

VELCAN HOLDINGS: ANNUAL RESULTS 2023

DROP IN NET RESULT RESULTING FROM STAGNANT FINANCIAL PORTFOLIO VALUE, DECREASED TURNOVER OF THE RODEIO BONITO PLANT, ENHANCED EBITDA DUE TO THE DIVESTMENT OF INDIAN PROJECTS

NON-AUDITED KEY CONSOLIDATED FIGURES	<u>2023</u>	<u>2022</u>	Var %
Revenues (EUR m)	2.9	3.2	-8%
EBITDA (EUR m)	1.8	-2.7	NA
Net Income (EUR m)	0.5	8.2	-94%
Cash and Financial assets and liabilities	125	124	+0%
Shareholders' Equity (EUR m)	128	127	+1%

The financial portfolio value of the Group stayed flat in 2023 (financial result of 65k euros). Despite several Fed rates hikes and bank failures in the spring, the US labor market and the US economy in general remained strong. The rest of the world showed a more contrasted picture. China, mired in its real estate development sector crisis and continuous political scrutiny of its private sector, has witnessed low level of growth. The year has also seen rising geopolitical tensions, namely a new conflict in the Middle East, the ongoing war in Ukraine, increasing tensions over Taiwan and continuing threats by North Korea. With this current uncertain backdrop, the Group remained heavily positioned in cash, cash equivalents and cash like commodities (mostly gold mining stocks). In 2023, gains made in gold mining, Japanese equities and European banks balanced the losses suffered in the Japanese Yen and in Chinese equities. The Group net financial instruments stayed at Eur 124.6 million, almost at same level as at end of 2022 with a financial result of EUR 65k as of 31/12/2023.

The Rodeio Bonito plant power generation reached 50,757 MWh during 2023, against 56,159 MWh during 2022. An incident prevented the turbine no.1 from generating power from the 15th of October onwards. The turnover from sales of electricity amounted to EUR 2.9m or BRL 15.6 m. It was down by 8% when expressed in Euros and down by 9% when expressed in BRL relative to 2022 (EUR 3.2 m or BRL 17.2 m for 2022). In terms of rainfall and water discharge, 2023 was similar to 2022 and below the historical values. The whole country has experimented the same phenomenon for several years now.

The Indian greenfield hydropower projects were suspended in September 2021 due to long lasting administrative impediments. Since then, the Group was looking for potential investors to take over the projects, and, despite unfavorable market conditions, could sold 2 out of the 3 projects of its cascade to a major Government of India owned hydropower player in August 2023. As the projects were fully impaired since the first half 2021, this transaction generated a profit of Euros 4.3m in the 2023 accounts. The Group keeps looking for a solution for the Pauk HEP.

The 2023 net result stands at EUR 0.5m, a 94% decrease compared to the EUR 8.2m of 2022. Shareholder's equity increased by 1%.

FINANCIAL YEAR 2023 – MANAGEMENT COMMENTS ON THE BUSINESS

Financial Assets

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 worldwide equity, gold related assets, commodities, forex, direct lending and private equity investments.

The year 2023 has seen a high level of market uncertainty and persistent rate hikes by the FED due to a sticky inflation. The Group has mainly maintained its gold related position in 2023. The Group then mainly reweighed its portfolio of Japanese and Asian stocks. Financial result excluding Forex for the year has been a gain of EUR 6.6 m and the Forex impact has been a loss of EUR 6.5m.

The evolution of the portfolio allocation is detailed below.

FINANCIAL INSTRUMENTS	Value 31.12.2023 in mEUR	Weight (% of net assets)	Value 31.12.2022 in mEUR	Weight (% of net assets)
Cash and cash equivalent	55.5	45%	50.6	41%
US Treasury Bill	1.8	1%	5.8	5%
Money Market Funds in BRL and INR	5.2	4%	3.5	3%
Unrealized Gains on open Forward Forex	0.0	0%	0.1	0%
Bonds and interests receivable	6.7	5%	6.4	5%
Gold and silver related stocks	26.0	21%	25.2	20%
Equity Long positions (EM, EU, USA, Japan)	26.8	22%	35.4	28%
Equity Short and dividends receivable	3.1	2%	3.9	3%
Private Equity & Lending	0.4	0%	0.2	0%

Total assets (A)	125.5	101%	131	105%
Bank Overdraft and short-term loans	-0.0	0%	-1.3	-1%
Unrealized losses on open forward forex	-0.8	-1%	-5.4	-4%
Total in Financial liabilities (L)	-0.9	-1%	-6.6	5%
Net Total (A+L)	124.6	100%	124.4	100%

The equity portfolio, including gold and silver related instruments, is deployed across a diversified array of 50 different issuers and ETFs. The gold position, which the Group considers to be equivalent to a separate currency, was held through 4 positions. The investment in gold mining companies through the VanEck Gold Miners ETF being the most significant, valued EUR 18.7m as of 31.12.2023. In addition, the Group has smaller holdings in specific gold mining companies.

