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

FIDUCIAIRE EXPERTS AUDIT
Société De Commissariat Aux Comptes

Fiduciaire Experts Audit
Rue de la Motte Picquet
33300 Bordeaux

VELCAN ENERGY SA

Statutory auditors' report on the consolidated financial statements

Year ended 31 December 2011
VELCAN ENERGY SA
75 Boulevard Haussmann - 75008 Paris
This report contains 41 pages

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

VELCAN ENERGY SA

Registered office : 75 Boulevard Haussmann - 75008 Paris
Share capital : € 7.779.542

Statutory auditors' report on the consolidated financial statements

Year ended 31st December 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your shareholders' meeting, we hereby report to you, for the year ended 31st December 2011, on:

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

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

1 Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31st December 2011 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

2 Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Law (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters.

Capitalization of development costs

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

Credits Carbon (CER)

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

Marketable securities

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

Impairment

The company systematically proceeds at the end of each financial year to impairment tests of goodwill and long-term assets, in accordance with modalities set out in sections 3-5-A and 3-5-E to the consolidated financial statements. We examined the performance of impairment tests as well as cash flow forecasts and assumptions used and ensured that section 6 (notes 1, 2, 3 and 14) to the consolidated financial statements provides appropriate information.

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

3 Specific verification

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

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

Mérignac and Bordeaux, 12th April 2012

KPMG Entreprises
A division of KPMG S.A.

FIDUCIAIRE EXPERTS AUDIT

Franck Cournut
Partner

Anne-Cécile Marin
Partner

Consolidated Financial Statements as of 31 December 2011

VELCAN ENERGY
75, boulevard Haussmann
75008 PARIS
FRANCE

This document is a free translation into English of reports and or supporting documents related to Velcan Energy consolidated accounts. It is provided solely for the convenience of English speaking users. 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.

Contents

CONSOLIDATED BALANCE SHEET ASSETS
(in thousands of Euros)

Assets	Note	Net 31.12.2011	Net 31.12.2010
Non current assets			
Goodwill	1 p.22	14	14
Intangible assets	2 p.23	14 805	18 418
Tangible assets	3 p.24	23 167	25 464
Non current financial assets	4 p.25	1 641	1 928
Investments accounted for using the equity method		-	-
Other non current assets	5 p.25	246	525
Deferred tax assets	6 p.26	708	1 100
Total non-current assets		**40 581**	**47 449**
Current assets			
Inventories		-	-
Trade and other receivables	7 p.27	1 080	1 131
Income tax receivables		295	437
Other current assets	8 p.27	1 034	2 430
Cash and cash equivalents	9 p.28	97 066	98 139
Total current assets		**99 476**	**102 137**
Total assets		**140 056**	**149 586**

CONSOLIDATED BALANCE SHEET LIABILITIES
(in thousands of Euros)

Liabilities	Note	31.12.2011	31.12.2010
Shareholders equity			
Issued capital	10 p.28	7 780	7 774
Additional paid in capital		139 408	139 366
Other reserves and conversion reserves	10 p.28	(11 341)	(17 293)
Net income for the year		(3 144)	9 093
Total shareholders equity		**132 702**	**138 940**
Minority interests		(235)	(290)
Total Consolidated equity		**132 467**	**138 651**
Non current liabilities			
Non-current financial liabilities		1	(0)
Deferred tax liabilities	6 p.26	303	1 334
Non current provisions	11 p.30	1 871	2 689
Other non current liabilities		935	1 040
Total non-current liabilities		**3 110**	**5 063**
Current liabilities			
Current financial liabilities	13 p.32	1 119	1 424
Current provisions	11 p.30	25	115
Trade and other payables	12 p.31	2 341	2 709
Income tax payables		111	933
Other current liabilities	13 p.32	883	690
Total Current Liabilities		**4 479**	**5 871**
Total Liabilities		**140 056**	**149 586**

CONSOLIDATED INCOME STATEMENT

(in thousands of Euros)

Result	Note	31.12.2011	31.12.2010
Net turnover	14 p.32	5 417	3 769
Other operating revenue		(27)	(48)
Total operating revenue		**5 390**	**3 720**
Consumed purchases	15 p.33	(784)	(334)
Changes in inventories			
External expenses	16 p.33	(2 838)	(2 680)
Payroll expenses	17 p.33	(1 442)	(1 647)
Taxes		(221)	(255)
Amortization & Provision	18 p.34	(6 440)	(2 322)
Current operating profit	14 p.32	**(6 335)**	**(3 519)**
Income on sale of equity shares			
Other operating income and expenses	19 p.34	(807)	1 845
Operating profit		**(7 141)**	**(1 674)**
Financial Income	20 p.35	9 284	14 508
Financial expenses	20 p.35	(5 452)	(3 487)
Financial Result	20 p.35	**3 831**	**11 021**
Income tax	6 p.26	208	(369)
Profit of investments accounted for using the equity method		-	-
Net profit from continuing operations		**(3 102)**	**8 978**
Net profit from discontinuing operations		**-**	**-**
Profit, group share		**(3 144)**	**9 093**
Profit, minorities share		**42**	**(116)**
Earnings per share (in euros)	21 p.35	(0,49)	1,38
Diluted earnings per share (en euros)	21 p.35	(0,49)	1,36

Statement of total comprehensive Income	31.12.2011	31.12.2010
Net income	(3 144)	9 093
Foreign currency translation comprehensive income	(2 875)	5 956
Total Comprehensive Income	**(6 019)**	**15 049**

Besides, EBITDA (Earnings Before Interest Taxes, Depreciation and Amortization) of the Group has been positive during this financial year and amounts to +105 k€ as of 31 December 2011 against -1 197 k€ as of 31 December 2010.

CONSOLIDATED CASH FLOW STATEMENTS

(in thousands of Euros)

Cash Flows	31.12.2011	31.12.2010
Net consolidated profit	**(3 102)**	**8 978**
Adjustments:		
Elimination of profit of investment accounted for using the equity method	-	-
Elimination of depreciation and provisions	6 869	3 595
Elimination of other elements with no impact on cash flows	(275)	1 400
Elimination of income from disposals	702	(1 907)
Expenses and income calculated for payment in shares	369	507
Cash flow after net cost of financial debt and tax	**4 563**	**12 574**
Elimination of tax cost	(639)	234
Elimination of net cost of financial debt	(3 832)	(13 314)
Cash Flow before net cost of financial debt and tax	**92**	**(506)**
Impact of variation of operating working capital	(163)	(950)
Cash flows from operating activities	**(72)**	**(1 457)**
Changes in consolidation scope effects	(187)	(1)
Acquisition of tangible and intangible assets	(5 293)	(4 736)
Acquisition of financial assets	(1)	264
Variation of loans and advances granted	28	43
Disposal of tangible and intangible assets	363	449
Disposal of financial assets	11	6 068
Cash flows from investment operations	**(5 079)**	**2 087**
Capital increase	47	83
Proceeds from borrowings	-	-
Repayment of borrowings	-	(0)
Net acquisition of own shares	0	(2 292)
Net financial interest (excl. Prov. allowances and Write B. on fin. assets)	3 832	13 314
Dividends paid to shareholders of the group	(641)	-
Cash flows from financing operations	**3 238**	**11 105**
Net foreign currency translation differences	**855**	**540**
Net cash flow variation	**(1 058)**	**12 276**
Net opening cash	98 124	85 864
Net closing cash	97 066	98 139

The group has currently no loans, hence there are no interests paid in 2011.
Tax paid regarding the fiscal year 2011 amounts to 432 k€.

