

VELCAN Energy



ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013



This document is a free translation into English of reports and or supporting documents related to Velcan Energy annual general meeting. It is provided solely for the convenience of English speaking users. This document includes information specifically required by or related to French Law. This translation should be read and construed in accordance with the same document established in French language, and as per French law. The corresponding document in French language shall prevail in case of any discrepancy. This document does not include all information stated in the French version as required by French law and particularly statutory accounts and general meeting proposed resolutions (part 9, 10 and 11 of the French version).



Table of Contents

1 – Key figures & Executive Summary	4
2 - Main Events and Trends, and foreseeable evolution for the Group	5
3 - Detailed Annual report for the year	8
3-1 Evolution of the business	8
3-2 Consolidated balance sheet and income statement	19
3-3 Comments on the consolidated balance sheet	22
3-4 Comments on consolidated income statement	24
3-5 Financial situation and indebtedness	25
3-6 Sectorial performance metrics	25
3-7 Risk factors and uncertainties	26
3-8 Use of financial instruments for hedging	29
4 - Sustainable development and Social Responsibilities	29
5 - Research and development	30
6 - Subsequent Events	30
7 - Expected Developments	30
8 - Organization Chart and details of the subsidiaries	30

1 – Key figures & Executive Summary

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

The worldwide group's portfolio amounts to 860 MW of concessions and exclusive rights as of 31 December 2013, in the 4 aforementioned countries. Velcan Energy shares are listed on NYSE Alternext.

Consolidated Financial Data in Million Euros

	2013	2012	Var %
▪ Turnover	4,6	4,9	-6%
▪ EBITDA	1,2	0,3	+296%
▪ Net Result	-4,1	4,3	-197%
▪ Cons. Equity	117	129	-9%
▪ Cash	84	91	-8%
▪ Capitalization	94	77	+22%
Book value per share (net issued equity)			
	19,6	21,4	-8%

	2013	2012
GLOBAL		
Portfolio of concessions and production facilities. Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	860 MW	628 MW
BRAZIL		
Hydroelectric plant in operation	15 MW	15 MW
Concessions and Exclusive rights under development. Does not include the various transactions or projects under assessment or technical studies.	53 MW	53 MW
INDIA		
Concessions under development. Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	571 MW	500 MW
LAOS		
Pre-concessions under development. Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	93 MW	60 MW
INDO		
Pre-concessions under development. Does not include the various transactions or projects under assessment or technical studies neither post-closing changes.	128 MW	0 MW



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

Velcan Energy SA, the group's parent company, was incorporated on 8 April 2005. Its eighth financial year ended on 31 December 2013.

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

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

During Fiscal Year 2013 Velcan Energy consolidated its existing portfolio and concentrated it on a smaller number of projects with satisfactory probabilities of realization. The cut in the number of projects being developed, in particular in Indonesia should allow a continued decline in costs.

In India, the Group continued the development of its hydroelectric concessions in Arunachal Pradesh that were granted in 2007. Its teams are working on land acquisition and on obtaining all necessary administrative clearances. The Group announced important milestones as it successfully submitted the Detailed Project Report (DPR) for Tato-1 (186 MW) and Heo (240 MW). These DPRs were accepted for examination by the Central Electrical Authority (CEA). Velcan Energy aims to obtain the Techno-Economic Clearance (TEC) for Tato-1 and Heo during 2014 or early 2015 depending on the CEA's administrative process. The Group also announced that the public hearings for all three projects in Arunachal Pradesh (Heo, Pauk and Tato-1) were successfully held. These hearings are decisive steps in order to obtain environmental clearances.

The delay in the completion of studies and in obtaining authorizations, in particular for Pauk (145 MW), is essentially due to land disputes that disrupt, slow down or block, on site, accesses to the sites and completion of additional geological investigations required by the central authorities. Velcan Energy is not involved in such land disputes, nor any land negotiation, since the acquisition rate per hectare is fixed by the government and the disputes are interneccine.

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

In Indonesia, the Group continued to consolidate its portfolio and to work on its projects. It announced in July that it held rights for three projects at various stages of advancement, totaling 128MW. The Group also signed an exclusive agreement with PT PJB, a wholly-owned subsidiary of the national utility PT PLN for the joint development of a 59 MW project, Meureubo 2. Velcan will lead the consortium, with a share of 70%. Furthermore, the Group is still appraising various projects at different stages of development. However, the weakening of the Indonesian Rupiah led the Group to put on hold a number of projects under 10 MW capacity.

In Laos, the Group, active there since 2010, announced new advances with the validation of the Feasibility studies for both Nam Phouan and Nam Ang Tabeng as well as the granting of the environmental clearance for Nam Phouan. These projects are being developed in partnership with ECI (Electrical Construction and Installation). Furthermore, capacity for Nam Phouan was revised



from 25 MW to 52 MW and that of Nam Ang Tabeng from 35 MW to 41 MW. Finally, the Group also revised upwards the probability of success on Nam Ang Tabeng and wrote back the existing provision on development costs on this project which has been in development since 2011.

In Brazil, the Rodeio Bonito Hydropower plant (15 MW) ran without any technical problems. The operating and financial performance of the plant were satisfactory but the weakening of the Brazilian Real and the remedial actions taken by the Brazilian government following the drought of 2012 weighed on the EBITDA when expressed in Euros (EUR 3.1m in 2013 vs EUR 3.5m in 2012). The MME (Ministério de Minas e Energia) decided (« Resolução nº 03 du 06/03/2013 ») that all agents of the electricity market should partake in the incremental cost caused by the utilization of thermal plants. This regulatory change hit Rodeio Bonito's EBITDA (-EUR 0.4m). Given the consequent drought of previous past years, it is likely that the Ensured Energy (definition page 15) will be decreased by 5 to 10% in the coming years. On the other hand, the Group has announced the signing of long term secured contracts for the period 2013-2016 with an approximate 5% hike p.a.

