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

# 30th June 2019

## Velcan Holdings S.A.

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# I - MANAGEMENT REPORT

## 1. ABOUT VELCAN

Velcan Holdings is a Luxembourg headquartered investment holding company founded in 2005, operating as an independent power producer in India and Brazil and managing a global portfolio of financial assets.

The company owns and operates a 15MW hydro power plant in Brazil that it developed and built in 2009. Its major power project under development is a cascade of hydropower concessions located in India and totaling 571 MW.

Hydropower concessions provide long periods of cash generation but their development outcome is uncertain and many years are needed to bring these projects to maturity in emerging countries : it involves field studies in remote places, the assessment of many different environmental and technical parameters, obtaining the necessary authorizations and permits and conducting the land acquisition in political and regulatory environments that can be unstable or heavily hampering.

Hydropower development requires the prospection of a large portfolio of projects because only a few ones will eventually present competitive techno-economic parameters combined with low environmental impacts and will manage to obtain all the required approvals and permits. As of today, the Group has brought to an advanced stage of development two Indian projects, forming a tandem of 426 MW which present attractive technical and economical features. With these projects, the Group is expecting to take advantage of the promising long term perspectives of the Indian economy and its electricity demand.

Meanwhile Velcan Holdings actively manages its treasury, investing in listed and unlisted financial investments. As of 30th June 2019, 18% of the assets of the group are deployed in power projects or plants, 82% in listed and unlisted financial investments, and cash and cash equivalents (bank current accounts and deposits).

Velcan Holdings' headquarters are in Luxembourg, with administrative and financial offices in Singapore and Mauritius. The operational team dedicated to the development of the Indian hydropower cascade is based in New Delhi and at the project site (Arunachal Pradesh), and the team dedicated to the Rodeio Bonito plant is based in Sao Paulo and Chapecó.

## 2. H1 2019 KEY FIGURES (unaudited)

**Non Audited Consolidated Financial Data**
**in Million Euros**

| | 30.06.2019 | 30.06.2018 | Var % |
|---|---|---|---|
| § Turnover Half Year | 1.4 | 1.2 | +9% |
| § EBITDA Half Year | -0.6 | -0.4 | -57% |
| § Net Result Half Year | 3.6 | 1.2 | +186% |
| | **30.06.2019** | **31.12.2018** | **Var %** |
| § Cash & Financial assets | 101 | 98 | +3% |
| § Market Capitalization | 50 | 46 | +8% |
| § Cons. Equity | 121 | 118 | +3% |
| **Issued shares less Treasury shares (in Thousands)** | | | |
| § Net outstanding shares | 5,691 | 5,813 | -2% |

| | POWER PROJECTS PORTFOLIO UPDATE | 30/06/19 | 30/06/18 |
|---|---|---|---|
| GLOBAL | Portfolio of concessions and production facilities. | 586 MW | 629 MW |
| BRAZIL | Hydroelectric plant in operation | 15 MW | 15 MW |
| BRAZIL | Projects under development | 0 * | 43 MW * |
| INDIA | Projects under development. | 571 MW | 571 MW |

* The entire Brazilian portfolio of projects under development was already fully impaired as of 31/12/2017. The decrease of the Brazilian portfolio comes from the withdrawal from the portfolio of Pirapetinga (23MW) and Ibituruna (20 MW) decided by the Group. These two projects were already fully impaired, not active and considered non feasible.

## 3. IMPORTANT EVENTS AND ACTIVITY OVER THE PERIOD

***H1 2019 key figures comments***

Velcan Holdings' turnover in the first half of 2019 (H1 2019) amounted to EUR 1.4m arising from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil. It was up by 9% when expressed in Euros and up by 15% when expressed in BRL relative to H1 2018.

Consumed purchases in Brazil amounted to EUR 0 m for H1 2019 compared to EUR -0.1m during H1 2018.

Operating costs were down relative to H1 2018 (EUR -2.0m for H1 2019 compared to EUR -2.1m for H1 2018). Depreciation, Amortization & Provisions were up (EUR -0.6 m for H1 2019 vs -0.4 m for H1 2018).

Other operating income amounted to EUR 0 m for H1 2019 vs EUR 0.5m in H1 2018 where it mostly related to the sale of a hydro asset in Indonesia. As a result, operating result was lower (EUR -1.2m) compared to H1 2018 (EUR -0.8m).

Net financial income for H1 2019 was EUR 4.9m vs. EUR 2.1m in H1 2018 mainly due to the performance of the Group's financial assets and to the appreciation of the US dollar vs the Euro as most of the Group's financial investments and cash are invested in US dollar. The FX realized and unrealized gain was EUR 0.5m vs EUR 1.8m in H1 2018, while the financial gain excluding FX was EUR 4.3m against EUR 0.3m in H1 2018. As mentioned earlier and as detailed in this report, the majority of the financial assets of the Group are Bonds.

Net result, Group share, was therefore a gain of EUR 3.6m vs. a gain of EUR 1.3m in H1 2018.

Group other comprehensive income amounts to EUR 0.4m in H1 2019 vs -2.0 m in H1 2018, mostly due to the depreciation of the Euro compared to the Brazilian currency (-2%) and the Indian Rupee (-2%) and its impact on the Group conversion reserves where the assets held in foreign currency in Brazil (Rodeio Bonito) and India are translated into Euro. The Group total comprehensive income for H1 2019 amounts to EUR 3.9m.

