

PRESS RELEASE

Luxemburg, 28th April 2017

VELCAN: ANNUAL RESULTS 2016 STABLE REVENUES, GOOD FINANCIAL PERFORMANCE AND PROGRESS IN INDIA

	<u>2016</u>	<u>2015</u>	<u>Var %</u>
Revenues (EUR m)	3.7	3.5	+5%
EBITDA (EUR m)	-0.2	2.7	NA
Net Income (EUR m)	-1.4	4.9	NA
Shareholders' Equity (EUR m)	133	130	+2%
Cash and Financial assets	105	101	+4%
Market Capitalization	78	94	-17%
Concession Portfolio	723 MW	803 MW	-10%
Book Value per Share (EUR) (Net Outstanding Equity)	22.2	21.8	+1%
Shares Outstanding net of Treasury shares ('000)	6,014	5,976	+1%

2016 has been an uneven year for Velcan. The Group has strengthened its Balance sheet with the good financial performance of its financial investments and has made significant progress in India. However, the Group still has not found a solution for its Indonesian projects. Velcan is also progressing on its solar projects prospection. The regulatory situation in Brazil has improved markedly.

In India, after obtaining the major environmental and techno-economic clearances in 2015, Velcan has pursued in 2016 the development of its hydroelectric projects. Two of them (totaling 426 MW) out of the three in the portfolio (totaling 571 MW) are now entering a phase of pre-construction activities including notably the land acquisition and the pre-construction technical investigations. These two projects are amongst the most advanced in India. The Ministry of Power (Government of India) has selected them for a special support and follow-up along with few other projects in Arunachal Pradesh in order to fasten their development. Their very good inherent techno-economic features, such as a competitive electricity tariff, easy accessibility and simple project components places these two projects on top of the list of the few private hydropower investments available in India.



In Indonesia, the regulatory uncertainties related to the hydropower purchase agreements terms and tariffs have not yet been cleared, resulting in most hydropower projects in Indonesia remaining stalled. The latest decree from the ministry of energy and mineral resources (March 2017) has resulted in tariffs capped to 85% of the PT PLN (the state owned electricity company) electricity production cost region by region, applicable to all hydropower projects regardless of capacity. The tariff structure could have had a positive impact, but given the production costs retained, this practically means hydropower tariffs would remain unattractive for less than 10 MW projects. It has caused strong reaction from industry professionals and investors. The numerous reactions and discussions under progress have not yet resulted in a favorable outcome for hydropower projects. For these reasons, the situation of the Sukarame project (7 MW), for which we had to suspend the construction in March 2016 due to unavailability of PPA, has not yet changed. The Meureubo 2 (59 MW) faces the same administrative uncertainties and has not yet obtained a PPA due to administrative disagreements with the National utility concerning the PPA negotiation process. The Group is actively engaged in discussions with several potential partners to try to find suitable outcomes. They could have a positive financial impact on the 2017 financial results.

In Brazil, there has been a very significant improvement in the regulatory environment. In case of drought, the Regulator can now invoice a plant only an equivalent of 5% of the missing energy compared to its long-term average. In addition, the Regulator cannot expel anymore a plant from the Insured Energy mechanism because of low production due to drought.

For the third consecutive year, the financial results of the Group have been excellent. The Group has increased its investment in Corporate Bonds with very satisfactory results. The Group keeps looking for effective ways to deploy its cash while maintaining a strong cash buffer.

The target of the Group for 2017 remains the same: developing the hydro power assets and investing the cash in a variety of profitable financial investments.

Detailed comments

Industrial assets:

In India, the Group continued to develop the hydroelectric concessions obtained in 2007 in the State of Arunachal Pradesh. After obtaining in 2015 the main required authorizations (Techno-Economic Clearance or TEC, Environmental Clearance or EC and Forest clearance or FC) for both Heo (240 MW) and Tato-1 (186 MW) projects. VELCAN has made good progress in the preconstruction activities.

Preconstruction studies and investigations have been conducted such as subsoil geotechnical investigations, hydrological and sedimentation surveys and detailed topographical surveys of project component areas, as required by Central Electricity Authority CEA or in view of tender level design. Some of these pre-construction investigations have been completed as of date. Teams have also initiated the land acquisition procedure, which is to be conducted by the State Government with the support

of Velcan. The Social Impact Assessment Unit in charge of social aspects has been selected and notified by the State Government in January 2017 and should commence the social survey and impact assessment in the coming weeks. Once the acquisition is completed, the State Government will lease the land to Velcan's project companies for a period of 40 years. Velcan's projects are the first projects for which the state Government will fully implement the new Land Acquisition Act (2013).

The Ministry of Power, Government of India, has selected 8 hydropower projects located in Arunachal Pradesh prioritized out of more than 75 projects of comparable size, for which a special cell of high ranking representatives of various government departments provides support, coordination and follow-up in order to resolve administrative deadlocks and speed up development. Both Heo and Tato HEPs are amongst these 8 HEPs. Efforts are being made by the Government notably to ensure the upgrading of existing access roads will not delay the start of construction of Heo and Tato-1.

