

# VELCAN Holdings

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

**30<sup>th</sup> June 2022**

### **Velcan Holdings S.A.**

RCS Luxembourg B145006  
Luxembourg Stock Exchange – FR0010245803  
[www.velcan.lu](http://www.velcan.lu)

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## I - MANAGEMENT REPORT

### 1. ABOUT VELCAN HOLDINGS

Velcan Holdings is a Luxembourg headquartered investment holding company founded in 2005 managing a global portfolio of participations. The assets of the group are deployed in listed financial investments, minority private equity participations, cash and cash equivalents (bank current accounts and deposits). The group also holds a majority participation in a 15 MW hydro power plant in Brazil.

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

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 the Directive 2003/71/CE of the European Parliament and Council.

### 2. H1 2022 KEY FIGURES (unaudited)

	<u>30.06.2022</u>	<u>30.06.2021</u>	<u>Var %</u>
Turnover Half Year (Million Euros)	1.1	0.8	+31%
EBITDA Half Year (Million Euros)	-1.0	-1.8	+45%
Net Result Half Year (Million Euros)	3.6	6.1	-41%
	<u>30.06.2022</u>	<u>31.12.2021</u>	<u>Var %</u>
Cash and Financial instruments (Million Euros)	120	120	+0%
Consolidated Equity (Million Euros)	124	122	+2%

### **3. IMPORTANT EVENTS AND ACTIVITY OVER THE PERIOD**

#### **H1 2022 key figures and comments**

##### Financial income

In H1 2022, the Group has not increased its corporate bond portfolio despite the U.S. Fed beginning to increase rates given it estimated the rewards remained insufficient to cover the potential default risks at this stage. With prevailing risks from the Covid, geopolitical tensions with the War in Ukraine and double digit inflation rates, the Group sold a significant part of the equity portfolio to capitalize on the rally on Oil related assets and Banking stocks. Given the volatile market conditions, the Group positions in financial assets did not perform as well as the exceptional performance in H1 2021, although they recorded a financial gain of EUR 5.2m in H1 2022, compared to EUR 15.8m at the end of H1 2021. The biggest contributor to this gain is the profit on positions in oil related companies which have been sold as of 30<sup>th</sup> June 2022.

As of June 30<sup>th</sup>, the portfolio is mainly constituted of gold and silver (21% of the gross financial assets), equity long positions (27% of the gross financial assets) and cash and cash equivalent (50% of the gross financial assets). The balance is equity short positions, BRL and INR MM funds, bonds and private equity (see full details in chart page 6) and forward Forex (negative exposure of 6% of the gross financial assets due to a loss unrealized position at the end of H1 2022). The overdraft facility granted in 2021 was not used at the end of H1 2022.

As of H1, the Group financial assets were mainly exposed to the Japanese Yen (39.7% against 27% in December 2021), the Euro (36%, against 18% in December 2021) and the Singaporean Dollar (10%, at similar levels as in December 2021). As of the end of H1 2022, our Forward Forex contracts result in a negative exposure to the USD of minus 13%, partially compensated by 9% exposure to the USD pegged HKD. It is to be noted that the Gold and Silver positions are priced in USD and as such are included in the former USD exposure.

##### Other incomes

The turnover, exclusively coming from Velcan Holding's participation in the Rodeio Bonito hydropower plant in Brazil, in the first half of 2022 amounted to EUR 1.1m. It was up by 31% when expressed in Euros and up by 14% when expressed in BRL relative to H1 2021. This turnover benefited from the stronger average EUR/BRL rate during H1 2022 (1 EUR=5.55 BRL) vs H1 2021 (1 EUR=6.49 BRL).

Operating costs were lower when compared to H1 2021 (EUR -2.1m during H1 2022, versus EUR -2.6m during H1 2021) because there was in 2021 a EUR 0.8 m provision booked for staff cost linked to the very good financial result achieved in H1 2021.

