Gaz de France

/ REGISTRATION DOCUMENT **2005**

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This document is an informal English translation of the *document de référence* registered with the French *Autorité des marchés financiers* under No. R. 06-050 on May 5, 2006. In case of any discrepancy between this document and the *document de référence*, the *document de référence* will govern. This document is not an offer to sell or the solicitation of an offer to purchase shares of Gaz de France, and it is not to be used for any offer or sale or any such solicitation anywhere in the world. Shares of Gaz de France may not be sold in the United States absent registration or an exemption from registration under the U.S. Securities Act of 1933, as amended. Gaz de France does not intend to register any portion of any offering in the United States or to conduct a public offering of shares in the United States.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

In application of Articles 211-1 to 211-42 of its General Regulation, the *Autorité des marchés financiers* has registered this *document de référence* on May 5, 2006, under reference No.R.06-050. It may only be used as the basis for a securities offering if it is completed with a *note d'opération* filed with the *Autorité des marchés financiers*. The issuer approved this *document de référence* and takes responsibility for it through its signatories. This registration, completed following examination of the pertinence and coherency of the information provided on the company's financial situation, does not mean that there has been any authentification of the financial or accounting information presented.

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Note

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

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

The Group's consolidated financial statements, established in accordance with French accounting standards for the year ended December 31, 2004, appears on pages 217-263 of the Company's Document de Base, *registered with the* Autorité des marchés financiers *on April 1, 2005 under reference No. I. 05-037 (the "***Document de Base***"). They are incorporated by reference into this* document de référence.

The Statutory Auditors' report on the Group's consolidated financial statements for the year ended December 31, 2004 appears on pages 263-265 of the Document de Base. *It is incorporated by reference into this document.*

1 PERSON RESPONSIBLE

1.1. Person responsible for the *document de référence*

Jean-François Cirelli, Chairman and Chief Executive Officer.

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

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

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

The Statutory Auditors have established reports on the historical financial statements presented in this *document de référence*, appearing in paragraphs 20.1.1.2, 20.1.2.2 and 20.1.3.2, which contain the following observations:

- for fiscal year 2003, an observation concerning the conditions of the first application to certain provisions for site restoration of CRC Regulation No. 00-06 on liabilities;
- for fiscal year 2004, observations concerning the following:
  - the description of the reform of the financing of the electricity and gas industry retirement plan and the financial and accounting consequences of this reform for Gaz de France;
  - the absence of reliable measurement of the obligation relating to the medical insurance plan at December 31, 2004 and the financial and accounting consequences for Gaz de France of the reform of the financing of the plan effective in February 2005;
  - the change in the measurement of the provision for dismantling distribution pipelines of Gaz de France.
- for fiscal year 2005, an observation concerning the accounting treatment adopted regarding concessions, in the absence of specific provisions in IFRSs as adopted by the European Union for this topic, and in particular the fact that the application of the intangible asset model as determined by draft IFRIC interpretation D14 could have induced Gaz de France, as of December 31, 2005, to reduce concession assets and liabilities by the amount under the item "Concession grantors' rights in assets".

The forward-looking statements presented in this *document de référence* were the subject of a report of the statutory auditors, appearing in paragraph 13.2. This report contains an observation relating to the existence of uncertainties with respect to the interpretation and application of certain IFRS accounting standards, in particular those concerning the treatment of concessions, which currently are the subject of interpretational drafts by IFRIC.

Jean-François Cirelli
Chairman and Chief Executive Officer

2 PERSONS RESPONSIBLE FOR THE AUDIT OF THE FINANCIAL STATEMENTS

2.1. Statutory Auditors

2.1.1. Independent Statutory Auditors

Mazars & Guérard
39, rue de Wattignies
75012 Paris
Represented by Michel Barbet-Massin and Xavier Charton.

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

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

2.1.2. Substitute Statutory Auditors

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

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

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

2.2. Removal or departure of the Statutory Auditors

Not applicable.

3 SELECTED FINANCIAL INFORMATION

3.1. 2004 and 2005 IFRS financial information

The tables below show information taken from the Group's consolidated balance sheet, income statement and cash flow statement for the 2005 fiscal year under IFRS standards. With respect to the 2004 IFRS financial information presented in comparative form:

- the balance sheet and cash flow statement are taken from the comparative information presented in the 2005 IFRS consolidated financial statements;
- the income statement includes unaudited pro forma information following the reform of the financing of the retirement plan.

SUMMARY CONSOLIDATED INCOME STATEMENT

(IFRS standards, following the reform of the financing of the retirement plan)

In millions of euros	2005	2004	Var. %
Net Revenues	**22,394**	**17,526**	**+28%**
Capitalized expenses	336	344	- 2%
Purchases and other external charges	(15,886)	(11,367)	+40%
Personnel expenses	(2,410)	(2,122)	+14%
Other operating income and expenses	(215)	(208)	+3%
EBITDA (1)	**4,219 (2)**	**4,173**	**+1%**
Depreciation, amortization and provisions	(1,303)	(1,845)	- 29%
Employee shareholdings	(132)		n/a
Operating income	**2,784**	**2,328**	**+20%**
Net finance costs	(202)	(179)	+13%
Other financial income and expenses	(236)	(318)	- 26%
Share of net income attributable to companies consolidated by the equity method	189	125	+51%
Income before taxes	**2,535**	**1,956**	**+30%**
Corporate income tax	(794)	(563)	+41%
Consolidated net income before deducting minority interests	**1,741**	**1,393**	**+25%**
Minority interests	(2)	40	n/a
Consolidated net income	**1,743**	**1,353**	**+29%**
Earnings per share in euros (3)	**1.85**	**1.50**	**+23%**

(1) *EBITDA is a measure of operating performance that corresponds to the term "Excédent brut opérationnel", which is defined as operating income before depreciation, amortization and certain other operating expenses.*
(2) *€4,263 million outside of IAS 32/39.*
(3) *Average number of shares in 2005: 943,435,994 compared with 903,000,000 in 2004 as adjusted for the change in par value.*

SUMMARY CONSOLIDATED BALANCE SHEET

(IFRS standards, following the reform of the financing of the retirement plan)

In millions of euros	2005	2004
Goodwill and other intangible assets	1,936	1,321
Concession tangible assets	10,732	10,191
Non-concession tangible assets	15,271	14,155
Investments in companies accounted for by the equity method	693	385
Non-current financial assets	1,379	1,125
Other non-current assets	474	554
Total non-current assets	**30,485**	**27,731**
Inventories and work in process	1,451	907
Receivables	8,071	6,192
Current derivative financial instruments	1,756	
Cash and cash equivalents	2,119	837
Assets of financial affiliates	895	440
Total current assets	**14,292**	**8,376**
Assets classified as held for sale	0	402
TOTAL ASSETS	**44,777**	**36,509**
Shareholders' equity	**14,503**	**10,998**
Minority interests	**300**	**212**
Liabilities related to concessions	8,609	8,234
Provisions other than renewal provisions	2,895	2,784
Deferred tax liabilities	2,731	2,741
Financial debt (including irredeemable securities)	3,947	4,334
Other non-current liabilities	175	411
Total non-current liabilities	**18,357**	**18,504**
Provisions (short-term)	164	94
Social liabilities (short-term)	527	377
Financial debt (short-term)	1,165	971
Trade accounts payable and related payables	3,203	1,848
Tax liabilities	154	115
Other financial liabilities	1,171	948
Other short-term liabilities (including liabilities of financial affiliates)	5,233	2,403
Total short-term liabilities	**11,617**	**6,756**
Liabilities classified as held for sale	0	39
SHAREHOLDERS' EQUITY AND LIABILITIES	**44,777**	**36,509**
Net indebtedness	2,993	4,467 (1)
Shareholders' equity (including minority interest)	14,803	11,210
Ratio of net indebtedness	**20%**	**40%**

(1) *4,592 as of January 1, 2005 (first application of IAS 32/34, evaluation of financial debt at their amortized cost by applying the effective interest rate method (impact on shareholders' equity: €125 million)).*

SUMMARY CONSOLIDATED CASH FLOW TABLE

In millions of euros	2005	2004
Cash flow from operations	**4,229**	**4,176**
Change in working capital requirements	(501)	(282)
Corporate income taxes paid	(562)	(705)
Net cash from operating activities	**3,166**	**3,189**
Net cash used in investing activities	(2,463)	(1,847)
Dividends paid	(420)	(322)
Change in loans and interest paid (including exchange rate)	838	(801)
Change in cash and cash equivalents	**1,121**	**219**

3.2. 2003 and 2004 under CRC standards

The tables below show information taken from the Group's consolidated balance sheets, income statements and cash flow statements for the 2003 and 2004 financial years in accordance with the standards of the French financial accounting standards board (the "CRC Standards").