Shareholders equity amounts to EUR 121.3m as of 30th June 2019 vs. EUR 118.2m as of 31st December 2018 (EUR +3.1 m) mostly due to the positive comprehensive income during H1 2019 (EUR 3.9 m), the acquisition of own shares (EUR -1.3 m of negative impact on the shareholders equity) and the distribution of free shares to employees (EUR +0.4 m of positive impact on the shareholders equity).

The Company has conducted a share buyback program between the 13th September 2018 and the 15th May 2019 during which it has completed the purchase of 254,128 shares, at a weighted average price of EUR 7.92 per share and for a total amount of EUR 2,011,551 in accordance with the description of the share buyback program published on September 13th, 2018 and the resolutions of the General Meetings of Shareholders held on June 28th, 2017 and July 28th, 2017. 159,335 shares were acquired during H1 2019 out of the 254,128 shares. All the 254,128 shares bought back were cancelled accordingly on 8th August 2019 through a capital decrease.

37 200 shares were distributed to employees in early 2019 (the cost of which was already booked in 2018 accounts).

The number of 590,997 Treasury shares as of 30th June 2019 has increased as compared to 31st December 2018 (468,862 own shares) due to the above mentioned program and despite the distribution of 37 200 shares to employees. The net number of outstanding shares as of 30th June 2019 is 5,690,970. However, 451.147 treasury shares were cancelled in August 2019 (see "important events since June 30th 2019").

***Brazil - business and main events during H1 2019***

The production of 37,600 MWh during H1 (against 23,740 MWh in H1 2018) was satisfactory and above Rodeio Bonito's ensured energy[1].

This reflects better precipitation levels in Brazil in 2019 as compared to the low precipitation levels in Brazil in 2018.

This resulted in an overall MRE system (Energy Reallocation System) not in deficit in H2019, for the first time since 2014. It resulted in a slightly positive result of BRL +45k in H1 2019 (compared to BRL -0.2m for H1 2018) for the Rodeio Bonito plant. Translated in Euros, the consumed purchases (Mainly constituted by MRE) were not impacted in H1 2019, while they amounted to EUR -0.1m in H1 2018, and to EUR -0.4m for the full year 2018. .

The MRE impact during H2 2019 will depend on national precipitation levels until the end of the year.

The operation and maintenance of Rodeio Bonito are satisfactory with a technical availability of 98.5% during H1 2019 against 95% for H1 2018.

Electricity sale prices in the spot market continued to rise, benefiting to the plant for the part of its the power sold on such market. Due to these combined effects, and despite a negative forex variation (-5% for the average rate used in the translation of the result from BRL into EUR between H1 2019 and H1 2018), the turnover has increased by 9% when expressed in Euro and by 15% when expressed in BRL during H1 2019 (EUR 1.4m or BRL 5.9m) compared to H1 2018 (EUR 1.2m or BRL 5.1m).

The EBITDA (earnings before interests, taxes and amortization) of the plant amounted to BRL 4.7m against BRL 3.7m in H1 2018. When converted in EUR, the EBITDA was up to EUR 1.1m vs 0.9m in H1 2018.

***India - business and main events during H1 2019***

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

For the hydroelectric tandem Heo-Tato-1 (426 MW), the feasibility studies have been completed and all the three major authorizations have been obtained in 2015: Techno-Economic Clearance (TEC – sanctioned by the Central Electricity Authority - CEA, Ministry of Power), Environmental Clearance and Forest Clearance, each granted by a different department of the Ministry of Environment and Forest (MOEF). Very few privately held greenfield projects have reached such level of development in Arunachal Pradesh – and in the Indian Himalayas. Since late 2015 the Group is focusing on the project main next steps as described below.

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[1] In Brazil, « guaranteed energy » or « ensured energy » means the annually marketable energy as approved by MME – Ministério de Minas e Energia (Department of Mines and Energy) and guaranteed through the Brazilian power system for power plants opting for the MRE (Energy reallocation Mechanism), mechanism functioning at national scale, even if the production is impacted by a bad hydrology some years. This mechanism covers the hydrological risk in case some Brazilian areas are experiencing drought, whereas other areas are experiencing heavy rains. The guaranteed energy is usually sold through mid-term fixed inflation-linked contracts. However this mechanism does not cover the risk of a national drought across Brazil which results in an overall MRE system in deficit. In this case, the Rodeio Bonito plant EBITDA could collapse drastically as all participants of the MRE system will have their guaranteed energy reduced proportionally to the overall deficit. In this case the plant has to purchase electricity in the spot market to compensate for its generation deficit, called MRE payments as consumed purchases.

- Post TEC technical investigations and studies

Most post TEC field studies and investigations at site required at this stage by Central Electricity Authority have been already completed between 2016 and 2017. The detailed tender design level topographical surveys of project components (power houses and intake areas) and internal project roads has been completed for Heo HEP and Tato-1 HEP intake site and roads as of May 2017. The detailed topographical survey of the Tato-1 HEP power house and adit sites could still not be completed because the suspension bridge destroyed in 2017 has still not been rebuilt, leaving the concerned sites inaccessible as of date. Sedimentation studies initiated in April 2016 have been completed. For the past 12 years hydrological measurements have been conducted. The Group has now completed a dependable and detailed set of studies and investigations which will bring the Projects to the main next technical step, the tender level design.[2] It will start along with the beginning of discussions with power purchasers and EPC contractors, when the projects will move towards financial closure.