At the end of the 2013 fiscal year, the Group owns a concession portfolio of 860 MW (+37% compared to 2012), out of which 15 MW are under operation.

Turnover amounted to EUR 4.6m, of which EUR 4.4m from electricity sales and EUR 0.2m for sales of carbon credits.

Net Financial Income for the group amounted to EUR -3.5m in 2013, of which EUR +3m of income excluding Foreign Exchange (FX) and derivatives variations. This income compares to EUR 4.2m in 2012 following, in part, the sale of Indonesian bonds.

The overall impact of FX on the Financial Income is a loss of -EUR 3.7m to which must be added an unrealized loss of EUR 2.3m on derivatives (FX forwards and options), mainly because of the weak USD (-4.5% on the year) and Singapore Dollar (-8.1%).

The significant depreciation of Emerging Market currencies in 2013 relative to the Euro (Brazilian Real -20.5%; Indian Rupee -17.6%, Indonesian Rupiah -31.9%) weighed heavily on conversion reserves as the Group's main investments (tangible and intangible) have been done in local currency. Thus, at 31st December 2013, unrealized losses on conversion reserves, booked directly against Equity amounted to EUR -9.8m versus an unrealized loss of EUR -2.3m at 31st December 2012.

Operating costs are down sharply from 2012 (-31%). The Group continues its cost-cutting policy in order to improve EBITDA in 2014.

Depreciation and amortization of tangible and intangible assets of Rodeio Bonito plant amounted to EUR 1.2m. Net write downs and impairments on assets amounted to EUR -0.7m.

Foreseeable evolution of the Group:



After the closing of its 8th financial year, the Group is pursuing the following objectives:

In the short run The construction of a second hydroelectric power plant in Indonesia or Laos

In the medium term the complete development of its 571 MW concessions in Arunachal Pradesh and of its concessions or pre-concessions in Indonesia

During the development and studies phase preceding the construction, its equity is predominantly invested in bonds, equity, money market funds and bank deposits, in Euros, US Dollars, Singapore Dollars and Indonesian Rupee.



3 - Detailed Annual report for the year

This eighth financial year has been devoted to the continuation of techno-economic studies and administrative development of concessions and rights obtained, to the prospection and securing of new projects in Indonesia, to the search for new investment opportunities that would grow the Group's cash position and, finally, to the rationalization of the cost structure.

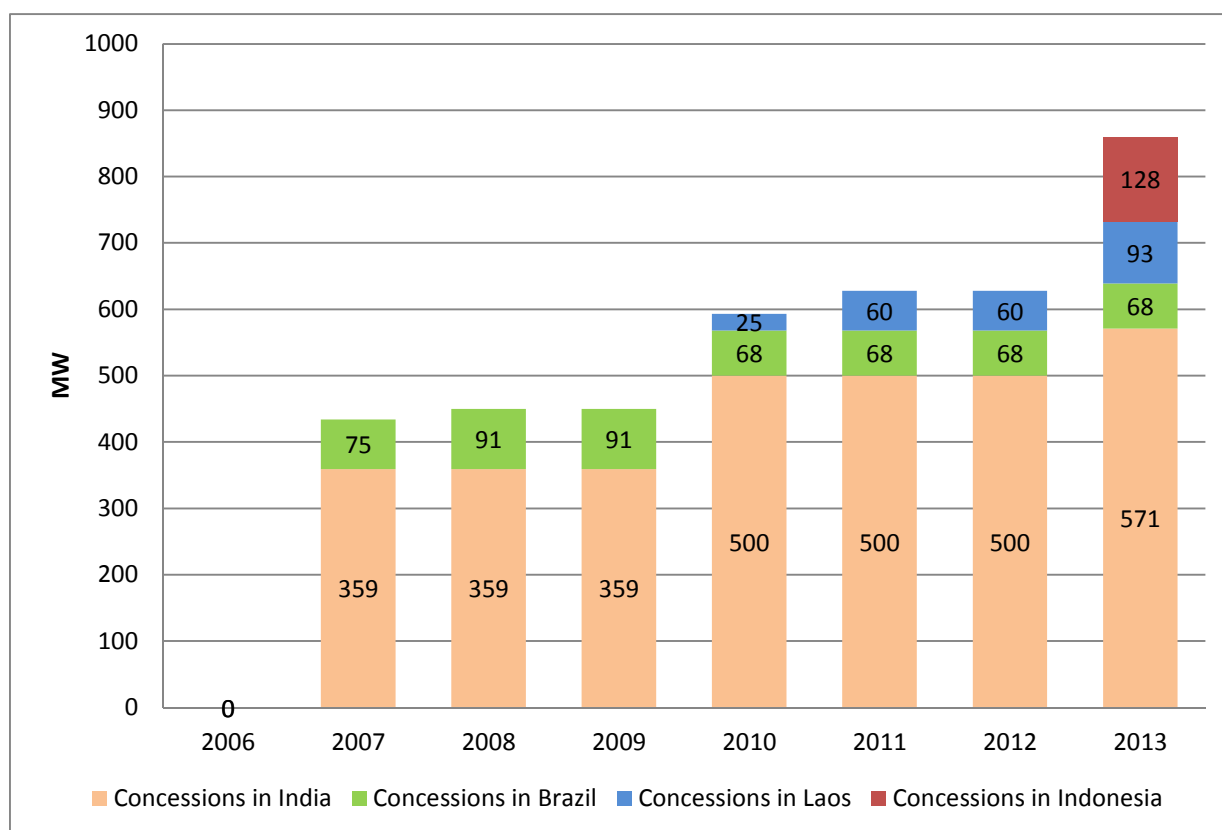
3-1 Evolution of the business

Evolution of the Portfolio of projects

The portfolio of projects in development (India, Brazil, Laos and Indonesia) is up 37% and stood at 860 MW at the end of FY 2013, in part thanks to the progress made in Indonesia as well as the upwards reappraisal of the Indian and Laotian concessions following the finalization of technical studies and environmental clearances.

