

VELCAN HOLDINGS: ANNUAL RESULTS 2021

GOOD FINANCIAL RESULTS, NET INCOME AND EBITDA AFFECTED BY A LARGE PROVISION ON THE INDIAN HYDROPOWER PROJECTS

NON-AUDITED KEY CONSOLIDATED FIGURES	<u>2021</u>	<u>2020</u>	Var %
Revenues (EUR m)	2.4	2.5	-4%
EBITDA (EUR m)	-5.6	-2.0	-176%
Net Income (EUR m)	6.5	2.1	+205%
Cash and Financial assets and liabilities	120	105	+15%
Shareholders' Equity (EUR m)	122	116	+5%

With the US and Chinese market experiencing a rebound with the support of the FED and increased vaccination campaigns, the Group positions in equity and commodities (the latter mostly oil and gold related) have on average performed well in 2021, which ended with a significant financial result of EUR 21.0m (+173%), compared to EUR 7.7m at the end of 2020. This was contrasted by a large provision of Eur 7.5m booked on the Indian hydropower projects of the group, and another year of low electricity generation of the Rodeio Plant due to the continuing extreme draught in Brazil, both leading to a significant fall of the EBITDA, down to EUR -5.6 m against a negative EBITDA of EUR 2.0m in 2020. The 2021 net income stands at EUR 6.5m, a 205% increase compared to the EUR 2.1m of 2020. Shareholder's equity increased by 5% mainly due to this year positive income.

During 2021, despite the many efforts and various attempts, the Group's existing hydropower concessions located in India (571 MW) did not make any progress due to long lasting administrative impediments faced notably in the land acquisition procedure and the hydroelectricity distribution regulatory framework. The crucial amendments of the concession agreements were not agreed to by the Government. Not seeing any possibility of further discussion with Government of Arunachal Pradesh, Velcan Holdings decided to suspend the projects, as they are not in a position to make any progress at all under such circumstances. An additional provision of Eur 7.5 million for 2021 was booked on the intangible value of the Indian projects, in addition to the previously booked provisions. This brought the total provision to Eur 15.0 million (100%).



The Rodeio Bonito plant generation and EBITDA were again affected by historically low precipitations levels, which led to an increase of the payments to the MRE system¹. The turnover from sales of electricity amounted to EUR 2.4m or BRL 15.5 m. It was down by 3.7% when expressed in Euros and up by 4.3% when expressed in BRL relative to 2020 (EUR 2.5 m or BRL 14.8 m for 2020).

FINANCIAL YEAR 2021 – MANAGEMENT COMMENTS ON THE BUSINESS

Financial Assets

VELCAN HOLDINGS Group kept managing its portfolio of financial assets to provide financial returns. The Group has invested over the years in a diversified array of financial assets, now mainly being worldwide equity, gold related assets, commodities, forex, bonds, direct lending and private equity investments.

While reallocating its financial assets towards equity during 2020, the Group has invested in companies which were trading at historically low prices and could benefit from the improvement of the Covid-19 situation. The two sectors hence selected were banking and energy. 2021 has been an exceptional year for equity markets where we have seen positive performance on those stocks as they started to recover in H1 2021 from their historically low prices of 2020. The markets were supported by highly accommodative fiscal and monetary policies. With the US and Chinese market experiencing a rebound with the support of the FED and increased vaccination campaigns, the Group positions in equity and commodities (the latter mostly oil and gold related) performed well in 2021.

In 2021, the Group also continued to reduce its bond portfolio given it estimated the rewards remained insufficient to cover the potential default risks. The Group further invested in Alibaba in 2021 and other Chinese stocks including Anhui Conch Cement Co Ltd, Tencent and China Mobile. Exposure to Oil related stocks was also increased in 2021 through the purchase of CNOOC and Royal Dutch Shell stocks. This was partly funded by a reduction in exposure to banking stocks including Citigroup, WFC, COF, BBVA, Santander, UBS Group and DBS Group around mid-2021.

