KPMG Entreprises
Domaine de Pelus - 11 rue Archimède
33692 Mérignac cedex

Fiduciaire Experts Audit
Rue de la Motte Picquet
33300 Bordeaux

VELCAN ENERGY SA

Statutory auditors' report on the consolidated financial statements

Year ended 31 December 2010
VELCAN ENERGY SA
75 boulevard Haussmann - 75008 Paris
This report contains 40 pages

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This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.
The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.
This report also includes information relating to the specific verification of information given in the Group's management report.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

VELCAN ENERGY SA

Registered office : 75 boulevard Haussmann - 75008 Paris
Share capital : € 7.775.042

Statutory auditors' report on the consolidated financial statements

Year ended December 2010

To the Shareholders,

In compliance with the assignment entrusted to us by your shareholders' meeting, we hereby report to you, for the year ended December 2010, on:

- the audit of the accompanying consolidated financial statements of VELCAN ENERGY SA;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by your Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

1 Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 2010 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

2 Justification of our assessments

The accounting estimates required in the preparation of the financial statements for the year ended December 2010 have been made in the context of high volatility of financial markets and greater difficulty in understanding the economic outlook. In accordance with the requirements of article L. 823-9 of the French Commercial Law (Code de Commerce) relating to the justification of our assessments, we bring to your attention the following matters:

Capitalization of development costs

As mentioned in section 3-5-B to consolidated financial statements the company registers as intangible fixed assets development costs corresponding to criteria defined by International Financial Reporting Standards as adopted by the European Union. We examined activity and profitability forecasts underlying the appropriateness of this registration, depreciation methods and methods used for verification of their current value and we ensured that sections 3-5B and 6 (note 2) to consolidated financial statements provide appropriate information.

Credits Carbon (CER)

We examined accounting treatments used by the Group for Credits Carbon which are not the object of specific clauses in IFRS such as adopted in the European Union and we made sure that section 6 (note 8) to the consolidated financial statements provides appropriate information.

Marketable securities

Our works consisted in gathering sufficient and appropriate evidence on the assessments retained as described in section 3-5-F to the consolidated financial statements.

Impairment

The company systematically proceeds at the end of each financial year to impairment tests of goodwill and long-term assets, in accordance with modalities set out in sections 3-5-A and 3-5-E to the consolidated financial statements. We examined the performance of impairment tests as well as cash flow forecasts and assumptions used and ensured that section 6 (notes 1, 2 and 3) to the consolidated financial statements provides appropriate information.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3 Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Mérignac and Bordeaux, April 2011

KPMG Entreprises *A division of KPMG S.A.*	FIDUCIAIRE EXPERTS AUDIT
Franck Cournut *Partner*	Anne-Cécile Marin *Partner*

Consolidated Financial Statements as of 31st December 2010

VELCAN ENERGY
75, boulevard Haussmann
75008 PARIS
FRANCE

Contents

CONSOLIDATED BALANCE SHEET ASSETS (in thousands of Euros)

Assets	Note	Net 31.12.2010	Net 31.12.2009
Non current assets			
Goodwill	1 p.23	14	39
Intangible assets	2 p.24	18 418	14 391
Tangible assets	3 p.25	25 464	23 780
Non current financial assets	4 p.26	1 928	2 545
Investments accounted for using the equity method		-	-
Other non current assets	5 p.26	525	910
Deferred tax assets	6 p.27	1 100	-
Total non-current assets		**47 449**	**41 665**
Current assets			
Inventories		-	125
Trade and other receivables	7 p.28	1 131	784
Income tax receivables		437	326
Other current assets	8 p.28	2 430	4 181
Cash and cash equivalents	9 p.29	98 139	85 864
Total current assets		**102 137**	**91 279**
Total assets		**149 586**	**132 944**

CONSOLIDATED BALANCE SHEET LIABILITIES (in thousands of Euros)

Liabilities	Note	31.12.2010	31.12.2009
Shareholders equity			
Issued capital	10 p.30	7 774	7 763
Additional paid in capital		139 366	139 294
Other reserves and conversion reserves	10 p.30	(17 293)	(32 835)
Net income for the year		9 093	11 411
Total shareholders equity		**138 940**	**125 634**
Minority interests		(290)	(148)
Total Consolidated equity		**138 651**	**125 486**
Non current liabilities			
Non-current financial liabilities		(0)	(0)
Deferred tax liabilities	6 p.27	1 334	317
Non current provisions	11 p.32	2 689	1 948
Other non current liabilities		1 040	963
Total non-current liabilities		**5 063**	**3 228**
Current liabilities			
Current financial liabilities	13 p.33	1 424	-
Current provisions	11 p.32	115	130
Trade and other payables	12 p.33	2 709	2 305
Income tax payables		933	184
Other current liabilities	13 p.33	690	1 611
Total Current Liabilities		**5 871**	**4 230**
Total Liabilities		**149 586**	**132 944**

CONSOLIDATED INCOME STATEMENT (in thousands of Euros)

Result	Note	31.12.2010	31.12.2009
Net turnover	14 p.34	3 769	3 449
Other operating revenue		(48)	810
Total operating revenue		**3 720**	**4 260**
Consumed purchases	15 p.35	(334)	(2 456)
Changes in inventories			
External expenses	16 p.35	(2 631)	(3 272)
Payroll expenses	17 p.36	(1 647)	(1 823)
Taxes		(255)	(244)
Other operating income and expenses		(49)	19
Depreciation/Amortization	18 p.36	(1 881)	(3 069)
Provision allowances	18 p.36	(441)	(1 887)
Current operating profit	14 p.34	**(3 519)**	**(8 473)**
Income on sale of equity shares			
Other operating income and expenses	19 p.36	1 845	2 760
Operating profit		**(1 674)**	**(5 714)**
Income from cash and cash equivalents	20 p.36	13 321	15 018
Gross cost of financial debt	20 p.36	(7)	(349)
Net cost of debt	20 p.36	**13 314**	**14 669**
Other financial income and expenses	20 p.36	(2 293)	2 218
Income tax	6 p.27	(369)	118
Profit of investments accounted for using the equity method		-	-
Net profit from continuing operations		**8 978**	**11 292**
Net profit from discontinuing operations		**-**	**-**
Profit, group share		**9 093**	**11 411**
Profit, minorities share		**(116)**	**(119)**
Earnings per share (in euros)	21 p.37	1,38	1,53
Diluted earnings per share (en euros)	21 p.37	1,36	1,52

Statement of total comprehensive Income	31.12.2010	31.12.2009
Net income	9 093	11 411
Foreign currency translation comprehensive income	5 956	6 756
Total Comprehensive Income	**15 049**	**18 168**

Besides, EBITDA (Earnings Before Interest Taxes, Depreciation and Amortization) of the Group amounts to -1 197 k€ as of December 2010 against -3 517 k€ as of December 2009.

CONSOLIDATED CASH FLOW STATEMENTS (in thousands of Euros)

Cash Flows	31.12.2010	31.12.2009
Net consolidated profit	**8 978**	**11 292**
Adjustments:		
Elimination of profit of investment accounted for using the equity method	-	-
Elimination of depreciation and provisions	3 595	465
Elimination of other elements with no impact on cash flows	1 400	10
Elimination of income from disposals	(1 907)	(97)
Expenses and income calculated for payment in shares	507	308
Cash flow after net cost of financial debt and tax	**12 573**	**11 978**
Elimination of tax cost	234	(116)
Elimination of net cost of financial debt	(13 314)	(14 669)
Cash Flow before net cost of financial debt and tax	**(507)**	**(2 807)**
Impact of variation of operating working capital	(950)	3 136
Cash flows from operating activities	**(1 457)**	**329**
Changes in consolidation scope effects	(1)	148
Acquisition of tangible and intangible assets	(4 736)	(9 600)
Acquisition of financial assets	264	(3 944)
Variation of loans and advances granted	43	139
Disposal of tangible and intangible assets	449	56
Disposal of financial assets	6 068	-
Cash flows from investment operations	**2 087**	**(13 200)**
Capital increase	83	-
Proceeds from borrowings	-	-
Repayment of borrowings	(0)	(597)
Net acquisition of own shares	(2 292)	(9 563)
Net financial interest	13 314	14 669
Dividends paid to shareholders of the group	-	-
Cash flows from financing operations	**11 105**	**4 509**
Net foreign currency translation differences	**540**	**957**
Net cash flow variation	**12 276**	**(7 406)**
Net opening cash	85 864	93 269
Net closing cash	98 139	85 864

STATEMENT OF CHANGES IN EQUITY (in thousands of Euros)

