VELCAN Energy

ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS
31st DECEMBER 2010

VELCAN ENERGY
S.A with a capital of 7.775.042 €
481 957 801 RCS Paris
75, boulevard Haussmann
75008 PARIS

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1 – 2010 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, builds and operates hydro power concessions plants in Brazil, India and Laos. These installations have an individual capacity between 15 and 200 MW.

The worldwide group's portfolio amounts to 593 MW of concessions, licenses and exclusive rights as of December 31st 2010. The Group is actively prospecting new hydroelectric concessions in several emerging markets.

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

Consolidated Financial Data

in Million Euros

	2010	2009	Var %
Turnover	3,8	3,4	+9,26%
EBITDA	-1,2	-3,5	+65,96%
Net Result	9	11,3	-20,50%
Cons. Equity	139	126	+10,49%
Cash	98	86	+14,30%
Capitalization	101	67	+49,65%
Book value per share (net issued equity)			
	21,6	18,9	+14,81%

		2010	2009
GLOBAL	**Portfolio of concessions and production facilities.** Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	593 MW	457 MW
BRAZIL	**Hydroelectric plant in operation**	15 MW	15 MW
	Concessions and Exclusive rights under development. Does not include the various transactions or projects under assessment or technical studies.	53 MW	76 MW
INDIA	**Concessions under development.** Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	500 MW	359 MW
	Biomass plants in operation	0 MW	7,5 MW
LAO PDR	**Pre-concessions under development.** Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	25 MW	0 MW

2010's main events

- **January 2010**, the Group announces that in December 2009 Funds managed by Kairos Investment Management Limited bought additional shares in the company and now own a combined holding above 10% of the issued equity of Velcan Energy.

- **January 2010**, Velcan Energy has signed a Joint Venture agreement with the Lao People's Democratic Republic (Lao PDR) state-owned Company Electrical Construction and Installation (ECI) to jointly develop several hydropower plants with a target to build a portfolio of 300MW in Lao PDR.

- **March 2010**, Velcan Energy announces that it has sold its biomass powered 7.5 MW Rithwik Power plant situated in Andhra Pradesh, India. The sale contract was signed in December 2009 and the ownership transfer finalized in February 2010.

- **April 2010**, the various hydrological, geological and technical studies done over the last 3 years have modified the estimated capacity of these four concessions in Arunachal Pradesh, India. The total capacity has been revised upwards to 500 MW which has been accepted by the Government of Arunachal Pradesh and the Ministry of Environment and Forests.

- **September 2010**, Velcan Energy has signed its first hydro power pre-concession in Lao PDR for the Nam Phouan project, showing an estimated potential of 25 MW.

- **December 2010**, the Velcan Energy Group announces that it has sold its last biomass powered 7.5 MW Satyamaharshi Power plant situated in Andhra Pradesh, India.

2 - Main Trends 2010 and foreseeable evolution for the Group

Velcan Energy SA, the group's parent company, was incorporated on 8 April 2005. Its fifth financial year ended on 31st December 2010.

As of today, Velcan Energy group designs, develops, implements, finances and operates only hydroelectric concessions. Being now a pure player has enabled the Group to gradually reduce its operational costs since the beginning of 2009.

Its power generation installations and projects are currently located in India, Brazil and Lao PDR. As of today, as per the knowledge of the Group, Velcan Energy is still the only foreign company owning such a concession in India.

2010 year has been marked both by a significant increase in the Group exclusive rights portfolio, particularly in India and by the resumption of the Group prospection activities and the active search for new projects in South America and South-East Asia.

The Financial year 2010 was also devoted to the consolidation and development of hydroelectric projects acquired by the Group in 2007, as well as to the finalization of the withdrawal from Biomass projects and facilities.

In Brazil, the Group has pursued the viability studies and the development of concessions acquired previously and has been working to get 2 new concessions totalling 30 MW (see infra).

After the successful commissioning of its first hydroelectric concession, Rodeio Bonito – 15 MW, in late 2009, the Group has been operating the aforementioned power plant during the 2010 year without experiencing any significant trouble (see infra).

At the end of the year 2010, the Brazilian portfolio of exclusive rights amounts to 68 MW compared to 91 MW in 2009, including 15 MW under operation and 53 MW of exclusive concessions and rights. This decrease is due to the optimization of PCH[1] Quebra Dedo, Pirapetinga and Ibituruna installed capacity (see infra).

Those three projects are still under technical and administrative processing in order to get authorizations enabling to start the constructions.

In India, the Group has continued to work on the development of the Arunachal Pradesh hydroelectric concessions obtained in 2007, all still being currently in phase of investigation and techno-economic studies. Procedures for environmental and techno-economic authorizations are going on.

In 2010, the main variation has been the increase in the capacity of Arunachal Pradesh concessions to 500 MW, following the outcome of hydrologic studies. However, the group considers that Baitarani II & IV concessions (50 MW) will probably not been developed by Velcan Energy.

At the end of the year, the portfolio of Indian hydroelectric projects amounts to 500 MW against 359 MW as of December 31st 2010.

The administrative and technical teams continue to work to validate the technical specifications and viability of the projects and to obtain the various administrative and environmental clearances.

The Group refocusing on hydroelectricity has been finalized in 2010, leading to sale of its Biomass Power Plant, Satyamaharshi Power Corporation Ltd (SMPCL, 7.5 MW). The disposal of the plant has been realized in two steps, at the end of August and in December 2010, with a positive impact on 2010 accounts as the provision made in 2008 accounts has been written back.

Since the Group has sold its last Biomass Power plant in India this year, no power generation has been recorded in India for the 2010 accounts.

The world economic situation has been very good in Brazil and India, both countries having experienced significant economic growth rate in 2010.

