# 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. 08-056 on May 15, 2008. 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.

This *document de référence* (registration document) was filed with the French Financial Markets Authority (*Autorité des marchés financiers*) on May 15, 2008, under number R. 08-056, pursuant to Articles 212-13 of its general regulations. It may be used in connection with a financial transaction if accompanied by a transaction document approved by l'Autorité des marchés financiers. This registration document 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 EC regulation 809/2004 dated April 29, 2004, the following information is included in this registration document (registration document):

- consolidated financial statements of the Group, prepared in accordance with IFRS accounting principles and the related Auditors' reports for the year ended December 31, 2006, found on pages 182 through 294 of the Company's registration document for 2006, registered on April 27, 2007 with l'Autorité des marchés financiers, under R.07-046;
- consolidated financial statements of the Group, prepared in accordance with IFRS accounting principles and the related Auditors' reports for the year ended December 31, 2005, found on pages 182 through 301 of the Company's registration document, registered on May 5, 2006 with l'Autorité des marchés financiers, under R.06-050;

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

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## Note

*For the purposes of this registration document, "**Gaz de France**", "the **Company**" and "the **Issuer**" all refer to the company Gaz de France, as identified in section 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 units of measurement natural gas and other energy products, as well as a glossary of commonly used technical terms, can be found under Appendix A and Appendix B of this registration document.*

# 1 PERSON RESPONSIBLE



## 1.1 Person responsible for the registration document

Mr. Jean-François Cirelli, Chairman and Chief Executive Officer.

## 1.2 Attestation of the person responsible for the registration document

I hereby certify, after having taken all reasonable measures to this effect, that the information contained in this registration document is, to my knowledge, in accordance with the facts, and that nothing has been omitted that would alter its content.

I have received a completion letter from the legal statutory auditors stating that they have audited the information contained in this reference document on the financial position and accounts, and that they have read this document in its entirety.

The legal statutory auditors have established a report on the historical financial information presented in this registration document. It can be found in section 20.1.1.2, and does not include any observations.

The statutory auditors have established reports on the consolidated financial statements for fiscal years ended December 31, 2005 et 2006 in accordance with IFRS accounting principles. They can be found, respectively, in sections 20.1.1.2 of the Company's registration document for 2006, registered on April 27, 2007 with l'Autorité des marchés financiers under R.07-046, and in section 20.1.1.2 of the Company's registration document for 2005, registered on May 5, 2006 under R.06-050.

For fiscal year 2005, an observation was formulated in the statutory auditors' report 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 "Concession grantors' rights in assets";.

**Jean-François Cirelli**
*Chairman and Chief Executive Officer*

# 2 PERSONS RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS



## 2.1 Statutory auditors

### 2.1.1 Statutory auditors

Mazars & Guérard
Tour Exaltis
61 rue Henri-Regnault
92075 La Défense Cedex
Represented by Marie-Laure Philippart and Michel Barbet-Massin.

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 statutory auditors for Gaz de France since January 1, 2002. Their term of office will expire at the close of the annual General Shareholders' Meeting held to approve the financial statements for the fiscal year ending 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 substitute statutory auditors for Gaz de France since January 1, 2002. Their term of office will expire at the close of the annual General Shareholders' Meeting held to approve the financial statements for the fiscal year ending December 31, 2007.

## 2.2 Resignation or departure of statutory auditors

None

# 3 SELECTED FINANCIAL INFORMATION



The financial data provided below are intended to succinctly represent and analyze changes that occurred from 2006 to 2007 in the revenues, operating performance and financial structure of the Gaz de France Group.

| *(Million euro)* | 2007 | 2006 | Variation | 2005 |
|---|---|---|---|---|
| **Revenues** | **27,427** | 27,642 | *-0.8%* | 22,872 |
| **EBITDA** | **5,666** | 5,149 | *+10%* | 4,248 |
| **Operating income** | **3,874** | 3,608 | *+7.4%* | 2,821 |
| **Net income – Group share** | **2,472** | 2,298 | *+7.6%* | 1,782 |
| **Operating cash flow** | **5,904** | 5,118 | *+15.4%* | 4,254 |
| **Diluted net income per share** [(1)] | **2.51** | 2.34 | *+7.6%* | 1.89 |

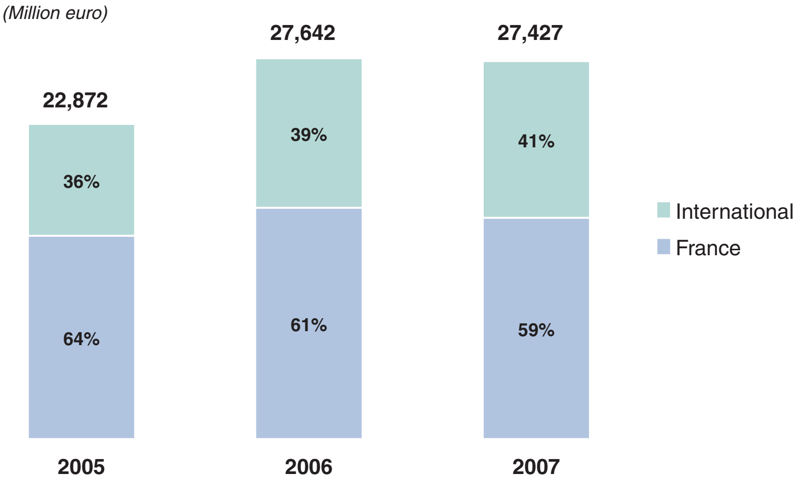
(1) *Net income and diluted net income per share – Group share in euro; Average number of shares in circulation (in thousands): 983,115 in 2007, 983,719 in 2006 and 942,439 in 2005.*

## 3.1 Activity

### Revenues held steady in the period from 2006 to 2007

**Revenues held steady in the period from 2006 to 2007**

*(Million euro)*

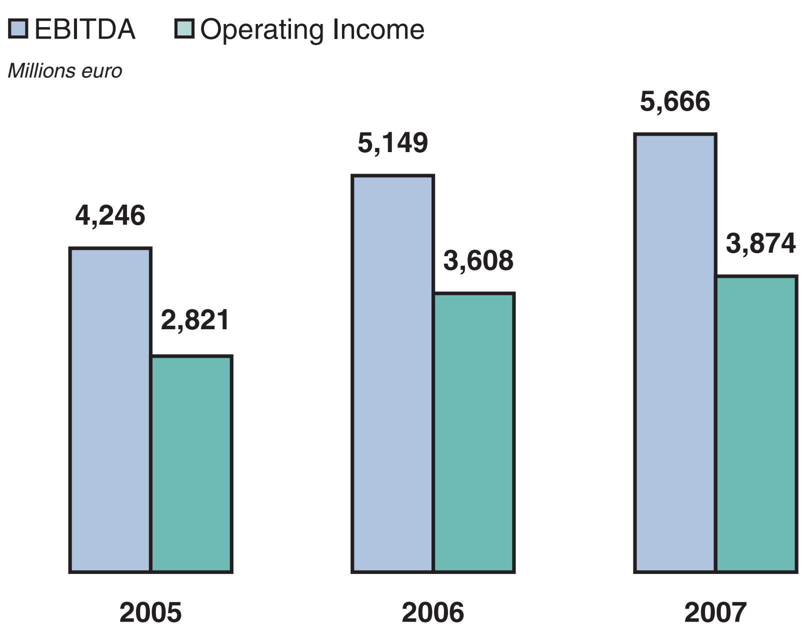


### Breakdown of 2007 revenues by division, segment

| *million euro* | 2007 | 2006 | Variation | 2005 |
|---|---|---|---|---|
| **Energy Supply and Services Division** | | | | |
| Exploration – Production | 1,717 | *1,659* | *3%* | *1,139* |
| Purchase – Sale of Energy | 20,041 | *20,455* | *-2%* | *17,346* |
| Services | 1,807 | *1,801* | *0.3%* | *1,568* |
| **Infrastructures** | | | | |
| Transmission and Storage – France | 2,494 | *2,355* | *6%* | *2,138* |
| Distribution France | 3,076 | *3,289* | *-6%* | *3,426* |
| International Transmission and Distribution | 5,202 | *5,178* | *0.5%* | *3,669* |
| Elimination, other and unallocated | -6,910 | *-7,095* | | *-6,414* |
| **GROUP TOTAL** | ***27,427*** | ***27,642*** | ***-0.8%*** | ***22,872*** |

## 3.2 Operating performance

### EBITDA growth of 10%; operating income up 7%.



## Breakdown of EBITDA by division and segment as at December 31, 2007

The reconciliation of this indicator with the financial reports is described in Note 1-2 in the appendix of the consolidated financial statements dated December 31, 2007 under IFRS, see section 20.1.1.1.

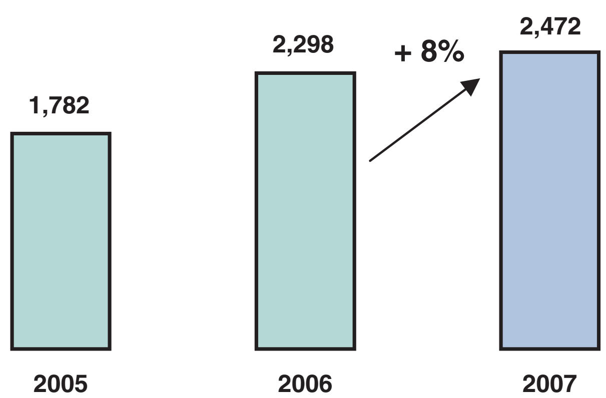
| *million euro* | 2007 | 2006 | Variation | 2005 |
|---|---|---|---|---|
| **Energy Supply and Services Division** | | | | |
| Exploration – Production | 1,127 | 1,270 | -11% | 726 |
| Purchase – Sale of Energy | 1,075 | 529 | 103% | 325 |
| Services | 129 | 117 | 10% | 105 |
| **Infrastructures** | | | | |
| Transport and Storage – France | 1,534 | 1,357 | 13% | 1,265 |
| France | 1,291 | 1,412 | -9% | 1,358 |
| International Transmission and Distribution | 491 | 498 | -1% | 379 |
| Other and unallocated | 19 | -34 | | 90 |
| **GROUP TOTAL** | **5,666** | **5,149** | **10%** | **4,248** |

## Breakdown of operating income (OI) at December 31, 2007 by division/segment

| *million euro* | 2007 | 2006 | Variation | 2005 |
|---|---|---|---|---|
| **Energy Supply and Services Division** | | | | |
| Long Term & Spot Contracts | 755 | 935 | -19% | 457 |
| millions of euro | 940 | 443 | 112% | 251 |
| Services | 82 | 71 | 15% | 59 |
| **Infrastructures Division** | | | | |
| Transport and Storage – France | 1,185 | 1,013 | 17% | 934 |
| France | 552 | 726 | -24% | 900 |
| Transmission and Distribution International | 381 | 348 | 9% | 291 |
| Other and unallocated | -21 | 72 | | -71 |
| **GROUP TOTAL** | **3,874** | **3,608** | **7%** | **2,821** |

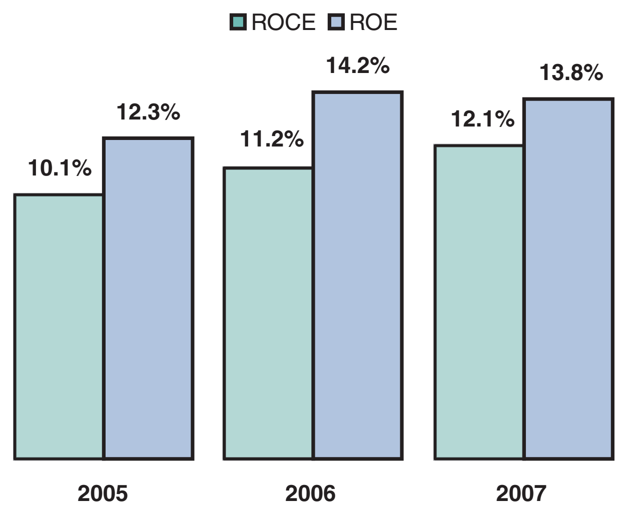
**8% growth in net income – group share**

*million euro*




**Changes in ROCE and ROE over the last 3 years**

The detailed calculation is provided in section 9.3.3. – "ROE, ROCE"




## 3.3 Financial structure

### Balance sheet assets (main items)

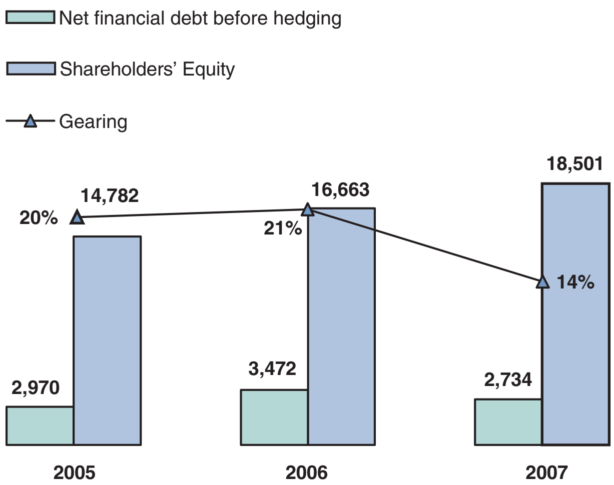
| *million euro* | Dec 31, 2007 | Dec 31, 2006 | Dec 31, 2005 |
|---|---|---|---|
| Non-current Asset | 29,191 | 27,388 | 25,405 |
| Inventories and work-in-progress | 1,790 | 1,935 | 1,452 |
| Trade and other receivables | 8,816 | 8,286 | 8,259 |
| Other current assets | 3,170 | 2,756 | 2,678 |
| Cash and cash equivalents | 3,211 | 2,556 | 2,142 |
| **Total assets** | **46,178** | **42,921** | **39,936** |

### Balance sheet liabilities (main items)

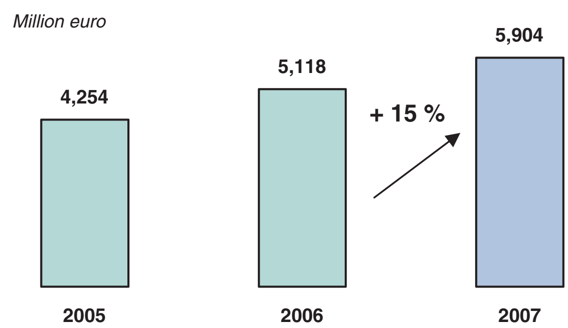
| *million euro* | Dec 31, 2007 | Dec 31, 2006* | Dec 31, 2005 |
|---|---|---|---|
| Shareholders' equity | 18,501 | 16,663 | 14,782 |
| Non-current provisions | 7,206 | 6,892 | 6,627 |
| Other non-current liabilities | 2,932 | 2,864 | 2,943 |
| Financial debt | 5,945 | 6,028 | 5,112 |
| Trade and related payables | 3,696 | 3,623 | 3,202 |
| Other current liabilities | 7,898 | 6,851 | 7,270 |
| **Total liabilities** | **46,178** | **42,921** | **39,936** |

* *Restated to reflect the identification and evaluation of assets acquired and liabilities assumed in the 2006 acquisition of Maïa Eolis*

### Decrease in gearing from 2006 to 2007



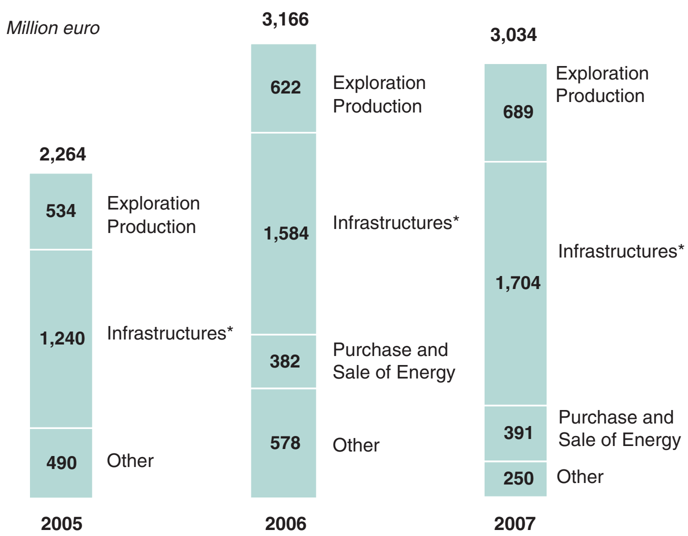

### 15% growth in operating cash flow



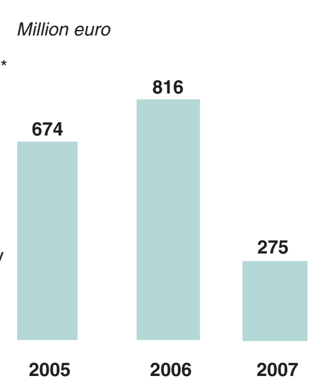

### Evolution in investments

See Section 10.2.2 – " Flow from investment activities"

**Investissements hors croissance externe**




**Acquisitions**




* (Transport-International Distribution)

# 4 RISK FACTORS



In order to achieve its ambition to become a European leader in natural gas, Gaz de France's growth objective is strong growth and risk taking. The Company conducts its business activity in an environment which has seen rapid changes and given rise to numerous risks, of which it has not mastered all material risks. These risks include in particular the uncertainties linked to the speed of development of the European energy market. The risks and uncertainties presented below are not the only ones which the company must face. Others which it does not currently know about or which it does not consider as major, could also have an negative effect on its business, its performance or its balance sheet.

## 4.1 Primary risks

### 4.1.1 Risks related to the Group's business sectors.

**Business risks linked with purchase – sale activities of natural gas and electricity**

The primary risk of the natural gas and electricity procurement and sales activity resides in the inadequacy of the procurement portfolio with respect to the sales portfolio, in terms of quantities, of geographic location, of price (level and indexing) or of maturity (short-, medium-, and long-term). Any event having an impact on supplies or sales of energy is likely, if the impacts were poorly anticipated, to disturb the equilibrium of purchases-sales chosen by Gaz de France, and thus able to create a contingency on the expected income.

The primary commercial risk factors of the procurement sales activity are described in this section, except for the risks weighing on the administered rates of sales, counterparty risks and risks linked to the variation in the prices of petroleum prices and exchange rates, treated separately:

The expectation of a sole supplier

Numerous eligible customers wish to designate their gas and electricity supply to a single supplier. Studies show that this tendency is still marked in the domestic sector which is open to competition in France since July 1, 2007. Thus, for the Group, any difficulty in meeting the demand for electricity of its customers could have an impact in its sales of gas and market shares.

Commitments for "take-or-pay" contracts

The development of gas in Europe occurs to a large extent due to long-term 'take-or-pay' contracts. According to these contracts, the seller commits on a long-term basis to serve the buyer, provided there is a commitment on the behalf of the buyer to pay for minimum quantities accepted for delivery or not. These minimum amounts can only vary partially depending on the contingencies of the weather. These commitments contain protective provisions (force majeure) and flexibilities.

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

Risks in demand

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 if this assumption is incorrect. Gaz de France has implemented a watch on market tendencies, conducts research and development activities on the new uses of natural gas and has dedicated a project head and project team, called *Programme Gaz Naturel*, whose aim is to develop has natural gas energy in France.

In the long-term, numerous factors can affect energy choices: changes in economic growth, the economic attractiveness of natural gas compared with other energy resources, the political will of individual countries and incentives of the European

Union (EU) (control of energy demand, greenhouse gas emissions, relaunch or abandonment of nuclear energy, development of renewable energies), technological changes which create new uses of energy, accidents which could negatively affect the images of certain lines, *etc.*

In the medium-term, significant variations in weather (primarily in temperature) from one year to the next can generate significant variations in energy demand, with higher demand in colder years and lower in warmer years. This factor could impact on the Group's results.

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, like the ability of Gaz de France to enter new markets outside France, constitute risks for the Group's results.

In France, this risk is more acute to the extent that Gaz de France has associated 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 identity. Several informational sales campaigns were launched in 2007 to develop recognition for Gaz de France among domestic customers.

Tensions over energy procurement

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 or create tensions on the Group's European procurement (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.*). In addition, long-term natural gas contracts are subject to regular price renegotiations. There may be some uncertainty about the results of those renegotiations.

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 section 6.1.3.1.2.2.1.1.5 – "Short-term markets: Gaselys").

In electricity, Gaz de France gets supplies from its electricity power production plants, on the wholesale market and from bilateral contracts with producers. Price volatility can be accented by changes in weather, production and by the anticipations of various actors.

The Group watches to limit its exposure and its transactions made on markets are generally financially hedged to guarantee the outcome.

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

The results of certain Group businesses, particularly Exploration – Production and the 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 which it sells through 'take-or-pay' contracts which index gas prices for the month to the price (in US dollars) of petroleum products in prior months. The price of petroleum products and the €/US$ 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.

**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 (see section 6.1.3.1.2.2.1.1.5 – "Short-term markets: Gaselys"). Risk management is provided by the Group, especially by its Credit Committee. As such, the Group is exposed to a risk of default by its counterparties.

## 4.1.2 Regulatory risks

**Risks related to the regulation of administered (or regulated) and regulated prices**

Part of the sales of energy and services of Gaz de France is made as part of administered prices which are subject to regulations. French law and regulations and European regulations, as well as the decisions of the regulatory authorities (particularly, the French Energy Regulatory Commission (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, Industry and Labor of June 16, 2005. This order was only partially applied during this period. In addition, this validity period ended on December 31, 2007. The principles for changing rates must thus be covered by a new regulatory framework. The conditions for implementing rates as part of the future 2008-2010 public service contract are subject to discussion with the public authorities. The same holds true for non-coverage of new costs except for supply which would be exposed.

Failure to comply with the principles stipulated during tariff revisions exposes the Group 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 €/US$ 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

<u>The protection of certain consumers</u>

Laws or regulations protecting certain consumers expose the Group to the risk that it will be able to only partially collect unpaid bills or collect such bills late, that it will not be able to suspend the supply to concerned customers.

The Law of December 7, 2006 institutes a special solidarity gas rate on all suppliers, as a pubic service obligation. A Government decree will specify the conditions of the special solidarity rate, in particular for domestic customers residing in collectively heated residential buildings.

<u>Partial passing on of costs in rates to access gas infrastructures</u>

The rates applied by Gaz de France for access to LNG terminals and its subsidiaries in charge of infrastructure management for access to transport and distribution networks, are set by the ministries in charge the economy and energy on proposals from the CRE. These rates are based on rates of remuneration applied to a basis of regulated assets. The public authorities 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 rates.

<u>The implementation of a transitional market adjusted regulated rate</u>

The Law of December 7, 2006 allows certain end-users of electricity to benefit from a transitional market adjusted regulated rate by requesting it before July 1, 2007. Any deficits resulting for suppliers are compensated under certain conditions by a fund managed by the *Caisse des dépôts institution*. This new arrangement is likely to have an impact on the Group as supplier and producer of electricity.

## 4.1.3 Risks linked to the Group's growth

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

<u>Risks on the profitability of acquisitions</u>

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 integration difficulties, the non-realization of expected benefits and synergies, the involvement of managers of the acquired companies, and the 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 whom might hold a majority of the joint venture entities. Risks linked to evaluation of liabilities or expected income may appear at the end on the completion of the acquisitions.

<u>Economic and political factors</u>

A growing portion of the Group's natural gas supplies come from or could come from countries presenting specific geopolitical or economic risks. The Group also is involved in exploration-production projects and the construction of liquefaction factories and owns businesses for transport and distribution of natural gas in these countries.

The Group's operations in these countries are exposed to political and economic risks, especially the risk of an international crisis or an embargo interrupt the gas supplies and the risk of disturbance of the activity due to political or insurrectional actions, corruption or fraud. In addition, the Group may not be able to appropriately enforce its rights in the courts in these countries, especially in litigation against the Government or public entities.

<u>The regulations of certain European countries</u>

The Group's ability to pursue and carry out acquisitions is subject to regulatory and political constraints and uncertainties which are beyond its control. For example, for reasons of reciprocity and/or participation of the French Government in the Group's capital, other Governments may take measures prohibiting certain conditions to companies like Gaz de France to compete for public contracts for grant of gas distribution concessions, or reducing or suppressing voting rights of directory boards of subsidiaries in these countries.

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

<u>Change in the business mode: deregulation of the market and integrated activities</u>

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 regulation concerning concessions in particular could be modified or changed. Such changes could have an major negative effect the Group.

Moreover, in 2006 the European Commission conducted two investigations into the European natural gas market, one directed by the Competition Directorate and the other by the Transmission and Energy Directorate. Gaz de France is committed to scrupulously implementing measures which guarantee compliance with applicable laws in particular those linked to the legal separation of transmission and distribution activities. Following this survey the European Commission decided to propose a new regulation: On September 19, 2007, it communicated new draft legislation (known under the name of *Troisième Paquet législatif*) which included in particular two proposals for directives amending the existing directives relating to has and electricity markets (Directives 2003/55/CE and 2003/54/CE). They envisage, in particular, the separation of property (prohibiting a company exercising energy procurement or supply activities, holding interests in a transmission network operator) which could be subject to the opposition of a blocking minority, or other creation of an ISO type operator (the integrated companies conserving the ownership of transmission assets but who would delegate the management of their networks to that third party operator). According to the regulation which would result from that, currently being examined by the EU Council and the European Parliament, consequences could affect the scope of activities practiced by the Group, its structure, its organization or its economic model.

Renewal of authorizations, compliance

Gaz de France must obtain authorization to conduct its business in several key areas: concessions, 'Seveso' sites, *etc.* Failure to obtain these authorizations or their non-renewal could prevent the pursuit of certain 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 an 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. Difficulties in the implementation of its sustainable development policy could over time result to a discrepancy in the expectations of stakeholders. This discrepancy could be sanctioned by a downgrading of the Socially Responsible Investment 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.

Changes in global, European and French environmental policies, in particular regarding the limitation of greenhouse gas emissions and energy economy, could impact the Group's income (tax regime or specific taxes for fossil energies taxes, reduction of consumptions units, incentives for development of renewable energy to the detriment of fossil fuels, *etc.*). Thus the profitability of power production assets depends on the regulations on CO2 emissions limits, and effective allocations to existing and future production assets. The European Commission has tabled a discussion on new measures which aim, with a 2020 horizon target, for a reduction in the Union and compared with the 1990 level of 20% of greenhouse gas emissions and of 20% of the end energy use, and a 20% portion for the renewable energies in the end use of energy (in particular, for example, it proposed on January 23, 2008 a draft directive on renewable energies and a draft for revision of Directive 2003/87/CE relating to the European Emissions Trading System). Grenelle has integrated this ambition by amplifying it.

The Group's development in renewable energies and the services linked to energy economies could not adequately offset the negative effects of these changes.

## 4.1.4 Risks associated with adapting to changes in 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

A consequence of market deregulation, in particular, was a reorganization of distribution network activities of Gaz de France, resulting in the creation on December 31, 2007 of a subsidiary, "Gaz réseau Distribution France" (GrDF), in conformity with the law. This subsidiary received all the distribution assets, rights and obligations of Gaz de France, and in particular the concession contracts linking Gaz de France and municipalities for natural gas service. It has a joint regional service with that of EDF – their relations being governed by a governance accord.

Due to this reorganization, the information system has changed to process new tasks. A momentary inadequacy in the mastery of these changes could have negative consequences on the quality of service provided to customers (and thus on the image of the Group) and generate costs for Gaz de France.

Beyond the consequences on computing, the reorganization involved the setting up of new management structures for access to and distribution of gas within GrDF, which could generate significant costs.

Risks related to governance

Gaz de France acquisitions, investments in subsidiaries and the addition of subsidiaries of customarily integrated activities (transmission and distribution in France), modify the Group's structure. The enlargement of its facilities and the diversification of its activities over all energy domains (from production to sales of energy services, of natural gas and electricity, from traditional energies to renewable energies) necessitated the implementation of adapted internal control structures, in particular, by its new organization of July 2007. As such, governance risks may arise and threaten the contribution to expected income and the responsibility of the Group or harm the Group's image.

## 4.1.5 Industrial Risks

**Risks linked to operating activities**

The operating risks to which Gaz de France could be exposed are diverse, depending on the activities of the Group's various entities.

Risks specific to the exploration and production activities

The exploration-production activities which Gaz de France, either as operator or when this role is assumed by another recognized operator in the oil and gas sector, are for the large size assets, conducted as part of consortia allowing a reduction in the unit risk of each partner.

These activities which require high levels of investment in particular expose the Group to the following:

- a risk which the exploration activities lead to the discovery of reserves;

- an uncertainty on the evaluation of reserves or on the level of production. This evaluation is founded on hypotheses such as concerning the quality of geological, technical and economic information, the contractual and tax conditions in the countries in which the exploration-production activities take place and the capacity of production of the deposits. The revision of these hypotheses could lead to a possible downward re-evaluation of reserves accompanied by depreciation;

- a risk of delay in the drilling, especially due to difficult weather conditions;

- a dependency on third-party partners (especially when the Group is not the operator of the exploration or production);

- a regulatory risk specific to the exploration-production activities (imposition of specific obligations relating to drilling and exploitation, environmental protection, exceptional cases of nationalization, expropriation or cancellation of contractual rights changes in regulation related to site dismantling or cleanup obligations);

- a risk related to the pursuit of activities in countries in which the petroleum sector may be affected by corruption and a risk of fraud;

- a tax risk, especially for modifications concerning royalties or duties on production of hydrocarbons.

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 design, construction and operation of its projects cannot prevent all accidents which might interfere with the Group's activities or generate financial losses or substantial liabilities.

There are risks associated with the exploitation of large systems for transmission, distribution and storage of gas, exploration facilities, LNG tankers, regasification stations, power production and cogeneration facilities or energy services, such as exploitation incidents, engineering errors or outside events which the Group is not able to control (third-party lawsuits, landslides, earthquakes, *etc.*). These incidents are capable of causing injuries, loss of life, major material and environmental damage as well as activity interruption and exploitation losses. See in particular section 20.3 – "Legal procedures and arbitration." The Group's insurance policies may be inadequate for covering all the liability incurred, sales losses and expense increases. This is specifically the case for the sea transport activity of liquefied natural gas.

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.

A 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 facility, such as an LNG terminal or storage facilities, a ongoing 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, etc. ) could shut down gas delivery over an extended area and incur losses of revenue and 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.

Lapses in impartiality and ethics

Some workers may not respect the Group's ethical approach which could expose it for example to acts of fraud or vandalism or corrupt acts, or the lack of respect of business ethics obligations.

Relations between infrastructure activities and natural gas sales and distribution are governed by a 'Code of Conduct' which determines the rules of impartiality applicable to all users (gas customers and sales) and Commercially Sensitive Information, whose management is strictly governed by legal norms.

Respect for the rules and procedures for the award of contracts are also included in this risk.

### 4.1.6 Risks related to information control

This type of risk covers two problems:

The 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.

The unavailability of information systems

For many years Gaz de France and EDF have combined their computing resources, which Gaz de France is separating and modernized mostly as part of the deregulation of July 1, 2007. The Group could have an unsuitable or unreliable Information System as a result of the separation in progress.

Gaz de France operates its IT systems under very rigorous procedures. However, this risk could also come from technical malfunctions or problems related to the 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, hygiene and safety

More stringent industrial regulations

The Group's business is subject to industrial and environmental risks relating to the nature of the products which the Group handles and 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. Regulations may change and become more restrictive for the Group.

In France, the Group spends significant sums of money each year in complying 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 grey iron networks, information campaigns with public works companies in order to prevent damage caused to the structures by third parties.

Gaz de France has many sites on which former gas factories were established in France and in the countries in which Gaz de France is present. Gaz de France may be sued for liability in spite of on-going cleanup efforts implemented by the Group.

The Group also operates facilities which 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 LPG 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 law 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.

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, moreover, 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 bacterium and the health risks for employees in the use of chemical and toxic products. They stipulate indemnification for the victims.

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 which are toxic to health such as certain carcinogenic, mutagenic products or products toxic for reproduction (CMR) or be accidentally infected by a micro-organism (legionnaire's bacteria). In the past, certain activities could cause employee exposure to asbestos particles. Gaz de France has established measures so as to prevent those risks by controlling the use of the products in question and imposing protective procedures.

Due to 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 the granting of damages to the victims for physical injuries suffered (disease, injury, death), criminal conviction of the Group, lack of employee motivation, and damage to the Group's image due to media coverage, and financial losses, in particular regarding litigation associated with asbestos.

## 4.2 Risk management

Gaz de France's risk policy was determined by its CEO on November 21, 2005. The Gaz de France group policy is to supervise and control risks which could compromise the realization of the Group's objectives, whatever be those risks may be. All risk-taking should be conscious and thought-out. The objective is not to eliminate all risks ('zero' risk) but to maintain control over risk to a reasonable level.

Gaz de France has created an overall system for management of risks and a risk culture, and dedicated the necessary resources to the system. As such, the French Financial Regulatory Authority (AMF) standard risk analysis and control questionnaire has been implemented.

**An overall risk control system as a continuous improvement process**

Attached to audit and risk control management, a delegation for risk supervision is in charge of defining consistency standards, developing policy and promoting a culture of risk awareness within the Group by the sensitization of managers and the coordination of a network of correspondents. It ensures that the risk control process is consistent with the standard practices of listed companies.

**A decentralized process founded on the responsibility of managers**

The Group's risk policy sets as principles that management is responsible for risk control and that the process of risk management is part of the Group's strategic process.

Each entity of the Group is responsible for identifying its risks, measuring the extent of its exposure, as well as the preparation and implementation of processing plans for managing such risks. It prepares each year a summary of the risk management and should present a review of the major risks to the branch Directors, to one of the Executive Vice Presidents or to the CEO.

**Review of the Group's risks**

Risks identified by the entities are combined by type within the "Group risks". An annual review of Group risks prepares a statement of risk exposure: mapping, assessment, level of control, and risk governance.

This review is presented to the executive committee then to the audit committee and the statements to the Board of Directors. The Executive Committee organizes the tracking of major Group risks for which it designates owners in charge of their control who report once yearly to the designated Group's principal strategic policy body. This chapter on risk is founded on the Gaz de France Group's risks.

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. Thus:

- the insurance department is in charge of covering insurable risks;
- the finance department is responsible for market risks and foreign exchange and rates risk;
- 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 environmental safety and quality policy contributes to processing certain risks.

### 4.2.1 Insurable risk management

**Insurance procurement 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 who are internationally recognized for their reputation and financial soundness. Since July 1, 2007, part of the exploitation damages and losses risk is handled internally by a special purpose reinsurance subsidiary located in Luxembourg, the management of which was appointed to a managing subsidiary approved by the Luxembourg *Commissariat aux Assurances*. This captive reinsurance company will insure claims up to 2 million euro per claim up to a maximum of 5 million euro per year. Above these amounts, the risks are transferred to the insurers.

Nevertheless, this policy concerning insurance may be modified at any time based on market conditions, opportunities, the 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 which absorbs the average of the total losses experienced. The amount for annual insurance premiums and brokers' remuneration in 2007 represented for Gaz de France and its controlled subsidiaries a budget in the order of 55 million euro.

The Insurance division of Gaz de France is responsible for the entire Group's respect of the insurance policy principles which it defines. This control is facilitated by a centralized insurance management. This centralization allows a homogenous and coordinated control of insurable risks at Group level, as well as an optimization of insurance budgets through Group procurement of insurance and associated services. Some subsidiaries have their own insurance policy to cover specific risks; the insurance subscribed to at 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.

**Main contracts**

The contracts described below benefit a large majority of subsidiaries.

Civil liability

Gaz de France and its subsidiaries benefit from a general civil liability policy which covers the monetary consequences for civil damages to third parties caused in the course of their activities, including in the case of operation of regulated activities. 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 euro.

Property damage and business interruption

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

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 euro for LNG terminals.

This insurance is in general completed by a coverage of additional operating costs and, in the cases in which the damages could lead to interruption of activities, a guarantee is subscribed to in order to cover the resulting operating losses. The amount of this guarantee is determined taking into account the duration of unavailability of the damaged site and the existing emergency plans (according to the case between 12 and 24 months).

Finally, some specific business activities like exploration-production benefit from hedging adapted to their risks like guaranteeing the cost of overseeing wells and re-drilling.

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 euro) and insurance for premises covering accidental damage and landlord, tenant or occupant's liabilities;
- insurance covering liability and, depending on the company, damage to all vehicles;
- insurance covering the transport of LNG by LNG tanker to a limit of 30 million euro per shipment;
- maritime insurance covering ship owner's liability (unlimited coverage except in case of war (with a 500 million dollar

ceiling) or charterer (with a 500 million dollar coverage), and pollution (with a 1 billion dollar limit) and damage to the ships, up to their certified value;

- construction insurance for major construction sites, including coverage for damage to the project and coverage for operating losses in the event of a delay in construction due to damages.

## 4.2.2 Financial risk management

The management of financial risks -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 effective implementation of the risk policy through the aggregation of risks, monitoring positions, and a single unit which operates in the marketplace.

Consolidated counterparty management risk and the consistency of management decisions are ensured in particular by shared committees: the Rate and Foreign Exchange Committee and the Credit Committee.

**Credit risks**

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 Group's 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 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, etc.).

Thus, the investment of excess cash and all the financial instruments used to manage interest rate and foreign exchange risks are contracted with counterparties with a 'Long-term' rating from Standard and 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 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 which 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 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.

The Credit Committee is also in charge of creating a governance structure to manage credit risk of customers of the Group. The Group pays 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 offered to major customers.

Concerning more specifically the activity of gas and electricity procurement, special provisions aiming at preventing default on payment may be taken with respect to the financial strength of the counterparty. Customers having difficulties are monitored on a regular basis by the Credit Committee.

See section 20.1.1.1 – "Consolidated statements at December 31, 2007 according to the IFRS standard/ Notes / Note 20.1.1."

**Liquidity risk**

Gaz de France has liquid assets which can be cashed 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.

- The parent company has a syndicated line of credit of 3,000 million euro maturing February 2012, which had not been drawn as of December 31, 2007. This line of credit does not include provisions which require the use of 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 2007, and a commercial paper program in the amount of 1,250 million euro of which 200 million euro had been used as of December 31, 2007.

- The accessibility and investment of immediately available cash of the Group are at a level of 3,200 million euro.

In addition, in order to optimize the liquidity management at Group level, the Finance division of Gaz de France implemented an automated 'cash-pooling' system.

Some bank borrowings or project funding of subsidiaries of the Group may include provisions imposing the adherence to certain financial ratios. All these clauses respected as of December 31, 2007 (see section 10.4 'Restriction in the use of capital').

See section 20.1.1.1 – "Consolidated statements at December 31, 2007 according to the IFRS standard/ Notes / Note 20.1.2."

**Interest rate risk**

Management of interest rates on net financial debt

The Group centralizes cash needs and excesses of controlled subsidiaries and the majority of their needs for external funding, and implements, on the position of net consolidated debt, a policy for optimization of the cost of financing, management of the impact of interest rate fluctuations on its financial results by using several kinds of financial instruments (swaps and interest rate options) depending on market conditions. The Group thus retains a majority share of its medium- and long-term debt at fixed rate or swapped at fixed rate, and ensures that the balance between the portion of its debt at variable rate and the excess cash remains at low exposure to short-term interest rate variations.

This policy is used to greatly limit the Group as to interest rate volatility.

For details of the transactions for interest rate hedging on net financial debt see section 20.1.1.1 – "Consolidated statements at December 31, 2007 according to the IFRS standards / Notes / Note 20.1.3."

Management of interest rate risk on loans sold to a special purpose entity for securitization

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 comes to 18 million euro at December 31, 2007. The corresponding nominal amount for rate swaps in the balance sheet is at 120 million euro in swaps where Gas de France pays a floating rate and receives a fixed rate, and 138 million euro in swaps where Gas de France pays a fixed rate and receives a floating rate.

Management of rate risk of subsidiaries in the financial sector

The Group's forward trading transactions denominated in euro and in dollars are hedged against residual interest rate risk by means of interest rate swaps:

- rate swaps where Gas de France pays a fixed rate and receives floating rate for a notional amount of 262 million euro at December 31, 2007,
- rate swaps where Gas de France pays a fixed rate and receives floating rate for a notional amount of 138 million euro at December 31, 2007,

In compliance with their risk management policy, the financial sector subsidiaries which have customer credit activity manage their asset liability matching by means of fair value rate risk hedging on their assets (issued at fixed rate) using rate swaps which allow them to refinance at fixed rate (notional amount of 246 million euro at December 31, 2007).

**Foreign exchange risk**

Foreign exchange risk management – operating activities

This refers to the sensitivity of foreign exchange rate fluctuation on the sales transactions made by the energy Procurement and Sales sector. The euro/dollar exchange risk on the performance of the sector results from the indexing procedures for different gas procurement or sales contracts on the prices of the petroleum products themselves which are usually listed in dollars.

Foreign exchange risk exposure on commercial transactions is handled and managed by:

- the application of pass-through mechanisms in the construction of prices in sales to eligible customers, on the one hand, and on the other hand the regulatory rates; and
- margin hedging on fixed rate sales contracts or indexed by financial swaps.

There are temporary differences in the income statement between the impact of the fluctuation of the dollar on the procurement costs and the pass-through impact on sales, in particular the effect of moveable resources and the storage-destorage cycle.

There are other functional currencies in which the consolidated entities operate outside of the euro zone and there is no substantial associated foreign exchange risk on the level of the Group, to the extent that there are also mechanisms for rate adjustments linked to the changes in procurement costs.

In addition, the Business Units identify and inform the Financial Department of the transactional exposures which they bear (arbitrage transaction, maintenance contracts, *etc.*). This risk can then be hedged by forward contracts, swaps or options according to the probability of realization of future flows.

The portion in US dollars of certain investments programmed by the Group is hedged against unfavorable changes in the €/US$ parity by means of a exchange purchaser tunnel option of 60 million dollars.

Foreign exchange risk management financing activities

Financing of subsidiaries is centrally managed by the Financial Department, which allows active management of foreign exchange risk through the use of intra-Group loans granted to subsidiaries in the currency of the cash flows which they generate.

On the details of the transactions for interest rate hedging on net financial debt see section 20.1.1.1 – "Consolidated statements at December 31, 2007 according to the IFRS standards / Notes / Note 20.1.4."

Conversion risk

The Group is also exposed to exchange risk resulting from the conversion in the consolidated statements of the net position of its subsidiaries whose functional currency differs from that of the parent company. Currency translation adjustments generated by the exposure involve an impact of 257 million euro in the balance sheet (-92 million euro change over the period) on shareholder equity at December 31, 2007.

**Securities risks**

The Group entered into simultaneous sale and purchase options on shares with the RETI Group which give it the right to purchase shares held by the counterparty, and which in parallel give to the counterparty the right to sell these actions to the Group.

These options may be exercised between September 2008 and September 2009, bearing on 29.5% of the additional shares whose procedures of calculation lead to a valuation of the disbursable cash amount of approximately 155 million euro.

The Group has also entered into simultaneous options with its partner on 49% of the Gaselys shares which it does not hold. The disbursable cash amounts in the event that the Group decides to exercise its options to purchase, or in the case that the partner decides to exercise its options to sell its securities are estimated at December 31, 2007 at 217 million euro. These options cannot be exercised immediately.

The Group is committed to subscribe to future capital increases for 17 million euro. The Group is also planning to acquire 100% of companies in Italy holding seven co-generation facilities for a total investment of 226 million euro. The project is in particular subordinated to the failure to exercise the pre-emption right by minority shareholders for two of the seven facilities One the shareholders having exercised his preemptive right, the Group acquired 6 cogeneration plants in April 2008.

The main lines of shares held by the Group at December 31, 2007 are the following:

- a total of 8.05 million shares of Suez, whose price as listed on Euronext at December 31, 2007 was 46.57 euro per share,
- a total of 75 million Petronet shares whose price as listed on the NSE (National Stock Exchange of India) at December 31, 2007 was 107.35 Indian Rupee per share,
- a total of 34.7 million Enbridge shares held via the Noverco Group which is itself 17.56% owned and consolidated using the equities method. The price for Enbridge shares listed on the TSX (Toronto Stock Exchange) at December 31, 2007 was CA$40.01 per share.

These securities are entered as assets available for sale and valued at fair value by means of shareholder equity. At December 31, 2007, their value was 671 million euro.

A drop of 10% in value of these shares would have an impact in the region of 67 million euro on the revenue or shareholder equity of the Group depending or not on the existence of an objective indication of depreciation arising from one or more events occurring after the initial accounting of the assets.

See section 20.1.1.1 – "Consolidated statements at December 31, 2007 according to the IFRS standard/ Notes / Note 20.1.5."

**Raw materials risks**

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 traded with third-parties by the specialized 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 price risk management on gas or electricity. These primarily aim to guarantee a commercial margin, regardless of the change in prices of materials indices entering in the prices offered to customers, even when they differ from the materials indices to which the Group's procurement is exposed;
- of optimization of the cost of procurement. In fact, energy supplies, the assets of electricity production and the assets or reservations of available transmission and storage capacity and not necessary for supplying customers are systematically valued on the markets.

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.

This refers to the sensitivity of the fluctuation in the prices of raw materials on the sales transactions made by the energy Procurement and Sales sector. The raw materials risk on the performance of this sector results from the indexing modes of different gas procurement or sales contracts on the prices of the petroleum or natural gas products.

As part of the implementation of the net-back concept in creating purchase price formulas, the mechanism for setting long-term gas purchase prices relies on the logic of valuation considering energies which compete with natural gas. The price formulae for long-term gas purchasing contracts are expressed as a constant to which one or more monthly indexing terms are added, most of which are petroleum products. These petroleum indexing terms are smoothed by mechanisms involving movable averages over periods from 6 to 12 months.

Exposure to raw materials risk on commercial transactions is handled and managed by:

- the application of pass-through mechanisms in the construction of prices in sales to eligible customers, on the one hand, and on the other hand the regulatory rates; and
- margin hedging on fixed rate sales contracts or indexed by financial swaps.

There are temporary differences in the income statement between the impact of the fluctuation of the price of raw materials on the procurement costs and the pass-through impact on sales, in particular the effect of movable resources and the storage-destorage cycle.

See section 20.1.1.1 – "Consolidated statements at December 31, 2007 according to the IFRS standard/ Notes / Note 20.2."

### 4.2.3 Business risk management

**Weather risk**

Important weather hazards, and mainly temperature hazards, can trigger changes in natural gas demand from one year to another. Gaz de France has chosen not to hedge this risk.

In the long-term (over ten years), the risk is statistically nil and consequently neutral for Gaz de France. Consequently, Gaz de France accepts volatility in its income relating to weather.

Moreover, Gaz de France is committed to hedge supply risk at 2% in the case of a cold winter, in conformity with French regulations. This hedging is made primarily through the flexibility of procurement contracts, the storage capacities and the opportunities left by the portfolio of customers who can be affected by energy stoppage.

**Country risk**

Extensive geographical diversification involving seven long-term main suppliers located in or near Europe enables limiting country risks. This diversified long-term supply portfolio is supplemented by proprietary resources and optimized by spot transactions.

**Other risks**

The management of other risks associated with purchase and sales activities depends in particular on measures for mitigating the impact of the risk exposure (mainly prices), and monitoring situations so as to maintain a portfolio of competitive contracts which can be quickly adapted in response to changing conditions.

# 5 INFORMATION RELATING THE ISSUER



## 5.1 History and development of the Company

### 5.1.1 Company name

The Company's name is "Gaz de France".

### 5.1.2 Register of Commerce and Companies

The Company is registered in the Paris Register of Commerce and Companies under number 542 107 651.

Its Economic Partnership Agreement (APE) code is 402A.

### 5.1.3 Date of incorporation and duration of the Company

Gaz de France was created as a public industrial and commercial establishment (**EPIC**) on April 8, 1946 and was registered with the Trade and Companies Register on December 24, 1954. It is has been a limited liability company (*société anonyme)* since November 20, 2004.

The Company was created for a duration of 99 years starting on November 20, 2004, barring early dissolution or extension.

### 5.1.4 Headquarters, corporate period, legal form and applicable laws

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 *limited liability company* with a board of directors. It is governed by the legal and regulatory provisions applicable to l*imited liability companies*, and any specific laws, and by its Memorandum and Articles of Incorporation as per Decree no. 2004-1223 of November 17, 2004 concerning the Memorandum and Articles of Association of the Gaz de France S.A. and later amended.

The specific laws governing the company are Law no. 46-628 of April 8, 1946 on the nationalization of electricity and gas; Law no. 83-675 of July 26, 1983 relating to the democratization of the public sector; Law no. 2003-8 of January 3, 2003 on gas and electricity markets and energy public service; Law no. 2004-803 of August 9, 2004 on electricity and gas public service and electricity and gas companies; Law no. 2005-781 of July 13, 2005 of the energy policy guidance program, and Law no. 2006-1537 of December 7, 2006 governing the energy sector.

The accounting period lasts 12 months starting on 1 January and ends on December 31, each year.

### 5.1.5 Significant events in the development of the Company's activities

Gaz de France was created by the Law no. 46-628 of April 8, 1946 on the nationalization of electricity and gas as an EPIC type company administered in compliance with the provisions of this law, as amended and with the provisions applicable to EPICs.

Law no. 2004-803 of August 9, 2004 governing electricity and gas public service and electricity and gas companies amending Law no. 46-628 of April 8, 1946 organized the change in the legal status of Gaz de France by transforming it into a limited liability company as of November 20, 2004.

On July 7, 2005, Gaz de France publicly floated 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 compliance with Article 24 of Law no. 2004-803 of August 9, 2004 requiring the Government to hold at least 70% of the capital of Gaz de France, the Government, formerly the sole shareholder of Gaz de France, held 80.2% of said capital at the end of this operation.

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

Article 24 of the Law no. 2004-803 of August 9, 2004, as modified by law no. 2006-1537 of December 7, 2006 governing the energy sector, required henceforth that the Government hold more than one third of the company's capital. Decree no. 2007-1784 of December 19, 2007 authorized the transfer of company to the private sector.

For more detailed information in the history of the company, see section 6.1.1 – "General Presentation / Historical brief".

## 5.2 Investments

### 5.2.1 Investments made

In regard to the statement of flows, total investments (including renewal expenses) were 3,298 million euro for 2007 compared with 3,510 million euro for 2006.

From an economic point of view, total investments for 2007 totaled 3,309 million euro and can be broken down as follows:

- Investments other than for external growth, or 3,034 million euro (capital expenditure of 2,869 million euro and other investments of 165 million euro),
- external growth investments for 275 million euro.

**Capital investments (including replacement expenses and investments financed by credit-lease)**

Capital expenditure (including capital expenditure financed through leasing for an amount of 11 million euro) represented 2,869 million euro in 2007, an increase of 222 million euro as compared with 2006.

**Capital investments of the Group in 2007 and in 2006**

| *Millions of euro* | 2007 | 2006 |
|---|---|---|
| **Energy Supply and Services** | | |
| Exploration-Production | 689 | 622 |
| Purchase and Sale of Energy | 391 | 382 |
| Services | 43 | 35 |
| **Infrastructure** | | |
| Transmission-Storage | 796 | 629 |
| Distribution France | 724 | 787 |
| Transmission Distribution International | 184 | 168 |
| Eliminations, other and non-allocated | 42 | 24 |
| **TOTAL GROUP** | **2,869** | **2,647** |

- In Exploration – Production, equipment investments were at 689 million euro compared with 622 million euro in 2006. Technical investments (not including expenses for exploration and pre-development) were at 538 million euro in 2007 compared with 479 million euro in 2006.

  The increase in investments is linked to the development of new fields essentially in Norway and the Netherlands. Investments were made for 60% in Norway, 19% in the Netherlands, 9% in the United Kingdom, 11% in Germany and for 2% in other countries.

  The expenses for exploration (including exploration entered in expenses) reached 151 million euro compared with 143 million euro in 2006.

  2007 was marked by eight successfully drilled wells out of thirteen. Discoveries were made in Norway (4), in the Netherlands (2) in the United Kingdom (1) and in the Ivory Coast (1). 2006 was marked by eight successfully drilled wells out of fifteen. Discoveries were been made in the United Kingdom (3), Norway (3), Germany (1) and Mauritania (1).

- Capital expenditure in the Purchase and Sale of Energy sector amounted to 391 million euro for 2007 compared with 382 million euro for 2006. This level of investment in 2007 is explained mainly by the expenses made in the construction of the LNG terminal Gaselys, the construction of the combined cycle power plant at Fos sur Mer (Cycofos) and the setting up of new information systems to manage the Company's 11 million customers in particular with respect to the July 1, 2007 market deregulation.

- Capital expenditure in the Services sector was 43 million euro in 2007 compared with 35 million euro in 2006. This increase is primarily due to the start-up of the Cancéropole project in Toulouse, the Public Private Partnership with the Roanne Hospital and, to a lesser extent, the implementation of SAP in Italy.

- Capital expenditure in the Transmission Storage sector in 2007 was 796 million euro compared with 629 million euro in 2006. This change is primarily explained by the increase in investments made in the transmission network, in particular in view of the merger of the North, East and West balancing zones, expected in 2009, and that of the investments made for the development of storage capacity in the United Kingdom

**Breakdown of capital expenditure in the Transmission – Storage sector**

| *Millions of euro* | 2007 | 2006 |
|---|---|---|
| Transmission – Storage – LNG Terminals France | 724 | 628 |
| Transmission – Storage Europe | 72 | 11 |
| **Total** | **796** | **629** |

- Capital expenditure in the Distribution France sector was 724 million euro at the end of 2007, compared with 787 million euro in 2006.

  This change results essentially in the completion of the program to phase out grey cast-pipelines as scheduled. At the end of December 2007, the entirety of the grey cast-pipeline network was phased out.

  During 2007, 39% of investments were undertaken as part of industrial security (including phasing out of grey cast-pipelines).

  Investment dedicated to development, in connection with the 'one million new heating customers' program, represented 34%; in 2007, 350 km (217 miles) of network extensions were filled with gas and more than 170,200 new customers were acquired by Gaz de France since the start of the program, bringing the total to more than 986,300 customers at the end of 2007. The objective of "one million new heating customers" was reached in the beginning of 2008.

  In 2007, 205 million euro were invested on ZDG connections (gas service areas). The ZDG connections correspond to network development work in areas already served with gas (creation of networks and branches) and the completion of new branches of existing branches.

  In 2007, 39 million euro were invested in CNG connections (new gas concessions). The CNG connections correspond to works (conducted over the first three years of a new public distribution – hereinafter, this public distribution is charged as ZDG) for the creation of networks and new branches on the newly connected municipalities (103 new municipalities connected in 2007, compared with 134 in 2006).

- The capital investment of the Transmission Distribution International sector in 2007 was 184 million euro compared with 168 million euro in 2006. This includes, in particular, 89 million euro of capital investment made by Distrigaz Sud in Romania and 33 million euro made by SPP in Slovakia.

**Other investments**

Other investments totaled 165 euro million in 2007. They are mainly linked to loans to customers as part of financing of facilities.

**External growth investments**

2007 investment for external growth totaled 275 million euro. These investments concern primarily the acquisition of the Erelia and Eoliennes of Haute – Lys companies, the acquisition of an additional 20% in Energie Investimenti in Italy, the acquisition of exploration blocks by GDF Britain, the acquisition of up to 59% in the storage operator Depomures in Romania, as well as the of Cofathec in Italy.

## 5.2.2 Investments in progress and projected

For 2008, Gaz de France has formulated an investment objective in the amount of 4 billion euro.

When first listed on the Stock Exchange, the Group presented an 2005-2008 investment plan of 17.5 billion euro. By the end of 2007, taking into account the achievements of 2005 and 2006, the Group had invested 10.2 billion euro.

For the financing procedures of the investments in progress, see Chapter 10 – "Liquidity and Capital".

## 5.2.3 Significant investments which the Company intends to make in the future and for which its management bodies have already made commitments.

Not applicable.

# 6 AN OUTLINE OF ACTIVITIES



## 6.1 Main activities

Gaz de France runs its activities directly and through its subsidiaries and participations, some of which are consolidated in the Group's accounts through global integration and others through proportionate consolidation or equity method. 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 specified, the source for the market data and the market-related data featured in the present reference document corresponds to an estimate from Gaz de France on the basis of information – particularly as far as revenues and capacities are concerned – published by competitors and analysts.

A table of measurement units for natural gas and other energy products can be found in Appendix A of this reference document. A glossary of technical terms is located in Appendix B of this reference document.

### 6.1.1 An overview

Gaz de France is a leader on the natural gas market. The firm is the leading natural gas provider in France. It also ranks among the main natural gas providers in Europe, and built its position from a diversified portfolio of suppliers.

Gaz de France also operates the longest high pressure transport network in Europe, as well as the longest European distribution network. In 2007, the Group sold 730 terawatthours ("TWh") of natural gas and had consolidated revenues of 27,427 million euro (about 41% of the Group's revenues originate from abroad), a gross operational surplus of 5,666 million euro and net profits for the Group itself of 2,472 million euro. The Group has access to a portfolio of about 11 million customers in France and around 3.7 million customers (Gaz de France share) abroad, mainly in Europe.

The activities of the Group are organized in a complementary way around two divisions and six segments.

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

* *This section encompasses mainly financial holdings and consolidation eliminations.*

The segments were reorganized into six Branches in 2007.

The activities of the Exploration – Production segment now fall under the Global Gas and LNG Branch, except for the storage activities in Germany which are to be transferred in 2008 to the Infrastructures Branch.

The Purchase and Sale of Energy segment was divided into two: the Trade activities (Supply, Sales major accounts, GNL and Gaselys) now fall under the Global Gas and LNG Branch, except for the energy sales activity of the GDF-ESS subsidiary in Great Britain, which joined the Transmission – Distribution International, while electricity production activities of the Direction Electricité and the gas and electricity sales activities of the Direction Commerciale have been merged into the Energy France Branch.

The activities of the Savelys subsidiary and the engineering activities of the Projis subsidiary are now attached to the Energy France Branch, while the other activities of the Services segment constitute the Services Branch.

The Infrastructures Branch regroups the activities of the Distribution France and Transmission – Storage France now called Transmission Storage, since it now also includes transmission activities in Germany, Belgium and Austria previously attached to Transmission – Distribution International, storage activities in Germany from the Exploration – Production segment and the Stublach storage project in Great Britain, from the Transmission – Distribution International segment.

The International Branch regroups the activities of the Transport – Distribution International segment with the exception of the transmission activities in Germany, Belgium and Austria, which now depend from the Infrastructures Branch. In addition, the International Branch manages the trade activities of the GDF-ESS subsidiary in Great Britain, transferred from the Purchase and Sale of Energy segment.

The activities of the Other and Non-Allocated segments now fall under the Others Branch.

Natural Gas sales by the segments of the Group have been the following:

| *Consolidated gas sales by Group segments * (in TWh)* | 2005 | 2006 | 2007 |
|---|---|---|---|
| In millions of euro | 645 | 636 | 609 |
| Transmission Distribution – International | 110 | 129 | 131 |
| LONG TERM & SPOT CONTRACTS | 42 | 53 | 56 |
| Eliminations of inter-segment and other sales | (48) | (56) | (66) |
| **GROUP TOTAL** | **749** | **762** | **730** |

* *Including the Group's share of energy sales by proportionately consolidated companies*

## 6.1.1.1 History

### 6.1.1.1.1 Creation

Gaz de France was created by the nationalisation of the gas industry act # 46-628 of April 8, 1946, under the form of an EPIC, an industrial and commercial public company. This company's initial task was to manage the whole of the gas industry firms thus nationalized.

In the wake of the Second World War, the nationalisation of the gas industry appeared as a necessity in a context where many installations were either obsolete or damaged and were widely dispersed all over the country. The gas that was commercialized then was mainly manufactured gas, which was produced locally in plants located close to the consumption areas, implying a total absence of transmission thoroughfares over great distances.

### 6.1.1.1.2 Diversification of supply sources

A real mutation occurred when the Lacq field was discovered in 1951, and when its gas hit the market in 1957.

The entrance of natural gas in the French energetic landscape led Gaz de France to progressively abandon its producing and distributing activities of manufactured gas, to become a trader, transporter and distributor of natural gas. It also required a policy of finding suppliers abroad, in addition to the national gas production, in order to satisfy an ever-growing demand. Gaz de France thus signed its first deal for the purchase of LNG with Algeria in 1964. From then on, the Group has followed a policy of geographically diversified supply sources by contracting producers in the Netherlands, Russia, Norway, Nigeria, Libya and Egypt.

This diversification policy in its gas purchases has been completed since 1994 with the Group's incursion in the field of exploration and production, in order to control directly a portion of its supply sources and diversify its exposure to market risks, particularly regarding prices.

After the energy markets were opened in Europe, Gaz de France moved forward into a new activity to ensure its position in the field: the production and marketing of electricity. This materialized with the operation of the first gas combined cycle power plant in France, DK6, and the launching of other projects of combined cycles since 2006. In addition, in 2006, Gaz de France took a 49% participation in Maïa Eolis and continued its development in the field of wind power with the acquisition in 2007 of Erelia and Eoliennes de la Haute-Lys, as well as Nass & Wind Technologie. The Firm regrouped the subsidiaries and participations of the Group dedicated to wind power under a subsidiary named "GDF Future Energies".

Gaz de France ensures its electricity supply through its own assets, supply contracts and purchases on the organized markets.

#### 6.1.1.1.3 Development of transmission and storage infrastructures

As natural gas became more common in France, Gaz de France gradually had to develop an interconnected transmission network, as well as LNG storage infrastructures.

This transmission network was used by Gaz de France throughout the French territory, and it was done in the southwest in partnership with the Total Group through various contracts and common structures. This partnership ended on January 1, 2005. Now, the transmission network is exploited by its sole owner, Gaz de France's subsidiary GRTgaz, while Total manages on its own the south-western transmission network through its subsidiary TIGF.

Along with its strategy to diversify supply sources, Gaz de France also participated in great gas pipeline transit projects to enable the transmission of Natural gas towards Western Europe (especially MEGAL in Germany and SEGEO in Belgium), as well as the development of LNG chains, particularly with the implantation of the re-gasification terminals at Fos-Tonkin and Montoir-de-Bretagne, as well as Dahej in India. Gaz de France is still investing in important infrastructures in partnership with its suppliers: it is currently developing the re-gasification terminal at Fos-Cavaou and is a minority shareholder in a liquefying plant in Egypt, as well as the Medgaz company, which is developing the Medgaz gas pipeline connecting Algeria to Spain.

Furthermore, in order to ensure the regularity of deliveries and compensate for the seasonality of demand, Gaz de France developed its natural gas storage capacities, up to over 9 billion cubic meters available on December 31, 2007.

#### 6.1.1.1.4 Development of the distribution network in France

In France, the development of transmission infrastructures went in pair with setting up a distribution network ensuring the transport of natural gas all the way to the final clients. In 1960, the distribution network managed by Gaz de France served nearly 350 municipalities and 5.8 million customers in France. It now serves 9,202 French municipalities, with about 11.1 million contractual delivery points connected to the distribution network.

In its very first years of existence, Gaz de France set up joint administrations with EDF, especially in order to manage gas and electricity distribution networks and customer service. This relationship was revised on July 1, 2004; however the two operators remain partners in a joint administration (EDF Gaz de France Distribution or EGD) which provides technical services to their respective distribution networks.

The dispositions of the EU directive 2003/55 transposed into French law by law #2006-1537 on December 7, 2006 impose the legal separation of gas and electricity distribution networks. In 2007, in accordance with these dispositions, Gaz de France carved out its natural gas distribution activities in France in the company "Gaz réseau Distribution France", or GrDF. Along with this legal separation, a "joint service" between the two managing entities of the distribution is maintained (GrDF as far as gas is concerned on the one hand, and ERDF, an EDF subsidiary for electricity, on the other hand). This joint service has no legal entity.

#### 6.1.1.1.5 International development

Early on, Gaz de France wanted to exploit its know-how on the international level, and develop its cooperation with its gas suppliers. In the early 90s, it intensified its international positioning, which appeared indissociable from the Group's global development in a context of opening markets. The Group thus took important positions, mainly in the distribution and trade of gas in countries such as Germany, Italy, the United Kingdom and Belgium.

The political evolutions in Eastern Europe, privatisations and the opening of markets that ensued also enabled the Group to take hold in the area.

Furthermore, it was also during the 90s that Gaz de France decided to get involved in the exploration – production process, thus taking its international development a step further. In 2007, Gaz de France acquired a 45% participation in the licence of Alam El Shawish West in Egypt, whose operator is Vegas Oil & Gas.

Since the late 1990s, the Group has become involved in the provision of services in Europe, and particularly in Italy. Pursuant to the agreement signed in December 2007, Cofathec Servizi, a Gaz de France subsidiary has bought in April 2008 6 cogeneration plants in Italy from Edison (370 MW electricity production capacity), thus becoming one of the ten main electrical energy producers in Italy.

The Group's international activity today also includes power production and supply. The Group holds shares in the SPE company in Belgium, which were acquired in 2005 (second Belgian producer with about 1,600 MW electricity production capacity on its own), in the Shotton power plant (210 MW electricity production capacity) in the United Kingdom, in the AES Energia Cartagena power plant (1,200 MW electricity production capacity) in Spain.

In 2007, the Group's activity experienced a significant development in the field of storage with the acquisition of 65% of Amgas' storage capacity in Romania (50 million cubic meters of volume available consolidated 100%), the acquisition of 59% of Depomures' storage capacity in Romania as well (300 million cubic meters of volume available consolidated 100%), and the launching of a project to develop storage space for natural gas in salt caves in Stublach, in the north-west of England, which could store up to 400 million cubic meters after cleaning up the caves.

In 2007, Gaz de France increased its shares in Energie Investimenti from Camfin, enabling it to take over this Italian energy marketing subsidiary.

### 6.1.1.2 Activities

#### 6.1.1.2.1 Energy Supply and Services

While already the French reference in natural gas, Gaz de France is developing on other markets with the ambition of becoming a reference in Europe as a marketeer. This Division is composed as follows.

##### 6.1.1.2.1.1 Exploration – Production

In order directly to control part of its supply sources, to benefit from a greater added value on gas market businesses and to reduce its dependence on the price of oil products with which the price of gas is often connected, the Group has reserves of its own, mainly in the North Sea, Germany and North Africa, some of which come from fields that it operates on its own or with partners.

By December 31, 2007, the Group owned proved and possible reserves of 667 million barrels of oil equivalent ("Mboe"), 74% of which of natural gas and 26% of liquid hydrocarbons. The Group's annual production of natural gas and liquid hydrocarbons was 42.4 Mboe in 2007.

The Group also has a portfolio of exploration licences, which grew in 2007 with acquisitions in Egypt, Great Britain and Germany.

##### 6.1.1.2.1.2 Electricity production

In order to cater to the needs of its clients, Gaz de France sells electricity. For the same reasons as for natural gas, the Group has become a producer of electricity in Europe. It currently owns the Shotton power plants in Great Britain, DK6 in France and shares in SPE in Belgium and AES Cartagena in Spain, and also wind power electricity production capacity up to 120 MW in France on December 31, 2007.

##### 6.1.1.2.1.3 Purchase and Sale of Energy

The Group is one of the main European natural gas providers, one of the biggest buyers of natural gas worldwide, and one of the top LNG importers in Europe. In 2007, 609 TWh were sold by the Purchase and Sale segment: 402 TWh were sold in France, 128 TWh in Europe and 79 TWh on short-term markets. At the end of 2007, the Purchase and Sale of Energy had about 10.5 million private customers, more than 579,000 business customers (mainly professionals, small and medium businesses, collective residences, some public and private sectors services companies and territorial collectivities), more than 300 big industrial and commercial customers dispatched over more than 1,000 sites, 169 customers (521 sites) of which in Europe (outside France).

Until July 1, 2007, Gaz de France had a monopoly on the supply of gas to its French private customers (about 95% of the private customers market, the remaining 5% being supplied by distributors that were not nationalized in 1946, as well as new recognized providers). Since that day, all Gaz de France customers have had the possibility to choose their energy provider to enforce the EU directives on the opening of the natural gas market.

In order to address the opening of the French market, the Group has strived to develop customer loyalty by promoting its brands and offering new services. Gaz de France thus proposes solutions of financial engineering and energy management services to its biggest customers. What is more, it develops a dual offer of gas and electricity.

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 for its lost sales resulting from the opening up of the French market. Gaz de France organises its supplies by relying mainly on a diversified portfolio of long-term contracts with producers in Norway, Algeria, Russia, the Netherlands, the United Kingdom, Nigeria, and more recently in Libya and Egypt. It was within this framework that on December 4, 2007, Gaz de France renewed its supply contracts for Algerian LNG until 2019. Gaz de France rounds up its supply with its own production in the framework of its Exploration – Production activity and with transactions on the short-term markets. Thanks to its supply activities, Gaz de France is a European top-tier actor in the purchase of natural gas and LNG imports. On December 31, 2007, the Group had a fleet of 12 gas tankers.

##### 6.1.1.2.1.4 Services

The Services segment deals with the downstream integration (offering a wide range of offers to energy consuming customers), and upstream integration (production of electricity) of the Gaz de France group. This strategy determined the framework in which the Services activity operates in terms of service provisions and implantation.

Downstream, the synergy between Services activities and energy marketeers is characterized by:

- The assurance of an outlet for the sale of energy and gaining customer loyalty through long-term services contracts.
  - The contracts including the "P1" (energy management) of common boiler rooms (1.5 TWh) last between 5 and 8 years;
  - The cogeneration contracts (turbines and engines) last 12 years;
  - Cofathec Services and Cofathec Coriance (1.5 TWh) heating networks contracts can last up to 20 years.
- The possibility of orchestrating on behalf of the Gaz de France group comprehensive offers combining energy supply and services and calling on the competence of several of the Group's entities (for instance: Gaz de France's offer to the Cancéropole de Toulouse called on the competence of the Sustainable Development Section, the Research Section, and the Commercial and Services Section). These combined offers of services and energy sale are an essential element in gaining new customers.

- The strengthening of its position as an industrial partner to several big customers: services activities are part and parcel of the offer of Gaz de France Energy, which groups together the sale of energy, financial services and service provision.

Upstream, the implementation of projects dedicated to the production of electricity contributes to the Group's electricity strategy. It should be noted that since 2007, these assets have been consolidated under the Energy France Branch. The Assistance for Project Management which depended from the Services segment has been transferred to the Energy France Branch since January 1, 2008.

### 6.1.1.2.2 Infrastructures

The Infrastructures Division groups together a number of industrial assets which contribute significantly to the Group's financial value. The Group's experience in the management of gas infrastructures is an additional vector of development in its strategy for Europe.

As the Group was reorganized in 2007, the storage activities in Great Britain (the Stublach project) and in Germany (Peckensen) were transferred to this Division, to which the transmission activities in Germany through the GDF-DT and Mégal subsidiaries, in Belgium through the SEGEO subsidiary, and in Austria through the BOG subsidiary, were also attached.

#### 6.1.1.2.2.1 Transmission and Storage

Gaz de France enjoys in France a privileged situation at the centre of European exchanges, and owns the longest high-pressure natural gas transmission network, to transport gas for third parties or itself. As of December 31, 2007, its French network included 31,717 km of pipelines, the main network being 6,786 kilometers long, completed with 24,931 kilometers of regional networks. Gaz de France holds shares in three transmission networks located in Germany (MEGAL 1077 km), Belgium (SEGEO 160 km) and Austria (BOG 250 km) for a total cumulated length (data for 100%) of almost 1,500 km, and a contributory length of 474 km.

The Group also has through its two LNG terminals, the second largest LNG receiving capacity in Europe at its disposal, and in particular it had a yearly re-gasification capacity of about 17 billion cubic metres by December 31, 2007.

Furthermore, its storage capacities in France (12 underground storage sites 11 of which with full ownership, granting an available storage capacity of over 9 billion cubic metres on December 31, 2007) rank among the largest in Europe. The storage assets in Germany lead to an additional available capacity of 60 million cubic metres (as of December 31, 2007)

#### 6.1.1.2.2.2 Distribution

On December 31, 2007, the French distribution networks of GrDF, a Gaz de France subsidiary, were the top distribution network in length for natural gas in Western Europe, with its 185,839 km and its connection to 9,202 communes where 77.4% of the French population live.

GrDF runs its network through long-term concessions which are for almost all of them compulsorily renewed when they come to an end, in conformity with the law #46-628 of April 8, 1946.

A joint service with the manager of the electricity distribution network stemming from EDF ("eRDF") carries out activities of construction, project management, exploitation and maintenance of gas and electricity distribution networks, meter reading and repairing on behalf of the two subsidiaries GrDF and eRDF. It is also in charge of interacting with the "départements" and the "communes".

#### 6.1.1.2.2.3 Transmission and Distribution – International

The Group has a portfolio of participations in several companies operating pipelines on the natural gas supply routes in Western Europe (a total of 2,268 km of transmission network on December 31, 2007), in companies operating distribution systems (a total of 96,886 km of distribution networks on December 31, 2007, data for 100%) and storage in countries such as Germany, Slovakia and Romania, and in trading companies with 3.7 million customers worldwide, who purchased 131 TWh of natural gas in 2007.

Besides, in 2007, Gaz de France had an electricity production capacity of about 400 MWe in Belgium through its subsidiary SPE, and sold 4.8 TWh of electricity in that country.

## 6.1.1.3 New legal contexts and regulations

Directives from the European Union and their transpositions in national law lead the Group to run its activities in a changing context as follows.

Since August 2000, the largest consumers of natural gas have gained the option to choose their own provider of gas within the European Union (customers with that option are referred to as "eligible" customers). In France, this possibility was transposed by law on January 3, 2003. In order to allow the customers to use their right, and since it was a direct application disposition of the directive, Gaz de France set up an access fee to its network as early as August 2000.

This possibility to choose a provider had been extended since July 1, 2004 to all customers, except residential customers, which corresponds in France to an opening of around 70% of the natural gas market.

Since July 1, 2007 this right to choose has been extended to all consumers, including residential customers.

In France, on January 3, 2003, third-parties were given a regulated access right to transmission and distribution networks and LNG re-gasification facilities, which must be granted in a transparent and non-discriminatory way. Access to these infrastructures is granted on the basis of regulated fees integrating for the corresponding Gaz de France activities remuneration rates of the assets depending on the nature of the infrastructure used.

The law of August 9, 2004 granted a right for third parties to access the storage facilities in France, under negotiated conditions[1] in a transparent and non-discriminatory way. Gaz de France implemented this directive as early as April 2004. A decree on August 21, 2006 specified the rules of determination, attribution, distribution and allocation of storage capacities.

In January 2003, the powers of the CRE (then called Electricity Regulation Commission), an independent administrative authority created in 2000 to regulate the sector of electricity, were extended to the regulation of the gas activity. One of the main tasks of the CRE is to present to the ministers in charge of the economy and energy access fees to transmission and distribution networks and LNG infrastructures, and give an opinion on the regulated fees of gas sales. The law of December 7, 2006 pertaining to the energy sector grants it a say on the investment programmes of natural gas transporters. This law also institutes within the CRE an arbitration and sanctions committee and grants the CRE the same regulating powers on gas as it already enjoyed on electricity.

The management of the distribution and transmission networks has been entrusted respectively to Gaz de France's exclusive subsidiary GrDF since December 31, 2007 and its exclusive subsidiary GRTgaz since early 2005. The two network's management is independent from Gaz de France's production and provision activities. Investment decisions thus fall within the competence of the subsidiaries' managing directors. However, the Gaz de France group keeps a right of economic supervision, such as the approbation of the annual financial plan of the manager concerned.

The opening of the market concerns all the countries of the European Union, which allows Gaz de France to gain access to new clients and to develop its activities at European level.

In compliance with the dispositions regarding public service obligations in the gas sector, Gaz de France was appointed by decree on May 16, 2006 as the last resort gas provider for non-domestic customers on missions of general interest for a period of two years anywhere in the country (with the exception of the service areas of the Gaz de Strasbourg, Gaz de Bordeaux and Vialis companies).

## 6.1.1.4 The natural gas sector in France and worldwide

### 6.1.1.4.1 The natural gas chain

The natural gas chain encompasses every single step, from the search for gas fields to the delivery of natural gas to the final customer.

Upstream, the prospecting phase consists essentially in searching for geological structures favorable to the development of natural gas fields. The actual presence of a field will later be verified by means of drillings which will allow the limits of its reserves to be defined (the delineation process) and will determine whether said reserves are commercially exploitable, in which case the field will be developed and activated.

From the various production sites, the natural gas is conveyed either in gaseous form along gas pipelines, or in liquid form (LNG – Liquefied Natural Gas) on board LNG tankers whose freight is unloaded in methane terminals where it is re-gasified. Part of the natural gas is then stored within underground structures (aquifers or saline caves) in order to adapt a regular year-round flow of supply to a demand that fluctuates considerably according to the season. The natural gas is routed over long distances through a network of gas lines, under high or medium pressure.

Certain major industrial and professional customers are supplied directly from the transmission network. On the community level, the gas is delivered to the consumers through the low-pressure distribution networks linked to the transmission network at various connecting points.

### 6.1.1.4.2 The demand for natural gas in France and worldwide

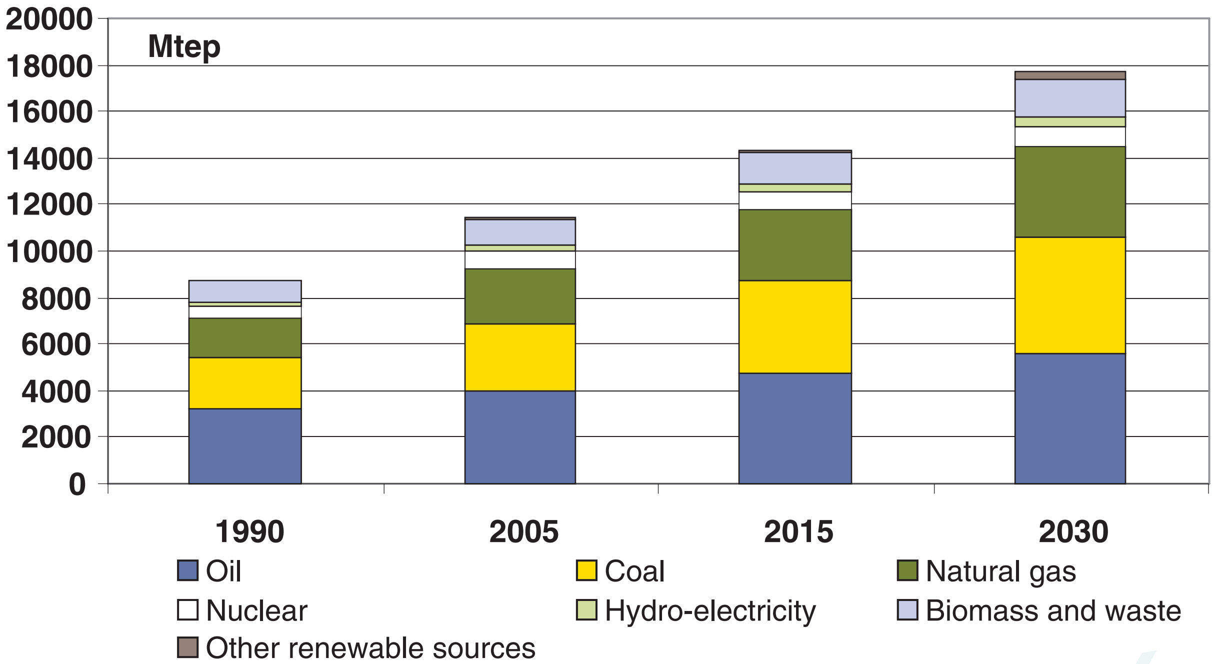
#### 6.1.1.4.2.1 International demand

The natural gas markets have been growing regularly since 1973. From 1973 to 2006, these markets have seen an average annual growth rate of 2.7%[2]. In 2006, natural gas consumption levels globally were as high as 2,936 billion cubic meters.

The share of natural gas in the total energy consumption worldwide has been consistently increasing. The IEA[3] forecasts that it will go from 21% in 2005 to 22% in 2030, that is to say an annual growth rate of about 2% while the demand for primary energy should only rise by 1.8% per year. However, the European and North-American markets members of the OECD (Organization for Economic Cooperation and Development) will remain the major markets over that period (representing 37% of worldwide consumption in 2030).

(1) *The rate is set up by Gaz de France, published and applied to every client under identical conditions.*
(2) *According to data in IEA's "Natural Gas Information 2007".*
(3) *According to data in IEA's "World Energy Outlook 2007".*

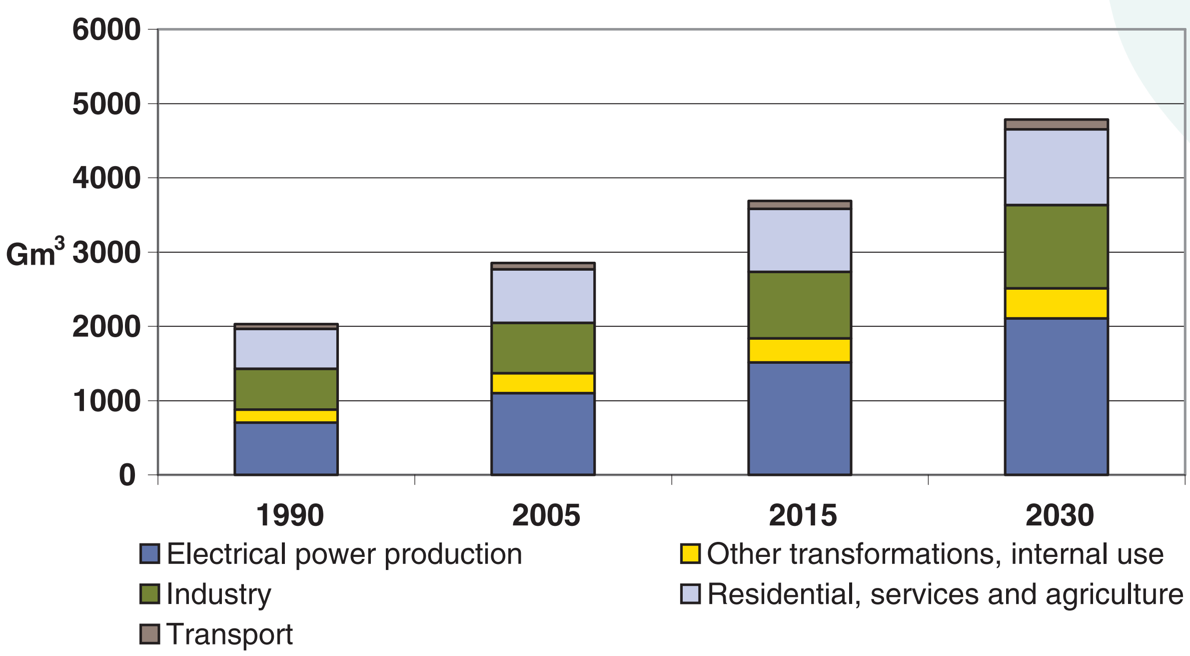
**Graph – Evolution and forecast of worldwide primary energy consumption**




*Source: IEA's World Energy Outlook 2007*

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 low cost of investment in a combined gas cycle compared with other means of centralized power production.

**Graph – Evolution and forecast for worldwide natural gas demand by sector**

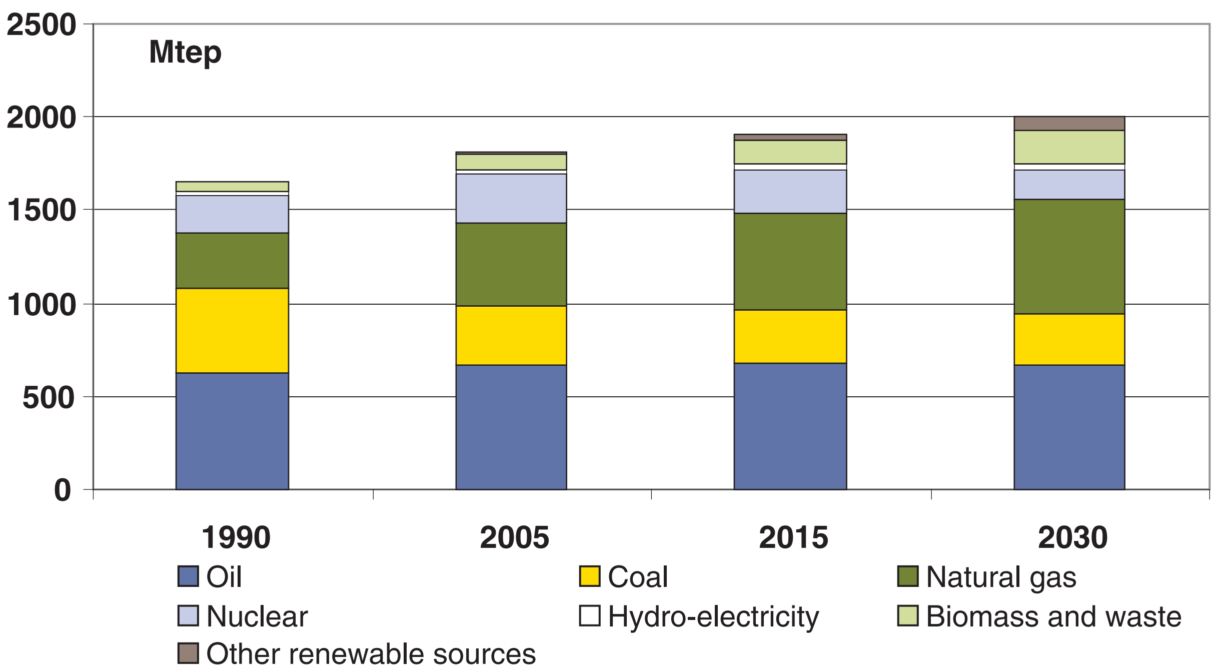



*Source: IEA's World Energy Outlook 2007*

#### 6.1.1.4.2.2 European demand

According to the IEA, in Europe (EU 27) in 2005, natural gas consumption was 538 billion cubic meters. The share of natural gas in primary energy consumption should evolve from 24% in 2005 to 30% in 2030 with an annual growth rate of 1.3% over the period, according to the reference scenario. The IEA, in an alternative scenario, envisions a share for natural gas of 29% of primary energy in 2030 (a decrease for natural gas in favor of nuclear energy and renewable sources).

**Graph – Evolution and forecast of primary energy consumption in Europe (EU 27)**




*Source: IEA's World Energy Outlook 2007*

The increasing demand for natural gas in the sector of electrical power production is, just as on a worldwide level, consistent and sustained. In 2005, production of electrical power represents 30% of primary consumption of natural gas and should rise to 39% in 2030. The annual growth of electrical production from natural gas over that period will be, just as on a worldwide level, in the region of 2.5%.

Such growth should be notably steady in Europe, due to the application of the European directive on the emission of greenhouse gases, which makes firms answerable for the cost of carbon dioxide ($CO_2$) generation, with the aim of inducing a resort to less $CO_2$-generating energies. Again according to the IEA, the final demand for natural gas in Europe should also increase between 2005 and 2030 with a more modest 0.8% annual increase.

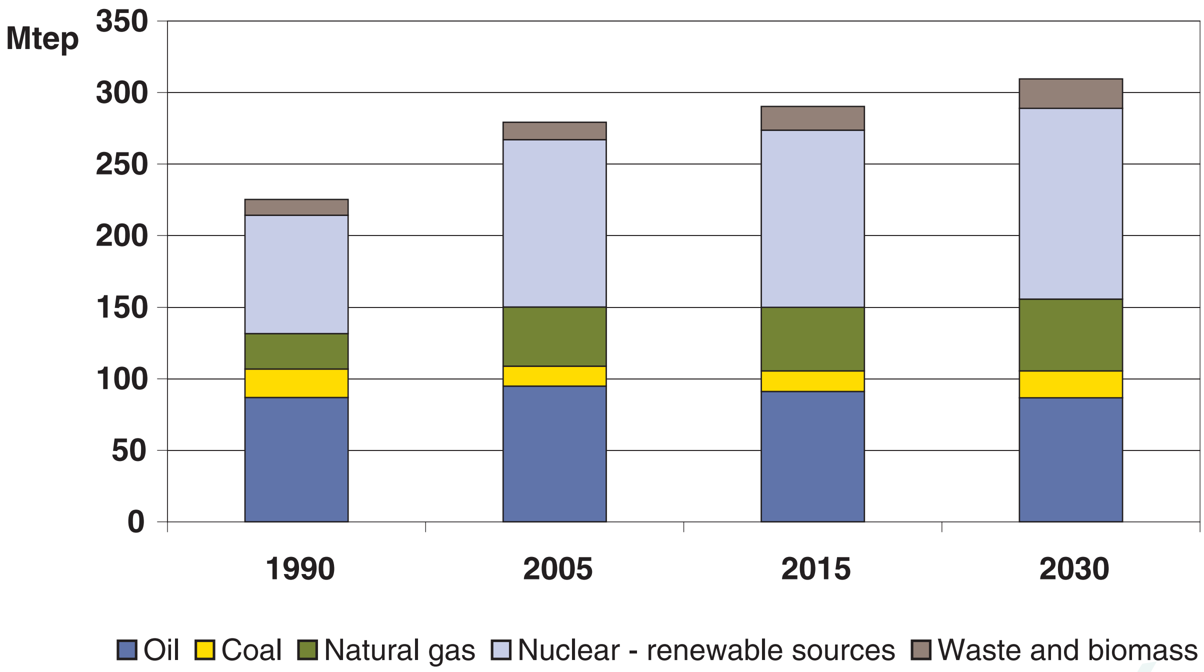
#### 6.1.1.4.2.3 Demand in France

According to the Ministry of Economy, Industry and Labor's energy watchdog, in 2006 natural gas represented 14.6% of the nation's primary energy balance, that is to say a consumption of 40,3 Mtep (equivalent to 48.8 billion cubic meters)[4].

Although blessed with a more important progression than other energies, the share of natural gas in energy consumption in France remains lower on average than in other countries within the EU (EU 27: 24.5% in 2006 according to Eurogas – 2006-2007 annual report). As a matter of fact, France has relied predominantly on nuclear energy over the last 3 decades and currently only a combined cycle of about 800 MWe (a unit built by GDF in Dunkerque in a partnership with Arcelor) and about 4,700 MWe of cogenerations produce electricity from natural gas.

(4) *Based on the IEA's WEO 2007 conversion rate.*

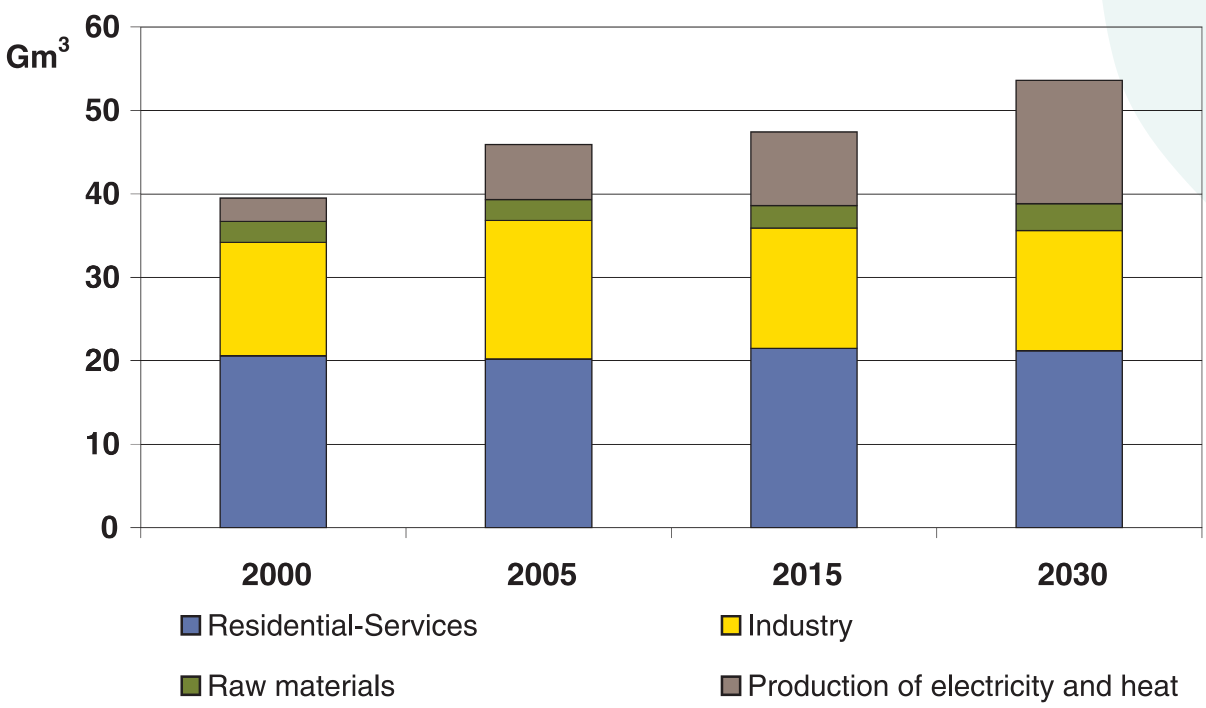
**Graph: Evolution and forecast of primary energy consumption in France**




*Source: Global Insight 2007*

The residential and services sector is the largest gas consumer in France (48% of consumption in 2006). In that sector, since gas is predominantly used in heating households, demand is highly seasonal Thus, on the day of peak consumption in 2007 (December 19), demand represented 2.3 times the average daily consumption for that year (source: GRT gas).

**Graph: Evolution and forecast of demand for natural gas by sector in France**




*Source: Global Insight 2007*

Global Insight forecasts an increase in total natural gas consumption in France from 42.7 Bm$^3$ in 2006 to 53.7 Bm$^3$ in 2030, that is to say an average annual increase of 1%. The increase in consumption will be essentially linked to the development of electrical production from natural gas, increasing by more than 3% over that period.

### 6.1.1.4.3 Supplying the French and European markets in natural gas

The European markets' supplies in natural gas are synthesized in the table below.

**Table – Consumption, production, exports and imports of natural gas in EU25 countries in 2006 (amounts in Bm$^3$ = billion cubic meters)**

| | Consumption | Production | Exports | Imports |
|---|---|---|---|---|
| Austria | 9.2 | 1.8 | 1.3 | 8.7 |
| Belgium | 18.2 | 0.0 | 4.5 | 22.7 |
| Czech Republic | 9.6 | 0.1 | 0.0 | 9.5 |
| Denmark | 5.4 | 10.4 | 5.1 | 0.1 |
| Estonia | 1.0 | 0.0 | 0.0 | 1.0 |
| Finland | 4.5 | 0.0 | 0.0 | 4.5 |
| France | 49.8 | 1.2 | 1.0 | 49.6 |
| Germany | 92.6 | 16.5 | 14.7 | 90.8 |
| Greece | 2.9 | 0.0 | 0.0 | 2.9 |
| Hungary | 13.6 | 2.6 | 0.0 | 11.0 |
| Eire | 4.6 | 1.2 | 0.0 | 3.4 |
| Italy | 87.9 | 10.9 | 0.4 | 77.4 |
| Latvia | 1.7 | 0.0 | 0.0 | 1.7 |
| Lithuania | 2.9 | 0.0 | 0.0 | 2.9 |
| Luxemburg | 1.5 | 0.0 | 0.0 | 1.5 |
| Netherlands | 40.6 | 70.7 | 48.6 | 18.5 |
| Poland | 14.9 | 4.3 | 0.0 | 10.6 |
| Portugal | 4.1 | 0.0 | 0.0 | 4.1 |
| Slovak Republic | 6.5 | 0.2 | 0.0 | 6.3 |
| Slovenia | 1.1 | 0.0 | 0.0 | 1.1 |
| Spain | 35.2 | 0.1 | 0.0 | 35.2 |
| Sweden | 1.1 | 0.0 | 0.0 | 1.1 |
| United Kingdom | 91.3 | 80.2 | 9.9 | 21.1 |

*Source: Cedigaz "Trends and figures in 2006"*

European demand for natural gas is partly satisfied by European reserves. Thus, 38% of the natural gas consumed in Europe in 2006 (EU 27) originated in resources within Europe, the balance originating in Russia (23%), Norway (16%) and Algeria (10%) (according to Eurogas' 2006-2007 annual report).

According to Cedigaz, in 2006 European proved reserves (EU25) represented over 2,700 billion cubic meters, that is to say close to 3% of world reserves. Within the EU in 2006 natural gas production amounted to 200 billion cubic meters, 40% of which were produced by the UK (80 Bm$^3$) and 35% by the Netherlands (71 Bm$^3$) from fields located essentially in the North Sea.

According to the IEA[5], natural gas production in OECD countries should decrease by an average 0.5% yearly between 2004 and 2030. North Sea production should reach its peak early in the next decade then decline gradually until 2030. Taking that decline into account, and in order to cope with rising consumption, an increasing portion of Europe's supplies in natural gas will have to be imported. Thus, the IEA forecasts that natural gas imports in European countries of the OECD will go from 214 Bm$^3$ (or 40% of consumption) to 488 Bm$^3$ (or 63% consumption) in 2030. Those imports will originate essentially from Russia and Algeria, but also from other countries in West Africa, the former USSR, the Middle East and Latin America.

**(5)** *According to data in the IEA's "World Energy Outlook 2006" (data not upgraded in 2007).*

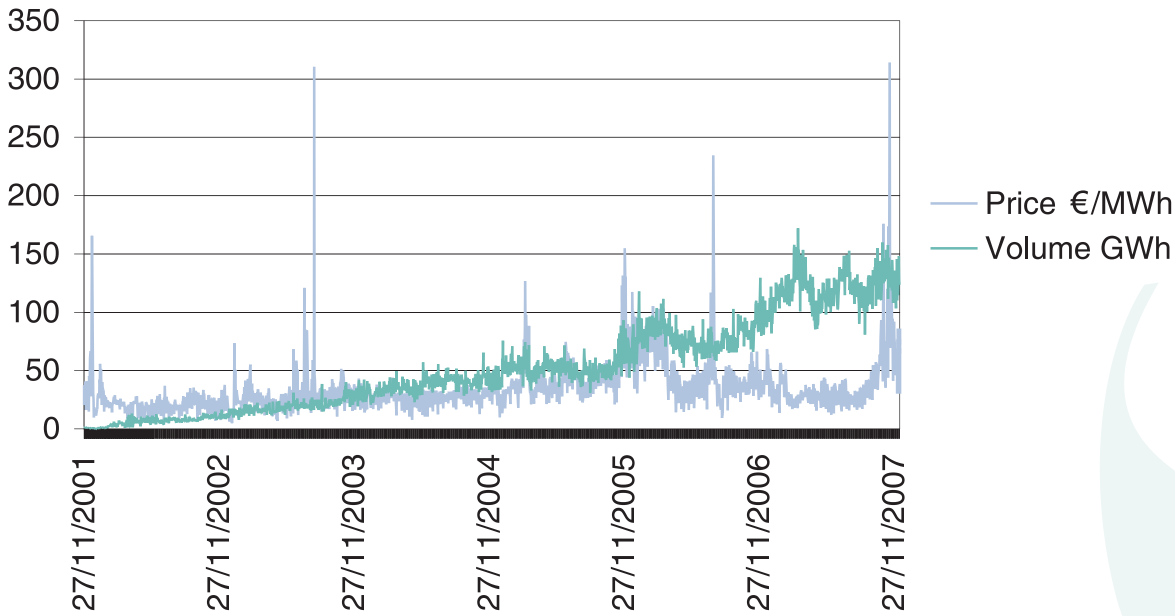
To convey these new amounts, the industry will be compelled to build new gas lines but also and above all to develop a greater capacity for importing LNG (liquefied natural gas). With a total worldwide exchange of about 200 Bm$^3$ in 2006 (source: International Group of Liquid Natural Gas Importers), LNG should, according to the IEA, progress rapidly to reach an exchange volume of 470 Bm$^3$ in 2030. While gas line-conveyed gas today represents over 70% of cross-border gas exchanges, LNG's share should, according to the IEA[5], rise beyond 50% by 2030.

### 6.1.1.4.4 The electrical power sector in France and worldwide

#### 6.1.1.4.4.1 A particular energy and highly volatile prices

Electricity cannot be stored. Balance between supply and demand has to be assured at all times in a given area and production and consumption are dependent on a number of factors which are difficult to foresee such as temperature, luminosity, rainfall or wind levels. This, coupled with the unpredictable nature of the costs of primary energy sources and $CO_2$, means that the price of this form of energy is very volatile.

**Graph – Evolution of the POWERNEXTDAY-AHEAD™ price and volumes traded**




*Source: Powernext*

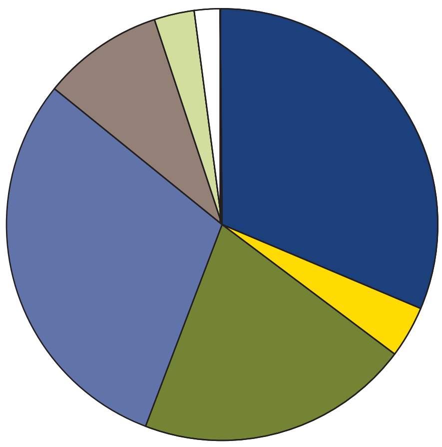
#### 6.1.1.4.4.2 A steadily increasing electrical consumption

According to the IEA[6], the increase in electrical power production worldwide should amount to 2.7% a year between 2005 and 2030. In OECD countries, the share of electricity in final energy consumption will rise slightly from 20 to 23%.

In Europe (EU 27), again according to the IEA, electrical power production was 3275 TWh in 2005. It stemmed for close to 31% from coal, 30% from nuclear sources, 20% from natural gas, 4% from oil, while renewable energy sources accounted for about 14%.

(6) *According to data in the IEA's "World Energy Outlook 2006" (data not upgraded in 2007).*

**Graph – Distribution of electrical power production in Europe EU 27 by source in 2005**




*Source: IEA's World Energy Outlook 2007*
* *Non-significant amount inferior to 1%*

In France, the special feature of electrical power production is that it originates essentially from nuclear power for close to 78%[7].

**Table – Balance of electrical power flows in France in TWh**

| | 2005 | 2006 | Variation |
|---|---|---|---|
| Nuclear | 429.9 | 428.7 | -0.3% |
| Thermal | 59.6 | 53.8 | -9.7% |
| Hydraulic | 56.2 | 60.9 | 8.6% |
| Other NRE | 4.3 | 5.6 | 29.6% |
| Injected production | 550.1 | 549.1 | -0.2% |
| Pump-drawn energy | 6.6 | 7.5 | 13.2% |
| Export balance | 60.3 | 63.3 | 4.9% |
| Domestic consumption | 483.2 | 478.4 | -1.0% |

*Source: source RTE – Electrical Energy statistics in France 2006*

Most of this production is provided by EDF, Electrabel/Suez, and Endesa France. In its annual report for 2006 on the Pluri-annual Investment Scheduling for the production of electricity in France, the Ministry of Economy, Industry and Labor identifies a need for new capacities in the field of electrical power production from traditional thermal stations to the order of 5,200 MW by 2016. That same report recommends resorting to gas-combined cycles for the semi-basic means to be deployed by 2015 in view of the environmental competitiveness of gas-combined cycles compared to "clean" coal-fired 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.

Gaz de France's strategic goal centers around the following key elements:

- **Reinforcing the Group's role in the management of natural gas infrastructures through an active participation in the growth and security of supplies of the natural gas market in France and Europe:**

  **Following through with investments in French infrastructures.**

  In doing so, its goal is to create and achieve:

  – through its GRTgaz subsidiary, such links as are required by the evolution of demand and of natural gas sources of supply, notably by reinforcing routing facilities and reducing congested areas in the network on French territory;

  – simultaneously, a continuing policy for the development of storage sites;

(7) *From data provided in 2006 by the Ministry of Economy, Industry and Labor's Energy Watchdog*

- a new methane terminal (Fos Cavaou) whose purpose is to reinforce our LNG storage capacity and supply conditions in the South of France; and
- through its GrDF subsidiary, an extension and reinforcement of distribution networks in France.

**Optimizing the terms of access to infrastructures, so as to allow every provider to enjoy top rate technical service while respecting his commitments:**

- guarantee the highest level of safety and reliability throughout our infrastructures;
- maintain the quality of services provided to the users of our infrastructures and the licensing local governments in order to reinforce the safety and the image of natural gas in France,
- guarantee transparent and non-discriminatory access to infrastructures; and
- improve and strengthen quality relationships with licensing local governments.

- **Improving the steadiness of the tariff framework applicable to the use of infrastructures.**

The Group intends to maintain a constructive dialogue with the CRE. It aims to promote the phasing in of pluri-annual tariff scales for the use of infrastructures, so as to gain a better midterm view of such activities.

**Constantly seeking gains in productivity.**

Gaz de France initiated and maintains a voluntary policy in order to improve productivity and cost control. Moreover, the Group seeks a better flow management aimed at increasing the usage rate of its facilities and implement their upgrade according to technological advances.

**Pursuing its 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 infrastructures throughout Europe, notably by participating in large-scale projects for transport, storage and LNG facilities. Thus, within a context whose main characteristic is an ever greater dependence on imports from non-European countries, Gaz de France is positioning itself so as to take advantage of the present growth of the European natural gas market.
- Gaz de France remains on the lookout for growth opportunities in the field of distribution and marketing in Europe, relying on its skills in network management and the positions it has already gained, notably in Germany, Austria, Hungary, Slovakia, Romania and Italy.

- **Developing a multi-energy offer and related services, increasing customer loyalty by anticipating any new needs which may arise and speeding up the development of our presence in Europe.**

The Group intends to rely on its portfolio of diversified supply channels and its position as the historical gas provider in France. Gaz de France's aim, at a time when the natural gas markets have been opened up to competition, is to maintain its leading position on the French market, and to impose its presence as a reference provider on the European market.

**Developing a multi-energy offer and related services.**

In order to meet the needs of its customers, the Group intends to develop multi-energy offers, in particular a gas/electricity offer, as well as complementary service offers both in France and other European countries, its ultimate goal being to reveal any number of commercial synergies, to maximize the value of services rendered to the customers and to increase customer loyalty.