STATEMENT OF CHANGES IN EQUITY

(in thousands of Euros)

	Capital (1)	Additional paid in capital (1)	Own Shares	Foreign currency translation reserves	Reserves & consolidated net income	Total Group interest	Minority interests	Total Equity
Situation at 01.01.2010	**7 763**	**139 294**	**(9 563)**	**(944)**	**(10 916)**	**125 634**	**(148)**	**125 486**
Net income	-	-	-	-	9 093	**9 093**	(116)	8 977
Other comprehensive income	-	-	-	5 956	-	**5 956**	(26)	5 930
Total comprehensive income	-	-	-	5 956	9 093	**15 049**	(142)	14 907
Distribution of dividends	-	-	-	-	-	**-**	-	-
Stock-Options exercised	11	72	-	-	-	**83**	-	83
Fair value of Stock-Options	-	-	-	-	507	**507**	-	507
Own Shares acquisition	-	-	(2 292)	-	-	**(2 292)**	-	(2 292)
Other	-	-	742	-	(783)	**(41)**	-	(41)
Situation at 31.12.2010	**7 774**	**139 366**	**(11 113)**	**5 012**	**(2 099)**	**138 940**	**(289)**	**138 651**
Situation at 01.01.2011	**7 774**	**139 366**	**(11 113)**	**5 012**	**(2 099)**	**138 940**	**(289)**	**138 651**
Net income	-	-	-	-	(3 144)	**(3 144)**	42	(3 102)
Other comprehensive income	-	-	-	(2 875)	-	**(2 875)**	12	(2 862)
Total comprehensive income	-	-	-	(2 875)	(3 144)	**(6 019)**	54	(5 965)
Distribution of dividends	-	-	-	-	(641)	**(641)**	-	(641)
Stock-Options exercised	5	42	-	-	-	**47**	-	47
Fair value of Stock-Options	-	-	-	-	369	**369**	-	369
Own Shares acquisition	-	-	-	-	-	**-**	-	-
Other	-	-	-	-	6	**6**	-	6
Situation at 31.12.2011	**7 779**	**139 408**	**(11 113)**	**2 138**	**(5 510)**	**132 702**	**(235)**	**132 467**

ANNEXE

1. ABOUT THE GROUP

Velcan Energy SA was incorporated on 8 April 2005; and its aim is the ownership and development of hydro power concessions.

The Velcan Energy group devises, develops, implements, finances and operates hydropower concessions in emerging markets. Hydro power is a conventional source of electricity production. It is currently the only economically viable source of renewable power without state aid. In many cases it can compete with coal power generation. The Group power plants are or will be established in India, Brazil, Lao Republic and other emerging markets.

These countries suffer from serious deficit in electricity generation, particularly India where an estimated 650 million people do not have regular access to electricity.

In order to mitigate the capacity shortage, both Indian and Brazilian national governments were led to liberalize the state controlled electricity market, allowing increasing private and foreign competition. Besides, Laos has a strategic position in South-East Asia, and can export to high power-demand developing countries such as Thailand, Vietnam, Cambodia and China. These countries have huge untapped hydroelectric potential: India with estimated 100,000 MW, Brazil with estimated 190,000 MW and Laos with estimated 20,000 MW.

As of 31/12/2011, Velcan Energy:

- Has built and operates its first hydro power plant in Brazil (15 MW)
- Owns the rights to more than 600 MW of concessions and projects in India, Brazil and Laos. (group share)
- Has an agreement to develop 300 MW in Laos
- Is actively prospecting other emerging markets.

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

Velcan Energy is headquartered in Paris, and employs over 50 people, divided between its main offices (New Delhi, Paris, and São Paulo) and concession sites.

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

2. SIGNIFICANT EVENTS OF THE PERIOD

2-1 Financial events

The revenue of the group, amounting to 5.4 m€ is mostly composed of electricity sales in Brazil coming from Rodeio Bonito power plant.

Financial income amounts to 3.8 m€, out of which 7.1 m€ excluding forex impact and -3.3 m€ of forex impact, mainly from interests on Brazilian government bonds. The negative evolution of the Brazilian Real exchange rate before those bonds were sold in September 2011 generated forex losses of 4.5m€ to the Group over the year.

Finally, forex variations have negatively impacted the financial result by 3.3m€.

The Foreign currency translation reserves include the unrealized currency exchange fluctuations on long term loans in foreign currency granted to the Group's subsidiaries including Brazilian entities. The depreciation trend of the Real has had a negative impact on the period. As of December 2011, the cumulative impact on foreign currency translation reserves, added to the Group's equity, amounts to a gain of 2.1 m€, against 5.0 m€ as of December 2010.

The litigation with the civil contractor of Rodeio Bonito power plant was settled in June 2011, with an agreement for an additional payment of 2,6 mBRL. It has had a negative impact of 2,6mBRL on the group's equity, but a positive impact on the 2011 consolidated accounts. In accordance with IFRS norms, the provision was recovered and the additional payment was added as construction cost on tangible assets, which translated in a positive impact of about 2mBRL on the net result.

2-2 Business Activities

2011 was mainly devoted to the consolidation and development of hydroelectric projects acquired by the Group in 2007 and 2008, as well as to the prospection of new projects in other emerging countries, including Laos, in order to reinforce the Group's concession portfolio.

The sales of Rodeio Bonito power plant amounted to 4.8 m€ in 2011, compared to 3.5 m€ in 2010, in accordance with the Group's expectations. Following administrative, social and environmental issues, as well as increasing local competition, the Group decided to decrease the success probability of its Brazilian projects, which led to book provisions and depreciations with a negative impact of 4.2 m€ on the net income.

In India, the Group has continued to work on the development of the Arunachal Pradesh hydroelectric concessions obtained in 2007. The teams are finalizing technical-economical studies and working on administrative clearance: technical studies have been submitted to the CEA (Central Electrical Authority) and environmental license requests are being analyzed.

In Lao Republic the group has announced having obtained its second pre-concession, Nam Ang Tabeng of 35 MW, after the 25MW Nam Phouan river obtained in 2010. Both pre-concessions have been signed with exclusive rights to obtain the concession with its local partner ECI (Electrical Construction and Installation) if the project proves being feasible and viable at the end of the 18-month period of techno-economic studies.

