Gaz de France

Gaz de France

A *société anonyme* with a share capital of € 983,871,988
Registered Offices: 23 rue Philibert Delorme – 75017 Paris
Paris Companies Register 542 107 651

This document is an informal English translation of the *document de référence* registered with the French *Autorité des marchés financiers* under No. R. 07-046 on 27 April, 2007. In case of any discrepancy between this document and the *document de référence*, the *document de référence* will govern. This document is not an offer to sell or the solicitation of an offer to purchase shares of Gaz de France, and it is not to be used for any offer or sale or any such solicitation anywhere in the world. Shares of Gaz de France may not be sold in the United States absent registration or an exemption from registration under the U.S. Securities Act of 1933, as amended. Gaz de France does not intend to register any portion of any offering in the United States or to conduct a public offering of shares in the United States.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

Pursuant to Article 212-13 of its General Regulation, the *Autorité des marchés financiers* registered this *document de référence* on 27 April, 2007 under number R. 07-046. It may be used as a basis for a financial transaction only if it is completed with a *note d'opération* approved by the *Autorité des marchés financiers*. This *document de référence* has been prepared by the issuer and is binding on the signatories. This registration, completed after a review of the relevance and consistency of the information provided on the company's financial situation, does not imply certification of the accounting and financial data presented.

Pursuant to Article 28 of European Regulation n°809/2004 of April 29, 2004, this *document de référence* incorporates by reference the following information:

- the Group's consolidated financial statements, established in accordance with IFRS for the year ended December 31, 2005, and the related statutory auditors' report presented on pages 182 to 301 of the Company's 2005 *document de référence* registered by the French *Autorité des marchés financiers* on May 5, 2006 under number R.06-050;
- the Group's consolidated financial statements, established in accordance with generally accepted French standards for the year ended December 31, 2004, and the related statutory auditors' report presented on pages 217 to 265 of the Company's *document de base* registered by the *Autorité des marchés financiers* on April 1, 2005 under number I.05-037.

Copies of this *document de référence* are available free of charge from Gaz de France, located at 23 rue Philibert Delorme – 75017 Paris, from the Company's website (http://www.gazdefrance.com) and from the website of the *Autorité des Marchés Financiers* (http://www.amf-france.org).

Note

*In this document de référence ("document de référence"), the terms "**Gaz de France**", the "**Company**" or the "**Issuer**" mean the company Gaz de France as identified in paragraph 5.1 – "History and Development of the Company." The term "**Group**" means Gaz de France and its subsidiaries, for which a simplified organizational chart appears in Chapter 7 – "Organizational Chart."*

A table of measurement units for natural gas and other energy products, as well as a glossary of the most commonly used technical terms is located in Appendix A and Appendix B of this document de référence.

Summary

1 PERSON RESPONSIBLE

1.1 Person responsible for the *document de référence*

Jean-François Cirelli, Chairman and Chief Executive Officer.

1.2 Certification of the person responsible for the *document de référence*

To the best of my knowledge all the information in this *document de référence* is true and accurate and does not omit any information, which could make it misleading.

I have received from the statutory auditors a work completion letter (lettre de fin de travaux) in which they indicate that they have verified the information concerning the financial position and historical financial statements and have read this *document de référence* in its entirety. This letter does not include any observations.

The Statutory Auditors have established reports on the historical financial statements presented in this *document de référence*, appearing in paragraph 20.1.1.2, which contain no observations.

The consolidated financial statements for the years ended December 31, 2005 and 2004, established respectively in accordance with IFRS and generally accepted French accounting standards, were subject to statutory auditors' reports appearing respectively in chapter 20.1.1.2 of the Company's 2005 *document de référence* registered by the French *Autorité des marchés financiers* on May 5, 2006 under number R.06-050 and in chapter 5.6.3 of the Company's *document de base* registered by the *Autorité des marchés financiers* on April 1, 2005 under number 1.05-037, and containing:

- for fiscal year 2005, an observation concerning the accounting treatment adopted for concessions in the absence of specific provisions governing this issue in the IFRS as adopted in the European Union, and in particular the fact that the application of the intangible model as determined by draft interpretation D14 from the IFRIC could have led Gaz de France at December 31, 2005 to reduce the concession assets and liabilities by the amount under the item "concess on grantors' rights in assets";
- for fiscal year 2004, observations concerning:
  - the description of the reform of the financing of the electricity and gas industry retirement plan, and the financial and accounting consequences of this reform for Gaz de France;
  - the absence of a reliable valuation of the commitment that existed at December 31, 2004 within the context of the health coverage scheme, and the financial and accounting consequences for Gaz de France of the reform of the financing of the scheme which occurred in February 2005;
  - the changes in the valuation of the provision for dismantling the Gaz de France distribution network.

Jean-François Cirelli
Chairman and Chief Executive Officer

2 PERSONS RESPONSIBLE FOR THE AUDIT OF THE FINANCIAL STATEMENTS

2.1 Statutory auditors

2.1.1 Primary statutory auditors

Mazars & Guérard
Tour Exaltis
61 Rue Henri Regnault
92075 Paris La Défense Cedex
Represented by Michel Barbet-Massin and Xavier Charton.

Ernst & Young Audit
Faubourg de l'Arche
11, allée de l'Arche
92037 Paris-La Défense Cedex
Represented by Patrick Gounelle and Philippe Hontarrède.

The firms Mazars & Guérard and Ernst & Young Audit have been the primary statutory auditors of Gaz de France since January 1, 2002. The mandate of the primary statutory auditors will expire at the end of the annual general shareholders' meeting called to approve the financial statements for the year ended December 31, 2007.

2.1.2 Substitute statutory auditors

Auditex
81, rue de Miromesnil
75008 Paris
Represented by Alain Bitton.

Cailliau Dedouit et Associés
19, rue Clément-Marot
75008 Paris
Represented by Jean-Jacques Dedouit.

The firms Auditex and Cailliau Dedouit et Associés have been the substitute statutory auditors of Gaz de France since January 1, 2002. The mandate of the substitute statutory auditors will expire at the end of the annual general shareholders' meeting called to approve the financial statements for the year ended December 31, 2007.

2.2 Resignation of the statutory auditors

None.

3 SELECTED FINANCIAL INFORMATION

For the year ended 2006, the Gaz de France Group applied IFRIC interpretation 12 to concession agreements. The implications are detailed in the introduction to Chapter 9.

EBITDA was deleted from the income statement, but maintained as an indicator of operational performance. A reconciliation with the financial statements is integrated in Chapter 20 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Appendix / Note 30.2".

The financial data presented below is intended to present and succinctly analyze the changes between 2005 and 2006, in revenues, operating performance and the financial structure of the Gaz de France Group.

In millions of euros	2006	2005 Restated(2)	*Change*	2004 Restated(3)
Net revenues	**27,642**	22,872	*+21%*	18,001
EBITDA	**5,149**	4,248	*+21%*	4,163
Operating Income	**3,608**	2,821	*+28%*	2,255
Consolidated net income	**2,298**	1,782	*+29%*	1,307
Operating cash flow	**5,118**	4,254	*+20%*	4,199
Net earnings per share (1)	**2.34**	1.89	*+24%*	1.45

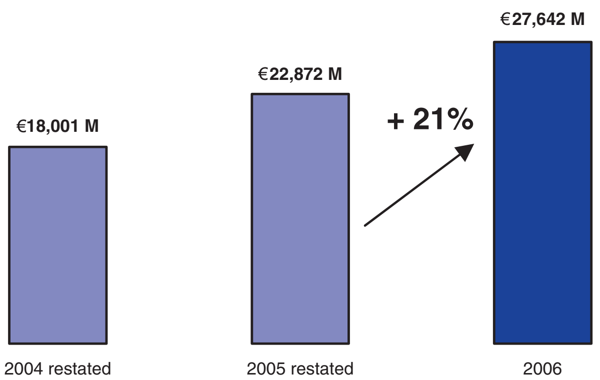
(1) *Average number of shares outstanding in 2006: 983,718,801 compared with 942,438,942 in 2005. The number of shares was doubled in the first half of 2005 as the result of a two-for-one bonus issue (see Chapter 20 Note 7"). On the basis of the effective nominal value, 2004 earnings per share were 2.89 euros.*

(2) *Restated, pursuant to IAS 8, for the impacts of the application of standards IFRIC12 and IFRIC 4.*

(3) *Post-reform pro-forma of the unaudited pension plan restated, as required by IAS 8, for the impacts of the application of IFRIC12 and IFRIC 4. The published data for 2004 are provided in Chapter 20 of the 2005 document de référence.*

3.1 Revenues

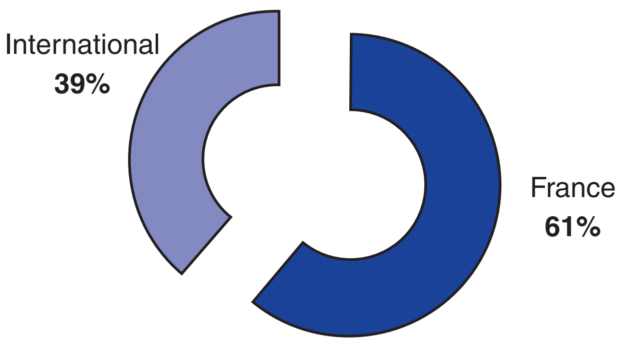
Revenues up 21%



Breakdown of 2006 revenues by division / segment

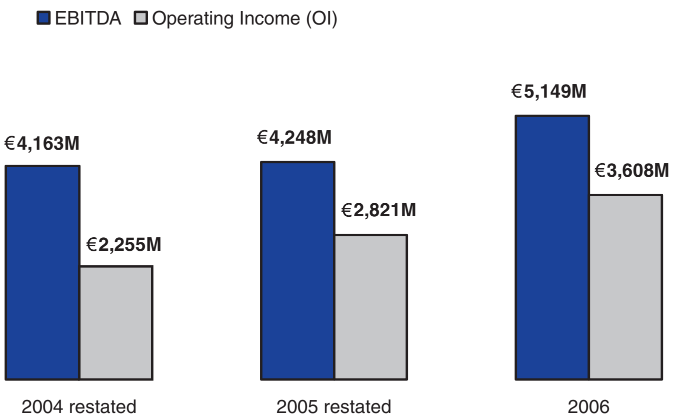
In million of euros	2006	*Change vs 2005*
Energy Supply and Services Division		
Exploration – Production	1,659	*46%*
Purchase and Sale of Energy	20,481	*19%*
Services	2,181	*13%*
Infrastructure division		
Transmission and Storage – France	2,227	*5%*
Distribution France	3,289	*-4%*
Transport and Distribution – International	3,570	*57%*
Eliminations, other and not allocated items	-5,765	
TOTAL GROUP	**27,642**	***+21%***

Breakdown of 2006 revenues by destination



3.2 Operating performance

21% increase in EBITDA and Operating Income (OI) up 28%



Breakdown of EBITDA at December 31, 2006 by division / segment

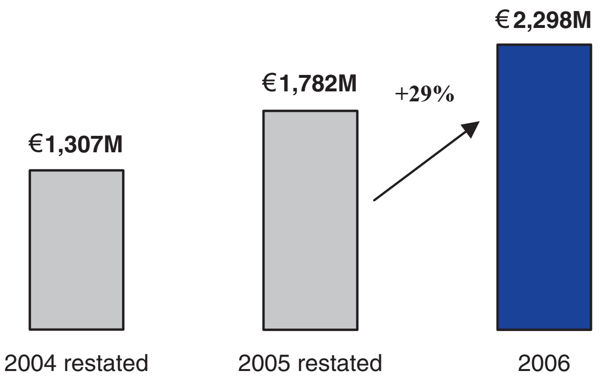
The reconciliation of this indicator with the financial statements is described in Note 30-2 to the consolidated financial statements.

In millions of euros	2006	%
Energy Supply and Services Division		
Exploration-Production	1,270	25%
Purchase and Sale of Energy	441	9%
Services	189	4%
Infrastructure division		
Transmission and Storage – France	1,285	25%
Distribution France	1,412	27%
Transmission and Distribution – International	562	11%
Other and not allocated items	-10	0%
TOTAL GROUP	**5,149**	**100%**

Breakdown of Operating Income (OI) at December 31, 2006 by division / segment

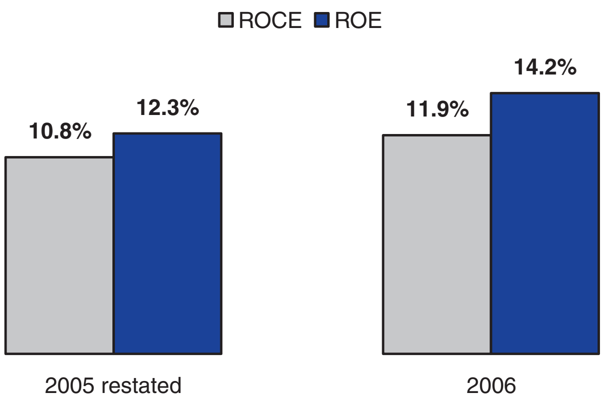
In millions of euros	2006	%
Energy Supply and Services Division		
Exploration-Production	935	26%
Purchase and Sale of Energy	391	11%
Services	111	3%
Infrastructure division		
Transmission and Storage – France	953	26%
Distribution – France	726	20%
Transmission and Distribution – International	402	11%
Other and not allocated items	90	2%
TOTAL GROUP	**3,608**	**100%**

Increase of 29% in Consolidated Net Income



Two-year trend in ROCE and ROE

The detailed calculation is provided in paragraph 9.3.3. —"ROE, ROCE"



3.3 Financial structure

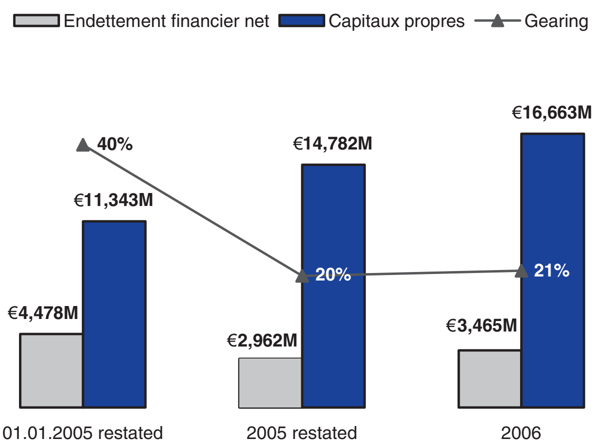
Balance sheet assets (main items)

In millions of euros	12/31/2006	12/31/2005 restated
Non-current assets	27,376	25,405
Inventories and work in progress	1,935	1,452
Trade and other receivables	8,286	8,259
Other current assets	2,756	2,678
Cash and cash equivalents	2,556	2,142
Total assets	**42,909**	**39,936**

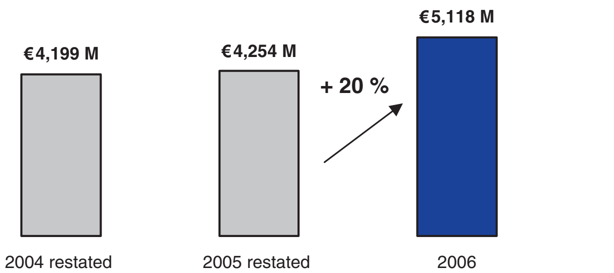
Balance sheet liabilities (main items)

In millions of euros	12/31/2006	12/31/2005 restated
Shareholders' equity	16,663	14,782
Non-current provisions	6,892	6,627
Other non-current liabilities	2,852	2,943
Financial debt	6,028	5,112
Trade accounts payable	3,623	3,202
Other current liabilities	6,851	7,270
Total liabilities	**42,909**	**39,936**

Gearing between 2005 and 2006



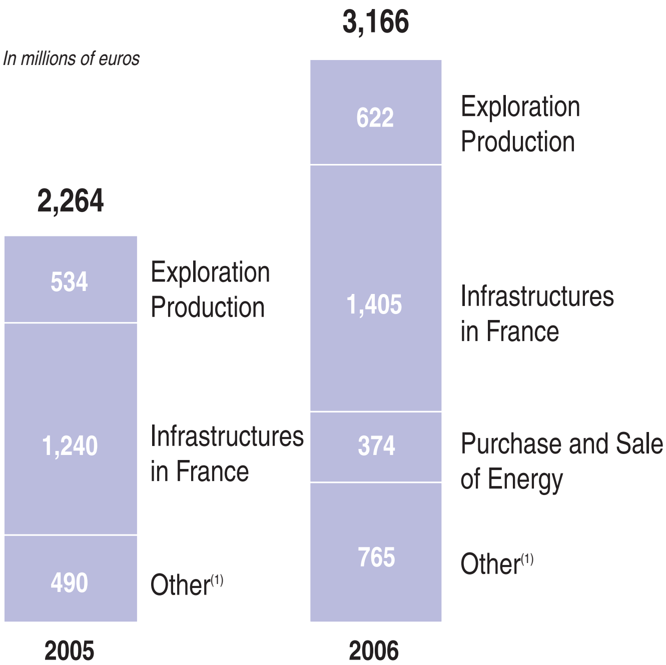
Operating cash flow up 20%



Change in investments

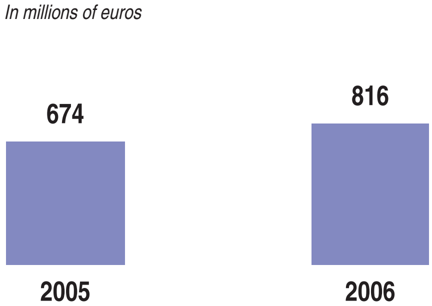
See paragraph 10.2.2. – "Flows from investing activities"

Investments excluding acquisitions



(1) *Capital expenditures excluding Exploration-Production and infrastructures in France and other investments.*

Acquisitions



4 RISK FACTORS

The Company conducts its business in an environment that is changing rapidly and creates numerous risks for the Company, including risks that are beyond its control. These risks specifically include uncertainties linked to the speed of change in the European energy market. The risks and uncertainties mentioned below are not the only risks that the Company faces. Other risks and uncertainties not presently known to it or that it does not consider significant may also have a negative impact on its business, results or balance sheet.

4.1 Main risks

4.1.1 Risks related to the Group's business sectors

Commercial risks related to the purchase and sale of natural gas and electricity

The primary risk in the purchase and sale of natural gas and electricity lies in a failure to adapt the portfolio of supplies to the portfolio of sales, in terms of volumes, geographic location, price (level and indexing) or maturity (short, medium, and long-term). Any event that has an impact on energy purchases or sales could, if such impacts are poorly anticipated, disturb the balance of purchases / sales chosen by Gaz de France and could therefore create risks for its expected results.

The main commercial risk factors in the purchase / sale activity are described in this section, with the exception of risks affecting the administered tariffs on sales, counterparty risks, and the risks related to changes in the price of petroleum products and foreign exchange rates, which are discussed separately.

<u>Expectation of a single supplier</u>

A large number of eligible customers want to entrust their gas and electricity supply to a single supplier. Studies show that this trend is even more pronounced in the consumer segment, which will open to competition in France on July 1, 2007. Thus, for the Group, any difficulty in meeting its customers' demand for power could have significant consequences for its natural gas sales and its market share.

<u>Commitments under "take-or-pay" contracts</u>

The growth of natural gas in Europe is taking place in large part through long-term "take-or-pay" contracts. These long-term contracts make it possible to finance costly production and transmission infrastructures. Under these contracts, the seller makes a long-term commitment to serve the buyer in return for a commitment from the buyer to pay for minimum quantities, whether or not it takes delivery. These commitments contain protective (*force majeure*) and adjustment provisions.

In order to guarantee that it will have in future years the gas volumes necessary to supply its customers, Gaz de France uses a high proportion of these contracts (about 80% of its supply portfolio). If it sales were to drop, Gaz de France could be forced to buy natural gas, which it could sell only at a substantial discount.

<u>Risks in demand</u>

The Group's strategy is based on the assumption that gas and electricity consumption will rise in France and Europe. The profitability of the Group's investments (production assets, infrastructures, marketing resources) could be impacted should this assumption turn out to be inaccurate. Gaz de France has set up a monitoring mechanism of market trends and conducts R&D activities on new uses of natural gas.

A number of factors can affect energy demand: a change in economic growth, the relative economic interest in natural gas over other energies, the energy policy of each country (control of energy demand, greenhouse gas emissions, the relaunch or abandonment of nuclear power, the development of renewable energies), technological changes which could create new uses for energies, an accident that could damage the image of certain segments, etc.

Significant climate variations (primarily in temperature) from one year to the next can result in substantial variations in energy demand, with higher demand in colder years and lower in warmer years. This factor could impact on the Group's results.

The seasonal nature of demand between winter and summer generates significant variations in the Group's results during the year.

Intensified sales competition

The full deregulation of the European power and natural gas markets allows energy companies in place to diversify in terms of products and marketing zone, but it also allows new players to enter these markets. Gaz de France bases its strategy and expectations of gains and losses in market share on assumptions about competitive intensity. The ability of Gaz de France to face greater than expected competitive pressures, as well as the ability of Gaz de France to enter new markets outside France, constitute risks for the Group's results.

In France, in particular, this risk is more acute to the extent that Gaz de France has partnered for a long time with EDF to market its gas. A number of Gaz de France customers, particularly in the consumer market, do not clearly identify it as a distinct company because its sales, invoicing, customer service and network operations have traditionally been conducted within a joint framework. This confusion could result in a loss of customers and market share. Gaz de France is focusing on its communications policy to strengthen its identification. In 2006, in particular, invoicing for consumer customers was separated.

Tension regarding supplies

Europe will be increasingly dependent on natural gas from non-European countries because of the progressive decline in its domestic production and the projected growth in its needs. Gaz de France is not projecting in the short and medium terms any major decline in Europe's natural gas supply. However, any supply difficulty potentially related to the policies of the producing countries, or to technical or financial constraints on existing or future infrastructures could inhibit the competitiveness of the Group's natural gas purchases (new contracts or renewals of old contracts).

As is the case for sales, competition for the purchase of natural gas could be more active than anticipated (dynamic performance of the American or Far Eastern markets, multiple players in Europe, etc.) Gaz de France is working to diversify its supplies, both in terms of regions and transport methods (gas pipeline, LNG tankers) (see paragraphs 6.1.3.2.2.1.1.2 – "Procurement diversification" and 6.4 – "Degree of dependency").

In order to satisfy its customers, Gaz de France uses natural gas supplies from its production facilities, long-term contracts, and spot markets for the short term. In these markets, prices can be very volatile and make the balance of the purchase / sale portfolio delicate. Thus the Group has a significant number of transactions in the energy product markets and by-products related to the price of energy products, particularly through its trading subsidiary Gaselys (see paragraph 6.1.3.1.2.2.1.1.5 – "Short-term markets: Gaselys").

In electricity, Gaz de France is supplied from its power production plants and the wholesale market. The volatility of prices is intensified by climate events (temperature of the rivers, rainfall, wind, etc.)

Although the Group places strict limits on its exposures, the market transactions that it conducts expose it to risks related to changes in the value of its positions.

In addition, long-term natural gas contracts are subject to regular price renegotiations. There may be some uncertainty about the results of those renegotiations.

Risks related to changes in the price of petroleum products and foreign exchange rates

The results of certain segments, particularly Exploration – Production and Purchase and Sale of Energy, are influenced by oil prices and foreign exchange rates, primarily between the euro and the US dollar. The Exploration – Production business is structurally sensitive to changes in the price of oil and the US dollar, as a predominant portion of the sales of liquid hydrocarbons and natural gas are denominated in US dollars and/or indexed to the price of petroleum products. Moreover, the Group purchases most of the gas it sells through "take-or-pay" contracts, which index gas prices for the month to the price (in dollars) of petroleum products in prior months. The price of petroleum products and the euro/dollar exchange rates depend on factors, which the Group cannot control.

Such variations in oil prices and exchange rates could have a negative impact on the Group's operating income. Gaz de France makes every effort to reduce its exposure to this risk by establishing adequate financial hedges and adapting its sale prices to its supply costs.

Risks related to the quality of counterparties

The Group executes transactions (sales or purchases) in significant amounts with a large number of counterparties, customers and suppliers for gas and electricity, particularly through its trading subsidiary Gaselys. The management of this risk by Gaselys is described in paragraph 6.1.3.1.2.2.1.1.5 – "Short-term markets: Gaselys". The Group is exposed to a risk of default by the counterparties.

4.1.2 Regulatory risks

Risks related to the regulation of administered and regulated tariffs

A portion of the energy sales and services of Gaz de France is conducted in the framework of administered rates, which are regulated. French laws and regulations and European regulations, as well as the decisions of the regulatory authorities (particularly, the Energy Regulatory Commission (*Commission de Régulation de l'Energie*, "CRE") for the rates to access certain infrastructures), could affect the revenues, profits or profitability of Gaz de France because of the following:

The partial passing on of supply costs in natural gas sale prices

In France, under the 2005-2007 public service contract, Gaz de France agreed to offer customers covered by a public distribution rate the benefits of its productivity efforts, reflected in a flat 1.4% reduction per year on average, in real terms, of the charges excluding supply costs.

For the 2005-2007 period, the principles for setting tariffs were defined by order of the Minister of the Economy, Finance and Industry of June 16, 2005, specifying the principles for changing rates, and the conditions for making up for the partial increase of November 2004. This order was applied at the time of the rate revisions of July 1, September 1, and November 1, 2005. Subsequently, the order of December 29, 2005 eliminated the rate revision as of January 1, 2006. Finally, the order of April 28, 2006 set the May 1, 2006 increase at 5.8%. The government also indicated in a statement of March 22, 2006 that the next rate revision (i.e., after May 1, 2006) will be applied as of July 1, 2007. (see also paragraph 6.1.3.1.2.2.3 – "Natural gas sale price").

Failure to comply with the principles stipulated during tariff revisions exposes the Group, at least over this period, to the risk that the costs of its natural gas supplies will not be or will be only partially passed on if there is a change in the price of petroleum products or in the euro/dollar exchange rate.

Similar problems may exist in other countries in which Gaz de France has holdings, when local regulations allow customers (particularly consumers) to benefit from administered tariffs.

Protection of certain consumers

Laws or regulations protecting certain consumers expose the Group to the risk that it will be able to only partially collect unpaid bills or that it will not be able to suspend the supply to customers with poor payment records.

The law of December 7, 2006 instituted for natural gas a special solidarity rate for all suppliers, which constitutes a public service obligation. A decree adopted by the *Conseil d'Etat* will specify the conditions of the special solidarity rate, particularly for domestic customers residing in a building heated collectively.

Partial passing on of costs in rates to access gas infrastructures

The rates applied by Gaz de France for access to natural gas transmission and distribution networks, and to LNG terminals are also set by the French Ministers of the Economy and of Energy on the recommendation of the CRE. These tariffs are based on rates of remuneration applied to a basis of regulated assets. The public powers may decide to reduce the rate of remuneration or modify the calculation of the base of regulated assets, which could affect the profitability of these regulated operations. The public authorities may also refuse to take into consideration certain operating expenses of Gaz de France in calculating these tariffs. The rates to access infrastructures will continue to be determined by regulations in the deregulated natural gas market.

Implementation of a market adjustment temporary regulated tariff

The law of December 7, 2006 allows certain electricity end consumers to benefit from a market adjustment temporary regulated rate by submitting a request before July 1, 2007. Any potential resulting deficits for suppliers are compensated by a fund managed by the Caisse des dépôts. This new mechanism is likely to have an impact on the Group in its capacity as an electricity supplier and producer.

4.1.3 Risk related to the growth of the Group

Gaz de France's growth strategy may be impeded by various factors, including:

Risks on the profitability of acquisitions

The Group's strategy to grow significantly, in part through acquisitions, could require it to issue new shares (possibly diluting existing shareholders), to incur additional indebtedness, or to have write-downs of intangible assets. Acquisitions also present risks relating to the difficulties of integrating acquired businesses, the non-realization of expected benefits and synergies, the diversion of management resources and the potential departure of key employees. When Gaz de France enters into joint ventures, it could find itself in conflicts of interest or strategy with its partners, some of which might hold a majority of the joint venture entities. Its partners also might be unable to fulfill their obligations or could encounter financial difficulties.

Economic and political factors

An increasing proportion of the Group's supplies originate or could originate from developing countries or countries which are in a state of transition, such as Russia, Algeria, Egypt, Libya, Nigeria, or Iran. The Group is also involved in exploration-production projects and in the construction of liquefaction plants in these countries and has natural gas transmission and distribution operations in Mexico.

The operations of the Group in these countries are vulnerable to economic and political risks, such as the risk that an international crisis or an embargo might interrupt gas supplies, and the risk of disruptions of its business resulting from political action or civil insurrection, corruption or fraud. Furthermore, the Group may not be able to enforce its rights before the courts of these countries in the event of disputes against governments or against other public entities.

Regulations of certain European countries

The Group's ability to pursue and carry out acquisitions is subject to regulatory and political constraints and uncertainties that are beyond its control. In particular, the Group's expansion is subject to regulatory constraints in Italy and Spain.

Italy. Due to the interval between the opening of the Italian gas sales market and the liberalization of other European markets, Italian law (specifically Italian Decree-Law No. 164/2000 referred to as the "Letta" decree) does not permit a company from a Member State of the European Union to sell gas to Italian customers, directly or through companies it controls, if such Italian customers belong to a category that is not considered "eligible" (i.e. permitted to select their own gas supplier) in the Member State from which the company originates (this is called the "reciprocity condition"). This legislation prohibits Gaz de France from selling natural gas in Italy to customers that would not be considered eligible in France.

In addition, effective December 31, 2007, at the earliest, Italian law prohibits companies which are directly or indirectly controlled by a state, like Gaz de France, from taking part in public competitive bidding for the grant of gas distribution concessions, where the Group holds concessions in France or in another country of the European Union that are not granted through public competitive bidding.

Furthermore, the Italian government passed a law in September 2004 (Italian Law No. 239 referred to as the "Marzano" decree), in the context of a merger submitted to the Italian competition authority, which asserts the Italian government's power to impose commitments on foreign companies that invest in Italy from Member States that do not meet the reciprocity criteria, in order to protect the security of its national energy supply needs and competition in the electricity and gas markets. Under these conditions, Gaz de France could be affected by this legislation.

Spain. Spanish law provides for a suspension of the political rights attached to shares held by any entity in which a national government holds the majority of the shares or controlled by any means whatsoever by a national government, when this direct or indirect interest grants to such public entity control or an interest in at least 3% of the capital or voting rights in a company active at the national level in the domestic Spanish energy market (electricity, gas, oil). This legislation may affect Gaz de France and prevent it, in particular, from exercising its voting rights if it acquires control over, or an interest in, a company that is active throughout the Spanish market.

Risks related to the laws and regulations governing the Group's operations

Change in the business model: deregulation of the market and integrated activities

The CRE or the relevant European regulators could impose specific requirements on Gaz de France if they believe that the pace of deregulation of the market is not satisfactory, in order to improve the position of competitors on the French market at the expense of Gaz de France, or in markets in which Gaz de France is present.

The applicable regulations, primarily governing the rules for distribution concessions, could be modified or challenged. Such a change could have a material negative impact on the Group.

Moreover, in 2006 the European Commission conducted two investigations in the European natural gas market, one directed by the Competition Department and the other by the Energy Department. The European Commission does not exclude the possibility, if it believes – based on the results of these investigations – that the European directives are not sufficient to guarantee a satisfactory functioning of the natural gas market, particularly a sufficient level of competition, that it could undertake new regulatory initiatives that could have an impact on the integrated structure of Gaz de France. Therefore, the European Commission proposed, in a communication titled "Outlook for the interior gas and electricity market" published on January 10, 2007, new provisions designed to ensure effective independence of the transmission operators. If those provisions are adopted by the European Council, new European regulations could substantially change the Group's integrated organization in the medium term. Gaz de France is working to prevent this risk by scrupulously implementing measures guaranteeing the proper application of the texts in force, particularly those governing the legal separation of the transmission and distribution activities (see Chapter 12 – "Trends that could influence the outlook of the Company").

Renewal of authorizations, compliance

Gaz de France must obtain authorizations to conduct its business in several key areas: concessions, Seveso sites, etc. Any failure to secure these authorizations (or their timely renewal) could prevent Gaz de France from pursuing some of its current or planned activities. Furthermore, disputes over the terms of grant or of exercise of these authorizations may result in them being temporarily suspended or revoked.

The regulations applicable to the technical aspects of the implementation of a network could be changed, and could generate compliance costs. Such measures could have a material impact on the profitability of this activity and its industrial implementation.

Risks related to changes in sustainable development requirements

Gaz de France partially bases its reputation on its socially responsible corporate image. An inadequate perception of the changes in the requirements of stakeholders in the area of sustainable development could result over time in a discrepancy between policy and expectations. This discrepancy could be sanctioned by a downgrading of the Sustainable Development rating and alter the Group's image, which could result in a lower level of investor and customer confidence and a loss of market share.

In addition, changes in international, European and French environmental policy, particularly in the area of "energy saving certificates" and "CO2 emissions permits" could impact the Group's results. Thus the profitability of power production assets depends on the regulations on CO2 emissions limits, which is difficult to predict in Europe after 2012.

4.1.4 Risks related to adaptation to the new characteristics of the energy market

Adaptation to change

The deregulation of the European natural gas market is generating changes, both in the regulatory framework and in the relations between market players or in marketing zones. Gaz de France has expanded its operations in Europe and worldwide where a significant portion of its operations is performed and its results recorded. The future financial performance of Gaz de France partially depends on its ability to adapt to these changes.

Change in the distributor in France, a portion of which is shared with EDF

One consequence of the opening of the market is a significant reorganization of the joint division through which Gaz de France and EDF previously managed their customer service departments and distribution networks. As a result of this reorganization, the information technology system of Gaz de France will need to handle numerous complex new tasks (for example, to allocate gas delivered through the transmission and distribution networks among multiple suppliers), and accordingly the system will be subject to potential disruptions. Such disruptions could have a negative impact on the quality of service provided to customers (and thus on the Group's image), and generate significant costs.

In addition to information technology issues, the reorganization requires Gaz de France to put in place new structures for customer management and distribution, which could entail significant costs.

The number of Gaz de France employees in the EDF Gaz de France Distribution department, the common department of Gaz de France and EDF, is approximately 13,200. This work force is managed jointly with other employees of the division that are employed by the EDF group. Certain management decisions taken by this joint division (on both an individual and group level) could have an impact on Gaz de France, especially its salary costs and its overall cost structure. In addition, EDF might have interests that conflict with those of Gaz de France, as EDF's focus is principally electricity. As a result, there may be limitations on Gaz de France's ability to realize productivity gains.

4.1.5 Industrial Risks

Risks related to operations

The operational risks that Gaz de France might have to face vary depending on the businesses operated by the Group's Entities:

Specific risks in the exploration-production businesses

The exploration-production activities which Gaz de France operates or in which this role is assumed by another operator recognized in the oil and gas sector are, for significant assets, conducted within a consortium to reduce each partner's individual risks.

These activities, which require substantial investments, expose the Group to the following risks:

- a risk that the exploration activities will not result in the discovery of reserves;
- uncertainties in the appraisal of reserves, which could impact the Group's results. This appraisal is based on assumptions such as the quality of the geological, technical and economic information, the contractual and tax conditions in the countries in which the exploration-production operations are conducted, and the production capacity of the fields; a revision of those assumptions could result in a downward re-evaluation of the reserves, along with depreciations;
- a risk of delays in drilling, particularly because of difficult weather conditions;
- a dependence on third-party partners (particularly when the Group is not the operator of the exploration or production site);
- a regulatory risk inherent in exploration-production activities (specific obligations for drilling and development, protection of the environment, exceptional cases of nationalization, expropriation, cancellation of contract rights and changes in the regulations governing dismantling or cleanup of the sites);
- a risk inherent in the conduct of operations in countries in which the oil sector is often affected by corruption and a risk of fraud;
- a tax risk, particularly changes in royalties or customs duties on oil and gas production.

Industrial accidents

Gas de France operates its industrial activities pursuant to regulations, which stipulate safety rules implemented for the use of infrastructures. Vigilance in the use of its facilities cannot guarantee the absence of any industrial accidents, which could interrupt the Group's business or lead to significant financial losses or liabilities.

There are risks inherent in the operation of vast gas transmission, distribution and storage networks, exploration and production facilities, LNG tankers, regasification facilities and power production plants, such as operating accidents, or outside events which the Group does not control (landslides, etc.) These incidents might cause injury, loss of life or significant damage to property or to the environment as well as interruptions in its business and operating losses. See paragraph 20.3 "Legal proceedings and arbitration." The Group's insurance policies may be insufficient to cover all of the Group's potential liability, loss of business or increased costs. This is particularly true of the Group's Liquefied Natural Gas shipping business.

Poor gas quality (presence of condensates – water, oil, dust – or pressure greater than the "Maximum Service Pressure") may lead to an incident and, therefore, damage to property and injuries.

Break in the continuity of service

The design and sizing of the networks and infrastructures take into consideration certain possible failures in the transmission of the gas from the production zones to customers.

The unavailability of a major structure, such as an LNG terminal or storage facilities, a continuing political crisis between producing and transit countries, the loss of control of the industrial tool or a bottleneck effect due to changes in the gas transmission scenarios, or natural disasters (earthquakes, volcanic activity, floods) could shut down gas delivery over an extended area with losses of receipts and with the corresponding indemnification obligations; they could also affect the Group's image and/or generate failures to perform its public service obligation.

In addition to the risks related to supplies, the entire gas technical chain (LNG terminals, transmission, storage) must be adjusted to adapt reservations for infrastructure capacity to the volumes of the purchase and sale agreements. If infrastructures are not sufficient or there is a shortage of the necessary transport capacity, Gaz de France might not be able to take delivery of the gas it purchases or to honor its transport contract.

Lack of impartiality

This risk arises from employee failures to comply with the "Code of conduct", which defines rules for impartiality with respect to gas markets, the values and ethical commitments of the Group, and which result in acts of fraud, vandalism, corruption, or failure to respect commercial ethics, particularly Commercially Sensitive Information (CSI) which must be managed in compliance with legal requirements. Respect for the rules and procedures for placing contracts are also included in this risk.

4.1.6 Risks related to information control

This type of risk covers two problems:

Loss or disclosure of information

Rules to protect sensitive information and the intangible assets of the Group are stipulated within Gaz de France.

This risk may be due to the lack of protective resources, insufficient protection of sensitive information against theft, vandalism, corruption, industrial espionage or piracy. This risk would be aggravated in the event it is impossible to restore data after a theft, accident or incident.

The loss or theft of confidential information could result in the loss of competitive advantages, financial losses, fraud, and civil and/or criminal sanctions, damage to image in the event of publication or distribution of certain information, or a loss of opportunities for certain acquisitions.

Unavailability of information systems

Gaz de France and EDF have pooled their IT resources for a long time, which Gaz de France is separating and modernizing for the most part in light of the deregulation of the markets on July 1, 2007. The Group could have an information system that is not adapted or reliable because of the current separation process.

Gaz de France operates its IT systems under very rigorous procedures. However, this risk could also come from technical malfunctions or software for which it has acquired the operating licenses and which it does not therefore control. These causes could penalize the Group's operations.

4.1.7 Risks related to human resources

As the Group has adapted to its environment, it has expanded labor dialogue, particularly in collective bargaining, and has adapted its human resources policy. However, the Group cannot rule out labor unrest within its workforce, primarily in the form of strikes, which could disrupt its activities. The Group is not insured against losses resulting from interruptions of its business caused by labor disputes.

With the emergence of new players in the natural gas market, Gaz de France might not be able to attract sufficient key skills, which the Group will need to successfully implement its strategy for change.

Differences in culture or status within the Group could slow the building of its identity. The result over time could be a lack of dynamic performance and mobility within the Group and difficulties in hiring and retaining employees.

4.1.8 Risks related to the environment, health and safety

More stringent industrial regulations

The Group's business is subject to industrial and environmental risks relating to the nature of the products that the Group handles, which can be inflammable and explosive. The Group is subject to extensive environmental, public health and safety legislation, which have been translated into internal instructions and good professional practices within the Group.

In France, the Group spends significant amounts each year to comply with these regulations and to update its facilities based on experience. In this context, major programs to modernize the industrial plants are being implemented, including for example in France, the renovation of underground storage facilities, the inspection/rehabilitation of the transmission network, the elimination of gray iron networks, information campaigns with public works companies in order to prevent damages caused to the structures by third parties.

Gaz de France has 318 sites on which manufactured gas plants were formerly located. Gaz de France could be liable despite substantial clean-up efforts implemented by the Group.

The Group also operates facilities that are classified as environmental hazards (ICPE), some of which, known as "Seveso" sites, must be equipped with specific safety management tools. Seveso sites, including LNG terminals, underground storage sites and GPL Stations in Corsica, are subject to decree 2005-1130 relating to Technological Risk Prevention Plans (TRPPs). These TRPPs must be implemented by mid-2008 and their financing must be assured by three-party agreements between the French State, local authorities and the operator under terms not defined by the text of the regulations.

The Group's business could also be affected by European directives and French laws imposing limits on the emission of greenhouse gases. Should applicable environmental, health and safety legislation be further tightened, the requisite investment and compliance costs could increase in the future. As a result current changes in regulations for the security of transmission through pipelines will oblige Gaz de France to carry out additional work to bring its transmission network into compliance, the magnitude of which will primarily depend on professional guidelines that must still be drafted and which be submitted for government approval. In addition, the potential impact of these regulations on certain distribution networks operated at a pressure equal to or greater than 16 bars is not precisely known.

In the event of a serious accident, the Group could also be compelled to temporarily shut down some of its sites in order to proceed with mandatory investment and compliance work, which could impede its overall business. The Group could be forced to pay substantial civil damages or fines and could be forced to shut down certain sites should it fail to comply with the applicable rules and regulations.

Finally, increasingly stringent rules are being imposed on industrial concerns with a view to preventing environmental risks and the health of others, in particular those linked to the Legionella bacteria and the health risks for employees in the use of chemical and toxic products. They stipulate indemnification for the victims (see paragraph 6.1.5 – "Environment / Sustainable development" and 20.1.1.1 ("Consolidated financial statements for the year ended December 31, 2006 under IFRS/ Appendix").

These problems may also exist in the other countries in which Gaz de France has holdings.

Workplace accidents and occupational illnesses

In the performance of their duties and pursuant to very strict safety rules, some employees may use products that are toxic to health such as certain carcinogenic, mutagenic products or products toxic for Reproduction (CMR) or be accidentally infected by a micro-organism (legionnaires' disease). In the past, certain activities could cause employee exposure to asbestos particles. Gaz de France has established measure to prevent those risks by controlling the use of the products in question and imposing protective procedures.

Because of changes in legal standards and precedents toward greater protection of victims, the causes of these workplace accidents or occupational diseases are generally recognized by the competent courts as events generating liability for the employer characterized as "inexcusable fault", resulting in more frequent and more substantial indemnification for victims in civil courts and/or the risk of a criminal conviction of the employer.

These deficiencies in preventing and reducing accidents in the workplace may result in damages for the victims because of the physical injury suffered (disease, injury, death), a criminal conviction for the Group, a lack of employee motivation, and damage to the Group's image because of the media coverage, and financial losses. In effect, the damages paid to victims following a conviction of the employer for inexcusable fault, plus the court costs, can constitute not insignificant financial losses, particularly for asbestos-related legal action.

4.2 Risk management

Gaz de France's Senior Management, together with the Board of Directors (and the Board of Directors' audit and financial statements committee), intended to reinforce its risk identification and management procedures with a view to anticipating developments arising from the opening of the markets to competition. The Group has voluntarily undertaken to manage its risks in order to continue improving.

Created in March 2004, the Risk Management Department, which is under the authority of the Director of Audits and Risks, is responsible for proposing and implementing a global risk management plan, and in particular providing the Group with a centralized, global view of the Company's risks.

The Risk Management Department relies on a network of employees designated by the management of each of the Group's operational units to implement and promote initiatives and methods within their unit. This network has transversal lines of authority within the Group, bringing together close to thirty Unit Risk Managers.

The Risk Management Policy set out in 2005 by Gaz de France applies to all the Group's units, which are then entrusted with implementing it in their area of activity.

This policy establishes the working principles, roles and responsibilities as well as the evaluation and oversight of the plan. The Group relies on a decentralized management of its risks the control of which is entrusted to different levels of management.

Evaluating the Group's potential risks

Each year, the Risk Management Department evaluates the Group's potential risks. The evaluation allows the Group to plan their management activities by giving management an internal model for comparing the Group's risks in order to decide how to hedge. It also provides the audit department with a tool to set out and prioritize audit subjects, and so prioritizes the Group's most important residual risks.

The Group's risk evaluation process

It is based on the aggregation of risks evaluated by the various businesses and support functions. In 2004, based on the best practices of the Group and other companies, the Group designed a common methodology for identifying, evaluating and prioritizing risks, under which the Group defines its risks as events that could adversely affect its strategic objectives. The Group also developed an internal risk model used by the entire Group for classifying risks. This risk model is inspired by other models used on the market. It classifies risks into three categories:

- strategic risks: risks that could, if not addressed, endanger the Group's ability to define, guide and implement its strategy;
- operational risks: risks that could, if not addressed, affect the Group's ability to manage on a daily basis its sales force, its industrial tools and other assets used to generate recurring operational profits; and
- risks related to the business environment, meaning those generated by causes that are external to the Group. The Group is exposed to structural changes with respect to its environment that have a significant impact on its earnings and its business.

This methodology permits risk evaluation for each operating or functional unit. The Risk Management Department combines these risk evaluations in order to determine, evaluate and classify the Group's major risks. The results are completed through a series of interviews with the Group's officers. The Group's risk evaluation is presented to Gaz de France's executive committee and to the Board of Directors' audit committee.

Management is responsible for the management of its risks and the risk management is decentralized.

The Group's risk management policy is based on the subsidiary principle: the Risk Management Department establishes a consistent risk management framework, supports its implementation within the Group and ensures that the policy is constantly improved. The management of each of the Group's various operational units remains responsible for and independently manages its own risks, while acting consistently with the Group's risk management policy. Accordingly, each of the Group's business activities handles and monitors its risks using, as applicable, ad hoc structures designed for managing specific risks.

However, certain risks are shared across the Group, so that management responsibilities with respect to these risks are found divided across the various business activities. For the sake of optimization and consistency of management, these risks are managed on a centralized basis. As a result:

- the insurance department is responsible for coverage of insurable risks;
- the finance department manages the Group's exposure to foreign exchange and interest rate risks;
- the permanent safety mission ensures that industrial and individual safety risks are managed consistently; the Group has a global policy for industrial security which applies to all units and assets managed; and
- the quality policy is also one of the available tools to handle risks.

4.2.1 Management of insurable risks

Insurance policy

The insurance policy for the entire Group is defined by the Insurance division of Gaz de France. It is based on a systematic transfer to the insurance market of all insurable risks, the occurrence of which could have significant impact on the Group's businesses and subsidiaries. This policy has been approved by the Executive Committee and by the audit committee of the board of Directors. Thus, all the Group's activities are covered by insurance contracts selected from insurers that are internationally recognized for their reputation and financial soundness. The Group does not currently use a special purpose insurance subsidiary, which would bear a portion of the Group's risks.

Nevertheless, this policy concerning insurance may be modified at any time based on market conditions, opportunities, management's assessment of risks and the adequacy of their coverage.

Insured amounts depend on the risks borne in imagined loss scenarios and the coverage terms and conditions offered by the market (combination of available capacities and rates).

For all of these contracts, deductibles are adjusted in order to optimize the overall cost for the Group based on the probability of the occurrence of losses and the amount of losses each entity would be able to bear without endangering its continued activity. The level of the deductibles is generally determined in a way that absorbs the average of the total losses experienced. The total insurance premiums of Gaz de France and its controlled subsidiaries were approximately €50 million in 2006.

The Insurance division of Gaz de France is responsible for the entire Group's respect of the insurance policy principles that it defines. This oversight is facilitated by centralized insurance management, with respect to the parent company and the main subsidiaries. This centralization makes it possible to have a homogeneous and coordinated control of insurable risks at the Group level, along with a centralized approach to insurance purchasing. Certain subsidiaries have their own insurance policy; the insurance subscribed at the Group level completes their civil liability coverage.

Subject to the exclusions commonly applied in the insurance market and the sub-limits applicable to certain identified events, the Group believes that it has adequate insurance coverage in terms of both scope and amount.

Primary contracts

The contracts described below benefit a large majority of subsidiaries.

Civil liability

Gaz de France and its subsidiaries are covered by general civil liability insurance that covers the monetary consequences attached to liability for damages caused to third parties. This insurance includes a number of back-up lines of credit, with higher lines of credit covering all subsidiaries. For Gaz de France alone (without regard to subsidiaries), coverage begins once losses exceed a self-insurance threshold of €8 million.

Property damage and business interruption

The Group carries insurance that covers the risks of fire, explosion, equipment failure and natural events that may damage property either owned, leased or entrusted to the Group. The transmission and/or distribution networks are excluded from this coverage.

The insurance coverage caps are generally equal to the value of the insured property. However, for major concentrations of assets, they are fixed on the basis of catastrophic scenarios estimated under the rules of the insurance market. For example, Gaz de France's insurance policy for damage to industrial assets provides coverage up to €350 million for LNG terminals.

The insurance policies generally include coverage for operating costs and business interruption. The amount of this coverage is determined based on the length of time that the damaged site will be unavailable and existing emergency plans (between 12 and 24 months, depending on the situation).

Certain specific business activities like exploration-production benefit from hedging adapted to their risks like guaranteeing the cost of overseeing wells and redrilling.

Other insurance

In addition to its civil liability policies and property damage and business interruption coverage, the Group holds the following insurance policies:

- an insurance program covering the liability of the corporate officers and executives of Gaz de France and its subsidiaries;
- multiple-line office insurance (with a maximum covered amount in case of an accident of €100 million) and insurance for premises covering accidental damage and the landlord, tenant, or occupant's liabilities;
- insurance covering liability and, depending on the company, damage on all vehicles;
- insurance covering the transport of LNG by LNG tanker with a limit of €30 million per shipment;
- maritime insurance covering ship owner's liability (unlimited coverage except in case of war (with a USD 500 million ceiling) or charterer (with USD 500 million coverage), and pollution (with a USD 1 billion limit) and damage to the ships, up to their certified value;
- construction insurance for major construction sites, including coverage for damage to the structure and coverage for operating losses in the event of a delay in construction because of damages (for example, the construction of the LNG terminal in Fos-Cavaou).

4.2.2 Management of financial risks

The management of financial risks – interest rate, foreign exchange, liquidity, and counterparty risks – is under the responsibility of the Finance Division. The placement of this activity at the top of the Group ensures efficient implementation of the risk policy by making it possible to aggregate risks, monitor positions and concentrate trading in a single unit.

The consolidated management of the counterparty risk and consistent management decisions are ensured through transversal committees: the Rate and Foreign Exchange Committee and the Credit Committee.

Interest rate risk

In order to optimize the cost of its debt and reduce its exposure to the interest rate risk, the Group uses several types of financial instruments (interest rate swaps and options) depending on market conditions. The interest rate risk is managed at the level of the parent company. It centralizes cash needs or surpluses of the controlled subsidiaries and hedges the residual position.

As of December 31, 2006, the fixed-rate portion of Gaz de France's gross debt was up 6% over the previous at 3,988 million euros after hedges. On that date, the variable-rate portion (2,033 million euros) was less than cash and cash equivalents (2,556 million euros). Therefore, the Gaz de France Group has only a small exposure to a change in short-term interest rates.

See paragraph 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Appendix / Notes 11 and 25 a".

Overall, Gaz de France has little exposure to rate risk, in particular due to its hedging of the remuneration of the irredeemable securities (see paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS standards / Notes / Note 9). A 1% change in short-term interest rates on the variable rate net debt would result in a limited change in the cost of the net financial debt, or approximately €5 million.

Foreign exchange risk

In order to manage its exposure to changes in currency rates, the Group uses firm or optional contracts to hedge its energy purchases and sales, its tangible assets, and its financing activities.

See paragraph 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Appendix / Notes 12 and 25 a".

With respect to how sensitive the debt is to a change in foreign exchange rates, the debt denominated in foreign currencies represents 7% of the total debt, or €417 million. The impact of a uniform and negative change of 10% in these currencies against the Euro would represent €42 million.

With respect to the other functional currencies in which the consolidated entities operate outside the Euro zone, there is no associated material exchange risk at the Group level, to the extent that there are also rate adjustment mechanisms linked to changes in supply costs.

With respect to how sensitive the commercial transactions executed by the Energy Purchase-Sale segment are to a change in the foreign exchange rates, the Euro/Dollar exchange risk on the performance of the Energy Purchase-Sale segment results from the methods for indexing the various natural gas purchase or sale contracts to the price of petroleum products which are, for the most part, quoted in Dollars.

Concerning the implementation of the net-back concept in the development of the purchase price formulas, the mechanism for setting the price of long-term gas purchase contracts is based on a logic of valuation in relation to the energies competing with natural gas. The price formulas of the long-term gas purchase contracts are expressed in the form of a constant plus one or more monthly indexing terms, most of which are petroleum products. These "petroleum" indexing terms are smoothed out using sliding averages over periods ranging from 6 to 12 months.

The exposure to foreign exchange risk on commercial transactions is organized and managed through:

- the application of pass-through mechanisms during the structuring of sale prices to eligible customers on the one hand, and regulated rates on the other; and
- margin hedging on fixed-price sale contracts via financial swaps.

There are temporary differences on the income statement between the impact of the change in the Dollar on supply costs and the impact of repercussions on sales, particularly the effect of the sliding averages and the stocking/destocking cycle.

Liquidity risk

Gaz de France has liquid assets that can be mobilized in the very short term, allowing it to meet its current cash needs or to be used as a bridge in the case of external acquisitions. Gaz de France's exposure to liquidity risk is very low; indeed, the parent company has a syndicated line of credit of 3,000 million euros maturing February 2012, which had not been drawn as of December 31, 2006. This line of credit does not include clauses imposing compliance with certain ratios. Gaz de France also has access to the short-term debt market through EURO and US Commercial Paper program in the amount of 1,000 million dollars, which was unused at year-end 2006, and a commercial paper program in the amount of 1,250 million euros, of which 410 million euros had been used as of December 31, 2006.

Certain bank loans or project financing of the Group's subsidiaries may contain clauses stipulating that financial ratios must be respected. All these clauses were complied with as of December 31, 2006.

In addition, the liquidity reserves immediately available at the the Group level:

- cash equivalents and cash investments for a total of €2.6 billion;
- Gaz de France SA syndicated loan for €3 billion, without a clause requiring compliance with financial ratios;

and the short-term debt market issue programs:

- €1.25 billion in French commercial paper, €410 million of which was drawn at December 31, 2006;
- $1 billion in US commercial paper, fully available as of December 31, 2006;

would allow the Group to meet any possible liquidity need a Group subsidiary might have.

See paragraphs 10.4 – "Restriction on the use of capital" and 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Notes / Notes 10 b and 25 b".

Risk on equities and other financial assets

All the Technip shares were sold at December 31, 2006. As of December 31, 2006, Gaz de France held a total of 8.05 million Suez shares, representing an overall outstanding amount of €256.1 million. This portfolio is not hedged.

See paragraph 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Notes / Note 3 c".

Counterparty risk

The Group conducts a policy to manage the counterparty risks based partially on systematic diversification of its counterparties and partially on an evaluation of their financial position.

Thus, all the financial instruments used to manage interest rate and foreign exchange risks are contracted with counterparties with a "Long term" rating from Standard & Poors ("S&P") or Moody's at least equal to A- / A3 respectively, except in special cases duly authorized by the Chief Financial Officer. A limit is assigned to each financial institution on the basis of its equity and its rating. The use of the limits, determined on the basis of the notional amounts of the transactions and weighted for the residual term and nature of the commitment, is regularly monitored.

The energy counterparties of the Gaselys trading subsidiary are evaluated and rated after a financial analysis based primarily on the S&P or Moody's rating of the counterparty, when it is known. A monthly Credit Committee meeting, chaired by the Chief Financial Officer, approves the Gaselys counterparties, decides on credit lines, and defines the legal framework to be implemented. Gaz de France in fact works to secure these transactions by using legal instruments such as standardized "netting" agreements (which provide for the offset of positive and negative positions with the same counterparty), "margin calls" (mechanisms that smooth out fluctuations in market prices), or "guarantees" in the broad sense (comfort letter, guarantee from the parent company, bank guarantee, etc.).

Exposure to the counterparty risk is measured by VaR indicators at 99% and is reported daily.

The portfolio of Gaselys counterparties has a very satisfactory average rating with more than 80% of the counterparty risk presenting a financial profile equivalent to a long-term rating at least equal to A-/A3 at S&P/ Moody's.

Finally, the customer risk related to the supply of gas is primarily located within the Trading Division. The Credit Committee is responsible for developing a governance framework for managing the Trading credit risk, which is based on regular monitoring of the financial position of all customers.

See paragraph 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Appendix / Note 25 c".

5 INFORMATION ABOUT THE ISSUER

5.1 History and development of the Company

5.1.1 Corporate name

The name of the Company is "Gaz de France".

5.1.2 Companies Register

The Company was registered with the Paris Companies Register under the registration number 542 107 651.

APE Code: 402A.

5.1.3 Date of incorporation and duration of the Company

Gaz de France was incorporated in the form of a public entity with an industrial or commercial character (known by its French acronym "**EPIC**") on April 8, 1946 and was registered with the Companies Register on December 24, 1954. It has been a limited liability company (*"société anonyme"*) since November 20, 2004.

The Company has a term of 99 years starting November 20, 2004, except in the case of early dissolution or prorogation of the Company.

5.1.4 Registered office, fiscal year, legal form and applicable legislation

Gaz de France has its registered headquarters at 23 rue Philibert Delorme – 75017 Paris, France. Its telephone number is +33 1 47 54 20 20.

Gaz de France is a *société anonyme* with a Board of Directors. It is governed by the same legislative and regulatory provisions applicable to every *société anonyme*, subject to specific laws as well as its by-laws which are fixed by French Decree No. 2004-1223 dated November 17, 2004 concerning the by-laws of Gaz de France as a *société anonyme*, as amended.

The specific laws governing the Company are notably French Law No. 46-628 dated April 8, 1946 concerning the nationalization of the electricity and gas industry, French Law No. 83-675 dated July 26, 1983, concerning the liberalization of the public sector, French Law No. 2003-8 dated January 3, 2003, concerning the gas and electricity markets and energy public service, French Law No. 2004-803 dated August 9, 2004, concerning gas and electricity public service and gas and electricity companies, French Law No. 2005-781 dated July 13, 2005, establishing the trends of energy policy, and Law 2006-1537 of December 7, 2006 relating to the energy sector.

Its fiscal year is 12 months long and begins on January 1 of each year and ends on December 31 of the same year.

5.1.5 Important events in the development of the Company's business activities

Gaz de France was created by French Law No. 46-628 dated April 8, 1946, as part of the nationalization of the French gas industry, in the form of an EPIC, administered in accordance with the provisions of this law, as modified and other provisions applicable to EPICs.

French Law No. 2004-803 dated August 9, 2004 concerning gas and electricity public service and gas and electricity companies, which amended French Law No. 46-628 dated April 8, 1946, arranged for the conversion of Gaz de France into a limited liability company *(société anonyme)*, with effect on November 20, 2004.

On July 7, 2005, Gaz de France publicly offered its shares on the stock market. The first listing of Gaz de France shares occurred on July 7, 2005 and trading on Eurolist by Euronext Paris began on July 8, 2005. In accordance with Article 24 of French Law No. 2004-803 dated August 9, 2004, requiring the French State to hold at least 70% of Gaz de France's share capital[1], the French State, previously the sole shareholder of Gaz de France, retained 80.2% of its share capital at the end of this operation.

Gaz de France was added to the CAC 40 index on September 1, 2005 and the Dow Jones Stoxx 600 on September 19, 2005.

For more details concerning the Company's history, see paragraph 6.1.1 – "Overview – A brief history".

(1) *Article 24 of Law 2004-803 of August 9, 2004, as amended by Law 2006-1537 of December 7, 2006 governing the energy sector, now requires that the French State hold more than one-third of the Company's capital. Decision 2006-543 DC of November 30, 2006 from the* Conseil Constitutionnel *specifies that the effective transfer of Gaz de France to the private sector can take effect only as from July 1, 2007.*

5.2 Investments

5.2.1 Investments realized

The statement of cash flows shows total investments (including replacement costs) of €3,510 million in 2006, up 19.5% over 2005 (€2,938 million).

From an economic point of view, total investments in 2006 amounted to €3,982 million, which can be analyzed as follows:

- investments, excluding acquisitions, in the amount of €3,166 million (capital expenditures for €2,647 million and other investments for €519 million);
- investments in acquisitions in the amount of €816 million, including €671 million related to the consolidation of AES following the plant commissioning and the effective date of the Energy Agreement and €145 million in other investments (acquisition of a stake in Maïa Eolis and net investments related to the reorganizations of the interests in the Italian division for the most part).

Capital expenditures (including replacement costs, investments in finance leases, and exploration expenses).

Capital expenditures (including finance leases for €143 million) represented €2,647 million in 2006, an increase of €609 million compared to 2005.

Capital expenditures for the Group in 2006 and in 2005

In millions of euros	2006	2005
Energy Supply and Services Division		
Exploration – Production	622	534
Purchase and Sale of Energy	374	46
Services	43	62
Infrastructures Division		
Transmission and Storage – France	618	447
Distribution France	787	793
Transmission and Distribution – International	179	126
Eliminations, other and not allocated items	24	31
TOTAL GROUP	**2,647**	**2,038**

- Capital expenditures in Exploration-Production were €622 million in 2006, compared to €534 million in 2005. Technical investments (excluding exploration expenditures) amounted to €479 million in 2006, up from €420 million in 2005.

  The increase in expenditures is tied to the development of new fields, primarily in the United Kingdom and Norway. The breakdown of these investments is as it follows: 50% in Norway, 16% in The Netherlands, 16% in the United Kingdom, 8% in Germany and 5% in Mauritania and Algeria.

  Exploration expenditures (including exploration costs directly charged to expense) totaled €143 million, compared with €114 million in 2005, an increase of 25%.

  The year 2006 was marked by eight successes out of fifteen wells drilled. Discoveries were made in the United Kingdom (3), Norway (3), Germany (1), and Mauritania (1). In 2005, thirteen wells were drilled, eleven of which were successful.

- Capital expenditures for the Purchase and Sale of Energy segment were €374 million in 2006, compared to €46 million in 2005.

  This increase primarily reflects the expenditures made for the construction of the Gaz de France EnergY tanker, the construction of the combined cycle plants in Fos-sur-Mer (Cycofos) and the installation of the new IT systems in preparation for the deregulation of the markets on July 1, 2007.

- Capital expenditures for the Services segment for 2006 were €43 million, including replacement costs, compared with €62 million in 2005. Excluding the effect of the DK6 plant over the first half of 2005, the capital expenditures of the Services segment were stable from 2005. The principal investments in 2006 were on new utilities management contracts on industrial sites and the development of the cooling network in Paris.

- Capital expenditures for the Transmission and Storage – France segment in 2006 were €618 million compared with €447 million in 2005. This increase was driven by the fluidification investment program implemented by GRTgaz for the merger of the North, East and West balance zones planned in 2009 and by the continued construction of the Fos-Cavaou LNG terminal.

  In 2006, 40% of the capital investments were devoted to Transmission, 25% to Storage, and 35% to the LNG Terminals, essentially for the construction of the Fos-Cavaou terminal.

Breakdown of the capital expenditures for the Transmission and Storage – France segment

In millions of euros	2006	2005
Transmission network	234	179
Storage	153	132
LNG terminals	217	115
Other capital expenditures not for a specified business activity	14	21
Total	**618**	**447**

- The capital expenditures for the Distribution France segment totaled €787 million in 2006, compared with €793 million in 2005, primarily for network development, the absorption of gray iron pipelines, and the adaptation of the information system in preparation for the deregulation of the market on July 1, 2007.

- In 2006, 24% of the investments were dedicated to the absorption of gray iron pipelines, with 966 kilometers reabsorbed over 2006, with an objective 800 kilometers. As of December 31, 2006, only 153 kilometers of gray iron pipelines remained. Pursuant to the commitments made, the total absorption of the gray iron pipelines will be completed by the end of 2007.

- Nearly half of the 2006 capital expenditures was used for the expansion of the network in connection with the "one million new heating customers" program: 1,230 kilometers of network extensions were connected and nearly 210,000 new customers with access to natural gas to heat their homes were acquired by Gaz de France, raising the total number of new customers acquired since the start of the program to 816,135.

Breakdown of the capital expenditures for the Distribution France segment

In millions of euros	2006	2005
ZSG Connections	298	385
NGC Connections	48	48
Renovation	365	322
Other capital expenditures not for a specified business activity	76	38
Total	**787**	**793**

ZSG Connections (Zones Served with Gas) relates to development work on the networks in an area already served with gas (creating new networks and branch lines) and the realization of new branch lines on existing networks.

NGC Connections (New Gas Concessions) relates to work (realized over the course of the first three years of a new public distribution – after which this public distribution is transferred to ZSG) on the creation of new networks and branch lines in newly connected communities (134 new communities were connected in 2006 compared to 97 in 2005).

Renovation consists in the replacement of existing equipment, including in the context of the absorption of gray cast iron pipelines.

Additionally, the specific tangible distribution investments that were made in extension of the network (ZSG + NGC) and in renovation, were divided as follows:

	Extension	Renovation
2006	49%	51%
2005	57%	43%

- Capital expenditures for the Transmission and Distribution – International segment were €179 million in equipment in 2006, compared with €126 million in 2005, an increase of 42%. This increase reflects the modernization of the networks, particularly at the Romanian subsidiary Distrigaz South, which alone represented more than 40% of the investments over the period.

Other investments

The other investments totaled €519 million in 2006, primarily related to the acquisition of shares in Suez and investments made by certain Group subsidiaries and by the parent company under the liquidity contract on its own shares.

Acquisitions

In 2006, expenditures for acquisitions amounted to €816 million, including €671 million related to the consolidation of AES following the commissioning of the plant and the implementation of the tolling contract, and €145 million in other investments (acquisition in the Maïa Eolis company and net investments primarily related to the reorganization of the holdings in the Italian segment).

5.2.2 On-going and anticipated investments

For 2007 and 2008, the Group intends to have annual investments of €3 billion, excluding external growth.

After the initial public offering, the Group presented a 2005-2008 investment plan for €17.5 billion. At the end of 2006, based on completed projects in 2005 and 2006, the Group has invested 6.9 billion euros.

For more information on methods of financing current investments, see paragraph 10.2 – "Financial structure."

5.2.3 Significant investments to be made by the Company and for which its management bodies have already made commitments

Not applicable.

6 BUSINESS OVERVIEW

6.1 Principal activities

Gaz de France conducts its activities both directly and through its subsidiaries and affiliates, some of which are consolidated in the Group's accounts through full consolidation and others through proportionate consolidation. Unless otherwise specified, the data presented in this section, particularly on the Group's number of customers and natural gas sales, reflect Gaz de France's share of the companies consolidated through proportionate consolidation.

Unless otherwise stated, the source of the market data and market-related data included in this *document de référence* is Gaz de France's estimates based on information on sales and capacity published by its competitors and analysts.

A table of measurement units for natural gas and other energy products is located in Appendix A of this *document de référence*. A glossary of technical terms is located in Appendix B of this *document de référence*.

6.1.1 Overview

Gaz de France is a leader in the natural gas market. It is the number one natural gas supplier in France and one of the leading natural gas suppliers in Europe based on its diversified natural gas supply portfolio. Gaz de France operates the longest European high-pressure natural gas transmission network as well as the longest European distribution network. In 2006, the Group sold 762 terawatt hours ("**TWh**") of natural gas and recorded net consolidated revenues of €27,642 million (with nearly 40.0% realized internationally), gross operating income of €5,149 million and consolidated net income for the Group of €2,298 million. The Group has access to 11.1 million customers in France and approximately 2.8 million consolidated customers for Gaz de France, outside France, primarily in Europe.

The Group's activities are conducted in a complementary manner through two divisions and six segments:

Gaz de France						
Energy Supply and Services			Infrastructures			Other*
Exploration – Production	Purchase and Sale of Energy	Services	Transmission and Storage – France	Distribution France	Transmission and Distribution - International	

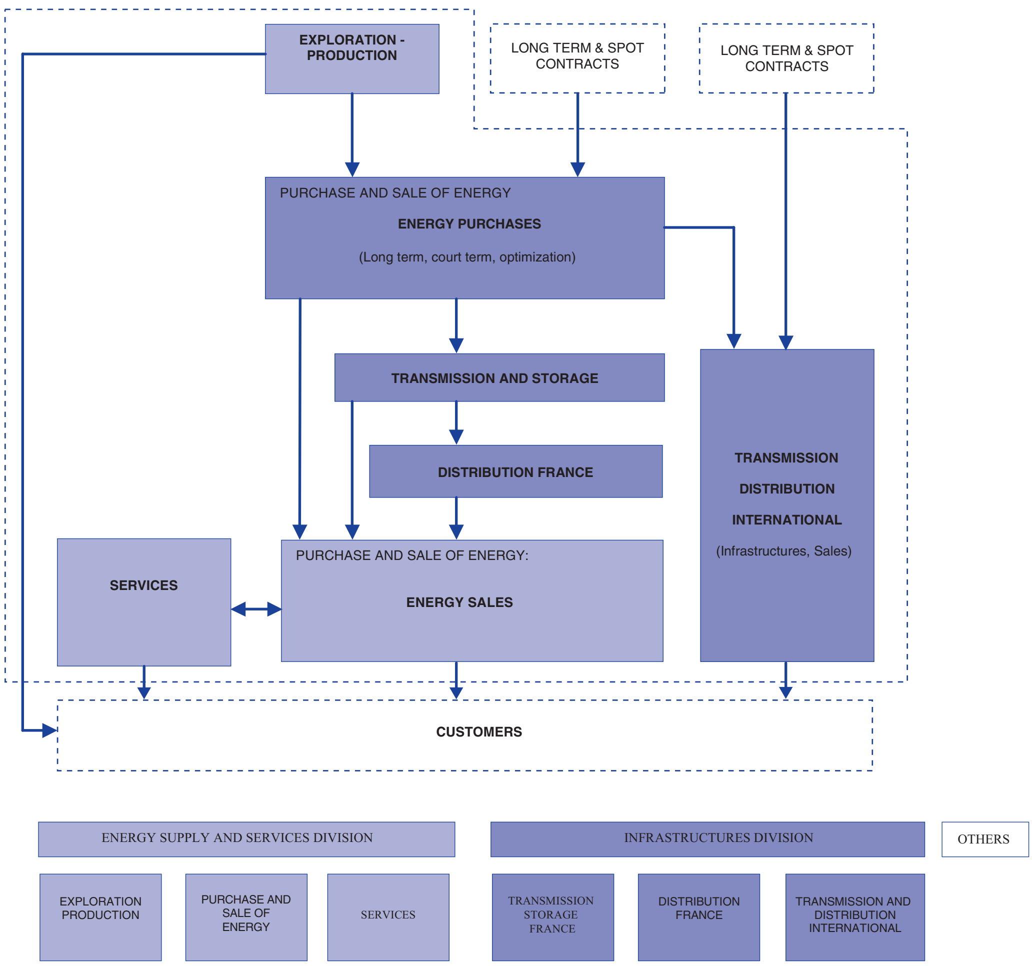
(*) *This part includes financial holdings and items eliminated through consolidation.*

Natural gas sales made by Group segments were as follows:

*Consolidated gas sales by Group segments * (in TWh)*	2005	2006
Energy Purchase and Sale	649	641
Transmission & Distribution - International	82	102
Exploration-Production	42	53
Eliminations of inter-segment and other sales	-24	-34
TOTAL GROUP	**749**	**762**

* including the Group share of energy sales by proportionately consolidated companies

Graph showing the flow of economic and physical assets between the Group's segments



History

Founding of the Company

Gaz de France was created by French Law No. 46-628 dated April 8, 1946 in the form of a public entity with an industrial or commercial character, as part of the nationalization of the French gas industry.

Following the Second World War, nationalizing the gas industry seemed necessary in an environment in which a good number of facilities were obsolete or damaged and suffered from being scattered geographically. The gas sold at the time was essentially manufactured gas, produced locally in plants located near areas of consumption. At the time there were no pipelines for the transmission of gas over long distances.

Diversification of sources of supply

The situation was fundamentally changed with the discovery of the Lacq gas field in southwestern France in 1951 and the marketing of gas from this field in 1957.

This introduction of natural gas to the French energy landscape resulted in Gaz de France progressively giving up its role as producer-distributor of manufactured gas in favor of being a trader, transporter and distributor of natural gas. It also required implementation, as a complement to national gas production, of an overseas supply policy in order to meet the constantly growing demand. Gaz de France entered into an initial contract with Algeria in 1964 for the purchase of LNG. Subsequently, the Group undertook a geographically diversified supply policy, by contracting with producers in The Netherlands, Russia, Norway, Nigeria, Libya and Egypt.

This policy to diversify natural gas purchases has been completed since 1994 through the Group's entry into the Exploration-Production in order to control a portion of its supplies directly and to diversify its exposure to the risk of fluctuations in the prices of its natural gas supplies.

With the opening of the energy markets in Europe, Gaz de France initiated a new business in order to ensure its position as an energy company: the production and marketing of electricity. In particular, this became a reality with the service of the first combined gas cycle plant in France: DK6. Gaz de France ensures its electricity supply via its own assets, supply contracts, and purchases on organized market.

Development of transmission and storage infrastructure

At the time of the introduction of natural gas to French territory, Gaz de France was led to develop an interconnected transmission infrastructure as well as LNG receiving capacity.

This transmission network was constructed by Gaz de France to cover all of France, including a portion in southwestern France covered through a partnership with Total consisting of contracts and joint ventures. This partnership was unwound on January 1, 2005. Gaz de France now operates its transmission network as sole owner, and Total has taken over the transmission network in southwestern France.

In addition to its strategy of diversifying its supplies, Gaz de France has also participated in major gas trunk pipeline projects used for transit of natural gas across Western Europe (particularly MEGAL in Germany and SEGEO in Belgium). It has also developed LNG facilities, in particular the regasification terminals at Fos-Tonkin and Montoir-de-Bretagne, as well as Dahej in India. In addition, Gaz de France is continuing to invest in major infrastructure projects in partnership with its suppliers: for example, it is currently developing the Fos-Cavaou regasification terminal and holds a minority interest in a liquefaction plant in Egypt and in the Medgaz company that is developing the Medgaz pipeline connecting Algeria to Spain.

Finally, to ensure supply continuity and in particular meet the seasonality of demand, Gaz de France has increased its natural gas storage capacity, which, as of December 31, 2006, stood at more than 9 billion cubic meters of working gas.

Development of the distribution network in France

In France, the development of its transmission infrastructures included the construction of a distribution network that assures the transportation of natural gas all the way to the final individual clients. In 1960, the Gaz de France distribution network served nearly 350 French communities and 5.8 million customers. Today, it serves 9,099 French municipalities with approximately 11.1 million customers connected.

From the outset, Gaz de France established joint divisions with EDF to manage the gas and electricity distribution networks and to handle customer service. These relationships were modified on July 1, 2004, with the two companies maintaining a joint division solely for the purpose of providing technical services for their respective distribution networks (see paragraph 6.1.3.2.2.2.3 – "Organization of the distributor").

Pursuant to the provisions of European directive 2003/55 transposed into French law by Law 2006-1537 of December 7, 2006, the distribution operations in France must be spun-off to subsidiaries no later than July 1, 2007.

International development

Gaz de France began early in its history to develop its international activities to take advantage of its expertise and to develop cooperative relationships with natural gas suppliers. Since the early 1990s, this international positioning intensified since it became an integral part of its overall development of the Group in the context of markets in the process of opening up. Accordingly, the Group acquired significant positions, essentially in gas marketing and distribution activities, in countries such as Germany, Italy, the United Kingdom and Belgium.

More recently, the Group has also seized the opportunities provided by political changes in Eastern Europe and the resulting privatizations and market openings, and so gaining a position in a number of countries in this region.

Additionally, starting in the 1990's Gaz de France decided to enter into Exploration-Production, so starting a new stage of international development.

Since the end of the 1990s, the Group has become involved in the provision of services in Europe, and particularly in Italy.

The Group's international activity today also includes power production and supply. The Group holds interests in the SPE company in Belgium, acquired in 2005 (second largest Belgian producer with 1,600 MWel for its interests), in the Shotton power plant (215 MWel) in the United Kingdom, in the AES Energia Cartagena plant (1,200 MWel) in Spain, and a portfolio of customers through its subsidiary GDF ESS in the United Kingdom.

Business activities

Energy Supply and Services

Gaz de France is the historic natural gas company in France, and is developing its activities in other markets with the goal of becoming a leading supplier throughout Europe. The Energy Supply and Services division includes the following:

Exploration-Production

In order to control a portion of its supplies directly, to capture a greater portion of the value added by the gas supply chain and to reduce its vulnerability to oil prices (on which gas prices are typically indexed), the Group holds its own reserves, primarily in the North Sea, Germany and North Africa, including reserves in fields operated directly by Gaz de France. As of December 31, 2006, the Group held proven and probable reserves of 685.3 million barrels of oil equivalent ("**Mboe**"), including 75.6% in the form of natural gas and 24.4% in the form of hydrocarbons. The Group's annual production of natural gas and liquid hydrocarbons was 45.5 Mboe in 2006.

The Group also has a portfolio of exploration licenses, which it expanded in 2006, particularly in Mauritania.

Electricity production

To meet customer needs, Gaz de France sells electricity. For the same reasons as for natural gas, the Group has also become a power producer in Europe. It currently owns the Shotton plant (215 MWel) in the United Kingdom, DK6 (788 MWel) in France, and interests in SPE (approximately 1,600 MWel) in Belgium and AES Cartagena (1,200 MWel) in Spain.

Purchase and Sale of Energy

The Group is one of the leading natural gas suppliers in Europe, one of the largest natural gas buyers in the world and one of the leading importers of LNG in Europe. In 2006, 641 TWh were sold by the Purchase and Sale of Energy segment, including 440 TWh in France, 129 TWh in Europe and 72 TWh on the short-term market. At the end of 2006, the Purchase and Sale of Energy segment served 10.5 million household customers, more than 607,600 mid-market customer-sites (primarily professionals, retailers, small and medium-sized businesses, apartment buildings, certain private and public service providers and local communities) and more than 700 major industrial and commercial customers spread out over more than 4,700 sites, more than 500 of which were located in Europe outside of France.

In France, Gaz de France will continue to have a monopoly on the supply of gas to its individual French household customers (representing 95% of the French individual household customer market, with the remaining 5% being supplied by distributors that were not nationalized in 1946 and newly acknowledged distributors) until July 1, 2007. Gaz de France's other customers already have the ability to choose their gas and other energy suppliers under European directives on the opening of the natural gas market and the related French laws adopted to implement the directives, which are described below (see paragraph 6.1.4 – "Legislative and Regulatory Environment in France").

To adapt to the opening of the French market, the Group has implemented a strategy designed to increase customer loyalty with the marketing of its brands and new product offers. Gaz de France has offered its largest customers financial engineering solutions and energy management services. In addition, it is developing a dual gas-electricity offering, already in place for industrial and business customers, that it will offer to its individual household customers who prefer to use a single supplier for both gas and electricity once they are allowed to choose their gas and electricity suppliers as of July 1, 2007.

The Group is also implementing a growth strategy in Europe, using its expertise to benefit from the opening of the European market. It sells gas to industrial customers, primarily in the United Kingdom, Belgium, The Netherlands, Italy, Spain, Germany, and Hungary, and holds stakes in companies that have access to the markets in Germany, Slovakia, Italy, Hungary, Romania, Belgium and The Netherlands. So far, the Group's expansion in Europe has more than made up in volume, its lost sales resulting from the opening of the French market.

Gaz de France purchases natural gas primarily through a diverse portfolio of long-term contracts with producers located in Norway, Algeria, Russia, The Netherlands, the United Kingdom, Nigeria and more recently in Libya and Egypt (countries started deliveries during 2005). The remainder of Gaz de France's supply comes from its Exploration-Production activities and short-term market transactions. Gaz de France's supply activities make it a recognized leader in the European market for natural gas purchasing and LNG imports, primarily with the 12 LNG tankers held by the Group in 2006. In this context, Gaz de France on December 19, 2006 renewed the existing Russian contracts and a contract for the purchase of additional quantities from Gazprom. In November 2006, the Group signed agreements with Sonatrach to purchase natural gas at the intake to the Medgaz pipeline.

Services

The Group conducts its Service activities in all the countries where it sells energy, primarily in France, Italy and the United Kingdom. This activity enables it to provide a comprehensive offering that complements its energy activities, including energy services for industrial and service sector customers (management of cogeneration facilities, operation and maintenance of heating or cooling production facilities, various industrial maintenance, development and industrial management of power generation facilities), individual household customers (maintenance of furnaces) and local communities.

Infrastructures

The Infrastructures division incorporates an industrial asset base that provides Gaz de France with significant financial strength. The Group's experience in gas infrastructure management provides the Group with a foundation for its integrated European strategy.

Transmission and Storage- France

Gaz de France benefits from a geographical position at the heart of the European transmission network, owning and operating the longest high-pressure natural gas transmission network in Europe, which it uses to transport its own natural gas and that of third parties. As of December 31, 2006, its French network included nearly 31,610 kilometers of gas pipelines, including a primary network of 6,757 kilometers and a series of regional networks of 24,853 kilometers.

In addition, the Group owns and operates two LNG terminals, giving it the second largest LNG receiving capacity in Europe, with a regasification capacity of approximately 17 billion cubic meters per year.

Gaz de France also has 12 underground storage facilities, eleven of which it owns outright, providing around 9 billion cubic meters of working gas, giving it one of the largest storage capacities in Europe.

Distribution France

As of December 31, 2006, Gaz de France's French distribution network was the longest in Western Europe, with more than 185,000 kilometers of pipelines serving 9,099 communities that accounted for approximately 76% of the French population. Gaz de France operates its network under long-term concession agreements, with a volume-weighted average remaining duration of approximately 18.6 years. Under French Law No. 46-628 dated April 8, 1946, almost all of the concession agreements of Gaz de France are subject to mandatory renewal upon expiration (see paragraph 6.1.3.2.2 – "Distribution in France").

In order to realize economies of scale, Gaz de France and the French electric utility Électricité de France ("EDF") have created a joint division – EDF Gaz de France Distribution or EGD – to manage the construction, operation and maintenance of the French electricity and gas distribution networks and to conduct meter-reading and similar activities.

Transmission and Distribution – International

The Group holds a portfolio of interests in several companies that operate trunk pipelines located on the principal Western European gas supply routes (3,480 km of transmission network in contributing date) in companies operating distribution systems (50,488 km of distribution networks in contributing date) and storage in countries such as Germany, Belgium, Slovakia, Austria, Italy, Romania and Hungary, and in companies marketing to 2.8 million customers worldwide (Gaz de France share), to which they sold 102 TWh of natural gas in 2006 (Gaz de France share). Gaz de France also has in Belgium, through its subsidiary SPE, a power production capacity of 400 MWel and sold 5.4 TWh of electricity in this country to 187,000 customers (contributing data).

A new regulatory and legal framework

European directives and their enactment into national law have changed the context in which the Group operates as follows:

- Since August 2000, the largest consumers of natural gas have gained the option to choose their own supplier of gas within the European Union (customers with that option are referred to as "eligible" customers). In France, this option was established by a law dated January 3, 2003. In order for these customers to be able to exercise this right and, acting in accordance with a provision from the direct application of the directive, Gaz de France has implemented since August 2000 a rate for accessing its network.
- On July 1, 2004, the option to choose a natural gas supplier was extended to all customers other than residential customers, resulting in the opening of approximately 70% of the natural gas market in France.
- Starting July 1, 2007, all customers will have the option to choose their natural gas supplier, including residential customers.
- In France, beginning on January 3, 2003 parties other than Gaz de France obtained the right to access transmission and distribution networks and LNG regasification facilities on a transparent and non-discriminatory basis. Gaz de France charges regulated fees for access to the facilities it operates, under a rate structure designed to produce rates of return on assets that vary depending on the nature of the facilities.
- A law dated August 9, 2004 instituted third-party access rights to storage facilities in France, subject to fees determined on a negotiated basis[1], in a transparent and non-discriminatory manner. Gaz de France implemented this directive in April 2004. A decree on August 21, 2006 specified the rules for the determination, assignment, distribution and allocation of storage capacities.

(1) *The rate is prepared by Gaz de France, published and applied to clients under the same conditions.*

- In January 2003, the competence the CRE (originally called the Electricity Regulation Commission, *Commission de régulation de l'électricité)*, an independent administrative authority created in 2000 initially to regulate the electricity sector in France, was extended to natural gas. The CRE is responsible for proposing access fees for transmission and distribution networks and LNG facilities to the French Ministers of the Economy and Energy and for issuing advisory opinions on regulated rates for natural gas sales to non-eligible customers. The Law of December 7, 2006 gives him power to approve the investment programs of natural gas transports. This law also creates within the CRE a committee to settle disputes and levy sanctions, and gives the CRE regulatory power in natural gas analogous to the power it already held in electricity.
- The responsibility for the management of the distribution and transmission networks was transferred respectively to a separate department of Gaz de France, Gaz de France Réseau Distribution, in July 2004, and to a wholly owned Gaz de France subsidiary, GRTgaz, early in 2005. The two networks are managed independently from Gaz de France's production and supply activities. The investment decisions of GRTgaz are made exclusively by the Chief Executive Officer of GRTgaz, without ceiling. However, Gaz de France retains the right to financial supervision, which includes the approval of the annual financial plan of the manager in question. The Law of December 7, 2006 governing the energy sector, which finalizes the transposition of the two European directives into the French legal system, requires a legal separation of the management of the distribution network no later than July 1, 2007 and, therefore, the spin-off of this activity by Gaz de France. This law also permits the privatization of Gaz de France as long as the State retains at least one-third of the capital of the Company. The decision of the *Conseil Constitutionnel* dated November 30, 2006 specified that the effective transfer to the private sector will be able to take effect as of July 1, 2007.
- All countries in the European Union are opening their natural gas markets, giving Gaz de France the opportunity to access new customers and to develop its activities throughout Europe.
- Pursuant to the provisions governing public service obligations in the natural gas sector, Gaz de France was designed, by order of May 16, 2006, the natural gas supplier of last resort to non-domestic customers performing a general interest mission, for a period of two years over the entire national territory (with the exception of the zones served by Gaz de Strasbourg, Gaz de Bordeaux and Vialis).

The Natural Gas Sector in France and in the World

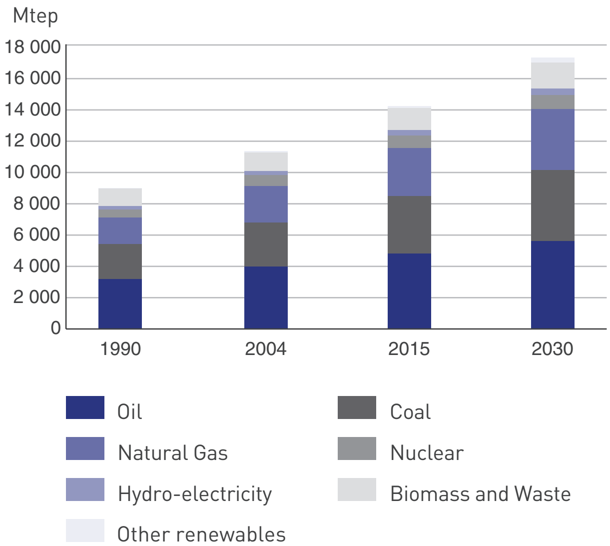
Except where otherwise indicated, information in this section has been taken from the 2006 Report of the International Energy Agency (**"IEA"**) on the world energy market, World Energy Outlook[1].

The natural gas market

The natural gas market encompasses a variety of activities, from the search for gas fields to the delivery of natural gas to the final customer. In the exploration phase, companies search for geological structures likely to contain significant natural gas fields, and drill wells to confirm the presence of gas, to evaluate the reserves and to determine whether they are commercially exploitable. If so, the field is developed and brought on stream. From the production sites, natural gas is transported in either gaseous form in gas pipelines or liquid form (LNG-Liquefied Natural gas) in LNG tankers, the cargoes of which are unloaded in LNG terminals, where the LNG is regasified. A portion of the natural gas is stored in underground facilities (aquifers or salt cavities), so that deliveries received in regular quantities over the course of the year can be used to satisfy demand that varies significantly by season. Natural gas is transported through transmission networks (gas pipelines) over long distances, at high or medium pressure. Certain major industrial and professional customers are supplied directly from the transmission network. Gas is delivered to local customers through a (low-pressure) distribution network that is linked to the transmission network at multiple connection points.

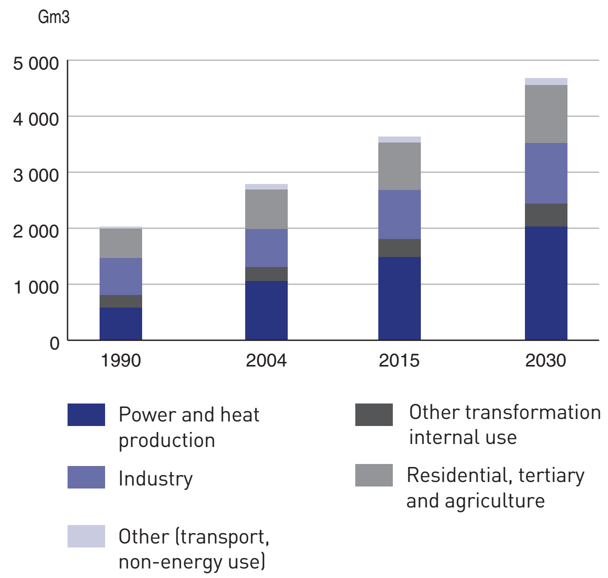
(1) *This report analyzes 2004 data.*

Graph - Changes in and forecasts for primary energy consumption worldwide



Source: WEO 2006 – IEA's World Energy Outlook 2006

Graph - Change in and forecast for natural gas demand by sector worldwide



Source: WEO 2006 – IEA's World Energy Outlook 2006

The demand for natural gas in France and worldwide

International demand

The natural gas markets have been growing regularly since 1978. From 1978 to 2004, these markets posted average annual growth of 2.7%[1]. In 2004, natural gas consumption worldwide was 2,784 billion cubic meters.

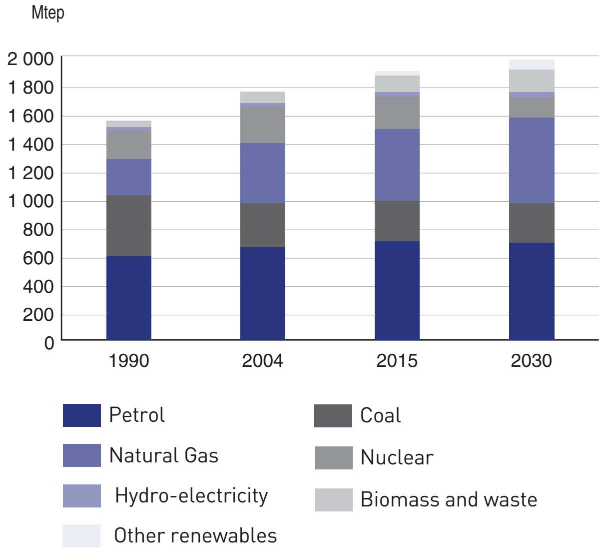
The share of natural gas in the total energy consumption worldwide has been consistently increasing. The IEA forecasts, in its reference scenario, that it will grow from 21% in 2004 to 23% in 2030, i.e. an annual growth rate of about 2%, while growth in the primary demand is expected to rise only 1.6% per year. This growth should be driven primarily by Africa, Latin America and Asia, with annual rates greater than 3%. The European and North-American markets of the OECD (Organization for Economic Cooperation and Development) will, however, remain the largest markets over the period (representing 38% of global consumption in 2030).

According to the IEA, the power production and heating network sector should account for more than half the growth in world demand for natural gas (+2.5% per year from 2004 to 2030), rising from 38% in 2004 to 44% of the demand in 2030.

Again according to the IEA, in many regions of the world, natural gas is preferred to other fuels, particularly for power production, because of competitive prices, environmental advantages, and the relatively lost cost of investment in a combined gas cycle compared with other means of power production.

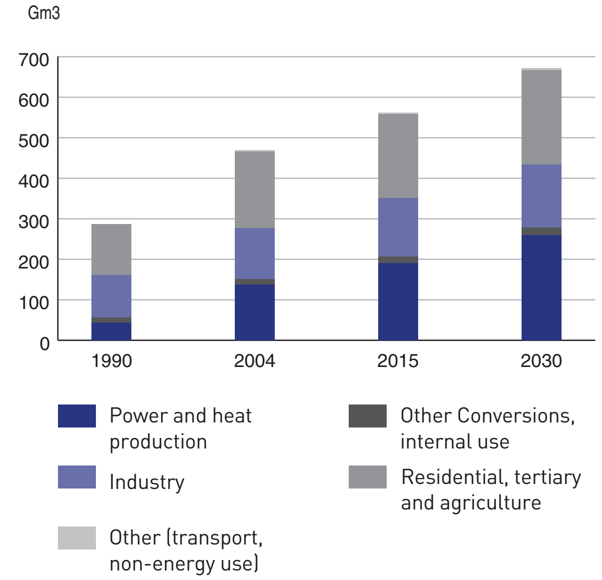
(1) *Based on data in "Natural Gas Information 2005" from the IEA.*

Graph - Change in and forecast for primary energy consumption in Europe (EU 25)



Source: WEO 2006 – IEA's World Energy Outlook 2006

Graph – Change in and forecast for natural gas demand by sector in Europe (EU 25)



Source: IEA's WEO 2006 — World Energy Outlook 2006

European demand

According to the IEA, in Europe (EU 25) in 2004, natural gas consumption was 508 billion cubic meters.

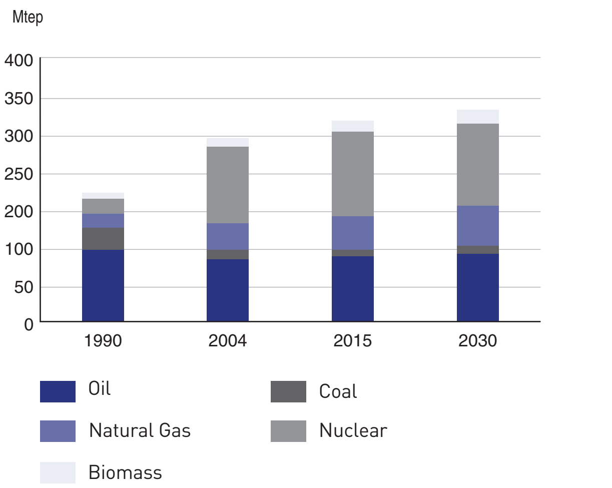
The proportion of natural gas in primary energy consumption is expected to rise from 24% in 2004 to 30% in 2030 with an annual growth rate of 1.4% per year over the period, under the reference scenario. In an alternative scenario, the IEA forecasts a proportion of natural gas in primary energy consumption equal to 28% in 2030 (decline in gas in favor of nuclear and renewable energies).

The growth in demand for natural gas for the power and heat production sector (in the heating networks) is steady, as at global level. The market share of natural gas in this segment is expected to rise from 29% in 2004 to 39% in 2030, with an annual growth rate of 2.5% over this period, as at global level.

According to Global Insight (2004 report), this growth should be driven in Europe by the application of the European directive on greenhouse gas emissions, which makes businesses responsible for the cost of carbon dioxide emissions (CO_2), thus encouraging the use of energies emitting less CO_2, including natural gas and nuclear.

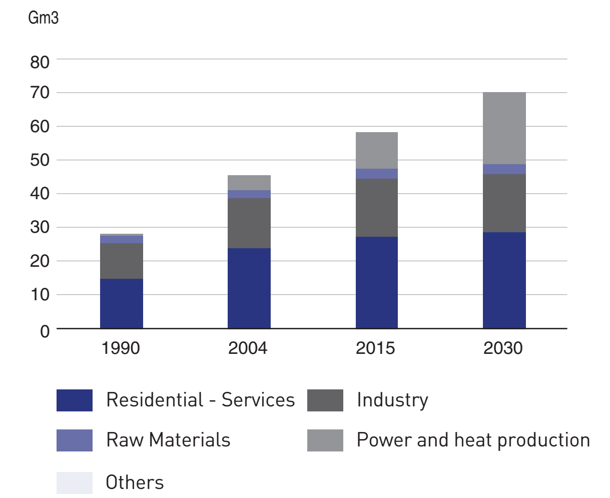
Again, according to the IEA, the final demand for natural gas in Europe should also rise between 2004 and 2030, with a more modest growth rate of 0.8% per year in the residential and service sectors and in the industrial sector.

Graph – Change in and forecast for primary energy consumption in France



Global Insight 2006

Graph: Change in and forecast for natural gas demand by sector in France



Global Insight 2006

Demand in France

According to the Energy Observatory of the Ministry of Economy, Finance and Industry, in 2005 natural gas accounted for 14.8 % of France's primary energy sources: consumption of 40.78 Mtoe (equivalent to 45.3 billion cubic meters).

Although it grew faster than other energies, the proportion of natural gas in energy consumption in France remains lower than the average of the countries in the European Union (24.8 % in 2005 according to Eurogas — 2005-2006 annual report) because of France's low use of gas for power production. France has in fact given a significant role to nuclear energy in the last three decades and currently has only one combined cycle plant of about 800 MWel (a unit built by Gaz de France in Dunkirk in partnership with Arcelor), and approximately 4700 MWel in cogeneration producing electricity from natural gas.

The residential and services sector is the largest gas consumer in France (51 % of consumption in 2005). In this sector, gas is primarily used for home heating and demand is highly seasonal. Thus the demand for natural gas in August 2002 was only 21 % of the demand for natural gas in January 2003 (according to the Energy Observatory).

Global Insight projects an average increase of 1.7% in total natural gas consumption in France over the period 2004-2030, slightly higher than the increase projected in Europe. This is primarily due to the sharp increase in power production from natural gas. This segment, which currently represents 8% of demand for gas in France according to the Energy Observatory could, according to Global Insight, represent nearly 30% in 2030.

Table – Geographic breakdown of natural gas supply in the 25 European Union countries by source in 2005 (in Gm3)

					From:				
Country	Supply	Production	Exports	Imports	Russia	Norway	Algeria	Other non-EU countries	Within the EU
Austria	9.2	1.6	1.3	8.8	79%	9%	-	-	12%
Belgium	17.5	-	4.4	21.9	1%	39%	13%	-	46%
Czech Republic	9.6	0.1	-	9.5	75%	25%	-	-	-
Denmark	5.5	10.5	5.3	0.3	-	29%	-	-	71%
Estonia	1.2	-	-	1.2	100%	-	-	-	-
Finland	4.2	-	-	4.2	100%	-	-	-	-
France	**49.4**	**1.2**	**0.8**	**49.0**	**23%**	**29%**	**15%**	**11%**	**21%**
Germany	93.3	17.8	15.2	90.7	40%	29%	-	1%	29%
Greece	2.9	-	-	2.9	84%	-	16%	-	-
Hungary	13.6	2.8	-	10.8	77%	-	-	3%	20%
Ireland	4.3	1.2	-	3.1	-	-	-	-	100%
Italy	85.4	12.0	-	73.5	32%	9%	38%	6%	15%
Latvia	1.7	-	-	1.7	100%	-	-	-	-
Lithuania	2.9	-	-	2.9	100%	-	-	-	-
Luxembourg	1.4	-	-	1.4	-	-	-	-	100%
The Netherlands	43.6	72.8	46.8	17.6	17%	35%	-	-	48%
Poland	14.7	4.5	-	10.2	63%	5%	-	26%	6%
Portugal	4.2	-	-	4.2	-	-	62%	38%	-
Slovakia	6.6	0.2	-	6.4	100%	-	-	-	-
Slovenia	1.1	-	-	1.1	51%	-	40%	-	9%
Spain	33.6	0.2	-	33.4	-	6%	44%	50%	-
Sweden	1.0	-	-	1.0	-	-	-	-	100%
United Kingdom	94.8	88.0	9.7	16.5	-	78%	3%	-	19%

Source: Cedigaz

Supplying the French and European markets with natural gas

A portion of European natural gas demand is satisfied with European reserves. 41% of natural gas consumed in 2005 in Europe (EU 25) was produced within Europe, with the rest coming from Russia (24%), Norway (15%), and Algeria (11%) (according to the 2005-2006 annual report from Eurogas).

According to Cedigaz, in 2005 proven European reserves (EU 25) were nearly 2.8 billion cubic meters, which represented 1.6% of world resources. Natural gas production in the European Union in 2005 amounted to 213 billion cubic meters, including 41% produced by the United Kingdom (88 billion cubic meters) and 34% by The Netherlands (73 billion cubic meters) from fields located in the North Sea.

According to the IEA, the production of natural gas from the European countries of the OECD should decline on an annual average of 0.5% between 2004 and 2030. North Sea production is expected to reach its peak early in the next decade, then decline progressively until 2030.

Given this decrease, and the anticipated growth in consumption, a growing share of natural gas supplied to Europe can be expected to come from imports. The IEA expects natural gas imports in the European countries of the OECD to rise from 214 billion cubic meters (40% of consumption) to 488 billion cubic meters (63% of consumption) in 2030. These imports will come essentially from Russia and Algeria, but also from other countries in West Africa, the ex-USSR, the Middle East and Latin America.

To transmit these new volumes, the industry will have to develop new gas pipelines, and also, in particular, LNG (Liquefied Natural Gas) transport capacity. With a total of 150 billion cubic meters exchanged in 2002 in the world, the IEA forecasts that LNG could rapidly develop to reach an exchange volume of 250 billion cubic meters in 2010 and 680 billion cubic meters in 2030. While natural gas delivered through pipelines today represents 70% of cross-border gas exchanges, the share of LNG should, according to the IEA, exceed 50% by 2030.

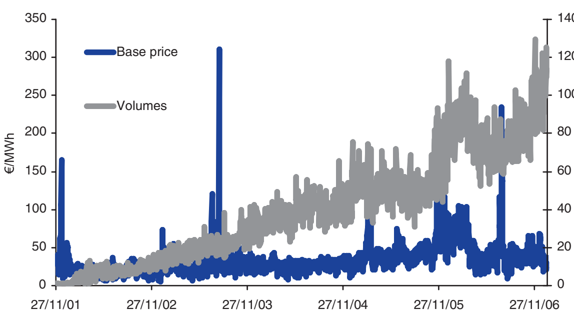
The electrical energy sector in France and worldwide

A special energy – highly volatile prices

Electricity cannot be stored. The supply-demand balance must be ensured at any time for a specific region, whereas production and consumption depend on many factors that are hard to predict, including temperature, light, rainfall or wind. This specific feature of electricity, combined with unpredictability of primary energy and CO_2 prices mean a highly volatile price for this energy.

Thus, in France electricity prices regularly peak, indicating a strong pressure on the supply or very high demand. With the deregulation of the market, and the resulting increase in the number of players, the liquidity of the electricity market should rise.

Graph – Change in POWERNEXT DAY-AHEAD™ prices and trading volumes (source: POWERNEXT)



Continued growth in consumption

According to the IEA, the growth in demand for electricity should be 2.5% a year worldwide between 2002 and 2030.

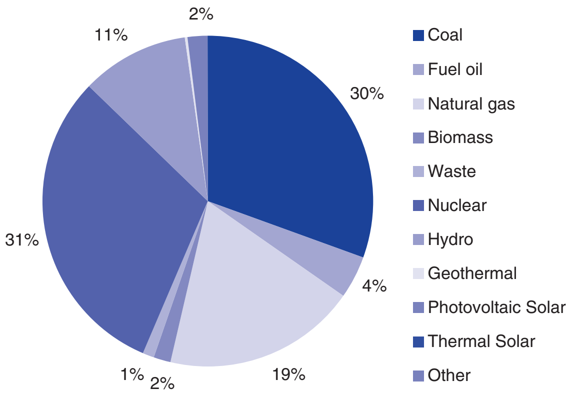
In the OECD countries, the share of electricity in final energy consumption will rise slightly from 20 to 22%. The proportion of electricity is expected to increase more sharply in the services sector.

Graph – Proportion of electricity consumption in energy demand by sector

OCDE	2002	2030
Share in final energy consumption	20%	22%
Industry	25%	27%
Residential	32%	38%
Services	48%	57%

Again according to the IEA, power production in Europe was 3,190 TWh in 2004, represented by coal (31%), nuclear (31%), natural gas (19%), fuel oil (4), and renewable energies (15%).

Graph – Breakdown of primary energy consumption in Europe by type of energy (source: IEA)



In France, the production of electricity is primarily from nuclear plants (nearly 78%).

Electricity produced and imported in France	2004	2005	2005/2004 Change
	TWh	TWh	%
Nuclear thermal production	426.9	429.9	0.7%
Traditional thermal production	53.6	59.6	11.3%
Hydraulic production	64.4	56.2	(12.7%)
Other sources of renewable energy	3.9	4.3	11.6%
Total production	548.7	550.1	0.3%
Energy drawn by pumping	7.3	6.6	(9.6%)
Export balance from physical exchange	61.9	60.3	(2.5%)
Domestic consumption	479.6	483.2	0.8%

Table 2: Power production in France (source: RTE)

Most of this production is provided by EDF, Electrabel/Suez, and Endesa France.

In its 2006 report on the Multi-Year Plan for Investments in power production in France, the Ministry of the Economy, Finance and Industry identifies needs for new power production capacities from traditional thermal plants of about 5,200 MW by 2016. This same report recommends the use of gas combined cycles for the semi-basis resources to be in service by 2015 because of the environmental competitiveness of gas combined cycles in comparison with "clean" coal plants.

6.1.2 Strategy

Gaz de France, a recognized leader in the natural gas market in France, already benefits from a significant presence in Europe. The Group's ambition is to continue its geographic development and increase its presence on the European gas and electricity markets, which have experienced steady expansion since 1990 and offer numerous opportunities under the new regulatory framework.

Gaz de France's strategy includes the following key elements:

- **Reinforce the Group's position as an operator of a natural gas infrastructure, actively participating in the growth of the natural gas market and the security of supply in France and Europe ;**

  Continue investments in French infrastructure.