In H1 of 2023, the Group divested its position in two banking stocks namely BANCO BILBAO VIZCAYA ARGENTARIA SA and BANCO SANTANDER SA to benefit from the rally, resulting in a financial gain of EUR 1.56m. In H2 of the year, the Group increased its exposure to Japan Hotel Reit Investment Corp.

As to non-gold related equities, 5 positions stand above EUR 2.5m: iShares Silver Trust, Ping An, Tencent, Citigroup and Japan Hotel Reit. The Group also holds a S&P Short position of EUR 3.0m.

As of 31st December 2023, the Group's equity investment is mostly exposed to U.S, Chinese, European and Japanese issuers. The Group capitalized on investments in the banking sector selling its positions in 2023 as these assets had rebounded strongly from their initial purchase price, mostly in 2020. The performance of these shares was between +65% to +146% compared to their initial cost.

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 the year, this investment is approximately even.

The Group bonds portfolio is exposed to issuers in the BB and CCC ratings (as defined by Standard & Poor's). One of the bonds has a long maturity, whereas the other has a maturity of less than 1 year. At period closing date the lines of the Group are with the following issuers:

- a) EUR 2.0 m exposure to the republic of Argentina.
- b) above EUR 4.5 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 2023. It is to note however that with the outcome of the Presidential Election this year in Argentina, the rally on the bonds resulted in a financial result of Eur 0.49m. The Group had already significantly reduced the size of the bond portfolio as of the end of the year 2021. In 2023, the Group has maintained its bond holdings.

The Group continues to monitor potential rate changes from the U.S Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan. The ongoing geopolitical tensions may result in further market uncertainty. The FED has paused on its aggressive approach to monetary tightening and the market sentiment is that rates should start to come down in 2024. That said, the timing of these decisions when it comes to dealing with inflation creates a lot of unknowns on possible market levels.

As of the end of 2023, the Group private investments sit at EUR 0.4m, which represent only private equity / venture capital. In 2023, the Group has kept prospecting private investment opportunities to increase the share of this segment in its portfolio, but without finding favorable valuations and environment. As at 31/12/2023, the Group does not hold any secured lending investments.

The Group has, with the settlement of Forward Forex contracts, increased its financial exposure to the USD and maintained its exposure to the Euro and the Japanese Yen. As of the end of the year 2023, the Group net financial assets and liabilities were mostly exposed to the following currencies:

- the Japanese Yen: 34%,
- the Euro: 23%
- the U.S Dollar: 17%
- the Hong Kong Dollar: 8%,
- the CNH: 8%
- the CHF 4%
- the Singapore Dollar: 1 %

The Group also has EUR 5.2 m of investments in Money Market funds in Brazil and India (proceeds from sale of Indian projects have been placed in Money Market funds) and has also invested in short term US treasury bill with a EUR 1.8 m exposure at the end of 2023.

This year, the Group has significantly reduced its leverage (bank overdraft) which is now at of EUR -41k. The net cash position of the group as of 31/12/23 is EUR 55.5 m (cash and cash equivalents of EUR 55 493k and a bank overdraft of EUR 41k secured on the listed financial assets of the Group). Most of the Forward Forex contracts held by the Group settled in 2023. The Group remaining forward Forex contracts had a Mark-to-Market value of EUR -0.8m as at 31.12.2023 (unrealized losses booked in financial liabilities of the Group).

Rodeio Bonito Hydropower Plant (Brazil)

On 15 October 2023, turbine #1 received a safety stop command due to high levels of vibration but both the turbine brake system and the floodgate closure failed. This resulted in the unit being damaged by a foreign object. The full extent of the damages is still being assessed, and maintenance and repairs are still ongoing on this report's date. The insurance policy has been activated.

Despite the incident, the electricity generation of 50,757 MWh during 2023 (against 56,159 MWh during 2022) was decent, but was still below Rodeio Bonito's level of ensured energy¹.

The operation and maintenance of Rodeio Bonito were satisfactory till the damage on turbine #1, which caused a technical availability of only 87.57% during 2023, compared to 98.7% for 2022.

The extensive rain deficit for several consecutive years is still weighing on Brazil's hydropower sector and Brazil power sector in general and the Group remains cautious on its Brazilian plant performance in the future despite a decent 2023 FY.

The MRE system (Energy Reallocation Mechanism) was still in deficit in 2023, with a steady impact of consumed purchased for the Rodeio Bonito plant (EUR -0.2m in 2023 compared to EUR -0.2m in 2022).

The turnover from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil amounted to EUR 2.9m or BRL 15.6 m. It was down by 8% when expressed in Euros and down by 9% when expressed in BRL relative to 2022 (EUR 3.2 m or BRL 17.2 m for 2022). The EUR/BRL average rate was quite stable during FY 2023 (appreciation of +1%) which explains the small difference in terms of percentage between the 2023 and 2022 comparative figures in BRL and EUR.

