

The logo consists of the word "VELCAN" in a blue, serif, all-caps font, centered within a light yellow rectangular background.

VELCAN

**Half Yearly Report
And Consolidated Financial Statements
(Condensed and Unaudited)**

30th June 2017

Velcan S.A.

RCS Luxembourg B145006

Euronext Growth - ALVEL

www.velcan.lu

SUMMARY

I - <u>MANAGEMENT REPORT</u>	3
1. ABOUT VELCAN	3
2. KEY FIGURES	3
3. IMPORTANT EVENTS AND ACTIVITY OVER THE PERIOD	4
4. SIGNIFICANT EVENTS SINCE 30 TH JUNE 2017	9
II - CONSOLIDATED BALANCE SHEET - ASSETS	10
III - CONSOLIDATED BALANCE SHEET - LIABILITIES	11
IV - INCOME STATEMENT	12
V - COMMENTS ON CONSOLIDATED FINANCIAL STATEMENTS	13

I - MANAGEMENT REPORT

1. 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 totaling 571 MW. The Group also has two smaller project of 18MW and 7MW 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 and unlisted financial instruments. As of 30th June 2017, 22% of the assets of the group are deployed in power projects or plants, 77% in listed and unlisted financial investments, and cash and cash equivalents (bank current accounts and deposits).

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).

2. H1 2017 KEY FIGURES (unaudited)

Consolidated Financial Data			
in Million Euros			
	<u>30/6/2017</u>	<u>30/6/2016</u>	<u>Var %</u>
§ Turnover Half Year	1.5	1.7	-14%
§ EBITDA Half Year	-0.1	0.1	NA
§ Net Result Half Year	-4.6	-5.8	+21%
	<u>30/6/2017</u>	<u>31/12/2016</u>	<u>Var %</u>
§ Cash & Financial assets	100	105	-5%
§ Market Capitalization	88	78	+13%
§ Cons. Equity	127	133	-5%
Issued shares less Treasury shares (in Thousands)			
§ Net outstanding shares	6012	6014	-0%
Book value per share (in Euros)			
	21.1	22.2	-5%

PROJECT PORTFOLIO UPDATE (as of the report date)

		30/06/17	31/12/16
GLOBAL	Portfolio of concessions and production facilities.	664 MW	723 MW
BRAZIL	Hydroelectric plant in operation	15 MW	15 MW
	Projects under development	53 MW *	53 MW *
INDIA	Projects under development.	571 MW	571 MW
INDO	Projects under development.	25 MW *	84 MW *

* The entire Brazilian and Indonesian portfolios were already fully impaired as of 31/12/2016. The decrease of the Indonesian portfolio in terms of MW comes from the sale of the Meureubo 2 HEP (59 MW) in August 2017.

3. IMPORTANT EVENTS AND ACTIVITY OVER THE PERIOD

H1 2017 key figures comments

Velcan's turnover in the first half of 2017 (H1 2017) amounted to EUR 1.5m arising from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil. It was down by 14% when expressed in Euros (28% when expressed in BRL) relative to H1 2016 due to the structure of the new Power Purchase Agreements (PPA) which include seasonality effect with higher sales in H2 (35% higher than in H1) and a lower average sale price (15% lower). The seasonality effect will reverse itself positively in H2.

Consumed purchases in Brazil amounted to EUR -0.2m for H1 2017 compared to EUR -0.1m during H1 2016 following a stabilization of the Energy Reallocation Mechanism (MRE) system. However this cost will increase significantly during H2 due to the extreme drought currently happening in Brazil that will affect significantly the year end operating results. Since 30th June 2017, the Rodeio Bonito Plant has already paid 1.6 m reais (EUR 420 k) to the MRE for H2 2017, and more MRE payments are expected by year end.

Operating costs were slightly down relative to H1 2016 (EUR -1.4m for H1 2017 compared to EUR -1.6m for H2 2016).

