

2.1 REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

This report (the “Report”) was prepared by the Chairman of the Board of Directors in accordance with Article L.225-37 of the French Commercial Code, and approved by the Board of Directors during the meeting dated April 22, 2014. It concerns compliance with a corporate governance code, the composition and conditions for preparing and organizing the work of the Board of Directors, application of the principle of equal representation of men and women on the Board, the rules approved for determining the compensation and benefits of any kind granted to corporate officers, the limitations made by the Board of Directors to the powers of General Management, the special terms concerning participation of shareholders in the General Meeting together with elements that may impact a public offering or takeover bid, and the internal control and risk management procedures established by the Company.

2.1.1 Corporate governance

Board members are appointed by the shareholders, control the economic and financial management of the Group and participate in setting strategy. They evaluate and approve the broad actions adopted by General Management, which is responsible for implementing them.

The Board of Directors declares that it conducts its work in a collective manner, in accordance with the law, regulations and recommendations of the AMF (French financial regulatory authority) and the MiddleNext Code (as defined below).

2.1.1.1 Corporate governance code

In accordance with Article L. 225-37 of the French Commercial Code, since December 1, 2010, the Company has voluntarily referred to the corporate governance principles of the MiddleNext Corporate Governance Code for Small and Midcap Companies (the “MiddleNext” Code), published in December 2009 and available on the MiddleNext website (www.middlenext.com), under Publications/Middlenext Guides.

The Company implements the Code’s fifteen guidelines. In line with the “comply or explain” principle, recommended by the AMF, a table summarizing the rules set out in the MiddleNext Code and their application within the Company is presented in section 2.1.1.8 hereof.

The Board also declares that it is familiar with the vigilance points in the MiddleNext Code.

2.1.1.2 Internal Regulations of the Board of Directors

The Board of Directors has its own set of Internal Regulations (the “Internal Regulations”) in addition to the legal and regulatory rules and those defined in the Articles of Incorporation adhered to by the corporate body as a whole and particularly the Board members.

The Internal Regulations have been updated several times since being adopted by the Board of Directors during the meeting of April 14, 2006 and complies with Recommendation R6 of the MiddleNext Code.

The full Internal Regulations and Appendices in effect are available on the Company’s website (www.theolia.com, under Finance/Corporate Governance/Documents).

2.1.1.3 Composition of the Board of Directors

Role and members

The Board of Directors is and shall remain a collective body that together represents all shareholders and is obligated to act in the corporate interest of the Company at all times.

2. CORPORATE GOVERNANCE

In performing its legal prerogatives, the Board of Directors performs the following primary missions:

- define the corporate strategy;
- appoint executive officers responsible for managing the Company within the framework of said strategy;
- choose the method of organization; and
- control and ensure the quality of information provided to shareholders and the market via financial statements or for important transactions.

At December 31, 2013, the Company's Board of Directors was made up as follows:

	Office(s)	Date of first appointment	Expiry of term of office
David Fitoussi	Director	July 26, 2010	June 2015
	Chairman of the Audit Committee	July 26, 2010	June 2015
Lilia Jolibois	Director	June 1, 2012	June 2015
Fady Khallouf	Director	March 19, 2010	June 2016
	Chief Executive Officer	May 20, 2010	-
Michel Meeus	Director	March 19, 2010	June 2016
	Chairman of the Board of Directors	July 26, 2010	June 2016

Code of ethics for members of the Board of Directors

Directors shall comply with their various legal and regulatory obligations and those included in the Articles of Incorporation and internal regulations of the Company, and particularly the rights and obligations of the Internal Regulations of the Board of Directors and the Code of Conduct on Insider Trading adopted by the Board of Directors (Note II of the Internal Regulations).

Pursuant to Recommendation R7 of the MiddleNext Code, at the beginning of Board meetings, all directors shall inform the Board of Directors of any conflicts of interest (even if they are only potential) with regard to any items on the agenda and, if such is the case, abstain from participating in the related deliberations. Furthermore, at the request of the Company, when the Registration Document is being prepared and at any time upon request of the Chairman of the Board, the directors shall confirm each year that there are no conflicts of interest between themselves and the Company.

All directors shall endeavor to attend all Board of Directors meetings and those of the committees of which they are members, and ensure that they have obtained all necessary information concerning the topics that are to be addressed during said meetings.

Finally, all directors are bound by an obligation to observe discretion and confidentiality.

Application of the principle of equal representation of men and women and diversity

Pursuant to French Act No. 2011-103 of January 27, 2011 pertaining to equal representation of men and women on boards of directors and supervisory boards, the Board of Directors must include 20% of women in 2014 and 40% in 2017.

Mrs. Lilia Jolibois has been a member of the Company's Board of Directors since June 1, 2012. The Board of Directors has four members, so female representation (25%) complies with the 20% minimum legal requirement.

Furthermore, the current composition of the Board of Directors includes members that each have international experience.