[1] PCH is the acronym in Portuguese for *Pequena Central Hidrelétrica*, which means Small Hydroelectric Plants.

The favourable evolution of the Brazilian Real resulted in a significant foreign exchange gain on the 40 M€ investment in Brazilian Government bonds carried out in April 2008, impacting positively the Group consolidated net income as of December, 31st 2010 (6,2 M€ of net foreign exchange gains). Moreover, in 2010, the annual unrealized foreign exchange profit on the long-term loans in foreign currencies granted to subsidiaries, without impact on the net income but impacting the stockholders' equity, amounted to 5.9 M€, bringing back the total impact of monetary conversions of the aforesaid loans on shareholders' equity of the group to + 7.2 M€ and the net amount of conversion reserves included in the shareholders' equity of the group to 5 M€.

In this context, the Group has registered a net profit of 9 M€ in 2010, slightly inferior to 2009 net income amounting to 11.3 m€. The Group's equity has gone from 125.5 M€ to 138.7 M€.

Foreseeable evolution of the Group:

When it started its activities, Velcan Energy established itself as a power producer using various energy generation technologies. It tried to develop in India and in Brazil by testing power generation from biogas combustion, biomass based generation and hydroelectricity. From 2008, onwards Velcan Energy has oriented its strategic choices toward a unique expertise, exploitation of hydroelectric concessions in emerging markets.

Those power generation facilities and projects are currently located in India, Brazil and Lao PDR.

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

Being now well settled in India and Brazil, the Group intends to apply its business model to other emerging markets having significant growth perspective and huge hydroelectric potential, such as Lao PDR, where a pre-concession has already been signed in 2010.

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. It has been through a full year of exploitation of the plant in 2010 without experiencing any significant trouble.

The group is now planning to invest the remaining balance of its equity in other hydroelectric concessions. Until this is done, its equity is predominantly invested in national sovereign bonds in countries where it plans to invest.

Except in the case of catastrophic evolution of foreign exchange rates and electricity demand in Brazil, operational costs (Studies and overhead costs) are, from now on, largely covered by the electricity sales of Rodeio Bonito concession and the interests arising from the Company's cash. This enables the Group to keep its cash for investments in the next hydroelectric power plants.

After the closing of its 5th financial year, the Group is pursuing the following objectives:

In the short run:

a) the diversification of the risks to which it is exposed by establishing itself in new countries, as already done in Laos at the beginning of 2010;

b) the start of the construction of a second hydroelectric power plant.

In the medium term:

The complete development of the 500 MW concessions in Arunachal Pradesh, so that construction can start as planned in 2013.

3 - Detailed Annual report for the year 2010

This fifth financial year has been devoted to the continuation of techno-economic studies and administrative development of concessions & rights obtained, to the seek for new projects in South America and South-East Asia, to the finalization of the disinvestment by the group from Biomass based projects, and finally to the pursuit of rationalization of structural costs.

3-1 Evolution of the business

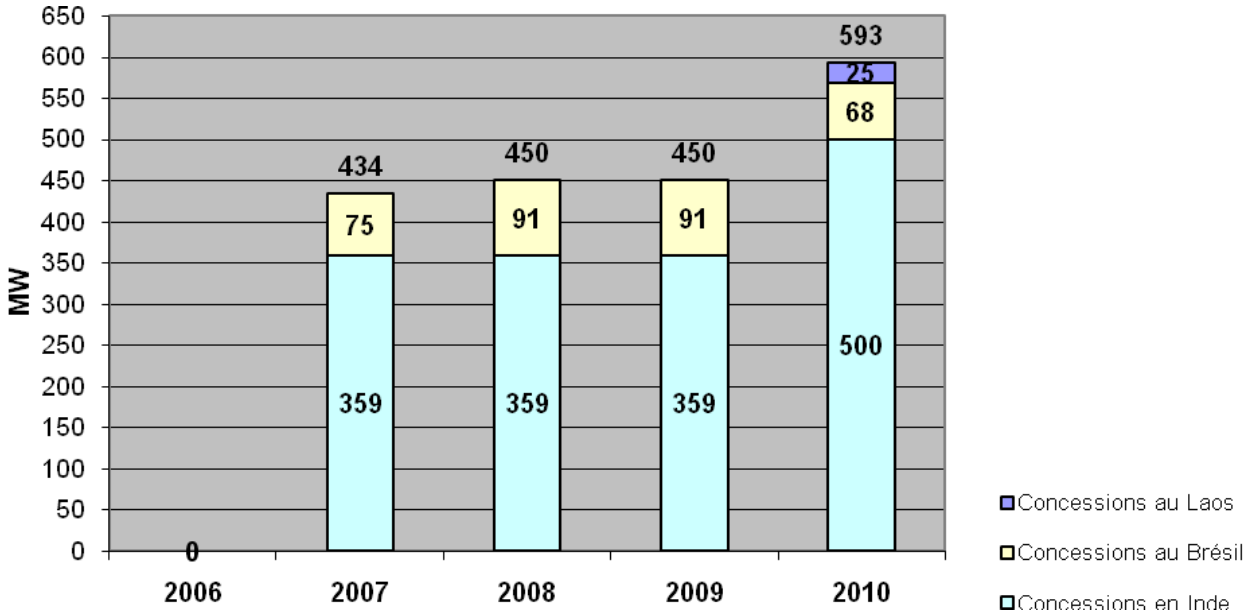
Evolution of the Portfolio of projects

2010 has been marked by a significant increase of the portfolio of projects under development due to the increase in the Indian projects capacity. The year has ended with a global portfolio of 593 MW, against 457 MW in 2009.

Following the sale of its two Biomass-based power plants, the installed capacity of the group is now only represented by the Rodeio Bonito concession (15MW), operated without any major technical issues during the whole year.

