Passion.
Performance.
Power.

Management Reports

Financial Reports

Vision

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

Mission

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

Objectives

We are focused on a clear strategy to meet the aspirations of our stakeholders:

The environment.
The employees.
The communities in which we operate.
The investors.

by optimising operational efficiencies from existing assets and by acquisition of new, renewable energy opportunities.

Passion.
Performance.
Power.

Today we see a new landmark in the journey of power that we celebrate each year. In this our tenth anniversary year we are proud to note that we have achieved many of the targets we have set for ourselves. We now have three hydropower projects in operation; Kiriwaneliya in Norton Bridge, Denawaka Ganga in Rathnapura and our flagship Erathna project in Kuruwita, which together generate over 80 GWh of power to the national grid.

Meanwhile, we are also exploring the commercial viability of several alternative energy sources, including harnessing wind power.

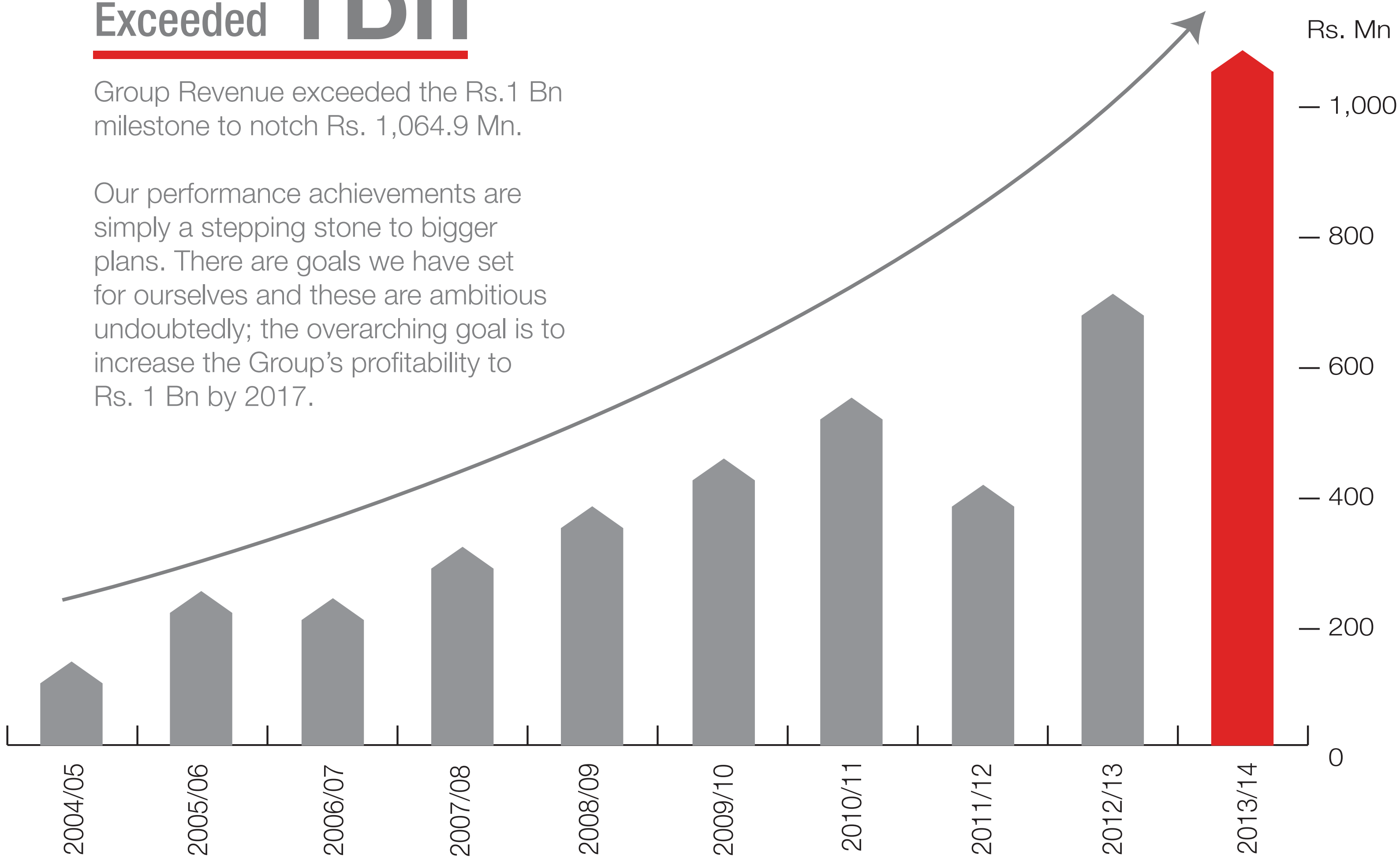
Throughout this story of success, we recognise that it is the passion and performance-driven attitude of every member of the Vallibel Power team that has driven our Company so far. Today we are very confident that our people will continue to generate such power and sustainable stakeholder value in the years ahead as well.

Group Financial Highlights

Revenue Exceeded 1 Bn

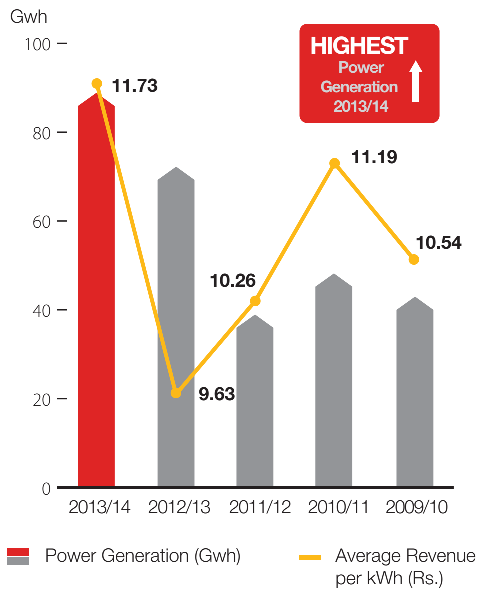
Group Revenue exceeded the Rs.1 Bn milestone to notch Rs. 1,064.9 Mn.

Our performance achievements are simply a stepping stone to bigger plans. There are goals we have set for ourselves and these are ambitious undoubtedly; the overarching goal is to increase the Group's profitability to Rs. 1 Bn by 2017.

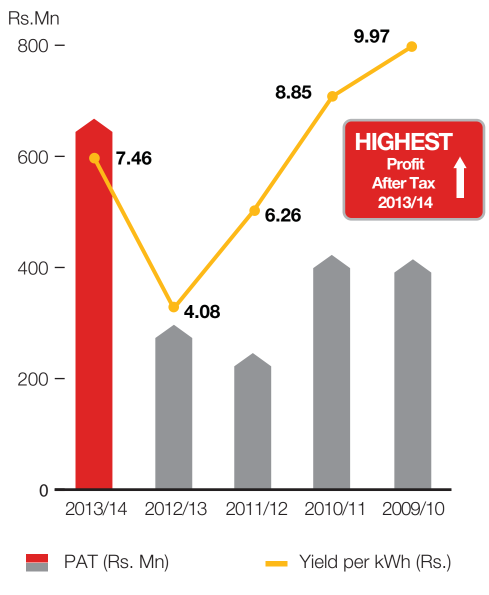


Year ended 31 March		2014	2013	Change %
Earnings Highlights				
Revenue - Erathna MHPP	Rs.'000	519,775	379,478	37.0
- Denawaka Ganga MHPP	Rs.'000	317,883	200,068	58.9
- Kiriwaneliya MHPP	Rs.'000	227,333	113,486	100.3
Total Revenue	Rs.'000	1,064,991	693,032	53.7
Profit After Tax	Rs.'000	667,111	293,891	127.0
Dividends Paid	Rs.'000	448,266	186,777	140.0
Earnings Per Share	Rs.	0.85	0.39	117.9
Financial Position Highlights				
Non Current Assets	Rs.'000	2,830,474	2,923,020	(3.2)
Total Debt	Rs.'000	947,300	1,173,246	(19.3)
Total Shareholder Funds	Rs.'000	1,997,708	1,822,753	9.6
Net Assets Per Share	Rs.'000	2.67	2.44	9.4
No. of Shares in Issue		747,109,731	747,109,731	-
Market / Shareholder Information				
Market Price of Share (Closing)	Rs.	5.60	5.60	-
Market Capitalisation	Rs.'000	4,183,814	4,183,814	-
Dividend Per Share	Rs.	0.60	0.25	140.0
Other				
Power Generation	kWh	89,381,797	71,980,367	24.2

Power Generation



Financial Performance



Timeline of Achievements

2001

The Company was incorporated on 7th November 2001 under the name of Zyrex Power Company Erathna Limited.

2002

Commenced the construction of Erathna mini hydropower Project at Kuruwita.

2003

Continued with the construction of Erathna mini hydropower project.

2004

- Commenced the commercial operations of Erathna project on 15th July 2004.
- The name of the Company was changed to "Power Company Erathna Limited" in October 2004.

2005

The name of the Company was changed to Vallibel Power Erathna Ltd. in June 2005.

2006

The Company was listed on the Second Board of the Colombo Stock Exchange on 17th May 2006.

2007

The Company increased its investment in "The Fortress Resorts PLC" to become the 5th largest shareholder.

2008

The Company disposed of its investment in Didul (Pvt) Ltd.

2009

- The Company acquired Country Energy (Pvt) Ltd. in November 2009 as a subsidiary.
- The Company was transferred to the Main Board of the Colombo Stock Exchange on 15th October 2009.

2010

Commenced the construction of Kiriwaneliya & Denawaka Ganga mini hydropower projects.

2011

- 4.65 MW Kiriwaneliya mini hydropower project was commissioned on 15th December 2011.
- The Company won the Bronze Award at the Annual Report Awards organised by The Institute of Chartered Accountants of Sri Lanka.

2012

- 7.2 MW Denawaka Ganga mini hydropower project was commissioned on 14th February 2012.
- The Company won the Gold Award at the Annual Report Awards organised by The Institute of Chartered Accountants of Sri Lanka.
- The Company won the ACCA Sustainability Reporting Award in the First Time Reporting Category.
- A delegation from Seychelles' government visited Erathna project to study mini hydropower projects.

2013

- Erathna project recorded its highest power generation in a calendar year.
- Kiriwaneliya project and Denawaka Ganga mini hydropower projects were qualified for Clean Development Mechanism under United Nations Framework Convention on Climate Change.
- The Company won the Silver Award at the Annual Report Awards organised by The Institute of Chartered Accountants of Sri Lanka.
- Erathna mini hydropower project won the Bronze Award at the National Green Awards organised by the Central Environmental Authority.

2014

- The Company and its Subsidiary were certified for ISO 9001: 2008 & ISO 14001: 2004 for the implementation of Quality and Environmental Management Systems.
- Group Revenue passed One Billion Rupees for the first time.
- Kiriwaneliya mini hydropower project won the Bronze Award at the National Green Awards organised by the Central Environmental Authority.

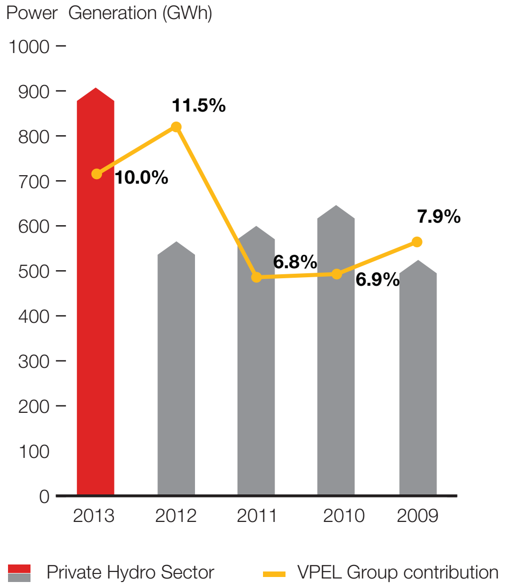
Project Synopsis

		Erathna MHPP	Denawaka Ganga MHPP	Kiriwaneliya MHPP
Installed Capacity	Mega Watts	10	7.2	4.65
Year of Commissioning	-	2004	2011	2012
Net Head	Meters	420	33	200
Penstock Length	Meters	2,250	97	1,690
Channel Length	Meters	300	1,800	300
EM Plant Supplier	-	Voith Siemens	Dongfeng Electric	VS Energy
Financial Year 2013/14				
Generation	Kilo Watt Hours	43,846,173	26,387,948	19,147,676
Revenue	Rs. Mn	519.7	317.8	227.3
Reduction in Carbon Footprint	Tonnes	27,403	16,492	11,967
No. of Employees	-	27	42	17

Working on an undiluted recipe that was constructed on a triad of giving power to the nation through a performance beyond expectation as the Company continued to be fueled by a passion to succeed, our sustainable eco-friendly energy solutions are initiated not only on being cost-effective but resource friendly as well.

The Passion that drives us

Energy Delivered to Sri Lankan National Grid by Private Hydro Power Developers



Source : Centrel Bank Annual Report 2013

10%

During the 2013 calendar year, the Group accounted for 10% of energy delivered to the Sri Lankan National Grid by private hydropower developers.

Chairman's Message

"For us at Vallibel Power Erathna, it was a year where we met our goals and objectives, while also drawing up strategies to move ahead in our quest to seek alternative energy solutions. In this our tenth year, we are proud that we have nurtured an inherent passion to seek new horizons in energy solutions, being very successful judging by the contribution we make towards the Country's energy footprint."

I look back at this year that's past with mixed feelings. What was expected of the global economy simply did not materialise, although the Sri Lankan economy did perform better than her regional and global counterparts. From an energy perspective, the disturbing fact is that the world did not get the desired results in energy solutions, compared to the exacerbating demand the world continues to have. Energy solutions, especially in the alternative energy fields do remain a priority, but somehow, there seems to be a widening gap between demand and supply, with R&D being much slower in producing tangible results and policy makers in general, being somewhat languid in their approach.

For us at Vallibel Power Erathna, it was a year where we met our goals and objectives, while also drawing up strategies to move ahead in our quest to seek alternative energy solutions. In this our tenth year, we are proud that we have nurtured an inherent passion to seek new horizons in energy solutions, being very successful judging by the contribution we make towards the country's energy footprint. This is well evidenced in our performance, where each of our projects have been completed within timelines and budgets, produced the desired results and infused economic, social and environmental benefits aligned to the objectives we set for ourselves. Our power is not simply in energy, but in the fact that we possess all the apt attributes to present the country with sustainable energy solutions. These will surely be one of the trusses in placing the country as an energy hub in South Asia.

This is an inherent power that emanates from each of our stakeholders; whether it's our team, communities, investors, valued business partners or even the environment, because it is they who energise us to build that imperative foundation for sustainable eco-friendly energy solutions. Journeying to become a significant producer of clean energy for the sustainable economic development of Sri Lanka is a vision that we have been working on since inception. This is also a vision that has built for us an unshakeable foundation to tap into the myriad resources that the country possesses to produce clean energy. Being an island, the country has significant resources to be channeled towards clean energy solutions and these are the resources we intend to imbibe into our blueprint for power.

While I am pleased to present the Annual Report and Financial Statements for a detailed account of how our Company has performed in this financial year, I also urge you to peruse the Sustainability Report within these pages. All these will give you a clearer picture of our Company's performance in a triple bottom line concept, the sustainability facets and the progressive features that encompass an entity that's constructed on a triad of passion, performance and power based on an ecologically beneficial footprint.

Sri Lanka as the Energy Hub of South Asia

Our power is not simply in energy, but in the fact that we possess all the apt attributes to present the country with sustainable energy solutions. These will surely be one of the trusses in placing Sri Lanka as an energy hub in South Asia.

Sri Lanka's Quest for Cleaner Energy

While the world continues to pursue cleaner energy channels, Sri Lanka continues to rely heavily on large conventional hydro plants which are considerably cheaper, but must however contend with vagaries of the weather and other factors that tend to permeate negatively into the implementation of those plants. This yet remains a conundrum to the country even though there are various initiatives being mooted to seek renewable and alternative energy sources. Sri Lanka will undoubtedly face an energy crisis if the current path is pursued. As was mentioned in the CBSL Annual Report 2013, while renewable energy sources are being pursued, the current tariff of NCRE sources continue to increase, compared to other conventional energy sources. It is therefore prudent to encourage the acquisition of advanced technology that also infuses cost efficiency, which has led Sri Lanka to target non-conventional renewable energy sources to an increase of 20% by 2020 from its current 10%.

The abundance of natural resources prevalent in the country is certainly not being optimised, although there are commendable efforts made by the Sri Lanka Sustainable Energy Authority for continuing to focus on making the country more energy efficient. There is also significant effort made by the private sector to become more green with Carbon Neutral initiatives becoming more popular, collating carbon credits and reducing carbon emissions, while using cleaner energy imperatives. While the argument of climate change does crop up continuously, Sri Lanka cannot remove itself from the fact that global environmental issues do permeate, sometimes uncompromisingly, on even a little island like ours.

It is to be noted that in the last tariff decision, rates moved up between 20% to 38% despite earlier rates being some of the highest in the world. New mini hydro companies were offered a flat tariff of Rs. 16.70 per unit, while those using local inputs were given a higher rate of Rs. 17.15. Given that 2013 had one of the best years in rainfall for an entire decade, the tariff applicable for mini hydropower projects under avoided cost basis structures, changed. For January and May to December which is considered the wet period, the old tariff of Rs. 9.49 was changed to Rs. 11.61, while in the dry period from February to April, the old tariff of Rs. 10.44 saw a change to Rs. 12.31.

However, what is significant in the larger scheme of things is Sri Lanka's positioning of the country as an energy hub, in its Strategy for Economic Diversification. Introduced via the Government's Vision for the Future with the aim of achieving sustainable economic growth to transforming the country into a global economic centre, it is vital to become competitive in those six key sectors, including energy. New avenues of energy creation is an imperative, although Sri Lanka did identify some new areas of fossil fuel resources in the Mannar Basin for which feasibility studies have now begun. But the stubborn fact is that the fossil fuel era is gradually coming to an end, which makes it essential for Sri Lanka to seek renewable energy sources. As mentioned earlier, the large scale hydropower projects are almost exhausted at present and the country must promote Non-Conventional Renewable Energy Sources as an imperative, rather than an option.

20%

Sri Lanka to target non-conventional renewable energy sources to an increase of 20% by 2020 from its current 10%.

However, these alternatives at present, are considerably higher in cost compared to fossil fuels, which may sometimes force decision makers to fall back on the option of fossil fuels. We do believe however, that with technological improvements, the life time costs could be reduced over the long term and therefore, the feasibility of lower costs should be taken on board. Aligned with the Five Plus One Hub Concept, the Government has been instrumental in developing the necessary infrastructure, though more investment, especially by the private sector is very necessary, given that in the current context, it is woefully inadequate.

Performance Overview

Our three mini hydropower projects, namely Erathna, Denawaka Ganga and Kiriwaneliya, have matched forecasts, showing growth in both production and income over last year. The Group generated a total of 89,381,797 kWh this year, which is a significant increase of 24.2% over last year's generation of 71,980,367 kWh, attributed primarily to all three projects now being completely operational. These projects, having contributed significantly to the bottom line, generating well above the average envisaged, with Erathna generating 43,846,173 kWh, Denawaka Ganga 26,387,948 kWh and Kiriwaneliya generating a total of 19,147,676, kWh, the latter being the highest growth generated kWh from among the projects.

Group Revenue inclined impressively by 53.7% to be posted at Rs. 1,064.9 Mn over last year's Rs. 693 Mn. Erathna contributed Rs. 519.7 Mn, while Denawaka Ganga's Revenue was Rs. 317.8 Mn and Kiriwaneliya notched Rs. 227.3 Mn. Group Profit After Tax was showcased at a very noteworthy 127% increase, which is certainly significant, given that both Denawaka Ganga and Kiriwaneliya did contribute this year, given that both were commissioned two years ago. Group PAT therefore is notched at Rs. 667.1 Mn, compared to last year's posting of Rs. 293.8 Mn, while Erathna's PAT stood at Rs. 486.9 Mn, a considerable leap over the 2012/13 posting of Rs. 274.1 Mn.

We made significant inroads into our clean energy vision, when both the Kiriwaneliya and Denawaka Ganga mini hydropower projects were conferred with CDM (Clean Development Mechanism) status by the United Nations Framework Convention on Climate Change, enabling the country to earn revenue from carbon credits. This run-of-river project uses water resources from the Denawaka River in Malwala Rathnapura, working on an installed capacity of 7.2 MW. Erathna mini hydropower project has an installed capacity of 10 MW and Kiriwaneliya 4.65 MW.

For the first time in our history, our subsidiary Country Energy (Pvt) Limited under which umbrella new mini hydropower projects stand, paid a total dividend of Rs. 89.3 Mn of one Rupee per share in November 2013. In addition, Vallibel Power Erathna paid two dividends throughout the financial year amounting a total of Rs. 448.2 Mn. In August 2013, we paid a total of Rs. 149.4 Mn at Rs. 0.20 per share and Rs. 298.8 Mn in total of Rs. 0.40 per share in December 2013.

53.7%

Group Revenue inclined impressively by 53.7% to be posted at Rs. 1,064.9 Mn over last year's Rs. 693.1 Mn. Erathna contributed Rs. 519.7 Mn, while Denawaka Ganga's Revenue was Rs. 317.8 Mn and Kiriwaneliya notched Rs. 227.5 Mn.

Uniting Power, Passion & Performance

Well intertwined to step forward into spearheading an era of cleaner energy, we are indeed proud to have been conferred a Silver Award in the Power & Energy sector for our annual report at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka. This well entrenches our emphasis on imbuing best practices and a culture that goes beyond compliance in our governance, ethics, principles and accountability ethos, and the fact that transparency runs through our very DNA. We are also cognisant that our performance is judged not only in tangible quantitative figures, but also the fact that we have a sound and stable financial base. We are judged qualitatively as well, where our engagement with stakeholders, the cascading impacts our decisions have on them and the way we conduct our business creates the holistic persona of our corporate entity.

We are also aware that we function in an industry where environmental impacts must be positive. We are clearly the champions of green energy, harbingers of change to the thought process of instilling clean energy concepts into a national vision. Whenever we have embarked on our projects, our priority has been in conserving the environment around that locale, while also enhancing the green cover.

This is where passion, performance and power intertwine for us because we are positioning ourselves on a multi-faceted platform to develop and construct green energy sources, to serve national goals. That's certainly the inherent passion we have within and we have shown unequivocally that we have now grown a business that is sound, stable and financially sustainable, combining our performance with a power that's hard to match. It is this passion for performance that has propelled us to gain two ISO standard certifications for both Vallibel Power Erathna and Country Energy. Both ISO 9001:2008 and ISO 14001:2004 standards have been implemented at the Erathna, Kiriwaneliya and Denawaka Ganga mini hydropower plants.

To us at Vallibel Power Erathna, it is imperative that we invest in a greener cleaner country. It is a responsibility that we must take on with lofty goals in mind. Our strategic intent therefore is to pursue avenues that would take us closer to our vision of being a significant producer of clean energy and this means, that we must look inward. First at our strengths, any inherent weaknesses and threats and then outwards at the opportunities available. This very cohesive analysis of ourselves saw us step on a path where our passion, performance and power will coincide, pursuing possibilities of acquiring more hydropower projects that show promise. However, we are also aware that availability of most large and medium scale hydropower projects is limited and availability is seen only in small scale projects.

However, we are also seeking alternative projects that can buttress our performance, removed from the focus of hydropower projects. Having analysed the prevalent energy industry, we do see opportunities in other renewable energy industries, including wind and solar. However, with the government having temporarily halted the issuing of new licenses in these two industries, we are now seeking other related areas for diversification.

448.2 Mn

Dividends

A total of Rs. 149.4 Mn at Rs. 0.20 per share was paid as dividends in August 2013 and Rs. 298.8 Mn in total of Rs. 0.40 per share in December 2013.

Appreciations

It has been a very rewarding year for the Group, given that we have reached our goals both quantitatively and qualitatively, edging us towards pursuing newer routes and newer maps in our pursuit of green power. However the rewards we see, are certainly attributable to numerous stakeholders in our midst. To pursue cleaner energy options require leadership and vision and while this remains on the national agenda, there is need to gain support on the ground. For this, my appreciation is extended to related Ministry officials, including the Ministry of Power and Ministry of Environment, the Ceylon Electricity Board, the Central Environmental Authority and the Sri Lanka Sustainable Energy Authority, who have always been open to discussion and the need to unite in driving a purposeful map for cleaner energy sources.