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

In conformity with the strategy announced, the group now has only one activity: the development of hydroelectric concessions.

3. ACCOUNTING POLICIES, BASIS OF CONSOLIDATION, VALUATION METHODS

3-1 General

The consolidated financial statements as of 31 December 2011 present the position of Velcan Energy and its subsidiaries (referred to hereinafter as "the Group").

The Board of Directors finalised the summary consolidated accounts as of 31 December 2011 on 2 April 2, 2012, and approved the publication of the consolidated financial statements as of 31 December 2011.

3-2 Compliance with accounting standards

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

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

Amendments to norms and interpretations that became of mandatory application in 2011:

- IFRIC 19 – *Extinguishing financial liabilities with equity instruments*
- IAS 24 revised – *Related parties disclosures*
- Amendment to IAS 32 – *Financial instruments: presentation-classification of rights issues*
- Amendment to IFRIC 14 – *Prepayments of a minimum funding requirement*
- Improvement on IFRS 2010 – *Improvement of international norms on financial information*

These amendments and interpretations had not have a significant impact on the 2011 Group financial statements.

Amendments to norms and interpretations, published but not applicable to Velcan Energy in 2011, which therefore have no impact on the 2011 accounts:

Norms and amendments to become mandatory in 2012

- Amendments to IFRS 7 – *Financial instruments: Disclosure - Transfers of Financial Assets*
- Amendments to IAS 12 – '*Income taxes' on deferred tax*

Norms and amendments to become mandatory in 2013

- IFRS 10 – *Consolidated financial statements*
- IFRS 11 – *Joint arrangements*
- IFRS 12 – *Disclosure of interests in other entities*
- IFRS 13 – *Fair value measurement*
- Amendments to IFRS 7 – *Financial instruments: asset and liability offsetting*
- Amendments to IAS 19 – *Employee benefits*
- Amendments to IAS 28 –*Investments in associates and joint ventures*

Norms and amendments to become mandatory in 2014

- Amendments to IAS 32 – *Financial instruments asset and liability offsetting*

Norms and amendments to become mandatory in 2015

- IFRS 9 – *Financial instruments*

3-3 Presentation of consolidated financial statements

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

A) Change in accounting policies

The consolidated accounts as of 31 December 2011 are showing no changes in accounting policies.

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

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

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

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

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

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

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

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

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

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

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

[1] Conseil National de Comptabilite – French accounting council

3-4 Basis of consolidation

A) Integration policies

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

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

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

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

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

B) Elimination of reciprocal accounts and transactions

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

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

C) Date and effect of acquisitions and disposals

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

D) Translation of financial statements and accounts in foreign currencies

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

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

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

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

E) Use of estimates

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

3-5 Valuation Methods and rules

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

A) Goodwill

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

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

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

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

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

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

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

B) Intangible assets

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

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

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

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

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

The Group's main intangible assets are as follows:

- development costs meeting the above criteria;
- operating licenses including the costs directly associated with acquiring or obtaining them;
- patents acquired or created internally;
- software development costs, on its relative share of internal or external costs due to its creation or performance improvement

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

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

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

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

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

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

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

C) Tangible assets

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

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

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

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

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

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

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

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

D) Leased assets

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

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

E) Impairment of elements of fixed assets

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

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

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

F) Financial assets

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

- loans and receivables granted by the company

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

- held-to-maturity financial investments

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

- financial assets held for trading

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

- available-for-sale financial assets

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

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

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

G) Financial liabilities

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

H) Derivatives

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

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

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

I) Inventories

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

J) Accounts receivable/Accounts payable

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

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

K) Deferred taxation

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

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

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

L) Share option plans at agreed unit price

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

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

M) Pension commitments and similar

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

N) Provisions

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

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

O) Revenue Recognition

Turnover consists essentially of revenues obtained from:

- long-term energy supply contracts;

- carbon credit trading;
- and, incidentally, engineering service revenues.

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

P) Other operating revenue

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

Q) Other operating income and expenses

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

R) Method of calculating earnings per share

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

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

S) Segment reporting

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

The Group’s geographical segments are as follows:

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

4. CHANGE IN BASE OF CONSOLIDATION

As of 31 December 2011, the base of consolidation of Velcan Energy includes 21 fully consolidated companies.

4-1 BASE OF CONSOLIDATION

The following companies are consolidated :

French Companies	Adress	Method of Consolidation	% of control 2011.12	% of Interest 2011.12	Comments
VELCAN ENERGY SA	75, Boulevard Haussmann 75008 Paris	Parent Company	100%	100%	Created on 08/04/2005
RODEIO BONITO HIDROENERGIA	75, Boulevard Haussmann 75008 Paris	Full integration	0%	0%	Closed on 27/09/2011
Indian Companies	**Adress**	**Method of Consolidation**	**% of control 2011.12**	**% of Interest 2011.12**	**Comments**
VELCAN RENEWABLE ENERGY Pvt Ltd	No. 572,"Samruddhi Nilaya",Unit No. 2, 2nd Floor,1st Cross, Police Station Road, Behind Govt High School, Hebbal,Bangalore-560 024	Full integration	100%	100%	Created on 31/03/2006
VELCAN ENERGY INDIA Pvt Ltd	Unit No. FF2A, 4th Floor, Lakshmi Complex, No. 40, K.R.Road, Bangalore-560 002	Full integration	0%	0%	Sold on 07/09/2011
TARINI HYDRO ENERGY PVT LTD	Plot No. 85, Bapuji Nagar, Near UP School, Bhubaneswar, Orissa - 751 009	Full integration	100%	100%	Created on 29/11/2006
FLOWTECH HYDRO ENERGY PVT LTD	Plot No. 85, Bapuji Nagar, Near UP School, Bhubaneswar, Orissa - 751 009	Full integration	100%	100%	Created on 6/11/2007
PAUK HYDRO POWER PVT LTD	G-77, Sujan Singh Park, New Delhi-110003	Full integration	100%	100%	Created on 15/11/2007
SIYOTA HYDRO POWER PVT LTD	G-77, Sujan Singh Park, New Delhi-110003	Full integration	100%	100%	Created on 15/11/2007
HEO HYDRO POWER PVT LTD	G-77, Sujan Singh Park, New Delhi-110003	Full integration	100%	100%	Created on 14/11/2007
HIRIT HYDRO POWER PVT LTD	G-77, Sujan Singh Park, New Delhi-110003	Full integration	100%	100%	Created on 14/11/2007