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

Evolution of the Group's hydroelectric concessions portfolio:



Summary of concessions as of 31 December 2013

Project Name	Country	State	Size (MW)	Total Investment (M€)	Ownership (%)	Remaining years of concession
PCH Rodeio Bonito	Brazil	Santa Catarina	15	26,6	100%	19
PCH Quebra Dedo	Brazil	Minas Gerais	20	44	100%	17
PCH Pirapetinga	Brazil	Minas Gerais	23	50,6	100%	17
PCH Ibituruna	Brazil	Minas Gerais	10	25,1	100%	30
Subtotal Brazil			68	146,3		
Sukarame	Indonesia	Lampung Barat	7	9,4	92%	20
Meurebo 2	Indonesia	Aceh	59	100,6	70%	30
Bilah	Indonesia	Sumatra Utara	62	108,7	85%	30
Subtotal Indonesia			128	218,7		
Yarjep / Heo	India	Arunachal Pradesh	210	234,3	100%	40
Yarjep / Pauk	India	Arunachal Pradesh	145	152,7	100%	40
Yarjep / Tato I	India	Arunachal Pradesh	186	219,6	100%	40
Subtotal India			571	606,6		
Nam Phouan	Laos	Vientiane	52	60,7	85%	30
Nam Ang Tabeng	Laos	Vientiane	41	49,5	85%	30
Subtotal Laos			93	110,2		
TOTAL			628	1 081,8		

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

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

There are two kinds of concessions:

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

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

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

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

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

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

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

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

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

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

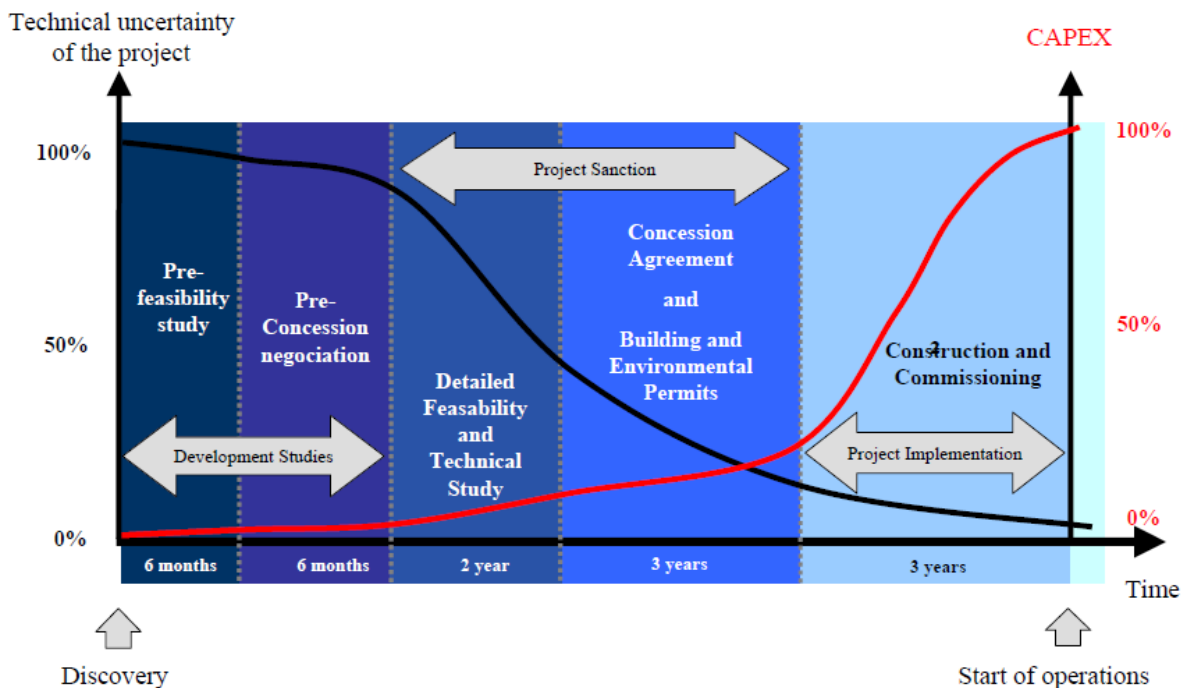
When investigations and studies are completed, when the project is technically approved by the licensing authority (approval of the "*Projeto Básico*" (basic project) in Brazil and "*Techno-Economical Clearance*" in India), and when all administrative permits and funding are obtained, construction of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

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

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

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

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



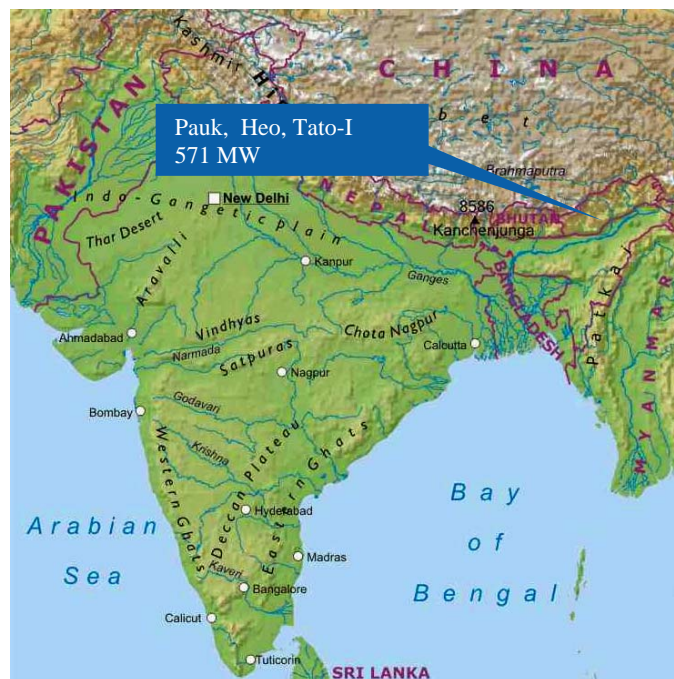
Prospection over in Indonesia

The Group's efforts since 2011 enabled to reach an advanced prospection stage for several projects totalling 128 MW within the total Group's 860 MW portfolio in 2013. Other projects are still unaccounted for in this portfolio. The Group considers that it has finished its prospection phase in Indonesia.