Depreciation, Amortization & Provisions decreased significantly (EUR -0.3 m for H1 2022 vs EUR -7.6 m for H1 2021) mostly because of the full impairment made on Indian hydropower Projects in 2021 (EUR 7.4m booked in H1 2021, bringing the total impairment of the Indian projects to 100% at that time), while the H1 2022 cost was only related to the linear depreciation & amortization of Rodeio Bonito power plant.

Added to the decreasing consumed purchases in Brazil (by EUR -0.1m), this led to a sharp decrease of the operating loss (EUR -1.3m for H1 2022 against EUR -9.4m for H1 2021)

Net result, Group share, was therefore a gain of EUR 3.6m in H1 2022 vs. a gain of EUR 6.1m in H1 2021.

Group other comprehensive income amounts to a gain of EUR 1.0m in H1 2022 vs a gain of EUR 0.7 m in H1 2021, mostly due to the appreciation of the Brazilian currency (+13%) and its impact on the Group conversion reserves where the assets held in foreign currency in Brazil (Rodeio Bonito) are translated into Euro. The Group total comprehensive income for H1 2022 amounts to a gain of EUR 4.7m vs a gain of EUR 6.8m in 2021.

Shareholders equity amounts to EUR 124.4m as of 30<sup>th</sup> June 2022 vs. EUR 121.6m as of 31<sup>st</sup> December 2021 (+EUR 2.8 m) mostly due to the relatively good financial and operational results during H1 2022.

The share buyback program launched by the Board of Directors on 13<sup>th</sup> March 2020, as amended on 17<sup>th</sup> September 2020 and 4<sup>th</sup> November 2021, in order to buy 500,000 shares of the Company, ended on 31<sup>st</sup> May 2022, by expiry of its duration as determined by the Board of directors. As of such date the Company had bought back a total of 487,567 shares for a total amount of Euros 3,867,460.00 in accordance with the descriptions of the buyback program published on 13<sup>th</sup> March 2020, 17<sup>th</sup> September 2020 and 4<sup>th</sup> November 2021 and the resolutions of the General Meetings of shareholders on June 28, 2017 and July 28, 2017. During the first half of 2022, the Company bought 200,579 shares for a total of EUR 1.9m.

1,475 shares were distributed to employees in early 2022 (the cost of which was already booked in 2021 accounts).

As of 30<sup>th</sup> June 2022, the Company held 560,718 treasury shares, compared to 361,614 treasury shares as of 31<sup>st</sup> December 2021. The net number of outstanding shares as of 30<sup>th</sup> June 2022 is 4,991,602.

### **Listed and unlisted minority investments – performance of portfolio during H1 2022**

The Group has 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 including:

- a) until late 2019 mainly corporate and government bonds both in local and reserve currencies;
- b) since then mainly in worldwide equity, gold related assets, commodities, forex, direct lending and private equity investments.

In 2020 and 2021, the Group had already reduced its bond portfolio given it estimated the rewards remained insufficient to cover the potential default risks. The position in NORDDEUTSCHE LANDESBANK GIROZENTRALE was further reduced in Q1 2022.

H1 2022 has seen a particularly complex macroeconomic and geopolitical context with exacerbated inflation rates. Equity and bond markets around the World have both significantly slumped, which is a rare occurrence. The U.S. Fed has been on a rates hike spree during H1 2022 with the end of quantitative easing (QE) by central banks around the World.

The 'dynamic zero-COVID policy' in China has highly impacted growth rate in H1 2022 within multiple regions tightening mobility restrictions. In order to capitalize on the rally of 2021 and with looming possibilities of a recession, the Group removed its exposure to oil-related stocks in H1 2022 and significantly reduced exposure to banking stocks. The Group reduced to zero its exposure to Chinese banking and telco stocks in the middle of quarter. The Group also significantly reduced exposure to Chinese stock Ping An Insurance Group Co Ltd and Alibaba Group Holding Limited. Significant headwinds for the Chinese High Tech sector (zero covid policy, increased regulatory pressures, financial penalties) have hit our Alibaba and Tencent holdings. The Group has profited from high volatility events to decrease its average purchasing cost and reduce its Alibaba's holdings.

