

PRESS RELEASE

VELCAN: ANNUAL RESULTS 2017

DECLINE OF REVENUES AND EBITDA, FINANCIAL PERFORMANCE AFFECTED BY USD FALL STEADY COMMITMENT TO INDIAN HYDROPOWER PROJECTS DESPITE SLOWER PROGRESS THAN EXPECTED

	<u>2017</u>	<u>2016</u>	Var %
Revenues (EUR m)	3.1	3.7	-15%
EBITDA (EUR m)	-1.7	-0.2	-638%
Net Income (EUR m)	-9.6	-1.4	-604%
Shareholders' Equity (EUR m)	123	133	-8%
Cash and Financial assets	101	105	-4%
Market Capitalization	65	78	-17%
Concession Portfolio	657 MW	723 MW	-9%
Book Value per Share (EUR) (Net Outstanding Equity)	19.7	22.2	-11%
Shares Outstanding net of Treasury shares (‘000)	6,226	6,014	+4%

During 2017, VELCAN continued its efforts towards the development of its hydropower concessions located in India (cascade of 571 MW). Techno-Economic, Environmental and Forest clearances being in place, and most site investigations being completed, VELCAN focused on the other main milestones which are the land acquisition, the transport infrastructure, the amendment of the concession agreements and the stage 2 Forest Clearance. These activities, instrumental to the projects' implementation, are under the purview of the State and Central Governments, which make them dependent on the political willingness to support hydropower. They have not progressed as expected during the year 2017 despite the fact the projects of the Group have been selected by the Ministry of Power for a special support and follow-up in early 2016. For example, the new National Hydropower Policy is still under discussion and it appears it may include in the short term only a list of projects identified as immediately ready to build or under construction. VELCAN follows closely such activities and provides support to Government entities whenever possible. Despite the long term potential of the Indian power market and the intrinsic techno-economic quality of its projects, the Company has decided to book a provision of Eur 2.2 Million (-16%) on the intangible value of the Indian projects in order to reflect the accumulated delays and the current low visibility on the implementation schedule.



VELCAN fully divested its two main Indonesian hydropower projects (Meureubo 2 HEP 59 MW and Sukarame HEP 7 MW, with a positive impact of EUR 3 Million on FY2017), as its portfolio in this country had faced significant regulatory and administrative impediments since FY 2016.

The operation of the Rodeio Bonito plant faced one of the most severe drought in years in Brazil, which affected significantly sales of electricity net of the payments to the MRE (Energy Reallocation Mechanism) during FY2017 (EUR 1.5m, -46%).

VELCAN also continued to manage actively its treasury by diversifying its financial investments portfolio during the year, but it was impacted by the important fall of the USD against the EURO (approximately EUR 10m forex losses impacted the financial result), despite a good performance of these investments at constant exchange rates.

FINANCIAL YEAR 2017 – MANAGEMENT COMMENTS ON THE BUSINESS

In India, the Group kept pushing the development of the hydroelectric concessions obtained in 2007 in the State of Arunachal Pradesh.

The team carried on field studies and investigations at site. The detailed tender design level topographical surveys of project components and internal project roads has been completed for Heo HEP and Tato-1 HEP intake site and roads during the year. Additional drilling required by CEA at Tato-1 trench weir has been completed in April 2017. The sedimentation studies and hydrological measurements have also been continued.

The land acquisition procedure, for which application was submitted in June 2016, is led by the local government. Progress was made during the year, although at a slow pace. The gov. appointed Social Impact Assessment unit has conducted onsite site surveys in September 2017. The SIA and Social Impact Management Plan (SIMP) draft reports have been completed and submitted to the district administration in December 2017. The public hearings required by the regulations in order to discuss the SIA and the SIMP with the local public have been held successfully in all the 8 concerned villages on 23rd and 24th of January 2018. Such SIA & SIMP reports will be reviewed by the State Government to determine whether the concerned land is recommended for acquisition. Meanwhile, the District Administration will initiate the procedure to establish the land revenue registry and to collect the consent of at least 80% of the land owners. Considering most of the land is disputed between clans or within the same clans, the Group expects this procedure to be complicated. Administrative issues related to Land status are currently still the most sensitive and significant issues, which may slow down development of the projects, and their outcome cannot be predicted.

As per the current concession agreements, such process and land ownership disputes settlement are the responsibility of the licensing Government. The concession contract provides for an extension of the development period in case of any delay which is not the responsibility of the developer. Negotiations for, amongst other things, such an extension of

the concession with the Government of Arunachal Pradesh have not made significant progress during the year.