Independence

Members of the Board of Directors are considered to be independent directors if they have no relationship with the Company, its Group or Management, that may compromise their ability to exercise freedom of judgment.

At the date hereof, two of the four Board members are considered to be independent directors with respect to the criteria of Recommendation R8 of the MiddleNext Code, stated below:

	David Fitoussi	Lilia Jolibois	Fady Khallouf	Michel Meeus
Employee or executive corporate officer of the Company or a company within the Group over the previous three years	-	-	Yes	Yes
Lead shareholder in the Company	-	-	-	Yes
Family ties with an officer or a lead shareholder	-	-	-	-
Auditors in the Group over the previous three years.	-	-	-	-
Significant banker, customer or supplier of the Company or Group, for whom the Company or Group represents a significant share of business.	-	-	-	-
Qualification as an independent director	Yes	Yes	No	No

With two independent directors out of four Board members, the composition of the Board of Directors complies with Recommendation R8 of the MiddleNext code, which recommends that the Board should have at least two independent members. Under these conditions, the Board of Directors is able to perform its functions with the necessary independence and objectivity.

Selection of directors

Board members are elected by the Company's General Meeting of Shareholders according to their expertise and the contribution that they are able to make to the management of the Company, while complying with rules of independence, ethics and integrity expected of them.

The executive, financial and sectorial skills of the Company's directors, as well as their diverse experience are complementary advantages that enhance the quality of Board decisions.

Pursuant to Recommendation R9 of the MiddleNext Code, when proposals for the appointment or confirmation of cooptation of a new Board member are made at the Company's General Meeting of Shareholders, shareholders shall be provided with sufficient information on the experience and expertise of the Board member and each appointment is subject to a separate resolution.

Term of office

The term of office of each director (3 years) is adapted to the specific needs of the Company. Furthermore, terms of office are staggered to avoid renewing blocks of Board members in accordance with the recommendations of the MiddleNext Code (R10) and the AMF.

Dates of appointment and the expiry of terms of office, offices and functions held and performed inside and outside the Group, and the main offices and functions held and performed by the Company's directors over the last five years are given in section 2.4 hereof.

No concurrent holding of corporate offices

Members of the Board of Directors have an obligation of diligence towards the Company and must devote the necessary time and attention to their functions.

The list in section 2.4 hereof detailing the functions and offices held and performed by the members of the Board of Directors inside and outside the Group shows that no directors of the Company serve simultaneously as directors on more than five boards of directors of public limited companies registered in France, in accordance with provisions of Article L.225-21 of the French Commercial Code, or of French or foreign companies listed on a regulated stock market.

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Likewise, the executive corporate officers of the Company do not act as directors for any listed French or foreign companies outside the Group in accordance with Recommendation R7 of the MiddleNext Code.

Furthermore, Article 4.6 of the Internal Regulations stipulates that should a director accept an office in addition to those which he/she holds (except for directorships with controlled companies that are not listed), he/she must inform the Chairman of the Board of Directors and they must determine together whether the new responsibility leaves enough time available for the Company.

Employee and/or employee representative Board members

At the year-end closing of financial statements, the Company does not fall within the criteria of Articles L. 225-27-1, I of the French Commercial Code and Article L. 2322-1 of the French Labor Code and as a result, is not subject to the obligation to appoint employee and/or employee representative Board members as specified in the French Act of June 14, 2013.

2.1.1.4 Conditions for the preparation and organization of Board of Directors' activities

Organization of Board meetings

Pursuant to Recommendation R11 of the MiddleNext Code and the Internal Regulations, the Board members receive information and documents concerning the items on the Board meeting agenda several days before the date of the meeting. This allows them to prepare the subjects that will be addressed during the meeting. Subjects that are particularly sensitive or urgent may be discussed without prior distribution of documents or notice may be given close to the date of the meeting.

To facilitate the participation of directors at Board meetings, they may attend meetings in person, by conference call or via videoconferencing. However, the Board of Directors prefers the physical participation of directors at Board meetings in order to facilitate discussions (55% of Board meetings for fiscal year 2013) but also uses telecommunications for Board meetings when geographical distance is an issue for Board members.

The Board of Directors is chaired by Michel Meeus, who organizes and oversees the work of the Board and reports to the Company General Meeting. He sees that the Board examines all items on the agenda and also ensures that the bodies of the Company are operating properly, and particularly that Board members are able to fulfill their functions.

Activity of the Board of Directors during fiscal year 2013

The Board of Directors met 11 times in 2013, an average of 0.92 times a month. The frequency of Board meetings corresponds with Recommendation R13 of the MiddleNext Code.

The Board members had a 100% attendance rate in 2013; all directors were present at each Board meeting, evidence of the high level of dedication and involvement of each of the directors in performing their functions.

