VELCAN Holdings

ANNUAL REPORT

MANAGEMENT REPORT
CONDENSED NON-AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AUDITED STATUTORY FINANCIAL STATEMENTS

FINANCIAL YEAR ENDED 31st DECEMBER 2018

VELCAN HOLDINGS SA
Société Anonyme with a capital of € 6 281 967
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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.

Meanwhile Velcan Holdings actively manages its treasury, investing in listed and unlisted financial investments.

Non Audited Consolidated Financial Data in Million Euros

	31.12.2018	31.12.2017	Var %
§ Turnover	2.6	3.1	-17%
§ EBITDA	-1.6	-1.7	+4%
§ Net result	0.5	-9.6	NA
§ Cash & Financial assets	98	101	-3%
§ Market Capitalization	46	66	-30%
§ Cons. Equity	118	123	-4%
Issued shares less Treasury shares (in Thousands)			
§ Net outstanding shares*	5,813	6,226	-7%

*Issued shares less Treasury shares (in Thousands)

	POWER PROJECTS PORTFOLIO UPDATE	31/12/18	31/12/17
GLOBAL	Portfolio of concessions and production facilities.	586 MW	657 MW
BRAZIL	Hydroelectric plant in operation	15 MW	15 MW
	Projects under development	0 MW *	53 MW *
INDIA	Projects under development.	571 MW	571 MW
INDO	Projects under development.	0 MW *	18 MW *

* The entire Brazilian and Indonesian portfolios were already fully impaired as of 31/12/2017. The decrease of the Indonesian portfolio to zero MW comes from the sale of the Redelong HEP (18 MW) in late June 2018. The decrease of the Brazilian portfolio comes from i) the cancellation of the Quebra Dedo HEP (10 MW) by the Brazilian Electricity Regulatory Agency (ANEEL) in January 2018 and ii) the withdrawal from the portfolio of Pirapetinga (23MW) and Ibituruna (20 MW) decided by the Group. These two projects were already fully impaired, not active and considered non feasible.

2. About the Group

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 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. The Group has brought to an advanced stage of development two of the three 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.

Meanwhile Velcan Holdings actively manages its treasury, investing in listed and unlisted financial investments. As of 31st December 2018, 19% of the assets of the group are deployed in power projects or plants, 81% in listed and unlisted financial investments, and cash and cash equivalents (bank current accounts and deposits).

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

3. Main events, activities, financial position and foreseeable evolution

3.1. Activities and main Events

Main events

During Fiscal Year 2018, VELCAN HOLDINGS Group continued developing and consolidating its existing hydropower concessions located in India (571 MW), and finalized its exit from Indonesia through the sale of its last advanced hydropower project there, the Redelong HEP (18 MW).

The Rodeio Bonito plant generated 21% more power than in 2017, which was a very severe drought year, although 2018 generation remains very moderate due precipitation levels still below historical average in 2018. At constant foreign exchange rates the turnover is stable because of the MRE impact (Energy Reallocation Mechanism, definition and explanation page 19), despite the increase in electricity generation. In Euro the turnover is down by 17% (EUR 2.6 m in 2018 vs EUR 3.1 m in 2017) due to the depreciation of the Brazilian currency in 2018. The EBITDA is up by 4% (EUR -1.6 m in 2018 vs EUR -1.7 m in 2017).

VELCAN HOLDINGS Group also continued to manage actively its treasury by diversifying its financial investments portfolio during the year, but was impacted by the important decrease of the USD against the EURO.

In January 2018, the Quebra Dedo hydropower project (10 MW) has been cancelled by the Brazilian Electricity Regulatory Agency (ANEEL). The Project had been stalled for several years because of administrative and environmental issues and had less than 15 years of concession left. The related development costs were already entirely provisioned in the Group's balance sheet since 2011.

In February 2018, the Company has launched a share buyback program between, which was completed on 27th June 2018 by the purchase of a total of 323,475 shares, at a weighted average price of EUR 9.38 and for a total amount of EUR 2,988,592. All the 323,475 shares bought back were cancelled accordingly on 29th June 2018 through a capital decrease from EUR 6,605,442 to EUR 6,281,967.

In late June 2018, the Group fully divested the Redelong Hydropower project, sold to an Indonesian industrial group. After the Meureubo 2 (59 MW) HEP and the Sukarame (7 MW) SHP were sold because of the administrative blockages encountered, including the unavailability of satisfactory PPAs, the Redelong HEP was the last project of the Group in Indonesia. The small size of the Redelong project (18 MW) did not economically justify having full operations in the country. Like other projects of the Group in Indonesia, the Redelong project costs were already fully impaired as on 31st December 2017. The sale price, which is to remain confidential, allowed only a partial recovery of such costs, given the uncertainties affecting the sector in Indonesia. As of the date of this report, the Company has shut down its entire operations in Indonesia.

In September 2018, the Company has launched a second buyback program. Under this program, the Company may purchase a maximum of 254,128 shares, representing 4.05% of the share capital, at a maximum purchase price per share EUR 8.1, hence for a maximum total amount of EUR 2,058,434.00 (excluding acquisition costs). As of 31st December 2018 the Company has bought back 94,793 shares at an average price of EUR 7.68 under this program. The full details of such ongoing buyback program are available on the company's website.

In September 2018, the Central Electricity Authority, Government of India, has extended the Techno-Economic Clearances (TEC) it had issued on 28th July 2015 to the Heo HEP (240 MW) and on 28th October 2015 to Tato-1 HEP (186 MW). After having re-assessed the progress and the situation of the projects, and after receiving a non-objection from the Government of Arunachal Pradesh, C.E.A has granted this first extension for a standard duration of 2 years, without altering the techno-economic parameters approved in 2015.

Activities overview

In India, the Group continued to develop the hydroelectric concessions obtained in 2007 in the State of Arunachal Pradesh. Techno-Economic Clearance (TEC), Environmental Clearance and Forest Clearance being complete for the tandem Heo-Tato-1 (426 MW), the Group focused on the main next development steps for these 2 projects, which are the post TEC site investigations and studies, the land acquisition, the transport infrastructure, the amendment of the concession agreements, the stage 2 Forest Clearance and the preliminary search for a bankable Power Purchase Agreement (PPA).

Apart from the site investigations, these requirements are however mainly under the purview and responsibility of the State and Central Governments and the Group scope of work in this regard is to file applications, to attend requests, to provide support to Government services and to follow-up and pursue the procedures.

During 2018 progress has been made towards the procedure of land acquisition, which has passed successfully the preparation of the Social Impact Assessment, the related public hearings and finally the official consent of the land owners to the acquisition of their land, which is a major step for the project (se details under Part I Section 4). However, administrative issues related to Land status are still the most sensitive and significant issues, which keep slowing down the development of the projects. VELCAN HOLDINGS considers that as per the current concession agreement such process and ownership disputes settlement are the responsibility of the licensing Government. The concession contract provides for an extension of the development period in case of any delay which is not the responsibility of the developer. Negotiations with the Government of Arunachal Pradesh for such an extension of the concession agreement are still opened but have not progressed in 2018.

The timely availability of appropriate road infrastructure is also an important issue that VELCAN HOLDINGS has been attending with the Central Government whenever possible, although no progress has been made by the Government on this side during FY2018. The scheduled dates of completion of the roads upgrade are still scheduled in 2022 and the budgets for speeding such date have not yet been sanctioned.

During 2018, the commercial and financial market conditions have remained the same and still do not fulfil the requirements for the sale of hydropower, as the market remained constrained by the lack of proper regulatory framework for the sale of hydropower through long term bankable PPAs and the stressed financial position of electricity distribution companies (DISCOMS).

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

In Brazil, the Rodeio Bonito Hydropower plant (15 MW) recorded a production of 49 987 MWh in 2018, 21% above the 2017 generation (41,321 MWh). This increase is essentially due to precipitations improving this year after the severe drought that hit Brazil in 2017. However the turnover when converted in the Brazilian currency (BRL) was stable because of the impact of both the Brazilian currency depreciation and the impact of the MRE (definition and explanation page 19) system. As a consequence of better precipitations, payments to the MRE were however down at EUR 0.4m in 2018 vs. EUR 1.3m in 2017. The EBITDA of the plant (earnings before interests, taxes and amortization) amounted to BRL 7.3m against BRL 4.5m in 2017. When converted in EUR, the EBITDA was up to EUR 1.7m vs 1.2m in 2017 despite a 17% depreciation of the average rate of the Brazilian currency vs Euro currency between 2017 and 2018.

In Indonesia, the Group has sold the Redelong HEP (18 MW). After the Meureubo 2 (59 MW) HEP and the Sukarame (7 MW) SHP were sold because of the administrative blockages encountered, including the unavailability of satisfactory PPAs, the Redelong HEP was the last project of the Group in Indonesia. The Company has fully divested the project on 28th June 2018, sold to an Indonesian industrial group. The small size of the Redelong project (18 MW) did not economically justify having full operations in the country. Like other projects of the Group in Indonesia, the Redelong project costs were already fully impaired as on 31st

December 2017. The sale price, which is to remain confidential, allowed only a partial recovery of such costs, given the uncertainties affecting the sector in Indonesia.

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Financial Assets: as it has done since 2005, and very actively since 2008, the Group has kept managing its treasury to cover the operational costs and provide financial returns. The Group has invested over the years in an extremely diversified array of financial assets including mostly : corporate and government bonds in local and reserve currencies, equities, derivatives, direct lending and private equity investments.

In 2018, the group main investments have been mainly in corporate bonds again. After an important increase between the beginning of 2016 year when the exposure was EUR 28.9 m and the end of 2017, the exposure has stabilized from 49.9 m at 2017 year end to 50.1 m at 2018 year end. The group is mainly exposed to issuers in the BBB, BB, B and Non Rated categories (as defined by Standard & Poor's). The maturities span a wide range. Although the majority is less than 6 years, some bonds have more than 30 year maturities. A few are of perpetual nature. In 2017 the group invested in majority in USD bonds, from issuers coming both from developed markets and emerging markets. At year end the biggest lines (above EUR 2.0 m of exposure) of the Group are with the following issuers : CMA CGM (France), Olam (Singapore), BBVA Bancomer (Mexico), NORDDEUTSCHE LANDESBANK GIROZENTRALE (Germany), TRAFIGURA GROUP PTE LTD (Singapore), UBS AG (Switzerland), COMCEL TRUST (Guatemala), OMAN TELECOMMUNICATIONS LTD (Oman), the republic of Argentina and PUMA INTERNATIONAL FINANCING SA (Singapore). These bond investments had performed very well in 2017 at constant exchange rates but the Group suffered from the US dollar weakening. In 2018 the performance has been negative, although less so than the market, but the US dollar strengthening has compensated the losses. The Group has invested in bonds since 2008 and it has proved a good way to enhance the profits of the Group so far. The Group has only suffered one default (OI/Brazilian telco operators) in its history of bond investments. This default has costed the group EUR 0.3 m. This loss is materially less that the extra gain that the group has derived from investing in bonds compared to staying in cash. The fact that the Group has suffered little from defaults in the past is no predictor that it will not do so in the future.

