

VELCAN HOLDINGS: ANNUAL RESULTS 2022

GOOD FINANCIAL PORTFOLIO PERFORMANCE, INCREASED TURNOVER OF THE RODEIO BONITO PLANT, IMPROVED EBITDA AND BETTER NET RESULT

NON-AUDITED KEY CONSOLIDATED FIGURES	<u>2022</u>	<u>2021</u>	Var %
Revenues (EUR m)	3.2	2.4	+30%
EBITDA (EUR m)	-2.7	-5.6	+54%
Net Income (EUR m)	8.2	6.5	+27%
Cash and Financial assets and liabilities	124	120	+4%
Shareholders' Equity (EUR m)	127	122	+5%

In 2022, financial markets have been marked by three major events: the end of the COVID19 pandemic restrictions, central banks rates hikes to fight high inflation and the crisis following the Russian aggression on Ukraine. In that context, the Group positions in equity and commodities (mostly gold and oil related) have on average performed well, leading to a financial gain of EUR 12.1m compared to EUR 21.0m in 2021, a year which greatly benefitted from the market rebound and support from the FED's easing measures. The key contributors to this performance were investments in banks and oil companies and successful repayments on our secured lending.

The Rodeio Bonito plant increased its electricity generation due to higher precipitations than during the previous years of draught in Brazil and to inflation on electricity prices. And the BRL value increased versus the EUR. Both factors resulting in a turnover of EUR 3.2m against EUR 2.4m in 2021 (a 30% increase) and contributing to an improved Group EBITDA of EUR -2.7m compared to EUR -5.9m in 2021.

The 2022 net income stands at EUR 8.2m, a 27% increase compared to the EUR 6.5m of 2021. Shareholder's equity increased by 5% due to this year positive income.

Following the suspension of its Indian hydropower projects in late 2021, the Group looked for potential investors to take over the project in 2022, and, despite unfavorable market conditions has been discussing with 2 major players interested in the projects. At the date of this release, the assessment of the projects and the discussion for a possible sale is going on with one major Indian player.

FINANCIAL YEAR 2022 – MANAGEMENT COMMENTS ON THE BUSINESS

Financial Assets

The Group has kept managing its portfolio of financial assets to provide financial returns. The year 2022 has seen a high level of market uncertainty and aggressive rate hikes by the FED. Most asset classes have seen price declines of material magnitude. Overall, it has still been a good year with the Group capitalizing on oil investments in H1 2022 and the rebound on Chinese stocks as the Chinese authorities became more flexible on their Zero-Covid policy in H2 2022. The Group also recovered repayments on secured lending that were previously fully provisioned in the books. The financial gain for the year has been at EUR 12.1m.

The evolution of the portfolio allocation is detailed below.

FINANCIAL INSTRUMENTS	Value 31.12.2022 in mEUR	Weight (% of net assets)	Value 31.12.2021 in mEUR	Weight (% of net assets)
Cash and cash equivalent	50.6	41%	25.5	21%
USA Treasury Bill	5.8	5%	0.0	0%
Money Market Funds in BRL and INR	3.5	3%	1.2	1%
Unrealized Gains on open Forward Forex	0.1	0%	0.2	0%
Bonds	6.4	5%	8.4	7%
Gold and silver related stocks	25.2	20%	26.5	22%
Oil related stocks	0.0	0%	32.3	27%
Equity Long positions (EM, EU, USA, Japan)	35.4	28%	56.7	47%
Equity Short	3.9	3%	3.1	3%
Private Equity & Lending	0.2	0%	0.5	0%
Total assets (A)	131.0	105%	154.5	129%

Bank Overdraft and short-term loans	-1.3	-1%	-33.3	-28%
Unrealized losses on open forward forex	-5.4	-4%	-1.4	-1%
Total in Financial liabilities (L)	-6.6	5%	-34.8	-29%

Net Total (A+L)	124.4	100%	119.7	100%
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The equity portfolio, including gold and silver related instruments, is deployed across a diversified array of 52 different issuers and ETFs. The gold position, which the Group considers to be equivalent to a separate currency, was held through 4 positions. The investment in gold mining companies through the VanEck Gold Miners ETF being the most significant, valued EUR 17.9m as of 31.12.2022. In addition, the Group has smaller holdings in specific gold mining companies.