SUMMARY CONSOLIDATED INCOME STATEMENTS

In millions of euros	2004	2003
Net Revenues	**18,129**	**16,647**
Purchases and other external charges	(11,916)	(10,535)
Personnel expenses	(2,220)	(2,055)
Taxes and other contributions	(245)	(209)
EBITDA	**4,093**	**4,134**
Depreciation, amortization and provisions (net of reversals and transfers of charges)	(2,448)	(2,158)
Other operating income (expenses)	(47)	(97)
Operating income	**1,598**	**1,879**
Financial income (expense)	(34)	(139)
Exceptional items	17	(5)
Corporate income tax	(509)	(752)
Share in income of companies accounted for by the equity method	92	73
Goodwill amortization	(59)	(76)
Minority interests	59	70
Consolidated net income	**1,046**	**910**

SUMMARY CONSOLIDATED BALANCE SHEET

Assets

In millions of euros	2004	2003
Fixed Assets	372	334
Goodwill	997	1,060
Tangible assets		
Non-concession tangible assets	11,507	11,540
Concession tangible assets	8,071	7,793
Other investments in progress	1,985	1,390
Financial investments	1,532	1,422
Investments of financial affiliates	257	227
Total fixed assets	**24,721**	**23,766**
Inventories and work in progress	1,022	1,082
Trade and related receivables	5,155	4,216
Other receivables	1,302	1,602
Marketable securities	285	158
Available cash	582	572
Current assets of financial affiliates	440	161
Total current assets	**8,786**	**7,791**
TOTAL ASSETS	**33,507**	**31,557**

Shareholders' equity and liabilities

In millions of euros	2004	2003
Shareholders' equity before deducting minority interests	10,377	9,587
Minority interests	216	269
Other shareholders' equity (1)	4,295	4,038
Provisions for risks and charges	7,698	6,665
Financial debt	4,793	5,409
Trade accounts payable and related payables	1,889	1,769
Taxes and social contributions	1,472	1,358
Other debts (2)	1,931	2,060
Liabilities of financial affiliates (3)	836	402
TOTAL LIABILITIES	**33,507**	**31,557**

(1) *"Other shareholders' equity" is composed of participatory shares (€485 million at the end of 2004 and 2003) and the value of goods in which a concession is granted less the in-kind rights of the grantor (3,810 million euros at the end of 2004 and 3,553 at the end of 2003).*

(2) *"Other debts" principally relates to the difference between the amount of payments received from clients who have been billed on a monthly basis and the value of the natural gas deliveries made to these clients.*

(3) *The assets and liabilities of the financial affiliates relates to Group companies that engage in a financial activity, which is subject to regulation by the Banking Commission. It primarily relates to trading by Gaselys and Solfea Bank (formerly Petrofigaz bank, which offers loans to individuals and co-owners for the installation of natural gas provided in particular by the Group and its partners).*

SUMMARY CONSOLIDATED CASH FLOW STATEMENT

In millions of euros	2004	2003
Cash flow	**3,418**	**3,184**
Change in working capital requirements	(346)	(474)
Net cash from operating activities	**3,072**	**2,710**
Net investments and related amounts	(1,895)	(2,765)
Dividends paid	(357)	(498)
Change in loans and interest paid (including exchange rate)	1352	717
Change in cash and cash equivalents	**182**	**164**

3.3. Interim financial information

The tables below present extracts from the Group's consolidated balance sheets, income statements and cash flow statements for the first six months of 2004 and 2005 under IFRS, following the reform of the financing of the retirement plan.

This information does not incorporate the changes made for the publication of first IFRS financial statements for the year ended December 31, 2005, which in essence treats the following:

- accounting treatment of concessions, with respect to the length of the amortization period for assets and evaluation of renewal provisions; and
- accounting treatment of connection rights.

CONSOLIDATED FINANCIAL STATEMENTS

(Preliminary IFRS information following the reform of the financing of the retirement plan)

In millions of euros	06/30/2005 Published	12/31/2004 Pro forma
Revenues	**11,089**	**9,214**
EBITDA	2,520	2,474
Operating income	1,796	1,733
Financial income	(118)	(163)
Exceptional income and amortization of goodwill	-	-
Share of companies accounted for by the equity method	95	56
Corporate income tax	(585)	(563)
Consolidated net income before deducting minority interests	1,188	1,063
Minority interests	(3)	(15)
Consolidated net income	**1,185**	**1,048**

CONSOLIDATED BALANCE SHEET

In millions of euros	06/30/2005 Published	12/31/2004 Pro forma
Goodwill and other intangible assets, net	1,806	1,321
Non-concession tangible assets	14,800	14,155
Concession tangible assets	8,569	10,191
Other non-current assets	2,172	2,064
Total non-current assets	**27,347**	**27,731**
Stocks and receivables (including assets of financial affiliates)	7,162	7,539
Other current assets	827	-
Cash and cash equivalents	2,577	837
Total current assets	**10,566**	**8,376**
Assets classified as held for sale		402
TOTAL ASSETS	**37,913**	**36,509**

In millions of euros	06/30/2005 Published	12/31/2004 Pro forma
Shareholders' equity before deducting minority interests	**11,998**	**11,210**
Liabilities related to concessions	7,396	8,234
Provisions other than provisions for renewal	2,805	2,784
Financial debt (including participatory securities)	4,211	4,334
Other non-current liabilities	2,498	3,512
Total non-current liabilities	**16,910**	**18,504**
Financial debt (short-term)	1,297	971
Other current liabilities (including liabilities of financial affiliates)	7,708	5,785
Total current liabilities	**9,005**	**6,756**
Liabilities related to assets classified as held for sale		39
TOTAL LIABILITIES	**37,913**	**36,509**

CONSOLIDATED SUMMARY CASH FLOW STATEMENT

In millions of euros	06/30/2005 Published	06/30/2004 Pro forma
Operating cash flow	**2,531**	**2,406**
Change in working capital requirements	821	585
Corporate income tax	(72)	(359)
Net cash from operating activities	**3,280**	**2,632**
Investing activities	(786)	(639)
Dividends paid	(420)	(318)
Change in borrowings and interest paid (including exchange rate)	(391)	(968)
Change in cash and cash equivalents	**1,683**	**708**

4 RISK FACTORS

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

4.1. Main risks

The risk management program put in place by the group evaluates the financial, reputational and human impact as well as the likelihood of occurrence in order to assess the importance of the Group's risks.

Increased competition in France

The liberalization of the European natural gas market has resulted in major changes in European and French laws and regulations applicable to Gaz de France's business sector and its activities. The future financial performance of Gaz de France will depend in part on its ability to adapt to these changes. A description of the significant risks resulting from changes in the regulatory environment is given below.

<u>Gaz de France will face substantial competition in the sale of natural gas in France and expects to lose market share to its competitors.</u>

As a result of the liberalization of the French natural gas market, Gaz de France is subject to competition from other gas suppliers. All of Gaz de France's customers, except individual household customers, have the ability to choose their gas supplier. In July 2007, the natural gas market will be totally open to competition (see paragraph 6.1.4.1.1 – "Eligible and non-eligible customers"). For the sale of gas to eligible customers, Gaz de France is already subject to competition. It will increasingly be subject to competition in the future with other gas companies. Some of Gaz de France's competitors have greater financial resources than Gaz de France. The principal effects of competition on its sales in France are as follows:

- Gaz de France risks losing market share. It has already lost market share with respect to currently eligible customers and expects to lose more as competition intensifies, new competitors arrive and as individual household customers become eligible beginning in July 2007.
- Gaz de France faces price competition for the sale of gas to customers who have exercised their right to choose their own gas supplier. The price of gas sold to these customers will in the future be determined in a freely negotiated manner, and will thus be different from the regulated rates traditionally applied in France. Moreover, competitive pressures could limit the ability of Gaz de France to adjust its prices to reflect fluctuating market conditions (in particular changes in the price of crude oil in US dollars).
- Gaz de France must develop brand recognition and marketing so that customers will recognize it better, and must advertise its commercial offerings. As a result, the Group may incur significant costs.
- Gaz de France must continue to adapt its strategies and its decision-making processes in light of the new market structure, which could disrupt its operations or expose it to new risks, especially in relation to the expansion of its business into new markets.

<u>Gaz de France may face growing competition from EDF.</u>

A number of customers of Gaz de France, particularly individual household customers, do not clearly identify Gaz de France as an entity distinct from EDF, because its sales, billing, customer service and distribution businesses have traditionally been conducted jointly with EDF. EDF has announced its intention to expand into the natural gas market and currently offers gas to eligible clients. EDF's customers include almost all of the French customers of Gaz de France. Some customers might accept EDF's offer thinking that they are continuing to buy gas from their traditional supplier. Gaz de France must pursue its policy of communication intended to strengthen the identification of Gaz de France as an entity distinct from EDF. Otherwise, its customer base and the high level of customer satisfaction with its services could benefit EDF rather than Gaz de France. Consequently, Gaz de France might not be able to maintain its market share in France as well as other traditional suppliers are able to do in their own countries.

External development – Project management

<u>The strategy of expansion through acquisitions exposes Gaz de France to risks of dilution, asset impairments and difficulties in integrating target companies.</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 the difficulties of integrating acquired businesses, the non-realization of expected benefits and synergies, the diversion of management resources and the potential departure of key employees. When Gaz de France enters into joint ventures, it could find itself in conflict with its partners, some of which might hold a majority of the joint venture entities. Its partners also might be unable to fulfill their obligations or could encounter financial difficulties.

The Group is increasingly present in developing countries or countries that are in a state of transition, which exposes the Group to risks inherent in the political and economic conditions in these countries.

An increasing proportion of the Group's supplies originate or will originate from developing countries or countries which are in a state of transition, such as Algeria, Russia, Nigeria, Libya and Egypt. The Group is also involved in exploration-production projects and in the construction of liquefaction plants in these countries. It is heavily involved, through its subsidiaries, in the transmission, distribution and sale of gas in several Eastern European countries as well as Mexico. The operations of the Group in these countries are vulnerable to economic and political risks, such as the risk that an international crisis or an embargo might interrupt gas supplies, and the risk of disruptions of its business resulting from political action or civil insurrection. Additionally, disputes between producing nations and the countries through which the gas is transmitted could have an impact on Gaz de France's supplies. Furthermore, the Group may not be able to enforce its rights before the courts of these countries in the event of disputes against governments or against other public entities.

The growth of Gaz de France's Exploration – Production business exposes the Group to new risks.

The exploration-production business, which requires high levels of investment, exposes the Group to risks that are different from those inherent in its traditional businesses, including the following:

- the risk that exploration activity might not result in the discovery of reserves;
- uncertainty as to the assessment of reserves, which are estimates based on assumptions and which therefore are subject to uncertainties that could have an impact on the Group's results, including those relating to:
  - the quality of geological, technical or economic data,
  - the contractual and tax conditions in the countries where exploration-production activities take place,
  - the yield potential of any deposits found, and
  - the potential need to reduce estimated reserves, which would result in depreciation charges calculated according to the Production Unit method, which takes into account the level of reserves and, potentially, lower production rates;
- the risk of delays in drilling operations due to harsh weather conditions;
- dependence on third-party partners (particularly where the Group is not the operator of the exploration or production site);
- regulatory risks inherent in the exploration-production business (the imposition of obligations for drilling and operating production sites, environmental protection, nationalization, expropriation or the cancellation of contractual rights and changes in the laws governing the obligation to dismantle or decontaminate sites);
- risks inherent in pursuing business in countries where the oil and gas sector is often tainted by corruption; and
- taxation risks, such as those resulting from changes in the levies or customs duties payable in connection with the production of hydrocarbons.