As of December 2018, the Group also owns private investments worth EUR 4.6m including private equity (EUR 1.3m) and direct lending (EUR 3.3m).

Most part of Private equity and direct lending investment are invested in the shipping sector. Given the recent poor performance of this sector these investments have contributed negatively to the performance of the Group between 2016 and 2018. In 2016 the Group, as part of the management of its USD treasury, has accorded a direct senior loan of USD 1.6 Million to a third party for financing the acquisition of a chemical tanker. The loan was secured by a first preferred mortgage. Since then the borrower has defaulted and the vessel has been arrested in Nigeria by other alleged creditors. The loan has been restructured with a new borrower and the Group has engaged procedures to lift the arrests and recover its dues. Several arrests have already been lifted. As of 31st December 2018 the principal amount plus various recoverable expenses related to the recovery of the said loan amounts due under the restructured loan is USD 4.9 m. The amount due by the new borrower remains secured by a first rank mortgage on the said vessel. To the extent that the recoverability of the loan will depend ultimately on the resolution of the legal disputes in relation with the ownership of the vessel and potentially the enforceability of the mortgage, a partial impairment has been booked in the accounts. Due to potential negotiations, the impairment amount is kept confidential.

The Group is actively monitoring these investments in the shipping sector to try to maximize their value.

As of December 2018, the Group had investments worth EUR 2.3 m in listed equities, EUR 2.5 m in equity funds. The Group believes the current equity markets provide no sufficient reward vs the risks entailed by their level. Were the situation to change, the Group may reinforce significantly its investments in listed equity. The Group has increased its position in hedge funds up to EUR 7.9 m against EUR 2.5 m in 2017.

As of December the Group financial assets were mostly exposed to the US Dollars.

Finally a significant part of the treasury of the Group was kept as of December 2017 in cash or cash equivalents (EUR 30.4m equivalent). Starting from a very low base, the recent increase in US Treasury rates means these deposits now provide some marginal income.

3.2. Unaudited and condensed financial statements

Income Statement

Turnover amounted to EUR 2.6m (against EUR 3.1m in 2017, a 17% decrease), mainly from electricity sales. The turnover in local currency remained stable. The depreciation of the Brazilian currency vs the Euro currency was responsible for such decrease.

Current operating results amounted to EUR -2.8m (against -7.8m in 2017):

- Payments by Velcan for the MRE (Energy Reallocation Mechanism) (definition and explanation page 14) were EUR 0.4m in 2018 vs. EUR 1.3m in 2017 because of better precipitation and plant operators protection in Brazil.

- Depreciation and amortization of tangible and intangible assets of Rodeio Bonito plant amounted to EUR 0.7m (EUR 0.8m in 2017), while depreciation on intangible projects under development was NIL vs an amount of EUR 2.3m, mainly on Indian projects, in 2017.

- Staff expenses amounted to EUR 2.9m in 2018 vs EUR 4.5m in 2017 (2017 increase was due to the impact of an allocation of free shares to the benefit of the management and the employees of the Group. Simultaneously equity warrants and stock options were cancelled. The allocation had no impact on cash and on shareholder's equity. The Group employed on average 24 permanent employees in 2018.

External expenses are totaling EUR 1.5m in 2018 vs EUR 2.0m in 2017 and include audit fees as detailed below as well as:

- EUR 0.5m of expenses related to Rodeio Bonito operation
- EUR 0.2m of rental expenses
- EUR 0.6m of investment management, legal, accounting, consultancy and bank fees
- EUR 0.1m of travel and entertainment expenses
- EUR 0.1m of insurance premiums

In thousands of Euros	31.12.2018	31.12.2017
Statutory auditor fees (BDO Luxembourg)	10	5
Consolidated audit fess (BDO Luxembourg)	-	45
Other Annual accounts auditor fees (BDO)	20	35
Total	**30**	**85**

Net Financial Gain for the group amounted to EUR 3.1m in 2018 mostly because of the USD appreciation (4.4% compared to end of 2017) and its impact on the Group's cash and financial assets position (see breakdown per currency page 24) despite poor financial performance on VELCAN's investments excluding forex. This gain of 3.1m compares to EUR -4.2m in 2017.

In 2018, other operating income consisted mainly of divestment gains on Indonesian assets while the costs were fully impaired (EUR 0.5m of gain in 2018 vs EUR 3.0m in 2017 when other Indonesian assets had been divested).

Income tax expense amounted to EUR -0.2m in 2018 vs EUR -0.6m in 2017 (where the Group suffered deferred tax depreciation).

The net result, Group share, was EUR 0.6m in 2018 FY compared to EUR -9.6m in 2017 FY.

The Group's EBITDA (earnings before interests, taxes, depreciation and amortization) reached EUR -1.6m compared to EUR -1.7m in 2017.

The depreciation of BRL and INR (Indian Currency) rates when compared to Euro, at 2018 closing date, has negatively impacted the other comprehensive income as the Group's main investments (tangible and intangible) have been done in local currency (EUR -1.7m in 2018 against EUR -3.4m in 2017). The total comprehensive income amounts to EUR -1.2m in 2018 against EUR -13.0m in 2017.

Balance sheet

Assets:

Net intangible assets stands at 13.6m in 2018 and are down by EUR 0.2m versus 2017 because of INR and BRL currencies depreciation vs Euro during the year.

Net tangible assets stands at 8.7m in 2018 and decreased by EUR 1.6m between 2017 and 2018, mainly because of depreciation of the plant (EUR -0.6m) and because the Rodeio Bonito Hydropower plant being booked in BRL currency, foreign exchange impact on retranslation of the Rodeio Bonito power plant resulted in a EUR -1.0m loss (EUR -1.7m loss for 2016 FY).

Cash, cash equivalent assets and financial assets have decreased from EUR 101m in 2018 to EUR 98m in 2017 (-3%) mainly because of share buyback programs.

Financial assets are mainly consisting in listed bonds and equities:

Thousands of Euros	31.12.2018	31.12.2017
Financial assets designated at fair value through profit and loss	62,968	56,202
Loans and receivables	872	1,667
Total Current Financial assets	**63,839**	**57,869**
Financial assets designated at fair value through profit and loss	886	1,840
Loans and receivables (1)	2,681	3,396
Total non-current financial assets	**3,567**	**5,236**
Total financial assets	**67,407**	**63,105**

Finally total assets decreased by 4% during 2017 FY (down by EUR 5.0 m).

At 31st December 2018, the Group (Velcan Holdings and its subsidiaries) holds 468,862 own shares (2017: 379,332), which include the shares purchased under the second buyback program (Part III, note 5.2) and 374,069 shares previously held by the Group (271,843 are held by Velcan Holdings – Part III, note 4). At year end closing price of EUR 7.40 those own shares have a market value of EUR 3.47m.

Liabilities:

Non-current provisions amount to EUR 0.8m at 31 December 2018 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 covering as well accumulated interests and judicial expenses. [1]

Own shares, booked directly against Equity of the Group at their historical cost, reduce the net shareholder's equity of the Group by EUR -3.9m versus EUR -3.2m at 31st December 2017 following the share buyback programs (323,475 repurchased and cancelled in 2018 first semester and 94 793 repurchased and not yet cancelled as of December 31st 2018) and the use of 5,263 shares for share based payments.

As at 31st December 2018, unrealized losses on conversion reserves, booked directly against Equity amounted to EUR -9.5m versus an unrealized loss of EUR -7.8m at 31st December 2017, mainly because of the BRL depreciation (see above comment on comprehensive income).

With a consolidated equity of EUR 118.2m (-EUR 4.6m compared to 2017), the Group still has no significant debt as of 31st December 2018. Various provisions, payables and financial instrument liabilities amount to EUR 2.4m (vs EUR 2.9m 2017).

3.3. Foreseeable evolution of the Group:

After the closing of this financial year, the Group is pursuing the following main objectives as a priority for FY 2019:

- Pursuing the development of the Indian hydropower projects;
- Continue the diversification of its financial investments;

[1] Following the purchase of SMPCL in April 2006, 2 main litigations are still going against the sellers. One is a claim from the sellers for the payment of retention money under the SPA, amounting to EUR 0.3 m at 31/12/2018 closing rates, plus interests at 18% per year. The Group considers the alleged claim is untenable given the issues and liabilities discovered after the acquisition of SMPCL. The other is also claim by the sellers denouncing an alleged delay in the substitution of their personal guarantees given to the creditors which financed the construction of the biomass plant. They are claiming EUR 0.1m (at 31/12/2018 closing rate) plus interest. The Group considers this demand as frivolous.

4. Detailed evolution of the business

This year has been devoted to the continuation of the development of the Indian concessions, to completing the divestment from Indonesian Projects, to the search for new investment opportunities that would grow the Group's cash position, and to the continuation of the rationalization of the cost structure.

Summary of concessions as of 31 December 2018

Project Name	Country	State	Size (MW)	Ownership (%)	Remaining years of concession
PCH Rodeio Bonito	Brazil	Santa Catarina	15	100%	16
Subtotal Brazil			***68***		
Yarjep / Heo	India	Arunachal Pradesh	240	100%*	40
Yarjep / Pauk	India	Arunachal Pradesh	145	100%*	40
Yarjep / Tato I	India	Arunachal Pradesh	186	100%*	40
Subtotal India			***571***		
TOTAL			**586**		

This chart contains prospective data related to the potential of ongoing projects or projects of which the development is under progress. This information represents objectives related to projects and should not be interpreted as direct or indirect profit forecasts. The realization of these objectives depends on future circumstances and could be affected and/or delayed by known or unknown risks, uncertainty and various factors of all kind, especially linked to the economic, commercial or regulatory context, and that, in case of occurrence, could have a negative impact on the activity and the future performances of the Group.

* *Indian Projects: the negotiations for the update and amendment of the concession agreements with latest installed capacities and project implementation timeframe are going on.*

Indian hydroelectric projects development

The Group pursued the development of the hydropower concessions obtained in 2007, a cascade of three projects, the capacity of which was increased to 571 MW in 2013 after approval by the central authorities.