The timely availability of appropriate road infrastructure is also an important issue that VELCAN has been attending throughout the year with the Central Government with some progress, although the scheduled dates of completion of the roads upgrade are still falling in 2022. The budgets for realizing the works allowing to prepone such date have been prepared by the Ministry of Defense, but they have not yet been sanctioned.

The Central Government has taken steps to revive and support the power sector, such as the UDAY scheme. The UDAY scheme has been launched in late 2015 and is now adhered to by most electricity distribution companies (DISCOMS, the 32 distribution companies which purchase electricity in bulk from generators and sell it to the final consumers). It aims at improving the financial health of the DISCOMS by refinancing their balance sheets, in exchange notably of efforts to improve the distribution grids and to increase their purchase of power. The Government is also discussing a possible new hydropower policy which, as per our knowledge, should entail financial incentives to generators, such as interests' subsidies, and incentives to the DISCOMS for them to purchase hydropower. It appears such new policy, still under discussion, will be restricted for now to a list of designated hydropower projects to be commissioned within 5 years of the policy (meaning projects already under construction or ready to start immediately construction). VELCAN is following up closely the evolution of these frameworks, but the effects of the UDAY scheme on the hydropower PPAs market is yet to be seen. Despite these positive initiatives, as of December 2017, the commercial and financial market conditions are indeed not yet fulfilled for the sale of private hydropower, as the market remained constrained by both the still bad financial health of DISCOMS and the absence of proper regulatory framework allowing the sale of power through long term bankable PPAs.

Velcan remains convinced of the inherent competitive techno-economic features of its projects, such as their levelized tariffs and their low environmental impact, and the long term potential of the Indian power market. However, in view of the uncertainties of the implementation timeframe and the delays accumulated, the Company has decided to book a provision of Eur 2.2 Million (16%) on the intangible value of the Indian projects. A detailed status of each ongoing project activity is reported in the annual management report available on the company's website.

In Brazil, the Rodeio Bonito Hydropower plant (15 MW) recorded a production of 41,321 MWh in 2017, 24.6% below the 2016 generation (54,801 MWh) since a severe drought hit again Brazil in 2017. After several years of an extreme drought that had affected the country since 2012, precipitation levels had normalized from June 2015 to October 2016, but they have fall down to very low levels again in 2017. As a consequence, payments by Velcan for the MRE (Energy Reallocation Mechanism) were EUR 1.3m in 2017 vs only EUR 0.3m in 2016. The operating and financial performance of the plant in local currency was also

impacted by lower sale prices when Power Purchase Agreements (PPAs) contracts were renewed in early 2017 with gross electricity sales reaching EUR 3.1m vs EUR 3.7m in 2016 (in Brazilian Real - BRL 11.2m vs BRL 14.1m in 2016).

In Indonesia, the Group has sold the Meureubo 2 HEP (59 MW) and the Sukarame SHP (7 MW) which were stalled by administrative issues, including the unavailability of satisfactory PPAs. The third Project of the Group in Indonesia is the Redelong HEP (18 MW). Given the general uncertain context for hydropower projects in Indonesia, the project was fully impaired in 2016, and it remains the case as of 31/12/2017. The size of the Redelong project (18 MW) does not economically justify full operations in the country and the Group is looking for potential partners and investors for taking over the lead development in the Redelong projects.

Financial Assets, cash and cash equivalents: as it has done since 2005, and very actively since 2008, the Group has kept managing its treasury to cover the operational costs and provide financial returns in excess of the risk free central bank rates. The Group has invested over the years in an extremely diversified array of financial assets including mostly : corporate and government bonds in local and reserve currencies, equities, derivatives, direct lending and private equity investments.

In 2017, the group main investments have been in corporate bonds again. The exposure has gradually increased from EUR 28.9 m at the beginning of the 2016 year to EUR 46.0 m at 2016 year end and 49.9 m at 2017 year end. The group is mainly exposed to issuers in the BBB and BB categories (as defined by Standard's and Poor). The maturities span a wide range. Although the majority is less than 6 years, some bonds have more than 30 year maturities. A few are of perpetual nature. In 2017 the group invested in majority in USD bonds, from issuers coming both from developed markets and emerging markets. At year end the biggest lines of the Group are with the following issuers : JBS (Brazil), CMA CGM (France), Comcel trust (Guatemala), Olam (Singapore), NORDDEUTSCHE LANDESBANK GIROZENTRALE (Germany), Zurich Insurance (Switzerland), Bluescope Steel (Australia), Israel Electric Corp (Israel), NIPPON LIFE INSURANCE CO (Japan) and the republic of Argentina. These bond investments have performed very well in 2017 at constant exchange rates but the Group has suffered from the US dollar weakening. The Group has invested in bonds since 2008 and has only suffered one default (OI/Brazilian telco operators) in its history of bond investments. This default has costed the group EUR 0.3 m. This loss is materially less than the extra gain that the group has derived from investing in bonds compared to staying in cash. The fact that the Group has suffered little from defaults in the past is no predictor that it will not do so in the future. The level of spreads has decreased a lot recently and offers less downside protection than before.