My Board of Directors have been true stewards in our quest, cohesively coming together to drive our vision and to be the spearheads in leading a dynamic motivated and professional team to do just that. I welcome to our Board of Directors Chatura Cabraal and Shyamalie Weerasooriya.

While the communities we work with have ensured that our impacts in an economic, social and environmental context are sustainable, pushing us to be right and true to our ideals, I'm also very appreciative of our team, who have bought into our vision, acted on our mission and upheld our values to be a true and leading supplier of clean energy. To our teams who unite from our multiple sites at Head Office and project sites, thank you.

And so we take one more step towards presenting the next generation with a cleaner greener planet. That after all is our mandate and that's what we intend to do. We have been tasked with an immense responsibility to spearhead change in thought, word and deed, presenting avenues of renewable green energy that would benefit generations, and not just this one. Focused on the triple bottom line, it would be fair to say that the very nature of our business tends to tilt us in favour of the environment, although the combination of power, performance and passion has certainly created the strong foundation for a Company with a thirst for power.

Dhammika Perera
Chairman
22 May 2014

Ten years of Success

Erathna MHPP

The Ten Year Saga

A decade in some contexts could be long and in others, short - but for us at Vallibel Power Erathna it has been a decade that has brought with it a new era in sustainable power solutions for this tiny island nation of Sri Lanka. It has been ten years in which the three Ps of Passion, Performance and Power have wired together the circuits of sustainable energy, dynamic people and green concepts into a well combined cohesive blueprint that enables a small Company like ours, to step into an era of leadership. It is also ten years in which,we ourselves have journeyed on a quest for eco-friendly alternative energy solutions, opening wide doors that had hitherto not been accessible, using innovation, technology and teamwork to tap into the earth's natural resources to meet development demands. And in all this, we have never lost sight of the need to manage these resources in a sustainable resource-friendly manner, prudently caring for it and ensuring that our usage will always be astute, ultimately designed to reduce Sri Lanka's carbon footprint.

Our story actually began prior to ten years ago, when in 2001, the far-sighted vision of a single individual who continues to spearhead the Company today, identified the need for renewable eco-friendly energy solutions. Having honed in on the Erathna Project, despite numerous challenges emerging at the time from terrain to lack of infrastructure, it wasn't long before the largest mini hydropower project owned by a private sector entity was launched with construction beginning in 2002. Well within the envisaged timelines, under the umbrella of Vallibel Power Erathna PLC, the Erathna mini hydropower project was commissioned in 2004, etching a unique milestone within the annals of the power and energy industry in Sri Lanka.

The Erathna Project was surely a role model to other mini hydropower providers in the country, given that each resource segment we utilised within the project, whether it be water, locale or human resources and even in construction, were all designed and managed to optimise output.

Astute cost management focusing on total quality and innovation, resulting in zero impact on the environment also became compulsory. The project has stood its ground for ten years, having no major impediments or failures, which in itself, notches the project as an absolute success.

With a planet that is progressively demanding more and more energy although resources to produce such energy continues to deplete even faster, progressive energy management and the seeking of alternative energy sources have become de rigueur. But the world's energy solutions are simply not fast enough to meet the escalating demands, which means an energy crisis surely looms, sooner rather than later. Sri Lanka is no different to other countries, grappling with rising energy demands but little alternatives, given the high dependence on thermal power. Depleting fossil fuel reserves and rising global oil prices, have also driven countries, including Sri Lanka to depend on the environmentally unfriendly option of coal power. These are factors that have propelled Vallibel Power Erathna PLC, as a responsible corporate citizen, to seek newer and more sustainable energy solutions that would maximise electricity output, while prudently managing available natural resources.

Our story actually began ten years ago, when in 2001, the far-sighted vision of a single individual who continues to spearhead the Company today, identified the need for renewable eco-friendly energy solutions.

This quest for sustainable alternative energy solutions, using the plentiful yet under-utilised water resources the country has, spurred us further, resulting in the subsidiary Country Energy (Pvt) Limited being incorporated. Under the aegis of this subsidiary, the Denawaka Ganga and Kiriwaneliya Projects were commissioned, designed to contribute an additional 11.85 MW to the national grid. Both these projects collating 41 GWh, take the average annual cumulative generation output of the Group upto an impressive 80 GWh. These have without any doubt pushed us into becoming the champion of alternative energy solutions in Sri Lanka and the largest public quoted mini hydropower Company in the Country. Kiriwaneliya mini hydropower project is an investment of Rs. 815 Mn, while our youngest project, Denawaka Ganga mini hydropower project at an investment of Rs. 925 Mn, is a run-of-river initiative using the waters of the Denawaka River in Malwala in the Rathnapura District, with a generating capacity of 7.2 MW, this project will add an annual generation of 25 GWh.

But it's not just power generation that we focus on; we are uncompromisingly focused on clean sustainable power, ensuring that each of our projects do tangibly reduce the nation's carbon footprint. By being conferred CDM status for our new mini hydropower projects by the UN Framework Convention on Climate Change, we can earn carbon credits for 25,000 tonnes of CO_2 being emitted annually into the environment. By also gaining ISO 9001:2008 and ISO 14001:2004 certifications, we have augmented our commitment to the quality platform as well.

This commitment to a greener cleaner planet has gained us laurels including a bronze award at the National Green Awards, a Sustainability Reporting Award as a First Time Entrant at the ACCA Sri Lanka Sustainability Reporting Awards and a Gold Award for the Power & Energy Sector at the Institute of Chartered Accountants of Sri Lanka Annual Report Awards, in recognition of our governance practices. Commitment to our communities has also remained a top priority since our inception, working on the CSR platforms of education, infrastructure and health, where the Erathna hospital, surrounding schools and temples as well as road development projects in difficult rural areas have gained our proactive contribution.

Ours is a story that is destined to continue; a saga that will continue to etch new chapters in the way we all live our lives. Our 3P formula, Passion, Performance, Power – will be the ethos upon which we pursue alternative energy solutions, unequivocally making a difference to the future generations destined to make this planet, home!

Aruna Dheerasinghe
Jt. Chief Executive Officer

Russell De Zilva
Jt. Chief Executive Officer

22 May 2014

By being conferred CDM status for our new mini hydropower projects by the UN Framework Convention on Climate Change, we can earn carbon credits for 25,000 tonnes of CO_2 being emitted annually into the environment.

Board of Directors

K D D Perera

Chairman

Mr. Dhammika Perera is the quintessential business leader, with interests in a variety of key industries including Hydropower generation, Manufacturing, Hospitality, Entertainment, Banking and Finance. He enriches the Board with over 25 years of experience in building formidable businesses through unmatched strategic foresight.

He currently holds the position of Secretary to the Ministry of Transport, Sri Lanka. He is also a Member of the Board of Directors of Strategic Enterprise Management Agency (SEMA).

Mr. Perera is the Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Finance PLC, The Fortress Resorts PLC and Delmege Limited. He is the Deputy Chairman of Hayleys PLC, Royal Ceramics Lanka PLC, Horana Plantations PLC, Lanka Ceramic PLC & LB Finance PLC. He also serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys MGT Knitting Mills PLC, The Kingsbury PLC, Dipped Products PLC, Lanka Tiles PLC, Orit Apparels Lanka (Pvt) Limited & Sun Tan Beach Resorts Limited.

W D N H Perera

Alternate Director to Mr. P B Perera

Mr. Nimal Perera is a renowned business magnate, stock trader and shareholder of many companies in the country with 31 years of experience in the fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services.

Mr. Nimal Perera is the Chairman of Pan Asia Banking Corporation PLC, Lanka Tiles PLC, Lanka Walltiles PLC, Lanka Ceramics PLC, Horana Plantations PLC, Swisstek Ceylon PLC & Don Willbert Capital Ltd . He is the Managing Director of Royal Ceramics Lanka PLC, The Executive Deputy Chairman of Vallibel One PLC, Director of LB Finance PLC, Hayleys PLC, The Kingsbury PLC, Vallibel Finance PLC, Haycarb PLC, Thalawakele Tea Estates PLC & Alternate Director of The Fortress Resorts PLC. He is a Member of the Sri Lanka Institute of Marketing.

S H Amarasekera

Director

Mr. Harsha Amarasekera, President's Counsel is a Director of the Company since 28th April 2005. An Attorney-at-law by profession; he has a wide practice in the Original Courts as well as in the Appellate Courts, specialising in Commercial Law, Business Law, Securities Law, Banking Law and Intellectual Property Law.

Mr. Amarasekera serves as an Independent Director in several leading listed companies in the Colombo Stock Exchange including Vallibel One PLC, CIC Holdings PLC, Expo Lanka Holdings PLC, Chevron Lubricants Lanka PLC, Amana Bank PLC, Keells Food Products PLC, Amaya Leisure PLC and is also a Director of CIC Agri Business (Pvt) Ltd.

Board of Directors

P K Sumanasekera

Director

Mr. Prabodha Sumanasekera holds B.Sc. in Physics from the Colombo University and has over 18 years experience in the small hydropower sector.

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

Darayl S Clark

Director

Mr. Daryl S Clark has a MBA from the University of Miami and a BSChemE from the University of Florida. He was appointed to the Board in January 2010.

Mr. Clark is Vice President, CFO and Member of the Board of South Asia Energy Management Systems, a California corporation involved in the development, ownership and operation of renewable energy projects in international markets. He currently serves on the Board of Knol Resources Corp, a publicly-traded oil and gas exploration and production Company in Canada and RAM Power Corp. a US - based renewable energy Company focused on the exploration and development of clean, sustainable geothermal power. He was previously Vice President and CFO for Peachtree Settlement Funding, a specialty factoring firm, where he was instrumental in leading it through revenue growth from $20M to $180M annually. He also was CFO for META Security Group, a start-up consulting firm in Internet and Network Security. Mr. Clark has held key leadership positions with DirecTV and Sensormatic Electronics.

S E De Silva

Director

Mr. Sunil De Silva holds an Honours Degree in Mechanical Engineering and is a Graduate Member of the Institute of Engineers, Australia. He was appointed to the Board in January 2010.

Mr De Silva is the Executive Director of Renewable Energy Development Asia Energy Management Systems INC - California and was involved in the development and operation of renewable energy projects in Sri Lanka and Uganda. He is a Director of Lanka Ventures PLC. He joined DFCC Bank in 1987 and functioned in different positions in the corporate banking division up to his retirement in 2004 as the Vice President of corporate banking. He was the Executive Director of DFCC Consulting Limited from 2004 – 2008. Prior to joining DFCC Bank, Mr. De Silva worked in the copper industry in Zambia and steel industry in Sri Lanka. He has wide experience and considerable exposure to the renewable energy sector. He is also an Associate in Development Banking of ADFIAP.

H Somashantha

Director

Mr. Haresh Somashantha is a Member of the Institute of Chartered Accountants of Sri Lanka and also holds a Bachelor's Degree in Mathematics from the University of Kelaniya. He counts over 14 years of experience in audit, financial management and reporting, including strategic and corporate planning across different industries. He was appointed to the Board in January 2010.

He is currently the Head of Finance & Treasury of Royal Ceramics Lanka PLC. He serves as a Director of Hayleys MGT Knitting Mills PLC, Royal Porcelain (Pvt) Ltd., Unidil Packaging (Pvt) Ltd., Ever Paint and Chemical Industries (Pvt) Ltd., and in several subsidiary companies in the Delmege Group. He is also an Alternate Director of The Fortress Resorts PLC and Amaya Leisure PLC.

L D Dickman

Director

Mr. Dickman holds BA in Public Administration from the Vidyodaya University and MSc in Town & Country Planning from the University of Moratuwa Sri Lanka. He was appointed to the Board in April 2010 and in April 2011 he was appointed as the General Manager.

Mr. L D Dickman was the Deputy Director General (Infrastructure) of Board of Investment of Sri Lanka before his retirement in December 2009 and had been working since its inception in 1979. He held various managerial posts during his long service in the Board of Investment. He was working as a Deputy General Manager of Lanka Mirigama Special Economic Zone (Private) Limited.

Mr. Dickman is a Past President of the Institute of Town Planners of Sri Lanka and also had been a visiting lecturer in Town and Country Planning at the University of Sri Jayawardenapura and the University of Moratuwa. He also attended a number of Executive Development Programmes and Investment Promotion Programmes in various countries at international level.

S Shanmuganathan

Director

Mr. Shan Shamuganathan is an Accountant by profession, Fellow Member of the Institute of Chartered Accountants of Sri Lanka and Fellow Member of 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.

Mr. Shamuganathan is a Shareholder/ Director in privately held companies engaged in the leisure and IT Industry and he also functions as Senior Advisor to large privately held corporate houses. He is a Member of the Council of the Institute of Chartered Accountants of Sri Lanka

P B Perera
Director

Mr. Prashan Perera is presently pursuing his degree in Finance at the Bentley University of Boston, Massachusetts, USA. He was appointed to the Board in October 2012. Mr. Perera serves as a Director of The Fortress Resorts PLC.

C V Cabraal
Director

Mr. Chatura Cabraal is a Graduate (Hons) in Mechanical Engineering with a focus in manufacturing and design from the Missouri University of Science and Technology. He was appointed to the Board in January 2014.

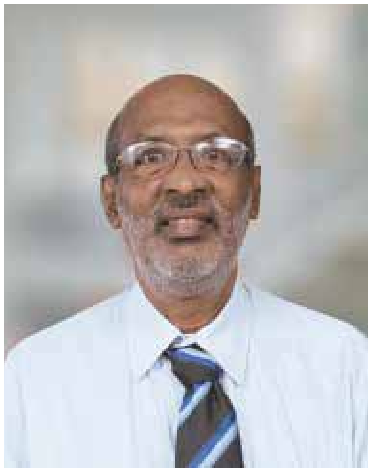
During his bachelor's degree, he paid special attention to Control Systems Engineering, Environmental Control and Engineering Statistics. Before he joined the Board of Vallibel Power Erathna PLC, the knowledge he gained was applied in his functions as an engineer in the Energy and Environment Division of Brandix Lanka Ltd. At Brandix, he was closely associated with the analysis of new equipment for factories, renewable energy projects and sustainability reporting. He also serves as a Director of Kelani Valley Plantations PLC and The Fortress Resorts PLC.

D S N Weerasooriya
Alternate Director to Mr. K D D Perera

Ms. Shyamalie Weerasooriya is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and holds a Bachelor's Degree in Science from the University of Colombo. She possesses 18 years of post qualified experience and counts over 12 years of working experience at the LB Finance PLC.

Ms. Weerasooriya is the Chief Financial Officer of the Vallibel One PLC and the Fortress Resorts PLC . She is a Director/Chairman of the Audit Committee at Amaya Leisure PLC and acts as an Alternate Director to Mr. Dhammika Perera at Hayleys PLC, Hayleys MGT Knitting Mills PLC , Haycarb PLC , Dipped Products PLC , Delmege Limited and the Orit Apparels Lanka Group .

Corporate Management Team



L D Dickman
Executive Director/GM

Aruna Dheerasinghe
Jt. Chief Executive Officer

Russell De Zilva
Jt. Chief Executive Officer

M Navaratnarajah
Manager

Yogesh Suriyapperuma
Head of Finance

Pathmanatha Poddiwala
Deputy General Manager

A performance driven Attitude

Management Discussion
and Analysis

Management Discussion and Analysis

As Vallibel Power Erathna completes a decade in existence, the power and energy industry that we have been working in has transformed considerably, although the challenges do remain. In an overall context the rising demand for energy is ubiquitous, centered primarily around the hallmark of aggressive development, countries moving up the growth indices into more economically developed spheres, energy intensive industries gaining more magnitude and the populace in general being more dependent on energy for their living. This is further exacerbated with the world's quest for alternative energy sources not quite keeping up to the demand envisaged and hence, grappling with permeating problems that do arise due to excessive dependence on fossil fuels.

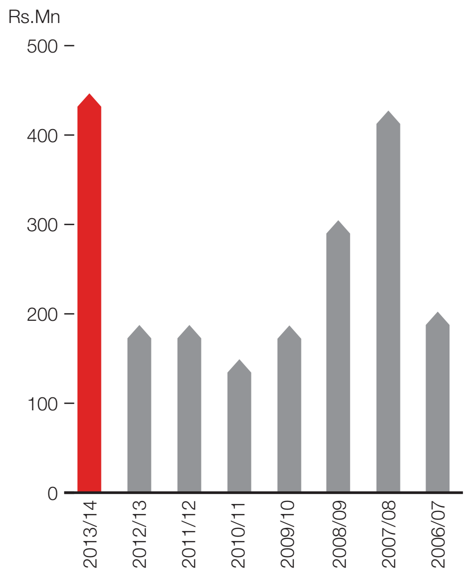
Sri Lanka's requirements in the energy mix is one of hydropower and fossil fuels, although more recently there has been state focus on pursuing avenues in alternative energy sources. Given the country's development vision, the energy sector is playing a penetrative and championing role in driving the Economic Hub Vision, not only on its own steam in placing Sri Lanka as an energy hub, but also in driving the other five key sectors in achieving their goals, given that each of those sectors remain highly dependent on energy. This has surely placed an onus on the private sector to become more proactive in adding to the energy demand, working on initiatives that would buttress the energy industry and add fuel to the nation's quest for energy, especially in sustainable alternative energy options. However, it must be noted that even before this national focus on alternative energy sources became an imperative, Vallibel Power Erathna was already in the fray, laying plans and implementing hydropower projects that could spearhead Sri Lanka's journey for energy sustenance.

Working on an undiluted recipe that was constructed on a triad of giving power to the nation through a performance beyond expectation as the Company continued to be fueled by a passion to succeed, our sustainable eco-friendly energy solutions are initiated not only on being cost-effective but resource friendly as well. With this year having a record high in terms of rain, we optimised on this advantage, given that our projects are now fully operational and geared to harness the maximum in resources. In our island, where natural energy resources are in plenty, whether in water, sunlight or wind, we strongly believe our Company has the potential to maximise on these resources and use it to contribute to the country's energy mix.

We have now firmly positioned ourselves as one of the benchmarked leaders in the industry, having tangibly exampled to our stakeholders that VPEL is an ethical, principled, well governed and respected corporate steward in this land. This is buoyed further with our constant need to seek eco-friendly energy solutions that would decrease the nation's carbon footprint and birth a more sustainable planet. Into this equation, we have continued to sustainably add to our bottom line, with a performance that has year on year been growing consistently.

This year in fact, wealth creation continued in this dimension for our shareholders when we paid a total dividend of Rs. 448.2 Mn, which brings the total dividends paid in the last decade since the commissioning of our first Plant to

Dividends



Wealth creation continued in this dimension for our shareholders when we paid a total dividend of Rs. 448.2 Mn.

Rs. 2,092 Mn. This surely sets the tone of consistency, reliability, accountability and most of all sustainability into the ethos of the Company, where producing sustainable eco-friendly energy solutions remains fundamental to our business, as does the sustainability of our stakeholders.

Reviewing the Global Energy Landscape

One of the most enlightening findings by the International Energy Agency has been that the global energy supply is just not getting cleaner, despite concerted efforts to advance the development of clean energy. While emerging countries are certainly pursuing efforts at cleaner and renewable energy options, what is also apparent is that governments around the world, although having the power to create markets and policies to accelerate the innovation, development and deployment of cleaner energy sources, have not pushed hard enough. The available potential remains largely untapped. However, significant growth was seen in 2012 for instance in renewable power technology, despite the world experiencing economic, policy and industry turbulence, with policy uncertainty having a considerable negative impact on both the US and Indian wind investments.

Even though solar, onshore wind, biomass and hydro displayed the most dynamism, remaining well on track to reach the 2DS targets, it is very apparent that coal technology, continues to dominate power generation, despite it being the primary reason for CO2 emitted per unit of energy supplied and thus seeing less than 1% change in the CO2 intensity. Coal fired generation rose by 6% in the two years upto 2012, growing faster than non-fossil energy sources with around half the coal fired plants constructed in 2011 using inefficient technology. So even though China decided to close the older inefficient plants amounting to 85GW and the US closed those amounting to 9GW, the fact that the newer plants continue using inefficient technology did not offset the negativities emanating from coal power plants. With CO2 emissions projected to rise by 29%, it is hoped however that natural gas and other renewables will gain market share from coal and oil, and emissions will decline, at least in Europe and the US. On the other end of the energy spectrum, solar capacity increased by 42% and wind by 19% in 2012.

While emerging economies are enthusiastic in their efforts at pursuing clean energy, global policy development is mixed. However, markets for renewable energy are broadening beyond OECD countries, reflecting a keen ebullience to clean energy initiatives. China and Japan for example strengthened policies and targets for renewables in 2012, while on the converse, Germany, Italy and Spain scaled back incentives. This led to a consolidation in industry leading to increased competition and investment rapidly falling, especially in onshore wind and solar PV.

The BP Energy Outlook 2035 estimates that global energy consumption will rise from 41% from 2012 to 2035, compared to 55% over the last 23 years, 52% over the last 20 years and 30% over the last10 years. 95% of that demand will emanate from emerging economies, while energy use in North America, Europe and Asia as a group is expected to grow slowly. Major fossil fuels converging with oil, natural gas and coal will comprise about 27%

Eco Friendly Energy

Producing sustainable eco-friendly energy solutions remains fundamental to our business, as does the sustainability of our stakeholders.

of the total energy mix by 2035, with the balance comprising nuclear, hydroelectricity and renewables holding a share of about 7%. The report states that gas is growing the fastest, posited as a cleaner alternative to coal power generation, although fossil fuels will be dominant.

Global energy demand will continue to increase at an average of 1.5% a year until 2035, moderating at an average of 2% a year until 2020 and then by only 1.2% a year to 2035. 95% of this growth is expected to come from non-OECD economies, with China and India accounting for more than half the increase. By 2035, energy use in the non-OECD economies is expected to be 69% higher than in 2012. In comparison, use in the OECD will have grown by only 5%, and actually to have fallen after 2030, even with continued economic growth.

Operating Environment

Favourable weather conditions and stable oil prices (despite both the Syrian and Russian conflicts escalating during the year), gave a satisfactory boost to Sri Lanka's energy sector performance, primarily due to a lower requirement in thermal power generation. Two factors worked favourably towards this: one being the procurement of oil remaining on even keel due to relatively low oil prices in global oil markets and the stability of the Rupee against the US Dollar being second.

The focus on diversifying the energy generation mix continued intensely, although there seemed to be more emphasis on coal power, despite the environmentally harmful impacts this source of power does possess. However, this is a paradigm that continues unabated even in a global context given that coal remains one of the cheapest energy options in the world. In Sri Lanka, there was emphasis on increasing contribution by hydropower as well, with the private sector now adding a considerable footprint into the solar and in lesser size, in the wind arenas as well.

With hydropower's complete dependence on rainfall, even though Sri Lanka is blessed with two monsoonal seasons, vagaries in the weather play a huge role in limiting hydropower generation. These shocks, for the most parts, cannot be predicted and hence, do impact total power generation, increasing the need for thermal power generation to bridge the ensuing shortfall. There emerges a need hence, for more concerted action that will make the country ready to deal with these challenges, especially in the medium to long term. Harnessing the potential available in renewable energy sources therefore becomes imperative. At the same time, these sources must be competitive and cost effective, so as not to limit development progress in any way. Energy conservation practices too must be promoted and encouraged as even though, there may come a time when energy options do become affordable, astute energy management and zero wastage should be made a priority from now, to ensure that the earth's resources are used prudently and with care.

Impact of the Weather

With hydropower's complete dependence on rainfall, even though Sri Lanka is blessed with two monsoonal seasons, vagaries in the weather play a huge role in limiting hydropower generation.

Total electricity generation for 2013 increased by 1.3% to 11,945 GWh, compared to 11,801GWh last year, boosted by favourable weather conditions helping to buoy hydropower generation. This resulted in total electricity generation through hydropower increasing by an impressive 110.1% to 6,918 GWh. Thermal power generated 4,772 GWh, a reduction of 42.8% and coal power increased by a marginal 4.6% to 1,469 GWh. It is interesting that Non-Conventional Renewable Energy (NCRE) sources, under which classification VPEL comes, generated 1,171 GWh, an increase of 59.3%. CEB's contribution to total power generation increased to 74% compared to 52% in 2012. With the government having embarked on a project for 100% electrification of the country, it is notable that the loss of total generation has been maintained at only 11%. The CEB completed 799 rural electrification projects during 2013, increasing electrification levels to 96%.

1,171 GWh from NCRE

Non-Conventional Renewable Energy sources, under which classification VPEL comes under, generated 1,171 GWh, an increase of 59.3%.

