power to the National Grid.

Overview and Management Approach

Manufactured capital is necessary for the conduct of business and creation of value in most organisations, and developing a high-quality asset base provides them with a distinctive competitive advantage.

This is never more so than in the mini hydropower sector, where manufactured capital is critical to the power generation process. VPEL expends over 70% of project costs on investments in electro mechanical equipment and associated infrastructure.

High-efficiency state-of-the-art equipment

All three projects, Erathna, Denawaka Ganga and Kiriwaneliya, are equipped on- site with high- efficiency high-tech electromechanical equipment supported by professionally designed civil constructions that optimise power generation and minimise power interruptions. These state-of-the-art turbines, generators and control equipment use cutting-edge power generation technologies to maximise energy yield, and are manufactured and supplied by world renowned hydropower equipment manufacturing, specialists from Europe, Asia and Sri Lanka, namely Voith Seimens, Germany, Dongfeng Electric Corporation, Asia, and VS Energy, Sri Lanka.

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

KPI Dashboard 2018/19

Capital addition to the Group's Assets

Rs.0.6 Mn

Plant Maintenance Cost

Rs. 8.9 Mn

Incidents of Major Break Downs

Zero

Erathna MHPP

Specification of Power Plants

Installed Capacity	10 MW
Year of Commissioning	2004
Net Head	420 Meters
Penstock Length	2,250 Meters
Channel Length	300 Meters
EM Plant Supplier	Voith Seimens
Country of Origin	German

Constructed Buildings

6 No. of Buildings

16,705 sq.ft

Rs. 578 Mn Cost of EM Plant

Rs. 531 Mn Cost of Civil Constructions

Denawaka Ganga MHPP

Specification of Power Plants

Installed Capacity	7.2 MW
Year of Commissioning	2012
Net Head	33 Meters
Penstock Length	97 Meters
Channel Length	1,800 Meters
EM Plant Supplier	Dongfeng Electric
Country of Origin	China

Constructed Buildings

3
No. of Buildings

13,450 sq.ft

Rs. 234 Mn
Cost of EM Plant

Rs. 685 Mn
Cost of Civil Constructions

Kiriwaneliya MHPP

Specification of Power Plants

Installed Capacity	4.65 MW
Year of Commissioning	2011
Net Head	200 Meters
Penstock Length	1,690 Meters
Channel Length	300 Meters
EM Plant Supplier	VS Energy
Country of Origin	Sri Lanka

Constructed Buildings

3
No. of Buildings

4,610 sq.ft

Rs. 272 Mn
Cost of EM Plant

Rs. 508 Mn
Cost of Civil Constructions

MANUFACTURED CAPITAL

Regularly scheduled maintenance

The Company follows a planned preventive maintenance schedule designed to minimise idling assets. The plant manufacturer's manual and guidelines are followed in the systematic inspection and maintenance of all plants, and maintenance is scheduled to minimise losses in operating hours. For instance, maintenance is usually scheduled during the dry season when generation is low, and unscheduled maintenance is also conducted in a manner that minimises loss in generation. Inspections are carried out following optimal operations during seasons of heavy rainfall as well, to ensure that the machinery and infrastructure have remained intact.

Replacement of touch panel at Kiriwaneliaya plant

Sufficient spare parts are available in the stores of the Company for continuous maintenance and repairs, and all operational staff have been professionally trained in the safe and efficient operation as well as in the maintenance of the equipment.

In Compliance with SPPA and Safety regulations

The three power plants are in compliance with the regulations specified in their respective SPPAs. Due to the hazardous nature of the generation process, they also follow a range of health and safety precautions that ensure a safe and hazard-free operation.

Assurance of quality

The operational process conforms to the principles of the integrated Quality and Environmental system and complies with international standards of mini hydro power operations.

Protected by Insurance

All manufactured assets are insured against Fire, Risk including Natural Disasters, and the electronic equipment is additionally insured against Machinery Breakdown and Hazards. The Sum insured is the market value of each asset.

Details of insurance covers taken for three power plants;

Type of Insurance	Sum Insured (Rs. Mn)	No. of Claims during the year	Amount Claimed (Rs. Mn)
Fire	2,048	2	2.5
Machinery Breakdown	996	-	-
Electronic All Risk	97	-	-

INTELLECTUAL CAPITAL

Through the wealth of our accumulated industry knowledge of over a decade-and-a-half, up-to-date processes and strong and unshakable relationships with stakeholders built up brick by brick over the years, we have converted our intellectual capital capabilities into core competencies and continue to nurture these competencies into critical success factors to achieve competitive advantage.

Overview

The real drivers of business growth in the knowledge-based economy of today are not the tangible physical assets of a company but rather its Intangible assets, and the creation of value in the fast-changing economy is now depending on the effective utilisation of these intellectual capital factors. These comprise the knowledge, relationships, and intellectual property created and retained by a company, and are the source of a business' competitive advantage and a key factor in business success. As the wealth and value of an organisation is increasingly being measured by the strength of its intellectual capital, companies are using this strength measure and fine tune the efficacy of their Corporate Strategy.

Management Approach

Over the past 15 years of our operations, we have grown and developed our Intellectual capital under the following three components to attain an optimum level of performance in terms of financial strength and reputation. Through the wealth of our accumulated industry knowledge of over a decade-and-a-half, up-to-date processes and strong and unshakable relationships with stakeholders built up brick by brick over the years, we have converted our intellectual capital capabilities into core competencies and continue to nurture these competencies into critical success factors to achieve competitive advantage. This has contributed towards enhancing the wealth of the organisation, which we, in turn, channel to our stakeholders to maximise their wealth. The many awards and accolades received not only this year but in previous years, confirm the quality of our intellectual capital. The consistent growth we have achieved over the years, not only in prosperous years but in lean years as well, was not attained solely by investments in physical assets, but rather by investing in and effectively managing our intellectual capital.

Accordingly, our intellectual capital comprises three primary components – human capital, structural capital and relationship capital. These are supported by a strong governance and risk management framework reinforced by the strength of our brand, which are also critical to defining the excellence of our intellectual capital, and together form the framework of our business excellence.

Human Capital

The human capital component of our intellectual capital comprises the accumulated knowledge and talent of our staff at all levels. It is the talent of our people that defines our success and gives

KPI Dashboard 2018/19

KPI	Value
Awards recognised by the Group	4
Percentage of employees over 5 years of service	87%
Staff Retention Ratio	95%

INTELLECTUAL CAPITAL

us the competitive edge to not merely remain in a position of stability, but to excel in the industry as industry leader.

The Human capital that contributes to the intellectual capital of the business is examined in three main areas:

a) Employee knowledge

This comprises the tacit knowledge possessed by our staff at all levels of the business. The people who staff our business are on the sites of our three power plants as well as in our Head Office, and include our Chairman and Board of Directors and senior management team. The skills and knowledge possessed by these different groups is extensive and comprehensive because it comprises expertise built up over 15 years of our operations in the energy sector.

This component of human capital creates value only if a company has a good record of employee retention, namely that a high staff turnover means that a company is rapidly losing an important aspect of the value of its intellectual capital. So, retaining the knowledge of employees is vital to attaining a sustainable and competitive business. This is an area in which VPEL excels. We are pleased with our record of over 80% employee retention since inception, and a retention of over 95% this year. Most of our technical and managerial staff has been with the Company since inception, which confirms the success with which we have created expertise and knowledge that has made a lasting contribution to the quality of the talent pool in the industry.

Since about 80% of our technical teams on the three plant sites have been with the Company since the inception of the power plants, they have, consequently, accumulated considerable technical skills over the years, of operating power plants at optimal levels. These skills are built on hands-on experience and have enabled us to enhance generation by addressing machine inefficiencies immediately and have introduced operational efficiencies that enable us to generate a profit even in lean years.

Not resting on our laurels, however, we have continued to introduce a range of initiatives that support employee welfare and make our people feel valued and appreciated. They are provided with congenial working conditions within a culture of care, and work in an environment that balances their work-life needs. The host of monetary and non- monetary benefits granted them range from maternity and paternity leave to a variety of insurances and loans that meet the personal needs of our employees and their families. This has succeeded in continuing to retain our tacit knowledge within the organisation.

b) Professional, educational and vocational qualifications

The professional and educational qualifications of our staff are vital to the success of their individual job descriptions and confirms our prowess in recruiting the best talent in the industry. Our Human Resource strategy has in place policies that ensure we hire the best human talent in the business.

Our technical teams are also qualified in relevant certifications related to power industry technology, which benefits both them and the Company in terms of operational efficiencies.

c) Work related knowledge and competencies

The Company provides training opportunities to all its employees to both bridge identified gaps in skills and knowledge necessary to optimise performance on-the-job, as well as to equip top performers for higher responsibilities in the future. We also lay importance on soft skills training to enhance their personal development.

Structural Capital

The processes, procedures and policies, routines and information systems we utilise in our business of generating power to the national grid have been created and fine-tuned over time. Our use of modern technology in our power generation operations has resulted in generating many operational efficiencies that improve the volumes of electricity produced for the national grid.

This also includes the culture in which we work, which is a collaborative one that encourages teamwork spirit while promoting individual accountability and optimal performance. Personal contributions over and above job descriptions are encouraged and rewarded.

Our corporate governance framework is also a structural capital of the Company. The Chairman and Board of Directors are ultimately responsible for the governance of the Company, which is carried out with the highest standards of ethics business integrity, and professionalism.

