Half Yearly Report

And Consolidated Financial Statements
(Condensed and Unaudited)

30th June 2020

Velcan Holdings S.A.

RCS Luxembourg B145006
Euronext Growth - ALVEL
www.velcan.lu

SUMMARY

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 2020, 12% of the assets of the group are deployed in power projects or plants, 87% in listed and unlisted financial investments, and cash and cash equivalents (bank current accounts and deposits). The balance 1% are receivables.

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 2020 KEY FIGURES (unaudited)

Non Audited Consolidated Financial Data in Million Euros	30.06.2020	30.06.2019	Var %
§ Turnover Half Year	1.0	1.4	-30%
§ EBITDA Half Year	-1.3	-0.6	-119%
§ Net Result Half Year	-2.7	3.6	NA
	30.06.2020	**31.12.2019**	**Var %**
§ Cash & Financial assets	100	103	-3%
§ Market Capitalization	36	43	-16%
§ Cons. Equity	112	121	-7%

	POWER PROJECTS PORTFOLIO UPDATE	30/06/20	30/06/19
GLOBAL	Portfolio of concessions and production facilities.	586 MW	586 MW
BRAZIL	Hydroelectric plant in operation	15 MW	15 MW
INDIA	Projects under development.	571 MW	571 MW

3. IMPORTANT EVENTS AND ACTIVITY OVER THE PERIOD

H1 2020 key figures comments

Velcan Holdings' turnover in the first half of 2020 (H1 2020) amounted to EUR 1.0m arising from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil. It was down by 30% when expressed in Euros and down by 8% when expressed in BRL relative to H1 2019. This mainly results from the fall of the Brazilian currency during the covid-19 crisis.

Consumed purchases in Brazil, which are payments to the MRE (Energy reallocation Mechanism) amounted to EUR -0.3 m for H1 2020 compared to EUR 0 m during H1 2019, due to the severe drought in Brazil since the beginning of 2020.

Operating costs were steady relative to H1 2019 (EUR -2.0m during H1 2020, like during H1 2019).
Depreciation, Amortization & Provisions increased significantly (EUR -3.1 m for H1 2020 vs -0.6 m for H1 2019) because of partial impairment made on Indian Projects (EUR 2.9m , bringing the total impairment of the Indian projects to 50%, see infra). Added to the consumed purchases in Brazil, this led to a sharp increase of the operating loss (EUR -4.484 for H1 2020 against Eur -1.210 for H1 2019)

Net financial income for H1 2020 was EUR 1.8m vs. EUR 4.9m in H1 2019. In 2020 the performance, although significantly lower compared to 2019 was relatively good considering the tough Covid-19 context for financial assets. In 2019, the good performance was 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 were invested in US dollar.

Because of the covid-19 crisis the investment of the Group financial assets has been complicated. The Group started the year with a portfolio invested at 60% in bonds, mostly high yield corporate bonds. This bond portfolio was reduced by approximately half in January and February, as the rewards seemed not any more commensurate with the potential default risks. Since then, the Group has gradually changed its asset allocation to include more exposure to equities and commodities (mostly gold). Given the current very low levels of benchmark rates in all developed markets (USA, Europe and Japan), the Group does not anticipate it will increase again its investments in corporate bonds. It is more likely the Group will keep investing in equities, commodities and foreign exchange.

As of June 30th, the portfolio included 35% of bonds, mostly corporate, 29% of cash, 11% of gold, 16% of equity long positions, 6% of equity short positions, and of 4% in private equity and credit.

Whereas at the beginning of the year the exposure was mostly in USD, as of 30th June, the exposure was 52% in USD (which includes 11% in Gold that the Group considers equivalent to a separate currency), 19% in EUR, 16% in JPY, 5% in SGD, 3% in CHF, 2% in BRL and 3% in other currencies.

The FX realized and unrealized gain was EUR 0.6m while the financial gain excluding FX was EUR 1.4m.

Net result, Group share, was therefore a loss of EUR 2.7m vs. a gain of EUR 3.6m in H1 2019.

Group other comprehensive income amounts to a loss of EUR -3.6m in H1 2020 vs a gain of 0.4 m in H1 2019, mostly due to the depreciation of the Brazilian currency (-36%) and the Indian Rupee (-6%) 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 2020 amounts to a loss of EUR -6.2m vs a gain of EUR 3.9m in 2019.

Shareholders equity amounts to EUR 112.5m as of 30th June 2020 vs. EUR 121.1m as of 31st December 2019 (EUR -8.6 m) mostly due to the negative comprehensive income during H1 2020 (EUR -6.2 m) and the acquisition of own shares (EUR -2.5 m of negative impact on the shareholders equity).

The Company has conducted a share buyback program between the 17th December 2019 and the 12th March 2020 during which it has completed the purchase of 300,000 shares, at a weighted average price of EUR 6.77 per share and for a total amount of EUR 2,029,662 in accordance with the description of the share buyback program published on 17th December 17th 2019 and the resolutions of the General Meetings of Shareholders held on 28th June 2017 and 28th July 2017. Following the announced objective of the share buybacks, the Board of Directors cancelled 278,500 shares bought back in April 2020 through a capital reduction, and kept 21 500 shares to cover for future exercises of securities giving access to the capital.

The Company has initiated another buyback programme on 13th March 2020 in order to purchase another 300,000 shares at a maximum price of Eur 5.1 per share, for a maximum total amount of buyback that shall not exceed 1,530,000.00 Euros, excluding acquisition costs. Out of this programme, the Company bought 112,104 shares for a total amount of 546,082 euros (including brokerage) as of 30th June 2020.

A total of 405,054 shares were acquired during H1 2020 as a result of the 2 programs mentioned above.

46 725 shares were distributed to employees in early 2020 (the cost of which was already booked in 2019 accounts).

The number of 226,729 Treasury shares as of 30th June 2020 has increased as compared to 31st December 2019 (146,900 own shares) due to the above mentioned programs and despite the distribution of 46 725 shares to employees and the capital reduction of 278 500 shares on 2nd April 2020. The net number of outstanding shares as of 30th June 2020 is 5,325,591.

<u>Brazil - business and main events during H1 2019</u>

The production of 14,688 MWh during H1 (against 37,600 MWh in H1 2019) was very weak and well below Rodeio Bonito's ensured energy[1]. This reflects very low precipitation levels in Brazil in H1 2020 compared to good precipitation levels in Brazil in H1 2019.