**Increasing customer loyalty.**

Capitalizing on the close relationship with its clientele developed since its origins and its notoriety among the general public in France, the Group develops an active commercial policy adapted to the different categories of target customers. This policy relies in particular on a very strong brand awareness, as with Gaz de France energY® for important customers and Dolce Vita® for households. It is also based on an extension of multi-energy offers and related services.

Gaz de France's reinforced commitment to environmental protection and sustainable development is an extra asset for its development and the reinforcement of customer loyalty.

**Speeding up the development of our presence in Europe.**

The Group is implementing three European growth strategies:

- supporting the sales-boosting efforts of companies in which it is a shareholder;
- developing direct sales on a number of specific and profitable markets, relying on its former experience in the matter;
- pursuing a policy of targeted acquisitions, centering on companies with a considerable client portfolio.

- **Developing its energy intake portfolio and its positions as one of the greatest world buyers of natural gas and LNG, in order to reinforce the competitive nature of its offer and to boost the growth of its sales on the European energy market.**

In that respect, Gaz de France aims at:

**Maintaining a supply intake policy, based essentially on long-term contracts in order to secure the major part of its intake.**

For many years, Gaz de France has entertained structured relationships with major providers. This strategic approach is directly relevant to a policy of risk diversification that allows Gaz de France to boast one of the most diversified supply intake portfolios in Europe.

**Increasing the Group's reserves and production.**

Gaz de France's mid-term goal is to hold a 1,000 Mbep portfolio of proved and possible reserves. In order to attain that goal, Gaz de France intends as a priority to develop its

Exploration/Production activity in geographical areas liable to contribute to Europe's supply (the UK, the Netherlands, Norway, Africa, the Middle East and the Caspian Sea in particular), but also in more remote areas (for instance the Caribbean and South America) by acquiring stock, as the case may be, in liquefaction plants.

**Consolidating the Group's presence on the growing LNG market.**

The Group wishes to pursue a policy of multi-sourcing and to take advantage of the developing world market for LNG so as to seize on the opportunities for intercontinental arbitration. Besides, Gaz de France intends to enhance the skills it has developed in that field of activity, by seizing on every opportunity to participate from A to Z in whole LNG supply chains (exploration – production, liquefaction, oversea transmission, re-gasification).

**Structuring a policy of electrical supply.**

By means of supply contracts, of purchases made on the organized markets and by building up its own asset base, Gaz de France intends to promote the development of its dual offer (gas-electricity). Assets representing a capacity for electrical power production of about 2,200 MW in late 2007 and held by the Group are already in operation, excluding wind power and excluding the capacity held in the SPE company. The Group's goal in the matter of electrical power production excluding renewable energies is eventually to hold an 8,000 MW capacity in its own right.

Besides, it is the Group's wish to develop a stock of facilities for the production of electricity from renewable energy sources. In 2006, Gaz de France set up Maïa Eolis, a company for the development and production of wind-based energy, with the Group holding 49% of the company in partnership with Maïa Sonnier. In 2007, Gaz de France acquired 2 companies, Erélia and Eoliennes de la Haute-Lys. The Group's mid-term objective is to hold a 2,000 MW capacity for the production of wind energy.

**Keeping up with the development of arbitration and trading.**

Particularly through its subsidiary Gaselys, Gaz de France entertains an ambition to stand out as a first-rate trader in the European energy market, but also in the area of intercontinental arbitration, on the strength of its portfolio of LNG supply sources and its fleet of tankers. These activities are undertaken within the framework of a controlled risk policy.

- **Upholding a controlled and profitable growth policy.**

**Maintaining a healthy financial structure.**

By depending in particular on the operating activities of infrastructures that achieve recurrent results and cash flows, the Group makes sure its latest investments contribute to the growth of its results and to the balance of its financial structure. It strives to maintain a financial rating in accordance with its profile, among the best in its sector.

**Upholding a controlled and profitable investment policy.**

All investments are consistent with a policy framed by the Group's financial objectives, implementing strict investment criteria: a careful analysis of strategic relevance, target profitability rates (TPR) adapted to various activities, a close study of the projects and countries involved and an assessment of the operations' impact in terms of share buyback.

**Aiming at a steady increase in our results.**

This goal relies on the long-term growth of the European market, on improved productivity and on the opportunities from growth generated by the new regulatory context.

This strategic ambition was confirmed within the framework of the planned merger with Suez.

## 6.1.3 A Description of activities

**2007 Net sales and EBITDA (Gross Operating Profit)**

| *In M€* | Energy Supply and Services | | | Infrastructures | | | | Group Total |
|---|---|---|---|---|---|---|---|---|
| | Exploration – Production | Purchase and Sale of Energy | Services | Transmission & Storage | Distribution – France | International Transmission & Distribution | Intra-division Eliminations & holding | |
| Net Sales | 1,717 | 20,041 | 1,807 | 2,494 | 3,076 | 5,202 | (6,910) | 27,427 |
| EBITDA | 1,127 | 1,075 | 129 | 1,534 | 1,291 | 491 | 19 | 5,666 |

**2006 (**) Net sales and EBITDA**

| In M€ | Energy Supply and Services | | | Infrastructures | | | | Group Total |
|---|---|---|---|---|---|---|---|---|
| | Exploration – Production | Purchase and Sale of Energy | Services | Transmission & Storage | Distribution – France | International Transmission & Distribution | Intra-division Eliminations & holding | |
| Net Sales | 1,659 | 20,455 | 1,801 | 2,355 | 3,289 | 5,178 | (7,095) | 27,642 |
| EBITDA | 1,270 | 529 | 117 | 1,357 | 1,412 | 498 | (34) | 5,149 |

**2005 (*) (**) Net Sales and EBITDA**

| In M€ | Energy Supply and Services | | | Infrastructures | | | | Group Total |
|---|---|---|---|---|---|---|---|---|
| | Exploration – Production | Purchase and Sale of Energy | Services | Transmission & Storage | Distribution – France | International Transmission & Distribution | Intra-division Eliminations & holding | |
| Net Sales | 1,139 | 17,346 | 1,568 | 2,138 | 3,426 | 3,669 | (6,414) | 27,427 |
| EBITDA | 726 | 325 | 105 | 1,265 | 1,358 | 379 | 90 | 5,666 |

(*) *2005 published data restated to reflect the impacts of the application of IFRIC12 and IFRIC 4*
(**) *Data restated to reflect the effects of the reclassifications between segments tied to the establishment of the new organization In 2007*

## 6.1.3.1 Energy supply and services

### 6.1.3.1.1 Exploration – Production

**Table – Segment net sales and EBITDA**

| In M€ | 2005 (*) (**) | 2006 (**) | 2007 |
|---|---|---|---|
| Net sales (before eliminations) | 1,139 | 1,659 | 1,717 |
| *Net sales with third parties* | *932* | *1,230* | *1,293* |
| EBITDA | 726 | 1,270 | 1,127 |

(*) *2005 published data restated to reflect the impacts of the application of IFRIC12 and IFRIC 4*
(**) *Data restated to reflect the effects of the reclassifications between segments tied to the establishment of the new organization In 2007*

#### 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 impact of energy price fluctuations on its supply costs;
- Win access to new natural gas resources and diversify its commercial offers of natural gas;
- To reinforce the Group's position as a first-rate buyer by opening up possibilities for new partnerships with important providers with a view to furthering projects together.

The Group's mid-term objective is to hold a 1,000 Mbep portfolio of proved and possible reserves and to increase its production through internal and external growth, market conditions permitting. In order to attain these goals, the Group plans to maintain the level of the portfolio in current production areas in Northern Europe, to boost development in North Africa (Algeria and Egypt), and to establish itself in new areas: Eastern Europe, West Africa, the Persian Gulf, the Caribbean and South America, thus shifting its center of gravity to new regions.

#### 6.1.3.1.1.2 Development of the Exploration – Production activity

The Group initiated its Exploration – Production activities by acquiring shares in active natural gas fields. Thus in 1994 it undertook the acquisition of Erdöl-Erdgas Gommern GmbH (later renamed EEG-Erdgas Erdöl GmbH, a.k.a. "**EEG**") which merged in November 2007 with German-based Gaz de France Production Exploration Deutschland GmbH (PEG), a company acquired in 2003. 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 the operator of NoordGas Transmission, the main Dutch underwater pipeline. In 2006, Gaz de France started operations in Mauritania following agreements drawn up with 2 companies, Dana Petroleum and Wintershall.

In 2007 Gaz de France reinforced its presence in Egypt by acquiring from the Vegas Oil & Gas company a 45% share in Alam El Shawish West license.

In Norway, the development plan for the Gjoa and Vega Sør (Fram B) fields has been approved by the Norwegian authorities.

Since 2002, the Group has held the exploration – production permit for Touat in southern Algeria in partnership with Sonatrach. The exploration/assessment phase ended in 2007 and the merchantability certificate should be finalized in 2008.

#### 6.1.3.1.1.3 The legal framework of Exploration – Production activities

Gaz de France operates its exploration – production activities within the framework of license, concession or shared production contracts, and/or other types of contracts drawn up with the public authorities or national companies of the countries involved. Depending on the type of license or contract, or legislation in force, Gaz de France undertakes to implement an exploratory program and, if successful, is entitled to work the fields involved for a certain amount of time, subject to approval of a development plan by local authorities. Throughout the production period, Gaz de France must pay royalties to those authorities, hand over part of the production, pay a share 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. Only those companies that have been recognized by the local authorities may be named 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 referencing allows Gaz de France to take part in exploration – production projects in those countries, taking on responsibilities not only in a technical capacity but also in the matter of strategic investment and development decisions.

#### 6.1.3.1.1.4 Exploration: reserves

As of December 31, 2007, the Group held, in 10 countries, 320 exploration and/or production permits, 59% of which were self-operated. Of the 13 wells drilled in 2007, 8 were successful with 4 hits in Norway, 2 in the Netherlands, 1 in England, and 1 in the Ivory Coast. Some of those hits have come up with proved and possible reserves in 2007, the others will contribute in future years.

The tables below give a complete picture of the Group's proved and possible reserves (including both developed and undeveloped reserves[8]), then, at the given dates, their geographical distribution:

**Table – Evolution of the Group's reserves[9]**

| *Mbep* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Proved and possible reserves | 697.2 | 626.8 | 666.9 |
| of which natural gas | 516.5 | 488 | 492.5 |
| of which liquid hydrocarbons | 180.7 | 138.8 | 174.4 |
| Equity affiliates' share of proved and possible reserves | 55.7 | 58.5 | |
| **Total** | **752.9** | **685.3** | **666.9** |

**Table – Evolution of the Group's reserves by country: natural gas**

Natural gas

| *Bep* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Germany | 123.7 | 121.2 | 104 |
| Norway | 222.3 | 228.8 | 228.2 |
| United Kingdom | 72.2 | 64.9 | 49.4 |
| Netherlands | 111.4 | 93.2 | 99.5 |
| Kazakhstan | 4.1 | 0 | |
| Other | 10.2 | 10.2 | 11.3 |
| **Total** | **544.0** | **518.3** | **492.5** |
| *Variation* | *7.1%* | *-4.7%* | *-5%* |

(8) *Developed proved reserves are those that can be tapped from existing facilities. Undeveloped proved reserves are those that require the drilling of new wells on virgin territory, or further significant investments in existing facilities, such as a compressor unit.*
(9) *Amounts have been rounded up to the closest figure from the database – small discrepancies may thus appear between the detailed lines and the total.*

### Table – Evolution of the Group's reserves by country: liquid hydrocarbons

Liquid hydrocarbons

| *Mbbl* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Germany | 46.6 | 43 | 47.7 |
| Norway | 87.7 | 92.5 | 91.5 |
| United Kingdom | 30.7 | 30.6 | 23.9 |
| Netherlands | 0.9 | 0.9 | 1.1 |
| Kazakhstan | 43.0 | 0 | |
| Other | 0.1 | 0 | 10.1 |
| **Total** | **209.0** | **167.0** | **174.4** |
| *Variation* | *11.5%* | *-20.1%* | *4.4%* |

### Table – Evolution of the Group's reserves by country: total

Total = natural gas + liquid hydrocarbons

| *Mbep* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Germany | 170.3 | 164.2 | 151.8 |
| Norway | 310.0 | 321.3 | 319.7 |
| United Kingdom | 103.0 | 95.5 | 73.4 |
| Netherlands | 112.2 | 94.1 | 100.6 |
| Kazakhstan | 47.2 | 0 | 0 |
| Other | 10.3 | 10.2 | 21.4 |
| **Total** | **752.9** | **685.3** | **666.9** |
| *Variation* | *8.3%* | *-9.0%* | *-2.7%* |

### Table – Follow-up on the evolution of the Group's reserves – natural gas

| *Mbep* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Reserves as of Dec 31, N-1 | 508.0 | 544.0 | 518.3 |
| Revision + findings | 62.0 | 16.5 | 8.8 |
| Assets bought & sold | 1.3 | -9.9 | -3.8 |
| Production sales | -27.4 | -32.3 | -30.8 |
| **Reserves as of Dec 31,** | **544.0** | **518.3** | **492.5** |

### Table – Follow-up on the evolution of the Group's reserves – liquid hydrocarbons

| *Mbbl* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Reserves as of Dec 31, N-1 | 187.3 | 209.0 | 167 |
| Revision + findings | 36.7 | 12.3 | 9.4 |
| Assets bought & sold | 0 | -41.1 | 9.6 |
| Reserves as of Dec 31, N-1 | 508.0 | 544.0 | 518.3 |
| Production sales | -15.0 | -13.2 | -11.6 |
| **Reserves as of Dec 31,** | **209.0** | **167.0** | **174.4** |

**Table – Follow-up on the evolution of the Group's reserves – natural gas + liquid hydrocarbons**

| *Mbep* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Reserves as of Dec 31, N-1 | 695.3 | 752.9 | 685.3 |
| Revision + findings | 98.7 | 28.8 | 18.2 |
| Assets bought & sold | 1.3 | -50.9 | 5.8 |
| Production sales | -42.4 | -45.5 | -42.4 |
| **Reserves as of Dec 31,** | **752.9** | **685.3** | **666.9** |

As of December 31, 2007, Gaz de France's proved and possible liquid hydrocarbons and natural gas reserves amounted to 667 Mbep as against 685 Mbep in 2006[10], of which 74% natural gas reserves, or 82.4 $Bm^3$. Gaz de France carries out exploration – production activities in 10 countries, mainly in Europe and North Africa. For the record, Gaz de France's share in the proved and possible gross reserves of the fields in which the Group is a partner ("Working interest reserves") amounts in late 2007 to 696 Mbep.

Every year, more than one third of the amount of reserves is subjected to an independent assessment by an international expert (currently DeGolyer and MacNaughton) over a 3-year cycle. As of December 31, 2007, 36% of reserves are covered by that assessment.

Gaz de France resorts to the Securities and Exchange Commission (SEC)'s definitions for the classification of its proved reserves and to the Society of Petroleum Engineers (SPE)'s and World Petroleum Congress (WPC)'s commonly-held definitions for the classification of its possible reserves (this latter classification is known as SPE PRMS).

Proved reserves of liquid hydrocarbons and natural gas correspond to an estimation of the amounts of crude oil, natural gas and natural gas liquids based on geological and technical data, with the reasonable certainty of being able to extract those amounts in future years from existing fields under certain economic and operational conditions, i.e. the prices and costs on the date the estimation was made. Prices take into account the predictable evolution of present prices resulting solely from tying arrangements, but not the evolutions based on future conditions.

Proved and possible oil and gas reserves correspond to an estimation of the amounts of hydrocarbons that may be extracted in the future, from existing fields and with a probability of at least 50% according to geological and technical data available. The extraction must meet economic criteria that take into account a future price evolution, the appreciation of hydrocarbons and exchange rates.

These estimates, which imply subjective assessments, are subject to annual revisions taking into account all new information, especially the production levels from the past year, the reevaluation of fields, the addition of new reserves resulting from discoveries or acquisitions, ceded reserves and other economic factors.

The contingent resources are the amounts of hydrocarbons discovered for which there exists a technical, economic, or commercial risk that does not completely guarantee the extraction of these resources.

Unless otherwise specified, the references made to proved and probable reserves and to production must be understood as the part the Group holds in these reserves and this production (net of all charges paid in kind by third parties in the form of or raw petroleum or natural gas).

Included in these references is the total of these net proved and probable petroleum, gas, and other hydrocarbon reserves estimated as able to be extracted for the remaining duration of the licenses, concessions, and contracts of division of production. Non-contractual renewal of these licenses, concessions and agreements was not taken into account.

The renewal rate of the reserves for a given period is defined as the ratio of additions of reserves of the period (discoveries, net acquisitions and revisions of reserves) over the production of the period. The renewal rate of the Group's reserves was 298% percent on average during the period 2002-2004, 293% on average over the period 2003-2005, 112% on average during the period 2004-2006 and 78% on average over the period 2005-2007.

(10) *Including equity affiliates' share.*

#### 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, 2005, 2006 and 2007.

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

| *Mbep* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Germany | 8.8 | 8.8 | 8.6 |
| Norway | | | 0.2 |
| United Kingdom | 9 | 8.5 | 7.2 |
| Netherlands | 9.3 | 14.6 | 14.3 |
| Other | 0.3 | 0.4 | 0.6 |
| **Total** | **27.4** | **32.3** | **30.8** |

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

| *Mbbl* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Germany | 3.5 | 3.5 | 3.3 |
| Norway | 4 | 3.3 | 3.9 |
| United Kingdom | 4.8 | 4.3 | 4.2 |
| Netherlands | 0.1 | 0.1 | 0.1 |
| Other | 2.5 | 2 | 0 |
| **Total** | **15** | **13.2** | **11.6** |

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

| *Mbep* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Germany | 12.3 | 12.3 | 12.0 |
| Norway | 4 | 3.3 | 4.1 |
| United Kingdom | 13.8 | 12.8 | 11.4 |
| Netherlands | 9.4 | 14.7 | 14.4 |
| Other | 2.8 | 2.4 | 0.6 |
| **Total** | **42.4** | **45.5** | **42.4** |

During the fiscal year ended December 31, 2007, Gaz de France's production of gas and liquid hydrocarbons increased to 42.4 Mbep.

#### 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. At the end of December, 2007, the subsidiary EEG, which had been 100% held by Gaz de France was merged and absorbed by PEG.

Thus, thanks to this group, in this country the Group held, as of December 31, 2007, 20.8 billion cubic meters of proved and probable reserves of natural gas and 48 million barrels of oil from proven and probable reserves of liquid hydrocarbons. The production of gas coming from the assets, corresponding to 1.9 billion cubic meters, is principally sold to E.On-Ruhrgas and to EGM. The Purchase and Sale of Energy segment of Gaz de France is progressively becoming a major client of PEG, thus reinforcing the group synergies. Moreover, PEG possesses rights on 3 underground storage facilities with a net capacity of 259 million cubic meters, which it leases to German distributors, and also has one storage facility in salt cavities, Peckensen, brought by PEG, that it runs notably for the benefit of the Purchase and Sale of Energy segment of the group. These storage activities are in the process of being transferred in 2008 to the Infrastructures Branch.

Furthermore, 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.

Finally, in 2007 the Group reinforced its commitment to the research on $CO_2$ storage by signing a cooperation agreement with the Vattenfall group bearing on an experimental project of $CO_2$ injection on the Altmark site.

**Norway**

The group holds a share in 18 petroleum and natural gas fields off of Norway, for its part having at its disposal 319.7 Mbep of proven and probable reserves as of December 31, 2007 (of which 71% are in the form of gas).

Gaz de France has been recognized as an operator by the Norwegian authorities for the production phase of one of these fields, Gjøa, which will start in 2010. The development plan of Gjøa, after approval by the different partners, was approved at the beginning of 2007 by the Norwegian authorities. The associated development of the satellite field Vega Sør (ex. Fram B) has also been decided.

The production of gas began in September 2007 in the framework of the first LNG production project in Europe (project Snøhvit) and of the development of the Njord and Fram fields gas reserves (only the petroleum reserves were in production before). Gaz de France envisages the disposition of all or part of this gas production in Norway for the benefit of its Purchase and Sale of Energy activity.

**United Kingdom**

The group holds shares in 28 fields situated in the British North Sea, of which 13 are in production. As of December 31, 2007, the share of proved and probable reserves held by the Group (including the reserves held by its share of 22.5% in EFOG) in these fields represented 73.4 Mbep, of which 67% was in the form of gas.

In the course of the fiscal year ended December 31, 2007, the Group sold 77% of its consolidated production of natural gas in the United Kingdom to its Purchase and Sale of Energy segment (including sales to Gaselys) for a resale principally on the British market. The new fields Minke and Kelvin have been entered into production.

In 2007, in March Gaz de France ceded its share of 25% in the field in development Cavendish to Dana Petroleum, and in April, 2007 acquired shares in ten offshore licenses of the Veritas company: seven situated in the central North Sea and three to the west of the Shetland Islands, on the British continental shelf.

**Netherlands**

The Group holds shares in 40 fields along the coast of the Netherlands. These fields are in production and the Group is the majority operator. As of December 31, 2007, the share of proved and probable reserves held by the Group in these fields represented 100.6 Mbep, of which the quasi-totality was in the form of gas (16.7 billion cubic meters). In the course of the fiscal year ended December 31, 2007, the Group sold 37% of the natural gas produced in the Netherlands to its Purchase and Sale of Energy segment to be commercialized in Benelux and in Germany.

Gaz de France put two new gas fields into production, developed over the course of three years between August, 2005 and December, 2007. In December, 2007, an important discovery in the G16 bloc was made.

The development of these licenses significantly extends the historical production zone of ProNed in the Netherlands.

**Algeria, Mauritania, Ivory Coast**

The Group is also present in North Africa, Ivory Coast, and Mauritania.

Since 2002, the Group is the operator, under the exploration – production permit, of Touat in the south of Algeria, in partnership with Sonatrach. The exploration/appreciation phase ended in 2007 and the declaration of commerciality should be finalized in 2008.

The definitive execution of the asset exchange agreement with Dana Petroleum of November 7, 2005 and the agreement with Wintershall of December 20, 2005, after the approval of the concerned governmental authorities, came into effect over the course of the year 2006, solidifying the entry of Gaz de France in three offshore Mauritanian blocks (24% in block 1, 27.85% in block 7 and 26% in block 8).

In the Ivory Coast, Gaz de France acquired in April, 2007 51% of the capital of the ENERCI company from EDF, thus bringing its share to 100%. This company holds 12% of an off shore production site which supplies 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. It followed that 50% of the shares were ceded to Dana Petroleum.

In 2007, the Group acquired 45% of the license of "Alam El Shawish West" in Egypt.

Moreover, in 2007 the Group signed an agreement with Shell to take a 10% share in the new exploration license requested by Shell on North West Demietta; the Egyptian authorities have not yet responded to this request.

### 6.1.3.1.1.7 Commercialization

In 2007, the Exploration – Production segment sold 56 TWh of natural gas, primarily under long-term contracts.

Around 54% of the natural gas produced by the Group today is sold to third parties in Europe in the framework of short or long tem contracts which had been executed before the acquisition of these companies by the Group. Principally it is a matter of Gas Terra in the Netherlands and of E. On-Ruhrgas in Germany. The long term contracts in the framework of which Gaz de France sells its gas production are indexed according to the spot prices of gas and/or according to the average prices of petroleum products. If the evolution of the price of natural gas tends to follow that of petroleum, there nevertheless exists a certain delay, generally from 6 to 9 months, before the changes in the prices of petroleum products have repercussions on the long term sale prices of natural gas.

The remainder of the Group's gas production is sold to the Purchase and Sale of Energy segment. The nature of the contracts executed with this segment differs according to 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 euro* | 2005 (*) | 2006 (**) | 2007 |
|---|---|---|---|
| Revenues (before eliminations) | 17,346 | 20,455 | 20,041 |
| *Revenues with third parties* | *15,732* | *18,432* | *18,184* |
| EBITDA | 325 | 529 | 1,075 |

(*) *2005 published data restated to reflect the impacts of the application of IFRIC12 and IFRIC 4.*
(**) *Data restated to reflect the effects of the reclassifications between segments tied to the establishment of the new organization In 2007.*

Note: the GDF ESS subsidiary in the United Kingdom was transferred in 2007 from the Purchase and Sale of Energy segment to the International Transmission Distribution segment.

#### 6.1.3.1.2.1 Strategy of the Purchase and Sale of Energy segment

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.

Regarding the supply of energy, the Group in particular intends to:

- Follow a policy of diversification of long term gas supplies;
- Develop its own hydrocarbon reserves, with the objective of holding a portfolio of proved and probable reserves to the order of 1,000 Mbep on the medium term; and
- Structure the group's supply of energy in order to become a player of critical size in Europe, in particular via the acquisition or development of 10,000 MW of its own electrical production capacity by the year 2012, of which 2,000MW will be electric wind turbine production 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. Principally through its Purchase and Sale of Energy segment, Gaz de France directly commercializes natural gas to approximately 11 million clients in France (of which 10.5 million are individuals) and approximately 169 large industrial clients in continental Europe for approximately 521 sites, to which can be added approximately 3.7 million clients served by subsidiaries of the International Transmission-Distribution segment in Europe.

In addition, Gaz de France sells other energy products (primarily electricity) to eligible customers.

Of the 730 TWh of natural gas sold by the Group in 2007 (from 762 TWh in 2006), the Purchase and Sale of Energy segment sold 609 TWh, of which 402 TWh were sold in France, 128 TWh abroad and 79 TWh of sales were on the short term and LNG markets.

Gaz de France follows an active policy of management and securing of its supplies, with one of the most diversified portfolios in Europe. It is one of the largest buyers in the world of natural gas and one of the premier European actors on the LNG market. Its supplies are complemented by recourse to short term markets, trading activities, and operations on products derived from the energy markets which allow us to offer clients solutions of price formulas adapted to their needs.

In the domain of the supply in electricity, Gaz de France follows two complementary approaches:

- acquiring companies of small or medium importance, permitting the completion of the existing portfolio, and which will constitute a platform of development for the Group;
- develop projects of new assets (greenfield)

In the wind domain, the acquisitions made in 2007 (ERELIA and Eoliennes de la Haute Lys groups) complement the position of Maïa Eolis, founded in 2006. As of the end of 2007, the Gaz de France Group disposed of a total installed capacity of almost 120 MW. The Gaz de France wind park was thus, as of December 31, 2007, the largest in France in installed production capacity.

The development of the thermal stations park functioning with natural gas continues with the construction of the Cycofos station and the launching of two new production projects in France near Saint Brieuc and Montoir de Bretagne.

The electricity purchase and sale activity of Gaz de France is now anchored in several European countries:

- France, with a portfolio of final clients and a presence on the wholesale market reaching a transaction volume of approximately 4.3 TWh:
- The United Kingdom, where the commercialization represents a volume of 10 TWh annually;
- Spain, with the Cartagena station put into service at the end of 2006, which permitted sales on the wholesale market (pool) to reach 2 TWh in 2007;
- Italy, where the sourcing of final clients is in the starting and structuration phase.

#### 6.1.3.1.2.2.1 – Purchase of Energy and Arbitrations

*6.1.3.1.2.2.1.1 Gaz de France policy of natural gas supply*

The major part of the Group's supplies is ensured in a centralized manner. However, the supplies of the Groups distribution subsidiaries in Europe are executed today in an autonomous manner, either with local or foreign suppliers, or directly with 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 below concerns the centralized supplies.

Gaz de France is one of the leading purchasers of natural gas in Europe. It benefits from a portfolio of long term contracts which covered on the order of 87% of its needs in 2007. The proportion of long term contracts is able to maintain itself. It is one of the premier buyers from the largest provider countries of Europe, especially Norway, Russia, Algeria and the Netherlands. The Group also figures among the premier LNG actors, disposing of an expertise allowing it to take part in the development of this sector. It complements its supplies by its Exploration – Production activity and by means of interventions on the short term markets.

Gaz de France intends to remain an important purchaser of natural gas from its historical suppliers and reinforce its long term relations, especially by means of new partnerships such as those signed in December 2006 with Gazprom in the framework of the renewal of contracts and the purchase of additional quantities of Russian gas, those signed in November 2006 with Sonatrach in the framework of the new Medgaz pipeline and those signed in the framework of the renewal of the LNG contracts with Sonatrach in December 2007. At the same time, in order to satisfy the growing needs resulting from its European development, Gaz de France is striving to develop relations with new providers (Qatar, Iran, Nigeria).

The table below presents the sources of Gaz de France's supply portfolio for each of the three fiscal years ended December 31 2005, 2006, and 2007 (excluding its own consumption and losses).

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

| | Fiscal year ended December 31 | | |
|---|---|---|---|
| *(TWh)* | **2005** | **2006** | **2007** |
| Long term contracts with third parties | 539.5 | 503.9[11] | 503.0 |
| Exploration – Production segment | 21.6 | 32.0 | 31.6 |
| Short term purchases | 107.5 | 102.9 | 82.2 |
| Other sources | 0.3 | 0.4 | 0.1 |
| **Total** | **668.9** | **639.2** | **616.9** |

(11) *The decrease in the proportion of supplies coming from long term contracts between 2005 and 2006 comes in particular from contracts to purchase Norwegian gas which were not renewed because of the outcome of agreements with Total, and the climate which was warmer in 2006 than in 2005 which led the Group to reduce its collections 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 offer Gaz de France the necessary visibility to assure its development and the security of its supplies, constituting one of the strengths of the Group in the natural gas market in Europe. Gaz de France is also one of the most important players in Europe on the short term markets; it thus adjusts its supplies to its needs by optimizing its purchase prices.

Gaz de France's long term contracts have an initial duration which is in general on the order of 20 years. By December 31, 2007, the average residual duration of Gaz de France's long term contracts (balanced according to their importance within the supply portfolio) was close to 16 years (from 15 years in 2006). No significant contract expires in the course of the next 5 years.

Following the market practice intended to permit the financing of the heavy infrastructures necessary for the production and transmission of gas, Gaz de France's long term purchase contracts contain *take-or-pay* clauses by which Gaz de France engages itself to pay for minimum volumes of gas annually, whether or not it takes delivery (except in case of default by the vendor or a cause beyond its control). However, the majority of the contracts foresee clauses of flexibility of the type *make-up* or *carry-forward*, which is to say compensation mechanisms which allow the carrying over to a subsequent period future deliveries relative to volumes already paid for but not taken (*make-up*) or to deduct within a certain limit from the *take-or-pay* obligation the volumes taken over the course of preceding years beyond the minimum volumes applicable to these 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, these contracts foresee the periodic revision (2 to 4 years) of the price and the indexing formula to take into account the evolutions occurring on the market. The majority of the contracts also foresee the possibility of modifying other contractual stipulations in the case that exceptional events occur affecting the economic equilibrium of the contracts (*hardship*). The parties are then held to negotiate in good faith and can, in case of disagreement, revert to arbitration.

The supply contracts determine one or more delivery points. The delivery points of gas delivered by pipeline are dispersed over the whole of the European transport system and, in the case of LNG, mainly positioned at the loading points for the vessels in the suppliers' liquefaction factories. As a result, Gaz de France uses both transportation of gas by land and by sea.

The minimal quantities that Gaz de France (except subsidiaries) is obligated to take as a result of long term contracts increased to 47 billion cubic meters in 2007, 177 billion cubic meters for the period extending from 2008 to 2011 and 477 billion cubic meters for 2012 and beyond.

Moreover, following its engagement with the European Commission and after concertation with CRE, Gaz de France put a quantity of 15 TWh of natural gas per year at the disposal of other providers at the Gas exchange point of Gaz Sud for a period of three years starting in 2005, or 45 TWh in total.

*6.1.3.1.2.2.1.1.2 Diversification of supplies*

Gaz de France maintains a diversification of supplies in order to limit its risks of hedging, to protect itself against limited interruptions and to best adapt its gas purchases to its needs.

The table below indicates the geographic distribution of Gaz de France's gas supply sources (including its own resources) for each of the three fiscal years ended December 31 2005, 2006, and 2007.

**Table – Geographic distribution of supply sources (including its own resources)**

Fiscal year ended December 31

| | 2005 | | 2006 | | 2007 | |
|---|---|---|---|---|---|---|
| | (TWh) | (%) | (TWh) | (%) | (TWh) | (%) |
| Norway | 165.1 | 24.7% | 135.0 | 21.1% | 132.6 | 21.5% |
| Russia | 130.4 | 19.5% | 101.2 | 15.8% | 95.7 | 15.5% |
| Netherlands | 94.9 | 14.2% | 100.9 | 15.8% | 94.9 | 15.4% |
| Algeria | 99.1 | 14.8% | 94.7 | 14.8% | 105.9 | 17.2% |
| Egypt | 25.7 | 3.8% | 53.7 | 8.4% | 53.2 | 8.6% |
| United Kingdom | 25.8 | 3.9% | 24.5 | 3.8% | 23.0 | 3.7% |
| Libya | 10.1 | 1.5% | 18.8 | 3.0% | 19.3 | 3.1% |
| Nigeria | 8.6 | 1.3% | 5.0 | 0.8% | 6.4 | 1.0% |
| Germany | 1.3 | 0.2% | 2.2 | 0.4% | 3.7 | 0.6% |
| Other sources (12) | 107.9 | 16.1% | 103.2 | 16.1% | 82.3 | 13.4% |
| **Total** | **668.9** | **100.0%** | **639.2** | **100.0%** | **617.0** | **100.0%** |

(12) *Short term markets and mine gas purchases.*

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. Directly as an investor or indirectly thanks to long term reservation capacity contracts, Gaz de France is working to finance and develop, downstream from its delivery points, methods of land and sea transport of gas reception necessary for the execution of its supply contracts. Today, Gaz de France thus holds long term utilization rights and/or shares in international transit/transportation infrastructures of gas as well as in vessels and LNG 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. Moreover, Gaz de France has underwritten long term access rights in the LNG terminals of the Isle of Grain in the United Kingdom (starting in October 2008), Cartagena and Huelva in Spain.

For several years, the Group has maintained long term relationships with its traditional providers by means of supply contracts. These relationships can enrich themselves from partnerships taking on other forms. For example, the Group has developed partnerships with British, Norwegian, Dutch and Algerian companies in the framework of its Exploration – Production activity; in 2007, a new supply contract was signed with a partner of the British production subsidiary of Gaz de France. Joint enterprises have been created with Gazprom and Sonatrach in several realms of activity and Gaz de France is participating in the Snøhvit (Norway) factory production, of which the start of the operational phase is underway.

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.In 2006, the provision contracts executed with Gazprom were renewed until 2030. At the end of 2007, Gaz de France also renewed its Algerian LNG supply contracts until 2019.

Finally, in the framework of a long term gas exchange contract executed between ENEL and Gaz de France, the latter receives at Montoir-de-Bretagne Nigerian LNG from the Italian electrician (3.5 billion cubic meters per year) and releases to it an equivalent volume of gas from its own supply portfolio at different points on the European network (especially at the Austrian Slovakian border and in the Italian LNG terminal Panigaglia). The Nigerian gas from ENEL is not included in the Gaz de France supply portfolio figures given above, Gaz de France only being the importer and not the purchaser of this gas. The risk of default of the Nigerian supplier is assumed by ENEL, Gaz de France being able in this case to interrupt the exchange service.

Gaz de France ensures for third party operators, by way of long term contracts (able to go beyond 2025) the following transit services:

- 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 an additional adaptability to the management of the supply portfolio with the possibility of modifying the destination of LNG vessels.

Gaz de France intends to participate actively in this growth and augment its capacity in the domain of LNG supply, in order to secure its supplies and be able to operate at a significant scale on the international markets.

In 2006, the Group was the third largest importer of LNG in the world (source: GIIGNL) and the largest European importer. In the course of the fiscal year ended December 31, 2007, approximately 30% of its long term natural gas supplies were constituted from LNG principally 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. In 2007, maritime transport ensured directly by the Group concerned contractual engagements of 119 TWh per year of Algerian LNG and 55 TWh of Egyptian LNG, deliveries of which began in July, 2005. This will be complemented by LNG from Norway, starting in 2008, in an amount up to approximately 7.5 TWh on a full year basis. The unloadings are principally executed in the French LNG terminals of Montoir-de-Bretagne and Fos Tonkin Fos-sur-Mer but also in Europe (especially Spain, Greece), in North America or in Asia. Gaz de France will also be able to unload gas at the Fos Cavaou terminal starting in 2009 and at the Isle of Grain terminal in the United Kingdom starting in 2008. This supply plan allows Gaz de France to optimize the organization of maritime transportation and to seize short term commercial opportunities (cargo purchase/sale transactions).

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

- Charterer of five LNG vessels of which it is the full owner (3 vessels) or co-owner (2 vessels as of December 31, 2007):
  - Tellier – 40,000 cubic meters (property of the Group),
  - Provalys – 154,500 cubic meters (property of the Group)
  - Gaz de France energY – 74,000 cubic meters (property of the Group)
  - Edouard LD – 129,300 cubic meters (jointly owned – 50%-50% with Louis Dreyfus Armateur),
  - Gaselys – 154,500 cubic meters (60% held by the NYK group and 40% held by Gaz de France).
- Charterer with third parties of seven other LNG vessels (2 of which are chartered for long term, the others for short-medium term):
  - Ramdane Abane – 126,000 cubic meters (Algeria, long term charter),
  - LNG Lerici – 65,000 cubic meters (Italy, long term charter),
  - Tenaga Satu – 130,000 cubic meters (Malaysia, short-term charter),
  - Maran Gas Asclepius – 145,800 cubic meters (Greece, short-term charter),

- SCF Polar – about 71,700 cubic meters (Liberia, short-term charter),
- Maran Gas Coronis – 145,700 cubic meters (Greece, short-term charter),
- Iberica Knutsen – 138,100 cubic meters (Norway, short-term charter),
- Grace Cosmos – 147,500 cubic meters (Panama, medium-term charter): vessel under construction, delivery in 2008.

Short term deliveries can be completed, if needed, by charters of very short terms; they aim to face immediate needs and to execute, for example, arbitration operations.

Moreover, Gaz de France is an 80% shareholder (the Japanese ship-owner NYK holding the remaining 20%) of the Gazocéan company, which provides crews and ensures the maritime management of the Tellier, Gaselys, Provalys and Gaz de France energY vessels.

Finally, Gaz de France is a 40% share holder of the Gaztransport & Technigaz (GTT) company, designer of systems of confinement of methane vats and developing techniques of methane vat isolation of the "membranes" type which were carried by LNG vessels in operation in the world in 2006 and 87% of the vessels on order in 2006 (source: GII GNL).

*6.1.3.1.2.2.1.1.4 Optimized management of Gaz de France supplies*

With no supply contract being built against one particular client or a group of clients, Gaz de France manages its global natural gas needs, on its different European markets, in such a way as to optimize the total cost of its supply.

The supplies are established in the first place by long term contracts. These contracts foresee, for the benefit of the purchaser, a certain flexibility in delivery volumes. 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.

These long term supplies are complemented by short or medium term purchases from Gaz de France long term providers or other dealers, and this is done in order to more finely adjust resources for the development of sales while at the same time taking advantage of diverse market opportunities.

Short term activities notably allow completion or lightening of the supply portfolio at the best price. Through its subsidiary Gaselys, Gaz de France is active on the spot markets (especially, for gas, the National Balancing Point in the United Kingdom, the Hub de Zeebrugge in Belgium and the Title Transfer Facility "TTF" in the Netherlands, and the Points d'Echange Gaz in France) and executes arbitration operations by intervening in purchases and sales on the short term markets, and by executing purchase and sale operations of derivative products linked to energy.

The significant presence of Gaz de France on the short term market also facilitates the management of habitual delivery risks of supply chains.

As a compliment to optimizations between contracts and short and medium term operations, Gaz de France utilizes its storage capacity reserved in underground storage facilities as a management tool. The gas stored during the summer contributes with the mobilization of volumes of flexibility of the supply contracts, to respond to the supplementary demand of clients in winter by ensuring the continuity of supply to its clients with respect to legal obligations which are imposed on all providers of natural gas: in France, the business must be able to make deliveries to all its steady clients in the case of climactic rigors which do not statistically occur more than twice per century – a risk of "2%."

*6.1.3.1.2.2.1.1.5 Short-term markets: Gaselys*

Gaselys is an energy trading company, created in 2001 by the Group (51%) and Société Générale (49%) to intervene on the gas and electricity markets in Europe (gas hubs, electrical markets).

On the basis of its physical and financial trading activities, Gaselys offers Gaz de France and its clients, as well as to direct clients, coverage products allowing them to manage their risks linked to the fluctuations of the price of energy and solutions for the optimization of physical assets (management of flexibility of production capacities, transportation, or storage) or contractual (flexibility of gas and electricity purchase and sale contracts). Gaselys has been granted the status of investment services provider by the Committee of credit establishments and investment enterprises (CECEI) and is consequently supervised by the banking commission and the AMF.

The principal activity of Gaselys consists of executing purchase and sale operations on the short-term gas, electricity, petroleum, coal and $CO_2$ emission and green certificates markets.

These operations are undertaken on Gasely's own account or on behalf of Gaz de France or third parties, to whom Gaselys thus furnishes access to physical short-term markets and to financial products of price risk coverage.

Gaselys generally develops services as a complement to upstream activities (optimization of Purchase and Sale of Energy activities and Exploration – Production) or downstream (structurization of prices for commercialization and sales) of the Group, which allows improvement of competitiveness.

Upstream, Gaselys and the leadership of the Group charged with the purchase of energy cooperate in such a manner as to complete or relieve the supply portfolio at the best price, to take advantage of arbitration opportunities between the contracts and the market, to reequilibrate the exposition of activity to the risks of variation in the petroleum indexes serving as a reference for the determination of purchase or sale prices of gas, and to value contractual or physical flexibilities.

Downstream, Gaselys is constructing innovative tariff and optimization offers with Gaz de France's commercial teams, which allow the structuring of supply contracts by adapting them to the clients' specific financial situation: offers at fixed prices, diverse indexings, assorted purchase contracts with a supplementary purchase option. The Gaselys teams also offers to the Group's large accounts quality access to certain information and analyses coming from the market room (advice, news, bulletins of economic information).

Gaselys is present in the following markets:

Natural gas:

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

Electricity

United Kingdom (notably UK Power Exchange), France (especially Powernext), Germany (especially EEX), Belgium (notably Endex and Belpex), the Netherlands (Endex and APS) and Spain;

Petroleum:

On all the raw or refined petroleum references in Europe and in the United States (financial transactions).

Coal

On the North West European Market references (financial transactions only)

$CO_2$:

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

Green certificates:

On the European markets

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 teams specializing in credit and market risks compete on assignable work, and participate in Gaselys's risks committee.

On the subject of credit risks, the policy is fixed by Gaselys's shareholders who notably accord, consideration by consideration, lines of credit especially, which allows of control of risks.

Concerning market and physical risks (risks of failure of physical shares), the risk controllers team in the Gaselys room undertake follow- up on a daily basis. The estimation of market risk is realized with a decennial risk model of the catastrophy scenario type (stress test) and by a *value at risk* model. The set of risks associated with the market risk and the risk of hedging is the object of a periodic review ratified by the Gaselys administration council and the risk evaluation divisions of its shareholders.

Gaselys has been led to take interest and exchange rate positions which are insignificant, compared to raw materials risks. The interest and exchange rate statements are framed by a dedicated limited speculation.

The liquidity risk is assessed through simulations. Its follow through is ensured by a management prototype of treasury needs, regular *reporting* to the general management of Gaselys of the treasury situation and the usage of the treasury's lines, as well as of an urgency procedure in the case of a need for liquidity.

Finally, Gaselys ensures the follow through of its operational risk in conformity with the best practices of Basel 2.

In terms of internal control, the respect by the contributors of the rules and procedures in force for all transacted operations (especially the principal of separation of tasks, the delimitation of responsibilities, the reconciliation of information) is the object of regular verification. Moreover, someone responsible for internal control and conformity is charged with recommendations for control missions and follow through of recommendations of control and audit missions, as well as others. The credit risk department is especially in charge of the organization of the fight against money laundering and the execution of due diligence when entering into a business relationship with a third party.

Finally, a "new products" committee has authority to examine and rule on the operational feasibility of a new activity, notably in pronouncing itself on the operational organization, the risks, systems of follow through and management and the contractual or judicial systems.

The employee responsible for internal control and conformity has formulated a deontology manual which assembles the rules of good conduct and the essential principles which all personnel of Gaselys must follow. It forms, advises and assists the contributors and ensures compliance with these rules.

#### 6.1.3.1.2.2.2 Supply and production of electricity

In order to spread its dual offers of gas and electricity in Europe, the Group intends to constitute for itself an optimized and diversified electricity supply portfolio. As for natural gas, Gaz de France will integrate its own resources and contractual resources for short and long term: 50% to 60% of its own resources produced in the Group's stations in France and abroad, long term supply contracts with suppliers will complete up to 20% to 30% of its resources while the balance will be acquired on the market according to the opportunities available. For its own resources, the Group is positioning itself on the development of new electricity production installations, and in particular, those units functioning with natural gas. The integrated projects in which the Group can furnish gas consumed for the production of electricity and commercialize electricity produced will be privileged. The commitment of the Group to sustainable development with the intention of reducing greenhouse gas emissions and to the development of the use of renewable energy sources to work against global warming, is leading to the constitution of a consistent portfolio in renewables, the materialization of which is being made today through wind energy.

In France, a country in which the dual offer is very recent, the Group is already self-sufficient in its supply from the Dunkerque station (DK6) and will be able to support itself, in the future and under certain conditions, with a part of the cogeneration park that it developed. It has, moreover, like other providers of natural gas in France, access to the French wholesale electricity market and in 2005 concluded an electricity supply contract with EDF. In 2006, an appeal of the RTE offer for the construction and exploitation of a high-tec station at Saint-Brieuc (200 MW) was won by the Group, the development of which began in 2007 with a public survey, the conclusions of which are expected in 2009. The construction work on the Cycofos station on an Arcelor Mittal site in Fos sur Mer (total strength of 484 MW including a combined cycle of 425 MW of pure natural gas) have continued, with the objective of putting it into service in 2008. The Group has also developed a combined cycle project at Montoir de Bretagne, on a site near the methane station, construction of which should begin in 2008. In the coming years (2008-2010), other projects will reinforce the Group's supply portfolio.

In 2006, the development strategy on renewables was launched, with the creation of the company Maia Eolis for the development and exploitation of wind energy production, in partnership with the Maia Sonnier group. This company holds wind farms representing a total strength of 48 MW, and has a development objective in France of 300 MW by the year 2012.

In 2007, the development of the Group's wind division accelerated with the acquisition of two companies (ERELIA and Eoliennes de la Haute Lys) with a total installed strength of 94 MW. As of the end of 2007, the Group's wind production park was thus the largest in France. In order to underline its commitment to renewable energy sources and to sustainable development, at the beginning of 2008 the Group assembled the whole of its shares in the wind domain in a new subsidiary, GDF Futures Energies, whose objective is to bring the Group's development of renewable electricity (small hydraulics, wind, thermo-electric solar) to France and Europe.

In the United Kingdom, a market where the Group has had its largest electricity sales to date, supply takes place via the intermediary of the trading branch of Gaselys. In addition, it has the Shotton production site (210 MWel) 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 foresees reinforcing its electricity supply with physical production assets and with contractual resources according to acquisition or contractualization opportunities with independent producers.

Gaz de France and Suez announced on February 25, 2008 the acquisition of the Teesside Power Limited company. At the conclusion of this acquisition, which has been submitted for the approval of the authorities concerned, Suez, via its subsidiary Electrabel and Gaz de France via its subsidiary GDF International, will each hold 50% of the company. Situated on the Wilton industrial site in the northeast of England, the Teeside electric station, with a generating capacity of 1875 MW, is now the most powerful combined cycle plant in Europe.

The Group is a shareholder of the combined cycle generating station constructed by the American company AES in Cartagena, in 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. Notably, such a positioning allows it to collect the entirety of the products resulting from arbitrations between gas and electricity on the Spanish market. It was put into service in December 2006.

Gaz de France does not exclude similar projects in other markets in Europe, alone or in partnership, if the conditions prove to be favorable.

#### 6.1.3.1.2.2.3 Sale of Energy

##### *6.1.3.1.2.2.3.1 Segmentation of its gas customers*

Gaz de France is developing its commercial offers and its brand name with the ambition to become the marketeer that clients choose in a new market context open to competition.

Gaz de France has adapted its segmentation to the opening of markets and has put into place a branding policy, a commercial approach and an organization according to three new categories, corresponding to the three main stages involved against a backdrop of increased competition.

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

- private or individual residential clients who have, since July 1, 2007, the ability to choose their provider of natural gas and electricity;
- business clients: principally professionals (merchants, artisans and liberal professions), SME-SMI, collective residences, certain private and public tertiary clients as well as territorial collectivities, all eligible since July 1, 2004;
- large industrial and commercial clients who became eligible between August 2000 and July 2003.

The table below presents the breakdown, by client category, of natural gas sales of the Group (outside of trading activity) for each of the last three fiscal years:

**Sales by the Purchase and Sale of Energy segment (13)**

| *(in TWh)* | 2005 | 2006 | 2007 |
|---|---|---|---|
| **In France** | | | |
| Individual residential | 139 | 133 | 125 |
| Business | 189 | 179 | 164 |
| Industrial and commercial customers | 115 | 100 | 87 |
| Other customers | 26 | 28 | 26 |
| **Total France** | **469** | **440** | **402** |
| **In Europe** | | | |
| Industrial and commercial customers | 101 | 114 | 116 |
| Other customers | 10 | 10 | 12 |
| **Total Europe** | **111** | **124** | **128** |
| Sales on the short-term markets | 65 | 72 | 79 |
| **Total Purchase and Sale of Energy segment** | **645** | **636** | **609** |

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

*6.1.3.1.2.2.3.2 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 whose form resembles gas activity, in order to identify it with its main function and to avoid confusion with EDF, notably aimed at individuals and business clients. Since then, the Group's marketing campaigns have increased public awareness of Gaz de France.

At the same time, the Group is working out offers adapted to the needs of each category of clients, with a specific brand for each offer, an accompanying policy of sales of gas and other energy products (notably electricity) and complementary services.

These brands, the communications for which are still associated with the Gaz de France brand, include Dolce Vita®, aimed at 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.

*6.1.3.1.2.2.3.2.1 Major industrial and commercial customers in France and in Europe – Gaz de France energY®*

Gaz de France's large industrial and commercial clients mainly correspond to the European clients which have become progressively eligible between August, 2000 and July, 2003. By December 31, 2007, Gaz de France had over 300 clients in this category, distributed over more than 1,000 sites in continental Europe. GDS-ESS in the United Kingdom which belongs to the International Transport and Distribution segment since 2007 also conducts sales under the Gaz de France energY® brand.

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

- high consumption industrial clients, principally in the energy services providers, chemicals and petrochemicals sectors, then in the materials and iron and steel industries;
- Producers of electricity.

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 clients offers "made to measure" which include the sale of gas, and, in some cases, electricity, as well as:

- an offer of risk and price engineering management, notably by relying on the abilities of Gaselys. Thus, Gaz de France is able to offer fixed prices or indexed prices for a determined period to its large clients, as well as offers allowing them to manage the price of their energy purchases over the course of the year in a dynamic manner; and
- offers combining energy and performance optimization, by relying notably on the Services activity of Gaz de France, by which Gaz de France proposes services such as:
  - the management or optimization of heating or energy consumption installations to accompany gas sales;
  - the combined sale of gas and electricity, or even of steam by optimizing the functioning of decentralized electricity production assets that clients can have or endow themselves with. In the latter case, the offer includes, if needed and often as a partnership, the construction, financing and exploitation of electricity production units (cogeneration, trigeneration, or even combined cycles).

Gaz de France estimates that its offers to large industrial and commercial clients have allowed it to limit losses of market segments in France. Thus, it has been able to affirm itself as a sizable player in the important European markets and maintain, for the whole of its portfolio, a competitive gas resource price. In the market of large clients having the right to choose their provider in France since August, 2000, Gaz de France has thus maintained an significant share of contracts despite a more and more open market. Gaz de France estimates that as of the end of 2007, its share of the large industrial and commercial clients market across France is approximately 55%.

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 penetration capacity in each of these markets varies according to numerous factors including the regulatory environment as well as the concrete possibilities of access to infrastructure and transportation necessary for the transmission of gas.

Thus, sales abroad in continental Europe (realized principally to large industrial clients) have gone from 44 TWh in 2004 to 70 TWh in 2005, 83 TWh in 2006 and 81 TWh in 2007. In total, sales to large industrial and commercial clients in France and in continental Europe were 168 TWh in 2007.

The table below presents the Group's penetration in these markets for fiscal years ended December 31, 2005, 2006, and 2007:

**Table – Evolution in volumes sold per country**

| Volumes Sold (TWh) | 2005 | 2006 | 2007 |
|---|---|---|---|
| United Kingdom (14) | 30.7 | 31.3 | 34.3 |
| Belgium & Luxembourg (14) | 21.2 | 25.4 | 20.7 |
| Netherlands | 20.2 | 21.0 | 20.8 |
| Italy (14) | 16.9 | 21.0 | 21.5 |
| Spain | 5.2 | 6.2 | 5.1 |
| Germany | 6.7 | 8.7 | 9.5 |
| Hungary (14) | – | 0.3 | 3.0 |

(14) *Sales include sourcing of subsidiaries belonging to the International Transmission and Distribution segment: United Kingdom, Hungary, Belgium since 2005 and Italy since 2007*

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

Negotiated sales prices for customers who have exercised the right to select their gas supplier are determined by free market conditions.

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 offerings. This offering includes a price-engineering component, which enables the company to offer, in addition to fixed prices, other pricing options with appropriate indexing. 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 section 6.1.3.1.2.2.2.2.3 – "Business Customers in France – Provalys® and Energies Communes®."

*6.1.3.1.2.2.3.2.2 Individual customers in France – Gaz de France Dolce Vita®*

Individual customers use energy for their personal needs such as heating, cooking, and hot water. As of December 31, 2007, Gaz de France had approximately 10.5 million customers in this category in France. The clients primarily access natural gas for heating purposes, with approximately 70% of households served by Gaz de France equipped with private gas heating.

In 2007, natural gas sales by volume to individual clients amount to 125 TWh compared to 133 TWh in 2006. Seasonally adjusted, sales are stable compared to last year.

The drop in sales observed in 2007 is linked to warmer climactic conditions compared to the previous year.

Individual clients receive natural gas service primarily on the basis of administered tariffs.

Gaz de France's product and service offering to individual household customers is marketed under the Dolce Vita® brand, launched in November 2002.

2007 saw increased competition in the private client market leading to an estimated loss of 24,000 clients out of a total starting portfolio of 10.5 million. Ninety percent of these losses were a result of clients moving house and largely benefiting EDF, while 10% were a result of direct attacks on supply.

At the same time, Gaz France, mainly as a result of natural gas plus electricity offers, acquired 46,500 new electricity customers. 77,000 natural gas market product-service offers were also made.

**Marketing and Commercial Strategy in the Private Client Market**

The Marketing and commercial strategy has two objectives:

- For Gaz France to be clearly recognized by our customers as a multi-energy actor, that is both competitive and trustworthy, and capable of attending to the spectrum of their energy needs (electricity and natural gas), and particularly at the key stages of signing up, start of service and projects.
- Limit EDF's exploitation of the competitive head start it enjoys from brand confusion with Gaz de France.

The 2007 commercial strategy in the private market is three-pronged:

- **To be the leading multi-energy provider of natural gas**
- **To be a sustainable development actor**
- **To boost market performance by reducing commercial costs and improving BFR**

**2007 packages available in the private market**

Gas plus electricity packages offered by Business Management were designed around three commitments that respond to customers' key expectations, and therefore serve to attract new ones:

- **Respect of the freedom of customers to choose** between regulated tariffs or market offers
- **Commitment to the environment by promoting**
  - Energy production from renewable sources up to 21% of electricity consumed; this is to be guaranteed by Gaz de France's purchase of 'green certificates' at no additional cost to the customer;
  - Encourage energy saving initiatives via billing incentives or Gaz de France-redeemed loans
- **Commitment to transparency** of energy prices with customers being able to select a fixed subscription and energy consumption price over 1, 2 or 3 years, no matter which energy package they select.

To better respond to the individual needs of each client, four energy-service packages are available:

- DolceVita Moving package;
- DolceVita Renovation package for those renovating their homes or converting to natural gas;
- DolceVita Construction package for new construction projects;
- Extra Comfort package, which targets customers, not yet ready to switch over, but wish to learn more about the advantages of the Dolce Vita.

**2007 Private Market Communications Strategy**

Business Management's communications strategy in the private market in 2007 corresponds to three objectives:

- To clearly distinguish France Gaz from EDF;
- Encourage existing clients and those planning new construction, renovations or moves to first contact Gaz de France;
- Promote our packages by varying our array of electricity and service offers.

To reach these objectives, Business Management has capitalized upon the Dolce Vita® Promise, anchored in quality of life and which enjoys an estimated 60% penetration rate. The television spots depicting customers in moving situations created the desired impact and brand recognition effect while preserving existing appreciation for the brand.

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

Mid-market customers are largely made up of professionals (merchants, self-employed craftspeople, liberal professions), SME-SMI, group residences, public and private service industry clients and territorial collectives. As of December 31, 2007, Gaz de France served 579,243 business clients.

Mid-market customers have significantly varied consumption patterns (from 10,000 kWh to 90 GWh). Uses for natural gas range from heating water for sanitary purposes (hairdressers and physicians for example), for ordinary heating, or for their industrial processes (bakeries, SME and SMIs, industrial enterprises).

Since July 1, 2004, mid-market customers have had their choice of natural gas suppliers. 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. By December 31, 2007, approximately 35% of eligible clients (by volume) exercised their right to choose, while 71% chose Gaz de France product or service offerings. The volume supplied by competing suppliers thus represented close to 10% of total volume (product/service offerings + historical tariffs) as of December 31, 2007.

Customers who maintained their previous contracts are billed on the basis of administered tariffs. The price of natural gas sold to clients who exercised their right to choose and selected Gaz de France is determined by the offers described below.

Gaz de France's products and services are offered to mid-market customers under the Provalys® brand.

Provalys® is a full service package that includes the supply of natural gas, electricity (with "green" formula which began in 2007), as well as associated services. Under this brand, Gaz de France offers its business customers customized solutions based on profession, situation and other customer requirements. The principal mid-market customer offerings are:

- A selection of natural gas and electricity pricing options (fixed price for one year for greater budgetary transparency, price subject to quarterly revision to reflect market conditions; this is available with or without subscription, price engineering, etc.) 2007 marked the start of the PROVALYS 2 ENERGIES formula which permits professional customers, and those seeking simplicity, to benefit from gas-electricity package reductions.
- Solutions for energy and associated service providers to mid-market customers (Personalized Energy), or for SME/SMIs seeking better cost effectiveness (Mastered Energy)
- Consumption management solutions including:
  - Statement of past consumption and bills,
  - 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, joint ownership (in partnership with Solfea Bank[15]), private sector,
- Optional expert consultations, various diagnostic services like Diagnostic Sérénité Pro, site energy diagnostic, regulatory consultation internal natural gas network, energy and heating expertise, heating environment audit, as well as personalized EXPERTGAZ service for very large sites, particularly industrial ones. In total, close to 1,000 sites requested a diagnostic with the intent of improving energy efficiency. These duties are performed by qualified personnel and often lead to new maintenance contracts for group companies (COFATHEC).
- Individualized charge services for buildings with shared heating; for deployment in new construction, the FIDELOCONSO service consists of shared natural gas delivery, which is linked to energy and hot water for sanitary needs metering. The system allows individuals to be billed according to their particular energy consumption. FIDELOCONSO is well suited to be installed concurrently with solar-powered water heating systems.
- Product offerings adapted to multi-site clients including:
  - Detailed statements outlining consumption with the option of decentralized payment for customers who wish their sites to be independent in terms of energy billing;
  - 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.

  Available in 2007:

  - Multi-site version of online account allowing managers to keep track of energy consumption and billing in a centralized manner online;
  - Multi-site version of "Boiler Room Energy Expert" Diagnostic Tool which allows manager to better implement their energy efficiency priorities.

In 2007, the Energies Communes® brand was repositioned to better realize its promise of "an alliance for the quality of life". This promise represents Gaz de France's commitment to provide solutions to a range of energy needs, for both individuals and business.

To maintain the loyalty of its customers, Gaz de France has developed customized customer relations programs supported by the distribution of regular customer informational material and targeted emails. Mid-market customers benefit from this customized approach as well in the form of tailor-made and scaling up of solutions, specialized telephone consultants, service delivery via partner installation agents, as well as online via the company website.

*6.1.3.1.2.2.3.2.4 Natural Gas Vehicle (NGV)*

The use of natural gas vehicles (NGVs) is spreading in several countries; particularly those in which Gaz de France wishes to expand over the short and medium term.

In France, the NGV is already a solution employed by regional authorities for more than 2,500 heavy vehicles (buses and garbage trucks).

An agreement to promote the development of the NGV was signed in July 2005 under the auspices of the French Ministry for Industry by Gaz de France, Total, Carrefour, PSA and Renault. The protocol called for the construction of a network of service stations. The first of which was inaugurated in November 2007.

*6.1.3.1.2.2.3.3 Sales price of natural gas*

Gaz de France sells natural gas on the basis of two pricing systems: the first being publicly regulated, while the second is market-based.

Following the July 13, 2005 change in French law (n° 2005-781), household clients benefit from regulated tariffs for a new or existing property, so long as they have not yet exercised their eligibility to the property. This option remains available until July 1, 2010.

(15) *Bank Solfea is similar to consumer lending agencies. It enables private clients to finance the installation of natural gas heating systems. Bank Solfea offers a wide range of products for clients considering home renovations. Bank Solfea is a registered credit institution with the Comité des établissements de crédit et des entreprises d'investissement and is regulated by the Commission bancaire.*

The law prevents other customers from benefiting from regulated tariffs on a property where they themselves or a previous occupant have exercised eligibility. These customers may not request regulated tariffs for a new property.

*6.1.3.1.2.2.3.3.1 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 tariffs for customers using more than 5 GwH annually who are also connected to the distribution network or directly to the transmission system network.

Pricing structure is fixed according to French law dating from January 3, 2003 and decree n° 90-1029 of November 20, 1990. These regulate the price of fuel sold via distribution and transmission system networks. These provisions state that tariffs must cover resulting costs.

**Public distribution rates**

Regulated public distribution tariffs apply to approximately 11 million customers. There are today six main categories of public distribution tariffs; four for residential use or small shared boiler rooms, as well as two seasonally adjusted tariffs (gas prices are higher in winter than in summer) for medium and large shared boiler rooms. The B1 Tariff (and equivalents), apply to individual heating, cooking and hot water for domestic purposes. This applies to the majority of customers, about 7 million as of December 31, 2007.

Until 2004, tariffs were revised every six months in accordance with agreements concluded between the state and Gaz de France. These revisions were made subject to inter-ministerial decree upon Gaz de France's request and following the CRE's January 2003 opinion.

Since November 2004, tariffs have not kept pace with costs, leading to losses of 130 million euro in 2004, 370 million euro in 2005 and 511 million euro in 2006. 2007 saw no change in tariffs and was marked by a drop in energy production in the first quarter, followed by a rebound by year's end. This resulted in an 84 million euro surplus for 2007. Overall, however, a 927 million euro loss was registered December 31, 2007. By government decree issued December 27, 2007, the state raised tariffs by 0.173 c€/kWh starting January 1, 2008. However, the CRE said a rise of at least 0.256 c€/kWh was needed to keep pace with production costs. The resulting loss in earnings is estimated at 90 million euro in the first quarter of 2008. By the decree of 17 April 2008 on recommendation by the CRE, the State decided to raise average natural gas rates by EUR 0.264 cents per KWh, i.e. 5.5% on average for residential natural gas users.

**Public service contract**

The 2005-2007 public service contract signed by the state and Gaz de France on June 10, 2005 outlines tariff rises during the defined period, according to the following guidelines:

- Quarterly revision of tariffs
- Tariffs to be determined in order to cover:
  - Supply costs (which would permit the Group to pass on to customers fluctuations in gas prices as they occur on energy markets). Changing supply costs are taken into consideration with every price revision. Petroleum product costs for the six-month period ending one month before the revision are taken into account;
  - Load minus supply costs (including the usual margins for this type of activity), calculated based on the necessary costs for providing natural gas to customers via public distribution
- Gaz de France commitment to share the benefits of increased productivity with its customers with a real term 1.4% annual rebate on charges, excluding supply costs.

Should the state refuse Gaz de France's proposal for a tariff adjustment in accordance with contract provisions, terms of compensation must be settled in consultation with the company and an acceptable financial arrangement must be agreed to within 12 months. The public service contract is in the process of renegotiation.

**Evolution of public distribution tariffs**

In accordance with the public service agreement, the June 16, 2005 decree by the Finance and Energy ministers circumscribed tariff increases between 2005-2007 as well as recovering costs through tariffs and set conditions for compensation for revenue shortfalls. The decree sets out the following tariff changes:

- 0.124 c€/kWh as of July 1, 2005 (change in primary materials and non-primary material cost recovery),
- 0.09 c€/kWh as of September 1, 2005 (non-primary material cost recovery)
- 0.445 c€/kWh as of November 1, 2005, (change in primary materials only).

The November 1, 2005 price rise was accompanied by several Gaz de France measures to limit the impact of the natural gas price increase (tariff B1 and related) on private consumers who rely on it for heat, particularly at the onset of winter. These measures cost the company a total of 156 million euro, 61 million in 2005 alone.

Under the December 29, 2005 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 Economy, Industry and Labor and the Energy Minister appointed three independent experts, MM. B Durieux, B Brochand and J.M. Chevalier to draw up eventual changes to rules governing tariff changes as well as to create a compensatory mechanism.

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

- In the short term, a tariff rise of 5.8% to take effect April 1, 2006;
- In future, a new tariff determining mechanism based on direct increase of the CRE, on the changing costs of supplying natural gas and providing a forum for an annual review of tariffs every July 1.

Based on these recommendations, the government decided on March 21, 2006:

- To raise tariffs by 5.8%;
- On 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
- Engage in dialogue with the company following the additional steps recommended by the three experts and in light of the recuperation of costs necessary as a result of late rate adjustments dating from November 2004.

Under an April 28, 2006 order, the French State increased rates by 5.8% (or 0.21 c€/kWh) as of May 1, 2006. The CRE looked unfavorably upon this edict emphasizing that this increase does not fully pass on changes in Gaz de France supply costs and that compensation for revenue shortfalls was not taken into consideration.

In a December 10, 2007 decision, the Council of State cancelled the December 29, 2005 decree; mirroring the July 27, 2007 decision of the Competition Tribunal that showed Gaz de France costs had not been covered by regulated sales rates for years.

It specified for the future principles governing rate adjustment decrees and proposed a mechanism, which would take into account past, present and future considerations. It instructs the relevant minister on the day s/he makes their decision:

- To permit coverage of the average total costs of operators, as evaluated to date;
- To consider an estimate of the variation of costs over the coming year in light of available data;
- To adjust rates so as there is a significant gap between rates and costs to compensate for below market rates from the previous year within a reasonable timeframe.

In a December 27, 2007 decree, the state increased rates by 0.173 c€/kWh effective January 1, 2008.

The CRE proposed a minimum rate increase of 0.256 c€/kWh effective January 1, 2008 to cover costs. With regards to primary materials, the CRE uses Gaz de France's rate formula. In practice, the CRE proposal recalled the audit it conducted in 2005/6 on the primary material formula, which showed that the formula accurately reflected supply costs. The CRE considers that the "absence of regulations governing the setting of Gaz de France rates prejudices the smooth functioning of the French natural gas market."

**Public Distribution Tariffs Today**

The situation is the following:

- The loss of revenue since 2003, and the additional losses as a result of failure to recuperate costs, mainly supply costs, totaled 927 million euro as of December 31, 2007;
- The rates are at a level which is below the level that Gaz de France deems necessary to cover all the costs;
- The Group in any case risks not recuperating natural gas supply costs because of petroleum market fluctuations as well as the changing Euro-Dollar exchange rate;
- There is no longer any multi-annual framework set out by decree.

Gaz de France hopes that the newest public service contract is speedily concluded, particularly with regards to new rates. The company has already presented its cost-rate allocation formula to the relevant authorities and the CRE.

Concerning distribution rates, the following points must be highlighted:

- The high level failure to implement the Council of State's decision;
- Consideration of non-primary material costs;
- The definition of a margin;
- Provisions for assuring compensation for past shortfalls.

**Subscription Rates**

Subscription rates applied to approximately 1,500 customers as of December 31, 2007. These change quarterly at Gaz de France's initiative with tacit approval of the Ministers of Finance and Energy subsequent to review by the CRE. The rate paid by a particular customer depends upon consumption volume, maximum daily flow, as well as the distance between the primary transmission system and the point of delivery (for customers connected to the transmission network) or between the transmission network and distribution network to which the customer is connected. Rates are subject to quarterly review. Adjustments take into account prevailing Euro-dollar exchange rates as well as the price of petroleum products, with an annual adjustment for inflation. The last rate revision took place January 1, 2008, rising to 0.290 c€/kWh.

*6.1.3.1.2.2.3.2 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 offering includes a price-engineering component, which permits in addition to the option of fixed prices, other indexed pricing structures. Many major industrial and commercial customers select their gas suppliers by means of competitive bidding.

For mid-level consumers, shared residences, industrial customers, SME-SMIs as well as territorial regions, gas prices are within the framework of Provalys® or Energies Communes®.

*6.1.3.1.2.2.3.4 Temporary provision of natural gas in the southwest of France (gas release)*

The southwest of France is unique in that it is a region with more limited competition than in the rest of the country. This is due to the current configuration of the transmission network which makes direct natural gas acquisition difficult by third parties. In light of this specific challenge, Gaz de France, after consulting with the European Commission and the CRE, has established a system of "gas release", allowing other providers to resell natural gas to Gaz de France customers. This measure begun in 2005 and which represents an annual total of 15 TWh will be phased out in 2008.

The entry into commercial service of the new Fos Cavaou LNG terminal should permit third party suppliers to directly acquire natural gas to then sell in the region. The implementation of this service is expected to begin in 2009. Gaz de France does not anticipate any significant shortfall in the market as a result of Purchase and Sale of Energy changes and the end of the gas release program.

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

In order to respond to its customers' evolving needs, the Group has upgraded its product-service offerings, which include, among others, an electricity dimension. In 2007, sales of electricity to Purchase and Sale of Energy segment end users (except Gaselys) totaled approximately 2.1 TWh in France, compared to 2.3 TWh in 2006. The decline in electricity sales is partially explained by the failure to renew certain large industrial accounts in 2007. After taking into account the implementation of the temporary regulated market adjustment rate (TarTAM), which allows customers to be billed at regulated rates for a period of two years, the Group chose not to renew large contracts for the sale of electricity.

*6.1.3.1.2.2.3.5.1 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.

The electricity dimension is therefore well represented in the relationships that Gaz de France maintains with its clients, as demonstrated by the British example. It constitutes, in effect, one of the important elements of the company's customized offering Gaz de France energY® which sells both energy and services. Through its service activities, the Group assists its customers with the design, financing and structuring of cogeneration projects. It also took advantage of its involvement in these projects by selling natural gas for use in the cogeneration facilities.

Gaz de France's abilities in the electricity domain allow the company to also develop complex projects in partnership with its large clients. For example, Gaz de France drew on its cogeneration design experience for a project with the Arcelor steel group. The Dunkerque-based project consists of a high power combined gas cycle (788 Mwel, with 533 Mwel going to Gaz de France). 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. For Gaz de France, this operation allows the company to significantly cement its relationship with an important French industrial player, to sell large quantities of natural gas (0.6 billion cubic meters per annum) as well as access a portion of the energy produced for its own purposes.

The Group plans to replicate its experiences in France and in Europe in order to augment its sales. 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.

*6.1.3.1.2.2.3.5.2 Mid-market customers and individuals*

Gaz de France continues its electricity development focusing on companies requiring less than 36 kVA (mono and multi-site approach) as well as in the individual market. Customers signing up for the dual natural gas-electricity offer benefit from the following:

- Simplicity: with a single supplier, the customer has a consolidated invoice for natural gas and electricity;
- Transparency: electricity prices offered by Gaz de France are fixed for one year, allowing the customer to better forecast their electricity budget according to consumption; and finally,
- Competitiveness: the price of the electric power offered by Gaz de France is competitive with competitors' regulated prices. The customer thus enjoys a cost saving with his annual subscription when compared to administered tariffs.

In 2007, Business Management enlisted 106,340 new electricity customers. 59,932 of these in the "eligible 2004" market and 46,408 in the individual market. By the end of 2007, a total of 263,425 client sites were online.

**6.1.3.1.2.2.4 Other services**

Other services are being offered since the 2007 reorganization of Branche Energie France.

*6.1.3.1.2.2.4.1 Maintenance of individual boilers*

This market consists of boiler maintenance service for individual customers. This service cements relations with the individual market. In France, this service is performed by the Savelys subsidiary. It was transferred from the Branche Energie France since its 2007 reorganization. In Italy, the service is provided by SI Servizi.

The SAVELYS portfolio consists of:

- 48% individual private clients
- 46% group clients (public and private)
- 6% shared heating (public and private)

Savelys leads the individual market with more than 25% more market share than its national competitor Proxiserve (Véolia), with a less than 10% share. The remainder consists of local companies or independent installers.

*6.1.3.1.2.2.4.2 Industrial management of electric production units*

This Group offering can be described as follows:

A workflow control assistance service within the framework of cogeneration installations; this offering is useful in the construction of Gaz de France's electricity production assets like Cycofos, St Brieuc, France Ouest, etc).

- Design and maintenance of cogeneration and tri-generation installations.

*6.1.3.1.2.2.4.3 Natural Gas Vehicle (NGV)*

The Services section, through its GNVert subsidiary, offers construction and operation services for Natural Gas Vehicle (NGV) stations.

## 6.1.3.1.3 Services

**Table – Segment revenues and EBITDA**

| *In millions of euro* | 2005 (*) (**) | 2006 (**) | 2007 |
|---|---|---|---|
| Revenues (before eliminations) | 1,568 | 1,801 | 1,807 |
| *Revenues with third parties* | *1,498* | *1,682* | *1,701* |
| EBITDA | 105 | 117 | 129 |

(*) *Post-reform pro-forma unaudited pension data restated to reflect the impacts of IFRIC12 and IFRIC 4*
(**) *Data restated to reflect the effect of the reclassifications between segments tied to the implementation of the new organization in 2007*

### 6.1.3.1.3.1 Services Segment Strategy

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

- Growth through external acquisitions:

- Commercial development:

All of the growth operations of the Services Segment are carried out with great management rigor and an on-going search for improved productivity.

In 2007, the Services Segment sold the company ADF,[16] its industrial maintenance business, to a company consolidating its management and its supervision with its funds managed by Edmond de Rothschild Investment Partners. This operation was put together as part of an LMBO ("leverage management buy out" – the purchase of a company by a company made up of employees and investors). In 2007, the Savelys subsidiary, which was responsible for the individual boiler maintenance activity, was transferred to the Energy France Branch.

### 6.1.3.1.3.2 Principal markets

**6.1.3.1.3.2.1 Services**

In this market, the Service Segment offers the following services:

- Energy Services. These services are offered primarily in collective housing, public buildings and light industrial installations. The Service Segment provides these services in France, Italy, the United Kingdom, Benelux, Spain and Switzerland.

- Facility management (FM). FM is generally offered through private tertiary contracts (customers wishing to outsource all of the support services, from boiler room management to cleaning). The Services Segment provides this service in France, Italy and the Benelux countries.

- Construction and Operation of NGV stations. This service is offered to local authorities to power buses and garbage trucks and to companies for vehicle fleets. This service is offered in France.

- Authorized public service provider for heating and cooling networks. This service is offered to public authorities. This activity is offered in France and Italy.

- Works. The Service Segment provides services for all phases of the life of buildings and installations, from design to financing, from the construction of new structures to renovation and rehabilitation.

**6.1.3.1.3.2.2 Industry**

In this market, the Services Segment offers the following services:

- Energy services. These services are offered to all types of industries. The Services Segment provides these services in France, Italy, the UK, Benelux, Spain and Switzerland.

(16) *ADF is a company that specializes in industrial maintenance of continuous process facilities. This business employed 1,600 people for sales revenues amounting to 176 million euro in 2006.*

- Facility management (FM). FM is offered to manufacturers who want to outsource all of the support services, from boiler management to cleaning. The Services segment provides this service in France, Italy and Benelux.

- Ventilation in controlled atmospheres. Maintenance of ventilation, heating and air conditioning systems in a controlled atmosphere is intended for the microelectronics, microbiology and micromechanics industries, as well as for the nuclear and pharmaceutical industries. This service is offered in France and Italy.

- Construction/Management of electricity and steam generation assets. This service is offered to manufactures who consume large quantities of natural gas (particularly the paper, chemical, steel industries and hospital complexes). This service is offered in France, Italy, the UK and Belgium.

- Industrial maintenance. This service is generally offered to heavy industries such as refineries or metallurgical sites. These services are offered in the Benelux countries.

#### 6.1.3.1.3.2.3 Private individuals

The activities in this market are water heater maintenance services for individual customers. This service makes it possible to strengthen relations with individual customers over time. In France, this activity, carried out by Savelys, was transferred to the France Energy Branch. In Italy, this activity is carried out by the subsidiary SI Servizi.

### 6.1.3.1.3.3 Description of the Services activities

The Service missions are as follows:

- assume responsibility for comprehensive management of customers' energy utilities,

- complete innovative energy solutions that are respectful of the environment and go beyond the simple supply of natural gas;

- offer ways to control and reduce energy consumption for an equivalent level of comfort.

Here, the Services segment offers operating, maintenance and works services. It implements energy solutions in a constant concern for sustainable development in accordance with the commitments of the Gaz de France Group in this area. It thus now has numerous wood-energy, solar, geothermal, and wind references. In the same spirit, the Services segment is developing expertise in Facility Management, heating networks and Natural Gas for Vehicles (NGV).

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

<u>Traditional energy services</u>

Traditional energy services range from installation, operation, maintenance, financing and the supply of power for light industrial facilities, heating and cooling, compressed air and ventilation facilities.

<u>Facility management services</u>

Facility management services make it possible to respond to the demands of customers looking for technical services combined with the overall assumption of the management of facilities.

<u>Industry maintenance</u>

The Services segment designs, produces and maintains ventilation, heating and air conditioning systems for controlled atmosphere facilities (clean rooms) for the microbiology and micromechanics industries, the nuclear industries and the pharmaceutical industries.

<u>Industrial management of electricity production plants</u>

The group offers two complementary services:

- Service to the Contracting Authority in connection with producing co-generation installations. This offer is used for the construction of Gaz de France electricity production assets (Cycofos, St. Brieuc, Montoir…). This activity was transferred to the France Energy Branch reporting environment on January 1, 2008.

- Design and maintenance of cogeneration and tri-generation installations.

<u>Natural gas for vehicles</u>

Through its subsidiary GNVert, the Services segment offers construction and operation services for Natural Gas for Vehicles ("NGV") stations.

<u>Management of grids for heating and cooling</u>

The Services segment has developed a delegated public services activity for public authorities for heating and cooling grids.

<u>Maintenance of individual water heaters</u>

Until July 2007, through its subsidiary Savelys, the Services segment offered water heater maintenance services to individual customers (individual or collective housing). This activity was transferred to the France Energy Branch.

## 6.1.3.2 Infrastructures

### 6.1.3.2.1 Transmission and Storage

**Table – Segment revenues and EBITDA**

| *In millions of euro* | 2005 (*) (**) | 2006 (**) | 2007 |
|---|---|---|---|
| Revenues (before eliminations) | 2,138 | 2,355 | 2,494 |
| *Revenues with third parties* | *228* | *384* | *488* |
| EBITDA | 1,265 | 1,357 | 1,534 |

(*) *Published data restated to reflect the impacts of the application of IFRIC 12 and IFRIC 4*
(**) *Data restated to reflect the effects of segment reclassifications tied to the establishment of the new organization in 2007*

#### 6.1.3.2.1.1 Strategy for Transmission and Storage

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. Its objectives are to:

- Pursue its investments in infrastructures in France in compliance with satisfactory profitability criteria;
- Optimize the methods for accessing the infrastructures in France in order to allow each supplier to benefit from the best technical services while complying with the transparency and non-discrimination obligations;
- Maintain the quality of the services provided to infrastructure users in order to strengthen the safety and the image of natural gas in France;
- Improve the stability of the rate framework applicable to the use of the infrastructures;
- Maintain on-going efforts to boost productivity gains.

#### 6.1.3.2.1.2 Description of the Transmission & Storage activities

In order to satisfy the regulatory requirements, the Transmission and Storage activities have been handled since January 2005 by two legally separate entities:

- GRTgaz, a business corporation [société anonyme], a wholly owned subsidiary of the Group that manages the transmission network (gas pipelines and in-line compression stations) in France,
- The Gaz de France Major Infrastructures Department, which manages the LNG terminals and the storage sites in France,
- The Gaz de France Europe Infrastructures delegation, which manages the transmission and storage subsidiaries outside France that have been attached to it since the reorganization in 2007.

This organization makes it possible to separate the management activities for the transmission network while retaining the benefit of certain authorized synergies, such as engineering or tertiary and IT services. This new organization makes it possible to pursue enhanced professionalization of the transport activities and reconciles the experience of the operational units, while maintaining a local territorial presence.

##### 6.1.3.2.1.2.1 GRTgaz transport activities

*6.1.3.2.1.2.1.1 Management of the GRTgaz transmission network*

In accordance with the European regulatory framework, the law of August 9, 2004, provides for a legal separation of the manager of the gas transmission network. It thus extends the obligations of the law of January 3, 2003, which required an accounting separation between the transport, distribution, storage, LNG installation operation activities, the activities connected with natural gas and the other activities, as well as a strict prohibition on any cross-subsidies between the different gas activities. It was in this context that the Gaz de France board of directors decided to set up the Gaz de France Transmission Network subsidiary on January 1, 2005. On October 11, 2005, the dedicated subsidiary changed its name to become GRTgaz, adopting a new logo different from that of Gaz de France for the occasion. Since that date, GRTgaz has managed the transmission network in France.

The GRTgaz bylaws and the corporate governance rules applicable to this company aim to guarantee the independence of the management bodies of GRTgaz vis-à-vis the management bodies of Gaz de France.

*6.1.3.2.1.2.1.2 The GRTgaz transmission network*

GRTgaz owns the longest high-pressure natural gas transmission system in Europe. On December 31, 2007, the French system included 31,717 kilometers of gas pipelines including 6,786 kilometers of very high pressure main network completed by more than 24,931 kilometers of regional networks creating an extensive grid covering the French territory. During the fiscal year ended on December 31, 2007, GRTgaz transported 58.4 billion cubic meters of gas through the French grid, or 667 TWh compared to 687 TWh in 2006.

GRTgaz, owner of the network, develops and maintains the transmission network, directs the natural gas flows and the network access services for gas suppliers. It also handles marketing and sales.

The main network transports natural gas from the network entry points (LNG terminals, interconnection points with the 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 the regulated asset estimate for the calculation rates, the economic life of the pipelines is equal to 50 years).

GRTgaz also operates 26 compression stations intended to circulate the gas in the transmission pipelines and maintain the required pressure for optimum transport conditions. On January 1, 2008, these stations included 85 gas compressors for a total compression power of 481 MW. GRTgaz also uses compression facilities located at six storage sites operated by the Major Infrastructures Department.

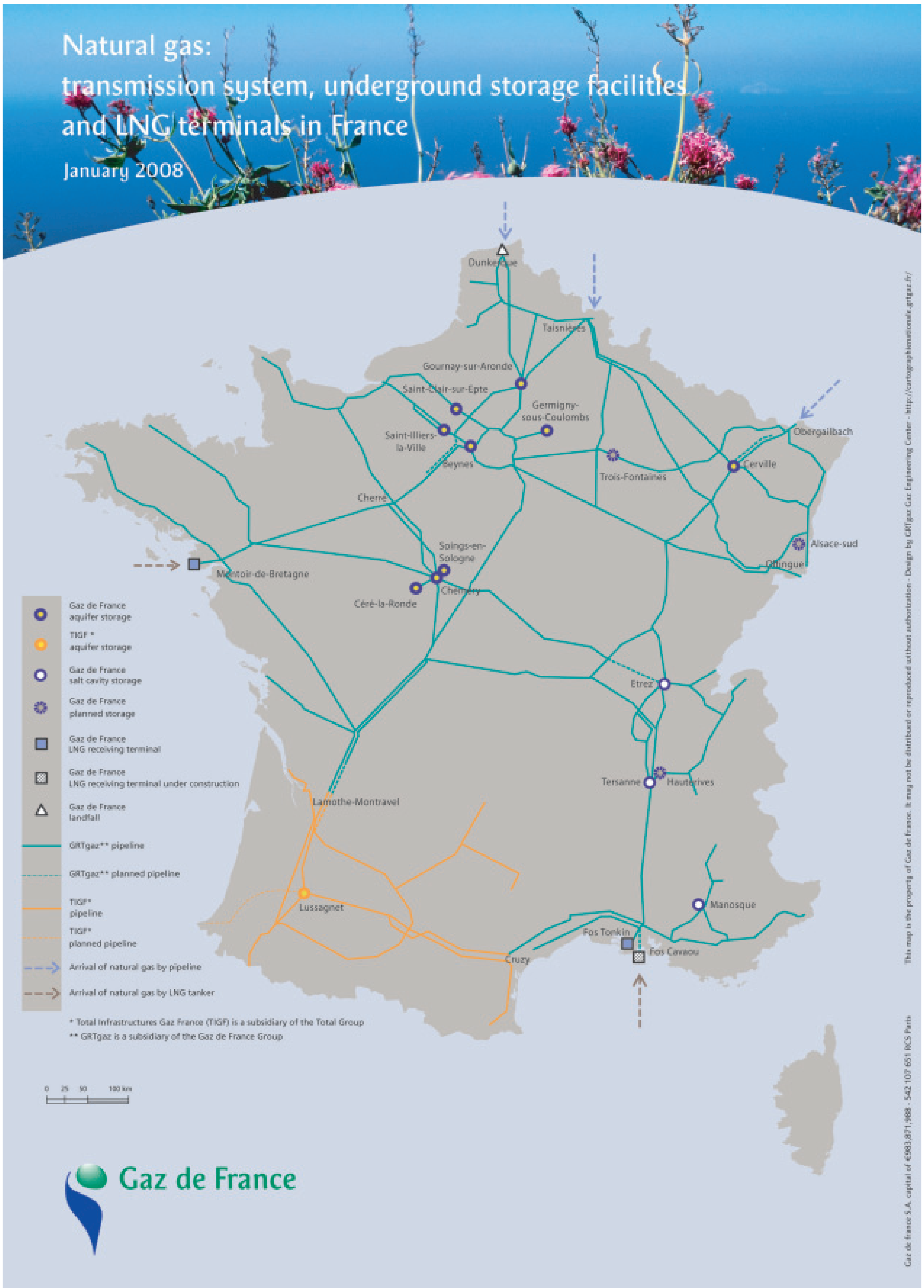
The GRTgaz transmission network includes eight main interconnections with foreign networks, the LNG terminals and with Total Infrastructures Gaz France (TIGF), which operates in the southwest region of France, allowing a connection with the supply sources from the North Sea, the Netherlands, Russia, Nigeria, North Africa and the Middle East. These interconnections also provide an essential link between the different European markets for natural gas, whose exchanges are increasing: Northern Europe, Germany and Austria, Spain and Italy.

The table below indicates the length of the Gaz de France transmission network and the volumes of gas transported over the last three years:

**Table – Changes in the length of the network and volumes of gas transported**

Fiscal year ended December 31

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| Main network (kilometers) | 6,757 | 6,757 | 6,786 |
| Regional network (kilometers) | 24,832 | 24,853 | 24,931 |
| **Total (kilometers)** | **31,589** | **31,610** | **31,717** |
| **Volumes transported (TWh)** | **711** | **687** | **667** |


Natural gas:
transmission system, underground storage facilities
and LNG terminals in France
January 2008
Dunkerque
Taisnières
Gournay-sur-Aronde
Saint-Clair-sur-Epte
Germigny-sous-Coulombs
Saint-Illiers-la-Ville
Beynes
Obergailbach
Cerville
Trois-Fontaines
Cherré
Alsace-sud
Oltingue
Soings-en-Sologne
Montoir-de-Bretagne
Céré-la-Ronde
Chémery
Etrez
Tersanne
Hauterives
Lamothe-Montravel
Lussagnet
Manosque
Fos Tonkin
Fos Cavaou
Cruzy
Gaz de France
aquifer storage
TIGF *
aquifer storage
Gaz de France
salt cavity storage
Gaz de France
planned storage
Gaz de France
LNG receiving terminal
Gaz de France
LNG receiving terminal under construction
Gaz de France
landfall
GRTgaz** pipeline
GRTgaz** planned pipeline
TIGF*
pipeline
TIGF*
planned pipeline
Arrival of natural gas by pipeline
Arrival of natural gas by LNG tanker
* Total Infrastructures Gaz France (TIGF) is a subsidiary of the Total Group
** GRTgaz is a subsidiary of the Gaz de France Group
0 25 50 100 km
Gaz de France
This map is the property of Gaz de France. It may not be distributed or reproduced without authorization - Design by GRTgaz Gaz Engineering Center
Gaz de France S.A. capital of €983,871,988 - 542 107 651 RCS Paris

*6.1.3.2.1.2.1.3 Access to the GRTgaz transmission network*

The Group opened its transmission network to third-party access in August 2000 in order to comply with the provisions of the first European directive on liberalizing the natural gas market. In accordance with the legal requirements, GRTgaz publishes the general conditions for using its structures and transmission installations. Changes in the general conditions are subject to consultations with 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 by the customer;
- daily balancing conditions between in-coming and out-going quantities and daily operational management conditions;
- the security of the shipper vis-à-vis the risk of payment default (first-level rating required, bank guarantee bond equivalent to two months' activity);
- compensation, vis major clauses and other risk sharing provisions.

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

- the construction and maintenance of customer connections to the transport network;
- the conditions for measuring the power delivered;
- the transporter's obligations concerning the delivery conditions (pressure, characteristics of the gas, temperature, etc.);
- compensation, vis major clauses and other risk sharing provisions.

Although the Group's Supply Division is GRTgaz' main customer, transmission agreements were signed in 2007 with 36 other customers representing 205 million euro in sales in 2007, or 16% of GRTgaz TNA (transmission network access) sales. 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 determined either on a "first come, first served" basis or in proportion to the capacity reservation requests collected during an "open subscription period."

Since January 1, 2005, a significant portion of the transmission capacities have been available by long-term subscription by shippers. These long-term capacities reservable by shippers can reach up to 80% of the total firm capacity available. The remaining available capacities can be purchased on an annual, monthly or daily basis. These commercial offerings make it possible to maximize the placement of available capacities at any time by offering shippers security and flexibility. A portion of the long-term reserved capacities, between 0 and 20% depending on the points concerned, is called "returnable," that is, shippers who have reserved more than 20% of these available capacities at one point can assign these returnable capacities back to other transporters who request this for one to four years. If the reserved capacities are not used, regulatory provisions provide for the option of releasing them in order to allow other shippers to reserve them.

*6.1.3.2.1.2.1.4 Transmission rates in the GRTgaz transmission network*

Since transporting natural gas is a regulated activity, the rates that GRTgaz charges for transmission services are set, according to the law of January 3, 2003, jointly by the ministers responsible for the economy and energy at the reasoned proposal of the CRE. This system strictly regulates the freedom to set the rates for using the network.

*6.1.3.2.1.2.1.4.1 Determination of transmission rates for the GRTgaz transmission network*

The system set forth by the law of January 3, 2003 was applied for the first time in 2004. The latest rate, in force since January 1, 2007, for a 2-year period, was determined using a "cost plus" regulation method, with the goal of obtaining income corresponding:

- to the operating expenses necessary for the management, proper functioning and maintenance of the transmission networks net of any subsidiary revenues;
- to the depreciation expenses for the fixed assets used to operate the transmission infrastructures (also called "regulated asset base"). These expenses are determined according:
  - to the value of the assets making up the network, as this value resulted from the acquisition of the network from the State (former licensor) in 2002, which made up the initial regulated asset base (this is an economic value); this base is then adjusted to reflect the acquisition of new assets and the retirement of assets at the end of their economic life, and is revalued every year based on the consumer price index excluding tobacco;
  - to the service lives applicable to the different categories of assets included in the regulated assets base, these assets being depreciated using the straight-line method.
- to the income from the rate of return applied to the regulated asset base. This rate is determined by reference to the economic risk inherent in operating transmission infrastructures. The actual rate was 7.75% (real, before corporation taxes) for assets put into service before January 1, 2004, 9% (real, pre-tax) for assets put into service beginning on January 1, 2004; a real rate of 12% before taxes for 5 to 10 years is used on a case by case basis for assets that contribute significantly to improving the functioning of the market (creation of new entry points, decongestion of the network). Since January 1, 2007, the real rate before corporation taxes

has been 7.25% for assets put into service before January 1, 2004 and 8.50% for assets placed into service beginning on January 1, 2004; a real rate of 11.5% before taxes for 5 to 10 years is used on a case by case basis for assets that contribute significantly to improving the functioning of the market (creation of new entry points, decongestion of the network). This new mechanism also allows a return on fixed assets under construction.

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

This mechanism sets up also for the first time an Account for the Regularization of Charges and Products (*Fr.* CRCP) whose aims and characteristics are as follows:

- corrections determined in advance of the difference between the planned amounts and the real amounts as to specific revenue postings;
- list of all differences (+ / -) in the CRCP account;
- transfer of the resulting CRCP balance to the following authorised income and expenditure account;
- application of an interest rate to this balance so as to ensure the neutrality of the mechanism – CRE has set the base remuneration rate.

*6.1.3.2.1.2.1.4.2 Process for developing transmission rates for the GRTgaz transmission network*

The minister for the economy and the minister for energy approve the use rates for the transmission networks proposed by the CRE. The CRE proposes rates following technical and financial discussions with GRTgaz and other operators. The final development phase of the proposal generally includes comments from the operators' management and a public consultation to obtain the market's opinion.

The rates currently in force were determined based on projected operating expenses and projected gas volumes to be transported during the period these rates are applicable. GRTgaz presented past developments to the CRE and forecast assets and operating expenses along with changes in subscriptions. Based on the analysis of these items, the rate level for transmission was proposed by the CRE pursuant to the indicated rates of return.

The regulated asset base used to determine these rates corresponds to an estimate made during the process for developing the rate structure and of its average level forecast for the period of application. To calculate the estimate, the assets are considered revalued on January 1 and July 1 of each year by applying a projected inflation factor. All the investment levels planned for a year are considered to be made on January 1 of the year following their entry into service, giving a rate of return of 8.5% and begin depreciating as of this date. Before they are placed into service, these investments bear interest based on the fixed assets under construction at the base rate of 7.25%.

Thus, the regulated asset base to which the new rates have applied since January 1, 2007 amounts to 5,426 million euro plus 361 million euro for fixed assets under construction. This regulated asset base amounted to 5,567 million euro on January 1, 2008.

The rate in force since January 1, 2007, was set by order dated December 27, 2006 approving the use rates for the natural gas transmission network, amending decree No. 2005-607 of May 27, 2005, the order and notice of May 27, 2005 relative to defining balancing zones and to use rates for natural gas transmission systems. This order was published following the rate proposal sent by the CRE to the Minister for Economy, Industry and Labor and to the delegated 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 for transmission rates for the GRTgaz transmission network*

The delivery rates for transmission networks in France are currently calculated according to a multi-zone entry/release principle based on a four-zone territorial division for GRTgaz, which should change to a division into two balancing zones in 2009. This model is becoming more widespread in Europe based on the recommendations of the "Madrid Forum" (body composed of European transmission system operators, in particular) concerning the internal gas market. The delivery rate for the GRTgaz transmission network primarily includes the following terms:

- a main network entry capacity term calculated based on the capacity subscribed by the user for entry to the main network from an adjacent network or an LNG terminal;
- a subscribed capacity term for connections between zones;
- a release capacity term for release at interconnection points of the networks to the regional network or to a storage facility;
- a subscribed capacity term for transmission through the regional network;
- a subscribed capacity term for use of the delivery stations and annual fixed fees for each delivery station used by industrial customers.

*6.1.3.2.1.2.1.4.4 GRTgaz code of conduct*

In accordance in particular with law No. 2004-803 of August 9, 2004, GRTgaz has developed a code of conduct aimed at ensuring in its activities related to marketing access to the natural gas transmission system to third parties:

- the transparency of the information necessary for 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) relative to the market, in order to avoid any revelation to a person foreign to the operator (except in the cases set forth 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 2007, the CRE's report recognized that the GRTgaz code of conduct is disseminated in the plants, is understood, is applied and that none of the checks it conducted revealed discriminatory practices toward a supplier or disclosure of commercially sensitive information.

#### 6.1.3.2.1.2.2 Storage and regasification activities in France

Gaz de France's ambition is to maintain the highest level of excellence throughout Europe for its different activities as operator of storage facilities and terminals and to create value, particularly for its customers.

The Major Infrastructures Department in charge of realizing this ambition has completely incorporated the following commercial imperatives: confidentiality, transparency and neutrality. It remains attentive and reactive to the changing needs of its customers. It has made quality, that is, satisfying customers' demands, the core of its policy.

The Major Infrastructures Department targets performance in its operations, both from a technical standpoint (availability, reliability, safety of people and property and respect for the environment) and from an economic standpoint (optimization of the costs to develop and adapt the industrial tool, control of operating costs).

Gaz de France strives to continue to respond to the developments in the French market in its two sectors of activity.

The Major Infrastructures Department decided to have an outside certification organization recognize its achievements with respect to the environment and safety in supplying services to customers using the infrastructures placed under its responsibility, its control of its industrial activity. Its performance and the control of its industrial activity are audited annually. The commercial activities related to the "storage of natural gas in underground storage facilities," "regasification in LNG terminals" and the "odorization of natural gas delivered through the transmission systems" were certified in January 2006 and these certifications were renewed in 2007 following audits. Control of its industrial activity with respect to the environment earned ISO 14001 certification for all the industrial sites (12 underground storage facilities and 2 LNG terminals).

##### *6.1.3.2.1.2.2.1 LNG terminals*

LNG terminals are port facilities that allow the receiving of LNG and the regasification of liquid natural gas.

The Group is Europe's second largest operator of LNG terminals (source GIIGNL). It was also one of the first to receive LNG beginning in 1964. It operates these facilities and markets access to them.

The Group's two LNG terminals, Fos-Tonkin and Montoir-de-Bretagne, allow it to market 15.5 billion cubic meters of regasification capacity per year. This capacity was temporarily increased to 17 billion cubic meters of gas at the end of 2005, to facilitate receipt of the new Egyptian LNG until the Group's third LNG terminal in France (Fos Cavaou) is put into service.

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 an annual re-gasification capacity of 5.5 billion cubic meters a year, which was temporarily increased to 7 billion cubic meters at the end of 2005, a wharf that can accommodate ships transporting up to around 75,000 cubic meters of LNG and three tanks with a total capacity of 150,000 cubic meters. The initial service life of this terminal is estimated at 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 a year, two wharfs that can accommodate ships transporting up to around 200,000 cubic meters of LNG and three tanks with a total capacity of 360,000 cubic meters. This terminal has an initial estimated service life of 40 years.

In order to respond to the growth of LNG in France and in Europe, at the end of 2006, Gaz de France launched an "open season" to extend the capacities of the Montoir-de-Bretagne terminal from its current 10 $Gm^3$/year to a total of up to 16.5 $Gm^3$/year, subject to subscription requests.

Several variants were proposed: extending the site's 10 $Gm^3$/year activity from 2021 (current) to 2035; first increase in capacity to 12.5 $Gm^3$/year beginning in 2011, by strengthening the terminals regasification resources; a second increase in capacity to 16.5 $Gm^3$/year beginning in 2014, through the construction of a fourth large-capacity LNG tank and the additional strengthening of the regasification and emission means.

Based on the commitment offers placed by shippers, the Gaz de France Board of Directors confirmed its interest in increasing the capacities and asked that the matter be presented to it again once the regulatory authorities have specified the conditions for the long-term return on investment. Gaz de France has already decided to expand the site's activity until 2035.

Due to the growth of the LNG market and following the new supply contract for gas coming from Egypt, the Group built a third LNG terminal, Fos-Cavaou, located in Fos-sur-Mer on the Mediterranean coast. This new terminal should be put into service in 2009. It will have a regasification capacity of 8.25 billion cubic meters a year, a wharf that can accommodate the largest methane tankers existing at that time and three tanks each with a unit capacity of 110,000 $m^3$. This terminal is owned by a dedicated subsidiary, Société du Terminal Méthanier de Fos-Cavaou (STMFC) in which Gaz de France holds a 69.7% stake and Total owns a 30.3% stake. Gaz de France subscribed to regasification capacities for 20 years. Total subscribed to 2.25 cubic meters of regasification capacities per year. The remaining terminal capacities (10% of the total capacity or 0.825 $Gm^3$/year), reserved for short-term operations, was subscribed in June 2007 for a three-year period following an "open season" held by EDF, which represents a group of four companies (EDF, Distrigaz, ENI and Essent).

*6.1.3.2.1.2.2.2 Underground storage*

The Gaz de France Group is one of the leaders in underground storage in Europe in terms of storage capacity. In France 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 8.7 billion cubic meters of total working gas) and three in saline cavities (with 0.9 billion cubic meters of total useable working gas);
- 56 compressors for a total of 210 megawatts of power, necessary for natural gas withdrawal and injection;
- facilities for treating the gas and interconnection with the transmission networks.

Adequate storage facilities are necessary to meet the increase in demand for natural 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*

Just as for the transmission network, in August 2000, the Group opened its LNG terminals to regulated third-party access. The access rates, general conditions and allocation rules are available on the Internet. Capacity reservation requests can involve periods shorter than, equal to or longer than one year. In particular, these provisions allow terminal customers to meet their own obligations toward their suppliers. In 2007, the Major Infrastructures Department had seven customers at its Fos and Montoir LNG terminals. For its part, Société du Terminal de Fos-Cavaou (STMFC) has six users for its Fos Cavaou terminal.

In Spring 2004, the Group permitted third-party access to its storage facilities. Since that date, third parties wishing to use the Gaz de France underground storage facilities can subscribe to the six storage groups available. 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 negotiated. In 2007, the Major Infrastructures Department had 22 customers for its different storage offers.

Thus, with respect to storage, the Major Infrastructures Department regularly offers the market available capacities over and above those necessary to cover suppliers' storage rights. In 2007, four successful capacity auctions were held. In 2008, this process will be repeated. Furthermore, in accordance with the commitments made to the European Commission in connection with the planned Gaz de France/Suez merger, on June 27, 2007, Gaz de France offered the market storage capacity at the Trois Fontaines sites in accordance with transparent and non-discriminatory principles.

*6.1.3.2.1.2.2.4 Access rates for the Gaz de France LNG terminals and storage facilities*

*6.1.3.2.1.2.2.4.1 Access rates for the LNG terminals*

The access rate for the LNG terminals is regulated. It is set in accordance with provisions that incorporate the same general principles as those applicable to the access rate for the transmission network, namely, the application of a rate of return to an asset base recognized by the CRE, called the regulated asset base and consideration of fixed annual expenses and operating expenditures.

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 asset groups: unloading equipment and support facilities, regasification facilities, civil engineering work and buildings, tanks. These assets are considered globally for both the Fos-Tonkin and Montoir terminals.

To determine the annual fixed costs, the CRE uses a straight line method over an economic life of 20 to 40 years for the different components of the LNG terminals. Most of the assets are depreciated economically over 40 years.

The rate currently in force was adopted by ministerial decision of December 27, 2005. This tariff is based on the rate proposal made by the CRE on October 26, 2005.

The applicable rates of return are 9.25% (real, pre-tax) for assets put into service before January 1, 2004 and 10.5% (real, pre-tax) for assets put into service after January 1, 2004.

The regulated asset base amounted to 373 million euro on January 1, 2007 and 363 million euro on January 1, 2008.

This rate applies to the two existing terminals, Fos-Tonkin and Montoir-de-Bretagne. It will be reviewed when the future Fos-Cavaou terminal is put into service. It should be noted that this terminal will be subject to an individualized rate system for third-party access to its capacities.

The rate formula in force consists of six terms: the number of offloads, the quantities discharged, the use of receiving capacities, the use of regasification capacities and an "in-kind" amount covering the terminal gas used, completed by a seasonal adjustment (called the regularity term) as an incentive to distribute deliveries uniformly from one season to another.

Furthermore, the agreement includes a minimum payment obligation for the subscriber equal to 90% of the annual commitments, excluding the in-kind amount, based on the quantities off-loaded and the number of offloads subscribed per 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.

Furthermore, users have additional means of flexibility at each terminal. These means consist of the possibility of carrying out reciprocal LNG exchanges and of entering a secondary market for regasification capacities.

*6.1.3.2.1.2.2.4.2 Access rates for storage facilities*

Gaz de France's offer is based on the principles presented in the DIDEME and CRE services. Storage access prices are "negotiated"; some available capacity is auctioned off. In 2007, four consultations of this type were successfully conducted.

Gaz de France publishes its access prices at the Major Infrastructures Department web site.

The six storage groups were set up in order to take into account the characteristics of each of the storage facilities based on the nature of the gas stored, their performance (withdrawal speed) and their geographic location. At a given storage group, a customer can thus reserve a nominal storage capacity that entitles it to a daily nominal withdrawal capacity and a daily nominal injection capacity. Subscriptions are also available for additional optional services.

For capacities that are not marketed through auctions, each storage group has a specific reservation unit price. This price is included in the rate, which is set on the basis of the following three principles:

- the reservation of storage capacity, injection speed and withdrawal speed;
- the quantity withdrawn;
- the quantity injected.

