

VELCAN Energy



ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011



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1 – 2011 Key figures & Executive Summary

Velcan Energy is an Independent hydro power producer. Hydropower is a conventional, clean, renewable and competitive source of power. The Group develops, finances and operates hydro power concessions currently located or planned in Brazil, India, Indonesia and Laos. These installations have an individual capacity between 15 and 200 MW.

The worldwide group's portfolio amounts to 628 MW of concessions, licenses and exclusive rights as of 31 December 2011. The Group is actively prospecting new hydroelectric concessions in several emerging markets.

Velcan Energy shares have been transferred from Euronext Paris' *Marché Libre* to Nyse Alternext in March 2011.

Consolidated Financial Data

in Million Euros

	<u>2011</u>	<u>2010</u>	<u>Var %</u>
Turnover	5,4	3,8	+44%
EBITDA	0,1	-1,2	+109%
Net Result	-3,1	9	-135%
Cons. Equity	132	139	-4%
Cash	97	98	-1%
Capitalization	75	101	-26%
Book value per share (net issued equity)			
	20,7	21,6	-4%

	2011	2010
GLOBAL		
Portfolio of concessions and production facilities.		
Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	628 MW	593 MW
BRAZIL		
Hydroelectric plant in operation	15 MW	15 MW
Concessions and Exclusive rights under development.		
Does not include the various transactions or projects under assessment or technical studies.	53 MW	53 MW
INDIA		
Concessions under development.		
Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	500 MW	500 MW
LAO PDR		
Pre-concessions under development.		
Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	60 MW	25 MW



2011's main events

- **March 2011**, the Group joins Alternext trading market and the continuous quotation of its shares starts on 14 March 2011.
- **March 2011**, Velcan Energy obtains, in partnership with the Laotian state company ECI, its second hydroelectric pre-concession for the project Nam Ang Tabeng in Laos.
- **June 2011**, the United Nations (UNFCCC) grants the Concession Rodeio Bonito permission to generate "Carbon credits", in an estimated annual production between 15.000 and 20.000 tons per year.
- **September 2011**, the Group sells its Brazilian government bonds and converts the sale proceeds in USD and EUR, performing a significant change on its assets allocation.
- **October 2011**, following the publication of its half-yearly financial statements, the Group announces the provision for depreciation of 4 Brazilian projects (Ibituruna, Pirapetinga, Quebra Dedo and Cabuy) and the abandonment of a fifth project (Cachoeira Alegre), with an impact of 4.242 k€ on its net result.

2 - Main Trends 2011 and foreseeable evolution for the Group

Velcan Energy SA, the group's parent company, was incorporated on 8 April 2005. Its sixth financial year ended on 31 December 2011.

As of today, Velcan Energy group designs, develops, implements, finances and operates only hydroelectric concessions.

Its power generation installations and projects are currently located in India, Brazil, Lao PDR and Indonesia. As of today, as per the knowledge of the Group, Velcan Energy was the first foreign company to own a significant hydro concession in India and is still, as of today, one of the only two foreign players owning such hydro concessions in India.

2011 year has been marked both by an increase in the Group exclusive rights portfolio in Laos, together with an active search for new projects in South America and South-East Asia.

The Financial year 2011 was also devoted to the consolidation and development of hydroelectric projects acquired by the Group since 2007.

In Brazil, the Rodeio Bonito plant runned correctly with no major issues.

The Group has continued the development process of its concessions acquired previously, and has filed the necessary applications to the competent government bodies, notably to environmental authorities.



However, the Group has not noted any significant progress on the administrative procedures to get authorization and licences required for the development of its 5 ongoing Brazilian projects. Depending on the projects, the difficulties faced are administrative, social and/or due to fierce competition. Furthermore, on the background of falling energy prices and soaring construction costs, some projects appeared no longer profitable.

The Group has therefore decided to significantly decrease the probability of success for 4 projects (Ibituruna, Pirapetinga, Quebra Dedo et Cabuy) and abandoned the Cachoeira Alegre project, assessed as not viable in the current context. The related provisions and impairments amount to 4.242 k€ as of 31 December 2011.

At the end of the year, the Brazilian portfolio comprises a total of 58 MW, including 15 MW under operation and 53 MW of concessions and exclusive rights, the same as in 2010. Cachoeira Alegre and Cabuy projects had never been accounted for in the portfolio due to their non-exclusive nature.

In India, the Group has continued to work on the development of its projects obtained in 2007, which are all currently under investigation and techno-economic study phases. Procedures for environmental and techno-economical clearance are also under progress.

In 2011, the Central Electricity Authority, in charge of approving the Power Potential studies, has increased the maximum installed capacity from 500 MW to 571 MW. The Ministry of Environmental and Forest has also granted its initial validation (Terms of Reference) allowing the submission of environmental studies based on this new capacity. This increase has not been taken into account in the Group's portfolio so far, pending the signature with the government of Arunachal Pradesh of an updated concession agreement confirming the increase from 500 MW to 571 MW.

Then, at the end of the year, the Indian portfolio of hydroelectric projects is stable at 500 MW.

The administrative and technical teams continue working to validate the technical specifications and the viability of the projects and to obtain the various administrative, environmental and land related clearances.

Since the Group has sold all its Biomass Power plants, no power generation has been recorded in India for 2011.

In Laos, the Group has pursued the investigations and the development of the Nam Phouan project, obtained in 2010, and has also obtained a second pre-concession for the Nam Ang Tabeng project (35 MW), in partnership with the ECI - Electrical Construction and Installation.

For the Nam Phouan project, the investment decision should be taken in 2012 following results of pending feasibility studies and the negotiation on electricity selling prices.

The world economic situation was not as good in 2011 in Brazil and India as it had been in 2010, even if both countries have shown significant economic growth rate in 2011.



Moreover, the depreciation of the Brazilian Real between December 2010 and September 2011, when all the Brazilian government bonds held by the Group were sold, led to the account of significant exchange losses on the period. The total net exchange losses for the Group in 2011 amounted to -3.608 k€ (not including the negative impact of 2.875 k€ resulting from the conversion in Euros of the group's loans and balance sheets in foreign currency, which has no impact on the net result but affects the equity).

In this context, and considering the impairments made in Brazil, the Group has registered a net loss of 3,1 M€ in 2011, a sharp deterioration when compared to the net profit of 9 M€ in 2010. The Group's equity has gone from 139 M€ to 132 M€, down by 4,46%.

Foreseeable evolution of the Group:

Velcan Energy is oriented towards a unique expertise: exploitation of hydroelectric concessions in emerging markets.

Those power generation facilities and projects are currently located in India, Brazil, Laos and Indonesia.