During fiscal year 2013, the Board of Directors particularly addressed the following subjects:

- **Governance**
 - approval of regulated agreements in accordance with Article L.225-38 of the French Commercial Code;
 - policy on directors' fees and their distribution;
 - evaluation of achieved performance criteria in the performance share scheme for employees and/or corporate officers of the Company and/or companies of its Group;
 - performance evaluation of the Board of Directors ;
 - evaluation of the variable compensation of the Chief Executive Officer for fiscal year 2012;
 - renewal of the term of office of the Chairman of the Board;

- *Company earnings*
 - approval of the parent company and consolidated financial statements for the fiscal year ending on December 31, 2012 and related reports, consolidated half-year financial statements and the Half-year Financial Report as at June 30, 2013;
 - review and approval of press releases on the annual and half-yearly financial statements;
 - proposal for allocation of earnings;
- *Financial Management of the Company*
 - approval of sureties, endorsements and guarantees;
 - review of the 2013-2015 Business Plan;
 - analysis report on the prevention of corporate difficulties;
 - study of options concerning reimbursement of OCEANE convertible bonds following the failed public takeover bid on the THEOLIA Group initiated by MEIF 4 AX Holdings SAS, a company managed by Macquarie Infrastructure and Real Assets (Europe) Limited;
 - examination of changes to the swap agreement with Credit Suisse concerning OCEANE convertible bonds;
- *Strategy and growth*
 - examination of the situation in Italy and Morocco;
 - follow-up of the control took over Breeze Two Energy GmbH & Co. KG;
 - examination of the terms and conditions of the takeover bid received from MEIF 4 AX Holdings SAS and selection of an independent expert;
- *Risk Monitoring*
 - examination of developments with ecolutions GmbH and Co. KGaA and ongoing disputes;
 - monitoring business development of the environmental division;
 - analysis of the situation of Italian activities;
- *Preparing the Annual Ordinary General Meeting*
 - calling of the Annual Ordinary General Meeting (draft agenda and resolutions);
 - preparation of General Meeting reports (management report, report of the Chairman of the Board of Directors on corporate governance, internal control procedures and risk management, report of the Board of Directors on the text of draft resolutions to be voted on by the General Meeting); and
 - examination of requests made by a shareholder to include draft resolutions on the agenda for the Ordinary General Meeting.

Evaluation of the work of the Board of Directors

The Board of Directors evaluates its own operation and the preparation of its work on a regular basis. Once a year, it conducts an annual review of its work in accordance with Recommendation R15 of the MiddleNext Code.

Discussions on the past fiscal year mainly focused on the following:

- the evaluation and contribution of each director, particularly during Board exchanges concerning the public takeover bid initiated by MEIF 4 AX Holdings SAS; and
- compliance with governance best practices in order to avoid any conflicts of interest, even potential, concerning issues addressed by the Board. In particular, David Fitoussi abstained from participating in all decisions relating to Breeze Two Energy.

2. CORPORATE GOVERNANCE

Audit Committee

The Company has had an Audit Committee since 2006. It is organized in accordance with Recommendation R12 of the MiddleNext Code.

On the date hereof, the Audit Committee is composed of:

- David Fitoussi, Chairman of the Committee since July 26, 2010, independent director with accounting and financial expertise; and
- Lilia Jolibois, member of the Committee since June 1, 2012, independent director with accounting and financial expertise.

Main functions

The Audit Committee assists the Board of Directors in ensuring the accuracy and honesty of the Group's consolidated and parent company financial statements, the quality of internal control, and that information is issued to shareholders and the market.

The main functions of the Audit Committee are as follows:

- ensuring that all internal control and risk management systems are functioning properly;
- assessing the main risks to the Group with General Management on a regular basis;
- overseeing the selection and renewal of Auditors, providing input on the fees requested by them and submitting the results of its work to the Board of Directors;
- ensuring that the Auditors' other work does not affect their independence;
- assessing the audit plan of the Auditors, their findings and their recommendations;
- ensuring the relevance and continuity of accounting methods used to prepare the consolidated and parent company financial statements, assessing and evaluating the scope of consolidation; and
- examining the consolidated and parent company financial statements before they are presented to the Board of Directors.

The Audit Committee schedules its own meetings. However, an Audit Committee meeting may be called at the request of its Chairman, two of its members or the Chairman of the Board of Directors.

Work of the Audit Committee in 2013

The Audit Committee met twice in 2013. The Auditors attended each meeting.

It was provided with the necessary accounting and financial documents, particularly for drawing up the annual financial statements and examining the half-year financial statements prior to the relevant meetings.

During the fiscal year, the Audit Committee mainly worked on the following:

- the review of consolidated and parent company financial statements for the fiscal year ending December 31, 2012 and related reports, and
- the review of half-year consolidated financial statements and the Half-year Financial Report as at June 30, 2013.

The Chairman of the Audit Committee provided the Board of Directors with a report of each committee meeting.