	Capital	Additional paid in capital	Own Shares	Foreign currency translation reserves	Reserves & consolidated net income	Total Group interest	Minority interests	Total Equity
Situation at 01.01.2009	**7 763**	**139 289**	**-**	**(7 700)**	**(22 628)**	**116 724**	**(11)**	**116 713**
Net income	-	-	-	-	11 411	**11 411**	(119)	11 292
Other comprehensive income	-	-	-	6 756	-	**6 756**	(17)	6 739
Total comprehensive income	-	-	-	6 756	11 411	**18 167**	(137)	18 031
Distribution of dividends	-	-	-	-	-	-	-	-
Stock-Options exercised	-	-	-	-	-	-	-	-
Fair value of Stock-Options	-	-	-	-	308	**308**	-	308
Own Shares acquisition	-	-	(9 563)	-	-	**(9 563)**	-	(9 563)
Other	-	5	-	-	(7)	**(2)**	-	(2)
Situation at 31.12.2009	**7 763**	**139 294**	**(9 563)**	**(944)**	**(10 916)**	**125 634**	**(148)**	**125 486**
Situation at 01.01.2010	**7 763**	**139 294**	**(9 563)**	**(944)**	**(10 916)**	**125 634**	**(148)**	**125 486**
Net income	-	-	-	-	9 093	**9 093**	(116)	8 977
Other comprehensive income	-	-	-	5 956	-	**5 956**	(26)	5 930
Total comprehensive income	-	-	-	5 956	9 093	**15 049**	(142)	14 907
Distribution of dividends	-	-	-	-	-	-	-	-
Stock-Options exercised	11	72	-	-	-	**83**	-	83
Fair value of Stock-Options	-	-	-	-	507	**507**	-	507
Own Shares acquisition (1)	-	-	(2 292)	-	-	**(2 292)**	-	(2 292)
Other (1)	-	-	742	-	(783)	**(41)**	-	(41)
Situation at 31.12.2010	**7 774**	**139 366**	**(11 113)**	**5 012**	**(2 099)**	**138 940**	**(289)**	**138 651**

(1) See note 10 detailing operations impacting the Shareholders' equity

ANNEXE

1. ABOUT THE GROUP

Velcan Energy SA was incorporated on April, 2005; and its aim is the ownership of hydro power concessions.

The Velcan Energy group devises, develops, implements, finances and operates hydropower concessions in emerging markets. Hydro power is a conventional source of electricity production. It is the only source of renewable and cheap power. In many cases it can compete with coal power generation. The Group power plants are or will be established in India, Brazil, Lao Republic and other emerging markets.

These countries suffer from serious under capacity in electricity production, particularly India where an estimated 650 million people do not have regular access to electricity. Under capacity has led to both Indian and Brazilian national governments liberalizing the state controlled electricity market and allowing increased private and foreign competition. Laos has a strategic position in South-East Asia, and can export to high power-demand growing countries such as Thailand, Vietnam, Cambodia and China. These countries have huge untapped hydroelectric potential; India with an estimated 100,000 MW, Brazil with an estimated 190,000 MW and Laos with an estimated 20,000 MW.

As of 31/12/2010, Velcan Energy:
o Has commissioned its first hydro power plant in Brazil (15 MW)
o Owns the rights to more than 593 MW of concessions and projects in India, Brazil and Lao Republic.
o Has an agreement to develop 300 MW in Laos
o Is actively prospecting two additional emerging markets.

Velcan Energy's technical team is composed of industry veterans and is one of the most experienced in the world in the construction and operation of hydroelectric plants.

Velcan Energy is headquartered in Paris, and employs over 60 people, divided between its main offices (New Delhi, Paris, and Saõ Paulo) and concession sites.

Velcan Energy is listed on the Paris Stock Exchange (Euronext MLVEL-FR0010245803). The company has never made a public offering according to the sense given in the articles L 411-1 and L 411-2 of the French financial and monetary Code.

2. SIGNIFICANT EVENTS OF THE PERIOD

2-1 Financial events

The Rodeio Bonito concession has started its production. The turnover of the group, amounting to 3.7 m€ is mostly composed of electricity sales in Brazil coming from that power plant.
The favorable fluctuation of Brazilian Real has continued generating substantial foreign exchange gain for the group on its 40 m€ investment made in 2008 (6.2 m€ of realized and unrealized positive Forex impact).
Financial revenues excluding forex impact amounts to 7 m€ (excluding provision), mostly composed of interests on Brazilian Government Bonds. These financial interests in Brazil will likely remain the same over the coming years. But the market value of the Bonds may evolve with the evolution of market rates.
The Foreign currency translation reserves also include the unrealized currency exchange fluctuations on long term loans in foreign currency granted to the Group's subsidiaries in Brazil. The appreciation trend of the Real has had a positive impact again this year. As of December 2010, the cumulative impact on foreign currency translation reserves amounts to 5 m€, added to the Group's equity to be compared to a 0.9 m€ loss as of December 2009.

2-2 Business Activities

The Financial year 2010 was mainly devoted to the consolidation and development of hydroelectric projects acquired by the Group in 2007 and 2008, as well as to the prospection of new projects in other emerging countries, including Laos.

The Sales of Rodeio Bonito power plant amounted to 3.5 m€ in 2010 as expected by the group. The other Brazilian projects are awaiting some administrative clearances.

In India, the Goup has continued to work on the development of the Arunachal Pradesh hydroelectric concessions obtained in 2007. In April 2010, the group has announced having received a crucial authorization from the *Ministry of Environment and Forests* to increase the capacity of the projects from 304 MW to 500 MW. These changes will delay the start of the construction that is now expected for 2013. The teams are still working on administrative clearance, next steps being getting the approval from the Central Electrical Authority and the Environmental clearances.

In Lao Republic the group has announced having obtained its first pre-concession of 25 MW on the Nam Phouan river with an exclusive right with its local partner ECI (Electrical Construction and Installation) at the end of the 18 months of techno-economic studies to obtain the concession if the project is feasible and viable.

The group is also prospecting, at different stages, in two other emerging countries.

In conformity with the strategy announced, the refocusing of activities on hydropower was pursued during the year 2010. The Group sold its last Biomass power plant, Satyamaharshi Power Projects Pvt. Ltd (SMPCL), in December 2010. It had a positive impact on the 2010 annual accounts.

3. ACCOUNTING POLICIES, BASIS OF CONSOLIDATION, VALUATION METHODS

3-1 General

The consolidated financial statements as of 31 December 2010 present the position of Velcan Energy and its subsidiaries (referred to hereinafter as "the Group").

The Board of Directors finalised the summary consolidated accounts as of 31 December 2010, on April 2011 and approved the publication of the consolidated financial statements as of 31 December 2010.

3-2 Compliance with accounting standards

As per the application no. n°1126/2008 of the European Council adopted on the 3rd 2008, the Velcan group has established its consolidated accounts in conformity with the international norms for financial information or « International Financial Reporting Standards » (IFRS) as adopted by the European Union.

The International accounting standards include the IFRS, the IAS (International Accounting Standards), and their SIC interpretations SIC (Standing Interpretations Committee) and IFRIC ((International Financial Reporting Interpretations Committee).

However the new standards, amendments to the following existing norms and interpretations had been published but are not applicable to Velcan Energy in 2010:

- Amendment to IAS 32 - Financial Instruments: Presentation- Classification of Rights
Issues: Effective 1 February 2010.

- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments: Effective 1 July 2010.

- Amendment to IFRS 1 – Amendment to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time adopters: Effective 1 July 2010.

- Amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement: Effective 1 January 2011.

- IAS 24 – Related Parties Disclosures (revised 2009): Effective 1 January 2011.

- IFRS 9 – Financial Instruments: Effective 1 January 2013.

These standards have not yet all been adopted by the European Union.

3-3 Presentation of consolidated financial statements

The consolidated financial statements are presented in thousands of Euros, rounded to the closest thousand.

A) Change in accounting policies

The consolidated accounts as of 31 December 2009 are showing no changes in accounting policies.

B) "Current" and "non-current" assets and liabilities

Assets and liabilities are reported as "current" according to the following principles:

Current assets must include customer receivables, inventories and all other assets that meet one of the following three conditions:

- the company expects to be able to dispose, sell or consume the asset as part of the normal operating cycle of the company (the normal operating cycle of a company refers to the period of time that elapses between buying raw materials used in an operating process and convert them in the form of cash or an instrument immediately convertible into cash);
- the asset is essentially held for sale or for a shorter period and the company expects to dispose of it within 12 months after the year-end;
- the asset is cash for which there are no restrictions on use.

Current liabilities must include trade debts and all other liabilities that meet one of the following two conditions:

- the liability is going to be settled as part of the normal operating cycle of the company;
- the liability must be settled within 12 months after the year-end.