Operating result was slightly negative (EUR -0.5m) compared to H1 2016 (EUR -5.5m) when the result was heavily impacted by a EUR -5.2m provision on Indonesian projects. Excluding provisions and impairments, the operating result is stable.

EBITDA for H1 2017 was slightly negative to EUR -0.1m vs. EUR 0.1 in H1 2016 because of the seasonality impact on sales of the Rodeio Bonito plant and a lower average electricity sale price.

Net financial income for H1 2017 was EUR -4.0m vs. EUR -0.1m in H1 2016 mainly due to the appreciation of the Euro vs the US dollar while most of the Group's financial investments and cash are invested in US dollar. The FX realized and unrealized loss was EUR 6.6m while the financial gain excluding FX was EUR 2.6m. EUR 75 m equivalent of financial assets, cash and cash equivalent are still allocated in USD as of the date of the report. Should the further degradation of the EUR-USD rate since June 30th not revert itself before the end of the year, additional unrealized FX losses will therefore impact the 31st December 2017 results.

Net result, Group share, was therefore a loss of EUR -4.6m vs. a loss of EUR -5.7m in H1 2016.

Group other comprehensive income amounts to EUR -2.4m, mostly due to the appreciation of the Euro compared to the Brazilian currency (10%), the US Dollar and the Indian Rupee (3%) and its impact on the Group conversion reserves where the assets held in foreign currency in Brazil (Rodeio Bonito), India and other entities are translated into Euro. The Group total comprehensive income for H1 2017 amounts to EUR -7.0m.

Shareholders equity amounts to EUR 126.6m as of 30th June 2017 vs. EUR 133.3m as of 31st December 2016.

The number of Treasury shares is slightly up compared to 31st December 2016 (1,793,459). The net number of outstanding shares amounts to 6,011,983.

Book value per outstanding share is EUR 21.1, down 5% compared to 31st December 2016.

Brazil - business and main events during H1 2017

The operating and financial performance of the Rodeio Bonito Hydropower plant (15 MW) was satisfactory. The production (22,495 MW) was weak due to low precipitation levels in Brazil in 2017. The trend has worsen since June since a very severe drought is hitting Brazil again in 2017. The plant financial performance has not been impacted during the H1 2017 but because of the current extreme situation, the MRE¹ (Energy Reallocation System) payments will be much more significant during H2 and should impact materially the operating result despite the improvement in the regulatory environment that occurred in 2015 (see 2016 financial annual report). Consumed purchases, which include to a great extent payment for the MRE, impacted the annual operational result by EUR -0.2m in H1 2017 vs EUR -0.3m for the full year 2016 and EUR -1.1m for the year 2015. Because of the national scale severe draught encountered in Brazil this year, the MRE payment will impact significantly Ebitda of the plant in H2 . At the date of this report the Rodeio Bonito Plant has already paid 1.6 m reais (EUR 420 k) to the MRE for H2 2017, and more MRE payments are expected by year end.

¹ 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 drought, whereas other areas are experiencing heavy rains. However this mechanism does not cover the risk of a lasting national drought across Brazil. In that case, the Rodeio Bonito plant EBITDA could collapse drastically. The turnover corresponding to this part of guaranteed energy is ensured through mid-term fixed inflation-linked contracts, even in case of low actual production below that level for hydrological reasons. However, in the case of extremely low historical production, it could lead to a downward revision of the ensured energy or it could even lead to a temporary exclusion of the system, although the risk has now mitigated since 2016 regulatory. In case of national scale severe draught the plant has to purchase electricity in the spot market to compensate for its generation deficit, called MRE payments as consumed purchases.

The operational result was also impacted by the structure of the new PPAs signed. Those PPAs include a seasonality effect. The plant will sell the same quantity of electricity in the whole year. But the quantity sold in H2 will be higher by 35% compared to H1. The seasonality effect will reverse itself positively in H2. Those PPAs have been concluded at an average sale price 15% lower than last year. Due to these combined effects and the forex variation, the turnover has decreased by 14% when expressed in Euro and 28% when expressed in BRL in H1 2017 (EUR 1.5m or BRL 5.1m) compared to H1 2016 (EUR 1.7m or BRL 7.0m).