The Brazilian portfolio has slightly decreased, following the outcome of technical studies and administrative processes.

Evolution of the hydroelectric concessions portfolio:


650
600
550
500
450
400
350
300
250
200
150
100
50
0
MW
0
434
75
359
450
91
359
450
91
359
593
25
68
500
2006
2007
2008
2009
2010
Concessions au Laos
Concessions au Brésil
Concessions en Inde

Summary of concessions as of December 31st, 2010

Project Name	Country	State	Size (MW)	Total Investment (M€)	% ownership	Book value (M€)	Remaining years of concession	Scheduled start of construction	Scheduled start of operation
PCH Rodeio Bonito	Brazil	Santa Catarina	15	25,5	95%	27,5	23	Operational	Operational
PCH Quebra Dedo	Brazil	Minas Gerais	10	25,1	100%	1	30	2012	2014
PCH Pirapetinga	Brazil	Minas Gerais	20	44	100%	1	21	2012	2014
PCH Ibituruna	Brazil	Minas Gerais	23	50,6	100%	1,1	21	2012	2014
Subtotal Brazil			***68***	***145,2***		***30,6***			
Yarjep / Heo	India	Arunachal Pradesh	210	235,7	100%	2,1	40	2013	2016
Yarjep / Pauk	India	Arunachal Pradesh	120	134,7	100%	1,2	40	2013	2016
Yarjep / Tato I	India	Arunachal Pradesh	170	179,6	100%	1,6	40	2013	2016
Subtotal India			***500***	***550***		***5***			
Nam Phouan	Laos	Vientiane	25	30	80%	0,1	30	2013	2015
TOTAL			**593**	**725,2**		**35,7**			

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

General process of hydroelectric projects development

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

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

There are two kinds of concessions:

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

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

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

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

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

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

Along with the investigations and studies, the administrative procedures have been 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.

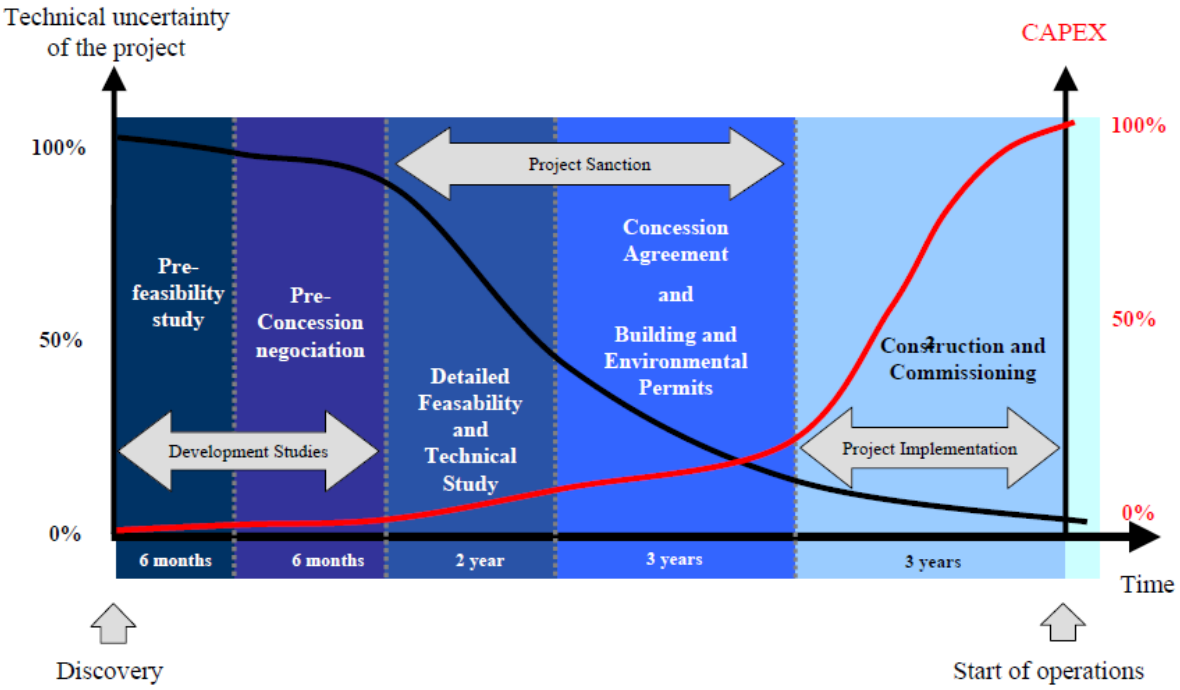
When investigations and studies are completed, when the project is technically approved by the licensing authority (approval of the « *Projeto Basico* » (basic project) in Brazil and « *Techno-Economical Clearance* » in India), and when all administrative permits and funding are obtained, construction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