Other assets and liabilities not meeting this definition are reported as "non-current".

C) «Current operating profit" and "Other operating income and expenses"

The income statement is presented per type, according to the choice offered by the CNC[1] recommendation of 27 October 2004.

[1] Conseil National de Comptabilite – French accounting council

This presentation shows a “current operating profit” which corresponds to profit before:

- income on disposal of equity shares;
- goodwill depreciation (following impairment test);
- other operating income and expenses which mainly include:
  - ✓ restructuring costs;
  - ✓ losses and profits and variations of provisions covering exceptional events, in other words extraordinary in their amount or occurring rarely;
  - ✓ gains or losses on disposals or depreciation of assets;
- net cost of debt;
- other financial income and expenses,
- current and deferred taxation,
- profit of investments accounted for using the equity method,
- profit from discontinuing operations.

3-4 Basis of consolidation

A) Integration policies

The consolidated financial statements include the financial statements of the parent company and the companies controlled by it.

In accordance with standard IAS 27, control is presumed to exist when the parent company holds, directly or indirectly through subsidiaries, more than half of the voting rights of an entity.

Control also exists when the parent company holding half or less than half of the voting rights of an entity has power:

- over more than half of the voting rights in accordance with an agreement with other investors;
- to govern the financial and operating policies of the entity in accordance with a regulation or a contract;
- to appoint or dismiss the majority of the members of the board of directors or the equivalent management body if the entity is controlled by this board or this body;
- to bring together the majority of votes at meetings of the board of directors or equivalent management body, if the entity is controlled by this board or this body.

The Group used the full integration method for all of its subsidiaries.

B) Elimination of reciprocal accounts and transactions

Intra-group balances and transactions as well as profits and losses resulting from intra-group transactions are eliminated for the purposes of the preparation of the consolidated financial statements.

The Group considers that internal margins on project management services carried out for subsidiaries are not material.

C) Date and effect of acquisitions and disposals

The results of companies that are newly consolidated during the financial year are only attributed to the Group for the fraction earned after the date of transfer of control. Similarly, the results relating to companies sold during the financial year are only consolidated for the fraction realised prior to the date of transfer of control in accordance with IFRS 5.

D) Translation of financial statements and accounts in foreign currencies

Each entity of the Group determines its own operating currency and the elements included in the financial statements of each entity are measured using this operating currency.

The main functional currencies used within the Group are the Indian Rupee INR (for subsidiaries in India), the Real BRL (for subsidiaries in Brazil) and the Dirham AED (for the Dubai holding). The exchange rates used by the Group are indicated in § 5.

Operations in foreign currencies are initially recorded in the operating currency at the current rate of exchange as of the date of the transaction.

At year-end, the assets and liabilities of these subsidiaries are converted into the presentation currency of the Group at the current rate of exchange on this date and their income statements are converted at the average weighted rate of exchange for the year. Exchange differences resulting from this conversion are directly posted to a separate heading of equity. When going out from an overseas business, the total amount of deferred foreign currency translation differences shown in the separate component of equity relating to this overseas business is posted to the income from the disposal thereof.

E) Use of estimates

The main assumptions concerning future events and other sources of uncertainty linked to the use of estimates would relate to goodwill (see §3.5 A) below) and projections enabling the use of tax losses carried forward.

3-5 Valuation Methods and rules

All consolidated entities apply uniform accounting policies for similar transactions and events.

A) Goodwill

Business combinations are accounted for using the purchase method, in accordance with the provisions of IFRS 3 – Business combinations.

All assets, liabilities and contingent liabilities acquired are posted at their fair value.

Goodwill is equal to the difference between the purchase cost of shares plus associated external costs and the fair value of the share of assets and liabilities purchased.

Goodwill is not amortized but is tested for impairment annually or more frequently if internal or external events or circumstances indicate that a reduction in value is likely to have occurred.

In particular, the balance sheet value of goodwill is compared to the recoverable amount which corresponds to the higher of market value and value in use. In order to determine their value in use, fixed assets are grouped together in the Cash Generating Unit (CGU) to which they belong. The value in use of the CGU is determined by the discounted cash flow (DCF) before tax method.

The recoverable amount of the CGU determined in this way is then compared to the contributory value of the assets in the consolidated balance sheet (including goodwill). A provision for depreciation is posted, if applicable, if this value in the balance sheet is more than the recoverable amount of the CGU and is applied as a priority against goodwill. This impairment is recognized in operating income. It cannot be reversed when it has been charged against goodwill.

In accordance with IFRS 3, negative goodwill is recognized as profit immediately under operating income.

B) Intangible assets

Like all assets, an intangible asset is an identifiable element of the company's assets. An intangible asset is a non-monetary asset without physical substance

According to IAS 38 "Intangible Assets", the conditions to be met to post an intangible asset to assets correspond to the following criteria:

- establishment of technical feasibility of completion of intangible asset so it can be used or sold;
- intention to complete intangible asset;
- ability of company to use it or sell it;
- determination of future economic benefits (in other words, the benefit this asset will contribute directly or indirectly to flows to the company);
- current or future availability of resources necessary to complete this project;
- ability to reliably measure costs related to this asset.

Elements acquired for payment are recognized at purchase cost and elements produced by the company are recognized at production cost. The entry costs of an intangible asset correspond to the direct costs attributable to the project only.

Production costs can be incorporated into the entry costs of the intangible asset when the conditions set out above are met. Costs incurred before this date are not retrospectively posted to assets.

The Group's main intangible assets are as follows:

- development costs meeting the above criteria;
- operating licenses including the costs directly associated with acquiring or obtaining them;
- patents acquired or created internally;

Projects must be on an individual basis and show serious chances of technical success and commercial profitability.

Intangible assets are amortized over their useful life by the user company and not over their probable life. In the case of legal or contractual protection, the amortization period used is the shorter of the period of use and the duration of this protection. In this last case, it is possible to consider the renewal of rights when this renewal is materially and reasonably foreseeable.

Amortization must start on the date on which the asset is ready to be used for the purpose intended by the management.

The amortization applied reflects the pattern of consumption by the company of the future economic benefits expected from the asset. If this cannot be reliably determined, the straight-line method is used. Nevertheless, the total amortization applied must not be less than the total that would have been obtained by the straight-line method.

Useful life, mode of amortization and residual value must be re-examined at each year-end. In the case of application or reversal of depreciation, the amortization plan must be corrected.

Research activities are charged to expense when they are incurred and cannot be incorporated into the cost of the asset subsequently. Research costs charged to expense are, for example, activities aiming to obtain new knowledge, the search for alternative solutions for materials, processes or products…

Start-up costs must be charged to expense. Research costs, as well as other development and study costs not meeting the criteria mentioned above are also charged to expense in the financial year during which they are incurred.

C) Tangible assets

In accordance with IAS 16 “Tangible assets”, the gross value of assets corresponds to their purchase price or production cost. It is not re-valued.

When the components of an asset have different lifetimes, they are posted separately and amortized over their particular useful life. Significant spare parts are thus capitalized and amortized over the useful life of the plants.

On the other hand, the maintenance and repair costs of production units intended to keep them in good working order and not to significantly increase the expected economic benefits or extend their useful life are recognized as an expense when they are incurred.

To date, obligations likely to generate dismantling and removal costs for assets have not been identified. Consequently, no costs of this kind are included in the cost price of the installations and accordingly no ad hoc provision ad hoc has been posted to liabilities.

When received, investment subsidies are posted against the assets they subsidize while repayable subsidies are presented in the liabilities of the balance sheet under the item “other debts”.
Tangible assets are amortized using the straight-line method, over the principal estimated economic useful life of the corresponding assets, unless the asset is the subject of a license or a right for a shorter time.

Thus, production installations are amortized using the straight line method over their estimated useful life from the date on which the asset is ready to be put into service, in other words when it is in the necessary place and condition so it can be used in the way specified by the management. The Group adjusts the useful life of fixed asset annually.

Hydropower Plants are amortized using the straight line method over the duration of the concession.

Other tangible assets are amortized using the straight-line method over periods between 2 and 10 years.

D) Leased assets

According to IAS 17, leases are reported as finance leases when the terms of the lease agreement transfer substantially all the risks and rewards incident to ownership to the lessee. Property that is the subject of a finance lease agreement or similar is posted to assets, for the value stipulated in the agreement, under the corresponding fixed assets items; amortization is calculated over identical periods to those used for other assets of the same kind. The consideration for these assets is posted to the liabilities of the balance sheet under the item borrowing and financial debts and is amortized according to the schedule of the agreements for the fraction of the fees corresponding to the repayment of the principal amount. The restatement of fees has an impact on the income.