A marginal increase was seen in sales this year, just 1.4% to 10,625 GWh with consumption by the domestic sector actually decreasing 1%, despite the number of consumers increasing by 4.5%. This could well be reflected in the cascade in energy conservation practices being permeated through homes, communities and schools, primarily due to the high tariffs being experienced. The burgeoning tourism industry did demand more power, reflecting a 5% increase by hotels, while growing commercial and business activities also added to sales by 5.2%. Industry however showed a moderate increase in sales by 1.9%.

Consumers were once again faced with a revision of electricity tariffs in April 2013, although domestic consumers using electricity less than 60 units remained unchanged as a safeguard for low income consumers. Those consuming in excess of 60 units saw an upscale of tariffs. Industrial, General Purpose and Hotel sectors faced a revision upwards during peak hours, with off-peak hours being reduced to encourage a larger utilisation of energy during off-peak hours. A time based tariff structure was mooted for the general purpose category.

CEB's performance did see an improvement this year, posting an operating profit of Rs. 24.6 Bn in 2013 compared to the loss of Rs. 62.1 Bn in 2012, driven primarily through larger contributions from hydropower and additional revenue of Rs. 2.5 Bn monthly due to the tariff revision. Although, there was a price increase of Rs. 25 per litre for fuel oil, due to lower thermal generation during the year, the fuel bill decreased by a significant 30.8% for the year to Rs. 29.4 Bn. The average cost of a unit at selling point was Rs. 17.70 per unit, while the overall average tariff was Rs. 18.23 with a profit margin of Rs. 0.53 per unit.

We highly commend the positive work being done by the Sri Lanka Sustainable Energy Authority which continues to actively promote the increased adoption and sustainable use of eco-friendly sustainable energy options. This has resulted in NCRE generation growing a significant 10% in 2013 which is the target that was mandated for 2015 and hence has been reached well in advance. The next goal is to generate 20% of NCRE by end 2020. It is praiseworthy that the unwavering focus the SLSEA maintains in increasing NCRE contribution is seeing very fruitful results. Admirably, 22 mini hydropower projects, one wind and one dendro power project were commissioned this year in Sri Lanka, collectively adding 45 MW to the National Grid, collating a total contribution of 262 MW being generated by mini hydropower, 81 MW of wind power, 11 MW of biomass power, 6 MW of dendro power and 1 MW of solar power.

However there is a bugbear that continues to plague the renewable energy sector keeping it somewhat moribund despite the best efforts. The current NCRE tariffs continue to rise compared to other conventional energy sources, which has led to the public being burdened with these costs. Hence, the acquisition of advanced technology, to improve cost efficacy has been focused upon. On a positive note, another initiative that has been mooted is the Net Metering platform to promote in-house solar power generation, which has seen households transit to the installation of solar panels for domestic energy requirements.

Exploration activities continued as emphatically this year since the discovery of gas and condensate off the Mannar Basin. With two discoveries made by Cairn Lanka and Sri Lanka's second international offshore exploration licensing round held by the Petroleum Resources Development Secretariat in 2013, a total of 13 blocks in the Mannar and Cauvery basins were offered to prospective investors. Bids for three blocks have been received. There is an indication of a significant amount of both 2D and 3D seismic assessments based on a number of commitment wells. Six offshore ultra deep-water blocks have also been demarcated around the island, based from the South West to the North East, which are intended to be offered on a Joint Study basis, prospected by oil companies and the government. The purpose of this study is to determine the hydrocarbon potential in this ultra deep-water blocks, with no commitment to production sharing.

Sri Lanka Upstream 2013, the country's very first exploration and production conference was held in June 2013 in Colombo, with the primary intention of introducing gas and oil companies to key government officials and the private sector and presented the country's industry potential. While efforts are continuing to market the available blocks, the government continues to engage with Cairn Lanka Limited on the potential commercialisation of that Company's discoveries.

These ongoing oil exploration activities will undoubtedly have backward and forward linkages, infusing with it immense potential for economic diversification through the identification of germane services and industries that can be locally developed. This would range from inputs to marketing and final distribution.

Growing NCRE

22 mini hydropower projects, one wind and one dendro power project were commissioned this year in Sri Lanka, collectively adding 45 MW to the National Grid.

Performance Overview

With both the Denawaka Ganga and Kiriwaneliya mini hydropower projects now fully operational, our hydropower generation also took full advantage of the unprecedented high rainfall experienced this year. This meant that the Group posted a significant year from a bottomline perspective. Add the fact that Group Revenue exceeded the Rs. 1 Bn milestone to notch Rs. 1,064.9 Mn and that the Erathna Plant had the second highest Revenue of Rs. 519.7 Mn in our entire decade long history, and VPEL has now firmly set for ourselves a strong and sustainable financial foundation to grow upon. Profit after Tax of the Group, excluding other comprehensive income/loss has inclined impressively by 127% to Rs. 667.1 Mn. The total power generation emanating from the Group for the financial year increased to kWh 89,381,799, which is equivalent to three days of total power consumption of Sri Lanka, a definite feather in our cap from a performance aspect.

Another factor that worked in our favour this year was the increase in the tariff paid by the CEB for one KWh of power. This year, the tariff increased by 22.3% and 17.9% in the wet and dry seasons, with a payment of Rs. 11.61 and Rs. 12.31 for the seasons. It is interesting that in 2012, the CEB decreased the tariff by 7.2% and 6.7% for the wet and dry seasons, paying Rs. 9.49 and Rs. 10.44 per KWh.

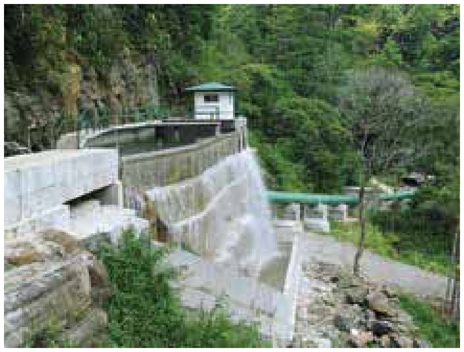
However, for VPEL, our performance achievements are simply a stepping stone to bigger plans. There are goals we have set for ourselves and these are ambitious undoubtedly; the overarching goal is to increase the Group's profitability to Rs. 1 Bn by 2017. Given our consistent performance over the years, this may seems to be achievable, but diverse and numerous challenges do ensue, making it that much more difficult for us to power our energy into meeting this lofty ambition. Given the challenges therefore, VPEL has identified a strategic map that will help us to journey with absolute focus towards this objective.

Our main intention is to now diversify our focus given that we do have the potential and the resources around us to pursue other avenues of alternative energy options. This means we acquire and develop new renewable projects in hydropower, wind and solar, maintaining our emphasis on eco-friendly sustainable energy options that are cost effective. The Company must also look inward in ensuring astute cost management to minimise wastage and reduce expenditure. Introducing cost reduction initiatives, minimising machine down time and increasing power generation to optimise capacity will be some areas we will focus on, while minimising finance costs and restructuring of existing loans will also be priorities.

An Undeterred Focus on Sustainable Energy

For VPEL, the delivery of quality cost effective sustainable energy has always remained at the zenith of every operation, decision and impact. We have striven over these ten years to infuse a cohesive quality culture within our Company, while also focusing heavily on being as ecologically sustainable as possible. This led Vallibel Power

Erathna PLC and our subsidiary, Country Energy (Pvt) Ltd to undergo the stringent quality certification procedures for both ISO 9001:2008 and ISO 14001:2004, which certifications were conferred on the companies in 2014. Presented by SGS United Kingdom Limited, the Quality and Environmental Management Systems are now well entrenched in all three power plants, namely Erathna, Denawaka Ganga and Kiriwaneliya. Another laurel that truly speaks for our commitment to sustainable energy is the qualification of the Kiriwaneliya and Denawaka Ganga mini hydropower projects to set off carbon credits for Sri Lanka. Having obtained registration under the United Nations Framework Convention on Climate Change (UNFCCC) in December 2013, the projects are now qualified for carbon credit facilities. The Kiriwaneliya Project worked under the consultant guidance of First Asia Carbon (Lanka) Limited, while the Denawaka Ganga Project was guided by Mitsubishi UFL Morgan Stanley Securities Company in their successful quest to gain CDM. We have tangibly observed a reduction of 55,862 tonnes in our carbon footprint for 2013/14.



CDM, is a commitment that has gained credence under the Kyoto Protocol, designed to moot emission reduction in developing countries. This enables countries to earn saleable Certified Emission Reduction (CER) credits, each equivalent to one tonne of CO2 which are collated towards meeting Kyoto targets. The aim of introducing CDM is to stimulate sustainable development and emission reduction, while giving nations some flexibility to meet their emission reduction or limitation targets. This environmental consciousness which VPEL has always espoused, gave the project the impetus to establish and implement the rudiments required for the Clean Development Mechanism, with each step from feasibility to final output being designed and constructed on a green platform.

To maintain the green operational standards, it is imperative that there must be no contact with oil and grease that would contaminate the river. Our machinery too is sourced to green standards, with no input of fuel in any form, which leads to zero emissions. In construction and architectural design, the locale and surrounds of the plant retained its natural fauna and flora with the green consciousness extended to surrounding communities, urging a clean and pleasant environment to be maintained.

Salient Details of our Projects

Our new mini hydropower projects come under the umbrella of Country Energy (Pvt) Limited, a subsidiary of VPEL, which is the largest public quoted mini hydropower Company in Sri Lanka. As mentioned above, each of our projects retain an environmental consciousness that reaches beyond the benchmarks of compliance given our unrelenting focus on environmentally sustainable energy that truly makes a difference to life on earth.

Our maiden project, Erathna mini hydropower project, is now generating at full capacity. Located in the Rathnapura district, this run-of-river plant uses water from the Kuru Ganga.

The Kiriwaneliya mini hydropower project, which is now CDM registered and works under the aegis of being ISO 9001:2008 and 14001:2004 certified, has seen an impressive decline of 11,967 tonnes in its carbon footprint for this financial year, which speaks volumes for the benefits gleaned from owning and operating a sustainable renewable energy project for the country. This project, which is based on an investment of Rs. 815 Mn, saw a 61.6% increase to its power generation capacity, amounting to kWh 19,147,676 from the 2012 generation of kWh 11,846,218. During the dry period, the plant ran at full capacity due to the Laxapana tunnel being closed for repairs, resulting in an increase in water levels of the Kanyon Reservoir.

The youngest project in our renewable energy family, the Denawaka Ganga mini hydropower project which was commissioned in 2012, came into full operation during this financial year. With an installed capacity of 7.2 MW, the project generated 26,387,948 kWh this year, an increase of 27.4% over 2012/13. This run-of-river project which uses water from the Denawaka River in Malwala in the Ratnapura district is also ISO 9001:2008 and ISO 14001:2004 certified, while being registered as a CDM project. Having an investment of Rs. 925 Mn, while from a bottom line perspective the project has contributed astutely to the Group performance, we have also seen a tangible reduction in carbon footprint for the year, that of a reduction of 16,492 tonnes, paving the way for Sri Lanka to earn valuable carbon credits.

Gaining ground with Power, Performance & Passion

We have always aspired towards challenging goals, which each year are pushed upwards on the scales. We also know that we play a pivotal role in creating the apt milieu for Sri Lanka to become South Asia's Energy Hub. We must be an emulated corporate steward and an emulated Company that upholds our values and ethics without compromise. This is what led us to win the Silver Award in the Power & Energy Sector for our Annual Report 2012/13 at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka, a first for the Company. Also Kiriwannaliya project won a Bronze Award in the mini hydropower category at the National Green Award 2013/14 presented by the Central Environmental Authority under the Aegis of the Ministry of Environment.

We remain well attuned to global paradigms, realising full well that the world is moving toward renewable and alternative energy sources that must have a positive impact on the environment. This naturally presents us with numerous opportunities, which are ripe for exploit and advantageous results for the country. With Sri Lanka's development agenda being implemented to stringent timelines, our rapidly developing nation is also seeing a paradigm of fast expanding energy requirements. This is where, as a benchmarked leader, VPEL must become the spearhead in championing ecologically friendly sustainable energy solutions for the nation. It is a responsibility we take seriously and a mantle which we donned ten years ago, when we gained the approval to begin our quest into renewable energy options.

Global trends are fast moving towards the sustainable energy which also means, we live in an era that is evolving and transformational. In a country where natural resources are plentiful, it is VPEL which must take the lead in harnessing these resources, infuse state of the art technology and know how upgrading skills and knowledge to use these resources responsibly and operate our projects to optimise the reduction of our ecological footprint. It is only then that our power, performance and passion can stand as witness to the true ideals of our vision of being the leading producer of clean energy that would lead to empowered sustainable economic development in Sri Lanka.

A sustainable Performance

Sustainability Reporting

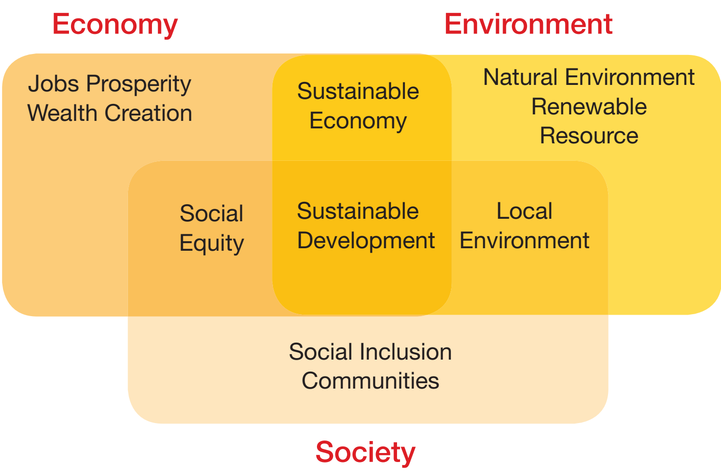
Denawaka Ganga MHPP

Sustainability Reporting

Passion, Performance, Power are not simply three words that have been put together to show our prowess in the country as a leading corporate entity; instead it is a definitive collation of three compelling words that have driven us to complete ten years to pursue making the planet a better place for living. Over this decade, the quest for clean sustainable energy solutions have been our passion, swathed as we are by the fact, that fossil fuels are depleting faster than envisaged, while the residue of irresponsible usage and unfettered development has taken its toll on a once healthy planet. We cannot also ignore the fact that sustainable energy solutions that would utilise the earth's resources astutely are insufficient to meet current day demands.

We believe that our quest for sustainable energy solutions is one that must bring together all stakeholders in our Group, encouraging commitment from our shareholders, to decision makers, to industry, to our team and communities. This commitment is a significant feature in our entire business ethos, as in developing and producing clean energy options, we cannot singularly benefit nor work on it independently. We must work on a business philosophy that permeates that passion, performance and power into the entirety of our fabric.

The way we do business must be economically sustainable, creating wealth for our shareholders and value addition for the industry and our team. This must also intertwine us into being socially responsible to drive us to cascade our green energy policies, social sustainability and commitment to the environment. This cascade is not only to our operating sites, but also to the communities around us. It is only this unwavering focus that would trigger ultimate benefits to the planet, ensuring that it re-builds for itself a sustainable foundation which will support not only life, but the lifestyles we people on earth continue to pursue.



Unmet Demand

We cannot ignore the fact that sustainable energy solutions that utilise natural resources are insufficient to meet the current day demands.

About this Report

We are now embarking on our third Sustainability Report, which continues to articulate clearly, completely and comprehensively, all our decisions, impacts and actions taken to ensure that the overarching umbrella of sustainability runs through our organisation. When we first embarked on this project two years ago, we were determined to remain as transparent and accountable to our stakeholders as we could. This resulted in Vallibel Power Erathna's Sustainability Report winning the First Time Entrant Award at the ACCA Sustainability Reporting Awards for our very first report.

This spurred us to continue that clear focus, where the GRI standards and the triple bottom line became the underlying operating principles we infused in our day to day operations. We also continue to emphasise on the all encompassing culture of compliance that we have always espoused, where governance, ethics, principles and values form the bedrock upon which we function. This commitment has given us the impetus to strive for better standards, introduce best practices, be vigilant on monitoring and controls and have an open mindedness that will allow us to look at our weaknesses, be alert to threats and continue nurturing our strengths to exploit opportunities.

This report will give you an idea of what we have done in the last year, our achievements, our strategic decisions, our value addition and most of all the solutions we have introduced into the Country's quest for alternative clean energy solutions.

Our Story

This report will give you an idea of what we have done in the last year, our achievements, our strategic decisions, our value addition and most of all the solutions we have introduced into the country's quest for alternative clean energy solutions.

"We are now embarking on our third Sustainability Report, which continues to articulate clearly, completely and comprehensively, all our decisions, impacts and actions taken to ensure that the overarching umbrella of sustainability runs through our organisation."

Reporting Standards

This report gives in detail a comprehensive outlook on the way we do business and how we impact our stakeholders based on the Global Reporting Initiative guidelines to ensure a more transparent and accountable concept. While compiling this report, we have striven to ensure thoroughness and clarity, while maintaining absolute truthfulness. You will also observe that we have gone beyond diktats required of regulatory bodies and compliance standards to ensure that our sustainability initiatives are always above expectation.

We continue to be very cognisant of and strictly adhere to all regulatory mandates including those of the Central Environmental Authority and the Ministry of Power & Energy, while also adhering to regulations and guidelines laid down by accounting, governance, monitoring and controlling bodies.

The report covers the Company's performance and operations for the year upto March 31st 2014 and indicate, wherever possible, qualitative descriptions and quantitative metrics which will further augment our claims. Financial information is reported in SL Rupees.

Feedback

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

Please direct your comments to:
Vallibel Power Erathna PLC
27-2, East Tower, World Trade Center
Colombo 01
energy@vallibel.com

More information on our Company could also be obtained on
www.vallibel-hydro.com

Materiality Analysis

An overarching tenet in our reporting process is in identifying economic, social and environmental issues that will impact our stakeholders and the Company. Material issues which have a significant current or future impact are analysed on the available data and other information. The basis for this is arrived at by observing paradigms that exist and may emerge in the existing business and operating environment, monitoring stakeholder expectations and concerns through direct dialogue, feedback and other available communication channels, where stakeholder engagement is pursued.

This process also enables the Company to gain a comprehensive outlook on numerous dimensions that could impact our business, including repeat or recurring trends and the need for prioritisation. We are also made aware as a result, of the need to minimise or completely eliminate repeat occurrences of mistakes or threats wherever necessary. The need for materiality therefore is inherent in the way we do business, because as we strive to promote and understand the impact we have on our stakeholders. We will also champion our strategy, policy and decision making to ensure responsibility, transparency, accountability and sincerity of action.

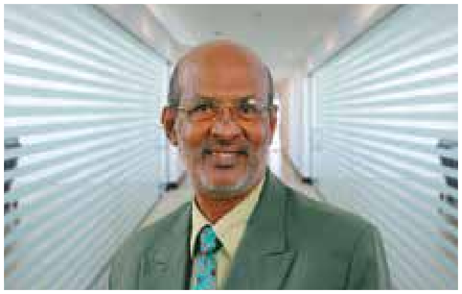
A Letter from the Executive Director

As we turn the page to begin a new chapter in the beginning of our second decade in operation, I'm forced to recollect the strongest feature that spurred us to venture into the business of energy solutions; the planet needs us! This also meant that our country needs us. We were seeing the emergence of various symptoms that were afflicting the planet's health, with natural disasters triggering drastic climate change. We were also seeing food security becoming crucial and the emergence of new diseases striking vulnerable populations. Each strike, brought the message home that much more emphatically, that we are taking much more out of the earth than putting back in.

With rapid development, including in Sri Lanka, there has emerged an even more demanding need for energy. Being an island, we are fortunate to have multiples of resources that can be converted into clean energy. Water is one such and from a global context, 20% of the world's electricity needs are fed by hydropower. Like in Sri Lanka, more than thirty other countries use hydropower as their main source of energy, with other countries, like those in Africa now pursuing hydropower as a cheaper means of obtaining electricity. I do remember a delegation from the Seychelles visiting the Vallibel Power Erathna plants some years ago, to study our model and hopefully replicate it in their country; such is the need for cleaner forms of energy.

The reason we ventured into hydropower therefore is really because Sri Lanka has plentiful water sources which had until then, for the most part, remained untapped. We harnessed that potential, with considerable investment and today, have a total of three mini hydropower plants in full operation, making us one of the largest private sector mini hydropower Company in the country. Our vision was and continues to be simple: To be a significant producer of clean energy for the sustainable economic development of Sri Lanka. We have not veered from that vision, given that every step of the way, we remained true to the ultimate sustainability practices of clean energy, optimising water resources, minimising solutions and as of this year, gaining tangible benefits to reduce the nation's carbon footprint. As you will find details in this report, our plants are now registered under the Clean Development Mechanism initiative, as well as being ISO certified in both management and environmental systems.

Another facet which retains our sustainability ethos is that we have always generated employment wherever we have a presence. Hence, each of our plants, encompass team members from the surrounding locale, which also helps us build healthy strong relationships with the communities around us. This relationship has been a two way process that has seen not only the communities gain economic upliftment, but also the development of community infrastructure, improvement in education and extracurricular activities as well as beneficial environmental initiatives cascading to the communities. In tandem with enhancing the green cover around our



Sri Lanka is positioning herself on a platform of aggressive development, which means her energy requirements will also be very demanding.

plants, we also encourage the communities to do the same, permeating eco-friendly messages, while also ensuring that our presence in those locations have zero negative impact on the surrounding environment. Our triple bottom line strategy therefore is well entrenched. The strategy is to pursue clean energy and we have begun that with our three plants, Erathna, Kiriwaneliya and Denawaka Ganga. However, we know there are bigger plans for us to pursue. Sri Lanka is positioning herself on a platform of aggressive development, which means her energy requirements will also be very demanding.

I do believe, we then have a huge responsibility. Pursuing energy initiatives that are eco-friendly would be a priority. Given our stringent focus on clean energy, we eschew the thought of increasing our dependence on fossil fuels or other forms of pollutant energy sources. Our pursuit is to tap into the plentiful available natural resources the island possesses and convert these into productive contributing energy sources, while maintaining a keen eye on the sustainability of those resources. This pursuit will now get wider, pushing us to focus on wind and sun, while also remaining vigilant of other options that may emerge in alternative clean energy solutions.

These ten years has seen us create a niche for ourselves in clean energy solutions. The strategy we have pursued therefore will continue to be broadly on these lines, although there are other facets which we will also continue to focus on. One such is making sure our business is more productive and efficient, while honing a team that will truly 'walk the talk' in clean energy solutions. Into this equation, we will continue with the strong fundamentals we already possess, the focus on quality and best practices, the visionary outlook and an unbridled need to keep the formula of Passion, Performance and Power well entrenched in everything we do.

This is the promise we make to our stakeholders as we now enter our second decade in operation. We will pursue every possible avenue and opportunity that emerges to develop alternative clean energy solutions for Sri Lanka, while continuing to add value to stakeholder expectations and creating both tangible and intangible wealth that will enable us to develop our nation into a sustainable eco-friendly one that will be a role model in the region.

L D Dickman
Executive Director/ GM

Sustainability Strategy

Ours is a simple and straightforward strategy:
We are focused to meet the aspirations of all our stakeholders by developing and establishing eco-friendly cost effective sustainable power solutions, with effective resource management, optimised operational efficiencies and acquisition of new and renewable energy opportunities.

We are committed to addressing sustainability challenges, that of balancing economic growth, social development and environmental conservation and protection to ensure that we leave a thriving planet earth for future generations.

We will in turn use these energy sources as the axis upon which development strategies will thrive and be driven forward. Keeping well aligned to the fact that eco-friendly energy options does have a cascading positive of ensuring a better quality of life for the people of this nation, our sustainable power solutions will surely be the key to empowerment of the people.

The architects of our Sustainability Strategy are the Company's top policy makers, the Chairman and Board of Directors who task top management and our professional team with driving the strategy. Into this, we also imbue a culture that relentlessly pursues our vision, reaffirming our commitment to the fundamentals of sustainability.

Stakeholder Engagement and Profile

Ranging from government, to top decision makers, industry stewards, shareholders, team members, valued business partners and communities, our stakeholder profiles are diverse. This diversity hence requires a cohesive and constant engagement. However, engagement alone is insufficient, and we therefore go one step further, to ensure proactive interaction. We also may work sometimes in a challenging and ambivalent operating environment, which means we have to be well equipped to respond to our stakeholders speedily, accountably and with transparency. We must also be very cognisant of the emerging and transforming requirements, aspirations and expectations of each of our stakeholder segments. This means that we must be mindful of their concerns, suggest solutions and be ready with speedy workable responses. Being vigilant in identifying material issues while benchmarking our performance against their expectations also remain priorities. Given this constant engagement process, we have also been able to grasp opportunities that may otherwise have not been apparent.