The Group geographical choices are strategic decisions. The chosen countries are dynamic economies, where the electricity generation market liberalization and/or a huge unmet demand for energy, have created a favourable context for investing in power production.

Being now settled in India, Brazil and Laos, the Group intends to apply its business model to other emerging markets having significant growth perspective and hydroelectric potential.

The company has completed the construction of its first hydroelectric concession in Brazil in 2009, which has been a major step in the development of the Group.

The group is now planning to invest the remaining balance of its equity in other hydroelectric concessions. Until this is done, its equity is predominantly invested in bonds, money market funds and bank deposits in Euro, American Dollar, Norwegian Kroner and local currency in countries where it plans to invest.

After the closing of its 6th financial year, the Group is pursuing the following objectives:

- In the short run:
 - a) the diversification of the risks to which it is exposed by establishing itself in new countries,
 - b) the construction of a second hydroelectric power plant.

- In the medium term:

the complete development of its 500 MW concessions in Arunachal Pradesh.

3 - Detailed Annual report for the year 2011



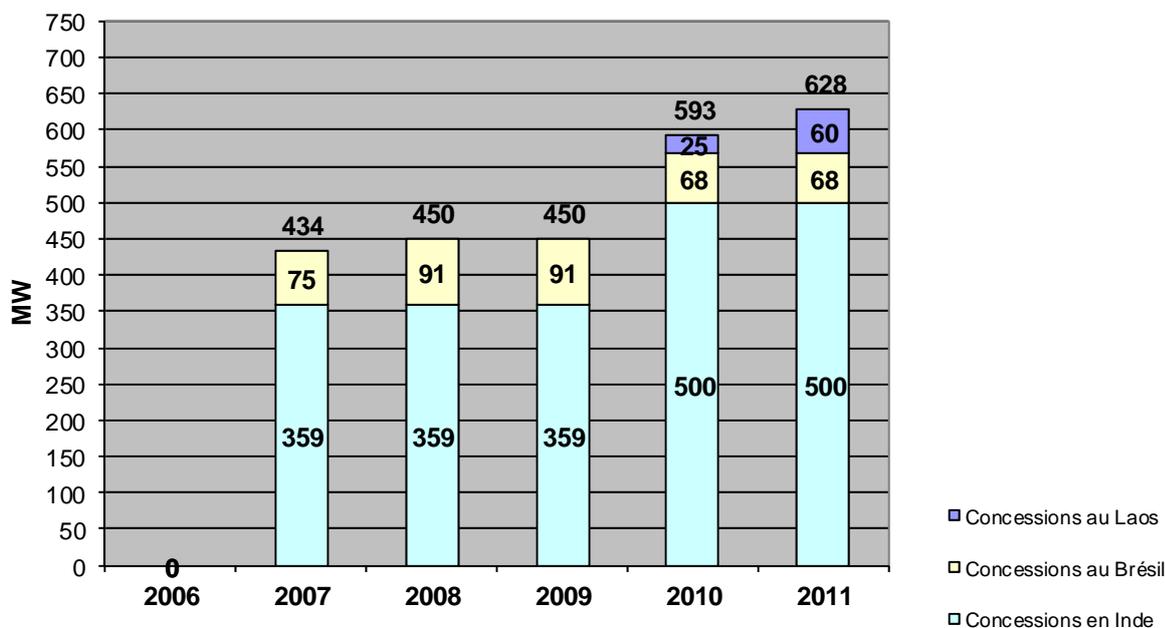
This sixth financial year has been devoted to the continuation of techno-economic studies and administrative development of concessions and rights obtained, to the prospection of new projects in South America and South-East Asia and finally to the pursuit of rationalization of structural costs.

3-1 Evolution of the business

Evolution of the Portfolio of projects

The portfolio of projects under development slightly increased due to the obtaining of a new pre-concession in Laos. The fiscal year was closed with a total portfolio of 628 MW, against 593 MW on the previous year.

The installed capacity is exclusively represented by the Rodeio Bonito power plant (15 MW).





Summary of concessions as of 31 December 2011

Project Name	Country	State	Size (MW)	Total Investment (M€)	% ownership	Book value (M€)	Remaining years of concession
PCH Rodeio Bonito	Brazil	Santa Catarina	15	26,6	95%	27,4	22
PCH Quebra Dedo	Brazil	Minas Gerais	20	44	100%	0,4	20
PCH Pirapetinga	Brazil	Minas Gerais	23	50,6	100%	0,5	20
PCH Ibituruna	Brazil	Minas Gerais	10	25,1	100%	0	30
Subtotal Brazil			68	146,3		28,3	
Yarjep / Heo	India	Arunachal Pradesh	210	235,7	100%	3,3	40
Yarjep / Pauk	India	Arunachal Pradesh	120	134,7	100%	2,2	40
Yarjep / Tato I	India	Arunachal Pradesh	170	179,6	100%	2,7	40
Subtotal India			500	550		8,2	
Nam Phouan	Laos	Vientiane	25	30	80%	0	30
			35	42	80%	0	30
Subtotal Laos			60	72			
TOTAL			628	768,3		36,5	

This chart contains prospective data related to the potential of ongoing projects or projects of which the development just started. This information represents objectives related to projects and should not be interpreted as direct or indirect profit forecasts. The realization of these objectives depends on future circumstances and could be affected and/or delayed by known or unknown risks, uncertainty and various factors of all kind, especially linked to the economic, commercial or regulatory context, and that, in case of occurrence, could have a negative impact on the activity and the future performances of the Group.

General process of hydroelectric projects development

The Group economic model is mostly based on electricity sale. The energy produced can be sold either to local electricity companies or to industrial customers, through long or short term contracts in markets designed for this purpose. The production of this energy goes first through the obtaining of concessions, then through an extensive project development stage and finally through the construction works.

The portfolio of projects corresponds either to concessions, or exclusive development rights or exclusive studies rights which have been directly obtained by the Group subsidiaries with related authorities, or acquired from private developers.

There are two kinds of concessions:

- Primary concessions, obtained directly from the concerned government by the Group;
- Secondary concessions, which are bought from competitors

Concessions contracts mainly give the right to carry out studies and to use the river water in order to develop and operate the hydroelectric power plant at a given place, subject to the achievement of required administrative authorizations. These concessions are usually granted by governments for a period of 20 to 40 years.

At the end of the concession, the developer generally undertakes to transfer to the licensing authority the hydroelectric power plant in operation.

However, the concessions do not include other administrative permits, particularly the various environmental permits, techno-economic clearances and land rights necessary for the construction of power plants. It is possible to obtain a concession, and yet be unable to construct because these other clearances are not obtained.