This resulted again in an overall MRE system (Energy Reallocation System) in deficit in H1 2020, with a significant impact of consumed purchased for the Rodeio Bonito plant (EUR 0.3m in H1 2020 compared to EUR 0m in H1 2019). The MRE impact during H2 2020 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 98.2% during H1 2020, against 98.5% for H1 2019.

The turnover from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil amounted to EUR 1.0m. It was down by 30% when expressed in Euros and down by 8% when expressed in BRL relative to H1 2019

[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.

(EUR 1.4 m for H1 2019). This mainly results from the fall of the Brazilian currency during the covid-19 crisis and lower sale prices with seasonality effect. The impact of the very low generation due to the drought is reflected in the MRE payments.

As a result of a lower turnover and high costs related to MRE system, the EBITDA (earnings before interests, taxes and amortization) of the plant amounted to BRL 2.1m against BRL 4.7m in H1 2019. When converted in EUR, the EBITDA was down to EUR 0.4m vs 1.1m in H1 2019.

India - business and main events during H1 2020

In India, the Group continued to work on the development of the hydroelectric concessions obtained in 2007 in the State of Arunachal Pradesh (the Government of Arunachal Pradesh, or the "GoAP"). In addition to the difficulties and bottlenecks faced by the hydropower sector in India, the COVID-19 pandemic further slowed down many project activities, as it notably prevented travel to, and meetings at site. Lockdowns, meeting restriction and non-availability or partial availability of civil servants in Government offices have led to the accumulation of additional delays, particularly with to the land acquisition,

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.

- TEC, and post TEC technical investigations and studies

Most post TEC field studies and investigations at site required at this stage by Central Electricity Authority (CEA) have been already completed between 2016 and 2017. 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. In March 2020, the Group has started to discuss tender level design with Indian and international engineering companies. The COVID 19 pandemic, and resulting lockdowns and meetings restrictions have slowed down the discussions with such consultants, which are expected to restart by the end of year subject to the COVID-19 situation.

TECs of Heo and Tato-1 HEP, granted in 2015 for 3 years and already extended a first time in 2018 for 2 years, bear validities until on 27th July 2020 and 28th October 2020 respectively. Applications for renewals of both TECs were submitted to CEA on 24th April 2020 and 20th August 2020 respectively. CEA requested the Group to obtain from GoAP a Non Objection Certificate (NOC) acting that the GoAP has no objection to the renewal of the projects TECs for the current capacities of 240 MW and 186 MW respectively. GoAP issued on 6th July 2020 a NOC for the Heo HEP but subject to a condition that the Group executes a new or revised concession agreement under certain financial terms within 30 days. Such amendment is a long a pending issue, and entails several complex topics and significant financial costs, some of which the Group does not agree with (see next paragraph). In light of the COVID-19 situation in India and the complexity and sensitivity of the subject, the Group has, on 19th July 2020, requested the GoAP to issue a revised NOC including an extended 6 months' timeframe for executing a revised concession agreement, as that would have allowed the TEC renewal process to start at CEA level. On 1st October

[2] for Tato-1 power house, the tender level topographical survey is not entirely complete at the power house site and it the reconstruction of a bridge destroyed in 2017.

2020, the GoAP refused to do so and requested again the litigious payments, without sending a draft revised concession agreement. The Group requested a draft MoA, not yet received at the time of this report. Major disagreements remain as whether some of these fees are payable or not, as the Group considers that the GoAP is liable for several breaches of its obligations under the concession agreement, such as the failure to proceed timely with the land acquisition, the failure to guarantee access to the site and to maintain law and order at project site. The Group also disagrees with the timing of payment of some of these fees and their computation modalities. The proposed projects implementation timeframe is also a major but not yet known parameter of the concession agreement.

As of date, both TECs of Heo and Tato-1 HEP are technically not valid anymore, and their renewal is depending on the execution of the revised concession agreement (in addition to the CEA renewal procedure). In the current situation, CEA has therefore not started the TEC renewal process, pending the issuance of a workable or unconditional NoC that the GoAP refuses to issue for now.

- 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. 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 GOAP, and the final quantum of free power due to the Government once the project will be commissioned. Discussions have been pending for more than 4 years.

This issue has already slowed down and delayed the TEC renewal process, given the requirement of a Non Objection Certificate from the GoAP (see above). Other important steps such as the completion of the land acquisition, the execution of the PPA and the financial closure will also require the amended concession agreement to be in place. Keeping in view the issues mentioned above, and the Group's past experience with regard to such negotiations, the Group is not in a position to foresee when an acceptable revised concession agreement will be executed.

- 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.

The procedure was started in June 2016, by the submission of 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. Since then a Social Impact Assessment (SIA) and Social Impact Management Plan (SIMP) were prepared by a local university appointed by the State Government. The SIA and SIMP were successfully submitted to the local people through public hearings conducted in the 9 concerned villages in January 2018. Following site surveys and meetings conducted on April and May 2018 2018, the District Commissioner has issued preliminary reports starting to identify clan wise collective ownership of the different land parcel. These reports are still 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 did not yet take into account all existing claims and disputes.

Based on this 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 ongoing preparation 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 section 11 notification was finally 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 did not resolve the land registry disputes. The settlement of these disputes remains necessary to determine the sharing of the financial compensations between land owners.

Following the section 11 notification, the District Administration had notified on 2nd December 2019 the land survey to be conducted in order to mark land boundaries on the ground and establish the final list of land owners, which is the basis of the financial allocations under the future rehabilitation plan and land compensations. The survey was scheduled between 10th February and 14th March 2020, to be conducted by District Administration. On 10th February's several land owners have physically prevented the District administration to start the survey and claimed notably the immediate payment of the benefits which are due at implementation stage, and that land disputes should be settled in court separately.

