



THEOLIA

ADDITIONAL REPORT FROM THE BOARD OF DIRECTORS

TO THE SHAREHOLDERS

Capital increase through a rights issue

July 26, 2010

This additional report has been established in accordance with the articles L. 225-129-5 and R.225-116 of the French Commercial Code.

1. LEGAL FRAMEWORK FOR THE CAPITAL INCREASE

We remind the reader that the general meeting of THEOLIA (the “**Company**”) shareholders convened on March 19, 2010, in its second resolution and in compliance with the articles L. 225-129 to L. 225-129-6 of the French Commercial Code, has granted to the Board of Directors, with a right to sub delegate under conditions set by law, up until August 31, 2010 (included), its authority to decide a capital increase through a rights issue within a capped limit of 100,800,000 euros.

During its session on June 15, 2010, the Board of Directors decided to make use of this authority granted by the general meeting for a capital increase through a rights issue and sub delegated the powers to the Chief Executive Officer to decide and implement this capital increase.

On June 23, 2010, the Chief Executive Officer, making use of this sub delegation, decided to proceed with a capital increase through a rights issue for a maximum amount of 60,463,059 euros by issuing 60,463,059 new shares at a price of (1) one euro (the “**Capital Increase**”).

The Capital Increase has been subject to subscription commitments on behalf of certain shareholders (Michel Meeus, Pierre and Brigitte Salik) up to 10 million euros. In addition, two investors, Sticing Pensioenfond ABP and Boussard et Gavaudan Asset Management L.P. (acting as delegatee of the Sark Master Fund Limited fund) have agreed to subscribe for up to a maximum number of respectively 15,115,765 and 30,231,530 new shares that would not have been subscribed for by the Company’s shareholders, pursuant to irreducible entitlement or pursuant to entitlement subject to reduction, as the case may be, up to 75% of the of the total amount of the Capital Increase.

The French *Autorité des marchés financiers* (the “AMF”) assigned the visa number 10-198 on June 23, 2010 for the prospectus related to the Capital Increase.

Through decisions on July 14, 2010 and July 20, 2010, the Chief Executive Officer has attested that the issuance of the 60,463,059 shares have been fully subscribed and has confirmed the definitive completion of the Capital Increase.

In application of the legal and regulatory authorizations mentioned above, we present the principle terms of the Capital Increase (2.) and the theoretical impact of the Capital Increase upon the situation of the holders of shares and securities allowing access to the Company’s capital (3.) as well as upon the market value of THEOLIA shares (4.).

2. PRINCIPLE TERMS OF THE CAPITAL INCREASE

The principle terms of the issuance of new shares are the following:

Subscription period and exercise of preferential subscription rights:

The subscription by the public in France opened from June 25, 2010 to July 7, 2010 included. The subscription rights were granted on June 25, 2010 and traded on the Euronext Paris market from June 25, 2010 to July 7, 2010 (included).

At this time, the holders of subscription rights were able to subscribe (i) by irreducible entitlement (*à titre irréductible*) at a ratio of 3 new shares for every 2 rights held (each shareholder having initially received one subscription right per share held) and (ii) by entitlement subject to reduction (*à titre réductible*) the number of additional new shares above the initial amount subscribed for on the basis of their irreducible entitlement.

Subscription price for new shares:

One (1) euro per ordinary share, the nominal value of the share.

Amount of the Capital Increase:

The amount of the Capital Increase is 60,463,059 euros.

The number of new shares issued amounts to 60,463,059, of which 49,555,218 shares subscribed on an irreducible basis and 10,907,841 on an entitlement subject to reduction.

Listing of the new shares:

From July 20, 2010, the settlement date for the new shares, the new shares have been listed on Euronext Paris S.A. under the ISIN code FR0000184814.

Following the definitive completion of the Capital Increase, THEOLIA's capital amounts to 100,771,766 euros, divided by 100,771,766 shares with a nominal of one (1) euro each.