Therefore, the developer must conduct field investigations, detailed techno-economic studies and environmental studies. The period of studies and investigations covers many areas: detailed topography, geological investigations, permeability studies, seismic studies, hydrological reports and studies and detailed climatological studies.

These investigations are crucial because they gather the data used to determine the viability of the project. They also define the detailed features of the plant, including the final capacity that can be installed.

Along with the investigations and studies, the administrative procedures are initiated or followed up in order to obtain environmental and techno-economic clearances needed for the start of construction.

Till the grant of final authorizations first and then till the beginning of construction, the capacities mentioned in the table above can vary. The outcome of detailed field investigations (geological or land hazards in particular), techno-economic studies, environmental permit studies or procedures or the emergence of new social environmental constraints are all factors likely to affect the final characteristics of the project.

Changes in regulations, in particular, in the environmental field, could also compel changes in the features of the project and generate administrative complications (review of the concession and necessity of re-approval of the concession by the licensing authority).

This process of evaluating the viability, according to projects, and subject to the absence of administrative delays (which cannot be guaranteed) lasts 24 to 60 months.

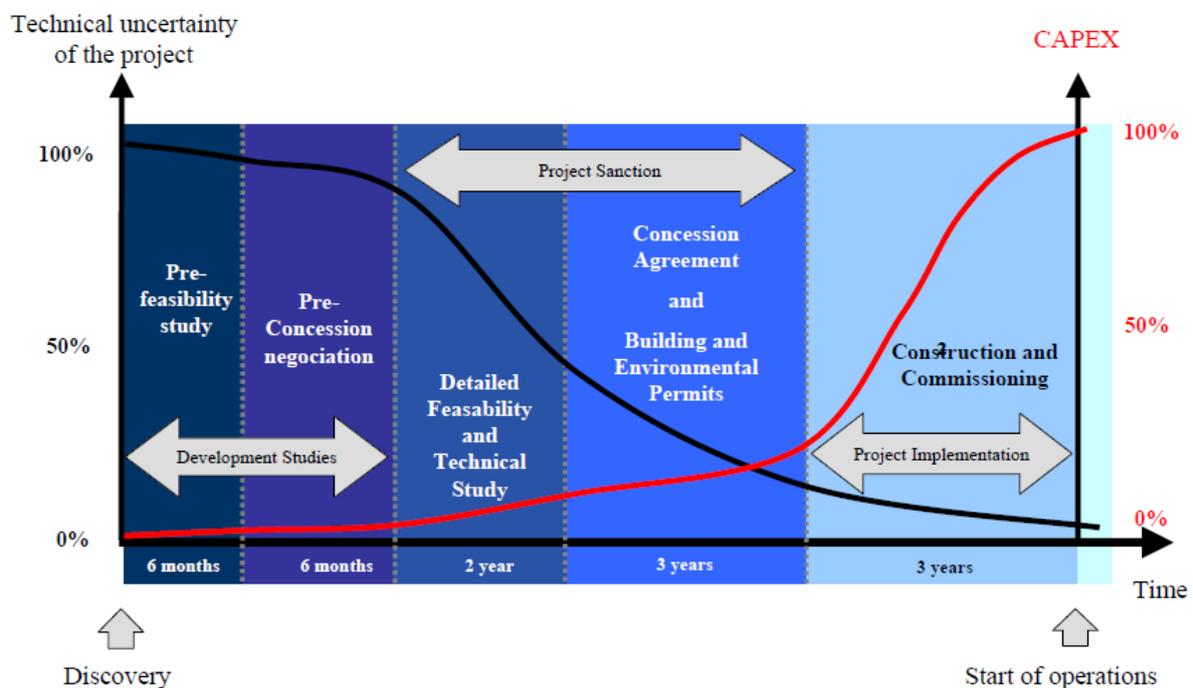
When investigations and studies are completed, when the project is technically approved by the licensing authority (approval of the "*Projeto Básico*" (basic project) in Brazil and "*Techno-Economical Clearance*" in India), and when all administrative permits and funding are obtained, construction of the facilities can begin. It lasts, again depending on the nature of each project and subject to the absence of technical setbacks, 24 to 60 months.

During construction, some geological or social constraints (ethnic movements or anti-dam activists for example), or even administrative constraints, are likely to occur and to delay the construction or even to oblige to revise, on building, the characteristics of the projects.

The commissioning is also subject to certain specific authorizations (e.g. permission for filling up the reservoir granted by ANEEL, the Brazilian Electricity Regulatory Agency, or the permit to start operations, granted by the environmental administration in each state).

In India and Brazil, the electricity production market is partially liberalized. Production can be marketed to public distributors via long-term contracts or even in the 'free' market to traders or directly to large industrial consumers.

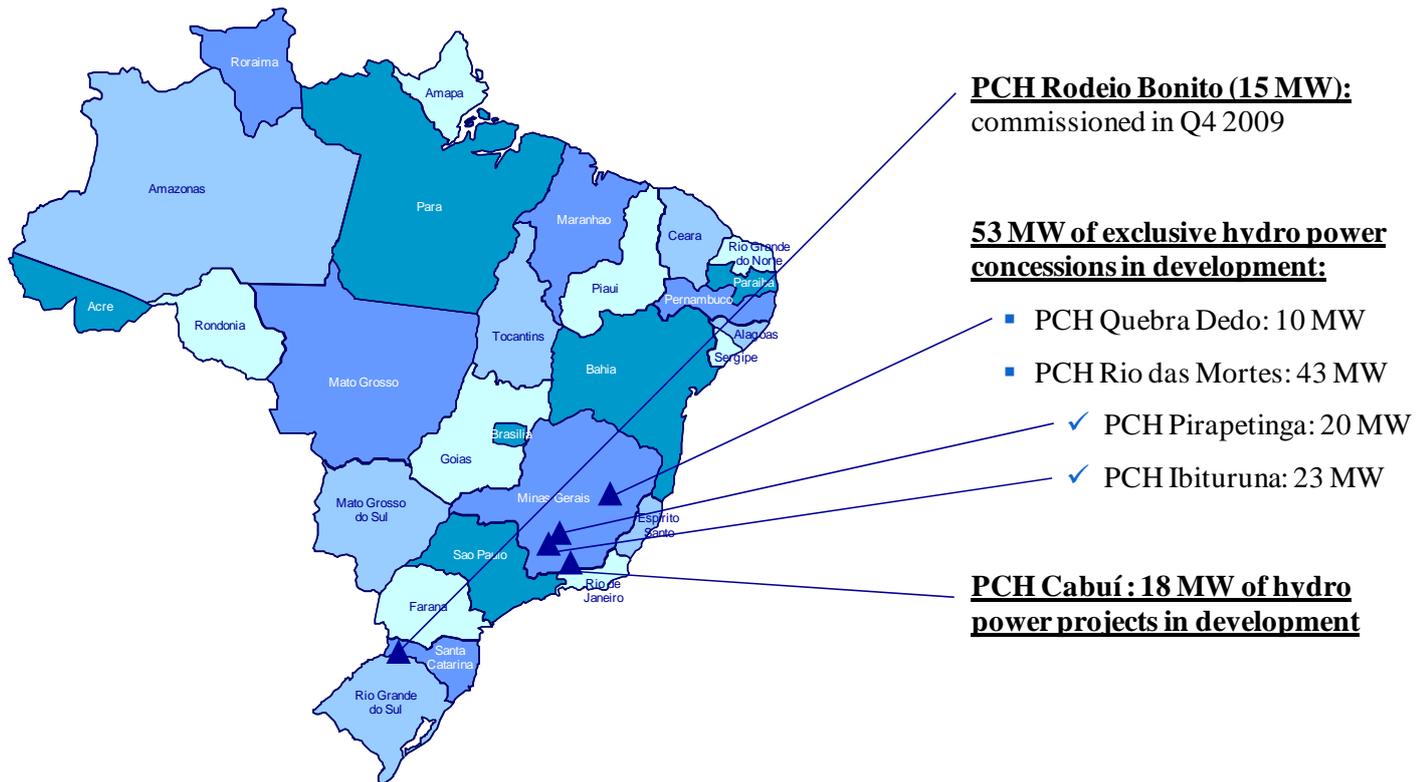
The chart below sums up the development steps of hydro projects:



Brazilian hydroelectric projects development in 2011

The Group has established its Brazilian subsidiary in early 2006. At the end of 2011, the company owns projects totalling 86 MW. It is composed of 14,7 MW under operation, 53 MW of exclusive concessions and rights under development and 18 MW of non-exclusive, projects under development.

In Brazil, the concession period is counted from the authorization given by the ANEEL, the Brazilian Electricity Regulatory Agency. However, the full electricity production belongs to the developer of the concession from the beginning of the electricity commercialization.



The Group has not noted so far any significant progress on the administrative procedures required to achieve the development of its 5 ongoing Brazilian projects in 2011, each of them facing different administrative and social barriers and/or fierce competition. Furthermore, no improvement on the energy selling prices conditions was in sight and therefore some projects are no longer profitable considering the falling energy prices and soaring construction costs.

The Group has therefore decided to significantly decrease the probability of success for 4 projects (Ibituruna, Pirapetinga, Quebra Dedo and Cabuy) and abandoned the Cachoeira Alegre project, not viable in the current context. The related provisions and depreciations amount to 4.242 k€ as of 31 December 2011.

- **PCH Rodeio Bonito (Brazil)**

During the year ended on 31/12/2011, Rodeio Bonito has produced 64.264 MWh and made a turnover of 4.789 k€.

The guaranteed energy* was increased by 1 MW, from 7,79 in 2010 to 8,79 MW in 2011. This additional mega-watt was sold in 2011 at an average price of 89,60 BRL/MWh.

The remaining 7,79 MW were sold by means of 3 electricity purchase contracts with average prices going from 149,79 BRL/MWh to 158,90 BRL/MWh.

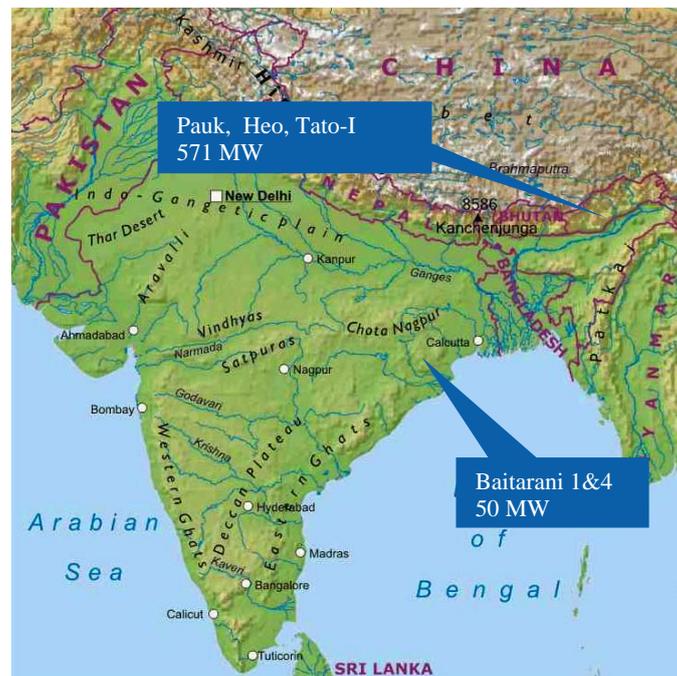
(*) In Brazil, « guaranteed energy » or « ensured energy » means the energy annually marketable as approved by MME – Ministério de Minas e Energia (Department of Mines and Energy) and guaranteed through the Brazilian power system for power plants opting for the MRE (Energy reallocation Mechanism), mechanism functioning at national scale. This is the case of Rodeio Bonito.

Concerning Rodeio Bonito, the ensured energy was 7.79 MW during 8.760 hours per year, i.e 67.452 MWh per year until December 21st 2010. From this date when MME has taken into account the two small turbines using the environmental discharge in the calculation of the power production of the plant, the tradable energy has been increased to 8.8 MW or 77,088 MWh annually. The part of this guaranteed energy that is not related to medium-term contracts is now commercialized on the short-term market.

Indian hydroelectric projects development in 2011

In India, the concession starts on the date of the plant commissioning. The local granting authority receives between 12 and 13% of the electricity produced throughout the concession period and the plant is transferred for free to the granting authority at end of the concession.

In India, the Group pursued the development of projects obtained in 2007, all of which being currently under investigations and techno-economic studies phase. The procedures for environmental and techno-economic permits are also ongoing. The portfolio of hydroelectric concessions in India stands currently at 500 MW, which is very atypical given the youth and the size of the Company. This portfolio should soon evolve to 571 MW (see supra).



- **Pauk HEP, Heo HEP, Tato-I HEP and Hirit HEP (India)**

During 2011, the teams dedicated their efforts to the continuation of field investigations, technical studies and to the preparation of the two main project reports: the *Detailed Project Report* (DPR) and the *Environment Impact Assessment* (EIA). Both reports will have to be approved by the Licensing authority and by the Indian central authorities among which principally, the «*Central Electricity Authority*» and the «*Ministry of Environment and Forests, New Delhi*». They will define the technical and industrial features of the future power plants and will be used as a basis to get techno-economic and environmental authorizations.

