

THEOLIA Group

The Executive Board's Annual Report 2006

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FREE TRANSLATION – FOR INFORMATION PURPOSES ONLY

The English language version of this translation from the French language original was prepared for your convenience. All possible care has been taken to ensure that the translation is an accurate representation of the original. In the event of any inconsistencies between this document and the French language original, the latter shall prevail.

This Annual Report gives an account of the activities of THEOLIA SA (THEOLIA) and its group made up of the subsidiaries mentioned in item 7.2 (hereinafter referred to as the Group) during the past fiscal year. The fiscal year had the unusual length of 18 months, beginning on July 1, 2005 and ending on December 31, 2006, as a result of a change in closing date in line with the most current practice.

In a report enclosed as an appendix, the Chairman of the Board gives an account of the conditions for preparing and organizing the work of the Board of Directors and the internal audit procedures put in place and applied within the Group, particularly in the accounting and financial information areas. In addition, the Board of Directors issues its report for the general shareholder meeting, which is being published within the legal time limits together with an invitation to the meeting. In it the Board explains the reasons for the motions submitted to the vote of the shareholders.

1. Activities of the THEOLIA Group during 2005 - 2006

The consolidated accounts of the Group were examined by the Audit Committee and the Board of Directors and subsequently approved by the Board of Directors in its meeting of April 20, 2007, in the presence of the auditors.

The fiscal year 2005-2006 was a year of new beginnings for THEOLIA. Thanks to the dynamics inspired by the first capital increases and acquisitions undertaken in 2004-2005, the Group has been able to tap into new growth opportunities.

The confidence of the investors and the credibility acquired by the Group enabled it to accelerate its growth and restructure its teams.

During this exceptional fiscal year, the Group was able to bring together the flexibility and the structures that are essential for managing growth. This new structure will allow THEOLIA to ensure the continued success of its growth strategy.

This fiscal year was primarily dedicated to external growth activities made possible by the funds raised in the course of the year.

The external growth activities of the past fiscal year were aimed at the international market, the cornerstone of THEOLIA's growth having been laid in France in May 2005 with the acquisition of Ventura, a wind power development company and a major player in the development of wind farm projects in France. As a result the Group also started the construction of wind farms in France where its Ventura subsidiary has developed many projects.

At the same time THEOLIA undertook several other activities during the fiscal year that will be important for its growth. These activities, primarily financial, are the following:

- capital increase per March 1, 2006 totalling € 25,019,000;
- capital increase set aside for the company Go Capital per April 14, 2006 totalling € 30,000,000;
- Implementation of a capital increase programme by way of exercising options (Capital Increase Programme through the Issuance of Options) with Société Générale, followed by the subscription of shares for a total amount of € 47,029,000.

Lastly, on July 31, 2006, THEOLIA, previously listed on the Marché Libre (Over-the-Counter) Market of Euronext Paris, transferred its shares to the regulated market Eurolist by Euronext, section B.

1.1 External growth activities: an international opening

Natenco

On December 13, 2006 THEOLIA took control of the German group Natural Energie Corporation (Natenco) for a price of € 108.3 million, plus acquisition expenses of € 1.2 million for a total amount of close to € 110 million.

In 2005 Natenco operated 137 wind energy facilities for a total output of 157 MW, with the following breakdown:

- Germany: 127 wind energy facilities totalling 151 MW;
- France: 10 wind energy facilities totalling 6 MW.

Natenco is in the business of buying and selling as well as building small-output wind power stations for sale above all to individuals.

During 2006 Natenco managed wind farms belonging to third parties (161 MW) and also operated wind farms for own account (20.9 MW). Thanks to this acquisition, the Group strengthened its position in Germany and has now a presence in India, the Czech Republic and Brazil.

THEOLIA Deutschland

On November 25, 2005 THEOLIA, acting for the account of its subsidiary THEOLIA Deutschland GmbH, signed an agreement with the German developer PROWIND with a view to acquiring three wind farms in Germany. PROWIND, based near Munster, has built more than 65 MW for third-party investors since 2000. It will operate these three wind farms together with THEOLIA Deutschland GMBH.

These three power generation stations have a total output of 28.5 MW.

Two wind farms are already in operation currently:

- the LADBERGEN facility with an output of 6 MW, in operation since October 2005;
- the SAERBECK facility with an output of 8 MW, in operation since May 2006.

The transfer of ownership in the third wind farm is being finalised. This is the SEDENHORST facility with an output of 14.5 MW, in operation since July 2006.

The three stations represent a total investment of € 33.8 million for 28.5 MW, distributed between equity (approximately 20%) and senior debt financing (approximately 80% from banks). THEOLIA benefits from the financing already arranged by PROWIND for these three wind farms.

THEOLIA, acting for the account of its subsidiary THEOLIA Deutschland GMBH, also signed a general takeover agreement on March 17, 2006 for the acquisition of a wind farm of 6 MW in the state of Brandenburg.

The WERBIG project, covering two Enercon E82 turbines of 2 MW and an E70 turbine of 2 MW, was built and put into service for THEOLIA at the end of 2006 by the company BEC at a capital cost of € 9.4 million.

In Germany, the law on renewable energy (Erneuerbare Energien-Gesetz) of March 29, 2000, amended on July 21, 2004, specifies a fixed tariff for purchase by the utilities of the electricity produced by the wind farms. These fixed-price contracts run for 20 years.

THEOLIA Iberica SL

In March 2006 THEOLIA Participations SAS proceeded to purchase 80% of Kylosovamen SL, a company incorporated under Spanish law with its head office in Barcelona, a participation that was increased to 100% in July 2006. On April 14, 2006 THEOLIA signed two letters of intent for the account of its subsidiary THEOLIA Ibérica for 3 wind farm projects (totalling 29 wind turbines) with a total output of up to 72.5 MW to be located in Almería. This operation has the advantage of coming with building permits that cannot be revoked. The appointment of a Managing Director in Spain made it possible to clarify the situation at certain building sites. As of today, the construction of the electric line owned by the subsidiary ASSET ELECTRICA is proceeding at a satisfactory pace. This electric line will make it possible to connect the wind farm to the utility network.

THEOLIA Benelux

During the general shareholder meeting of February 24, 2006 ENERGO carried out a capital increase reserved primarily for THEOLIA, which subscribed shares totalling € 1,983,450. The capital was increased from € 1,680,900 to € 3,858,950 euros while at the same time the meeting decided to change the name of the company to THEOLIA Benelux.

By way of a deed signed May 22, 2006, THEOLIA acquired the shares held by the former minority shareholders (except AEK). The distribution of the capital of THEOLIA Benelux henceforth is as follows:

- THEOLIA SA (France) : 91.01%
- Former shareholders of ENERGO 3,43%
- AEK : 5,56%

In December 2006 THEOLIA Benelux acquired 51% of the shares in POLARGEN for an amount of € 5.1 million. This company specialises in the development and the management of cogeneration facilities in the horticultural sector in Belgium and the Netherlands.

THEOLIA Benelux brings to the group industrial expertise on cogeneration projects operating on the basis of renewable resources (biogas) and natural gas.

THEOLIA Benelux is also in the business of developing and operating these units, and of trading the electricity and the green certificates produced and obtained in the process. Currently THEOLIA Benelux trades the electricity it produces on the exchange (APX) in order to be able to price and sell the corresponding green certificates.

The following table shows the wind farms currently in operation and under construction

Nom	Country	Installed capacity (MW)	Status
Biocogen	Belgium	1,40	September 2005
Valmass	Belgium	1,70	Under construction
Groeikracht Merksplas nv	Belgium	2,80	Phase I: October 2004 Phase II: June 2006
Groeikracht Boechout nv	Belgium	5,26	Flex9a: June 2005 Flex9b: August 2006
Groeikracht de Markvallei nv	Belgium	7,52	July-2006
Groeikracht Etten-Leur bv	Netherlands	2,43	January-2006
Groeikracht Broechem nv	Belgium	1,82	August-2006
Groeikracht Butenpole bv	Netherlands	4,00	January-2007
Groeikracht Marvado nv	Belgium	3,26	Under construction
Groeikracht Waver nv	Belgium	1,75	Under construction
Groeikracht de Blackt nv	Belgium	2,04	Under construction
Total		33,98	

THEOLIA Canada

THEOLIA Canada was established in 2006. THEOLIA Canada signed a comprehensive memo of understanding which envisages the installation of hydroelectric stations on 2 rivers of North Quebec with a production capacity ranging from 250 to 350 MW over 6 years. The capital spending program associated with this operation has the potential to represent more than 800 million euros over the 6 next years.

By the same token THEOLIA Canada is working with the municipality of Chandlers on the development of a biomass cogeneration facility of 20 MW in Gaspésie and seeks to identify sites favourable for wind power development in consultation with the municipality.

Other external growth activities

In July 2006 THEOLIA also founded a subsidiary called T.O GREEN within the framework of the growth of its acti-

vities in the countries of Eastern Europe. This subsidiary, in which THEOLIA holds 50%, is currently in the process of being sold following the acquisition of Natenco and its Czech subsidiary.

On March 1, 2006 THEOLIA became the majority shareholder of Granit, a company incorporated under Swiss law specializing in the treatment and recycling of waste. The objective of this operation was to create an environmental core business of international proportions.

In September 2006, noting the divergent strategic goals, the Management of THEOLIA signed a memorandum of withdrawal with the managers of Granit under the terms of which THEOLIA takes back the ownership of the assets in kind brought into the company in March 2006. At the accounting level this is a neutral operation for the Group.

Finally, in November 2006 THEOLIA acquired Biocarb, a Swiss company specializing in the production of biofuels. This operation is currently being finalised.

1.2 Construction projects: the restructuring of assets in France

In tandem with this external growth, the Group was able to implement a strategy of building its own wind farms resulting from the acquisition of the company Ventura at the end of the preceding fiscal year.

As of December 31, 2006 the progress report of the principal projects was as follows:

Wind farms in operation

Name	Output	Start-up date
Centrale Eolienne de Fonds de Fresnes	10 MW	July 2006
Centrale Eolienne de Séglien	9 MW	December 2006
Total	19 MW	

Wind farms under construction

Name	Output	Projected start-up date	Own/third-party account
Centrale Eolienne des Sablons	10 MW	2nd quarter 2007	Own account
Centrale Eolienne des Plos	11,5 MW	4th quarter 2007	Own account
Centrale Eolienne du Puech	11,5 MW	4th quarter 2007	Third-party acct.
Centrale Eolienne de la Fage	4,6 MW	4th quarter 2007	Third-party acct.
Centrale Eolienne des Pins	2,3 MW	4th quarter 2007	Third-party acct.
Centrale Eolienne de Moulin de Froidure	12 MW	4th quarter 2007	Own account
Centrale Eolienne de Sallen	8 MW	1st quarter 2008	Own account
Total	59.9 MW, of which 41.5 MW for own account		

Authorised wind farms

Name	Output	Own/third-party account
Centrale Eolienne de Ronchois	30 MW	Own account
Centrale Eolienne du Grand Camp	10 MW	Own account
Centrale Eolienne du Bois Chenau	10 MW	Own account
Total	50 MW	

These wind farms are nearing the end of the financing phase, the orders for wind turbines will be placed before the end of the 1st quarter of 2007.

All the activities described above have changed the structure of the Group incisively, making the comparison of the results from one fiscal year to the next impossible, without even mentioning the differing lengths of the fiscal year.

1.3 Consolidated revenue of the Group

The consolidated revenue of the Group as at December 31, 2006 was € 70,986,000, showing an increase of 1,763% over the previous fiscal year. The reason for this increase lies in the external growth activities implemented by the Group and in the start-up of the first wind farms built for own account.

The breakdown of this revenue by business sector is as follows

in '000 €

Revenue by activity	31/12/2006	30/6/2005
Construction and sale of wind farms	53,059	0
Sale of electricity of wind origin	3,273	0
Non-wind-related activities	14,655	4,026
Total	70,986	4,026

Natenco is essentially in charge of all sales activities regarding wind farms. Even though the acquisition of this company was finalised in December, the revenue recognised in the accounts exceeds € 50 million. For tax reasons the customers of Natenco finalise the major portion of their transactions at the end of the year.