In 2022, The Group reduced all exposure to oil related stocks mainly in January and May of 2022 thereby capitalizing on the rise in price on these stocks held since 2020. The Group further invested in Chinese stocks namely Tencent and Alibaba. Exposure to Volkswagen AG was also increased. This was also partly funded by a reduction of the exposure to JD.com, Global X China Semiconductor, Ping An, banking stocks including Citigroup, Wells Fargo, Capital One, BBVA, Santander, UBS Group and DBS Group and Orange SA.

As to non-gold related equities, 4 positions stand above EUR 3m threshold: iShares Silver Trust, Ping An, Tencent and Banco Bilbao Vizcaria Argentaria SA (BBVA). The Group also holds an S&P Short position of EUR 3.9m.

As of 31st December 2022, the Group's equity investment is mostly exposed to U.S, Chinese, European and Japanese issuers. The Group capitalized on investments in the banking and oil sector selling its positions in 2022 as these assets had rebounded strongly from their initial purchase price, mostly in 2020. The performance of these shares was between +40% to +175% compared to their initial cost.

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

The Group bonds portfolio is exposed to issuers in the BB and CCC ratings (as defined by Standard & Poor's). One of the bonds has a long maturity, whereas the other has a maturity of less than 2 years. The overall bond exposure is 6.4 EUR m.

The Group had already significantly reduced the size of the bond portfolio as of the end of the year 2021. In 2022, the Group brought down the bond exposure from 7 to 5% of the total financial portfolio.

The Group is of the opinion that the current credit spreads, although higher than before, do not sufficiently take into account the default risk that could increase. Especially as the rate hikes by Central Banks have increased hurdles for leveraged issuers. Unless there is a significant change in financial conditions, it is unlikely that the Group invests significantly in the short term in corporate bonds.

As of the end of 2022, the Group private investments sit at EUR 0.2m, which represent only private equity/venture capital. The Group is prospecting private investment opportunities to increase the share of this segment in its portfolio. The Group has obtained repayments, through litigation for the major part, on loans granted to finance vessels to shipping operators. These loans were impaired back in 2021 and before, and thus the recovery of the loan benefited the Group in 2022. As at 31/12/2022, the Group does not hold any secured lending investments.

The Group has further reduced its financial exposure to the USD and maintained its exposure to the Euro and the Japanese Yen. As of the end of the year 2022, the Group net financial assets and liabilities were mostly exposed to the following currencies:

- the Japanese Yen (36.5% from 26.4% in December 2021),
- the Euro (31.8% from 15% in December 2021)
- the Hong Kong Dollar (10.3%),
- the CNH (8.8%)
- the Singapore Dollar (7.6%)

The Group also has EUR 3.5 m of investments in Money Market funds in Brazil and India and has invested as well in short term US treasury bill with a EUR 5.8 m exposure at the end of 2022.

The net cash position of the group as of 31/12/22 is EUR 49.3 m (cash and cash equivalents of EUR 50.6m and a bank overdraft of EUR 1.3 m secured on the listed financial assets of the Group). The Group also held Forward Forex contracts that had a Mark-to-Market value of EUR -5.3m as at 31.12.2022 (EUR -5.4m unrealized losses booked in financial liabilities of the group and EUR 0.1m of unrealized gain booked in financial assets).

Rodeio Bonito Hydropower Plant (Brazil)

The electricity generation of 56,159 MWh during 2022 (against 27,638 MWh during 2021) was decent, and at a level not seen since 2016 but was still below Rodeio Bonito's level of ensured energy¹.

The extensive rain deficit for several consecutive years has been weighing on Brazil's hydropower sector and Brazil power sector in general and the Group remains cautious on its Brazilian plant performance in the future despite a relatively correct 2022 FY.

The MRE system (Energy Reallocation System) was still in deficit in 2022, but with a much lower impact of consumed purchased for the Rodeio Bonito plant (EUR -0.2m in 2022 compared to EUR -0.9m in 2021).

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

The operation and maintenance of Rodeio Bonito are satisfactory with a technical availability of 98.7% during 2022, same as the one for 2021.