#### 6.1.3.2.1.2.3 Control, quality and safety of the GRTgaz transmission network and of the LNG terminals and storage capacities of the Major Infrastructures Department

GRTgaz operates the transmission network from its national distribution center in Paris. This integrated system allows both monitoring of the installations in terms of safety and their management in terms of gas transfers and control of the gas supplied to customers.

The Group initiated a process to obtain quality certification for its activities related to transmission, natural gas storage in underground storage facilities, regasification in the LNG terminals and odorization of the gas conveyed through the transmission network.

In 2006, GRTgaz obtained renewal of its ISO 9001 certification for all of its activities: transmission and delivery of gas, odorization and transport in tank trucks. In 2007, the Group's ISO 9001 certifications were renewed for the activities related to regasification in the LNG terminals, odorization of the gas delivered through the transmission network and the storage of natural gas in underground tanks.

ISO 14001 environmental certification was also sought. At the end of 2006, certification was obtained for all of the Seveso II sites of the Major Infrastructures Department, i.e., 14 industrial sites. In 2006, GRTgaz obtained ISO 14001 certification for its compression activities for six stations (Palleau, Vindecy, Evry, Brizambourg, Pitgam and Morelmaison). At the end of 2007, the perimeter was expanded to four additional stations (Voisines, Laneuvelotte, Bréal, Taisnières).

In 2001, the Group also launched a multi-year transmission pipeline inspection and rehabilitation program. At the end of 2007, 49% of its transmission network had been rehabilitated.

#### 6.1.3.2.1.2.4 International transmission and storage activities

**Germany**

**MEGAL** GmbH & Co.KG ("MEGAL"), owned by the Gaz de France Group (44%), E.On Ruhrgas (51%) and by ÖMV (an Austrian energy company) (5%), is a German company located in Essen. This company owns a cumulative network of pipelines that was 1,077 kilometers on December 31, 2007 connecting the Czech and Austrian borders to the French border (data for 100%). This company is proportionally consolidated.

Gaz de France Deutschland Transport ("GDF DT"), wholly owned by the Group, has around 60% of the capacity of the Megal network. It began marketing capacity on October 1, 2005.

When the regulator's organized gas transmission in Germany into "market zones" on October 1, 2006, GDF DT was allocated the management of one of these zones.

At the end of 2007, GDF DT was providing transmission services for 17 different customers.

**Belgium**

SEGEO is owned by the Group (25%) and Fluxys (75%). On December 2007 it owned 160 kilometers of pipeline from the Netherlands to France, primarily transporting gas from the North Sea. The principal customer of this infrastructure is Gaz de France, which has reserved 80% of the capacity of this pipeline until 2028. Note that as part of the merger plan with Suez, Gaz de France promised the European Commission that it would sell its 25% stake in SEGEO to Fluxys. SEGEO is consolidated using the equity method.

**Austria**

Owned by the Group (34%), by ÖMV (51%) and by E.On-Ruhrgas (15%), BOG has the right to market capacity for 250 kilometers of pipeline owned by ÖMV running from the Slovakian border to the German border with an upstream connection to the MEGAL transmission pipeline until 2029. BOG was restructured in 2007 by its three shareholders, becoming an autonomous transmission company controlled by ÖMV. BOG also secured its rights beyond the year 2014. On this occasion, Gaz de France sold 10% of BOG to E.On-Ruhrgas. This company is not consolidated.

**United Kingdom**

Gaz de France acquired a salt cavity natural gas storage project in Stublach, Cheshire from Ineos Enterprises. GDF Storage UK Ltd, wholly owned by the Group, was created in 2007 to build and market this storage facility. The total planned capacity is 400 million cubic meters of useable volume, which will make it one of the leaders in terms of size in the United Kingdom. This storage facility, which will supply up to 12% of the average daily British consumption, will strengthen the security of the country's gas supply. It will begin marketing capacity in 2013.

### 6.1.3.2.2 Distribution

**Table – Distribution France segment revenues and EBITDA**

| *in millions of euro* | 2005 (*) (**) | 2006 (**) | 2007 |
|---|---|---|---|
| Revenues (before eliminations) | 3,426 | 3,289 | 3,076 |
| *Revenues with third parties* | *774* | *642* | *517* |
| EBITDA | 1,358 | 1,412 | 1,291 |

(*) *Published data restated to reflect the impacts of the application of IFRIC 12 and IFRIC 4*
(**) *Data restated to reflect the effect of reclassifications among segments tied to the establishment of the new organization in 2007*

In 1960, the distribution network managed by Gaz de France served close to 350 municipalities with 5.8 million customers connected in France. On December 31, 2007, the French distribution network operated by Gaz de France was the leading natural gas distribution network in Europe due to its length, with 185,839 kilometers and 9,202 connected municipalities accounting for around 77% of the French population**.** Gaz de France operates the public gas distribution network through long-term concessions virtually all of which must be renewed on expiration in accordance with law No. 46-628 of April 8, 1946.

From its first years of existence, Gaz de France set up common structures particularly to manage the gas and electricity distribution networks and to take over customer service. These relationships changed on July 1, 2004, pursuant to European directive 2003/55 relative to the opening of the energy markets, as follows:

- Management of the distribution network is independent of the Gaz de France production and supply activities.
- Management of the distribution network is entrusted to a specific division of Gaz de France, Gaz de France Réseau Distribution (or GRD).
- Gaz de France and EDF have remained partners in a common department (EDF Gaz de France Distribution) that builds, operates and maintains their respective distribution networks.

Since then, law No. 2006-1537 of December 7, 2006 required the carving out of the gas distributor and set the conditions for carrying out this activity within the Group. The scope of this legal separation includes all of the natural gas distribution activities carried out by Gaz de France Réseau de Distribution and by EDF Gaz de France Distribution. Pursuant to these provisions, the Board of Directors of Gaz de France approved the carving out of the distribution activities on July 3, 2007. The contract assigning the Group's distribution activity to the subsidiary was signed on July 20, 2007. It took effect on December 31, 2007, the date on which the subsidiary, called GrDF, was effectively set up.

The abovementioned law provides for maintaining the common department, which does not have legal personality, within two distribution subsidiaries to be set up by Gaz de France and EDF respectively. This law also provided for the transfer to the subsidiary of all of the distributor's property, rights and obligations, including the employment contracts and the concession agreements.

Thus, following this carving out, the subsidiary handles all of the missions of the Gaz de France distributor and collects the transmission revenues. The Gaz de France distribution subsidiary, wholly owned by Gaz de France, will be fully consolidated.

Furthermore, the law sets forth provisions allowing a reconciliation of the independent actions of the subsidiary's managers, set forth by directive 2003/55, and the preservation 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

Given the profound transformations in the energy market, the distributor made up of the gas distribution subsidiary GrDF intends to become a benchmark company in Europe in the field of natural gas distribution. To do this, it will continue its growth while maintaining high performance levels in terms of quality, safety, respect for the environment and economic performance in serving territorial communities, its customers and all stakeholders.

In 2008, the distributor will implement the four following strategic focuses, which form the base of its business plan:

- **Establish the new company's identity and legitimacy**: this involves establishing its new status as an autonomous, independent company consolidated in the Gaz de France group, by helping to ensure continued public service to local authorities and all customers and by remaining a local industrial player.
- **Positioning itself as a unifying player with respect to the sustainable and profitable growth of natural gas vis-à-vis the stakeholders,** in connection with the Gaz de France group. This involves making the public, the players in the gas industry and in the construction industry aware of the advantages of natural gas as a source of energy and of the success of its solutions.
- **Providing industrial and economic performance for customers,** by being recognized as a benchmark distribution network manager thanks to the quality of its services and its practices.

- **Promoting social and managerial dynamics** by making employees feel like they belong to the new company, by re-establishing the dialogue between labor and management and attracting new talent.

At the same time, the distributor will pursue its dynamic transformation of its main businesses. This transformation is organized around the following key points:

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

  The distributor ensures a high level of safety for the entire distribution network through its infrastructure operating, maintenance, renewal and replacement activities. Its safety policy is based on:

  – the identification of and a national approach to network risks, connections and building structures by order of priority, completed by a regional risk analysis allowing better apprehension of local risk,

  – a computer-assisted preventive maintenance program,

  – a modernized geographic information system.

  Maintaining a sustained level of investment in industrial safety over the next ten years should help reinforce the quality and safety of the network's operation.

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

  To promote growth in the demand for natural gas in France and to respond to the expectations of customers and communities, the distributor intends to pursue its investment policy based on two requirements:

  – developing the network under the best economic conditions possible, by reducing its unit investment costs,

  – setting in place provisions making it possible to take customers' gas access needs into account under the best conditions.

- **Supporting local authorities.**

  The portfolio of the 9,202 municipalities receiving natural gas service is the foundation of the distributor's activity. The distributor is actively pursuing a policy to ensure the loyalty of its local authority concession holders through the recognized quality of its performance of its local public service missions.

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

  The distributor intends to pursue the optimization and automation of the transmission management rules to allow each supplier to benefit from the best technical services while complying with the obligations of transparency and non-discrimination.

  To improve its local service (technical service for customers, network operation, safety interventions) the distributor has initiated two modernization projects:

  – the deployment of new mobility and geo-localization tools,

  – a change in the method for operating the network.

- **Maintaining the rate framework applicable to using the infrastructures.**

The distributor maintains a constructive dialogue with the CRE. It seeks to promote a multi-year rate structure in order to give all the stakeholders a satisfactory perspective on this activity.

- **Striving for productivity gains.**

The distributor is pursing its efforts to improve productivity and to control costs, particularly by revamping its relations with its industrial partners and by developing a specific cost reduction program (the Performance plan).

Furthermore, it seeks enhanced use of the structures through an increase in active delivery points in the zones already served. Finally, it continuously upgrades them by taking advantage of technological innovations.

### 6.1.3.2.2.2 Description of the activities of the France Distribution segment

#### 6.1.3.2.2.2.1 Background information

The distributor operates the main natural gas distribution network in France and the first distribution network in Europe. Virtually all of the French municipalities with a population of over 10,000 in the service area are connected to this network. On December 31, 2007, 45.3 million people lived in the municipalities connected to the distribution networks managed by Gaz de France, representing around 77% of the French population. On this date, these distribution networks were 185,839 kilometers long and included around 11.1 million delivery points in 9,202 municipalities in France. During the fiscal year that ended on December 31, 2007, close to 310 TWh of natural gas were transported compared to 325 TWh in 2006. This change can be explained by a particularly warm first six months of 2007, partially offset by a second half of the year that was much colder than average.

The main objective of the distribution activity in France is to transmit the gas sold by shippers (suppliers or agents) and to market gas delivery services to end customers. The distribution networks managed by the distributor transport gas from interface points with the national or regional high pressure gas transmission networks to the consumer base located in the municipalities served. The year 2007 was marked by the launch of OMEGA (the new IS of the transmission-delivery business) in an open natural gas market for residential customers.

The GrDF natural gas distribution networks grew by about 3% a year on average over the 2002-2007 period. During this period, Gaz de France connected more than 1.2 million new customers and provided service to 1,182 additional municipalities. The coverage area excludes the areas served by the networks of non-nationalized distributors at the time Gaz de France was created in 1946, particularly Strasbourg, Bordeaux and Grenoble.

The table below describes the development of the Gaz de France natural gas distribution networks in France over the last two years:

**Table – Development of the Gaz de France natural gas distribution networks in France**

| | Fiscal year ended December 31 | |
|---|---|---|
| | 2006 | 2007 |
| Network length (kilometers) | 182,982 (*) | 185,839 (*) |
| New municipalities connected | 134 | 103 |
| Users connected (in millions) | 11.1 | 11.1 (**) |
| Gross quantity transported (TWh) (***) | 325 | 310 |

(*) *The change in 2007 of the tool for listing the distributor's infrastructures led to a revision of the characterization of some of our pipelines out of a concern for consistency and coherency. The impact of this adjustment compared to the data published in the 2006 reference document (listed length of 185,000 km) is thus expressed by a reduction of the network by 1,559 km. Additionally, the 2006 data of this reference document were also reduced by the lengths of the LPG networks, or an additional impact of 459 km.*
(**) *Number of contractual delivery points on the distribution network*
(***) *Gross withdrawals including losses at the Points of Interface between Transmission and Storage (PITS)*

The distributor foresees that over the next few years, new municipalities will be connected at a rate comparable to the rate for the last three years. The distributor wants to maintain the network extensions and appreciably increase the number of delivery points in the municipalities already served. On December 31, 2007, and since the beginning of the program "one million new customers with access to natural gas for heating in 2003," 986,300 new customers with access to natural gas for heating had been added. This objective was achieved at the beginning of 2008.

The distributor also aims to continue investing to improve the quality of the service and safety of its distribution networks. In particular, it completed an accelerated program to replace the last known and inventoried gray cast iron pipes in accordance with the order of December 1, 2005, which prohibits the use of gray cast iron distribution pipelines as of January 1, 2008. This program provided for the gradual reduction of 2,040 km of gray cast iron remaining on December 31, 2004 (a very low figure compared to other European countries) over the years 2005, 2006 and 2007. In 2007, 178 km of gray cast iron networks were replaced. Routine monitoring of the distribution network is based on criteria related to age, pressure, the environment and the characteristics of the mains. This network monitoring is generally performed every 12 to 36 months. The results of these monitoring missions make it possible to implement the work that proves to be necessary.

In accordance with the industrial safety policy, investments excluding the cast iron network began in 2007. They primarily include new programs focused on:

- the replacement of the bituminous coated steel, copper and unprotected steel networks;
- 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

On December 31, 2007, Gaz de France had a portfolio of 6,253 agreements for a total of 9,202 municipalities with gas service (6,254 agreements in 2006). These agreements are almost all concession agreements for natural gas signed for an initial term of 25 to 30 years.

The 9,202 municipalities served by Gaz de France through 6,253 agreements can be divided into two groups:

- 8,909 municipalities 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 can delegate the public distribution of gas. 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.
- 293 municipalities through concession agreements allocated to Gaz de France for the 2003-2007 period for a term of 25 or 30 years at the end of a competitive bidding procedure initiated by the local authorities. When these agreements expire, they will once again be open to competitive bidding. On December 31, 2007, these municipalities represented around 0.1% of the distributor's customers and sales revenues.

On December 31, 2007, the average time remaining on the Group's concession agreements (weighted by volumes distributed) was 17.8.[17]

(17) *Calculation method refined in 2007 (calculation based on the number of days remaining and no longer on the number of years). Use of the 2006 method would have led to a result of 18.2 years for 2007.*

**Table: Percentage of Gaz de France natural gas distribution concession agreements in France by expiration date and percentage represented by the volume of gas transported pursuant to these agreements compared to the total volume of gas transported**

| Period | % of concession agreements expiring | % of gas transported pursuant to concession agreements expiring compared to the total volume of gas transported |
|---|---|---|
| 2008-2012 | **3.2%** | **5%** |
| 2013-2017 | **7.5%** | **4.4%** |
| 2018-2022 | **15.5%** | **18.8%** |
| 2023-2027 | **24.4%** | **37.0%** |
| 2028 and beyond | **49.4%** | **34.8%** |

In the context of competitive bidding, since 2003 Gaz de France has won 383 new municipalities, of which 293 were provided with natural gas as of December 31, 2007.

#### 6.1.3.2.2.2.3 Organization of the gas distributor

Due to the opening of the energy market and the requirements of the European directives separating the network activities and the commercial activities, the Group transformed the organizational structure of its natural gas distribution activities. This transformation was accomplished in two stages: the creation of Gaz de France Réseau Distribution (2004) and the carving out of the gas distribution activities (2007).

##### *6.1.3.2.2.2.3.1 The creation of Gaz de France Réseau Distribution (GRD) and of EGD in 2004*

On July 1, 2004, the Group created a new division specific to Gaz de France in charge of the distribution networks, Gaz de France Réseau Distribution ("GRD"), whose purpose was to:

- define the network's technical policies;
- define and conduct the investment and development policies for the assets of the distribution networks granted to Gaz de France;
- negotiate, cosign and manage the concession agreements and their amendments;
- ensure that the delivery of gas and access to the distribution network are provided on a non-discriminatory basis;
- assume responsibility for on-going relationships with all of the energy regulatory authorities (ministry in charge of energy, CRE, authorities granting public distribution) for these activities.

Since its creation in 2004, GRD has assumed responsibility for managing the Group's distribution networks in France. Furthermore, GRD handled the allocation of the quantities of gas consumed by customers among the different suppliers and billed users for transport of the gas through the distribution network based on the rate proposed by the CRE and set by the minister in charge of energy. GRD's management of the distribution network was independent of the Gaz de France production and supply operations, and a certain number of corporate governance rules made it possible to prevent any discriminatory practices concerning access to the networks.

On July 1, 2004, a common operator for the electricity and gas distribution networks called EDF Gaz de France Distribution ("EGD") was set up jointly with EDF. With respect to Gaz de France, EGD was assigned the following missions:

- perform the construction, development and maintenance work for the gas distribution network;
- technical operation of the network and of the distribution structures;
- perform the metering activities for gas customers;
- daily relations with the local authorities and granting authorities (routine relations related to the ordinary operation of the networks: work scheduling, information, etc.).

This organization has been modified since the distribution activities were carved out.

*6.1.3.2.2.2.3.2 Carving out of the gas distribution activities and creation of the common department in 2007*

In accordance with the provisions of the law the Gaz de France Board of Directors approved the carving out of the natural gas distribution activities on July 3, 2007. The assignment contract from the Group to the subsidiary was signed on July 20. It took effect on December 31, 2007, the date the subsidiary was effectively set up.

GrDF is a business corporation [société anonyme] that is wholly-owned by Gaz de France with a board of directors, a President and a Chief Executive Officer. The board of directors includes 15 members appointed for 5-year terms. It appoints the Chief Executive Officer for a term of 3 years.

To ensure the autonomy of the new company, GrDF received all the property, rights and obligations of Gaz de France related to distribution, particularly the concession agreements that bind Gaz de France and the municipalities for natural gas service. GrDF is, more particularly, responsible for developing, operating and maintaining the natural gas networks, the investment policy, managing the concession agreements and for handling third-party access to the networks in a transparent and non-discriminatory manner.

The natural gas marketing activity (sales and billing) was transferred to the Energy Purchase-Sale segment when the gas market was opened to competition on July 1, 2007. The Commercial Divisions of Gaz de France and EDF now manage their customer portfolios for the supply activity independently.

The new organization provides for maintaining a department common to the two Gaz de France and EDF distribution subsidiaries GrDF and eRDF. In particular it will handle the construction of infrastructures, project management, operation and maintenance of the networks for the two subsidiaries and repair work and metering operations and local relations with the departments and municipalities. The EGD and GRD employees joined the distribution subsidiary on December 31, 2007.

GrDF is fully consolidated; the assignment had no impact on the Group's consolidated financial statements.

*6.1.3.2.2.2.3.3 Treatment and breakdown between EDF and Gaz de France, then between eRDF and GrDF, of the expenses for the common department*

Since its creation, the activities of EGD have been carried out and, in 2008, those of the common department will be carried out in accordance with conditions that ensure separation from an accounting standpoint and protect the strategic interests of each group. Within EGD there are different expense categories:

- Expenses pertaining to the EGD activities that come directly under one of the companies, regardless of their nature, were charged directly to this company. They did not result in any financial transfers between the two companies. Thus, for the personnel of the common operator assigned permanently to the gas activities only, the corresponding expenses were charged directly to Gaz de France.
- Expenses related to the activities carried out simultaneously and in an undifferentiated manner for EDF and Gaz de France, regardless of their nature, were broken down between the parties pursuant to the contractual allocation formulas. These expenses were broken down between EDF and Gaz de France at the source, that is, the cause of the expense and the share going to each company is recorded directly in the accounting of the company concerned. Therefore they do not produce any financial transfers between EDF and Gaz de France. The definition of the calculation elements (basis, etc.) for each allocation formula is identical for EDF and Gaz France. The most frequently used allocation formula is the number of electricity and gas delivery points. The settlement rate in effect in EGD leads to a global partition of approximately 75% for EDF and 25% for Gaz de France in 2007. Thus, for the personnel of the common operator assigned permanently to combined electricity/gas activities, the corresponding expenses are broken down directly and charged in the accounting to EDF and Gaz de France according to the applicable allocation formula.
- On the other hand, some expenses can first be accounted for in the financial statements of one of the two companies and then be billed back to the other company. Thus, some members of the common operator's personnel are administratively (and therefore attached from an accounting perspective) to one of the two companies, but may, in a variable manner, perform tasks for the other company. The hours worked for the other company are compiled daily and are rebilled each month. In 2007, 65 million euro were thus billed by the Gaz de France distributor to EDF, and 81 million euro were billed by EDF(of which 78 million euro by the EDF distributor) to the Gaz de France Distributor. Similarly, some services performed for the entire common operator are performed (and accounted for) by one of the two companies, then this company rebills the other, still based on the contractual allocation formula. This primarily involves IT and telecommunications and automobile services. In 2007, for these common services, 24 million euro were thus billed to EDF by Gaz de France and 73 million euro were billed to Gaz de France by EDF, including 44 million euro for common services and 29 million euro through other EDF entities. Finally, for real estate, Gaz de France (through EGD directly in the amount of 3 million euro) billed EDF the amount of 53 million euro and EDF (through EGD in the amount of 6 million euro) billed Gaz de France the amount of 68 million euro.

These expense accounting and allocation rules between EDF and Gaz de France concerning the activities of the common department remain unchanged following the carving out of the distribution activities of the two distributors and are now applicable between GrDF and eRDF.

*6.1.3.2.2.2.3.4 Contractual relations between EDF and Gaz de France, then between eRDF and GrDF, within the common department*

As part of the new distribution organization set in place in 2004, as described above, on April 18, 2005, EDF and Gaz de France had signed an agreement to define their relations vis-à-vis the common operator, EGD, its competencies and the division of the costs resulting from its activity. This agreement was signed for an indefinite period and may be terminated at any time following 18 months' notice during which the parties agree to renegotiate an agreement. If, at the end of this period, a new agreement has not been signed, the dispute settlement procedure described below will be applied.

The agreement provided that EGD would conduct and implement the activities coming within the field of distribution (whether these are activities carried out by EGD exclusively for EDF or for Gaz de France, or activities carried out simultaneously and inseparably for both parties), and would implement the policies and decisions relative to the missions assigned to it to achieve a certain level of performance. EGD is jointly and severally liable with each manager of the distribution network (EGD and GRD) for the performance of the distribution activities entrusted to them. However, the obligations of EDF and Gaz de France pursuant to the agreement are distinct and not joint and several.

EDF and Gaz de France also defined in this agreement the governance principles and methods for EGD (organization, administration and development). This agreement provides that each company is free to develop the activities specific to it within EGD. If a decision by one of the companies has an impact, particularly a financial impact of more than two million euro on the other company through EGD, a study is to be conducted and any loss is to be offset through the payment of financial compensation and/or by amending the agreement signed by the two companies. Decisions related to combined activities are made jointly by the two companies.

Furthermore, article 5 of law No. 46-628 of April 8, 1946, in its wording resulting from article 2 of the law of August 9, 2004 states that "*each of the companies assumes the consequences of its own activities in connection with common departments not endowed with legal personality.*"

The agreement may be modified:

- *At the request of EDF and Gaz de France.* To this end, an impact study may be conducted, if necessary. Additionally, EDF and Gaz de France will meet at regular intervals or at the request of one of the two companies 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 must be adapted, while at the same time respecting its overall balance, to take into account changes in the legal or regulatory framework applicable.

- *Due to changes in economic circumstances.* The conditions, particularly the financial conditions stipulated in the agreement, were decided upon based on the accounting, tax and cash management provisions in force on the date it was signed. They were also determined based on the economic or legal circumstances established on this 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 fiscal, economic or financial or other measure or event or to a dispute, resulting in significant consequences, particularly financial consequences, for this party, or

- provisions of the agreement are found to be irregular or illegal and increase the costs created for this party by the obligations undertaken according to the agreement, significantly reduce the advantages that this party derives from the agreement or renders the agreement irregular or illegal, the party concerned will advise the other party immediately. The parties will negotiate in good faith in order to take these new circumstances into account.

Furthermore, the agreement spells out the methods for settling disputes between the parties. In the case of a dispute related to the agreement, the parties must meet to set in place all means necessary to reach an amicable agreement concerning the resolution of their dispute within a maximum of one month from this meeting. If no amicable agreement is reached at the end of this period and if the examination of the dispute does not adversely affect the independent management of the managers of the distribution network, EDF and Gaz de France will, by mutual agreement and immediately, in accordance with the required rules of confidentiality, submit to the members of a duly authorized executive committee the facts of the dispute in order to seek an amicable solution within twenty days.

If the parties fail to reach an amicable agreement, the dispute will be submitted for external mediation before submitting it to the competent court. The parties will appoint a mutually agreed upon mediator and will determine his mission and the time frame for carrying out this mission. The solution proposed by the mediator will be neither binding nor enforceable.

If one of the parties rejects the mediator's solution, the dispute may be submitted to the Paris courts, which are the only courts competent to settle any dispute related to the formation, validity, performance or interpretation of the agreement.

To adapt this agreement to the requirement established by the law of December 7, 2006 mandating the legal separation of the electricity and gas distribution network managers and to the creation of a common department by the companies GrDF and eRDF resulting from this separation, an amendment to this the abovementioned agreement was signed on December 20, 2007 by EDF and Gaz de France. This amendment stipulates the assumption by their respective subsidiaries of their rights and obligations pursuant to this agreement. It adapts the governance agreement to the new organization with the creation of two management bodies for the common department:

- An Executive Committee composed of the Management of the two subsidiaries. This committee is responsible in particular for:

  - managing the interactions between the policies of the two companies;

  - ensuring compliance with the agreement and any changes in this agreement;

  - appointing the Regional Directors of the common department and the Plant Directors at the proposal of the Committee for combined activities or of the respective subsidiaries for single-energy activities;

  - deciding on changes to the general organization of the common department.

- A Committee, composed of the Director of Operations of the EDF subsidiary and the Assistant General Manager of the Gaz de France subsidiary. It deals in particular with issues concerning the combined activities that do not come within the competence of the Executive Committee, such as any changes to the rules for dividing expenses and income, the institution of legal proceedings against third parties and the appointment of the senior executives of the common department.

- Two specialized committees are created through this amendment: an HR committee and an IS-IT committee.

The responsibilities of the common department also include:

- since April 1, 2007, providing access to gas, by signing and performing connection contracts for all customers (installers, developers, etc.) and gas vendors,

- since June 1, 2007, acting as interface between the Gas Distributor and gas vendors for the day-to-day management of transmission agreements.

Reception desks provide the interface between the common department and all suppliers and customers. The mission of these reception desks is to inform customers about the opening of the market to competition and concerning the new rules of operation, and to offer them guidance and contact information during the different phases of their agreement (moving in, service startup, information concerning the term of payment and solidarity, moving out). The reception desks' remote gas activities are split into two categories:

- Reception concerning transmission (combined electricity and gas) deals with and follows up on requests from suppliers (service startup, termination, change in supplier, special readings, power cut-offs, outstanding bills, etc.), deals with meter readings, automatic readings and index rectifications, and handles problems detected by the different IS;

- Gas access (100% gas), which handles gas connection estimates, processes and monitors new connection requests or connection modifications, tracks and collects on estimates, schedules work, tracks services and handles the connection interface and complaint follow-up.

In 2007, meter related activities represented for Gaz de France and EDF more than 89 million meter readings and 9.3 million customer service calls including around 2.4 million gas service calls. These activities are performed by close to 10,200 technicians working for both companies distributed between 730 service centers. The location of these bases gives access to about 97% of the population in less than 20 minutes.

#### 6.1.3.2.2.2.4 Access to the gas distribution network

Transparent and non-discriminatory access to the natural gas distribution network is available to eligible gas purchasers, supplies or their agents. As in the case of the transmission network, GrDF publishes the general conditions for using its equipment and distribution installations at its web site and provides them to the CRE.

Network users must obey the general conditions for this access. The shipper, which may be an eligible customer, a supplier or its agent, signs a transmission agreement with GrDF. The transmission agreement includes:

- the conditions for connection to the delivery point in the transmission agreement;

- the rate terms (prices and any additional expenses);

- the rules for determining the quantities transmitted;

- the billing terms and conditions.

The delivery agreement may take one of two forms:

- either the form of a specific agreement adapted to the customer's needs (then called "direct delivery agreement'"),

- or the form of standard delivery conditions set uniformly for all customers that do not have any special needs.

#### 6.1.3.2.2.2.5 Transmission rates for the gas distribution network

Since January 1, 2006, GrDF has applied the rates set by decision of the Minister for Economy, Industry and Labor on December 27, 2005. These rates were proposed by the Commission de régulation de l'énergie (CRE) on October 26, 2005. The rate of return applied to the regulated asset base is 7.25% (real, pre-corporate 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 the annual capital expenses, the CRE applies a depreciation period of 4 to 45 years depending on the nature of the equipment. Mains and connections, which represent 96% of the assets appearing in the regulated asset base, are depreciated over 45 years.

The regulated asset base on which the use rates for the distribution network in force in 2006 and 2007 were determined amounted to 12,455 million euro on January 1, 2006. On January 1, 2007, it was 12,866 million euro.

The same use rates for the distribution network are charged for all of the zones operated by the distributor. They include four main rate options that depend solely on the consumption characteristics of the end customer concerned:

- 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 daily capacity subscribed and a term proportionate to the quantities delivered.

An additional rate called a "proximity" rate is intended for large consumers located in the immediate vicinity of the transmission network. It includes a subscription, a term which is proportionate to the daily capacity subscribed and a term which is proportionate to the distance from the transmission network.

The rates published were planned to be applied in the 2006-2007 period. Having drafted it, the CRE sent the Government on February 28, 2008, a rate proposal which would be applicable beginning in the second half of 2008. This new rate period should encourage regulation with a commitment to an annual productivity and service quality objective on the part of the distributor.

The catalogue of services (services provided to suppliers or to end customers) not covered by the transmission rate was updated on July 1, 2007 and January 1, 2008 after it was presented to the services of the Commission de Régulation de l'Energie and to gas suppliers. These updates apply the main changes in the rates for services as defined in the catalogue of services.

On March 21, 2008, the Ministry in charge of energy publicized the rate proposal of the Commission de Régulation de l'Énergie (CRE) concerning the rate for third-party access to the natural gas distribution network (ATRD 3). Its implementation is scheduled for July 1, 2008. The essential points of this proposal are:

- Multi-year rate for 4 years from July 1, 2008 to June 30, 2012
- After a 5.6% increase in the rate on July 1, 2008, adjustment on July 1 of each year for inflation (consumer price index, excluding tobacco) less 1.3%
- Maintenance of the methods for calculating the regulated asset base, which amounted to 13,174 million euro on January 1, 2008
- Reduction of the rate of return from 7.25% to 6.75% (real, pre-tax rate)
- Maintenance of the rate structure for users of the distribution network
- Creation of an accruals account for expenses and income (CRCP) making it possible to cover:
  - the differences in volumes transported; (full compensation of the difference between actual and projected)
  - differences involving investments; (full compensation of the difference between actual and projected)
  - the differences concerning the cost of gas losses in the network; (compensation limited to 90% of the difference between actual and projected)
  - the penalties and bonuses tied to service quality;
  - the penalties tied to capacity overruns.
- Final settlement of the expenses and income accruals account through additional changes limited to plus or minus 2% on July 1, 2010 and on July 1, 2011. The amounts that cannot be finally settled will be carried forward to the following year
- At the end of the 2008/2012 period, productivity gains that exceed the productivity objective incorporated in the rate would be kept at 40% by GrDF; the balance would be refunded to customers during the following rate period.

This proposal was sent for approval by the CRE to the State, which began a consultation with the stakeholders. This proposition shall become enforceable as of July 1, 2008.

#### 6.1.3.2.2.2.6 The code of conduct

The laws related to opening up the electricity and gas markets led the Gaz de France group to separate the natural gas transmission activities, handled by the distributor, from the energy supply activities. It is in this context that GRD, then GrDF carries out its public service missions, guaranteeing third parties (customers and natural gas suppliers) non-discriminatory access to the distribution network.

The code of conduct offers a concrete illustration of the distributor's commitment to impartiality. In accordance with the law, this document brings together all of the principles and factual measures ensuring that the demands of customers and of natural gas suppliers will be handled confidentially (protection of commercially sensitive information), fairly and transparently.

The code, updated in 2007, demonstrates the distributor's desire to share practices and procedures concerning non-discrimination and the handling of complaints with all of the stakeholders more openly.

The principles developed in the code of conduct guide the day-to-day work of all of the distributor's employees.

Based on the concept of continuous improvement, the code is updated once a year and sent to the President of the (CRE). Its application is audited internally by the distributor and it is also subject to external audits and "mystery" surveys (initiated in 2007) managed by the CRE services.

On November 14, 2007, the distributor presented its 2007 report on the implementation of its code of conduct to the CRE in accordance with the legal provisions. This report was also presented to the Board of Directors of Gaz de France on December 19, 2007. On December 19, 2007, the Commission de Régulation de l'Energie published its annual report on compliance with codes of conduct and on the independence of network managers at its web site.

#### 6.1.3.2.2.2.7 Monitoring table

GrDF provides the Services of the CRE with a monitoring table for the distribution activity. This monitoring includes indicators concerning the opening of the market, the status and operation of the network, the clientele, the quality of service and relations with local authorities.

In 2006 and 2007, the distributor worked together with the Services of the CRE on revamping this monitoring table in response to the complete opening of the market on July 1, 2007. This new monitoring table includes 41 monthly, quarterly or annual indicators. It is provided every month and reports on the distributor's operational activity. The CRE services wanted to emphasize the opening of the mass market. Monitoring is quantitative (number of customers per supplier, quantities transported, etc.) and qualitative (service call time frames, complaint follow-up, etc.).

During 2008, the monitoring table should be enhanced with indicators relative to the quality of service set in place in connection with the upcoming rates for third-party access to the distribution network (ATRD 3). In the future, five indicators will involve a financial incentive. On-line publication of these indicators is also scheduled during 2008.

### 6.1.3.2.3 Transmission and Distribution – International

**Table – Revenues and EBITDA for the Transmission and Distribution – International segment**

| *In millions of euro* | 2005 (*) (**) | 2006 (**) | 2007 |
|---|---|---|---|
| Revenues (before eliminations) | 3,669 | 5,178 | 5,202 |
| *Revenues with third parties* | *3,652* | *5,152* | *5,140* |
| EBITDA | 379 | 498 | 491 |
| Share of revenues of companies accounted for using the equity method | 34 | 20 | 29 |

(*) *Published data restated to reflect the Impacts of the application of IFRIC 12 and IFRIC 4*
(**) *Data restated for the effects of segment reclassifications tied to the establishment of the new organization in 2007*

#### 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 the power supply and securitization infrastructures of the European market through participation in major transmission, storage and LNG projects. In a context marked by increasing dependence on imports from non-European countries, Gaz de France is positioning itself to take advantage of the growth of the European market for natural gas;
- the search for growth opportunities in the fields of energy distribution and marketing in Europe, by relying on its skills and its experience in marketing energy and managing networks and on the positions it has already acquired, particularly in Austria, Belgium, Hungary, Slovakia, Romania, Italy, Portugal and Germany.

The Group has a portfolio of equity interests in a number of companies that operate gas pipelines located on the major natural gas supply routes of Western Europe (2,268 km of transmission network, data at 100%), in companies operating distribution (96,886 km of distribution networks, data at 100%) and storage systems in countries such as Germany, Slovakia, Austria, Italy, Romania and Hungary (350 million in cubic meters of useful storage capacity), and in companies that market to 3.7 million customers worldwide, to which they sold 131 TWh of natural gas in 2007.

The Group also holds equity interests in North America (11,000 km of distribution network, 210,000 customers supplied, 140 million cubic meters of useful storage capacity – data at 100%), and in an LNG terminal in India with a regasification capacity of 5 billion cubic meters a year (data at 100%).

It continues to develop this portfolio by considering each of these positions a vector of local development, and by building group synergies that create value. These development opportunities are becoming increasingly necessary as the markets are opened to competition.

Each of these companies operates in a regulatory framework that is specific to the country in which it carries out its activities.

#### 6.1.3.2.3.2 Description of the business activities

##### 6.1.3.2.3.2.1 Significant events in 2007

In Hungary, on June 1, 2007, Egaz-Degaz completed a successful legal and accounting separation of its marketing activities and its regulated activities. Egaz-Degaz Foldgazeloszto, a wholly-owned subsidiary of Egaz Degaz, is responsible for the network activities. It operates more than 23,000 km of network and serves 790,000 customers in 650 municipalities.

In Romania, Gaz de France acquired a 65% stake in the capital of Amgaz, the third largest storage operator in Romania with a capacity of 50 million cubic meters of natural gas, in April and acquired a 59% stake in the second largest natural gas storage operator in Romania, Depomures, which manages the Tirgu Mures site in the Northern part of the country, in October. With these two acquisitions, Gaz de France became the largest private investor in the Romanian storage market.

In Italy, following the restructuring in 2006, the year 2007 was essentially devoted to setting up a new organization and incorporating the different operational companies into two companies dedicated to distribution and marketing respectively.

The marketing subsidiary, Energie Investimenti, was strengthened through the transfer in July 2007 of the "Sales to large Italian customers" activity previously handled by the Gaz de France branch office in Milan. In September 2007, the Group became its majority shareholder, increasing its stake in the capital of Energie Investimenti from 40 to 60%.

The "retail" marketing activity of GDF ESS (United Kingdom) was attached to the Transmission – Distribution International segment in 2007. In 2007, the transmission subsidiaries (MEGAL, GDF DT, BOG and SEGEO) left the Transmission – Distribution International segment and are now attached to the Transmission and Storage segment of Infrastructures.

#### 6.1.3.2.3.2.2 Description of business activities by country

*6.1.3.2.3.2.2.1 Europe*

**Italy**

The subsidiary Energie Investimenti is in charge of marketing activities in Italy. Its development is based on a program of external growth and commercial initiatives with the objective of establishing customer loyalty and winning new customers. This subsidiary underwent two notable changes in 2007. The first is tied to the expansion of the scope of its activities with the incorporation in July of the "Sales to large Italian customers" activity previously handled by the Gaz de France branch office in Milan. The second was the change in majority shareholder when the Group increased its stake in the capital of Energie Investimenti from 40 to 60% and thus decreased Camfin's stake to 40%. This reversal in majority shareholder gives Gaz de France control of Energie Investimenti. On December 31, 2007, sales activities amounted to (data for 100%) a little more than 894,000 customers for an annual volume of gas sold of 17.2 TWh (8 TWh in group contribution on December 31, 2007).

The Group directly holds 29% of the voting rights in the distribution subsidiaries held by the holding company Italcogim; 51% of the voting rights are held by the Covati family through the company UBS Fiduciaria and 20% are held by Energie Investimenti. The partnership established with the Covati family came with medium-term call and put options for the entire UBS Fiduciaria stake. The subsidiaries operating in this field operate a distribution network consisting of 13,762 km including 465 concessions, distributed over the entire Italian peninsula (data for 100%). Like the sales activity, this distribution activity relies on a program of organic and external growth in an Italian gas market characterized by a growing concentration of the players involved and opportunities to acquire medium and small size distribution companies.

Furthermore, to respond to the growing gas needs of its market in Italy, Gaz de France continues to look into developing a floating LNG terminal that will be located in the northern Adriatic about 30 kilometers off the coast. This solution is well suited to the environmental requirements in Italy. The initial capacity of the terminal must be 5 $Gm^3$/year and expandable subsequently. The authorization process has begun. The project must be carried out as part of a partnership that is in the process of being set up.

Finally, in 2007, the Group responded to the calls for bids from the Italian Ministry of Industry for new storage opportunities.

**Germany**

In 1998, the Gaz de France Group acquired a 31.6% stake in GASAG AG, a natural gas distributor in the state of Berlin, pursuant to an exclusive concession agreement that was extended until the end of 2013. The company is also owned by Vattenfall Europe (a Swedish electricity company) (31.6%) and by Thüga (36.8%), a subsidiary of E.On-Ruhrgas. The shareholders' agreement between Gaz de France and Vattenfall Europe for joint control of GASAG expired at the end of 2007.

GASAG holds a 75.1% stake in the Erdgas Mark Brandenburg ("**EMB**"), a natural gas distributor in the state of Brandenburg. On December 31, 2007, the GASAG Group was serving close to 760,000 customers (240,000 – Group contribution), primarily private individuals, in Berlin and in the state of Brandenburg, thanks to more than 11,358 km of distribution network (3,586 – Group contribution). The two companies also carry out gas sales activities originally centered in their historical distribution territory. GASAG Group consolidated gas sales in 2007 amounted to 22.5 TWh. GASAG also owns and operates storage facilities with a useful capacity of 750 million cubic meters.

GASAG wants to develop its sales based on strong gas-related expertise in a context of market deregulation with downward pressure on ATR rates. On October 1, 2007, GASAG launched its first commercial offering of gas outside its historical territory in the city of Kiel.

**Belgium**

Gaz de France and Centrica have held a majority stake in **SPE** through their joint subsidiary Segebel since September 28, 2005. At the time of this acquisition, an SPE partnership was set up that includes, following the merger, the activities of SPE itself, Luminus, a marketing company created by Centrica and the intermunicipal Flemish distribution entities, and, finally, ALG Négoce, a marketing company created by Gaz de France and Association Liégeoise du Gaz.

Gaz de France and Centrica exercised joint control over SPE until the end of November, 2007.

SPE, the second largest electricity producer in Belgium, has 1,635 MWel of capacity primarily in gas combined cycle plants, but also in hydraulic plants, 4% stakes in the Doel and Tihange nuclear power plants and a draw right on the Chooz plant. As part of the plan to merge with Suez, Gaz de France agreed to sell its stake in Segebel.

**Slovak Republic**

**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, through their joint (50%-50%) subsidiary Slovak Gas Holding BV ("**SGH**"), hold a 49% stake in SPP. The Slovakian State holds the remaining stake. 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). In 2007, the company transmitted through its infrastructures close to 73 billion $m^3$ of gas from the Ukrainian border to Austria and the Czech Republic.

On July 1, 2006, SPP successfully completed the legal and accounting separation of the transit and distribution activities by creating two subsidiaries: SPP Prepava, a wholly-owned subsidiary of SPP, renamed Eustream on January 1, 2008, which is responsible for international natural gas transit in Slovakia, and SPP Distribucia, a wholly-owned subsidiary of SPP that is responsible for the natural gas transmission and distribution activities in Slovakia. Commercial activities are carried out directly by SPP.

SPP owns and operates Slovakia's gas transmission and distribution network, which had a total length of 31,537 kilometers on December 31, 2007. The portion of the SPP network that is part of the east-west transit gas pipeline is 2,268 kilometers long and extends from the Ukrainian border to the Czech and Austrian borders. This gas pipeline has a total capacity of around 95 billion $m^3$ per year. The SPP transit system includes four compression stations along this gas pipeline with total power of over 1,000 MW.

SPP sold 59 TWh of natural gas to nearly 1.5 million customers during the fiscal year ended on December 31, 2007 (data at 100%). On that date, SPP held 100% of the eligible customer market.

SPP holds 56% of Nafta, owner and operator of natural gas storage facilities in Slovakia with 1.88 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 Pozagas, jointly with Nafta (35%) and Gaz de France (30%), a company that has storage facilities located close to the SPP transmission networks with a useful capacity of 645 million $m^3$ and that is operated by Nafta.

**Austria**

The Group has a 20% stake in Société d'Investissement en Autriche (SIA)[18], in partnership with EDF (80%), a company that itself holds 25% plus one share of the holding company **ESTAG** (corresponding to a minority block under Austrian law). The state of Styria holds the rest of the ESTAG shares and signed a shareholders' agreement with SIA that gives SIA more extensive powers than its minority block. In particular, Gaz de France has a representative on the ESTAG Supervisory Board, a representative on the Supervisory Board and another seat on the Executive Board of its subsidiary STGW. The main subsidiaries of ESTAG are:

- Steweag-Steg, a subsidiary (65.4%) (the remainder of the shares are held by Verbund, the largest distributor and marketer of electricity in the state of Styria;
- Steierische Gas Wärme (STGW), a wholly-owned subsidiary, is the main transporter, distributor and marketer of gas and heating in the state of Styria.

**Portugal**

The Group has a 12.7% interest in **Portgas** along with Elyo (12.7%) and Energias de Portugal (EDP) (72.2%) with which it signed a shareholders' agreement that ended at the end of 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 provides for a progressive deregulation of the market between January 1, 2007 and January 1, 2010. Portas prepared for this deregulation by separating its marketing and network activities within its organization.

On December 31, 2007, Portgas was supplying close to 180,000 customers through a network of 2,815 kilometers, and recorded sales of 2.5 TWh (data for 100%).

**Spain**

The Groupe holds 12% of **Medgaz**, a company that builds and operates an undersea gas pipeline with a capacity of 8 billion $m^3$ per year that is to connect Algeria to Spain directly from Beni Saf (near the Moroccan border) to Almeria (Andalusia). The final investment decisions for this project was made on December 21, 2006, by the Medgas corporate bodies. The construction work began in mid-2007. Commissioning is planned for the second half of 2009, and will include an onshore segment 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.

**Hungary**

**Egaz-Degaz Zrt** (the Group has a 99.74% interest) is the company resulting from the 2006 merger of **Degaz and Egaz**, two distributors and sellers of natural gas in the Hungarian gas market. The equity interest is consistent with the Group's development strategy in Europe with the objective of serving a significant portion of the Hungarian distribution market. With majority control having been acquired in 1995, these companies have consistently improved productivity and made development progress.

On June 1, 2007, Egaz Degaz successfully completed the legal and accounting separation of its marketing activities and its regulated activities. Egaz Degaz Foldgazeloszto, a wholly-owned subsidiary of Egaz Degaz, is responsible for the network activities. On December 31, 2007, it operated 23,000 km of network and supplied 790,000 customers in over 650 municipalities.

**Romania**

In order to strengthen its presence in Central and Eastern Europe, on May 31, 2005, Gaz de France acquired 51% of the capital of the Romanian distribution company **Distrigaz Sud**. The remainder of the capital of this company is held by the Romanian State (37%) and the Property Fund (12%). This transaction allowed the Group to acquire an important position in a promising market in a country that joined the European Union on January 1, 2007. On June 28, 2005, Gaz de France signed a contract with the Banque Européenne pour la Reconstruction et le Développement (BERD) and Société Financière Internationale (SFI) with a view towards each of them acquiring a 10% interest in the capital of a holding company to which the 51% interest held in Distrigaz Sud was contributed. SFI and BERD effectively acquired their interests on February 2, 2006. Each has the right to appoint an observer who does not have a right to vote during meetings of the Distrigaz Sud board of directors and a put option for its stake for 120 days starting on June 1 of the years 2010 to 2013. Gaz de France has a call option for 120 days starting on June 1 of each year beginning in 2014.

(18) *This stake is not consolidated since Gaz de France believes it does not exert a significant influence over this company.*

In 2007, Distrigaz Sud finalized the acquisition of 100% of the distribution company Vitalgaz, which holds gas distribution concessions for the Distrigaz Sud territory. This acquisition allows the Group to strengthen its position in the Romanian market. On December 31, 2007, Distrigaz Sud was supplying natural gas to 1,175,000 customers through its 14,740 kilometers of distribution network. This company sold around 36.1 TWh in 2007.

The legal separation of the distribution and marketing activities of Distrigaz Sud will be effective on March 1, 2008.

In April, Gaz de France acquired 65% of the capital of Amgaz, the third largest storage operator in Romania with a current capacity of 50 million $m^3$ of natural gas, which should be increased to 300 million $m^3$ by 2011. In October, the Group acquired a 59% interest in the second largest natural gas storage operator in Romania, Depomures, which manages the Tirgu Mures site in the northern part of the country. This depleted reservoir storage facility has a capacity of 300 million $m^3$ of natural gas.

With these two acquisitions, Gaz de France became the largest private investor in the storage market in Romania. The developments envisioned will make it possible to further secure Romania's gas supply.

**Poland**

The Group is a minority shareholder (22.2%) along with EDF (77.42%) of the cogenerator **EC Wybrzeze** in the Gdansk region. ECW has the capacity to produce 336 MW of electricity, primarily from coal, and supplies the urban heating networks of the cities of Gdansk and Gdynia.

Gaz de France decided to exercise a put option for this interest at the beginning of 2008 in accordance with the shareholders' agreement of July 2000.

**United Kingdom**

The consolidation of sales offers for gas and electricity is a basic trend in the European energy industry. Gaz de France ESS ("GDF ESS") is the Group's marketing subsidiary in the United Kingdom and offers these types of sales; its customer portfolio is oriented toward the industrial and tertiary markets. In 2007, GDF ESS sold 10.1 TWh of electricity (compared to 10.9 TWh in 2006) and 38.6 TWh of gas (compared to 36.4 TWh in 2006) to customers of this segment.

*6.1.3.2.3.2.2.2 Outside of Europe*

**Canada**

Gaz Métropolitain (Gaz de France indirectly holds 12.8 %) is the third largest natural gas distributor in Canada and the only gas distributor in the State of Vermont in the United States. On December 31, 2007, Gaz Métropolitain supplied close to 210,000 customers from distribution networks totaling close to 11,000 kilometers. Gaz Métropolitain is listed for trading on the Toronto Stock Exchange under the reference GZM.UN.

**Intragaz** (Gaz de France indirectly holds 47%) holds the right to manage and operate storage facilities in Quebec with a useful capacity of close to 140 million $m^3$ on December 31, 2007. Gaz Métropolitain has contracted to use the entire storage capacity.

The government of Quebec gave the green light to the Rabaska LNG terminal project. This LNG terminal project with a capacity of 5 billion $m^3$, located in the municipality of Lévis near Quebec, is the result of a partnership between Enbridge, Gaz Métro and Gaz de France. It will allow the diversification of the supply of natural gas to Quebec and Ontario and will make it possible to achieve Quebec's environmental objectives in the fight against climate change.

**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 241,000 customers in the suburbs of Mexico City, in Puebla and in the Matamoros region (Norte Tamaulipas) during the year ended December 31, 2007. It sold over 6 TWh to its direct customers and transmitted 16 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.

**India**

**Petronet LNG**, a company created by the Indian authorities to carry out LNG import projects in India developed the first LNG supply chain in the Indian market with an LNG terminal put into service in January 2004 in 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.

Following the success of the fist phase of the Dahej project, Petronet LNG decided to double the capacity of this terminal to increase it from 6.2 million tons of LNG per year to 11.5 million tons with commercial startup planned for early 2009. The expansion work is underway. 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 prodution, transmission and distribution (these activities included the supply of natural gas at the time) were nationalized by French Law No. 46-628 of April 8, 1946, which granted Gaz de France a virtual monopoly over these activities. These various monopolies evolved over time, particularly following the adoption of several community laws aimed at creating an internal market in the European Union. The opening of the markets, which continued throughout Europe, involves in particular the possibility for all customers established in a member State to choose their producer or supplier in the same member State or in another member State.

Two directives allowed the progressive opening of the gas market: directive 98/30 of June 22, 1998 and directive 2003/55 of June 26, 2003.

Directive 2003/55 repealing directive 98/30 completed the opening of the market and has benefited customers other than private individual customers (customers buying gas not intended for their domestic use) since July 1, 2004: it has applied to all customers since July 1, 2007. Directive 2003/55 was implemented in France by successive gas laws No. 2003-8 of January 3, 2003, No. 2004-803 of August 9, 2004, No. 2005-781 of July 13, 2005 and No. 2006-1537 of December 7, 2006.

The successive directives and their implementing laws also include provisions that seek to guarantee transparent and non-discriminatory access to the infrastructures (gas transmission and distribution networks, LNG facilities and gas storage facilities). If the company is integrated (that is, if it carries out several activities in the field of natural gas), it is required to establish separate accounting procedures for its different gas activities. It is also required to establish a legal separation between the activities of the transmission and distribution networks and the production and supply actiivities.

### 6.1.4.1 The supply of natural gas in France

#### 6.1.4.1.1 Eligible customers

According to the French law of January 3, 2003, as amended, since July 1, 2007, all customers, whether or not they are domestic customers, benefit from eligibility, that is, they are free to choose their gas supplier, through an agent, in necessary. The effective implementation of this freedom to sell and buy is made possible by the establishment of a right to access the different infrastructures.

If a customer wants to exercise his eligibility, the transmission and supply agreement that he signed previously at a regulated rate is automatically cancelled. If, on the other hand, the eligible customer does not exercise his right to contract with the supplier of his choice for a site, he retains the natural gas supply contract for this site in force on the date on which he becomes eligible; the rate clauses of this agreement are, as applicable, subject to the same changes as those applicable to the regulated rates for sales of natural gas.

The law of December 7, 2006, established a special solidarity gas rate offered by all suppliers as 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 with collective heating.

This law also introduced new provisions concerning consumer protection: in particular they require suppliers to provide information particularly concerning the conditions for terminating and amending agreements and concerning billing.

#### 6.1.4.1.2 Supply authorization

The successive gas directives allowed the member States to subject the supply of natural gas, that is, its sale to customers, to authorizations. Directive 2003/55 applies to biogas and to biomass gas or to other types of gas, as long as it is technically possible to inject them and transport them safely in the natural gas network. These provisions were transposed by the law of January 3, 2003.

The supply authorizations must be granted on a transparent and non-discriminatory basis. The criteria and procedures for granting these authorizations are made public and refusals must be justified.

In France, the law of January 3, 2003 and decree 2004-250 of March 19, 2004 provide that supply authorizations are issued by the minister responsible for energy based on the technical, economic and financial capacities of the applicant and the compatibility of its proposal with the public service obligations. The minister has three months from the date the complete authorization application is filed to issue it or refuse it. No response is equivalent to refusal. Authorizations are specific and may not be transferred by the recipient, but may, if there is a change of operator, be transferred by decision of the minister responsible for energy. A supplier who has received an authorization must provide the minister, every year before March 1, with the data related to its activity; a list of this data is set by ministerial order. It must update certain information concerning it every three years, such as the information concerning its technical and economic capacities.

Each authorization specifies the categories of customers to which the supplier may market gas.

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.

The ministers responsible for economy and energy approve the regulated rates for sales of gas to customers following the recommendation of the CRE.

The supply of gas at regulated rates was established as a public service by the French law of December 7, 2006.

### 6.1.4.2 Transmission and transit – Storage – Regasification of natural gas in France

According to directive 2003/55, the transmission activity covers the transmission of natural gas through high pressure gas pipelines. This activity is upstream of the distribution activity and is intended to transport natural gas through national or regional networks (in the case of France) of gas pipelines to supply customers, but does not include the supply of gas itself.

As for storage facilities, still according to the directive, they are owned and/or operated by companies carrying out an activity in the natural gas sector and, in practice, serve to optimize gas supplies given the fluctuations in consumption. They are an essential means of making sure that the public service obligations, such as the security of supplies, are satisfied.

Directive 2003/55 provides for the appointment of the operators of the transmission networks and storage facilities and spells out their missions: the companies that operate transmission networks and storage facilities must operate, maintain and develop safe, reliable and effective facilities and must guarantee that the transmission and storage networks for natural gas allow the interconnected network to operate safely and successfully.

In order to ensure the independence of the network operator, Gaz de France separated the management of the operation of its transmission network from the supply and production activities, in accordance with the requirements of directive 2003/55. The transmission network is managed by a separate legal entity, GRTgaz, held by Gaz de France but that is independent from it (for more details concerning the regulatory requirements, see section 6.1.4.5 – "Separate management, then separation of the operators of the transmission and distribution networks").

#### 6.1.4.2.1 The construction and operation of natural gas pipelines

The law of January 3, 2003, provides that the construction and operation of natural gas pipelines are subject to an authorization issued by the minister responsible for energy following a public inquiry regarding the economic, financial and technical capacities of the applicant, the compatibility of its proposal with the public service missions, environmental protection and the safety of the natural gas pipelines and of the networks or facilities that are connected to them. The authorization gives the recipient the right to occupy the public domain, and it may offer it the right to apply specific easments for the pipeline construction work. Authorizations are personal and non-transferable, barring permission by the authority. Recipients of authorizations to transport natural gas carry out their missions in accordance with the conditions set by these authorizations and by the specifications appended to them.

The specifications must conform to the standard specifications approved by the decree of January 15, 1952, as amended by decree No. 2003-944 of October 3, 2003. These specifications determine the general use of the structures of the concession and specify the order of priority for the customers to be supplied, the conditions under which the transmission network are established and the public service obligations imposed on the operator.

This authorization process, established by French law No. 2001-1276 of December 28, 2001, amending the finance act for 2001, succeded a system of concessions granted by the State, which owned the networks at that time. In 2002, Gaz de France acquired the transmission system it operates from the State and which it 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 is now GRTgaz, pursuant to article 12 – III of law No. 2004-803 of August 9, 2004.

#### 6.1.4.2.2 Transit

Directive 91/296 of May 31, 1991 created a legal natural gas system between the major high-pressure natural gas networks and listed the entities that were responsible for them. 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 required the signing of transit agreements between the entities responsible for these networks and, where necessary, the entities responsible for natural gas imports and exports in the member States concerned.

Directive 2003/55 repealed the provisions of directive 91/296 effective July 1, 2004; however, the contracts signed pursuant to this directive and that were effective on this date continue to be valid and can be performed in accordance with the provisions of directive 91/296.

Article 7.1 of the law of January 3, 2003 and decree No. 2005-877 of July 23, 2005, provide that under certain conditions, new major gas infrastructures (those allowing inteconnections of transmission networks between member States and those concerning storage or LNG facilities), may be exempted from the provisoins set forth for third-party access.

The law of January 3, 2003 also allows for the possibility of exemptions from network rates and use conditions.

#### 6.1.4.2.3 Regasification

No authorization is required for LNG regasification. However, an LNG teminal is a facility subject to classification for environmental protection purposes (Seveso facilities) and, as a result, its operation is subject to a specific prefectural authorization (see section 6.1.5.2.1.1 – "Installations classified for environmental protection purposes (within France)").

#### 6.1.4.2.4 Storage

The identification, creation, testing, fitting out and operation of natural or artificial underground cavities or natural formations having the characteristics required to function as leak-proof reservoirs for natural gas or liquid, liquified or gas hydrocarbon storage (hereinafter "underground storage facilities" are, according to the law of January 3, 2003, subject to the mining permit system governed by the mining code. This system requires in particular that efforts to identify underground storage facilities may be undertaken only by the owner of the land or, when the owner has not consented, pursuant to an autohorization from the minister responsible for mines or by the holder of an exclusive search permit.

Underground storage facilities may be operated only pursuant to a permit that determines the perimeter and the geological formations to which it applies. Permits are granted by Council of State decree following public inquiry and competitive bidding. If a prior storage permit is renewed, it may be awarded to the holder without any competitive bidding process if the geological formations covered by the application are included in 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 No. 2006-1034 of August 21, 2006 determine the priority rules for accessing storage facilities. Highest priority is given to the proper operation and balancing of the transmission networks. Next comes the supply of domestic and non-domestic customers carrying out missions of general interest or whose agreements do not provide for an interruptible supply, and, finally, performance of the public service obligations set forth by law. (See also the order of February 7, 2007 relating to storage profiles and unit rights).

The decree of August 21, 2006 also sets forth the rules for awarding and allocating access rights to storage facilities and how these rights are distributed.

An authorized supplier or its agent are also required to set up inventories so that on October 31 of each year they have a sufficient quantity of gas to supply their customers for the period from November 1 to 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.

## 6.1.4.3 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. Therefore, in practice, it covers the development and operation of the distribution network and transmission through this network, as well as the delivery of natural gas.

### 6.1.4.3.1 Distribution monopoly

Distribution monopoly Articles 1 and 3 of the Nationalization Law dated April 8, 1946 grant Gaz de France a monopoly over distribution, which today covers nearly all of the 9,202 local municipalities it serves.

This monopoly is, however, subject to certain exceptions:

- The first exception stems from article 23 of the law of 1946: local gas operations – state-controlled and semi-public companies – that were already in the public sector were not to be nationalized. They were to retain the status they already had. However, the law authorized these non-nationalized distributors to expand their activity to neighboring municipalities if these municipalities did not have a gas distribution network (article 88 of the law of February 6, 1992 relative to the territorial administration of the Republic, as amended).

- The second exception was triggered by article 50 of the law of July 2, 1998, containing various economic and financial provisions. This law established a national supply plan and lists the municipalities – or the groups of municipalities – not supplied with gas that wished to be supplied and that Gaz de France – or a non-nationalized distributor – was required to supply within three years. The municipalities not included in the supply plan or for which supply work had not begun within three years could be supplied by the distributor of their choosing, approved by the minister responsible for energy in accordance with objective and non-discriminatory rules (article L.2224-31 III of the General Code of Territorial Communities, the "CGCT"). Since law No. 2005-781 of July 13, 2005 eliminated the supply plan established in 2000, all the municipalties not supplied with gas may entrust their public gas distribution to the approved operator of their choice.

The Constitution council specified the bases of this organization in its decision 2006-543 DC of November 30, 2006.

The carving out of the Gaz de France distribution activity took effect on December 31, 2007. GrDF, the resulting subsidiary, now has the natural gas distribution monopoly that was legally transferred to it; (see chapter "6.1.4.5 Separate management, then separation of the operators of the transmission and distribution networks").

### 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 concessions binding the municipalities and Gaz de France are entered into or renewed, depending on the case, based on standard specifications determined jointly by the National Federation of Concession Granting and State-Controlled Municipalties (FNCCR) and Gaz de France in 1994 and updated in 2007. Certain provisions of these standard 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 concessionnaire is responsible for building the structures and for the service it provides at its own expense and risk; in exchange, it is authorized to collect a price from users intended to compensate it for the obligations it assumes. Failure to meet these obligations would expose the concessionnaire to contractual penalties.

**Concession fees and distribution of concession costs**

The concessionnaire pays the municipality concession fees based on the stipulations in the specifications and fees for occupying the public domain that are specified in articles L.2333-84 and following and R.2333-114 and following of the General Code of Territorial Communities.

The concession fee includes two components: a component related to operations to finance the costs borne by the municipality to allow it to exercise its powers of control and a component related to investments, since the municipality itself, like the concessionnaire, can construct distribution structures that it then provides to the concessionnaire.

**Concession assets**

Within the concession perimeter, the distribution structures belong to the municipalities as soon as they are constructed (and are therefore designated as reverted property for which the municipality assumes full ownership when the concession ends), even though they are built and financed by the distributor, which has an exclusive right to use them. This ownership by the municipalities was confirmed by the law of December 7, 2006.

**Duration of the concession agreement**

The concession agreement is, by nature, limited in duration: the municipalities and Gaz de France determine a duration, which is generally between 25 and 30 years, on case by case basis. Early termination of the concession agreement is strictly controlled with respect to the reasons (limited listing) and to the date (half of the concession duration must have already expired); it is also subject to two years' notice and results in compensation paid to Gaz de France by the concession granting authority.

## 6.1.4.4 Third-party access to infrastructures in France

In order to allow any eligible customer established in a member State to contract with the supplier of its choice located in the same State or another member State, a right of third-party access to the transmission and distribution networks and to the storage facilities and LNG terminals was instituted.

French law provides for the possibility of exceptions from the general commmercial conditions and rates for using the transmission and distribution networks and the LNG facilities (see section 6.1.3.2.1.2.1.4 – "Transmission rates") when these exceptions are justified by the particular terms and conditions of use of the structures and facilities, particularly in case of transit. Other exceptions may be granted by the minister responsible for energy for new LNG infrastructures, storage facilities or interconnections between transmission networks based on the CRE's recommendations. The European Commission may ask that this exception be amended or annulled.

### 6.1.4.4.1 Terms and procedures for accessing the transmission and distribution networks, LNG facilities and storage facilities

The law of January 3, 2003 gives eligible customers, suppliers and their agents a regulated right of access to natural gas transmission and distribution structures and LNG facilities, including facilities that provide 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 between the major high-pressure gas transmission networks of the European Economic Area.

Directive 2003/55 also requires member States to take the necessary measures to allow natural gas companies and eligible customers to have access to upstream gas pipeline networks, that is, gas pipelines or gas pipeline networks operated and/or constructed in connection with an oil or gas production project or used to transport natural gas from one or more production sites to a plant, a treatment terminal or a final onshore terminal.

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 capacity of the network is insufficient;
- it is justified for technical reasons;
- access to the network concerned makes it impossible for the operator to meet its public service obligations; or
- the CRE grants a prior temporary exception if access to the network could create serious economic and financial problems for the operator with respect to performing the take-or-pay contracts to which it is party to the extent that the development of demand could not reasonably be anticipated at the time these contracts were signed.

In order to ensure technical access to the transmission and distribution networks or LNG facilities, the transmission operator or the distributor implement natural gas movement programs established by the suppliers. This means that the operator must, at all times, guarantee balanced natural gas flows and the safety and efficiency of its network considering the technical constraints to which it is subject. It must also monitor the availability and performance of the services and reserves required for the opertion of the network and the interconnections and carry out the necessary metering. All operators operating natural gas transmission, distribution or storage structures or LNG facilities and all suppliers using them are required to supply the other operators with the information necessary to ensure the proper functioning of the interconnected network and of the storage facillities.

The operators managing the transmission and distribution network and LNG and storage facilities must not discriminate in any way among the users or the categories of users of the strucutres or facilities they operate.

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 established the principle of negotiated access between the authorized supplier and the operators of storage facilities, these storage facility operators having an obligation to publish the general conditions of use for the storage 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 related to the integrity and the safety of the storage facilities;
- an order of priority set by the minister of energy to ensure compliance with the public service obligations; or
- evidence that the access is not necessary from a technical or economic standpoint in order to efficiently supply customers in accordance with the conditions set forth by the contract.

Decree No. 2006-1034 of August 21, 2006, which recalls the general princples for using storage facilties, deals in particular with the determination and award of access rights to storage capacity and with the distribution and allocation of storage capacity.

Eligible customers may also be supplied by direct pipeline. The States are responsible for determining the conditions for granting any necessary permits for building or operating direct pipelines. Direct pipelines in France are subject to the regulations governing transmission activities. Directive 2003/55 and the law of January 3, 2003 stipulate, in this regard, that the member States may limit authorization to build a direct pipeline to cases in which access to the network has been refused or a dispute settlement procedure has been commenced.

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.

#### 6.1.4.4.2 Non-discrimination, confidentiality of information and separate accounting

According to the provisions of the law of August 9, 2004, network operation activities are now subject to a "code of conduct" to prevent the risks of discriminatory practices with respect to third-party access to the 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 2007 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 latest report on compliance with the code of conduct by operators of transmission and distribution networks was published in December 2007.

Each operator operating natural gas transmission, distribution or storage facilities or LNG facilities must keep all information whose disclosure could adversely affect fair competition confidential. The list of this information was determined by decree. The operators concerned must inform the CRE of all measures taken for this purpose. Violation of these obligations is punished by criminal fines.

Any company carrying out one or more of the activities concerned in the natural gas sector must account for its natural gas transmission, distribution activities and LNG facility operations, as well as all other activities not involving natural gas separately. It also has an obligation to account separately for its activities involving the supply of gas to customers who have exercised their eligibility, on the one hand, and to those customers who have not exercised this right, on the other. Operators must obtain CRE approval of the allocation rules, the reporting environments and the separate accounting principles. These accounts are not published.

### 6.1.4.5 Separation of the operators of the natural gas transmission and distribution networks

Pursuant to the provisions of Directive 2003/55, if the operator of a natural gas transmission or distribution network or, an operator of a combined network involving several infrastructures (transmission and/or distribution plus storage and/or LNG) is part of a vertically integrated company, like Gaz de France, it must be made legally independent of the organization and decision-making processes of the entities managing other activities, particularly production and supply activities. The directive also sets forth different provisions aimed at ensuring the independence of the operators of transmission and distribution networks. However, the directive recognizes a right of economic supervision and management for the integrated company. These provisions were transposed in France by the laws of August 9, 2004 and December 7, 2006, which require the separation of the transmission and distribution activities for natural gas up to that point carried out within Gaz de France. This separation was accomplished and took effect on January 1, 2005 for the transmission activities (creation of GRTgaz) and on December 31, 2007 for the distribution activities (creation of GrDF).

The law of December 7, 2006 provides for the appointment by the operators of the transmission (GRTgaz) and distribution (GrDF) networks of a government commissioner who attends the meetings of the board of directors and its committees but may not vote and who may present his comments during any general 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). To this end, they ensure that the rules relative to managing and allocating interrconnection capacities are obeyed, and supervise the procedures for remedying network congestion and the time required for the operators to connect and repair the networks.

In France, regulation is implemented in two ways. On the one hand, the CRE, an independent regulatory authority for the gas and electricity sectors, was established and, on the other, the minister responsible for energy has certain prerogatives in terms of control and penalties. The local authorities, in their capacity as concession granting authorities, can also monitor proper compliance with the obligations of the specifications of the distribution concession agreement.

#### 6.1.4.6.1 The Energy Regulatory Commission (CRE)

The CRE is an independent administrative authority created in 2000 to regulate the electricity sector in France whose activities were extended by the law of January 3, 2003 to the regulation of gas activities. The status of the CRE, like that of any independent administrative authority, ensures its autonomy and its impartiality and provides it with the means necessary for it to operate. However, the CRE does not have legal personality.

The law of December 7, 2006, modified its structure – by strengthening parliamentary control – and its organization, since it now has a dual structure: alongside a board, a dispute settlement and sanctions committee was created.

The CRE works to ensure – to the benefit of the end customers- that the natural gas (and electricity) market functions smoothly by making sure that the conditions for accessing the different networks do not interfere with the development of competition. Over and above these general powers, the CRE was granted more specific powers.

**Rate regulation powers**

The CRE proposes to the French ministers responsible for the economy and energy the rates for using the transmission and distribution networks and for the LNG facilities. Since the law of July 13, 2005, the ministers' approval is deemed granted unless one of the ministers opposes this approval within two months following receipt of the CRE's proposals. The CRE also provides its opinion concerning regulated rates for the sale of natural gas. Finally, it gives its opinion concerning exemptions granted by joint decree of the ministers from the use rates for the transmission and distribution networks and LNG facilities and from the general commercial conditions for using the infrastructure (see section 6.1.3.2.1.2.1.3 – "Access to the GRTgaz transmission network," section 6.1.3.2.1.2.1.4 – "Transmission rates in the GRTgaz transmission network," section 6.1.3.2.1.2.2.3 – "Access to LNG terminals and Gaz de France storage facilities," section 6.1.3.2.1.2.2.4 – " Access rates for LNG terminals and Gaz de France storage facilities," section 6.1.3.2.2.2.4 – "Access to the distribution networks" and section 6.1.3.2.2.2.5 – "Transmission rates for the gas distribution network"). It also gives its opinion to the minister concerning the exceptions he may grant for 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 thus consulted in advance concerning draft regulations relative to accessing the natural gas transmission and distribution infrastrucure and the LNG facilities. Network operators and operators of LNG facilities must provide the CRE with the general terms and conditions for using their infrastructure and 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 transmission operators by ensuring that the necessary investments are made to develop the networks properly.

The CRE (in this case the dispute settlement and sanctions committee created by the law of December 7, 2006) may be asked to settle disputes connected with access to the network between the operator and the users of LNG facilities or any dispute connected with storage. It has considerable powers to conduct investigations and inquiries. Its decisions may be accompanied by fines for non-compliance.

**Powers relating to separate accounting principles**

Based on the opinion of the French Competition Council, the CRE approves the separate accounting principles proposed by integrated companies in order to ensure that there is no discrimination and that there are no cross-subsidies or restrictions to competition. The separate accounts created according to these principles are sent to it annually. It holds regulatory power in this area.

The CRE also has the right to access the books and the economic, financial and employment-related information of companies active in the gas sector insofar as its missions are concerned. The CRE thus has the power to review the costs and expenses taken into account by the operators to calculate the regulated rate.

**Power concerning the independence of the network operator**

Pursuant to the law of August 9, 2004, the CRE may give a justified opinion prior to the dismisal of any senior manager of a transmission and distribution network operator. Each year it also prepares a report concering compliance by the network operators with their code of conduct, it evaluates their independence and proposes measures for ensuring their independence if necessary.

**Powers to monitor transactions**

The CRE has been given the power to monitor transactions carried out in the organized natural gas markets, as well as cross-border exchanges. Moreover, the CRE is responsible for monitoring transactions between suppliers, traders and producers. It makes sure that their offers are consistent with their economic and technical constraints.

**Powers to impose sanctions**

The CRE may temporarily prohibit access to the transmission and distribution networks and to the LNG and storage facilities for a period of no more than one year or impose a monetary sanction if an operator of natural gas transmission or distribution networks, an operator of LNG or storage facilities or users of these networks and facilities do not comply wilth the decisions of the CRE made:

- following a breach of a legal or regulatory provision related to access to the networks and facilities and to their use;
- following a breach of the allocation rules, the reporting environments and the principles determining the financial relations between the activities subject to separate accounting it has approved;
- to settle a dispute tied to access to the networks and facilities, as well as to their use;
- following a breach of the duties to disclose documents and information or the obligations to provide access to its books and to the economic, financial and employment-related information necessary for the CRE to perform its regulatory 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 extended the CRE's powers by giving it regulatory powers for natural gas. It can now specify the rules concerning the missions of operators of transmission and distribution networks as well as LNG and storage facilities. It can also specify the rules concerning the conditions for connecting to the transmission and distribution networks and for using these networks and LNG facilities. This same regulatory power extends to signing gas purchase contracts with transmission and distribution network operators for their own consumption and to the accounting rules (reporting environment, allocation rules for separate accounts, principles determining the financial relations between separated activities).

To exercise these powers, the CRE has a right to access the information held by infrastructure operators and the power to conduct investigations.

### 6.1.4.6.2 The minister responsible for the economy and the minister responsible for energy

Gas companies are required to send the minister responsible for energy all necessary data related to their activities – the list of which was determined by order- pursuant to the law of January 3, 2003.

Furthermore, the ministers responsible for the economy and energy have the power to conduct investigations and inquiries at gas companies – comparable to the power of the CRE- to carry out the missions given to them by law. Investigations are conducted by officials and agents authorized for this purpose. The Minister of Energy and the CRE may, if applicable, appoint an expert.

The minister responsible for energy may impose a monetary sanction or withdraw or suspend, for a period not to exceed one year, the permit to supply natural gas or the transmission permit from parties that breach the provisions of the laws related to accessing natural gas networks, to transparency and to the regulation of the natural gas sector, to the public service obligations, to the security of supply, to the transmission and distribution of natural gas and to the regulatory provisions enacted for their application and to the special provisions set by the permits.

Monetary sanctions may also be imposed on holders of concessions for the underground storage of natural gas if they fail to comply with the specifications of the concession agreement and the provisions of the law of January 3, 2003, mentioned previously, when they are applicable to storage. The holder of a storage concession agreement may also – pursuant to the mining code – have its permit withdrawn if it compromises the accomplishment of the public service missions for which it is responsible.

The minister responsible for energy determines and publishes a tentative multi-year plan describing, on the one hand, the foreseeable changes in national demand for the supply of natural gas and its geographic distribution and, on the other hand, the investments scheduled to complete the infrastructures of the natural gas supply network. This plan presents the foreseeable changes over a ten-year period in the contribution of long-term contracts to the supply of the French market and is the subject of an annual report presented to Parliament.

The ministers responsible for the economy and energy have decision-making power concerning use rates for the infrastructures, with the exception of gas storage and sale, in accordance with the conditions set forth by law (regulated rates).

### 6.1.4.6.3 The National Public Service Agency for the Electricity and Gas Industries

The purpose of this agency, created within the Economic and Social Council, is to examine the conditions for implementing the public service of electricity and gas supply. It gives opinions on any issues within its competence and makes proposals that are published. Each year it provides Parliament and the government with a report on the changes in the rates for gas and electricity sales for each type of customer.

The National Public Service Agency for the Electricity and Gas Industries is made up of representatives of each type of customer, the concession granting authorities, the local authorities that set up a non-nationalized distributor (article 23 of the law of April 8, 1946), the representative trade union organizations, EDF and the other operators of the electricity sector, Gaz de France and the other operators of 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 in France

#### 6.1.4.7.1 Management of the public service obligation

Article 16 of the law of January 3, 2003 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 are related to the safety of persons and of the facilities, the continuity of gas supply, the security of supply, the quality and the price of the products and services supplied, environmental protection, energy efficiency, the balanced development of the territory, the emergency supply of gas to non-domestic customers performing missions of general interest and the continued supply to persons in precarious situations. This is also true for the supply of gas at the special solidarity rate. They vary depending on the different categories of operators in accordance with the conditions set by decree No. 2004-251 of March 19, 2004. The public service obligations are specified by the natural gas supply or transmission permits, the natural gas underground storage permits or the specifications of the concession agreements and distribution management rules.

#### 6.1.4.7.2 Public service contract

The objectives and terms and conditions for implementing the public service missions assigned to Gaz de France are contained in a public service contract pursuant to article 1 of the law of August 9, 2004.

The contract, signed on June 10, 2005, and approved by the board of directors of Gaz de France on March 22, 2005, recalls the public service obligations to which the Company is subject and emphasizes certain of these obligations such as security of supply and continuity of supply or industrial safety. It also contains provisions related to the means that must be set up by the operator to ensure customer access (including indigent customers), to the public service as well as to the research and development policy, environmental protection, balanced territorial development and improved service. It also sets the principles for the multi-year change in regulated rates for gas sales.

A new public service contract is currently under negotiation.

#### 6.1.4.7.3 Contracting requirements

Procurement by the Company – for its infrastructure activities- in excess of the community thresholds established by directive 2004/17 of March 31, 2004 coordinating the contracting procedures in the water, energy, transportation and postal services sectors, transposed into French law by order No. 2005-649 of June 6, 2005 and decree No. 2005-1741 of December 30, 2005, are subject to competitive contracting procedures. These thresholds are 412,000 euro for public supply and services contracts and 5,150,000 euro for public work contracts (amounts are exclusive of 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 to supply electricity

Gaz de France purchases electricity to resell it to elegible customers in accordance with the provisions of decree No. 2004-388 of April 30, 2004 relative to the purchase of electricity for resale to eligible customers and suppliers' obligations relative to informing electricity consumers. On September 13, 2004, it received the acknowledgement set forth in article 2 of this decree allowing it to purchase electricity for resale to eligible customers for a period of five years based on the declaration sent to the minister responsible for energy on June 15, 2004.

## 6.1.5 Sustainable development and Ethics / Environment

### 6.1.5.1 Sustainable development

Gaz de France's sustainable development approach is based on fifteen years of experience acquired since the creation of the Environment Committee in 1992. Three Corporate Environment Plans (1993-2003) preceded the creation of the Sustainable Development Department in 2003 and the Sustainable Development Action Plan (SDAP) for 2004-2006.

The current approach responds to a clear desire to place sustainable development at the very center of the Group's strategy in order to participate in meeting its most strategic challenges, such as building its short, medium and long-term image.

It is considered by Gaz de France to be a true lever of performance and risk control in the service of the joint interests of the Group and its stakeholders.

Given its activities, Gaz de France faces a number of sustainable development challenges that it strives to transform into opportunities to create value while maintaining respect for human beings and for the environment:

- as an energy company, Gaz de France actively participates 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 incorporation of environmental concerns in its commercial offers;
- as a socially responsible international group, Gaz de France chooses to fully assume its responsibilities with respect to all its stakeholders (employees, social 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 sets four main objectives that intersect with the sustainable development challenges of the energy sector:

- to guarantee the security of energy supplies and national energy independence;
- to maintain competitive prices for energy supplies;
- to protect health and the environment, particularly by fighting against an increase in greenhouse gases;
- to promote better social and territorial cohesion.

In terms of tools, the law gives priority to diversifying the French energy package, controlling the demand for energy, developing innovative solutions and research in the energy sector and achieving a better correlation between demand and supply for transmission and storage.

### 6.1.5.1.2 The Gaz de France ethics policy

Dialogue with its stakeholders is the foundation of the Gaz de France sustainable development approach. Establishing lasting relationships requires the existence of a set of operating rules based on transparency and respect: the ethics policy provides this framework.

The Group's new ethics policy, published in June 2007, defines the Gaz de France Charter of Values, its principles of action and its planning and control system.

The principles of action outline the code of conduct for the Group's employees that govern their day-to-day performance of their professional activities and their relationships with each stakeholder. The international texts that serve as reference in the matter are the Universal Declaration of Human Rights, the International Labor standards, the United Nations Convention against corruption, etc., are recalled in these principles in order to clearly establish the framework within which Gaz de France carries out its business activities.

The principles of action also set forth a number of general principles including respect for individual dignity, the prevention of conflicts of interest, respect for competition, the prevention of fraud, the fight against corruption, political funding and the appropriate conduct with respect to gifts, etc.

Finally, specific principles of action govern relationships with each type of stakeholder: customers, colleagues, shareholders, suppliers, partners and civil society (public bodies, NGOs, etc.). For example, with respect to relations with customers, it recommends transparency with respect to business terms, providing full and accurate information on prices, providing information on the characteristics of products and on safety in their use and keeping personal information confidential.

### 6.1.5.1.3 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 actions around four strategies.

#### 6.1.5.1.3.1 The strategies of the sustainable development policy

**Meeting the major energy challenges of today and tomorrow through energy control and through innovation**

This strategy breaks down as follows:

- active participation in the fight against the greenhouse effect by developing Group actions and/or offers for controlling energy, reducing greenhouse gas emissions, seeking $CO_2$ credits, decarbonization and $CO_2$ capture and storage;
- promotion of renewable energies, emphasizing wind energy for electricity and solar and biomass for thermal power;
- new, innovative Group offerings, particularly with respect to energy efficiency, renewable energies and new uses of natural gas;
- participation in studies and projects making it possible to build the energy future (for example, medium and long-term energy scenarios including Factor 4 greenhouse gas emissions scenarios and potential of hydrogen as a new energy vector).

**Fully assuming the Group's social and environmental responsibility**

This strategy of the 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 of Gaz de France operations on the environment (activities, buildings, vehicles, etc.) by pursuing

ISO 14001 certifications but also by limiting the impacts and risks for the populations (quality and safety of interior facilities, gradual reduction 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.

**Developing responsible managerial and human resources practices for the entire Group**

The objective is the construction and deployment of Group standards for practices in human resources (see Chapter 17 – "Employees"). These standards are applicable at all the subsidiaries controlled by the Group. The approach is based on consultation, dialogue and listening to the stakeholders (management, employees and employee representatives).

Gaz de France is working to improve working conditions, particularly with respect to health and safety, and pays particular attention to changes in the frequency and seriousness of accidents.

Finally, the Group is taking new initiatives to strengthen diversity (based on issues such as non-discrimination in all its forms, professional equality for men and women, diversity of origins, diversity of age and diversity of training, inclusion of disabled workers) in line with the values inherent in sustainable development.

**Taking an active role in the development of territories in France and abroad**

Territorial presence and the inclusion 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 efforts of territorial communities, particularly concerning Agendas 21;
- promoting 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 developing territories along with conducting exploration and production activities;
- developing a dialogue with the territorial stakeholders;
- involvement of the Gaz de France Corporate Foundation in joint territorial activities such as the integration of young people into the workplace, the transfer of good environmental management practices to sites and natural spaces; development of the cultural heritage (renovation of stained-glass windows) or natural heritage (partnership with the French Federation of hiking trails).

#### 6.1.5.1.3.2 Dedicated policies and agreements

Several dedicated policies and agreements round out the sustainable development policy presented above:

- workplace health and safety policy,
- industrial safety policy,
- environmental policy (see section 6.1.5.2 – "Environment"),
- renewable energy policy,
- risk policy,
- quality policy,
- solidarity policy,
- territorial policy,
- purchasing standards,
- professional equality agreement,
- disabled workers agreement,
- professional training agreement.

### 6.1.5.1.4 Mechanisms for implementing and monitoring the sustainable development approach

**Tools**

Implementation of the sustainable development policy is based primarily on the Group's 2004-2006 sustainable development action plan (SDAP). In 2007, at the end of the SDAP, the approach has reached maturity. The multi-year strategies of the sustainable development policy provide the general framework for actions. The priorities are defined annually. They are adapted to the new tendencies present in civil society, to the changing expectations of the stakeholders, and to the changes in the Group's extra-financial rating. The priorities validation loop is short. The entire group can adapt its policies and the associated action plans reactively.

Specific trend charts (Quality-Safety-Environment integrated management trend chart and the Sustainable Development trend chart) allow the Gaz de France executive committee to track the progress in implementing the Group's sustainable development policy. These mechanisms rely on an extra-financial reporting system supplied quarterly by the various departments. Since 2001, the Group has chosen to have the auditors verify the main performance indicators. For the third consecutive year, these indicators were verified with the highest level of assurance, the "reasonable" level, identical to the level assigned by the Auditors with respect to financial data.

**Players**

The implementation and monitoring of the Gaz de France sustainable development policy are the responsibility of a specific department, the department of sustainable development, which was created in 2003 and which is responsible for sustainable development with respect to 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 Sustainable Development and Ethics Committee;
- from an operational standpoint, a network of agents in the various departments.

Furthermore, the board of directors created a permanent committee (Sustainable Development and Ethics Committee) at the end of 2007 to ensure that sustainable development and ethics are taken into consideration in the work of the board and in the company's management (see section 16.5.4 – "Sustainable development and Ethics Committee").

## 6.1.5.1.5 2007 year-end assessment and 2008 priorities

Every year, the Group assesses the actions deployed during the previous year, and the Executive Committee defines the priorities for the following.

### 6.1.5.1.5.1 2007 year-end assessment of the sustainable development approach

<u>A "vision" that was reaffirmed through the company's values and ethics policy.</u>

The completion in 2007 of the ethics policy allowed the Group to reaffirm its values: customer satisfaction, performance, professionalism, innovation, respect for people and the planet are the values that form the basis of the Group's identity and define its ethics.

The text of the policy was placed on-line the Gaz de France web site and on the intranet. A brochure translated into 7 European languages was printed for each employee.

Presented to the management bodies and to the steering committees of the divisions and the business units, the policy is being deployed progressively in the Group. Fourteen ethics agents have been appointed by the divisions and departments. At the same time, several departments have begun reflecting on how to appropriate and apply the ethics policy to the unique aspects of their business.

An ethics representative reports to the Group's sustainable development department and has the Sustainable Development and Ethics Committee (CDDE), of which he is a member, examine the proposed rules. He heads the network of ethics agents who liaise between the different businesses and regions of the world.

<u>A strategic model that changes in light of the "climate" challenges and "new growth levers" (Renewable Energy, Energy Control, $CO_2$) is a core component of the business plans.</u>

Thus, in 2007 the Group decided:

- to accelerate its growth in renewable energies (doubling the objective in wind power, first French wind farm at the end of 2007),
- to promote the development of services to support gas sales,
- to prepare for an activity that integrates housing services, based on energy control and renewable energies,

This strategic movement allowed the Group to be proactive with respect to the recommendations of the "Grenelle de l'Environment" recommendations.

<u>During the second half of 2007, Gaz de France kicked off intensive efforts to address environmental problems via the "Grenelle de l'Environnement" process.</u>

The "Grenelle de l'Environnement" is the dialogue and consultation process launched in July 2007 and spearheaded by the Ministry of Ecology, Sustainable Development and Management involving representatives of the State, local governments and civil society (NGOs, employers, employees) and communities in order to define a roadmap for ecology and sustainable development and management.

The first phase of the Grenelle de l'Environnement process was positive for the Group. It demonstrated broad consensus concerning the need to make economic growth compatible with better environmental protection, incorporated the European dimension in its thought processes, stressed the urgency of focusing efforts on the construction and transportation industries, and recognized the results achieved by the industry.

The proposals made by the Group concerning construction are based on the work conducted by the Department responsible for identifying the most effective natural gas technologies combined with renewable energies.

Implementation of the roadmap resulting from the Grenelle de l'Environnement process will extend over the duration of the current five-year presidential term, and the Group will remain active with respect to all the projects undertaken as a result of the Grenelle de l'Environnement process.

<u>External recognition makes Gaz de France a leading CAC40 company in terms of sustainable development.</u>

- For the 2nd consecutive year, the Group appears on the ASPI Eurozone® index that includes the 120 best companies in terms of social and environmental responsibility.
- For the 1st time the Group was included in the Ethibel investment register, the list of the most successful DJ Stoxx companies in terms of social responsibility and sustainable development.

- Gaz de France was included in the CDLI (Climate Disclosure Leadership Index) of the 68 companies out of the world's 500 largest companies (FT 500) with the best record in incorporating climate issues into their business and reporting strategies. Gaz de France is the leading French company of the 5 included in this index. The selection is made by the Carbon Disclosure Project, a NGO that brings together 315 investors managing more than 40,000 billion US dollars in assets worldwide.

- The Group's 2006 sustainable development report received the prize (Prix Special) awarded by the Order of Certified Public Accountants, earning the selection committee's best rating. Gaz de France is one of the 3 French companies whose extra-financial indicators were awarded a "reasonable" assurance level by the auditors. This level of assurance is the same as the one required for financial reporting. It is a pledge of the reliability of our extra-financial performance indicators and of the importance that the Group gives them.

- Gaz de France also obtained the AFAQ label for professional equality for men and women in April 2007, as well as the AccessiWeb label for its web site. The AccessiWeb label recognizes companies that promote disabled access to their web site.

Actions to further improve extra-financial performance

The Group has undertaken progress actions in the areas expected by the rating agencies: deployment of the ethics policy, fight against corruption, respect for basic human rights and governance (creation of two permanent committees of the board of directors: the Sustainable Development and Ethics Committee and the Compensation Committee – see section 16.5 – "Committees of the board of directors").

The balanced vision of harmonious economic development combining respect for people and the planet was reinforced by the development of the "diversity" project and the definition of the framework for the solidarity policy now included in the business action plans.

The following actions were conducted during the last year in connection with the sustainable development policy (specified in section 6.1.5.1.3.1):

**"Meeting the major energy challenges of today and tomorrow through energy control and through innovation development"**

- With respect to securing supplies: growing demand and increased dependence on energy, management of peak consumption periods, identification of at-risk areas or anticipation of geopolitical contexts that impact supply are realities that Gaz de France takes into consideration to ensure the continuous supply of energy to its customers. To this end, the Department of Sustainable Development is continuing its work on the energy scenarios: completion of a Factor 4 compatibility study and maintenance of the position of natural gas in terms of volume, and participation with the WBCSD in developing a study on the contribution of the production of electricity to achieving the AIE scenario for reducing greenhouse gases by 80% by the year 2050. This forward-looking work provides the necessary indicators for achieving the group's forecast scenarios.

The commitment to the continuous supply of energy is included in the 2005-2007 Public Service Contract and forms part of the obligations for any supplier wishing to market natural gas in France, even in the case where, for example, the main supply source disappears (decree of March 19, 2004). Gaz de France satisfies this commitment through the diversification of the supply sources and by giving preference to long-term contracts.

- Concerning the development of a $CO_2$ strategy

Concerning the management of GHGs and activities related to the ETS directive (quotas), the main work involved: finalizing the PNAQ2 negotiations (2008/2012), revising the internal process for managing $CO_2$ emissions under quotas, improving the evaluation of the CH4 emissions of the natural gas transmission and distribution network. The actions to be carried out in the coming years to cover the Group's $CO_2$ emissions have been planned (investments in carbon funds, internal reduction of $CO_2$ emissions).

- Concerning the management of energy consumption, the year 2007 saw the continuation of the incorporation of an energy savings component in all the Group's offers in order to comply with the obligation to collect 13,425 GWh cumac[19] over the 2006-2009 period that was assigned to it by decree in connection with the law of July 13, 2005 instituting energy savings certificates.

- Concerning the development of renewable energies

Concerning the development of renewable energies: at the end of 2007, Gaz de France owned the largest wind farm in France with 120 MW of installed power, making it the leader in France. The 2007 year-end objective of 100 MW was thus largely exceeded. This growth is part of the Group's Sustainable Energy strategy, determined in July, that set its wind power objectives in France and in Europe for 2017 at 3,400 MW and that decided to create a subsidiary dedicated to renewable energies that will be called GDF Futures Energies. The possibilities offered in a number of European countries were mapped in order to guide the strategic choices related to development.

- Concerning R&D for today and tomorrow

The contributions of research to the sustainable development objectives have different timescales. The Group's policy gets direct support *through* the development of innovative technologies (electric boilers, $CO_2$ capture and storage technologies, tools for measuring environmental impacts, etc.). In areas where the strategic orientations have not yet been determined, upstream research is providing decision makers with information concerning the solutions for the future (energy forecasts, hydrogen as an energy vector, etc.).

(19) *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 the 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.*

**"Fully exercising the Group's social and environmental responsibility vis-à-vis all of its stakeholders"**

As part of the opening of the markets for individual customers on July 1, 2007, Gaz de France reinforced its support and assistance efforts for its vulnerable customers. A network of Partnership Reception and Orientation Points (PPAO) for disadvantaged customer was created in 2007. Sites of social mediation, these structures can physically receive individuals. The objective is to prevent unpaid bills and therefore interruptions in the supply of gas. In 2007, 139 agreements were signed, particularly with PIMMS (Information, Mediation and Multi-Service Facilities), PSP (Service Facilities for Individuals) dependent on FACE (Anti-Exclusion Foundation), SOS Familles Emmaüs France associations, CCAS communal centers for social action, organizations that are members of the UNA (National Union for Home Assistance, Care and Services), and some thirty agreements were under negotiation.

The implementation of the national solidarity partnership between Emmaüs – France and Gaz de France, signed on September 26, 2006, launches the joint action plans to support housing and to fight against exclusion, for employment and professional integration and development of solidarity sponsorships.

The actions in connection with the FAPE (Employment Action Foundation) to promote the integration of people in difficulty (long-time unemployed, minimum guaranteed income recipients, young people in sensitive neighborhoods) continued. In 2007, thanks to donations from employees and retirees, and to additional contributions from the company, the Foundation provided support to 146 integration association projects and helped keep and create over 700 jobs.

Continuation of the ISIGAZ program, which began in sensitive urban areas pursuant to the City Policy agreement, extends the Gaz de France Quality Diagnosis policy (QSII program), which is one of the commitments of the 2005-2007 public service contract between the State and Gaz de France: 19 agreements signed with social landlords concerning 70,800 apartments, 125 mediators trained.

The humanitarian employee association CODEGAZ continued its reorientation by signing agreements with EGD, Cofathec and the Exploration and Production Department. The association is particularly active in the countries where the Group has a presence in establishing joint actions to further the economic activity of Gaz de France.

**"Developing responsible managerial and human resources practices for the entire Group"**

The PROMAP (Progress in Management Practices) common managerial standards were deployed on a group scale in 2007. This mechanism provides a reference framework for group managers and seeks, from this common base, to promote exemplary managerial behavior that incorporates human respect. It is based on long-term improvement actions (more than 2 years) whose achievement is measured annually through ad hoc reporting, integrated in the corporate reporting. There are two reporting levels: quantitative to measure the progress made with respect to the objectives set for the year; qualitative, in order to highlight good practices and promote exchanges between the different businesses and countries of the group.

The six PROMAP objectives are as follows:

- Communicating with employees and employee representatives,
- Promoting diversity and combating discrimination,
- Developing employability,
- Recognizing and rewarding responsibilities and work contributions,
- Constantly improving working conditions,
- Anticipating and accompanying restructuring.

**"Taking an active role in regional development"**

Over and above the actions set forth in the pubic service contract and in the group's "Territories 21" policy, the Group supports communities in connection with sustainable development efforts involving a variety of issues: environmental protection, strengthening of social cohesion, local economic development.

In 2007, assistance and monitoring were provided for the Eana (formerly Cité des Matières) project in Haute Normandie, which led to awarding Gaz de France the Innovation Trophy for carbon capture. The company now has permanent exhibition space in this Sustainable Development Park. Gaz de France also helped develop the sustainable development charter for the installation of La Défense (EPAD), carried out by the ad hoc Scientific Council of which the Gaz de France Department of Sustainable Development and Cofathec are now members. In February 2008, it will lead to the World Summit on Sustainable Development for business districts, where the EPAD will ask its international counterparts to ratify this charter.

Gaz de France also provides assistance to territorial communities with their territorial climate plans. At the beginning of 2007, the Sales Department thus set up for the signatories of the Provalys Gas Simplicity Agreement an estimated balance sheet offer for the city's greenhouse gas productions. Along the same lines, Gaz de France joined with certain territorial communities, such as the Regional Council of Picardie or the Nord-Pas-de-Calais Region, in their efforts to support and offer financial incentives for energy savings.

Cofathec, through its energy optimization services, also helps local communities reduce their energy consumption. This is the case, for example, for the local municipality of Vaucresson which, by taking advantage of the Cofathec services, reduced its energy bill by 13%.

#### 6.1.5.1.5.2 Priorities for 2008

The Gaz de France Group wants to pursue and expand its actions developed in 2007 so that it can be recognized for its performance, its dynamism, its professionalism, particularly through financial and extra-financial ratings, since "extra-financial" performance helps create short, medium and long-term value.

For Environment and Sustainable Energy, priority will be given to the following actions:

- Continuation of the work on renewable energy strategies, controlling the demand for energy and $CO_2$ with assistance in implementing the sustainable energy strategy, a proposed long-term $CO_2$ strategy, and for control of energy demands, support for the entities concerned in defining a strategy, by focusing on controlling the demand for energy in the construction industry, a major stake of the Grenelle de l'Environnement;
- Risk study on the consequences of climate change on industrial installations;
- Biodiversity: mapping and identification of pertinent indicators;
- Continuation of the work on the energy scenarios.

Concerning social responsibility, the work will concern the following fields:

- Ethics policy: procedures for combating corruption and fraud, a policy that respects and promotes human rights
- Solidarity: the implementation of the Group's new policy will make it possible to reinforce the thrust given to our action in a new context
- Diversity: the operational implementation of the policy will continue in the Group's businesses, diversification of sourcing for recruitment, negotiation of the equal opportunities agreement. Awareness raising, training, internal communication will be continued.
- Territories: Implementation of the ecoquartier offer, implementation of the symbolic biodiversity partnership after mapping the sites.

## 6.1.5.2 Environment

### 6.1.5.2.1 Applicable regulations

The activities of Gaz de France are subject to a number of environmental regulations in France and abroad.

In France, the facilities in which Gaz de France carries out its activities may be subject to law No. 2003-699 of July 30, 2003 relating to the prevention of technological and natural risks and to repairing damage. This law creates technological risk prevention plans around all sites classified as at risk making it possible to prohibit 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, particularly the compression stations, the underground storage facilities and three depots (propane in Saint-Flour and Bastia and butane in Ajaccio) are facilities classified for environmental protection purposes (ICPE).

Information relating to the regulations applicable to ICPEs is discussed in section 8.2.1 "Facilities classified for environmental protection purposes (within France)".

#### 6.1.5.2.1.2 Former industrial sites

The rehabilitation of former Gaz de France industrial sites gave rise to protocols signed with the authorities in France and Germany.

The information concerning the actions taken by Gaz de France to rehabilitate sites polluted by its former activities can be found in section 8.2.2 – "Former industrial sites".

#### 6.1.5.2.1.3 Quality of the air, atmosphere and resources

In France, the Group must, pursuant to the Environmental Code and specific regulations (concerning waste, noise, air, the protection of water resources, etc.) establish an air quality policy to reduce atmospheric pollution, preserve air quality, protect water resources and save energy or improve energy efficiency. More specifically, with respect to air emissions, Gaz de France is subject to the provisions of the different orders applicable in particular to classified facilities.

### 6.1.5.2.2 Environmental policy

The environment is an essential component of the Gaz de France sustainable development approach.

The Group's environmental policy allows better control of environmental risks. Beyond the response to regulatory requirements, its implementation is geared toward offering the Group additional growth opportunities through new products and new offers. It thus seeks to assist the Group in identifying new growth vectors.

Updated in 2004 when the Group's sustainable development policy was updated, the Gaz de France environmental policy is based on the three following priorities:

- meeting environmental expectations (combating the greenhouse effect, reducing environmental damage, preserving air quality and protecting human health);
- incorporating the environment into the overall management system of each department (consideration of the environment in the Group's risk control system, use of environmental management standards that can be evaluated by independent outside agencies, such as ISO certification or the environmental and social rating agencies' standards, determination of calculated environmental performance objectives);
- promoting greater environmental responsibility (better understanding of the impacts of the group's activities and products on the environment, mapping of the environmental risks and opportunities and their consequences, developing environmentally-friendly offers, raising 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, the departments in charge of operational activities evaluate their performance in the following areas: regulatory compliance, action plans, definition of performance indicators, evaluation of results and implementation of a continuous improvement loop.

#### 6.1.5.2.3.1 Emissions and pollutants

The activities of Gaz de France result in emissions 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 and production activities and from 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 allocated annual quota is approximately 1 million tons. Since 2004, emissions have been monitored and verified in France. These procedures were extended to the entire Group in 2005.

Methane ($CH_4$) comes from the distribution, transmission and exploration – production activities. The network replacement program makes it possible each year to reduce the amount of emissions per cubic meter distributed and/or transported (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 facilities and compression stations;
- methane from the transmission and distribution systems.

The objective set at the end of 2007 is a 10% reduction in emission volumes compared to 1990 even though natural gas sales and transmissions will increase 60 to 70% over the same period according to projections. With 2.37 million tons of $CO_2$eq emitted in France in 2007, the Gaz de France group is adhering to the average 2005-2007 commitment.

*Nitrogen oxides ("NOx").*

NOx come from the combustion of natural gas (compression stations and electricity production installations, in particular) and various fuels used in the liquefaction process. In its SDAP, Gaz de France set itself the objective of reducing NOx emissions in France from its compressors by 80% compared to their 1999 levels for an equivalent level of activity by the year 2006. This is a maximum NOx emissions objective of 1.5 g/KWh. In 2007 this rate was 0.5 g/KWH for transport, over a total of 2,397 tons of NOx emitted.

#### 6.1.5.2.3.2 Water

The activities of Gaz de France do not generate much water pollution. The main impacts on aquatic environments concern:

- the process waters from the production platforms, which are all equipped with treatment systems;
- 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 (diluted effluents) or by incineration (concentrated effluents).

More than 99% of the Group's water consumption is the result of industrial uses. These processes involve LNG regasification at the LNG terminals and the production of electricity by combined cycle plants. The water is taken from natural sources before it is returned to the same environment. Different measures are taken to limit consumption and develop wastewater recycling.

#### 6.1.5.2.3.3 Waste

The main waste products produced by Gaz de France involve:

- OIWs (ordinary industrial waste) and HIWs (hazardous industrial waste) generated by the transmission activities and the rehabilitation of former gas plant sites;
- drilling sludge linked to exploration work;
- jobsite waste;
- and bleeding effluents and effluents from the treatment of natural gas from storage facilities.

Gaz de France is developing waste reduction at the source and is recycling and reclaiming waste. The brine produced during the creation of salt cavities is recycled as a matter of priority in the chemical industry. The tar from the old gas plant sites is incinerated in energy-recovery facilities and the polluted soil taken from these sites is reused off-site following thermal desorption. Drilling sludge is sent to a specialized storage center. 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 noted a 25% decrease in the volume of waste produced since 1996 with respect to methanol and a 50% decrease since 1999 with respect to oils.

Detailed information concerning the Group's sustainable development approach and environmental policy is provided in two publications that can be consulted at www.gazdefrance.com: 2007 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 expanded into renewable energies with the creation of Maïa Eolis, owned by the Gaz de France Group (49%) and by Maïa Sonnier (51%). The objective of Maïa Eolis is to develop and operate wind farms. The Group has acquired also in 2007 wind energy producers Erelia and Société de la Haute Lys.

## 6.2 Principal markets

### 6.2.1 Presentation

See section 6.1.1. – "General presentation – The natural gas sector in France and in the world."

### 6.2.2 Breakdown of revenues

**Breakdown of 2007 operating Income by division**

| *In millions of euro* | Energy Supply and Services | | | Infrastructures | | | | Group total |
|---|---|---|---|---|---|---|---|---|
| | Exploration – Production | Purchase and Sale of Energy | Services | Transmission Storage | France | International Transmission & Distribution International | Intra-division and holding eliminations | |
| Revenues | 1,717 | 20,041 | 1,807 | 2,494 | 3,076 | 5,202 | (6,910) | 27,427 |
| EBITDA | 1,127 | 1,075 | 129 | 1,534 | 1,291 | 491 | 19 | 5,666 |
| **Operating income** | **755** | **940** | **82** | **1,185** | **552** | **381** | **(22)** | **3,874** |

**Breakdown of 2006 (**) operating income by division**

| *In millions of euro* | Energy Supply and Services Infrastructures | | | Infrastructures | | | | Group total |
|---|---|---|---|---|---|---|---|---|
| | Exploration – Production | Purchase and Sale of Energy | Services | Transmission Storage | France | International Transmission & Distribution | Intra-division and holding eliminations | |
| Revenues | 1,659 | 20,455 | 1,801 | 2,355 | 3,289 | 5,178 | (7,095) | 27,642 |
| EBITDA | 1,270 | 529 | 117 | 1,357 | 1,412 | 498 | (34) | 5,149 |
| **Operating income** | **935** | **443** | **71** | **1,013** | **726** | **348** | **72** | **3,608** |

**Breakdown of 2005 operating income by division (*) (**)**

| *In millions of euro* | Energy Supply and Services Infrastructures | | | Infrastructures | | | | Group total |
|---|---|---|---|---|---|---|---|---|
| | Exploration – Production | Purchase and Sale of Energy | Services | Transmission – Storage | France | International Transmission & Distribution | Intra-division and holding eliminations | |
| Revenues | 1,139 | 17,346 | 1,568 | 2,138 | 3,426 | 3,669 | (6,414) | 22,872 |
| EBITDA | 726 | 325 | 105 | 1,265 | 1,358 | 379 | 90 | 4,248 |
| **Operating income** | **457** | **251** | **59** | **934** | **900** | **291** | **(71)** | **2,821** |

(*) *2005 published data restated to reflect the impacts of the application of IFRIC12 and IFRIC 4*
(**) *Data restated to reflect the effects of the reclassifications between segments tied to the establishment of the new organization in 2007*

## 6.3 Important events

None

## 6.4 Degree of dependence

Gaz de France's natural gas supply is frequently provided through the public operator national company of the country in which the natural gas originates. This aspect may create dependence and constitute a risk factor for the Group both with respect to the search for new supplies and with respect to performing contracts tied in particular 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 section 6.1.3.1.2.2.1.1.2 – "Diversification of supplies"

See also Chapter 4 – "Risk factors."