The Group also announced that it has signed an exclusive Consortium agreement with PT PJB (PT Pembangunan Jawa-Bali), a 100% subsidiary of Indonesia's national power utility PT PLN to develop a 59MW Hydropower project, "Meureubo 2", located in the Aceh province of Sumatra, Indonesia. Velcan Energy will be the Consortium leader with a 70% stake whereas PT PJB will have a 25% stake and the local partner, PT PPC, will own the remaining 5%. The consortium plans to initiate PPA negotiations with PT PLN during the first semester 2014.

Indian hydroelectric projects development

In India, the Group pursued the development of projects obtained in 2007, a cascade of three projects of which the capacity has been increased from 500 MW to 571 MW after approval by the central authorities.



Tato 1 and Heo:

Techno-economic studies (Detailed Project report –DPR) have been successfully submitted to the CEA (*Central Electricity Authority*) respectively in May 2013 for Tato-1 and July 2013 for Heo. The CEA has communicated its acceptance for examination in June 2013 and September 2013 respectively. This successful filing is the result of five years of field investigations on site, as well as thorough technical and economic analysis of the project in the Group's offices. The DPR is the consolidated aggregate of more than 15 separate detailed studies including items such as geology, topography, hydrology, civil design and electro-mechanical engineering, cost analysis and₁₂

financing. The studies detailed in the DPR show that this project can produce electricity at a competitive price for clients in India.

Some chapters have already been validated at this report's date and Velcan Energy is optimistic that the filing will lead to a Techno-Economic Clearance (TEC) by the CEA once all chapters will be validated and once additional geological investigations required by central authorities (*Geological Survey of India*) are performed.

Simultaneously, the public hearings of Tato-1 and Heo hydropower projects were successfully held by the Group respectively in September and November 2013, under the authority of the Government of Arunachal Pradesh and with the presence of the Deputy Commissioner of the West Siang District, representatives of the State Pollution Control Board, representatives of the local authorities, families affected by the projects and various organizations of the area. Those public hearings were a decisive step to get *Final Environmental Clearance* of both projects by the Ministry of Environment and Forests in New Delhi, as it shows the support of local inhabitants and authorities to the project. This step was following the initial submission to the Government of Arunachal State Pollution Control Board (APSPCB) of EIA (Environment Impact Assessment) and EMP (Environment management Plan) studies. EIA analyses the pre-existing environmental situational data (fauna, flora, soil, air quality, socio-economic situation etc.) and EMP gathers various proposals for implementing measures that will minimize the environmental impact of the projects. The Group is now able to complete EIA and EMP, including the opinions expressed during the public audience and will submit the final versions to the *Ministry of Environment and Forests* in New Delhi in order to get the *Final Environmental Clearance* of those projects.

Once built, Tato-1 and Heo concessions are expected to have an installed hydropower generation capacity of 186 MW and 240MW respectively. It should generate 1,937.7 GWH per year based on Design Energy, equivalent to the consumption of 3.15 million people in India¹.

Velcan Energy is not involved in land disputes, nor in any land negotiation, since land acquisition is done by the government.

The Group remains optimistic concerning the favourable settlement of any such disputes given the progress made during 2013.

Pauk:

The third project, Pauk, totalling 145 MW, is more complex and requires additional studies and further investigations prior to the DPR submission. The Public hearing though, has already been successfully held in last November. The reason for the delay experienced in Pauk field studies is primarily because of land disputes which disrupt or obstruct, locally, access to the field and finalization of geological investigations. For this reason, the continuation of Pauk DPR relies on the settlement of land disputes arising between local landlords by the conceding authorities.

The concession agreement for these three projects provides for an extension of the development phase for any delay that is not imputable to the developer.

¹ Based on average per capita consumption of 616 Kwh in 2010 (source : World Bank)

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

- Preliminary settlement by the conceding Government of land disputes in order to free the field access
- Realization of additional geological investigations, mainly concerning PAUK project
- Final submission of complete DPR of Pauk
- Obtaining of *Techno-Economic Clearance* from the *Central Electricity Authority*
- Approval of *Environment Impact Assessment (EIA)* and *Environment Management Plan (EMP)* by the *Ministry of Environment and Forests*
- Getting of forest resources use authorizations at the governmental level
- Acquisition of lands required by the conceding authority.

Despite the fact that the projects are subject to a heavy administrative process and delicate land acquisition procedures, the group has achieved significant advances in 2013 and is confident concerning the clearing of each of those steps.

Lao hydroelectric projects development

The Group has also made significant advances in its Laos projects developed in partnership with

ECI (Electrical Construction and Installation).



Nam Phouan:

The Ministry of Energy and Mines of the Lao PDR has approved the Feasibility Studies of the Nam Phouan Hydropower Project in April 2013 for an increased capacity from 25 to 45 MW. The doubling of the installed capacity results from hydrological and power potential optimization studies conducted by the Group since the acquisition of the pre-concession in 2010.

This validation comes after the approval on 14th March 2013 by the Ministry of Natural Resources and Environment of the Project's Environmental and Social impact assessment. This effectively gives the Group environmental clearance to the project.