We engage our stakeholders through numerous avenues including internal and external one-on-one and group meetings and briefings, annual general meetings, teleconferences or email using Intranet whenever necessary, community meetings, speaking at focus groups and via publications. However, seamless dialogue processes are challenging and in some cases impractical. Having acknowledged this, we are now mooting a strategy that would enable us to listen and respond more productively to concerns and issues that our stakeholders may have. This has helped us to address issues more pragmatically in better response time.

Projects in operation

The core of Vallibel Power is hydropower – a recognised renewable resource for the generation of electricity. Our vision is to be a significant producer of clean energy for the sustainable economic development of Sri Lanka and while keeping that on the horizon, conserving nature and recognising the importance of clean air. Every unit of electricity generated by us will result in the reduction of CO2 emissions, which has now become tangible with the CDM registration this year of our Kiriwaneliya and Denawaka Ganga Plants and the ISO 9001:2008 and 14001:2004 certifications of our plants as well.


SGS

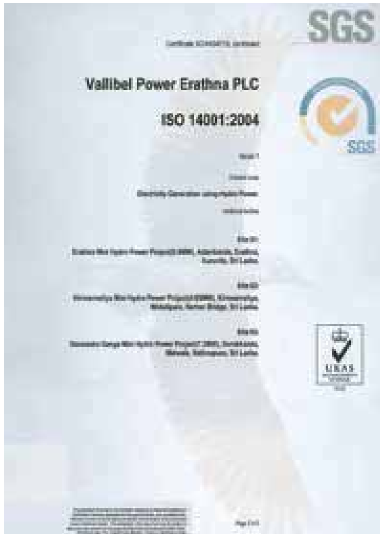
Vallibel Power Erathna PLC

ISO 14001:2004

The Erathna mini hydropower plant is a run-of-the-river hydro plant located in Rathnapura using water from the Kuru Ganga. We generate approximately 40 GWh of energy each year, supporting the state power generation utility in improving the energy mix and providing for the sustainable development of the national energy sector.

State-of-the-art technology powered by Voith Siemens machinery make up our solid infrastructure comprising two turbines with an installed capacity of 5.15 MWs each and two generators with a capacity of 5.6 MW each. We also adhere strictly to the Government mandates detailed by the Central Environmental Authority and the Ministry of Power & Energy in complying to policies, regulations and standards.

Denawaka Ganga mini hydropower project, also a run-of-river mini hydropower project has an installed capacity of 7.2 MW and was commissioned in February 2012. Located in Malwala, in the Rathnapura Divisional Secretariat of the Rathnapura District, the plant uses the water flow of the Denawaka Ganga, a main tributary of the Kalu Ganga. The plant continues to generate in excess of 25 GWh, seeing a reduction of 16,492 tonnes of CO2 this year. The project comprises a diversion weir, headrace channel, forebay tank, penstocks, powerhouse, tailrace and switchyard.


SGS

Vallibel Power Erathna PLC

ISO 14001:2004

The Kiriwaneliya mini hydropower project with its installed capacity of 4.65 MW and expected power generation of 16 GWh, also runs on the concept of run-of-river. Commissioned in December 2011, the project utilises water from the Maskeli Oya to generate electricity, which is delivered to the Ceylon Electricity Board's National Grid. This year, the plant increased its generation capacity by 61.6% to over 19 million kWh and emission reduction is 11,967 tonnes of CO2. Located in the Kiriwaneliya village just downstream of the eighth highest water fall in Sri Lanka, the Laxapana Falls in the Nuwara Eliya District of the Central Province, this project utilises 17 square kilometers of the catchment area in Maskeliya Oya and the flow of several feeder streams, which have a continuous flow even during the dry periods of the year.

The one meter high Weir was constructed on a very narrow section of the river with its bed rock earth. Since the river water comprises a heavy concentration of silt and trash, special silt mitigation action was introduced closer to the intake, using the existing ground profile and with minimum disturbance to the environment. The filtered water is diverted to the Forebay through a 300 m long compact designed concrete channel along the left bank of the river. This project has a long penstock line of 1,690 m to develop 200m gross head for electricity generation and ends up in the power house which was built according to an environment friendly design. With the relatively high head and available hydrology data, using state of the art technology, we manufactured two 4jet vertical pelton turbines which have now been installed.

Both these projects are developed through Country Energy (Pvt) Limited, a subsidiary of Vallibel Power Erathna PLC.

Promise in 2012/13	Delivery in 2013/14
81 GWh to National Grid	89.3 GWh contributed to National Grid
Gain ISO 9001:2008	Completed and certified
Gain ISO 14001:2004	Completed and certified
Register for CDM	Registered for CDM

Economic Highlights

On a declaration made in the Annual Report of the Central Bank of Sri Lanka 2013, generation of power through Non-Conventional Renewable Energy (NCRE) sources including mini hydropower in total was 1,171 GWh that year. It is most notable therefore, that our three plants contributed an impressive 91.1 GWh of this amount to the national grid during the 2013 calendar year, amounting to 7.8% of the total NCRE to the nation. In our Sustainability Report last year, we promised to deliver a total of 81 GWh to the National Grid, which this year we have well exceeded.

With all three plants now fully operational and having taken full advantage of good weather conditions, the Group was able to garner all the positives that would accrue to post a good performance. Having contributed 89,381,797 kWh to the national grid, the fact that we increased our capacity considerably also means that a significant amount of foreign exchange was saved for the country, in lieu of expenditure that may have accrued on importing fossil fuels.

Quantitatively, we performed exceptionally well this year, notching the milestone of exceeding Rs. 1 Bn in Group Revenue and the Erathna Plant posting the Revenue of Rs. 519.7 Mn. Our Profit After Tax also set itself on an impressive upward trajectory of 127% of Rs.667.1 Mn, while EBITDA stands at Rs. 919 Mn, all of which have now firmly placed us on a very sustainable and stable financial foundation to look ahead. It is apt therefore that our shareholders and the treasury were well endowed, given our focus on creating wealth as part of our triple bottom line strategy. Shareholders' funds increased to Rs. 1,998 Mn, while the year had a total dividend payout of Rs. 448.2 Mn which is an impressive increase over last year's 186.7 Mn. The taxation contribution to the treasury was Rs. 9.2 Mn.

Group Revenue exceeded SLR
1 Bn

SLR 667 Mn
in Group Net Earnings

SLR 15.3 Mn
in Group Capital Expenditure

SLR 448.2 Mn
paid as Dividends

The latter is a payment which we feel extremely strongly about as we remain well aware that our contribution to the treasury adds to the funds utilised for national development and infrastructure projects, including those in the energy sector.

As mentioned above in this report, we continue to inculcate a culture that goes beyond compliance. Our tenets of governance and compliance have driven us to ensure that all information published for stakeholder perusal is timely, accurate and comprehensive, with no ambiguity. Our governance practices go beyond the rhetoric and into a milieu where we stringently comply with regulations and diktats over and above the requirement. This saw us continue to shine at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka, where we were proud to be presented a Silver Award in the Power & Energy Sector.

Quarterly Financial Statements continue to be published well within the stipulated timeframes, while the Company website is also a comprehensive channel that presents the latest quantitative and qualitative information to interested stakeholders. Wherever necessary, we use mass media channels for maximum coverage of new initiatives, new ventures and new developments. Annual General Meetings are forums designed for maximum participation in which the Annual Report and Financial Statements are used to disseminate information to stakeholders on both present and future plans, progress and performance.

Commitment to Quality

This year, we notched many a milestone in our commitment to quality. A plan we had made to get the stringent ISO certifications for our plants is now achieved. We are now very proud that we completed all certification procedures well on target to gain both ISO 9001:2008 Management System Certification and ISO 14001:2004 Environmental System Certification, both of which reiterate our commitment to quality and the environment.

Both systems imbue a holistic strategic framework to our quality and environmental strategy, enabling us to benchmark ourselves against international standards, while also infusing systems and processes that fuel productivity and efficiency. We are able to look inward, at ourselves, identify our weaknesses, challenges and threats, while

Quality & 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 ISO 9001:2008 and ISO 14001:2004 International Standards, complying with all applicable legislation and other environmental requirements related to us, setting quality and environmental objectives for processes of our organisation and reviewing achievement of those objectives at periodic intervals for continual improvement.

readying for emerging opportunities. The focus on environmental management adds fillip to our green vision, the ethos upon which the entire organisation is built upon.

The quality certifications encompass both Vallibel Power Erathna PLC and its Subsidiary, Country Energy (Pvt) Ltd, which were certified by SGS United Kingdom Ltd. The systems now permeate across all three power plants, namely Erathna, Kiriwaneliya and Denawaka Ganga.

Environmental Highlights

Global warming is no longer a myth. It is very much a reality and an actuality that we cannot ignore. Long before the prospect of alternative energy solutions gained popularity in Sri Lanka, we at Vallibel Power Erathna decided to pursue the options that we could garner from the resources around us. It was this that spurred us also to observe the negative impacts that ensue, due to uninformed or ill-informed decision making, carelessness and general apathy to a global problem that most hoped will be swept under. Unfortunately, the problem persists and in bigger proportions and hence we, as a responsible corporate steward, believe that we must take on the mantle to promote a cleaner greener environment.

While our entire foundation is based on environmental sustainability, we are also pursuing other avenues to reduce emissions and permeate the message of environmental awareness. Each of our strategies and thereby decisions, interventions and engagements with stakeholders is designed to minimise negative environmental impact and reduce carbon footprint. This extends to prudent management of resources, not only for the hydro-resources we use for our business, but also in our day to day operations, where electricity conservation, paper recycling and reuse and increasing forest cover is ingrained into our work psyche.

We are also well aware of the economic advantages that accrue in managing our environment prudently. The nation saves foreign exchange which would otherwise be expended on importing fuel requirements and good waste management and cost saving initiatives prop up the business bottom line, enabling us to manage our profitability markers more effectively and sustainably. This has seen us infuse ISO 14001:2004 EMS into our environmental strategy, imbue an Quality and Environment Policy (as detailed elsewhere in this report) and undergo the stringent compliance requirements to be successfully registered as CDM projects. Hence, compared to last year, we have seen total CO2 emissions reduce by 55,862 tonnes, compared to 44,987 tonnes in 2012/13, while we have generated an impressive 89.3 GWh of emission free electricity, well above the 71.9 GWh generation of last year.

We do believe that massive potential exists within Sri Lanka for the harnessing and harvesting of natural resources that could be used as energy sources, but used sustainably. This potential, which hitherto has not been tapped will be the next quest being embarked upon by VPEL, where the very ethos of environmental sustainability, which is ingrained into our vision, will be the driver of passion, performance, power.

55,862 MT
Reduction in CO2 Emissions

89.3 GWh
of Emission Free Power

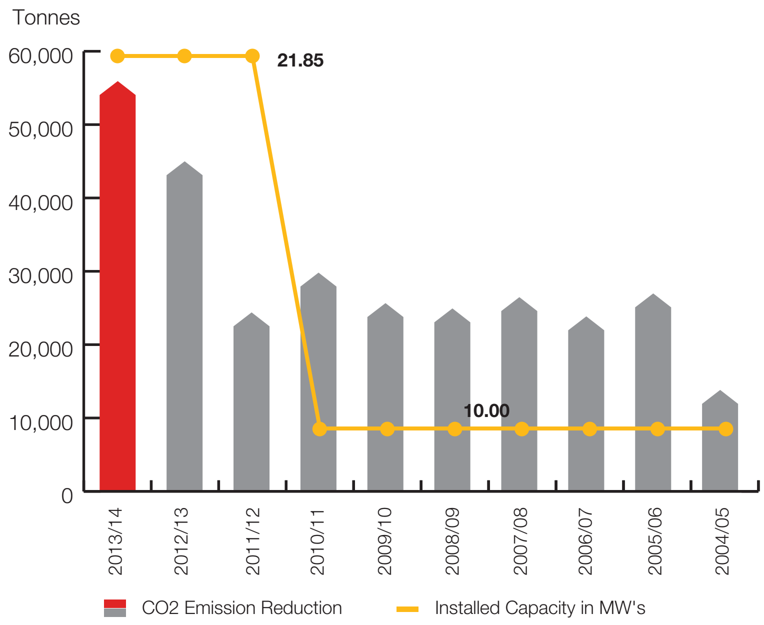
110 Trees planted to increase forest cover this year

Bronze Award for Kiriwaneliya Project at National Green Awards 2013/14

Zero Fuel Emissions into river waters

Zero Lost Workday Case Accidents

CO2 Emission Reduction - Group



Green Planet

We have seen total CO_2 emissions reduce by 55,862 tonnes, compared to 44,987 tonnes in 2012/13.

Environmental Compliance

Given the values we operate with, environmental sustainability is the backbone that keeps VPEL well focused on our vision. To achieve our vision, we have already set in motion a number of initiatives that will drive us forward, namely quality certifications, CDM registration and a stringent focus on compliance. However, to gain these achievements, we had to have imperative fundamentals in place. This meant that each of our plants had to imbue a green ethos, one that ran through its entirety. The sound environmental platforms that we constructed our plants on are therefore extremely sustainable. From each stage of design, construction and implementation, to the point of sourcing materials and equipment, we followed an unwavering commitment to environmental sustainability.

But we did not stop there. Our message of environmental sustainability was permeated to our valued business partners, including our suppliers who had to align and comply to the stringent environmental standards we practiced and followed diligently. This also meant that in turn, we were compelling these stakeholders to reduce their carbon footprint as well, while reducing their emissions.

Each of our projects comply with all regulations and mandates stipulated by the Central Environmental Authority, the Ministry of Power & Energy, ISO specifications and CDM requirements. We also source our machinery on internationally stipulated guidelines and practice to green standards. The machinery in use has no fuel input in any form, emitting zero emissions therefore into the environment. We have also installed powerhouses and underground tanks beneath the transformers to collect and prevent oil leaks to eliminate any leakages into the river. Each of these are constructed to international standards in environmentally friendly specifications.

We take our compliance initiatives that much further by striking up proactive engagement with the communities who reside around the plants. These communities are educated on environmental awareness, preservation and conservation, prompting them to be more responsible in their environmental consciousness, while adding those tangible and intangible benefits into reducing carbon footprint.

Clean Development Mechanism

Given that we successfully registered Country Energy (Pvt) Limited, VPEL's subsidiary for CDM, we are now able to obtain carbon credits for emission reduction due to our eco-friendly power generation and other green initiatives we have implemented. The Clean Development Mechanism (CDM) is articulated in Article 12 of the Kyoto Protocol and allows a country with an emission-reduction or emission-limitation commitment under the Kyoto Protocol to implement an emission-reduction project in developing countries. Such projects can earn saleable certified emission reduction (CER) credits, each equivalent to one tonne of CO_2, which can be counted towards meeting Kyoto targets. The aim of introducing CDM is to stimulate sustainable development and emission reductions, while giving nations some flexibility to meet their emission reduction or limitation targets.

Classified within Energy Industries under the category of Renewable/Non-Renewable sources, our Kiriwaneliya mini hydropower projects has already gained a reduction of 10,636 tonnes of CO_2 equivalent per annum as stated in the UNFCCC website since registration. Similarly, it states that the Denawaka Ganga mini hydropower project has gained a reduction of 13,573 tonnes CO_2 equivalent. This then reiterates that through our far thinking initiative, CEPL has obtained carbon credits for emission reduction for Sri Lanka, as a country, due to our environmentally friendly power generation.

We have also continued our initiative in increasing forest cover, having added 110 trees around the rivers that we source our waters from this year. While this adds to our initiatives in reducing CO_2 emissions, we are also adding to the aesthetics of the surrounding locale. The total number of trees planted to date has now increased to 310.

Water Conservation

Upon the harnessing of the power of its flow, the water that feeds our turbines is released once again to its natural course.

Social Sustainability

We remain very committed to producing clean energy options that would serve the high demand needs of the country's emerging vision but we are also aware, that these options must be collectively enjoyed by all. In using the resources for alternative energy sources, we remain extremely cognisant that the communities around us must also be benefited. As responsible corporate stewards, we must have respect for our communities, enjoy their interventions and engagement and spur initiatives that will uplift and empower them to contribute equally to national development causes. To build a sustainable business, our team and our community are integral to that success and this we align our focus to and will always retain, in whatever decisions we make to fuel our long term strategies.

Health & Safety Policy

We have always believed that a safe work environment fuels above par performance, where productivity will always move upwards and efficiencies excel. Health and safety of our team members also prompts a good work-life balance, grounding and a fundamental premise that we care for our team. The strong safety culture we permeate is well entrenched into the global accepted best practices we imbue into our working environment. We are strongly committed to:

- Providing and maintaining a safe and healthy environment including safe systems of work for our employees and non-Company personnel as well within the Company premises.
- Closely monitoring and implementing the necessary steps to minimise and eliminate adverse impacts of our activities on the physical environment under its control.
- Analysing and evaluating occupational health and safety hazards prompted due to various activities conducted and initiating actions to mitigate the hazards.
- Nurturing a culture of prevention in safety.
- Complying with all prevalent national laws, regulations, mandates and guidelines pertaining to environmental health and safety and aligning them to our business objectives.
- Establishing procedures to assess and review the environmental health and safety impact of present and future activities.
- Seeking continuous improvement of our work environment and physical environment through conformance to a clearly defined set of Company objectives and targets, through proactive and cost effective measures.

As policy and now an ingrained practice, interactive Fire Safety Training Programmes are conducted periodically at all sites, which includes fire safety theory, fire drill demonstration and evacuation.

Our Commitment

We remain very committed to producing clean energy options that would serve the high demand needs of the country's emerging vision but we are also aware, that these options must be collectively enjoyed by all.

Our Motivated Team

Our professional team remains integral to our success. It is they who infuse the passion and performance for us to power our business. We continue to stringently apply our policy of employment from within the communities in which our plants are located, believing strongly that communities need to be uplifted through sustainable empowerment to contribute to the macro panorama of the economy. Our team is a highly committed one, having bought into our vision and gained ownership to everything we do in achieving that vision.

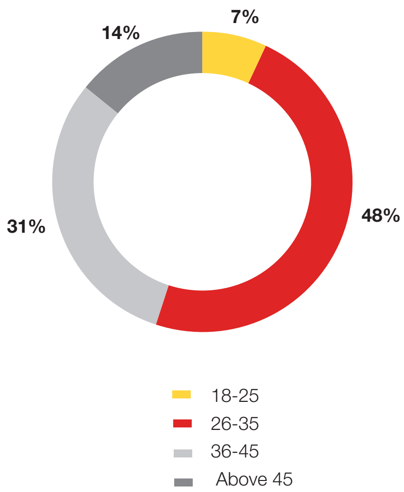
We have inculcated an environment of VPEL being a great place to work, where our work culture incorporates individual performance excellence as a means for team members to achieve their personal best. We value commitment, integrity, creativity, innovation, agility, flexibility and individual development as a means for collective improvement, which cascades to collective performance and a tangible quantitative reflection in our triple bottom line. Our corporate values, brand core and philosophy of green clean energy sources buttress our team to move beyond boundaries, while remaining focused on a singular vision of making a difference.

The 3Ps, which drive us, Passion, Performance and Power are surely seen in the results we have achieved this year, where goals have been exceeded and targets achieved. This is a team that values work ethic, principles and honesty, where their firm and unwavering belief in our vision and that clean energy solutions are the rule, rather than the exception. It is this ownership in our vision that has brought in the extraordinary results that we post in this annual report today and remain confident, will be built upon for a strong and sustainable entity.

Working in the energy industry requires highly skilled individuals and although we do have a comprehensive recruitment procedure in place, where appropriately skilled individuals are placed in the apt vacancy, we also know that our team must be continually trained and developed. Our knowledge gaining culture extends to team members being encouraged to pursue higher academic studies or programmes related to upgrade their technical knowledge. We urge our team to think on different dimensions, where innovation becomes a priority and where we continually demand professionalism in every sphere. There's a definite need to continually raise the bar, given the sights we have set for ourselves, which therefore must spur our team to reach higher and accomplish more.

We practice a non-discriminatory policy in all our HR strategies and this includes age, religion, culture, gender and ability. In an age analysis, the largest age group within the organisation is in the 26 to 35 years of age category, comprising 53, while the 36 to 45, has 34. This also brings to light that we have a significant number of young people who undoubtedly infuse learning capacity and new thinking into the Company's strategy and operations. The largest 26 to 35 age group is recruited totally from the surrounding communities, heralding well empowered communities who have now become contributing members to the national economy. Given our emphasis on T&D, these mentioned age groups are on a constant axis of knowledge gain, which augurs well for us having a well trained professional team.

Employee Age Analysis



Recruitment

Our HR Policy is constructed on a platform of meritocracy and equality, where we do not condone child labour or under-age labour, nor do we discriminate on class, gender, ethnicity, caste, religion, culture or age. This policy extends to our valued business partners, which in the event of non-adherence or diversion, a streamlined engagement process comes into play. Stakeholders are reiterated and re-familiarised with our policy and further awareness created. In the event the discriminatory practices continue, we do not associate with these stakeholders in any form.

We have a well entrenched succession plan that has been designed and constructed on absolute meritocracy. Internal advertisements are publicised for any positions falling vacant, while performance reviews help in selecting the right person for the right job. Given that both our recruitment and succession plan is extremely transparent, team members themselves have an inherent loyalty that is reflected in their high productivity and excellent performance, which echoes in the Company's ultimate bottom line.

Maintaining gender equality is challenging given the nature of our industry. Male team members are better suited to the demands made from the job. However, in an instance where we do have a qualified female who can fulfill the requirements of the job, she will always be recruited. We do continue to employ more females in areas that do not require exhaustive or demanding physical work or difficult timeframes, which conform to community cultures and accepted among the communities we operate in.

This year, the Company added a new policy into the recruitment framework. A policy decision was taken at management level and supported by the Board to recruit at least one differently abled individual for each site from the surrounding localities where our plants are situated. This further cements our pledge to be a non-discriminatory employer, well aware of special needs and abilities of people, committed to empower all segments of the community.

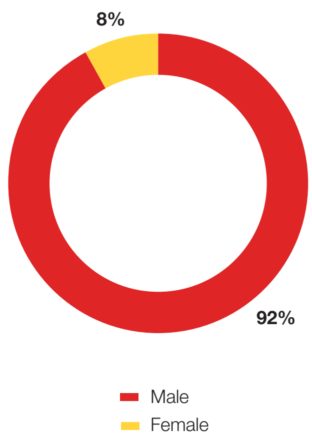
Training and Development

With our industry being a constantly evolving one, it is imperative that we train and develop our team to meet the rising challenges of an evolving industry. We are also committed to honing a team that will flourish in the knowledge gaining culture we espouse and this therefore pushes us to seek training and development initiatives that will continually push boundaries. It is truly heartening to note that almost all our team are professionally or academically qualified, while some have skill qualifications, while continuing to add to their knowledge reservoir. We in turn, map their HR development path to ensure they gain maximum satisfaction from their careers with us, challenging them to open new doors and seek new horizons.

Knowledge and Skills

Recruits from surrounding communities undergo a mandatory technical course conducted by the Technical Training School, to ensure they possess apt levels of knowledge and skills.

Employee Gender Analysis



Being a very technical industry, most of our T&D programmes are on-the-job, supported by workshops and seminars for specialised competencies. Similarly, we encourage our team to pursue knowledge avenues that will add to already accrued skills and competencies. This they do by pursuing higher studies, professional, academic or specialised, which aid them in moving upwards on their career ladder. The Company reimburses part of these educational expenses, while also senior team members are recommended to attend overseas training programmes.

A comprehensive orientation is conducted for new recruits, as laid down in our HR guidelines. Recruits from surrounding communities undergo a mandatory technical course conducted by the Technical Training School, to ensure they possess apt levels of knowledge and skills. Head office team members are trained in management skills, accounting and leadership, while there is an overall emphasis on productivity improvement and effective cost management.

T&D Programmes

- Fire fighting training programme for Kiriwaneliya and Denawaka Ganga Site Employees conducted on Emergency Response Plan.
- Quality and Environmental Objectives, Targets and Improvements conducted on the three sites by Company ISO Consultants.
- Awareness programme conducted for all site employees on Quality and Environmental Management Systems implemented on the three sites.
- Supplies & Materials Management Training Programme conducted by the National Institute of Business Management for procurement personnel.
- Microsoft Excel Workshop conducted by The Chartered Institute of Management Accountants for Head Office Staff.