Outlook for 2014

In 2014, the Audit Committee will devote itself to:

- reviewing the risks and challenges of business in Italy;
- reviewing the activities of the environmental division and the conditions for removing them from the scope of consolidation;
- methods for optimizing business financing; and
- examining solutions that will improve the structure of the Company's balance sheet.

2.1.1.5 Principles for compensation of corporate officers

The Board of Directors determines compensation for corporate officers.

Pursuant to Recommendation R2 of the MiddleNext Code, compensation and indemnity amounts received by the Company's executive corporate officers are outlined exhaustively in a justified, consistent, readable and transparent manner in section 2.3.1 hereof. Furthermore, the compensation for non-executive corporate officers is outlined in section 2.3.2 hereof.

Director's fees

The General Meeting of June 1, 2012 voted to allot an annual total of 250,000 euros in directors' fees to the members of the Board of Directors for fiscal year 2012 and future fiscal years until otherwise decided by the General Meeting.

Directors' fees are distributed between members of the Board of Directors according to their actual presence at meetings, as well as their work on the Audit Committee and their involvement, in accordance with Recommendation R14 of the MiddleNext Code.

For fiscal year 2013, a gross total of 140,250 euros from a total budget of 250,000 euros was distributed in directors' fees.

During the meeting of February 4, 2014, the Board of Directors confirmed that directors' fees for 2013 would be distributed as follows:

- 30,000 euros (annual baseline) for each non-executive director for their duties as Board members (lowered to 22,500 euros if they are present for less than 75% of Board meetings);
- 15,000 euros for the Chairman of the Audit Committee; and
- 11,250 euros for each member of the Audit Committee (lowered to 8,500 euros if they are present for less than 75% of Committee meetings).

On the same day, the Board of Directors also confirmed its decision to allot an additional 24,000 euros in directors' fees to the Chairman of the Board of Directors for fiscal year 2013 in recognition of his work in organizing and preparing the work of the Board of Directors and his strong involvement and availability throughout fiscal year 2013.

Please note that Fady Khallouf does not receive any directors' fees for his role as a Company board member.

Compensation for executive corporate officers of the Company

Compensation for the Chairman of the Board of Directors only includes directors' fees.

The CEO receives a fixed compensation and a variable compensation based on targets set by the Board of Directors, in accordance with Recommendation R2 of the MiddleNext Code, detailed in section 2.3.1.2 hereof. He also benefits from a success bonus, the amount of which is capped, in the event of the performance, before a date set by the Board of Directors, of significant projects for the Company's expansion, also meeting an objective set on the Company's stock price.

The CEO also receives an additional pension package, detailed in section 2.3.1.2 hereof. This practice complies with Recommendation R4 of the MiddleNext Code. Furthermore, the CEO has a non-compete clause detailed in section 2.3.1.4 hereof. This practice complies with Recommendation R3 of the MiddleNext Code considering that, if he were to resign from office, payment of the compensation would be at the Company's discretion.

In accordance with the Board of Directors' decision of December 1, 2010, stock options based on achieving stock market performance targets were allocated to the CEO. This plan complies with Recommendation R5 of the MiddleNext Code. For more information concerning stock options currently outstanding, please refer to sections 5.1.6, Note 21.3, 2.3.1.3 and 6.2.5.3 hereof and section 2.3.1.3 of THEOLIA's 2011 Registration Document submitted to the AMF on April 27, 2012 and available on the Company's website.

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Based on the authorization granted in the 24th resolution of the General Meeting of Shareholders of June 1, 2012, the Board of Directors allotted 900,000 free performance shares to the CEO during the meeting of December 10, 2012. The definitive acquisition of these shares was subject to attendance and performance conditions related to the achievement of operational, financial and stock market objectives for the fiscal years ending December 31, 2012 and December 31, 2013. This plan complies with Recommendation R5 of the MiddleNext Code. For more information concerning performance shares under acquisition, please refer to sections 5.1.6, Note 21.2, 2.3.1.3 and 6.2.5.2 hereof.

No concurrent holding of a corporate office and employment contract

Fady Khallouf and Michel Meeus were not employed by the Group when appointed as the Company's CEO and Chairman of the Board respectively. Therefore, they do not concurrently hold a corporate office and employment contract in compliance with regulatory provisions in effect and Recommendation R1 of the MiddleNext Code.

Service agreement

As far as the Company is aware, the members of the Board of Directors are not bound to the Company or any of its subsidiaries by a service agreement that would grant advantages at the end of the contract.

2.1.1.6 Organization and operation of General Management

Separation of the functions of Chairman of the Board and Chief Executive Officer

The Board of Directors chose to separate the functions of Chairman of the Board and Chief Executive Officer in order to comply with best practice in terms of governance, ensure the balance of power within the Board of Directors and avoid potential conflicts of interest.

The list of offices and functions currently held and performed inside and outside the Group, as well as the main offices and functions held and performed over the last five years by the CEO, Fady Khallouf, and Chairman of the Board, Michel Meeus, are listed in section 2.4 hereof.