- Amendment of the Concession Agreement

Following the TEC, which has frozen the installed capacity of the projects to 426 MW, the Group has engaged the process for amending the concession agreement in order to amend such installed capacity (which was previously 380 MW). The negotiations with the Government of Arunachal Pradesh cover several matters such as a new implementation timeframe for the projects, the administrative fees related to the execution of the new concession agreement, a minority equity participation requested by the Government of Arunachal Pradesh (GOAP), and the final quantum of free power due to GOAP once the project will be commissioned. The current concession agreements where executed in 2007 and amended in 2009 following the first increase of capacities.[3] Discussions have been pending for more than 3 years. In view of recent meetings, a new round of negotiations is expected to take place by the end of the year.

- Land acquisition

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

In June 2016, the Group has submitted applications to the Deputy Commissioner of the West Siang District, Arunachal Pradesh in order to initiate the acquisition of the land required for Tato 1 and Heo HEPs. A Notification has been issued by the Commissioner, Land Management, GoAP in February 2017 appointing the Rajiv Gandhi University, Itanagar, Arunachal Pradesh as Social Impact Assessment unit. The Notification of the start of the Social Impact Assessment (SIA) has been issued by the Government on 3rd August 2017, and first onsite site surveys and interviews of the local public by the SIA Team surveys have been conducted in September 2017. The SIA and Social Impact Management Plan (SIMP) draft reports have been completed and submitted to the district administration on 26th December 2017. The public hearings required by the regulations in order to discuss the SIA and the SIMP with the local public have been held in all the 8 concerned villages on 23rd and 24th of January 2018. During the hearings, the local people have expressed their support in favor of the projects, and expressed their concerns notably about the future influx of a migrant population of workers during construction. The SIA

[2] for Tato-1 power house it will be the case when the aforementioned bridge is rebuilt and detailed topographical survey completed.

[3] As per such agreements the plants' construction was to be started within 4 years after their execution (being 2013) and the plants were to be commissioned within 7 years after their execution (being 2016), failing which the concessions can be terminated. However the agreements provide that these periods should be extended in case of force majeure and delays for reasons non attributable to the developer.

unit has concluded the projects entail more benefits than costs and has submitted the final SIA and SIMP reports to the State Government on 2nd February 2018.

Such SIA & SIMP reports have been reviewed by the Expert Group (an independent body appointed by the Government on 14th February 2018), which assesses the costs and benefits of the project and its public purpose. The Expert Group has held a meeting on 29th March 2018 and has issued its recommendation to the State Government, in favor of the acquisition of the Project land.

Meanwhile, the District Administration has initiated the procedure to establish the land revenue registry and to collect the consent of at least 80% of the land owners through a prefectural decree dated 21st March 2018. This implies a negotiation between the Government and the affected populations for the establishment of a list of owners and the determination of the quantum of land which belongs to each owner (land revenue registry), so that the financial compensations can be distributed amongst the owners. Considering a significant part of the land is disputed between clans or within the same clans, in particular in the Heo Project land, the Group expects this procedure to take time. Following site surveys and meetings conducted on 28th April, 9th and 10th May 2018, the District Commissioner has issued preliminary reports starting to identify clan wise collective ownership of the different land parcels. These reports are incomplete as they do not yet list individual ownerships and sometimes list several clans on single parcels without any breakup between the concerned clans. They recorded 32% of Heo HEP sites and 4% Tato-1 HEP sites as under dispute and the Group believes these preliminary reports do not yet take into account all existing claims and disputes. Claims can be registered later during the course of the process and the Group also foresees that it is likely that more claims will be presented, notably before the establishment of individual ownerships or allocation of shares of financial compensations (for the complete land owners registry). Due to the above insufficiencies, the District Administration has undertaken to establish an improved revised list which was issued on 28th January 2019. The new list has detailed project component areas per land owners / claimant and mentioned when ownership is recorded on behalf of clans (community land). However the disputes have not been cleared in such list, and it is still likely more claims will arise at the time of financial awards to be made by the State Administration.

Based on this second list, the District Administration issued on 15th February 2019 the notice calling for the meetings of the Gram Sabhas (11 village councils) and Affected Land owners (18 clans registered in the above mentioned list). The meetings have been held on 11th and 12th March 2019. All the 9 village councils have voted their consent to the acquisition of land for the development of the projects. 85% and 83% of the Land owners have individually given their consent in the Heo and Tato-1 projects respectively, thereby fulfilling the legal requirement of 80%. On 13th March 2019, the District Commissioner issued its report to the State Government Land Department in view of issuance of Section 11 notification. Such notification validates the procedure previous steps (SIA, hearings, etc.), acknowledges the consent of the land owners and approves that the land is to be acquired for the Projects. As per the applicable regulations, the State Government was bound to issue the Section 11 notification by 27th March 2019 (within 12 months following the Expert Group recommendation). However, due to the preparation of local elections due in April 2019, and the applicability of the Code of Conduct during such pre-elections period (which prevents the Government from undertaking anything else than day to day current affairs), the State Government has issued in late March 2019 an extension of time until 26th September 2019 for issuance of the Section 11 notification.

Such notification was duly executed by the State Government on 26th September 2019, acting the State Government decision to acquire the required land (totaling 107.20 Ha) for public purpose, based on the successful completion of the first phase of the acquisition procedure. It prevents any other land related transaction to take place and triggers the next steps of the procedure.