The turnover from sales of electricity by the Rodeio Bonito Hydro Power Plant (HPP) in Brazil amounted to EUR 3.2m or BRL 17.2 m. It was up by 30% when expressed in Euros and up by 11% when expressed in BRL relative to 2021 (EUR 2.4 m or BRL 15.5 m for 2021). This much higher positive impact in EUR compared to local currency is due to a 15% depreciation in the average EUR/BRL rate during 2022 financial year compared to 2021 financial year, while the positive impact in BRL is due to an inflation linked increase in electricity prices.

As a result, the EBITDA of the plant was up to BRL 13.0m against BRL 6.3m in 2021 (-108% mainly because of the MRE much less negative impact and the inflation linked hike in power prices). When expressed in EUR, it was even higher by 148% (EUR 2.4m in 2022 VS EUR 1.0m in 2021) because of the better average EUR/BRL rate as seen above.

Indian Hydropower Projects

Velcan Holdings decided to suspend the projects, in 2021 as they were not in a position to make any progress at all under such circumstances. The Group's entire Indian operations were suspended, and the Group's New Delhi Office as well as site offices were shut down by the end of Q3 2021. The reasons for such decision are detailed in the Annual report 2021, and all other project development deadlocks are detailed notably in the 2020 report. The Group is not aware of any improvement of the hydropower sector situation, especially as to the land acquisition issue and the unavailability of vital provisions in the concessions agreements proposed by the GoAP, who has not changed its policy.

The Group is looking for a possible majority partner to take over the projects and the development operations, and is currently having official discussions with a major Indian hydropower player for that purpose.

The gross intangible value of the Indian projects, for EUR 15.0m had been fully impaired in previous years (out of which 7.5m in 2021).

Foreseeable evolution of the Group:

After the closing of the financial year 2022, the group will pursue the diversification of its investment portfolio in order to maximize possible return.

The full annual report 2022 is available at:

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

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SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Balance Sheet

ASSETS (EUR '000)	2022	2021
NON-CURRENT ASSETS	6 356	6 549
Intangible Assets	1 071	1 041
Tangible Assets ²	5 073	4 918
Non-Current Financial Assets	209	586
CURRENT ASSETS	131 308	154 300
Current Financial Assets	80 273	128 432
Cash and Cash Equivalents	50 574	25 467
Other Current Assets	461	401
TOTAL ASSETS	137 664	160 849

LIABILITIES (EUR '000)	2022	2021
TOTAL EQUITY	127 460	121 614
NON-CURRENT LIABILITIES	1 663	1 739
CURRENT LIABILITIES	8 541	37 495
Current financial liabilities	6 622	34 761
Other payable	1 919	2 734
TOTAL LIABILITIES	137 664	160 849

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

Income Statement (EUR '000) - Unaudited

	2022	2021
Revenues	3 157	2 425
Operating expenses	(5 844)	(8 282)
Amortizations, depreciations and Provisions	(562)	(7 990)
Ordinary Operating Result	(3 249)	(13 847)
Other operating Income/expense	11	(8)
Operating Result	(3 238)	(13 855)
Net Financial Income (Loss)	12 102	21 020
Tax Income (Expense)	(638)	(709)
Net Income – Group Share	8 226	6 456
EBITDA	(2 677)	(5 857)

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SUMMARY AUDITED STATUTORY FINANCIAL STATEMENTS (Lux GAAP)

Balance Sheet

ASSETS (EUR '000)	2022	2021
FIXED ASSETS	153 299	145 102
CURRENT ASSETS	6 061	5 225
Debtors	55	55
Investments	5 436	5 072
Cash at bank and in hands	570	98
PREPAYMENTS	57	51
TOTAL ASSETS	159 418	150 378

LIABILITIES (EUR '000)	2022	2021
CAPITAL AND RESERVES	131 679	123 888
CREDITORS	27 738	26 490
TOTAL LIABILITIES	159 418	150 378

Income Statement (EUR '000)

	2022	2021
Gross profit or loss	(608)	(1 207)
Income from participating interests	4 900	3 077
Income from other investments & loans forming part of the fixed assets	446	36
Other interest receivable and similar income	1 258	8 261
Value adjustments in respect of financial assets and of investments held as current assets	7 258	2 239
Interest payable and other similar expenses	(5 453)	(334)
Tax on profit or loss	0	0
Other taxes	(10)	5
Profit or Loss for the financial year	7 791	12 076

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About Velcan:

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

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

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

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

Disclaimer

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

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