  In order to promote and keep up with the growth of demand for natural gas, Gaz de France intends to continue its active investment strategy in French infrastructure to the extent it satisfies the Group's profitability criteria. In doing so, its goal is to create:

  - the connections that the growth in demand and new sources of natural gas supply require, through its subsidiary GRTgaz, including increasing transmission capacities and reducing areas of network overload in France;
  - in parallel, the continuing development of storage sites;
  - a new LNG terminal (Fos-Cavaou) to increase the capacity to receive LNG and improve supply conditions in southern France; and
  - an expanded and denser distribution network in France, through GRD, with the goal of acquiring for its networks one million new customers using natural gas for heating between 2003 and 2007.

  Optimize the terms and conditions of access to infrastructure with the goal of allowing each gas supplier to benefit from the best technical services, while respecting its commitments by:

  - guaranteeing a high level of safety and reliability across the entire system;
  - maintaining quality of its services provided to infrastructure users and local communities in order to improve the safety and image of natural gas in France;
  - guarantee transparent and non-discriminatory access to infrastructures; and
  - strengthening its already strong ties to the local communities that are its concession grantors.

  Improve the stability of the rate structure applicable to infrastructure use.

  The Group intends to maintain a constructive dialogue with the CRE. Gaz de France intends to pursue discussions with the CRE with a view to obtaining multi-year rate structures for infrastructure use, in order to increase visibility for this activity in the medium-term.

Continuously seek to increase productivity.

Gaz de France has initiated and will continue efforts to improve productivity and manage costs. In addition, it will seek better flow management in order to increase the usage rates of its facilities and conduct continuous upgrading based on technological innovations.

Pursue international development.

Gaz de France intends to participate actively in the consolidation trend in Europe. There are two aspects to the implementation of this goal:

- Gaz de France intends to develop its presence in European infrastructure, in particular by participating in major transmission, storage and LNG infrastructure projects. In a market that is characterized by increasing dependence on imports from non-European countries, Gaz de France will in this way position itself to benefit from the growth of the European natural gas market;
- Gaz de France will continue to seek out growth opportunities in the European distribution sector, drawing on its expertise in the area of network management and using its existing market positions, including its presence in Germany, Austria, Hungary, Slovakia, Romania and Italy.

- **Develop a multi-energy offering with related services, increase customer loyalty by anticipating new needs and accelerate the development of its European presence:**

The Group intends to use its portfolio of diversified supply contracts and its position as the historic natural gas supplier in France. Gaz de France's goal is to maintain its position as leader in the French market within the framework of the newly opened gas market, and to establish itself as one of the leading natural gas suppliers in the European market.

Develop a multi-energy offering with related services.

In order to meet customers' needs, the Group intends to develop its multi-energy offerings, adding gas-electricity packages, as well as complementary services both in France and in other European countries, with the goal of creating marketing synergies, maximizing the value of services offered to customers and increasing customer loyalty.

Increase customer loyalty.

By capitalizing on the customer relations it has built over years of operations and on its positive image with French consumers, the Group is developing an active marketing strategy tailored to different categories of targeted customers, with well-known brand names such as Gaz de France energY® for major industrial and commercial customers and Dolce Vita® for individual customers. This strategy also involves expanding the Group's multi-energy offerings and associated services.

The strengthening of Gaz de France's commitment to environmental protection and sustainable development is also a key factor in developing the customer base and increasing customer loyalty.

Accelerate the development of its European presence:

The Group is implementing three European growth strategies:

- supporting the efforts of companies in which it has acquired interests to increase their sales;
- increasing its direct sales in several very specific and profitable markets using the experience it has already acquired; and
- making targeted acquisitions of interests in companies with significant customer portfolios.

- **Develop its energy supply portfolio and its position as one of the leading purchasers of natural gas and LNG worldwide, to increase the competitiveness of its products and services and accelerate the growth of its sales on the European energy market.**

To accomplish this, Gaz de France intends to do the following:

Maintain supplies based primarily on long-term contracts in order to secure sources for the majority of its requirements.

For years, Gaz de France has maintained structured relationships with major suppliers. This strategy will be maintained as Gaz de France pursues its risk diversification policy, which has allowed it to develop one of the most diverse supply portfolios in Europe.

Increase the Group's reserves and production.

In the medium-term Gaz de France expects to hold proven and probable reserves of approximately 1,000 Mboe. To reach this goal, Gaz de France intends to develop as a priority its Exploration-Production activity in geographic areas commercially suitable for supplying natural gas to Europe (particularly the United Kingdom, Netherlands, Norway, Africa and the Middle East), and to consider opportunities to purchase stakes in liquefaction plants.

Consolidate the Group's presence on the growing LNG market.

The Group wishes to continue diversifying its supply portfolio and to take advantage of the growth in the global LNG market to benefit from the opportunities for intercontinental arbitrage. In addition, Gaz de France intends to take advantage of the expertise it has developed in this sector, by seizing opportunities to participate in the entire LNG supply chain (exploration-production, liquefaction, sea transport, regasification).

Structure an electricity supply policy.

Through purchase contracts (in France with EDF and in the United Kingdom with Drax) on organized markets and the development of assets held in its own name. Gaz de France intends to undertake the development of its own dual offer (gas-electricity). Assets representing a capacity of approximately 2,200 megawatts ("Mwel") held by the Group are already in service (DK6 in France, Shotton in the United Kingdom and AES Energia Cartagena in Spain). Since 2005 Gaz de France has also held a 25.5% interest (through the Segebel holding company, in which it holds 50% in partnership with Centrica) in SPE, Belgium's second largest power producer, which has electrical capacity in the range of 1,600 MWel[1]. The Group's global objective with respect to power generation is to hold futures in 5,000 MWel of capacity held in its own name.

In addition, the Group wants to develop a power production capacity from renewable energies. In 2006, Gaz de France created Maïa Eolis, a company to develop and operate wind production, in which the Group holds 49% in partnership with Maïa Sonnier. In the medium term, Maïa Eolis plans to hold a capacity of about 1,000 MWel in Europe.

Continue the development of arbitrage and trading.

Through its subsidiary Gaselys, Gaz de France will pursue its goal of becoming a key participant in trading activities on the European energy market as well as in intercontinental arbitrage, based on its LNG supply portfolio and its fleet of LNG tankers, while being subject to a strict risk management policy.

- **Pursue a controlled growth strategy:**

Maintain a healthy financial structure.

In particular, based on activities involving the operation of infrastructure that yield recurring income and cash flow, the Group intends to ensure that its new investments contribute to the growth of its income and the equilibrium of its financial structure. The Group will endeavor to maintain a financial rating appropriate for its profile, which is among the best in the sector.

Follow a controlled and profitable investment strategy.

All investments fit within the policy that ensures the financial objectives of the Group.

The Group implements strict investment criteria: analysis of strategic relevance, profitability figures (TRI) adjusted to reflect skills, projects and countries, and an analysis of the impact of operations in terms of earnings per share increase.

Seek a consistent increase in net income.

This goal is based on long-term growth in the European market, improving productivity and pursuing growth opportunities generated by the new regulatory framework.

6.1.3 Description of business activities

2006 Revenues and EBITDA

In millions of euros	Energy Supply and Services			Infrastructures				Total Group
	Exploration-Production	Purchase and Sale of energy	Services	Transmission and Storage – France	Distribution France	Transmission and Distribution – International	Inter-division and holding eliminations	
Revenues	1,659	20,481	2,181	2,227	3,289	3,570	(5,765)	27,642
EBITDA	1,270	441	189	1,285	1,412	562	(10)	5,149

2005 Revenues and EBITDA*

In millions of euros	Energy Supply and Services			Infrastructures				Total Group
	Exploration-Production	Purchase and Sale of energy	Services	Transmission and Storage – France	Distribution France	Transmission and Distribution – International	Inter-division and holding eliminations	
Revenues	1,139	17,265	1,924	2,124	3,426	2,275	(5,281)	22,872
EBITDA	726	248	166	1,271	1,358	372	107	4,248

(*) Published data restated for the impacts of the application of IFRIC 12 and IFRIC 4

(1) Gaz de France and Suez, in the context of their proposed merger, have made a commitment to the European Commission to sell Gaz de France's stake in SPE (see Chapter 12 – "Trends likely to influence the Company's outlook").

2004 Revenues and EBITDA *

In millions of euros	Energy Supply and Services			Infrastructures				Total Group
	Exploration-Production	Purchase and Sale of energy	Services	Transmission and Storage – France	Distribution France	Transmission and Distribution International	Inter-division and holding eliminations	
Revenues	968	13,855	1,443	2,145	3,453	1,457	(5,320)	18,206
EBITDA	625	265	94	1,291	1,399	390	99	4,447

(*) *Post-reform pro forma data for unaudited pensions restated for the impacts of the application of IFRIC12 and IFRIC 4*

6.1.3.1 Energy Supply and Services

6.1.3.1.1 Exploration – Production

Table – Segment's revenues and EBITDA

In millions of euros	2004(*)	2005(**)	2006
Revenues (before eliminations)	968	1,139	1,659
Revenues with third parties	*782*	*932*	*1,230*
EBITDA	625	726	1,270

(*) *Post-reform pro forma data for pensions restated for the impacts of the application of IFRIC 12 and IFRIC 4*

(**) *Published data restated for the impacts of the application of IFRIC12 and IFRIC 4.*

6.1.3.1.1.1 Strategy of the Exploration-Production segment

The Group's Exploration-Production business activity is the key to its strategy of integration along the entire gas chain. It allows it to:

- reduce the effects of variations in energy prices on supply costs;
- access new gas resources and diversify its commercial gas offerings; and
- reinforce the position of the Group as one of the world's most important gas buyers by creating opportunities for new partnerships and joint projects with major gas suppliers.

The Group's medium-term goal is to hold proven and probable reserves of approximately 1,000 Mboe and to boost its production through internal and external growth. . In order to attain these goals, the Group plans to maintain its activity level in the current production zones of Northern Europe, continue development in North Africa (Algeria and Egypt) and establish itself in new zones: Eastern Europe, West Africa and the Persian Gulf, thus moving its center of gravity to new regions.

6.1.3.1.1.2 Development of its Exploration-Production business

The Group began its Exploration-Production activities by acquiring equity interests in fields in production. In 1994, it bought Erdöl-Erdgas Gommern GmbH (currently named EEG-Erdgas Erdöl GmbH or "EEG") in Germany. In 1998, Gaz de France took part in the development of the Elgin-Franklin field located in the central basin of the British North Sea. In 2000, Gaz de France became an off-shore operator in The Netherlands through the purchase of companies owned by TransCanada Pipelines (currently named GDF Production Nederland or ProNed). In addition this acquisition allowed it to become operator of NoordGasTransport, the main Dutch underwater pipeline.

In 2006, Gaz de France, by finalizing its transactions with Dana Petroleum and Wintershall, completed its entry into Mauritania.

The joint development and operating plan for the Gjøa and Fram B fields (now named Vega) held by the Group (30% and 15% respectively) was filed with the Norwegian authorities at the end of 2006.

6.1.3.1.1.3 The legal context of its Exploration-Production activities

Gaz de France conducts its exploration-production activities under licensing, concession or production-sharing agreements and/or other types of agreements negotiated with public authorities or with the national companies of the relevant countries. In accordance with licenses, agreements, and applicable legislation, Gaz de France must undertake to implement an exploration program and, if successful, has the right to exploit the relevant fields for a certain period, subject to approval of a development plan by national authorities. During the production period, Gaz de France has to pay royalties to such authorities, give a portion of the production, pay a proportion of its profits and/or pay certain taxes specific to the oil and gas sector.

In accordance with oil and gas market practice, Gaz de France normally operates in association with one or more oil and gas companies. One of the parties is generally designated the operator, responsible for the conduct of day-to-day operations (with approval from the other parties being required for important issues such as the adoption of a development plan, major investments, budgets or sales agreements on behalf of the group). Only companies that are qualified by the local public authorities may be designated as operators.

Outside of France, the Group has been qualified as an operator in seven countries: The Netherlands, Germany, the United Kingdom, Algeria, Libya, Egypt, and Norway. This designation enables Gaz de France to participate in exploration-production projects more directly, both at a technical level, and with respect to strategic investment and development decisions.

6.1.3.1.1.4 Exploration: reserves

As of December 31, 2006, the Group held approximately 316 exploration and/or production permits in 9 countries (61% of which are operated by the Group). Out of 15 wells drilled in 2006, 8 wells were successful (3 in the United Kingdom, 3 in Norway, 1 in Germany, and 1 in Mauritania). These wells contributed new proven and probable reserves in 2006 and may supply new reserves in future years.

The tables below set forth the Group's proven and probable reserves (including developed and undeveloped reserves[1]) as of the dates indicated and their geographic breakdown:

Table – Changes in the Group's reserves[2]

In Mboe	2004	2005	2006
Proven and probable reserves	632.3	697.2	626.8
Natural gas	*477.8*	*516.5*	*488*
Liquid hydrocarbons	*154.5*	*180.7*	*138.8*
Portion of proven and probable reserves attributable to companies consolidated by the equity method	63.0	55.7	58.5
Total	**695.3**	**752.9**	**685.3**

(1) *Proven, developed reserves are those that can be produced from an existing facility. Proven, undeveloped reserves are those which would necessitate the drilling of a new well either at a location not previously developed or significant additional investments at an existing facility, such as a compressor unit.*
(2) *The amounts are rounded to the nearest amount based on the database so that small differences may appear between the detailed line amounts and the total.*

Table – Changes in the Group's reserves by country : natural gas

Natural gas

In Mboe	2004	2005	2006
Germany	110.7	123.7	121.2
Norway	195.1	222.3	228.8
The United Kingdom	80.1	72.2	64.9
The Netherlands	108	111.4	93.2
Kazakhstan	3.2	4.1	0
Others	10.9	10.2	10.2
Total	**508.0**	**544.0**	**518.3**
Change	*6.1%*	*7.1%*	*-4.7%*

Table – Changes in the Group's reserves by country : liquid hydrocarbons

Liquid hydrocarbons

In millions of barrels of oil	2004	2005	2006
Germany	44.8	46.6	43
Norway	60.7	87.7	92.5
The United Kingdom	35.3	30.7	30.6
The Netherlands	1	0.9	0.9
Kazakhstan	45.4	43.0	0
Others	0.1	0.1	0
Total	**187.3**	**209.0**	**167.0**
Change	*-1.6%*	*11.5%*	*-20.1%*

Table – Changes in the Group's reserves by country : total

Total = natural gas + liquid hydrocarbons

In Mboe	2004	2005	2006
Germany	155.5	170.3	164.2
Norway	255.8	310.0	321.3
The United Kingdom	115.4	103.0	95.5
The Netherlands	109	112.2	94.1
Kazakhstan	48.6	47.2	0
Others	11	10.3	10.2
Total	**695.3**	**752.9**	**685.3**
Change	*3.9%*	*8.3%*	*-9.0%*

Table – Details of the changes in the Group's reserves – natural gas

In Mboe	2004	2005	2006
Reserves as of 12/31 N-1	478.8	508.0	544.0
Revised amount + discoveries	15.5	62.0	16.5
Purchases and sales of assets	46.4	1.3	-9.9
Production	-32.8	-27.4	-32.3
Reserves as of 12/31	**508.0**	**544.0**	**518.3**

Table – Details of the changes in the Group's reserves – liquid hydrocarbons

In millions of barrels of oil	2004	2005	2006
Reserves as of 12/31 N-1	190.4	187.3	209.0
Revised amount + discoveries	2.6	36.7	12.3
Purchases and sales of assets	10.7	0	-41.1
Production	-16.4	-15.0	-13.2
Reserves as of 12/31	**187.3**	**209.0**	**167.0**

Table – Details of the changes in the Group's reserves – natural gas and liquid hydrocarbons

In Mboe	2004	2005	2006
Reserves as of 12/31 N-1	669.3	695.3	752.9
Revised amount + discoveries	18.1	98.7	28.8
Purchases and sales of assets	57.1	1.3	-50.9
Production	-49.2	-42.4	-45.5
Reserves as of 12/31	**695.3**	**752.9**	**685.3**

As of December 31, 2006, Gaz de France's proven and probable reserves for liquid hydrocarbons and natural gas totaled 685.3 Mboe (including the portion attributable to subsidiaries consolidated by the equity method) compared to 752.9 Mboe in 2005[1], 75.6% of which is gas reserves or 82.3 billion cubic meters. Gaz de France is conducting exploration-production operations in nine countries, primarily in Europe and North Africa.

A partial audit of reserves is performed each year by the international experts DeGolyer and MacNaughton on a four-year cycle (approximately 30% of reserves are audited annually).

Gaz de France uses the Securities and Exchange Commission (SEC) definitions for classifying its proven reserves and the definitions of the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC) for the classification of possible reserves.

Proven reserves of liquid hydrocarbons and natural gas correspond to an assessment of quantities of crude oil, natural gas and natural gas liquids on the basis of geological and technical data with a reasonable assurance of being able to extract those quantities in forthcoming years on the basis of existing deposits under certain economic and operational conditions, i.e. prices and costs on the date on which the assessment was made. Prices cover forecast developments for current prices resulting exclusively from contractual provisions, but not developments based on future conditions.

Probable reserves of oil and of gas correspond to an assessment of the quantities of hydrocarbons, which it will be possible to extract in the future, on the basis of existing deposits and for which there is at least a 50% probability of existence according to geological and technical data. Extraction must fulfill certain economic criteria, which take into account future price changes, valuation of hydrocarbons and exchange rates.

These assessments, which entail subjective evaluations, are subject to annual revisions taking into account all new information, with particular reference to the previous year's levels of production, re-evaluation of deposits, the addition of new reserves arising from discoveries or acquisitions, transferred reserves and economic factors.

The resources include certain amounts of discovered hydrocarbons for which there is no total guarantee of extraction due to certain technical, economic and commercial risks.

Unless otherwise indicated, references made to proven and probable reserves and to production include the share held by the Group in those reserves and in that production (net of all royalties paid in-kind to third parties in the form of crude oil or in the form of natural gas). These references include the total of net proven and probable reserves of petroleum, gas and other hydrocarbons, which it is thought can be extracted during the remaining term of the licensing, concession and production-sharing agreements. Non-contractual renewal of these licenses, concessions and agreements was not taken into account.

The rate of renewal for reserves for a given period is defined as the ratio of additions of reserves (discoveries, net acquisitions and revisions), to production for a given period. The Group's rate of renewal for reserves was 298% on average for the 2002-2004 period, 293% on average for the 2003-2005 period and 112% on average for the 2004-2006 period.

(1) *This change is due especially to the disposal of the Group's interest in the KGM company in Kazakhstan.*

6.1.3.1.1.5 Production

The following tables set forth Gaz de France's production of natural gas and of liquid hydrocarbons, including the share from the equity associates, by country for each of the three years ended on December 31, 2004, 2005 and 2006.

Table – Changes in the Group's production by country – natural gas

In Mboe	2004	2005	2006
Germany	10.2	8.8	8.8
Norway	–	–	–
The United Kingdom	11.2	9.0	8.5
The Netherlands	11	9.3	14.6
Others	0.4	0.3	0.4
Total	**32.8**	**27.4**	**32.3**

Table – Changes in the Group's production by country – liquid hydrocarbons

In Mbbl	2004	2005	2006
Germany	3.9	3.5	3.5
Norway	4.9	4.0	3.3
The United Kingdom	4.9	4.8	4.3
The Netherlands	–	0.1	0.1
Others	2.7	2.5	2.0
Total	**16.4**	**15.0**	**13.2**

Table – Changes in the Group's production by country – natural gas and liquid hydrocarbons

In Mboe	2004	2005	2006
Germany	14.1	12.3	12.3
Norway	4.9	4.0	3.3
The United Kingdom	16.1	13.8	12.8
The Netherlands	11	9.4	14.7
Others	3.1	2.8	2.4
Total	**49.2**	**42.4**	**45.5**

During the year ended December 31, 2006, Gaz de France's production of natural gas and liquid hydrocarbons totaled 45.5 Mboe, 71% of which related to natural gas production.

6.1.3.1.1.6 Exploration-Production activity by country

Gaz de France's Exploration-Production activity is located in Europe (Germany, Norway, the United Kingdom and The Netherlands) and in Africa.

Germany

Gaz de France has increased its presence in Germany since its purchase in 2003 of the German activities of Preussag Energie (since renamed Gaz de France Produktion Exploration Deutschland GmbH, or "PEG"), which has allowed it to increase considerably its presence on this market. On December 31, 2006, the Group held in Germany 18.5 billion cubic meters of proven and probable reserves of natural gas and 42.3 Mboe of proven and probable reserves of liquid hydrocarbons. Gas produced from its PEG assets, amounting to 1.2 billion cubic meters, is mainly sold to E.On-Ruhrgas. Furthermore, PEG holds rights to four underground storage sites with a net capacity of 276 million cubic meters which it rents to German distributors. Finally, PEG has enabled Gaz de France to indirectly expand its presence in the German market due to its 11% share in EGM, which owns transmission and distribution infrastructure and markets a portion of the gas produced by the Group in northwestern

Germany. In Germany, Gaz de France is also the sole shareholder in EEG, which has proven and probable reserves of approximately 5.3 Mboe as of December 31, 2006. EEG holds and operates a storage facility in a saline cavity called Peckensen for the benefit in particular of the Group's Purchase and Sale of Energy segment. The capacity of this storage will be progressively increased over the next three years.

Norway

The Group has an equity interest in seven oil and natural gas fields, off-shore from Norway, with its share of proven and probable reserves approximately 321.3 Mboe as of December 31, 2006 (approximately 71.2% of which is in the form of gas).

Gaz de France has been designated an operator by the Norwegian authorities for the production phase for one of these fields (Gjøa), which will begin in 2010. The development plan for Gjøa, after it was approved by the various partners, was filed with the Norwegian authorities in December 2006. The related development of the Vega satellite field Vega (ex Fram B) has also been decided. The Group's projected investment for these fields is 1.074 billion euros and will over time ensure delivery of approximately 1 billion cubic meters of gas every year to the Energy Purchase and Sale segment.

The Group currently produces only crude oil in Norway, with gas production due to start at the end of 2007 as part of the first LNG production project in Europe (Snøhvit project), and the development of the natural gas reserves for the Njord and Fram fields (only the oil reserves are currently being produced). Gaz de France plans to make available all or part of this gas production in Norway to its Purchase and Sale of Energy segment.

United Kingdom

The Group holds shares in 28 fields located in the British North Sea, 13 of which are in production. The share of proven and probable reserves in these fields held by the Group (including reserves held through its 22.5% stake in EFOG) was, as of December 31, 2006, 95.5 Mboe, approximately 68% of which was in the form of gas.

During the year ended December 31, 2006, the Group sold 91% of its consolidated natural gas production in the United Kingdom, to its Purchase and Sale of Energy segment (including sales to Gaselys), for resale mainly on the British market. In January 2006, the new Hunter field also went into production.

On November 7, 2005, Gaz de France agreed, in the context of an asset exchange agreement with Dana Petroleum, to sell all of its equity interest in the Johnston field and 25% of the Anglia field. This agreement was finalized on September 26, 2006.

In December 2006, Gaz de France made a commitment to sell its 25% interest in the Cavendish field under development to Dana Petroleum, a transaction that is still be approved by the competent authorities.

The Netherlands

The Group holds shares in 39 fields along the Dutch coast. These fields are in production and the Group is the operator with the majority stake. On December 31, 2006, the share of proven and probable reserves held by the Group in these fields represented 94.1 Mboe, 99% of which was in gas form. During the year ended December 31, 2006, the Group sold 36% of the natural gas produced in The Netherlands to its Purchase and Sale of Energy segment for sale in the Benelux countries and in Germany.

Gaz de France put into production 6 new gas fields, developed over the past two years between November 2005 and February 2006.

The development of these licenses significantly extends the historical production zone of ProNed in The Netherlands. The year 2006 was a new production record from the time the Group acquired a stake in this company.

Algeria, Mauritania, and Ivory Coast

The Group also has a presence in North Africa and the Ivory Coast and should soon have a presence in Mauritania.

Since 2002, the Group has held the exploration-production permit for Touat in southern Algeria along with Sonatrach. After the finalization of phase 1 in 2005, which reinforced the pre-feasibility evaluation of the project, the Group continued pre-development studies in phase 2, appraisals of the different fields included in the license, and a commercial feasibility and transmission study with Sonatrach.

The execution of the asset exchange agreement with Dana Petroleum dated November 7, 2005 and the agreement with Wintershall dated December 20, after approval by the competent government authorities, occurred in 2006, with Gaz de France's entry into three Mauritanian off-shore blocks (24% in block 1, 27.85% in block 7 and 26% in block 8).

In Ivory Coast, ENERCI, a company in which Gaz de France has a 49% share, holds 12% of an off-shore production site intended to supply the local market

Egypt

The Group won a bidding process and on September 15, 2005 finalized a concession agreement with Egypt's national company, EGAS, and the Egyptian government, and so obtained a 100% stake in the off-shore West El Burullus block, located next to the Nile river. Gaz de France sold 30% to Dana Petroleum under the asset exchange described above. It is also planned to transfer another 20% under a second agreement.

Kazakhstan

On July 19, 2006 the Group finalized the sale of the 17.5% interest held by EEG in KazGerMunai LLP, which operates three oil and gas fields in Kazakhstan.

6.1.3.1.1.7 Marketing

In 2006, the Exploration-Production segment sold 53 TWh of natural gas, primarily under long-term contracts.

Approximately 60% of the natural gas currently produced by Gaz de France is sold to third parties in Europe under short-term or long-term agreements that were negotiated prior to the acquisition of these companies by the Group. The purchases are mainly by Gasunie in The Netherlands and E.On-Ruhrgas in Germany. Long-term agreements under which Gaz de France sells its gas production are indexed to the spot prices of gas and/or the average prices of petroleum products. Although the development of the price for natural gas tends to follow that of petroleum, there is nevertheless a time lag, generally between six and nine months, before changes in the prices for petroleum products impact the long-term selling prices for natural gas.

The remainder of the Group's gas production is sold to the Purchase and Sale of Energy segment. The nature of the agreements negotiated with this segment will differ depending on the subsidiaries. These agreements stipulate a fixed price, which is determined on the basis of the market price. EFOG (a British company in which Gaz de France holds a 22.5% stake) sells the majority of the gas it produces to the Purchase and Sale of Energy segment under the terms of a long-term agreement with an indexed price.

6.1.3.1.2 Purchase and Sale of Energy

Table – Segment revenues and EBITDA

In millions of euros	2004(*)	2005(**)	2006
Revenues (before eliminations)	13,855	17,265	20,481
Revenues with third parties	*13,485*	*16,772*	*19,830*
EBITDA	265	248	441

(*) *Post-reform pro forma data for unaudited pensions restated for the impacts of the application of IFRIC12 and IFRIC 4.*
(**) *Published data restated for the impacts of the application of IFRIC 12 and IFRIC 4*

6.1.3.1.2.1 Purchase and Sale of Energy segment strategy

Gaz de France aims to increase consolidated European sales of natural gas through organic growth and external growth with the medium- term goal of obtaining 15% of the market.

With respect to the supply of energy, the Group intends to the following:

- pursue a diversification policy for the long-term supply of gas;
- develop its hydrocarbon reserves, with the goal of obtaining a portfolio of proven and probable reserves of approximately 1,000 Mboe; and
- design an electricity supply policy in part through acquisitions and through the development in the medium term of 5,000 MWel of its own power generation capacity.

6.1.3.1.2.2 Description of Activities

Gaz de France is the leading supplier and purchaser of natural gas in the French market and is one of the leaders in Europe. Primarily through its Purchase and Sale of Energy segment, Gaz de France sells natural gas directly to approximately 11 million customers in France (10.5 million of which are individual household customers) and approximately 500 customers abroad located at more than 4,700 sites (mostly major industrial customers). Subsidiaries that are part of the Transmission and Distribution International segment serve approximately 2.8 million customers. In addition, Gaz de France sells other energy products (primarily electricity) to eligible customers.

The Group sold a total of 762 TWh of natural gas in 2006 (compared to 749 TWh in 2005). Of this amount the Purchase and Sale of Energy segment sold 641 TWh, including 440 TWh in France, 129 TWh abroad and 72 TWh of sales on organized markets.

Gaz de France actively manages its supplies, seeking to establish stable supply sources with one of the most diversified portfolios in Europe. It is one of the world's largest buyers of natural gas and one of the leading European participants in the LNG market. Its supplies are complemented by activity on short-term markets, trading activities and transactions involving derivative products in the energy markets, enabling it to offer customers pricing formula solutions suited to their needs.

6.1.3.1.2.2.1 Purchase of energy and hedging

6.1.3.1.2.2.1.1 Gaz de France's natural gas supply policy

The majority of the Group's supply is purchased on a centralized basis. The distribution subsidiaries in Europe, however, currently carry out their own supply functions, purchasing gas either from local or foreign suppliers or directly from Gaz de France. Gaz de France intends to use its centralized buying practices to pursue its development in Europe and take on an increasing share of the supply needs of its subsidiaries. The information in this section relates to Gaz de France's centralized supply function.

Gaz de France is one of the leading purchasers of natural gas in Europe. It has a portfolio of long-term contracts that covered approximately 80% of its 2006 requirements. The portion attributable to long-term contracts is likely to be stable as a result of new contracts recently entered into force (in particular, a contract in 2005 to purchase Egyptian LNG). Gaz de France is one of the largest customers of the most important suppliers of natural gas to Europe, particularly Norway, Russia, Algeria and the Netherlands. The Group is also one of the leading LNG players, with significant expertise that allows it to play a leading role in the development of this sector. The Group's natural gas supply sources also include its own Exploration-Production segment and short-term markets.

Gaz de France intends to remain a significant buyer of natural gas from its traditional suppliers and strengthen its long-term relationships, including through the development of new partnerships, such as those signed in December 2006 with Gazprom as part of the renewal of contracts and the purchase of additional quantities of Russian gas, and in November 2006 with Sonatrach in the context of the new Medgaz pipeline. At the same time, in order to meet its growing needs resulting from its expansion in Europe, Gaz de France is working to develop relations with new suppliers (Qatar, Iran, Nigeria).

The table below shows the sources of Gaz de France's supply for each of the three years ended December 31, 2004, 2005 and 2006 (excluding consumption for its own account and losses):

Table – Composition of its supply portfolio (excluding its own consumption and losses)

		Year ended December 31	
(in TWh)	**2004**	**2005**	**2006**
Long-term contracts with third parties	507.0	539.5	503.9 (1)
Production of the Exploration-Production segment	27.2	21.6	32.0
Short-term purchases (1)	95.6	107.5	102.9
Other sources	0.4	0.3	0.4
Total	**630.2**	**668.9**	**639.2**

(1) *The decrease in the share of supplies coming from long-term contracts between 2005 and 2006 is the result of contracts to purchase Norwegian gas, which were not renewed because of agreements with Total and the warmer climate in 2006 compared with 2005, which led the Group to reduce its liftings on long-term contracts.*

6.1.3.1.2.2.1.1.1 Gaz de France's portfolio of long-term contracts

Gaz de France purchases most of its gas supplies through a portfolio of long-term contracts, among the most significant and diversified in Europe. These contracts give Gaz de France the visibility it needs to ensure the development and stability of its supplies, which is one of the Group's strengths on the European natural gas market. Gaz de France is also one of the most important participants in the European short-term market, allowing it to adjust its supplies as its requirements change and to optimize its purchase costs.

Gaz de France's long-term contracts in general have an initial term of approximately 20 years. As of December 31, 2006, the average remaining term of Gaz de France's long-term contracts (weighted by their importance in the supply portfolio) was almost 15 years (compared to 13 years in 2005), and no significant contract is set to expire during the next five years.

Consistent with market practice, Gaz de France's long-term purchase contracts include take-or-pay clauses, pursuant to which Gaz de France undertakes to pay, on an annual basis, for minimum quantities of gas, regardless of whether it takes delivery of them (except in the case of seller default or *force majeure*). These clauses are included in the contracts to facilitate the financing of the heavy infrastructure needed for the production and transmission of gas. Most of the contracts, however, have make-up or carry forward clauses that permit Gaz de France to defer deliveries for which it pays to a later period (make-up) or to deduct, subject to certain limits, excess quantities received in a given year from required deliveries for subsequent years (carry forward).

The prices of the natural gas sold under these contracts are indexed (on either a monthly or quarterly basis) to the market price of energy products with which gas is directly or indirectly substitutable (mainly petroleum products). In addition, the contracts provide for a periodic review (every two to four years) of the price and indexation formula to adjust for changes in market conditions. Most of the contracts also provide for price revisions during the term of the contract. Certain contracts also offer the possibility of amending other contractual provisions in the event of unforeseen events affecting the contracts' underlying economic assumptions. Under such circumstances, the parties must negotiate in good faith and may, if they are unable to come to an agreement, resort to arbitration.

The supply contracts provide for one or more delivery points. The delivery points for gas supplied by pipeline are located along the European transmission system. For LNG, the gas is sometimes delivered at the loading points for ships at the suppliers' liquefaction plants. As a result, Gaz de France uses both transportation of gas by land and by sea.

The minimum quantities that Gaz de France (excluding subsidiaries) is required to take pursuant to existing long-term contracts are 49 billion cubic meters in 2007, 180 billion cubic meters for the period between 2008 and 2011 and 479 billion cubic meters for 2012 and beyond.

In addition, following undertakings made to the European Commission and an agreement with the CRE, Gaz de France made available to other suppliers 15 TWh of natural gas per year at the Gaz de Sud Exchange Point for a period of three years, as of 2005, representing a total of 45 TWh (see details in 6.1.3.1.2.2.2.4 —" Temporary availability of natural gas in south-eastern France ").

6.1.3.1.2.2.1.1.2 Diversification of natural gas suppliers

Gaz de France maintains diversified sources of supplies in order to limit its counterparty risks, to protect itself against interruptions affecting specific sites and to adapt its gas purchases to its needs. In 2006, deliveries of Egyptian LNG reached a plateau.

The table below shows the geographical distribution of Gaz de France's sources (including its own resources) for gas supplies, for each of the three years ended on December 31, 2004, 2005 and 2006.

Table – Geographical distribution of supplier sources (including own resources)

	Year ended December 31					
	2004		2005		2006	
	(TWh)	(%)	(TWh)	(%)	(TWh)	(%)
Norway	171.7	27.2%	165.1	24.7%	135.0	21.1%
Russia	130.1	20.6%	130.4	19.5%	101.2	15.8%
Netherlands	104.5	16.6%	94.9	14.2%	100.9	15.8%
Algeria	88.8	14.1%	99.1	14.8%	94.7	14.8%
Egypt			25.7	3.8%	53.7	8.4%
United Kingdom	28.9	4.6%	25.8	3.9%	24.5	3.8%
Libya	0.5	0.1%	10.1	1.5%	18.8	3.0%
Nigeria	8.7	1.4%	8.6	1.3%	5.0	0.8%
Germany	1.1	0.2%	1.3	0.2%	2.2	0.4%
Other sources(1)	95.9	15.2%	107.9	16.1%	103.2	16.1%
Total	**630.2**	**100.0%**	**668.9**	**100%**	**639.2**	**100.0%**

(1) *Purchases on the short-term markets and gas from mines.*

Gaz de France's main suppliers currently are in Norway, Russia, Algeria, the Netherlands, Egypt, the United Kingdom, Libya, and Nigeria. These countries have put in place infrastructure allowing production and on-land or off-shore transmission of gas to Europe's main markets. Gaz de France participates in the conception and financing, downstream from its delivery points, of the principal land and maritime facilities for the transmission and reception of gas necessary for the fulfillment of its supply contracts, either directly as a shareholder in the entities created to develop the infrastructure, or indirectly as a customer with long-term capacity rights or reservation contracts. Gaz de France holds interests in international transmission and LNG ships and terminals. Outside of France, these include shares in, and/or long-term capacity utilization rights from, MEGAL (Mittel Europa Gas Leitung) in Germany, SEGEO (*Société Européenne du Gazoduc Est-Ouest*) in Belgium, Interconnector between the United Kingdom and the European continent, as well as reserved capacity in The Netherlands, Belgium, Austria and Germany for the routing (among others) of Dutch, Norwegian and Russian gas from the Group's portfolio of long-term contracts. In addition, Gaz de France has subscribed for long-term access rights to the Isle of Grain LNG terminal in the United Kingdom, and terminals in Cartagena and Huelva in Spain.

For many years, the Group has maintained long-term relationships with its traditional suppliers principally through its supply contracts. The Group is pursuing additional relationships, such as partnerships, in order to enrich its relations with its suppliers. For example, it developed partnerships with Norwegian, Dutch and Algerian companies as part of its Exploration-Production business activity. In 2005, new supply contracts were signed with two of the partners of the Dutch production subsidiary of Gaz de France. Joint ventures have been created with Gazprom and Sonatrach in several areas, and Gaz de France has an interest in the Snøhvit (Norway) LNG facility, the construction of which is being overseen by Statoil. At the end of 2006, Gaz de France also renewed its Russian gas supply contracts and concluded the purchase of additional quantities from Gazprom. In addition, the Group signed agreements with Sonatrach to purchase gas at the intake to the Medgaz pipeline (see Chapter 22 – "Material contracts").

In addition, the Group is expanding its supply portfolio, entering into additional relationships with its traditional suppliers and establishing relationships with new suppliers in order to ensure its future growth in Europe. It has entered into supply contracts with Libya, for which deliveries of gas began in 2004 and reached the plateau phase in 2006, and with Egypt, for which deliveries of LNG started in 2005.

Finally, Gaz de France has also entered into a swap arrangement with the Italian utility ENEL, under which Gaz de France receives 3.5 billion cubic meters per year of Nigerian LNG at its terminal in Montoir-de-Bretagne, and delivers to ENEL at various points along the European infrastructure network (principally at the Austrian-Slovakian border and the Italian LNG terminal at Panigaglia), an equivalent volume of gas from its own supply portfolio. ENEL's Nigerian gas is not included in the figures for Gaz de France's supply portfolio presented above. The risk of interruption of the Nigerian supply is borne by ENEL, as Gaz de France has the right to suspend deliveries to ENEL in case of a suspension by the Nigerian supplier.

Gaz de France also provides gas transit services pursuant to long-term contracts (some of which will expire after 2025), with third-party operators providing for:

- redelivery at the Spanish border (Col of Larrau), for the needs of Gas Natural, of a volume of Norwegian gas in an amount up to 2.4 billion cubic meters per year, delivered by Statoil, Norsk Hydro, Shell, Total and Conoco to Gaz de France in the north of France (at Taisnières);
- redelivery at the Swiss border (Oltingue) to ENI, of a volume of Norwegian gas in an amount up to 6.5 billion cubic meters per year, delivered by ENI in the north of France to Gaz de France (at Dunkerque and/or Taisnières).

6.1.3.1.2.2.1.1.3 Supply of liquefied natural gas (LNG)

Gaz de France has recognized expertise in the entire LNG value chain, from production to imports and marketing, to the operation of the regasification terminals and maritime shipping. This expertise puts the Group in a position to take advantage of the substantial development of the worldwide LNG market, which is growing rapidly and accounting for an increasing share of the global natural gas market. Its growth (greater than that of gas delivered by gas pipeline) is taking place on a worldwide scale. LNG brings additional flexibility to the management of the supply portfolio because of the possibility of changing the destination of the LNG tankers. By increasing the share of LNG in its supplies, Gaz de France intends to take part in the growth in the worldwide LNG market and increase its LNG capacity in order to secure its own supplies and to be able to operate at a significant level on the international markets.

In 2005, according to the International Group of Liquefied Natural Gas Importers (known by its French acronym "GIIGNL"), the Group was the world's sixth largest buyer of LNG and the second most important European market participant. During the fiscal year ended December 31, 2006, 29% of its supply of natural gas consisted of LNG, primarily from Algeria and Egypt.

Most LNG is bought on a long-term FOB basis by Gaz de France, which then handles its transmission to the destination terminals. The maritime shipping handled directly by the Group in 2006 involved contractual commitments of approximately 119 TWh per year of Algerian LNG and 55 TWh of Egyptian LNG, for which deliveries began in July 2005. This will be complemented by LNG from Norway, starting in 2007, in an amount up to approximately 7.5 TWh on a full year basis. Offloading is mainly done at the French LNG terminals of Montoir-de-Bretagne and Fos Tonkin Fos-sur-Mer, but also in Spain, the United States, and Asia. Gaz de France can also offload gas at the Fos-Cavaou terminal as the end of 2007, and from the Isle of Grain terminal in the United Kingdom as of the end of 2008. This FOB supply scheme allows Gaz de France to optimize the organization of maritime shipping and to take advantage of short-term commercial opportunities for purchases and sales of cargoes.

Gaz de France has significant shipping capacity that it uses to satisfy its constantly growing requirements. Gaz de France is:

- charterer of six LNG tankers it owns (or will eventually own) or jointly owns:
  - Tellier – 40,000 cubic meters (owned by the Group),
  - Descartes – 50,000 cubic meters (owned by the Group),
  - Edouard LD – 129,300 cubic meters (jointly owned – 50%-50% with Louis Dreyfus Armateur),
  - Provalys – 154,500 m^3 (delivered in November 2006),
  - Gaz de France energY® – 74,000 cubic meters (delivered in December 2006),
  - Gaselys – 154,500 m^3 (60% of which is owned by the NYK group and to be 40% owned by Gaz de France; the financing was through a tax economic interest group) (delivered in March 2007);
- charterer of seven other LNG tankers from third parties:
  - Ramdane Abane – 126,000 cubic meters (Algeria),
  - LNG Lerici – 65,000 cubic meters (Italy),
  - Tenaga Satu – 130,000 cubic meters (Malaysia, short-term charter from 2003 to 2010),
  - Maran Gas Asclepius – 145,800 cubic meters (Greece, short-term charter from 2005 to 2007),
  - SCF Arctic – about 71,600 m^3 (Liberia, short-term charter 2007-2008),
  - Galeomma – about 125,250 m^3 (Singapore, short-term charter from 2005-2007),
  - Grace Cosmos – about 147,500 m^3 (Panama, medium-term charter from 2008-2014).

Short-term charters may be complemented, as necessary by very short-term charters, in order to handle its ongoing requirements and to realize hedging transactions.

Finally, Gaz de France owns 40% of the shares of Gaztransport & Technigaz (GTT), a designer of confinement systems for LNG tanker holds, which is developing insulation techniques for the holds of LNG tankers using "membrane" type technology, which is used in approximately one half of the LNG tankers built in the world.

6.1.3.1.2.2.1.1.4 Optimized management of Gaz de France's supplies

Gaz de France manages its overall natural gas requirements on the European markets, in order to optimize the overall cost of its supply. No supply contract is allocated to a particular customer or group of customers.

Gaz de France is able to take advantage of flexible terms relating to volumes to be supplied in its long-term contracts as part of its supply management activities. Gaz de France optimizes the management of its supply portfolio, both in terms of volume and price, by taking advantage of the diversity of its portfolio of contracts.

Gaz de France also manages its supply requirements using short- or medium-term purchases from its long-term suppliers or other suppliers, permitting Gaz de France to tailor its supply structure to its sales while taking advantage of market opportunities.

In particular, short-term market activities allow Gaz de France to add to its supplies or to sell excess supplies at the best available price. Through its subsidiary, Gaselys, Gaz de France is active in the spot markets (particularly, for gas, the National Balancing Point in the United Kingdom, the Zeebrugge Hub in Belgium, and the Title Transfer Facility ("**TTF**") in the Netherlands) and engages in arbitrage transactions, by buying and selling on the short-term markets, and by buying and selling energy derivatives.

The significant presence of Gaz de France in the short-term market also facilitates the management of the periodic interruptions of normal supplies.

In addition to arbitrage between contracts and resorting to short- and medium-term transactions, Gaz de France uses the gas stored in its subterranean storage facilities as a supply management tool. Like all gas suppliers in France, Gaz de France is legally required to store gas during the summer to ensure continuity of supply to its customers, even during times of extreme weather conditions (Gaz de France must be able to deliver to its firm customers in the event of weather conditions that occur, statistically, not more than twice in a century, i.e., a 2% risk). If these weather conditions do not occur (which is usually the case), Gaz de France has a significant source of gas at its disposal, which it may then use to optimize its resources.

6.1.3.1.2.2.1.1.5 Short-term markets: Gaselys

Gaselys, an energy trading company, was created in 2001 by the Group (51%) and Société Générale (49%) in order to intervene in the European gas and electricity markets (gas hubs, electricity trading markets)[1].

Based on its spot market and financial market trading activities, Gaselys offers to Gaz de France and to its customers hedging products that allow them to manage their risks tied to fluctuations in the energy markets and solutions for the optimization of physical assets (managing flexibilities in production capacity, transmission and storage) or contractual assets (flexibilities in purchase or sale contracts for gas or electricity). Gaselys was granted the status of investment services provider by the French credit institutions and investment firms committee (known by the French acronym "CECEI") and as a result is controlled by the French Banking Commission.

The main business of Gaselys is to conduct purchases and sales on the short-term markets for gas, electricity, oil, coal, and CO_2 emissions certifications.

These transactions are conducted:

- on behalf of Gaselys
- on behalf of Gaz de France or third parties, to which Gaselys offers access to the short-term physical markets and to financial products to hedge price risks.

Gaselys is developing services to generally complement the Group's upstream business, including the optimization of transactions for the Purchase and Sale of Energy and Exploration-Production segments, as well as services used downstream to facilitate the competitiveness of the Group's marketing and sales.

With respect to upstream activities, Gaselys works with the Group's units in charge of energy purchases and asset-liability management in order to obtain supplies or sell excess supplies at the best possible price, to take advantage of arbitrage opportunities among contracts and the market, to reduce exposure to fluctuations in oil prices (on which most gas prices are indexed), and to enhance contractual or physical delivery flexibility.

With respect to downstream activities, Gaselys designs, in conjunction with Gaz de France's marketing teams, innovative pricing and optimization packages by tailoring sales arrangements to customer's financial requirements, offering options such as fixed prices, indexed prices and purchase contracts with options for additional purchases. Gaselys' teams also offer the Group's largest accounts quality access to information and analyses from the trading floor (e.g. advice, news, economic information bulletins).

Gaselys has also developed a complementary electricity sales offering for large French consumers. This service, which is in addition to the complete range of energy supply services offered by the Group, allows large customers to optimize their energy supply portfolio through structured products, including supply in bulk at fixed or indexed prices, optimization and utilization of contract flexibility.

(1) *Risks are divided between the two companies prorata in proportion to each shareholder's stake. The Group has a call option exercisable from March 15 to April 30, 2007 and March 15 to April 30, 2010 (and Société Générale has a put exercisable from May 1 to June 15, 2007 and from May 1 to June 15, 2010) for the shares held by Société Générale, with an exercise price based on Gaselys' net income.*

Gaselys has a presence in the following markets:

Gas:

- the NBP in the United Kingdom, the Zeebrugge Hub in Belgium, TTF in The Netherlands, BEB in Germany, PEG in France, and Nymex in the United States.

Electricity:

- the United Kingdom (UK Power Exchange), France (Powernext) and Germany.

Oil:

- all major crude and refined product markets in Europe and the United States (financial transactions only).

Coal:

- on the references of the Northwest European market (financial transactions only).

CO2:

- within the European Trading Scheme (ETS), in France (primarily on Powernext Carbon), and everywhere in the countries participating in the ETS.

Gaselys is expanding and structuring its support functions to improve risk assessment and control as well as internal control.

The risk management mechanism is based on strong participation from its shareholders, Gaz de France and Société Générale. Their market risk and credit teams contribute to the work and attend the Gaselys risk committee meeting, as do certain Gaselys directors.

For credit risks, the policy is set by the Gaselys shareholders, which grant significant lines of credit to counterparties on a case by case basis, which controls these risks.

The risk control team in the Gaselys trading room monitors market risks daily. The market risk is estimated on the basis of a ten-year disaster scenario risk model (stress test) and a value-at-risk model, which is identical to the one used by Société Générale. All the risks related to the market risk and the counterparty risk are reviewed periodically and approved by the Board of Directors of Gaselys and the risk assessment divisions of its shareholders.

Gaselys takes interest rate and foreign exchange positions, which remain insignificant in comparison to the raw materials risks. Exposures to rate and currency risks are controlled by a set of dedicated limits.

The liquidity risk is assessed through simulations. It is monitored using a cash need management prototype, regular reporting of the cash position and use of cash lines to the Gaselys management, and an emergency procedure in the event of liquidity needs.

Finally, a series of measures has been developed and planned for physical risks (failures of physical assets, risks related to variances in gas deliveries) and operational risks (risks to the IT system).

In terms of internal control, employee compliance with the rules and procedures in force for all transactions executed (particularly the principle of separation of tasks, delimitation of responsibilities, reconciliation of information) is verified regularly. In addition, an internal control manager is responsible, among other tasks, for recommending control missions, ethics missions, and the organization of the fight against money laundering. Finally, a "new products" committee reviews and approves the operational feasibility of a new activity, and determines operational organization, the risks, tracking and management systems, and contractual or legal mechanisms.

Gaselys has prepared an ethics manual, which presents the rules of behavior applicable to all employees.

Gaselys is also subject to supervision by the French Banking Commission.

6.1.3.1.2.2.1.2 Supply and production of electricity

To support its combined gas and electricity offerings in Europe, the Group intends to build an optimized electricity supply portfolio. As in the case of natural gas, Gaz de France will combine its own resources with both short- and long-term contractual arrangements: 50-60% of its own resources produced in the Group's stations in France and abroad, long-term supply contracts with producers will provide up to 20-30% of the resources, while the remainder will be acquired on the market as opportunities arise. For its own resources, the Group is taking a position in the development of new power production facilities and, in particular, units operating on natural gas. The integrated projects, where the Group can supply the gas consumed for power production and market the electricity produced, will be a priority.

In France, where the dual offering is very recent, the Group is able to use the electricity produced at its Dunkerque facility (DK6) and, to a certain extent, will be able to use the supplies produced by the cogeneration pool that it has developed. In addition, like the other suppliers of electricity in France, the Group has access to the wholesale French electricity market and in 2005 signed an electricity supply agreement with EDF. In the coming years (2008-2010), other projects will be added to the Group's supply portfolio. Thus, in 2006, a bid tender from RTE for the construction and operation of an advanced plant in Saint-Brieuc (200 MWel) was won by the Group and work started on the plant (total power of 490 MWel, including a pure natural gas combined cycle of 425 MWel) in Fos-sur-Mer on an Arcelor site. In 2006 the Group also formed Maïa Eolis, a wind energy development, operation and production company.

In the United Kingdom, a market in which the Group is currently making its most significant electricity sales, supplies are obtained through the Group's trading subsidiary, Gaselys, and from the Shotton cogeneration facility (215 MWel), which was acquired in 2003. Gaz de France also expanded its supply with the signature of a contract with the Dax plant (coal) to diversify its risk on natural gas. Gaz de France plans to strengthen its supply of electricity through physical production assets and contractual resources, based on acquisition and contractual opportunities with independent producers.

The Group is a shareholder in the 1,200 MWel combined cycle plant built by the American company AES in Cartagena, Spain. At this plant, Gaz de France supplies gas under a tolling contract, pursuant to which it supplies gas and receives, in return, the proceeds from the electricity generated by the power plant, covering the entire output of the facility. By taking this type of position, the Group is able to capture profits generated by arbitrage between gas and electricity. This plant was commissioned in December 2006. Sales from this production are intended for the Spanish market.

Gaz de France may take positions in similar projects in other European markets if conditions become favorable.

6.1.3.1.2.2.2 Sale of Energy

6.1.3.1.2.2.2.1 Segmentation of its gas customers

Gaz de France is pursuing a commercial strategy that includes broadening its product and service offering and increasing its brand awareness. Its goal is to be the "supplier that customers choose" in the new, open market. Traditionally, Gaz de France classified its French customers into four categories:

- residential customers (individual households and apartment buildings);
- service and SME customers (primarily professionals, retailers, small businesses and local communities);
- industrial customers; and
- other customers (primarily distributors that were not nationalized in 1946, as well as sales made in the short-term market).

Gaz de France has adapted its segmentation to the opening of markets and has established a brand policy, a sales approach and a commercial structure based on three new categories corresponding to the three main stages of the opening of the natural gas market.

Gaz de France currently focuses on three main categories of customers:

- individual customers or individual residences which will have the ability to choose their natural gas and electricity supplier as of July 1, 2007;
- mid-market customers: the former service and SME customers, plus apartment buildings and certain public and private service sector customers, all of which have been eligible to choose their gas supplier since July 1, 2004;
- major industrial and commercial customers which became eligible to choose their gas supplier between August 2000 and July 2003.

The table below shows the breakdown, by customer category, of the Group's natural gas sales (excluding trading activity) for each of the two years ended on December 31, 2005 and 2006.

Sales by the Purchase and Sale of Energy segment (1)

(in TWh)	2005	2006
In France		
Residential	139	139
Business	189	179
Major industrial and commercial customers	115	100
Other customers	26	28
Total France	**469**	**440**
In Europe		
Industrial and commercial customers	105	119
Other customers	10	10
Total Europe	**115**	**119**
Sales on the short-term markets	65	72
Total Purchase and Sale of Energy segment	**649**	**641**

(1) *Including Gaz de France's share of energy sales by affiliates consolidated by proportional consolidation.*

6.1.3.1.2.2.2.2 Gaz de France's product and service offerings and brand strategy

The first component of this strategy is to increase the recognition of Gaz de France as the historic gas supplier in France, identifying the Group with its core business and avoiding confusion with EDF. In November 2002, Gaz de France adopted a new logo, with a shape designed to remind the public of natural gas. Since then, the Group's marketing campaigns have increased public awareness of Gaz de France.

At the same time, the Group is developing offerings that suit the needs of each customer category, with a specific brand for each product and service offering, and offerings of other energy products (electricity in particular) to accompany sales of gas and service offerings that give customers a complete package.

These brands, the communications for which are still associated with the Gaz de France brand, include Dolce Vita®, addressed to consumers; Provalys®, for professionals and group residences, small and medium businesses and certain private and public service customers; Gaz de France energY®, for major industrial and corporate customers; and Energies Communes® for local authorities.

6.1.3.1.2.2.2.2.1. Major industrial and commercial customers in France and in Europe – Gaz de France energY®

Gaz de France's major industrial and commercial customers are, for the most part, European customers that have progressively become eligible to choose their gas supplier between August 2000 and July 2003. As of December 31, 2006, Gaz de France had more than 700 customers in this category, spread over more than 4,700 sites elsewhere in Europe.

The Group's major industrial and commercial customers include primarily the following categories of customers:

- energy intensive industrial customers, primarily energy services providers, chemical and petrochemical companies, and customers in the building materials and steel sectors;
- gas distribution companies; and
- power generators.

Gaz de France markets its product and service offerings to major industrial and commercial customers mainly under the Gaz de France energY® brand. Gaz de France offers these customers "custom packages", which include the sale of gas and, in some cases, electricity. The Group's offering includes:

- a risk management and price engineering package, using the trading and arbitrage expertise of Gaselys (see paragraph 6.1.3.1.2.2.1.1.5 – "Short-term market: Gaselys"). Gaz de France offers its major customers fixed prices for a defined time period, allowing them to avoid the impact of sudden price fluctuations, or dynamic management of energy purchases over the course of the year; and
- packages combining energy and performance optimization, with the support of the Gaz de France's Services segment, through which Gaz de France offers services such as:
  - the management or optimization of heating installations or power consumption to accompany the sale of gas, and
  - the combined sales of gas and electricity, and in some cases steam, optimizing the operation of decentralized power generation assets that customers own or acquire, including acquisition-related services (including in some cases partnerships) such as construction management, financing and operation of power generation units (cogeneration, tri-generation or combined cycle facilities).

Gaz de France believes that its product and service offerings to its major industrial and commercial customers have allowed it to limit its market share losses in France and to establish itself as a major participant in the most important markets in Europe, with a competitive gas price for its entire portfolio. Gaz de France has retained the majority of its contracts, in an increasingly deregulated market. At year end 2006, Gaz de France estimated its market share of major industrial and corporate customers throughout France at approximately 60%.

Gaz de France believes that sales outside France will be the major growth driver for its portfolio of major industrial and commercial customers. The markets in which the Group is present are: the United Kingdom, Belgium, The Netherlands, Italy, Spain, Germany, Hungary and Luxembourg.

The capacity to penetrate each of these markets varies depending on numerous factors, including the regulatory environment, as well as the Group's practical ability to access the transmission infrastructure needed for delivering gas.

Foreign sales (primarily made to large industrial clients) increased from 5 TWh in 2000 to 78 TWh in 2004, 105 TWh in 2005, and 119 TWh in 2006. Overall, sales to large industrial and commercial clients in France and Europe totaled 219 TWh in 2006, an increase of approximately 12.9% over the previous two years.

The table below shows the Group's sales in these markets for the years ended December 31, 2004, 2005, and 2006.

Table – Change in the volumes sold by country

Volumes sold in TWh	2004	2005	2006
United Kingdom	33.7	34.6	36.4
Belgium & Luxembourg	15.9	21.2	25.4
The Netherlands	13.1	20.2	21.0
Italy	10.3	16.9	21.0
Spain	1.9	5.2	6.2
Germany	2.8	6.7	8.7
Hungary	–	–	0.3

Negotiated sales prices for customers who have exercised the right to select their gas supplier

Customers who have exercised their right to choose their gas suppliers are charged rates that are determined on the basis of competitive conditions in the market.

Gaz de France offers major industrial and commercial customers prices which are adapted to their needs as part of its Gaz de France energY® product and service offering. This includes a price engineering component that includes fixed prices for defined periods or prices indexed on the basis of various formulas. Many major industrial and commercial customers select their gas suppliers by means of competitive bidding.

Prices charged to professional customers, apartment buildings, certain industrial customers, SMEs and local communities are set as part of the Provalys® or Energies Communes® offerings described below at paragraph 6.1.3.1.2.2.2.2.3 – "Business Customers in France – Provalys® and Energies Communes®."

6.1.3.1.2.2.2.2.2 Individual household customers in France – Gaz de France Dolce Vita®

Individual household customers use energy for their personal needs such as heating, cooking, and hot water. As of December 31, 2006, Gaz de France had approximately 10.5 million customers in this category in France. Most of these customers use natural gas for heating, with about 70% of individual household customers served by Gaz de France equipped with individual furnaces.

Over 2006, sales volumes of natural gas to consumers were close to the previous year: 133 TWh compared to 139 TWh in 2005.

The slight decline in sales seen in 2006 is related to warmer climate conditions compared with the previous year.

Individual household customers are currently supplied natural gas on the basis of administrative rates (see paragraph 6.1.3.1.2.2.2.3 "Sales price of natural gas/ Administrative rates").

Gaz de France's product and service offering to individual household customers is marketed under the Dolce Vita® brand, launched in November 2002. Gaz de France Dolce Vita® proposes offers that provide a set of technical solutions for heating and hot water, associated services, advice and assistance in financing and managing systems. Gaz de France also offers a "Gaz de France Quality Diagnostic" service that tests gas systems for defects that could affect safety.

New product and service offerings will be added to enhance the brand, including "Point conso," a service that has offered since June 2005 tailor-made advice based on an estimate of customers' consumption in order to optimize their systems. In the near future Gaz de France also intends to offer systems to permit customers to fill cars powered by natural gas using compressors installed in their homes.

In order to operate in the consumer market and in preparation for full deregulation of the markets on July 1, 2007, Gaz de France has developed and launched an ambitious corporate transformation program, which includes:

- the organization of customer relations around a single call number for customers and management of the customer base from about thirty decentralized platforms. Exemplary labor consultation resulted in the transfer, without crisis, of 1,800 agents from the joint EDF Gaz de France Distribution division to the Gaz de France marketing unit.
- The progressive and organized deployment in phases of an IT system adapted to the future competitive universe;
- An extremely ambitious training program for the teams, representing over 240,000 hours of training directed by 215 coaches and facilitators. 55,000 hours of this program were provided in 2006.
- A marketing and commercial project to prepare the positioning for the new group in the future open competitive universe.

6.1.3.1.2.2.2.2.3 Mid-market customers in France – Gaz de France Provalys® and Gaz de France Energies Communes®

Mid-market customers are primarily composed of professionals, retailers, SMEs, certain industrial customers, apartment buildings, public and private service sector customers, and local communities. As of December 31, 2006, Gaz de France served approximately 607,600 mid-market customer sites.

Mid-market customers have varied consumption profiles (from 10,000 kWh to 90 GWh) and may use natural gas for hot water (for example hairdressers and doctors), for heating, or for their production process (for example bakeries, SMEs and industrial customers).

Since July 1, 2004, mid-market customers have been able to select their natural gas supplier. They may exercise this option by selecting a product or service offering from Gaz de France or a competitor, or they may keep their current regulated contracts entered into before July 1, 2004. As of December 31, 2006, approximately 30% of newly eligible customers (in volume) exercised this option, and nearly 80% selected Gaz de France offers.

Customers who maintain their current contracts continue to pay administrative rates for gas (see paragraph 6.1.3.1.2.2.2.3 – "Sales price of natural gas/Administrative Rates"), while prices for customers who have chosen a commercial offering from Gaz de France or a competitor are billed on the basis provided in the commercial offering described below.

Gaz de France has developed two major brands for its commercial offerings for mid-market customers:

- Provalys®, mainly for professionals, retailers, SMEs, industrial customers, apartment buildings, and service sector customers; and
- Énergies Communes® for local communities.

Provalys® is a complete package that includes natural gas, electricity and associated services. Under the Provalys® brand, Gaz de France offers its business clients solutions tailored to their needs. For customers seeking simplicity (professionals and certain SMEs), Gaz de France offers packages with two, three or four services related to gas and electricity. For customers with more sophisticated energy management needs (financial as well as technical needs), Gaz de France offers tailor-made solutions based on an interactive, individualized relationship with the client. The principal mid-market customer offerings are:

- a choice of pricing formulas for gas and electricity, such as a one-year fixed price that provides customers with visibility, or a price that is revised every six months or every quarter to reflect market conditions, with or without minimum subscription periods, and in some cases including financial engineering solutions;
- solutions for the supply of energy and related services for professional customers (Personalized Energy – "*Énergie Personnalisée*") or for PME/PMI searching for a better mastery of their costs (Energy Mastered – "Énergie Maîtrisée");
- support services for consumption management including, for example:
  - a historical overview of consumption patterns and prior invoices,
  - invoices that include information relating to the customer's contract,
  - access to the ExpertGaz hotline for technical advice, and
  - an Internet service called "My online account" that permits customers to track their consumption levels;
- financing solutions: for the public sector (in partnership with Dexia), for apartment buildings (in partnership with Banque Solfea[1]), and for other private mid-market customers (in partnership with the BNP-Paribas Lease group);
- optional advice and technical services: diagnostic services (for example "Diagnostic Serenity Pro", an on-site energy evaluation service), advice on regulatory requirements for installations on the customer's premises, and advice, environmental audit services and training relating to the regulation, maintenance and operation of heating installations; and
- product offerings adapted to multi-site clients including:
  - summary invoices showing total consumption at all sites, with an option for decentralized payments for customers that want their various sites to be autonomous in terms of the purchase of energy,
  - centralization of multiple invoices with a single payment (for those who want decentralized management but centralized payment) and a summary table, and
  - a "single formula" consolidating invoices for all sites for those who prefer centralized management.

Energies Communes® is an offering that provides energy supply combined with services designed to assist local communities with their energy policy and in the management of their area. Three different packages are available:

- the "no worry gas" package offers natural gas along with a group of services (including price offerings, consolidated invoices, consumption data) based on the principles of simplicity and energy optimization. This also includes "simple conversion of gas" which offers, in addition to supply services, management services adjusted to the problems of local communities;
- the "complete power" package meets temporary needs that arise during the term of a contract, such as changes in facilities or the construction of new buildings. These are "premium services" over and

(1) Banque Solfea's activities primarily concern consumer credit, including helping individual household customers finance a natural gas heating installation. It has a variety of products available for customers who are renovating their home. It is a banking establishment accredited by the French Committee on Banking Establishments and Investment Companies and placed under the regulatory control of the French Banking Commission.

above the basic contract ("ExpertGaz Hotline", training, software for energy management, advice and environmental audit services for heating installations, etc.); and

- "custom solutions" are also available for communities that seek to manage local energy policy actively, including waste-to-energy, heating network management, cogeneration and clean transportation with natural gas vehicles.

The Group's goal is to progressively improve its offerings with new services such as fleets of company cars that use natural gas.

In order to build customer loyalty, Gaz de France is developing personalized customer relations programs, including newsletters and targeted mailings. Mid-market customers benefit from a relationship adapted to their requirements: custom designed packages, global solution design, telephone contacts with specialist advisors, marketing through partnerships with installers and information on Gaz de France's new website.

6.1.3.1.2.2.2.2.4 Natural Gas Vehicle (NGV)

The use of natural gas for vehicles ("**NGV**") is developing in several countries, particularly in countries where Gaz de France wishes to achieve short-term or mid-term development as a supplier. In France, NGV is already a solution selected by local authorities, with almost 2,000 heavy vehicles using it (including buses, domestic-waste collection vehicles and fleets of vehicles). In 2006 Gaz de France launched an at-home NGV fueling service for individual household customers located on-site and to companies.

6.1.3.1.2.2.3 Sales price of natural gas

Gaz de France's natural gas sales are made using two pricing systems:

- regulated rates (known as "administrative rates") for individual household customers and eligible customers who have not exercised their right to choose their gas supplier; and
- negotiated rates for eligible customers who have exercised their right to choose their gas supplier and are thus no longer governed by the administrative rate system.

Administrative rates

There are two types of administrative rates:

- public distribution rates for customers using less than 5 GWh per year and connected to a distribution network; and
- subscription rates for customers using more than 5 GWh per year and connected to the distribution network or directly to the gas transmission system.

These rates apply to non-eligible customers and to eligible customers who have not exercised their right to choose their gas supplier.

The overall rate structure is governed by principles in a French law of January 3, 2003 and in French Decree No. 90-1029 dated November 20, 1990 regulating the price of gas sold and delivered through the gas transmission or distribution systems. The law and decree provide that administrative rates must cover all related costs.

Public distribution rates

The public distribution rates apply to approximately 11 million customers. There are currently six different main categories of public distribution rates, including four for residential use or small central heating systems, and two seasonal rates that apply to medium and large central heating systems, with higher rates in winter and lower rates in summer. The B1 rate (and related rates), applicable to individual heating, cooking and hot water, is the most widely applied rate, with approximately 7 million customers as of December 31, 2006.

Until June 2004, the rates were revised every six months in accordance with the contracts concluded between the French State and Gaz de France. These revisions were the subject of a joint order by the Ministers of the Economy and Energy based on the proposal of Gaz de France and, starting in January 2003, following the opinion of the CRE.

Since November 2004, rate changes have not fully reflected changing costs, generating a loss of earnings of €130 m over 2004, €370 m over 2005, and €511 m over 2006.

Public service contract

Starting in 2005, the 2005-2007 public service contract signed between the French State and Gaz de France on June 10, 2005 defines the terms and conditions under which rates evolve:

- rates are revised quarterly;
- rates are revised on the basis of a formula so that, on average, they cover:
  - natural gas supply costs, which generally allows the Group to pass on to its customers fluctuations in the market price of gas. Rate revisions take into account changes in the market price of petroleum products over a six-month period ending one month before the revision,
  - other supply costs (including a reasonable margin customary for this business), calculated on the basis of average costs necessary to supply gas to public distribution customers;
- Gaz de France is required to pass on to customers in each year a fixed productivity gain factor equal to 1.4% per year (in real terms, on average) of its costs other than natural gas supply costs;
- if the French State rejects a rate movement proposal by Gaz de France, in accordance with the terms of the contract, the terms of compensation must be determined together with the Company so that financial neutrality is established within twelve months;

- except in case of contrary legislative or regulatory provisions, the rate provisions of this contract extend beyond July 1, 2007. The French State and Gaz de France agree to readjust the different terms of the rate formula described above for July 1, 2007;
- starting July 1, 2007, each party may request the opening of negotiations to adapt all or some of these provisions. If no agreement is reached after six months of negotiations, either party may terminate the rate provisions of the contract.

Rates changes

In accordance with the public service contract, the June 16, 2005 order of the Ministers of the Economy and Energy sets out terms of rate evolution for the 2005-2007 period, as well as at-level rate remediation and the terms for recovering the earnings shortfall. Under this ministerial order the following rate changes were provided for:

- 0.124 c€/kWh as of July 1, 2005 (change in primary materials plus the remediation);
- 0.09 c€/kWh as of September 1, 2005 (remediation only);
- 0.445 c€/kWh as of November 1, 2005, (change in primary materials only).

At the time of the November 1 rate movements, Gaz de France put in place commercial measures for individual household customers using gas heating (B1 and related rates) to limit the impact of the increase, for which the total cost €156 million, of which €61 million was in 2005.

Under the December 29 order (after the unfavorable opinion of CRE), the French State suppressed the January 1, 2006 rate hike that would have occurred under the June 16, 2005 order.

The minister of the economy, finances and industry and the minister of energy appointed three independent experts (B. Durieux, B. Brochand, and J.-M. Chevalier) in order to make proposals on the possible evolution of the terms of the functioning of the rates and putting into place compensatory measures.

On March 21, 2006, these three independent experts submitted their conclusions and proposed:

- in the short-term, a rate increase of 5.8% as of April 1, 2006;
- in the future, a new rate method based on the direct consideration by the CRE of the change in gas supply costs and giving rise to an annual revision of the rates each July 1.

Based on these proposals the French government approved on March 21, 2006:

- a rate increase of 5.8%;
- a commitment to put in place a new rate method based on the conclusions of the three Independent experts;
- to postpone until July 1, 2007 the next rate revision; and
- with respect to the remediation of the financial consequences flowing from the deferral of rate adjustments since November 2004, a commitment to open discussions with the Company that the three independent experts wished to conduct in the coming months.

Under an April 28 order, the French State increased rates by 5.8% (or 0.21 c€/kWh) as of May 1, 2006.

This order received an unfavorable opinion from the CRE, which noted in particular that this increase does not reflect the all of the changes in Gaz de France's supply costs and compensation for the accumulated earnings shortfall is not taken into account.

Current situation

The situation is the following:

- the accumulated revenue losses since November 2004, resulting from the inability to pass on costs to rates, particularly natural gas supply costs, were €1,011 million as of December 31, 2006;
- the rates are at a level which is below the level that Gaz de France deems necessary to cover all the costs;
- the Group is also exposed to the risk that the gas supply costs will not be reflected in case of changes in the market price for oil products as well as a shift in the exchange rate of the euro against the US dollar;
- there is no longer a multi-annual context set by ministerial order, with there now remaining only the 2005-2007 public service contract until July 1, 2007.

Subscription rates

As of December 31, 2006, the subscription rates applied to approximately 1,500 customers. These rates change quarterly based on the proposal of Gaz de France through the tacit approval of the ministries of the economy and energy, following the opinion of the CRE. The rate paid by a given customer depends on the amount it consumes, its maximum flow rate and the distance between the main transmission network and the delivery point (for customers connected to the transmission system) or between the transmission system and the customer's distribution network. Rates are revised quarterly, and take into account changes in the US dollar/euro exchange rate and the price of a portfolio of petroleum-based products, as well as an annual adjustment for inflation. The last revision occurred on January 1, 2007. The rates decreased by 0.285 c€/kWh.

Negotiated sales prices for customers who have exercised the right to select their supplier

Customers who have exercised their right to choose their gas suppliers are charged rates that are determined on the basis of competitive conditions in the market.

Gaz de France offers major industrial and commercial customers prices which are adapted to their needs as part of its Gaz de France energY® product and service offering. This includes a price engineering component that includes fixed prices for defined periods or prices indexed on the basis of various formulas. Many major industrial and commercial customers select their gas suppliers by means of competitive bidding.

Prices charged to mid-market customers are set as part of the Provalys® or Energies Communes® offerings described above at paragraph 6.1.3.1.2.2.2.2.3 – "Business customers in France – Provalys® and Énergies Communes®."

6.1.3.1.2.2.2.4 Temporary supply of gas in southeastern France (gas release)

In southeastern France, competition is more limited than in the rest of the country because of the current configuration of the transmission system, which makes it difficult for third parties to supply natural gas to their customers. As a result, Gaz de France has undertaken to the European Commission, after consultation with the CRE, to make available 15 TWh of natural gas per year, for three years, to other suppliers, for resale to their customers. The total supply of 45 TWh will be sold under three-year contracts, with deliveries having been staggered basis over the course of 2005. The first deliveries began on January 1, 2005. The terms of these contracts are set to correspond to the construction period for the new LNG terminal in Fos-Cavaou, which should allow third parties to obtain direct supplies of natural gas that they can then sell in this region. Gaz de France does not expect this program to have any material impact on the results of operations of the Purchase and Sale of Energy segment.

6.1.3.1.2.2.2.5 Electricity in the context of Gaz de France's commercial product and service offerings

In order to meet its customers' needs as they develop with the opening of the European energy markets, the Group has added an electricity component to commercial product and service offerings for eligible customers (see paragraph 6.1.3.1.2.2.2.2 – "Gaz de France's Product and Service Offerings and Brand Strategy"). In 2006, total electricity sales, of the Energy Purchase and Sale segment (excluding Gaselys) were 15.2 TWh, including 3.3 TWh in France and 11.7 TWh in the United Kingdom, compared with 20.9 TWh in 2005. This decline is primarily due to the drop in sales volumes in the United Kingdom. Additionally, the Gaz de France's portion of Gaselys' sales was 1.3 TWh (sales to final customers). The Group is developing its ability to supply electricity, in particular as a result of its presence in the cogeneration sector in France. The Group is also selectively becoming involved in the production of electricity from natural gas in certain geographical markets that exhibit good commercial prospects.

This convergence of gas and electricity product and service offerings to customers is a fundamental trend in the European energy industry. Gaz de France is already experimenting with this on the British market through its subsidiary Gaz de France ESS ("**GDF ESS**"), whose customer portfolio is oriented toward the industrial and service markets. In 2006, GDF ESS sold 10.9 TWh of electricity (compared to 13.2 TWh in 2005 and 8.4 TWh in 2004) to customers in this segment, and a number of those customers are also gas customers of GDF ESS. The decline in electricity volumes sold by the segment in the United Kingdom was partially driven by a refocusing of the sales policy onto customers generating larger margins, and partially by additional optimizations in the use of the production from the Shotton cogeneration plant, a larger portion of power from which covered sales to end users and was not, therefore, sold on the market.

6.1.3.1.2.2.2.5.1 Major industrial and commercial customers

Gaz de France's major industrial and commercial customers are less sensitive to the availability of dual gas and electricity packages, mainly because their buying capacity allows them to engage in separate negotiations for gas and electricity.

Nonetheless, electricity is a significant part of the relationship between Gaz de France and its customers, as demonstrated by the British example. It is a significant element of the custom Gaz de France energY® package, combining the sale of energy and services. The cogeneration market is an example of the importance of electricity for Gaz de France's customer base. For several years beginning in 2000, Gaz de France took advantage of favorable legislation that guaranteed the price of electricity sold by cogeneration. Through its Services segment, the Group helped its customers in the design, financing and structuring of cogeneration projects (see paragraph 6.1.3.1.3.2 – "Description of the Services Segment Business Activities"). It also took advantage of its involvement in these projects by selling natural gas for use in the cogeneration facilities.

Gaz de France's participation in the electricity sector has also allowed it to develop complex projects in partnership with major customers. For example, Gaz de France took advantage of its experience in the design of cogeneration projects to structure a project with the steel maker Arcelor. The project involves a high-powered (788 MWel, of which 533 MWel relate to Gaz de France) combined gas cycle plant in Dunkerque. It began operations in 2005. The plant will allow Arcelor to use efficiently the waste gases it produces as fuel in addition to natural gas, and to benefit from a priority access to the electricity produced in this manner. The project allows Gaz de France to significantly reinforce its business relationship with a major French industrial site, sell large quantities of natural gas (0.6 billion cubic meters per year) and have access to a share of the power plant's power generation for its own needs.

The Group intends to structure similar projects, both in France and in Europe, principally to support the expansion of its sales in Europe. It has also signed electricity sales contracts that are not combined with a gas offer to gain experience in the electricity sector and to confirm its attractiveness for future development.

6.1.3.1.2.2.2.5.2 Mid-market customers and individuals

Since July 1, 2004 Gaz de France's supply of electricity to the French market has been exclusively directed at mid-market customers who are eligible to choose their supplier. This customer group has indicated a preference for a dual gas/electricity offering, and this is especially true for it "blue rate" customers (domestic power less than 36 kVA). Gaz de France has responded to this preference with its Provalys® offering, which gives its customers the following advantages:

- simplicity: with a single supplier, the customer has a consolidated invoice for natural gas and electricity;
- visibility: as the price for the electricity offered by Gaz de France is set for one year, the customer may estimate its electricity budget and plan its spending on the basis of its expected level of use; and
- competitiveness: the price of the electric power offered by Gaz de France is competitive with competitors' regulated prices. Under the current offering, the customer saves on its annual subscription compared to the administrative rates applicable in France.

During 2006, nearly 114,000 new sites contracted with Gaz de France, representing a total since deregulation in 2004 of more than 170,000 electricity sites.

As of the full deregulation of the French market on July 1, 2007, Gaz de France intends to extend the electricity offer, under the Gaz de France Dolce Vita® brand, to French individual customers.

6.1.3.1.3 Services

Table – Segment Revenues and EBITDA

In millions of euros	2004(*)	2005(**)	2006
Revenues (before eliminations)	1,443	1,924	2,181
Revenues with third parties	*1,377*	*1,857*	*2,004*
EBITDA	94	166	189

(*) Post-reform pro forma data for unaudited pensions restated for the impact of the application of IFRIC 12 and IFRIC 4.
(**) Published data restated for the impacts of the application of IFRIC 12 and IFRIC 4

6.1.3.1.3.1 Services Segment Strategy

The Services segment complements Gaz de France's development, which is part of the Group's efforts to vertically integrate its activities. The mission of the Services segment is twofold:

- to enable Gaz de France to have a complete product and service offering, in order,
  - first, to maintain Gaz de France's position in France (in order to limit market share and value losses caused by the opening of the energy markets), and,
  - secondly, to accompany the Group's development in Europe in the interests of winning additional market share larger than the shares lost on the national territory;
- to participate in the deployment of the power generation strategy, both as manufacturer and as operator of the production units that belong to the Gaz de France Group.

This assistance strategy has determined the scope of the Services business, both for services and geographic locations:

- the services offered by the Services business activity are focused on services tied to energy (gas, electricity, etc.), without diversifying into far-removed areas (insurance, telecommunications, etc.);
- the Services business activity is active in several countries in which the Group sells energy, in order to enhance customer relations and build and/or win customer loyalty.

The different companies of the Services segment allow it to offer to customers, in a global or coordinated fashion, product offerings that combine energy sales with services related to primary energy materials, as well as multiple energy product packages including both gas and electricity. These product offerings combining energy sales with services are an essential part of its efforts to win new customers and build customer loyalty in the area of energy sales.

In 2006, several significant contracts were won, particularly in Italy, with the Turin Olympics maintenance contract in 2006.

The strategy of the Services segment of Gaz de France is to continue to grow through two vectors:

- Continuation of the acquisition process;
- Commercial development, with the priority given to enhancing the content of the energy and service supply offers and the development of multi-site offers on the European grid.

6.1.3.1.3.2 Description of the Service business activities

The Services segment offers the following to its customers:

- full management of the customers' energy needs;
- complete innovative energy solutions that are respectful of the environment and go beyond the simple supply of natural gas;
- methods for controlling and reducing energy consumption with a comparable level of comfort.

In this context the Services segment offers business operation, maintenance and construction services. They can implement energy solutions in the interests of long-term, sustainable development, in accordance with the Gaz de France Group's commitments in this regard.

They currently have significant background experience in energy derived from wood, geothermals, combustible renewables, etc. Similarly, the Services segment has developed expertise in the areas of Facility Management, heating networks and Natural Gas Vehicles as a complement to Gaz de France's power generation projects.

The Services segment allows the Group to offer a variety of additional energy sales offerings, including the following families of product offerings:

Conventional energy services

Conventional energy services include installation, shipping, maintenance, financing and supplying energy for light industry facilities, heating and cooling installations, compressed air and ventilation.

Facility management services

Facility management services are provided to meet the needs of customers seeking technical services in the context of the global management of their facilities.

Industrial maintenance

The Services segment offers general maintenance services, chemical and industrial cleaning services, and services for the renovation and installation of equipment for heavy industries such as refineries and metal foundries.

The Services business also designs, produces and provides maintenance of installations for ventilation, heating and air-conditioning in a controlled environment (white rooms, large consumers of energy), and for the microelectronic, microbiology and micromechanic industries, the nuclear industries and the pharmaceutical industries.

Industrial management of power generation units

The offer from the Services segment is in two complementary forms:

- A Project Owner Assistance service for the construction of cogeneration facilities. This offer is also used for the construction of Gaz de France proprietary power production assets (gas combined cycle in Fos, St. Brieuc plant, etc.)
- Design and maintenance of cogeneration and tri-generation installations.

Natural gas for vehicles

The Services segment offers services to construct and operate stations for natural gas for vehicles ("**NGV**").

Management of grids for heating and cooling

The Services segment has developed an auxiliary public-service activity with the public authorities for heating and cooling grids.

Maintenance of individual boilers

The segment offers boiler maintenance services for individual customers and collective housing.

A new brand Savelys was created to carry these offers in January 2005.

6.1.3.2 Infrastructures

6.1.3.2.1 Transmission and Storage – France

Table – Segment Revenues and EBITDA

In millions of euros	2004(*)	2005(**)	2006
Revenues (before eliminations)	2,145	2,124	2,227
Revenues with third parties	*68*	*222*	*358*
EBITDA	1,291	1,271	1,285

(*) Post-reform pro forma data for unaudited pensions restated for the impact of the application of IFRIC 12 and IFRIC 4.
(**) Published data restated for the impacts of the application of IFRIC12 and IFRIC 4

6.1.3.2.1.1 Strategy for the Transmission and Storage – France segment

The Transmission and Storage – France segment aims to reinforce the Group's position as an operator of natural gas infrastructure, by actively participating in the growth of natural gas market and the security of supply in France and in Europe:

- continue investments in French infrastructure while respecting the Group's profitability criteria;
- optimize the terms and conditions of access to infrastructure with the goal of allowing each gas supplier to benefit from the best technical services, while respecting transparency and non-discrimination obligations;
- maintain quality services for infrastructure users in order to improve the safety and image of natural gas in France;
- improve the stability of the rate structure applicable to infrastructure use;
- continuously seek to increase productivity.

6.1.3.2.1.2 Description of the business activities of the Transmission and Storage – France segment

Since January 2005, the activities of the Transmission and Storage – France segment have been provided by two legally distinct units in order to meet new regulatory requirements:

- GRTgaz, a *société anonyme* and wholly owned subsidiary of the Group which manages the transmission network (gas pipelines and compression stations); and
- the major infrastructure department of Gaz de France, which manages LNG terminals and storage sites.

This structure allows Gaz de France to separate the management of the transmission network, while continuing to benefit from certain synergies authorized under the new regulatory structure, such as engineering, professional services and information technology. It also allows Gaz de France to foster professionalism in the different activities of the segment and sharing the experience of the various units, while maintaining a strong local presence throughout France.

6.1.3.2.1.2.1 Transmission activity – GRTgaz

6.1.3.2.1.2.1.1 Management of the transmission network

Pursuant to the European regulatory framework, the Law of August 9, 2004 stipulates the legal separation of the manager of the gas transmission network. It therefore extends the obligations of the Law of January 3, 2003, which required accounting separation of the transmission, distribution, storage, operation of LNG facilities, the activities not related to gas, and other activities, as well as a strict ban on any cross-subsidy between the various gas activities. In this context, the Board of Directors of Gaz de France decided to set up on January 1, 2005 the subsidiary Gaz de France Réseau Transport as the manager of the transmission network in France. On October 11, 2005, the dedicated subsidiary changed its name to GRTgaz, adopting at the same time a new logo different from the Gaz de France logo. Since that date, GRTgaz has managed the transmission network in France.

The bylaws of GRTgaz and the corporate governance rules applicable to this company are intended to guarantee the independence of the management bodies of GRTgaz from the management bodies of Gaz de France.

6.1.3.2.1.2.1.2 The transmission network

GRTgaz has the longest high-pressure natural gas transmission network in Europe. As of December 31, 2006, the French network was composed of 31,610 kilometers of gas pipelines, including 6,757 kilometers of the main high-pressure network, and more than 24,853 kilometers of regional networks, giving the Group coverage in a large portion of France. During the year ended December 31, 2006, the Group transported 60.2 billion cubic meters of gas, or 687 TWh compared with 711 TWh in 2005.

GRTgaz, which owns the transmission network, develops and maintains the transmission network, controls the flow of natural gas in the network, and provides access to gas suppliers, in addition to marketing activities.

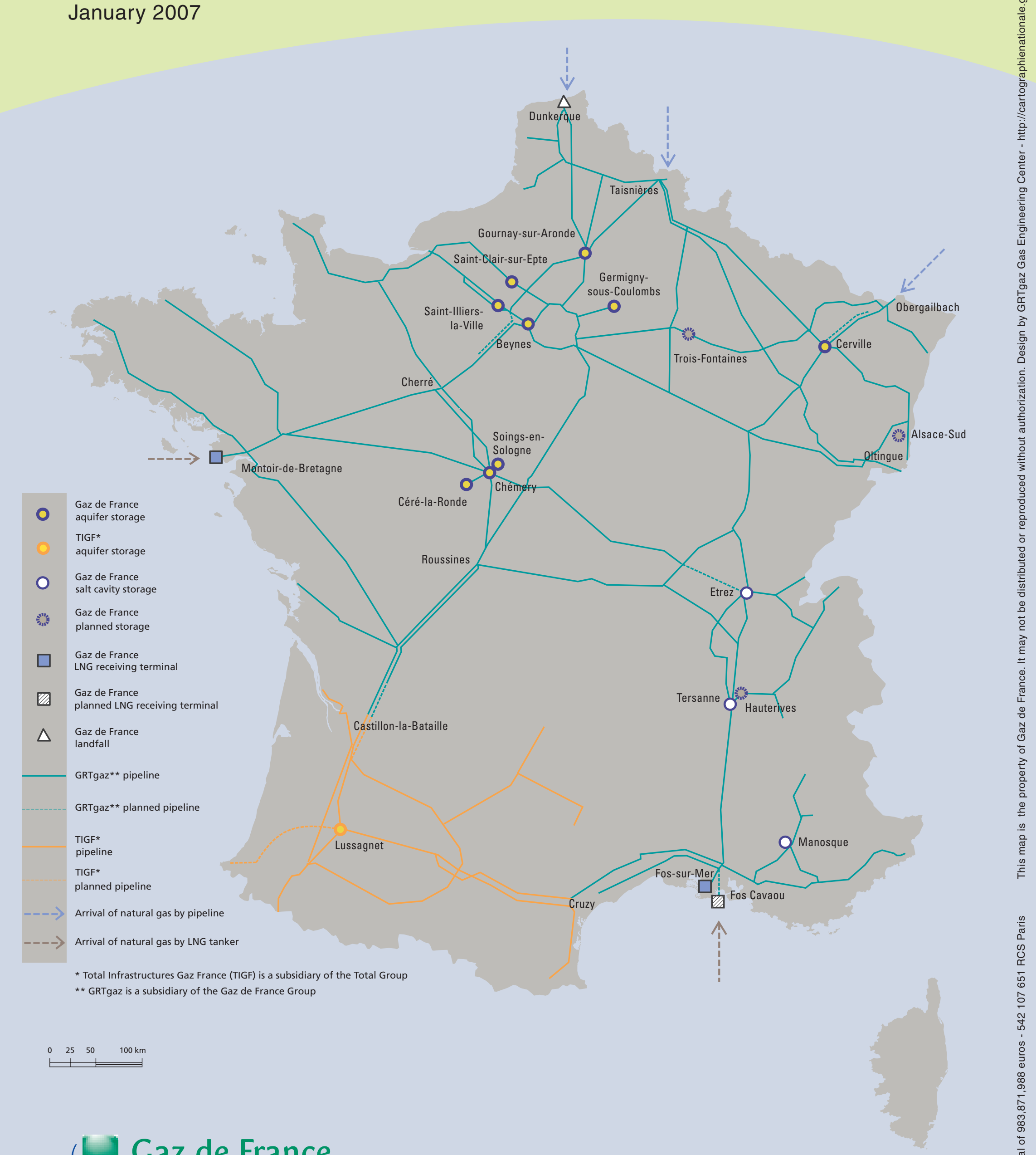
The main network transports natural gas from the network's access points (such as LNG terminals and connection points with international gas pipeline networks) to the regional network. The regional network transports natural gas to about 4,300 delivery stations connected to industrial customers and to local distribution networks. The average age of the pipelines is 26 years. In determining the regulated asset base, used for calculation of rates, the average economic life of the pipelines was determined to be 50 years.

GRTgaz also operates 27 compression stations for pumping gas through transmission pipelines and for maintaining the pressure required for optimum transmission conditions. On January 1, 2007, these stations were composed of 97 gas compressors with a total power of 503 megawatts. GRTgaz also uses compression facilities located at six storage sites, which are operated by the major infrastructure department.

GRTgaz's transmission network has eight connection points with international gas pipeline networks, LNG tanker terminals and with Total Infrastructures Gaz France, which operates in southwest France. The connection points link Gaz de France with other European markets for which the exchange of gas is growing, including the markets in Northern Europe, Germany and Austria, Spain and Italy.

Natural gas: transmission system, underground storage facilities and LNG terminals in France

January 2007



Gaz de France

The following table sets forth the length of Gaz de France's transmission network and the volumes of gas it has transported over the last four years:

Table – Changes in the length of the network and volume of transported gaz

	Fiscal year ended December 31		
	2004	**2005**	**2006**
Principal network (kilometers)	6,585	6,757	6,757
Regional network (kilometers)	24,780	24,832	24,853
Total (kilometers)	**31,365**	**31,589**	**31,610**
Volumes transported (TWh)	**695**	**711**	**687**

6.1.3.2.1.2.1.3 Access to the transmission network in France

In August 2000, the Group opened its transmission network to third-party access in order to comply with European directive provisions concerning the deregulation of the natural gas market. As required by law, GRTgaz publishes the general terms and conditions for the use of its transmission facilities and installations, which may be changed only after consulting its customers and the CRE. GRTgaz negotiates, on a transparent and non-discriminatory basis, transmission agreements with shippers and suppliers, and connection-delivery agreements with consumers connected to its network.

The principal terms of the transmission agreements include the following:

- collection and re-delivery obligations;
- transmission capacities subscribed to by the customer;
- terms relating to the maintenance of the equilibrium between incoming and outgoing quantities and operational procedures for day-to-day management;
- terms providing the transmitter with protection against the risk of payment default (top rating demanded, bank deposit or a security deposit equivalent to two months of business activity);
- provisions relating to indemnification, force majeure and other risk-sharing provisions.

The principal terms of the connection-delivery agreements include the following:

- the installation and maintenance of the customer's connection to the transmission network;
- terms relating to the measurement of the energy supplied;
- Gaz de France Réseau Transport's delivery obligations (required pressure, gas characteristics, temperature, etc.); and
- provisions relating to indemnification, force majeure and other risk-sharing provisions.

Although the Group's Purchase and Sale of Energy segment is GRTgaz's leading customer, transmission agreements were signed in 2006 with 25 other customers, for a total of €175 million of revenues in 2006, or 14% of the ATR revenues of GRTgaz. Currently, access to the transmission network is granted on the basis of annual (or multi-year), monthly or daily contracts. Depending on the type of contract, allocation is on a "first come, first served" basis, and prorated on the basis of the capacity reservation requests collected during an "open subscription period."

Since January 1, 2005, shippers may reserve a significant portion of transmission capacity on a long-term basis: up to 80% of the total available fixed transmission capacity. Any transmission capacity that is still available may be purchased on an annual, monthly or daily basis. These options improve GRTgaz's ability to utilize all of its available capacity while offering security and flexibility to transporters. A portion of the long-term reserved capacities (between 0% and 20% depending on the points in question, is said to be "returnable", which means that the transporters that have reserves of more than 20% of the available capacities at a given point may transfer back these returnable capacities, for one to four years, to other transporters which request them. When the reserved capacities are not used, regulatory provisions permit the release to allow reservation by other shippers.

6.1.3.2.1.2.1.4 Transmission tariffs

Since natural gas transmission is an officially regulated activity, GRTgaz's transmission tariffs are fixed by the Ministers for the Economy and Energy, following consultation with the CRE, in accordance with the French law of January 3, 2003. This law restricts Gaz de France Réseau Transport's freedom to set transmission tariffs.

6.1.3.2.1.2.1.4.1 Basis for determining rates

The method for setting rates provided for under the French law of January 3, 2003 was first applied in 2004. The most recent negotiated rate in force, since January 1, 2007, was determined using a "cost plus" regulating method, so that the total revenues produced by the system would be equal to:

- the operating costs necessary for the management, good functioning and maintenance of the networks, net of certain incidental revenues;

- the charges for depreciation of the fixed assets that are part of the network (also called the "regulated asset base"). These charges are determined in accordance with the following principles:
  - the initial regulated asset base reflected the economic value of the network's assets resulting from the purchase of the network from the French State (formerly the concession grantor) in 2002; this base is then adjusted to reflect the acquisition of new assets and the retirement of assets at the end of their useful economic life, and is re-evaluated each year on the basis of the French consumer price index, excluding tobacco,
  - at the life spans applicable to the various categories of assets included in the regulated asset base, depreciation is determined on a straight-line basis over these periods.
  - the product of a specified rate of return applied to the regulated asset base. The rate of return is determined based on the economic risk relating to the operation of the transmission infrastructure. The rate was 7.75% (real, pre-tax) for assets in service before January 1, 2004, and 9% (real, pre-tax) for assets placed in service after January 1, 2004; a 12% rate (real, pre-tax) is applied for a 5 to 10-year period on a case-bycase basis for assets that significantly contribute to improving the operation of the market (creation of new points of entry, decongestion of the network). Since January 1, 2007, and for a two-year period, the rate has been 7.25% (real, pre-tax) on the companies for assets in services before January 1, 2004, 8.50% (real, pre-tax) for assets in services after January 1, 2004; a rate of 11.5% (real, pre-tax) is applied for a 5 to 10-year period on a case-by-case basis for assets that significantly contribute to improving the operation of the market (creation of new points of entry, decongestion of the network). This new mechanism offers a stable rate framework, along with increased visibility for the investment policy, and gives remuneration on current assets.

The regulated asset base includes pipelines, compression stations, and pressure regulating/metering stations. In order to determine annual fixed costs, the CRE applies a depreciation period of 50 years for transmission pipelines and 30 years for compression stations and substation.

6.1.3.2.1.2.1.4.2 Rate setting process

The Ministers for the Economy and Energy approve the transmission network rates upon proposal by the CRE. The CRE proposes rates following technical and financial discussions with GRTgaz and other operators. The final phase of preparing the proposal usually includes interviews with directors of operators and public consultation.

Currently applicable rates were determined based on projected operating expenditures and volumes of gas to be transported during the period during which the rates are applicable. GRTgaz submitted to the CRE its past and projected growth in operating assets and expenditures, together with expected growth in subscriptions, which the CRE analyzed to prepare its proposed transmission tariffs based on the relevant rates of return.

The regulated asset base used to determine these rates is based on an estimate, made during the process of setting the rate structure, of the average level forecast for the period during which the rates will apply. In order to make this estimate, assets are deemed to be revalued on January 1 and July 1 of each year by applying a projected inflation factor. All new investments planned for a given year are deemed to be implemented as of January 1 of the year after commissioning, with a rate of return of 8.5% and depreciation as of that date. Before they are commissioned, these investments are remunerated on the basis of assets in progress at the base rate of 7.25%.

The regulated asset base used to determine the new rates since January 1, 2007 was €5,426 million, plus €361 million for assets in progress.

The rate currently in force since January 1, 2007 is the subject of an order of December 27, 2006 approving the rates for access to its natural gas transmission network, which modifies French Decree 2005-607 of May 27, 2005, the order and opinion of May 27, 2005 concerning the definition of balance zones and rates applicable to the use of the natural gas transmission network. This order was published following the rate proposed sent by the CRE to the Minister of the Economy, Finance and Industry and the Deputy Minister for Industry on November 10, 2006.

The current rate is designed to apply until December 31, 2008, the date on which a change in the rate structure is planned (shift from 4 to 2 balance zones).

6.1.3.2.1.2.1.4.3 Rate structure

Transmission tariffs in France are currently calculated in accordance with a multi-zone entry/exit principle based on a four-zone territorial breakdown for GRTgaz, which is expected to move toward two balance zones in 2009. This model is in the process of being introduced generally in Europe, following the recommendations for the internal gas market made by the "Madrid Forum" (a meeting of European transmission operators, among others). This model primarily includes the following terms:

- entrance capacity to the principal network, calculated on the basis of the capacity subscribed by the user for entry on the principal network from an adjacent network or LNG terminal;
- capacity subscribed for connections between zones;
- output capacity at a network interconnections point, toward the regional network or toward a storage site;
- capacity subscribed for transmission on the regional network;
- capacity subscribed for the use of delivery stations and annual fixed costs for each delivery station used by industrial customers.

6.1.3.2.1.2.1.4.4 Code of conduct

Pursuant to Law 2004-803 of August 9, 2004, GRTgaz has developed a code of conduct to be followed in its business of selling access for third parties to the natural gas transmission network:

- the transparent information needed by customers to access or connect to the transmission network;

- non-discrimination in the treatment of each category of user of the transmission network;
- the confidentiality of Commercially Sensitive Information (CSI) concerning the market to prevent any disclosure to a person outside the operator (except where required by law).

The application of this code is verified by a compliance and effectiveness control program. The results of this program and resulting improvement efforts are the subject of an annual report established by GRTgaz, which is published on its website and sent to the CRE.

In 2006, a number of new measures were taken in this context, including:

- a private space for customers on the GRTgaz website for hourly measurements at the consumer delivery points;
- adoption of the Use It or Lose It (UIOLI) rules for daily capacities;
- the presentation on the Internet site of the GRTgaz strategy for the next 10 years for the expansion of transmission capacities and the corresponding investments, so as to allow users to position themselves in the context of a bid consultation.

6.1.3.2.1.2.2 Major infrastructures

6.1.3.2.1.2.2.1 LNG terminals

The Group is the second-leading European operator of LNG terminals according to GIIGNL's 2005 data. It has also been one of the leading purchasers of LNG since 1964, and operates its own facilities and commercializes access to them.

LNG terminals are port installations used to receive and regasify LNG from liquid to gas.

The Group's two LNG terminals, Fos-Tonkin and Montoir-de-Bretagne, enable it to market 17 billion cubic meters of gas per year in regasification capacity.

- Fos-Tonkin, which was put into service in 1972, is located on the Mediterranean coast and receives LNG mainly from Algeria and Egypt. It has a regasification capacity of 5.5 billion cubic meters per year, which temporarily reached 7 billion cubic meters at the end of 2005, and can receive ships transporting up to 74,000 cubic meters of LNG and three tanks with a total capacity of 150,000 cubic meters. This terminal has an initial estimated useful life of 40 years. It was renovated in the mid-1990s in order to modernize it.
- Montoir-de-Bretagne, which was put into service in 1980, is located on the Atlantic coast and receives LNG mainly from Algeria, Nigeria and Egypt. It has a regasification capacity of 10 billion cubic meters per year, two piers, which can receive ships transporting up to 200,000 cubic meters of LNG, and three tanks with a total capacity of 360,000 cubic meters. This terminal has an initial estimated useful life of 40 years.

Gaz de France announced a project to extend the Montoir-de-Bretagne terminal to meet the growth in LNG in France and Europe. Gaz de France launched a subscription tender to develop new regasification capacities at the Montoir-de-Bretagne site. The current natural gas emission capacity of the terminal is 10 billion cubic meters per year, to which will be progressively added an additional capacity of 6.5 billion cubic meters, thus raising the total capacity to 16.5 billion cubic meters, subject to subscription requests.

An initial increase of 2.5 billion cubic meters will raise total annual capacity to 12.5 billion cubic meters, with commissioning planned early in 2011, extending the regasification resources of the terminal. Then a second increase of an additional 4 billion cubic meters per year will raise capacity to 16.5 billion cubic meters per year in 2014 with the construction of a fourth large-capacity LNG tank and additional expansion of the regasification and emission resources. The additional capacities will meet the needs of natural gas suppliers in a growth market.

The access rates for these infrastructures, general terms and conditions and allocation rules are published on the website of the Major Infrastructure Department. Requests to reserve capacity may be made for periods less than, equal to or greater than one year. These options give terminal customers the flexibility to meet their own obligations to their suppliers.

Due to the growth in the LNG market and the execution of a new gas supply agreement for gas from Egypt, the Group began construction of a third LNG terminal, Fos-Cavaou, at Fos sur Mer on the Mediterranean coast. The new terminal should be put into service by the end of 2007 and will have a regasification capacity of 8.25 billion cubic meters per year, piers that can receive the largest ships existing today, and three tanks with a total capacity of 110,000 cubic meters each. This terminal is held by a dedicated subsidiary, the Société du Terminal Méthanier de Fos-Cavaou (STMFC), in which Gaz de France holds 69.7% and Total 30.3%. Gaz de France has signed a 20-year contract that gives it the capacity to regasify 5.18 billion cubic meters of LNG from Egypt per year. Total has an option for 2.25 billion cubic meters per year. 10% of the total capacity of this new terminal will be available for shorter term transactions. Although the terminal's construction and operating permits have been the subject of ongoing environmental litigation, this has not prevented the start of construction work (for more information, see paragraph 20.3 – "Legal proceedings and arbitration").

6.1.3.2.1.2.2.2 Storage

In France Gaz de France has the second largest storage park in Europe in terms of capacity. It operates:

- 12 underground facilities (11 of which are wholly-owned) in France (one of which is composed of two storage holds) including nine storage facilities in aquifers (with 8.4 billion cubic meters of total working gas) and three in saline cavities (with 0.8 billion cubic meters of total useable working gas);
- 56 compressors providing total power of approximately 210 megawatts, as required for the withdrawal and injection of natural gas;

- facilities for the processing of gas and interconnection with transmission networks.

Adequate storage facilities are crucial to meeting the increase in demand for gas during the winter months. Natural gas is stored in the underground structures during the summer when demand is far lower, and is withdrawn during the winter.

6.1.3.2.1.2.2.3 Access to LNG terminals and gas storage in France

In August 2000, the Group granted third-party access to its LNG terminals on a regulated basis, as it did for the transmission network. In 2004, the agreements for the use of LNG terminals evolved into multi-annual agreements and spot agreements. Such third-party access contracts were signed for both 2005 and 2006.

In Spring 2004, the Group permitted third-party access to its storage facilities. Since then, third parties wishing to use Gaz de France's underground storage facilities have been able to subscribe to one of six available storage units. Contractual conditions vary according to the terms of access to storage and the type of services required. Third-party access to the storage facilities is granted on a negotiated basis.

6.1.3.2.1.2.2.4 Infrastructure tariffs

6.1.3.2.1.2.2.4.1 LNG terminals

The access rate for LNG terminals is regulated, and is fixed according to the same general principles as those applicable to access to the transmission network, and more specifically the rate of return based on the asset base recognized by the CRE, i.e. the regulated asset base and consideration of the annual fixed costs and operating expenses.

The rate of return recognized by the CRE is differentiated according to the age of the investments.

The Group's regulated asset base primarily includes the following groups of assets: offloading systems and auxiliary facilities, regasification facilities, civil engineering projects and buildings, tanks and other facilities (including compression). These assets are considered globally for both the Fos-Tonkin and Montoir terminals.

In order to determine annual fixed costs, the CRE uses a straight-line basis for depreciation over 20 to 40 years for the various components of the LNG terminals with the most important assets being depreciated over 40 years. The Fos-sur-Mer and Montoir-de-Bretagne terminals were put into service in 1972 and 1980, respectively.

With respect to the 2006-2007 period, which corresponds to two calendar years, the tariff was adopted by Ministry decision dated December 27, 2005. This tariff is based on the rate proposal made by the CRE on October 26, 2005.

As a result, the applicable rate of return during the 2006-2007 period will be 9.25%, real, before taxes on assets put in service before January 1, 2004 and 10.5%, real, before taxes on assets put in service after January 1, 2004.

The regulated asset base increased to €388 million as of January 1, 2006.

This rate like the preceding rate applies to the two existing terminals, Fos-Tonkin and Montoir-de-Bretagne, and will be reexamined when the future Fos-Cavaou terminal is put into service, if this occurs before the expiration of this rate. It should be noted that the Fos-Cavaou terminal will be the subject of an individualized rate for third-party access to its capacity.

The 2006-2007 rate formula is composed of six terms: a term representing number of offloadings, a term representing quantity offloaded, a term representing use of regasification capacities, a term representing gas in kind, and finally a term representing seasonal change (called a regularity term), which provides an incentive to spread deliveries uniformly across seasons.

In addition, the contract contains a minimum payment obligation from the subscriber equal to 90% of the annual commitments, excluding the gas in kind term, on the basis of the quantities offloaded and the number of loadings subscribed by terminal.

This formula was put into place through close collaboration between the CRE, the Major Infrastructures Department and the customers.

There are now three standard services offered: a "continuous" service, a "banner" service and a "spot" service.

Additionally, each terminal makes available to its users ways to have complementary flexibility, by allowing the possibility to realize mutual exchanges of LNG and to enter into the secondary market for regasification capacity.

6.1.3.2.1.2.2.4.2 Storage

The Gaz de France offer is based on principles that have been submitted to the CRE and the Department of Energy Demand and Markets. Storage access prices are determined on a negotiated basis and are published by Gaz de France. A portion of the capacities available is, however, sold under the form of auctions. In 2006, four consultations of this type were successfully conducted.

For information, Gaz de France estimates that the economic value of the asset base for its storage facilities (an indicator used internally to determine storage prices) was €2,516 million as of January 1, 2007, taking into account budgeted investments in 2006 and assets, which will be fully depreciated in 2006.

The six storage services take into account the characteristics of each of the storage facilities, depending on the type of gas stored, their performance (speed of withdrawal) and their geographical situation. A customer can reserve a certain storage capacity for each storage service, giving it the right to a certain daily withdrawal and injection capacity. Additional optional services may also be subscribed.

For capacities sold outside of auctions, each storage service is allocated a specific reservation unit price. This price is included in the rate, which is set on the basis of the following three principles:

- the storage capacity reserved, the injection rate and the withdrawal rate;
- the quantity withdrawn; and

• the quantity injected.