Brazilian Companies	Adress	Method of Consolidation	% of control 2011.12	% of Interest 2011.12	Comments
VELCAN DESENVOLVIMENTO ENERGETICO DO BRASIL Ltda	Rua São Tomé, 86 cj 192. Vila Olímpia CEP 04551-080, São Paulo	Full integration	100%	100%	Created on 29/12/05
SPE RODEIO BONITO	Avenida Getúlio Vargas, n. 283 S, 3º andar, sala 303 Centro – Chapecó CEP 89.802-001 Santa Catarina	Full integration	95%	95%	Created on 22/08/07
QUEBRA DEDO HIDRELETRICA	Rua São Tomé, 86 cj 192. Vila Olímpia CEP 04551-080, São Paulo	Full integration	100%	100%	Created on 01/02/08
PIRAPETINGA HIDRELETRICA	Rua São Tomé, 86 cj 192. Vila Olímpia CEP 04551-080, São Paulo	Full integration	100%	100%	Created on 28/02/08
IBUTURUNA HIDRELETICA SA	Rua São Tomé, 86 cj 192. Vila Olímpia CEP 04551-080, São Paulo	Full integration	100%	100%	Created on 03/04/08
Company in United Arab Emirates	**Adress**	**Method of Consolidation**	**% of control 2011.12**	**% of Interest 2011.12**	**Comments**
VELCAN ENERGY HOLDING DUBAI	Office 33, Level 3, Gate Village Bldg # 4, Dubai International Financial Centre PO box 113355 - Dubai - UAE	Full integration	100%	100%	Created on 23/04/07
Company in Luxembourg	**Adress**	**Method of Consolidation**	**% of control 2011.12**	**% of Interest 2011.12**	**Comments**
VELCAN ENERGY LUXEMBOURG SA	11 Avenue Guillaume, L-1651 Luxembourg	Full integration	100%	100%	Created on 12/02/09
Company in Mauritius	**Adress**	**Method of Consolidation**	**% of control 2011.12**	**% of Interest 2011.12**	**Comments**
VELCAN ENERGY MAURITIUS LIMITED	Level 2 Alexander House 35 Cybercity, Ebène, Republic of Mauritius Republic of Mauritius	Full integration	100%	100%	Created on 16/04/09
Company in Peru	**Adress**	**Method of Consolidation**	**% of control 2011.12**	**% of Interest 2011.12**	**Comments**
VELCAN ENERGY PERU SAC	Av. Javier Prado Oeste 795 Magdalena del Mar, Lima - Perú	Full integration	100%	100%	Created on 30/06/2010

Company in Singapore	Adress	Method of Consolidation	% of control 2011.12	% of Interest 2011.12	Comments
VELCAN ENERGY SINGAPORE PTE LTD	20 CECIL STREET #14-01 EQUITY PLAZA SINGAPORE (049705)	Full integration	100%	100%	Created on 06/05/2011
Representative Office in Lao Republic	**Adress**	**Method of Consolidation**	**% of control 2011.12**	**% of Interest 2011.12**	**Comments**
REPRESENTATIVE OFFICE OF VELCAN ENERGY DUBAI HOLDING LTD	16/229 Setthatirath St. Simuang Village, Sisattanak District, Vientiane, Lao PDR	Full integration	100%	100%	Created on 04/05/2011
Company in Indonesia	**Adress**	**Method of Consolidation**	**% of control 2011.12**	**% of Interest 2011.12**	**Comments**
PT. Velcan Ilthabi Hydropower	Gedung Inti Centre Jl. Taman Kemang No. 32 A, Bangka, Mampang Prapatan, Jakarta 12730, Indonesia	Full integration	80%	80%	Created on 13/10/2011
PT. Lampung Hydroenergy	Gedung Inti Centre Jl. Taman Kemang No. 32 A, Bangka, Mampang Prapatan, Jakarta 12730, Indonesia	Full integration	92%	92%	Created on 09/12/2011

4-2 CHANGES IN CONSOLIDATION SCOPE

Four new companies were created in 2011:
- A new company in Singapore (VELCAN ENERGY SINGAPORE PTE LTD)
- A representative office in Laos (Rep. Office of Velcan Dubai)
- Two companies in Indonesia (PT. Velcan Ilthabi Hydropower et PT. Lampung Hydroenergy)

And in order to simplify the group structure:
- An Indian entity, VELCAN ENERGY INDIA Pvt Ltd, was sold and therefore had been taken out of the consolidation scope on 31 August 2011.
- A French entity, RODEIO BONITO HIDROENERGIA, was liquidated and therefore had been taken out of the consolidation scope on 27 September 2011.

5. CURRENCY RATES

1 € =	31.12.2011		31.12.2010	
	Closing rate	Average rate	Closing rate	Average rate
BRL (Brazilian Real)	2,42	2,33	2,22	2,35
INR (Indian Rupee)	68,71	65,70	59,76	60,97
AED (Dirham UAE)	4,76	5,12	4,91	4,88
USD (Dollar US)	1,29	1,39	1,34	1,33
PEN (New Peruvian Soles)	3,49	3,88	3,75	3,81
SGD (Singapore Dollar)	1,68	1,75	1,69	1,78
IDR (Indonesian Rupiah)	11731,47	12264,00	12002,14	12114,64
NOK (Norwegian Krone)	7,75	7,80	7,80	8,02

6. NOTES ON THE BALANCE SHEET AND INCOME STATEMENT

Note 1 –Goodwill

Goodwill shown in the consolidated balance sheet as of 31 December 2011 is as follows:

In thousands of Euros	31.12.2011				
Business	Historical Value 2010	Forex Adjustment	Closing value	Depreciation	Net
Hydroelectricity India	-	-	-	-	-
Dubai	14	-	14	-	**14**
Total	**14**	**-**	**14**	**-**	**14**

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

Note 2 –Intangible Assets

Intangible assets as of 31 December 2011 are as follows :

In thousands of euros	Development costs	Intangible assets in progress	Licenses, patents and rights	Other intangible assets	Total
Gross value	4 792	15 301	1 235	-	**21 327**
Cumulated Amort./Dep./Prov.	(194)	(2 659)	(54)	(3)	**(2 910)**
Net closing balance at 31.12.2010	**4 598**	**12 642**	**1 181**	**(3)**	**18 418**
Gross value					
Opening balance at 01.01.2011	4 792	15 301	1 235	-	**18 418**
Foreign Currency translation	(367)	(1 329)	(100)	(1)	**(1 796)**
Change in perimeter	-	-	-	-	**-**
Acquisitions	-	3 705	4	-	**3 709**
Disposals/Impairment	3	(848)	(11)	-	**(856)**
Restatements	(203)	319	-	14	**130**
Other movements					**-**
Closing balance at 31.12.2011	4 225	17 148	1 128	14	**22 514**
Amort./Dep./Prov.					
Opening balance at 01.01.2011	(194)	(2 659)	(54)	(3)	**(2 910)**
Foreign Currency translation	21	344	6	1	**372**
Change in perimeter	-	-	-	-	**-**
Amort./Dep./Prov. for the period	(187)	(5 092)	(48)	(3)	**(5 329)**
Disposals/WB on prov.	(1)	162	-	-	**160**
Restatements	-	3	-	(5)	**(2)**
Other movements					**-**
Closing balance at 31.12.2011	(360)	(7 242)	(96)	(11)	**(7 709)**
Net closing balance at 31.12.2011	**3 865**	**9 906**	**1 032**	**3**	**14 805**
Gross value	4 225	17 148	1 128	14	**22 514**
Cumulated Amort./Dep./Prov.	(360)	(7 242)	(96)	(11)	**(7 709)**
Net closing balance at 31.12.2011	**3 865**	**9 906**	**1 032**	**3**	**14 805**

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

- Rodeio Bonito concession in Brazil: 4.840 k€
- Direct costs incurred on other hydroelectric projects in Brazil: 1.193 k€
- Direct costs incurred on hydroelectric projects in India: 8.208 k€
- Direct costs incurred on hydroelectric projects in Other emerging Countries: 556 k€

The main variation is due to the impairment/provision of Brazilian projects.
To date, the Group is reassessing the possibility to continue those projects.