In late April 2011, "*Power Potential Studies*", an integral part of the DPR, were validated by the Central Electricity Authority for a total installed capacity of 571 MW, against the 500 MW capacity demanded by the Group. As a result, the Group had to apply for the approval from the Ministry of Environment and Forests, who accepted in October 2011 to revise the Terms of Reference for the environmental studies. Due to this capacity increase, the Group has to modify all the technical studies and reports (DPR, EIA) for all the three projects, a process which started on the last quarter of 2011. Pending the signing of the modified concession agreement with the government of Arunachal Pradesh, this concession remains accounted for 500 MW in the Group's portfolio as of 31/12/2011.

The procedures related to land acquisition and those of "Forest Clearance", related to the use of forestry resources located on the concerned lands were pursued in 2011. The Group highlights, however, that those procedures are time-consuming due to land disputes, lack of land owner / land revenue registries in tribal and rural zones, slowness of the discussions with the local population and heavy administrative burdens.

Besides, field investigations have been pursued and additional geological investigation shall be done following the procedures initiated before the CEA and the *Geological Survey of India* in order to validate the geological studies for those 3 projects.

At the date of the present report, investigations and preparation of aforesaid reports are being carried out.

Since the Group does not know if it can pursue the HIRIT project, this latter was excluded from the portfolio in 2010.

- **Baitarani HEP (India / Orissa)**

Due to lengthy discussions with the concession granting state, this project has experienced many delays during 2008 and 2009 years. The Group now considers it will not be able to develop by itself this concession and studies currently different options for the future.

A significant potential in Laos

The Group has been successful in India and Brazil at a time when these countries were still not considered as driving forces behind the growth of worldwide economy. However, they are now, and therefore competition for concessions is much more intense than it was five years ago.

As a consequence, the Group is looking for additional countries in which macro-economic characteristics suggest that their development will accelerate in the near future. This is particularly the case of Laos, which combines a significant hydroelectric potential with possibilities to export to countries with important energy needs such as Thailand and China.

In March 2011, in the context of its partnership with the Laotian company ECI (Electrical Construction and Installation) for the development of 300 MW in Laos, the Group obtained its second pre-concession for the Nam Ang Tabeng project.

Feasibility studies and further investigation on this project, as well as on the project Nam Phouan, have been continued in 2011.

For the Nam Phouan project, the decision to invest – or not - should occur in 2012 following results of feasibility studies and the setting of electricity selling prices.



Indonesia

The Group began prospecting for hydroelectric sites in Indonesia.

Net Result

Revenue from the Rodeio Bonito power plant and from Carbon Credits trading (5,4 m€ in total), and the stabilization of operational costs resulted in a substantial improvement of the EBITDA which has been positive during this financial year, from -1,2 M€ in 2010 to +0,1 M€ in 2011. Staff and external expenses remained stable at 4,3 M€ in 2011, i.e. a 1% decrease.

The unfavorable fluctuation of the Brazilian currency has generated a total 3,6 M€ negative impact (unrealized and realized) on the Group consolidated result as of 31 December 2011. Interest and financial gains, excluding forex effects, amounted to 7,1 M€ throughout the 2011 year .

Due to various uncertainties, particularly on its Brazilian projects, the Group was led to make a provision and depreciate a portion of its intangible assets, which has negatively impacted the result by 5,9 M€.

In this context, the Group has recorded a net loss of 3,1 M€ in 2011, against a positive result of 9 M€ in 2010.

Consolidated Equity evolved from 138,7 M€ to 132,5 M€.

Change in Cash

The Group has a cash position of 97,1 M€ as of 31 December 2011, against 98,1 M€ as of 31 December 2010.

3-2 Consolidated balance sheet and income statement**Consolidated Balance Sheet – ASSETS***in thousands of Euros*

Assets	Net 31.12.2011	Net 31.12.2010
Non current assets	-	-
Goodwill	14	14
Intangible assets	14 805	18 418
Tangible assets	23 167	25 464
Non current financial assets	1 641	1 928
Investments accounted for using the equity method	-	-
Other non current assets	246	525
Deferred tax assets	708	1 100
Total non-current assets	40 581	47 449
Current assets	-	-
Inventories	-	-
Trade and other receivables	1 080	1 131
Income tax receivables	295	437
Other current assets	1 034	2 430
Cash and cash equivalents	97 066	98 139
Total current assets	99 476	102 137
Total assets	140 056	149 586

Consolidated balance sheet – LIABILITIES
in thousands of euros

Liabilities	31.12.2011	31.12.2010
Shareholders equity	-	-
Issued capital	7 780	7 774
Additional paid in capital	139 408	139 366
Other reserves and conversion reserves	(11 341)	(17 293)
Net income for the year	(3 144)	9 093
Total shareholders equity	132 702	138 940
Minority interests	(235)	(290)
Total Consolidated equity	132 467	138 651
Non current liabilities	-	-
Non-current financial liabilities	1	(0)
Deferred tax liabilities	303	1 334
Non current provisions	1 871	2 689
Other non current liabilities	935	1 040
Total non-current liabilities	3 110	5 063
Current liabilities	-	-
Current financial liabilities	1 119	1 424
Current provisions	25	115
Trade and other payables	2 341	2 709
Income tax payables	111	933
Other current liabilities	883	690
Total Current Liabilities	4 479	5 871
Total Liabilities	140 056	149 586

Consolidated income statement
in thousands of euros

Result	31.12.2011	31.12.2010
Net turnover	5 417	3 769
Other operating revenue	(27)	(48)
Total operating revenue	5 390	3 720
Consumed purchases	(784)	(334)
Changes in inventories		
External expenses	(2 838)	(2 680)
Payroll expenses	(1 442)	(1 647)
Taxes	(221)	(255)
Amortization & Provision	(6 440)	(2 322)
Current operating profit	(6 335)	(3 519)
Income on sale of equity shares		
Other operating income and expenses	(807)	1 845
Operating profit	(7 141)	(1 674)
Financial Income	9 284	14 508
Financial expenses	(5 452)	(3 487)
Financial Result	3 831	11 021
Income tax	208	(369)
Profit of investments accounted for using the equity method	-	-
Net profit from continuing operations	(3 102)	8 978
Net profit from discontinuing operations	-	-
Profit, group share	(3 144)	9 093
Profit, minorities share	42	(116)
Earnings per share (in euros)	(0,49)	1,38
Diluted earnings per share (en euros)	(0,49)	1,36
EBITDA	105	(1 197)
Statement of total comprehensive Income	31.12.2011	31.12.2010
Net income	(3 144)	9 093
Foreign currency translation comprehensive income	(2 875)	5 956
Total Comprehensive Income	(6 019)	15 049

3-3 Comments on the consolidated balance sheet

The total of the balance sheet amounts to 140.056 K€ against 149,586 K€ as of 31 December 2010, i.e. a decrease of 6,37% which is mainly explained by the losses realized by the Group during the financial year.