Furthermore, THEOLIA for the first time during this fiscal year sold electricity of wind origin in the amount of €3,273,000, bringing thereby to fruition some of the projects developed in previous years. This revenue comes in fact from the sale of electricity from the wind farms Fonds de Fresne and Seglien, but also from the sale of the electricity produced by Natenco between December 13 and December 31.

Lastly, the substantial growth of the non-wind activities bears mentioning, due in large part to the acquisition of THEOLIA Benelux. The non-wind activities include the environmental activities based in France, the biomass, biogas and cogeneration activities developed in Belgium and the Netherlands as well as the thermal power plants located at Florensac and Pineuilh.

The breakdown of revenue by geographical area is as follows

in '000 €

Turnover by geographical area	31/12/2006	30/6/2005
France	14,161	4,026
Germany	51,497	
Rest of the world	5,327	
Total	70,986	4,026

The preponderance of the German activities shows up very clearly in the preceding table, aside from highlighting the increase of our activities in France and the start-up of the activities in Belgium.

1.4 Consolidated income statement of the Group

The comparable income statement for the fiscal years 2005-2006 and 2004-2005 is as follows

in '000 €

	Notes	31/12/2006 (18 months)	30/06/2005 (12 months)
Revenue	26	70,986	4,026
Purchases and changes in inventory		-48,984	383
External charges		-14,301	-3,305
Taxes and levies		-729	-164
Personnel expenses	28	-9,993	-1,241
Depreciation and provisions		-3,204	-230
Other fixed operating income and expenses	27	-145	-406
Gross operating result		-6,370	-937
Other variable operating income and expenses	29	-1,568	356
Net operating result		-7,938	-581
Net cost of financial debt	30	-488	-125
Other financial income and expenses	30	1,060	19
Share of the results of companies consolidated under the equity method	12	62	0
Tax liabilities	31	3,131	729
Net profit (loss)		-4,174	42
of which Group part		-4,414	41
of which minority interests		240	1
Profit (loss) per share		-0.28	0.00
Diluted profit (loss) per share		-0.24	0.00

The analysis of the profit (loss) for the year by activity is as follows

in '000 €

	Construction, sale of wind farms	Wind energy	Non-wind	Total
Revenue	53,059	3,273	14,655	70,986
Purchases and inventory changes	-42,907	-49	-6,028	-48,984
Capitalised production costs	414	-217	-197	0
Gross margin	10,566	3,006	8,430	22,002
External charges	-4,830	-2,439	-7,031	-14,301
Personnel expenses	-3,314	-1,520	-5,159	-9,993
Taxes, levies and like payments	-249	-152	-328	-729
Other income and expenses	-39	-732	626	-145
Other operating income and expenses	-430	-477	-661	-1 568
EBITDA	1,704	-2,314	-4,124	-4,734
Net depreciation and provision allowances	-282	-959	-1,963	-3,204
Operating profit (loss)	1,422	-3,273	-6,087	-7,938
Net financial costs	768	-518	322	572
Share of the net results of companies consolidated under the equity method	0	-7	69	62
Taxes	-499	1,887	1,742	3,131
Net profit (loss)	1,691	-1,911	-3,954	-4,174
of which Group part	1,708	-1,827	-4,294	-4,414
of which minority shareholders	-16	-84	340	240

This analysis shows that the wind activities in their entirety reached the break-even point during this fiscal year.

In spite of the above, the profitability to this date is still greatly impacted by the weight of the structuring expenses, in particular the contributions of the holding company. This effect will be reduced appreciably with the start-up of new wind farms.

It is important to remember here that the Group wanted to give itself a structure compatible with its long-term development objectives. For THEOLIA this means being able to anticipate future growth and integrate as best and as quickly as possible the subsidiaries and projects it will have the opportunity to acquire in the future. Setting up the appropriate structures is crucial for this purpose.

The gross margin achieved over the period totals € 22,002,000 and comes primarily from the sale of wind farms and from non-wind activities. The breakdown between wind activities and non-wind activities is € 13,572, 000 and € 8,430,000 respectively.

The strong gross margins in the non-wind activities are due in part to the margins achieved on waste processing. However, the recourse to subcontracting, shown under external expenses, weighs heavily on these margins. The sale of green electricity derived from biomass, biogas and cogeneration activities as well as the sale of electricity produced by the thermal power plants are also generating strong margins.

Although the total EBITDA (calculated on the basis of the gross result from ongoing operations) come to € -4,734,000, it is nonetheless opportune to note that it is positive on the sale of wind farms to the tune of € 1,704,000. The sale of electricity of wind origin has not yet reached the level of turnover necessary for absorbing the structural costs incurred as a result of the vigorous growth of the Group. It had an EBITDA of - € 2,314,000.

The difficulties in making the non-wind activities profitable are evident for environmental activities, and more particularly for the company Ecoval Technology. The latter, involved in the turn-key construction of water and waste treatment plants, has been through a difficult fiscal year. Certain markets resulted in losses, following an inflation of construction costs.

The strategy of external growth and construction for own account followed by the Group translates therefore logically to a negative operating result, which underlines the fact that 2005-2006 was a year that was entirely geared to investment in financial, human and organizational resources.

1.5 Pro forma income statement of the wind activities

It is also particularly interesting to show the Group's pro forma income statement for wind activities in calendar year 2006. This income statement, presented over a 12-month period to reflect as closely as possible the activities of the Group over the course of a traditional fiscal year, is presented in such a way that all acquisitions made by the Group are considered effective as of January 1, 2006. It thus reflects what would have been the activities of THEOLIA if it had owned all its wind energy subsidiaries starting from the beginning of the year. Taking into account this recalibration implemented by THEOLIA, the pro forma result is presented by focusing only on the wind activity.

	in '000 €
	31/12/2006 (12 months)
Revenue	141,090
Purchases and inventory changes	-85,203
External charges	-42,649
Taxes and levies	-33
Personnel expenses	-6,394
Depreciation and provisions	-3,709
Other income from ongoing activities	1,935
Other fixed operating income and expenses	-72
Gross operating result	4,964
Other variable operating income and expenses	-1,492
Net operating result	3,472
Income from cash and cash equivalents	2,167
Gross cost of financial debt	-4,184
Net cost of financial debt	-2,017
Other financial income and expenses	1,993
Result from companies consolidated under the equity method	0
Tax liabilities	1,843
Net profit (loss)	5,291
of which Group part	5,228
of which minority shareholder interests	62

It is noted that the pro forma result of the activities is positive. The EBITDA of the wind energy activities is € 7,182,000 on revenue of € 141,090,000, resulting in a positive bottom line of € 5,228,000 (Group share).

1.6 Cashflow

The Group exerted much effort during this fiscal year in raising funds to ensure its external growth, apart from any recourse to LBO-type financing. Indeed, the logic of the Group in taking on debt is to concentrate its recourse to the financial markets long-term on the programme support companies.

This financial policy gives the Group greater flexibility in a market that is in constant flux: following this principle, the holding company does not carry any debt, giving it more leeway for action.

This flexibility is one of the key factors of the success enjoyed by THEOLIA.

The cashflow statement that follows illustrates this investment policy followed in the course of the past fiscal year

The breakdown of revenue by business sector is as follows

in '000 €

Revenue by activity	31/12/2006	30/6/2005
Total net result of the consolidated companies	-4,174	42
Elim. amortization, depreciation and provisions	1,895	952
Elim. changes in deferred taxes	-3,131	-1,003
Elim. surplus or shortfall upon sale	-415	
Elim. portion of results from companies consolidated under the equity method	-62	
Other income & expenses not affecting cashflow	3,939	-117
Gross margin of self-financing (A)	-1,946	-126
Dividends from companies consolidated under the equity method		
Impact of the change in BFR [working capital requirements] related to the activity (B)	-190	-7,341
Disbursed corporation taxes	-2,161	
Cashflow from ongoing operations (a) = (A+B)	-4,298	-7,467
Acquisitions of fixed assets	-53,031	-10,285
Disposals of fixed assets	3,198	
Loan changes	621	
Impact of variations in scope	-68,650	-3,401
Net cashflow generated by (attributed to) investments (b)	-117,862	-13,686
Dividends paid to minority shareholders	-23	
Treasury stock	-431	
Capital increase (decrease)	139,147	27,315
Loan subscriptions and other liabilities	37,053	3,941
Repayment of loans and other liabilities	-8,208	-1,050
Other	-1,531	
Advance payments to shareholders		10,080
Net cashflow generated by (attributed to) financing (c)	166,007	40,286
Impact of the variations in foreign exchange rates		
Change in cash and cash equivalents (d) = (a)+ (b)+ (c)	43,847	19,133
Net cash and cash equivalents at the beginning of the fiscal year	19,295	162
Net cash and cash equivalents at the end of the fiscal year	63,142	19,295
Change in cash and cash equivalents	43,847	19,133

The net amount of the investments is € 117,862,000. These investments are divided into two distinct categories: construction activities, considered as acquisitions of fixed assets, and external growth activities.

Acquisitions of fixed assets amounted to € 53,031,000 and were financed primarily through loans.

The external growth activities, whose impact on the cashflow amounted to € 68,650,000, were financed through equity capital.

The cash put into financing demonstrates this policy clearly, with the loan subscriptions amounting to € 37,053,000 and the entire amount of the capital increases invested in external growth coming to € 139,147,000. The surplus shows up in the cash available at the end of the fiscal year.

1.7 Patronage and sponsorship

In 2005 THEOLIA signed a sponsoring contract with Wind Machine SARL for the purposes of sponsoring the navigator Robert Nagy for one season of Championnat de France Solitaire 2006. This partnership, renewed for 2007, highlights the values of perseverance and ambition represented by THEOLIA: for THEOLIA and Robert Nagy, the ultimate success is being able to manage and control the "forces of nature".

The cost of this sponsorship for 2006 was € 100,000.

2. Perspectives

THEOLIA sees excellent prospects for the future in an ambitious development strategy, a renewed focus on wind energy and worldwide industrial partnerships.

Ambitious development strategy - Drawing strength from international expansion.

In line with the results for the fiscal year 2005 - 2006 and the dynamics they represent, the Management confirms its ambitious growth strategy for 2007.

THEOLIA aims to become one of the European leaders in wind energy.

In order to benefit from the growth phase this market is in, the strategy of the Management consists in focusing on the production of electricity from wind energy, in particular by further strengthening its portfolio of projects in France and abroad (mainly in Europe).

After the takeoff in France, THEOLIA looks for dynamic growth in Spain, Greece, Italy, the Czech Republic and, outside of Europe, in Canada, India and Brazil. In addition, THEOLIA is currently studying projects in many other countries.

In fact, THEOLIA intends to draw its strength from international expansion and take positions in countries which offer both natural potential and a favorable regulatory environment.

To be successful internationally, THEOLIA will rely on a local operating mode: alliances with local operators who know the intricacies of the market, capital-sharing partnerships or acquisitions of local operators.

For growth, THEOLIA intends to strengthen its external growth activities in the various wind energy segments beyond its current portfolio of projects. As a minimum, the Group intends to increase its capacity to produce electricity from wind energy by 150 MW each year starting in 2007 and lasting until 2010.

To make this happen, THEOLIA will focus on:

- the acquisition of firm building permits;
- the acquisition of wind farms in operation (external growth);
- the development, construction and operation of the portfolio of wind farms through the companies Ventura and Natenco, which represent several hundred MWs, and also through other developers that the company might eventually acquire.

Focusing on wind activities

In view of the focus on the production of wind energy, the Management currently has plans to allow third parties or industrial partners to invest in its subsidiary THEOLIA Benelux, which will combine, following this renewed focus, all production activities for renewable energy other than wind energy.

The objective for THEOLIA is to concentrate its resources on the production of energy on the basis of wind energy.

Partnerships with industrialists worldwide

Management plans to implement a partnership agreement signed on February 13, 2007 with the General Electric group.

This agreement provides that THEOLIA will acquire the European wind farms of General Electric Energy Financial Services with a total installed capacity of 165 megawatts. The wind farms are located at Alsleben, Krusemark, Grossvargula and Zabelsdorf in Germany, and feature 66 RE Power turbines of 1.5 MW and 44 GE Energy Financial Services turbines of 1.5 MW. This entire portfolio corresponds to the power consumption of 70,000 households and represents a reduction in greenhouse gas emissions of 350,000 tons per year.

Thanks to this acquisition, THEOLIA will strengthen its position in the German market and will endow NATENCO, its local subsidiary, with new growth opportunities.