6.1.3.2.1.2.2.5 Monitoring, quality and safety of the transmission network and of major facilities

GRTgaz operates the transmission network from its national distribution centre in Paris. With this integrated system the Group is able simultaneously to monitor the safety of its facilities and gas movements and ensure the supply of its customers.

The Group is seeking to obtain quality certification for its natural gas transmission and storage activities in the underground storage sites, regasification in the LNG terminals, and odorization of the gas transmitted on the network. In 2006, the Group's certifications were renewed under ISO 9001 standards on the regasification operations in the LNG terminals and the odorization of the gas transmitted on the transmission network, and earned certification under the same standards for the storage of natural gas in the underground tanks. In 2006, GRTgaz obtained renewal of the ISO 9001 certifications for gas transmission and delivery activities, odorization, and tank truck gas transport.

The Group has also applied for ISO 14001 environmental certification. At the end of 2006, certification was obtained for all its Seveso II classified sites counted by the Major Infrastructures department, representing 14 industrial sites. In 2006 GRTgaz obtained ISO 14001 certification on the national grid for the compression process. In addition, 6 compression stations (Palleau, Vindecy, Evry, Brizambourg, Pitgam and Morelmaison) are also ISO 14001 certified as of the end of 2006 as industrial sites.

The Group also launched in 2001 a multi-year inspection and transmission pipeline renovation program. At the end of 2006, 43% of the transmission network had been rehabilitated.

6.1.3.2.2 Distribution France

In millions of euros	2004(*)	2005(**)	2006
Revenues (before eliminations)	3,453	3,426	3,289
Revenues with third parties	*836*	*774*	*642*
EBITDA	1,399	1,358	1,412

(*) *Post-reform pro forma data for unaudited pensions restated for the impact of the application of IFRIC12 and IFRIC 4*

(**) *Published data restated for the impacts of the application of IFRIC12 and IFRIC 4*

In 1960, the distribution network managed by Gaz de France served nearly 350 municipalities and 5.8 million customers in France. As of December 31, 2006, the French distribution network operated by Gaz de France was the longest in Europe, with more than 185,000 kilometers serving 9,099 municipalities, accounting for approximately 76% of the French population. Gaz de France operates the gas public distribution network under long-term concession agreements, with a volume-weighted average remaining duration of approximately 18.6 years. Under French Law No. 46-628 dated April 8, 1946, almost all of the concession agreements of Gaz de France are subject to mandatory renewal upon expiration.

From the outset, Gaz de France established joint divisions with EDF to manage the gas and electricity distribution networks and to handle customer service. These relationships were modified on July 1, 2004, pursuant to European directive 2003/55 governing the deregulation of the energy markets:

- The management of the distribution network is independent of the production and supply operations of Gaz de France.
- The management of the distribution networks is assigned to a specific department of Gaz de France: Gaz de France Réseau Distribution (or GRD)
- Gaz de France and EDF continue to maintain a joint division (EDF Gaz de France Distribution), which in particular takes handles the construction, operation, and maintenance on their respective distribution networks.

Gaz de France retains the right to supervise the economic aspects such as approval of the relevant network manager's annual budget.

French law 2006-1537 of December 7, 2006 requires the transfer, before July 1, 2007, of the gas distribution to a dedicated subsidiary, and sets the conditions for conducting this business within the Group. The scope of this legal separation covers all the distribution activities conducted by Gaz de France Réseau de Distribution and by EDF Gaz de France Distribution. This law provides for maintaining the joint service, without standing as a legal entity, within the two distribution subsidiaries to be formed by Gaz de France and EDF respectively. This law also provides for the transfer of all the distributor's assets, rights and obligations, including employment contracts and concession contracts to the subsidiary to be created.

Thus, pursuant to its creation, the subsidiary will carry all Gaz de France distributor missions and will collect the transmission receipts. The future distribution subsidiary of Gaz de France will be fully consolidated via global integration.

Moreover, the law stipulates provisions enabling the reconciliation of independent action by the subsidiary's officers, as stipulated by directive 2003/55, with the protection of shareholders' rights. Thus, Gaz de France will continue to have a right of economic control over its subsidiary, in particular through approval of the budget and of the financing and investment policy of the network manager.

6.1.3.2.2.1 Strategy for the Distribution France segment

Due to major changes in the energy market, the distributor Gaz de France intends to become a benchmark company in Europe in the distribution of natural gas. To do so it will continue to grow, maintaining high standards for quality, safety, respect for the environment and economic performance in the service of local authorities, its customers and all stakeholders.

In 2007, the distributor will have two major projects to complete:

- **To be in a position to meet the new demands generated by the full deregulation of the market on July 1**: this means ensuring the correct operation of the market for 11 million eligible customers by managing operations to change gas supplier and by offering an effective assistance and information mechanism to handle demands from customers and suppliers, and by ensuring high-performance access to the gas distribution network.
- **Compliance with the provisions of Directive 2003/55 and Law 2006-1537 of December 7, 2006 by spinning off the distribution operations**, and by implementing the joint service of the two future gas and power distribution subsidiaries of Gaz de France and EDF in order to guarantee operational performance of the local public services.

At the same time, the distributor will continue its dynamic transformation in its main businesses, based on the following key points:

- **Ensuring the safety of the network**.

The distributor guarantees a high level of safety over the entire distribution network through its operation and maintenance activities and the replacement of the infrastructures. Its industrial safety policy is based on the following:

- A detailed identification of the industrial risks;
- A high-performance information system that gives the precise location of the structures and establishes a high-performance maintenance program;
- The maintenance of a steady level of investment in industrial safety to enhance the operating quality and safety of the network.

- **Pursuing the profitable growth of the distribution network in France**.

In order to promote and keep up with the growth of demand for natural gas in France and to meet the expectations of customers and local communities, the distributor intends to continue its active investment strategy on the basis of two requirements:

- Developing the network under the best economic conditions possible, reducing its unit investment costs;
- Implementing the measures to take into account the best conditions for customer gas access needs.

- **Assisting local communities.**

The portfolio of 9,099 communities served by natural gas is the base of the distributor's activities. With the licensing local authorities, the distributor is actively pursuing a customer loyalty policy through a quality relationship in the performance of its local public service missions.

- **Maintain quality services for network users.**

The distributor intends to continue to optimize and automate transmission management rules to allow each gas supplier to benefit from the best technical services, while respecting its transparency and non-discrimination obligations.

In order to improve its local operations (customer technical operations, network operations, safety measures), the distributor has initiated two modernization projects:

- Deployment of new mobility and geo-location tools,
- Changes in network operating methods.

- **Maintain the stability of the rate structure applicable to infrastructure use.**

The distributor maintains a constructive dialogue with the CRE. It is working to promote multi-year rate structures for use of its distribution networks, in order to give all stakeholders satisfactory visibility for this activity.

- **Seek gains in productivity.**

Gaz de France has initiated efforts to improve productivity and manage costs, particularly by overhauling its relations with its industrial partners. In addition, it will seek better use of its facilities by increasing the number of active delivery points in areas already served and, finally, conduct continuous upgrading drawing on the latest technological innovations.

6.1.3.2.2.2 Description of the business activities of the Distribution-France segment

6.1.3.2.2.2.1 Background information

The Group operates the main natural gas distribution network in France and the largest distribution network in Europe. Almost all French communities with at least 10,000 inhabitants within the zone served are connected. As of December 31, 2006, 45.2 million people were living in municipalities connected to the distribution networks managed by Gaz de France, or 76% of the French population. As of the same date, the distribution network was approximately 185,000 kilometers long and had approximately 11.1 million delivery points in 9,099 municipalities in France. During the year ended December 31, 2006, more than 327 TWh of natural gas was transmitted, compared with 337 TWh in 2005. This change reflects the mild climate in 2006 compared with 2005.

The purpose of its distribution activities in France is to transport the gas sold by the senders of such gas (eligible customers, suppliers) and marketing gas delivery services to end customers. The distribution networks managed by Gaz de France transmit gas from interface points with national or regional high-pressure gas transmission networks to customers located in 9,099 municipalities served.

Gaz de France's distribution network grew at the rate of approximately 3.1% per annum, on average, from 2002 to 2006. During that period, Gaz de France connected more than 1 million new customers and served 1,079 additional municipalities. The coverage zone excludes zones served by networks of distributors which were not nationalized at the time of creation of Gaz de France in 1946, particularly Strasbourg, Bordeaux and Grenoble.

The table below shows the development of Gaz de France's distribution networks over the last three years:

Table – Development of Gaz de France's distribution networks

	Fiscal year ended December 31		
	2004	2005	2006
Network length (kilometers)	174,540	180,700	185,000
New municipalities connected	98	97	134
Users connected (in millions)	10.9	11	11.1
Gross quantity transmitted (TWh)	335	337	327

The Group anticipates that in the coming years, new municipalities will be connected at a rate comparable to the last three years. On the other hand, the Group intends to maintain network extensions and significantly increase the number of delivery points in municipalities already covered, in order to reach its target of acquiring one million new customers that use natural gas for heating between 2003 and 2007. Since the beginning of this project until December 31, 2006, the Group has gained 816,135 new heating customers.

The Group also intends to continue investing in improving the quality of service and safety of its distribution network, particularly by accelerating the replacement of the remaining gray cast iron pipelines, in anticipation of the publication of the French order issued December 1, 2005, which prohibits the operation of gray cast iron pipelines starting January 1, 2008. This program provided for the absorption of the remaining 2,040 kilometers of gray cast iron remaining as of December 31, 2004 (a low number compared to other European countries) over the next 3 years: 2005, 2006 and 2007. In 2006, 966 kilometers were replaced under this plan, surpassing by 20.7% the projected goal of 800 kilometers, at a cost of €188 million. As of December 31, 2006, there were 153 km of known and classified gray iron pipeline remaining. They will be totally eliminated by the end of 2007. The Group regularly inspects its distribution network on the basis of age in order to monitor deterioration and pressure levels, environmental risks and other characteristics of the conduits. It inspects its networks every 12 to 36 months, and its networks that use gray cast iron pipelines three times a year, allowing it to have completed the work found to be necessary.

Pursuant to its industrial safety policy, investments other than the cast iron network were made in 2006 in the amount of 148 million euros. They partially included new programs directed toward:

- The replacement of the networks in bituminous sheet metal, copper and unprotected steel;
- The securing or replacement of certain individual and collective connections, certain property lines made of lead, rising pipelines and the associated individual connections.

6.1.3.2.2.2.2 Concession agreements

In the regulatory environment described in paragraph 6.1.4 – "Legislative and regulatory environment in France," the scope of the Gaz de France distributor's business activities is as follows.

As of December 31, 2006, Gaz de France held a portfolio of 6,254 agreements covering a total of 9,099 municipalities (compared to 6,357 in 2005). Almost all of these agreements are concession agreements for natural gas negotiated for an initial period that is generally between 25 and 30 years.

The 9,099 municipalities served by Gaz de France under its 6,254 concession agreements are divided into two groups:

- 8,898 municipalities as to which Gaz de France has exclusive rights pursuant to a French law dated April 8, 1946. For these municipalities Gaz de France is legally the only operator to which they may grant a concession to distribute gas to the public. These municipalities include those that granted concessions to Gaz de France for their public distribution of gas prior to the adoption of the coverage plan, dated April 3, 2000, as well as the municipalities allocated to Gaz de France under that coverage plan.
- 201 municipalities that awarded concession agreements to Gaz de France in the 2003-2006 period for a term of 25 or 30 years following the opening of the market to competition initiated by the local municipalities. Under these agreements, local authorities are able to select a concessionaire through public bidding. As of December 31, 2006, these municipalities represent about 0.06% of the customers and the distributor's revenues.

As of December 31, 2006, the volume-weighted average remaining term for the Group's concession agreements was 18.6 years.

Table – Percentage of concession agreements expiring and percentage of total volume of gas deliveries made under concession agreements expiring in the years indicated

Period	% of concession agreements expiring	% of gas delivered under expiring concession agreements in relation to the total volume of gas transmitted
2007-2011	3.3%	5.4%
2012-2016	6.7%	5.7%
2017-2021	13.6%	14.1%
2022-2026	13.6%	26.3%
2027 and beyond	62.7%	48.4%

In the context of competitive bidding, since 2003 Gaz de France has won 315 new municipalities, of which 201 were provided with natural gas as of December 31, 2006.

6.1.3.2.2.2.3 Organization of the distributor

The Group has reorganized its distribution operations, in the context of the deregulation of the energy sector and the requirements of European directives calling for the separation of network activities and commercial activities:

- On July 1, 2004, the Group created a new division of Gaz de France called Gaz de France Réseau Distribution ("**GRD**"), which is responsible for the management of the gas distribution network. The purpose of GRD is to:
  - define technical policies for the network;
  - define and implement investment and development policies for distribution network assets granted to Gaz de France under concession agreements;
  - negotiate, co-sign and manage concession agreements and any related amendments;
  - ensure that the delivery of gas and access to the distribution network are provided on a non-discriminatory basis;
  - ensure its continued relations with all energy regulatory authorities (i.e. the Minister for Energy, the CRE, the authorities granting concessions for public distribution) with respect to its business activities.

GRD is responsible for the management of the Group's distribution network in France. In addition, GRD allocates the quantities of gas consumed by its customers among various suppliers, and charges users for the transmission of gas on its distribution network on the basis of rates proposed by the CRE and set by the Minister for Energy. GRD's management of the distribution network is independent of Gaz de France's production and supply operations, and is subject to governance rules that are designed to prevent discriminatory practices with respect to network access.

- On July 1, 2004, Gaz de France and EDF created a joint division to operate the electricity and gas distribution networks, called EDF Gaz de France Distribution ("**EGD**"). EGD performs the following functions with respect to Gaz de France:
  - the realization of construction projects, development activities and maintenance work for the gas distribution network;
  - technical operation of the network and distribution facilities;
  - meter-reading activities for gas customers;
  - day-to-day relations with local authorities and authorities that grant concessions (ongoing relations regarding the ordinary operation of the networks: scheduling of work, information, etc.).

EGD's activities are performed in such a way as to ensure separate accounting and the strategic interests of each party. Within it there are different categories of costs:

- Costs relating to the activities of EGD, which relate directly to one of the companies, regardless of their nature, are directly booked to these companies, so that there is no cash flow between these companies. Additionally, the costs relating to the joint operator's personnel that are indefinitely tied to uniquely gas activities, are directly booked to Gaz de France.
- Costs relating to activities performed for both the EDF and Gaz de France accounts, without distinguishing between them, regardless of their nature, are split between the parties by applying the contractual settlement rates. These costs are divided between EDF and Gaz de France at the source, meaning that from the event incurring the expense, the portion of the expense relating to each company is directly booked to the accounts of the company concerned, so that there is no cash flow between the companies. The definition of the variables that go into the calculation (the basis, etc.) of each settlement rate is identical for EDF and Gaz de France. The most frequently used settlement rate is the one relating to the number of delivery points for electricity and gas. The settlement rate in effect in EGD leads to a global partition of approximately 75% for EDF and 25% for Gaz de France in 2006. The costs relating to the personnel of the joint operator that are indefinitely

tied to uniquely mixed gas/electricity activities, are directly divided between and booked to EDF and Gaz de France based on the applicable settlement rate.

- Conversely, certain costs can be initially booked to one of the companies and then be billed to the other company. Some of the operator's personnel that are connected via the administration (and as a result the accounting) of one of the two companies, can, on occasion, perform tasks for the benefit of the other company. The hours worked for the other company are the other company are collected on a daily basis and billed to the other company once a month. In 2006, Gaz de France billed €73 million to EDF and EDF billed €78 million to Gaz de France. Certain services provided to the joint operator are ensured (and accounted for) by one of the companies, which then bills the other company, always on the basis of a contractual settlement rate. These services primarily relate to information technology, telecommunications, and automobile services. In 2006, for services provided to the joint operator, Gaz de France billed €33 million to EDF and EDF billed €85 million to Gaz de France. Finally, in real estate, Gaz de France (through EGD directly for €6 million) invoiced EDF €62 million and EDF (through EGD direct for €5 million) billed Gaz de France for €76 million.

Customer-related activities

In 2006, EGD marketed natural gas (sale and invoicing) to non-eligible domestic customers. The expenses of this activity are completely passed on by the Distribution France segment to the Energy Purchase and Sale segment.

This activity will be transferred to the Energy Purchase and Sale segment with the full deregulation of the gas market, which must take place no later than July 1, 2007. Gaz de France and EDF will then manage independently the portfolio of their supply customers.

To prepare for this deadline, the references for individual customer contracts with the two energies were separated in the first half of 2006. The 10.5 million customers in question now receive two separate bills. In addition, in the second half of 2006, account and contract management was specialized by energy and is now performed by separate teams.

EGD is also responsible for the following:

- as of June 1, 2007, providing the interface between GRD and the gas marketers for daily management of the transmission contracts;
- as of April 1, 2007, ensuring access to the gas, by placing and executing connection contracts for all customers, third parties (installers, promoters, etc.) and the gas marketers.

Metering operations in 2006 represented for Gaz de France and EDF more than 88 million meter readings and 10.8 million technical calls with customers. They were performed by nearly 11,200 technicians working for the two companies and distributed over about 750 response centers. The location of these bases gives access to about 97% of the population in less than 20 minutes.

Contractual relations between EDF and Gaz de France within the joint operator

In the context of the new distribution organization as described above, EDF and Gaz de France signed a contract on April 18, 2005, which defines their relations with respect to the joint operator, EGD, its competencies and the division of the resulting costs of its activity. This agreement had an indefinite term and could be cancelled at any time with 18 months notice during which the parties undertake to renegotiate the agreement. If at the end of this period a new agreement has not been signed, the dispute settlement procedure described above will be applied.

The agreement provides that EGD will lead and implement the business activities related to distribution (regardless of whether the activities exercised by EGD are exclusively for the benefit of EDF or Gaz de France or are activities exercised simultaneously and without discrimination for the benefit of both parties), and will implement the policies and the decisions relating to the goals with which it is entrusted while ensuring performance research. EDF Gaz de France Distribution is wholly responsible along with each manager of the distribution network (EGD and GRD) for the performance of the business activities with which they are entrusted. However, EDF and Gaz de France are severally and not jointly responsible for their obligations under the agreement.

Gaz de France and EDF have also set under this agreement the terms and conditions for the management of EGD (organization, control and development). This agreement provides that each company is free to develop its own activities relating to EGD. In the event that a decision by either company has an impact, particularly an economic impact, on the other company through EGD, an impact study will be conducted, and any loss will be provided for through financial compensation and/or amending the agreement negotiated between the two companies. The two companies must jointly make decisions regarding the combined activities.

Two bodies make the joint decisions for the two companies concerning the governance of EDF Gaz de France Distribution. The respective missions of each body are consistent with the delegations of powers granted to the different executives.

- a committee handles the aspects inherent in the missions entrusted to the network managers; it is composed of two executives from the distribution network managers of each of the two groups; these executives each have an equal vote; the chief executive of EDF Gaz de France Distribution also sits on this committee, but does not have a vote; and

- a management board at the level of each of the two groups is responsible for ensuring the consistency of the general policies of both groups with regard to EDF Gaz de France Distribution and makes decisions which do not fall within the authority of the network managers; this board is composed of two executives from each of the two groups, each having an equal vote.

Neither EDF nor Gaz de France may therefore impose any decision without the agreement of the other party.

In addition, Article 5 of French Law No. 46-628 dated April 8, 1946 as currently applied through Article 2 of the French law dated August 9, 2004, states that "each company assumes liability for its own activities which are provided through the common operator, which is not a legal entity".

The agreement may be modified:

- **At the request of EDF and Gaz de France.** To this end, an impact study may, if applicable, be performed. In addition EDF and Gaz de France will meet regularly, or at the request of one of the two companies, in order to proceed with a general review and an evaluation of the application of the provisions of the agreement.
- **Due to a change in the law.** The agreement should be modified, while respecting the global equilibrium of the agreement, in order to take into account applicable changes in the legal and regulatory context.
- **Due to changes in economic circumstances.** The conditions, particularly the financial ones, stated in the agreement, were determined as a function of provisions in effect at the time of signing in the areas of accounting, tax and cashflow management, along with economic and legal circumstances at that date. As a result, if there is a change in the circumstances that led EDF and Gaz de France to enter into the agreement:
  - one of the parties becomes subject to any tax, legal, economic, financial or other measure or event, or a dispute resulting in consequences, in particular financial consequences, for that party; or
  - the provisions of the agreement are found to be irregular or illegal, having the effect of increasing the costs generated for this party by the obligations subscribed under the terms of the agreement, significantly reducing the benefits that said party obtains from the agreement, or making the agreement irregular or illegal; then the party in question shall immediately advise the other party,

  the parties shall negotiate in good faith to take into consideration these new circumstances.

In addition, the agreement covers the methods for settling differences between the parties. In the event of a dispute concerning the agreement, the parties must meet to implement all means necessary to reach an amicable agreement to resolve their dispute within a maximum period of one month from the date of this meeting. If no agreement has been reached at the end of this period, and where a review of the dispute does not damage the independent management of the distribution network managers, EDF and Gaz de France will submit the elements of the dispute immediately by mutual agreement, under the required confidentiality rules, to the members of the management board described above who have been delegated for this purpose, in order to find an amicable solution within a period of twenty days.

If the parties cannot reach an amicable agreement, the dispute shall be submitted to external mediation before any action in the competent court. The parties shall name the mediator by mutual agreement, and shall define his mission and the deadlines. The solution proposed by the mediator will not be mandatory or enforceable.

If the mediator's solution is rejected by one party, the dispute may be submitted to the Paris courts, which shall have sole authority to settle any dispute concerning the formation, validity, enforcement or interpretation of the agreement.

Given the obligation to legally separate the electricity and gas distribution activities pursuant to European directives and to French Law 2006-1537 of December 7, 2006, the parties to the April 18, 2005 agreement plan to transfer the rights and obligations resulting from this agreement to their subsidiary and adapt them to the subsidiaries' new organization.

EGD still manages the supply of natural gas (sale and invoicing) for non-eligible customers (individual customers). The expenses for this activity are passed on in their entirety by the Distribution France segment to the Purchase-Sale of Energy segment. It is planned to transfer to the Purchase-Sale of Energy segment everything relating to the gas supply (sale and invoicing) for individual customers by the time the market is fully deregulated in July 2007.

6.1.3.2.2.2.4 Access to the distribution network

GRD provides transparent and non-discriminatory access to the distribution network to eligible gas purchasers, suppliers and their agents. As is also the case with the transmission network, GRD publishes the general terms and conditions for the use of its facilities and distribution installations, which it provides to the CRE.

Users of the distribution networks managed by GRD must adhere to the general terms and conditions for such access. The shipper, which may be an eligible customer, a supplier or its agent, signs a transmission agreement with GRD. The transmission agreement includes:

- the terms and conditions for the connection of delivery points under the transmission agreement;
- the rate conditions (prices and any supplemental fees);
- the rules for determining transported quantities; and
- the terms and conditions for billing.

The delivery agreement governs the long-term relationship between eligible customers and GRD, and defines the delivery conditions. It may take two forms:

- either a specific agreement adapted to the customer's needs (in which case it is called a "direct delivery agreement"); or
- standard delivery conditions set uniformly for customers without special requirements.

6.1.3.2.2.2.5 Transmission tariffs for the distribution network

Since January 1, 2006, GRD has applied the rates set by the public authorities by the decision of the Minister of the Economy, Finance and Industry of December 27, 2005. These rates were the subject of a CRE proposal dated October 26, 2005. The rate of return applied to the regulated asset base is 7.25% (real, pre-tax) for all assets, regardless of when the assets were put into service.

The regulated asset base is composed of all the assets related to the distribution activity, including pipelines and connections, pressure-regulation stations, meters, other technical facilities, construction and information technology systems. To determine annual capital charges, the CRE depreciates the assets over four to 45 years, depending on the nature of the assets. Pipelines and connections, which represent 96% of the assets in the regulated asset base, are depreciated over 45 years.

The regulated asset base used to determine the applicable 2006 rates for use of the distribution network is €12,455 million as of January 1, 2006.

The Gaz de France distributor has the same rates for its distribution network in all zones in which it operates. They include four main rate options, which depend exclusively on the consumption characteristics of the relevant end customer:

- three two-part options, each of which includes a subscription and a term which is proportionate to the delivered quantities; and
- a fourth, three-part option which includes a subscription, a term which is proportionate to the subscribed daily capacity and a term which is proportionate to the delivered quantities.

There is also a "local" rate for large consumers located in the immediate vicinity of the transmission network, which includes a subscription, a term which is proportionate to the daily subscribed capacity and a term which is proportionate to the distance from the transmission network.

The rates published are to apply over the period 2006-2007.

The catalogue of services (services to suppliers or end customers) not covered by the transmission rate was updated respectively on July 1, 2006 and January 1, 2007 after presentation to the Energy Regulatory Commission. These updated apply the principles for rate changes in services as defined in the service catalogue.

6.1.3.2.2.2.6 The code of conduct

In 2005 the Gaz de France distributor created a code of conduct containing the organization's internal measures for preventing all discriminatory practices with respect to access to the network, to guarantee the protection of commercially sensitive information and to insure transparency with respect to access to the network. This code, which is applicable to all distribution activities, was presented to the CRE in June 2005. It was updated early in 2006. This new version of the code was transmitted to the CRE on February 24, 2006. The distributor, based on an audit and internal controls, wrote a report on the effective implementation of this code. This report was provided to the CRE on October 13, 2006, and presented to Gaz de France's Board of Directors on November 20, 2006.

Finally, on December 8, 2006, CRE published on its site its annual report on compliance with its code of conduct and the independence of the network managers. This report is based on all the findings made by the CRE in 2006, particularly an audit conducted at the distributor concerning the implementation of the code with inspection of 3 EGD centers. For the Gaz de France distributor the main observations of the CRE's annual report were as follows:

- The distributor has integrated respect for the principles of the code as an element in the assessment of professionalism.
- No claim concerning the principles of the code has been raised.
- The code was simplified and made for legible for users.
- Access to the code via the distributor's Internet portal is deemed "very easy".
- The code must insist more on the fact that the risk of discrimination is just as prejudicial to the deregulation of the market as the disclosure of commercial sensitive information; therefore the distributor must define an indicator for compliance with the non-discrimination rule.

6.1.3.2.3 Transmission and Distribution - International

Table – Segment Revenues and EBITDA

In millions of euros	2004(*)	2005(**)	2006
Revenues (before eliminations)	1,457	2,275	3,570
Revenues with third parties	*1,417*	*2,248*	*3,447*
EBITDA	390	372	562
Share of income (loss) of associates	3	34	22

(*) *Post-reform pro forma data for unaudited pensions restated for the impact of the application of IFRIC12 and IFRIC 4*
(**) *Published data restated for the impacts of the application of IFRIC12 and IFRIC 4*

6.1.3.2.3.1 Strategy of the Transmission and Distribution – International segment

Gaz de France participates actively in the consolidation trend of companies in the energy sector in Europe, based on the experience it has acquired on its domestic market and the areas where it has a presence. The implementation of this strategy by the Group includes two elements:

- the development of a presence in supply infrastructures and the securitization of the European market by participating in major transmission, storage and LNG infrastructure projects. In a market that is characterized by increasing dependence on imports from non-European countries, Gaz de France will in this way position itself to benefit from the growth of the European natural gas market;
- the search for growth opportunities in the European distribution and energy marketing sector, drawing on its expertise and experience in the areas of energy marketing and network management and using its existing market positions, including its presence in Austria, Hungary, Slovakia, Romania, Italy, Portugal, Belgium and Germany.

The Group owns a portfolio of interests in several companies operating pipelines on natural gas supply routes in Western Europe (3,480 km of transmission network in contributing dates), in company operating distribution systems (50,488 km of distribution networks in contributing data) and storage systems in countries like Germany, Belgium, Slovakia, Austria, Italy, Romania and Hungry, and in marketing companies with 2.8 million customers in the world (portion attributable to Gaz de France), to whom they sold 102 TWh of natural gas in 2006 (portion attributable to Gaz de France). Gaz de France also has in Belgium, via its SPE subsidiary, a power production capacity of roughly 400 MWel and has marketed 5.4 TWh of electricity in this country to 187,000 customers (contributing data).

The Group also has holdings in North and Central America, as well as in an LNG terminal in India.

The development of this portfolio continues, considering each of these positions to be a vector for local growth, and by building group synergies that create value; these development opportunities are becoming increasingly necessary as the markets are deregulated.

Each of these companies operates within the legislative framework of the country in which it conducts its activities (see paragraph 6.1.4.2 – "Legislative and regulatory environment in France").

6.1.3.2.3.2 Description of business activities

6.1.3.2.3.2.1 Important events in 2006

The Group optimized its organization in Hungary by merging its subsidiaries Egaz and Degaz. This operation will generate new synergies, but above all it will facilitate the legal and accounting separation of the regulated activities and the marketing activities that must be implemented before July 1, 2007.

In Slovakia, SPP successfully completed as of July 1, 2006 the legal and accounting separation of the marketing and regulated activities. SPP Prepava, a wholly owned subsidiary of SPP, is responsible for the international natural gas transit operations in Slovakia. SPP Distribucia, a wholly owned subsidiary of SPP, is responsible for the natural gas transmission and distribution activities in Slovakia. Commercial activities are performed directly by SPP.

In Romania, Distrigaz Sud signed a contract to purchase the distribution company Vitalgaz. The transaction must be approved by the Romanian competition authorities.

In Italy, the Group restructured the distribution and marketing subsidiaries with the goal of expanding the bases necessary for its development, in compliance with the reciprocity rules in force in Italy and the regulatory changes related to market deregulation. The creation of a distribution division was conducted in partnership with the Covati family under the holding company Italcogim, while Energie Investimenti was created to head a sales division in partnership with the industrial Camfin group.

In Uruguay, the Group finalized the sale of the 51% stake it held in Gaseba Uruguay, the conceding party for a natural gas distribution network in Montevideo.

6.1.3.2.3.2.2 Description of business activities by country

6.1.3.2.3.2.2.1 Europe

Italy

On September 21, 2006, Gaz de France and Camfin finalized the creation of the joint venture Energie Investimenti, held by Camfin (60%, through an owned subsidiary) and by Gaz de France (40%). The partnership with the Camfin group is established on the principle of joint control of the companies with an option to purchase 20% of the capital by Gaz de France in 2008.

The marketing operations conducted by this division are based on a program of acquisitions and commercial initiative intended both to retain customers and win new customers, like the program completed with 2006 with the launch of combined gas-power offers.

As of December 31, 2006, the commercial division (data for 100%) had slightly over 857,000 customers for an annual volume of gas sold of 14.2 TWh. These sales are in addition to the sales made directly by the Group to industrial and Pan-European customers present in Italy through its branch in Milan (see Chapter 6.1.3.1.2.2.2.2.1 – "Major industrial and commercial customers in France and Europe– Gaz de France energY®").

The Group is a direct shareholder of 29% of the voting rights in the distribution subsidiaries held by the holding company Italcogim, in which 51% is held by the Covati family via UBS Fiduciaria and 20% by Energie Investimenti. The partnership established with the Covati family includes medium-term purchase and sale options on the entire interest of UBS Fiduciaria. The subsidiaries within this division operate a distribution network of 12,191 km including 438 concessions distributed throughout the Italian peninsula (data for 100%). Like the commercial division, the distribution business is based on a program of acquisitions and external growth in an Italian natural gas market characterized by an already advanced concentration of players and opportunities to purchase medium-sized distribution and marketing companies.

The Italian scope of the Group expanded in 2006 with the acquisition of three new distribution and marketing companies, plus the Cam Gas company, contributed by the Camfin group when it partnered with the Group.

In 2006, the Group initiated studies on the development of LNG infrastructures and storage capacities, responding to bid tenders from the Italian Ministry of Industry on new storage opportunities.

Germany

MEGAL- MEGAL GmbH & Co. KG ("**MEGAL**") held 44% by the Gaz de France Group, 51% by E.On-Ruhrgas and 5% by ÖMV, an Austrian energy company, is a German company with registered offices in Essen; this company has a 1,077 kilometer long pipeline network linking the Czech and Austrian borders to the French border (data for 100%).

Gaz de France Deutschland Transport ("GDF DT"), which is wholly-owned by the Group, holds about 60% of the Megal network capacities. It began operating activities to market its capacities on October 1, 2005.

In the context of the regulator's implementation of a transmission structure in Germany by "market zones" on October 1, 2006, GDF DT was awarded management of one of those zones.

At the end of 2006, GDF DT provided transmission services for 14 different customers.

GASAG- In 1998, the Gaz de France Group acquired a 31.6% interest in **GASAG** AG, a natural gas distributor in the Berlin Land area under an exclusive concession agreement which has been extended until 2013. The company is also held by Vattenfall Europe (31.57%, a Swedish electricity company) and by Thuga, a subsidiary of E.On-Ruhrgas (36.85%). The shareholders' agreement between Gaz de France and Vattenfall Europe for joint control of GASAG expires at the end of 2007.

GASAG has a 75.1% stake in Erdgas Mark Brandenburg ("**EMB**") and a natural gas distributor in Brandenburg. On December 31, 2006, GASAG served nearly 780,000 customers in Berlin and Brandenburg, mainly individual customers connected to the 11,000-kilometre long distribution network. GASAG's consolidated sales for 2006 were 24.8 TWh for consolidated revenues of €1.2 billion (data for 100%). GASAG also holds and operates storage facilities with a total working gas of 750 million cubic meters.

GASAG is seeking to develop its sales based on strong gas expertise in the context of the opening of the markets and downward pressure on ATR rates, with the goal of increasing its share of the Berlin heating market to 50%.

Belgium

SEGEO – SEGEO is held 25% by the Group and 75% by Fluxys and as of December 31, 2006 has a 160 kilometer long pipeline going from the Netherlands to France, mainly transporting gas from the North Sea. The principal customer of this infrastructure if Gaz de France, which has reserved 80% of the capacity of this pipeline until 2028.

SPE – Since September 28, 2005 Gaz de France and Centrica hold, through their joint subsidiary Segebel, a major interest in SPE. At the time of this acquisition, a partnership relating to SPE which includes SPE itself, Luminus, a marketing company created by Centrica and the inter-municipal Flemish distribution entities, and Association Liégeoise du Gaz. Luminus and ALG Négoce were merged with SPE, effective January 1, 2006.

Gaz de France and Centrica set out in a shareholders' agreement for Segebel the governance rights which puts them on equal footing and in particular grants them reciprocal pre-emption rights in the case of a sale. In addition an agreement between the SPE shareholders prohibits the transfer of ownership for three years and grants reciprocal pre-emption rights to minority shareholders for the next seven years.

SPE, the second largest power producer in Belgium, has 1,576 MW of capacity, primarily in gas combined cycle plants, but also in hydraulic plants, 4% interests in the nuclear plants of Doel and Tihange, and a draw right on the Chooz plant. The SPE entity in 2006 sold 21 TWh of electricity (13 TWh for residential and service sector customers) and 12 TWh of gas to approximately one million customers. The full deregulation of the Belgian market as of January 1, 2007 should allow SPE to gain about 400,000 additional customers (electricity and gas).

Slovakia

SPP—SPP is an integrated company active in the purchase, transit, transmission, distribution, sale and storage of natural gas in Slovakia. The Group and E.On-Ruhrgas, acquired through their subsidiary Slovak Gas Holding BV (**"SGH"**), in which they each own 50%, a 49% equity interest in SPP, with the remainder held by the Slovakian State. Gaz de France and E.On-Ruhrgas, under the agreement that ties SGH to the Slovakian State, have joint control of the company's management (four members of the Management Board out of a total of seven). The Company in 2006 transmitted through its infrastructure nearly 73 billion m3 of gas from the Ukrainian border to Austria and the Czech Republic.

As of July 1, 2006, SPP successfully completed the legal and accounting separation of transit and distribution activities by creating two subsidiaries: SPP Prepava, a wholly owned subsidiary of SPP, which is responsible for international natural gas transit in Slovakia, and SPP Distribucia, a wholly owned subsidiary of SPP, which is responsible for natural gas transmission and distribution activities in Slovakia. Commercial activities are performed directly by SPP.

SPP holds and operates Slovakia's gas transmission and distribution network, which had a total length of 32,962 kilometers as of December 31, 2006. The portion of the SPP network, that is part of the east-west transit gas pipeline, that extends from the Ukrainian border to the Czech and Austrian borders, is 2,267 kilometers long and has a total capacity of about 95 billion cubic meters per year. SPP's transit system includes four compression stations along this gas pipeline, with total power of more than 1,000 MW.

SPP sold 68 TWh of natural gas to nearly 1.5 million customers during the year ended December 31, 2006 (data at 100%). On that date, SPP held 100% of Slovakia's eligible customer market.

SPP holds 56% of Nafta, owner and operator of natural gas storage facilities in Slovakia with 1.7 billion cubic meters of capacity. SPP also owns storage facilities in the Czech Republic through its 50% owned subsidiary SPP Bohemia.

SPP holds 35% of the company Pozagas, along with Nafta (35%) and Gaz de France (30%), a company that has storage facilities located near the SPP transmission networks with 620 million cubic meters of working gas and for which Nafta is the operator.

Austria

BOG — held 44% by the Group, 51% by ÖMV and 5% by E.On-Ruhrgas, this company has marketing rights until 2014 to the capacities of a 250-kilometer pipeline held by ÖMV going from the Slovak border to the German border with a downstream connection to the MEGAL transmission pipeline. In 2006, the Group used 56% of this pipeline capacity.

ESTAG — The Group holds 20% of the Société d'Investissement en Autriche (SIA)[1], in partnership with EDF (80%), a company which itself holds 25% plus one share of the holding company ESTAG (corresponding to a minority block under Austrian law). The *Land Styria* holds the rest of ESTAG's shares and concluded with SIA a shareholders' agreement which gives to SIA more extensive powers than those of a minority block. In particular Gaz de France has a representative on the Management Board of its subsidiary STGW. The main subsidiaries of ESTAG are:

- Steweag-Steg, a 65.4% subsidiary of the rest were held by Verbund the primary producer of electricity in Austria, the most important distributor and seller of electricity in the Styria Land;
- Steierische Gas Wärme (STGW), a wholly owned subsidiary, which is the main transmitter, distributor and seller of gas and heating in Styria Land.

(1) *This interest is not consolidated insofar as Gaz de France believes it does not exercise a significant influence over this company.*

Portugal

The Group has a 12.7% interest in **Portgas**, together with Elyo (12.7%), and Energias de Portugal (EDP) (72.2%), with whom they have entered into a shareholders' agreement which expires in December 2007. Portgas, which is the second largest distributor of Portuguese gas, operates in the Porto, Braga and Viana do Castelo regions (in the north of the country).

The Portuguese law transposing Directive 2003/55 was approved on February 5, 2006; it provides for progressive deregulation of the market from January 1, 2007 until full deregulation on January 1, 2010. Portgaz is preparing for this opening by separating within its organization network and marketing operations.

As of December 31, 2006, Portgas was supplier to more than 163,000 customers through a 2,642 kilometer long network and sold a volume of 2.07 TWh (data for 100%).

Spain

The Group holds 12% of **Medgaz**, a company that builds and operates an undersea gas pipeline with a capacity of 8 billion m^3 per year, which is to connect Algeria to Spain directly, from Beni Saf (near the Moroccan border) to Almeria (Andalusia). Commissioning is scheduled as of 2009 and will include at the same time an onshore section in Algeria (2 km), the undersea portion (200 km) and a few hundred meters in Spain. Medgaz will be connected to a 250 km onshore section in Spain, between Almeria and Albacete, to be built, operated and placed in service in 2009 by Enagas, the national transporter.

The final investment decision on this project was made December 21, 2006 by the Medgaz corporate bodies and the project is now in the construction phase.

Hungary

Egaz-Degaz – Egaz-Degaz Zrt (held 99.6% by the Group) is the company resulting from the 2006 merger of **Degaz and Egaz**, two distributors and sellers of natural gas on the Hungarian gas market. These equity interests are part of the Group's European development strategy with the goal of serving between 20% and 25% of the Hungarian distribution market. As of December 31, 2006, their distribution networks totaled more than 23,000 kilometers and supplied more than 780,000 customers with consolidated revenues equal to €588 million. With majority control having been acquired in 1995, these companies have consistently improved productivity and made development progress.

Romania

In order to reinforce its presence in central Europe, Gaz de France signed on October 18, 2004 a contract to acquire 51% of the share capital of the Romanian company Distrigaz Sud. The rest of this company's capital is held by the Romanian State. This transaction, which closed May 31, 2005, allows the Group to have an important position on a promising market, in a country which joined the European Union on January 1, 2007. Distrigaz Sud provides natural gas to 1,124,000 customers through its distribution network, which is 14,515 kilometers long. Distrigaz Sud sold approximately 40 TWh of natural gas in 2006.

On June 28, 2005 Gaz de France signed a contract with European Bank for Reconstruction and Development (BERD) and Société Financière Internationale (SFI), based on their 10% ownership in the share capital of a holding company, to which the 51% of Distrigaz Sud was contributed. SFI's and BERD's investments were completed on February 2, 2006. Each has the right to designate an observer that does not have the right to vote on the Distrigaz Sud Board of Directors and a put option with respect to its equity interest for 120 days starting from June 1 of every year for the following years: 2010 to 2013. Gaz de France has a right of first refusal for 120 days starting from June 1 of every year starting in 2014. The transfer price for these options is calculated by multiplying the percentage of the equity interest sold by a multiple that is between 7.75 and 8.25, depending on the year and the EBITDA of the Company and as decreased by the net debt.

On May 30, 2006, the Romanian State transferred 12% of the capital of Distrigaz Sud to the Property Fund, a state fund created to indemnify, through the bonus award of shares in this fund, the owners of buildings ruined in the Communist era in cases where the buildings cannot be restored.

Poland

The Group is a minority shareholder (22.2%) along with EDF (77.42%) in the cogenerator **EC Wybrzeże** in the Gdansk Region. ECW has the capacity to produce 336 MWel of electricity, principally from coal, and supplies the urban heating networks of the towns Gdansk and Gdynia. This equity interest is part of its development goals for this country, which has an energy sector in full evolution, one which promises to have strong medium term development in the gas sector.

A shareholders' agreement signed in July 2000 gives Gaz de France a put option for all of its equity interest, which is exercisable between January 15, 2005 and January 15, 2008 at the initial share price (e.g. €172 per share) plus 6.5% per year and a call option that would allow it to increase its equity interest in the company to 25% plus one share, which can be exercised between January 15, 2005 and January 15, 2008, under the same conditions.

6.1.3.2.3.2.2.2 Outside of Europe

Canada

Gaz Métropolitain (12.8% held indirectly by the Group) is the third largest natural gas distributor in Canada and the only gas distributor in the State of Vermont in the United States. As of December 31, 2006, Gaz Métropolitain supplied more than 205,000 customers from distribution networks totaling more than 10,000 kilometers. Gaz Métropolitain is registered on the Toronto Stock Exchange under the reference GZM.UN.

Intragaz (in which GDF Québec has a 56,4% indirect interest) holds the right to manage and operate storage facilities in Quebec with a useful capacity of nearly 140 million cubic meters of December 31, 2006. The entire storage capacity is contractually used by Gaz Métropolitain.

Mexico

The Group holds, through wholly-owned subsidiaries (Consorcio Mexicas, Tamauligas and Natgasmex) three licenses for natural gas distribution in Mexico. In accordance with these licenses, the Group distributed natural gas to more than 224,000 customers in the suburbs of Mexico City, in Puebla and in the Matamoros region (Norte Tamaulipas) during the year ended December 31, 2006. It sold more than 5.7 TWh to its direct customers and delivered 13 TWh on behalf of third parties.

The Group is the sole owner of the 200-kilometre long Bajío gas pipeline in central Mexico. Transnatural, a 50%-50% joint venture between the Group and Gas Natural, a Spanish historic gas company, has contractually reserved all the capacity of this gas pipeline for 30 years to resell it to industrial customers and to Gas Natural Mexico, a Mexican gas distributor and subsidiary of Gas Natural.

The Group has a 67.5% interest in the company Energia Mayakan, which owns the 700-kilometer long Mayakan gas pipeline, located in the Yucatán peninsula. CFE, the Mexican historic national electricity company, has contractually reserved 92% of this gas pipeline's capacity until 2026. This long-term contract has allowed the Group to obtain $210 million in financing from the Inter-American Development Bank for a construction and expansion program. A new compression station intended to supply a new CFE plant came on line in September 2006, in line with the initial investment plan.

South America

In Uruguay, in June 2006, the Group sold to the Brazilian company Petrobras its 51% equity in **Gaseba Uruguay**, the natural gas distributor in Montevideo. This sale followed signing of the sales agreement with the Brazilian company in November 2005, and approval of the transfer from the Uruguayan authorities in June 2006.

In Argentina, the Group sold in June 2006 its wholly owned subsidiary **Gaseba**, which is the technical operator for Gas Nea, the licensee for the distribution of natural gas in five provinces in northeast Argentina. This transaction follows the Group's 2005 sale of the interest in Gas Nea.

After these two transactions in 2006, the Group has no other interests in South America.

India

Petronet LNG, a company created by the Indian authorities to implement projects for importing LNG into India, developed the first LNG supply chain in the Indian market, with an LNG terminal put into service in January 2004 at Dahej in Gujarat State. The Group holds 10% of Petronet LNG, 34.8% of whose shares are listed for trading on the Indian regulated market.

The Group is a partner of the Dahej project, under a service contract signed with Petronet LNG, under which it provides technical assistance for the operation and maintenance of equipment. This technical assistance contract, which expired in 2006, was extended for one year; in addition, a partnership agreement was signed for training, experience exchange, and control and audit measures.

Following the success of the first phase of the Dahej project, Petronet LNG decided to double the capacity of this terminal so that it will increase from 5 million tons of LNG per year to 10 million tons with implementation anticipated to occur in 2009. The work on this extension is in progress. In addition, the Company has planned construction of a second terminal at Kochi in Kerala State.

6.1.4 Legislative and regulatory environment in France

The production, transmission, distribution and supply of natural gas were nationalized by French Law No. 46-628 dated April 8, 1946, which granted to Gaz de France a quasi-monopoly over these activities. This monopoly has evolved over time, mainly as a result of European directives aimed at creating inside the European Union a market for natural gas, most significantly by permitting customers in one Member State to purchase natural gas from alternative suppliers in the same or a different Member State.

The gradual opening of the natural gas market, which began in 1990, has been effected primarily through two directives: European Directive 98/30 dated June 22, 1998, and European Directive 2003/55 dated June 26, 2003.

Directive 2003/55 repealing Directive 98/30 completed the opening of the gas market by allowing all customers other than individual household customers (meaning customers who buy gas for their own domestic use) to choose their supplier since July 1, 2004 and allowing all customers to choose their supplier beginning on July 1, 2007. Directive 2003/55 was implemented in France by French Laws 2004-803 of August 9, 2004, 2005-781 of July 13, 2005 and 2006-1537 of December 7, 2006, although some provisions of the directive had already been integrated into French law prior to the adoption of this law. Law 2007-290 of March 5, 2007 instituting the right to enforceable housing and containing various measures to promote social cohesion instituted regulated tariffs for the sale of electricity for the new consumption sites.

The two directives and their implementing laws also include provisions that guarantee transparent and non-discriminatory access to the principal infrastructure (gas transmission and distribution systems, LNG facilities and gas storage facilities), and that require the separation of the infrastructure activity of "integrated" companies (which are companies that exercise more than one gas activity) from production and supply activities, plus the legal separation of network management, transport and distribution activities under the supervision of the Energy Regulation Commission ("CRE").

6.1.4.1 The supply of natural gas in France

6.1.4.1.1 Eligible customers

French Law No. 2003-8 of January 3, 2003 and Decree No. 2003-302 dated April 1, 2003, amended by Decree No. 2004-420 dated May 18, 2004 define an eligible customer as one that is not an individual household customer, meaning one that does not purchase natural gas for domestic use regardless of the level of gas consumption.

Eligibility is determined on a site-by-site basis. A site is a location listed by its identity number in a national register of enterprises and business entities or, for non-industrial and non-commercial customers, a location where gas is consumed. Individual customers will be eligible as of July 1, 2007, as stipulated by the Law of December 7, 2006.

Eligible customers whose annual consumption is under 100,000 KWh have to send to their suppliers a written statement certifying that they meet the conditions set by the Decree of April 1, 2003 as amended by the Decree of May 18, 2004.

French law stipulates that eligible customers have the right, through their agent, as the case may be, to choose their natural gas supplier. When a customer wants to exercise this eligibility, the transmission and supply contract signed at a regulated rate is automatically cancelled. If, on the other hand, an eligible customer does not exercise his right to a supply of his choice for a site, he retains for this site the natural gas supply contract in effect on the date he becomes eligible; the rate clauses of this contract are subject, as applicable, to the same changes as those applicable to the gas sale rates of non-eligible customers. If the customer moves, he may benefit from a supply contract at regulated rates if the previous occupant of the site has not exercised his eligibility.

The Law of December 7, 2006 institutes for natural gas a special solidarity rate for all suppliers, which is a public service obligation. A decree adopted by the Council of State will specify the conditions of the special solidarity rate, particularly for domestic customers residing in a building without individual heating sources.

This law also introduces new provisions to protect consumers; it imposes information obligations on the supplier for offers and supply contracts. They cover the conditions for termination and modification of contracts and billing.

6.1.4.1.2 Authorization to supply natural gas

Directive 2003/55 restating the provisions of Directive 98/30 on this point provides that Member States may grant authorizations to supply natural gas to customers. Directive 2003/55 extends this rule to biogas and to biomass gas or to other types of gas, provided it is technically possible to introduce them into and transport them safely within the natural gas network, provisions transposed by the Law of January 3, 2003.

The authorization process is based on principles of transparency and non-discrimination, and the applicable criteria and procedures must be made public and refusals must be grounded.

In France, the January 3, 2003 law and Decree 2004-250 of March 19, 2004, provide that supply authorizations are issued by the Minister of Energy on the basis of the technical, economic and financial capabilities of the applicant and the compatibility of the proposal with public service obligations. The Minister has a period of five months following the filing of a complete application to issue or refuse an authorization, no decision meaning a refusal. Authorizations are exclusive and may not be transferred by the recipient, but may, in the event of a change of operators, be transferred by decision of the Minister of Energy. A supplier who has received an authorization must, no later than March 1 of each year, update certain parts of the information provided in the application for authorization, along with any other legally required information. Starting March 1, 2007 suppliers will be allowed to update their information every three years.

Each authorization specifies the categories of customers to which the supplier may sell gas. To sell gas to categories of customers not covered by an existing authorization, a supplier must apply for a new authorization.

Gaz de France has been authorized, by an order issued by the Minister of Energy dated September 14, 2004, to supply natural gas to the following categories of customers:

- non-domestic customers, whether or not they perform a mission of general interest;
- distributors;
- other suppliers of natural gas; and
- domestic customers.

Gaz de France supplies non-eligible customers connected to the distribution system under this authorization, as well as distribution permits that, until July 1, 2007, will continue to apply to the supply of gas to non-eligible customers. The Ministers of the Economy and Energy approve the rates for the sale of gas to non-eligible customers after consultation with the CRE.

Local public service to supply natural gas at regulated rates was instituted by the Law of December 7, 2006.

6.1.4.2 Transmission, storage and transit of natural gas in France

Directive 2003/55 provides that the transmission business is upstream from distribution activity and involves the transmission of natural gas through national or regional (in the case of France) high-pressure gas pipeline systems to permit the supply of customers, but does not include the actual supply of gas. Storage facilities are owned and/or operated, according to the directive, by companies engaged in the natural gas sector and, in practice, are used to optimize gas supplies in light of fluctuations in consumption.

The designation of the operators of transmission systems and storage facilities is not regulated in detail in the directive, which stipulates that this designation must be made for a period of time to be determined by the Member States taking into consideration efficiency and economic balance. The directive does, however, clearly specify requirements that such operators must meet, including the operation, maintenance and development of safe, reliable and efficient facilities. Operators must also ensure that the natural gas transmission and storage infrastructure ensures effective and safe operation of the interconnected network.

In order to ensure the independence of the system operator, Gaz de France has separated the management and operation of its transmission network from its supply and production activities, in accordance with the requirements of Directive 2003/55. Management of the transmission network is handled by a separate legal entity, GRTgaz, which is owned by Gaz de France, but is managed independently from it. For more details on the applicable regulations see paragraph 6.1.4.5 – "Separate management and legal separation of operators of transmission and distribution networks".

Non-discriminatory access to the gas transmission networks is instituted by law under the control of the CRE

6.1.4.2.1 The construction and operation of natural gas pipelines – regasification

The January 3, 2003 law provides that the construction and operation of natural gas transmission pipeline systems requires the issuance of an authorization by the Minister of Energy following public inquiry addressing the economic, financial and technical capabilities of the applicant, the compatibility of its proposal with public service principles and functions, environmental protection, as well as the safety of the natural gas pipelines and the networks or facilities connected to them. The authorized operator is granted the right to occupy the public domain and also specific easement rights for construction work. These authorizations are exclusive and non-transferable except with the authorization of the administration. The beneficiaries of the natural gas transmission authorizations carry out their duties under the terms and conditions provided by these authorizations and in the specifications attached thereto.

These specifications must comply with the general specifications set by Decree dated January 15, 1952, as amended by Decree 2003-944 of October 3, 2003. These specifications define, in particular, the general use of the infrastructure for which authorizations have been granted by indicating an order of priority for the customers to be supplied, the conditions under which the transmission systems are built and operated and the public service obligations imposed on the operator.

This authorization system was established by Law No. 2001-1276 dated December 28, 2001 Amending Finances Law of 2001, to replace the concession rights previously granted by the State to operators of the transmission network. In 2002, Gaz de France purchased from the French State the transmission network that it operates and now owns. Gaz de France received a transmission authorization on June 4, 2004, which was transferred on January 1, 2005 to Gaz de France Réseau Transport, which has become GRTgaz, under application of Article 12 III of Law No. 2004-803 dated August 9, 2004.

The operation of an LNG regasification facility does not require a specific authorization. However, an LNG terminal is a facility subject to environmental protection classification (Seveso facilities) and, as a result, its operation is subject to specific prefectural authorization (see paragraph 6.1.5.1.2.1 – "Facilities classified for environmental protection purposes (within France)".

6.1.4.2.2 Storage

The identification, creation, testing, fitting out and operation of natural or artificial underground cavities or natural formations with the characteristics required to constitute leak-proof reservoirs for the storage of natural gas or liquid, liquefied or gaseous hydrocarbons (hereinafter "**underground storage facilities**") are subject, pursuant to the Law of January 3, 2003, to the issuance of mine permits governed by the Mining Code. This regime provides that efforts to identify underground storage areas can be carried out only by the owner of the land or, where such consent is not given, under a permit issued by the Minister responsible for mines or by the holder of an exclusive search permit.

Underground storage facilities can only be operated in accordance with a permit specifying the area and the geological formations to which it applies. Permits are granted by decree of the Council of State after public inquiry and competitive bidding. When an existing storage permit is up for renewal, the holder of the existing permit may be granted a renewal without public competitive bidding so long as all of the relevant geological formations are geographically covered by the existing permit.

The holders of underground gas storage permits must operate them in a manner compatible with the safe and effective functioning of the interconnected natural gas networks.

The Law of August 9, 2004 and Decree 2005-1034 of August 21, 2006 define the priority rules for access to the storage facilities. The highest priority is assigned to storage of gas necessary to ensure the proper functioning and balancing of the transmission networks, the next to the supply of domestic customers and to domestic or non-domestic customers with missions of general interest or whose contracts do not permit interruptible supplies, and the final priority right to storage necessary to permit compliance with legally mandated public service obligations. (see also the order of February 7, 2007 concerning storage profiles and unit rights).

Decree 2006-1034 of August 21, 2006 also specifies the conditions for awarding and allocating access rights to storage capacities and the distribution of those capacities.

An authorized supplier is required to hold gas inventories as of October 31 of each year in a quantity sufficient to ensure the supply of its customers during the period between November 1 and March 31. This inventory can be used to supplement other instruments. Failure to comply with these requirements may result in imposition of the administrative and monetary penalties specified by the Law of August 9, 2004.

6.1.4.2.3 Transit

European Directive 91/296 dated May 31, 1991 created a natural gas transit legal regime among the major high-pressure natural gas networks and listed the entities responsible for such networks. This directive defined transit as a transmission activity involving the crossing of at least one intra-community border, where the original or destination network is located in the territory of the European Community. It also specified that transit activities require the signing of transit agreements between the parties responsible for these networks and, as applicable, the entities responsible for imports and exports of natural gas in the Member States concerned.

Directive 2003/55 repealed the provisions of Directive 91/296 as of July 1, 2004. However, contracts concluded under Directive 91/296 and still in effect as of that date continue to be valid and may still be implemented in accordance with the provisions of Directive 91/296. The operators of transmission systems benefit from a right of access to the networks of other transmission systems operators.

The Law dated January 3, 2003, as modified by the Law dated August 9, 2004 and the Decree No. 2005-877 dated July 23, 2005, provides that, under certain conditions, a new major gas infrastructure (in particular one that permits interconnections between Member States) may be exempted from the provisions relating to third-party access. The Law of January 3, 2003 further provides for the possibility of exemptions for transit operations from generally applicable tariffs and conditions.

6.1.4.3 Distribution in France

Directive 2003/55 defines distribution as the transmission of natural gas through local or regional networks of gas pipelines for the purpose of supplying both professional and domestic customers, but not including the actual supply. In practice, it covers activities of development and operation of the distribution network and transmission through that network, as well as the delivery of natural gas.

6.1.4.3.1 Distribution monopoly

Articles 1 and 3 of the Nationalization Law dated April 8, 1946 grants Gaz de France a monopoly over distribution, which today covers nearly all of the 9,099 local municipalities it serves.

This monopoly is, however, subject to certain exceptions:

- The first exception is included in Article 23 of the 1946 Law, which provides that local gas activities that were already in the public sector were not to be nationalized. These activities were generally to retain the form they had, although these non-nationalized distributors have been allowed to extend their business to neighboring local municipalities that did not have a gas distribution system by Article 88 of the Law dated February 6, 1992 relating to the territorial administration of the Republic, as amended.
- The second exception is triggered by Article 50 of the Law dated July 2, 1998 which provides for a national plan to extend the gas supply network to municipalities or groups of municipalities not supplied with gas. Gaz de France or a non-nationalized distributor was required to supply those municipalities within a three-year period. Municipalities not included in the coverage plan, or for which work was not undertaken during the required three-year period, could be supplied by the distributor of their choice, as approved by the Minister of Energy on objective and non-discriminatory terms and conditions (Article 2224-31-III of the General Code of Territorial Communities, the "CGCT"). Under Law No. 2005-781 dated July 13, 2005, which supersedes the coverage plan, all communities without gas service can receive public distribution gas supply from the operator of their choice.

The Constitution council specified the bases of this organization in its decision 2006-543 DC of November 30, 2006.

The Gaz de France distribution subsidiary that will be created (see Chapter "6.1.4.5 Separate management, then separation of the transport and distribution network managers") will benefit from this monopoly.

6.1.4.3.2 Concession system

Natural gas distribution is considered a communal public service under French law (local municipalities or, if applicable, their public cooperation establishments as mentioned in Article L. 2224-31 of the General Code of Territorial Communities). Distribution networks are operated by the distributor under concessions granted by municipalities or groups of municipalities. The concession agreements that link the municipalities to Gaz de France are concluded or renewed, as applicable, based on recommended specifications established jointly by the National Federation of Concession Granting Municipalities ("FNCCR") and Gaz de France in 1994. Certain provisions of the recommended specifications are presented below.

Operation of the distribution service

Under the concession agreement, the municipality grants exclusivity to the distributor in the territory covered by the agreement to build and operate infrastructures.

The municipality may also construct the structures used for the concession.

The concessionaire is responsible for the construction and operation of the infrastructure at its own expense and at its own risk. In return, it is authorized to collect from the users a price designed to compensate it for the obligations it assumes. Failure to meet these obligations would expose the concessionaire to contractually specified penalties.

Concession fees and distribution of the costs of the concession

The concessionaire pays the municipality both concession royalties and public domain occupancy fees as specified in Articles L. 2333-84 et seq. and R. 2333-114 et seq. of the General Code of Territorial Communities.

The concession royalties include two components: (i) a component related to operations, which is intended to cover the municipality's costs, relating primarily to its oversight obligations, and (ii) a component related to investments, as the municipality that grants the concession may construct a portion of the infrastructure and provide that infrastructure to the concessionaire.

Concession assets

The concession agreement provides that the distribution network infrastructure is the property of the relevant municipality as soon as it is built, while construction costs are borne by the distribution network operator. The operator is granted the exclusive right to use the infrastructure during the term of the concession. This ownership for the benefit of municipalities was confirmed by the Law of December 7, 2006.

Duration of the concession

The concession agreement is, by nature, limited in term: the term of the concession agreements between local municipalities and Gaz de France is generally set between 25 and 30 years. The circumstances under which the concession agreement may be terminated before its stated expiration date are strictly limited to specified situations, and in any event may not occur before half of the concession term has expired. Termination requires two years' advance notice, as well as indemnification of Gaz de France by the concession grantor.

6.1.4.4 Access by third parties to infrastructures in France

A right of access by third parties to the transmission and distribution networks and to storage facilities and LNG terminals was instituted, so as to allow eligible customers based in a member State effectively to choose their natural gas supplier located in the same or in another member State.

French law provides for exceptions from the general commercial conditions and rates for the use of the transmission and distribution networks and LNG facilities (see paragraph 6.1.3.2.1.2.1.4 – "Transmission tariffs") when they are justified by the particular terms and conditions of use of the infrastructure and facilities, such as gas transit. Other exceptions may be granted by the Energy Ministry for new LNG infrastructures, storage or interconnections between transmission networks based on the CRE's recommendation, and the European Commission may ask for the amendment or annulment of this decision.

6.1.4.4.1 Terms and procedures for access to the transmission and distribution networks, to LNG facilities and to storage facilities

The Law of January 3, 2003 provides eligible customers, suppliers and their agents with a right of access, on a regulated basis, to transmission, distribution and LNG infrastructure, including auxiliary services.

This right is intended to ensure the supply of natural gas to eligible customers and to allow the performance of natural gas transit contracts among the large high pressure gas transmission networks in the Common European Economic space.

Directive 2003/55 also requires Member States to ensure that natural gas companies and eligible customers have access to the upstream gas pipeline systems, meaning gas pipelines operated and/or built in connection with a petroleum or gas production project, or used for the transmission of natural gas from one or more production sites to a plant, treatment terminal or final onshore terminal.

Operators of the transmission and distribution networks and LNG and storage facilities must refrain from any discrimination among users or categories of users of the infrastructure or facilities they operate.

The refusal by an operator to sign a contract for access to its transmission or distribution system or to LNG facilities must be based on reasonable grounds and reported to the applicant as well as to the CRE. It is permitted only if:

- the network has insufficient capacity;
- technical reasons justify the refusal;
- granting access to the system would make it impossible for the operator to fulfill its public service obligations; or

- a temporary prior exemption is granted by the CRE, in a situation where access to the system could lead to serious economic and financial difficulties for the operator in respect of the take or pay contracts to which it is a party, to the extent that the development of demand for its LNG could not reasonably be anticipated at the time these contracts were concluded.

In order to ensure access to the transmission or distribution networks or LNG facilities, the operators of the transportation or distribution network must put in place natural gas movement programs established by the suppliers. The operator must at all times guarantee balanced natural gas flows, and the safety and efficiency of its network in the light of the technical constraints to which it is subject. The operator must also monitor the availability and performance of the services and reserves required for the functioning of the network and interconnections and carry out the necessary metering. Each operator of natural gas transmission, distribution or storage infrastructure or LNG facilities and any supplier using such infrastructure or facility is required to furnish to the other operators the necessary information to guarantee proper functioning of the interconnected network and storage facilities.

Natural gas operators of transmission and distribution networks as well as of LNG facilities and holders of natural gas storage permits must draw up and make public instructions specifying the technical design and operational requirements needed to connect to their facilities.

With respect to storage, Directive 2003/55 requires that parties be granted access, either on a regulated or negotiated basis, to storage facilities when required for technical or economic reasons in order to allow them to supply customers efficiently. The Law of August 9, 2004 provides for negotiated access to storage facilities for authorized natural gas suppliers, on the basis of general terms and conditions that must be published by the operator of the facilities. The definition of a storage facility includes gas in pipelines, but excludes the auxiliary services and temporary LNG storage infrastructure necessary for the process of regasification and delivery into the transmission network.

The Law of August 9, 2004 provides that operators may only refuse access to storage facilities on the basis of:

- a lack of capacity or technical reasons relating to the integrity and safety of the storage facilities;
- an order of priority set by the Minister of Energy in order to ensure the fulfillment of public service obligations; or
- evidence that access is not necessary on technical or economic grounds for the efficient supply of customers under the terms and conditions specified in the contract.

Eligible customers may also be supplied by a direct pipeline, in which case the States are responsible for determining the conditions for granting any necessary permit with respect to the construction or operation of the pipeline. Direct pipelines in France are subject to the regulations governing transmission activities. Directive 2003/55 and the Law of January 3, 2003 provide that authorization for the construction of a direct pipeline may be limited to cases where the customer is refused access to the network or has commenced litigation with respect to a dispute over access.

6.1.4.4.2 Non-discrimination, confidentiality of information and separate accounting

According to the Law of August 9, 2004, the activities of a network operator are subject to a "code of conduct" in order to prevent discriminatory practices relating to third-party access to transmission and distribution networks. With respect to the transmission and distribution of natural gas, the application of this code was the subject of an annual report in 2005 prepared and made public by the operator of the transmission network and submitted to the CRE. The CRE must publish a report each year regarding compliance with the code of conduct by the operator. Its first report on compliance with its code of conduct by the transmission and distribution network operators was issued in November 2005.

Each operator of natural gas transmission, distribution or storage facilities or LNG facilities must keep all information confidential where the communication of such information could adversely affect fair competition. Operators are obliged to advise the CRE of measures taken to preserve such confidentiality. Non-compliance with this confidentiality obligation is subject to criminal fines.

In accordance with the Law of January 3, 2003, every company engaged in one or more activities in the natural gas sector must have separate management accounts concerning the transmission, distribution and storage of natural gas as well as the operation of LNG facilities and all other activities that are not connected with natural gas. In addition, in accordance with the Law of August 9, 2004, any company engaged in an activity in the gas sector must create separate accounts for its activities involving the supply of gas to eligible and non-eligible customers. The Law of December 7, 2006 requires, as of July 1, 2007, the establishment of separate accounts for gas supply activities to customers who have exercised their eligibility and to those who have not exercised this option. The operators must obtain CRE approval of the rules of allocation, the scope of activities for which separate internal accounts are to be provided and the principles of separate accounting. These accounts are not published.

6.1.4.5 Separate management and legal separation of operators of transmission and distribution networks

Pursuant to Directive 2003/55, where the operator of a transmission or distribution network or, if applicable, an operator of a combined network or multiple infrastructures (transmission, LNG, storage and distribution) is part of a vertically integrated company (such as Gaz de France), the network operator must be legally separate from the organization and decision-making bodies of the entities engaged in other activities, including production and supplies. This independence obligation does not automatically entail an obligation on the part of the vertically integrated company to transfer ownership of the assets of the networks operated, but only to separate at the management level or place in a subsidiary the activities concerned. The directive also specifies different obligations incumbent on the management of the operator of the transmission or distribution network, in order to guarantee its independence. However, directives and other regulations recognize a right to economic supervision and management of the integrated company, The relevant provisions were implemented in France by the laws of August 9, 2004 and December 7, 2006 which required the legal separation of the natural gas transmission and distribution business of Gaz de France. This legal separation was completed effective January 1, 2005 for transmission. It will be implemented in 2007 for distribution.

The law of December 7, 2006 provides for the appointment for separate transmission network and distribution operators (GRTgaz) a government commissioner without a vote, who attends the meetings of the Board of Directors and its committees and may present comments at any shareholders' meeting.

6.1.4.6 Regulation and supervision of the natural gas sector

In order to settle disputes likely to arise among the operators in a market open to competition, Directive 2003/55 requires each Member State to designate one or more independent authorities to ensure non-discrimination, effective competition and efficient functioning of the natural gas market (in addition to the general role of the European Commission in relation to European competition law). Such authorities are obligated to monitor the proper application of the rules relating to the management and allocation of interconnection capabilities, procedures designed to remedy congestion in the networks and the time required for the operators to carry out connections to and repair of the networks.

In France, these obligations have been implemented in two ways. First, the CRE was established as an independent administrative authority for the regulation of the gas and electricity sectors. Second, the Minister of Energy has certain powers of oversight and has the right to impose penalties. Municipalities, in their capacity as concession granting authorities, may also monitor proper compliance with the obligations arising under a distribution concession agreement.

6.1.4.6.1 The Energy Regulatory Commission

The CRE is an independent administrative authority created in 2000 to regulate the electricity sector in France, whose authority was extended by a Law dated January 3, 2003 to the regulation of gas activities. The charter of the CRE guarantees its autonomy and impartiality and provides it with the resources necessary for its operation. The CRE does not have legal personality.

The Law of December 7, 2006 modified the structure – by strengthening parliamentary control – and organization, since it now has a dual structure: in addition to a board, a disputes and sanctions committee was created.

The CRE has substantial powers, aimed chiefly at ensuring the regulation of the networks through access control, as well as regulating the natural gas market.

Tariffs regulation powers

The CRE proposes to the French Ministers of the Economy and Energy the rates for the use of the transmission and distributions networks and LNG facilities. Under the Law dated July 13, 2005, the ministers' approval is deemed granted, except if one of the ministers opposes it within two months of receiving the CRE's proposal. The CRE also gives its opinion on the regulated rates for the sale of natural gas. Finally, it gives its opinion on exemptions, jointly granted by decree by the Ministers of Energy and the Economy, from the normal tariffs for the transmission and distribution networks and LNG facilities, as well as exemptions from the general commercial terms and conditions for the use of the infrastructure (see paragraph 6.1.3.2.1.2.1.3 – "Access to the transmission networks in France", paragraph 6.1.3.2.1.2.1.4 – "Transmission tariffs", paragraph 6.1.3.2.1.2.2.3 – "Access to LNG terminals and gas storage in France", paragraph 6.1.3.2.1.2.2.4 – "Infrastructure tariffs", paragraph 6.1.3.2.2.2.4 – "Access to the distribution network", and paragraph 6.1.3.2.2.2.5 – "Transmission tariffs for the distribution network"). It also gives its opinion to the minister on exceptions that it may grant to give access to new infrastructures.

Powers relating to the right of access to the network and investment

The CRE protects the right of access to natural gas networks. It is therefore consulted in advance as to draft regulations relating to access to the natural gas transmission and distribution infrastructure and to LNG facilities. Network operators and operators of LNG facilities must inform the CRE of the general terms and conditions of use of their infrastructure and of their facilities. In the event of a refusal of access to a natural gas transmission or distribution network or an LNG facility based on a lack of capacity or a difficulty related to connecting the facilities of the applicant for access to the network, the CRE may request and, if necessary, require the operator to proceed with the necessary improvements if they are economically justified or if a potential customer indicates that it will agree to pay for them.

Finally, since the Law of December 7, 2006, the CRE approves the investment programs of the transporters by ensuring the carrying out of the investment necessary for the proper development of the networks.

Disputes regarding network access

The CRE may be called upon to settle disputes relating to access to the network as between operators and users of the natural gas transmission and distribution infrastructure, or between the operators and users of the LNG facilities, or in the event of a dispute concerning storage. It has substantial discovery and investigatory powers. Its decisions may include certain periodic penalty payments. The Law dated July 13, 2005 indicates that settlement dispute requests do not apply to non-eligible customers.

Powers relating to separate accounting principles

The CRE approves, after recommendations by the French Competition Council Competition, the separate accounting principles proposed by integrated companies as described above in order to ensure there is no discrimination, cross-subsidies, or restriction of competition. The separate accounts created according to these principles are provided to it each year. It holds regulatory power in this area.

The CRE has a right of access to the books and to the economic, financial and labor information of companies active in the gas sector. The CRE has the power to review the costs and expenses taken into account by the operators in calculating the regulated tariffs.

Pursuant to the Law of August 9, 2004, the CRE may give its opinion prior to the dismissal of any person serving as the chief executive officer of an operator of a transmission or distribution network. In addition, it prepares an annual report on compliance by the network operators with their codes of conduct, evaluates their management independence and makes additional proposals, if necessary.

Duties relating to the oversight of transactions

The CRE has been given the power to oversee transactions executed on organized natural gas markets as well as cross-border trades. Moreover, the CRE is responsible for monitoring transactions between suppliers, traders and producers. It ensures the consistency of producers' offers with their economic and technical constraints.

Powers to impose sanctions

The CRE may impose a temporary ban on access to the transmission and distribution networks as well as to the LNG and storage facilities for a period not to exceed one year, or impose a monetary penalty if an operator of the natural gas transmission or distribution networks, an operator of LNG or storage facilities or the users of these networks and facilities fail to comply with the decisions of the CRE made:

- following the breach of a provision of the law or regulations relating to access to or use of networks and facilities;
- following a breach of the cost allocation rules, in the accounting scope and of the principles determining the financial links between businesses with separate accounting as they had been approved;
- for the settlement of a dispute related to access to, or use of, the networks and facilities; or
- following a breach of the obligations governing the communication of documents and information or the obligation of an operator to provide access to its accounting, economic, financial and labor information necessary to the CRE for the exercise of its oversight mission.

The monetary penalty that may be incurred in these cases is a maximum of 3% of sales (excluding taxes) for the last complete fiscal year, which is increased to 5% in the event of a new breach of that same obligation.

Regulatory power

The Law of December 7, 2006 expanded the powers of the CRE, giving it regulatory powers for natural gas. It can now specify the rules concerning the missions of the operators of transmission and distribution networks and of LNG and storage facilities. It may also specify the rules for connections to transmission and distribution networks and for the use of those networks and LNG facilities. This same regulatory power is extended to the signing of gas purchase contracts of network operators for their own consumption, and to the scope covered by accounting separation and accounting rules.

6.1.4.6.2 The Ministers of the Economy and Energy

The French Ministers of the Economy and Energy have investigatory powers that allow them to obtain any information concerning gas companies necessary for the application of the Law of January 3, 2003 and the Law of July 13, 2005. Investigations are conducted by officials and agents qualified for this purpose. The Minister of Energy and the CRE may, if applicable, appoint an expert.

The Minister of Energy may impose a monetary penalty or announce the withdrawal or suspension, for a period of no more than one year, of the authorization to supply natural gas or the authorization to pursue transmission activities, against parties guilty of breaches of legal provisions and requirements relating to access to the natural gas networks, to the transparency of the natural gas sector, to public service obligations, to the security of supply, or to the transmission and distribution of natural gas. Monetary penalties or the withdrawal of authorizations may also be imposed on the holders of natural gas underground storage concessions in the event of non-compliance with the specifications of the concession and the provisions of the Law of January 3, 2003 that are applicable to storage.

The Minister of Energy defines and publishes a tentative multi-year plan describing the forecast changes in national demand for natural gas and its geographic distribution and, secondly, the investments planned to complete the infrastructures of the natural gas supply network. This plan presents the forecast changes for ten years in the contribution of long-term contracts to the supply in the French market.

The Ministers of the Economy and Energy have decision-making power for rates for use of infrastructures, with the exceptions of gas storage and sale.

6.1.4.6.3 The National Public Service Agency for the Electricity and Gas Industries

The objective of this agency, created under the supervision of the Economic and Social Council, is to examine the conditions under which electricity and gas companies implement their public service obligations. It issues opinions on and makes proposals concerning questions under its jurisdiction, which are publicly available. It files an annual report with the French Parliament and the French government on changes in the rates for the sale of gas and electricity for each type of customer.

The agency is formed with representatives of each category of customers, the municipalities granting concessions, local communities that have created a non-nationalized distributor covered by the Law dated April 8, 1946, representative union organizations, EDF and other operators in the electricity sector, Gaz de France and other operators in the gas sector, associations active in the economic and social field and local and national elected officials.

6.1.4.7 Other regulations and agreements that impact the business of Gaz de France

6.1.4.7.1 Public service obligations

The law imposes public service obligations on operators of natural gas transmission and distribution networks, on operators of LNG facilities, on suppliers and distributors of natural gas and on holders of natural gas underground storage permits.

These obligations concern the safety of individuals and facilities, the continuity of gas delivery, security of supply, the quality and price of the products and services provided, environmental protection, energy efficiency, balanced territorial development, the emergency supply of gas to non-domestic customers performing missions of general interest and the continuous delivery to persons in a precarious situation. This is also true for the supply of gas at the special solidarity rate. They vary in terms of the different categories of operators under the terms and conditions fixed by Decree No. 2004-251 dated March 19, 2004. The public service obligations are specified in permits for the supply or transmission of natural gas, natural gas underground storage concessions or the specifications for.

6.1.4.7.2 Public service contract

The public service missions of Gaz de France in the energy sector are defined by the Law of January 3, 2003. These missions are implemented for Gaz de France through a public service contract, as provided by Article 1 of the Law of August 9, 2004.

The Public Service Contract, signed on June 10, 2005 under the terms approved by Gaz de France's Board of Directors on March 22, 2005, reiterates the public service obligations of Gaz de France, emphasizing certain obligations, such as supply security and continuity and industrial safety. It also contains provisions relating to the resources that must be put in place by Gaz de France to ensure customer access (including needy customers) to the public services, together with research and development and environmental protection and service improvement policies. It also sets down the principles for the multi-annual change in regulated sale tariffs.

6.1.4.7.3 Public Bidding Requirements

Procurement by Gaz de France in excess of certain thresholds established by European Directive 2003/17 dated March 31, 2004 and implemented in France by the Order No. 2005-649 dated June 6, 2005, and the Decree No. 2005-1741 dated December 30, 2005, which concern bidding procedures for contracts in the water, energy, transmission and postal services sectors, is subject to mandatory public bidding procedures. The current thresholds are €420,000 for public contracts for supplies and services and €5,270,000 for public works contracts (in each case, excluding VAT).

The procurement procedures require the publication of a notice, competitive bidding among the candidates and the award of contracts on the basis of predetermined, objective and non-discriminatory criteria.

6.1.4.7.4 Authorization for supply of electricity

Gaz de France engages in the purchase for resale of electricity to eligible customers in accordance with the provisions of Decree No. 2004-388 dated April 30, 2004 on the purchase of electricity for resale to eligible customers and the obligations of suppliers to provide information to electricity customers. On September 13, 2004, Gaz de France received the acknowledgment specified in Article 2 of this decree allowing it to make purchases for resale to eligible customers for a period of five years following the application submitted to the Minister of Energy on June 15, 2004.

6.1.5 Environment / Sustainable development

6.1.5.1 Sustainable development

The sustainable development approach of Gaz de France is based on more than ten years experience, since the creation of the Environment Committee in 1992, at the same time as the Rio conference, and including the first annual environmental report in 1999 and the first Sustainable Development Action Plan initiated in 2004.

It is a response to a clear desire to place sustainable development at the very center of the Group's strategy in order to participate in the most strategic stakes, such as the building up of its image in the short, medium and long term.

In particular, sustainable development is considered by Gaz de France to be a true lever for performance and risk control in the service of the joint interests of the Group and its stakeholders.

In the context of its operations, Gaz de France faces a number of sustainable development challenges which it is working to transform into opportunities to create value:

- as an energy company, Gaz de France actively participate in the fight against climate change, the effort to protect resources, and to secure supplies;
- as an industrial company, Gaz de France is continually involved in safety and risk control, the prevention of any form of pollution and the integration of environmental concerns into its commercial offers;
- and as a socially responsible international group, Gaz de France is making the choice to fully assume its responsibilities to all its stakeholders (employees, corporate partners, shareholders, partners, customers, suppliers, local communities and civil society.

6.1.5.1.1 Legislative context

In France, the Law of July 13, 2005 defines the orientations of the national energy policy. It defines four main objectives, which intersect with the sustainable development challenges of the energy sector:

- to guarantee the security of the supply and national energy independence;
- to maintain competitive prices for energy supplies;
- to protect human health and the environment by combating an increase in greenhouse gases;
- to promote better social and territorial cohesion.

In terms of tools, the law gives priority to diversification of the French energy package, control of energy demand, the development of innovation and research in the energy sector, and greater correlation between needs and offers for transmission and storage resources.

6.1.5.1.2 The Group's sustainable development policy

The sustainable development policy defined in 2004 by the Executive Committee of Gaz de France structures the Group's action around four strategies.

6.1.5.1.2.1 The strategies of the sustainable development policy

Meeting energy challenges through innovation and a dynamic offer of products and services

This strategy breaks down into the following components:

- active participation in the fight against the greenhouse effect by developing the Group's offers for energy control, the reduction in greenhouse gas emissions, the search for CO_2, credits, decarbonization or CO_2 capture and storage;
- promotion of renewable energies by emphasizing wind energy for electricity and solar and biomass for thermal energy;
- intensification of the process to make innovations with new offers from the Group in the areas of energy efficiency, renewable energies, and new uses for natural gas, such as the natural gas vehicle;
- participation in studies and projects that will build the energy future (for example medium and long term energy scenarios, potential of the hydrogen vector).

Fully exercising the Group's social and environmental responsibility

This strategy for development policy is based on the following components:

- adaptation of corporate governance and management to the dual requirements of society and the environment;
- limiting the footprint from Gaz de France's operations on the environment (activities, buildings, vehicles, etc.) by pursuing ISO 14001 certifications, principally at the Seveso facilities, but also by limiting the impact and risks for populations (quality and safety of interior facilities, absorption of gray iron pipelines, mapping of the low-pressure urban networks, underground storage facilities);
- developing relations with the Group's suppliers through its purchasing and subcontracting procedures.

Constructing a foundation of Group human and labor resources in order to meet industrial challenges

The objective is the construction and deployment of Group standards for practices in human resources (see Chapter 17 – "Employees"). These standards are to be applied within all the subsidiaries controlled by the Group. The approach will be based on consultation, dialogue and listening to stakeholders (management, employees, and employee representatives).

Gaz de France is working to improve working conditions, particularly health and safety, and is paying close attention to changes in the accident frequency and seriousness rates.

Finally, the Group is taking new initiatives to strengthen equality (based on issues such as non-discrimination in any form, professional equality between men and women, diversity of origins, ages, training, inclusion of disabled workers) in line with the values inherent in sustainable development.

Taking an active role in the development of the territories

A territorial presence and the integration of sustainable development in the Group's approach are decisive criteria for differentiation, particularly for elected officials. In order to implement this strategy, Gaz de France has made a commitment to the following:

- supporting the sustainable development programs of local authorities, particularly on Agendas 21;
- promotion of solidarity as part of the Group's policy;
- promoting local economic development, particularly through increasing the density of the gas distribution networks or through specific support actions, such as assisting territories to develop at the same time as conducting exploration-production activities;
- developing a dialogue with the territorial stakeholders;
- assistance from the Gaz de France corporate foundation on themes related to joint development of the territories, including employment of young workers, the transfer of good environmental management practices to sites and natural spaces; development of the cultural heritage (renovation of stained-glass and other church windows) or tourist heritage (partnership with the French Federation of pedestrian trails).

6.1.5.1.2.2 Special policies and agreements

Several special policies and agreements complete the sustainable development policy set forth above:

- policy on health and safety in the workplace,
- industrial security policy,
- environmental policy (see paragraph 6.1.5.2 – "Environment"),
- renewable energies policy,
- risk policy,
- quality policy,
- solidarity policy,
- territorial policy,
- purchasing standards,
- professional equality agreement,
- disabled workers agreement,
- professional training agreement.

6.1.5.1.3 Mechanisms for implementing and monitoring the sustainable development approach

Tools

The implementation of the sustainable development approach is primarily based on the 2004-2006 sustainable development action plan (PADD), which provides for about one hundred concrete actions with measurable objectives and intermediate steps at the end of 2004 and 2005.

Early in 2005, along with the implementation of the PADD, the Group also decided to stress a number of priorities for fiscal years 2005 and 2006. The priorities selected for 2005 / 2006 were the following: "Meet the major energy challenges of today and tomorrow:, "Strengthen social cohesion within the Group" and "Meeting the expectations of the stakeholders". New priorities have been defined for 2007 (see paragraph 6.1.5.1.4.2 – "Priorities for 2007").

Specific indicators (Quality-Safety-Environment integrated management indicator and Sustainable Development indicator) allow the Executive Committee to monitor progress in implementing the sustainable development policy within the Group. These mechanisms are based on an extra-financial reporting system supplied quarterly by the various departments. Since 2001, some of the data returned have been verified by the auditors. In 2005, some of the environmental data were validated with a "reasonable" level of assurance – a level similar to the level declared when certifying the annual financial statements. Then, in 2006, all the environmental and social data were verified with a "reasonable" level of assurance.

Players

The implementation and monitoring of the Gaz de France sustainable development policy are placed under the responsibility of a specific department, the sustainable development department, created in 2003 and composed of persons with expertise in the environment, social and economic responsibility and quality.

In order to deploy its action within the Group, the department of sustainable development relies on:

- from a managerial standpoint, the Committee on Sustainable Development and Ethics, which meets every quarter and is the first level of validation before presentation of the plans to the Executive Committee; and
- from an operational standpoint, a network of agents within the various departments.

6.1.5.1.4 Assessment at year-end 2006 and priorities for 2007

Every year the Group prepares a report on the actions deployed over the previous year, and the Executive Committee defines the priorities for the following year.

6.1.5.1.4.1 Assessment of sustainable development at year-end 2006

The assessment conducted by the Group at the end of 2006 shows that the Group is in line with its objectives for sustainable development. Thus, most of the objectives set in the 2004-2006 PADD were achieved on that date.

This internal assessment is in addition to the various analyses performed by the ISR ratings agencies and the results from the panel of stakeholders formed with Committee 21 in 2005.

Recognizing the Group's performance in sustainable development, the rating agency Vigeo included the Gaz de France share in the ASPI Eurozone® index of the best 120 traded companies in the Stoxx 600 in terms of social and environmental responsibility on September 18, 2006.

Finally, Gaz de France was awarded the Trophy for the best sustainable development report in 2005 by the Superior Council of Accountants, on January 30, 2007.

In the context of the priorities defined by 2005-2006, the following measures have been taken in the last two years:

"Meet the major energy challenges of today and tomorrow"

- In the area of energy scenarios: work and studies on the medium and long-term energy vision for the Group (Factor 4 scenarios), organization of a conference on climate change in partnership with the WWF at the Cité des Sciences et de l'Industrie;
- In the area of CO_2: involvement in the quota market, availability of new offers for customers (trading CO_2 and/or optimization of industrial relations), implementation of innovative investment projects to reduce greenhouse gases (Carbon Prototype Fund), development of research projects in capture and storage of CO_2 (European Castor project), development of a draft CO_2 action plan;
- In the area of renewable energies: development of a Group strategy for renewable energies for 2012: 10% renewable assets in the power production facilities, including 1000 MW of installed wind power (in line with these objectives, Gaz de France formed, in partnership with the Maïa Sonnier group, a joint venture Maïa Eolis, to develop and operate wind farms in France and Europe; as of December 31, 2006, Maïa Eolis was already operating a capacity of 48 MW), signing of two partnerships for wood supply with the wood segment to allow the Group to offer a renewable thermal offer to local communities;
- In the area of energy control: integration of an energy savings component in all Group offers, even before the implementation of the energy savings certificates (in order to comply with the obligation to collect 13,457 GWh cumac[1] over 2006-2009, assigned to the Group by decree under the Law of July 13, 2005 instituting energy savings certificates; Gaz de France had already completed 40,000 energy savings operations with individuals at the end of 2006, which brings the
- Group completely in line with the objective assigned), participation of Gaz de France in the Energy Building Foundation, implementation of a Group "Energy control" project".

The various advances made in these areas are also reflected in the renewal of major partnerships with ADEME and WWF France.

"Strengthen social cohesion within the Group"

- In the area of social responsibility:
  - enhancing the Group's human resource policies (managerial practices and social reporting);
  - consideration of the challenges of human rights and the fight against corruption with the renewal of participation in Transparency International and the Extractive Industries Transparency Initiative (EITI) and in Businesses for Human Rights, a French initiative for human rights inspired by the BLIRH (Business leader initiative on human rights);
  - signing of the Charter for diversity in the company and the Charter for apprenticeships and the Charter of Business Commitment for equal opportunity in business, the operational implementation of these charters through the "Diversity" project;
  - signing with the labor organizations of the 7th agreement on the employment of disabled workers for the 2006-2008 period;
  - signing of the "Cities and social cohesion" convention, the signing of a partnership with Emmaüs to fight exclusion, signing of a new three-year framework agreement with Codegaz, a humanitarian association open to the current and retired employees of Gaz de France.
- In the area of ethics: formalization of the ethics framework on the basis of a charter of the Group's values, principles of action which translate those values into daily business relations with each of the stakeholders, and ethics codes for certain businesses. Finally, a steering and control mechanism guarantees the effectiveness of the overall approach.

"Meet the expectations of stakeholders"

- Measures to complement the public service contract, with a formalized policy for Group participation in sustainable development approaches in the districts and regions of France (assistance by Gaz de France for the local agenda 21 on the "energy" and "solidarity" themes).
- A transversal cooperative approach at Group level, with the organization at the end of 2005 and early in 2007 of two meetings with fifteen organizations, associations, non-governmental organizations and institutions to discuss expectations and the Group's responses to the challenges of sustainable development.

6.1.5.1.4.2 Priorities for 2007

The priorities of Gaz de France for 2007 are continuation of the actions conducted in recent years, intended to consolidate the results already obtained, while taking into account changes in the expectations of the stakeholders, particularly the ISR ratings agencies.

In terms of management and control of the energy challenges, the priority will be on the following actions:

- in-depth studies of energy mix scenarios;
- continued development of the ENR projects in wind, solar, biogas and biomass;
- definition and implementation of new actions with regard to CO_2, designed to take into consideration the implications of the development of power production;
- continuing the work of the Group Energy control project.

In the area of social responsibility, the work will cover the following areas:

- *human rights and the fight against corruption*: a very specific priority will be given to these two areas to continue participation in 2005 to the Extractive Industries Transparency Initiative (EITI), Transparency International and Businesses for Human Rights, a French initiative on human rights inspired by the BLIRH (Business leader initiative on human rights);
- *solidarity*: expansion of action in the most financially disadvantaged areas, expanding the program to provide access to energy and, more generally, assisting social and economic development in the developing countries;

(1) *The kWh cumac (cumulative kWh discounted over the life of the equipment) is the reference unit for the energy savings certificates. 1 kWh cumac corresponds to a final energy saving of 1 kWh. The final energy saving is the sum of the annual energy savings achieved during the life of a piece of equipment discounted at the annual rate of 4% over this same period.*

- *diversity*: the priority will be given to the operational implementation of the "Diversity" project in all Group businesses: audit of the situation based on locations, identification of priorities by country, definition of an action plan, indicators and reporting.

6.1.5.2 Environment

6.1.5.2.1 Applicable regulations

The activities of Gaz de France are subject to many environmental regulations in France and abroad.

In France, the facilities in which Gaz de France carries out its activities are likely to be subject to French Law No. 2003-699 dated July 30, 2003 relating to the prevention of technological and natural risks and repairing damage (to the environment). This law creates technological risk prevention plans around all sites classified as at risk, and allows for the prohibition new construction within exposed areas. In addition, it reinforces the obligation to restore a classified facility and covers sub-contracting in plants at risk.

6.1.5.2.1.1 Facilities classified for environmental protection purposes (in France)

Certain facilities operated by Gaz de France, specifically compression stations, underground storage facilities, LNG terminals and three depots (propane in Saint-Flour and Bastia and butane in Ajaccio) are classified for environmental protection purposes ("ICPE").

Information relating to the regulations applicable to ICPEs is discussed in paragraph 8.2.1 "Facilities classified for environmental protection purposes (within France)".

6.1.5.2.1.2 Former industrial sites

The rehabilitation of former industrial sites gave rise to protocols entered into with the administrations of France and Germany.

Information relating to the actions taken by Gaz de France with respect to the rehabilitation of sites polluted by its former activities is discussed in paragraph 8.2.2 – "Former industrial sites".

6.1.5.2.1.3 Quality of the air, atmosphere and resources

In France, the Group must, in compliance with the Environmental Code, and in accordance with specific regulations (on waste, noise, air, protection of water resources, etc.) establish an air quality policy to reduce atmospheric pollution, to preserve air quality, to protect water resources and to save or rationalize energy. More specifically, for atmospheric discharges, Gaz de France is subject to various orders that specifically apply to classified facilities.

6.1.5.2.2 Environmental policy

The environment is an essential component of the sustainable development approach of Gaz de France.

The Group's environmental policy ensures better control of environmental risks. In addition to the response to regulatory requirements, it is also geared to give the Group additional prospects for growth through new products and new offers. Thus, it is intended to assist the Group in identifying new growth vectors.

Updated in 2004 as part of the update of the Group's sustainable development policy, the Gaz de France environmental policy is based on the following priorities:

- meeting environmental expectations (actions against the greenhouse effect, reduce nuisances and protect air quality and human health);
- integrating the environment into the overall management system of each department (considering the environment in the Group's risk control policy, using environmental management standards that can be evaluated by independent outside organizations, such as ISO certifications or the standards of environmental and social ratings agencies, defining calculated environmental performance objectives);
- promotion of greater environmental responsibility (better understanding of the environmental impact of the Group's products and operations, mapping of the environmental risks and opportunities and the consequences, developing offers that respect the environment, increasing supplier awareness, etc.).

6.1.5.2.3 Environmental balance sheet

The parameters taken into account for the establishment of the environmental balance sheet (emissions of greenhouse gases and nitrogen oxides, energy consumption, the production of solid and liquid waste, water consumption) are followed at the Group-wide level through an indicator measuring the environmental impact of Gaz de France. Additionally, senior management for each of the operating activities evaluates their performance in the following areas: regulatory compliance, action plans, definition of performance indicators, evaluating results and implementation of a system for continuous improvement.

6.1.5.2.3.1 Emissions and pollutants

The Group's activities result in the emission of different types of gaseous substances into the atmosphere, as described below.

Greenhouse gases (carbon dioxide and methane).

Carbon dioxide (CO_2) comes from exploration-production activities and the transmission and production of electricity or heat (cogeneration, combined cycle, heating systems). The annual quota allocated to Gaz de France for the 2005-2007 period under France's National Allocation Plan is 3.58 million tons. Outside France, Gaz de France's annual quota is produces approximately 1 million tonnes. Since 2004, these emissions have been the subject of monitoring and controls in France. These procedures were extended to the entire Group in 2005.

Methane (CH_4) results from distribution, transmission and exploration-production activities. The network replacement program makes it possible for Gaz de France to reduce the amount of emissions per cubic meter that it distributes and/or transports each year (see the environmental indicators). These emissions have been cut in half since 1990.

In 2003, Gaz de France joined the Association of Businesses to reduce the greenhouse effect (AERES) and made a voluntary commitment to control, by modernizing its facilities, direct emissions (excluding vehicles) of:

- carbon dioxide and methane from LNG terminals, storage sites, and compression stations;
- methane from transmission and distribution networks.

The objective set for the end of 2007 is a 10% reduction in emissions from 1990, even though sales and natural gas transmission will increase 60% to 70% over the same period according to projections. With 2.5 million tons of CO_2eq emitted in France in 2006, the Gaz de France Group is respecting the average commitment for 2005-2007.

Nitrogen oxides ("NOx").

NOx comes from the combustion of natural gas (compression stations and electricity production installations, in particular) and various fuels used in the liquefaction process. In its PADD Gaz de France has set an objective to reduce the NOx emissions of its compressors in France by 80% compared to their 1999 levels with equivalent activity, which is a maximum target rate of emissions of NOx of 1.5 g/KWh. In 2006, this rate was 1.4 g/KWh for a total of 1,833 tons of NOx emitted.

6.1.5.2.3.2 Water

The Group's activities inject few pollutants into the water. The major impact on aquatic mediums are the following:

- the process waters from production platforms, which are all equipped with treatment systems; and
- the liquid wastes from the on-site treatment by biological and/or physical-chemical means of the effluents from natural gas bleeding from aquifer storage areas. In the area of natural gas storage in aquifers, the treatment of 80% of the effluents is handled by specialized firms. The remainder is treated on-site by physical-chemical means (dilute effluents) or by incineration (concentrated effluents).

More than 99% of the Group's water consumption is the result of industrial uses. This water is mainly involved in the process of regasifying LNG at the LNG tanker terminal sites, and in the production of electricity by the combined cycle plants. The water is taken from natural sources before it is returned to the same medium. Different measurements are taken in order to limit consumption and expand the recycling of waste water.

6.1.5.2.3.3 Waste products

The principal waste products of the Group involve:

- OIWs (Ordinary Industrial Wastes) and HIWs (Hazardous Industrial Wastes) generated by transmission activities and the rehabilitation of former gas plant sites;
- drilling muds linked to exploration work;
- jobsite waste;
- and bleeding effluents and effluents from the treatment of natural gas from storage facilities.

Gaz de France is reducing waste production at the source as well as recycling and recovering waste. The brine produced during the creation of salt cavities is primarily recycled in the chemical industry. The tar from the sites of former gas plants is incinerated in energy-recovery installations and polluted soil from these sites is reused off-site after thermal desorption, while drilling muds are sent to a specialized storage centre. Every new pipe laying project involves a thorough impact study on biodiversity, hydrology and the subsoil, as well as other parameters.

Hazardous products are subject to consumption monitoring. The Group has noted a 25% drop in the volume of waste produced since 1996 with respect to methanol, and 50% since 1999 with respect to oils.

Detailed information on the Group's sustainable development and environmental policies is provided in the following two publications, which can be consulted on www.gazdefrance.com: 2006 Sustainable Development Report and Gaz de France and the UN Global Pact, Progress Report.

6.1.6 New products or activities

In France the Group has expanded in renewable energies with the creation of Maïa Eolis, 49% held by the Gaz de France Group and 51% by Maïa Sonnier. The objective of Maïa Eolis is the development and operation of wind farms.

6.2 Principal markets

6.2.1 Presentation

See paragraph 6.1.1 – "General Presentation – The natural gas sector in France and in the world."

6.2.2 Breakdown of revenues

Breakdown of 2006 operating income by division

In millions of euros	Energy Supply and Services division			Infrastructures division				Total Group
	Exploration-Production	Purchase & Sale of Energy	Services	Transmission & Storage-France	Distribution France	Transmission & Distribution International	Eliminations, Other and Non Allocated	
Revenues	1,659	20,481	2,181	2,227	3,289	3,570	(5,765)	27,642
EBITDA	1,270	441	189	1,285	1,412	562	(10)	5,149
Operating income	**935**	**391**	**111**	**953**	**726**	**402**	**90**	**3,608**

Breakdown of 2005 operating income by division*

In millions of euros	Energy Supply and Services division			Infrastructures division				Total Group
	Exploration-Production	Purchase & Sale of Energy	Services	Transmission & Storage France	Distribution France	Transmission & Distribution International	Eliminations, Other and Non Allocated	
Revenues	1,139	17,265	1,924	2,124	3,426	2,275	(5,281)	22,872
EBITDA	726	248	166	1,271	1,358	372	107	4,248
Operating income	**457**	**204**	**94**	**942**	**900**	**284**	**(60)**	**2,821**

(*) 2005 Published data restated for the impacts of the application of IFRIC12 and IFRIC 4

6.3 Important events

None

6.4 Degree of dependence

Gaz France's natural gas supply is frequently provided through the public operator national company of the country in which the natural gas originates. This fact may constitute an element of dependence for the Group and be a risk, both in the search for new supplies and in the execution of contracts, primarily tied to the political and economic conditions of the supplying country.

Gaz de France has implemented a diversification policy for its natural gas supply portfolio. See paragraph 6.1.3.1.2.2.1.1.2 – "Diversification of supplies."

See also Chapter 4 – "Risk Factors."

6.5 Factors relating to its competitive position

The integration of the Group into the various natural gas market businesses and the development of its regulatory environment expose it to various types of competition. Gaz de France believes that the keys to success in its industry are quality of service, good customer relations, gas prices and the ability to obtain transmission contracts.

6.5.1 Exploration – Production

There is significant competition in the Exploration-Production activity between oil and gas operators to acquire assets and permits for exploring and producing oil and natural gas. The Group produced 32.3 Mboe of natural gas in 2006, and, according to IFP's 2004 data, it ranks tenth among natural gas producing companies in Europe.

However, in terms of size and nature of activity, Gaz de France can be compared with other gas market participants who have developed their Exploration-Production activity.

6.5.2 Purchase and Sale of Energy

The Group is one of the leading natural gas suppliers in Europe, one of the largest natural gas buyers in the world and one of the leading importers of Liquid Natural Gaz ("**LNG**") in Europe.

In December 2006, the Purchase and Sale of Energy segment served 10.5 million household customers, more than 607,600 mid-market customer-sites primarily composed of professionals, retailers, small and medium-sized businesses, apartment buildings, certain private and public service providers and local communities) and more than 700 major industrial and commercial customers spread out over more than 4,700 sites, more than 500 of which were located in Europe outside of France. The data in this paragraph only relates to the Purchase and Sale of Energy segment and so excludes the Transmission and Distribution International segment.

After the full deregulation of the markets on July 1, 2007 Gaz de France will lose the monopoly on the supply of gas to its individual French household customers. All customers will then have the ability to choose their gas and other energy suppliers under European directives on the opening of the natural gas market.

To adapt to this change, the Group has implemented a strategy designed to increase customer loyalty with new brands and offers of value-added products and services. Additionally, it has offered its largest customers financial engineering solutions and energy management services. In addition, it is developing a dual gas-electricity offering, already in place for industrial and business customers, which will be expanded to individual customers when they have the opportunity to choose their supplier.

The implementation of the 1998 and 2003 European directives concerning the opening of the European gas market as well as the progressive creation of a new organization of this market through the appearance of hubs and spot gas markets in the United Kingdom and, more recently, in Belgium and The Netherlands, are resulting in a gradual increase in competition in the European natural gas market. This development of competition translates into the possibility for a growing number of consumers to contact the gas supplier of their choice, as well as the creation of third-party access to transmission and distribution networks and to the LNG infrastructure necessary to implement this free choice of supplier (see paragraph 6.1.4 – "Legislative and Regulatory Environment in France").

In the market for large customers which have been eligible to choose their own supplier in France since August 2000, Gaz de France estimates that its market share has changed from just under 73% in 1999 to about 58% at the end of 2006.

In other European markets targeted by Gaz de France, the Group competes with traditional operators that hold very large market shares.

6.5.3 Services

In the market for individual customers, Savelys is the leader with more than 25% of the market.

For traditional energy services to the service and industrial sectors, the competitive positioning of the Services segment is as follows:

- in France, Cofathec Group is in third place;
- in Italy, Cofathec ranks second in the market.

For the business carried by the GNVert subsidiary, competition relates to the construction and operation of filling stations. This competition essentially comes from compressor manufacturers.

Recently, new entrants to the market have become active in the services market, especially Facility Management.

6.5.4 Transmission and Storage – France

Transmission network: GRTgaz

In Europe, opportunities for growth appear essentially through the purchases of existing network operators or the development of new infrastructure such as LNG terminals (Fos-Cavaou) or new main pipelines (Medgaz for routing Algerian natural gas to Spain), and there is strong competition between potential candidates in the context of these acquisitions or projects.

In France, the offer of the Gaz de France LNG terminals is in direct competition with the offer from one or more other terminals in France by 2011-2012. Four projects were announced in 2006 in the ports of Le Havre (Antifer site), Dunkerque and Bordeaux (two projects on the Verdon site). The completion of all these infrastructures would increases the regasification capacity in France by two to two-and-a-half times.

Storage

From an economically and technical viewpoint, proximity to the market is a competitive advantage in the area of gas storage. From this perspective, Gaz de France currently has a very strong position in the French marketplace. For the future, Gaz de France has a good development portfolio of geological structures, which are strictly rationed. In addition it should be noted that the burden of new investments that must be financed for the duration of the project (the development of a new storage project takes about fifteen to twenty years) tend to strongly limit the number of potential new entrants. On the other hand, storage represents one solution to the market's need for modulation (i.e. matching supply to fluctuations in demand). Gaz de France's storage options compete with several other solutions, such as the implementation of possible supply flexibility or the management of demand (in particular to have recourse to a portfolio of customers whose service may be interrupted, if applicable). In this context, various on-going changes at the European level, such as the development of gas hubs and increases in the capacity of gas pipeline transmission networks, contribute to the development of competition in the modulation market.

6.5.5 Distribution France

Distribution in France is mostly carried out by Gaz de France. 22 distributors that were not nationalized under a French law dated April 8, 1946 represent 5% of the national market for gas distribution. The Gaz de France Group holds shares in three of the largest local distribution companies: 24.9% of Gaz de Strasbourg, 24.0% of Gaz de Bordeaux, and 4.3% of Gaz Électricité de Grenoble.

Under the French law dated April 8, 1946, Gaz de France has exclusive rights in towns that granted concessions for their public natural gas distribution on or before April 11, 2000 and those served by Gaz de France under the coverage plan dated April 3, 2000. As a result, Gaz de France is the only operator that may provide public gas distribution services to these local communities.

When the other municipalities need gas supplies they must seek bids from agreed upon gas distributors in accordance with paragraph III of Article 2224-31 in the General Code for Local Communities (designated municipalities authorized under the public service designation). As of December 31, 2006, Gaz de France had acquired the vast majority of new concession agreements. Several towns conducted public competitive bidding for propane. Gaz de France did not take part in these public-bidding rounds, since its profitable criteria for these transactions were not met.

6.5.6 Transmission and Distribution – International

Since the transmission of gas constitutes a natural monopoly, it is a strictly regulated sector in Europe. On the other hand, the sale of gas and electricity is progressively being opened to competition, under the terms of the two European directives currently in effect concerning gas and electricity.

Since the Group includes a diversified group of companies active in many countries and in segments all along the gas and electricity chain, it's competitors are as numerous and varied. In Europe the main competitors on the open markets are the large energy trading companies. New competitors have penetrated the market for natural gas market, such as the large European energy producers. The Group is well-equipped to confront the defensive strategies of historic operators in each of the countries where it is marginally present.

In Mexico, where the gas market is open to competition. The companies selling liquefied petroleum gas (LPG), are the most active competitors.

7 ORGANIZATIONAL CHART

The Company exercises its own operating activities and does not act as a simple holding company with respect to its subsidiaries. An exhaustive list of the Group's consolidated companies is presented in paragraph 20.1.1.1 - "Consolidated financial statements for the year ended December 31, 2006 under IFRS/ Appendix/ Note 35."

