

# VELCAN Energy



## ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2012



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## 1 – 2012 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 India, Brazil and Laos. These installations have an individual capacity between 15 and 200 MW.

The worldwide group's portfolio amounts to 628 MW of concessions and exclusive rights as of 31 December 2012. The group has also made significant progress in the prospection of new concessions in Indonesia.

Velcan Energy shares are listed on NYSE Alternext.

<b>Consolidated Financial Data</b>			
<b>in Million Euros</b>			
	<u>2012</u>	<u>2011</u>	<u>Var %</u>
▪ Turnover	4,9	5,4	-10%
▪ EBITDA	0,3	0,1	+185%
▪ Net Result	4,3	-3,1	+237%
▪ Cons. Equity	129	132	-3%
▪ Cash	91	97	-6%
▪ Capitalization	77	75	+3%
<b>Book value per share (net issued equity)</b>			
	21,4	20,7	+4%

		2012	2011
GLOBAL	<b>Portfolio of concessions and production facilities.</b>		
	Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	628 MW	628 MW
BRAZIL	<b>Hydroelectric plant in operation</b>	15 MW	15 MW
	<b>Concessions and Exclusive rights under development.</b>		
	Does not include the various transactions or projects under assessment or technical studies.	53 MW	53 MW
INDIA	<b>Concessions under development.</b>		
	Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	500 MW	500 MW
LAO PDR	<b>Pre-concessions under development.</b>		
	Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	60 MW	60 MW



## 2 - Main Events and Trends 2012, and foreseeable evolution for the Group

Velcan Energy SA, the group's parent company, was incorporated on 8 April 2005. Its seventh financial year ended on 31 December 2012.

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

Its power generation installations and projects which are subject to a pre-concession or an exclusive concession are currently based in India, Brazil and Laos. Other projects, currently on an advanced prospection stage, are located in Indonesia.

The Financial year 2012 was also devoted to the consolidation and development of hydroelectric projects acquired by the Group since 2007, as well as advanced prospection of new concessions in Indonesia.

**The Financial year 2012 was marked by significant advance in the new prospection of concessions in Indonesia.** Several projects, amounting approximately to 100 MW (capacity depending on the outcome of ongoing studies), have reached an advanced servicing stage, which allows to foresee the start of the construction of a small project on late 2013 or early 2014. The complex and heterogeneous process of projects development in Indonesia allows to speak of concession only when the electricity sales contract is signed with the producer - national public distributor PLN. Therefore, these 100 MW have not yet been included in the portfolio of concessions, which remains stable at 628 MW in 2012.

Indonesia is a country of more than 240 million people. Real GDP growth has been very stable averaging 5.9% since 2006. Its public debt stands at 29% of GDP and has recently been raised to Investment grade by a Moody's rating services. Demand for power is expected to grow 10% per annum in the coming years. The Group is very satisfied to have significantly progressed in such a strategic market.

**In India**, the Group continues the development of its projects obtained in 2007, a cascade of three projects amounting to 500 MW (571 MW subject to the revision of the concession agreement).

The techno-economic studies of 2 of the 3 projects, amounting to 426 MW, have been finalized, and already allow confirmation of a power production potential at a competitive price. The third project is more complex and requires additional studies and investigations. Environmental studies have been completed and submitted to the licensing Government for all three projects.

The delay in the completion of studies and in obtaining authorizations is essentially due to land disputes that disrupt, slow down or block, on site, accesses to the sites and completion of additional geological investigations required by the central authorities. Velcan Energy is not involved in such land disputes nor any land negotiation, since the acquisition rate per hectare is fixed by the government and the disputes happen between the local affected people themselves.



The process of land acquisition and disputes settlement is the responsibility of the licensing Government. The Group remains optimistic concerning the settlement of such disputes. The concession contract includes an automatic extension of the length of the development period in case of any delay which is not the responsibility of the developer.

Today, unless mistaken, Velcan Energy is one of the few foreign companies which have developed such significant hydroelectric concessions in India (amounting to more than 500 MW).

**In Laos**, the Group has pursued the investigations and the development of the Nam Phouan project (25MW), obtained in 2010, and Nam Ang Tabeng project (35 MW), obtained in 2011, in partnership with the ECI - Electrical Construction and Installation.

The Nam Phouan techno-economic studies have been completed and submitted for 53MW to the Government for review and technical approval in December 2012. The 28 MW capacity increase presented in the report has not been included in the portfolio as the governmental agreement process should last six months from the date of submission. The studies confirm feasibility and economic viability of the project. The Group aims to start construction in 2014.

The Nam Ang Tabeng techno-economic studies are currently near completion, offset about 6 months compared to the Nam Phouan project. The Group also expects positive conclusions and submission to the Government in July 2013.

**In Brazil**, the Rodeio Bonito (Brazil, 15 MW) plant ran correctly with no major issues, operational and financial performance have been satisfying, generating an EBITDA of € 3.5 m. The mechanism of "Insured Energy" enabled to maintain the turnover despite a particularly dry year (see below).

The Group has not noted any significant progress on the administrative procedures to get authorization and licences required for the development of its 3 other ongoing Brazilian projects, which are fully provisioned.

At the end of the year 2012, 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 2011. The Group doesn't prospect any new projects in Brazil any longer.

**The economic situation** is still significantly slowing in India and Brazil, where it has been worse during 2012 financial year than during 2011. Even if their economic growth rate stands far above the European ones, it remains disappointing for emerging countries.