Lease agreements in which the lessor retains almost all of the risks and rewards incident to ownership of the asset are posted as simple lease agreements. Payments under simple lease agreements are posted as expenses in the income statement on a linear basis until the expiry date of the agreement.

E) Impairment of elements of fixed assets

According to IAS 36 "Impairment of assets", the recoverable amount of tangible and intangible assets is tested as soon as there are any indication of impairment, these being reviewed at the end of each financial year.

- Tangible assets with a finite life and tangible assets: the value of significant assets is reviewed at each financial year-end to look for any indication of impairment. If such indications exist, the recoverable amount of the assets is estimated and impairment is recorded when the book value of an asset is more than its recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and its value in use determined by estimating the future cash flows generated by the asset.

- Intangible assets with an indefinite life: they are subject to an impairment test at the level of the group of cash generating units according to the policies presented above in § A) Goodwill.

F) Financial assets

Financial assets are defined by standards IAS 32 "Financial instruments: presentation" and IAS 39 "Financial instruments: Recognition and measurement". The latter requires financial assets to be reported in four categories:

- loans and receivables granted by the company

This category includes loans and receivables associated with financial investments. These assets are measured at amortized cost. Their value in the balance sheet includes the outstanding capital, subjected to a depreciation test. Impairment is recognized in income.

- held-to-maturity financial investments

These assets essentially include bonds and certificates of deposit which cannot be readily available or disposed of in the very short-term or which present significant risks of impairment if interest rates change. They are acquired with the intention of keeping them until they mature. They are posted using the amortized cost method and subject to a depreciation test. Impairment is recognized in income when it is established that it is long-term.

- financial assets held for trading

These are financial assets held by the company mainly for the purpose of selling in the short-term. They are measured at fair value, fair value changes being recognized in income. This category includes, in particular, cash mutual funds and negotiable debt securities, which can be mobilized or disposed of in the very short-term and do not present significant risks of impairment if interest rates change.

- available-for-sale financial assets

These assets include all other assets that do not correspond to the three previous categories. They essentially include equity shares and investment securities.

Investments in shares represent the Group's interests in the capital of non-consolidated companies. They are maintained at their purchase price which the Group considers represents their fair value, in the absence of an active market. If there is a long-term drop in their value in use, impairment is recognized in income statement. Value in use is determined according to the financial criteria most appropriate to the particular position of each company. The criteria generally used are: share of equity capital held, change in main multiples of aggregates and prospects of profitability.

Investment securities include the shares the Group intends to keep for the long-term. These securities are measured at fair value. Fair value changes are recognized directly in Equity. The amounts thus recognized in Equity are transferred to income when the financial assets are sold. Unrealized losses recognized in Equity are recognized in income when the impairment becomes long-term.

G) Financial liabilities

Financial liabilities include bank debts and other financial debts. They are initially recorded at fair value net of transaction costs and subsequently valued at amortized cost.

H) Derivatives

Derivatives are firm or optional and relate to the following elements: an interest rate, an exchange rate, the price of a share, the price of a raw material, a credit risk or an index calculated on the basis of one of the underlying elements mentioned previously.

IAS 39 “Financial instruments: recognition and measurement” requires all derivatives to be recorded in the balance sheet at fair value when they are set up and when they are re-valued at each financial year-end

Fair value changes of derivatives must be recognized in income, with certain exceptions.

To date, the Group has not used financial instruments.

I) Inventories

Stocks mainly consist of biomass fuels, consumables and non-strategic spare parts required for the operation of plants. They are valued at cost price or market price, if the latter is less than the purchase price.

J) Accounts receivable/Accounts payable

Accounts receivable and accounts payable are valued on the date of initial recognition.

Provisions for depreciation are recorded for bad debts and determined per customer, according to the assessment of the risk of non-collection.

K) Deferred taxation

In accordance with IAS 12 “Income taxes”, deferred taxes are recognized for all temporary differences between the carrying amounts of assets and liabilities and their tax base, as well as for tax deficits, according to the liability method. Differences are temporary when they are expected to be reversed in the foreseeable future.

Deferred tax assets are recognized in the balance sheet when it is more probable than improbable that they will be recovered in subsequent years.

In accordance with the standard, deferred tax assets and liabilities are offset for the same tax entity and tax assets and liabilities are not discounted.

L) Share option plans at agreed unit price

Share options can be granted to managers and certain employees of the Group. In accordance with IFRS 2 “Share-based Payment”, these plans are recognized at fair value on the date they are granted. Value changes after the date of granting have no impact on this initial valuation (because these are plans settled in equity instruments).

The value of the plans is estimated according to current market practices. This value is recorded as a payroll expense on a straight-line basis between start date of acquisition of rights and the date of exercise – vesting period – with a direct counterpart in Equity.

M) Pension commitments and similar

Due to the youth of the Group, there are no significant post-employment benefits (retirement pension or similar).

N) Provisions

In accordance with IAS 37, provisions are reported as current provisions (for the less than one year part) and non-current (for the more than one year part).

Provisions are reported when the Group has a legal, regulatory or contractual obligation as a result of past events, when it is probable that an outflow of resources is necessary to settle the obligation and the amount of the obligation can be reliably assessed. The amount posted to a provision represents the best estimate of the risk at each financial year-end, after consulting the company’s legal advisors, if applicable.

O) Revenue Recognition

Turnover consists essentially of revenues obtained from:

- long-term energy supply contracts;
- carbon credit trading;
- and, incidentally, engineering service revenues.

To date, the Group’s activities of buying and selling of carbon credits are not carried out on behalf of customers. Nor do they concern assets or the optimization of the production installations. So the Group is not concerned by the application of IAS 18 and IAS 1 which state that income earned from the trading activity, defined for sales offset by similar purchases or sales that contribute to exchange strategies, must be recognized net in turnover.

P) Other operating revenue

This heading includes in particular income from the generation of carbon credits, concomitant with the electricity generation, for sites having obtained the necessary approval.

Q) Other operating income and expenses

Other operating income and expenses consist of transactions which, due to their characteristics, unusual nature or non-recurrence, cannot be considered inherent in the Group’s business.

R) Method of calculating earnings per share

In accordance with IAS 33, net earnings per share is calculated by dividing the net income group share attributable to ordinary shareholders by the average weighted number of shares in circulation during the financial year.

Net diluted earnings per share is obtained by dividing the net income group share by the average weighted number of shares in circulation during the period for which the calculation is carried out, adjusted by the maximum impact of the conversion of convertible instruments in ordinary shares according to the so-called share buyback method.

S) Segment reporting

In accordance with IFRS 8, the Velcan Energy group publishes primary segment reporting per geographical area and secondary segment reporting per activity.

The Group’s geographical segments are as follows:

- France;
- India;
- Brazil;
- Dubai.
- Luxembourg
- Mauritius

The Group’s activity sectors are as follows:

-
- Hydroelectricity;
- Carbon credit trading;
- Holdings and sundry.

“Carbon” credits generated by the Group’s production units are reported in the business segment that generates them.

4. CHANGE IN BASE OF CONSOLIDATION

As of 31st December 2010, the base of consolidation of Velcan Energy includes nineteen fully consolidated companies.

4-1 BASE OF CONSOLIDATION

The following companies are consolidated :

French Companies	Adress	Method of Consolidation	% of control 2010.12	% of Interest 2010.12	Comments
VELCAN ENERGY SA	75, Boulevard Haussmann 75008 Paris	Parent Company	100%	100%	Created on 08/04/2005
RODEIO BONITO HIDROENERGIA	75, Boulevard Haussmann 75008 Paris	Full integration	100%	100%	Created on 29/12/2006
Indian Companies	**Adress**	**Method of Consolidation**	**% of control 2010.12**	**% of Interest 2010.12**	**Comments**
VELCAN RENEWABLE ENERGY Pvt Ltd	N°130 Infantry Road, "Prestige Infantry Court" Unit No. Mo1, Mezzanine Floor, 560001 Bangalore Karnataka	Full integration	100%	100%	Created on 31/03/2006
VELCAN ENERGY INDIA Pvt Ltd	N°130 Infantry Road, "Prestige Infantry Court" Unit No. Mo1, Mezzanine Floor, 560001 Bangalore Karnataka	Full integration	100%	100%	Created on 12/01/2006
SATYAMAHARSHI POWER PLANT Ltd	Krosur Road Muttayapalem Village Amaravathi Mandal 522020 Guntur district Andhra Predesh	Full integration	0%	0%	Sold on 01/05/2010
UTKAL HYDRO ENERGY PVT LTD	Uttam Tower Second floor, plot n°969 (A) Katha No.42/2 Ashok Nagar Unit-II, Khordha District, 751009 Bhubaneshwar Orissa	Full integration	0%	0%	Merged into Flowtech on 01/04/2010
VELCAN RENEWABLE ENERGY (KR NAGAR) PVT LTD	Uttam Tower Second floor, plot n°969 (A) Katha No.42/2 Ashok Nagar Unit-II, Khordha District, 751009 Bhubaneshwar Orissa	Full integration	0%	0%	Merged into Flowtech on 01/04/2010
TARINI HYDRO ENERGY PVT LTD	Uttam Tower Second floor, plot n°969 (A) Katha No.42/2 Ashok Nagar Unit-II, Khordha District, 751009 Bhubaneshwar Orissa	Full integration	100%	100%	Created on 29/11/2006