The Company has approximately 270 direct or indirect subsidiaries. The following chart is a simplified organizational chart showing the principal subsidiaries held by Gaz de France (indicating its rounded percentage interest in the share capital), as of the date of the filing of this *document de référence*.

Except as otherwise indicated, the percentage of voting rights held by Gaz de France in the Group's companies is identical to the percentage of capital appearing in the organizational chart below.

GAZ DE FRANCE S.A.

Energy Supply and Services

EXPLORATION-PRODUCTION

- 100% EEG Erdgas Erdöl GmbH (Germany)
- 100% GDF PRODUKTION EXPLORATION DEUTSCHLAND (PEG) (Germany)
- 100% GDF PRODUCTION NEDERLAND (The Netherlands)
- 39% NGT (The Netherlands)
- 100% GDF BRITAIN (United Kingdom)
- 23% EFOG (United Kingdom)
- 100% GAZ DE FRANCE NORGE (Norway)
- 100% GAZ DE FRANCE EXPLORATION ALGERIA (The Netherlands)
- 100% GAZ DE FRANCE EXPLORATION EGYPT (The Netherlands)

PURCHASE AND SALE OF ENERGY

- 100% MESSIGAZ (France)
- 51% GASELYS (France)
- 50% METHANE TRANSPORT (France)
- 40% GAZTRANSPORT & TECHNIGAZ (France)
- 49% MAIA EOLIS (France)
- 100% GDF ESS (United Kingdom)
- 50% MED LNG & GAS (Jersey)
- 26% AES ENERGIA CARTAGENA (Spain)

SERVICES FRANCE

- 100% COFATHEC
- 100% FINERGAZ
- 100% GNVERT
- 34% NE VARIETUR
- 59% SAVELYS
- 100% DK6

Infrastructures

TRANSMISSION AND STORAGE FRANCE

- 100% GRTgaz

DISTRIBUTION FRANCE

- 25% GAZ DE STRASBOURG
- 24% GAZ DE BORDEAUX

TRANSMISSION AND DISTRIBUTION INTERNATIONAL

Latin America

- 100% GASODUCTOS DEL BAJIO
- 68% SERVICIOS MAYAKAN
- 68% ENERGIA MAYAKAN
- 100% CONSORCIO MEXI-GAS
- 100% NATGASMEX
- 100% TAMAULIGAS

Canada

- 100% GDF QUEBEC
- 12,8% GAZ METROPOLITAIN (1)

Europe

- 99% EGAZ-DEGAZ (Hungary)
- 32% GASAG (Germany)
- 44% MEGAL GmbH (Germany)
- 25% SPP (Slovakia)
- 43% POZAGAS (Slovakia)
- 13% PORTGAS (Portugal)
- 40,8% DISTRIGAZ SUD (Romania)
- 68,5%* 29%** ARCALGAS PROGETTI (Italy)
- 68,5%* 29%** ITALCOGIM RETI (Italy)
- 40% ARCALGAS ENERGIE (Italy)
- 40% ITALCOGIM VENDITE (Italy)
- 40% CAM GAS (Italy)
- 25% SEGEO (Belgium)
- 25,5% SPE (Belgium)

Other principal subsidiaries

- 100% GDF INTERNATIONAL
- 100% COGAC
- 55% BANQUE SOLFEA

(1) Company held throughout and intermediate company Noverco which is itself held 18% by the Group.
* Share capital
** Voting rights

The functions exercised by the Company's managers (Chief Executive Officer, Chief Operating Officers, members of the Board of Directors and Members of the Executive Committee) in the Company's main subsidiaries are presented in Chapter 14 – "Administrative, Management and Supervisory Bodies and Senior Management."

A chart showing the flow of physical and economic assets between the Group's segments is presented in paragraph 6.1.1 – "Overview."

The presentation of the business activity and strategic economic assets of the Company's main subsidiaries is presented in Chapter 6 – "Business Overview."

The main transactions completed in 2006 were the formation of Maïa Eolis, a company in which Gaz de France holds 49%, which operates in the wind sector, in partnership with the Maïa Sonnier group, the formation of Energie Investimenti, a company 40% held by Gaz de France, the subsidiaries of which (Cam Gas, Arcalgas Energie, Italcogim Vendite) market natural gas in Italy, in partnership with the Camfin group, and the implementation of the *Energy Agreement* signed between the Group and AES Energia Cartagena as of the effective date of November 1, 2006.

In addition, the information relating to the flow of financial assets between the Company and its main subsidiaries is presented in Chapter 19 – "Related Party Transactions."

8 PROPERTY, PLANT AND EQUIPMENT

8.1 Property

Gaz de France owns or leases a real estate portfolio including 1,473 housing units (of which 969 are owned and 504 are leased), 471 service sites used as offices or for other business activities, or a total of 1,207,000 m^2 of floor space, either as the owner (867,000 m^2), pursuant to a finance lease (174,000 m^2) or pursuant to a commercial lease (166,000 m^2 leased from a third party). 79% of the service sites that are either owned or leased pursuant to a finance lease are located outside of Paris, while the rest are located in Île-de-France, whereas essentially all of the commercially leased property is in Île-de-France (108,000 m^2). Among its real estate assets, whether owned or leased, Gaz de France manages 318 sites built on land that in the past supported a gas production plant and are now the subject of a program to rehabilitate these sites as described below in paragraph 8.2.2 "Former industrial sites."

Its service sites are exclusively used for Gaz de France's business activities or rented to EDF. The sites owned by Gaz de France have an 8 to 10% vacancy rate for the sake of flexibility.

There is no major charge on Gaz de France's significant, non-concession assets which are fully-owned and which are not already the subject of a provision.

The Group is currently streamlining its real estate portfolio by selling off housing units as well as vacant service sites, limiting the acquisition and construction of new properties, and by outsourcing the maintenance and management of its properties to specialized service companies. The Group intends to promote the rational use of the real estate that it owns or leases by billing to its business activities the market value of the properties they occupy.

8.2 Environmental issues related to the holding of real estate assets by the Company

8.2.1 Facilities classified for environmental protection purposes (within France)

Certain facilities operated by Gaz de France, specifically compression stations, underground storage facilities, LNG terminals and three depots (propane in Saint-Flour and Bastia and butane in Ajaccio) are classified for environmental protection purposes *(Installations classées pour la protection de l'environnement – "***ICPE***")*.

Under the terms of the French Environmental Code, ICPE regulations apply to plants, shops, depots, jobsites and, in general, to facilities that may present dangers or inconveniences to the vicinity, to public health and safety, to agriculture, to the protection of nature and the environment, and to the conservation of sites, monuments and other archeologically important items.

Industrial activities subject to this legislation are enumerated in a list issued in a Council of State decree – the nomenclature – and are subject, depending on the gravity of the danger or problems presented by their operation, either to a declaration system (in which case the facilities concerned must be operated in accordance with standardized operating directives), or to an authorization system (in this case, the authorization to operate takes the form of a prefectural decree issued after consultation with various agencies and a public investigation, which contains mandatory operating directives specific to the facilities that the operator must follow).

The ICPEs are placed under the control of the Prefect and the regional divisions of industry, research and the environment ("DRIRE"), which are responsible for organizing the inspection of the classified facilities. The inspectors of classified facilities are responsible for defining the technical directives imposed on the facilities, subject to authorization by prefectural decree, and ensuring compliance with the applicable regulations by the ICPEs through the analysis of documents and periodic inspections.

In the event of non-compliance with the conditions imposed on the operator of an ICPE, and irrespective of any criminal prosecution, the Prefect may impose administrative penalties, such as the posting of a sum equal to the amount of the work required for compliance, the mandatory implementation of the measures specified by the decree, or suspension of operations, or may also propose the shutdown or elimination of the facilities by decree of the Council of State.

In addition, some ICPEs are subject to the provisions of an Order of May 10, 2000. This order defines a number of additional procedures designed to prevent major risks. "Seveso" facilities must have specific safety management tools at their disposal because of their size or the nature of their activities and because they present risks of a major accident. This applies to Gaz de France's LNG terminals and the underground storage facilities it operates. These plants must take necessary measures to prevent major accidents and to limit the consequences of such accidents. More specifically, they must implement an "internal operational plan" specifying the terms and procedures for the intervention of the operator in the facilities in the event of an accident as well as a "specific intervention plan" prepared by the Prefect based on information provided by the operator and intended to be a back up for the internal operational plan when the consequences of the accident are likely to extend outside the facilities. In addition, the start of operations in these plants is subject to the prior posting of financial guarantees, the amount of which is set in the prefectural authorization order, and which are intended to guarantee that the operator will be responsible for the cost of any actions required in case of an accident and the cost of restoring the site after the facility has been shut down.

8.2.2 Former industrial sites

Gaz de France pays particular attention to former gas plants, which, prior to the development of natural gas, were the centers for the production of manufactured gas at which it ceased production in 1971. These former operations are likely to be the source, in the subsoil of the sites on which they were built, of substances which can, under certain conditions, present an environmental risk in terms of their location, their nature, their mobility, whether of natural or accidental causes, or their chemical characteristics.

Gaz de France has also, since the beginning of the 1990s, committed itself before the Ministry of the Environment to the voluntary, organized and coordinated treatment of the sites of its former gas plants, beyond the strict application of its legislative or regulatory obligations. Along those lines, it has conducted an exhaustive inventory of these sites and has ranked them according to their environmental sensitivity, while at the same time a major research program was put in place both to provide better information about gas by-products and also to identify new methods of treatment. These actions have made it possible to adopt effective and appropriate measures aimed at preventing any risk of damage to people and to the environment at an economically bearable cost and to specify the terms and conditions and the timetable for their application.

Gaz de France's commitment was reflected in its signing on April 25, 1996 of a memorandum of agreement covering a 10-year period with the Ministry of the Environment relating to the control and monitoring of the rehabilitation of former gas plant sites. In 2001, this protocol was supplemented by developing, with the Ministry, the general objectives of rehabilitation, and those specific to Gaz de France's lands, in order to set a framework for the cleanup of the sites that are changing use, as well as in 2002, setting a procedure for the monitoring of the quality of underground waters. On April 26, 2006, the deadline, the protocol commitments were put in place for all 467 sites. Gaz de France has honored its protocol commitments and a report was drafted jointly with the Ministry of the Environment. Furthermore, the rehabilitation of former gas plant sites has made it possible to preserve the use or to promote the return to urban development use of 342 hectares of land. Gaz de France will continue this clean-up effort at its sites pursuant to the laws and regulations in force.

The accounting provision created to meet its commitments and the financial risks related to the cleanup of former gas plant sites managed by Gaz de France was adjusted to take into account changes in the regulations and laws and the deadline of the protocol with the French States. As of December 31, 2006, this provision was 41 million euros, and all sums devoted (since the beginning of this process) to the rehabilitation of former gas plant sites totaled €155 million.

In Germany, EEG is pursuing a rehabilitation program for sites polluted by its former activities (gas plants and exploration and production sites). This work is carried out in cooperation with the relevant authorities of the Länder of Saxony-Anhalt, Thuringia and Mecklenburg-Western Pomerania and with the BvS (German federal privatizations bureau) for the Land of Brandenburg which finances the greatest share of such expenses.

Future obligations to dismantle exploration-production facilities are governed by the laws of the various countries in which Gaz de France operates, including: in The Netherlands, the mining law; in Germany, the provisions set by the WEG (German association for the oil and gas industry) and the provisions negotiated with the German State and the Länder; in the United Kingdom, the 1998 UK Petroleum Act and the regulations of the United Kingdom Government's Department of Trade and Industry.

9 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In millions of euros	2006	2005 Restated (1)
REVENUES	**27,642**	**22,872**
EBITDA *(before replacement costs)*	**5,149**	**4,248**
OPERATING INCOME	**3,608**	**2,821**
Net income attributable to group shareholders	**2,298**	**1,782**

(1) *restated for the application of IFRIC12 and IFRIC 4 interpretations.*

Consolidated sales for the Gaz de France Group were 27,642 million euros in 2006, up 21% on 2005 levels. With average climatic conditions and on a like-for-like basis in accounting terms (IFRIC 12 excluded), sales rose by 24% in comparison with 2005.

After a first half of the year colder than last year the autumn of 2006 was particularly warm, which adversely affected sales (drop of 12 billion kWh between 2005 and 2006).

The Group's international sales grew to 10,839 million euros, up 33%. They now account for nearly 40% of total sales.

EBITDA was up by 901 million euros (+21%). All segments of the Group contributed to these good results which are up to now the best operational performances ever achieved.

The main growth was achieved by the Exploration-Production segment : EBITDA grew sharply by 544 million euros, driven by increases in prices and volumes sold.

EBITDA in the Purchase and Sale of Energy segment grew by 193 million euros in a buoyant market environment. The Group successfully took advantage of its unique position in gas in Europe for its trading and sales activities.

Last the increase in EBITDA in the Transmission-Distribution International segment by 190 million euros was due to acquisitions and price trends.

Operating income grew by 787 million euros (+28%). In addition to changes in EBITDA operating income was marked by the return to a normal level of provision for replacement in 2006 In the Distribution France segment (in 2005 a non-recurring reversal of 250 million euros had been charged to the income statements).

The Group's net income (attributable to Group shareholders) improved by 516 million euros. In addition to changes in operating income net income benefited from the improvement in financial income by 81 million euros. Income tax increased by 310 million euros in 2006 as a result of the rise in income before tax (the effective tax rate was 34% in 2006, stable as compared 2005).

Introduction : changes in accounting principles and disclosure

The Group's consolidated financial statements for the financial year ended December 31, 2006 were drawn up in accordance with applicable IFRS accounting standards as approved by the European Union (including the IFRIC 4 interpretation "Determining whether an arrangement contains a lease").

As recommended by the French market authorities on December 19, 2006, the Group reached the following decisions for the 2006 financial statements: firstly, to adopt the IFRIC 12 interpretation of the accounting principles for "service concession agreements", published by the IASB on November 30, 2006; and secondly, to adjust its financial statements to meet market requirements on the optimisation of sector comparisons, in line with standard practice for companies in the sectors where the Group operates.

In accordance with IAS 8, 2005 financial statements disclosed as comparative data were restated for the application of all changes in accounting principles.

Impacts on main Group indicators in 2005

In millions of euros	2005 Published	Impact of IFRIC 12	Other (*)	2005 Restated
REVENUES	**22,394**	+487	- 9	**22,872**
EBITDA *(before replacement costs)*	**4,219**	+4	+25	**4,248**
OPERATING INCOME	**2,784**	+4	+33	**2,821**
Net income attributable to group shareholders	**1,743**	+3	+36	**1,782**

(*) *Impact of IFRIC 4 interpretation and finalization of the Purchase Price Allocation of SPE (see Note B.2 in chapter 20 – "Change in accounting policies and disclosure")*

Impacts on main Group indicators in 2006

In millions of euros	2006 Before Changes	Impact of IFRIC 12	Other (*)	2006 Published
REVENUES	**27,258**	397	-13	**27,642**
EBITDA (before replacement costs)	**5,155**	7	-13	**5,149**
OPERATING INCOME	**3,611**	5	-8	**3,608**
Net income attributable to group shareholders	**2,299**	**3**	**-4**	**2,298**

(*) *Impact of IFRIC 4 interpretation and finalization of the Purchase Price Allocation of SPE (see Note B.2 in chapter 20 – "Change in accounting policies and disclosure")*

Analysis of main impacts of IFRIC 12

Impact on revenues : the IFRIC 12 interpretation whereby a concession holder acts as constructor on behalf of the body granting the concession in the construction of new infrastructure (initial investments), means that additional revenues are included in the financial statements. Initial investments are accounted for in the following way: the fair value of the work represents the acquisition cost of the intangible asset, which is included in the financial statements when the asset is built.

Impact on operational performances : for Gaz de France, where no distinction is made between the payment it receives in the construction phase and in the operating phase in calculating the rates for third-party access to the gas infrastructure, and where there is no external fair-value reference for these two items, revenues included in the construction phase are limited to the amount of expenses incurred, and therefore have no impact on operational performance indicators used by Gaz de France.

Provisions are made for like-for-like replacement costs and accounted for under IFRIC 12 principles.

Replacement costs are recognised as operating expenses when they are incurred and the equivalent amount is released from the provision on the line 'Amortization and provisions' in the income statement.

See Note B.2 in chapter 20 – "Change in accounting policies and disclosure".

Change in the presentation of the income statement

EBITDA has been removed from the income statement but has been retained as a non-GAAP measure of operational performances. The information needed to reconcile it with the financial statements is given in chapter 20 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Appendix / Note 30.2. "

In order to allow comparisons to be made with preceding periods where EBITDA was not affected by replacement costs (previously capitalised), and to take into account the particular nature of these expenses, EBITDA is shown before replacement costs.

For the same reasons, as regards the cash-flow statement (see chapter 10), operating cash-flow is posted before replacement costs.

9.1 Principal factors having an impact on business activities and results of operations

The Group' s business and operational performances are affected by the following factors, such as changes in rates, oil prices, US dollar/euro exchange rate, weather conditions, changes in scope of consolidation and seasonality.

9.1.1 Rate regulation

The Group's business depends on various pricing systems detailed in the table below :

Division	Rate applied	Comments
Energy Supply and Services	**Administrative rates**	Natural gas prices for individual household customers and eligible customers who have not exercised their right to choose their natural gas supplier The Group sells natural gas on the basis of two types of administrative rates : public distribution rates and subscription rates.
	Public distribution rates *(Administrative rates)*	For customers connected to the distribution network that consume less than 5 GWh per year. They are set by the Ministers of the Economy and Energy based on the proposal of Gaz de France and the opinion of the CRE.
	Subscription rates *(Administrative rates)*	For customers connected to the distribution network that consume more than 5 GWh per year and for customers connected directly to the transmission network. They are proposed by Gaz de France and go into effect following the opinion of the CRE, unless it is opposed by the Ministry of Economy, Finance and Industry.
	Negotiated rates	Natural gas prices for customers who have exercised their right to choose their natural gas supplier.
Infrastructures	**Regulated rates (excluding rates for the use of storage facilities)**	Rates for the use of infrastructures pursuant to the French law of January 3, 2003 Rates set by Gaz de France based on a methodology approved by CRE.

Changes in administrative rates

- **Public distribution rates**

The table below shows the average level of **changes** in the public distribution **rates** made in 2005 and 2006.

Year	Average level of rate changes
2005	
July 1	0.124 c€ per kWh
September 1	0.090 c€ per kWh
November 1	0.445 c€ per kWh
2006	
January 1	Cancellation of increases in rates pursuant to decree of June 16, 2005
May 1	0.210 c€ per kWh
After May 1	Cancellation of increases in rates pursuant to decree of June 16, 2005

- **Subscription rates**

Subscription rates are established each quarter. They account for the change in the US dollar/euro exchange rate and the rate of a basket of oil products, with an annual adjustment to account for inflation.

Year	Average level of rate changes
2005	
January 1	1.83 € per MWh
April 1	-1.24 € per MWh
July 1	3.06 € per MWh
October 1	2.98 € per MWh
2006	
January 1	1.99 € per MWh
April 1	- 0.93 € per MWh
July 1	1.33 € per MWh
October 1	No change

Outlook 2007

With regards to public distribution rates and provided that legal or regulatory changes do not interfere the provisions of the public service contract between Gaz de France and the French State signed on June 1, 2005 should apply until December 31, 2007.

See paragraph 6.1.3.1.2.2.2.3 "Sales price of natural gas/ Administrative Rates" and Appendix B – Glossary.

9.1.2 Oil prices

Fluctuations in the market price of oil affect Gaz de France's result of operations primarily in two ways:

- In the **Exploration-Production segment,** a rise in oil prices results in an increase in revenues and operating income, with a proportionally more significant impact on operating income because operating costs in the segment do not vary with oil prices.
- In the **Purchase and Sale of Energy segment,** a rise in oil prices has the opposite effect, as it increases operating costs. This increase is normally passed on through rate increases, but subject to a time lag if the rate revision that should apply under the relevant formula is not fully reflected in the revised rate.

Average rate	2006	2005	Var. (%)
Brent (in USD)	65.1	54.4	+19.7%
Brent (in EUR)	51.7	43.8	+18.0%

9.1.3 U.S. dollar/euro exchange rate

The U.S. dollar/euro exchange rate may affect the Group's results of operations principally through its effect on the price of oil, which is quoted in U.S. dollars.

The risk linked with exchange rates fluctuations is hedged through derivative financial instruments.

See paragraph 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Appendix / Note 25. "

Average rate	2006	2005	Var. (%)
EUR / USD	1.26	1.24	+1.6%

9.1.4 Weather conditions

Weather conditions may have a significant effect on the Group's operations in terms of volumes sold and costs. For example a drop in temperatures in winter may induce a rise in sales (increase in the gas consumption and/or selling prices), costs (energy supplies on wholesale markets at high prices or increased external charges) and/or additional maintenance operations.

In France, 2006 was slightly warmer than an average year with a climate negative adjustment of 6.4 billion kWh (This climate adjustment was a positive 5.1 billion kWh in 2005, which was colder than an average year).

9.1.5 Changes in scope of consolidation

Main changes in the scope of consolidation in 2006 were the following :

	Acquisitions	Disposals
Energy Supply and Services division		
Exploration-Production	-	KGM (Kazakhstan)
Purchase and Sale of Energy	AES Energia Cartagena (Spain) Maïa Eolis (France)	-
Services	-	-
Infrastructures division		
Transmission-Storage France	-	Dispoal of 30.3% of Société du Terminal Méthanier de Fos Cavaou (France)
Distribution France	-	-
Transmission-Distribution International	-	Disposal of Gaseba (Argentina and Uruguay) Disposal of 10.2% of Distrigaz Sud (Romania)

Changes in the scope of consolidation positively affected Group's revenues in 2006 by 843 million euros (3% of total 2006 revenues) : 2006 included the impact of full year operations of Distrigaz Sud (acquisition of a 51% stake on May 31, 2005) for 490 million euros and SPE (25.5% acquired on October 1, 2005) for 357 million euros.

The disposal of a 10.2% interest in Distrigaz Sud and 30.3% interest in Société du Terminal Méthanier de Fos Cavaou did not induce the consolidation method used for both companies.

9.1.6 Seasonality

The Group's results of operation are also affected by the seasonal nature of natural gas consumption, which is higher in the winter than in other seasons due to the use of natural gas in heating and power generation (a significant amount of electricity is also consumed for heating).

9.2 Analysis of Group's results

9.2.1 Organic growth

In millions d'euros	
Revenues 2005 (published)	**22,394**
IFRIC 12	487
IFRIC 4	-9
Revenues 2005 (restated)	**22,872**
Organic growth	4,017
Change in scope of consolidation	843
Other	-90
Revenues 2006 (published)	**27,642**

In 2006 consolidated sales for the Gaz de France Group were 27,642 million euros compared with 22,394 million euros in 2005. Adjusted for the impacts of changes in accounting principles and scope of consolidation revenues grew by 4,017 million euros.

9.2.2 Revenues by segment

In million euros	Revenues 2006	Revenues 2005 restated	Var. (%)
Energy Supply and Services division			
Exploration-Production	1,659	1,139	+45.7%
Purchase and Sale of Energy	20,481	17,265	+18.6%
Services	2,181	1,924	+13.3%
Infrastructures division			
Transmission-Storage France	2,227	2,124	+4.8%
Distribution France	3,289	3,426	-4.0 %
Transmission-Distribution International	3,570	2,275	+56.9%
Eliminations, other and un-allocated	-5,765	-5,281	N/A
Total Group	**27,642**	**22,872**	**20.9%**

The rise in revenues by almost 21% was mainly due to the growth in business of the Purchase and Sale of Energy (+18.6%), Exploration-Production (+45.7%) and Transmission-Distribution International (+56.9%) segments. Only the Distribution France segment experienced a slight decrease between 2005 and 2006 (-4.0%).

The contribution of each segment is analysed hereafter.

9.2.2.1 Exploration - Production

Exploration-Production revenues rose by 46% to 1,659 million euros in 2006, compared with 1,139 million in 2005 (+ 52% on a like-for-like basis, as a result of the sale of KGM in July 2006).

This increase is mainly due to increases (see paragraph 9.1.2 "Oil prices") in hydrocarbon prices (petroleum products and natural gas) and the 10% increase in consolidated sales of the Group's production.

9.2.2.2 Purchase and Sale of Energy

Sales in Purchase and Sale of Energy increased by 19% over 2005 levels, to 20,481 million euros compared with 17,265 million euros. This increase was mainly due to rises in energy prices, reflecting the increase in the purchase price of gas. For an analysis of volumes sold, see paragraph 9.2.3.3 – "Natural gas sales" and 9.2.3.4 – "Electricity sales".

9.2.2.3 Services

End of year revenues in Services stood at 2,181 million euros, as compared with 1,924 million euros in 2005, an increase of 13%. This increase was partly a result of strong organic growth, and partly of variations in corporate structure. On a like-for-like basis, sales grew by 9%.

External growth operations in 2005 and 2006 consolidated geographic coverage in the segment in France, Belgium and the UK.

9.2.2.4 Transmission – Storage France

Revenues in Transmission-Storage France amounted to 2,227 million euros for the period, compared with 2,124 million in 2005, an increase of 4.8%. The rise in subscribed capacity in the transmission system, in reserved storage capacity and in the quantities of natural gas discharged in LNG terminals, as well as the increase in prices for third-party access to storage capacity, which were introduced on April 1, 2006, account for this increase.

9.2.2.5 Distribution France

Revenues in Distribution France were 3,289 million euros at end December 2006, as compared with 3,426 million euros in 2005, down by 4%. On a like-for-like basis with regard to climatic conditions and accounting methods (IFRIC 12), sales rose by around 2.1%.

In fact, in line with IFRIC 12 principles for concession contracts, Distribution France posted additional sales of 384 million euros in 2006, compared with 475 million euros in 2005.

Moreover, in 2006, which was marked by a particularly warm autumn, 327.3 billion kWh of natural gas were carried over the Distribution network, compared with 337.4 billion kWh in 2005.

9.2.2.6 Transmission – Distribution International

In Transmission-Distribution International, 2006 revenues increased by 57% over 2005 levels, from 2,275 million euros to 3,570 million euros. This increase was due in part to external growth (+ 20% on a like-for-like basis) following the acquisition of Distrigaz Sud in Romania on May 31, 2005 and SPE in Belgium on October 1, 2005. It also reflects price increases obtained since mid-2005 following increases in supply costs.

See paragraph 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Appendix / Note 30. "

9.2.3 Other indicators

9.2.3.1 Consolidated hydrocarbon production (excluding minority interests)

	2006*	2005	Var. (%)
Combined production (Mboe)	38.0	34.6	+ 9.8 %
Gas (Mboe)	28.8	24.1	+ 19.5 %
Liquids (Mbl)	9.2	10.5	- 12.4 %

Production sales stood at 38.0 Mboe in 2006, as compared with 34.6 Mboe in 2005, an increase of 9.8%. On a like-for-like basis (sale of the stake in KGM, impact of -1.3 Mboe in 2005), this increase amounts to 14.1%, with the increase in production sales in the Netherlands (+5.2 Mboe) more than compensating for the fall in production due to natural decline in the Norwegian fields (-1.0 Mboe), in Germany (-0.4 Mboe) and in the UK (-0.1 Mboe).

Including Gaz de France's share in the Elgin-Franklin field (Efog subsidiary consolidated by the equity method) and the contribution of non-consolidated companies, the Group produced 45.5 Mboe in 2006.

9.2.3.2 Hydrocarbon reserves(1)

In millions boe	31.12.2006	31.12.2005
Proven and probable reserves	626.8	697.2
natural gas	*488.0*	*516.5*
liquid hydrocarbons	*138.8*	*180.7*
Share of proven and probable reserves in associates	58.5	55.7
Total	**685.3**	**752.9**

(1) *Consolidated entities and share of proven and probable reserves of associates (unaudited).*

As at December 31, 2006, Gaz de France had proven and probable reserves of liquid hydrocarbons and natural gas of 685.3 Mboe (including the Group's share in associates), as compared with 752.9 Mboe in 2005, i.e. a fall of 9%. This fall was mainly due to the sale of KGM in 2006 (-45.1 Mboe) and of assets in the United Kingdom (-5.8 Mboe). Excluding this effect, the reduction in reserves was due to production over the period (-45.5 Mboe), partially balanced out by reserves discovered, expanded and revised in 2006 (+28.8 Mboe).

The renewal rate (2) for the Group's proven and probable reserves was +63% in 2006, as compared with +244% in 2005.

(2) *The renewal rate is calculated by dividing total discoveries plus revisions and acquisitions by total production for the financial year.*

9.2.3.3 Natural gas sales

9.2.3.3.1 Group's consolidated natural gas sales

Consolidated natural gas sales By Group's segments [(1)] (billions of kWh)	2006	2005
Purchase and Sale of Energy	641	649
Transmission Distribution International	102	82
Exploration-Production	53	42
Eliminations	- 34	- 24
Total Group	**762**	**749**

(1) *including the Group's share in gas sales of companies proportionaly consolidated.*

9.2.3.3.2 Natural gas sales of Purchase and Sale of Energy

Purchase and Sale of Energy segment (in billion kWh)	2006	2005	Var. (%)
In France			
Domestic customers	133	139	- 4.3 %
Business customers	179	189	- 5.3 %
Large industrial and commercial customers	100	115	- 13.0 %
Other customers	28	26	+7.7%
France Total	*440*	*469*	*- 6.2 %*
In Europe			
Large industrial and commercial customers	119	105	+13.3%
Other customers	10	10	
Europe Total	*129*	*115*	*+12.2%*
Short-term sales	72	65	+10.8%
Total Purchase and Sale of Energy	**641**	**649**	**- 1.2 %**

The growth in sales in 2006 was mainly due to a price effect, with purchase prices being partially passed on to customers.

The volumes of natural gas sold to domestic customers in France reached 133 billion kWh for the year ending December 2006, down by 4.3% on the period because of the exceptionally mild weather conditions at the end of the final quarter. Adjusted for climate effects, the volumes sold to domestic customers in France were stable in 2006.

Natural gas sales to business customers and to large industrial and commercial companies in France were down 8% compared with 2005, at 279 billion kWh, due to the combined effect of market deregulation and mild temperatures.

In Europe, volumes of gas sales rose by 12% (+14 billion kWh), reaching 129 billion kWh, boosted by strong sales in Germany, Belgium, Italy and the United Kingdom.

The following table shows Group's sales split by country in the large industrial and commercial customers in Europe :

In billion kWh	2006	2005
United Kingdom	36.4	34.6
Belgium and Luxembourg	25.4	21.2
The Netherlands	21.0	20.2
Italy	21.0	16.9
Spain	6.2	5.2
Germany	8.7	6.7
Hungary	0.3	-
Total	**119.0**	**104.8**

9.2.3.4 Electricity sales of Purchase and Sale of Energy

In France, physical electricity sales (excluding volumes sold through hedge transactions) rose by 17% in 2006, to 3.3 billion kWh.

In the United Kingdom, electricity sales were buoyed by strong price rises in the British market, and grew by 15% compared with 2005.

In Spain, the Cartegena combined cycle power plant, which has production capacity of 1200 MWe, came into operation in November 2006.

9.3 Analysis of Group's operational performances

9.3.1 Contribution of divisions to Group EBITDA(1) and operating income(2)

	2006		2005		Var. (%)	
In million euros	EBITDA	OI	EBITDA	OI	EBITDA	OI
Energy Supply and Services division						
Exploration-Production	1,270	935	726	457	75 %	105 %
Purchase and Sale of Energy	441	391	248	204	78 %	92 %
Services	189	111	166	94	14 %	18 %
Infrastructures division						
Transmission-Storage France	1,285	953	1,271	942	1 %	1 %
Distribution France	1,412	726	1,358	900	4 %	- 19 %
Transmission-Distribution International	562	402	372	284	51 %	42 %
Eliminations, other and un-allocated	- 10	90	107	-60		
Total Group	**5,149**	**3,608**	**4,248**	**2,821**	**21 %**	**28 %**

(1) *EBITDA : earnings before interest, tax, depreciation and amortization (before replacement costs).*
(2) *OI : operating income.*

in 2006 the Group's EBITDA was 5,149 million euros and operating income 3,608 million euros, up respectively by 21% and 28% compared with 2005 levels. Hence the announced target of a rise in EBITDA by at least 20% was achieved and exceeded.

This growth in consolidated EBITDA and operating income was mainly due to the Exploration-Production, Purchase and Sale of Energy and Transmission-Distribution International segments.

The contribution to EBITDA by segment was relatively stable between 2005 and 2006 : the three businesses that contributed most to the 2006 EBITDA remained Exploration-Production, Distribution France and Transmission-Storage France.

9.3.1.1 Exploration – Production

At 1270 million euros, as compared with 726 million in 2005, **EBITDA** was up by 544 million euros (i.e. around 75%). On a like-for-like basis (excluding capital gain from the sale of KGM in 2006, and the 2005 corporate structure effect arising from this divestment), EBITDA was up by some + 56%. This increase reflects the rise in the price of hydrocarbons and in production volumes, partially offset by the increase in exploration expenses (increased exploration programme compared with 2005) and to a lesser degree by the increase in exploration expenses arising from the rise in production and in the cost of petroleum services.

Exploration expenses (including exploration costs directly charged to expenses) were 143 million euros, as compared with 114 million euros in 2005, an increase of 25%.

Eight successful wells were drilled in 2006, out of a total of fifteen exploratory drilling operations. The discoveries were made in the United Kingdom (3), Norway (3), Germany (1) and Mauritania (1).

In 2005, thirteen wells were drilled over the year, eleven of them successfully. The discoveries were made in the UK (4), The Netherlands (3), Norway (1), Germany (1) and Algeria (2 appraisal wells).

Operating income, at 935 million euros in 2006, was up by 478 million euros compared with 2005. Operating income in 2005 included impairment of 11 million euros, as compared with 49 million euros in 2006. Excluding these factors and on a like-for-like basis (excluding capital gain from the sale of KGM and the 2005 corporate structure effect) operating income was up by around 82%. It reflects the increase in EBITDA, partially offset by the increase in amortisation and provisions over 2005 levels, reflecting the rise in production.

9.3.1.2 Purchase and Sale of Energy

EBITDA in Purchase and Sale of Energy was 441 million euros in 2006, an increase of 78% over 2005 levels.

This upward trend was mainly due to the Group's optimisation and arbitrage operations, in particular through the use of our storage capacities in conditions of high price volatility.

Public distribution prices rose by 5.8% from May 1, 2006. The decree of June 16, 2005 provided for quarterly adjustments as from January 1, 2006, which did not take place. The Group was thus unable to pass on all increases in costs (revenue loss of 511 million euros in 2006). Moreover, the Group granted discounts of 91 million euros during the first quarter 2006.

The difference in EBITDA between 2005 and 2006 includes decreases arising from non-recurring positive items posted in 2005, from the impact of the winding-up of cross-holdings with Total in France and from the adjustment to a transmission price rate billed by a subsidiary of the Group's Transmission-Distribution International segment.

Operating income followed the same pattern as EBITDA and increased from 204 million euros in 2005, to 391 million euros in 2006.

9.3.1.3 Services

EBITDA for the Services segment was 189 million euros in 2006, an increase of 23 million euros and 14% compared with 2005 levels.

This increase in EBITDA was mainly attributable to the Cofathec Group (sustained improvement in profits by Cofathec Italy, and by the Oméga and Cofathec Services sub-groups), but also to DK6 (market launch in March 2005) and Savelys.

Operating income was 111 million euros in 2006, versus 94 million euros in 2005, an increase of 17 million euros, i.e. +18%. In 2006, this included amortisation of DK6 for a full year.

9.3.1.4 Transmission – Storage France

EBITDA was 1,285 million euros in 2006, versus 1,271 million euros in 2005, up by 1.1%.

The figures for 2006 reflect the impact of a non-recurring expense of 37 million euros for adjustments on tangible assets.

The 2005 figures particularly reflect the capital gain from the sale to Total of the cushion gas at the Izaute storage facility, as part of the winding-up process for cross-holdings between Gaz de France and Total.

Operating income was 953 million euros in 2006, versus 942 million euros in 2005, an increase of 1.2%, linked with the increase in EBITDA.

9.3.1.5 Distribution France

EBITDA for Distribution France was 1,412 million euros in 2006, versus 1,358 million euros in 2005, an increase of 4%.

The additional sales posted under IFRIC 12 had no impact on EBITDA.

The climate had a negative impact on EBITDA levels, although this was offset in particular by the elimination of the specific expenditure item relating to company contributions to employee share ownership schemes posted in 2005.

Mainly as a result of the return to a normal level of provision for replacement in 2006, **operating income** fell from 900 million euros in 2005 to 726 million euros in 2006, a decrease of 19%.

9.3.1.6 Transmission – Distribution International

EBITDA rose to 562 million euros for 2006 versus 372 million euros in 2005, an increase of 51%.

On a like-for-like basis EBITDA was up 29%, due notably to price increases and to the readjustment of a transmission tariff that had a negative impact in 2005 (this readjustment mostly benefited Purchase and Sale of Energy).

Operating income improved by 42% to 402 million euros, compared with 284 million euros for the previous year; the increase represents an increase of 22% on a like-for-like basis.

Financial year 2005 was marked by reversals of impairment in Mexico and provision for litigation in Germany.

9.3.2 Analysis of other items in the income statement

In million euros	2006	2005 restated
Revenues	27,642	22,872
Operating income	3,608	2,821
Financial income	**(357)**	**(438)**
Income before tax	3,427	2,572
Income Tax	**(1,104)**	**(794)**
Net income		
Attributable to Group shareholders	**2,298**	**1,782**
Minority interests	25	(4)

The Group's **financial income** improved by 81 million euros with a net expense of 357 million euros as at December 31, 2006 as compared with 438 millions euros at the end of 2005). See also paragraph 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Appendix / Note 20. "

Net finance costs

As at December 31, 2006, net finance costs for the year totalled 123 million euros, down by 79 million euros over its level at December 31, 2005.

Besides a 6 million euro favourable exchange-rate effect, this reduction can be explained by:

- a 26 million euro drop in gross interest charges (206 million euros in 2006 compared with 232 million euros in 2005), including a positive effect of 9 million euros from the renegotiation of a finance lease contract,
- an increase in profits on cash equivalents and short term securities totalling 47 million euros (73 million euros in 2006 versus 26 million euros in 2005), essentially due to profits on sales of investment fund holdings.

As at December 31, 2006, the average effective interest rate on long-term financial debt was 4.6% as compared with 4.9% in 2005.

Other financial income and expenses

Other financial income and expenses amounted to an expense of 234 million euros at end-2006, compared with an expense of 236 million euros at end-2005.

The main items accounted for during the period relate to unwinding expenses of the discount on replacement and site restoration provisions, pension-related adjustments (unwinding expenses of the discount and expected return on plan assets), dividends received from non-consolidated subsidiaries, as well as net proceeds from the disposal of Technip securities.

Income tax as of December 31, 2006 amounted to 1,104 million euros as compared with 794 million euros on December 31, 2005, mainly as a result of the rise in income before tax [1] between the two periods (+ 911 million euros). The effective tax rate as at December 31, 2006 was 33.96% as compared with 33.93% on December 31, 2005. See also paragraph 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2006 under IFRS / Appendix / Note 21. "

Net consolidated income – **Group share** attained 2,298 million euros in 2006, an increase of 29% as compared with the 2005 restated data. Hence the announced target of a net income – Group share higher than 2.2 billion euros was achieved and exceeded.

9.3.3 ROE, ROCE

In million euros	31.12.2006	31.12.2005 restated
Net income – Group share	2,298	1,782
Shareholders' equity – Group share	16,197	14,484
ROE (in %)	**14.2%**	**12.3%**

In million euros	31.12.2006	31.12.2005 restated
Net income – Group share	2,323	1,778
Net finance cost	123	202
Tax saving – net finance cost	-44	-71
Return	**2,402**	**1,909**
Shareholders' equity – Group share	16,663	14,782
Net debt excluding the impact of amortized cost and financial instruments	3,465	2,962
Capital employed	**20,128**	**17,744**
ROCE (in %)	**11.9%**	**10.8%**

2006 results resulted in a growth in ROE (14.2% as at December 31, 2006 as compared with 12.3% as at December 31, 2005) and ROCE (11.9% as at December 31, 2006 as compared with 10.8% as at December 31, 2005).

(1) *Income before tax and impact of goodwill and share in income of associates.*

10 LIQUIDITY AND CAPITAL RESOURCES

Introduction: changes in accounting principles and disclosure

The financial statements for fiscal year 2006 have been prepared with the following main changes in principles and disclosure:

- Application of interpretation IFRIC 12 concerning concession agreements;
- Application of interpretation IFRIC 4 concerning leases;
- Change in the presentation of the statement of cash flows.

See "Introduction" in Chapter 9 – "Management's discussion and analysis of financial condition and results of operations"

Summary of the impacts on the Group's principal indicators for fiscal year 2005

In millions of euros	2005 Published	Impact IFRIC 12	Other(*)	2005 Restated
Shareholders' equity	14,803	-49	28	14,782
Net financial debt	2,993	-	-31	2,962
Operating cash flow	4,229	-	25	4,254
Cash flow from operating activities	3,166	-255	-123	2,788
Cash flow from investing activities	-2,463	255	98	-2,110

(*) *Impact of the application of the IFRIC 4 interpretation and finalization of the SPE Purchase Price Allocation (See note B.2 in Chapter 20 – "Changes in accounting principles and presentation reclassifications").*

Impacts on shareholders' equity at January 1, 2005: *The application of interpretation IFRIC 12 resulted in a decrease in shareholders' equity at the beginning of 2005 net of deferred taxes of €52 million.*

Summary of the impacts on the Group's main indicators for fiscal year 2006

In millions of euros	2006 before change	Impact IFRIC 12	Other(*)	2006 Published
Shareholders' equity	16,723	-47	-13	16,663
Net financial debt	3,465	-	-	3,465
Operating cash flow	5,131	-	-13	5,118
Cash flow from operating activities	3,360	-294	-	3,066
Cash flow from investing activities	-2,468	294	-	-2,174

(*) *Impact of the application of the IFRIC 4 interpretation and finalization of the SPE Purchase Price Allocation (See note B.2 in Chapter 20 – "Changes in accounting principles and presentation reclassifications").*

Change of presentation in the statement of cash flows

As a result of the recognition of replacement expenditures as operating expenses, the following changes were made to the statement of cash flows:

- "Cash flow from operating activities" is now before replacement costs, taxes paid and changes in working capital requirements;
- A line for "Replacements costs" is added before "Cash flow from operating activities", and these flows are reduced by the amount of the expenditures and, as an offset, a symmetrical reduction is made in the line "Capital expenditures" in the part "Cash flows from investing activities".

See Paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note B.2"

Group financing policy and cash management:

The Group favors centralizing the financing needs and cash surpluses of its controlled subsidiaries in order to:

- optimize Group liquidity;
- reduce the Group's average cost of financing;
- limit guarantees made for the debts of its subsidiaries.

10.1 Shareholders' equity of the issuer

At December 31, 2006, the share capital consisted of 983,871,988 shares. The par value of one share is 1 euro.

Change in Group share of shareholders' equity over the last two years:

In millions of euros	12/31/2006	12/31/2005 restated
Shareholders' equity – Group share	16,197	14,484

For more information, see Paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS – Statement of changes in Shareholders' Equity".

10.2 Description, source and amount of cash flows

In millions of euros	12/31/2006	12/31/2005 restated
Cash flow from operating activities before replacement costs, change in working capital requirements and taxes	**5,118**	**4,254**
Taxes paid	- 1,348	- 562
Replacements costs	- 294	- 255
Change in working capital requirements	- 410	- 649
Cash flow from operating activities	**3,066**	**2,788**
Cash flow from investing activities	**- 2,174**	**- 2,110**
Cash flow from financing activities	**- 566**	**299**
Effect of changes in exchange rates, consolidation method and other	25	10
Change in cash and cash equivalent	351	987

10.2.1 Cash flows from operating activities

Cash flows from operating activities before taxes, replacement costs and change in working capital requirements amounted to €5,118 million at December 31, 2006 compared with €4,254 million at December 31, 2005.

The change in working capital requirements (€410 million) essentially reflect the strong growth in operations and an increase in the volumes stored, generated both by a volume effect because of the mild weather conditions at year end and the increased cost of supplies.

Operating activities generated a total positive cash flow of €3,066 million at December 31, 2006.

10.2.2 Cash flows from investing activities

On the statement of cash flows, total investments (including replacement costs) amounted to €3,510 million in 2006, up 19.5% over 2005 (€2,938 million).

See paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note 22".

Capital expenditures (including investments financed by finance leases in the amount of €143 million) represented €2,647 million in 2006, an increase of €609 million from 2005.

They are described in paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note 2".

Investments in equity interests, net of the cash acquired, totaled €487 million in 2006. These investments primarily involved the reorganization of the interests in the Italian division and the acquisition of 49% in Maïa Eolis.

Other investments totaled €519 million in 2006 (€226 million in 2005 after reclassification of the margin calls related to forward market transactions). They were primarily related to the acquisition of an interest in Société Suez.

Proceeds from asset disposals amounted to €935 million in 2006 (€479 million in 2005), which essentially reflects the sales of the securities held in KGM (KazGerMunai), Distrigaz Sud (10%) and Technip and the accounting effects resulting from reorganization of equity investments in the Italian division.

From an economic point of view, total investments in 2006 were €3,982 million, which can be analyzed as follows:

- investments excluding acquisitions, €3,166 million (capital expenditures for €2,647 million and other investments in the amount of €519 millions),
- investments in acquisitions totaling €816 million, including €671 million related to the consolidation of AES following the commissioning of the plant and the effective date of the *Energy Agreement*, and €145 million in other investments (acquisition of stake in Maïa Eolis and investments related to reorganization of investments in the Italian division).

In millions of euros	12/31/2006	12/31/2005
***Capital expenditures* (1)**		
Transmission – Storage France	618	447
Distribution France	787	793
Transmission – Distribution International	179	126
Exploration, production	622	534
Purchase and Sale of Energy	374	46
Services	43	62
Other	24	30
Total capital expenditures	**2,647**	**2,038**
***Financial investments* (2)**	**519**	**226**
Total excluding acquisitions	**3,166**	**2,264**
Acquisitions	**816**	**674**
Total	**3,982**	**2,938**

(1) *Capital expenditures, including replacement costs, exploration costs and finance leases.*
(2) *Financial investments after reclassification of the Gaselys margin calls as working capital requirements.*

For more information, see paragraph 5.2 - "Investments".

10.2.3 Cash flows from financing activities

The financing activities present a disbursement of 566 million euros at December 31, 2006 compared with receipts of €299 million at December 31, 2005.

In 2006, the cash flows from financing activities primarily reflect the dividends paid for €669 million, repayments of loans for €619 million, and subscription to new borrowings for €892 million.

See paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note 22 and Statements of Consolidated Cash Flows".

10.3 Borrowing terms and financing structure

10.3.1 Structure of the debt

In million of euros	12/31/2006	12/31/2005 restated
Gross debt (ex. impact of amortized costs and derivative instruments)	6,021	5,104
Gross debt	6,039	5,143
Cash	-2,574	-2,518
Net financial debt	3,465	2,962

Analysis of gross debt (excluding impact of amortized cost and derivative instruments)

As of December 31, 2006, the gross debt excluding the impact of amortized cost and derivative instruments totaled €6,021 million and included:

- €1,997 million in bonds,
- €1,286 million in bank borrowings,
- €817 million in finance leases,
- €624 million in irredeemable securities,[1]
- €679 million in bank overdraft,
- €410 million in commercial paper,
- €208 million in other financial debt.

The Group also has a syndicated line of credit for €3,000 million maturing February 2012, which had not been drawn as of December 31, 2006

(1) *Pursuant to IAS standards 32-39, irredeemable securities are classified as debts.*

See Paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note 10".

The **long-term/short-term breakdown** of gross debt (excluding the impact of the amortized costs and derivative instruments) is 76% (€4,560 million) / 24% (€1,461 million). See paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Notes 11".

The **fixed-rate portion** of the gross debt is 50% (66% after hedging) and the variable-rate portion is 50% (34% after hedging).

As of December 31, 2006, 93% of the gross debt was denominated in euros, and 7% in other currencies (US dollar, pound sterling, yen and others), compared to 90% and 10% respectively at December 31, 2005. See Paragraph 20.1.1.1. – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note 12".

62% of the gross debt is carried by the parent company.

See Paragraph 4.1 – "Main risks".

Analysis of net debt / equity ratio

	12/31/2006	12/31/2005 restated
Net financial debt	3,465	2,962
Shareholders' equity	16,663	14,782
Debt / equity ratio	**21%**	**20%**

At December 31, 2006, the Group's net debt amounted to €3,465 million compared with €2,962 million at December 31, 2005, an increase of €503 million.

The debt ratio remained stable between December 31, 2006 (21%) and December 31, 2005 (20%).

See Paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note 10"

10.3.2 Principal financing operations in 2006

No significant financing operation was completed in 2006.

10.3.3 Group ratings

As of December 31, 2006, the ratings from the rating agencies were as follows:

	Short-term debt	Long-term debt
Moody's	P-1	Aa1 (2)
Standard & Poor's	A-1+	AA- (2)

(2) *On February 27, 2006, following the announcement of the proposed merger between Gaz de France and Suez, Standard & Poor's and Moody's placed the ratings of Gaz de France under a negative watch.*

The Fitch agency, which rates Gaz de France without a request from the company to do so, granted a AA rating to the senior long-term debt of the Company. An improvement in the senior long-term debt of Gaz de France from AA to AA+ was recorded on February 16, 2006, following a change in the agency's rating method for companies in the energy and service to municipalities sector. On March 6, 2006, Fitch announced a "potential for improvement" watch on this rating.

10.4 Restriction on the use of capital

Certain borrowings contracted by Group subsidiaries may include guarantees, or clauses requiring certain ratios. As of December 31, 2006, the Group had met the requirements of those clauses.

The following table itemizes the undertakings on bank loans:

in millions of Euros	12/31/2006
Bank loans	**1,286**
Including:	
Gaz de France SA [(a)]	105
AES Energia Cartagena [(b)]	609
Energia Mayakan [(c)]	126
Distrigaz Sud [(d)]	75
Gasag [(e)]	56
Other debt (unit amounts < €50 million)	315

(a) *Gaz de France SA*
The bank loans of Gaz de France SA do not include financial covenants. In addition, Gaz de France SA has a syndicated loan of €3 billion, not drawn as of December 31, 2006, and that also does not contain covenants.

(b) *AES Energia Cartagena*
This amortizable loan for €609 million, which matures in June 2016, is intended to finance the construction of an electric power plant in Spain for which Gaz de France holds an Energy Agreement. It contains the traditional covenants for project financing.

(c) *Energia Mayakan*
This amortizable loan maturing in November 2014 is intended to finance the construction of a natural gas pipeline in Mexico. It includes the traditional covenants for project financing.

(d) *Distrigaz Sud*
This represents several variable rate credit lines maturing in 2007 and 2011.
These borrowings carry a maximum bank debt/ EBITDA ratio, which was complied with as of December 31, 2006.

(e) *Gasag*
Gasag's bank loans include no financial covenants.

10.5 Sources of financing expected to honor commitments

10.5.1 Commitments for pensions and other benefits

See Paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note 26".

10.5.2 Contractual commitments

See Paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note 27"

10.5.3 Sources of financing expected

Gaz de France has a syndicated line of credit for €3,000 million maturing February 2012, which had not been drawn at December 31, 2006. Since January 2005, the Group has also had access to the US Commercial Paper and Euro Commercial Paper markets through a "global" program up to a maximum total amount outstanding of USD 1,000 million not used at the end of 2006, and a French commercial paper program in the amount of €1,250 million, 410 million of which had been used at December 31, 2006. See Paragraph 20.1.1.1 – "Consolidated financial statements at December 31, 2006 under IFRS / Appendix / Note 10"

11 RESEARCH AND DEVELOPMENT, INTELLECTUAL PROPERTY

11.1 Research and Development

The research and development of Gas de France is intended to provide the Group with competitive advantages that create value and clarify its strategy to meet the energy challenges and technological choices of today and the future.

In 2006 Gaz de France's gross expenditures on Research and Development were approximately €84 million. They are presented in the context of a three-year research contract, which covers the 2005-2007 period.

Main areas of R&D

The main areas of R&D cover all the activities of the natural gas market and are focused around four major priorities:

- **Security on each link in the gas chain**: this is an area of research to which Gaz de France permanently dedicates a significant portion of its efforts. The obligation to ensure the security of people and physical property has always been the first condition to the exercise of its business activities; this is why all its research programs integrate the requirements of heightened security. The objective is to develop new technologies or improve existing technologies both in industrial safety and the safety of domestic facilities and the quality of interior air.
- **Economic performance and creation of value**, both for Gaz de France and its customers. This priority concerns improving the economic performance of its operations by reducing of its construction, operation and maintenance costs and their environmental impact of the facilities. An increase in economic performance also includes better control over the consumption of energy, and continuing optimization of the management of physical or contractual assets. Gaz de France researchers are also working in the areas of measurement, control and specifications of gas properties, in which the transmission operator plays a central role.
- **A flow of production innovations or differentiating services to develop competitive advantages**. This priority concerns the positioning of the range of products and services offered by Gaz de France, with respect to the energy chain which shapes them and the uses which derive therefrom as the best solution for each segment of customers. The development of gas/multi-service and gas/electricity offers, the performance of the combustion process, the development of new services, particularly for industrial platforms, and the offer of natural gas for homes are research programs that make a difference.
- **Anticipating and preparing for the future in the context of sustainable development**. Research and Development contributes to the Group's positioning with respect to long-term problems and visions: the establishment of energy scenarios and the preparation of corresponding new approaches, the development of renewable energies (solar, biomass, etc.), controlling energy, building of future, hydrogen economy, fuel cells, capture and storage of CO_2.

Partnerships

Gaz de France's Research and Development division uses an original approach that consists in entering into partnerships every time that it is possible with other participants in the gas industry as interpreted in the broadest sense, regardless of whether they are upstream in university centers, or intermediaries that drive consumption (buildings and public works, household appliances, cars, etc.) or industrial users (steel and glass industries, etc.).

The Research and Development division of Gaz de France actively participates in the research programs of the Pipeline Research Council International (PRCI) and the European Pipeline Research Group (EPRG) on issues related to industrial safety. It is a founding member of the chair in industrial safety at the Paris École des Mines. Finally, in 2007, it will chair the European Gas Research Group (GERG).

The Research and Development division also participates in projects implemented under the sixth European Union Framework Research and Development Programs (FRDP). As such, it coordinates the "EU-DEEP" project for the development of energy, which brings together around 40 European market partners and, as a member of the European technological platform on hydrogen, it contributed to the Naturalhy project of the sixth PCRD, the goal of which is to evaluate and develop the probable scenarios for future changes and to pursue technological demonstrations on fuel hydrogen and fuel cells.

In France it is heavily involved in programs aimed at decreasing greenhouse gas emissions (the "Energy Building" Foundation), and the development of new energy technologies (particularly hydrogen as a vector, fuel cells) in the context of the National Research Agency or the development of renewable energies, particularly through its involvement with the TENERRDIS industrial cluster in the Rhône-Alpes region.

Technical capabilities

The Research and Development unit of Gaz de France is directed by the Research Division which includes 590 employees at two centers: one in Saint-Denis (Seine-Saint-Denis, France) and the other in Alfortville (Val-de-Marne, France).

The multidisciplinary nature of capabilities brings together the different business activities of the gas chain, the electricity product, expertise relating to the security problems, sustainable development, micro and macro economics, future outlook, ergonomics, new technologies, as well as issues related to energy usage and services. Research programs are developed by teams that typically bring together numerous capabilities that cut across different fields. This characteristic makes Gaz de France's research division a valuable point of entry into the Group for young engineers (28.3% of the young engineers who join Gaz de France are hired by that division).

The research division uses a quality management system for its activities. It is ISO 9001 V 2000-certified for its industrial measurement activities, COFRAC-accredited for its metering and materials testing and, finally, ISO 14001-certified in terms of environmental and industrial safety. It also conducts operational work in synergy with its Research and Development activities, including responsibility for the information system, knowledge management, intellectual property and coordination of the Group's standards.

Innovations for 2006

Innovations in 2006 included:

- **A new approach to the management of the "value" asset portfolio** with consideration of weather impacts on consumption, based on stochastic programming. This approach tests the solidity and management strategy over a very broad range of scenarios.
- **For the Touat gas field**, studies on change in the composition of the fluid produced during the life of the field, the initial sizing of the surface facilities, and overall profitability of the operation to develop the field, where Gaz de France is the operator.
- **A new version of LNG Master**, a tool to forecast the behavior of different LNG mixtures in the tanks of the LNG terminals. This work is based on 40 years' experience in research on the behavior of LNG.
- **The construction of a model to predict changes in structural integrity over time** using the results of an initial inspection in order to optimize the interval between two successive inspections of a pipeline.
- **The construction of the Prius hybride GNV** demonstrator, with a very high environmental performance (3.6 l/100 km, between 66 and 80 g CO2/km)

11.2 Intellectual property

Gaz de France holds around 1,500 patents and, as a result of its Research and Development activities, is constantly filing new patents. Thus, 12 French patents were filed in 2006. The Group also protects all prototypes resulting from its Research and Development activities. Certain partnerships generate research results, which are held jointly. Gaz de France also grants licenses to third parties covering internally developed technologies, which may be products, processes, technical files or software.

In addition to the Company's logo, Gaz de France uses a number of banner trademarks for its commercial offerings. These brands, which are always associated with the Gaz de France brand, include Dolce Vita®, for individual household customers, Provalys®, for mid-market customers, Gaz de France EnergY®, for major industrial and commercial customers and Energies Communes®, for local communities. A breakdown of the protection of these trademarks is provided in the table below.

Table of banner trademarks for commercial offerings:

Trademark	Type	Country	Classe of protection
Dolce Vita	–	France	4, 11, 35, 37, 39
Dolce Vita	Special fonts	France	4, 9, 11, 16, 35, 36, 37, 38, 39, 42
Dolce Vita	Special fonts	Uruguay	4, 9, 11, 35, 37, 38, 39, 42
Dolce Vita	Special fonts	Italy, Germany, Spain, Slovakia, Hungary	4, 9, 11, 16, 35, 37, 38, 39, 42
Dolce Vita	Special fonts	United Kingdom	4, 11, 35, 37, 39, 42
Dolce Vita	Special fonts	France	4, 9, 16, 35, 37, 38, 39, 42
Provalys	–	France, Benelux, Italy, United Kingdom, Germany, Spain, Monaco, Switzerland	4, 9, 11, 12, 16, 35, 36, 37, 38, 39, 41, 42
Provalys	Semi-figurative	France	4, 9, 11, 12, 16, 35, 36, 37, 38, 39, 41, 42
Gaz de France energY	Special fonts	France	16, 25, 35, 38, 41
Gaz de France energY	Special fonts	Community trademark: 25 countries of the European Union	16, 25, 35, 38, 41
Gaz de France energY	Semi-figurative	France	4, 11, 16, 25, 35, 38, 41
Gaz de France energY	Semi-figurative	Community trademark: 25 countries of the European Union	4, 11
Energies Communes	–	France	4, 11, 12, 16, 35, 37, 38, 39, 41, 42
Energie Commune	–	France	4, 11, 35, 42
Energie Commune	Semi-figurative	France	4, 11, 35

(For a description of the offerings associated with these trademarks, see paragraph 6.1.3.1.2.2.2 – "Sale of Energy".)

12

TREND INFORMATION

12.1 Objectives

Industrial and commercial objectives

Gaz de France intends to hold in the medium term a portfolio of proven and probable reserves of approximately 1,000 Mboe. At December 31, 2006, the proven and probable reserves of liquid hydrocarbons and natural gas of Gaz de France totaled 685.3 Mboe (including the portion of reserves attributable to companies consolidated by the equity method).

The total objective of the Group for power production is to eventually hold in Europe 5,000 MWel of owned capacity, including 10% in the form of renewable energies. As of December 31, 2006, the Group held 2650 MWel, including its interest in SPE.

The Group wants to continue the network extensions by significantly increasing the number of delivery points in the municipalities already served to reach the target of 1 million new customers using natural gas for heating between 2003 and 2007. From the beginning of the project until December 31, 2006, 816,135 new heating customers were acquired.

The Group intends to develop its storage capacities in Europe by a billion cubic meters over time including 0.4 billion cubic meters in France in 2007.

The Group intends in 2007 to replace the 153 km of gray iron pipelines that are known and classified as of December 31, 2006. In 2006, 966 km were replaced, exceeding the provisional objective of 800 km by 20.7%.

Financial objectives

At the time of the initial public offering, the Group presented a 2005-2008 investment plan of 17.5 billion euros. At year end 2006, the Group has invested 6.9 billion euros. For the period 2007-2008, the Group's investment objective is a yearly amount of approximately euros 3 billion excluding growth by acquisition.

The 2006-2007 winter has been the warmest winter in over 50 years, which impacts on the activities and market prices for the early months of 2007.

As a result, 2007 will be a year of consolidation; EBITDA should be in line with 2006.

At this stage, the Group is not changing the growth objective for EBITDA of 10% on average set for the 2005-2008 period. Apart from these random events the Group's fundamentals are being maintained and its strategy confirmed.

The objectives summarized above are based on data, assumptions and estimates considered to be reasonable by Gaz de France. These data, assumptions and estimates could change or be modified because of uncertainties related to the economic, financial, competitive, regulatory and climate environment. Moreover, the occurrence of certain risks described in Chapter 4 of this registered *document de référence* could have an impact on the Group's businesses and its ability to achieve its objectives. In addition, the achievement of the objectives assumes the success of the strategy presented in paragraph 6.1.2. of this *document de référence*. Therefore, Gaz de France makes no commitment and offers no guarantee as to the achievement of the objectives and does not undertake to publish or communicate corrections, if any, or update these elements, with the exception of what is required by the relevant laws and regulations.

12.2 Recent events

New European provisions to strengthen the independence of transmission operators

Following two investigations conducted in 2005 and 2006 on the European gas and power markets, the European Commission proposed, in a publication titled "Outlook for the interior gas and electricity market", published on January 10, 2007, new provisions intended to ensure the effective independence of the transmission operators. If these provisions are adopted by the European Council new European regulations could substantially modify the Group's integrated organization in the medium term.

12.3 Outlook

Proposed merger between Gaz de France and Suez

The Board of Directors of Gaz de France, meeting on February 26, 2006, and the Board of Directors of Suez, meeting on February 25, 2006, approved the proposed friendly merger between the two groups. This merger is an extension of the cooperation existing between the two groups and is the culmination of discussions initiated several months before the announcement.

The planned operation will take place within a context of profound and accelerated changes in the European energy sector: (i) strengthening of geostrategic challenges related to the security of European energy supplies; (ii) the increase, combined with a strong instability, in oil and gas prices; (iii) full deregulation of the markets at July 1, 2007; (iv) accelerated restructuring of the energy sector and (v) increased consumer demand.

The merger of the two companies would create a global energy and environmental leader with strong roots in France and Belgium. This major industrial operation is based on a coherent and shared industrial and social project. It completely responds to the strategic ambitions of the two groups and enables accelerated implementation of those ambitions.

More specifically, the industrial logic of the operation is based on the following principal factors:

- a stronger position in the global electricity and gas markets due to a balanced portfolio, both in terms of activities (infrastructures, energy supply, etc.) and geographic regions, the components of which follow different cycles;
- optimized supplies (i) in electricity through a diversification of the means of production or sourcing, and (ii) in gas through the development of an exploration-production division and the signature of long-term contracts with geographically diversified producers;
- strong complementary factors, both geographically and industrially, enabling the strengthening and expansion of the scope of a competitive offer in European energy markets;
- increased investment capacity enabling an effective response to sector challenges, particularly in liquefied natural gas (LNG) and transit infrastructures.

Suez and Gaz de France believe that the merger will generate two major types of synergies and gains in efficiency:

- economies of scale and cost reductions, particularly in supplies (energy purchases, but also non-energy purchases) and operation costs (streamling of the business portfolios of the group and pooling of networks and services); and
- the effects of complementary advantages exploited through an improved commercial offer (complementary brands, expanded commercial coverage) and an effective investment program (streamlining and acceleration of development programs, possibility of additional growth in new geographic markets).

Some of these gains in efficiency will occur in the short term, but others assume implementation over time with the installation of joint platforms and complete optimization of the resources and structures of the new organization.

The amount of the synergies expected is approximately one billion euros per year in the medium term. Fiscal optimization should also be possible over the first two years following the merger.

Several steps to implement this proposed merger were taken in 2006.

At the European level, Gaz de France and Suez jointly notified the European Commission of the operation on May 10, 2006. On November 14, 2006, the European Commission authorized the completion of the operation. This authorization was issued subject to certain commitments, including:

- the sale of Suez' interest in Distrigas;
- the sale of Gaz de France's stake in SEGEBEL (SEGEBEL holds 51% of SPE);
- the sale to Fluxys of Gaz de France's interest in SEGEO;
- the sale of Cofathec Coriance and the heating networks of Cofathec Services;
- changes in the Fluxys shareholding and governance structures;
- spin-off on LNG terminal management to subsidiaries.

The two companies are in discussions with the European Commission in order to harmonize the sales process with the new deadlines.

At the French level, the legislative process was conducted throughout the second half of 2006 and resulted in the promulgation on December 7, 2006 of the law governing the energy sector, which authorizes the privatization of Gaz de France. Decision 2006-543 DC of the Conseil Constitutionnel of November 30, 2006 specified that the effective transfer of Gaz de France to the private sector may take effect as of July 1, 2007.

Following these steps and decisions, the Gaz de France and Suez Boards of Directors meetings held in December 2006 reaffirmed that the proposed merger is the best strategic option.

13 PROFIT FORECASTS OR ESTIMATES

Not applicable.

14 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 Composition of Administrative and Management Bodies

14.1.1 Board of Directors

Gaz de France's Board of Directors is currently composed of eighteen members appointed pursuant to French Law No. 83-675 dated July 26, 1983, as amended, concerning the liberalization of the public sector and the provisions of a French Decree dated October 30, 1935, as amended, concerning the French State's supervision of companies that receive financial assistance from the French State.

Pursuant to Article 6 of the law dated July 26, 1983 mentioned above, since the French State holds less than 90% of the share capital of the Company (but more than the majority of the share capital), the Company's Board of Directors is composed of eighteen representatives, of which six are employee representatives elected in accordance with the provisions of Chapter II of the law mentioned above. The other members are appointed by the general shareholders' meeting in accordance with the provisions of the French Commercial Code that apply to sociétés anonymes, subject to the appointment, of representatives of the French State by decree. Subsequent to the State appointing six representatives to the Company's Board of Directors pursuant to a French decree dated November 20, 2004, on October 7, 2005 the shareholders' general meeting elected six directors. Consequently, the Board of Directors is composed of six representatives of the French State, six members appointed by the general shareholders' meeting and six employee representatives elected by the employees.

Directors are appointed for five-year terms. The Company's by-laws provide that a director appointed to replace another director will exercise his or her duties for the remainder of the prior director's term until the reappointment of the entire Board of Directors. The term of the six directors appointed by the general shareholders' meeting on October 7, 2005 runs until the reappointment of the entire Board of Directors on November 22, 2009.

In accordance with the law and the Company's by-laws, each director must hold at least one share for the entire duration of their term, except as waived under any applicable legal or regulatory provisions. Under the law dated July 26, 1983, this obligation does not apply to representatives of the French State or employee representatives.

The representatives of the French State and the employee representatives perform their duties for free. However, they may be reimbursed by the Company for their business expenses (Article 11 paragraph 3 of the law dated July 26, 1983 and Article 2 of the internal regulations of Gaz de France's board of directors).

The general shareholders' meeting sets the total amount of attendance fees (jetons de présence) based on the board of directors' proposal (See paragraph 15.1.1 – "Board of directors").

In a decree dated September 8, 2006, the state appointed Philippe Favre, Xavier Musca, and Edouard Vieillefond to represent the State on the Board of Directors of the Company to replace Clara Gaymard, Jacques Rapoport, and Denis Samuel-Lajeunesse. In accordance with the Company bylaws, they will remain in office until the entire Board of Directors is replaced on November 22, 2009.

The following table sets out the composition of Gaz de France's Board of Directors, as of the date of the filing of this *document de référence*.

Name and professional address	Age(1)	First appointed/ elected	Starting Date of current term	Principal business functions and directorships outside Gaz de France	Other directorships over the course of the last five years (excludingGaz de France subsidiaries)
Chairman and Chief Executive Officer					
Jean-François Cirelli Gaz de France 23 rue Philibert Delorme 75840 Paris Cedex 17	48	Sep. 15, 2004	Nov. 24, 2004 (as a qualified individual) Oct. 7, 2005 (as a director appointed by the shareholders' meeting)	Director of Neuf Cegetel	–

(1) *At the date of registration of this document de référence.*

Name and professional address	Age(1)	First appointed/ elected	Starting Date of current term	Principal business functions and directorships outside Gaz de France	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Directors (Representatives of the French State)					
Paul-Marie Chavanne Géopost 2 ter rue Louis Armand 75015 Paris	55	Nov. 20, 2004	Nov. 23, 2004	**Chief Operating Officer of La Poste** **Chairman and Chief Executive Officer of Géopost** Director of: – Sofipost – Banque Postale – Europe Airpost – Poste Immo – Generali Assurances-lard – Generali Assurances-Vie – Geopost UK	President of the Management Board of Autodistribution
Philippe Favre AFII Paris 77 bd Saint-Jacques 75680 Paris Cedex 14	45	Sept. 8, 2006	Sept. 11, 2006	**Chairman of AFII (French international investments agency)** **Ambassador delegate to International Investments** Director of Ubifrance	–
Christian Fremont Prefecture des Bouches-du-Rhone Bd Paul Peytral 13282 Marseille Cedex 20	65	July 4, 1999	Nov. 23, 2004	**Préfet of Provence-Alpes Côte d'Azur** Préfet of the southern area of Defense Préfet of the Bouches-du-Rhône	–
Xavier Musca Ministry of the Economy, Finances and Industry, Director General of the Treasury and Economic Policy. 139 rue de Bercy, 75012 Paris	47	Sept. 8, 2006	Sept. 11, 2006	**Director General of the Treasury and Economic Policy, Ministry of the Economy, Finances and Industry** Chairman of the Economic and Financial Committee of the European Union President of the Club de Paris	
Florence Tordjman Ministry of Economy, Finance and Industry Energy and Raw Materials Division 61 bd Vincent Auriol 75703 Paris Cedex 13	47	Nov. 20, 2004	Nov. 23, 2004	**Assistant Vice President of gas and distribution of fossil energies, Energy and Raw Materials Department, Ministry of Economy, Finance and Industry**	Director of the French association of natural gas for vehicles
Edouard Vieillefond Ministry of the Economy, Finance and Industry, French government shareholding agency 139 rue de Bercy 75012 Paris	36	Sept. 8, 2006	Sept. 11, 2006	**Director of shareholdings in charge of the Energy department, French government shareholding agency, Ministry of Economy, Finance and Industry** Director of: – GRTgaz (Gaz de France group) – Areva NC (Cogema) Member of the supervisory board of: – RTE (EDF group) – Société Nationale Maritime Corse – Méditerranée (SNCM)	Director of: – Autoroute et Tunnel du Mont-Blanc (ATMB) – Autoroutes Paris Rhin Rhône (APRR) – Réseau Ferré de France (RFF) – SOVAFIM

(1) *At the date of registration of this document de référence.*

Name and professional address	Age[1]	First appointed/ elected	Starting Date of current term	Principal business functions and directorships outside Gaz de France	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Directors (appointed by the general shareholders' meeting) [2]					
Jean-Louis Beffa Saint Gobain "Les Miroirs" 92096 La Défense Cedex	65	Nov. 20, 2004	Nov. 23, 2004	**Chairman and Chief Executive Officer of Saint-Gobain** Vice-chairman of the board of directors of BNP Parisbas Chairman of Claude Bernard Participations Director of - Bruxelles Lambert Group (Belgium) - Saint-Gobain Cristeleria (Spain) - Saint-Gobain Corporation (U.S.A.) Permanent representative of Compagnie de Saint-Gobain on the Board of Directors of Saint-Gobain PAM Member of the Supervisory Board of - Le Monde - Société Editrice du Monde - Le Monde et Partenaires Associés	–
Aldo Cardoso 45 Bd de Beauséjour 75016 Paris	51	Nov. 20, 2004	Nov. 23, 2004	**Director of companies** Director of - Accor - Imerys - Orange - Rhodia - Mobistar (Belgium) Censor of - Axa Investment Managers - Bureau Veritas	Director of: - Axa Investment Managers - Bureau Veritas - Penauilles Polyservices
Guy Dollé 241 Route d'Arlon, L-1150 Luxembourg	64	Sep. 10, 2004	Nov. 23, 2004		Chairman of the management board of Arcelor Director – CEO of Usinor Chairman of the French Steel Federation Director of IDRH
Peter Lehmann 28 Birchwood Road London SW17 9BQ Great Britain	62	Nov. 20, 2004	Nov. 23, 2004	**Chairman of the Fuel Poverty Advisory Group (UK)** **Chairman of Greenworks (UK)** Non-executive director of - Disabilty Agency in the Department of Work and Pensions - CILT (the National Center for Languages)	President of Energy Saving Trust Director of - Carbon Trust, - Accuread - Project Fullemploy Member of the energy regulatory authority for Northern Ireland

(1) *At the date of registration of this document de référence.*
(2) *Jean-François Cirelli also falls into this category. All of the directors belonging to this category were appointed by the General Shareholders' Meeting on October 7, 2005 so that they continued the directorship that they previously held as "qualified individuals."*

Name and professional address	Age(1)	First appointed/ elected	Starting Date of current term	Principal business functions and directorships outside Gaz de France	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Philippe Lemoine LaSer 66 rue des Archives 75003 Paris	57	Nov. 20, 2004	Nov. 23, 2004	**Chairman and Chief Executive Officer of LaSer and Chairman of LaSer Cofinoga** Chairman of: - Société des Grands Magasins Galeries Lafayette - Banque Sygma Director of - Monoprix - La Poste - Cetelem Member of the Supervisory Board of BHV Member of the CNIL President of the Fondation Internet Nouvelle Génération Co-Manager of GS1 France Director of - Maison des Sciences de l'Homme - Rexecode - Franco-American Foundation	Co-Chairman of the Management Board of the Galeries Lafayette Group Director of the *Fondation Internet Nouvelle Génération*
Directors (Employee representatives)(3)					
Olivier Barrault Gaz de France Courcellor 2 33-35 rue d'Alsace 92300 Levallois Perret	49	May 31, 1994	Sep. 14, 2004	Representative for the National Federation of unions for workers in the electrical energy, nuclear and gas industries-CGT	–
Eric Buttazzoni Gaz de France Courcellor 2 33-35 rue d'Alsace 92300 Levallois-Perret	46	May 6, 2004	Sep. 14, 2004	Representative for the National Federation of unions for workers in the electrical energy, nuclear and gas industries-CGT	–
Bernard Calbrix Gaz de France Agence Normandie 16 rue Henri Rivière BP 1236 76177 Rouen Cedex	54	June 18, 2003	Sep. 14, 2004	Representative for the Chemical Energy Federation-CFDT	–
Jean-François Le Jeune Gaz de France 23 rue Philibert Delorme 75840 Paris Cedex 17	61	May 6, 2004	Sep. 14, 2004	Representative for the Federation CGT-FO	–

(1) *At the date of registration of this document de référence.*
(3) *These representatives were elected on May 6, 2004 for five years by the employees of Gaz de France and four of its subsidiaries: Cofathec Services, Omega Concept, ADF Ateliers de Fos and ADF Maintenance Industrielle, in accordance with French Law No. 83-675 dated July 26, 1983 as amended, relating to the liberalization of the public sector. They started their current term as directors of Gaz de France on September 14, 2004.*

Name and professional address	Age(1)	First appointed/ elected	Starting Date of current term	Principal business functions and directorships outside Gaz de France	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Yves Ledoux Gaz de France Direction Transport Région Normandie 16 rue Henri Rivière 76000 Rouen	50	May 6, 2004	Sep. 14, 2004	Representative for the National Federation of unions for workers in the electrical energy, nuclear and gas industries-CGT Director of GRTgaz (Gaz de France Group)	–
Daniel Rouvery Immeuble Le Guynemer 18 rue du Capitaine Guynemer La Défense 6 92938 Paris La Défense Cedex	59	May 6, 1999	Sep. 14, 2004	Representative for the Federation for the electrical and gas industries-CFE-CGC	–

(1) *At the date of registration of this document de référence*

Chairman of the Board of Directors

In accordance with Article 10 of the law dated July 26, 1983 and the by-laws of the Company, the Chairman of the Board of Directors is appointed by decree among the members of the Board of Directors, based on the nomination by the Board of Directors. Jean-François Cirelli was appointed Chairman of the Company under the Decree dated October 13, 2005, published in the *Journal Officiel* on October 14, 2005. He was appointed Chairman of the Board of Directors of the Company the first time when it was a *société anonyme* by a Decree dated November 24, 2004 (before then Jean-François Cirelli was appointed Chairman of Gaz de France when it was an EPIC by a Decree dated September 15, 2004 and exercised his duties as legal representative of the Company, and assumed the general management of the Company until the publication of the Decree dated November 24, 2004, on November 26, 2004).

The Chairman's duties may be terminated under the terms provided for under Article 10 of the law dated July 26, 1983 mentioned above (revocation by decree).

Appointment of a government commissioner

Law n° 2006-1537 of December 7, 2006 concerning the energy sector, modifying law n° 2004-803 of August 9, 2004 provides that the minister in charge of energy shall appoint a government commissioner who will participate in an advisory position in the meetings of the Company's board of directors. At the date of registration of this document, no government commissioner has been appointed to Gaz de France.

Information concerning the members of the Board of Directors

To Gaz de France's knowledge, there are no family ties between the members of the Board of Directors, nor with the two Chief Operating Officers.

To Gaz de France's knowledge, none of the member of the Board of Directors has been convicted of fraud in the past five years. None of the members have acted as manager or director in a bankruptcy, which led to sequestration or liquidation of the assets in the past five years and none have been the subject of criminal liability or official public sanction issued by a statutory or regulatory authority (including a designated professional organization). None of the members has been prevented by a court from acting as a member of a board of directors, senior management or supervisory board of an issuer or from participating in the management or oversight of the affairs of an issuer in the past five years.

Detailed information concerning the background and business experience of the members of the Company's Board of Directors

Jean-François Cirelli, 48, has a degree from the *Institut d'Études Politiques* of Paris and the *École Nationale d'Administration* in addition to a law degree. From 1985 to 1995, he worked at the Treasury Department of the Ministry of Economy, Finances and Industry before becoming technical adviser to the President of the French Republic from 1995 to 1997, and then economic adviser from 1997 to 2002. In 2002, he was appointed assistant director in the office of the Prime Minister, Jean-Pierre Raffarin, and was responsible for economic, industrial and employee matters. He has been the Chairman and Chief Executive Officer of Gaz de France since September 2004.

Paul-Marie Chavanne, 55, has a degree from the *École Centrale de Paris* and the *École Nationale d'Administration*. As Inspector of Finances, Paul-Marie Chavanne worked at the Ministry of Economy, Finances and Industry from 1978 to 1989, at the Directorate General of Finances, then the Treasury Department. He was Chief Executive Officer of Société Soparges from 1989 to 1991, deputy vice president of Automobiles Citroën from 1992 to 1997, Chief Executive Officer, then President of the Strafor

Facom group from 1997 to 1999, President of the Autodistribution Group from 1999 to 2001, Chairman and Chief Executive Officer of Géopost and Chief Operating Officer of the group La Poste since September 1, 2001.

Philippe Favre, 45, has a degree from the *Institut d'Études Politiques* in Paris and is a former student at the *École Nationale d'Administration*. He began his career in the foreign trade section (Dree) of the Ministry of Finances, in charge of relations with the Soviet Union and Central Europe (1987-90). From 1990 to 1993 he was commercial counselor at the French embassy in Washington, and then led a trade mission to Hong Kong from 1993 to 1997 and to Taipei (Taiwan) from 1997 to 2001. Deputy Director of Human Resources and Funds Management at the foreign trade section of the Ministry of the Economy, Finances and Industry in 2001, he then became chief of departmental staff for the Minister-delegate for foreign trade (Christine Lagarde) and was deputy director of staff for the Ministers of the Economy, Finances and Industry from 2002 to 2006. Since September 2006, he has been chairman of the French Agency for International Investment.

Christian Frémont, 65, has a degree from the *École Nationale d'Administration*. From 1972 to 1976 he worked at the Ministry of Economy, Finances and Industry. From 1977 to 1989 he was deputy vice president then director of internships at the *École Nationale d'Administration*, also responsible for the school's international relations from 1984 to 1989. Since 1990 he has been a *préfetand* has held successive prefect positions in Ariège, Finistère, Pas de Calais and in the Aquitaine region. He was also appointed deputy vice president of the cabinet of the Interior Ministry in 1992 and director general of the administration of this ministry from 1997 to 2000. Since 2003 he has been *préfet* of the Provence-Alpes-Côte d'Azur region, the southern defense area and the Bouches-du-Rhône department.

Xavier Musca, 47, has a degree from the *Institut d'Études Politiques* in Paris, and is a former student at the *École Nationale d'Administration* and an inspector of finances. While working at the Treasury he was head of the financial market office from 1995 to 1996, deputy head of European international and monetary affairs from 1996 to 2000, deputy head of finance and business competition and deputy director in 2000, then head of State financial services from 2001 to 2002. From May 2002 to March 2004 he was director of staff for the Minister of the Economy, Finances and Industry. He has been general director of the Treasury and Economic Policy since November 2004, chairman of the economic and financial committee of the European Union since November 2005 and President of the Club de Paris since July 2005

Florence Tordjman, 47, has a degree from the Institut d'Études Politiques de Paris and the École Nationale d'Administration. She also has a Master's degree in history and Bachelor's degrees in history and geography from the Université Paris IV Sorbonne. Since 1993 she has held different positions within the Ministry of Economy, Finance and Industry. From 1993 to 1997 while part of the information technology and communications division, she was in charge of European R&D programs relating to information technology and communications and starting in 2000, manager of the office of industrial policy and competition. At the Treasury Department from 1997 to 2000 she was in charge of monitoring multilateral development banks and issues relating to the financing of the public aid to development. Since October 2001 she has been in charge of the department of gas and distribution of fossil fuels within the energy and raw materials department.

Edouard Vieillefond, 36, has degrees from the École Polytechnique, the École Nationale Supérieure de l'Aéronautique et l'Espace and holds a DEA in industrial economy. From 1995 to 2003 he filled a number of posts at the Ministry of Defense and then at the Treasury, and finally with the European Commission. He joined the French government shareholding agency in October 2003, as head of rail and maritime transport. Since September 2006 he has been head the energy department.

Jean-Louis Beffa, 65, has a degree from the École Polytechnique, is a Corps of Mines engineer and also has a degree from the Institut d'Etudes Politiques de Paris. He joined the Compagnie de Saint-Gobain in 1974 as planning director and became managing director in 1982. Since 1986 he has been chairman and chief executive officer of the Saint-Gobain group.

Aldo Cardoso, 51, has a degree from the École Supérieure de Commerce de Paris and has a master's degree in commercial law and a degree in accounting. From 1979 to 2003, he held several positions successively at Arthur Andersen: consultant, principal (1989), President of France (1994), member of the board of directors of Andersen Worldwide (1998), President of the board of directors (not executive) of Andersen Worldwide (2000) and Managing Director of Andersen Worldwide (2002-2003). Since 2003 he has been the director of French and foreign companies.

Guy Dollé, 64, has a degree from the École Polytechnique. He began his career in 1966 at the Steel Industry Research Institute and then joined the Usinor group in 1980. He has assumed several industrial responsibilities at the Dunkerque factory before becoming an industrial director of Sollac before the merger between Usinor and Sacilor. He then became president of the long product division in charge of planning and strategy for Usinor's stainless steel products. He became Usinor's Chief Executive Officer in 1999 and, following the creation of Arcelor in 2002, was president of Arcelor's management board until 2006.

Peter Lehmann, 62, graduated from Oxford University and received a doctorate in economics from Sussex University. From 1971 to 1998 he held various positions at British Gas, including European Managing Director, director of competition and regulatory matters and director of international development. In 1997 and 1998, he was commercial director and a member of the board of directors of Centrica, a company that took over a portion of the business activities of British Gas. From 1999 to 2005 he was president of the Energy Saving Trust, created by the government on the proposal of actors in the energy sector in order to promote control of energy use. From 2003 to 2006 he was a member of the energy regulatory authority for Northern Ireland. Peter Lehmann is currently Chairman of the Fuel Poverty Advisory Group, a consultative organization responsible for advising the British government on questions of energy access for the most disadvantaged members of society, a non-executive director of the Disability Agency under the Department for Work and Pensions, and Chairman of Greenworks, a non-profit start-up company with a turnover of €2 million.

Philippe Lemoine, 57, has a degree from Institut d'Etudes Politiques de Paris (Public Service), with a degree in advanced economic studies, a bachelor's degree in law and was a laureate in the Concours Général de Droit Civil (Civil Law General Competition). In 1970, he began a career as a researcher at INRIA. In 1976, he joined the Ministry of Industry (Information Systems) where he in particular participated in the drafting of the Nora-Minc report. He then joined the minister's office of Norbert Segard and Pierre Aigrain, became Government Commissioner at the CNIL, in charge of different matters under the Minister of Research, Laurent Fabius and the Prime Minister, Pierre Mauroy. In 1984 he joined the Galeries Lafayette Group of which he became co-President of the Executive Board in 1998 and he held the position until May 2005. Currently Philippe Lemoine is the Chief Executive Officer of LaSer, a services company developing in Europe which has over 7,000 employees. It is a subsidiary of Galeries Lafayette and BNP-Paribas.

Olivier Barrault, 49, holds a BTS (a French technical degree) in mechanical engineering research and an associates' degree in sciences and industrial (energy) techniques from the National School for Arts and Crafts. He began his career within the gas and electricity industries in 1979 in the distribution area. In 1985 he became head of operations then manager in charge of service purchases for the center at Essonne. He has been a director of Gaz de France since 1994, as a representative of CGT.

Éric Buttazzoni, 46, has a degree from École des Hautes Études Commerciales – HEC, and held several positions with Gaz de France's finance department before becoming head of the finance and accounting division for the Pays de Somme distribution center, a position he held from 1991 to 1994. From 1994 to 2001 he was head of the balance sheet and revenues department of Gaz de France's finance management.

Bernard Calbrix, 54, began his career in 1976 within the Sochan Company, specialized in the management of HVAC installations. From 1980 to 1994, he held several union positions within this company. In 1994, he joined the Group when Gaz de France acquired the Cofathec group. From 1994 to 2003 he held the positions of secretary general of the CFDT construction and woodworking union in Rouen and represented the national CFDT Federation for construction and woodworking within the branch for services management relating to equipment, energy and environment. He is currently an operating agent within the regional entity of Cofathec Services of Rouen.

Yves Ledoux, 50, joined Gaz de France in 1979 as a technical agent and then held various technical and managerial duties with Gaz de France's Transmission business activity. Today he holds a commercial position within GRTgaz.

Jean-François Le Jeune, 61, joined the joint services division of Gaz de France and EDF in 1964. In 1976 he was seconded to perform union activities. He was successively secretary general of the Nanterre union, secretary general of the Paris region FO unions, secretary general of UNSC-FO, federal secretary of FNEM-FO and deputy secretary general of FNEM-FO. Since 2004 he has been employed as a manager within Gaz de France's common resources department.

Daniel Rouvery, 59, has a degree from the École Supérieure d'Electricité. In 1973 he joined EDF-GDF Services. In 1980 he received a degree from Institut Auguste Comte des Sciences de l'Action and joined the EDF-GDF Services Franche Comté Sud center as manager of the distribution of gas and electricity for the town Besançon. In 1983 he joined Gaz de France's strategy division where he worked on the study and the financing of development for areas not served by natural gas and the development of investment programs. In 1987 he joined EDF GDF Services and then in 1994 Gaz de France's senior management staff following the creation of the Group's purchases delegation (excluding gas). Since January 2004 he has participated in the finance management transformation program for EDF Gaz de France Distribution.

14.1.2 Senior management, executive committee and organization of operations

Senior management

The Chairman of the Board of Directors is also the Company's Chief Executive Officer and oversees the Company's senior management.

Under the bylaws of the Company, the Board of Directors may, based upon nominations made by the Chief Executive Officer, appoint up to five people to assist the Chief Executive Officer under the title Chief Operating Officer (directeur général délégué), and so on October 7, 2004 it appointed Yves Colliou and Jean-Marie Dauger as Chief Operating Officers. Yves Colliou and Jean-Marie Dauger had already been the Chief Operating Officers since they were appointed by the Board of Directors on December 17, 2004.

As of the date of registration of this *document de référence*, Jean-François Cirelli, Yves Colliou and Jean-Marie Dauger are in charge of the general management of the Group.

Name	Title	Date appointed	Age(1)	Other current directorships(2)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Jean-François Cirelli	**Chairman and Chief Executive Officer**	Oct. 15, 2005 (French Decree of Oct. 13, 2005)	48	Director of Neuf Cegetel*	–
Yves Colliou	**Chief Operating Officer for the Infrastructures division** Support activities and Human Resources	Oct. 7, 2005	61	Permanent representative of SIALF on the Board of Directors of GRTgaz Director of the *Institut Français du Pétrole**	
Jean-Marie Dauger	**Chief Operating Officer for the Supply** Production and Trading of Energy, and International activities	Oct. 7, 2005	55	Chairman of the Board of Directors of – GDF International – Gaselys Chairman of – GNL Transport Investissements, – Gaz de France Norge (Norway) – GDF Britain (UK) Chairman of the Supervisory Board of GDF Produktion Exploration Deutschland (Germany) Vice-president of the Supervisory Board of Fragaz Director of – COGAC – MED LNG & GAS (Jersey) Legal Representative of GDF International as manager of Méthane Transport SNC	–

(1) *As of the date of registration of this document de référence.*
(2) *All the entities mentioned in this column are part of the Gaz de France group, with the exception of those followed by an asterisk.*

Information concerning the Chairman and Chief Executive Officer and the Chief Operating Officers of the Company

To the knowledge of Gaz de France, Jean-François Cirelli, Yves Colliou and Jean-Marie Dauger have no family ties between them nor wit the members of the Board of Directors.

To Gaz de France's knowledge, neither Jean-François Cirelli, nor Yves Colliou nor Jean-Marie Dauger have been convicted of fraud in the past five years. To the Company's knowledge, none of them have acted as manager or director in a bankruptcy, which led to sequestration or liquidation of the assets in the past five years and none have been the subject of criminal liability or official public sanction issued by a statutory or regulatory authority. To Gaz de France's knowledge, none of them has been prevented by a court from acting as a member of a board of directors, senior management or supervisory board of an issuer or from participating in the management or oversight of the affairs of an issuer in the past five years.

Executive committee

Chaired by the Chief Executive Officer, the executive committee is in charge of discussing and approving issues and decisions relating to the Group's strategy and general management, including its investment plans.

The executive committee meets weekly and its agenda is set based on the proposals of its members.

The table below shows the composition of the executive committee as of the date of registration of this *document de référence*.

Name	Title	Age(1)	Other current directorships(2)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Jean-François Cirelli	**Chairman and Chief Executive Officer**	48	Director of Neuf Cegetel*	–
Yves Colliou	**Chief Operating Officer for the Infrastructures division** Support activities and Human Resources	61	Permanent representative of SIALF on the Board of Directors of GRTgaz Director of the *Institut Français du Pétrole**	
Jean-Marie Dauger	**Chief Operating Officer for the Supply** Production and Trading of Energy, and International activities	55	Chairman of the Board of Directors of – GDF International – Gaselys Chairman of – GNL Transport Investissements – Gaz de France Norge (Norway) – GDF Britain (UK) Chairman of the Supervisory Board of GDF Produktion Exploration Deutschland (Germany) Vice-president of the Supervisory Board of Fragaz Director of – COGAC – MED LNG & GAS (Jersey) Legal Representative of GDF International as manager of Méthane Transport SNC	

(1) *As of the date of registration of this document de référence.*
(2) *All the entities mentioned in this column are part of the Gaz de France group, with the exception of those followed by an asterisk.*

Name	Title	Age(1)	Other current directorships(2)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Stéphane Brimont	**Senior Vice President of Strategy** Advisor to the Chairman and Chief Executive Officer	38	Permanent representative of SFIG on the board of directors of GRTgaz	Director of: – Autoroutes du Sud de la France (ASF), – Société des Autoroutes du Nord et de l'Est de la France (SANEF), – Société Nationale Corse Méditerranée (SNCM), – Compagnie Générale Maritime et Financière (CGMF), – Autoroutes et Tunnel du Mont Blanc (ATMB) – Société Française du Tunnel Routier du Fréjus (SFTRF)
Pierre Clavel	**Senior Vice President of the International division**	50	Chief Operating Officer of GDF International Director of – Arcalgas Energie (Italy) – CamGas (Italy) – Energie Investimenti SpA (Italy) – Italcogim Vendite (Italy) – Segebel (Belgium) – SPE (Belgium) – SEGEO (Belgium) Member of the Supervisory Board of: – Gasag (Germany) – Megal GmbH & Co KG (Germany)	–
Emmanuel Hedde	**Vice President of the Equity Acquisitions division**	59	Chairman of Laurentides Investissements Director of – GDF International – COGAC – Gaz Métro Inc. (Canada) – GDF Québec (Canada) – MEG International (Canada) – Noverco (Canada) – GDF Energy (USA) – MEG Holdings (USA) Member of the Supervisory Board of Savelys	–
Philippe Jeunet	**Senior Vice President and Chief Financial Officer**	53	Chairman of Banque Solfea Director of – Gaselys – GDF International – SFIG – SEGEO (Belgium) Member of the Supervisory Board of – Gasag (Germany) – MEGAL GmbH & Co KG (Germany)	Director of – Vêtements Hertz – Jeunet SA

(1) *As of the date of registration of this document de référence.*
(2) *All the entities mentioned in this column are part of the Gaz de France group, with the exception of those followed by an asterisk.*

Name	Title	Age(1)	Other current directorships(2)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
			Permanent representative of Gaz de France on the board of COGAC Permanent representative of COGAC on the supervisory board of – GRTgaz – Cofathec	
Jean-Pierre Piollat	**Director of Customer Relations**	56	Director of – COGAC – Climespace Permanent representative of Gaz de France on the board of – Banque Solfea – Association Française du Gaz	–
Raphaële Rabatel	**Senior Vice President of Communications**	44	–	–
Philippe Saimpert	**Senior Vice President of Human Resources**	53	–	Director of SAFIDI (EDF Group)

(1) *As of the date of registration of this document de référence.*
(2) *All the entities mentioned in this column are part of the Gaz de France group, with the exception of those followed by an asterisk*

Detailed information concerning the background and business experience of the members of the Company's senior management and executive committee

Jean-François Cirelli, 48, has a degree from the Institut d'Etudes Politiques de Paris and the École Nationale d'Administration in addition to a law degree. From 1985 to 1995, he worked at the Treasury Department of the Ministry of Economy, Finances and Industry before becoming technical adviser to the President of the French Republic from 1995 to 1997, and then economic adviser from 1997 to 2002. In 2002, he was appointed assistant director in the office of the Prime Minister, Jean-Pierre Raffarin, and was responsible for economic, industrial and employee matters. He has been the Chairman and Chief Executive Officer of Gaz de France since September 2004.

Yves Colliou, 61, is an engineer graduated from the École Catholique des Arts et Métiers. In 1974, he joined EDF GDF Services (now EGD) in the Mulhouse center. In 1978, he joined the commercial department and then the supply branch of Gaz de France. Since 1985, he has held various positions, in particular in the area of human resources, and operational duties at EDF GDF Services. In 1996, he was appointed head of the department of the President and the general management of EDF before becoming, in 1998, head of EDF GDF Services. In January 2002, Yves Colliou joined the general management of Gaz de France, as a director, before he was appointed general management's Deputy Vice President in June 2002. He has been Chief Operating Officer of Gaz de France's Infrastructures division, Support Activities and Human Resources since December 2004.

Jean-Marie Dauger, 55, has a degree from the École des Hautes Études Commerciales – HEC. After starting his career at Péchiney, banque Trad (Lebanon) and in the financial department of EDF, Jean-Marie Dauger joined the Group in 1978. First, he held various positions in the production and in transmission divisions and in services related to movement of gas. In 1985, he joined the gas supply division, which he managed from 1991 to 1995. In 1995, he became vice-president of the strategy and management division. In 2000, Jean-Marie Dauger was appointed senior management's Deputy Vice President. In December 2004 he was appointed Chief Operating Officer for the Supply, Production and Trading of Energy, as well International activities.

Stéphane Brimont, 38, has a degree from the École Polytechnique and the École Nationale des Ponts et Chaussées. After first working at Crédit Lyonnais in New York, he joined the administration of the Vaucluse regional equipment department as regional head of urbanism and construction. In 1997, he joined the budget management for the Ministry of Economy, Finance and Industry where he held various positions, in particular: head of "research, postal services and telecommunications", and head of "transportation". In May 2002, he joined the office of the Prime Minister, Jean-Pierre Raffarin, where he was adviser for budgetary matters. He joined the Group in September 2004 and was appointed Senior Vice President of Strategy in December 2004.

Pierre Clavel, 50, has a degree from the École Polytechnique and the École des Mines of Paris. He started his career in engineering, gas plant and thermal production project management abroad, within the Gaz de France and EDF groups. In 1997, he was appointed Vice President of Gaz de France's transmission division. In 1999, he joined EDF GDF Services as Vice President of a group of centers in the Centre Auvergne and Limousin region. In 2002, he was appointed Vice President of the Group's natural gas supplies, then, in 2003, Vice President (Designate) of the Purchase and Sale of Energy division of Gaz de France in charge of the Group's natural gas supplies. He was appointed Senior Vice President of the International division in December 2004.

Emmanuel Hedde, 59, has an engineering degree from the Institut Supérieur d'Électronique de Paris and the Institut de Contrôle de Gestion. He began his career as an engineer in the information industry for the engineering company SOFRESID. In 1973, he became a vice president of a mechanics and surface treatment factory at Société Nouvelle de Métallisation, then he joined Crédit d'Equipement des Petites et Moyennes Entreprises ("CEPME") in 1980 and became deputy vice president of the Agence Centrale in 1990. He joined Gaz de France in 1993 as Deputy Vice President of services for subsidiaries and equity interests in the financial and legal services department. He then became director of this service before being appointed deputy director of the financial division in 2000. He was then appointed Vice President of large projects and then, in December 2004, Vice President of the Equity Acquisitions division. He is also manager of the Development of Shareholding.

Philippe Jeunet, 53, has a degree from the Institut d'Études Politiques of Paris and a law degree. Before joining Gaz de France, he spent most of his career within the Crédit d'Equipement des Petites et Moyennes Entreprises (CEPME) Group, where he exercised various duties in the area of industrial and tourist company finance. He ran two venture capital companies, Avenir Tourisme and Promotour Investissement. From 1984 to 1986, he was a rapporteur at the Comité interministériel de restructuration industrielle (CIRI) and the Bureau des financements industriels of the Treasury division. He joined Gaz de France in 1991 as Deputy Vice President of the Financial and Legal Services Department in charge of subsidiaries and equity interests. He successively held within the Group the positions of Vice President of supplies and gas projects (1995-1998) and Vice President of international development (1998- 2000). Since May 2000, he has been Senior Vice President and Chief Financial Officer of Gaz de France.

Jean-Pierre Piollat, 56, has a degree from the Institut National Polytechnique of Grenoble. He has spent his entire career at Gaz de France and EDF, mainly in management, commercial development and marketing positions. In 1975, he joined the general management of EDF, then the commercial department of Gaz de France, where he exercised development and marketing duties. Beginning in 1984, he exercised various operational and functional duties within EDF GDF Services. Having managed the Seine-et-Marne center since 1991, he was appointed in 1995 to serve as Vice President of a group of centers in the Méditerranée and Ouest regions at EDF GDF Services. In 1997, he was Vice President of the strategic Marketing division, then in 2002 of the Market Development and Sales division of Gaz de France. In December 2004, he was appointed Director of the Group's "Customer Relations" division, which groups together the market development and sales division, the Services segment, and the marketing division of Gaz de France.

Raphaële Rabatel, 44, has a degree from the Institut d'Études Politiques of Paris and a degree in history. She has held various communication positions in several companies: Rhône Poulenc from 1988 to 1996, Paribas from 1996 to 2000, Caisse Nationale des Caisses d'Epargne in 2000 and Image Sept from 2000 to 2002. From March 2002 to December 2004 she was Vice President of communications for the JC Decaux group, responsible for external and internal communications. Since January 2005 she has been Senior Vice President of the Group's Communications division.

Philippe Saimpert, 53, graduated from École des Hautes Études Commerciales – HEC and from 1978 held various positions within EDF GDF Services and the joint Personnel and Labor Relations division for Gaz de France and EDF. In 2002, he was appointed Vice President of the Group's Human Resources and then held the position of Vice President (Designate) of EDF GDF Services from April 2004. He has been Senior Vice President of Human Resources for the Group since December 2004.

Organization of operations

Since the end of 2004, Gaz de France is organized into 4 operational branches:

- Yves Colliou, Chief Operating Officer for the Infrastructures division;
- Jean-Marie Dauger, Chief Operating Officer for the Energy Supply and Production division;
- Jean-Pierre Piollat, Senior Vice President of Customer Relations; and
- Pierre Clavel, Senior Vice President of the International division.

14.2 Conflicts of interest of the Administrative Bodies and Senior Management

Conflicts of Interest

To the Company's knowledge there is no conflict of interest between the duties of the members of the Board of Directors and the Chief Operating Officers with respect to the Company and their private interests or other duties.

It being noted that Philippe Lemoine is president of the LaSer Cofinoga, a partner company with Gaz de France within Banque Solfea, and Chairman and Chief Executive Officer of the LaSer group, which has business relations with Gaz de France; Yves Ledoux is a member of the SMEDAR office (French acronym for Mixed Union for the Elimination of Waste in the Rouen Arrondissement), which is a partner with Gaz de France in the context of a research project; Yves Ledoux and Edouard Vieillefond are directors of GRTgaz, a 100% subsidiary of Gaz de France; Edouard Vieillefond is director of RTE which organizes calls for tenders in which Gaz de France is liable to be a candidate; Guy Dollé was chairman of the management board of Arcelor until September 30, 2006, and the Arcelor group had business relations with Gaz de France; Daniel Samuel-Lajeunesse was a director of Alstom, a company that had business relations with Gaz de France.

Besides the provisions of the Code de Commerce that apply to regulated agreements, the director code of behavior (see paragraph 16.4 – "Director code of behavior (Charte de l'administrateur)") provides that each director shall make every effort to avoid any conflict that might exist between his own moral and material interests and those of the Company, and that he shall inform the Board of any conflict of interest in which he might be involved and, where he is unable to avoid such conflict, that he shall refrain from participating in all deliberations or decisions on the subjects concerned.

Arrangement or agreements concerning the designation of members of the Board of Directors or the senior management

No arrangement or agreement was concluded with shareholders, customers, suppliers or others under which one of the members of the Board of Directors or senior managers was selected in that capacity.

Restrictions on the sale of shares

The Company's shares that were potentially acquired by the chief operating officers and the directors representing the employees upon the initial public offering of the Company's share capital which occurred on July 7, 2005, in the context of the Employee Offering (described in the note d'opération filed with the AMF on June 22, 2005) are likely to be subject to restrictions concerning their sale. If applicable, the shares acquired may be untransferable during certain periods the length of which is a function of the formula chosen from among the five formulas offered to the employees in the context of the Employee Offering.

15 COMPENSATION AND BENEFITS

15.1 Interest and compensation for the members of the Board of Directors, the Chairman and Chief Executive Officer and the Chief Operating Officers

15.1.1 Members of the Board of Directors

- **The representatives of the French State** (Paul Marie Chavanne, Philippe Favre, Christian Frémont, Xavier Musca, Florence Tordjman and Edouard Vieillefond) have received no form of compensation in fiscal year 2006 including attendance fees or otherwise, from the Company or from companies controlled by the Company. The same applies to representatives of the French state who resigned during the year (Clara Gaymard, Jacques Rapoport and Denis Samuel-Lajeunesse).
- **The directors appointed by the employees** (Olivier Barrault, Eric Buttazzoni, Bernard Calbrix, Jean-François Le Jeune, Yves Ledoux and Daniel Rouvery): no form of compensation was paid, including attendance fees or otherwise, by the Company or by the companies controlled by the Company for their exercise of their duties as directors in fiscal year 2006.
- **The directors appointed by the general shareholders' meeting** other than the Chairman of the Board of Directors (Jean-Louis Beffa, Aldo Cardoso, Guy Dollé, Peter Lehmann and Philippe Lemoine) receive attendance fees.

The general shareholders' meeting sets the global amount of attendance fees, based on the Board of Directors' proposal. The annual shareholders' meeting held May 24, 2006 fixed the total amount of attendance fees to cover the fiscal year 2005 at €105,250. These directors were paid €2,000 for each Board of Directors meeting and €1,250 for each committee meeting, except for the chairman of the audit and accounts committee, Aldo Cardoso, who received €2,000 for each meeting.

For fiscal year 2006, the Board of Directors will propose to the general shareholders' meeting to be held on May 23, 2007 a global amount of €138,750 based on the following criteria: €2,000 for each Board of Directors meeting and €1,250 for each committee meeting, except for the chairmen of the committees, Aldo Cardoso, and Peter Lehmann, who will receive €2,000 for each meeting of the committees they chair. The overall amount of attendance fees has increased compared to 2005 because of the exceptionally high number of board meetings held during 2006 owing to the projected merger with Suez. The table below details the amounts paid – or recommended for payment – to the directors elected by the shareholders' meeting for the last two years:

Name	Attendance fees	
	For fiscal 2006(1)	For fiscal 2005
Jean-Louis Beffa	16,000 euros	12,000 euros
Aldo Cardoso	57,000 euros	42,250 euros
Guy Dollé	16,000 euros	12,000 euros
Philippe Lemoine	22,000 euros	20,000 euros
Peter Lehmann	27,750 euros	19,000 euros
Total	138,750 euros	105,250 euros

(1) *Subject to approval by the shareholders' meeting scheduled for May 23, 2007.*

These directors will not receive any other compensation or payments in kind from the Company or the companies controlled by the Company for their directorships in fiscal year 2006.