Nam Ang Tabeng:

The Ministry of Energy and Mines of the Lao PDR has approved the Feasibility Studies of the Nam Phouan Hydropower Project in October 2013 for an increased capacity from 35 to 41 MW as a result from hydrological and power potential optimization studies conducted by the Group since the acquisition of the pre-concession in 2011.

The Environmental and Social impact assessment studies have been revised following the increase in the installed capacity and submitted to the Ministry of Natural Resources and Environment for environmental clearance of the project.

The next steps for the finalization of these projects are the following:

- Signing of the final *Project Development Agreement (PDA)* with the Government
- Land availability and implementation of social and environmental actions
- Getting of final authorizations and signing of the Concession Agreement
- Signing of the power purchase agreement (PPA)
- Fund raising for the financing (the Group has initiated discussions with banks)
- Construction call for tender (the Group has initiated discussions with co-contractors for EPC kind of contracts)

Brazilian hydroelectric projects development/operation

At the end of 2013, the company owns projects totalling 86 MW in Brazil. It is composed of 14,7 MW under operation, 53 MW of exclusive concessions and rights under development and 18 MW of non-exclusive, projects under development, the latest being excluded of the projects portfolio, which remains steady compared to 2012 at 68 MW.

The Rodeio Bonito power plant has been operating without technical issues and realized an EBITDA of EUR 3.1m versus EUR 3.5m in 2012 (-10%). Despite the operating costs cut and the increase in sale prices (per Mwh, in local currency), the consequent weakening of the Brazilian currency (-20.5%) and the remedial actions taken by the Ministry of Mines and Energy (MME – Ministério de Minas e Energia) following the drought of 2012, concerning all participants of “ensured energy” mechanism² weighted on Rodeio Bonito’s EBITDA. The MME (Ministério de Minas e Energia) decided (« Resolução nº 03 du 06/03/2013 ») that all agents of the electricity market should partake in the incremental cost caused by the utilization of thermal plants during drought. This regulatory change hit Rodeio Bonito’s consumed purchase account (Due to compulsory Electricity purchase and its EBITDA (EUR -0.4m).

In June 2013, Velcan Energy has announced having secured the sale of over 90% of its Brazilian production for the period 2013-2016 with inflation-linked prices, which should rise by 5% p.a compared to 2012 prices on average. At the same time that those contracts secure and increase the plant’s future profits, these transactions also allow Velcan Energy to enjoy greater operating and financial visibility.

During 2013 financial year, the plant produced 61 654 Mwh but could sold 77 088 Mwh at a unit price per MWh of approximately EUR 58 on average thanks to the Ensured Energy mechanism.

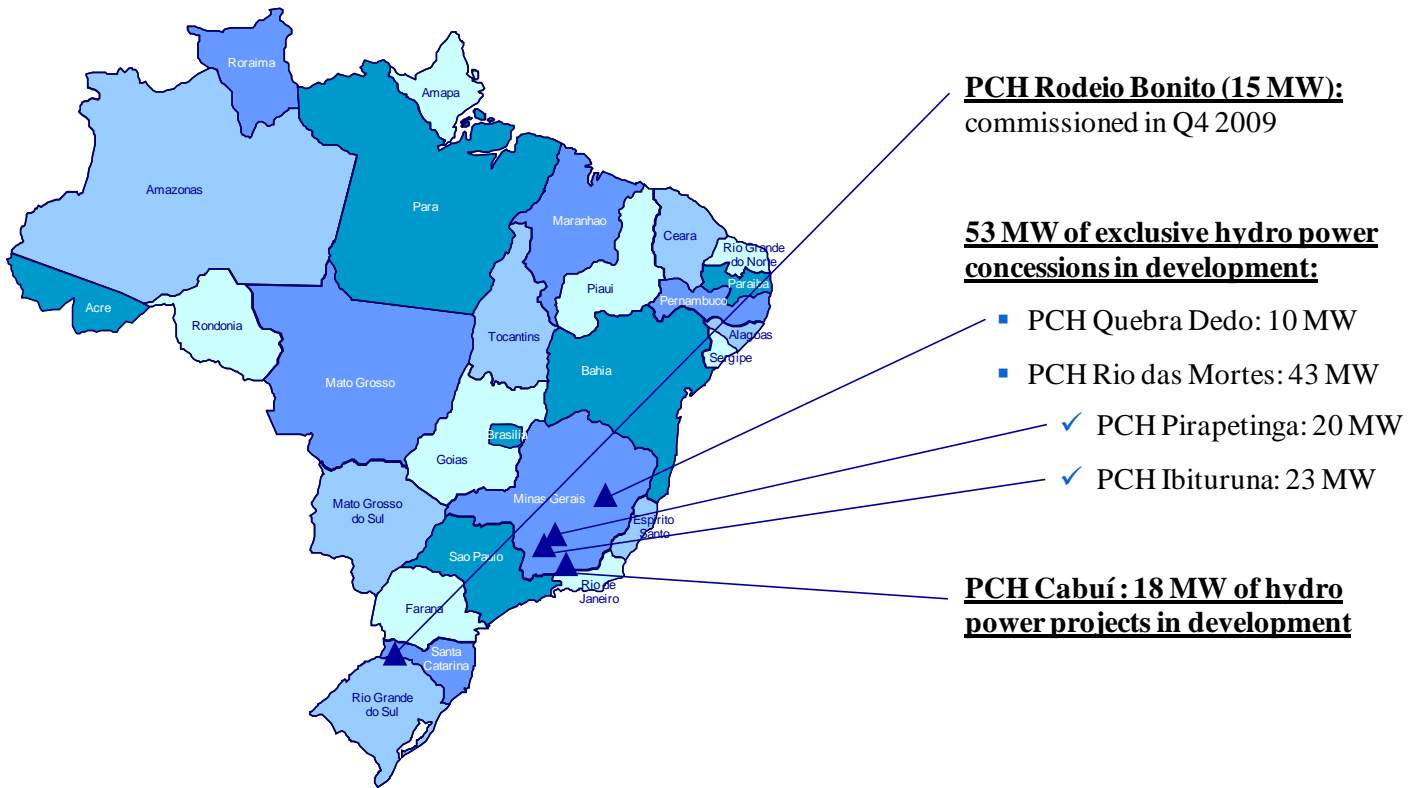
The Group has not noted so far any significant progress on the administrative procedures required to achieve the development of the 3 on-going Brazilian projects of its portfolio. Each of them is facing different administrative and social barriers and/or fierce competition. Furthermore, no improvement on the energy selling prices conditions is foreseeable and therefore some projects are no longer profitable considering the falling energy prices and soaring construction costs and