The EBITDA (earnings before interests, taxes and amortization) of the plant amounted to BRL 3.5m against BRL 5.6m in H1 2016 and BRL 11m in FY 2016. When converted in EUR, the EBITDA was down to EUR 1m vs 1.3m in H1 2016, mostly due to lower sales (see supra) and despite a better average rate of the Brazilian currency against the Euro currency (+17% on average compared to H1 2016).

India - business and main events during H1 2017

In India, the Group continued to develop the hydroelectric concessions obtained in 2007 in the State of Arunachal Pradesh.

For the tandem Heo-Tato-1 (426 MW), the feasibility studies have been completed and all the three major authorizations have been obtained in 2015: Techno-Economic Clearance (TEC), Environmental Clearance and Forest Clearance. Very few privately held projects have reached such level of development in Arunachal Pradesh – and in the Indian Himalayas. Since late 2015 the Group is focusing on the project main next steps as described below.

➤ Post TEC technical investigations and studies

The team has continued field studies and investigations at site, some of which are required by Central Electricity Authority and some of which are required to prepare for tender level design. The detailed tender design level topographical surveys of project components (power houses and intake areas) and internal project roads has been completed for Heo HEP and Tato-1 HEP intake site and roads as of May 2017. The completion of the Tato-1 HEP power house and adit sites detailed survey is scheduled for completion by year end. The 40 m depth drilling required by CEA at Tato-1 trench weir has been completed in April 2017. The additional sedimentation studies initiated in April 2016 are still going on. As for the past 8 years hydrological measurements have been continued.

➤ Amendment of the Concession Agreement

Following the TEC, which has frozen the installed capacity of the projects to 426 MW, the Group has engaged the process for amending the concession agreement in order to amend such installed capacity. The negotiations have now extended to the quantum of free power that will be due to the State Government once the project will be commissioned and other conditions such as the administrative fees payable to the government. Negotiations have been progressing over the past 24 months but as of date, the Company cannot say how and when such negotiations will be concluded.

➤ Land acquisition

Under the concession agreement and applicable regulations, the land is to be acquired by the State government and then leased to the project developer. Due to the absence of land registry in tribal areas and to the complexity of the applicable law, this remains one of the major challenges. The procedure involves notably a social impact assessment, public hearings and consultations, public consents for acquisition of the land, field surveys, administrative ownership surveys and rehabilitation and resettlement plans.

In June 2016, the Group has submitted applications to Deputy Commissioner of the West Siang District, Arunachal Pradesh in order to initiate the acquisition of the land required for Tato 1 and Heo HEPs. A Notification has been issued by Commissioner, Land Management, GoAP in February 2017 appointing the Rajiv Gandhi University, Itanagar, Arunachal Pradesh as Social Impact Assessment unit. The Notification of the start of the SIA has been issued by the Government on 3rd August 2017, and first onsite site surveys and interviews of the local public by the SIA Team surveys have been conducted in September 2017.

As per our knowledge it is the first time the State Government acquires land under this new Land Acquisition Act (2013) and the procedure is complex. The management cannot predict a date of completion, although it can be foreseen the entire process may not take less than 2 years.

➤ Coordination and follow-up of the road infrastructure requirements

The public roads leading to the project sites are undergoing an upgrade and widening program, that will, once complete allow the transportation of construction and electrical & mechanical equipment. The last stretches totaling 87 Km are currently scheduled or expected to be ready between 2020 on 2022. A joint survey has been conducted in November 2016 between Velcan's Team and the Border Roads Organization (BRO/Ministry Of Defense) in order to assess what stretches are critical in view of making sure the BRO would have them ready earlier. Following several joint meetings under the umbrella of the Ministry of Power (MoP, Govt. of India), MoP has submitted a request to the Ministry of Defense for that purpose. Further tripartite discussions are expected to continue in the coming months. Being related to the Central Government budgetary allocations, the Company cannot, as of date, plan the timeframe and conclusion of these discussions.