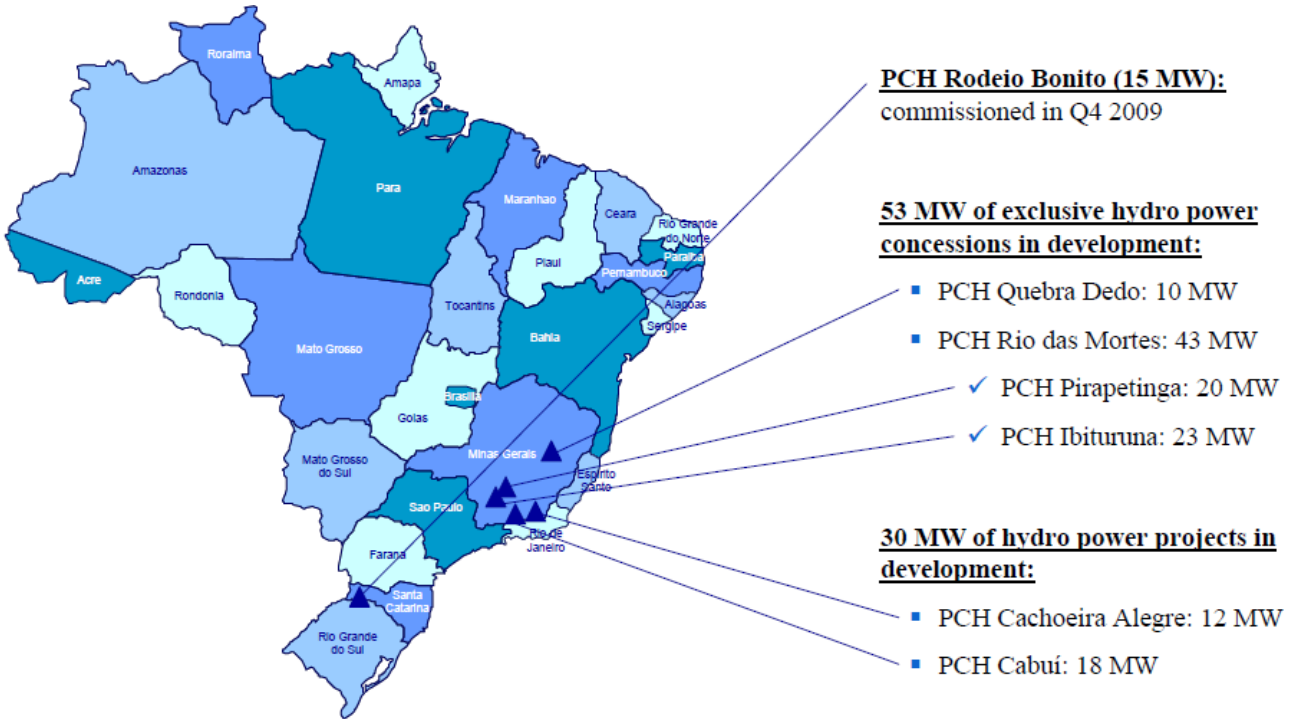
The chart below sums up the development steps of hydro projects:



Brazilian hydroelectric projects development in 2010

The Group has established its Brazilian branch in early 2006. At the end of 2010, the company owns projects totalling 98 MW. It is composed of 14.7 MW under operation, 53 MW of exclusive concessions and rights under development and 30 MW of non exclusive under development projects.

Concessional regime in Brazil:
In Brazil, the concession starts from the concession authorization given by the ANEEL. However, the full electricity production belongs to the developer of the concession from the beginning of the electricity commercialization.



- **PCH Rodeio Bonito (Brazil)**

After a successful commissioning in late 2009, the Group first hydropower plant, Rodeio Bonito, having an installed capacity of 14.7 MW, has completed a full year of operation in 2010.

During the year ended on 31/12/2010, Rodeio Bonito has produced 55,768 MWh.

After the collapse of electricity prices in Brazil in 2008 and 2009, the sustainable Brazilian growth in 2010 contributed bringing back electricity prices to acceptable levels which rose regularly during the year 2010.

During the first quarter of 2010, the full production was sold monthly in the short-term market. Prices have generally trended upward between 12.8 and 143 reais per MWh. It was the reason why the Group has not engaged into long term contracts as long as electricity prices were not satisfactory.

Given the increase in electricity demand and prices, the Group was able to sell a share of "guaranteed energy"[2] as part of medium-term contracts ranging from 1 to 5 years with renowned commercialization entities or private domestic distributors.

From March 2010, 1.95 MW average out of 7.79 of total guaranteed energy were sold in that framework at an average price of 145.2 Reais. The remaining guaranteed energy was sold monthly on the short-term market at prices ranging between 79 and 134 Reais per MWh.

The important medium-term contracts signed in 2010 for the next years are:

- 4 MW average during the period 2012-2016
- 1,95 MW average during the period 2010-2013
- 5,7 MW average for 2011
- 1,65 MW average for 2012

The prices (2010 base) range from 141 to 155 Reals.

- **PCH Ibituruna, PCH Pirapetinga and PCH Quebra Dedo (Brazil)**

These three projects totalize 53 MW of exclusive concessions.

Concerning Ibituruna and Pirapetinga PCH, the rights were acquired in March 2007. They were initially granted and evaluated by ANEEL with a total installed capacity of 60 MW. However, environmental problems emerged in 2008 which led to a revision to a lower capacity of these projects. Techno-economic studies and assessments done during the year 2009 have confirmed the necessity to decrease the installed capacity initially planned to make them economically viable. This revision has been subject to an application for approval, extending administrative difficulties and delays.

In late 2010, after examining the documentations, the Group obtained a provisional agreement from ANEEL concerning the revision of concessions for a lower capacity, estimated at 43 MW. However, ANEEL will give its final decision only after the projects has obtained environmental licenses (corresponding to the new capacity). The Group has actively worked on this matter in

[2] In Brazil, « guaranteed energy » means the energy annually marketable as approved by MME – Ministério de Minas e Energia (Department of Mines and Energy) and guaranteed through the Brazilian power system for power plants opting for the MRE (Energy reallocation Mechanism), mechanism functioning at national scale. This is the case of Rodeio Bonito.
As to Rodeio Bonito, the guaranteed energy was 7.79 MW during 8.760 hours per year, i.e 67.452 MWh per year until December 21st 2010. From this date when MME has taken into account the two small turbines using the environmental discharge in the calculation of the power production of the plant, the tradable energy has been increased to 8.8 MW or 77,088 MWh annually. The part of this guaranteed energy that is not related to medium-term contracts is now commercialized on the short-term market.