GRI - 102-13

Relational Capital

Most of the relationship we now enjoy with our stakeholders are the result of interactions commenced during the initial stages of our business, which we have slowly and surely built up over the past 15 years.

These relationships are invaluable to us and form an integral part of our intellectual capital. They are reinforced through our memberships in key organisations that pertain to our industry, details of which are given below.

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

Brand Reputation and Strength

Over the past decade-and-a-half of market presence, the 'Vallibel Power' brand has been slowly and surely built up to a position of strength, and now occupies a position of trust and respect at the apex of the local energy industry. Although, during our formative years, the Company relied on the strength and excellence of our parent brand, namely the 'Vallibel' brand of the Group, we have emerged from relative obscurity to proudly stand on our own strength as 'Vallibel Power', due to our excellent track record in all areas of performance. However, we will, undoubtedly, continue to enjoy the synergies of our parent brand, which further reinforces our brand reputation.

Awards and Accolades

Certifications and Awards received during the year recognise and confirm our industry professionalism and the fact that we walk our talk on Sustainability.

The year of review was one of recognition for the Company, as we were rewarded by many well reputed institutions in their areas of professionalism for our achievements in a number of areas, especially for our active involvement and for taking forward our commitment to sustainability.

Bronze Award Winner (Power & Energy Sector)at the Annual Reports Awards 2018 conducted by CA Sri Lanka

Bronze Award for Kiriwaneliya MHPP at the Presidential Environment Awards 2018 (Sustainable Energy Generation Project category) conducted by the Central Environment Authority in partnership with the Ministry of Mahaweli Development & Environment

Winner of the Asia's Best Integrated Report (SME) Award at the Asia Sustainability reporting Awards (ASRA) 2018 conducted by by CSR Works International Pte Ltd., Singapore.

Winner in the "General Services (Utilities)" category of the ACCA Sri Lanka Sustainability Reporting Awards 2018

ANNUAL FINANCIAL STATEMENTS

FINANCIAL CALENDAR

Financial Reports	Year 2018/19	Year 2017/18
Interim Financial Statements - 1st Quarter	July 24, 2018	July 28, 2017
Interim Financial Statements - 2nd Quarter	October 26, 2018	October 27, 2017
Interim Financial Statements - 3rd Quarter	January 31, 2019	January 26, 2018
Interim Financial Statements - 4th Quarter	May 27, 2019	May 24, 2018
Annual Report	May 27, 2019	May 24, 2018

Payments				
	Year 2018/19		Year 2017/18	
	Rs. Per Share	Date	Rs. Per Share	Date
1st Interim Dividend Payment	Cents 30	August 15, 2018	Cents 40	November 21, 2017
Final Dividend Payment	Cents 40	February 22, 2019	Cents 30	February 21, 2018

	Year 2018/19	Year 2017/18
Annual General Meeting	June 27, 2019	June 28, 2018

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 31 March 2019.

Legal Status

The Company was incorporated on 7 November 2001 under the name of "Zyrex Power Company Erathna Limited" and later changed its name to "Power Company Erathna Limited" on 14 October 2004. Thereafter, on 2 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 17 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 Message on pages 16 to 19 of the Annual Report. This report forms an integral part of the Annual Report of the Directors.

Summarised Financial Position

The summarised financial position of the Company is as follows:

As at 31 March	2019 Rs. '000	2018 Rs. '000
Accumulated profit brought forward	456,051	525,445
Net profit for the year	665,315	476,796
Other comprehensive Income/(loss) recognised in the accumulated profit	1,779	(23,212)
Dividends	(522,977)	(522,977)
Accumulated profit carried forward	600,168	456,051

The Financial Statements of the Company and the Group are given in pages 133 to 175 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 Independent Report of the Auditors on the Financial Statements is attached with the Financial Statements.

Stated Capital

The Stated Capital as at 31 March 2019 was Rs.1,174,365,278/- (2017/18 -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 156 and are consistent with those of the previous period.

Reserves

The reserves of the Company stand at Rs. 600,168,614/- as of March 31, 2019 comprising totally the revenue reserves. (2017/18 - 456,050,947./-)

Taxation

Pursuant to the Supplementary Agreement dated 8 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. As per the provisions of the Inland Revenue Act No.24 of 2017 related to the "Temporary Concessions" given in the Sixth Schedule and notwithstanding anything in the First Schedule, any person, who has entered into a Standardised Power Purchase Agreement on or before November 10, 2016 with the Ceylon Electricity Board to provide electricity generated using renewable resources shall be taxed at the rate of fourteen percent (14%) for the three years of assessment after the commencement of

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

this Act. Therefore the Company's business profits and income is liable for income tax at 14% and other income is liable for income tax at the rate of 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 2018/2019 of Thirty Cents (Rs.0.30 cents) and Forty Cents (Re.0.40 cents) per share which were paid on 15 August 2018 and 22 February 2019 respectively.

Capital Expenditure

The total capital expenditure incurred on the acquisition of fixed assets during the year amounted to Rs. 213,950/-(2017/18 – Rs. 189,630/-) details of which are given in Note 12 on page 160.

Property, Plant & Equipment

The movement in property, plant and equipment of the Company are given in Note 12 to the Financial statements on page 160 of the Annual Report.

Shareholdings

As at 31 March 2019 there were 4,357 of registered shareholders. The distribution of shareholders is indicated on page 178 of the Annual Report.

Share Information

Information on share trading is given on pages 178 to 180 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 36 and 37.

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. C V Cabraal 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 Mr. H S Amarasekera and Mr. P K Sumanasekera exceeds nine years. The Board is of the view that the period of service and the Directorships of Mr. S H Amarasekera and Mr. 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.

Directors' Holding

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

As at 31 March	2019	2018
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 27.5 to the Financial Statement on Page 173 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 stated in page 98 and holding of buildings are stated in the page No120 and 121 of this Annual Report.

Investments

Details of the Company's quoted and unquoted investments as at 31 March 2019 are given in Note 13 to the Financial Statements on pages 162 and 163 of the Annual Report.

CSR and Donations

The Company spent for CSR Activities and donations amounting to Rs. 1,234,569/- (2017/18-Rs. 1,156,330/-) 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 corporate management.

Specific steps taken by the Company in managing the risks are detailed in the section on Risk Management on pages 57 to 62 of the Annual Report.

Corporate Governance

The report on Corporate Governance is given on pages 38 to 52 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 Concerns

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 2019 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. 750,000/-. (2017/2018 – Rs. 721,000/-). In addition they were paid Rs. 220,000/-(2017/18-Rs. 165,000/-) 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 18th Annual General Meeting of the Company will be held at Victorian Ballroom, The Kingsbury Hotel, Colombo 1 on Thursday, 27 day of June 2019 at 3.30 p.m. The Notice of the Annual General Meeting is on page 183 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
27 May 2019

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 133.

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 175 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
27 May 2019

INDEPENDENT AUDITORS' REPORT

EY
Building a better working world

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BW/CSW/TN
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 subsidiary ("the Group"), which comprise the statement of financial position as at March 31, 2019, and the statement of profit or loss, 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, 2019, 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

Key audit matter	How our audit addressed the key audit matter
Carrying value of Plant & Machinery and Civil Constructions – Erathna Plant	
Property plant & Equipment includes Rs. 655Mn worth of Plant & Machinery and Civil Constructions relating to Erathna power Plant as described in Note 12. Due to the probable 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 3.22.2 to the financial statements. 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.	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 assumptions. We also assessed the adequacy of the related disclosures given in Accounting Policy Note 3.22.2 in the financial statements

Other information included in The Company's 2018/19 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
Chartered Accountants

27 May 2019
Colombo

STATEMENT OF PROFIT OR LOSS

For the year ended 31 March	Note	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Revenue from Contracts with Customers	5	671,659,215	601,358,614	1,286,724,547	1,117,601,888
Cost of Sales		(54,129,517)	(64,651,757)	(151,777,516)	(162,349,933)
Gross Profit		617,529,698	536,706,857	1,134,947,031	955,251,954
Other Income	6	160,691,116	49,050,264	9,275,000	89,865
Administration Expenses		(45,890,769)	(48,552,992)	(99,777,552)	(100,852,165)
Other Operating Expenses		(1,756,999)	(1,592,267)	(3,365,350)	(2,640,037)
Finance Income	7	20,689,511	19,694,750	48,966,029	32,881,179
Finance Cost	8	(405,870)	(188,976)	(4,703,843)	(35,644,835)
Profit Before Tax	9	750,856,687	555,117,636	1,085,341,315	849,085,961
Income Tax Expense	10.1	(85,541,421)	(78,321,766)	(195,341,917)	(85,702,924)
Net Profit for the Year		665,315,266	476,795,870	889,999,398	763,383,037
Attributable To:					
Equity Holders of the Parent		665,315,266	476,795,870	836,192,534	718,588,393
Non-Controlling Interest		-	-	53,806,864	44,794,644
		665,315,266	476,795,870	889,999,398	763,383,037
Basic Earnings Per Share	11	0.89	0.64	1.12	0.96
Dividend Per Share		0.70	0.70	0.70	0.70

Figures in brackets indicate deductions.