Following this incident, the District Administration has suspended the survey until further notice and constituted a special committee of Government officials, for the purpose of handling the land survey. A first meeting has been held, between the local land owners and the committee, on 24th February 2020, without outcome. During such meeting the Group's team detailed all the financial benefits attached to the project implementation and the mechanisms by which these benefits will be distributed to affected families and those by which the various social and infrastructure project will be implemented. These benefits, at implementation stage, will run in millions of Euros which will be paid to the project affected families, local area inhabitants and the local government. The amounts allocated to the land acquisition compensation, rehabilitation and settlement, and tribal privileges will represent more than Eur 10 million[3], and will have to be shared between few clans and paid directly to the different individuals recognized as land owners, depending on their land holdings. In a state where the average GDP per capita is less than USD 2,000.00 such benefits represent a massive and very sensitive stake which explain why local people are fighting amongst themselves for being recognized as owners, or as owners of the biggest piece of land possible. The issue is even more sensitive as there is no land revenue registry in such tribal areas.

[3] The land compensation is to be determined by the State Government as per applicable regulations. Hence the figure of Eur 10 Million is an approximate estimate intended to give an idea of scale.

Benefits during the current development phase, such as additional employment or site work contracts made available to local people in case of site work requirements and punctual voluntary CSR projects were also discussed. The land owners claimed again for immediate payments of benefits not related to site activity and required again a detailed outlay of the all the above mentioned benefits, for discussion during another meeting which was scheduled on 24th March 2020 with the Government committee. As of the date of this report, in view of the Covid-19 outbreak and the related confinement measures adopted in India, the meetings between Government committee and land owners have been suspended until further notice.

Such incident illustrates the ground difficulties currently experienced with the Pauk HEP, and earlier with Heo and Tato-1, to secure the physical access to the land to perform site works, often impeded on the ground despite administrative decisions, which are often weakened or made ineffective by the lack of Law and Order enforcement.

The COVID-19 pandemic has further delayed the settlement of the land ownership disputes referred to above. As of the date of this report, there is no sign of improvement as the pandemic remains very active and India has reached record infections in September 2020. In the state of Arunachal Pradesh many lockdown and restrictions have been imposed since mid-March 2020 and government services function only partially. The Chief Minister himself has been tested positive on 16th September 2020 and some Government departments were infected.

According to applicable regulations, the Section 11 Notification mentioned earlier is valid only for a period of 12 months, during which the Government is bound to complete the steps under the section 19. Such steps include 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.

Given its 12 months validity, the Section 11 notification was to expire by 25th September 2020. The Group requested the GoAP to extend its validity for another 12 months, in order for the Government to be able to complete section 19 crucial activities mentioned above. Accordingly, the Government has notified an extension of 12 months, as per which the activities of the section 19 will have to be completed by 25th September 2021.

During the previous section (#11) of the procedure the land owners (based on a preliminary list established by the GoAp), had formally given their consent to the land acquisition and thereby to move forward with the procedure. The Section 19 next steps include the onsite land survey, the marking of land boundaries on the ground in view of the establishment of the final list of land owners, the hearing of individual objections, the ruling on such objections, the detailed census of affected families, the preparation and publication of Rehabilitation & Resettlement schemes to the benefit of affected families and public hearings on such proposed schemes in affected villages.

The completion of section 19 activities is essential, especially the establishment of the final land owners list as it is the basis of the financial allocations under the future rehabilitation plan and land compensations. After the completion of the Section 19, the State Government will have to carry on another set of activities and procedural steps such as the computation of land values, enquiries on claims made by owners, issuance of individual financial awards (Sections 23 to 30), rehabilitation plan implementation, payment procedures and taking physical possession of the Land (Section 38).

The land acquisition procedure is under the exclusive Government purview, and not under the control of VELCAN Holdings. 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 and 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. The Group is following-up closely the developments of this procedure.

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 and widening program, which will, once completed, allow the transportation of construction and electrical & mechanical equipment. From the national highway network at Pangin, the work has been awarded and has started for the stretch of 28 Km up to Aalo. From Aalo to the project site (under BRO), stretches totaling 45 km have been completed up to Kaying. From Kaying to Tato a stretch of 20 km has been started out the total of 87 Km. This entire 87 km was expected to be ready between 2020 and 2022, as per a status report from the Ministry of Defense dated 2017. However 67 Km are still under Detailed Project Report (DPR) preparation, which means that survey and DPR studies are still ongoing. Once the DPRs will be ready, and before starting the works themselves, the Border Roads Organization (BRO, Ministry of Defense) will then need to obtain forest clearances, budget sanctions, tendering and award of contracts, and to mobilize the construction resources. Then the works themselves will take around 3 years. Based on previous experience in the area, the Group considers it is unlikely the concerned stretches will be ready before the end of 2024 or 2025, unless fast track measures are implemented. From Tato to Heo Dam site, another stretch of 23 km requires upgrade and widening, for which a DPR has been submitted to the Ministry of Defense, as per the information gathered by the Group.

- Forest Clearance

The Projects have already obtained the Forest Clearance stage 1. The issuance of the Forest Clearance stage 2, which allows to physically take possession the forest land (subject to land acquisition by the Sate Govt. being complete), is subject to the fulfilment of some conditions as stipulated in the Stage-1 Forest Clearance (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. Subsequently, the State Government has proposed to the Ministry a patch of land in 2016, for which MOEF required clarifications about the suitability for planation, as part of the patches seemed to be falling in hilly and rocky land. Another proposal has been sent by the State Government to the MOEF in November 2017, displacing 8.4 Ha (rocky area in the first proposal) to a new adjacent area suitable for afforestation plantations. 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) was also 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 level committee (approved in March 2018), the sub-division level committee (in May 2018) and district level committee (in July 2018). The compliance certificates as required by MOEF have been issued for both projects on 31st July 2018 by the District Administration and forwarded to the State Forest Department for compliance. 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 (FAC) 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 (RoMoEF) to visit the project sites and to submit the detailed report to the Ministry on the proposed changes. The regional office of the MoEF, Shillong (RMoEF) visited the project sites between 18th and 20th November 2019, following which additional queries were sent to the State Forest Department, for furnishing additional information. The required information (mostly about the background of the quarry sites modifications and the compensatory afforestation) was communicated to the RoMoEF in late January 2020. RMoEF in turn cleared the file at its, level and forwarded the information requested by MoEF,

The Forest Advisory Committee was held in New Delhi in June 2020 and the MOEF finally approved both the pending aspects of compensatory afforestation (see first para above under this section) and the layout changes mentioned above (quarry sites and access roads). Upon this decision the Forest aspects of the projects are ready to move to the Stage 2 Forest Clearance, which will be issued after the local Government completes the land acquisition and upon receiving payment from the Group for various taxes under the Forest regulations (estimated at a total Eur 1.95 million for both projects).