The Group is supporting, to the best of its legal and technical capabilities, this process. The administrative procedure is being monitored closely to ensure a proper coordination with the government authorities, and the preservation of the local owners' rights and privileges. Well aware of its corporate and social responsibility, the Group tries to ensure that the local population and the owners are well informed with the procedures and the project, that any potential negative impact is or will be mitigated and compensated. This task is not easy and its result not guaranteed because in some situations there can be divergent interests at stake when considering the numerous parties involved, both public or private. As an example the Group has a dedicated team undertaking actions on a regular basis such as  local awareness campaigns, CSR activities and logistical support for the land acquisition related activities or other works conducted at the project sites.

Obtaining the land owners' consent, is a major milestone in the land acquisition procedure, although it does not yet resolve the land registry disputes.

The State Government will now have to initiate another set of surveys and complex procedural steps such as notably a detailed and individual census of affected families, the marking of individual land boundaries, the hearing of individual objections, the preparation and publication of Rehabilitation & Resettlement plans (Section 19), the public hearings on such plans, the issuance of financial awards (Sections 23 and 31) and the physical possession of the Land (Section 38).

One of the sensitive steps of the procedure will be to award financial compensations as it should require the State Government to determine precisely the land revenue registry and /or to settle the disputes.

As currently experienced with the Pauk HEP, and earlier with Heo and Tato-1 HEPs, in practice the physical access to the land to perform site works can be difficult and even impeded despite desk surveys and administrative decisions, which are often weakened by the lack of Law and Order enforcement.

As per our knowledge it is the first time the State Government acquires land under this new Land Acquisition Act (2013) and the procedure is complex. The Group's teams are in daily contact with the concerned authorities and actively supports and follow-up the procedure.

- Road infrastructure requirements

The public roads leading to the project sites are undergoing an upgrade of bridges and widening of roads program, that will, once completed, allow the transportation of construction and electrical & mechanical equipment. The last 87 Km of road (under the Ministry of Defense) leading to the Projects sites were initially scheduled to be ready between 2020 and 2022. However, as per the information gathered by the Group's local team, for most of the concerned stretch, the feasibility and technical studies (DPR – Detailed Project Report) have not yet been awarded to engineering firms. That practically means the entire process remains pending : technical studies, field surveys and investigations, preparation of DPR in accordance with National Highway Double Lane road standards, approval of DPR by appropriate Ministries (Roads and Transport or Ministry of Defense), Forest Clearance, detailed designs, sanction of budgets, call for tenders from contractors and finally at least 3 years of construction work. Unless there is a change of plan or new measures to fasten the studies and the construction, it is likely these road will not be ready before 2024 or 2025. A joint survey was conducted in November 2016 between Velcan's Team and the Border Roads Organization (BRO/Ministry Of Defense) in order to assess what parts of the concerned stretches are critical to the Group's projects in view of making sure the BRO would have them ready earlier. Following several joint meetings under the umbrella of the Ministry of Power (MoP, Govt. of India), MoP has submitted a request to the Ministry of Defense for that purpose. Tentative budgets for undertaking some works in advance have been prepared by the Ministry of Defense in November

2017 and February 2018 but have not yet been sanctioned. There has been no progress on this particular attempt since then. However, the new hydropower policy published on 7th March 2019 provides for budgetary support to be granted to hydropower projects for road infrastructure development, which may help in the future to speed up road works completion (see below the details on this policy). The Group has been contacted in September 2019 by the Government of India "*Task Force for consolidating the National infrastructure pipeline*" in order to furnish technical data on its project's road requirement.

- Forest Clearance

The issuance of the Forest Clearance stage 2, which allows to physically take over the forest land (subject to land acquisition by the Sate Govt. being complete), is subject to the fulfilment of some conditions (in addition to the land acquisition). The Forest Clearance stage 1 issued by the Ministry of Environment and Forests (MOEF, Govt. of India) notably requires the State Government to identify additional compensatory afforestation land (land where forest is to be replanted) of 7 Ha for Heo HEP and 12 Ha for Tato-1 HEP. The State Government has proposed to the Ministry a piece of land in April 2016, which has been rejected in January 2017 as inappropriate for afforestation purpose by the MOEF. Further, the State Government clarified in November 2017 that an area of 8.4 Ha is consisting of rocky area and that an adjoining area can be utilized for required compensatory afforestation plantations for Tato-I & Heo projects. MOEF has requested additional technical clarifications in May 2018. In April 2019, the State Government has finally clarified to the MOEF all pending issues, and sent the report on compliance of stage 1 clearance.

On a separate matter, in view of some technical layout adjustments required for one access road and several quarry sites, the Group submitted in June 2017 an application for the approval of such changes which will amend some of the technical features and maps of the Stage 1 Forest Clearance. The applications have been forwarded by the Divisional Forest Officer (DFO) in February 2018 and by the Chief Conservator of Forest (CCF) in April 2018 for both projects. The State Government has recommended the amendment for the Tato-1 HEP in June 2018 and for the Heo HEP in November 2018 and forwarded the case to the Ministry of Environment and Forests for final approval

As part of this revision of the forest land layout maps, the revision of the entire procedure under the Forest Right Act (FRA) also had to be conducted. This regulation aims at ensuring forest dwellers and tribal populations are agreeable to the project in their area and that their traditional rights are preserved (such as fishing rights or use of timber for example). It involves multistage collegial approvals by different local authorities, from the village councils (approved in March 2018) to the State level district committee (in July 2018). The final compliance certificates have been issued for both projects on 31st July 2018 by the State Government. The renewed support of the local population is instrumental to the Group and the future of the projects. It materializes the results of the Group's CSR activities, its local presence on the field, and the team constant interaction with local people.