Indian Companies	Adress	Method of Consolidation	% of control 2010.12	% of Interest 2010.12	Comments
FLOWTECH HYDRO ENERGY PVT LTD	Uttam Tower Second floor, plot n°969 (A) Katha No.42/2 Ashok Nagar Unit-II, Khordha District, 751009 Bhubaneshwar Orissa	Full integration	100%	100%	Created on 6/11/2007
PAUK HYDRO POWER PVT LTD	G-77, Sujan Singh Park, New Delhi-110003	Full integration	100%	100%	Created on 15/11/2007
SIYOTA HYDRO POWER PVT LTD	G-77, Sujan Singh Park, New Delhi-110003	Full integration	100%	100%	Created on 15/11/2007
HEO HYDRO POWER PVT LTD	G-77, Sujan Singh Park, New Delhi-110003	Full integration	100%	100%	Created on 14/11/2007
HIRIT HYDRO POWER PVT LTD	G-77, Sujan Singh Park, New Delhi-110003	Full integration	100%	100%	Created on 14/11/2007
Brazilian Companies	**Adress**	**Method of Consolidation**	**% of control 2010.12**	**% of Interest 2010.12**	**Comments**
VELCAN DESENVOLVIMENTO ENERGETICO DO BRASIL Ltda	Rua São Tomé, 86 cj 192. Vila Olímpia CEP 04551-080, São Paulo	Full integration	100%	100%	Created on 29/12/05
SPE RODEIO BONITO	Avenida Getúlio Vargas, n. 283 S, 3º andar, sala 303 Centro – Chapecó CEP 89.802-001 Santa Catarina	Full integration	95%	95%	Created on 22/08/07
QUEBRA DEDO HIDRELETRICA	Rua São Tomé, 86 cj 192. Vila Olímpia CEP 04551-080, São Paulo	Full integration	100%	100%	Created on 01/02/08
PIRAPETINGA HIDRELETRICA	Rua São Tomé, 86 cj 192. Vila Olímpia CEP 04551-080, São Paulo	Full integration	100%	100%	Created on 28/02/08
IBUTURUNA HIDRELETICA SA	Rua São Tomé, 86 cj 192. Vila Olímpia CEP 04551-080, São Paulo	Full integration	100%	100%	Created on 03/04/08

Company in United Arab Emirates	Adress	Method of Consolidation	% of control 2010.12	% of Interest 2010.12	Comments
VELCAN ENERGY HOLDING DUBAI	Liberty House, office 405b Dubai International Financial Centre PO box 506832 – UAE	Full integration	100%	100%	Created on 23/04/07
Company in Luxembourg	**Adress**	**Method of Consolidation**	**% of control 2010.12**	**% of Interest 2010.12**	**Comments**
VELCAN ENERGY LUXEMBOURG SA	11 B, boulevard Joseph II L - 1840 Luxembourg	Full integration	100%	100%	Created on 12/02/09
Company in Mauritius	**Adress**	**Method of Consolidation**	**% of control 2010.12**	**% of Interest 2010.12**	**Comments**
VELCAN ENERGY MAURITIUS LIMITED	Level 2 Alexander House 35 Cybercity, Ebène, Republic of Mauritius Republic of Mauritius	Full integration	100%	100%	Created on 16/04/09
Company in Peru	**Adress**	**Method of Consolidation**	**% of control 2010.12**	**% of Interest 2010.12**	**Comments**
VELCAN ENERGY PERU SAC	Av. Javier Prado Oeste 795 Magdalena del Mar, Lima - Perú	Full integration	100%	100%	Created on 30/06/2010

4-2 Changes in consolidation scope

One new company has been created in 2010, in Peru.

In order to simplify the group structure:
Two Indian hydro entities have been absorbed by FLOWTECH HYDRO ENERGY PVT LTD: UTKAL HYDRO ENERGY PVT LTD and VELCAN RENEWABLE ENERGY (KR NAGAR) PVT LTD.

One Biomass entity has been sold by Velcan Energy India Pvt Ltd in two steps in 2010, and it has been taken out from the consolidation base as of 01/05/2010: Satyamaharshi Power plant Ltd.

5. CURRENCY RATES

1 € =	31.12.2010		31.12.2009	
	Closing rate	Average rate	Closing rate	Average rate
BRL (Brazilian Real)	2,22	2,35	2,51	2,79
INR (Indian Rupee)	59,76	60,97	67,21	68,03
AED (Dirham UAE)	4,91	4,88	5,27	5,12
USD (Dollar US)	1,34	1,33	1,43	1,39
PEN (New Peruvian Soles)	3,75	3,81		
IDR (Indonesian Rupiah)	12002,14	12114,64		

6. NOTES ON THE BALANCE SHEET AND INCOME STATEMENT

Note 1 –Goodwill

Goodwill shown in the consolidated balance sheet as of 31st December 2010 is as follows:

In thousands of Euros			31.12.2010		
Business	Historical Value 2009	Forex Adjustment	Closing value	Depreciation	Net
Hydroelectricity India	25	-	25	(25)	-
Dubai	14	-	14	-	**14**
Total	**39**	**-**	**39**	**(25)**	**14**

The utility value of these goodwill is to be tested annually.

Note 2 –Intangible Assets

Intangible assets as of 31st December 2010 are as follows :

In thousands of euros	Development costs	Intangible assets in progress	Licenses, patents and rights	Other intangible assets	Total
Gross value	4 256	10 885	1 094	183	16 417
Cumulated Amortization/Depreciation	(1 103)	(919)	(4)	-	(2 026)
Net closing balance at 31.12.2009	**3 152**	**9 966**	**1 090**	**183**	**14 391**
Net opening balance at 01.01.2010	3 152	9 966	1 090	183	14 391
Foreign Currency translation	470	1 306	141	15	1 931
Change in perimeter	-	(22)	-	-	(22)
Acquisitions	13	3 915	-	-	3 928
Disposals	(1 062)	(286)	-	-	(1 348)
Restatements	1 115	(497)	-	(197)	421
Amortization/Depreciation	910	(1 740)	(51)	(3)	(883)
Other movements					
Net closing balance at 31.12.2010	**4 598**	**12 642**	**1 181**	**(3)**	**18 418**
Gross value	4 792	15 301	1 235	-	21 327
Cumulated Amortization/Depreciation	(194)	(2 659)	(54)	(3)	(2 910)
Net closing balance at 31.12.2010	**4 598**	**12 642**	**1 181**	**(3)**	**18 418**

Intangible assets mainly consists of direct costs attributable to projects meeting the criteria defined in the accounting principles (see above, §3-5, B)). These projects are as follow (net amount):

- Rodeio Bonito concession in Brazil: 5.504 k€
- Direct costs incurred on other hydroelectric projects in Brazil: 5.155 k€
- Direct costs incurred on hydroelectric projects in India: 7.414 k€
- Direct costs incurred on hydroelectric projects in Other emerging Countries: 327 k€

The main variation on amortization/depreciation is mostly related to impairment of the Hirit Power Project concession and the provision of 100% of costs engaged following studies showing that water flow is far less important than expected.
The group does not know if it will continue this project to date.
Disposals of “development costs” are related to projects abandoned in 2009 by the group and already provisioned in 2009 accounts.

Reclassification total is not equal to 0 since it relates to reclassification of tangible assets into intangible assets.