The Stage-1 Forests clearances of Heo and Tato-1 HEP were granted by MOEF on 27th October 2015 with a validity period of 5 years, period within which the project developer seeks to obtain the Stage-2 clearance, take possession of the forest land and start the construction works. Given the delays encountered notably in the land acquisition procedure, which fall beyond the control of the Group, the Group had to apply in August 2020, via the State Government, for a time extension of 3 years. The State Government has forwarded to the MOEF the Group's application for extension on 22nd September 2020, and expressed its support to such application. No decision from MOEF has been received as of the date of this report. In case the application is rejected, the Group will have to apply for a fresh forest license, involving a lengthy (several years) on-site and administrative process that would potentially delay further the implementation of the projects, depending on the level of progress of other project activities.

- Unavailability of bankable Power Purchase Agreement(s)

During Q12020, as in 2019 the sale of hydroelectricity kept facing the same multiple challenges. Hydropower has slowly faded from the Indian power mix and practically disappeared from the plans on the future of India's energy security, as solar and wind projects garnered much of the political will, regulatory effort and investment.

Hydropower plant cost estimates often reach Rs 9 to 11 crores[4] (Eur 1.1 to 1.3 m) per MW at planning stage, without considering the likely construction cost overruns. This needs to be compared with usually Rs 5 to 7.5 crores (Eur 0.6 to 0.9 m) per MW for thermal power and Rs 4 to 4.5 crore (Eur 0.49 to 0.55 m) per MW for solar energy. Hydropower projects take many years to be completed, longer than thermal projects, and even much longer than solar plants. Due to geological and hydrological surprises, time and cost overruns are common for hydro projects. These hydropower inherent features make it difficult, initially, for power developers to compete with thermal and renewable power producers who in addition operate on a tariff based bidding modality. Indeed 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. As a result, 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.

Solar and wind tariff have fallen dramatically over the past years. Tariffs have remained in the same and very low range during 2020 with some auctions touching as low as Rs 2.36 per unit in 2020 for solar power[5] (like in 2018 and 2019) and Rs 2.99 for wind projects[6], whereas most hydro power projects are often significantly more expensive (ranging between Rs 5.29 and Rs 6.24 per unit for the latest projects approved by CEA, except one approved at 3.43)[7], although their lifespans makes them cheaper on the long term. Heo and Tato-1 HEPs tandem have a weighted average levellized tariff of Rs 4.84[8] for a theoretical COD in 2027, which is competitive in the hydro space but much higher than solar and wind power. However, a hydropower plant 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. Once a hydropower project is completed, power becomes cheaper over time; and the lifespan of hydel plants runs into decades. It has a lot of benefits for one with a long term view. Although hydropower does not compete directly with solar power because it generates very long term, predictable and sometimes 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[9] imposed on them by the Indian renewable energy policy, the DISCOMS have not been inclined to signing long term hydro PPAs in recent years. In addition, the very low general electricity spot market prices during the preceding years, coupled with the DISCOM's poor financial health, is another reason for DISCOMs to tend to procure general power (non RE) in the spot market rather than committing the purchase of long term more expensive power. The spot market rates have remained extremely low during the past 3 years.[10]

---

[4] As per cost estimates approved by CEA in 2018 and 2019

[5] Solar Energy Corporation of India (SECI) auctioned 2 GW of solar projects in June 2020 through a reverse auction, the 7 winners placed bids between Rs 2.36 and Rs 2.38.

[6] SECI reverse auction for blended 970 MW wind on 14th August 2020. 2 winners with bids at either Rs 2.99 or Rs 3.

[7] These are rates derived from the construction cost approved by CEA, and subject to the actual construction costs / costs overrun

[8] Indicative figure based on an example of commission that would occur in 2027, which is subject to the real date of commissioning and to the Central Electricity Regulatory Commission approval of final costs post construction, which may suffer overruns. The 2027 COD is only an example date necessary to calculate escalation of costs and then completion cost. It is NOT a forecast of the COD, which the Group is not in a position to provide for the reasons mentioned in this report.

[9] 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. This figure could increase to 19% and then 21% over the next 2 years based on a 2018 order from the Ministry of Power, setting trajectories of RPOs. RPOs are computed on the total consumption of electricity, excluding procurement from hydro sources.

[10] According to data from the IEX, the previous low of minimum spot electricity price was recorded at 52 paise per unit in 2017 which rose to Rs 1.72 per unit in 2018 and then dipped to 94 paise in 2019 before touching a three-year low of 60 paise in 2020 for supply on Wednesday (March 25). From April to July 2020, the spot rate varied between Rs 0.70 to Rs 1.1.

In March 2019 the Government of India approved long awaited measures to promote hydropower sector, in order to replace the current regulation which never worked in practice because the public distribution companies have always refused to commit to long term PPA in the pre-construction and financing phases of the hydropower projects.

The 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.
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.

However so far the application decree, which is absolutely necessary to implement the new principles, has not been issued and the application rules, as well as their actual effect on the hydropower market remain unknown. The market therefore remained the same during 2020 so far, even worsening if one considers the deterioration of the DISCOMS balance sheets. As per the information gathered by the Group, the Central Electricity Authority has prepared a draft of the implementation rules, which has been sent to the Ministry of Power.

During the last 24 months the Group has been looking for a long term, firm off-take, bankable PPA for Heo and Tato projects. Several major power brokers such as notably Tata Power, NVVN, Manikaran Power and PTC (totaling 66% of the Indian power trading market, 2018) have been solicited and met several times in 2018, 2019 and early 2020, and requested to undertake a mandate for finding a long term PPA. In India, long term PPAs are usually negotiated, arranged "back to back" between generators and buyers and with a power broker in the middle in charge of "operating" the PPA and taking care of grid operations. Only NVVN (NTPC trading branch, Govt. of India enterprise) initially showed some potential interest to take up mandate, and negotiations were conducted up to the preparation of a draft agreement as per which NVVN would have been searching for long PPA for 50% of the tandem capacity (213 MW). Eventually all these major brokers, including NVVN, declined to take up any mandate, and confirmed recently the current lack of appetite from the distribution companies for such long term hydropower contracts and the lack of readiness of the market and regulatory framework as the implementation regulation of the above mentioned policy has not yet been issued.