15.1.2 Chairman and Chief Executive Officer and the Chief Operating Officers

The table below shows the gross amounts before taxes of the compensation paid and payments in kind given to the Chairman and Chief Executive Officer and the Chief Operating Officers of the Company in the last two years:

Name and position	Year	Fixed compensation	Variable compensation	Extraordinary compensation	In-kind benefits	Total
Jean-François Cirelli Chairman Chief Executive Officer	**2006**	320,689 euros	111,593 euros	-	1,311 euros	433,593 euros
	2005	304,748 euros	35,525 (1) euros	-	16,985 euros	357,257 euros
Yves Colliou Chief Operating Officer	**2006**	277,964 euros	90,498 euros	16,660 euros	4,371 euros	389,493 euros
	2005	273,284 euros	67,610 euros	-	20,057 euros	360,951 euros
Jean-Marie Dauger Chief Operating Officer	**2006**	278,865 euros	92,338 euros	16,660 euros	13,538 euros	401,401 euros
	2005	274,192 euros	79,512 euros	15,000 euros	16,893 euros	385,597 euros

(1) *The variable compensation paid in 2005 to Jean-François Cirelli was set as a lump sump for the year of his term as Chairman-Chief Executive Officer for the period from September 15 to December 31, 2004.*

Variable annual compensation paid to Jean-François Cirelli is capped at 40% of the amount of his fixed annual compensation and is calculated at 70% based on net revenues, EBITDA and change in the Group's productivity and 30% based on qualitative criteria.

Variable annual compensation paid to Yves Colliou and Jean-Marie Dauger is capped at 30% of the amount of their annual fixed compensation and is calculated based on the Group's financial results and on those of their respective branches, as described in Paragraph 14.1.2 – "Senior Management, executive committee and organization of operations"

The Chairman and the Chief Operating Officers have not received any compensation or payment in kind from companies controlled by the Company as defined in Article 233-16 of the *Code de Commerce*. They do not benefit from any special retirement program and have not received any signing bonus, nor will they receive a departure bonus.

15.2 Total amount set aside for the payment of pensions, retirement benefits and other benefits

Information concerning the interest held by the members of the Board of Directors and the Chief Operating Officers in the share capital of the Company and existing stock options appears in Paragraph 17.2 – "Equity interests and stock options of the directors and the Chief Operating Officers."

With respect to the amounts set aside by the Company for the payment of pensions, retirement benefits and other benefits, see paragraph 20.1.1.1 "Consolidated accounts for the year ended December 31, 2006 under IFRS standards Appendix /Note 26".

16 BOARD PRACTICES

16.1 Terms of members of the Administrative Bodies

The term of the current members of the Board of Directors ends November 22, 2009.

The dates of the first appointment or election, as well as the dates of the beginning of the current terms of each of the members of the Board of Directors and of each of the Chief Operating Officers is presented in paragraph 14.1 – "Composition of administrative and management bodies."

16.2 Information concerning the service contracts between the members of the Board of Directors and Senior Management and the Company or its affiliates

To the Company's knowledge, there is no service contract between the members of the board of directors or the Chief Operating Officers and the Company or any of its affiliates.

The six directors representing the employees and the two Chief Operating Officers are connected to the Company through work contracts.

16.3 Activities of the Board of Directors

The Board of Directors' activities are governed by French laws and regulations, it's the Company's statuts (by-laws) and by the Board of Directors' "Réglement Intérieur" or " Internal Regulations[1]." which were adopted by the Board on December 17, 2004. These Internal Regulations describe the responsibilities of the Board of Directors and its members as well as the operation of the Board of Directors and its committees, including a code (Charte de l'administrateur) that governs the behavior of its directors.

The internal regulations are subject to review, as necessary, by the Board of Directors. Moreover, each director undertakes to make any recommendation that seemed necessary to improve the operation of the board, particularly the time of a scheduled review of the regulations and agrees to accept the judgment of the Board of Directors in the evaluation of the his/her own behavior as director.

(1) *The Internal Regulations may be modified at any time by the Board of Directors.*

Communication of information to the directors

Under the terms of the Internal Regulations, except if otherwise necessary, the chairman of the Board of Directors will send to the directors at least five full working days before the holding of each meeting all information and documents that will be necessary to the performance of their duties as well as, to the extent possible, a draft of the minutes from the preceding meeting.

The Internal Regulations require the Chairman of the Board of Directors to communicate regularly to the Board (and between board meetings, if necessary) all relevant information concerning the Company, including press releases and financial information. The Chairman of the Board of Directors will regularly make a presentation concerning the status of major, on-going projects. Each director may receive any training that is necessary to properly perform his or her duties as a director, or if applicable, as a member of a committee, and which is either provided by the Company or approved by it.

In addition, directors may, in order to receive all information necessary, meet with the principal operational officers of the Company or the Group independently from the Chairman and senior management, to discuss the topics included on the Board of Directors' agenda. Their questions must be responded to as soon as possible.

Functions of the Board of Directors

The Board must consider the major strategic, economic, financial or technological objectives of the Company's and the Group's activities, before voting on decisions relating to them.

In addition to the matters that the Board of Directors is legally required to consider, the Board agenda must also include — after study, if applicable, by the competent committees — and vote on certain types of material transactions, including contracts with the French State relating to the Group's public service obligations, certain acquisitions or sales of equity interests, certain long-term energy purchase contracts, certain industrial investments and certain financial transactions.

In addition the Chairman must include on the Board's agenda:

- at least twice a year, a review of the financial and cash flow situation, as well as the Company's and the Group's commitments;
- once a year, and as necessary (especially in the case of financial difficulties), disclosure relating to the situation of the Company's principal subsidiaries and equity interests;
- once a year, an examination of the policy for purchases outside of gas as well as gas sales transactions that exceed an annual materiality threshold;
- once a year, an examination of the energy supply policy.

The Internal Regulations also provide that the Chairman must provide to the directors at least every six months disclosure relating to the most significant contracts awarded during the prior period.

Board of Directors' meetings

The Board of Directors meets as often as the Company's business needs so, and at least eight times a year, including at least once each quarter. The Chairman sets the agenda for the meetings.

The Board of Directors met fifteen times in 2006, with an average attendance by its member of 83%.

During 2006 the Board of Directors examined the following topics:

- the budget;
- approval of the financial statements and proposal for the allocation of revenues;
- division of attendance fees;
- semi-annual financial statements;
- application of IFRS standards;
- sureties, financial backing and guarantees;
- strategy;
- the projected merger with the Suez group;
- as well as a certain number of transactions tied to investments and important undertakings in the context of its development.

The Internal Regulations provide for the appointment by the Board of Directors, upon the nomination of the Chairman, of a Secretary to the Board of Directors that may not be a director.

Under the terms of the Internal Regulations, if at least six directors request it, the Chairman meeting of the Board of Directors within a maximum of eight days from the date within a period decided in agreement with the directors requesting the meeting.

Presence of a government commissioner

Law 2006-1537 of December 7, 2006 concerning the energy sector, modifying Law 2004-803 of August 9, 2004 provides that the minister in charge of energy shall appoint a government commissioner who will participate in an advisory position in the meetings of the Company's board of directors. At the date of registration of this document, no government commissioner has been appointed to Gaz de France.

16.4 Director code of conduct *(Charte de l'administrateur)*

In the context of the Internal Regulations, the Board of Directors adopted a code (Charte de l'administrateur) that governs the conduct of its directors. This code in particular provides:

- Directors must act in all circumstances in the business interest of the Company, it being understood that the ultimate criteria in the taking of a decision must be the Company's long-term interest, which will assure its continuation and development. Directors must, regardless of their designation, consider themselves representatives of all the shareholders.
- Directors will take full responsibility for their rights and obligations. They must know and respect the legal and regulatory provisions relating to their duties, as well as the Company's own rules that come from its by-laws and the Board of Directors' Internal Regulations.
- Directors will exercise their duties with independence, loyalty and professionalism.
- Directors will ensure that they maintain in all circumstances the independence of their judgments, decisions and actions. It is forbidden for them to be influenced by anything outside of the business interest which they have the duty to defend. They have a duty to inform the Board of Directors of anything to their knowledge that may affect the interests of the Company. They have a duty to clearly express their questions and opinions and to endeavor to convince the Board of Directors of the

relevance of their positions. In case of disagreement, they will ensure that such disagreements are explicitly reduced to writing in the minutes describing the deliberations. Measures shall be taken to ensure the independence of the salaried directors, particularly in terms of their professional advancement.

- Directors will endeavor to avoid all conflicts that may exist between their personal and financial interests and those of the Company. They will inform the Board of Directors of any conflicts in which they could be implicated. For situations in which a conflict of interest cannot be avoided, such director must abstain from deliberations as well as any decision relating the subjects concerned.
- Directors may not take any action that may harm the Company's interests and must act in good faith in all circumstances. They must keep secret the disclosures and debates in which they participate and respect the confidential character of the information given such as that by the Chairman of the Board of Directors. They are forbidden from using privileged information to which they have access for their personal benefit or for the profit of anyone else. In particular, if a director holds non-public information relating to the Company, such director must abstain from using such information to complete or to complete through a third-party any transaction with respect to the Company's securities.
- Directors undertake to dedicate the time and attention necessary to their duties. They will stay abreast of the fields and the specifics of the Company, its issues and values, including by questioning principal officers. They will participate in meetings of the Board of Directors with attentiveness and diligence. They will endeavor to participate in at least one of the Board of Directors' special committees. They will attend general shareholders' meetings. They will endeavor to obtain in an appropriate amount of time the elements that they view as information indispensable to the Board of Directors' deliberations. They undertake to update the information that is useful to them and have the right to request training from the Company, which are necessary for the proper exercise of their duties.
- Directors will contribute to the collegiality and efficiency of the Board of Directors' and its special committees. They will make all recommendations that would improve the way in which the Board of Directors functions, particularly at the time of the Board's periodic evaluation. They will accept the evaluation of their own actions by the Board of Directors. They undertake, along with all the member of the Board of Directors, to ensure that their supervisory duties are accomplished with efficiency and without any obstacles. In particular they will ensure that the Company puts in place procedures allowing to control compliance with the laws and regulations, in both substance and spirit. They will ensure that all the positions adopted by the Board of Directors will, without exception, be the subject of formal decisions, which are well-founded and correctly included in the Board of Directors' minutes.

16.5 Committees of the Board of Directors

Gaz de France's by-laws permit the Board of Directors to establish committees, notably an audit and financial statements committee and a strategy committee, to deliberate such issues as the Company or its Chairman may decide.

The Internal Regulations of the Board of Directors, as adopted by the Board of Directors following its meeting on October 17, 2004, state that the Board of Directors may establish permanent or temporary committees, intended to facilitate the proper functioning of the Board of Directors to aid the efficient preparation of its decisions. The Board of Directors, on the recommendation of and in coordination with the Chairman, designate the members and chairman of the committees, taking into consideration the capabilities, experience and availability of the directors which they wish to appoint and respecting the equilibrium of the Board of Directors. The Government commissioner, designated in the event of privatization of the Company by the minister in charge of energy, shall participate in an advisory capacity in the deliberations of the committees in accordance with Article 39 of Law 2006-1537 of December 7, 2006 concerning the energy sector. The annual report of the Company includes disclosure relating to the activities of each of its committees over the course of the past year.

The mission of a permanent or temporary committee consists in studying the subjects and projects that the Board of Directors or the Chairman refer to it, to prepare the work and the decisions of the Board of Directors relating to these subjects and projects, as well as reporting its conclusions to the Board of Directors in the form of reports, propositions, opinions, information or recommendations. The committees and the performance of their duties is the responsibility of the Board of Directors.

In principle the length of the term of the members of the permanent committees is two fiscal years, unless the remainder of the director's term on the Board of Directors is too short to complete the entire period two year period; in that case the director's term on the committee will be as long as its term on the Board of Directors. The terms of the members of permanent committees are renewable subject to the maintenance of the quality of the people concerned. The renewal of the terms of the members of permanent committees is done at the Board of Directors' meeting at which the annual financial statements are approved.

The permanent committees were established on December 17, 2004, when the Internal Regulations were adopted, with the composition, functions and operating methods described below.

Each committee makes note of all its work at the next meeting of the Board of Directors, which includes disclosures, opinions, proposals, or recommendations as written in the minutes of its meetings. No committee may consider issues on its own initiative which would go beyond the limits of its stated functions. The committees have no power to make decisions.

16.5.1 Audit and financial statements committee

16.5.1.1 Composition and operation

The audit and financial statements committee (Le comité d'audit et des comptes), created on December 17, 2004, is composed of the five following directors: Aldo Cardoso, who chairs the committee, Eric Buttazzoni, Edouard Vieillefond, Paul-Marie Chavanne and Bernard Calbrix.

The audit and financial statements committee holds at least four meetings per year, two of which are for the examination of semi-annual and annual financial statements and one which is for the examination of the budget. The chairman of the committee proposes the agenda of the committee meetings. In 2006 the committee met thirteen times with an average level of attendance of 77% of its members. During the course of its meetings this committee considered, in particular, the following topics: the 2006 budget, accounting procedures for concessions under IFRS standards, impact on the accounts of transition to IFRS standards, company and consolidated accounts for 2005, financial policy (2005 balance sheet and outlook for 2006-2007), 2005 financial results and outlook for the main subsidiaries and equity interests, internal control policy, profitability criteria in the context of external growth operations, audit report for 2005 and 2006 audit program, tariffs policy and related hedging strategy, reconciliation of consolidated IFRS accounts with US GAAP, implementation of the Sarbane-Oxley Act in the context of the merger project, the half-yearly financial statements, financial communications, comparison of accounting methods of Gaz de France and Suez, group insurance policy and closure of the accounts for 2006.

Main participants in the audit and financial statements committee are Senior Management, the Finance Department, the Audit Department as well as the Company's independent statutory auditors. Hearings with the Finance Department may be held outside the presence of the Chairman of the Board of Directors. Hearings with the independent statutory auditors may be held outside the presence of all employees and managers of the Company. In order to perform its functions, the committee may use outside experts to the extent needed.

The Chairman of the Strategy and Investment Committee receives the agendas for the audit and financial statements committee and may attend those meetings.

16.5.1.2 Functions

Financial statements

The functions of the audit and financial statements committee with respect to this topic include:

- ensuring the relevance and permanence of the accounting methods adopted for the establishment of the consolidated or unconsolidated financial statements as well as the appropriate treatment at the Group level of significant transactions;
- undertaking an examination of the Company's main subsidiaries and equity interests once a year, or as needed (especially in case of financial difficulties);
- at the time of the approval of the financial statements, undertaking the required examination and giving its opinion on the drafts of the annual and 6-month consolidated and unconsolidated financial statements prepared by the Finance Department before they are presented to the Board of Directors. To do this, the committee has discussions with the independent statutory auditors, Senior Management and the Finance Department concerning in particular depreciation and amortization, provisions, treatment of goodwill, principles of consolidation and off-balance sheet commitments. They may examine all of the financial statements for the needs of specific transactions (contributions, mergers, market transactions, payment of interim dividends, etc.);
- staying informed of the Group's financial strategy and terms of major financial transactions;
- reviewing drafts of the annual business activities report and of the annual management report before their publication; and
- examining the scope of consolidation and the choice of principles for the consolidation of the Group's companies.

Risks

The functions of the audit and financial statements committee with respect to this topic include:

- examining risks and significant undertakings, in particular through the assessment of such risks;
- examining the risk management policy in all domains (especially the insurance policy, financial management and participation on the futures markets);
- undertaking an annual review of the Company's main subsidiaries.

Internal and external control, internal audit, Independent Statutory Auditors

The functions of the audit and financial statements committee with respect to this topic include:

- verifying that the internal procedures for collection and for controlling information guarantee their reliability and examining the Group's internal audit plan and the intervention plan of the independent statutory auditors;
- meeting with the managers in charge of the internal control and audit, giving its opinion on the organization of these services, taking into account work programs and receiving a summary of the internal audit activities of the Company and the Group as well as all the auditors' reports requested by the chairman of the committee;

- receiving regularly the report of the Group's external independent statutory auditors on the methods used for completing their work;
- making sure that the rules, principles and recommendations guaranteeing the independence of the independent statutory auditors are complied with;
- proposing to the Board of Directors, if applicable, a decision on any significant points of disagreement between the independent statutory auditors and Senior Management likely to arise in the course of the performance of their work;
- supervising the procedure for selecting or renewing (through bidding) the term of the independent statutory auditors by overseeing the selection of the "lowest responsible bidder", preparing an opinion on the fees sought for the execution of the legal control functions, preparing an opinion on the choice of the independent statutory auditors and making this recommendation to the Board of Directors; and
- making known the details of the all fees paid by the Company and the Group to the independent statutory auditors accounting firms and the networks of the auditors, ensuring that the amount of such fees or the portion of the revenues of the independent statutory auditors accounting firms and their networks which such fees represent are not of a nature that would compromise their independence.

Finance policy

The functions of the audit and financial statements committee with respect to this topic include:

- being informed by the Finance Department of the strategy and financial situation of Group, the methods and techniques used to define their financial policies;
- staying informed about the Company's main communications concerning its financial statements;
- examining the Company's budget; and
- examining all issues of a financial or accounting nature that are given to it by the Chairman of the Board of Directors or by the Board of Directors.

16.5.2 Strategy and investment committee

16.5.2.1 Composition and operation

The strategy and investment committee is composed of seven members: Peter Lehmann, who chairs the committee, Florence Tordjman, Philippe Favre, Edouard Vieillefond, Olivier Barrault, Daniel Rouvery and Jean-François Le Jeune.

The strategy and investment committee holds meeting at least four times per year. The agenda of the meetings is proposed by the chairman of the committee. In 2006 the strategy and investment committee met six times with an average member attendance rate of 81%.

The committee addressed the following subjects during its meetings: investment program for 2006, Gaz de France strategy for exploration-production, projected sale of holding in KazGerMunai (KGM), projected creation of a joint company with the Camfin group in the domain of natural gas in Italy, call for tender initiated by RTE (Réseau de Transport d'Electricité) for the construction of a power station in Brittany, project for the creation of a joint company with Maïa Sonnier in wind generation, Gaz de France's gas supply policy and the transfer to a subsidiary of the French distribution business.

In order to complete its work, the strategy and investment committee may have meetings with the members of the management of the Company and the Group and use external experts, as necessary.

The chairman of the audit and financial statements receives the agenda of the strategy and investment committee and may attend its meetings.

16.5.2.2 Functions

The functions of the strategy and investment committee include:

- with respect to strategy, explaining to the Board of Directors its opinion on the major strategic objectives of the Company and the Group, in particular its industrial, commercial, employee, research and development and sustainable development policies, the Group's Public Service Contract, as well as all other important strategic issues which the Board of Directors refers to it;
- with respect to investment, studying and providing its opinion to the Board of Directors on the issues that are submitted to it relating to the major transactions depending from the Board of Directors concerning external growth, disinvestments and the sale of companies, or the purchase or sale of equity interests, investments, the creation and modernization of industrial equipment and works on an annual or multi-year basis, as well as the major real estate projects of the Board of Directors.

16.6 Limitations on the powers of Senior Management

16.6.1 Decisions submitted for prior approval to the Board of Directors

Article 2.4 (c) of the Internal Regulations of the Company's Board of Directors, as adopted by the Board of Directors at its December 17, 2004 meeting, provides that "*beyond the issues reserved to the competence of the Board of Directors by the applicable legislative and regulatory provisions the following must be included in the agenda, after study, as applicable, by the competent committee, examinations and vote:*

1. contracts concluded with the French State relating to the goals and methods for the implementation of the Company's public service goals; thereafter the performance of these contracts is included once a year in the Board's agenda;

2. the Gaz de France Group's multi-annual strategic plan;

3. draft of the Company's annual budget;

4. projects relating to the acquisition, expansion or sale of equity interests or business activities, joint venture projects or the realization of contributions having important financial or strategic implications in which the Company or its Group grants an accommodation or accepts external accommodations, whenever its financial exposure per transaction (including acquired liabilities and off-the-balance-sheet obligations) for this type of transaction exceeds €100 million, before taxes, or its equivalent in foreign currency; for projects not related to the Company's strategy and for those not involving the energy sector, this threshold is lowered to €30 million per transaction, before taxes;

5. the Group's long-term energy projects for transactions in amounts greater than 10 billion kWh per year;

6. the Group's industrial investment projects or construction agreements for which the value is evaluated at more than €50 million per transaction, before taxes;

7. supply and services agreement projects (excluding the supply of energy) for which the amount is evaluated at more than €30 million per transaction, before taxes;

8. loan projects in the form of the issuance of securities or credit agreement concerning the Company and its subsidiaries, whenever the amount per transaction exceeds €100 million and does not fall into a category previously and duly authorized by the Board of Directors. At the same time this ceiling (or this provision) does not apply to the refinancing of existing accommodations;

9. acquisition, sale or exchange projects by the Company in real estate or real estate rights as well as real estate leasing projects for and amount of more than €25 million per transaction, before taxes;

10. the total and per transaction amount of sureties, financial backings and guarantees, that the Board authorizes for each year for the Chairman and Chief Executive Officer.

16.6.2 Limitations on the power of the Chief Operating Officers

The Board of Directors at its January 26, 2005 meeting decided to harmonize the powers of the Chief Operating Officers with the provisions cited above of the Board of Directors' Internal Regulations by limiting its powers as follows:

"With respect to the areas for which Jean-Marie Dauger and Yves Colliou are responsible in their capacity as Chief Operating Officers, Jean-Marie Dauger and Yves Colliou may conclude all acts, contracts and agreements and commit Gaz de France to the extent that per transaction exposure is set at €100 million, except for the following specific matters for which their powers will be limited to:

- *€30 million before taxes or its equivalent in foreign currency for projects relating to the acquisition, expansion or sale of equity interests or business activities, joint venture projects or the realization of contributions having important financial or strategic implications in which the Gaz de France or its Group grants an accommodation or accepts external accommodations (including acquired liabilities and off-the-balance-sheet obligations) whenever these projects are not related to the Company's strategy or do not involve the energy sector;*
- *10 billion kWh per year for the Group's long-term energy purchase projects;*
- *€50 million before taxes for the Group's industrial investment or construction agreement projects;*
- *€30 million before taxes for supply and services agreement projects (excluding the supply of energy)*
- *€25 million before taxes for acquisition, sale or exchange projects by Gaz de France in real estate or real estate rights as well as real estate leasing projects."*

16.7 Internal control report

In accordance with the provisions of paragraph 6 of Article L. 225-37 of the French Commercial Code, the Chairman of the Board of Directors, has prepared an internal control report which will be presented to the general shareholders' meeting called on May 23, 2007 to approve the financial statements for the year ended December 31, 2006, as appears in Appendix C to this document de référence. The report of the independent statutory auditors on this report appears in Appendix D.

16.8 Statement concerning Corporate Governance

As of the date of registration of this document de référence, the Company complies with the requirements of France's corporate governance regime subject to certain terms which are specific to companies belonging to the public sector.

The Internal Regulations of the Company's Board of Directors that were adopted by it following its December 17, 2004 meeting, aim to guarantee the transparent functioning of the Board of Directors. The main provisions of the Internal Regulations are summarized in paragraph 16.3 – "Activities of the board of directors." The director code of behavior (Charte de l'administrateur), which is attached to the Internal Regulations, deals with independence, loyalty and the professionalism of directors; these main provisions are summarized in paragraph 16.4 – "Director code of behavior (Charte de l'administrateur)."

For the sake of transparency and public disclosure, the Company intends to act based on the recommendations of the report of the work group chaired by Daniel Bouton for the improvement of corporate governance, which presented its conclusions to the public on September 23, 2002, to the extent permitted by the legislative and regulatory provisions that are applicable to the Company, especially as relates to its belonging to the public sector. The application of the corporate governance rules, in compliance with said legislative and regulatory principles, is intended to prevent abusive control by the majority shareholder.

17 EMPLOYEES

The organization of human resources within the Group is divided between the Company, the French subsidiaries including GRTgaz and, in the Services sector, companies in the Cofathec group and Savelys group, and the other foreign subsidiaries. The integration of these different companies into the Group's human resources varies in terms of how long each unit has been in the Group.

17.1 Human Resources – Employees

17.1.1 Group Employees (France and abroad)

As of December 31, 2006, the Group had 50,244 employees, of which 68.25% were employed in France. These are pro rata figures for subsidiaries that are subject to proportional consolidation (see paragraph 17.1.2 – "Employees in France (Gaz de France and its French subsidiaries). Of these employees, 21,836 (or 43.46% of the total number of the Group's employees), were working as of December 31, 2006, for Gaz de France or in divisions operated jointly with EDF; while 28,408 employees, or 56.54% of the Group total were working in French and foreign subsidiaries.

The following table breaks down the Group's employees (as of December 31,) by segment for the past three years:

	2004	2005	2006
Exploration-Production	1,232	1,205	1,115
Purchase and Sale of Energy	2,814	2,940	3,171
Services	8,124	12,545	12,865
Transmission and Storage – France	4,413	4,383	4,396
Distribution France	15,345	15,110	14,712
Transmission and Distribution – International	3,786	14,479	11,696
Other, including common functions	2,374	2,296	2,289
Total	**38,088**	**52,958**	**50,244**

Total Group employees decreased by 5.12% during 2006. This decrease is linked to productivity efforts in the different sectors and in particular in subsidiaries in international transport and distribution.

The table below shows the Group's employees from December 31, 2006 by domain:

	Exploration-Production	Purchase and Sale of Energy	Services	Transmission and Storage-France	Distribution France	Transmission and Distribution-International	Other	Total
Company	145	2,892	0	1,731	14,712	111	2,245	21,836
Subsidiaries and other entities abroad	970	279	12,865	2,665	0	11,585	44	28,408
Total	1,115	3,171	12,865	4,396	14,712	11,696	2,289	50,244

17.1.2 Employees in France (Gaz de France and its French subsidiaries)

As of December 31, 2006, 34,293 of the Group's employees worked in France of which 21,836 were employed by Gaz de France, or 63.67% of the total. The Group's share of all employees has been decreasing consistently over the past twenty years. The number of Gaz de France employees in France decreased by approximately 0.3% from 2005 to 2006.

The categories of employees in Gaz de France reflect the technical nature of its employees' professions, with 23.4% in managerial positions, 49.5% supervisors and 27.1% white and blue collar workers.

As of December 31, 2006, 13,265 employees, or 60.74% of the Company's personnel were seconded to the shared division of EDF-GDF (EDG, see paragraph 6.1.3.2.2.2.3 – "Organization of the distributor") This figure takes into account the individual proportion of gas activities of the EGD employees.

17.1.3 Employees outside France (foreign subsidiaries and other entities)

As of December 31, 2006, the Group had 15,951 employees outside France. This figure stood at 18,950 one year earlier.

The calculation of the number of employees was made in terms of consolidated staff, so that the actual number of employees in each of the Group's subsidiaries was weighted in terms of the percentage of financial consolidation of the subsidiary.

The following table shows the breakdown of the Group's employees outside of France by country and by segment as of December 31, 2006:

	Exploration-Production	Purchase and Sale of Energy	Services	Transmission and Distribution-International	Total
Algeria	7	-	-	-	**7**
Germany	671	-	-	407	**1,078**
Austria	-	-	-	6	**6**
Belgium	-	17	183	259	**459**
Canada	-	-	-	13	**13**
Egypt	9	-	-	-	**9**
Spain	-	3	-	-	**3**
Hungary	-	-	-	1,182	**1,182**
India	-	-	-	4	**4**
Italy	-	14	2,103	9	**2,126**
Mauritania	3	-	-	-	**3**
Mexico	-	-	-	389	**389**
Monaco	-	-	25	-	**25**
Norway	30	-	-	-	**30**
Netherlands	205	9	-	-	**214**
Poland	-	-	-	2	**2**
Portugal	-	-	-	1	**1**
Rumania	-	-		8,090	**8,090**
United Kingdom	45	181	684	1	**911**
Russia	-	12	-	-	**12**
Slovakia	-	-	-	1,271	**1,271**
Switzerland	-	1	114	-	**115**
Ukraine	-	-	-	1	**1**
Total	970	237	3,109	11,635	**15,951**

17.2 Equity interests and stock options of Directors and Chief Operating Officers

The table below shows the number of Company shares that, to the Company's knowledge, were held by directors and officers as of December 31, 2006:

Name	Title	Number of shares as of 12/31/2006
Jean-François Cirelli	Chairman and Chief Executive Officer, Director appointed by the general shareholders' meeting	4,044
Jean-Louis Beffa	Director appointed by the general shareholders' meeting	4,096
Aldo Cardoso	Director appointed by the general shareholders' meeting	1,044
Guy Dollé	Director appointed by the general shareholders' meeting	76
Peter Lehman	Director appointed by the general shareholders' meeting	600
Philippe Lemoine	Director appointed by the general shareholders' meeting	575
Paul-Marie Chavanne	Director appointed by the French State	-
Philippe Favre	Director appointed by the French State	0
Christian Frémont	Director appointed by the French State	0
Xavier Musca	Director appointed by the French State	0
Florence Tordjman	Director appointed by the French State	44
Edouard Vieillefond	Director appointed by the French State	0
Olivier Barrault	Director appointed by the employees	0
Eric Buttazzoni	Director appointed by the employees	0
Bernard Calbrix	Director appointed by the employees	FCPE shares corresponding to 128 Company shares
Yves Ledoux	Director appointed by the employees	0
Jean-François Le Jeune	Director appointed by the employees	-
Daniel Rouvery	Director appointed by the employees	FCPE shares corresponding to 737 Company shares
Jean-Marie Dauger	Chief Operating Officer	2,540
Yves Colliou	Chief Operating Officer	2,090

No director or officer holds subscription or share purchase options.

17.3 Profit-sharing, participation and employee share ownership

17.3.1 Profit-sharing

The profit-sharing agreement of June 3, 2005 covering 2005-2007 has made it possible to pay each employee of Gaz de France an average of €1,037 based on the Group's 2005 results. The total amount distributed for 2005 was €22.8 million, or 3.29% of the wages bill. The amount paid for 2003 was €950 and €991 for 2004 under the previous agreement, which had also included GRTgaz employees.

The agreement is based on two levels of criteria: criteria analyzed at company level (Gross operating profit divided by turnover and respect for the emission quotas for CO2) and criteria analyzed at a decentralized level (5 to 6 criteria at the segment level or at the level of the division to which the employee belongs). The ceiling was increased to 3.7% of gross salary.

An employee's share of profits is divided into three parts, respectively calculated at Group level (EBITDA divided by revenues), at the level of groups of entities and at the local level, in order to take into account the specific results linked to the different areas of business. Joint Gaz de France and EDF employees receive a share of the profits based on the percentage of their activities devoted to each of the two companies, determined through an allocation formula.

Employees have the choice of receiving their profit share immediately, or of investing it in the Company savings plan, or in the "Income" sub-fund of the FCPE Action Gaz 2005, part of the Group savings plan, or they can pay it into a term deposit. Sums placed in the Company, Group or term deposit savings plans are matched 100%.

The Company's employees can make payments on an individual basis into their corporate savings plan. Deposits made by individuals are 60%-matched for the first €610 and are 35%-matched for the next €610, subject to a total annual limit per employee. These matching provisions are applicable for a period of three years ending December 31, 2007. Employees can also make voluntary payments to the Group savings plan, but these are not matched.

17.3.2 *Participation*

Gaz de France is not on the list of state-owned companies to which mandatory employee profit-sharing applied. Some subsidiaries have nevertheless established *participation* schemes.

17.3.3 Employee shareholding

At the time of the initial public offering of share capital in 2005, Gaz de France offered to the Group's employees and former employees the opportunity to become shareholders. 68,906 of them became shareholders, benefiting from financial incentives permitted by the French Labor Code, the law of August 6, 1986 concerning privatizations and the French law dated August 9, 2004 concerning the public gas and electricity utilities and electricity and gas companies. Following this transaction, employees and former employees of the Group held 2.3% of the Company's shares. This is still the case as of December 31, 2006.

The Group has also put in place a group savings plan (known by the French acronym PEG) as part of an indefinite-term agreement signed with the unions on February 22, 2005, which is opened to all French subsidiaries in which the Group holds more than 50% of the share capital.

An employee in France can choose between five different formulas, described in the note d'opération filed with the AMF on June 22, 2005 under Number 05-583, including a discount on the purchase price, contribution by the Company, free shares, differed payment, assuming responsibility for the costs of managing the securities or the implementation of a financial mechanism minimizing the risk incurred (multiplier effect). All of the provisions allowed a significant decrease in the acquisition price of the shares in exchange for blockage of the securities for longer or shorter periods. (See also paragraph 21.1.7.2.2 – "Grant of free shares in the context of the Employee Offering").

This information was the subject of very widespread communications activities in various forms to ensure that each person entitled to the offer was informed.

In 2006 the employees of the Group in France have been able to continue acquiring Gaz de France shares through the Group savings scheme, in particular by investing their shares in the profits, in which case the sums invested were matched 100%.

17.4 Organization of the Group's Human Ressources

17.4.1 The Group's Human Resources policy

The Group's HR policy cannot be dissociated from its industrial plans. It is part of the Group's development and evolves with it, calling on all of the Group's employees, so that all are associated with the policy and all benefit from it. One of the main prerequisites for the success of the Group's industrial plan lies in the Group's capacity to motivate its employees, through its human resources practices and labor policies, to upgrade their working skills, to prepare them for changes in their profession and to develop their sense of belonging to the Group. This important policy must be developed over time, in continued collaboration with all of the Group's employee representatives.

The actions and projects it has undertaken implement these goals.

17.4.1.1 HR actions in 2006

Group's skill optimization program

A year after the launch of this initiative, job and skills requirement forecasting is under way in all 38 areas of the Group's professional activities (the Group's macro-skills). The work is carried out by "business specialists", who provide feedback for management decisions and the HR aspects of business planning. This work has also enabled the identification of an initial list of key skills for the Group. To ensure that Gaz de France will have sustainable access to these key skills, appropriate management systems have been established. This makes it possible to enrich the processes of recruitment, mobility, professional orientation and training carried out by operational employment division, and the Gaz de France's training unit. In addition, discussions about macro-skills with the National Trades Observatory (*Observatoire National des Métiers*) have helped improve social dialogue. To ensure that managers and employees both have a better understanding of our various trades, information is being sent out on the Group intranet. In 2007 we shall strengthen our understanding of the Group dimension in the way we manage skills.

Cap compétences, the Group skills development system for executives

Cap compétences, the training program for executives was launched in 2003. Its objectives are:

- facilitating and accompanying changes in the Group;
- integrating and motivating the Group's newly recruited executives;
- motivating and securing the loyalty of current and future executives;
- creating a Group management culture and a shared understanding of current and coming changes.
- developing intercultural awareness and encouraging a culture of "Group belonging"

In 2006 471 managers of all levels, including those just recruited in the Group, have participated to 21 Cap compétences training courses covering the following areas: "Knowledge of the Group and of its industrial and social project" and "Creation of a shared Group management culture" (including managing change and the management fundamentals).

The Cap competences training program is being overhauled. Internal quality studies have been carried out regarding the managerial training needs of executives in the Group, with an external benchmark of industrial group practices concerning the corporate approach to management training.

On top of the present training program, (without any changes until the new program is launched, or with adoptations to new needs). Four goals have been identified to develop Cap compétences at the Gaz de France Group scale:

- defining the training of courses proposed for each target population in such as welcome to newly recruited, Group integration, or Mobility;
- pursuing the development of a shared Group management culture;
- defining the population that must be kept informed of Group strategy and specifying at what moment this information must be delivered;
- promoting the creation of thematic networks and the exchange of good practices in order to encourage intercultural exchanges.

17.4.1.2 Projects begun and implemented during 2006

The Group's goal is to become one of the leaders of corporate social responsibility.

Parallel to building a Group Ethic charter, work on the establishment of a body of shared Group management practices (PROMAP) was brought to a conclusion in 2006. These two approaches, like the goal of achieving a group RSE charter, are based on the implementation of values that are shared throughout the employee fabric of the Group and express the identity of Gaz de France.

PROMAP (Progress in Management Practices) is the result of collaboration between managements and subsidiaries, finalized in 2006 by the Group's Human Resources Division. PROMAP's operational objective is to promote the managers social responsibility by providing a ground of reference in a set of management practices.

These practices cover six guidelines: communication with employees and their representatives, diversity, employability, recognition and reward, conditions of work and anticipating and accompanying reorganizations. Each year, Group managers will be asked to select the practices to be improved as a matter of priority within each of these domains, taking account of their local particularities. The implementation of this program is scheduled for the first half of 2007.

This deployment will be consolidated annually across the entire perimeter of Group employee reporting. It will make possible the measurement of continuous improvement in management practices within the Group and the identification of developments to be proposed in this field.

Development of shared orientations and suitable solutions for training senior supervisors, senior managers and future directors of the Group

In the beginning of the year new orientations concerning the professional development of senior managers and future directors were defined for the whole of the Gaz de France Group. Their goal is to serve the ambitions of Gaz de France by preparing directors and future directors for styles of management adapted to an increasingly international Group, that is listed and in global competition (and including a new approach to financial matters). The objective has been stated: to develop an entrepreneurial spirit, creativity, leadership, a multicultural outlook, the capacity for taking risks in an complex universe, the ability to motivate work groups by empowering each one of their members, and the capacity to develop a client-oriented culture. These orientations have given birth to a new program: "Leading the Group today and tomorrow". Since November 2006 senior managers have had their own professional development scheme, and a training catalogue in the "Cap compétences" program. Personalized tools suited to varying situations have been developed so that managers of different populations can be suitably prepared to talk about the professional development of the people concerned during the annual performance review. These programs are piloted quarterly by the executive development division.

17.4.1.3 Group Human Ressources reporting: a tool to measure the evolution of employee policy within the Group

At the end of June 2006, Gaz de France produced its first Group HR reporting. Based on Gaz de France's fully consolidated entities, it concerns some 96% of the Group's work force.

Piloted by the Group HR division, it was designed in collaboration with all the internal parties concerned. It constitutes a unique system of employee reporting / HR thanks to its global harmonization and overall Group coherence as regards definitions and ways of calculating HR / social indicators and the parent company /subsidiary indicators.

For 2006, some twenty mandatory indicators were chosen because of their relevance to the industrial and employee projects of Gaz de France, their correspondence with the NRE law and the Global Reporting Initiative, and the possibility for Group's units to understand them and produce them. An annual qualitative assessment will complete the data obtained by collecting these indicators.

A Group convention on the workforce harmonizes all the definitions related to employees and the way they are accounted for. It thus meets the Group's needs to bring its various forms of reporting into conformity – financial, management and HR/social – as well as the requirements for communication concerning the workforce, both internally and externally. A Group HR reporting manual contains all the information necessary for HR/social reporting, and rounds out the Group's own Reporting Manual.

HR reporting is implemented half-yearly, at the end of June and the end of December. At the end of December 2006 it was organized through a single collection of Group indicators based on a common schedule for all the Group's divisions which need HR and social data.

Successful deployment of these approaches at the Group level is based on the involvement of the managers and the HR teams. In order to bolster the Group's HR dimension, a convention was held in 2006. The HR representatives of 7 countries and 19 companies were present: information about the latest HR news in the Group and the projects in progress was presented. This event enabled themed networks to be established that will promote the exchange of best practices.

Internal opinion polls are one of the ways of understanding employee motivation. Thus, an enquiry that was carried out in January 2007 within the Company and GRTgaz by Tns Sofres showed clearly that 82% of employees questioned said they were satisfied or very satisfied with their employment at Gaz de France, while 81% said they were satisfied or very satisfied by the interest of their work.

17.4.2 Group Employees within Gaz de France (in France)

17.4.2.1 IEG branch personnel

21,686 of the Company's employees as of December 31, 2006, benefit from a special status: the status of personnel in the Industries of Electricity and Gas (IEG). The status of IEG personnel was created by French Decree No. 46-1541 dated June 22, 1946 applying the law of April 8, 1946, implemented April 8, 1946.

In accordance with the provisions of Article L. 134-1 of the French Labor Code, the provisions of the status can be supplemented and their conditions of application may be determined by company agreements or pacts, within the limits specified by the status.

In addition, a French Law No. 2000-108 dated February 10, 2000 relating to the modernization and expansion of the public electricity service, expanded the conventional path in the electric and gas sectors by introducing branch collective bargaining agreements that must be complied with by all companies in the sector, including foreign companies, in order to conduct their activities in France. The IEG status is a true professional branch status.

IEG personnel receive special benefits, specifically:

- a special retirement system whose financing conditions have been amended effective January 1, 2005 (see paragraph 17.4.2.5 – "Retirement");
- a mandatory, supplementary health insurance program;
- special worker representation bodies in which the duties of union delegates and personnel delegates are combined;
- provisions concerning the mobility of employees among companies belonging to the IEG branch; and
- certain family benefits, including compensation in the event of marriage or the birth of a child, as well as provisions usually determined as part of collective bargaining agreements or at the corporate level, including provisions relating to compensation.

17.4.2.2 Hiring

In 2006 the Company hired 688 people with IEG status, compared to 578 in 2005.

17.4.2.3 Departures, dismissals and early retirement

In 2006, 838 people with IEG status definitively left the Company (of which 84 were resignations). By comparison, 699 employees definitively left the Company in 2005.

17.4.2.4 Mandatory supplemental health insurance program

Within the gas and electricity industries, the health insurance program for current employees and retirees is mandatory ensured by a special social security regime that offers:

- base services for the general program; and
- supplemental services.

In the context of the regulations in effect until the beginning 2005, the IEG branch companies contributed to the financing of this regime equally with the insured persons (current and retired personnel).

Two regulatory provisions were passed in February 2005 to modify the financing of the regime and to update the contribution rates (French Decrees, No. 2005-126 and No. 2005-127 dated February 15, 2005).

These measures:

- ensured the financing of the supplementary illness program and the continuity of reimbursements to employees, retirees and their families;
- ended the participation of the enterprises in the financing of retirement portion; as a result they no longer have any undertaking in this regard upon the finalization of the 2004 accounts.

Negotiations were begun in 2006 with the IEG branch with a view to modernizing the mandatory special illness insurance scheme (which covered both the basic scheme and the complementary scheme). This work resulted in a new organization and management of the special social security regime, implemented by the adoption of Decrees 2007-489 and 2007-490 on March 30, 2007. These decrees provide in particular for the creation on April 1, 2007 of the health insurance fund for the power and gas industries *Caisse d' assurance maladie des industries électriques et gaziéres (CAMIEG)*

17.4.2.5 Retirement

A special IEG branch system

Following the electricity and gas nationalization French Law No. 46-628 dated April 8, 1946 the public authorities put in place the special retirement system that applies to all IEG companies.

The IEG Branch status, as established by French Decree No. 46-1541 dated June 22, 1946, fixed the conditions for retirement under this system. Companies are not entitled to modify the terms of the retirement system. In addition to servicing the pensions of IEG employees, this system also contributes to the financing of other retirement systems through compensation and overcompensation mechanisms.

The public authorities undertook the reform of the functioning and financing of the retirement system, in effect:

- The primary basis for determining retirement benefits in proportion to overall payroll costs was the dominant market positions of each of Gaz de France and EDF, as well as their legal monopoly in their respective activities;

- The context greatly changed during these last few years, due to the opening of the market to competition as well as the adoption of IFRS standards at the beginning of 2005.

French Law No. 2004-803 dated August 9, 2004 (Title IV) defined the main terms of this reform, which was implemented starting from January 1, 2005, under a certain number of application decrees passed at the end of 2004 and during the first half of 2005.

Status of the system prior to the 2004 reform

Until January 1, 2005, retirement benefits for IEG employees were financed exclusively by IEG actors, through a payroll deduction of 7.85% of gross salaries and through Company contributions (known as a "balancing contribution"), determined in proportion to the payroll figures of IEG companies. This balancing contribution also made it possible to pay other social charges whose financing was shared among companies belonging to the IEG branch, such as worker's compensation, temporary and permanent disability and occupational safety costs. In 2004, for example, this contribution represented €472 million for Gaz de France, representing 63.79% of the total payroll, excluding bonuses for the relevant employees.

The 2004 reform

The following are the principal stages of this reform:

- Starting in 2002, at the request of the public authorities, negotiations were conducted with the unions to define specifications that would make it possible to reform retirement financing. These negotiations led to the signature in December 2002 by the IEG entities (employers) and by three representative unions of a "statement of conclusions", defining the principal stages of the reform;
- On this basis, the public authorities prepared a draft reform and informed the appropriate European authorities, which approved the reform on December 16, 2003;
- The reform was implemented by the French Law No. 2004-803 dated August 9, 2004, relating to public electricity and gas services and to electricity and gas companies, whose Title IV reforms the IEG retirement system;
- The reform took effect January 1, 2005.

The principal characteristics of the 2004 reform

For a description of the reform and its impact on the retirement obligations of Gaz de France see Chapter 20 "Financial Information Concerning the Issuer's Assets, Financial Condition and Results of Operations."

The key features of the reform are the following:

- Maintenance of the special IEG retirement system;
- The creation of a national IEG retirement fund, in the form of a private social security agency, to assume the risks formerly managed by a pensions service depending from Gaz de France and EDF in respect of retirement benefits, disability, death benefits and worker's compensation. This fund, placed under the joint administration of the Social Security, Budget and Energy Ministers, is administered by a Board of Directors with half of its members composed of employer representatives and the other half of employee representatives;
- The financing by the French public retirement programs that provides retirement benefits for all French companies (the Caisse nationale d'assurance vieillesse ("CNAV")) and the supplementary systems (AGIRC and ARRCO) of the financial obligations of the IEG retirement system, which may be tied to a reinsurance mechanism, through agreements providing for:
  - IEG companies and their employees to make contributions equivalent to those made by companies that are subject to such programs, and
  - an "initiation fee" designed to insure long-term economic neutrality of the financing;
- For special IEG retirement benefits that go beyond the coverage of the French public retirement programs and of certain specific laws, the reform distinguishes between:
  - Benefits vested on December 31, 2004 and relating to natural gas or electricity transmission or distribution businesses (regulated activities). These will be funded by a rate surcharge on all natural gas and electricity transmission and distribution services. This surcharge will also finance a portion of the initiation fee related to the transmission and distribution activities as defined in the agreement with CNAV, as well as any amounts payable pursuant to an adjustment clause in the agreement relating to the supplemental retirement program (this clause is described in Note 21a "pensions" in the Notes to the consolidated financial statements for the year ended December 31, 2004). French Decree No. 2005-322 dated April 5, 2005 (relating to the evaluation and methods for dividing the specific rights passed) set the portion for Gaz de France's regulated activities to 81%.
  - Benefits vested on December 31, 2004 and relating to other businesses. These will remain the responsibility of the IEG companies, which are also responsible for the portion of the initiation fee payable to CNAV that is related to other activities, as well as the initiation fee payable to AGIRC and ARRCO, and any amounts payable pursuant to the "adjustment" clause in the agreement relating to the supplemental retirement program. These benefits are the subject of an IFRS standard for the portion not covered by external funds.
  - Benefits vested after January 1, 2005 and not covered by the general public retirement programs remain the responsibility of each IEG company, calculated pro rata to the payroll costs. These benefits are the subject under IFRS standards of a provision for the part not covered by external funds.

17.4.2.6 Workforce outside Gaz de France

In 2006 the average number of temporary workers per month was 879, or 4.02% of the average monthly number of statutory employees. In 2005 this figure was 582 persons, or 2.65% of the average monthly number of statutory employees. The average length of temporary labor agreements was 50 days. Temporary workforce was used in all of Gaz de France's business activities.

17.4.2.7 Information related to staff reduction and job protection plans, reclassification efforts, re-hiring and attendant measures

The IEG personnel rules do not provide for any job guarantees. However, because of its policies the Company has managed to date to protect jobs by:

- anticipating and monitoring essential organization changes;
- monitoring and encouraging geographic and job-related mobility; and
- developing skills (training, professional advancement programs, etc.) that support changes in job descriptions.

These policies have made it possible not only to avoid mass layoffs but also to maintain skills and develop collegiality among employees. Finally, an agreement was signed on April 5, 2005 with the unions putting in place a process of consultation prior to any reorganization.

To succeed in these organizational changes, Gaz de France wishes to rely on a quality dialogue with social partners. In 2006 the Company decided to systematically propose collective negotiations for each reorganization in order to define the methods for accompanying the employees. A method guide showing the typical content of such negotiations was drawn up for managers and the HR department.

Additionally, Gaz de France created two new facilities (implemented by collective agreement) for accompanying employees affected by a reorganization:

- a "premium for encouraging oriented functional mobility" (two months' salary) to encourage employees to change trades in the interests of Gaz de France;
- the possibility for employees with less than three years before retirement to benefit from end-of-career leave of three years on 70% of their last salary.

These new measures, which will be available until end 2007, have already been implemented by collective agreements for the reorganization of the client function, the SFP, which will become the Gaz de France Training Service, and for reorganization of EGD's logistics support.

17.4.2.8 Organization and duration of work week, absenteeism

Frame work agreement dated January 25, 1999 reduced the work week at Gaz de France to 35 hours per week and has opened the possibility, while maintaining or even increasing the breadth of services offered of working shorter individual hours thanks to adjustments in work schedules.

The number of hours of absence (excluding annual vacations) was 1,573,335 in 2006, which represents 4.79% of the actual time worked, as against 5.66% in 2005. The most frequent causes of absence involved illness.

17.4.2.9 Compensation

Gaz de France's compensation system and any general increases are determined at the IEG branch level.

Compensation levels are based on employment classifications determined by analysis based on the Hay method and consisting of a compensation bracket (range greater than 50%) within a grid of some 80 levels of payment, spaced by around 2.3%[1]. Salary increases are allocated annually to nearly 30% of employees selected by the management according to their contributions, on the basis of attribution rates negotiated by company agreement after branch negotiations have established a base rate.

The gross average monthly compensation for Gaz de France employees was € 3,338 (on a 12-month basis) in 2006. The breakdown by category was € 5,645 for management, € 2,858 for supervisors and € 2,307 for blue- and white-collar workers.

17.4.2.10 Employee relations and collective bargaining agreements

Collective bargaining agreements at Gaz de France

The practice of collective bargaining has been expanding within Gaz de France for approximately 10 years.

In 2006, twelve collective agreements were reached, including an agreement on the labor planning agenda at Gaz de France. Under this agreement of September 6, 2006, GDF and their union organizations reaffirmed their shared ambition to make dialogue the centre of the work to be undertaken, involving discussion, exchange, innovation and commitment to labor agreements through collective negotiation. This agreement is based on the following four points: Anticipation of changes in employment and adaptation of skills, development of dialogue with the labor force, improving the clarity of the compensation system, and improving working conditions.

(1) *The compensation grid for the IEG branch was recalculated as of 2006 as part of the salary agreements for 2006-2007.*

Collective bargaining agreements at IEG

IEG branch labor relations have been developing since 2001. In addition to annual negotiations on changes in the national base salary and optional rate increases as of January 1, an agreement on salary increases in the IEG for 2006 and 2007 was signed in 2006.

Strike hours

The number of strike hours in the Company totaled 153,484 in 2006, representing 0.47% of the working hours for the year. Labor mobilization in 2006 centered on: rejection of privatization of Gaz de France and opposition to the proposed merger with Suez. By comparison, in 2005 the number of strike hours was 116,540, or 0.4% of the hours worked.

17.4.2.11 Personnel representation and union representation

Although within the field of application of the Auroux laws of 1982, which are the source of the current provisions of the French Labor Code on workers' councils and personnel representatives, the current employee representative bodies of the IEG and therefore of Gaz de France largely follow an industry-specific pattern.

The principal legal differences between the laws and regulations applicable to the IEG Branch and the laws and regulations applicable to all French companies are as follows:

- a specific election procedure (single-round elections every three years, monopoly of designation of union organizations, etc.);
- joint labor management committees that play a role equivalent to that of personnel delegates and joint production committees ("JPC") with prerogatives similar to those of a workers' council, except for training which requires joint committees and social work which relates to CMCAS;

The special regulations applicable to the IEG will change in 2007. The next professional elections, scheduled for 2007, will be held according to common law, with appointment of staff representatives and the workers' councils. The joint personnel commissions, which are specific to the status of the IEG, have wider attributions than the personnel representatives, and will be maintained. Their attributions will be articulated with those of the employee representatives. This provision has been validated by Decrees No. 2007-548 and No. 2007-549 of April 11, 2007.

17.4.2.12 Health and safety conditions

In the context of its commitment to working, health and safety conditions, Gaz de France implements an active on-the-job accident prevention policy (in particular risks related to gas activities, road-related risks and on-the-ground risks) and a policy of controlling risks likely to have an effect on employee health (in particular chemical risks, musculo-skeletal and psycho-social risks).

An important management undertaking, the participation of everyone in the analysis of risks within the workplace and participation in implemented initiatives, synergy among those involved in prevention, the implementation of on-going improvement efforts, the promotion of innovation and learning from best practices, the development of partnerships with service providers and continuing attention to the vocational training of employees and regular medical examination of employees are the principal improvement factors.

Additionally, the Group has put in place an operating program relating to the security of its personnel on international missions.

The level of safety at Gaz de France, where the vast majority of personnel work in the historical business activities of Gaz de France such as transmission, distribution and sales, is part of an on-going improvement. For 2006 the rate of accidents involving medical leave was 3.4 as against 4.1 in 2005. The rate of severity was 0.17 as against 0.20 in 2005.

17.4.2.13 Training

Gaz de France has always paid particular attention to the management of its competencies, convinced that its capacity for technical and commercial innovation greatly depends on the level of professionalism and involvement of its employees.

In 2006 the Company devoted € 35.4 million to training, or 4.1% of the gross amount of salaries paid. In 2005 these figures were €36.2 million and 4.4% respectively.

Parallel to this major investment, on March 1, 2006 GDF and GRTgaz agreed unanimously and collectively on "training throughout the entire professional career". In particular the agreement sets out the general organization of the training process and the conditions for implementing the new provisions of the French Training Law dated May 4, 2004, (new categorization of the plan, DIF, periods of vocational training, etc.) in the context of the extension of the agreement signed with the IEG in September 2005.

In 2006 the Company began work on creating its own training service, which became operational on January 1, 2007.

In 2006 Gaz de France also increased its efforts in the domain of release courses, with nearly 200 young people in apprenticeship and professional training contracts, bringing the total number of release course contracts to nearly 450 at the end of 2006 (over 2% of total personnel).

A collective agreement focused on apprenticeship was signed by all company partners on December 21, 2006. It considerably improves the conditions of reception and accompaniment of apprentices preparing for their qualifications and improves access to employment at the end of their contract.

This good citizen approach permits the Company, among other things, to develop a strong pool of competences that allow it to insure a major part of the renewal of its competences within occupations that are at the "heart of its business activities".

It should be noted that the future needs of Gaz de France are now ascertained through the work of the National Observatory of business activities, brought into the Company in 2005.

17.4.2.14 Disabled personnel and accessibility

On April 12, 2006 Gaz de France and GRTgaz signed a new three-year agreement covering 2006-2008 for the integration into the workforce of disabled persons.

The agreement has a strongly qualitative approach and emphasizes improved long-term integration into the workforce, spanning their entire career with the Company.

It aims at:

- encouraging access to employment by recruiting a minimum of 4% of disabled people over the duration of the agreement (and including 40 handicapped apprentices). Under the terms of the agreement, the number of disabled people must be greater than it was on December 31, 2005 (a total of 336: 310 in the parent company and 26 at GRTgaz);
- successfully integrating each employee by sensitizing personnel and managers, improving reception and access to the work place, organization of workstations, attention to professional development and stability of employment;
- supporting the protected sector and disabled persons associations by contributing an average of €1.5 million annually over the period of the agreement to the protected sector and financing 15,000 hours of external training a year for disabled persons who are either looking for a job or employed in the protected sector.

17.4.2.15 Contribution for social activities

Gaz de France paid €140.1 million in 2006 compared to €135.4 million in 2005 to organisms managing social activities. It is legally required to make a contribution each year in the amount of 1% of revenues derived from distribution to final customers pursuant to the terms of the charter of the IEG branch.

Certain expenses related to transportation, meals and accommodation, which amounted to €34.0 million in 2006, as against €28.5 million in 2005, must be added to this disbursement pursuant to Article R. 432-2 of the French Labor Code.

The Caisse Centrale d'Activités Sociales (CCAS), the financing of which Gaz de France contributes to in accordance with the IEG status is a fully independent legal entity. It is administered exclusively by the employee representatives and is under the supervision of the public authorities. Neither Gaz de France nor any other company of the IEG branch is represented in this entity.

17.4.3 Group personnel in GRTgaz

17.4.3.1 GRTgaz HR policy

After transposing part of the collective agreements of its parent company in 2005, GRTgaz has affirmed its independence by creating its own works committee in 2006. Wanting to further consolidate its new identity in relations with its employees, the carrier expects its managers to be the vehicles of change and to act to support the Company's ambitions.

In a European market that is rapidly changing, GRTgaz is subject to growing demands in matters of safety and environment. On top of this there is a particularly ambitious ten-year investment program, which will require on average €320 million a year for the next ten years, as against €180 million in 2004 and €196 million in 2005.

Setting a course for the future

For both the Company management and the employees, there is a lot at stake: the new market, new equipment (5 new compression stations using electro-compressors in 2006), trades that are evolving all challenges that demand both medium- and long term vision for the management of human resources, as well as unwavering mobilization of the Company's own considerable energies.

Changes in the context and missions of GRTgaz affect the priorities of its HR policy. This is why in 2006 the emphasis was on examining the evolution of skills and trades. GRTgaz has established four priorities: to consolidate its labor relations framework; to guarantee its skills requirements and accompany the necessary developments in organization and trades activities; to develop backup for management in the form of the levers required to manage human resources; and finally to reinforce social dialogue with its employees as well as with the unions.

A labor relations framework of its own

In 2005 adaptation of the body of the employees was at the heart of management thinking and the HR department's preoccupations. In accordance with labor law, GRTgaz concentrated on transposing the agreements inherited from the parent company. This was particularly necessary with regard to working hours. In 2006, either through collective agreements or by negotiating with personnel representatives, the transporter consolidated its labor relations structure by renegotiating agreements to bring them more into line with the needs of its scope and sector. In 2006 no less than four national agreements were signed and important provisions made for health at work.

For both the management of the Company and its employees, this exercise was an opportunity to incorporate recent elements of labor legislation into the Company ethos, including those concerning the business of transporting gas. Thanks to these efforts, GRTgaz now has a more solidly established base for its labor relations, closer to the needs of GRTgaz employees and better suited to the size of the Company and its scope.

A durable commitment within the Group

The Company nevertheless continues to negotiate jointly with Gaz de France in areas such as professional training, employment of handicapped persons, apprenticeship, and equal opportunity employment for men and women.

In 2006 GRTgaz wished to focus on equal treatment of men and women. A specific action plan was established and implemented around the following themes: equal salaries, mixed employment and recruitment, mixed career paths, access to professional training for women, recognition of the hours worked and adaptation of conditions of work, sensitization and information of those concerned to accompany the change and development of ideas and attitudes.

New channels for dialogue

2006 also saw the constitution of the Company's central works committee on the basis of elections held at the end of 2005. This representative body for employees, consisting of 10 employee representatives and 10 deputies, is presided over by the Chief Executive Officer of the Company and has helped in the development of a new and constructive labor dialogue.

By working on its structure, the Company has also been led to reflect on its own identity. That is why in 2006 GRTgaz undertook an examination of its business strategy, its competitive advantages, its characteristics and its company object. These reflections will feed into communications and exchanges between managers and employees during 2007.

An accompaniment for changes and development of skills

To ensure that tomorrow the Company will still have available the skills indispensable to its success, GRTgaz has made an in-depth analysis of all aspects of evolution and change in its trades: organizational, technological, structural etc. In 2006 tools for accompanying redeployment such as the bonus for functional mobility or the end-of-career leave have been established and placed at the disposal of labor dialogue within the units,

In this way human resources policy is put at the service of the Company's business plan as well as of those who keep it running every day. Skills management must accompany the evolution of the gas network step by step; human resources policy has an important role to play in the success of the missions of GRTgaz.

17.4.3.2 HR and social results at GRTgaz

Staffing levels and movements of personnel

At December 31, 2006, GRTgaz employed 2,665 people, 2,639 of whom had IEG status. These employees consist of 19% white and blue-collar workers, 52% supervisors and 29% managers.

In 2006 there were 53 hires and 88 departures of employees with IEG status.

Training

On the basis of the agreement "Training throughout the whole professional career" GRTgaz, in collaboration, with the unions has defined four priority dimensions for its training policy:

- Assisting in the maintenance and development of core business competences;
- Preparing for and accompanying changes in the environment
- Accompanying the implementation of the Training Agreement;
- Reinforcing the professional development of management.

These priorities have been adapted for each of the units of GRTgaz, accompanying their forecast training plans for 2007.

GRTgaz has also laid the foundations for an approach to continuous improvement in the conduct of annual interviews for assessment and further training, by:

- developing a nationwide coherent framework to be used as a reference in the units
- establishing an inventory of local interviewing practices, associated with progress actions
- modernizing the aids for annual interviews to strengthen the section devoted to further professional development.

GRTgaz has made an investment in training during 2006 of €5.5 million, the equivalent of 5% of the wages bill. This shows the Company's commitment to upholding the professionalism of its employees and preparing them for the skills they will need tomorrow.

Apprenticeship

GRTgaz also places a growing emphasis on the importance of initial training for young people.

At the end of 2006, 42 apprentices were training in the Company: 50% of them were preparing a professional baccalauréat, 35% a BTS (technical degree), and 15% a long-term higher education degree.

Profit sharing

Employee profit sharing is governed by an agreement signed in 2005 by the unions and the management of GRTgaz for the period 2005-2007.

In accordance with this agreement, in 2006 each employee received on average €1,163 on the basis of the results of 2005, a total distribution of €3.09 million, equal to 3.65% of the wages bill.

Annual profit sharing is calculated from financial indicators (Capex and Opex) and qualitative indicators (continuity of service, CO2 emissions).

The employees can if they wish put their bonus payments in the PEE (company savings scheme) run by GRTgaz, or in the PEG run by the Group. The sums invested are matched 100% by the employer.

17.4.4 Group employees in Service activities

The scope of activities covered by the Services segment encompasses, on the one hand activities under the holding company Cofathec, a diverse collection of companies, often divided into sub-groups, located in different European countries, and on the other hand the activities of other companies or groups, like Savelys.

Employees working in the Services segment of Gaz de France do not have the status of IEG personnel as described in paragraph 17.4.2.1 – "IEG Branch Personnel".

17.4.4.1 HR policy of the Cofathec group

The HR policy of the Cofathec group is based on the following objectives:

Encouragement of convergence between the various entities in the Cofathec group: effectively, given the diversity of companies that form the Cofathec group, several collective agreements and human resources policies co-exist for solving different types of problem. This search for convergence has been carried out progressively in parallel to the recovery of the entire group which began in 2002.

Cofathec tries to bring together the different entities of which it is composed, but without assimilating them (no labor mergers).

The convergence policy aims to avoid the appearance of differences on the labor front that would tend to undermine the cohesion of a close group of entities. The aim of the policy is to create synergies within trades, and, beyond that, within the client branch of Gaz de France, while at the same time maintaining the staffing dimensions of the entities, which are the profit centers.

To keep the various entities that compose the Group within the social and labor environment of their competitors to keep them competitive.

On this basis, common labor planning denominators within Cofathec are based around:

- the management of common skills at the level of the business line (managers and supervisors), with the creation of a policy of mobility managed by a career committee;
- compensation for performance through a policy of individual incentives (with respect to performance objectives) for management and the policy of putting in place collective profit-sharing agreements as incentives;
- the gradual development of a minimum base level of social guarantees (mutual and contingency insurance, retirement funds, etc.);
- staff management (search for productivity gains) and the management of payrolls (coordination of the mandatory annual negotiations carried out within the entities);
- the price attached to the security of employees, and
- coordination of the bodies representing employees on the Cofathec group committee.

17.4.4.2 HR and social results for Cofathec

The Cofathec group had 8,706 employees at December 31 2006, against 8,351 employees at end 2005, and 8,116 at the end of 2004. Among the employees working within the Cofathec Services segment, 3,109 persons were working in foreign subsidiaries in Italy, the United Kingdom, Switzerland, the Benelux countries and the Principality of Monaco.

2006 was marked by a return to external growth operations in France. Cofathec Services took over SAMEE (202 employees), located in the north of France. Right at the beginning of the year Cofathec ADF acquired CTRA (254 employees), which should enable it to expand geographically and also extend its range of skills and competencies.

Staff turnover within Cofathec Services continues a downward trend observed in 2005, with 10.6% in 2006 as against 11.8% in 2005.

The Cofathec group uses outside workers to replace personnel, who are absent due to illness or paid leave, in order to handle a temporary surge in business and in the context of prehiring. Some of the work of the Cofathec group is also subcontracted in terms of spot requirements or when the work involved does not match the area of activity of the subcontracting unit.

The Cofathec group hired nearly 95.67% of its people under indefinite term contracts.

Employees of Cofathec have benefited from the 35-hour work week since 2001, with a specific annual contractual arrangement for managers.

Certain subsidiaries of the Cofathec group benefit from a profit-sharing agreement that gives employees a stake in the company's results, but also taking into account the performance of the agencies in terms of on-the-job safety. In 2007, the company Cofathec Services paid out €3,218,538 to its employees as profit-sharing for 2006 (compared to €1,877,433 in 2006 as profit-sharing for 2005).

In addition the group has continued its wages policy, signing agreements concerning obligatory annual negotiations with union organizations in 2005, 2006 and 2007.

The level of employees working in the Cofathec group and participating in professional elections is lower than in Gaz de France, with an abstention rate for the company Cofathec Services of between 41.4% and 64.7% according to the elections concerned.

Cofathec Services implements an active training policy seeking to develop the skills and facilitate the professional mobility of its employees. In 2006, training expenses were virtually identical to 2005 (3.5% of total salaries), with a large number of employees benefiting from the program. The budget for Cofathec Services' social work was in the range of 1.1% of the total salaries in 2006.

17.4.4.3 HR policy of the Savelys group

Leader in France in the maintenance and repair of boilers for individual household customers and small furnaces for apartment buildings, Savelys had 4,150 employees, of which 2,546 are technicians as of December 31, 2006.

Savelys has four key values, which are:

- respect and good social interaction;
- community loyalty
- security and quality;
- performance.

These four values are maintained internally through constant motivation efforts for its teams, which are expressed through a favorable labor policy. Each employee in direct contact with individual customers receives a portion of the revenues that he or she brings in.

The group status that was implemented when Savelys was created guarantees employee protection at a high level.

Active participation in the important events in the life of the company benefits the participation of the employees in the decisions taken and makes more dynamic the sense of belonging to the group. As a result employee turn over has decreased by 50% in four years.

Investment training, which represents more than 3% of gross annual salaries, and ensures the development of skills and promotes internal promotion. More than 80% of the managers of profit centers (agencies) were promoted to the position, evidence of efficiency and performance.

17.4.5 Employees of the foreign subsidiaries and entities of the Group, excluding the Services segment

17.4.5.1 Subsidiaries and other foreign entities integrated into the Group's HR policy

The subsidiaries and other entities situated abroad whose capital is wholly owned by the Group, or for which it has majority ownership, are integrated into the HR policy implemented by Gaz de France.

Outside of the Services segment, there are 12,842 employees working in the Group's subsidiaries and other entities situated abroad, in other words 25.56% of the Group's global workforce. These are subsidiaries and entities covering the entire range of Group activities, with Exploration-Production subsidiaries in Germany, the Netherlands, Norway and the United Kingdom (970 employees), distribution subsidiaries in Hungary and Rumania (9,272 employees), distribution and transport in Mexico (389 employees), transport, storage, distribution and sales in Slovakia (1,271 employees), transport, distribution and sales in Germany (407 employees), and finally trading in the UK (181 employees).

17.4.5.2 Social dialogue at European level

In 2006 Gaz de France continued its employee dialogue at Group level in particular within the European Works Council. This organization is a focus for information and consultation of employee representatives on questions that concern the whole Group.

Presentations took place on subjects such as commercial policy, sustainable development, research policy and the Corporate Social Responsibility approach, all of them occasions for discussions with employee representatives and for exchanges of information about the Group's position in the subjects concerned. In 2006, at the request of the European Works Council, three new work groups were established to work on specific European Works Council social indicators and the Group's own social and labor practices.

18 MAJOR SHAREHOLDERS

18.1 Major shareholders

18.1.1 Breakdown of the capital

Until July 7, 2005, the French State held 100% of Gaz de France's shares. Following Gaz de France's initial public offering and listing of its shares on Eurolist by Euronext Paris on July 8, 2005 the French State has held 80.2% of Gaz de France's shares. After transfer of shares to the beneficiaries of free shares in the context of the Open Price Offer and the Offer to Employees, by the State (see paragraph 21.1.7.2 – "Shares granting the right to free shares"), the State holds 79.8% of the shares in Gaz de France as at the date of registration of this *document de référence*.

18.1.2 Crossing legal thresholds

To the Company's knowledge, as of the date of registration of this *document de référence*, no shareholder other than the State acting alone or in concert, holds more than 1/20, 1/10, 3/20, 1/5, 1/4, 1/3, 1/2, 2/3, 18/20 or 19/20 of the share capital or voting rights of Gaz de France; shareholders must notify the Company and the *Autorité des marchés financiers* within five trading days of crossing these legal thresholds under Article L. 233-7 of the *Code de commerce*.

In the event of failure to make such declaration under the terms provided for by sections I and II of Article L. 233-7 of the *Code de Commerce*, the shares exceeding the fraction that should have been declared will be deprived of all voting rights for all shareholders' meetings for a period of two years following proper notification.

18.2 Voting rights

Under the terms of Article 11 of the Company's by-laws, except in the cases where the law otherwise provides, each shareholder has as many voting rights in shareholders' meetings as the number of paid-up shares it owns (to the extent that the payment of such shares has been called up by the Company).

18.3 Statement concerning the majority shareholder control of the Company

As of the date of registration of this *document de référence*, the French State holds 79.8% of Gaz de France's shares.

Article 24 of French Law No. 2004-803 dated August 9, 2004 as modified by Article 39 of Law No. 2006-1537 of December 7, 2006 provides that the French State must hold more than one-third of the share capital of the Company[1]. Insofar as the Company currently belongs to the French public sector, the transfer of its control to the private sector is subordinated to the application of procedures provided by Law No. 86-912 of August 6, 1986 concerning methods of privatization, as modified by Law No. 93-923 of July 19, 1993. In particular, the transfer of the Company to the private sector must be previously authorized by decree.

See paragraph 16.8 – "Statement concerning corporate governance."

18.4 Agreement relating to the oversight of the Company

Under current legislation, the French state must hold more than one-third of the Company's share capital[1] (see paragraph 18.3 – "Statement concerning the majority shareholder control of the Company" and Chapter 12 – "Trend Information").

(1) *Decision No. 2006-543 DC of the* Conseil Constitutionnel *Council of November 30, 2006 specifies that the effective transfer to the private sector of Gaz de France cannot take effect until July 1, 2007.*

19 RELATED PARTY TRANSACTIONS

19.1 Transactions with the State

2005-2007 Public Service Contract between Gaz de France and the French State

The public service functions of Gaz de France in the energy sector are defined by the French Law of January 3, 2003. These functions are implemented for Gaz de France through a Public Service Contract, as provided by Article 1 of the Law of August 9, 2004. A Public Service Contract was signed by Gaz de France and the French State on June 10, 2005. For further details see paragraph 6.1.4.7.2 – "The public service contract".

Agreement between the State, Gaz de France and Société Générale relating to the implementation of the Employee Offering

In the context of the initial public offering of the Company, as described in paragraph 21.1.7.1 – "Initial public offering of the Company," the tri-party agreement was signed September 7, 2005 between Gaz de France, the French State, and Société Générale (the "Agreement"). The Agreement was approved by the Board of Directors on July 11, 2005. The Agreement details the conditions for the implementation of the Employee Offering, as described in the *Note d'Operation* filed with the AMF on June 22, 2005. The Agreement governs the terms for collecting purchase orders, delivery of shares, payment of the acquisition price of the shares and the grant of free shares as described in paragraph 21.1.7.2.2 – "Grant of free shares in the context of the Employee Offering."

Concerning the payment of the acquisition price of the shares, the French State offered certain personnel and former personnel eligible for the Employee Offering options ranging from payment of the acquisition price of their shares on the delivery date to payment of the acquisition price of their shares through scheduled repayments three times over two years. In addition, Gaz de France and the Group companies concerned offered certain personnel and former personnel eligible for the Employee Offering the option to make scheduled repayments for the acquisition price over 24 or 36 months. In the context of the Agreement, Gaz de France agreed to put itself in the shoes of the personnel and former personnel opting for the 24-or 36-monthly payments and to make payments to the French State on their behalf three times over two years.

19.2 Transactions with the EDF group

Agreement between Gaz de France and EDF concerning the distribution activity of EDF Gaz de France Distribution

On April 18, 2005 Gaz de France and EDF signed an agreement setting out their relations in respect of the distribution activities of EDF Gaz de France Distribution. For further details see paragraph 6.1.3.2.2.2.3 – "Organization of the distributor".

Agreement between Gaz de France and RTE concerning the construction and operation of a power station

After winning the call for tender launched by RTE in February 2005 for the construction and operation of a power station located at Saint Brieuc with a capacity of around 200 MWel, on December 6, 2006 Gaz de France and RTE signed a contract reserving electricity production with effect from 2010.

19.3 Transactions with companies in the Group

19.3.1 Transactions with GRTgaz

Service contracts between Gaz de France and GRTgaz

Gaz de France and its subsidiary GRTgaz concluded a contract in 2005 under which Gaz de France provides computer services for the benefit of GRTgaz. These services came to a total amount of nearly €44.4 million in 2005 and €44.6 million in 2006.

In addition Gaz de France and GRTgaz concluded a contract in 2005 aimed at defining and valuing the charges relating to the application of the status of the personnel in the electric and gas industries to the agents of GRTgaz as well as divisible and non-individualized services realized by Gaz de France's support functions for the benefit of GRTgaz. These charges and services were the basis for payments from GRTgaz to Gaz de France totaling €71.5 million in 2005 and €60.2 million in 2006.

Contract reserving capacity pursuant to third-party network access between Gaz de France and GRTgaz

In February 2005 Gaz de France and its subsidiary GRTgaz concluded a contract reserving capacity pursuant to third-party network access for €1,116 million in 2005 and €1.087 million in 2006.

19.3.2 Transactions with the Société du Terminal Méthanier de Fos-Cavaou

Contract for access to the LNG terminal of Fos-Cavaou between Gaz de France and the Société du Terminal Méthanier de Fos-Cavaou

In 2006 Gaz de France and the Société du Terminal-Méthanier de Fos-Cavaou agreed a contract organizing access for Gaz de France to the LNG terminal of Fos Cavaou with a view to the reception of LNG from Egypt under supply contracts between the Group and Egyptian LNG (5.18 billion m3 per year).

Contract for operation and maintenance of the LNG terminal of Fos Cavaou between Gaz de France and the Société du Terminal de Fos-Cavaou

On January 26, 2006 Gaz de France and the Société du Terminal Méthanier de Fos-Cavaou signed a contract by which the Société du Terminal Méthanier de Fos-Cavaou entrusted the major infrastructures division of Gaz de France with the operation and maintenance of the LNG terminal of Fos-Cavaou for a period of 25 years, commencing from the operational reception of the works, and promises to pay Gaz de France the entire sum of reimbursable expenses borne by it during the phase of construction and mobilization and during the operational phase. This contract should produce about €25 million per year for Gaz de France in the operational phase.

19.3.3 Transactions with Cofathec Maintenance

Agreement for facilities management between Gaz de France and Cofathec Maintenance

In January 2007 Gaz de France and Cofathec Maintenance signed a contract by which Gaz de France entrusted Cofathec Maintenance with the upkeep and maintenance of buildings of some 768,800 m² of which it is owner or lessee, for a period of three years and an annual sum of about €26 million. The signature of this agreement had been previously authorized by the board of directors of Gaz de France on December 20, 2006.

19.3.4 Transactions with other companies in the Group

Energy purchase contracts between Gaz de France and other companies in the Group

Gaz de France concluded the following energy purchase contracts with certain of its subsidiaries over which it has exclusive control:

- with the company GDF Production Nederlands BV, gas purchase contracts for a total of €58 million in 2004, €54 million in 2005 and €175 million in 2006; and
- with the company GDF Britain Ltd., gas purchase contracts for a total of €105 million in 2004, €125 million in 2005 and €197 million in 2006.

In addition, Gaz de France has signed contracts with other Group companies over which it does not have exclusive control, for the following quantities of energy

- with the company Gaselys, a gas purchase contract for a total of €922 million in 2004, €1,306 million in 2005,and €2,390 million in 2006.
- with the company EFOG, a gas purchase contract for €188 million in 2004, €262 million in 2005, and €399 million in 2006; and
- with the company FRAGAZ, two long-term purchase contracts for gas coming from Russia for a total amount of €129 million in 2004 and €190 million in 2005 and €5 million in 2006.

Gaz de France had agreed a series of energy purchase contracts with the company Dunelys for a total of €1 million in 2004 and €149 million in 2005. This company was absorbed by Gaz de France on January 1, 2006:

Energy sale contracts between Gaz de France and other companies in the Group

Gaz de France concluded the following energy sale contracts with certain of its subsidiaries over which it has exclusive control:

- with the company Gaz de France Deutschland Gmbh, a gas sale contract for a total of €35 million in 2004, €113 million in 2005 and €181 million in 2006;
- with the company GDF ESS, gas sale contracts for a total of €417 million in 2004, €553 million in 2005 and €818 million in 2006; and
- with the company GDF STM The Netherlands BV, a gas sale contract for a total of €280 million in 2005 and €428 million in 2006.
- with the company GDF Comercializadora, a gas sale contract for a total of €64 million in 2005 and €140 million in 2006;
- with the company GDF International Trading, a gas sale contract for a total of €27 million in 2005 and €107 million in 2006;
- with the company GDF Marketing, an electricity sale contract for a total of €375 million in 2006.

Gaz de France had agreed a gas sale contract with the company Gaselys, for a total of €5 million in 2004 and €80 million in 2005. This company was absorbed by Gaz de France on January 1, 2006.

In addition, Gaz de France has signed contracts with other Group companies over which it does not have exclusive control for the following energy sales:

- with the company Gaselys, a series of energy sale transactions for a total of €558 million in 2004 and €663 million in 2005 and €1,192 million in 2006;
- with the companies in the sub-group SPE (SPE and its subsidiaries City Power, ALG Négoce and Luminus), a series of transactions for energy sales and associated services for a total of €346 million in 2006.

The special report of the auditors on regulated agreements for the year ending December 31 2006 is shown hereafter:

MAZARS & GUERARD
Immeuble Exaltis
61, rue Henri Regnault
92075 Paris-La Défense Cedex
S.A. au capital de € 8.320.000

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

ERNST & YOUNG AUDIT
Faubourg de l'Arche
11, allée de l'Arche
92037 Paris-La Défense Cedex
S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

Gaz de France, S.A.
Year ended December 31, 2006

Special report of the Statutory Auditors on Regulated Agreements and Commitments with Related Parties

To the Shareholders,

In our capacity as statutory auditors of your Company, we are required to report on the agreements and commitments with related parties of which we have been advised.

In accordance with article L.225-40 of French Company Law (Code de Commerce) we have been advised of agreements and commitments which were previously authorised by your Board of Directors.

We are not required to ascertain whether any other agreements and commitments exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements and commitments indicated to us. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article R.225-31 of the French Company Law (Code de Commerce) to evaluate the benefits resulting from these agreements and commitments prior to their approval.

We conducted our work in accordance with professional standards applicable in France. These standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it has been extracted.

1. With Arcelor

Director concerned

M. Guy Dollé, Director of Gaz de France and Chief Executive Officer of Arcelor.

Nature and purpose

Long term natural gas supply by Gaz de France to Arcelor's French sites.

Terms and conditions

Following your Board of Directors meeting held on April 26, 2006, Gaz de France was authorized to conclude a global agreement with Arcelor, related to the long term natural gas supply. This agreement was not signed as at December 31, 2006 and therefore has no consequence on the financial year then ended. The Board, which authorized this agreement, also entrusted to a Gaz de France subsidiary the construction of a combined cycle station project, and the signing of commercial agreements with Arcelor Méditerranée, a subsidiary of Arcelor group, which does not have a common director with Gaz de France.

2. With Cofathec Maintenance

Shareholder concerned

Gaz de France, represented by M. Jean-François Cirelli, Chairman and Chief Executive Officer.

Nature and purpose

Facility management services contract supplied by Cofathec Maintenance to Gaz de France.

Terms and conditions

Your Board of Directors meeting held on December 20, 2006 authorized the signing of a facility management services contract between Gaz de France and Cofathec Maintenance, for a period of three years beginning January 1, 2007 for a total amount of 88.5 M€ excluding tax, of which:

- fixed price: 76,9 M€ excluding tax
- estimated additional amount : 11,5 M€ excluding tax

This contract, renewable twice by tacit renewal for a one-year period, had no consequence on the 2006 financial year.

Moreover, in application of article R. 225-30 of the French Company Law (Code de Commerce), we have been advised that the execution of the following agreements and commitments, approved during previous years, has been carried over into the current year.

With the French State and Société Générale

Shareholder concerned

The French State

Nature and purpose

A tri-party agreement related to the implementation of the Employee Offering signed on September 7, 2005 as described in the *Note d'Opération* filed with the AMF on June 22, 2005.

Terms and conditions

This agreement has had the following effects on the 2006 financial year:

- The payment of 55,5 M€ on September 7, 2006, by Gaz de France to the French State, corresponding to the second disbursement of 30% of the price of shares acquired by the entitled beneficiaries,
- The payment by Gaz de France to Société Générale of commissions and expenses totalling 88 K€,
- The reduction, based on the repayment schedule, of the employees debt towards Gaz de France in the amount of 32 M€.

Paris-La Défense, April 3, 2007

Statutory Auditors

MAZARS & GUERARD		ERNST & YOUNG AUDIT	
Michel Barbet-Massin	Xavier Charton	Patrick Gounelle	Philippe Hontarrède

20 FINANCIAL INFORMATION CONCERNING ISSUER'S ASSETS, FINANCIAL CONDITION, AND RESULTS OF OPERATIONS

20.1 Historical financial information

20.1.1 Financial information for the year ended December 31, 2006

20.1.1.1 Consolidated financial statements for the year ended December 31, 2006 under IFRS

CONSOLIDATED BALANCE SHEETS - ASSETS

(millions of euros)	Notes	2006 Net	2005 Net*	2004 Net*
NON-CURRENT ASSETS				
Goodwill	1	1,649	1,501	1,190
Concession intangible assets	1	5,704	5,677	5,562
Other intangible assets	1	564	473	131
Tangible assets	2	16,625	15,153	13,982
Investments in associates	3	718	693	385
Non-current financial assets	3	1,341	1,169	1,055
Non-current derivative instruments	24	17	-	-
Deferred tax assets	21	61	99	46
Other non-current assets		530	541	449
Non-current investments of financial affiliates	3	167	99	259
TOTAL NON-CURRENT ASSETS	**I**	**27,376**	**25,405**	**23,059**
CURRENT ASSETS				
Inventories and work-in-progress	4	1,935	1,452	907
Accounts receivables				
Trade accounts and related receivables	5	7,117	6,544	4,989
Income tax receivables		84	69	298
Other receivables	5	1,085	1,646	928
Current derivative instruments	24	2,325	1,783	-
Short term securities		360	245	111
Cash and cash equivalents	6	2,196	1,897	773
Assets of financial affiliates	5	431	895	440
TOTAL CURRENT ASSETS	**II**	**15,533**	**14,531**	**8,446**
Assets classified as held for sale	**III**	-	-	402
TOTAL ASSETS	**I à III**	**42,909**	**39,936**	**31,907**

* *Changes to formerly published comparative information are detailed under supplemental disclosure B- 2*

CONSOLIDATED BALANCE SHEETS - LIABILITIES

(millions of euros)	Notes	2006	2005*	2004*
SHAREHOLDERS' EQUITY – Group share				
Share capital	7	984	984	903
Additional paid-in capital		1,789	1,789	-
Consolidated Reserves and net income		13,075	11,517	9,933
Translation adjustments		349	194	104
TOTAL SHAREHOLDERS' EQUITY – Group share	**I**	**16,197**	**14,484**	**10,940**
MINORITY INTERESTS	**II**	**466**	**298**	**211**
TOTAL SHAREHOLDERS' EQUITY		**16,663**	**14,782**	**11,151**
NON-CURRENT LIABILITIES				
Provision for employee benefits	26	1,142	1,090	1,067
Provisions	8	5,750	5,537	5,438
Deferred tax liability	21	2,608	2,771	2,711
Irredeemable securities	9	624	623	485
Financial debt	10	3,943	3,324	3,849
Non-current derivative instruments	24	8	13	-
Liabilities of financial affiliates		93	19	274
Other non-current liabilities		143	140	137
TOTAL NON-CURRENT LIABILITIES	**III**	**14,311**	**13,517**	**13,961**
CURRENT LIABILITIES				
Provisions	8	167	180	94
Social liabilities		556	536	377
Financial debt	10	1,461	1,165	971
Trade accounts and related payables		3,623	3,202	1,848
Income tax payables		208	154	115
Other tax liabilities		724	1,170	948
Other liabilities		2,615	2,344	1,853
Current derivative instruments	24	2,189	1,788	-
Liabilities of financial affiliates		392	1,098	550
TOTAL CURRENT LIABILITIES	**IV**	**11,935**	**11,637**	**6,756**
Liabilities related to assets classified as held for sale	**V**	-	-	39
TOTAL LIABILITIES	**I à V**	**42,909**	**39,936**	**31,907**

* *Changes to formerly published comparative information are detailed under supplemental disclosure B – 2*

CONSOLIDATED STATEMENTS OF INCOME

(millions of euros)	Notes	2006	2005*	2004*
Sales of goods		23,849	19,479	15,497
Services rendered		3,671	3,306	2,674
Revenues from financial affiliates		122	87	35
Revenues	14	**27,642**	**22,872**	**18,206**
Purchases and other external charges	15	-19,976	-16,294	-11,677
Personnel expenses	17	-2,581	-2,409	-2,043
Other operating income	18	626	565	288
Other operating expenses	18	-856	-741	-497
Amortization and provisions	19	-1,247	-1,040	-1,738
Employee shareownership		-	-132	-
Operating income		**3,608**	**2,821**	**2,539**
Income from cash and cash equivalents		73	26	3
Gross finance costs		-196	-228	-182
Net finance costs	20	**-123**	**-202**	**-179**
Other financial income	20	515	488	402
Other financial expenses	20	-749	-724	-1,316
Share in income of associates	3	176	189	125
Income before tax		**3,427**	**2,572**	**1,571**
Corporate income tax	21	-1,104	-794	-427
GROUP'S CONSOLIDATED NET INCOME		**2,323**	**1,778**	**1,144**
Group share		2,298	1,782	1,105
Minority interests		25	-4	39
		2,323	**1,778**	**1,144**
Earnings and diluted earnings per share (in euros) – Group share	29	**2.34**	**1.89**	**1.22****

* *Changes to formerly published comparative information are detailed under supplemental disclosure B.2*

** *Pro-forma average number of outstanding shares and earnings per share based on a par value of 1 euro. The number of shares was doubled in the first half of 2005 by division of the par value by two supplemental disclosure C-7. Based on the effective par value, earnings per share in 2004 was : 2.45 euros.*

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euros)	Note 22	2006	2005*	2004*
I – Operating Activities				
Income before tax		**3,427**	**2,572**	**1,571**
Amortization, depreciation of long-term assets		1,478	1,318	1,331
Provisions		63	-31	477
Exploration expenses		86	44	45
Other adjustments		64	351	775
Operating cash flow before tax, replacement costs and change in working capital		**5,118**	**4,254**	**4,199**
Replacement costs		-294	-255	-170
Changes in working capital requirements		**-410**	**-649**	**-311**
Inventories		-461	-382	59
Trade and related receivables		150	-1,465	-807
Trade and related payables		293	1,077	146
Other		-392	121	291
Corporate income tax paid		-1,348	-562	-705
Cash flow from operating activities	**I**	**3,066**	**2,788**	**3,013**
II – Investing activities				
1. Investments				
Capital expenditures		-2,169	-1,749	-1,451
Exploration costs directly charged to expense		-41	-34	-35
Acquisition of investments and related net of cash acquired		-487	-674	-153
Other		-519	-226	-320
Sub-Total		**-3,216**	**-2,683**	**-1,959**
2. Proceeds				
Connection fees		8	13	15
Proceeds from disposals of tangible and intangible assets and investments		935	479	74
Proceeds from the sale of other financial assets and repayments		76	105	178
Interests received		-31	-52	-20
Dividends received		54	28	31
Sub-total		**1,042**	**573**	**278**
Cash flow from investing activities	**(1 + 2) II**	**-2,174**	**-2,110**	**-1,681**
III – Cash flow from operating and investing activities	**(I + II) III**	**892**	**678**	**1,332**
IV – Financing activities				
Capital increase and additional paid-in capital		67	1,869	-
Treasury shares		1	-	-
Dividends paid		-669	-420	-322
Borrowings		892	1,297	2,723
Repayment of borrowings		-619	-2,124	-3,377
Change in short term securities		-110	-134	
Interests paid		-128	-189	-145
Cash flow from financing activities	**IV**	**-566**	**299**	**-1,121**
V – Effect of changes in exchange rates, consolidation method and other	**V**	**25**	**10**	**6**
VI – Change in cash and cash equivalents (note 6)	**(III + IV + V) VI**	**351**	**987**	**217**
Cash and cash equivalents at beginning of period		1,224	237	20
Cash and cash equivalents at end of period		1,575	1,224	237

* *Changes to formerly published comparative information are detailed under supplemental disclosure B.2*

RECOGNIZED INCOME AND EXPENSES

	12.31.2006			12.31.2005			12.31.2004		
(millions of euros)	Group share	Minority interests	Total	Group share	Minority interests	Total	Group share	Minority interests	Total
Profit for the year	**2,298**	**25**	**2,323**	**1,782**	**-3**	**1,779**	**1,105**	**39**	**1,144**
Actuarial gains/(losses) on employee benefits	- 3	-	- 3	- 48		- 48	-365		-365
Gains (losses) on cash flow hedges :									
- unrealised gain (loss)	1	2	3	- 82	2	- 80			
Available-for-sale financial assets :									
- gains/(losses) taken to equity	45		45	62		62			
- transferred to profit or loss on sale	-120		-120	- 119		- 119			
Currency translation adjustments	155	25	180	89	- 2	87	104	-1	103
Deferred tax	-3	-	-3	49		49	129		129
Total income and expenses recognized directly in equity	**75**	**27**	**102**	**- 49**	**-**	**- 49**	**-132**	**-1**	**-133**
Total recognized income and expenses for the year	**2,373**	**52**	**2,425**	**1,733**	**- 3**	**1,730**	**973**	**38**	**1,011**

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Shareholder's Equity – Group share										
(millions of euros)	Share capital	Treasury shares	Additional paid-in capital	Actuarial gains/ losses	Fair value reserves	Consolidated retained earnings and other reserves	Net income	Translation adjustments reserves	TOTAL	Minority Interests	TOTAL Shareholders' equity
Shareholders' equity as of 01.01.2004	**903**					**779**	**910**		**2,592**	**254**	**2,846**
Net income							1,105		1,105	39	1,144
Income and expenses recognized directly in equity				-236				104	-132	-1	-133
Total recognized income and expenses 2004*				**-236**			**1,105**	**104**	**973**	**38**	**1,011**
2003 net income allocation						592	-592		-		-
Dividends paid (0.35 euros per share)**							-318		-318	-5	-323
First time adoption of IFRIC 4 and IFRIC 12						-12			-12		-12
Other						7,705			7,705	-76	7,629
Shareholders' equity as of 12. 31.2004	**903**			**-236**		**9,064**	**1,105**	**104**	**10,940**	**211**	**11,151**
First-time adoption of IAS 32 and 39 as of Jan. 1st 2005 (note 7.d)					261	-63			198	-6	192
Shareholders' equity as of 01.01.2005	**903**			**-236**	**261**	**9,001**	**1,105**	**104**	**11,138**	**205**	**11,343**
Net income							1,782		1,782	-3	1,779
Total income and expenses recognized directly in equity				-32	-107			90	-49	-	-49
Total recognized income and expenses 2005*				**-32**	**-107**	**-**	**1,782**	**90**	**1,733**	**-3**	**1,730**
2004 net income allocation						1,105	-1,105		-		-
Dividends paid (0.46 euros per share)**						-418			-418	-2	-420
Issuance of shares	81		1,789						1,870	-	1,870
Employee shareownership						132			132	-	132
Change in scope of consolidation										100	100
Other					3	26			29	-2	27
Shareholders' equity as of 31.12.2005 IFRS	**984**		**1,789**	**-268**	**157**	**9,846**	**1,782**	**194**	**14,484**	**298**	**14,782**
Net income							2,298		2,298	25	2,323
Income and expenses recognized directly in equity				-2	-78			155	75	27	102
Total recognized income and expenses 2006*				**-2**	**-78**		**2,298**	**155**	**2,373**	**52**	**2,425**
2005 net income allocation						1,782	-1,782				
Dividends paid (0.68 euros per share)						-669			-669	-1	-670
Change in scope of consolidation										52	52
Other						9			9	65	74
Shareholders' equity as of 31.12.2006	**984**		**1,789**	**-270**	**79**	**10,968**	**2,298**	**349**	**16,197**	**466**	**16,663**

* *See detailed information in Recognized income and expenses on previous page.*

** *Pro-forma earnings per share based on a par value of 1 euro. The number of shares was doubled in the first half of 2005 by division of the par value by two. Based on the effective par value (2 euros), earnings per share amounted to 0.93 euros.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A – Summary of significant accounting policies

Introduction

1. Background

In compliance with European regulation 1606/2002 dated July 19, 2002, the Gaz de France Group's consolidated financial statements for the year ended December 31, 2006 have been prepared according to the international accounting standards ("IAS/IFRS"), applicable as at that date as approved by the European Union. Concession agreements are accounted for in accordance with IFRIC 12 – Service Concession Agreements, published by the IASB on November 30, 2006. This accounting policy is in line with the December 2006 recommendation of the French securities regulator (AMF) which considered that application of IFRIC 12 improved the quality of financial disclosures by concession operators.

2. Standards and interpretations issued in 2006 but not yet effective, which the Group has not early adopted

The Group elected not to early adopt the following standards, amendments or interpretations, which are not yet effective as of December 31, 2006:

- IFRS 7 "Financial instruments: disclosures", applicable as from January 1, 2007;
- amendment to IAS 1 on the presentation of financial statements – capital disclosures, applicable as from January 1, 2007;
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial reporting in hyperinflationary economies";
- IFRIC 8 Scope of IFRS 2 "Share-based payment";
- IFRIC 9 "Reassessment of embedded derivatives".

The Group considers that there should be no major impact on the consolidated financial statements at the time of adoption of these standards.

3. Standards and interpretations adopted as from January 1, 2006

<u>Standards and interpretations applicable as from January 1, 2006</u>

- Amendment to IAS 39 "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
- IFRS 6 "Exploration for and evaluation of mineral resources";
- IFRIC 4 "Determining whether an arrangement contains a lease";
- IFRIC 5 "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds";
- IFRIC 6 "Liabilities arising from participating in a specific market – waste electrical and electronic equipment";
- Amendment to IAS 21 "The effects of changes in foreign exchange rates – Net investment in a foreign operation";
- Amendment to IAS 39 "Financial instruments : recognition and measurement" — The fair value option;
- Amendment to IAS 39 and IFRS 4 "Financial Guarantee Contracts".

The adoption of the interpretation of IFRIC 4 led to restate a commercial contract through which the Group allocates transmission capacities (See Note B.2. Comparability of financial statements).

The adoption of other standards had no major impact on the financial statements.

<u>Standards and interpretations early adopted by the Group as from January 1, 2006</u>

- IFRIC 12 – Service Concession Agreements, published by the IASB on November 30, 2006 for which the EFRAG issued a draft positive endorsement advice (See Note B.2. Comparability of financial statements).

4. Elected options for the preparation of first IFRS financial disclosures

In compliance with the provisions of IFRS 1, the Group elected to take, for the preparation of the 2004 opening balance sheet and the first IFRS financial statements in 2005, the exemptions to the general principle of retrospective adoption of the following IFRS:

- *Business combinations*: in accordance with IFRS 3, the Group did not restate business combinations that occurred prior to January 1, 2004.
- *Pension commitments and related benefits:* cumulative unrecognized actuarial gains and losses related to the existing corridor at transition date, were fully recognized directly in equity.
- *Foreign currency translation adjustments related to foreign operations:* cumulative translation adjustments as of January 1, 2004, related to the translation of financial statements of foreign operations, were reclassified to consolidated retained earnings in the transition balance sheet.
- *The designation of previously recognized financial instruments:* the classification of certain financial instruments under available for sale financial assets or at fair value through profit and loss was carried out at the date of adoption of IAS 39 and not at the date of initial recognition.
- *Share-based payments:* the Group elected to apply IFRS 2 to the equity instruments granted after November 7, 2002 and for which rights were not vested as of December 31, 2004. Similarly, liabilities arising from such transactions that occurred prior to December 31, 2004, were not restated.

The Group elected not to apply the following exemptions:

- *Fair value or revaluation as deemed cost:* the Group chose to use the historical cost of tangible and intangible assets, in accordance with IAS 16 and IAS 38 and not to use this option.

The impact of the transition to IFRS on opening consolidated equity at January 1, 2004 and on 2004 profit was disclosed in the preliminary 2004 financial information under IFRS included in the basic document registered with the AMF on April 1, 2005 under no. I. 05-037.

1 – GENERAL INFORMATION

1 – 1 Financial Statement Review

The 2006 consolidated financial statements were prepared under the responsibility of the Board of Directors, who approved them by a deliberation of March 12, 2007.

They will be submitted for approval to the shareholders' ordinary general meeting, which will be convened on May 23, 2007. The general meeting may change the financial statements as submitted.

1 – 2 General principles for the preparation of financial statements

The financial year is 12 months long and covers the period running from January 1 to December 31. For companies not closing their annual statements as of December 31, no interim financial statements are prepared due to the relatively insignificance of these companies and to the fact that the statements are closed at the earliest three months before December 31.

Consolidated financial statements are prepared following the historical cost method, except for the following financial instruments which, from January 1, 2005, have been accounted for based on their fair value:

- Financial assets held for trading purposes (trading),
- Available for sale financial assets,
- Derivative financial instruments, and
- Assets and liabilities which are subject to fair value hedges.

2 – ACCOUNTING POLICIES

2 – 1 Disclosure policies

Balance sheets structure

Current assets comprise:

- Assets intended for sale or consumption in the Group's operating cycle, and
- Cash and cash equivalents

All other assets are classified as non-current assets.

Current liabilities comprise:

- Liabilities related to the Group's operating cycle, and
- Those liabilities due to be settled within 12 months after the balance sheet date.

All other liabilities are classified as non-current liabilities.

Bank overdrafts are classified as current liabilities.

Net debt: although net debt is not reported as such in the financial statements, the Group considers that it is a meaningful indicator of consolidated indebtedness. Net debt is defined as the sum of short- and long-term debt and the fair value of hedging instruments less cash and cash equivalents and short-term investments.

Income statement structure

The income statement is presented by nature of expenses and structured around the following indicators:

Operating income:

Operating profit comprises all the income and expenses directly related to the Group's operations that are either recurring (i.e. ordinary income and expenses arising during the business cycle) or non-recurring (resulting from isolated or infrequent events or decisions). Non-recurring operating income and expenses include the effects of extraordinary events that are beyond the Group's control.

Consolidated net income of the Group:

This corresponds to the operating income after deduction of financial charges and income, and after tax (current or deferred), and to the Group's share of income or loss from associates (after deduction of any potential impairment).

Currency

The consolidated financial statements are prepared in euros and presented in millions of euros.

2 – 2 Use of judgements and estimates

The preparation of consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses in the financial statements or the notes.

The financial statements reflect management's best estimates, based on the information available when they are drawn up. The accounting policies applied by the Group and the assumptions or estimates used to measure complex transactions that require a high level of judgment or have a material impact on the financial statements are validated by Group management and are approved in advance by the Audit Committee.

Actual results may be significantly different from these estimates, due to actual conditions being different from assumptions. This concerns, in particular:

- Provision for dismantling and site restoration (see note 2.22 and 8)

Estimates used to determine provisions are based on observed costs and their technical nature. As such, estimates of the amount required to settle an obligation may be affected by regulatory and technological changes.

Estimates of the costs of dismantling and removing assets and restoring sites, may also be affected by assumptions concerning the time value of money over the period until the obligation is settled, as reflected in the discount rate applied to the provision, and forecast maturity of the obligation. These provisions are reviewed at least once a year.

- Employee benefits (see note 2.21 and 26)

Retirement and other post-retirement benefit obligations are estimated in accordance with IAS 19 – Employee Benefits, using the projected unit credit method. Actuarial gains and losses are recognized directly in equity (SORIE method).

The main assumptions concern the provisions of the plan, its maturity, the profile of plan participants, economic assumptions – including inflation assumptions which affect all other economic assumptions – and the expected return on plan assets.

Estimates of retirement and other post-employment benefits are affected by changes in assumptions concerning discount rates, future salary levels and other actuarial variables.

- Other provisions (see note 2.22 and 8),

Any changes affecting the final outcome of risks – particularly claims and litigation – may have a material effect on the amount of the related provisions. Estimates of long-term provisions are also affected by changes in discount rates. Provisions are reviewed at each period-end.

- Income tax expense and the recognition of deferred tax assets (see note 2.8 and 21)

The measurement of deferred taxes depends on various factors, including the period in which taxable temporary differences are expected to reverse. Estimates may be affected by changes in tax rates and future taxable profits and losses, particularly a change in the Group's tax position resulting from material future transactions.

- Unmeasured and unbilled revenue (see Note 2.15)

Delivered gas that has not been measured or billed, referred to as "meter gas", is estimated by Gaz de France SA using a method based on observed gas consumption by customers and average gas prices. The average price depends on the customer category and the period since the gas was delivered. These estimates may be affected by the assumptions used to determine the portion of unbilled revenue at the period-end.

- Impairment tests (see note 2.12)

The recoverable amount of a cash-generating unit (CGU) for impairment testing purposes corresponds to the higher of the CGU's value in use, determined by the discounted cash flow method, and its fair value less costs to sell. Value in use estimates involve a high level of judgment. They are based on the budgets and business plans drawn up by Group management.

The discount rate applied corresponds to the Group's weighted average cost of capital, adjusted for the entity's specific risk exposures.

In view of the specific sensitivities and variables associated with each of the Group's business segments, such as the risk of fluctuations in commodity prices and foreign exchange rates, actual future profits and cash flows may be different from the Group's estimates.

- Measurement of derivative financial instruments (see Note 2.24.4)

The fair value of derivative financial instruments is based on the prices quoted on active markets, on recent transaction prices, when available, or on valuation models developed by the Group using market data.

2 – 3 Accounting policies applied by the group in absence of specific provisions in the standards

Acquisitions of minority interests

The acquisitions of minority interests are not currently covered by IFRS. Guidance is pending from the IASB on the accounting treatment of this type of transaction and is included in important amendments expected on IFRS 3 "Business combinations". Therefore, absent specific guidance, the Group applies the previous French GAAP method. In the event the Group acquires additional interests in a subsidiary, the difference between the purchase price and the consolidated carrying amount of these acquired minority interests is recorded as goodwill in the Group's consolidated financial statements.

Commitments to purchase minority interests

The Group signed agreements with minority shareholders of consolidated subsidiaries, providing that the Group is committed to purchase their shares, as from a given date, for an amount which can be fixed or determined at purchase date.

Currently, these commitments are recognized as a financial debt for their purchase value (which can be the discounted value of the strike price in the case of a fixed price) against a reduction in minority interests. The difference between the amount of the financial debt and the carrying value of minority interests is recorded as goodwill. This method reflects the accounting treatment which would have been applied at the date of acquisition. In the statement of income, minority interests remain computed and the subsequent change in value of the commitment is recorded as an adjustment of goodwill.

Although the IFRIC has confirmed that a financial liability should be recognized, no interpretation has been published. Consequently, the Group will continue to apply its current accounting policy, at least until the IASB publishes an amendment to IFRS 3 – Business Combinations.

Recognition of greenhouse gas emission rights

In the absence of an IFRS or other standard interpretation with regard to the recognition of CO2 emission quotas, the following accounting treatment was used. Quotas granted for free are recognized at zero value. Transactions on the market are recognized at their transaction value. Any difference between available quotas and known obligations is posted as a provision at market value.

2 – 4 Financial affiliates

The financial statements of financial affiliates are prepared in accordance with generally accepted presentation and disclosure policies in France for financial entities.

For purposes of the IFRS consolidated financial statements, accounts have been reclassified as follows:

- customer loans are recorded as current or non-current loans of financial affiliates,
- refinancing of customer loans is included in liabilities of financial affiliates.

Income from customer loan activity is posted to "income from activity of financial affiliates" and is included in revenues.

For Gaselys, only the margin resulting from the trading activity is reported under "Revenues from financial affiliates" heading.

2 – 5 Foreign currency translation

2 – 5.1 Foreign currency translation of transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into euros by applying the exchange rate at the date of the transaction. Monetary items are translated into euros using the closing rate. Translation adjustments arising from these transactions are recorded in the income statement as exchange gains or losses.

Non-monetary balance sheet items are accounted for using the historical exchange rate at the date of the transaction. The recoverable amount of impaired tangible assets, however, is determined using the exchange rate in force at the date on which the impaired value was determined

2 – 5.2 Translation of foreign currency statements from subsidiaries outside the euro zone.

Subsidiaries whose functional currency is different from the currency of the parent company are translated using the exchange rate in force at the closing date.

Assets and liabilities, including goodwill and fair value adjustments, are translated into euros using the exchange rate in force at the closing date.

The statement of income is translated on the basis of the average exchange rate.

The resulting translation adjustments are recorded as currency translation adjustments directly in equity.

For operations whose functional currency is different from the local currency, the translation is carried out in two stages. First, historical exchange rates are used to translate from the local to the functional currency. Second, the exchange rate in force at the closing date is used to translate from the functional currency to the euro.

Main exchange rates

The main exchange rates used in 2006, 2005 and 2004 are disclosed under supplemental disclosure C Note 36.

2 – 6 Scope and methods of consolidation

Principles of consolidation

Companies controlled by the Group, meaning over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their operations, are fully consolidated.