Limitations of General Management powers

The powers of General Management are governed by a delegation of powers appended to the Internal Regulations. Said delegation of powers stipulates that the Board of Directors must grant prior approval for any decisions related, in particular, to the following:

- defining the annual budget and strategy;
- any spending or contractual commitment not approved in the annual budget and/or exceeding 15% of the amount approved in the annual budget;
- any acquisition and sale decisions not approved in the annual budget;
- any decisions to expand into new geographic areas;
- any sureties, endorsements and guarantees; and
- any summons or transactions concerning a dispute over an amount of more than 1 million euros.

However, it is specified that, by a decision of March 28, 2012, the Company's Board of Directors granted the Chief Executive Officer a general authorization to grant the sureties, endorsements and guarantees mentioned in Article L.225-35 section 4 of the French Commercial Code, in the name and on behalf of the Company for a period of one year as from said date, for a total amount of 11 million euros within the following limits: (i) 1 million euros for sureties, endorsements and guarantees that may be granted to all companies of the THEOLIA Group, and (ii) 10 million euros for sureties, endorsements and guarantees that may be granted to THEOLIA Utilities Investment Company for any agreements that are required or useful for investment operations, including any operational, acquisition or sale agreements involving wind farms or projects. Said authorization ended on March 28, 2013.

During fiscal year 2014, the Board of Directors will grant the CEO with a new authorization limited to a set amount and a maximum period of one year.

2.1.1.7 Other elements provided for in Article L. 225-37 of the French Commercial Code

Participation of shareholders in General Meetings

All shareholders have the right to take part in General Meetings, regardless of the number of shares they own:

- by attending in person;
- by voting by correspondence;
- by giving proxy to the Chairman, another shareholder, their spouse, their partner in a civil union or any other person or legal entity of their choice, as provided for in Article L. 225-106 of the French Commercial Code; or
- by giving proxy to the Company without indicating the representative. It is specified that for any proxy granted by a shareholder without mention of the representative, the Meeting's Chairman will vote in favor of adopting the draft resolutions presented or approved by the Board of Directors and a vote against any other draft resolutions.

To participate in Meetings, shareholders must provide proof of their status by having shares registered in their name or in the name of the agent registered on their behalf by midnight, Paris time, three business days prior to the Meeting (hereafter "D-3") in the registered share accounts or in the bearer share accounts held by authorized agents. For registered shareholders, registration at D-3 in the registered share accounts is sufficient to enable them to take part in the Meeting. For bearer shareholders, the authorized agents holding the shares must directly prove the shareholder status of their clients to the centralizing bank of the Shareholders' Meeting by providing a shareholding certificate appended to the single form for mail-in voting (or via proxy) or at the request of an admission card made out in the name of the shareholder or on behalf of the shareholder represented by the registered agent.

Elements that may have an impact in the event of a public offering or takeover bid

Pursuant to Article L. 225-37 of the French Commercial Code, it is specified that the elements that may have an impact in the event of a public offering or takeover bid are presented and detailed in accordance with Article L. 225-100-3 of the French Commercial Code in section 6.3.4 hereof.

2.1.1.8 Compliance with MiddleNext Corporate Governance Code Recommendations

	Recommendations	Compliance	§
R1	Concurrent employment contract and corporate office	Yes	2.1.1.5
R2	Definition and transparency of compensation for executive corporate officers	Yes	2.1.1.5
R3	Severance packages	Yes	2.1.1.5
R4	Additional pension packages	Yes	2.1.1.5
R5	Stock options and free allotment of shares	Yes	2.1.1.5
R6	Implementation of Board of Directors' internal regulations	Yes	2.1.1.2
R7	Code of ethics for Board members	Yes	2.1.1.3
R8	Composition of the Board – Presence of independent members on the Board	Yes	2.1.1.3
R9	Selection of directors	Yes	2.1.1.3
R10	Term of office of Board members	Yes	2.1.1.3
R11	Board member information	Yes	2.1.1.4
R12	Committee creation	Yes	2.1.1.4
R13	Board of Directors and Committee meetings	Yes	2.1.1.4
R14	Compensation of directors	Yes	2.1.1.5
R15	Evaluation of the work of the Board of Directors	Yes	2.1.1.4

2. CORPORATE GOVERNANCE

2.1.2 Internal control and risk management

The internal control process implemented within the Group by General Management since 2010 involves continuous controls conducted by each functional or operational department of the Group and developed according to internal procedures. These controls entail constant reporting to General Management and related departments. The risks that are identified are reported to the Audit Committee while General Management coordinates in-house work required to rectify them.

At the request of the Chairman of the Board, General Management worked together with the Company's main operational and functional departments to put together the information for this report on internal control and risk management procedures. The internal control process used by the Group takes into account the opinions and recommendations of the AMF. This report was written based on the working group report on audit committees and on the implementation guide for small and midcap companies of the reference framework on risk management and internal control systems published by the AMF.