Moreover, the depreciation of the Brazilian Real, although it had a lower impact than last year thanks to the decision to sale its Brazilian sovereign bonds in September 2011, weighed upon the Group comprehensive income (Including conversion reserves impacting net shareholder's equity) because of its significant Brazilian tangible assets (Rodeio Bonito). The significant depreciation of the Indonesian Rupiah has negatively impacted the Group's net result due to its portfolio of Indonesian Bonds in Indonesian Rupiah (IDR).



However, the Group has registered a net profit amounting to 4.3 M€ in 2012, a sharp growth compared to the net loss of 3,1 M€ in 2011. The Group's equity has gone from 132 M€ to 129 M€ in 2012, down by 3%. It is mainly due the acquisition of own shares that lowers the Group's equity.

The Group's cash position decreased by 6% from 97 m€ to 91.4 m€. This decline is mostly a consequence of 3.7 m€ worth of share repurchases. In accordance with IFRS rules, Treasury shares are not accounted for in assets. Market value of Treasury shares held amounted to 17.4 m€ at 31 December 2012.



### **Foreseeable evolution of the Group:**

Velcan Energy is, to date, 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.

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 in India, Indonesia and Laos. During the development and studies phase preceding the construction, its equity is predominantly invested in bonds, equity, money market funds and bank deposits, in Euros, American Dollars, Norwegian Kroner, Singaporean Dollars and Indonesian Rupiah (the Group planning significant investments in Indonesia).

After the closing of its 7th financial year, the Group is pursuing the following objectives:

- In the short run:
  - a) the construction of a second hydroelectric power plant in late 2013 or early 2014 in Indonesia.
  - b) the construction of a hydroelectric power plant in Laos in 2014
- In the medium term:
  - a) the confirmation of a significant portfolio in Indonesia
  - b) the complete development of its 500 MW concessions in Arunachal Pradesh.

### **3 - Detailed Annual report for the year 2012**

This seventh financial year has been devoted to the continuation of techno-economic studies and administrative development of concessions and rights obtained, to the prospection and securing of new projects in Indonesia, to the track of new investment opportunities to give value to the Group's cash (following the sale of Brazilian Bonds in 2013) and finally to the pursuit of rationalization of structural costs.



### 3-1 Evolution of the business

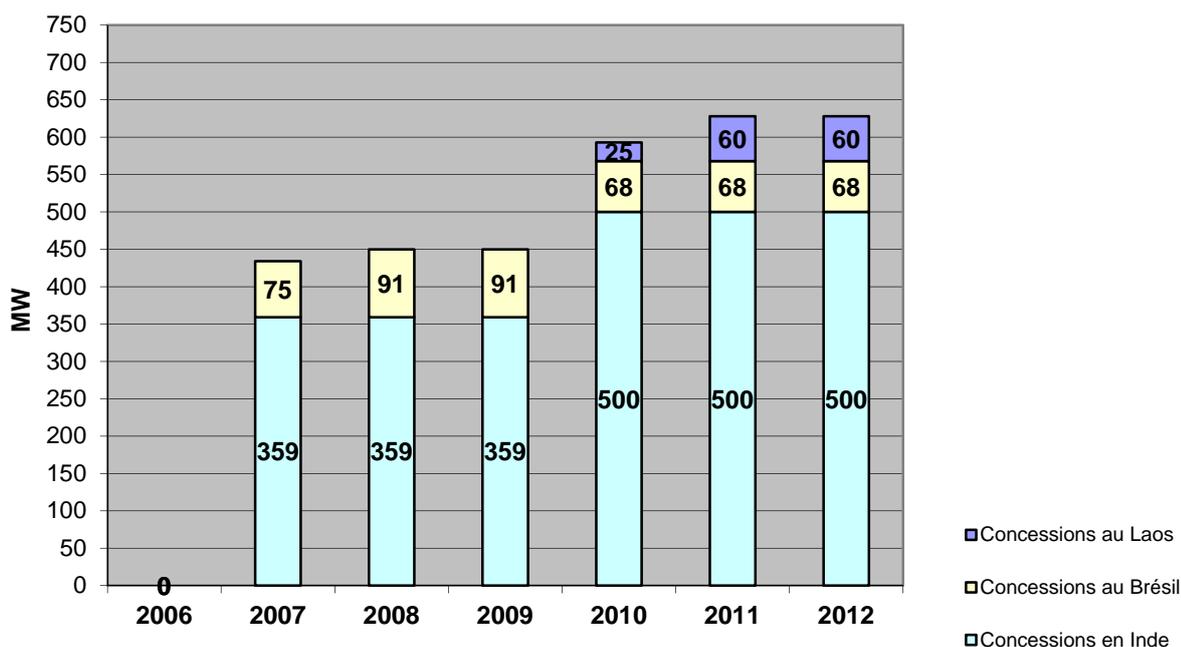
#### Evolution of the Portfolio of projects

As explained above, several Indonesian projects totaling approximately 100 MW (estimation subject to the finalization of on-going studies), have reached and advanced stage, enabling the Group to forecast the start of the construction of a small-sized project in late 2013 or early 2014. Until finalization of negotiations with the national producer/distributor PLN and the ministry of Energy and Mines, and the signing of a Power Purchase Agreement (PPA), the Group does not consider those rights as concessions definitely acquired. As a consequence, those 100 MW have still not been accrued in the Group's concession portfolio.