Control is deemed to exist when the Group directly or indirectly owns more than half of the voting rights of an entity. This principle also applies to special purpose entities, whatever their legal form, including when no equity interest is involved.

Companies over which the Group exercises joint control with a limited number of joint-ventures partners according to a contractual agreement are consolidated using proportionate consolidation: the assets, liabilities, income and expenses of the company are combined line by line with the similar items in each category of assets and liabilities of the financial statements, in proportion to the share that is owned.

Associates are entities over which the Group has significant influence. Significant influence is defined as the power to participate in the financial and operating policy decisions of the company, but not to exercise control or joint control over those policies. It is generally deemed to be the case when the Group's stake is higher than 20%. Such investments in associates are accounted for using the equity method. Related goodwill is included in the carrying amount of the investment.

The existence and the impact of potential voting rights exercisable or convertible at closing date are taken into account when determining the control or the significant influence on the entity, except in case of restriction on control.

The listing of the consolidated companies and the related consolidation method is detailed under supplemental disclosure C Note 35.

Intercompany transactions

Intercompany accounts between consolidated companies are eliminated. Elimination is based on the share of the investment in the case of proportionate consolidation.

2 – 7 Business combinations

Business combinations are accounted for using the purchase method.

For each new consolidated acquisition, those identifiable assets, liabilities and contingent liabilities of the acquired company which satisfy the IFRS recognition criteria are accounted for at fair value, determined at the date of acquisition, except for non-current assets classified as held for sale, which are recognized at fair value based on the amount that would be realized upon disposal, less costs to sell.

Only identifiable liabilities satisfying the recognition criteria in the acquired company's accounts are accounted for as part of the allocation of the cost of the combination. Thus, a restructuring plan for which the company does not have a present obligation to execute at the date of acquisition is not accounted for as a liability of the acquired company.

Goodwill upon consolidation is measured as the difference between the purchase price and the share of the fair value of net assets at the date of the acquisition, restated according to the Group's accounting principles. Goodwill is denominated in the currency of the acquired company. Goodwill is subsequently accounted for at cost and is not amortized but is subject to impairment tests annually or on a more frequent basis if indications of identified impairment exist.

Adjustments to the value of assets and liabilities relating to acquisitions accounted for on a provisional basis (due to the absence of results of expert review or supplementary analysis) are accounted for as a retrospective adjustment of goodwill if they incur within 12 months of the acquisition date. After 12 months, impacts of adjustments are posted to the income statement unless they represent corrections of errors.

Net income, revenues and expenses of subsidiaries acquired (or disposed) during the period are accounted for in the consolidated income statement from the acquisition date (or through the date of disposal).

Minority interests are accounted for on the basis of the fair value of net assets acquired.

2 – 8 Deferred taxes

Deferred income taxes arise from temporary differences between the carrying value of assets or liabilities as reported in the balance sheets and the amount resulting from the application of tax rules.

Deferred taxes are calculated by fiscal entity, according to the "liability method", with deferred tax recognized for all temporary differences.

Deferred tax assets are generated mainly by business combinations, provisions and tax losses carried forward when their recoverability is probable. They are recognized only if it is probable that a taxable profit will be available on which temporary differences can be utilized.

Deferred tax liabilities are partly due to changes in the useful lives of fixed assets, the deferral of the taxation of capital gains, the effects of business combinations, temporary differences in investments accounted for by the equity method and, from 2005, the impact of the revaluation of financial instruments.

Deferred tax liabilities are recognized for all taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures, except when the Group controls the reversal of the difference or when it is likely that the temporary difference will not reverse in a foreseeable future.

In annual financial statements, deferred tax assets or liabilities are valued on the basis of enacted or substantially-enacted tax rates at closing date. The impact of a change in tax rate is recognized in income or in equity, depending upon the item to which it corresponds.

Deferred taxation is classified as non-current asset or liability.

2 – 9 Intangible assets

Concession intangible assets

IFRIC 12 – Service Concession Agreements deals primarily with public-to-private sector concession arrangements for the delivery of public services. It applies only to concession agreements where the use of the infrastructure is controlled by the grantor. This is considered to be the case when:

- The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- The grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

According to IFRIC 12, when the operator builds infrastructure (start-up capital expenditures) in exchange for the right (licence) to charge users of the public service, revenues from construction services should be accounted for in accordance with IAS 11 – Construction Contracts (see 2.25.1) and the right to charge users of the public service should be treated as an exchange of assets and accounted for in accordance with IAS 38 – Intangible Assets.

In line with these standards:

- Assets provided free of charge are not recognized in property, plant and equipment.

- Construction services revenue is recognized as an intangible asset, for an amount corresponding to the fair value of the construction work, when the infrastructure is built. In the case of Gaz de France, as no distinction is made between remuneration for the construction and operating phases for the determination of customer network access charges and as there are no external benchmarks that could be used to determine the fair value of these two items, revenue recognized during the construction phase is limited to an amount equal to the costs incurred.
- A provision is recorded to cover the costs incurred to restore the asset to its original condition, in accordance with IFRIC 12.

The concession intangible assets are amortized on a straight-line basis over the remaining life of the concession. If the concession is renewed in advance of its original expiry date, the intangible asset continues to be amortized according to the original plan based on its carrying amount at the concession renewal date.

Amortization charges are recorded in operating income, under "Depreciation, amortization and provision expense".

Research and development costs

Research costs are charged to expense when incurred.

Development costs are charged to expense unless they meet the recognition criteria of IAS 38. These costs mainly comprise costs incurred on development projects aiming at significantly improving new processes assessed as technically feasible, or for which the usefulness has been determined (for products to be used internally), and which are likely to generate economic benefits.

Costs that are capitalized include direct staff costs and the costs of materials and services.

Subsequently, costs that are capitalized are carried at cost less accumulated amortization and impairment. An impairment test is systematically performed upon projects in progress that are unavailable for use on an annual basis, or on a more frequent basis if indicators of impairment exist.

Other intangible assets

Other intangible assets include in particular the acquired patents, licenses, brands, admission rights on distribution networks (outside of France), acquired customer contracts, emission quotas, capacity rights on plants and software that was purchased or internally generated.

Costs of internally generated elements, such as trademarks, brands, customer listings and other similar elements, are booked as expenses.

Intangible assets acquired from third parties are accounted for at purchase price plus costs related to the purchase and costs attributable to bringing the asset to its working condition. Intangible assets acquired through business combinations are recognized at fair value at acquisition date.

Internally generated software is recognized in the balance sheet at the cost of production.

Subsequent costs related to information systems are capitalized if they increase the future economic benefits of the specific asset to which they relate and if this cost can reliably be allocated to the asset. All other costs are expensed in the period in which they were incurred.

Intangible assets with indefinite useful lives are not amortized, but are subject to impairment testing at least once a year. They mainly comprise goodwill.

Intangible assets with finite useful lives are amortized over their useful lives, over a period of between 5 and 20 years, and tested for impairment when an indicator of impairment is identified.

2 – 10 Tangible assets

Initial recognition

Group tangible assets are recognized at their acquisition or production cost. The cost includes all costs directly attributable to the fixed asset, as well as dismantling costs that will be necessary at the end of the asset's life.

Borrowing costs directly attributable to the purchase, construction or production of certain assets are not included in the initial cost of the relevant asset.

Subsequent review of tangible assets

Tangible assets are subsequently measured using the cost model (cost less depreciation and impairment).

Components

When parts of an asset cannot be separated from one another, the asset is recognized on a combined basis. If, at initial recognition, one or several components have different useful lives, each component is separately accounted for and is depreciated over its specific useful life.

This principle is mainly applied in the case of complex technical facilities, (such as compression and cogeneration facilities).

Recurring major repair costs or the costs of major planned inspections are capitalized as a component and depreciated over the period between each major inspection.

Depreciation method and useful lives

Depreciation, representing the consumption of future economic benefits, is calculated on a straight-line basis, except for producing assets in the Exploration-Production segment.

Depreciation is based on useful lives, determined according to the expected use of assets, or on the basis of the durations adopted by regulatory authorities in their rate determinations. The useful lives of the primary classes of assets are as follows:

- Technical facilities
  - Distribution facilities (conduits, connections, pressure and metering stations): from 30 to 45 years
  - Other distribution facilities: from 10 to 20 years
  - Transmission facilities (networks, connections, compression): from 30 to 50 years
  - Storage facilities: from 30 to 50 years
  - LNG terminals: from 20 to 40 years
- Buildings: from 20 to 40 years
- Other fixed assets: from 3 to 15 years

Useful lives are reviewed at each closing date when expectations differ from previous estimates and changes are posted as changes in estimates, in accordance with IAS 8.

Subsequent costs

Subsequent costs are capitalized if they meet the IAS 16 recognition criteria, which are assessed before the investment is made. These costs can lead to an increase in production capacity, or the probable useful life or value of an asset. Similarly, costs related to security and environmental compliance are capitalized when they are necessary to enable other assets to carry on generating economic benefits.

Costs incurred for fixed asset maintenance are recognized in the income statement in the period in which they are incurred.

Site dismantling asset

When an obligation for dismantlement arises, Gaz de France recognizes the present value of the expected future costs as a liability. A corresponding asset is recognized as part of the asset that the dismantlement obligation relates to.

This asset is amortized on a straight-line basis over the period until which dismantlement is expected to occur.

Investment grants

Investment grants received by the Group are deferred and recognized in income on a straight line basis over the same period as the useful life of the asset to which they relate.

Exploration and production assets

The Group applies IFRS 6 "Exploration for and estimation of mineral resources" to record exploration and estimation costs:

- geological and geophysical costs are expensed in the period in which they are incurred.
- exploration and evaluation drilling costs are capitalized as assets under construction pending the determination of whether proved reserves have been found. If proved reserves are identified, these assets are recorded as tangible assets and depreciated over the period of production. If proved reserves have not been found, they are expensed.

The Group applies the "successful efforts" accounting method to account for development costs and production properties and assets.

- Mineral rights relating to unproved reserves are capitalized and assessed for impairment on an annual basis or more frequently if indicators of impairment are identified. An impairment is recognized if proved reserves are not discovered.
- If proved reserves are not identified, exploration and evaluation drilling costs are expensed in the period in which this determination is made.

Depreciation of mineral rights begins when production commences.

Costs of development associated with producing properties, including restoration costs, are depreciated using the unit of production method ("UOP"), in line with the depletion of the property based on proved developed reserves.

2 – 11 Lease agreements

Finance Leases

Long term lease agreements are treated as finance leases when they transfer to the lessee the major part of the risks and rewards incidental to the ownership of the leased assets, whether or not the ownership is transferred at the end of the contract. They comprise leases, as well as certain chartering contracts for LNG carriers or bookings of transmission capacity.

Assets financed under finance lease contracts are capitalized in tangible assets as soon as the Group has the right to exercise its right of use, at the lower of fair value of the leased assets and present value of the minimum lease payments. These assets are amortized over the period that is the shorter of the useful life of the asset or the lease term.

Lease payments by the lessee are apportioned between the finance charge and the reduction of the outstanding liability, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting year.

When the Group is the lessor, assets under finance lease contracts are recognized in the balance sheet as a receivable at an amount equal to the net investment.

Lease payments are apportioned between the payment of the receivable and income so as to produce a constant interest rate on the remaining receivable.

Operating leases

Lease contracts for which a significant part of the risks and rewards incidental to the ownership are kept by the lessor are classified as operating leases. Lease payments are recognized as an expense on a straight line basis over the lease term.

IFRIC 4 – Determining whether an arrangement contains a lease

This interpretation deals with the method of identifying and recognizing service, purchase and sale contracts that do not take the legal form of a lease but convey a right to use an asset in return for a payment or series of payments. If any such contract is assessed as containing a lease, the parties to the contract must apply IAS 17 to the lease element, which is classified as either an operating lease or a finance lease. If a contract providing for the allocation by Gaz de France of transmission or processing capacity is assessed as containing a finance lease where the Group is lessor, a finance receivable is recorded to reflect the financing provided to the customer.

2 – 12 Depreciation of intangible and tangible assets

Impairment

Impairment testing is systematically carried out on an annual basis on goodwill and intangible assets that have indefinite useful lives, and on a more frequent basis if indicators of impairment exist.

Tangible assets and intangible assets with finite useful lives undergo impairment testing only when indications of impairment exist. Impairment is generally the result of significant changes in the asset's operational environment, or of a lower-than-expected economic performance.

Main indicators of impairment used by the Group are:

- External indicators:
  - major changes in the economic, technological, political environment or on the market on which the company operates or to which the asset is dedicated.
  - drop in demand.
  - changes in energy prices and dollar exchange rates.
- Internal indicators:
  - obsolescence or unexpected material degradation,
  - lower-than-expected performance as represented by a decrease in EBITDA,
  - reduction of reserves for exploration-production,

Assets are impaired to reduce their carrying amount to their recoverable amount when the recoverable amount is lower. The recoverable amount is the higher of the fair value net of disposal costs and of the value in use.

Assets, whose recoverable value cannot be estimated separately, are pooled into Cash Generating Units (CGU). The CGU is the smallest group of identifiable assets, the use of which generates autonomous cash flows.

Generally speaking, CGUs correspond to the legal structure of the group's subsidiaries, except for:

- the Exploration and Production segment, where the CGU consists of a hydrocarbon field or of several fields when they are in close geographical proximity or have similar economic characteristics and when each field does not generate cash flows independent from those of the others in the group;
- the parent company where CGUs are consistently defined to follow segment reporting.

Impairment is recognized when the carrying value of the CGU to which the assets belong exceeds the recoverable amount of the CGU. The recoverable amount is generally determined by reference to the value in use of the assets group, calculated based on the present value of the future cash flows expected from these assets in the context of economic assumptions and operating conditions forecast by the Group's General Management, in particular on energy prices.

Practically, the estimate of cash flows is based on:

- business plans prepared on a 5-year horizon. Beyond this horizon, plans are extrapolated, until the earlier date of the end of the life of the asset or CGU, or, in certain circumstances, on the basis of a stable or declining growth rate.
- the current position of the asset or the CGU, without consideration of improvements in performance or capacity from future capital expenditures.

The discount rate is the weighted average cost of capital determined by reference to the business sector concerned and adjusted to account for specific risks, which were not considered when determining cash flows, such as country risk or risks specific to the activity.

Impairment is allocated to CGU assets in the following order: first, to the goodwill allocated to the CGU, then to the other CGU assets in proportion of their carrying value.

Impairment of goodwill cannot be reversed.

Other impairment losses recognized can be reversed up to the net carrying value the asset would have had at the same date, had it not been impaired.

2 – 13 Associates

This item corresponds to interests in associates which are accounted for by the equity method. Under this method, the investment is initially accounted for at cost, and the carrying amount is then increased or reduced to recognize the investor's share in the results of the company after the date of acquisition. Dividends received from the company reduce the carrying amount of the investment.

Goodwill related to associates is included in the carrying amount of the investment.

2 – 14 Inventory

Gas in underground storage facilities

The gas injected into underground storage facilities includes working gas, which can be withdrawn without adversely affecting future operations, and cushion gas, which cannot be separated from the underground storage facilities and is essential for operations.

Cushion gas

Valued at average acquisition cost, whatever the source, plus the cost of regasification, transmission and injection into the system, cushion gas is recorded as a tangible asset. It is amortized on a straight-line basis over the same duration as the above-ground installations of the underground storage facilities.

Working gas

Working gas is carried in inventory. In France it is valued at average acquisition cost on entering the French transmission system, including the cost of regasification, regardless of the source.

A write-down of inventory is recognized in income when the net realizable value, calculated as being the selling price minus direct and indirect expected distribution costs is less than the weighted average cost

Group inventory outflows are valued on the basis of the weighted average cost .

Other inventories

Other inventories are valued at acquisition or production cost. Production costs encompass direct material and staff costs and an allocation of common charges representing indirect production costs, excluding general and administrative overhead.

Inventory outflows are accounted for using the weighted average unit cost method.

When the net realizable value of a category of inventories is lower than its carrying value determined using the weighted average unit cost, a write down is recognized for the difference.

Write downs of spare part inventories (which do not constitute major components) and supplies are calculated based on the net realizable value, which is determined on the basis of a specific analysis of inventory turnover and obsolescence, taking account of the sale of parts as part of maintenance activities.

2 – 15 receivables

Receivables

Receivables include all receivables related to operations and the sale of goods. Receivables are recorded at their nominal value, except those for which the effect of discounting is material. An allowance for doubtful accounts is recognized for both specific receivables and through the use of general statistical analysis.

Gas that is delivered but not invoiced

Receivables also comprise unbilled revenue for energy delivered that has not yet been invoiced, whether or not the meters have been read.

These receivables relate to customers who are not billed monthly (mainly residential customers), as well as those for whom the invoicing period is not aligned with the consumption period of a given month.

The share of reading costs related to these unrealized sales which will be incurred during the next period, as well as the potential risk that these receivables will not be recovered, are deducted from unbilled revenues.

Delivered unbilled natural gas, called "gas in the meter", is determined based on a method including customers' historical consumption data, and valued at the average energy sale price. The average price used takes account of the category of customer and the aging of the delivered unbilled gas in the meter.

Other Receivables

Other receivables, except for potential income tax receivables and advances to suppliers, are measured according to the amortized cost method when the effects of discounting are significant. When these effects are not significant, receivables are recorded at nominal value.

2 – 16 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank deposits, as well as investments in securities with very short maturities that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These include marketable securities with very short maturities (money market mutual funds such as "SICAV" and "FCP"), as well as securities bearing maturities of three months or less from the date of their acquisition.

These investments are carried at fair value from January 1, 2005; the effects of revaluation to fair value are recognized in the income statement.

2 – 17 Non-current assets held for sale

Non-current assets held for sale represent a group of assets the Group intends to dispose of within 12 months, through sale, exchange for other assets or by any other means, but in each case in a single transaction.

Only non-current assets available for immediate and highly probable disposal are classified under "Non-current assets held for sale". In complicance with IFRS, these assets are measured at the lower of their carrying amount and their fair value (based on the amount that would be realized upon disposal, net of sales costs). Depreciation of assets ceases from the date an asset is classified as held for sale.

2 – 18 Shareholders' equity

Fair value adjustment reserve

This reserve comprises the difference between historic cost and fair value on revaluation to fair value of (non-current) available for sale financial assets, along with some financial hedging instruments (effective portion of cash flow hedge and hedge of a net investment in a foreign operation for transactions which is not unwound).

Costs of capital increases

External expenses directly linked to capital increases are recognized, after tax, as a reduction of shareholders' equity. Other costs are charged to the income statement.

Dividends

Unpaid dividends are recognized as a liability in the period they are granted.

2 – 19 Treasury shares

Treasury shares are recorded at purchase cost and deducted from shareholders' equity. The gain or loss net of tax on disposal or cancellation of these shares is recorded directly in shareholders' equity.

2 – 20 Share-based payments

Article 11 of the law of 1986 on privatisation provides that, in case the French State disposes of interests in the Group in the market, shares must be offered to employees and former employees of the Gaz de France Group. In connection with the capital opening, the State made an employee offering.

In accordance with IFRS 2, benefits granted to employees are measured at the grant date. They represent additional compensation, recognized in the income statement as soon as the rights are vested.

2 – 21 Employee benefits

2 – 21.1 Retirement benefits to employees of the group

Valuation methods and actuarial assumptions

Valuation is carried out using the projected unit credit method. The present value of the Group's obligations is determined by attributing vested benefits to periods of service under the plans' benefit formula to each employee. When an employee's service in later years leads to a materially higher level of benefits than in earlier years, the Group attributes the benefits on a straight-line basis.

Future payments are measured based on assumptions as to salary increases, age of retirement, mortality, and rate of employee turnover inherent to each entity.

The rate used to discount future payments is determined by reference to market yields on top-rated corporate bonds, using maturities consistent with those of the benefit obligations. In countries where there is no liquid market in such bonds, the market yields on government bonds are used. Rates are harmonized in the euro zone.

Specific commitments related to Gaz de France SA, GRTgaz and DK6 were calculated by the CNIEG. The Group used an actuary firm to guarantee the coordination of the other subsidiaries' reporting and ensure the consistency of data.

Actuarial gains and losses

Actuarial gains and losses on each defined benefit plan, resulting from the effects of changes in actuarial assumptions or adjustments based on experience (the effects of differences between the previous actuarial assumptions and what has actually occurred) are recognized in full, in the period in which they occur, in the statement of recognized income and expense.

For long-term benefits, actuarial gains and losses are fully recognized in income.

Plan assets

Plan assets are used to cover pension and other similar obligations. They are carried in the balance sheet at fair value or based on the value, if any, communicated by the fund administrator.

Actuarial gains and losses resulting from the difference between the assets' expected return and the actual return are recognized against shareholders' equity.

Plan assets are deducted from the actuarial debt in determining the amount recognized in the balance sheet.

When the net actuarial debt at closing date (after deduction of the fair value of plan assets) is negative, an asset is recognized in the balance sheet without exceeding the total of deferred items and the present value of funds likely to be recovered by the Group in the form of reductions in future contributions to the plan.

Accounting for accretion of provisions and the expected return on plan assets

Accretion of the discount on provisions for employee benefits and the expected return on plan assets are posted in "Other financial expenses".

2 – 21.2 Benefits to employees of Gaz de France SA, GRTgaz and DK6

Post-employment benefits (defined benefit plans)

In addition to retirement benefits, post-employment benefits for active and retired employees include a lump-sum payment at retirement, end-of-career exceptional leave, reduced energy prices, solidarity benefits, immediate benefits in the event of death and partial reimbursement for educational costs.

Long-term benefits (defined benefit plans)

Long-term obligations comprise disability allowances, allowances for temporary work incapacity, allowances related to worker's compensation and occupational safety (including those linked with asbestos) and length-of-service awards. Long-term benefits are measured using actuarial techniques.

2 – 21.3 Subsidiaries' employee benefits

Retirement benefits

Subsidiaries' retirement plans consist of defined contribution plans and defined benefit plans.

Defined contributions plans

Under these plans, the subsidiary is committed to pay regular contributions into a separate entity.

Contributions, together with the investment return from contributions, will be paid employees in the form of a retirement benefit. The amount of retirement benefit to be paid is determined by the amount of contributions paid.

The subsidiaries' legal or constructive obligations are limited to contributions due in the applicable period. These contributions are treated as operating expenses in the period in question.

Defined benefits plans

Under these plans, the subsidiary is committed to provide retired employees with a contractually agreed lump sum or level of benefits (such as a retirement benefit, a lump-sum payment at retirement, supplementary retirement benefits, etc.).

These commitments towards future and currently retired employees constitute the subsidiary's obligation, which must be recognized as a liability.

Other benefits

Specific benefits (such as length of service awards, benefits in kind and jubilees) may be awarded to employees according to the local regulations and customs in the countries in which the Group operates. The corresponding liability is measured using actuarial techniques.

2 – 22 Other provisions

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources embodying future economic benefits will be required, and for which a reliable estimate can be made.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Long-term provisions are discounted over the period until the obligation is settled. The discount rate used is the risk-free interest rate used for bonds with similar maturities, adjusted to reflect the risks specific to the liability.

Provisions and reversals are recorded in operating income; the unwinding charge of the discount is posted in "Other financial charges".

Provisions for the dismantling and restoration of sites

These are designed to cover the present value of the costs of restoring sites where gas facilities are or were located.

The amount of these provisions reflects the best estimate of discounted future costs, with reference to regulatory requirements in force or in the course of adoption, technical expertise and acquired experience.

Provisions are initially booked as a liability with a corresponding tangible asset that is depreciated over the estimated residual service life of the site in question.

In all cases, the effect of subsequent adjustments of estimates (changes in dismantling schedules and costs, etc.) leads to a change in the asset value, and a corresponding change of amortization is accounted for prospectively. If the adjustment results in an addition to the cost of an asset, the Group tests the asset for impairment.

Provision for replacement

The provision for replacement is progressively accrued to cover the existing obligation of replacement of replaceable assets before the term of the concession.

In most cases, it is accrued as from the beginning of the concession contract until the actual replacement.

2 – 23 trade Accounts payable and other liabilities

Other liabilities consist of social liabilities, prepayments and expenses incurred over the course of the year that will be subsequently paid, as well as the hedged portion of firm purchase or sale commitments qualifying for fair value hedge accounting.

Trade accounts payable and other liabilities are recognized at cost, except for derivative instruments that are recognized at fair value as from January 1, 2005.

2 – 24 Financial assets and liabilities (policies applied as from January 1, 2005)

Financial assets and liabilities which are not trading assets or liabilities or derivative instruments are initially recognized at fair value plus those transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

This principle applies to financial assets that are available for sale (shares and bonds), loans and receivables issued by the Company, investments held to maturity and issued borrowings and other financial debt.

2 – 24.1 Financial assets

Available for sale assets

This category encompasses non-consolidated investments, other investment securities and certain marketable securities, etc.

Changes in the fair value of these assets are recognized in shareholders' equity, under "fair value reserves" and are recycled through profit or loss when securities are sold or definitively impaired.

Investments for which no reliable measurement of fair value is available are recognized at cost.

Held for trading investments

These comprise derivative instruments, as well as investment securities that are managed with a pattern of short-term profit-taking.

Subsequent fair value adjustments are recognized through the income statement.

Long-term loans and receivables

This category encompasses receivables from associated companies, trade receivables as well as loans to customers from financial affiliates. These are measured at amortized cost using an effective interest rate.

They undergo impairment tests when there are indications that their recoverable value would be lower than their carrying value and at least at each closing date. Impairment is recognized in income statement.

Current financial assets and liabilities

Other current assets or liabilities (including accounts receivables and other operating receivables, short term securities, accounts payables and other operating payables and bank overdrafts) are measured, upon initial recognition, at the fair value of the consideration receivable or payable. This value is generally the nominal value owing to the relatively short period of time between the initial recognition of the instrument and its settlement.

2 – 24.2 Irredeemable securities

Gaz de France issued irredeemable securities in 1985 and 1986 as authorized by law no. 83.1, dated January 1, 1983, and by law no. 85.695, dated July 11, 1985. These securities are measured at their amortized cost. As they do not meet the criteria of an equity instrument, they are classified as debt/financial liabilities.

Since August 1992, these irredeemable securities may be repurchased, in whole or in part, at any time, at Gaz de France's option at a price equal to 130% of their nominal value.

Return

The return of irredeemable securities, subject to a limit of between 85% and 130% of the average bond interest rate, comprises a fixed portion equal to 63% of the French Average Bond Rate ("TMO" in the French acronym) and a variable portion calculated on the basis of the growth in Gaz de France's "value added" in the previous year (or that of the consolidated group, Group share only, if this is more favorable).

The return on irredeemable securities according to the effective interest method is treated as a borrowing cost in interest expense.

2 – 24.3 Financial liabilities and liabilities of financial affiliates

Financial debts are initially recognized for the consideration received, less the transaction costs incurred and any redemption or issuance premiums.

They are subsequently measured following the effective interest method. As a consequence, financial expenses computed include any issuance costs and issuance or redemption premiums.

Financial debt also includes the amount of minority interests, which the Group is committed to repurchase.

2 – 24.4 Derivative instruments and hedging

The Group mainly uses derivative financial instruments to manage the foreign exchange, interest rate and commodity risks to which it is exposed in the course of its operations.

Definition and scope of derivative financial instruments

Derivative financial instruments are contracts: whose value changes in response to the change in one or more observable variables; that do not require any material initial net investment; and are settled at a future date. Derivative instruments therefore include swaps, options and futures, as well as forward commitments to purchase or sell listed and unlisted securities, and firm commitments or options to purchase or sell non-financial assets that involve physical delivery of the underlying.

Electricity and natural gas purchase and sale contracts, in particular, are systematically analyzed to determine whether they represent sales and purchases arising in the ordinary course of business, in which case they can be excluded from the scope of IAS 39. The first step of the analysis consists of demonstrating that the contract was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected sale or usage requirements in the foreseeable future in the ordinary course of its operations. The second step is to demonstrate that:

- the Group has no practice of settling similar contracts on a net basis. In particular, forward purchases or sales with physical delivery of the underlying that are carried out with the sole purpose of balancing Group energy volumes are not considered by the Group as contracts that are settled net;

- the contract is not negotiated with the aim of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price;
- the contract is not equivalent to a written option for the sale or the purchase of a non-financial item whose amount cannot be settled in cash

Only contracts that fulfill all of the above conditions are considered as falling outside the scope of IAS 39.

Recognition and presentation

Derivative financial instruments are recognized in current/non-current assets and liabilities, according to the nature of the underlying hedged item.

Initial measurement
Derivative financial instruments are initially recognized at fair value.

Subsequent measurement
Derivative financial instruments are re-measured at fair value at each closing date and changes in fair value are recognized as income or loss.

The fair value of quoted instruments is determined by reference to the market price of the instruments. For unquoted instruments for which quoted instruments exist that are similar in nature and maturity, fair value is determined by reference to the market price of these instruments.

For other unquoted instruments, fair value is determined using valuation techniques such as option pricing models or discounted cash flow analysis.

These valuation techniques incorporate assumptions based on market data.

Derivatives not qualifying as hedges
In addition to trading derivatives, these encompass derivative instruments that, though hedging transactions, do not meet all required criteria to qualify for hedge accounting. Changes resulting from fair value adjustments are recognized in the income statement.

Hedge accounting
Hedge accounting is applied when derivative financial instruments partly or totally offset the change in fair value or cash flows of a hedged item, asset, liability, firm commitment or forecast transaction, provided that the effectiveness of hedging is documented from the inception of, and throughout the life of, the instrument.

When entering into derivative contracts, the Group determines the nature of the hedge in question. In order to be able to apply hedge accounting, the Group documents at the inception of the hedge the relationship between the hedging instrument and the hedged item, designating the risk being hedged and the risk management objective and strategy for undertaking the hedge.

The Group regularly assesses the effectiveness of the hedge by comparing the changes in the fair value of the instruments and in the hedged item's fair value, from the inception until the end of the term of the hedge.

Fair-value hedges

Fair value hedges encompass derivatives used to hedge foreign exchange, interest rate and certain commodity exposure.

The gain or loss resulting from the re-measurement of these fair value hedging instruments is recognized in operating or financial income, depending on the nature of the hedged item.

Changes in the fair value of the hedged item are recognized in the income statement corresponding to the changes in the fair value of the hedging instrument.

Cash-flow hedges

Cash flow hedges comprise derivative financial instruments used to hedge the exposure to variability in cash flows associated with firm or highly probable future transactions, certain commodity contracts as well as floating interest rate borrowings.

The portion of the gain or loss on the hedging instrument is recognized in equity and deferred until the settlement of the hedged transaction or the recognition of the financial asset or liability or the income from the hedged item.

Only the ineffective portion of the gain or loss on the hedging instrument is immediately recognized in the income statement.

Hedges of a net investment in a foreign operation out the euro zone

Long-term loans and borrowings of which the reimbursement is neither planned nor foreseeable are part of the net investment in a foreign operation. Translation adjustments arising from these instruments are recognized in equity under the same heading as adjustments resulting from the translation of subsidiaries' foreign currency financial statements.

Changes in the fair value of hedging instruments set up to reduce the exposure to exchange rate risks on these net investments in foreign operations are recognized in equity, for the effective portion, corresponding with the translation adjustments, in the "fair value adjustments reserve", until the disposal of the foreign operation.

2 – 25 Statements of income

2 – 25.1 Revenues

Sales of goods and services rendered
Sales of goods are recognized when significant risks and rewards of ownership of the goods have been transferred to the buyer. Rendering of services is recognized based on the stage of the transaction's completion at the balance sheet date. The stage of completion is measured based on services performed. No revenue is recognized if there is significant

uncertainty about the recoverability of the price of the transaction or of associated incurred costs, or about the possible return of the goods.

Services related to contracts restated in accordance with IFRIC 4 – Determining Whether an Arrangement Contains a Lease

Revenues from service contracts qualified as finance leases under IFRIC 4 are recognized in income over the life of the lease, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease.

Connection fees

Revenues billed to customers to connect them to gas transmission and distribution networks are spread over the contracts' duration, except for Gaz de France SA and GRTgaz. For Gaz de France and GRTgaz, billing principles for the use of gas transmission and distribution networks, are aimed at covering the operating costs related to the gas transmission and distribution and the costs of capital (depreciation, remuneration) and provide that the amounts so collected be deducted from the revenue base of Gaz de France or GRTgaz in the year they were invoiced, while the connection cost be included in the base of regulated assets which are remunerated on the assets' useful life. These billing principles result in the spreading of income over the assets' service lives.

Construction contract

When the outcome of a construction contract can be reliably estimated, contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses, respectively, by reference to the stage of the contracted activity's completion. The stage of completion is measured based on surveys of work performed.

The contract margin after completion of the contract is regularly reviewed throughout the period of the contract; potential expected losses on construction contracts are fully provisioned.

A construction contract is deemed completed when the transfer of the ownership of the good occurs, and, for complex contracts dealing with the establishment of integrated facilities where there is a commitment to a final, global result, the contract is deemed completed as soon as the provisional acceptance of the work has been delivered.

Specific case of revenue recognized on exchanges of assets between the grantor and the operator in accordance with IFRIC 12

According to IFRIC 12, when the operator builds infrastructure (start-up capital expenditures) in exchange for the right (licence) to charge users of the public service, revenues from construction services should be accounted for in accordance with IAS 11 – Construction Contracts and the right to charge users of the public service should be treated as an exchange of assets and accounted for in accordance with IAS 38 – Intangible Assets (see 2.9).

In practice, however, the Group is unable to separate the margin attributable to the construction phase of its concession agreements from that attributable to the operation phase, due to the basis used to determine customer network access charges. Consequently, revenue recognized during the construction phase is limited to an amount equal to the costs incurred.

Interest

Interest income of the financial affiliates is recognized in the income statement pro rata, using the effective interest method

2 – 25.2 Net finance cost

This includes the financial costs linked with the Group's net financial indebtedness, meaning interest paid or received, the results associated with hedging instruments and exchange rate adjustments relating to indebtedness, as well as interest and other investment income from cash and cash equivalents.

2 – 25.3 Other financial items

These include:

- financial gains and losses relating to operations;
- expenses related to the unwinding of discounts on long-term provisions and the expected return of plan assets;
- other financial income and expenses not related to operations, such as gains and losses of transactions involving non-consolidated investments, whether or not related to the Company's operations.

2 – 25.4 Income tax

Income tax for the period consists of current income tax and deferred tax. It is recognized in the income statement, except for taxes relating to items that are recognized directly in equity.

Current income tax represents tax payable on the taxable income of the period, computed according to tax rates in force at closing date.

2 – 25.5 earnings per share

Basic earnings per share are calculated by dividing profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period, adjusted for the average number of ordinary shares bought back or issued during the period.

Diluted earnings per share are calculated by dividing profit attributable to equity holders of the parent by the weighted average number of ordinary shares and dilutive potential ordinary shares.

2 – 26 Statements of cash flows

This statement discloses actual cash flows of consolidated entities.

Most significant non-cash transactions, which have an impact on the balance sheet – such as investments without financing, reclassifications, effects of mergers and partial transfers of assets and changes in accounting methods – are disclosed in the supplemental disclosures.

The Group's statements of cash flows is reported using the indirect method from income before tax.

The cost of capital renewal and replacement, as recognized in accordance with IFRIC 12, is reported on a separate line of the income statement under "Replacement costs".

Impairment of current assets is assimilated to permanent loss. As a consequence, the change in current assets is disclosed net of depreciation.

Cash flows linked to the payment of income tax, interest and the collection of financial gains are treated separately.

The impact on cash and cash equivalents of acquisitions of consolidated entities are disclosed in investing activities under the heading "Acquisition of investments, net of cash acquired".

The impact of disposals net of cash disposed is disclosed under the heading "Proceeds from disposals of tangible and intangible assets and investments".

When they are material, cash flows generated between January 1 and the date of the disposal of investments that are excluded from the scope of consolidation during the period are nonetheless maintained in the statements of cash flows.

Cash and cash equivalents in the statements of cash flows consist of cash and cash equivalents, less bank overdrafts repayable on demand that are an integral part of the Company's cash management.

2 – 27 Principles of segment reporting

The breakdown of companies by segment is detailed in Note 35.

Primary segment reporting

Primary segment reporting is derived from the Group's main business segments.

A business segment is a distinguishable component of the Group that is engaged in providing services and products in a specific economic environment and subject to risks and returns that are different from those of other business segments.

The segmentation depends upon internal management and reporting structures: a business segment encompasses a sub-group of activities or of operating entities, each entity being separately managed and providing regularly available financial and management information.

As from 2003, the Group's activities have been divided into six segments, gathered into two divisions, Energy Supply and Services and Infrastructures.

The **Energy Supply and Services division** includes the following business segments:

- Exploration and Production

Through its subsidiaries and its participating interests, the Gaz de France Group enjoys a portfolio of oil and gas assets, mainly productive assets in the North Sea and in Germany, and fields to be explored and developed in Algeria and Egypt. The Exploration and Production segment sells a great part of its productions to the Purchase and Sale of Energy segment.

- Purchase and Sale of Energy

This segment pools sale and trading activities. Sales include all customers: residential customers, tertiary and other energy companies. They are mainly carried out by Gaz de France in France but also by Gaz de France and GDF ESS in other European countries outside France. The trading business is carried out by Gaselys.

- Services

The Services segment lies in complementary services to energy supply, mainly:

- management and maintenance of facilities producing heat or cold, industrial maintenance, facilities in controlled environment, management of industrial units (Cofathec group),
- electricity production (Finergaz Group)
- Natural gas vehicle (GNVert)

The **Infrastructures** division pools all activities in the field of transmission and distribution, divided into the following segments:

- Transmission in France

The gas transmission network is operated by the subsidiary GRTgaz for Gaz de France and, in compliance with European directives, for third parties. This segment also includes the operation of the LNG terminals and storage facilities.

- Distribution France

This segment pools the management of distribution networks in France – investing, replacements, maintenance – carried out by Gaz de France mainly for carrying gas for itself or for third parties.

The distribution networks are run through concessions granted by local authorities.

- Transmission and Distribution International

The Group holds participating interests in several gas transmission and distribution companies, mainly in Europe (Germany, Hungary, Slovak Republic, Portugal, Romania) and in Mexico. Most of them also sell gas.

Secondary segment reporting

Secondary segment reporting is divided on the basis of the major geographical areas in which the Group operates, including:

- France,
- Europe excluding France,
- the rest of the world.

Revenues are broken down by:

- origin (the area where sales were generated); and
- destination (the geographical area in which the beneficiary of the sale or the service is located).

Other Group indicators are broken down by location of origin.

Segment accounting policies

The business segments' accounting policies are those applied by the Group to prepare the consolidated financial statements, as disclosed in this appendix.

The assets and liabilities by business or geographical segment are those balances that exist at closing date.

The reconciliation with the consolidated financial statements requires taking into account the effects of the consolidation process (i.e., eliminations).

Transactions between businesses

Sales and services between businesses are carried out at market prices. Internal transactions within a division are computed at market price.

Transactions mainly occur:

- between Purchase and Sale of Energy and Transmission France:
  - booking and use of capacities required to carry gas sold in the transmission network. Compensation for this service is based on rates to third-party access to the transmission network approved by the French Energy Regulation Commission (CRE).
  - booking and use of storage capacities required for sales activity.
- between Purchase and Sale of Energy and Distribution France: booking and use of capacities required to carry gas sold in the distribution network. Compensation for this service is based on rates to third-party access to the distribution network approved by the CRE.

Unallocated Items

Unallocated income and expenses mainly comprise head-office expenses, research and development costs as well as miscellaneous income that are not directly attributable to businesses.

Unallocated fixed assets comprise headquarters' fixed assets, those allocated to research and to human resources management.

EBITDA

It comprises all the income and expenses directly related to the Group's operations, other than depreciation, amortization and provision expense and replacement costs, that are either recurring (i.e. ordinary income and expenses arising during the business cycle) or non-recurring (resulting from isolated or infrequent events or decisions). Non-recurring income and expenses include the effects of extraordinary events that are beyond the Group's control.

B – Comparability between financial years

1 – Major transactions

1.1. Acquisitions

Name of subsidiary	Country	Activity	Acquired %	Date of acquisition
AES Energia Cartagena	Spain	Energy Supply and Services	26%	11.01.2006
Maïa Eolis	France	Energy Supply and Services	49%	12.22.2006

The impact of acquisitions on the consolidated financial statements can be summarized as follows:

(millions of euros)		
Tangible assets		696
Trade accounts and related receivables		19
Other receivables		11
Cash and cash equivalents		77
Sub-total	**(I)**	**804**
Trade accounts and related payables		38
Financial debt		643
Other liabilities		63
Sub-total	**(II)**	**744**
Minority interests	**(III)**	- 2
Fair value of acquired net assets	**(I) – (II) + (III)**	**58**
Goodwill		65
Total acquisition costs		**123**
Cash and cash equivalents		- 77
Paid in prior year		- 8
Payment of the period related to acquisitions		**38**

An Energy Agreement between the Group and AES Energia Cartagena came into effect on November 1, 2006. This contract gives Gaz de France an exclusive right to use the power plant's three turbines and transfers to the Group all the risks and rewards of ownership of the assets. As a result, AES Energia Cartagena is fully-consolidated.

On December 22, 2006, an agreement was signed for the creation of the Maïa Eolis joint venture, which is 49%-owned by Gaz de France and 51% by Maïa Sonnier. Maïa Eolis will develop and operate wind farms in France and Europe. Maïa Sonnier has transferred its wind power business – including wind farms that have not yet come on stream – to the joint venture and Gaz de France has contributed around 110 million euros in cash. Maïa Eolia is proportionately consolidated in the Group accounts.

1.2. Disposals

Name of subsidiary	Country	Activity	Disposed %	Date of disposal
Gaseba	Argentina	Transmission and Distribution International	100%	06.01.2006
Gaseba Uruguay	Uruguay	Transmission and Distribution International	51%	06.01.2006
Distrigaz Sud	Romania	Transmission and Distribution International	10%	02.02.2006
Société du Terminal Méthanier de Fos Cavaou	France	Transmission and storage France	30.3%	06.13.2006
KGM	Kazakhstan	Exploration and Production	17.5%	07.19.2006

The Group's share in disposed assets and liabilities, composing the value of investments sold, is as follows:

(millions of euros)		
Goodwill and intangible assets		9
Tangible assets		48
Financial assets		0
Inventories and work-in-progress		2
Trade accounts and related receivables		38
Cash and cash equivalents		32
Sub-total	**(I)**	**129**
Trade accounts and related payables		2
Tax and social liabilities		4
Financial debts		13
Provision for employee benefits		
Deferred tax liabilities		3
Other liabilities		12
Sub-total	**(II)**	**34**
Minority interests	**(III)**	**50**
Currency translation adjustments	**(IV)**	**6**
Disposed net assets	**(I) – (II) + (III) + (IV)**	**151**
Gains (losses) on disposals		199
Net proceeds from the sale		**350**
Less :		
Withholding tax		61
Net disposed cash		24
Cash consideration received of the period		**265**

Gaz In 2005, Gaz de France had signed an agreement with the European Bank for Reconstruction and Development (Berd) and the International Financial Company (IFC). Under the terms of the agreement, the Group sold to each organisation a 5% interest in the capital stock of the Romanian natural gas distributor, Distrigaz Sud. This agreement was finalized in the first half of 2006.

In connection with the agreements signed with Total for the unwinding of their cross-holdings, in 2005, a partnership agreement had been concluded. It enabled Total to take a 30% interest in the LNG terminal of Gaz de France in Fos Cavaou. This agreement was finalized in June 2006.

On July 19, 2006, Gaz de France signed an agreement to sell its 17.5% stake in the Kazakh joint venture KazGerMunai LLP (KGM) to Kazakh national oil company KazMunaiGas JSC, for an amount of 350 million US dollars. Gaz de France's stake in KGM was held through its wholly-owned German subsidiary EEG-Erdgas Erdöl GmbH. In 2005, KGM produced 2 million tons of crude oil.

This transaction had a positive impact of 187 million euros on the operating income of the second half of 2006.

2 – Changes in accounting policies and presentation

Certain changes have been made to the consolidated financial statements in response to market calls for improved comparability with the financial information published by our peer group and also to take into account the observed policies and practices of other companies operating in the same business segments as Gaz de France. These changes also comply with the recommendations issued by the French securities regulator (AMF) on December 19, 2006 concerning the 2006 financial statements of listed companies.

The changes are as follows:

- The number of subtotals in the income statement has been reduced, with EBITDA now presented in Note C.30.
- The cash flow statement now starts with income before tax. Previously, the starting point was operating income.

In addition, the following changes in accounting methods and reclassifications have been applied:

2.1. Effect of changes in accounting methods in 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

Millions of euros	2006	IFRIC 12	IFRIC 4	2006 after IFRIC 4 and IFRIC 12
Revenues	**27,258**	**397**	**-13**	**27,642**
Capitalized expenses	422	-198	-	224
Purchases and other external charges	-19,707	-493	-	-20,200
Personnel expenses	-2,581	-	-	-2,581
Other operating income and expenses	-237	7	-	-230
Amortization and provisions	-1,544	292	5	-1,247
Operating Income	3,611	5	-8	3,608
Net finance costs	-123	-	-	-123
Other financial income and expenses	-234	-	-	-234
Share in income of associates	176	-	-	176
Income before tax	**3,430**	**5**	**-8**	**3,427**
Corporate income tax	-1,104	-2	2	-1,104
Group's consolidated net income	**2,326**	**3**	**-6**	**2,323**
Group share	2,299	3	-4	2,298
Minority interests	27	-	-2	25

CONDENSED CONSOLIDATED BALANCE SHEET

Millions of euros	2006	IFRIC 12	IFRIC 4	2006 after IFRIC 4 and IFRIC 12
Goodwill	1,649	-	-	1,649
Concession intangible assets	-	5,704	-	5,704
Other intangible assets	564	-	-	564
Concession assets	11,146	-11,114	-32	-
Non-concession tangible assets	16,807	-	-182	16,625
Other assets current and non-current	18,171	-	196	18,367
Total assets	**48,337**	**-5,410**	**-18**	**42,909**
Shareholders'equity – Group share	16,252	-47	-8	16,197
Minority interests	471	-	-5	466
Concession grantors' right	5,203	-5,203	-	-
Provision for replacement of concession assets	4,009	-135	-	3,874
Deferred tax liability	2,643	-30	-5	2,608
Other current and non-current liabilities	19,759	5	-	19,764
Total liabilities	**48,337**	**-5,410**	**-18**	**42,909**

CONDENSED CONSOLIDATED CASH FLOW

Millions of euros	2006	IFRIC 12	IFRIC 4	2006 after IFRIC 4 and IFRIC 12
Income before tax	3,430	5	-8	3,427
Adjustments	1,701	-5	-5	1,691
Operating cash flow before replacement costs (a)	**5,131**	**-**	**-13**	**5,118**
Replacement costs (b)	-	-294	-	-294
Changes in working capital requirements	-423	-	13	-410
Corporate income tax paid	-1,348	-	-	-1,348
Cash flow from operating activities	**3,360**	**-294**	**-**	**3,066**
Cash flow from investing activities	**-2,468**	**294**	**-**	**-2,174**
Cash flow from financing activities	**-566**	**-**	**-**	**-566**
Effect of changes in exchange rates, consolidation method and other	25	-	-	25
Change in cash and cash equivalents	351	-	-	351

(a): *"Cash generated from operations" is now stated before replacement costs, income taxes paid and changes in working capital.*
(b): *A line "Replacement costs" has been added; consequently replacement costs have been reclassified from "cash flows from investing activities" to "cash flows from operating activities".*

Adjustments have been made to the cash flow statement to take into account the effects of applying IFRIC 12 for the recognition of replacement costs (see Note 2.1.1).

2.1.1 IFRIC 12 – Service Concession Agreements

IFRIC 12 – Service Concession Agreements was published by the IASB on November 30, 2006.

This interpretation proposes two different accounting treatments depending on the specific terms of the concession agreement:

- If the operator has an unconditional contractual right to receive cash or another financial asset from the grantor for the construction services, a financial asset should be recognized.
- If the operator receives a right (a licence) to charge users of the public service, this right should be recognized as an intangible asset.

The EFRAG issued a draft recommendation for the adoption of this interpretation by the European Union on February 12, 2007.

The change in accounting principle resulting from the adoption of IFRIC 12 applies to all service concession agreements falling within the scope of the interpretation, i.e. public gas distribution concessions in France (Gaz de France SA) and concessions managed by the Cofathec Group (heating networks, Climespace). The Group considers that activities of subsidiaries in the International Transmission and Distribution segment carried under concession agreements fall outside the scope of IFRIC 12.

1/ Reminder: accounting policies applied for the preparation of the 2005 financial statements under IFRS

Three draft interpretations released by the IFRIC for comment (D12, D13 and D14) had not been completed at the end of 2005, and Gaz de France therefore decided to account for its service concession agreements in the 2005 financial statements under IFRS based on the consequences of their terms and conditions, including:

- The obligation to return the concession assets to the grantor at the end of the concession without compensation.
- The obligation to maintain the infrastructure to a specified level of serviceability throughout the concession.

This decision led to certain changes compared with the accounting treatment of these agreements under French GAAP. In particular:

- The concession assets and the liability corresponding to the obligation to return the assets to the grantor at the end of the concession continued to be recognized in the balance sheet.
- The concession assets were reported on a separate line of the balance sheet, between intangible assets and property, plant and equipment.
- The provision for replacement costs was discounted in accordance with IAS 37.

2/ Effects of applying IFRIC 12

The effects of applying IFRIC 12 are as follows:

- Effects on the presentation of the financial statements:
  - Concession assets and the related liability have been netted off, and
  - The net asset has been recognized as an intangible asset.
- Additional revenue has been recognized for the exchange of assets between the grantor and the operator without consideration.
- The method of accounting for capital renewal and replacement costs has also been changed.

Recognition of additional revenue on the exchange of assets

According to IFRIC 12, when – as is generally the case – the operator builds infrastructure (start-up capital expenditures) in exchange for the right (licence) to charge users of the public service, revenues from construction services should be accounted for in accordance with IAS 11 – Construction Contracts and the right to charge users of the public service should be treated as an exchange of assets and accounted for in accordance with IAS 38 – Intangible Assets.

The Group is unable to separate the margin attributable to the construction phase of its concession agreements from that attributable to the operation phase, due to the basis used to determine customer network access charges. Consequently, revenue recognized during the construction phase is limited to an amount equal to the costs incurred.

Change in the method of accounting for replacement costs.

A provision is recorded to cover the cost of replacement of assets, in accordance with IAS 37.

Prior to adopting IFRIC 12, these costs were qualified as capital expenditure and included in cash flows from investing activities in the cash flow statement, then recognized in the balance sheet under "Concession assets" once the work had been completed, meanwhile a corresponding amount from the provision for replacement was released through balance sheet.

IFRIC 12 states that replacement costs should not be added to the intangible asset recognized by the operator. As a result, these costs are no longer recognized in the Group's balance sheet.

Instead, they are recognized in operating expenses and are offset by the release of a corresponding amount from the provision for replacement.

2.1.2 IFRIC 4 – Determining whether an Arrangement Contains a Lease

This interpretation deals with the method of identifying and recognizing service, purchase and sale contracts that do not take the legal form of a lease but convey a right to use an asset in return for a payment or series of payments. The lease element may constitute an operating lease or a finance lease. If a contract is assessed as containing a finance lease where the Group is lessor, a finance receivable should be recorded to reflect the financing provided to the customer.

IFRIC 4 applies to one of Gaz de France's contracts with an industrial customer, which provides for the operation by the Group of dedicated assets.

Application of IFRIC 4 led to the reclassification from "Property, plant and equipment" to "Other non-current assets" (long-term receivables) of 196 million euros at December 31, 2006, 233 million euros at December 31, 2005 and 200 million euros at December 31, 2004. The impact on equity and profit was not material.

2.2. Changes to accounting principles and reclassification on disclosures previously published

CONSOLIDATED BALANCE SHEET – ASSET

(millions of euros)		12.31.2005 Restated Net	12.31.2005 Published in December 2005 Net	Detail of changes: Changes	IFRIC 12 Concessions	IFRIC 4 Right to use an asset	Recl. IAS7	Recl. and other
ASSET NON CURRENT								
Goodwill		1,501	-	1,501				1,501
Concession intangible assets		5,677	-	5,677	5,677			
Other intangible assets		473	-	473				473
Goodwill and other intangible assets		-	1,936	-1,936				-1,936
Concession assets		-	10,732	-10,732	-10,618	-36		-78
Non-concession tangible assets		15,153	15,271	-118	-34	-208		124
Investments in associates		693	693					
Non-current financial assets		1,169	1,379	-210			-23	-187
Non-current derivative instruments								
Deferred tax assets		99	67	32				32
Other non-current assets		541	308	233		233		
Non-current investments of financial affiliates		99	99					
TOTAL NON-CURRENT ASSETS	**I**	**25,405**	**30,485**	**-5,080**	**-4,975**	**-11**	**-23**	**-71**
CURRENT ASSETS								
Inventories and work-in-progress		1,452	1,451	1				1
Accounts receivables								
Trade accounts and related receivables		6,544	6,535	9				9
Income tax receivables		69	69					
Other receivables		1,646	1,467	179				179
Current derivative instruments		1,783	1,756	27				27
Short term securities		245	-	245			245	
Cash and cash equivalents		1,897	2,119	-222			-222	
Assets of financial affiliates		895	895					
TOTAL CURRENT ASSETS	**II**	14,531	14,292	**239**			**23**	**216**
Assets classified as held for sale	**III**							
TOTAL ASSET	**I à III**	39,936	44,777	**-4,841**	**-4,975**	**-11**		**145**

LIABILITIES

(millions of euros)		12.31.2005 Restated	12.31.2005 Published in December 2005	Detail of changes: Changes	IFRIC 12 Concessions	IFRIC 4 Right to use an asset	Recl. and other
SHAREHOLDERS' EQUITY – Group share							
Share capital		984	984				
Additional paid-in capital		1,789	1,789				
Consolidated Reserves and net income		11,517	11,536	-19	-49	-6	36
Translation adjustments		194	194				
TOTAL SHAREHOLDERS' EQUITY – Group share	**I**	**14,484**	**14,503**	**-19**	**-49**	**-6**	**36**
MINORITY INTERESTS	**II**	**298**	**300**	**-2**		**-2**	
TOTAL SHAREHOLDERS' EQUITY	**I**	**14,782**	**14,803**	**-21**	**-49**	**-8**	**36**
NON-CURRENT LIABILITIES							
Liability related to concessions		-	8,609	-8,609	-8,583		-26
Provision for employee benefits		1,090	1,089	1			1
Provisions		5,537	1,806	3,731	3,683		48
Deferred tax liability		2,771	2,731	40	-26	-3	69
Irredeemable securities		623	623				
Financial debt		3,324	3,324				
Non-current derivative instruments		13	15	-2			-2
Liabilities of financial affiliates		19	19				
Other non-current liabilities		140	141	-1			-1
TOTAL NON-CURRENT LIABILITIES	**III**	**13,517**	**18,357**	**-4,840**	**-4,926**	**-3**	**89**
CURRENT LIABILITIES							
Provisions		180	164	16			16
Irredeemable securities		536	527	9			9
Financial debt		1,165	1,165				
Non-current derivative instruments		3,202	3,203	-1			-1
Liabilities of financial affiliates		154	154				
Other non-current liabilities		1,170	1,171	-1			-1
Financial debt		2,344	2,349	-5			-5
Non-current derivative instruments		1,788	1,786	2			2
Liabilities of financial affiliates		1,098	1,098				
TOTAL CURRENT LIABILITIES	**IV**	**11,637**	**11,617**	**20**			**20**
Liabilities related to assets classified as held for sale	**V**						
TOTAL LIABILITIES	**I à V**	**39,936**	**44,777**	**-4,841**	**-4,975**	**-11**	**145**

CONSOLIDATED STATEMENTS OF INCOME

			Detail of changes			
(millions of euros)	12.31.2005 Restated	12.31.2005 Published in December 2005	Changes	IFRIC 12 Concessions	IFRIC 4 Right to use an asset	Recl. and other
Sales of goods	19,479	19,479				
Services rendered	3,306	2,828	478	487	-9	
Revenues from financial affiliates	87	87				
Revenues	**22,872**	22,394	**478**	**487**	**-9**	
Capitalised expenses	-	336	-336	-205		-131
Purchases and other external charges	-16,294	-15,886	-408	-537		129
Personnel expenses	-2,409	-2,410	1			1
Other operating income	565	534	31			31
Other operating expenses	-741	-749	8	4		4
Amortization and provisions	-1,040	-1,303	263	255	5	3
Employee shareownership	-132	-132				
Operating income	**2,821**	2,784	**37**	**4**	**-4**	**37**
Income from cash and cash equivalents	26	26				
Gross finance costs	-228	-228				
Net finance costs	**-202**	**-202**				
Other financial income	488	488				
Other financial expenses	-724	-724				
Share in income of associates	189	189				
Income before tax	**2,572**	**2,535**	**37**	**4**	**-4**	**37**
Corporate income tax	-794	-794		-1	2	-1
Group's consolidated net income	**1,778**	1,741	**37**	**3**	**-2**	**36**
Group share	1,782	1,743	39	3	-1	36
Minority interests	**-4**	**-2**	**-2**		**-2**	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euros)		12.31.2005 Restated	12.31.2005 Published in December 2005	Detail of changes Changes	IFRIC 12 Concessions	IFRIC 4 Right to use an asset	Recl. IAS 7	Recl. and other
Income before tax		**2,572**		**2,572**	**4**	**-4**		**2,572**
Operating income			**2,784**	**-2,784**				**-2,784**
Amortization, depreciation of long-term assets		1,318	1,323	-5		-5		
Provisions		-31	-29	-2				-2
Exploration expenses		44		44				44
Other adjustments		351	151	200	-4			204
Operating cash flow before tax, replacement costs and change in working capital requirements		**4,254**	**4,229**	**25**		**-9**		**34**
Replacement costs		-255	-	-255	-255			
Changes in working capital requirements		**-649**	**-501**	**-148**		**-3**		**-145**
Inventories		-382	-382					
Trade and related receivables		-1,465	-1,194	-271		-3		-268
Trade and related payables		1,077	1,077					
Other		121	-2	123				123
Corporate income tax paid		-562,	-562					
Cash flow from operating activities	I	2,788	3,166	-378	-255	-12		-111
II – Investing activities								
1. Investments								
Capital expenditures		-1,749	-2,016	267	255	12		
Exploration costs directly charged to expense		-34	-	-34				-34
Acquisition of investments and related net of cash acquired		-674	-674					
Other		-226	-371	145				145
Sub-Total		-2,683	-3,061	378	255	12		111
2. Proceeds								
Connection fees		13	13					
Proceeds from disposals of tangible and intangible assets and investments		479	479					
Proceeds from the sale of other financial assets and repayments		105	105					
Interests received		-52	-27	-25				-25
Dividends received		28	28					
Sub-total		573	598	-25				-25
Cash flow from investing activities	**(1 + 2) II**	**-2,110**	**-2,463**	**353**	**255**	**12**		**86**
III – Cash flow from operating and investing activities	**(I + II) III**	**678**	**703**	**-25**				**-25**
IV – Financing activities								
Capital increase and additional paid-in capital		**1,869**	**1,869**					
Dividends paid		-420	-420					
Borrowings		1,297	1,297					
Repayment of borrowings		-2,124	-2,124					
Changes in short term securities		-134	-	-134			-134	
Interest paid		-189	-214	25				25
Cash flow from financing activities	**IV**	**299**	**408**	**-109**			**-134**	**25**
V – Effect of changes in exchange rate	**V**	10	10					
VI – Change in cash and cash equivalents	**(III + IV + V) VI**	**987**	**1,121**	**-134**			**-134**	

CONSOLIDATED BALANCE SHEETS – ASSET

(millions of euros)		12.31.2004 Restated Net	12.31.2004 Published in December 2005 Net	Changes	Detail of changes			
					IFRIC 12 Concessions	IFRIC 4 Right to use an asset	Recl. IAS7	Recl. and other
NON-CURRENT ASSET								
Goodwill		1,190	-	1,190				1,190
Concession intangible assets		5,562	-	5,562	5,562			
Other intangible assets		131	-	131				131
Goodwill and other intangible assets		-	1,321	-1,321				-1,321
Concession assets		-	10,191	-10,191	-10,135	-31		-25
Non-concession tangible assets		13,982	14,155	-173	-23	-175		25
Investments in associates		385	385	-				
Non-current financial assets		1,055	1,125	-70			-28	-42
Non-current derivative instruments		-	-	-				
Deferred tax assets		46	46	-				
Other non-current assets		449	249	200		200		
Non-current investments of financial affiliates		259	259	-				
TOTAL NON-CURRENT ASSETS	**I,**	**23,059**	**27,731**	**-4,672**	**-4,596**	**-6**	**-28**	**-42**
CURRENT ASSETS								
Inventories and work-in-progress		907	907	-				
Accounts receivables								
Trade accounts and related receivables		4,989	4,989	-				
Income tax receivables		298	298	-				
Other receivables		928	905	23			-19	42
Current derivative instruments		-	-	-				
Short term securities		111	-	111			111	
Cash and cash equivalents		773	837	-64			-64	
Assets of financial affiliates		440	440	-				
TOTAL CURRENT ASSETS	**II,**	**8,446**	**8,376**	**70**	**-**	**-**	**28**	**42**
Assets classified as held for sale	**III**	402	402	-				
TOTAL ASSETS	**I à III**	**31,907**	**36,509**	**-4,602**	**-4,596**	**-6**	**-**	**-**

LIABILITIES

(millions of euros)		12.31.2004 Restated	12.31.2004 Published in December 2005	Changes	Detail of changes IFRIC 12 Concessions	IFRIC 4 Right to use an asset	Recl. and other
SHAREHOLDERS' EQUITY – Group share							
Share capital		903	903	-			
Additional paid-in capital		-	-	-			
Consolidated Reserves and net income		9,933	9,991	-58	-54	-4	
Translation adjustments		104	104	-			
TOTAL SHAREHOLDERS' EQUITY – Group share	**I**	**10,940**	**10,998**	**-58**	**-54**	**-4**	**-**
MINORITY INTERESTS	**II**	**211**	**212**	**-1**	**-**	**-1**	**-**
TOTAL SHAREHOLDERS' EQUITY	**I**	**11,151**	**11,210**	**-59**	**-54**	**-5**	**-**
NON-CURRENT LIABILITIES							
Liability related to concessions		-	8,234	-8,234	-8,210		-24
Provision for employee benefits		1,067	1,067	-			
Provisions		5,438	1,717	3,721	3,697		24
Deferred tax liability		2,711	2,741	-30	-29	-1	
Irredeemable securities		485	485	-			
Financial debt		3,849	3,849	-			
Non-current derivative instruments		-	-	-			
Liabilities of financial affiliates		274	274	-			
Other non-current liabilities		137	137	-			
TOTAL NON-CURRENT LIABILITIES	**III**	**13,961**	**18,504**	**-4,543**	**-4,542**	**-1**	**-**
CURRENT LIABILITIES							
Provisions		94	94	-			
Social liabilities		377	377	-			
Financial debt		971	971	-			
Trade accounts and related payables		1,848	1,848	-			
Income tax payables		115	115	-			
Other tax liabilities		948	948	-			
Other liabilities		1,853	1,853	-			
Current derivative instruments		-	-	-			
Liabilities of financial affiliates		550	550	-			
TOTAL CURRENT LIABILITIES	**IV**	**6,756**	**6,756**	**-**	**-**	**-**	**-**
Liabilities related to assets classified as held for sale	**V**	**39**	**39**				
TOTAL LIABILITIES	**I à V**	**31,907**	**36,509**	**-4,602**	**-4,596**	**-6**	**-**

CONSOLIDATED STATEMENTS OF INCOME

(millions of euros)	12.31.2004 Restated	12.31.2004 Published in December 2005	Changes	Detail of changes: IFRIC 12 Concessions	Detail of changes: IFRIC 4 Right to use an asset	Detail of changes: Recl. and other
Sales of goods	15,497	15,497	-			
Services rendered	2,674	2,199	475	485	-10	
Revenues from financial affiliates	35	35	-			
Revenues	**18,206**	**17,731**	**475**	**485**	**-10**	**-**
Capitalised expenses	-	344	-344	-209		-135
Purchases and other external charges	-11,677	-11,367	-310	-445		135
Personnel expenses	-2,043	-2,043	-			
Other operating income	288	288	-			
Other operating expenses	-497	-496	-1	-1		
amortization and provisions	-1,738	-1,845	107	102	5	
Employee shareownership	-	-	-			
Operating income	**2,539**	**2,612**	**-73**	**-68**	**-5**	**-**
Income from cash and cash equivalents	3	3	-			
Gross finance costs	-182	-182	-			
Net finance costs	**-179**	**-179**	**-**			
Other financial income	402	402	-			
Other financial expenses	-1,316	-1,316	-			
Share in income of associates	125	125	-			
Income before tax	**1,571**	**1,644**	**-73**	**-68**	**-5**	**-**
Corporate income tax	-427	-453	26	24	2	
Group's consolidated net income	**1,144**	**1,191**	**-47**	**-44**	**-3**	**-**
Group share	1,105	1,151	-46	-44	-2	-
Minority interests	39	40	-1	-	-1	-

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euros)		12.31.2004 Restated	12.31.2004 Published in December 2005	Detail of changes			
				Changes	IFRIC 12 Concessions	IFRIC 4 Right to use an asset	Recl. and other
Income before tax		**1,571**	**-**	**1,571**	**-68**	**-5**	**1,644**
Operating income		**-**	**2,612**	**-2,612**			**-2,612**
Amortization, depreciation of long-term assets		1,331	1,336	-5		-5	
Provisions		477	477	-			
Exploration expenses		45	-	45			45
Other adjustments		775	-249	1,024	66		958
Operating cash flow before tax, replacement costs and change in working capital requirements		**4,199**	**4,176**	**23**	**-2**	**-10**	**35**
Replacement costs		-170	-	-170	-170		
Changes in working capital requirements		**-311**	**-282**	**-29**		**3**	**-32**
Inventories		59	59	-			
Trade and related receivables		-807	-900	93		3	90
Trade and related payables		146	146	-			
Other		291	413	-122			-122
Corporate income tax paid		-705	-705	-			
Cash flow from operating activities	**I**	**3,013**	**3,189**	**-176**	**-172**	**-7**	**3**
II – Investing activities							
1. Investments							
Capital expenditures		-1,451	-1,628	177	170	7	
Exploration costs directly charged to expense		-35	-	-35			-35
Acquisition of investments and related net of cash acquired		-153	-153	-			
Other		-320	-352	32			32
Sub-Total		-1,959	-2,133	174	170	7	-3
2. Proceeds							
Connection fees		15	15	-			
Proceeds from disposals of tangible and intangible assets and investments		74	74	-			
Proceeds from the sale of other financial assets and repayments		178	178	-			
Interests received		-20	-12	-8			-8
Dividends received		31	31	-			
Sub-total		278	286	-8			-8
Cash flow from investing activities	**(1 + 2) II**	**-1,681**	**-1,847**	**166**	**170**	**7**	**-11**
III – Cash flow from operating and investing activities	**(I + II) III**	**1,332**	**1,342**	**-10**	**-2**	**-**	**-8**
IV – Financing activities							
Capital increase and additional paid-in capital		-	-	-			
Dividends paid		-322	-322	-			
Borrowings		2,723	2,723	-			
Repayment of borrowings		-3,377	-3,377	-			
Short term securities changes		-	-	-			
Interest paid		-145	-153	8			8
Cash flow from financing activities	**IV**	**-1,121**	**-1,129**	**8**	**-**	**-**	**8**
V – Effect of changes in exchange rate	**V**	**6**	**6**	**-**			
VI – Change in cash and cash equivalents	**(III + IV + V) VI**	**217**	**219**	**-2**	**-2**	**-**	**-**

➢ CHANGES TO DISCLOSURES PREVIOUSLY PUBLISHED : RECLASSIFICATIONS

Reclassifications in the consolidated balance sheet

- IAS 7, paragraph 6, defines cash equivalents as "short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value".

  The application of IAS 7 by companies preparing financial statements under IFRS revealed certain differences in interpretation of this definition for the classification of units in money market funds.

  The French securities regulator (AMF) published its own interpretation in a press release dated March 9, 2006, referring to the analysis proposed by the French Financial Management Association (AFG) and the French Association of Corporate Treasurers (AFTE) which classifies mutual funds in two categories:

  - Non-unit-linked funds, for which there is a rebuttable presumption that they qualify as cash equivalents as they have the following characteristics:
  - They must be managed within a range of sensitivities of 0 to 0.5.
  - They track a benchmark money market rate (Eonia, 3-month Euribor).
  - They are not exposed to any equity risk.

  If any of the criteria in IAS 7 are not satisfied, particularly exposure to "an insignificant risk of changes in value" as evidenced by low historical volatility (the AFG-AFTE report refers to a volatility not exceeding that of the benchmark index plus say 0.25%), the presumption is rebutted.

  - Other funds, for which all four of the criteria specified in IAS 7, paragraph 6, must be satisfied – particularly with regard to prospective sensitivity and retrospective volatility – for units in the fund to be classified as cash equivalents.

  The Group has reviewed its portfolios based on these categories. The analysis led to 23 million euros being reclassified under "Non-current financial assets at December 31, 2005 (28 million euros at December 31, 2004) and 222 million euros being reclassified from "Cash and cash equivalents" to "Short term securities" (a new account set up for this purpose) (64 million euros at December 31, 2004).

  By convention, margin calls on derivative transactions were combined with guarantee deposits in the consolidated financial statements. To improve the transparency of the Group's financial information, they are now classified as current assets (leading to the reclassification of 186 million euros as of December 31, 2005 and 42 million euros as of December 31, 2004).

Reclassifications in the consolidated cash flow statement

- The reclassification of certain cash equivalents under "Short term securities" led to the addition of a new line, "Change in Short term securities", in the section of the cash flow statement dealing with cash flows from financing activities. An amount of 134 million euros was reclassified to "Change in Short term securities" in the 2005 cash flow statement.
- Exploration expenses directly charged to expense were reclassified from cash flow from operating activities to cash flow from investing activities for 34 million euros (35 million euros in 2004).
- Margin calls related to transactions on the markets were reclassified from the items Other investments and Proceeds from the sale of other financial assets to Change in working capital requirements Other for a net amount of 145 million euros (32 million euros in 2004).
- Accrued income and customer prepayments were reclassified from "Change in other working capital items" to "Change in trade receivables" for an amount of 268 million euros in 2005 (90 million euros in 2004).

➢ CHANGES TO DISCLOSURES PREVIOUSLY PUBLISHED : RESTATEMENTS

IFRIC 12. Service concession agreements

IFRIC 12 was adopted in 2006 and applied retrospectively in the comparative information for 2005 and 2004, on the basis described in Note B.2.1.1. The effect of this change of method was a 52 million euros reduction in opening equity at January 1, 2005, net of deferred taxes (10 million euros at January 1, 2004) and a 3 million euros increase in 2005 profit (44 million euros decrease in 2004). The impact on the consolidated income statement included the recognition of additional revenue of 487 million euros in 2005 (485 million euros in 2004), corresponding to the costs incurred for the construction of the infrastructure, and of replacement costs for 255 million euros in 2005 (170 million euros in 2004), offset by the release of an equivalent amount from the related provision.

IFRIC 4 – Determining whether an Arrangement Contains a Lease

As explained in Note B.2.1.2, IFRIC 4 was adopted in 2006 and applied retrospectively in the comparative information for 2005 and 2004, leading to the reclassification from "Property, plant and equipment" to "Other non-current assets" (long-term receivables) of 233 million euros at December 31, 2005 (200 million euros at December 31, 2004). The impact on equity, the income statement and the cash flow statement was not material.

IFRS 3 – Business Combinations

Analyses to identify and determine the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of Société de Production d'Electricité were completed in the twelve months following the acquisition date, as allowed under IFRS 3. The resulting adjustments to the provisional values recognized at the time of the business combination mainly concerned intangible assets (81 million euros), property, plant and equipment (46 million euros), derivative instruments with a positive fair value (27 million euros), provisions (38 million euros) and net deferred tax liabilities (35 million euros). As a result of these adjustments, the goodwill of 43 million euros originally recognized in 2005 was replaced by negative goodwill of 35 million euros, which was recognized in 2005 profit.

C – SUPPLEMENTAL DISCLOSURES ON THE BALANCE SHEETS, STATEMENTS OF INCOME AND STATEMENTS OF CASH FLOWS

1 – BALANCE SHEETS – ASSETS

Note 1 - Goodwill, concession intangible and other intangible assets

(millions of euros)	Goodwill	Concessions	Patents, licenses and similar rights	Customer contracts	Intangible assets in progress	Other	Total intangible assets
Gross book value as of January 1, 2004	**1,313**	**10,273**	**186**	**6**	**80**	**47**	**11,905**
Additions			4		516	8	528
Disposals		-272	-1			-1	-274
Foreign currency translation adjustments	41		-4			1	38
Other	-5	454	46		-459	-5	31
Gross book value as of December 31, 2004	**1,349**	**10,455**	**231**	**6**	**137**	**50**	**12,228**
Additions			19	2	544	11	576
Disposals		-211	-10		-1	-5	-227
Change in scope of consolidation	295		63	123	-1	70	550
Foreign currency translation adjustments	22		11			1	34
Transfers		530	12		-543	1	-
Other	5	0	-5	-4	30	3	29
Gross book value as of December 31, 2005	**1,671**	**10,774**	**322**	**128**	**167**	**131**	**13,193**
Additions		1	10	8	536	7	562
Disposals		-186	-2		-4	-6	-198
Change in scope of consolidation	76		10	2		-2	86
Foreign currency translation adjustments	72		-8			2	66
Transfers		389	47		-450	16	2
Other	-	2	9	1		1	13
Gross book value as of December 31, 2006	**1,819**	**10,980**	**388**	**139**	**249**	**149**	**13,724**

Analyses to identify and determine the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of Société de Production d'Electricité were completed in the twelve months following the acquisition date, as allowed under IFRS 3. The resulting adjustments to the provisional values recognized at the time of the business combination mainly concerned intangible assets for 81 million euros, corresponding to adjustments to nuclear power station capacity utilization rights, contractual customer relationships and procurement contracts. As a result of these adjustments, the goodwill of 43 million euros originally recognized in 2005 was replaced by negative goodwill of 35 million euros.

The increase in intangible assets in progress in 2006 mainly concerned concession intangible assets (see Note B.2) for 397 million euros and software development costs for 94 million euros.

(millions of euros)	Goodwill	Concessions	Patents, licenses and similar rights	Customer contracts	Intangible assets in progress	Other	Total intangible assets
Amortization and impairment as of January 1, 2004	**107**	**4,923**	**120**	**1**		**21**	**5,172**
Amortization for the year		368	20			5	**393**
Reversals		-269					**-269**
Impairment – charges	52		-1				**51**
Impairment – reversals			-21				**-21**
Foreign currency translation adjustments			-2			1	**-1**
Other			18		2	-1	**19**
Amortization and impairment as of December 31, 2004	**159**	**5,022**	**134**	**1**	**2**	**26**	**5,344**
Amortization for the year		381	22	5		13	**421**
Reversals		-216	-8	-		-2	**-226**
Impairment – charges	2		-1				**1**
Impairment – reversals			-28				**-28**
Change in scope of consolidation			6	5		4	**15**
Foreign currency translation adjustments			4		1		**5**
Other	9	-	-1			2	**10**
Amortization and impairment as of December 31, 2005	**170**	**5,187**	**128**	**11**	**3**	**43**	**5,542**
Amortization for the year		394	31	12		23	**460**
Reversals		-186	-2		-	-5	**-193**
Impairment – charges					1		**1**
Impairment – reversals					-1		**-1**
Change in scope of consolidation			2				**2**
Foreign currency translation adjustments			-1			1	**-**
Other		-21	9			8	**-4**
Amortization and impairment as of December 31, 2006	170	**5,374**	**167**	**23**	**3**	**70**	**5,807**

(millions of euros)	Goodwill	Concessions	Patents, licenses and similar rights	Customer contracts	Intangible assets in progress	Other	Total intangible assets
Net book value as of December 31, 2004	**1,190**	**5,433**	**97**	**6**	**135**	**24**	**6,884**
Net book value as of December 31, 2005	**1,501**	**5,587**	**194**	**117**	**164**	**88**	**7,651**
Net book value as of December 31, 2006	**1,649**	**5,606**	**221**	**116**	**246**	**79**	**7,917**

During the period, goodwill changed as follows:

(millions of euros)	
Goodwill as of 12.31.2004	**1,190**
Change in scope of consolidation :	
Savelys Group	*251*
Distrigaz Sud	*32*
Cofathec	*11*
Impairment	*-2*
Currency translation adjustments	*22*
Other	-3
Goodwill as of December 31, 2005	**1,501**
Change in scope of consolidation :	57
Maïa Eolis	*17*
Cofathec	*8*
AES Energia Cartagena	*-6*
Distrigaz Sud (disposal of a 10% interest out of the initial 51% interest)	*72*
Currency translation adjustments	**1,649**

The increase in goodwill is mainly due to the creation, at the end of December 2006, of the Maïa Eolis joint venture, which is 49% owned by Gaz de France and 51% by Maïa Sonnier.

Currency translation adjustments mainly related to goodwill in Mexican peso (- 4 millions of euros), Romanian Lei (+2 millions of euros) and Slovakian krone (+ 74 millions of euros).

Goodwill recognized in the balance sheets as of December 31, 2006 mainly concerned :

- SPP Group: 808 million euros
- Gasag : 203 million euros
- Cofathec Group: 186 million euros
- Savelys Group: 251 million euros
- Maïa Eolis : 57 million euros

Note 2 – Tangible assets

Note 2 A Changes in the period

Gross Value	Technical facilities										
(millions of euros)	Transmission	LNG Terminals	Storage	Distribution	Exploration Production	Other	Land	Buildings	Other Tangible Assets	Assets in progress and down payments	Total tangible assets
As of January 1, 2004	**6,422**	**407**	**2,744**	**1,768**	**3,523**	**999**	**186**	**1,184**	**511**	**1,150**	**18,894**
Additions	4		12	13	67	40	-1	3	79	979	1,196
Disposals	-9		-12	-86	-36	-18		-32	-31	-31	-255
Foreign currency translation adj.	10			27	5	62	1	-19	-8	7	85
Other	131	9	-86	765	-21	-39		41	14	-407	407
As of December 31, 2004	**6,558**	**416**	**2,658**	**2,487**	**3,538**	**1,044**	**186**	**1,177**	**565**	**1,698**	**20,327**
Additions	9	1	34	14	39	49	1	3	26	1,058	1,234
Disposals	-5		-26	-9	-20	-26	-2	-20	-43	-16	-167
Change in scope consolidation	2	7	32	344	59	213	9	46	20	36	768
Foreign currency translation adj.	9		5	-4	7	8	1	2	47	15	90
Transfers	214	9	163	85	124	415	2	58	27	-1,096	1
Other	-10	-3	-9	42	121	-38	5	-26	-21	-7	54
As of December 31, 2005	**6,777**	**430**	**2,857**	**2,959**	**3,868**	**1,665**	**202**	**1,240**	**621**	**1,689**	**22,308**
Additions	11		3	26	80	174		5	38	1,500	1,837
Disposals	-46		-26	-12	-89	-31	-2	-23	-32	-92	-353
Change in scope consolidation	13				-46	696	2		-14	-3	648
Foreign currency translation adj.	41		-2	70	-1	35		16	-11	-14	134
Transfers	113	4	98	100	157	248	2	44	26	-794	-2
Other	37		305	46	-127	68	-67	86	-106	-15	227
As of December 31, 2006	**6,946**	**434**	**3,235**	**3,189**	**3,842**	**2,855**	**137**	**1,368**	**522**	**2,271**	**24,799**

Capital expenditures (tangible and intangible assets) amounted to 2,169 million euros for 2006, compared to 1,749 million euros for 2005 and 1,451 million euros for 2004. They comprised 1,114 million euros of capital expenditures in the Infrastructures branch in France, namely for the Transmission and Storage France segment (618 million euros, composed by Gaz de France SA and GRTgaz) and the Distribution France segment (496 million euros). Capital expenditures of subsidiaries mainly concerned the Exploration-Production segment for 581 million euros (project development).

In addition non-cash investing activities comprised finance leases for 143 million euros in 2006 (mainly concerning the commissioning of an LNG carrier), 9 million euros in 2005 and 14 million euros in 2004, and capital expenditures in AES Energia Cartagena classified under the line "change in scope consolidation".

Amortization and impairment *(millions of euros)*	Technical facilities Transmission	LNG Terminals	Storage	Distribution	Exploration Production	Other	Land	Buildings	Other Tangible Assets	Assets in progress and down payments	Total tangible assets
As of January 1, 2004	**1,021**	**273**	**993**	**639**	**1,342**	**355**	**79**	**540**	**349**	**2**	**5,593**
Amortization for the year	235	14	89	23	331	164	5	64	37		962
Reversals	-5		-6	-1	-34	-17		-22	-26		-111
Impairment – charges					21				23	10	54
Impairment – reversals					-47						-47
Change in scope of consolidation						11		-9			2
Foreign currency translation adjustments	3		1	10	-1						13
Other	-3	2	-64	62	-1	-81		-3	-33		-121
As of December 31, 2004	**1,251**	**289**	**1,013**	**733**	**1,611**	**432**	**84**	**570**	**350**	**12**	**6,345**
Amortization for the year	250	13	85	92	370	-6	5	47	33		889
Reversals	8		-5	-7	-38	4	-2	-23	-40		-103
Impairment – charges								1	16	8	25
Impairment – reversals					-13				-9		-22
Change in scope of consolidation	2	7	32	2		-32		3	14		28
Foreign currency translation adjustments	8		1	1	-4	10		1	11		28
Other			-4	-7	45	-22	-1	-24	-22		-35
As of December 31, 2005	**1,519**	**309**	**1,122**	**814**	**1,971**	**386**	**86**	**575**	**353**	**20**	**7,155**
Amortization for the year	253	13	92	101	285	136	3	51	37		971
Reversals	-3		-14	-8	-47	-23	-1	-20	-30		-146
Impairment – charges				1	21	3		1		28	54
Impairment – reversals						-5		-1	-1		-7
Change in scope of consolidation	12				-16				-2		-6
Foreign currency translation adjustments	13		1	16	3	20		4	3		60
Other	-11		75	-10	-133	163	-53	48	-44	58	93
As of December 31, 2006	**1,783**	**322**	**1,276**	**914**	**2,084**	**680**	**35**	**658**	**316**	**106**	**8,174**

Net book value *(millions of euros)*	Technical facilities Transmission	LNG Terminals	Storage	Distribution	Exploration Production	Other	Land	Buildings	Other Tangible Assets	Assets in progress and down payments	Total tangible assets
As of 12.31.2004	**5,307**	**127**	**1,645**	**1,754**	**1,927**	**612**	**102**	**607**	**215**	**1,687**	**13,982**
As of 12.31.2005	**5,258**	**121**	**1,735**	**2,145**	**1,897**	**1,279**	**116**	**665**	**268**	**1,669**	**15,153**
As of 12.31.2006	**5,163**	**112**	**1,959**	**2,275**	**1,758**	**2,175**	**102**	**710**	**206**	**2,165**	**16,625**

Impairment tests in 2005 namely led to recognize the depreciation of exploration fields in the UK (49 million euros).

Tangible assets included dismantling assets for the following amounts:

(millions of euros)	Gross book value as of December 31, 2005	Amortization	Net book value as of December 31, 2006	Net book value as of December 31, 2005	Net book value as of December 31, 2004
Dismantling assets	1,131	276	855	797	726

Note 2 B – Capitalized exploratory costs

The following table sets forth the net changes in capitalized exploratory costs:

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Opening balance	**80**	**26**	**6**
Additions pending determination of proved reserves	104	83	43
Amounts previously capitalized and expensed during the period	-45	-13	-10
Amounts transferred in development	-3	-16	-13
Closing balance	**136**	**80**	**26**

Note 2 C – Leased assets (intangible assets included)

(millions of euros)	Gross book value as of December 31, 2006	Depreciation and impairment	Net book value as of December 31, 2006	Net book value as of December 31, 2005	Net book value as of December 31, 2004
Technical facilities	866	222	644	536	585
Constructions	308	134	174	183	193
Other	3	2	1	2	1
Total tangible assets	**1,177**	**358**	**819**	**721**	**779**
Intangible assets	**71**	**26**	**45**	**40**	**43**
Total leased assets	**1,248**	**384**	**864**	**761**	**822**

The increase in Technical facilities at December 31, 2006 reflected the recognition of the long-term time charter of the 74,000 m3 *Gaz de France Energy* LNG carrier.

The following table presents a reconciliation of future minimum lease payments before and after discounting:

	12.31.2006		12.31.2005	
(millions of euros)	Undiscounted value	Present value	Undiscounted value	Present value
Less than one year	109	81	91	68
Between one and five years	449	363	472	386
Five years and beyond	446	373	376	324
Total future minimum lease payments	**1,004**	**817**	**939**	**778**

Note 3 – Investments in associates, proportionate consolidated companies, non-current financial assets and investments of financial affiliates

Note 3 a – Investments in associates

The Group's equity interests in associates and percentages of equity interests are detailed in note 35.

The following amounts represented the Group's share of assets, liabilities and incomes in associates:

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Non-current assets	1,490	1,161	829
Current assets	569	491	367
Non-current liabilities	-889	-620	-524
Current liabilities	-474	-396	-293
Net assets	**696**	**636**	**379**
Goodwill	22	57	6
Investments in associates (Balance sheet)	**718**	**693**	**385**
Sales	878	838	895
Net income	176	189	120

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Value of investments in associates opening balance	**693**	**385**	**398**
Share of income	176	189	120
Change in scope of consolidation	59	233	4
Translation adjustments	7	7	-1
Dividends	-217	-144	-136
Other		23	
Value of investments in associates closing balance	**718**	**693**	**385**

The exploration-production company EFOG accounted 34% of Investments in associates. It accounted for 35% of total revenues of associates and 64% of net income of associates.

RETI, the gas distribution group created through the reorganization of the Italian gas distribution and marketing division (former Italcogim Reti and Arcalgas Progetti subsidiaries) accounted for 43% of Investments in associates.

Gaz Transport & Technigaz, which develops LNG tanker membrane technologies, accounted for 21% of the Group's share of the in income profits of associates.

Note 3 b – Proportionate consolidated companies

Following amounts represented the Group share in assets, liabilities, income and expenses, goodwill excluded.

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Non-current assets	2,809	2,378	2,060
Current assets	4,045	3,935	1,345
Total Assets	**6,854**	**6,313**	**3,405**
Non-current liabilities	1,025	1,059	856
Current liabilities	3,496	3,645	981
Total Liabilities	**4,521**	**4,704**	**1,837**
Income	2,287	1,593	1,331
Expenses	-1,942	-1,317	-1,110
Net Income	**345**	**276**	**221**

Note 3 c – Non-current financial assets and investments of financial affiliates

(millions of euros)	Available for sale: Non consolidated investments	Available for sale: Other assets available for sale	Loans	Receivables of associated companies	Deposits	Total non-current financial assets	Loans of financial affiliates
Gross book value as of January 1, 2004	**483**	**153**	**170**	**216**	**38**	**1,060**	**227**
Additions	22	26	78	60	-	186	34
Disposals	-4	-5	-101	-5	-4	-119	-
Transfers and other	40	-18	-	-22	-	-	-2
Gross value book as of December 31, 2004	**541**	**156**	**147**	**249**	**34**	**1,127**	**259**
Impact of first-time adoption of IAS 32.39	254	-20	-	8	-	242	1
Gross book value January as of 1, 2005	**795**	**136**	**147**	**257**	**34**	**1,369**	**260**
Additions	11	2	108	12	110	243	-
Disposals	-143	-	-31	-33	-32	-239	-2
Fair-value adjustments	109	2	-	-	-	111	2
Change in scope of consolidation	-241	-	3	-15	-	-253	-
Transfers and other	-2	-12	-11	9	19	3	-161
Gross book value as of December 31, 2005	**529**	**128**	**216**	**230**	**131**	**1,234**	**99**
Additions	31	319	9	4	64	427	124
Disposals	-120	-1	-49	-31	-4	-205	-
Fair-value adjustments	-79	60	-	-	-	-19	-
Change in scope of consolidation	-20	-	-	-23	1	-42	-
Transfers and other	36	-37	12	-20	23	14	-53
Gross book value as of December 31, 2006	**377**	**469**	**188**	**160**	**215**	**1,409**	**170**
Provisions as of Jan. 1, 2004	**45**	**6**	**1**	**17**	**-**	**69**	**-**
Impairment for the period	6	1	-	-	-	7	-
Reversals	-	-	-	-	-	-	-
Transfers and other	-2	-1	-	-1	-	-4	-
Provisions as of Dec. 31, 2004	**49**	**6**	**1**	**16**	**-**	**72**	**-**
Impact of first-time adoption of IAS 32.39	-	-	-	-	-	-	-
Provisions as January 1, 2005	**49**	**6**	**1**	**16**	**-**	**72**	**-**
Impairment for the period	1	-	1	-	-	2	-
Reversals	-	-	-	-5	-	-5	-
Transfers and other	-	-4	-	-	-	-4	-
Provisions as 12.31.2005	**50**	**2**	**2**	**11**	**-**	**65**	**-**
Impairment for the period	3	-	-	-	-	3	1
Reversals	-	-	-	-	-	-	-1
Transfers and other	1	-1	-	-	-	-	3
Provisions as 12.31.2006	**54**	**1**	**2**	**11**	**-**	**68**	**3**
Net book value 12.31.2004	**492**	**150**	**146**	**233**	**34**	**1,055**	**259**
Net book value 12.31.2005	**479**	**126**	**214**	**219**	**131**	**1,169**	**99**
Net book value 12.31.2006	**323**	**468**	**186**	**149**	**215**	**1,341**	**167**

As of December 31, 2006, other available-for-sale financial assets included Suez shares acquired during the year for 256 million euros.

During the year, Gaz de France sold its remaining stake in Technip for 112 million euros.

Information on the main non-consolidated investments

(millions of euros)	% equity interest	Net book value	Net income	Equity (excluding net income)	Net sales	End of latest reported year
Petronet	10	65	36	200	718	03/31/2006
Company invest. in Austria	20	81	66	368	-	12/31/2005
ECW	22	33	11	138	121	12/31/2005
Others		144				
Net Total		**323**				

Note 4 – Inventories and work-in-progress

(millions of euros)	Gross value as 12.31.2006	Valuation Allowance	Net book value as December 31, 2006	Net book value as December 31, .2005	Net book value as December 31, .2004
Gas inventories	1,865	-53	1,812	1,336	828
Other inventories and work-in-progress	150	-27	123	116	79
Inventories and work-in-progress	**2,015**	**-80**	**1,935**	**1,452**	**907**

The increase in gas inventories namely proceeds from the increase in injected volumes higher than releases and the rise in the average purchase price.

Note 5 – Other current assets (financial instruments excluded)

(millions of euros)	Gross book value as of Dec 31, 2006	Valuation Allowance	Net book value as of Dec. 31, 2006	Net book value as of Dec. 31, 2005	Net book value as of December 31, 2004
Trade accounts and related receivables	**7,359**	**-242**	**7,117**	**6,544**	**4,989**
Prepaid expenses	151	-	151	147	60
Other receivables	981	-47	934	1,499	868
Total other receivables	**1,132**	**-47**	**1,085**	**1,646**	**928**
Current Assets of financial affiliates	**431**	**-**	**431**	**895**	**440**

Assets of Solfea Bank and Gaselys are posted under the specific caption of current assets of financial affiliates, owing to their specific activity.

Note 6 – Cash and cash equivalents

(millions of euros)	12.31.2006	12.31.2005	Change	12.31.2004	Change
Cash on hand – euros	3	1	2	1	–
Cash on hand – other currencies	3	4	-1	4	–
Bank accounts – euros	729	593	136	299	294
Bank accounts – other currencies	160	312	-152	168	144
Cash on hand and bank accounts	**895**	**910**	**-15**	**472**	**438**
Money market mutual investment fund (SICAV and FCP)	942	873	69	198	675
Certificates of deposit and time deposits with maturities within 3 months	359	114	245	103	11
Cash equivalents	**1,301**	**987**	**314**	**301**	**686**
Cash and cash equivalents	**2,196**	**1,897**	**299**	**773**	**1,124**
Bank overdrafts – euros	-587	-663	76	-471	-192
Bank overdrafts – other currencies	-98	-36	-62	-35	-1
Total bank overdrafts	**-685**	**-699**	**14**	**-506**	**-193**
Current accounts considered as cash	**58**	**28**	**30**	**-28**	**56**
Other	**6**	**-2**	**8**	**-2**	**–**
Change in cash flow in the statements of cash flows	**1,575**	**1,224**	**351**	**237**	**987**

2 – BALANCE SHEETS – LIABILITIES

Note 7 – Shareholders' equity – Outstanding shares

Note 7 a. Outstanding shares

Outstanding common shares	
As of January 1, 2005	**451,500,000**
As of April 28, 2005	
New shares after the decrease in the par value from 2 to 1 euro per share	451,500,000
Number of shares before capital increase	**903,000,000**
As of June 30, 2005	**903,000,000**
As of July 7, 2005	
Capital increase – share issue	70,323,469
Capital increase – complementary issue in connection with the over-allotment option	10,548,519
Number of shares issued *	**80,871,988**
As of December 31, 2005	**983,871,988**
As of December 31, 2006	**983,871,988**

* *The capital increase was supplemented by an additional paid-in capital of 1,789 million euros.*

Share capital	12.31.2006	12.31.2005	12.31.2004
Issued and fully paid-up shares of 1 euro each	983,871,988(1)	983,871,988(1)	451,500,000(2)
Issued and not fully paid-up shares			
Total number of shares	**983,871,988**	**983,871,988**	**451,500,000**

(1) *Nominal value : 1 euro.*
(2) *Nominal value : 2 euros.*

Each share is granted a simple voting right.

Non-diluted earnings per share were calculated by dividing the annual net income by the average number of shares outstanding during the period.

Diluted earnings per share were calculated by dividing the annual net income by the average number of shares including possible dilutive instruments. As of December 31, 2006, there were no dilutive instruments.

Note 7 b. Treasury shares

Gaz de France implemented a liquidity contract in application of a decision of the Board dated April 26, 2006. This contract conforms to the code of conduct established by the French Association of Investment Companies ("Association Française des Entreprises d'Investissement") and approved by the "Autorité des Marchés Financiers" in its decision dated March 22, 2005. It was signed with Bank nominated as "promoter" for a period of 12 months.

Treasury shares held at the closing date are deducted from shareholders' equity.

As of December 31, 2006, there are no treasury shares.

Note 7 c. Currency translation adjustments (Group share)

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
USD zone	0	10	-2
GBP zone	17	4	-
Canadian dollar (CAD)	-1	2	-2
Slovak Krown (SKK)	294	127	94
Norwegian Krone (NOK)	19	26	10
Mexican peso (MXN)	-1	23	-6
Romanian lei (RON)	16	-7	-
Hugarian forint (HUF)	5	7	12
Other currencies	0	1	-2
TOTAL	**349**	**194**	**104**

Note 7 d. Options for transition : first-time adoption of IAS 32-39 as of January 1, 2005

The first-time adoption of these standards resulted in an increased shareholders' equity by 192 million euros as of January 1st, 2005, which can be broken down between an increased shareholders' equity-Group share by 198 million euros and reduced minority interests by 6 million euros.

The following table summarizes the impact of IAS 32 and 39 impact on the Group's shareholders' equity as of January 1st, 2005:

	Shareholders' equity Group share					
(millions of euros)	Group's retained earnings	AFS fair value reserve [(a)]	CFH reserves [(b)]	Total reserves - group share	Minority interests	Total shareholders' equity
Shareholders' equity as of December 31, 2004 in IFRS before IAS 39	**10,998**			**10,998**	**212**	**11,210**
Net of deferred tax impacts of first-time adoption of IAS 32 and 39 :						
Revaluation of assets available for sale		254		254		254
Derivative hedging instruments on assets available for sale	- 11			- 11		- 11
Valuation of irredeemable securities at amortized cost	- 94			- 94		- 94
Valuation of bonds at amortized cost	8			8		8
Derivative hedging instruments on interest rate risks			- 14	- 14	-6	- 20
Derivative hedging instruments on commodities	31		21	52		52
Other	3			3		3
Total impact of IAS 32 and 39	**- 63**	**254**	**7**	**198**	**-6**	**192**
Shareholders' equity as of January 1st , 2005 in IFRS	**10,935**	**254**	**7**	**11,196**	**206**	**11,402**

(a) *Fair value adjustments reserve for assets available for sale.*
(b) *Cash flow hedge adjustments reserve.*

Revaluation at fair value of assets available for sale

Assets available for sale included non-consolidated investments, which, in compliance with IAS 39, are measured at fair value by reference to the market price for quoted financial instruments. Changes in fair value are directly recognized in equity, in the "fair value reserve".

Upon adoption, securities held by the Group in Technip and Petronet LNG were therefore valued at fair value on the basis of their market price as of December 31, 2004.

Technip securities
The valuation at fair value of Technip securities resulted in the recognition in opening equity of a fair value adjustment reserve of 226 million euros. After accounting for financial hedges set up to preserve the value of securities, the impact of the adoption on equity amounted to 215 million euros.

Petronet LNG Securities
The Gaz de France Group holds a 10 % equity interest in the Indian company Petronet LNG, which developed through the construction of the Dahej LNG terminal, the first LNG supply network in India. A part of the company share capital is listed on the New Delhi and Bombay stock exchanges.

The valuation at fair value of Petronet LNG securities on the basis of stock exchange price as of December 31, 2004, led to an increase in shareholders' equity of 26 million euros.

No deferred tax was computed on the revaluation at fair value of both securities, owing to a sufficient volume of long-term tax-loss carry-forwards.

Other assets available for sale
The valuation of other assets available for sale did not have significant impact and increased shareholders' equity by 2 million euros.

Valuation of financial debt at amortized cost

In compliance with IAS 39, financial debt was valued at amortized cost using the effective interest rate method.

Irredeemable securities
Gaz de France issued irredeemable securities in 1985 and 1986 through two instalments A and B. Only irredeemable securities of the A instalment remain outstanding. Irredeemable securities of the A instalment include returns based on two portions, one fixed and one variable. The fixed portion is based on a percentage (63%) of the bond average rate and the variable portion depends namely of Gaz de France's "value added". Minimum annual return amounts to 85% of the bond average rate and maximum return to 130% of the bond average rate.

As of 1 January, 2005, irredeemable securities were valued at amortized cost and accrued interests were calculated on the basis of the effective interest rate. Considering returns in the past debt was valued at 130% of the securities' nominal value. This led to a reduction in shareholders' equity by 94 million euros net of deferred tax (144 million euros before deferred tax).

Bonds

As of January 1, 2005, bonds with maturities between 2013 and 2018, including premiums and issuance costs, were valued at amortized cost, applying the effective interest rate method. This valuation led to a write off of the net value of issuance premiums upon adoption and to adjust the carrying value of the bonds on the basis of calculated effective interest rates.

These restatements resulted in an increase in shareholders' equity by 8 million euros upon the first-time adoption of standards on financial instruments.

Recognition of derivative financial instruments

Derivative hedging instruments on interest rate risks on borrowings

The Group uses derivative cash flow hedging instruments to manage its exposure on cash flows, particularly related to borrowings at floating rate. Upon adoption of to IAS 32 and 39, the fair value of hedging instruments was recognized in the cash flow hedge adjustments reserve since the Group did not identify, in the transition balance sheet, ineffective portions on these instruments, which would have been directly recorded in the first-time adoption reserves.

As of January 1, 2005, the valuation of derivative hedging instruments on borrowings resulted in a reduction of shareholders' equity by 14 million euros.

Derivative financial instruments on commodities

In compliance with IAS 39, the fair value of derivative financial instruments used by the Group to manage its exposure to changes in commodity prices was recognized upon adoption:

- in cash flow hedge adjustments reserves for transactions qualifying for cash flow hedge accounting,
- in first-time adoption reserves for transactions not complying with criteria of hedge accounting and for commodity derivative instruments qualifying for fair value hedge accounting.

Hedge accounting

To prepare the transition balance sheet, the first time adoption standard (IFRS 1) requires that all instruments accounted for as hedging items under the French standards be accounted for under hedge accounting in IFRS.

Qualifying for hedge accounting transactions

Cash flow hedge

As of January 1, 2005, the valuation of cash-flow hedging instruments on gas purchases resulted in an increase in shareholders' equity of 21 million euros net of deferred tax via the cash flow hedge adjustments reserve (34 million euros before deferred tax).

Fair value hedge

As of January 1, 2005, the impact of the valuation of fair value hedging instruments was fully compensated for by the impact of the valuation at fair value of hedged contracts.

Transactions not qualifying for hedge accounting

These transactions, which do not comply with criteria of hedge accounting according to IAS 39, are elements of the Group's management policy. The recognition at fair value of these derivative instruments increased by 31 million euros net of deferred tax shareholders' equity (47 million euros before deferred tax) as of January 1, 2005.

Note 8 – Provisions (employee benefits excluded)*

(millions of euros)	Provision for replacement	Site restoration	Litigation	Other	Total Provisions
As of December 31, 2005	**3,683**	**1,646**	**140**	**248**	**5,717**
Allowances (statement of income)	414	1	24	66	**505**
Increase (by balance sheet) **	-	124	-	-	**124**
Amount utilized during the period	-432	-22	-20	-55	**-529**
Unutilized amount reversed during the period	-	-119	-9	-30	**-158**
Decrease (by balance sheet) **	-	-10	-	-2	**-12**
Reclassification	-	-1	-4	-21	**-26**
Change in scope of consolidation	-	6	2	-	**8**
Foreign currency translation adjustments	-	-	2	-	**2**
Unwinding of discount	208	76	-	1	**285**
Others	1	-	-	-	**1**
As of December 31, 2006	**3,874**	**1,701**	**135**	**207**	**5,917**
Non-current 2006					**5,750**
Current 2006					**167**
As of December 31, 2006					**5,917**
Non-current 2005					**5,537**
Current 2005					**180**
As of December 31, 2005					**5,717**
Non-current 2004					**5,438**
Current 2004					**94**
As of December 31, 2004					**5,532**

* *Employee benefits are detailed in note 26*
** *See § on provision for site restoration below*

Provision for replacement

The principle of the provision for replacement is presented in the Supplemental disclosure A. It primarily concerns replacement of Gaz de France's distribution infrastructure.

This provision was discounted using an inflation rate of 2% and a nominal discount rate of 4%, based on the assumption that the obligations will be settled in an average of around 13 years.

Provision for site restoration

The principle of the provision for site restoration is presented in the Supplemental disclosure A. It primarily concerns Gaz de France, GRTgaz and its Exploration and Production subsidiaries.

The Gaz de France and GRTgaz sites concerned are:

- first the lands on which manufactured gas production plants were located. The accrual, determined statistically on the basis of samples of representative sites, amounted to 41 million euros as of December 31, 2006 (164 million euro as of December 31, 2005 and 163 million euros as of December 31, 2004). A sentence by the State Council dated July 8, 2005 and the end in April 2006 of the agreement signed with the Ministry of Environment on « the management and the follow-up of the restoration of former fields of gas plants » resulted in a revaluation of the company's commitments, which meant a reversal of provision for 111 million euros.
- second, pipelines, storage facilities and LNG terminals in service (1,231 millions euros as of December 31, 2006, 1,129 million euros as of December 31, 2005, and 1,018 million euros as December 31, 2004).

For operated sites as for Exploration and Production facilities (386 million euros as of December 31, 2006, 320 million euros as of December 31, 2005 and 275 million euros as of December 31, 2004), the present value of estimated dismantling costs was fully accrued, with a corresponding entry in property, plant, and equipment. Depreciation of the corresponding asset was charged to operating income and the unwinding of the discount was charged to financial income.

This provision was discounted using an inflation rate of 2% and a nominal discount rate of 4% for exploration and production assets and 5% for Gaz de France and GRTgaz transmission and distribution assets, reflecting the respective periods in which the related obligations are expected to be settled.

Note 9 – Irredeemable securities

To facilitate year-on-year comparisons, in Notes 9 to 13, opening balances at January 1,2005 (i.e. including the effect of applying IAS 32 and 39 to financial instruments) are presented instead of the balances at December 31, 2004.

(millions of euros)	12.31.2006	12.31.2005	01.01.2005
Irredeemable securities	624	623	630

Gaz de France issued irredeemable securities in 1985 and 1986 using two instalments, A and B. Only irredeemable securities of the A instalment remain outstanding.

On February 24, 2005, the Group cancelled 7,000 irredeemable securities, which it had repurchased in March 2004. The impact was a reduction of « irredeemable securities » in the liabilities of 6 million euros.

As from January 1, 2005, along with the adoption of IAS 32 and 39 on financial instruments, irredeemable securities are valued at amortized cost, based on 130% of the French average bond rate.

From 2004 to 2006, the amount of income payable by security was: 38.60 euros in 2006, 38.26 euros in 2005 and 44.67 euros in 2004.

On January 23, 2006, Gaz de France set up a hedge of interest rate risk on it's a series non-voting loan stock (see Note 24.b).