Team Building Activities

It was the first time in Vallibel Power history that the Company organised a soft ball cricket tournament with the objective of enhancing employee's mental fitness as well as physical health in group activities and also to build up team spirit. It was a very successful event with the participation of six full teams representing Vallibel Power Erathna, its subsidiaries along with other sister companies of Vallibel. The event was held in the Municipal Council grounds in Eheliyagoda Township on 30th November 2013 with the well organising arranged by Head Office staff.

The chief guest for the event was the present General Manager/Executive Director of VPEL. All other senior management and rest of the staff was present the whole day to encourage players who ranged from senior management level to unskilled labourers of the Company.

The champions of the tournament were Denawaka Ganga team while the Head Office team was the runners up. Both the teams were awarded with trophies and price rewards. The best bowler and best batsman of the tournament were also rewarded.

It was a memorable day for the all staff and their family members who were present and enjoyed the event to the maximum and appreciated this initiative of the present General Manager/Executive Director came up with the idea of having this event.

Reward and Remuneration

A healthy work life balance can only be encouraged if it is a top down approach and a commitment to ensure that this balance prevails. At VPEL, we do not veer from this balance, going a step further in requesting our team members to have open dialogue with the management with any concerns or issues that can enhance the work-life balance we already possess. We have seen tangible results emanating from this emphasis, where higher productivity, loyalty and commitment to the workplace, in addition to enhanced teamwork is observed. We have also seen our team members take ownership of our vision and instil a sense of belonging into the organisation.

However, work life balance is also about tangible rewards. While remuneration is based on industry norms and statutory benefits are mandatory, we add value to this through incentives for good performance and initiative for leadership, innovation and decision making. A well entrenched Performance Evaluation forms the basis for annual assessments, upon which remuneration is qualified.

The following are value added benefits extended to our team:

- Staff loans including assistance for personal requirements such as weddings and funerals.
- A comprehensive medical scheme.
- Snacks and tea for shift workers.
- Accommodation for site employees who work away from home.
- Laundry facilities.

Believing in our Community

As has been constantly re-emphasised in this Sustainability Report and elsewhere in this report, we believe strongly that our communities remain inextricably intertwined to the success of our business. Hence this has spurred us to interact more with the communities residing in areas surrounding our plants, having a constant dialogue with them to learn more about their needs. We have a commitment to empower our communities and even though, employment to our plants is generated through these communities, we want our intervention to reach beyond that. This has led us to be proactive in various projects within those communities, where we can make a difference to their lives, while also uplifting their lives and lifestyles both economically and socially.

Our community initiatives are worked on two platforms: Creating Knowledge Bases and Developing Infrastructure, both worked on in the three locations in which our projects are based.

Our Team

We believe that our team members are a singular nucleus, a family that must be united by a common bond of understanding, tolerance and camaraderie. We encourage the celebrations of all major religious festivals, organise annual Company outings and other ancillary events that all inculcate team spirit and a sense of unity.

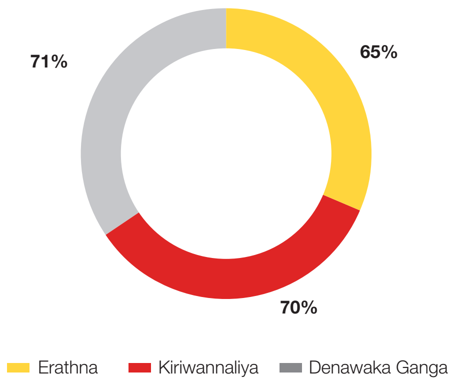
Creating Knowledge Bases

As mentioned before, our comprehensive recruitment policy delves into the communities, identifying potential candidates from our sites and drawing them into our team. The value addition that accrues from this relationship is that youth not only develop their knowledge base, but uplift skills and competencies, while contributing both quantitatively and qualitatively to their local economies as they do not move away from their home town. From our entire team, about 70% are employed from the surrounding communities.

Note: Definition of Local

Local refers to individuals either born in or who have the legal right to reside indefinitely (e.g., naturalised citizens or permanent visa holders) in the same geographic market as the operation.

Local Staff



In addition, we are keen to develop holistic individuals from within the community, from a very young age. The Vidooka Art Competition was held for the second year, enabling team members' children and those residing in the Kiriwaneliya Norton Bridge villages to participate. 220 budding young artists participated ranging from the ages of 4 to 15 with renowned artist, Sybil Wettasinghe judging the competition.

With some of the schools in these communities requiring basic dynamics for better facilities for the children in furthering their education, the Company sponsored a chess coach to train the enthusiastic students of Erathna Maha Vidyalaya, as well as sponsored the training of the Throwball team of the school. We also presented a laptop to a student studying medicine to help her collate further knowledge in her pursuance of a medical career, while presenting a cash donation to the Galaboda Meegastenna School.

In addition, believing strongly in the power of reading as a conduit to knowledge gain, a donation was presented to the KPMG Foundation Library Project in the Northern and Eastern Province.

We have also been involved in industry initiatives including partnering the Sustainable Energy Authority at their meetings, the CEA and the Ginigathhena CEB. Assisting numerous events within the communities including the Kuruwita DS Office Sports Meet and the conduct of a blood donation camp, we partnered the Rathnapura Pradeshiya Sabha in a seminar it conducted and assisted with the CEB Welfare Society cricket match and the EDEX Expo Exhibition.

In encouraging religious harmony and tolerance, the Company continues its annual work in cleaning the Sri Pada Road for the tenth consecutive year, contributing both funding and manpower to ensure that devotees are able to travel on the pilgrimage in a clean and serene environment.

Infrastructure Development

While developing infrastructure is a macro vision within the national development agenda, it is surely the responsibility of us corporate stewards, to develop infrastructure in the surrounding areas that we function in, relieving that onus from the state. For ten years, VPEL has been developing infrastructure in the localities of our three plants and this year was no different. Our communities have benefited immensely from our proactive efforts, which sometimes may have been small in comparison to the larger development plan, but have made a difference in the lives of the communities.

Having constructed the Atikehalpola causeway bridge last year which enabled the villagers to safely cross the Denawaka River, this year we took this initiative further by constructing a wind wall for this bridge. We also established a drinking water supply system to the Paladeniya Vidyalaya, whose students had no drinking water with a similar exercise echoed for the Meegastenna Village in Denawaka Ganga. The Galaboda Meegastenna Community Hall was renovated as well.

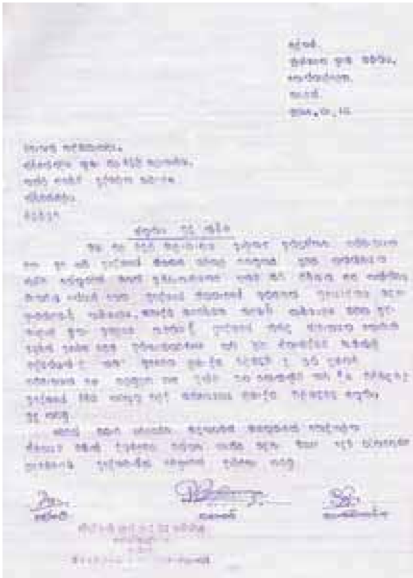
Testimonies:

“By assisting our throw-ball team with equipment and training, the Company has helped not only in nurturing enthusiasm among students for the game, but also seen a host of awards being presented to the school. We are most grateful to you for continuing to take a keen interest in our school activities.”
Y H P S Kavisigamuwa, Principal, Erathna Maha Vidyalaya.

“There has been an immense amount of support extended to the Erathna Sports Club from the day the Company began operating in Erathna. I’m also personally aware that the Company has been committed to developing the Erathna village. It is the Company that helped save my life by enabling me to have life saving surgery for which I’m most thankful for.”
G Y Ajith Kulatunga, President, United Sports Club, Erathna.

“While thanking the Company for the donation towards our school’s sports meet, I’m also most appreciative of the continued support it extends each year for our activities.”
K P Sumanathilake, Principal, Kiriwaneliya Vidyalaya.

“While your plant is situated adjacent to one of the most under-developed and economically challenged villages in the country, we are most grateful that the Company has continued to develop the much necessary infrastructure for the community to be able to enjoy living in this village.”
Secretary, Nissanka Grama Society, Koththallena, Hatton.



Global Reporting Initiatives

GRI Index	GRI Definition	Reference in the Report/ Description	Page/s of Reference
1.0	Strategy and Analysis		
1.1	Statement from the most senior decision-maker of the organisation	Chairman's Review	10 to 15
1.2	Description of key impacts, risks and opportunities	Management Discussion & Analysis/ Risk Management	28 to 35 & 67
2.0	Organisational Profile		
2.1	Name of the organisation	Corporate Information	Inner Back Cover
2.2	Primary brands, products and/or services	Corporate Information	Inner Back Cover
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures	Corporate Information/ Project Details	Inner Back Cover & 6
2.4	Location of organisation's headquarters	Corporate Information	Inner Back Cover
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	No countries other than Sri Lanka	NA
2.6	Nature of ownership and legal form	Corporate Information	Inner Back Cover
2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	None	NA
2.8	Scale of the reporting organisation	Project Details	6
2.9	Significant changes during the reporting period regarding size, structure or ownership	None	NA
2.10	Awards received in the reporting period	Sustainability Report	35
3.0	Report Parameters		
3.1	Reporting period for information provided	Sustainability Report	40
3.2	Date of most recent previous Report	31 March 2013	NA
3.3	Reporting cycle	Once a year	NA
3.4	Contact point for questions regarding the report or its contents	Sustainability Report	40
3.5	Process for defining report content	Sustainability Report	39
3.6	Boundary of the Report	Sustainability Report	40
3.7	Specific limitations on the scope or boundary of the Report	Sustainability Report	39 & 40

GRI Index	GRI Definition	Reference in the Report/ Description	Page/s of Reference
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations	Sustainability Report/ Financial Statements	38 to 57 & 84 to 124
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the Report	Financial Statements (Used simple statistical calculations)	84 to 124
3.10	Explanation of the effect of any restatements of information provided in earlier Reports	Financial Statements	84 to 124
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Financial Statements	84 to 124
3.12	Table identifying the location of the standard disclosures in the Report	GRI Index	58 to 66
3.13	Policy and current practice with regard to seeking external assurance for the Report	None at present	NA
4.0	Governance, Commitments and Engagement		
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Corporate Governance	68 to 71
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Corporate Governance	68 to 71
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	Corporate Governance	68 to 71
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Corporate Governance	68 to 71
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements), and the organisation's performance (including social and environmental performance)	Not yet estimated	NA
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Not yet in process	NA
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics	Corporate Governance	68 to 71

Global Reporting Initiatives

GRI Index	GRI Definition	Reference in the Report/ Description	Page/s of Reference
4.8	Internally-developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation	Vision, Mission & Objectives Statement and Sustainability Report	Front Inner Cover & 38 to 57
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities and adherence or compliance with internationally agreed standards, codes of conduct and principles	Chairman's Message	10 to 15
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	Not yet in process	NA
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Risk Management	67
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses	Sustainability Report	38 to 57
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation	SHPASL & Ceylon Chamber of Commerce	NA
4.14	List of stakeholder groups engaged by the organisation.	Sustainability Report	44
4.15	Basis for identification and selection of stakeholders with whom to engage.	Sustainability Report	44
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Sustainability Report	44
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting.	Sustainability Report	44

Category	GRI Reference	GRI Definition	Reference in the Report/ Description	Page/s of Reference
Economic Performance				
Economic Performance	EC 1	Direct economic value generated and distributed, including revenues, operating cost, employee compensation, donations and other community investments, retained earnings, and payments to capital provider and Governments	Statement of Value Addition	125
	EC 2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Risk Management	67
	EC 3	Coverage of the organisation's defined benefit plan obligations	Financial Statement	101 & 117
	EC 4	Significant financial assistance received from Government	None	NA
Market Presence	EC 5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Comparable with Industry Level	NA
	EC 6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	None	NA
	EC 7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Sustainability Report	56
Indirect Economic Impacts	EC 8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	Sustainability Report	57
	EC 9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Management Discussion & Analysis	29 to 32
Environment Management				
Materials	EN 1	Materials used by weight or volume	None	NA
	EN 2	Percentage of materials used that are recycled input materials	None	NA
Energy	EN 3	Direct energy consumption by primary energy source	None	NA
	EN 4	Indirect energy consumption by primary source	Not reported	NA
	EN 5	Energy saved due to conservation and efficiency improvements	None	NA
	EN 6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements as a result of these initiatives	None	NA
	EN 7	Initiatives to reduce indirect energy consumption and reductions achieved	None	NA

Global Reporting Initiatives

Category	GRI Reference	GRI Definition	Reference in the Report/ Description	Page/s of Reference
Water	EN 8	Total water withdrawal by source	Sustainability Report	50
	EN 9	Water sources significantly affected by withdrawal of water	Not Reported	NA
	EN 10	Percentage and total volume of water recycled and reused	None	NA
Bio Diversity	EN 11	Location and size of land owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Annual Report of The Board of Directors on The Affairs of The Company- Land Holdings	75
	EN 12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Sustainability Report	50
	EN 13	Habitats protected or restored	Sustainability Report	47
	EN 14	Strategies, current actions and future plans for managing impacts on biodiversity	Sustainability Report	47
	EN 15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	None	NA
Emissions, Effluents and Waste	EN 16	Total direct and indirect greenhouse gas emissions by weight	Sustainability Report	50
	EN 17	Other relevant indirect greenhouse gas emissions by weight	Sustainability Report	50
	EN 18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Sustainability Report	50
	EN 19	Emissions of ozone-depleting substances by weight	None	NA
	EN 20	NOx, SOx, and other significant air emissions by type and weight	None	NA
	EN 21	Total water discharge by quality and destination	Not reported	NA
	EN 22	Total weight of waste by type and disposal method	Not reported	NA
	EN 23	Total number and volume of significant spills	Not reported	NA
	EN 24	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally	Not reported	NA
	EN 25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	Not reported	NA

Category	GRI Reference	GRI Definition	Reference in the Report/ Description	Page/s of Reference
Products and Services	EN 26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Sustainability Report	38 to 57
	EN 27	Percentage of products sold and their packaging materials that are reclaimed by category	None	NA
Compliance	EN 28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	NA
Transport	EN 29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce	None	NA
Overall	EN 30	Total environmental protection expenditures and investments by type	Not reported	NA
Social Labour Practices and Decent Work				
Employment	LA 1	Total workforce by employment type, employment contract and region	Sustainability Report	52
	LA 2	Total number and rate of employee turnover by age group, gender and region	Not reported	NA
	LA 3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Sustainability Report	55
Labour/ Management Relations	LA 4	Percentage of employees covered by collective bargaining agreements	None	NA
	LA 5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	None	NA
Occupational Health and Safety	LA 6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	Sustainability Report	51
	LA 7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	Sustainability Report	48
	LA 8	Education, training, counselling, prevention and risk-control programmes in place to assist workforce members, their families or community members regarding serious diseases	Sustainability Report	53 & 54
	LA 9	Health and safety topics covered in formal agreements with trade unions	None	NA

Global Reporting Initiatives

Category	GRI Reference	GRI Definition	Reference in the Report/ Description	Page/s of Reference
Training and Education	LA 10	Average hours of training per year per employee by employee category	Not reported	NA
	LA 11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Sustainability Report	54
	LA 12	Percentage of employees receiving regular performance and career development reviews	Not reported	NA
Diversity and Equal Opportunity	LA 13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	Sustainability Report	52 & 53
	LA 14	Ratio of basic salary of men to women by employee category	Equal Treatment	NA
Human Rights				
Investment and Procurement Practice	HR 1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	Not reported	NA
	HR 2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Not reported	NA
	HR 3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Not reported	NA
Non-Discrimination	HR 4	Total number of incidents of discrimination and actions taken	None	NA
Freedom of Association and Collective Bargaining	HR 5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk and actions taken to support these rights	Not reported	NA
Child Labour	HR 6	HR Operations identified as having significant risk for incidents of child labour and measures taken to contribute to the elimination of child labour	Sustainability Report	53
Forced and Compulsory Labour	HR 7	Operations identified as having significant risk for incidents of forced or compulsory labour and measures to contribute to the elimination of forced or compulsory labour	None	NA

Category	GRI Reference	GRI Definition	Reference in the Report/ Description	Page/s of Reference
Security Practices	HR 8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	Not reported	NA
Indigenous Rights	HR 9	Total number of incidents of violations involving rights of indigenous people and actions taken	None	NA
Society				
Community	SO 1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting	Sustainability Report	55
Corruption	SO 2	Percentage and total number of business units analysed for risks related to corruption	Not Reported	NA
	SO 3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Not Reported	NA
	SO 4	Actions taken in response to incidents of corruption	None	NA
Public Policy	SO 5	Public policy positions and participation in public policy development and lobbying	Sustainability Report	44
	SO 6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	None	NA
Anti-Competitive Behaviour	SO 7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	None	NA
Compliance	SO 8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	None	NA
Products Responsibility				
Customer Health and Safety	PR 1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement and percentage of significant products and services categories subject to such procedures	None	NA
	PR 2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	None	NA

Global Reporting Initiatives

Category	GRI Reference	GRI Definition	Reference in the Report/ Description	Page/s of Reference
Product and Service Labeling	PR 3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	None	NA
	PR 4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	None	NA
	PR 5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Sustainability Report	44
Marketing Communications	PR 6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	None	NA
	PR 7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	None	NA
Customer Privacy	PR 8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	None	NA
Compliance	PR 9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	None	NA

Risk Management

Risk Management

Risk Identification	Risk Evaluation	Management Strategy	Policies & procedures for managing risk	Compliance	System Maintenance	Annual Control Review
Financial	High	Investment on new projects is carried out after careful appraisal of the micro economic situation of the industry.	VPEL is conscious of the risk of climate changes & operational limitations due to drought conditions and also of the risk of continuing investment, hence is gearing on bank loan & Equity.	Yes	Adopted	✓
Operational	Medium	The experienced team's continuous interaction with project sites by physical visits, dialogue with management and close supervision of all projects.	Prompt maintenance of machinaries and equipment whilst upgrading the safety measures on a regular basis conducting workshops, meetings, etc.	Yes	Adopted	✓
Regulatory & Legal	High	Awareness of current volatile situation of power sector and variation of tarriff structure.	Compliance with any new laws or regulations that are time to time introduced for good governance.	Yes	Adopted	✓
Environmental	Low	All mini hydro power projects in various parts of the country carryout impact assessments & strictly follow conditions stipulated by the statutory organisations.	ISO 9001: 2008 &14001: 2004 - Quality and Environmental Management Systems and all the practices will be strictly followed. Also care is taken to mitigate any adverse enviromental impacts.	Yes	Adopted	✓
Social	Low	The management ciontinuously determined to help the people and upgrade the social & economic infrastructure of the area.	Group has developed relationships with the religious and other voluntary groups by helping them to uplift their livelyhood.	Yes	Adopted	✓

Corporate Governance

Corporate Governance, the system by which companies are managed and controlled, is a topic of increasing importance, both to Directors of a Company and its shareholders.

The Board manages the Company on behalf of the shareholders. It is the policy of the Company to manage its affairs in accordance with appropriate standard for good Corporate Governance. The Company has complied with the provisions of Section 7.10 of the Listing Rules of the Colombo Stock Exchange on Corporate Governance for the full accounting period ended 31st March 2014.

The Board

The Board comprises of an Executive Director and nine Non-Executive Directors. Their details appear on page 21 to 24 of the Annual Report. The Executive Director generally has responsibility for making and implementing operational decisions and running the Company's business. The Non-Executive Directors support the skills and experience of the Executive Director, contributing to the formulation of policy and decision-making through their knowledge and experience of other business and sectors.

Board Meetings

The Board meets regularly and has a formal schedule of matters reserved to it. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities.

Attendance at Meetings

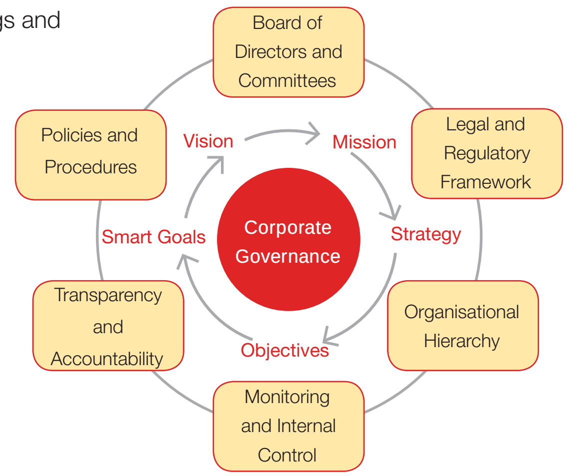
The Directors are expected to prepare themselves for and to attend all Board Meetings, relevant committee meetings and the Annual General Meeting. To facilitate active and informed discussion at Board and Committee Meetings, Directors receive background materials in advance of meetings. Over the past year the Board held four meetings and the attendance is given below.

		Attendance
Mr. K D D Perera (Chairman)	- NED	- 1/4
Mr. S H Amarasekera	- I	- 3/4
Mr. P K Sumanasekera	- I	- 1/4
Mr. H Somashantha	- NED	- 4/4
Mr. S E De Silva	- NED	- 2/4
Mr. D S Clark	- NED	- 2/4
Mr. L D Dickman	- ED	- 2/4
Mr. S Shanmuganathan	- I	- 4/4
Mr. P B Perera	- NED	- 3/4
Mr. C V Cabraal*	- NED	- 1/1

*appointed w.e.f. 08.01.2014

Key

NED – Non-Executive Director ED – Executive Director I – Independent Non-Executive Director



Chairman and Executive Director

The roles of Chairman and Executive Director are separate with responsibilities divided between them.

Appraisal of the Executive Director

The Board has delegated the responsibility for the day-to-day management of the Company to the Executive Director, who is responsible for recommending strategy to the Board and implementing operational decisions. The performance of the Executive Director is reviewed every year by the Board.

Time commitment

The Board dedicates adequate time to discharge their duties effectively. In addition to Board Meetings, they attend sub-committee meetings and make decisions via circular resolutions.

Appointment to the Board

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 and in particular the Listing Rules pertaining to Corporate Governance.

Re-election of Directors

As per the Articles of Association of the Company at each Annual General Meeting (AGM) one third of the Directors except the Directors referred to hereinafter shall retire from office and offer themselves for re-election. The Executive Director and Directors nominated by Vallibel Power Limited under Article 25(2) are not subject to retirement by rotation. Any Directors appointed during the year seek re-election at the next AGM.

Independence of Non-Executive Directors

The CSE Listing Rules sets out circumstances, which the Board may find relevant when determining the independence of a Non-Executive Director. All Non-Executive Directors have submitted a declaration of his independence or non-independence to the Board of Directors. The Board reviewed the independence of Non-Executive Directors and concluded that Messrs S H Amarasekera, P K Sumanasekera and S Shanmuganathan demonstrate the essential characteristics of independence expected by the Board.

Access to Management and Independent Advisors

Board members have access to the management. The Board and the Board Committees have access to the advice of the Company Secretaries and independent legal, accounting and other experts and consultants, as they may deem appropriate at the Company's expense.

Remuneration of the Directors

The remuneration of the Directors is determined by the Board and disclosed in Note 17 to the Financial Statements on page 120 of the Annual Report.

Company Secretaries

P W Corporate Secretarial (Pvt) Limited acts as the Company Secretaries for the Company. Being qualified Company Secretaries, P W Corporate Secretarial (Pvt) Ltd attend Board Meetings and ensure that minutes are kept of all proceedings at each Board Meeting. The Company Secretaries advise the Board and ensure that proper procedures and applicable rules and regulations are followed by the Board.

Board Committees

Specific responsibilities have been delegated to the Board Committees. The two principal Board Committees are:-

Audit Committee

Mr. S H Amarasekera (Chairman)
Mr. P K Sumanasekera
Mr. H Somashantha
Mr. S Shanmuganathan

The Audit Committee meets once a quarter with the Executive Director and the external auditors to review, inter alia, the Company's annual and interim financial statements and compliance reports and reviews the effectiveness of the Company's system of internal audit. Periodically, it also approves and reviews the appointment and retirement of External Auditors, as well as their relationship with the Company.

Remuneration Committee

Mr. S H Amarasekera (Chairman)
Mr. K D D Perera
Mr. P K Sumanasekera

The Remuneration Committee usually meets twice a year. Its role is to make recommendations to the Board on the following.

