



**Consolidated Financial Statements as of 30th June 2016  
(Unaudited)**

**Velcan S.A.**

RCS Luxembourg B145006

Euronext Alternext - ALVEL

[www.velcanenergy.com](http://www.velcanenergy.com)

## SUMMARY

<b>CONSOLIDATED BALANCE SHEET ASSETS .....</b>	<b>3</b>
<b>CONSOLIDATED BALANCE SHEET LIABILITIES .....</b>	<b>4</b>
<b>INCOME STATEMENT .....</b>	<b>5</b>
<b>COMMENTS ON CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>6</b>
1. COMPANY PRESENTATION .....	6
2. MANAGEMENT COMMENTS / COMMERCIAL AND FINANCIAL MATTERS .....	6
3. COMMENTS ON THE FINANCIAL STATEMENTS .....	8
4. SIGNIFICANT EVENTS AFTER 30 <sup>TH</sup> JUNE 2015 .....	10

**CONSOLIDATED BALANCE SHEET ASSETS***Thousands of Euros*

<b>Assets</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
<b>Non current assets</b>		
Intangible assets	15,832	19,572
Tangible assets	12,696	10,887
Non current financial assets	3,997	2,840
Deferred tax assets	558	558
<b>Total non-current assets</b>	<b>33,084</b>	<b>33,857</b>
<b>Current assets</b>		
Current financial assets	45,333	38,485
Inventories	16	12
Trade and other receivables	322	247
Income tax receivables	105	96
Other current assets	619	535
Cash and cash equivalents	51,381	60,056
<b>Total current assets</b>	<b>97,775</b>	<b>99,430</b>
<b>Total assets</b>	<b>130,858</b>	<b>133,287</b>

**CONSOLIDATED BALANCE SHEET LIABILITIES***Thousands of Euros*

<b>Liabilities</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
<b>Equity</b>		
Issued capital	7,805	7,797
Additional paid in capital	139,780	139,708
Other reserves and conversion reserves	(14,215)	(22,007)
Net income for the year	(5,698)	4,936
<b>Equity attributable to the equity holders of the parent</b>	<b>127,673</b>	<b>130,435</b>
<b>Non-controlling interests</b>	<b>(16)</b>	<b>58</b>
<b>Total Equity</b>	<b>127,657</b>	<b>130,493</b>
<b>Non current liabilities</b>		
Non-current financial liabilities	638	31
Non current provisions	853	886
Other non current liabilities	944	980
<b>Total non-current liabilities</b>	<b>2,435</b>	<b>1,897</b>
<b>Current liabilities</b>		
Current financial liabilities	0	60
Current provisions	21	21
Trade and other payables	664	711
Income tax payables	66	97
Other current liabilities	17	9
<b>Total Current Liabilities</b>	<b>767</b>	<b>898</b>
<b>Total Liabilities</b>	<b>130,858</b>	<b>133,287</b>

## INCOME STATEMENT

Thousands of Euros

Statement of Profit & Loss	30.06.2016	30.06.2015
Operating revenues	1,698	1,966
Other operating revenues	0	0
<b>Total operating revenues</b>	<b>1,698</b>	<b>1,966</b>
Purchases	(82)	(862)
External expenses	(825)	(629)
Payroll expenses	(740)	(223)
Operating tax expenses	(10)	(4)
Depreciation, Amortization & Provisions	(5,542)	(695)
<b>Current operating result</b>	<b>(5,501)</b>	<b>(447)</b>
Other operating income	10	-
Other operating expenses	-	(15)
<b>Operating result</b>	<b>(5,491)</b>	<b>(462)</b>
Financial Income	1,760	8,367
Financial expenses	(1,874)	(1,148)
<b>Financial Result</b>	<b>(114)</b>	<b>7,219</b>
Income tax expense (-) / benefit (+)	(167)	(243)
<b>Net result from continuing operations</b>	<b>(5,772)</b>	<b>6,515</b>
<b>Net result, group share</b>	<b>(5,698)</b>	<b>6,526</b>
<b>Net result, shares of non-controlling interests</b>	<b>(74)</b>	<b>(11)</b>
Earnings per share (in Euros)	(0.95)	1.09
Diluted earnings per share (in Euros)	(0.95)	1.06
<b>EBITDA</b>	<b>51</b>	<b>247</b>
Statement of total comprehensive Income	30.06.2016	30.06.2015
Net income	(5,772)	6,515
Other comprehensive Income	2,764	1,901
<b>Total Comprehensive Income</b>	<b>(3,008)</b>	<b>8,416</b>
thereof attributable to non-controlling interests	74	10
<b>Group Total Comprehensive income</b>	<b>(2,934)</b>	<b>8,426</b>

## COMMENTS ON CONSOLIDATED FINANCIAL STATEMENTS

### 1. COMPANY PRESENTATION

Velcan (ALVEL FP) is a company from Luxembourg, developing and operating hydroelectric concessions in emerging countries such as India, Indonesia, and Brazil.