THEOLIA and GE Energy Financial Services will cooperate in various areas, thereby creating value for both partners. On the one hand, GE Energy Financial Services will give priority to THEOLIA in exploring growth opportunities for wind farms in Europe, thus increasing the potential for growth. On the other hand, THEOLIA will benefit from the know-how and capabilities of the GE group in project financing and will have access to its products and services in the energy field. GE Energy Financial Services will have a seat on the Board of THEOLIA.

This cooperation will allow GE Energy Financial Services to identify new investment and development projects for wind energy and take advantage of the expertise of THEOLIA's management team, the European specialists in the growth market for renewable energy.

This agreement was notified to the proper antitrust authorities and will be implemented in particular under the condition precedent of the approval of the antitrust authorities.

3. Research and development

During fiscal year 2005-2006 THEOLIA did not make any investment in research and development with the exception of the amount of € 193,000 allocated to R & D within the "Environmental Core Business" in the context of the work undertaken for a colorimeter in the fiscal year ending December 31, 2006.

4. Major risk management

The internal control of the Group, which is based on written documents, procedures and good practices, aims to create and maintain an organization that allows for the prevention and control of risks, in particular economic, financial and legal risks to which THEOLIA and its subsidiaries in France and abroad are exposed. However, there is never any absolute guarantee for an absence of risk.

THEOLIA's growth

THEOLIA, which is currently going through an investment phase, has experienced rapid growth, in particular thanks to the acquisitions carried out in 2005 and 2006.

By putting in place the proper structures and by relying on the expertise of its partners and service providers, THEOLIA intends to significantly reduce the risks inherent in a strategy of rapid growth. The Company relies on its experience to succeed in the construction and operation phases of its projects and to successfully integrate its new acquisitions. However, there is no guarantee that the Company will be able to successfully integrate the acquired companies within the specified deadlines.

Dependence on managers and key employees

The future success of the Group depends to a large extent on the total involvement of its principal managers. The Company depends in particular on Jean-Marie Santander, Chief Executive Officer and shareholder of the Company, for its growth as well as for defining and implementing its strategy.

Furthermore, the future success of the Company depends on its ability to retain and motivate its key employees and to attract highly qualified employees. This is the reason why the Company has instituted a salary bonus programme.

Partnerships

In several countries, and specifically in Brazil and in India, the Group is developing, or may develop, its activities through partnerships with local agents who have a good knowledge of the local production of wind energy.

These partners are specifically in charge of prospecting and implementing new projects. Within this framework the Group might hold a minority interest in the THEOLIA company called upon to carry out the project, which might be managed by the local partner.

This risk is covered in theory by entering into associate covenants that limit the range of possible conflicts and determine how they will be settled. These tools are set up under the control of local committees.

Competition with other producers of electric power on the basis of renewable energy

The Group is preparing for an increase in competition. The fact is that various players already present in the market or new entrants could possibly compromise the growth prospects of the Company.

Some competitors might have more financial clout than the Company, enabling them to acquire new projects and increase market share. Such increased competition could bring about a rise in the cost of acquiring projects.

This is why THEOLIA places so much emphasis on consolidating and developing its network of international partners, enabling it to increase the number of its MW under development. Moreover, setting up industrial and financial partnerships with companies operating worldwide will allow the Group to limit the risks related to competition.

Suppliers

The Group is involved in the turn-key construction of wind farms via its subsidiaries Ventura and Natenco. These projects require the delivery and the assembly of many technical components such as masts or wind turbines. Only a limited number of suppliers are in a position to supply these technical components to the Group.

There are three main supplier risks:

- in view of the increase in demand related to market growth, and considering the limited number of suppliers, there is the risk of a price inflation of these components;
- there is also the risk that the suppliers will no longer be able to meet the demand of the Company and therefore will favor the most important players in the market. No guarantee can be given as to whether the main suppliers of the Group will be able to fulfill their commitments within the agreed timelines;
- THEOLIA believes that within the framework of its wind energy activities the choice of supplier will more and more depend on the supplier's ability to take over the maintenance of the installations. For each wind farm construction and operation deal, the Company signs long-term maintenance contracts with the suppliers of the wind energy equipment which allow for compensation in the event of failure of the installations, guaranteeing 95% to 98% of the annual production.

This is why THEOLIA is intent on signing multi-year master contracts with certain manufacturers of wind turbines who are in their growth phase. The Group thus limits the risk of price inflation and shortage of turbines while optimizing maintenance costs.

Changes in the regulatory environment

The regulations that apply to the production of electricity on the basis of renewable energy sources may change in the future with unfavorable results for the Group. There is no certainty that these changes will not involve additional costs or that they will be attuned to the growth model of the Group.

The Group has embarked on a strategy of international production in countries offering favorable regulatory conditions in addition to real potential for wind energy.

This strategy of geographical diversification aims at limiting the exposure of the Group to unfavorable regulatory changes at the local level.

Legal risks

The group is, or is likely to be, involved in a certain number of court proceedings in the normal course of its activities. Damages are or might be assessed within the framework of some of these proceedings. The Company currently believes that the nature and the amounts involved in litigations in progress or in potential litigations do not justify setting up additional provisions and are not likely to affect its consolidated financial position to a significant degree in the event of an unfavorable outcome.

The Company is not aware of any other governmental, legal or arbitration proceedings, either pending or imminent, that might have a significant effect on the financial position or the profitability of the Company and/or the Group.

Insurance and risk coverage

The Group has set up a policy of covering the major risks related to its business provided they can be insured, subject to the usual deductions or exclusions imposed by the market.

However, no guarantee can be given that the insurance policies of the Group will be sufficient to cover possible losses resulting from a major decline in the production of electric power by the Group due to damage caused to several wind farms, from an absence of substitute solutions or from delays necessary for making repairs or substitutions. If the group were faced with a major loss that is not insured or exceeds the ceiling of the guaranteed indemnities, the costs incurred by the Group and not covered by the insurer of the Group could have a significant unfavorable impact on its business and/or its financial position.

It should be pointed out that the insurance policies contracted by the companies of the Group are regularly audited within the framework of the planned project financing.

The Company has contracted with the insurance company **AIG Europe** coverage for business and professional civil liability, protecting the companies of the Group from monetary damages under civil liability which they might incur due to physical, material or immaterial injuries resulting from their activities. This guarantee covers in particular any losses caused to third parties by the companies covered by the insurance contract or by things in their custody.

The Company takes out insurance policies for the benefit of its wind farms during their construction phase:

- the various construction site risks known as "Construction Site All Risks": for the construction period until delivery of the facility, this insurance covers all those participating in the construction, including the financial institutions if necessary, and covers all material damage, including fire, breakdown of machinery, explosions in the facility (material and civil engineering) and all financial losses in the wake of a material damage or breakdown;
- "freight" insurance: in certain cases, the Company chooses to also take out "freight" insurance covering any material damage to transported goods constituting "strategic" freight because of the magnitude of the consequences for the construction progress and the consequential financial losses; and
- a "workmanship" insurance.

Moreover, the Group contracts for new insurance coverage at the start-up of operations. These cover in particular fires and related risks, breakdown of machinery, operating losses, civil liability of the business and natural disasters.

5. Social and environmental information

5.1 Social information

Pursuant to the article L 225-102-1 of the Commercial Code, THEOLIA must include in its annual report information about the way in which THEOLIA takes into account the social consequences of its activities during 2005-2006.

Human resources policy

The Group strives to locate, develop and reward talent, to continually increase its attractiveness and to manage careers in a responsible manner.

The human resources policy of the Group has 2 major thrusts:

- to continually adapt the jobs and abilities that are necessary for the success of the Industrial Projects of the Group and for progress in the workplace, while continuing an active policy of optimizing resources,
- to motivate the employees of the entire Group by offering them attractive working conditions, professional development and a share in the profits of the company, in particular within the framework of a bonus share programme.

Current employees and new hires

The total staff of the Group as of December 31st, 2006 was 172 people, including 16 at the head office of THEOLIA, the remainder being distributed among the French and foreign operating subsidiaries.

THEOLIA hired 12 new employees for an indefinite period and dismissed 6 people, including one person physically unfit for the job.

The Group does not have any difficulties with recruitment, be it for executives or for other personnel categories.

Bonus share award programme for keeping key employees

Employees and executives share with the shareholders the confidence in THEOLIA's strong and enduring growth prospects.

The mixed general meeting of October 13, 2006 authorised the Board of Directors to proceed with the free attribution of THEOLIA's existing or yet to be issued shares to the salaried employees and/or executives.

It allowed the Board of Directors the greatest possible flexibility in order to encourage and motivate the beneficiaries, whatever the context.

During the fiscal year the Board allocated 257,500 bonus shares to 6 salaried employees, of which 100,000 to a director and 150,000 bonus shares to the Chief Executive Officer.

THEOLIA did not allocate stock options or purchase shares for its employees.

5.2 Environmental information and sustainable development

Environmental information

Pursuant to the article L 225-102-1 of the Commercial Code, THEOLIA must include in this Report information about the way in which THEOLIA takes into account the environmental consequences of its activities. When a building permit is granted, the Company looks at the environmental consequences of each wind farm project in strict compliance with all legal and regulatory norms. The care taken in integrating a facility with the landscape, the thorough attention paid to the natural and human environments, the separation and reuse of waste during the construction period, the prevention of pollution risks and oversight over the subcontractors, the measurement and monitoring of the environmental impact (for example with regard to noise levels) are systematically planned for each wind energy project in each subsidiary of the Group.

Moreover, specific actions in favor of the environment such as an ornithological survey, the protection of the nature

zones near building sites, the restoration of the natural environment, an ecological management plan within regional parks etc. are undertaken each time a wind energy project is set up. Last but not least, with the start of each wind energy project THEOLIA makes plans for the restoration of the site at the end of the operation in accordance with the regulations in force, both in technical and financial respects.

Sustainable development

By its actions the THEOLIA Group has shown that environment and economy are not mutually exclusive. The Group proudly positions itself as a European player in the field of sustainable development.

Beyond its financial results and the success of its economic model, THEOLIA is developing its business by respecting a framework of values shared by all its employees. The conduct of the Group conforms to a code of conduct based on ethical principles, the founding principles at the heart of the creation of THEOLIA. The Group is putting the finishing touches on an ethics charter.

The business of THEOLIA, the production of green energy, is essentially a means of ensuring the protection of the environment for sustainable development.

6. Significant events that occurred since the close of the fiscal year.

6.1 Cooperation agreement with General Electric Financial Services

On February 13, 2007, an industrial partnership agreement was signed with General Electric Energy Financial Services, the investment vehicle of the General Electric group in the energy sector.

Under this agreement, THEOLIA will acquire the European wind farms of GE Energy Financial Services with a total installed capacity of 165 megawatts. GE Energy Financial Services will receive 5,250,000 new shares in return for its contribution. Moreover, GE Energy Financial Services will support THEOLIA's strong growth by a reserved capital increase of € 20 million in exchange for 1,212,000 new shares and by the allocation of options (BSA [share subscription warrants]) which will enable it to acquire 3,000,000 additional THEOLIA shares. Consequently, in the long term the participation of GE Energy Financial Services could reach 22% of equity.

6.2 Refocusing the business on wind energy

The sub-group THEOLIA Benelux, renamed THENERGO, will combine all non-wind activities of the THEOLIA Group, in particular by taking over all environmental activities of the Group. This operation is the prelude to a capital increase of € 70 million which will precede the transfer of THENERGO to Alternext Département Etranger in the course of May 2007.

7. Report on the financial statements of the Company

The fiscal year of THEOLIA covered the period from July 1, 2005 to December 31, 2006. It was characterised by many external growth activities, the majority of which consisted of the acquisition of stock.

SCI CS2M

The company CS2M, 99% of which the Company already owned, became a wholly-owned subsidiary on October 1, 2005 following the purchase of the stake held by minority shareholders. This had no noticeable effect on the accounts at December 31, 2006.

CEFF

In August 2005 THEOLIA's interest in the programme support company CEFF was sold to SAS Royal Wind, which now is the sole owner. This operation was made necessary in the context of financing the construction of the wind farm.