## 6.5 Factors related to its competitive position

The Group's integration into the various natural gas chain businesses and the changes in its regulatory environment expose it to different 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 considerable competition in Exploration – Production activity among oil and gas operators to acquire assets and permits to explore for and produce oil and natural gas. The Group produced 30.6 Mboe of natural gas in 2007. It ranks between the 3rd and 4th largest gas producing companies in Germany and the Netherlands and 15th in Norway and the United Kingdom.[20]

However, in terms of size and nature of activity, Gaz de France can be compared to other gas market participants who have developed an Exploration – Production activity.

### 6.5.2 Purchase and Sale of Energy

The Group is one of the leading suppliers of natural gas in Europe, one of the word's largest buyers of natural gas and one of the leading importers of liquefied natural gas ("LNG") in Europe.

At the end of December 2007, the Energy Purchase and Sale segment served around 10.5 million private individuals, more than 579,243 business customer sites made up primarily of professionals, small and medium size business and industries, apartment buildings, private and public tertiary customers and regional communities and over 300 major industrial and commercial customers spread out over more than 1,000 sites. The data in this paragraph only relates to the Purchase and Sale of Energy segment and so excludes the Transmission and Distribution International segment.

When the markets were opened up to competition on July 1, 2007, Gaz de France lost its monopoly over the supply of gas to individual 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 adopted an approach intended to establish customer loyalty with new brands and offers of value-added products and services. Thus, it offers its largest customers financial engineering solutions and energy management services. It is also developing a dual gas-electricity offer, already in place for industrial and professional customers; this offer is to be extended to private individual customers as soon as they are given the opportunity to choose their supplier.

This dual offer strategy requires access to competitive sourcing with respect to the sales prices expected by the end customers, particularly for electricity. The Group has combined cycle gas plants that are competitive on a semi-base load basis, but must complete its supply by accessing market products or structured contracts to ensure its base and peak offer. With this objective in mind, the Group was able to sign a contract with EDF for the 2005-2008 period in France and is developing new production means such as the St. Brieuc plant, which corresponds to the peak demand needs of the portfolio.

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 growing competition translates into the possibility for a growing number of consumers to contract with the supplier of their choice, as well as the creation of third-party access to the transmission, Distribution France networks and to the LNG infrastructures necessary to implement this free choice of supplier (see section 6.1.4 – "Legislative and regulatory environment in France").

In the market for large customers who have been able to choose their supplier in France since August 2000, Gaz de France estimates that its market share has changed from just under 73% in 1999 to around 55% at the end of 2007.

In other European markets targeted by Gaz de France, it must compete with historical operators who hold very large market shares.

(20) *(2006 data – source: Wood Mackenzie and the German Association of the Oil and Gas Industry (WEG)).*

## 6.5.3 Services

For traditional energy services to the service and industrial sectors, the competitive positioning of the Services segment is as follows:

- In France, Cofathec is ranked number three in the market behind Dalkia (No.1 in the French market) and Suez Energies and Services.
- In Italy, Cofathec is second in the market behind SIRAM (Veolia 100%).
- In the United Kingdom, the energy services market it very fragmented. Cofathec in the United Kingdom (105 Meuros) is not among the "top 10."
- In the Benelux countries, Cofathec is a small company. Its major European competitors have much higher revenues.

For the European market, Cofathec ranks third behind Dalkia and Elyo.

For the business carried out by the GNVert subsidiary, competition concerns the construction activities and the operation of filling stations. This competition comes essentially from compressor manufacturers.

In the Facility Management market, we note the arrival of newcomers from either construction (ex.: Vinci, Bouygues) or the "electricity field" (Cegelec, Forclum).

In the industry market, we find the same players with the same positions, except for the newcomers from public works and civil engineering.

In the private individuals market, Savelys has a leading position with more than 25% of the market in front of another national competitor, Proxiserve (Véolia), which holds less than a 10% market share. The rest of the players are either local companies or independent installers.

## 6.5.4 Transmission and Storage

### 6.5.4.1 Transmission network in France: GRTgaz

Due to its strictly controlled permit system, the gas transmission activity in France is not subject to much competition. GRTgaz transmits the gas over a large portion of the territory and has the longest high-pressure natural gas transmission network in Europe.

### 6.5.4.2 Storage in France

From an economical 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. In addition, the considerable new investments to be made over time (it takes between fifteen and twenty years to develop a new storage project) must be noted.

It should be noted, however, that storage represents one solution to the market's need for modulation. 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). It should be noted that various changes underway throughout Europe, such as the development of gas hubs and the increase in capacities of gas pipeline transmission networks will help strengthen competition in the modulation market.

In Germany, storage activities are more competitive.

### 6.5.4.3 LNG terminals in France

The Gaz de France LNG terminal offer in France will necessarily face direct competition from one or more other terminals in France by the year 2011-2012. Four projects were announced in 2006, at the ports of Le Havre (Antifer site), Dunkerque and Bordeaux (two projects at the Verdon site). An additional project was announced in 2007 at the Fos-sur-mer site for the year 2015. The completion of all these infrastructures will more than double the regasification capacities in France.

These projects are being carried out by or with companies that are targeting the French or European gas supply market while freeing themselves to the greatest extent possible from the existing regulatory framework, for example by reserving their own ragasification capacities directly.

Faced with this competition, the potential expansions of Gaz de France terminals have the advantage of being well accepted locally and of having competitive development costs because they benefit from equipment that already exists (for example: pier, reservoirs).

## 6.5.5 Distribution

The distribution activity in France is mostly carried out by GrDF. 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 stakes in three of the largest local distribution companies: Gaz de Strasbourg with 25% of the capital, Gaz de Bordeaux with 24% of the capital and Gaz Electricité de Grenoble with 4.3% of the capital.

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 it is the only operator that may provide public gas distribution services to these local communities.

When the other municipalities need gas supplies they must have approved gas distributors submit bids in accordance with section III of article L.2224-31 of the general code of territorial communities (municipalities designated by the term public service delegation). On December 31, 2007, the vast majority of the new natural gas concessions were acquired by the distributor. Furthermore, several communities held competitive bidding for propane. Gaz de France did not participate in this bidding, since its profitability criteria for these operations were not satisfied.

## 6.5.6 Transmission and Distribution – International

In Europe, the transmission and distribution of gas, which constitute a natural monopoly, are highly regulated sectors. 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 in the open markets are the large energy marketing companies. New competitors are entering the natural gas market, such as the large gas suppliers of the European Union. Finally, the group naturally has to face different types of strategies from its competitors depending on the market shares they hold in each country.

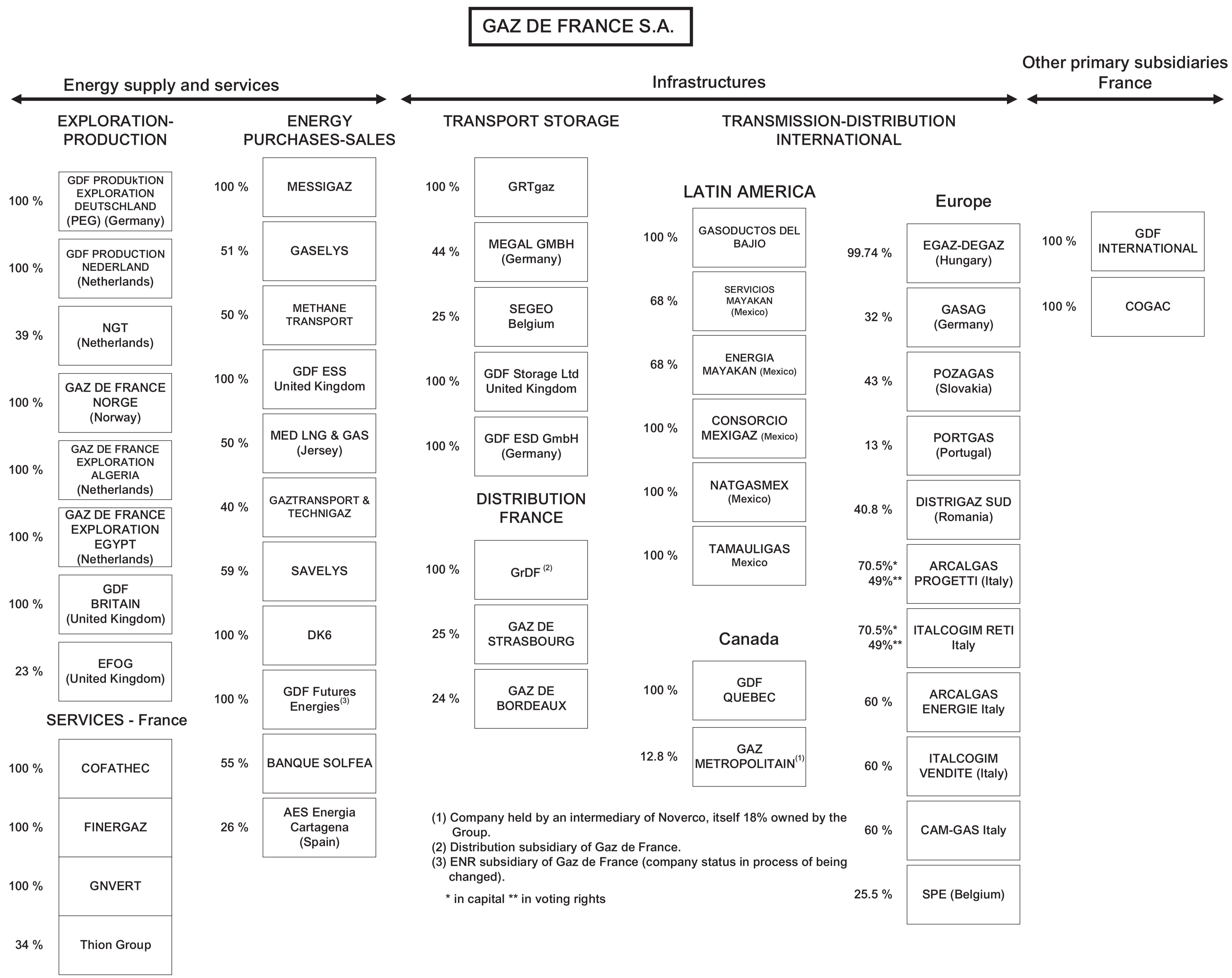
In Mexico, where the gas market is open to competition, the companies marketing liquefied petroleum gas (LPG) are the most active competitors.

# 7 ORGANIZATIONAL CHART

The Company conducts its own business activity and is not simply a holding company for its subsidiaries. The complete list of companies consolidated in the Group is presented in section 20.1.1.1 – "Consolidated statements at 31 December 2007 according to IFRS Standards / Notes / Note 24".

The number of direct or indirect subsidiaries of the Company is approximately 270. The organisational chart below is the simplified chart of the main companies held by Gaz de France (in rounded percentage of capital) at the date of the registration of this reference document. This organisational chart also shows the investments of Gaz de France in the two Belgian companies Segeo and SPE which Gaz de France must sell as part of the European Commission's authorisation procedure for the Merger.

Unless otherwise indicated, the percentage of voting rights held by Gaz de France in the Group companies is identical to the percentage of capital appearing in the organisational chart shown below.




(1) Company held by an intermediary of Noverco, itself 18% owned by the Group.
(2) Distribution subsidiary of Gaz de France.
(3) ENR subsidiary of Gaz de France (company status in process of being changed).

* in capital ** in voting rights

The functions exercised by the Company's directors (CEO, Executive Vice Presidents, members of the Board of Directors and members of the Executive Committee) in the Company's primary subsidiaries are shown in Chapter 14 – "Administrative bodies and directorates, control and general management bodies".

The sales of natural gas made by the segments of the Group are presented in section 6.1.1 – "General presentation."

The presentation of the activity and the strategic economic assets of the Company's primary subsidiaries are shown in Chapter 6 – "Overview of activities."

The main operations completed in 2007 were the acquisition of the Erelia, Eoliennes de la Haute Lys companies together with the addition of distribution subsidiaries for GrDF.

Additionally, information relating to financial flows between the Company and its main subsidiaries is shown in Chapter 19 – "Transactions with related entities."

# 8 REAL ESTATE PROPERTY, PLANTS AND EQUIPMENT



## 8.1 Real estate property (France)

The real-estate building inventory is an indispensable resource for Gaz de France for the exercise of its business activities and thus represents also a major focus of corporate management. The *Délégation Immobilière* (DIM), *i.e.* the real-estate delegation, and the attached real-estate subsidiaries provide real-estate services to entities of Gaz de France SA and its subsidiary GrDF since its creation on December 31, 2007, by providing them with the surface areas necessary for their needs, *i.e.* nearly 1.1 million square metres of which approximately 3/4 are wholly owned or under financial lease, and the remainder are rented. The GRTgaz subsidiary itself has assets of 94,000 square metres either wholly owned or under finance leasing and approximately 25,000 square metres are also rented.

The tertiary inventory of the Group in France, either wholly owned or under financial lease, is located 82% outside of Paris (Île de France), whereas the inventory which is rented is located mainly in Île de France itself (74%). Among these real-estate assets which are wholly-owned or leased, Gaz de France presently manages 313 sites built on land which formerly supported gas production plants and which are the object of a restoration program as specified in 8.2.2 "Former industrial sites" hereinafter.

The vacancy rate in the operating tertiary inventory is approximately 5%.

No major expense burdens the large wholly-owned tangible assets of Gaz de France for which there had not been a provision.

Gaz de France also owns or rents 1,558 housing units (comprising 1,009 owned and 549 rented).

Gaz de France is balancing its real-estate portfolio by selling the excess housing units as well as the vacant or unrentable tertiary sites, by limiting the acquisition and building of new assets and by delegating the maintenance and management of the assets to specialised service providers. It intends to promote the rational use of the real-estate property which it owns or rents by invoicing the value of the buildings occupied by its businesses and subsidiaries to them.

## 8.2 Environmental issues related to the Company's real-estate holdings

### 8.2.1 Facilities classified for environmental protection purposes (France)

Some facilities used by Gaz de France, in particular the compression stations, the surface facilities necessary for the use of underground storage sites, LNG terminals and three depots (propane at Saint-Flour and at Bastia, and butane at Ajaccio) are facilities classified for the protection of the environment ("**ICPE**").

In the terms of the French Environmental Code, plants, workshops, depots, worksites, and generally, the facilities which might present a danger or harm either public commodities, either to public health, safety and welfare, or to agriculture, or to the protection of nature and the environment, or to the preservation of sites, monuments and archaeological assets.

The industrial activities covered by the law are specified in the official list determined by order of the French Council of State and are subject, depending on the severity of the dangers or harm presented by the operations, either to a declaratory regime (in which case the facilities concerned must be used in compliance with standardized operating prescriptions), or to an authorisation regime (the authorisation for use in this case takes the shape of a prefectoral order delivered after consultation with various agencies and a public survey, which contains the specific prescriptions for using the facility to which the operator must adhere).

The installations classified for the protection of the environment (ICPE) are under the control of prefects and regional industrial departments, for research and the environment (DRIRE), in charge of organising the inspection of classified facilities. The classified facility inspectors' mission is essentially to define the technical prescriptions which apply to the facilities subject to authorisation by prefectoral order and to ensure the adherence to applicable regulations by the ICPE by means of periodic review of documents and inspections.

In the case of failure to observe the conditions applicable to operators using a ICPE, and outside of any criminal pursuit, the prefect may declare administrative sanctions such as the deposit of an amount equal to the work needed to bring compliance, the forced execution of measures prescribed by order, the suspension of operations, or even propose closing or terminating the facility by order of the French Council of State.

In addition, some ICPE are subject to the provisions of the Order of 10 May 2000. This order defines a certain number of additional measures for preventing major risks. The facilities referred to as 'Seveso' must have specific management tools available for safety due to their size or the nature of their activities and because they present risks of major accidents. This is in particular the case for LNG terminals operated by Gaz de France. These facilities must take necessary measures to prevent major accidents and limit the consequences of such accidents, in particular by implementing an 'internal operating plan' which determines the operator's intervention procedures within the establishment in the case of accident as well as a 'special intervention plan' prepared by the prefect on the basis of information provided by the operator and used to take over from the internal operating plan when the consequences of the accident are likely to have an impact outside of the establishment. In addition, the start-up of activities at these facilities is conditional on the prior establishment of financial guarantees, the amount of which is stipulated in the prefectoral authorisation order, which are in particular intended to guarantee that the operator will assume the cost of any interventions in the case of an accident and the cost of restoration of the site after the facility has been closed.

## 8.2.2 – Former industrial sites

Gaz de France pays particular attention to former gas plants which were, before the development of natural gas, manufactured gas production sites the last of which terminated production in 1971. The former activities supported at these sites may possibly be the source of the underground presence of materials which in certain conditions may present environmental risk depending on their nature, their natural or provoked mobility, or their chemical characteristics.

As such, Gaz de France, from the beginning of the 1990s, has been involved with the ministry in charge of the environment in a voluntary, ordered and coordinated treatment action at these former gas plants, beyond the strict application of legislative and regulatory obligations. There has thus been an exhaustive inventory of these sites and they have been ranked according to their environmental sensitivity; in parallel, a significant research program has been started to provide better understanding of the gas by-products themselves and to discover new methods of treatment. These actions have allowed the use of effective and proportional measures whose purpose is to prevent the risk of harm to humans and the environment at a cost which is economically bearable and to foresee the procedures and the schedules of application. The commitment of Gaz de France led to the signing on April 25, 1996, of an agreement for control and monitoring of the restoration of former gas plant sites in conjunction with the ministry of the environment for a period of ten years. The agreement was strengthened by the creation, in 2001, with the ministry, of general objectives for restoration, specific to the Gaz de France sites, of setting a standard for the cleanup of sites whose use is changing, as well as, in 2002, a procedure for monitoring the quality of groundwater.

On April 26, 2006, the expiration date, the agreement's commitments were implemented for all of the 467 sites. Gaz de France thus respected the entirety of its commitments under the agreement, and a summary was created in conjunction with the ministry of the environment. The restoration of former gas plant sites enabled to preserve the use, or return to urban development, of 904 acres of land by the end of 2007. The investigations and work performed under the agreement led to draining and filling in tanks at 270 sites and the elimination of more than 715,000 tons of wastes. Groundwater at 268 sites was monitored and tracked. 93 sites are still subject to such action. As the implementation of the agreement comes to an end, Gaz de France will pursue its restoration efforts at these sites in compliance with applicable laws and regulations. Gaz de France by itself now provides environmental management of the former gas plant sites it owns.

The accounting provision created to meet the commitments and financial risk associated with the rehabilitation of the land at these former gas plants managed by Gaz de France respects the changes in regulations, jurisprudence and the expiration of its agreement with the Government. On 31 December 2007, this provision amounted to 37 million euro and the total amount dedicated (since the start of this process) for the restoration of former gas plant sites has amounted to 166 million euro.

In Germany, EEG continued its program of restoring sites polluted by its former activities (gas plants and exploration and production sites). This work is conducted in close cooperation with the regional authorities in Saxony-Anhalt, Thuringia and Mecklenburg-Western Pomerania and with the Geramn BvS (Federal Office for Privatisation) for the Brandebourg area which finances the majority of these expenses.

The obligations for future dismantling of exploration-production facilities are governed by the laws of different countries in which Gaz de France operates: in the Netherlands, the mining law; in Germany, mining law also as well as the provisions set by the WEG (German association for the oil and gas sector); in the United Kingdom, the UK Petroleum Act of 1998 and the regulations of UK Department of Trade and Industry.

# 9 DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS



| *(In millions of euro)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Revenues** | **27,427** | **27,642** | **22,872** |
| **EBITDA** *(before replacement costs and share-based payments)* | **5,666** | **5,149** | **4,248** |
| **Operating Income** | **3,874** | **3,608** | **2,821** |
| **Net income – Group share** | **2,472** | **2,298** | **1,782** |

Revenues for the Group stabilized in 2007 at 27,427 million euro, compared to 27,642 million euro in 2006. In average climatic conditions, it has grown by 1.6%.

International revenue reached 11,361 million euro, or 41% of total revenues for the Group.

The return to business growth seen in the third quarter accelerated at year end thanks to favorable market and weather conditions.

The results for fiscal year 2007 are due primarily to the following factors:

- The evening out of rate-regulated sales activities and overall good commercial performance.
- Year end market conditions allowing the Group to fully leverage its LNG portfolio.
- Increased control over operating expenses;
- Favorable weather conditions in the last quarter (lower than average temperatures) helped to absorb some of the unfavorable impact of the first quarter's weather conditions.

Against this backdrop, the Group has exceeded its financial objective for 2007, with an EBITDA of 5,666 million euro up 10% from 5,149 million euro in 2006.

The Exploration-Production segment continues to be a major contributor to Group earnings. Purchase and Sale of Energy is enjoying strong sales performance and competitivity in its supply operations. the Services segment has continued to grow its operating profitability. Transmission and Storage has shown exceptional performance. Distribution — France has had a rough year owing to unfavorable weather conditions, and International Transmission and Distribution is consolidating its results at a high level.

Consolidated net income (Group share) for 2007 is up almost 8% at 2,472 million euro.

## Introduction: changes in accounting principles and disclosure

In compliance with European regulation 1606/2002 dated July 19, 2002, the Group's consolidated financial statements for the year ended December 31, 2007 have been prepared in accordance with the international accounting standards IAS/IFRS applicable on that date and adopted by the European Union (http ://ec.europa.eu/internal_market/accounting/ias_Fr.htm #adopted-commission). Concession agreements are accounted for in accordance with the Accounting principles of IFRIC interpretation 12, "Service Concession Arrangements," published by the IASB on November 30, 2006, and not yet approved by the European Union, considering, in line with the recommendation issued by the French securities regulator (AMF) in December 2006, that this interpretation allows for improved financial disclosure.

The Group's consolidated financial statements for the year ended December 31, 2007 are likewise compliant with the international accounting standards (IAS/IFRS) applicable on that date, as approved the IASB.

The Group's consolidated financial statements for the year ended December 31, 2007 also account for standards and amendments to be applied for the fiscal year beginning January 1, 2007, concerning:

- IFRS 7 "Financial Instruments: Disclosures";

- IAS Amendment 1 on capital disclosures.

The additional information required by these standards is presented for the first time in the consolidated financial statements for the year ended December 31, 2007.

The new organization of the Group, which took effect on July 1, 2007, resulted in the reclassification of certain activities from one segment to another. The most significant of these reclassifications and their impact is described below.

The preparation of consolidated financial statements requires Gaz de France 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 information available at closing.

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 were endorsed by Group management and approved in advance by the Audit Committee.

Actual results may differ significantly from these estimates, should conditions in reality prove to be different from those hypothesized.

For 2007, the main changes in the estimates and assumptions used to prepare the consolidated financial statements at December 31, 2006 relate to the discount rate applied when measuring certain provisions, which must be (due to changes in personnel) adjusted in line with current market rates at the year end. Also the rates used have been adjusted to actual market, conditions as of December 31, 2007:

- Provisions for replacement: 4.5% at December 31, 2007, 4% at December 31, 2006 and December 31, 2005;

- Retirement benefits: 5% at December 31, 2007, 4.25% at December 31, 2006 and December 31, 2005;

- Other employee benefits: between 4.5% and 5% at December 31, 2007, 4% at December 31, 2006 and December 31, 2005;

- Provision for exploration-production site restoration: 4.5% as of December 31, 2007, 4% as of December 31, 2006 and December 31, 2005.

Further to the Group's new organization, some activities have been reclassified from one segment to another. The impact of the reclassifications on revenues, EBITDA and operating income per segment of the Group for fiscal years 2005 and 2006 is shown in the table below. Among these reclassifications, the most significant were:

- The transfer of energy sale activities in the United Kingdom from "Purchase and Sale of Energy" to "International Transmission and Distribution";

- The transfer of Savelys and DK6 from "Services" to "Purchase and Sale of Energy";

- The transfer of European transmission activities from "International Transmission and Distribution", to "Transmission Storage France" which will now be called "Transmission and Storage"; and

- The transfer of key account sales operations in Germany from "International Transmission and Distribution" to "Purchase and Sale of Energy".

### Fiscal Year 2005

| *Revenues (In millions of euro)* | 2005 Published | Impact of reclassification | 2005 Restated | % var. |
|---|---|---|---|---|
| **Energy Supply and Services** | | | | |
| Exploration – Production | 1,139 | - | **1,139** | |
| Purchase and Sale of Energy | 17,265 | +81 | **17,346** | N.S. |
| Services | 1,924 | -356 | **1,568** | -19% |
| **Infrastructures** | | | | |
| Transmission and Storage | 2,124 | +14 | **2,138** | N.S. |
| Distribution – France | 3,426 | - | **3,426** | |
| International Transmission and Distribution | 2,275 | +1,394 | **3,669** | +61% |
| Eliminations and Other | -5,281 | -1,133 | **-6,414** | -21% |
| **GROUP TOTAL** | 22,872 | - | **22,872** | |

| *EBITDA (In millions of euro)* | 2005 Published | Impact of reclassification | 2005 Restated | % var. |
|---|---|---|---|---|
| **Energy Supply and Services** | | | | |
| Exploration – Production | 726 | - | **726** | |
| Purchase and Sale of Energy | 248 | +77 | **325** | +31% |
| Services | 166 | -61 | **105** | -37% |
| **Infrastructures** | | | | |
| Transmission and Storage | 1,271 | -6 | **1,265** | N.S. |
| Distribution – France | 1,358 | - | **1,358** | |
| International Transmission and Distribution | 372 | +7 | **379** | +2% |
| Eliminations and Other | 107 | -17 | **90** | -16% |
| **GROUP TOTAL** | 4,248 | - | **4,248** | |

| *Operating Income (In millions of euro)* | 2005 Published | Impact of reclassification | 2005 Restated | % var. |
|---|---|---|---|---|
| **Energy Supply and Services** | | | | |
| Exploration – Production | 457 | - | **457** | |
| Purchase and Sale of Energy | 204 | +47 | **251** | +23% |
| Services | 94 | -35 | **59** | -37% |
| **Infrastructures** | | | | |
| Transmission and Storage | 942 | -8 | **934** | -1% |
| Distribution – France | 900 | - | **900** | |
| Transmission and Distribution | 284 | +7 | **291** | +2% |
| Eliminations and Other | -60 | -11 | **-71** | -18% |
| **GROUP TOTAL** | 2,821 | - | **2,821** | |

### Fiscal Year 2006

| *Revenues* *(In millions of euro)* | 2006 Published | Impact of reclassification | 2006 Restated | % var. |
|---|---|---|---|---|
| **Energy Supply and Services** | | | | |
| Exploration – Production | 1,659 | - | **1,659** | |
| Purchase and Sale of Energy | 20,481 | -26 | **20,455** | N.S. |
| Services | 2,181 | -380 | **1,801** | -17% |
| **Infrastructures** | | | | |
| Transmission and Storage | 2,227 | +128 | **2,355** | +6% |
| Distribution – France | 3,289 | - | **3,289** | |
| Transmission and Distribution | 3,570 | +1,608 | **5,178** | +45% |
| Eliminations and Other | -5,765 | -1,330 | **-7,095** | -23% |
| **GROUP TOTAL** | 27,642 | - | **27,642** | |

| *EBITDA* *(In millions of euro)* | 2006 Published | Impact of reclassification | 2006 Restated | % var. |
|---|---|---|---|---|
| **Energy Supply and Services** | | | | |
| Exploration – Production | 1,270 | - | 1,270 | |
| Purchase and Sale of Energy | 441 | +88 | 529 | +20% |
| Services | 189 | -72 | 117 | -38% |
| **Infrastructures** | | | | |
| Transmission and Storage | 1,285 | +72 | 1,357 | +6% |
| Distribution – France | 1,412 | - | 1,412 | |
| Transmission and Distribution | 562 | -64 | 498 | -11% |
| Eliminations and Other | -10 | -24 | -34 | N.S. |
| **GROUP TOTAL** | **5,149** | **-** | **5,149** | |

| *Operating Income* *(In millions of euro)* | 2006 Published | Impact of reclassification | 2006 Restated | % var. |
|---|---|---|---|---|
| **Energy Supply and Services** | | | | |
| Exploration – Production | 935 | - | 935 | |
| Purchase and Sale of Energy | 391 | +52 | 443 | +13% |
| Services | 111 | -40 | 71 | -36% |
| **Infrastructures** | | | | |
| Transmission and Storage | 953 | +60 | 1,013 | +6% |
| Distribution – France | 726 | - | 726 | |
| Transmission and Distribution | 402 | -54 | 348 | -13% |
| Eliminations and Other | 90 | -18 | 72 | -20% |
| **GROUP TOTAL** | **3,608** | - | **3,608** | |

## 9.1 Principal factors impacting business activities and Group performance

A number of factors, such as changes in rates, petroleum product prices, dollar/euro exchange rate variations, weather conditions, changes in scope of consolidation and seasonality, have an effect upon the Group's activities and performance.

### 9.1.1 Rate regulation

The group's business activities depend on the different pricing systems outlined in the table below:

| Division | Type of rate | Comments |
|---|---|---|
| Energy Supply and Services Infrastructures | **Administrative Rates** | 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.<br>Two types of rates are applied: public distribution rates and subscription rates. |
| | **Public distribution rates** *(type of administrative rate)* | Natural gas prices for customers consuming less than 5 GWh per year and connected to the distribution network.<br>Rates set by the government ministers responsible for the economy and energy, on the basis of Gaz de France's proposal and the opinion of the CRE. |
| | **Subscription Rates** *(type of administrative rate)* | Natural gas prices for customers consuming less than 5 GWh per year and connected to the distribution network or directly connected to the transmission network.<br>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 eligible customers who have exercised their right to choose a natural gas supplier. |
| Infrastructures | **Regulated rates (excluding storage rates)** | Rates for the use of infrastructures pursuant to the French law of January 3, 2003<br>CRE rates recommendation approved by the ministers for economy and energy |

Rate changes administered in 2007

- **Public distribution rates**

The following table shows the averages **for public distribution rate changes** adopted from 2005 through 2007.

| Year | Average level of rate changes |
|---|---|
| **2005** | |
| July 1 | 0.124 c€/kWh |
| September 1 | 0.090 c€/kWh |
| November 1 | 0.445 c€/kWh |
| **2006** | |
| January 1 | Cancellation of scheduled price hikes by decree of June 16, 2005 |
| May 1 | 0.210 c€/kWh |

Public distribution prices did not change between May of 2006 and December of 2007.

- **Subscription rates**

Subscription rates are revised quarterly to account for any changes in the euro/dollar exchange rate and the price of a portfolio of oil products, with an annual adjustment 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 changes |
| **2007** | |
| January 1 | -€2.85 per MWh |
| April 1 | -€1.63 per MWh |
| July 1 | €1.72 per MWh |
| October 1 | €2.11 per MWh |

Rate outlook

The new rate for access to France's distribution infrastructure is about to be set and should be implemented by July 1, 2008.

New rates for access to transmission infrastructures and regasification terminals in France are also being prepared.

Gaz de France is anxious to finalize the new public service contract for the 2008-2010 period, which will determine public distribution price changes for the next three years.

## 9.1.2 Oil prices

Fluctuating oil prices have two major effects on the Group's performance:

- **In the Exploration-Production segment**, rising oil prices have resulted in an increase both in revenues and operating income, though the impact on operating income has been proportionately greater due to the fact that operating expenses are not affected by changing oil prices;
- **In the Purchase and Sale of Energy segment**, higher oil prices have the opposite effect, causing operating expenses to go up. In theory, the difference is recovered through price increases, but a time lag can occur if the price revision to be applied using the relevant formula is not fully reflected in the revised prices.

| Average Price | 2007 | 2006 | % var. | 2005 |
|---|---|---|---|---|
| Brent (in USD/bbl) | 72.5 | 65.1 | +11.3% | 54.4 |
| Brent (in eur/bbl) | 52.9 | 51.7 | +2.3% | 43.8 |

## 9.1.3 Foreign 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 section 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2007 under IFRS / Notes / Note 3 c."

| Average Price | 2007 | 2006 | % var. | 2005 |
|---|---|---|---|---|
| Euro-dollar exchange rate | 1.37 | 1.26 | +8.7% | 1.24 |

## 9.1.4 Weather conditions

Weather conditions may have a significant effect on the Group's operations, both in terms of volumes and expenses. 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.

The Group's climatic correction model, set up with the help of Météo France, is subject to regular technical adjustments in order to update its results in relation to the data it records.

The most recent adjustment, made last April, resulted in the lowering of the "annual benchmark consumption" or "annual consumption under average weather conditions" by 7.8 TWh in relation to the previous model. This adjustment has modified certain absolute data under average weather conditions: sales volumes and revenues. This has not, however, had any effect on relative trends, particularly:

- deviation in climatic correction from one period to the next;
- sales and/or revenue growth between periods under normal weather conditions.

2007 saw a 15 TWh drop in volumes distributed in France compared to years of normal weather conditions, whereas in 2006 they had been up by 1 TWh. Similar patterns were observed outside of France.

### 9.1.5 Changes in scope of consolidation

The principal changes in scope of consolidation for fiscal years 2007, 2006 and 2005 were:

| Entity | Nature of change | Date | Segment |
|---|---|---|---|
| **ENERCI** | Acquisition – Fully Consolidated | 12/4/07 | Exploration-Production |
| **EFOG** | Proportionately Consolidated (previously accounted for under the equity method) | 1/2/07 | Exploration-Production |
| **Energie Investimenti** | Fully Consolidated (previously proportionately consolidated ) | 9/26/2007 | International Transmission and Distribution |
| **Groupe VENDITE** | | 9/26/2007 | Transmission and Distribution |
| **Erelia** | Fully Consolidated | 5/11/07 | Purchase and Sale of Energy |
| **Société Eoliennes de la Haute-Lys** | Fully Consolidated | 11/12/07 | Purchase and Sale of Energy |
| **SPE** | Accounted for under the equity method (previously proportionately consolidated) | 11/30/2007 | Transmission and Distribution |
| **AES Energia Cartagena** | Fully Consolidated | 11/1/07 | Purchase and Sale of Energy |
| **Maïa Eolis** | Proportionately Consolidated | 12/22/2006 | Purchase and Sale of Energy |
| **KGM** | Sale | 7/19/2006 | Exploration-Production |
| **Distrigaz Sud** | Fully Consolidated | 5/31/05 | Transmission and Distribution |
| **SPE** | Fully Consolidated | 9/28/2005 | Transmission and Distribution |
| **Savelys** | Fully Consolidated | 3/23/05 | Transmission and Distribution |

In 2007, changes in scope of consolidation had a favorable impact on Group revenues in the amount of 464 million euro, or 1.7% of its total revenue for 2007. The changes have mainly to do with the impact of consolidation method chaof Efog, for 194 million euro, and those of Energie Investimenti, for 257 million euro. The segments most affected by the changes for 2007 were: Exploration-Production (positive impact of 158 million euro), Services (positive impact of 5 million euro), and International Transmission and Distribution (negative impact of 8 million euro).

### 9.1.6 Seasonality

The income of the Group is 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 electricity generation (a significant amount of this electricity is also consumed for heating).

## 9.2 Analysis of changes in the Group's operating activities

### 9.2.1 Organic growth in operating activities

| *(In million euro)* | |
|---|---|
| **Revenues 2005** | **22,872** |
| Organic growth | 4,017 |
| Consolidation impact | 843 |
| Other | -90 |
| **Revenues 2006** | **27,642** |
| Organic growth | -310 |
| Consolidation impact | 464 |
| Other | -369 |
| **Revenues 2007** | **27,427** |

In 2007, the Gaz de France Group revenues of 27,427 million euro, compared to 27,642 million euro in 2006.

### 9.2.2 Breakdown of the Group revenues by segment

| *(In million euro)* | Restated 2007 revenues | 2006 restated revenues | %var. | 2005 restated revenues |
|---|---|---|---|---|
| **Energy Supply and Services Division** | | | | |
| Exploration – Production | 1,717 | 1,659 | +3.5% | 1,139 |
| Purchase and Sale of Energy | 20,041 | 20,455 | -2.0% | 17,346 |
| Services | 1,807 | 1,801 | +0.3% | 1,568 |
| **"Infrastructures" Division** | | | | |
| Transmission and Storage | 2,494 | 2,355 | +5.9% | 2,138 |
| Distribution – France | 3,076 | 3,289 | -6.5% | 3,426 |
| International Transmission and Distribution | 5,202 | 5,178 | +0.5% | 3,669 |
| Eliminations, other and unallocated | -6,910 | -7,095 | N/A | -6,414 |
| **Group Total** | **27,427** | **27,642** | **-0.8%** | **22,872** |

The contributions of the individual segments are analyzed below.

#### 9.2.2.1 Exploration – Production

Revenues from the **Exploration-Production** segment came to 1,717 million euro for the year 2007, up 3.5% from 1,659 million euro in 2006.

Assuming constant scope of consolidation (integration of EFOG and Enerci in 2007 and the sale of KGM holding), revenues are down by 7.4% for the year, due mainly to unfavorable gas market conditions for 2007 compared to 2006, whereas the average price of Brent stayed practically stable from one year to the next.

It can also be explained by the decrease in total hydrocarbon production (including EFOG), which reached 42.4 Mboe in 2007 versus 45.2 Mbep in 2006. Assuming a constant scope of consolidation, total production showed a slight decrease of -3%.

#### 9.2.2.2 Purchase and Sale of Energy

The **Purchase and Sale of Energy segment** had sales of 20,041 million euro, compared to 20,455 million euro in 2006, and is stable in average weather conditions.

Business conditions for the Purchase and Sale of Energy segment in 2007 were characterized by:

- sharp contrasts in weather conditions: an exceptionally mild first quarter (-25 TWh) partly made up for by cold temperatures in the second quarter (+11 TWh);
- Regulated natural gas prices in line with costs;
- Total deregulation of the gas and electricity markets in France as of July 1, 2007.

For an analysis of volumes sold, see section 9.2.3.3 – "Natural gas sales" and 9.2.3.4 – "Electricity sales" for the Purchase and Sale of Energy segment.

#### 9.2.2.3 Services

Revenues from the **Services** segment totalled 1,807 million euro in 2007, up slightly from 2006 (1,801 million euro).

Strong performance in the contruction business, particularly in France, and growing operations in Italy have helped counteract the negative effects of the year's weather conditions, as well as the sale of the Atelier de Fos (AdF) company last quarter.

Assuming constant scope of consolidation, revenues showed a slight growth of 1%.

#### 9.2.2.4 Transmission and Storage

The **Purchase and Sale of Energy segment had revenues of 2,494 million** euro **in 2007**, up 6% from 2,355 million euro in 2006. This growth is the result of change in storage prices, stemming from the sale at auction of storage capacity, as well as increases in transmission network subscriptions.

Business activities continued to develop in 2007:

- An increase in the number of Transmission users (37 at the end of 2007 vs. 25 at the end of 2006) and Storage users (22 at the end of 2007 vs. 25 at the end of 2006),
- Accelerated development of storage capacities, particularly in the United Kingdom (Stublach).

#### 9.2.2.5 Distribution France

Revenues for the **Distribution – France** segment totalled 3,076 million euro in 2007 compared to 3,289 million euro in 2006, a trend due primarily to reduced development investments and weather conditions.

From 2006 to 2007, gas supply volumes were down 16 TWh due to weather conditions.

#### 9.2.2.6 International Transmission and Distribution

Revenues for **International Transmission and Distribution** activities amounted to 5,202 million euro, slightly up (0.5%) from 5,178 million euro in 2006. Excluding the effects of weather conditions and the drop in UK Sales due to depressed market prices, sales in the segment were up 7.2% over the year, thanks to:

- Price increases by fellow European countries in the course of 2007 in response to rising supply costs,
- Consolidation of marketing activities in Italy under the global integration method as of October 1, 2007.

### 9.2.3 Other indicators

#### 9.2.3.1 Hydrocarbon Production – Consolidated Entities

| *(Mboe)* | 2007 | 2006* | |
|---|---|---|---|
| Combined production | 42.4 | 45.2 | -6.2% |
| Natural gas | 30.8 | 32.0 | -3.8% |
| Liquid | 11.6 | 13.2 | -12.1% |

* *Total production of 45.5 Mboe in the Reserves Ledger, adjusted for Enerci (.3 Mboe), which was not consolidated in 2006, and the sale of KGM (2.1 Mboe) in 2006.*

Combined hydrocarbon production dipped slightly in 2007, down 2.8 Mboe to 42.4 Mboe from 45.2 Mboe in 2006. Assuming constant scope of consolidation (excluding sale of KGM in 2006, an impact of 2.1 Mboe, and the acquisition of Enerci in 2007, or 0.6 Mboe), production had a slight downturn of -1.3 Mboe, or about -3%.

This is primarily due to lowered production in the United Kingdom (-1.4 Mboe), Holland (-0.4 Mboe) and Germany (-0.3 Mboe), partially made up by an increase in production in Norway (+0.8 Mboe).

### 9.2.3.2 Hydrocarbon Reserves

| *(Mboe)* | Dec-31-07 | Dec-31-06 | Dec-31-05 |
|---|---|---|---|
| Proven and probable reserves | 666.9 | 626.8 | 697.2 |
| *Natural gas* | *492.5* | *488.0* | *516.5* |
| *Liquid hydrocarbons* | *174.4* | *138.8* | *180.7* |
| Portion of proven and probable reserves attributable to companies consolidated by the equity method | - | 58.5 | 55.7 |
| **Total** | **666.9** | **685.3** | **752.9** |

As of December 31, 2007, the Group's proven and probable reserves of liquid hydrocarbons and natural gas reached 666.9 Mboe, compared to 685.3 Mboe in 2006 (including the portion of proven and probable reserves of its subsidiaries consolidated by the equity method), or a decline of 2.7%. This decline in reserves is due to production for the period (-42,4 Mboe), in part balanced out by the discoveries, extensions, net acquisitions and revisions completed in 2007 (+ 24,0 Mboe).

The rate of renewal[*] for the Group's proven and probable reserves during the 2005-2007 period was +78%, compared to +112% for the 2004-2006 period, a decrease caused by the decline in reserve acquisitions over the same period.

For your reference, Gaz de France's share in the 2P gross reserves of associate fields ("working interest reserves") represented 696 million BOE in 2007.

### 9.2.3.3 Natural gas sales

#### 9.2.3.3.1 Consolidated natural gas sales of the Group

| *Consolidated gas sales by segments of the Gaz de France Group[(1)] (TWh)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Purchase and Sale of Energy | 609 | 636 | 645 |
| Sales for International Transmission and Distribution segment | 131 | 129 | 110 |
| Sales for the Exploration – Production segment | 56 | 53 | 42 |
| Inter-segmental sales | -66 | -56 | -48 |
| **Group Total** | **730** | **762** | **749** |

(1) *Including the Group's share in energy sales generated by propartionately consolidated companies.*

(*) *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.*

## Analysis of changes in Group operating Activities

### 9.2.3.3.2 Natural gas sales for the Purchase and Sale of Energy segment

| *Sales for the Purchase and Sale of Energy segment (in TWh)* | 2007 | 2006 | %var. | 2005 |
|---|---|---|---|---|
| **In France** | | | | |
| Residential | 125 | 133 | -6.0% | 139 |
| Retail customers | 164 | 179 | -8.4% | 189 |
| Business and key account clients | 87 | 100 | -13.0% | 115 |
| Other Customers | 26 | 28 | -7.1% | 26 |
| *Total France* | *402* | *440* | *-8.6%* | *469* |
| **In Europe** | | | | |
| Business and key account clients | 116 | 114 | +1.8% | 101 |
| Other Customers | 12 | 10 | +20.0% | 10 |
| *Total Europe* | *128* | *124* | *+3.2%* | *111* |
| Short-term Sales | 79 | 72 | +9.7% | 65 |
| **Total Purchase and Sale of Energy** | **609** | **636** | **- 4.2%** | **645** |

*Note:* Reclassification of sales to end users in the UK and Hungary into the International Transmission and Distribution segment, and replacement of subsidiaries in these countries with supply volumes: 2006 correction from 641 TWh to 636 TWh.

In 2007, natural gas sales for the segment came to 609 TWh, down 27 TWh from 2006, mainly due to weather conditions.

Sales to household customers in France came to 125 TWh, compared to 133 TWh in 2006. In average weather conditions, they are stable.

Since July 1, 2007, over 77,000 clients have subscribed to Gaz de France's product and service offerings.

Sales to retail customers and key accounts in France totaled 251 TWh in 2007. Excluding the climatic effect, theses sales are down 20 TWh from 2006.

In the rest of Europe, sales in the same segments are showing slight growth, on the order of 116 TWh.

Finally, short-term and other sales grew 7 TWh to 117 TWh.

The following table shows Group's sales split by country in the large industrial and commercial customers in Europe:

| *In TWh* | 2007 | 2006 | 2005 |
|---|---|---|---|
| United Kingdom | 34.3 | 31.3 | 30.7 |
| Belgium and Luxembourg | 20.7 | 25.4 | 21.2 |
| Holland | 20.8 | 21.0 | 20.2 |
| Italy | 22.2 | 21.0 | 16.9 |
| Spain | 5.1 | 6.2 | 5.2 |
| Germany | 9.5 | 8.7 | 6.7 |
| Hungary | 3.0 | 0.3 | - |
| | **115.6** | **113.9** | **100.9** |

#### 9.2.3.4 Electricity sales – purchase and sale of energy segment

**Electricity sales for the Group Gaz de France**

| *Consolidated gas sales by Group segments * (TWh)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Sales – Purchase and Sale of Energy segment | 17.6 | 15.2 | 17.3 |
| Sales for the Transmission and Distribution – International segment | 14.9 | 16.3 | 14.1 |
| Intersegmental sales | (10.2) | (10.9) | (13.2) |
| **GROUP TOTAL** | **22.3** | **20.6** | **18.2** |

(*) *Including the group's share in energy sales generated by proportionately consolidated companies.*

Electricity sales in the segment rose to 17,6 TWh over 2007, up 16% from the previous year.

Since July 1, 2007, the Group has taken on close to 46,500 new private electrical customers, which is more than 80% of customers changing providers.

## 9.3 Analysis of the Group's operational performance

### 9.3.1 Contribution of the divisions to Group EBITDA (2) and operating income (3)

| | 2007 | | 2006 | | % var. | |
|---|---|---|---|---|---|---|
| *(In millions of euro)* | AOI | OI | AOI | OI | AOI | OI |
| **Energy Supply and Services division** | | | | | | |
| Exploration – Production | 1,127 | 755 | 1,270 | 935 | -11% | -19% |
| Purchase and Sale of Energy | 1,075 | 940 | 529 | 443 | 103% | 112% |
| Services | 129 | 82 | 117 | 71 | 10% | 15% |
| **Infrastructures Division** | | | | | | |
| Transmission and Storage | 1,534 | 1,185 | 1,357 | 1,013 | 13% | 17% |
| Distribution – France | 1,291 | 552 | 1,412 | 726 | -9% | -24% |
| International Transmission and Distribution | 491 | 381 | 498 | 348 | -1% | 9% |
| Other and unallocated | 19 | -21 | -34 | 72 | | |
| **Group Total** | **5,666** | **3,874** | **5,149** | **3,608** | **10%** | **7%** |

(2) *AOI: Adjusted Operating Income (before replacement costs and share-based payments)*
(3) *OI: Operating Income*

Against the backdrop, described in section 9, the Group has exceeded its financial objective for 2007, with an EBITDA of 5,666 million euro, up 10% from 5,149 million euro in 2006.

The Exploration-Production segment continues to be a major contributor to Group earnings, Purchase and Sale of Energy is enjoying strong sales performance and competitivity in its supply operations, the Services segment has continued to grow its operating profitability, Transmission and Storage has shown exceptional performance, Distribution—France has had a rough year owing to unfavorable weather conditions, and International Transmission and Distribution is consolidating its results at a high level.

#### 9.3.1.1 Exploration – Production

**EBITDA** for the Exploration-Production segment totalled 1,127 million euro in 2007, compared to 1,270 million euro in 2006. This trend is the result of:

- A sharp decline in NBP's natural gas prices (Royaume-Uni), or an average of -42% in €/MWh between 2006 and 2007, even though the price of brent is almost stable from year to year (+2% in €/bep);
- A slight dip in production (-3% assuming constant scope) compared to 2006. Accelerated production activities beginning in the third quarter, with new fields going into service in Norway, the United Kingdom and Holland, will take full effect in 2008, with production of close to 50 Mbep;
- And the continuing increase in costs across the entire sector.

Exploration expenses (including exploration costs directly charged to expenses) were 151 million euro, as compared with 143 million euro in 2006.

2007 saw the successful drilling of 8 wells out of 13.

The discoveries were made in Norway (4), Holland (2), United Kingdom (1) and Ivory Coast (1).

2006 saw the successful drilling of eight out of fifteen wells. The discoveries were made in the United Kingdom (3), Norway (3), Germany (1) and Mauritania (1).

**Operating income** totaled 755 million euro in 2007, down 19% from 935 million euro in 2006, or 25% assuming constant scope of consolidation. This diminution resulted essentially due to the drop in Ebitda and the increase in amortization including the new gas fields going into service and reserve revisions at end of year 2006 and 2007.

### 9.3.1.2 Purchase and Sale of Energy

**Ebitda** for the purchase and sale of energy division doubled that seen in 2006, coming to 1,075 million euro in 2007.

This segment performed well in 2007 in spite of a 15 TWh drop in sales due to weather conditions. This was made possible by:

- A turnaround in commercial performance: despite the natural gas tariff freeze, gaz de france passed along its supply expenses in 2007. Gas-selling activities at the regulated prices contributed in a positive way to the group's 2007 performance (+84 million euro), whereas they had been loss-making in 2006 (-511 million euro)

- Favorable end-of-year market conditions that allowed us to fully leverage our lng portfolio. In the fourth quarter, arbitration transactions focused on 12 cargoes with a total volume of 9 TWh.

**Operating results** followed the same course as Ebitda in 2007, climbing from 443 million euro in 2006 to 939 million euro in 2007.

### 9.3.1.3 Services

**EBITDA** for the Services segment came to 129 million euro in 2007, compared to 117 million for 2006. The 10% increase (+6% assuming constant scope of consolidation) is the result of increased operating profitability in France, Italy and the United Kingdom. The profitability of these operations is on par with that of major players in the sector.

**Operating results** came to 82 million euro in 2007, compared to 71 million for 2006, in line with EBITDA growth.

### 9.3.1.4 Transmission and Storage – France

**Ebitda** for the transmission and storage segment was 1,534 million euro in 2007, a 13% jump from 1,357 million euro in 2006.

The 4% growth excluding non-recurring items is the result of dynamic performance in storage activities fueled by price trends and the success of storage sold at auction, as well increases in transmission network subscriptions.

**Operating results** reached 1,185 million euro in 2007, up 17% from 1,013 million euro in 2006.

### 9.3.1.5 Distribution – France

**EBITDA** for the Distribution – France segment was 1,291 million euro, compared to 1,412 million euro in 2006.

In average weather conditions, EBITDA sank a bit (3%) for the segment as a result of market deregulation expenses.

Gaz de France completed two important programs in 2007:

- winning new heating customers: more than 980,000 since the "1 million new heating customers" program was launched;

- the elimination of the gray iron pipelines: following through on its commitments, the Group has seen all remaining gray cast iron pipeline stock eliminated.

**Operating results** dropped from 726 million euro in 2006 to 552 million euro in 2007. The main reason for this change, other than changes in EBITDA, is that of a positive updating effect and a negative effect related to an increase in allowances to the provision for replacement.

### 9.3.1.6 International Transmission and Distribution

**EBITDA** for the International Transmission and Distribution segment levelled out at 491 million euro after very strong growth in 2006 (498 million euro). Outside of climatic effects, EBITDA grew by 29 million euro, essentially under the influence of improving marketing margins in the majority of European countries.

**Operating results** grew from 348 million euro in 2006 to 381 million euro in 2007 for reasons related to the reevaluation of asset lifespan in Slovakia.

### 9.3.2 Analysis of other items in the income statement

| *(In millions of euro)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Revenues | 27,427 | 27,642 | 22,872 |
| Operating income | 3,874 | 3,608 | 2,821 |
| **Financial income** | **(310)** | **(357)** | **(438)** |
| Share in net income of equity-consolidated companies | 99 | 176 | 189 |
| **Income before tax** | **3,663** | **3,427** | **2,572** |
| Income Tax | (1,153) | (1,104) | (794) |
| **Net income** | | | |
| **Group share** | **2,472** | **2,298** | **1,782** |
| Minority interests | 38 | 25 | (4) |

**The Group's financial income** improved in 2007, reaching – 310 million euro as compared with – 357 million euro in 2006. The reasons for this trend are:

- on the one hand, the rising cost of net financial debt, which rose to 170 million euro in 2007 from 47 million euro in 2006. This trend is essentially the result of non-recurrent expenses, especially those related to AES Energia's debt restructuring;
- on the other hand, a drop in other financial products and charges representing a net expense of 140 million euro as compared to 234 million in 2006.

**The share in net income of companies accounted for under the equity method dropped from** 176 million euro in 2006 to 99 million euro, mainly due to the consolidation of EFOG under the proportionate method on February 1, 2007.

**Income tax expense** rose to 1,153 million euro in 2007 from 1,104 million euro in 2006. The actual income tax rate dropped to 32.4% from 34.0% in 2006 through the non-recurrent impact related to the income tax cut in Germany.

### 9.3.3 ROE, ROCE

| *(In millions of euro)* | Dec-31-07 | Dec-31-06 | Dec-31-05 |
|---|---|---|---|
| Net income group share | 2,472 | 2,298 | 1,782 |
| Shareholders' equity group share | 17,953 | 16,197 | 14,484 |
| **% ROE** | **13.8%** | **14.2%** | **12.3%** |

In the definition agreed upon with Suez, ROCE is calculated as the ratio between net operating income after tax and capital employed. Net operating income after tax is equal to the operating income after deduction of capital gains and losses from intangible and financial assets, impairments, latent gains and losses on financial instruments, restructuring costs, to which are added income and expenses from employed capital (dividends and income from companies accounted for by the equity method, other items from financial result) and after taxes applicable to all of the above.

| (In millions of euro) | Dec-31-07 | Dec-31-06 | Dec-31-05 |
|---|---|---|---|
| **Consolidated net income of the Group** | **2,510** | **2,323** | **1,778** |
| Net finance costs | 170 | 123 | 202 |
| Unrealized gains and losses on financial instruments related to operating activities | 87 | 30 | 44 |
| Gains or losses on disposal of tangible and intangible assets, subsidiary undertakings | -64 | -219 | -1 |
| Write-down of financial assets (Impairment) | 14 | 48 | -27 |
| Restructuring expenses | 2 | 19 | |
| Holding gains or losses on financial assets | 2 | -113 | -81 |
| Negative goodwill | -4 | | -44 |
| NOPAT current and deferred income tax (4) | -183 | -22 | -114 |
| **Total adjustments** | **24** | **-134** | **-21** |
| **Net operating income after tax** | **2,534** | **2,189** | **1,757** |
| **Shareholders' equity group share** | **17,953** | **16,197** | **14,484** |
| Minority interests | 548 | 466 | 298 |
| Net debt excluding financial derivative instruments | 2,734 | 3,472 | 2,970 |
| Current and non current financial instruments – Assets (5) | -2,712 | -2,345 | -1,783 |
| Current and non current financial instruments – Liabilities (6) | 2,614 | 2,297 | 1,854 |
| Restatements about working capital requirements (7) | -108 | -586 | -362 |
| **Total adjustments** | **3,076** | **3,304** | **2,977** |
| **Capital employed** | **21,029** | **19,501** | **17,461** |
| **ROCE (in %)** | **12.1%** | **11.2%** | **10.1%** |

(4) *The difference between the total income tax expense of the Group and the regulatory income tax expense, calculated on the basis of country-specific statutory rates for ROCE purposes; the impact of the change in tax rate in Germany in 2007 comes to 82 million euro.*
(5) *Firm commitments covered at 3 million euro in 2006.*
(6) *74 million euro in 2007, 100 million euro in 2006 and 53 million euro in 2005.*
(7) *Including margin calls totalling 86 million euro in 2007, 533 million euro in 2006 and 341 million euro in 2005.*

# 10 LIQUIDITY AND CAPITAL RESOURCES



## Group financing policy and cash management:

The Group favors centralizing the financing needs and cash surpluses of subsidiaries controlled by the Group, 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, 2007, the share capital comprised 983,871,988 shares. The nominal value of one share is 1 euro.

Changes in shareholders' equity (group share) for last three fiscal years:

| *(In millions of euro)* | Dec-31-2007 | Dec-31-2006 | Dec-31-2005 |
|---|---|---|---|
| Share capital, Group share | 17,953 | 16,197 | 14,484 |

For more information, see "Table of changes in Shareholders' Equity of section 20.1.1.1, "Consolidated financial statements under IFRS at 31 December 2007"

## 10.2 Description, source and amount of cash flows

| *(In millions of euro)* | Dec-31-2007 | Dec-31-2006 | Dec-31-2005 |
|---|---|---|---|
| **Cash flow from operating activities before replacement costs, change in working capital requirements and income tax** | **5,904** | **5,118** | **4,254** |
| Corporate income tax paid | -1,111 | -1,348 | -562 |
| Concession replacement costs | -247 | -294 | -255 |
| Changes in working capital requirements | 232 | -410 | -649 |
| **Cash flow from operating activities** | **4,778** | **3,066** | **2,788** |
| **Cash flow from investment activities** | **-2,623** | **-2,174** | **-2,110** |
| **Cash flow from financing activities** | **-1,403** | **-566** | **299** |
| Effect of changes in exchange rates, consolidation method and other | - | 25 | 10 |
| Change in cash and cash equivalents | 752 | 351 | 987 |

### 10.2.1 Cash flows from operating activities

Operating cash flow before tax, replacement costs and change in working capital came to 5,904 million euro in 2007, compared to 5,118 million euro in 2006.

Working capital requirements was down by 232 million euro in 2007, despite the cold weather conditions last quarter.

Operating activities globally generated a positive cash inflow as of December 31, 2007 of 4,778 million euro.

### 10.2.2 Cash flows from investing activities

Total investments (including replacement costs) amounted to 3,309 million euro in 2007:

- Capital expenditures expanded 8% to 2,869 million euro, primarily from Transmission and Storage (+27 %) and Exploration-Production activities. (+11%), of which 59 million euro in expensed exploration costs, 247 million euro in replacement costs and 11 million euro in investments in finance leases;
- Other investments accounted for à 440 million euro, of which 275 in acquisitions.

Proceeds from asset disposals amounted to 196 million euro, and reflect mainly the impact of asset disposals from the Exploration-Production segment (Cavendish fields), the Services segment (disposal of ADF), the disposal of immoveable assets and the disposal of goodwill in Italy.

| *(In millions of euro)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| ***Capital expenditures*** (1) | | | |
| Transmission and Storage | 796 | 629 | 451 |
| France | 724 | 787 | 793 |
| International Transmission and Distribution | 184 | 168 | 122 |
| Exploration-Production | 689 | 622 | 533 |
| Purchase and Sale of Energy | 391 | 382 | 76 |
| Services | 43 | 35 | 33 |
| Other | 42 | 24 | 30 |
| **Total capital expenditures** | **2,869** | **2,647** | **2,038** |
| ***Financial investments*** (2) | ***165*** | ***519*** | ***226*** |
| **Total excluding acquisitions** | **3,034** | **3,166** | **2,264** |
| **Acquisitions** | **275** | **816** | **674** |
| **Total** | **3,309** | **3,982** | **2,938** |

(1) *Capital expenditures, including replacement costs, exploration costs and finance leases.*
(2) *Financial investments after reclassification (in 2006) of the Gaselys margin calls as working capital requirements.*

For more information, see section 5.2 – "Investments".

### 10.2.3 Cash flows from financing

Financing activities resulted in a 1,403 million euro cash outflow in 2007, compared to 566 million euro cash outflow for in 2006.

In 2007, cash flows from financing activities can be accounted for primarily by 1,095 million euro in dividends paid, 1,132 million euro in loan repayments, and 903 million euro in subscription to new loans.

See section 20.1.1.1 – "Consolidated financial statements under IFRS at December 31, 2007 /Appendices / Note 21 and Statements of Consolidated Cash Flows".

## 10.3 Borrowing terms and financing structure

### 10.3.1 Structure of the debt

| *(In millions of euro)* | Dec-31-07 | Dec-31-2006 | Dec-31-2005 |
|---|---|---|---|
| Gross financial debt (before hedging) | 5,945 | 6,028 | 5,112 |
| Cash and cash equivalents | -3,211 | -2,556 | -2,142 |
| Net financial debt (before hedging) | 2,734 | 3,472 | 2,970 |

Analysis of gross debt (before hedging)

Total gross debt as of December 31, 2007 was: 5,945 million euro, which includes:

- 2,004 million euro in bonds,
- 1,310 million euro in bank borrowings,
- 818 million euro in finance leases,
- 624 million euro in non-voting shares [3],
- 665 million euro in bank overdraft,
- 200 million euro in commercial paper,
- 324 million euro in other financial debt.

The Group also has a syndicated line of credit for 3,000 million euro maturing February 2012, intended to finance the Group's general business needs and support its short-term financing programs and which had not been drawn as of December 31, 2007.

See section 20.1.1.1 – "Consolidated financial statements under IFRS at December 31, 2007 /Appendices /Note 20.1.2."

The **long-term/short-term breakdown** of gross financial debt (before hedging) is 77% (4,590 million euro)/ 23% (1,355 million euro).

The **fixed-rate portion** of the gross debt is 47% (70% after hedging) and the variable-rate portion is 53% (30% after hedging).

As of December 31, 2007, 94% of the gross debt was denominated **in euro** and 6% was denominated in other currencies (US dollar, pound sterling, yen and others), compared to 93% and 7% respectively at December 31, 2006.

On the last three points, see section 20.1.1.1. – "Consolidated financial statements under IFRS at December 31, 2007 / Appendices//Notes 20.1.3 et 20.1.4."

Gross debt is carried for the most part by the parent company.

See section 4.1 – "Main Risks".

Analysis of net debt to equity ratio

| | Dec-31-2007 | Dec-31-2006 | Dec-31-2005 |
|---|---|---|---|
| Net financial debt (before hedging) | 2,734 | 3,472 | 2,970 |
| Shareholders' equity | 18,501 | 16,663 | 14,782 |
| **Debt to equity ratio** | **15%** | **21%** | **20%** |

On December 31, 2007, net financial debt excluding financial derivative instruments equaled 2,734 million euro, down 738 million euro from 3,472 million euro on the same date in 2006.

The "Net debt/equity" ratio dropped to 15% from 21% in 2006.

See section 20.1.1.1 – "Consolidated financial statements under IFRS at December 31, 2007 /Appendices/Note 18.5.1."

(3) *Pursuant to IAS standards 32-39, non-voting shares are classified as debts.*

### 10.3.2 Main financing operations in 2007

There were no significant financing operations in 2007.

### 10.3.3 Group ratings

The following are the ratings given by the rating agencies as of December 31, 2007:

| | Short-term debt | Long-term debt |
|---|---|---|
| Moody's | P-1 | Aa1 (4) |
| Standard & Poor's | A-1+ | AA- (4) |

(4) *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 at no 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 sector and the 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

Some borrowings entered into by the Group's subsidiaries can include guarantees and clauses requiring compliance with ratios. As of December 31, 2006, the Group complied with the provisions of such clauses.

The table below outlines the main obligations on bank loans as of December 31, 2007:

| *(In millions of euro)* | Total |
|---|---|
| Gaz de France SA (a) | 99 |
| AES Energia Cartagena (b) | 629 |
| Energia Mayakan (c) | 102 |
| Distrigaz Sud (d) | 80 |
| Gasag Group (e) | 61 |
| Other debt (unit amounts < 50 million euro) | 339 |
| **Bank loans** | **1,310** |

(a) *Gaz de France SA*
The bank borrowings of Gaz de France SA do not include any financial covenants. In addition, Gaz de France SA has a syndicated loan of 3 billion euro, not drawn as of December 31, 2007, and that also does not contain covenants.

(b) *AES Energia Cartagena*
This amortizable loan, due in June 2027, is intended to finance the construction of a power plant in Spain, for which Gaz de France has a tolling contract. It includes standard project finance covenants, but does not allow for turning to the shareholders of the company in which Gaz de France holds a minority interest (26.2%).

(c) *Energia Mayakan*
This amortizable loan, due in November 2014, is intended to finance the building of a natural gas pipeline in Mexico.
It includes standard covenants for project financing.

(d) *Distrigaz Sud*
A group of floating rate credit lines that are due in the 2008 to 2014 term.
These loans carry a maximum bank debt/EBITDA ratio.

(e) *Gasag*
These loans notably include 32 million euro for the contributive portion of a 100 million euro private placement issued in November 2007 and due in 2022, which includes various financial ratios.

## 10.5 Sources of financing expected to honor their commitments

### 10.5.1 Commitments for retirement and other benefits

See section 20.1.1.1 – "Consolidated financial statements under IFRS at December 31, 2007 /Appendices/Note 17."

### 10.5.2 Contractual commitments

See section 20.1.1.1 – "Consolidated financial statements under IFRS at December 31, 2007 /Appendices/Note 20."

### 10.5.3 Expected sources of financing

Gaz de France has a syndicated line of credit of 3,000 million euro maturing February 2012, and which had not been drawn as of December 31, 2007. The group also has short-term financing programs through a treasury bills program for a maximum amount of 1.25 billion and through a global Euro/US commercial paper program for a maximum amount of 1 billion US dollars. As of December 31, 2007, only the treasury bills program has been drawn, in the amount of 200 million euro.

See section 20.1.1.1 – "Consolidated financial statements at December 31, 2007 under IFRS / Notes / Note 20."

# 11 RESEARCH AND DEVELOPMENT, INTELLECTUAL PROPERTY



## 11.1 Research and Development

Gaz de France's Research and Development department aims to provide the Group with value-adding competitive advantages and to clarify its strategy for addressing the energy challenges and technological choices of today and tomorrow.

It combines research and development in the spheres of natural gas, electricity and renewable energies. The increasing importance of energy to the economic landscape also leads it to integrate competencies in economics, finance, futuristics and mathematics.

Gross expenditures for R&D totaled 86 million euro in 2007, 76% of which has gone to sustainable development projects. They are presented in the context of a three-year research contract, which covers the 2005-2007 period.

### Main areas of research and development

Research and development covers all aspects of the natural gas market, but is particularly focused on four major priorities:

- **Development of a competitive edge through a steady flow of innovative products and differentiating services.** This will allow the Group to position the range of Gaz de France products and services as the best possible solution, across all customer segments, for the energy chain and all of its uses. Our areas of research *include:* gas/multi-service and gas/electricity product and service development, combustion process performance, new service development, particularly for industrial platforms, and natural gas fuel products and services.

  In 2007, Research and Development worked to design a bioclimatical building, as well as high-performance natural gas heating systems and their hook-ups to renewable energy sources. Together, these solutions will make it possible to meet the requirements of France's new energy policy as outlined by the French "Grenelle de l'Environnement" negotiations.

  On the LNG front, after obtaining qualification of an LNG unloading system by flexible hose, Research and Development is now involved in developing barge-based floating plants for offshore liquefaction. The new facilities should make it easier for the Group to operate offshore gas fields, often located in the middle of the ocean.

- **Economic performance and creation of value**, both for Gaz de France and its customers. This involves improving the economic performance of operations by reducing construction, operating and maintenance expenses, as well as minimizing environmental impact of 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 have also been working been working in the areas of gas property measurements, control and specifications.

  In 2007, Research and Development came to the aid of partners notably from the glass, metalworking and automobile industries, offering them energy diagnostics and feasibility studies on innovative energy demand management solutions.

- **Security *at* every link of the gas chain.** Security is an area to which Gaz de France permanently dedicates a significant portion of its research 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. To this end, Gaz de France is a founding member of the chair of industrial security at the Ecole des Mines de Paris.

  In 2007, Research and Development invented technology for securing existing connections, which automatically stops the flow of natural gas in the case of a leak. 5 patents protect this device, the first of its kind.

- **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: *defining energy scenarios and preparing corresponding new approaches*, developing renewable energies (solar, biomass, etc.), controlling energy, buildings of the future, hydrogen economy, fuel cells, capture and storage of $CO_2$. The Group has been an active participant for several years in national and international research projects on $CO_2$ capture and storage.

  In 2007, Gaz de France signed an important agreement with the Vattenfall group to test $CO_2$ injection on a depleted natural gas field in Altmark, German. The group is also involved in the European CASTOR ($CO_2$ from CApture to STOrage) research project on $CO_2$ capture at the thermal plant in Esbjerg, Denmark. The facility allows for the capture of a ton of $CO_2$ per hour from the plant's combustion fumes.

## Partnerships

With a uniquely open-minded approach, the Research and Development department forms partnerships whenever it can with other players in the natural gas industry in its broadest definition, from university centers working upstream, to purchasing advisors from the fields of construction and public works, home-appliance or automobile manufacturing, and industrial users such as the glass and steel industries. Research and Development has partnerships with:

- **Universities, Academic institutions and Laboratories** regarded as experts in their fields, with the goal of reinforcing and supplementing Gaz de France's own in-house expertise. Such partners include the Interprofessional Research Centre for Aerothermochemistry (CORIA) in Rouen for its combustion expertise, the chair of Montreal's Interuniversity Research Centre for the Life Cycle of Products, Processes and Services (CIRAIG) for the development of new approaches to using life cycle analysis, and the Health Laboratory for the City of Paris (LHVP) and University of Savoie for indoor air quality. On issues of price modeling, cost allocation, business economics and climate modeling, partnerships have been forged with the Center for Interuniversity Research and Analysis of Organizations (CIRANO) in Montreal, the Institute of Industrial Economics in Toulouse (IDEI), the Probabilities and Random Models Laboratory of the University VI in Paris, and the University of Orsay (climatic risk).
- **Petroleum and Gas Company Organizations** (PRCI, EPRG, GERG, CITEPH, etc.) Working with the Pipeline Research Council International (PRCI) provides the Group with a forum in which to discuss the problem it shares with the over 50, mainly American, member gas and oil companies, and to reach solutions that capitalize on their combined experiences. In Europe, the European Pipeline Research Group (EPRG) provides a similar opportunity to develop research projects in synergy with other companies from the industry.
- **Institutions** from the buildings sector. One example is the French Building Research Institute (CSTB), with which Research and Development partners to promote a systemic approach and the integration of natural gas energy solutions in the buildings of tomorrow. It also works with the World Business Sustainable Development (WBCSD) on the development of a net zero consumption building park and to identify key factors of success.
- **Industrial Concerns** with a view to joint development of innovative products and services on the different links of the natural gas chain.

Research and Development also participates in projects implemented under the sixth European Union Framework Research and Development Programs (FRDP). It coordinated the EU-DEEP project for the development of decentralized energy production, which involved over forty European partners of Gaz de France. As a member of the European technical platform on hydrogen, it contributes to the Naturalhy Project through the Sixth research, technological development and demonstration (RTD) platform, the goal of which is to evaluate and develop the probable scenarios for future trends and to pursue technological demonstrations on fuel hydrogen and fuel cells. Finally, in 2007, Gaz de France's Research and Development department chaired the European Gas Research Group (GERG) and led the International Gas Union's Research and Development task force.

In France, it is heavily involved in programs aimed at decreasing greenhouse gas emissions (the "Energy Building" Foundation), and in the development of new energy technologies (for example, hydrogen as a vector and fuel cells) in the context of the National Research Agency or the development of renewable energies, particularly through its involvement with the three industrial clusters: TENERRDIS in the Rhône Alpes region, DERBI in Languedoc Roussillon and Ville et Mobilité Durable near in Ile de France.

## Expertises

Gaz de France's Research and Development is directed by the Research Division, with a staff of 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 its expertise brings together the different businesses involved in the natural gas chain, electricity offering, security issues, sustainable development, micro and macro economics, futuristics, ergonomics, new technologies, as well as issues related to energy usage and services. Research programs are developed by teams that typically bring together many different 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.

The Research division has an operational quality system in place for its activities. It is ISO 9001-certified for its industrial measurement activities, COFRAC-accredited for its metering and materials testing and ISO 14001-certified in environmental and industrial safety. In 2007, the division received ISO 9001 certification for R&D project management.

The division also conducts operational activities that create synergies with its Research and Development activities in information systems focusing on innovation, knowledge management, intellectual property and coordination of Group standardization. In 2007, it was awarded ISO 9001 certification for its office automation processes management.

## 11.2 Intellectual Property

Gaz de France possesses over 1,300 patents and because of its Research and Development activities, is constantly filing new ones; 10 French patents were filed in 2007 alone. The Group also protects the prototypes resulting from its Research and Development activities. Some partnerships generate research results, which are held jointly. Gaz de France also grants licenses to third parties for 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 corporate name 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 group residence customers, Gaz de France EnergY® for major industrial and commercial customers and Energies Communes® for local municipalities. In 2007, these corporate name trademarks were reinforced with several service-related French trademarks, including "Partenaire Dolcevita de Gaz de France", "My future Conso" and "Formule liberté", and new community trademarks were acquired for international use.

The domain name portfolio expanded to include an additional 140 domain names providing specific, direct Internet links for different country-specific or commercial extensions.

# 12 TRENDS LIKELY TO INFLUENCE COMPANY PROSPECTS



## 12.1 Financial objectives

The Group is aiming for adjusted operating income of 6.1 billion euro in 2008, which is line with the objective set for the 2005-2008 period of 10% average growth per year.

This objective is based on the assumption that natural gas prices in France fully account for the related cost of supply. It also assumes normal weather conditions and the lack of any significant change in the price of oil products.

The Group is also expecting its investments to grow by 4 billion euro in 2008.

Finally, Gaz de France will pursue its dynamic shareholder return policy, with the objective of attractive returns in the sector. 2009 growth in earnings per share will be somewhere between 10% and 15% as compared to that of 2008.

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 climatic environment. Moreover, the occurrence of certain risks described in Chapter 4 of this registration document 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 section 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

**Regulatory Changes**

For more information on regulatory conditions, at the French and the European levels, that could affect the Group's activities, see Chapter 4.1.3, "Risks related to the Group's growth."

The European Commission initiated proceedings against Gaz de France in July of 2007 over a putative market share and, more specifically, natural gas deliveries made over the Megal gas pipeline.

## 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. The two boards met again on September 2, 2007 and approved the new outline of the merger, including the simultaneous distribution at the time of the merger of 65 percent of the capital of the Suez Environnement business as described below, and decided on continuing discussion in order to finalize the details.

Prior to the merger, the carving out of Suez Environnement's business will take place, followed by the distribution of 65% of Suez Environnement shares to its shareholders. These shares will be concurrently listed for trading on Eurolist.

Upon completion of the transaction, GDF SUEZ will hold approximately 35% of Suez Environnement Company and will participate in a shareholders' agreement made with some of Suez' current primary shareholders designed to insure the stability of the ownership of Suez Environnement Company shares.

The projected operation will take place within a context of profound and accelerated change in the European energy sector: (i) strengthening of geostrategic challenges related to the security of European energy supplies; (ii) the increase, combined with a marked instability, in oil and gas prices; (iii) full deregulation of the markets as of July 1, 2007; (iv) accelerated restructuring of the energy sector; (v) increased consumer demand, and (vi) awareness of issues related to global warming.

The merger of the two companies will create a world leader in energy firmly planted in France and Belgium, by the name of GDF SUEZ. This major industrial transaction is based on a coherent and shared industrial and social project that fully responds to the strategic ambitions of the two groups and makes possible the accelerated implementation of those ambitions.

More specifically, the industrial logic behind the operation is based on the following principal factors:

- new global size on gas markets will allow for better control over supply operations;
- strong complementary factors, both geographically and industrially, enabling the strengthening and expansion of scope of a competitive offer on European energy markets;
- a balanced position in businesses and regions operating on different cycles;
- a reinforced investment policy which will put the Group in a favorable position with respect to sector-specific challenges.

Suez and Gaz de France believe that the merger will generate two major types of synergies and productivity gains:

- Economies of scale and cost reductions, particularly in supplies (energy purchases, but also non-energy purchases) and operation costs (streamlining 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 will require implementation over time, with the installation of joint platforms and total optimization of the resources and structures of the new organization.

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;
- the modification of Fluxys shareholding and governance structures;
- the carving out tanker terminal management activities.

The two firms have reached an agreement with the European Commission to harmonize the disposal transaction with the merger timeline.

The operational objectives of the new GDF SUEZ group are the following:

- a 17 billion euro target EBITDA on the 2010 horizon.
- Dividend per share growth from 10% to 15% per year on average between the dividend payed in 2007 and the dividend payed in 2010 [1],
- Credit rating of "strong" A

(1) Based on the Gaz de France's dividend paid in 2007 for fiscal year 2006 (1.1 euro per share), the shareholders of Suez will receive in addition a Suez Environnement dividend.

# 13 PROFIT FORECASTS OR ESTIMATES

None.

# 14 ADMINISTRATIVE, EXECUTIVE AND SUPERVISORY BODIES AND MANAGEMENT



## 14.1. Composition of administrative and executive bodies

### 14.1.1 Board of Directors

The Company is administered by a Board of Directors, with eighteen members, formed in accordance with the provisions of Law 83-675 of July 26, 1983 as amended related to the democratization of the public sector and the provisions of the Decree-Law as amended of October 30, 1935 organizing the French State's financial control over companies that rely on State financial assistance.

Pursuant to the provisions of Article 6 of the aforementioned Law of July 26, 1983, as the French State holds less than 90% of the company (but more than a majority of the capital), the Board of Directors of the Company is composed of eighteen members, six of whom represent the employees and are elected in accordance with Chapter II of the aforementioned law. The other members are elected by the general shareholders' meeting in accordance with the provisions of the Commercial Code governing joint stock companies, with the exception as required that the representatives of the French State are named by decree. The State appointed six representatives to the Company's Board of Directors by decree on November 20, 2004, and the shareholders' meeting elected six directors on October 7, 2005. Thus, the Board of Directors is composed of six representatives of the State, six members elected by the shareholders' meeting and six employee representatives.

The term of office of the directors is five years. The bylaws of the Company stipulate that a director named to replace another director remains in office only for the remaining portion of the original term until the replacement of the entire board. The six directors elected by the shareholders' meeting of October 7, 2005 were elected for the period remaining in the term until the replacement of the entire board on November 22, 2009.

Under the law and the Company's bylaws, each of the directors must own at least one share for their entire term, unless exempted because of the applicable legislative 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 section 3 of the law dated July 26, 1983 and Article 2.12 of the internal regulations of Gaz de France's Board of Directors).

The shareholders' meeting sets the total annual amount of directors' fees on the recommendation of the board of directors (see section 15.1.1 – "Board of Directors").

In a decree dated September 8, 2006, the French 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. By decree of August 10, 2007, the State appointed Pierre Graff as the representative of the State on the Company's Board of Directors to replace Christian Frémont. Pursuant to the Company bylaws, they will remain in office until the entire Board of Directors is replaced on November 22, 2009.

Following the election of Eric Butazzoni as employee delegate, his term as director ended on December 14, 2007. On the date of this document a replacement for Eric Butazzoni as employee director has not been made.

The table below describes the membership of the Company's Board of Directors on the date of filing of this registration document.

| Name and business address | Age [1] | Date of first appointment / election | Start date of current term | Principal positions held outside Gaz de France and current offices | Offices held within the last five years (outside Gaz de France subsidiaries) |
|---|---|---|---|---|---|
| **Chairman and Chief Executive Officer** | | | | | |
| Jean-François Cirelli<br><br>23 rue Philibert Delorme<br>75840 Paris Cedex 17 | 49 | 09.15.2004 | 11.24.2004<br>(as qualified person)<br>07.10.2005<br>(as director elected by all shareholders) | Director of Neuf Cegetel – President of the Gaz de France Foundation | – |
| **Directors (representing the State)** | | | | | |
| Paul-Marie Chavanne<br><br>Géopost<br>2 ter rue Louis Armand<br>75015 Paris | 56 | 11.20.2004 | 11.23.2004 | **Deputy Managing Director of La Poste**<br>**Chairman-CEO of Géopost**<br>**Director of:**<br>– Sofipost<br>– Banque Postale<br>– Europe Airpost<br>– Poste Immo<br>– Generali Assurances-lard<br>– Generali Assurances-Vie<br>– Geopost UK (United Kingdom) | President of the Management Board of Autodistribution |
| Philippe Favre<br><br>AFII Paris<br>77 bd Saint-Jacques<br>75680 Paris cedex 14 | 46 | 09.08.2006 | 09.11.2006 | **President of Agence française pour les investissements internationaux**<br>**Deputy Ambassador for international investments**<br>Director of Ubifrance | – |
| Pierre Graff<br><br>Aéroports de Paris<br>291 boulevard Raspail<br>75014 Paris | 60 | 08.10.2007 | 08.18.2007 | Chairman-CEO of Aéroports de Paris<br>Member of the Economic and Social Board<br>**President of the section on European and international issues on the National Tourism Board**<br>**Member of the National Committe for business sectors of crucial importance**<br>Director of RATP<br>Director SOGEPA<br>Director SOGEADE | – |
| Xavier Musca<br><br>Ministry of Economy, Industry and Labor Department of the Treasury and Economic Policy<br>139 rue de Bercy<br>75012 Paris | 48 | 09.08.2006 | 09.11.2006 | **Director of the Treasury and Economic Policy, Ministry of Economy, Industry and Labor**<br>Chairman of the Economic and Financial Committee of the European Union<br>President of the Paris Club<br>Director, CNP-Assurances | – |

(1) *At the date of filing of this registration document.*

| Name and business address | Age (2) | Date of first appointment / election | Start date of current term | Principal positions held outside Gaz de France and current offices | Offices held within the last five years (outside Gaz de France subsidiaries) |
|---|---|---|---|---|---|
| Florence Tordjman<br><br>Ministry of Ecology, Energy, Sustainable Development and National Improvements Department of energy and raw materials Télédoc 132 61 bd Vincent Auriol 75703 Paris Cedex 13 | 48 | 11.20.2004 | 11.23.2004 | **Deputy Director of gas and fossil energy distribution, Department of Energy and Raw Materials, Ministry of Ecology, Sustainable Development and National Improvements** | Director of the French Association of vehicle natural gas |
| Edouard Vieillefond<br><br>Ministry of Economy, Industry and Labor, Agency of State Holdings 139 rue de Bercy 75012 Paris | 37 | 09.08.2006 | 09.11.2006 | **Director of holdings, energy department, Agency of State Holding, Ministry of Economy, Industry and Labor**<br>Director of:<br>– GRTgaz (Gaz de France Group<br>– Areva NC (Cogema)<br>Member of the supervisory board of RTE (EDF group) | Director of:<br>– Autoroute et Tunnel du Mont-Blanc (ATMB)<br>– Autoroutes Paris Rhin Rhône (APRR)<br>– Réseau Ferré de France (RFF) – SOVAFIM<br>– SOVAFIM<br>Member of the supervisory board of Société Nationale Maritime Corse Méditerranée (SNCM) |
| **Directors (elected by the shareholders' meeting) (3)** | | | | | |
| Jean-Louis Beffa<br><br>Saint Gobain 18 avenue d'Alsace "Les Miroirs" 92096 La Défense Cedex | 66 | 11.20.2004 | 11.23.2004 | **Chairman of the Board of Directors de Saint-Gobain**<br>Vice-chairman of the board of directors of BNP Parisbas<br>Chairman of Claude Bernard Participations<br>Director of:<br>– Groupe Bruxelles Lambert (Belgium)<br>– Saint-Gobain Cristaleria (Spain)<br>– Saint-Gobain Corporation (United States)<br>Permanent representative of Compagnie de Saint-Gobain on the Board of Directors of Saint-Gobain PAM<br>Member of the Supervisory Board of<br>– Le Monde<br>– Société Editrice du Monde<br>– Le Monde et Partenaires Associés | Chairman-CEO, Saint-Gobain |

(2) *At the date of filing of this registration document.*
(3) *Jean-François Cirelli is also part of this category. All of the directors belonging to this category were appointed by the General Shareholders' meeting of October 7, 2005 in order to continue the appointment they held previously in their capacity as a qualified person.*

| Name and business address | Age (4) | Date of first appointment / election | Start date of current term | Principal positions held outside Gaz de France and current offices | Offices held within the last five years (outside Gaz de France subsidiaries) |
|---|---|---|---|---|---|
| Aldo Cardoso<br><br>45 Bd de Beauséjour<br>75016 Paris | 52 | 11.20.2004 | 11.23.2004 | **Corporate director**<br>– Director of:<br>– Accor<br>– Imerys<br>– Rhodia<br>– Mobistar (Belgium)<br>Non-voting director of:<br>– Axa Investment Managers<br>– Bureau Veritas | Director of:<br>– Axa Investment Managers<br>– Bureau Veritas<br>– Penauilles Polyservices<br>– Orange |
| Guy Dollé<br><br>241 Route d'Arlon<br>L-1150<br>Luxembourg | 65 | 09.10.2004 | 11.23.2004 | Director of:<br>– IDRH<br>– Praxis International<br>– ARC International | Chairman of Management Board, Arcelor<br>Director, CEO of Usinor<br>President of the French Steel Federation |
| Peter Lehmann<br><br>28 Birchwood Road<br>Londres SW17 9BQ<br>United Kingdom | 63 | 11.20.2004 | 11.23.2004 | **President of Fuel Poverty Advisory Group (United Kingdom)**<br>**President of Greenworks (UK)**<br>Director of:<br>– Disability Agency, British Ministry of Labor and Retirement<br>– CILT (the National Center for Languages) | President of Energy Saving Trust<br>Director of:<br>– Carbon Trust<br>– Accuread<br>– Project Fullemploy<br>Member of the Northern Ireland energy regulatory authority |
| Philippe Lemoine<br><br>LaSer<br>66 rue des Archives<br>75003 Paris | 58 | 11.20.2004 | 11.23.2004 | **Chairman-Chief Executive Officer of LaSer and Chairman of LaSer Cofinoga**<br>Chairman of:<br>– Société des Grands Magasins Galeries Lafayette<br>– Banque Sygma<br>Director of:<br>– Monoprix<br>– Cetelem<br>Member of the Supervisory Board of BHV<br>Member of the CNIL<br>President:<br>– of the Fondation Internet Nouvelle Génération<br>– of the Forum d'action Modernité<br>Co-Manager, GS1 France.<br>Director of Maison des Sciences de l'Homme, Rexecode, and the French American Foundation, of 104 | Co-Chairman of Management Board, Galeries Lafayette group<br>Director, La Poste |

(4) *At the date of filing of this registration document.*

| Name and business address | Age (5) | Date of first appointment/ election | Start date of current term | Principal positions held outside Gaz de France and current offices | Offices held within the last five years (outside Gaz de France subsidiaries) |
|---|---|---|---|---|---|
| **Directors (representing the employees) (6)** | | | | | |
| Olivier Barrault<br><br>Gaz de France.<br>Courcellor 1<br>2-6 rue Curnonsky<br>75017 Paris | 50 | 05.31.1994 | 09.14.2004 | Sponsored by the National Federation of Employee Unions in the energy, electrical nuclear and gas industries – CGT | – |
| Bernard Calbrix<br>GRTgaz Normandie Region<br>16 rue Henri Rivière<br>BP 1236<br>76177 Rouen Cedex | 55 | 06.18.2003 | 09.14.2004 | Sponsored by the Chemical Energy Federation – CFDT | – |
| Jean-François Le Jeune<br>Gaz de France.<br>23 rue Philibert Delorme<br>75840 Paris Cedex 17 | 62 | 05.06.2004 | 09.14.2004 | Sponsored by the CGT – FO Federation | – |
| Yves Ledoux<br>GRTgaz Normandie Region<br>16 rue Henri Rivière<br>76000 Rouen | 51 | 05.06.2004 | 09.14.2004 | Sponsored by the National Federation of Employee Unions in the energy, electrical, nuclear and gas industries – CGT<br>Director of GRTgaz (Gaz de France Group) | – |
| Anne-Marie Mourer<br>GrDF Sud Est<br>Bourgogne<br>Immeuble VIP<br>66 rue de la Vilette<br>69425 Lyon Cedex 03 | 48 | 07.01.2007 | 07.03.2007 | Sponsored by the Federation of electrical and gas industries - CFE-CGC | – |

(5) *At the date of filing of this registration document.*
(6) *These representatives were elected on May 6, 2004 for a five-year term by the employees of Gaz de France and four of its subsidiaries: Cofathec Services, Omega Concept, ADF Ateliers de Fos and ADF Maintenance Industrielle, pursuant to Law 83-675 of July 26, 1983 as amended concerning the democratization of the public sector. They took office as directors of Gaz de France on September 14, 2004.*

## Chairman of the Board of Directors

Pursuant to Article 10 of the Law of July 26, 1983 and the bylaws of the Company, the chairman of the Board of Directors is appointed by decree from among the board members, on the recommendation of the Board. Jean-François Cirelli was appointed Chairman of the Company by the Decree of January 24, 2008 published in the *Journal Officiel* of January 25, 2008. He was appointed Chairman of the Board of the Company for the first time in its form as a joint stock corporation by the Decree of November 24, 2004, then by the Decree of October 13, 2005 (previously, Jean-François Cirelli had been named Chairman of the board of EPIC Gaz de France by Decree of September 15, 2004 and had held the position of legal representative of the Company and assumed the management of the Company until the publication of the Decree of November 24, 2004, on November 26, 2004).

He may be dismissed from his duties as Chairman of the Board of Directors under the conditions stipulated in Article 10 of the Law of July 26, 1983 cited above (dismissal by decree).

## Appointment of a Government commissioner

Law 2006-1537 of December 7, 2006 related to the energy sector, amending Law 2004-803 of August 9, 2004, stipulates that the minister responsible for energy appoint a Government commissioner who attends the meetings of the Board of Directors of the Company in an advisory capacity. On the date of filing of this registration document, no Government commissioner for Gaz de France has been appointed.

## Personal information on 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 members 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, receivership or liquidation in the past five years, and none has been subject to indictment and/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, management or supervisory board of an issuer or from participating in the management or oversight of the business of an issuer in the past five years.

## Detailed information on the management expertise and experience of the members of Board of Directors

**Jean-François Cirelli**, 49, is a graduate of the *Institut d'Etudes Politiques de Paris* and the *Ecole Nationale d'Administration;* he also holds a law degree. From 1985 to 1995, he held positions in the Treasury department in the Ministry of Economy, Industry and Labor before becoming a technical advisor to the Office of the President of the Republic from 1995 to 1997, then economic advisor from 1997 to 2002. In 2002, he was appointed deputy chief of staff for Prime Minister Jean-Pierre Raffarin, for economic, industrial and social matters. He has been the Chairman-Chief Executive Officer of Gaz de France since September 2004.

**Paul-Marie Chavanne**, 56, is a graduate of the *Ecole Centrale de Paris* and the *Ecole Nationale d'Administration*. As Finance Inspector, Paul-Marie Chavanne worked in the Ministry of Economy, Industry and Labor from 1978 to 1989, in the General Finance Inspectorate and then the Department of the Treasury. He served as Chief Executive Officer of Soparges from 1989 to 1991, and was successively appoint Chief Operating of Automobiles Citroën from 1992 to 1997, Chief Executive Officer then Chairman of the Strafor Facom group from 1997 to 1999, and Chairman of the Autodistribution group from 1999 to 2001. He has been Chairman-Chief Executive Officer of the Geopost group and Chief Operating Officer of La Poste group since September 2001.

**Philippe Favre**, 46, is a graduate of the *Institut d'Etudes Politiques* de Paris and a former student at the *Ecole Nationale d'Administration*. He began his career in the Department of Foreign Economic Relations (Dree) in the Ministry of Economy, Industry and Labor, responsible for relations with the Soviet Union and Central Europe (1987-1990). From 1990 to 1993, he served as commercial advisor to the Embassy of France in Washington (United States), then economic mission chief to Hong-Kong from 1993 to 1997 and to Taipei (Taiwan) from 1997 to 2001. Deputy Director of Human Resources and Resource Management in the Department of Foreign Economic Relations (Dree) in the Ministry of the Economy, Finance and Industry in 2001, he was then head of staff for the Deputy Minister for Foreign Trade (Christine Lagarde) and was Deputy Chief of Staff for the Minister of Economy, Industry and Labor from 2002 to 2006. Since September 2006, he has been President of the French Agency for International Investments.

**Pierre Graff**, 60, is a graduate of the *Ecole Polytechnique* in Structural Engineering. After holding various positions in the equipment department, Mr. Graff served as technical advisor for highway policy, road safety and transport in the office of the Minister of Equipment, Housing, National Improvements and Transport (1986 – 1987), Director of Safety and Traffic, inter-ministry delegate for highway safety (1987 – 1990), then as Departmental Director of Equipment for Essonne (1990 – 1993), Deputy Chief of Staff for the Minister of Equipment, Transport and Tourism (1993 – 1995), Director General of Civil Aviation (1995 – 2002), then Chief of Staff for the Minister of Equipment, Transport, Housing, Tourism and the Sea (June 2002 to September 2003). He was named President of the public company Aéroports de Paris in September 2003, then President and Chief Executive Officer of the joint stock company Aéroports de Paris in July 2005. Mr. Graff is also a member of the Economical and Social Council, President delegate of the Section on European and International Questions on the National Tourism Board, member of the national committee of business sectors of vital importance, director of the RATP, director of SOGEPA (Société de gestion des participations aéronautiques which holds the State's shares in the aircraft manufacturer EADS), director of SOGEADE (Société de Gestion de l'Aéronautique, de la Défense et de l'Espace, filiale de SOGEPA), an officer in the Legion of Honor and officer in the National Order of Merit.

**Xavier Musca**, 48, is a graduate of the *Institut d'Etudes Politiques* in Paris, a former student at the *Ecole nationale d'administration* and Finance Inspector. He served in the Treasury Department as head of the financial market bureau from 1995 to 1996, Europe Deputy Director, monetary and international affairs from 1996 2000, responsible for economic financing and business competitiveness, and deputy director in 2000, then as head of the financing department of the State and the Economy from 2001 to 2002. From May 2002 to March 2004, he served as chief of staff for the Minister of Economy, Industry and Labor. He has been Director General 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 Paris Club since July 2005.

**Florence Tordjman**, 48, is a graduate of the *Institut d'Etudes Politiques* in Paris and the *Ecole Nationale d'Administration*. She also holds a master's degree in history and a bachelor's degree in history and geography from the University of Paris IV Sorbonne. Since 1993, she has held various duties within the Ministry of Economy, Industry and Labor. From 1993 to 1997, within the Department of Information Technologies and the Postal Service, she was responsible for European R&D programs in information technologies and communications and head of the office of industrial policy and competition as of 2000. At the Treasury department from 1997 to 2000, she was responsible for monitoring multilateral development banks and financing public aid for development. Since October 2001, she has been responsible for the sub-department of gas and fossil energy distribution within the Department of Energy and Raw Materials.

**Edouard Vieillefond**, 37, is a graduate of the *Ecole Polytechnique*, the *Ecole Nationale Supérieure de l'Aéronautique et de l'Espace* (ENSAE) and holds a post-graduate degree in industrial economics. From 1995 to 2003, he served in various positions in the Ministry of Defense, and then at the Treasury Department and finally with the European Commission. He joined the French Government Shareholding Agency in October 2003, first as head of rail and maritime transport. Since September 2006 he has been head of shareholdings for the energy sub-department.

**Jean-Louis Beffa**, 66, is a graduate of the *Ecole Polytechnique*, a mining engineer and a graduate of 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. He served as Chairman and Chief Executive Officer of the Saint-Gobain group from 1986 to June 2007. Since June 2007, he has been Chairman of the Board of Directors of Saint-Gobain.

**Aldo Cardoso**, 52, is a graduate of the *Ecole Supérieure de Commerce de Paris* and holds a master's in business law and is a certified accountant. 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 (non executive) of Andersen Worldwide (2000) and Managing Director of Andersen Worldwide (2002-2003). Since 2003 he has been the director of various French and foreign companies.

**Guy Dollé**, 65, is a graduate of the *Ecole 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. Appointed CEO of Usinor in 1999, he has been chairman of the management board at Arcelor from the creation of Arcelor in 2002 until 2006.

**Peter Lehmann**, 63, is a graduate of the University of Oxford and holds a doctorate in economics from the University of Sussex. 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 served as President of the Energy Saving Trust, created by the government at the initiative of the players in the energy sector in order to promote energy control. From 2003 to 2006, he was a member of the Energy Regulatory Authority in Northern Ireland. Peter Lehmann is currently the President of the Fuel Poverty Advisory Group, an advisory organization responsible for advising the British government on the question of energy access for economically disadvantaged citizens, a member of the Board of Directors of the Disability Agency in the British Ministry of Labor and Pensions, and President of Greenworks, a not-for-profit start-up which generates revenues of 2 million euro.

**Philippe Lemoine**, 58, is a graduate of the *Institut d'Etudes Politiques* de Paris (Public Service), a graduate of *Etudes supérieures d'économie*, with a degree in law and the winner of the General Civil Law Competition. He began his career as researcher at the INRIA in 1970. 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. Philippe Lemoine is currently Chairman and Chief Executive Officer of LaSer, a service company being developed in Europe, with more than 7,500 employees, held equally by the Galeries Lafayette group and by the BNP-Paribas group.

**Olivier Barrault**, 50, holds an associate degree in mechanical design and a technical degree in industrial sciences and technologies (energy) from the Conservatoire National des Arts et Métiers. He began his career in the electric and gas industries in 1979 in the distribution business. In 1985 he became head of operations then manager of the purchasing department for the center at Essonne. He has been a director of Gaz de France since 1994, as a representative of CGT.

**Bernard Calbrix**, 55, began his career in 1976 with the Sochan company, which specializes in managing collective heating and air conditioning installations. From 1980 to 1994, he held several union positions at that company. In 1994, he joined the Group at the time Gaz de France acquired the Cofathec group. From 1994 to 2003, he served as secretary general of the CFDT union for construction and woodwork of Rouen and represented the CFDT National Federation for construction and woodwork in the equipment, energy and environmental services management branch. He is currently an operating agent at the Cofathec Services regional unit in Rouen.

**Yves Ledoux**, 51, 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**, 62, joined the joint services division of Gaz de France and EDF in 1964. In 1976 he was seconded to perform union activities. He served successively as secretary general of the Nanterre union, secretary general of the FO unions for the Paris region, secretary general of the UNSC-FO, federal secretary of the FNEM-FO, and deputy secretary general of the FNEM-FO. Since 2004 he has been employed as a manager within Gaz de France's common resources department.

**Anne-Marie Mourer**, 48, holds a master's degree in economic sciences and a diploma in advanced marketing studies. In 1982, she joined EDF GDF Services where she has successively held various management positions within the sales departments of the Grand Velay, Indre en Berry and Loire centers. In 1992, she joined the commercial support and assistance group in Lyon to conduct appraisal activities as an in-house marketing consultant. From 1996 to 2001, she was responsible for Energie Direct, a direct marketing pilot unit within the Gas Sales Department. In the Gaz de France Sales Department, she was responsible for directing the marketing entity for the southeast region from 2002 to the end of 2003. Early in 2004, she joined the new Gestionnaire de Réseaux Gaz where she performed support and direction duties for the Development area in the Rhône-Alpes Bourgogne region. In view of the deregulation of the consumer market, she was appointed in 2007 as mission chief to assist the change and use her commercial expertise for GrDF, the new gas distribution subsidiary.

## 14.1.2 Management, Executive Committee and operational organization

### Management

The Chairman of the Board of Directors assumes responsibility for the general management of the Company.

Pursuant to the Company's bylaws, the Board of Directors may, on the recommendation of the Chairman-Chief Executive Officer, appoint up to five persons responsible for assisting the Chairman-CEO and who hold the title of Operating Officer. At its meeting of October 7, 2005, the Board of Directors appointed Yves Colliou and Jean-Marie Dauger as Operating Officers. Yves Colliou and Jean-Marie Dauger had already assumed the duties of Operating Officers since their appointment by the Board on December 17, 2004.

On the date of filing of this registration document, the management of the Group is conducted by Jean-François Cirelli, Yves Colliou and Jean-Marie Dauger.

| Name | Position | Start date | Age (7) | Principal current offices (8) | Offices held within the last five years (outside Gaz de France subsidiaries) |
|---|---|---|---|---|---|
| Jean-François Cirelli | **Chairman-Chief Executive officer** | 01.26.2008 (Decree of 01.24.2008) | 49 | Director of Neuf Cegetel – President of the Gaz de France Business Foundation | – |
| Yves Colliou | **Chief Operating Officer** Director of the "Infrastructures" branch | 10.07.2005 | 62 | Permanent representative of SIALF on the Board of Directors of GRTgaz<br><br>Permanent representative of Gaz de France on the Board of Directors of GrDF<br><br>Director of the Institut Français du Pétrole* | – |
| Jean-Marie Dauger | **Chief Operating Officer** Director of "Global Gas and LNG" | 10.07.2005 | 55 | Chairman of the Board of Directors of:<br>– GDF International<br>– Gaselys<br><br>President of:<br>– GNL Transport Investissements<br>– GAZ DE FRANCE NORGE (Norway)<br><br>Chairman of the Supervisory Board of GDF Produktion Exploration Deutschland (Germany)<br><br>Vice-president of the Supervisory Board of Fragaz<br><br>Director of:<br>– Cogac<br>– MED LNG & GAS (Jersey)<br><br>Legal representative of GDF International as manager of Méthane Transport SNC | – |

(7) *At the date of filing of this registration document.*
(8) *All the entities mentioned in this column are part of the Gaz de France group, with the exception of those followed by an asterisk.*

### Personal information concerning the Chairman-CEO 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 connections between them or with any of the members of the Board of Directors.

To Gaz de France's knowledge, neither Jean-François Cirelli, 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, receivership or liquidation in the past five years and none has been subject to indictment 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

The members of the executive committee of Gaz de France was amended, effective July 1, 2007. This change was made within the context of a broader restructuring of the Group's management (see below). Chaired by the Chairman-Chief Executive Officer, the executive committee is responsible for major strategic decisions and for directing the Group. It meets every week, attended by the Chairman-Chief Executive Officer, the Chief Operating Officers, the Chief Financial Officer, the Secretary, the Director of Human Resources and Director of Communications, the Director of the International branch and the Directors of the Energy France branch.

At its meetings, it reviews two types of issues: those that require a decision from Management (issue for decision) and those that summarize information of interest for the members (issue for information). In addition, the Executive Committee reviews all issues presented at meetings of the Board of Directors.

The table below describes the membership of the executive committee on the date of registration of this registration document.

| Name | Position | Age (9) | Current principal offices | Offices held within the last five years (outside Gaz de France subsidiaries) |
|---|---|---|---|---|
| Jean-François Cirelli | **Chairman-Chief Executive Officer** | 49 | Director of Neuf Cegetel* | - |
| Yves Colliou | **Chief Operating Officer**<br>Director of the "Infrastructures" branch | 62 | Permanent representative of SIALF on the Board of Directors of GRT gaz<br><br>Director of the Institut Français du Pétrole*<br><br>Permanent Gaz de France representative on the Board of Directors of GrDF | - |
| Jean-Marie Dauger | **Chief Operating Officer**<br>Director of the "Global Gas and LNG" branch | 55 | Chairman of the Board of Directors of:<br>– GDF International<br>– Gaselys<br><br>Chairman of:<br>– GNL Transport Investissements<br>– GAZ DE FRANCE NORGE (Norway)<br><br>Chairman of the Supervisory Board of GDF Produktion Exploration Deutschland (Germany)<br><br>Vice-president of the Supervisory Board of Fragaz<br><br>Director of:<br>– COGAC<br>– MED LNG & GAS (Jersey)<br><br>Legal representative of GDF International as manager of Méthane Transport SNC | - |

(9) *At the date of filing of this registration document.*

| Name | Position | Age (10) | Current principal offices | Offices held within the last five years (outside Gaz de France subsidiaries) |
|---|---|---|---|---|
| Stéphane Brimont | **Chief Financial Officer** | 39 | Permanent representative of SIALF on the Board of Directors of GRTgaz<br><br>Permanent Gaz de France representative on the Board of Directors of Banque Solfea<br><br>Permanent representative of COGAC on the Board of Directors of Cofathec as a member of the executive committee<br><br>Director of GDF international, COGAC and Gaselys<br><br>Permanent representative of GDF International on the Board of Directors of GrDF | Director of:<br>– Autoroutes du Sud de la France (ASF)<br>– Société des Autoroutes du Nord et de l'Est de la France (SANEF)<br>– Société Nationale Corse Méditerranée (SNCM)<br>– Compagnie Générale Maritime et Financière (CGMF)<br>– Autoroute et Tunnel du Mont Blanc (ATMB)<br>– Société Française du Tunnel Routier du Fréjus (SFTRF) |
| Pierre Clavel | **Director of the "International" branch** | 51 | Chief Operating Officer of GDF International<br><br>President of GDF ESS<br><br>Director of:<br>– Arcalgas Energie Italy<br>– Energie Investimenti SpA (Italy)<br>– Italcogim Energie (Italy)<br><br>Member of the Supervisory Board of Gasag (Germany) | – |
| Henri Ducré | **Director of the "Energy France" branch** | 51 | Permanent representative of SFIG on the Board of Directors of Banque Solfea | President of Light (EDF subsidiary in Brazil)<br><br>President of EDEMSA (EDF subsidiary in Argentina)<br><br>Director of EDF Global Solucion (Subsidiary of EDF in Argentina)<br><br>Director of EDENOR (Subsidiary of EDF in Argentina) |
| Emmanuel Hedde | **Secretary of the Gaz de France group**<br>Secretary of the Board of Directors | 60 | President of Laurentides Investissements<br><br>Chairman of the Board of Directors of GrDF<br>Director of:<br>– Gaz Métro Inc (Canada)<br>– GDF Québec (Canada)<br>– MEG International (Canada)<br>– Noverco (Canada)<br>– GDF Energy (United States)<br>– MEG Holdings US (United States)<br><br>Member of the Supervisory Board of Savelys | – |

(10) *At the date of filing of this registration document.*

| Name | Position | Age (11) | Current principal offices | Offices held within the last five years (outside Gaz de France subsidiaries) |
|---|---|---|---|---|
| Raphaële Rabatel | **Director of Communication** | 45 | Permanent representative of Verona Investissements on the Board of Directors of GrDF | – |
| Philippe Saimpert | **Director of Human Resources** | 54 | Permanent representative of SIALF on the Board of Directors of GrDF | |

(11) *At the date of filing of this registration document.*

## Detailed information on the management expertise and experience of the members of management and the members of the executive committee

**Jean-François Cirelli**, 49, is a graduate of the *Institut d'Etudes Politiques* de Paris and the *Ecole Nationale d'Administration*; he also holds a degree in law. From 1985 to 1995, he held positions in the Treasury Department of the Ministry of Economy, Industry and Labor before becoming technical advisor to the Office of the President of the Republic from 1995 to 1997, then economic advisor 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 Chairman-Chief Executive Officer of Gaz de France since September 2004.