The portfolio of projects under development – India, Brazil, Lao PDR – remained steady. The fiscal year was closed with a total portfolio of 628 MW.

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

Evolution of the Group's hydroelectric concessions portfolio:



### Summary of concessions as of 31 December 2012

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	100%	24,1	20
PCH Quebra Dedo	Brazil	Minas Gerais	20	44	100%	0	18
PCH Pirapetinga	Brazil	Minas Gerais	23	50,6	100%	0	18
PCH Ibituruna	Brazil	Minas Gerais	10	25,1	100%	0	28
<b>Subtotal Brazil</b>			<b>68</b>	<b>146,3</b>		<b>24,1</b>	
Yarjep / Heo	India	Arunachal Pradesh	210	235,7	100%	3,6	40
Yarjep / Pauk	India	Arunachal Pradesh	120	134,7	100%	2,7	40
Yarjep / Tato I	India	Arunachal Pradesh	170	179,6	100%	3,0	40
<b>Subtotal India</b>			<b>500</b>	<b>550</b>		<b>9,3</b>	
Nam Phouan	Laos	Vientiane	25*	30	85%	0,7	30
Nam Ang Tabeng	Laos	Vientiane	35	42	85%	0	30
<b>Subtotal Laos</b>			<b>60</b>	<b>72</b>			
<b>TOTAL</b>			<b>628</b>	<b>768,3</b>		<b>34,1</b>	

*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.*

*\* Subject to Lao Government approval: Technical studies submitted to Lao gov for 53MW – not yet approved*

### 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 and the commissioning.

The portfolio of projects corresponds either to pre-concessions, concessions, 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 required 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 (during several seasons).

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.

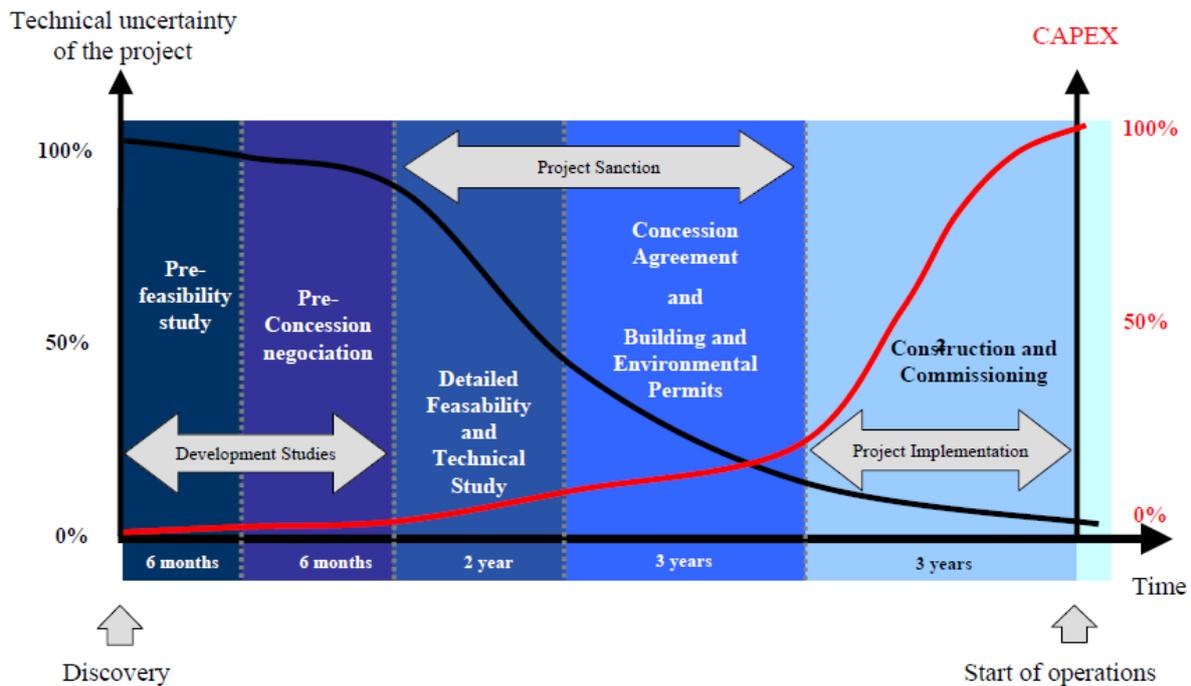
When investigations and studies are completed, when the project is technically approved by the licensing authority (approval of the "*Projeto Basico*" (basic project) in Brazil and "*Techno-Economical Clearance*" in India), and when all administrative permits and funding are obtained, construction of 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:



**Prospection at an advanced stage in Indonesia**

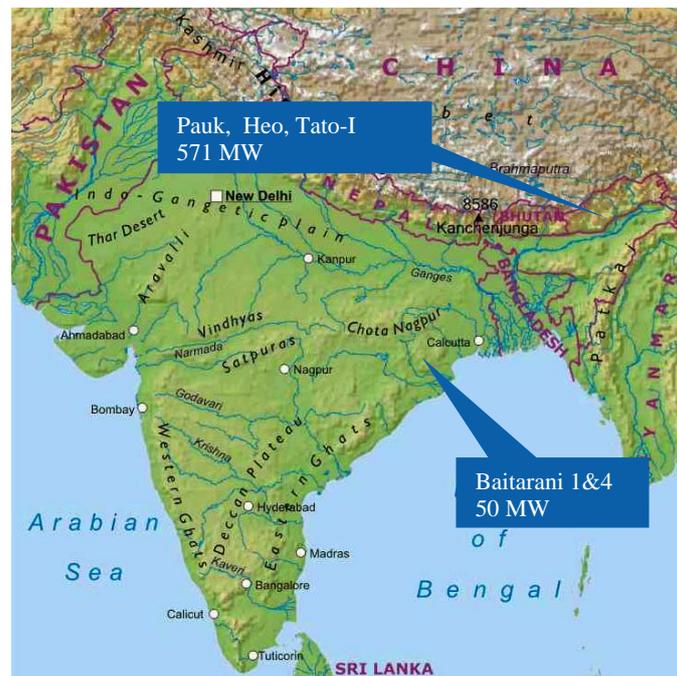
The Group's efforts since 2012 enabled to reach an advanced prospection stage for several projects totalling a hundred MW, still not accounted in the total Group's 628 MW portfolio.

On-going discussions and current procedure initiated with the national electricity producer/distributor « PLN » concerning the setting-up of electricity sale contracts and electricity transmission make the Group target a beginning of the construction of a small project by end 2013 or beginning 2014.

Depending on the outcome of those discussions and procedures, by end 2013, the Group will be or not able to account its Indonesian projects in the Group's portfolio.

**Indian hydroelectric projects development**

**In India**, the Group pursued the development of projects obtained in 2007, a cascade of three projects totaling 500 MW (571 MW subject to revision of the concession agreement and the final validation by central authorities).



Techno-economic studies for 2 out of the 3 projects totaling 426 MW have been finalized, and enable to confirm a power production potential at a competitive price. The third project of 145 MW is more complex and requires additional studies and investigations. Environmental studies are over for three projects and have been submitted to the conceding authority.

The delay in the acquisition of major authorizations is due mainly to land dispute issues, which are disturbing or freezing, on the field, site access and finalization of geological investigations.

Velcan Energy is not involved in such land disputes, nor any land negotiation, since the acquisition rate per hectare is fixed by the government and the disputes happen between the local affected people themselves.

The process of land acquisition and disputes settlement is the responsibility of the licensing Government. The Group remains optimistic concerning the settlement of such disputes. The concession contract includes an automatic extension of the length of the development period in case of any delay which is not the responsibility of the developer.

The update of the installed capacity from 500 to 571 MW in the concession contract has not been registered yet, because it depends on the final validation of the installed capacity which will be decided by the *Central Electricity Authority* during the final approval of the *Detailed Project Report (DPR)*.

Some parts of the DPR have been submitted to the concerned authorities in 2011 and 2012, and the discussions are in progress. Although the techno-economic feasibility is assured for at least two out of the three projects, the final and complete submission of the three DPRs could require the conducting of additional geological investigations depending on the assessment realized by the central authorities (*Geological Survey of India, Central Electricity Authority and Central Water Commission*), which are still ongoing on this report's date..

The next steps remaining to be accomplished in order to finalize the techno-economic feasibility are the following:

- Preliminary settlement by the conceding Government of land disputes in order to free the field access
- Realization of additional geological investigations
- Final submission of complete DPR and obtaining of *Techno-Economic Clearance* from the *Central Electricity Authority*
- Conducting of public hearings and approval of *Environment Impact Assessment* by the *Ministry of Environment and Forests*
- Getting of forest resources use authorizations
- Acquisition of lands required by the conceding authority.

Despite the fact that the projects are subject to a heavy bureaucracy and delicate land acquisition procedures, the group forecasts to achieve significant advances in 2013 and 2014 concerning each of those steps.

### **Laotian hydroelectric projects development**

The Group has pursued the investigations and the development of Nam Phouan (25 MW) project, obtained in 2010 and Nam Ang Tabeng (35 MW) project, obtained in 2011, in partnership with ECI (Electrical Construction and Installation).

The techno-economic studies of Nam Phuan project have been finalized and a report has been submitted to the Government in December 2012 for review. It confirms the feasibility of the project and comes to the conclusion that the project is economically viable for an installed capacity of 50 MW. However, this doubling in the installed capacity has to be approved by the Laotian Government. Once those studies will be approved, the next steps will be :

- Signing of the final *Project Development Agreement (PDA)* with the Government
- Land availability and implementation of social and environmental actions
- Getting of final authorizations
- Signing of the power purchase agreement (PPA) and Concession Agreement
- Fund raising for the financing
- Construction call for tender

The Group targets the start of a construction in 2014.

The techno-economic studies of Nam Ang Tabeng are being finalized, with six months of delay compared to Nam Phouan project. The Group also anticipates a positive techno-economic outcome and a submission to the Government in July 2013.