The Accounting Policies and Notes on Pages 143 through 175 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March	Note	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Net Profit for the year		665,315,266	476,795,870	889,999,398	763,383,037
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	20	2,068,851	(3,325,348)	3,329,830	(4,749,895)
Deferred tax impact on Actuarial Gain/(loss)	16.2	(289,639)	465,549	(478,786)	679,231
Deferred tax impact on revaluation surplus of land		-	(20,352,866)	-	(20,352,866)
		1,779,212	(23,212,665)	2,851,044	(24,423,530)
Other comprehensive income / (loss) for the year, net of tax		1,779,212	(23,212,665)	2,851,044	(24,423,530)
Total comprehensive income for the year, net of tax		667,094,478	453,583,205	892,850,444	738,959,507
Attributable To:					
Equity Holders of the Parent		667,094,478	453,583,205	838,906,385	694,319,853
Non-Controlling Interest		-	-	53,944,059	44,639,654
		667,094,478	453,583,205	892,850,444	738,959,507

Figures in brackets indicate deductions.

The Accounting Policies and Notes on Pages 143 through 175 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
ASSETS					
Non-Current Assets					
Property, Plant & Equipment	12	808,013,490	839,276,408	2,216,737,704	2,293,948,755
Investments	13	821,619,980	821,619,980	-	-
Intangible Assets	14	-	1,600,000	81,078,758	93,035,425
Deposit on Leasehold Land	15	-	-	4,500,000	4,500,000
Deferred Tax Asset	16	-	-	-	12,305,159
		1,629,633,470	1,662,496,388	2,302,316,462	2,403,789,339
Current Assets					
Trade & Other Receivables	17	159,993,428	54,179,369	295,568,601	100,647,500
Amount Due from Related Parties	18	2,277,635	2,832,330	895,029	1,156,218
Short Term Investment	13.3	154,386,706	66,398,930	441,155,662	266,601,729
Cash and Bank Balances		18,068,006	22,840,142	32,268,390	33,442,347
		334,725,775	146,250,771	769,887,682	401,847,794
Total Assets		1,964,359,244	1,808,747,159	3,072,204,144	2,805,637,133
EQUITY AND LIABILITIES					
Equity attributable to Equity Holders of the Parent					
Stated Capital	19	1,174,365,278	1,174,365,278	1,174,365,278	1,174,365,278
Accumulated Profit		600,168,614	456,050,947	1,386,694,773	1,070,765,201
		1,774,533,892	1,630,416,225	2,561,060,051	2,245,130,479
Non-Controlling Interest		-	-	225,876,507	199,340,454
Total Equity		1,774,533,892	1,630,416,225	2,786,936,558	2,444,470,933
Non Current Liabilities					
Retirement Benefit Obligations	20	17,121,978	18,120,442	25,240,460	25,946,318
Deferred Tax Liability	16.2	109,582,965	113,328,544	112,245,642	113,328,544
		126,704,943	131,448,986	137,486,102	139,274,862
Current Liabilities					
Trade and Other Payables	21	24,977,793	23,871,620	47,464,414	42,038,024
Interest Bearing Loans and Borrowings	22	-	-	-	157,403,048
Tax Payables		38,142,616	23,010,328	100,317,070	22,450,266
		63,120,409	46,881,948	147,781,484	221,891,338
Total Equity and Liabilities		1,964,359,244	1,808,747,159	3,072,204,144	2,805,637,133

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 175 form an integral part of the Financial Statements.
27 May 2019
Colombo

STATEMENT OF CHANGES IN EQUITY

Company	Stated Capital Rs.	Accumulated Profit Rs.	Total Rs.
Balance as at 1 April 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
Net Profit for the Year	-	665,315,266	665,315,266
Other Comprehensive Income	-	1,779,212	1,779,212
Dividends	-	(522,976,812)	(522,976,812)
Balance as at 31 March 2019	1,174,365,278	600,168,614	1,774,533,892

Group	Stated Capital Rs.	Accumulated Profit Rs.	Non-controlling Interest Rs.	Total Rs.
Balance as at 1 April 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
Net Profit for the Year	-	836,192,534	53,806,864	889,999,398
Other Comprehensive Income	-	2,713,850	137,194	2,851,044
Dividends	-	(522,976,812)	(27,408,005)	(550,384,817)
Balance as at 31 March 2019	1,174,365,278	1,386,694,773	225,876,507	2,786,936,558

Figures in brackets indicate deductions.

The Accounting Policies and Notes on Pages 143 through 175 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 March	Note	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Cash Flows From / (Used in) Operating Activities					
Net Profit before Tax Expense		750,856,687	555,117,636	1,085,341,315	849,085,961
Adjustments for					
Amortisation of Intangible Assets	14	1,600,000	1,600,000	11,956,667	11,956,664
Depreciation	12	31,414,721	32,210,949	77,772,695	78,512,633
Provision for Retirement Benefits Obligation	20	3,291,858	3,218,037	5,050,297	4,828,810
Dividend Income	6	(160,641,116)	(49,032,899)	-	-
(Profit) / Loss on Disposal of Property, Plant & Equipment		12,148	6,664	(9,192,208)	(44,471)
Finance Income		(20,689,511)	(19,694,750)	(48,966,029)	(32,881,179)
Finance Costs	8	405,870	188,976	4,703,843	35,644,835
Operating Profit/(Loss) before Working Capital Changes		606,250,657	523,614,613	1,126,666,580	947,103,254
(Increase)/ Decrease in Trade and Other Receivables		(102,900,522)	(15,741,099)	(190,398,527)	(28,189,248)
(Increase)/Decrease in Amounts Due from Related Parties		554,695	21,719	261,189	(88,624)
Increase /(Decrease) in Trade and Other Payables		2,635,359	(1,348,930)	7,488,777	4,893,329
Increase/(Decrease) in Amounts Due to Related Parties		(1,851,281)	-	(1,851,282)	-
Cash Generated from /(used in) Operating Activities		504,688,908	506,546,302	942,166,737	923,718,711
Finance Costs Paid		(405,870)	(188,976)	(5,237,032)	(35,980,944)
Finance Income Received		17,775,974	20,521,139	44,443,450	32,715,954
Retirement Benefits Obligations Paid	20	(370,189)	(2,352,114)	(575,044)	(2,436,915)
Taxes Paid		(74,444,351)	(45,868,309)	(106,731,641)	(57,145,798)
Net Cash from/(used in) Operating Activities		447,244,472	478,658,043	874,066,470	860,871,008
Cash Flows from / (Used in) Investing Activities					
Acquisition of Property, Plant & Equipment		(213,950)	(189,630)	(644,442)	(1,817,443)
Proceeds from Disposal of Property, Plant & Equipment		50,000	-	9,275,000	72,500
Net Investment in Fixed Deposits		(111,200,290)	23,771,746	(271,351,968)	(46,089,743)
Dividend Received		160,641,116	49,032,899	-	-
Net Cash Flows from/(Used in) Investing Activities		49,276,876	72,615,015	(262,721,410)	(47,834,686)
Cash Flows from /(Used in) Financing Activities					
Repayments of Interest Bearing Loans & Borrowings		-	-	(157,403,048)	(207,786,740)
Dividends Paid		(524,505,998)	(524,226,969)	(551,914,003)	(532,220,971)
Net Cash Flows from/(Used in) Financing Activities		(524,505,998)	(524,226,969)	(709,317,051)	(740,007,711)

STATEMENT OF CASH FLOWS

Year ended 31 March 2019	Note	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Net Increase/(Decrease) in Cash and Cash Equivalents		(27,984,650)	27,046,089	(97,971,992)	73,028,611
Cash and Cash Equivalents at the Beginning of the Period (Note A)		46,052,656	19,006,567	139,266,675	66,238,065
Cash and Cash Equivalents at the end of the Period (Note B)		18,068,006	46,052,656	41,294,683	139,266,676
Note A					
Cash and Cash Equivalents at the beginning 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	139,266,675	66,238,065
Note B					
Cash and Cash Equivalents at the end of the period					
Cash in Hand & at Bank		18,068,006	22,840,142	32,268,390	33,442,347
Savings Accounts & REPO		-	23,212,514	9,026,293	105,824,329
		18,068,006	46,052,656	41,294,683	139,266,676

The Accounting Policies and Notes on Pages 143 through 175 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 2019 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. The Company records the investment in subsidiary at its cost.

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 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 27 May 2019.

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 New accounting standards, interpretations and amendments adopted by the group

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group's annual financial statements in the previous financial year, except for the adoption of new standards effective as of 1st April 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, SLFRS 15, Revenue from Contracts with Customers and SLFRS 9, Financial Instruments that require restatement of previous financial statements.

Several other amendments and interpretations apply for the first time in 2018/19, but do not have an impact on the financial statements of the Group.

2.3.1 SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 supersedes LKAS 11, Construction Contracts, LKAS 18, Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new Standard establishes a five-step model to account for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted SLFRS 15 using the full retrospective method of adoption. Based on the assessment performed, the Group concluded that SLFRS 15 does not have a

NOTES TO THE FINANCIAL STATEMENTS

material impact on the Group's financial statements. The revised policies as per SLFRS 15 are indicated in the note No. 3.18.1

2.3.2 SLFRS 9 Financial Instruments

SLFRS 9 Financial Instruments replaces LKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 April 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted SLFRS 9 using the full retrospective method of adoption. Based on the assessment performed, the Group concluded that SLFRS 9 does not have a material impact on the Group's financial statements, except for following classification changes occurred.

