

## PRESS RELEASE

Luxembourg, 30<sup>th</sup> October 2020

### VELCAN HOLDINGS: HALF YEARLY RESULTS (CONSOLIDATED AND UNAUDITED) ADDITIONAL IMPAIRMENT OF INDIAN HYDRO PROJECTS, EUR 2.7m NET LOSSES

	<u>30.06.2020</u>	<u>30.06.2019</u>	Var %
Turnover Half Year (Million Euros)	1.0	1.4	-30%
EBITDA Half Year (Million Euros)	-1.3	-0.6	-119%
Net Result Half Year (Million Euros)	-2.7	3.6	NA
	<u>30.06.2020</u>	<u>31.12.2019</u>	Var %
Cash and Financial assets (Million Euros)	100	103	-3%
Market Capitalization (Million Euros)	36	43	-16%
Consolidated Equity (Million Euros)	112	121	-7%

Note: half yearly financial statements are not audited

#### **Brief comments on 2020 first half**

- The electricity production from the Rodeio Bonito plant, of 14,688 MWh during H1 (against 37,600 MWh in H1 2019), was very weak and well below Rodeio Bonito's ensured energy<sup>1</sup>. This reflects very low precipitation levels in Brazil in H1 2020 compared to the good precipitation levels in Brazil in H1 2019 and had a negative effect of Eur 0.3 million on consumed purchases and thus, on the Group H1 2020 operational result.
- The Group continued to work on the development of its large hydroelectric tandem project of Heo-Tato-1HEP (426 MW) in India. In 2020, the Projects faced additional delays and bottlenecks so far, especially as to the land acquisition procedure, the renewal of the Techno Economic Clearances (TECs) and the execution of a revised concession agreement.

<sup>1</sup> In Brazil, « guaranteed energy » or « ensured energy » means the annually marketable energy as approved by MME – Ministério de Minas e Energia (Department of Mines and Energy) and guaranteed through the Brazilian power system for power plants opting for the MRE (Energy reallocation Mechanism), mechanism functioning at national scale, even if the production is impacted by a bad hydrology some years. This mechanism covers the hydrological risk in case some Brazilian areas are experiencing drought, whereas other areas are experiencing heavy rains. The guaranteed energy is usually sold through mid-term fixed inflation-linked contracts. However this mechanism does not cover the risk of a national drought across Brazil which results in an overall MRE system in deficit. In this case, the Rodeio Bonito plant EBITDA could collapse drastically as all participants of the MRE system will have their guaranteed energy reduced 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.



Due to the opposition to the government-led site survey by some alleged owners, unsolved ownership disputes and the failure of the local government to guarantee the site access, the land acquisition procedure has been stopped again. It could not restart as COVID-19 related restrictions prevented the Government of Arunachal Pradesh (GoAP) to attempt a settlement of the disputes to unlock the procedure. The deadline for completing the Section 19 has been postponed to the end of September 2021. The stoppage of the administration-led land survey by some owners is a major concern as it highlights again the acute difficulties and delays faced by the projects due to the absence of proper land registry, and the inability of the local Government to settle land disputes and guarantee Law and Order. The completion of the land acquisition procedure, which goes far beyond the section 19, by the local government remains a prerequisite for the next development phases of the project, which are the negotiation of a power purchase agreement (PPA) and the financing of the construction.

TECs of Heo and Tato-1 HEP were bearing validities until end of July 2020 and end of October 2020 respectively. Applications for renewals of both TECs were submitted to the Central Electricity Authority (CEA) in April 2020 and August 2020 respectively. CEA requested the Group to obtain from GoAP a Non Objection Certificate (NOC) acting that the GoAP has no objection to the renewal of the projects TECs for the current capacities of 240 MW and 186 MW respectively. GoAP has subjected the issuance of such NOCs to the execution of a new or revised concession agreement. Such amendment has been pending for 4 years, and entails several complex topics, such as the project implantation timeframe, and significant administrative fees, some of which the Group does not agree with. The Group requested a draft MoA, not yet received of the date of this report. Major disagreements remain as whether some of these fees are payable or not, as the Group considers that the GoAP is liable for several breaches of its obligations under the concession agreement, such as the failure to proceed timely with the land acquisition, the failure to guarantee access to the site and to maintain law and order at projects' site. The proposed projects implementation timeframe is also a major but not yet known parameter of the revised concession agreement. The revision of the concession agreement has become a pressing issue, which is exclusively at the local government level, and needs to be settled for the projects to renew or keep their necessary central government authorizations and licenses. As of today the TECs are technically expired, as their renewal is depending on the execution of the revised concession agreement (in addition to the CEA renewal procedure, which has not started yet). Generally, a proper concession agreement with the updated capacity should be in place for the projects to be able to keep and use their central government licenses and to search for a PPA.