Note 3 –Tangible assets

Tangible assets as of 31 December 2011 are detailed as follows :

In thousands of Euros	Land and Buildings	Technical installations	Vehicles	Furniture computer equip.	Other	Tangible assets in progress	Total
Gross Value	26 138	315	200	315	29	15	**27 012**
Cumulated Amort./Dep./Prov.	(1 118)	(104)	(97)	(199)	(29)	-	**(1 548)**
Net closing balance at 31.12.2010	**25 020**	**211**	**103**	**116**	**0**	**15**	**25 464**
Gross value							
Opening balance at 01.01.2011	26 138	315	200	315	29	15	**27 012**
Foreign Currency translation	(2 186)	(15)	(13)	(21)	(3)	(2)	**(2 239)**
Change in perimeter	-	-	-	-	-	-	**-**
Acquisitions	1 269	104	27	54	129	-	**1 584**
Disposals/Impairment	(134)	(5)	(102)	(134)	(142)	-	**(518)**
Restatements	(77)	-	-	-	-	(2)	**(79)**
Other movements							**-**
Closing balance at 31.12.2011	25 011	399	112	215	13	11	**25 760**
Amort./Dep./Prov.							
Opening balance at 01.01.2011	(1 118)	(104)	(97)	(199)	(29)	-	**(1 548)**
Foreign Currency translation	138	8	6	13	3	-	**167**
Change in perimeter	-	-	-	-	-	-	**-**
Amort./Dep./Prov. for the period	(1 301)	(63)	(25)	(38)	(1)	-	**(1 427)**
Disposals/WB on prov.	10	2	64	112	27	-	**215**
Restatements	-	-	-	-	-	-	**-**
Other movements							**-**
Closing balance at 31.12.2011	(2 271)	(157)	(52)	(113)	(0)	-	**(2 594)**
Net closing balance at 31.12.2011	**22 740**	**242**	**60**	**101**	**13**	**11**	**23 167**
Gross Value	25 011	399	112	215	13	11	**25 760**
Cumulated Amort./Dep./Prov.	(2 271)	(157)	(52)	(113)	(0)	-	**(2 594)**
Net closing balance at 31.12.2011	**22 740**	**242**	**60**	**101**	**13**	**11**	**23 167**

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

- Rodeio Bonito concession in Brazil 22.619 k€

Acquisition amounts are related mainly to the settlement of the lawsuit with Rodeio Bonito civil contractor, for 2.6 mBRL, recorded as additional construction cost on Rodeio Bonito assets.
The negative revaluation of this asset compared to 2010 is mainly due to the negative Forex variation of the Brazilian Real (about 2,3 m€).
Accumulated amortization on this tangible asset amounts to 2,1 m€, with 1,1 m€ for the year, and represents the main variation of the line "amortization" in 2011 accounts.

Note 4 – Non current financial assets

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

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

As of 31 December 2011, the shares owned by the Group in this company are valued at 1.6 M€.
Since Velcan holds only 3.5% of its shares, this company is not consolidated in the Group.

Note 5 – Other non current assets

Other non-current assets are detailed as below :

In thousands of euros	31.12.2011	31.12.2010
Trade of carbon credits	-	462
Taxes on profits		
Other non current receivables	246	63
Gross amounts	**246**	**525**
Depreciations	-	-
Net amounts	**246**	**525**

Within the context of its carbon credit trading activity, Velcan Energy has paid an advance for the purchase of carbon credits generated by biogas installations in India over three future periods of seven years. The delivery of the first carbon credits generated in 2006, took place beginning of 2008. All those credits were reclassified as current assets following the near term of the contract first period.

Other debts are advance payments made to the buyers of former Velcan biomass plants related to cover to date unsettled legal disputes.

Note 6 – Deferred tax and Income Tax

The income tax is broken down as follows :

In thousands of Euros	31.12.2011	31.12.2010
Tax Payable	(432)	(135)
Deferred taxes	639	(234)
Income or taxes related to fiscal integration	-	-
Tax income (+) and Expenses (-)	**208**	**(369)**

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

In thousands of euros	31.12.2011	31.12.2010
Net income	**(3 102)**	**8 978**
Net profit of investment accounted for using the equity method	-	-
Income tax	208	(369)
Income before tax	**(3 310)**	**9 346**
Theoretical profit (+) or expense (-) tax at rate of 33,33%	**1 103**	**(3 115)**
Permanent differences	(1 102)	824
Deficits of period not recognized as assets (1)	(1 929)	(1 263)
Deficits recognized as assets (2)	2 418	3 071
Other (3)	(282)	116
Tax Income (+) and Expenses (-)	**208**	**(369)**
Actual rate of taxation	**6,3%**	**3,9%**

(1) Due to lack of visibility on the recovery of deficits carried forward, not all fiscal deficit has been activated as assets during the fiscal year (*)
(2) The fiscal profit made during this year in France and Luxembourg has been fully absorbed by previous deficits carried forward not activated in previous consolidated accounts. The deficit of Velcan Energy Luxembourg, Velcan Energy SA and Velcan Energy Mauritius Ltd have been activated during this year.
(3) It mainly corresponds to tax rate difference, especially on the Dubai subsidiary where there is no taxation

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

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

Note 7 - Clients and other receivables

The Group used to own two Biomass power plants in India, named Satyamaharshi and Rithwik. As of 31 December 2011, the arrears related to the tariff dispute between the Association of Biomass Producers of the State of Andhra Pradesh against their client AP Transco amount to 3.517 k€, out of which 685 k€ are related to previous promoters.

A provision was booked for 100% of these amounts, pending the outcome of this dispute.
The remaining balance of 685 k€ refers to a dispute with AP Transco concerning the period before the acquisition of the biomass plants by Velcan Energy. A debt of the same amount would be paid to the old promoters if, and only if, AP Transco repays this value to Satyamaharshi and Rithwik. Thus, no provision was made since it represents no risk for the group.

The hydro power sales receivables related to a part of Rodeio Bonito power production not yet cashed as of 31December 2011 amounts to 396 k€.