Thereafter the Group hired a major consultancy company in order to solicit directly and formally the interest of more potential buyers: 8 DISCOMS and 2 power traders were selected by the advisor as being potentially interested. These 10 potential buyers were sent official enquiries along with project information in May 2020, requesting for expressions of interest. Unfortunately none of the addressees have replied officially or requested further information officially. 9 have either declared not being interested or did not respond at all. 1 of the addressee mentioned to check again in January or February 2021. These contacts confirmed the current lack of demand for long term hydropower.

Regarding 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. Indeed, 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.

On the ground of DISCOMS financial heath, the UDAY scheme (refinancing Government Scheme to improve the financial health of distribution companies) has not had the effects expected. On contrary the solvency and balance sheets of the DISCOMS kept worsening, and their revenues kept plummeting notably with the effect of COVID-19 lockdown measures. During 2019, the total overdue from the DISCOMS swelled from Rs 67,012 Crores (Eur 8.041 billion) as in January 2019 to Rs 88,748 crores (Eur 10.409 billion) in December 2019[11]. The total overdue to generating and transmission companies has now reached owed Rs 116,595 crores[12] (Eur 14.2 billions) on 30th June,2020, illustrating the worsening financial troubles of the DISCOMS. Such context explains partially why DISCOMS are mainly inclined to purchase short term cheap power. As a part of the COVID-19 economic relief package, government owned Power Finance Corporation and Rural Energy Corporation sanctioned a Rs 90000 crores liquidity infusion (Eur 11 billions) via 10 years loans to DISCOMS for the exclusive purpose of liquidating their outstanding dues to generating companies. This may help to strengthen the DISCOMs balance sheets, although the above mentioned package does not contain any measure in favor of hydropower procurement.

The requirement for energy storage is another trend that has been emerging recently. Because India has implemented a lot of solar and wind in recent years, by definition non flexible and without storage capacity, the power-transmission grid faces stability issues[13] and the requirement for an overall supply of guaranteed electricity is not fulfilled. Pressure for flexible generation is growing up in order to reduce the incidence of the supply side variability induced by renewable power sources. Similarly pressure is growing for peak time supply on any new renewable energy projects. Distribution companies have started to purchase renewable energy such as solar or wind with an added requirement that the generators need to provide some form of storage / predictable energy in order to guarantee production during several hours of peak time daily[14]. Such requirement will apply to hydropower producers should the distribution companies consider long term hydropower at some point. The Heo and Tato-1 tandem is a pure Run-Off-River project which does not does not provide for storage / peaking capacity. The upstream project Pauk was tentatively designed as an arch dam with a diurnal reservoir in order to provide the peak time storage for both its own capacity and the tandem, the 3 projects functioning as a

---

[11] Source : PRAAPTI portal, Power Finance Corporation Consulting Limited, data encompassing 65 DISCOMs and 88 generation companies as of December 2019

[12] Source : PRAAPTI portal, Power Finance Corporation Consulting Limited.

[13] More than 75% of planned capacity additions till 2027 will be from Renewable Energy sources. Sudden changes in renewable energy generation impacts the grid, which needs to operate within narrow frequency bands, thus risking stable/ safe grid operations. The Grid therefore requires balancing resources having high ramp rates (capacities able to start and stop generation on demand and on short notice)

[14] See SECI call for tender for 1,2 GW, won by Greenko and Renew Power in August 2019. The bidders were required to bid for solar power along with some stored predictable power. Greenko placed a mixed bid with both solar and pumped hydropower.

cascade. However given its technical complexity, the fact that no arch dam was ever built in India, and the local site accessibility issues, the Pauk HEP is planned to come up several years after Heo and Tato.

If this trend is confirmed, a PPA for Heo and Tato-1 tandem separate from Pauk HEP's PPA, hence with no peak time guaranteed, could well be of no interest for the distribution companies. In such case it would not be conceivable anymore to start Heo and Tato-1 HEPs independently from Pauk. The 3 projects would have to be implemented at the same time, which would have a significant negative impact on the timeframe of the projects (see below).

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 still assessing the situation and the strategy to continue with the next drills at the power house site, as well as at the dam site. However, all activities at site have been suspended from march 2020 in view of the COVID-19 outbreak and lockdown measures.

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. A peaking capacity may in the future make the cascade more attractive and / or increase its profitability. As explained above, 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 hydro 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 Projects faced additional delays and bottlenecks during 2020 so far, especially as to the land acquisition procedure, the renewal of the TECs and the execution of a revised concession agreement.

Due to the opposition to the government led site surveys by claimed owners, unsolved ownership disputes and the failure of the GoAP to guarantee the site access and Law and Order, the land acquisition procedure has been stopped again. It could not restart as COVID-19 related restrictions prevented the GoAP to attempt a settlement of the disputes to unlock the procedure. The deadline for completing the Section 19 has been postponed to the end of September 2021.

The pressing issue of the revised concession agreement, which is exclusively at the local government level, needs to be solved for the projects to renew or keep their necessary central government authorisations and licenses. As of today the TECs are technically expired, as their renewal is depending on the execution of the revised concession agreement (in addition to the CEA renewal procedure). Generally, a proper concession agreement with the updated capacity should be in place for the projects to be able to keep and use their central government licenses and to search for a PPA.

As in 2019 and previous years, the Indian commercial and financial market conditions have remained unfavourable to the sale of hydropower, for the reasons explained above. This was confirmed practically by the formal call for expressions of interest conducted by the Group during the first half of 2020, which showed no interest / demand at all from the market for long term hydropower electricity.

The Group expected that the publication, on 7th March 2019, of 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 would start reversing the current negative market scenario. It could indeed result in creating immediate demand for the generation from the R-o-R projects Heo and Tato-1, if application rules are issued soon and with favorable terms, and subject to the financial capabilities of DISCOMS and banks.

However, after more than 18 months, the details and implementation modalities remain to be seen. The Company is following up closely the evolution of this new framework and but cannot predict it will come into force any time soon, given the bad financial health, the budgetary burden attached to it and the overall economic situation in India.