Based on all required above submissions by the State Government, the Forest Advisory Committee meeting - the expert body in charge of forest related approvals at the MOEF - has been conducted on 22nd May, 2019 and, directed to the Regional Office of MoEF to visit the project sites and to submit the detailed report to the Ministry on the proposed changes. The site visit is scheduled between late October 2019 and the first half of November. Thereafter the Regional Office will forward its report to the central MoEF for final approval.

➢ Availability of bankable Power Purchase Agreement(s)

The sale of hydroelectricity is facing several challenges. Whereas solar and wind power have benefited both from a well-defined tariff based bidding procurement procedure and a political willingness to increase installed capacities for a long time, hydropower PPAs remain to be signed under a bilateral MOU route with a post commissioning tariff approval by state regulatory commissions. The lack of clarity of such procedures is one of the factors dissuading DISCOMS to sign long term hydro PPAs. For example the present procedure leaves the sensitive question of cost-overruns bearing widely opened, and DISCOMS do not want to carry such risk given the potential cost overruns faced by hydropower projects.

In addition, solar and wind tariff have fallen dramatically over the past years with some auctions touching as low as Rs 2.50 per unit in 2018, whereas most competitive hydro power projects are often more significantly more expensive, although their lifespans makes them cheaper on the long term. A hydropower concession sells power for 40 years, after which the plant is handed over for free to the state and still has decades to run. This longevity advantage is not computed in the tariff of the initial power purchase agreements as per the applicable regulation. Although hydropower does not compete directly with solar power because it sells very long term, predictable and peak power the overall market is impacted by solar and wind tariffs. As a result of these low solar and wind power tariffs, coupled with the current Renewable Power Obligation[4] imposed on them by the Indian renewable energy policy, the DISCOMS have not been inclined to signing long term hydro PPAs in recent years.

Another negative factor lies with the overall demand – supply scenario as most states currently have contracted capacities in excess of their demand, due to lower than anticipated demand and robust / on-schedule generation capacity additions. However this situation should not last because a steady demand growth is expected in the next ten years, which, coupled with absence of investments in coal based capacities, should absorb excess capacities in most states.

Regarding the UDAY scheme (refinancing Government Scheme to improve the financial health of distribution companies), the effects on hydropower PPAs market is yet to be seen.

The Government of India has however undertaken to reverse the above negative scenario by publishing on 7th March 2019 a new hydropower policy which features the following main measures:

i. Large Hydropower Projects to be declared as Renewable Energy source (as per existing practice, only hydropower projects less than 25MW are categorized as Renewable Energy).
ii. Hydro Purchase Obligation (HPO) will be imposed on DISCOMS and included as part of non-solar Renewable Purchase Obligation, which means DISCOMS will be obliged to purchase hydropower. Annual HPO targets will be notified by Ministry of Power based on the projected capacity addition plans in hydropower sector. Necessary amendments will be introduced in the Tariff Policy and Tariff Regulations to operationalize HPO.
iii. Tariff rationalization measures have been introduced, including a flexibility to the developers to determine the tariff by "back loading" it after increasing the computation period, an increase of the debt repayment period to 18 years and an escalating tariff of 2%. The purpose of these measures is to lower the first years' tariffs. The modalities of new tariff calculations will be determined by the Central Electricity Regulatory Commission.

[4] This RPO forces DISCOMS to purchase 15% of their electricity from renewable sources, which include solar and wind power but exclude hydropower above 25 MW/

iv. Budgetary support is to be granted by the Government towards development of infrastructures such as roads and bridges on case by case basis, limited to Rs. 15 m (193 kEur) per MW for projects up to 200 MW like Tato-1 HEP and and to Rs. 10 m (128 kEur) per MW for projects above 200 MW like Heo HEP.

The Pauk HEP (145 MW)

The project progress continues at a slower pace, commensurate with the Project's specific technical and administrative characteristics. After several months of technical discussions, the Company obtained from the Central Water Commission (Govt. of India) the approval of the project basic design in April 2017, and the approval of the geological investigation plan from the Geological Survey of India in August 2017. Based on such approvals the next step is mainly to conduct the approved investigation plan. However the performance of site investigations remains subject to the clearance of landownership disputes. As an example, after several months of negotiations, a work order to shift a drilling machine at Pauk Power house site could be signed and shared between several clans on 23rd March 2018. The drilling equipment could be transported on a part of the required path during the month of May 2018 and accesses prepared in September 2018. However thereafter new inter-clan disputes interrupted the work. Orders have been issued by the district administration to direct the restart of the work, and several discussions have been going on in October 2018 and February 2019 between the concerned clans, but without success. Finally the shifting of the drilling machinery could be completed on 4th August 2019. The required 57 m deep in rock drilling work at the power site was completed on 16th September 2019. The Group is assessing the situation and the strategy to continue with the next drills at the power house site, as well as at the dam site.

The above mentioned disputes have often slowed down or prevented activities at the site in the past years. The Group will keep supporting and pushing this project as it features a diurnal reservoir which would allow the entire cascade to generate peak power 3 hours daily at full capacity. Such a peaking capacity may in the future make the cascade more attractive and / or increase its profitability. Due to the massive addition of variable and unpredictable renewable capacities (solar and wind) during the past years and planned until 2027, the Indian grid is expected to be more and more impacted by sudden changes often occurring in solar and wind generation, thus risking stable and safe grid operations. Peak hydropower is a solution to this issue as it allows the flexibility to inject power on demand very quickly, and could therefore answer specific needs. The opportunity for hydropower in this regard will also depend on the efficiency and cost effectiveness of other storage based solutions such as batteries.