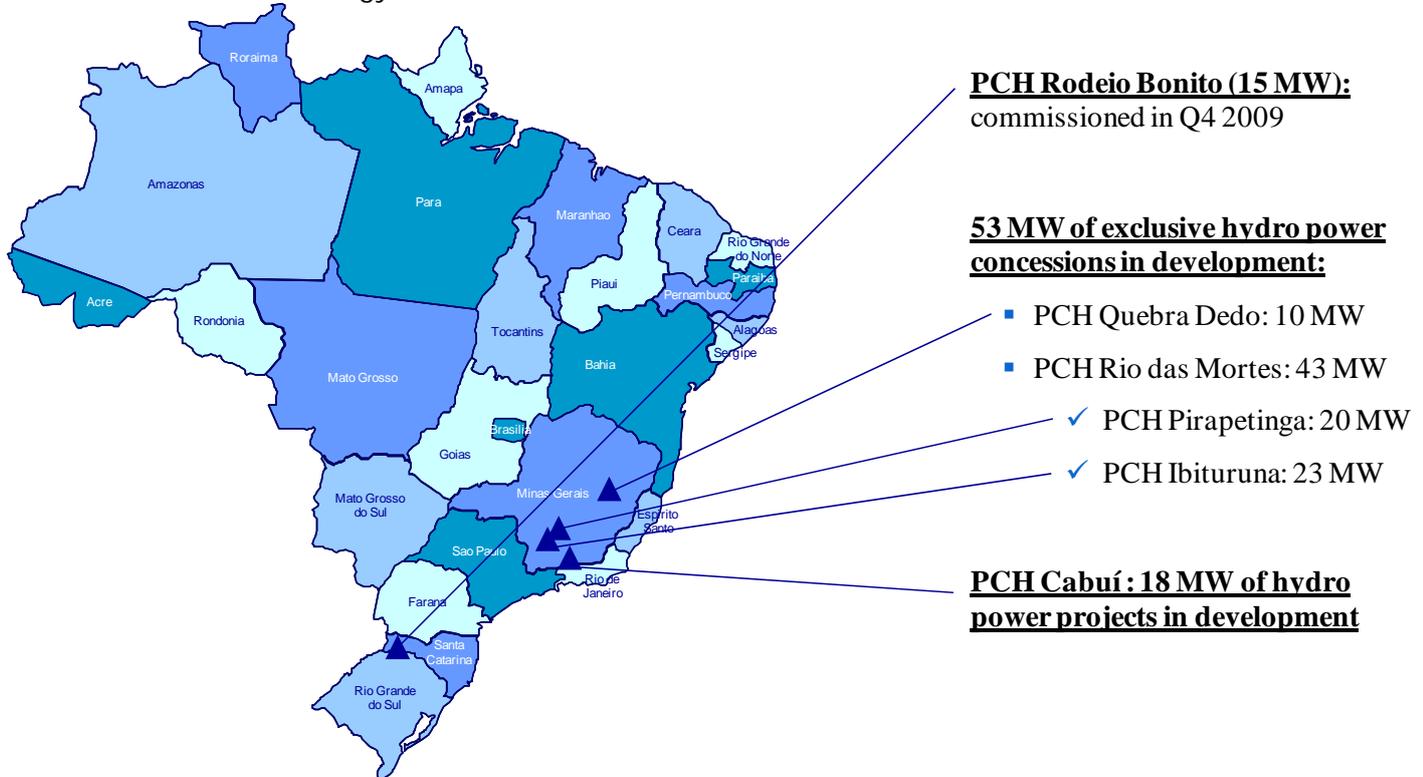
### **Brazilian hydroelectric projects development/operation**

At the end of 2012, the company owns projects totalling 86 MW in Brazil. 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, the latest being excluded of the projects portfolio, which remains steady compared to 2011 at 68 MW.

The Rodeio Bonito power plant has been operating without technical issues and realized an EBITDA of 3.5 M€. The EBITDA could remain stable compared to 2011 in spite of a particularly dry year thanks to the “ensured energy” mechanism (\*).

In fact, 2012 year has recorded historically weak rainfalls in the Santa Catarina state where the plant is located, leading to an average flow for the Rodeio Bonito river being 43% less than the historical average.

As a consequence, the plant only produced 24 787 Mwh but could maintain a turnover of 4.879 k€ by selling 77 088 Mwh. Therefore, the dyness had only a limited impact on the company's results thanks to this ensured energy mechanism.



(\*) In Brazil, « guaranteed energy » or « ensured energy » means the annually marketable energy 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, even if the production is impacted by a bad hydrology some years. This is the case of Rodeio Bonito. This mechanism covers the hydrological risk in case some Brazilian areas are experiencing dryness, whereas other areas are experiencing heavy rains. However this mechanism does not cover the risk of a global dryness in Brazil, which would settle durably. In that case , the Rodeio Bonito plant revenues could collapse drastically.

Concerning Rodeio Bonito, the ensured energy was 8.80 MW during 8.760 hours per year, i.e 77.088 MWh per year. The turnover corresponding to this part of guaranteed energy for hydrological reasons. However if the drought situation was lasting it could lead to a downward revision of the ensured energy (The first revision of the ensured energy is expected in end 2014 or beginning of 2015). In case of excessively weak production it could even lead to an exclusion of the system.

The Group has not noted so far any significant progress on the administrative procedures required to achieve the development of the 3 on-going Brazilian projects of its portfolio in 2012. Each of them is 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 had therefore already decided to significantly decrease the probability of success for 4 projects under development (Ibituruna, Pirapetinga, Quebra Dedo and Cabuy) and booked provisions and depreciations amounting to 4.242 k€ in 2011.