➤ Coordination and follow-up of the Forest Clearance

The issuance of the Forest Clearance stage 2, which allows to physically take over the forest land, is subject to the fulfilment of some conditions. The Forest Clearance stage 1 issued by the Ministry of Environment and Forests (MOEF, Govt. of India) requires the State Government to identify additional compensatory afforestation land of 7 Ha for Heo HEP and 12 Ha for Tato-1 HEP. The State Government has proposed a piece of land in late 2016, which has been rejected in January 2017 as inappropriate for afforestation purpose by the MOEF. Another proposal by State Government is currently under preparation at district level.

In view of some technical layout adjustments required for one access road and several quarry sites, the Group submitted in June 2017 an application for the approval of such changes.

The Pauk (145 MW) project progress continues at a slower pace, commensurate with the Project's specific technical and administrative characteristics. After several months of technical discussions, the Company obtained from the Central Water Commission (Govt. of India) the approval of the project basic design in April 2017, and the approval of the geological investigation plan from the Geological Survey of India in August 2017. Based on such approvals the next step is mainly to conduct the approved investigation plan. However the

performance of site investigations remains subject to the clearance of landownership disputes. Such disputes have often slowed down or prevented activities at the site in the past years.

Conclusion on the Indian portfolio

Over the previous years Velcan has successfully conducted the technical, economic and environmental studies of the 426 MW Tandem Heo-Tato-1. The projects are amongst the most advanced hydropower projects in the Indian Himalayas and they feature very competitive techno-economic characteristics.

The current phase of development addresses the major next steps of the projects. Their completion is beyond the control of Velcan alone : land acquisition by the state Government, concession agreement revision, road infrastructure availability and a bankable PPA. These challenges depend mainly on decisions and actions from the government (central and state), therefore making it difficult to evaluate the level of uncertainty of both the final outcome of the projects and their timeframe.

It remains nonetheless that Velcan has what are arguably some of the most competitive hydro power concessions yet to be built in India and that their development has been markedly ahead of many competitors.

Indonesia - Main events and activity during H1 2017

Following the sale of the Meureubo 2 HEP (59 MW – see “*Important events since 30/06/2017*”), the company’s Indonesian portfolio is reduced to the Sukarame SHP (7MW) and the Redelong HEP (18 MW).

➤ Sukarame Small Hydropower Project (7 MW)

Since March 2016, the construction of the project has been put on hold due to acute regulatory uncertainties regarding the tariff and PPA unavailability. The Group had started in late 2015 the pre-construction activities, after an increased tariff for small power plants (with a capacity under 10MW) was issued by the Ministry of Energy and Mineral Resources under the Government Regulation N°19 dated 29th of June 2015, deciding a feed-in-tariff USD 132 /MWh for the first 12 years, and USD 82.5 for the remaining 8 years, with PT.PLN bearing the currency exchange risk. PLN, the state owned electricity company and sole authorized buyer in Indonesia was assigned as per this Regulation to purchase the electricity produced by any small power plant at such fixed, non-negotiable price per kilowatt-hour.

However, and according to the Ministry of Energy, PLN has refused to comply with this regulation and to buy the power, claiming that the tariff is too high. This situation has resulted in 119 small hydropower projects being stalled. Discussions have been going and have resulted in 2017 new regulations (ESDM regulation 43/2017 dated 14/07/2017 and 50/2017 dated 08/08/2017) as per which the tariff is now to be negotiated with PLN, and subject to a ceiling of 100% of the provincial BPP, which is PLN’s local procurement cost. In the West Lampung Regency, where the project is located, such BPP ceiling is of Rp 1034 per kWh (7.7 USD cts as current exchange rate). That means the maximum tariff for the Sukarame Project that can be negotiated with PLN will be USD 77 / per MWh, barely 60% of the tariff based on which the investment decision was initially taken.