In thousands of Euros	31.12.2011	31.12.2010
Biomass electricity customers in India	3 517	4 044
Provision on Biomass electricity customers	(2 832)	(3 258)
Hydro electricity customers	396	345
Total	**1 080**	**1 131**

Note 8 –Other Current Assets

The other current assets item is broken down as follows :

In thousands of Euros	31.12.2011			31.12.2010		
	Gross	Provisions	Net	Gross	Provisions	Net
Trade of carbon credits (1)	915	(479)	436	558	-	558
Carbon credit production (2)	187	-	187	536	-	536
Tax and social receivables	245	-	245	1 143	-	1 143
Other receivables	167	-	167	193	-	193
Total	**1 513**	**(479)**	**1 034**	**2 430**	**-**	**2 430**

(1) The part reported as "other current assets" corresponds to carbon credits to be delivered over a period of less than twelve months (see above, Note 5), linked to Bagepalli project. Due to the CERs' falling price, a provision has been booked in order to reflect their real market price (cf table below).

(2) They are carbon credits generated by green energy production in biomass plants in India. CERs (Certified Emission Reduction) were valued at 4,27 € against 10€ in 2010 and VERs (Voluntary Emission Reduction) were valued at 0 €. Detail is given in the chart below.
Unaudited CERs have to be verified by a Designated Operating Agency (DOE) agreed by the United Nations. The number of CER finally issued may therefore vary.

		CER	CER	VER
31.12.2011		*Bagepalli*	*SMPCL*	*RPPL*
Non Current Assets	Receivables (Unaudited) in Tons			
Current Assets	Stock (Audited)	20 620	43 862	
	Receivables (Unaudited) in Tons	81 367	-	30 104
	Total Tons	**101 987**	**43 862**	**30 104**
	Unit Value	4,27	4,27	-
	Valuation (k€)	**435**	**187**	**-**

Note 9 – Cash & Cash equivalents

The Cash is invested as follows**:**

In thousands of Euros	31.12.2011	31.12.2010
Investment securities	80 062	95 090
Cash	17 004	3 049
Gross active cash in balance sheet	**97 066**	**98 139**
Current creditor bank accounts	-	-
Total net cash balance	**97 066**	**98 139**

As of 31 December 2011, the Group's cash & cash equivalent balance by currency has been broken down as following :

- Dollar (USD) 31%
- Euros (EUR) 23%
- Norwegian Krone (NOK) 21%
- Indonesian Rupiah (IDR) 19%
- Other 5%

At the end of 2011 and to reduce its exposure to the Euro currency, the Group has converted a part of its treasury into Norwegian Krones (21%).

Note 10 –Equity

Capital :

As of 31 December 2011, the capital of the Velcan Energy Group consists of 7 779 542 shares with a par value of 1.00 euro, i.e 7 779 542 euros. It is fully paid up.

Own Shares:

As of 31 December 2011, Velcan Energy Mauritius Pvt Ltd holds 1.369.989 own shares. The closing market value being 9,60 €, those own shares have a market value of 13.2 m€. Following IFRS rules, those shares reduce the shareholder's equity by the same amount, ie 13.2 m€. The unrealized gain on own shares is not taken in the consolidated result.

Change in number of shares :

In number of shares	31.12.2011	Unit Price	31.12.2010	Unit Price
At beginning of the period	**7.774.442**	**1.0**	**7.763.242**	**1.0**
Cash Capital increase on 8 January 2011	600	1.0		
Cash Capital increase on 17 February 2011	500	1.0		
Cash Capital increase on 5 April 2011	1.000	1.0		
Cash Capital increase on 9 June 2011	1.000	1.0		
Cash Capital increase on 5 December 2011	2.000	1.0		
At the end of the period	**7.779.542**	**1.0**	**7.774.442**	**1.0**

Conversion reserves :

At the end of the period the assets and liabilities of subsidiaries are translated into the current currency of the Group at the rate of exchange prevailing at that date (see § 5) and their income statements are translated at the weighted average exchange rate of the year. Foreign exchange differences between the historical data and results of these conversions are assigned to conversion reserves. As of 31 December 2011, these differences amount to an unrealized cumulative exchange loss of 2.9 m€.

The conversion reserves include also the unrealized exchange differences on long term loans, in currencies, granted to the subsidiaries. As of 31 December 2011, these differences represent an unrealized cumulative exchange gain amounting to 5 m€, mainly from loans granted to subsidiaries in Brazil following the strong appreciation of the Brazilian Real in 2009-2010, even though it was responsible for a 2.1 m€ loss in 2011..

Hence, as of 31 December 2011, the cumulative conversion reserves represent an unrealized gain of 2.1 m€, booked in equity, against a net unrealized gain of 5 m€ in 2010.

Equity warrants

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

Date of Board of Director's meeting	26.10.2005	20.02.2009	20.10.2009	09.12.2009	09.04.2010	03.01.2011
Total number of equity warrants allocated	10 000	28 000	40 000	390 000	4 500	6 000
Number of equity warrants existing on 31/12/2011	6 000	25 200	40 000	390 000	4 500	6 000
Number of equity warrants exercisable on 31/12/2011	6 000	19 100	29 000	390 000	1 125	-
Number of equity warrants exercised on 31/12/2011	4 000	2 300	-	-	-	-
Allocation date	26/10/2005	20/02/2009	20/10/2009	09/12/2009	09/04/2010	03/01/2011
Expiry date	26/10/2015	31/12/2015	31/12/2017	31/12/2017	09/04/2020	03/01/2021
Subscription price in euros	12,46 €	7,50 €	8,00 €	8,25 €	8,70 €	12,00 €

One equity warrant gives the right to apply for one share.

Stock option plans

Date of Board of Directors Meeting	12.04.2007	29.05.2007	31.05.2007	27.02.2008	20.02.2009	09.04.2010	03.01.2011
Total number of options allocated	9 000	6 000	1 600	74 500	77 500	22 000	21 000
Number of options existing as at 31/12/2011	5 000	6 000	1 100	1 000	15 000	19 000	21 000
Number of options exercisable as at 31/12/2011	5 000	6 000	1 100	800	10 750	4 750	4 750
Number of options exercised as at 31/12/2011	-	-	-	-	12 000	-	-
Allocation date	12/04/2007	29/05/2007	31/05/2007	27/02/2008	20/02/2009	09/04/2010	03/01/2011
Expiry date	10/04/2017	29/05/2017	31/05/2017	27/02/2018	20/02/2019	09/04/2020	03/01/2021
Subscription price in Euros	20,03 €	22,16 €	21,34 €	27,70 €	7,50 €	8,70 €	12,00 €

One stock option gives the right to apply for one share.