Note 3 –Tangible assets

Tangible assets as of 31st December 2010 are detailed as follows :

In thousands of Euros	Land and Buildings	Technical installations	Vehicles	Furniture computer equip.	Other	Tangible assets in progress	Total
Gross Value	22 878	2 791	294	287	404	3 213	**29 866**
Cumulated Amortization/Depreciation	(377)	(2 730)	(149)	(149)	(138)	(2 543)	**(6 086)**
Net closing balance at 31.12.2009	**22 501**	**61**	**145**	**137**	**266**	**670**	**23 780**
Net opening balance at 01.01.2010	22 501	61	145	137	266	670	**23 780**
Foreign Currency translation	3 028	286	30	29	33	47	**3 454**
Change in perimeter	(867)	(2 861)	(111)	(13)	(76)	(3)	**(3 933)**
Acquisitions	927	100	(0)	14	(262)	108	**888**
Disposals	(108)	(1)	(12)	(1)	(70)	(2 649)	**(2 842)**
Restatements	280	-	-	(1)	-	(700)	**(421)**
Amortization/Depreciation	(742)	2 626	52	(50)	109	2 543	**4 538**
Other movements							
Net closing balance at 31.12.2010	**25 020**	**211**	**103**	**115**	**(1)**	**17**	**25 464**
Gross Value	26 138	315	200	315	29	15	**27 012**
Cumulated Amortization/Depreciation	(1 118)	(104)	(97)	(199)	(29)	-	**(1 548)**
Net closing balance at 31.12.2010	**25 020**	**211**	**103**	**116**	**0**	**15**	**25 464**

Tangible assets mainly consists of direct costs attributable to projects meeting the criteria defined in the accounting principles (see above, §3-5, B).
These projects are as follows (gross figures):

- Rodeio Bonito concession in Brazil 24.593 k€

The revaluation on this assets compared to 2009 is mainly due to positive Forex variation of the Brazilian Real. Accumulated amortization on this tangible asset amounts to 1.124 k€ and represents the main variation of amortization line in 2010 accounts.

Note 4 – Non current financial assets

Velcan Renewable Energy Pvt. Ltd. has taken a stake in an Indian Group, specialized in Civil Works and Heavy Infrastructure Construction and also involved in hydropower sector and high voltage transmission line construction.

This acquisition of holdings has a strategic purpose as it gives to the Group, not only access to a knowhow and a basic knowledge in civil works and engineering in India, but also directly to a reliable civil works co-contracting party. It is particularly difficult to secure both accesses are in India for a foreign developer. Thus the group wishes being able to speed up the development and construction of its projects in Arunachal Pradesh.

As of December 31st 2010, the shares owned by the Group in this company are valued at 1.8 M€.

Note 5 – Other non current assets

Other non-current assets are detailed as below :

In thousands of euros	31.12.2010	31.12.2009
Trade of carbon credits	462	682
Taxes on profits		
Other non current receivables	63	228
Gross amounts	**525**	**910**
Depreciations	-	-
Net amounts	**525**	**910**

Within the context of its carbon credit trading activity, Velcan Energy has paid an advance for the purchase of carbon credits generated by biogas installations in India over three future periods of seven years. The delivery of the first carbon credits generated in 2006, took place beginning of 2008.

The part reported as "other current assets" (c.f. below, Note 8) corresponds to carbon credits that should be delivered over a period of less than twelve months, the part reported as "non-current financial assets" should be delivered after that.

Note 6 – Deferred tax and Income Tax

The income tax is broken down as follows :

In thousands of Euros	31.12.2010	31.12.2009
Tax Payable	(135)	2
Deferred taxes	(234)	116
Income or taxes related to fiscal integration	-	-
Tax income (+) and Expenses (-)	**(369)**	**118**

The reconciliation between recorded and theoretical income tax is detailed as follows:

In thousands of euros	31.12.2010	31.12.2009
Net income	**8 978**	**11 292**
Net profit of investment accounted for using the equity method	-	-
Income tax	(369)	118
Income before tax	**9 346**	**11 173**
Theoretical profit (+) or expense (-) tax at rate of 33,33%	**(3 115)**	**(3 724)**
Permanent differences	824	(779)
Deficits of period not recognized as assets (1)	(1 263)	(306)
Deficits recognized as assets (2)	3 071	5 075
Other (3)	116	(147)
Tax Income (+) and Expenses (-)	**(369)**	**118**
Actual rate of taxation	**3,9%**	**-1,1%**

(1) Due to lack of visibility on the recovery of deficits carried forward, not all fiscal deficit has been activated as assets during the fiscal year (*)

(2) The fiscal profit made during this year in France has been fully absorbed by previous deficits carried forward not activated in previous consolidated accounts. The deficit of Velcan Energy Luxembourg has been activated during this year.

(3) It mainly corresponds to tax rate difference, especially on the Dubai subsidiary where there is no taxation

In accordance with IAS 12, the Group has assessed its ability to collect deferred taxes recognized as assets on a case by case basis.
Indian subsidiaries owning Arunachal Pradesh concessions and Brazilian subsidiaries owning Ibituruna, Pirapetinga and Quebra Dedo concessions have no tax deficit carried forward. The Brazilian entity owning Rodeio Bonito concessions has a special taxation, based on profits so that no deficit carried forward can be activated.

(*) Cumulated deficits of Brazilian and Indian holdings have not been activated because the probability to be in a position of using those deficits against future benefits is very uncertain or inexistent, due mainly to local tax rules issues.

Note 7 - Clients and other receivables

This essentially includes receivables from electricity distributors. If applicable, provisions for depreciation are posted for these receivables, determined customer per customer according to the assessment of the risk of non-collection.

In thousands of Euros	31.12.2010	31.12.2009
Biomass electricity customers in India	4 044	3 680
Provision on Biomass electricity customers	(3 258)	(2 896)
Hydro electricity customers	345	-
Total	**1 131**	**784**

The Group used to own two Biomass power plants in India, named Satyamaharshi and Rithwik. As of 31st December 2010, the arrears related to the tariff dispute between the Association of Biomass Producers of the State of Andhra Pradesh against their client AP Transco amount to 1.527 k€ (for Satyamaharshi) and 2.517 k€ (for Rithwik, out of which 786 k€ are related to previous promoters).

A provision was booked for 100% of these amounts, pending the outcome of this dispute.
The remaining balance of 786 k€ are AP Transco disputed related to the period before the acquisition of Rithwik power plant. A debt for the same amount, due to old promoters, will be paid by Velcan Energy only if AP Transco is reimbursing it. Thus, no provision has been made for this share of AP Transco Receivables.

The hydro power sales receivables related to the December production of the Rodeio Bonito Concession not yet encashed as of December 2010 are amounting to 345 k€.

Note 8 –Other Current Assets

The other current assets item is broken down as follows :

In thousands of Euros	31.12.2010 Gross	31.12.2010 Provisions	31.12.2010 Net	31.12.2009 Gross	31.12.2009 Provisions	31.12.2009 Net
Trade of carbon credits (1)	558	-	558	337	-	337
Carbon credit production (2)	536	-	536	533	-	533
Tax and social receivables	1 143	-	1 143	260	-	260
Other receivables	193	-	193	3 051	-	3 051
Total	**2 430**	**-**	**2 430**	**4 181**	**-**	**4 181**

(1) The part reported as "other current assets" corresponds to carbon credits that are to be delivered over a period of less than twelve months (see above, Note 5), linked to Bagepalli project.
(2) They are carbon credits generated by green energy production in Biomass plants in India. CER (certified Emission Reduction) were valued at 10€ and VER (Voluntary Emission Reduction) were valued at 0 €. Detail is given in the Chart below. Unaudited CERs have to be verified by a Designated Operating Agency (DOE) agreed by the United Nations. The number of CER finally issued may slightly vary.

31.12.2010		CER *Bagepalli*	CER *SMPCL*	VER *RPPL*
Non Current Assets	Receivables (Unaudited) in Tons	48 200		
Current Assets	Stock (Audited)	9 671	43 862	
	Receivables (Unaudited) in Tons	55 993	-	30 104
	Total Tons	**113 864**	**43 862**	**30 104**
	Unit Value	10	10	-
	Valuation (k€)	**1 139**	**439**	**-**

Note 9 – Cash & Cash equivalents

The Cash is invested as follows :

In thousands of Euros	31.12.2010	31.12.2009
Investment securities	95 090	82 799
Cash	3 049	3 065
Gross active cash in balance sheet	**98 139**	**85 864**
Current creditor bank accounts	-	-
Total net cash balance	**98 139**	**85 864**

As indicated in § 2.1, Velcan Energy has invested a major part of its cash balance in Real in Brazil, in Government Bonds. Their fair value is described below:

31.12.2009	LFT (**)	NTN-F (***)	TOTAL
Fair Value in kBRL (*)	14 182	111 205	125 387
EUR/BRL Closing rate	2,51	2,51	2,51
Fair Value in kEUR	**5 656**	**44 349**	**50 005**

31.12.2010	LFT (**)	NTN-F (***)	TOTAL
Fair Value in kBRL (*)	15 504	123 446	138 950
EUR/BRL Closing rate	2,22	2,22	2,22
Fair Value in kEUR	**6 991**	**55 664**	**62 655**

The contribution of those placements to this year net income is nearby more than 12.5 m€, forex positive variations included.

(*) Fair value as given by the Bank as of 31/12/2010.
(**) LFT are Brazilian Government Bonds with variable interest rate, calculated daily as the daily SELIC rate.
(***)NTN-F are Brazilian Government Bonds with fixed interest rate.