Tato 1 HEP (186 MW) and Heo HEP (240 MW):

The feasibility studies have been completed and all the three major authorizations have been obtained in 2015: Techno-Economic Clearance (TEC), Environmental Clearance (EC) and Forest Clearance (FC). Very few privately held hydro 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.

- Post TEC technical investigations and studies

Most post TEC field studies and investigations at site required at this stage by Central Electricity Authority have been already completed between 2016 and 2017. The detailed tender design level topographical surveys of project components (power houses and intake areas) and internal project roads has been completed for Heo HEP and Tato-1 HEP intake site and roads as of May 2017. The detailed topographical survey of the Tato-1 HEP power house and adit sites could still not be completed because the suspension bridge destroyed in 2017 has still not been rebuilt, leaving the concerned sites inaccessible as of date. Sedimentation studies initiated in April 2016 have been completed. For the past 10 years hydrological measurements have been conducted. The Group has now completed a dependable and detailed set of studies and investigations which will bring the Projects to the main next technical step, the tender level design.[2] It will start along with the beginning of discussions with power purchasers and EPC contractors, when the projects will move towards financial closure.

- Amendment of the Concession Agreement

Following the TEC, which has frozen the installed capacity of the projects to 426 MW, the Group has engaged the process for amending the concession agreement in order to amend such installed capacity. 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 are still under way.

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

- Land acquisition

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

In June 2016, the Group has submitted applications to the Deputy Commissioner of the West Siang District, Arunachal Pradesh in order to initiate the acquisition of the land required for Tato-1 and Heo HEPs. A Notification has been issued by the Commissioner, Land Management, GoAP in February 2017 appointing the Rajiv Gandhi University, Itanagar, Arunachal Pradesh as Social Impact Assessment unit. The Notification of the start of the Social Impact Assessment (SIA) has been issued by the Government on 3rd August 2017, and first onsite site surveys and interviews of the local public by the SIA Team surveys have been conducted in September 2017. The SIA and Social Impact Management Plan (SIMP) draft reports have been completed and submitted to the district administration on 26th December 2017. The public hearings required by the regulations in order to discuss the SIA and the SIMP with the local public have been held in all the 9 concerned villages on 23rd and 24th January 2018. During the hearings, the local people have expressed their support in favor of the projects, and expressed their concerns notably about the future influx of a migrant population of workers during construction. The SIA unit has concluded the projects entail more benefits than costs and has submitted the final SIA and SIMP reports to the State Government on 2nd February.

Such SIA & SIMP reports have been reviewed by the Expert Group (an independent body appointed by the Government on 14th February 2018), which assesses the costs and benefits of the project and its public purpose. The Expert Group has held a meeting on 29th March 2018 but has not yet issued any recommendation to the State Government, to the best of our knowledge, to determine whether or not the land required for the project shall be acquired.

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

Based on this second list, the District Administration issued on 15th February 2019 the notice calling for the meetings of the Gram Sabhas (11 village councils) and Affected Land owners (18 clans registered in the above mentioned list). The meetings have been held on 11th and 12th March 2019. All the 9 village councils have voted their consent to the acquisition of land for the development of the projects. 85% and 83% of the Land owners have individually given their consent in the Heo and Tato-1 projects respectively, thereby fulfilling the legal requirement of 80%. On 13th March 2019, the District Commissioner issued its report to the State Government Land Department in view of issuance of Section 11 notification. Such notification validates the procedure previous steps (SIA, hearings, etc.), acknowledges the consent of the land owners and approves that the land is to be acquired for the Projects. As per the applicable regulations, the State Government was bound to issue the Section 11 notification by 27th March 2019 (within 12 months following the Expert Group recommendation). However, due to the 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.

Once section 11 will be issued, the State Government will have to conduct another set of surveys and procedural steps such as detailed and individual census of affected facilities, marking land boundaries, hearing of individual objections, preparation of Rehabilitation & Resettlement plans (section 19), public hearing on such plans, financial awards (Sections 23 and 31), and the physical possession of the Land (Section 38). One of the sensitive steps of the procedure will be to award financial compensations as it should require the State Government to determine precisely the land revenue registry and /or to settle the disputes.

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

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

- Road infrastructure timely availability

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. The last stretches totaling 87 Km are currently scheduled or expected to be ready between 2020 and 2022. A joint survey has been conducted in November 2016 between Velcan's Team and the Border Roads Organization (BRO/Ministry Of Defense) in order to assess what stretches are critical in view of making sure the BRO would have them ready earlier. Following several joint meetings under the umbrella of the Ministry of Power (MoP, Govt. of India), MoP has submitted a request to the Ministry of Defense for that purpose. Tentative budgets have been prepared by the Ministry of Defense in November 2017 and February 2018. Further tripartite discussions are still expected to continue but no further progress was made by the Central Government since then, despite the request of the Group. However, the new hydropower policy published on 7th March 2019 provides for budgetary support to be granted to hydropower for road infrastructure development, which may help in the future to speed up road works completion (see below the details on this policy).

➢ 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 over the forest land (subject to land acquisition by the Sate Govt. being complete), is subject to the fulfilment of some conditions (in addition to the land acquisition). The Forest Clearance stage 1 issued by the Ministry of Environment and Forests (MOEF, Govt. of India) notably requires the State Government to identify additional compensatory afforestation land (land where forest is to be replanted) of 7 Ha for Heo HEP and 12 Ha for Tato-1 HEP. The State Government has proposed to the Ministry a piece of land in 2016, which has been rejected in January 2017 as inappropriate for afforestation purpose by the MOEF. Another proposal has been sent by the State Government to the MOEF in November 2017. MOEF has requested additional technical clarifications in May 2018, which are currently under examination at State level.

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 application has been approved by the District Forest Department in February 2018 for both projects. The State Government has approved the amendment for the Tato-1 HEP and forwarded it to the Ministry of Environment and Forests on 29th June 2018 for final approval, which is pending as of date. The approval for the Heo HEP amendment at State level has been obtained and has been forwarded to the MOEF 21st November 2018 and is still pending there. As part of this revision of the forest land layout maps, the revision of the entire procedure under the Forest Right Act (FRA) also had to be conducted and completed. This regulation aims at ensuring forest dwellers and tribal populations are agreeable to the project in their area and that their traditional rights are preserved (such as fishing rights or use of timber for example). It involves multistage collegial approvals by different local authorities, from the village councils (approved in March 2018) to the State level district committee (in July 2018). The final compliance certificates have been issued for both projects on 31st July 2018 by the State Government.

➢ Availability of bankable Power Purchase Agreement(s)

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

In addition, solar and wind tariff have fallen dramatically over the past years with some auctions touching as low as Rs 2.50 per unit in 2018, whereas most competitive hydro power projects are often more significantly more expensive, although their lifespans normally makes them cheaper on the long term. A solar plant has a lifespan of approximately 20+ years whereas a hydropower concession sells power for 40 years, after which the plant is handed over for free to the state and still has decades to run. Although hydropower does not compete directly with solar power because it sells very long term, predictable and peak power the overall market is impacted by solar and wind tariffs. As a result of these low solar and wind power tariffs, coupled with the current Renewable Power Obligation[3] imposed on them by the Indian renewable energy policy, the DISCOMS have not been inclined to signing long term hydro PPAs in recent years.

Another negative factor lies with the overall demand – supply scenario as most states currently have contracted capacities in excess of their demand, due to lower than anticipated demand and robust / on-schedule generation capacity additions.

However this situation should not last because a steady demand growth is expected in the next ten years, which, coupled with absence of investments in coal based capacities, should absorb excess capacities in most states.

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

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

i. Large Hydropower Projects to be declared as Renewable Energy source (as per existing practice, only hydropower projects less than 25MW are categorized as Renewable Energy).
ii. Hydro Purchase Obligation (HPO) will be imposed on DISCOMS and included as part of non-solar Renewable Purchase Obligation, which means DISCOMS will be obliged to purchase hydropower. Annual HPO targets will be notified by Ministry of Power based on the projected capacity addition plans in hydropower sector. Necessary amendments will be introduced in the Tariff Policy and Tariff Regulations to operationalize HPO.
iii. Tariff rationalization measures including providing flexibility to the developers to determine tariff by back loading of tariff after increasing project life to 40 years, increasing debt repayment period to 18 years and introducing escalating tariff of 2% have been introduced. 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.

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

No additional provision has been booked for FY 2018 (for FY 2017, the Company booked a provision of EUR 2.2m (16%) on the intangible value of the Indian projects).

Pauk HEP (145MW):

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

[3] 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/

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 going in October 2018 and February 2019 between the concerned clans, but without success as of date. Such 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. Due to the massive addition of variable and unpredictable renewable capacities (solar and wind) during the past years and planned until 2027, the Indian grid is expected to be more and more impacted by sudden changes often occurring in solar and wind generation, thus risking stable and safe grid operations. Peak hydropower is a solution to this issue as it allows the flexibility to inject power on demand very quickly, and could therefore answer specific needs. The opportunity for hydro in this regard will also depend on the efficiency and cost effectiveness of other storage based solutions such as batteries.

Overall perspectives in India:

VELCAN Holdings keeps making progress in areas that depend on itself and continues to see long term promising prospects in the Indian electricity market.

In the current advanced project development phase, most activities are under the purview of local and national Government entities, including instrumental land acquisition and road infrastructures. These activities are progressing at variable paces but generally slowly and they regularly encounter impediments and delays. Progress is also always subject to political and legal risks such as changes in legislation and / or government. On this side, the Group takes note of the new hydropower policy released in March 2019 which has been decided by the Government of India. Although the results will take some time and depend on implementation modalities not yet known, this policy is a significant measures and positive sign towards the recovery of the hydropower market.

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

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

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

The Group's team pushes all project activities including by assisting the Government for those activities which are not its direct responsibility and by providing support to Government entities whenever possible.

Brazilian hydroelectric plant

At the end of 2018, the Group owns and operates the 15 MW Rodeio Bonito plant.

- Rodeio Bonito Plant (15 MW)

The production of 49,987MW during 2018 (against 41,321 MWh in 2017, +21%) was moderate due the rainfall in Rodeio Bonito catchment area being still well below the historical long term average. This reflects again low precipitation levels in Brazil in 2018.

This resulted in a negative impact amounting to BRL -1.5m in 2018 (compared to BRL - 4.6m for 2017 where the precipitation levels were exceptionally low) for Rodeio Bonito. Translated in Euros, the consumed purchases (Mainly MRE[4]) impacted the annual operational result by EUR 0.4 m in 2018 against EUR 1.3 m in 2017.