The Group's energy trading activities expose it to counterparty risk and to risks relating to fluctuations in commodity prices and derivatives.

The Group is active on the energy trading market and in transactions involving derivatives linked to the prices of energy products. Although the Group places strict limits on its exposure, its market dealings expose it to risks inherent in changes in the value of its positions and, in the case of transactions outside regulated markets, to the risk that its counterparties might default.

Development of its electricity strategy.

Gaz de France's strategy, which includes offering electricity to its customers, particularly individual household customers, most of whom prefer to use a single supplier for both gas and electricity, as well as entering the electricity market, subjects the Group to a number of risks:

- the supply of electricity is a new business for Gaz de France, which it might not be able to fully master;
- the market for the supply of electricity is dominated by traditional suppliers, such as EDF, which have long experience and a strong reputation with customers (including current Gaz de France customers);
- supplying electricity at competitive costs requires major investments in the construction of infrastructure or entering into supply contracts with power generators. Obtaining supplies of electricity exposes Gaz de France to the risks linked to the volatility of electricity prices. If Gaz de France does not obtain adequate supplies at reasonable cost, it will not attain its objectives in this area.

Legal and regulatory constraints

The laws and regulations requiring that the transmission and distribution activities of Gaz de France be managed independently limit the control of Gaz de France over these activities.

To comply with new legal and regulatory requirements, Gaz de France has created management structures for its transmission and distribution businesses (which are still affiliates) independent of its production and sales businesses. Although Gaz de France retains certain powers related to the budget and the investment program for the networks, Gaz de France will lose control over certain operational decisions, which could have an impact on operating costs, which are key factors in the profitability of the transmission and distribution businesses in France. At the same time, Gaz de France will continue to bear all of the risks related to the operation of the transmission and distribution businesses, including liabilities to third parties and the risk of an impairment of the value of the transmission and distribution assets.

A risk exists that in the medium-term laws and regulations could be made more restrictive at the initiative of the European Commission.

In 2005 the European Commission launched two investigations in the European gas market, one led by the Head of the Competition Department and the other by the Head of the Energy Department. If the European Commission finds that the results of these investigations indicate that the European directives are not sufficient to guarantee the satisfactory functioning of the gas market, and a sufficient level of competition, it could undertake new regulatory initiatives that would have an impact on Gaz de France. Gaz de France has undertaken to prevent this risk by putting in place measures guaranteeing the proper application of the laws currently in effect.

The regulations of certain European countries could limit the expansion of the Group outside France.

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

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

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

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

Spain. Spanish law provides for a suspension of voting rights (but not of the rights to dividends) relating to shares held by any entity in which a national government holds the majority of the shares or controlled by any means whatsoever by a national government, when this direct or indirect interest grants to such public entity control or an interest in at least 3% of the capital or voting rights in a company active at the national level in the domestic Spanish energy market (electricity, gas, oil). This legislation may affect Gaz de France and prevent it from exercising its voting rights if it acquires control over, or an interest in, a company that is active throughout the Spanish market.

Gaz de France's business is governed by increasingly restrictive regulation.

A large part of Gaz de France's business is governed by increasingly restrictive regulations. French rules and regulations and European regulations, as well as the decisions of regulators (such as the Energy Regulation Commission (known by the French acronym "CRE")), significantly affect the revenues and profits of Gaz de France as well as the way in which it conducts its business:

- The rates that Gaz de France charges for gas sold to French customers who are either not eligible or who have not exercised their eligibility are set by the French Ministers of the Economy and Energy, following the receipt of an advisory opinion from the CRE. Gaz de France might be unable to secure authorization to raise its rates even when necessary to cover increases in its operating costs. This occurred in the Winter of 2005–2006 (see paragraph 6.1.1 – General Information / A new regulatory and judicial context).
- Under the 2005-2007 Public Service Contract, Gaz de France's gas sales rates are required to reflect (through reductions of public distribution rates) a fixed productivity gain factor of 1.4% per year (in real terms) determined on the basis of operating costs excluding the cost of purchasing gas.
- The rates that Gaz de France charges to provide access to its transmission and distribution networks and to its LNG terminals are also set by the French Ministers of the Economy and Energy, based on the proposals of the CRE. These rates are determined on the basis of specified rates of return applied to a regulated asset base. Should the authorities decide to cut the rate of return or modify the method of determining the regulated asset base, this would affect Gaz de France's profitability. The authorities could also refuse to take into consideration some operating costs borne by Gaz de France when calculating these rates.
- The rates that Gaz de France charges to provide access to its transmission and distribution networks in France lack flexibility, as they are set by the regulator and will continue to be set by the regulator even when the French natural gas sales market is deregulated.
- 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.
- Gaz de France must obtain administrative authorizations to conduct its business in several key areas. Any failure to secure these authorizations (or their timely renewal) could prevent Gaz de France from pursuing some of its current or planned activities. Furthermore, disputes over

the terms of grant or of exercise of these authorizations may result in them being temporarily suspended or revoked.

- The laws and regulations applicable to the technical aspects of the implementation of a network could be changed. Such measures could have a material impact on the profitability of this activity and its industrial implementation.
- The laws and regulations applicable to Gaz de France could be changed. In particular, any change in the law governing the terms applicable to the renewal of concessions granted to Gaz de France could have a negative impact. See paragraph 6.1.4 – "Legislative and Regulatory Environment in France" for a more detailed description of laws and regulations that impact the activities of Gaz de France.
- Gaz de France is controlled by the French State, which is its majority shareholder: A French law dated August 9, 2004 provides that the French State is the majority shareholder of Gaz de France and must retain at least a 70% interest in its share capital. Under French company law a majority shareholder is able to control the outcome of important decisions at shareholder meetings and, in particular, influence the appointment of directors, dividend policy and modifications to the statuts (by-laws) of Gaz de France. See chapter 12 – "Trend Information".

<u>Since its transmission and distribution networks are open to third parties on a non-discriminatory basis, Gaz de France could in the long-term become unable to meet all the gas requirements of its customers.</u>

Access to the transmission and distribution networks must be allocated on a non-discriminatory basis so that third parties can supply natural gas to their customers. Operators of networks are prohibited by law and regulation from refusing third-party access for anti-competitive reasons. As a result, in the long-term, Gaz de France might not have the transmission or distribution capacity available to enable it to deliver all of the gas that it would otherwise sell to its own customers.

Price/Oil risk

<u>Changes in the prices of petroleum products and exchange rate fluctuations between the US dollar and the euro.</u>

Fluctuations in market prices of petroleum products and exchange rates between the US dollar and the euro can have a significant impact on the results of operations of the Group, particularly in the Exploration-Production and Purchase and Sale of Energy segments. The Exploration-Production business is structurally vulnerable to changes in oil prices and fluctuations of the exchange rate of the euro versus the US dollar, as the vast majority of the Group's sales of liquid hydrocarbons and natural gas are denominated in US dollars or are indexed to the prices of petroleum products. The Group also purchases most of the gas that it sells under take-or-pay contracts that have price indexation clauses based on the market price (in dollars) of petroleum products. The price of petroleum products and the exchange rate of the euro against the dollar depend on international demand and supply, on macroeconomic trends, on interest rate policies, on political events and on other factors beyond the control of Gaz de France. Such fluctuations could have a negative impact on the Group's financial results, making them more volatile.

<u>Changes in supply costs in the regulated public distribution sales rates.</u>

In the past, the sales rates for publicly distributed gas was fixed at a level permitting Gaz de France to reflect all of its costs, including in particular changes in its supply costs. Since 2004, these adjustments have not always been sufficient, and in fact in November 2004, the public authorities approved an insufficient increase compared to the increase in its supply costs (see paragraph 6.1.3.1.2.2.2.3 – "Sales price of natural gas/Administrative Rates").

For the 2005-2007 period, the order of the minister of the Economy, Finance and Industry dated June 16, 2005, sets out the way in which the gas supply costs are reflected, as well as remediation of the partial increase in November 2005. This ministerial order was applied at the time of the rate movements on July 1, September 1 and November 1, 2005. Subsequently, the ministerial order dated December 29, 2005 suppressed the January 1, 2006 rate movement. Finally, the ministerial order dated April 28, 2006 set a 5.8% increase for the May 1, 2006 rate movement, a level, which remains 2.3% below the level Gaz de France estimates to be necessary to cover all of its costs.

The French government also indicated through a press release on March 22, 2006 that the next rate revision (i.e. after the May 1 movement) will take place on July 1, 2007, which exposes the Group to the risk of not reflecting its gas supply costs in case of changes in the market price for oil products as well as a shift in the exchange rate of the euro against the U.S. dollar.

Management of the distributor's development

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

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

15,110 Group employees work in joint divisions of Gaz de France and EDF, principally EDF Gaz de France Distribution, or EGD. Gaz de France manages this portion of the workforce jointly with other employees of the division that are employed by the EDF group. Certain management decisions taken by these joint divisions (on both an individual and group level) could have an impact on Gaz de France, especially its salary costs and its overall cost structure. In addition, EDF might have interests that conflict with those of Gaz de France, as EDF's focus is principally electricity. As a result, there may be limitations on Gaz de France's ability to realize productivity gains.

Volume and weather risks

Weather conditions have a significant impact on the results of Gaz de France.

Major weather changes (particularly temperature changes) from one year to the next can result in substantial changes in the demand for energy, and natural gas in particular, with demand highest in colder years. Consequently, the results of Gaz de France are significantly affected by changes in weather conditions. Gaz de France has elected not to hedge this risk.

The Group's operating results also reflect the seasonal nature of the demand for gas, which is traditionally highest during the first quarter of the year, which includes the coldest months of the year, and lowest during the third quarter, which includes the warmest months of the year.

The Group has entered into long-term commitments for the purchase of gas under take-or-pay contracts that require it to purchase minimum volumes of gas even if they are not taken.