Given the market conditions, in H1 2022, the Group has on average performed well with a financial gain of EUR 5.2m (H1 2021 saw an exceptionally high financial gain of EUR 15.8m). The biggest contributor to this gain were the oil related companies.

FINANCIAL INSTRUMENTS	Value 30.06.2022 in mEUR	Weight	Value 31.12.2021 in mEUR	Weight
Bonds	5.0	4%	8.4	7%
Cash and cash equiv, Unrealized Gains on open Forward Forex and MMFunds	60.5	50%	26.9	22%
Gold and silver related stocks	24.9	21%	26.5	22%
Oil related stocks	-	0%	32.3	27%
Equity Long positions (EM, EU, USA, Japan)	32.6	27%	56.7	47%
Equity Short	4.1	3%	3.1	3%
Private Equity & Lending	0.2	0%	0.5	0%
<b>Total assets (A)</b>	<b>127.2</b>	<b>106%</b>	<b>154.5</b>	<b>129%</b>
Bank Overdraft and short-term loans	-	0%	-33.3	-28%
Unrealized Losses on Forward forex positions	(7.1)	-6%	-1.4	-1%
<b>Total in Financial liabilities (L)</b>	<b>(7.1)</b>	<b>-6%</b>	<b>-34.8</b>	<b>-29%</b>
<b>Net Total (A+L)</b>	<b>120.1</b>	<b>100%</b>	<b>119.7</b>	<b>100%</b>

The equity portfolio, including gold and silver related stocks, is deployed across a diversified array of 64 different issuers and ETFs. The EUR 21.4m gold position (denominated in USD), which the Group considers to be equivalent to a separate currency, is held through 4 positions: a large position of EUR 17.1m VanEck Gold Miners ETF, which gives exposure to the Gold Miners universe, and 3 smaller holdings in other specific mining companies.

In 2021, the Group had significant exposure to oil related stocks. With the geopolitical tensions in H1 2022, there has been an increase in oil prices that contributed to increased inflation around the World. The Group judged it was a good time to sell the oil exposure in order to capitalize on the positive performance on these stocks since investment in 2020. Similarly, the Group decided to reduce exposure to banking stocks in H1 2022 which had increased to their expected valuation. The position in Capital One Financial Corp was removed completely. As to non-gold equity, the Group's positions in excess of EUR 2m were in Ping An Insurance Group Co of China, Alibaba Group Holding Ltd, Citigroup Plc, Banco Bilbao Vizcaya Argentaria SA, Banco Santander and Japan Hotel Reit Investment Group.

Geographically the Group's equity investment is mostly exposed to Chinese, U.S, Europeans and Japanese issuers as of June 30<sup>th</sup> 2022.

The Gold and Silver investment are viewed as an insurance against potential future inflation or monetary debasement. This investment is viewed as if the Group had invested in an additional currency. At the end of

semester, this investment is approximately even. The loss in value being approximately compensated by the Forex gain on the line and dividends received since inception.

The remaining bonds portfolio is exposed to issuers in the, BB and CCC (as defined by Standard & Poor's). One of the bonds has a long maturity, whereas the other has a maturity of less than 4 years. At period closing date the lines of the Group are with the following issuers:

- a) EUR 1.6m exposure to the republic of Argentina.
- b) above EUR 2.5 m of exposure to NORDDEUTSCHE LANDESBANK

The performance of the bond investments is not material compared to the one of the rest of the portfolio in H1 2022. The Group had already significantly reduced the size of the bond portfolio as of the end of the years 2020-2021, and kept doing so in H1 2022, bringing it to 4% of the total financial portfolio. H1 2022 has seen a number of rate hikes by the U.S. Fed and other markets are expected to follow but potentially not as aggressively. The Group will continue to monitor the yields and spreads on all types of bonds. At this stage, it is unlikely that the Group will invest significantly in the short term in corporate bonds.