- Remuneration policy for the Executive Director.
- Remuneration policy and specific packages for certain senior executives.
- Employee benefits and long term 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 high quality senior executives.
- To ensure that performance is the key factor in determining individual reward.

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

Responsibilities

It is the responsibility of the Board of Directors to ensure good Corporate Governance. Good Corporate Governance requires that the Board must govern the Company with integrity. This includes the following:-

- Exercise leadership, enterprise, integrity and judgment in directing the Company so as to achieve continuing prosperity in a manner based on transparency, accountability and responsibility.
- Ensure the appointments to the Board are effectively managed.
- Determine the Company's purpose and values, strategy and ensure that procedures and practices are in place.
- Monitor and evaluate the implementation of strategies and policies for better management performance.
- Ensure compliance with the relevant law, regulations and codes of best practice.
- Communicate with shareholders effectively and serve the legitimate interest of the shareholders.
- Report to shareholders of the progress and performance of the Company periodically and timely.
- Review processes and procedures regularly and ensure that internal control is effective.
- Identify key risk areas and ensure that these risks are addressed and managed effectively.
- Appoint and evaluate the performance of the Executive Director.
- Approve the Annual Budget.
- Ensure the continuation of the Company as a going concern.

Investor relations

The Annual General Meeting, Annual Report of the Company and Interim Financial Statements are the principal means of communication with the shareholders.

Compliance with Corporate Governance Rules of the Colombo Stock Exchange

The following disclosures are made in conformity with Section 7 of the Rules of the Colombo Stock Exchange:-

Rule	Comments
7.10.1 Non-Executive Directors	Nine Directors are Non-Executive with one Executive Director
7.10.2 Independent Directors	There are three Independent Directors on the Board. Each Non-Executive Director submits a signed and dated declaration annually.
7.10.3 Disclosures relating to Directors	Three of the Nine Non-Executive Directors meet all the criteria set out in Rule 7.10.4 for determining the independence of Directors. These independent directors are, Messrs S H Amarasekera, P K Sumanasekera and S Shanmuganathan.
7.10.5 Remuneration Committee	Comprises of three Non-Executive Directors including two Independent Directors.
7.10.6 Audit Committee	Comprises of four Non-Executive Directors including three Independent Directors.

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

The Directors of Vallibel Power Erathna PLC have pleasure in presenting to the shareholders their Report together with the Audited Financial Statements of the Company and the Group for the year ended 31st March 2014.

Legal Status

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

Principal Activity

The principal activity of the Company is generation of electricity using hydropower 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 Review on pages 09 to 15 of the Annual Report. This report forms an integral part of the Annual Report of the Directors.

Summarised Financial Position

The summarized financial position of the Company is as follows:

	2013/14 Rs. '000	2012/13 Rs. '000
Profit brought forward	653,120	565,939
Net profit for the Year	486,936	274,156
Other comprehensive income/(loss) recognised in the accumulated profit	278	(198)
Dividends	(448,265)	(186,777)
Profit carried forward	692,059	653,120

The Financial Statements of the Company and the Group are given in pages 84 to 124 of the Annual Report.

Financial Statements

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

Independent Auditors' Report

The Report of the Independent Auditors on the Group Financial Statements is attached with the Financial Statements.

Stated Capital

The Stated Capital as at 31st March 2014 was Rs. 1,174,365,278/-.

Accounting Policies

The accounting policies adopted by the Company in the preparation of Financial Statements are given on pages 90 to 105 and are consistent with those of the previous period.

Reserves

The Revenue Reserves of the Company stand at Rs. 692,059,260/-. The movement and composition of the other reserves is disclosed in the Statement of Changes in Equity.

Taxation

Pursuant to the Supplementary Agreement dated 8th October 2002 entered into with the Board of Investment of Sri Lanka 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.

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 an interim dividend payments of Twenty Cents (Rs.-/20) per share (tax-free) for the financial year 2013/14 paid on 8th August 2013 and Forty Cents (Rs.-/40) per share (tax-free) for the financial year 2013/14 paid on 17th December 2013.

Capital Expenditure

The total capital expenditure incurred by the Company on the acquisition of fixed assets during the year amounted to Rs. 1,800,411/- details of which are given in Note 3 to the Financial Statements on page 106 of the Annual Report.

Property, Plant & Equipment

The movement in property, plant and equipment of the Company are given in Note 3 to the Financial Statements on page 106 to 109 of the Annual Report.

Shareholdings

As at 31st March 2014 there were 3,601 registered shareholders. The distribution of shareholders is indicated on pages 126 and 127 of the Annual Report.

Share Information

Information on share trading is given on page 127 of the Annual Report.

Directorate

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages 21 to 24 of the Annual Report.

Mr. K D D Perera (Chairman)
Mr. S H Amarasekera
Mr. P K Sumanasekera
Mr. S E De Silva
Mr. D S Clark
Mr. H Somashantha
Mr. L D Dickman
Mr. S Shanmuganathan
Mr. P B Perera
Mr. C V Cabraal (Appointed w.e.f. 08/01/2014)

Mr. S H Amarasekara, Mr. P K Sumanasekara and Mr. D S Clark retire by rotation in terms of Article 25(10) and Mr. C V Cabraal in terms of Article 25(3) of the Articles of Association of the Company and being eligible are recommended by the Directors for re-election.

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

Country Energy (Private) Limited

Mr. K D A Perera
Mr. K D H Perera
Mr. P K Sumanasekera
Mr. S E De Silva
Mr. J P Lenihan
Mr. G A R D Prasanna

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 Reporting date are as follows:

	As at 31st March 2014	As at 31st March 2013
Mr. K D D Perera	144,812,255	144,812,225
Mr. S H Amarasekera	30	30
Mr. P K Sumanasekera	150,000	150,000
Mr. S E De Silva	30,000	30,000
Mr. D S Clark	Nil	Nil
Mr. H Somashantha	15,000	15,000
Mr. L D Dickman	Nil	Nil
Mr. S Shanmuganathan	Nil	Nil
Mr. P B Perera	Nil	Nil
Mr. C V Cabraal	Nil	Nil

Directors Remuneration

The Directors Remuneration is disclosed in Note 17 to the Financial Statement on Page 120 of the Annual Report.

Land Holdings

The Company's land holdings referred to in Note 3 to the Financial Statements comprise a land (freehold) in extent of 5.5 and another land (leasehold) in extent of 5.1 acres in the Rathnapura District, which carries at its book value of Rs. 150,000,000/-. The Subsidiary Company's land holdings referred to in Note 3 to the Financial Statements comprise a land in extent of 1.4 acres (freehold) and another in extent of 2.7 acres (leasehold) in the Rathnapura District which freehold land carries at its book value of Rs. 3,023,167/-. Further it holds another land in the Nuwara Eliya District in extent of 3.9 acres of value of Rs. 22,939,752/-.

Investments

Details of the Company's quoted and unquoted investments as at 31st March 2014 are given in Note 4 to the Financial Statements on page 110 of the Annual Report.

Donations

The Company made donations amounting to Rs.573,355/- in total, during the year under review.

Risk Management

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

Specific steps taken by the Company in managing the risks are detailed in the section on Risk Management on page 67 of the Annual Report.

Corporate Governance

The report on Corporate Governance is given on pages 68 to 71 of the Annual Report.

Going Concern

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

Events Occurring After the Date of Statement of Financial Position

No circumstances have arisen and no material events have occurred since the reporting date, 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 2014 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. 556,600/-. (2012/2013 – Rs. 506,000/-). In addition they were paid Rs. 576,000/- by the Company for other professional services. 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 13th Annual General Meeting of the Company will be held at The Kingsbury, 48 Janadhipathi Mawatha, Colombo 1 on Thursday, 26th day of June 2014 at 9.30 a.m. The Notice of the Annual General Meeting is on page 132 of the Annual Report.

For and on behalf of the Board

S H Amarasekera
Director

L D Dickman
Executive Director

P W Corporate Secretarial (Pvt) Limited
Secretaries

Colombo
22 May 2014

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 83 of the Annual Report.

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 84 to 124 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 Reporting 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
22 May 2014

Audit Committee Report

Composition of the Audit Committee

The Audit Committee, appointed by the Board of Directors of Vallibel Power Erathna PLC comprises of four Non- Executive Directors. Mr. Harsha Amarasekera P.C. (Independent Non-Executive Director), functions as the Chairman of the Audit Committee. Mr. Prabodha Sumanasekera, Mr. Shan Shanmuganathan who are Independent Non-Executive Directors and Mr. Haresh Somashantha who is a Non-Executive Director serve as members of the Committee.

Meetings

Four meetings of the Committee were held during the year. The Executive Director, two Joint Chief Executive Officers and Head of Finance 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 (SLFRS/LKAS).
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.

The Audit Committee has recommended to the Board of Directors that Messrs KPMG be re-appointed as the internal auditors of the Group. The Audit Committee has recommended to the Board of Directors that M/S Ernst & Young, Chartered Accountants, be re-appointed as the auditors of the Company for the financial year ending 31st March 2015, subject to the approval of the Shareholders at the Annual General Meeting. The Audit Committee is of the view that Messes Ernst & Young is an independent entity as per their declaration made to the Company and the Audit Committee concurs with their declaration.

Conclusion

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

S H Amarasekera
Chairman
Audit Committee

22 May 2014

Other Members

P K Sumanasekera, S Shanmuganathan, H Somashantha

Remuneration Committee Report

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

The Chairman of the Remuneration Committee is Mr. Harsha Amarasekera P.C. who is an Independent Non-Executive Director and the other members are Mr. Dhammika Perera, Non-Executive Director and Mr. Probodha Sumanasekera an Independent Non-Executive Director.

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

- Remuneration policy for the Executive Director.
- 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.

S H Amarasekera
Chairman
Remuneration Committee

22 May 2014

Other Members
K D D Perera, P K Sumanasekera

The Power to grow

Financial Information

Kiriwaneliya MHPP

Passion.
Performance.
Power.

Financial Reports

Financial Calendar

Rs.0.20 per share (tax free) interim dividend for the financial year 2013/14	-	8 August 2013
Rs.0.40 per share (tax free) interim dividend for the financial year 2013/14	-	17 December 2013
Interim Report – 1st Quarter	-	08 August 2013
Interim Report – 2nd Quarter	-	11 November 2013
Interim Report – 3rd Quarter	-	29 January 2014
Interim Report – 4th Quarter	-	22 May 2014
Annual Report 2013/14	-	22 May 2014
13th Annual General Meeting	-	26 June 2014

Independent Auditors' Report

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
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eysl@lk.ey.com
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ADBT/CSW/BMC

To The Shareholders of Vallibel Power Erathna PLC

Report on the Financial Statements

We have audited the accompanying Financial Statements of Vallibel Power Erathna PLC and the Consolidated Financial Statements of the Company and its subsidiary which comprise the Statements of Financial Position as at March 31, 2014 and the Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2014, and the Financial Statements give a true and fair view of the Company's financial position as at March 31, 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Group

In our opinion, the consolidated financial statements give a true and fair view of the financial position as at March 31, 2014 and the financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards of the Company and its subsidiary dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

These Financial Statements also comply with the requirements of Section 151(2) and 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

22 May 2014
Colombo

Statement of Financial Position

As at 31 March	Note	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Assets					
Non-Current Assets					
Property, Plant & Equipment	3	966,192,392	999,466,472	2,606,197,214	2,676,700,753
Investments	4	900,534,200	910,620,980	78,914,220	89,001,000
Intangible Assets	5	8,000,000	9,600,000	140,862,092	152,818,755
Deposit on Leasehold Land	6	-	-	4,500,000	4,500,000
		1,874,726,592	1,919,687,452	2,830,473,526	2,923,020,508
Current Assets					
Trade & Other Receivables	7	32,029,726	41,915,311	87,827,031	95,904,292
Amount Due from Related Parties	8	6,714,970	22,345,973	3,980,742	18,666,212
Short Term Investment	4	78,232,188	32,737,313	239,694,024	143,496,276
Cash and Bank Balances		5,330,690	357,967	26,373,105	18,818,620
		122,307,574	97,356,564	357,874,902	276,885,400
Total Assets		1,997,034,166	2,017,044,015	3,188,348,428	3,199,905,908
Equity And Liabilities					
Equity attributable to Equity Holders of the Parent					
Stated Capital	9	1,174,365,278	1,174,365,278	1,174,365,278	1,174,365,278
Available for Sale Reserves		5,345,350	15,432,130	5,345,350	15,432,130
Accumulated Profit		692,059,260	653,120,323	817,997,151	632,956,479
		1,871,769,888	1,842,917,731	1,997,707,779	1,822,753,887
Non-Controlling Interest		-	-	122,340,309	99,584,644
Total Equity		1,871,769,888	1,842,917,731	2,120,048,088	1,922,338,531
Non Current Liabilities					
Interest Bearing Loans and Borrowings	10	-	15,254,231	758,002,168	944,663,872
Retirement Benefit Obligations	11	9,058,502	7,828,903	11,629,161	9,713,631
Deferred Tax Liability	12	85,688,534	72,397,610	85,688,534	72,397,610
		94,747,036	95,480,744	855,319,863	1,026,775,113
Current Liabilities					
Trade and Other Payables	13	15,089,676	9,368,803	22,692,738	20,197,602
Interest Bearing Loans and Borrowings	10	15,254,231	68,898,239	189,297,739	228,583,001
Tax Payables		173,335	378,498	989,999	2,011,661
		30,517,242	78,645,540	212,980,476	250,792,264
Total Equity and Liabilities		1,997,034,166	2,017,044,015	3,188,348,428	3,199,905,908

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

Yogesh Suriyapperuma
Head of Finance

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

Dhammika Perera
Chairman

L D Dickman
Executive Director

The Accounting Policies and Notes on Pages 90 through 124 form an integral part of the Financial Statements.
22 May 2014

Colombo

Statement of Income

For the year ended 31 March	Note	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Revenue	14	519,775,264	379,478,383	1,064,991,104	693,031,968
Cost of Sales		(46,811,375)	(46,921,663)	(135,718,353)	(135,891,595)
Gross Profit		472,963,889	332,556,720	929,272,751	557,140,373
Other Income	15	77,860,098	490,700	63,600	703,533
Administration Expenses		(49,758,925)	(49,555,516)	(104,242,232)	(99,752,211)
Other Operating Expenses		(1,158,431)	(1,388,114)	(3,894,958)	(7,081,186)
Finance Income		10,095,400	11,641,714	30,374,072	32,712,970
Finance Cost	16	(7,007,896)	(17,301,301)	(162,716,232)	(181,645,294)
Profit Before Taxation	17	502,994,135	276,444,203	688,857,001	302,078,186
Income Tax Expense	18.1	(16,068,215)	(2,287,423)	(21,746,243)	(8,187,375)
Net Profit for the Year		486,925,921	274,156,780	667,110,758	293,890,811
Attributable To:					
Equity Holders of the Parent		486,925,921	274,156,780	632,946,940	289,398,823
Non-Controlling Interest		-	-	34,163,818	4,491,988
		486,925,921	274,156,780	667,110,758	293,890,811
Basic Earnings Per Share	19	0.65	0.37	0.85	0.39
Dividend Per Share		0.60	0.25	0.60	0.25

Figures in brackets indicate deductions.

The Accounting Policies and Notes on Pages 90 through 124 form an integral part of the Financial Statements.

Statement of Comprehensive Income

For the year ended 31 March	Note	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Profit for the year		486,925,921	274,156,780	667,110,758	293,890,811
Other Comprehensive Income / (Loss)					
Loss on Fair Value of Investments	4	(10,086,780)	(13,053,480)	(10,086,780)	(13,053,480)
Income Tax Effect		-	-	-	-
		(10,086,780)	(13,053,480)	(10,086,780)	(13,053,480)
Actuarial (Gain)/ Loss on Defined Benefit Plans	11	316,881	(220,643)	409,445	(289,581)
Income Tax Effect	18.2	(38,026)	22,064	(38,026)	22,064
		278,855	(198,579)	371,419	(267,517)
Other Comprehensive Income / (Loss) for the year, net of tax		(9,807,925)	(13,252,059)	(9,715,361)	(13,320,997)
Total Comprehensive Income for the year, net of tax		477,117,996	260,904,721	657,395,398	280,569,814
Attributable To					
Equity Holders of the Parent		477,117,996	260,904,721	623,219,731	276,086,650
Non-Controlling Interest		-	-	34,175,667	4,483,164
		477,117,996	260,904,721	657,395,398	280,569,814

Actuarial gain/(loss) on Defined Benefit Plan has been recognized in Statement of Other Comprehensive Income in terms of provisions in LKAS 19. Where necessary, comparative figures have been reclassified to conform with the current period's presentation.

Figures in brackets indicate deductions.

The Accounting Policies and Notes on Pages 90 through 124 form an integral part of the Financial Statements.

Statement of Changes in Equity

For the year ended 31 March Company	Stated Capital Rs.	Available for Sale Reserves Rs.	Accumulated Profit Rs.	Total Rs.
Balance as at 1 April 2012	1,174,365,278	28,485,610	565,939,555	1,768,790,443
Net Profit for the Period	-	-	274,156,780	274,156,780
Other Comprehensive Income/ (Loss)	-	(13,053,480)	(198,579)	(13,252,059)
Dividends	-	-	(186,777,433)	(186,777,433)
Balance as at 31 March 2013	1,174,365,278	15,432,130	653,120,323	1,842,917,731
Net Profit for the Period	-	-	486,925,921	486,925,921
Other Comprehensive Income/ (Loss)	-	(10,086,780)	278,855	(9,807,925)
Dividends	-	-	(448,265,839)	(448,265,839)
Balance as at 31 March 2014	1,174,365,278	5,345,350	692,059,260	1,871,769,888

Group	Stated Capital Rs.	Available for Sale Reserve Rs.	Accumulated Profit Rs.	Non-Controlling Interest Rs.	Total Rs.
Balance as at 1 April 2012	1,174,365,278	28,485,610	533,608,276	92,086,986	1,828,546,150
Net Profit for the Period	-	-	289,398,823	4,491,988	293,890,811
Other Comprehensive Income/(Loss)	-	(13,053,480)	(258,693)	(8,824)	(13,320,997)
Dividends	-	-	(186,777,433)	-	(186,777,433)
Impact on changes in share structure of the subsidiary	-	-	(3,014,494)	3,014,494	-
Balance as at 31 March 2013	1,174,365,278	15,432,130	632,956,479	99,584,644	1,922,338,531
Net Profit for the Period	-	-	632,946,940	34,163,819	667,110,759
Other Comprehensive Income/(Loss)	-	(10,086,780)	359,571	11,848	(9,715,361)
Dividends	-	-	(448,265,839)	(11,420,002)	(459,685,841)
Balance as at 31 March 2014	1,174,365,278	5,345,350	817,997,151	122,340,309	2,120,048,088

Figures in brackets indicate deductions.

The Accounting Policies and Notes on Pages 90 through 124 form an integral part of the Financial Statements.

Statement of Cash Flow

For the year ended 31 March	Note	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Cash Flows From / (Used in) Operating Activities					
Net Profit before Income Tax Expense		502,994,135	276,444,203	688,857,001	302,078,186
Adjustments for					
Amortization of Intangible Assets	5	1,600,000	1,600,000	11,956,663	11,956,663
Depreciation	17	34,680,029	35,168,079	85,357,236	85,285,342
Provision for Retirement Benefit Obligation	11	2,160,926	1,891,412	3,010,702	2,670,880
Dividend Income		(77,829,999)	-	-	-
(Profit) / Loss on Disposal of Property, Plant & Equipment		364,362	-	432,516	(212,833)
Interest Income		(10,095,400)	(11,641,714)	(30,374,072)	(32,712,970)
Finance Costs	16	7,007,896	17,301,301	162,716,232	181,645,294
Operating Profit/(Loss) before Working Capital Changes		460,881,949	320,763,281	921,956,278	550,710,562
(Increase)/ Decrease in Trade and Other Receivables		10,773,659	(18,098,284)	9,865,607	(43,254,819)
(Increase)/Decrease in Amounts Due from Related Parties		15,126,154	128,976,857	14,180,621	(11,760,949)
Increase /(Decrease) in Trade and Other Payables		5,765,598	1,102,860	4,314,553	(45,341,578)
Increase/(Decrease) in Amounts Due to Related Parties		-	171,034	-	(1,484,498)
Cash Generated from /(used in) Operating Activities		492,547,360	432,915,749	950,317,059	448,868,717
Finance Costs Paid		(7,007,896)	(17,301,301)	(164,490,928)	(180,430,044)
Interest Received		8,907,426	11,645,651	28,285,827	30,304,901
Retirement Benefits Obligations Paid		(109,597)	(295,532)	(180,877)	(440,151)
Taxes Paid		(2,720,579)	(3,160,564)	(9,215,106)	(8,981,571)
Net Cash from/(used in) Operating Activities		491,616,713	423,804,002	804,715,976	289,321,852
Cash Flows from / (Used in) Investing Activities					
Acquisition of Property, Plant & Equipment		(1,800,411)	(2,224,100)	(15,349,814)	(29,176,146)
Proceed from Disposal of Property, Plant & Equipment		30,100	-	63,600	1,105,000
Investment in Subsidiary		-	(154,299,980)	-	-
Net Investment in Fixed Deposits		(39,501,408)	5,077,687	(78,763,580)	81,777,951
Dividend Received		77,829,998	-	-	-
Net Cash Flows from/(Used in) Investing Activities		36,558,279	(151,446,393)	(94,049,794)	53,706,805

Statement of Cash Flow

For the year ended 31 March	Note	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Cash Flows from /(Used in) Financing Activities					
Proceeds from Interest Bearing Loans & Borrowings		-	-	-	30,812,248
Repayments of Interest Bearing Loans & Borrowings		(63,365,626)	(69,937,043)	(218,932,334)	(146,740,385)
Dividend Paid		(448,310,564)	(186,799,993)	(459,730,566)	(186,799,993)
Lease Rental Paid		(2,134,198)	(2,580,792)	(4,354,794)	(4,505,061)
Net Cash Flows from/(Used in) Financing Activities		(513,810,388)	(259,317,828)	(683,017,694)	(307,233,191)
Net Increase/(Decrease) in Cash and Cash Equivalents		14,364,604	13,039,781	27,648,488	35,795,465
Cash and Cash Equivalents at the Beginning of the Period (Note A)		19,774,552	6,734,771	58,202,855	22,407,390
Cash and Cash Equivalents at the end of the Period (Note B)		34,139,156	19,774,552	85,851,344	58,202,855
Note A					
Cash and Cash Equivalents at the beginning of the period					
Cash in Hand & at Bank		(3,097,802)	994,771	(4,543,256)	(2,392,004)
Savings Accounts & REPO		22,872,354	5,740,000	62,746,111	24,799,394
		19,774,552	6,734,771	58,202,855	22,407,390
Note B					
Cash and Cash Equivalents at the end of the period					
Cash in Hand & at Bank		826,669	(3,097,802)	(1,393,166)	(4,543,256)
Savings Accounts & REPO		33,312,487	22,872,354	87,244,510	62,746,111
		34,139,156	19,774,552	85,851,344	58,202,855

The Accounting Policies and Notes on Pages 90 through 124 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. Corporate Information

1.1 General

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 as at and for the year ended 31 March 2014 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 hydropower generation too. It comprises two power generating plants situated as Malwala in Rathnapura District & Norton Bridge in Nuwara Eliya District.

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

1.2 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.

1.3 Parent Entity and Ultimate Parent Entity

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

1.4 Date of Authorisation for Issue

The Financial Statements of Vallibel Power Erathna PLC for the year ended 31 March 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 22 May 2014.

2. Accounting Policies

2.1 General Policies

2.1.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Sri Lanka Accounting Standards which comprise of SLFRSs and LKASs as issued by the Institute of Chartered Accounts of Sri Lanka.

2.1.2 Statement of Compliance

The consolidated financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS). The preparation and presentation of these financial statements are in compliance with the Companies Act No. 7 of 2007.

2.1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 March 2014.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.
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 assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

2.2 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

2.2.1 Business combinations and goodwill

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 costs incurred are expensed 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. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with LKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of LKAS 39, it is measured in accordance with the appropriate Sri Lanka Accounting Standards.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

2.2.2 Foreign Currency Translations

The Group's consolidated financial statements are presented in Sri Lankan Rupees, which is also the parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

Transactions and Balances

Transactions in foreign currencies are initially recorded by the Group entities at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the income statement with the exception of all monetary items that forms part of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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 is measured at fair value in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss respectively).