The Company is looking for solutions with potential partners. The project has already been fully impaired in 2016 except for the land cost (EUR 0.2m).

- Redelong Hydropower Project (18 MW)

The Redelong project is an advanced project for which the geological investigations have been carried out and finalized in 2015 and the feasibility studies have been finalized in 2016 showing the techno-economic viability of the project. In March 2017 the Group has obtained the PSDA permit, which is the permit for exploitation of water resources for the purpose of hydropower generation, delivered by the Ministry of Public Works. It notably freezes the environmental flow and approves the project structures' design.

Negotiations for the participation of the regional BUMD (regional enterprise owned by the local government) into the Project have been initiated and are still going on as of date. It has already been agreed the BUMD would have a 7.5% participation in this project.

Given the general context for hydropower projects in Indonesia and the administrative uncertainties regarding all VELCAN projects there, the project was fully impaired in 2016, and it remains the case as of 30/06/2017.

- Conclusion on the Indonesian portfolio

Following the sale of the most important project in the country (Meureubo 2), the Group's portfolio size has decreased to a small size which may not economically justify having full operations in the country. Given the tariff issue of the most advanced project, the Group is looking for potential partners and investors for taking over the lead development in the Sukarame and Redelong projects.

4. IMPORTANT EVENTS SINCE 30th JUNE 2017

- Sale of the Meureubo 2 HEP

Velcan has fully divested its Meureubo 2 Hydropower Project (59 MW located in the Aceh Province), sold to a Hong-Kong based investor. The transaction follows several months of administrative uncertainties which have stalled the Power Purchase Agreement process with PT.PLN, the national utility which is also a 25% consortium member in the Project through its subsidiary PT.PJB. The Meureubo 2 project development costs were already fully impaired as on 31st December 2016 and the sale will have a positive impact on the 2017 financial year.

- Capital decrease

As per the resolutions of the Extraordinary General Meeting held on Friday the 28th of July 2017, the Company's share capital was reduced from EUR 7,805,442 to EUR 6,605,442 divided into 6,605,442 shares of one euro (EUR 1) nominal value each, by cancelation of 1,200,000 treasury shares.

II - CONSOLIDATED BALANCE SHEET (ASSETS)

Thousands of Euros

Assets	30.06.2017	31.12.2016
Non current assets		
Intangible assets	16,899	16,551
Tangible assets	11,388	12,893
Non current financial assets	5,030	2,506
Deferred tax assets	339	339
Total non-current assets	33,655	32,289
Current assets		
Current financial assets	50,403	48,190
Inventories	15	17
Trade and other receivables	276	365
Income tax receivables	143	112
Other current assets	639	675
Cash and cash equivalents	44,453	54,449
Total current assets	95,929	103,808
Total assets	129,584	136,098

III - CONSOLIDATED BALANCE SHEET (LIABILITIES)

Thousands of Euros

Liabilities	30.06.2017	31.12.2016
Equity		
Issued capital	7,805	7,805
Additional paid in capital	139,780	139,780
Other reserves and conversion reserves	(16,353)	(13,020)
Net income for the year	(4,562)	(1,265)
Equity attributable to the equity holders of the parent	126,670	133,301
Non-controlling interests	(37)	(35)
Total Equity	126,633	133,266
Non current liabilities		
Non-current financial liabilities	0	0
Non current provisions	867	894
Other non current liabilities	959	989
Total non-current liabilities	1,826	1,883
Current liabilities		
Current financial liabilities	428	116
Current provisions	6	6
Trade and other payables	552	778
Income tax payables	58	39
Other current liabilities	79	9
Total Current Liabilities	1,124	948
Total Liabilities	129,584	136,098