Like in 2019, the commercial and financial hydropower market conditions remained constrained in 2020 by the lack of proper regulatory framework for the sale of hydropower through long term bankable PPAs, the stressed financial position of electricity distribution companies (DISCOMS), the heavy exposure of the banking sector to bad infrastructure loans, the very low spot electricity prices and the indirect competition of solar and wind tariffs. The Government of India has still not released the implementation modalities of the new hydropower policy published on the 7<sup>th</sup> March 2019. These modalities are absolutely necessary to implement the new measures laid by the new policy, such as a Hydro Purchase Obligation (HPO) to be imposed on distribution companies or plans to reduce the hydropower tariff in the first years of the PPA to make it more attractive to power purchasers. In absence of application decree, these measure remain inapplicable. The Group continued its preliminary search for a PPA. It hired a major consultancy company in order

to solicit directly and formally the interest of more potential buyers. Out of the 10 potential buyers who were sent official enquiries along with project information in May 2020, requesting for expressions of interest, none of the addressees have replied officially or requested further information officially. 9 have either declared not being interested or did not respond at all. 1 of the addressee mentioned to check again in January or February 2021. These contacts confirmed the current lack of demand for long term hydropower.

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

The complete H1 2020 report available on the company's website details all activities related to the hydropower projects.

- Velcan Holdings' turnover in the first half of 2020 (H1 2020) amounted to EUR 1.0m arising from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil. It was down by 30% when expressed in Euros and down by 8% when expressed in Brazilian real (BRL) relative to H1 2019. This mainly results from the fall of the Brazilian currency during the covid-19 crisis.
- Consumed purchases in Brazil, which are payments to the MRE (Energy reallocation Mechanism, see footnote p.1) amounted to EUR -0.3 m for H1 2020 compared to EUR 0 m during H1 2019, due to the severe drought in Brazil since the beginning of 2020.
- Operating costs were steady relative to H1 2019 (EUR -2.0m during H1 2020, like during H1 2019). Depreciation, Amortization & Provisions increased significantly (EUR -3.1 m for H1 2020 vs -0.6 m for H1 2019) because of partial impairment of the Indian Projects (EUR 2.9m, bringing the total impairment of the Indian projects to 50%, see above). Added to the consumed purchases in Brazil, this led to a sharp increase of the operating loss (EUR -4.5 for H1 2020 against Eur -1.2 for H1 2019)
- Net financial income for H1 2020 was EUR 1.8m vs. EUR 4.9m in H1 2019. In 2020 the performance, although significantly lower compared to 2019, was relatively good considering the tough Covid-19 context for financial assets. In 2019, the good performance was mainly due to the performance of the Group's financial assets and to the appreciation of the US dollar vs the Euro as most of the Group's financial investments and cash were invested in US dollar.
- Because of the covid-19 crisis the investment of the Group financial assets has been complicated. The Group started the year with a portfolio invested at 60% in bonds, mostly high yield corporate bonds. This bond portfolio was reduced by approximately half in January and February, as the rewards seemed not any more commensurate with the potential default risks. Since then, the Group has gradually changed its asset allocation to include more exposure to equities and commodities (mostly gold). Given the current very low levels of benchmark rates in all developed markets (USA, Europe and Japan), the Group does not anticipate it will increase again its

investments in corporate bonds. It is more likely the Group will keep investing in equities, commodities and foreign exchange.