The assessment of the Group's business models was made as of the date of initial application, 1 April 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 April 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Classification and Measurement

Except for trade receivables, under SLFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under SLFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVTOCI). The classification is based on two criteria: The Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The new classification and measurement of the Group's debt financial assets are as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables. (These financial assets were classified as loans and receivables under LKAS 39 in the previous financial statements).

Though the classification of financial assets have been changed above, no changes have been derived on the values of the financial instruments for all the periods presented.

No any other classification changes were identified due to the adoption of SLFRS 9.

The accounting for the Group's financial liabilities remains largely the same as it was under LKAS 39.

Impairment

The adoption of SLFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

SLFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses.

2.4 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.

2.5 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.

3. 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.

3.1 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.

3.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 March 2019. 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.

3.2.1 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.

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 date of 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.

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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.

3.3 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

- It does not have a right at the reporting date to defer the settlement of the liability for at least twelve months after the reporting date.
- The Group classifies all other liabilities as non-current.

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

3.4 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.

3.5 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.

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).

3.6 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.

3.7 Property, Plant & Equipment

3.7.1 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.

3.7.2 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
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.

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3.8 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.

3.8.1 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.

3.9 Leases

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

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date 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 statement of profit or loss.

3.10 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.

3.10.1 Financial assets

3.10.1.1 Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

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 on the trade date, 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, investments, trade and other receivables.

3.10.1.2 Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

a) Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial Assets at amortised cost comprise of trade receivables, amounts due from related parties, deposits, advances and other receivables.

b) Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group does not have any debt instruments at fair value through OCI.

c) Financial assets at fair value through OCI

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument- by instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. However, the Group does not have any Financial assets at fair value through OCI.

d) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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 the statement of profit or loss. However, the Group does not have any Financial assets at fair value through profit or loss.

3.10.1.3 De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised 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.

3.10.1.4 Impairment of Financial Assets

From 1 April 2018, the Group assesses on a forward-looking basis of the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by SLFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

3.10.2 Financial liabilities

3.10.2.1 Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

3.10.2.2 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.

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

(b) Financial liabilities at amortized cost

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

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

3.10.2.3 De-recognition

A financial liability is de-recognised 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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Profit or Loss.

3.10.3 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.

Financial risk management objectives and policies have been disclosed under Note 37.

3.11 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.

Leases

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

3.12 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.

3.13 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

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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.

3.14 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 Employee's 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.

	2019	2018
Discount Rate	11%	10%
Expected Salary Increment Rate	10%	10%
Staff Turnover Rate	5%	13%
Normal Retirement Age	55 Years	55 Years

3.15 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the Group have been disclosed in the respective Notes to the Financial Statements.

3.16 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.

3.17 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.

3.18 Statement of Profit or Loss

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.

3.18.1 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Under SLFRS 15, revenue is recognised upon satisfaction of performance obligation.

3.18.1.1 Revenue from Contract with customers

a) Rendering of Services

Service income from Group comprised with sale of hydro energy to the Ceylon Electricity Board (CEB). Revenue from sale of hydro energy recognised at the point of hydro energy releases to the National Grid at a pre-determined unit price.

3.18.1.2 Other Sources of Income

Revenue recognition criteria for other sources of income are as follows;

- **Rental Income**

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

- **Dividend Income**

Dividend income is recognised when the right to receive payment is established.

- **Interest Income**

Interest income is recognised based on effective interest method.

Interest income on financial assets at FVTPL is recognized as part of net gains or losses on these financial instruments.

Interest income of financial assets at amortized cost is calculated by using the effective interest method and is recognised as other income.

3.18.2 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.

3.18.2.1 Finance Income and Finance Cost

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Foreign currency gains and losses are reported on a net basis

3.19 Taxes

3.19.1 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.

3.19.2 Subsidiary

Pursuant to the agreement entered into with the Board of Investment of Sri Lanka, the Subsidiary 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%.

3.19.3 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:

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- 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 utilised.

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.

3.19.4 Tax on Dividend

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

3.20 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.

3.20.1 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.

3.20.2 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.

3.20.3 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.

3.20.4 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.

3.21 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.

3.22 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:

3.22.1 Measurement of Retirement Benefit Obligation

The present value of the retirement benefit obligation determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate; future salary increases and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rate and expected future salary increase rates of the Company.

Further details about Retirement benefit obligations are provided in Note 20.

3.22.2 Assessment of carrying value of Plant & Machinery and Civil Constructions

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, due to probable revision of the rate per energy unit upon renewal of Standardised Power Purchase Agreement (SPPA) entered into with the Ceylon Electricity Board (CEB) in respect of Erathna Power Plant, the Management assessed the recoverability of such assets using following significant judgements and estimates.

1) Ceylon Electicity Board has informed that the Company is eligible for an extension of another 20 years of the SPPA.
2) Currently, Hydro is the cheapest renewable energy option available and this aspect was considered by the CEB in forecasting country's energy requirement. (20 year plan)
3) Cash flow forecast prepared by the company using following assumptions revels positive net cash flows on the power plant.

a) Cash Flow forecast is prepared for next 20 years period.
b) Average generation for last 15 years considered for future forecast
c) Rs.7.17/kWh is considered as tariff for the 1st year and 3% of annual escalation will be there for 20 years period.
d) Operating and maintenance costs are projected based on prevailing general inflation.

3.22.3 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.

NOTES TO THE FINANCIAL STATEMENTS

4. 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.

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, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under LKAS 17.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

For the year ended 31 March	Company 2019 Rs.	2018 Rs.	Group 2019 Rs.	2018 Rs.
Sale from Electricity Generation:				
Erathna MHPP	671,659,215	601,358,614	671,659,215	601,358,614
Denawakaganga MHPP	-	-	374,280,867	296,703,829
Kiriwaneliya MHPP	-	-	240,784,465	219,539,445
	671,659,215	601,358,614	1,286,724,547	1,117,601,888

Company and the subsidiary has entered into an agreement (Standardised 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 15 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 Standardised 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.

6. OTHER INCOME

For the year ended 31 March	Company 2019 Rs.	2018 Rs.	Group 2019 Rs.	2018 Rs.
Dividend Income	160,641,116	49,032,899	-	-
Sundry Income	50,000	17,365	9,275,000	89,865
	160,691,116	49,050,264	9,275,000	89,865

7. FINANCE INCOME

For the year ended 31 March	Company 2019 Rs.	2018 Rs.	Group 2019 Rs.	2018 Rs.
Interest on Savings	1,370,737	1,185,405	1,690,856	1,703,341
Interest on Fixed Deposit	18,559,871	17,288,049	43,850,628	26,177,512
Interest on Repo	758,904	1,221,295	3,424,545	5,000,325
	20,689,511	19,694,750	48,966,029	32,881,179

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCE COST

For the year ended 31 March	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Loan Interest	-	-	4,178,476	35,290,455
Bank Charges & OD Interest	405,870	188,976	525,367	354,380
	405,870	188,976	4,703,843	35,644,835

9. PROFIT / (LOSS) BEFORE TAXATION

For the year ended 31 March	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Stated after Charging / (Crediting):				
Directors' Remuneration	3,711,111	3,688,889	3,711,111	3,688,889
Auditors' Remuneration	750,000	721,000	1,015,000	976,374
Depreciation & Amortisation	33,014,722	33,810,950	89,729,362	90,469,297
Personnel Costs includes				
- Defined Benefit Plan Cost - Retirement Benefit Obligation	3,291,857	3,218,037	5,050,296	4,828,770
- Defined Contribution Plan Costs - EPF & ETF	2,829,768	2,803,636	8,166,369	7,838,898
- Staff Salaries	18,865,122	18,690,914	54,442,743	52,259,325
- Other Staff Costs	9,032,610	8,319,383	24,625,313	23,810,811

10. INCOME TAX EXPENSES

10.1 Statement of Profit or Loss

For the year ended 31 March	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
(I) Current Tax Expense				
Income tax on current year profit (Note 10.3)	90,356,229	66,258,140	159,227,157	69,950,340
Dividend Tax	-	-	26,150,879	5,448,100
Less-: Previous year over provision	(779,590)	-	(779,590)	-
	89,576,639	66,258,140	184,598,446	75,398,440
(II) Deferred Tax Expense				
Deferred Taxation Charge / (Reversal) (Note 16)	(4,035,218)	12,063,625	10,743,471	10,304,484
Tax charge reported in the Statement of Profit or Loss	85,541,421	78,321,766	195,341,917	85,702,924

10.2 Statement of Other Comprehensive Income

Deferred tax effect on actuarial gains and loss of Defined Benefit Plans (Note 16)	289,639	(465,549)	478,786	(679,231)
Deferred tax effect on revaluation surplus of land (Note 16)	-	20,352,866	-	20,352,866
Tax charged directly to other comprehensive income	289,639	19,887,317	478,786	19,673,635

10.3 Reconciliation between tax expense and the product of accounting profit

For the year ended 31 March	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Net profit before tax	750,856,687	555,117,636	1,085,341,315	849,085,961
Add: Disallowable Expenses	38,830,998	42,180,955	99,095,870	101,760,080
Less: Allowable Expenses	(4,284,446)	(22,374,187)	(115,816,857)	(133,542,207)
Total Business Income	785,403,239	574,924,404	1,068,620,328	817,303,834
Less: Tax exempted profit from business	(160,691,115)	(49,032,901)	(9,275,000)	(278,225,898)
Taxable Income;	624,712,124	525,891,503	1,059,345,328	539,077,932
liable @ 14% (2018 - 12%)	604,022,613	506,196,753	604,022,613	506,196,754
liable @ 15%	-	-	406,356,687	-
liable @ 28%	20,689,511	19,694,750	48,966,029	32,881,179
	624,712,124	525,891,503	1,059,345,329	539,077,933
Income Tax @ 14% (2018 - 12%)	84,563,166	60,743,610	84,563,166	60,743,610
Income Tax @ 15%	-	-	60,953,503	-
Income Tax @ 28%	5,793,063	5,514,530	13,710,488	9,206,730
Income Tax Expense on Liable Income	90,356,229	66,258,140	159,227,157	69,950,340
Effective Tax Rate	14%	13%	15%	13%

11. 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.