Note 11 – Provisions

Non current and current provisions cover the following risks:

In thousands of Euros	31.12.2010	Allowance	Reversal	Foreign Exchange	Reclas-sification	31.12.2011
Provision for retirement payments (1)	50	(21)	(7)	(5)	11	29
Provision for disputes (2)	2 640	301	(859)	(239)	-	1 843
Other provision for expenses	(0)					(0)
Total Provisions (non-current liabilities)	**2 689**	**280**	**(866)**	**(243)**	**11**	**1 871**
Provision for disputes	115	-	(82)	(8)	-	25
Total provisions (current liabilities)	**115**	**-**	**(82)**	**(8)**	**-**	**25**
Total provisions	**2 805**	**280**	**(948)**	**(251)**	**11**	**1 897**

(1) As of 31 December 2011, due to the fact that people eligible for pensions have only been working for the company for a very short time, this information is not significant.

(2)

(i) <u>Litigation following the acquisition of Satymaharshi Power Plant (India)</u>

Parties: Velcan Energy India Pvt. Ltd (VEIPL), defendant, outside the consolidation scope as of 31 December 2011, and the plaintiffs, sellers of the Satyamaharshi Power Corporation Limited (SMPCL, also defendant and outside the consolidation scope as of 31 December 2011). As Velcan Renewable Energy Pvt. Ltd (VREPL) is not a party in this case and sold Velcan Energy India Pvt. Ltd (VEIPL), it has given a warranty to the buyer to meet any costs that might be incurred in relation to this dispute.

Facts: SMPCL owns and exploits a biomass thermal plant of 7.5MW. VEIPL bought SMPCL in 2006 and sold it in 2010. According to the agreement signed on 7 April 2006 between VEIPL and the transferors during the acquisition of SMPCL, VEIPL was permitted to retain, during a certain period, a part of the price (15 mINR, or 218 k€ at 2011 closing rate) in order to compensate any liabilities that may appear after the acquisition but corresponding to the management period of the vendors prior 2006. Given the issues and liabilities discovered after the acquisition of SMPCL, this amount has been kept as per the terms of the share purchase agreement.
The transferors or related parties today allege that these amounts are due to them and they have initiated in 2008 a legal dispute before the Hyderabad City Civil Court, in India.

The same agreement signed on 7 April 2006 states that the receivables in current account (21,3M INR or 310K€ at 2011 closing rate) detained by them and other related parties, would have been paid for by SMPCL only in case the carbon credits generated before acquisition would have been delivered before October 2007. With the delivery having taken place only in 2008, these amounts have been retained by SMPCL, and the receivables have become obsolete. After many pre-suit contacts, the related parties owing the initial receivables have filled, on 2008, a claim before the Hyderabad City Civil Court, against SMPCL and VEIPL

Demands: Till date the transferors have filed two payment demands against VEIPL:

1. Regarding the disputed retention following the acquisition, for a total amount of 332 k€, corresponding to 218 k€ of, as per the share purchase agreement, and additional 113 k€ of interests from 01 January 2007 to 15 November 2009, date of the filing of the suit. (amounts at closing rate, interests of 18% per year claimed until the payment).

2. Regarding the payment of receivables, for a total amount of 490 k€, corresponding to 310 k€ of principal and additional 180 k€ of interests from April 2006 up to the filing of the suit . (interests of 24% per year until the payment)

Both litigations are currently ongoing.

The Group is strongly contesting owing these amounts and these procedures are till date pending before the concerned courts of the State of Andhra Pradesh. The existing provision of 975 k€ on 31 December 2011, including interests, was transfered to the books of VREPL following the selling of VEIPL to a third party outside of the group. Nevertheless the Company is convinced that these claims are without any real legal or economic grounds and that the Company will not have to pay those amounts in the future. In fact, following the acquisition of SMPCL, the Group discovered different elements justifying the involvement of liability guarantees of the transferors, including a large difference in biomass stock established during the physical inventory and litigations discovered after acquisition. Following the failure of the pre-litigation that began in 2006, the group may initiate appropriate proceedings to recover amounts due that it assesses being largely above the amounts claimed by the transferors. As a precaution, given the low level of solvency of the transferors and the length of the Indian legal procedures, no receivables against these sellers have been booked in the accounts.

(ii) Litigations with Rodeio Bonito SA, owner of the hydroelectric concession of the PCH Rodeio Bonito:

1. A payment demand has been filled before the Court of Florianopolis, State of Santa Catarina, by the Sellers of the Rodeio Bonito project. The purchase contract, signed in November 2006, includes a retrocession of 5% of the shares to the sellers after the beginning of the plant operation. Before signing the shares retrocession documents, the sellers demanded the inclusion of new conditions, not previously agreed at the time of the original purchase agreement. The Group refused those inclusions, and the sellers then filled the abovementioned claim to obtain a payment against their renunciation to become shareholders.
2. The litigation with the civil contractor of the Rodeio Bonito power plant was settled on June 2011 following an agreement between both parties to the payment of additional 2.6m BRL. The provision made last year was reversed. The additional payment was added to the plant construction cost (see note 3, above)

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Note 12 – Trade and other Payables

Suppliers and other creditors are detailed as follows:

In thousands of euros	31.12.2011	31.12.2010
Suppliers	106	124
Debts on acquisition of fixed assets (1)	2 041	2 386
Others	194	200
Total	**2 341**	**2 709**

(1) Those amounts corresponds mainly to the remaining debt, not paid so far since not due as per the contracts, to the sellers of following Brazilian concessions : Quebra Dedo (237 k€), Pirapetinga (876 k€) and Ibituruna (876 k€).

Note 13 –Other current liabilities

Financial current liabilities amounts to 1.119 k€. It corresponds to an unrealized forex loss on a forward forex operation realized in May 2010 and renewed in May 2011 to cover the company against the risk of appreciation of the Dollar against Euro, as most of the group investment currencies are linked to the Dollar. This operation is not a currency translation hedging with regards to IFRS rules.

Other current liabilities amount to 883 k€ as of 31 December 2011.

Note 14 – Business Segment

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

31.12.2011 *In thousands of Euros*	Europe	South America (2)	Middle East & Africa	Asia	Total
Income Statement					
Turnover	627	4 789	-	-	**5 417**
Current operating profit	(4 065)	(884)	(1 306)	(80)	**(6 335)**
EBITDA (1)	(3 200)	3 711	(614)	209	**105**
Net Income	2 054	(3 636)	(862)	(659)	**(3 102)**
Balance Sheet					
Total non-current assets	1 908	28 595	718	9 359	**40 580**
Employees registered at the end of the period	11	6	3	33	**53**

31.12.2010 *In thousands of Euros*	Europe	South America	Middle East & Africa	Asia	Total
Income Statement					
Turnover	225	3 544	-	-	**3 769**
Current operating profit	(3 497)	946	325	(1 293)	**(3 519)**
EBITDA (1)	(3 369)	2 136	501	(465)	**(1 197)**
Net Income	12 211	(2 064)	(940)	(230)	**8 978**
Balance Sheet					
Total non-current assets	3 144	35 110	1 347	7 848	**47 449**
Employees registered at the end of the period	10	13	3	40	**66**

(1) The EBITDA corresponds to Earnings Before Interest Taxes, Depreciation and Amortization
(2) In 2011 the negative current operational profit and negative net income on the South America zone is mostly due to the provisions and depreciations on Brazilian projects, accounting for 4,2 m€. Net income is positive for the Rodeio Bonito power plant and its net non-current assets amounts to 26,7 m€.