² In Brazil, « guaranteed energy » or « ensured energy » means the annually marketable energy as approved by MME – Ministério de Minas e Energia (Department of Mines and Energy) and guaranteed through the Brazilian power system for power plants opting for the MRE (Energy reallocation Mechanism), mechanism functioning at national scale, even if the production is impacted by a bad hydrology some years. This is the case of Rodeio Bonito. This mechanism covers the hydrological risk in case some Brazilian areas are experiencing dryness, whereas other areas are experiencing heavy rains. However this mechanism does not cover the risk of a global dryness in Brazil, which would settle durably. In that case, the Rodeio Bonito plant revenues could collapse drastically.

Concerning Rodeio Bonito, the ensured energy was 8.80 MW during 8.760 hours per year, i.e 77.088 MWh per year. The turnover corresponding to this part of guaranteed energy is ensured through mid-term fixed contracts, inflation-linked, and thus even in case of low actual production below that level for hydrological reasons. However, if the drought situation was lasting, or, in case of extremely low production, it could lead to a downward revision of the ensured energy or it could even lead to a temporary exclusion of the system. The actual production being below the level of ensured energy since several years, there is a high risk of downward revision (5 to 10%) of Rodeio Bonito’s ensured energy anticipated by the Group (The first revision of the ensured energy is expected in end 2014 or beginning of 2015).

their development has been adjourned. Development costs on those projects are entirely provisioned in the Group's balance sheet.

The Group has stopped its prospecting activity in this country.



Net Result

Turnover amounted to EUR 4.6m, of which EUR 4.4m from electricity sales and EUR 0.2m for sales of carbon credits.

Net Financial Income for the group amounted to EUR -3.5m in 2013, of which EUR +3m of income excluding Foreign Exchange (FX) and derivatives variations. This income compares to EUR 4.2m in 2012 following, in part, the sale of Indonesian bonds.

The overall impact of FX on the Financial Income is a loss of -EUR 3.7m to which must be added an unrealized loss of EUR 2.3m on derivatives (FX forwards and options), mainly because of the weak USD (-4.5% on the year) and Singapore Dollar (-8.1%).

The significant depreciation of Emerging Market currencies in 2013 relative to the Euro (Brazilian Real -20.5%; Indian Rupee -17.6%, Indonesian Rupiah -31.9%) weighed heavily on conversion reserves as the Group's main investments (tangible and intangible) have been done in local currency.

Operating costs are down sharply from 2012 (-31%). The Group continued its cost-cutting policy in order to improve EBITDA to EUR 1.2m in 2013 versus EUR 0.3m in 2012.

Depreciation and amortization of tangible and intangible assets of Rodeio Bonito plant amounted to EUR 1.2m.

Other net operating charges related to provision and impairment on intangible assets under development (Hydro concession development costs) amounted to EUR -0.7m

Change in Cash

The Group's cash position has decreased from EUR 90.9m as of 31 December 2012 to EUR 84m as of 31 December 2013, mainly because of the FX rates negative impact (see above).

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

Assets	31.12.2013	31.12.2012
Non current assets		
Goodwill	-	14
Intangible assets	17 320	16 094
Tangible assets	15 586	19 698
Non current financial assets	2 448	2 209
Investments accounted for using the equity method	-	-
Other non current assets	76	201
Deferred tax assets	1 503	941
Total non-current assets	36 932	39 158
Current assets		
Inventories	1	-
Trade and other receivables	325	376
Income tax receivables	199	255
Other current assets	483	796
Cash and cash equivalents	84 046	90 901
Total current assets	85 054	92 328
Total assets	121 986	131 486

Consolidated balance sheet – LIABILITIES
in thousands of euros

Liabilities	31.12.2013	31.12.2012
Shareholders equity		
Issued capital	7 781	7 780
Additional paid in capital	139 586	139 575
Other reserves and conversion reserves	(25 916)	(22 822)
Net income for the year	(4 092)	4 290
Total shareholders equity	117 360	128 822
Minority interests	52	74
Total Consolidated equity	117 412	128 896
Non current liabilities		
Non-current financial liabilities	1 035	0
Deferred tax liabilities	-	-
Non current provisions	772	910
Other non current liabilities	726	645
Total non-current liabilities	2 533	1 556
Current liabilities		
Current financial liabilities	1 423	0
Current provisions	25	-
Trade and other payables	302	613
Income tax payables	78	96
Other current liabilities	214	325
Total Current Liabilities	2 042	1 033
Total Liabilities	121 986	131 486