If a general demand for hydropower is not created by a regulatory HPO, Heo and Tato-1 may have to wait for Pauk HEP to come along with a storage solution, if such solution is proven feasible in terms of electricity price and regulatory framework. In such case The Group estimates that it will take 6 to 8 years to complete Pauk development (2 to 3 years of additional geological investigations[15] requested by the CEA, 2 to 3 years of design and authorizations/permits, 2 years for EPC contracts and financial closing) and 5 years to build it. Still, this assumes that the proper regulation for hydropower is finally implemented, the solvency of the DISCOMS is restored, that there is a renewed appetite for long term hydro PPAs at least with storage capacity, and that all other conditions and requirements depending on the central or local government are fulfilled (land acquisition, access roads and transmission lines).

It is difficult to factor in the uncertainties rising from the regulatory framework, the market conditions, the power demand, the grid stability issues, the storage market and the financial health of distribution companies, because all such factors fall beyond the Group's control. . Overall, Velcan Holdings believes that the Government of India is aware of the long term benefits of hydropower and the necessity to increase its share in the energy generation mix of such a large market[16], like China and Brazil did for example. This awareness is illustrated by the policy released in March 2019, even though the implementation regulation is not yet issued and such awareness does not guarantee the Government will effectively be able to balance the electricity mix in favor of hydropower.

[15] Subject to unhindered access to site and proper management of the land disputes by the State Government.
[16] India is the third largest power generation market in the world

Depending on how the market situation evolves, Velcan Holdings will adjust to the extent possible the projects development strategy, timeframe and potential partnerships. In view of the situation of the Indian electricity market as descried above, if it remains unsolved, the Group may also explore the possibility of exporting the power to Bangladesh.

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 as well as DISCOM's regulatory procurement framework. These activities are progressing at variable paces but generally slowly and they regularly encounter impediments and delays.

The Group's team pushes all project activities including by assisting the Government for those activities which are not its direct responsibility, the major hurdle at the moment being the land acquisition procedure and the negotiation of the revised concession agreement, as it practically stalls the TEC renewal procedure.

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 Heo and Tato-1 tandem (estimate which will vary notably depending on the final completion dates, final financing costs, completion costs, and exchange rates).

An additional provision of Eur 2.9 million (20% of gross value) has been decided for first semester 2020 on the intangible value of the Indian projects, in view of the uncertainties of the Indian market and the delays encountered. This brings the total provision to Eur 7.3 million (50% of gross value), considering the cumulated provision booked in previous years (EUR 4.4m or 30% of gross value).

4. IMPORTANT EVENTS SINCE 30th JUNE 2020

- Land Acquisition Procedure Stopped By Land Owners In India

Following the section 11 notification on 26th September 2019, the District Administration had notified on 2nd December 2019 the land survey to be conducted in order to mark land boundaries on the ground and establish the final list of land owners, which is the basis of the financial allocations under the future rehabilitation plan and land compensations.

The survey was scheduled between 10th February and 14th March 2020, to be conducted by District Administration. On 10th February's several land owners physically prevented the District administration to start the survey and claimed notably the immediate payment of benefits and that land disputes should be settled in court separately.

Following this incident, the District Administration suspended the survey until further notice and constituted a special committee of Government officials, for the purpose of handling the land survey. A first meeting was held between the local land owners and the committee, on 24th February 2020, with no results. The subsequent meeting could not be held due to the COVID-19 outbreak (see next section)

The land acquisition procedure is under the exclusive Government purview, and not under the control of VELCAN Holdings. The Group will continue to follow-up closely the developments of this procedure.

- Extension Of Time For The Land Acquisition Procedure Of The Indian Hydropower Projects.

Under the land acquisition regulations applicable to the Heo-Tato1 hydropower tandem project (426 MW) in India, the “Section 19 notification” was due by 26th September 2020. Such notification is the act by which the State Government declares further that the concerned land is needed for public purpose, based on the completion of the second phase of the acquisition procedure.

This second phase starts after the Section 11 notification, which was issued on 26th September 2019, and includes all activities required by applicable regulations such as onsite land survey, the marking of land boundaries on the ground in view of the establishment of the final list of land owners, the hearing of individual objections, the ruling on such objections, the detailed census of affected families, the preparation and publication of Rehabilitation & Resettlement schemes to the benefit of affected families and public hearings on such proposed schemes in affected villages.

The above activities, which are under the exclusive purview of the State Government, could not be completed on time. The land survey and marking of boundaries was scheduled between 10th February and 14th March 2020, to be conducted by District Administration. On 10th February 2020, several land owners physically prevented the District administration team to start the survey and claimed notably the immediate payment of benefits and that land disputes should be settled in court separately. Following this incident, the District Administration suspended the survey until further notice and constituted a special committee of Government officials, for the purpose of handling the land survey and settling issues. A first meeting was held, between the local land owners and the committee, on 24th February 2020 but without positive outcome. Another committee meeting was schedule on 24th March 2020. However such meeting could not be held due to COVID-19 lockdown and related restriction measures, and was postponed indefinitely by a Government order dated 19th March 2020.

Since then COVID-19 restrictions have been extended numerous times, the State Government has not yet restarted the procedure, and could therefore not complete the activities required by Law to reach the “Section 19 notification” on time. As a result, in compliance with the possibility offered by applicable regulations, the State Government has decided a time extension of 12 months, until 25th September 2021, to issue the “Section 19 Notification”.

- Amendment of the share buyback programme.