Intangible assets amount to 14.805 K€, and mainly consist of (net values):

- Rodeio Bonito concession in Brazil: 4.840 k€
- Direct costs incurred on other hydroelectric projects in Brazil: 1.193 k€
- Direct costs incurred on hydroelectric projects in India: 8,208 k€
- Direct costs incurred on hydroelectric projects in other emerging countries: 556 k€

Tangible assets amount to 23.167 K€ and mainly consist of:

- Rodeio Bonito concession construction costs in Brazil 22,619 K€

Non current financial assets and other non current assets amount to 1.887 K€, out of which principally 1.641 K€ of financial assets (mainly Vensar Constructions Company Shares).

Trade receivables and related accounts correspond mainly to sales of 2011 production of Rodeio Bonito not yet received, and receivables from electricity distributors linked to the period before the acquisition of Rithwik Power Projects Limited. The latter are not provisioned because the company has a debt for an equivalent amount, which would be paid to the old promoters only if electricity distributors were paying their dues to the Group.

Other current assets are related to the following elements:

- Carbon Credit trading 436 k€
- Carbon credit production 187 k€
- Fiscal and Social receivables 245 k€
- Other receivables 167 k€

Cash and cash equivalents position amounts to 97.066 K€ against 98.139 K€ as of 31 December 2010, but does not include Velcan Energy Shares held by the group, valued at 13.152 k€ as of 31 December 2011.

During 2011, the cash, invested mainly in bonds and bank deposits, remained quite stable slightly decreasing by 1,09%, since financial income and sales activity approximately covered the Group expenses.

The capital and the additional paid in capital are commented with the key statutory financial figures.

The translation reserves represent an unrealized gain of 2.138 K€, charged on the group's equity and are detailed as follows:

- Conversion of the balance sheets and income statements of subsidiaries (outside Euro zone): -2.883 k€
- Unrealized Foreign exchange differences on loans granted to subsidiaries: 5.021 k€

The current and non current financial liabilities amount to 1.119 K€ against 1.424 K€ as of 31 December 2010 (see p. 27, currency conversion risk)

Non current provisions amount to 1.871 k€, out of which:

- 828 K€ linked to a litigation involving the Rodeio Bonito company;
- 932 K€ linked to litigations in India

The Group does not recognize any of these debts but has booked provisions as a cautious measure.

Deferred taxes represent a future tax credit of 405 K€.

Suppliers and other payables amount to 2.341 K€ and are detailed as follows:

- | | |
|---------------------------------------|----------|
| • Suppliers | 106 k€ |
| • Dues on acquisition of fixed assets | 1.990 k€ |
| • Other debts | 194 k€ |

Other current liabilities amount to 883 k€, consisting mainly of suppliers payables.

3-4 Comments on consolidated income statement

The turnover amounts to 5.417 K€, up by 44% in comparison with previous year at 3.769 K€. In 2011, it comes from the electricity sales of the Rodeio Bonito power plant (4.789 K€) and from carbon credit trading (627 K€).

The operating expenses amount to 11.504 K€, against 6.983 K€ in 2010 and consist mainly of:

- 784 K€ of consumables, against 334 K€ on 31 December 2010;
- 2.838 K€ of external expenses against 2.680 K€ on 31 December 2010
- 1.442 K€ of payroll expenses against 1.647 K€ on 31 December 2010;
- 6.440 K€ of depreciation and amortization expenses against 2.322 K€ on 31 December 2010, mainly due to the amortization of the Rodeio Bonito power plant and the provisions and impairment of the other Brazilian projects.

Research activities are taken into account as and when their costs are incurred on one hand. On the other hand, the costs directly attributed to projects meeting the defined criteria in the

accounting rules and regulations have been activated in intangible assets (see details of projects in the balance sheet)

Regarding human resources, the headcount of the Group are detailed as follows:

<i>In units</i>	31.12.2011	31.12.2010
Engineers and Executives	21	20
Office and Manual workers	35	67
Average number of employees	56	87

Other operational expenses essentially come from depreciation of intangible and tangible assets related to power plants and projects, previously capitalized and now impaired.

The current operating profit is -7.334 k€, against -1.674 K€ as of 31 December 2010.

The net financial profit amounts to 3.831 K€ thanks to interests over cash, even though it is negatively affected by the net forex result.

The income tax profit amounts to 208 K€ (losses of Velcan Energy Luxembourg, Velcan Energy SA and Velcan Energy Mauritius Ltd recognized as future tax assets).

It results in a **net loss** of 3.144 k€ for the group, against a net profit of 9.093 K€ in 2010.

3-5 Financial situation and indebtedness

No significant capital increase was carried out in 2011. Given the net income in 2011, the consolidated shareholder's equity amounts to 132.467 K€, against 138.651 K€ in 2010.

Thousands of Euros	31/12/2011	31/12/2010
Consolidated net debt (1)	-97 066	-98 139
Consolidated Shareholder's equity	132 467	138 651
EBITDA (2)	105	-1 197
Net Financial Interest	3 831	11 021

(1) A negative figure shows that the company's treasury is higher than the bank debt

(2) EBITDA corresponds to current operating income before amortization and depreciation.

3-6 Sectorial performance metrics

The Group's geographic segments are as follows:

- France
- India
- Brazil
- United Arabs Emirates (Dubai)
- Luxembourg
- Mauritius

In accordance with the Group's internal reporting and management rules, sectorial data is presented by geographic area.

Data by geographic area

31.12.2011 <i>In thousands of Euros</i>	Europe	South America (2)	Middle East & Africa	Asia	Total
Income Statement					
Turnover	627	4 789	-	-	5 417
Current operating profit	(4 065)	(884)	(1 306)	(80)	(6 335)
EBITDA (1)	(3 200)	3 711	(614)	209	105
Net Income	2 054	(3 636)	(862)	(659)	(3 102)
Balance Sheet					
Total non-current assets	1 908	28 595	718	9 359	40 580
Employees registered at the end of the period	11	6	3	33	53

(1) EBITDA corresponds to current operating income before amortization and depreciation.

(2) In 2011, the negative Current Operating Profit and Net Income for South America is mainly due to the provisions and impairments of Brazilian projects, amounting to 4.2 M€. Net income for the Rodeio Bonito power plant was positive and its net non-current assets amount to 26.7 M€.

3-7 Risk factors and uncertainties

Specific risks of hydroelectric plants and projects.