The operation and maintenance of Rodeio Bonito are satisfactory with a technical availability of 95% for 2018.

Due to these combined effects and the forex variation, the turnover has decreased by 17% when expressed in Euro and stable when expressed in BRL in 2018 (EUR 2.6m or BRL 11.1m) compared to 2017 (EUR 3.1m or BRL 11.2m).

The EBITDA (earnings before interests, taxes and amortization) of the plant amounted to BRL 7.3m against BRL 4.5m in 2017 and BRL 11.0m in 2016. When converted in EUR, the EBITDA was up to EUR 1.7m vs 1.2m in 2017, mostly due to the lower MRE payments (EUR -0.9 m).

Quebra Dedo (10 MW):

In January 2018, the Brazilian Regulatory Authority (Aneel) has cancelled the Quebra Dedo hydropower project (10 MW), which had been stalled for several years because of administrative and environmental issues. The project had less than 15 years of concession left and its development costs were entirely

[4] 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.

provisioned in the Group's balance sheet since 2011. The Project will not be counted in the portfolio anymore in future reports and the costs has been written off (with no impact on the result) in 2018.

The Group is not developing any other project in Brazil as of 31st December 2018.

Indonesian hydroelectric projects

After the Meureubo 2 (59 MW) HEP and the Sukarame (7 MW) SHP were sold because of the administrative blockages encountered, including the unavailability of satisfactory PPAs, the Redelong HEP was the last project of the Group in Indonesia.

The Group has fully divested the project on 28th June 2018, sold to an Indonesian industrial group. The small size of the Redelong project (18 MW) did not economically justify having operations in the country.

Like other projects of the Group in Indonesia, the Redelong project costs were already fully impaired as of 31st December 2017. The sale price, which is to remain confidential, allowed only a partial recovery of such costs, given the uncertainties affecting the sector in Indonesia.

As of the date of this report, the Company has shut down its entire operations in Indonesia.

5. Report on share buybacks

Reasons of purchases effected during 2018	Capital reduction by cancellation of purchased shares
Total number of shares purchased in 2018	418,267 shares
Nominal value of shares purchased in 2018	Eur 418,267 – Eur 1 nominal value per share
Percentage of capital bought back	6.6% based on the share capital as of 31/12/2018
Shares cancelled during 2018	323,475 shares have already been cancelled in June 18
Shares sold	Nil
Total price paid towards share buybacks	Eur 3,716,700.00
Total own shares owned as of 31/12/2018	468,862 shares (including 374,069 shares previously held by the Group)
Percentage of capital held as of 31/12/2018	7.46%

In compliance with the resolutions of the General Meeting held on Friday the 28th of June 2017, the Board of Directors has decided to launch a first share buyback program on 14th February 2018. The Company has repurchased accordingly all the planned 323,475 shares, at an average price of EUR 9.38 and for a total amount of EUR 2,988,592 in accordance with the description of the share buyback program published on February 22, 2018 and within the limits of the resolutions of the General Meetings of Shareholders held on June 28th, 2017 and July 28th, 2017. The details of all share purchases are available on the Company's website (http://www.velcan.lu/investors/other-regulated-information/).

Following the announced objective of the share buybacks – being cancellation towards reduction of capital, the Board of Directors has decided on 27th June 2018 to cancel all of the 323,475 shares bought back, which resulted in a reduction of the Company's share capital to bring it from EUR 6,605,442.00 to EUR 6,281,967.00 divided into 6,281,967 shares with a nominal value of one euro (EUR 1) each.

The Board of Directors has initiated a second share buyback program on 13th September, which is still ongoing as of the date of the report. It entails purchase of a maximum number of 254,128 shares (representing 4.05% of the share capital), at a maximum purchase price per share of eight euros and ten cents (EUR 8.1), excluding acquisition costs. Under this program, the maximum total amount that the company may allocate to the buyback of its own shares shall not exceed Euros 2,058,434.00 excluding acquisition costs.

The purpose of the buyback programme is to buy back shares of the Company from minority shareholders wishing to sell them at current market conditions, but not finding sufficient liquidity, in view of their cancellation, towards active management of the shareholders' funds.
As of the date 31st December 2018, 94,793 shares have been bought back under this program at average price of EUR 7.68 per share, and a total repurchase price of EUR 728,108.00. The details of all share purchases are available on the Company's website (http://www.velcan.lu/investors/other-regulated-information/).

6. Events subsequent to 31st December 2018

- 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 11 preliminary notification" was due by 27th March 2019. Such notification is the act by which the State Government decides it is appropriate to acquire the concerned land for public purpose, based on the completion of the first phase of the acquisition procedure.

The first phase of the procedure involved a social impact assessment, a social impact management plan, public hearings in all 9 concerned villages, the recommendation of an expert group, the establishment of a list of land owners, the obtaining of the consent of at least 80% of the individual land owners and the obtaining of the consent of all the concerned village councils.

The above activities and steps were successfully completed between June 2016 and March 2019. However due to the current preparation of the national and local elections, scheduled on 11th April 2019, the "code of conduct' has entered into force, hence preventing the State Government to take any decision outside the day to day current affairs.

Therefore, in compliance with the possibility offered by applicable regulations, the State Government has decided, on 28th March 2019, a time extension of 6 months, until 26th September 2019, to issue the Section 11 Notification.

7. Risk factors and uncertainties

Specific risks of hydroelectric plants and projects.

All risks from the Group's activities are described in the disclosure document available on the company's website since its transfer to NYSE - Alternext. Investors are invited to refer to this document for a complete discussion. As a reminder, the most characteristic risks of the Group are reviewed below.

Hydroelectric project development risks:

During the development phase, projects are exposed to a significant risk of delay or failure in obtaining environmental and administrative permits or in the progress or outcome of field investigations and studies. Obtaining administrative authorizations depends on many factors, among which changes in the authorities' requirements during the development phase, which is unpredictable and may require a modification of techno-economic characteristics of the project. Consequently, a change in the project may cause the invalidation other approvals previously obtained. In some countries, lack of coordination between different authorities, most of the times independent of each other and possibly the conflicting objectives that they pursue can make the administrative approval process difficult and unstable. With regard to investigations and studies, risks arise from consultants or suppliers directly in charge of studies or field investigation, who may face operational issues such as difficulties accessing sites or harsh conditions on sites. Generally, the complexity and the number of technical parameters linked to the field (such as topography, geology, hydrology, etc…) involve a significant risk of error in studies and require a substantial verification. In the same manner, land occupation factors (capacity to acquire the land impacted by the project), social and environmental factors (difficulties with population possibly impacted by these projects or idiosyncratic fauna and flora) can lead, during the development period, to the modification or the shelving of a project. Finally, the detailed studies and/or the administrative issues raised during the development phase may lead to the conclusion that a concession granted or in course of study is not viable. Political and legal risks mentioned under the risks associated to emerging countries often delays of hamper the projects during the development, sometimes to the extent a Project can practically become unfeasible. In some cases the delays suffered in the development phase can lead to the cancellation of the concession.

During the construction phase, technical factors such as an unanticipated composition of soil preventing digging the diversion canal as originally planned, especially with regards to geology can delay or impede the commissioning of a project. Furthermore, in some cases, such delays may entail financial penalties by the licensing authority to be borne by the developer, and, in extreme cases, in the cancellation of the concession.

During all these steps, the risk of slowing down or blocking of the project concerned still exists. Slowing or stopping a project generates additional costs which can be significant or lead to an outright impairment of investments.

In order to ensure the highest possible reliability of critical technical studies (hydrology, geology, topography, etc...) and to minimize the risk of errors, the Group internalizes core competencies from internationally- and nationally-renowned experts who control workings delivered by external service providers. It tries its best to employ the most qualified external service providers available. When market conditions make it possible, the group negotiates contractual clauses under which providers are financially penalized in case of delays to perform their services. The Group also seeks to maintain good relationships with the licensing authorities in order to resolve any difficulties that may occur.

During commissioning, the main risk lies in a real average flow of water being less important than anticipated, for example, because of erratic rainfall or rain forecasts are significantly different from hydrological studies conducted during development phase of the project, reducing the generation of electricity whereas the investment has already been made. Another important risk is the insolvency of the off-taker in emerging markets, where sometimes public utilities are in bad financial shape due notably to network losses, electricity theft or payment default of their own end customers.

Risks associated to emerging countries

The Group focuses on plant operation in Brazil and concession development projects in India. Therefore, it is exposed to social, economic and political problems linked to emerging markets.

Thus, the markets currently targeted by the Group or in which it could develop in the future may be characterized by the following risks:

- difficulties or delays in obtaining required permits and authorizations;
- faulty infrastructure that could affect the construction of the hydropower plant or the transmission and distribution of electricity;
- difficulties in recruitment and management of employees needed in these countries;
- difficulties in hiring consultants and suppliers required;
- political, social or economic instability, terrorism or war;
- difficulties in ensuring the respect of the Group rights;
- governmental interventions;
- cultural differences may restrict the Group's ability to face local competitors and international companies that are more experienced in emerging markets;
- risk of exchange rate due to the assets and liabilities booked in local currency;
- legal constraints and / or tax constraints for repatriating profits generated in other countries;
- delays in getting paid and difficulties to be paid back;
- risk that the accounting, audit and financial information standards do not always comply with IFRS norms and that they are not equivalent to those applicable in most developed markets;
- risk that the financial markets close to these countries. In which case financing our concessions would become very difficult until these markets reopen.
- risk of having difficulties in repatriating money from these markets. In case of financial turmoil, capital controls may be instated that would block or limit the repatriation of cash. It is to be noted that these constraints, which had not implemented for many years are now in place in several countries, both in developed and emerging markets (Iceland, Cyprus, Greece, Ukraine, Ghana, and Nigeria). The stigma associated with the imposition of such controls is hence now much lower.

Emerging markets are more fluid and generally subject to greater volatility than more developed markets. The growth of markets such as India and Brazil can slow down. Although India's growth rate is currently one of the highest in the world, Brazil is in a deep protracted recession. The Group's success in these countries depends partly on its ability to adapt to their quick economic, cultural, social, legal and political changes. If the Group is unable to manage the risks associated with its expansion in emerging markets, its business, its financial health and its revenues could be significantly affected.

Environmental risks

Finally hydropower's Environmental risk (e.g. flood caused by a dam breaking or the impact of the reservoir on the fauna and flora) is generally not covered by insurance companies, whether it is related to an engineering error, to a defect or to an operational error.