On 17th September 2020, the Company amended the share buyback programme initiated on 13th March 2020. Under such programme and as of 17th September 2020, the Company had bought back a total of 112,104 shares at a weighted average price of 4.85 euros per share and for a total amount of 543,879 euros. Taking into account the price and liquidity levels that have occurred since the end of March 2020, the Board of Directors decided to amend the maximum purchase price per shares to 7 euros for the remaining 187,896 shares to be bought under the programme, with the aim of buying shares of the Company from shareholders wishing to sell them under

II – UNAUDITED CONSOLIDATED BALANCE SHEET (ASSETS)

In thousands of Euros

Assets	30.06.2020	31.12.2019
Non current assets		
Intangible assets	8,387	11,923
Tangible assets	5,694	8,023
Non current financial assets	3,086	3,000
Total non-current assets	**17,166**	**22,946**
Current assets		
Current financial assets	74,952	72,854
Trade and other receivables	141	265
Income tax receivables	12	10
Other current assets	212	250
Cash and cash equivalents	21,934	27,168
Total current assets	**97,251**	**100,547**
Total assets	**114,417**	**123,493**

III – UNAUDITED CONSOLIDATED BALANCE SHEET (LIABILITIES)

Thousands of Euros

Liabilities	30.06.2020	31.12.2019
Equity		
Issued capital	5,552	5,831
Additional paid in capital	120,607	122,214
Other reserves and conversion reserves	(11,011)	(10,553)
Net income for the year	(2,698)	3,596
Total Equity	**112,450**	**121,088**
Non current liabilities		
Non current provisions	755	799
Other non current liabilities	1,006	1,040
Total non-current liabilities	**1,760**	**1,839**
Current liabilities		
Trade and other payables	152	492
Income tax payables	47	67
Other current liabilities	8	7
Total Current Liabilities	**207**	**566**
Total Liabilities	**114,417**	**123,493**

IV – UNAUDITED INCOME STATEMENT

Thousands of Euros

Statement of Profit & Loss	30.06.2020	30.06.2019
Operating revenues	953	1,355
Total operating revenues	**953**	**1,355**
Purchases	(313)	(9)
External expenses	(724)	(723)
Payroll expenses	(1,248)	(1,243)
Operating tax expenses	(11)	(0)
Depreciation, Amortization & Provisions	(3,142)	(599)
Current operating result	**(4,484)**	**(1,218)**
Other operating income	6	9
Operating result	**(4,478)**	**(1,210)**
Financial Income	2,801	5,482
Financial expenses	(954)	(606)
Financial Result	**1,847**	**4,877**
Income tax expense (-) / benefit (+)	(66)	(117)
Net result from continuing operations	**(2,698)**	**3,550**
Earnings per share (in Euros)	(0.48)	0.61
Diluted earnings per share (in Euros)	(0.48)	0.60
EBITDA	**(1,337)**	**(611)**

Statement of total comprehensive Income	30.06.2020	30.06.2019
Net income	(2,698)	3,550
Other comprehensive income, that will not be reclassified subsequently to profit or loss	(3,551)	394
Group Total Comprehensive income	**(6,249)**	**3,944**

V - COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

1. EFFECTIVE FOREIGN EXCHANGE RATES

1 € =	30.06.2020		31.12.2019		30.06.2019	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
BRL (Brazilian Real)	6.14	5.42	4.51	4.42	4.53	4.14
INR (Indian Rupee)	84.8800	81.79	80.18	78.84	79.93	79.55
AED (Dirham UAE)	4.13	4.05	4.13	4.11	4.29	4.45
USD (US Dollar)	1.12	1.10	1.12	1.12	1.17	1.21
SGD (Singapore Dollar)	1.57	1.54	1.51	1.53	1.59	1.61

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 2020). The negative effect of Brazilian and Indian currencies fluctuations (EUR -0.9m) and the amortization and provisions allowance (EUR -2.9m), mostly due to the partial impairment of Indian projects therefore prompted intangible assets to decrease by EUR 3.5m (to EUR 8.4m vs. EUR 13.8m at 31st December 2019).

Tangible Assets:

Tangible assets were down to EUR 5.7m at of 30th June 2020 versus EUR 8.0m at 31st December 2019, a decrease of EUR 2.3m. This variation is the net result of, the combined effects, on one hand, of the decrease of the Brazilian Real on the book value of Rodeio Bonito expressed in Euros because of the fall of the Brazilian currency (EUR -2.1m) and, on the other hand, of the depreciation expense of that same asset (EUR -0.2m).

Cash, Cash Equivalents & financial assets:

These assets were slightly down (EUR -3.1m only) mostly because of the share buyback program (EUR -2.5m) while the weaker financial result (EUR 1.8m) and the weaker turnover (EUR 1.0 m) almost compensated the expenses (purchases, external and payroll) and intangible assets acquisitions.

Of view of market movements in relation to the COVID-19 crisis, financial assets have been partially reallocated, with a decrease of bonds to EUR 35.1m as of 30th June 2020, against EUR 58.4m in as of 30th June 2019. Listed equities, mainly in the commodities, have increased from EUR 1.6m in H1 2019 to EUR 33.0m in H1 2020. Unlisted equities and unsecured lending amount to EUR 0.7m. Secured lending net of provisions amounts to EUR 2.2 m while the cash and cash equivalent is invested in short-term fixed deposits, T-bills, money market funds and on bank accounts (EUR 29m). The total Financial assets instruments amount to EUR 78.2 m (against 73.2m in H1 2019).

The group's bond portfolio is mostly exposed to issuers in the BB,CCC+ and Not Rated categories (as defined by Standard's & Poor) and has reduced its exposure to Emerging and Frontier Markets exposure to 5%. About 49% of the bonds have maturities less than 5 years and the remainder spans a wide range. In H1 2020, exposure to bonds with maturities 10Y and above amounts to EUR 13.6m.

At half-year end the biggest lines of the Group are with the following issuers, respectively (with exposure comprised between EUR 2.9 m and EUR 8.8m) : Norddeutsche Landesbank GZ (Germany), CMA-CGM (France), Olam (Singapore), UBS AG (Switzerland),TRAFIGURA (Singapore) and the Republic of Argentina.

The group's equity portfolio is mostly exposed to Commodities: Gold stocks and ETF (EUR 10.7m) and Oil stocks (EUR 3.9m), Equity Short (EUR 6.2m), Equities: Japanese stocks (EUR 5.4m), European stocks (EUR 2.3m), US Stocks (EUR 1.8m) and Asia Pacific (EUR 2.6m)

Direct lending refers to a secured senior USD loan towards the financing of a tanker, of which the amount net of provisions is EUR 2.2 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

Capital:
Following the capital decrease mentioned above that occurred on April 2nd 2020 through cancellation of 278 500 own shares (with no impact on the Shareholders equity), the share capital was down by 278 500 € from 5 830 820 € to 5 552 320 €.

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 1.0m) are broadly stable at constant exchange rates and stem from advances made to the group, the reimbursements of which are contingent to conditions that are not met at this date.