All risks from the Group's activities are described in the disclosure document available online on the company's website at the time of its transfer to NYSE - Alternext. The readers are invited for a complete outlook to refer to this document. As a reminder, the more characteristic risks of the Group are reviewed below.

Hydroelectric project development risks:

During the development phase, projects are exposed to a significant risk of delay or failure in obtaining environmental and administrative permits or in the progress or outcome of field investigations and studies.

Obtaining administrative authorizations often depends on many factors, among which changes in the authorities' requirements during the development phase, which was unpredictable and may require a modification of techno-economic characteristics of the project. Consequently, a change in the project may cause the invalidation of any other administrative approval already obtained but now obsolete due to changes altering the project (shifting of one of the project's component, change in installed capacity, etc...). In some countries, lack of coordination between different authorities, sometimes independent of each other and possibly the conflicting objectives that they pursue, can make difficult and unstable the administrative approval process.

With regards to investigations and studies, their risks may come from consultants or suppliers directly in charge of studies or field investigation, who may face operational issues like for instance difficulties to access sites or hard working conditions on sites. Generally, the complexity and the number of technical parameters linked to the field (such as topography, geology, hydrology, etc...) involve a significant risk of error in studies and require a consequent work of securitization and verification.

In the same manner land occupation factors (capacity to acquire the land impacted by the project), social and environmental factors (difficulties with population possibly impacted by these projects or idiosyncrasy of fauna and flora situated on land impacted) can conduct, during the development period, to the modification or the freezing of a project.

During the construction phase, technical factors linked to the projects, especially with regards to geology can stop or delay the commissioning of a project like a non anticipated composition of soil preventing digging the diversion canal as originally planned, for example.

Furthermore, in some cases, such delays may result in the application of financial penalties by the licensing authority to be borne by the developer, and, in extreme cases, in the cancellation of the concession.

Finally, the detailed studies and/or the administrative issues raised during the development phase may lead to the conclusion that a concession granted or in course of study is not viable.

During all these steps, the risk of slowing down or blocking of the project concerned still exists. Slowing or stopping a project generates, respectively, additional costs which can be significant or lead to an outright loss of investments made for developing the project so far.

In order to ensure the highest possible reliability of critical technical studies (hydrology, geology, topography, etc...), and to minimize the risk of errors, the Group internalizes core competencies from international and national renowned experts who control workings delivered by external service providers. It tries its best to employ the most qualified external service providers available at the time of the studies.

When market conditions make it possible, the group negotiates contractual clauses under which providers are financially penalized in case of delays to perform their services. It also keeps tight relationships along with the licensing authorities to resolve as much as possible difficulties that may occur.

During commissioning, the main risk lies in a real average flow of water being less important than anticipated, for example, because of erratic rainfall, or rain forecasts significantly different from hydrological studies conducted during development phase of the project, reducing the generation of electricity whereas the investment has already been made.

Risks associated to emerging countries

The international expansion strategy of the Group focuses on concession development projects in Brazil, India and Laos. Similarly, as noted above, the Group plans to expand in other emerging markets. Therefore, it is exposed each time to risks linked to social, economic and political problems in emerging markets.

Thus, the markets currently targeted by the Group or in which it could develop in the future may be characterized by the following risks:

- difficulties or delays in obtaining required permits and authorizations;
- faulty infrastructure that could affect the construction of the hydropower plant or the transmission and distribution of electricity;
- difficulties in recruitment and management of employees needed in these countries;
- difficulties in hiring consultants and suppliers required;
- political, social or economic instability, terrorism or war;
- difficulties in ensuring the respect of the Group rights;
- governmental interventionism;
- cultural differences may restrict the Group's ability to face its local competitors and international companies more experimented in the implementation of projects in emerging markets;
- risk of exchange rate due to the assets and liabilities booked in local currency;
- legal constraints and / or tax for repatriating profits generated in other countries;
- delays in getting paid and difficulties to be paid back;
- risk that the accounting, audit and financial information standards does not always fit with IFRS norms and that they are not equivalent to those applicable in most developed markets;

Emerging markets are more dynamic and generally subject to greater volatility than more developed markets. The growth of markets such as India, Brazil and Laos could slow down. The Group's success in these countries depends partly on its ability to adapt to their quick economic, cultural, social, legal and political changes. If the Group is unable to manage the risks associated with its expansion in emerging markets, its business, its financial health and its revenues could be significantly affected.

Environmental risks

Concerning hydropower, Environmental risk (e.g flood caused by a dam breaking, or the impact of the reservoir on the fauna and flora) is generally not covered by insurance companies, whether it is related to an engineering error, to a defect or to an operational error.

Country risks – currency conversion risk

The Group is exposed to five currencies:

- US Dollar (USD)
- Brazilian Real (BRL)
- Indian Rupee (INR)
- Indonesian Rupee (IDR)
- Norwegian Krone (NOK)

As of 31 December 2010, the Group's cash per currency is:

• US Dollar (USD)	31%
• Euro (EUR)	23%
• Norwegian Krone (NOK)	21%
• Indonesian Rupee (IDR)	19%
• Others	5%

As of 31 December 2011 no hedging has been taken on the Property risk nor on risk of conversion of past or future income. However, the Group has bought a forward forex contract in May 2010, renewed on May 2011, to cover the company against the risk of appreciation of the Dollar against Euro, as most of the group investment currencies are linked to the Dollar. As of 31 December 2011, this operation has generated an unrealized financial loss of 1.1 M€ (positive variation of 0.3 M€ over the year).

Rate Risk

Velcan's available cash is invested in money market funds, deposit certificates and private bonds in Euro, Dollar, Norwegian Krone and in other currencies of emerging countries where the group is prospecting.

3-8 Use of financial instruments for hedging

No particular financial instruments are used for price, credit or liquidity risk hedging. The appraisal of the group's financial condition is not dependent on financial instruments.

4 - Sustainable development and Social Responsibilities

The Group focuses on generation of electricity from hydroelectricity, which is a **conventional** and **renewable** source of energy and which prevents the release of green house gases into the atmosphere as opposed to electricity generation from fossil fuels. As a result of this "avoidance effect", the facilities developed by the Group are, or may be given, the approval for generation of carbon credits by the United Nations.

As of today, the Group concentrates mainly on small and medium scale "run-of-river", hydroelectric plants that have the same features as the Rodeio Bonito project, thus aiming at the best environmental performance in respect of the ratio energy production / environmental protection.

The Group has also participated in the financing of the Bagepalli project located in the state of Karnataka, which entailed construction of 5,481 methane biogas generation units for domestic use. These units enable to produce methane for domestic use (cooking) and are currently operating. The project enables the concerned families to reduce deforestation and burning of kerosene for cooking use. Uncontrolled deforestation results in the desertification of developing countries and kerosene use can lead to serious respiratory illnesses. This project is implemented by an Indian NGO, ADATS.