In 2005, more than 83% of the natural gas purchased by Gaz de France was bought under long-term take-or-pay contracts. Under these contracts, Gaz de France agrees to purchase minimum volumes of gas, which it must pay for whether or not it takes delivery (subject to limited exceptions, such as supplier default and force majeure). Although these contracts often incorporate mechanisms enabling it to defer delivery of some of the gas for which it has paid or to scale back its take-or-pay obligations by taking into account volumes in excess of the contractual minimum paid for in previous years, should Gaz de France suddenly be faced with a long-term decline in the demand for gas, it might have to purchase gas that it would only be able to resell at a substantial discount. Furthermore, in the event of a lack of the necessary storage infrastructure or transmission capacity, Gaz de France might not be able to take delivery of gas that it had bought. In addition, the Group's portfolio of long-term contracts is a vital source of natural gas supply. Upon expiration of these contracts, Gaz de France may be unable to obtain their renewal on equally favorable terms (or at all), which would adversely affect the security of its supplies.

Gaz de France might not be able to find appropriate targets for acquisitions in the LNG sector.

Gaz de France intends to develop its gas activities including in the LNG sector, particularly through external growth. Implementation of Gaz de France's acquisition strategy may limited by the lack of available targets, by competition with other potential acquirers or by applicable competition laws.

Development of the demand for natural gas may be lower than expectations

The Group's strategy is based on the assumption that European consumption of natural gas will increase; the return on investments made in anticipation of such growth would be significantly reduced should this assumption turn out to be inaccurate.

The Group's strategy, and the internal forecasts it uses in making investments in transmission infrastructure, its distribution network, the development of its exploration-production activities and other areas, are based on the assumption that natural gas consumption in France and Europe will continue to grow significantly in the near future. The Group has in particular assumed that the use of natural gas in power generation in France and Europe is set to grow significantly. The actual level and growth rate of natural gas consumption in France and in Europe depend on several factors, including:

- the overall level of economic growth;
- the relative attractiveness of natural gas compared to other existing energy sources or new sources of energy being developed;
- the predominance of nuclear energy for electricity generating applications in France;
- the construction of new infrastructure for transmitting and distributing gas;
- technological developments which create new uses for gas;
- environmental regulations (for example the Kyoto protocol);
- the energy policy of the governments involved;
- the availability of reliable and viable sources of natural gas; and
- the public image of natural gas (which can be affected, among other things, by the occurrence of accidents, including accidents that occur on user premises).

In each of the segments of Gaz de France's business, demand depends either directly or indirectly on general trends in the demand for gas. Any slowdown in economic growth or decrease in the volume of gas consumption in France and in Europe could compromise the success of Gaz de France's strategy and reduce the returns on its investments.

Industrial accidents

Industrial accidents could interrupt the Group's business or lead to significant financial losses or liabilities.

There are risks inherent in the operation of vast gas transmission, distribution and storage networks and the operation of petroleum and gas exploration and production facilities as well as LNG tankers, such as operating accidents, unforeseen interruptions caused by factors beyond the control of the Group (landslides, earthquakes, lightning strikes, etc.) or performances of facilities or infrastructure that are worse than expected. These incidents might cause injury, loss of life or significant damage to property or to the environment as well as interruptions in its business. See paragraph 20.3 "Judicial proceedings and arbitration." The Group's combined insurance policies may be insufficient to cover all of the Group's potential liability, loss of business or increased costs. This is particularly true of the Group's LNG maritime transport business.

Labour disputes could have a significant impact on the Group's business.

The Group cannot rule out a deterioration in its labour relations or labour unrest within its workforce. Strikes, walk-outs, claims for increases in wages or other labour issues could disrupt its activities. The Group is not insured against losses resulting from interruptions of its business caused by labour disputes. Therefore, the Group's financial position and its operating results could be adversely affected by labour disputes.

The Group's business is subject to extensive environmental, health and safety legislation.

The Group's business is subject to industrial and environmental risks relating to the nature of the products that the Group handles, which can be inflammable, explosive or toxic. The Group is subject to extensive environmental, public health and safety legislation. The Group spends significant amounts each year to comply with these rules. Furthermore, it currently possesses 326 sites on which manufactured gas plants were formerly located. These sites are currently polluted, and are the subject of an extensive clean-up program. The Group also operates facilities that are classified as environmental hazards (ICPE), some of which, known as "Seveso" sites, must be equipped with specific safety management tools. "High threshold" Seveso sites, including LNG terminals, underground storage sites and GPL Stations in Corsica and Saint-Flour, are subject to decree 2005-1130 relating to the technological risk prevention plans (TRPPs). These TRPPs must be implemented by mid-2008 and their financing must be assured by three-party agreements between the French State, local authorities and the operator under terms not defined by the text of the regulations. The Group's business could also be affected by European directives and French laws imposing limits on the emission of greenhouse gases. Should applicable environmental, health and safety legislation be further tightened, the requisite investment and compliance costs could increase substantially. As a result current changes in regulations for the security of transmission through pipelines will oblige Gaz de France to carry out work to make its transmission network conform to such regulations for which the costs cannot be exactly calculated, since decisions relating to these regulations have not yet been taken. The Group could also be compelled to temporarily shut down some of its sites in order to proceed with mandatory investment and compliance work, which could impede its overall business. The Group could be forced to pay substantial civil damages or fines and could be forced to shut down certain sites should it fail to comply with the applicable rules and regulations. Finally, increasingly stringent rules are being imposed on industrial concerns with a view to preventing environmental risks, in particular those linked to asbestos and the Legionella bacteria, for example the use of chemical and toxic products, for which damage awards can be potentially significant (see paragraph 6.1.5 – "Environment/ Sustainable development" and 20.1.1.1 (Consolidated financial statements for the year ended December 31, 2005 under IFRS/ Notes)).

4.2. Risk management

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

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

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

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

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

Evaluating the Group's potential risks

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

The Group's risk evaluation process

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

- strategic risks: risks that could, if not addressed, endanger the Group's ability to define, guide and implement its strategy;

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

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

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

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

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

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

Risk management by Gaselys

Gaselys reinforces and structures its support functions in order to improve both the measurement and control of risks and its internal controls.

The risk management process includes the strong involvement of Gaselys' shareholders, Gaz de France and Société Générale. Their market and credit risk teams jointly participate in the Gaselys risks committee with certain of the directors of Gaselys.

In terms of credit risk, the policy is set by Gaselys shareholders, which provide lines of credit to Gaselys on a counterparty by counterparty basis.

For market risks, Gaselys' in-house risk control team on the trading floor conducts monitoring on a daily basis. The estimated market risk is based on a 10-year, worst-case scenario, risk model (stress test) and on a value at risk type model, which is identical to the model used by Société Générale. All the risks associated with market risk and counterparty risk are subject to periodic review by the board of directors of Gaselys and the risk assessment divisions of its shareholders.

Gaselys must take positions on interest and exchange rates that are not material, compared to the raw material risks. Interest rate and exchange rate exposures are contained by a system of specific limits.

Liquidity risk is evaluated using simulations, which is guaranteed by a treasury management prototype, along with regular reporting to Gaselys' general management on the cash flow situation and the use of cash flow lines, as well as an emergency procedure in the event cash is needed.

Finally, a series of measures have been designed and implemented in the area of physical risks (risks of failure of physical assets, risks linked to gas delivery delays) and operational risks (risks linked to information networks).

In terms of internal controls, compliance by personnel with the rules and procedures in place for all operations handled (in particular, separating tasks, establishing responsibilities and sharing information) is regularly verified. In addition, an internal control manager, among others, is responsible for establishing control and ethics missions and organizing anti-money-laundering strategies. Finally, a new product committee is responsible for examining and reporting on the operational feasibility of a new activity, by reporting specifically on the operational structure, the risks, the monitoring and management procedures and the contractual or legal framework.

Gaselys prepared an ethics manual, which brings together rules of behaviour applicable to all of its staff.

4.2.1. Insurance purchasing policy

The Insurance division of Gaz de France defines the insurance policy for the entire Group, which was presented to the Board of Directors' audit and financial statements committee in March 2005 and under which all risks whose occurrence could have significant impact on the group's financial results are systematically insured in the insurance market. All the Group's activities are covered by insurance contracts selected from insurers that are internationally recognized for their reputation and financial soundness. The Group does not have a direct or indirect equity interest in a special purpose insurance subsidiary, which would bear a portion of the Group's risks.

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

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

For all of these contracts, deductibles are adjusted in order to optimize the overall cost for the Group based on the probability of the occurrence of losses and the amount of losses each entity would be able to bear without endangering its continued activity. The level of the deductibles is generally determined in a way that absorbs the average of the total losses experienced.

The Insurance division of Gaz de France is responsible for the entire Group's respect of the insurance policy principles that it defines. This oversight is facilitated by centralized insurance management, with respect to the parent company and the Group's main subsidiaries. This centralization makes it possible to have a homogeneous and coordinated control of insurable risks at the Group level, along with a centralized approach to insurance purchasing. For the other subsidiaries, for which insurable risks are not directly managed by Gaz de France, oversight is progressively put in place with the objective of completing their integration into the Group's insurance programs.

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.

4.2.2. Primary contracts

Civil liability

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

The Group also has insurance policies that cover executive liability and liability for accidental environmental pollution.

Property damage and business interruption

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

The insurance coverage caps are generally equal to the value of the insured property. However, for major concentrations of assets, they are fixed in terms of the cost of reconstruction of new assets for the most important site. Major loss scenarios are defined by internal experts with the help of partners outside the Group (such as insurers and consulting firms). For example, Gaz de France's insurance policy for damage to industrial assets provides coverage up to €350 million for LNG terminals.