For the year ended 31 March	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Amounts Used as the Numerators:				
Profit Attributable to Ordinary Shareholders for basic Earnings Per Share (Rs.)	665,315,266	476,795,870	836,192,534	718,588,393
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.)	0.89	0.64	1.12	0.96

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT & EQUIPMENT

Company Gross Carrying Amounts	Balance As at 01.04.2018 Rs.	Additions for the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2019 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	1,406,244	24,500	(260,045)	1,170,699
Tools & Accessories	3,256,074	27,405	(178,182)	3,105,297
Motor Vehicle	8,758,500	-	-	8,758,500
Motor Bicycle	475,560	-	(164,900)	310,660
Furniture & Fittings	10,131,871	69,645	(42,186)	10,159,330
Computer	3,967,155	31,500	(1,814,096)	2,184,559
Office Equipment	1,280,977	-	(49,665)	1,231,312
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	103,324	60,900	(20,600)	143,622
Total	1,296,201,745	213,950	(2,529,674)	1,293,886,020

Company Depreciation	Balance As at 01.04.2018 Rs.	Charge for the year/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2019 Rs.
At Cost				
Civil Constructions	184,640,889	13,273,461	-	197,914,350
Plant & Machinery	238,519,456	17,330,772	-	255,850,227
Project Equipment	1,237,827	78,512	(225,501)	1,090,837
Tools & Accessories	3,206,640	54,623	(178,180)	3,083,082
Motor Vehicle	8,758,500	-	-	8,758,500
Motor Bicycle	475,560	-	(164,900)	310,659
Furniture & Fittings	7,567,051	425,198	(32,880)	7,959,369
Computer	3,846,552	73,847	(1,814,096)	2,106,303
Office Equipment	760,607	109,929	(33,084)	837,452
Fire Extinguisher	562,995	38,395	-	601,390
Site Fixtures & Fittings	4,148,354	-	-	4,148,354
Generator	1,225,833	11,000	-	1,236,833
Web Development	1,888,305	-	-	1,888,305
Mobile Phones & Accessories	86,765	18,986	(18,883)	86,867
Total	456,925,337	31,414,721	(2,467,524)	485,872,530
Carrying Amount	839,276,408			808,013,490

The cost of fully depreciated Property, Plant & Equipment which are still in use at the reporting date is Rs 27,380,408/= (Rs. 28,875,444/- as at 31/03/2018)

Group Gross Carrying Amounts	Balance As at 01.04.2018 Rs.	Additions for the Year Rs.	(Disposals)/ Transfers Rs.	Balance As at 31.03.2019 Rs.
At Cost				
Free hold Land	177,181,919	-	-	177,181,919
Civil Constructions	1,723,965,311	932,641	-	1,724,897,952
Plant & Machinery	1,083,774,316	-	-	1,083,774,316
Project Equipment	1,650,319	24,500	(260,045)	1,414,774
Tools & Accessories	7,370,102	91,980	(178,182)	7,283,900
Motor Vehicle	32,981,378	-	(14,223,108)	18,758,270
Motor Bicycle	1,577,970	-	(271,840)	1,306,130
Furniture & Fittings	11,054,977	69,645	(75,030)	11,049,592
Computer	4,831,155	110,350	(2,053,856)	2,887,649
Office Equipment	2,477,547	-	(116,065)	2,361,482
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	407,719	96,400	(189,195)	314,924
	3,057,926,023	1,325,516	(17,367,321)	3,041,884,219
WIP - Civil Constructions	681,074	251,567	(932,641)	-
Total	3,058,607,097	1,577,083	(18,299,962)	3,041,884,219

Group Depreciation	Balance As at 01.04.2018 Rs.	Charge for the year/ Transfers Rs.	(Disposals)/ Transfers Rs.	Balance As at 31.03.2019 Rs.
At Cost				
Civil Constructions	367,985,209	43,099,135	-	411,084,343
Plant & Machinery	332,622,098	32,513,229	-	365,135,328
Project Equipment	1,237,827	78,512	(225,501)	1,090,837
Tools & Accessories	6,319,307	598,458	(178,180)	6,739,585
Motor Vehicle	31,903,379	251,000	(14,223,108)	17,931,271
Motor Bicycle	1,332,042	73,650	(271,840)	1,133,853
Furniture & Fittings	8,185,391	514,091	(54,830)	8,644,653
Computer	4,710,551	75,489	(2,053,856)	2,732,184
Office Equipment	1,302,768	226,913	(89,734)	1,439,948
Fire Extinguisher	812,471	81,879	-	894,349
Site Fixtures & Fittings	4,148,354	-	-	4,148,354
Generator	1,851,674	213,727	-	2,065,400
Web Development	1,888,304	-	-	1,888,304
Mobile Phones & Accessories	358,968	46,616	(187,478)	218,106
	764,658,343	77,772,698	(17,284,526)	825,146,515
Carrying Amount	2,293,948,755			2,216,737,704

NOTES TO THE FINANCIAL STATEMENTS

The cost of fully depreciated Property, Plant & Equipment which are still in use at the reporting date is Rs.49,040,490/- (Rs.49,904,518/- as at 31/03/2018)

12.1 Written Down value of Assets

	Company		Group	
	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.
Free hold Land	150,000,000	150,000,000	177,181,919	177,181,919
Civil Constructions	333,024,084	346,297,544	1,313,813,609	1,355,980,102
Plant & Machinery	321,842,169	339,172,939	718,638,988	751,152,218
Project Equipment	79,862	168,417	323,937	412,492
Tools & Accessories	22,215	49,433	544,315	1,050,795
Motor Vehicle	-	-	826,999	1,077,999
Motor Bicycle	-	-	172,278	245,928
Furniture & Fittings	2,199,962	2,564,820	2,404,940	2,869,586
Computer	78,257	120,603	155,465	120,604
Office Equipment	393,860	520,370	921,534	1,174,779
Fire Extinguisher	307,161	345,555	449,037	530,915
Generator	9,167	20,167	1,207,865	1,421,591
Site Fixtures & Fittings	-	-	-	-
Web Development	-	-	-	-
Mobile Phones & Accessories	56,755	16,561	96,819	48,751
WIP - Civil Constructions	-	-	-	681,074
Total	808,013,490	839,276,408	2,216,737,704	2,293,948,755

13. INVESTMENTS

13.1 Non Current Investments

Investment in Equity Securities (Un -Quoted)

Investment in Subsidiary

	Holding %		No. of Shares		Company	
As at 31 March	2019	2018	2019	2018	2019	2018
			No.	No.	Rs.	Rs.
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

13.2 Summarised Financial Information of Subsidiary,

This information is based on amounts before the inter company eliminations,

For the year ended 31 March	2019 Rs.	2018 Rs.
Statement of Profit or Loss		
Revenue from Contracts with Customers	615,065,332	516,243,273
Cost of Sales	(88,757,999)	(88,808,177)
Other Income	9,225,000	72,500
Finance Income	28,276,518	13,186,429
Administration Expenses	(53,886,782)	(52,299,172)
Other Operating Expenses	(1,608,352)	(1,047,771)
Finance Cost	(4,297,972)	(35,455,860)
Profit Before Tax	504,015,745	351,891,222
Tax Expense	(83,649,618)	(1,933,059)
Net Profit for the Year	420,366,126	349,958,163
Other Comprehensive Income	1,071,832	(1,210,865)
Total Comprehensive Income	421,437,958	348,747,298
Attributable to Non Controlling Interest	53,944,059	44,639,654
Earnings Per Share	4.72	3.91

As at 31 March	2019 Rs.	2018 Rs.
Statement of Financial Position		
Non Current Assets	1,424,715,885	1,484,435,843
Current Asset	436,544,509	257,963,387
Total Assets	1,861,260,395	1,742,399,230
Non Current Liabilities	10,781,159	7,825,875
Current Liabilities	86,043,692	177,375,766
Total Liabilities	96,824,851	185,201,641
Net Assets	1,764,435,544	1,557,197,589

For the year ended 31 March	2019 Rs.	2018 Rs.
Cash Flows		
Net Cash Flows from Operating Activities	452,972,875	387,651,072
Net Cash Flows used in Investment Activities	(151,357,170)	(71,406,811)
Net Cash Flows used in Financing Activities	(371,603,048)	(270,261,740)
Total Net Cash Flows	(69,987,342)	45,982,521
Dividend Paid to Non Controlling Interest	27,408,005	7,994,000
Dividend Per Share	2.40	0.70

13.3 Short Term Investments

As at 31 March	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Investment in Fixed Deposits	154,386,706	43,186,417	432,129,368	160,777,400
Repo	-	23,212,513	9,026,294	105,824,329
	154,386,706	66,398,930	441,155,662	266,601,729

14. INTANGIBLE ASSET - RIGHT TO GENERATE HYDRO POWER

As at 31 March	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 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	22,400,000	20,800,000	86,314,575	74,357,911
Amortisation for the period	1,600,000	1,600,000	11,956,667	11,956,664
Accumulated amortisation C/F	24,000,000	22,400,000	98,271,242	86,314,575
Net carrying amount at the end of the year	-	1,600,000	81,078,758	93,035,425

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.