As of the end of H1 2022, the Group private investments sit at EUR 0.2m, which represent only private equity and are mostly venture capital investments. In this category of private investments, the Group also had granted loans to finance vessels to shipping operators. On one of them, a loan principal amount, along with various recoverable expenses related to the recovery of the loan, that remained due to the Group (EUR 3m excluding interests) as of 31<sup>st</sup> December 2021 were finally mostly recovered (USD 3.6m) following a litigation settlement entered into by the borrower on 25<sup>th</sup> July 2022. This amount had been fully impaired as of 31/12/21, and as such, the recovery less various expenses incurred will be booked as a profit in the 2022 second half statements with a EUR 3.2m positive impact on the financial result of the Group. This profit was not included in those H1 2022 financial results.

The Group has increased its financial exposure to the JPY and the EURO and reduced its exposure to USD through the purchase of Forward contracts. As of end of June 2022, the Group financial assets were mainly exposed to the Japanese Yen (39.7%), the Euro (36%) and the Singaporean Dollar (10.5%). It is to be noted that the gold and silver positions are priced in USD and as such are included in the USD exposure. In 2021, the Group entered into a number of Forward Forex contracts which generated and unrealized negative performance or -7.1 m EUR as of end of June 2022. These contracts are mostly short USD, and long EUR, CNH and JPY.

The Group has settled all leverage it had back in 2021 and currently holds no negative cash position.

### **Majority participation in the Brazilian hydro plant - performance during H1 2022**

The production of 28,148 MWh during H1 2022 (against 13,284MWh in H1 2021) was very high compared to previous years and above Rodeio Bonito's ensured energy<sup>1</sup>. This reflects good precipitation levels in Brazil in H1 2022 while the extensive rain deficit was experienced in Brazil in 2021 and previous years.

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<sup>1</sup> 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

This resulted in an overall MRE system (Energy Reallocation System) not anymore in deficit in H1 2022, with no impact of consumed purchased for the Rodeio Bonito plant (vs EUR -0.2m in H1 2021). The MRE impact during H2 2022 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 99.97% during H1 2022, against 99.3% during H1 2021.

The turnover from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil amounted to EUR 1.1m. It was up by 31% when expressed in Euros and up by 14% when expressed in BRL relative to H1 2021 (EUR -0.8 m for H1 2021).

As a result of a higher turnover and low costs related to MRE system, the EBITDA (earnings before interests, taxes and amortization) of the plant amounted to BRL 4.3m against BRL 2.8m in H1 2021. When converted in EUR, the EBITDA was up to EUR 0.8m vs 0.4m in H1 2021.

### **Indian hydropower projects during H1 2022**

Following the suspension of the hydropower projects development operations decided in 2021 due to the complete deadlock encountered by both the hydropower sector and the specific projects activities (concession agreements, land acquisition, etc...), the Group has been looking for a possible majority partner to take over the projects and the development operations. Discussions are going on at the date of this report.

#### **4. IMPORTANT EVENTS SINCE 30<sup>th</sup> JUNE 2022**

No important events are reported since 30<sup>th</sup> June 2022.

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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.



## II – UNAUDITED CONSOLIDATED BALANCE SHEET (ASSETS)

*In thousands of Euros*

<b>Assets</b>	<b>30.06.2022</b>	<b>31.12.2021</b>
<b>Non current assets</b>		
Intangible assets	1,149	1,041
Tangible assets	5,433	4,918
Non current financial assets	242	586
<b>Total non-current assets</b>	<b>6,831</b>	<b>6,549</b>
<b>Current assets</b>		
Current financial assets	68,670	128,432
Trade and other receivables	189	263
Income tax receivables	7	19
Other current assets	101	118
Cash and cash equivalents	58,266	25,467
<b>Total current assets</b>	<b>127,233</b>	<b>154,300</b>
<b>Total assets</b>	<b>134,064</b>	<b>160,849</b>