Premium on Ventura stock

In May 2006 THEOLIA signed an agreement concerning the companies CEPLO, CEMDF and CESA, wholly-owned subsidiaries of Ventura (itself a subsidiary of which THEOLIA owns 99.42%). This agreement lies within the scope of the protocol signed in May 2005 with Messrs. Le Saulnier de Saint Jouan, Guyot and Bouffard (referred to as the minority shareholders), which provides that the wind projects developed by Ventura and placed in a project support company will be owned by Ventura to the extent of 80% and the minority shareholders to the extent of 20%.

The signed agreement formalises the surrender by the minority shareholders of the rights to hold 20% of the capital of companies CEPLO, CEMDF and CESA.

This transaction amounted to € 816,000 and is comparable to a 20% premium on Ventura stock

Natenco

On December 13, 2006 THEOLIA took control, via its T-Nat subsidiary, of the German group Natural Energie Corporation (Natenco) for a price of € 108.3 million, plus acquisition expenses of € 1.2 million for a total of € 110 million.

The acquisition covers:

- 100% of the stock of Natenco GmbH,
- 100% of the stock of Natenco SAS,
- 20.72% of the stock of Wolgast OHG (the balance belongs to Natenco GmbH).

With this acquisition the Group is strengthening its position in Germany and has now a presence in India, the Czech Republic and Brazil.

THEOLIA Deutschland GmbH

On behalf of its subsidiary THEOLIA Deutschland GmbH, THEOLIA on November 25, 2005 signed an agreement with the German developer PROWIND with a view to acquiring three wind farms in Germany. PROWIND, based near Munster, has built more than 65 MW for third-party investors since 2000. It will operate these three wind farms on behalf of THEOLIA Deutschland GmbH.

These three wind farms produce electrical power totalling 28.5 MW:

Deux centrales sont d'ores et déjà acquises

- the LADBERGEN facility with an output of 6 MW, in service since October 2005;
- the SAERBECK facility with an output of 8 MW, in service since May 2006,

Concerning the third wind farm, the transfer of title is currently being finalised. This is the SEDENHORST facility with an output of 14.5 MW, in service since July 2006.

On behalf of its subsidiary THEOLIA Deutschland GmbH, THEOLIA on March 17, 2006 also signed a general takeover agreement to acquire a wind farm of 6 MW in the state of Brandenburg. The WERBIG project, covering two Enercon E82 turbines of 2 MW and an E70 turbine of 2 MW, was built and put into service for THEOLIA at the end of 2006 by the company BEC at a capital cost of € 9.4 million.

THEOLIA Benelux

During the general shareholder meeting of February 24, 2006 ENERGO carried out a capital increase reserved primarily for THEOLIA, which subscribed a total of € 1,983,450. The capital was increased from € 1,680,900 to € 3,858,950 and at the same time the meeting also decided to change the name of the company to THEOLIA Benelux.

By way of a deed signed May 22, 2006, THEOLIA purchased the shares held by the former minority shareholders (except AEK). The capital of THEOLIA Benelux is henceforth held as follows:

- THEOLIA SA (France) : 91,01%
- Former shareholders of ENERGO : 3.43%
- AEK : 5,56%

In December 2006 THEOLIA Benelux acquired 51% of the shares in POLARGEN for an amount of € 5.1 million.

THEOLIA Iberica (subsidiary of THEOLIA Participations)

For the purpose of giving structure to the growth of the activities of THEOLIA in the Iberian peninsula (Spain and Portugal), in March 2006 THEOLIA Participations SAS proceeded to purchase 80% of Kylosovamen SL Société, a company incorporated under Spanish law with its head office in Barcelona, a participation that was increased to 100% in July 2006.

On April 14, 2006 THEOLIA signed a letter of intent for the account of its subsidiary THEOLIA Ibérica for 3 wind farm projects (totalling 29 wind turbines) with a total output of up to 72.5 MW to be located in Almería. This operation has building permits that cannot be revoked. This operation was crowned on May 18, 2008 by the signature of the purchase agreement with APESA.

THEOLIA Canada (subsidiary of THEOLIA Participations)

THEOLIA Participations established THEOLIA Canada in the first half of 2006, holding 99.99% of the shares. THEOLIA Canada signed a comprehensive memo of understanding which envisages the installation of hydroelectric stations on 2 rivers of North Quebec with a production capacity of 350 MW over 6 years. The capital spending program represents more than 800 million euros over the 6 next years.

7.1 Income statement and balance sheet

The result for the fiscal year is € 413,000 versus € 1,000 for the previous fiscal year

French standards	At 31/12/2006	Turnover	At 30/6//2005	Turnover
Operating income in euros	12,315,797	253.4	6,012,108	169.7
Operating expenses in euros	16,815,092	346	6,193,826	174.8
Result from ongoing operations in euros	-4,499,295	-2.24	-181,718	32.53
Financial result in euros	-2,749,828	58.65	177,247	5
Extraordinary result in euros	4,924,849	-13.89	-196,826	-5.56
Income tax in euros	-2,737,985	-56.34	-202,360	-5.71
Net result in euros	413,710	8.51	1,062	0.03

The operating income totalling € 12,316,000 consists of € 5,957,000 in holding expenses, re-invoicing of costs incurred for the account of subsidiaries or technical services provided to them.

The amount of the transferred expenses, consisting of the capital increase expenses charged to the issue premium, is € 5,643,000.

Various other income is added to these amounts for a total of € 716,000, including € 30,000 in subsidies granted by the European Union.

The operating expenses in the amount of € 16,815,000 include € 5,643,000 in transferred expenses and € 5,504,000 in expenses (except margin) re-invoiced to the subsidiaries. The amount of the not re-invoiced operating expenses is therefore € 5,668,000. This includes all remunerations and external expenses that were not re-invoiced (structuring expenses for the holding), as well as the taxes and levies and depreciation allowances and provisions.

This gives a negative result from ongoing operations in the amount € 4,500,000, which is explained by setting up the structures in the holding that are suitable for implementing the policy of external growth desired by Management. Such a growth policy has a cost which generally falls on the holding and a large part of which cannot be re-invoiced since it constitutes the very business of the holding. It is therefore logical for the holding to generate an operating deficit during strong growth phases and when the structures of the group are set up.

The financial result is negative to the tune of € 2,750,000 because of the debt write-off granted to Ecoval Technology, a subsidiary of the Group, intended to put the company finally on a sound footing. This write-off in the amount of € 5,600,000 is only partially compensated for by the financial income, amounting to € 2,065,000 in the fiscal year, for making funds available to the subsidiaries.

On the other hand, the management of cash surpluses generated € 718,000 in financial income.

The extraordinary result consists for the most part of the gains on the sale of stock. The entire amount of the gains is € 6,230,000 and comes primarily from the sale of Sodetrex stock, brought into the Swiss company Granit.

This stock was repurchased in September 2006 at its contribution value. The gain that was realised was taxed at the corporation tax rate pursuant to the law but does not constitute a final sale since the stock was repurchased and capitalised again at THEOLIA.

Economically speaking, one can argue that the tax on the Sodetrex stock was paid in advance in the amount of the gain equal to € 6,198,000.

The extraordinary expenses arise from two disputes, resolved by way of a total disbursement of € 1,271,000.

The balance sheet total of THEOLIA at December 31, 2006 was € 214,305,000 against € 45,814,000 for the previous fiscal year.

in €

French standards	Gross	Depreciations Provisions	Net at 31/12/2006	Net at 30/06/2005
Fixed assets				
Intangible fixed assets				
Formation expenses	74,309	68,035	6,274	28,604
Research & development costs	10,498	10,498	0	3,500
Franchises, patents	65,031	2,512	62,518	1,631
Other intangible fixed assets	3,794,604		3,794,604	
Intangible fixed assets in progress		0		14,335
Tangible fixed assets				
Constructions	0	0	0	17,753
Other corporate fixed assets	192,053	53,917	138,136	53,798
Tangible fixed assets in progress	173,600	0	173,600	0
Financial assets				
Participations	172,741,970	0	172,741,970	17,849,672
Other long-term investments	1,199,774	0	1,199,774	899,715
Loans	6,199,205	0	6,199,205	0
Other financial assets	31,383	0	31,383	206,528
Total	184,482,430	134,963	184,347,467	19,204,559
Current assets				
Inventory				
Services provided, in progress	352,793	0	352,793	253,993
Receivables				
Trade receivables	8,219,304	384,693	7,834,611	3,296,211
Trade creditors-debit balances suppliers	768,321	0	768,321	1,200,022
Personnel	10,158	0	10,158	11,558
Government income tax	0	0	0	7,675
Government taxes on sales	790,068	0	790,068	288,303
Other receivables	7,456,699	1,117,830	6,338,869	4,122,234
Other				
Advances on orders	130,610	0	130,610	6,707
Short-term securities	10,364,115	0	10,364,115	14,387,955
Liquid assets	3,164,021	0	3,164,021	2,858,423
Prepaid expenses	203,900	0	203,900	113,597
Total	31,459,993	1,502,523	29,957,469	26,546,685
Deferred charges	0	0	0	62,835
Total assets			214,304,936	45,814,079

French standards	Net at 31/12/2006	Net at 30/6/2005
Equity		
Subscribed or individual capital	25,403,531	9,723,226
Issue premium, merger, app.	144,926,789	21,309,191
Profit (loss) carried forward	-2,394,078	-2,391,825
Profit (loss) for the fiscal year	413,710	1,062
Net shareholder equity	168,349,952	28,641,654
Liabilities		
Loans with mandatory conversion	0	162,243
Bank overdrafts, bank lending	12,887	1,971
Liabilities to the Group and affiliated enterprises	2,500	12,158,761
Trade payables	3,741,189	3,266,158
Fiscal and social liabilities		
Personnel	59,506	141,004
Social entities	167,478	138,737
Government income tax	107,014	0
Government tax on sales	1,091,957	612,540
Government guaranteed bonds	0	0
Other fiscal and social liabilities	63,244	33,091
Long-term debt and related liabilities.	0	0
Other liabilities	40,709,204	601,782
Deferred income	0	56,133
Subtotal	45,954,984	17,172,425
Total liabilities	214,304,936	45,814,079

The main changes concern fixed assets, and in particular, this being a holding, the non-voting shares.

The net change in the non-voting shares item, which amounts to € 154,892,000, can be summarised as follows

Advances granted to the subsidiaries	€ 129,178,000
T-Nat stock, parent company of Natenco	€ 20,027,000
THEOLIA Benelux shares	€ 4,200,000
Sodetrex stock resulting from the buyback from Granit	€ 6,204,000
Buy-out of the minority shareholders at SSP Ventura	€ 3,420,000
Sale of SSP Ventura stock	€ -4,885,000
Loss on Granit stock	€ -3,000,000
Other	€ -252,000

The loss on Granit stock corresponds to the capital increase in cash implemented in conjunction with THEOLIA's entry into the Granit group. This amount was offset when Granit was split off by the acquisition of the rights to the construction project of the Buchen factory, shown under intangible fixed assets for an amount of € 3,795,000.

These changes in fixed assets in the total amount of € 139,298,000 were financed by an increase in equity capital of the Group, carried out in the form of a capital increase.

The item trade receivables consists essentially of receivables due from the subsidiaries.

The item cash and cash equivalents totalling € 13,528,000 is comparable with the previous year at € 17,245,000.

Current liabilities amount to a total of € 45,955,000, € 40,707,000 of which is owed to FC Holding as a result of the acquisition of Natenco.

7.2 Subsidiaries and interests

The list of subsidiaries and interests held directly by THEOLIA and comprising the group is reproduced in the accounts appendix.