Like all control systems, the Company's internal control system can only provide reasonable assurance and not an absolute guarantee that risks are managed and controlled.

2.1.2.1 *Definition of internal control and objectives*

Internal control is an integral part of the Group's governance strategy and is implemented to assist the Audit Committee and General Management in their consideration of risk management.

Internal control is a management lever for the Group that aims to ensure the following:

- compliance with laws and regulations in effect;
- reliability of financial and accounting information;
- decision-making security within the Group;
- application of General Management instructions and strategies;
- proper operation of the Company's internal processes and particularly those intended to preserve its assets;
- management of all risks related to the Company's business and risks of errors and fraud;
- consistency between the actions and values of the Group; and
- in general, contribution to managing its activities, operational efficiency and efficient use of resources.

The internal control procedures apply to all companies included in the scope of consolidation, i.e. the parent company and entities controlled as per IFRSs. In some fields, these procedures are different depending on whether the entity in question is located in France or another country.

Following the integration of Breeze Two Energy into the Group on January 31, 2013, a new organizational structure was put in place in order to produce significant operational synergies and optimize management, which until then had been subcontracted out to several external service providers. The Group's internal control and risk management system is currently being implemented within said entity and its subsidiaries.

2.1.2.2 *Internal control system*

The aim of the Group is to have an internal control and risk management system that works at each level of management while remaining adapted to the structural characteristics of the Group. The system relies on an organizational framework that clearly defines the roles and responsibilities of all parties, an efficient risk management process and management of internal communication. It is not limited to the procedures in place in order to gain reliable accounting and financial information.

An organizational framework that clearly defines the roles and responsibilities of all parties

The internal control and risk management organization implemented by General Management in 2010 has enabled the Company to improve implementation of crosscutting procedures with the primary aims of (i) achieving more harmonized activities within the Group and (ii) optimizing reporting from subsidiaries to the parent company.

Internal control and risk management require the participation of all players of the Group. The Audit Committee monitors the efficiency of internal control and risk management systems and with General Management, examines the main risks to the Group on a regular basis. All employees of the Group concerned also have the knowledge and information needed to set up, run and monitor the internal control system based on their assigned objectives.

The internal control system covers numerous accounting, financial and operational reporting processes. When required, the relevance of controls and any adaptations are examined, particularly in the light of feedback, organizational changes and new decisions made by General Management and functional or operational departments.

An efficient risk management process

To ensure long-term development and achieve objectives, the Group works to anticipate and manage the risks that it may encounter in its activities.

The main risk factors are identified and analyzed in section 4.4 hereof, along with the strategies for better anticipating and managing them.

Furthermore, as a wind power company, the Group's industrial and environmental risk exposure is extremely low. Section 3 hereof identifies the potential risks related to the impact of its activities on the environment and people, outlines the management policy implemented and measures its efficiency.

The Company's General Management, working closely with the Audit Committee, updates the definition of significant risks, which are then managed by the Group's functional or operational departments.

Risk identification and evaluation are part of a continuous process that covers risks that can have significant implications on the financial and operational situation of the Group.

Management of internal communication

Relevant information must be identified, compiled and communicated internally in some manner and within a timeframe that enables all parties to manage and control the operations for which they are responsible.

Official minutes of Board of Directors and Audit Committee meetings therefore focus on decisions that are made and actions that must be carried out in order to ensure that the relevant Group employees receive the right information.

Meetings are organized between General Management, the functional and operational departments of the Company and General Management of each subsidiary according to the priorities of the Group while trying to take into account availabilities.

Periodic meetings are organized with all head office employees and General Management in order to present the main actions underway and the challenges for the forthcoming period. Periodic meetings are also organized with the employees of the main subsidiaries and the Group's General Management.

2.1.2.3 Implementation of internal control

The implementation of internal control within the Group is part of a continuous improvement strategy that relies mainly on improving procedures for communication and harmonization of intra-group practices and adapting them as risks evolve and operational feedback on their efficiency is collected. This makes it possible to develop practices in order to more efficiently manage the risks that are inherent to the Group's activities.

2. CORPORATE GOVERNANCE

Compliance with laws and regulations

The Company is subject to regulations in force that apply to all companies, as well as legal and regulatory provisions that specifically apply to listed companies (particularly the General Regulations of the AMF).

Each functional or operational department of the Group is responsible for complying with the laws and regulations of its area of expertise.

Reliability of accounting and financial information

The Group's accounting and financial information is compiled and processed in accordance with procedures for year-end closing of financial statements and consolidation, cash flow monitoring, financial communication and the verification of compliance with laws and regulations in force.

Compiling and processing accounting and financial information

To ensure the quality and reliability of its financial and accounting information, the Group mainly relies on a set of accounting principles and standards, and on a reporting and consolidation system that is used by the entities within the scope of application to ensure data consistency, quality and reliability via strict verification processes before it is reported to the parent company.