The favorable course of the Real in 2010 and other forex impact led to a total net positive forex impact of € 6,2 million in the group's consolidated financial statements as of December 2010.

As of 31st December 2010, the Group's cash & cash equivalent balance by currency has been broken down as following :

- Brazilian Real (BRL) 65%
- Euros (EUR) 17%
- Indonesian Rupiah (IDR) 10%
- Other 3%

Note 10 –Equity

Capital :

As of December 2010, the capital of the Velcan Energy Group consists of 7 774 442 shares with a par value of 1.00 euro, i.e 7 774 442 euros. It is fully paid up.

Own Shares:

As of December 2010, Velcan Energy Mauritius Pvt Ltd has bought 1.369.989 own shares. The closing market value being 13 €, those own shares have a market value of 17.8 m€. Following IFRS rules, those shares are reducing the shareholder's equity for the same amount, ie 17.8 m€. The unrealized gain on own shares is not taken in the consolidated result.

Change in number of shares :

In number of shares	31.12.2010	Unit Price	31.12.2009	Unit Price
At beginning of the period	**7.763.242**	**1.0**	**7.763.242**	**1.0**
Cash Capital increase on 19th April 2010	10.000	1.0		
Cash Capital increase on 11th October 2010	600	1.0		
Cash Capital increase on 17th November 2010	600	1.0	-	-
At the end of the period	**7.774.442**	**1.0**	**7.763.242**	**1.0**

Conversion reserves :

At the end of the period the assets and liabilities of subsidiaries are translated into the current currency of the Group at the rate of exchange prevailing at that date (see § 5) and their income statements are translated at the weighted average exchange rate of the year. Foreign exchange differences between the historical data and results of these conversions are assigned to conversion reserves. As of 31st December 2010, these differences amount to an unrealized cumulative exchange loss of 2.103 k €.

The conversion reserves include also the unrealized exchange differences on long term loans, in currencies, granted to the subsidiaries. As of December 2010, these differences represent an unrealized cumulative exchange gain amounting to 7.115 k€, mainly from loans granted to subsidiaries in Brazil due to the strong appreciation of the Brazilian Real during the year.

Hence, as of 31st December 2010, the cumulative conversion reserves represent an unrealized gain of 5.012 k€, booked in equity, against a net unrealized loss of 944 k€ in 2009.

Equity warrants

Equity warrants issued offer the possibility of applying for company shares under the conditions described below. The discount rate used for the evaluation of equity warrants corresponds to the OAT accrued at the date of maturity of the treasury bonds.

Date of Board of Director's meeting	26.10.2005	20.02.2006	29.06.2006	29.06.2006	20.02.2009	20.10.2009	09.12.2009	09.04.2010
Total number of equity warrants allocated	10 000	18 000	1 700	3 000	28 000	40 000	390 000	4 500
Number of equity warrants existing on 31/12/2010	8 000	3 000	1 700	3 000	26 800	40 000	390 000	4 500
Number of equity warrants exercisable on 31/12/2010	8 000	3 000	-	3 000	14 600	24 500	260 000	-
Number of equity warrants exercised on 31/12/2010	2 000	-	-	-	1 200	-	-	-
Allocation date	26/10/2005	20/02/2006	29/06/2006	29/06/2006	20/02/2009	20/10/2009	09/12/2009	09/04/2010
Expiry date	30/10/2010	28/02/2011	30/06/2013	30/06/2011	31/12/2015	31/12/2017	31/12/2017	09/04/2020
Subscription price in euros	12,46 €	15,00 €	21,60 €	21,60 €	7,50 €	8,00 €	8,25 €	8,70 €

One equity warrant gives the right to apply for one share

Stock option plans

Date of Board of Directors Meeting	12.04.2007	29.05.2007	31.05.2007	27.02.2008	20.02.2009	16.10.2009	09.04.2010
Total number of options allocated	9 000	6 000	1 600	74 500	77 500	10 000	22 000
Number of options existing as at 31/12/2010	7 000	6 000	1 100	6 500	24 500	10 000	20 000
Number of options exercisable as at 31/12/2010	7 000	5 875	1 100	3 900	12 250	2 500	0
Number of options exercised as at 31/12/2010	-	-	-	-	10 000	-	-
Allocation date	12/04/2007	29/05/2007	31/05/2007	27/02/2008	20/02/2009	16/10/2009	09/04/2010
Expiry date	10/04/2017	29/05/2017	31/05/2017	27/02/2018	20/02/2019	16/10/2019	09/04/2020
Subscription price in Euros	20,03 €	22,16 €	21,34 €	27,70 €	7,50 €	8,00 €	8,70 €

One stock option gives the right to apply for one share

Note 11 – Provisions

Non current and current provisions cover the following risks:

In thousands of Euros	31.12.2009	Allowance	Reversal	Foreign Exchange	Reclas-sification	31.12.2010
Provision for retirement payments (1)	40	7	(1)	4	-	50
Provision for disputes (2)	1 909	819	(346)	257	-	2 640
Other provision for expenses	(0)					(0)
Total Provisions (non-current liabilities)	**1 949**	**826**	**(347)**	**261**	**-**	**2 689**
Provision for disputes	130	25	(50)	10	-	115
Total provisions (current liabilities)	**130**	**25**	**(50)**	**10**	**-**	**115**
Total provisions	**2 079**	**851**	**(397)**	**271**	**-**	**2 805**

(1) As of 31 December 2010, due to the fact that people eligible for pensions have only been working for the company for a very short time, this information is not significant.

(2)

(i) According to the agreement signed with the transferors during the acquisition of SMPCL, the receivables in current account detained by them and other related parties, would have been paid for by SMPCL only in case the carbon credits generated before acquisition would have been delivered before October 2007. With the delivery having subsequently taken place in 2008, these amounts have been retained by SMPCL, and the receivables have become obsolete. According to the same agreement, Velcan Energy India Pvt. Ltd was also permitted to retain during a certain period a part of the price in order to compensate any liabilities that may appear after the acquisition but corresponding to the management period of the vendors. Given the issues and liabilities discovered after the acquisition of SMPCL, this amount has been kept as per the terms of the share purchase agreement. The transferors or related parties today allege that these amounts are due to them and they have initiated a legal disputes. Till date they have filed:

- a payment demand before the Hyderabad City Civil Court filed against VEI and SMPCL by creditors related to the vendors for the payment of receivables for a total amount of 564 k€,including 208 k€ of interests from April 2006 up to the filing of the suit . This suit is still going on as of date. As intermediary measure, the claimants have filed and obtained the blocking of the assets of SMPCL.
- a payment demand before the Hyderabad City Civil Court filed against Velcan Energy India Pvt. Ltd. by the SMPCL vendors for the Payment of 398 k€, corresponding to 251 k€ of disputed retention amount retained following the acquisition, as per the share purchase agreement, and additional 147 k€ of interests from January 2007 to the filing of the suit.

The Group is contesting owing these amounts and these procedures are till date pending before the concerned courts of the State of Andhra Pradesh. However, to be cautious, the VEI Company has booked 836 k€ of provisions (at closing rate) related to ongoing litigations with old promoters of SMPCL Company. Nevertheless the Company is convinced that these claims are without any real legal or economic grounds and that the Company will not have to pay those amounts in the future. In fact, following the acquisition of SMPCL, the Group discovered different elements justifying the involvement of liability guarantees of the transferors, including a large difference in biomass stock established during the physical inventory and litigations discovered after acquisition. Following the failure of the pre-litigation that began in 2006, the group may initiate appropriate proceedings to recover amounts due that it assesses being largely above the amounts claimed by the transferors (0.7 m€ without interests). As a precaution, given the low level of solvency of the transferors and the length of the Indian legal procedures, no receivables against these sellers have been booked in the accounts.

(ii) Rodeio Bonito SA Company is facing two disputes for which a provision of 4 mBRL has been made.

(a) A payment demand has been filled before Court of Florianopolis, State of Santa Catarina, by the Sellers of the Rodeio Bonito project. The purchase contract, signed in November 2006 is allowing a retrocession of 5% of the shares to the sellers. Before signing the 5% shares retrocession documents, the sellers claimed to add new conditions, not agreed at the time of the original agreement that the Group refused. Following this refusal by the group, the sellers have filled the above mentioned claim to obtain a payment against their renunciation to become shareholder.

(b) The civil contractor of Rodeio Bonito concession is claiming that the penalty imposed on him because of delays in construction of the plant is not due. A claim has been filled before arbitral court.

Thus, although the group is not recognizing any of those liabilities, a provision has been made in 2010 accounts.