IV - INCOME STATEMENT

Thousands of Euros

Statement of Profit & Loss	30.06.2017	30.06.2016
Operating revenues	1,466	1,698
Other operating revenues	-	0
Total operating revenues	1,466	1,698
Purchases	(162)	(82)
Changes in inventories	-	-
External expenses	(713)	(825)
Payroll expenses	(663)	(740)
Operating tax expenses	(11)	(10)
Depreciation, Amortization & Provisions	(393)	(5,542)
Current operating result	(477)	(5,501)
Other operating income	-	10
Other operating expenses	(12)	-
Operating result	(489)	(5,491)
Financial Income	1,929	1,760
Financial expenses	(5,890)	(1,874)
Financial Result	(3,961)	(114)
Income tax expense (-) / benefit (+)	(117)	(167)
Net result from continuing operations	(4,567)	(5,772)
Net result, group share	(4,562)	(5,698)
Net result, shares of non-controlling interests	(4)	(74)
Earnings per share (in Euros)	(0.76)	(0.95)
Diluted earnings per share (in Euros)	(0.76)	(0.95)
EBITDA	(84)	51
Statement of total comprehensive Income	30.06.2017	30.06.2016
Net income	(4,567)	(5,772)
Other comprehensive income, that will not be reclassified subsequently to profit or loss	(2,379)	2,764
Total Comprehensive Income	(6,945)	(3,008)
thereof attributable to non-controlling interests	2	74
Group Total Comprehensive income	(6,943)	(2,934)

V - COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

1. EFFECTIVE FOREIGN EXCHANGE RATES

1 € =	30.06.2017		31.12.2016		30.06.2016	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
BRL (Brazilian Real)	3.78	3.45	3.43	3.86	3.59	4.14
INR (Indian Rupee)	73.86	71.22	71.63	74.46	75.08	75.11
AED (Dirham UAE)	4.19	3.98	3.87	4.07	4.08	4.10
USD (US Dollar)	1.14	1.08	1.05	1.11	1.11	1.12
SGD (Singapore Dollar)	1.57	1.52	1.52	1.53	1.50	1.54
IDR (Indonesian Rupiah)	15,220	14,445	14,243	14,768	14,651	15,034
NOK (Norwegian Krone)	9.54	9.18	9.11	9.30	9.32	9.43

2. COMMENTS ON THE BALANCE SHEET

ASSETS

Intangible Assets

The Group continued to develop its concessions in India and Indonesia (EUR +0.9m of gross intangible assets in H1 2017). The negative effect of currency fluctuations (EUR -0.5m) net of amortization and provisions allowance and write back (EUR -0.1m) therefore prompted intangible assets to increase by EUR 0.3m (to EUR 16.9m vs. EUR 16.6m at 31st December 2016).

Tangible Assets:

Tangible assets were down to EUR 11.4m at of 30th June 2017 versus EUR 12.9m at 31st December 2016, a decrease of EUR 1.5m. This variation is the net result of, on one hand, the decrease of the Brazilian Real on the book value of Rodeio Bonito expressed in Euros (EUR -1.1m) and, on the other hand, the depreciation expense of that same asset (EUR -0.4m)

Cash, Cash Equivalents & financial assets:

These assets were down (EUR -5.3m) as a result of the Group's financial result (EUR -4.0) among which mainly FX realized and unrealized losses on cash, cash Equivalents and financial assets held in USD when expressed in Euros (EUR -6.6m). This financial performance is strongly related to the depreciation of the US Dollar as most of the Group's Cash, Cash Equivalents and financial assets have been held in USD for several years.

Financial asset instruments (EUR 55.4m) are mainly composed of bonds (EUR 45.7m), listed equities (EUR 2.3m), unlisted equities (EUR 1.5m), quantitative funds (EUR 2.6m), secured lending net of provisions (EUR 3.2 m) and while the cash is invested in short-term fixed deposits, money market funds and on bank accounts (EUR 44.5m).

The group's bond portfolio 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 years 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 half-year end the biggest lines of the Group are with the following issuers : JBS (Brazil), Ethias (Belgium), Atradius (Netherlands/Spain), Olam (Singapore), Zurich Insurance (Switzerland), Bluescope Steel (Australia), Israel Electric Corp (Israel), Areva (France), CMA-CGM (France) and Groupama (France).