Country risks – currency conversion risk

The Group operates internationally and holds both monetary and non-monetary assets denominated in currencies other than EUR, the functional currency. Foreign currency risk arises as the value of future transactions, recognized monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates.

As of 31 December 2018, the Group's balance sheet net monetary exposure to currencies is as follows:

- Euros (EUR) 13%
- US Dollars (USD) 66%
- Brazilian Reals (BRL) 11%
- Indian Rupee (INR) 9%
- Other 2%

As of 31st December 2017, 81% of the cash and financial current assets are denominated in USD, whereas the Company accounts are in Euros, thereby exposing the Group to the risk of significant Forex losses in case of market movements on the Euro – USD exchanges rates.

The Group's balance sheet is also significantly exposed to Indian Rupee and Brazilian Real because of the significant investments made there for HEO, PAUK, TATO-1 and RODEIO BONITO concessions (Tangible and intangible assets) and because of the electricity sales in Brazilian Real of RODEIO BONITO (Yearly turnover).

The liquidity and trading value of foreign currencies could be affected by global economic factors, such as inflation, interest rate levels, and trade balances among countries, as well as the actions of sovereign governments and central banks. Adverse changes in currency exchange rates (relative to the U.S. dollar) may erode or reverse any potential gains from the Fund's investments in securities denominated in a foreign currency or may widen existing losses.

As of 31 December 2018 no hedging has been taken on the Property risk nor on risk of conversion of past or future income.

Interest rate risk

The Group's cash is mainly invested in money market funds, deposit certificates, private and sovereign bonds, listed bonds, collateralized loan obligations, listed equity funds and listed equities and forward forex in Dollar, Euro and in other currencies of emerging countries where the Group is present. The Group is thus exposed to an interest rate risk and the financial result is thus sensitive to interest rate variation. The Group may lose money if short-term or long-term interest rates rise significantly or otherwise change in a manner not anticipated by the Group.
The total fair value of these financial instruments as of 31 December 2018amounts to EUR 88.9 m.

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, investment in bonds, direct lending as well as outstanding receivables and committed transactions. The group invests in an extremely diversified array of financial assets including mostly : corporate and government bonds in local and reserve currencies, equities, direct lending and private equity investments (please section 3.1, financial assets). The group is mainly exposed to issuers in the BBB (EUR 7.8m), BB (EUR 14.6m), B (EUR12.0m) and Non Rated (EUR 13.9m) categories (as defined by Standard's and Poor Global Ratings, "SP").

Credit risk refers to the possibility that the issuer of a security or the issuer of the reference asset of a derivative instrument will not be able to make principal and interest payments when due. Changes in an issuer's credit rating or the market's perception of an issuer's creditworthiness or market macro movements may also affect significantly the value of the Group's investment in that issuer. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. Securities rated in the four highest categories by the rating agencies (for S&P : AAA, AA, A and BBB), are considered investment grade but they may also have some speculative characteristics, meaning that they carry more risk than higher rated securities and may have problems making principal and interest payments in difficult economic climates. The BB and B categories corresponds non-investment grade considered speculative, entailing more default risks. The Non Rated category correspond to issuers who have decided not to be rated by Credit Agencies. Their size and characteristics vary a lot. But most of them should be considered Non-Investment grade bonds. Investment grade ratings do not guarantee that the issuer will not default on its payment obligations or that bonds will not otherwise lose value.

Price risk,

Given Group's array of investments, it is highly sensitive to the evolution of financial markets, especially the evolution of stock and bonds quotes and currency rates, which cannot be predicted.

Use of financial instruments for hedging

No particular financial instruments are used for price, credit or liquidity risk hedging.

8. Sustainable development and Corporate Social Responsibilities

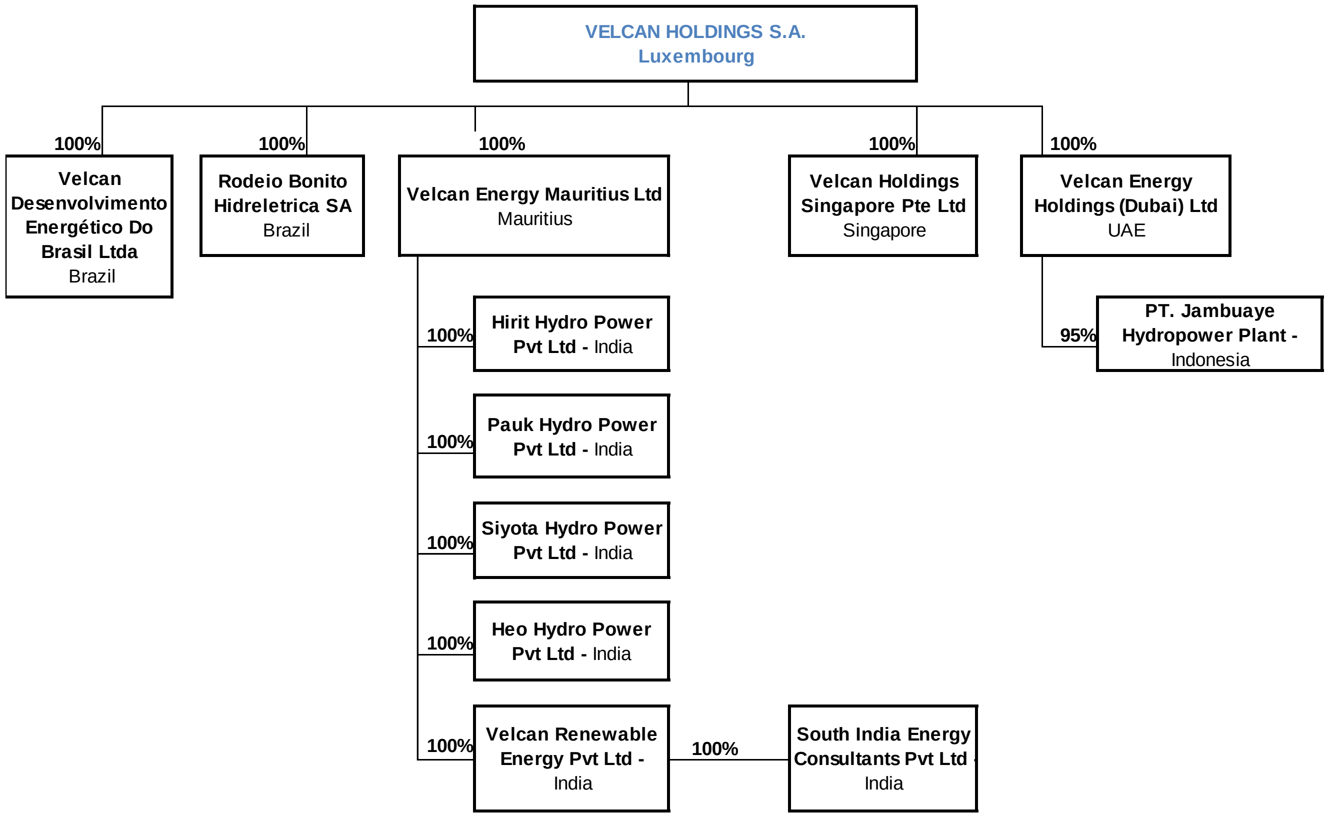
The Group focuses on generation of electricity from hydroelectricity, which is a **conventional** and **renewable** source of energy and which prevents the release of greenhouse gases into the atmosphere as opposed to electricity generation from fossil fuels. As a result of this "avoidance effect", the facilities developed by the Group are, or may be given, the approval for generation of carbon credits by the United Nations. As of today, the Group concentrates mainly on small and medium scale "run-of-river", hydroelectric plants of the same type as the Rodeio Bonito project or the Indian projects, thus aiming at the optimal amount of energy production with the smallest possible environmental footprint. So far Rodeio Bonito Power Plant has produced approximately 441 GW/h of clean and green energy.

The Group regularly undertakes actions in corporate social responsibility activities in India for the benefit of local populations in the area where its three hydroelectric projects of the Yarjep River are located. For instance, in 2018, the Group made various financial contributions to local people such as a local festival and a women's association. Donations with medical purpose have also been granted during the year.

9. Research and development

Apart from the technical studies and the development activities of the hydroelectric power projects, the Group has not undertaken significant research and development activity.

10. Organization Chart



As of 31st December 2018, Velcan SA, the parent company of the group, which is based in Luxembourg, controls 12 companies, direct or indirect subsidiaries, located in seven countries: India, Brazil, the United Arab Emirates, Luxembourg, Mauritius, Singapore and Indonesia.

Hirit Hydro Power Pvt Ltd and PT Jambuaye Hydropower Plant are both under voluntary liquidation as they do not carry any active or viable project anymore. South India Energy Consultants Pvt Ltd and Velcan Renewable Energy Pvt Ltd are under the merging procedure. Velcan Desenvolvimento Energetico Do Brasil Ltda is dormant.

II. NON-AUDITED AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated statement of financial position (assets) - Unaudited

(in thousands of Euros)

Assets	31.12.2018	31.12.2017
Non current assets		
Intangible assets	13,630	13,862
Tangible assets	8,674	10,315
Non current financial assets	3,567	5,236
Deferred tax assets	-	-
Total non-current assets	**25,872**	**29,413**
Current assets		
Current financial assets	63,839	57,869
Inventories	-	15
Trade and other receivables	244	285
Income tax receivables	10	46
Other current assets	299	532
Cash and cash equivalents	30,383	37,536
Total current assets	**94,776**	**96,282**
Total assets	**120,647**	**125,694**

2. Consolidated statement of financial position (Liabilities) - Unaudited

(in thousands of Euros)

Liabilities	31.12.2018	31.12.2017
Equity		
Issued capital	6,282	6,605
Additional paid in capital	125,357	128,020
Other reserves and conversion reserves	(13,978)	(2,235)
Net income for the year	552	(9,621)
Equity attributable to the equity holders of the parent	**118,213**	**122,770**
Non-controlling interests	8	21
Total Equity	**118,220**	**122,790**
Non current liabilities		
Non current provisions	801	835
Other non current liabilities	1,043	1,041
Total non-current liabilities	**1,844**	**1,876**
Current liabilities		
Current financial liabilities	-	-
Current provisions	-	6
Trade and other payables	515	684
Income tax payables	53	62
Other current liabilities	14	276
Total Current Liabilities	**583**	**1,028**
Total Liabilities	**120,647**	**125,694**