Velcan also operates administrative and financial offices in Singapore, Mauritius and Dubai.

The company was launched more than 10 years ago by its reference shareholder Luxembourg Hydro Power SA, owned by Velcan's management team and Crédit Agricole Capital Investissement & Finance.

Velcan is listed on the Paris Stock Market (Euronext Alternext/Ticker ALVEL/ISIN FR0010245803). Velcan never performed any Public Offer as understood under Directive 2003/71/CE of the European Parliament and Council.

### 2. MANAGEMENT COMMENTS / COMMERCIAL AND FINANCIAL MATTERS

#### *Key figures and comments:*

<b>Consolidated Financial Data</b>			
<b>in Million Euros</b>			
	<u>30/6/2016</u>	<u>30/6/2015</u>	
§ Turnover Half Year	1.7	2.	-14%
§ EBITDA Half Year	0.1	0.2	-79%
§ Net Result Half Year	-5.8	6.5	NA
	<u>30/6/2016</u>	<u>31/12/2015</u>	
§ Cash & Financial assets	101	101	-1%
§ Market Capitalization	82	94	-13%
§ Cons. Equity	128	130	-2%
<b>Issued shares less Treasury shares (in Thousands)</b>			
§ Net outstanding shares	5984	5976	+0%
<b>Book value per share (in Euros)</b>			
	21.3	21.8	-2%

Velcan Energy's turnover in the first half of 2016 (H1 2016) amounted to EUR 1.7m arising from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil. It was down by 14% when expressed in Euros relative to H1 2015 due to foreign exchange rates unfavorable effect. It was 7.7% up when expressed in Brazilian Real (BRL) due to a significant increase in inflation in Brazil during that period and a positive effect on Velcan's inflation-linked electricity sale Power Purchase Agreement (PPA).

Consumed purchases in Brazil amounted to EUR -0.1m for H1 2016 compared to EUR -0.9m for H1 2015 due to the stabilization of the Energy Reallocation Mechanism (MRE) system and a normalization of the regulatory impact on Velcan's financials.

Operating costs were up relative to H1 2016 due to a lower cost capitalization percentage.

Operating result was negative (EUR -5.5m), heavily impacted by a EUR -5.2m provision on Indonesian projects. All intangible assets under developments related to Indonesian projects have been fully impaired by the management as a precautionary measure due to the administrative uncertainties there although it does not change the fact that those projects remain fundamentally good projects from techno-economic, social and environmental point of views.

EBITDA for H1 2016 remained slightly positive at EUR 0.1m vs. EUR 0.2 in H1 2015.

Net financial income for H1 2016 was EUR -0.1m vs. a gain of EUR +7.2m in H1 2015 due to a lower US dollar while most of the Group's financial investments and cash are invested in US dollar.

Net result, Group share, was therefore a loss of EUR -5.7m vs. a gain of EUR 6.5m in H1 2015.

Group other comprehensive income amounts to EUR 2.8m vs EUR -2.0m in December 2015, mostly due to the appreciation of the Brazilian currency (16%) and its impact on the Group conversion reserves when the assets held in Brazil (Rodeio Bonito) are expressed in Euro. Hence, the Group total comprehensive income amounts to EUR -2.9m.

Shareholders equity amounts to EUR 127.7m at 30<sup>th</sup> June 2016 vs. EUR 130.5m as of 31<sup>st</sup> December 2015.

The number of Treasury shares is stable compared to 31<sup>st</sup> December 2015 (1,821,132). The net number of outstanding shares amounts to 5,984,310.

Book value per outstanding share is EUR 21.33, down 2% compared to 31<sup>st</sup> December 2015.