15. DEPOSIT ON LEASEHOLD LAND

As at 31 March	Group 2019 Rs.	Group 2018 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. However, future lease rentals and the revised lease agreement were not finalised as at the Statement of Financial Position date. Provision for lease rental have been made in the accounts as per the last agreed rental value.

Operating lease rentals charged during the year on lease hold land are as follows,

For the year ended 31 March	Company		Group	
	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.
Lease Rental	248,224	248,224	5,878,624	5,878,624
	248,224	248,224	5,878,624	5,878,624

16. DEFERRED TAX ASSET / LIABILITY

16.1 Deferred Tax Asset

As at 31 March	Company		Group (Note 16.1.1)	
	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.
At the beginning of the year	-	-	-	10,332,335
Originating of the asset recognised to Profit/(Loss)	-	-	-	1,759,141
Originating of the asset recognised to Other Comprehensive Income/(Loss)	-	-	-	213,682
At the end of the year	-	-	-	12,305,159

16.1.1 Deferred Tax Asset

As at 31 March	2019		2018	
Group	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs.	Rs.	Rs.	Rs.
As at 1 April	-	-	68,882,235	10,332,335
Asset originating during the year	-	-	13,152,158	1,972,824
As at 31 March	-	-	82,034,393	12,305,159
Temporary difference on Property, Plant and Equipment	-	-	74,208,522	11,131,278
Temporary difference on Retirement Benefit Obligation	-	-	7,825,871	1,173,881
As at 31 March	-	-	82,034,393	12,305,159

Deferred tax asset recognised in Group's financial statements as at 31/03/2018 was fully consisted with Deferred tax asset originated from the Subsidiary. During the year the asset has been fully reversed and created a Deferred tax liability which is disclosed in the Note 16.2, Deferred Tax Liability.

16.2 Deferred Tax Liability

As at 31 March	Company (Note 16.2.1) 2019 Rs.	2018 Rs.	Group (Note 16.2.2) 2019 Rs.	2018 Rs.
At the beginning of the year	113,328,544	81,377,602	113,328,544	81,377,602
Asset at the beginning of the year	-	-	(12,305,159)	-
Charge/(Reversal) recognised to Profit/(Loss)	(4,035,218)	12,063,625	10,743,471	12,063,625
Charge/(Reversal) recognised to Other Comprehensive Income/(Loss)	289,639	19,887,317	478,786	19,887,317
At the end of the year	109,582,965	113,328,544	112,245,642	113,328,544

16.2.1 Deferred Tax Liability

As at 31 March	2019		2018	
Company	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
As at 1 April	809,489,603	113,328,544	678,146,688	81,377,602
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	(26,754,141)	(3,745,579)	(14,034,698)	(1,684,164)
As at 31 March	782,735,462	109,582,965	809,489,603	113,328,544
Temporary difference of Property, Plant and Equipment	654,479,828	91,627,176	682,232,432	95,512,540
Revaluation surplus on freehold land	145,377,613	20,352,866	145,377,613	20,352,866
Temporary difference of Retirement Benefit Obligation	(17,121,979)	(2,397,077)	(18,120,442)	(2,536,862)
As at 31 March	782,735,462	109,582,965	809,489,603	113,328,544

16.2.2 Deferred Tax Liability

As at 31 March	2019		2018	
Group	Temporary Difference Rs.	Tax Effect Rs.	Temporary Rs.	Tax Effect Difference Rs.
As at 1 April				
Deferred Tax Liability	809,489,603	113,328,544	678,146,688	81,377,602
Deferred Tax Asset	(82,034,393)	(12,305,159)	-	-
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	73,031,438	11,222,257	(14,034,698)	(1,684,164)
As at 31 March	800,486,648	112,245,642	809,489,603	113,328,544
Temporary difference of Property, Plant and Equipment	680,349,493	95,507,625	682,232,432	95,512,540
Revaluation surplus on freehold land	145,377,613	20,352,866	145,377,613	20,352,866
Temporary difference of Retirement Benefit Obligation	(25,240,458)	(3,614,849)	(18,120,442)	(2,536,862)
As at 31 March	800,486,648	112,245,642	809,489,603	113,328,544

The effective tax rate used to calculate the deferred tax liability of the Company for all the temporary differences is 14% (2017/18 - at 14%) and tax rate of 15% is used for deferred tax liability of the Subsidiary (2017/18- at 15%).

17. TRADE AND OTHER RECEIVABLES

As at 31 March	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Advances & Pre Payments	13,065,782	12,257,787	18,599,806	17,350,773
Trade Receivable (Note 17.1)	141,075,185	39,049,977	264,860,611	76,295,465
Staff Debtors	2,748,493	2,681,176	5,523,777	4,939,440
Interest Receivable	3,103,967	190,429	6,584,407	2,061,822
	159,993,428	54,179,369	295,568,601	100,647,500

17.1 Age Analysis of Trade Receivables

	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Below 30 days	12,610,591	22,327,056	27,819,313	43,550,867
30 to 60 days	119,030,857	13,263,381	227,607,560	26,958,278
60 to 90 days	9,433,737	-	9,433,738	-
Over 90 days	-	3,459,540	-	5,786,320
	141,075,185	39,049,977	264,860,611	76,295,465

18. AMOUNT DUE FROM RELATED PARTIES

As at 31 March		Relationship	Company 2019 Rs.	Company 2018 Rs.	Group 2019 Rs.	Group 2018 Rs.
Country Energy (Pvt) Ltd	Kiriwaneliya MHPP	Subsidiary Company	579,498	696,292	-	-
	Denewakaganga MHPP		803,108	1,110,013	-	-
Alternate Power Systems (Pvt) Ltd	Current Account Balance	Related Company	813,977	977,395	813,977	977,395
Greenerwater Ltd	Current Account Balance	Related Company	81,052	48,630	81,052	178,823
			2,277,635	2,832,330	895,029	1,156,218

NOTES TO THE FINANCIAL STATEMENTS

19. STATED CAPITAL

As at 31 March	Company 2019	2018	Group 2019	2018
Ordinary Shares				
Issued and Fully Paid Number of Shares	747,109,731	747,109,731	747,109,731	747,109,731
Value of Issued and Fully Paid Shares (Rs.)	1,174,365,278	1,174,365,278	1,174,365,278	1,174,365,278

20. RETIREMENT BENEFIT OBLIGATION

As at 31 March	Company 2019 Rs.	2018 Rs.	Group 2019 Rs.	2018 Rs.
At the beginning of the year	18,120,442	13,929,171	25,946,318	18,785,895
Current Service cost	1,479,813	1,546,536	2,455,666	2,574,502
Interest cost	1,812,044	1,671,501	2,594,631	2,254,308
Actuarial (gain)/loss	(2,068,851)	3,325,348	(3,329,830)	4,749,895
	19,343,448	20,472,556	27,666,785	28,364,600
Benefit paid	(370,189)	(2,352,114)	(575,044)	(2,436,915)
Transfer-in/(out)	(1,851,281)	-	(1,851,281)	18,633
At the end of the year	17,121,978	18,120,442	25,240,460	25,946,318

The weighted average duration of the Defined Benefit Plan Obligation of the Company and Subsidiary at the end of the reporting period is 10.43 years and 10.64 years respectively.

The following payments are expected from the Defined Benefit Plan Obligation in future years.

As at 31 March	Company 2019 Rs.	2018 Rs.	Group 2019 Rs.	2018 Rs.
Within the next 12 months	1,110,788	4,237,857	1,714,124	5,209,600
Between 2 and 5 years	3,320,899	6,460,028	5,747,330	9,981,436
Beyond 5 years	12,690,291	7,422,557	17,779,006	10,755,282
	17,121,978	18,120,442	25,240,460	25,946,318

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 2019	(1,187,889)	1,321,557
As at 31 March 2018	(854,895)	938,914
A one percentage point change in the salary increment rate.	+1%	-1%
As at 31 March 2019	1,378,018	(1,257,233)
As at 31 March 2018	979,870	(907,573)

Group	Rs.	Rs.
A one percentage point change in the discount rate.	+1%	-1%
As at 31 March 2019	(1,834,298)	2,064,525
As at 31 March 2018	(1,299,534)	1,436,896
A one percentage point change in the salary increment rate.	+1%	-1%
As at 31 March 2019	2,117,401	(1,910,857)
As at 31 March 2018	1,506,807	(1,385,812)

21. TRADE AND OTHER PAYABLES

	Company		Group	
As at 31 March	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.
Accrued Expenditure	2,682,157	2,849,136	22,797,715	17,986,434
Retention Money	110,115	138,696	111,684	140,264
Unclaimed Dividend	20,954,869	19,606,404	20,954,869	19,606,404
Other Payable	1,230,651	1,277,384	3,600,146	4,304,921
	24,977,793	23,871,620	47,464,414	42,038,024

22. LONG-TERM LOANS

As at 31 March	DFCC	HNB	Commercial Bank of Ceylon PLC	Group 2019	Group 2018
	Rs.	Rs.	Rs.	Rs.	Rs.
At the beginning of the year	59,267,578	66,645,470	31,490,000	157,403,048	365,189,788
Repayments during the year	(59,267,578)	(66,645,470)	(31,490,000)	(157,403,048)	(207,786,740)
Obtained during the year	-	-	-	-	-
At the end of the year	-	-	-	-	157,403,048

23. DIVIDENDS PAID DURING THE YEAR

For the year ended 31 March	Company 2019	Company 2018	Group 2019	Group 2018
	Rs.	Rs.	Rs.	Rs.
Rs.0.70/- per share by the Company (2017/2018 - Rs.0.70/-)	522,976,812	522,976,812	522,976,812	522,976,812
	522,976,812	522,976,812	522,976,812	522,976,812

24. EVENTS OCCURRING 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.

25. 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 .