2010. In case of success of those procedures, the final approval from ANEEL should be obtained during 2012.

The concession rights for PCH Quebra Dedo were obtained in January 2008. Since then, technical studies proved that the project might not be economically viable for an installed capacity of 16 MW.

The Group work has also been focusing on negotiation with local populations regarding the lands potentially impacted by the project. In 2010, the negotiations were still ongoing with the government agency (INCRA[3]) that represents this population in Brazil. These negotiations should lead to a decrease in the project capacity between 10 to 11 MW.

This reduction in capacity will have to be approved by ANEEL as regards to the concession allocation process. In case of success, environmental procedures will be initiated. This step is planned for late 2011 with a start of the construction some time in 2012.

- **UHE Pau d'Arco (Brazil)**

In June 2008, Velcan Energy entered into an agreement to develop in partnership with CELG G&T (Goias State Electricity Company) two projects of hydropower plant, including UHE Pau d'Arco. The distribution of capital resulting from this partnership is 75% of the project held by Velcan Energy and 25% by CELG G&T.

This project has an installed capacity of 64 MW and the location is on the river Palma, in Tocantins (Northern Brazil). After the environmental studies, the project Pau d'Arco has shown a very high cost per MW, and it has proved that this project would not be profitable. There was no amount capitalized in the balance sheet for this project. Likewise, it is important to notice that this project has not been taken into account in the Group's portfolio since there are no exclusive rights attached to this concession.

- **Other Projects (Brazil)**

PCH Cabui 18 MW: the project is located in the State of Minas Gerais. The Group has carried out techno-economic studies and submitted the Detailed Project report (Projeto Básico), which has been formally accepted by ANEEL. The Group has also acquired part of lands required for the project. However, a competitor has also submitted a Projeto Básico for this PCH, which has also been formally accepted by ANEEL. The procedure with ANEEL is going on to select who will be attributed the concession for this project.

[3] INCRA is an acronym in Portuguese for *Instituto Nacional de Colonização e Reforma Agraria* which means National Institute for Settlement and Agrarian Reform.

PCH Cachoeira Alegre 12 MW: the project is also located in the State of Minas Gerais. The group delivered a technical project to the ANEEL. At the same time, it carried out a detailed analysis concerning the lands that will be affected, some of which may cause difficulties.

In Brazil, except Rodeio Bonito, Velcan Energy's Projects are still under technical studies and administrative clearance phases in order to obtain final concessions with adapted technical capacity and/or administrative clearances that will enable to finally start the constructions.

Indian hydroelectric projects development in 2010

Concessional regime in India:

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

In India, the Group pursued the development of projects obtained in 2007, all of which being currently under investigations and techno-economic studies steps. The procedures for environmental and techno-economic permits are also ongoing. The portfolio of hydroelectric concessions in India stands currently at 500 MW, which is very atypical given the youth and the size of the Company.

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

In 2008 and 2009, this project has experienced many delays due to long discussions with the licensing State. The Group now considers that it will probably not be able to develop itself this concession. It is studying different options for the future.

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

While discussions are still going on with the State of Orissa about the Baitarani concession, technical teams have prospected to find other projects. They have been starting working on the Kharag project, situated on the eponymous river, which is made of two successive projects of respectively 25 and 24 MW.

Nowadays, the Group carries out hydrological measurements to assess whether it is technically viable or not. Given the technical uncertainty of this project, it is not included in the project portfolio of the Group.

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

On site, hydrological and meteorological studies have been continued, enabling to gather a total of 2 years of rainfall and river discharge measurement at the end of 2009. These studies outcome led the Group to propose an increase in the capacity of the four projects, beyond the 304 MW initially obtained. With the agreement of the State of Arunachal Pradesh, their total capacity has been reviewed and increased to 500 MW. The new capacity of these projects is now, respectively for PAUK, HEO and TATO-1 of 120 MW, 210 MW and 170 MW. The Group does not yet know if it will develop the Hirit project.

In April 2010, the Group received a crucial authorization from *the Ministry of Environment and Forests (MOEF)*, accepting the revised increased capacity and allowing the pre-construction activities.

Due to these significant changes in the characteristics of the projects, the Group has obtained a two year additional extension period to start the construction, now estimated for 2013.

During the year 2010, the teams have been dedicated to the continuation of field investigations, technical studies and to the preparation of the two main project reports: the *Detailed Project Report* (DPR) and the *Environment Impact Assessment* (EIA). Both reports will have to be approved by the Licensing authority and by the Indian central authorities among which principally, the «*Central Electricity Authority*» and the « *Ministry of Environment and Forests*, *New Delhi »*. They will define the technical and industrial features of the future power plants and will be used as a basis to get techno-economic and environmental authorizations.

Hydrological studies, an integral part of the DPR, have been pre-validated by the Central Electricity Authority and Central Water Commission in July 2010. At the date of this report, technical studies are being discussed with the CEA (Central Electricity Authority) to determine the average expected power generation.

The land surveys have progressed, allowing to initiate in November 2010 the steps preceding the acquisition of the land that are part of the impacted area, and to apply for the "*Forest Clearance*" on the land impacted.

Finally, field investigations have been pursued: geological, seismic refraction and several drillings have been completed, as well as detailed bathymetric and topographic reports.

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

A significant potential in Laos

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

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

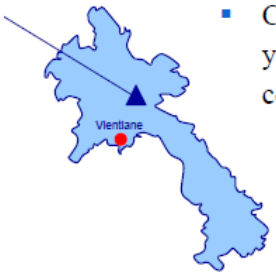
In January 2010 the Group entered into a joint-venture agreement with the Lao state-owned company ECI (Electrical Construction and Installation) for the development of 300 MW in Laos. ECI is involved in the distribution of electricity in Laos, the management of the transmission network and the development of access to electricity in rural areas. It was selected by the Lao Government to represent its interests in hydroelectric projects under 50 MW. The agreement between the two companies aims to jointly develop several hydroelectric power plants of less than 50 MW each.