Conclusion on the Indian projects

The Government of India has undertaken to reverse the above negative market scenario by publishing on 7th March 2019 a new hydropower policy which features main measures such as a Hydro Purchase Obligation (HPO) to be imposed on distribution companies or plans to reduce the hydropower tariffs in the first years of the PPA to make it more attractive to power purchasers.

In principle the above new policy is a good news, and it marks a long awaited shift in the Government of India policy towards establishing a regulatory framework facilitating the signing of long term PPAs and supporting hydropower development. The details and implantation modalities remain to be seen and the Company is following up closely the evolution of this new framework.

The Company keeps making progress in areas that depend on itself. The local team presence on the field, coordination of activities involving the local people and government services, logistical support and CSR activities are enabling the project to progress but as always the pace is limited by how quickly the local people negotiate and accept the changes that the projects will bring.

In the current advanced project development phase, most activities are under the purview and legal responsibility of local and national Government entities, including instrumental land acquisition and road infrastructures. These activities are progressing at variable paces but generally slowly and they regularly encounter impediments and delays. Progress is also always subject to political and legal risks such as changes in legislation and / or government. On this side, the Group takes note of the new hydropower policy mentioned above which has been decided by the Government of India. Although the results will take some time and depend on implementation modalities not yet known, this policy is a significant measures and positive sign towards the recovery of the hydropower market.

Until now, the Indian commercial and financial market conditions have not been favourable to the sale of hydropower, as the market has remained constrained by the indirect competition of RE tariffs, the bad financial health of electricity distribution companies (DISCOMS), the insufficient regulatory framework not allowing the sale of power through long term bankable PPAs and the heavy exposure of the banking sector to bad infrastructure loans. The impact of the new hydropower policy on this current scenario is yet to be seen.

In terms of long term power demand, even if some states are in power surplus scenario on the short term (1-2 years) they would all be experiencing peak and average deficits at the end of 2022. The demand could even become significantly larger (> 20 GW) if new MOEF norms for coal based power plants are enforced to meet emissions standard and if renewable energy capacities are under achieved. That should leave room for the procurement of hydropower by DISCOMS if a proper regulatory framework is in place.

Also, in 2018 and 2019 there has been few cases of DISCOMS calling for expression of interests to purchase long term hydropower, for a supply of power in 2019. Although another a positive sign, these initiatives have not yet resulted in the signature of any bankable long term hydropower PPAs by private developers of greenfield projects, as per our knowledge.

The Group’s team pushes all project activities including by assisting the Government for those activities which are not its direct responsibility and by providing support to Government entities whenever possible. Although the Group continues to see long term promising prospects in the Indian electricity market, the Group is not in a position to assess the timeframe and the scale of the various delays which are or will be encountered.

Upon reaching a bankable PPA and the financial close for the 426 MW tandem, the Group will require USD 112 million to USD 134 million to fund the equity required for the construction of the projects (estimate which will vary notably depending on the final completion dates, final financing costs, completion costs, and exchange rates).

No additional provision has been decided for FY 2018. In view of the uncertainties of the Indian market and the delays encountered, the Company had decided already decided to book a provision in 2017, of EUR 2.2m (16%) on the intangible value of the Indian projects.

## 4. IMPORTANT EVENTS SINCE 30th JUNE 2019

- Cancellation of 451,147 treasury shares,

On 8th August the Company has cancelled 451,147 treasury shares, out of which 254,128 were bought during the buyback program closed on 15th May 2019 and 197 019 shares were previously held by the Group. As a result the share capital was reduced from 6,281,967 Euros divided into 6,281,967 shares of 1 Euro each to 5,830,820 Euros divided into 5,830,820 shares of 1 Euro each. Following this capital reduction, the Company holds 139,850 treasury shares which are kept for free share plans allocations.

- Completion of the first phase of the land acquisition procedure of the Indian Hydropower Projects,

As announced by the press release dated 8th April 2019, the first phase of the land acquisition procedure was extended by 6 months, up to the deadline of 26th September 2019, to issue the "Section 11 preliminary notification" under the regulations applicable to the Heo-Tato1 hydropower tandem project (426 MW).

Such notification was duly executed by the State Government on 26th September 2019. It is the act by which the State Government decides to acquire the required land (totaling 107.20 Ha) for public purpose, based on the successful completion of the first phase of the acquisition procedure. It prevents any other land related transaction to take place and triggers the next steps of the procedure.

The completion of this phase, especially obtaining the land owners' consent, is a major milestone in the land acquisition procedure, although it does not yet resolve the land registry disputes. At a later stage, the settlement of these disputes will be necessary to determine the sharing of the financial compensations between land owners.

The State Government will now have to initiate another set of surveys and complex procedural steps such as notably a detailed and individual census of affected families, the marking of land boundaries, the hearing of individual objections, the preparation and publication of Rehabilitation & Resettlement plans (Section 19), the public hearings on such plans, the issuance of financial awards (Sections 23 and 31) and the physical possession of the Land (Section 38).