**Yves Colliou**, 62, is a graduate engineer from the *Ecole Catholique des Arts et Métiers.* In 1974, he joined EDF GDF Services (now EGD) in the Mulhouse center. In 1978, he joined the sales department, then the supply delegation 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 executive team at Gaz de France as director, before being named Executive Vice President in June. He has been Chief Operating Officer of Gaz de France since December 2004 and manager of the "Infrastructure" branch.

**Jean-Marie Dauger**, 55, is a graduate of the HEC business school. After beginning his career at Péchiney, in the Trad bank (Lebanon) and in the finance 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 director of the department of strategy and management. In 2000, Jean-Marie Dauger was appointed Executive Vice President. He was named Chief Operating Officer of Gaz de France in December 2004 and, in July 2007, director of the "Global Gas and LNG" branch.

**Stéphane Brimont**, 39, is a graduate of the *Ecole Polytechnique* and the *Ecole 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 department in the Ministry of Economy, Industry and Labor where he held various positions, including: head of the "research, postal service and telecommunications" office and head of the "transport" office. 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, was appointed director of strategy in December 2004, then Chief Financial Officer in July 2007.

**Pierre Clavel**, 51, is a graduate of the *Ecole Polytechnique* and the *Ecole des Mines de Paris.* He began his career in engineering and managing construction projects of gas and thermal production facilities 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 director for the combination of the Centre Auvergne and Limousin regional centers. In 2002, he was appointed director of natural gas supplies for the Group, then in 2003, deputy director for the trading department of Gaz de France where he was responsible for the Group's natural gas supplies. He was appointed manager of the "International" branch of the Group in December 2004.

**Henri Ducré**, 51, is a graduate of the *Ecole nationale supérieure des Arts et Métiers.* In 1979, he joined the joint EDF-Gaz de France distribution department, where he spent most of his career, holding various responsibilities as Director of the Pyrénées Gascogne Centre and Director of the Méditerranée Group. In 2001, he was named Chief Executive Officer of Edenor (EDF subsidiary in Argentina) then, in 2002, Directeur of the distribution and marketing division of the Americas Branch of EDF. Henri Ducré served as Director of EDF Gaz de France Distribution from July 2004 to April 2007. In July 2007, he was appointed director of the Group's "Energy France" branch.

**Emmanuel Hedde**, 60, 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 director of the subsidiaries and holdings unit in the department of financial and legal services, before becoming director of this department and then deputy director of the finance department in 2000. He was then appointed Director of the major projects department. In December 2004, he was named director of the investments and acquisitions department and made responsible for the public offering, and became Secretary of the Group in July 2007.

**Raphaële Rabatel**, 45, is a graduate of the *Institut d'Etudes Politiques de Paris* and holds a degree in history. She has held a number of communications 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 director of communication for the JC Decaux group and responsible for both external and in-house communications. Since January 2005, she has been Senior Vice President of the Group's Communications division.

**Philippe Saimpert**, 54, is a graduate of the HEC business school, and held various positions within EDF GDF Services and the personnel and human relations department common to Gaz de France and à EDF as of 1978. In 2002, he was appointed director of human resources for the Group, then held the positions of deputy director of EDF GDF Services as of April 2004. He has been Director of Group Human Resources since December 2004.

### Operational Organization

Since July 2007, the Group has been organized into five operational branches:

- **Infrastructures**, to operate, maintain and develop network resources, implement operational synergies and create value for the Group's expertise in these areas;
- **Global Gas and LNG**, to contribute to the competitiveness of the Group's supplies, dealing with changes in the natural gas wholesale markets and the growth in the LNG market share;
- **Energy France**, to expand and develop the Group's position in France in natural gas, electricity and services (Savelys);
- **Services**, to integrate energy services, implement engineering for complex projects and develop multiple services;
- **International**, to design and implement international development, activate synergies between the subsidiaries and create the best value for the portfolio of assets.

## 14.2. Conflicts of interest in the administrative and management bodies

### 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 regard to the Company and their private interests and/or other duties.

It is, however, specified that Philippe Lemoine is Chairman of LaSer Cofinoga, the partner company of Gaz de France within the Banque Solfea and Chairman-Chief Executive Officer of the LaSer company, whose subsidiary LaSer-Contact has business relations with Gaz de France; Yves Ledoux is a member of the staff of SMEDAR (Syndicat Mixte d'Elimination des Déchets de l'Arrondissement de Rouen), which is a Gaz de France partner in a research project; Yves Ledoux and Edouard Vieillefond are directors of GRTgaz, a wholly owned subsidiary of Gaz de France; Edouard Vieillefond is director of RTE, which organizes bid tenders to which Gaz de France is likely to apply; Guy Dollé was President of Arcelor until September 30, 2006, and the Arcelor has business relations with Gaz de France, and a director of ARC International, which has business relations with Gaz de France; and Aldo Cardoso is a director of Rhodia and Imerys, which have business relations with Gaz de France.

In addition to the provisions of the Commercial Code which governed related-party agreements, the director's charter (see section 16.4 – "Director's Charter") provides that each director must make every effort to avoid any conflict that may exist between his moral and material interests and those of the Company, must inform the Board of any conflict of interest which he may have, and, where he cannot avoid the conflict of interest, refrain from discussing and voting on any decision concerning the matters in question.

### Arrangements or agreements concerning the appointment of members of the Board of Directors and management

There is no arrangement or agreement signed with shareholders, customers, suppliers or other parties under which any of the members of the Board of Directors or the chief operating officers would have been named.

### Restrictions on the sale of shares

Any shares of the Company acquired by the officer and directors representing the employees during the Company's initial public offering which took place on July 7, 2005 as part of the Employee Offering as described in the offering circular approved by the AMF on June 22, 2005, may be subject to restrictions concerning their sale. If applicable, the shares acquired may be inaccessible for periods which are determined on the basis of the plan selected from the five subscription plans offered to the employees in 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 directors representing the French State** (Paul Marie Chavanne, Philippe Favre, Pierre Graff, Xavier Musca, Florence Tordjman and Edouard Vieillefond) received no form of compensation (directors' fees or other) in fiscal year 2007 from the Company or from companies controlled by the Company. This is also true for Christian Frémont, a director representing the French State, who resigned during the year.

- **Directors representing the employees** (Olivier Barrault, Bernard Calbrix, Jean-François Le Jeune, Yves Ledoux and Anne-Marie Mourer) received no compensation (directors' fees or other) from the Company or from the companies controlled by the Company in consideration for their position as director for fiscal 2007. This is also true for the directors representing the employees who resigned during the year (Eric Butazzoni and Daniel Rouvery).

- **The directors appointed by the general shareholders' meeting** other than the Chairman and Chief Executive Officer (Jean-Louis Beffa, Aldo Cardoso, Guy Dollé, Peter Lehmann and Philippe Lemoine) receive directors' fees.

The general shareholders' meeting sets the global amount of directors' fees, based on the Board of Directors' proposal. The annual shareholders' meeting held 23 May 2007 set the total amount of directors' fees to be paid for fiscal year 2006 at 138,750 euro. These directors were paid 2,000 euro for each Board of Directors meeting and 1,250 euro for each committee meeting, except for the chairman of the audit and accounts committee, Aldo Cardoso, who received 2,000 euro for each meeting of said committees.

For 2007, the Board of Directors is proposing to the shareholders' meeting called for 19 May 2008 a total compensation of 145,500 euro, to be distributed on the basis of the following criteria: 2,000 euro per meeting of the Board and 1,250 euro per committee meeting, with the exception of the committee chairmen Aldo Cardoso and Peter Lehmann, who will receive 2,000 euro per committee meeting they chair. This total compensation also includes the amount of 10,000 euro to be paid to Philippe Lemoine for chairing the ad hoc committee formed to review the internal rules of the Board of Directors.

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 | Directors' fees | |
|---|---|---|
| | For 2007 (1) | For 2006 |
| **Jean-Louis Beffa** | 14,000 euro | 16,000 euro |
| **Aldo Cardoso** | 54,250 euro | 57,000 euro |
| **Guy Dollé** | 18,000 euro | 16,000 euro |
| **Philippe Lemoine** | 28,000 euro | 22,000 euro |
| **Peter Lehmann** | 31,250 euro | 27,750 euro |
| **Total** | **145,500 euro** | **138,750 euro** |

(1) *Subject to approval by the general shareholders' meeting scheduled for May 19, 2008.*

These directors receive no compensation or benefit in kind from the Company or the companies controlled by the Company for their service for 2007

### 15.1.2 Chairman and Chief Executive Officer and the Chief Operating Officers

The table below shows the gross amounts in euro before taxes of the compensation paid and payments in kind allocated 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 | Exceptional compensation | In-kind benefits | Total |
|---|---|---|---|---|---|---|
| **Jean-François Cirelli**<br>Chairman and Chief Executive Officer | 2007 | 327,048 | 128 276 | | 372 | 455,696 |
| | 2006 | 320,689 | 111,593 | - | 1,311 | 433,593 |
| **Yves Colliou**<br>Chief Operating Officer | 2007 | 310,499 | 93,553 | 61,759 | 3,452 | 478,990 |
| | 2006 | 277,964 | 90,498 | 16,660 | 4,371 | 389,493 |
| **Jean-Marie Dauger**<br>Chief Operating Officer | 2007 | 311,416 | 93,553 | 61,049 | 12,531 | 488,276 |
| | 2006 | 278,865 | 92,338 | 16,660 | 13,538 | 401,401 |

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.

The annual variable compensation paid to Yves Colliou and Jean-Marie Dauger is capped at 40% of the amount of their annual fixed compensation. It is calculated on the basis of the Group's results and the results of their branches, as described in section 14.1.2 – "Management, Executive Committee and operational organization".

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 Commercial Code. They do not benefit from any special retirement plan 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 equity interests 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 17.5 – "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 section 20.1.1.1 "Consolidated financial statements for the year ended 31 December 2007 under IFRS Notes/Note 23".

# 16 OPERATION OF THE ADMINISTRATIVE AND MANAGEMENT BODIES



## 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 subsidiaries.

The six directors representing the employees and the two Chief Operating Officers are bound to the Company through employment contracts.

## 16.3 Operation of the Board of Directors

The activities of the Board of Directors of the Company are governed by French laws and regulations, by the Company's by-laws and by internal rules ("Internal Regulations") [1] adopted by the Board on December 19, 2007. 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 Director's Charter that dictates the rules that each director must respect.

The internal regulations are subject to review, as necessary, by the Board of Directors. Moreover, each director agrees to make any recommendation that may improve the operation of the board, particularly at the time of the scheduled review of the regulations. Each director agrees to be evaluated by the Board of Directors regarding his or her own behavior.

(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 six full days before 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 also require the Chairman of the Board of Directors to send regularly to the directors (and between board meetings, if necessary) all relevant information concerning the Company. Each director may receive any training, either provided by the company or approved by it, necessary to properly perform his or her duties as a director, or if applicable, as a member of a committee.

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. They inform the secretary of the Board of Directors of their request. Their questions will be answered as soon as possible.

## Powers of the Board of Directors

The Board of Directors deliberates in particular on the principal strategic, economic, financial or technological direction for the business of the Company and the Group, before making any related decisions.

In addition to the issues reserved for the authority of the Board under the applicable laws and regulations, the other issues that must be included on the agenda – after study if necessary by the competent committee or committees – are a review and vote on a number of significant transactions, such as the execution of contracts with the State concerning the objectives and conditions for implementing the public service missions assigned to the Company, certain acquisitions or disposals of holdings, certain long-term energy projects for the purchase of energy, 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 position, cash flow and the commitments of the Company and Group;
- once a year, and as necessary, information concerning the situation of the Company's principal subsidiaries and equity interests in financial difficulties;
- once a year, the Group's safety policy;
- once a year, a review of the conditions under which the Company's right of supervision over its subsidiaries in the regulated sector is exercised;
- once a year, a review of the Group's non-gas purchasing policy;
- gas sale transactions exceeding 15 billion kWh per year;
- once a year, an examination of the energy supply policy.
- once a year, information on the performance of contracts concerning the objectives and the performance of the public service missions assigned to the Company;
- once a year, an assessment of the operations of the Board, and
- once a year, information on the amount of sureties, endorsements and guarantees made by the significant subsidiaries of the Company.

## 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.

For legitimate reasons, the Chairman may authorize one or more directors to attend the Board meeting via videoconferencing or telecommunications.

The Board of Directors met thirteen times in 2007, with an average attendance by its member of 74%. During 2007 the Board of Directors examined the following topics:

- the budget;
- approval of the financial statements and proposal for the appropriation of earnings;
- the allocation of directors' fees;
- the half-yearly financial statements;
- securities, endorsements and guarantees;
- strategy;
- sales policy;
- the proposed merger with the Suez group;
- the Group gas supply policy;
- the risk management policy;
- the bonus share allotment plan;
- the carve-out of the distributor;
- the stock buyback program;

- the internal regulations of the Board;
- as well as a certain number of transactions related to the Group's major investments or commitments for its development.

The Internal Regulations provide for the appointment by the Board of Directors, upon the proposal of the Chairman, of a secretary to the Board of Directors that may not be a director. The Board of Directors has appointed Mr. Emmanuel Hedde as its secretary as of April 30, 2007.

The secretary of the works committee and the State Controller attend meetings of the Board in a non-voting capacity.

Under the terms of the Internal Regulations, if at least six directors request, the Chairman calls a meeting of the Board of Directors within a maximum of seven full days from the date of the request or 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's Charter

In the context of adopting its Internal Regulations, the Board of Directors adopted a Director's Charter. This charter in particular provides that:

- Directors must act in all circumstances in the business interest of the Company; it is understood that the ultimate criterion in making a decision must be the Company's long-term interest, which will ensure its continuation and development. Directors must, regardless of how they are appointed, consider themselves representatives of all the shareholders.
- Directors must fully exercise 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 conduct their duties with independence, loyalty and professionalism.
- Directors will ensure that they maintain independent in judgment, decision and action in all circumstances. 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. They must make every effort to convince the Board of the relevance of those positions. In case of disagreement, they will ensure that such disagreements are explicitly put into 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 any 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, directors 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, this 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 agree to dedicate the time and attention necessary to their duties. They will stay informed of the business segments 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 make every effort to obtain, within the appropriate timeframes, the items they believe are necessary for their information for fully informed deliberation within the Board. They agree to keep the knowledge of that is useful to them up to date and have the right to request training from the Company which is necessary for the proper exercise of their duties.
- Directors will contribute to the collegiality and efficiency of the work of the Board of Directors and any special committees. Moreover, directors shall make any recommendation they believe necessary to improve the operation of the Board, particularly during its periodic review. They shall accept the assessment of their own actions within the Board. They agree, along with all the members 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 for the control of compliance with 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

The bylaws of Gaz de France permit the Board of Directors to establish committees, notably an audit and accounting committee and a strategy and investment committee, to study all issues relating to the Company which the Board or Chairman may submit for their review.

The Internal Regulations of the Board of Directors, as adopted by the Board of Directors at its meeting of 19 December 2007, state that the Board of Directors may establish permanent or temporary committees, intended to facilitate the proper functioning of the Board of Directors and to contribute to the efficient preparation of its decisions. The Board of Directors, upon the proposal of and in coordination with the Chairman, appoints the members and chairman of the committees, taking into consideration the capabilities, experience and availability of the directors which they wish to appoint in order for the Board to be well-balanced. The Government commissioner, appointed 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, and to 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 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 their capacity as director. 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.

As a result, an audit and accounting committee, a strategy and investment committee, a compensation committee, and a sustainable development and ethics committee have been formed. The membership, duties and operating procedures for these permanent committees are 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 accounting committee

#### 16.5.1.1 Membership and operations

The audit and accounting committee has five members: Aldo Cardoso, chairman, Eric Buttazzoni (until the end of his term as director on December 14, 2007), Edouard Vieillefond, Paul-Marie Chavanne and Bernard Calbrix.

The audit and accounting 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 2007 the committee met twelve times with an average attendance rate of 75 %. At its meetings, the committee discussed the following questions: the 2007 budget, the 2006 corporate and consolidated financial statements, the financial policy (2006 balance sheet and 2007-2008 outlook), the 2006 results and outlook for the major subsidiaries and equity associates, the internal control policy, profitability criteria for external growth, the report of the 2006 audits and the 2007 audit program, the Group's risks in 2006, the 2006 registration document, presentation of the Gaselys subsidiary, carve-out of the distributor, procedures for renewing the auditors, the merger with Suez, long-term gas purchase contracts and hedging transactions, the half-year financial statements, financial communications, the 2007 account closing, organization of the Group's financial and accounting division, the work program for the auditors on the 2007 accounts, and sureties, endorsements and guarantees.

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 Missions

#### Accounts

The mission of the audit and accounting committee is to:

- ensure the relevance and permanence of the accounting methods adopted for the establishment of the consolidated or corporate financial statements as well as the appropriate treatment of significant transactions at the Group level;
- review once a year, and as needed (especially in case of financial difficulties), the Company's main subsidiaries and equity interests;
- at the closing of the accounts, conduct a preliminary review and issue an opinion on the drafts of the annual and 6-month consolidated and corporate financial statements prepared by the Finance Department before they are presented to the Board of Directors. For this purpose, the committee shall interview the auditors, management and the financial department, particularly concerning amortization, depreciation, provisions, the treatment of goodwill, the 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.);
- stay informed of the Group's financial strategy and the terms of major financial transactions;
- review drafts of the annual business report and of the annual management report before publication; and
- review the scope of consolidation and the choice of principles for the consolidation of the Group's companies.

#### Risks

The mission of the audit and accounting committee is to:

- review the risks and significant commitments, in particular through risk mapping;
- review the risk management policy in all areas (especially insurance policy, financial management and transactions on futures markets);
- conduct an annual performance review of the Company's main subsidiaries.

#### Control, internal audit, Auditors

The mission of the audit and accounting committee is to:

- verify that internal procedures to collect and control information guarantee the reliability of the information and review the Group's internal audit plan and the plan for auditors' services;
- interview internal audit and control managers, issue an opinion on the organization of those services, review work programs and receive a summary of the internal audit activity of the Company and the Group and all audit reports requested by the chairman of the committee;
- receive regular reports from the Group's external independent auditors on the methods used for completing their work;
- monitor the implementation of the purchasing policy;
- ensure compliances with the rules, principles and recommendations that guarantee the independence of the independent auditors;
- recommend to the Board of Directors, if applicable, a decision on any significant points of disagreement between the independent auditors and Management which may arise in the course of the performance of their work;
- supervise the procedure for selecting or renewing (through a call for bids) the appointment of the independent statutory auditors by overseeing the selection of the "best bidder", prepare an opinion on the fees charged for the execution of legal audit missions, prepare an opinion on the choice of the independent auditors and make this recommendation to the Board of Directors; and
- obtain the details of all fees paid by the Company and the Group to the independent auditors' firms and networks, ensure that the amount of such fees or the portion of the revenues of the independent auditors' firms and networks which such fees represent do not compromise their independence.

#### Financial policy

The missions of the audit and accounting committee are to:

- be informed of the strategy and financial situation of the Group, the methods and techniques used to define their financial policy;
- stay informed about the Company's main communications concerning its financial statements;
- review the Company's budget, and
- and review any financial or accounting question submitted to the committee by the Chairman or the Board of Directors.

## 16.5.2 Strategy and Investment Committee

### 16.5.2.1 Membership and Operations

The strategy and investment committee has seven members: Peter Lehmann, chairman, Florence Tordjman, Anne-Marie Mourer, Philippe Favre, Edouard Vieillefond, Olivier Barrault and Jean-François Le Jeune.

The strategy and investment committee meets at least four times per year. The agenda of the meetings is proposed by the chairman of the committee. In 2007 the strategy and investment committee met eight times with an average attendance rate of 82%.

At its meetings, it discussed the following questions: gas supply policy, sales policy, sustainable development action plan, wind power policy, monitoring the public service agreement, proposed acquisition and development of the Group.

In order to perform its work, the strategy and investment committee may meet with members of the management of the Company and the Group and use outside 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 Missions

The missions of the strategy and investment committee are to:

- with respect to strategy, explain 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 the committee;

- with respect to investments, study and issue an opinion to the Board of Directors on the issues that are submitted to it relating to the major transactions to be decided by the Board of Directors concerning external growth, divestitures and the sale of companies, or the purchase or sale of equity interests, investments, the creation and modernization of industrial equipment and work on an annual or multi-year basis, the purchasing policy (including information on the contracts placed during the past year) as well as the major real estate projects described under the powers of the Board of Directors.

### 16.5.3 Compensation committee

#### 16.5.3.1 Membership and operation

The compensation committee, created on December 19, 2007, has three (3) members, including at least two (2) directors elected by the shareholders' meeting: Jean-Louis Beffa, chairman, Edouard Vieillefond and Philippe Lemoine.

The agenda for the meetings of the compensation committee is proposed by the chairman, who is chosen from one of the directors elected by the shareholders' meeting. In the event of a tie vote, he casts the deciding vote. The committee meets at least once (1) a year.

Under no circumstances may a member of the compensation committee participate in discussions concerning benefits or compensation which he is or may be receiving. These discussions shall take place between the other members of the committee.

#### 16.5.3.2 Missions

The missions of the compensation committee are to:

- send to the Minister of Economy, Industry and Labor an opinion concerning the compensation of the Chairman and Chief Executive Officer and the compensation of the Chief Operating Officers, and a proposal concerning the salary, the variable portion (including the criteria for objectives and its assessment of the results obtained by each person in terms of the objectives set) and other compensation for these persons; this opinion is communicated to the board;

- recommend to the board a total amount for directors' fees for directors which will be proposed to the Shareholders' Meeting of the Company, and the rules for distribution and the individual payments to be made to the directors, and to any non-voting directors; these rules must take into consideration the participation of the directors on committees;

- review any question submitted to the committee by the Chairman concerning the questions described above and any plans for capital increases reserved for employees.

### 16.5.4 Sustainable Development and Business Ethics Committee

#### 16.5.4.1 Membership and operation

The sustainable development and ethics committee, which was also created on December 19, 2007, has five (5) members maximum, including at least one (1) director elected by the shareholders' meeting: Peter Lehman, chairman, Florence Tordjman and Anne-Marie Mourer and Yves Ledoux and Jean-François Lejeune.

The agenda of the meetings of the Sustainable Development and Ethics committee is proposed by the chairman, who is chosen from one of the directors elected by the shareholders' meeting. In the event of a tie vote, he casts the deciding vote. The committee holds at least one (1) meeting per year.

#### 16.5.4.2 Missions

It ensures that sustainable development and ethics are taken into account in the work of the Board and the management of the company.

For this purpose, it studies the ethical process and charter and the sustainable development policy in place.

It reviews the annual report, excluding the financial statements (business review and sustainable development report).

## 16.6 Limitations on the powers of Management

### 16.6.1 Decisions submitted for prior approval to the Board of Directors

Article 2.4.1 of the Internal Regulations of the Company's Board of Directors, as adopted by the Board of Directors at its December 19, 2007 meeting, provide that "in addition to the issues reserved for the authority 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 or committees, a review and vote;

(a) contracts to be signed with the French State concerning the objectives and procedures for the performance of the public service missions assigned to the Company;

(b) the Group's multi-year strategic plan;

(c) once a year, the Group budget for the coming year, resulting from the previously adopted strategic plan;

(d) projects relating to the acquisition, expansion or sale of equity interests or business activities, joint venture projects or the realization of contributions with major financial or strategic implications in which the Company or its Group grants or accepts external financing, whenever its financial exposure per transaction (including liabilities taken on and off-the-balance-sheet commitments) for this type of transaction exceeds 200 million euro, before taxes, or its equivalent in foreign currency; for projects not related to the Company's strategy, this threshold is lowered to 50 million euro, before taxes, per transaction;

(e) Group long-term energy projects involving per operation volumes greater than:

- for gas, 30 billion kWh per year, including transmission conditions;
- for electricity, 10 billion kWh per year, including transmissions conditions;

(f) acquisition, sale or trade projects by the Company and the Group in real estate or real estate rights as well as real estate leasing projects for an amount valued at over 100 million euro per transaction, before taxes;

(g) the total package for borrowings in the form of securities issues or credit facilities for the Company and its subsidiaries, when this exceeds a value of €500 million per year; this provisions does not apply to the refinancing of existing loans.

In addition, the Board of Directors reviews the total amount per transaction of sureties, endorsements or guarantees granted by the Company in order to guarantee the companies of the Group or non-group third parties which the Board authorizes for the Chairman-Chief Executive Officer for the year.

### 16.6.2 Limitations on the powers of the Chief Operating Officers

The Board of Directors of the Company decided, at its meeting of August 28, 2007 that, in the performance of their duties as Chief Operating Officers, Yves Colliou and Jean-Marie Dauger assist the Chairman-Chief Executive Officer within the strategic and operational framework of the Group:

- Yves Colliou, in his capacity as Chief Operating Officer, is responsible for supervising the human resource, safety, information and Research policies;
- Jean-Marie Dauger, in his capacity as Chief Operating Officer is responsible for supervising the Group's international operations and services.

In addition, in their respective areas of authority, Yves Colliou, as President of the "infrastructures" branch and Jean-Marie Dauger, in his capacity as President of the "Global Gas and LNG" branch, may each enter into and sign all instruments, contracts, agreements, make any acquisition, extension, or sale of equity investments or businesses, joint ventures or contributions with major financial or strategic implications, in which the Company or Group grants financing or accepts outside financing (including the liabilities assumed and off-balance sheet commitments), when its financial exposure per transaction does not exceed 100 million euro excluding tax or its equivalent value in foreign currencies, subject to the following specific matters for which the authority granted is limited to the thresholds below:

- 30 million euro 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 contributions with major financial or strategic implications in which the Company or its Group grants financing or accepts external financing (including liabilities taken on and off-the-balance-sheet commitments) whenever such projects are not related to the Company's strategic plan or do not involve the energy sector;
- 10 billion kWh per year for the Group's long-term energy purchase and sale projects;
- 50 million euro before taxes or the equivalent value in foreign currencies for the Group's industrial investment projects or construction agreements;
- 30 million euro before taxes or its equivalent value in foreign currencies for supply and services agreements (excluding the supply of energy).

## 16.7 Internal control

The report of the Chairman of the Board prepared in accordance with the provisions of sub-section 6 of Article L. 225-37 of the French Commercial Code, which will be presented to the shareholders' meeting called to meet on May 19, 2008 to approve the financial statements for the year ended December 31, 2007, appears in Appendix C to this registration document. The report of the independent statutory auditors on this report appears in Appendix D.

## 16.8 Declaration concerning corporate governance

As of the filing date of this registration document, the Company complies with the requirements of France's corporate governance regulations subject to certain terms which are specific to companies belonging to the public sector.

The Internal Regulations of the Company's Board of Directors, adopted by the Board at its meeting on December 19, 2007, are intended to guarantee the transparent operation of the Board of Directors. The main provisions of the Internal Regulations are summarized in section 16.3 – "Operations of the Board of Directors". The director's charter, which is attached to the Internal Regulations, deals with the independence, loyalty and professionalism of directors; the main provisions are summarized in section 16.4 – "Director's Charter").

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



## 17.1 Organization of the Group's Human Resources

### 17.1.1 Group HR Policies

The Group's HR policy cannot be separated from its industrial plans. The policy accompanies the plan's growth and evolves with it to mobilize all employees: each person must participate, and all employees must benefit. 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 professional skills, to prepare them for changes in their jobs 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.

For this reason, the development of the Group's HR policies and the adaptation to Electricity and Gas Industry Status in France continued in 2007.

#### 17.1.1.1 Programs designed to attract and retain talent and to ensure that all employees participate in the Group's results

• **The development of an employer brand**

In order to make Gaz de France the employer more visible and more attractive to its recruitment targets, work on the positioning of the Group's Employer brand image, i.e. the corporate name common to all the entities, was conducted in collaboration with representatives of the Group's Business Units and subsidiaries. The objective was to define the identity the Group wanted, as an employer of new graduates and experienced employees, executives and non-executives.

Diagnostics were completed within the Group based on quantitative and qualitative studies and specific surveys with mirror-groups representative of Gaz de France SA and subsidiaries (France and Europe). This diagnostic was completed by external quantitative and qualitative surveys with students (French and European) and experienced employees.

The Employer positioning of the Group will form the basis in 2008 for the promise made by the Group to recruitment candidates with interesting profiles in order to succeed with its industrial and employment project.

• **The program of professionalizing management methods**

Since 2003, "Skills course" (*Cap compétences*), a mechanism to develop the professionalism of executives, managers, and members of the management team the entities of the Gaz de France Group, has offered program to maintain and develop the skills necessary for the Group's current and future positions.

In 2007, the program was revised and is now organized into four areas:

– orientation and integration (new executives),

- managerial practices (common culture),
- cultural diversity,
- international mobility.

With an expanded international focus, in 2007 the program welcomed 450 participants (10,000 hours of professional training). At the end of 2007, a workshop in intercultural awareness, bilingual English/French, was included.

• **Assistance for mobility within the Group**

In order to achieve a triple objective: harmonized practices, clarity in the conditions for international assignments within the Group, and promotion of that mobility with adapted assistance; the Group has developed standards for Group international assignments.

It has three guidelines, while maintaining maneuvering room for the BU:

- a guarantee of fair and equitable compensation;
- quality employee protection (health, pension);
- a right to promotion within the Group.

• **A breeding ground for international employees**

This program, developed in 2007 at the initiative of the Group DHR is updated regularly. It includes executives, managers and experts identified by type of expertise who meet the following criteria: solid use of a foreign language and initial experience within the Group (minimum), availability within a maximum of two years, and a declared mobility plan,

• **Incentive program within the French companies**

The Company's incentive agreement signed on 3 June 2005 for the period 2005-2007 has resulted in an average payment to employees of Gaz de France of 1,039 euro for 2006 results. The total amount distributed for 2006 incentives was 22.6 million euro, representing 3.2% of the payroll. Note that the average amount paid was 1,037 euro for 2005 and 991 euro for 2004.

This agreement was based on two criteria levels: criteria analyzed within the company (gross operating income divided by revenues and respect for $CO_2$ emission quotas) and criteria analyzed at a decentralized level (at the level of the business or the level of the employee's department, or the level of a group of entities).

Employees have had a choice between receiving the incentives immediately, investing them in the Company Savings Plan (*Plan d'Epargne d'Entreprise* – "PEE"), investing it in the "Revenues" segment or the guaranteed capital segment "Harmony 2007" within the Action Gaz 2005 FCPE in the Group Savings Plan (*Plan d'Epargne Groupe* – "PEG") or, finally, placing it in a term savings account. 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 company savings plan. Deposits made by individuals are 60%-matched for the first 610 euro and are 35%-matched for the next 610 euro, subject to a total annual limit per employee. The total amount of the incentives paid was 15.8 million euro, representing 2.2 % of the payroll.

The provisions governing the matching contribution and voluntary payments initially applicable for a period of three years, which expired on December 31, 2007, have been renewed for one additional year. Employees can also make voluntary payments to the Group Savings Plan, but these are not matched.

The COFATHEC SERVICES incentive agreement generated the payment for 2006 of 3.2 million euro. The average amount per employees was a 984 euro gross.

75% of total incentives is designed to reward the collective performance tied to the Company's results. This portion is distributed among the beneficiaries as follows: 70% of the amount is proportion to the gross annual compensation, and 30% is proportional to effective time in the company during the year.

25% of the total incentives is designed to reward improvement in the performance of the agencies based on safety results (for one-third) and the economic results of the agencies (for two-thirds).

This second portion is distributed in proportion to time within the company among the employees in the agencies concerned, as stipulated in the agreement of June 15, 2006.

The employees of COFATHEC SERVICES have the option to contribute all or part of their bonus into the Company Savings Plan. In addition, In addition, following the amendments signed on March 16, 2006 and March 8, 2007 in the parent company, beneficiary employees who wish to may invest these sums in the Gaz de France Group Savings Plan, in the "REVENUES" segment of the "ACTION GAZ 2005" FCPE, or in the "HARMONY 2007" segment (guaranteed capital plan) with an employer's matching contribution of 100%. These sums are exempt from income tax, but are locked in for 5 years.

At Savelys, the subsidiary specializing in the maintenance and repair of individual boilers and small boiler rooms, an incentive agreement was signed in 2007, with result criteria defined at the local level (180 agencies).

• **A dynamic employee shareholding program**

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. At the end of this operation, the current and former employees of the Group held 2.3% of the capital of the Company.

A Group Savings Plan (PEG) has also been set up as part of an indefinite-term agreement signed with the unions on February 22, 2005, which is open to all French subsidiaries in which the Group holds more than 50% of the share capital.

Thus, an employee in France was able to choose from among five different plans, described in the Offering Circular approved by the AMF on June 22, offering a discount on the purchase price, employer's contribution, bonus shares, deferred payment, payment of securities management fees, or a financial mechanism that minimizes the stock risk incurred (leveraged). All the provisions significantly reduce the price to purchase the shares in return for a lock-in period that varied in length. See also section 21.1.7.2.2 – "Allotment of bonus share of the Offering Reserved for Employees").

This information was the subject of very widespread communications activities in various forms to ensure that each person entitled to the offer was informed.

## Developments in 2007

In 2006 and 2007, the Group's employees in France were able to continue to purchase shares of Gaz de France stock through the Group Savings Plan. This acquisition was made in the context of employee incentives related to results and includes a company contribution of 100% of the sums invested. The absolute lock-in period for the shares acquired in the Offering Reserves for Employees ended 8 September 2007; as of December 31, 2007, current and former employees of the Group held 2% of the capital of the Company (1.6% of which through a *Fond Commun de Placement d'Entreprise* – FCPE).

In addition, in order to include all employees in the collective success of the Group and its future performances and to strengthen employee shareholding, Gaz de France in June 2007 established a global bonus share allotment plan known as Actions+ 2007.

All employees of Gaz de France and its controlled subsidiaries (in France and abroad) present in the company on June 20, 2007 will be allotted 30 shares in June 2009, subject to the double condition of continued employment and performance. For the employees of the departments common to EDF and Gaz de France, the share allotment is weighted by the gas "key" of their entity; the number of shares will be systematically rounded off to the next whole number with a minimum of five shares.

This allotment represents 0.16% of the capital of the Group.

In addition, the Harmony 2007 plan is a new possibility for investing incentives, which was offered in 2007 to the employees of Gaz de France and all the French subsidiaries participating in the Group Savings Plan which paid incentives for fiscal 2006. It is in addition to the traditional "all share" investments in the Revenues segment of the Action Gaz 2005 FCPE. Harmony 2007 allows the employees to continue to participate in the Group's development by investing in Gaz de France shares, while limiting the risks if the price of the share falls during the five years after the investment. The sums invested in the Harmony 2007 segment carried a 100% employer contribution, like the investment in Revenues.

The plan was successful. Of the €6.4 m invested in 2007 in the Action Gaz 2005 FCPE for incentives and the corresponding matching funds, 3.8 million euro were invested in the Revenues segment and 2.6 million euro in the Harmony 2007 segment.

- **Profit-sharing**

On the date of filing of this *registration document*, Gaz de France is not one of the public companies in which profit-sharing is applied. Some Group subsidiaries have nevertheless established profit-sharing plans.

### 17.1.1.2 Deployment of the Group's standards for managing employees and organizations – Progress in Management Practices ("PROMAP").

The year 2007 was the year of the general deployment of the PROMAP program developed in 2006. This program provides a Corporate frame of reference for Group managers. It is designed to promote a manager's social responsibility in line with a set of reference managerial practices.

It is reflected in improvement measures identified by management to be implemented over time, the achievement of which is measured annually through ad hoc reporting. This reporting, included in the Group's social reporting, is provided at two levels:

- quantitative to measure the progress achieved in relation to the targets set;
- qualitative in order to show good practices and encourage exchanges about those practices on the basis of a cross-logic, among different businesses and countries within the Group.

This first year set the starting point at a global and continuous measure of progress in managerial practices over the entire French and international scope of consolidation of the Group.

Currently, major trends can be seen at the Group level:

- an improvement in managerial practices based on better consideration of specific local features: one-third of the managerial priorities defined within the action plans now result from choices made at the local level;
- guidance of the program was performed by management in 59% of the cases and by the HR department in 41% of the cases;
- improvements were primarily made by the managerial line-up in 2/3 of the cases and by the HR department in 1/3.

At the end of this first year of implementation, 2008 should see:

- stronger guidance and monitoring of the program by management, with HR support;

- an overview of the performances achieved over time (a minimum of two years of history);
- the development and deployment of the best practices identified within the Group in 2007 in order to achieve ongoing improvement.

### 17.1.1.3 Continued corporate dialogue within the Group, France and Europe

The European Works Committee (*Comité d'Entreprise Européen* – "CEE") is the information and consulting body composed of representatives of Group employees concerning issues affecting the entire Group. Formed in 2001, it includes representatives from the following countries: France, Germany, Belgium, Great Britain, Italy, the Netherlands, Hungary and Romania. The CEE is composed of 16 French members and 16 foreign members.

In 2007, the CEE met twice in a plenary session to review the following issues:

- Presentation of the Group's consolidated financial statements
- Gaz de France bonus share allotment plan
- Proposed merger of the Germany subsidiaries in exploration-production (EEG and PEG)
- Results of the social report
- Ethics process
- LNG policy
- Groups news
- Revision of the scope of the CEE

In addition, the CEE met five times in special meetings to consider the following:

- the proposed Gaz de France merger with Suez,
- consultation on the project to carve out the distribution business in France;
- consultation on the merger of the Germany subsidiaries EEG and PEG;
- the modernization plan and its social consequences within the Romanian subsidiary Distrigaz Sud.

### 17.1.1.4 Progress in these programs is based on leadership from HR and is measured by social reporting

In 2007, the central theme of the second convention of the HR division was "sharing good HR practices within the Group".

The results of three exchange networks that operated in 2007 on the following themes: the role of a subsidiary HRD, employability, anticipating and assisting industrial restructurings.

To mark the occasion, the HR Tropies were organized in order to encourage exchanges of good HR practices and innovations within the division and create added value.

The best projects were recognized by the representatives of the HR division present.

29 projects (14 from the parent company, 15 from the Group's subsidiaries) competed in the five categories:

- Developing the professionalism of employees,
- Measuring the work climate and improving communication,
- Managing and motivating personnel,
- Change management,
- Employability, diversity.

The Group's labor reporting has been expanded with the introduction of new measurement indicators to improve measurements of the Group's HR and labor performance. Those indicators measure HR and labor challenges and track the deployment of HR policies within Group entities.

A new area to improve managerial practices was added to the Group's social reporting at the end of 2007.

## 17.1.2 Adapt and modernize the Status of the Electric and Gas Industries Branch (electricity and gas industry)

The status of electricity and gas industry personnel was created by French Decree No. 46-1541 dated June 22, 1946 applying the law of April 8, 1946.

Electricity and gas industry personnel receive special benefits, specifically:

- a special retirement plan for which the financing conditions were modified, effective January 1, 2005, and a reform of rights was begun at the end of 2007;
- a mandatory, supplemental health insurance program

- provisions concerning the mobility of employees among companies belonging to the electricity and gas industry branch; and

- certain family benefits, including compensation in the event of marriage or the birth of a child, as well as provisions usually defined under collective bargaining agreements or at the corporate level, including provisions relating to compensation.

In 2007, the specific systems of employee representative bodies for personnel in the electricity and gas industries branch were brought into compliance with ordinary law.

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, 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 electricity and gas industry status is a true professional branch status.

### 17.1.2.1 Supplemental Health Insurance Plan

Within the electric and gas industries, mandatory health insurance is provided by a special social security plan that offers:

- the basic services of the general plan; and

- additional services.

In the context of the regulations in effect until the beginning 2005, the 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 supplemental health insurance plan and the continuity of reimbursements to employees, retirees and their families;

- ended all participation of the companies in the financing of retirement; as a result they no longer had a commitment in this area in the accounts for the year ended 2004.

The negotiations initiated in 2006 within the electricity and gas industry branch lead to a renovation of the organization and management of this special plan, formalized with the publication of two decrees on March 30, 2007 and secure financing for the plan.

The Caisse d'Assurance Maladie des IEG ("CAMIEG") was created on April 1, 2007 by one of those decrees.

In order to significantly improve the reimbursements to electricity and gas industry employees, a negotiation branch was opened to set up supplemental coverage designed to supplement the existing programs. This negotiation will continue in 2008.

### 17.1.2.2 Employee Representative Institutions

2007 was marked by the implementation of the reform of the employee representative bodies ("IRP") within the electricity and gas industry companies. This process, initiated in 2004, accelerated in 2007 thanks to the provisions of the Decree of April 11, 2007, which led the companies of the electricity and gas industry branch to apply the labor code governing the Establishment Works Committee ("CE"), Central Works Committee ("CCE"), and Employee Delegate ("DP").

Thus, Employee Delegates and representatives to the Establishment Works Committees were elected for the first time on November 28, 2007 and December 13, 2007.

### 17.1.2.3 Retirement

Following French electricity and gas nationalization Law No. 46-628 dated April 8, 1946 the public authorities established a special legal and mandatory retirement plan applicable to all electricity and gas industry companies.

The electricity and gas industry 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 plan. The public authorities launched a reform of the operation and financing of this pension system, primarily because of the deregulation of the markets and the adoption of IFRS early in 2005.

Law 2004-803 of August 9, 2004 (Section IV) defined the major goals of this reform, which as implemented as of January 1, 2005.

### The main features of the 2004 reform

The principal characteristics of the 2004 reform and its impact on the retirement obligations of Gaz de France see Chapter 20 "Financial Information Concerning the Issuer's Assets, Financial Position and Results".

The key features of the reform are the following:

- Maintenance of the special electricity and gas industry retirement plan,
- The creation of a national electricity and gas industry retirement fund, in the form of a private social security agency, to assume the risks formerly managed by a pensions department attached to Gaz de France and EDF (age, disability, death, work accidents and occupational illness).
- Financial attachment of the electricity and gas industry plan to the legal basic social security plans (Caisse nationale d'assurance vieillesse ("CNAV") and supplemental plans ("AGIRC" et "ARRCO")). This attachment is achieved through financial agreements signed with these plans and consists of having the legal plans finance the benefits owed to retirees and their heirs, in consideration for:
  - the payment by electricity and gas industry companies and their employees of contributions equivalent to those made by companies participating directly in those programs, and
  - an "exceptional contribution" designed to insure long-term economic neutrality of the financing
- For special electricity and gas industry retirement benefits that go beyond the coverage of the French public retirement programs, the reform distinguishes between
  - The benefits related to rights vested as of December 31, 2004 for an electric or gas transmission or distribution activity, which are financed through a rate contribution on natural gas and electricity distribution and transmission services.
  - The benefits related to rights vested as of December 31, 2004 for other activities, which continued to be paid by the companies.
  - The benefits related to rights vested after January 1, 2005, which remains the responsibility of each company in the branch, prorated on the basis of the payroll.

The reform was completely neutral for the ordinary legal plans, for energy consumers and for the French State budget.

A new reform of the special retirement system was initiated in October 2007 and a first decree was published in the *Journal Officiel* on January 23, 2008. Essentially, it raises the contribution period to benefit from a full pension to 160 quarters, sets up a discount and surcharge system, indexes the pensions to price changes, and uses the last salary earned for at least 6 months as the basis for calculating the pension.

In the context of the branch negotiations on compensation and the reform of the special pension system, an agreement on promotions on choice was signed in December 2007 and an agreement on salary measures was signed in January 2008.

Early in 2008, the work continued within the branch to define the other adjustments to the retirement plan, including: supplemental pension system, additional insurance, considering specific features of the business, and family and spouse benefits.

#### 17.1.2.4 Social service

The Caisse Centrale d'Activités Sociales ("CCAS"), to the financing of which Gaz de France contributes in accordance with the electricity and gas industry branch status is a fully independent legal entity. It is administered exclusively by employee representatives and is under the supervision of the public authorities. Neither Gaz de France nor any other company of the electricity and gas industry branch is represented in this entity.

The total contribution made by Gaz de France to the social management bodies (withholding of 1% from the distribution receipts from end users stipulated by the status of the electricity and gas industry branch) amounted to 132.5 million euro in 2007 and 140.1 million euro in 2006. Note that this figure was 135.4 million euro in 2005.

In addition to this payment, pursuant to the provisions of Article R. 432-2 of the Labor Code, certain expenses related to transportation, meals and accommodation, were paid in the amount of 35 million euro in 2007 and 36.1 million euro in 2006, compared with 31 million euro in 2005.

## 17.2 Human Resources – Employees

### 17.2.1 Group Employees (France and abroad)

As of December 31, 2007, the Group had 47,560 employees, 67.1% of whom were employed in France. The number of employees is calculated on a consolidated basis, i.e. on the basis of the employees in each of the Group's subsidiaries, weighted by the percentage of financial consolidation of the subsidiary (see section 17.2.2 – "Employees in France (Gaz de France and its French subsidiaries)"). Of these employees, 20,845 were working as of December 31, 2007 in the Company and in divisions operated jointly with EDF; representing 43.8% of the Group's total employees, while 26,715 employees, or 56.2% of the Group total, were working in French and foreign subsidiaries.

Women represented 25.3% of the Group's employees, i.e. 12,039 employees at the end of 2007.

The following table shows the changes over the last three years in the Group's employees (consolidated as of December 31) by segment*, according to the scope of consolidation of the segments for 2007:

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| Exploration-Production | 1,205 | 1,115 | 1,131 |
| Energy Purchase-Sale | 6,985 | 7,181 | 8,818 |
| Services | 8,361 | 8,714 | 7,415 |
| Transmission-Storage, | 4,407 | 4,417 | 4,529 |
| Distribution France | 15,110 | 14,712 | 12,201 |
| International Transmission and Distribution | 14,686 | 11,855 | 11,328 |
| Other | 2,204 | 2,250 | 2,138 |
| **Total** | **52,958** | **50,244** | **47,560** |

* *Following the new organization of the Group, certain activities were reclassified between segments over all of the periods presented (see Section 6.1.1 – "General Presentation")*
** *Group management and support functions*

The Group's work force declined in 2007 by 5.3%. This decline is related to the change in the scope of consolidation of the Group, and organic changes in certain subsidiaries in France and abroad.

The work force in the subsidiaries declined by 1,693 employees between 2006 and 2007. This change was primarily due to the following changes:

- in the Service segment, a total decline in employees (-1,299 employees) generated primarily by the sale of ADF (-1,528 employees), partially offset by the acquisition of companies in Italy, the United Kingdom and the Benelux countries, and by the organic growth in the segment;
- Within the International Transmission and Distribution segment, a continue drop in the number of employees (-527) in Romania and Hungary, and a change in the method of consolidating subsidiaries in Italy (Vendite) and in Belgium (SPE).
- The inclusion of new companies for the Energy Purchase-Sale segment (Maïa Eolis and Cycofos).
- In addition, Gaz de France SA lost employees (- 991), a decline of 4.5% between 2006 and 2007.

The table below shows the Group's employees from December 31, 2007 by company and by segment:

| | Exploration-Production | Purchase-Sale | Services | Transmission-Storage | Distribution France | International Transmission & Distribution | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Company | 155 | 4,431 | 0 | 1,821 | 12,201 | 104 | 2,133 | 20,845 |
| Subsidiaries in France and abroad | 976 | 4,387 | 7,415 | 2,708 | 0 | 11,224 | 5 | 26,715 |
| **Total** | **1,131** | **8,818** | **7,415** | **4,529** | **12,201** | **11,328** | **2,138** | **47,560** |

* *Management and support functions of the Group*

## 17.2.2 Employees in France (Gaz de France and its French subsidiaries)

As of December 31, 2007, the Group employed 31,917 persons in France, including 20,845 within the Company, which represents 65.3% of the employees (it should be noted that 49 employees of the Company are available to foreign subsidiaries). 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 4.5% between 2006 and 2007.

The other employees of the Group in France are employed by the subsidiaries, primarily in the Purchase-Sale segment (4,281 employees), Transmission (2,691 employees), and Services (4,144 employees).

### 17.2.3 Employees outside France

Outside France, the Group had 15,643 employees at December 31, 2007. Note that, there were 15,951 employees at 31 December 2006.

The table below shows the employees working outside France by country and by segment at December 31, 2007:

| | Exploration-Production | Million euro | Services | Transmission-Storage | International Transmission & Distribution | Total |
|---|---|---|---|---|---|---|
| Algeria | 9 | | | | | **9** |
| Germany | 639 | 14 | - | 17 | 421 | **1,091** |
| Austria | | | | | 5 | **5** |
| Belgium | | 20 | 222 | | - | **242** |
| Canada | | | | | 12 | **12** |
| Egypt | 14 | | | | | **14** |
| Spain | | 13 | 14 | | 1 | **28** |
| Hungary | | | | | 1,073 | **1,073** |
| India | | | | | 4 | **4** |
| Italy | | 14 | 2,113 | | 219 | **2,346** |
| Mauritania | 2 | | | | | **2** |
| Mexico | | | | | 370 | **370** |
| Monaco | | | 28 | | | **28** |
| Norway | 61 | | | | | **61** |
| The Netherlands | 205 | 15 | | | | **220** |
| Poland | | | | | 2 | **2** |
| Romania | | | | | 7,711 | **7,711** |
| United Kingdom | 50 | 33 | 769 | | 193 | **1,045** |
| Russia | | | | | 12 | **12** |
| Slovak Republic | | | | | 1,238 | **1,238** |
| Switzerland | | | 125 | | 1 | **126** |
| Ukraine | | | | | 4 | **4** |
| **Total** | **980** | **109** | **3,271** | **17** | **11,266** | **15,643** |

The subsidiaries and other entities located abroad, which are wholly or majority owned by the Group are integrated in the labor policy established by Gaz de France as described below.

Outside of the Services segment, there are 12,372 employees working in the Group's subsidiaries and other entities situated abroad, in other words 26.01% of the Group's global workforce. These are subsidiaries and entities representing all Group activities, in exploration-production in Germany, the Netherlands, Norway and the United Kingdom (955 employees), distribution in Hungary and Romania (8,784 employees), distribution and transmission in Mexico (370 employees), transmission and distribution in Slovakia and in Germany (1,659 employees).

## 17.3. French and foreign subsidiaries

The year 2007 was marked by the development of certain activities (integration of electricity production assets and the launch of production from the Gjoa gas field) and by organization changes within some subsidiaries. Those changes led to restructurings in Romania and Hungary, or to the completion of merger operations between Group companies in Germany (Exploration-Production segment), and in Italy (International Transmission and Distribution segment).

Human resource policies such as the provisional management of jobs and skills, skills development and professional training, and the recruitment policy were prepared or developed by the subsidiaries in question to assist current employees and recruit new employees as part of change management.

## 17.3.1 Recruitment

2,707 new employees were recruited by the French and foreign subsidiaries of the Group.

In order to assist the Group's development, the subsidiaries have strengthened or expanded their recruitment process to reflect tensions related to the job market in the countries in which the Group operates. Thus, in the Exploration-Production segment, the Group's subsidiaries have defined a common policy and shared recruitment standards to be more effective against actual tensions in the job market. In particular, they have initiated communications programs to publicize the Gaz de France brand abroad, especially in Norway where recruitment needs are high given the future status on the operator of the subsidiary on the Gjoa gas field.

In the International Transmission and Distribution segment, the subsidiaries implemented measures to attract and retain talent, participating in recruitment forums (Romania), by integrating new employees within a special program (Hungary), by recruiting young workers while improving their professional skills through certified training programs (United Kingdom).

Within the Services segment, the Cofathec group strengthened and added professional skills to its recruitment program in France in order to hire technicians in very tight labor market. High-performance tools for sourcing and analyzing applications were created and a "campus manager" now works with schools and training centers to inform them about the company and create value for its businesses. In addition, a policy of cooptation policy was developed in France to recruit technicians and is now being expanded to certain subsidiaries abroad (United Kingdom).

## 17.3.2 Diversity

At the end of 2007, the Group's top management was represented by nine nationalities: France, Belgium, the Netherlands, Germany, Norway, Great Britain, Italy, Hungary, and Pakistan.

Non-French executives represent 7.5% of top management and 10.3% of the Group's executives are women.

Diversity is important for all the Group's entities and businesses. The subsidiaries of the Group have initiated measures to promote diversity with certain targets. In 2007, in the Service segment, the Cofathec Group signed the Diversity Charter and implemented measures for non-discrimination, particularly targeted at hiring young workers and disabled workers. The measures initiated included an expansion of the apprenticeship and professional skills policy, with a special effort to recruit apprentices, participation in forums in "sensitive" neighborhoods in France, and a policy of orientation and systematic training for new employees in Italy. Diversity programs aimed at specific cultural, ethnic and social audiences are being developed for deployment in 2008 within Cofathec in France and in the United Kingdom.

The subsidiaries of the International Transmission and Distribution segment have developed measures targeted at:

- women: to hire women in technical positions, improve access to management positions (Mexico), the possibility of part-time or flex-time work (Hungary);
- foreign workers, with employees from countries outside the country of the entity (Slovakia);
- young workers, through financial assistance for housing costs (Hungary);
- and disabled workers: refitting of work stations for workers who are disabled or with a reduced work capacity in a call centre (Hungary), recruitment of disabled workers in line with legislation (Italy).

Moreover, during the merger between two companies (Italy), emphasis was given to the fair treatment of the employees, whatever their original company.

Finally, the Exploration-Production subsidiaries contribute to improved cultural diversity through a growing number of employees on foreign assignments, from France to abroad, from abroad to France, or from subsidiary to subsidiary.

## 17.3.3 Labor dialogue

The labor dialogue within the Group subsidiaries in France and abroad has addressed coordination in different areas related to local HR challenges, and has led to the signature of agreements. The French subsidiaries and almost all subsidiaries in Europe have collective advisory bodies (93% of the employees are represented).

In the International Transmission and Distribution segment, the stakes of the labor dialogue focused on the integration generated by the merger of companies and social assistance for reorganizations (Italy, Hungary), working and compensation conditions, primarily in the countries of Central and Eastern Europe.

In the Exploration-Production segment, a long period of consultation dealt with the merger of two subsidiaries in Germany, a process that was completed early in 2008. Compensation was also another issue for consultation (Netherlands).

Within the Purchase Sale segment, Savelys exchanges focused on improved labor dialogue (with the establishment of a specific work scheduled between the site works council and the central works council), the initiation of negotiations for collective agreements concerning GPEC and stand-by time, and the implementation of an incentive agreement for 180 agencies. For the power production activities, efforts focused on the reorganizations related to the technical function in France (dk6) and in the United Kingdom (Shotton plant).

The Transmission Storage segment focused its efforts on the reorganization of the technical function which is now part of the expertise Technical Centre, integrated within the headquarters of GRTgaz.

Finally, for the Services segment, consultations and negotiations conducted by the Cofathec Group or its companies primarily dealt with the following issues: jobs and skills (career management and individualized career plans), restructurings (combination of activities, adaptation and harmonization of the collective agreements and categories following company mergers in France, and the integration of the employees of new companies in the Group in the UK within Cofathec UK, with new job conditions), improve labor dialogue in Italy (agreement on labor relations) and in the United Kingdom (survey with employees of recently acquired companies), working conditions at Cofathec in Italy (risk prevention program), and compensation at Cofathec Services and Cofathec Omega (salary agreement, increase in employer contribution to supplemental pension plans, negotiation of an enterprise agreement on adjustments to the health care plan).

### 17.3.4 Training and professional development

28,149 employees were trained in 2007, representing more than 59% of the Group's work force.

The training and professional development program implemented within the subsidiaries of the International Transmission and Distribution segment emphasis professional management skills in change management: the managerial program in Romania based on seven key themes, change management in Hungary, and coaching in Italy. At the same time, specific training program in the gas businesses were offered to employees and extended to the employees of the subcontracting companies (Mexico), offered training from experts in the gas technical sector, and assisted in the development of technological and safety skills (Slovakia and Mexico).

Given their specific needs for professional skills for their employees, the subsidiaries of the Exploration-Production segment continued "training on the job" program, which give the employees real-life field situations and "field trips" where they discover on site the characteristics of the gas and oil fields, in addition to traditional training sessions.

Within the Services segment, most of the entities of the Cofathec group have initiated policies to develop managerial skills for executives, but also for operational and staff managers with multi-year program. Training in change management is also provided in several Group companies to respond to the many structural changes in progress.

In Transmission Storage, the training priorities are both the development of "core business" skills as well as preparing the adaptation of skills to the engineering businesses and increasing professional managerial expertise.

Within the Purchase-Sale segment, Savelys is working to promote internal ascending mobility and has defined a training path to allow team leaders and/or technicians to move up to management positions (as agency heads for example). A study was conducted in 2007 to improve the proportion of women in these positions.

## 17.4. Group employees in the Company

### 17.4.1 Employees

As of December 31, 2007, the Company had 20,845 employees, including 20,684 employees who belonged to the Electricity and Gas Industries branch ("electricity and gas industry").

The breakdown of Company jobs within the socio-professional categories reflects the technical nature of its businesses (25% managers, 48.9% supervisors, and 26.1% employees and workers).

In addition, as of December 31, 2007, 10,840 employees, representing 52% of the Company's work force, were assigned to the joint division of EDF and Gaz de France (EGD) (see section 6.1.3.2.2.2.3 – "Organization of the gas distributor"). This figure is the result of a calculation of the individual percentage of gas activity for the EGD employees.

### 17.4.2. Recruitment

In 2007, the Company hired 743 new employees. In 2006 711 employees were recruited.

### 17.4.3 Departures, layoffs and early retirement

In 2007, 1099 definitive departures were recorded within the scope of consolidation of the Company (including 108 resignations). In comparison, 1029 employees definitively left the Company in 2006 (including 87 resignations).

## 17.4.4 Temporary workforce

In 2007, the average number of temporary workers per month was 810, or 3.8% of the average monthly number of employees. In 2006 this figure was 879 persons, or 4% of the average monthly number of employees. The average length of temporary labor agreements was 50 days. Temporary workers were used in all of Gaz de France's business activities.

## 17.4.5 Information related to staff reduction and job protection plans, reclassification efforts, re-hiring and attendant measures

The status of personnel in the electricity and gas industry does not guarantee employment. However, because of its policies the Company has managed to date to protect jobs by:

- anticipating and assisting in essential organization changes;
- assistance and incentives for both geographic and job-related mobility; and
- skills development (training, professional advancement programs, etc.) to assist with 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.

In 2006 the Company decided to systematically offer collective negotiations to employees for each reorganization in order to define the methods for assisting the employees.

Additionally, Gaz de France created two new programs (implemented under a collective agreement) to assist employees affected by a reorganization: the "incentive for directive job mobility" and the possibility for employees with less than three years before retirement to take an end-of-career leave for three years, if there is an ongoing surplus of skills over needs and real difficulties in finding new employment for the employees concerned.

## 17.4.6 Organization and duration of work week, absenteeism

Framework 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 absent (excluding annual holidays and disputes) was 1,568,148 hours in 2007, which represents 4.83% of the number of theoretical hours worked, compared with 4.79% in 2006. The most frequent cause of absence was illness.

## 17.4.7 Compensation

The compensation system applied within Gaz de France is defined at the level of the electricity and gas industry branch. General increases are negotiated at this level.

The compensation system is based on the job class, 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, separated by about 2.3%[1]. Salary hikes are awarded annually to nearly 30% of the employees selected by the hierarchy based on an assessment of their contribution, on the basis of award rates negotiated in an enterprise agreement after a branch negotiation has defined the bottom rates for the branch.

The gross average monthly compensation for Gaz de France employees was 3,195 euro (on a 12-month basis) in 2007. Note that it was 3,186 in 2006 and 3,074 in 2005.

## 17.4.8 Employee relations and collective bargaining agreements

### Collective agreements within Gaz de France

The practice of collective bargaining has been developed within Gaz de France for about ten years.

In 2007, 17 collective agreements were signed, including a set of agreements to adapt the employee representative institutions of the Company. An agreement on the Time Savings Account was signed on October 3, 2007. Under this agreement, the signatories provided an adapted response to the various aspirations of the employees and the needs of the companies by using the new opportunities offered by the Law of March 31, 2005 concerning the reform of the work week in businesses, which opened new possibilities for the Time Savings Account such as monetization.

### Strike hours

The number of strike hours in the Company totaled 126,588 hours, representing 0.39% of the number of theoretical hours worked in 2007. The movements in 2007 were focused on the following claims: refusal of the Gaz de France privatization and opposition to the proposed merger with Suez.

In comparison, in 2006 the number of strike hours was 153,484, representing 0.47% of the number of theoretical hours worked during the year.

## 17.4.9 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

(1) *The compensation scale of the gas and electric industry branch was adjusted as of 2006 in connection with a branch compensation agreement for 2006 and 2007.*

policy of controlling risks that could have an effect on employee health (in particular chemical risks, muscular-skeletal problems and psycho-social risks).

An important commitment by management, 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.

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 2007, the frequency rate for accidents with shutdown was 2.5, down from 3.4 in 2006. The severity rate was 0.19 compared with 0.17 in 2006.

## 17.4.10 Training

Gaz de France has always paid particular attention to the management of its skills, convinced that its capacity for technical and commercial innovation greatly depends on the level of professionalism and involvement of its employees.

In 2007 the Company devoted 46.7 million euro to training, or 5.46% of the gross amount of salaries paid. In 2006, these figures were 35.4 million euro for training and 4.1% of payroll.

In 2006 the Company began work on creating its own training service, which has been operational since 1 January 2007.

In 2007 Gaz de France also increased its efforts to offer work/study programs, with nearly 400 young people in internships and professional training contracts, bringing the total number of work/study contracts to nearly 553 at the end of 2007 (over 2.2% of average annual number of employees).

This citizenship approach also permits the Company to develop a strong pool of skills in order to satisfy a large proportion of its replacement needs within its "core business".

It should be noted that the future needs of Gaz de France are now ascertained through the work of the National Business Watch, set up in the Company in 2005.

## 17.4.11 Employment of disabled workers

On April 12, 2006, Gaz de France signed a new three-year agreement covering 2006-2008 for the inclusion of disabled persons.

Within this framework, the Company recruited 28 disabled employees in 2007, including 14 under work/study program.

The number of disabled workers at the end of 2007 was 430.

## 17.5 Equity interests and stock options of the Directors and Chief Operating Officers

The table below shows the number of Company shares held, to the Company's knowledge, by directors and officers as of December 31, 2007:

| Name | Office | Number of shares at Dec 31, 2007 |
|---|---|---|
| Jean-François Cirelli | Chairman and Chief Executive Officer | 4,044 |
| | Director elected by the Shareholders' Meeting | |
| Jean-Louis Beffa | Director elected by the Shareholders' Meeting | 4,048 |
| Aldo Cardoso | Director elected by the Shareholders' Meeting | 1,044 |
| Guy Dollé | Director elected by the Shareholders' Meeting | 83 |
| Peter Lehmann | Director elected by the Shareholders' Meeting | 600 |
| Philippe Lemoine | Director elected by the Shareholders' Meeting | 575 |
| Paul-Marie Chavanne | Director representing the State | 0 |
| Philippe Favre | Director representing the State | 0 |
| Pierre Graff | Director representing the State | 0 |
| Xavier Musca | Director representing the State | 0 |
| Florence Tordjman | Director representing the State | 48 |
| Edouard Vieillefond | Director representing the State | 0 |
| Olivier Barrault | Director representing the employees | 0 |
| Eric Buttazzoni (2) | Director representing the employees | 0 |
| Bernard Calbrix | Director representing the employees | FCPE units equaling 339 shares |
| Yves Ledoux | Director representing the employees | 0 |
| Jean-François Le Jeune | Director representing the employees | 0 |
| Anne-Marie Mourer | Director representing the employees | 1,626 |
| 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.

(2) *The term of office representing the employees of Eric Buttazzoni expired on December 14, 2007.*

# 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 section 21.1.7.2 – "Shares granting the right to free shares"), the State holds 79.8% of the shares in Gaz de France as of the date of filing of this registration document.

### 18.1.2 Declaration of legal thresholds

To the Company's knowledge, as of the date of filing of this registration document, 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 Commercial Code.

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 Commercial Code, 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 he owns (to the extent that the payment of such shares has been called by the Company).

## 18.3 Statement concerning majority shareholder control of the Company

On the date of registration of this document, the State held 79.8% of the shares of the Company.

Article 24 of French Law No. 2004-803 dated August 9, 2004 as amended 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 control to the private sector is subject to the application of the procedures stipulated by Law 86-912 of August 6, 1986 governing privatization procedures, as amended by Law 93-923 of July 19, 1993. In addition, the transfer of the Company to the private sector was previously authorized by Decree 2007-1784 of December 19, 2007.

See section 16.8 – "Declaration concerning corporate governance".

## 18.4 Agreement concerning control of the Company

Under current legislation, the French State must hold more than one-third of the Company's share capital (1) (see section 18.3 – "Declaration concerning control of the Company by the majority shareholder" and Chapter 12 – "Trends Likely To Influence Company's Prospects").

# 19 RELATED PARTY TRANSACTIONS



This chapter describes the significant agreements signed by the Company with related companies or persons until the date of registration of this registration document.

## 19.1 Relations with the French State

### 2005-2007 public service agreement between Gaz de France and the French State

The public service missions in the energy sector are defined by the Law of January 3, 2003. With respect to Gaz de France, implementation of those missions is through a public service agreement, pursuant to Article 1 of the Law of August 9, 2004. A public service agreement was signed by Gaz de France and the State on June 10, 2005. For further information see section 6.1.4.7.2. – "The public service agreement." A new public service agreement is currently being negotiated.

### Memorandum of Understanding between Gaz de France, the French State and Société Générale concerning the implementation of the Offering Reserved for Employees

In the context of the privatization of the Company as described in Section 21.1.7.1 – "Public Offering of the Company", a tripartite memorandum of understanding was signed on September 7, 2005 between Gaz de France, the French State and Société Générale (the "Memorandum"). The Memorandum was approved by the Board of Directors of Gaz de France on July 11, 2005. The purpose of the Memorandum is to define the conditions for the implementation of the Offering Reserves for the Employees, as described in the Offering Circular approved by the AMF on June 22, 2005. The Memorandum governs principally the conditions for the collection of the purchase orders, the settlement-delivery of the shares, the collection of the acquisition prices for the shares, and the allotment of bonus shares as described in Section 21.1.7.2.2 – "Allotment of bonus shares in the Employee Offering".

Concerning the conditions for collection of the acquisition price for the shares, the State has offered to some current and former employees who are beneficiaries of the Employee Offering an option between cash payment of the purchase price for their shares on the settlement-delivery date and a payment schedule in three payments over two years for the purchase price of their shares. Moreover, Gaz de France and the Group companies participating have offered some current and former employees who are beneficiaries of the Employee Offering a payment schedule for the price of their shares in 24 or 36 monthly installments. Under the Memorandum, Gaz de France has made the commitment to substitute for the current and former employees benefiting from the this payment plan in 24 or 36 monthly payments at the time of each payment to the State and to pay the State in three installments over two years.

## 19.2 Relations with the EDF group

### Agreement concerning the distribution activity of EDF Gaz de France Distribution between Gaz de France and EDF

On April 18, 2005, Gaz de France and EDF signed an agreement defining their relations for the distribution activities of EDF Gaz de France Distribution. To adapt this agreement to the requirement for legal separation of the power and gas transmission network managers resulting from the Law of December 7, 2006 and the creation of a joint department between the companies GrDF and eRDF resulting from that law, an amendment to this agreement was signed on December 20, 2007 by Gaz de France and EDF. This amendment organizes the assumption of their rights and obligations under the agreement by their respective subsidiaries GrDF and eRDF. Moreover, it adapted the governance agreement to the new organization. For more information see Section 6.1.3.2.2.2.3 – "Organization of the distributor".

### Agreement concerning the construction and operation of an electric power plant between Gaz de France and RTE

After winning the bid tender launched by RTE in February 2005 for the construction and operation of a power plant located in Saint-Brieuc with a production capacity of about 200 MWel, Gaz de France and RTE on December 6, 2006 signed a power production reservation agreement effective as of 2010.

### Electricity supply agreement between EDF and Gaz de France

In order to assist the commercial development of Gaz de France in electricity, Gaz de France and EDF on June 6, 2005 signed a three-year contract for the purchase of electricity.

# 19.3 Relations with Group companies

## 19.3.1 Relations with GRTgaz

### Service agreements between Gaz de France and GRTgaz

In 2005 Gaz de France and its subsidiary GRTgaz signed a contract under which Gaz de France provides, on behalf of GRTgaz, information services. Those services represented a total of nearly 44.6 million euro in 2006 and 44.1 million euro in 2007.

Moreover, in 2005 Gaz de France and GRTgaz signed an agreement intended to define and value the charges related to the application of the status of Electric and Gas Industries to the agents of GRTgaz, as well as the distributable services that cannot be individualized which are performed by the support functions of Gaz de France on behalf of GRTgaz. These charges and services resulted in payments by GRTgaz to Gaz de France for a total amount of 60.2 million euro in 2006 and 65.5 million euro in 2007.

### Security and flexibility agreement between Gaz de France and GRTgaz

Gaz de France and its subsidiary GRTgaz signed an agreement in 2006 for the storage year 2006–2007 and in 2007 for the storage year 2007–2008, under which Gaz de France provides on behalf of GRTgaz a security and flexibility service which meets the transporter's needs for balance and safety of the transmission network, which breaks down into a storage service in Tersanne and injection/draw-off rights on each of the six storage transmission interface points of the transmission network. This service totaled 25.3 million euro in 2007.

### Capacity reservation agreement for third-party access to the networks between Gaz de France and GRTgaz

Gaz de France and its subsidiary GRTgaz signed a capacity reservation agreement in February 2005 for third-party access to the network for a total of 1,116 million euro in 2005 and 1,087 million euro in 2006 and 1,038 million euro in 2007.

## 19.3.2 Relations with GrDF

### Carve-out of the activity of natural gas distribution network manager

On July 20, 2007, Gaz de France and its subsidiary GrDF signed an assignment agreement under which Gaz de France transferred to GrDF its business as a natural gas distribution network manager, pursuant to Law No. 2004-803 of August 9, 2004 governing electricity and gas public services and electric and gas utilities, as amended by Law No. 2006-1537 of 7 December 2006 governing the energy sector. As stipulated by the law, the agreement is for the transfer to GrDF of all assets, authorizations, rights and obligations relating to the business of managing natural gas distribution networks, particularly the employment contracts and the rights and obligations for the management of distribution networks resulting from the concession agreements stipulated by Sections I and III of Article L. 2224-31 of the general code for local communities. The transfer was effective on December 31, 2007.

### Contract to transmit natural gas over the natural gas distribution network between Gaz de France and GrDF

Gaz de France and GrDF signed an agreement for the transmission of natural gas by GrDF over the distribution network for customers of Gaz de France. This agreement entered into full force and effect on January 1, 2008 for a term of one year, which may be tacitly renewed.

### Loan agreement between Gaz de France and GrDF

Gaz de France made GrDF a loan for a term of 15 years, consisting of two segments, one at a variable rate. The loan agreement entered into full force and effect on December 31, 2007.

### Framework agreement for research and development work between Gaz de France and GrDF

Gaz de France and GrDF signed a framework agreement for the completion of research and development work, which defines the general rules applicable to the scientific and technical projects and assistance agreements which the two parties want to implement in the context of the technical objectives defined with GrDF.

### Contracts for information services between Gaz de France and GrDF

Gaz de France and GrDF signed two information services agreement, effective January 1, 2008. One of these contracts provides for the conditions for the performance of information and telecommunications services contributing to the coverage of GrDF's needs, and the other covers the combined information and telecommunications services performed by the DIT (Combined Department between Gaz de France and EDF) for GrDF and the power network managing subsidiary of EDF.

### Contract on status expenses between Gaz de France and GrDF

Gaz de France and GrDF signed an agreement intended to define and value the charges related to the application of electrical and gas industries status to the agents of GrDF. This contract became effective on January 1, 2008.

### Lease agreements and property service agreements between Gaz de France and GrDF

Gaz de France (and other companies of the group such as Cofathec) and GrDF signed three agreements under the terms of which Gaz de France performs property management services on behalf of GrDF. These agreements took effect on January 1, 2008.

In addition, GrDF's occupancy of buildings owned or leased by Gaz de France SA or its real estate subsidiary SFIG are covered by commercial leases or subleasing agreements.

### Service agreement between Gaz de France and GrDF (support functions)

Gaz de France and GrDF signed a service agreement under the terms of which Gaz de France performs administrative services (financial assistance, management control, purchasing policy, etc.) for GrDF. This agreement took effect on January 1, 2008.

## 19.3.3 Relations with Société du terminal méthanier de Fos Cavaou

### Contract for access to the Fos Cavaou LNG terminal between Gaz de France and Société du terminal méthanier de Fos Cavaou

Gaz de France and Société du terminal méthanier de Fos Cavaou signed an agreement in 2006 which organizes Gaz de France's access to the Fos Cavaou LNG terminal for the receipt of the LNG transported from Egypt under supply contracts between the Group and Egyptian LNG (5.18 billion cubic meters per year).

### Contract to operate and maintain the Fos Cavaou LNG terminal between Gaz de France and Société du terminal méthanier de Fos Cavaou

Gaz de France and Société du Terminal Méthanier de Fos Cavaou on January 26, 2006 signed an agreement under the terms of which Société du terminal méthanier de Fos Cavaou assigned to the major infrastructure department of Gaz de France the operation and maintenance of the Fos Cavaou LNG terminal for a period of 25 years from operational acceptance of the structure, and agrees to pay Gaz de France for all reimbursable expenses incurred by Gaz de France during the construction and mobilization phase and during the operational phase. This contract is expected to generate proceeds of about 25 million euro per year for Gaz de France in the operational phase. For 2007, the income totaled 8.3 million euro.

## 19.3.4 Relations with Cofathec Maintenance

### Facility management agreement between Gaz de France and Cofathec Maintenance

In January 2007, Gaz de France and Cofathec Maintenance signed an agreement under which Gaz de France entrusts to Cofathec Maintenance the service and maintenance of properties representing about 768,800 m$^2$, which it owns or leases, for a term of three years and an annual amount of about 27.7 million euro. The signature of this agreement was first authorized by the Gaz de France Board of Directors on December 20, 2006.

## 19.3.5 Relations with other companies of the Group

### Energy purchase agreement between Gaz de France and other companies of the Group

Gaz de France has signed the following energy purchase agreements with some of its subsidiaries in which it holds exclusive control:

- with GDF Production Nederlands BV, gas purchase agreements for a total invoiced amount of 54 million euro in 2005, 175 million euro in 2006 and 174 million euro in 2007; and
- with GDF Britain Ltd, gas purchase agreements for a total invoiced amount of 125 million euro in 2005, 197 million euro in 2006 and 125 million euro in 2007.

Moreover, Gaz de France signed the following energy purchase agreements with companies of the Group in which it does not hold control:

- with the Gaselys company, a gas purchase agreements for a total invoiced amount of 1,306 million euro in 2005, 2,390 million euro in 2006 and 1,289 million euro in 2007;
- with EFOG, a gas purchase agreement for a total invoiced amount of 262 million euro in 2005, 399 million euro in 2006 and 245 million euro in 2007; and
- with the FRAGAZ company, two long-term purchase agreements for gas from Russia for a total invoiced amount of 190 million euro in 2005, 5 million euro in 2006 and 2 million euro in 2007.

### Energy sale agreement between Gaz de France and other companies of the Group

Gaz de France has signed the following energy sale agreements with certain subsidiaries in which it holds exclusive control:

- with Gaz de France Deutschland Gmbh, a gas sale agreement for a total invoiced amount of 113 million euro in 2005, 181 million euro in 2006 and 207 million euro in 2007;
- with GDF ESS, gas sale agreements for a total invoiced amount of 553 million euro in 2005, 818 million euro in 2006 and 702 million euro in 2007;
- with GDF STM The Netherlands BV, a gas sale agreement for a total invoiced amount of 280 million euro in 2005, 428 million euro in 2006 and 487 million euro in 2007;
- with GDF Comercializadora, a gas sale agreement for un total invoiced amount of 64 million euro in 2005, 140 million euro in 2006 and 221 million euro in 2007;
- with GDF International Trading, a gas sale agreement for a un total invoiced amount of 27 million euro in 2005, 107 million euro in 2006 and 466 million euro in 2007;
- with GDF Marketing, an electricity sale agreement for an invoiced amount of 469 million euro in 2007;
- with GDF Marketing, a gas sale agreement for an invoiced amount of 55 million euro in 2007.

Moreover, Gaz de France signed the following energy sale agreements with companies of the Group in which it does not hold exclusive control:

- with Gaselys, a series of energy sale transactions for a total invoiced amount of 663 million euro in 2005, 1,192 million euro in 2006 and 647 million euro in 2007;
- with the companies of the SPE sub-group (SPE and its subsidiaries City Power, ALG Négoce and Luminus), a series of energy sale and related service transactions for a total invoiced amount of 346 million euro in 2006 and 369 million euro in 2007; and
- with MED Lng & Gas, a series of energy sale transactions for a total invoiced amount of 31 million euro in 2005, 17 million euro in 2006 and 102 million euro in 2007.

The special report of the independent auditors on related-party agreements for the year ended December 31, 2007 appears below:

## Gaz de France S.A.
## Year ended December 31, 2007

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.

## Statutory Auditors' Special Report on Regulated Agreements and Commitments with Related Parties (Translated from French into English)

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.

We are not required to ascertain whether any other agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements of which we were notified. 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 arising from these agreements and commitments prior to their approval.

We conducted our work in accordance with professional standards applicable in France; those 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 was extracted.

*Description of the agreements authorised during the year*

We inform you that we have not been given notice of any commitment or agreement subject to articles L.225-38 and L.225-42-1 of the French company law (Code de Commerce).

*Continuing agreements which were entered in prior years*

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, approved during previous year 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 2007 financial year:

- The payment of 74 M€ on September 7, 2007, by Gaz de France to the French State, corresponding to the third disbursement of 40% of the price of shares acquired by the entitled beneficiaries of "Gaz Plus", "Gaz Abond" and "Gaz Assur" options.
- The payment by Gaz de France to Société Générale of commissions and expenses totalling 85 K€,
- The reduction, based on the repayment schedule, of the employees debt towards Gaz de France in the amount of 68,6 M€.

*Paris-La Défense,* March 25, 2008

The Auditors

| ERNST & YOUNG AUDIT | | MAZARS & GUERARD | |
|---|---|---|---|
| Patrick Gounelle | Philippe Hontarrède | Michel Barbet-Massin | Marie-laure Phillipart |

# 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, 2007

### 20.1.1.1 Consolidated financial statements for the year ended December 31, 2007 under IFRS

CONSOLIDATED INCOME STATEMENTS

| *(million euro)* | Notes | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|---|
| Sales of goods | | 23,644 | 23,849 | 19,479 |
| Services rendered | | 3,681 | 3,671 | 3,306 |
| Revenues from financial affiliates | | 102 | 122 | 87 |
| **Revenues** | **3** | **27,427** | **27,642** | **22,872** |
| Purchases and other external charges | 4 | -19,131 | -19,976 | -16,294 |
| Personnel expenses | 5 | -2,628 | -2,581 | -2,541 |
| Other operating income | 6 | 530 | 626 | 565 |
| Other operating expenses | 6 | -792 | -856 | -741 |
| Amortization and provisions | 7 | -1,532 | -1,247 | -1,040 |
| **Operating income** | | **3,874** | **3,608** | **2,821** |
| Income from cash and cash equivalents | | 102 | 73 | 26 |
| Gross finance costs | | -272 | -196 | -228 |
| **Net finance costs** | **8** | **-170** | **-123** | **-202** |
| Other financial income | 8 | 467 | 515 | 488 |
| Other financial expenses | 8 | -607 | -749 | -724 |
| Share of income in companies accounted for by the equity method | | 99 | 176 | 189 |
| **Income before tax** | | **3,663** | **3,427** | **2,572** |
| Income tax | 9 | -1,153 | -1,104 | -794 |
| **CONSOLIDATED NET INCOME** | | **2,510** | **2,323** | **1,778** |
| Group share | | 2,472 | 2,298 | 1,782 |
| Minority interests | | 38 | 25 | -4 |
| | | **2,510** | **2,323** | **1,778** |
| Earnings and diluted earnings per share (in euro) – Group share | 10 | **2.51** | **2.34** | **1.89** |

## CONSOLIDATED BALANCE SHEETS - ASSETS

| *(million euro)* | Notes | 12.31.2007 Net | 12.31.2006* Net | 12.31.2005 Net |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Goodwill on acquisitions | 11 | 1,755 | 1,626 | 1,501 |
| Concession intangible assets | 11 | 5,612 | 5,704 | 5,677 |
| Other intangible assets | 11 | 883 | 564 | 473 |
| Tangible assets | 12 | 17,705 | 16,660 | 15,153 |
| Investments in companies accounted for by the equity method | 13 | 814 | 718 | 693 |
| Non-current financial assets | 18 | 1,447 | 1,341 | 1,169 |
| Non-current financial derivative instruments | 19 | 73 | 17 | - |
| Deferred tax assets | 9 | 79 | 61 | 99 |
| Other non-current assets | 18 | 658 | 530 | 541 |
| Assets of financial affiliates | 18 | 165 | 167 | 99 |
| **TOTAL NON-CURRENT ASSETS** | **I** | **29,191** | **27,388** | **25,405** |
| **CURRENT ASSETS** | | | | |
| Inventories and work-in-progress | 14 | 1,790 | 1,935 | 1,452 |
| Accounts receivables | | | | |
| Trade receivables and related accounts | 18 | 7,730 | 7,117 | 6,544 |
| Income tax receivables | | 233 | 84 | 69 |
| Other receivables | 18 | 853 | 1,085 | 1,646 |
| Current financial derivative instruments | 19 | 2,639 | 2,325 | 1,783 |
| Investment securities | 18 | 238 | 360 | 245 |
| Cash and cash equivalents | 18 | 2,973 | 2,196 | 1,897 |
| Assets of financial affiliates | 18 | 531 | 431 | 895 |
| **TOTAL CURRENT ASSETS** | **II** | **16,987** | **15,533** | **14,531** |
| **TOTAL ASSETS** | **I to II** | **46,178** | **42,921** | **39,936** |

*Changes to formerly published comparative information are detailed under Appendix B.2.*

## CONSOLIDATED BALANCE SHEETS - LIABILITIES

| *(million euro)* | | Notes | 12.31.2007 | 12.31.2006* | 12.31.2005 |
|---|---|---|---|---|---|
| **SHAREHOLDERS' EQUITY – Group share** | | | | | |
| Share capital | | 15 | 984 | 984 | 984 |
| Additional paid-in capital | | | 1,789 | 1,789 | 1,789 |
| Consolidated Reserves and net income | | | 14,923 | 13,075 | 11,517 |
| Translation adjustments | | 15 | 257 | 349 | 194 |
| **TOTAL SHAREHOLDERS' EQUITY – Group share** | **I** | | **17,953** | **16,197** | **14,484** |
| **MINORITY INTERESTS** | **II** | | **548** | **466** | **298** |
| **TOTAL SHAREHOLDERS' EQUITY** | | | **18,501** | **16,663** | **14,782** |
| **NON-CURRENT LIABILITIES** | | | | | |
| Provision for employee benefits | | 17 | 1,118 | 1,142 | 1,090 |
| Provisions | | 16 | 6,088 | 5,750 | 5,537 |
| Deferred tax liability | | 9 | 2,634 | 2,620 | 2,771 |
| Irredeemable securities | | 18 | 624 | 624 | 623 |
| Financial debt | | 18 | 3,966 | 3,943 | 3,324 |
| Non-current financial derivative instruments | | 19 | 11 | 8 | 13 |
| Liabilities of financial affiliates | | 18 | 126 | 93 | 19 |
| Other non-current liabilities | | 18 | 161 | 143 | 140 |
| **TOTAL NON-CURRENT LIABILITIES** | **III** | | **14,728** | **14,323** | **13,517** |
| **CURRENT LIABILITIES** | | | | | |
| Provisions | | 16 | 159 | 167 | 180 |
| Social liabilities | | | 546 | 556 | 536 |
| Financial debt | | 18 | 1,355 | 1,461 | 1,165 |
| Trade payables and related | | 18 | 3,696 | 3,623 | 3,202 |
| Current tax | | | 529 | 208 | 154 |
| Other tax liabilities | | | 852 | 724 | 1,170 |
| Other liabilities | | 18 | 2,705 | 2,615 | 2,344 |
| Current financial derivative instruments | | 19 | 2,529 | 2,189 | 1,788 |
| Liabilities of financial affiliates | | 18 | 578 | 392 | 1,098 |
| **TOTAL CURRENT LIABILITIES** | **IV** | | **12,949** | **11,935** | **11,637** |
| **TOTAL LIABILITIES** | **I to IV** | | **46,178** | **42,921** | **39,936** |

*Changes to formerly published comparative information are detailed under Appendix B.2.*

## CONSOLIDATED CASH FLOW STATEMENTS

| *(million euro)* | Note 21 | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|---|
| **I – Net cash flow from operating activities** | | | | |
| **Income before tax** | | **3,663** | **3,427** | **2,572** |
| Amortization and impairment of long-term assets | | 1,529 | 1,478 | 1,318 |
| Provisions | | 266 | 63 | -31 |
| Exploration expenses | | 103 | 86 | 44 |
| Other | | 343 | 64 | 351 |
| **Operating cash flow before tax, replacement costs and change in working capital** | | **5,904** | **5,118** | **4,254** |
| Concession replacement costs | | -247 | -294 | -255 |
| **Changes in working capital requirements** | | **232** | **-410** | **-649** |
| Inventories | | 176 | -461 | -382 |
| Trade and related receivables and liabilities | | -569 | 150 | -1,465 |
| Trade and related payables | | 101 | 293 | 1,077 |
| Other liabilities and payables | | 524 | -392 | 121 |
| Corporate income tax paid | | -1,111 | -1,348 | -562 |
| **Cash flow from operating Activities** | **I** | **4,778** | **3,066** | **2,788** |
| **II – Investment activities** | | | | |
| **1. Investments** | | | | |
| Capital expenditure | | -2,552 | -2,169 | -1,749 |
| Exploration costs directly charged to expenses | | -59 | -41 | -34 |
| Acquisition of investments & related net of cash acquired | | -275 | -487 | -674 |
| Other commitments | | -165 | -519 | -226 |
| **Sub-total** | | **- 3,051** | **- 3,216** | **- 2,683** |
| **2. Proceeds** | | | | |
| Connection fees | | 11 | 8 | 13 |
| Proceeds from disposals of tangible and intangible assets and investments | | 196 | 935 | 479 |
| Proceeds from the sale of other financial assets | | 85 | 76 | 105 |
| Interests received | | 95 | -31 | -52 |
| Dividends received | | 41 | 54 | 28 |
| **Sub-total** | | **428** | **1,042** | **573** |
| **Net investment flows** | **(1 + 2 ) II** | **-2,623** | **-2,174** | **-2,110** |
| **III – Cash flow from operating and investing activities** | **(I + II) III** | **2,155** | **892** | **678** |
| **IV – Financing activities** | | | | |
| Capital increase and additional paid-in capital | | 47 | 67 | 1,869 |
| Treasury shares | | -49 | 1 | - |
| Dividends paid | | -1,095 | -669 | -420 |
| Borrowings | | 903 | 892 | 1,297 |
| Repayment of borrowings | | -1,132 | -619 | -2,124 |
| Change in investment securities | | 108 | -110 | -134 |
| Interest paid | | -185 | -128 | -189 |
| **Cash flow from financing activities** | **IV** | **-1,403** | **-566** | **299** |
| **V – Effect of changes in exchange rates, consolidation method and others** | **V** | **-** | **25** | **10** |
| **VI – Change in cash (note 18.3)** | **(III + IV + V)** | **752** | **351** | **987** |
| Cash and cash equivalents at beginning of period (note 18.3) | | 1,575 | 1,224 | 237 |
| Cash and cash equivalents at end of period (note 18.3) | | 2,327 | 1,575 | 1,224 |

## RECOGNISED INCOME AND EXPENSES

| | 12.31.2007 | | | 12.31.2006 | | | 12.31.2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| *(million euro)* | Group Share | Minorities Share | Total | Group Share | Minorities Share | Total | Group Share | Minorities Share | Total |
| **Profit for the year** | **2,472** | **38** | **2,510** | **2,298** | **25** | **2,323** | **1,782** | **-3** | **1,779** |
| Actuarial gains/(losses) on employee benefits | 260 | -9 | 251 | -3 | - | -3 | -48 | - | -48 |
| Fair value adjustments on financial hedging instruments | | | | | | | | | |
| - unrealised gains or losses recognised in equity | 141 | -7 | 134 | 8 | 1 | 9 | 46 | 1 | 47 |
| - transfer to earnings on due or discontinued hedging | 51 | 6 | 57 | -7 | 1 | -6 | -128 | 1 | -127 |
| Fair value adjustments on available-for-sale financial assets | | | | | | | | | |
| - unrealised gains or losses recognised in equity | 194 | - | 194 | 45 | - | 45 | 62 | - | 62 |
| - transfer to earnings on securities disposed | -1 | - | -1 | -120 | - | -120 | -119 | - | -119 |
| - transfer to earnings for lasting impairments | - | - | - | - | - | - | - | - | - |
| Translation adjustments | -92 | -27 | -119 | 155 | 25 | 180 | 89 | -2 | 87 |
| Deferred taxes | -158 | 3 | -155 | -3 | - | -3 | 49 | - | 49 |
| **Total income and expenses recognised directly in equity** | **395** | **-34** | **361** | **75** | **27** | **102** | **-49** | **-** | **-49** |
| **Total recognised income and expenses*** | **2,867** | **4** | **2,871** | **2,373** | **52** | **2,425** | **1,733** | **-3** | **1,730** |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Shareholders' equity – Group share | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(million euro)* | **Share capital** | **Treasury shares** | **Premiums** | **Fair value reserves and other** | **Reserves** | **Income** | **Translation adjustments** | **TOTAL** | **Minority interests** | **TOTAL Shareholders' equity** |
| **Shareholders' equity at Jan 1, 2005** | **903** | | | **25** | **9,001** | **1,105** | **104** | **11,138** | **205** | **11,343** |
| Net income | | | | | | 1,782 | | 1,782 | -3 | 1,779 |
| Income and expenses recognised directly in equity | | | | -139 | | | 90 | -49 | | -49 |
| **Total recognised income and expenses*** | | | | **-139** | | **1,782** | **90** | **1,733** | **-3** | **1,730** |
| Net income allocation | | | | | 1,105 | -1,105 | | | | |
| Dividends paid (0.46 euro per share)** | | | | | -418 | | | -418 | -2 | -420 |
| Issuance of shares | 81 | | 1,789 | | | | | 1,870 | | 1,870 |
| Share-based payments | | | | | 132 | | | 132 | | 132 |
| Change in scope of consolidation | | | | | | | | | 100 | 100 |
| Other changes | | | | 3 | 26 | | | 29 | -2 | 27 |
| **Shareholders' equity at Dec 31, 2005** | **984** | | **1,789** | **-111** | **9,846** | **1,782** | **194** | **14,484** | **298** | **14,782** |
| Net income | | | | | | 2,298 | | 2,298 | 25 | 2,323 |
| Income and expenses recognised directly in equity | | | | -80 | | | 155 | 75 | 27 | 102 |
| **Total recognised income and expenses*** | | | | **-80** | | **2,298** | **155** | **2,373** | **52** | **2,425** |
| Net income allocation | | | | | 1,782 | -1,782 | | | | |
| Dividends paid (0.68 euro per share) | | | | | -669 | | | -669 | -1 | -670 |
| Change in scope of consolidation | | | | | | | | | 52 | 52 |
| Other changes | | | | | 9 | | | 9 | 65 | 74 |
| **Shareholders' equity at Dec 31, 2006** | **984** | | **1,789** | **-191** | **10,968** | **2,298** | **349** | **16,197** | **466** | **16,663** |
| Profit for the year | | | | | | 2,472 | | 2,472 | 38 | 2,510 |
| Income and expenses recognised directly in equity | | | | 487 | | | -92 | 395 | -34 | 361 |
| **Total recognised income and expenses*** | | | | **487** | | **2,472** | **-92** | **2,867** | **4** | **2,871** |
| Net income allocation | | | | | 2,298 | -2,298 | | | | |
| Dividends paid (1.10 euro per share) | | | | | -1,082 | | | -1,082 | -12 | -1,094 |
| Other changes | | -51 | | | 22 | | | -29 | 90 | 61 |
| **Shareholders' equity at Dec 31, 2007** | **984** | **-51** | **1,789** | **296** | **12,206** | **2,472** | **257** | **17,953** | **548** | **18,501** |

* *See detailed information in Recognised 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 a division of the par value by two. Based on the effective par value (namely 2 euro), earnings per share amounted to 0.93 euro.*

## APPENDICES

### A – Accounting principles and evaluation methods

#### Introduction

**1. Basis of preparation of the financial information**

As required under European Directive 1606/2002 of July 19, 2002, the Group's consolidated financial statements for the year ended December 31, 2007 have been prepared in accordance with international accounting standards/international financial reporting standards (IAS/IFRS) applicable as on that date, as approved by the European Union. Concession agreements are accounted for in accordance with the accounting principles of interpretation of the International Financial Reporting Interpretations Committee (IFRIC) 12 Service Concession Arrangements, published by the International Accounting Standards Board (IASB) on November 30, 2006, and not yet approved by the European Union, considering, in line with the recommendation issued by the French securities regulator (AMF) in December 2006, that this interpretation allows furnishing improved financial information.

As a result, the Group's consolidated financial statements for the year ended December 31, 2007 are also compliant with international accounting standards (IAS/IFRS) applicable as on that date, as adopted by the IASB.

**2. Standards and amendments adopted in the European Union and applicable for financial years starting as of January 1, 2007**

The standards and amendments which should be applied for financial years starting as of January 1, 2007 are as follows:

- IFRS 7 'Financial Instruments: Disclosures';
- IAS 1 (amendment) concerning capital disclosures.

The additional information required by these standards in terms of financial disclosures is presented for the first time in the consolidated financial statements for the year ended December 31, 2007, with information for comparative purposes.

**3. Interpretations adopted in the European Union and mandatory for fiscal years starting as of January 1, 2007**

The interpretations to be applied for financial years beginning as from January 1, 2007 are as follows

- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 9 "Reassessment of Embedded Derivatives".

Gaz de France is not concerned with the first two interpretations for fiscal year 2007. IFRIC 9 and IFRIC 10 have no significant impact on the December 31, 2007 financial statements.

**4. Standards adopted by the European Union and whose application is not mandatory at December 31, 2007**

Interpretation IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", adopted by the European Commission on June 1, 2007, and applicable on an optional basis for financial years starting before March 1, 2007, does not apply to Gaz de France.

IFRS Standard 8, "Operating sectors," will be required to replace IAS Standard 14 for financial years starting as of January 1, 2009. Gaz de France has not as of yet applied this standard. Its impacts on the valuation and presentation of segment information are currently being looked into.

**5. Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union at December 31, 2007**

**- Standards which may be early applied at December 31, 2007**

The following standards were published by the IASB on December 31, 2007, but are not yet part of IFRS as adopted by the European Union.

- IFRIC 12 "Service Concession Arrangements", applicable at January 1, 2008 and applied early by the Group when preparing the financial statements on December 31, 2006,
- IFRIC 14: IAS 19 – The limit on a "Defined Benefit Asset, Minimum Funding Requirements and their Interaction", applicable as of January 1, 2008. The consequences on the accounts and on evaluation of the application of this standard are still being determined.

**- Standards which cannot be early applied at December 31, 2007**

- Revised IAS Standard 23, "Borrowing Costs," providing for the mandatory capitalisation of borrowing costs within the book value of assets requiring long preparation periods, is mandatory for fiscal years starting as of January 1, 2009. The consequences of applying this standard to postings of the assets in question is still being determined.

**6. Exemptions elected for the preparation of the first IFRS financial disclosures**

In compliance with the provisions of IFRS 1, the Group elected, for the preparation of the 2004 opening balance sheet and the first IFRS financial statements, the following exemptions to the general principle of retrospective adoption of IFRS for first time adoption:

- *business combinations*: the Group did not retroactively restate business combinations which occurred prior to January 1, 2004 in accordance with IFRS 3.
- *pension commitments and related benefits*: unrecognised actuarial gains and losses under the corridor method at the

transition date were fully recognised directly in equity under balance sheet liabilities.

- *exchange rate gains and losses related to foreign activities*: accumulated conversion gains and losses as of January 1, 2004 for conversion of the financial statements for foreign activities were reclassified under consolidated reserves on the transition balance sheet.
- *designation of previously recognised financial instruments*: the classification of certain financial instruments as investments available for sale or as investments measured at their fair value through profit and loss was applied from the date of adoption of IAS 39 and not from the date of initial recognition of such investments.
- *payments in shares:* the Group elected to apply IFRS Standard 2 only to shares awarded after November 7, 2002 for which the rights were not yet acquired as of December 31, 2004. Similarly, liabilities resulting from transactions for which payment was based on shares, settled before December 31, 2004, were not subject to restatement.

The Group elected not to apply the following exemptions

- *fair value or revaluation used as assumed cost*: the Group chose to re-establish the historic cost of tangible and intangible fixed assets in accordance with IAS 16 and IAS 38 and to not use this option.

The impacts of the IFRS standards on the Group's shareholders' equity as of January 1, 2004 and on 2004 income were published within the framework of the IFRS 2004 financial information. Initially, it was included in the base document registered with the French securities regulator (AMF) on April 1, 2005 under number I. 05-037.

## 1 – GENERAL INFORMATION

### 1 – 1 Financial statement review

The consolidated financial statements for 2007 were prepared under the responsibility of the Board of Directors, who approved them on February 26, 2008.

They will be subject to approval by the ordinary general shareholders' meeting to be held May 19, 2008. This Meeting has the authority to amend the financial statements presented to it.

### 1 – 2 General principles for the preparation of the financial statements

The financial year runs for 12 months and covers the period from January 1 to December 31. For companies not closing their annual financial statements at December 31, no interim financial statements are prepared due to the relatively insignificance of such companies and to the fact that their year-end closing date is no more than three months before December 31.

The consolidated financial statements are prepared under 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,
- Financial assets available for sale,
- Derivative financial instruments as well as,
- Assets and liabilities which are subject to fair value hedges.

## 2 – ACCOUNTING POLICIES

### 2 – 1 Disclosure policies

**Balance Sheet structure**

Current assets comprise:

- assets intended for sale or consumption in the Group's operating cycle,
- cash and cash equivalents,

All other assets are classified as non-current assets.

Current liabilities comprise:

- liabilities related to the Group's operating cycle, as well as,
- those liabilities due to be settled within 12 months.

All other liabilities are classified as non-current liabilities.

Bank overdrafts are classified as current liabilities.

Net financial debt: although not reported as such in the financial statements, the Group considers 'net financial debt' to be a meaningful indicator for measuring the Group's indebtedness. Net debt is defined as the sum of current and non-current debt and the fair value of hedging instruments less cash and cash equivalents and investments in short-term securities.

**Income statement structure**

The income statement is presented according to the nature of expenses and structured around the following indicators:

*Operating income*

Operating profit comprises all income and expenses directly related to the Group's operations which 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 which are beyond the Group's control.

*Consolidated net income of the Group*

This corresponds to operating income after deducting financial expenses and income, and after tax (current or deferred), and the Group's share of income or losses from equity affiliates (after deducting any potential impairment).

**Currency**

The currency for the presentation of the financial statements is the euro which is the operating currency of the parent company. The financial statements are presented in million euro.

**2 – 2 Management's judgement and the use of estimates**

The preparation of the consolidated financial statements requires Gaz de France's management to make certain estimates and assumptions which 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 information available when approved by the Board of Directors. The accounting policies applied by the Group and the assumptions or estimates used to measure complex transactions which require a high level of judgement or have a material impact on the financial statements were endorsed by Group management and 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:

**- Provisions for dismantling and site restoration (see note 2.22 and 16)**

Estimates used to determine provisions are based on current information relating to costs, and dismantling and site restoration techniques. As such, estimates of the amount required to settle an obligation may be affected by regulatory and technological changes.

The valuation of provisions for dismantling and restoring sites may also be affected by assumptions relating to discount rates and the expected timing for incurring such costs.

These provisions are reviewed at least once a year.

**- Employee benefit-related provisions (see § 2.20 and note 17)**

Retirement and other post-retirement benefit obligations are estimated in accordance with IAS 19 using the projected unit credit method. Actuarial gains and losses are recognised 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 for liabilities (see § 2.21 and note 16)**

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 closing.

**- Income tax expense and the recognition of deferred tax assets (see § 2.8 and note 9)**

The measurement of deferred taxes depends on various factors, including the period in which taxable temporary differences are expected to occur. 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 revenues (see § 2.22.3)**

Delivered gas which has not been measured or billed, referred to as 'meter gas', is estimated for Gaz de France SA using a method based on gas consumption by customer records and average gas prices. The average price used takes account of the category of customer and the aging of the delivered unbilled gas in meters.

These estimates may be affected by the assumptions used to determine the portion of unbilled revenues at the closing date.

**- Impairment tests (see § 2.12)**

The recoverable value of a cash-generating unit (CGU) for impairment testing purposes corresponds to the higher of the CGU's value in use based on expected future cash flows or its market value. These estimates involve a high level of judgement, and are based on the forecasts 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.

**- Valuation of derivative instruments (cf. § 2.23)**

The fair value of financial derivative instruments is based on the prices quoted on active markets or on valuation models developed by the Group using market data.

For 2007, the main changes to the estimates and assumptions used to prepare the consolidated financial statements as compared with December 31, 2006 and December 31, 2005 consolidated financial statements relate to the discount rate applied when measuring certain provisions, which has been adjusted in line with current market conditions:

- provisions for replacement 4.5% at December 31, 2007, 4% at December 31, 2006 and December 31, 2005 (see Note 16);
- provisions for restoration of exploration-production sites: 4.5% at December 31, 2007, 4% at December 31, 2006 and December 31, 2005 (see Note 16);
- retirement benefits: 5% at December 31, 2007, 4.25% at December 31, 2006 and December 31, 2005 (see Note 17);
- other employee benefits: between 4.5% and 5% at December 31, 2007, 4% at December 31, 2006 and December 31, 2005 (see Note 17).

### 2 – 3 Accounting policies applied by the Group in absence of specific provisions in the standards

**Acquisitions of minority interests**

The posting of acquisitions of minority interests is not discussed by the IFRS reference as applicable at December 31, 2007. Thus, in the absence of specific rules applicable on that date, the Group has retained the method applied according to the French standards. Thus, 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. This accounting treatment will be reconsidered when the new standards become effective.

**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 recorded under financial debt for their purchase value – which may be the discounted value of the strike price in the event of a fixed price – against a reduction in minority interests. If the amount of the commitment is higher than the value of the minority interests, this surplus is recorded as goodwill. This method reflects the accounting treatment which would be applied at the time of the purchase. In the income statement, minority interests continue to be noted 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 recognised, no interpretation has been published. The treatment applied will be reviewed when the revised version of IAS 27 becomes applicable, in principle as of January 1, 2010 once it has been adopted by the European Union.

**Recognition of greenhouse gas emission rights**

In accordance with European Directive 2003/87/EC setting out a system for trading greenhouse gas emission quotas within the European Union, gas emission quotas have been allocated for free to several of the Group's industrial sites. The sites concerned are required to surrender a number of quotas, which is equal to the total level of greenhouse gas emissions recorded over the past year.

In the absence of any IFRS or interpretations concerning the recognition of $CO_2$ emission quotas, the following accounting treatment has been applied. Quotas granted for free are recognised at zero value. Market transactions are recognised at 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 the generally accepted presentation and disclosure policies in France for financial entities. For purposes of the IFRS consolidated financial, accounts have been reclassified as follows:

- customer loans are recorded as current or non-current loans of the financial sector;
- refinancing of customer loans is recorded under current or non-current liabilities of the financial sector.

Income from customer loan activity is posted to 'income from activity of financial affiliates' and is included in revenues.

As far as Gaselys is concerned, only the margin generated by its trading activity is reported under 'revenues from financial affiliates'.

### 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 euro by applying the exchange rate at the date of the transaction. Monetary items are translated into euro 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 by 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*

The financial statements of Group companies whose functional currency is different from the reporting currency – the euro – used for presenting the consolidated financial statements are translated based on the closing exchange rate method.

Assets and liabilities of these companies, including goodwill and fair value adjustments, are translated into euro using the exchange rate in force at the closing date.

Income and expenses are translated into euro based on the average exchange rate for the period, provided there are no significant changes in exchange rates.

The resulting translation adjustments are recorded directly against shareholders' equity.

For independent affiliates whose operating currency differs from the local currency, conversion is carried out in two stages: from the local currency to the operating currency, according to the historic cost method, then from the operating currency to the euro, according to the closing price method.