2.2.3 Taxes

Company

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

Subsidiary

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

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where 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, carry forward of unused tax credits and unused tax losses, 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:

- Where 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 reassessed 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 other comprehensive income 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 income 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, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

Tax on Dividend

Tax on dividend income from subsidiaries is recognized as an expense in the Consolidated Income Statement.

2.2.4 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following the initial recognition of the intangible assets, the cost model is applied requiring the assets to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.
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 each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function/nature of the intangible asset. Amortisation was commenced when the assets were available for use.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment 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 income statement when the asset is derecognised.

2.2.5 Financial instruments – initial recognition and subsequent measurement

i) **Financial Assets**

Initial Recognition and Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent Measurement

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

a) **Financial Assets at Fair Value through Profit or Loss**

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

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value recognised in finance costs in the income statement. Financial assets designated upon initial recognition at fair value through profit and loss are designated at their initial recognition date and only if the criteria under LKAS 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

b) **Loans and Receivables**

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

c) **Held-to-Maturity Investments**

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

d) **Available-for-Sale Financial Investments**

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

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

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

Derecognition

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

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

(a) The Group has transferred substantially all the risks and rewards of the asset, or

(b) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

ii) Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

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

Available-for-Sale Financial Investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement;

Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

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

iii) **Financial Liabilities**

Initial Recognition and Measurement

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

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

Subsequent Measurement

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

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

Gains or losses on liabilities held for trading are recognised in the income statement.

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

Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iv) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts And
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

v) Fair value of Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions.
- Reference to the current fair value of another instrument that is substantially the same.
- A discounted cash flow analysis or other valuation models.

  An analysis of fair values of financial instruments and further details as to how they are measured are provided in the financial statements.

2.2.6 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts – (interest free). Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.2.7 Property, Plant and Equipment

Cost

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

Depreciation

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

Civil Constructions	over 40 years
Plant & Machinery	over 33 1/3 years
Project Equipment	over 05 years
Tools & Accessories	over 03 years
Motor Bicycles	over 03 years
Motor Vehicles	over 05 years
Computers	over 04 years
Furniture, Fittings & Other Equipment	over 10 years
Generator	over 10 years
Web Development	over 05 years
Mobile Phones & Accessories	over 02 years

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

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

2.2.8 Leases

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

For arrangements entered into prior to 1 April 2011, the date of inception is deemed to be 1 April 2011 in accordance with the SLFRS 1.

Group as a Lessee

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

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

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

Group as a lessor

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

2.2.9 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.2.10 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

2.2.11 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

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 in other comprehensive income in the period in which they arise. Actuarial gains & losses recognised in other comprehensive income are recognised immediately in retained earnings and are not reclassified to profit or loss. Past service costs are recognised immediately in Income 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.

Discount Rate	10.61%
Expected Salary Increment Rate	10%
Staff Turnover Rate	8.6% Up to age 50 & there after Zero
Normal Retirement Age	55 Years

b) Defined Contribution Plans – Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.2.12 Impairment of Non- Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset or cash-generating unit, unless the asset or cash-generating unit does not generate cash inflows that are largely independent of those from other assets or cash-generating units. Where the carrying amount of an asset 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 to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the Statement of Income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot ''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 income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods.

Intangible Assets
Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level, as appropriate.

2.2.13 Income Statement

Revenue Recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts. The following specific criteria are used for the purpose of recognition of revenue.

a) **Sale of Goods**
Revenue from the sale of goods is recognised when the significant risk and rewards of ownership of the goods have passed to buyer with the Company retaining neither continuing managerial involvement to the degree usually associated with ownership, nor an effective control over the goods sold.

b) **Rendering of Services**
Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

c) **Interest Income**
For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

d) **Dividends**
Revenue is recognized when the group's right to receive the payment is established, which is generally when shareholders approve the dividend.

e) **Rental Income**
Rental income is recognized on an accrual basis.

f) **Gains and Losses**
Net gains and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non current assets including investments are accounted for in the income statement, after deducting from proceeds on disposal, the carrying amount of the assets and related selling expenses. On the disposal of revalued Property, Plant and Equipment, the amount remaining in the Revaluation Reserve, relating to that particular asset is transferred directly to Retained Earnings.

Gains and losses arising from activities incidental to the main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

g) **Other Income**
Other income is recognized on an accrual basis.

2.2.14 Expenditure Recognition

a) Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the Profit / (Loss) for the year.

b) For the purpose of presentation of Statement of Income the directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

2.3 Significant Accounting Judgments, Estimates & Assumptions

The preparation of the financial statements of the group require the management to make judgments, estimates and assumptions, which may affect the amounts of income, expenditure, assets , liabilities and the disclosure of contingent liabilities, at the end of the reporting period. In the process of applying the group's accounting policies, the key assumptions made relating to the future and the sources of estimation at the reporting date together with the related judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) **Defined Benefit Plans**
The cost of the retirement benefit plan of employees is determined using an actuarial valuation. The actuarial valuation is based on assumptions concerning the rate of interest, rate of salary increase, special premium, retirement age and going concern of the Company. Due to the long term nature of the plan, such estimates are subject to significant uncertainty.

b) **Impairment of Non-Financial Assets**
An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use (VIU). The fair value less costs to sell calculation is based on available data from an active market, in an arm's length transaction, of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

c) **Fair Value of Financial Instruments**
Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible. Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments .

2.4 Sri Lanka Accounting Standards (SLFRS / LKAS) Issued but not yet effective

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these financial statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future financial statements.

- SLFRS 9-Financial Instruments: Classification and Measurement

  SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities. This standard was originally effective for annual periods commencing on or after 01 January 2015. However, the original effective date has been deferred and revised effective date is yet to be announced.

- SLFRS 13-Fair Value Measurement
  SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. This standard will be effective for annual periods beginning on or after 01 January 2014. However use of fair value measurement principles contained in this standard are currently recommended.

- In addition to the above, following standards will also be effective for annual periods commencing on or after 01 January 2014.

  SLFRS 10 – Consolidated Financial Statements
  SLFRS 11 – Joint Arrangements
  SLFRS 12 – Disclosure of Interests in Other Entities

The above package of three standards will impact the recognition, measurement and disclosures aspects currently contained in LKAS 27-Consolidated and separate financial statements, LKAS 28-Investments in associates , LKAS 31-Interest in joint ventures and SIC-12 and SIC 13 which are on consolidation of special purpose entities(SPEs) and jointly controlled entities respectively.

Establishing a single control model that applies to all entities including SPEs and removal of the option to proportionate consolidate jointly controlled entities are the significant changes introduced under SLFRS 10 and SLFRS 11 respectively.

SLFRS 12, establishes a single standard on disclosures related to interests in other entities. This incorporates new disclosures as well as disclosures currently required under LKAS 27, LKAS 28 and LKAS 31.

The Group will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these financial statements.

3. Property, Plant & Equipment

	Company			
Gross Carrying Amounts At Cost	Balance As at 01.04.2013 Rs.	Additions for the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2014 Rs.
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	886,411	232,000	-	1,118,411
Tools & Accessories	2,720,114	-	-	2,720,114
Motor Vehicles	-	-	8,758,500	8,758,500
Motor Bicycles	600,258	-	(62,349)	537,909
Furniture & Fittings	10,617,948	1,158,342	(720,839)	11,055,451
Computers	3,454,369	354,583	(33,300)	3,775,652
Office Equipments	1,690,203	55,485	(596,225)	1,149,463
Fire Extinguisher	524,600	-	-	524,600
Generator	1,246,000	-	-	1,246,000
Site Fixtures & Fittings	4,148,354	-	-	4,148,354
Web Development	1,888,305	-	-	1,888,305
	1,286,407,392	1,800,411	7,345,787	1,295,553,590
Assets on Finance Lease				
Motor Vehicle	8,758,500	-	(8,758,500)	-
Total	1,295,165,892	1,800,411	(1,412,713)	1,295,553,590

3. Property, Plant & Equipment

	Company			
Depreciation At Cost	**Balance As at 01.04.2013 Rs.**	**Charge for the Year/ Transfers Rs.**	**Disposals/ Transfers Rs.**	**Balance As at 31.03.2014 Rs.**
Civil Constructions	118,273,586	13,273,461	-	131,547,047
Plant & Machinery	151,865,598	17,330,772	-	169,196,370
Project Equipment	584,490	136,722	-	721,212
Tools & Accessories	2,636,307	80,476	-	2,716,783
Motor Vehicles	-	-	8,758,500	8,758,500
Motor Bicycles	421,909	101,207	(62,349)	460,767
Furniture & Fittings	5,501,179	1,049,528	(605,108)	5,945,599
Computers	2,510,096	485,050	(22,497)	2,972,650
Office Equipments	676,380	138,402	(328,297)	486,484
Fire Extinguisher	386,680	52,460	-	439,140
Site Fixtures & Fittings	3,805,479	342,875	-	4,148,354
Generator	761,517	124,600	-	886,116
Web Development	831,478	250,699	-	1,082,177
	288,254,696	33,366,253	7,740,249	329,361,198
Assets on Finance Lease				
Motor Vehicle	7,444,724	1,313,776	(8,758,500)	-
Total	295,699,420	34,680,029	(1,018,251)	329,361,198
Carrying Amount	999,466,472			966,192,392

3. Property, Plant & Equipment (Contd.)

Gross Carrying Amounts At Cost	Group Balance As at 01.04.2013 Rs.	Additions for the Year Rs.	(Disposals)/ Transfers Rs.	Balance As at 31.03.2014 Rs.
Free Hold Land	175,804,857	158,062	-	175,962,919
Civil Constructions	1,710,903,662	5,439,828	(47,051)	1,716,296,439
Plant & Machinery	1,084,151,459	-	-	1,084,151,459
Project Equipment	886,411	232,000	-	1,118,411
Tools & Accessories	4,688,799	455,396	(69,888)	5,074,307
Motor Vehicles	12,025,415	-	8,758,500	20,783,915
Motor Bicycles	1,660,738	151,040	(276,229)	1,535,549
Furniture & Fittings	11,340,330	1,442,391	(763,739)	12,018,982
Computers	4,315,769	387,433	(58,550)	4,644,652
Office Equipments	2,646,637	277,646	(596,225)	2,328,058
Fire Extinguisher	840,625	118,810	-	959,435
Generator	2,039,000	-	-	2,039,000
Site Fixtures & Fittings	4,148,354	-	-	4,148,354
Web Development	1,888,305	-	-	1,888,305
Mobile Phones & Accessories	-	78,095	-	78,095
	3,017,340,361	8,740,702	6,946,818	3,033,027,880
Assets on Finance Lease				
Motor Vehicle	19,700,963	-	(8,758,500)	10,942,463
Total	3,037,041,324	8,740,702	(1,811,682)	3,043,970,343

Capital Work-in-Progress	Balance As at 01.04.2013 Rs.	Additions for the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2014 Rs.
Civil Constructions	-	6,609,113	-	6,609,113
Total	-	6,609,113	-	6,609,113

3. Property, Plant & Equipment

	Group			
Depreciation At Cost	**Balance As at 01.04.2013 Rs.**	**Charge for the year/ Transfers Rs.**	**(Disposals)/ Transfers Rs.**	**Balance As at 31.03.2014 Rs.**
Civil Constructions	152,788,966	42,844,752	(47,051)	195,586,667
Plant & Machinery	170,061,662	32,524,544	-	202,586,206
Project Equipment	584,490	136,722	-	721,212
Tools & Accessories	3,599,299	523,847	(13,588)	4,109,558
Motor Vehicles	5,168,002	2,912,883	8,758,500	16,839,385
Motor Bicycles	1,384,287	425,363	(276,229)	1,533,421
Furniture & Fittings	5,733,319	1,139,396	(620,560)	6,252,155
Computers	3,007,359	705,569	(29,841)	3,683,087
Office Equipments	809,455	251,209	(328,297)	732,366
Fire Extinguisher	430,625	84,062	-	514,687
Site Fixtures & Fittings	3,805,479	342,875	-	4,148,354
Generator	805,725	203,900	-	1,009,625
Web Development	831,478	250,699	-	1,082,176
Mobile Phones & Accessories	-	16,947	-	16,947
	349,010,143	82,362,768	7,442,934	438,815,845
Assets on Finance Lease				
Motor Vehicle	11,330,429	2,994,468	(8,758,500)	5,566,397
Total	360,340,572	85,357,236	(1,315,566)	444,382,242
Carrying Amount	2,676,700,753			2,606,197,214

4. Investments

	Company		Group	
As at 31 March	**2014**	**2013**	**2014**	**2013**
Non Current	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Investment in Equity Securities (Quoted)				
The Fortress Resorts PLC	78,914,220	89,001,000	78,914,220	89,001,000
	78,914,220	89,001,000	78,914,220	89,001,000
Investment in Equity Securities (Un -Quoted)				
Investment in Subsidiary (Holding 87.2%)	821,619,980	821,619,980	-	-
	900,534,200	910,620,980	78,914,220	89,001,000
Current				
Investment in Fixed Deposits	49,423,721	9,922,313	177,579,709	98,816,128
Repo	28,808,467	22,815,000	62,114,315	44,680,148
	78,232,188	32,737,313	239,694,024	143,496,276

5. Intangible Asset - Right to Generate Hydropower

	Company		Group	
As at 31 March	**2014**	**2013**	**2014**	**2013**
	Rs.	**Rs.**	**Rs.**	**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	14,400,000	12,800,000	26,531,245	14,574,582
Amortization for the period	1,600,000	1,600,000	11,956,663	11,956,663
Accumulated amortisation C/F	16,000,000	14,400,000	38,487,908	26,531,245
Net carrying amount at the end of the period	8,000,000	9,600,000	140,862,092	152,818,755

The above balance represents amount paid to purchase an exclusive right to generate hydro electric power. Company amortise this right over 15 years on a straight line basis beginning from the year of commercial operations.

6. Deposit on Leasehold Land

As at 31 March	Group	
	2014 Rs.	2013 Rs.
At the Beginning of the year	4,500,000	4,500,000
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.

7. Trade and Other Receivables

As at 31 March	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Advances & Pre Payments	6,506,920	10,173,074	11,771,291	16,526,124
Trade Receivable	22,065,716	28,964,560	68,125,907	73,029,774
Staff Debtors	2,295,351	2,504,011	3,455,816	3,662,723
Interest Receivable	1,161,740	273,666	4,474,017	2,685,671
	32,029,726	41,915,311	87,827,031	95,904,292

8. Amount Due From Related Parties

	Relationship	Company		Group	
As at 31 March		2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Country Energy (Pvt) Ltd					
- Kiriwaneliya MHPP	Subsidiary Company	697,483	3,247,173	-	-
- Denewaka Ganga MHPP	Subsidiary Company	2,036,745	1,973,672	-	-
Alternate Power Systems (Pvt) Ltd	Related Company	3,980,742	17,125,128	3,980,742	17,125,128
Vallibel Plantation (Pvt) Ltd	Related Company	-	-	-	1,541,084
		6,714,970	22,345,973	3,980,742	18,666,212

9. Stated Capital

As at 31 March	Company 2014	Company 2013	Group 2014	Group 2013
Issued and Fully Paid Number of Shares				
Ordinary Shares	747,109,731	747,109,731	747,109,731	747,109,731
Value of Issued and Fully Paid Shares (Rs.)				
Ordinary Shares	1,174,365,278	1,174,365,278	1,174,365,278	1,174,365,278

10. Interest Bearing Loans and Borrowings

Company	Long Term Loan Rs.	Finance Leases Rs.	Bank Overdraft Rs.	Total Rs.
Balance as at 31 March 2013	(Note 10.1.1)	(Note 10.1.2)		
Repayable within one year from year-end	63,365,626	2,134,198	3,398,415	68,898,239
Repayable between 2 and 5 years from year-end	15,254,231	-	-	15,254,231
	78,619,857	2,134,198	3,398,415	84,152,470
Balance as at 31 March 2014				
Repayable within one year from year-end	15,254,231	-	-	15,254,231
Repayable between 2 and 5 years from year-end	-	-	-	-
	15,254,231	-	-	15,254,231

Group	Long Term Loan Rs.	Finance Leases Rs.	Bank Overdraft Rs.	Total Rs.
Balance as at 31 March 2013	(Note 10.2.1)	(Note 10.2.2)		
Repayable within one year from year-end	218,932,292	4,354,796	5,295,913	228,583,001
Repayable between 2 and 5 years from year-end	784,480,896	2,779,647	-	787,260,543
Repayable later 5 years from year-end	157,403,329	-	-	157,403,329
	1,160,816,517	7,134,443	5,295,913	1,173,246,873
Balance as at 31 March 2014				
Repayable within one year from year-end	184,580,936	2,080,727	2,636,076	189,297,739
Repayable between 2 and 5 years from year-end	757,303,248	698,920	-	758,002,168
Repayable later 5 years from year-end	-	-	-	-
	941,884,184	2,779,647	2,636,076	947,299,907

10.1.1 Long-Term Loans

		Company	
As at 31 March	**DFCC**	**2014**	**2013**
	Rs.	**Rs.**	**Rs.**
At the beginning of the year	78,619,857	78,619,857	148,556,900
Repayments during the year	(63,365,626)	(63,365,626)	(69,937,043)
At the end of the year	15,254,231	15,254,231	78,619,857
Analysis of Long-Term Interest Bearing Loans and Borrowings by Year of Payment			
Repayable within one year from year-end	15,254,231	15,254,231	63,365,626
Repayable between 2 and 5 years from year-end	-	-	15,254,231
	15,254,231	15,254,231	78,619,857

10.1.2 Finance Lease

		Company	
As at 31 March	**LB Finance PLC**	**2014**	**2013**
	Rs.	**Rs.**	**Rs.**
At the beginning of the year	2,134,198	2,134,198	4,714,990
Repayments during the year	(2,134,198)	(2,134,198)	(2,580,792)
Obtained during the year	-	-	-
At the end of the year	-	-	2,134,198
Gross Liability	-	-	2,310,314
Finance Charges allocated to future period	-	-	(176,116)
Net Liability	-	-	2,134,198
Analysis of Long-Term Interest Bearing Loans and Borrowings by Year of Payment			
Repayable within one year from year-end	-	-	2,134,198
Repayable between 2 and 5 years from year-end	-	-	
	-	-	2,134,198

10. Interest Bearing Loans and Borrowings (Contd.)

10.2.1 Long-Term Loans

				Group	
As at 31 March	DFCC	HNB	Commercial Bank of Ceylon PLC	2014	2013
	Rs.	Rs.	Rs.	Rs.	Rs.
At the beginning of the year	502,459,298	428,962,219	229,395,000	1,160,816,517	1,276,744,653
Repayments during the year	(126,438,998)	(62,753,335)	(29,740,000)	(218,932,333)	(146,740,384)
Obtained during the year	-	-	-	-	30,812,248
At the end of the year	376,020,300	366,208,884	199,655,000	941,884,184	1,160,816,517
Analysis of Long-Term Interest Bearing Loans and Borrowings by Year of Payment					
Repayable within one year from year-end	82,967,603	67,233,333	34,380,000	184,580,936	218,932,292
Repayable between 2 and 5 years from year-end	293,052,694	298,975,554	165,275,000	757,303,248	784,480,896
Repayable later 5 years from year-end	-	-	-	-	157,403,329
	376,020,297	366,208,887	199,655,000	941,884,184	1,160,816,517

10.2.2 Finance Lease

			Group	
As at 31 March	LB Finance PLC	HNB	2014	2013
	Rs.	Rs.	Rs.	Rs.
At the beginning of the year	4,839,213	2,295,230	7,134,443	11,639,504
Repayments during the year	(3,605,273)	(749,523)	(4,354,796)	(4,505,061)
Obtained during the year	-	-	-	-
At the end of the year	1,233,940	1,545,707	2,779,647	7,134,443
Gross Liability	1,283,706	1,701,735	2,985,441	7,979,783
Finance Charges allocated to future period	(49,766)	(156,028)	(205,794)	(845,340)
Net Liability	1,233,940	1,545,707	2,779,647	7,134,443
Analysis of Long-Term Interest Bearing Loans and Borrowings by Year of Payment				
Repayable within one year from year-end	1,233,940	846,787	2,080,727	4,354,796
Repayable between 2 and 5 years from year-end	-	698,920	698,920	2,779,647
	1,233,940	1,545,707	2,779,647	7,134,443

10.3 Details of Long Term Loans - Group

Lender	Approved Facility	Purpose	Repayment Terms	Security
Company				
DFCC Bank				
Loan 1	Rs. 150,000,000	To Invest in Subsidiary	59 equal monthly instalment after a grace period of 1 month	An Assignment over 100,000,000 ordinary shares of Vallibel Power Erathna PLC held by Vallibel Power Ltd in favour of DFCC Bank
Loan 2*	Rs. 115,000,000	To Invest in Subsidiary	35 equal monthly instalment after a grace period of 1 month	A further assignment over 100,000,000 ordinary shares of Vallibel Power Erathna PLC held by Vallibel Power Ltd in favour of DFCC Bank
The Loan Amount of Rs. 115,000,000/- is fully settled as at 31 March 2014.				
Subsidiary - Country Energy (Pvt) Ltd. (CEPL)				
DFCC Bank	Rs.200,000,000/-	To part finance Kiriwaneliya mini hydropower project	72 equal monthly instalment after a grace period of 24 months	1. Rs. 166.5 Mn by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment 2. Rs. 33.5 Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of CEPL 3. Lodgement of Project documents
DFCC Bank	Rs.253,000,000/-	To part finance Denawaka Ganga mini hydropower project	78 varied monthly instalment after a grace period of 18 months	1. Rs. 210.6Mn a) by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment b) primary concurrent mortgage over freehold land as additional security 2. Rs. 42.4Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of CEPL 3. Lodgement of Project documents

10. Interest Bearing Loans and Borrowings (Contd.)

10.3 Details of Long Term Loans - Group

Lender	Approved Facility	Purpose	Repayment Terms	Security
Hatton National Bank PLC	Rs.200,000,000/-	To part finance Kiriwaneliya mini hydropower project	72 equal monthly instalment after a grace period of 24 months	1. Rs. 166.5 Mn by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment 2. Rs. 33.5 Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of CEPL 3. Irrevocable Power of Attorney in favour of the bank with the right to transfer the shares of CEPL
Hatton National Bank PLC	Rs.253,000,000/-	To part finance Denawaka Ganga mini hydropower project	78 varied monthly instalment after a grace period of 18 months	1. Rs. 210.6Mn a) by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment b) primary concurrent mortgage over freehold land as additional security 2. Rs. 42.4Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of CEPL 3. Irrevocable Power of Attorney in favour of the bank with the right to transfer the shares of CEPL
Commercial Bank of Ceylon PLC	Rs.253,000,000/-	To part finance Denawaka Ganga mini hydropower project	78 varied monthly instalment after a grace period of 18 months	1. Rs. 210.6Mn a) by a primary concurrent mortgage over freehold land, building civil structures, plant, machinery and Equipment b) primary concurrent mortgage over freehold land as additional security 2. Rs. 42.4Mn by a primary concurrent mortgage over 69,820,000 ordinary shares of CEPL 3. Lodgement of Project documents

11 Retirement Benefit Obligation

As at 31 March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
At the beginning of the year	7,828,903	5,886,213	9,713,630	7,116,346
Current Service cost	1,209,714	1,176,238	1,830,496	1,806,245
Interest cost	951,212	715,175	1,180,206	864,636
Actuarial (gain)/loss	(316,881)	220,643	(409,445)	289,581
	9,672,948	7,998,269	12,314,887	10,076,808
Benefit paid	(109,597)	(295,532)	(180,877)	(440,151)
Transfers	(504,849)	126,167	(504,849)	76,974
At the end of the year	9,058,502	7,828,903	11,629,161	9,713,631

The weighted average duration of the Defined Benefit Plan Obligation of the Company and Subsidiary at the end of the reporting period is 7.24 years and 11.44 years respectively.