## II – UNAUDITED CONSOLIDATED BALANCE SHEET (ASSETS)

*In thousands of Euros*

| Assets | 30.06.2019 | 31.12.2018 |
|---|---|---|
| **Non current assets** | | |
| Intangible assets | 13,785 | 13,630 |
| Tangible assets | 8,540 | 8,674 |
| Non current financial assets | 3,825 | 3,567 |
| **Total non-current assets** | **26,150** | **25,872** |
| **Current assets** | | |
| Current financial assets | 70,112 | 63,839 |
| Trade and other receivables | 229 | 244 |
| Income tax receivables | 13 | 10 |
| Other current assets | 153 | 299 |
| Cash and cash equivalents | 26,791 | 30,383 |
| **Total current assets** | **97,298** | **94,776** |
| **Total assets** | **123,448** | **120,647** |

## III – UNAUDITED CONSOLIDATED BALANCE SHEET (LIABILITIES)

*Thousands of Euros*

| Liabilities | 30.06.2019 | 31.12.2018 |
|---|---|---|
| **Equity** | | |
| Issued capital | 6,282 | 6,282 |
| Additional paid in capital | 125,357 | 125,357 |
| Other reserves and conversion reserves | (13,903) | (13,978) |
| Net income for the year | 3,550 | 552 |
| **Equity attributable to the equity holders of the parent** | **121,286** | **118,213** |
| **Non-controlling interests** | 8 | 8 |
| **Total Equity** | **121,294** | **118,220** |
| **Non current liabilities** | | |
| Non current provisions | 817 | 801 |
| Other non current liabilities | 1,064 | 1,043 |
| **Total non-current liabilities** | **1,880** | **1,844** |
| **Current liabilities** | | |
| Trade and other payables | 216 | 515 |
| Income tax payables | 49 | 53 |
| Other current liabilities | 9 | 14 |
| **Total Current Liabilities** | **274** | **583** |
| **Total Liabilities** | **123,448** | **120,647** |

## IV – UNAUDITED INCOME STATEMENT

*Thousands of Euros*

| Statement of Profit & Loss | 30.06.2019 | 30.06.2018 |
|---|---|---|
| Operating revenues | 1,355 | 1,241 |
| Other operating revenues | - | - |
| **Total operating revenues** | **1,355** | **1,241** |
| Purchases | (9) | (58) |
| External expenses | (723) | (788) |
| Payroll expenses | (1,243) | (1,291) |
| Operating tax expenses | (0) | (4) |
| Depreciation, Amortization & Provisions | (599) | (361) |
| **Current operating result** | **(1,218)** | **(1,262)** |
| Other operating income | 9 | 511 |
| **Operating result** | **(1,210)** | **(751)** |
| Financial Income | 5,482 | 2,450 |
| Financial expenses | (606) | (360) |
| **Financial Result** | **4,877** | **2,090** |
| Income tax expense (-) / benefit (+) | (117) | (96) |
| **Net result from continuing operations** | **3,550** | **1,242** |
| **Net result, group share** | **3,550** | **1,254** |
| **Net result, shares of non-controlling interests** | **-** | **(12)** |
| Earnings per share (in Euros) | 0.61 | 0.21 |
| Diluted earnings per share (in Euros) | 0.60 | 0.20 |
| **EBITDA** | **(611)** | **(390)** |

| Statement of total comprehensive Income | 30.06.2019 | 30.06.2018 |
|---|---|---|
| Net income | 3,550 | 1,242 |
| Other comprehensive income, that will not be reclassified subsequently to profit or loss | 394 | (2,035) |
| **Total Comprehensive Income** | **3,944** | **(793)** |
| thereof attributable to non-controlling interests | (0) | 13 |
| **Group Total Comprehensive income** | **3,944** | **(781)** |

# V - COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. EFFECTIVE FOREIGN EXCHANGE RATES

| *1 € =* | 30.06.2019 | | 31.12.2018 | | 30.06.2018 | |
|---|---|---|---|---|---|---|
| | Closing rate | Average rate | Closing rate | Average rate | Closing rate | Average rate |
| BRL (Brazilian Real) | 4.38 | 4.35 | 4.45 | 4.31 | 4.53 | 4.14 |
| INR (Indian Rupee) | 78.40 | 79.09 | 79.94 | 80.72 | 79.93 | 79.55 |
| AED (Dirham UAE) | 4.18 | 4.15 | 4.21 | 4.34 | 4.29 | 4.45 |
| USD (US Dollar) | 1.14 | 1.13 | 1.15 | 1.18 | 1.17 | 1.21 |
| SGD (Singapore Dollar) | 1.54 | 1.54 | 1.56 | 1.59 | 1.59 | 1.61 |
| IDR (Indonesian Rupiah) | 16,057 | 16,029 | 16,468 | 16,790 | 16,732 | 16,662 |

## 2. COMMENTS ON THE BALANCE SHEET

**ASSETS**

Intangible Assets

The Group continued to develop its concessions in India (EUR +0.3m of gross intangible assets in H1 2019). The positive effect of currency fluctuations (EUR 0.2m) net of amortization and provisions allowance (EUR -0.3m) therefore prompted intangible assets to increase by EUR 0.2m (to EUR 13.8m vs. EUR 13.6m at 31st December 2018).

Tangible Assets:

Tangible assets were down to EUR 8.5m at of 30th June 2019 versus EUR 8.7m at 31st December 2018, a decrease of EUR 0.2m. 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 0.1m) and, on the other hand, the depreciation expense of that same asset (EUR -0.3m)

Cash, Cash Equivalents & financial assets:

These assets were slightly up (EUR 2.9m only) despite the Group's positive financial result (EUR 4.9) because of the share buyback program (EUR – 1.3m). The appreciation of the USD over the last two months of H1 2019 has contributed to FX gains (EUR 0.5m) as most of the Group's Cash, Cash Equivalents and financial assets have been held in USD.