#### ***Main events of H1 2016:***

On February 2016, Velcan SA announced that its subsidiary PT Aceh Hydro Power had been granted the Environmental Permit for the Meureubo 2 (59 MW) hydropower project by the Regency of the West Aceh province in Sumatera, Indonesia.

On March 2016, Velcan SA announced that it had started prospection for solar power projects, and is currently working on securing the concession for several projects.

On March 2016, Velcan SA also announced that it had put on hold the construction of the 7MW Sukarame Power Plant in Sumatera, Indonesia. In September last year Velcan Energy announced that it had started the pre-construction activities of the Sukarame 7MW hydropower plant in Sumatera, after an increased tariff for small hydropower 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. PLN, the state owned electricity company, is the sole authorized buyer in Indonesia and was assigned as per this Regulation to purchase the electricity produced by any small power plant at a fixed, non-negotiable price per kilowatt-hour. As per the Regulation, PLN had 30 days to issue the corresponding "Power Purchase Agreement" (PPA) standard contract. However, as of date, PLN has not proposed such contract. According to the Ministry of Energy, PLN is refusing to comply with this regulation and to buy the power, claiming that the tariff is too high. This situation results in 119 small hydropower projects being stalled. To date no improvement has come up on this administrative deadlock and there is no further visibility, hence the construction is still on hold and the project development costs are still provisioned.

On April 2016, and following the announcement made on the 23rd of February 2016, Velcan announced that the various parties involved in the exclusive PPA negotiation of the Meureubo 2 project had not reached an agreement in the current RFP ("Request For Proposal") Process which was launched by PLN on October 22nd, 2015. As of today the Group is still not able to give an indicative timeline for the PPA process on which it has little visibility and has fully impaired the project's development costs to be cautious due to those administrative issues.

### **Comment by zone of activity:**

Velcan continues to make progress in the development of its portfolio of Hydro power concessions in India and is prospecting solar power projects. However, the Indonesian portfolio has been impaired as a precautionary measure as the Group has not seen any improvement on the administrative process there.

In Brazil, purchases (EUR -0.1m in H1 2016 vs EUR -0.9m in H1 2015) include to a great extent payments for the MRE (Energy Reallocation Mechanism). The regulatory environment having stabilized and the drought being over those payments are not material anymore. Further details on the ensured energy mechanism and the regulatory history can be found in the Annual Reports 2014 and 2015. The turnover expressed in local currency has grown by 7.7% due to a significant increase in inflation in Brazil during that period and a positive effect on Velcan's inflation-linked electricity sale Power Purchase Agreement (PPA). Overall, the EBITDA of the plant was EUR 1.35m during H1 2016 vs. EUR 0.8m in H1 2015.

In India, the Group continued to develop the hydroelectric concessions obtained in 2007 in the State of Arunachal Pradesh with a focus on concession agreement revision and land issues settlement, now that the major authorization steps have been achieved with the grant of the Techno-Economic Clearances (TEC) for Tato-1 (186 MW) and Heo (240 MW) and the Environmental Clearances (EC) and the Forest Clearances (FC) for the three projects. Progress on Pauk (145 MW) TEC continues at a slower pace, commensurate with the Project's specific technical and administrative characteristics. The Group has also continued pre-construction investigations recommended by Central Electricity Authority for Heo and Tato-1 tandem (426 MW). Furthermore, the negotiations for the update of the installed capacity (as per TEC) and the implementation timeframe of the concession are progressing with the local authorities. Then the next step for the projects will be the land acquisition and the negotiation of a PPA (Power Purchase Agreement).

In Indonesia, like many other developers, the Group continues to face difficulties in the procurement process and PPAs (Power Purchase Agreements) negotiation with PLN, the state owned national utility and sole authorised electricity buyer in the country. Given the regulatory and administrative uncertainties the Group is not able to clarify the prospects of the projects portfolio in this country.