26. FINANCIAL 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.

26.1 Financial Assets

As at 31 March	Company				Group			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Loans and Receivables at amortised cost:								
Trade & Other Receivables	159,993,428	54,179,369	159,993,428	54,179,369	295,568,601	100,647,500	295,568,601	100,647,500
Amount Due from Related Parties	2,277,635	2,832,330	2,277,635	2,832,330	895,029	1,156,218	895,029	1,156,218
Short Term Investment	154,386,706	66,398,930	154,386,706	66,398,930	441,155,662	266,601,729	441,155,662	266,601,729
Cash and Bank Balances	18,068,006	22,840,142	18,068,006	22,840,142	32,268,390	33,442,347	32,268,390	33,442,347
Total	334,725,775	146,250,771	334,725,775	146,250,771	769,887,682	401,847,794	769,887,682	401,847,794

26.2 Financial Liabilities

As at 31 March	Company				Group			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Other Financial Liabilities at amortised cost:	-	-	-	-	-	-	-	-
Interest Bearing Loans & Borrowings	-	-	-	-	-	157,403,048	-	157,403,048
Trade and Other Payables	24,977,793	23,871,620	24,977,793	23,871,620	47,464,414	42,038,024	47,464,414	42,038,024
Total	24,977,793	23,871,620	24,977,793	23,871,620	47,464,414	199,441,072	47,464,414	199,441,072

Fair value of the above assets and liabilities approximate their carrying amount largely due to the short term maturities of such assets and liabilities.

27. RELATED PARTY DISCLOSURES

The details of the significant related party disclosures are as follows.

27.1 Transactions with the Company

For the year ended 31 March			Aggregate Amount of Transaction	
Company	**Relationship**	**Nature of Transaction**	**2019 Rs.**	**2018 Rs.**
Country Energy (Pvt) Ltd. (CEPL)	Subsidiary	Net operating Expenses incurred on behalf of CEPL	(24,411,420)	(23,542,814)
		Reimbursement of expenses by CEPL	24,835,119	23,522,964
		Dividend Received from CEPL	160,641,115	49,032,898
Vallibel Finance PLC	Related Company	Investment in Fixed Deposits	(482,030,215)	(314,313,829)
		Withdrawals of Fixed Deposits	395,829,925	337,969,108
		Interest Received	15,646,333	14,530,357

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March			Aggregate Amount of Transaction	
Company	**Relationship**	**Nature of Transaction**	**2019 Rs.**	**2018 Rs.**
LB Finance PLC	Related Company	Investment in Fixed Deposits	(25,000,000)	(116,040,104)
		Withdrawals of Fixed Deposits	-	116,040,104
		Interest Received	-	3,584,081
Alternate Power Systems (Pvt) Ltd (APSL)	Related Company	Net operating Expenses incurred on behalf of APSL	(12,023,986)	(13,515,136)
		Funds received from Alternate Power Systems (Pvt) Ltd	12,187,405	13,517,986
Greener Water Limited (GWL)	Related Company	Operating Expenses incurred on behalf of GWL	(9,032,979)	(9,024,161)
		Reimbursement of expenses by GWL	9,000,557	9,062,876
The Kingsbury PLC	Related Company	Payments made for services obtained	(347,250)	(338,580)

Transaction with the Subsidiary

For the year ended 31 March			Aggregate Amount of Transaction	
Company	**Relationship**	**Nature of Transaction**	**2019 Rs.**	**2019 Rs.**
LB Finance PLC	Related Company	Investment in Fixed Deposits	(759,261)	(18,511,736)
		Withdrawals of Fixed Deposits	-	12,170,137
		Interest Received	759,261	570,671
Vallibel Finance PLC	Related Company	Investment in Fixed Deposits	(395,720,737)	(262,500,906)
		Withdrawals of Fixed Deposits	223,250,470	240,568,701
		Interest Received	14,166,972	6,636,871
Greener Water Limited (GWL)	Related Company	Operating Expenses incurred on behalf of GWL	(1,538,846)	(1,546,630)
		Reimbursement of expenses by GWL	1,669,037	1,416,439

The above transactions were carried out on normal trading terms.

27.2 Terms and conditions

Transactions with related parties are carried out in the ordinary course of business on an relevant commercial terms. Outstanding balances at the year end are unsecured and net settlement occurs in cash.

27.3 Non-recurrent related party transactions

There were no non recurrent related party transactions which in aggregate value exceeds 10% of the equity or 5% of the total assets which ever is lower of the Company as per 31 March 2019 audited Financial Statements.

27.4 Recurrent related party transactions

There were recurrent related party transactions which in aggregate value exceeds 10% of the gross revenue/income of the Company as per 31 March 2019 audited Financial Statements. Details of related party disclosures are as follows,

Name of the Related Party - Vallibel Finance PLC

Relationship - Related Company

Nature of transaction - Investment in Fixed deposits

For the year ended 31 March	2019 Rs.	2018 Rs.
Aggregate value of related party transactions entered into during the financial year	482,030,215	314,313,829
Revenue as per latest audited financial statements	671,659,215	601,358,614
Aggregate value of related party transactions as a % of net revenue/income	72%	52%

27.5 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 (Short term)

For the year ended 31 March	2019 Rs.	2018 Rs.
Directors' Emoluments	3,711,111	3,688,889
Other Key Management Personnel	6,324,488	5,749,896

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.

27.6 Related Party Transactions

There are no related party transactions other than those disclosed in Notes 13, 18 & 27 to the Financial Statements.

28. OPERATING SEGMENT INFORMATION

	Erathna MHPP		Denawaka Ganga MHPP		Kiriwaneliya MHPP		Total-Group	
	2019	2018	2019	2018	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Revenue	671,659	601,359	374,281	296,704	240,784	219,539	1,286,725	1,117,602
Cost of sales	(54,130)	(64,652)	(53,268)	(54,515)	(35,490)	(34,293)	(151,778)	(162,350)
Gross profit	617,530	536,707	321,013	242,189	205,295	185,246	1,134,947	955,252
Other income	160,691	49,050	6,400	-	2,825	73	9,275	90
Administrative expenses	(45,891)	(48,553)	(36,421)	(35,577)	(17,466)	(16,722)	(99,778)	(100,852)
Other expenses	(1,757)	(1,592)	(878)	(616)	(730)	(432)	(3,365)	(2,640)
Finance Income	20,690	19,695	12,441	4,916	15,835	8,270	48,966	32,881
Finance Cost	(406)	(189)	(2,841)	(23,264)	(1,457)	(12,192)	(4,704)	(35,645)
Profit before tax	750,857	555,118	299,714	187,648	204,301	164,243	1,085,341	849,086
Tax expenses	(85,541)	(78,322)	(48,829)	(362)	(34,821)	(1,571)	(195,342)	(85,703)
Profit after tax	665,315	476,796	250,886	187,286	169,481	162,672	889,999	763,383
Other comprehensive income / (loss)	1,779	(23,213)	930	(959)	142	(251)	2,851	(24,424)
Total comprehensive income	667,094	453,583	251,815	186,327	169,623	162,421	892,850	738,960
Segmental assets								
Non-current assets	1,629,633	1,662,496	763,214	795,351	661,502	689,085	2,302,316	2,403,789
Current assets	334,726	146,251	243,658	119,038	192,523	138,365	769,888	401,848
Total assets	1,964,359	1,808,747	1,006,871	914,389	854,025	827,450	3,072,204	2,805,637

	Erathna MHPP		Denawaka Ganga MHPP		Kiriwaneliya MHPP		Total-Group	
	2019	2018	2019	2018	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Segmental liabilities								
Borrowings	-	-	-	99,070	-	58,333	-	157,403
Deferred tax liability/(asset)	109,583	113,329	3,154	-	(491)	-	112,246	113,329
Retirement benefit obligations	17,122	18,120	6,483	6,382	1,636	1,444	25,240	25,946
Current liabilities	63,120	46,882	56,384	16,140	29,295	3,273	147,781	64,488
Total liabilities	189,825	178,330	66,021	121,592	30,440	63,050	285,268	361,166
Other Segment Information								
Total depreciation	31,415	32,211	24,851	24,970	21,507	21,330	77,773	78,513
Amortisation	1,600	1,600	1,000	1,000	467	467	11,957	11,957
Capital expenditure	214	190	165	244	266	1,384	644	1,817

29. 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 31 March 2019 are disclosed below.

