

# POWER





# Sector Review **POWER**

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The Power Sector comprises Heladhanavi Ltd., a 100MW thermal power plant, which is a joint venture between Lakdhanavi and Hemas Power PLC, and two mini hydro plants with a combined capacity of 4.6MW, located at Giddawa and Lindula. The third, 2.4MW mini hydro plant, Magal Ganga, is under construction and would enhance the company's renewable energy capacity to 7.0MW upon completion in September 2011.

Hemas Power marked a commendable year, contributing 18.7% and 31.4% to Group revenue and profitability respectively. The sector recorded a turnover of Rs. 3.4Bn during the year, which is a 18.5% increase compared to the previous year, with a net profit of Rs. 426Mn, recording an increase of 74.4% over last year. The improved performance was mainly driven by healthy rainfall in the catchment areas around our hydro power plants throughout most of the year, along with a reduction in finance cost due to refinancing of borrowings for working capital.

The thermal power plant, which contributed 636.2GWh to the national grid during the year, recorded an exceptional performance throughout the year and remained the main contributor towards the Sector bottom line. Revenue of Heladhanavi increased by 13.8% to close at Rs. 3.1Bn, mainly due to the recent upward revision of fuel prices. Thermal power profitability increased by 29.4% to close at Rs. 238Mn for the period ending 31st March 2011, influenced largely by the significant reduction in finance cost. The decrease in finance charges was primarily due to the conversion of the rupee working capital facilities to USD loans in September 2010, to take advantage of favorable interest rates, and the ongoing repayments of the company's long term loans.

The hydro power segment recorded revenues of Rs. 240Mn and a net profit of Rs. 181Mn, growing by 160.3% and 172.5% respectively compared to the previous year. The Upper Agra Oya plant completed its first full year of operations under the Hemas management. The hydro power contribution to the Power Sector profits showed a significant increase to account for nearly 45.0% of sector profits in comparison to 25.0% recorded in the previous financial year. This noteworthy performance was partly due to heavy rainfall witnessed across the year within the relevant catchment areas. This in turn led to the mini hydro plants recording high levels of plant efficiency with plant factors in excess of 50%, generating 21.2GWh in total during the year under review. Revenue growth in 2010 was further boosted by higher tariff rates enjoyed by the two plants from September 2010 onwards.

Magal Ganga, the third hydro power plant is currently under construction, and is expected to be completed and commissioned in September 2011.

With global focus on solving the energy puzzle, conventional energy sources such as coal reserves and fossil fuels continue to dwindle at a rapid pace. This has resulted in higher costs for the use of these resources in power generation and it has been recognised that use of these resources also contributes to pollution and global warming. With the current global developments, the Government's stance on energy, focuses more towards generating power through more sustainable renewable energy (RE) sources including hydro, biomass and wind.



The Government successfully commissioned the first coal power plant at Norochcholai in January 2011 which is expected to decrease the cost per unit but increase annual carbon emissions (Source: Lanka Business Online). Reinforcing the long term focus on sustainable energy, the Government has already taken steps to assist projects based on non-conventional RE sources and targets to increase the RE contribution to the national power supply to 15% by 2015. During the year, the Government continued to support biomass and wind power projects. The Government has also made plans to test the feasibility of Ocean Thermal Energy Conversion (OTEC), a technology that converts solar radiation to electricity using the ocean's natural 'thermal gradient' in the eastern sea waters of Trincomalee.

Under the *Vidulamu Lanka* project, the government intends to ensure that every Sri Lankan will have access to electricity by the end of year 2012. Currently, the national grid fails to cover about 12% of electricity distribution in the country, while per capita electricity consumption in Sri Lanka is amongst the lowest in South Asia. Thus, Hemas is ready to capitalize on the opportunities in the renewable energy space in order to enhance shareholder value while contributing to the development of the nation.

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