This asset allocation led to a financial gain of EUR 21.0m (+173%), compared to EUR 7.7m at the end of 2020. The biggest contributors to the 2021 gains were the investments in banks and oil related companies.

¹ Energy Reallocation Mechanism system which involves payments from the generators when the overall system is in deficit. (Energy Reallocation Mechanism, definition and explanation in section 3.2 of the annual report)

The evolution of the portfolio allocation is detailed below.

FINANCIAL INSTRUMENTS	Value 31.12.2021 in mEUR	Weight (% of net assets)	Value 31.12.2020 in mEUR	Weight (% of net assets)
Bonds	8.4	7%	19.5	19%
Cash and cash equity, Unrealized Gains on open Forward Forex and MM Funds	26.9	22%	14.9	14%
Gold and silver related stocks	26.5	22%	23.7	23%
Oil related stocks	32.3	27%	21.6	21%
Equity Long positions (EM, EU, USA, Japan)	56.7	47%	44.3	42%
Equity Short	3.1	3%	3.8	4%
Private Equity & Lending	0.5	0%	0.6	1%
Total assets (A)	154.5	129%	128.4	123%
Bank Overdraft and short-term loans	-33.3	-28%	-23.9	-23%
Unrealized losses on open forward forex	-1.4	1%	0	0%
Total in Financial liabilities (L)	-34.8	-29%	-23.9	-23%
Net Total (A+L)	119.7	100%	104.5	100%

The Group has further reduced its financial exposure to the USD and maintained its exposure to the Euro and the Japanese Yen. As of the end of the year 2021, the Group net financial assets and liabilities were mostly exposed to the following currencies:

- the Japanese Yen (26.4%, kept at the similar level as in December 2020),
- the Hong Kong Dollar (17.9%),
- the Euro (15%)
- the Singapore Dollar (11%)

Net exposure to the USD was significantly decreased as it fell down to 3.7% at the end of December 2021.

Like last year, but unlike the years prior to 2020, the Group has used some leverage. The net cash position of the group as of 31/12/21 is EUR -7.8 m (cash and cash equivalents of EUR 25.5m and a bank overdraft of EUR 33.3 m secured on the listed financial assets of the Group). The Group had a net cash position of EUR -12.9m as of 31/12/20.

The financial portfolio is further detailed in part I, section 3.1. of the annual report 2021 available at <http://www.velcan.lu/investors/reports-accounts/>.

During the year Velcan Holdings continued to execute buyback programs in order to provide liquidity to shareholders wishing to sell their shares. The shares are bought back in view of their cancellation or to cover for grants of free shares. A total of 93 941 shares were bought back in 2021, for a total price of Eur 0.9m.

Indian Hydropower Projects

In India, after more than 5 years of discussions, the negotiation of the amendment of the concession agreements of the hydro projects came to a deadlock, as the Government of Arunachal Pradesh (GoAP) refused categorically to consider vital provisions, despite further exchanges and discussions between April and July 2021.

The main amendments at stake relate to the allocated installed capacities, the administrative fees, the development timeframe, the conditions under which Velcan Holdings would be obliged to start the projects' constructions, the obligations of both parties, and the increase of the free power to the GoAP against the withdrawal of its potential equity participation in the projects. The GoAP only agreed on the later point, whereas Velcan Holdings considers the GoAP had initially no right to any equity participation in the projects.

The concession agreements are the central foundation of the projects as they are the basis of all technical and environmental licenses and authorizations, and the basis for further projects development, including their bank financing. In absence of the above-mentioned amendments, notably appropriate allotted capacities and development timeframe, the current concession agreements are inadequate and the Techno-Economic Clearances granted by the Government of India in 2015 are technically not valid anymore, as their renewal depends on the amendment of the concession agreements.

The surveys required by the section 19² of the land acquisition procedure were restarted in February 2021 by the government after 1 year of inactivity. The surveys and boundary marking were completed by the District Administration in March 2021. But as of the date of this report, the Group has not received the official survey report and list of land owners from the District Administration. Because Section 19 has not been completed, it is the understanding of the group that the section 11 of the procedure, which is crucial as it enacts the consent of the land owners to land acquisition, expired on 25th September 2021.