## **3. COMMENTS ON THE FINANCIAL STATEMENTS**

### **3.1. EFFECTIVE FOREIGN EXCHANGE RATES**

<b>1 € =</b>	<b>30.06.2016</b>		<b>31.12.2015</b>		<b>30.06.2015</b>	
	<b>Closing rate</b>	<b>Average rate</b>	<b>Closing rate</b>	<b>Average rate</b>	<b>Closing rate</b>	<b>Average rate</b>
BRL (Brazilian Real)	3.59	4.14	4.32	3.70	3.51	3.32
INR (Indian Rupee)	75.08	75.11	72.29	71.29	70.83	70.29
AED (Dirham UAE)	4.08	4.10	4.01	4.08	4.08	4.11
USD (US Dollar)	1.11	1.12	1.09	1.11	1.11	1.12
SGD (Singapore Dollar)	1.50	1.54	1.54	1.53	1.50	1.51
IDR (Indonesian Rupiah)	14,651	15,034	15,171	14,936	14,835	14,528



## 3.2. COMMENTS ON THE BALANCE SHEET

### ASSETS

#### Intangible Assets

The Group continued to develop its concessions in India, Indonesia and Bangladesh (EUR +1.3m of gross intangible assets in H1 2016). The positive effect of currency fluctuations (EUR +0.2m) net of amortization and provisions (EUR -5.2m) therefore prompted intangible assets to reduce by EUR 3.8m (to EUR 15.8m vs. EUR 19.6m at 31<sup>st</sup> December 2015).

#### Tangible Assets:

Tangible assets were up to EUR 12.7m at 30<sup>th</sup> June 2016 versus EUR 10.9m at 31<sup>st</sup> December 2015, an increase of EUR 1.8m. This variation is the net result of, on one hand, the increase of the Brazilian Real on the book value of Rodeio Bonito expressed in Euros (EUR 2.1m) and, on the other hand, the depreciation expense of that same asset (EUR -0.3m).

#### Cash, Cash Equivalents & financial assets:

These assets were steady (EUR -0.7m) as a result of the neutral Group's financial performance (net financial income of EUR -0.1m for the period). This financial performance is strongly related to the depreciation of the US Dollars as most of the Group's Cash, Cash Equivalents and financial assets are held in USD.

Financial asset instruments (EUR 49.3m) are mainly composed of bonds (EUR 35.4m), equities and derivatives while the cash is invested in short-term fixed deposits and current account (EUR 51.4m).

### 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 current liabilities amount to EUR 0.6m at 30<sup>th</sup> June 2016 .  
These relate mainly to derivative transactions.

#### 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.

## 3.3. COMMENTS ON THE INCOME STATEMENT

EBITDA continued to be positive during H1 2016 (EUR 0.1m vs. EUR 0.2m in H1 2015). Net result, Group Share, was a loss of EUR 5.7m vs. a gain of EUR 6.5m previously.

### CURRENT OPERATING PROFIT :

#### Turnover :

Velcan's turnover amounted to EUR 1.7m in H1 2016 arising from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil. It was down by 13.6% when expressed in Euros relative to H1 2015 due to the average BRL FX rate but it was up 7.7% when expressed in Brazilian Real (BRL).

#### Purchases:

Purchases were down (EUR -0.1m compared to EUR -0.9m in H1 2015) due to MRE payments normalization (see comment above).

#### Operating costs:

Operating costs (external & payroll expenses) were up due to a lower capitalization rate on projects.

#### Depreciation, Amortization and Provisions, Provision write-backs:

Depreciation and amortization of tangible and intangible assets amounted to an expense of EUR -5.5m. Tangible assets depreciation expense was mainly attributable to Rodeio Bonito HPP (EUR -0.3m) while intangible assets related expenses amounted to EUR -5.2 mostly and due to Indonesian projects impairment.

Operating result was a loss of EUR -5.5m compared to a loss of -0.5m in H1 2015.

### **FINANCIAL INCOME**

Net financial income for H1 2016 was almost neutral at EUR -0.1m vs a gain of EUR 7.2m in H1 2015. It remains largely dependent on the Foreign exchange variations of the currencies the Group is invested in (US Dollar mainly). Interest rates in the Eurozone and in the US are still very weak and interest income remains thus quite low although the Group's strategy to diversify its investment portfolio in order to improve its average yield start producing decent returns.

### **COMPREHENSIVE INCOME**

Comprehensive Income for H1 2016 amounted to EUR -2.9m vs. EUR 8.4m in H1 2015. The impact of currency fluctuations on Group equity was EUR +2.8m vs. EUR +1.6m in H1 2015. This positive variation is mainly due to a stronger Brazilian Real when compared to EUR which impacted the book value of tangible assets booked in this currency (Rodeio Bonito).

#### **4. SIGNIFICANT EVENTS AFTER 30<sup>TH</sup> JUNE 2016**

No significant event occurred after 30<sup>th</sup> June 2016.

\* \* \*