3. Consolidated statement of profit and loss and comprehensive income –unaudited

Statement of Profit & Loss	31.12.2018	31.12.2017
Operating revenues	2,580	3,111
Other operating revenues	-	1
Total operating revenues	**2,580**	**3,112**
Purchases	(355)	(1,273)
External expenses	(1,480)	(1,954)
Payroll expenses	(2,882)	(4,523)
Operating tax expenses	(10)	(18)
Depreciation, Amortization & Provisions	(696)	(3,135)
Current operating result	**(2,843)**	**(7,791)**
Other operating income	514	2,960
Operating result	**(2,329)**	**(4,831)**
Financial Income	8,003	7,902
Financial expenses	(4,931)	(12,061)
Financial Result	**3,071**	**(4,159)**
Income tax expense (-) / benefit (+)	(203)	(576)
Net result from continuing operations	**540**	**(9,566)**
Net result, group share	**552**	**(9,621)**
Net result, shares of non-controlling interests	**(12)**	**55**
Earnings per share (in Euros)	0.09	(1.59)
Diluted earnings per share (in Euros)	0.09	(1.59)

Statement of total comprehensive Income	31.12.2018	31.12.2017
Net income	540	(9,566)
Other comprehensive income, that will not be reclassified subsequently to profit or loss	(1,731)	(3,436)
Total Comprehensive Income	**(1,191)**	**(13,002)**
thereof attributable to non-controlling interests	12	(52)
Group Total Comprehensive income	**(1,179)**	**(13,054)**

4. Consolidated cash flow statements – unaudited *(in thousands of Euros)*

Cash Flows	31.12.2018	31.12.2017
Net consolidated profit	**540**	**(9,566)**
Adjustments for:		
Amortization and depreciation	696	3,135
Impairment, provision and write back	-	-
Income/loss from disposals of fixed assets	486	92
Expenses for share based payments	608	2,526
Interest and dividends Income	(4,300)	(3,493)
Change in deferred tax	-	339
Current Income tax expense (benefit)	203	237
Net change in fair value of financial instruments	4,716	4,684
Interests received	3,651	3,093
Dividends received	16	29
Current Income tax paid	(169)	(150)
Other non current operating income (expenses)	(514)	(2,960)
Other financial income and expense	(3,488)	2,968
Variation of operating working capital	56	1,106
Cash flows from operating activities	**2,501**	**2,039**
Purchase / sale of affiliates	491	2,144
Acquisition of tangible and intangible assets	(1,819)	(826)
Disposal of tangible and intangible assets	(636)	2
Acquisition/Disposal of financial instruments	(7,724)	(12,083)
Change in loans and advances granted	884	(5,072)
Other financial income and expense	3,488	(2,968)
Cash flows from investment operations	**(5,316)**	**(18,802)**
Capital decrease	(2,987)	(10,198)
Net sale / (purchase) of own shares	(1,000)	10,198
Cash flows from financing operations	**(3,987)**	**-**
Net foreign currency translation differences	**(351)**	**(151)**
Net cash flow variation	**(7,153)**	**(16,914)**
Net opening cash	37,536	54,449
Net closing cash	30,383	37,536

5. Statement of changes in equity - unaudited

In thousands of euros	Capital	Additional paid in capital	Own Shares	Foreign currency translation reserves	Reserves & consolid. net income	Total Group interest	Minority interests	Total Equity
Situation at 01.01.2017	**7,805**	**139,780**	**(15,221)**	**(4,341)**	**5,276**	**133,301**	**(35)**	**133,266**
Net income	-	-	-	-	(9,621)	**(9 621)**	55	(9,566)
Other comprehensive income	-	-	-	(3,433)	-	**(3 433)**	(3)	(3,436)
Total comprehensive income	-	-	-	(3,433)	(9,621)	**(13 054)**	52	(13,002)
Capital decrease	(1,200)	(8,998)	10,198	-	-	**-**	-	-
Own Shares acquisition	-	-	-	-	-	**-**	-	-
Share based payments	-	-	-	-	2,526	**2 526**	-	2,526
Settlement in own share of share based payments	-	-	1,799	-	(1,799)	**-**	-	-
Other	-	-	-	-	(3)	**(3)**	4	0
Situation at 31.12.2017	**6,605**	**130,783**	**(3,224)**	**(7,774)**	**(3,621)**	**122,770**	**21**	**122,790**
Situation at 01.01.2018	**6,605**	**130,783**	**(3,224)**	**(7,774)**	**(3,621)**	**122,770**	**21**	**122,790**
Net income	-	-	-	-	552	**552**	(12)	540
Other comprehensive income	-	-	-	(1,731)	-	**(1,731)**	(0)	(1,731)
Total comprehensive income	-	-	-	(1,731)	552	**(1,179)**	(12)	(1,191)
Capital decrease	(323)	(2,664)	2,987	-	-	**-**	-	-
Own Shares acquisition	-	-	(3,715)	-	-	**(3,715)**	-	(3,715)
Share based payments	-	-	-	-	336	**336**	-	336
Settlement in own share of share based payments	-	-	45	-	(45)	**-**	-	-
Other	-	-	-	-	-	**-**	(0)	(0)
Situation at 31.12.2018	**6,282**	**128,119**	**(3,907)**	**(9,504)**	**(2,777)**	**118,212**	**8**	**118,220**

6. Note to the unaudited and condensed consolidated financial statements

In compliance with applicable regulations, Velcan Holdings publishes non-audited and condensed consolidated accounts from the financial year 2018 included, instead of audited IFRS consolidated accounts, and continues to publish audited Lux GAAP statutory financial statements, as previously (Part III of this report).

The consolidated financial statements below, which will include the same statements as those published to date, being a balance sheet, an income statement, a cash flow statement and a statement of changes in equity, but unaudited and in a simplified and condensed form, excluding IFRS notes.

Such accounts have been established following the same methodology and presentation as those published during the previous years, which thus maintains the comparability of the information and provide full information on the Group's financial position.

The consolidation scope covers the 12 companies shown in the organization chart page 23.

III. AUDITED STATUTORY FINANCIAL STATEMENT

VELCAN HOLDINGS

(Formerly known as VELCAN)

Société Anonyme

RCS Luxembourg B145.006

REPORT OF THE REVISEUR D'ENTREPRISES AGREE
AND ANNUAL ACCOUNTS

2018 FINANCIAL YEAR

CONTENT

1. LEGAL INFORMATION

Name:	VELCAN HOLDINGS, the “Company”. (formerly known as VELCAN)
Legal Form:	Société Anonyme (Public Limited Company)
Registered office:	11 Avenue Guillaume L-1651 Luxembourg
Company Registration Number:	RCS Luxembourg, B 145.006
Constitution:	Company incorporated on 12 February 2009 by notarial deed of Maître Paul DECKER.
Listing:	VELCAN is listed on the Paris Stock Exchange (Euronext Growth ALVEL-FR0010245803). The Company never performed any Public Offer as understood under Directive 2003/71/CE of the European Parliament and Council.
Financial Year:	From 1 January to 31 December of each year.
Board of Directors:	Mr. Philippe PEDRINI, 81, rue de Pannebourg, B-6700 Waltzing, Belgique, Chairman of the Board Mr. Jean-Luc RIVOIRE, 33 Tanglin Road, St. Regis Residences, Singapore 247913, Director Mr. Antoine DECITRE, 27, Bukit Tunggal Road, 309712 Singapore, Director Mrs. Véronique WAUTHIER, 15 rue de Saeul, L-8562 Schweich, Luxembourg, Director Mr. Didier SCHÖNBERGER, 47 rue du Château, F-57970, Inglange France, Director.

2. PROPOSITION OF ALLOCATION OF THE ANNUAL RESULT

Proposition of allocation of the result

The net loss of financial year 2018 is mostly generated by the portfolio of financial assets. It amounts to - EUR 771,729.31. The management is proposing following allocation:

	EUR
Profit or loss brought forward	(8,259,501.12)
Profit or loss for the financial year	(771,729.31)
Allocation to the legal reserve	-
Profit or loss carried forward	(9,031,230.43)
	===========

We propose to approve annual accounts as presented below and to pursue the Company's activities.

For the Board of Directors

BDO

Tel. +352 45 123-1
www.bdo.lu

1, rue Jean Piret
Boîte Postale 351
L-2013 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

To the Shareholders of
VELCAN HOLDINGS (formerly known as VELCAN)
11, avenue Guillaume
L-1651 Luxembourg

Opinion

We have audited the annual accounts of VELCAN HOLDINGS (the "Company"), which comprise the balance sheet as at 31 December 2018, and the profit and loss account for the year then ended, and notes to the annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of the Company as at 31 December 2018, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Law and standards are further described in the « Responsibilities of the "*Réviseur d'Entreprises Agréé*" for the Audit of the Annual Accounts » section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report but does not include the annual accounts and our report of the "*Réviseur d'Entreprises Agréé*" thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "*Réviseur d'Entreprises Agréé*" for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "*Réviseur d'Entreprises Agréé*" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law dated 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with the Law dated 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "*Réviseur d'Entreprises Agréé*" to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "*Réviseur d'Entreprises Agréé*". However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Luxembourg, 25 April 2019

BDO Audit
Cabinet de révision agréé
represented by

Daniel Hilbert

Annual Accounts Helpdesk :

Tel. : (+352) 247 88 494
Email : centralebilans@statec.etat.lu

RCSL Nr. : B145006	Matricule : 2009.2202.802

ABRIDGED BALANCE SHEET

Financial year from 01 01/01/2018 **to** 02 31/12/2018 *(in* 03 EUR *)*

VELCAN HOLDINGS

11 Avenue Guillaume

L-1651 Luxembourg

ASSETS

		Reference(s)		Current year		Previous year
A. Subscribed capital unpaid	1101		101		102	
I. Subscribed capital not called	1103		103		104	
II. Subscribed capital called but unpaid	1105		105		106	
B. Formation expenses	1107		107		108	
C. Fixed assets	1109		109	150.733.826,04	110	151.945.251,98
I. Intangible assets	1111		111	603,04	112	603,04
II. Tangible assets	1125		125		126	
III. Financial assets	1135	3	135	150.733.223,00	136	151.944.648,94
D. Current assets	1151		151	3.254.526,05	152	1.769.573,83
I. Stocks	1153		153		154	
II. Debtors	1163		163	189.130,60	164	347.061,43
a) becoming due and payable within one year	1203		203	189.130,60	204	347.061,43
b) becoming due and payable after more than one year	1205		205		206	
III. Investments	1189	4	189	2.020.573,37	190	
IV. Cash at bank and in hand	1197		197	1.044.822,08	198	1.422.512,40
E. Prepayments	1199		199		200	12.298,32
TOTAL (ASSETS)			201	153.988.352,09	202	153.727.124,13