### III – UNAUDITED CONSOLIDATED BALANCE SHEET (LIABILITIES)

Thousands of Euros

Liabilities	30.06.2022	31.12.2021
<b>Equity</b>		
Issued capital	5,552	5,552
Additional paid in capital	120,607	120,607
Other reserves and conversion reserves	(5,417)	(11,001)
Net income for the year	3,629	6,456
<b>Total Equity</b>	<b>124,372</b>	<b>121,614</b>
<b>Non current liabilities</b>		
Non current provisions	773	755
Other non current liabilities	1,006	983
<b>Total non-current liabilities</b>	<b>1,779</b>	<b>1,739</b>
<b>Current liabilities</b>		
Current financial liabilities	7,170	34,761
Trade and other payables	651	2,618
Income tax payables	85	106
Other current liabilities	7	9
<b>Total Current Liabilities</b>	<b>7,913</b>	<b>37,495</b>
<b>Total Liabilities</b>	<b>134,064</b>	<b>160,849</b>

## IV – UNAUDITED INCOME STATEMENT

Thousands of Euros

Statement of Profit & Loss	30.06.2022	30.06.2021
Operating revenues	1,090	832
<b>Total operating revenues</b>	<b>1,090</b>	<b>832</b>
Purchases	(30)	(165)
External expenses	(1,558)	(554)
Payroll expenses	(498)	(2,072)
Operating tax expenses	(0)	(0)
Depreciation, Amortization & Provisions	(275)	(7,625)
<b>Current operating result</b>	<b>(1,271)</b>	<b>(9,584)</b>
Other operating income	3	143
<b>Operating result</b>	<b>(1,268)</b>	<b>(9,442)</b>
Financial Income	15,758	17,373
Financial expenses	(10,571)	(1,544)
<b>Financial Result</b>	<b>5,187</b>	<b>15,829</b>
Income tax expense (-) / benefit (+)	(290)	(250)
<b>Net result from continuing operations</b>	<b>3,629</b>	<b>6,137</b>
Earnings per share (in Euros)	0.70	1.16
Diluted earnings per share (in Euros)	0.70	1.12
<b>EBITDA</b>	<b>(993)</b>	<b>(1,816)</b>
Statement of total comprehensive Income	30.06.2022	30.06.2021
Net income	3,629	6,137
Other comprehensive income, that will not be reclassified subsequently to profit or loss	1,035	666
<b>Group Total Comprehensive income</b>	<b>4,664</b>	<b>6,804</b>

## V - COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. EFFECTIVE FOREIGN EXCHANGE RATES

1 € =	30.06.2022		31.12.2021		30.06.2021	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
BRL (Brazilian Real)	5.51	5.55	6.34	6.38	5.89	6.49
INR (Indian Rupee)	82.87	83.36	84.78	87.75	88.11	88.44
USD (US Dollar)	1.05	1.09	1.14	1.18	1.19	1.21
SGD (Singapore Dollar)	1.46	1.49	1.54	1.59	1.60	1.61
JPY (Japanese Yen)	142.31	134.31	130.93	129.88	131.77	129.87

### 2. COMMENTS ON THE BALANCE SHEET

#### ASSETS

##### Intangible Assets

The Group discontinued its operations in India as announced above and had fully provisioned its related development costs in previous years. The positive effect of the Brazilian currency fluctuation (+EUR 0.2m) less the amortization and provisions allowance cost (EUR -0.1m) had a positive effect on the value of intangible assets related to Rodeio Bonito asset (EUR 1.1 m in H1 2022 VS EUR 1.0m at 31<sup>st</sup> December 2021).

##### Tangible Assets:

Tangible assets were up to EUR 5.4m at of 30<sup>th</sup> June 2022 versus EUR 4.9m at 31<sup>st</sup> December 2021, an increase of EUR 0.5m. This variation is the net result of, the combined effects, on one hand, of the increase of the Brazilian Real on the book value of Rodeio Bonito expressed in Euros because of the appreciation of the Brazilian currency (EUR 0.7m) and, on the other hand, of the depreciation expense of that same asset (EUR -0.2m).

