

Press Release

Paris, 7<sup>th</sup> May 2008

## Annual results 2007

### **Successful implementation of hydro electric strategy, strong cash position and limited financial loss.**

- Net income: - 1 million EUR
- Net Cash Position: 118 million EUR
- Power project portfolio (as of 31/12/2007): 484 MW
- Of which Hydro Power (as of 31/12/2007): 434 MW

The Velcan Energy Board of Directors meeting April 07, 2008, approved the group results for financial year 2007. The accounts will be submitted for approval to the Annual General Shareholders' Meeting, June 27<sup>th</sup>, 2008.

### **Significant increase in company size, assets, and project portfolio**

	2007	2006 (*)
Operating revenue (k€)	5 932	5 221
Ebitda (k€)	-2 099	-1 486
Net income (k€)	-920	-544
Net Cash and Cash equivalents (k€)	118 238	52 949
Shareholder equity (k€)	145 019	67 477
Number of MW in operations	15	15
Number of MW in construction	15	0
Number of MW in development (**) (***)	484	65

(\*) 21 months

(\*\*) By “in development”, the company means power projects on which it owns a concession or the exclusive rights preparing the award of a concession. It does not include the various deals and projects under evaluation.

(\*\*\*) Since the end of 2007, the group has added one more hydro power project: Quebra Dedo, 16 MW, in Brazil (see press release dated 14/03/2008 for details); not included in this total.

## **Management comment on year 2007**

Jean-Luc RIVOIRE and Antoine DECITRE, Co-Managing Directors declare: “2007 has been an important year for the group. The teams have performed extremely well.

Expecting an ever increasing competition for biomass fuels worldwide, the Group took in 2006 the strategic decision to increase the investments in the hydro electric sector. It has paid off handsomely. The Indian team has obtained a landmark group of hydro concessions in Arunachal Pradesh, of 304 MW. The Brazilian team has started the construction of our first hydroelectric project, the Rodeio Bonito 15 MW power plant. At the end of 2006, the hydroelectric Portfolio was standing at 5 MW. At the end of 2007 it was 434 MW.

To avoid being caught in turbulent financial markets, the management decided early in 2007 to raise funds. This led to an equity increase of euros 80 millions in September and October 2007, coming from a broad base of investors from Europe and the GCC countries.

On the financial side, in 2007 the company operating power plants were two biomass power plants in India, of 7.5 MW each. They generated an annual revenue of Euro 5.4 millions and a net income of 223 k€. Their Ebitda and net income margins have decreased compared to 2006. The increase in technical performance was more than adversely compensated by the increase in fuel prices.

Unless the Group acquires an existing power plant in 2008, the sales of 2008 will still be the ones generated by these two plants. Given the very high prices at which existing hydro power plants are sold (8 to 13 times Ebitda), it is unlikely that the Group will acquire any. The management has considered a number of such deals in 2007. It has always backed out considering the prices too high. The management view is that its shareholders are more interested in the potential high returns of new concessions to be built than the low return provided by debt-laden acquisition of existing power plants. The existing Utilities listed on the various world stock markets offer a diversified way to invest in existing power plants. Therefore unless they bring a strategic interest to the group, the added value for a new player like Velcan Energy to buy such expensive assets was considered too low by the management.

In 2009, the Rodeio Bonito hydro power plant should start operations, adding Eur 4.4 millions in revenues and Eur 3.8 millions in Ebitda to the Group if it performs as expected. The next one to come live should be the Rio das Mortes project (60MW/ Brazil/ Q2 2010) adding Eur 13.6 millions in revenues and Eur 11.5 millions in Ebitda in 2010 to the Group if it performs as expected.

The Group is still in an investment phase and therefore its operating income is negative. The management of the company is dedicated to minimize administrative expenses, most of the resources being allocated to the power projects. This can be seen in the very limited 920 keuros loss of 2007. Since the end of 2007, the management has tried to cover the administrative and business development expenses with the interest on the cash of the company. The net cash outflow (Eur 4.1 millions / unaudited) of the company in Q1 2008 is equivalent to the industrial investments (Eur 3.8 millions / unaudited) of the Group.

