



PRESS RELEASE

Sao Paulo, 25th January 2016

VELCAN ANNOUNCES HIGH PRODUCTION AND LOWER REGULATORY RISK IN BRAZIL

Velcan SA announces that its 15 MW Rodeio Bonito Hydro Electric plant in Brazil recorded in 2015 its highest production since the beginning of the concession. Yearly production amounted to 75,806 MWh, corresponding to a plant load factor (PLF) in excess of 57%. After several years of an extreme drought that had affected the country since 2012, precipitation levels started to normalize from June 2015 onwards in the South of Brazil.

This improvement in operating conditions is further compounded by good regulatory news. In the second half of 2015, payments by Velcan for the MRE (Energy Reallocation Mechanism) were significantly lower than in the first half.

As disclosed in September 2015, Velcan's H1 2015 operating result was impacted by compensation payments in the amount of BRL 2.86m / EUR 0.9m. A number of Independent Power Producers (IPP), including Velcan SA, contested the way regulatory authorities calculated the extra charges of the MRE. Several judgements during the Brazilian winter of 2015 were won by the IPP sector. Since then, the MRE has not been allowed to invoice more than 5% of the Ensured Energy¹ of a plant in case of a national hydrological deficit.

¹ From Velcan's 2014 Annual Report: "In Brazil, « guaranteed energy » or « ensured energy » means the annually marketable energy as approved by MME – Ministério de Minas e Energia (Department of Mines and Energy) and guaranteed through the Brazilian power system for power plants opting for the MRE (Energy reallocation Mechanism), mechanism functioning at national scale, even if the production is impacted by a bad hydrology some years. This is the case of Rodeio Bonito. This mechanism covers the hydrological risk in case some Brazilian areas are experiencing drought, whereas other areas are experiencing heavy rains. However this mechanism does not cover the risk of a lasting national drought across Brazil. In that case, the Rodeio Bonito plant revenues could collapse drastically. The turnover corresponding to this part of guaranteed energy is ensured through mid-term fixed inflation-linked contracts, even in case of low actual production below that level for hydrological reasons. However, in the case of extremely low historical production, it could lead to a downward revision of the ensured energy or it could even lead to a temporary exclusion of the system. Given that 2012 and 2014 severe droughts, the actual historical production has been largely below the level of ensured energy for several years, which lead to a 5% downward revision of Rodeio Bonito's ensured energy. A second 5% downward revision is expected in end 2015 or beginning of 2016). Should the drought continue, Rodeio Bonito could even be excluded, temporarily, of the system starting 2018. Rodeio Bonito's Ensured Energy was 8.80 MW during 8.760 hours per year, i.e 77.088 MWh per year in 2014 (stable since November 2009, date of the commissioning) and reduced to 8.35 MW ie 73 146 MWh per year in 2015. "



In the second half of 2015, payments to the MRE should not exceed BRL 1.28m/ EUR 0.29 m. The FY total payment will therefore amount to BRL 4.13m / EUR 1.15m. Further detail on the Ensured Energy mechanism can be found in the Annual Report 2014.

Furthermore, the risk of the Rodeio Bonito being temporarily excluded from the MRE system because of insufficient production has significantly decreased. Even in the case of a repeated extremely negative hydrological scenario, this exclusion could not happen before January 2019. In case a plant is excluded it has to reapply to the system with a slightly lower Ensured Energy. In the meantime the plant can still sell its production in the spot market. Given that most Brazilian hydropower plants have suffered the same hydrological problem, the Group believes that such an outcome has little probability of happening.

For FY 2016, Velcan expects that turnover from its Brazilian operations will be above BRL 13.6m. The price of electricity is already known with the ongoing PPAs, which are fully indexed for inflation. Prudently the quantity of energy sold assumes that the amount of guaranteed energy will be cut by 5% in H2 2016. However, at this date, Velcan has not been notified of any such cut. In such a case the 2016 EBITDA from the Brazilian operations should be BRL 11.5m.

Jean-Luc Rivoire and Antoine Decitre, co-CEOs of the Group declared: *“The return to the mean of the hydrological conditions of our Brazilian Concession was bound to happen. Nonetheless, it is still welcome news. This recent episode validates both the stability of hydropower over the long term and the Group’s strategy of geographic diversification and financial prudence.”*

* * *

Investor Relations Contact
Nicolas Konialidis

investor@velcan.lu
konialidis@velcan.lu



About Velcan:

Velcan develops and operates hydro power concessions in emerging markets with untapped potential. Hydro power can be an important contributor to the economic development of these countries. The Company's strategy is to become a market leader in hydro power concessions up to 200 MW. It is currently targeting India, Brazil and Indonesia for its investments.

As of January 2016, Velcan:

- Has built and operates its first hydroelectric concession in Brazil (15 MW),
- Owns rights related to hydroelectric concessions projects amounting to 803 MW in India, Brazil and Indonesia,
- Actively develops, jointly with a subsidiary of PLN and a local partner, a 59 MW hydroelectric project in Indonesia.
- Has begun construction of Suka Rame, a 7 MW run-of-the-river hydroelectric plant in Sumatera, Indonesia.

Velcan has offices in Luxemburg, Singapore, New Delhi, Jakarta and Saõ Paulo and maintains personnel on its concession sites.

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.

Disclaimer

This press release contains prospective information about the potential of the projects in progress and/or of the projects of which the development has begun. This information constitutes objectives attached to projects and shall not be construed as direct or indirect net income forecast of the concerned year. Reader's attention is also drawn on the fact that the performance of these objectives depends on future circumstances and that it could be affected and/or delayed by risks, known or unknown, uncertainties, and various factors of any nature, notably related to economic, commercial or regulatory conjuncture, which occurrence could be likely to have a negative impact on future activity and performances of the Group.

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