² 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, if any, the State Government would 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).

As for the other project activities (access road, forest clearance and power purchase agreement) presented in detail in the annual report 2020 published in April 2021, no progress is to be reported for 2021.

Not seeing any possibility of further discussion with GoAP, Velcan Holdings decided to suspend the projects, as they are not in a position to make any progress under such circumstances. The Group's entire Indian operations were suspended, and the Group's New Delhi Office as well as site offices have been shut down by the end of Q3 2021. The Group will continue to monitor the evolution of the Indian hydropower market, and although it is not favorable at the moment, has started looking for a possible majority partner to take over the projects and the development operations.

An additional provision of Eur 7.5 million for 2021 has been booked on the intangible value of the projects, in addition to the previously booked provisions. This brings the total provision to Eur 15.0 million (100%).

Rodeio Bonito Hydropower Plant (Brazil)

The electricity generation of 27,638 MWh during 2021 (against 29,496 MWh in 2020) was again very weak and well below Rodeio Bonito's ensured energy and close to the all-time record low of 2012 (24 793 MWh). This reflects again very low precipitation levels in Brazil in 2021 comparable, to those of 2020. The extensive rain deficit for several consecutive years has been weighing on Brazil's hydropower sector and Brazil power sector in general.

This resulted again in an overall MRE system (Energy Reallocation System) in deficit in 2021, with a significant impact of consumed purchased for the Rodeio Bonito plant (EUR -0.9m in 2021 compared to EUR -0.7m in 2020).

The operation and maintenance of Rodeio Bonito are satisfactory with a technical availability of 98.7% during 2021, against 97.4% for 2020.

The turnover from sales of electricity by the plant amounted to EUR 2.4m or BRL 15.5 m. It was down by 3.7% when expressed in Euros and up by 4.3% when expressed in BRL relative to 2020 (EUR 2.5 m or BRL 14.8 m for 2020). This negative impact in EUR compared to local currency is due to a -8% depreciation in the average EUR/BRL rate during 2021 financial year compared to 2020 financial year, while the positive impact in BRL is due to an inflation linked increase in electricity prices.

As a result, the EBITDA of the plant was down to BRL 6.3m against BRL 8.2m in 2020 (-23% mainly because of the MRE payments negative impact). When expressed in EUR, it was even down by 29% (EUR 1.0m in 2021 VS EUR 1.4m in 2020) because of the worst average EUR/BRL rate as seen above.

Foreseeable evolution of the Group:

After the closing of the financial year 2021, the group will pursue the diversification of its investment portfolio in order to maximize possible returns.

FINANCIAL YEAR 2021 – MANAGEMENT COMMENTS ON THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Income Statement (unaudited consolidated)

Turnover amounted to EUR 2.4m (against EUR 2.5m in 2020, a 4% decrease), mainly from electricity sales in Brazil.

The current operating result amounted to EUR -13.8m (against -5.6m in 2020):

- Cost of sales: payments by the Rodeio Bonito plant to the MRE (Energy Reallocation Mechanism) were of EUR 0.9m in 2021 vs. EUR 0.7m in 2019.
- Depreciation and amortization of tangible and intangible assets of Rodeio Bonito plant amounted to EUR 0.5m (like in 2020), while depreciation on intangible projects under development was EUR 7.5m in 2021 vs an amount of EUR 2.8m in 2020 and EUR 2.2m in 2019, due to the provision passed on Indian projects.
- Staff expenses amounted to EUR 5.7m in 2021 vs EUR 2.7m in 2020, an increase mainly due to the provision for bonuses related to the good performance of the portfolio of financial assets. The Group employed on average 12 permanent employees in 2021.
- External expenses are totaling EUR 1.6m in 2021 vs EUR 1.4m in 2020.

Net Financial Gain for the group amounted to EUR 21.0m in 2021, compared to EUR 7.7m in 2020.