Note 15 –Consumed purchases

In thousands of euros	31.12.2011	31.12.2010
Raw materials and supplies	-	6
Goods	(736)	(282)
Other purchases	(23)	(24)
Sales, allowances on purchases	(24)	(35)
Total	**(784)**	**(334)**

Note 16 –External expenses

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

In thousands of Euros	31.12.2011
KPMG	62
SODAREX	17
Others	25
Total	**104**

Auditors fees concern mainly the annual audit mission (99 k€).

Note 17 –Employee expenses

The employee expenses include the value of stock options granted to employees i.e a charge of 175 k€ as of 31 December 2011 against 338 k€ as of 31st December 2010.

Total average number of employees

Number	31.12.2011	31.12.2010
Engineers and executives	21	20
Office workers and Manual workers	35	67
Average registered number of employees	**56**	**87**

Note 18 - Depreciation and provisions

In thousands of Euros	31.12.2011	31.12.2010
Intangible assets		
Amortization	(239)	(175)
Provision allowance (1)	(5 092)	(442)
Write Back on provision	106	
Total Intang. Assets	**(5 224)**	**(617)**
Tangible assets		
Amortization (2)	(1 239)	(1 264)
Provision allowance	(188)	
Write Back on provision	11	
Total Tangible Assets (2)	**(1 417)**	**(1 264)**
Other prov. and dep. (net)		
- other op. Exp.(3)	(467)	(12)
- liabilities and charges (4)	668	(428)
Total other	**201**	**(441)**
Total amort., dep. and prov.	**(6 440)**	**(2 322)**

(1) Corresponds essentially to provisions/depreciations on Brazilian projects costs previously capitalized
(2) Corresponds essentially to the depreciation of the Rodeio Bonito concession
(3) Corresponds to the provisions on carbon credits inventory
(4) See note 11 above

Note 19 – Other operational income and expenses

Other operational expenses essentially arise from depreciation of abandoned projects in Brazil and Asia, amounting to 673 k€, and from the sale of Velcan Energy India Pvt Ltd outside the Group.

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

In thousands of Euros	31.12.2011			
	Income	Expenses	Total	Incom
Net debt cost (-) / Net debt revenue (+)				
Income from cash and cash equivalents	7 120		7 120	6
Fair Value on cash and cash equivalent	89		89	
Interest charges		(74)	(74)	
Total Net debt cost (-) / Net debt revenue (+)	**7 209**	**(74)**	**7 134**	**7 0**
Other financial Income and expenses				
Foreign currency translation gains	1 770		1 770	7
Foreign currency translation losses		(5 378)	(5 378)	
Allocation to provision		(0)	(0)	
Write back on financial assets	-		-	
Other financial income	305		305	
Other financial expenses		0	0	
Total Other financial Income and expenses	**2 075**	**(5 378)**	**(3 303)**	**7 4**
Total financial result	**9 284**	**(5 452)**	**3 831**	**14 5**

Note 21 – Earnings per share

The calculation of earnings per share is detailed below.

	31.12.2011	31
Net earnings, Group Share (in thousands of euros)	**(3 144)**	
Weighted average number of shares in circulation	6 406 945	
Earnings per share (in euros)	**(0,49)**	
Weighted average of convertible instruments converted into ordinary shares	6 608 687	
Diluted earnings per share (in euros)	**(0,49)**	

Note 22 –Transactions with related parties

Directors compensation

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

In thousands of Euros	31.12.2011	31.12.2010
- Managements fees	633	625
- Salaries and other benefits in kind	-	-
- Directors fees	108	108
- Retirement benefits	-	-
- Share based payments	-	-
Total	**741**	**733**

Note 23 –Off balance sheet commitments

1) Guarantees given by Velcan Renewable Energy Pvt. Ltd. to the buyers of RPPL Biomass plant, following the sale finalized in February 2010.
   Those commitments include :
   i) Tax and claims liability guarantee limited to a maximum of 20mINR (291 k€)
   ii) Specific guarantee linked to a claim between RPPL and one of its supplier, limited to 11mINR (160 k€)
   iii) Specific guarantee linked to a claim between RPPL and its Customer, AP Transco, with no limited amount, estimated in worst case scenario to 295 k€

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

2) Guarantees given by Velcan Renewable Energy Pvt. Ltd. to the buyers of Velcan Energy India Pvt. Ltd., regarding the sale contract..
   Those commitments include :
   i) Tax and claims liability guarantee with no limited amount
   ii) Specific guarantee linked to a litigation between SMPCL and one of its contractors, with no limited amount (259 k€ claimed, without interests). This guarantee represents no risk to the group since VEIPL has a guarantee on this amount given by the old promoters of SMPCL.
   iii) Specific guarantee linked to a claim between SMPCL, sold by VEIPL, and its customer AP Transco with no limited amount, estimated in worst case scenario to 470 k€.

   The guarantee regarding specific litigations related to SMPCL, VEIPL and the earlier owners of SMPCL was provisioned directly in the books by Velcan Renewable Energy Pvt. Ltd. (see note 11 (2) (i) above, worst case scenario risk of 975 k€)

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

Note 24 – Sensibility analysis

The sensibility analysis is calculated at a given date and on a given portfolio and are not representative of future evolutions on the revenue and net income.

<u>Exchange Risk</u>

The Group is exposed to five currencies :

- US Dollar (USD)
- Brazilian Real (BRL)
- Indian rupee (INR)
- Indonesian Rupiah (IDR)
- Norwegian Kroner (NOK)

As of 31 December 2011, no hedging has been taken on the asset conversion risk nor on risk of conversion of past or future income.

The sensibility analysis below is symmetric on the cases of rise and fall of the rates:

		Impact (k€)	
Forex Risk	Variation	**Turnover**	**Net income**
EUR/BRL	10%	479	554
EUR/USD	10%	0	5038
EUR/NOK	10%	0	2077
EUR/IDR	10%	0	1830
EUR/INR	10%	0	187

Rate Risk

Velcan's available cash is invested in monetary funds, deposit certificates, sovereign and private bonds in EUR, in USD, in NOK and in other currencies of emerging countries where the group is prospecting.

The exposure analysis below is symmetric on the cases of rise and fall:

Interest Rate risk	Variation	**Net income impact (k€)**
Interest rates	1%	971

Note 25 – Events after 31 December 2011

On 13 February 2012, the group signed an agreement with the minority shareholders of Rodeio Bonito SA, owner of the Rodeio Bonito hydropower plant. The agreement, excluding legal fees, amounts to a cash payment of 1.5 mBRL in exchange for their renunciation to obtain 5% of the company shares against a provision of 2 mBRL (see note 11 (ii) 1).This will have a positive impact on 2012 financial statements.