*The detailed terms of the issuance of the new shares appear in the securities note (the “**Securities Note**”) related to the issuance and listing of new shares in the context of the Capital Increase, with visa number 10-198 from the AMF, available without charge at the Company's registered office, on its website (www.theolia.com) and on the AMF website (www.amf-france.org). Shareholders are invited to refer to this document for additional information regarding the terms of the Capital Increase.*

3. IMPACT UPON THE HOLDERS OF SHARES AND SECURITIES ALLOWING ACCESS TO THE COMPANY'S CAPITAL

3.1 Impact of the Capital Increase on the shareholders' equity on a per share basis

For illustration purposes, the theoretical impact of the issuance on the portion of consolidated shareholders' equity per share attributable to the Group (calculation made on the basis of consolidated shareholders' equity attributable to the Group as recorded in the financial statements as of December 31, 2009– and from the number of shares comprising the share capital at that date) is the following:

	Portion of shareholders' equity (in euros) ⁽¹⁾		
	Non diluted basis	Diluted basis	
			(2)
Prior to issuance of new shares resulting from the Capital Increase	3.73	7.02	7.30
Following issuance of new shares resulting from the Capital Increase	2.09	2.02	2.23

(1) *The impacts calculations do not take into consideration the costs related to the transaction nor the tax consequences.*

(2) *After conversion of the OCEANEs (convertible bonds) alone.*

(3) *After conversion of the OCEANEs and other equity-linked securities.*

These calculations are theoretical elements that are only given for information purposes; they do not predict the future evolution of the Group's consolidated shareholders' equity and/or the share price. These calculations have been made on the basis of a purely theoretical impact on shareholders' equity of:

- (a) the Capital Increase;
- (b) the conversion of 100% of the OCEANEs into shares, either at the current conversion ratio (one share for one OCEANE) or at the conversion ratio of 8.64 applicable before December 31, 2013 (N₁);
- (c) the exercise of all existing warrants as of December 31, 2009, even though the strike prices for most of them are far out of the money, and not taking into account the adjustments made following the Capital Increase;
- (d) the issuance of all the free shares attributed by the Company as of May 31, 2010, even though most of them are subject to conditions of performance and presence— that the Company considers, for certain free shares granted to the former management, were not fulfilled on account of the discontinuation of this former management's duties; and
- (e) the implementation of adjustment mechanisms applicable to certain free shares (based on the assumption that no OCEANEs are converted into shares before April 1, 2011).

These theoretical calculations have been made assuming an accounting of the OCEANEs at their nominal value in the consolidated financial statements (with a restatement of the equity component of the OCEANEs in the Group's portion of the consolidated shareholders' equity as of December 31, 2009). Finally, they do not take into account either the costs of the restructuring operations or the tax impacts.

3.2 Impact of the Capital Increase and the conversion of the OCEANEs on shareholders

For information purposes, the theoretical impact of the issuance upon the holding of a shareholder owning 1% of the Company's share capital prior to the issuance and who does not subscribe to the Capital Increase (calculation made on the basis of the number of shares comprising the share capital as of May 31, 2010) would be the following:

	Shareholders' equity holdings (in %)		
	Non-diluted basis	Diluted basis	
		(1)	(2)
Prior to issuance of new shares resulting from the Capital Increase	1%	0.78%	0.69%
Following issuance of new shares resulting from the Capital Increase	0.4%	0.2%	0.19%

(1) After conversion of the OCEANEs alone.

(2) Calculated on the basis of (i) the exercise of all outstanding warrants as of April 30, 2010 (even though their exercise price is very much out of the money), (ii) the issuance of all free shares granted as of April 30, 2010 (even though most are subject to conditions of performance and presence- that the Company considers, for certain free shares granted to former management, were unfulfilled due to the discontinuation of this former management's duties) and (iii) the implementation of adjustment mechanisms applicable to certain free shares (on the basis of an assumption that no OCEANEs will be converted into shares before April 1, 2011), but not taking into account the adjustments made to the existing warrants following the Capital Increase.

3.3 Impact on the holders of warrants issued by the Company

Following the completion of the Capital Increase, the rights of the warrants holders have been adjusted by modifying the number of shares to which each warrant gives a subscription right in compliance with articles L. 228-99 3° and R. 228-91 1° a) of the French Code of Commerce and the clauses in the issuing contracts of the warrants GE 1 and GE 2.

The rights of the holders of warrants have thus been adjusted as follows (note that the exercise price of each warrant is unchanged):

Type of warrant	Number of shares per warrant <u>before</u> adjustment	Number of shares per warrant <u>after</u> adjustment
Warrant CS4, CS5 and bis	1.187	1.344
All other warrants issued by the Company: DA 06, EP 06, JMS PC06, LF06, SG06, SO06, EP07, LF07, SO07, SG07, JMS PC 800M, PC 880 M 2008, GE1, GE2, EP 08, LF 08, SG 08 and SO 08	1.000	1.132

Please note that the warrants are very much out of the money since their exercise price ranges between 4.85 and 17.50 euros (see paragraph 15.5 of the 2009 Reference Document registered with the AMF). In any case, under the assumption whereby all the warrants are exercised, they would create 4,122,039 new shares after adjustment (versus 3,641,350 before adjustment).