Note 12 – Trade and other Payables

Suppliers and other creditors are detailed as follows:

In thousands of euros	31.12.2010	31.12.2009
Suppliers	124	82
Debts on acquisition of fixed assets	2 386	2 036
Others	200	186
Total	**2 709**	**2 305**

Note 13 –Other current liabilities

Financial current liabilities amounts to 1.410 k€. It corresponds to a forex loss on a forward forex realized in May 2010 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. This operation is not a currency translation hedging with regards to IFRS rules.

Other current liabilities amount to 690 k€ as of 31st December 2010.

Note 14 – Business Segment

In accordance with the Group's management and internal reporting rules, business segment is presented per geographical area.

Reporting per geographical area

31.12.2010 *In thousands of Euros*	**France**	**Brazil**	**Dubaï**	**India**	**Luxbg**	**Mauritius**	**Total**
Income Statement							
Turnover	225	3 544	-	-	-	-	**3 769**
Current operating profit	(3 425)	946	370	(1 293)	(73)	(45)	**(3 519)**
EBITDA (1)	(3 297)	2 136	546	(465)	(73)	(45)	**(1 197)**
Net Income	7 629	(2 064)	352	(230)	4 583	(1 292)	**8 978**
Balance Sheet							
Total non-current assets	2 041	35 110	1 346	7 848	1 103	1	**47 449**
Employees registered at the end of the period	10	13	3	40	-	-	**66**

31.12.2009 *In thousands of Euros*	**France**	**Brazil**	**Dubaï**	**India**	**Luxbg**	**Mauritius**	**Total**
Income Statement							
Turnover	563	20	-	2 866	-	-	**3 449**
Current operating profit	(6 072)	(1 325)	(466)	(491)	(40)	(80)	**(8 473)**
EBITDA (1)	(3 501)	347	(452)	209	(40)	(80)	**(3 517)**
Net Income	12 516	(1 856)	(390)	435	(68)	656	**11 292**
Balance Sheet							
Total non-current assets	2 012	30 270	246	9 137	-	-	**41 665**
Employees registered at the end of the period	10	11	4	102	-	-	**127**

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

Business Segment reporting

31.12.2010 *In thousands of Euros*	Biomass	Hydro	Carbon credit	Holdings/ Miscellaneous	Total
Income statement					
Turnover	-	3 544	225	-	**3 769**
Current operating profit	272	1 614	(16)	(5 389)	**(3 519)**
EBITDA (1)	(32)	2 199	(16)	(3 347)	**(1 197)**
Net income	1 794	442	(16)	6 758	**8 978**
Balance Sheet					
Total non current assets	0	43 702	462	3 285	**47 449**
MW installed	-	15	N/A	-	**15,0**

31.12.2009 *In thousands of euros*	Biomass	Hydro	Carbon credit	Holdings/ Miscellaneous	Total
Income statement					
Turnover	2 865	20	563	1	**3 449**
Current operating profit	1 572	(1 719)	199	(8 526)	**(8 473)**
EBITDA (1)	691	(137)	199	(4 270)	**(3 517)**
Net income	4 041	(2 471)	381	9 340	**11 292**
Balance Sheet					
Total non current assets	530	34 785	682	5 669	**41 665**
MW installed	8	15	N/A	-	**23**

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

Note 15 –Consumed purchases

In thousands of euros	31.12.2010	31.12.2009
Raw materials and supplies	6	(1 497)
Goods	(282)	(763)
Other purchases	(24)	(105)
Sales, allowances on purchases	(35)	(91)
Total	**(334)**	**(2 456)**

Note 16 –External expenses

External expenses include fees paid to the auditors, as detailed below:

In thousands of Euros	31.12.2010
KPMG	65
SODAREX	17
Others	25
Total	**107**

Note 17 –Employee expenses

The employee expenses include the value of stock options granted to employees i.e a charge of 338 k€ as of 31st December 2010 against 109 k€ as of 31st December 2009.

Total average number of employees

Number	31.12.2010	31.12.2009
Engineers and executives	20	27
Office workers and Manual workers	67	149
Average registered number of employees	**87**	**176**

Note 18 - Depreciation and provisions

In thousands of Euros	31.12.2010	31.12.2009
Depreciation on assets		
- Intangible assets	(617)	(60)
- Tangible assets (1)	(1 264)	(3 010)
Total depreciations	**(1 881)**	**(3 069)**
Provisions		
Depreciation/W.B on current Assets	(12)	(454)
Provision/W.B for liabilities and charges	(428)	(1 433)
Total provisions	**(441)**	**(1 887)**
Total depreciations and provisions	**(2 322)**	**(4 956)**

(1) Corresponds essentially to the depreciation of the Rodeio Bonito concession

Note 19 – Other operational income and expenses

Other operational expenses essentially arise from depreciation of goodwill and other intangible and tangible assets related to power plants and projects.

Note 20 – Net cost of debt and other financial income and expenses

In thousands of Euros	31.12.2010	31.12.2009
Income from cash and cash equivalents	6 901	8 608
Foreign currency translation gains	7 446	561
Foreign currency translation losses	(1 195)	(104)
Fair Value on cash and cash equivalent	161	5 786
Interest charges	(0)	(113)
Allocation to provision/Write back on financial assets	(883)	2 218
Other income and expenses	(1 409)	(69)
Total financial income	**11 021**	**16 887**

Note 21 – Earnings per share

The calculation of earnings per share is detailed below.

	31.12.2010	31.12.2009
Net earnings, Group Share (in thousands of euros)	**9 093**	**11 411**
Weighted average number of shares in circulation	6 591 390	7 481 024
Earnings per share (in euros)	**1,38**	**1,53**
Weighted average of convertible instruments converted into ordinary shares	6 668 460	7 484 517
Diluted earnings per share (in euros)	**1,36**	**1,52**

Note 22 –Transactions with related parties

Directors compensation

The following information, concerning the annual compensation granted to directors, is globally reported for the members of direction consolidating the Velcan Energy Group, as following :

In thousands of Euros	31.12.2010	31.12.2009
- Managements fees	625	678
- Salaries and other benefits in kind	-	77
- Directors fees	108	-
- Retirement benefits	-	-
- Share based payments	-	-
Total	**733**	**755**

Note 23 –Off balance sheet commitments

covered by securities

In thousands of euros	31.12.2010	31.12.2009
- Mortages on properties	-	1 662
- Pledging of cash	-	380
- Pledging of shares	-	-
- Pledging of equipment	-	2 623
- Pledging of business assets	-	-
Total	**-**	**4 665**

All guarantees linked to the Satyamaharshi power plant have ended with its sale in 2010.

commitments given

1) Guarantees given by Velcan Renewable Energy Pvt. Ltd. to the buyers of RPPL Biomass plant, following the sale finalized February 2010.
   Those commitments include :
   i) Tax and claims liability guarantee limited to a maximum of 335k€
   ii) Specific guarantee linked to a claim between RPPL and one of its supplier, limited to 184k€
   iii) Specific guarantee linked to a claim between RPPL and its Customer AP Transco with no limited amount, estimated in worst case scenario to 340k€

   Whatever guarantees were given to RPPL buyers at time of acquistion, the Group is contesting all the related claims from third parties (suppliers and clients mentioned above). To date it is not possible to assess whether those guarantees will be triggered or not.

2) Guarantees given by Velcan Energy India Pvt. Ltd. to the buyers of SMPCL Biomass plant, following the sale finalized in December 2010..
   Those commitments include :
   i) Tax and claims liability guarantee limited to a maximum of 335k€
   ii) Specific guarantee linked to a claim between SMPCL and one of its supplier, with no limited amount, estimated in worst case scenario to 167k€
   iii) Specific guarantee linked to a claim between SMPCL and its Customer AP Transco with no limited amount, estimated in worst case scenario to 304k€

   Whatever garantees were given to SMPCL buyers at time of acquistion, the Group is contesting all the related claims from third parties (suppliers and clients mentioned above). To date it is not possible to assess whether those guarantees will be triggered or not.

Exchange Risk

The Group is mainly exposed to three currencies :

- Indian rupee (INR)
- Brazilian Real (BRL)
- Indonesian Rupiah (IDR)

As of 31st December 2010, no hedging has been taken on the Property risk nor on risk of conversion of past or future income.

Rate Risk

Velcan's available cash is invested in monetary funds, deposit certificates, Brazilian government bonds, investment funds holding Brazilian government bonds and private bonds in euros, in reals and in other currencies of emerging countries where the group is prospecting.

Note 24– Events after the 31st of December 2010

As of February 2011, the Group has announced his move from the "Marché libre" to the "Alternext" stock market, effective in March 2011.
As of March 2011, the Group has announced a second hydro power pre-concession in Lao Republic, totaling 35 MW.