### **Net Result**

Revenue from the Rodeio Bonito power plant (4.9 m€ in total), and the decrease in operational costs resulted in a substantial improvement of the EBITDA which has been again positive during this financial year 2012, from +0.1 M€ in 2011 to +0.3 M€ in 2012. Staff and external expenses slightly decreased from 4,3 M€ in 2011, to 4 M€ in 2012, i.e a 6% decrease.

The Group's net financial result of 4.8 m€ in 2012 was higher than in 2011 (3.8 m€) despite the sale of the high yield Brazilian bond holdings in September 2011, mainly because of foreign exchange gains. On average, the return on financial investments over the 2012 year was above 4% for short and medium-term investments (excluding forex impact).

The global forex impact on the financial result is a gain of 0.5 m€ against a 3.6 M€ loss in 2011. The litigation with the old developers of Rodeio Bonito has been settled in 2012. The 2 MBRL provision has been written back, with a positive impact on the net operational result, both parties agreeing on the payment of an additional price for the concession amounting to 1.5 mBRL in exchange for their renunciation to become shareholders with a 5% stake in Rodeio Bonito.

In this context, the Group has recorded a net profit of 4.3 M€ in 2012, a significant improvement in comparison with the net loss of -3.1 M€ in 2011.

Consolidated Equity evolved from 132.5 M€ to 128.8 M€, a decrease mainly due to the acquisition of own shares.

### **Change in Cash**

The Group has a cash position of 90.9 M€ as of 31 December 2012, against 97,1 M€ as of 31 December 2011.

The main Cash variations can be explained as follows:

<b>Opening cash including forward forex contracts</b>	<b>95 947</b>
<b>Opening Non current financial liabilities (unrealized loss on forward forex contracts)</b>	<b>1 119</b>
<b>Opening cash IFRS</b>	<b>97 066</b>
- Own Shares acquisition	- 3 744
- Other operational and investment flows	- 5 495
+ Financial result	4 715
<b>Closing cash IFRS</b>	<b>90 901</b>
<b>Closing Non current financial assets (unrealized gain on forward forex contracts)</b>	<b>522</b>

Opening cash including forward forex contracts

91 423

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

Assets	Net 31.12.2012	Net 31.12.2011
<b>Non current assets</b>		
Goodwill	14	14
Intangible assets	16 094	14 805
Tangible assets	19 698	23 167
Non current financial assets	2 209	1 641
Investments accounted for using the equity method	-	-
Other non current assets	201	246
Deferred tax assets	941	708
<b>Total non-current assets</b>	<b>39 158</b>	<b>40 581</b>
<b>Current assets</b>		
Inventories	-	-
Trade and other receivables	376	1 080
Income tax receivables	255	295
Other current assets	796	1 034
Cash and cash equivalents	90 901	97 066
<b>Total current assets</b>	<b>92 328</b>	<b>99 476</b>
<b>Total assets</b>	<b>131 486</b>	<b>140 056</b>

**Consolidated balance sheet – LIABILITIES***in thousands of euros*

Liabilities	31.12.2012	31.12.2011
<b>Shareholders equity</b>		
Issued capital	7 780	7 780
Additional paid in capital	139 575	139 408
Other reserves and conversion reserves	(22 822)	(11 341)
Net income for the year	4 290	(3 144)
<b>Total shareholders equity</b>	<b>128 822</b>	<b>132 702</b>
<b>Minority interests</b>	<b>74</b>	<b>(235)</b>
<b>Total Consolidated equity</b>	<b>128 896</b>	<b>132 467</b>
<b>Non current liabilities</b>		
Non-current financial liabilities	0	1
Deferred tax liabilities	-	303
Non current provisions	910	1 871
Other non current liabilities	645	935
<b>Total non-current liabilities</b>	<b>1 556</b>	<b>3 110</b>
<b>Current liabilities</b>		
Current financial liabilities	0	1 119
Current provisions	-	25
Trade and other payables	613	2 341
Income tax payables	96	111
Other current liabilities	325	883
<b>Total Current Liabilities</b>	<b>1 033</b>	<b>4 479</b>
<b>Total Liabilities</b>	<b>131 486</b>	<b>140 056</b>

**Consolidated income statement**
*in thousands of euros*

<b>Result</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Net turnover	4 879	5 417
Other operating revenue	29	(27)
<b>Total operating revenue</b>	<b>4 907</b>	<b>5 390</b>
Consumed purchases	(420)	(784)
Changes in inventories	-	-
External expenses	(2 466)	(2 838)
Payroll expenses	(1 555)	(1 442)
Taxes	(167)	(221)
Amortization & Provision	(2 549)	(6 440)
<b>Current operating profit</b>	<b>(2 250)</b>	<b>(6 335)</b>
Income on sale of equity shares	-	-
Other operating income and expenses	1 510	(807)
<b>Operating profit</b>	<b>(740)</b>	<b>(7 141)</b>
Financial Income	6 995	9 284
Financial expenses	(2 190)	(5 452)
<b>Financial Result</b>	<b>4 805</b>	<b>3 831</b>
Income tax	194	208
Profit of investments accounted for using the equity method	-	-
<b>Net profit from continuing operations</b>	<b>4 260</b>	<b>(3 102)</b>
<b>Net profit from discontinuing operations</b>	<b>-</b>	<b>-</b>
<b>Profit, group share</b>	<b>4 290</b>	<b>(3 144)</b>
<b>Profit, minorities share</b>	<b>(30)</b>	<b>42</b>
Earnings per share (in euros)	0,69	(0,49)
Diluted earnings per share (en euros)	0,68	(0,49)
		-
<b>EBITDA</b>	<b>299</b>	<b>105</b>
<b>Statement of total comprehensive Income</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Net income	4 290	(3 144)
Foreign currency translation comprehensive income	(4 407)	(2 875)
<b>Total Comprehensive Income</b>	<b>(117)</b>	<b>(6 019)</b>

### 3-3 Comments on the consolidated balance sheet

**The total of the balance sheet** amounts to 131 486 K€ against 140 056 K€ as of 31 December 2011, i.e. a decrease of 6,12% which is mainly explained by the diminution of reserves impacted by the negative variation of conversion reserves with effect on the comprehensive income (see below) and the acquisition of own shares (see below).