7.3 Financial results over five fiscal years

Agreements subject to the provisions of Articles L. 225-48 and thereafter of the Code de Commerce are the subject of a special report from the statutory auditors

Table of results for THEOLIA's last five fiscal years

French standards	30/6/2002 12 months	30/6/2003 12 months	30/6/2004 12 months	30/6/2005 12 months	31/12/2006] 18 months
Total net equity	876,025	1,075,043	1,227,086	28,641,654	168,349,952
Total balance sheet	3,497,520	3,802,416	5,161,420	45,814,079	214,304,936
Capital at year-end					
Share capital	1,600,000	1,790,981	1,790,981	9,723,226	25,403,531
Number of common shares	1,600,000	1,790,981	1,790,981	9,723,226	25,403,531
Preferred shares					
Maximum number of shares to be created					
By allocation of shares					423,500
By conversion of obligations	88,304	88,304	88,304	53,468	
By subscription right			962,000	5,209,063	2,955,277
Operations and income					
Operating revenue net of taxes	798,364	301,213	1,504,683	6,012,108	12,315,797
Income before taxes, profit-sharing, net depreciation, and provisions	-113,965	-758,300	-85,088	-108,008	-1,678,550
Earnings tax	0	0	0	0	-2,737,985
Employee profit sharing	0	0	0	0	
Income after taxes, profit sharing net depreciation, and provisions	-1,068,964	-457,610	151,080	1,062	413,710
Distributed income	0	0	0	0	0
Income per share					
Income after taxes and profit sharing but before depreciation and provisions	-0.07	-0.45	0.12	0.01	0.04
Income after taxes, profit sharing, depreciation, and provisions	-0.67	-0.26	0.08	0.0001	0.02
Distributed dividends	0	0	0	0	0
Personnel					
Average number of employees	6	6	6	12	16
Total payroll	427,603	455,587	381,137	840,992	2,514,329
Total paid in corporate benefitss	168,760	169,774	143,904	363,211	920,103

8. Information concerning share capital

8.1 Statutory conditions to which the changes in share capital and corporate rights are subject

None

8.2 Factors likely to have an impact in case of a public offering

None

8.3 Capital issued and authorised capital not issued

Capital issued

The share capital is set at € 25,403,531, distributed among 25,403,531 shares with par value of one euro each, all of the same share class and subject to free disposal.

Authority of the board of directors

During the fiscal year, authority was granted to the board of directors at three extraordinary shareholders' meetings.

Authority granted by the extraordinary shareholders' meeting of 14 April 2006

(global ceiling of 10 million)

Type of authority	Date of meeting	Ceiling	Duration	Use
Issuance of shares or sundry securities while maintaining shareholders' right of first refusal to subscribe	28 November 2006 (Resolution 13)	€10,000,000, of which €1,000,000 is the maximum for debt instruments	26 months	Board Meeting of 31 January 2006 Capital increase by public offering in a nominal amount of € 2,779,898
Issuance of shares or sundry securities while eliminating shareholders' right of first refusal to subscribe	28 November 2006 (Resolution 14))	€10,000,000, of which €1,000,000 is the maximum for debt instruments	26 months	None
Authorization given to the Board of Directors in case of an issuance while maintaining or eliminating shareholders' right of first refusal to subscribe, to increase the number of securities in case of excess demand	28 novembre 2006 (15 ^{ème} Résolution)	15% of issuances as of the Shareholders' Meetings 13th and 14th Resolutions of 28 November 2006	26 months	None
Issuance of equity instruments having the features of stock warrants, which entitle holders to subscribe new common stock of the company, eliminating shareholders' right of first refusal to subscribe for categories of persons	28 November 2006 (Resolution 16)	1,000,000	18 months	None

Authority granted by the extraordinary shareholders' meeting of 28 November 2006

(global ceiling of 20 million)

Type of authority	Date of meeting	Ceiling	Duration	Use
Authorization for a share purchase programme	14 April 2006 (Resolution 10)	10% of the share capital	18 months	Board Meeting of 7 September 2006
Issuance of securities giving access to the Company's capital while maintaining shareholders' right of first refusal to subscribe shares*	14 April 2006 (Resolution 18)	15 million euros	26 months	None
Issuance of equity instruments while maintaining shareholders' right of first refusal to subscribe shares*	14 April 2006 (Resolution 19)	15 million euros	26 months	None
Authorization to undertake the issuance of shares, instruments, or sundry securities by freely setting the issuance price of the public offering	14 April 2006 (Resolution 20)	10% of the share capital	26 months	None
Issuance of shares, instruments, or sundry securities in case of a public offering initiated by the Company*	14 April 2006 (Resolution 22)	15 million euros	26 months	None
Issuance of shares, instruments, or sundry securities to compensate contributions in kind granted by the Company	14 April 2006 (Resolution 23)	10 % of the share capital	26 months	CA 22 décembre 2006 Émission de 1,818,182 actions à 1 euros
Increase in the number of shares, instruments, or sundry securities to be issued in case of a capital increase, while maintaining or eliminating shareholders' right of first refusal to subscribe shares*	14 April 2006 (Resolution 24)	15% of the value of the initial issuance	26 months	None

Authority granted by the extraordinary shareholders' meeting of 13 October 2006

(global ceiling of € 30 million)

Type of authority	Date of meeting	Ceiling	Duration	Use
Authorization to be given to the board of directors to undertake the free allocation of shares	13 October 2006 (Resolution 6))	5% of the share capital up to a maximum of 5 million euros	26 months	Allocation of 407,500 free shares by the Board Meeting of 13 October 2006
Allocation of authority to decide on increasing share capital through the incorporation of reserves, earnings, or premiums	13 October 2006 (Resolution 7)		26 months	Néant
Authorization to award stock subscription and/or purchase options to members of personnel and/or corporate representatives of group companies	13 October 2006 (Resolution 8)	5% of the share capital	38 months	Board Meeting of 13 October 2006: issuance of 4 million share warrants Board Meeting of 23 January 2007: issuance of 3.5 million share warrants
Authority granted to rule on the issuance of share warrants	13 October 2006 (Resolution 9)	7.5 million euros	18 months	None

Allocations of free shares

A total of 2,577,697 share warrants are outstanding, allowing the issuance of 2,955,277 new Company shares.

Allocations of free shares

THEOLIA has implemented a free share allocation programme for employees and executives of THEOLIA and the companies associated with it. Under this programme, in fiscal year 2005-2006, 407,500 free shares were allocated to six employees, including a director and the Chief Executive Officer.

8.4 History of changes in share capital over the past two years

Date of occurrence of the capital increase	Type of transaction	Shares created	Capital post-transaction
1 July 2004	Share capital		€ 1,790,981
16 August 2004	Exercise of stock warrants	533,334	€ 2,324,315
13 September 2004	Exercise of stock warrants	700	€ 2,325,015
17 October 2004	Exercise of stock warrants	800	€ 2,325,815
20 October 2004	Exercise of stock warrants	2,108,000	€ 4,433,815
3 November 2004	Exercise of stock warrants	1,000	€ 4,434,815
18 November 2004	Exercise of stock warrants	392,000	€ 4,826,815
3 January 2005	Exercise of stock warrants	2,300	€ 4,829,115
28 January 2005	Exercise of stock warrants	2,400	€ 4,831,515
1 March 2005	Exercise of stock warrants	735,736	€ 5,567,251
7 March 2005	Exercise of stock warrants	2,243,514	€ 7,810,765
11 May 2005	Exercise of stock warrants	512,424	€ 8,323,189
	Conversion of Convertible Bonds to Shares	34,835	€ 8,358,024
Shareholders' Meeting of 17 June 2005	Contribution in Kind	237,500	€ 8,595,524
28 June 2005	Increase in reserved capital	1,000,000	€ 9,595,524
4 July 2004	Exercise of stock warrants	1,581,259	€ 11,176,783
29 September 2005	Increase in reserved capital	100,000	€ 11,276,783
	Exercise of stock warrants	155,640	€ 11,432,423
28 October 2005	Exercise of stock warrants	904,948	€ 12,337,371
31 January 2006	Capital increase by public offering	2,779,898	€ 15,117,269
	Exercice de BSA	118,718	€ 15,235,987
27 February 2006	Conversion of Convertible Bonds to Shares	53,460	€ 15,289,447
	Exercise of stock warrants	43,000	€ 15,332,447
8 May 2006	Increase in reserved capital	3,333,310	€ 18,665,757
	Exercise of stock warrants	177,000	€ 18,842,757
11 August 2006	Exercise of stock warrants	83,126	€ 18,925,883
27 October 2006	Exercise of stock warrants	116,290	€ 19,042,173
	PACEO	757,640	€ 19,799,813
21 December 2006	Exercice de BSA	543,176	€ 20,342,989
	PACEO	3,242,360	€ 23,585,349
22 December 2006	Contribution in kind	1,818,182	€ 25,403,531

The above dates are the dates of confirmation of the capital increases by the corporate bodies and may differ from the actual funds payment dates.

8.5 Change in the distribution of capital and voting rights over the past three years

During the past three years, the distribution of capital and voting rights have evolved as followed for registered shareholders:

List of largest shareholders subject to pure and administered registration at 30 June 2004

Name or corporate name	Shares held	% of capital
BUCKI JACQUES	1,391,633	74.84%
SOPROMEC	71,291	3.99%
SAMENAR	46,177	2.58%
CREDIT LYONNAIS	43,800	2.45%
SANTANDER JEAN-MARIE	34,579	1.93%
MILLISCHER JEAN-MARC	27,480	1.54%
SALLET DANIEL	22,790	1.27%
VIVES LAETITIA	10,000	0.56%
Public	143,231	10.84%
Total	1,790,981	100.00%

List of largest shareholders subject to pure and administered registration at 30 June 2005

Name or corporate name	Shares held	% of capital
PICTET ET CIE	1,210,025	12.44%
HEARTSTREAM CAPITAL B.V.	966,681	9.94%
KASBANK	922,838	9.49%
JM SANTANDER (COLIBRI ET FAMILLE)	850,311	8.74%
SIS SEGAINTERSETTLE AG	760,173	7.82%
FORTIS GLOBAL CUSTODY SERVICES	481,810	4.95%
EXANE SA	400,000	4.11%
BANQUE DE LUXEMBOURG	342,800	3.52%
FCP K INVEST FRANCE	325,699	3.35%
SG PRIVATE BANKING SUISSE SA	322,000	3.31%
AMSTERDAMS EFFECTENKANTOOR	247,422	2.54%
KREDIETBANK SA LUXEMBOURGEOISE	241,999	2.49%
VMH	201,635	2.07%
DEUTSCHE BANK AG	159,610	1.64%
FCP KEREN PRADO	150,000	1.54%
MELLON BANK NA	133,000	1.37%
SIS SEGAINTERSETTLE AG	130,000	1.34%
Other	1,877,223	19.34%
Total	9,723,226	100%

List of largest shareholders subject to pure and administered registration at 31 December 2005

Name or corporate name	Shares held	% of capital
FORTIS GLOBAL CUSTODY SERVICES NV	3,939,257	15.51%
FC HOLDING GMBH	1,818,182	7.16%
PICTET ET CIE	1,179,804	4.64%
SG PRIVATE BANKING SUISSE SA	864,378	3.40%
COLIBRI HOLDING	482,249	1.90%
GOLDMAN SACHS INTERNATIONAL	478,460	1.88%
SAS GINKGO	471,606	1.86%
MORGAN STANLEY AND CO INTL LTD	334,323	1.32%
Other	15,835,272	62.33%
Total	25,403,531	100%

8.6 Stock market table

	2003/2004 12 months	2004/2005 12 months	2005/2006 18 months
Stock prices			
highest	€ 3.70	€ 10.95	€ 15.05
lowest	€ 1.91	€ 3.46	€ 9.72
Last	€ 3.36	€ 10.37	€ 12.28
Securities			
number of diluted shares	2,841,285	13,202,962	28,782,308
stock market capitalization (in 000)	9,547	136,954	348,246
group share of shareholders' equity	692	32,042	169,687
value of net debt	3,973	3,073	61,896
economic asset value	13,520	140,027	410,142

8.7 Employee rights to the share capital

THEOLIA has implemented a free stock allocation programme for its employees and those of its affiliates.

Under this programme, in fiscal year 2005-2006, 407,500 free shares were allocated to seven employees of THEOLIA.

THEOLIA has not allocated stock subscription or purchase options to its employees.

8.8 Exceeding of thresholds reported to THEOLIA since 31 July 2007, the first day the Company's shares were traded on the Euronext Paris Segment B

Reporting date	Date threshold exceeded	Author of the statement	Threshold declared exceeded	Holdings after transaction	Holdings after voting rights adjustment	Direction in which threshold was exceeded	Shares held after threshold was exceeded
29 Dec 06	22 Dec 06	Société Générale	5% and 10%	0.19%	0.18%	Upwards then Downwards	47,584
29 Dec 06	22 Dec 06	FC Holding GmbH	15%	17.56%	16.80%	Upwards	4,460,542

8.9 Shareholder agreements corresponding to securities comprising THEOLIA's share capital

The company has no knowledge of any shareholder agreements corresponding to the securities comprising its share capital

8.10 Company purchase of its own shares

In fiscal year 2006, THEOLIA purchased 107,088 of its own shares, for a total of € 1,278,309.45, i.e., an average price per share of € 11.937.