**Main exchange rates**

The main exchange rates used in 2007, 2006 and 2005 outside of the euro zone are presented under supplemental disclosure C Note 25.

### 2 – 6 Scope and methods of consolidation

**Consolidation principles**

Companies controlled by the Group, meaning companies 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.

Exclusive 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 also when no equity interest is involved.

Companies over which the Group exercises joint control with a limited number of partners under a contractual agreement are consolidated in accordance with the proportional integration method: assets, liabilities, revenue, and expenses are consolidated line by line and include similar items under each category of assets and liabilities on the financial statement, prorated in accordance with their share.

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 Appendix C Note 24.

**Inter-company transactions**

Inter-company transactions between consolidated companies are eliminated. The 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 held for sale, which are recognised at fair value based on the amount which would be realised upon disposal, less selling costs.

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. It is always denominated in the functional currency of the acquired company. It is subsequently accounted for at original cost written off for subsequent impairment if any, and is not amortised, but subject to impairment tests each year or more frequently if indications of impairment are identified.

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 of – during the period are accounted for in the consolidated income statement from the acquisition date (or at 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 accounting 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 'variable delay' method, with deferred tax recognised for all temporary differences.

Deferred tax assets are generated mainly by timing differences resulting from business combinations, restatements of provisions and tax losses when they are likely to be used. They are recognised only if it is probable that a taxable profit will be available on which temporary differences can be utilised.

Deferred tax liabilities are partly due to changes in the useful lives of fixed assets, the deferral of taxation on capital gains, the effects of business combinations, timing differences on investments accounted for using the equity method, and, from 2005, the impact of the revaluation of financial instruments.

Deferred tax liabilities are recognised for all taxable temporary differences related to investments in subsidiaries, companies accounted for by the equity method 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 the date of closing. The impact of a change in tax rate is recognised in income or in equity, depending upon the item to which it corresponds.

Deferred taxation is classified as a non-current asset or liability.

### 2 – 9 Intangible fixed assets

**Concession intangible assets**

IFRIC 12 – 'Service Concession Arrangements' 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. Control of the use of infrastructure by the grantor is provided when the two following conditions are met:

- the grantor controls or regulates the public service, *i.e.*, it controls or regulates the services to be rendered through the concession infrastructure, to whom and at what price they are to be provided;
- the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the arrangement.

According to IFRIC 12, when the operator builds infrastructure – start-up capital expenditures – in exchange for the right (license) to charge users of the public service, revenues from construction services should be accounted for in accordance with IAS 11 – Construction Contracts (see 2.24.1) and the rights received in return should be treated as an exchange of assets and accounted for in accordance with IAS 38.

As a consequence:

- assets received free gratis from the grantor are not recognised on the balance sheet;
- start-up investments are posted as follows: the fair value of works represents the acquisition cost of an intangible asset posted at the time of the construction of the works; as no distinction is made between compensation for building and compensation for operating the infrastructure when determining customer network access charges, and since there are no external benchmarks which could be used to determine the respective fair value of these two items, for Gaz de France revenues recognised during the construction phase are limited to the amount of the costs incurred;
- provisions are made for like-for-like replacement costs and accounted for under IFRIC 12 principles.

The concession intangible assets are amortised 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 amortised according to the original plan based on its carrying amount at the concession renewal date.

Amortization charges are recorded in operating income, under 'Amortization, depreciation and provision expense'.

**Research and development costs**

Research costs are charged to expense when incurred.

Development expenses are posted under expenses for the period unless they meet the criteria for IAS 38 recognition. This involves expenses incurred on development projects intended to significantly improve current procedures or to develop new procedures deemed technically feasible, or for which the usefulness is demonstrated in the case of internal use and which are likely to generate future economic benefits.

Costs which are capitalised include direct staff costs and the costs of materials and services necessary for carrying out these projects.

Subsequently, costs which are capitalised are carried at cost less accumulated amortization and impairment. An impairment test is systematically carried out each year on projects which are underway but unavailable for immediate use, or more frequently if indicators of impairment exist.

**Other intangible assets**

Other intangible assets include in particular the rights acquired separately or as part of business combinations for the use of patents, licenses, brands, admission rights on distribution networks (outside of France), customer contracts acquired, $CO_2$ emission quotas acquired, capacity rights on plants and software which 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 a working condition. Intangible assets acquired through business combinations are recognised at fair value at acquisition date.

Internally generated software is recorded as an asset based on the cost of production.

Subsequent costs related to information systems are capitalised if they increase the future economic benefits of the specific asset to which they relate and this cost can be reasonably allocated to the asset. All other costs, including costs relating to the development of internally generated intangible assets in connection with the business (brand, customer file, *etc.*), are not capitalised, but expensed in the period during which they are incurred.

Intangible assets with indefinite useful lives are not amortised, but are subject to impairment testing at least once a year. They mainly comprise goodwill.

Intangible assets with finite useful lives are amortised 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 fixed assets

#### Initial measurement

Group tangible assets are recognised at their acquisition or production cost. The cost includes all costs directly attributable to the fixed asset, as well as dismantling costs which will be necessary at the end of the asset's life.

Borrowing costs directly attributable to the purchase, construction or production of certain assets up to the date of their coming on line are accounted for as financial charges of the year in which they are incurred.

#### Subsequent review of tangible assets

Fixed assets are subsequently valued in line with the historical cost model, *i.e.* at cost less any depreciation and impairment.

#### Components

When parts of an asset cannot be separated from one another, the asset is recognised on a combined basis. If, from the beginning, 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.

Major recurring repair costs or the costs of large-scale planned inspections are capitalised as a component and depreciated over the period between two major inspections.

#### 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 life, determined according to the expected use of the asset. The useful lives of the primary classes of assets are as follows:

- Technical facilities
  - Distribution facilities (lines, connections, posts and meters): 30 to 45 years
  - Other distribution facilities: 10 to 20 years
  - Transport facilities (network, connection, compression): 30 to 50 years
  - Storage facilities: 30 to 50 years
  - Methane terminals: 20 to 40 years
- Buildings 20 to 40 years
- Other fixed assets: 3 to 15 years

Useful lives are reviewed at each closing date when expectations differ from previous estimates and changes are recorded on a prospective basis as changes in estimates, in accordance with the IAS 8 standard.

#### Subsequent costs on assets

Subsequent costs are capitalised if they meet the IAS 16 recognition criteria, *i.e.* if they result in an increase in production capacity for the expected useful life or the value of an asset. These criteria are assessed before the expenditure is incurred. Similarly, costs related to security and environmental compliance are capitalised when they are necessary to enable other assets to carry on generating economic benefits.

Costs incurred for fixed asset maintenance are recognised in the income statement in the period in which they are incurred.

#### Site dismantling asset

When an obligation for dismantlement arises, Gaz de France recognises the present value of the expected future costs as a liability. A corresponding asset is recognised as part of the asset to which the dismantlement obligation relates.

This asset is amortised on a straight-line basis over the anticipated operating life of the site in question.

**Investment grants**

Investment grants received by the Group are deferred and recognised 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 Evaluation 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 capitalised as assets under construction pending the determination of whether proved reserves have been found. When these criteria are met (proved reserves), 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 mining rights:

- mineral rights relating to unproved reserves are capitalised and assessed for impairment if proved reserves are not discovered.
- unfruitful development expenses are posted in the period in which this determination is made.

Depreciation of mining 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.

**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 amortised on a straight-line basis over the same duration as the above-ground installations of the underground storage facilities.

### 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 capitalised 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 amortised over the period which 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, finance-leased assets are recorded on the balance sheet as a receivable for an amount equal to the net investment. The receivable is amortised in line with the capital repayments included in the lease payments received from the lessee.

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 recognised 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 which 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. These contracts may include a lease component which should be accounted for as an operating lease or a finance lease in accordance with IAS 17. With respect to a contract under which Gaz de France provides the purchaser with transmission or processing capacity that is assessed as containing a finance lease where the Group is lessor, a finance receivable is recorded to reflect the financing provided to the purchaser.

### 2 – 12 Depreciation of intangible and tangible assets

**Impairment**

Impairment testing is systematically carried out on an annual basis on goodwill and intangible assets which 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 in which the company operates or to which the asset is dedicated;
  - drop in demand;
  - changes in energy prices and US dollar exchange rates;
  - net book value for the asset exceeding its regulated asset base.
- Internal indicators:
  - obsolescence or unexpected material degradation;
  - lower-than-expected performance;
  - 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 recognised when the carrying value of the CGU to which the assets belong exceeds its recoverable amount. The recoverable amount is generally determined by reference to the value in use of the assets group, with the calculation 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 with a 5-year horizon. Beyond this horizon, plans are extrapolated until the expected date of the end of the life of the asset or CGU, unless there is a valid reason for an exception, 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.

The loss of value is allocated to CGU assets in the following order: first, the goodwill assigned to the CGU, then to other assets of the CGU, prorated in accordance with their book value.

Impairment of goodwill cannot be reversed.

Other impairment losses recognised can be reversed up to the net accounting value the asset would have had at the same date, had it not been impaired.

### 2 – 13 Securities posted in accordance with the equity method

This item corresponds to interests in associates which are accounted for by the equity method. According to this method, the share is initially posted at cost. Thus, the book value is increased or diminished to account for the investor's share in the results of the company held after the acquisition date. 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 their operations (see 2 – 10 Tangible assets).

*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 recognised in income when the net realisable 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 unit 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 recorded based on the weighted average unit cost method.

When the net realisable value of a category of inventories is lower than its carrying value determined using the weighted average unit cost, a write-down is recognised for the difference.

Write-downs of spare part inventories – which do not constitute major components – and supplies are calculated based on the net realisable 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 Tax receivables

Tax receivables are recorded at their nominal value.

### 2 – 16 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 compliance with IFRS 5, these assets are measured at the lower of their carrying amount and their fair value (based on the amount that would be realised upon disposal, net of costs to sale Depreciation of assets ceases from the date an asset is classified as held for sale.

### 2 – 17 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 recognised, after tax, as a reduction of shareholders' equity. Other costs are charged to the income statement.

**Dividends**

Unpaid dividends are recorded as a liability as of the date when they are granted.

### 2 – 18 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 – 19 Share-based payments

Article 11 of the 1986 law 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, offers reserved and free shares allocations for Group employees are measured at the date on which they are awarded.

The fair value of a free share allocation corresponds to the market price for the share on the allocation date, adjusted for any loss in dividends expected during the acquisition period and assumptions relating to the conditions associated with the offer (service, performance).

Benefits granted to employees represent additional compensation which is recorded as an expense over the vesting period of the rights of the employees against an increase in shareholders' equity.

### 2 – 20 Employee benefits

#### *2 – 20.1 Valuation principles for Group commitments*

*Evaluation method and actuarial assumptions (defined-benefit systems)*

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 the 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 harmonised in the euro zone.

Specific commitments related to Gaz de France SA, GRTgaz and DK6 were calculated by the French Government agency for the electricity and gas industries (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 recognised in full, in the period in which they occur, in the statement of recognised income and expense. For long-term benefits, actuarial gains and losses are fully recognised in income.

*Plan assets*

Plan assets are used to cover pension and other similar benefits. 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 recognised against shareholders' equity.

Plan assets are deducted from the actuarial debt in determining the amount recognised 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 recognised 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 financial results.

*2 – 20.2 Benefits for 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.

*2 – 20. 3 Benefits for employees of subsidiaries*

*Retirement benefits*

Subsidiaries' retirement plans consist of defined contribution plans and defined benefit plans.

Defined contribution 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 to 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 benefit 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 recognised as a provision.

*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 – 21 Other provisions for contingencies and liabilities**

A provision is recognised 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 recognised 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 excluding financial expenses for unwinding discounts are recorded under "Amortization, depreciation and provisions" in operating income. The unwinding charge for the discount is recorded under "Other financial expenses".

*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 which 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. An impairment test is performed in the event of an increase in the value of the dismantling asset.

*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 – 22 Non-derivative financial assets and liabilities

Non-derivative financial assets and liabilities are initially recorded at their fair value, plus any transaction costs which are directly attributable to the acquisition or issue of the financial asset or liability, except for non-derivative financial assets and liabilities which are recorded at their fair value through profit or loss, with respect to which such transaction costs are recorded against earnings.

This accounting applies to financial assets – shares and bonds – which are available for sale, loans and receivables issued by the Company, investments held to maturity and issued borrowings and other financial debt.

Other current assets or liabilities – including trade and operating receivables, investments in short-term securities, trade and operating payables, bank overdrafts – are generally recorded at their nominal value due to the relatively short period of time between when the instrument is initially recognised and its settlement.

*2 – 22.1 Financial assets available for sale*

This category encompasses non-consolidated investments, other investment securities and certain marketable securities, *etc.*

Changes in the fair value of these assets are recognised in shareholders' equity, under "fair value reserves" and are recycled through profit or loss when securities are sold off or impaired.

Investments in an equity instrument for which no reliable measurement of fair value is available are recognised at cost.

*2 – 22.2 Financial assets held for trading*

These assets consist of investment securities held with an objective of short-term trading profit.

They are subsequently measured at fair value based on quoted market price or liquidative net asset value, with any changes in fair value recorded through earnings.

**Short-term securities**

Investments in short-term securities comprise investments in securities which the Group intends to sell on again over the short-term, but which are not considered to be sufficiently liquid to be included under cash and cash equivalents.

**Cash and cash equivalents**

Cash and cash equivalents include bank and sight deposits as well as investments in very liquid securities, immediately convertible to a known amount of cash, the value of which has very little risk of varying: securities that are by nature very liquid (SICAVs and euro money-market Pooled Funds according to the French securities regulator's (AMF) classification of mutual funds), as well as those maturing within a maximum of 3 months after their acquisition.

*2 – 22.3 Loans and receivables*

**Loans, long-term receivables, deposits, other non-current assets**

This category includes receivables from associated companies, long-term trade receivables, deposits, as well as loans to customers from the financial sector. Such assets are measured at amortised cost, based on the effective interest rate method. They are recorded on the balance sheet under "non-current financial assets" or "current financial assets" depending on their characteristics and maturity.

An impairment test is performed as soon as any indicators appear that their recoverable value might be lower than their carrying amount on the balance sheet, and at a minimum at each closing date. Impairment is recognised in the income statement.

**Accounts receivables**

<u>Trade receivables and related</u>

Receivables include all receivables related to operations and the sale of goods. Receivables are recorded at their nominal value on the basis of their short-term nature. An allowance for doubtful accounts is recognised for both specific receivables and through the use of general statistical analysis.

*Gas delivered but not invoiced*

Receivables also comprise unbilled revenues for energy delivered which 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 unrealised sales which will be incurred during the next period, as well as the potential risk which 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 tax receivables, prepaid expenses, hedged firm commitments and advances to suppliers are measured according to the amortised cost method when the effects of discounting are significant.

Hedged firm commitments are recorded at their fair value on the income statement. Other items in this section are recorded at nominal value because of their short-term nature.

**Irredeemable securities**

Gaz de France issued shares in 1985 and 1986 as authorised by French law 83.1 of January 1, 1983 and Law 85.695 of July 11, 1985. 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") 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 favourable.

The return on irredeemable securities according to the effective interest method is treated as a borrowing cost in interest expense.

**Financial debt**

Financial debt is initially recorded for the consideration received, net of transaction costs incurred and 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.

Financial debt due in more than one year is recorded under non-current financial debt. Financial debt which is due to be paid back in less than one year is recorded under current financial debt.

**Trade payables and other liabilities**

Other liabilities comprise social liabilities, prepayments and expenses incurred over the course of the year which will be paid subsequently, as well as hedged firm purchase or sale commitments qualifying for fair value hedge accounting.

Hedged firm commitments are recorded at their fair value on the income statement. Other items in this section are recorded at nominal value because of their short-term nature.

**Assets and liabilities of financial affiliates**

Assets and liabilities of financial affiliates consist of the assets and liabilities recorded by the financial institutions which are consolidated within the Group.

Loans to Solféa clients and their refinancing

These assets and liabilities are posted in a manner similar to financial debts: they are valued at depreciated cost and classified on the balance sheet under "Current financial assets or liabilities" for the portion maturing within one year, and under "Non-current financial assets or liabilities" for the portion maturing in more than one year.

Assets and liabilities relating directly to Gaselys's energy market trading activities

These assets and liabilities are posted in a manner similar to trade receivables and payables: they are valued at amortised cost and classified on the balance sheet under "Current financial assets or liabilities" when they are consumed within the Group's operating cycle, and under "Non-current financial assets or liabilities" otherwise.

### 2 – 23 Financial derivative instruments

The Group mainly uses financial derivatives 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 financial derivatives**

Financial derivative instruments are contracts: whose value changes in response to the change in one or more observable variables; which do not require any material initial net investment; and are settled at a future date.

Financial 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 which involve physical delivery of the underlying.

Specifically with regard to purchase and sale contracts for electricity and natural gas, the Group performs a systematic analysis aimed at determining whether the contract was negotiated within the framework of its so-called "normal" activities, and must therefore be excluded from the scope of application of the IAS 39 standard. This analysis consists, first of all, in showing that the contract was implemented and remains held in order to yield a purchase or sale with physical delivery, for volumes intended to be used or sold by the Group within a reasonable period, within the framework of its operations. The second step is to demonstrate that:

- the Group has no practice of settling similar contracts on a net basis. More specifically, forward purchases or sales contracts with physical delivery which are carried out solely with a view to balancing Group energy volumes are not considered by the Group to represent contracts which are settled net;
- the contract is not negotiated in connection with financial arbitrages;
- 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 which fulfil all of these conditions are considered as falling outside the scope of the IAS 39 standard.

**Recognition and presentation**

Hedging financial derivative instruments are classified into current and non-current assets and liabilities depending on the nature of the underlying hedged item. Non-hedging financial derivative instruments are recorded as current assets or liabilities.

Initial measurement

Financial derivative instruments are initially recognised at fair value.

Subsequent measurement

Financial derivative instruments are re measured at fair value at each closing date, with changes in fair value recorded through earnings, except for derivatives which are classified as net investment or cash flow hedging instruments, for which changes in fair value are recorded through shareholders' equity.

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 which 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 models factor in various assumptions based on market data:

- The fair value of interest-rate swaps is calculated based on discounted future cash flows;
- The fair value of forward exchange contracts and currency swaps is calculated based on current exchange rates for contracts with similar maturity profiles by discounting the future cash flow differential (difference between the contract's forward rate and the forward rate recalculated based on new market conditions applied to the nominal amount);
- The fair value of exchange or rate options is determined based on option valuation models;
- Commodities derivative contracts are valued as a function of market prices based on discounted future cash flows (firm contracts: commodity swap or commodity forward), and option valuation models (options contracts) for which it may be necessary to observe the volatility of market prices. For contracts on which the maturity exceeds the depth of transactions for which prices can be observed or which are particularly complex, valuations may be based on in-house assumptions;
- For complex contracts traded with independent financial institutions, the Group exceptionally uses valuations performed by counterpart.

Non-hedging financial derivative instruments

In addition to trading derivatives, non-hedging derivatives include financial derivative instruments which, although representing an economic hedge, do not meet the conditions required to qualify for hedge accounting. Changes resulting from re-measuring these instruments at fair value are recognised in the income statement.

Hedge accounting

Hedge accounting is applied when financial derivative 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 a derivative contract, 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 financial derivative instruments 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 recognised in operating or financial income, depending on the nature of the hedged item.

Changes in the fair value of the hedged item are recognised in the income statement corresponding to the changes in the fair value of the hedging instrument.

Cash flow hedges

Cash flow hedges comprise financial derivative 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 recognised 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 recognised in the income statement.

Hedges of a net investment in a foreign operation outside of 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. Foreign exchange gains and losses are posted to shareholders' equity under the same category as conversion gains and losses.

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 recognised 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 – 24 Statements of income

*2 – 24.1 Revenues*

**Sales of goods and services rendered**

Sales of goods are recognised when significant risks and rewards of ownership of the goods have been transferred to the buyer. Rendering of services is recognised 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 recognised 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 recognised 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 term of the contracts, except for Gaz de France SA, GrDF 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, GrDF 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 contracts**

When the outcome of a construction contract can be reliably estimated, contract revenue and contract costs associated with the construction contract are recognised 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 recognised 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 – license – 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 the IAS 38 standard – Intangible Assets (see 2.9).

In practice, for concession agreements of Gaz de France, as no distinction is made between compensation for constructing and compensation for operating the infrastructure in the determination of customer network access charges and as there are no external benchmarks which could be used to determine the respective fair value of these two items, revenue recognised during the construction phase is limited to an amount equal to the costs incurred.

**Interest income**

Interest income of the financial affiliates is recognised in the income statement *prorata temporis*, using the effective interest method.

*2 – 24.2 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 income from investments in short-term securities and cash.

*2 – 24.3 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 on 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 – 24.4 Taxes*

Income tax for the year consists of current and deferred income tax. It is recognised in the income statement, except for taxes relating to items which are recognised directly in equity.

Current income tax represents tax payable on taxable income for the period, computed in accordance with tax rates in force at the closing date.

*2 – 24.5 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 the Group by the average number of ordinary shares, factoring in any dilutive instruments.

**2 – 25 Statements of cash flows**

This statement discloses actual cash flows of consolidated entities.

The most significant movements affecting the balance sheet but not considered as cash flows, *i.e.*, investments without financing (lease-financing), reclassifications, effects of mergers and partial transfers of assets, changes in accounting methods, are presented in an Appendix.

The Group's cash flow statements are reported using the indirect method from income before tax.

Renewal and replacement costs recognised in accordance with IFRIC 12 are reported on a separate line of the cash flow statement under "Replacement costs".

Impairment of current assets is equivalent to a permanent loss. As a consequence, the change in current assets is disclosed net of allowances.

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 is 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 in subsidiaries and affiliates".

When they are material, cash flows generated between January 1 and the date of the disposal of investments which are excluded from the basis for consolidation during the period are nonetheless maintained in the cash flow statements.

Cash and cash equivalents in the cash flow statements consist of cash and cash equivalents, less bank overdrafts repayable on demand which are an integral part of the Company's cash management.

**2 – 26 Principles of segment reporting**

The breakdown of companies by segment is detailed in Notes 1, 2 and 24.

**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 which is engaged in providing services and products in a specific economic environment and subject to risks and returns which are different from those of other business segments.

**Secondary segment reporting**

Secondary segment reporting is divided on the basis of the geographical areas in which the Group operates.

**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 which 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 Storage
  - 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 CRE.

*Unallocated items*

Unallocated income and expenses mainly comprise head-office expenses, research and development costs, as well as miscellaneous income, which are not directly attributable to businesses.

Unallocated fixed assets comprise the fixed assets headquarters, those allocated to research and to human resources management.

*Gross operating income*

This comprises all expenses, other than depreciation, provisions, share-based payments and replacement costs, and revenue linked directly to the Group's operations which are either recurring or which result from isolated or infrequent events or decisions, including extraordinary events which are beyond the Group's control.

## B – Comparability between financial years

### 1 – MAJOR TRANSACTIONS

#### 1.1. Acquisitions

#### 1.1.1. Acquisitions in 2007

| Name of subsidiary | Country | Activity | % acquired | Date of acquisition |
|---|---|---|---|---|
| Vendite Group | Italy | Transmission and Distribution International | 20% | Sep 26, 2007 |
| Erelia | France | Purchase and sale of energy | 95% | Nov 5, 2007 |
| Société Eolienne de la Haute Lys | France | Purchase and sale of energy | 100% | Dec 11, 2007 |
| Enerci | Ivory Coast | Exploration-Production | 51% | Apr 12, 2007 |

The impacts of company acquisitions on the balance sheet can be summarized as follows

| *(millions of euro)* | | 2007 |
|---|---|---|
| Intangible assets | | 174 |
| Tangible assets | | 170 |
| Trade receivables and related | | 109 |
| Other receivables | | 80 |
| Cash and cash equivalents | | 22 |
| **Sub-total** | **(I)** | **555** |
| Trade payables and related | | 130 |
| Financial debt | | 252 |
| Other liabilities | | 83 |
| **Sub-total** | **(II)** | **465** |
| Minority interests | **(III)** | -7 |
| Equity-consolidated securities | **(IV)** | 3 |
| **Fair value of net assets acquired** | **(I) – (II) + (III) + (IV)** | **86** |
| Goodwill | | 101 |
| **Total acquisition costs** | | **187** |
| Cash and cash equivalents acquired | | -22 |
| **Payments for the period related to acquisitions** | | **165** |

Gaz de France exercised the option with Camfin enabling it to acquire a further 20% stake in Energie Investimenti, the company holding the Vendite Group, for 40 million euro. As a result of this transaction, Gaz de France now has a 60% stake in Energie Investimenti, with Camfin owning the remaining 40%. Exercising the option to buy 20% of Camfin's interest in Energie Investimenti gave the Group exclusive control over the Vendite Group, justifying its full consolidation.

Gaz de France has signed a contract to acquire a 95% stake in ERELIA and a 100% stake in Société Eolienne de la Haute Lys, which develop and operate wind farms in France. As a result of the allocation of the purchase price for these two acquisitions, 69 million euro have been booked under goodwill for ERELIA and 18 million euro for Société Eolienne de la Haute Lys. The Group will be able to finalize the identification and valuation of the assets acquired and liabilities taken on during the course of 2008.

On April 12, 2007, Gaz de France bought out EDF's 51% stake in Enerci, an exploration-production company, giving it 100% ownership of Enerci. Enerci owns 12% of an offshore field in the Ivory Coast.

The main impacts of the companies acquired on the income statement since the acquisition date can be broken down as follows:

| *(millions of euro)* | Dec 31, 2007 |
|---|---|
| Revenues | 276 |
| Operating income | 9 |
| Net income (Group share) | 5 |

#### 1.1.2. Acquisitions in 2006

| Name of subsidiary | Country | Activity | % acquired | Date of acquisition |
|---|---|---|---|---|
| AES Energia Cartagena | Spain | Purchase and sale of energy | 26% | Nov 1, 2006 |
| Maïa Eolis | France | Purchase and sale of energy | 49% | Dec 22, 2006 |

The impacts of company acquisitions on the balance sheet can be summarized as follows

| *(millions of euro)* | | **2006** |
|---|---|---|
| Tangible assets | | 732 |
| Trade receivables and related | | 19 |
| Other receivables | | 11 |
| Cash and cash equivalents | | 77 |
| **Sub-total** | **(I)** | **839** |
| Trade payables and related | | 38 |
| Financial debt | | 643 |
| Other liabilities | | 75 |
| **Sub-total** | **(II)** | **756** |
| Minority interests | **(III)** | -2 |
| **Fair value of net assets acquired** | **(I) – (II) + (III)** | **81** |
| Goodwill | | 42 |
| **Total acquisition costs** | | **123** |
| Cash and cash equivalents acquired | | -77 |
| Paid in prior year | | -8 |
| **Payments for 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 of the risks and benefits linked to the operation. As a result, AES Energia Cartagena is fully consolidated.

On December 22, 2006, agreements were signed for the creation of the Maïa Eolis joint venture, which is 49%-owned by Gaz de France and 51% by Maïa Sonnier. This company will develop and operate wind farms in France and Europe. Maïa Sonnier has transferred its business segment – including wind farms in operation and under development – to the joint venture, while Gaz de France has contributed around 110 million euro in cash. Maïa Eolia is proportionately consolidated in the Group's financial statements.

The main impacts of the companies acquired on the income statement since the acquisition date can be broken down as follows:

| *(million euro)* | **Dec 31, 2006** |
|---|---|
| Revenues | 7 |
| Operating income | 2 |
| Net income (Group share) | -1 |

1.1.3. Acquisitions in 2005

| Name of subsidiary | Country | Activity | % acquired | Date of acquisition |
|---|---|---|---|---|
| Distrigaz Sud | Romania | International Transmission and Distribution | 51% | May 31, 2005 |
| SPE Group | Belgium | International Transmission and Distribution | 25.5% | Sep 28, 2005 |
| Savelys Group (ex CGST Save) | France | Services | 39% | Mar 23, 2005 |
| AEM** | Italy | Services | 100% | Apr 1, 2005 |
| ADF Normandie | France | Services | 100% | Mar 1, 2005 |
| CFM CFMH | France | Purchase and sale of energy | 45% | Jan 3, 2005 |
| Gaz de France Production Exploration Deutschland | Germany | Exploration-production | -* | Nov 2005 |

* *Under the contract signed in 2003 to acquire Gaz de France Produktion Exploration Deutschland, a price supplement has been paid, corresponding to additional interests in a hydrocarbon well.*
** *Acquisition of assets*

The impacts of company acquisitions on the balance sheet can be summarized as follows:

| *(million euro)* | | 2005 |
|---|---|---|
| Intangible assets | | 241 |
| Tangible assets | | 749 |
| Financial assets | | 69 |
| Inventories and work-in-progress | | 53 |
| Trade receivables and related | | 237 |
| Cash and cash equivalents | | 278 |
| **Sub-total** | **(I)** | **1,627** |
| Trade payables and related | | 209 |
| Tax and social liabilities | | 72 |
| Provisions for employee benefits | | 29 |
| Financial debt | | 266 |
| Deferred tax liabilities | | 139 |
| Other provisions | | 84 |
| **Sub-total** | **(II)** | **799** |
| Minority interests* | **(III)** | -101 |
| Equity-consolidated securities** | **(IV)** | - 38 |
| **Fair value of net assets acquired** | **(I) – (II) + (III) + (IV)** | **689** |
| Goodwill | | 252 |
| **Total acquisition costs** | | **941** |
| Cash and cash equivalents acquired to be paid during subsequent years | | -278 |
| **Payments for the period related to acquisitions** | | **663** |

* *Minority interests arising from the acquisition of Distrigaz Sud (51% owned).*
** *Savelys Group (accounted for under the equity method in 2004 – fully consolidated in 2005).*

On March 1, 2005, the Group acquired 100% of ADF Normandie, an industrial maintenance and repair firm.

On March 23, 2005, the Group increased its stake in the CGST Save Group, renamed the Savelys Group, from 20% to 59%. This company is the leading individual boiler maintenance firm in France. Consolidated on an equity basis in 2004, this company is fully consolidated in the Group's financial statements for 2005.

On May 31, 2005, the Group acquired a 51% stake in Distrigaz Sud, a company operating on the gas distribution and transmission market for retail and business customers in Romania. This company is fully consolidated in the Group's accounts.

On September 28, 2005, the Group acquired a 25.5% stake in the SPE Group (Société de Production d'Electricité), a company operating on the electricity production and energy, gas and electricity sales market in Belgium.

In light of developments on the natural gas market in Europe, Gaz de France and Total signed a protocol of intent in November 2003 to unwind their reciprocal shareholdings in their joint ventures in natural gas transmission and supply in France, namely Gaz du Sud-Ouest (GSO, 30%-owned by Gaz de France) and Compagnie Française du Méthane (CFM, 55%-owned by Gaz de France).

The contractual and financial closing of these operations took place on January 3, 2005, with Gaz de France becoming the sole shareholder of CFM, and Total the sole shareholder in GSO. CFM was merged into Gaz de France on July 1, 2005.

The main impacts of the companies acquired on the income statement since the acquisition date can be broken down as follows:

| *(million euro)* | **Dec 31, 2005** |
|---|---|
| Revenues | 807 |
| Operating income | 42 |
| Net income (Group share) | 37 |

### 1.2. Disposals

#### 1.2.1. Disposals in 2007

No significant disposals occurred over the year.

#### 1.2.2. Disposals in 2006

| Name of subsidiary | Country | Activity | % disposed | Date of disposal |
|---|---|---|---|---|
| Gaseba | Argentina | International Transmission and Distribution | 100% | Jun 1, 2006 |
| Gaseba Uruguay | Uruguay | International Transmission and Distribution | 51% | Jun 1, 2006 |
| Distrigaz Sud | Romania | Transmission and Distribution International | 10% | Feb 2, 2006 |
| Société du Terminal Méthanier de Fos Cavaou | France | Transmission-Storage | 30.3% | Jun 13, 2006 |
| KGM | Kazakhstan | Exploration and Production | 17.5% | Jul 19, 2006 |

The share of assets and liabilities comprising the value of securities sold off can be broken down as follows:

| *(millions of euro)* | | 2006 |
|---|---|---|
| Goodwill and other intangible assets | | 9 |
| Tangible assets | | 48 |
| Inventories and work-in-progress | | 2 |
| Trade receivables and related | | 38 |
| Cash and cash equivalents | | 32 |
| **Sub-total** | **(I)** | **129** |
| Trade payables and related | | 2 |
| Tax and social liabilities | | 4 |
| Financial debt | | 13 |
| Deferred tax liabilities | | 3 |
| Other liabilities | | 12 |
| **Sub-total** | **(II)** | **34** |
| **Minority interests** | **(III)** | **50** |
| **Translation adjustments** | **(IV)** | **6** |
| **Disposed net assets** | **(I) – (II) + (III) + (IV)** | **151** |
| Gains (losses) on disposals | | 199 |
| **Net proceeds from disposals** | | **350** |
| *Less:* | | |
| Withholding tax | | 61 |
| Net disposed cash | | 24 |
| **Cash consideration received for the period** | | **265** |

In 2005, Gaz de France signed an agreement with the European Bank for Reconstruction and Development (EBRD) and the International Financial Corporation (IFC) under which the Group sold to each organization a 5% interest in the capital of the Romanian natural gas distributor, Distrigaz Sud. This agreement was finalized over the first half of 2006.

In connection with the agreements signed with Total for the unwinding of their reciprocal shareholdings in 2005, a partnership agreement had been concluded, enabling Total to take a 30% interest in Gaz de France's LNG terminal in Fos Cavaou. This agreement was finalized in June 2006.

Gaz de France signed an agreement to sell its 17.5% stake in the Kazakh joint venture KazGerMunai LLP (KGM) to the Kazakh national oil company KazMunaiGas JSC for 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, finalized in July 2006, had a positive impact of 187 million euro on operating income over the second half of 2006.

### 1.2.3. Disposals in 2005

| Name of subsidiary | Country | Activity | % disposed | Date of disposal |
|---|---|---|---|---|
| G.S.O. | France | Transmission-Storage | 30% | Jan 3, 2005 |

The disposal of GSO was part of the operation to unwind the principal shareholdings between Total and Gaz de France mentioned in Section 1.1.3. Before its disposal, this company was consolidated in the Group's accounts using the equity method.

The overall positive impact of the unwinding of reciprocal shareholdings with Total came out at 77.1 million euro, recorded under other operating income and expenses.

The share of assets and liabilities comprising the value of sold off equity-consolidated securities can be broken down as follows:

| *(millions of euro)* | | 2005 |
|---|---|---|
| Goodwill and other intangible assets | | 2 |
| Tangible assets | | 165 |
| Financial assets | | 1 |
| Inventories and work-in-progress | | 30 |
| Trade receivables and related | | 47 |
| Cash and cash equivalents | | 1 |
| **Sub-total** | **(I)** | **246** |
| Trade payables and related | | 30 |
| Tax and social liabilities | | 17 |
| Financial debt | | 60 |
| Provisions for employee benefits | | 2 |
| Deferred tax liabilities | | 37 |
| Other provisions | | 1 |
| **Sub-total** | **(II)** | **147** |
| **Disposed net assets = equity-consolidated securities** | **(I) – (II)** | **99** |
| Gains (losses) on disposals | | -4 |
| **Net proceeds from disposals** | | **95** |
| *Less* | | |
| Net disposed cash | | -1 |
| **Cash consideration received for the period** | | **94** |

### 1.3. Change of consolidation method

#### *1.3.1. Changes of consolidation methods in 2007*

An amendment to the shareholders' agreement (without any additional investment) with the partner of the UK exploration-production company EFOG, made on February 1, 2007, gave Gaz de France joint control over the company, justifying a change from the equity to the proportionate consolidation method.

Following the replacement of the SPE directors appointed by Gaz de France with a trustee, the Group reconsidered the nature of the control exercised: as of November 30, 2007, SPE, which was previously proportionately consolidated, has been equity consolidated.

The impact of changes in methods on the consolidated financial statements can be summarized as follows:

| *(million euro)* | | 2007 |
|---|---|---|
| Intangible assets | | -139 |
| Tangible assets | | 34 |
| Other receivables | | 26 |
| Cash and cash equivalents | | 27 |
| **Sub-total** | **(I)** | **-52** |
| Financial debt | | -43 |
| Provisions | | -19 |
| Non-current deferred tax liabilities | | 15 |
| Other liabilities | | 2 |
| **Sub-total** | **(II)** | **-45** |
| **Value of equity-consolidated securities** | **(I) – (II)** | **-7** |
| **Share of income in companies consolidated using the equity method** | | **11** |

*1.3.2. Changes to consolidation methods in 2005*

| Name of subsidiary | Country | Activity | % acquired | Date of acquisition |
|---|---|---|---|---|
| Italcogim Group | Italy | International Transmission and Distribution | 40.00% | Aug 5, 2003 |
| Arcalgas Energie | Italy | International Transmission and Distribution | 42.65% | May 7, 2002 |
| Arcalgas Progetti | Italy | International Transmission and Distribution | 44.17% | May 7, 2002 |

These equity interests had been held by the Group since 2002 and 2003, but were not included in the consolidated financial statements since Italian regulations capped voting rights held by foreign investors at 2%. Since Gaz de France was listed on July 7, 2005, this cap on voting rights has no longer been applicable, enabling these entities to be consolidated within the scope of the Group.

The equity consolidation method has been retained for these companies on account of Italian regulations, which limit power within such entities.

## 2. RESTATEMENT OF PERIODS FOR COMPARISON

### 2.1 – Completion of work to allocate the acquisition cost for Maïa Eolis

**Condensed consolidated balance sheet**

| *(millions of euro)* | 2006 before changes | IFRS 3 adjustments | 2006 after changes |
|---|---|---|---|
| Goodwill | 1,649 | -23 | 1,626 |
| Concession intangible assets | 5,704 | - | 5,704 |
| Other intangible assets | 564 | - | 564 |
| Tangible assets | 16,625 | +35 | 16,660 |
| Other current and non-current assets | 18,367 | - | 18,367 |
| **Total assets** | **42,909** | **+12** | **42,921** |
| Shareholders' equity – Group share | 16,197 | - | 16,197 |
| Minority interests | 466 | - | 466 |
| Deferred tax liabilities | 2,608 | +12 | 2,620 |
| Other current and non-current liabilities | 23,638 | - | 23,638 |
| **Total liabilities** | **42,909** | **+12** | **42,921** |

The completion within one year, as authorized under IFRS 3, of work to identify and value assets acquired and any liabilities taken on in connection with the 2006 acquisition of Maïa Eolis, resulted in the reallocation of part of the goodwill to tangible assets for 35 million euro and deferred tax liabilities for 12 million euro.

## C – Supplemental disclosures on the balance sheet, income statement and cash flow statement

### 1 – SEGMENT REPORTING

## Note 1 – Business segment reporting

### Comparability of periods

Further to the new organization put in place for the Group, certain activities have been reclassified between segments over all of the periods presented.

The main reclassifications concern:

- GDF Deutschland key account sales activity (continental Europe): Purchase and Sale of Energy segment (previously ITD),
- Savelys Group and DK6: Purchase and Sale of Energy segment (previously SER),
- European transport subsidiaries (Megal GmbH, Segeo): TS segment (previously ITD),
- UK gas sales: ITD segment (previously PSE).

**Business segments**

The segmentation is based on internal management and reporting structures: a business segment encompasses a sub-group of activities or operating entities, with each entity managed separately and regularly providing financial and management information.

The Group's activities are divided into six segments, gathered into two divisions, Energy Supply and Services and Infrastructures.

**The Energy Supply and Services (ESS) division includes the following business segments:**

- **Exploration-Production (E&P)**

Through its subsidiaries and its equity interests, the Gaz de France Group operates 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 significant percentage of its production to the Purchase and Sale of Energy segment.

- **Purchase and Sale of Energy (PSE)**

This segment groups together sale and trading activities and related services. Sales concern all customers: residential customers, commercial customers, and other energy companies. In France they are carried out primarily by Gaz de France. Key account gas sales in France, Germany and Belgium and electricity sales in the UK are handled primarily by Gaz de France. The trading business is carried out by Gaselys. Savelys is primarily responsible for related services.

- **Services (SER)**

The Services segment consists of complementary services for energy supplies, mainly:

- management and maintenance of heat or cold production facilities, industrial maintenance (Cofathec Group),
- facilities in controlled environments, management of industrial units (Cofathec Group),
- electricity production (Finergaz Group)
- Natural gas for vehicles (GNVert)

The Infrastructures (Infrastr.) division groups together all transmission and distribution activities, divided into the following segments:

- **Transmission – Storage (TS)**

The gas transmission network in France is operated by the subsidiary GRTgaz for Gaz de France and, in line with European directives, for third parties. This segment also includes the networks for Megal (Southern Germany) and Segeo (Belgium), as well as the management of LNG terminals and storage facilities in France.

- **Distribution France (DIF)**

This segment pools the management of distribution networks in France – investments, replacements, maintenance – carried out by Gaz de France in 2007 and sold to the subsidiary GrDF at December, 31 2007, mainly for carrying gas for itself or third parties. The distribution networks are run through concessions granted by local authorities.

- **International Transmission and Distribution (ITD)**

The Group has equity interests in several gas transmission and distribution companies, mainly in Europe (Germany, Hungary, Slovakia, Portugal and Romania) and in Mexico. In general, these entities also market gas. This segment also includes gas sales outside of continental Europe (notably the UK).

Other

This segment groups together contributions for holding companies and dedicated entities for the Group's centralized financing, as well as real estate companies.

Unallocated Items

Unallocated income and expenses mainly comprise head-office expenses, research and development costs as well as miscellaneous income, not directly attributable to businesses.

Unallocated fixed assets comprise headquarters' fixed assets, those allocated to research and to human resources management.

### Note 1 – 1 – Income statement

- **Gaz de France Group**

(adjusted comparative data – see above)

a) Revenues

| Revenues | 12.31.2007 External revenue | 12.31.2007 Inter-segment sales | 12.31.2007 Total | 12.31.2006 External revenue | 12.31.2006 Inter-segment sales | 12.31.2006 Total | 12.31.2005 External revenue | 12.31.2005 Inter-segment sales | 12.31.2005 Total |
|---|---|---|---|---|---|---|---|---|---|
| Energy Services | 21,178 | 1,823 | **23,001** | 21,344 | 1,924 | **23,268** | 18,161 | 1,514 | **19,675** |
| Infrastrure | 6,145 | 4,546 | **10,691** | 6,178 | 4,610 | **10,788** | 4,654 | 4,564 | **9,218** |
| Other | 79 | 282 | **361** | 72 | 198 | **270** | 14 | 57 | **71** |
| Unallocated | 25 | 504 | **529** | 48 | 466 | **514** | 43 | 662 | **705** |
| Eliminations | - | -7,155 | **-7,155** | - | -7,198 | **-7,198** | - | -6,797 | **-6,797** |
| **Total** | **27,427** | **-** | **27,427** | **27,642** | **-** | **27,642** | **22,872** | **-** | **22,872** |

b) Other indicators

| Adjusted Operating Income | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Energy Services | 2,331 | 1,916 | 1,156 |
| Infrastructure | 3,316 | 3,267 | 3,002 |
| Other | 65 | -2 | -5 |
| Unallocated | -46 | -32 | 95 |
| **Total** | **5,666** | **5,149** | **4,248** |

** *before replacement costs and share-based payments see Note 1-2*

| Operating income | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Energy Services | 1,777 | 1,449 | 767 |
| Infrastructure | 2,118 | 2,087 | 2,125 |
| Other | 47 | 115 | - |
| Unallocated | -68 | -43 | -71 |
| **Total** | **3,874** | **3,608** | **2,821** |

| Share of income in companies accounted for by the equity method | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Energy Services | 68 | 152 | 155 |
| Infrastructure | 31 | 24 | 34 |
| Other | - | - | - |
| Unallocated | - | - | - |
| **Total** | **99** | **176** | **189** |

c) Elements included in operating income

| Personnel expenses | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Energy Services | 977 | 890 | 832 |
| Infrastructure | 1,290 | 1,341 | 1,252 |
| Other | 45 | 24 | 12 |
| Unallocated | 316 | 326 | 445 |
| **Total** | **2,628** | **2,581** | **2,541** |

| Amortization of tangible and intangible assets | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Energy Services | 548 | 428 | 379 |
| Infrastructure | 931 | 967 | 919 |
| Other | 27 | 28 | 10 |
| Unallocated | 7 | 7 | 10 |
| **Total** | **1,513** | **1,430** | **1,318** |

| Impairment tangible and intangible assets | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Energy Services | 18 | 49 | 7 |
| Infrastructure | -2 | 1 | -36 |
| Other | -2 | -2 | - |
| Unallocated | - | - | - |
| **Total** | **14** | **48** | **-29** |

• **Energy Supply and Services Division**

(adjusted comparative data – see above)

a) Revenues

| Revenues | 12.31.2007 External revenue | 12.31.2007 Inter-segment sales | 12.31.2007 Total | 12.31.2006 External revenue | 12.31.2006 Inter-segment sales | 12.31.2006 Total | 12.31.2005 External revenue | 12.31.2005 Inter-segment sales | 12.31.2005 Total |
|---|---|---|---|---|---|---|---|---|---|
| E&P | 1,293 | 424 | **1,717** | 1,230 | 429 | **1,659** | 932 | 207 | **1,139** |
| PSE | 18,184 | 1,857 | **20,041** | 18,432 | 2,023 | **20,455** | 15,731 | 1,615 | **17,346** |
| SER | 1,701 | 106 | **1,807** | 1,682 | 119 | **1,801** | 1,498 | 70 | **1,568** |
| Eliminations | - | -564 | **-564** | - | -647 | **-647** | - | -378 | **-378** |
| **Total** | **21,178** | **1,823** | **23,001** | **21,344** | **1,924** | **23,268** | **18,161** | **1,514** | **19,675** |

b) Other indicators

| Adjusted Operating Income | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| E&P | 1,127 | 1,270 | 726 |
| PSE | 1,075 | 529 | 325 |
| SER | 129 | 117 | 105 |
| **Total** | **2,331** | **1,916** | **1,156** |

** *before replacement costs and share-based payments see Note 1-2*

| Operating income | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| E&P | 755 | 935 | 457 |
| PSE | 940 | 443 | 251 |
| SER | 82 | 71 | 59 |
| **Total** | **1,777** | **1,449** | **767** |

| Share of income in companies accounted for by the equity method | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| E&P | 11 | 114 | 128 |
| PSE | 57 | 37 | 24 |
| SER | - | 1 | 3 |
| **Total** | **68** | **152** | **155** |

c) Elements included in operating income

| Personnel expenses | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| E&P | 103 | 97 | 88 |
| PSE | 469 | 383 | 372 |
| SER | 405 | 410 | 372 |
| **Total** | **977** | **890** | **832** |

| Amortization of tangible and intangible assets | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| E&P | 377 | 298 | 267 |
| PSE | 127 | 89 | 71 |
| SER | 44 | 41 | 41 |
| **Total** | **548** | **428** | **379** |

| Impairment of tangible and intangible assets | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| E&P | 11 | 49 | 7 |
| PSE | 7 | - | - |
| SER | - | - | - |
| **Total** | **18** | **49** | **7** |

- **Infrastructures**

(adjusted comparative data – see above)

a) Revenues

| Revenues | 12.31.2007 External revenue | 12.31.2007 Inter-segment sales | 12.31.2007 Total | 12.31.2006 External revenue | 12.31.2006 Inter-segment sales | 12.31.2006 Total | 12.31.2005 External revenue | 12.31.2005 Inter-segment sales | 12.31.2005 Total |
|---|---|---|---|---|---|---|---|---|---|
| TS | 488 | 2,006 | **2,494** | 384 | 1,971 | **2,355** | 228 | 1,910 | **2,138** |
| DIF | 517 | 2,559 | **3,076** | 642 | 2,647 | **3,289** | 774 | 2,652 | **3,426** |
| TDI | 5,140 | 62 | **5,202** | 5,152 | 26 | **5,178** | 3,652 | 17 | **3,669** |
| Eliminations | - | -81 | **-81** | - | -34 | **-34** | - | -15 | **-15** |
| **Total** | **6,145** | **4,546** | **10,691** | **6,178** | **4,610** | **10,788** | **4,654** | **4,564** | **9,218** |

b) Other indicators

| Adjusted Operating Income | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| TS | 1,534 | 1,357 | 1,265 |
| DIF | 1,291 | 1,412 | 1,358 |
| TDI | 491 | 498 | 379 |
| **Total** | **3,316** | **3,267** | **3,002** |

** *before replacement costs and share-based payments see Note 1-2*

| Operating income | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| TS | 1,185 | 1,013 | 934 |
| DIF | 552 | 726 | 900 |
| TDI | 381 | 348 | 291 |
| **Total** | **2,118** | **2,087** | **2,125** |

| Share of income in companies accounted for by the equity method | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| TS | 1 | 2 | - |
| DIF | 1 | 2 | - |
| TDI | 29 | 20 | 34 |
| **Total** | **31** | **24** | **34** |

c) Elements included in operating income

| Personnel expenses | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| TS | 296 | 289 | 284 |
| DIF | 711 | 801 | 802 |
| TDI | 284 | 251 | 166 |
| **Total** | **1,291** | **1,341** | **1,252** |

| Amortization of tangible and intangible assets | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| TS | 353 | 344 | 343 |
| DIF | 453 | 444 | 441 |
| TDI | 125 | 179 | 135 |
| **Total** | **931** | **967** | **919** |

| Impairment tangible and intangible assets | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| TS | - | - | - |
| DIF | - | - | - |
| TDI | -2 | 1 | -36 |
| **Total** | **-2** | **1** | **-36** |

### Note 1 – 2 – Reconciliation of adjusted operating income with the financial statements

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Operating cash flow before tax, replacement costs and change in working capital | 5,904 | 5,118 | 4,254 |
| Gain (loss) on disposal of assets | 71 | 218 | 31 |
| Exploration expenses | -103 | -86 | -44 |
| Employee benefits | -4 | 31 | 141 |
| MtM on financial derivative instruments hedging operating activities | -145 | 38 | -44 |
| Dividends received from companies accounted for by the equity method | -65 | -217 | -128 |
| Other | 8 | 47 | 38 |
| **Adjusted Operating Income before replacement costs** | **5,666** | **5,149** | **4,248** |

| | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Operating income | 3,874 | 3,608 | 2,821 |
| Amortization and provisions | 1,532 | 1,247 | 1,040 |
| Shares-based payment | 13 | - | 132 |
| Replacement costs | 247 | 294 | 255 |
| **Adjusted Operating Income before replacement costs** | **5,666** | **5,149** | **4,248** |

### Note 1 – 3 – Balance sheet

• **Gaz de France Group**

a) Sectoral assets

| Goodwill | | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Energy Services | 623 | 551 | 492 |
| Infrastructure | 1,132 | 1,075 | 1,009 |
| Other | - | - | - |
| Unallocated | - | - | - |
| **Total** | **1,755** | **1,626** | **1,501** |

| Concession intangible assets | | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Energy Services | 164 | 167 | 163 |
| Infrastructure | 5,448 | 5,537 | 5,514 |
| Other | - | - | - |
| Unallocated | - | - | - |
| **Total** | **5,612** | **5,704** | **5,677** |

| Other intangible assets | | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Energy Services | 255 | 181 | 125 |
| Infrastructure | 584 | 349 | 320 |
| Other | 38 | 29 | 19 |
| Unallocated | 6 | 5 | 9 |
| **Total** | **883** | **564** | **473** |

| Tangible assets | | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Energy Services | 5,999 | 5,211 | 4,017 |
| Infrastructure | 11,359 | 11,079 | 10,910 |
| Other | 311 | 331 | 226 |
| Unallocated | 36 | 39 | - |
| **Total** | **17,705** | **16,660** | **15,153** |

| Investments in companies accounted for by the equity method | | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Energy Services | 75 | 311 | 332 |
| Infrastructure | 739 | 407 | 361 |
| Other | - | - | - |
| Unallocated | - | - | - |
| **Total** | **814** | **718** | **693** |

| Financial derivative assets | | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Energy Services | 2,548 | 2,319 | 1,725 |
| Infrastructure | 79 | 2 | 44 |
| Other | 85 | 21 | 14 |
| Unallocated | - | - | - |
| **Total** | **2,712** | **2,342** | **1,783** |

b) Sectoral liabilities

| Provision for replacement | | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Energy Services | 54 | 49 | 46 |
| Infrastructure | 4,095 | 3,825 | 3,637 |
| Other | - | - | - |
| Unallocated | - | - | - |
| **Total** | **4,149** | **3,874** | **3,683** |

| Provision for site restoration | | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Energy Services | 447 | 397 | 326 |
| Infrastructure | 1,327 | 1,261 | 1,156 |
| Other | 34 | 43 | 164 |
| Unallocated | - | - | - |
| **Total** | **1,808** | **1,701** | **1,646** |

| Financial derivative liabilities | | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Energy Services | 2,510 | 2,180 | 1,711 |
| Infrastructure | 6 | 8 | 11 |
| Other | 24 | 9 | 79 |
| Unallocated | - | - | - |
| **Total** | **2,540** | **2,197** | **1,801** |

- **Energy Supply and Services Division**

a) Segment assets

| Goodwill | 2007 | 2006 | 2005 |
|---|---|---|---|
| E&P | 65 | 65 | 38 |
| PSE | 384 | 300 | 284 |
| SER | 174 | 186 | 170 |
| **Total** | **623** | **551** | **492** |

| Concession intangible assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| E&P | - | - | - |
| PSE | 28 | 35 | 32 |
| SER | 136 | 132 | 131 |
| **Total** | **164** | **167** | **163** |

| Other intangible assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| E&P | 4 | 5 | 6 |
| PSE | 237 | 171 | 117 |
| SER | 14 | 5 | 2 |
| **Total** | **255** | **181** | **125** |

| Tangible assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| E&P | 3,542 | 3,088 | 2,923 |
| PSE | 2,268 | 1,939 | 920 |
| SER | 189 | 184 | 174 |
| **Total** | **5,999** | **5,211** | **4,017** |

| Investments in companies accounted for by the equity method | 2007 | 2006 | 2005 |
|---|---|---|---|
| E&P | - | 247 | 279 |
| PSE | 61 | 41 | 30 |
| SER | 14 | 23 | 23 |
| **Total** | **75** | **311** | **332** |

| Derivative assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| E&P | - | - | - |
| PSE | 2,547 | 2,319 | 1,725 |
| SER | 1 | - | - |
| **Total** | **2,548** | **2,319** | **1,725** |

b) Segment liabilities

| Provisions for replacement | 2007 | 2006 | 2005 |
|---|---|---|---|
| E&P | - | - | - |
| PSE | 33 | 33 | 33 |
| SER | 21 | 16 | 13 |
| **Total** | **54** | **49** | **46** |

| Provision for site restoration | 2007 | 2006 | 2005 |
|---|---|---|---|
| E&P | 440 | 387 | 323 |
| PSE | 7 | 10 | 3 |
| SER | - | - | - |
| **Total** | **447** | **397** | **326** |

| Derivative liabilities | 2007 | 2006 | 2005 |
|---|---|---|---|
| E&P | - | - | - |
| PSE | 2,508 | 2,178 | 1,708 |
| SER | 1 | 2 | 3 |
| **Total** | **2,509** | **2,180** | **1,711** |

- **Infrastructures**

a) Segment assets

| Goodwill | 2007 | 2006 | 2005 |
|---|---|---|---|
| TS | - | - | - |
| DIF | - | - | - |
| TDI | 1,132 | 1,075 | 1,009 |
| **Total** | **1,132** | **1,075** | **1,009** |

| Concession intangible assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| TS | - | - | - |
| DIF | 5,448 | 5,537 | 5,514 |
| TDI | - | - | - |
| **Total** | **5,448** | **5,537** | **5,514** |

| Other intangible assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| TS | 140 | 10 | 3 |
| DIF | 185 | 101 | 47 |
| TDI | 259 | 238 | 270 |
| **Total** | **584** | **349** | **320** |

| Tangible assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| TS | 7,913 | 7,535 | 7,293 |
| DIF | 1,012 | 973 | 1,138 |
| TDI | 2,434 | 2,571 | 2,479 |
| **Total** | **11,359** | **11,079** | **10,910** |

| Investments in companies accounted for by the equity method | 2007 | 2006 | 2005 |
|---|---|---|---|
| TS | 3 | 13 | 13 |
| DIF | 15 | 16 | 15 |
| TDI | 721 | 378 | 333 |
| **Total** | **739** | **407** | **361** |

| Derivative assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| TS | - | - | - |
| DIF | - | - | - |
| TDI | 79 | 2 | 44 |
| **Total** | **79** | **2** | **44** |

b) Segment liabilities

| Provisions for replacement | 2007 | 2006 | 2005 |
|---|---|---|---|
| TS | - | - | - |
| DIF | 4,095 | 3,825 | 3,637 |
| TDI | - | - | - |
| **Total** | **4,095** | **3,825** | **3,637** |

| Provision for site restoration | 2007 | 2006 | 2005 |
|---|---|---|---|
| TS | 209 | 196 | 167 |
| DIF | 1,098 | 1,032 | 960 |
| TDI | 20 | 33 | 29 |
| **Total** | **1,327** | **1,261** | **1,156** |

| Derivative liabilities | 2007 | 2006 | 2005 |
|---|---|---|---|
| TS | - | - | - |
| DIF | - | - | - |
| TDI | 6 | 8 | 11 |
| **Total** | **6** | **8** | **11** |

### Note 1 – 4 – Other indicators

• **Gaz de France Group**

| | Capital expenditure (including restoration dep. and finance leasing) | | | Workforce | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Energy Services | 1,064 | 998 | 608 | 17,364 | 17,009 | 16,551 |
| Infrastructure | 1,704 | 1,584 | 1,366 | 28,059 | 30,985 | 34,147 |
| Other | 30 | 15 | 18 | 346 | 186 | 147 |
| Unallocated | 12 | 9 | 12 | 1,791 | 2,064 | 2,113 |
| **Total** | **2,810** | **2,606** | **2,004** | **47,560** | **50,244** | **52,958** |

• **Energy Supply and Services Division**

| | Capital expenditure (including restoration dep. and finance leasing) | | | Workforce | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| E&P | 630 | 581 | 499 | 1,131 | 1,115 | 1,205 |
| PSE | 391 | 382 | 76 | 8,818 | 7,180 | 6,985 |
| SER | 43 | 35 | 33 | 7,415 | 8,714 | 8,361 |
| **Total** | **1,064** | **998** | **608** | **17,364** | **17,009** | **16,551** |

• **Infrastructures**

| | Capital expenditure (including restoration dep. and finance leasing) | | | Workforce | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| TS | 796 | 629 | 451 | 4,505 | 4,417 | 4,407 |
| DIF | 724 | 787 | 793 | 12,202 | 14,712 | 15,110 |
| TDI | 184 | 168 | 122 | 11,352 | 11,856 | 14,630 |
| **Total** | **1,704** | **1,584** | **1,366** | **28,059** | **30,985** | **34,147** |

## Note 2 – Geographical reporting

Secondary segment reporting is divided on the basis of the major geographical areas in which the Group operates, including

• France

• Europe excluding France

• Rest of the World.

Revenues are broken down by

- by origin (the geographical area where sales were generated);
- by 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.

### Note 2 – 1 – Geographical area of origin

| | Revenues | | | Operating income | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| France | 21,659 | 21,920 | 18,234 | 2,548 | 2,173 | 2,010 |
| Europe excluding France | 8,570 | 8,082 | 5,739 | 1,232 | 1,373 | 731 |
| Rest of the World | 273 | 237 | 212 | 94 | 62 | 80 |
| Eliminations | -3,075 | -2,597 | -1,313 | - | - | - |
| **Total** | **27,427** | **27,642** | **22,872** | **3,874** | **3,608** | **2,821** |

| | Sectoral assets | | | Investments and equipment (including restoration dep. and finance leasing) | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006* | 2005 | 2007 | 2006 | 2005 |
| France | 20,221 | 18,916 | 17,658 | 1,916 | 1,809 | 1,367 |
| Europe excluding France | 8,893 | 8,397 | 7,276 | 871 | 778 | 611 |
| Rest of the World | 366 | 300 | 346 | 23 | 19 | 26 |
| Eliminations | - | - | - | - | - | - |
| **Total** | **29,480** | **27,613** | **25,280** | **2,810** | **2,606** | **2,004** |

* *See Note B – Comparability between financial years, § 2 Restatement of periods for comparison.*

### Note 2 – 2 – Revenues by geographical area of destination

| | Revenues | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| France | 16,066 | 16,802 | 14,733 |
| United Kingdom | 2,725 | 3,094 | 2,516 |
| Benelux | 2,075 | 1,836 | 1,100 |
| Italy | 1,548 | 1,165 | 1,108 |
| Hungary | 691 | 709 | 631 |
| Germany | 1,156 | 1,211 | 944 |
| Other European countries | 2,604 | 2,074 | 1,351 |
| Rest of the World | 562 | 751 | 489 |
| **Total** | **27,427** | **27,642** | **22,872** |

## 2 – INCOME STATEMENTS

## Note 3 – Revenues

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Sales of goods | 23,644 | 23,849 | 19,479 |
| Services rendered | 3,681 | 3,671 | 3,306 |
| Revenues from financial affiliates | 102 | 122 | 87 |
| **Revenues** | **27,427** | **27,642** | **22,872** |

Under IFRIC 12, revenues recognized amount to 302 million euro in 2007, 397 million euro in 2006 and 487 million euro in 2005.

## Note 4 – Purchases and other external charges

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Energy purchases | 14,753 | 15,810 | 12,569 |
| Other purchases | 4,631 | 4,390 | 3,856 |
| Capitalized expenses | -253 | -224 | -131 |
| **Purchases and other external charges** | **19,131** | **19,976** | **16,294** |

## Note 5 – Personnel expenses

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Wages and salaries, profit-sharing schemes included | 1,712 | 1,669 | 1,566 |
| Social contributions | 507 | 499 | 467 |
| Pension commitments and other commitments due to employees of defined benefit programs | 181 | 184 | 106 |
| Share-based payments | 13 | - | 132 |
| Other charges | 215 | 229 | 270 |
| **Total personnel expenses** | **2,628** | **2,581** | **2,541** |

### Workforce

The Group had 47,560 employees at December 31, 2007, compared with 50,244 at December 31, 2006 and 52,958 at the end of 2005.

## Note 6 – Other operating income and expenses

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Reversals of allowances against current assets | 94 | 66 | 80 |
| Operating grants | 31 | 10 | 11 |
| Gains on financial derivative instruments[1] | 102 | 54 | 162 |
| Net income from tangible and intangible asset disposals[2] | 70 | - | 1 |
| Net income from subsidiary disposals[3] | - | 243 | - |
| Negative goodwill | 5 | - | 44 |
| Other | 228 | 253 | 267 |
| **Total other operating income** | **530** | **626** | **565** |
| Provisions on current assets[1] | 110 | 173 | 70 |
| Other taxes | 293 | 295 | 263 |
| Losses on financial derivative instruments[1] | 188 | 138 | 187 |
| Net loss from tangible and intangible asset disposals[2] | - | 25 | - |
| Net loss from subsidiary disposals[3] | 6 | - | - |
| Other | 195 | 225 | 221 |
| **Total other operating expenses** | **792** | **856** | **741** |
| **Other operating income and expenses** | **-262** | **-230** | **-176** |

(1) *Net gains and losses on financial derivative instruments result, on the one hand, from the impact of the ineffectiveness in hedging relationships for energy purchases or sales, and on the other hand from changes in the fair value of derivatives which are part of risk management strategies which are not qualifying for hedge accounting or arbitrage strategies.*

**Net gains or losses on financial derivative instruments**

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Net impact of the ineffective portion of hedging on energy purchases or sales | -6 | -32 | -7 |
| Other net gains and losses on derivatives | -80 | -52 | -18 |
| **Total net gain or loss on financial derivative instruments** | **-86** | **-84** | **-25** |

**(2)** *The main disposals over the period related to Exploration-Production assets, real estate and intangible assets, as well as the effects of an agreement on the contribution of the Gaz de France branch specialised in gas sales for major industrial customers in Italy.*

**Net result of disposals of tangible and intangible assets**

| At Dec 31, 2007 *(millions of euro)* | Expenses | Income |
|---|---|---|
| Disposals of tangible and intangible assets | 84 | 154 |
| Net result of disposals of tangible and intangible assets | | 70 |

The tax effect on the net result of disposals of tangible and intangible assets amounted to 16 million euro.

**(3)** *At December 31, 2006, net gains on subsidiary disposals primarily include the 187 million euro gain on the sale of KGM shares.*

## Note 7 – Depreciation, amortization, impairment and provisions

• **Depreciation and amortization**

| *(million euro)* | | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|---|
| Depreciation expense on concession intangible assets | | 392 | 394 | 381 |
| Depreciation expense on other intangible assets | | 73 | 66 | 40 |
| Depreciation expenses on tangible assets | | 1,049 | 970 | 897 |
| **Net amortization expenses** | **(I)** | **1,514** | **1,430** | **1,318** |

• **Impairment of assets**

| *(million euro)* | | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|---|
| Impairment of goodwill | | - | - | 2 |
| Impairment of other intangible assets (net of reversals) | | - | - | -28 |
| Impairment of other tangible assets (net of reversals) | | 14 | 48 | -1 |
| **Net provisions on fixed assets** | **(II)** | **14** | **48** | **-27** |

Impairment tests have been carried out on assets based on valuation models that factor in the specific features of each activity and, when the discounted cash flow method has been used, over medium- and long-term horizons, if applicable, as used for internal reporting purposes.

Assets have primarily been tested using the discounted cash flow method. The rates retained for the 2007 annual review of the value in use of assets for discounting cash flow range from 8% and 12% for the Exploration-Production segment, 5.5% and 8.5% for the Transmission Distribution International segment, and 6.5% and 8% for the Services segment.

The impairment tests carried out in 2006 notably resulted in an impairment being recorded on the value of exploration fields in the UK (49 million euro at December 31, 2006).

• **Provisions for liabilities and charges**

| *(million euro)* | | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|---|
| Allowances to provisions for liabilities and charges | | 461 | 479 | 294 |
| Reversals of provisions for liabilities and charges | | -457 | -710 | -545 |
| **Net provisions for contingencies and expenses** | **(III)** | **4** | **-231** | **-251** |

The main changes over the period relate to allowances and reversals of the provision for replacement.

In December 2007, net provisions for replacement were reduced by a 89 million euro reversal further to the change in the discount rate (from 4% to 4,5% – see Note A).

Reversals for December 2006 include a non-recurring amount of 111 million euro linked to the revaluation of the company's commitments for the restoration of lands on which manufactured gas production plants were located.

| *(million euro)* | | | | |
|---|---|---|---|---|
| **Total net depreciation, impairment and provisions** | **(I) + (II) + (III)** | **1,532** | **1,247** | **1,040** |

## Note 8 – Financial income

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| **NET FINANCE COST** | | | |
| **Income from cash and cash equivalents** | **102** | **73** | **26** |
| Interest income | 37 | 13 | - |
| Gains on sales of cash equivalents (liquid marketable securities) | 65 | 60 | 26 |
| **Gross finance cost** | **-272** | **-196** | **-228** |
| Interest expenses | -278 | -206 | -232 |
| Net foreign currency translation adjustments | 6 | 10 | 4 |
| **TOTAL NET FINANCE COST** | **-170** | **-123** | **-202** |
| **OTHER FINANCIAL ITEMS** | | | |
| **Other financial income** | | | |
| Exchange gains not linked with financial debts | 146 | 80 | 70 |
| Gains on currency financial derivative instruments | 6 | 3 | 1 |
| Gains on security financial derivative instruments | - | 61 | 66 |
| Dividends received | 42 | 51 | 28 |
| Interest income | 32 | 32 | 48 |
| Expected return on plan assets | 90 | 86 | 90 |
| Net proceeds of sales of non-current financial assets | - | 113 | 81 |
| Reversals of provisions for financial risks and charges | 31 | 19 | 28 |
| Other | 120 | 70 | 76 |
| **Sub-total revenue** | **467** | **515** | **488** |
| **Other financial expenses** | | | |
| Exchange losses not linked with financial debts | -72 | -127 | -108 |
| Loss on currency financial derivative instruments | -14 | -1 | -10 |
| Loss on security financial derivative instruments | - | -57 | -58 |
| Interest (excluding loans) costs (borrowings excluded) | -15 | -9 | -24 |
| Unwinding effect of discount of provisions for employee benefits | -130 | -129 | -117 |
| Unwinding effect of discount of other provisions | -304 | -285 | -308 |
| Impairment of non-current financial assets | - | -3 | - |
| Granted financial forgiveness of debt | -2 | -1 | -2 |
| Financial provisions for liabilities and charges | -13 | -35 | -25 |
| Other charges | -57 | -102 | -72 |
| **Sub-total charges** | **-607** | **-749** | **-724** |
| **TOTAL OTHER FINANCIAL ITEMS** | **-140** | **-234** | **-236** |

## Note 9 – Income tax

Gaz de France has opted for the tax consolidation system. This option, exercised in 1998, has been renewed for periods of 5 years. It was renewed for a new 5-year period, until December 31, 2007.

Income tax expenses can be broken down as follows:

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Current tax | 1,311 | 1,222 | 867 |
| Deferred tax | -158 | -118 | -73 |
| **Income tax** | **1,153** | **1,104** | **794** |

### Note 9 a – Reconciliation of actual and theoretical income tax expense

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Income before tax | 3,663 | 3,427 | 2,572 |
| Negative goodwill (Note 6) | -5 | - | -44 |
| Impairment of goodwill (Note 7) | - | - | 1 |
| Share of income in companies accounted for by the equity method | -99 | -176 | -189 |
| Income before tax, impact of goodwill and share of income in companies accounted for by the equity method | 3,559 | 3,251 | 2,340 |
| Legal tax rate | 34.43% | 34.43% | 34.93% |
| Theoretical tax expense | 1,225 | 1,119 | 817 |
| Prior year differences in tax rates(4) | -78 | - | - |
| Differences in tax rates | 49 | 4 | 18 |
| Use of tax loss carry-forwards or temporary differences previously not capitalized | -4 | -12 | -34 |
| Recognition of tax loss carry-forwards or temporary differences previously not capitalized | - | - | -17 |
| Net losses of the period not capitalized | -6 | - | - |
| Permanent differences | -33 | -7 | 10 |
| **Actual income tax expense** | **1,153** | **1,104** | **794** |
| **Effective tax rate** | **32.40%** | **33.96%** | **33.93%** |

(4) *The reduction in the legal rate in Germany (from around 39% to 30%) scheduled for 2008 had an impact on deferred tax levels and the determination of the effective tax rate at December 31, 2007 representing around -82 million euro.*

### Note 9 b – Current tax and deferred tax

#### 9 b 1 – Current tax

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Current tax – asset | 233 | 84 | 69 |
| Current tax – liability | -529 | -208 | -154 |
| **Net current tax** | **-296** | **-124** | **-85** |

Note 9 b 2 – Change in deferred tax

| *(million euro)* | 12.31.2006 | Income | Shareholders' equity | Change in scope of consolidation | Other | 12.31.2007 |
|---|---|---|---|---|---|---|
| Deferred tax assets | 61 | 152 | -125 | 4 | -13 | 79 |
| Deferred tax liabilities | -2,620 | 6 | -30 | -33 | 43 | -2,634 |
| **Net deferred tax** | **-2,559** | **158** | **-155** | **-29** | **30** | **-2,555** |

Note 9 b 3 – Breakdown of deferred tax assets and liabilities by nature of temporary differences

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Fixed assets | 36 | 8 | 131 |
| Provisions and accrued expenses | 245 | 349 | 288 |
| Loss carry-forwards | 393 | 257 | 181 |
| Financial instruments | 45 | 81 | 72 |
| Other | 25 | 32 | 45 |
| **Deferred tax assets** | **744** | **727** | **717** |
| Fixed assets | -2,257 | -2,481 | -2,600 |
| Accelerated cost recovery | -801 | -544 | -437 |
| Other regulated provisions | -61 | -90 | -148 |
| Provisions and accrued expenses | -9 | -11 | -12 |
| Contributions from customers | -121 | -124 | -142 |
| Financial instruments | -4 | - | -15 |
| Other | -46 | -36 | -36 |
| **Deferred tax liability** | **-3,299** | **-3,286** | **-3,389** |
| **Net deferred tax** | **-2,555** | **-2,559** | **-2,672** |

### Note 9 c – Unrecognised deferred tax assets

| *(million euro)*<br>*Nature of temporary differences* | Total | Less than five years | More than five years | Indefinite carry-forward |
|---|---|---|---|---|
| Loss carry-forwards | 6 | - | 2 | 4 |
| Other temporary differences | 2 | - | 1 | 1 |
| **Total** | **8** | **-** | **3** | **5** |

## Note 10 – Earnings per share

### Note 10 – 1 – Basic earnings per share

| | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| **Numerator** | | | |
| Net income – Group share (in million euro) | 2,472 | 2,298 | 1,782 |
| **Denominator** | | | |
| Average number of outstanding shares (in thousand) | 983,115 | 983,719 | 942,439 |
| **Earnings value per share (non diluted) (in euro)** | **2.51** | **2.34** | **1.89** |

#### Note 10 – 2 – Diluted earnings per share

No dilutive instrument exists. Consequently, diluted earnings per share are identical to the non-diluted earnings per share.

## 3 – BALANCE SHEET – NON-FINANCIAL ASSETS

### Note 11 – Goodwill, concession intangible assets and other intangible assets

| *(million euro)* | Goodwill | Concessions | Patents, licences and similar rights Customer contracts | Intangible assets in progress Other | Intangible assets in progress | Other | Total |
|---|---|---|---|---|---|---|---|
| **Gross value at Jan 1, 2005** | **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** |
| Translation adjustments | 22 | | 11 | | | 1 | **34** |
| Transfer of fixed assets in progress | | 530 | 12 | | -543 | 1 | **-** |
| Other | 5 | | -5 | -4 | 30 | 3 | **29** |
| **Gross value at Dec 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 | *53 | | 10 | 2 | | -2 | **63** |
| Translation adjustments | 72 | | -8 | | | 2 | **66** |
| Transfer of fixed assets in progress | | 389 | 47 | | - 450 | 16 | **2** |
| Other | | 2 | 9 | 1 | | 1 | **13** |
| **Gross value at Dec 31, 2006** | **1,796** | **10,980** | **388** | **139** | **249** | **149** | **13,701** |
| Additions | | 6 | 148 | | 508 | 4 | **666** |
| Disposals | | -260 | -4 | -1 | | -4 | **-269** |
| Change in scope of consolidation | 148 | | -54 | 119 | | -59 | **154** |
| Translation adjustments | 14 | | -15 | | | -2 | **-3** |
| Transfer of fixed assets in progress | | 283 | 112 | | -432 | 37 | **-** |
| Other | | -3 | -8 | | 2 | 2 | **-7** |
| **Gross value at Dec 31, 2007** | **1,958** | **11,006** | **567** | **257** | **327** | **127** | **14,242** |

* *The completion of the allocation of the purchase price to assets acquired and liabilities assumed in connection with the 2006 acquisition of Maïa Eolis within one year, as authorised under IFRS 3, was primarily reflected in the re-allocation of 23 million euro from goodwill to tangible assets (see Note B.2).*

The increase in intangible fixed assets over 2007 relates to:

- Concession of intangible assets for 302 million euro,
- Acquisition of a right to build and operate underground salt cavern natural gas storage units in Stublach, in the north-west of England, with a capacity of 400 million cubic meters, for 134 million euro,
- IT and mapping applications (212 million euro),
- Other items: 18 million euro.

The main changes in scope are presented in Note B "Comparability between financial years".

| *(million euro)* | Goodwill | Concessions | Patents, licences and similar rights Customer contracts | Intangible assets in progress Other | Intangible assets in progress | Other | Total |
|---|---|---|---|---|---|---|---|
| **Amortization impairment at 1.1.2005** | **159** | **5,022** | **134** | **1** | **2** | **26** | **5,344** |
| Amortization provisions | | 381 | 22 | 5 | | 13 | **421** |
| Reversals of amortization on disposals and withdrawals | | -216 | -8 | | | -2 | **-226** |
| Impairment – provisions | 2 | | -1 | | | | **1** |
| Impairment – reversals | | | -28 | | | | **-28** |
| Change in scope of consolidation | | | 6 | 5 | | 4 | **15** |
| Translation adjustments | | | 4 | | 1 | | **5** |
| Other | 9 | | -1 | | | 2 | **10** |
| **Amortization impairment at 12.31.2005** | **170** | **5,187** | **128** | **11** | **3** | **43** | **5,542** |
| Amortization provisions | | 394 | 31 | 12 | | 23 | **460** |
| Reversals of amortization on disposals and withdrawals | | -186 | -2 | | | -5 | **-193** |
| Impairment – provisions | | | | | 1 | | **1** |
| Impairment – reversals | | | | | -1 | | **-1** |
| Change in scope of consolidation | | | 2 | | | | **2** |
| Translation adjustments | | | -1 | | | 1 | **-** |
| Other | | -21 | 9 | | | 8 | **-4** |
| **Amortization impairment at 12.31.2006** | **170** | **5,374** | **167** | **23** | **3** | **70** | **5,807** |
| Amortization | | 392 | 43 | 11 | | 19 | **465** |
| Reversals of amortization on disposals and withdrawals | | -258 | -3 | | | -4 | **-265** |
| Impairment – provisions | | | | | | | - |
| Impairment – reversals | | | | | | | - |
| Change in scope of consolidation | 33 | | -6 | -14 | | -27 | **-14** |
| Translation adjustments | | | -1 | | | -1 | **-2** |
| Other | | 1 | 2 | | -2 | | **1** |
| **Amortization impairment at 12.31.2007** | **203** | **5 509** | **202** | **20** | **1** | **57** | **5,992** |

| *(million euro)* | Goodwill | Concessions | Patents, licences and similar rights Customer contracts | Intangible assets in progress Other | Intangible assets in progress | Other | Total |
|---|---|---|---|---|---|---|---|
| Net book value at Dec 31, 2005 | 1,501 | 5,587 | 194 | 117 | 164 | 88 | **7,651** |
| At Dec 31, 2006 | 1,626 | 5,606 | 221 | 116 | 246 | 79 | **7,894** |
| **At Dec 31, 2007** | **1,755** | **5,497** | **365** | **237** | **326** | **70** | **8,250** |

Changes in **goodwill** were as follows:

| *(million euro)* | |
|---|---|
| **Goodwill at Dec 31, 2005** | **1,501** |
| Change in scope of consolidation | |
| *Maïa Eolis* | *34* |
| *Cofathec* | *17* |
| *AES Energia Cartagena* | *8* |
| *Distrigaz Sud (disposal of a 10% interest out of the initial 51% stake)* | *-6* |
| Translation adjustments | 72 |
| **Goodwill at Dec 31, 2006** | **1,626** |
| Change in scope of consolidation | |
| *Erelia* | *69* |
| *Vendite Italia* | *33* |
| *Société Eolienne de la Haute Lys* | *18* |
| *Cofathec Group* | *-11* |
| *Other* | *6* |
| Translation adjustments | 14 |
| **Goodwill at Dec 31, 2007** | **1,755** |

Currency translation adjustments primarily concern goodwill in Mexican pesos (-3 million euro), Romanian lei (-2 million euro) and Slovakian korunas (+21 million euro).

Goodwill recognised in the balance sheets as of December 31, 2007 mainly relate to:

- Groupe SPP: 829 million euro (Transmission Distribution International segment)
- Groupe Savelys: 255 million euro (Purchase and Sale of Energy segment)
- Gasag: 206 million euro (Transmission Distribution International segment)
- Cofathec Group 174 million euro (Services segment)

### Concessions

The Group operates the main natural gas distribution network in France as well as Western Europe's longest distribution network, covering some 186,000 kilometers/116,000 miles. Virtually all of the French districts with over 10,000 inhabitants within the coverage area are connected to the network, representing around 76% of the French population.

In France, virtually all of these contracts are natural gas concession agreements concluded for an initial term of 25 to 30 years, governed by French law 46-628 of April 8, 1946 and following a contractual framework devised jointly by the French association of municipal operators and conceding authorities (*Fédération Nationale des Collectivités Concédantes et Régies*) in 1994.

The average remaining term, weighted on the basis of volumes transported, represents 17.8 years.

The accounting principles resulting from Interpretation IFRIC 12 are applied to concession arrangements falling within its scope, *i.e.* GrDF's public distribution concessions and concessions operated within the Cofathec Group (heating networks, Climespace).

The Group considers that the activities of subsidiaries in the Transmission Distribution International segment, which are carried out in certain cases under concession agreements fall outside the scope of the interpretation, since they do not meet criterion 5 B of the interpretation, which deals with the grantor's control over residual interest in the infrastructure at the end of the term of the arrangement. The assets operated in connection with such agreements are recorded as tangible assets in accordance with IAS 16.

#### *Transportation rates on the distribution network*

Since January 1, 2006, GrDF has been applying tariffs set by the public authorities under the decision of the Minister of Economy, Industry and Labor on December 27, 2005. On October 26, 2005, these tariffs were subject to a proposal prepared by the CRE. The rate of compensation applied to the regulated asset base is 7.25% (actual, before corporate income tax) for all assets, irrespective of the date when they are brought 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 the annual capital charges, the CRE applies, depending on the nature of the facilities, a depreciation schedule ranging from 4 to 45 years. Pipes and connections, which represent 96% of the assets included in the regulated asset base, are depreciated over 45 years.

**Research and development costs**

No development costs were capitalized in 2007, 2006 or 2005.

Research and development costs, recorded under expenses, totalled 86 million euro at December 31, 2007, 84 million euro at December 31, 2006, and 73 million euro for 2005.

**$CO_2$ emission quotas**

As of December 31, 2007, the Gaz de France Group did not have any surplus quotas which had been acquired relative to obligations under the French quota allocation scheme for 2005-2007.

## Note 12 – Tangible assets

### Note 12 a – Changes over the period

| *Gross book value* | Technical facilities | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *(million euro)* | Transport | TM[a] | Storage | Distribution | Exploration Production | Other | Land | Buildings | Other fixed assets | Fixed assets in progress and advances | Total tangible assets |
| **Jan 1, 2005** | **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 of consolidation | 2 | 7 | 32 | 344 | 59 | 213 | 9 | 46 | 20 | 36 | 768 |
| Translation adjustments | 9 | | 5 | -4 | 7 | 8 | 1 | 2 | 47 | 15 | 90 |
| Transfer of fixed assets in progress | 214 | 9 | 163 | 85 | 124 | 415 | 2 | 58 | 27 | -1,096 | 1 |
| Other | -10 | -3 | -9 | 42 | 121 | -38 | 5 | -26 | -21 | -7 | 54 |
| **Dec 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 of consolidation | 13 | | | | -46 | 707 | 2 | | -14 | 20 | 682 |
| Translation adjustments | 41 | | - 2 | 70 | -1 | 35 | | 16 | -11 | -14 | 134 |
| Transfer of fixed assets in progress | 113 | 4 | 98 | 100 | 157 | 248 | 2 | 44 | 26 | -794 | -2 |
| Other | 37 | | 305 | 46 | -127 | 68 | - 67 | 86 | -106 | -15 | 227 |
| **Dec 31, 2006** | **6,946** | **434** | **3,235** | **3,189** | **3,842** | **2,866** | **137** | **1,368** | **522** | **2,295** | **24,834** |
| Additions | 15 | | 5 | 13 | 151 | 28 | 2 | 7 | 32 | 1,750 | 2,003 |
| Disposals | -17 | | -15 | -13 | -25 | -57 | - 2 | -71 | -23 | -85 | -308 |
| Change in scope of consolidation | | | | -1 | 476 | -184 | - 3 | -10 | 180 | 28 | 486 |
| Translation adjustments | 8 | | 2 | -32 | - 59 | - 3 | | -7 | 1 | 8 | -82 |
| Transfer of fixed assets in progress | 266 | 10 | 97 | 141 | 948 | 227 | 2 | 59 | 19 | -1,769 | 0 |
| Other | 1 | 2 | -7 | 59 | 122 | -92 | | 31 | -10 | -94 | 12 |
| **Dec 31, 2007** | **7,219** | **446** | **3,317** | **3,356** | **5,455** | **2,785** | **136** | **1,377** | **721** | **2,133** | **26,945** |

(a) *TM:methane terminals*

Capital expenditure, recorded under tangible and intangible assets, came to 2,552 million euro in 2007, 2,169 million euro in 2006 and 1,749 million euro in 2005 (see Note 21).

They comprised 1,201 million euro of capital expenditure in the Infrastructures branch in France, namely for the Transmission and Storage France segment (724 million euro, composed by Gaz de France SA and GRTgaz) and the Distribution France segment (477 million euro).

Capital expenditure of subsidiaries mainly concerned the Exploration-Production segment for 630 million euro (project development).

The main changes in scope are presented in Note B "Comparability between financial years".

Furthermore, non-cash investment operations without any impact on cash flow include finance-leased acquisitions for 10 million euro in 2007, 143 million euro in 2006 (mainly relating to the commissioning of an LNG carrier) and 9 million euro in 2005.

| *Amortization and impairment* | Technical facilities | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Transport | TM[(a)] | Storage | Distribution | Exploration Production | Other | Land | Buildings | Other fixed assets | Fixed assets in progress and advances | Total tangible assets |
| **Jan 1, 2005** | **1,251** | **289** | **1,013** | **733** | **1,611** | **432** | **84** | **570** | **350** | **12** | **6,345** |
| Amortization | 250 | 13 | 85 | 92 | 370 | -6 | 5 | 47 | 33 | | 889 |
| Reversals disposal/withdrawal | 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 |
| Translation adjustments | 8 | | 1 | 1 | -4 | 10 | | 1 | 11 | | 28 |
| Other | | | -4 | -7 | 45 | -22 | -1 | -24 | -22 | | -35 |
| **Dec 31, 2005** | **1,519** | **309** | **1,122** | **814** | **1,971** | **386** | **86** | **575** | **353** | **20** | **7,155** |
| Amortization | 253 | 13 | 92 | 101 | 285 | 136 | 3 | 51 | 37 | | 971 |
| Reversals disposal/withdrawal | -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 |
| Translation adjustments | 13 | | 1 | 16 | 3 | 20 | | 4 | 3 | | 60 |
| Other | -11 | | 75 | -10 | -133 | 163 | -53 | 48 | -44 | 58 | 93 |
| **Dec 31, 2006** | **1,783** | **322** | **1,276** | **914** | **2,084** | **680** | **35** | **658** | **316** | **106** | **8,174** |
| Amortization | 249 | 12 | 94 | 98 | 364 | 123 | 3 | 73 | 36 | | 1,052 |
| Reversals disposal/withdrawal | -11 | | -13 | -9 | -26 | -51 | | -51 | -25 | | -186 |
| Impairment – charges | | | | | | | | 1 | 2 | 18 | 21 |
| Impairment – reversals | | | | -1 | | -3 | | -1 | | - 2 | -7 |
| Change in scope of consolidation | | | | -7 | 273 | -34 | 9 | -5 | 11 | | 247 |
| Translation adjustments | 3 | | 1 | -2 | -48 | 2 | | | | - 3 | -47 |
| Other | | | -1 | -9 | 40 | 16 | -10 | 3 | - 3 | -50 | -14 |
| **Dec 31, 2007** | **2,024** | **334** | **1,357** | **984** | **2,687** | **733** | **37** | **678** | **337** | **69** | **9,240** |

| Net value (million euro) | Technical facilities: Transmission | TM[(a)] | Storage | Distribution | Exploration production | Other | Land | Buildings | Other fixed assets | Fixed assets in progress and deposits | Total tangible assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Dec 31, 2005** | **5,258** | **121** | **1,735** | **2,145** | **1,897** | **1,279** | **116** | **665** | **268** | **1,669** | **15,153** |
| **Dec 31, 2006** | **5,163** | **112** | **1,959** | **2,275** | **1,758** | **2,186** | **102** | **710** | **206** | **2,189** | **16,660** |
| **Dec 31, 2007** | **5,195** | **112** | **1,960** | **2,372** | **2,768** | **2,052** | **99** | **699** | **384** | **2,064** | **17,705** |

(a) *TM: Methane terminals.*

The impairment tests carried out in 2007 resulted in a 10 million euro impairment being recorded on the value of exploration fields in the UK (49 million euro at the end of 2006).

Fixed assets include dismantling assets for the following amounts:

| *(million euro)* | Gross value at Dec 31, 2007 | Depreciation and amortization | Net book value as of December 31, 2007 | Net book value as of December 31, 2006 | Net book value as of December 31, 2005 |
|---|---|---|---|---|---|
| Dismantling assets | 1,172 | 319 | 853 | 855 | 797 |

### Note 12 b – Capitalized exploration costs

The following table sets forth the net changes in capitalized exploration costs:

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| **Opening balance** | **136** | **80** | **26** |
| Capitalized costs pending determination of proved reserves | 92 | 104 | 83 |
| Amounts previously capitalized and expensed during the period | -44 | -45 | -13 |
| Amounts transferred to assets under development | -10 | -3 | -16 |
| **Closing balance** | **174** | **136** | **80** |

### Note 12 c – Leased assets (including intangible assets)

| *(million euro)* | Gross value at Dec 31, 2007 | Amortization and impairment | Net book value as of December 31, 2007 | Net book value as of December 31, 2006 | Net book value as of December 31, 2005 |
|---|---|---|---|---|---|
| Technical facilities | 879 | 263 | 616 | 644 | 536 |
| Buildings | 252 | 100 | 152 | 174 | 183 |
| Other | 4 | 2 | 2 | 1 | 2 |
| **Total tangible assets** | **1,135** | **365** | **770** | **819** | **721** |
| **Intangible assets** | **67** | **30** | **37** | **45** | **40** |
| **Total leased assets** | **1,202** | **395** | **807** | **864** | **761** |

The following table presents a reconciliation of future minimum lease payments before and after discounting

| | 12.31.2007 | | 12.31.2006 | |
|---|---|---|---|---|
| *(million euro)* | Undiscounted value | Present value | Undiscounted value | Present value |
| Less than one year | 177 | 134 | 109 | 81 |
| Between one and five years | 574 | 454 | 449 | 363 |
| Five years and beyond | 281 | 230 | 446 | 373 |
| **Total future minimum lease payments** | **1,032** | **818** | **1,004** | **817** |

### Note 12 d – Capital expenditure commitments (including intangible assets)

| | | Payments due per period | | |
|---|---|---|---|---|
| ***Contractual Obligations*** *(million euro)* | Total | Less than one year | From one to five years | Five years and beyond |
| Capital expenditure commitments | 2,247 | 670 | 1,519 | 58 |
| Other commitments | 4 | 0 | 2 | 2 |
| **Total** | **2,251** | **670** | **1,521** | **60** |

*(Amounts are not discounted)*

Capital expenditure commitments totalled 2,247 million euro primarily relating to:

- 89 millions euro for completion of the Fos Cavaou methane terminal, for which the start-up initially scheduled for the second half of 2008 has been pushed back to the first half of 2009;
- 407 million euro for work to build plants which are scheduled to be brought into service in 2008;
- 1,170 million euro for capital expenditure commitments on the Exploration and Production segment (including 706 million euro for 2008 and 2009).

## Note 13 – Investments in companies accounted for by the equity method, proportionate consolidated companies

### Note 13 a – Investments in companies accounted for by the equity method

The Group's equity interests in associated companies and the percentages of equity interests held are detailed in Note 24.

The following amounts represented the Group's share of assets, liabilities and incomes in associated companies:

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Non-current assets | 1,675 | 1,490 | 1,161 |
| Current assets | 392 | 569 | 491 |
| Non-current liabilities | -962 | -889 | -620 |
| Current liabilities | -315 | -474 | -396 |
| **Net assets** | **790** | **696** | **636** |
| Goodwill | 24 | 22 | 57 |
| **Investments in companies accounted for by the equity method (balance sheet)** | **814** | **718** | **693** |
| Revenues | 558 | 878 | 838 |
| **Income** | **99** | **176** | **189** |

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Investment in companies accounted for by the equity method – Opening balance | 718 | 693 | 385 |
| Share of income | 99 | 176 | 189 |
| Change in scope of consolidation | 5 | 59 | 233 |
| Translation adjustments | -3 | 7 | 7 |
| Dividends | -65 | -217 | -144 |
| Other | 60 | | 23 |
| **Investment in companies accounted for by the equity method – Closing balance** | **814** | **718** | **693** |

An amendment to the shareholders' agreement (without any additional interest) with the partner of the UK exploration-production company EFOG, made on February 1, 2007, gave Gaz de France joint-control over the company, resulting in consolidation under the proportionate method.

The SPE Group, which produces and supplies energy, accounts for 32% of investments in companies consolidated using the equity method. This group has been accounted for in accordance with the equity method since November 30, 2007 (See Appendix B.1.3.1).

The RETI Group, which distributes gas, accounts for 39% of investments in companies consolidated using the equity method, compared with 43% at December 31, 2006.

Gaz Transport & Technigaz, which develops LNG tanker membrane technologies, accounted for 58% of income from companies accounted for by the equity method, compared with 21% at December 31, 2006.

The NOVERCO Group, which transports and distributes energy in North America, has a non-consolidated equity interest in the listed company Enbridge Inc, which is recorded under assets available for sale. As the NOVERCO Group interest is accounted for using the equity method, the Gaz de France Group's share in unrealised capital gains generated on this investment has an impact on the Gaz de France Group's equity, representing a total net amount of 59 million euro at December 31, 2007.

### Note 13 b – Proportionate consolidated companies

The following amounts represented the Group share in assets, liabilities, income and expenses before the elimination of inter-company transactions.

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Non-current assets | 2,713 | 2,809 | 2,378 |
| Current assets | 4,336 | 4,045 | 3,935 |
| **Total Assets** | **7,049** | **6,854** | **6,313** |
| Non-current liabilities | 997 | 1,025 | 1,059 |
| Current liabilities | 3,873 | 3,496 | 3,645 |
| **Total Liabilities** | **4,870** | **4,521** | **4,704** |
| Income | 2,278 | 2,287 | 1,593 |
| Expenses | 1,851 | 1,942 | 1,317 |
| **Income** | **427** | **345** | **276** |

## Note 14 – Inventories and work-in-progress

| *(million euro)* | Gross value at Dec 31, 2007 | Impairment | Net value at Dec 31, 2007 | Net book value Dec 31, 2006 | Net value Dec 31, 2005 |
|---|---|---|---|---|---|
| Gas inventories | 1,677 | -53 | 1,624 | 1,812 | 1,336 |
| Other inventories and work-in-progress | 195 | -29 | 166 | 123 | 116 |
| **Inventories and work-in-progress** | **1,872** | **-82** | **1,790** | **1,935** | **1,452** |

## 4 – SHAREHOLDERS' EQUITY

## Note 15 – Shareholders' equity – Outstanding shares

### Note 15 a – Outstanding shares

| Outstanding common shares | |
|---|---|
| **At January 1, 2005** | **451,500,000** |
| **At April 28, 2005** | |
| New shares after the 2-for-1 stock split | 451,500,000 |
| **Number of shares before capital increase** | **903,000,000** |
| **At June 30, 2005** | **903,000,000** |
| **At 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** |
| **At December 31, 2005** | **983,871,988** |
| **At December 31, 2006** | **983,871,988** |
| **At December 31, 2007** | **983,871,988** |

* *The capital increase was supplemented by additional paid-in capital of 1,789 million euro.*

| Share capital | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Number of issued and fully paid-up shares | 983,871,988 | 983,871,988 | 983,871,988 |
| Number of issued and not fully paid-up shares | | | |
| **Total number of shares comprising the share capital** | **983,871,988** | **983,871,988** | **983,871,988** |

Each share bears a single 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 outstanding during the period including possible dilutive instruments.

At December 31, 2007, there were no dilutive instruments.

### Note 15 b – Treasury shares

Gaz de France signed a liquidity agreement pursuant to a Board of Directors resolution of April 26, 2006. This signed agreement is consistent with the Code of Ethics prepared by the French Association of Investment Firms (AFEI) and approved by the *Autorité des Marchés Financiers* (AMF) by resolution of March 22, 2005.

It was signed with a designated "promoter" bank for a 12 month term and renewed for 12 month periods.

Further, over the second half of 2007, Gaz de France bought back securities on the market in order to cover its free share allocation scheme.

Treasury shares held at the closing date are deducted from shareholders' equity.

At December 31, 2007, Gaz de France held 1,530,000 shares as treasury stock.

### Note 15 c – Free share allocations to employees

At Gaz de France's combined general meeting on May 23, 2007, shareholders authorized, in the 16th resolution, the Board of Directors to award free shares representing up to 0.2% of the share capital of Gaz de France.

The Board of Directors, in a meeting on June 20, 2007, decided to offer a free share allocation scheme.

This allocation entitles beneficiaries to freely receive company shares, after the end of a two-year vesting period and for a portion of the shares provided that performance conditions are met.

No other equity instruments were awarded in 2007.

**Description of the valuation model for instruments awarded during the period**

In accordance with IFRS 2 – Share-based Payments, Gaz de France has determined the fair value of goods or services received over the period based on the fair value of the equity instrument thus awarded.

The valuation is carried out on the allocation date. The fair value of a share awarded in this way corresponds to the market price for the share on the allocation date, adjusted for any loss in dividends expected during the two-year vesting period and the subsequent period of intransferability. The cost associated with this period of intransferability is not significant. The discount rate applied is a risk-free rate.

This value is recorded under share-based compensation expenses, on a linear basis between the allocation date and the date when the conditions for allocations are lifted, booked directly against shareholders' equity.

In light of the number of entitlements to allocation of free shares distributed on June 20, 2007, the maximum expense representative of the fair value of shares that may be awarded in this way, subject to compliance with the performance conditions set by the Board of Directors of Gaz de France, represents 47 million euro before tax based on 1.4 million shares.

It will be adjusted in line with any revisions made concerning possible employee departure rates during the period and compliance with the performance conditions. It will be set definitively based on the number of free shares effectively allocated at the end of this period.

For the allocation of free shares, a 13 million euro expense was recognized on the income statement at December 31, 2007.

### Note 15 d – Dividend

As decided by shareholders at the combined general meeting on May 23, 2007, Gaz de France paid out the dividend for 2006 on May 30, 2007 for a total of 1,082 million euro, representing 1.10 euro per ordinary share.

### Note 15 e – Currency translation adjustments (Group share)

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| USD zone | -7 | 0 | 10 |
| GBP zone | -49 | 17 | 4 |
| Canadian dollar (CAD) | 1 | -1 | 2 |
| Slovak korunas (SKK) | 312 | 294 | 127 |
| Norwegian kroner (NOK) | 28 | 19 | 26 |
| Mexican pesos (MXN) | -27 | -1 | 23 |
| Romanian lei (RON) | -2 | 16 | -7 |
| Hungarian forint (HUF) | 4 | 5 | 7 |
| Other currencies | -3 | 0 | 1 |
| **TOTAL** | **257** | **349** | **194** |

## 5 – BALANCE SHEET – NON-FINANCIAL LIABILITIES

### Note 16 – Provisions (excluding provisions for employee benefits)*

| *(million euro)* | Provisions for replacement | Site restorations | Litigation | Other | Total Provisions |
|---|---|---|---|---|---|
| **Dec 31, 2006** | **3,874** | **1,701** | **135** | **207** | **5,917** |
| Allowances (income statement) | 386 | 3 | 20 | 57 | 466 |
| Increase (recorded through balance sheet)** | | 67 | | | 67 |
| Provisions utilized | -247 | -22 | -23 | -42 | -334 |
| Unutilized amount reserved during the period | -89 | -5 | -4 | -47 | -145 |
| Decrease (recorded through balance sheet)** | | -14 | | -1 | -15 |
| Reclassification | | -3 | | -1 | -4 |
| Change in scope of consolidation | | 3 | | -12 | -9 |
| Foreign currency adjustments | | -2 | | | -2 |
| Unwinding of discount | 225 | 78 | | 1 | 304 |
| Other | | 2 | | | 2 |
| **Dec 31, 2007** | **4,149** | **1,808** | **128** | **162** | **6,247** |
| Non-current 2007 | | | | | 6,088 |
| Current 2007 | | | | | 159 |
| **Dec 31, 2007** | | | | | **6,247** |
| Non-current 2006 | | | | | 5,750 |
| Current 2006 | | | | | 167 |
| **Dec 31, 2006** | | | | | **5,917** |
| Non-current 2005 | | | | | 5,537 |
| Current 2005 | | | | | 180 |
| **Dec 31, 2005** | | | | | **5,717** |

* *Provisions for employee benefits are detailed in note 17.*
** *See. §: Provision for site restoration.*

**Provisions for replacement**

The principle of provisions for replacement is presented in Appendix A.

They primarily relate to the provision for replacement of GrDF's distribution facilities.

This provision was discounted using an inflation rate of 2% and a nominal discount rate of 4.5%, based on the assumption that the obligations will be settled in an average of around 13 years. The discount rate was 4% at December 31, 2006 and December 31, 2005.

The adjustment of the rate in line with current market conditions was reflected in an 89 million euro provision write-back at December 31, 2007.

Based on the parameters currently applicable in terms of estimated costs and the disbursement schedule, a 50 basis point change in the discount rate is likely to change the balance for provisions for replacement by around 2%, upwards if the rate decreases and downwards if the rate increases.

**Provision for site restoration**

This primarily relates to Gaz de France, GrDF, GRTgaz and the Exploration and Production subsidiaries.

The Gaz de France, GrDF and GRTgaz sites involved are:

- first, the land on which manufactured gas production plants were located; the provision, determined statistically based on samples of representative sites, amounted to 34 million euro at December 31, 2007, compared with 41 million euro at December 31, 2006 and 164 million euro at December 31, 2005. A decision by the French State Council dated July 8, 2005 and the end in April 2006 of the agreement signed with the French Ministry of the Environment on "the management and follow-up of the restoration of former gas production plants" resulted in a reassessment of the company's commitments, resulting in a 111 million euro provision write-back that was recorded in 2006;

- second, gas pipelines, distribution mains, storage facilities and LNG terminals in operation (1,310 million euro at December 31, 2007, 1,231 millions euro at December 31, 2006, and 1,129 million euro at December 31, 2005).

For operated sites, as for exploration and production facilities (440 million euro as of December 31, 2007, 386 million euro as of December 31, 2006, and 320 million euro as of December 31, 2005), the present value of estimated dismantling costs was fully accrued to liabilities, 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 expenses.

This provision is discounted based on an inflation rate of 2% per year and a nominal discount rate of 4.5% for exploration and production facilities at December 31, 2007 (4% at December 31, 2006 and 2005) and 5% at December 31, 2007, 2006 and 2005 for Gaz de France, GrDF and GRTgaz transmission and distribution facilities, taking into account the maturities of the respective obligations.

## Note 17 – Retirement commitments and other commitments to employees

### 1. Retirement commitments for employees of Gaz de France SA, GrDF, GRTgaz and DK6

Beginning January 1, 2005, the operation of the plan covering retirement, disability, death, labor accidents, and occupational safety of electricity and gas employees is provided for by the Caisse Nationale des Industries Électriques et Gazières ("CNIEG"). 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. Since January 1, 2005, current and retired electricity and gas employees are fully affiliated to this fund.

Law 2004-803 of August 9, 2004 related to public electricity and gas service and electricity and gas companies and its implementing decrees apportioned certain specific benefits related to the periods vested as of December 31, 2004 ("past specific rights") among the various electricity and gas industry companies, and 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"). Specific rights of employees under the electricity and gas industry special retirement plan stand for the benefits that go beyond those of the standard retirement plan available to all employees in France.

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 assumes an obligation 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, representing 3.25% of "past specific rights" of electricity and gas industry companies for Gaz de France.

The specific rights for the plan put in place since January 1, 2005 are financed in full by electricity and gas industry companies in proportion to their respective weightings in terms of payroll within the electricity and gas industry sector.

### 2. Calculation of retirement benefit commitments (Gaz de France SA, GrDF, GRTgaz and DK6

Commitments are determined according to an actuarial methodology that is applied to all employees in the electricity and gas industry.

This method, termed the projected unit credit method, is based on rules of projection incorporating notably:

- end-of-career pay, whose valuation reflects seniority, level of salary and career promotions;
- retirement age, based on characteristic criteria for employees in the electricity and gas industry (years of active service, number of children for women);
- the changes in the population of retired persons, based on mortality tables provided by the INSEE 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, covered by the specific retirement program in place in the electricity and gas industry
- they include contributions to CNIEG management costs.

The discount rate used at December 31, 2007 was 5%, compared with 4.25% at December 31, 2005 and 2006.

### 3. Additional post-employment benefits and long-term benefits for employees from Gaz de France SA, GrDF, GRTgaz and DK6

The following additional benefits are granted to active and retired employees:

- Long-term benefits
  - allowances related to worker's compensation and occupational safety,
  - temporary and permanent disability allowances, and
  - length of service awards.
- Post-employment benefits
  - reduced energy prices,
  - end-of-career benefits,
  - 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 commitments relating to end-of-career benefits and exceptional end-of-career leave, which are evaluated based on a nominal discount rate of 4.5% for 2007 and 4% for 2005 and 2006, post-employment benefits have been evaluated based on a nominal discount rate of 5% in 2007 and 4.25% in 2005 and 2006.

#### 3.1. Employees' compensation and compensation for occupational injuries

Like other employees under the French public benefits program, electricity and gas industry employees are covered by employees' compensation and other occupational safety guarantees. These benefits cover all the employees and the beneficiaries of employees who died as a result of occupational injuries, injuries suffered on the way to work or occupational illnesses.

The amount of the obligation corresponds to the probable present value of the benefits to be paid to the current beneficiaries, factoring in any possible survivors' retirement benefits.

#### 3.2. Reduced energy prices

Under Article 28 of the national statute for electricity and gas industry employees, all employees, whether active or inactive, are entitled to benefits in kind in the form of reduced energy prices, called the "employee rate". This benefit entitles them to electricity and gas supplies at a reduced price. For the retirement phase, this benefit constitutes a defined post-employment benefit plan that is to be provisioned as employee services are rendered.