This agreement was marked in the month of September 2010 with the consortium signing its first hydroelectric pre-concession. The Group and its local partner ECI have signed a Memorandum of Understanding (MoU) with the Laos Government to develop the Nam Phouan project.

This MoU gives the Velcan Energy – ECI consortium the exclusive right to evaluate the hydropower potential of a site located in the district of Hom in the province of Vientiane on the Nam Phouan River.

Current studies have shown that this project has a potential of 25 MW. If technical studies, expected to last 24 months, confirm that the project is technically feasible and economically viable, the consortium will use its exclusive right to request the Laotian Government to grant it the full concession of the Nam Phouan project.

Concessional regime in Laos



- Concession duration: 30 years including construction

Energy production from biomass

No electricity production from biomass has been recorded in the accounts in 2010.

The transfer of the RPPL power plant (7.5 MW - Andhra Pradesh, India) was finalized in February 2010, but the performance of RPPL were not taken into account in the Group financial statements since November 30th, 2009.

The transfer of the SMPCL power plant (7.5 MW - Andhra Pradesh, India) which was finalized in late 2010, while the plant was still stopped following the turbine breakdown occurred in August 2009. The purchaser was responsible for the commissioning of the new turbine in accordance with agreements concluded. The transaction had a positive impact on the 2010 accounts.

Similarly, no carbon credits (CER) generation related to biomass electricity production was recorded by the Group in 2010.

The Group finalized its withdrawal from biomass activities in 2010 and now concentrates solely on the development and operation of hydroelectric concessions in emerging countries.

Net Result

The turnover of the Rodeio Bonito power plant, the continuation of significant operational costs reduction and the lack of charges related to operations from biomass has resulted in a substantial improvement of the EBITDA, from -3.5 M€ in 2009 to -1.25 M€ in 2010. Staff and external expenses have been reduced from 5.1 M€ in 2009 to 4.3 M€ in 20109, i.e. a 16% reduction.

The favorable fluctuation of Brazilian Real has generated a total 6.2 M€ (unrealized and realized) positive impact on the Group consolidated result as of 31st December 2010, made on a 40 M€ investment in Reais in 2008. Interest and financial gains at constant exchange amounted to 7 M€ throughout the year 2010.

In this context, the Group has recorded a net profit of 9 M€ in 2010, a slight decrease in comparison with the 2009 net income of 11.3 M€.

Consolidated Equity has grown from 125.5 M€ to 138.7 M€.

Change in Cash

The Group has a cash position of 98.1 M€ as of 31st December 2010, against 85.9 M€ as of 31st December 2009.

3-2 Consolidated balance sheet and income statement

Consolidated Balance Sheet – ASSETS
in thousands of Euros

Assets	Net 31.12.2010	Net 31.12.2009
Non current assets		
Goodwill	14	39
Intangible assets	18 418	14 391
Tangible assets	25 464	23 780
Non current financial assets	1 928	2 545
Investments accounted for using the equity method	-	-
Other non current assets	525	910
Deferred tax assets	1 100	-
Total non current assets	**47 449**	**41 665**
Current assets		
Inventories	-	125
Trade and other receivables	1 131	784
Income Tax receivables	437	326
Other current assets	2 430	4 181
Cash & Cash equivalents	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	31.12.2010	31.12.2009
Shareholders equity		
Issued capital	7 774	7 763
Additional paid-in capital	139 366	139 294
Other reserves and conversion reserves	(17 293)	(32 835)
Net income for the year	9 093	11 411
Total shareholders' equity	**138 940**	**125 486**
Minority interests	(290)	(148)
Total consolidated equity	**138 651**	**125 486**
Non current liabilities		
Non current financial liabilities	(0)	(0)
Deferred tax liabilities	1 334	317
Non current provisions	2 689	1 948
Other non current liabilities	1 040	963
Total non current liabilities	**5 063**	**3 228**
Current liabilities		
Current financial liabilities	1 424	-
Current provisions	115	130
Trade and other payables	2 709	2 305
Income tax payables	933	184
Other current liabilities	690	1 611
Total current liabilities	**5 871**	**4 230**
Total liabilities	**149 586**	**132 944**

Consolidated income statement

in thousands of euros

Results	31.12.2010	31.12.2009
Net turnover	3 769	3 449
Other operating revenue	(48)	810
Total operating revenue	**3 720**	**4 260**
Consumed purchases	(334)	(2 456)
Change in inventories	-	
External expenses	(2 631)	(3 272)
Payroll expenses	(1 647)	(1 823)
Taxes	(255)	(244)
Other operating income and expenses	(49)	19
Depreciation / Amortization	(1 881)	(3 069)
Provision allowances	(441)	(1 887)
Current operating profit	**(3 519)**	**(8 473)**
Income on sale of equity shares	-	
Other operating income and expenses	1 845	2 760
Operating profit	**(1 674)**	**(5 714)**
Income from cash and cash equivalents	13 321	15 018
Gross cost of financial debt	(7)	(349)
Net cost of debt	**13 314**	**14 669**
Other financial income (+) and expenses (-)	(2 293)	2 218
Taxes	(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)	1.38	1.53
Diluted earnings per share (in euros)	1.36	1.52

3-3 Comments on the consolidated balance sheet

The total of the balance sheet amounts to 149,586 K€ against 132,944 K€ as of 31st December 2009, an increase of 12.52% which is mainly explained by the profit realized by the Group during the financial year.