These purchases have all been allocated to the company Exane BNP Paribas, investment services provider, pursuant to a settlement agreement dated 28 August 2006.

The following table summarises the transactions carried out within this framework

Expiration date of this authorization	14/06/2008
Authorised maximum purchase ceiling	10% of share capital
Purpose	Liquidity and market promotion
Board of directors meeting approving the transaction	7 September 2006
Purchase period	1 September 2006 - 31 December 2006
Number of shares purchased	107,088
Average purchase price	€ 11.937

9. Organization of the board of directors

9.1 Change in management method during the year

The extraordinary general meeting of shareholders on 14 April 2006 changed the method of governance during the year, from a dual-governance corporation [société anonyme duale] (Board of Directors and Oversight Council) to a single-governance corporation [société anonyme moniste] (Board of Directors).

General management proposed this statutory change by reason of an increased need for flexibility by the management bodies and application of the principles of good governance. Management sought to increase the flexibility of, regulate, and improve the decision-making process, with a view to long-term stability and the creation of value. Given its rapid growth and need for personnel investment by corporate representatives in fulfilling its plans, it was necessary to combine all decision-making authority within a single body.

This reorganization of THEOLIA's operating method also allowed it to improve and incorporate the principles of good business governance, to allow for better information and greater transparency vis-à-vis shareholders.

9.2 Composition of the board of directors from 1 July 2005 to 14 April 2006

On 1 July 2005, the board of directors was chaired by Jean-Marie Santander, who was appointed on 6 November 2003. It also consisted of Messrs. Jean-Louis Coufy, Jean-Paul Ingrassia, Philippe Perret, and Cédric Le Saulnier de Saint Jouan.

The extraordinary general shareholders' meeting of 14 April 2006, ruling on the change in the administrative and management regime, acknowledged the termination of the duties of the members of the board.

9.3 Composition of the oversight council from 1 July 2005 to 14 April 2006

On 1 July 2005, the oversight council was chaired by Jacques Putzeys, who was appointed on 17 June 2005. It also consisted of Messrs. Georgius Hersbach, Jacques Bucki, Lucien Ventre, Gérard Leseur, Jan Pins, and Marc Deschamps.

On 1 September 2005, Mr. Marc Deschamps resigned from his position on the oversight council.

Mr. Louis Ferran was appointed member of the oversight council by the general shareholders' meeting of 28 November 2005..

On 21 February 2006, the oversight council acknowledged the resignation of Mr. Jacques Bucki from his duties on the oversight council.

The extraordinary general shareholders' meeting of 14 April 2006 ruling on the change in the administrative and management regime acknowledged the termination of the duties of the members of the oversight council.

9.4 Composition of the Board of Directors implemented on 14 April 2006

The board of directors is chaired by Mr. Jean-Marie Santander, appointed by the board of directors at their meeting of 14 April 2006.

It consists of nine members. All members of the board of directors were appointed by the extraordinary general shareholders' meeting of 14 April 2006 with the exception of SPRL SOFINAN, which was appointed by the mixed general shareholders' meeting of 13 October 2006.

All terms of office are for a duration of three years.

Certain members hold positions other than that of director of THEOLIA. Detailed information on duties is provided in the Appendix in Point 10 of this report.

9.5 Compensation of executives

*Mr. Jacques Putzeys also received total compensation of 132,000 euros from THEOLIA under a service provision agreement.

Compensation of current directors of THEOLIA for the fiscal year ending 31 December 2006, the duration of which is 18 months

	Gross salaries	In-kind benefits	THEOLIA SA attendance fees	THEOLIA Benelux attendance fees
Jean-Marie Santander	788,213.58 euros	12,870.60 euros	5,000 euros	19,500 euros
Stéphane Garino	-	-	13,125 euros	-
Jacques Putzeys*	-	-	15,000 euros	18,000 euros
Louis Ferran	-	-	10,125 euros	-
George Hersbach	-	-	11,250 euros	-
Arne Lorenzen	118,445.30 euros	4,639.24 euros	-	-
Philippe Perret	150,702.00 euros	3,871.80 euros	-	-
Eric Peugeot	-	-	7,875 euros	-
Sofinari Sprl	-	-	9,750 euros	-

Executives received neither welcome nor termination bonuses, and do not benefit from a supplementary pension regime.

THEOLIA has not allocated stock subscription or purchase options in favor of its executives.

Compensation of executives who have left their office

		Gross salaries	In-kind benefits	Attendance fees
Jacques Bucki	Board of Directors	0	0	0
Jean-Louis Coufy	Board of Directors	144,002	4,070	0
Jean-Paul Ingrassia	Board of Directors	144,000	5,319	0
Cédric Le Saulnier de Saint Jouan	Board of Directives	119,989	56,528	0
Lucien Ventre	Oversight Council	0	0	0
Gerard Leseur	Oversight Council	0	0	0
Jan Prins	Oversight Council	0	0	0

These executives received neither welcome nor termination bonuses, and do not benefit from a supplementary retirement regime

Allocation of stock subscription warrants to executives

During the year, stock warrants were allocated to executives who contributed to growth and to consolidating THEOLIA's value. These allocations were the following:

Mr. Jan R. Prins	
Issuance	Board of Directors' meeting of 28 January 2005 approved by the mixed general shareholders' meeting of 20 December 2004
Allocation	Board of Directors' meeting of 28 January 2005
Subscription price	€ 0.000485 per warrant
Strike price	€4.85 per share
Exercise rate	1 warrant for 1 share before 1 March 2006; 1 warrant for 1.187 shares afterwards.
Exercise period	5 years after subscription

Category	Condition of exercise	Quantity
CS1	Hold a position in the company at 31 December 2005	50,000
CS2	Hold a position in the company at 31 December 2006	50,000
CS3	Hold a position in the company at 31 December 2007	50,000
CS4	Hold a position in the company at 31 December 2008	50,000
CS5	Hold a position in the company at 31 December 2009	50,000

Since Mr. Prins has held no position since 14 April 2006, he may not exercise warrants under CD2, 3, 4, and 5.

Mr. Georgius Hersbach	
Issuance	Board of Directors' meeting of 28 January 2005 approved by the mixed general shareholders' meeting of 20 December 2004
Allocation	Board of Directors' meeting of 28 January 2005
Subscription price	€ 0.000485 per warrant
Strike price	€ 4.85 per share
Exercise rate	1 warrant for 1 share before 1 March 2006; 1 warrant for 1.187 shares afterwards.
Exercise period	5 years after subscription

Category	Condition of exercise	Quantity
CS1	Hold a position in the company at 31 December 2005	50,000
CS2	Hold a position in the company at 31 December 2006	50,000
CS3	Hold a position in the company at 31 December 2007	50,000
CS4	Hold a position in the company at 31 December 2008	50,000
CS5	Hold a position in the company at 31 December 2009	50,000
CS5	Hold a position in the company at 31 December 2009	50,000

Mr. Marc Deschamps

Issuance	Board of Directors' meeting of 28 January 2005 approved by the mixed general shareholders' meeting of 20 December 2004	
Allocation	Board of Directors' meeting of 29 September 2005	
Subscription price	€ 0.000485 per warrant	
Strike price	€ 4.85 per share	
Parité d'exercice	1 bon pour 1 action avant le 1 ^{er} mars 2006 ; 1 bon pour 1,187 action après.	
Exercise period	18 months after subscription	
Category	Condition of exercise	Quantity
CS1	None	50,000

Allocation of free shares to the Chief Executive Officer and a director

The meeting of the board of directors of 13 October 2006, acting as delegated by the extraordinary general shareholders' meeting, allocated 150,000 free shares to Mr. Jean-Marie Santander, Chief Executive Officer, and 100,000 free shares to Mr. Philippe Perret, director and employee of THEOLIA.

10. APPENDICES

10.1 Report from the chairman of the board of directors on internal control

Pursuant to Article 117 of the Financial Security Law of 1 August 2003, and the provisions of Article L. 225-37 of the Code de Commerce, THEOLIA has produced an internal control report.

The purpose of this report is to report on the conditions for the preparation and organization of the tasks of the board of directors, as well as the internal control procedures implemented, for the fiscal year just closed.

Under the supervision of the chairman, the measures taken to draft this report were essentially based on completion of work coordinated by the Legal Department in co-operation with the Finance Department and the principal functional and operational departments. This report is also based on discussions that have taken place with the audit committee and the statutory auditors.

1. Conditions for the preparation and organization of the work of the council

In order to ensure its legal task of the ongoing management control of our company, the board of directors has followed the recommendations of the AMF¹, as well as the joint report of the French Association of Private Businesses and the MEDEF dated September 2002 and January 2007.

1.1 Change in the method of governance during the year

The method of governance was changed during the course of the year, from that of a dual-governance corporation (board of directors and oversight council) to a single-governance corporation (board of directors). The extraordinary general shareholders' meeting of 14 April 2006 approved this change by a vote of over 99.97%.

The reasons motivating management to propose this statutory change ranged from an increased need for flexibility by management, to application of the precepts of good governance. THEOLIA management sought to increase the flexibility of, regulate, and improve the decision-making process, with a view to long-term stability and the creation of value. Given its rapid growth and need for personnel investment by corporate representatives in fulfilling its plans, it was necessary to combine all decision-making authority within a single body.

¹ AMF 2005 report on business governance and internal control dated 18 January 2006, and internal control measures: Reference framework of 31 October 2006.

This reorganization of THEOLIA's mode of operation of also enabled it to improve and integrate the principles of sound corporate governance leading to better information and greater transparency for the stakeholders.

1.2 Composition of the Board of Directors

The Board of Directors consists of 9 members. Some members exercise mandates other than that of board member of THEOLIA. The appointments and remunerations committee makes an annual assessment of the mandates and functions exercised by the board members.

	Other Mandates in the Group	Mandates exercised outside the Group
Mr Jean-Marie SANTANDER	Chairman & Managing Director of THEOLIA SA	Board member of AB Fenetre
	Manager of SARL Ferme Eolienne Plaine du Montoir 1	Board member of the Mandarine Group
	Manager of SARL Ferme Eolienne Plaine du Montoir 1	Ex member of Supervisory Board of Somupaca
	Manager of SARL Ferme Eolienne de Saint Michel de Chef Chef	Chairman on Colibri Holdings SAS
	Manager of SARL Ferme Eolienne Plaine de Bazoches	Ex manager of the SCI Centrener
	Chairman & Managing Director of SA Ventura	
	Chairman & Managing Director of SODETREX	
	Chairman of ECOVAL 30	
	Ex board member of Granit SA (Switzerland)	
M. Louis FERRAN	Board member of THEOLIA SA	
	Ex board member of GRANIT SA (Switzerland)	
M. Stéphane GARINO Monaco SA Monegasque	Board member of THEOLIA SA	Ex board member of APS Consulting
		Ex administrateur de ACTIS SA Monégasque
		Ex board member of IntellEval SCS
M. George HERBACH	Board member of THEOLIA SA	Chairman & Managing Director of Heartstream Group BV
		Member of the Board of Directors of NovaRay Inc (since 2006)
	Global	Member of the Supervisory Board of Interface SA.
-		Member of EU Enterprise Policy Group - Professional Chamber
M. Arne LORENZEN	Board member of THEOLIA SA	
	Manager of THEOLIA DEUTSCHLAND GmbH	
	Manager of THEOLIA verwaltungs GmbH	
M. Eric PEUGEOT	Board member of THEOLIA SA	Chairman of Peugeot Belgique
		Chairman of Peugeot Nederland BV
		Chairman of Peugeot Portugal Automoveis
		Chairman of Etablissements Peugeot Freres
		Board member of LFPP
		Board member of IP EST
		Board member of SKF

	Other Mandates in the Group	Mandates exercised outside the Group
M. Jacques PUTZEYS	Board member of THEOLIA SA	Board member of Conpore
	Chairman of the board of directors of SAS Ecoval Technology	Board member of H2O Innovation
	Chairman of SAS Seres Environnement	
	Chairman of the board of directors of THEOLIA Benelux	
	Ex chairman of GRANIT SA (Switzerland)	
Company SPRL SOFINAN represented by Mr Norre Van LEUFFEL	Board member of THEOLIA whose permanent representative is Mr Norbert VAN LEUFFEL	Ex board member of Ultimo 2006
	Board member of THEOLIA BENELUX whose permanent representative is Mr Norbert VAN LEUFFE	

All the members of the Board of Directors were appointed by the Extraordinary General Meeting of 14 April 2006, with the exception of SARL SOFINAN appointed by the Mixed General Meeting of 13 October 2006. All mandates last for a period of three (3) years.