These bond investments have performed well in H1 2017. The Group has invested in bonds since 2008 and it has proved a good way to enhance the profits of the Group so far. The Group has only suffered one default (OI/Brazilian telco operators) in its history of bond investments. This default has cost 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 in 2017 and offers less downside protection than before.

Direct lending includes a secured senior USD loan towards the financing of a tanker, of which the principal amount is USD 2.8 m (EUR 2.5 m) as of 30th June. Given the initial borrower's default and the uncertainties faced in enforcing the mortgage due to several ongoing litigations, a provision has been accounted for. The exact amount of this provision, which is less than 1% of the net equity of the group is kept confidential given the several litigations that the Group has initiated. As of the date of this report, the underlying value of the secured asset is higher than the total amount due to the Group.

LIABILITIES

Non-current provisions :

Non-current liabilities (EUR 0.9m) are broadly stable at constant exchange rates and stem from unresolved disputes relating to the Group's past ownership of Biomass facilities in India.

Financial current and non-current liabilities:

Financial non-current liabilities amount to EUR 0.4m at 30th June 2017.

These relate mainly to forward forex contracts.

Other non-current liabilities:

Other non-current liabilities (EUR 1.0m) are broadly stable at constant exchange rates and stem from advances made to the group and whose reimbursement are contingent to conditions that are not met at this date.

3. COMMENTS ON THE INCOME STATEMENT

EBITDA was slightly negative during H1 2017 (EUR -0.1m vs. EUR 0.1m in H1 2016). Net result, Group Share, was a loss of EUR -4.7m vs. a gain of EUR -5.7m previously.

CURRENT OPERATING PROFIT :

Turnover :

Velcan's turnover amounted to EUR 1.5m in H1 2017 arising from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil. It was down by 14% when expressed at constant FX rates but it should be up by 30% in H2 due to the seasonality of the new PPAs (see above).

Purchases:

Purchases costs were slightly up (EUR -0.2m compared to EUR -0.1m in H1 2016). It should increase significantly during H2 due to H2 MRE payments (see comment above).

Operating costs:

Operating costs (external & payroll expenses) were slightly down.

Depreciation, Amortization and Provisions, Provision write-backs:

Depreciation and amortization of tangible and intangible assets amounted to an expense of EUR -0.4m. Tangible assets depreciation expense was mainly attributable to Rodeio Bonito HPP (EUR -0.4m) while depreciation and write back of provision on intangible assets under construction compensated each other.

Operating result was a loss of EUR -0.5m compared to a loss of -5.5m in H1 2016 (excluding the impairment on Indonesian projects, the operating result amounted to EUR -0.3 in H1 2016).

FINANCIAL INCOME

Net financial income for H1 2017 was negative at EUR -4.0m vs a loss of EUR -0.1m in H1 2016. The financial income of the Group is mostly dependent on two items:

- a) The interests it earns and the eventual capital gain it makes on its bond portfolio : in H1 2017, as mentioned above, the bond portfolio of the Group has performed well overall. No default has occurred.
- b) The Foreign exchange variations of the currencies in which the Group's financial assets are invested : in H1 2017, the Group's cash has been materially negatively impacted by the fall of the USD vs the EUR, as explained above.

Interest rates in the Eurozone and in the US are still weak despite a slight increase in the US and interest income remains thus quite low. The Group's strategy to diversify its investment portfolio, mostly in high yield bonds has been overall satisfactory excluding FX effect. Excluding FX, the H1 2017 financial income is EUR 2.6m.

COMPREHENSIVE INCOME

Comprehensive Income for H1 2017 amounted to EUR -7.0m vs. EUR 2.9m in H1 2016. The impact of currency fluctuations on Group equity was EUR -2.4m vs. EUR +2.8m in H1 2016.

This negative variation is mainly due to a lower Brazilian Real when compared to EUR which impacted the book value of tangible assets booked in this currency (Rodeio Bonito).