Gaz de France's commitment for supplying natural gas to Gaz de France and EDF employees corresponds to the probable present value of KWhs provided to retired employees, determined based on 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 a reduced price, supplemented by a cash balancing payment. The commitment related to the agreement on energy exchange corresponds to the probable present value of the cash balancing payment on the part of Gaz de France employees in retirement.

The number of people who benefit from the employee rate is identical to the number who benefit from the special retirement plan.

#### 3.3. End-of-career benefits

Post-employment or end-of-career benefits are paid to employees who become beneficiaries of statutory retirement plans or to the employee's heirs if the employee dies prior to retirement.

The company uses the "projected unit credit method" to determine the value of its commitment for end-of-career benefits.

### 4. Commitments to personnel of other subsidiaries

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 end-of-career benefit plans included in the various national collective agreements applicable for the subsidiaries, subsidiaries have a defined benefit retirement plan, paying retirement benefits that are based on the employee's length of service in the company and their salary at the end of their career.
- In Germany, the various subsidiaries have implemented all or part of the following plans: defined benefit retirement systems, pre-retirement plans, length-of-service bonuses, benefits in kind, and individual retirement commitments;
- Employees from the Group's subsidiaries in the Netherlands and Norway have 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 Slovakia, subsidiaries have set up both an end-of-career benefit program and a length-of-service awards program.

- In Romania, the subsidiary has set up an end-of-career benefits program, a death-in-service plan and a disability plan.

- In Belgium, the subsidiary implemented a pre-retirement plan, a defined benefit pension plan, length of service bonuses, medical insurance for retirees and reduced energy prices for retirees.

## 5. Plan assets

### 5.1. Coverage of employee benefits for employees at Gaz de France SA, GrDF, GRTgaz and DK6

Historically, Gaz de France outsourced the coverage of its pension liabilities and end-of-career benefits through insurance contracts, the management of the funds being entrusted to asset management companies.

These diversified funds are characterized by an active management of compound indexes, adapted to long term maturity of liabilities and taking into account government bonds in the eurozone as well as shares of the biggest companies in the eurozone and outside the eurozone.

When calculating the expected rate of return on assets, the portfolio of assets is split into consistent subgroups, for each main asset category and region, based on the makeup of the benchmark indexes and the volumes present in each fund at December 31 of the previous year.

A return forecast, published by a third party, is applied for each subgroup. An overall level of performance in absolute value is then determined and compared against the value of the portfolio at the beginning of the year.

### 5.2. Coverage of subsidiaries' employee benefits

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.

## 6. Detailed tables

### ➢ 6.a Main actuarial assumptions for valuing commitments

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 | | |
|---|---|---|---|---|---|---|
| | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 |
| Discount rate (Eurozone) | 5% | 4.25% | 4.25% | Between 4% and 5% depending on risks | 4.25% or 4% depending on risks | 4.25% or 4% depending on risks |
| Expected rate of return on plan assets | 4.48% | 4.4% | 4.7% | Between 4% and 6% depending on countries | Between 4% and 6% depending on countries | Between 4% and 6% depending on countries |

Based on estimates drawn up by the Group, a +/- 50 basis point change in the discount rate would result in a change in commitments by around 5%.

### ➢ 6.b Restated change in value of the obligation

| | Retirement benefits | | | Other post-employment benefits | | | Long-term benefits | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(million of euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 |
| **Opening present value of the obligation** | **1,854** | **1,738** | **1,955** | **852** | **799** | **731** | **262** | **257** | **250** | **2,968** | **2,794** | **2,936** |
| Service cost for the period | 127 | 130 | 116 | 20 | 28 | 43 | 28 | 26 | 21 | 175 | 184 | 180 |
| Interest cost on obligation | 83 | 81 | 74 | 36 | 38 | 34 | 11 | 10 | 9 | 130 | 129 | 117 |
| Net actuarial losses (gains) yielded on the obligation | -186 | 22 | 71 | -89 | 18 | 71 | - | - | - | -275 | 40 | 142 |
| Benefits paid for all programs (financed or not) | -95 | -108 | -108 | -38 | -36 | -43 | -30 | -31 | -23 | -163 | -175 | -174 |
| Initial, fixed-rate and final contributions | - | - | -372 | - | - | - | - | - | - | - | - | -372 |
| Change in scope of consolidation | -10 | - | 11 | -3 | - | 13 | -2 | - | 4 | -15 | - | 28 |
| Settlement | - | - | - | - | - | -76 | - | - | - | - | - | -76 |
| Other | - | -9 | -9 | 31 | 5 | 26 | -4 | - | -4 | 27 | -4 | 13 |
| **Closing present value of the obligation** | **1,773** | **1,854** | **1,738** | **809** | **852** | **799** | **265** | **262** | **257** | **2,847** | **2,968** | **2,794** |

### ➢ 6.c Change in the fair value of plan assets

| | Retirement benefits | | | Other retirement benefits | | |
|---|---|---|---|---|---|---|
| *(million of euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 |
| **Opening fair value of plan assets** | **1,907** | **1,753** | **1,878** | **114** | **111** | **103** |
| Expected return on plan assets | 84 | 81 | 86 | 6 | 5 | 5 |
| Contributions (net of management costs) | 81 | 124 | 112 | 10 | - | - |
| Actuarial gains (losses) on plan assets | -20 | 34 | 84 | -4 | 3 | 10 |
| Benefits paid by the plan assets | -75 | -86 | -35 | -9 | -5 | -5 |
| Initial CNAV, AGIRC and ARRCO contributions | - | - | -372 | - | - | - |
| Other | -6 | 1 | - | -4 | - | -2 |
| **Closing fair value of plan assets** | **1,971** | **1,907** | **1,753** | **113** | **114** | **111** |

The allocation of plan assets by principal asset category was as follows:

| | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Equity investments | 32% | 41% | 40% |
| Bonds | 45% | 37% | 35% |
| Other (including monetary) market securities | 23% | 22% | 25% |
| **Total** | **100%** | **100%** | **100%** |

**Information relating to the return on plan assets**

| | Retirement benefits | | | Other employee benefits | | |
|---|---|---|---|---|---|---|
| | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 |
| Actual rate of return on plan assets | 3.30% | 6.63% | 9.3% | 3.00% | 7.61% | 9.7% |

➢ 6.d Determination of amounts posted in the balance sheet and income statement

| *(million euro)* | 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** |

| *(million euro)* | 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 |
| Other | -9 | 1 | -10 | 5 | - | 5 |
| **Closing** | **1,854** | **1,907** | **-53** | **1,114** | **114** | **1,000** |

| *(million euro)* | Retirement benefits Liabilities (1) | Asset (2) | Net assets / liabilities (1 – 2) | Other employee benefits Liabilities (1) | Assets (2) | Net assets / liabilities (1 – 2) |
|---|---|---|---|---|---|---|
| **12.31.2007** | | | | | | |
| **Opening** | **1,854** | **1,907** | **-53** | **1,114** | **114** | **1,000** |
| Income or expenses of the period | 210 | 84 | 126 | 95 | 6 | 89 |
| Contributions paid to funds for the part of financed programs | - | 81 | -81 | - | 10 | -10 |
| Benefits paid for the part of non-financed programs | -95 | -75 | -20 | -68 | -9 | -59 |
| Actuarial gains or losses | -186 | -20 | -166 | -89 | -4 | -85 |
| Other | -10 | -6 | -4 | 22 | -4 | 26 |
| **Closing** | **1,773** | **1,971** | **-198** | **1,074** | **113** | **961** |

### 6.e Breakdown of the expense for the period

| | Retirement benefits | | | Other post-employment benefits | | | Long-term benefits | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 |
| Service cost for the period | 127 | 130 | 116 | 20 | 28 | 43 | 28 | 26 | 21 | 175 | 184 | 180 |
| Interest cost on obligation | 83 | 81 | 74 | 36 | 38 | 34 | 11 | 10 | 9 | 130 | 129 | 117 |
| Settlement | - | - | - | - | - | -76 | - | - | - | - | - | -76 |
| Expected return on plan assets | -84 | -81 | -86 | -6 | -5 | -5 | - | - | - | -90 | -86 | -91 |
| **Total expense for the period** | **126** | **130** | **104** | **50** | **61** | **- 4** | **39** | **36** | **30** | **215** | **227** | **130** |

### 6.f Reconciliation of recognized assets and liabilities

| | Retirement benefits | | | Other post-employment benefits | | | Long-term benefits | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 | 12.31.2007 | 12.31.2006 | 12.31.2005 |
| Present value of totally or partially financed obligation at closing date | 1,673 | 1,712 | 1,617 | 138 | 114 | 125 | 7 | - | - | 1,818 | 1,826 | 1,742 |
| Present value of non-financed obligation at closing date | 100 | 142 | 121 | 671 | 738 | 675 | 259 | 262 | 257 | 1,030 | 1,142 | 1,053 |
| Fair value of plan assets | -1,971 | -1,907 | -1,753 | -110 | -114 | -111 | -3 | - | - | -2,084 | -2,021 | -1,864 |
| Other | | | | | | | | | | | | |
| **Amount of provision recognized as liability** | **156** | **142** | **144** | **699** | **738** | **689** | **263** | **262** | **257** | **1,118** | **1,142** | **1,090** |
| **Amount recognized as asset** | **-354** | **-195** | **-159** | **-** | **-** | **-** | **-** | **-** | **-** | **-354** | **-195** | **-159** |

### 6.g Estimated benefits payable in 2008

Contributions payable in 2008 are estimated at 168 million euro.

## 7. Reconciliation with provisions on the balance sheet

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Provision for retirement | 156 | 142 | 144 |
| Provision for other post-employment and long-term benefits (including end-of-career benefits) | 962 | 1,000 | 946 |
| **Amount of provision** | **1,118** | **1,142** | **1,090** |

## 8. Balances for actuarial differences (before tax) recorded against equity

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| **Opening balance** | **287** | **284** | **236** |
| Net actuarial losses (gains) over the year | -251 | 3 | 48 |
| **Closing balance** | **36** | **287** | **284** |

# 6 – BALANCE SHEET – FINANCIAL INSTRUMENTS

## Note 18 – Non-derivative financial assets and liabilities

The following table presents a breakdown of each item on the balance sheet comprising financial instruments depending on its category, indicating its fair value, whether the instrument is recorded on the balance sheet at its fair value or not.

| | | | Net book value at Dec 31, 2007 | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(million euro)* | **Category of financial instruments** | **Note** | **Total** | **Depreciated value** | **Historic cost** | **Fair value through shareholders' equity** | **Fair value through income statement** | **Fair value as of 12.31.07** |
| **Assets** | | | | | | | | |
| Non-current financial assets | | 18.1 | 1,447 | | | | | |
| *Non consolidated investments* | *AFS* | | *451* | | *313* | *138* | | *451* |
| *Other assets available for sale* | *AFS* | | *527* | | *91* | *436* | | *527* |
| *Loans* | *L&R* | | *146* | *146* | | | | *146* |
| *Long-term receivables* | *L&R* | | *149* | *149* | | | | *149* |
| *Deposits* | *L&R* | | *174* | *174* | | | | *174* |
| Other non-current assets | | | 658 | | | | | |
| *Pension plan assets* | *NF EP.* | | *354* | | | | | |
| *Other non-current assets* | *L&R* | | *304* | *304* | | | | *304* |
| Non-current assets of financial affiliates | L&R | 18.1 | 165 | 165 | | | | 165 |
| Accounts receivables | | | | | | | | |
| Trade receivables and related | L&R | 18.2 | 7,730 | 7,730 | | | | 7,730 |
| Other receivables | | 18.2 | 853 | | | | | |
| *Prepaid expenses* | *NF EP.* | | *199* | | | | | |
| *Tax receivables* | *NF EP.* | | *252* | | | | | |
| *Hedged firm commitments* | *Hedg El.* | | - | | | | - | - |
| *Advances and deposits paid* | *NF EP.* | | *32* | | | | | |
| *Other receivables* | *L&R* | | *370* | *370* | | | | *370* |
| Investment securities | | 18.3 | 238 | | | | | |
| *Medium-term investments* | *AFS* | | *55* | | | *55* | | *55* |
| *Short-term investments* | *HFT* | | *183* | | | | *183* | *183* |
| Cash and cash equivalents | | 18.3 | 2,973 | | | | | |
| *Cash in hand and at bank* | *L&R* | | *954* | *954* | | | | *954* |
| *Cash equivalents* | *HFT* | | *2,019* | | | | *2,019* | *2,019* |
| Current assets of financial affiliates | L&R | 18.2 | 531 | 531 | | | | 531 |

*AFS* *Available for sale*
*HFT* *Assets held for trading*
*L&R* *Loans and receivables*
*Hedg El.* *Hedged elements for fair-value hedging on firm commitments*
*NF EP.* *Non-financial items*

| *(million euro)* | Category of financial instruments | Note | Net book value at Dec 31, 2007 Total | Depreciated value | Historic cost | Fair value through shareholders' equity | Fair value through income statement | Fair value as of 12.31.07 |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| Irredeemable securities | L&R | 18.4 | 624 | 624 | | | | 546 |
| Current and non-current financial liabilities | | 18.5 | 5,321 | | | | | |
| *Bonds* | *L&R* | | *2,004* | *2,004* | | | | *2,063* |
| *Bank loans* | *L&R* | | *1,310* | *1,310* | | | | *1,310* |
| *Finance leases* | *L&R* | | *818* | *818* | | | | *818* |
| *Lines of credit* | *L&R* | | *148* | *148* | | | | *148* |
| *Commercial paper and treasury bills* | *L&R* | | *200* | *200* | | | | *200* |
| *Other* | *L&R* | | *176* | *176* | | | | *176* |
| *Bank overdrafts* | *L&R* | | *665* | *665* | | | | *665* |
| Non-current financial sector liabilities | L&R | | 126 | 126 | | | | 126 |
| Other non-current liabilities | | | 161 | | | | | |
| *Accrued income* | *NF EP.* | | *161* | | | | | |
| *Other liabilities* | *L&R* | | *-* | | | | | |
| Trade payables and related | L&R | | 3,696 | 3,696 | | | | 3,696 |
| Other liabilities | L&R | | 2,705 | | | | | |
| *Accrued income* | *NF EP.* | | *261* | | | | | |
| *Hedged firm commitments* | *Hedg El.* | | *74* | | | | *74* | *74* |
| *Advances and deposits received* | *NF EP.* | | *201* | | | | | |
| *Other liabilities* | *L&R* | | *2,169* | *2,169* | | | | *2,169* |
| Current liabilities of financial affiliates | L&R | | 578 | 578 | | | | 578 |

*AFS Available for sale*
*HFT Assets held for trading*
*L&R Loans and receivables*
*Hedg El. Hedged elements for fair-value hedging on firm commitments*
*NF EP. Non-financial items*

| (million euro) | Category of financial instruments | Note | Net book value at Dec 31, 2006 Total | Depreciated value | Historic cost | Fair value through shareholders' equity | Fair value through income statement | Fair value as of 12/31/06 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Non-current financial assets | | 18.1 | 1,341 | | | | | |
| *Non consolidated investments* | *AFS* | | *323* | | *259* | *64* | | *323* |
| *Other assets available for sale* | *AFS* | | *468* | | *93* | *375* | | *468* |
| *Loans* | *L&R* | | *186* | *186* | | | | *186* |
| *Long-term receivables* | *L&R* | | *149* | *149* | | | | *149* |
| *Deposits* | *L&R* | | *215* | *215* | | | | *215* |
| Other non-current assets | | | 530 | | | | | |
| *Pension plan assets* | *NF EP.* | | *195* | | | | | |
| *Other non-current assets* | *L&R* | | *335* | *335* | | | | *335* |
| Non-current assets of financial affiliates | L&R | 18.1 | 167 | 167 | | | | 167 |
| Accounts receivables | | | | | | | | |
| Trade receivables and related | L&R | 18.2 | 7,117 | 7,117 | | | | 7,117 |
| Other receivables | | 18.2 | 1,085 | | | | | |
| *Prepaid expenses* | *NF EP.* | | *151* | | | | | |
| *Tax receivables* | *NF EP.* | | *156* | | | | | |
| *Hedged firm commitments* | *Hedg El.* | | *3* | | | | *3* | *3* |
| *Advances and deposits paid* | *NF EP.* | | *26* | | | | | |
| *Other receivables* | *L&R* | | *749* | *749* | | | | *749* |
| Investment securities | | 18.3 | 360 | | | | | |
| *Medium-term investments* | *AFS* | | *54* | | | *54* | | *54* |
| *Short-term investments* | *HFT* | | *306* | | | | *306* | *306* |
| Cash and cash equivalents | | 18.3 | 2,196 | | | | | |
| *Cash in hand and at bank* | *L&R* | | *1,301* | *1,301* | | | | *1,301* |
| *Cash equivalents* | *HFT* | | *895* | | | | *895* | *895* |
| Current assets of financial affiliates | L&R | 18.2 | 431 | 431 | | | | 431 |

*AFS Available for sale*
*HFT Assets held for trading*
*L&R Loans and receivables*
*Hedg El. Hedged elements for fair-value hedging on firm commitments*
*NF EP. Non-financial items*

| | | | Net book value at Dec 31, 2006 | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(million euro)* | ***Category of financial instruments*** | ***Note*** | **Total** | **Depreciated value** | **Historic cost** | **Fair value through shareholders' equity** | **Fair value through income statement** | **Fair value as of 12/31/06** |
| **Liabilities** | | | | | | | | |
| Irredeemable securities | L&R | 18.4 | 624 | 624 | | | | 568 |
| Current and non-current financial liabilities | | 18.5 | 5,404 | | | | | |
| *Bonds* | *L&R* | | *2,004* | *2,004* | | | | *2,028* |
| *Bank loans* | *L&R* | | *1,286* | *1,286* | | | | *1,286* |
| *Finance leases* | *L&R* | | *817* | *817* | | | | *817* |
| *Lines of credit* | *L&R* | | *57* | *57* | | | | *57* |
| *Commercial paper and treasury bills* | *L&R* | | *410* | *410* | | | | *410* |
| *Other* | *L&R* | | *151* | *151* | | | | *151* |
| *Bank overdrafts* | *L&R* | | *679* | *679* | | | | *679* |
| Non-current financial sector liabilities | L&R | | 93 | 93 | | | | 93 |
| Other non-current liabilities | | | 143 | | | | | |
| *Accrued income* | *NF EP.* | | *142* | | | | | |
| *Other liabilities* | *L&R* | | *1* | *1* | | | | *1* |
| Trade payables and related | L&R | | 3,623 | 3,623 | | | | 3,623 |
| Other liabilities | L&R | | 2,615 | | | | | |
| *Accrued income* | *NF EP.* | | *218* | | | | | |
| *Hedged firm commitments* | *Hedg El.* | | *100* | | | | *100* | *100* |
| *Advances and deposits received* | *NF EP.* | | *202* | | | | | |
| *Other liabilities* | *L&R* | | *2,095* | *2,095* | | | | *2,095* |
| Current liabilities of financial affiliates | L&R | | 392 | 392 | | | | 392 |

*AFS Available for sale*
*HFT Assets held for trading*
*L&R Loans and receivables*
*Hedg El. Hedged elements for fair-value hedging on firm commitments*
*NF EP. Non-financial items*

| (million euro) | Category of financial instruments | Note | Net book value at Dec 31, 2005 Total | Deprecia ted value | Historic cost | Fair value through shareholders' equity | Fair value through income statement | Fair value as of 12.31.2005 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Non-current financial assets | | 18.1 | 1,169 | | | | | |
| *Non consolidated investments* | *AFS* | | *479* | | *214* | *92* | *173** | *479* |
| *Other assets available for sale* | *AFS* | | *126* | | *124* | *2* | | *126* |
| *Loans* | *L&R* | | *214* | *214* | | | | *214* |
| *Long-term receivables* | *L&R* | | *219* | *219* | | | | *219* |
| *Deposits* | *L&R* | | *131* | *131* | | | | *131* |
| Other non-current assets | | | 541 | | | | | |
| *Pension plan assets* | *NF EP.* | | *159* | | | | | |
| *Other non-current assets* | *L&R* | | *382* | *382* | | | | *382* |
| Non-current assets of financial affiliates | L&R | 18.1 | 99 | 99 | | | | 99 |
| Accounts receivables | | | | | | | | |
| Trade receivables and related | L&R | 18.2 | 6,544 | 6,544 | | | | 6,544 |
| Other receivables | | 18.2 | 1,646 | | | | | |
| *Prepaid expenses* | *NF EP.* | | *147* | | | | | |
| *Tax receivables* | *NF EP.* | | *533* | | | | | |
| *Hedged firm commitments* | *Hedg El.* | | *0* | | | | *0* | *0* |
| *Advances and deposits paid* | *NF EP.* | | *22* | | | | | |
| *Other receivables* | *L&R* | | *944* | *944* | | | | *944* |
| Investment securities | | 18.3 | 245 | | | | | |
| *Medium-term investments* | *AFS* | | *51* | | | *51* | | *51* |
| *Short-term investments* | *HFT* | | *194* | | | | *194* | *194* |
| Cash and cash equivalents | | 18.3 | 1,897 | | | | | |
| *Cash in hand and at bank* | *L&R* | | *910* | *910* | | | | *910* |
| *Cash equivalents* | *HFT* | | *987* | | | | *987* | *987* |
| Current assets of financial affiliates | L&R | 18.2 | 895 | 895 | | | | 895 |

*AFS* *Available for sale*
*HFT* *Assets held for trading*
*L&R* *Loans and receivables*
*Hedg El.* *Hedged elements for fair-value hedging on firm commitments*
*NF EP.* *Non-financial items*

| | | | Net book value at Dec 31, 2005 | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(million euro)* | ***Category of financial instruments*** | **Note** | **Total** | **Deprecia ted value** | **Historic cost** | **Fair value through shareholders' equity** | **Fair value through income statement** | **Fair value as of 12.31.2005** |
| **Liabilities** | | | | | | | | |
| Irredeemable securities | P&C | 18.4 | 623 | 623 | | | | 603 |
| Current and non-current financial liabilities | | 18.5 | 4,489 | | | | | |
| *Bonds* | *P&C* | | *2,070* | *2,070* | | | | *2,207* |
| *Bank loans* | *P&C* | | *845* | *845* | | | | *845* |
| *Finance leases* | *P&C* | | *778* | *778* | | | | *778* |
| *Lines of credit* | *P&C* | | *33* | *33* | | | | *33* |
| *Commercial paper and treasury bills* | *P&C* | | *1* | *1* | | | | *1* |
| *Other* | *P&C* | | *72* | *72* | | | | *72* |
| *Bank overdrafts* | *P&C* | | *690* | *690* | | | | *690* |
| Non-current financial sector liabilities | P&C | | 19 | 19 | | | | 19 |
| Other non-current liabilities | | | 140 | | | | | |
| *Accrued income* | *Elt NF* | | *138* | | | | | |
| *Other liabilities* | *P&C* | | *2* | *2* | | | | *2* |
| Trade payables and related | P&C | | 3,202 | 3,202 | | | | 3,202 |
| Other liabilities | P&C | | 2,344 | | | | | |
| *Accrued income* | *Elt NF* | | *197* | | | | | |
| *Hedged firm commitments* | *Hedg El.* | | *53* | | | | *53* | *53* |
| *Advances and deposits received* | *Elt NF* | | *171* | | | | | |
| *Other liabilities* | *P&C* | | *1,923* | *1,923* | | | | *1,923* |
| Current liabilities of financial affiliates | P&C | | 1,098 | 1,098 | | | | 1,098 |

* *At December 31, 2005, Technip securities are recorded under securities available for sale, but has been designated as the hedged element for a fair-value hedge relationship*

**Method for fair value measurement of financial instruments recorded at amortized cost or at cost on the balance sheet**

Non-consolidated investments and other assets available for sale include securities from unlisted companies, which are measured at cost, net of any impairment.

The market value of irredeemable securities and convertible, exchangeable and indexed bonds has been determined based on quoted value. Disclosed values of irredeemable securities and bonds are expressed accrued interests excluded.

With the exception of traded irredeemable securities and bonds, Gaz de France considers that the fair value of any loans and receivables recorded under financial assets and liabilities is similar to the net book value on account of the highly liquid nature of such items.

### Note 18.1 – Non-current financial assets and non-current assets of financial affiliates

| *(million euro)* | Available for sale: Non consolidated investments | Available for sale: Other assets available for sale | Loans | Long-term receivables | Deposits | Total non-current financial assets | Non-current assets of financial affiliates |
|---|---|---|---|---|---|---|---|
| **Gross value at Jan 1, 2005** | **746** | **130** | **147** | **257** | **34** | **1,314** | **260** |
| Additions | 11 | 2 | 108 | 12 | 110 | 243 | - |
| Disposals | - 175 | - 6 | - 31 | - 33 | - 32 | - 277 | - 2 |
| Adjustment in fair value | 140 | 8 | - | - | - | 148 | 2 |
| Change in scope of consolidation | - 241 | - | 3 | - 15 | - | - 253 | - |
| Transfers and other | - 2 | - 8 | - 11 | 9 | 19 | 7 | - 161 |
| **Gross value at Dec 31, 2005** | **479** | **126** | **216** | **230** | **131** | **1,182** | **99** |
| Additions | 31 | 319 | 9 | 4 | 64 | 427 | 124 |
| Disposals | - 159 | - 7 | - 49 | - 31 | - 4 | - 250 | - |
| Adjustment in fair value | - 43 | 66 | - | - | - | 23 | - |
| Change in scope of consolidation | - 20 | - | - | - 23 | 1 | - 42 | - |
| Transfers and other | 35 | - 36 | 12 | - 20 | 23 | 14 | - 53 |
| **Gross value at Dec 31, 2006** | **323** | **468** | **188** | **160** | **215** | **1,354** | **170** |
| Additions | 40 | 17 | 6 | 24 | 9 | 96 | 133 |
| Disposals | - 3 | - 2 | - 46 | - 3 | - 37 | - 91 | - |
| Adjustment in fair value | 74 | 59 | - | - | - | 133 | - |
| Change in scope of consolidation | - 9 | - 11 | - 2 | - 1 | - | - 23 | - |
| Transfers and other | 26 | - 4 | 2 | - 20 | - 13 | - 9 | - 136 |
| **Gross value at Dec 31, 2007** | **451** | **527** | **148** | **160** | **174** | **1,460** | **167** |
| **Depreciation at Jan 1, 2005** | **-** | **-** | **1** | **16** | **-** | **17** | **-** |
| Impairments | - | - | 1 | - | - | 1 | - |
| Reversals | - | - | - | - 5 | - | - 5 | - |
| Transfers and other | - | - | - | - | - | - | - |
| **Depreciation at Dec 31, 2005** | **-** | **-** | **2** | **11** | **-** | **13** | **-** |
| Impairments | - | - | - | - | - | - | 1 |
| Reversals | - | - | - | - | - | - | - 1 |
| Transfers and other | - | - | - | - | - | - | 3 |
| **Depreciation at Dec 31, 2006** | - | - | 2 | 11 | - | 13 | 3 |
| Impairments | - | - | - | - | - | - | 1 |
| Reversals | - | - | - | - | - | - | - 2 |
| Transfers and other | - | - | - | - | - | - | - |
| **Depreciation at Dec 31, 2007** | **-** | **-** | **2** | **11** | **-** | **13** | **2** |
| **Net book value Dec 31.2005** | **479** | **126** | **214** | **219** | **131** | **1,169** | **99** |
| **Net book value Dec 31.2006** | **323** | **468** | **186** | **149** | **215** | **1,341** | **167** |
| **Net value at Dec 31, 2007** | **451** | **527** | **146** | **149** | **174** | **1,447** | **165** |

#### Main non-consolidated investments

| *(million euro)* | % of capital held | Net value (book) | Income | Shareholders' equity (excl. income) | Revenue | Closing date of last known fiscal year |
|---|---|---|---|---|---|---|
| Petronet | 10% | 139 | 54 | 166 | 958 | 3.31.2007 |
| Austrian investment company | 20% | 81 | 8 | 400 | - | 12.31.2006 |
| ECW | 22% | 33 | 11 | 139 | 144 | 12.31.2006 |
| Other | | 198 | | | | |
| **Net Total** | | **451** | | | | |

Gaz de France considers that the consolidation of ECW and SIA would not have a material impact on earnings and more specifically on the share of income from equity-consolidated companies. Similarly, the absence of a material impact is vindicated by comparing the net book value of securities and the value of Gaz de France's share in the equity of these companies.

#### Impact of the measurement of assets available for sale at fair value

| 12.31.2007 *(million euro)* | Dividend | Subsequent measurement: Fair-value hedges | Impairment | Foreign exchange effect | Transfer to sale income |
|---|---|---|---|---|---|
| Shareholders' equity | - | 133 | - | - | - |
| Income | 42 | - | - | - | - |

| 12.31.2006 *(million euro)* | Dividend | Subsequent measurement: Fair-value hedges | Impairment | Foreign exchange effect | Transfer to sale income |
|---|---|---|---|---|---|
| Shareholders' equity | - | 38 | - | - | - 113 |
| Income | 51 | - 14* | - 3 | 2 | 113 |

| 12.31.2005 *(million euro)* | Dividend | Subsequent measurement: Fair-value hedges | Impairment | Foreign exchange effect | Transfer to sale income |
|---|---|---|---|---|---|
| Shareholders' equity | - | 59 | - | - | - 119 |
| Income | 28 | 89* | - 1 | - | 119 |

* *The impact of the change in fair value of assets available for sale on the income statement primarily relates to the Technip securities, which are recorded under assets available for sale, but have been designated as the hedged element for a fair-value hedging relationship.*

The securities are covered by the tax system for long-term capital gains and the deferred tax associated with their revaluation is not significant.

### Note 18.2 – Other current non-derivative financial assets

| *(million euro)* | Gross book value Dec 31, 2007 | Depreciation | Net value Dec 31, 2007 | Net value Dec 31, 2006 | Net value Dec 31, 2005 |
|---|---|---|---|---|---|
| **Trade receivables and related** | **7,983** | **- 253** | **7,730** | **7,117** | **6,544** |
| Prepaid expenses | 199 | - | 199 | 151 | 147 |
| Other receivables | 711 | - 57 | 654 | 934 | 1,499 |
| **Total other receivables** | **910** | **- 57** | **853** | **1,085** | **1,646** |
| **Assets of financial affiliates** | **531** | **-** | **531** | **431** | **895** |

### Note 18.3 – Cash and cash equivalents

| *(million euro)* | 12.31.2007 | 12.31.2006 | Variation | 12.31.2005 | Change |
|---|---|---|---|---|---|
| Cash on hand – euro | 13 | 3 | 10 | 1 | 2 |
| Cash on hand – other currencies | 3 | 3 | - | 4 | - 1 |
| Bank accounts – euro | 715 | 729 | - 14 | 593 | 136 |
| Bank accounts – other currencies | 223 | 160 | 63 | 312 | - 152 |
| **Cash in hand and at bank** | **954** | **895** | **59** | **910** | **- 15** |
| Money market mutual investment fund (SICAV and FCP) | 1,754 | 942 | 812 | 873 | 69 |
| Certificates of deposit and time deposits with maturities within 3 months | 265 | 359 | - 94 | 114 | 245 |
| **Cash equivalents** | **2,019** | **1,301** | **718** | **987** | **314** |
| **Cash and cash equivalents on the balance sheet** | **2,973** | **2,196** | **777** | **1,897** | **299** |
| Bank overdrafts – euro | - 643 | - 587 | - 56 | - 663 | 76 |
| Bank overdrafts – other currencies | - 31 | - 98 | 67 | - 36 | - 62 |
| **Total bank overdrafts** | **- 674** | **- 685** | **11** | **- 699** | **14** |
| **Current accounts considered as cash** | **23** | **58** | **- 35** | **28** | **30** |
| **Other** | **5** | **6** | **- 1** | **- 2** | **8** |
| **Change in cash flow in the cash flow statements** | **2,327** | **1,575** | **752** | **1,224** | **351** |

### Note 18.4 – Irredeemable securities

| *(million euro)* | | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|---|
| Irredeemable securities | Net book value | 624 | 624 | 623 |
| | Fair value* | 546 | 568 | 603 |

* *This represents the listed price excluding accrued interest*

Gaz de France issued two tranches of irredeemable securities in 1985 and 1986, A and B. Only Tranche A irredeemable securities are still outstanding.

They accrue interest based on the average bond rate plus or minus a premium based on the change in the Group's value added. The 130% increase coefficient currently applied corresponds to the maximum coefficient applicable.

Following the application of IAS 32 and 39 on financial instruments since January 1, 2005, irredeemable securities have been valued at their amortized cost.

The amount of gross income payable per security represented 43.40 euro in 2007, 38.60 euro in 2006, and 38.26 euro in 2005.

On January 23, 2006, Gaz de France set up an interest rate risk hedge on its A series irredeemable securities (see Note 20.1.3).

### Note 18.5 – Net financial debt

| | 12.31.2007 | | | 12.31.2006 | | | 12.31.2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| *(million euro)* | Non-current portion | Current portion | Total | Non-current portion | Current portion | Total | Non-current portion | Current portion | Total |
| Outstanding borrowings | 3,966 | 1,355 | 5,321 | 3,943 | 1,461 | 5,404 | 3,324 | 1,165 | 4,489 |
| Irredeemable securities | 624 | - | 624 | 624 | - | 624 | 623 | - | 623 |
| **Financial debt** | **4,590** | **1,355** | **5,945** | **4,567** | **1,461** | **6,028** | **3,947** | **1,165** | **5,112** |
| *Derivative financial instruments hedging borrowings under liabilities* | 11 | 28 | 39 | 6 | 5 | 11 | 13 | 18 | 31 |
| **Gross debt** | **4,601** | **1,383** | **5,984** | **4,573** | **1,466** | **6,039** | **3,960** | **1,183** | **5,143** |
| Investment securities | -3 | -235 | -238 | 88 | -272 | -360 | -85 | -160 | -245 |
| Cash and cash equivalents | - | -2,973 | -2,973 | - | -2,196 | -2,196 | - | -1,897 | -1,897 |
| *Derivative financial instruments hedging borrowings under assets* | -73 | -20 | -93 | -16 | -2 | -18 | - | -16 | -16 |
| **Net cash** | **-76** | **-3,228** | **-3,304** | **-104** | **-2,470** | **-2,574** | **-85** | **-2,073** | **-2,158** |
| **Net debt** | **4,525** | **-1,845** | **2,680** | **4,469** | **-1,004** | **3,465** | **3,875** | **-890** | **2,985** |
| Outstanding borrowings | 4,590 | 1,355 | 5,945 | 4,567 | 1,461 | 6,028 | 3,947 | 1,165 | 5,104 |
| Investment securities | -3 | -235 | -238 | -88 | -272 | -360 | -85 | -160 | -245 |
| Cash and cash equivalents | - | -2,973 | -2,973 | - | -2,196 | -2,196 | - | -1,897 | -1,897 |
| **Net debt excluding financial derivative instruments** | **4,587** | **-1,853** | **2,734** | **4,479** | **-1,007** | **3,472** | **3,862** | **-892** | **2,970** |

#### Note 18.5.1. Debt / equity ratio

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Net debt excluding financial derivative instruments | 2,734 | 3,472 | 2,970 |
| Shareholders' equity | 18,501 | 16,663 | 14,782 |
| **Debt / equity ratio** | **14.8%** | **20.8%** | **20.1%** |

Residual contractual maturities on net financial debt are disclosed in Note 20.1.2., Liquidity risk.

Note 18.5.2 Net financial debt

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Irredeemable securities | 624 | 624 | 623 |
| Bonds | 2,004 | 2,004 | 2,070 |
| Bank loans | 1,310 | 1,286 | 845 |
| Finance leases | 818 | 817 | 778 |
| Lines of credit | 148 | 57 | 33 |
| Commercial paper and treasury bills | 200 | 410 | 1 |
| Other | 176 | 151 | 72 |
| **Total borrowings** | **5,280** | **5,349** | **4,422** |
| Bank overdrafts | 665 | 679 | 690 |
| **Total financial debt** | **5,945** | **6,028** | **5,112** |
| Investment securities | -238 | -360 | -245 |
| Cash and cash equivalents | -2,973 | -2,196 | -1,897 |
| **Net debt excluding financial derivative instruments** | **2,734** | **3,472** | **2,970** |

After hedging, the average effective interest rate on all borrowings represented around 5.10% in 2007, compared with 5.20% in 2006 and 4.80% in 2005.

- **BONDS**

The yen-based private placement is covered by EUR/JPY cross currency swaps against Euribor 3m plus margin.

This bond placement was carried out in line with the EMTN program set up in October 2002.

| *(million euro)* | Book value as of 12.31.2007 | Nominal value | Issuance date | Maturity date | Initial rate | Price |
|---|---|---|---|---|---|---|
| **Public issues in euro** | 1,243<br>742 | 1 250 MEUR<br>750 MEUR | 02/2003<br>02/2003 | 02/2013<br>02/2018 | 4.75%<br>5.13% | Paris/Luxembourg<br>Paris/Luxembourg |
| **Private placement in yen** | 18 | 3 000 MJPY | 03/2004 | 03/2009 | 0.66% | None |
| **Other issuances** | 1 | | | | | |
| **Total Bonds** | **2,004** | | | | | |

| *(million euro)* | | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|---|
| **Bonds** | Net book value | 2,004 | 2,004 | 2,070 |
| | Fair value* | 2,063 | 2,028 | 2,207 |

* *This represents the listed price excluding accrued interest*

- **Finance leases liabilities**

Finance-lease liabilities totaled 818 million euro at December 31, 2007, up 1 million euro compared with December 31, 2006.

At December 31, 2007, finance lease liabilities primarily concerned:

- distribution and storage facilities of a German subsidiary for 300 million euro,
- three LNG tankers for 244 million euro,
- various real estate leases for 117 million euro,
- loans raised for the acquisition of varied technical facilities.

- **Investment securities, cash equivalents**

The Group's cash investments concern relatively low-risk assets and have not been affected by the sub-prime crisis.

## Note 19 – Financial derivatives

The Group primarily uses financial derivative instruments to manage the foreign exchange, interest rate and commodity price risks that it is exposed to in connection with its operations.

| | Assets | | | | | Liabilities | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 12.31.2007 | | | 12.31.2006 | 12.31.2005 | 12.31.2007 | | | 12.31.2006 | 12.31.2005 |
| *(million euro)* | Non-current | Current | Total | Total | Total | Non-current | Current | Total | Total | Total |
| **Interest rate derivatives** | **73** | **19** | **92** | **26** | **16** | **8** | **16** | **24** | **19** | **32** |
| **Currency exchange derivatives** | | | | | | | | | | |
| – Operational activities | - | 2 | 2 | - | - | - | 1 | 1 | 6 | - |
| – Financing activities | - | 1 | 1 | - | - | 3 | 12 | 15 | - | - |
| **Sub-total** | **-** | **3** | **3** | **-** | **-** | **3** | **13** | **16** | **6** | **-** |
| **Financial investment derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **61** |
| **Commodity derivatives** | **-** | **2,617** | **2,617** | **2,316** | **1,767** | **-** | **2,500** | **2,500** | **2,172** | **1,708** |
| **Total derivatives** | **73** | **2,639** | **2,712** | **2,342** | **1,783** | **11** | **2,529** | **2,540** | **2,197** | **1,801** |
| **Fair-value hedged firm commitments** | | | | | | | | | | |
| – Currency exchange transactions | - | - | - | 3 | - | - | - | - | - | - |
| – Commodity transactions | - | - | - | - | - | - | 74 | 74 | 100 | 53 |
| **Total fair-value hedged firm commitments** | - | - | - | **3** | **-** | **-** | **74** | **74** | **100** | **53** |

The effective portion of changes in fair value for derivative financial instruments qualifying for cash-flow hedge is deferred under equity until the hedged cash flows are realized. The periods during which the Group expects to recycle such amounts on the income statement are presented below:

| | Deferred fair value in shareholders' equity to be re-posted to income on qualified hedge derivatives contracts as hedging of cash flow | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(million euro)* | Total net of taxes | Deferred tax | Gross amount | 2008 | 2009 | 2010 | 2011 | 2012 | After 2012 |
| – Interest rate risk hedging | 40 | -23 | 63 | 2 | 2 | 3 | 3 | 4 | 49 |
| – Commodity risk hedging | 45 | -23 | 68 | 51 | 18 | - | -1 | - | - |
| **Total at Dec 31, 2007** | **85** | **-46** | **131** | **53** | **20** | **3** | **2** | **4** | **49** |
| **Total at Dec 31, 2006** | **-40** | **20** | **-60** | **-37** | **-31** | **-7** | **-1** | **-1** | **17** |
| **Total at Dec 31, 2005** | **-41** | **18** | **-59** | **-38** | **-14** | **-1** | **-2** | **-2** | **-2** |

#### Note 19.1 – Quantitative disclosures about interest rate derivatives

| | 12.31.2007 | | | 12.31.2006 | | | 12.31.2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value | | Contract | Fair value | | Contract | Fair value | | Contract |
| *(million euro)* | Assets | Liabilities | maturities* | Assets | Liabilities | maturities* | Assets | Liabilities | maturities* |
| **1. RATE SWAPS** | | | | | | | | | |
| **Fixed payer / Floating receiver** | | | | | | | | | |
| Cash-flow hedge | 70 | 8 | 112 | 19 | 7 | 23 | - | 15 | (11) |
| Fair-value hedge | 2 | - | 2 | 2 | - | 2 | - | - | - |
| Not qualifying as hedges | 11 | 8 | 7 | 1 | 7 | (6) | - | - | - |
| **Sub-total** | **83** | **16** | **121** | **22** | **14** | **19** | - | **15** | **(11)** |
| **Fixed payer / Floating receiver** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | 2 | (3) | - | - | (1) | - | - | - |
| Not qualifying as hedges | 3 | 6 | (5) | 4 | 4 | 1 | 16 | 17 | 16 |
| **Sub-total** | **3** | **8** | **(8)** | **4** | **4** | **-** | **16** | **17** | **16** |
| **Fixed payer / Floating receiver** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | - | - | - | - | 1 | (1) | - | 1 | (1) |
| **Sub-total** | **-** | **-** | **-** | **-** | **1** | **(1)** | **-** | **1** | **(1)** |
| **TOTAL INTEREST RATE SWAPS** | **86** | **24** | **113** | **26** | **19** | **18** | **16** | **32** | **4** |
| **2. Total other interest rate derivatives** | | | | | | | | | |
| **Fixed payer position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | - | - | - | - | - | - | - | - | - |
| **Sub-total** | - | - | - | - | - | - | - | - | - |
| **Floating payer position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | - | 6 | - | - | - | - | - | - |
| Not qualifying as hedges | 6 | - | - | - | - | - | - | - | - |
| **Sub-total** | **6** | - | 6 | - | - | - | - | - | - |
| **TOTAL OTHER INTEREST RATE DERIVATIVES** | **6** | - | 6 | - | - | - | - | - | - |
| **TOTAL INTEREST RATE DERIVATIVES** | **92** | **24** | **119** | **26** | **19** | **18** | **16** | **32** | **4** |

* *For interest rate derivatives, the contractual unwinding is generally defined by the exchange of a net amount of cash. The amount of the contractual maturities presented for interest rate derivatives reflects the expected amount of net cash inflow or (outflow) for contracts recorded as assets or liabilities on the balance sheet.*

The amount removed from shareholders' equity and included in financial income for the period relative to interest rate risk cash-flow hedging represents a net loss of 7 million euro at December 31, 2007, compared with a net loss of 6 million euro at December 31, 2006 and a net loss of 7 million euro at December 31, 2005.

At December 31, 2007, this amount comprised a net loss of 2 million euro on effective hedging and a net loss of 5 million euro on interrupted hedges, either because they were no longer compliant with the IFRS criteria, or because the derivatives were wound up when restructuring the underlying debt.

The impact of the effective portion of fair-value hedging derivatives for the interest rate risk on financial income represented a net loss of 2 million euro at December 31, 2007, compared with a net gain of 2 million euro at December 31, 2006 and no significant impact at December 31, 2005. This impact is fully offset by the symmetrical impact of changes in fair value for the hedged element.

The impact on financial income for other interest rate derivatives represents a net gain of 11 million euro at December 31, 2007, compared with no significant impact at December 31, 2006 or at December 31, 2005. This amount primarily relates to economic hedging for the interest rate risk that is not qualifying for hedge accounting under IFRS. The ineffectiveness is not significant.

### Note 19.2 – Quantitative disclosures about currency derivatives

Currency derivatives for the Group's operational activities:

| | 12.31.2007 | | | 12.31.2006 | | | 12.31.2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value | | Contract | Fair value | | Contract | Fair value | | Contract |
| *(million euro)* | Assets | Liabilities | maturities* | Assets | Liabilities | maturities * | Assets | Liabilities | maturities* |
| **1. CURRENCY FORWARD CONTRACTS** | | | | | | | | | |
| **Buyer currency position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | - | - | - | - | - | - | - | - | - |
| **Sub-total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Seller currency position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | 1 | - | 65 | - | - | 28 | - | - | - |
| **Sub-total** | **1** | **-** | **65** | **-** | **-** | **28** | **-** | **-** | **-** |
| **TOTAL CURRENCY FORWARDS** | **1** | **-** | **65** | **-** | **-** | **28** | **-** | **-** | **-** |

| | 12.31.2007 | | | 12.31.2006 | | | 12.31.2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value | | Contract | Fair value | | Contract | Fair value | | Contract |
| *(million euro)* | Assets | Liabilities | maturities* | Assets | Liabilities | maturities* | Assets | Liabilities | maturities* |
| **2. Other currency derivatives** | | | | | | | | | |
| **Buyer currency position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | - | - | (354) | - | - | - | - | - | - |
| **Sub-total** | **-** | **-** | **(354)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Seller currency position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | 1 | - | - | - | 5 | 225 | - | - | - |
| Not qualifying as hedges | - | 1 | 157 | - | 1 | 15 | - | - | - |
| **Sub-total** | **1** | **1** | **157** | **-** | **6** | **240** | **-** | **-** | **-** |
| **TOTAL OTHER CURRENCY DERIVATIVES** | **1** | **1** | **(197)** | **-** | **6** | **268** | **-** | **-** | **-** |
| **TOTAL CURRENCY DERIVATIVES** | **2** | **1** | **(132)** | **-** | **6** | **268** | **-** | **-** | **-** |

* *For currency derivatives, the contractual unwinding is generally defined by the exchange of a gross amount of the transaction currency for the contract against a gross amount of the underlying currency for the contract. The amount of the contractual maturities presented for currency derivatives reflects the expected amount of gross cash inflow or (outflow) in the contract transaction currency for contracts recorded as assets or liabilities on the balance sheet.*

The Group did not record any significant currency risk cash-flow hedging operations for its operational activities.

The impact of the effective portion of fair-value hedging derivatives for the currency risk on operating income represented a net gain of 5 million euro at December 31, 2007, compared with no significant impact at December 31, 2006 or at December 31, 2005. This impact is fully offset by the symmetrical impact of changes in fair value for the hedged element.

The impact on operating income of other currency derivatives was not significant in either 2007, 2006, or 2005. This is because of either the ineffectiveness of the hedges described above, or the economic hedges of the foreign exchange risk which are not applicable for IFRS account hedging.

Currency derivatives for the Group's financing activity:

| | 12.31.2007 | | | 12.31.2006 | | | 12.31.2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value | | | Fair value | | | Fair value | | |
| *(million euro)* | Assets | Liabilities | Contract maturities* | Assets | Liabilities | Contract maturities* | Assets | Liabilities | Contract maturities* |
| **1. CURRENCY FORWARD CONTRACTS** | | | | | | | | | |
| **Buyer currency position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | – | – | – | – | – | – | – | – | – |
| Not qualifying as hedges | - | 9 | (349) | - | - | - | - | - | - |
| **Sub-total** | **-** | **9** | **(349)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Seller currency position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | - | - | - | - | - | - | - | 12 |
| Not qualifying as hedges | - | 4 | 603 | - | - | 8 | - | - | 1 |
| **Sub-total** | **-** | **4** | **603** | **-** | **-** | **8** | **-** | **-** | **13** |
| **TOTAL CURRENCY FORWARDS** | **-** | **13** | **254** | **-** | **-** | **8** | **-** | **-** | **13** |
| **2. Other currency derivatives** | | | | | | | | | |
| **Buyer currency position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | 1 | 2 | (88) | - | - | - | - | - | - |
| **Sub-total** | **1** | **2** | **(88)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Seller currency position** | | | | | | | | | |
| Cash-flow hedge | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | - | - | - | - | - | - | - | - | - |
| **Sub-total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL OTHER CURRENCY DERIVATIVES** | **1** | **2** | **(88)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL CURRENCY DERIVATIVES** | **1** | **15** | **166** | **-** | **-** | **8** | **-** | **-** | **13** |

* *For currency derivatives, the contractual unwinding is generally defined by the exchange of a gross amount of the transaction currency for the contract against a gross amount of the underlying currency for the contract. The amount of the contractual maturities presented for currency derivatives reflects the expected amount of gross cash inflow or (outflow) in the contract transaction currency for contracts recorded as assets or liabilities on the balance sheet.*

The Group did not record any significant currency risk hedging operations for its financing activity.

The impact of currency derivatives on financial income represented a net loss of 13 million euro at December 31, 2007, compared with a net gain of 2 million euro at December 31, 2006 and a net loss of 9 million euro at December 31, 2005. This amount relates to changes in the fair value for economic currency risk hedges, which are not qualifying for hedge accounting under IFRS.

### Note 19.3 – Quantitative disclosures about security derivatives

At December 31, 2007, Gaz de France did not have any security derivatives.

On December 16, 2004, Gaz de France entered into a deal to hedge the fair value of the Technip shares it was holding at the time: Gaz de France had purchased puts from a financial establishment and had simultaneously sold it an identical number of calls. The maturity of these options ranged from 6 to 24 months when they were set up.

At the same time, Gaz de France entered into a reverse purchase contract on these securities, but kept an option to recover them at any time simply on request.

At the end of December 2005, the residual maturity on these options ranged from 6 to 12 months, while their nominal value was 110 million euro.

At December 31, 2006, Gaz de France had sold off all of its Technip securities and no longer had any security derivatives.

### Note 19.4 – Quantitative disclosures about commodity derivatives

| | 12.31.2007 | | | 12.31.2006 | | | 12.31.2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value | | Contract | Fair value | | Contract | Fair value | | Contract |
| *(million euro)* | Assets | Liabilities | maturities* | Assets | Liabilities | maturities* | Assets | Liabilities | maturities* |
| **1. OPTIONS AND SWAPTIONS** | | | | | | | | | |
| Cash-flow hedge<br>Fair-value hedge | | | | | | | | | |
| Natural gas and electricity | - | - | - | - | - | - | - | - | - |
| Oil | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | | | | | | | | | |
| Natural gas and electricity | - | - | - | - | - | - | - | - | - |
| Oil | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | | | | | | | | | |
| Natural gas and electricity | 36 | 40 | (4) | 25 | 7 | 11 | 26 | 30 | (4) |
| Oil | 37 | 8 | 29 | 28 | 8 | 20 | 2 | 4 | (2) |
| **TOTAL OPTIONS AND SWAPTIONS** | **73** | **48** | **25** | **53** | **15** | **31** | **28** | **34** | **(6)** |
| **2. FORWARD CONTRACTS** | | | | | | | | | |
| Cash-flow hedge<br>Fair-value hedge | | | | | | | | | |
| Natural gas and electricity | 13 | 15 | 1 | 23 | 23 | 144 | - | 31 | 74 |
| Oil | - | - | - | - | - | - | - | - | - |
| Fair-value hedge | | | | | | | | | |
| Natural gas and electricity | 73 | - | (336) | 100 | - | (472) | - | - | - |
| Oil | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | | | | | | | | | |
| Natural gas and electricity | 592 | 621 | (3,279) | 1,476 | 1,460 | (3,256) | 965 | 1,084 | (141) |
| Oil | - | - | - | - | 1 | (14) | - | - | - |
| **TOTAL FORWARD CONTRACTS** | **678** | **636** | **(3,614)** | **1,596** | **1,484** | **(3,598)** | **965** | **1,115** | **(67)** |

| | 12.31.2007 | | | 12.31.2006 | | | 12.31.2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value | | Contract | Fair value | | Contract | Fair value | | Contract |
| *(million euro)* | Assets | Liabilities | maturities* | Assets | Liabilities | maturities* | Assets | Liabilities | maturities* |
| **3. FINANCIAL SWAPS** | | | | | | | | | |
| Cash-flow hedge<br>Fair-value hedge | | | | | | | | | |
| Natural gas and electricity | 18 | 28 | (10) | 20 | 9 | - | 16 | 108 | (92) |
| Oil | 599 | 529 | 71 | 346 | 513 | (179) | 532 | 402 | 130 |
| Fair-value hedge | | | | | | | | | |
| Natural gas and electricity | - | - | - | - | - | - | - | - | - |
| Oil | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | | | | | | | | | |
| Natural gas and electricity | 32 | 29 | 2 | 50 | 38 | 21 | 33 | - | 33 |
| Oil | 1,096 | 1,112 | (16) | 221 | 77 | 155 | 116 | 2 | 114 |
| **TOTAL FINANCIAL SWAPS** | **1,745** | **1,698** | **47** | **637** | **637** | **(3)** | **697** | **512** | **185** |
| **4. OTHER DERIVATIVE CONTRACTS** | | | | | | | | | |
| Cash-flow hedge<br>Fair-value hedge | | | | | | | | | |
| Natural gas and electricity | - | - | - | - | - | - | - | - | - |
| Oil | - | - | - | 4 | - | - | - | - | - |
| Fair-value hedge | | | | | | | | | |
| Natural gas and electricity | - | - | - | - | - | - | - | - | - |
| Oil | - | - | - | - | - | - | - | - | - |
| Not qualifying as hedges | | | | | | | | | |
| Natural gas and electricity | 56 | 84 | (27) | 6 | 5 | 3 | 51 | 22 | 29 |
| Oil | 65 | 34 | 31 | 17 | 31 | (14) | 26 | 25 | 1 |
| **TOTAL OTHER DERIVATIVES** | **121** | **118** | **4** | **27** | **36** | **(11)** | **77** | **47** | **30** |
| **TOTAL COMMODITY DERIVATIVES** | **2,617** | **2,500** | **(3,538)** | **2,316** | **2,172** | **(3,581)** | **1,767** | **1,708** | **142** |

* *The amount on contractual maturities reflects the expected amount of net cash inflow or (outflow) for derivatives. In the case of commodity forward contracts, the contractual unwinding is defined by the payment of a gross amount of cash in exchange for a physical delivery of the underlying element. For such contracts, the amount of the contractual maturities corresponds to the contractual cash amount.*

The amount removed from equity and included in operating income for the period relative to commodity risk cash-flow hedging represents a net loss of 50 million euro at December 31, 2007, compared with a net gain of 12 million euro at December 31, 2006 and a net gain of 134 million euro at December 31, 2005.

The impact of the effective portion of fair-value hedging derivatives for the commodity risk on operating income represented a net loss of 1 million euro at December 31, 2007, compared with a net gain of 44 million euro at December 31, 2006 and a net gain of 208 million euro at December 31, 2005. This impact is fully offset by the symmetrical impact of changes in fair value for the hedged elements.

Derivatives that do not qualify as hedges relate to economic hedging strategies that do not qualify for hedge accounting under IFRS, or to arbitrage strategies. Gaselys accounts for a significant portion of such contracts.

## Note 20 – Disclosures about financial risks

### Note 20.1 – Disclosures about financial risks not related to activities on commodities

The management of financial risks – interest rate, currency, liquidity and credit risks – is overseen by the financial division. This activity's concentration at the head of the Group makes it possible to effectively implement the risk policy of the Group allowing an aggregation of risk, the effective handling of positions and the intervention on the markets in one place.

The consolidated management of credit risk and the consistency of management decisions is specifically provided for by the cross-responsibility committees: the Rate and Foreign Exchange Committee, and the Credit Committee.

#### 20.1.1 Credit risk

The Group carries out transactions (sales or purchases) for a significant amount with numerous counterparties, customers and suppliers, particularly for gas and electricity, and notably through its trading subsidiary Gaselys.

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 default, resulting in non compliance with 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 ensures a sufficient reactivity to manage this risk immediately and to reduce the impact of default of the Group's important counterparties by using the relevant legal instruments (netting arrangements, billing provisions, issue of bank endorsement or parent company guarantees, other guarantees…).

Thus, the investment of surplus cash and all the financial instruments used for managing interest rate and currency risks is carried out with counterparties that have a long-term rating from Standard & Poor's (S&P) or Moody's of at least A- or A3 respectively, except for any specific cases duly authorized by the chief financial officer. A cap is set for each financial institution based on its equity and rating. Consumption of such caps, based on notional amounts of transactions, and weighted for the residual period and nature of the commitment, is tracked on a regular basis.

Energy counterparties for the trading subsidiary Gaselys are assessed and rated following a financial analysis, based among other considerations on the counterparty's rating by S&P or Moody's when available.

A monthly Credit Committee, chaired by the chief financial officer, authorizes Gaselys' counterparties, makes decision on the granting of credit lines and sets the legal framework to be put in place. Indeed, Gaz de France's policy is to secure these transactions by using various legal instruments such as standardized netting agreements (providing for compensation for positive and negative exposures in relation to a given counterparty), margin calls (mechanisms making it possible to smooth out fluctuations in market prices) or guarantees in the broadest sense (comfort letter, parent company guarantee, bank guarantee, etc).

Exposure to the counterparty risk is measured based on VaR indicators at 99% and is reported on every day.

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.

The Credit Committee is also responsible for mapping out a governance framework for managing the credit risk for Group customers. The Group pays an increasing attention to customer and supplier counterparties. The governance framework is based on a timely 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 assessment of this risk in connection with prices proposed to major customers.

As far as the gas and electricity supply business is concerned, specific measures may be taken with a view to preventing payment defaults relative to the counterparty's financial soundness. Any customers who are in difficulties are tracked on a regular basis by the Credit Committee.

**Analysis of the age of past due financial assets not impaired at year-end**

| At Dec 31, 2007 *(million euro)* | Past-due assets *Net value* 0-3 months | 3-6 months | 6-12 months | Beyond one year | Total | Impaired assets (gross value) | Sound assets | Total Net value |
|---|---|---|---|---|---|---|---|---|
| Non-current loans and receivables | 10 | - | - | 2 | 12 | 15 | 926 | 938 |
| Current loans and receivables * | 417 | 78 | 94 | 79 | 668 | 309 | 8,917 | 9,585 |
| **Total loans and receivables measured at amortized cost** | **427** | **78** | **94** | **81** | **680** | **324** | **9,843** | **10,523** |

* *The amounts indicated for past due assets are gross of tax*

The amounts for past due assets that are not impaired for under three months primarily correspond to loans and receivables for which the payment date has been exceeded by less than one month.

A significant percentage of the past due assets that are not impaired for over three months concern States and public authorities that are clients of the Group in France or abroad, for which there is no credit risk.

The figures presented for 2007 reflect the usual situation for the Group and are representative of the situation for previous years.

### 20.1.2. Liquidity risk

Gaz de France has liquid assets that can be called on over the very short term, enabling it to meet its current cash requirements or support external growth operations:

The parent company has a syndicated line of credit of 3,000 million euro maturing February 2012, which had not been drawn upon as of December 31, 2007. This line of credit is not subject to financial covenants ;

- Gaz de France also has access to the short-term debt market through a 1,000 million dollar EURO and US commercial paper program, unused at year-end 2007, in addition to a 1,250 million euro commercial paper program, with 200 million euro used at December 31, 2007 ;
- At Group level, cash, cash equivalents and cash investments that are immediately available amounting to 3,211 million euro.

Furthermore, in order to minimize its net cash requirements, the Group has set up a cash-pooling policy for its main controlled entities.

Residual contractual maturities on net financial debt

| At Dec 31, 2007 *(million euro)* | Total | 2008 | 2009 | 2010 | 2011 | 2012 | Beyond 2012 |
|---|---|---|---|---|---|---|---|
| Irredeemable securities | 624 | | | | | | 624 |
| Bonds | 2,004 | | 18 | | | | 1,986 |
| Bank loans | 1,310 | 234 | 108 | 140 | 77 | 101 | 650 |
| Finance leases | 818 | 134 | 80 | 123 | 67 | 183 | 231 |
| Lines of credit | 148 | 87 | 3 | 1 | 1 | 12 | 44 |
| Commercial paper and treasury bills | 200 | 200 | | | | | |
| Other | 176 | 35 | 20 | 19 | 9 | 8 | 85 |
| **Total borrowings** | **5,280** | **690** | **229** | **283** | **154** | **304** | **3,620** |
| Bank overdrafts | 665 | 665 | | | | | |
| **Total financial debt** (excluding future interest | **5,945** | **1,355** | **229** | **283** | **154** | **304** | **3,620** |
| *Future interest to be paid out, net of hedging* | *1,937* | *200* | *179* | *174* | *166* | *161* | *1,057** |
| **Total financial debt** (including future interest after hedging | **7,882** | **1,555** | **408** | **457** | **320** | **465** | **4,677** |
| Investment securities | -238 | -235 | - | - | - | -1 | -2 |
| Cash and cash equivalents | -2,973 | -2,973 | - | - | - | - | - |
| **Net debt** (including future interest after hedging | **4,671** | **-1,653** | **408** | **457** | **320** | **464** | **4,675** |

| At 12.31.2006 | Total | 2007 | 2008 | 2009 | 2010 | 2011 | Beyond 2011 |
|---|---|---|---|---|---|---|---|
| Financial debt | 6,028 | 1,461 | 331 | 219 | 232 | 167 | 3,618 |
| *Future interest to be paid out, net of hedging* | *1,999* | *198* | *181* | *172* | *166* | *159* | *1,123** |
| Investment securities | -360 | -272 | -34 | - | - | - | -54 |
| Cash and cash equivalents | -2,196 | -2,196 | - | - | - | - | - |
| **Net debt** (including future interest after hedging) | **5,471** | **- 809** | **478** | **391** | **398** | **326** | **4,687** |

| At 12.31.2005 | Total | 2006 | 2007 | 2008 | 2009 | 2010 | Beyond 2010 |
|---|---|---|---|---|---|---|---|
| Financial debt | 5,112 | 1,165 | 237 | 227 | 171 | 201 | 3,111 |
| *Future interest to be paid out, net of hedging* | *1,926* | *172* | *160* | *155* | *150* | *146* | *1,143** |
| Investment securities | -245 | -160 | - | -34 | - | - | -51 |
| Cash and cash equivalents | -1,897 | -1,897 | - | - | - | - | - |
| **Net debt** (including future interest after hedging) | **4,896** | **-720** | **397** | **348** | **231** | **347** | **4,203** |

* *For irredeemable securities (see Note 18.4), there is no contractual repayment date for the principal or any interruption in interest flows. So as not to have to mention an infinite amount of interest for longer than five years, interest flows on irredeemable securities have been interrupted on an arbitrary basis over a sliding 30-year period in each table*

Certain bank borrowings or financing facilities for Group subsidiary projects may include financial covenants:

| At Dec 31, 2007 *(million euro)* | Total |
|---|---|
| Gaz de France SA (a) | 99 |
| AES Energia Cartagena (b) | 629 |
| Energia Mayakan (c) | 102 |
| Distrigaz Sud (d) | 80 |
| Gasag Group (e) | 61 |
| Other (unit amounts < 50 million euro) | 339 |
| **Bank loans** | **1,310** |

*(a) Gaz de France SA*

The bank borrowings of Gaz de France SA do not include any financial covenants.

*(b) AES Energia Cartagena*

This amortizable loan, due in June 2027, is intended to finance the building of a power plant in Spain, for which Gaz de France has a tolling contract. It includes standard covenants for project financing.

*(c) Energia Mayakan*

This amortizable loan, due in November 2014, is intended to finance the building of a natural gas pipeline in Mexico. It includes standard covenants for project financing.

*(d) Distrigaz Sud*

Several variable-rate credit facilities maturing 2008 to 2014. These loans are subject to a maximum bank debt/EBITDA ratio.

*(e) Gasag Group*

These borrowings notably include 32 million euro for the contributive portion on a 100 million euro private placement issued in November 2007 and due in 2022, which includes various financial ratios.

All of these clauses were respected at December 31, 2007.

**Residual contractual maturities on assets and liabilities of financial affiliates**

| At Dec 31, 2007 *(million euro)* | Total | 2008 | 2009 | 2010 | 2011 | 2012 | Beyond 2012 |
|---|---|---|---|---|---|---|---|
| Liabilities of financial affiliates | 704 | 581 | 55 | 60 | - | - | 8 |
| Assets of financial affiliates | -696 | -529 | -81 | -47 | -25 | -12 | -2 |
| **Net liabilities of financial affiliates** | **8** | **52** | **-26** | **13** | **-25** | **-12** | **6** |

| At 12/31/2006 | Total | 2007 | 2008 | 2009 | 2010 | 2011 | Beyond 2011 |
|---|---|---|---|---|---|---|---|
| Liabilities of financial affiliates | 485 | 395 | 82 | - | - | - | 8 |
| Assets of financial affiliates | -598 | -427 | -76 | -50 | -29 | -15 | -1 |
| **Net liabilities of financial affiliates** | **-113** | **-32** | **6** | **-50** | **-29** | **-15** | **7** |

| At 12/31/2005 | Total | 2006 | 2007 | 2008 | 2009 | 2010 | Beyond 2010 |
|---|---|---|---|---|---|---|---|
| Liabilities of financial affiliates | 1,117 | 982 | 127 | - | - | - | 8 |
| Assets of financial affiliates | -994 | -823 | -70 | -47 | -31 | -17 | -6 |
| **Net liabilities of financial affiliates** | **123** | **159** | **57** | **-47** | **-31** | **-17** | **2** |

#### Other contractual obligations to be paid out

| Contractual obligations *(million euro)* | Total | Payments due by period | | |
|---|---|---|---|---|
| | | Less than one year | Within one year From one to five years | Five years and beyond |
| Operating leases | 190 | 29 | 66 | 95 |
| Total | 190 | 29 | 66 | 95 |

#### Commitments received or given with an impact on the liquidity risk

Commitments granted to banks by Gaz de France and consolidated subsidiaries, as guarantees for loans or borrowings of consolidated subsidiaries, are eliminated from consolidated commitments.

| *(million euro)* | 12.31.2007 | Of which at less than a year | Of which from one to five years | Of which over five years | 12.31.2006 | 12.31.2005 |
|---|---|---|---|---|---|---|
| **Commitments received** | | | | | | |
| Lines of credit | 3,477 | 225 | 182 | 3,070 | 3,387 | 3,424 |
| **Total commitments received** | **3,477** | **225** | **182** | **3,070** | **3,387** | **3,424** |
| **Commitments granted** | | | | | | |
| Guarantees and endorsements | 622 | 95 | 232 | 295 | 619 | 341 |
| Market counter-guarantee endorsements | 145 | - | 145 | - | 3 | 25 |
| Pledge, mortgage and collaterals | 72 | 2 | 24 | 46 | 9 | 9 |
| Performance bonds | 331 | 110 | 182 | 39 | 282 | 307 |
| Other commitments granted | 2 | - | 2 | - | 1 | 9 |
| **Total commitments granted** | **1,172** | **207** | **585** | **380** | **914** | **691** |

Since August 2002, Gaz de France has benefited from a revolving credit line in the amount of 2 billion euro. This amount has been increased to 3 billion euro since February 2005, due in 2012.

Residual contractual maturities on derivatives (excluding commodities) broken down by currency

| (million euro) | Total at Dec 31, 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Beyond 2012 | Total at Dec 31, 2006 | Total at Dec 31, 2005 |
|---|---|---|---|---|---|---|---|---|---|
| | | Total net residual contractual maturities* by settlement currency | | | | | | | |
| **1. Total interest rate derivatives** | | | | | | | | | |
| **Interest rate swaps** | | | | | | | | | |
| US dollar | (11) | (3) | (3) | (3) | (2) | - | - | (6) | (10) |
| Pound sterling | (1) | - | - | - | - | - | (1) | - | - |
| Euro | 125 | 5 | - | 5 | 5 | 6 | 104 | 28 | 16 |
| Other | - | - | - | - | - | - | - | (4) | - |
| **Sub-total** | **113** | **2** | **(3)** | **2** | **3** | **6** | **103** | **18** | **4** |
| **Other interest rate derivatives** | | | | | | | | | |
| US dollar | - | - | - | - | - | - | - | - | - |
| Pound sterling | - | - | - | - | - | - | - | - | - |
| Euro | 6 | 1 | 1 | 1 | 1 | 1 | 1 | - | - |
| Other | - | - | - | - | - | - | - | - | - |
| **Sub-total** | **6** | **1** | **1** | **1** | **1** | **1** | **1** | **-** | **-** |
| **Total interest rate derivatives** | **119** | **3** | **(2)** | **3** | **4** | **7** | **104** | **18** | **4** |
| **2. Other currency derivatives** | | | | | | | | | |
| ***Operational activities*** | | | | | | | | | |
| **Currency forward contracts** | | | | | | | | | |
| US dollar | 33 | 33 | - | - | - | - | - | 28 | - |
| Pound sterling | - | - | - | - | - | - | - | - | - |
| Euro | 32 | 32 | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - |
| **Sub-total** | **65** | **65** | **-** | **-** | **-** | **-** | **-** | **28** | **-** |
| **Other currency derivatives** | | | | | | | | | |
| US dollar | (210) | (178) | (32) | - | - | - | - | 225 | - |
| Pound sterling | - | - | - | - | - | - | - | - | - |
| Euro | - | - | - | - | - | - | - | 15 | - |
| Other | 13 | 13 | - | - | - | - | - | - | - |
| **Sub-total** | **(197)** | **(165)** | **(32)** | **-** | **-** | **-** | **-** | **240** | **-** |
| **Total currency derivatives on operational activities** | **(132)** | **(100)** | **(32)** | **-** | **-** | **-** | **-** | **268** | **-** |
| ***Financing activity*** | | | | | | | | | |
| **Currency forward contracts** | | | | | | | | | |
| US dollar | - | - | - | - | - | - | - | - | 1 |
| Pound sterling | (328) | (328) | - | - | - | - | - | - | 12 |
| Euro | - | - | - | - | - | - | - | - | - |
| Other (Norwegian krone) | 582 | 582 | - | - | - | - | - | 8 | - |
| **Sub-total** | **254** | **254** | **-** | **-** | **-** | **-** | **-** | **8** | **13** |

| (million euro) | Total at Dec 31, 2007 | Total net residual contractual maturities* by settlement currency 2008 | 2009 | 2010 | 2011 | 2012 | Beyond 2012 | Total at Dec 31, 2006 | Total at Dec 31, 2005 |
|---|---|---|---|---|---|---|---|---|---|
| **Other currency derivatives** | | | | | | | | | |
| US dollar | (88) | (14) | (37) | (37) | - | - | - | - | - |
| Pound sterling | - | - | - | - | - | - | - | - | - |
| Euro | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - |
| **Sub-total** | **(88)** | **(14)** | **(37)** | **(37)** | **-** | **-** | **-** | **-** | **-** |
| **Total currency derivatives on financing activity** | **166** | **240** | **(37)** | **(37)** | **-** | **-** | **-** | **8** | **13** |
| **3. Security derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(61)** |
| **Total derivatives** | **153** | **143** | **(71)** | **(34)** | **4** | **7** | **104** | **294** | **(44)** |

* *For interest rate derivatives, the contractual unwinding is generally defined by the exchange of a net amount of cash. The amount of the contractual maturities presented for interest rate derivatives reflects the expected amount of net cash inflow or (outflow) for contracts recorded as assets or liabilities on the balance sheet. For currency derivatives, the contractual unwinding is generally defined by the exchange of a gross amount of the transaction currency for the contract against a gross amount of the underlying currency for the contract. The amount of the contractual maturities presented for currency derivatives reflects the expected amount of gross cash inflow or (outflow) in the contract transaction currency for contracts recorded as assets or liabilities on the balance sheet.*

### 20.1.3. Interest rate risk

***Interest rate risk management on net financial debt***

The Group centralizes the cash requirements and surpluses of controlled subsidiaries and the majority of their external financing requirements, and applies, on its consolidated net debt position, a policy to optimize its financing costs and manage the impact of interest-rate changes on its financial income by using several types of financial instruments (interest rate options and swaps) in line with market conditions. In this way, the Group is able to keep a majority of its medium to long-term debt at fixed rates or swapped at fixed rates, while ensuring that the balance between the floating rate portion of its debt and its cash surpluses has a low level of exposure to any change in interest rates over the short term.

This policy makes it possible to very significantly limit the Group's sensitivity to interest-rate volatility.

On January 23, 2006, Gaz de France hedged the interest rate risk on the return for its A category irredeemable securities with a financial institution, based on a swap maturing on October 15, 2035 for a notional amount of 480,128,216 euro, covering two successive periods:

(a) Until October 15, 2015, with a multiplier coefficient of 130% of the notional amount mentioned above and

(b) 100% thereafter and through to maturity.

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 euro 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.

In 2006, Gaz de France also completed a deal to convert a portion of its fixed-rate, 5.125% bond debt maturing February 2018 to variable rate. This involved a swap eligible for fair value hedging covering par value of 80 million euro, subject to economic counter-hedging by means of a cap of the same notional amount, guaranteeing the Group against an increase in interest rates beyond a fixed rate of 3.230%.

The Japanese yen-based private placement for a nominal amount of 18 million euro (3 billion yen) is covered by a euro-yen cross-currency swap against the Euribor 3m, which, while not eligible for hedge accounting under IFRS, nevertheless represents an economic hedge.

The Group has also taken out fixed payer/floating receiver interest rate swaps to convert medium- and long-term debt from floating to fixed rates. The total coverage for these borrowings at December 31, 2007 represented 949 million euro:

- a total notional amount of 699 million euro on cash-flow hedging rate swaps ;
- a notional amount of 250 million euro on rate swaps that were initially rated as cash-flow hedging, but for which the hedge accounting criteria under IFRS have not been complied with since Q4 on account of the high level of volatility on the rate and credit markets. The impact of these assets no longer qualifying for cash-flow hedge on the income statement is not significant at December 31, 2007.

Lastly, the Group has taken out short-term rate swaps (around three months) for the rate risk on its short-term cash management operations (investments in certificates of deposit or commercial paper issues). These include:

- fixed payer/floating receiver swaps for a notional amount of 50 million euro;
- floating payer/fixed receiver swaps for a notional amount of 144 million euro.

*Interest rate risk management on loans granted to a common debt fund*

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 sale. The Group's residual exposure totaled 18 million euro as of December 31, 2007. The par value of the corresponding rate swaps posted to the balance sheet was 120 million euro in swaps where Gaz de France pays a floating rate and receives a fixed rate, and 138 million euro in swaps where Gaz de France pays a fixed rate and receives a floating rate.

*Interest rate risk management of financial affiliates*

The Group's forward trading transactions denominated in euro and dollars are covered by an economic hedge for the residual interest rate risk based on rate swaps:

- fixed payer/floating receiver swaps for a notional amount of 262 million euro at December 31, 2007,
- fixed receiver/floating payer swaps for a notional amount of 138 million euro at December 31, 2007.

In line with their risk management policy, the financial affiliates with a customer credit activity manage their asset/liability backing based on fair-value hedging for the interest rate risk on their assets (issued at fixed rates) through interest rate swaps that enable them to refinance at fixed rates (notional amount of 246 million euro at December 31, 2007).

**Breakdown of financial debt by rate (including irredeemable securities)**

| **BEFORE ACCOUNTING FOR FINANCIAL HEDGES** *(million euro)* | **12/31/2007** | | **12/31/2006** | | **12/31/2005** | |
|---|---|---|---|---|---|---|
| | **Net book value** | **As a %** | **Net book value** | **As a %** | **Net book value** | **As a %** |
| Fixed rate | 2,810 | 47% | 3,044 | 50% | 2,891 | 56% |
| Floating rate | 3,135 | 53% | 2,984 | 50% | 2,221 | 44% |
| **Total financial debt** | **5,945** | **100%** | **6,028** | **100%** | **5,112** | **100%** |

| **AFTER ACCOUNTING FOR FINANCIAL HEDGES** *(million euro)* | **12/31/2007** | | **12/31/2006** | | **12/31/2005** | |
|---|---|---|---|---|---|---|
| | **Net book value** | **As a %** | **Net book value** | **As a %** | **Net book value** | **As a %** |
| Fixed rate | 4,178 | 70% | 3,995 | 66% | 3,030 | 59% |
| Floating rate | 1,767 | 30% | 2,033 | 34% | 2,082 | 41% |
| **Total financial debt** | **5,945** | **100%** | **6,028** | **100%** | **5,112** | **100%** |

At December 31, 2007, the fixed-rate portion of Gaz de France's gross debt was up 4% in relation to the previous year, representing 4,178 million euro after hedging. On this day, the variable rate portion (1,767 million euro) was lower than cash and other cash equivalents (2,973 million euro).

### 20.1.4. Exchange rate risk

*Management of the currency risk on operating activities*

In terms of sensitivity to change in exchange rates on commercial operations of the Purchase and Sale of Energy segment, the euro/dollar currency translation risk on this segment's performance reflects the methods for indexing the various gas purchase or sale contracts on prices for oil products, most of which are traded in dollars.

Currency translation risk exposure on commercial transactions is overseen 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 or indexed sales contracts based on financial swaps.

There are timing differences on the income statement between the impact of changes in dollar on supply costs and the impact of the pass-through on sales, including the impact of moving averages and the stocking-destocking cycle.

With regard to other functional currencies in which consolidated entities operate outside of the eurozone, there is no material currency translation risk to report at Group level since there are also mechanisms in place to adjust rates based on changes in supply costs.

Further, business units identify and inform the finance division about their transactional exposures (arbitrage transactions, maintenance contracts, etc.) This risk can then be hedged based on forward contracts, swaps or options in line with the probability of the future flows being realized.

*Translation risk management*

Subsidiary financing is overseen on a centralized basis by the finance division, which enables the currency translation risk to be actively managed through inter-company loans granted to subsidiaries in the currency of the cash flows that they generate.

In order to limit the translation risk for certain inter-company loans and deposits, the Group has set up currency forward transactions, on which changes in fair value offset the translation gains or losses on such loans and deposits. These include:

- forward purchases contracts for 250 million pound sterling;
- forward sales contracts for 4,667 million Norwegian krones.

The Group is also exposed to the currency translation risk resulting from the conversion in the consolidated financial statements of the net position of its subsidiaries with a different functional currency from the parent company. The translation gains or losses generated by this exposure were reflected in a total impact of 257 million euro (-92 million euro in changes over the year) on shareholders' equity at December 31, 2007.

**Breakdown of financial debt (including irredeemable securities) by currency**

| | 12.31.2007 | | 12.31.2006 | | 12.31.2005 | |
|---|---|---|---|---|---|---|
| *(million euro)* | % of debt in foreign currency | Amount | % of debt in foreign currency | Amount | % of debt in foreign currency | Amount |
| Euro (EUR) | 94% | 5,598 | 93% | 5,611 | 90% | 4,632 |
| American Dollar (USD) | 3% | 174 | 4% | 258 | 7% | 342 |
| Yen (JPY) | N.S. | 18 | N.S. | 19 | 1% | 58 |
| Pound sterling (GBP) | 1% | 28 | 1% | 39 | 1% | 36 |
| Other | 2% | 127 | 2% | 101 | 1% | 44 |
| **Total financial debt** | **100%** | **5,945** | **100%** | **6,028** | **100%** | **5,112** |

Liabilities denominated in foreign currencies represent 6% of the total debt, and are partially subject to management hedges, not eligible for hedge accounting according to the criteria of the IAS 39 standard. Gaz de France specifically converts to euro its private bond issuances in Japanese yen (JPY), which represented 18 million euro as of December 31, 2007.

**Breakdown of assets and liabilities of financial affiliates by currency**

| | 12.31.2007 | | 12.31.2006 | | 12.31.2005 | |
|---|---|---|---|---|---|---|
| *(million euro)* | % of debt in foreign currency | Assets of financial affiliates | % of debt in foreign currency | Assets of financial affiliates | % of debt in foreign currency | Assets of financial affiliates |
| Euro (EUR) | 62% | 431 | 64% | 381 | 48% | 482 |
| American Dollar (USD) | 12% | 82 | 12% | 70 | 8% | 77 |
| Pound sterling (GBP) | 26% | 183 | 25% | 147 | 44% | 435 |
| Other | - | - | - | - | - | - |
| **Total assets of financial affiliates** | **100%** | **696** | **100%** | **598** | **100%** | **994** |

| | 12.31.2007 | | 12.31.2006 | | 12.31.2005 | |
|---|---|---|---|---|---|---|
| | % of debt in foreign currency | Liabilities of financial affiliates | % of debt in foreign currency | Liabilities of financial affiliates | % of debt in foreign currency | Liabilities of financial affiliates |
| Euro (EUR) | 75% | 525 | 65% | 315 | 46% | 514 |
| American Dollar (USD) | - | - | 3% | 16 | 4% | 46 |
| Pound sterling (GBP) | 25% | 179 | 32% | 154 | 50% | 557 |
| Other | - | - | - | - | - | - |
| **Total liabilities of financial affiliates** | **100%** | **704** | **100%** | **485** | **100%** | **1,117** |

**Breakdown of financial derivatives (excluding commodities) by currency**

This information is presented under Note 20.1.2.

**20.1.5. Securities risks**

The Group has concluded various cross options for buying or selling securities in RETI Group that entitle it to buy shares held by the counterparty, while at the same time entitling this counterparty to sell these shares to the Group.

These options may be exercised between September 2008 and September 2009, covering 29.5% of additional shares, the conditions for determining which value the amount of cash to be paid out at around 155 million euro.

The Group has also concluded cross options with its partner on the 49% of Gaselys shares that it does not own. The amounts of cash to be paid out if the Group decides to exercise its purchase options or if the partner decides to exercise its option to sell these securities are estimated at 217 million euro at December 31, 2007. These options cannot be exercised immediately.

The Group is committed to subscribe to future capital increases for 17 million euro. The Group has also made a commitment to acquire 100% of the companies in Italy owning seven cogeneration plants for an overall investment of 226 million euro. This project is notably subject to preemptive rights not being exercised by the minority shareholders for two of the seven plants.

The main lines of shares held by the Group at December 31, 2007 are as follows:

- a total of 8.05 million Suez shares, for which the listed price on NYSE-Euronext at December 31, 2007 was 46.57 euro per share;
- a total of 75.0 million Petronet shares, for which the listed price on the NSE (National Stock Exchange of India) at December 31, 2007 was 107.35 Indian rupees per share;
- a total of 34.7 million Enbridge shares held by the Noverco group, which is itself held in the proportion of 17.56% and accounting for using the equity method. The price of the Enbridge shares listed for trading on the TSX (Toronto Stock exchange) as of December 31, 2007 was 40.01 CAD per share.

These securities are all recorded as assets available for sale and recognized at fair value through equity.

## Note 20.2 – Commodity risks

Commodity derivatives (natural gas, oil, electricity) held by the Group primarily consist of swaps, forward contracts, futures and options entered into by the parent company to manage the "price" risk. Most of these instruments are negotiated with third-parties by the specialized subsidiary Gaselys, proportionately consolidated at 51%.

These financial derivative instruments are particularly used in the management of risks associated with the following operations:

- price engineering aimed at responding to customers' growing expectations in terms of risk management for gas or electricity prices. They are primarily intended to secure a commercial margin, irrespective of changes in the commodity indexes included in the price offered to customers, even when they are different from the commodity indexes that the Group's supplies are exposed to;
- optimization of supply costs. In effect, energy supplies, electricity production assets and transmission or storage capacity assets or reservations that are available and not required for customer supplies are systematically realized on the markets.

In connection with its trading activities, the Group also entered into future contracts on natural gas, oil and electricity which it can operate through a financial settlement or a physical delivery, according to the requirements of its energy balance.

In terms of the sensitivity of changes in commodity prices on commercial transactions carried out by the Purchase and Sale of Energy segment, the commodity price risk on this segment's performance reflects the indexing methods on the various gas purchase or sale contracts in view of prices for oil or natural gas products.

In connection with the implementation of the net-back concept when determining purchase price formulas, the mechanism for setting prices on long-term gas purchase contracts is based on a valuation in relation to rival energies to natural gas. The price formulas for long-term gas purchase contracts are expressed as a constant that is combined with one or more monthly indexing terms, most of which are oil products. These "oil" indexing terms are smoothed by moving average mechanisms over periods ranging from 6 to 12 months.

Exposure to the commodity price risk on commercial transactions is overseen 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 or indexed sales contracts based on financial swaps.

There are timing differences on the income statement between the impact of changes in commodity prices on supply costs and the impact of the pass-through on sales, including the impact of moving averages and the storage-withdrawal cycle.

**Residual contractual maturities on commodity derivatives broken down by currency and underlying element**

| | | Net residual contractual maturities* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(million euro)* | Total at Dec 31, 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Beyond 2012 | Total at Dec 31, 2006 | Total at Dec 31, 2005 |
| **Natural gas and electricity** | | | | | | | | | |
| US dollar | (12) | (14) | 2 | - | - | - | - | 16 | 6 |
| Pound sterling | (1,632) | (434) | (282) | (320) | (265) | (52) | (279) | (917) | 171 |
| Euro | (2,009) | (201) | (285) | (121) | 70 | (205) | (1,267) | (2,648) | (278) |
| **Subtotal natural gas and electricity** | **(3,653)** | **(649)** | **(565)** | **(441)** | **(195)** | **(257)** | **(1,546)** | **(3,549)** | **(101)** |
| **Oil and other** | | | | | | | | | |
| US dollar | (174) | (34) | (70) | (52) | (18) | - | - | (55) | 114 |
| Pound sterling | 8 | 4 | 3 | 1 | - | - | - | 1 | - |
| Euro | 281 | 41 | 25 | 27 | 188 | - | - | 22 | 129 |
| **Subtotal oil and other** | **115** | **11** | **(42)** | **(24)** | **170** | **-** | **-** | **(32)** | **243** |
| **Total commodity derivatives** | **(3,538)** | **(638)** | **(607)** | **(465)** | **(25)** | **(257)** | **(1,546)** | **(3,581)** | **142** |

* *The amount on contractual maturities reflects the expected amount of net cash inflow or (outflow) for derivatives.*
*In the case of commodity forward contracts, the contractual unwinding is defined by the payment of a gross amount of cash in exchange for a physical delivery of the underlying element. For such contracts, the amount of the contractual maturities corresponds to the contractual cash amount.*

**Impact of margin calls on the credit risk linked to the Group's commodities activities**

Margin calls agreements are standardized contracts for reducing credit risk, entered into either with the clearing house on an organized market or bilaterally with a counterparty on an over-the-counter basis.

The margin call agreements negotiated by the Group in connection with its commodities activities generally enable it to offset all or part of its commitments with the clearing house on an organized market or a counterparty on an over-the-counter basis, and result in it periodically receiving or paying an additional deposit to or from the clearing house or over-the-counter counterparty corresponding to the change in its net counterparty position, marked-to-market, when the level of this change exceeds the thresholds set in the contract.

In this way, the amount of margin calls recorded on the Group's balance sheet at year-end depends on the volume of transactions outstanding that are contractually covered by a margin call, as well as the change in market prices in relation to the price negotiated for such transactions, and the rules for adjusting such margin calls from time to time.

In addition, margin calls may concern not only commodity derivatives, but also electricity or natural gas purchase or sale contracts that will be subject to a physical delivery and that are considered under the Group's "own use" operations. In the latter case, the amount of margin calls for such contracts reflects:

- the mark-to-market for the period from the negotiation date for these contracts through to the date for the physical delivery of the underlying element;
- the amount of commercial debts or receivables (net of tax) between the physical delivery date for the underlying element and the contract payment date.

In practice, the frequency and thresholds for adjusting margin calls are such that the difference between the balance on margin calls and the net position for transactions subject to margin calls is not particularly significant.

*Detailed breakdown of commodity financial instruments subject to a margin call:*

| *(million euro)* | 12.31.2007 | 12.31.2006 | Variation |
|---|---|---|---|
| **Derivatives on commercial transactions** | **118** | **138** | **-20** |
| **Non-derivative assets and liabilities subject to a margin call (net of tax)** | | | |
| Trade receivables or payables | -47 | -28 | -19 |
| Assets and liabilities of financial affiliates | -50 | -49 | -1 |
| **Subtotal non-derivative assets and liabilities** | **-97** | **-77** | **-20** |
| **Net fair value of contracts in "own use" activities subject to a margin call** | **116** | **-447** | **+563** |
| **Net position exposed to credit risk, before margin calls** | **137** | **-386** | **+523** |
| **Margin calls paid or received** | | | |
| Other receivables and payables | 6 | 299 | -293 |
| Assets and liabilities of financial affiliates | 80 | 234 | -154 |
| **Subtotal margin calls** | **86** | **533** | **-447** |
| **Net position exposed to credit risk, after margin calls** | **223** | **144** | **+79** |

### Commodity-related commitments

*Natural gas and electricity commitments*

Gas supplies in Europe are based primarily on long-term "take-or-pay" contracts. These long-term commitments make it possible to finance expensive production and transmission infrastructures. Under these contracts, the seller makes a long-term commitment to serve the buyer, subject to a commitment by the latter to pay minimum quantities whether it takes delivery of them or not. These commitments are combined with backup measures (force majeure) and flexible volumes making it possible to manage any uncertainties (primarily climatic) affecting demand, as well as random technical aspects.

In order to secure the availability in future years of the gas quantities required to supply its customers, Gaz de France uses a high proportion (around 80% of its supply portfolio) of this type of contract.

The competitiveness of these contracts is secured by way of indexed price adjustment formulas and revision mechanisms. Most of the Group's gas procurement is negotiated through such contracts. At December 31, 2007, the Group's commitments totaled 45 billion $m^3$ for 2008, 172 billion $m^3$ for the period from 2009 to 2011, and 471 billion $m^3$ for 2011 and beyond.

Gaz de France has also executed forward purchases and sales of natural gas, primarily at maturities of less than one year, within the framework of its trading activity: purchases and sales of gas on short-term markets and offers involving price engineering to industrial clients.

At December 31, 2007, Gaz de France's commitments represented 6.3 billion $m^3$ of forward purchases contracts and 1.5 billion $m^3$ of forward sales contracts.

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 system 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 transmission capacities and regasification facilities.

Moreover, subsidiaries in the Exploration and Production segment are committed to make minimum quantities of natural gas available to their customers. The corresponding commitment represented 18 billion $m^3$ at December 31, 2007, including 4 billion $m^3$ for under one year.

Gaz de France's trading activities include purchases and sales of electricity futures and purchases of electricity options. At December 31, 2007, Gaz de France's commitments represented 18.5 TWh of forward purchases contracts, 4.2 TWh of forward sales contracts and 2,3 TWh of optional purchases.

The following table presents the change in natural gas and electricity-related commitments:

| | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Long-term "take or pay" natural gas contracts (billion $m^3$): | | | |
| Within 1 year | 45 | 47 | 51 |
| From 1 year to 4 years | 172 | 132 | 191 |
| 4 years and beyond | 471 | 518 | 382 |
| "Gas release" (TWh) | 11 | 25 | 38 |
| Natural gas forward purchase contracts (billion $m^3$) | 6.3 | 1.2 | 2 |
| Natural gas forward sale contracts (billion $m^3$) | 1.5 | N.S. | N.S. |
| Electricity forward purchase contracts (TWh) | 20.8 | 14.8 | 9.7 |
| Of which, firm purchases | 18.5 | 9.9 | 3.9 |
| Of which, optional purchases | 2.3 | 4.9 | 5.8 |
| Electricity forward sale contracts (TWh) | 4.2 | 1.1 | 2.1 |
| Exploration-Production Segment (billion $m^3$): | | | |
| Natural gas provision commitments | 18 | 16 | 18 |
| Of which at less than a year | 4 | 3 | 4 |

### Note 20.3 – Sensitivity of earnings and equity to market risks

For its business, the Group uses financial instruments whose measurement is sensitive to market risks.

These financial instruments that are exposed to market risks primarily include:

- Trade receivables and payables denominated in a currency that is different from the functional currency of the holding entity, further to transactions negotiated by the Group in connection with all of its businesses. The measurement at amortized cost of these non-derivative financial assets and liabilities recognized on the balance sheet is sensitive to the exchange rates (EUR/USD or EUR/GBP) between the transaction currency and the euro.

- Financial swaps, options, forward contracts and futures on underlying elements for commodities (natural gas, electricity, oil), negotiated in connection with its energy purchase/sale activity. The fair value measurement of these derivatives on the balance sheet is sensitive to:

  - commodity prices (natural gas, electricity or oil) due to the physical underlying element exchanged at the end of the contract, or due to the indexing of the contract price on commodity prices,

  - exchange rates (EUR/USD or EUR/GBP) for the contract payment currency when this is different from the entity's functional currency, or due to the indexing of the contract price on the exchange rate between the listing currency for the underlying commodities and the contract payment currency.

- Floating rate borrowings, financial swaps, or options negotiated by the Group in connection with its financial activity. The measurement of such financial instruments on the balance sheet at either their amortized cost or their fair value is sensitive to

  - the level of interest rates,

  - exchange rates (EUR/USD or EUR/GBP) for the contract payment currency when this is different from the entity's functional currency.

- Firm or optional currency forward contracts negotiated by the Group in connection with either its commercial activities, or in connection with its financing or investment activities. The fair value measurement of such derivatives on the balance sheet is sensitive to exchange rates (EUR/USD or EUR/GBP).

The following tables present the year-end sensitivity of the Group's earnings and recyclable equity before tax to the main market risks that the Group is exposed to as a result of the financial instruments recorded on its balance sheet.

However, these tables do not factor in market risk exposure relating to:

- Non-financial balance sheet items (net investments abroad, stocks of raw materials, etc.);

- Inter-company foreign currency loans and deposits;

- Future transactions and firm commitments for contracts excluded from the scope of IAS 39 (natural gas or electricity supply or sale contracts considered under the Group's "normal" activity, service provision contracts, simple leases, etc.).

When these elements are subject to cash-flow hedging, their sensitivity will offset the sensitivity indicated on the Group's shareholders' equity under cash-flow hedging derivatives.

On account of the small proportion of optional derivatives in the Group's portfolios, the sensitivity analysis presented is representative of the total risk.

**20.3.1 Interest rate risk sensitivity**

The impact of an increase in interest rates on the Group's earnings in the event of a general shock on all forward prices representing +50 basis points would come out at –2.4 million euro before tax at December 31, 2007 (-10.3 million euro at December 31, 2006 and +2.2 million euro at December 31, 2005).

This impact reflects the net exposure after hedging for all of the Group's financial assets and liabilities exposed to the interest rate risk.

In the event of such a shock, the interest rate derivatives included under cash-flow hedging for the interest rate risk on the Group's borrowings would generate additional exposure for the Group's equity representing +19.6 million euro before tax at December 31, 2007 (+15.5 million euro at December 31, 2006 and not significant at December 31, 2005).

**20.3.2. Currency risk sensitivity**

Sensitivity to the exchange rate risk on EUR/USD and EUR/GBP on non-financial assets and liabilities primarily stems from payables denominated in currencies in relation to the Group's natural gas suppliers.

As indicated above, exposure to the exchange rate risk linked to this payables denominated in currencies is overseen 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 sales contracts based on financial swaps.

At December 31, 2007, the sensitivity of the earnings to the EUR/GBP and EUR/NOK exchange rate risk is primarily linked to economic hedging transactions on translation gains or losses for inter-company deposits and loans.

The sensitivity of the Group's equity to the EUR/USD exchange rate risk primarily reflects commodity derivatives denominated in the entity's currency, but for which the price formulas contain indexing for oil on the one hand and EUR/USD on the other, which qualifies for cash-flow hedging for the risk related to natural gas supply or sale contracts that are indexed on prices for one or more oil products.

In this way, Gaz de France is a net buyer of commodity derivatives for hedging on natural gas purchases and sales that are sensitive to the EUR/USD exchange rate risk because the underlying elements for these derivative contracts are oil products traded in dollars. The amount of future cash flow hedged using these swaps may vary considerably from one year to the next depending on changes in net volumes of transactions requiring hedging on the one hand, and on changes in the prices for oil products on which the price of these transactions is indexed. These changes reflect significant variations in the sensitivity of the portfolios of commodity derivatives to the EUR/USD exchange rate risk. However, they do not have any significant impact on the net exposure of the Group's cash flow after hedging.

Impact of a change in the EUR/USD exchange rate representing USD +0.10 for EUR 1.00:

| | 12.31.2007 | | 12.31.2006 | | 12.31.2005 | |
|---|---|---|---|---|---|---|
| *(million euro before tax)* | Income | Recyclable equity | Income | Recyclable equity | Income | Recyclable equity |
| **EUR/USD exchange rate risk USD +0.10 for EUR 1.00** | | | | | | |
| Non-derivative financial assets and liabilities | +32.4 | - | +29.0 | - | +33.9 | - |
| Cash-flow hedging derivative contracts | - | - 45.0 | - | - 78.4 | - | - 17.3 |
| Derivative contracts held for economic hedging, but not qualifying for hedging | +20.4 | - | - 6.1 | - | - 20.8 | - |
| Derivative contracts held for arbitrage purposes | - 3.6 | - | - 1.3 | - | +1.9 | - |
| **Total EUR/USD exchange rate risk** | **+49.2** | **- 45.0** | **+ 21.6** | **- 78.4** | **+15.0** | **- 17.3** |

Impact of a change in the EUR/GBP exchange rate representing GBP +0.10 for EUR 1.00 EUR:

| | 12.31.2007 | | 12.31.2006 | | 12.31.2005 | |
|---|---|---|---|---|---|---|
| *(million euro before tax)* | Income | Recyclable equity | Income | Recyclable equity | Income | Recyclable equity |
| **EUR/GBP exchange rate risk GBP +0.10 for EUR 1.00** | | | | | | |
| Non-derivative financial assets and liabilities | +5.8 | - | +14.3 | - | +6.5 | - |
| Cash-flow hedging derivative contracts | - | - | - | +1.1 | - | - |
| Derivative contracts held for economic hedging, but not qualifying for hedging | -36.7 | - | -0.1 | - | +4.2 | - |
| Derivative contracts held for arbitrage purposes | - | - | +2.3 | - | - | - |
| **Total EUR/GBP exchange rate risk** | **-30.9** | **-** | **+16.5** | **+1.1** | **+10.7** | **-** |

The impact on the Group's earnings of a change in the EUR/NOK exchange rate representing NOK + 0.80 for EUR 1.00 would come out at +53.0 million euro before tax at December 31, 2007 (no significant impact at December 31, 2006 or December 31, 2005). As mentioned above, such impact is primarily linked to economic hedging transactions on translation gains or losses for inter-company deposits and loans.

### 20.3.3. Price risk sensitivity for oil products

The sensitivity of the Group's equity to the oil risk primarily reflects commodity derivatives that qualify for cash-flow hedging of the risk related to natural gas supply or sale contracts indexed against the price of one or more oil products.

The high amount for the Group's net equity exposure reflects a larger proportion of indexed purchase volumes than indexed sale volumes, with the difference corresponding to fixed-price sales, which are therefore not hedged for the sales price risk.

In this way, Gaz de France is a net buyer of hedging derivatives on natural gas purchases and sales, which are sensitive to the price risk for oil products because the underlying elements for these derivative contracts are oil products. The amount of future cash flows hedged using these swaps may vary considerably from one year to the next, depending on the change in net volumes of transactions requiring hedging. These changes reflect significant variations in the sensitivity of portfolios of commodity derivatives to the price risk for oil products. However, they do not have any significant impact on the net exposure of the Group's cash flow after hedging.

The impact of an increase in oil prices in the event of a general shock on Dated Brent forward prices by +10.00 US dollars/bbl, as well as an equivalent increase on all of the other oil products included in Gaz de France's balance sheet, estimated based on the product resulting from shock applied on the Dated Brent and the linear regression gradient between the respective prices of each oil product and those of the Dated Brent:

| | 12.31.2007 | | 12.31.2006 | | 12.31.2005 | |
|---|---|---|---|---|---|---|
| *(million euro before tax)* | Income | Recyclable equity | Income | Recyclable equity | Income | Recyclable equity |
| **Oil risk +10.00 US dollars/bbl** | | | | | | |
| Cash-flow hedging derivative contracts | - | +69.3 | - | +162.2 | - | +40.7 |
| Derivative contracts held for economic hedging, but not qualifying for hedging | -25.2 | - | +13.4 | - | +41.5 | - |
| Derivative contracts held for arbitrage purposes | -2.1 | - | - 2.4 | - | -7.9 | - |
| **Total oil risk** | **-27.3** | **+69.3** | **+11.0** | **+162.2** | **+33.6** | **+40.7** |

#### 20.3.4. Natural gas price risk sensitivity

The impact of an increase in natural gas prices in the event of a general shock on forward prices for +3.00 euro/MWh, irrespective of the market point retained (NBP in the UK, Zeebrugge Hub in Belgium, etc.):

| | 12.31.2007 | | 12.31.2006 | | 12.31.2005 | |
|---|---|---|---|---|---|---|
| *(million euro before tax)* | Income | Recyclable equity | Income | Recyclable equity | Income | Recyclable equity |
| **Natural gas risk +3.00 euro/MWh** | | | | | | |
| Cash-flow hedging derivative contracts | - | +11.3 | - | -23.7 | - | -14.8 |
| Derivative contracts held for economic hedging, but not qualifying for hedging | +42.1 | - | -2.5 | - | -15.1 | - |
| Derivative contracts held for arbitrage purposes | -27.8 | - | -16.6 | - | +6.7 | - |
| **Total natural gas risk** | **+14.3** | **+11.3** | **-19.1** | **-23.7** | **-8.4** | **-14.8** |

#### 20.3.5. Electricity price risk sensitivity

The impact of an increase in electricity prices in the event of a general shock on forward prices for +5.00 euro/MWh, irrespective of the national market retained (France, UK, Germany, Spain, etc.):

| | 12.31.2007 | | 12.31.2006 | | 12.31.2005 | |
|---|---|---|---|---|---|---|
| *(million euro before tax)* | Income | Recyclable equity | Income | Recyclable equity | Income | Recyclable equity |
| **Electricity risk +5.00 euro/MWh** | | | | | | |
| Cash-flow hedging derivative contracts | - | -9.9 | - | -3.0 | - | -8.7 |
| Derivative contracts held for economic hedging, but not qualifying for hedging | -0.9 | - | +0.2 | - | - | - |
| Derivative contracts held for arbitrage purposes | -2.4 | - | +0.1 | - | +19.4 | - |
| **Total electricity risk** | **-3.3** | **-9.9** | **+0.3** | **-3.0** | **+19.4** | **-8.7** |

# 7 – CASH FLOW STATEMENT

## Note 21 – Cash flow statement

#### Reconciliation of capital expenditures with the balance sheet

| *(million euro)* | Note | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|---|
| Acquisitions of intangible assets | 11 | 666 | 562 | 576 |
| Acquisitions of tangible assets | 12 | 2,003 | 1,837 | 1,234 |
| Lease acquisitions | | -10 | -143 | -9 |
| Other | | -107 | -87 | -52 |
| **Capital expenditures** | | **2,552** | **2,169** | **1,749** |

#### Investing and financing non-cash transactions

| *(million euro)* | 12.31.2007 | 12.31.2006 | 12.31.2005 |
|---|---|---|---|
| Lease acquisitions | 10 | 143 | 9 |
| AES Energia Cartagena tangible investments | - | 671 | - |

# 8 – OTHER INFORMATION

## Note 22 – Information on related parties

### Note 22 – 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:

- commercial or financial relations between Gaz de France and its subsidiaries, in accordance with standard practices for transactions between the parent company and affiliates, primarily energy purchases and sales and cash pooling;
- relations with EDF, with which a certain number of shared services exist, primarily for local public service operating activities through the EDF Gaz de France Distribution structure and for human resources management;
- energy supplies and services for local authorities and State services.

#### Relations with EDF

On April 18, 2005, Gaz de France and EDF signed an agreement defining their relations concerning the distribution activities of EDF Gaz de France Distribution following the creation of the joint operator for gas and electricity distribution networks called EDF Gaz de France Distribution ("EGD") on July 1, 2004.

EGD's activities are carried out under conditions that guaranteed the accounting separation and strategic interests of each group. Certain expenses may first be recorded in the accounts of one of the two companies and then invoiced back to the other company, notably:

- manpower services;
- service deliveries, primarily IT, telecommunications and vehicle-related services.

As of December 31, 2007, the activities are no longer covered by EDF and Gaz de France SA: under French law 2006-1537 of December 7, 2006 governing the energy sector, which provides for the carve out of the natural gas and electricity distribution networks of the historical operators into separate subsidiaries, Gaz de France SA and its subsidiary GrDF signed a contract on July 20, 2007 for Gaz de France SA to transfer the natural gas distribution network management activity to GrDF, effective as of December 31, 2007.

Furthermore, after winning the call for tenders issued by RTE in February 2005 for the building and operating of a power plant in Saint-Brieuc with a production capacity of around 200 MWel, Gaz de France and RTE signed an electricity production reservation contract on December 6, 2006 that will come into force as of 2010.

#### Relations with the Caisse Nationale des Industries Electriques et Gazières (CNIEG)

Relations with the CNIEG, which manages all of the retirement, disability and surviving spouse's pensions for employees of EDF, Gaz de France and non-nationalized companies are presented in Note 17.

#### Relations with the French State

The French State has had a 79.8% stake in Gaz de France SA since the company's initial public offering on July 8, 2005. In this way, the State has the possibility, like any majority shareholder, to control corporate decisions requiring the approval of shareholders.

In accordance with the legislation applicable for all companies in which the State is the majority shareholder, Gaz de France is subject to certain control procedures, notably economic and financial control by the State, control procedures by the national audit office and Parliament, as well as inspections by the general inspectorate for finance.

Public service missions in the energy sector are defined by the law of January 3, 2003. Their implementation, in the case of Gaz de France, is governed by a public service contract, in accordance with Article 1 of the law of August 9, 2004.