The notes in the annex form an integral part of the annual accounts

RCSL Nr. :	B145006	Matricule :	2009.2202.802

CAPITAL, RESERVES AND LIABILITIES

		Reference(s)		Current year		Previous year
A. Capital and reserves	1301		301	122.098.637,04	302	125.857.653,07
I. Subscribed capital	1303	5	303	6.281.967,00	304	6.605.442,00
II. Share premium account	1305	9	305	122.415.163,22	306	127.099.548,31
III. Revaluation reserve	1307		307		308	
IV. Reserves	1309	9	309	2.432.737,25	310	412.163,88
V. Profit or loss brought forward	1319		319	-8.259.501,12	320	-3.710.308,35
VI. Profit or loss for the financial year	1321		321	-771.729,31	322	-4.549.192,77
VII. Interim dividends	1323		323		324	
VIII. Capital investment subsidies	1325		325		326	
B. Provisions	1331		331	4.815,00	332	4.815,00
C. Creditors	1435		435	31.884.900,05	436	27.864.656,06
a) becoming due and payable within one year	1453		453	31.884.900,05	454	27.864.656,06
b) becoming due and payable after more than one year	1455		455		456	
D. Deferred income	1403		403		404	
TOTAL (CAPITAL, RESERVES AND LIABILITIES)			405	153.988.352,09	406	153.727.124,13

The notes in the annex form an integral part of the annual accounts

Annual Accounts Helpdesk :

Tel. : (+352) 247 88 494
Email : centralebilans@statec.etat.lu

RCSL Nr. : B145006	Matricule : 2009.2202.802

ABRIDGED PROFIT AND LOSS ACCOUNT

Financial year from 01 01/01/2018 **to** 02 31/12/2018 *(in* 03 EUR *)*

VELCAN HOLDINGS

11 Avenue Guillaume

L-1651 Luxembourg

ABRIDGED PROFIT AND LOSS ACCOUNT

	Reference(s)	Current year	Previous year
1. to 5. Gross profit or loss	1651 13	651 544.581,40	652 -3.184.277,65
6. Staff costs	1605	605	606
a) Wages and salaries	1607	607	608
b) Social security costs	1609	609	610
i) relating to pensions	1653	653	654
ii) other social security costs	1655	655	656
c) Other staff costs	1613	613	614
7. Value adjustments	1657	657 -90.231,96	658 -2.520.054,74
a) in respect of formation expenses and of tangible and intangible fixed assets	1659	659	660
b) in respect of current assets	1661	661 -90.231,96	662 -2.520.054,74
8. Other operating expenses	1621	621	622

RCSL Nr. : B145006	Matricule : 2009.2202.802

		Reference(s)		Current year		Previous year
9. Income from participating interests	1715		715		716	
a) derived from affiliated undertakings	1717		717		718	
b) other income from participating interests	1719		719		720	
10. Income from other investments and loans forming part of the fixed assets	1721		721	542.742,37	722	2.013.527,09
a) derived from affiliated undertakings	1723		723	542.742,37	724	624.659,10
b) other income not included under a)	1725		725		726	1.388.867,99
11. Other interest receivable and similar income	1727		727	1.468,44	728	91.026,88
a) derived from affiliated undertakings	1729		729	1.461,93	730	1.031,42
b) other interest and similar income	1731		731	6,51	732	89.995,46
12. Share of profit or loss of undertakings accounted for under the equity method	1663		663		664	
13. Value adjustments in respect of financial assets and of investments held as current assets	1665		665	-535.890,66	666	1.091.886,38
14. Interest payable and similar expenses	1627		627	-1.229.559,90	628	-2.038.695,73
a) concerning affiliated undertakings	1629		629	-1.229.082,31	630	-1.833.579,94
b) other interest and similar expenses	1631		631	-477,59	632	-205.115,79
15. Tax on profit or loss	1635		635		636	
16. Profit or loss after taxation	1667		667	-766.890,31	668	-4.546.587,77
17. Other taxes not shown under items 1 to 16	1637		637	-4.839,00	638	-2.605,00
18. Profit or loss for the financial year	1669		669	-771.729,31	670	-4.549.192,77

5. NOTES TO THE STATUTORY FINANCIAL STATEMENTS

1. ACTIVITY AND OBJECTS

The Company can engage in all commercial activities relating directly or indirectly to the acquisition of participations in any form whatsoever, in any enterprise either with a legal status of corporation by shares or with a legal status of partnership, as well as the administration, management, control and development of these participations.

It may use its funds for the setting-up, management, development and liquidation of a portfolio consisting of any kind of securities, to participate in the founding, development and control of any enterprise, to acquire by way of capital contribution, subscription, underwriting or purchase option or any other way, any securities, to sale, transfer, exchange those securities, to grant support, loans, advances or guarantees to any company in which it has a direct or indirect interest.

It may also proceed with the acquisition, management, operation, sale or lease of any property, furnished or unfurnished and generally engage in any and all real estate operations with the exception of those of property dealers and investment and cash management in the Grand Duchy of Luxembourg or abroad.

In general, the Company may carry out any property, movable, immovable, commercial, industrial or financial operations, as well as all transactions and operations to promote and facilitate directly or indirectly the achievement of its objects or its extensions.

VELCAN HOLDINGS is the parent company of a group owning a wide array of financial and industrial assets. VELCAN HOLDINGS is developing, financing, building and operating hydro power concessions in Brazil and India. Its shares are listed on the Paris stock exchange (Euronext – Growth). It also owns bonds, equities and not listed investments in a variety of countries and in a variety of currencies.

VELCAN HOLDINGS is preparing statutory financial statements under the Luxembourg GAAP. In compliance with applicable regulations, VELCAN HOLDINGS is not required to publish IFRS audited consolidated accounts, but also voluntarily publishes non-audited and condensed consolidated accounts from the financial year 2018 included.

Both the audited statutory GAAP financial statements and the unaudited condensed and consolidated statements are available online at www.velcan.lu and at:

VELCAN HOLDINGS
11, Avenue Guillaume
L-1651 Luxembourg

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

2. ACCOUNTING PRINCIPLES

2.1. General Principles

The annual accounts are prepared in accordance with Luxembourg legal and regulatory requirements and generally accepted accounting practices (GAAP).

The comparative financial information as of 31 December 2017 for amount of EUR 2,520,054.00 previously presented as value adjustments in respect of financial assets and of investment held as current assets has been reclassified to value adjustments in respect of current assets.

2.2. Foreign Currency Translation

The Company maintains its accounting in Euro (EUR) and the balance sheet and the profit and loss are expressed in that currency. On the balance sheet date, non-monetary items denominated in a currency other than the reporting currency are translated at historical exchange rates.

Monetary balance sheet items denominated in a currency other than the reporting currency are valued based on the exchange rate in effect at the date of the balance sheet. However under the principle of prudence, only translation differences related to losses are recognized in profit and loss; unrealized gains are deferred.

2.3. Financial Assets

The financial assets mainly consist of shares in affiliated undertakings, as well as of loans granted to affiliated undertakings and deposits.

The shares in affiliated undertakings are recorded at cost. At the closing date of the year, the Board of Directors estimates the fair value of such shares and books a value adjustment if the impairment value is deemed permanent. Loans in financial assets are booked at their nominal value. A value adjustment is booked if the Board of Directors estimates that the repayment at maturity is fully or partly uncertain or compromised.

Deposits are recorded at their nominal value.

2.4. Current assets

Receivables in current assets are recorded at their nominal value. A value adjustment is booked if the Board of directors assessed that the repayment at maturity is wholly or partly uncertain or compromised.

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

2. ACCOUNTING PRINCIPLES (continued)

2.5. Cash

Cash comprise cash at bank and cash in hand are recorded at their nominal value.

2.6. Debts

Debts are recorded at their nominal value.

2.7. Own shares

Own shares are presented as ''Investments'' under current assets in the balance sheet.

Own shares are acquired for below purposes:

- Delivery of shares to employees, management or consultants of the company in future years
- Cancellation and capital reduction.

Own shares are initially recorded at acquisition cost and a non-distributable reserve of the same amount is created.

At the financial year closing date, an impairment is recorded when the fair value assessed is less than the acquisition price. Unrealized gains are not recognized.

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

3. FINANCIAL ASSETS

EUR	Shares in affiliated undertakings	Amounts owed by affiliated undertakings	Securities held as fixed assets	Total
Nominal value/Historical cost as at January 1, 2018	150,082,316.91	11,194,359.01	10,000.00	161,286,675.92
Current year additions	0.00	542,742.37	0.00	542,742.37
Current year disposals/reductions/Reimbursements	0.00	0.00	0.00	0.00
Foreign currency impacts	0.00	-1,218,277.65	0.00	-1,218,277.65
Nominal value/Historical cost as at December 31, 2018	150,082,316.91	10,518,823.73	10,000.00	160,611,140.64
Value adjustments				
Accumulated depreciation as at January 1, 2018	-5,960,282.17	-3,381,744.81	0.00	-9,342,026.98
Current year allowance	-436,301.00	-336,076.65	0.00	-772,377.65
Current year reversal	78,190.68	0.00	0.00	78,190.68
Foreign currency impacts	0.00	158,296.31	0.00	158,296.31
Accumulated depreciation as at December 31, 2018	-6,318,392.49	-3,559,525.15	0.00	-9,877,917.64
Net book value as of January 1, 2018	144,122,034.74	7,812,614.20	10,000.00	151,944,648.94
Net book value as of December 31, 2018	143,763,924.42	6,959,298.58	10,000.00	150,733,223.00

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

3. FINANCIAL ASSETS (continued)

Detail of shares in companies above 20% of controlling interests (in EUR)

Company Name	Country/ functionnal currency	Percentage of holding as of 31/12/18	Last financial year end	Statutory' s profit/loss in local currency	Statutory' s net shareholder's equity 31/12/18 in local currency (*)	Net book value in VELCAN books as at 31/12/18 (EUR)
Velcan Holdings Mauritius Ltd (formerly known as Velcan Energy Mauritius Ltd)	Mauritius/ EUR	100%	31/12/2018	(880,574.00)	133,064,590.00	133,064,589.80
Velcan Holdings Singapore Pte. Ltd (formerly known as Velcan Energy Singapore Pte. Ltd)	Singapore/ SGD	100%	31/12/2018	56,150.00 **	2,626,064.00 **	1,679,283.80
Rodeio Bonito Hidrelétrica LTDA.	Brazil/ BRL	99,99%	31/12/2018	1,928,655.93	30,198,569.04	9,020,050.00
Velcan Desenvolvimento Energetico Do Brasil Ldta	Brazil/ BRL	99,99%	31/12/2018	(329,851.37) **	(8,111,872.35) **	1.00
Velcan Energy Holdings (Dubai) Ltd	UAE/ AED	100%	31/12/2018 **	(2,338,794.00) **	(25,726,394.00) **	0.00

* The net income for the financial year 2018 is included in the net shareholder's equity
** Non audited

4. INVESTMENTS

As at 31 December 2018, the Company holds 271,843 own shares (2017: 0), which include the 94,793 shares purchased under the second buyback program (see note 5.2) and 177,050 shares previously held by a wholly owned subsidiary of the Company (see note 9.2) for a total amount of EUR 2,020,573.37.