Financial asset instruments (EUR 73.9 m) are mainly composed of Bonds issued by corporations and Governments, and to a lesser extent by Collateralized Loan Obligation funds, for a total of EUR 58.4m, Listed equities (EUR 1.6m), Unlisted equities and unsecured lending (EUR 1.0m), Quantitative funds (EUR 10.1m), Secured lending net of provisions (EUR 2.8 m) while the cash and cash equivalent is invested in short-term fixed deposits, money market funds and on bank accounts (EUR 26.8m).

The group's bond portfolio is mostly exposed to issuers in the BBB, BB and Not Rated categories (as defined by Standard's & Poor) and has 38% Emerging and Frontier Markets exposure. About 48% of the bonds have maturities less than 5 years and the remainder spans a wide range. In H1 2019, exposure to bonds with maturities 10Y and above amounts to EUR 20.7m.

At half-year end the biggest lines of the Group are with the following issuers, respectively (with exposure comprised between EUR 8.0 m and EUR 4.0m) : Norddeutsche Landesbank GZ (Germany), CMA-CGM (France), Olam (Singapore), BBVA Bancomer (Mexico), TRAFIGURA (Singapore) and the Republic of Argentina.

Direct lending includes a secured senior USD loan towards the financing of a tanker, of which the amount net of provisions is EUR 2.8 m as of 30th June. Given the initial borrower's default and the uncertainties faced in enforcing the mortgage due to several ongoing litigations, a provision has been accounted. The exact amount of this provision is kept confidential given the several litigations that the Group has initiated.

**LIABILITIES**

Non-current provisions :
Non-current liabilities (EUR 0.8m) are broadly stable at constant exchange rates and stem from unresolved disputes relating to the Group's past ownership of Biomass facilities in India.

Other non-current liabilities:
Other non-current liabilities (EUR 1.1m) are broadly stable at constant exchange rates and stem from advances made to the group and whose reimbursement are contingent to conditions that are not met at this date.

## 3. COMMENTS ON THE INCOME STATEMENT

EBITDA was negative during H1 2019 (EUR -0.6m vs. EUR -0.4m in H1 2018). Net result, Group Share, was a gain of EUR 3.6m vs. a gain of EUR 1.3m previously.

**CURRENT OPERATING PROFIT :**

Turnover :
Velcan's turnover amounted to EUR 1.4m in H1 2019 arising from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil.

Purchases:
Purchases costs were down (see above).

Operating costs:
Operating costs (external & payroll expenses) were slightly higher (see above).

Depreciation, Amortization and Provisions, Provision write-backs:
Depreciation and amortization of tangible and intangible assets amounted to an expense of EUR -0.6m. Tangible and intangible assets depreciation expense was mainly attributable to Rodeio Bonito HPP (EUR -0.4m).

Operating result was a loss of EUR -1.2m compared to a loss of -0.8m in H1 2018.

**FINANCIAL INCOME**

Net financial income for H1 2019 was EUR 4.9m vs a gain of EUR 2.1m in H1 2018. The financial income of the Group is mostly dependent on two items:

a) The interests it earns and the eventual capital gain it makes on its assets portfolio No default has occurred as of end June 2019.

b) The Foreign exchange variations of the currencies in which the Group's financial assets are invested : in H1 2019, the Group's cash has been slightly positively impacted by the strengthening of the USD vs the EUR over H1 2019 period , as explained above.

Interest rates in the Eurozone are still weak. Rates have declined on USD financial assets after a rise in 2018.

The end of the 2018 year was marked by a lot of movements in the financial markets. The American Equity indexes almost reached -20% which is the threshold that defines a bear market.

The market fall was due to a number of factors. One of the most important one was the expected rise of the USD rates. In January 2019, the USD 10 year rates reached 3.15% which had not happened since 2011. The market expected then that the US Federal Reserve would keep increasing short term rates. Which makes short term borrowing more expensive. As the current bull market, which has been lasting for more than 10 years has been helped by debt financed share buyback, any increase in the cost of short term money has a big impact on the stock market. And any increase in rates has an impact on the cost of credit generally speaking which can dampen mood and investment.

Completely unexpectedly, the FED changed track in early 2019, stopped raising rates and the market started expecting rate cuts. Which did happen in June 2019.
During the same period the US Yield curve has inverted, which is usually a sign of a coming recession.
On this background of radical changes in the benchmark rates, the business world has been impacted by the trade row between the USA and China. The Brexit process has also been a source of unknown.
The resulting market has been a fairly volatile upward moving market. In the first part of the year, the US equity markets erased their losses of end 2018. Since then they have gone even higher, with regular bouts of fall and volatility, mostly linked to the news flow on the trade war aforementioned. The bonds market have more or less behaved in the same way. Given the drastic fall in the long term USD rates, the longer the maturity of the bonds, the better the performance.

**COMPREHENSIVE INCOME**

Comprehensive Income for H1 2019 amounted to a gain of EUR 3.9m vs. a loss of EUR -0.8m in H1 2018. The impact of currency fluctuations on Group equity was a gain of EUR 0.4m vs. a loss of EUR -2.0m in H1 2018.

This variation is mainly due to a slightly stronger Brazilian Real and a slightly stronger Indian Rupee when compared to EUR which positively impacted the book value of tangible assets booked in this currency (See above).