3. COMMENTS ON THE INCOME STATEMENT

EBITDA was negative during H1 2020 (EUR -1.3m vs. EUR -0.6m in H1 2019). Net result, Group Share, was a loss of EUR -2.6m vs. a gain of EUR 3.6m previously.

CURRENT OPERATING PROFIT :

Turnover :
Velcan's turnover amounted to EUR 1.0m in H1 2020 arising from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil, against EUR 1.4m in H1 2019 (mainly due to forex BRL-EUR impact, see above).

Purchases:
Purchases costs were much higher to EUR 0.3m (see above).

Operating costs (excluding purchases):
External & payroll expenses & operating costs were stable at EUR 2.0 m.

Depreciation, Amortization and Provisions, Provision write-backs:
Depreciation and amortization of tangible and intangible assets amounted to an expense of EUR -3.1m. Tangible asset depreciation expense was mainly attributable to Rodeio Bonito HPP (EUR -0.2m) while intangible asset depreciation expense was mainly attributable an additional impairment booked on the Indian projects (EUR -2.9m, see above).

Operating result was a loss of EUR -4.5m compared to a loss of -1.2m in H1 2019.

FINANCIAL INCOME

Net financial income for H1 2020 was EUR 1.8m vs a gain of EUR 4.9m in H1 2019. 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 2020, except if one considers the Argentinian bonds case (see below).

b) The Foreign exchange variations of the currencies in which the Group's financial assets are invested

Because of the covid-19 crisis the investment of the Group financial assets has been complicated. The Group started the year with a portfolio invested at 60% in bonds, mostly high yield corporate bonds. Since then, the Group has gradually changed its asset allocation to include more exposure to equities and commodities (mostly gold).

As of June 30th, the portfolio included 35% of bonds, mostly corporate, 29% of cash, 11% of gold, 16% of equity long positions, 6% of equity short positions, and of 4% in private equity and credit. Whereas at the beginning of the year the exposure was mostly in USD, as of 30th June, the exposure was 52% in USD (which includes 11% in Gold that the Group considers equivalent to a separate currency), 19% in EUR, 16% in JPY, 5% in SGD, 3% in CHF, 2% in BRL and 3% in other currencies.

The first half of 2020 has been a very tumultuous one. Benchmark rates in USD had started decreasing in early 2019 since the change of stance of the Federal Reserve of the United States (Fed) following the market crisis in Q4 2018. This rate decrease pushed assets values to extremely elevated levels at the end of 2019, and they kept increasing in early 2020. At that point of time, the Group decided that the rewards on part of its bond portfolio seemed not commensurate with the potential default risks. This bond portfolio was reduced by approximately a half in January and February.

During the same period, the covid-19 crisis started, which created a lot of volatility in financial markets around the world. Markets started going down very rapidly. The market entered "bear territory" meaning a loss of 20%, in the shortest period ever. The Fed decided then to backstop the economy. And bought all sorts of financial assets, included assets which were before considered too risky. At the same time the US Government launched a stimulus program of historic proportions (2 trillion USD). The cumulative action of both the FED and US Treasury in these few weeks greatly surpassed what they did during the several years of the 2008/2009 financial crisis. The rest of the developed world did more or less the same and financial markets shot up, rapidly regaining the losses of March. The recovery has been unevenly spread between sectors. Specifically the tech sector which has been benefitted from the lockdown constraints has been amply rewarded. While cyclical stocks like banks have seen their values going down significantly.

Adding to this crisis, a commercial conflict started in the oil sector as the historic producers (led by Saudi Arabia) tried to take back market share from the shale oil producers in the USA. The demand destruction from Covid-19 coupled with the increase of production of the historic oil producers sent the price of oil to very low levels in the 20 USD range. It even reached negative values for a short while.

In the face of such unprecedented events, the Group has tried to protect its capital and to moderately prepare for several scenarios in the future. Given the possible increase in inflation levels in the medium term, the Group has allocated 11% of its assets in Gold. Given the distinct possibility of governments and central banks using negative real rates to absorb the exceptional support provided, the Group has decided to keep decreasing its bond exposure. With benchmarks rate close to zero or even negative, bonds in general appear to offer very little value.

The Group has therefore started to shift gradually its investments in equities which over the long run appear to provide more value. It is nevertheless quite challenging to invest at the moment as the market is split quite strongly between the "darlings" of the tech sector which appear to have very strong growth prospects, and the rest of the economy which trades at much lower multiples. This situation seems quite reminiscent of one remembered of the "nifty fifties" in the 60's. When a Group of 50 blue chip companies were supposed to have such high growth prospects that the share price at which one bought them did not matter much.

Facing this situation, the Group has decided to gradually invest in equities with a stock picking bottom up method, focusing mostly on companies considered "value" plays. This means that the Group is mostly invested in sectors that the market currently finds "unfashionable". Of the 16% long equity position of the Group , 5% is in the banking sector, and 4% in the oil sector. The remaining 7% are split between different sectors. The Group has also kept a short position on equity indexes, for a total of 6% of the portfolio, to partially hedge its portfolio.

Of the 35% of the financial assets held in bonds, the highest exposure were the CMA CGM group (9.3 Meur), Nordlb Bank (8.8 Meuros), Trafigura (5.3 Meuros) and Olam International (3.9 Meuros). The only default occurred with Argentinian bonds (EUR 1.978m as at 30th June 2020). The Government or Argentina reached a restructuring agreement with the holders of its bonds in early August 2020. The outcome of this agreement was a technical default and a swap of the existing bonds for newer ones with the same face value but longer maturities. This outcome was already priced by the market as of June 30th and the actual restructured has had little impact on the Argentina bonds held by the Group.

The overall result of this first semester is : The FX realized and unrealized gain was EUR 0.6m while the financial gain excluding FX was EUR 1.4m.

Given the current very low levels of benchmark rates in all developed markets (USA, Europe and Japan), the Group does not anticipate it will increase again its investments in corporate bonds. It is more likely the Group will keep investing in equities, commodities and foreign exchange, focusing mostly on contrarian "value " investments.

COMPREHENSIVE INCOME

Comprehensive Income for H1 2020 amounted to a loss of EUR -6.2m vs. a gain of EUR 3.9m in H1 2019. The impact of currency fluctuations on Group equity was a loss of EUR -3.9m vs. a gain of EUR 0.4m in H1 2019.

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