5. SHARE CAPITAL

5.1. Subscribed share capital

Date	Description	Number of shares	Nominal value per share	Subscribed capital - EUR
1 January 2018	Opening subscribed capital	6,605,442	1.00 €	6,605,442.00
27 June 2018	Capital decrease	-323,475	1.00 €	-323,475.00
31 December 2018	Closing subscribed capital	6,281,967	1.00 €	6,281,967.00

As at 31 December 2018, the subscribed capital amounts to EUR 6,281,967.00 represented by 6,281,967 fully issued and subscribed shares with a nominal value of EUR 1 each.

The authorized share capital amounts to EUR 30,000,000.00 represented by 30,000,000 shares with a nominal value of EUR 1 each.

5.2. Share buyback programs

In compliance with the resolutions of the General Meeting held on Friday the 28 June 2017, the Board of Directors has decided to launch a first share buyback program on 14 February 2018. The Company has repurchased accordingly all the planned 323,475 shares, at an average price of EUR 9.38 and for a total amount of EUR 2,988,592.00 in accordance with the description of the share buyback program published on 22 February 2018 and within the limits of the resolutions of the General Meetings of Shareholders held on 28 June 2017 and 28 July 2017.

The details of all share purchases are available on the Company's website (http://www.velcan.lu/investors/other-regulated-information/).
Following the announced objective of the share buybacks – being cancellation towards reduction of capital, the Board of Directors has decided on 27 June 2018 to cancel all of the 323,475 shares bought back, which resulted in a reduction of the Company's share capital to bring it from EUR 6,605,442.00 to EUR 6,281,967.00 divided into 6,281,967 shares with a nominal value of one euro (EUR 1) each.

The Board of Directors has initiated a second share buyback program on 13 September 2018, which is still ongoing as of the date of the report. It entails purchase of a maximum number of 254,128 shares (representing 4.05% of the share capital), at a maximum purchase price per share of eight euros and ten cents (EUR 8.1), excluding acquisition costs. Under this program, the maximum total amount that the company may allocate to the buyback of its own shares shall not exceed Euros 2,058,434.00 excluding acquisition costs.

The purpose of the buyback program is to buy back shares of the Company from minority shareholders wishing to sell them at current market conditions, but not finding sufficient liquidity, in view of their cancellation, towards active management of the shareholders' funds.
As of the date 31 December 2018, 94,793 shares have been bought back under this program at average price of EUR 7.70 per share, and a total repurchase price of EUR 728,108.37. The details of all share purchases are available on the Company's website (http://www.velcan.lu/investors/other-regulated-information/).

5. SHARES CAPITAL (continued)

5.3. Equity warrants

The Company has issued equity warrants during previous financial years to consultants of the Company and its subsidiaries. One equity warrant gives the right to apply for one share.

As of the 31 December 2018, the following equity warrants are issued and still valid:

Warrant ref.	Issue date	Number of warrants existing	Number of warrants exercisable	Subscription price	Expiry date
BSA2013-1	23/04/2013	13,600	13,600	EUR 10	23/04/2023
BSA2013-2	23/04/2013	8,000	8,000	EUR 21.4	23/04/2023

As of the 31 December 2018 there are no other financial instruments convertible in shares or giving access to the share capital of the Company.

6. BENEFICIARY SHARES AND VOTING RIGHTS

Beneficiary Shares (also sometimes known as Founders' Shares) are issued by the Company, in accordance with Article 430-1 of the Luxembourg Law of 10th August, 1915 on commercial companies. Those Beneficiary Shares are different from ordinary shares as they do not give access to the Company's share capital. As provided for in article 7.7 of the Article of Association of the Company, one Beneficiary Share gives one voting right to its owner in the Company's General Meetings. One Beneficiary Share is allocated to a shareholder against each share continuously registered for a period of 4 years under such shareholder's name in the nominative register held directly by the custodian specially appointed by the Company for that purpose (BNP Paribas Securities Services as of 31 December 2018). A second Beneficiary share is allocated to the shareholder of each share continuously registered for a period of 6 years under the shareholder's name in the nominative register held directly by the custodian specially appointed by the Company for that purpose (BNP Paribas Securities Services as of 31 December 2018). As a result, the total number of voting rights in the Company, existing at 31 December, 2018, is as follows: 10,349,681 votes.

7. FREE SHARES AND SHARE BASED PAYMENTS

7.1 Free shares allocated over the year

In the previous financial years the Company had implemented stock-option plans and equity warrants, which do not exist anymore as of 31 December 2018 as they have either been replaced by free shares or have expired.

In September 2017 the Company has attributed free shares to some employees and management executives of the Group. As of 31 December 2018, the pending vesting of free shares under such plan is as follows:

	FY 2018	FY 2019	FY 2020	FY 2021	TOTAL
Vesting of Free Shares (in shares)	**34,950****	**33,625**	**33,250**	**375**	**102,200**
Of which distributed	-	-	-	-	-
Of which undistributed	34,950*	33,625	33,250	375	102,200

* Distributed in February 2019

**Initially 35,137 reduced to 34,950 following staff departure

A total expense of EUR 325,515.15 (2017: EUR 2,415,249.50) has been recognized in the gross profit or loss in 2018 corresponding to:

- the delivery of 2,263 free shares vested in 2017 and delivered in 2018 (not accounted in 2017 annual accounts) for EUR 23,205.15;
- the delivery of 3,000 shares vested in 2017 as part of below transaction described in note 7.2 and delivered in 2018 (not accounted in 2017 annual accounts) for EUR 30,750;
- the provision for delivery of 34,950 shares vested in 2018 and delivered in February 2019, booked at a unit price of EUR 7.3 per share, at a total cost of EUR 255,135.
- the provision for delivery of 2250 shares as part of below transaction described in note 7.2 vested in 2018 and delivered in February 2019, booked at a unit price of EUR 7.3 per share, and at a cost of EUR 16,425.

7.2 Other share based payment transactions

In 2016, whereby three equity warrants plans granted to a director of subsidiaries of the Group were traded against existing shares held by the Group as treasury shares with a ratio of one existing share for two equity warrants. 29,750 shares were traded against 59,500 equity warrants already vested in 2016 at the date of the transaction. The non-vested equity warrants shall be traded against existing shares with the same two to one ratio and following the same vesting as the one of the equity warrants original agreements. In 2018, 2250 shares were vested and distributed in February 2019 as final execution of this transaction. (2017: 3,000 shares were vested and distributed in January 2018).

8. RELATED PARTIES TRANSACTIONS

During the financial year 2017, two members of the board of directors have concluded free share grant agreements for a total of 292,500 free shares, as part of the free shares Grant mentioned in note 7.1. These agreements provide for a vesting period of 4 years ending on 31 December 2020. These have remained in force and unchanged during 2018, with the vesting of 32,500 shares as on 31 December 2018, delivered to the concerned directors in February 2019. The related cost of EUR 237,250.00 (2017: EUR 2,201,550.00) for 2018 has been recognized in 2018 annual accounts as part of the amount of EUR 325,515.15 (2017: EUR 2,415,249.50) described above under note 7.1. A total of 65,000 shares remain to be vested in 2019 and 2020 towards the final execution of this transaction.

9. RESERVE

9.1 Legal reserve

As required by law in Luxembourg, 5% of the Company's net result for the year (less accumulated losses brought forward if any) shall be allocated to a legal reserve whenever it is a net profit. This allocation ceases to be mandatory when the reserve reaches 10% of paid up capital. The legal reserve is not available for dividend distribution.

9.2 Own shares reserve

As required by Luxembourg Law, when a company has acquired its own shares and if the said shares are included among the assets shown in the balance sheet, a non-distributable reserve (for dividend purpose) of the same amount shall be created among the liabilities.

This reserve has been booked against the share premium of the Company for an amount of EUR 2,020,573.37 corresponding to the amount booked as Own shares in ''investments'' under current assets and corresponds to the following acquisitions:

1) On 16 October 2018, the Company has acquired 177,050 own shares from its wholly owned subsidiary Velcan Holdings Mauritius Ltd (formerly known as Velcan Energy Mauritius Ltd) at the unit price of EUR 7.3, a cost of EUR 1,292,465.00. This reserve will be used to settle shares described in note 7 and future plans for employees.

2) During the year 2018, the Company has launched a second share buyback program as described under note 5.2 above. The Company's authorization to buy back its own shares was given by the Shareholders' General Meeting of 28 June 2017 (8th resolution). The second buyback program has been decided by the Board of Directors dated 13 September 2018 for a maximum of 254,128 shares. At the closing date, the Company holds 94,793 shares acquired under this program on the stock exchange at an average unit price of EUR 7.70 (EUR 728,108.37 overall).

10. TAX RATE

The Company is fully taxable at a maximum rate of 26.01% (2017: 27.08%) on its net income. The Company is also liable to the Luxembourg Wealth Tax at the rate of 0.5%, calculated on the basis of its net equity at the beginning of the following financial year.

11. OFF BALANCE SHEET COMMITMENTS

The Company has issued letter of support to affiliated undertakings which could require it to provide financial support in the form of working capital contribution during the year in order that those affiliated undertakings continue to operate on a going-concern basis.

A wholly owned subsidiary of the Company is the senior secured lender in a ship finance transaction which is now under multiple litigations. In this context the Company has undertaken to pay up to GBP 105,000.00 (EUR 116,466.00) towards legal expenses that may become payable by its borrower, as a result of on-going litigations led by such borrower against a former owner of the vessel, following the arrest of the vessel.

12. EMPLOYEES

The Company does not employ any employee as it does not have operational functions.

13. TURNOVER

The turnover for the year 2018 represents costs re-invoiced to subsidiaries. These costs relate to previous years and have been invoiced in arrears in 2018 based on mutual agreements between the Company and the subsidiaries.

14. SUBSEQUENT EVENTS

The Board of Directors has no knowledge of significant subsequent events which could have a significant impact on the Company's financial statements or which could affect the continuity of operations.