Consolidated income statement
in thousands of euros

Result	31.12.2013	31.12.2012
Net turnover	4 595	4 879
Other operating revenue	1	29
Total operating revenue	4 596	4 907
Consumed purchases	(604)	(420)
Changes in inventories	-	-
External expenses	(1 603)	(2 466)
Payroll expenses	(1 167)	(1 555)
Taxes	(35)	(167)
Depreciation, Amortization & Provisions	(888)	(2 549)
Current operating profit	299	(2 250)
Other operating income	-	1 510
Other operating expenses	(1 103)	-
Operating profit	(804)	(740)
Financial Income	5 010	6 995
Financial expenses	(8 494)	(2 190)
Financial Result	(3 484)	4 805
Income tax	164	194
Profit of investments accounted for using the equity method	-	-
Net profit from continuing operations	(4 124)	4 260
Net profit from discontinuing operations	-	-
Profit, group share	(4 092)	4 290
Profit, minorities share	(32)	(30)
Earnings per share (in euros)	(0,68)	0,69
Diluted earnings per share (en euros)	(0,68)	0,68
		-
EBITDA	1 187	299
Statement of total comprehensive Income	31.12.2013	31.12.2012
Net income	(4 124)	4 260
Foreign currency translation comprehensive income	(7 505)	(4 411)
Total Comprehensive Income	(11 629)	(152)

3-3 Comments on the consolidated balance sheet

The total of the balance sheet amounts to EUR 121.986m versus EUR 131.486m as of 31 December 2012, i.e. a decrease of 7,22% which is mainly explained by the diminution of reserves impacted by the negative variation of conversion reserves which affected comprehensive income (see below).

Intangible assets amount to EUR 17.3m, and consisting mainly of (net values):

- Rodeio Bonito concession in Brazil: 3 475 k€
- Direct costs incurred on other hydroelectric projects in India: 13 843 k€

Tangible assets amount to 15 586 K€ and mainly consist of:

- Rodeio Bonito concession construction costs in Brazil 15 370 K€

The negative variation of the Brazilian Real led to a largely negative exchange variation of this asset (about EUR -3,2m).

Accumulated amortization on this tangible asset amounts to EUR 3.1 m (variation excluding Forex impact of EUR 0.9m for the year, which represents the main part of the Group amortization expenses for 2013).

Non current-financial assets and other non-current assets amount to EUR2.5m, of which EUR 2.4m were financial assets (mainly Equity Shares in listed and non-listed companies for EUR 1.7m and derivative instruments for EUR0.6m).

Trade receivables and related accounts correspond mainly to sales of 2013 production of Rodeio Bonito not yet received as of December, 31st 2013 (but cashed-in at this report's date).

Other current assets are related to the following elements:

- Carbon Credit trading 162 k€
- Carbon credit production 16 k€
- Fiscal and Social receivables 99 k€
- Other receivables 206 k€

Cash and cash equivalents position amounts to EUR 84.046m against EUR 90.901m as of 31 December 2012, but includes neither Velcan Energy Shares held by the group as of 31st December 2013 nor unrealized gains/Losses on derivative instruments classified as current or non-current financial 1ssets/Liabilities under IFRS, nor more or less liquid equity shares in entities non-consolidated in Velcan's group (listed or non-listed) and classified as financial assets.

During 2013 financial year, the cash, invested mainly in bonds and bank deposits, fell significantly mainly because of negative FX variations. Financial results excluding forex variation impact and the EBITDA of Rodeio Bonito power plant have broadly covered the Group operating and investment expenses.

The capital and the additional paid in capital are commented with the key statutory financial figures. It should be noted that the Group owns 1.796.034 treasury shares which, according to IFRS rules, reduce the Group's shareholders equity for an amount equivalent to their historical acquisition cost (EUR 15.223m).

The translation reserves represent an unrealized loss of EUR9.755m booked against the group's equity.

The current and non-current financial liabilities amount to EUR2.458m against 0 K€ as of 31 December 2012. It relates to derivative instruments.

Non-current provisions amount to EUR 0.772m mainly consisting of provisions linked to old litigations in India related to Biomass assets previously owned.

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

Other non-current liabilities amounts to EUR 0.726m, mainly composed of advances received of which the reimbursement is subject to certain conditions. Whatever the case, the Group believes that the conditions for the reimbursements will never be realized.

Deferred taxes represent a future tax credit of EUR1.5m.

Suppliers and other payables amount to EUR 0.3m and are detailed as follows:

• Suppliers	36 k€
• Dues on acquisition of fixed assets (*)	209 k€
• Other debts	57 k€

(*) These amounts corresponds mainly to the debt toward the sellers of Quebra Dedo concession (EUR 0.176m).

Other current liabilities amount to EUR 0.214m, consisting mainly of suppliers payables and fiscal and social debts.

3-4 Comments on consolidated income statement

The turnover amounts to EUR4.595m, versus EUR 4.879m in 2012, down by 6% because of the Brazilian Real weakening.

Operating expenses amounted to EUR 4.3m versus EUR 7.16m in 2012 and consist mainly of:

- EUR 0.6m of consumed purchases, versus EUR 0.42m in 2012;
- EUR 1.6m of external expenses versus EUR2.47m in 2012
- EUR 1.16m of payroll expenses versus EUR 1.56m in 2012;
- EUR 0.04m of operational taxes versus EUR 0.17m in 2012;
- EUR 0.89m of depreciation and amortization expenses against EUR 2.5m in 2012, mainly consisting in the amortization and depreciation of the Rodeio Bonito power plant and in the provision write-back on intangible assets under development

Research activities are taken into account as and when their costs are incurred. Nevertheless, costs directly attributable to projects and meeting the defined criteria in the accounting rules and regulations are capitalized as intangible assets (see details of projects in the balance sheet)

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

<i>Number</i>	31.12.2013	31.12.2012
Engineers and executives	31	25
Office workers and Manual workers	21	27
Average registered number of employees	52	52

Other operational income/expenses essentially come from:

- Impact of a compulsory gratuitous retrocession of part of Rodeio Bonito asset in Brazil (EUR -0.2m)
- Impairment and depreciation of intangible and tangible assets related to projects, previously capitalized and now abandoned (EUR -0.9m)

The current operating profit is EUR -0.804m, versus EUR -0.74m in 2012.