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

	Company 2014 Rs.	Group 2014 Rs.
Within the next 12 months	1,035,270	1,148,300
Between 2 and 5 years	364,461	370,349
Beyond 5 years	7,658,771	10,110,512
	9,058,502	11,629,161

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.	Rs.
A one percentage point change in the discount rate.	+1%	0%	-1%
As at 31 March 2014	8,949,705	9,058,502	10,254,847
A one percentage point change in the salary increment rate.	+1%	0%	-1%
As at 31 March 2014	10,274,803	9,058,502	8,921,477

Group			
A one percentage point change in the discount rate.	+1%	0%	-1%
As at 31 March 2014	11,263,038	11,629,161	13,131,077
A one percentage point change in the salary increment rate.	+1%	0%	-1%
As at 31 March 2014	13,146,885	11,629,161	11,234,066

12 Differed Tax Liability

As at 31 March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
At the beginning of the year	72,397,610	73,529,327	72,397,610	73,529,327
Provision / (Reversal) for the year	13,290,924	(1,131,717)	13,290,924	(1,131,717)
At the end of the year	85,688,534	72,397,610	85,688,534	72,397,610

As at 31 March Company	2014 Temporary Difference Rs.	2014 Tax Effect Rs.	2013 Temporary Difference Rs.	2013 Tax Effect Rs.
As at 1 April	723,976,100	72,397,610	735,293,270	73,529,327
Impact on changes in Tax rate	-	14,479,522	-	-
Amount originating/(reversing) during the year	(9,904,981)	(1,188,598)	(11,317,170)	(1,131,717)
As at 31 March	714,071,119	85,688,534	723,976,100	72,397,610
Temporary difference of Property, Plant and Equipment	723,129,621	86,775,555	731,805,003	73,180,500
Temporary difference of Retirement Benefit Obligation	(9,058,502)	(1,087,020)	(7,828,903)	(782,890)
As at 31 March	714,071,119	85,688,534	723,976,100	72,397,610

As at 31 March Group	2014 Temporary Difference Rs.	2014 Tax Effect Rs.	2013 Temporary Difference Rs.	2013 Tax Effect Rs.
As at 1 April	723,976,100	72,397,610	735,293,270	73,529,327
Impact on changes in Tax rate	-	14,479,522	-	-
Amount originating / (reversing) during the year	(9,904,981)	(1,188,598)	(11,317,170)	(1,131,717)
As at 31 March	714,071,119	85,688,534	723,976,100	72,397,610
Temporary difference of Property, Plant and Equipment	723,129,621	86,775,555	731,805,003	73,180,500
Temporary difference of Retirement Benefit Obligation	(9,058,502)	(1,087,020)	(7,828,903)	(782,890)
As at 31 March	714,071,119	85,688,534	723,976,100	72,397,610

13 Trade and Other Payables

As at 31 March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Accrued Expenditure	2,366,557	2,708,731	4,781,778	10,593,238
Retention Money	77,662	77,662	1,869,509	2,301,363
Other Payable	12,645,457	6,582,410	16,041,451	7,303,001
	15,089,676	9,368,803	22,692,738	20,197,602

14 Revenue

For the year ended 31 March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Sales from Electricity Generation:				
Erathna MHPP	519,775,264	379,478,383	519,775,264	379,478,383
Denawaka Ganga MHPP	-	-	317,882,863	200,068,028
Kiriwaneliya MHPP	-	-	227,332,977	113,485,557
	519,775,264	379,478,383	1,064,991,104	693,031,968

Company and the subsidiary has entered into an agreement (Standardized Power Purchase Agreement) with the Ceylon Electricity Board to sell energy output generated from the power project. This agreement shall continue for a period of 15 years beginning on the commercial operations date. The commercial operations of the projects of the Group were started on 15th July 2004, 15 December 2011 and 14 February 2012 respectively. Further extension of this agreement will have to be agreed with the Ceylon Electricity Board after the expiry of the aforesaid 15 years. As per the Article 11 of the Standardized Power Purchase Agreement, Ceylon Electricity Board shall have the right of first refusal on terms identical to those offered by a third party to the Company, to purchase any electrical energy to be sold from the project.

15 Other Income

For the year ended 31 March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Profit on Disposal of Property, Plant & Equipments	30,100	-	63,600	212,833
Sundry Income	-	490,700	-	490,700
Dividend Income	77,829,998	-	-	-
	77,860,098	490,700	63,600	703,533

16 Finance Cost

For the year ended 31 March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Bank Charges & OD Interest	284,271	200,788	654,830	962,246
Lease Interest	153,804	851,208	617,234	1,610,966
Loan Interest	6,569,820	16,249,305	161,444,168	179,072,082
	7,007,896	17,301,301	162,716,232	181,645,294

17 Profit / (Loss) Before Taxation

For the year ended 31 March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Stated after Charging / (Crediting):				
Directors' Remuneration	5,094,444	4,877,778	5,094,444	4,877,778
Auditors' Remuneration	556,600	506,000	754,250	685,685
Depreciation	34,680,029	35,168,079	85,357,236	85,285,342
Personnel Costs includes				
- Defined Benefit Plan Cost/(Reversal)	2,160,926	2,112,055	3,010,702	2,960,342
- Defined Contribution Plan Costs - EPF & ETF	2,351,449	2,188,980	6,664,602	6,157,899
- Staff Salaries	15,676,328	14,593,200	44,430,681	41,052,660
- Other Staff Costs	7,257,154	6,929,160	21,916,829	21,324,801

18 Income Tax Expensesw

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 taxable at the applicable tax rate.

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

	Company		Group	
For the year ended 31 March	**2014 Rs.**	**2013 Rs.**	**2014 Rs.**	**2013 Rs.**
18.1 Income Statement				
(I) Current Tax Expense				
Income tax on current year profit (Note 18.3)	2,826,712	3,397,076	8,504,740	9,297,028
Less-: Previous year over provision	(11,396)		(11,396)	
	2,815,316	3,397,076	8,493,344	9,297,028
(II) Deferred Tax Expense				
Deferred Taxation Charge / (Reversal) (Note 12)	13,252,899	(1,109,653)	13,252,899	(1,109,653)
Tax charge reported in Income Statement	16,068,215	2,287,423	21,746,243	8,187,375
18.2 Statement of Other Comprehensive Income				
Net gain/(loss) on actuarial gains and loss on defined Benefit Plans (Note 12)	38,026	(22,064)	38,026	(22,064)
Tax charge directly to other comprehensive income	38,026	(22,064)	38,026	(22,064)

18.3 Reconciliation between Current Tax Expense and the Product of Accounting Profit

	Company		Group	
For the year ended 31 March	**2014 Rs.**	**2013 Rs.**	**2014 Rs.**	**2013 Rs.**
Net profit before tax	502,994,135	276,223,560	688,857,001	301,788,604
Add: Disallowable Expenses	40,620,731	40,973,535	105,129,529	104,457,637
Less: Allowable Expenses	(24,911,997)	(27,048,060)	(318,146,529)	(319,681,757)
Total Statutory Income	518,702,869	290,149,035	475,840,000	86,564,484
Tax exempt (profit)/loss from business	(508,607,469)	(278,016,621)	(445,465,925)	(53,360,814)
Taxable Income	10,095,400	12,132,414	30,374,075	33,203,670
Statutory income tax rate %	28%	28%	28%	28%
Income Tax	2,826,712	3,397,076	8,504,740	9,297,028
Income Tax Expense on Liable Income	2,826,712	3,397,076	8,504,740	9,297,028

19 Earnings/(Loss) Per Share

Basic Earnings Per Share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and share data used in the basic Earnings Per Share computations.

	Company		Group	
For the year ended 31 March	**2014 Rs.**	**2013 Rs.**	**2014 Rs.**	**2013 Rs.**
Amounts Used as the Numerators:				
Profit Attributable to Ordinary Shareholders for basic				
Earnings Per Share (Rs.)	486,925,921	274,156,780	632,946,940	289,398,823
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.)	0.65	0.37	0.85	0.39

20 Dividends Paid During the Year

	Company		Group	
For the year ended 31 March	**2014 Rs.**	**2013 Rs.**	**2014 Rs.**	**2013 Rs.**
2013/2014 - Rs. 0.60 per share (2012/2013 - Rs. 0.25 per share)				
	448,265,839	186,777,433	448,265,839	186,777,433
	448,265,839	186,777,433	448,265,839	186,777,433

21 Events Occurring After the Date of Statement of Financial Position.

There have been no material events occurred subsequent to the balance sheet date that require adjustments or disclosure in the financial statements.

22 Commitments and Contingencies

Capital Expenditure Commitments

There are no capital commitments as at the Statement of Financial Position date.

Contingencies

There are no contingent liabilities exist as at the Statement of Financial Position date.

23 Related Party Disclosures

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

23.1.1 Transactions with the Company

For the year ended 31 March Company	Relationship	Nature of Transaction	2014 Rs.	2013 Rs.
Country Energy (Pvt) Ltd. (CEPL)	Subsidiary Company	Operating Expenses incurred on behalf of CEPL	(23,395,691)	(21,036,780)
		Operating Expenses incurred on behalf of the Company by CEPL	673,353	201,479
		Reimbursement of expenses by CEPL	25,208,955	7,817,386
		Funds Transferred to CEPL	-	(500,000)
		Shares issued against the amount due from CEPL	-	154,299,980
		Dividend Received from CEPL	77,829,998	-
		Other Payments	-	(20,083)
LB Finance PLC	Related Company	Investment in Fixed Deposits	(140,750,764)	163,210,796
		Withdrawals of Fixed Deposits	150,673,077	(168,288,483)
		Interest Received	1,464,345	9,380,198
		Lease Instalment Paid	(2,288,000)	(3,432,000)
Vallibel Finance PLC	Related Company	Investment in Fixed Deposits	(99,989,264)	-
		Withdrawals of Fixed Deposits	50,565,544	-
		Interest Received	3,772,139	-
Vallibel Power Limited (VPL)	Parent Company	Operating Expenses incurred on behalf of VPL	(14,490)	(276,223)
		Reimbursement by VPL	14,490	276,223
Alternate Power Systems (Pvt) Ltd (APSL)	Related Company	Operating Expenses incurred on behalf of APSL	(13,184,019)	(11,974,058)
		Reimbursement by APSL	25,738,336	73,768
		Operating Expenses incurred on behalf of the Company by APSL	590,069	160,034
The Kingsbury PLC	Related Company	Payments made to Services obtained	330,000	-

23.1.2 Transactions with the Subsidiary

For the year ended 31 March			2014	2013
Company	Relationship	Nature of Transaction	Rs.	Rs.
LB Finance PLC	Related Company	Investment in Fixed Deposits	-	(24,161,921)
		Withdrawals of Fixed Deposits	-	96,248,001
		Interest Received	11,490,301	17,807,100
		Lease Installment Paid	(1,711,608)	(1,711,608)
Vallibel Finance PLC	Related Company	Investment in Fixed Deposits	(82,000,000)	-
		Withdrawals of Fixed Deposits	55,000,000	-
		Interest Received	771,871	-
Vallibel Plantation (Pvt) Ltd.	Related Company	Settlement of Inter Company Balance	1,541,084	-

23.2 Transactions with the Key Management Personnel of the Company or parent and Key Management Personnel Compensation

There were no transactions with the key management personnel of the Company other than management compensation of Rs.4,857,633/= (2013-Rs.4,416,030/=) paid during the year.

23.3 Related Party Transactions

There are no related party transactions other than those disclosed in Notes 4, 8, 10.1.2,10.2.2 & 23 to the Financial Statements.

Statement of Value Addition

	Company Rs.'000		Group Rs.'000	
Revenue	519,775		1,064,991	
Other Income	87,955		30,438	
	607,731		1,095,429	
Cost of material and services obtained	(45,192)		(79,152)	
Value addition	562,539		1,016,277	
Value created with		%		%
Employees	27,446	4.9	75,943	7.5
Government of Sri Lanka	4,306	0.8	11,371	1.1
Shareholders	448,266	79.7	459,686	45.2
Lenders of Capital	7,008	1.2	162,716	16.0
Retained for future as Depreciation	36,280	6.4	97,314	9.6
Profit	38,660	6.9	207,425	20.4
Donation & Social Welfare Activities	573	0.1	1,822	0.2
	562,539	100.0	1,016,277	100.0

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.

3 Shares held by the Public was 13.97% as at 31st March 2014

4 Distribution of Shareholding as at 31st March 2014

There were 3,601 Registered shareholders as at 31st March 2014.

No. of Shares held		No. of Shareholders	% of Shareholders	Total Holding	% of Total Holding
1	1,000	1,414	39.27	650,458	0.09
1,001	10,000	1,533	42.57	6,587,329	0.88
10,001	100,000	526	14.61	16,153,864	2.17
100,001	1,000,000	109	3.03	34,786,751	4.66
Over 1,000,000		19	0.52	688,931,329	92.20
Total		3,601	100.00	747,109,731	100.00

5 Analysis of Shareholders as at 31st March 2014

Category	No. of Shareholders	% of Shareholders	Total Holding	% of Total Holding
Individuals	3,429	95.22	240,247,683	32.16
Institutions	172	4.78	506,862,048	67.84
Total	3,601	100.00	747,109,731	100.00
Resident	3,565	99.00	579,418,303	77.56
Non-resident	36	1.00	167,691,428	22.44
Total	3,601	100.00	747,109,731	100.00

6 Major Shareholders

As at 31 March	2014		2013	
Name of the Shareholder	Number of shares held	% of Issued Capital	Number of shares held	% of Issued Capital
1 Vallibel Power Limited	299,425,830	40.08	299,425,830	40.08
2 Asia Energy Management Systems Inc	160,000,000	21.42	160,000,000	21.42
3 Mr. K D D Perera	144,812,225	19.38	144,812,225	19.38
4 Mr. K D A Perera	18,750,000	2.51	18,750,000	2.51
5 Mr. K D H Perera	18,750,000	2.51	18,750,000	2.51
6 AIA Insurance Lanka PLC A/C No. 07	10,286,175	1.38	11,239,875	1.50
7 Ms. K D C Samanthi	9,375,000	1.26	9,375,000	1.26
8 Employees Trust Fund Board	5,197,715	0.69	5,197,715	0.69
9 Commercial Bank of Ceylon PLC / Metrocorp (Pvt) Ltd	3,740,124	0.50	1,258,868	0.17
10 Mr. B C Tay	3,000,000	0.40	3,000,000	0.40
11 DFCC Bank A/C 1	3,000,000	0.40	6,400,000	0.86
12 Mr. H A Van Starrex	2,450,000	0.33	-	-
13 Seylan Bank PLC - A/C No.03	1,791,864	0.24	2,328,300	0.31
14 Deutsche Bank Ag - Comtrust Equity Fund	1,677,959	0.22	2,253,422	0.30
15 Waldock Mackenzie Limited /Mr. C D Kohombanwickramage	1,621,300	0.22	1,065,500	0.14
16 NDB Aviva Wealth Management Ltd S/A Hatton National Bank PLC	1,538,409	0.21	3,206,655	0.43
17 Eagle Proprietary Investments Limited	1,259,704	0.17	-	-
18 Distilleries Company of Sri Lanka PLC A/C No. 01	1,155,024	0.15	1,003,024	0.14
19 Mr. D D Gunaratne	1,100,000	0.15	1,100,000	0.14
20 Mr. W K G N Perera	1,000,000	0.13	-	-
21 Mr. D P Pieris	1,000,000	0.13	-	-
	690,931,329	92.48	689,166,414	92.25
Others	56,178,402	7.52	57,943,317	7.75
Total	747,109,731	100.00	747,109,731	100.00

7 Share Trading Information

	2013/14	2012/13
Highest (Rs.)	6.90	7.00
Lowest (Rs.)	5.30	4.50
Closing (Rs.)	5.60	5.60
Value of Shares Trades (Rs.)	257,072,859	162,856,478
No. of Shares Traded	42,987,474	27,552,781
No. of Trades	4,899	3,786

8 Equity Information - Company

	2013/14	2012/13
Earnings per share (Rs.)	0.67	0.37
Dividend per share (Rs.)	0.60	0.25
Net Asset Value per share (Rs.)	2.52	2.47
Dividend Pay out Ratio	89.55%	67.57%

Decade at a Glance - Company

	2013/14 Rs'000	2012/13 Rs'000	2011/12 Rs'000	2010/11 Rs'000	2009/10 Rs'000	2008/09 Rs'000	2007/08 Rs'000	2006/07 Rs'000	2005/06 Rs'000	2004/05 Rs'000
Operating Results		SLFRS/LKAS			SLAS					
Revenue	519,775	379,478	377,914	533,588	437,692	365,826	303,837	226,785	234,464	128,117
Gross Profit	472,964	332,557	335,261	492,713	396,821	330,441	266,900	192,016	203,626	110,718
Other Income	77,860	491	2,992	9,479	13,595	29,743	142,401	9,882	5,610	832
Administration Expenses	49,759	49,556	42,110	36,315	37,484	35,966	28,299	28,449	28,067	27,644
Finance Cost	7,008	17,301	21,309	20,291	14,393	2,008	1,042	5,363	40,279	51,898
PBT	502,994	276,444	279,669	445,086	398,663	310,793	348,796	155,391	139,949	30,457
Net Profit	486,926	2,741,561	277,469	441,987	394,080	305,848	346,382	152,831	139,302	30,290
Assets & Liabilities										
Non Current Assets	1,874,727	1,919,687	1,812,985	1,894,984	1,394,475	1,182,753	1,215,645	1,314,107	1,240,030	1,233,952
Current Assets	122,308	97,357	197,093	141,215	220,787	85,637	268,956	65,249	90,241	41,575
Total Assets	1,997,034	2,017,044	2,010,078	2,036,199	1,615,262	1,268,390	1,484,600	1,379,356	1,330,272	1,275,526
Current Liabilities	30,517	78,646	81,118	78,349	39,930	8,000	6,377	7,788	346,719	188,020
Non Current Liabilities	94,747	95,481	160,170	232,877	117,322	9,682	2,915	3,567	282	331,831
Retirement Benefit Obligations	9,059	7,829	5,886	5,610	3,951	1,942	1,235	919	282	71
Share Capital & Reserves										
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	276,291	188,000
Total Reserves	697,405	668,552	594,425	550,607	283,644	76,342	300,942	193,636	706,978	567,676
Key Indicators										
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Earnings Per Share	0.65	0.37	0.37	0.60	0.53	0.41	0.47	0.21	0.73	0.16
Dividend Per Share	0.60	0.25	0.25	0.20	0.25	0.41	0.57	0.27	-	-
Market Price of Share (Closing)	5.60	5.60	6.60	8.60	5.25	3.10	2.40	1.80	-	-
Net Assets Per Share	2.51	2.47	2.37	2.31	1.95	1.67	1.97	1.83	4.94	4.02
Power Generation (GWh)	43.8	39.4	36.9	47.6	40.9	39.9	42.1	38.0	43.1	21.7

Glossary

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

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

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.

Glossary

Gearing
Proportion of total interest-bearing borrowings to capital employed.

IAS
International Accounting Standards.

IFRS
International Financial Reporting Standards.

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 is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Current service cost
Is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost
Is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Revaluation reserves
Excess value identified between the fair value and carrying value of the revalued assets.

Return on equity
Attributable profits to the shareholders divided by shareholders' funds.

Return on capital employed
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 Revenue 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

CSE
Colombo Stock Exchange.

CEB
Ceylon Electricity Board.

CSR
Corporate Social Responsibility

CEA
Central Environment Authority

CO2
Carbon Dioxide.

CDM
Clean Development Mechanism.

FDI
Foreign Direct Investments

GRI
Global Reporting Initiatives.

GDP
Gross Domestic Product

MHPP
Mini Hydro Power Project

NCRE
Non Conventional Renewable Energy

OEDC
Organisation for Economic Co-operation and Development

PUCSL
Public Utility Commission of Sri Lanka.

SLSEA
Sri Lanka Sustainable Energy Authority.

Watt-hour
Unit of energy which expended for one hour of time.

Kilowatt (kW)
Equal to 1000 watt.

Mega watt (MW)
Equal to one million watts or to 1000 kilowatts

GWh
Giga watt hours

Giga watt (GW)
Equal to one billion watts or to 1000 megawatts.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirteenth Annual General Meeting of Vallibel Power Erathna PLC will be held at The Kingsbury, 48 Janadhipathi Mawatha, Colombo 1, on Thursday, 26th June 2014 at 9.30 a.m. for the following purposes:

1) To receive and consider the Annual Report of the Board of Directors, Financial Statements of the Company, for the year ended 31st March 2014 together with the Report of the Auditors thereon.
2) To re-elect Mr. S H Amarasekera who retires by rotation in terms of Article 25 (10) of the Articles of Association, as a Director of the Company.
3) To re-elect Mr. P K Sumanasekera who retires by rotation in terms of Article 25 (10) of the Articles of Association, as a Director of the Company.
4) To re-elect Mr. D S Clark who retires by rotation in terms of Article 25 (10) of the Articles of Association, as a Director of the Company.
5) To re-elect Mr. C V Cabraal who retires by rotation in terms of Article 25 (3) of the Articles of Association, as a Director of the Company.
6) To re-appoint Messrs Ernst & Young, as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.
7) To authorize the Directors to determine and make donations for the year ending 31st March 2015 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
22 May 2014

Note:
- A shareholder entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a shareholder, to attend instead of him/her.
- A form of Proxy is enclosed in this Report.
- The completed form of Proxy should be deposited at the Registered Office of the Company,
  No. 27-2, East Tower, World Trade Centre, Echelon Square, Colombo 01, by 9.30 a.m. on 24th June 2014.
- For security reasons shareholders / proxy holders are requested to bring their National Identity Card or Passport when attending the meeting.

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. S H Amarasekera	of Colombo or failing him
Mr. P K Sumanasekera	of Colombo or failing him
Mr. S E De Silva	of Colombo or failing him
Mr. D S Clark	of USA or failing him
Mr. H Somashantha	of Colombo or failing him
Mr. L D Dickman	of Colombo or failing him
Mr. S Shanmuganathan	of Colombo or failing him
Mr. P B Perera	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 13th ANNUAL GENERAL MEETING OF THE Company to be held at The Kingsbury, 48 Janadhipathi Mawatha, Colombo 1, on Thursday, the 26th day of June 2014 at 9.30 a.m., and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

		FOR	AGAINST
1)	To receive and consider the Annual Report of the Board of Directors and Financial Statements of the Company for the year ended 31st March 2014 together with the Report of the Auditors thereon.		
2)	To re-elect Mr. S H Amarasekara who retires by rotation in terms of Article 25(10) of the Articles of Association of the Company, as a Director of the Company.		
3)	To re-elect Mr. P K Sumanasekara who retires by rotation in terms of Article 25(10) of the Articles of Association of the Company, as a Director of the Company.		
4)	To re-elect Mr. D S Clark who retires by rotation in terms of Article 25(10) of the Articles of Association of the Company, as a Director of the Company.		
5)	To re-elect Mr. C V Cabraal who retires by rotation In terms of Article 25(3) of the Articles of Association of the Company, as a Director of the Company.		
6)	To re-appoint Messrs Ernst & Young, as Auditors and to authorize the Directors to determine their remuneration.		

Special Business

		FOR	AGAINST
7)	To authorize the Directors to determine and make Donations for the financial year 2014/15 and up to the date of the next Annual General Meeting.		

Form of Proxy

Signed this…………… day of ……………………….. Two Thousand and Fourteen.

……………………

Signature/s

Note:

1) Please delete the inappropriate words.
2) Instructions as to completion are noted on the reverse thereof.

Instructions as to Completion

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address and sign in the space provided. Please fill in the date of signature.

2. A Member entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a member, to attend and vote instead of him. Please indicate with an "X" in the boxes provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy in his discretion will vote as he thinks fit.

3. In the case of a Corporate Member, the Form of Proxy must be completed under its Common Seal, which should be affixed in the manner prescribed by the Articles of Association.

4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy, in the manner prescribed by the Articles of Association.

5. The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 27-2, East Tower, World Trade Centre, Echelon Square, Colombo 01, by 9.30 a.m. on 24th June 2014.

Corporate Information

Name of Company
Vallibel Power Erathna PLC

Legal Form
A Public quoted company with limited liability incorporated under the Provisions of the Companies Act, No. 07 of 2007.

Date of Incorporation
07 th November 2001

Company Registration Number
P.Q. 103

Nature of the Business
Generate and Supply Electric Power
to the National Grid.

Board of Directors
Mr. K D D Perera – Chairman
Mr. S H Amarasekera
Mr. P K Sumanasekera
Mr. D S Clark
Mr. S E De Silva
Mr. H Somashantha
Mr. L D Dickman
Mr. S Shanmuganathan
Mr. P B Perera
Mr. C V Cabraal

Alternate Directors
Mr. W D N H Perera (to Mr. P B Perera)
Ms. D S N Weerasooriya (to Mr. K D D Perera)

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 Vardhana Bank PLC
DFCC Bank
Hatton National Bank PLC
Pan Asia Banking Corporation PLC

Designed & produced by emagewise
Digital Plates & Printing by Softwave Printing and Publishing (Pvt) Ltd

Vallibel Power Erathna PLC . www.vallibel-hydro.com