In 2021, other operating income and expenses were NIL compared to EUR 0.2m in 2020 which consisted mainly of earn out gains on Brazilian assets related to Brazilian assets divested in previous years.

Income tax expense amounted to EUR -0.7m in 2021 vs EUR -0.2m in 2020.

The net result, Group share, was EUR 6.5m in 2021 FY compared to EUR 2.1m in 2020. The Group's EBITDA fell to EUR -5.9m compared to EUR -2.0m in 2020.

The stabilization of BRL (+0.1%) and the appreciation of Indian Rupee (INR, +5.7%) rates when compared to Euro, at 2021 closing date had a slight positive impact on the other comprehensive income, as the Group's main tangible and intangible investments have been done in local currency on the contrary to last year were the strong depreciation of BRL (-41%)

and INR (Indian Currency -12%) rates had heavily and negatively impacted the other comprehensive income (EUR 0.3m in 2021 against EUR -4.5m in 2020). The total comprehensive income amounts to a gain of EUR 6.8m in 2021 against a loss of EUR -2.4m in 2020.

Balance sheet – Assets (unaudited consolidated)

- Net intangible assets stand at 1.0m in 2021 and are down by EUR 7.2m versus 2020, because of the provision of EUR -7.5m passed on Indian assets, an amortization of -0.1m on Rodeio Bonito's intangible assets, and despite the appreciation of the Indian currency (EUR 0.2m) and the addition of EUR 0.2m of capitalized costs on Indian projects.
- Net tangible assets stand at 4.9m in 2021 and decreased by EUR 0.4m between 2020 and 2021, mainly because of the depreciation of the Rodeio Bonito plant (EUR -0.4m) while the stabilization of the Brazilian currency had no impact on it (VS an impact of EUR -2.3m in 2020).
- Cash, cash equivalent assets and financial assets (net of Current financial liabilities) have increased from EUR 105m in 2020 to EUR 120m in 2021 (+15%) mainly thanks to the good performance of the Group's financial portfolio and despite the share buyback programs (EUR -0.9m). Financial assets consist mainly in listed equity, commodities related stocks, gold related stocks and bonds.

Finally total assets increased by 12.9% during 2021 FY (up by EUR 18.4 m), mostly because of the good financial result and the bank overdraft facility described in below as part of the "liabilities" and the related asset purchases, and despite the significant provision on Indian assets.

At 31st December 2021, the Group (Velcan Holdings and its subsidiaries) holds 361,614 own shares (2020: 314,023). At year end closing price of EUR 9.35 those own shares have a market value of EUR 3.4m. As per IFRS rules, this amount is not accounted in assets of the Group.

Balance sheet – Liabilities (unaudited consolidated)

Non-current provisions and other non-current liabilities amount to EUR 0.8m and EUR 1.0m at 31 December 2021 respectively and arise from litigations related to the 2 biomass plants previously owned by the Group (Satyamaharshi SMPCL – 7.5 MW and Rithwik RPPL – 7.5 MW, owned between 2006 and 2010). The existing provision represents the major part of the claims as well as accumulated interests and judicial expenses.

Trade and other payables amount to EUR 2.6m vs EUR 0.9m in 2020, due to EUR 2.4 m of payable related to bonuses and success fees.

Current financial liabilities amount to EUR 34.8 m in 2021 (vs 23.9 in 2020). They relate to:

- EUR 30.9m (2020: EUR 23.9m), of overdraft facilities granted by a brokerage firm to the Group to leverage its listed investments trading activities. Under this facility, securities held in the trading account are used as a security to borrow money. This facility has enabled the Group to leverage its investments and maximize its profits. But it is to be noted that leverage works both ways and could also cause higher losses in case of fall in market prices.
- EUR 0.5m of overdraft facility granted by a brokerage firm to the Group to buy its own shares;
- EUR 1.9m of short-term loan granted by a bank of the Group to leverage its investments;
- EUR 1.4m of net losses on Forward forex open positions.