Intangible assets amount to 18,418 K€, and mainly consist of:

- 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€

Tangible assets amount to 25.464 K€ and mainly consist of:

- Rodeio Bonito concession in Brazil 24,593 K€

Non current financial Assets and other non current assets amount to 2,453 K€, out of which principally, 1,928 K€ of financial assets (mainly Vensar Constructions Company Shares) and 525 K€ of carbon credits from trading activity (Bagepalli project).

Trade receivables and related accounts correspond mainly to sales of the 2010 production of Rodeio Bonito not yet received, and receivables from electricity distributors linked to the period before the acquisition of Rithwik Power Projects limited. These receivables are not provisioned because the company has a debt for an equivalent amount, which would be paid to the old promoters if electricity distributors were paying their dues to the Group.

Other current assets are related to the following elements:

- Carbon Credit trading 558 k€
- Carbon credit production 536 k€
- Fiscal and Social receivables 1,143 k€
- Other receivables 193 k€

Cash and cash equivalents position amount to 98.139 K€ against 85.864 K€ as of December 2009, but does not include Velcan Energy Shares held by the group, valued at 17.810 k€ as of December, 31st 2010.

During 2010 year, the cash, invested mainly in Brazilian Government Bonds and monetary funds, increased by 14.30%, thanks to the positive impact of the exchange rates and the interests received.

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

The conversion reserves represent an unrealized gain of 5,012 K€, charged on the group's equity and are detailed as follows:

- Conversion of the balance sheets and income statements of subsidiaries (outside Euro zone): -2,103 k€
- Unrealized Foreign exchange differences on loans granted to subsidiaries: 7,115 k€

The current and non current financial liabilities amount to 1,424 K€ against 0 K€ as of December 2009 (see p. 31, foreign exchange risk)

Non current provisions amount to 2,689 k€, out of which:

- 1,804 K€ is for two litigations of Rodeio Bonito company;
- 836 K€ is linked to Satyamaharshi company litigations

The Group does not consider owing neither of those amounts but booked a provision to be cautious.

Deferred taxes represent a future tax debt of 234 K€.

Suppliers and other payables amount to 2.709 K€ and are detailed as follows:

- Suppliers 134 k€
- Dues on acquisition of fixed assets 2 386 k€
- Other debts 200 k€

Other current liabilities amount to 690 k€.

3-4 Comments on consolidated income statement

The turnover amounts to 3,769 K€, against 3,449 K€ of 31st December 2009. In 2010, it comes entirely from the electricity sales of the Rodeio Bonito power plant (3,544 K€) and from carbon credit trading (225 K€).

The operating expenses amount to 6,766 K€, against 12,733 K€ in 2009 and consist mainly of:

- 334 K€ of consumed purchase, against 2,456 K€ on 31st December 2009;
- 2,631 K€ of external expenses against 3,272 K€ on 31st December 2009
- 1,647 K€ of payroll expenses against 1,823 K€ on 31st December 2009;
- 1,881 K€ of depreciation and amortization expenses against 3,069 K€ on 31st December 2009, mainly due to the amortization of Rodeio Bonito this year.
- 441 K€ of provision allowances against 1.887 K€ on 31st December 2009

Research activities are taken into account as and when their costs are incurred. 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:

In units	31.12.2010	31.12.2009
Engineers and Executives	20	27
Office and Manual workers	67	149
Average number of employees	**87**	**176**

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

The current operating profit is -1,674 k€, against -5,714 K€ as of 31st December 2009.

The net financial profit, amounts to 11,021 K€.

The income tax profit amounts to 369 K€.

It results in a **net profit group share,** of 9,093 k€, against a net profit of 11,411 K€ in 2009.

3-5 Financial situation and indebtedness

No significant capital increase was carried out in 2010. Given the net income in 2010, the consolidated shareholder's equity amounts to 138,651 K€, against 125,486 K€ in 2009.

Thousands of Euros	31/12/2010	31/12/2009
Consolidated net debt (1)	-98 139	-85 864
Consolidated Shareholder's equity	138 651	125 486
EBITDA (2)	-1 197	-3 517
Net Financial Interest	11 021	16 887

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

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

3-6 Sectorial performance metrics

The Group's geographic segments are as follows:

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

Its business segments are:

- Hydropower ;
- Biomass power generation ;
- Carbon Credit Trading ;
- Holding company and other activities.

Carbon credits generated by the Group's production units are reported with the activity which generates them.

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

Data per geographic 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**

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

Data per business segment

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**

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

3-7 Risk factors and uncertainties

Specific risks of hydroelectric plants and projects.

All risk 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 employs the most qualified external service providers available at the time of the studies.

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

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

Risks associated to emerging countries

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

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

- difficulties or delays in obtaining required permits and authorizations;
- faulty infrastructure that could affect the construction of the hydropower plant or the transmission and distribution of electricity;

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

Emerging markets are more dynamic and generally subject to greater volatility than more developed markets. The growth of markets such as India, Brazil and Lao PDR 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

The Group two biomass combustion based power plants operated till 2010, generated power from combustion of biomass and natural agricultural waste (cotton stalks, rice husk, etc…). To the knowledge of the Group, they accordingly did not release waste which significantly affected the environment, either in terms of soil, water or air pollution. At the end of 2010, the Group no longer owned those Biomass power plants. It is no longer exposed to any future risk associated with these plants. The Group is not aware of any environmental risk related to the period when it operated those factories.

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 related to an engineering error, to a defect or an operational error.

Country risks – currency conversion risk

The Group is exposed to three functional currencies:

- Indian Rupee (INR)
- Brazilian Real (BRL)
- Indonesian Rupee (IDR)

Velcan Energy has a significant part of its cash invested in Real in Brazil as of December 31st 2010. It experienced a considerably positive financial impact during 2010 financial year, due to the foreign exchange rate positive variation. .