Note 10 – Net financial debt

(millions of euros)	12.31.2006 Non current	12.31.2006 Current	12.31.2006 Total	12.31.2005 Non current	12.31.2005 Current	12.31.2005 Total	01.01.2005 Non current	01.01.2005 Current	01.01.2005 Total
Outstanding borrowings	3,936	1,461	5,397	3,316	1,165	4,481	3,813	978	4,791
Irredeemable securities	624	-	624	623	-	623	630	-	630
Impact of measurement at amortized cost	7	-	7	8	-	8	9	-	9
Gross debt (amortized cost incl.)	**4,567**	**1,461**	**6,028**	**3,947**	**1,165**	**5,112**	**4,452**	**978**	**5,430**
Derivatives hedging borrowings under liabilities	6	5	11	13	18	31	18	10	28
Gross debt (amortized cost and financial instruments incl.)	**4,573**	**1,466**	**6,039**	**3,960**	**1,183**	**5,143**	**4,470**	**988**	**5,458**
Short term securities	-88	-272	-360	-85	-160	-245	-82	-37	-119
Cash and cash equivalents	-	-2,196	-2,196	-	-1,897	-1,897	-	-824	-824
Derivatives hedging borrowings under assets	-16	-2	-18	-	-16	-16	-	-9	-9
Net cash	**-104**	**-2,470**	**-2,574**	**-85**	**-2,073**	**-2,158**	**-82**	**-870**	**-952**
Net debt (amortized cost and financial instruments incl.)	**4,469**	**-1,004**	**3,465**	**3,875**	**-890**	**2,985**	**4,388**	**118**	**4,506**
Outstanding borrowings	4,560	1,461	6,021	3,939	1,165	5,104	4,443	978	5,421
Short term securities	-88	-272	-360	-85	-160	-245	-82	-37	-119
Cash and cash equivalents	-	-2,196	-2,196	-	-1,897	-1,897	-	-824	-824
Total net debt excluding the impact of amortized cost and financial instruments	**4,472**	**-1,007**	**3,465**	**3,854**	**-892**	**2,962**	**4,361**	**117**	**4,478**

Note 10.1. Debt / equity ratio

(millions of euros)	12.31.2006	12.31.2005	01.01.2005
Net debt	3,465	2,962	4,478
Shareholders' equity	16,663	14,782	11,343
Debt / equity ratio	**20.7%**	**20.0%**	**39.5%**

Note 10.2 Net debt by category

(millions of euros)	12.31.2006	12.31.2005	01.01.2005
Irredeemable securities	624	623	630
Bonds	1,997	2,062	2,058
Bank borrowings	1,286	845	1,205
Finance leases	817	778	835
Lines of credit	57	33	40
Commercial paper and treasury bills	410	1	101
Other	151	72	48
Total long-term borrowings (impact of amortized cost excluded)	**5,342**	**4,414**	**4,917**
Bank overdrafts	679	690	504
Total gross debt	**6,021**	**5,104**	**5,421**
Short term securities	-360	-245	-119
Cash and cash equivalents	-2,196	-1,897	-824
Total net debt excluding the impact of amortized cost and financial instruments	**3,465**	**2,962**	**4,478**

Bonds

Private placements in yen are hedged by EUR/JPY cross currency swaps against three-month Euribor plus margin.

These various transactions were conducted under the EMTN program set up in October 2002.

(millions of euros)	Book value as of Dec 31, 2006	Nominal value	Issue date	Maturity	Initial rate	Stock exchange where listed
Public issues:	1,242	1,250 MEUR	02.2003	02.2013	4.75%	Paris/ Luxembourg
– euros	741	750 MEUR	02.2003	02.2018	5.13%	Paris/ Luxembourg
Private placements:						
– yens	19	3,000 MJPY	03.2004	03.2009	0.66%	None
Other	**2**					
Total bonds	**2,004**					

Bank borrowings

As of December 31, 2006, bank borrowings totalled 1,286 million euros.

Covenants and guarantees:
Some borrowings raised by the Group's subsidiaries can include guarantees and articles requiring the compliance with ratios. As of December 31, 2006, the Group complied with the provisions of such clauses.

Finance leases

Finance leases totalled 817 million euros as of December 31, 2006, up by 39 million euros compared with December 31, 2005.

As of December 31, 2006, finance leases primarily concerned:

- distribution and storage facilities of a German subsidiary for 300 million euros,
- loans related to two LNG tankers for 262 million euros,
- various real estate leases for 140 million euros,
- loans raised for the acquisition of varied technical facilities.

Lines of credit

On February 18, 2005, the Group signed a 3 billion euros multi-currency syndicated credit facility which matures in seven years. This credit facility is intended to finance the Group's general business needs and support its short-term financing programs. As of December 31, 2006, it was not used.

As of December 31, 2006, the other lines of credit used amounted to 57 million euros.

Treasury bills and commercial paper

Gaz de France SA has short-term financing facilities programs of 1 billion US dollars for commercial paper and 1.25 billion euros for treasury bills. As of December 31, 2006, 410 million euros were withdrawn on the treasury bills facility program.

Note 11 – Net debt by maturity

(millions of euros) *As of December 31, 2006*	Total	2007	2008	2009	2010	2011	5 years and beyond
Irredeemable securities	624	-	-	-	-	-	624
Bonds	1,997	-	-	19	-	-	1,978
Bank borrowings	1,286	230	179	120	110	102	545
Finance leases	817	81	107	76	118	62	373
Lines of credit	57	25	4	1	1	1	25
Commercial paper and treasury bills	410	410	-	-	-	-	-
Other	151	36	41	3	3	2	66
Total long-term borrowing (impact of the amortized cost excluded)	**5,342**	**782**	**331**	**219**	**232**	**167**	**3,611**
Bank overdrafts	679	679	-	-	-	-	-
Total gross debt	**6,021**	**1,461**	**331**	**219**	**232**	**167**	**3,611**
Short term securities	-360	-272	-34	-	-	-	-54
Cash and cash equivalents	-2,196	-2,196	-	-	-	-	-
Total net debt excluding the impact of amortized cost and financial instruments	**3,465**	**-1,007**	**297**	**219**	**232**	**167**	**3,557**

As of December 31, 2005	Total	2006	2007	2008	2009	2010	5 years and beyond
Gross debt	5,104	1,165	237	227	171	201	3,103
Short term securities	-245	-160	-	-34	-	-	-51
Cash and cash equivalents	-1,897	-1,897	-	-	-	–	-
Total net debt excluding the impact of amortized cost and financial instruments	**2,962**	**-892**	**237**	**193**	**171**	**201**	**3,052**

As of January 1, 2005	Total	2005	2006	2007	2008	2009	5 years and beyond
Gross debt	5,421	978	495	305	130	139	3,374
Short term securities	-119	-37	-3	-	-34	-	-45
Cash and cash equivalents	-824	-824	-	-	-	-	-
Total net debt excluding the impact of amortized cost and financial instruments	**4,478**	**117**	**492**	**305**	**96**	**139**	**3,329**

Note 12 – Gross debt by currency

(millions of euros)	12.31.2006 Amount	%	12.31.2005 Amount	%
Euro (EUR)	5,604	93%	4,624	90%
American Dollar (USD)	258	4%	342	7%
Yen (JPY)	19	0%	58	1%
Pound sterling (GBP)	39	1%	36	1%
Other	101	2%	44	1%
Gross debt	**6,021**	**100%**	**5,104**	**100%**

Debt denominated in foreign currencies amounted to 7% of total debt and was partially hedged. These hedges did not qualify for hedge accounting according to IAS 39. Gaz de France swapped into euros its two private bond issues in yens (JPY), which totalled 19 million euros as of December 31, 2006.

Note 13 – Gross debt by interest rate

Gross debt

(millions of euros) BEFORE ACCOUNTING FOR FINANCIAL HEDGES	12.31.2006 Book value	%	12.31.2005 Book value	%	01.01.2005 Book value	%
Fixed rate	3,037	50%	2,883	56%	2,868	53%
Floating rate	2,984	50%	2,221	44%	2,553	47%
Total gross debt*	**6,021**	**100%**	**5,104**	**100%**	**5,421**	**100%**

(millions of euros) AFTER ACCOUNTING FOR FINANCIAL HEDGES	12.31.2006 Book value	%	12.31.2005 Book value	%	01.01.2005 Book value	%
Fixed rate	3,988	66%	3,022	59%	3,049	56%
Floating rate	2,033	34%	2,082	41%	2,372	44%
Total gross debt*	**6,021**	**100%**	**5,104**	**100%**	**5,421**	**100%**

* *Amortized cost excluded*

Bonds and bank loans

(millions of euros) BEFORE ACCOUNTING FOR FINANCIAL HEDGES	12 .31.2006 Book value	%	12.31.2005 Book value	%	01.01.2005 Book value	%
Fixed rate under 5 %	1,612	69%	1,339	60%	1,282	59%
Fixed rate between 5 % and 10 %	739	31%	888	40%	881	41%
Sub-total fixed rate	**2,351**	**72%**	**2,227**	**77%**	**2,163**	**66%**
Floating rate	932	28%	680	23%	1 100	34%
Total	**3,283**	**100%**	**2,907**	**100%**	**3,263**	**100%**

(millions of euros)	12.31.2006		12.31.2005		01.01.2005	
AFTER ACCOUNTING FOR FINANCIAL HEDGES	Book value	%	Book value	%	Book value	%
Fixed rate under 5 %	1,754	73%	1,339	55%	1,310	56%
Fixed rate between 5 % and 10 %	659	27%	1,074	45%	1,034	44%
Sub-total fixed rate	**2,413**	**74%**	**2,413**	**83%**	**2,344**	**72%**
Floating rate	870	26%	509	17%	938	28%
Total	**3,283**	**100%**	**2,922**	**100%**	**3,282**	**100%**

Impact of interest rate hedging is detailed in note 25 a.

Long-term financial debt

Long-term financial debt (current and non-current) included irredeemable securities, bonds, bank loans and finance lease and totalled 4,724 million euros as of December 31, 2006 (4,308 million euros as of December 31, 2005 and 4,728 million euros as of December 31, 2005).

The average effective interest rate of this long-term debt was approximately 4.6% in 2006 and 4.90% in 2005.

3 – STATEMENTS OF INCOME

Note 14 – Revenues

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Gas sales	23,849	19,479	15,497
Services rendered and miscellaneous	3,671	3,306	2,674
Revenues from financial affiliates	122	87	35
Revenues	**27,642**	**22,872**	**18,206**

As of December 31, 2006, the Group's net sales totalled 27,642 million euros, up by 21% compared with 2005 and by 17% on a constant consolidation basis.

Note 15 – Purchases and other external charges

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Energy purchases	15,810	12,569	8,800
Other purchases	4,390	3,856	3,013
Capitalized expenses	-224	-131	-135
Purchases and other external charges	**19,976**	**16,294**	**11,678**

The rise in energy purchases by 26% was driven by the rise in costs of supply; for example in the case of Gaz de France SA, the average import price increased by 27% and imported volumes declined by 6%.

Note 16 – Research and development costs

As of December 31, 2006, research and development costs were expensed for 84 million euros and for 73 million euros as of December 31, 2005. In 2004, they totalled 90 millions euros. Besides, no development costs have been capitalized in 2004, 2005 and 2006.

Note 17 – Personnel expenses

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Wages and salaries, profit-sharing schemes included	1,651	1,549	1,299
Social contributions	499	467	285
Pension commitments and other commitments due to employees (defined benefit programs)	184	106	277
Other costs	247	287	182
Total	**2,581**	**2,409**	**2,043**

The increase in wages and salaries between December 2005 and December 2006 was mainly related to change in the consolidation scope, in particular acquisitions of the companies Distrigaz Sud and SPE in 2005.

Workforce

The Group's workforce totalled 50,244 employees as of December 31, 2006, compared with 52,958 employees as of December 31, 2005 and 38,088 as of December 31, 2004. The main part the decrease has occurred in the second half of 2006.

Note 18 – Other operating income and expenses

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Reversals of allowances against current assets (1)	66	80	39
Operating grants	10	11	9
Gains on derivative instruments (2)	54	162	-
Net income on disposals of fixed assets	-	1	-
Net income on disposals of financial assets (subsidiaries) (3)	243	-	-
Negative goodwill	-	44	31
Other	253	267	208
Total other operating income	**626**	**565**	**287**

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Allowances against current assets	173	70	59
Other taxes	295	263	209
Losses on derivative instruments	138	187	-
Net loss on disposals of fixed assets	25	-	-
Other	225	221	228
Total other operating expenses	**856**	**741**	**496**
Other operating income and expenses	**-230**	**-176**	**-209**

(1) *Net charges to provisions for impairment of current assets amounted to 107 million euros in 2006, including 56 million euros on inventories and 46 million euros on trade receivables.*

(2) *The 84 million euros net loss on derivative financial instruments corresponded to the ineffective portion of gains and losses on commodity hedges and to gains and losses arising from the change in fair value of instruments classified as held for trading.*

(3) *Net gains on disposals of financial assets include the 187 million euros gain on the sale of KGM shares.*

Disposals of tangible and intangible assets

(millions of euros) *As of December 31, 2006*	Expenses	Income
Disposals of tangible and intangible assets	-115	90
Net result of disposals	-25	-

The tax effect on the net result of disposals amounted to 8 million euros.

Note 19 – Amortization, impairment and provisions

Amortization

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Amortization (net of reversals) (I)	**1,430**	**1,318**	**1,347**

Amortization encompassed:

- 395 million euros for the amortization of concession intangible assets (381 million euros as of December 31, 2005 and 368 million euros as of December 31, 2004);
- 66 million euros for the amortization of other intangible assets (40 million euros as of December 31, 2005 and 25 million euros as of December 31, 2004);
- 971 million euros for the amortization of tangible assets (895 million euros as of December 31, 2005 and 962 million euros as of December 31, 2004);

Impairment of assets

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Impairment of goodwill	-	2	52
Impairment of other intangible assets (net of reversals)	-	-28	-21
Impairment of other tangible assets (net of reversals)	48	-1	9
Net impairment of fixed assets (II)	**48**	**-27**	**40**

For annual impairment tests, the assets' value in use was determined by the discounted cash flows method, using discount rates ranging from 6% to 11.8% for the Exploration and Production segment, 6% to 10.4% for the International Transmission and Distribution segment, 6.7% to 8% for the Services segment and 6% to 7% for the Transmission and Storage – France and Distribution – France segments.

Impairment tests in December 2006 resulted in impairment of exploration fields in the UK (49 million euros).

Provisions for risks and charges

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Allowances	479	294	667
Reversals	-710	-545	-316
Net provisions for risks and charges (III)	**-231**	**-251**	**351**

The main changes in the period related to allowances and reversals of the provision for replacement. In 2005, net provisions mainly resulted from a non-recurring adjustment in the replaceable assets' future replacement values of approximately 250 million euros. In addition, in 2004 the Group set aside a 264 million euros provision to cover the costs of the accelerated program for the replacement of cast iron pipes in the distribution network. This provision was released in 2005 and 2006.

In 2006, reversals included a non-recurring amount of 116 million euros related to the revaluation of the company's commitments to the restoration of lands on which manufactured gas production plants were located.

(millions of euros)			
Total amortization, impairment and provisions (I) + (II) + (III)	**1,247**	**1,040**	**1,738**

Note 20 – Financial income

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
NET FINANCE COST			
Proceeds from cash and cash equivalents :	**73**	**26**	**3**
Interest income	13		
Gains on sales of cash equivalents (liquid marketable securities)	60	26	3
Gross finance cost	**-196**	**-228**	**-182**
Interest expenses	-206	-232	-228
Net foreign currency translation adjustments	10	4	46
TOTAL NET FINANCE COST	**-123**	**-202**	**-179**
OTHER FINANCIAL ITEMS			
Other financial income			
Exchange gains not linked with financial debts	80	70	76
Gains on exchange rate derivative instruments	3	1	5
Gains on investments derivative instruments	61	66	-
Dividends received	51	28	31
Interest income	32	48	18
Expected return on plan assets	86	90	81
Net proceeds of sales of non-current financial assets	113	81	6
Reversals of provisions for financial risks and charges	19	28	121
Other	70	76	64
Sub-total	**515**	**488**	**402**
Other financial expenses			
Exchange losses not linked with financial debts	-127	-108	-74
Loss on exchange rate derivative instruments	-1	-10	-8
Loss on investments derivative instruments	-57	-58	-
Interest costs (borrowings excluded)	-9	-24	-26
Unwinding effect of discount of provisions for employee benefits	-129	-117	-720
Unwinding effect of discount of other provisions	-285	-308	-409
Impairment of non-current financial assets	-3	-	-8
Granted financial forgiveness of debt	-1	-2	-3
Financial provisions for risks and charges	-35	-25	-1
Other	-102	-72	-67
Sub-total	**-749**	**-724**	**-1,316**
TOTAL OTHER FINANCIAL ITEMS	**-234**	**-236**	**-914**

Note 21 – Income tax

Gaz de France had elected the tax consolidation system for a 5-year period, which ended on December 31, 2002. It was renewed for a new 5-year period, until December 31, 2007.

Income tax expenses consisted of the following:

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Current tax	1,222	867	597
Deffered tax	-118	-73	-170
Income tax	**1,104**	**794**	**427**

Note 21 a – Reconciliation of actual and theorical income tax expense

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Income before tax	3,427	2,572	1,571
Badwill (note 20)	-	-44	-31
Impairment of goodwill (note 21)	-	1	52
Share in income of Associates	-176	-189	-125
Income before tax, impact of goodwill and share in income of associates	**3,251**	**2,340**	**1,467**
Legal tax rate	**34.43%**	**34.93%**	**35.43%**
Theorical tax expense	1,119	817	520
Prior year differences in tax rates	-	-	-32
Differences in tax rates	4	18	18
Utilization of tax loss carry-forwards or temporary differences previously not recognized	-12	-34	-39
Recognition of tax loss carry-forwards or temporary differences previously not recognized	-	-17	-18
Net losses of the period not capitalized	-	-	8
Permanent differences	-7	10	-30
Actual tax expense	**1,104**	**794**	**427**
Effective tax rate	**33.96%**	**33.93%**	**29.11%**

Note 21 b – Current tax and deferred tax

21 b 1 – Current tax

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Current tax – asset	84	69	298
Current tax – liability	-208	-154	- 115
Net current tax	**-124**	**-85**	**183**

21 b 2 – Change in deferred tax

(millions of euros)	12.31.2005 restated	Income	Shareholders' equity	Change in consolidation scope	Other	12.31.2006
Deferred tax assets	99	39	-	10	-87	61
Deferred tax liabilities	-2,771	79	-3	2	85	-2,608
Net deferred tax	**-2,672**	**118**	**-3**	**12**	**-2**	**-2,547**

21 b 3 – Breakdown of deferred tax assets and liabilities by nature of temporary differences

(millions of euros)	12.31.2006	12.31.2005	Impact FTA 01/01/2005 IAS 32-39
Fixed assets	8	131	152
Provisions and accrued expenses	349	288	318
Loss carry-forwards	257	181	116
Financial instruments	81	72	19
Other	32	45	38
Deferred tax asset	**727**	**717**	**643**
Fixed assets	-2,469	-2,600	-2,520
Accelerated cost recovery	-544	-437	-145
Other regulated provisions	-90	-148	-138
Provisions and accrued expenses	-11	-12	-260
Contributions from customers	-124	-142	-150
Financial instruments	-	-15	-
Other	-36	-36	-76
Deferred tax liability	**-3,274**	**-3,389**	**-3,289**
Net deferred tax	**-2,547**	**-2,672**	**-2,646**

Note 21 c – Unrecognized deferred tax assets

(millions of euros) *Nature of temporary differences*	Total	Less than five years	More than five years	Indefinite carry-forwards
Loss carry-forwards	10	-	-	10
Other temporary differences	12	7	1	4
Total	**22**	**7**	**1**	**14**

4 – STATEMENTS OF CASH FLOWS

Note 22 – Statements of cash flows

Operating activities

Operating cash flow before tax, replacement costs and change in working capital requirements amounted to 5,118 million euros as of December 31, 2006, compared with 4,254 million euros as of December 31, 2005 and 4,199 million euros as of December 31, 2004.

Change in working capital requirements (410 million euros) mainly reflected the strong growth in activity and an increase in inventories in term of quantities. It included the change in financial instruments recognized since January 1, 2005 in accordance with IAS 32 and IAS 39.

Operating activities globally generated a positive cash inflow as of December 31, 2006 of 3,066 million euros.

Investing activities

Capital expenditures amounted to 2,169 million euros as of December 31, 2006. Main expenditures are detailed in note 2.

Acquisitions reached 487 million euros as of December 31, 2006 and 674 million euros as of December 31,2005.

Investing activities globally amounted to 3,216 million euros as of December 31, 2006, which was close to the level of 2005 (2,683 million euros as of December 31, 2005) and was a significant increase compared to the level of 2004 (1,959 million euros as of December 31, 2004).

Financing activities

Cash flows from financing activities amounted to a 566 million euros cash outflow as of December 31, 2006, compared with a 299 million euros cash inflow as of December 31, 2005, and a 1,121 million euros cash outflow as of December 31, 2004

Dividends paid amounted to 669 million euros, of which 1 million euros for minority interests of the consolidated subsidiaries.

Cash and cash equivalents

As of December 31, 2006, change in cash and cash equivalents totalled 351 million euros compared with 987 million euros as of December 31, 2005 and 217 million of euros as of December 31, 2004.

Investing and financing transactions without cash impact in the period

(million of euros)	12.31.2006	12.31.2005	12.31.2004
Lease acquisitions	143	9	14
Capital expenditures AES Energia Cartagena (see Note 2.A)	671		

5 – FINANCIAL INSTRUMENTS

Note 23 – Fair value of financial instruments

The main methods and assumptions used to estimate the fair value of financial instruments are detailed below.

Regarding cash and cash equivalents, trade accounts receivables and payables, Gaz de France deemed that the most representative of their market value was their book value, owing to these items' high degree of liquidity.

Market values of non-consolidated investments in listed companies were based on their stock market value at the end of the period.

The market value of convertible, exchangeable and indexed bonds was determined using the stock market value.

(million of euros)	Book value as of 12.31.2006	Fair value as of 12.31.2006	Book value as of 12.31.2005	Fair value as of 12.31.2005	Book value as of 01.01.2005	Fair value as of 01.01.2005	Book value as of 12.31.2004
Instruments valued at fair value							
Technip shares	0	0	174	174	231	231	5
Petronet LNG shares	64	64	92	92	40	40	14
Instruments valued at amortized cost							
Irredeemable securities	624	568	623	603	630	608	485
Bonds	2,004	2,028	2,070	2,207	2 ,067	2,169	2,087

Disclosed values of irredeemable securities and bonds are expressed accrued interests excluded.

Fair values of the different derivative financial instruments held by the Group are detailed below (note 24).

Note 24 – Derivative financial instruments

Note: accounting policies applied prior to the adoption of IAS 32 and IAS 39 as from January 1, 2005.

Financial and operating instruments used by the Group to hedge and manage currency, interest rate and commodity risks were recognized off-balance sheet, for an amount corresponding to the future capital and interest to be exchanged, measured at year-end rates and prices.

The Group uses derivative financial instruments mainly to manage risks related to foreign exchange, interest rate and commodity price, to which it is exposed in the course of its operations.

	Asset				Liability			
	12.31.2006			12.31.2005	12.31.2006			12.31.2005
(millions of euros)	Non-current	Current	Total	Total	Non-current	Current	Total	Total
Commercial transactions								
- Currency exchange derivatives						6	6	
- Commodity derivatives		2,316	2,316	1,767		2,172	2,172	1,708
Sub-total		**2,316**	**2,316**	**1,767**		**2,178**	**2,178**	**1,708**
Financial transactions								
- Currency exchange derivatives								
- Interest rate derivative	17	9	26	16	8	11	19	32
- Financial investment derivatives								61
Sub-total	**17**	**9**	**26**	**16**	**8**	**11**	**19**	**93**
Total derivative financial instruments	**17**	**2,325**	**2,342**	**1,783**	**8**	**2,189**	**2,197**	**1,801**
Commercial transactions		3	3			100	100	53
Financial transactions								
Total hedged firm commitments		**3**	**3**			**100**	**100**	**53**

Qualitative information on derivative financial instruments is divided into two parts, transactions of a commercial nature and transactions of a financial nature.

Note 24 a. Quantitative information on commercial transactions

(millions of euros)	12.31.2006 Fair value Asset	12.31.2006 Fair value Liability	12.31.2006 Notional	12.31.2005 * Fair value Asset	12.31.2005 * Fair value Liability	12.31.2005 * Notional
1. Currency exchange derivatives						
Forward currency exchange						
Short position:						
Not qualifying as hedges			28			
Total forward currency exchange	**0**	**0**	**28**			
Other						
Long position:						
Hedges		5	225			
Not qualifying as hedges		1	15			
Total other	**0**	**6**	**240**			
Total currency exchange derivatives	**0**	**6**	**268**			
2. Commodity derivatives						
A. Options and Swaptions						
Long position:						
Not qualifying as hedges						
Natural gas	19		77	23		150
Oil	28		32	2		45
Electricity	6		40	3		44
Sub-total long position	**53**	**0**	**149**	**28**		**239**
Short position:						
Not qualifying as hedges						
Natural gas		4	23		28	287
Oil		8	3		4	21
Electricity		3	45		2	17
Sub-total short position	**0**	**15**	**71**		**34**	**325**
Total Options and Swaptions	**53**	**15**	**220**	**28**	**34**	**564**

(millions of euros)	12.31.2006 Fair value			12.31.2005 * Fair value		
	Asset	Liability	Notional	Asset	Liability	Notional
b. Swaps and forward contracts						
Long position:						
Hedges						
Natural gas	29	17	158	14	6	117
Oil		497	4,621	492	49	3,708
Electricity	72	8	406			
Sub-total hedges	**101**	**521**	**5,185**	**507**	**55**	**3,825**
Not qualifying as hedges						
Natural gas	92	1,093	7,567	700	7	2,033
Oil	195	35	2,152	136	16	-
Electricity	17	308	1,836	346		893
Other		1	70			
Sub-total not qualifying as hedges	**304**	**1,437**	**11,624**	**1,181**	**23**	**2,926**
Sub-total long position	**405**	**1,958**	**16,809**	**1,688**	**78**	**6,751**
short position:						
Hedges						
Natural gas	38		54	2	128	278
Oil	286	17	2,387	39	353	2,053
Electricity	4	6	71			
Sub-total hedges	**329**	**23**	**2,513**	**41**	**481**	**2,330**
Not qualifying as hedges						
Natural gas	1,132	92	3,917	3	763	1,650
Oil	108	74	3,326	7	6	384
Electricity	290	9	1,832		346	874
Sub-total not qualifying as hedges	**1,530**	**176**	**9 075**	**10**	**1,115**	**2,909**
Sub-total short position	**1,858**	**199**	**11,588**	**51**	**1,596**	**5,239**
Total Swaps and forward contracts	**2,263**	**2,157**	**28,397**	**1,739**	**1,674**	**11,990**
Total commodity derivatives	**2,316**	**2,172**	**28,617**	**1,767**	**1,708**	**12,554**
Total derivatives on commercial transactions.	**2,316**	**2,178**	**28,885**	**1,767**	**1,708**	**12,554**

* *A more detailed analysis of the breakdown hedges/not qualifying as hedges of the Gaz de France SA transactions reversed to the market by its subsidiary Gaselys resulted in a reclassification of certain instruments between the two categories.*

Commodity derivative instruments (natural gas, oil, electricity) held by the Group primarily consisted in swaps, forward contracts and options entered into by the parent company to manage the "price" risk. Most of these instruments are negotiated with third-parties by the specialised subsidiary Gaselys, proportionately consolidated at 51%.

These derivative instruments are particularly used in the management of risks associated to the following operations:

– Price engineering aimed at responding to customers' increasing expectations in the field of the management of the price risk on gas or electricity. They mainly aim at securing commercial margin, whatever the evolution of commodity index considered for the price proposed to customers, even if this index diverge from the commodity index to which the Group's supply is exposed. Options are used to guarantee ceiling prices (calls) or floor prices (puts);

– Index creations, which are generated to balance the volume indexation of the supply portfolio on indexes of the Belgian market (Zeebrugge) and the British market (NBP) to hedge future possible sales for which counterparts would request this type of indexes;

– Optimization of supply costs, giving value to a part of the flexibility embedded in its supply contracts, its electricity production tools, its storage capacities and its regasification capacities, to choose its sourcing between short-term markets and supply contracts depending on seasons.

In connection with its trading activities, the Group also entered into forward contracts on natural gas, oil and electricity for which it can operate financial or a physical supply, according to the requirements of its energy balance.

Note 24 b. Quantitative information on financial transactions

(millions of euros)	12.31.2006 Fair value Asset	12.31.2006 Fair value Liability	12.31.2006 Notional	12.31.2005 Fair value Asset	12.31.2005 Fair value Liability	12.31.2005 Notional
1. Currency exchange derivatives						
Forward currency exchange						
Short Position:						
Hedges						12
Not qualifying as hedges			8			1
Sub-total Short Position	**0**	**0**	**8**			**13**
Total currency exchange derivatives	**0**	**0**	**8**			**13**
2. Interest rate derivative instruments						
Interest rate swaps						
Paid fixed/received floating rate						
Hedges	21	7	1,272		15	430
Not qualifying as hedges	1	7	348			186
Sub-total paid fixed/received floating rate	**22**	**14**	**1,620**		**15**	**616**
Received fixed/ paid floating rate						
Hedges						
Not qualifying as hedges	4	4	446	16	16	176
Sub-total received fixed/ paid floating rate	**4**	**4**	**446**	**16**	**16**	**176**
Floating rate towards floating rate						
Hedges						
Not qualifying as hedges		1	19		1	58
Sub-total floating rate towards floating rate	**0**	**1**	**19**		**1**	**58**
Total interest rate swaps	**26**	**19**	**2,085**	**16**	**32**	**850**

(millions of euros)	12.31.2006			12.31.2005		
	Fair value		Notional	Fair value		Notional
	Asset	Liability		Asset	Liability	
Other						
Short position:						
Hedges						
Not qualifying as hedges			80			
Total other	**0**	**0**	**80**			
Total interest rate swaps	**26**	**19**	**2,165**			**850**
3. Financial investment derivatives					**61**	**110**
Total derivative instruments related to financial transactions	**26**	**19**	**2,173**	**16**	**93**	**973**

On January 23, 2006, Gaz de France hedged the interest rate risk on the return of its irredeemable securities A, by means of a swap expiring in October 15, 2035 on a notional amount of 480,128,216 euros. It included two subsequent periods:

(a) Until October 15, 2015, with a multiplier coefficient of 130% of the notional amount above-mentioned and

(b) of 100% thereafter and until the final deadline.

Under the terms of the swap, Gaz de France receives a floating rate of interest corresponding to the average annual 10-year Constant Maturity Swap (CMS) rate in euros and pays an all-in fixed rate of 4.3285%.

The CMS 10 year rate has a very good correlation with the TMO reference used for the determination of the coupon of irredeemable securities, while bringing a better market liquidity and an early permanence on the hedging duration.

Note 24 c. Derivative financial instruments – Maturity and currency

Breakdown of derivative financial instruments by maturity and currency was as follows:

(millions of euros)								Notional amounts
	Total as of 12.31.2006	< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	> 5 years	Total as of 12.31.2005
Commercial transactions								
Currency exchange derivatives								
Forward currency exchange								
US dollar	**28**	28						
English pound								
Euro								
Sub-total forward currency exchange	**28**	**28**						
Other								
US dollar	**224**	144	80					
English pound								
Euro	**16**	10	6					
Sub-total other	**240**	**154**	**86**					
Total currency exchange derivatives	**268**	**182**	**86**					
Commodity derivative instruments								
Natural gas								
US dollar	**101**	72	28	1				349
English pound	**6,279**	3,346	1,384	733	524	292		2,603
Euro	**5,417**	1,430	831	692	525	672	1,267	1,564
Sub-total natural gas	**11,797**	**4,848**	**2,243**	**1,426**	**1,049**	**964**	**1,267**	**4,516**
Oil								
US dollar	**6,509**	3,106	1,769	969	579	86		1,576
English pound	**12**	3	8	1				
Euro	**5,999**	3,834	1,459	482	36	188		4,635
Sub-total oil	**12,520**	**6,943**	**3,236**	**1,452**	**615**	**274**		**6,211**
Electricity								
US dollar								
English pound	**1,350**	985	287	65	13			572
Euro	**2,880**	1,849	749	269	2	11		1,255
Sub-total electricity	**4,230**	**2,834**	**1,036**	**334**	**15**	**11**		**1,827**
Other								
US dollar	**69**		69					
English pound								
Euro	**1**	1						
Sub-total other	**70**	**1**	**69**					
Sub-total commodity derivative	**28,617**	**14,626**	**6,584**	**3,212**	**1,679**	**1,249**	**1,267**	**12,554**
Total Commercial transactions	**28,885**	**14,808**	**6,670**	**3,212**	**1,679**	**1,249**	**1,267**	**12 ,554**

(millions of euros)								Notional amounts
	Total as of 12.31.2006	< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	> 5 years	Total as of 12.31.2005
Financial transactions								
1. Currency exchange derivatives								
Forward currency exchange								
US dollar								1
English pound								12
Euro								
Other	**8**	8						
Total forward currency exchange	**8**	**8**						**13**
2. Interest rate derivative instruments								
Interest rate swaps								
US dollar	**303**	100	24	65	73	23	18	152
English pound	**19**	2	1	1	1	2	12	32
Euro	**1,744**	213	77	87	74	10	1,283	606
Other	**19**			19				58
Sub-total interest rate swaps	**2,085**	**315**	**102**	**172**	**148**	**35**	**1,313**	**848**
Other								
Euro	**80**						80	
Total other	**80**						**80**	
Total Interest rate derivative instruments	**2,165**	**315**	**102**	**172**	**148**	**35**	**1,393**	**848**
3. Financial investment derivatives								**110**
Total financial transactions	**2,173**	**323**	**102**	**172**	**148**	**35**	**1,393**	**971**

Note 25 – Information on risks

Note 25 a – Interest rate and foreign exchange risk

Gaz de France chose a centralized management of risk at Group head level. This should permit the implementation of a policy insuring the identification, the comprehensive management and the reporting of risks. In this context, the management of financial risks, and in particular interest rate and foreign exchange risk, is the responsibility of the Finance division, which monitors the monthly cross-division decision-making bodies, devoted to financial risks: the Interest Rate and Foreign Exchange Committee and the Credit Committee.

With a view to managing its exposure to fluctuations of currency rates, the Group uses forward purchases and sales of currencies to hedge its gas purchases, its capital expenditures and its financing activities.

• Currency translation risks on financing activities

(millions of euros)	Book value as of 12.31.2006	Maturity						Book value as of 12.31.2005
		< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	> 5 years	
Exposed financial debt								
USD	258	49	63	41	31	23	51	342
JPY	19			19				58
GBP	39	10	2	2	2	2	21	36
Other	101	80	1	1	2	3	14	44
Total	**417**	**139**	**66**	**63**	**35**	**28**	**86**	**480**
Firm commitments of forward currency purchases and sales								
Management hedge								
Long position JPY	-19			-19				-58
Not qualifying as hedges :								
Short position USD								
Total positions on firm commitments	**-19**			**-19**				**-58**
Net position as of December 31, 2006	**398**	**139**	**66**	**44**	**35**	**28**	**86**	**422**

• Interest rate risk on financing activities

The table below presents the net position before and after managing the interest rate risk for gross debt.

(millions of euros)	Book value 12.31.2006	Maturity						Book value 12.31.2005
		< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	> 5 years	
Exposed gross debt	**6,021**	**1,461**	**331**	**219**	**232**	**167**	**3,611**	**5,104**
Fixed rate	3,037							2,883
Floating rate	2,984							2,221

			Contract notional amounts by maturity date						
	Average fixed rate	12.31.2006	< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	> 5 years	12.31.2005
"Management" hedge JPY		**19**			**19**				**58**
Interest rate swaps paid floating rate EUR/ received floating rate JPY		19			19				58
Interest rate hedges on exposed financial debt :		**970**	**19**	**27**	**29**	**29**	**21**	**845**	**197**
Interest rate swaps paid fixed/received floating rate	4.6%	1,050	19	27	29	29	21	925	197
Interest rate swaps received fixed/paid floating rate		80						80	
Total interest rate hedges		**951**	**19**	**27**	**10**	**29**	**21**	**845**	**139**
Net position after hedges as of December 31, 2006* :		**6,021**							**5,104**
Gross debt fixed rate (after hedges)		3,988							3,022
Gross debt floating rate (after hedges)		2,033							2,082

* *Amortized cost excluded*

The Japanese yen Private Placement Notes are hedged by a euro-yen cross-currency swap against the 3-month Euribor. Although this swap does not qualify for hedge accounting, it nevertheless constitutes a hedge of currency and interest rate risks.

On January 23, 2006, Gaz de France hedged the interest rate risk on its A series non-voting loan stock by means of a swap on a notional amount of 480.1 million euros expiring on October 15, 2035. Under the terms of the swap, Gaz de France receives a floating rate of interest corresponding to the average annual 10-year Constant Maturity Swap (CMS) rate in euros and pays an all-in fixed rate of 4.3285%.

In 2006, Gaz de France also converted part of its 5.125% bond issue due February 2018 to floating rate debt, by means of a swap on a notional amount of 80 million euros. The swap represents a fair value hedge and qualifies for hedge accounting.

The Group has also purchased interest rate swaps to convert medium- and long-term floating rate debt to fixed rate debt. The total notional amount of these swaps at December 31, 2006 was 426 million euros.

In 2001 and 2003, the Group sold employee home loans to a special purpose entity under securitization programs. Gaz de France remains exposed to a marginal interest rate risk on these loans, representing a notional amount equal to the difference between the actual outstanding principal and the assumed outstanding principal as estimated at the time of the securitization. The Group's residual exposure at December 31, 2006 stood at 14 million euros. The notional amount of the corresponding interest rate swaps, which are recognized in the balance sheet, is 296 million euros. This amount breaks down between 141 million euros in swaps where Gaz de France pays a floating rate and receives a fixed rate, and 155 million euros in swaps where Gaz de France pays a fixed rate and receives a floating rate.

The Group's financial affiliates hedge interest rate risks on their fixed rate assets using interest rate swaps that enable them to refinance the assets at fixed rates. The notional amount of these swaps at December 31, 2006 was 237 million euros.

Trading transactions in dollar futures are hedged against the risk of interest differentials between European and US rates using two series of interest rate swaps:

- Dollar-denominated swaps where Gaz de France pays a fixed rate and receives a floating rate on a notional amount of 178 million euros at December 31, 2006.
- Euro-denominated swaps where Gaz de France receives a fixed rate and pays a floating rate on a notional amount of 176 million euros at December 31, 2006.

Spot currency risks are managed on an aggregate basis.

Note 25 b – Liquidity risk

The Group ensured its daily liquidity through a treasury bills program for a maximum amount of 1.25 billion euros and commercial paper programs for a maximum amount of 1 billion US dollars, unused at the end of December 2006. Since January 2005, Gaz de France has had access to the markets of the US Commercial Paper and of the Euro Commercial Paper through a program said to be "global", within the limit of the maximum accrued debt of 1 billion US dollars, which make possible the use of the funds not only for current cash needs but also in case of external growth operations.

On February 18, 2005, Gaz de France contracted a new syndicated loan to replace the one dating back to 2002, amounting to 3 billion euros with maturity in February 2012, unused as of December 31, 2006.

In order to optimize the liquidity management at Group level, the Finance division of Gaz de France implemented further an automated "cash-pooling" system.

Note 25 c – Credit risk

The Group credit risk or counterparty risk is monitored by the Credit Committee. It corresponds to the loss the Group would have to bear in case of a counterparty's failure, leading to the non compliance of its contractual obligations vis à vis Gaz de France. The Group policy on this issue is based on a systematic diversification of its counterparty portfolio and on the follow up of the financial position of its most important counterparties. This follow up guarantees the sufficient reactivity to manage this risk immediately and to reduce the impact of failure of the Group's important counterparties by using the relevant legal instruments ("netting" arrangements, invoice requirements, issue of bank endorsement or parent company guarantees, other guarantees…).

Bank counterparties with which the Group deals must have a rating by Standard & Poor's or Moody's equal or higher than A- / A3 respectively for the long term and the best rating for the short terms, except for particular cases duly authorized by the Chief Financial Officer.

The Group pays an increasing attention to customer and supplier counterparties. The governance framework is based on a regular follow up (at least an annual review) of the financial position of major customers. Its aims are both prevention (guarantee requirements and other restrictive conditions to deal with the counterparty) and valuation of this risk in connection with prices proposed to major customers.

"Trading" counterparties are also specifically analyzed in the Gaselys Risk Committee, where Risk representatives of both parent companies sit, Gaz de France and the Société Générale. The Gaselys portfolio counterparties show a very satisfying average rating with over 80% of the counterparty risk presenting a financial profile similar to a long term rating higher than A-/A3 at S&P/Moody's.

6 – OTHER INFORMATION

Note 26 – Retirement commitments and other commitments to employees

1. Post employment obligations to employees of Gaz de France, GRTgaz and DK6

As from January 1, 2005, the funds for retirement benefits and benefits relating to workers compensation, temporary and permanent disability and occupational safety costs of the electricity and gas industries are insured under a special French national fund for the electricity and gas industries ("CNIEG", Caisse nationale des industries électriques et gazières). The CNIEG is a social security legal entity under private law placed under the joint supervision of the Ministers in charge of social security, budget and energy. As from January 1, 2005, electricity and gas industry employees and pensioners are fully affiliated to this fund.

The law of August 9, 2004 and its implementation decrees apportioned certain specific benefits relating to the periods vested as of December 31, 2004 ("past specific rights") among the various electricity and gas industry companies (IEG companies). For each company, the law distinguished between, on the one hand, the benefits related to electricity and natural gas transmission and distribution businesses ("past regulated specific rights") and, on the other hand, the benefits related to other businesses ("past non-regulated specific rights"). Certain specific benefits of employees covered by the electricity and gas industry special retirement plan are not covered by the general French public benefits programs.

Past regulated specific rights are financed by the rate surcharge on natural gas transmission and distribution services and the Gaz de France Group no longer bears any commitment in this respect.

The past non-regulated specific rights are financed by electricity and gas industry companies in proportions defined by the decree 2005-322 of April 5, 2005, or for Gaz de France 3.25% of "past specific rights" retirement plans of all those companies.

Specific rights acquired as from January 1, 2005 are wholly financed by IEG companies proportionally to their respective weights in terms of payroll in the IEG sector.

2. Calculation of retirement benefit commitments (Gaz de France, GRTgaz et DK6)

Gaz de France's commitments are determined according to an actuarial methodology that is applied to all employees in the electricity and gas industry.

This projected unit credit method incorporates estimates of:

- final pay, reflecting seniority, level of salary and career promotions;
- age of retirement, determined on the basis of criteria that are characteristic of employees in the electricity and gas industry (such as years of active service, number of children for women);
- the changes in the population of retired persons, based on mortality tables (provided by the French Bureau of Statistics) and on a turnover rate based on statistics for employees in the electricity and gas industry; and
- payment of retirement benefits to surviving spouses, incorporating the life expectancy of employees and their spouses, and the percentage of married employees in the electricity and gas industry.

Commitments are calculated using the following principles:

- they are evaluated on the basis of the rights vested as of the date of calculation, in the electricity and gas industry benefits program as well as the French public benefits program;
- they are determined for all employees, both active and retired, who depend on the specific retirement program in place in the electricity and gas industry; and
- they comprise the contribution to expenses for the management of CNIEG.

The discount rate used as of December 31, 2006 and December 31, 2005 is a nominal discount rate of 4.25% and 4.5% as of December 31, 2004.

3. Post-employment benefits and long-term benefits to employees of Gaz de France SA and GRTgaz

The following additional benefits to active and retired employees are granted:

- Long-term benefits:
  - allowances related to worker's compensation and occupational safety,
  - disability allowances, and
  - length of service awards.
- Post-employment benefits:
  - reduced energy prices,
  - a lump-sum payment at retirement,
  - end-of-career exceptional leaves,
  - immediate benefits in the event of death,
  - partial reimbursement of educational costs,

Gaz de France applies various discount rates to take into account the maturities of the benefits listed above, depending upon the type of commitment. Except for the commitments relating to the lump-sum payment at retirement and to death benefits, which are evaluated on the basis of the nominal discount rate of 4.25% for 2006 and 2005 and 4.5% for 2004 the other commitments are evaluated on the basis of a nominal discount rate of 4%.

3.1. Employees' compensation and compensation for occupational injuries

Like employees of the French public benefits program, electricity and gas industry employees are covered by employees' compensation and other occupation safety guarantees. These benefits cover all the employees and the beneficiaries of employees who died as a result of occupational injuries, or injuries suffered on the way to work.

The amount of the obligation corresponds to the probable present value of the benefits to be paid to the current beneficiaries, taking into account the possible survivors' retirement benefits.

3.2. Reduced energy prices

Article 28 of the national statute regarding electricity and gas industry employees provides that all employees (whether active or inactive) enjoy benefits in kind in the form of reduced energy prices, called "Employees' rate", whereby companies in the industry supply electricity and gas to employees at reduced prices. For the retirement phase, this benefit constitutes a defined post-employment benefit plan that is to be provisioned as employee services are rendered.

The commitment of Gaz de France related to the supply of natural gas to Gaz de France and EDF employees corresponds to the probable present value of kWhs provided to retired employees, valuated on the basis of the unit cost.

The agreed price for the exchange of energy with EDF must also be added to this cost base. According to the financial agreements signed with EDF in 1951 regarding the supply of electricity to Gaz de France employees by EDF at a reduced price, Gaz de France supplies natural gas to EDF employees at reduced price, supplemented by a cash payment made to account for the differential. The commitment related to the agreement on energy exchange corresponds to the probable present value of the cash differential payable in respect of Gaz de France employees once retired.

The number of people who benefit from the employees' rate is identical to the number who benefit from the special benefits plan.

3.3. Lump-sum payment at retirement

Lump-sum payments at retirement are paid to employees once they begin to benefit from their retirement plan. Such payments are made to retirees' beneficiaries in case of the employees' death prior to retirement.

The company uses the "projected unit credit method" to determine the value of its obligation for lump-sum payments at retirement.

Historically, Gaz de France outsourced the hedging of its pension liabilities and lump-sum payments at retirement through insurance contracts, the management of the funds being entrusted to asset management companies.

These diversified funds are characterized by an active management referring to compound indexes, adapted to long term maturity of liabilities and taking into account State bonds in the euro zone as well as shares of the biggest companies in the euro zone and outside the euro zone.

4. Subsidiaries' employee benefits

4.1 Description of post-employment benefits and other long-term benefits programs

The main post-employment benefits and other long-term benefits programs in the Group's French and foreign subsidiaries are described below:

In France, in addition to the lump-sum payments at retirement included in the various collective agreements applicable to the subsidiaries, one of the subsidiaries runs a defined benefit retirement plan, paying retirement benefits that are based on the employee's length of service in the company and his salary at the end of his career.

In Germany, various subsidiaries implemented all or part of the following programs: defined benefit retirement programs, pre-retirement programs, length-of-service awards, benefits in kind and individual commitment retirement benefits.

Employees of the Group's subsidiaries in the Netherlands and Norway enjoy a defined benefit retirement plan.

In Italy, employees are entitled to the TFR ("Trattamento di Fine Rapporto"), at the end of their working contract, for example upon retirement.

In Slovak Republic, subsidiaries implemented both an end-of-career lump sum retirement program and a length-of-service awards program.

In Romania, the subsidiary implemented an end-of-career benefits program, a death in service plan and an incapacity plan.

In Belgium, the subsidiary implemented a pre-retirement scheme, a defined benefit pension scheme, length of service bonuses, medical insurance for retirees and reduced energy prices for retirees.

4.2. Plan assets

Some subsidiaries, specifically those in the Netherlands and Norway, cover their defined benefit retirement plan commitments through external insurance funds. The same occurs for some of the retirement benefit programs and end-of-career allowances for French subsidiaries.

Plan assets are funded by contributions paid by the company and, in some cases, by employees.

5. Detailed tables

➢ 5.a Main actuarial assumptions for the measurement of obligations

Assumptions on mortality, employee turnover, pay increases, financial discounting and plan assets return were set according to each country's own economic and demographic environment.

	Retirement benefits			Other employee benefits		
	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004
Discount rate (Euro zone)	4.25%	4.25%	4.5%	4.25% or 4% depending on risks	4.25% or 4% depending on risks	4.5%
Expected rate of return on plan assets	4.40%	4.7%	4.7%	Between 4% et 6% depending on countries	Between 4% et 6% depending on countries	Between 4% et 6% depending on countries

5.b Change in present value of the obligation

(millions of euros)	Retirement benefits			Other post-employment benefits			Long-term benefits			Total		
	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004
Opening present value of the obligation	**1,738**	**1,955**	**13,211**	799	**731**	**624**	257	**250**	**212**	2,794	**2,360**	**14,047**
Current service cost	130	116	206	28	43	12	26	21	60	184	180	278
Interest costs on obligation	81	74	673	38	34	32	10	9	13	129	117	718
Net actuarial losses (gains)	22	71	1 531	18	71	101	-	-	3	40	142	1,635
Benefits paid for all programs (financed or not)	-108	-108	-477	-36	-43	-28	-31	-23	-38	-175	-174	-543
Initial, fixed-rate and final contributions	-	-372	416	-		-	-	-	-	-	-372	416
Change in scope of consolidation	-	11	-	-	13	-	-	4	-	-	28	-
Settlement	-		-	-	-76	-	-	-	-	-	-76	-
Impact of the reform	-	-	- 13,615	-	-	-	-	-	-	-	-	-13,615
Other	-9	-9	10	5	26	-10	-	-4	-	-4	13	-
Closing present value of the obligation	**1,854**	**1,738**	**1,955**	**852**	**799**	**731**	**262**	**257**	**250**	**2,968**	**2,794**	**2,936**

➢ 5.c Change in fair value of plan assets

(millions of euros)	Retirement benefits			Other employee benefits		
	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004
Opening fair value of plan assets	**1,753**	**1,878**	**1,632**	**111**	**103**	**99**
Expected return on plan assets	81	86	77	5	5	5
Contributions (net of management costs)	124	112	219	-	-	3
Actuarial gains (losses) on plan assets	34	84	13	3	10	4
Benefits paid	-86	-35	-64	-5	-5	-7
Initial, fixed-rate and final contributions	-	-372	-	-	-	-
Other	1	-	1	-	-2	-1
Closing fair value of plan assets	**1,907**	**1,753**	**1,878**	**114**	**111**	**103**

The allocation of plan assets by principal asset category was as follows:

	12.31.2006	12.31.2005	12.31.2004
Equities	41%	40%	31%
Bonds	37%	35%	27%
Other (including money market securities)	22%	25%	42%
Total	**100%**	**100%**	**100%**

Return on plan assets

	Retirement benefits			Other employee benefits		
	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004
Actual rate of return on plan assets	6 .56%	9.3%	5.4%	7.21%	9.7%	Between 4% and 9% depending on countries

➢ 5.d Determination of amounts posted in the balance sheet and statement of income

	Retirement benefits			Other employee benefits		
(millions of euros)	Liabilities (1)	Assets (2)	Net assets / liabilities (1 – 2)	Liabilities (1)	Assets (2)	Net assets / liabilities (1 – 2)
12.31.2004						
Opening, pre-reform	**13,211**	**1,632**	**11,579**	**836**	**99**	**737**
Income or expenses of the period	879	77	802	117	5	112
Contributions paid to funds for the part of financed programs	-	219	- 219	-	3	-3
Benefits paid for the part of non-financed programs	-477	-64	- 413	-66	-7	-59
Actuarial gains or losses	149	13	136	104	4	100
Initial, fixed-rate and final contributions	416	-	416	-	-	-
Impact of the reform	- 12,233	-	-12,233	-	-	-
Other	10	1	9	-10	-1	-9
Closing, post-reform	**1,955**	**1,878**	**77**	**981**	**103**	**878**

(millions of euros)	Retirement benefits Liabilities (1)	Assets (2)	Net assets / liabilities (1 – 2)	Other employee benefits Liabilities (1)	Assets (2)	Net assets / liabilities (1 – 2)
12.31.2005						
Opening	**1,955**	**1,878**	**77**	**981**	**103**	**878**
Income or expenses of the period	190	86	104	31	5	26
Contributions paid to funds for the part of financed programs	-	112	-112	-	-	-
Benefits paid for the part of non-financed programs	-108	-35	-73	-66	-5	-61
Actuarial gains or losses	71	84	-13	71	10	61
Initial, fixed-rate and final contributions	-372	-372	-	-	-	-
Other	2	-	2	39	-2	41
Closing	**1,738**	**1,753**	**-15**	**1,056**	**111**	**945**

(millions of euros)	Retirement benefits Liabilities (1)	Assets (2)	Net assets / liabilities (1 – 2)	Other employee benefits Liabilities (1)	Assets (2)	Net assets / liabilities (1 – 2)
12.31.2006						
Opening	**1,738**	**1,753**	**-15**	**1,056**	**111**	945
Income or expenses of the period	211	81	130	102	5	97
Contributions paid to funds for the part of financed programs	-	124	-124	-	-	-
Benefits paid for the part of non-financed programs	-108	-86	-22	-67	-5	-62
Actuarial gains or losses	22	34	-12	18	3	15
Initial, fixed-rate and final contributions	-	-	-	-	-	-
Other	-9	1	-10	5	-	5
Closing	**1,854**	**1,907**	**-53**	**1,114**	**114**	**1,000**

➣ 5.e Elements of costs of the period

	Retirement benefits			Other post-employment benefits			Long-term benefits			Total		
(millions of euros)	12.31.2006	12.31.2005	12.31.2004 pre-reform	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004
Current service cost	130	116	206	28	43	12	26	21	60	184	180	278
Interest cost	81	74	673	38	34	32	10	9	13	129	117	718
Settlement	-	-	-	-	-76	-	-	-	-	-	-76	-
Expected return on plan assets	-81	-86	-77	-5	-5	-5	-	-	-	-86	-91	-82
Cost of defined benefit plans	**130**	**104**	**802**	**61**	**-4**	**39**	**36**	**30**	**73**	**227**	**130**	**914**

➢ 5.f Reconciliation of recognized assets and liabilities

	Retirement benefits			Other post-employment benefits			Long-term benefits			Total		
(millions of euros)	12.31.2006	12.31.2005	12.31.2004 post-reform	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004
Present value of totally or partially financed obligation at closing date	1,712	1,617	1,779	114	124	104	-	-	-	1,826	1,741	1,883
Present value of non-financed obligation at closing date	142	121	176	738	675	627	262	257	250	1,142	1,053	1,053
Fair value of plan assets	-1,907	-1,753	-1,878	-114	-111	-103	-	-	-	-2,021	-1,864	-1,981
Other						9						9
Provision recognized as liability	**142**	**144**	**180**	**738**	**688**	**637**	**262**	**257**	**250**	**1,142**	**1,090**	**1,067**
Amount recognized as asset	**-195**	**-159**	**-103**	**-**	**-**	**-**	**-**	**-**	**-**	**-195**	**-159**	**-103**

➢ **5.g Estimated benefits payable in 2007**

Contributions payable in 2007 are estimated at 167 million euros.

6. Reconciliation with balance sheet

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Retirement	142	144	180
Other employee benefits	1,000	946	878
Miscellaneous	-	-	9
Provision for employee benefits in balance sheet	**1,142**	**1,090**	**1,067**

Note 27 – Consolidated commitments

Note 27 a – Financial commitments

Note 27 a.1 Commitments on equity interests

The Group entered into simultaneous sale and purchase options on shares with the current shareholders of two Italian gas distribution companies (Arcalgas and Italcogim). These options could be exercised at various points in time until 2007 for a total of 0.4 billion euros. They were exercised in conjunction with the reorganization of the Group's operations in Italy, leading to the creation – under the agreements between Gaz de France and Camfin Spa – of:

- A joint venture that is 60%-owned by Camfin Spa and 40% by Gaz de France, to which the marketing operations of Arcalgas and Italcogim have been transferred. Gaz de France holds a call option on a further 20% of the shares, exercisable as from 2008. This option has been valued at between 81 and 87 million euros.
- A joint venture with the Covati family, to which the distribution operations of Arcalgas and Italcogim have been transferred. Gaz de France holds a call option on the Covati family's 25.5% stake in the joint venture, which is exercisable as from 2008. The value of this option is estimated at 134 million euros.

Other purchase options on shares amounted to 260 million euros (of which Gaselys for 168 million euros) and sale options of shares to 255 million euros.

The Group is committed to subscribe to future capital increases for 19 million euros.

Note 27 a.2 Other financial commitments

Commitments granted to banks by Gaz de France and by the consolidated subsidiaries, as a guarantee for loans raised by some consolidated subsidiaries, are eliminated from consolidated commitments.

(millions of euros)	12.31.2006	Of which at less than a year	Of which from one to five years	Of which beyond five years	12.31.2005	12.31.2004
Commitments granted:						
Lines of credit	3,387	381	-	3,006	3,360	2,383
Guarantees and endorsements	619	92	117	410	341	285
Market counter-guarantee endorsements	3			3	25	21
Pledge, mortgage and collaterals	9	2	5	2	9	-
Performance bonds	282	153	114	15	307	62
Other commitments granted	1	1			9	-
Total	**4,301**	**629**	**236**	**3,436**	**4,051**	**2,751**
Commitments received:						
Lines of credit	3,387	354	27	3,006	3,424	2,385
Guarantees and endorsements	91	37	46	8	166	319
Market counter-guarantee endorsements	56	1	55			1
Pledge, mortgage and collaterals						
Performance bonds	28	10	14	4	143	378
Other commitments received	1	1			2	6
Total	**3,563**	**403**	**142**	**3,018**	**3,735**	**3,089**

Since August 2002, Gaz de France has benefited from a revolving credit line in the amount of 2 billion euros. This amount was increased to 3 billion euros as from February 2005 and its maturity is 2012.

Note 27 b – Commodity commitments

Commitments related to natural gas

In order to meet customer demand for natural gas in the medium and long term, the Group secured its supplies through contracts that may last up to 25 years. These contracts included reciprocal commitments referring to determined quantities of gas:

- a commitment by the Group to take delivery of minimum quantities,
- a commitment by suppliers to provide quantities at competitive prices.

This competitiveness is ensured by price adjustment formulas and clauses. Most of the Group's gas procurement is negotiated through such contracts. As of December 31, 2006, the Group's commitments totalled 47 billion m3 for 2007, 132 billion m3 for the period running from 2008 to 2010 and 518 billion m3 for 2010 and beyond.

In addition, Gaz de France purchased natural gas forward purchase and sale contracts, generally with maturities of less than one year, in connection with its trading activities, gas purchases and sales on the short-term market and "price engineering" products to industrial customers.

As of December 31, 2006 Gaz de France commitments amounted to 1,2 billion m3 of gas forward purchase and 0,08 billion m3 of gas forward sale.

At the request of the Directorate General of Competition of the European Commission and of the Commission for Energy Regulation, Gaz de France implemented a program of gas release on the gas exchange point of the Southern area of the transmission network in France. This gas release started in 2005 and regards 15 TWh per year during three years.

In order to meet its commitments to take delivery of determined volumes of gas, the Group was led to enter into contracts to book land and sea transport capacities and regasification facilities.

Moreover, subsidiaries in the Exploration and Production segment committed to make minimal quantities of natural gas available to their customers. The corresponding commitment represented 6 billion m3 as of December 31, 2006, of which 2 billion m3 of less than a year.

Gaz de France's trading activities include purchases and sales of electricity futures and purchases of electricity options. At December 31, 2006, the Group's commitments consisted of forward purchase contracts on 9.9 TWh, forward sales contracts on 1.1 TWh and purchased options on 4.9 TWh.

Change in commitments

The table below presents the change in commitments related to natural gas:

	12.31.2006	12.31.2005	12.31.2004
Purchase contracts (billions of m3):			
Up to 1 year	47	51	45
From 1 year to 4 years	132	191	188
4. years and beyond	518	382	413
"*Gas release*" (in TWh)	25	38	45
Exploration-Production Segment (billions of m3):			
Commitments to make available	6	8	7
Of which at less than a year	2	3	2

Note 27 c – Contract obligations of a disbursement nature

(millions of euros) Contract obligations	Total	Payments due by period Within one year	From one to five years	At more than five years
Long-term debt (finance lease excluded)	3,907	230	530	3,147
Finance Lease commitments	1,004	109	449	446
Operating leases	184	36	88	60
Capital expenditure commitments	1,217	584	550	83
Other commitments	74	2	3	69
Total	**6,386**	**961**	**1,620**	**3,805**

(Amounts are not discounted)

Capital expenditure commitments amounted to 1,217 million euros and were mainly:

- 201 million euros for the construction of the LNG terminal of Fos Cavaou (which should be operating in 2008),
- 201 million euros mainly related to the gas-tanker Gaselys, which will be launched in 2007,
- 452 million euros related to the capital expenditures of the Exploration and Production segment (of which 327 million euros to be spread between 2007 and 2008)

Note 28 – Information on related parties

Note 28 – 1 Transactions with legal entities

The Group concluded various transactions with related companies, which were all carried out in the normal course of its activities.

In accordance with the Group policy, these transactions were carried out at current market conditions. They included:

– relations of a commercial or financial nature between Gaz de France and its subsidiaries, in accordance with the usual practices for transactions between the parent company and affiliated companies, mainly energy purchases and sales and cash pooling;

- relations with EDF, with which a certain number of shared services exist, mainly for local public service operating activities through the EDF Gaz de France Distribution structure and for human resource management;
- energy supply and services in connection with local authorities and State services.

Relations with the CNIEG (Caisse Nationale des Industries Electriques et Gazières), which manages old age, disability and survivors' pensions for employees of EDF, Gaz de France and non-nationalized companies are detailed in note 26.

Note 28 – 2 Transactions with members of the Board of Directors and of the Executive Committee

Members of the Board of Directors who are employees of Gaz de France and members of the Executive Committee receive a remuneration made of gross pay, bonuses, profit-sharing, additional amount and benefits in kind. They enjoyed the employee offering in the context of the Gaz de France initial public offering, under conditions at best similar to the ones applied to all employees.

2004 data are not disclosed since they would not be comparative as Gaz de France was changed into a limited liability company in November 2004.

(thousands of euros)	2006	2005
Short term benefits (employer's contribution to social charges excluded) (1)	3,794	3,346
Short term benefits : employer's contribution to social charges	1,398	1,335
Post-employment benefits (2)	634	544
Other long term benefits (2)	103	66

(1) *includes gross pay, bonuses, profit-sharing , additional amount and benefits in kind paid during the period.*
(2) *service costs.*

Besides, members of the Board of Directors, elected by the General Meeting, are granted attendance fees, which amounted to 139 thousand euros in 2006 (105 thousand euros in 2005).

Note 29 – Earnings per share

Note 29 – 1 – Non-diluted earnings per share

	12.31.2006	12.31.2005	12.31.2004
Numerator			
Net income – Group share (millions of euros)	2,298	1,782	1,105
Denominator			
Average number of outstanding shares (in thousands)	983,719	942,439	*903,000
Earnings value per share (non diluted) (euros)	**2.34**	**1.89**	***1.22**

* *Pro-forma earnings per share based on a par value of 1 euro. The number of shares was doubled in the first half of 2005 by division of the par value by two see earnings Note 7. Based on the effective par value, earnings per share in 2004 was 2.45.*

Note 29 – 2 – Profit diluted per share

No dilutive instrument existed. Consequently, diluted earnings per share are identical to the non-diluted earnings per share.

Note 30 – Business segment reporting

Note 30 – 1 – Statements of income

Gaz de France Group **12.31.2006**	**Energy Supply and Services**	**Infrastructures**	**Other**	**Unallocated**	**Eliminations**	**Total**
External revenues	23,064	4,447	83	48	-	**27,642**
Inter-segment sales	542	4,607	198	466	-5 813	**-**
Revenues	23,606	9,054	281	514	-5 813	**27,642**
EBITDA (Note 30 – 2)	1,900	3,259	22	-32		**5,149**
Operating income	1,437	2,081	133	-43		**3,608**
Of which						
Personnel expenses	*896*	*1, 332*	*27*	*326*	-	**2,581**
Impairment of goodwill	-	-	-	-	-	**-**
Amortization of tangible and intangible assets	*423*	*965*	*35*	*7*	-	**1, 430**
Impairment of tangible and intangible assets	*49*	*1*	*-2*		-	**48**
Share in income of associates	152	24	-	-	-	**176**

Gaz de France Group **12.31.2005**	**Energy Supply and Services**	**Infrastructures**	**Other**	**Unallocated**	**Eliminations**	**Total**
External revenues	19,561	3,244	24	43	-	**22,872**
Inter-segment sales	385	4,558	58	662	-5,663	**-**
Revenues	19,946	7,802	82	705	-5,663	**22,872**
EBITDA (Note 30 – 2)	1,140	3,001	12	95	-	**4,248**
Operating income	755	2,126	11	-71	-	**2,821**
Of which						
Personnel expenses	*837*	*1, 244*	*15*	*313*	-	**2 ,409**
Impairment of goodwill	*2*	-	-	-	-	**2**
Amortization of tangible and intangible assets	*376*	*915*	*17*	*10*	-	**1, 318**
Impairment of tangible and intangible assets	*7*	*-36*	-	-	-	**-29**
Share in income of associates	155	34	-	-	-	**189**

Gaz de France Group **12.31.2004**	Energy Supply and Services	Infrastructures	Other	Unallocated	Eliminations	Total
External revenues						
Inter-segment sales						
Revenues	16,161	7,237	71	794	-6,057	18,206
EBITDA (Note 30 – 2)	996	3,353	52	46	-	4,447
Operating income	557	1,965	29	-12	-	2,539
Of which						
Personnel expenses	*614*	*1,097*	*4*	*328*	-	*2,043*
Impairment of goodwill	*51*	*1*	-	-	-	*52*
Amortization of tangible and intangible assets	*386*	*941*	*9*	*11*	-	*1, 347*
Impairment of tangible and intangible assets	*10*	*-22*	-	-	-	*-12*
Share in income of associates	115	10	-	-	-	125

Energy Supply and Services

Energy Supply and Services **12.31.2006**	Exploration and Production	Purchase and Sale of Energy	Services	Eliminations	Total
External revenues	1,230	19,830	2,004	-	23,064
Inter-segment sales	429	651	177	-715	542
Revenues	1,659	20,481	2,181	-715	23,606
EBITDA	1,270	441	189		1,900
Operating income	935	391	111		1,437
Of which					
Personnel expenses	*97*	*228*	*571*	-	*896*
Impairment of goodwill	-	-	-	-	-
Amortization of tangible and intangible assets	*298*	*51*	*74*	-	*423*
Impairment of tangible and intangible assets	*49*	-	-	-	*49*
Share in income of associates	114	37	1	-	152

Energy Supply and Services **12.31.2005**	Exploration and Production	Purchase and Sale of Energy	Services	Eliminations	Total
External revenues	932	16,772	1,857	-	19,561
Inter-segment sales	207	493	67	-382	385
Revenues	1,139	17,265	1,924	-382	19,946
EBITDA	726	248	166	-	1,140
Operating income	457	204	94	-	755
Of which					
Personnel expenses	*88*	*223*	*526*	-	*837*
Impairment of goodwill	-	-	*2*	-	*2*
Amortization of tangible and intangible assets	*267*	*44*	*65*	-	*376*
Impairment of tangible and intangible assets	*7*	-	-	-	*7*
Share in income of associates	128	24	3	-	155

Energy Supply and Services **12.31.2004**	Exploration and Production	Purchase and Sale of Energy	Services	Eliminations	Total
External revenues					
Inter-segment sales					
Revenues	968	14,060	1,443	-310	16,161
EBITDA	625	277	94	-	996
Operating income	229	275	53	-	557
Of which					
Personnel expenses	*80*	*187*	*347*	-	*614*
Impairment of goodwill	*50*	*1*	-	-	*51*
Amortization of tangible and intangible assets	*310*	*40*	*36*	-	*386*
Impairment of tangible and intangible assets	*10*	-	-	-	*10*
Share in income of associates	*77*	*22*	*16*	-	*115*

Infrastructures

Infrastructures 12.31.2006	Transmission and Storage France	Distribution France	Transmission-Distribution International	Eliminations	Total
External revenues	358	642	3,447	-	**4,447**
Inter-segment sales	1,869	2,647	123	-32	**4,607**
Revenues	2,227	3,289	3,570	-32	**9,054**
EBITDA	1,285	1,412	562	-	**3,259**
Operating income	953	726	402	-	**2,081**
Of which					
Personnel expenses	*288*	*801*	*243*	-	***1,332***
Impairment of goodwill	-	-	-	-	**-**
Amortization of tangible and intangible assets	*333*	*444*	*188*	-	***965***
Impairment of tangible and intangible assets	-	-	*1*	-	***1***
Share in income of associates	-	*2*	*22*	-	***24***

Infrastructures 12.31.2005	Transmission and Storage France	Distribution France	Transmission-Distribution International	Eliminations	Total
External revenues	222	774	2,248	-	**3,244**
Inter-segment sales	1,902	2,652	27	-23	**4,558**
Revenues	2,124	3,426	2,275	-23	**7,802**
EBITDA	1,271	1,358	372	-	**3,001**
Operating income	942	900	284	-	**2,126**
Of which					
Personnel expenses	*283*	*802*	*159*	-	***1,244***
Impairment of goodwill	-	-	-	-	**-**
Amortization of tangible and intangible assets	*333*	*441*	*141*	-	***915***
Impairment of tangible and intangible assets	-	-	*-36*	-	***-36***
Share in income of associates	-	-	*34*	-	***34***

Infrastructures 12.31.2004	Transmission and Storage France	Distribution France	Transmission-Distribution International	Eliminations	Total
External revenues					
Inter-segment sales					
Revenues	2,179	3,624	1,457	-23	7,237
EBITDA	1,343	1,620	390	-	3,353
Operating income	990	694	281	-	1,965
Of which					
Personnel expenses	*256*	*759*	*82*	-	*1,097*
Impairment of goodwill	-	-	*1*	-	*1*
Amortization of tangible and intangible assets	*358*	*470*	*113*	-	*941*
Impairment of tangible and intangible assets	-	-	*-22*	-	*-22*
Share in income of associates	6	1	3	-	10

Note 30 – 2 – Reconciliation of EBITDA with financial statements (see also 2.27)

(millions of euros)	12.31.2006	12.31.2005	12.31.2004
Operating cash flow before tax, replacement costs and change in working capital	5,118	4,254	4,199
Gain (loss) on disposal of assets	259	31	1
Exploration expenses	-86	-44	-45
Employee benefits	31	141	412
MtM on financial derivative instrument hedging operating activities	38	-44	-
Dividends received from associates	-217	-128	-135
Other	6	38	15
EBITDA before replacement costs	**5,149**	**4,248**	**4,447**

Following to the application of IFRIC 12 – Service Concession Agreements, EBITDA shall be disclosed before capital renewal and replacement costs.

Prior to the adoption of IFRIC 12, these costs were qualified as capital expenditure and included in cash flows from investing activities in the cash flow statement, and recognized in the balance sheet under "Concession assets". Accordingly a corresponding amount from the provision for replacement was released without affecting the income statement.

IFRIC 12 states that capital renewal and replacement costs should not be added to the intangible asset recognized by the operator. As a result, these costs are no longer recognized in the Group's balance sheet.

Instead, they are recognized in operating expenses and are offset by the release of a corresponding amount from the provision for replacement.

	12.31.2006	12.31.2005	12.31.2004
Operating income	3,608	2,821	2,539
Amortization and provisions	1,247	1,040	1,738
Employee shareownership	-	132	-
Capital renewal and replacement costs	294	255	170
EBITDA before replacement costs	**5,149**	**4,248**	**4,447**

The difference between EBITDA before capital renewal and replacement costs for 2005 (4,248 million euros) and disclosed EBITDA (4,219 million euros) in the published financial statements as of December, 2005 is mainly attributable to the adoption of IFRIC 4 – Determining Whether an Arrangement Contains a Lease (negative impact of 9 million euros) and completion of analyses to identify and determine the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of acquired Société de Production d'Electricité (positive impact of 35 million euros) (see Note B.2.2).

Note 30 – 3 – Balance sheets

Gaz de France Group 12.31.2006	Energy Supply and Services	Infrastructures	Other	Unallocated	Eliminations	Total
Segment assets	**8,702**	**18,449**	**407**	**44**	**-**	**27,602**
Goodwill	574	1,075	-	-	-	1,649
Concession intangible asset	167	5,537	-	-	-	5,704
Other intangible assets	181	349	29	5	-	564
Tangible assets	5,152	11,079	355	39	-	16,625
Investments in associates	311	407	-	-	-	718
Derivative instruments	2,317	2	23	-	-	2,342
Segment liabilities	**2,626**	**5,094**	**52**	**-**	**-**	**7,772**
Provisions for replacement	49	3,825	-	-	-	3,874
Provisions for site restoration	397	1,261	43	-	-	1,701
Derivative instruments	2,180	8	9	-	-	2,197
Cash flow						
Capital expenditures including replacement costs and leasing	998	1,584	15	9	-	2,606
Other information						
Workforce	17,151	30,804	225	2,064	-	50,244

Gaz de France Group 12.31.2005	Energy Supply and Services	Infrastructures	Other	Unallocated	Eliminations	Total
Segment assets	**6,796**	**18,158**	**317**	**9**	**-**	**25,280**
Goodwill	465	1,009	27	-	-	1,501
Concession intangible asset	163	5,514	-	-	-	5,677
Other intangible assets	125	320	19	9	-	473
Tangible assets	3,986	10,910	257	-	-	15,153
Investments in associates	332	361	-	-	-	693
Derivative instruments	1,725	44	14	-	-	1,783
Segment liabilities	**2,083**	**4,804**	**243**	**-**	**-**	**7,130**
Provisions for replacement	46	3,637	-	-	-	3,683
Provisions for site restoration	326	1,156	164	-	-	1,646
Derivative instruments	1,711	11	79	-	-	1,801
Cash flow						
Capital expenditures including replacement costs and leasing	607	1,366	19	12	-	2,004
Other information						
Workforce	16,690	33,972	183	2,113	-	52,958

Gaz de France Group 12.31.2004	Energy Supply and Services	Infrastructures	Other	Unallocated	Eliminations	Total
Segment assets	**3,875**	**16,681**	**600**	**94**	**-**	**21,250**
Goodwill	209	955	26	-	-	1,190
Concession intangible asset	160	5,402	-	-	-	5,562
Other intangible assets	52	68	2	9	-	131
Tangible assets	3,145	10,180	572	85	-	13,982
Investments in associates	309	76	-	-	-	385
Segment liabilities	**314**	**4,670**	**165**	**-**	**-**	**5,149**
Provisions for replacement	44	3,651	-	-	-	3,695
Provisions for site restoration	270	1,019	165	-	-	1,454
Cash flow						
Capital expenditures including replacement costs and leasing	440	1,096	83	2	-	1,621
Other information						
Workforce	12,149	23,527	77	2,335	-	38,088

Energy Supply and Services

Energy Supply and Services 12.31.2006	Exploration and Production	Purchase and Sale of Energy	Services	Eliminations	Total
Segment assets	**3,404**	**4,064**	**1,234**	**-**	**8,702**
Goodwill	65	71	438	-	574
Concession intangible asset	-	35	132	-	167
Other intangible assets	5	113	63	-	181
Tangible assets	3,087	1,487	578	-	5,152
Investments in associates	247	41	23	-	311
Derivative instruments	-	2,317	-	-	2,317
Segment liabilities	**387**	**2,221**	**18**	**-**	**2,626**
Provisions for replacement	-	33	16	-	49
Provisions for site restoration	387	10	-	-	397
Derivative instruments	-	2,178	2	-	2,180
Cash flow					
Capital expenditures including replacement costs and leasing	581	374	43	-	998
Other information					
Workforce	1,115	3,171	12,865	-	17,151

Energy Supply and Services 12.31.2005	Exploration and Production	Purchase and Sale of Energy	Services	Eliminations	Total
Segment assets	**3,246**	**2,317**	**1,233**	**-**	**6,796**
Goodwill	38	6	421	-	465
Concession intangible asset	-	32	131	-	163
Other intangible assets	6	57	62	-	125
Tangible assets	2,923	467	596	-	3,986
Investments in associates	279	30	23	-	332
Derivative instruments	-	1,725	-	-	1,725
Segment liabilities	**323**	**1,744**	**16**	**-**	**2,083**
Provisions for replacement	-	33	13	-	46
Provisions for site restoration	323	3	-	-	326
Derivative instruments	-	1,708	3	-	1,711
Cash flow					
Capital expenditures including replacement costs and leasing	499	46	62	-	607
Other information					
Workforce	1,205	2,940	12,545	-	16,690

Energy Supply and Services 12.31.2004	Exploration And Production	Purchase and Sale of Energy	Services	Eliminations	Total
Segment assets	**2,853**	**458**	**564**	**-**	**3,875**
Goodwill	38	6	165	-	209
Concession intangible asset	-	32	128	-	160
Other intangible assets	3	42	7	-	52
Tangible assets	2,572	364	209	-	3,145
Investments in associates	240	14	55	-	309
Segment liabilities	**270**	**33**	**11**	**-**	**314**
Provisions for replacement	-	33	11	-	44
Provisions for site restoration	270	-	-	-	270
Cash flow					
Capital expenditures including replacement costs and leasing	387	10	43	-	440
Other information					
Workforce	1,232	2,793	8,124	-	12,149

Infrastructures

Infrastructures 12.31.2006	Transmission And Storage France	Distribution France	Transmission-Distribution International	Eliminations	Total
Segment assets	**7,490**	**6,627**	**4,332**	**-**	**18,449**
Goodwill	-	-	1,075	-	1,075
Concession intangible asset	-	5,537	-	-	5,537
Other intangible assets	9	101	239	-	349
Tangible assets	7,481	973	2,625	-	11,079
Investments in associates	-	16	391	-	407
Derivative instruments	-	-	2	-	2
Segment liabilities	**196**	**4,857**	**41**	**-**	**5,094**
Provisions for replacement	-	3,825	-	-	3,825
Provisions for site restoration	196	1,032	33	-	1,261
Derivative instruments	-	-	8	-	8
Cash flow					
Capital expenditures including replacement costs and leasing	618	787	179	-	1,584
Other information					
Workforce	4,396	14,712	11,696	-	30,804

Infrastructures 12.31.2005	Transmission and Storage France	Distribution France	Transmission-Distribution International	Eliminations	Total
Segment assets	**7,243**	**6,714**	**4,201**	**-**	**18,158**
Goodwill	-		1,009	-	1,009
Concession intangible asset	-	5,514	-	-	5,514
Other intangible assets	3	47	270	-	320
Tangible assets	7,240	1,138	2,532	-	10,910
Investments in associates	-	15	346	-	361
Derivative instruments	-	-	44	-	44
Segment liabilities	**167**	**4,597**	**40**	**-**	**4,804**
Provisions for replacement	-	3,637	-	-	3,637
Provisions for site restoration	167	960	29	-	1,156
Derivative instruments	-	-	11	-	11
Cash flow					
Capital expenditures including replacement costs and leasing	447	793	126	-	1,366
Other information					
Workforce	4,383	15,110	14,479	-	33,972

Infrastructures 12.31.2004	Transmission and Storage France	Distribution France	Transmission-Distribution International	Eliminations	Total
Segment assets	**7,202**	**6,598**	**2,881**	**-**	**16,681**
Goodwill	-	-	955	-	955
Concession intangible asset	-	5,402	-	-	5,402
Other intangible assets	4	8	56	-	68
Tangible assets	7,198	1,172	1,810	-	10,180
Investments in associates	-	16	60	-	76
Segment liabilities	**157**	**4,511**	**2**	**-**	**4,670**
Provisions for replacement	-	3,651	-	-	3,651
Provisions for site restoration	157	860	2	-	1,019
Cash flow					
Capital expenditures including replacement costs and leasing	314	713	69	-	1,096
Other information					
Workforce	4,413	15,344	3,770	-	23,527

Note 31 – Geographical reporting

12.31.2006	France	Europe excluding France	Rest of the world	Eliminations	Total
Revenues	21,920	8,082	237	-2,597	**27,642**
Operating income	2,173	1,373	62	-	**3,608**
Segment assets	18,905	8,397	300	-	**27,602**
Capital expenditures including replacement costs and leasing	1,809	778	19	-	**2,606**

12.31.2005	France	Europe excluding France	Rest of the world	Eliminations	Total
Revenues	18,234	5,739	212	-1,313	**22,872**
Operating income	2,010	731	80	-	**2,821**
Segment assets	17,658	7,276	346	-	**25,280**
Capital expenditures including replacement costs and leasing	1,367	611	26	-	**2,004**

12.31.2004	France	Europe excluding France	Rest of the world	Eliminations	Total
Revenues	14,942	3,835	173	-744	**18,206**
Operating income	1,996	490	53	-	**2,539**
Segment assets	15,257	5,732	261	-	**21,250**
Capital expenditures including replacement costs and leasing	1,149	445	27	-	**1,621**

Note 32 – Breakdown of net revenues by geographical area of destination

	12.31.2006	12.31.2005	12.31.2004
France	16,802	14,733	12,970
United-Kingdom	3,094	2,516	1,808
Benelux	1,836	1,100	552
Italy	1,165	1,108	661
Hungary	709	631	520
Germany	1,211	944	757
Other European countries	2,074	1,351	768
Rest of the world	751	489	170
TOTAL GROUP	**27,642**	**22,872**	**18,206**

Note 33 – Greenhouse gas emission quotas

The publication in the Official Journal of the European Union of October 25, 2003 of directive 2003/87/CE of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community, led the French government to design a regulation transposing the directive (Ordonnance n° 2004-330 of April 15, 2004 creating a system of greenhouse gas emission allowance trading).

Summary of the impact of this regulation for the facilities in France of the Gaz de France Group

The reduction of greenhouse gas emissions regards in the first place industrial companies, according to the mechanism provided for in the directive and transposed into French regulation. At the beginning of the year, the State allocates a number of quotas to companies, determined according to the national allocation plan. Companies must return the quotas at the beginning of the following year. Quotas can be sold.

The creation of emission quota trading market as soon as 2005 will also generate trading activity of quotas and of the corresponding derivative products. The accounting nature of affected assets is fundamentally different for an industrial company or for a trader.

Consequently, the accounting treatment will be different for industrial companies which receive quotas free of charge, can trade them and must return them and for traders, which freely negotiate these rights.

In the absence of IFRS or interpretations related to the accounting of greenhouse gas emission quotas, and with the withdrawal by the IASB of its interpretation IFRIC 3 – Emission rights, the following provisions were implemented: quotas granted free of charge were recognized at zero value. Transactions on the market were recognized at transaction value. The possible adjustment between available quotas and the obligation to return them at maturity was provisioned under risks and expenses at their market value.

In France, the national quota allocation plan mainly regards electricity power stations (DK6, Finergaz group).

(Euros per ton)	12.31.2006	12.31.2005
Average price of quota on different reference markets (Powernext, EEX, UK)	6.48	21.15

Number of quotas (millions of tons)	12.31.2006	12.31.2005
Number of quotas granted free	9.1	9.2
Quota balance at closing date	6.0	8.6
Number of tons of CO_2 emitted at closing date	5.3	6.6

For the Group, the adjustment between available quotas and the obligation to return them back at maturity amounted to 0.7 million tons of surplus, which were not valued.

Reconciliation of recognized assets and liabilities and of related income and expenses.

(millions of tons)	Assets	Liabilities		Income statement
	Intangible assets	**Quotas to be returned**	**Provisions**	**Income/ (Expenses)**
January 1, 2005				
Change in the period:				
Purchase/Expenses	0.4		0.1	-0.1
Sales/Income				0.6
Restitutions				
Other				
Dec. 31, 2005 before netting	**0.4**	**-**	**0.1**	**0.5**
Netting				
Dec. 31, 2005 balance in the balance sheet	**0.4**	**-**	**0.1**	**-**
Change in the period:				
Purchase/Expenses	0.1	0.1	0.1	-0.1
Sales/Income	-0.4			3.9
Restitutions				
Other				
Dec. 31, 2006 before netting	**0.1**	**0.1**	**0.2**	**3.8**
Netting	-0.1	-0.1		
Dec. 31, 2006 balance in the balance sheet	**-**	**-**	**0.2**	**-**

(millions of euros)	Assets	Liabilities		Income statement
	Intangible assets	**Quotas to be returned**	**Provisions**	**Income/ (Expenses)**
January 1, 2005				
Change in the period :				
Purchase/Expenses	7		3	-3
Sales/Income				4
Restitutions				
Other				
Dec. 31, 2005 before netting	**7**	**-**	**3**	**1**
Netting				
Dec. 31, 2005 balance in the balance sheet	**7**	**-**	**3**	**-**
Change in the period :				
Purchase/Expenses	-4	2	-2	-5
Sales/Income			-1	45
Restitutions				
Other				
Dec. 31, 2006 before netting	**3**	**2**	**-**	**40**
Netting	-2	-2		
Dec. 31, 2006 balance in the balance sheet	**1**	**-**	**-**	**-**

Note 34 – Subsequent events

The LNG carrier Gaselys (154,500 m3) assembled by the "Chantiers de l'Atlantique" in Saint Nazaire, was delivered in early March 2007.

Note 35 – Scope of consolidation: complete list of consolidated companies

Companies	Country	Percentage interest			
		Cons.Meth. 2006	December 2006	December 2005	December 2004
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**	**Parent company**
Energy supply and services					
Exploration-Production					
GDF Britain Group	United Kingdom	F	100.00	100.00	100.00
Efog	United Kingdom	E	22.50	22.50	22.50
GDF Production Nederland	Netherlands	F	100.00	100.00	100.00
GDF Holding Noordze	Netherlands	F	100.00	100.00	100.00
N.G.T.	Netherlands	P	38.57	38.57	38.57
GDF Exploration Algeria	Netherlands	F	100.00	100.00	100.00
GDF Exploration Egypt	Netherlands	F	100.00	100.00	100.00
GDF Exploration Germany	Netherlands	F	100.00	100.00	100.00
GDF Exploration Lybia	Netherlands	F	100.00	100.00	-
GDF Exploration Poland	Netherlands	F	-	Sold	100.00
GDF Exploration Mauritania	Netherlands	F	100.00	-	-
GDF Exploration UK	Netherlands	F	Liquidated	100.00	100.00
GDF Participation Nederland	Germany	F	100.00	100.00	100.00
E.E.G. Group	Germany	F	100.00	100.00	100.00
Gaz de France Production Exploration Deutschland	Norway	F	100.00	100.00	100.00
Gaz de France Norge	USA	F	100.00	100.00	100.00
Production North Sea Netherlands	United Kingdom	F	100.00	100.00	100.00
Purchase and sale of energy					
Messigaz	France	F	100.00	100.00	100.00
GDF International Trading	France	F	100.00	100.00	100.00
G.D.F. Armateur	France	F	100.00	100.00	100.00
GDF Armateur 2	France	F	100.00	100.00	100.00
GDF Méthane Investissements 2	France	F	100.00	100.00	100.00
GDF Méthane Investissements 3	France	F	100.00	100.00	100.00
GazTransport et Technigaz	France	E	40.00	40.00	40.00
Compagnie Française du Méthane (CFM) et CFMH – Négoce	France	-	-	Merged	55.00
Méthane Transport	France	P	50.00	50.00	50.00
NYK Armateur	France	P	40.00	40.00	40.00
Gaselys	France	P	51.00	51.00	51.00

Companies	Country	Percentage interest Cons.Meth. 2006	December 2006	December 2005	December 2004
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**	**Parent company**
Gaselys UK	United Kingdom	P	51.00	51.00	51.00
GDF Energy Supply & Solutions Group	United Kingdom	F	100.00	100.00	100.00
Med lng & Gas	United Kingdom	P	50.00	50.00	50.00
GDF Supply Trading & Marketing	Netherlands	F	100.00	100.00	-
Etac	Netherlands	E	Liquidated	80.00	80.00
AES Energie Cartagena	Spain	F	26.00	-	-
Maia Eolis	France	P	49.00	-	-
Cycofos	France	F	100.00	-	-
Services					
Cofathec Group	France	F	100.00	100.00	100.00
Finergaz Group	France	F	100.00	100.00	100.00
GNVert	France	F	100.00	100.00	100.00
DK6	France	F	100.00	100.00	100.00
Savelys Group (ex CGST-Save)	France	F	100.00	100.00	100.00
Thion Group	France	E	34.00	34.00	34.00
Infrastructures					
Transmission and storage France					
GRTgaz	France	F	100.00	100.00	-
Compagnie Française du Méthane (CFM) et CFMH – Transport	France	-	-	Merged	55.00
Gaz du Sud-Ouest (GSO)	France	-	-	Sold	30.00
Société du Terminal Méthanier de Fos Cavaou	France	F	69.70	-	-
Distribution France					
Gaz de Strasbourg	France	E	24.90	24.90	24.90
Transport and Distribution International					
Sofregaz	France	-	-	Sold	34.00
Italcogim Group	Italy	E	Transferred	40.00	-
Arcalgas Energie	Italy	E	Transferred	42.65	-
Arcalgas Progetti	Italy	E	Transferred	44.17	-
RETI Group	Italy	E	68.50	-	-
VENDITE Group	Italy	E	40.00	-	-
Energie Investimenti (ex GDF Milano)	Italy	P	40.00	-	-
Megal GmbH	Germany	P	44.00	43.00	43.00
Gaz de France Deutschland	Germany	F	100.00	100.00	100.00
Gaz de France Deutschland Transport	Germany	F	100.00	100.00	-

Companies	Country	Percentage interest			
		Cons.Meth. 2006	December 2006	December 2005	December 2004
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**	**Parent company**
Gasag Group	Germany	P	31.57	31.57	31.57
Megal Finco	Caiman Islands	-	-	Liquidated	43.00
Group SPE	Belgium	P	25.50	25.50	-
Segeo	Belgium	E	25.00	25.00	25.00
Portgas	Portugal	E	12.67	12.67	12.67
Degaz	Hungary	F	99.77	99.77	99.77
Egaz	Hungary	F	99.42	99.42	99.42
Distrigaz Sud	Roumanie	F	40.80	51.00	-
Pozagas	Slovak Republic	P	43.37	43.37	43.37
Slovensky Plynarensky Priemysel Group (SPP)	Slovak Republic	P	24.50	24.50	24.50
Nafta Group	Slovak Republic	P	13.50	-	-
GDF Québec Group	Canada	F	100.00	100.00	100.00
Noverco Group	Canada	E	17.56	17.56	17.56
Energia Mayakan	Mexico	F	67.50	67.50	67.50
Servicios Mayakan	Mexico	F	67.50	67.50	67.50
Compania Gasoductos del Bajio	Mexico	F	100.00	100.00	100.00
Gasoductos del Bajio	Mexico	F	100.00	100.00	100.00
MI Comercializadora	Mexico	F	100.00	100.00	100.00
MI Consultadores	Mexico	F	100.00	100.00	100.00
MI Servicios	Mexico	F	100.00	100.00	100.00
Transnatural	Mexico	P	50.00	50.00	50.00
Consorcio Mexigaz	Mexico	F	100.00	100.00	100.00
Natgasmex	Mexico	F	100.00	100.00	100.00
Tamauligas	Mexico	F	100.00	100.00	100.00
Gaseba	Argentina	F	Sold	100.00	100.00
Gaseba Uruguay	Uruguay	F	Sold	51.00	51.00
Other					
Cogac	France	F	100.00	100.00	100.00
GDF International	France	F	100.00	100.00	100.00
S.F.F	France	F	100.00	100.00	100.00
Société Immobilière Assomption La Fontaine	France	F	100.00	100.00	100.00
GDF Production Investissements	France	F	Merged	100.00	100.00
GDF Production Investissements Netherlands	France	F	Merged	100.00	100.00
GDF Berliner Investissements	France	F	Merged	100.00	100.00

Companies	Country	Percentage interest Cons.Meth. 2006	December 2006	December 2005	December 2004
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**	**Parent company**
Mexico Investissements	France	F	Merged	100.00	100.00
Gas del Sur	France	F	100.00	100.00	100.00
GDF Styrie Investissements	France	F	100.00	100.00	100.00
Laurentides Investissements	France	F	100.00	100.00	100.00
GDF Investissements 2	France	F	Merged	100.00	100.00
GDF Investissements 24	France	F	100.00	100.00	100.00
GDF Investissements 29	France	F	100.00	100.00	100.00
GDF Investissements 35	France	F	100.00	100.00	-
GNL Transport Investissements	France	F	100.00	100.00	100.00
GNL Marine Investissements	France	F	100.00	100.00	100.00
Banque SOLFEA	France	P	54.72	54.72	54.72
Verona Investissements	France	F	100.00	100.00	-
GDF Milano	Italy	F	-	100.00	-
Segebel	Belgium	P	50.00	50.00	-
GDF Investment Netherlands	United Kingdom	F	Liquidated	100.00	100.00
Investment Gas Holland	United Kingdom	F	Liquidated	100.00	100.00
MI del Bajio Marketing	Netherlands	F	100.00	100.00	100.00
Merida Pipeline	Netherlands	F	67.50	67.50	67.50
Mayakan Pipeline	Netherlands	F	67.50	67.50	67.50
Slovak Gas Holding	Netherlands	P	50.00	50.00	50.00
Romania Gas Holding	Netherlands	F	80.00	-	-
Merida Holding	Barbados	F	67.50	67.50	67.50

Information regarding the consolidation method of the following subsidiaries:

- Gaselys: joint control with the Société Générale justifies the use of the proportionate consolidation method.
- SPP Group: joint control with the Slovakian State and the Rhurgas company justifies the use of proportionate consolidation method.
- SPE Group: The interest is owned through a jointly controlled entity with Centrica resulting in proportionate consolidation.
- Noverco Group: the possibility to participate in decisions in the field of financial and operational policy justifies the consolidation by the equity method.
- Banque Solfea: joint control with the Cofinoga Group justifies the use of the proportionate consolidation method.
- AES Energia Cartagena: the control exercised by the Group justifies the use of the full consolidation method.
- Reti group: only 18.5% of shares held by the Group grant a voting right, in addition the right to participate to the financial and operating strategic decisions justifies the equity consolidation.

Breakdown of 16 subgroups :		
Cofathec Group	Cofathec	France
	ADF Alsace	France
	ADF Environnement	France
	ADF Maintenance Industrielle	France
	ADF Midi-Pyrénées	France
	ADF Normandie	France
	ADF Rhône Alpes	France
	ADF S.A.	France
	ADF Tarlin	France
	APS Sinergia	Italy
	Aquatherm	Belgium
	Aulnay Energie Services	France
	Blanc Mesnil Energie Services	France
	Busseuil	France
	Cadsud	France
	Calliance	France
	Castagnetti	Italy
	Chaleur	Switzerland
	Chelles Chaleur	France
	Climespace	France
	Cofathec ADF	France
	Cofathec Ascensori	Italy
	Cofathec Benelux	Belgium
	Cofathec Energie Services	France
	Cofathec Energy	United Kingdom
	Cofathec Energy Services	United Kingdom
	Cofathec Energy Services UK	United Kingdom
	Cofathec GMI	Belgium
	Cofathec Heatsave	United Kingdom
	Cofathec Oméga	France
	Cofathec Progetti	Italy
	Cofathec Maintenance	France
	Cofathec Projis	France
	Cofathec Rueda	Belgium
	Cofathec Sales	United Kingdom

Cofathec Services	France
Cofathec Servizi	Italy
Cofathec UK	United Kingdom
Coriance	France
Cottier Equipements	France
Danto Rogeat	France
Deltec	United Kingdom
Drôme Energie Services	France
Reti Calore	Italy
Energie Meaux	France
Gennedith	France
Gethef	France
Globalia	France
Korb	Belgium
Energie et Maintenance	Belgium
Les Mureaux Energie Services	France
Minerg Appelsa Services	Switzerland
Multiservicios Tecnologicos	Spain
Neu Montage Maintenance	France
Nuova Sipe	Italy
Omega Concept	France
Omega Concept Italy	Italy
Pictet	France
Prasi	Italy
Preci Mecanic	France
Rege Plastiques	France
R+M Réalisation et Maintenance	France
Ris Energie Services	France
Russia Explorer	France
Sameveil	France
Samee	France
Sathef	France
SCI Administration Office	France
SCI Camp Jouven	France
SCI Grand Canal	France
Sedel	France

	SEP Les Gresilles	France
	SEP Mégajoule	France
	SEP Opération Saint Michel	France
	S.E.P.T.	France
	SI Servizi	Italy
	Stade Energie SAS	France
	Sofredith	France
	Sogit	France
	Somoclim	Monaco
	Société Thermique de La Doua	France
	Société Thermique de Salon de Provence	France
	Thermoco	Belgium
	Torino Sanita	Italy
	Trigno Energy	Italy
	Vandamme	France
	Vernier	France
Savelys Group (ex CGST Save)	Aqua Therm	France
	Depann'Gaz Services	France
	Elec Gaz Services	France
	Entreprise Claude Nanni	France
	Eurl Gaz 42	France
	H. Saint Paul	France
	Savelys	France
	SCI Châlon	France
	SCI M. Valentin	France
	SCI T. Balma	France
	SCI T. Louis	France
	SCI Tinqueux	France
	SCI Vandorme	France
	Therm'Opale Service	France
Finergaz Group	Finergaz	France
	Société de Cogénération de Montoir	France
	Ficobel	France
	Compagnie de Cogénération de Champblain	France
	Société Gardannaise de Cogénération	France
	Société Girondine de Cogénération	France
	Gensel	France

	Compagnie de Cogénération de la Braye	France
	Figenal	France
	Corely	France
	Isergie	France
	FINergaz Energie Services	France
	SEP Michelin Joué les Tours	France
	SEP Michelin Bourges	France
	SEP Michelin Montceau les Mînes	France
	SEP Michelin Roanne	France
	SEP Michelin Poitiers	France
	SEP SKW Rousselot	France
	Compagnie de Cogénération de la Dordogne	France
	COBEFI	France
	GIE Etoile Bassens	France
	Compagnie de Cogénération de la Vologne	France
	INCO	France
	EUROFIN	France
	Société de Cogénération de Chalampé	France
	Société de Cogénération du Bourray	France
Thion Group	Ne Varietur	France
	Thion	France
	Arizzoli. Bernard et Perre	France
	Bes	France
	Charbonnière de Saône et Loire	France
	Curchal	France
	Decoparc	France
	Gie Soccram Dalkia	France
	Jesel & Widemann	France
	Juratrom	France
	Maison Balland Brugneaux	France
	SC2M	France
	Scider	France
	Sicar	France
	Soccram	France
	Socomin	France
	Soparec	France
	Sotrapac	France

	Storapro	France
	Tournaux	France
	Trottier Escribe	France
GDF Britain Group	GDF Britain	United Kingdom
	Gaz de France Britain E&P Ltd	United Kingdom
GDF Energy Supply & Solutions Group	GDF Energy Supply & Solutions	United Kingdom
	Gaz de France Generation Ltd	United Kingdom
	Gaz de France Marketing Ltd	United Kingdom
	Gaz de France Sales Ltd	United Kingdom
	Gaz de France Services Ltd	United Kingdom
	Gaz de France Solutions Ltd	United Kingdom
S.P.P. Group	Slovensky Plynarensky Priemysel	Slovak Republic
	Geoterm Kosice	Slovak Republic
	Interkvet	Slovak Republic
	Probugas	Slovak Republic
	Prva paroplynova spolocnost	Slovak Republic
	Slovgeoterm	Slovak Republic
	Slovrurgas	Slovak Republic
	SPP Bohemia	Czech Republic
	SPP Prepava	Slovak Republic
	SPP Distribucia	Slovak Republic
	SPP AS	Slovak Republic
Gasag Group	GASAG	Germany
	BAS Abrechnungsservice GmgH & Co. KG. Berlin	Germany
	BAS Abrechnungs-und Service Beteiligungs-GmgH . Berlin	Germany
	BEGA.tec GmbH. Berlin	Germany
	Berliner Energieagentur GmbH. Berlin	Germany
	EMB Erdgas Mark Brandenburg GmbH. Potsdam	Germany
	Erdgasversorgung Oranienburg GmbH. Oranienburg	Germany
	GASAG direkt GmbH. Berlin	Germany
	GASAG Versicherungsvermittlung der Versorgungsunternehmen GmbH. Berlin	Germany
	GASAG WameService GmbH. Berlin	Germany
	Gasversorgung Zehdenick GmbH. Zehdenick	Germany
	HSW Havelländische Stadtwerke GmbH. Werder	Germany
	NBB Netz-Beteiligungs-GmbH. Berlin	Germany
	NBB Netzgesellschaft Berlin-Brandenburg mbH & Co KG. Berlin	Germany

	EMB-Beteiligungsgesellschaft GmbH	Germany
	VR-Leasing SOLIDUS Siebte GmbH & Co. Immobilien KG. Eschborn	Germany
	SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung GmbH	Germany
E.E.G. Group	Erdgas Erdöl GmbH	Germany
	E.E.G.T.	Germany
	VEGO OEL	Germany
GDF Québec Group	GDF Québec Inc	Canada
	BELLC	United States
	Intragaz Holding	Canada
	Intragaz Sec	Canada
	Intragaz Holding Limited Partnership	Canada
	Intragaz Energy Limited Partnership	Canada
	Intragaz US Inc	United States
	MEG International	Canada
	MEG Holding US	United States
	Rabaska Lp	Canada
Noverco Group	Noverco Inc	Canada
	Gaz Metropolitain Inc	Canada
	Gaz Metropolitain Sec	Canada
SPE Group	SPE	Belgium
	SPE Power Company	Belgium
Nafta Group	Nafta a.s.	Slovak Republic
	Nafta Gas a.s	Slovak Republic
	Nafta Vychod a.s.	Slovak Republic
	Nafta Zahorie a.s.	Slovak Republic
	Nafta Stroj a.s.	Slovak Republic
	Naftarska leasdingova spolocnost a.s	Slovak Republic
	Naftapetrol s.r.o.	Slovak Republic
	Karotaz a cermentace s.r.o.	Slovak Republic
GNVert Group	GNVert SAS	France
	GNV Essonne	France
	GNV Alpes Grenoble	France
RETI Group	Italcogim SPA	Italy
	Italcogim Reti	Italy

	Arcalgas Progetti	Italy
	Natural Gas	Italy
	Tecnomontaggi	Italy
VENDITE Group	Italcogim Vendite	Italy
	Arcalgas Energie	Italy
	Cam-Gas	Italy
	Alento Gas	Italy
	ASM Energia	Italy
	Gasbon	Italy
	Pitta Gas	Italy

Note 36 – Exchange rates used in the financial statements

The main exchange rates used out the euro zone are listed below:

	12.31.2006		12.31.2005		12.31.2004	
	Average rate	Closing rate	Average rate	Closing rate	Average rate	Closing rate
Currencies / EURO						
USD U.S. dollar	1.26	1.32	1.24	1.18	1.24	1.36
CAD Canadian dollar	1.42	1.53	1.51	1.37	1.62	1.64
HUF Hungarian forint	264.13	251.77	248.04	252.87	251.66	245.97
CHF Swiss franc	1.57	1.61	1.55	1.56	1.54	1.54
SKK Slovak krown	37.21	34.43	38.59	37.88	40.02	38.74
GBP English pound	0.68	0.67	0.68	0.69	0.68	0.70
UYU Uruguayan peso	29.58	30.29	30.48	28.46	35.59	35.88
MXN Mexican peso	13.70	14.23	13.57	12.54	14.04	15.18
NOK Norwegian krone	8.05	8.24	8.01	7.98	8.37	8.24
ARS Argentine peso	3.77	3.92	3.64	3.58	3.66	4.05
ROL Romanian lei	3.52	3.38	3.62	3.68	-	-

20.1.1.2 Report of the statutory auditors on the consolidated financial statements for the year ended December 21, 2006

GAZ DE FRANCE S.A.
Year ended December 31, 2006

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification of information in the group management report.

This report should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

Statutory Auditors' Report on the consolidated financial statements

(Free translation of a French language original)

To the Shareholders,

In compliance with the assignment entrusted to us by your bylaws, we have audited the accompanying consolidated financial statements of Gaz de France for the year ended December 31, 2006.

These consolidated financial statements have been approved by the board of directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the consolidated group, in accordance with IFRS as adopted by the European Union.

II. Justification of assessments

In accordance with the requirements of article L. 823-9 of French company law *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

- Note B-2.1 to the consolidated financial statements sets out the change in accounting method applied this year following the early application of interpretation IFRIC 12 « Service concession arrangements », issued by the IASB on November 30, 2006, but not yet adopted by the European Union and the application of interpretation IFRIC 4 « Determining whether an arrangement contains a lease ». In accordance with IAS 8, the comparative information for 2005 and 2004, as presented in the consolidated financial statements, has been restated accordingly to take into account retrospectively the application of these interpretations. Consequently, comparative information differs from consolidated financial statements published for the year ended December 31, 2005. As part of our assessment of the accounting principles applied by your group, we have examined the proper restatement of the financial statements for the years ended December 31, 2005 and 2004, as well as the disclosure provided in this regard in Note B-2.1 to the consolidated financial statements.
- We ensured that Note A-2.3 to the consolidated financial statements gives adequate disclosure on the accounting treatment adopted by the group for the areas that are not the subject of specific provisions under IFRS as adopted by the European Union, such as acquisitions of minority interests, commitments to purchase minority interests and recognition of greenhouse gas emission rights.
- Note A-2.24.4 to the consolidated financial statements describes the analysis methodology applied by the group in order to determine whether electricity and natural gas purchase and sale contracts represent sales and purchases arising in the ordinary course of business, in which case they can be excluded from the scope of IAS 39. As part of our assessment of the accounting principles applied by your group, we have examined the analysis methodology applied by the group and ensured that Note A-2.24.4 to the consolidated financial statements gives adequate disclosure.

- As stated in Notes A-2.12, C-1 and C-2 to the consolidated financial statements, your group carried out systematic impairment tests on each goodwill and intangible assets that have indefinite useful lives and impairment tests on tangible assets and intangible assets that have finite useful lives when indications of impairment exist. As part of our assessment of significant estimates performed to prepare the financial statements, we have examined the methodology applied by the group and the parameters used for these accounting estimates and we ensured of the reasonableness of recorded values in the books.
- As stated in Notes A-2.22 and C-8 to the consolidated financial statements, your group, in the course of its operations, provides for the replacement of gas distribution concession assets in France and for restoration of certain sites (lands on which manufactured gas production plants were located, storage facilities, LNG terminals, transmission and distribution pipelines, exploration and production facilities). As part of our assessment of significant estimates performed to prepare the financial statements, we have examined the assumptions and the calculation methodology of the provisions considered by your group as reflecting the best estimate of the obligations under current regulatory requirements and we ensured of the reasonableness of the resulting provisions.
- Note C-26 to the consolidated financial statements relating to retirement plans and other commitments to employees describes the measurement method and the accounting of the obligation resulting from the electricity and gas industry retirement plan. As part of our assessment of significant estimates performed to prepare the financial statements, we have examined the data and actuarial assumptions used to measure these obligations as well as the information disclosed by the group and we ensured of the reasonableness of the estimates.
- Note A-2.24.4 to the consolidated financial statements sets out, as regards the valuation of financial derivative instruments that are not listed on regulated financial markets, that the group uses valuation techniques such as option pricing models or discounted cash flow analysis, these models incorporating assumptions based on market data. As part of our assessment of significant estimates performed to prepare the financial statements, we have examined the monitoring process of these models and the assessment of the risks related to these instruments in the resulting valuations, and we ensured of the reasonableness of the estimates.

The assessments were thus made in the context of the performance of our audit of the consolidated financial statements taken as a whole and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

III. Specific verification

In accordance with professional standards applicable in France, we have also verified the information given in the group management report. We have no matters to report regarding its fair presentation and conformity with the consolidated financial statements.