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

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

Other insurance

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

- multiple-line office insurance (with a maximum covered amount in case of an accident of €100 million) and insurance for premises covering accidental damage and the landlord, tenant or occupant's liabilities;
- insurance covering liability and damage on all vehicles;
- insurance covering the transport of LNG by LNG tanker with a limit of €30 million per tanker and event;
- construction insurance for major construction sites including a guarantee of work damages as well as the hedging of operating losses in case of delayed construction following damages (construction of the Fos Cavaou LNG terminal); and
- maritime insurance covering ship owner's liability (unlimited coverage except in case of war (with a US$500 million ceiling) and pollution (with a US$1 billion limit)), and the charterer's liability (covered up to US$500 million) and damage to the ships, up to their agreed value.

5 INFORMATION ABOUT THE ISSUER

5.1. History and development of the Company

5.1.1. Corporate name

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

5.1.2. Companies Register

The Company was registered with the Paris Companies Register under the registration number 542 107 651.
APE Code: 402A.

5.1.3. Date of incorporation and duration of the Company

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

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

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

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

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

The specific laws governing the Company are notably French Law No. 46-628 dated April 8, 1946 concerning the nationalization of the electricity and gas industry, French Law No. 83-675 dated July 26, 1983, concerning the liberalization of the public sector, French Law No. 2003-8 dated January 3, 2003, concerning the gas and electricity markets and energy public service, French Law No. 2004-803 dated August 9, 2004, concerning gas and electricity public service and gas and electricity companies, as well as French Law No. 2005-31 dated July 13, 2005, establishing the trends of energy policy.

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

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

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

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

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

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

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

5.2. Investments

5.2.1. Investments realized

Total investments came to €3,061 millions in 2005, an amount significantly higher than in 2004 (€2,133 million).

Capital expenditures

Capital expenditures totaled €2,016 million in 2005, or an increase of €388 million compared to 2004.

Capital expenditures for the Group in 2005 and in 2004

In millions of euros	2005	2004 pro forma
ENERGY SUPPLY AND SERVICES DIVISION		
Exploration - Production	500	387
Purchase and Sale of Energy	46	10
Services	61	43
INFRASTRUCTURES DIVISION		
Transmission and Storage - France	447	314
Distribution France	793	713
Transmission and Distribution - International	138	76
Eliminations, other and not allocated items	31	85
TOTAL GROUP	**2,016**	**1,628**

Capital expenditures in Exploration-Production were €500 million in 2005, compared to €387 million in 2004. The increase in expenditures is tied to the development of new fields put into production at the end of 2005 and at the beginning of 2006, primarily in the United Kingdom and in The Netherlands, and also more sustained exploration efforts in 2005 (13 wells drilled in 2005, compared with eight in 2004). The breakdown of these investments is follows: 41% in Norway, 28% in The Netherlands, 16% in the United Kingdom, 10% in Germany and 5% in Algeria.

Capital expenditures for the Purchase and Sale of Energy segment were €46 million in 2005, compared to €10 million in 2004. In particular, in 2005 it included €20 million tied to the development of a new information system in anticipation of the complete opening of the individual household market in France.

Capital expenditures for the Services segment were €61 million in 2005, compared to €43 million in 2004. The investments made in 2005 primarily related to the DK6 combined-cycle plant and district heating and cooling networks in France.

Capital expenditures for the Transmission and Storage – France segment were €447 million in 2005, compared to €314 million in 2004. This increase primarily relates to the construction of the Fos-Cavaou LNG terminal, for which construction was launched in the second half of 2004. In 2005, 43.8% of the capital expenditures were devoted to transmission, 30.5% to storage and 25.7% to the LNG terminals (23% for the construction of the Fos-Cavou terminal).

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

In millions of euros	2005	2004
Transmission network	179	186
Storage	106	81
LNG terminals	115	29
Other capital expenditures not for a specified business activity	47	18
TOTAL	**447**	**314**

Capital expenditures for the Distribution – France segment were €793 million in 2005, compared to €713 million in 2004. This increase primarily relates to the absorption of gray cast iron pipelines (1,030 kilometres in 2005 for a goal of 890 kilometres). In 2005 22.7% of the capital expenditures were devoted to the absorption of gray cast iron pipelines. 54.6% of the capital expenditures were devoted to the development of the network in the context of the goal to acquire "one million new heating customers": 2,250 kilometres of network extensions were put in place and more than 243,000 new heating customers were acquired by Gaz de France, bringing to 606,343 the total number of new heating customers acquired since the beginning of the "one million new heating customers" project.

Breakdown of the capital expenditures for the Distribution France segment

In millions of euros	2005	2004
ZSG Connections	385	367
NGC Connections	48	76
Renovation	322	244
Other capital expenditures not for a specified business activity	38	26
TOTAL	**793**	**713**

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

NGC Connections (New Gas Concessions) relates to work (realized over the course of the first three years of a new public distribution – after which this public distribution is transferred to ZSG) on the creation of new networks and branch lines in newly connected communities (97 new communities connected in 2005 compared to 98 in 2004).

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

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

	Extension	Renovation
2005	57%	43%
2004	64%	36%

Capital expenditures for the Transmission and Distribution - International segment were €138 million in 2005, compared to €76 million in 2004.

In 2005, this included €44 million capital expenditures made by Distrigaz Sud and €4 million made by SPE.

Other investments

The investments in equity interests, net of cash acquired was €674 million in 2005. These investments primarily concerned the acquisition of the Romanian company Distrigaz Sud, the acquisition by the Group of an equity interest in the Belgian company SPE at the level of 25.5%, the repurchase of minority interests in CFM in the context of the ending of cross shareholdings with Total, as well as the acquisition of 39% of the share capital of the Savelys group, increasing Gaz de France's equity interest to 59%.

Other investments came to €371 million in 2005 (€352 million in 2004). These primarily related to an increase in deposits tied to the operation of the short-term markets and the construction of an LNG carrier.

5.2.2. On-going and anticipated investments

The Group implements strict investment criteria: analysis of its strategic importance, target rate of return adapted to the line of work, the plans and the countries as well as the impact of the operations on earnings per share.

For 2006, Gaz de France intends to have investments of €3 billion, excluding external growth.

After the initial public offering, the Group presented a 2005-2008 investment plan for €17.5 billion. Approximately 55% of this amount relates to investments supporting organic growth and the realization of development projects already in progress. The investments realized in 2005 and the investment programs already identified will permit the Group to respect this goal. The remainder relates to new development projects and external growth.

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

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

Not applicable.

6 BUSINESS OVERVIEW

6.1. Principal activities

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

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

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

6.1.1. Overview

Gaz de France is a leader in the natural gas market. It is the number one natural gas supplier in France and one of the leading natural gas suppliers in Europe based on its diversified natural gas supply portfolio and management of leading transmission and distribution networks. Gaz de France operates the longest European high-pressure natural gas transmission network as well as the longest European distribution network [1]. In 2005, the Group sold 749 terawatt hours ("TWh") of natural gas and recorded net consolidated revenues of €22,394 million (with 36.4% realized internationally), gross operating income of €4,219 million and consolidated net income for the Group of €1,743 million. The Group has access to approximately 11 million customers in France and approximately 2.7 million consolidated customers for Gaz de France, outside France, primarily in Europe.

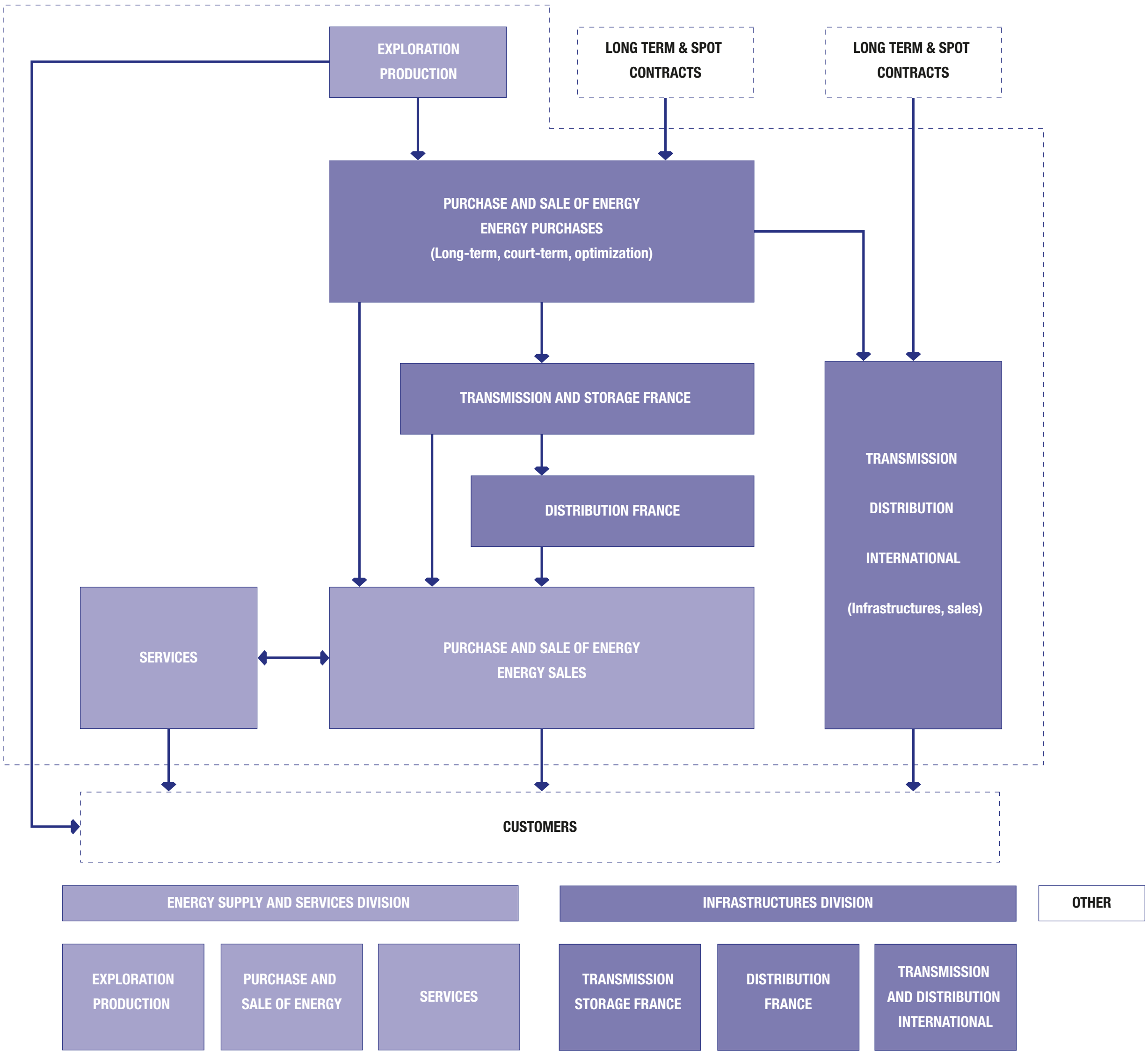
The Group's activities are conducted in a complementary manner through two divisions and six segments:

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

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

(1) *In 2004 Gaz de France's distribution network was the second longest in terms of length after the British National Grid operator (274,000 km). In 2005, the British National Grid operator sold approximately half of its network, so that currently it only has 132,000 kilometres. (Source: 2004/2005 annual report published in September 2005.)*

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



A brief history

Founding of the Company

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

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

Diversification of sources of supply

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

This introduction of natural gas to the French energy landscape resulted in Gaz de France progressively giving up its role as producer-distributor of manufactured gas in favour of being a trader, transporter and distributor of natural gas. It also required implementation, as a complement to national gas production, of an overseas supply policy in order to meet the constantly growing demand. Gaz de France entered into an initial contract with Algeria in 1964 for the purchase of LNG. Subsequently, the Group undertook a geographically diversified supply policy, by contracting with producers in The Netherlands, Russia, Norway, Nigeria, Libya and Egypt. This last supply contract began in July 2005, has a 20-year term, and corresponds to approximately 9% of the Group's supplies for the 2006-2007 period. This policy was complemented in 1994 through the Group's entry into the Exploration-Production in order to control a portion of its supplies directly and to diversify its exposure to the risk of fluctuations in the prices of its natural gas supplies.

Development of transmission and storage infrastructure

At the time of the introduction of natural gas to French territory, Gaz de France was led to develop an interconnected transmission infrastructure as well as LNG receiving capacity. This transmission network was constructed by Gaz de France to cover all of France, including a portion in southwestern France covered through a partnership with Total consisting of contracts and joint ventures. This partnership was unwound on January 1, 2005. Gaz de France now operates its transmission network as sole owner, and Total has taken over the transmission network in southwestern France.

In addition to its strategy of diversifying its supplies, Gaz de France has also participated in major gas trunk pipeline projects used for transit of natural gas across Western Europe. It has also developed new LNG facilities, in particular the regasification terminals at Fos-Tonkin and Montoir-de-Bretagne. In addition, Gaz de France is continuing to invest in major infrastructure projects in partnership with its suppliers: for example, it recently acquired a minority interest in a liquefaction plant in Egypt.

Finally, to ensure supply continuity and in particular meet the seasonality of demand, Gaz de France has increased its natural gas storage capacity, which, as of December 31, 2005, stood at more than 9 billion cubic meters of working gas.

Development of the distribution network

Along with the development of its transmission infrastructure, Gaz de France has developed a distribution network that assures the transportation of natural gas all the way to the final individual clients. In 1960, the Gaz de France distribution network served nearly 350 French communities and 5.8 million customers. By the end of 2004, 8,965 municipalities and approximately 11 million customers were connected to the network.

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

International development

Gaz de France began early in its history to develop its international activities to take advantage of its expertise and to develop cooperative relationships with natural gas suppliers. Since the early 1990s, this international positioning intensified since it became an integral part of its overall development of the Group in the context of markets in the process of opening up.

Accordingly, the Group acquired significant positions in countries such as Germany, Italy, the United Kingdom and Belgium.

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

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

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

Business activities

Energy Supply and Services

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

Exploration-Production

In order to control a portion of its supplies directly, to capture a greater portion of the value added by the gas supply chain and to reduce its vulnerability to oil prices (on which gas prices are typically indexed), the Group holds its own reserves, primarily in the North Sea, Germany and North Africa, including reserves in fields operated directly by Gaz de France. As of December 31, 2005, the Group held proven and probable reserves of 752.9 million barrels of oil equivalent ("Mboe"), of which 72.3% was in the form of natural gas and 27.7% in the form of hydrocarbons. The Group's annual natural gas production was 27.4 Mboe in 2005.

The Group also has a portfolio of exploration licenses, which it has enlarged in 2005, particularly in Egypt.

Purchase and Sale of Energy

The Group is one of the leading natural gas suppliers in Europe, one of the largest natural gas buyers in the world and one of the leading importers of LNG in Europe. In 2005, of the 749 TWh of natural gas sold by the Group, 644 TWh were sold by the Purchase and Sale of Energy segment, including 465 TWh in France, 114 TWh abroad (portion attributable to Gaz de France) and 65 TWh on the short-term market. The rest of the Group's natural gas sales were made to customers of affiliates in the Transmission and Distribution - International segment (75 TWh) or directly by the Exploration-Production segment (30 TWh). In 2005, the Purchase and Sale of Energy segment served 10.4 million household customers, more than 636,000 mid-market customer-sites (primarily professionals, retailers, small and medium-sized businesses, apartment buildings, certain private and public service providers and local communities) and more than 700 major industrial and commercial customers spread out over more than 4,000 sites, more than 500 of which were located in Europe outside of France.

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

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

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

Gaz de France purchases natural gas primarily through a diverse portfolio of long-term contracts with producers located in Norway, Algeria, Russia, The Netherlands, the United Kingdom, Nigeria and more recently in Libya and Egypt (countries started deliveries during 2005). The remainder of Gaz de France's supply comes from its Exploration-Production activities and short-term market transactions. Gaz de France's supply activities make it a recognized leader in the European market for natural gas purchasing and LNG imports.

Services

The Group conducts its service activities primarily in France, Italy and the United Kingdom. These activities enable it to provide a comprehensive offering that complements its natural gas sales activities, including energy services for industrial and service sector customers (management of cogeneration facilities, operation and maintenance of heating or cooling production facilities, industrial maintenance and development and industrial management of power generation facilities), individual household customers (maintenance of furnaces) and local communities.

Infrastructures

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

Transmission and Storage - France

Gaz de France benefits from a geographical position at the heart of the European transmission network, owning and operating the longest high-pressure natural gas transmission network in Europe, which it uses to transport its own natural gas and that of third parties. As of December 31, 2005, its French network included nearly 31,589 kilometres of gas pipelines, including a primary network of 6,757 kilometres and a series of regional networks of 24,832 kilometres.

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

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

Distribution France

As of December 31, 2005, Gaz de France's French distribution network was the longest in Western Europe, with more than 180,700 kilometres of pipelines serving 8,965 communities that accounted for approximately 76% of the French population. Gaz de France operates its network under long-term concession agreements, with a volume-weighted average remaining duration of approximately 19.5 years. Under French Law No. 46-628 dated April 8, 1946, almost all of the concession agreements of Gaz de France are subject to mandatory renewal upon expiration (see paragraph 6.1.3.2.2 – "Distribution in France").

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

Transmission and Distribution - International

The Group is a shareholder in several companies that operate trunk pipelines located on the principal Western European gas supply routes, as well as companies operating transmission and distribution systems in countries such as Germany, Belgium, Slovakia, Austria, Italy, Hungary and Romania. Some of these companies also supply natural gas to their 2.7 million customers attributable to Gaz de France (including electricity clients SPE, the number two player in the Belgian energy market, in which the Group indirectly acquired 25.5% of the capital in September 2005 through the Segebel holding company (a subsidiary held 50/50 with Centrica)), to whom they sold in 2005, 75 TWh of natural gas (attributable to Gaz de France) and 0.9 TWh of electricity.

As of December 31, 2005, the Group had 52,958 employees (64.22% in France), who play a crucial role in the implementation of the Group's industrial strategy. It pursues an active human resources policy, which is implemented in particular through the Group's European workers' council.

A new regulatory and legal framework

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

- Since August 2000, the largest consumers of natural gas have gained the option to choose their own supplier of gas within the European Union (customers with that option are referred to as "eligible" customers). In France, this option was established by a law dated January 3, 2003. In order for these customers to be able to exercise this right and, acting in accordance with a provision from the direct application of the directive, Gaz de France has implemented since August 2000 a rate for accessing its network.
- On July 1, 2004, the option to choose a natural gas supplier was extended to all customers other than residential customers, resulting in the opening of approximately 70% of the natural gas market in France.
- Starting July 1, 2007, all customers will have the option to choose their natural gas supplier, including residential customers.
- In France, beginning on January 3, 2003 parties other than Gaz de France obtained the right to access transmission and distribution networks and LNG regasification facilities on a transparent and non-discriminatory basis. Gaz de France charges regulated fees for access to the facilities it operates, under a rate structure designed to produce rates of return on assets that vary depending on the nature of the facilities.
- A law dated August 9, 2004 instituted third-party access rights to storage facilities in France, subject to fees determined on a negotiated basis [2], in a transparent and non-discriminatory manner. Gaz de France implemented this directive in April 2004.
- In January 2003, the competence the CRE (originally called the Electricity Regulation Commission), an independent administrative authority created in 2000 initially to regulate the electricity sector in France, was extended to natural gas. The CRE is responsible for proposing access fees for transmission and distribution networks and LNG facilities to the Ministers of the Economy and Energy and for issuing advisory opinions on regulated rates for natural gas sales to non-eligible customers.
- The responsibility for the management of the transmission and distribution networks has been transferred, respectively, to a 100%-owned subsidiary of Gaz de France, GRTgaz, since the beginning of 2005 and to a separate department of Gaz de France, Gaz de France Réseau Distribution, since July 2004. The two networks are managed independently from Gaz de France's production and supply activities. However, Gaz de France retains the right to financial supervision, which includes the approval of the annual budget and investment program of each network.
- All countries in the European Union are opening their natural gas markets, giving Gaz de France the opportunity to access new customers and to develop its activities throughout Europe.
- The August 2004 law and a November 2004 implementing decree changed Gaz de France's corporate form and expanded its corporate purpose to eliminate the so-called "specialty" principle, which previously limited the activities of Gaz de France to the supply, transmission and distribution of natural gas as well as certain related activities. Gaz de France now has the right to offer multiple types of energy (in particular electricity) and to provide an increased range of services. Gaz de France's expanded offering should enable it to implement a strategy designed to increase customer loyalty in France and to acquire new customers both in France and throughout Europe.
- The French ministerial order dated December 29, 2005 and amended by the French ministerial order dated June 16, 2005, reflects changes in material and non-material costs, but ignores rate movements in January 2006, by suspending the at-level rate remediation anticipated to occur on January 1, as well as the one-time mass remediation anticipated to occur on April 1, 2006.