##### Cash, Cash Equivalents & financial assets:

These assets were significantly down (EUR -27.3m) mostly because of the reimbursement of the facility linked to the bank overdraft (see liabilities part). Please report to the part I-3 for detailed comments on the financial assets.

#### LIABILITIES

##### Capital:

The issued capital still stands at 5 552 320 €.

##### Non-current provisions :

Non-current liabilities (EUR 0.7m) 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.

#### Current liabilities:

Other current liabilities were down at EUR 7.9m and includes mostly EUR 7.1 of losses on forward forex contracts. Financial liabilities were down by EUR -27.6m when compared to 31<sup>st</sup> December 2021. Hence, despite EUR 1.9 m of own share purchases during H1 2022, cash, cash Equivalents & financial assets net of financial liabilities was steady during H1 2022.

### **3. COMMENTS ON THE INCOME STATEMENT**

EBITDA was negative during H1 2022 (EUR -1.0 vs. EUR -1.8m in H1 2021). Net result, Group Share, was a gain of EUR 3.6m vs. a gain of EUR 6.1m for H1 2021.

#### **CURRENT OPERATING PROFIT :**

##### Turnover :

Velcan's turnover amounted to EUR 1.1m in H1 2022 arising exclusively from sales of electricity by the Rodeio Bonito Hydro Power Plant in Brazil, against EUR 0.8m in H1 2021 (mainly due to inflation in electricity sale prices in Brazil and forex BRL-EUR impact, the average EUR/BRL FX rate during H1 2022 being more favorable than during H1 2021).

##### Purchases:

Purchases costs were down by EUR 0.1m during H1 2021 compared to H1 2020 (see above).

##### Operating costs (excluding purchases):

External & payroll expenses & operating costs were lower at EUR 2.1 m during H1 2022 VS EUR 2.6 during H1 2021 because of a EUR 0.8m staff bonus provision booked in 2021 when the financial result had been exceptionally high (see above).

##### Depreciation, Amortization and Provisions, Provision write-backs:

Depreciation and amortization of tangible and intangible assets amounted to an expense of EUR -0.3m vs. an expense of EUR -7.6m in 2021. Tangible and intangible asset depreciation expense was mainly attributable to Rodeio Bonito HPP in H1 2022 (EUR -0.3m) while intangible asset depreciation expense was mainly attributable to an impairment booked on the Indian projects in 2021 (EUR -7.4m, see above).

Operating result was a loss of EUR -1.3m compared to a loss of -9.4m in H1 2021.

#### **FINANCIAL INCOME**

Net financial income for H1 2022 was EUR 5.2m vs a gain of EUR 15.8m in H1 2021. The financial income of the Group is mostly dependent on two items:

- a) The capital gain/losses on its equity portfolio and the dividends received. This item has performed well during H1 2022, especially given the market conditions, with a gain excluding Forex movements of EUR 5.9m.
- b) The Foreign exchange variations of the currencies in which the Group's financial investments are made. It generated a loss of EUR 0.7m.

#### **COMPREHENSIVE INCOME**

Net income for H1 2022 amounted to a gain of EUR 3.6m vs a gain of EUR 6.1m during H1 2021.

Comprehensive Income for H1 2022 amounted to a gain of EUR 4.7m vs. a gain of EUR 6.8m in H1 2021. The impact of currency fluctuations on Group equity on items which are only recognized in the comprehensive income (mainly tangible and intangible assets) was an additional comprehensive income gain of EUR 1.0m in H1 2022 vs. a gain of EUR 0.7m in H1 2021.

This variation is mainly due to a higher Brazilian Real when compared to EUR which positively impacted the book value of tangible assets (Rodeio Bonito power plant) booked in this currency (See above).