When the consolidated financial statements are drawn up, validation procedures apply to each stage of the information processing and reporting process. Their purpose is to verify the following, in particular, on a half-yearly basis:

- the correct adjustment and elimination of internal transactions;
- the verification of actual consolidation operations;
- proper compliance with standards; and
- the quality and homogeneity of consolidated accounting and financial data and, in particular, consistency between accounting data and management data.

The main procedures used to draw up the parent company and consolidated financial statements are particularly based on:

- a consolidation procedure manual updated on a regular basis. It covers accounting principles to be implemented, standards in force and use procedures for IT tools;
- consolidation instructions communicated to subsidiaries for year-end and half-yearly closing of accounts. These instructions include a schedule for closing of financial statements, the team in charge, the consolidation scope, applicable Group accounting principles and the content of the financial statements. Meetings are held with finance teams to check that they have been understood properly;
- improved subsidiary monthly income statement reporting by operational segment in accordance with IFRSs, submitted by country directly to the parent company. In addition to providing information for Group management, this approach allows more effective closing procedures to be implemented to produce reliable financial information; and
- with the support of the Legal Department, improved quarterly reporting of the Group's off-balance-sheet commitments, now achieved via a consolidation information system to ensure that data collected from the Group's subsidiaries is consistent and more complete.

The implementation of fiscal risk mapping and periodic fiscal reporting was postponed to the current fiscal year.

Players involved in controls

- accounting for subsidiaries of the Group is carried out under the responsibility of subsidiary managers. These managers are required to write up and sign an intra-group letter of representation in which they confirm, in particular, that submitted financial statements comply with the Group's accounting principles;
- financial reports are submitted to the holding company and verified by the consolidation team under the responsibility of the Group's Chief Financial Officer, a role currently fulfilled by the Company's Chief Executive Officer;

- in drawing up financial statements, the Group sometimes calls on experts from various fields, particularly with regard to complying with IFRSs on financial consolidation. The Group's Finance Department works to remain informed of new IFRSs in order to better report and anticipate their impacts on Group financial statements;
- the Project Financing, M&A and Cash Department is responsible for processing and centralizing cash flows, and covering interest rate risks, ensuring that an inventory and accounting of commitments is kept;
- investment plans are endorsed by the Chief Executive Officer and validated by the Board of Directors. Any changes to projections are subject to specific prior approval;
- accounting and financial documents prepared by consolidated subsidiaries are looked over by Auditors at the half-year closing of financial statements and fully audited at the year-end closing of financial statements. This work also includes validating the switching of financial statements from local accounting principles to IFRSs; and
- in accordance with legal provisions, the Company has two Auditors who also rely on the validation of accounting information, including consolidation adjustments made by their network of local auditors working across the various subsidiaries.

Financial communication

As a listed company, the Company publishes the following in accordance with the laws and regulations in effect:

- periodic information on a consistent basis: quarterly revenue, Annual Financial Report and Half-year Financial Report;
- a Registration Document; and
- press releases for events considered important and/or that may considerably influence the stock market price, reflecting changes in the Company's business and strategy.

The Company also presents the results of the Group twice annually under the aegis of the French Society of Financial Analysts (SFAF - *Société française des analystes financiers*) and holds its annual Ordinary General Meeting.

Financial information is compiled, validated and published according to a structured process:

- the Financial Communication Department is the only department authorized to compile and publish financial information for external use;
- the Accounting/Consolidation Department is the sole source of financial information. Other data and information (particularly operational data and information) is submitted to the Financial Communication Department by various specific departments in the Group;
- all financial information to be published is documented internally; and
- all financial information to be published must be checked and validated before publication. The validation process includes the Accounting/Consolidation Department, the Auditors and General Management.

The Group's Registration Document has been submitted to the AMF in accordance with its General Regulations after being checked by the Auditors.

Identification and evaluation of risks

General Management, in close collaboration with the Company Audit Committee, is responsible for ensuring that each operational and functional department of the Company and the General Management of each subsidiary complies with internal control rules and procedures.

Since 2010, enhanced information reporting procedures and the harmonization of practices within the main subsidiaries of the Group have led to the identification of areas for improvement and better internal control, including:

- regular risk monitoring in all fields of activity;
- ongoing securing of the project portfolio and project monitoring;
- implementing internal control in all subsidiaries of the Group; and

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- securing and archiving professional documents.

Furthermore, the continuous management of internal control by General Management helps drive and monitor the internal control system in order to better adapt it to the situation and activity of the Group.

General Management is responsible for reporting internal control information to the Board of Directors and Audit Committee. The Board of Directors and Audit Committee may carry out checks that they deem necessary or take any other measures that they deem appropriate to manage any dysfunctions.

Over the course of the current fiscal year, General Management and the Audit Committee will continue to improve risk management and strengthen crosscutting approaches across the Group so that the technical expertise of each subsidiary is efficiently made available to the entire Group.