Finally the lengthy process of negotiation for the amendment, extension and update of the concession contracts has reached an advanced stage and our teams look forward to completing such process as soon as possible.

Pauk (145 MW) has made progress, at a pace commensurate with the technical characteristics of the project and its local situation, mainly towards the validation, by the Central Water Commission and the Geological Survey of India, of the civil layout and investigation plan. Land status related issues are still slowing down the development of this project. VELCAN considers that as per the current concession agreement such process and ownership disputes settlement are the responsibility of the licensing Government.

A new hydropower policy has been under discussion for the past months at central Government level to bring a range of significant incentives to the hydropower sector such as preferential interest rates, long terms loans and depreciations, and hydropower purchase obligations on the distribution companies. Such policy would make the Heo and Tato-1 HEPs even more competitive and attractive.

In Brazil, the Rodeio Bonito Hydropower plant (15 MW) recorded a production of 54,801 MWh in 2016, below 2015 record high but at a decent level. 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. As a consequence, payments by Velcan for the MRE (Energy Reallocation Mechanism) were EUR 0.3m in 2016 only vs EUR 1.1m in 2015. The operating and financial performance of the plant in local currency was satisfactory despite a negative FX impact with gross electricity sales reaching EUR 3.7m vs EUR 3.5m in 2015. A very positive development has happened on the regulatory side: Aneel (the regulating authority) is not allowed anymore to expel a plant from the Ensured Energy mechanism (Definition in page 13 of annual report or see annual reports of previous years) after several years of lower production due to drought. It can only reduce its Ensured Energy by a maximum of 10%. This has already happened to Rodeio Bonito due to the previous dry years. Therefore, its Ensured Energy can only increase from now onwards.

In Indonesia, the Group tries to find a solution to the regulatory deadlocks faced by its portfolio. As detailed above and given the administrative uncertainties it is impossible for

Velcan to make any forecast related to the development planning or the perspectives in this country for all its projects with a good level of confidence. This is a countrywide problem and all developers are facing similar difficulties. Bilah (62 MW) has been abandoned in 2016 following the negative technical results received. Sukarame (7 MW) is still on hold to date. Meureubo 2 (59MW) project, which is being developed through a consortium with PJB, an Indonesian State company wholly-owned by the national utility PT PLN, has not yet made progress on the procurement process as detailed above. The Group is actively engaged in discussions with several potential partners to try to find a suitable outcome for the Group. They could have a positive financial impact on the 2017 financial results. Redelong (18 MW) will remain on a slow progress until there is more visibility on Sukarame and Meureubo 2.

Solar projects the Group is currently prospecting a number of solar opportunities. None of them has reached a stage when it can be disclosed to the market. There is a possibility that a first project is announced in 2017.

At the end of the 2016 fiscal year, the Group owns a concession portfolio of 723 MW (vs 803 MW in 2015), out of which 15 MW are under operation.

Financial Assets, cash and cash equivalents

As it has been doing since 2005, and very actively since 2008, the Group is managing its treasury to cover operational costs and provide financial returns. The Group has invested over the years in an extremely diversified array of financial assets including mostly: corporate and government bonds in local and reserve currencies, equities, derivatives, direct lending and private equity investments.

In 2016, the Group's main investments have been in corporate bonds. The exposure has gradually increased from EUR 29 m at the beginning of the year to EUR 46 m at year-end. The Group is mainly exposed to issuers in the BBB and BB categories (as defined by Standard's and Poor). The maturities span a wide range. Although the majority is less than 6 years, some bonds have more than 30 year maturities. A few are of perpetual nature. In 2016 the group invested in majority in USD bonds, from issuers coming from both developed and emerging markets. At year end the biggest lines of the Group's investment in bonds are with the following issuers: JBS (Brazil), Ethias (Belgium), Atradius (Netherlands/Spain), Eksportfinans (Norway), Olam (Singapore), Zurich Insurance (Switzerland), Bluescope Steel (Australia), Israel Electric Corp (Israel) and Areva (France). These bond investments have performed very well in 2016. The Group has invested in bonds since 2008 and this strategy has proved to be a good way to enhance the results of the Group so far. The Group has only suffered one default (OI/Brazilian telco operator) in its history of bond investments. This default has costed the group EUR 0.3 m. This loss is materially less than the extra gain that the group has derived from investing in bonds compared to holding cash.

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

A significant part of the financial assets of the Group consisted as at December 2016 of cash and cash equivalents. Given the current level of interest rates deposits provide little financial

returns. The Group hopes it will be able to find better investments opportunities in the future to deploy these financial resources.

Given the very low interest rate environment and the fact that approximately half the financial assets were invested in cash and cash equivalents, the financial results of 5 863 Keuros over the year is considered a good one.