**Intangible assets** amount to 16.094 K€, and mainly consist of (net values):

- Rodeio Bonito concession in Brazil: 4 630 k€
- Direct costs incurred on other hydroelectric projects in India: 9 369 k€
- Direct costs incurred on hydroelectric projects in Laos and Indonesia: 2 094 k€

**Tangible assets** amount to 19 698 K€ and mainly consist of:

- Rodeio Bonito concession construction costs in Brazil 19 455 K€

**Non current financial assets and other non current assets** amount to 2 410 K€, out of which principally 2.209 K€ of financial assets (mainly Vensar Constructions Company Shares for 1 509 k€ and unrealized gain on forward forex contracts for 522 k€).

**Trade receivables and related accounts** correspond mainly to sales of 2012 production of Rodeio Bonito not yet received.

**Other current assets** are related to the following elements:

- Carbon Credit trading 372 k€
- Carbon credit production 20 k€
- Fiscal and Social receivables 142 k€
- Other receivables 262 k€

**Cash and cash equivalents position** amounts to 90.901 K€ against 97.066 K€ as of 31 December 2011, but does not include neither Velcan Energy Shares held by the group, valued at 17.418 k€ at 31<sup>st</sup> December 2012 closing price nor unrealized gains on forward forex contracts classified as non-current financial assets under IFRS (522 k€).

During 2011, the cash, invested mainly in bonds and bank deposits, decreased significantly due to the own shares acquisition (3 744 k€) and the settlement of the litigation with the old developers of Rodeio Bonito concession (see above). Financial results and the turnover of Rodeio Bonito power plant have globally covered the Group operational and investment expenses.

**The capital and the additional paid in capital** are commented with the key statutory financial figures. To be noted that the Group owns 1.759.417 own shares which, according to IFRS rules, are reducing the Group's shareholders equity for an amount equivalent to their historical acquisition cost (14.857 k€).

**The translation reserves** represent an unrealized gain of 2 269 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): -3.210 k€
- Unrealized Foreign exchange differences on loans granted to subsidiaries: 940 k€

**The current and non current financial liabilities** amount to 0 K€ against 1 119 K€ as of 31 December 2011 as there is no more unrealized loss on forward forex contracts as of 31 December 2012.

**Non current provisions** amount to 910 k€, mainly consisting of provisions on old litigations in India 932 K€ linked to old litigations in India when the Group used to own Biomass power plant there.

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 941 K€.

**Suppliers and other payables** amount to 613 K€ and are detailed as follows:

- |   |        |
|---|--------|
| • Suppliers                               | 193 k€ |
| • Dues on acquisition of fixed assets (*) | 250 k€ |
| • Other debts                             | 170 k€ |

(\*) These amounts corresponds mainly to the debt toward the sellers of Quebra Dedo concession (212 k€). The debts toward the sellers of Pirapetinga (783 k€) and Ibituruna (783 k€) have been cancelled on the fiscal year, impacting positively the account « other operating Income and Expenses » by 1.6 m€.

**Other current liabilities** amount to 325 k€, consisting mainly of suppliers payables and fiscal and social debts.

### 3-4 Comments on consolidated income statement

**The turnover** amounts to 4 879 K€, down by 10% in comparison with previous year at 5.417 K€ as there was no revenues from carbon credit trading this year.

**The operating expenses** amount to 7.157 K€, against 11.724 K€ in 2011 and consist mainly of:

- 420 K€ of consumables, against 784 K€ on 31 December 2011;
- 2 466 K€ of external expenses against 2 838 K€ on 31 December 2011
- 1.555 K€ of payroll expenses against 1.442 K€ on 31 December 2011;
- 167 ke of operational taxes against 221 k€ on 31 December 2011;
- 2.549 K€ of depreciation and amortization expenses against 6.440 K€ on 31 December 2011, mainly consisting in:
  - the amortization of the Rodeio Bonito power plant (-1.4 m€)
  - the depreciations/provisions of intangible assets under construction on Brazilian, Indonesian and Laotian projects (-2.6 M€)
  - the write back on provision of intangible assets under construction of Indonesian and Laotian projects (+0.9 m€ out of which 0.7 me concerning Nam Phouan)
  - the write back on the provision for litigation with the old developers of Rodeio Bonito (see above, +0.9 M€)

**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>	31.12.2012	31.12.2011
Engineers and Executives	25	21
Office and Manual workers	27	35
<b>Average number of employees</b>	<b>52</b>	<b>56</b>

**Other operational income/expenses** essentially come from:

- Positive impact of the cancellation of the remaining debt on sellers of Ibituruna and Pirapetinga concessions (1.6 M€)
- Depreciation of intangible and tangible assets related to power plants and projects, previously capitalized and now impaired

**The current operating profit** is -740 k€, against -7.141 K€ as of 31 December 2011.

**The net financial profit** amounts to 4.805 K€ (a significant decrease compared to 2011 following the sale of the Brazilian Bonds in 2011), thanks to interests over cash and the positive net forex result.