The funds borrowed by the Company are given in Note 22.

	Group Interest-Bearing Borrowings	
	2019 (Rs.)	**2018 (Rs.)**
Balance as at 01 April 2018	157,403,048	365,189,788
Net Cash flows from Financing Activities	(157,403,048)	(207,786,740)
Non Cash Changes	-	-
Balance as at 31 March 2019	-	157,403,048

TEN YEARS FINANCIAL SUMMARY

	2018/19 Rs'000	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
Operating Results - Group										
Revenue	1,286,725	1,117,602	863,722	1,181,807	1,317,931	1,064,991	693,032	399,665	533,588	437,692
Gross profit	1,134,947	955,252	714,020	1,043,214	1,171,084	929,273	557,140	345,257	497,120	396,821
Other Income	9,275	90	536	38	44,394	64	704	10,356	10,876	36,882
Administration expenses	99,778	100,852	102,928	114,134	107,584	104,242	99,752	73,083	64,607	50,378
Finance cost	4,704	35,645	59,394	59,713	87,024	162,716	181,645	46,627	20,989	14,394
Net profit before tax	1,085,341	849,086	592,263	900,179	1,042,342	688,857	302,078	248,616	425,380	418,675
Net profit after tax	889,999	763,383	515,800	813,028	960,092	667,111	293,891	244,006	422,179	414,081
Funds Employed- Group										
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	1,386,695	1,070,765	899,422	1,001,587	973,852	823,343	648,389	562,094	547,041	303,647
Non-controlling interest	225,877	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
	2,786,937	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
Assets Employed - Group										
Non Current Assets	2,302,316	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
Current Assets	769,888	401,848	254,801	529,048	537,950	357,875	276,885	264,490	217,904	123,108
Current Liabilities	(147,781)	(64,488)	(42,929)	(90,057)	(39,810)	(23,683)	(22,209)	(67,868)	(21,307)	(20,412)
Retirement Benefit Obligations	(25,240)	(25,946)	(18,786)	(16,407)	(16,505)	(11,629)	(9,714)	(7,116)	(7,088)	(4,704)
Deferred tax liability	(112,246)	(113,329)	(81,378)	(82,862)	(84,290)	(85,689)	(72,398)	(73,529)	(73,995)	-
	2,786,937	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
Key Indicators										
Earnings Per Share - Company (Rs.)	0.89	0.64	0.70	0.89	0.98	0.65	0.37	0.37	0.60	0.53
Net Assets Per Share - Company (Rs.)	2.37	2.18	2.28	2.37	2.47	2.51	2.47	2.37	2.31	1.95
Market Price of Share-Closing (Rs.)	5.90	7.30	7.10	8.00	7.90	5.60	5.60	6.60	8.60	5.25
Dividend Per Share (Rs.)	0.70	0.70	0.80	1.00	1.00	0.60	0.25	0.25	0.20	0.25
Price earning ratio (times)	6.63	11.41	10.14	8.99	8.06	8.59	15.14	17.84	14.33	9.91
Dividend payout (%)	78.65	109.38	114.29	112.36	102.04	92.06	67.57	67.57	33.33	47.17

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 40.517% of the issued share capital as at 31 March 2019. It represents 4,352 of shareholders as at 31 March 2019.

4. Float Adjusted Market Capitalization

The Float Adjusted Market Capitalisation as at 31 December 2019 is Rs.1,785,969,211.40. The Company complies with option 5 of the Listing Rules 7.13.1 (a) – Less than Rs.2.5 Bn Float Adjusted Market Capitalisation.

5. Distribution of Shareholding as at 31 March 2019

There were 4,357 Registered shareholders as at 31 March 2019.

No. of Shares held		No. of Shareholders	% of Shareholders	Total Holding	% of Total Holding
1	1,000	1,816	41.68	707,867	0.10
1,001	10,000	1,735	39.82	7,449,281	0.99
10,001	100,000	645	14.80	21,419,014	2.87
100,001	1,000,000	138	3.17	37,420,230	5.01
Over 1,000,000		23	0.53	680,113,339	91.03
Total		**4,357**	**100.00**	**747,109,731**	**100.00**

6. Analysis report of Shareholders as at 31 March 2019

Category	No. of Shareholders	% of Shareholders	Total Holding	% of Total Holding
Individuals	4,204	96.49	266,939,981	35.73
Institutions	153	3.51	480,169,750	64.27
Total	**4,357**	**100.00**	**747,109,731**	**100.00**
Resident	4,311	98.94	738,027,232	98.78
Non-resident	46	1.06	9,082,499	1.22
Total	**4,357**	**100.00**	**747,109,731**	**100.00**

7. Twenty Major Shareholders as at 31 March 2019

Name of the Shareholder		Number of shares as at 31.03.2019	(%) in issued Capital	Number of shares as at 31.03.2018	(%) 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 /Dr. T Senthilverl	82,697,543	11.07	85,570,167	11.45
4	Sampath Bank PLC/Dr. T Senthilverl	50,925,829	6.82	53,203,175	7.12
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	Ayenka Holdings Private Limited	11,704,000	1.57	7,750,000	1.04
8	Commercial Bank of Ceylon PLC / Metrocorp (Pvt) Ltd	10,074,923	1.35	9,936,723	1.33
9	Ms. K D C Samanthi	9,375,000	1.25	9,375,000	1.25
10	Mr. P P Subasinghe	5,278,190	0.71	4,553,395	0.61
11	Employees Trust Fund Board	5,197,715	0.70	5,197,715	0.70
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	2,900,000	0.39
14	Acuity Partners(Pvt)Limited / Mr. Anthony Romesh Grero	2,478,196	0.33	-	-
15	DFCC Bank PLC A/C 1	2,400,000	0.32	2,400,000	0.32
16	Mr. D D Gunaratne	2,200,000	0.29	2,100,000	0.28
17	Hatton National Bank PLC - Candor Opportunities Fund	2,000,000	0.27	-	-
18	Mr. M F Hashim	1,796,059	0.24	1,717,489	0.23
19	Mr. M H M Nazeer	1,500,000	0.20	1,500,000	0.20
20	Dr. T Senthilverl	1,303,300	0.17	2,803,326	0.38
Total		676,568,810	90.56	673,745,045	90.18
Others		70,540,921	9.44	73,364,686	9.82
Grand Total		747,109,731	100.00	747,109,731	100.00

INVESTOR INFORMATION

8. Share Trading Information

	2018/2019	2017/2018
Highest (Rs.)	7.50	8.90
Lowest (Rs.)	5.90	7.10
Closing (Rs.)	5.90	7.30
Value of Shares Trades (Rs.)	231,504,504	331,483,181
No. of Shares Traded	35,013,863	43,126,896
No. of Trades	4,628	6,245

9. Equity Information

	2018/2019	2017/2018
Earnings per share (Rs.)	0.89	0.64
Dividend per share (Rs.)	0.70	0.70
Net Asset Value per share (Rs.)	2.37	2.18
Dividend pay out ratio (%)	78.65	109.38

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.

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 (EIR)
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.

GLOSSARY OF FINANCIAL & NON FINANCIAL TERMS

- **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

CER
Certified Emission Reduction

CO2
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.

GHG
Greenhouse Gas Emission

Kilowatt (kW)
Equal to 1000 watt.

LTGEP
Long-Term Generation Expansion Plan

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 Eighteenth Annual General Meeting of Vallibel Power Erathna PLC will be held at the Victorian Ballroom, The Kingsbury Hotel, Colombo 01, on Thursday, 27 June 2019 at 3.30 p.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 2019 together with the Report of the Auditors thereon.
2) To re-elect Mr. C V Cabraal 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 authorise the Directors to determine their remuneration.
4) To authorise the Directors to determine and make donations for the year ending 31 March 2020 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

27 May 2019

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 3.30 p.m. on 25th June 2019.
- For security reasons shareholders / proxy holders are requested to bring their National Identity Card or Passport when attending the meeting

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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 18th ANNUAL GENERAL MEETING OF THE COMPANY to be held at the Victorian Ballroom, The Kingsbury Hotel, Colombo 1, on Thursday, the 27th day of June 2019 at 3.30 p.m, and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

	FOR	AGAINST
1) To re-elect Mr. C V Cabraal who retires by rotation in terms of Article 25(10) of the Articles of Association of the Company, as a Director of the Company.		
2) To re-appoint Messrs Ernst & Young, as Auditors and to authorise the Directors to determine their remuneration.		
Special Business 3) To authorise the Directors to determine and make Donations for the financial year 2019/2020 and up to the date of the next Annual General Meeting.		

Signed this .... day of .... Two Thousand and Nineteen.

....

*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 3.30 p.m. on 25 June 2019.

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 November 2001

Company Registration Number

P.Q. 103

Financial Year End

GRI - 102-2

31st March

Nature of the Business

Generate and Supply Electric Power to the National Grid.

Stock Exchange Listing

The ordinary shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka. (Stock Code - VPEL.N0000)

Board of Directors

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

GRI - 102-3

Head Office and Registered Office

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 Bank PLC
Hatton National Bank PLC
Pan Asia Banking Corporation PLC

www.vallibel-hydro.com