Financial statements

Income Statement:

Turnover amounted to EUR 3.7m (against EUR 3.5m in 2015), mainly from electricity sales in Brazil. The turnover in local currency increased by 10% despite a slight reduction in Rodeio Bonito's ensured energy; however the increase in EUR is lower due to the BRL average rate depreciation (-4% on the 2016 EUR/BRL average rate compared to 2015).

Net Financial Income for the Group amounted to EUR 5.9m in 2016. This income compares to EUR 6.6m in 2015.

Current operating results amounted to EUR -6.7m down by EUR 2.5m mainly due to provision for impairment of the Indonesian projects. Depreciation and amortization of tangible and intangible assets of Rodeio Bonito plant amounted to EUR 0.8m same as in 2015.

No significant other operating Income was generated during the year. In 2015, other operating income consisted mainly of capital gain on the sale of Laotian assets and amounted to EUR 3.0m.

The net results were EUR -1.4m in 2016 FY compared to EUR 4.9m in 2015 FY.

The Group's EBITDA (earnings before interests, taxes, depreciation and amortization) reached EUR -0.2m compared to EUR 2.7m in 2015. This variance is explained by the fact that the earnings of 2015 included the profit on the sale of the Laotian assets.

The appreciation of BRL and INR rates when compared to Euro, at 2016 closing date, have positively impacted other comprehensive income as the Group's main investments (tangible and intangible) are in foreign currencies (EUR +3.8m in 2016 against EUR -2.0m in 2015). Total comprehensive income amounts to EUR 2.5m in 2016 against EUR 2.9m in 2015.

Balance sheet:

Net intangible assets are down by EUR 3m mainly due to impairment of Indonesian projects amounting to EUR 5.6m, net of capitalization of development expenses on projects under development amounting to EUR 2.0m. Tangible assets increased by EUR 2m between 2015 and 2016 mainly because, the Rodeio Bonito Hydro power Plant being booked in BRL currency, foreign exchange impact on retranslation of the Plant's net assets resulted in a EUR 2.7 gain (EUR -3.5 m for 2015 FY).

Cash and cash equivalents and financial assets have increased from EUR 101m in 2015 to EUR 105m in 2016 (+4%) due to the good performance of the portfolio.

Finally total assets increased by 2.1% during 2016 FY (up by EUR 2.8 m).

Net current and non-current financial liabilities have remained stable.

As at 31st December 2016, unrealized losses on conversion reserves, booked directly against Equity amounted to EUR -4.3m versus an unrealized loss of EUR -8.2m as at 31st December, mainly because of the BRL appreciation (see above comment on 2016 comprehensive income).

The Group has consolidated equity of EUR 133.3m (+EUR 2.8m compared to 2015)has and no significant debt as of 31st December 2016.

Foreseeable evolution of the Group:

After the closing of this financial year, the Group is pursuing the following objectives as a priority for FY 2017:

- Clearing the administrative situation in Indonesia and finalizing the development of the Indian projects;
- Continue the diversification of its investments;
- Increase the net equity per share by finding good investments for the Group cash.

The Board of Directors does not recommend that the Company pay a dividend for FY2016.

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Appendix: SUMMARY FINANCIAL STATEMENTS

SUMMARY FINANCIAL STATEMENTS

Balance Sheet

ASSETS (EUR '000)	2016	2015
NON-CURRENT ASSETS	32 289	33 857
Intangible Assets	16 551	19 572
Tangible Assets ¹	12 893	10 887
Non-Current Financial Assets	2 506	2 840
Other Non-Current Assets	339	558
CURRENT ASSETS	103 808	99 430
Current Financial Assets	48 190	38 485
Cash and Cash Equivalents	54 449	60 056
Other Current Assets	1 169	890
TOTAL ASSETS	136 098	133 287

LIABILITIES (EUR '000)	2016	2015
Equity (Group Share)	133 301	130 435
Minority interests	(35)	58
TOTAL EQUITY	133 266	130 493
NON-CURRENT LIABILITIES	1 883	1 897
CURRENT LIABILITIES	948	898
Bank Debt	-	-
TOTAL LIABILITIES	136 098	133 287

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

Income Statement
(EUR '000)

	2016	2015
Revenues	3 711	3 470
Amortizations, depreciations and Provisions	(6 425)	(3 828)
Ordinary Operating Result	(6 668)	(4 165)
Operating Result	(6 655)	(1 175)
Net Financial Income (Loss)	5 863	6 619
Tax Income (Expense)	(566)	(556)
Income – Minority Share	(93)	(48)
Net Income – Group Share	(1 265)	4 936
EBITDA	(230)	2 654

About Velcan:

Velcan (ALVEL FP) is a company from Luxemburg, developing and operating hydroelectric concessions in emerging countries such as India, Indonesia, and Brazil and investing in a variety of financial assets

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.

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.