As of December 2017, the Group had also private investments worth EUR 6.2m including private equity (EUR 1.1m) and direct lending (EUR 5.1m). Almost half of Private equity and direct lending investment are in the shipping sector. Given the recent poor performance of

this sector these investments have contributed negatively to the performance of the Group in 2016 and 2017. The Group is actively monitoring these investments to try to maximize their value.

As of December 2017, the Group had investments worth EUR 1.5 m in listed equities and EUR 4.8 m in equity funds and hedge funds. The Group believes the current equity markets provide no sufficient reward vs the risks entailed by their level. Were the situation to change, the Group may reinforce significantly its investments in listed equity.

As of December the Group financial assets were mostly exposed to the US Dollars.

Finally a significant part of the treasury of the Group was kept as of December 2017 in cash or cash equivalents (EUR 37.5m). Given the current level of interest rates these deposits provide little financial revenues despite a small increase in 2017.

FINANCIAL YEAR 2017 – MANAGEMENT COMMENTS ON THE FINANCIAL STATEMENTS

Income Statement:

Turnover was EUR 3.1m (against EUR 3.7m in 2016, a 15% decrease), and comes from electricity sales in Brazil. The turnover in Reais (BRL) decreased by 20%, due to a slight reduction in Rodeio Bonito's ensured energy and a lower sale price of the short term PPAs renewed in early 2017.

Net Financial Income for the group amounted to EUR -4.2m in 2017 because of the USD depreciation (-14% compared to end of 2016) and its impact on the Group's cash and financial assets position despite good financial performance on VELCAN's investments excluding forex. This loss compares to a gain of EUR 5.9m in 2016. The forex loss impact was EUR -10m. The bond portfolio performance generated the biggest part of the financial result excluding Forex. The performance of this portfolio was good. On an average of EUR 51m invested during the year, the net gain was EUR 5.3m. The biggest contributors to this result were the bonds of the issuers Ethias, Atradius, Areva and Zurich Insurance.

Current operating results amounted to EUR -7.8m (against -6.7m 2016). Additional charges paid to the MRE (Ensured Energy Mechanism – see detailed report) by the Rodeio Bonito plant amounted to EUR 1.3m due to very low precipitation levels in 2017, while depreciation of the Indian projects under development amounted to EUR 2.3m (EUR 5.6m in 2016 on Indonesian projects). Staff expenses increase was due to a new compensation plan despite it had no impact on cash and on equity (impact of EUR 2.5m on the net result).

In 2017, other operating income consisted mainly of divestment gains on Indonesian assets while the costs were fully impaired in 2016 (EUR 3.0m of gain). No significant other operating Income was generated during 2017 financial year.

The net result is EUR -9.6m in 2017 FY compared to EUR -1.4m in 2016 FY.

The Group's EBITDA (earnings before interests, taxes, depreciation and amortization) reached EUR -1.7m compared to EUR -0.2m in 2016.

The depreciation of Brazilian Real and Indian Rupee when compared to Euro, at 2017 closing date, has negatively impacted the other comprehensive income as the Group's main investments (tangible and intangible) have been done in local currency (EUR -3.4m in 2017 against EUR 3.8m in 2016). The total comprehensive income amounts to EUR -13.0m in 2017 against EUR 2.5m in 2016.

Balance sheet:

Net intangible assets are down by EUR 2.7m versus 2016, mainly because of depreciation on Indian assets due to uncertainties and repeated delays faced on those projects. Tangible assets decreased by EUR 2.6m between 2016 and 2017, mainly because the Rodeio Bonito Hydro power Plant being booked in BRL currency, foreign exchange impact on retranslation of the Rodeio Bonito power plant resulted in a EUR 1.7 loss (EUR 2.7 m gain for 2016 FY).

Cash, cash equivalent assets and financial assets have decreased from EUR 105m in 2016 to EUR 101m in 2017 (-4%) because of the USD depreciation.

Finally total assets decreased by 8% during 2017 FY (down by EUR 10.9 m).