The **income tax profit** amounts to 194 K€ (losses of Velcan Energy Luxembourg recognized as future tax assets).

It results in a **net profit** of 4 290 k€ for the group, against a net loss of -3.144 K€ in 2011.

### 3-5 Financial situation and indebtedness

No significant capital increase was carried out in 2012. Given the net comprehensive income realized in 2012, the consolidated shareholder's equity amounts to 128 436 K€, against 132 467 K€ in 2011.

Thousands of Euros	31.12.2012	31.12.2011
Consolidated net debt (1)	-90 901	-97 066
Consolidated Shareholder's equity	128 896	132 467
EBITDA (2)	299	105
Net Financial Interest	4 805	3 831

(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:

- Europe
- South America
- Middle-East and Africa
- Asia

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

#### Data by geographic area

31.12.2012	Europe	South America	Middle East & Africa	Asia	Total
<i>In thousands of Euros</i>		(2)			
<b>Income Statement</b>					
Turnover	-	4 879	-	-	<b>4 879</b>
Current operating profit	(2 724)	976	163	(665)	<b>(2 250)</b>
EBITDA (1)	(2 510)	2 988	383	(561)	<b>299</b>
Net Income	2 074	310	2 633	(757)	<b>4 260</b>
<b>Balance Sheet</b>					
Total non-current assets	2 011	23 977	2 354	10 815	<b>39 158</b>
Employees registered at the end of the period	6	4	1	44	<b>55</b>

(1) The EBITDA corresponds to Earnings Before Interest Taxes, Depreciation and Amortization

(2) In 2011 and 2012, the negative and low net result for South America area is mainly due to provision and depreciation of Intangible assets under construction of Brzailian projects under development. The result of Rodeio Bonito is positive and the net non current assets of this company amounts to 24 m€ as of 31/12/2012.

### **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, Laos and Indonesia. 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 seven currencies:

- le Dollar US (USD) ;
- le Réal brésilien (BRL)
- la Roupie indienne (INR)
- la Roupie Indonésienne (IDR)
- la Couronne Norvégienne (NOK)
- Le Dollar Singapourien (SGD)
- L'Euro (EUR)

As of 31 December 2012, the Group's cash per currency is:

• Dollars US (USD)	26%
• Euros (EUR)	11%
• Norwegian Krone (NOK)	25%
• Indonesian Rupiah (IDR)	24%
• Singaporean Dollars (SGD)	7%
• Brazilian Reals (BRL)	5%
• Other	2%

As of 31 December 2012 no hedging has been taken on the Property risk nor on risk of conversion of past or future income.

However, following the maturity of the EURO/USD forward forex contract made on May 2010 and renewed on May 2011, the Group has bought a forward forex contract on April 2012 to cover against the appreciation of the Singaporean dollar, the major part of the operational expenses of the Group being moved to South-East Asia. As of December 2012, this transaction accounts for 0.5 m€ of profit in the Group's financial result.

**Rate Risk**

Velcan's available cash is mainly invested in money market funds, deposit certificates, private and sovereign bonds and forward forex 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](http://www.cdmgoldstandard.org)).

The construction of all these units has been completed in 2008. These units are now operating. It should generate annually 17.000 CERs.

The Group regularly undertakes actions in corporate social responsibility activities in India in the benefit of local populations in the area where its three hydroelectric projects of the Yarjeep river are located. For instance, in 2012, the Group has brought a financial contribution to various social and cultural events, which matters to local people such as festivals and sport tournaments. Likewise, the Group has been financing for the sustainability of small local infrastructure such as suspension bridges and access ways to the village. Donations with medical purpose have also been granted.

## 5 - Research and development

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 this report' date, there is no significant subsequent event that happens since December 31st 2012 to be mentioned in this report.

## 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 2013, in the continuation of what has been achieved in 2012:

- Starting, in late 2013, the construction of a small project in Indonesia
- Pursuing the development and realization of viability studies of concessions rights already obtained in India and Laos, with, as an objective, the preparation for the construction of the Nam Phouan project in the first semester 2014.
- The confirmation of a new concession portfolio in Indonesia

## 8 - Organization Chart and details of the subsidiaries as of 31st December 2012

As of 31 December 2012, Velcan Energy SA, the parent company of the group, which is based in Paris, controls 24 companies, direct or indirect subsidiaries, located in nine countries: India, Brazil, the United Arab Emirates, Luxembourg, Mauritius, Peru, Singapore, Indonesia and Laos, different by their function and the geographical area where they operate.

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.

As of 31 December 2012, apart from Velcan Energy SA, the other main engineering companies are Velcan Desenvolvimento Energetico do Brasil Ltda and Velcan Singapore PTE LTD. The main companies having a sub holding function are Velcan Energy Holdings (Dubai) Ltd, Velcan Renewable Energy Private Ltd, Velcan Energy Luxembourg SA, Velcan Singapore PTE LTD and Velcan Energy Mauritius Ltd.