Own shares, booked directly against the equity of the Group at their historical cost, reduce the net shareholder's equity of the Group by EUR -2.7m at 31st December 2021 versus EUR -2.1m at 31st December 2020 following the share buyback programs (EUR -0.9m) and the use of shares (EUR +0.3m) to cover share-based payments to staff.

As at 31st December 2021, unrealized losses on conversion reserves, booked directly against the equity amounted to EUR -13.8m versus an unrealized loss of EUR -14.8m at 31st December 2020 (see comprehensive income comment above).

With a consolidated equity of EUR 121.6m (+EUR 5.8m compared to 2020), the Group still has a healthy financial position (cash position + financial assets – financial liabilities = EUR 120m).

The full annual report 2021 is available at:

<http://www.velcan.lu/investors/reports-accounts/>

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SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Balance Sheet

ASSETS (EUR '000)	2021	2020
NON-CURRENT ASSETS	6 549	14 375
Intangible Assets	1 041	8 256
Tangible Assets ³	4 918	5 315
Non-Current Financial Assets	586	805
CURRENT ASSETS	154 300	128 060
Current Financial Assets	128 432	115 946
Cash and Cash Equivalents	25 467	11 673
Other Current Assets	401	440
TOTAL ASSETS	160 849	142 435

LIABILITIES (EUR '000)	2021	2020
TOTAL EQUITY	121 614	115 819
NON-CURRENT LIABILITIES	1 739	1 662
CURRENT LIABILITIES	37 495	24 954
Bank overdrafts	34 761	23 918
Other payable	2 734	1 036
TOTAL LIABILITIES	160 849	142 435

³ Almost exclusively constituted of the Rodeio Bonito Hydro Power Plant asset

Income Statement (EUR '000) - Unaudited

	2021	2020
Revenues	2 425	2 517
Operating expenses	(8 282)	(4 772)
Amortizations, depreciations and Provisions	(7 990)	(3 349)
Ordinary Operating Result	(13 847)	(5 604)
Other operating Income	(8)	233
Operating Result	(13 855)	(5 371)
Net Financial Income (Loss)	21 020	7 711
Tax Income (Expense)	(709)	(220)
Net Income – Group Share	6 456	2 119
EBITDA	(5 857)	(2 022)

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SUMMARY AUDITED STATUTORY FINANCIAL STATEMENTS (Lux GAAP)

Balance Sheet

ASSETS (EUR '000)	2021	2020
FIXED ASSETS	145 102	146 574
CURRENT ASSETS	5 225	58 778
Debtors	55	44
Investments	5 072	57 831
Cash at bank and in hands	98	904
PREPAYMENTS	51	47
TOTAL ASSETS	150 378	205 399

LIABILITIES (EUR '000)	2021	2020
CAPITAL AND RESERVES	123 888	111 813
CREDITORS	26 490	93 587
TOTAL LIABILITIES	150 378	205 399

Income Statement (EUR '000)

	2021	2020
Gross profit or loss	(1 207)	(1 457)
Income from participating interests	3 077	-
Income from other investments & loans forming part of the fixed assets	136	1 700
Other interest receivable and similar income	8 261	532
Value adjustments in respect of financial assets and of investments held as current assets	2 239	(3 852)
Interest payable and other similar expenses	(334)	(2 737)
Tax on profit or loss	0	(9)
Other taxes	5	(5)
Profit or Loss for the financial year	12 076	(5 829)

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Investor Relations Contact investor@velcan.lu

About Velcan:

Velcan Holdings is an investment holding company founded in 2005, managing a global portfolio of participations and investments.

Velcan Holdings' headquarters are in Luxembourg, with administrative and financial offices in Singapore and Mauritius.

The company was launched more than 15 years ago by its reference shareholder LHP SA, owned by Velcan Holdings' management team.

Velcan Holdings is listed on the unregulated Euro MTF Stock Market in Luxembourg (Ticker VLCN/ISIN FR0010245803). Velcan Holdings never performed any Public Offer as understood under Directive 2003/71/CE of the European Parliament and Council.

Disclaimer

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

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