3.4 Impact on the holders of OCEANEs issued by the Company

The completion of the Capital Increase has led to the implementation of the new terms of the OCEANEs' issuance contract that were approved by the general meeting of the bondholders on February 18, 2010 and the shareholders' general meeting on March 19, 2010.

The changes include the following elements:

- the removal of the possibility for bondholders to request an early redemption of the OCEANEs as of January 1, 2012;
- the extension of the OCEANEs' maturity from January 1, 2014 to January 1, 2041;
- the creation of a new OCEANE buyback option at the bondholders' discretion as of January 1, 2015 at a price of 15.29 euros per OCEANE (which represents a total of 176,423,084 euros if all the OCEANE holders exercise their buyback option). On this basis, the total amount of debt forgiveness on behalf of the bondholders¹ in the case of exercise by all bondholders of their buyback option amounts to 56,265,406 euros;
- a partial early repayment of the OCEANEs nominal value up to 1.77 euros per OCEANE (plus 0.02 euro of interest due), or a total of 20,423,077.74 euros of principal (and 230,769.24 euros of interest due). This partial early repayment occurred on July 22, 2010;
- the interest slightly changed to 2.7% of the new nominal amount of the OCEANEs (following the aforementioned partial early repayment) up until January 1, 2015 and then reduced to 0.1% until January 1, 2041,
- the conversion ratio increased to 8.64 shares per bond until the 7th business day preceding December 31, 2013 (N_1), then 80% of this ratio (N_2) from January 1, 2014 to the 7th business day preceding December 31, 2014 (depending on intermittent adjustments in the event of financial transaction of the Company);
- the removal of bondholders' right to convert or exchange their bonds into shares beyond January 1, 2015;
- the upholding of the change of control clause, subject to the condition that it will give the right to holders of OCEANEs to request the buyback of their bonds for a price equal to the buyback price as of January 1, 2015;
- the removal of the temporary adjustment mechanism for the conversion ratio in the event of a tender offer on the Company's shares; and
- the change of date upon which the new shares issued upon conversion of the OCEANEs are entitled to dividends, such shares carrying the same rights and becoming immediately fungible with the existing shares upon issue.

¹ Calculated as the difference between the total amount of reimbursement as of January 1, 2012 for all OCEANEs (before changes in the OCEANE terms) and the total amount of the buyback price as of January 1, 2015 for all OCEANEs (after changes in the OCEANE terms), increased by the amount of early repayment for all OCEANEs.

4. THEORETICAL IMPACT OF THE ISSUANCE ON THE MARKET PRICE OF THEOLIA SHARES

The theoretical impact on the current market value of the THEOLIA shares, 2.29 euros (average closing price over the 20 market sessions prior to June 23, 2010), of (i) the issuance of new shares and of the conversion of all OCEANES and (ii) the exercise of all equity linked securities allowing access to THEOLIA's capital (warrants and free shares), would be as follows:

Market price of the stock before the transaction (<i>such as results from the average of the 20 market sessions prior to June 23, 2010</i>)	€2.29
Theoretical market price per share after the transaction	
After Capital Increase but before conversion of OCEANES ^(a)	€1.44
After Capital Increase and conversion of 100% of OCEANES ^(b)	€1.82
After Capital Increase, conversion of OCEANES, exercise of warrants and granted free shares ^(c)	€2.05

(a) Calculation takes into account an assumption of transaction expenses of 8.0 million euros.

(b) Calculation based on the conversion ratio applicable after the completion date of the Capital Increase and up to the 7th business day preceding December 31, 2013 (8.64), of the number of shares outstanding as of May 31, 2010 and not including other equity linked instruments (existing warrants and free shares). On the basis of a valuation of the OCEANES at their nominal value, in other words not taking into consideration the debt forgiveness as defined above.

(c) Calculated on the basis of (i) the exercise of all outstanding warrants as of April 30, 2010 (even though their exercise price is very much out of the money), (ii) the issuance of all free shares granted as of April 30, 2010 (even though most are subject to conditions of performance and presence- that the Company considers, for certain free shares granted to former management, were unfulfilled due to the discontinuation of this former management's duties) and (iii) the implementation of adjustment mechanisms applicable to certain free shares (on the basis of an assumption that no OCEANES will be converted into shares before April 1, 2011), but not taking into account the adjustments made to the existing warrants following the Capital Increase.

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In compliance with the legal and regulatory provisions in force, this additional report is available for shareholders at the Company's registered office and will be brought directly to the shareholders' attention at the next general meeting.

The Board of Directors