The company was created on April the 25<sup>th</sup>, 2005. Hence this announcement marks the end of the first 3 years of existence of the Group. This first phase achievement is a company with 200 dedicated people, almost 500 MW of power projects in two very dynamic countries and a net

cash position of EUR 118 millions. The next three years will be used to work on the existing portfolio to bring it to construction level, and to acquire another significant amount of MW to be developed and built. The whole team thanks the shareholders who have enabled such a venture. They are dedicated to prove that the next three years will also be very beneficial to them. Although repeating the stock performance from 8.50 (October 05) to 32 (May 08) is undoubtedly a challenge.

The power sector in general and the hydro power sector in particular are characterized by a lack of trained human resources compared to market demand. The company will do its best to attract and retain the best talents. It will also keep on adding to its core technical team senior engineers of more than 30 years experience, who find in Velcan Energy an extremely dynamic project oriented atmosphere.

The management philosophy of the Group in the future will not change. It is characterised by a strong entrepreneurial culture, encouraging the teams to be daring and innovative at the operational level. Combined with a very conservative, cash based financial culture. ”

**2007 highlights**

**April 2007**, The Group acquired 2 hydroelectric concessions in Brazil, PCH Rodeio Bonito, 14,7 MW and PCH Rio Das Mortes, 60 MW, barely one year after the set up of the Group’s Brazilian subsidiary, Velcan Desenvolvimento Energetico Do Brazil.

**May 2007**, set up of Velcan Energy Holdings (Dubai) limited, 100 per cent subsidiary of Velcan Energy SA, in the free zone, Dubai International Finance Center. This company is the investment vehicle of the Group for hydropower infrastructure projects in India. This « sub-holding » is also envisioned to be a tool for financing such infrastructure, through very important local financing capabilities (local capital markets, Islamic finance).



**May 2007**, pursuance of operational deployment of teams specialized in hydroelectricity in India, through the new offices in New Delhi and Bhubaneswar, Orissa. Besides production sites, the Group has 6 offices distributed in 4 countries

**May 2007**, The Group signed its first important hydroelectric concession in India, 2 x 25 MW, on the Baitarani river, in the State of Orissa. The projects were obtained and developed by Bhubaneswar office team, Bhubaneswar being the capital of Orissa.

**July 2007**, The Group obtained 4 hydroelectric concessions totalling 304 MW through 4 projects, Heo HEP, Pauk HEP, Hirit HEP and Tato-I HEP situated on two rivers, Yarjep River and Hirit River in Arunachal Pradesh, at the foot of the Himalayas. The concessions

were signed by the subsidiary based in Dubai and the projects held as a result at 100 per cent, will be developed from the operational point of view by the New Delhi team.

**August 2007**, Construction of the hydroelectric plant Rodeio Bonito (14,7 MW) began, only 18 months after the Group set up in Brazil.

**September and October 2007**, Velcan Energy SA, Mother Company of the Group, performs in two stages a 80 Million Euros private placement with investors based in Europe and in the GCC countries, validating the strategy of diversification of financing sources through the creation of a base in Dubai.

## Financial results

<b>Summary Balance Sheet at 31/12/07</b>					
<b>in k€</b>					
<b>ASSETS</b>	<b>31/12/06</b>	<b>31/12/07</b>	<b>LIABILITIES</b>	<b>31/12/06</b>	<b>31/12/07</b>
<b>NON CURRENT ASSETS</b>	<b>15,552</b>	<b>29,172</b>	Equity, group share	67,477	<b>145,019</b>
<b>CURRENT ASSETS</b>	<b>58,880</b>	<b>124,321</b>	Minority interests	-	-
o/w cash & equivalents	56,339	<b>120,803</b>	<b>TOTAL EQUITY</b>	<b>67,477</b>	<b>145,019</b>
<b>TOTAL ASSETS</b>	<b>74,432</b>	<b>153,493</b>	Provisions	420	<b>473</b>
			Financial debts	3,390	<b>2,565</b>
			Other Liabilities	3,145	<b>5,436</b>
			<b>TOTAL LIABILITIES</b>	<b>74,432</b>	<b>153,493</b>