The weakening of this currency could have an unfavorable impact on the Group's investments in Real. The Group is thus exposed to a currency risk on Brazilian real.

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

- Euros (EUR) 17%
- Brazilian Real (BRL) 65%
- Indonesian Rupee (IDR) 10%
- Others 3%

As of December 31st 2010 no hedging has been taken on the Property risk nor on risk of conversion of past or future income. However, the Group has bought a forward forex contract in May 2010 to cover the company against the risk of appreciation of the Dollar against Euro, as most of the group investment currencies are linked to the Dollar. As of December 31st 2010, this operation has generated an unrealized financial loss of 1.4 m€.

Rate Risk

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

3-8 Use of financial instruments for hedging

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

4 - Sustainable development and Social Responsibilities

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

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

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

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

The construction of all these units has been completed in 2008. These units are now operating. It should generate annually 19.000 CERs.

5 - Research and development

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

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

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

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

6 - Subsequent Events

March 2011, the Company is transferred from the Free Market to NYSE Alternext.

March 2011, the Velcan Energy signs its second pre-concession hydroelectric project in Lao PDR for the Nam Ang Tabeng project, with an estimated potential of 35 MW.

7 - Expected Developments

At the date of this report, the worldwide portfolio of hydro exclusive rights and concessions stands at 593 MW, out of which 15 MW are operating.

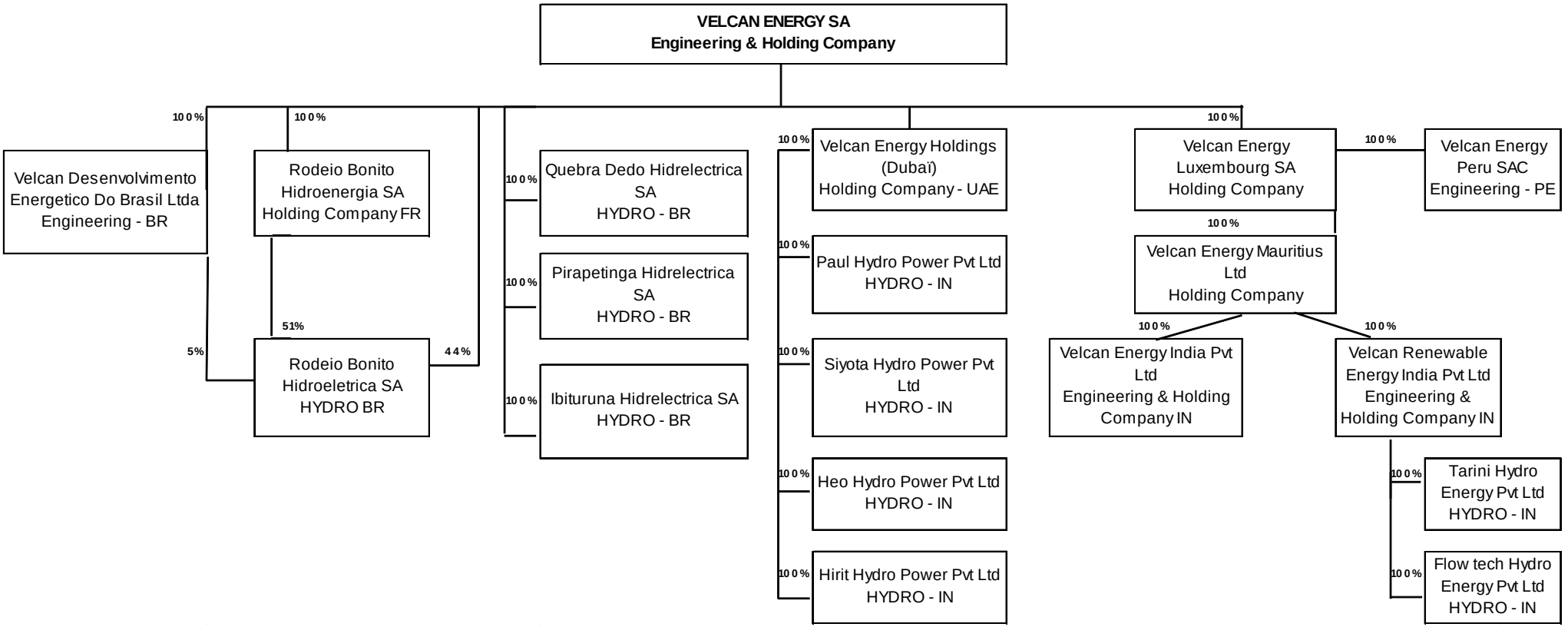
The Group has three priorities for 2011:

- development and realization of viability studies of concessions rights already obtained in Brazil, India and Laos, through techno-economic, environmental studies and administrative procedures as a first step;

- Starting as soon as possible the construction of a new concession. As of today the group is unable to say when this event will take place;

- The search for new concessions or exclusive rights in other emerging countries.

8 - Organization Chart and details of the subsidiaries as of 31st December 2010



As of December, 31st 2010, Velcan Energy SA, the parent company of the group, which is based in Paris, controls 18 companies, direct or indirect subsidiaries, located in six countries: India, Brazil, the United Arab Emirates, Luxembourg, Mauritius, Peru and France, which are differentiated by the sector in which 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, legal and financial vehicles devoted to development, financing and operation of one or several concessions.

Apart from Velcan Energy SA, the main engineering companies are Velcan Desenvolvimento Energetico Do Brasil Ltda et Velcan Energy India Private Limited. The main companies having a sub holding function are Velcan Energy Holdings (Dubai) Ltd, Velcan Energy Luxembourg SA and Velcan Energy Mauritius Ltd.