The Natural Gas Sector in France and in the World

Except where otherwise indicated, information in this section has been taken from the 2004 Report of the International Energy Agency (**"IEA"**) on the world energy market, World Energy Outlook [3], and IEA's 2004 report on France's energy policies, Energy Policies of IEA Countries – France [4].

(2) *The rate is prepared by Gaz de France, published and applied to clients under the same conditions.*
(3) *This report analyzes 2002 data.*
(4) *This report analyzes data from 2001.*

The natural gas market

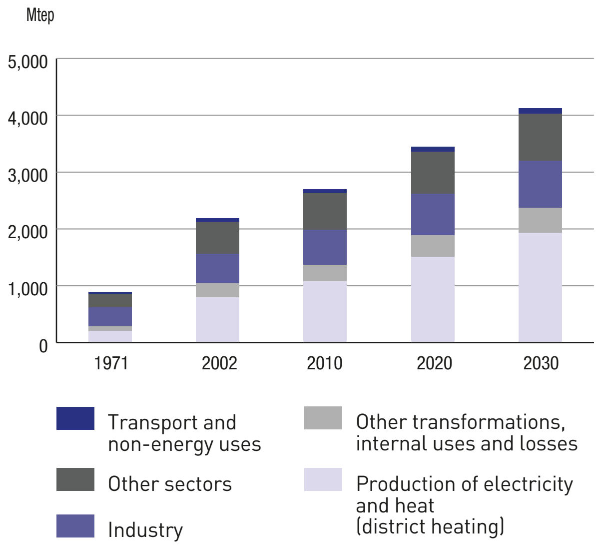
The natural gas market encompasses a variety of activities, from the search for gas fields to the delivery of natural gas to the final customer. In the exploration phase, companies search for geological structures likely to contain significant natural gas fields, and drill wells to confirm the presence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

The demand for natural gas in France and worldwide

International demand

The natural gas markets have been growing regularly since 1978. From 1978 to 2004, these markets posted average annual growth of 2.7%. In 2004, natural gas consumption worldwide amounted to 2,790 billion cubic meters, including 504 billion cubic meters in Europe.[5]

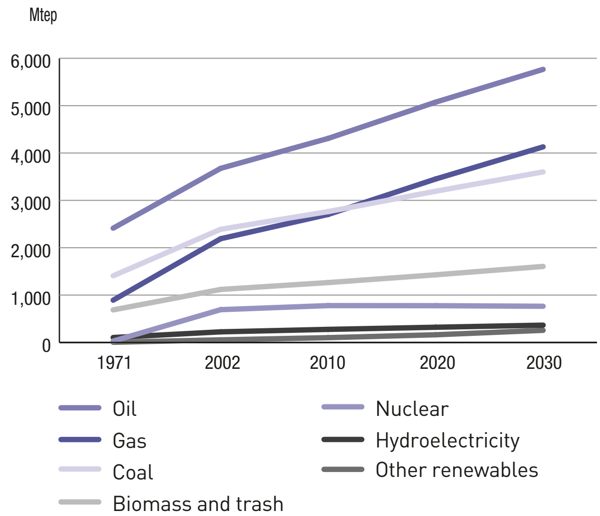
Changes in and forecasts for natural gas demand worldwide by consumption sector



Source: WEO 2004 – IEA's World Energy Outlook 2004.

The share of natural gas in the total energy consumption worldwide has been consistently increasing. The IEA has forecast that it will grow from 21% in 2002 to 24% in 2030, i.e. an annual growth rate of 2.1%. In Europe, the IEA forecasts annual growth in the primary demand for natural gas over the same period of 1.8%, compared to the 4.7% annual growth rate observed over the three last decades. Although the greatest rate of increase in demand is forecast to occur in Africa, Latin America and Asia, the absolute amount of the volume increase is forecast to be greater in the mature markets of the European and North-American countries of the OECD (Organization for Economic Cooperation and Development), and in countries in transition, where there is greater natural gas consumption per person.

Changes in and forecasts for primary energy consumption worldwide



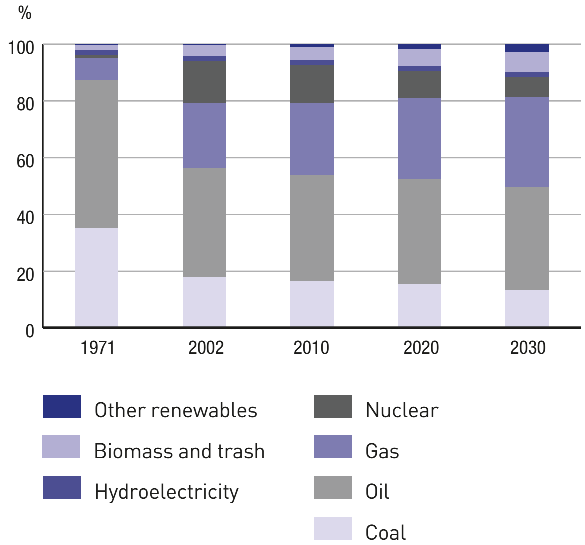
Source: WEO 2004 – IEA's World Energy Outlook 2004.

According to IEA, natural gas will become by 2030 the second largest source of energy worldwide, at the same level currently occupied by coal. In Europe, the share of gas in the total consumption of energy is forecast to increase from the 23% recorded in 2002 to 32% in 2030.

According to a study published by the 2005 World Energy Outlook which is particularly focused on countries in the near-East and North Africa, the portion of natural gas that should go up to 24% in 2030, i.e. an annual growth rate of 2.1%.

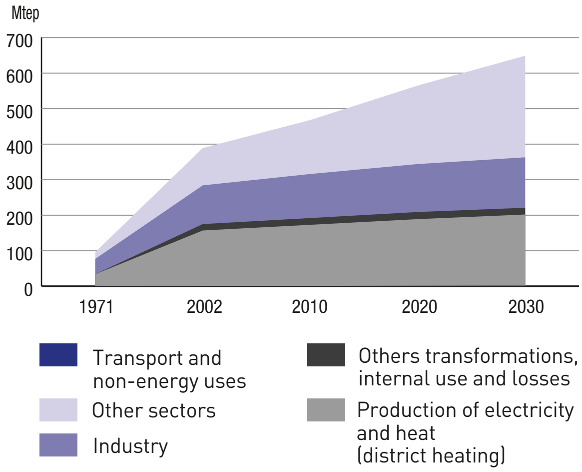
(5) *Europe, as defined by the IEA, is the 25 countries that are currently members of the European Union, including the ten countries that became members in May 2004. Source: AIE, "Natural Gas Information 2005".*

Changes in and forecasts for primary energy consumption by type of energy in Europe (EU 25)



Source: WEO 2004 – IEA's World Energy Outlook 2004.

Changes in and forecasts for natural gas demand in the European Union by consumption sector



Source: WEO 2004 – IEA's World Energy Outlook 2004.

The IEA forecasts that approximately 60% of the growth in world demand for natural gas will come from the production of energy using natural gas, a sector that accounted for 36% of global consumption of natural gas in 2002, and that is forecast to account for 47% of consumption in 2030 with natural gas remaining, according to IEA, the most competitive source for electric power generators in the world. In Europe, the share of natural gas in power generation is forecast to increase from the 15% recorded in 2002 to more than 35% in 2030. In addition, according to IEA, natural gas is frequently preferred to coal in new thermal plants for its environmental advantages, its lower capital investment requirements and its operational flexibility. According to Global Insight (2004 Report), growth in this area should be driven in part by the application of the European directive on emissions, which entered into force in January 2005, and which requires companies to pay for carbon dioxide (CO^2) emissions. This directive should encourage companies to use the types of energy that emit the least CO^2, such as natural gas and nuclear energy.

The demand for natural gas in Europe among end users should also increase, with IEA forecasting 0.9% annual growth in the residential and services sectors through 2030, and 1% annual growth in the industrial sector.

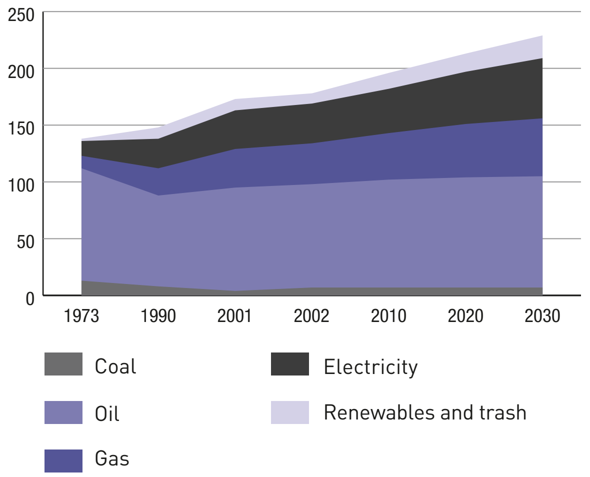
Demand in France

According to the Energy Observatory, natural gas accounted for 14.5% of France's primary energy sources in 2001: 40 million metric tons of oil equivalent out of 275 million metric tons of oil equivalent for all types of energy combined. Although it has experienced significant growth, the share of natural gas in energy consumption is lower in France than the average for countries in the European Union, 24.3% in 2004 (source: Eurogas).