Since July 2009, this installation is listed under the "Gold Standard" label, which is a label identifying CDM projects known for their excellence from a sustainable growth point of view (it generates « premium quality CERs », for more information, see www.cdmgoldstandard.org).

The construction of all these units has been completed in 2008. These units are now operating. It should generate annually 18.000 CERs.

5 - Research and development

The Company has pursued in 2009 and 2010 a research and development program started in 2006 aiming to give value, energetically, to carbonization gases emitted from the fuel (biomass based) production process which are used in iron and steel industry. The technological and economic interest of this program as well as its innovative features, have been recognized by OSEO INNOVATION during the 2006 financial year.

Nevertheless, the analysis of technical and economical results conducted the group to ask OSEO INNOVATION to consider the program as a technical and commercial failure.

At the date of this document, the Company does not pursue any further research and development program in the Biomass energy generation industry.

On the other hand, the engineering teams have been engaged among other numerous works to develop new models of "rain-flow" to find innovative solutions for improving the reliability of hydrological estimates.

6 - Subsequent Events

On 13 February 2012, the group signed an agreement with the minority shareholders of Rodeio Bonito SA, owner of the Rodeio Bonito hydropower plant. The settlement price in exchange for their renunciation to obtain 5% of the company was 1.5 mBRL, excluding legal fees, against a provision of 2 mBRL.

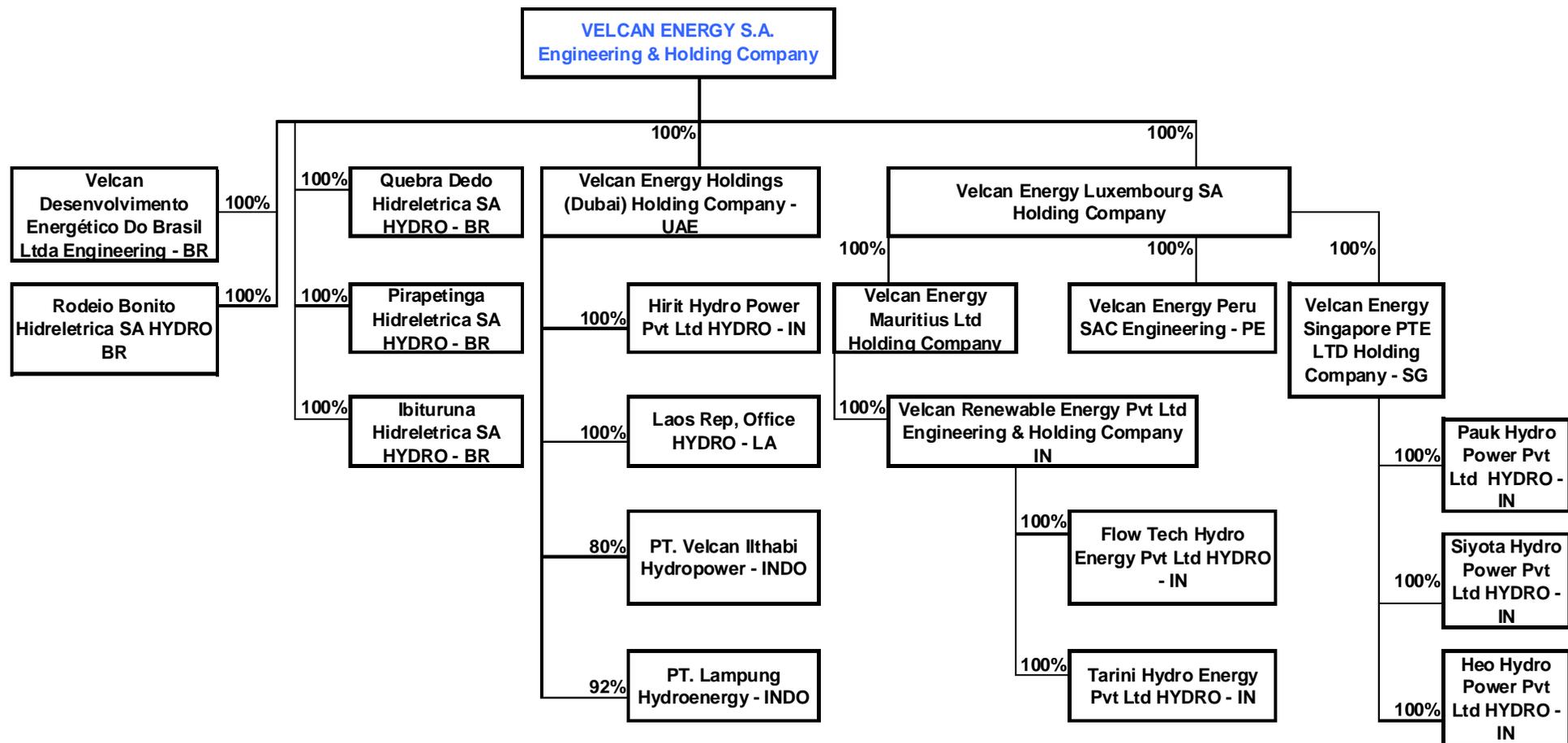
7 - Expected Developments

At the date of this report, the worldwide portfolio of hydro exclusive rights and concessions stands at 628 MW, out of which 15 MW are operating.

The Group has three priorities for 2012, in the continuation of what has been achieved in 2011:

- development and realization of viability studies of concessions rights already obtained in Brazil, India and Laos, through techno-economic and environmental studies continuation and administrative clearance achievement as a first step;
- Starting as soon as possible the construction of a new concession. As of today the group is unable to say when this event will take place;
- The search for new concessions or exclusive rights in other emerging countries.

8 - Organization Chart and details of the subsidiaries as of 31st December 2011





As of 31 December 2011, Velcan Energy SA, the parent company of the group, which is based in Paris, controls 20 companies, direct or indirect subsidiaries, located in nine countries: India, Brazil, the United Arab Emirates, Luxembourg, Mauritius, Peru, Singapore, Indonesia and Laos.

Some of the subsidiaries have a sub-holding function, and / or are engineering companies. The majority of the other subsidiaries are purely project dedicated special purpose vehicles, I;e. legal and financial vehicles devoted to development, financing and operation of one or several concessions.

Apart from Velcan Energy SA, the other main engineering company is Velcan Desenvolvimento Energetico do Brasil Ltda. The main companies having a sub holding function are Velcan Energy Holdings (Dubai) Ltd, Velcan Singapore PTE LTD, Velcan Renewable Energy Private Ltd, Velcan Energy Luxembourg SA and Velcan Energy Mauritius Ltd.