- As of June 30<sup>th</sup>, the portfolio included 35% of bonds, mostly corporate, 29% of cash, 11% of gold, 16% of equity long positions, 6% of equity short positions, and of 4% in private equity and credit. Whereas at the beginning of the year the exposure was mostly in USD, as of 30<sup>th</sup> June, the exposure was 52% in USD (which includes 11% in Gold that the Group considers equivalent to a separate currency), 19% in EUR, 16% in JPY, 5% in SGD, 3% in CHF, 2% in BRL and 3% in other currencies.
- Net result, Group share, was therefore a loss of EUR -2.7m vs. a gain of EUR 3.6m in H1 2019.
- Group other comprehensive income amounts to a loss of EUR -3.6m in H1 2020 vs a gain of 0.4 m in H1 2019, mostly due to the depreciation of the Brazilian currency (-36%) and the Indian Rupee (-6%) and its impact on the Group conversion reserves where the assets held in foreign currency in Brazil (Rodeio Bonito) and India are translated into Euro. The Group total comprehensive income for H1 2020 amounts to a loss of EUR -6.2m vs a gain of EUR 3.9m in 2019.
- Shareholders equity amounts to EUR 112.5m as of 30<sup>th</sup> June 2020 vs. EUR 121.1m as of 31st December 2019 (EUR -8.6 m) mostly due to the negative comprehensive income during H1 2020 (EUR -6.2 m) and the acquisition of own shares (EUR -2.5 m of negative impact on the shareholders equity).
- The Company has conducted a share buyback program between the 17<sup>th</sup> December 2019 and the 12<sup>th</sup> March 2020 during which it purchased 300,000 shares, at a weighted average price of EUR 6.77 per share and for a total amount of EUR 2,029,662 in accordance with the description of the share buyback program published on 17<sup>th</sup> December 2019 and the resolutions of the General Meetings of Shareholders held on 28<sup>th</sup> June 2017 and 28<sup>th</sup> July 2017. Following the announced objective of the share buybacks, the Board of Directors cancelled 278,500 shares bought back in April 2020, and kept 21 500 shares to cover for future exercises of securities giving access to the capital. The Company has initiated another buyback programme on 13<sup>th</sup> March 2020 in order to purchase another 300,000 shares at a maximum price of Eur 5.1 per share, for a maximum total amount of buyback that shall not exceed 1,530,000.00 Euros, excluding acquisition costs. Out of this programme, the Company bought 112,104 shares for a total amount of 546,082 euros as of 30<sup>th</sup> June 2020.
- Following the above-mentioned capital decrease that occurred on 2<sup>nd</sup> April 2020 through the cancellation of 278 500 own shares (with no impact on the Shareholders equity), the share capital of the Company was down by 278 500 € from 5 830 820 € to 5 552 320 €.
- A total of 405,054 shares were acquired during H1 2020 as a result of the 2 programs mentioned above.
- The number of 226,729 Treasury shares as of 30<sup>th</sup> June 2020 has increased as compared to 31<sup>st</sup> December 2019 (146,900 own shares) due to the above mentioned programs and despite the

distribution of 46 725 shares to employees and the above-mentioned capital decrease. The net number of outstanding shares as of 30<sup>th</sup> June 2020 is 5,325,591.

The complete half yearly report 2020, including the condensed and non-audited financial statements as of 30<sup>th</sup> June 2020, is available online at <http://www.velcan.lu/investors/reports-accounts/>

### **Significant events since 30<sup>th</sup> June 2020**

- Land Acquisition Procedure Stopped By Land Owners In India

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

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

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

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

- Extension of time for the land acquisition procedure of the Indian hydropower projects.

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

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

The above activities, which are under the exclusive purview of the State Government, could not be completed on time. The land survey and marking of boundaries was scheduled between 10<sup>th</sup> February and 14<sup>th</sup> March 2020, to be conducted by District Administration. As explained above the land survey

was stopped due to disputes between local people. Following the first meeting held, between the local land owners and the committee, on 24<sup>th</sup> February 2020, without positive outcome, another committee meeting was scheduled on 24<sup>th</sup> March 2020. However such meeting could not be held due to COVID-19 lockdown and related restriction measures, and was postponed indefinitely by a Government order dated 19<sup>th</sup> March 2020.

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

- Amendment of the share buyback programme.

On 17<sup>th</sup> September 2020, the Company amended the share buyback programme initiated on 13<sup>th</sup> March 2020. Under such programme and as of 17<sup>th</sup> September 2020, the Company had bought back a total of 112,104 shares at a weighted average price of 4.85 euros per share and for a total amount of 543,879 euros. Taking into account the price and liquidity levels that have occurred since the end of March 2020, the Board of Directors decided to amend the maximum purchase price per shares to 7 euros for the remaining 187,896 shares to be bought under the programme, with the aim of buying shares of the Company from shareholders wishing to sell them under current market conditions, but not finding sufficient liquidity, with a view to their cancellation. Buybacks have restarted on this basis, and are published weekly on the Company’s website.

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#### **About Velcan:**

Velcan Holdings is a Luxemburg headquartered investment holding company founded in 2005, operating as an independent power producer in emerging countries 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. The company is developing a cascade of hydropower concessions located in India and totalling 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, obtaining the necessary authorizations and permits, and land acquisition in political and regulatory environments that can be unstable or heavily hampering. Meanwhile Velcan Holdings actively manages its treasury, investing in listed and unlisted financial instruments.

Velcan Holdings’ headquarters are in Luxemburg, 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). The team dedicated to the Rodeio Bonito plant is based in Sao Paulo and Chapeco (Santa Catarina State).



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

Velcan Holdings is listed on the Euro MTF Stock Market in Luxembourg (Ticker VLCN/ISIN FR0010245803).

Velcan Holdings never performed any Public Offer as understood under Directive 2003/71/CE of the European Parliament and Council.

*Disclaimer*

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

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