The net financial profit amounted to EUR -3.484m because of negative impact of FX variation.

The income tax profit amounts to EUR 0.164m (mainly because of losses of Velcan Energy Luxembourg recognized as future tax assets).

It results in a **net loss** of EUR -4.1m for the group versus a net profit of EUR 4.3m 2012.

3-5 Financial situation and indebtedness

No significant capital increase was carried out in 2013. Given the net comprehensive income realized in 2013, the consolidated shareholder's equity amounts to EUR 117.412m, versus EUR 128.896m in 2012.

Thousands of Euros	31.12.2013	31.12.2012
Consolidated net debt (1)	-84 046	-90 901
Consolidated Shareholder's equity	117 412	128 896
EBITDA (2)	1 187	299
Net Financial Interest	-3 484	4 805

- (1) A negative figure shows that the company's treasury is higher than the bank debt
 (2) EBITDA corresponds to current operating income before amortization and depreciation.

3-6 Sectorial performance metrics

The Group's geographic segments are as follows:

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

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

Data by geographic area

31.12.2013	Europe	South America (2)	Middle East & Africa	Asia	Total
<i>In thousands of Euros</i>					
Income Statement					
Turnover	158	4 437	-	-	4 595
Current operating profit	(1 359)	1 721	1 064	(1 127)	299
EBITDA (1)	(1 244)	2 884	736	(1 189)	1 187
Net Income	(340)	1 299	(4 568)	(515)	(4 124)
Balance Sheet					
Total non-current assets	2 864	18 769	3 948	11 352	36 933
Employees registered at the end of the period	-	3	2	43	48

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

(2) Essentially Rodeio Bonito

3-7 Risk factors and uncertainties

Specific risks of hydroelectric plants and projects.

All risks from the Group's activities are described in the disclosure document available online on the company's website at the time of its transfer to NYSE - Alternext. Investors are invited to refer to this document for a complete discussion. 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 such as an unanticipated 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. 26

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

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

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

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

Risks associated to emerging countries

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

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

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

IFRS norms and that they are not equivalent to those applicable in most developed markets;

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

Environmental risks

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

Country risks – currency conversion risk

As of 31 December 2013, the Group's cash & cash equivalent balance by currency, excluding derivatives instruments, is broken down as follow:

- US Dollars (USD) 63%
- Euros (EUR) 14%
- Indonesian Rupee (IDR) 10%
- Singapore Dollars (SGD) 6%
- Brazilian Reals (BRL) 5%
- Others 2%

As of 31 December 2013, the Group's cash & cash equivalent balance by currency, including derivatives instruments, is broken down as follow:

- US Dollars (USD) 74%
- Singapore Dollars (SGD) 34%
- Brazilian Reals (BRL) 5%
- Others 3%
- Euros (EUR) - 17%

The Group's balance sheet is also significantly exposed to Indian Rupee and Brazilian Real because of the significant investments made there for HEO, PAUK, TATO-1 and RODEIO BONITO concessions (Tangible and intangible assets) and because of the electricity sales in Brazilian Real of RODEIO BONITO.

As of 31 December 2013 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 on April 2012 to cover against the appreciation of the Singaporean dollar, the major part of the operational expenses of the Group being moved to South-East Asia. As of December 2013, this transaction accounts for a 1.4 m€ unrealized loss (1.9 m€ of variation during the year) because of the weakening of this currency.

Interest Rate Risk

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

3-8 Use of financial instruments for hedging

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

4 - Sustainable development and Social Responsibilities

The Group focuses on generation of electricity from hydroelectricity, which is a **conventional** and **renewable** source of energy and which prevents the release of greenhouse 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 17.000 CERs.

The Group regularly undertakes actions in corporate social responsibility activities in India in the benefit of local populations in the area where its three hydroelectric projects of the Yarjep river are located. For instance, in 2013, the Group made financial contributions to various social and cultural events, which matters to local people such as festivals and sport tournaments.

Likewise, the Group has been financing for the sustainability of small local infrastructure such as suspension bridges and access ways to the village. Donations with medical purpose have also been granted.

5 - Research and development

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

The engineering teams have been involved in developing new models of "rain-flow" to find innovative solutions for improving the reliability of hydrological estimates.

6 - Subsequent Events

At this report's date, the Group has announced that Velcan Energy SA and Velcan Energy Luxembourg SA entities have initiated the process of cross-border merger aiming at the absorption of Velcan Energy SA by Velcan Energy Luwembourg.

7 - Expected Developments

At the date of this report, the worldwide portfolio of hydro exclusive rights and concessions stands at 860 MW, out of which 15 MW are in operation.

The Group's priorities for 2014, in the continuation of what has been achieved in 2013, are the following:

- Starting the construction of a second project in Indonesia or Laos
- Pursuing the development and realization of viability studies of concessions rights already obtained in India, Indonesia and Laos

8 - Organization Chart and details of the subsidiaries

As of 31 December 2013, Velcan Energy SA, the parent company of the group, which is based in Paris, controls 24 companies, direct or indirect subsidiaries, located in eight countries: India, Brazil, the United Arab Emirates, Luxembourg, Mauritius, Singapore, Indonesia and Laos, different by their function and the geographical area where they operate.

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

As of 31 December 2013, apart from Velcan Energy SA, the other main engineering companies are Velcan Singapore PTE LTD, Velcan Energy Holdings (Dubai) Ltd and Velcan Desenvolvimento Energetico Do Brasil Ltda. The main companies having a sub holding function are Velcan Energy Holdings (Dubai) Ltd, Velcan Renewable Energy Private Ltd, Velcan Energy Luxembourg SA, Velcan Singapore PTE LTD and Velcan Energy Mauritius Ltd.