The EBITDA of the plant was therefore down to BRL 11.1m in 2023 against BRL 13.0m in 2022 (-15%), mainly because of a lower turnover and higher expenses. When expressed in EUR, it was down by 14% (EUR 2.4m in 2023 VS EUR 2.1m in 2022) because of the slightly better average EUR/BRL rate as seen above.

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.

Indian Hydropower Projects

Velcan Holdings fully divested its Heo – Tato-1 tandem of hydropower projects (2 hydropower projects totaling 426 MW located in the state of Arunachal Pradesh, India), taken over by a major utility owned by the Government of India.

These projects were the 2 largest projects of the Group's cascade of 3 hydropower projects. Following this sale, the Group is left with the third project of the said cascade, the Pauk HEP (145 MW), its last greenfield hydropower project.

The entire cascade development was suspended in September 2021, since the Government of Arunachal Pradesh (GoAP) had refused to consider vital amendments to the corresponding concession agreements. This came on top of the numerous deadlocks encountered by the projects during the past years regarding essential development activities which mostly depended on the Governments (central and local), such as the delays in the road infrastructure, the inability of the GoAP to make significant progress in the land acquisition and the inability of electricity distribution companies to sign long term bankable power purchase agreements.

The takeover by a public utility appears as a logical outcome in the above-mentioned distressed context, where the sector environment proved to be extremely unfavorable to private developers. Given the very few large projects that were taken over against a payment – and by the Government of India – this transaction illustrated the quality of the projects.

The buyer of the projects refunded a significant part of the project development expenses incurred by the Group in India, although costs incurred out of India could not be recovered. The projects were fully impaired since the first half 2021 and this transaction therefore generated a profit of Euros 4.3m in the 2023 accounts.

The Group is working on the potential sale of the Pauk HEP. It is a different scenario from Heo and Tato HEPs which were slightly ahead of Pauk HEP in terms of permits obtained at CEA level.

Foreseeable evolution of the Group:

After the closing of the financial year 2023, the group will pursue the diversification of its investment portfolio in order to maximize possible return.

The full annual report 2023 is available at:
<http://www.velcan.lu/investors/reports-accounts/>

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SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Balance Sheet

ASSETS (EUR '000)	2023	2022
NON-CURRENT ASSETS	6 374	6 356
Intangible Assets	1 032	1 071
Tangible Assets ²	4 919	5 073
Non-Current Financial Assets	409	209
CURRENT ASSETS	125 344	131 308
Current Financial Assets	69 563	80 273
Cash and Cash Equivalents	55 495	50 574
Other Current Assets	286	461
TOTAL ASSETS	131 718	137 664

LIABILITIES (EUR '000)	2023	2022
TOTAL EQUITY	128 110	127 460
NON-CURRENT LIABILITIES	1 604	1 663
CURRENT LIABILITIES	2 004	8 541
Current financial liabilities	875	6 622
Other payable	1 130	1 919
TOTAL LIABILITIES	131 718	137 664

² Almost exclusively constituted of the Rodeio Bonito Hydro Power Plant asset

Income Statement (EUR '000) - Unaudited

	2023	2022
Revenues	2 890	3 157
Operating expenses	(5 368)	(5 844)
Amortizations, depreciations and Provisions	(576)	(562)
Ordinary Operating Result	(3 054)	(3 249)
Other operating Income/expense	4 320	11
Operating Result	1 266	(3 238)
Net Financial Income (Loss)	65	12 102
Tax Income (Expense)	(798)	(638)
Net Income – Group Share	533	8 226
EBITDA	1 842	(2 677)

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SUMMARY AUDITED STATUTORY FINANCIAL STATEMENTS (Lux GAAP)

Balance Sheet

ASSETS (EUR '000)	2023	2022
FIXED ASSETS	126 449	153 299
CURRENT ASSETS	6 361	6 061
Debtors	353	55
Investments	5 892	5 436
Cash at bank and in hands	116	570
PREPAYMENTS	61	57
TOTAL ASSETS	132 871	159 418

LIABILITIES (EUR '000)	2023	2022
CAPITAL AND RESERVES	132 465	131 679
CREDITORS	406	27 738
TOTAL LIABILITIES	132 871	159 418

Income Statement (EUR '000)

	2023	2022
Gross profit or loss	(773)	(608)
Income from participating interests	1 652	4 900
Income from other investments & loans forming part of the fixed assets	418	446
Other interest receivable and similar income	18	1 258
Value adjustments in respect of financial assets and of investments held as current assets	527	7 258
Interest payable and other similar expenses	(590)	(5 453)
Tax on profit or loss	0	0
Other taxes	(466)	(10)
Profit or Loss for the financial year	785	7 791

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About Velcan:

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

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

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