Paris-La Défense, April 3, 2007

The Statutory Auditors

MAZARS & GUERARD		**ERNST & YOUNG Audit**	
Michel Barbet-Massin	Xavier Charton	Patrick Gounelle	Philippe Hontarrède

20.1.2 Financial information for the year ended December 31, 2005

The Group consolidated financial statements for the year ended December 31, 2005 established in accordance with IFRS and the related statutory auditors' reports appear on pages 182 to 301 of the Company's 2005 *document de référence* registered by the French *Autorité des marchés financiers* on May 5, 2006 under number R.06-050. They are incorporated by reference in this *document de référence*.

20.1.3 Financial information for the year ended December 31, 2004

The Group consolidated financial statements for the year ended December 31, 2004 established in accordance with generally accepted French standards and the related statutory auditors' reports appear on pages 217 to 265 of the Company's *document de base* registered by the French *Autorité des marchés financiers* on April 1, 2005 under number 1.05-037. They are incorporated by reference in this *document de référence*.

20.2 Dividend policy

The dividend paid by the Company for the past three fiscal years was:

	2005	2004 (1)	2003
Dividend (millions of euros)	669	418	318
Number of shares (millions)	984	903	–
Dividend per share (in euro)	0.68	0.46	–

(1) *In the interest of comparison with fiscal year 2005, the number of shares and the dividend per share have been recalculated to be consistent with the decisions of the Ordinary and Extraordinary Shareholders' Meeting of April 28, 2005, which approved the two-for-one par value stock split raising the capital stock to 903 million shares from 451.5 million. With this number of shares, the 2004 dividend per share would have been 0.464 euro instead of 0.927 euro, as approved by the Ordinary Shareholders' Meeting of March 29, 2005.*

The Board of Directors has proposed submitting the distribution for fiscal year 2006 of a net dividend of 1.10 euro per Company share, an increase of 62% relative to 2005, for approval by the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2007. This decision represents an acceleration of the growth policy with respect to the remuneration of shareholders as compared with the announcements made at the time of the IPO.

In the coming years, Gaz de France will continue its dynamic dividend policy with a distribution rate at least equal to 50% of its net income.

However, objectives do not constitute under any circumstances an undertaking by the Company and future dividends will be decided each fiscal year on the basis of the Company's results, its financial position and any other factor considered for relevant by the Board of Directors in preparing proposals the shareholders' Meeting.

20.3 Legal proceedings and arbitration

Gaz de France is involved in a number of legal and arbitration proceedings in the ordinary course of business. Neither Gaz de France nor the companies of the Group are or have been party to any legal or arbitration proceedings, during the last 12 months, likely to have in the future, or having had in the recent past, a significant impact on the business, operating results, the financial situation or profitability of the Group. Gaz de France is not aware of any potential legal or arbitration proceedings that would be likely to have such an impact.

The total amount claimed against Gaz de France and its subsidiaries in the context of ongoing legal or arbitration proceedings is less than €100 million.

The Group is party to legal proceedings relating to the LNG terminal under construction at Fos-Cavaou, described in paragraph 6.1.3.1.2.2 –"Major Infrastructures". The Prefect of the Bouches du Rhône department, in an order dated December 15, 2003, concerning installations classified for the protection of the environment (ICPE) authorized Gaz de France to operate an LNG terminal at Fos-Cavaou. A planning permit to build the terminal was issued the same day by a second order of the Prefect. These two orders have been challenged. The operating permit issued under the ICPE regime is also the subject of two petitions for cancellation before the Administrative Court of Marseilles, one filed by the "Association de Defense et de Protection du Littoral du Golfe de Fos sur Mer" (Association for the Defense and Protection of the Fos sur Mer Gulf Coastline – "ADPLGF"), and the other brought by a private individual. The complaint filed by ADPLGF included a request for a preliminary injunction, which was rejected in a decision issued on October 12, 2004 by the judge in chambers at the Administrative Court of Marseilles. The plaintiff association has appealed this decision to the highest competent court, the Council of State, but its request has not yet been accepted. The construction permit has been challenged under two petitions for cancellation filed with the Administrative Court of Marseilles, one by the municipality of Fos sur Mer, the other by the Syndicat d'Agglomération Nouvelle ("SAN"). No decision has been rendered in respect of either petition.

At the end of 2003, Gaz de France was indicted for involuntary homicide (manslaughter) and injury in an investigation initiated following an explosion on December 4, 1999 in Dijon, causing the death of 11 persons. Under an order dated December 22, 2005, Gaz de France was ordered to appear before the local criminal Court. The trial was held from February 20 to February 24, 2006. Under a judgment dated March 23, 2006, the criminal Court of Dijon ordered Gaz de France to pay a fee of €200,000 for involuntary homicide and €4,500 for involuntary injury. Gaz de France appealed this decision on April 3, 2006. The Appeals Court of Dijon confirmed the order against Gaz de France on December 21, 2006 fining it €204,500. Gaz de France has not appealed against this decision.

On December 26, 2004, a gas explosion at 12 rue de la Martre in Mulhouse, France resulted in 17 deaths and significant material damage. The judicial investigation opened for homicides and involuntary injury is currently under way. On December 14, 2005 the investigating judge met with the families to keep them informed following the filing of the reports of the judicial experts. According to the information communicated by the press, this report attributes the cause of the explosion to a "crack" in Gaz de France's distribution gas conduits the day after the explosion. On March 21, 2006, the investigating judge questioned Gaz de France. The risk run by the legal person is a monetary penalty for involuntary manslaughter: the maximum penalty in case of recklessness or negligence is €225,000 and in the case of a deliberate violation of the security obligation imposed by law or regulation, up to €375,000. To this primary penalty may be added a penalty for involuntary injury for which the amount varies according to the "TWD rate" (Temporary Work Disability) for injured persons. The investigating judge agreed to order supplementary expert examinations, and the investigation continues.

20.4 Absence of significant change in the commercial or financial situation

There has been no significant change in the commercial or financial situation of the Group since January 1, 2007.

21 ADDITIONAL INFORMATION

21.1 General information concerning the share capital of the Company

21.1.1 Share capital

As of the date of registration of this *document de référence*, the Company's share capital amounts to €983,871,988 with a par value of €1 each, all of which are fully subscribed for and are fully paid, the number of shares remaining unchanged since January 1, 2006.

The shares of the Company have been listed for trading on Eurolist (compartment A of Euronext Paris) since July 8, 2005 under the ISIN code FR0010208488. Gaz de France shares are included in the CAC 40 index, the main index published by Euronext Paris, and are eligible for the SRD (deferred settlement service).

Table: Volumes of transactions and highest/lowest prices of Gaz de France shares

	Volume traded	Price *(in euros)* Highest	Lowest
2007			
February	32,241,933	35.93	32.53
January	39,179,585	37.95	32.60
2006			
December	32,104,503	35.00	31.12
November	44,369,507	33.92	31.17
October	30,513,735	32.02	30.20
September	35,281,455	32.00	28.28
August	14,722,252	29.65	27.01
July	21,573,685	27.90	25.31
June	29,552,532	27.43	25.30
May	32,469,145	29.62	25.41
April	18,594,656	30.48	28.03
March	49,604,303	31.59	28.60
February	53,162,562	32.00	25.94
January	26,508,940	26.64	24.64
2005			
December	25,487,141	25.75	23.90
November	23,759,284	26.40	24.53
October	30,615,809	27.94	24.78
September	24,415,415	28.30	26.62
August	37,418,192	29.00	26.50
July	88,020,484	28.50	23.20

Exchange data: Euronext

In the event of privatization of the Company, Law No. 2006-1537 of December 7, 2006 concerning the energy sector, modifying Law No. 2004-803 of August 9, 2004 provides that, with a view to preserving France's essential interests in the energy sector and in particular the continuity and security of energy supplies, an order shall decree the transformation of one Gaz de France ordinary share held by the State into a specific share and specify rights attached to such specific share.

At the date of registration of this *document de référence*, no order decreeing the transformation of a Gaz de France share held by the State into a specific share has yet been issued.

21.1.2 Irredeemable securities

Gaz de France issued irredeemable securities (*titres participatifs*) in 1985 and 1986 in two phases, A and B. Only the irredeemable securities in Phase A remain outstanding, since the Phase B irredeemable securities were fully redeemed in 2000. The irredeemable securities in Phase A, which have a nominal value of €762.25 per security, include the right to receive two income streams, one of which is fixed and the other of which is variable. The fixed portion is calculated by applying an interest rate equal to 63% of the French average bond rate (*taux moyen obligataire*) and the variable portion is determined on the basis of the "value added" of Gaz de France. The total annual amount of income payable may not be less than 85% of the average bond rate or more than 130% of the average bond rate. As of December 31, 2006 there were 629,887 irredeemable securities from Phase A outstanding, with a total par value of €480,131,365.75. Their total market value, based on the closing price on December 29, 2006 (€ 910), was € 573,197,170. Since August 1992, Gaz de France may redeem these securities at its option, in whole or in part, at a price equal to 130% of their nominal value.

Table – Income payable per unit in respect of the outstanding irredeemable Gaz de France securities over the past three years

(in euros)	2004	2005	2006
Fixed payment	21.64820	18.54120	18.70447
Floating payment	32.53893	34.79366	37.13682
Total theoretical payment	54.18713	53.33486	55.84129
Minimum payment	29.20790	25.01590	25.23619
Maximum payment	44.67090	38.25961	38.59653
Gross payment per security	44.67090	38.25961	38.59653

Gaz de France is subject to the provisions of Articles 242-1 *et seq.* of French Decree No. 67-236 dated March 23, 1967, which applies to issuers of irredeemable securities. Under Article 222 of this decree, such an issuer must publish in the *BALO* the convocation notice for the General Shareholders' Meeting for the holders of irredeemable securities, except if all the securities are issued in registered form.

Table – Volume of transactions and highest/lowest for Gaz de France's irredeemable securities

	Volume traded	Price *(in euros)* highest	lowest
2007			
February	795	910	906
January	631	912	906
2006			
December	2,887	912	905
November	961	912	908
October	1167	950	905
September	946	950	938
August	513	950	940
July	224	949	940
June	1,056	958	939
May	894	960	942
April	664	960	943
March	729	965	949
February	878	959	946
January	245	965	951
2005			
December	266	965	953
November	238	969	955
October	470	990	955
September	139	992	980
August	163	987	977
July	170	981	977
June	442	989	975
May	226	980	975
April	304	979	970
March	648	975	970
February	304	977	966
January	1,263	970	961
2004			
December	932	963	955
November	578	963	954
October	703	978	939
September	1,473	977	966
August	203	968	960
July	448	965	955
June	504	959	951
May	733	955	948
April	2,202	959	940
March	360	940	910
February	473	920	905
January	326	918	900

Stock exchange data: Reuters

As part of a debt issuance program for the issue of Euro Medium Term Notes ("**EMTN**") Gaz de France completed two bond issuances (Series 1 and 2) on February 19, 2003 with a fixed interest rate and par values equal to €1.25 billion and €750 million, respectively.

The total amount of Gaz de France's bond obligations was € 1,997 billion as of December 31, 2006.

Table – Principal characteristics of the bonds issued by Gaz de France

Issuance	Currency	Interest rate	Maturity date	Amount issued (in foreign currency) *(in millions)*	Listing place	ISIN code
EMTN	Euros	4.75%	Feb. 19, 2013	1,250	Euronext Paris Luxembourg stock exchange	FR0000472326
EMTN	Euros	5.125%	Feb. 19, 2018	750	Euronext Paris Luxembourg stock exchange	FR0000472334
Private placement	Japanese Yen	0.658%	Mar. 26, 2009	3,000	None	FR0010069534

For more information on the bonds issued by Gaz de France see paragraph 20.1.1.1 – "Consolidated financial statements as of December 31, 2005 under IFRS/ Appendix / Note 10.2".

Gaz de France also uses short-term financing programs (commercial paper, Euro Commercial Paper and US Commercial Paper). Gaz de France must fulfill its obligations as an issuer of negotiable debt. These obligations are dictated by the terms of French Decree No. 92-137 dated February 13, 1992 and its related order effective from February 13, 1992. Under these texts the issuers of negotiable debt must create a financial presentation file concerning its business, financial situation and issuance program. This file is updated each year following the General Shareholders' Meeting called to approve the financial statements for the previous year. In addition, Gaz de France is obligated to update the financial file immediately following any modification relating to the ceiling for the amount outstanding, to its rating, as well as any change which is likely to have a material impact on the outlook for the issued securities or the repayment of the debt issued under the debt issuance program. These updates are sent to the Banque de France. The Company makes the financial file and its updates available to the *Autorité des marchés financiers*.

21.1.3 Purchase by the Company of its own shares

As of the date of filing of this *document de référence*, aside from the liquidity contract, neither the Company nor any of its subsidiaries hold any of the Company's shares.

Authorization granted by the Ordinary General Shareholders' Meeting on May 24, 2006

The General Shareholders' Meeting held on May 24, 2006 adopted resolutions authorizing the Board of Directors to purchase the Company's own shares for the following purposes:

- to implement a corporate savings plan under the conditions of French law, including Articles L 443-1 et seq. of the *Code du Travail*;
- to deliver the shares (by exchange, payment or otherwise) in the context of acquisitions;
- to deliver the shares following the exercise of rights attached to securities giving access to the share capital through redemption, conversion, exchange, presentation of a warrant or in any other manner;
- to cancel all or part of the repurchased securities, under the conditions set out in Articles L. 225-204 and L. 225-205 of the *Code de Commerce* and in accordance with the seventh resolution adopted by the Combined General Shareholders' Meeting of April 28, 2005[1]; or
- to ensure the liquidity of the Company's share secondary market through a liquidity contract signed with an investment services provider in accordance with a published code of conduct approved by the AMF.

This share repurchase program is also intended to allow the Company to accomplish any other goal authorized or which may be authorized under French laws and regulations currently in force, in which case the Company will notify its shareholders by press release.

(1) *The Combined General Shareholders' Meeting of April 28, 2005 authorized the board of directors to reduce the Company's share capital over a period of 26 months by cancelling treasury shares (the maximum number of shares that can be cancelled by the Company under this authorisation for a period of 24 months is 10% of the share capital).*

The number of shares repurchased by the Company may be in an amount such that:

- the number of shares bought by the Company during the share repurchase program does not exceed 5% of the shares constituting the Company's share capital, so that at any time this percentage applies to share capital as adjusted for transactions that impact the share capital and occur after the General Shareholders' Meeting on May 24, 2006, and
- the maximum number of shares held by the Company at any time does not exceed 10% of the shares constituting the Company's share capital.

The maximum share repurchase price is €45.

The total amount that may be allocated to the share repurchase program may not exceed €2,213,712,000 corresponding to 49,193,600 shares acquired at a price of €45.

The Board of Directors has the power to adjust the purchase and sale price to take into account the effect of the following transactions on the value of the shares: modification of the share par value, capital increase by capitalizing reserves, granting of free shares, share split or reverse split, distribution of reserves or any other assets, repayment of share capital and any other transaction affecting shareholders' equity.

This authorization, given to the Board of Directors for 18 months, starting on May 24, 2006, has rendered ineffective the delegation made by the General Shareholders' Meeting of April 28, 2005.

Acquisition of own shares in the context of a liquidity contract

Since May 2, 2006 for a period of one year with tacit renewal, Gaz de France has entrusted Rothschild & Cie Banque with implementing a liquidity contract in accordance with the code of conduct established by the *Association Française des Entreprises d'Investissement* and approved by the *Autorité des marchés financiers* in its decision of March 22, 2005. By virtue of this code, the investment service provider may decide in full independence and without being influenced by the issuer on the timing and volumes of its interventions. To implement this contract, €55 million have been allocated to the liquidity account.

In 2006, the number of shares purchased was equal to the number of shares sold, a total of 3,065,194. Total purchases reached €92,453,117.72 and total sales, €93,490,630.72 euros, creating a capital gain of €1,037,513. Liquidities not used in the purchase of shares were invested by Rothschild & Cie Banque in a money market SICAV and have generated capital gains of €1,042,889 euros. At December 31, 2006, the sum available in the liquidity account was therefore €57,080,402.

Table – Evolution of the amounts held in the liquidity account

	Gaz de France shares	Cash
December 31, 2006	0	€57,080,402
June 30, 2006	655,500	€37,283,287
May 2, 2006	0	€55,000,000

New authorizations submitted to shareholders' vote at the combined general shareholders' meeting of May 23, 2007

During the combined shareholders' meeting to be held on May 23, 2007, it will be proposed that the shareholders vote in the authorizations set out below. The voting in of these resolutions will render ineffective the delegations on the same subject agreed by the shareholders' meetings of April 28, 2005 and May 24, 2006.

Authorization to be given to the board of directors to operate on the Company's shares

"The shareholders' meeting, after taking account the report from the board of directors, authorizes the board, with powers of subdelegation, in accordance with the provisions of Articles L. 225-209 *et seq*. of the *Code de Commerce* and of Regulation No. 2273/2003 of the European Commission dated December 22, 2003, to purchase the Company's shares, with the aim of:

- allocating or transferring them to the employees and authorized agents of the Company and/or of companies that are or will be associated with it under the terms and conditions provided by the applicable regulations, in particular in any employee savings plan covered by Articles L. 443-1 *et seq*. of the *Code de Travail*; or
- allocating them for no consideration to the employees and authorized agents of the Company and/or of companies that are or will be associated with it according to the provisions of Articles L. 225-197-1 et seq. of the Code de Commerce, given that the said shares may be invested in an employee savings plan according to the provisions of Article L. 443-6 of the Code du Travail; or
- conservation and subsequent return of shares (by way of exchange, payment or other) in the context of acquisitions up to a limit of 5% of the number of shares comprising the Company share capital; or
- transfering them on the occasion of the exercise of rights attached to securities giving access to the share capital by way of redemption conversion, exchange or presentation of a warrant or in any other manner; or

- cancelling all or part of the shares thus purchased, under the conditions set out in Article L. 225-209 paragraph 2 of the *Code de Commerce* subject to authorization to reduce the Company's share capital granted by the shareholders' meeting; or
- assuring the liquidity of the Company's share secondary market by an investment service provider within the context of a liquidity contract; or
- implementing any market practice accepted or to be accepted by the market authorities.

This program would also be intended to enable the Company to operate for any other aim authorized or to be authorized by the law or by regulations in force. In such case the Company shall inform its shareholders through press releases.

Share purchases by the Company may concern any number of shares provided:

- the number of shares bought by the Company during the share purchase program does not exceed 5% of the shares comprising the equity of the Company at any moment; this percentage shall apply to capital adjusted according to operations that may affect it subsequent to this shareholders' meeting; and
- the number of shares held by the Company at any moment shall not exceed 10% of the shares composing the equity of the Company.

The acquisition, sale or transfer of shares may be carried out at any time (including during a period of public offer wholly paid in cash in respect of the shares of the Company or of any public offer initiated by the Company) and by any means, on the market or over-the-counter, including by acquisition or sale of blocks (without limit to the part of the repurchase program that may be realized by these means), public tender offers, or by using options or other financial instruments traded on a regulated or over-the-counter market or by issuance of securities giving access to the share capital of the Company by way of repayment, conversion, exchange, presentation of a warrant or in any other manner, under the conditions established by the market authorities and the regulations in force.

The shareholders' meeting decides that the maximum purchase price per share is equal to €50 excluding transaction costs.

In application of Article 179-1 of the Decree of March 23, 1967 concerning commercial companies, the meeting establishes the global maximum amount allocated to the share repurchase program authorized above at €2,459,679,950, corresponding to a maximum number of 49,193,599 shares acquired on the basis of the maximum unit price of €50 authorized above.

This authorization is given for a period of 18 months counting from the date of this shareholders' meeting and, from the same date, renders non-effective the delegation given to the board of directors to operate on the Company's shares by the ordinary shareholders' meeting of May 24 2006 in its 6th resolution.

The shareholders' meeting delegates to the board of directors, with powers of subdelegation under all legal conditions, in the event of modification of the share par value, capital increase by capitalizing reserves, granting of free shares, share split or reverse split, distribution of reserves or of any other assets, repayment of share capital, or any other transaction affecting the Company's shareholders' equity, the power to adjust the maximum purchase price referred to above in order to take account of the incidence of the said operations on the value of the share.

The shareholders' meeting grants all powers on the board of directors, with powers of subdelegation under legal conditions, to decide and implement this authorization, to refine its terms if necessary and to establish the manner of execution with powers to delegate under legal conditions the execution of the repurchase program, and in particular to pass any stock exchange order, conclude any agreement, with a view to the maintenance of the registers of sales and purchases of shares, to make all necessary declarations in particular to the *Autorité des marchés financiers* or any other authority that may substitute therefore, and to fulfill all formalities and in general carry out all necessary actions.

The shareholders' meeting notes that in application of Article L. 225-209 paragraph 2 of the *Code de Commerce*, it will receive a special report each year informing it of the execution of the share purchase operations that it has authorized."

Authorization to be given to the board of directors to reduce the capital by cancellation of treasury shares

"The shareholders' meeting, sitting under conditions of quorum and majority required for extraordinary shareholders' meetings and having taken note of the report from the board of directors and the special report of the auditors, authorizes the board of directors to reduce the equity capital of the Company in application of Article L.225-209 of the *Code de Commerce*, in one or several steps, in such proportions and at such times as it may decide, by canceling all or part of the shares purchased or which may be purchased by virtue of an authorization conferred by the Company itself at an ordinary shareholders' meeting up to a limit of 10% of the authorized capital in a period of 24 months, it being noted that this limit applies to the Company's capital of whatever amount, including adjustment as required to take into account any operations affecting the authorized capital subsequent to this shareholders' meeting.

This authorization is given for a period of 26 months counting from the date of this shareholders' meeting. From the same date it renders non-effective the authorization given by the combined shareholders' meeting of April 28, 2005 in its 7th resolution.

The shareholders' meeting confers on the board of directors all powers including the power of delegation to carry out the operation or operations of cancellation of shares and reduction of capital authorized hereby, to establish the ways and means, note their execution, modify the articles of association accordingly and accomplish all formalities."

21.1.4 Other securities giving access to the share capital

As of the date of registration of this *Document de référence*, the shares described in paragraph 21.1.1 – "Share capital" above are the only securities giving access to the share capital of the Company.

A portion of these securities may give rise to the grant of free shares under the conditions described in paragraph 21.1.7.2 – "Shares granting the right to free shares".

21.1.5 Subscribed for but not paid-up share capital, share capital increase commitments

As of the date of the filing of this *document de référence*, there is no subscribed but not fully paid share capital, nor any acquisition rights or obligations attached to the subscribed share capital, nor any commitment to carry out a share capital increase.

The Company's shareholders granted to the Board of Directors at the General Shareholders' Meeting held on April 28, 2005 the authorizations described below:

Relevant securities	Duration of authorization and expiry date	Maximum par value of capital increase *(in millions of euros)*	Use made of authorization *(in millions of euros)* 0
Issuances with preferential subscription rights Share capital increases from all types of securities	26 months June 28, 2007	200 (1) (this maximum global amount is counted against the maximum global par value amount of €200 million)	None
Issuances without preferential subscription rights (1) Share capital increases from all types of securities	26 months June 28, 2007	200 (1) (this maximum global amount is counted against the maximum global par value amount of €200 million)	80.87 (IPO of Gaz de France on July 7, 2005)
Share capital increases by including premiums, reserves, profits or others	26 months June 28, 2007	200 (this maximum global amount is counted against the maximum global par value amount of €200 million)	None
Employee offerings Savings plans participants	26 months June 28, 2007	30 (this maximum global amount is counted against the maximum global par value amount of €200 million)	None

(1) *The authorization adopted by the General Shareholders' Meeting on April 28, 2005 granted to the Board of Directors the ability to increase the number of securities to be issued in case of a share capital increase with or without preferential subscription rights at the same price as offered for the initial issuance, within the time constraints and limits provided by applicable regulations.*

During the combined general shareholders' meeting to be held on May 23, 2007, it will be proposed that the shareholders vote the authorizations set out below. The vote of these resolutions will render ineffective those delegations on the same subject agreed by the general shareholders' meeting of April 28, 2005.

Relevant securities	Duration of authorization and expiry date	Maximum par value of the capital increase *(in millions of euros)*
Issuances with preferential subscribtion rights Capital increase	26 months 23 July 2009	150 (1)(2)(3) (this maximum par value amount is set against the global maximum par value amount of €150 million)
Issuances without preferential subscribtion rights Capital increase	26 months 23 July 2009	150 (1)(2)(3) (this maximum par value amount global is set against the global maximum par value amount of €150 million)
Issuances in consideration for contributions in kind	26 months 23 July 2009	10% of the share capital at the time of issuance (2) (this maximum par value amount is set against the global maximum par value amount of €150 million)
Issuances in consideration for share contributions within the context of a public exchange offer	26 months 23 July 2009	10% of the share capital at the time of issue (2) (this maximum par value amount is set against the global maximum par value amount of €150 million)
Capital increase by incorporation of premiums, reserves, profits or other	26 months 23 July 2009	150 (2) (this maximum par value amount is set against the global maximum par value amount of €150 million)
Issuances reserved for employees Subscribers to savings plans	26 months 23 July 2009	40 (2) (this maximum par value amount is set against the global maximum par value amount of €150 million)
Issuances reserved for employees Free allocation of existing shares	12 months 23 May 2008	0.2% of the capital (this maximum par value amount is not set against the global maximum par value amount of €150 million)

(1) *During the combined general shareholders' meeting to be held on May 23, 2007 it will be proposed to delegate competence to the board of directors to increase the number of shares to be issued in the event of a capital increase with or without preferential subscription rights at the same price as that decided for the initial issuance, within the time constraints and limits provided by applicable regulations.*

(2) *During the combined general shareholders' meeting to be held on May 23, 2007 it will be proposed to the shareholders to decide that the authorizations given to the board of directors to increase the capital to be set against the global maximum par value amount of €150 million be used up to the limit of a number of shares such that, on termination of the issuance under consideration, the State should hold more than one-third of the capital of the Company and should continue to hold more than one-third of the capital of the Company, account being taken of the whole of the shares issued giving access to the capital of the Company and of any options granted.*

(3) *During the combined general shareholders' meeting to be held on May 23, 2007 it will be proposed to the shareholders to hold the ceiling for issuance of debt securities to €5 billion.*

21.1.6 Share capital subject to an option

As of the date of registration of this *Document de référence*, the Company's share capital is not subject to any option or agreement.

The options relating to the share capital of certain companies belonging to the Group and agreements relating to the placement of the share capital of certain companies belonging to the Group are described in paragraph 6.1.3.1.2.2.1.1.5 – "Short-term markets: Gaselys" and paragraph 6.1.3.2.3.2.2.1 – "Europe."

21.1.7 Changes in the share capital over the last three years

Date	Event	Resulting amount of share capital
November 17, 2004	French Decree No. 2004-1223 dated November 17, 2004	€903,000,000
April 28, 2005	Division of the par value of the shares by two	€903,000,000
July 7, 2005	Opening of the share capital – Increase in the share capital to €70,323,469	€973,323,469
July 8, 2005	Exercise of the Overallotment Option – Increase in the share capital by €10,548,519	€983,871,988

21.1.7.1 Initial public offering of the Company's share capital

The initial public offering of the Company's share capital included the following:

- an International Offering to institutional investors inside and outside France, for a price of €23.40 per share;
- an Open Price Offering to individual investors in France, for a price of €23.20 per share; and
- an Employee Offering, for a price of €18.56 per share for the pricing formulas with a discount and €23.20 for the pricing formulas without a discount.

The initial public offering was conducted such that 50% was offered in the Open Price Offering and 50% was offered in the International Offering (excluding the overallotment option).

Trading in Gaz de France's shares on Eurolist by Euronext Paris commenced at 12:00 p.m. on July 8, 2005.

This initial public offering was conducted through the offer by French State of 90,980,990 shares and by Gaz de France of 80,871,988 shares (after the exercise of the overallotment option on July 8, 2005). In addition the French State offered 30,326,995 shares (after the exercise of the overallotment option on July 8, 2005) to the Company's personnel and certain former personnel, as well as certain subsidiaries in the context of the Employee Offering.

These events did not modify the voting rights of the shares, as described in paragraphs 18.2 – "Voting rights" above and 21.2.3 – "Rights, privileges and restrictions attached to the shares" below.

21.1.7.2 Shares granting the right to free shares

The free shares mentioned in paragraphs 21.1.7.2.1 and 21.1.7.2.2 are given by the French State to their beneficiaries and do not give rise to the issue of new shares.

21.1.7.2.1 The grant of free shares in the context of the Open Price Offering

Individuals with French nationality or which are residents of France or of another state which is party to the agreement on the European Economic Area ("EEA") who had acquired Gaz de France shares at the time of the Company's initial public offering in the context of the Open Price Offering, either through reservations or through "A" Orders (priority orders) have been entitled to:

- the grant of one free share for every 10 shares acquired and held for at least 18 months. Regardless of the initial amount, the right to free shares was calculated with reference to an initial purchase corresponding to no more than €4,575. 3,847,797 shares were allocated for no consideration on January 15, 2007; and
- the waiver of deposit charges for a period of 18 months from the date of settlement/delivery of the shares purchased in the context of the Open Price Offering.

Individuals with French nationality or who are residents of France or of another state which is party to the EEA agreement who had acquired Gaz de France shares at the time of the Company's initial public offering in the context of the Open Price Offering through "B" Orders (non-priority orders) as well as French entities or entities which are from another state which is party to the EEA agreement that had acquired Gaz de France shares at the time of the Company's initial public offering in the context of the Open Price Offering through "C" Orders, did not have the right to free shares nor to the waiver of deposit charges.

The terms and conditions governing the grant of free shares and the waiver of deposit charges are more fully described in paragraphs 2.3.3.4 and 2.3.3.5 of the Note d'Opération which was granted a visa by the AMF on June 22, 2005.

21.1.7.2.2 The grant of free shares in the context of the Employee Offering

In the context of the Employee Offering, the employees of Gaz de France or of one of its subsidiaries, located in France or abroad, in which Gaz de France holds directly or indirectly the majority of the share capital on the opening day of the Employee Offering and certain former employees (the "Beneficiaries") could subscribe to Gaz de France shares giving them the right to receive free shares in the following proportions:

- the "Gaz Dispo" formula: one free share for every three shares acquired and held continually for one year, up to a total value of free shares equal to €1,258 per subscriber under all formulas together. 177,860 shares were allocated for no consideration on September 8, 2006;
- the "Gaz Plus" formula: one free share for every two shares acquired and held continually for three years, up to a total value of free shares equal to €700 and beyond that amount, one free share for every four shares acquired, up to a total value of free shares equal to €1,258 under all formulas together;
- the "Gaz Abond" formula (reserved to Beneficiaries that were employed, retired or pre-retired from companies participating in a group savings plan (known by the French acronym "PEG") (other than foreign branches) provided that such persons are eligible for PEG, and the employees of foreign branches and subsidiaries participating in an international group savings plan (known by the French acronym "PEGI"), provided that such persons are eligible for PEGI): one free share for every share acquired and held continually for three years, up to a total value of free shares equal to €700 and beyond that amount, one free share for every four shares acquired, up to a total value of free shares equal to €1,258 under all formulas together;
- the "Gaz Transfert" formula (reserved to Beneficiaries eligible for PEG who have kept in the former Gaz de France Plan savings that are still available at the opening date of the Employee Offering): one free share for every four shares acquired and held continually for three years, up to a total value of free shares equal to €700 and beyond that amount, one free share for every six shares acquired, up to a total value of free shares equal to €1,258 under all formulas together.

Table – Proportions of free shares granted to Beneficiaries that have acquired Gaz de France shares in the context of the Employee Offering

	"Gaz Dispo"	"Gaz Plus"	"Gaz Abond"	"Gaz Transfert"
Retention condition	Continuous ownership of the shares for one year	Continuous ownership of the shares for three years		
Free share allocation	One free share for every three shares acquired	One free share for every two shares acquired up to €700 of free shares	One free share for every share acquired up to €700 of free shares	One free share for every four shares acquired up to €700 of free shares
		One free share for every four shares acquired, beyond that	One free share for every four shares acquired, beyond that	One free share for every six shares acquired, beyond that
	Up to a maximum of 1,258 free shares per subscriber under all formulas			

The main characteristics of the Employee Offering are described in section 2.3.4 of the *Note d'Opération* which was granted a visa by the AMF on June 22, 2005, and in particular describes non-transferability and unavailability conditions of the shares acquired or the means for holding them and the deposit charges, as well as all the advantages granted to the Beneficiaries in the context of the Employee Offering (especially the discount and employer contribution).

21.1.7.3 The Company's Shareholders

The table below summarizes changes in the Company's share capital over the last three years.

Shareholders	Percentage of the share capital			
	Registration of this *document de référence*	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**
State	79.8%(*)	80.2%	80.2%	100%
Public	17.9%	17.5%	17.5%	-
Employees	2.3%	2.3%	2.3%	-

(*) Following the allocation of free shares by the State as part of the Open Price Offer, the State's holding has changed from 80.2% to 79.8%

21.2 Incorporating documents and by-laws

21.2.1 Corporate purpose

Gaz de France's corporate purpose appears in Article 2 of the by-laws:

"The Company's corporate purpose, in France and abroad, is:

a) search for, produce, import, export, buy, transport, store, distribute, furnish and commercialize combustible gas as well as any other energy source;

b) engage in gas trading as well as any other energy source;

c) furnish services connected with the previously mentioned activities;

d) ensure the performance of the public service obligations of Gaz de France in the energy sector as defined under currently applicable laws and regulations, including in particular French Law No. 46-628 dated April 8, 1946 concerning the nationalization of the electricity and gas industry, French Law No. 2003-8 dated January 3, 2003, concerning the gas and electricity markets and energy public service, as well as French Law No. 2004-803 dated August 9, 2004, concerning gas and electricity public service and gas and electricity companies;

e) enter into any transactions or participate in any type of activity directly or indirectly connected to the previously mentioned activities, or which ensure the development of the Company's asset base, including research and development activities, through the creation of companies or new enterprises, contributions, the subscription or sale of securities or right with respect to entities, acquisitions of interests and equity stakes, in any form whatsoever in any Company or enterprise, existing or to be created, through a merger, association or in any other manner;

f) create, acquire, rent, lease or manage any moveable property, real estate or business, rent, install, operate any establishment, business, factory, workshop related to any of the previously mentioned activities;

g) take, acquire, operate or sell any business process or patent related to the previously mentioned activities; and

h) more generally, carry out transactions and business activities of all types, whether industrial, commercial, financial or relating to moveable property or real estate, including services or research, directly or indirectly related, in whole or in part, to any of the business purposes mentioned above, or to any similar, complementary or connected business purpose, as well as any which aids the development of the Company's business."

21.2.2 Statutory provisions relating to the administrative bodies – Internal Regulations of the Board of Directors

See Chapter 16 –"Board Practices".

21.2.3 Rights, privileges and restrictions attached to the shares

The Company's shares all belong to the same class. The by-laws do not contain any provision that discriminates between shareholders based on certain shareholders holding a substantial number of shares.

Except in the cases where the law otherwise provides, each shareholder has as many voting rights in shareholders' meetings as the number of paid-up shares he/she owns (to the extent that the payment of such shares has been called-up by the Company). There are no provisions in the by-laws that grant double voting rights or multiple votes per share for Gaz de France shareholders.

Under the terms of Article 10 of the by-laws of the Company, each share gives the right to ownership of the Company's assets, division of the profits and payment upon dissolution, in a portion proportional to the quantity of share capital owned. Unclaimed dividends are payable to the French State five years after the date on which the dividends were payable.

All securities, whether old or new, shall be entirely assimilated provided that they are of the same type, that they have been equally paid-up and that they have the same rights; in case of a profit distribution, as well as in case of a partial or total redemption of their nominal capital, they will receive the same net amount, with the taxes and fees to which they may be subject divided uniformly between them.

The shareholders are responsible for losses only to the extent of their contributions.

In addition, each share gives the right to vote and be represented at the General Shareholders' Meetings in accordance with the legal and statutory conditions. Any shareholder is automatically deemed to have approved the Company's by-laws and all decisions of the Company's General Shareholders' Meetings.

Any time it is necessary to own several shares in order to exercise any right whatsoever, in the case of an exchange, reorganization or the grant of shares, or as a result of a share capital increase or decrease, a merger or any other corporate transaction, the owners of isolated shares or of an insufficient number of shares may exercise such right provided that they make their own business of regrouping or, as the case may be, of purchasing or selling the necessary shares or rights.

Under the terms of Article 12 of the by-laws, the shares are indivisible with respect to the Company. Co-owners of shares are represented at General Shareholders' Meetings by one of them or by one agent. In the case of disagreement, at the request of the most diligent co-owner, a court may appoint an agent. The voting rights attached to shares belong to the owner of the shares' benefits, in the case of the Ordinary General Shareholders' Meetings and to the bare owner (who does not own the shares' benefits), in the case of the Extraordinary General Shareholders' Meetings.

21.2.4 Changes in the rights attached to the shares

The rights attached to the shares as they appear in the Company's by-laws can only be changed by the Extraordinary General Shareholders' Meetings. See also paragraph 21.1 – "Share capital".

All increases in the commitments of the shareholders must be unanimously approved by all shareholders.

21.2.5 General Shareholders' Meetings

21.2.5.1 Convening shareholders' meetings

Ordinary or Extraordinary Shareholders' Meetings, and if applicable Special Shareholders' Meetings are called, convened and conducted under the terms of conditions provided for by law. They are held at the Company's headquarters or in any other place indicated in the final notice for the meeting *(Avis de convocation)*.

21.2.5.2 Conditions for admission

Any shareholder has the right to attend the meetings provided his shares are fully paid up.

Any shareholder, regardless of the number of shares held, must, in order to have the right to attend General Shareholders' Meetings and participate in the deliberations either personally or by authorized representative, legally prove, the registration in the accounts of his shares in his name or that of an intermediary acting in his name by application of Article L. 228-1 paragraph 7 of the *Code de Commerce*, or in the registered shareholders' accounts held by the Company, or in the accounts for bearer shares held by an authorized intermediary, within the period and according to the regulations established by Article 136 modified by Order No. 67-236 of March 23, 1967.

The Board of Directors may, if it seems advisable, send to the shareholders individualized admission cards in each shareholder's name and require them to be presented in order to receive access to the General Shareholders' Meeting.

Upon decision of the Board of Directors when convening the shareholders' meeting, the shareholders may participate to the meeting by videoconference or any other means of telecommunications, including the Internet, that allows proper identification in accordance with the terms and conditions set by applicable regulations. If applicable, this decision will be communicated in the meeting notice published in the *Bulletin des annonces légales obligatoires* ("**BALO**").

Shareholders may be represented at any meeting either by their spouse or another shareholder. Shareholders may vote by mail, subject to applicable regulations, if their quality as a shareholder was certified by the depository of the certificate(s) of registration or immobilization of the shares at least 5 days before the meeting, by the deposit of a registration certificate or a certificate indicating that the securities may not be transferred until the meeting. From the date of this certification, the shareholder may not choose another way to participate in the shareholders' meeting. To be taken into account, the voting form must be received by the Company at least three calendar days prior to the date of the shareholders' meeting.

The holders of securities mentioned in the third paragraph of Article L 228-1 of the *Code de Commerce* (securities holders that do not live in French territory within the meaning of Article 102 of the *Code Civil*) may be represented, under certain legal conditions, by a registered nominee.

21.2.5.3 Government commissioner

Law No. 2006-1537 of December 7, 2006 concerning the energy sector, modifying law No. 2004-803 of August 9, 2004, provides that, in the event of the privatization of Gaz de France, the minister in charge of energy shall appoint a government commissioner who may present his observations at any general shareholders' meeting.

21.2.6 Clauses constraining change in control of the Company

In accordance with French Law No. 2004-803 dated August 9, 2004, as modified by Law n° 2006-1537 of December 7, 2006, the French State must hold at all times more than one-third of the Company's share capital[1].

Since the Company currently belongs to the French public sector, transferring control of it to the private sector is subordinate to the application of the procedures laid down by Law No. 86-912 of 6 August 1986 stipulating the arrangements to be followed for privatizations, as amended by Law No. 93-923 of 19 July 1993. In particular the transfer of the Company to the private sector must be authorized beforehand by means of a decree.

21.2.7 Crossing certain statutory share ownership thresholds

Article 9.3 of the Company's by-laws provides that any individual or entity, acting alone or in concert with others, that becomes the owner, directly or indirectly, of more than 0.5% of the share capital and/or voting rights of the Company must notify it by certified mail, return receipt requested, within five trading days from the day such 0.5% threshold is crossed. This information must identify the person concerned, as well as all others acting in concert with such person and indicate the total number of shares, voting rights and securities that eventually give access to the capital, which it owns directly and in concert. These notification requirements also apply to any subsequent additional increases of at least 0.5% of the share capital and/or the voting rights. The notification requirement also applies, with the same notification period requirements, to any subsequent decrease of at least 0.5% or multiple thereof.

Any registered nominee which holds shares in accordance with paragraph 3 of Article L 228-1 of the French Commercial Code is responsible, without prejudice to the duties of the owners of the shares, for providing the notifications mentioned above for all the shares for which it is the registered nominee.

In accordance with the provisions of Article L 233-14 of the French Commercial Code, if any shareholder fails to make the required notifications, the shares in excess of the relevant threshold which should have been disclosed in accordance with applicable by-law provisions identified above, provided that such shares are listed on a regulated market, will be deprived of voting rights for all shareholders' meetings until the end of a two-year period following the date on which the owner thereof complies with the notification requirements. Such a suspension of voting rights may be sought at the request of one or more shareholders holding at least 0.5% of the share capital or voting rights of the Company through a shareholder resolution included in the minutes of the General Shareholders' Meeting.

At the date of registration of this *Document de référence*, the Company had received from a company declarations that the 0.5% statutory threshold for share capital and voting rights had been crossed.

21.2.8 Changes in share capital

Under the terms of Article 6 of the Company's by-laws, the share capital may be increased, reduced or repaid under the terms provided by law.

(1) *Decision No. 2006-543 DC of the* Conseil Constitutionnel *on November 30, 2006 specifies that the effective transfer to the private sector of Gaz de France cannot come into force until July 1, 2007.*

22 MATERIAL CONTRACTS

This section presents a summary of the material contracts, other than the contracts concluded in the ordinary course of business, concluded by any Group entity during the last two years preceding the date of registration of this *Document de référence.*

22.1 Contracts signed in 2006

Memorandum of understanding between Gaz de France and Electrabel

Gaz de France and Suez, through its subsidiary Electrabel, signed on January 10, 2006 an industrial partnership project that aims to develop and diversify their respective power generation and electricity supply capacities.

Electrabel and Gaz de France have agreed to coordinate development of two combined cycle gas turbine projects, of approximately 425 MWel each, which they plan to complete separately in the Fos-sur-Mer zone:

- on the Sollac Méditerranée site for Gaz de France (planned startup in 2008);
- on a property leased to the Port of Marseille's Authority for Electrabel (planned startup in 2009).

Under the terms of this agreement Electrabel and Gaz de France will actively seek synergies between the two projects, particularly in the areas of engineering, operation and maintenance. They also hope to benefit from the enlarged project scope.

In addition, the memorandum of understanding provides for reciprocal shareholdings in the companies owning the respective assets, as well as reciprocal contracts for capacity sharing.

Renewal of gas supply contracts agreed with Gazprom

On December 19, 2006 Gaz de France and Gazprom agreed to extend their existing contracts for the supply of natural gas until 2030. These currently stand at approximately 12 billion m^3 per year. After 2010, Gaz de France will receive additional volumes up to 2.5 billion m^3 per year; these volumes will be transported by Nord Stream, a projected Gazprom construction beneath the Baltic between Russia and Germany.

Agreement of a gas supply contract with Sonatrach

On November 18, 2006 Gaz de France and Sonatrach concluded a contract for the purchase of around 1 billion m^3 of Algerian natural gas per year for a period of twenty years, starting from the entry into service of the Medgaz pipeline, scheduled for 2009.

This agreement allows Gaz de France to pursue its diversification of sources of supply and strengthen its position on the European natural gas market, in particular in Spain.

The natural gas will be transported through Medgaz, a submarine pipeline linking Algeria directly to Spain, in accordance with an agreement signed on November 30, 2006 between Gaz de France and the Medgaz Company, in which Gaz de France has a holding of 12%.

Creation of Maïa Eolis

On September 1, 2006 Gaz de France and Maïa Sonnier signed a protocol concerning the constitution of a joint subsidiary, Maïa Eolis, to be held 49 % by the Gaz de France Group and 51% by Maïa Sonnier, responsible for assuring the development of the two groups in the wind energy sector. The transaction for some €112 millions for Gaz de France was finalized on December 22, 2006.

From 2001 onwards Maïa Sonnier developed a new energies division which owned and operated four wind farms with a global installed capacity of 48 MWel, and was developing a number of projects in France up to 550 MWel. This new energies division was contributed to Maïa Eolis on the occasion of its creation.

Maïa Eolis has been operational since the end of 2006. It is in charge of the development, works management of construction and the operation of wind farms. Its ambition is to have 1,000 MWel of installed wind energy in Europe by 2012, of which about 50% will be in France.

This partnership between Gaz de France and Maïa Sonnier is part of the Group's strategy for development in the renewable energies sector. The aim for 2012 is to have electricity generating plants using renewable energies that will provide 10% of the electricity capacity of Gaz de France in Europe, with the emphasis on land-based wind farms.

Creation of Energie Investimenti

On September 21, 2006 Gaz de France and Camfin finalized the creation of a shared company Energie Investimenti, held 60% by Camfin and 40% by Gaz de France. The partnership with the Camfin group is based on joint control of companies, with an option for Gaz de France to buy 20% of the capital in 2008.

Energie Investimenti holds all the sales activities of these two groups in Italy (Cam Gas, Arcalgas Energie, Italcogim Vendite and their respective subsidiaries) together with 20% of the voting rights (equivalent to a beneficial interest of 10%) in a holding company regrouping the distribution activities of Arcalgas and Italcogim.

Sale of holding in KGM

In July 2006, Gaz de France sold its 17.5% holding in the Kazakh joint holding KazGerMunai (KGM) to KasMunaiGas for $350 million.

22.2 Contracts signed in 2005

Public service contract 2005-2007 between Gaz de France and the State

Public service missions in the energy sector are governed by the law of January 3, 2003. Their implementation for Gaz de France involves a public service contract as required by the Law of August 9, 2004. A public service contract was signed between Gaz de France and the State on June 10, 2005. For more details see paragraph 6.1.4.7.2 – "Public Service Contracts".

Agreement between Gaz de France and EDF concerning the distribution activities of EDF Gaz de France Distribution

On April 18, 2005, Gaz de France and EDF signed an agreement defining their relationship as regards the distribution activities of EDF Gaz de France Distribution. For more details, see paragraph 6.1.3.2.2.2.3 – "Organization of the Distributor".

Electricity supply contract between EDF and Gaz de France

In order to accompany Gaz de France's commercial development in electricity, on June 6, 2005 GDF and EDF signed an electricity purchase contract for a period of three years.

Acquisition of Distrigaz Sud

On October 18, 2004 Gaz de France concluded an agreement with the Romanian Ministry of Commerce and the Economy to acquire 51% of the share capital of the Romanian gas distribution Company Distrigaz Sud, with the remaining 49% retained by the Romanian state. Gaz de France finalized this acquisition on May 31, 2005 which represents approximately €310 million.

Gaz de France entered into an agreement on June 24, 2005 with the European Bank for Reconstruction and Development (EBRD) and the International Finance Company (IFC) in order to sell each of those entities a 5% indirect interest in the share capital of Distrigaz Sud. This acquisition of an equity interest in Distrigaz Sud by EBRD and IFC along side of Gaz de France was completed February 2, 2006 for approximately €60 million. Both EBRD and IFC each have the right to appoint an observer without voting rights to the Board of Directors of Distrigaz Sud.

Distrigaz Sud is managed by a Board of Directors, four of whose seven members are appointed by the Ordinary General Shareholders' Meeting ruling by simple majority on proposals from a holding Company consisting of Gaz de France, the EBRD and the IFC. The Chief Executive Officer is appointed by the Board of Directors, ruling by simple majority.

Acquisition of SPE

On September 23, 2005 Gaz de France and Centrica, concluded an agreement to acquire a 51% equity interest in the Belgian Company SPE, based on the contribution to SPE of their respective equity interests in ALG Négoce and Luminus and the acquisition of a portion of the share capital of SPE. The transaction, at a cost of around €250 million for Gaz de France, was finalized on September 28, 2005.

At the conclusion of the transaction, the shareholders of SPE were as follows: Segebel, a joint subsidiary of Gaz de France and Centrica, 51% of the capital; the Association Liégeoise du Gaz and Publium (which held interests in ALG Négoce and Luminus alongside of Gaz de France and Centrica) and the historical shareholders of SPE, together 49% of the capital.

Gaz de France and Centrica have purchase options on the part of SPE's capital they do not hold, and the minority shareholders of SPE have cross-sale options on the same part of the share capital; these options may be exercised if certain changes occur in the share capital of the holding companies that own the SPE securities.

23 INFORMATION FROM THIRD PARTIES EXPERTS STATEMENTS AND STATEMENTS OF INTEREST

23.1 Statements or reports

Not applicable.

23.2 Information from third parties

Not applicable.

24 DOCUMENTS ON DISPLAY

During the validity of this *document de référence*, the following documents (or copies of these documents) may, where applicable, be consulted:

(a) the memorandum and articles of association of the Company;

(b) all reports, correspondence and other documents, historical financial information, valuations and statements made by an expert at the request of the Company, any part of which is included or referred to in this *document de référence*; and

(c) the historical financial information of the Company and its affiliates for each of the two fiscal years preceding the publication of this *document de référence*.

The documents cited above may be consulted at the Company's headquarters at the Legal Division – Corporate Law Department, 23, rue Philibert-Delorme 75840 Paris Cedex 17.

The annual information document in Appendix F of this *document de référence* shows all the information made public by the Gaz de France Group since January 1, 2006.

25 INFORMATION ON HOLDINGS

For information on the companies in which Gaz de France holds a portion of the capital which is likely to have an impact on the appreciation of its assets, see paragraph 6.1.3 – "Description of Business Activities." See also Chapter 9 – "Management's Discussion and Analysis of Financial Condition and Results of Operations."

APPENDIX A

Table of units of measure of gas and other energy products

Conversion of units

1 kWh = 0,09 m^3 of natural gas (1 m^3 of gas = 11 kWh)

1 GWh = 91,000 m^3 of natural gas

1 TWh = 1 billion kWh = 91 million m^3

1 billion m^3 of gas = 6.2 million barrel equivalents of oil (Mbeo)

The conversions shown above are those currently used by professionals in the natural gas industry. They are provided on a purely indicative basis.

ANNEXE B

Glossary

Administered Tariffs

Sales tariffs for non-eligible clients or clients who have not exercised their eligibility

Biomass

Mass of organic matter of biological, non-fossil origin. A portion of the deposit may be usable for energy production.

Branch

Transport structure providing the liaison between the transport network and one or more delivery points, intended exclusively or mainly for supplying a client or a distribution network. A branch is part of the network.

Cogeneration

Technique for simultaneously producing electricity and usable heat (as steam, superheated water, or air and combustion products) from a single fuel which may be natural gas.

Combined generating station

Electricity generating station with a gas turbine generator whose exhaust gases heat a boiler. The steam produced drives a turbo-generator.

Combined production station

Thermal power station in which steam is produced in boilers to drive turbo-generators to make electricity.

Commercializer

Activity of selling gas or other energies to third parties (end client, distributor etc.).

Conduit

Pipework transporting natural gas. This may be in copper, steel, cast iron or polyethylene, depending on circumstances.

Connecting site

Construction connecting a consumption site or a distribution network to the transport network. Connecting sites consist of one or more branches and one or more delivery sites.

Connection

Action that physically links a user to the network.

Current gas

Gas available from subterranean storage.

Cushion gas

Quantity of gas held in subterranean storage and which cannot be completely recovered after injection.

Development (of a gas or oil field)

Operations and constructions undertaken to bring a field into production.

Distribution network

Network for the distribution of natural gas at medium or low pressure within a limited region or a business.

Downstream

Transport, distribution and storage of natural gas and associated services.

Eligible Client

Consumer of gas or electricity authorized to make use of one or more suppliers of his choice for electricity or gas to supply one of his sites or for resale.

Energy Regulation Commission

The Energy Regulation Commission is an independent administrative authority. It was established to regulate the French electricity market by the law of February 10, 2000 and its competence was enlarged to include the gas sector by the law of January 3, 2003.The essential mission of the ERC is to ensure the effective implementation of access to gas and electricity infrastructures under transparent and non-discriminatory conditions, and since the law of December 7, 2006 it possesses regulatory powers. More generally, its role is to ensure the proper operation of the markets for gas and electricity.

Equalizing zone

Site comprising entry points, delivery points and an exchange point for gas, within which the shipper must maintain an equilibrium.

Exploration

Methods and operations used to discover new hydrocarbon deposits.

Facilities Management

Services complementary to the supply of energy that may be provided for a client (maintenance and small repairs etc.)

Field or deposit

Porous rock containing hydrocarbons.

Gas exchange point

A virtual point in an equalizing zone, where a shipper can provide gas for another shipper.

Gas hub

Junction of a transport network where gas arrives from several sources, offering the physical possibility of exchanging volumes of gas between these sources and the end markets.

(Gas) pipeline

Pipeline ensuring the delivery of gas under high pressure over long distances. May be connected to an international network.

Guaranteed supplies

Guarantee of availability of energy at any time in the quality and quantity desired, under given financial conditions.

Liquefied Natural Gas (LNG)

Natural gas brought into liquid phase by lowering its temperature to -162°C. Reduces, reducing it to 1/600th of its volume.

Liquefying natural gas

Transformation of natural gas from its gaseous phase to a liquid phase for transport by boat and/or storage.

LNG Terminal

Port development with associated installations for receiving ships transporting liquefied natural gas.

LNG terminal access contract

Contract between the operator of an LNG terminal and a shipper setting out the conditions of reception, storage and regasification of cargos of LNG delivered by the shipper to an LNG terminal.

Main network

Large diameter pipelines for the transport of natural gas at high pressure, linking neighboring transport networks, storage sites and LNG terminals. Regional networks are attached to these pipelines, as are certain industrial consumers and distribution networks.

Methane tanker

Tanker that transports LNG in its holds at -162°C.

Modulation

Term indicating the gap between the real conditions of gas consumption by a client and the regular offtake during the year of his average daily consumption. Cover for the variations in consumption (daily, weekly or seasonal) is generally assured by subterranean storage sites to which clients and their suppliers have access, either directly (in countries where third-party access to storage – regulated or negotiated – is allowed), or by means of a service provider (as in France).

Natural Gas for Vehicles (NGV)

Consists of 100% natural gas, essentially used in urban transport and for non-polluting vehicles.

Offshore

Platform and rig for under-sea drilling for oil or gas.

Pressure control block

Grouped apparatus, parts and tubes whose essential function is to take in gas at variable upstream pressure and release it at a preset downstream pressure.

Probable reserves

Estimate of quantities of hydrocarbons that can be extracted in the future from existing fields with a probability of at least 50% according to geological and technical data. Extraction must meet economic criteria that take account of future price movements, the market price of hydrocarbons and the rate of exchange.

Producer

Natural or legal person that produces gas and/or electricity. The producer is a supplier.

Production (of a gas or oil field)

Phase of commercial exploitation of a hydrocarbon field.

Proved reserves

Estimation of quantities of crude oil, natural gas and natural gas liquids based on geological and technical data with a reasonable assurance of being able to extract these quantities during the years to come from existing fields or under certain economic and operational conditions, i.e. the prices and costs at the date at which the estimate is made.

Regional network

Large diameter pipelines for the transport of natural gas at high pressure, linking neighboring transport networks, storages and LNG terminals. The regional networks, the distribution networks and certain industrial consumers are connected to them.

Regulated Third party network access

In the case of regulated TP access, the tariffs are set by the French regulator. Conditions of access are transparent and non-discriminatory as regards users.

Reserves (of a field)

Volume of gas or oil trapped in the rock.

Reserves proved and developed

Reserves that can be produced from existing installations.

Reserves proved but not developed

Reserves that require the drilling of new wells on virgin surfaces or significant additional investments to existing installations, such as a compression unit.

Resources

Quantities of hydrocarbons discovered for which there exist technical, financial or commercial risks that do not guarantee the total extraction of these quantities. Equivalent to technical reserves.

Spot market

Very short term market for exchanges and buy/sell transactions.

Storage access contract

Contract between the operator of a storage facility and a shipper for access to natural gas storage installations at one or more sites.

Storage site

Constructions, installations and systems consisting of underground structures such as cavities in salt layers or porous rocks in the aquifers, wells, channels, installations for compression, processing, measurement, pressure release, transport systems, IT systems etc.

Supplier

Legal person holding an authorization after declaration to the public authorities that supplies at least one end user with gas or electricity, either from energy that it has produced itself or from a supply of energy that it has purchased (trader).

Take or pay

Long term contract in which the producer guarantees the supply of gas to an operator, and the operator guarantees payment whether he takes delivery of the gas or not.

Third party network access

Acknowledged right of each user (eligible client, distributor, producer) to make use of a transport or distribution network against payment for access rights.

Town gas

Artificially produced gas formerly distributed for lighting purposes. Also known as lighting gas, it Has been replaced by natural gas.

Trader

Supplier of gas or electricity who buys from another supplier in order to resell to his own end clients or another trader.

Transport capacity

Maximum continuously admissible loading for a transport system, taking account of its operating parameters and pressure loss.

Transport network

Network for transporting gas at high pressure (>60 bars) to distribution networks located downstream.

Underground Storage

Use of porous geological formations, natural or artificial cavities (salt deposits or aquifers) to store liquid or gaseous hydrocarbons.

Upstream

Exploration for and production of hydrocarbons.

APPENDIX C

Report of the Chairman of the Board on the preparation and organization conditions of the Board of Directors' activities and internal control procedures (fiscal year 2006)

Preamble

Pursuant to the provisions of Articles L.225-37 and L.225-68 of the *Code de Commerce*, the Chairman of the board of directors describes in this report the conditions of preparation and organization of the work of the board and the procedures of internal control established by Gaz de France.

This report, prepared by the Audit and Risk Management department, was drawn up in collaboration with the Finance and Accounting department, the Management Control department, the Communications department, the Sustainable Development department, the Legal department, the Office of the Chairman and the Chief Operating Officers.

This report has been sent to the Audit and Accounting committee for information.

1. CONTROL ENVIRONMENT BACKGROUND

1.1 Organizational principles

1.1.1 Internal controls, a tool to help achieve objectives

Each senior manager or department head organizes and manages the internal control procedures for the activities for which he or she is responsible, in order to reasonably assure that the targets they set by him are reached. These internal control activities are carried out at all hierarchical and operational levels of the concerned entity and include the implementation of the delegated ions of powers, the setting -up of control and own self-control structures devices, the assessment of operational performances, the security of the asset base and the separation of functions.

This approach is consistent with the commonly recognized definition of internal control as a process implemented by the Board of Directors, management and staff of the Company, designed to reasonably ensure the achievement of targets in the following categories:

- completion and optimization of operations;
- reliability of financial information;
- compliance with applicable laws and regulations.

One of the objectives of the internal control system is therefore to anticipate and manage risks tied to the Company's business, particularly in the accounting and financial areas. Like all control systems, however there is no guarantee that these risks will be exhaustively covered.

1.1.2 Internal controls, a priority of the Gaz de France Group

By decision of the Chairman and CEO dated March 16, 2006, the internal control policy of Gaz de France has been re-affirmed to ensure the Group's progress in its development of internal controls based on existing structures by organizing and completing them as necessary. To this end, the fundamentals that create these elements – definition, utility and the factors making up components[1] of internal control, have been restated, based on the COSO[2].

At the end of 2006 internal control was self auto-evaluated by each of the actors concerned. The priority for 2006 and 2007 is for each entity to define an action plan in areas with a financial impact, where whose implementation and observations can be monitored and tracked.

1.1.3 Internal Audit, a management support function

Gaz de France structures its internal audit activities according to the professional standards defined at international level terms by the Institute of Internal Auditors (IIA) and reflected sum in France by the Institut Français de l'Audit et du Contrôle Internes (IFACI).

Internal audits serve management by contributing to improved internal control. They are based on the following four phases: planning, implementation, assessment, and improvement. In accordance with the Group's management principles, Gaz de France has organized its internal audit resources in a decentralized way. Overall consistency is ensured by the directional oversight of the Audit and Risk Management Division.

1.1.4 Managerial regulation of Quality, Safety, Environment

The Group has set up a "Quality, Safety and Environment" policy to assist it in managing risks. A steering committee composed of the heads of the Company's Quality, Environment, and Social Responsibility divisions, the divisions of Risk Management Divisions, the Safety and Accident Prevention task force and the Management Control Division, prepares contracts in the area of "Quality, Safety and the Environment" with the relevant entities and contributes to the completion of performance and management reviews with each entity

1.2 Control participants

1.2.1 Board of Directors and senior management

Legal framework

French Decree No. 2004-1223 dated November 17, 2004, implementing French Law No. 2004-803 dated August 9, 2004 concerning gas and electricity public service and gas and electricity companies, governs the by-laws of Gaz de France.

(1) *Control environment, definition of objectives, risk management, control activities, information and communication, and steering.*
(2) *Sponsoring Organisations of the Treadway Commission.*

The Chairman of the Board of Directors, in conformity with the terms of the articles of incorporation, also acts as the Chief Executive Officer of the Company. Appointed by decree (décret en conseil des ministres), he is assisted by two Chief Operating Officers.

The Board of Directors of Gaz de France SA is composed of 18 members: six directors elected by General Shareholders' Meeting, six representatives of the French State appointed by decree, and six employee representatives elected by the personnel. The directors' term of office is five years. The directors' average Board meeting attendance rate in 2006 was 83%.

The Chairman of the Board's term of office was renewed by a decree dated October 13, 2005.

Powers of the senior management

Restrictions on the powers of the senior management require the Board of Directors to approve decisions on:

- the Group's multi-year strategic plan;
- proposed industrial investments or building contracts for the Group (for amounts greater than €50 million per transaction, excluding taxes);
- proposed borrowings in the form of a securities offering or loan agreement concerning the Company or its subsidiaries (for transactions exceeding €100 million, excluding taxes, and not included in the budget previously authorized by the Board of Directors);
- proposed contracts for the supply of goods and services (for an amount greater than €30 million, excluding taxes);
- any proposed acquisition of, sale or exchange of buildings or real estate rights (for an amount greater than €25 million per transaction, excluding taxes).

Corporate governance

The Chief Operating Officers assist the Chairman and Chief Executive Officer in the strategic planning and operational management of the Group.

The Board of Directors' Functions:

The Board of Directors' functions are two-fold:

- functions imposed by applicable legislation and regulation, which includes approving financial statements and the management report, calling General Shareholders' Meetings, adoption of proposed resolutions, appointment of the Chief Executive Officer and Chief Operating Officers, determination of senior management's powers;
- functions defined by the Board's Internal Regulations and resulting from the restriction of senior management's powers, as indicated above.

During 2006, the Board of Directors examined, in particular, matters concerning:

- strategy;
- the budget;
- approval of the financial statements and proposal for the allocation of revenues;
- the allocation of attendance fees;
- the half-yearly financial statements;
- the sureties, financial backing and guarantees;
- Group financial policy,
- as well as a certain number of transactions tied to the Group's important investments or commitments regarding the Group's development.

Committees of the Board of Directors

The Board of Directors has two committees: the Audit and Financial Statements Committee and the Strategy and Investment Committee.

The Board of Directors, upon proposal of its Chairman and following deliberations, appoints the members of the committees and their chairmen.

The term of office of the committee members is two fiscal years. Their duties consist of preparing work to aid the Board's decisions.

They carry out their duties under the authority of the Board of Directors.

The Audit and Financial Statements Committee

Composed of five members, it holds at least four meetings a year (thirteen in 2006), including two meetings to review the half-yearly and annual financial statements before their examination by the Board of Directors and one meeting to review the budget.

The main interlocutors of the Audit and Financial Statements Committee are Senior Management, the Finance and Accounting Division, the Management Control Division, the Audit and Risk Division, and the Company's Statutory Auditors. To complete its work, the Committee may meet with the Company and Group mangers or use external experts, as necessary.

The Committee's duties cover two essential areas:

- financial statements, budget forecasts, and duties of the Statutory Auditors;
- risks, internal and external control and internal audit.

Strategy and Investment Committee

Composed of seven members, the Strategy and Investment Committee holds at least four meetings per year (six in 2006). To complete its work, the Committee may meet with the Company and Group Senior Management or also use external experts, as necessary.

It gives the Board of Directors its opinion on the major strategic objectives of the Company and the Group. The Committee studies and provides its opinion to the Board of Directors on issues relating to major transactions – in particular regarding acquisitions, divestment and industrial equipment.

Compensation and advantages in kind of company officers

Details of these remunerations appear in the management report of December 31, 2006 and in Chapter 15.1 of the *document de référence.*

The Chairman and CEO

In addition to his fixed yearly remuneration, the chairman and CEO receives a variable remuneration capped at 40% of his fixed yearly remuneration. This additional sum is calculated 70% on the basis of the net results, the gross operating profit and the evolution of the Group's productivity, and 30% on the basis of qualitative criteria. He also receives advantages in kind connected with his office. He has no special retirement scheme, receives no bonus on arrival and no bonus on his departure.

Chief Operating Officers

In addition to their fixed yearly remuneration, the Chief Operating Officers receive a variable remuneration capped at 30% of their fixed yearly remuneration before tax, calculated on the basis of the Group's results and the performance of their respective branches or divisions. They also receive advantages in kind connected with their office. They participate in the pension scheme of the Industries Electriques et Gazières (IEG), and receive no bonus on arrival and no bonus on their departure.

Members of the board

- The directors representing the State received no remuneration (attendance fees or other) from the Company or from companies controlled by the Company for fiscal year 2006;
- The directors representing the employees received no attendance fees or other additional remuneration by reason of their appointment from the Company or from companies controlled by the Company for fiscal year 2006;
- The directors appointed by the general meeting of shareholders receive attendance fees (€2,000 for each session of the board of directors and €1,250 for each committee meeting, except for the chairmen of the committees who receive €2,000 per session).

1.2.2 Managing bodies

Joint coordination, allocation and management require the creation of formal bodies to enable horizontal and transversal interaction and collaboration on issues whose strategic importance justifies the approval of or review by Senior Management. These bodies are the following:

Executive Committee

Chaired by the Chief Executive Officer, the executive committee is in charge of discussing and approving issues and decisions relating to the Group's strategy and general management such as the investment programs and the budget of the Group.

The executive committee meets each week. An agenda is prepared upon the proposal of its members (the Chief Operating Officer for "Infrastructures," the Chief Operating Officer for "Supply And Production," the Senior Vice-President of Strategy – Advisor to the Chairman and Chief Executive Officer, the Senior Vice-President of "International," the Senior Vice-President in charge of "Equity Acquisitions," the Vice-President and Chief Financial Officer, the Senior Vice-President of Customer Relations, the Senior Vice-President of Communications and the Senior Vice-President of Human Resources).

Planning Committee

This committee ensures the upstream strategic management of all external growth projects and makes a progressive selection, following standardized steps, for the presentation of the projects. It assesses the Group's investment and divestment decisions and the Group's financial planning decisions, with the exception of investments and decisions of Infrastructures France.

The chairman of the committee makes those decisions that are within his power; the Chairman and Chief Executive Officer makes those decisions that are beyond the committee chairman's power after consultation with the Executive Committee and, if need be, a vote by the Board of Directors. There is a specific decision-making framework for decisions by the Group's subsidiaries. The committee follows the progress of its external growth projects, as well as its investment and financial planning programs related to previous acquisitions or financial commitments.

Upstream / Downstream Committee

This committee makes proposals concerning the Group's sales volume and margin objectives by geographic area, supervises their completion, studies short-term arbitrage opportunities useful to reaching set objectives and manages internal transfer prices. It explores possible synergies between the sales of energy and the sales of services and proposes the integration of certain activities that might create value for the Group.

Infrastructure Committee

The functions of this committee are:

- to ensure the technical consistency of the conduct and development of the national, European and international infrastructures with regard to equipment and safety standards while respecting the autonomy of intervening entities in regulated areas;
- to ensure the maintenance of the technical skills necessary for the Group to keep its industrial tools in good performance conditions,
- to propose the development of research programs to be used in the context of the Three-Year Research Contract;
- to organize approval across the Group of the Group's positions vis-à-vis the French Energy Regulation Commission (*Commission de régulation de l'énergie*) and ensuring its consistent application;
- to propose the Group's policies regarding facilities (IT, real estate, purchases, etc.) while ensuring performance;
- to coordinate support for operational activities (tracking costs, organization of activities and responsibilities, etc.);

– regarding its informational system, specifically to review IT projects, to authorize their launch after verifying their consistency with the Group's goals, the development of the information system, and the IT framework, and to ensure control of the system and authorize deployment at the end of the development stage of a project.

– to evaluate, on an ad hoc basis, the investment decisions and commitments of the Infrastructures France division, with the exception of those concerning GRTgaz.

Senior Executives Committee

The aim of this committee is to prepare decisions relating to appointments to key positions and follow-up of the career management of the Group's senior executives. In this respect, it also prepares the appointment of certain directors of the Group's subsidiaries.

Human Resources Committee

This committee coordinates human resources departments: it enables operating departments to express their expectations and to merge them. This body reviews the Group's human resources policies before they are approved by senior management.

Sustainable Development and Business Ethics Committee

This goal of this committee is to propose policies with regards to sustainable development, environmental protection and quality, and to ensure that the business segments and centralized entities follow the policies. In addition, the committee proposes the rules of professional ethics applicable to the Group and monitors their proper application.

1.2.3 Other participants in the internal supervision of Gaz de France

The organization is structured around four segments bringing together operational activities, three centralized divisions to support those Segments and four Group management functions.

There are four branches of operational activities:

• "*Supply and Production*" is under the responsibility of a Chief Operating Officer and groups together the Exploration and Production Division, the Supply and Trading Division, the Electricity Division and the Liquid Natural Gas (LNG) department.

• "*Infrastructures*" is under the responsibility of a Chief Operating Officer and includes the Major Infrastructures Division, the subsidiary GRTgaz, the Gaz de France Network Distribution Division, the EDF Gaz de France Distribution Division (under the common management of Gaz de France and EDF), the Regulatory and Economic Affairs department, the Safety and Security department, upon which the Health Security department depends, and the Research Division.

• "*Customer Relations*" groups together the Market Development and Sales Division, and the Services activities and the Marketing Division. Its manager reports to the Chairman and Chief Executive Officer.

• The "International" branch consists of a "Central Europe", division, a "Northern Europe" division, an "Iberian-America-Asia-Africa" division, an "Italy" division, a "Finance and Integration" division, a "Programs and Projects" unit, "Strategy" unit and an "Audit-Risks" unit. The Executive Vice-President in charge of operations for the "Supply and Production" branch also supervises the "International" branch.

Three centralized Divisions

The Financial and Legal Division is under the responsibility of the Chairman and Chief Executive Officer and is composed of the following entities:

• The Management Control Division steers the budgetary process and prepares the budgetary decisions. It sets up and produces the Group's management charts, follows up on the monthly results by comparing them to the budget forecasts (segment reviews) and carries out the periodic reevaluation of the annual financial results (overall performance reviews). It identifies the necessary corrective actions and leads the "management control" channels within the operational branches.

• The Finance and Accounting Division prepares the financial statements, defines the goals and organization of the financing for the Group's activities and manages its financial situation. It designs the accounting system, manages the Group's taxation, provides the necessary data to elaborate upon financial reporting and manages the Group's relationship with the French Government Shareholding Agency (Agence des Participations de l'État). It sets the Group's insurance policy and implements it.

The two preceding divisions are under the authority of the Vice-President and Chief Financial Officer.

• The Investment and Equity Acquisitions Division is in charge of external growth and sales operations in France as well as the Group's major business projects. It ensures support for the operational segments of the growth operations they are in charge of abroad.

• The Legal Division sets the Group's legal policies, the rules for using legal advisers, and it assists with the Group's governance and follows significant business events and litigations.

– The Human Resources Division is the responsibility of a Senior Vice-President reporting to the Chief Operating Officer in charge of Infrastructures and groups together the Human Resources Division with two entities common to Gaz de France and EDF (the National Centre for Labor Relations and the Professional Training Department).

– Support Functions Division is the responsibility of a Senior Vice-President who reports to the Chief Operating Officer of Infrastructures and groups together:

• The support functions for the Group's governance are:

– the Sustainable Development Division, which most notably proposes the Group's policies regarding sustainable development, quality, and ethics;

– the Organization Division, which most notably leads and directs the studies of the Group's organization, optimizes the organization, and proposes appropriate modifications;

• The logistics support functions are:

– the Purchases Division which defines and sets up the Group's purchase policies by monitoring purchases performance criteria;

– the Information Systems Division which defines the Group's information technology policy, the global architecture of the information system and the technical policies;

– the Logistics Solutions Division which proposes and carries out logistical policies identified as stemming from Gaz de France SA and also manages the service for buildings;

– the Operational Human Resources unit which implements Human Resources policies and projects and directs individual professional projects, including the reorientation of personnel within the head office's quarters' central functions;

– the Real Estate Management Division, which proposes and implements the Group's real estate policy and the policy of rehabilitating of old gas plants.

Each division is responsible for the follow-up of its activities within the Group.

Management functions

These divisions are under the authority of the Chairman and Chief Executive Officer.

– The Strategy Division prepares and formalizes the Group's strategy and assists the Segments and Operational Entities with their strategy including oversight of strategy and competition and studying economic and strategic issues. It is in charge of the "Group's strategy" within its operational segments.

– The Corporate Communications Division proposes and implements the external corporate communications policy, manages internal communication and ensures the consistency of all communicated messages and coordination between participants in the Group's corporate communications. It is in charge of all participants in the Group's corporate communications.

The Audit and Risk Division:

– The Audit Division checks the effectiveness and consistency of the various control structures, carries out, at senior management's request, Group audits and ensures follow-up on decisions made by the Group's management committees following audits. In line with its missions, it ensures the independence of the decentralized internal audit functions so as to guarantee that they have a wide-ranging large scope for investigation, freedom of opinion and assurances that their recommendations are taken into account. It is responsible for the professionalism of the Group's audit resources; in this respect, the operation, management and regulation of the Group's audit entities are based on the assessment of the professionalism of audit entities and on an audit framework of the control devices in line with the generally normally recognized standards (COSO: Committee of Sponsoring Organizations of the Treadway Commission).

– The Risk Management Division formalizes the risk policy and supervises its implementation by the relevant entities within the framework (process and tools) approved by Gaz de France and consolidates the Group's risk assessment for senior management. It also manages the Risk Management channels.

– The internal control delegate transmits the internal control policy of Gaz de France, manages the internal control system and ensures that tracking of implementation of the internal control policy is monitored. With this in mind; on this point, during 2006 internal control was the subject of a self auto-evaluation in relation to of each of the components referred to above.

In 2006, the Audit and Risks Division presented the following to the Audit and Accounting Committee:

• the report on internal and external audit activities (2005 and to end September 2006);

• the audit program for 2006;

• a report on corporate governance in the subsidiaries and on delegations of signature within Gaz de France;

• a review of risks;

• the internal control policy.

This division manages the careers of the Group's senior executives. The joint senior management Human Resources Division for Gaz de France and EDF reports its activities to the Executive Development Division.

Management of Subsidiaries

Senior Management assigns each subsidiary or equity interest of the Group to an entity, held responsible by which Senior Management holds responsible for achieving the objectives set for the subsidiary, its financial results, and for adhering to policies set by the Group.

Based on this entity's proposal, a head director for the subsidiary is appointed. For the most important subsidiaries the head director is appointed by the Chairman and Chief Executive Officer, and for the other subsidiaries by the Chief Operating Officer or the head of "Customer Relations." Depending on local legislation and Gaz de France's rights, other directors may also be appointed.

1.3. Conduct guidelines

1.3.1 Director Code of Conduct

The Board of Directors on December 17, 2004 adopted its Internal Regulations and the Director Code of Conduct (Charte de l'administrateur), which is a professional ethics code that describes the rules of good conduct, to be implemented and complied with by the directors.

1.3.2 Ethical commitments

As the logical extension of In accordance with the major reference documents of the time (Universal Declaration of the Human Rights in 1948, the European Union Charter of Fundamental Rights and the Conventions of the International Labor Organization), the ethics commitments of Gaz de France were published in 2002 (see its website at www.gazdefrance.com) and govern the Company's relationships with its employees and business partners (employee representatives, customers, shareholders, suppliers, industrial and financial companies, public authorities) in France. In 2005, this effort was expanded by implementing ethical measures applicable to the entire Group. These measures seek to define shared values, the rules of behavior to both internal and external parties and the ethical rules applicable to all companies by the executive committee of Gaz de France.

1.3.3 Commitment to sustainable development

Sustainable development is an integral factor of the transformation of Gaz de France and of its ambition to be a leader in the European energy industries. Economic, social and environmental challenges are present in all the activities of Gaz de France, from exploration-production to the supply of energy products and services, and in every country in which the Group is present. This is why Gaz de France is determined to be a committed actor in sustainable development, and to incorporate this dimension into its industry and business plan.

The Group's sustainable development policy has four orientations:

- to fully assume societal and environmental responsibility towards the Group's various partners and clients,
- to meet energy challenges through dynamic product and service offers,
- to build up the Group's foundation of human and social resources to meet industrial challenges,
- to take an active role in the development of its territories.

On the basis of this policy, the approach to sustainable development can be seen as the implementation of management programs:

- an action plan for sustainable development (PADD) for 2004-2006, consisting of nearly one hundred concrete actions with measurable objectives,
- extra-financial reporting using the Group's financial feedback channels and verified by the auditors,
- annual priorities: the priorities for 2005-2006 decided by the chairman and CEO and communicated to the management teams are our response to the energy challenges of today and tomorrow, to reinforce social cohesion and awareness within the Group and to meet the expectations and needs of the Group's partners and clients.

At the end of 2006, an assessment of the approach to sustainable development and of the priorities for 2007 was presented and validated by the Group's executive committee.

Each year the Group provides a public account of its commitment in its report on sustainable development, which is also shown on its Internet site as part of its Global Reporting Initiative.

1.3.4 Enterprise Diversity charter

The diversity charter, signed on November 20, 2005, and the charter of business commitment to equal opportunities in education, signed on December 13, 2006, sets the commitment of Gaz de France to fight against all forms of discrimination, to promote equal opportunities, and to develop diversity as a Company performance factor. Through a diversity project, an action plan to encourage diversity in all its forms has been extended throughout the trades and the divisions.

1.3.5 Partnerships with NGOs

Through national partnerships with recognized NGOs working in environmental and humanitarian fields, Gaz de France encourages its personnel to support activities in defense of the environment and in aid of disadvantaged persons; in particular it has partnerships with WWF France and EMMAUS France.

1.3.6 Internal audit charter

The internal audit charter was updated during 2006. In accordance with professional standards for internal audits, the revised charter was approved by the Audit and Accounting Committee on June 20 2006.

2. PROCESS OF RISK ASSESSMENT AND CONTROL

The risk policy of Gaz de France was announced by the chairman and CEO on November 21 2005.

Gaz de France has an industrial activity which of itself implies risks. To succeed in its ambition to be a European leader, the Group has a strong growth objective which is accompanied by the acceptance of risk.

The policy of the Gaz de France Group is to master and control those risks, whatever their nature, which that could compromise the achievement of its goals. Gaz de France also wishes to strengthen its control of risks in response to the changes made necessary by the opening of its equity and its markets.

The Group's ambition is to identify its risks, to compare and evaluate them, then to handle them according to its risk control and strategic orientation objectives. The aim is not to suppress all risks ("zero risk") but to master them. It is a question of ensuring that any risk taken is taken consciously and with full taken in considered awareness.

Gaz de France is committed to developing a global risk management system and a risk culture and will invest all resources necessary to this end. The Group is implementing this program with the aim of continuous improvement of its shared methods and approaches, which are regularly updated and revised.

2.1 Developing a global risk management system as an approach to continuous improvement

Reporting to the Audit and Risks Division, the risks control unit is responsible for establishing a coherent framework, developing the policy and spreading the risk culture throughout the Group by leading a network of correspondents.

In 2004, Gaz de France established a shared methodology for the entire Group for the identification, evaluation and prioritization of risks

In 2005, the Group formalized and announced its risk policy: this policy defines the objectives to be pursued, establishes the broad lines for the management of risks, the roles and responsibilities of the actors and the system control methods. The risk census results were consolidated.

In 2006, the methodology was updated taking best practices into account. A wide range of risk handling actions, most of them already in use for several years, supports the identification and evaluation of risks and the Company's levels of exposure.

2.2 A decentralized system based on management responsibility

The Group's risk policy starts from the principle that a manager is responsible for mastery of the risks inherent in his sector of activity, and that the process of controlling risks is part of the Group's strategic process.

Each entity of the Group is in charge of the identification of its risks and calculation of its exposure, as well as preparation and implementation of plans of actions to reduce them. Each entity annually reports these factors in a major risk evaluation report prepared for one of the Chief Operating Officer or the Chairman and Chief Executive Officer.

2.3 Mapping the Group's risks: establishing priorities

Risks identified by the entities are aggregated by type in the "Group Risks". A yearly report on Group Risks shows the current developments in mapping risks, their evaluation and their control. It also provides an update on risk management.

The report is submitted to the Executive Committee and then to the Audit and Accounting Committee of the Board of Directors. The Executive Committee organizes the monitoring of risks, for which it designates specific "owners" that are responsible for managing the risk and for reporting on them annually to the designated steering body.

On April 25, 2006, the Executive Committee examined the report for 2005 on Group Risks and indicated the major risks for the Group that it wished to track. The report for 2005 was presented to the Audit and Accounting Committee of the Board of Directors on June 20, 2006.

Similarly, on November 14, 2006, the Executive Committee examined the report for 2006 on the risks of Gaz de France. Chapter 4 (Risks) of the *document de référence* filed with the AMF (n° R.06-050), is based on the risk mapping of Gaz de France.

2.4 Developing internal audit programs

The Audit and Risks Division submits the "Group Head" program of audits to the senior management then presents it to the Audits and Accounting Committee, working mainly from the Group's risk mapping in order to identify the most relevant audit themes and optimize risk coverage. The Division also informs these bodies of the audit programs established by operational or functional entities. Audit results are fed into the risk mapping.

2.5 Controlling operational and financial risks

In order to achieve its operational and financial objectives, the Group has set up certain control procedures aimed at optimizing operations in connection with its activity.

After identifying and measuring the risks to be insured by the Group, Gaz de France created and implemented a policy under which all risks whose occurrence could have significant impact on its financial results are systematically transferred to the market. This policy for utilizing insurance may be modified at any time based on market conditions, opportunities, management's assessment of risks and the adequacy of their coverage. Insurance management is centralized, which makes it possible to have a homogeneous and coordinated overall control of insurable risks at the Group level, along with a centralized approach to insurance purchases.

For financial risks, each year the Chief Financial Officer presents a report on the Group's financial policies to the Board of Directors after prior review by the Audit and Financial Statements Committee. This report describes financial management over the past fiscal year, details the main financial policy choices made for the Group (financing, asset management, financial risk management and hedging) and gives the outlook for the coming year.

The framework for ensuring the consistent management of financial risks is developed by the Exchange and Interest Rate Committee and the Credit Committee, which are under the authority of the Chief Financial Officer. These two committees are responsible for establishing the methods and processes that make it possible to manage, track and report financial risks according to explicit, specific procedures and risk boundaries.

3. INTERNAL ACCOUNTING AND FINANCIAL CONTROL SYSTEM

The management of the Group's financial affairs is decentralized.

The Financial and Legal Division is primarily responsible for the definition, implementation and supervision of the application of the Group's policies concerning finance, management controls, financial risk management, taxation, accounting and financial reporting.

It is responsible for the preparation of the unconsolidated financial statements, the financial statements for activities accounted for separately and the consolidated financial statements for the Chairman, the French Government Shareholding Agency (Agence des Participations de l'État) and certain external control bodies. It oversees compliance with the financial governance principles and, in particular, ensures the quality and accuracy of the information provided to the Audit and Financial Statements Committee concerning financial statements, the financial reporting policy and internal accounting and finance controls.

It must guarantee the consistency of the financial information communicated internally and externally, both in France and abroad.

Gaz de France's profit centers and subsidiaries are each responsible for their own internal control systems with respect to accounting and finances. At the end of each fiscal year each profit centre delivers a certificate indicating the qualitative conditions for the production of accounting information and the implementation of the accounting and finance internal control plan; the Chief Executive Officers of the main subsidiaries sign a letter of representation.

Particular attention is being paid to the internal control of recently acquired subsidiaries in order to provide convergence with Group principles.

3.1 Supervision of accounting and finance: organization

3.1.1 Finance and Accounting and Management Control Divisions

The Accounting Department defines the Group's accounting and finance audit policy. This function involves the identification and assessment of risks and the risk management based on the quality of the Group's accounting processes, particularly under the financial security standards prepared by the Accounting Department.

A Reporting Handbook defines the Group's accounting principles and describes the organization of the management processes. This document enables those active in this area to adapt their behavior to its principles and procedures and to contribute to the Group's financial consolidation and management reporting processes. This standard is also used by external auditors and directors of subsidiaries.

Used in connection with a tool for reporting across the Group (HFM – edited by HYPERION), it enables to ensure the quality of the treatment of the financial information and the implementation of procedures designed to improve the relevance, reliability and timeliness of information.

Financial information sent by subsidiaries to the head of the Group goes through monitored delivery procedures, in which each step is traced.

Users, based on their profile, can access this application and the Reporting Handbook after receiving authorization, which is managed by a centralized administrative group.

In compliance with European regulation 1606/2002 dated July 19, 2002, the Group's consolidated financial statements are prepared according to the international accounting standards IAS/IFRS as approved by the European Union and applicable as at the date of preparation of the current financial statements.

3.1.2 The role of profit centers

The four segments of the Gaz de France Group contain eight profit centers in charge of directing the operational entities (departments of Gaz de France and its subsidiaries) that are linked with them.

The financial responsibilities of the profit centers cover the following areas:

- subsidiary management;
- cash flow projections;
- identification of financial risks and tracking the hedging of risks;
- overseeing the consistency of the management data from subsidiaries;
- accounting doctrines specific to certain profit centers;
- finance and asset expertise applied to the management of regulated assets;
- supervision of consolidated accounting restatements done by the subsidiaries; and
- internal accounting and finance control.

Organization of internal accounting and finance control

The respective responsibilities of the Finance and Accounting Division and the Management Control Division on the one hand, and of the profit centers on the other, are formalized in rules subject to review as necessary.

Under these rules the profit centers are required to develop an efficient accounting and finance control system.

Exploration-Production

This activity is performed by subsidiaries; it is overseen by the Exploration and Production Division (DEP).

The management comptrollers for DEP lead a financial segment that oversees the application of the Group's procedures, identifies and shares best practices, and so ensures consistency within the business activity. Management comptrollers exercise internal control and verify the preliminary and final financial information periodically provided to the Group.

Major Infrastructures Division (DGI)

This division is responsible for storage and LNG Terminals.

The tertiary services center is responsible for providing Accounting, Management, Human Resources, Purchasing and Logistics services.

Relations between the Financing and Accounting Division and the Centre for Professional Services are regulated by protocols defining tasks arising from their respective responsibilities and are measured against a quality indicator scorecard.

The accounting section ensures the dispersal of the Group's instructions, particularly regarding finance and accounting internal controls based on the following principles:

- procedures that define the division of responsibilities;
- an accounting and finance internal control plan for the Units prepared under the responsibility of the Unit Vice-Presidents;
- the Unit's annual tax statements, signed by the Unit's Vice-President; and
- control of the formal quality of the accounting carried out by the Professional Services Center's accounting section.

Financial information generated by the DGI is subject to the controls of the Accounting and Finance Division.

GRTgaz Subsidiary

Internal finance and accounting controls for this gas transmission subsidiary are provided by the subsidiary's Finance Division.

• *Supply and Trading*

The Supply and Trading Division has its own head of internal audits and a team in charge of quality which has established a system of Management by Process.

Standard operating procedures for internal accounting and financial controls are in place for this division, whose procedures for the purchase of gas and the sale of gas and electricity – which are hedged through various financial instruments – have already been validated in 90% of cases and are in process of validation for the other 10%. The accounting process was validated at the beginning of 2006 and had its first review in March of that year.

The Supply and Trading Division's financial management applies instructions from the Finance and Accounting Division, which performs annual reviews of the quality of accounting and financial information generated.

Finally, the Trading Division has established an internal control correspondent reporting to the Chief Operating Officer; in conjunction with the Quality manager, the correspondent's mission is to ensure the effective application of internal control procedures, including accounting and financial dimensions.

• *Distribution*

In France this business activity is provided by Gaz de France Network Distribution Division and EDF Gaz de France Distribution Division, a shared service between Gaz de France and EDF.

Each of these entities has defined functions and has policies for finance and accounting internal controls.

The EDF Gaz de France Distribution Division is in charge of keeping accounting records. It has defined an accounting and tax quality standard and carries out accounting and finance audits.

• *The Market Development and Sales Division*

This profit centre is led by the Market Development and Sales Division for Gaz de France; its accounting is performed by the Logistics Solutions Division.

Internal accounting and finance control is ensured by the Accounting Department of the Logistics Solutions Division. Internal controls specific to the core business are carried out by the Market Development and Sales Division, which established an internal control plan and carried out various control activities, in particular the management of client portfolios (managing files and the accounting pertaining to them).

• *Service Activities*

The activities of this profit centre are performed by subsidiaries and the different companies that perform these service activities are united in a sub-group, which is also a consolidation tier.

The finance controls for these subsidiaries are performed by the management control of the Services segment in a manner consistent with the Group's principles.

• *"International" Branch*

The "International" Branch includes the Group's transmission, distribution and sales activities, which are performed internationally by Gaz de France's subsidiaries.

The accounting and finance internal controls are implemented by Gaz de France representatives occupying governance positions in the principal subsidiaries; they are complemented by the management oversight and monitoring performed by the "International" Branch's management comptrollers.

Shared Functions

These functions are not grouped into one division.

Accounting for the divisions that perform support or management functions is handled by the Logistics Solutions Division, which performs quality control on the accounts for which it is responsible.

This division has created an audit function whose purpose is to reinforce the internal controls for common functions.

Standardized Year-end Certificate

The certificate, signed by the Vice-President of the division concerned, is sent with financial statements to the Finance and Accounting Division. In this document, the conditions in which the financial statements have been produced (precision, "exhaustive" nature of economic information, approvals and deadlines), the extent of justifications related to the financial statements, as well as the controls that have been completed, which have allowed them to proceed with these assessments.

An internal control charter for accounting showing the required accounting controls is attached.

A general evaluation letter including a summary concerning the quality of the accounting and assessing the internal accounting and finance control is attached to the certificate.

These two documents make it possible for the Chairman and Chief Executive Officer, the Vice-President of the Finance and Accounting Division and Vice-President of the Accounting Department to sign a representation letter addressed to the Statutory Auditors.

Role of the Subsidiaries

The subsidiaries are responsible for the management of the risks to which they are exposed. Within each profit centre there is an audit function that, in connection with the Audit and Risk Management Division and the Group's Audit and Accounting Quality Division, checks the effectiveness of the control exercised by the subsidiaries that report to it.

The subsidiaries apply the Reporting Handbook's procedures for accounting and management reporting.

With respect to finances, in most of the companies, in particular operating companies, there is an internal control head that reports to senior management or the financial department and implements standardized control procedures.

In companies that have no internal control function, management auditors exercise control.

For holding companies and companies recently incorporated, the management control department conducts internal control activities.

The two subsidiaries of the Group belonging to the financial sector function within a regulated framework governed by the rules and standards of the banking sector. Notably, they are subject to the supervision of the banking commission (commission bancaire).

Internal controls carried out by the subsidiaries are reviewed by the "finance and accounting audit" representatives present in the business segments. The Group's Audit and Accounting Quality Division attends summary meetings and is informed of the important events relating to the financial information for subsidiaries likely to affect the Group's financial risk evaluation and require particular attention.

The main subsidiaries deliver representation letters; this principle will be progressively applied to all subsidiaries. In this document, the Chairman, the Chief Operating Officer and/or the Vice-President and Chief Financial Officer of the subsidiaries must assert their responsibility for the accuracy and consistency of the financial statements and covenant to communicate to the Statutory Auditors any information that could have an impact on the financial statements (undertakings, risks, internal control failure, etc.).

3.1.3 Control of financial information

The Group's Management Control Division and the Vice-President for Financial Reporting must, after prior review by the Chief Financial Officers of the profit centers, systematically approve messages including financial, economic or sensitive information.

3.1.4 Procedures for the establishment and control of separate accounts

In accordance with the French law dated January 3, 2003, every company engaged in one or more activities in the natural gas sector must have separate management accounts for the transmission, distribution and storage of natural gas as well as the operation of LNG facilities and all other activities that are not connected with natural gas.

In addition, in accordance with the French law dated August 9, 2004, any company engaged in an activity in the natural gas sector must create separate accounts for its activities involving the supply of gas to eligible and non-eligible customers.

Gaz de France obtains French Energy Regulation Commission (*Commission de régulation de l'énergie*) approval of the allocation rules, the scope of activities for which separate internal accounts are to be provided and the principles of separate accounting, which are incorporated into its information system.

Such separate accounts are not published.

3.2 Duties of Statutory Auditors

The firms Ernst & Young and Mazars & Guérard act as the Statutory Auditors of the Gaz de France Group. Their term of office was renewed in 2002 for six fiscal years.

In the context of their assignment relating to the certification of the financial statements, they review the organization and operation of the accounting and internal control systems for finance and accounting impact, in order to determine the quality of the financial information that is generated. They give their recommendations on the procedures and internal control systems that could have an effect on the quality of the information produced.

In addition to the audit of sensitive processes, the work of the Statutory Auditors focused predominantly on the application of IFRS standards, especially in the area of capital assets and financial instruments.

In almost all of the main subsidiaries, at least one of the Statutory

Auditors belongs to the network of the Group's Statutory Auditors.

3.3 The quality process of the Finance and Accounting and Management Control Divisions

The three primary duties of the Finance and Accounting and Management Control Divisions with respect to Gaz de France's Senior Management are:

- optimizing financial performance;
- accelerating the availability of relevant and reliable data for management;
- promoting the Group's financial image (by reinforcing the notion of rigorous, honest and transparent accounting.)

To reduce the risk of information failure, the Finance and Accounting and Management Control Divisions decided to put in place a quality management system for the "Production and reporting of the Group's financial information", which is one of the thirty key processes identified by Senior Management.

The Group's Audit and Accounting Quality Division leads the management of the account closing process. This entails specifying the organization of the due diligence required for the audit of Gaz de France's annual consolidated accounts, identifying the different actors in the closing process, identifying the process' critical tasks and at the same time assigning a level of risk to that task.

On the basis of feedback from previous account closings, in 2006 the Finance and Accounting Division established a quality control system for the closure of company and consolidated accounts. It is based on the decentralization of controls in the Group's units and, for subsidiaries, on the establishment of a first level control of the consolidation package turned through the HFM reporting application.

APPENDIX D

Statutory Auditors' report, prepared in accordance with Article L. 225-235 of the Commercial Code, on the report prepared by the President of the Board of Gaz de France, on information given on the internal control procedures relating to the preparation and processing of financial and accounting information

Fiscal year ended December 31, 2006

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

Gaz de France, S.A.
year ended December 31, 2006

In our capacity as statutory auditors of Gaz de France, and in accordance with article L.225-235 of the French Company Law (Code de Commerce), we report to you on the report prepared by the President of your company in accordance with article L.225-37 of the French Company Law (Code de Commerce) for the year ended December 31, 2006.

It is for the President to give an account, in his report, notably of the conditions in which the tasks of the board of directors are prepared and organized and the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information given in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We conducted our work in accordance with the professional guidelines applicable in France. These guidelines require us to perform procedures to assess the fairness of the information given in the President's report, on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the President's report; and
- obtaining an understanding of the work performed to support the information given in the President's report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the President of the board's report, prepared in accordance with article L.225-37 of the French Company Law (Code de Commerce).

Paris-La Défense, April 3, 2007

Statutory Auditors

MAZARS & GUERARD		ERNST & YOUNG AUDIT	
Michel Barbet-Massin	Xavier Charton	Patrick Gounelle	Philippe Hontarrède

APPENDIX E

Fees paid by the Company to the independent statutory auditors

Thousands of euros	Mazars et Guérard				Ernst & Young			
	Amount (ex-tax)		%		Amount (ex-tax)		%	
	2006	2005	2006	2005	2006	2005	2006	2005
Audit								
Audits - Issuer	1,052	897	22.7%	24.5%	1,067	1,162	15.5%	25.3%
Audits - consolidated subsidiaries	1,222	1,147	26.3%	31.4%	1,871	1,067	27.1%	23.3%
Other audit-related work-issuer	2,337	1,571	50.4%	43.0%	3,536	1,873	51.2%	40.8%
Other audit-related work-consolidated subsidiaries	0	24	0.0%	0.7%	0	76	0.0%	1.7%
Total audit	**4,611**	**3,639**	**99.4%**	**99.6%**	**6,474**	**4,178**	**93.8%**	**91.1%**
Other services								
Legal, tax, social	25	1	0.5%	0.0%	427	388	6.2%	8.5%
Other	3	15	0.1%	0.4%	0	21	0.0%	0.5%
Total other	**28**	**16**	**0.6%**	**0.4%**	**427**	**409**	**6.2%**	**8.9%**
Total Fees	**4,639**	**3,655**	**100.0%**	**100.0%**	**6,901**	**4,587**	**100.0%**	**100.0%**

APPENDIX F

Annual information document

In accordance with Article 221-1-1 of the General Regulations of the Autorité des Marchés Financiers (Financial Markets Authority), this document shows the list of all information made public by Gaz de France since January 1, 2006 to satisfy the legal and regulatory obligations concerning financial instruments, issuers of financial instruments and markets in financial instruments.

Document de référence

05/05/2006 Document de référence 2005

This document is available on the Internet site of Gaz de France (www.gazdefrance.com).

Publications in the BALO *(Bulletin des Annonces Légales Obligatoire)*

04/18/2007	Convocation Notice of General Shareholders Meeting for holders of irredeemable securities
04/04/2007	Notice of meeting constituting notice of convocation of the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2007 and draft resolutions
02/14/2007	2006 annual consolidated revenues
11/15/2006	2006 3rd quarter consolidated revenues
10/25/2006	2006 1st half-year results
10/13/2006	Addendum to the June 7, 2006 BALO announcement - Allocation of the earnings and general auditors' report on the annual individual and consolidated financial statements
10/13/2006	Correction of the June 7, 2006 BALO announcement
08/14/2006	2006 1st half consolidated revenues
06/07/2006	Amount of capital share and total number of voting rights in existence
06/07/2006	2005 annual individual and consolidated financial statements
05/31/2006	Second notice of convocation of General Shareholders Meeting for holders of irredeemable securities
05/15/2006	2006 1st quarter consolidated revenues
05/08/2006	convocation Notice of the Ordinary Shareholders Meeting of May 24, 2006 and draft resolutions
05/05/2006	convocation Notice of the General Shareholders Meeting for holders of irredeemable securities
04/21/2006	Notice of meeting of the Ordinary General Shareholders Meeting of May 24, 2006 and draft resolutions
02/15/2006	2005 annual consolidated revenues

The above information is available on the Internet site of the BALO (http://balo.journal-officiel.gouv.fr).

Press releases issued in accordance with regulations applicable in France

03/13/2007	2006 annual results
02/14/2007	2006 annual revenues
01/23/2007	Board of Directors meeting on January 23, 2007
01/03/2007	Half-year liquidity contract status report
12/26/2006	Wind partnership between Gaz de France and Maïa Sonnier through Maïa Eolis
12/20/2006	Board of Directors meeting on December 20, 2006
12/19/2006	Extension until 2030 of the natural gas supply agreements with Gazprom [1]
12/15/2006	Continuation of the information process of the European Works Council
12/11/2006	Execution of an agreement with Sonatrach for the purchase of natural gas

(1) *Press release issued jointly with Gazprom.*
(2) *Press release issued jointly with Suez.*

12/08/2006	Construction of an electricity generating plant in Brittany
11/22/2006	Statement by Jean-François Cirelli and Gérard Mestrallet following the decision by the Paris Court of Appeals [2]
11/20/2006	New transportation tariffs
11/14/2006	2006 3rd quarter consolidated revenues
10/30/2006	Progress report on the merger – Organization plan for the new group [2]
10/23/2006	Completion of the organization plan for the new group [2]
10/13/2006	Commitment towards the European Commission [2]
10/12/2006	Board of Directors meeting on October 12, 2006
09/28/2006	Finalization of the asset exchange agreement with Dana Petroleum
09/21/2006	Creation of Energie Investimenti, a joint venture between Gaz de France and Camfin
09/20/2006	Commitments proposed to the European Commission [2]
09/12/2006	2006 half-year results
08/11/2006	2006 1st quarter consolidated revenues
07/27/2007	Update by Jean-François Cirelli
07/24/2006	Strengthening of the presence in Mauritania
07/19/2006	Sale of the interest in KGM
07/12/2006	Strengthening of the presence in Mauritania
07/05/2006	Half-yearly liquidity contract status report
06/19/2006	Camfin and Gaz de France create a natural gas joint venture
06/19/2006	Gaz de France and Suez celebrate the government's position [2]
06/15/2006	Gaz de France – Suez proposed merger [2]
05/15/2006	2006 1st quarter consolidated revenues
05/09/2006	Implementation of a liquidity contract
05/04/2006	Merger timeline confirmed and synergies revised upwards [2]
03/30/2006	Amendment of the agreements between Gaz de France and Dana Petroleum
03/22/2006	Comments following decisions by the government on gas tariffs
03/16/2006	2005 annual earnings
03/02/2006	Results of the Energy Regulation Commission audit
02/27/2006	Gaz de France – Suez proposed merger [2]
02/25/2006	Board of Directors meeting of February 25, 2006
02/15/2006	2005 annual revenues
01/26/2006	Date of publication of the 2005 financial statements
01/26/2006	Gaz de France and Suez complete an industrial partnership project [2]
01/19/2006	Dutch offshore natural gas fields put into production
01/03/2006	Gaz supplies from Russia back to normal
01/03/2006	Situation regarding Russian gaz supplies

The above information is available on the Internet site of Gaz de France (www.gazdefrance.com).

Press releases issued in the context of the projected merger with Suez in accordance with regulations applicable in the United States (Form 425)

01/24/2007	Press release – Board of directors held on January 23, 2007
12/20/2006	Press release – Gaz de France continues the information process with the European works council
11/24/2006	English translation of an interview that was published in "Les Echos" on November 23, 2006
11/24/2006	Press release – Board of directors held on November 21, 2006
11/22/2006	Press release – Declaration by G. Mestrallet and J.-F. Cirelli following the decision by the Paris Court of Appeal [2]

(2) *Press release issued jointly with Suez.*

11/03/2006	English translation of a joint press conference given by G. Mestrallet and J.-F. Cirelli on October 30, 2006
10/31/2006	Presentation relating to the proposed structure of the new Group made available at a joint press conference on October 30, 2006
10/30/2006	Press release – Proposed structure of the new Group [2] 10/24/2006 Press release - Agreement on the final structure of the new Group [2]
10/18/2006	English translation of an interview that was published in "La Tribune" on October 17, 2006
10/16/2006	Press release – Commitments submitted to the European Commission totally preserve the common industrial rationale of Suez and Gaz de France [2]
10/13/2006	Press release – Board of directors held on October 12, 2006
10/10/2006	Press release – Suez and Electrabel made undertakings in the perspective of the merger between Suez and Gaz de France
09/21/2006	Press release – Commitments submitted to the European Commission by Suez and Gaz de France [2]
09/21/2006	Presentation relating to Gaz de France 2006 first half results made available on the website of Gaz de France and at a presentation in Paris
09/21/2006	Press release – Gaz de France 2006 first half results
06/21/2006	Press release – Gaz de France and Suez are pleased with the French government decision [2]
06/19/2006	Press release – Joint statement made by G. Mestrallet, Chairman and CEO, Suez, and J.-F. Cirelli, Chairman and CEO, Gaz de France[2]
06/13/2006	English translation of an interview that was published in the "Journal du Dimanche" on June 11, 2006
05/12/2006	Transcripts of an informational conference call held in Paris on May 4, 2006
05/05/2006	Presentation made available on the website of Gaz de France in connection with an informational conference call held in Paris on May 4, 2006
05/05/2006	Press release – Merger timeline confirmed and synergies revised upward [2]
03/29/2006	Press release – Progress of the merger project [2]
03/02/2006	Transcripts of the proceedings at the informational meeting held in Paris on February 28, 2006 in connection with the proposed merger
02/28/2006	Materials presented at an informational meeting held in Paris on February 28, 2006 in connection with the proposed merger
02/27/2006	Press release – Proposed merger between Gaz de France and Suez [2]

The above information is available on the Internet site of the Securities Exchange Commission (SEC) (www.sec.gov).

Declarations of operations carried out by managers

02/22/2006	Declaration of transactions operated by P Lemoine on Gaz de France share
02/13/2006	Declaration of transactions operated by B. Calbrix on Gaz de France share

The above information is available on the Internet site of the Financial Markets Authority *(Autorité des marchés financiers, AMF)* (www.amf-france.org).

Declarations of operations on own shares

04/23/2007	Declaration of Gaz de France treasury stock purchases and sales
03/12/2007	Declaration of Gaz de France treasury stock purchases and sales
03/05/2007	Declaration of Gaz de France treasury stock purchases and sales
01/22/2007	Declaration of Gaz de France treasury stock purchases and sales
12/18/2006	Declaration of Gaz de France treasury stock purchases and sales
11/20/2006	Declaration of Gaz de France treasury stock purchases and sales
10/09/2006	Declaration of Gaz de France treasury stock purchases and sales
09/25/2006	Declaration of Gaz de France treasury stock purchases and sales
08/16/2006	Declaration of Gaz de France treasury stock purchases and sales
07/17/2006	Declaration of Gaz de France treasury stock purchases and sales

The above information is available on the Internet site of the Financial Markets Authority *(Autorité des marchés financiers, AMF)* (www.amf-france.org).

(2) *Press release issued jointly with Suez.*