Own shares, booked directly against Equity of the Group at their historical cost, reduce the net shareholder's equity of the Group by EUR -3.2m versus EUR -15.2m at 31st December 2016 following the cancellation of 1.200.000 shares.

As at 31st December 2017, unrealized losses on conversion reserves, booked directly against Equity amounted to EUR -7.8m versus an unrealized loss of EUR -4.3m at 31st December 2016, mainly because of the BRL depreciation.

With a consolidated equity of EUR 122.8m (-EUR 10.5m compared to 2016), the Group has no significant debt as of 31st December 2017. Various provisions, payables and financial instrument liabilities amount to EUR 2.9m (stable vs 2016).

Foreseeable evolution of the Group:

After the closing of this financial year, the Group is pursuing the following main objectives as a priority for FY 2018:

- Pursuing the development of the Indian projects and finding a lead investor for the Redelong Project in Indonesia;
- Continue the diversification of its investments;

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The complete annual report and financial statements are available on the company's website

Appendix next page: SUMMARY FINANCIAL STATEMENTS

SUMMARY FINANCIAL STATEMENTS

Balance Sheet

ASSETS (EUR '000)	2017	2016
NON-CURRENT ASSETS	29 413	32 289
Intangible Assets	13 862	16 551
Tangible Assets ¹	10 315	12 893
Non-Current Financial Assets	5 236	2 506
Other Non-Current Assets	-	339
CURRENT ASSETS	96 282	103 808
Current Financial Assets	57 869	48 190
Cash and Cash Equivalents	37 536	54 449
Other Current Assets	877	1 169
TOTAL ASSETS	125 694	136 098

LIABILITIES (EUR '000)	2017	2016
Equity (Group Share)	122 770	133 301
Minority interests	21	(35)
TOTAL EQUITY	122 790	133 266
NON-CURRENT LIABILITIES	1876	1 883
CURRENT LIABILITIES	1 028	948
Bank Debt	-	-
TOTAL LIABILITIES	125 694	136 098

¹ Almost exclusively constituted of the Rodeio Bonito Hydro Power Plant asset

**Income Statement
(EUR '000)**

	2017	2016
Revenues	3 112	3 711
Amortizations, depreciations and Provisions	(3 135)	(6 425)
Ordinary Operating Result	(7 791)	(6 668)
Operating Result	(4 831)	(6 655)
Net Financial Income (Loss)	(4 159)	5 863
Tax Income (Expense)	(576)	(566)
Income – Minority Share	55	(93)
Net Income – Group Share	(9 621)	(1 265)
EBITDA	(1 696)	(230)

About Velcan:

Velcan is a Luxemburg headquartered investment holding company founded in 2005, operating as an independent power producer in emerging countries and managing a global portfolio of financial assets.

The company owns and operates one 15MW hydro power plant in Brazil that it developed and built in 2009. Its major power project under development is a cascade of hydropower concessions located in India and totalling 571 MW. The Group also has a smaller project of 18MW in Indonesia.

Hydropower concessions provide long periods of cash generation but their development outcome is uncertain and many years are needed to bring these projects to maturity in emerging countries: it involves field studies in remote places, obtaining the necessary authorizations and permits, and land acquisition in political and regulatory environments that can be unstable or heavily hampering. Meanwhile Velcan actively manages its treasury, investing in listed financial instruments and private equity deals.

Velcan's headquarters are in Luxemburg, with administrative and financial offices in Singapore and Mauritius. The team dedicated to the development of the Indian hydropower cascade is based in New Delhi and at the project site (Arunachal Pradesh).

The company was launched more than 10 years ago by its reference shareholder Luxembourg Hydro Power SA, owned by Velcan's management team.

Velcan is listed on the Paris Euronext Growth Stock Market (Euronext Growth/Ticker ALVEL/ISIN FR0010245803).

Velcan never performed any Public Offer as understood under Directive 2003/71/CE of the European Parliament and Council.

Disclaimer

This press release contains prospective information about the potential of the projects in progress and/or of the projects of which the development has begun. This information constitutes objectives attached to projects and shall not be construed as direct or indirect net income forecast of the concerned year. Reader's attention is also



drawn on the fact that the performance of these objectives depends on future circumstances and that it could be affected and/or delayed by risks, known or unknown, uncertainties, and various factors of any nature, notably related to economic, commercial or regulatory conjuncture, which occurrence could be likely to have a negative impact on future activity and performances of the Group.

This announcement does not constitute a public offering (“offre au public”) nor an invitation to the public or to any qualified investor in connection with any offering. This announcement is not an offer of securities in the United States of America or in any other jurisdiction/country.