Changes to the political, economic and financial frameworks in Italy, and particularly regulatory and economic frameworks in the renewable energy sector have led to the implementation of specific management of the Italian subsidiary's activities. The decision by authorities to lower rate incentives penalizes the Company with respect to the historic investments it made in Italy in 2007, 2008 and 2009. The new organization implemented to manage activities helps minimize risks for the Company.

Other intra-group practices implemented for internal control

Cash management

Since 2010, the Audit Committee and General Management of the Group have implemented measures and tools to improve the process used to prepare the Group's forecasts and cash flow statements, and to validate and make cash flow information more reliable.

Financial flows are controlled via specific corporate procedures, investment, borrowing and hedging transactions are centralized and controlled by the Cash Flow Department along with the management of subsidiary bank accounts (risks related to the Group's debt, liquidity and interest rates are outlined in sections 4.4.3.1, 4.4.3.2 and 4.4.3.5 hereof).

Legal Department

The Group has implemented the following procedures to manage legal risks more efficiently:

- monthly reporting of disputes within the Group was revised in 2013 to better evaluate the level of risk related to the outcome of disputes and litigations and therefore anticipate risk provisions (more information on litigation risks is given in section 4.4.4.4 hereof);
- new monthly reporting to manage pre-litigation was implemented with subsidiaries in 2013 to provide early anticipation of risks related to future disputes;
- quarterly reporting to manage the Group's off-balance-sheet commitments was optimized in order to manage risks related to obligations from off-balance-sheet commitments (the risks from these commitments are restated in section 4.4.3.6 hereof); and
- quarterly reporting to manage the legal scope of the Group.

Project control

As part of securing its project portfolio and preventing risks related to the activities of the Group:

- monthly reporting of its wind portfolio constantly updates risk levels used to determine accounting reserves and write-down to be recorded (risks related to the difficulty to obtain building permits and operating authorizations are included in sections 4.4.1.2 and 4.4.1.7 hereof);
- periodic reviews of projects with development managers provide opportunities to discuss the budget status, validate projects ready to be developed and outline development outlooks and main strategies; and

- the Group's insurance policies are closely managed in order to better prevent and manage the main risks related to the Group's wind activities (the risks covered by insurance are listed in section 4.4.5 hereof).

Management control

The Group's Management Control Department plays an important role in the process that monitors and controls the performance of subsidiaries. It coordinates the preparation of annual budgets and meticulously controls outputs and estimates. This work is based on specific rules for reporting and budget preparation such as:

- the control of key operational data by combining the use of technical tools for reporting;
- better budget planning via the implementation of a standardized calculation model so that local staff can use a common tool for financial forecasting;
- improved monthly budget reporting/re-forecasting in order to produce more qualitative and in-depth analyses for almost all income statements of companies in the Group; and
- a vertical approach to management control in the Group.

Human resources

The quality and skills of the Group's employees are key elements of the internal control system. The Group's human resources policy has focused on improving the recruitment process, implementing a career development system in addition to the annual performance evaluation system for each employee of the holding company and the French subsidiary, and investment in training.

In an ongoing effort to optimize its organizational structure, the Company promotes cross-management between its teams. The Group is organized into an integrated industrial group with areas of expertise available to all countries.

A new reporting tool was implemented within the Group to help perform legal obligations related to the Company's social responsibility (detailed in section 3.3 hereof) and improve communication of social information.

Information systems

In accordance with the IT policy implemented in 2010, which improved and harmonized measures related to the use of information systems and network access conditions, protecting the data linked to the various systems used by the Group remains one of the priorities of the IT Department. In order to ensure IT security, the data back-up system was entirely revamped. The original back-up software and hardware were replaced with more recent versions that provide much greater storage capacity and better recovery granularity.

To increase the MTTR (Mean Time To Recover), critical servers were virtualized and integrated into a server farm. The architecture was also equipped with several redundant systems: servers, power supplies, switches, disks and databases.

The implementation of all these tools helps secure information systems and protect the Group's value production.

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2.2 REPORT OF THE STATUTORY AUDITORS ON THE REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

To the Shareholders,

In our capacity as Statutory Auditors of THEOLIA and in accordance with Article L.225-235 of the French Commercial Code, we hereby report on the report prepared by the Chairman of your Company in accordance with article L.225-37 of the French Commercial Code for the year ended December 31, 2013.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the Company and containing the other disclosures required by article L.225-37 of the French Commercial Code, particularly in terms of corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- to attest that this report contains the other disclosures required by article L.225-37 of the French Commercial Code, it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board in accordance with article L.225-37 of the French Commercial Code.

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L.225-37 of the French Commercial Code.

In Paris and Marseilles, on April 22, 2014

The Statutory Auditors

Deloitte & Associés

Cabinet Didier Kling & Associés

Christophe PERRAU

Didier KLING

Christophe BONTE