In accordance with the AFEP-MEDEF report on the governance of listed companies in October 2003, THEOLIA has five (5) independent board members out of the 9 making up the board, that is, slightly more than half its members. There is currently no woman sitting on the board.

1.3 Internal Regulations

The Board of Directors has internal regulations that may be consulted on the company's premises. They provide for:

- the organization of meetings of the board;
- a board members charter;
- the establishment of an Audit Committee and an Appointments and Remunerations Committee.

1.4 Method of Operation of Meetings of the Board of Directors

Generally, board members receive information a week before the date of the meeting. This gives them the opportunity to prepare the files that will be discussed at the meeting. Particularly sensitive and urgent matters may be discussed without the prior distribution of documents.

At each meeting, a significant amount of time is spent on a full and detailed discussion of important subjects. A substantial amount of time at each meeting is reserved for arguments and comments.

The board members are required rigorously to prepare the subjects discussed, assist and participate in all the meetings of the board and the committees relating to them, spend the time required and meet as often as necessary to fulfill their obligations in full. Each board member must ensure that other commitments do not interfere with his mission as a board member.

To facilitate participation, board members may attend the meetings in person, by conference telephone or by video conference link. In accordance with the law, only board members attending in person or by video conference link are taken into account in the establishment of the quorum.

1.5 Limitation on Powers of the Directors

The powers of the Managing Director are not subject to any special limitation; his functions, powers and responsibilities are defined by the articles of association and the laws in force.

No post of Deputy Managing Director has been created.

1.6 The Committees

THEOLIA's Board of Directors has set up two committees under its internal regulations:

² "A board member is independent where he does not enter into any relation of any kind with the company, its group or its management that may compromise the exercise of his freedom of judgement". So, "independent board member" means not only a "non-executive" board member, that is, who does not exercise management functions in the company or its group, but who also has no special connection or interest (e.g. important shareholder, employee, other) with them."

1.6.1. The Audit Committee

The Audit Committee assists the Board of Directors in monitoring the accuracy and genuineness of THEOLIA's company and consolidated accounts and the quality of internal audits and information given to the shareholders and the market. The Committee gives advice and makes recommendations to the Board of Directors.

It consists of Mr Stephane GARINO and Mr Norbert Van LEUFFEL (representative of the company SPRL SOFINAN), both independent board members.

1.6.2. The Appointments and Remunerations Committee

The Appointments and Remunerations Committee receives its instructions from the Board of Directors, including:

- examining any candidate for appointment to a post as board director and to give advice and/or make a recommendation to the Board of Directors;
- making recommendations to the Chairman regarding the remuneration, retirement and pensions system, benefits in kind and sundry pecuniary rights, including the allocation of options for subscription or purchase of shares of the company, as well as the free allocation of shares to the Chairman of the Board of Directors and any salaried members of the Board of Directors;
- making recommendations on the remuneration of the members of the Board of Directors.

It is chaired by Mr Jacques PUTZEYS, assisted by two independent board members: Mr Louis FERRAN and Mr Eric PEUGEOT.

1.7 Frequency of Meetings of the Board

The Board of Directors has met 15 times since it was set up; this high rate of meetings of the Board is witness to its involvement and frequency of consultation in a period of strong growth for the company.

The attendance rate for board members is very high (more than 73%) which indicates their very strong involvement in THEOLIA's development and administration.

1.8 Directors' Attendance Fees

The Extraordinary General Meeting of 13 October 2006 provided for the allocation of directors' fees for board members. For the financial year, gross amounts for each unsalaried board member have been paid of between €3,000 and 17,500.

2. Internal Audit

The main aim of the internal audit procedures in force is to verify that the accounting and financial information communicated to the company bodies or published genuinely reflects the business and situation of the THEOLIA Group. It developed substantially during the 2005-2006 financial year and is being developed throughout the Group so as to ensure reliable and high quality control.

2.1 Objectives of Internal Audit

Internal auditing is an integral part of the strategy for managing the business of the THEOLIA Group. The procedures for internal auditing allow the management of the Group to improve risk control by giving the directors a basis for risk control and adherence to it.

The aim of internal auditing is:

- Conformance to the laws, regulations, standards and internal rules, and contracts;
- Protection of the Group's wealth and preservation of its assets;
- Exercising maximum control over the Group's sectors and companies;
- Reliability and integrity of the accounting system and financial and operational information;
- Achievement and optimization of the Group's objectives;
- Prevention and control of risks that may prevent these objectives from being achieved.

Consequently, internal auditing also includes the achievement of the Group's performance and profitability targets. However well conceived and applied, internal auditing may not be regarded as being able to prevent all mistakes.

The main participants are:

- The Board of Directors
- The Audit Committee
- The Finance Department
- The Legal Department
- The management of subsidiaries

It should be noted that during the past financial year, THEOLIA permanently established its accounting and financial procedures internally, particularly through the recruitment of a Finance Director, an Accounts Director and a Management Controller. In the fourth quarter, a Manager of the Legal Department was added to the Legal Department.

At the start of 2007, THEOLIA recruited an accountant and there is a plan to add the services of an Internal Audit Manager, as well as a Risks and Prospects Director to reinforce the internal auditing workforce and improve exchanges.

2.3 The Main Risk Factors

An analysis of the main risk factors is given in the AMF prospectuses produced by THEOLIA as part of its marketing operations (Chapter 4). The definition of significant risks is in principle produced by the company's management, then implemented by the finance management.

With the arrival of a Risks and Prospects Director in 2007, a chart of the gross and net risks will be implemented to monitor, measure and define the maximum level of acceptability and to ensure that the risks assessed do not imperil the organization.

2.4 Procedures and Methods of Internal Auditing Relating to the Processing of Accounting and Financial Information

For establishing the consolidated accounts, approval procedures apply at each stage of the process of feedback and processing of information. In particular, their purpose is to verify every six months:

- The correct adjustment and elimination of internal transactions;
- The verification of consolidation operations;
- The effective application of standards;
- The quality and homogeneity of consolidated and published accounting and financial data and, in particular, coherence between the accounting data and the management data used to produce the financial information.

The reporting and consolidation tool used by all the entities, including the parent company, ensures this coherence and the reliability of the data through blocking controls before feedback to the Group.

In addition, the organization of the Group that is based on reports issued by each subsidiary and sent for each country directly to the parent company, without any intermediate aggregate, optimises the transmission and comprehensiveness of the information.

The Group has a body of management and accounting rules and methods whose application is compulsory for all the consolidated subsidiaries and that allows reliable financial information to be supplied.

The accounting standards lay down the principles required for the homogenous processing of transactions. In particular, they state the methods for taking inventories and assessing off-balance-sheet commitments. They conform to the standards of the International Finance Reporting Standards [IFRS], the new reference for consolidated accounts since 2005.

The Group's Accounts Department is continuing its "watch" over the new IFRS standards under preparation so as to give advice and effectively anticipate their impact on the Group's accounts.

During the financial year ended on 31 December 2006, THEOLIA carried out numerous and substantial foreign growth transactions. Given the regrouping of the companies, the internal auditing procedures are currently being drafted and will be finalised during 2007.

The processing and centralization of the cash flow and the rate risk coverage are carried out by the Finance Department that takes stock of commitments and allows them to be entered in the accounts.

The investment plans are endorsed by the Board of Directors and any change in the forecasts is subject to special prior authorization.

As a minimum, a limited examination must be made of all the accounting and financial information prepared by the consolidated subsidiaries, and an audit carried out on the close of financial years by the external auditors. The auditing assignments in the countries are carried out by Deloitte. However, for the sub-group, NATENCO, the auditing is currently being carried out by the MAZARS Group. After jointly making an examination of all the accounts and the methods used to draw them up, the auditors of the accounts will certify the Group's consolidated accounts. They will certify the accuracy, genuineness and faithfulness of the consolidated accounts and the company accounts. They are informed upstream of the process for developing the accounts and presenting a summary Report on their work to the Group's accounting and financial managers and to the Audit Committee for the half-yearly situation report and the close of the financial year.

2.5 Checks Underlying the Preparation of the Report

The preparation of this Report is based on the internal auditing methods as described above and on the checks carried out at the request of the Chairman and Managing Director of the Group by the various support functions and the preparatory work of the Audit Committee.

The Audit Committee issued a summary Report of this work and the Report was issued and discussed at the meeting of the Board of Directors of 20 April 2007.

10.2 Internal Regulations of the Board of Directors (further to the decision of the Board of Directors of 6 February 2006)

Article 1: Meetings

The Board of Directors will meet at least four (4) times a year.

The Secretary of the Board of Directors is appointed by the Chairman.

Summonses to the meetings will be sent by the Secretary of the Board of Directors or the Secretary General, by letter, telex, telegram, fax, email or made verbally.

An attendance register will be kept at the registered office signed by the members of the Board of Directors participating at the meeting, in their own name or for other members of the Board of Directors that they represent. Powers of attorney given by letter or fax, telex, telegram or email where the methods of certification of the electronic signature have been established will be attached to the attendance register.

Article 2: Participation at the meetings of the Board of Directors by Telecommunication or Video Conference Link

Prior to each meeting of the Board of Directors, at the request of one or more board members, the Chairman of the Board of Directors may decide to authorise him or them to participate at a meeting by telecommunication or video conference link.

The Chairman will ensure that the means of telecommunication or videoconferencing transmitting the deliberations continuously are made available to the board members so as to allow them to participate at the meetings of the Board of Directors.

For the purposes of calculating the quorum and the majority, the board members participating in the meeting by telecommunication or video conference link will be regarded as being present.

The characteristics of the telecommunication or video conference link must fulfill the technical characteristics allowing the simultaneous and continuous transmission of the image or at least the voices of the participants for the purpose of identifying the board members and guaranteeing effective participation at the meeting of the Board of Directors.

Failing this, the board members concerned will not be considered as being present and, in the absence of a quorum, the Board meeting will be adjourned.

Under the law, participation by telecommunication or video conference link is not permitted for the following decisions:

- The appointment, dismissal and fixing the remuneration of the Chairman, Chairman and Managing Director; and Managing Director and Deputy Managing Directors;
- Establishing the annual, statutory and consolidated accounts and the management report of the company and the Group

If there is a breakdown in the telecommunication or video conference link noted by the Chairman of the Board of Directors, the Board of Directors may validly deliberate and/or continue with the members who are physically present where the conditions of quorum have been fulfilled.

The occurrence of any technical incident disrupting the operation will be mentioned in the minutes, including interruption and re-establishment of participation by telecommunication or video conference link.

Article 3: Minutes

The Secretary of the Board of Directors and the Secretary General of the company are authorised to certify the copies or extracts of the minutes of the deliberations.

Article 4: Exercise by the Chairman of his Powers

1. The following decisions of the Chairman require prior authorization by the Board of Directors:

- a) important decisions for establishing a presence abroad through the creation of an establishment or a direct or indirect subsidiary or through taking a holding, as well as decisions for withdrawing from such establishments,
- b) important operations likely to affect the Group's strategy or to modify its financial structure or area of business, and the assessment of the importance will be made by the Chairman on his own initiative.

2. The Chairman must obtain prior authorization from the Board of Directors to carry out the following transactions where their amount is more than €2,000,000 :

- a) take or assign any holdings in any companies that have been created or that will be created, participate in the creation of any companies, groups or organizations, subscribe to any issues of shares, company shareholdings or bonds,
- b) grant any exchanges with or without balancing cash adjustments, relating to the assets, securities or stocks,
- c) buy or sell any buildings,
- d) the event of a dispute, conclude any treaties and transactions, accept any settlements,
- e) grant guarantees for the company assets

3. The Chairman must obtain the prior authorization of the Board of Directors to carry out the following transactions where their amount is more than €2,000,000 :

- a) grant or take out any loans, borrowings, credits and advance payments,
- b) buy or sell any debts by any means.