## Summary income statement

in k€

	2006	2007
<b>Revenues</b>	<b>5,221</b>	<b>5,932</b>
<b>Depreciation, amortization &amp; provisions</b>	<b>(514)</b>	<b>(1,913)</b>
<b>Current operating income</b>	<b>(2,000)</b>	<b>(4,012)</b>
<b>Income from operating activities</b>	<b>(2,000)</b>	<b>(4,094)</b>
<b>Financial income (loss)</b>	<b>1,120</b>	<b>2,877</b>
<b>Income tax</b>	<b>336</b>	<b>297</b>
<b>Share in net income of associates</b>	-	-
<b>Minority interests</b>	-	-
<b>Net result, group share</b>	<b>(544)</b>	<b>(920)</b>

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## Cash flow statement

in k€

	31/12/06	31/12/07
Gross cash flow before financial interests and income tax	(1,387)	(1,174)
Income tax	(336)	(297)
Change in operating working capital	(2,751)	(2,052)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>(4,474)</b>	<b>(3,523)</b>
Change in Consolidation scope	(4,468)	(300)
Net tangible and intangible investments	(1,781)	(10,551)
Disposals and other investment flows	(192)	(154)
<b>CASH FLOW FROM INVESTMENTS ACTIVITES</b>	<b>(6,441)</b>	<b>(11,005)</b>
Dividends paid	-	-
Balance of reimbursement of debt / new debt	(2,476)	(630)
Net financial interests	1,170	1,034
Capital increase	68,331	78,708
Other cash flows	-	-
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>67,025</b>	<b>79,112</b>
Impact of currency, accounting practices and other	(34)	103
<b>NET OPENING CASH &amp; CASH EQUIVALENTS</b>	<b>-</b>	<b>56,076</b>
<b>TOTAL CASH FLOWS FOR THE PERIOD</b>	<b>56,076</b>	<b>64,687</b>
<b>NET CLOSING CASH &amp; CASH EQUIVALENTS</b>	<b>56,076</b>	<b>120,763</b>

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The annual report of 2007 will be available from the company's website on May 14<sup>th</sup>.

For information and enquiries, either visit our website at  
[www.velcan.fr](http://www.velcan.fr) or contact the following:

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**ISIN Code: FR0010245803**

**Summary Information on Velcan Energy**

- Velcan Energy is a Nyse Euronext quoted Independent Clean Power Producer which builds and operates medium sized renewable energy power plants in India and Brazil
- The Company's strategy is to become a market leader in up to 100 MW renewable energy power stations in India and Brazil with a particular focus on the hydroelectric sector. Conditions are favourable for this type of plants because:
  - Both countries suffer from serious under capacity in electricity production, particularly India where an estimated 650 million people do not have regular access to electricity
  - Under capacity has led to both national governments liberalizing the state controlled electricity market and allowing increased private and foreign competition
  - Both countries have huge untapped hydroelectric potential; India with an estimated 100,000 MW and Brazil with an estimated 190,000 MW
  - Velcan Energy's goal is to obtain concessions for, construct and begin operation of 1 700 MW between India and Brazil
- As of May 2008, Velcan Energy
  - Has begun operation of 2 biomass power plants in India
  - Is in the middle of the construction of its first hydro power plant in Brazil (15 MW)
  - Owns the rights to 500 MW (484+16) of concessions and projects in India and Brazil.
  - Is undertaking negotiations and investigations to acquire new concessions in India and Brazil.
- Over the lifetime of the concessions, approximately 5% of Velcan Energy's revenue is derived from the trade in carbon credits (CERs) generated, under the Kyoto Treaty, by the operation of renewable energy power plants, and normally sold directly to European and Japanese Industry
- Velcan Energy's technical team is composed of industry veterans and is one of the most experienced in the world in the construction and operation of hydroelectric and thermal power

plants. During the course of their careers, team members have been responsible for or significantly involved in the construction of

- the Itaipu dam in Brazil (14,000 MW, still the biggest hydro power plant in the world)
- the Naptha Jakri dam in India (1,500 MW, still the biggest running hydro power plant of India)
- the Porcheville thermal power plant in France (coal based 2,400 MW power plant, still the biggest solid fuel based power plant in France)
- Velcan Energy is headquartered in Paris, and employs over 200 people, divided between its six administrative offices (Bangalore, Bhubaneswar, Dubai, New Delhi, Paris, and São Paulo), its existing power plants and project sites.
- Reference shareholder of Velcan Energy is Financière Saint Merri SA, which reference shareholder is Crédit Agricole.

### **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 during the financial year closed on 31<sup>st</sup> December 2007. These information constitute objectives attached to projects and shall, in any case, 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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