The contract, as approved by the Board of Directors of Gaz de France on March 22, 2005, was signed between Gaz de France and the French State on June 10, 2005. It sets out the public service obligations for the company, while highlighting some of them, such as the security of supplies and the continuity of services, as well as industrial safety. It also contains provisions concerning the means to be put in place by the operator to guarantee access to the public service for customers (including customers with limited resources), as well as the research and development policy and environmental protection. Furthermore, it sets the principles for multiyear changes in public distribution rates.

### Note 22 – 2 Transactions with members of the Board of Directors and Executive Committee

Members of the Board of Directors who are employees of Gaz de France and members of the Executive Committee receive compensation consisting of gross pay, bonuses, profit-sharing, company contribution and benefits in kind. They have been entitled to the employee offering in connection with Gaz de France's initial public offering, under conditions identical to those applicable to all employees.

| *(thousand euro)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Short term benefits (excluding employer's contribution to social charges) (5) | 4,064 | 3,794 | 3,346 |
| Short-term benefits: employer's contribution to social charges | 1,479 | 1,398 | 1,335 |
| Post-employment benefits (6) | 700 | 634 | 544 |
| Other long term benefits (6) | 53 | 103 | 66 |

*(5) Includes gross pay, bonuses, profit-sharing, additional employer contributions and benefits in kind paid during the year.*
*(6) Cost of benefits provided.*

Furthermore, members of the Board of Directors that are elected by the General Meeting receive attendance fees, which totaled 139,000 euro in 2007 (105,000 euro in 2006 and 21,000 euro in 2005).

## Note 23 – Post-balance sheet events.

**Pension plan reform**

In accordance with the "guidance document on the reform of special pension plans" issued by the French Ministry for Work, Labor Relations and Solidarity on October 10, 2007, the specific pension plan for the gas and electricity industries was amended by Decree 2008-69 of January 22, 2008. This decree makes it possible to bring the plan for these industries, further to a transition period, into line with the civil service system.

The amendments made will enter into force on July 1, 2008 and primarily concern:

- the extension of the contribution period,
- the implementation of a discount and premium mechanism,
- the conditions for increases in pensions.

During the transition phase, the contribution period required to benefit from a full-rate pension, set up until now at 150 quarters, will gradually rise to 160 quarters by December 1, 2012. It will then change in line with the civil service system.

The discount involves applying a financial penalty for employees who have not achieved the contribution period required to qualify for a full-rate pension. Conversely, the premium corresponds to an increase in pensions for staff who work beyond the age of 60 and for more than 160 quarters of insurance contributions, subject to certain conditions.

The revaluation of pensions and invalidity benefits will be calculated, as of January 1, 2009, based on the consumer price index excluding tobacco.

In connection with moves to overhaul the pension plan, and in line with the principles set out by the guidance document, a first agreement was signed on January 29, 2008 for the gas and electricity industry branch. It notably provides for a revaluation of the national basic salary over 2008, applicable for both current and retired staff, as well as an adjustment to the compensation scale and amendment to end-of-career benefits. Other negotiations are continuing and other agreements may be signed over the next few months, notably with regard to factoring in the specific features of the various professions.

Figures for the entire reform, including the support measures, as well as its impact on the accounts of Gaz de France are currently being determined.

**Share buyback**

At the combined general meeting on May 23, 2007, Gaz de France's shareholders authorized, in the 6th resolution, the Board of Directors to buy back Gaz de France shares representing up to 5% of its capital. The maximum buyback price set by the general meeting represents 50 euro per share excluding acquisition costs.

At the Board meeting on December 19, 2007, Gaz de France's Directors decided to implement a program to buy back Gaz de France shares with a view to their cancellation. The maximum number of shares for this program was set at 24,500,000, i.e. approximately 2.5% of the capital of Gaz de France, and could represent up to 1,225 million euro excluding acquisition costs. This program, launched in January 2008, will end on November 23, 2008 at the latest.

**Tax inspection**

Gaz de France is currently subject to a tax inspection covering 2004 and 2005. The inspection is underway and the audits are continuing.

The auditors wanted to interrupt the time limitation for 2004 by sending a letter in December 2007 with observations notably concerning business taxes (taxe professionnelle). However, Gaz de France believes that its position is justified, and no provisions have been recorded in this respect.

**Construction of an LNG terminal at Fos Cavaou**

Following an accident during pre-commissioning tests on the terminal on February 12, 2008, overseen by the Sofregaz – Saipem – Tecnimont consortium, the commissioning of the terminal that had been planned for the second half of 2008 was put back to the first half of 2009.

## Note 24 – Scope

| | | Percentage interest | | | |
|---|---|---|---|---|---|
| **Companies** | **Country** | **Method 2007** | **December 2007** | **December 2006** | **December 2005** |
| **GAZ DE FRANCE** | **France** | **Parent company** | **Parent company** | **Parent company** | **Parent company** |
| **Energy supply and services** | | | | | |
| **Exploration-Production** | | | | | |
| GDF Britain Group. | United Kingdom | FC | 100.00 | 100.00 | 100.00 |
| Efog [1] | United Kingdom | PC | 22.50 | 22.50 | 22.50 |
| GDF Production Nederland | Netherlands | FC | 100.00 | 100.00 | 100.00 |
| GDF Holding Noordze | Netherlands | FC | 100.00 | 100.00 | 100.00 |
| N.G.T. | Netherlands | PC | 38.57 | 38.57 | 38.57 |
| GDF Exploration Algeria | Netherlands | FC | 100.00 | 100.00 | 100.00 |
| GDF Exploration Egypt | Netherlands | FC | 100.00 | 100.00 | 100.00 |
| GDF Exploration Germany | Netherlands | FC | 100.00 | 100.00 | 100.00 |
| GDF Exploration Lybia | Netherlands | FC | 100.00 | 100.00 | 100.00 |
| GDF Exploration Mauritania | Netherlands | FC | 100.00 | 100.00 | - |
| GDF Exploration UK | Netherlands | FC | - | Liquidated | 100.00 |
| GDF Participation Nederland | Netherlands | FC | 100.00 | 100.00 | 100.00 |
| E.E.G. Group | Germany | FC | Merged | 100.00 | 100.00 |
| GDF Production Exploration Deutschland Group | Germany | FC | 100.00 | 100.00 | 100.00 |
| Gaz de France Norge | Norway | FC | 100.00 | 100.00 | 100.00 |
| Production North Sea Netherlands | United States | FC | 100.00 | 100.00 | 100.00 |
| Enerci | Ivory Coast | FC | 100.00 | - | - |
| GDF Investments Netherlands | United Kingdom | FC | - | Liquidated | 100.00 |
| Investments Gas Holdings | United Kingdom | FC | - | Liquidated | 100.00 |
| **Purchase and sale of energy** | | | | | |
| Messigaz | France | FC | 100.00 | 100.00 | 100.00 |
| GDF International Trading | France | FC | 100.00 | 100.00 | 100.00 |
| G.D.F. Armateur | France | FC | 100.00 | 100.00 | 100.00 |
| GDF Armateur 2 | France | FC | 100.00 | 100.00 | 100.00 |
| GDF Méthane Investissements 2 | France | FC | 100.00 | 100.00 | 100.00 |
| GDF Méthane Investissements 3 | France | FC | 100.00 | 100.00 | 100.00 |
| GazTransport et Technigaz | France | EC | 40.00 | 40.00 | 40.00 |
| Méthane Transport | France | PC | 50.00 | 50.00 | 50.00 |
| NYK Armateur | France | PC | 40.00 | 40.00 | 40.00 |
| Gaselys | France | PC | 51.00 | 51.00 | 51.00 |
| Gaselys UK | United Kingdom | PC | Sold | 51.00 | 51.00 |

| Companies | Country | Cons. meth. 2007 | Percentage interest December 2007 | December 2006 | December 2005 |
|---|---|---|---|---|---|
| GDF Energy Supply & Solutions Group | United Kingdom | FC | 100.00 | 100.00 | 100.00 |
| Med Ing & Gas | United Kingdom | PC | 50.00 | 50.00 | 50.00 |
| GDF Supply Trading & Marketing | Netherlands | FC | 100.00 | 100.00 | 100.00 |
| Etac | Netherlands | EC | - | - | 80,00 |
| AES Energia Cartagena | Spain | FC | 26.00 | 26.00 | - |
| GDF Comercializadora | Spain | FC | 100.00 | - | - |
| Maïa Eolis | France | PC | 49.00 | 49.00 | - |
| Cycofos | France | FC | 100.00 | 100.00 | - |
| DK6 | France | FC | 100.00 | 100.00 | 100.00 |
| Savelys Group (ex CGST-Save) | France | FC | 100.00 | 100.00 | 100.00 |
| Erelia | France | FC | 95.00 | - | - |
| Société Eolienne de la Haute Lys | France | FC | 100.00 | - | - |
| GDF Energie Renouvelable | France | FC | 100.00 | - | - |
| GDF Energy Deutschland | Germany | FC | 100.00 | 100.00 | 100.00 |
| GDF Investissements 24 | France | FC | 100.00 | 100.00 | 100.00 |
| GDF Investissements 29 | France | FC | 100.00 | 100.00 | 100.00 |
| Banque SOLFEA | France | PC | 54.72 | 54.72 | 54.72 |
| GNL Transport Investissements | France | FC | 100.00 | 100.00 | 100.00 |
| GNL Marine Investissements | France | FC | 100.00 | 100.00 | 100.00 |
| **Services** | | | | | |
| Cofathec Group | France | FC | 100.00 | 100.00 | 100.00 |
| Finergaz Group | France | FC | 100.00 | 100.00 | 100.00 |
| GNVert | France | FC | 100.00 | 100.00 | 100.00 |
| Thion Group | France | EC | 34.00 | 34.00 | 34.00 |
| **Infrastructures** | | | | | |
| **Transmission-Storage** | | | | | |
| GRTgaz | France | FC | 100.00 | 100.00 | 100.00 |
| Société du Terminal Méthanier de Fos Cavaou | France | FC | 69.70 | 69.70 | - |
| Megal GmbH | Germany | PC | 44.00 | 44.00 | 43.00 |
| Gaz de France Deutschland | Germany | FC | 100.00 | 100.00 | 100.00 |
| Gaz de France Deutschland Transport | Germany | FC | 100.00 | 100.00 | 100.00 |
| Segeo | Belgium | EC | 25.00 | 25.00 | 25.00 |
| Storage Limited | United Kingdom | FC | 100.00 | - | - |

| Companies | Country | Percentage interest | | | |
|---|---|---|---|---|---|
| | | Cons. meth. 2007 | December 2007 | December 2006 | December 2005 |
| **Distribution France** | | | | | |
| GrDF | France | FC | 100.00 | - | - |
| Gaz de Strasbourg | France | EC | 24.90 | 24.90 | 24.90 |
| **Transmission and Distribution International** | | | | | |
| Italcogim Group | Italy | EC | - | Transferred | 40.00 |
| Arcalgas Energie | Italy | EC | - | Transferred | 42.65 |
| Arcalgas Progetti | Italy | EC | - | Transferred | 44.17 |
| RETI Group | Italy | EC | 70.50 | 68.50 | - |
| VENDITE Group (2) | Italy | FC | 60.00 | 40.00 | - |
| Energie Investimenti (ex GDF Milano) (3) | Italy | FC | 60.00 | 40.00 | 100.00 |
| Gasag Group | Germany | PC | 31.57 | 31.57 | 31.57 |
| SPE Group (4) | Belgium | EC | 25.50 | 25.50 | 25.50 |
| Portgas | Portugal | EC | 12.67 | 12.67 | 12.67 |
| Egaz-Degaz | Hungary | FC | 99.74 | - | - |
| Degaz | Hungary | FC | Merged | 99.77 | 99.77 |
| Egaz | Hungary | FC | Merged | 99.42 | 99.42 |
| Egaz Degaz Réseau | Hungary | FC | 99.74 | - | - |
| Edenergia | Hungary | FC | 100.00 | - | - |
| Distrigaz Sud | Romania | FC | 40.80 | 40.80 | 51.00 |
| Pozagas | Slovakia | PC | 43.37 | 43.37 | 43.38 |
| Slovensky Plynarensky Priemysel Group (SPP) | Slovakia | PC | 24.50 | 24.50 | 24.50 |
| Nafta Group | Slovakia | PC | 13.50 | 13.50 | - |
| GDF Québec Group | Canada | FC | 100.00 | 100.00 | 100.00 |
| Noverco Group | Canada | EC | 17.56 | 17.56 | 17.56 |
| Energia Mayakan | Mexico | FC | 67.50 | 67.50 | 67.50 |
| Servicios Mayakan | Mexico | FC | 67.50 | 67.50 | 67.50 |
| Compania Gasoductos del Bajio | Mexico | FC | 100.00 | 100.00 | 100.00 |
| Gasoductos del Bajio | Mexico | FC | 100.00 | 100.00 | 100.00 |
| MI Comercializadora | Mexico | FC | 100.00 | 100.00 | 100.00 |
| MI Consultadores | Mexico | FC | 100.00 | 100.00 | 100.00 |
| MI Servicios | Mexico | FC | 100.00 | 100.00 | 100.00 |
| Transnatural | Mexico | PC | 50.00 | 50.00 | 50.00 |
| Consorcio Mexigaz | Mexico | FC | 100.00 | 100.00 | 100.00 |
| Natgasmex | Mexico | FC | 100.00 | 100.00 | 100.00 |

| | | Percentage interest | | | |
|---|---|---|---|---|---|
| **Companies** | **Country** | **Cons. meth. 2007** | **December 2007** | **December 2006** | **December 2005** |
| Tamauligas | Mexico | FC | 100.00 | 100.00 | 100.00 |
| Gaseba | Argentina | FC | - | Sold | 100.00 |
| Gaseba Uruguay | Uruguay | FC | - | Sold | 51.00 |
| Gas del Sur | France | FC | 100.00 | 100.00 | 100.00 |
| GDF Styrie Investissements | France | FC | 100.00 | 100.00 | 100.00 |
| Laurentides Investissements | France | FC | 100.00 | 100.00 | 100.00 |
| GDF Investissements 35 | France | FC | 100.00 | 100.00 | 100.00 |
| Verona Investissements | France | FC | 100.00 | 100.00 | 100.00 |
| Segebel | Belgium | PC | 50.00 | 50.00 | 50.00 |
| MI del Bajio Marketing | Netherlands | FC | 100.00 | 100.00 | 100.00 |
| Merida Pipeline | Netherlands | FC | 67.50 | 67.50 | 67.50 |
| Mayakan Pipeline | Netherlands | FC | 67.50 | 67.50 | 67.50 |
| Slovak Gas Holding | Netherlands | PC | 50.00 | 50.00 | 50.00 |
| Romania Gas Holding | Netherlands | FC | 80.00 | 80.00 | - |
| Merida Holding | Barbados | FC | 67.50 | 67.50 | 67.50 |
| GDFESS Marketer | United Kingdom | FC | 100.00 | 100.00 | 100.00 |
| **Other** | | | | | |
| Cogac | France | FC | 100.00 | 100.00 | 100.00 |
| GDF International | France | FC | 100.00 | 100.00 | 100.00 |
| S.F.I.G. | France | FC | 100.00 | 100.00 | 100.00 |
| Société Immobilière Assomption La Fontaine | France | FC | 100.00 | 100.00 | 100.00 |
| GDF Production Investissements | France | FC | - | Merged | 100.00 |
| Mexico Investissements | France | FC | - | Merged | 100.00 |
| GDF Production Investissements Netherlands | France | FC | - | Merged | 100.00 |
| GDF Berliner Investissements | France | FC | - | Merged | 100.00 |
| GDF Investissements 2 | France | FC | - | Merged | 100.00 |

FC: fully consolidated
PC: proportionately consolidated
EC: equity consolidated

Information regarding the consolidation method of the following subsidiaries

- Gaselys: joint control with Société Générale justifies the use of the proportionate consolidation method.
- SPP Group: joint control with the Slovakian State and the company Rhurgas justifies the use of the proportionate consolidation method.
- Noverco Group: the power to participate in financial and operational policy decisions 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 the shares are entitled to a voting right; in addition the power to participate in financial and operational policy decisions justifies the equity consolidation.

(1) Efog was consolidated for the first time using the proportionate method at February 1, 2007.

(2) Since October 1, 2007, the VENDITE Group has been 60% consolidated using the full consolidation method (previously consolidated on an equity basis for 40% from January 1 to June 30, 2007, and proportionately consolidated for 40% from July 1 to September 30, 2007).

(3) Since October 1, 2007, Energie Investimenti has been 60% consolidated using the full consolidation method (previously proportionately consolidated for 40%).

(4) Since December 1, 2007, the SPE Group has been consolidated on an equity basis for 25.50% (previously proportionately consolidated for 25.50%).

## Note 25 – Main exchange rates

The main exchange rates used outside of the eurozone are listed below

| | Dec 31, 2007 | | Dec 31, 2006 | | Dec 31, 2005 | |
|---|---|---|---|---|---|---|
| | Average rate | Closing rate | Average rate | Closing rate | Average rate | Closing rate |
| Currencies / EURO | | | | | | |
| USD U.S. dollars | 1.37 | 1.47 | 1.26 | 1.32 | 1.24 | 1.18 |
| CAD Canadian dollars | 1.47 | 1.44 | 1.42 | 1.53 | 1.51 | 1.37 |
| HUF Hungarian forint | 251.32 | 253.73 | 264.13 | 251.77 | 248.04 | 252.87 |
| CHF Swiss francs | 1.64 | 1.65 | 1.57 | 1.61 | 1.55 | 1.56 |
| SKK Slovak korunas | 33.78 | 33.58 | 37.21 | 34.43 | 38.59 | 37.88 |
| GBP English pound | 0.68 | 0.73 | 0.68 | 0.67 | 0.68 | 0.69 |
| MXN Mexican pesos | 14.98 | 16.07 | 13.70 | 14.23 | 13.57 | 12.54 |
| NOK Norwegian kroner | 8.02 | 7.96 | 8.05 | 8.24 | 8.01 | 7.98 |
| ROL Romanian lei | 3.34 | 3.61 | 3.52 | 3.38 | 3.62 | 3.68 |

### 20.1.1.2 Statutory auditors' report on the consolidated financial statements for the year ended December 31, 2007

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.

Gaz de France, S.A.
Statutory auditors' report on the consolidated financial statements
Fiscal year ended December 31, 2007

Dear 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, 2007.

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 that the consolidated financial statements are free from any material misstatements. 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 for closing the fiscal year, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We certify that the consolidated financial statements for the year represent fairly, in all material respects, the financial position of the company, its assets and liabilities, and the results of its operations for all the parties and entities included in the basis for consolidation, in accordance with IFRS, as adopted in the European Union.

**II – Basis for our opinions**

Pursuant to the provisions of Article L.823-9 of the Commercial Code relative to the forming of our opinions, we would like to draw your attention to the following points:

- We are assured that Note A-2-3 gives adequate information on the accounting treatment adopted by the Group for the areas that are not covered by specific provisions under IFRS as adopted by the European Union, such as acquisitions of minority interests, commitments to purchase minority interests and the recognition of greenhouse gas emission rights.

- Note A-2-23 presents the conditions for the analyses carried out by the Group, aimed at determining whether contracts to buy and sell electricity and natural gas have been negotiated in connection with its "normal" activities and must therefore be excluded from the scope of IAS 39. In connection with our review of the accounting principles, we are assured the conditions for analysis determined by the Group and ensured that Note A-2-23 provides adequate information.

- As described in Notes A-2-2 and A-2-12, your Group carried out systematic impairment tests for goodwill and intangible assets that have indefinite useful lives and impairment tests on tangible assets and intangible assets with 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 are assured the reasonable nature of the values recorded in the books.

- As indicated in Notes A-2-21 and C-5-16, your Group, in the course of its operations, provides for the replacement of gas distribution concession assets in France and for the 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 for the provisions considered by your group as reflecting the best estimate of the obligations under current regulatory requirements and we are assured of the reasonable nature of the resulting provisions.

- Note C-5-17 relating to retirement plans and other employee benefits describes the method for valuing and recognizing 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 are assured of the reasonable nature of the estimates.

- Note A-2-23 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, with 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 process for monitoring these models and the assessment of the risks relating to these instruments in the resulting valuations, and we are assured of the reasonable nature of the estimates.

- As indicated in Notes A-2-9 and C-3-11, the Group has applied IFRIC Interpretation 12 relative to the accounting treatment of service concession agreements. As part of our assessment of significant estimates performed to prepare the financial statements, we have examined the conditions retained by the Group to determine whether a concession agreement is included under the scope for IFRIC 12 and we are assured of the reasonable nature of estimates made in connection with this application.

The assessments made in this way are part 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, March 25, 2008

The Statutory Auditors

| **ERNST & YOUNG Audit** | | **MAZARS & GUERARD** | |
|---|---|---|---|
| Patrick Gounelle | Philippe Hontarrède | Michel Barbet-Massin | Marie-Laure Philippart |

### 20.1.2 Financial information for the year ended December 31, 2006

The Group's consolidated financial statements for the year ended December 31, 2006 drawn up under IFRS and the related statutory auditors' reports are presented on Pages 182 to 294 of the Company's 2006 reference document filed with the French securities regulator (Autorité des marchés financiers) on April 27, 2007 under number R.07-046 and are referred to in this reference document.

### 20.1.3 Financial information for the year ended December 31, 2005

The Group's consolidated financial statements for the year ended December 31, 2005 under IFRS and the related statutory auditors' reports are presented on Pages 182 to 301 of the Company's 2005 reference document filed with the French securities regulator (Autorité des marchés financiers) on May 5, 2006 under number R.06-050 and are referred to in this reference document.

## 20.2 Dividend policy

The dividends paid out by the Company over the last three financial years were as follows:

| | 2006 | 2005 | 2004 (7) |
|---|---|---|---|
| Dividend (millions of euro) | 1,082 | 669 | 418 |
| Number of shares (millions) | 984 | 984 | 903 |
| Dividend per share (euro) | 1.10 | 0.68 | 0.46 |

(7) *To enable a comparison with fiscal year 2005, the number of shares and the dividend per share have been restated in order to be consistent with the decisions of the Ordinary and Extraordinary Shareholders' Meeting on April 28, 2005, which approved the two-for-one stock split, raising the capital stock from 451.5 million to 903 million shares. 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 on March 29, 2005.*

The Board of Directors has proposed to submit a net dividend of 1.26 euro per Company share for fiscal year 2007, up 15% from 2006, for approval at the Ordinary and Extraordinary Shareholders' Meeting on May 19, 2008.

Over the coming years, Gaz de France will maintain a dynamic dividend policy, aiming to offer an attractive yield in relation to the sector. The dividend per share paid out in 2009 will be 10% to 15% higher than in 2008.

However, objectives do not under any circumstances constitute an undertaking by the Company and future dividends will be decided on each fiscal year in view of the Company's earnings, financial position and any other factor deemed relevant by the Board of Directors in preparing proposals for the Shareholders' Meeting.

## 20.3 Arbitrage and legal proceedings

Gaz de France is involved in certain judicial and arbitration proceedings in connection with the ordinary course of its business. To the best of the Company's knowledge, over the past 12 months, there are not any judicial or arbitration proceedings (including any proceedings that the issuer is aware of, that are on hold or that it is threatened by) that could have or have recently had any significant impacts on the financial position or profitability of the issuer and/or group.

The total amount claimed against Gaz de France and its subsidiaries in connection with ongoing legal or arbitration proceedings is less than 100 million euro.

There is a dispute on the LNG terminal that is under construction at Fos Cavaou, described in Section 6.1.3.2.1.2.2 – "Major Infrastructures". The Prefect of the Bouches du Rhône region, in an order dated December 15, 2003, concerning environmental protection facilities (ICPE), authorized Gaz de France to operate an LNG terminal at Fos Cavaou. The planning permit to build the terminal was issued the same day by a second prefectorial order. These two orders have been challenged. The operating order issued under the ICPE system is also subject to two petitions for cancellation with 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 ruling handed down on October 12, 2004 by the judge in chambers at the Administrative Court of Marseilles. The plaintiff association has appealed this decision to the Council of State, but its request has not been accepted. Two appeals have been filed with the Administrative Court of Marseilles to cancel the building order, one by the district of Fos-sur-Mer, the other by Syndicat d'agglomération nouvelle (SAN). No ruling has been given to date.

The two appeals to cancel the building permit issued under the prefectorial order dated December 15, 2003, filed with the Administrative Court of Marseilles, one by the district of Fos-sur-Mer, the other by Syndicat d'agglomération nouvelle (SAN), were dismissed by the Court on October 18, 2007.

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 unintentional manslaughter and injury is currently underway. On December 14, 2005 the investigating judge met with the families to keep them informed following the filing of the judicial experts' reports. According to the information published in the press, this report attributes the cause of the explosion to a "crack" in Gaz de France's distribution pipeline the day after the explosion. On March 21, 2006, the investigating judge questioned Gaz de France. The risk incurred by the corporate entity represents a fine for unintentional manslaughter of up to 225,000 euro in the event of carelessness or negligence, and up to 375,000 euro in the event of a deliberate breach of a legal or regulatory security requirement. This primary penalty may be combined with a further fine for involuntary injury, for which the amount varies according to the "ITT rate" (Temporary Work Disability) for the injured persons. The report on the additional measures requested by Gaz de France and ordered by the investigating judge has been filed and confirms the first experts' report. Preliminary investigation of the case is still in progress.

## 20.4 Absence of significant change in the commercial or financial situation

There have not been any significant changes in the Group's commercial or financial position since January 1, 2008.

# 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 is €983,871,988 composed of 983,871,988 shares, each with a par value of €1, all of which are fully subscribed and fully paid up, the number of shares remaining unchanged since January 1, 2007.

The shares of the Company have been listed for trading on Eurolist (segment 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: Change in trading volumes and high and low prices of Gaz de France shares**

| | Volume | Price (in euro) | |
|---|---|---|---|
| | | Low | High |
| **2008** | | | |
| February | 30 233,963 | 35,35 | 38,77 |
| January | 49,730,287 | 33,35 | 43,47 |
| **2007** | | | |
| December | 21,076,440 | 38 | 40,83 |
| November | 29,710,430 | 37,07 | 40,09 |
| October | 26,605,112 | 36,04 | 40,03 |
| September | 39,684,376 | 32,86 | 37,5 |
| August | 34,308,938 | 31,22 | 37,28 |
| July | 28,805,099 | 33,5 | 38,45 |
| June | 31,357,932 | 34,1 | 37,67 |
| May | 34,760,010 | 34,63 | 38 |
| April | 24,890,779 | 34,02 | 35,9 |
| March | 41,086,710 | 31,82 | 34,95 |
| 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 |

*Market 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 golden share and specify rights attached to such golden share.

Under this provision, Decree 2007-1790 of December 20, 2007 transformed one share owned by the State in the Company into a golden share, which allows the Minister of Economy, Industry and Labor to oppose by order any decision of the Company, or of any company assuming the rights and obligations of the Company and of its French subsidiaries, which is intended, directly or indirectly, to sell in any form, to transfer operations, to assign as surety or guarantee, or to change the intended use of the following assets:

- natural gas transmission pipelines located on the national territory;
- assets related to the distribution of natural gas on the national territory;
- underground natural gas storage located on the national territory;
- liquefied natural gas facilities located on the national territory;

if he believes such a decision to be contrary to the essential interests of France in the energy sector for the continuity and safety of the energy supply.

The decisions mentioned above are deemed authorized if the Minister of Economy, Industry and Labor has not opposed them within one month from the date of declaration, as recorded by a receipt issued by the administration. This period may be extended for a period of fifteen days by order of the Minister of Economy, Industry and Labor. Before the expiration of the aforementioned one-month period, the Minister of Economy, Industry and Labor may waive the right to oppose. If there is opposition, the Minister of Economy, Industry and Labor will communicate the reasons for his decision to the company in question. The decision of the Minister of Economy, Industry and Labor may be appealed.

Pursuant to Decree 93-1296 of December 13, 1993, any transaction executed in violation of Decree 2007-1790 of December 20, 2007 is automatically null and void.

## 21.1.2 Non-equity securities

Gaz de France issued non-voting shares in 1985 and 1986 in two tranches, A and B. Only the A shares are still outstanding, as the tranche B shares were repaid in full in 2000. The non-voting tranche A shares, with a unit nominal value of 762.25 euro, including a remuneration composed of two segments, a fixed portion and the variable portion. The fixed portion is calculated by applying a percentage (63%) of the French average bond rate 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, 2007 there were 629,887 non-voting shares of tranche A outstanding, representing a nominal outstanding amount of 480,131,365.75 euro. Their total market value, based on the closing price on December 28, 2007 (875 euro), was 551,151,125 euro. Since August 1992, these non-voting shares may be repaid at any time, in whole or in part, at Gaz de France's option at a price equal to 130% of their nominal value.

**Table: Unit remuneration on the Gaz de France non-voting share paid over the last three years**

| *(in euro)* | 2005 | 2006 | 2007 |
|---|---|---|---|
| Fixed remuneration | 18.54120 | 18.70447 | 21.03353 |
| Variable remuneration | 34.79366 | 37.13682 | 41.07155 |
| Theoretical total remuneration | 53.33486 | 55.84129 | 62.10508 |
| Minimum remuneration | 25.01590 | 25.23619 | 28.37857 |
| Maximum remuneration | 38.25961 | 38.59653 | 43.40252 |
| Gross remuneration per share | 38.25961 | 38.59653 | 43.40252 |

Gaz de France is governed by the provisions of Articles R. 228-49 and of the Commercial code applicable to issuers of non-voting shares. Under Article R 228-67 of the commercial code, it must insert the notice of a shareholders' meeting for the holders of non-voting shares in the BALO, unless all the securities issued are in registered form.

**Table: Trading volume and highs and lows of the Gaz de France non-voting shares**

| | Volume | Price (in euro) | |
|---|---|---|---|
| | | High | Low |
| **2008** | | | |
| March | 1,055 | 855 | 819 |
| February | 947 | 864 | 849 |
| January | 901 | 883 | 850 |
| **2007** | | | |
| December | 493 | 889 | 871 |
| November | 858 | 900 | 881 |
| October | 723 | 920 | 883 |
| September | 689 | 922 | 907 |
| August | 1,035 | 921 | 906 |
| July | 656 | 924 | 906 |
| June | 420 | 924 | 906 |
| May | 525 | 915 | 905 |
| April | 1,159 | 915 | 905 |
| March | 185 | 915 | 908 |
| February | 795 | 910 | 906 |
| January | 631 | 912 | 906 |
| **2006** | | | |
| December | 2,887 | 912 | 905 |
| November | 961 | 912 | 908 |
| October | 1,167 | 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 |

*Market data: Reuters*

As part of a program to issue debt securities in the form of Euro Medium Term Notes ("**EMTN**"), Gaz de France completed two fixed-interest bond issues (Series 1 and 2) on February 19, 2003 with nominal values equal to 1.25 billion euro and 750 million euro, respectively. The total outstanding debt of Gaz de France was 2,004 billion euro as of 31 December 31, 2007.

**Table: Principal features of the bonds issued by Gaz de France**

| *Issue* | Currency | Coupon rate | Maturity | Amount issued (in currencies) (in millions) | Listing market | ISIN Code |
|---|---|---|---|---|---|---|
| EMTN | Euro | 4.75% | February 19, 2013 | 1,250 | Euronext Paris Bourse de Luxembourg | FR0000472326 |
| EMTN | Euro | 5.125% | February 19, 2018 | 750 | Euronext Paris Bourse de Luxembourg | FR0000472334 |
| Private placements | Japanese Yen | 0.658% | March 25, 2009 | 3,000 | None | FR0010069534 |

For more information on the bonds issued by Gaz de France see section 20.1.1.1 – "Consolidated financial statements as of December 31, 2007 under IFRS/ Notes / Note 18.5.2".

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 stipulated by Decree 92-137 of February 13, 1992 and by the implementing order of February 13, 1992. These texts require the issuers of negotiable debt securities to create financial presentation documentation covering their business, financial position and their issue 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

On the date of registration of this document, excluding the liquidity contract, the Company held 18,551,256 shares of the Company's stock, representing 1.89% of its share capital. None of the Company's stock is held by its subsidiaries.

**Authorization granted by the Ordinary Shareholders' Meeting of May 23, 2007**

The Shareholders' Meeting held on May 23, 2007 adopted a resolution authorizing the Board of Directors to purchase the Company's own shares in order to:

- allot or sell them to employees and corporate officers 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 Labor Code; or
- allot them as bonus shares to the employees and corporate officers 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 Commercial Code; it is specified that said shares may be invested in an employee savings plan according to the provisions of Article L. 443-6 of the Labor Code; or
- retain or subsequently remit shares (in exchange, payment or otherwise) in the context of acquisitions up to a limit of 5% of the number of shares representing the Company share capital; or
- remit shares on the occasion of the exercise of rights attached to securities giving rights to the share capital through redemption, conversion, exchange, presentation of a warrant or in any other manner; or
- cancel all or some of the shares thus purchased, under the conditions set out in Article L. 225-209 paragraph 2 of the Commercial Code, subject to authorization to reduce the Company's share capital granted by the shareholders' meeting[1]; or
- ensure the liquidity and stimulate the market for the Company's share through an investment service provider under a liquidity contract; or
- implement any market practice accepted or which may be accepted by the market authorities.

(1) *The Combined general Shareholders' Meeting of 23 May 2007, in its fourth resolution, authorized the board of directors for a period of 26 month to reduce the Company's share capital by cancelling treasury shares (the maximum number of shares that may be cancelled by the Company under this authorization for a period of 24 months, is 10% of the share capital)*

This program is also intended to enable the Company to operate for any other purpose authorized or which may be authorized by law or the regulations in force. In such case the Company shall inform its shareholders through press releases.

The number of shares repurchased by the Company may be in an amount such that:

- the number of shares purchased by the Company during the share buyback program does not exceed 5% of the shares constituting the Company's share capital at any time; this percentage applies to share capital adjusted for transactions that impact the share capital after the Shareholders' Meeting on May 23, 2007, 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 maximum share repurchase price is 50 euro, excluding acquisition costs.

The total amount that may be allocated to the share buyback program may not exceed 2,459,679,950 euro corresponding to a maximum number of 49,193,599 shares acquired at a price of 50 euro.

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 as of May 23, 2007, nullifies the delegation given by the Shareholders' Meeting of May 24, 2006.

**Acquisition of treasury shares under a liquidity contract**

Since May 2, 2006, for a term of one-year which may be tacitly renewed, Gaz de France has awarded to Rothschild & Cie Banque the performance of a liquidity contract in compliance with the Ethics Charter established by the French Association of Investment Companies and approved by the Autorité des marchés financiers in a decision of March 22, 2005. Under this charter, the investment service provider decides independently, without influence from the issuer, the times and volumes for transactions. To implement this contract, 55 million euro has been allocated to the liquidity account.

In 2007, the number of shares purchased was equal to the number of shares sold, and was 8,790,235. The amount of the purchases was 313,368,273 euro and the amount of the sales equaled 315,504,609 euro, thus generating a gain of 2,136,336 euro. Liquidities not used in the purchase of shares were invested by Rothschild & Cie Banque in a money market SICAV and have generated capital gains totaling 1,805,449 euro. At December 31, 2007, the resources available in the liquidity account amounted to 58,164,930 euro.

**Table: Change in resources held in the liquidity account**

| | Gaz de France shares | Cash |
|---|---|---|
| Dec 31, 2007 | 0 | 58,164,930 euro |
| June 30, 2007 | 0 | 57,290,643 euro |
| Dec 31, 2006 | 0 | 57,080,402 euro |

**New authorizations submitted for shareholder approval at the combined general shareholders' meeting of May 19, 2008**

During the combined general shareholders' meeting to be held on May 19, 2008, it will be proposed that the shareholders grant the authority described below. The approval of this resolution will render ineffective the delegation for the same purpose granted by the shareholders' meeting of May 23, 2007.

*Authorization to be given to the board of directors to trade in the Company's shares*

The shareholders' meeting, after a reading of the report from the board of directors, authorizes the board, with powers of sub delegation, in accordance with the provisions of Articles L. 225-209 et seq. of the Commercial Code and Regulation 2273/2003 of the European Commission dated December 22, 2003, to purchase the Company's shares, in order to:

- allot or sell them to the employees and corporate officers of the Company and/or of companies that are or will be associated with the Company under the terms and conditions provided by the applicable regulations, in particular within any employee savings plan covered by Articles L. 443-1 et seq. of the Labor Code; or
- allot them as bonus shares to the employees and authorized agents of the Company and/or of companies that are or will be associated with the Company pursuant to the provisions of Articles L. 225-197-1 et seq. of the Commercial Code; it is specified that the share may be allocated to an employee savings plan pursuant to the provisions of Article L. 443-6 of the Labor Code; or

- retain or subsequently remit shares (in exchange, payment or otherwise) in the context of acquisitions up to a limit of 5% of the number of shares comprising the Company share capital; or

- remit shares on the exercise of rights attached to securities giving rights to the share capital through redemption conversion, exchange or presentation of a warrant or in any other manner; or

- cancel all or some of the shares thus purchased, under the conditions set out in Article L. 225-209 paragraph 2 of the Commercial Code and subject to authorization to reduce the Company's share capital granted by the shareholders' meeting; or

- ensure the liquidity of and stimulate the market for the Company's stock through an investment service provider under a liquidity contract; or

- implement 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 buyback program does not exceed 5% of the shares comprising the equity of the Company at any time; this percentage shall apply to capital adjusted on the basis of operations that may affect the capital 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 55 euro excluding transaction costs.

Pursuant to Article R. 225-151 of the Commercial Code, the meeting establishes the global maximum amount allocated to the share buyback program authorized above at 2,705,647,945 euro, corresponding to a maximum number of 49,193,599 shares acquired on the basis of the maximum unit price of 55 euro authorized above.

This authorization is granted for a period of 18 months from the date of this shareholders' meeting and, from the same date, cancels the unused portion of the delegation to trade in the Company's shares granted to the board of directors by the ordinary shareholders' meeting of May 23, 2007 in its 6th resolution.

The shareholders' meeting delegates to the board of directors, with the option of sub-delegation subject to applicable regulations, in the event of change in the nominal value of the share, to increase the capital by capitalizing reserves, allotting bonus shares, a stock 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 stipulated above in order to take into account of the impact of such operations on the value of the share.

The shareholders' meeting grants all powers to the board of directors, with the option of sub-delegation subject to applicable regulations, to decide and implement this authorization, to define the terms, if necessary and to establish the conditions, with the option to delegate, subject to applicable regulations, the execution of the buyback program, and in particular to place any stock exchange order, enter into any agreement in order to maintain the registers of stock sales and purchases, to make all necessary declarations in particular to the Autorité des marchés financiers or any other authority that may be substituted for the AMF, and to complete 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 Commercial Code, it will receive a special report each year on the execution of the share purchase transactions it has authorized.

The information concerning the stock buyback programs and implementation appears in the special report on the stock buyback program to the combined general shareholders' meeting of May 19, 2008, published on the Company's website (www.gazdefrance.com, page Finance / Documentation / Regulated Information), pursuant to Article 241-3-II of the AMF General Regulations.

### 21.1.4 Other securities giving rights to share capital

As of the date of registration of this Document de référence, the shares described in section 21.1.1 – "Share capital" above are the only securities giving rights to the capital of the Company.

A portion of these securities may result in an allotment of bonus shares under the conditions described in section 21.1.7.2 – "Shares granting the right to bonus shares."

## 21.1.5 Capital subscribed but not paid-up, capital increases

As of the date of filing of this document, there is no capital subscribed but not fully paid-up, nor any acquisition rights or obligations attached to the subscribed share capital, nor any commitment to carry out a capital increase.

The Company's shareholders granted to the Board of Directors at the Combined General Shareholders' Meeting held on May 23, 2007 the authorizations described below

| Type of delegation | Duration of authorization and expiration | Maximum nominal amount per authorization (in millions of euro or percentage of capital) | Use of the authorization (in millions of euro or percentage of capital) |
|---|---|---|---|
| **Capital increases with preemptive subscription right**<br>all securities combined | 26 months<br>July 23, 2009 | 150 (2) (3) (4)<br>this maximum global amount is charged against the maximum nominal amount of 150 million euro | None. |
| **Capital increase without preemptive right**<br>all securities combined | 26 months<br>July 23, 2009 | 150 (2) (3) (4)<br>this maximum total amount is charged against the maximum nominal amount of 150 million euro | None. |
| **Capital increase in consideration for contributions in kind** | 26 months<br>July 23, 2009 | 10% of the share capital at the time of the issue (3)<br>this maximum global amount is charged against the maximum nominal amount of 150 million euro | None. |
| **Capital increases in consideration for securities tended in a tender offer** | 26 months<br>July 23, 2009 | 10% of the share capital at the time of the issue (3)<br>this maximum global amount is charged against the maximum nominal amount of 150 million euro | None. |
| **Capital increases by capitalization of premiums, reserves, profits or other** | 26 months<br>July 23, 2009 | 150 (3)<br>this maximum global amount is charged against the maximum nominal amount of 150 million euro | None. |
| **Capital increases reserved for employees** participating in savings plans | 26 months<br>July 23, 2009 | 40 (3)<br>this maximum global amount is charged against the maximum nominal amount of 150 million euro | None. |
| **Bonus share allotment to employees** | 12 months<br>May 23, 2008 | 0.2% of the capital<br>(this maximum percentage is not charged against the total nominal amount of 150 million euro) | 0.16% of capital |

(2) *The combined general shareholders' meeting of May 23, 2007 delegated to the Board of Directors the authority to increase the number of securities to be issued in case of a capital increase with or without preemptive subscription rights at the same price as offered for the initial issue, within the time frames and limits provided for by the applicable regulations.*

(3) *2) The combined general shareholders' meeting of May 23, 2007 decided that the authorizations given to the board of directors to increase the capital to be charged against the total maximum nominal amount of €150 million must be used up to the limit of a number of shares so that, on termination of the issue in question, the State should hold more than one-third of the capital of the Company and continue to hold more than one-third of the capital of the Company, based on all securities issued giving rights to the capital of the Company and any options granted.*

(4) *The combined general shareholders' meeting of May 23, 2007 set the ceiling for issues of debt securities at 5 billion euro.*

At the combined general shareholders' meeting to be held on May 19, 2008, it will be proposed that the shareholders approve the authorizations set out below. The delegation given by the meeting of May 23, 2007 for the same purpose will continue in effect until it expires.

| Relevant securities | Duration of authorization and expiration | Maximum nominal amount of capital increases millions of euro |
|---|---|---|
| Bonus allotment of existing shares to employees | 8 months<br>Jan 19, 2009 | 0.2% of the capital<br>(this maximum percentage is not charged against the total maximum nominal amount of 150 million euro) |

### 21.1.6 Share capital subject to options

As of the date of registration of this *document de référence*, there is no option or agreement concerning the Company's share capital.

The equity options of certain companies of the Group or agreements relating to options on the share capital of certain companies of the Group are described in section 6.1.3.1.2.2.1.1.5 – "Short-term markets:" Gaselys" and section 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 share capital |
|---|---|---|
| Nov 17, 2004 | Decree 2004-1223 of November 17, 2004 | 903,000,000 euro |
| April 18, 2005 | Two for one stock split | 903,000,000 euro |
| July 7, 2005 | Opening of the share capital – Increase in the share capital by 70,323,469 euro | 973 ,323,469 euro |
| July 8, 2005 | Exercise of the Over-allotment Option – Capital increase of 10,548,519 euro | 983,871,988 euro |

#### 21.1.7.1 Public offering of the Company

The offering of the Company's capital was in the form of:

- A Guaranteed Global Placement with institutional investors inside and outside France, for a price of 23.40 euro per share;
- an Open Price Offering to individual investors in France, for a price of 23.20 euro per share; and
- an Employee Offering, for a price of 18.56 euro per share for the plans with a discount and 23.20 euro for the plans without discount.

The initial public offering was conducted so that 50% was offered in the Open Price Offering and 50 % was offered in the Guaranteed Global Placement (excluding the over-allotment 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 offering by the French State of 90,980,990 shares and by Gaz de France of 80,871,988 shares (after the exercise of the over-allotment option on July 8, 2005). In addition the French State offered 30,326,995 shares (after the exercise of the over allotment 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 sections 18.2 – "Voting rights" above and 21.2.3 – "Rights, privileges and restrictions attached to the shares" below.

#### 21.1.7.2 Shares giving the right to the allotment of bonus shares

The bonus shares described in sections 21.1.7.2.1 and 21.1.7.2.2 are transferred by the State to the beneficiaries and do not result in the issuance of new shares.

##### 21.1.7.2.1 Allotment of bonus shares in the Open Price Offering

Individuals with French nationality or who 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 Open Price Offering, either through reservations or through "A" Orders (priority orders) have been entitled to

- the allotment of one bonus share for every 10 shares acquired and held for at least 18 months. Whatever the initial amount, the right to the allotment of bonus shares was calculated within the limits of an initial purchase for a value not to exceed 4,575 euro. 3,847,797 bonus shares were allotted on January 15, 2007; and
- the free custodial services from the custodial institutions for a period of 18 months from the date of settlement-delivery 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 approved by the AMF on June 22, 2005.

#### 21.1.7.2.2 Allotment of bonus shares in 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 bonus shares in the following proportions.

- "Gaz Dispo" Plan: one bonus share for every three shares acquired and held continually for one year, up to a total value of bonus shares equal to 1,258 euro per subscriber under all plans together. 177,860 bonus shares were allotted in this framework on September 8, 2006;
- "Gaz Plus" Plan: one bonus share for every two shares acquired and held continually for three years, up to a total value of bonus shares equal to 700 euro and beyond that amount, one bonus share for every four shares acquired, up to a total value of bonus shares equal to 1,258 euro under all plans together;
- "Gaz Abond" Plans (reserved for current and retired employees of the companies participating in the Group Savings Plan ("PEG") (excluding foreign branches), provided that they are eligible for the PEG and to the employees of the foreign subsidiaries and branches participating in the International Group Savings Plan ("PEGI") provided that they are eligible for the PEGI): one bonus share for one share acquired and retained continually for three years, up to a total value of bonus shares of 700 euro and, above that, one bonus share for four shares acquired up to a limit of a total value of bonus shares equal to 1,258 euro all plans combined;
- "Gaz Transfert" Plan (reserved for Beneficiaries eligible for the PEG and who had retained in the old EDF-Gaz de France plan assets still available on the opening date of the Employee Offering): one bonus share for every four shares acquired and held continually for three years, up to a total value of bonus shares equal to 700 euro and beyond that amount, one bonus share for every six shares acquired, up to a total value of bonus shares equal to 1,258 euro under all plans together

**Table: Proportions of bonus shares granted to Beneficiaries who have acquired Gaz de France shares in the context of the Employee Offering**

| | "Gaz Dispo" | "Gaz Plus" | "Gaz Abond" | "Gaz Transfert" |
|---|---|---|---|---|
| Holding requirement | Continuous ownership of the shares for 1 year | Continuous ownership of the shares for three years | | |
| Bonus share rate | 1 bonus share for 3 shares purchased | One bonus share for every two shares acquired up to 700 euro of bonus | One bonus share for every share acquired up to 700 euro of bonus shares | One bonus share for every four shares acquired up to 700 euro of bonus shares |
| | | One bonus share for every four shares acquired, beyond that | One bonus share for every four shares acquired, beyond that | One bonus share for every six shares acquired, beyond that |
| | **Up to a maximum of 1,258 bonus shares per subscriber under all formulas** | | | |

The main characteristics of the Employee Offering are described in section 2.3.4 of the Offering Circular, which was approved by the AMF on June 22, 2005, and describes intransferability and unavailability conditions of the shares acquired or the conditions to holding them and the related custodial fees, as well as all the advantages granted to the Beneficiaries in the Employee Offering (especially the discount and employer contribution).

### 21.1.7.3 Company shareholders

The table below summarizes changes in the Company's share capital over the last three years.

| | Shareholders Percentage of the share capital | | | |
|---|---|---|---|---|
| *Shareholders* | **March 31, 2008** | **Dec 31, 2007** | **Dec 31, 2006** | **Dec 31, 2005** |
| State | 79.8 % | 79.8 %(*) | 80.2 % | 80.2 % |
| Public | 16.8 % | 18.1 % | 17.5 % | 17.5 % |
| Employees | 2 % | 2 % | 2.3 % | 2.3 % |
| Treasury shares | 1.4 % | 0.1 % | - | - |

**(*)** *Following the allotment of bonus shares by the State as part of the Open Price Offering, the State's holding has changed from 80.2% to 79.8%.*

## 21.2 Incorporating documents and bylaws

### 21.2.1 Corporate purpose

Gaz de France's corporate purpose appears in Article 2 of the bylaws.

The Company's corporate purpose, in France and abroad, is to:

(a) search for, produce, import, export, purchase, transport, store, distribute, furnish and market fuel gas as well as any other energy source;

(b) engage in the trading of gas as well as any other energy source;

(c) furnish services related to the previously mentioned purposes;

(d) ensure the performance of the public service missions entrusted to 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) participate directly or indirectly in any transactions or activities of any kind connected to the previously mentioned purposes, 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 rights 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 personal property, real estate or business; rent, install, or operate any establishment, business, factory, or 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 purposes; and

(h) more generally, carry out transactions and business activities of all types, whether industrial, commercial, financial or relating to personal 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 Bylaw provisions governing the administrative and management bodies – Internal Regulations of the Board of Directors

See Chapter 16 – "Operation of the administrative and management bodies."

### 21.2.3 Rights, privileges and restrictions attached to the shares

The Company's shares all belong to the same class. The bylaws 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 provides otherwise, 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 bylaws that grant double voting rights or multiple votes per share for Gaz de France shareholders.

Under the terms of Article 10 of the Company bylaws, each share gives the right, in the ownership of the corporate assets and the distribution of profits or liquidation dividend, to a share proportional to the percentage of capital it represents. Dividends not claimed will inure to the State after five years from the payment date.

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 to 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 bylaws and all decisions of the Company's 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 an allotment 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 an insufficient number of shares may exercise such right provided that they combine or, as the case may be, buy or sell the necessary shares or rights.

Under the terms of Article 12 of the bylaws, 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 usufructuary, in the case of the Ordinary General Shareholders' Meetings and to the bare owner, 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 bylaws can only be changed by the Extraordinary General Shareholders' Meetings. See also section 21.1 – "Share capital".

All increases in the commitments of the shareholders must be unanimously approved by all shareholders.

## 21.2.5 Shareholders' meetings

### 21.2.5.1 Notice of meeting

Ordinary or Extraordinary Shareholders' Meetings, and if applicable Special Shareholders' Meetings are called, convened and conducted under the terms and 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.

### 21.2.5.2 Conditions for participation

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 Commercial Code, 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 R. 225-85 of the Commercial Code.

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 capacity 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 Commercial Code (securities holders that do not live in French territory within the meaning of Article 102 of the Civil Code) may be represented, under the conditions provided by law, by a registered nominee.

### 21.2.5.3 Government Commissioner

Law No. 2006-1537 of December 7, 2006 concerning the energy sector, amending law 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 shareholders' meeting.

### 21.2.6 Clauses restricting a change in control of the Company

In accordance with French Law 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[5].

Insofar as the Company currently belongs to the French public sector, the transfer of control to the private sector is subject to the application of the procedures stipulated by the Law 86-912 of August 6, 1986 concerning the conditions for privatization, as amended by Law 93-923 of July 19, 1993. Therefore, the transfer of the Company to the private sector was previously authorized by Decree 2007-1784 of December 19, 2007.

### 21.2.7 Crossing certain statutory share ownership thresholds

Article 9.3 of the Company's bylaws provide 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 or securities granting future access to this amount of the capital of the company, must notify the Company 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 granting future 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 or securities giving future access to the capital of the Company. 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 bylaw 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, 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 bylaws of the Company, the share capital may be increased, reduced or amortized under the conditions defined by law.

(5) *Decision 2006-543 DC of November 30, 2006 from the Constitutional Council specifies that the effective transfer of Gaz de France to the private sector may take effect only on or after 1 July, 2007.*

# 22 SIGNIFICANT CONTRACTS



This section presents a summary of the significant 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 the filing of this *document de référence (registration document)*.

## 22.1 Contracts concluded in 2007

**Acquisition of the company Eoliennes de la Haute Lys**

On December 11, 2007, Gaz de France finalized the acquisition of 100% of the company Eoliennes de la Haute-Lys from Séchilienne-Sidec and Sofinerg, which held 40% and 60% of it, respectively. Eoliennes de la Haute-Lys operates a wind farm in Pas-de-Calais with an installed capacity of 37.5 MW, which was put into service at the end of 2004.

**Renewal of supply contracts concluded with Sonatrach**

On December 4, 2007, Sonatrach and Gaz de France signed an agreement providing for the extension of LNG supply contracts until December 31, 2019. These contracts concern 10 billion cubic meters, representing approximately 15% of Gaz de France's procurement, worth around 2.5 billion euro. This agreement confirms the intent of Gaz de France and Sonatrach to develop their LNG trading activities on other markets; it also confirms, in the domain of exploration and production, the role of operator which Gaz de France will play in the exploitation of the Touat field.

**Conclusion of a contract for acquisition of a 45% stake in the Alam El Shawish West license in Egypt**

On November 5, 2007, Gaz de France signed a contract for the acquisition of a 45% stake in the Alam El Shawish West license in Egypt from Vegas Oil & Gas. This license, which covers an area of 1,075 $km^2$, is located in the Abu Gharadig Basin (western desert), approximately 250 km south-west of Alexandria. This acquisition, which was subject to approval by the Egyptian authorities, was completed on March 5, 2008, with an effective date of July 1, 2007.

**Signature of a natural gas supply contract with GVM**

In October 2007, Gaz de France and the Swiss company Gasverbund Mittelland AG (GVM) signed a 10-year supply contract. Under the terms of this agreement, Gaz de France will deliver 2 TWh of natural gas a year to GVM between 2010 and 2020, representing a total of around 200 million cubic meters. GVM, with a 33.5% market share, is the biggest of the four regional gas companies in Switzerland.

**Acquisition of 95% of the Erelia group**

On September 19, 2007, Gaz de France signed a contract for the acquisition of 95% of the Erelia group, which develops and operates wind farms in France. This operation was finalized on November 5, 2007.

**Acquisition of 59% of Depomures**

On October 3, 2007, Gaz de France finalized the acquisition of a 59% stake in Depomures, the second-largest natural gas storage operator in Romania, which manages the Tirgu Mures site in the north of the country. This storage facility, located in a depleted natural gas field, has a capacity of 300 million cubic meters of natural gas. Gaz de France acquired this equity interest from the Azomures (50%) and Infochem (9%) groups; the rest of the capital is held by Romgaz (40%), the national gas company, and minority shareholders (1%). Already owning a 65% stake in Amgaz, the third-largest Romanian storage operator with a capacity of 40 million cubic meters of natural gas, this new transaction makes Gaz de France the largest private investor in the Romanian storage market.

**Acquisition of 20% of Energie Investimenti from Camfin**

In September 2007, Gaz de France exercised its option to acquire from Camfin a further 20% stake in Energie Investimenti for 40 million euro. Following this transaction, Gaz de France owns 60% of Energie Investimenti, while Camfin holds the remaining 40%. Energie Investimenti is a joint venture operating in the natural gas sector in Italy. It has a portfolio comprising 850,000 residential and small business customers, but also sells gas to industrial consumers under the Gaz de France energy label. With sales of more than 3 billion cubic meters of natural gas a year, Energie Investimenti is one of the top-ranking operators in Italy.

**Conclusion of a contract for the development of a major storage site at Stublach (United Kingdom)**

In August 2007, Gaz de France signed an agreement with INEOS Enterprises for the development of a proposed salt cavern storage facility at Stublach, in the north-west of England. The total capacity could be as high as 400 million cubic meters. The Group will operate the site under a 30-year lease running until 2037. The first caverns will be commissioned in 2013. INEOS Enterprises will provide solution mining services for the creation of the caverns. This storage facility will be one of the largest in the UK, and will enhance the security of supply to the British market. The total development investment budget is estimated at around 350 million pounds (approx. 500 million euro).

**Signature of a supply contract with Norsk Hydro**

On July 5, 2007, Gaz de France signed a new agreement with the Norwegian company Norsk Hydro for the delivery of 800 million cubic meters of natural gas per year to the UK over a four-year period. Norsk Hydro is currently Gaz de France's second-largest supplier of Norwegian gas, which represents 21% of the Group's supply portfolio. This agreement strengthens Gaz de France's development strategy in the UK, where its subsidiary Gaz de France ESS holds a significant position in energy trading, with a 15% market share in natural gas sales to the industrial and commercial sectors.

**Acquisition by GDF Britain of interests in ten offshore licenses in the North Sea**

In March 2007, GDF Britain purchased equity interests in ten offshore licenses from CGGVeritas, seven in the Central North Sea area and three in the West of Shetlands area of the UK continental shelf. The transferred licenses include a 15% stake in the Ockley discovery in block 30/01d and a 30% stake in the Milburn discovery in block 22/22c. The other assets acquired include a 10% interest in the Handcross prospect in block 204/19c in the West of Shetlands area, as well as two other in this area, a 100% interest in three 23rd Round licenses, and one wholly-owned license awarded in the 24th Round.

**Conclusion of a long-term contract for access to the Sabine Pass terminal (USA)**

In April 2007, Gaz de France signed agreements with Chenière Energy Inc entitling Gaz de France to deliver 12 shipments of LNG per year over a period of 15 years at the Sabine Pass LNG-receiving terminal, which should be put into service at the end of 2008. Chenière, for its part, will have the option of delivering the same quantities of LNG at the Isle of Grain terminal in the UK, where Gaz de France holds import capacity. These agreements allow Gaz de France to strengthen its position in the USA, develop its capacity for arbitrage between the different markets, and bolster its position as world leader in the domain of LNG.

**Acquisition by Cofathec Servizi of seven cogeneration plants in Italy**

In December 2007, Cofathec Servizi signed an agreement with Edison SpA to acquire seven cogeneration plants in Italy. Thanks to this agreement, Cofathec becomes one of the top ten electricity producers in Italy and the leader in energy services. The agreement has paved the way for the effective acquisting in April 2008 of 6 cogeneration, plants, one of the shareholding having exercised its preemption rights as to one of the plants in this agreement.

## 22.2 Contracts concluded in 2006

**Framework agreement between Gaz de France and Electrabel**

On January 10, 2006, Gaz de France and Suez, through its subsidiary Electrabel, signed an industrial partnership agreement aimed at developing and diversifying their respective electricity production and supply capacities.

Electrabel and Gaz de France have agreed to develop in coordination two combined cycle gas turbine projects of approximately 425 MWel each, which they had previously planned to undertake separately in the Fos-sur-Mer zone:

- for Gaz de France, at the Sollac Méditerranée site (planned startup in 2009);
- for Electrabel, on a property leased to Port Autonome de Marseille (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, this framework agreement 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 natural gas supply contracts, currently representing a total of approximately 12 billion cubic meters per year, until 2030. From the end of 2010, Gaz de France will receive additional volumes of up to 2.5 billion cubic meters per year; these volumes will be carried through 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 cubic meters of Algerian natural gas per year for a period of twenty years, after the commissioning of the Medgaz pipeline, which is 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, particularly in Spain.

The natural gas will be carried 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 12% stake.

**Creation of Maïa Eolis**

On September 1, 2006, Gaz de France and Maïa Sonnier signed a framework agreement on 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, worth around 112 million euro 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 also developing a number of projects in France with a capacity of up to 550 MWel. This new energies division was contributed to Maïa Eolis at the time of its creation.

Maïa Eolis has been operational since the end of 2006. It is responsible for the development, construction project management and operation of wind farms.

**Sale of interest in KGM**

In July 2006, Gaz de France sold its 17.5% stake in the Kazakh joint venture KazGerMunai (KGM) to KasMunaiGas for 350 million dollars.

# 23 THIRD PARTY INFORMATION, EXPERT STATEMENTS AND DECLARATIONS OF INTEREST

## 23.1 Statements or reports

Not applicable.

## 23.2 Third party information

Not applicable.

# 24 DOCUMENTS AVAILABLE TO THE PUBLIC

During the period of validity of this *registration document*, the following documents (or copies thereof) 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, of which any part is included or referred to in this registration document; and

(c) the historical financial information of the Company and its subsidiaries for each of the two financial years preceding the publication of this *registration document*.

The documents cited above may be consulted at the Company's headquarters at the following address: Direction Juridique—Service Sociétés, 23 rue Philibert Delorme, 75840 Paris Cedex 17.

The annual information document appearing in Appendix F of this *registration document* gives all the information made public by the Gaz de France Group since 1 January 2007.

# 25 INFORMATION ON HOLDINGS

For information about the companies in which Gaz de France holds a portion of the capital which is liable to have an impact on the appreciation of its assets, see section 6.1.3 – "Description of activities". See also Chapter 9 – "Analysis of financial situation and results".

## 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 barrels of oil equivalent (Mboe)

*The conversions shown above are those currently used by professionals in the natural gas industry. They are provided on a purely indicative basis.*

## Glossary

**Third-party network access**

Right recognized for each user (eligible customer, distributor, producer) to use a transmission or distribution network in consideration for payment of an access duty.

**Negotiated Third-Party network access**

The conditions for access to the network are negotiated between the manager of the network and the market players (eligible customers, producers, etc.) on a case by case basis.

**Regulated Third-Party network access**

In the case of Regulated Third-Party access, the rates for using for the network are proposed by the French regulator. Access conditions are transparent and non-discriminatory for users.

**Upstream**

Hydrocarbon exploration and production activities.

**Downstream**

Transmission, distribution, natural gas storages and related services.

**Biomass**

Mass of organic non-fossil matter of biological origin. A portion of this field may possibly be developed for energy purposes.

**Pressure control block**

Assembly whose essential function is to reduce a gas from a variable upstream pressure to a downstream pressure regulated at a rate value.

**Branch**

Transport structure providing the liaison between the transmission 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.

**Transport capacity**

Maximum continuously admissible load for a transmission system, taking into account its operating parameters and pressure loss.

**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.

**Eligible customer**

Consumer of electricity or gas who is authorized, in order to supply one of its sites or resell energy, to do business with one or several suppliers of electricity or gas of its choice.

**Cogeneration**

Technique for simultaneously producing electricity and usable heat (such as steam, superheated water, or air and combustion products) from a single fuel which may be natural gas.

**Marketing**

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.

**Pipe**

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.

**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.

**CRE**

The Energy Regulation Commission is an independent administrative authority. It was established by the electricity regulations under the Law of February 10, 2000 and its jurisdiction was expanded to the natural gas sector by the Law of January 3, 2003. Its essential mission is to ensure the effective implementation of access to the electrical and gas infrastructures under transparent and non-discriminatory conditions, and it holds regulatory power since the Law of

December 7, 2006. In general, its role is to ensure the proper operation of the markets for gas and electricity.

**Development (of a gas or oil field)**

Operations and actions taken to bring a field into production.

**Exploration**

Methods and operations used to discover new hydrocarbon fields.

**Facilities management**

Services complementary to the supply of energy that may be provided for a client (maintenance and small repairs etc.)

**Supplier**

A legal entity, which holds an authorization for gas or, after a declaration to the public authorities, for electricity, which supplies at least one end consumer with electricity or gas, either from energy it produces itself or from energy it has purchased (trader).

**Cushion gas**

Quantity of gas stored in underground storage which can be completely recovered after injection.

**City gas**

Gas distributed in the past, known as lighting gas. It was replaced by natural gas.

**Gas pipeline**

Pipeline ensuring the transmission of gas under high pressure over long distances. Gas pipelines can be connected to international networks.

**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.

**Vehicle natural gas (VNG)**

100% composed of natural gas, it is essentially used in urban transportation and cleaning vehicles.

**Working gas**

Gas available within an underground storage.

**Field**

Porous rock containing hydrocarbons.

**Gas hub**

Junction between a transmission network where the gas arrives from several sources and which offers the physical possibility of exchanging gas volumes among these sources and the final markets.

**Liquefaction of natural gas**

Transformation of the natural gas from gaseous state to liquid for transport by ship and/or storage.

**Spot market**

Market on which trading and purchase/sale energy transactions deliverable in the short term are carried out.

**LNG 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 off-take 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).

**Trader**

Gas or electricity supplier which buys energy from another supplier in order to sell it to traders or end users.

**Off shore**

Platform and rig for under-sea drilling for oil or gas.

**Pressure control block**

Assembly ensuring the connection of a consumption site or distribution network to a transmission network. Pressure control blocks are made up of one or more hook-ups and one or more delivery points.

**Point d'échange de gaz (PEG)**

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.

**Connection**

Action which allows a user to physically connect to the network.

**Distribution network**

Network for the distribution of natural gas (at medium or low pressure) within a defined region or a business.

**Transmission network**

Network for transporting gas at high pressure (>60 bars) to distribution networks located downstream.

**Principal network**

Large diameter pipelines for the transport of natural gas at high pressure, linking neighboring transport networks, storages and LNG terminals. These assemblies are connected to regional networks, and distribution networks as well as certain industrial consumers.

**Regional network**

Large diameter pipelines for the transport of natural gas at high pressure, linking neighboring transport networks, storages and LNG terminals. These assemblies are connected to regional networks, and distribution networks as well as certain industrial consumers.

**Reserves (of a field)**

Volume of gas or oil trapped in the rock.

**Possible reserves**

Estimation of quantities of hydrocarbons that can be extracted in the future, based on current fields and with a probability of at least 50% 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.

**Proven reserves**

Proven reserves of crude oil, natural gas, and natural gas liquids 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.

**Proven and developed reserves**

Reserves that can be produced from existing installations.

**Proven but not developed reserves**

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.

**Supply security**

Guaranteed availability of energy at all times in the desired quality and quantity, in the given economic conditions.

**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.

**LNG Terminal access contract**

Contract binding an operator of an LNG terminal and a transporter defining the conditions of receipt, storage and regasification of LNG delivered to LNG terminal by the transporter.

# Report of the Chairman of the Board of Directors on the preparation and organization conditions of the Board of Directors' activities and internal control procedures (fiscal year 2007)

**Preamble**

Pursuant to the provisions of Article L. 225-37 of the Commercial Code, the Chairman of the Board of Directors hereby reports:

- the conditions for the preparation and organization of the work of the board and the internal control procedures set up by the company;
- limitations which the board has placed on the powers of the Chairman and Chief Executive Officer;
- the principles and rules defined by the Board of Directors to determine the compensation and benefits of any kind paid to corporate officers.

This report, prepared by the audit and risk department, was completed in collaboration with the finance department, the department of communication, the sustainable development department, the legal department, the group IT department, the strategy department, the delegation to the executive managers, the secretary and the Chief Operating Officers.

This report has been presented to the Audit and Accounting Committee for their information.

## 1. Control environment

### 1.1 Organizational principles

#### 1.1.1 Implementation of a more decentralized organization

In order to adapt to the new environment: the concentration of the European energy sector, changes in regulations, full deregulation of the gas and electricity market, the Chairman and Chief Executive Officer, in a decision dated July 23, 2007, refined the group's management structure and bodies.

- Three management levels were created—executive management, branch and business units (BU) in order to organize the group's strategic and financial management more effectively and the operational management. The following five principles form the foundation for the reporting and control systems for the branches and the BU:
  - executive management agrees with the branches upon the strategic and financial objectives with indicators to track achievement of those objectives;
  - branch reviews are organized monthly between the Chairman and Chief Executive Officer, the Chief Operating Officers, the Chief Financial Officer and the branch directors;
  - the branch agree upon economic and operational objectives with the BU directors with indicators to track the achievement of those objectives;
  - the BU are the entities for analysis and understanding of the group's basic results and their results are directed by the branches;
  - market risks are managed by the branches, BU, and the subsidiaries within a negotiated framework formalized by the financial department which monitors the process.
- Five functional units: finance, human resource, purchasing, information systems and legal, are responsible for building and implementing the group's policies in their respective areas.
- The functional director responsible for each unit reports to a member of executive management and is responsible for the achievement of group objectives (synergies, mobility, dissemination of good practices, application of group policies, etc.). Through their leadership at the top of the group, the units thus contribute to "transversal" policies and synergies.

#### 1.1.2 Internal control, a tool to help achieve objectives

By decision of the Chairman and Chief Executive Officer 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. For this purpose, Gaz de France uses its own benchmarks, inspired by the COSO[1], with the following six components: control environment, definition of objectives, risk management, control activities, information and communication, and finally, directing activities.

Internal control is placed under the responsibility of management, who organizes and directs activities within the scope of its authority in order to have reasonable assurance that the objectives fixed for it are reached. These internal control activities are carried out at all hierarchical and operational levels of the concerned entity and include the delegation of powers, the setting up of control and own auto-control structures, the assessment of operational performances, the security of the asset base and the separation of functions.

(1) *Committee of Sponsoring Organizations of the Treadway Commission.*

This approach is in line with the normally recognized definition of internal control: a process implemented by the Board of Directors, management, and the employees of the company, which is designed to provide reasonable assurance about the achievement of objectives in the following categories:

• optimization of operations,

• reliability of financial information,

• compliance with applicable laws and regulations.

The internal control system is also intended to prevent and control the risks related to the company's activities, particularly in the financial and accounting areas.

### 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 in France by the Institut Français de l'Audit et du Contrôle Internes (IFACI).

Internal audits serve management by contributing to improved internal control. In accordance with the Group's management principles, Gaz de France has organized its internal audit resources in a decentralized manner. Overall consistency is ensured by the directional oversight of the Audit and Risk Management department and by an internal audit charter.

### 1.1.4 Managerial regulation of quality, safety and environment

The group has established a "Quality, Safety, Environment – Management – Risk – Corporate Social Responsibility" approach in order to control the level of risks for "sustainable development." A steering committee composed of managers from the quality, environment, corporate social responsibility, risk management units, from the permanent group on safety and the management control department, prepares the contractual terms with the participants in question and provides support for performance and management reviews with each entity.

## Control participants

### 1.2.1 Board of Directors and executive management

***Legal framework***

Decree No. 2004-1223 of November 17, 2004, adopted pursuant to Law No. 2004-803 of August 9, 2004 defines the bylaws of Gaz de France.

The Chairman of the Board also performs the duties of Chief Executive Officer of the Company under the bylaws. Appointed on the recommendation of the board by a decree adopted in the Council of Ministers, he is assisted by two Chief Operating Officers.

The Board of Directors of Gaz de France S.A. has 18 members: 6 directors elected by the shareholders' meeting, 6 representatives of the French State appointed by decree, and 6 employee directors elected by the employees. The term of office is five years. The attendance rate for directors at Board meets was 74% in 2007.

Jean-François Cirelli was elected director by the shareholders' meeting of October 7, 2005, and proposed as Chairman-Chief Executive Officer by the Board on the same date. He was named Chairman-Chief Executive Officer by the Decree of 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 work contracts for the Group (for amounts greater than 50 million euro per transaction, excluding taxes);
- proposed borrowings in the form of a securities offering or loan agreement for the Company or its subsidiaries, where the amount of the operation exceeds 100 million euro , excluding taxes, and is not included in the budget previously authorized by the Board of Directors);
- proposed contracts for the supply of goods and services where the amount is greater than 30 million euro, excluding taxes;
- any proposed acquisition, sale or exchange of buildings or real estate rights when the amount is greater than 25 million euro per transaction, excluding taxes).
- contracts to be signed with the State concerning the objectives and conditions for performing the public service missions assigned to the company;
- the annual budget of the company;
- the projects to acquire or extend or sell operations or equity investments;
- proposed joint ventures or contributions which have significant financial or strategic implications, in which the company or its group provides assistance or accepts outside financing when its financial exposure per transaction (including liabilities taken on and off-balance sheet commitments) in this type of transaction exceeds 100 million euro before tax or its equivalent value in foreign currencies;

– projects that are not part of the company's strategic plan and those not in the energy sector when the amount is greater than 30 million euro per transaction;

– the Group's long-term energy projects for transactions in amounts greater than 10 billion kWh per year

– the total and per transaction amount of sureties, endorsements and guarantees, that the Board authorizes for each year to the Chairman and Chief Executive Officer.

The thresholds described above, effectively in force in 2007, were changed by the adoption of internal regulations, which were revised and approved by the Board on December 19, 2007 for application in 2008.

• Missions of the Board of Directors

The Board of Directors has two types of missions:

– those required under current laws and regulations, governing the closing of the accounts, proposed resolutions and management report, shareholders' meetings, the appointment of the Chairman-Chief Executive Officer subject to publication of the decree nominating him, the appointment of the Chief Operating Officers, and the definition of the powers of executive management;

– functions defined by the Board's Internal Regulations and resulting from the restriction of the powers of executive management as indicated above.

In 2007, the Board of Directors met thirteen times and reviewed the following projects:

– the proposed merger with Suez,

– the distribution carve-out;

– about ten development projects, including several wind projects;

– amendments to the internal regulations to improve governance.

• Committees of the Board of Directors

In 2007, the Board of Directors had two committees: the Audit and Accounting Committee and the Strategy and Investment Committee. The new internal regulations adopted by the board provide for the creation of two new committees in 2008: the compensation committee (composed of three members, which must meet at least once a year), and the sustainable development and ethics committee (composed of five members, which must meet at least once a year).

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 the work and decisions of the Board.

They carry out their duties under the authority of the Board of Directors.

– The Audit and Accounting Committee

Comprised of five members, it holds at least four meetings a year (twelve in 2007), 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. It also receives a report on the implementation of internal control.

Its principal contacts are executive management, the finance department, the audit and risk department and the independent auditors of the company. To complete its work, the Committee may meet with the Company and Group Executive Management or also 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

Comprised of seven members, the Strategy and Investment Committee holds at least four meetings per year (eight in 2007). To complete its work, the Committee may meet with the Company and Group Executive 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. Regarding investments, the Committee studies and provides its opinion to the Board of Directors on issues relating to major transactions – in particular regarding acquisitions, divestments and industrial equipment.

• Corporate governance

Executive management focuses on the group's strategic direction and financial perform. It includes the Chairman and Chief Executive Officer and the two Operating Officers who direct the entire group, relying on an executive committee and four group wide committees, and on the corporate services and final support units.

The group's executive management defines the group's strategic directions and financial path. It also directs the major challenges in transformation, which exceed the responsibility of a single branch or unit. In this context, it directs the branches with regard to their contribution to the group strategy and results. Executive management may also set specific objectives relating to group wide problems (mobility of human resources, synergies, etc.) for the branches.

• Compensation and benefits of company officers

Details of this compensation are provided in the management report of December 31, 2007 and in Chapter 15.1 of the *document de référence*.

– The Chairman and Chief Executive Officer

In addition to his fixed yearly remuneration, the Chairman and Chief Executive Officer receives a variable remuneration capped at 40% of his fixed yearly compensation. 70% of this additional sum is calculated on the basis of the net results, 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. The compensation of the Chairman and Chief Executive Officer is decided by the Board of Directors on the authorization of the Minister of Economy, Finance and Labor, and the Minister of Ecology, and sustainable development and improvements. He has no special retirement plan, 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 40% 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 compensation (directors' fees or other) from the Company or from companies controlled by the Company for fiscal year 2007

✓ The directors representing the employees received no attendance fees or other additional compensation for their appointment from the Company or from companies controlled by the Company for fiscal year 2007

✓ The directors elected by the shareholders' meeting receive directors' fees (2,000 euro for each session of the Board of Directors and 1,250 euro for each committee meeting, except for committee chairmen who receive 2,000 euro per session).

As of 2008, the newly created compensation committee will review these issues and submit its recommendations to the Board of Directors.

### 1.2.2 Group management bodies

• Executive Committee

Chaired by the Chairman and Chief Executive Officer, the executive committee focuses on the group's strategic directions, its major choices and its financial path. It meets every week and consists of the Chairman and Chief Executive Officer, the Chief Operating Officers, the Chief Financial Officer, the Secretary, the Director of Human Resources, the Director of Communication, the Director of the "international" branch and the Director of the "Energy France" branch. At its meetings, it reviews two types of information: those that require a decision from executive management and those summarizing information of interest for the members. The group's results are presented regularly, along with provisional budgets and the business plan. In addition, the executive committee reviews all the projects presented to the board of Directors.

• Investment Committee

The Investment Committee, which meets with the Chairman and Chief Executive Officer, is the body that establishes the strategic upstream framework and validates all group investments and off-balance sheet commitments.

The investment committee may delegate approval and management of certain commitments (low amounts, little risk, and in line with the group's strategy) to the branches. On the other hand, all projects approved and directed by the branches are reported to the Investment Committee which may demand, as needed, an exceptional review of a project.

In order to facilitate the work, all projects are first reviewed by the finance department, which issues a recommendation to the committee.

• Upstream/Downstream Committee

This committee, chaired by the Director of Strategy, ensures that energy resources are coordinated with the group's priorities (geographic regions, time horizons, customer segments), transfer prices with sales objectives and group strategy, and recommends the necessary changes to the executive committee.

• The research and innovation committee

Chaired by the Chief Operating Officer who directs the "infrastructure" branch, this committee:

– reviews and approves the group's research and innovation options in the medium and long term;

– reviews and approves the research programs to be decided by executive management.

The research portfolio is reviewed and amended on a regular basis.

• Executive Managers' Committee

Chaired by the Chairman and Chief Executive Officer, this committee prepares decisions concerning the principal appoints, including certain directors of group subsidiaries, and monitors the careers of the group's executive managers.

Other committees may be created by decision of the Chairman and Chief Executive Officer.

### 1.2.3 The branches

The group is composed of five branches, which direct the operational activities; they are responsible to executive management for the performance of their BUs.

- The "Global Gas and LNG" branch

This is composed of five operational entities (exploration-production, supplies, LNG, sales, and the Gasely subsidiary) and management units.

- The "Infrastructures" branch

This is composed of our operational entities (major infrastructures, GRTgaz subsidiary, GrDF subsidiary, infrastructures outside France) and management units.

- The "Energy France" branch

This branch is composed of three operational entities (upstream electricity, sales, Savelys company) and management units. The director reports to the Chairman and Chief Executive Officer.

- The "international" branch

This branch designs and implements the group's international development, directs the subsidiaries attached to the branch, develops synergies and leads integration projects. It includes the attached subsidiaries, local offices, a major international unit and management and support units. The director reports to a Chief Operating Officer.

- The "services" branch

This branch provides the energy services, implements complex project engineering, and develops multi-department services. It is composed of operational and management entities working on the European network. The director reports to a Chief Operating Officer.

### 1.2.4 General Secretary

The General Secretary serves as secretary to the Board of Directors and manages the network of regional delegates. The following entities report to the Secretary:

- the legal department, which defines the group's legal policies, manages majors disputes, directs and managements the legal services and provides the necessary legal support for the group's operations;

- the performance department, which establishes and implements the group performance plan;

- the group purchasing department, which defines and deploys the group's purchasing policy and manages purchasing units;

- the property department, which defines and implements the group's property policy, fulfills the role of owner, prepares leases, excluding technical buildings, and defines and implements the policy for rehabilitating former gas plants;

- the logistics solutions unit, which provides the logistic and accounting services for Gaz de France SA and supports the central entities in budget management, purchasing and prevent-security;

- the human resource operational unit, which performs the human resources missions for the central entities of Gaz de France, manages the relations between the central entities/ "international" branch, and performs administrative management for the employees detached to subsidiaries or outside organizations.

### 1.2.5 Group corporate services departments

- The finance department is responsible for economic management (budget cycle, reporting, corrective measures, financial valuation of investments), for the accounting doctrine, consolidation, separate accounts and corporate accounts, for internal control of financial information, financial policy, financing, cash management, the market risk management policy for the group; for tracking and financial management of corporate liabilities and employee savings, taxes, insurance and banking relations; investor relations; management of major transactions for the group and the financial aspects of acquisitions and disposals; support for the branches and BU for organic growth operations.

  It manages the relationship with the *Agence des participations de l'Etat* [French Holdings Agency] and directs and manages the financial aspects. It is composed of the following units: group controller, corporate finance and cash, investor relations, investments and acquisition, internal financial control.

- The group department of human resources defines the human resource policies; prepares employment reporting; directs and manages human resource functions; optimizes the management of positions and mobility; manages the training service; manages labor dialogue; prepares declarations and meets the labor obligations required for any company and defines and presents the position of Gaz de France within the industry branch, both within groups of employers and in collective negotiations with corporate partners.

- The department of strategy prepares and formalizes the group's strategy; coordinates the branch strategies; conducts strategic and competitive watch and economic and strategic studies; prepares the group's business plan and monitors implementation; assists executive management in managing partnership projects with strategic importance; proposes allocations of the energy resource between the upstream segment and the marketing segments; is responsible for relations with public authorities, elected officials and French and European socioprofessionnels.

- The sustainable development department, part of the strategy department, proposes group policies for sustainable development and manages the group's outside relations on these questions.

- The department of communication manages relations with the media, defines and implements the institutional image policy; manages internal communications; guarantees the consistency of all messages issued by the group; supervises the Gaz de France foundation.

- The executive management unit organizes the identification and tracking of managers and future executives; makes available to the group executives with the skills necessary to manage and grow its operations; proposes and implements adapted compensation methods; organizes the professional development of executives and future executives.

- The group information systems department defines the overall architecture of the group's information systems; it serves and the contracting authority and the contractor for the group's group wide infrastructures; as needed, it conducts studies and upgrades for the information systems; it directs and coordinates the various components of the system within the group, including IT systems and telecommunications, it is a department common to Gaz de France and EDF; it directs and manages the information segment within the operational entities and the group's support units.

- The research department proposes the research and development policy on the basis of the group's strategic decisions; it informs the group about technological changes and potential growth vectors; offers research programs to customers and implements those programs; develops rare and strategic expertise for the group; manages and coordinates standardization measures; manages industrial property rights and the use of patents.

- The permanent safety mission proposes and implements, after approval, the strategic decisions and policies of the group in the areas of prevention — workplace safety, industrial safety risk control, safety and economic intelligence (protection of real property and intangible assets), manages the agents responsible for health-safety-security within the group.

It has set up a self-assessment of safety management within the principal BU of the branches and at least one annual review with the group's main BU. In addition, every year it submits to the Board of Directors a report on industrial safety and safety in the workplace.

The health-safety unit is under its authority.

- The Audit and Risk Department

  - The Audit department verifies the effectiveness and consistency of the various control structures, carries out Group audits at management's request, and ensures follow-up on decisions made by the Group's management committees following audits. With the assistance of the decentralized audit teams, it prepares methodological tools, in compliance with the IFACI standards for the preparation of audit programs, to conduct audit missions and monitor recommendations. It contributes to the professional development of the group's audit resources; the operation, management and regulation of the audit network are based on an approach to assess the professional skills of the audit entities and on a self-assessment by each decentralized audit team of its compliance with professional audit standards.

  - The risk management unit formalizes the risk policy, ensures that it is implemented by the group entities in a methodological framework in line with normal practices (mapping and risk management) and consolidates the assessment of the group's risks for executive management and the Audit and Accounting Committee. It also manages the Risk Management network.

  - The internal control delegate transmits the internal control policy of Gaz de France, manages the internal control networks, and monitors the implementation of the internal control policy. For this purpose, there was a self-assessment by each group entity on each of the internal control procedures describe above in 2007.

In 2007, the Audit and Risks department presented the following to the Group Audit and Accounting Committee:

- a report on internal and external audit activities for 2006 and the first half of 2007;

- the audit program for 2007;

- a review of risks;

- an inventory of internal control.

### 1.2.6 Management of Subsidiaries

Management assigns each subsidiary or equity interest of the Group to an entity, which is responsible to Management for achieving the objectives set for the subsidiary, its financial results, and for adhering to policies set by the Group.

On the recommendation of this entity, a managing director is appointed for the most important subsidiaries by the Chief Operating Officer or the head of the branch in question for the other subsidiaries. Depending on local legislation and Gaz de France's rights, other directors may also be appointed.

## 1.3 Conduct guidelines

### 1.3.1 The Director's Charter

On December 17, 2004 the Board of Directors adopted its internal regulations and the Director's Charter (available on the Gaz de France Internet site), which is a code of ethics describing the good conduct rules that directors must follow and implement. These regulations were reviewed by the Board on December 19, 2007 and emphasizes the duty with regard to the secrecy and confidentiality obligations that must be observed by the directors of a publicly traded group.

### 1.3.2 The group's ethical approach

The group's ethical approach was finalized in June 2007. It gives the group an ethical approach that includes a charter of values, action principles (intended to ensure the implementation of those values in work behavior and business relations), codes of ethics (the existing codes established by the business have been included in the ethical principles) and a system for management and control. The ethics process is applied to all companies in which Gaz de France is a majority shareholder. The deployment of the process in management and then to all employees in the branches and BU is now in progress. The "Group ethics process" brochure intended for each employee is being printed and translated into German, English, Spanish, French, Hungarian, Italian, Dutch and Romanian. Deployment includes work on three priorities: fraud and corruption, human rights and harassment and stress. At the same time, the ethical dimension is being integrated in the existing training at all levels.

An ethics officer was appointed on July 1, 2007 and a network of ethical officers in the branches and departments is currently being formed. Ethics and fraud questions were included in the 2007 internal control self-assessment questionnaire (see above section 1.2.5).

### 1.3.3 Sustainable development

Gaz de France faces economic, social and environmental challenges in all its operations. This is why Gaz de France is determined to be a committed player in sustainable development, and to incorporate this dimension into its industrial plan. Sustainable development is an integral factor in the transformation of Gaz de France and its ambition to be a leader in the European energy industries.

The group has focused on four priorities for sustainable development:

- to fully assume its social and environmental responsibility to the Group's stakeholders;
- to meet energy challenges through dynamic product and service offers;
- to build a foundation of human and labor resources to meet industrial challenges;
- to play an active role in the development of its territories.

Sustainable development is implemented through:

- group wide projects that bring together experts in the relevant businesses and segments: diversity, solidarity, territories, ethics;
- partnerships with leading environmental and humanitarian NGOs;

and regulation is based on:

- extra-financial reporting (HR and QSE) using the Group's financial feedback channels and verified by the auditors;
- the establishment of a committee of stakeholders and a network of "Socially Responsible Investment" contacts (SRI);
- action plans reflected in contracts with all group entities (see section 1.1.4).

Each year the Group provides a public account of its commitment in its sustainable development report and on its website site as part of its Global Reporting Initiative.

In addition (see section 1.2.1), the Board of Directors will create an ethics and sustainable development committee in 2008 to ensure that ethics and sustainable development are considered in the work of the Board and the management of the company.

### 1.3.4 Promotion of diversity within the group

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. An action plan to promote all components of diversity is being deployed through a diversity project in the businesses and departments.

### 1.3.5 Partnerships with NGOs

Through national partnerships signed with recognized environmental and humanitarian NGOs, Gaz de France encourages its employees to deploy projects to protect the environment and assist those in need of assistance. This is the case for the partnerships signed with WWF France and EMMAUS France. Group wide actions in several areas are being performed to ensure that the recruitment process used in the entities are not discriminatory and to increase management awareness of diversity.

### 1.3.6 Internal audit charter

The internal audit charter was updated in 2006. Pursuant to professional internal audit standards, this charter was submitted to the audit and accounting committee on June 20, 2006.

## 2. Risk assessment and management

The Gaz de France risk policy was defined by the Chairman and Chief Executive Officer on November 21, 2005. Gaz de France has an industrial activity that implies risks. To succeed in its ambition to be a European leader, the Group has an objective for strong growth which means taking risks.

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. It is a question of ensuring that any risk taken is taken consciously and thoughtfully. The goal is not to eliminate all risks ("zero risk") but to control them at a reasonable level.

Gaz de France has developed a general risk management system and a risk culture backed by the necessary resources. The questionnaire for the analysis and control of risks under the AMF reference framework has been implemented for this reason.

### 2.1 A global risk management system as an approach to ongoing improvement

Reporting to the Audit and Risks department, the risk 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 agents and increasing managerial awareness. It ensures that the risk management process is consistent with normal practices for publicly traded companies.

### 2.2 A decentralized system based on management responsibility

The Group's risk policy starts with the principle that a manager is responsible for controlling the risks inherent in his business, and that risk control process is part of the Group's strategic process.

Each entity of the Group is responsible for identifying its risks, measuring its exposure, and the preparation and implementation of plans to control them. Each entity annually reports on the control of its risks and must submit a review of its major risks to the branch directors, to one of the Chief Operating Officers or to the Chairman and Chief Executive Officer. This method is applied in the branches, BU and corporate departments.

### 2.3 Group risk review

Risks identified by the entities are aggregated by type in the "Group Risks". An annual review of group risks results in an assessment of changes in risk exposure: mapping, assessment, level of risk, and management of risks.

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 major group risks, for which it designates specific "owners" responsible for managing the risk and for reporting annually to the designated management body.

Chapter 4 on risks in the registration document filed with the AMF (No. I. 05-037) is based on the risk mapping of Gaz de France.

### 2.4 Internal audit programs

The Audit and Risk department submits the "Group Head" audit program to executive management, then presents it to the Audit and Accounting Committee; it is based mainly on the Group's risk mapping to identify the most relevant audit themes and to optimize risk coverage. It 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 to optimize 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 which are likely to significantly impact its financial results are systematically transferred to the insurance market. This insurance policy 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 at the top of the group, which makes it possible to have 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. This report, which is first reviewed by the Audit and Accounting Committee, covers financial management for the previous year, details the principal choices made for the group's financial policy (financing, asset management, management of financial risks and coverages) and proposes possibilities for the coming year.

The framework to ensure consistent management of financial risks is developed by the Rate and Foreign Exchange Committee and the Credit Committee which report to 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.

The finance department has developed an organization to control the market risk for the group with an operational unit in the "Global Gas and LNG" branch.

## 3. International financial control process

### 3.1 Scope and objectives

The financial internal control process has been based on the AMF benchmark framework, which includes, in addition to the processes for preparing the projected and actual accounting financial information and communication, all the operational processes that contribute to the production of this information.

It is designed to obtain reasonable assurance as to the reliability of the financial data, which is a crucial component for the management and governance of the group, for financial disclosure, and for confidence in the markets. It also helps to prevent and detect acts of fraud that could generate significant anomalies in the accounts.

### 3.2 Participants

The non-subsidiary BU and the subsidiaries are responsible for producing their accounting: corporate accounts and consolidation reporting. They are also responsible for the quality and completeness of the information provided.

Financial internal control is performed under the responsibility of management which:

- defines the conditions for implementing a process adapted to the business, the size, organization and challenges of the entity for which it is responsible by ensuring the application of the group's procedures and deploying the policy;
- ensures the correct operation of this process and the effective implementation of the financial internal control requirements it has defined;
- ensures that any anomalies found are corrected through action plans executed within reasonable periods with the appropriate resources.

In 2008, the newly created branches will ensure that control of the quality of the financial information is part of an ongoing improvement process, with the systematic implementation of corrective measures if a malfunction is detected or a level of internal control is insufficient.

The various units of the finance department conduct a number of general accounting and financial controls.

- The "group controlling" unit is responsible for producing the group's financial statements, which are approved by the Board of Directors and by the shareholders' meeting. This unit manages the sequence of the consolidation operations for which it defines the calendar, the scope, the operating methods and procedures. It also ensures the consistency of the consolidation packages produced by the group's entities and performs the appropriate controls.

  In addition to these centralization and consolidation controls, it also questions and issues alerts on comparisons with year N-1, budget projections, and management contracts.
- The "investor relations" department ensures that the information provided to institutional investors, to financial analysts and other financial professionals has been validated in accordance with the rules defined by the group, and has been produced and distributed in compliance with the laws and group policy.
- The "corporate finance and cash" departments manages the cash, financing and risk processes for the group.
- The "investments and acquisitions" department guarantees the methodologies used in the acquisition-disposal-development processes.

### 3.3 Control of the process

Gaz de France implements a system defined by a commitment to the quality of the financial information and the internal control procedures defined over the entire managerial chain. This process supports the commitments of the Chairman and Chief Executive Officer and the Chief Financial Officer, which are formalized in the affirmation letter to the auditors and in the Chairman's report on the internal control procedures.

At branch level, the branch director and financial controller make a formal commitment to the group concerning the quality of the financial information and the related internal control. In the same way, at the level of the subsidiaries and non-subsidiary BU, this commitment is based on affirmation letters to the auditors for the subsidiaries, and on the year-end certifications for the non-subsidiary BU, which are part of the official transmittal of the accounts to the group controlling department.

A financial internal control unit was created within the finance division to reinforce management of the accounting and financial internal control process: this unit prepares benchmarks and methodological tools and provides them to the participants, it launches a "group program" of financial internal control, and it defines and distributes management and reporting tools for the financial internal control.

In addition to monitoring the dissemination of the group policy by each entity, the internal audits conducted by the audit and risks department and the outside audits conducted by the auditors, the evaluation of the process is built on an internal control self-assessment questionnaire directed by the audit and risk department (see section 1.2.5). The questionnaire is completed by each entity in the group. It covers each of the components of internal control, including the operational accounting and financing dimension. It is completed for Gaz de France SA with specific questions on the accounting organization and on the quality of the accounting analyzed by major processes.

*The fraud prevention and reporting system has been reaffirmed:*

- any fraud must be analyzed by the entity in question;
- this analysis must identify any deficiencies in the internal control and make the necessary corrections, as needed;
- the information on the fraud and the corrective measures must be transmitted to the branch financial controller and to the department of financial internal control;
- the department of financial internal control organizes the feedback of experience with all the entities.

The firms ERNST & YOUNG and MAZARS & GUERARD are the independent auditors of the Gaz de France Group. Their appointment was renewed in 2002 for a period of 6 years and expired on December 31, 2007. The process to replace the auditors was launched in 2007 through a European bid tender.

In the context of their mission to certify the financial statements, the auditors review the organization and operation of the accounting and internal control systems with a financial and accounting impact, in order to determine the quality of the financial information that is generated.

In almost all of the main subsidiaries, at least one of the auditors belongs to the network of the Group's Auditors.

Gaz de France obtains French Energy Regulation Commission approval of the allocation rules, the accounting scope, and the principles of accounting separation, which are incorporated into its information system.

*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 should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.*

## Statutory Auditors' report, prepared in accordance with Article L.225-235 of French company law (Code de Commerce) on the report prepared by the Chairman of the Board of Gaz de France on the internal control procedures relating to the preparation and processing of accounting and financial information

**Year ended December 31, 2007**

To the Shareholders,

In our capacity as Statutory Auditors of Gaz de France and in accordance with Article L.225-235 of French company law (Code de Commerce), we hereby report on the report prepared by the Chairman of the Board of your company in accordance with Article L.225-37 of French company law (Code de Commerce) for the year ending December 31, 2007.

It is the responsibility of the Chairman of the Board to describe in his report the preparation and organization of the Board's work and the internal control procedures implemented by the company. It is our responsibility to report to you on the information contained in the report prepared by the Chairman of the Board in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information.

We conducted our work in accordance with the relevant French professional standard. This standard requires that we perform the necessary procedures to assess the fairness of the information provided in the report prepared by the Chairman of the Board in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

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

On the basis of our work, we have nothing to report on the information in respect of the company's internal control procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board in accordance with Article L.225-37 of French company law (Code de Commerce).

*Paris-La Défense, March 25, 2008*

The Statutory Auditors

**MAZARS & GUERARD** | **ERNST & YOUNG AUDIT**

Michel Barbet-Massin | Marie-Laure Philippart | Patrick Gounelle | Philippe Hontarrède

## Fees paid by the Company to the independent statutory auditors

| | MAZARS & GUERARD | | | | ERNST & YOUNG | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount ex-tax | | % | | Amount ex-tax | | % | |
| *In thousands of euro* | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **AUDIT** | | | | | | | | |
| **Audit** | | | | | | | | |
| Certification, review of the individual and consolidated financial statements | | | | | | | | |
| • Issuer | 1,041 | 1,052 | 25.6% | 22.7% | 1,041 | 1,067 | 17.3% | 15,5% |
| • Fully consolidated subsidiaries | 1,248 | 1,222 | 30.7% | 26.3% | 2,359 | 1,871 | 39.1% | 27,1% |
| **Other work and services directly related to the mission of the Auditors** | | | | | | | | |
| • Issuer | 1,736 | 2,337 | 42.7% | 50.4% | 2,425 | 3,536 | 40.2% | 51,2% |
| • Fully consolidated subsidiaries | 29 | 0 | 0.7% | 0.0% | 0 | 0 | 0.0% | 0,0% |
| **Sub-total** | **4,054** | **4,611** | **99.7%** | **99.4%** | **5,825** | **6,474** | **96.6%** | **93.8%** |
| **Other services rendered by the networks to the fully consolidated subsidiaries** | | | | | | | | |
| • Legal, tax, social security | 11 | 25 | 0.3% | 0.5% | 204 | 427 | 3.4% | 6,2% |
| • Other (specify if >10% of the audit fees) | 0 | 3 | 0.0% | 0.1% | 0 | 0 | 0.0% | 0.0% |
| **Sub-total** | **11** | **28** | **0.3%** | **0.6%** | **204** | **427** | **3.4%** | **6.2%** |
| **TOTAL** | **4,065** | **4,639** | **100,0%** | **100,0%** | **6,029** | **6,901** | **100,0%** | **100.0%** |

# Annual information document

In accordance with Article 222-7 of the General Regulations of the *Autorité des Marchés Financiers*, this document presents the list of all information published by Gaz de France since January 1, 2007 to meet the legal and regulatory obligations concerning financial instruments, issuers of financial instruments and markets in financial instruments.

## Document de référence (Registration document)

04/27/2007 Registration document

This document is available on the Internet site of Gaz de France (www.gazdefrance.com).

## Publications in the BALO

04/30/2008 General meeting notice of the participating Shareholders

04/23/2008 General meeting notice – Filed draft resolutions

04/16/2008 Declaration of 2007 financial statements and consolidated financial statements

03/05/2008 Notice of meeting of the Combine Ordinary and Extraordinary Shareholder's Meeting of May 19, 2008 and proposed resolutions

02/11/2008 2007 annual consolidated revenues

11/23/2007 3rd quarter 2007 consolidated revenues

10/31/2007 1st half 2007 half-year results

08/13/2007 1st half 2007 consolidated revenues

07/06/2007 Addendum to the BALO announcement of April 27,2007 – General report of the auditors on the annual corporate and consolidated financial statements

05/30/2007 Second notice of meeting for the Shareholders of non-voting shares

05/14/2007 1st quarter 2007 consolidated revenues

05/07/2007 Notice of meeting for the Ordinary Shareholders' Meeting of May 19, 2008 and proposed resolutions

04/27/2007 2006 annual consolidated and corporate financial statements and appropriation of earnings

04/18/2007 Notice of meeting for the Shareholders of non-voting shares

04/04/2007 Notice of meeting for the Combined Ordinary and Extraordinary Shareholders' Meeting of May 23, 2007 and proposed resolutions

02/14/2007 2006 annual consolidated revenues

The information above 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

04/28/2008 Gaz de France and Suez finalise the acquisition of Teesside Power

04/24/2008 Joint general meeting of shareholders on May 19 2008: arrangements for handing over and consultation of information documents relating to the General Meeting

04/24/2008 First quarter of 2008: 15% increases in turnover

04/23/2008 Release of Annual Financial Report at 31 December 2007

04/16/2008 Gaz de France Investor Day on Purchase and Sale of Energy

04/11/2008 Erétia inaugurates expansion of "Le Haut des Ailes" wind farm

04/11/2008 Gaz de France and Shell sign long-term LNG supply agreement

04/08/2008 Change in natural gas rates

04/01/2008 Adjustment to the organization of the future group

03/27/2008 Gaz de France in exclusive talks for the sale of Cofathec Coriance

03/21/2008 Energy Regulatory Commission proposes new rates for third-party access to natural gas distribution network for 2008/2012

| | |
|---|---|
| 03/12/2008 | Gaz de France receives its first LNG cargo from Snøhvit |
| 02/27/2008 | 2007 annual results |
| 02/26/2008 | Gaz de France announces the acquisition of the wind turbine company Nass & Wind Technologie and groups its interests in the ENR within a dedicated subsidiary "GDF Futures Energies" |
| 02/25/2008 | SUEZ and Gaz de France together acquire the most powerful combined cycle power plant in Europe (1,875 MW) |
| 01/23/2008 | 2007 annual revenues |
| 01/14/2008 | Long-term partnership with Qatar Petroleum International |
| 01/03/2008 | Gaz de France carves out its distribution activities and creates GrDF |
| 12/30/2007 | Change in natural gas rates at January 1, 2008 |
| 12/21/2007 | Stock buyback program |
| 12/18/2007 | Acquisition of Eoliennes de la Haute Lys |
| 12/10/2007 | Council of State decision on natural gas selling tariffs |
| 12/04/2007 | Gaz de France and Sonatrach extend their LNG contracts to 2019 |
| 11/05/2007 | Gaz de France expands in exploration-production in Egypt (the acquisition from Vegas Oil & Gas of a 45% stake in the Alam El Shawish West license in Egypt) |
| 10/31/2007 | Germany Leipzig mayor proposes Gaz de France for acquisition of a 49.9% stake in the Leipzig Stadtwerke (SWL) |
| 10/31/2007 | Gaz de France and Gasverbund Mittelland AG (GVM): a new supply contract |
| 10/01/2007 | 3rd quarter 2007 consolidated revenues |
| 10/15/2007 | Proposed merger between Gaz de France and Suez (operational and financial objectives, governance of the new Group and calendar)[1] |
| 10/09/2007 | Gaz de France strengthens its position in wind power with the acquisition of Erelia |
| 10/05/2007 | Gaz de France becomes the leading private investors in storage in Romania (acquisition of 59% of Depomures) |
| 09/27/2007 | Gaz de France expands its commitment to research in $CO_2$ storage (signature of a cooperating agreement with the Vattenfall) |
| 09/26/2007 | Gaz de France acquires 20% of Energie Investimenti from Camfin |
| 09/03/2007 | GDF Suez: birth of a global energy leader[2] |
| 08/29/2007 | 2007 half-year results |
| 08/28/2007 | Gaz de France to develop major storage site in England (Stublach) |
| 07/27/2007 | 2nd quarter 2007 consolidated revenues |
| 07/23/2007 | United Kingdom signature of a supply contract with Norsk Hydro |
| 07/02/2007 | Market deregulation: 6,000 contract requests and 524 signed contracts |
| 06/26/2007 | Bonus share allotment plan: global plan for all employees |
| 06/25/2007 | GRTgaz, a subsidiary of Gaz de France, announces 10-year investment plan |
| 06/22/2007 | Deregulation of the energy market on July 1, 2007 |
| 06/20/2007 | Energie Investimenti: contribution of the Gaz de France branch specializing in gas sales to major Italian industries[3] |
| 06/14/2007 | Gaz de France ready for market deregulation |
| 05/14/2007 | 1st quarter 2007 revenues |
| 05/03/2007 | Proposed new organization and appointments at Gaz de France |
| 04/26/2007 | Gaz de France obtains long-term access on American LNG market |
| 04/02/2007 | Gaz de France expands exploration in the UK |
| 03/28/2007 | Fos Cavaou terminal |
| 03/19/2007 | Operation of the Fos Cavaou terminal: connection of tankers |

(1) *Press release published jointly with Suez*
(2) *Press release published jointly with Suez*
(3) *Press release published jointly with Camfin*

| | |
|---|---|
| 03/13/2007 | 2006 annual results |
| 02/14/2007 | 2006 revenues |
| 01/23/2007 | Board of Directors meeting on January 23, 2007 |
| 01/03/2007 | Half-year liquidity contract report |

The information above 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)

| | |
|---|---|
| 03/28/2008 | Press release – Gaz de France enters exclusive negotiations for the sale of Cofathec Coriance |
| 02/28/2008 | Suez and Gaz de France jointly acquire U.K. Teesside Power plant Europe's larger combined-cycle gas turbine plant |
| 02/28/2008 | Materials made available by Gaz de France at a presentation of its 2007 annual results in Paris, France |
| 02/27/2008 | Press release – Gaz de France: 2007 annual results |
| 02/26/2008 | English translation of an interview published in French in *La Tribune* on February 25, 2008 |
| 12/12/2007 | Amendment to Gaz de France's rule 425(a) filing of the press release dated October 15, 2007, as filed with the SEC on October 16, 2007 |
| 10/16/2007 | Joint press release – GDF Suez: operational and financial objectives, corporate governance of the new group and timetable |
| 09/13/2007 | Translated transcript from the joint press conference held by Gaz de France and Suez on September 3, 2007, entitled "GDF Suez: the creation of a worldwide energy leader" |
| 09/05/2007 | Presentation made available on the website of Gaz de France in connection with a joint press conference held in Paris – GDF Suez: the creation of a worldwide energy leader |
| 09/04/2007 | Press release – Merger project between Gaz de France and Suez – GDF Suez: the creation of a worldwide energy leader |
| 01/24/2007 | Press release – Board of directors held on January 23, 2007 |

The above information is available on the Internet site of the Securities Exchange Commission (SEC) (www.sec.gov).

## Declaration of transactions executed by officers

| | |
|---|---|
| 09/18/2007 | Declaration of transactions executed on Gaz de France stock by S. Brimont |

The information above is available on the Internet site of the Financial Markets Authority (Autorité des marchés financiers, AMF) (www.amf-france.org).

## Declarations of operations on treasury shares

| | |
|---|---|
| 04/07/2008 | Declaration of Gaz de France's purchases and sales of treasury shares |
| 02/11/2008 | Declaration of Gaz de France purchases and sales of treasury shares |
| 01/14/2008 | Declaration of Gaz de France purchases and sales of treasury shares |
| 12/10/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 11/19/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 10/15/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 09/24/2007 | Declaration of Gaz de France purchases and sales of treasury shares |

| | |
|---|---|
| 09/03/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 08/06/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 06/25/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 05/21/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 04/24/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 03/12/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 03/05/2007 | Declaration of Gaz de France purchases and sales of treasury shares |
| 01/22/2007 | Declaration of Gaz de France purchases and sales of treasury shares |

The information above is available on the Internet site of the Financial Markets Authority (Autorité des marchés financiers, AMF) (www.amf-france.org).