4. Before any appointment is made to the post of Managing Director of the Group or proposal for appointment to the post of Chairman in the head company of any of the Group's branches of business, the Board of Directors, that may delegate this function to the Appointments and Remuneration Committee, in which case the latter will have a reporting responsibility, must be consulted by the Chairman in good time.

Article 5: Board Members Charter

The Board of Directors collectively represents all the shareholders and its mission must be exercised in the company interest.

The board members are elected by the General Meeting of Shareholders because of their competence and the contribution they are able to make to the administration of the company. The present charter is established so as to allow their skills to be fully exercised and to ensure that the contribution of each board member is effective and adheres to the rules of independence, ethics and integrity that are expected of them.

In accordance with the principles of good governance, board members must exercise their functions in good faith, in the manner in which they consider to be the best to promote the company and with the care expected of persons normally prudent in the exercise of such a mission.

Each board member of THEOLIA, and each permanent representative of a board member that is a legal entity, must adhere to the present charter by accepting his function. A board member who is no longer in conformity with the present charter must draw the conclusions from this and hand his mandate back for the disposal of the Board or resign from his post as representative of a legal entity that is a board member.

Article 5.1: Competence

Before accepting his functions, a board member must read the laws and regulations relating to his function and the special requirements for the company under the articles of association, the rules of internal operation of the Board, and any supplementary document the Board considers necessary to give him.

Article 5.2: Defence of the Company Interest

A board member must be a shareholder and possess a number of shares at least equal to the number laid down in the company's articles of association, and he must agree to keep them throughout the period of his mandate. If he does not hold them at the time of assuming his functions, he will have a period of three (3) months to comply with this obligation. A board member represents all the shareholders and must act at all times in the company's interest. A board member must agree to check that the decisions of the company do not favor one party or category of shareholders to the detriment of another.

Article 5.3: Prevention of Conflicts of Interest

A conflict of interest arises where a board member has a personal interest (either directly or through legal entities in which he fulfils a directing function, holds interests or that he represents) in a vote on a decision of the Board of Directors.

Any board member or candidate for appointment to a post as member of the Board of Directors must immediately give the Board full information on any actual or potential conflict of interest in which he could be involved either directly or indirectly.

To prevent any conflicts of interest, a board member elected by the General Meeting of Shareholders because of his skills and contribution to the administration and development of the company and who is remunerated for this, is consequently prohibited from receiving any other remuneration in any form (fees, invoicing, expenses, etc.) directly or indirectly (through legal entities in which he fulfils a director's function, holds interest or that he represents), in particular with regard to business contributor contracts, contracts relating to relations with investors or the provision of any other financial, technical or legal-administrative services.

For the application of this article, it is specified that the remuneration under an employment contract or a company mandate and the expenses relating to such remuneration, are not affected by the present document.

Article 5-4 - Indépendance

A board member must agree at all times to maintain his independence of analysis, judgment, decision making and action and reject any direct or indirect pressure that may be exerted upon him by board members, special shareholder groups, creditors, suppliers and generally any third parties. A board member must agree not to seek or accept directly or indirectly from the company or from companies related to it any benefits likely to be considered as being of a kind to compromise his independence.

In this regard, a board member must be aware that his function is incompatible with a situation of a recognised and permanent conflict of interest as defined in article 4.3.

In this regard, the Board of Directors must recommend to a board member in office that it considers is in a recognised or permanent or almost permanent conflict of interests to submit his resignation.

Under all circumstances, the Board of Directors must ensure that any candidate for appointment to a post as a board member is not likely to be in a recognised and permanent or almost permanent conflict of interest.

Article 5.5: Effectiveness of the Board

A board member must be fully aware that it is the Board's responsibility to define the missions and values of the company, to establish its strategic objectives, to implement the structures and procedures for attaining the objectives, monitor control of the company and give the shareholders information and explanations.

The Board's decisions must be formally voted upon, in particular regarding the approval of the accounts, the budget and resolutions to be submitted to the General Meeting, as well as important matters regarding the life of the company. The Chairman is responsible for assessing what is important.

A board member must be aware of the definition and exercise of the powers and responsibilities of the company's governance bodies.

In particular, it must ensure that no one in the company may exercise a discretionary power without control; it shall ensure the effective operation of special committees created by the Board; it shall ensure that the internal organs of control function efficiently and that auditors of the accounts fulfill their assignment in a satisfactory manner.

At regular intervals not exceeding two years, the Board will make an assessment of its own functions that will be carried out by an independent board member.

Article 5.6: Dedication

A board member must dedicate the time and attention required for his functions. Where a board member agrees to accept a mandate in addition to those he already holds (with the exception of board member mandates exercised in controlled unlisted companies), he must inform the Chairman of the Appointments and Remuneration Committee and will discuss with them whether the new responsibility allows him to be sufficiently available for THEOLIA.

The annual report will indicate the mandates exercised, abandoned or accepted during the year by a board member and will give an account of his attendance at meetings of the Board and the committees of which he is a member. A board member will attend the General Meetings of Shareholders.

Article 5.7: Provision of Information, Confidentiality

A board member must ensure that he receives sufficient information in good time so that the Board of Directors can validly deliberate. It is up to him to ask the Chairman to give him the information he considers essential to have within the appropriate periods.

Information relating to the Group communicated to a board member in the course of his functions is given to him because of his special position. He must personally keep it confidential and must not divulge it under any circumstances. This personal obligation is also imposed upon a representative of a board member that is a legal entity.

Article 5.8: Inside Information

A board member will receive the advice of the Chairman of the Board of Directors of THEOLIA or of the person delegates thereby before carrying out or arranging for a third party to carry out transactions on the securities of the companies in the Group or on any transferable security relating to it, as well as transactions of the same kind relating to companies in which he holds information in his capacity as a board member of THEOLIA. The Chairman of the Board of Directors or the person he delegates from THEOLIA will inform him on the conditions that the said transactions must satisfy.

Article 6: Audit Committee

Article 6.1

An Audit Committee is established in application of article 15.4 of the articles of association.

The Audit Committee will assist the Board of Directors in monitoring the accuracy and genuineness of THEOLIA's company and consolidated accounts and the quality of the internal auditing and information given to shareholders and the market. The Committee will give advice and make recommendations to the Board of Directors in the abovementioned areas. In particular, the Board of Directors will give the following assignment to the Audit Committee:

1. Regarding the Accounts, it will:

- a) make an initial examination and give its advice on the annual, half-yearly and quarterly draft accounts before the Board of Directors examines them;
- b) examine the relevance and permanence of the accounting principles and rules used to establish the accounts and to prevent any breach of these rules;
- c) obtain a description of the activities of the consolidated companies and obtain any explanations as required;
- d) where necessary, interview the auditor of the accounts, general management, financial management, the internal auditor or any other management person; these interviews may take place in the absence of the members of the general management;
- e) before their publication, examine the draft annual accounts and interim accounts, the report on management and results and any accounts (including draft accounts) produced for the requirements of substantial special transactions, and important financial press releases before they are issued;
- f) ensure the quality of the procedures allowing stock market regulations to be adhered to.

2. Regarding external auditing of the company, it will:

- a) examine matters relating to the appointment, renewal or dismissal of the auditors of the company accounts and the amount of the fees to be fixed for carrying out legal audits;
- b) supervise the rules for engaging auditors of accounts for work other than auditing the accounts and generally ensure the principles guaranteeing that independence of the auditors of the accounts are adhered to;
- c) to give prior approval to any assignment given to the auditors of the accounts apart from auditing;
- d) examine every year with the auditors of the accounts the amount of the auditing fees paid by the company and its Group to entities in networks to which the auditors of the accounts belong, their plans for intervention, their conclusions and recommendations and the follow up action; if necessary, settle points of disagreement between the auditors of the accounts and the general management likely to arise from this work.

3. Regarding internal auditing of the company, it will:

- a) assess the effectiveness and quality of the Group's internal auditing systems and procedures;
- b) examine with the managers of the internal audit department the plans for intervention and action in the area of internal auditing, the conclusions of these interventions and the recommendations and follow-up action given with regard to them in the absence of members of the general management;
- c) be informed by the general management or by any other means of any claims made by third parties or any internal information indicating criticism of the company's accounting documents or internal audit procedures, and the procedures implemented for this purpose and the remedies to claims or criticisms;
- d) entrust the internal auditing department with any assignment it considers necessary.

4. Regarding risks, it will:

- a) regularly examine the financial situation, the cash flow situation and the Group's significant commitments and risks;
- b) examine the procedures used to assess and manage these risks.

Article 6.2

To fulfill its assignment, the Committee may ask the Chairman to conduct interviews and provide it with information.

The Committee members and any outside person participating in a meeting have a duty to any third parties on the Board of Directors to keep confidential any information communicated to the Audit Committee or to which they may have access in their mission.

Article 6.3

The Committee consists of a minimum of three (3) members and a maximum of five (5) members appointed by the Board of Directors from among its independent members.

The duration of the mandate for Committee members is the same as the period for their mandate as board members. It may be renewed at the same time as the latter.

The Committee appoints its Chairman.

The Secretary of the Board of Directors provides the secretarial services for the Audit Committee.

Article 6.4

The Committee meets at least twice a year; it sets the schedule for its meetings. However, the Committee may meet at the request of its Chairman, two of its members or the Chairman of the Board of Directors.

To deliberate validly, at least half the members of the Committee must be present. A member of the Committee may not be represented.

The following participate at the Committee meetings:

- the Chairman of the Board of Directors or his delegate or both these persons together unless the Committee decides otherwise;
- any person that the Committee wishes to question.

At least once a year, the Committee will interview the auditors of the accounts under conditions determined by it. If it considers it necessary to accomplish its mission, the Committee may ask the Board of Directors for resources to obtain external assistance.

Article 6.5

Minutes will be produced of the meetings of the Committee. The minutes will be sent to the Audit Committee members and, on request, to the other members of the Board of Directors. The Chairman of the Committee or a member of the Committee appointed for this purpose will report to the Board of Directors on the Committee's work.

Article 7 - Appointments and Remuneration Committee

Article 7.1

In application of article 15.4 of the articles of association, an Appointments and Remuneration Committee is established.

1. The Board of Directors gives the Appointments and Remuneration Committee a mission:

- a) Regarding appointments:
 - to examine any candidate for appointment to the post of member of the Board of Directors and to formulate advice and/or make recommendations on these candidacies to the Board of Directors, in particular regarding the capacity of independent board members for these candidacies and the desirable number of independent board members on the company's Board of Directors;
 - to prepare timely recommendations for succeeding the Chairman of the Board of Directors.

b) Regarding remuneration:

- to make recommendations to the Chairman regarding remuneration, the retirement and pension scheme, benefits in kind and sundry pecuniary rights, including any allocation of options for subscription or purchase of company shares and the free allotment of shares to the Chairman and Deputy Chairman or Chairmen of the Board of Directors and to any salaried members of the Board of Directors;
- to make recommendations on the remuneration of the members of the Board of Directors.

2. It will be consulted in the cases mentioned in article 3.4 on appointments and the methods of remuneration of the persons concerned.

Article 7.2

The Committee consists of a minimum of three (3) members and a maximum of five (5) members appointed by the Board of Directors from among its members. The Chairman of the Board of Directors will participate at meetings of the Committee unless it decides otherwise. The duration of the mandate of the members of the Committee is the same as the period for their mandate as board members. It may be renewed at the same time as the latter.

The Committee appoints its Chairman.

The Secretary of the Board of Directors provides the secretarial services for the Committee.

Article 7.3

The Committee meets at least twice a year, including once prior to the approval of the agenda for the Annual General Meeting, to examine the draft resolutions submitted to it and that concern the posts of the members of the Board of Directors and any tellers.

It will meet as required on the summons of the Chairman of the Board of Directors or the Chairman of the Committee or half of its members.

Article 7.4

Minutes will be produced of the meetings of the Committee. The minutes will be sent to the Committee members and to the other members of the Board of Directors. The Chairman of the Committee or a member of the Committee appointed for this purpose will report the advice and recommendations of the Committee to the Board of Directors for it to deliberate on them.

Article 8 - Rémunérations

The annual remuneration fixed by the General Meeting pursuant to article 20 of the articles of association will be shared by the Board of Directors between its members after allocation of a special part to the Chairmen and members of the various committees.