Natural gas consumption in France grew by 4.2% annually from 1973 to 2001, according to the IEA, compared to annual growth of 1.2% in all the countries of OECD combined, and compared to the annual growth of French demand of 0.8% for all types of energy combined. According to Cedigaz association's 2004 report, The Players on the European Gas Market ("Cedigaz"), under this analysis based on data from 2003, this growth has been constrained by a national energy policy that has strongly focused on the development of nuclear energy. The use of natural gas in power generation is consequently limited, and the share of natural gas in the supplies of primary energy is relatively low compared with other European countries.

The graph below shows the evolution of energy consumption in France by types of energy since 1973, and consumption forecasts until 2030:

Changes in and forecasts for final consumption by energy source in France from 1973 to 2030 in Mtep

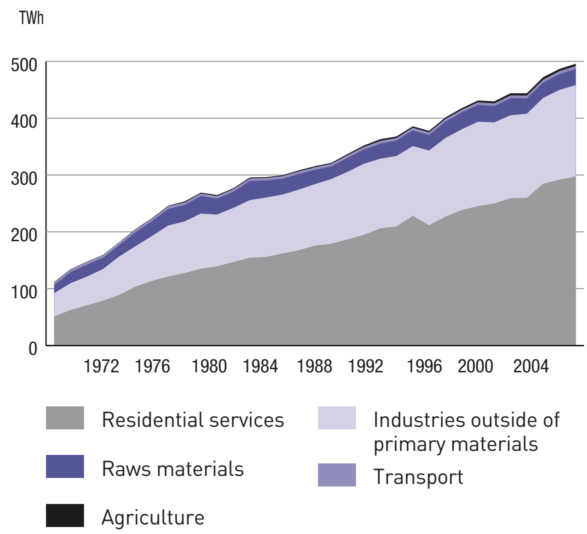


Source: Energy Policies of IEA Countries - France 2004 Review.

Unlike in the vast majority of other European countries, natural gas is very little used in the production of electricity (outside of cogeneration). The only production unit functioning on a combined gas cycle configuration is the one built by Gaz de France at Dunkirk in partnership with Arcelor. This unit, which went into commercial service on May 21,2005, is fueled by natural gas and metallurgical gas provided by Arcelor. The natural gas that fueled cogeneration units represented 3.2% of total energy production in 2003.

In 2004, the residential sector accounted for 38% of the total gas consumption, the industrial sector for 37%, the services sector for 16%, and the energy sector, meaning the heating network and cogenerators for 8% and agriculture for 1%. The graph below shows the increase in the consumption of natural gas by sector from 1972 to 2004:

Final consumption of natural gas by consumption sector in France



Source: The Energy Observer.

Given that the residential and services sectors represent the largest portion of gas consumption in France, and that gas is used primarily for heat and hot water in the residential sector, natural gas demand in France varies considerably by season. As an example, demand for natural gas in August 2002 was only 17% of the level of demand in January 2003.

The IEA forecasts annual growth in primary consumption (including gas used to fuel electricity production) of natural gas to be 2.1% between 2000 and 2030, with cumulative demand for gas growing 87.4% and representing 20.7% of total primary energy consumption in 2030.

Supplying the French and European markets with natural gas

A portion of European natural gas demand is satisfied with European reserves. 45% of natural gas consumed in 2003 in Europe (EU 25) was produced within Europe, with the rest coming from Russia (24%), Norway (15%), and Algeria (11%). According to Cedigaz, natural gas supplies in Europe (including both European production and imports outside of the EU) amounted to 497 billion cubic meters in 2004. The European Union exported 4 billion cubic meters to non-European countries. (Source: Cedigaz).

Geographic breakdown of natural gas supply in the 25 European Union countries by source in 2004

In billions of cubic meters Country	Supply	Production	Exports	Imports	From: Russia	Norway	Algeria	Other non-EU countries	Within the EU
Austria	9.1	2.0	0.7	7.9	76%	10%	-	-	14%
Belgium	16.4	-	3.3	19.7	1%	37%	14%	-	48%
Czech Republic	9.6	0.1	-	9.5	75%	25%	-	-	0%
Denmark	5.4	9.5	4.3	0.3	-	29%	-	-	71%
Estonia	1.0	-	-	1.0	100%	-	-	-	0%
Finland	4.6	-	-	4.6	100%	-	-	-	0%
France	**45.4**	**1.4**	**0.8**	**44.8**	**26%**	**33%**	**15%**	**2%**	**25%**
Germany	96.6	18.3	12.6	90.9	40%	29%	-	1%	30%
Greece	2.8	-	-	2.8	80%	-	20%	-	-
Hungary	13.7	2.7	-	11.0	82%	-	-	3%	15%
Ireland	4.5	1.1	-	3.4	-	-	-	-	100%
Italy	80.6	12.9	-	67.7	31%	10%	38%	8%	13%
Latvia	1.8	-	-	1.8	100%	-	-	-	-
Lithuania	2.9	-	-	2.9	100%	-	-	-	-
Luxembourg	1.4	-	-	1.4	-	-	-	-	100%
The Netherlands	44.6	77.5	48.8	15.9	17%	39%	-	-	44%
Poland	14.1	4.3	-	9.8	61%	6%	-	27%	6%
Portugal	3.6	-	-	3.6	-	-	63%	37%	-
Slovakia	6.6	0.2	-	6.4	100%	-	-	-	-
Slovenia	1.1	-	-	1.1	51%	-	40%	-	9%
Spain	27.6	0.3	-	27.3	-	8%	52%	40%	-
Sweden	1.1	-	-	1.1	-	-	-	-	100%
United Kingdom	98.5	96.0	9.8	12.3	-	73%	-	-	27%

Source: Cedigaz.

In 2004, proven reserves of natural gas in Europe (EU 25) were nearly 2.9 trillion cubic meters, which represented 1.6% of world resources. Natural gas production in 2004 amounted to 226 billion cubic meters, including 42% produced by the United Kingdom (96 billion cubic meters) and 34% by The Netherlands (78 billion cubic meters) from fields located in the North Sea. Production in the North Sea is expected to decrease progressively until 2030. IEA forecasts that European gas production should decrease to 147 billion cubic meters in 2030.

Given this decrease, and the anticipated growth in consumption, a growing share of natural gas supplied to Europe can be expected to come from imports. The IEA expects natural gas imports in Europe to increase from 49% of consumption in 2002 to more than 81% in 2030, with increased supplies coming mainly from Russia, Norway and Algeria, as well as other African countries, former Soviet countries, the Middle East and Latin American countries. Transmission of natural gas will be made through long-distance pipelines (partially underwater) or in the form of LNG, a market that is expected to develop in the near future. With a total of 150 billion cubic meters exchanged in 2002 in the world, IEA forecasts that LNG could rapidly develop to reach an exchange volume of 250 billion cubic meters in 2010 and 680 billion cubic meters in 2030. While natural gas delivered through pipelines today represents 70% of cross-border gas exchanges, the share of LNG should, according to IEA, exceed 50% by 2030.

6.1.2. Strategy

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

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

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

  Continue investments in French infrastructure.

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

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

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

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

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

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

  Continuously seek to increase productivity.

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

  Pursue international development.

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

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

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

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

  Develop a multi-energy offering with related services.

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

  Increase customer loyalty.

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

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

Accelerate the development of its European presence:

The Group is implementing three European growth strategies:

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

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

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

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

For years, Gaz de France has maintained close relationships with its suppliers using contracts with flexible conditions that permit optimized contract management and adaptation of terms based on market conditions. This strategy will be maintained as Gaz de France pursues its risk diversification policy, which has allowed it to develop one of the most diverse supply portfolios in Europe.

Increase the Group's reserves and production.

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

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

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

Create an electricity supply structure.

Through purchase contracts (a three-year contract of this type was concluded with EDF during the summer of 2005) and the development of assets held in its own name. Gaz de France intends to undertake the development of its own dual offer (gas-electricity). New projects are already in place or are under construction to produce a total capacity of about 2,200 megawatts of electricity ("MWe") (DK6 in Dunkerque, Shotton in the United Kingdom and AES Energia Cartagena in Spain). In addition, during September 2005, the Group acquired 25.5% of the share capital of the second leading Belgian electricity producer – the SPE company- (through the Segebel holding company, in which it holds 50% in partnership with Centrica), which has electrical capacity in the range of 1,600 MWe. The Group's global objective with respect to power generation is to hold futures in 5,000 MWe of capacity held in its own name.

Continue the development of arbitrage and trading.

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

• **Pursue a controlled growth strategy:**

Maintain a healthy financial structure.

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

Follow a controlled and profitable investment strategy.

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

Seek a consistent increase in net income.

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

6.1.3. Description of business activities

2005 Revenues and EBITDA

In millions of euros	Energy Supply and Services			Infrastructures				Total Group
	Exploration - Production	Purchase and Sale of Energy	Services	Transmission and Storage – France	Distribution France	Transport and Distribution International	Interdivisional and holding eliminations**	
Revenues	1,139	17,252	1,916	2,124	2,951	2,283	(5,271)	22,394
EBITDA	726	251	166	1,271	1,352	344	109	4,219

2004 Revenues and EBITDA*

In millions of euros	Energy Supply and Services			Infrastructures				Total Group
	Exploration - Production	Purchase and Sale of Energy	Services	Transmission and Storage – France	Distribution France	Transport and Distribution International	Interdivisional and holding eliminations**	
Revenues	968	13,855	1,439	2,145	2,972	1,467	(5,320)	17,526
EBITDA	625	265	94	1,291	1,399	400	99	4,173

(*) *Recalculated under IFRS, pro forma after the reform of the financing of the retirement plan, not audited.*
(**) *This heading includes the financial results of the subsidiary DK6 in 2004; in 2005, this subsidiary was reclassified into the Services segment.*

6.1.3.1. Energy Supply and Services

6.1.3.1.1. Exploration - Production

The segment's revenues and EBITDA

In millions of euros	2005	2004*
Revenues (before eliminations)	1,139	968
Revenues from third parties	*932*	*783*
EBITDA	726	625

(*) *As restated under IFRS, pro forma after the reform of the financing of the retirement plan, not audited.*

6.1.3.1.1.1. Strategy of the Exploration-Production segment

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

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

The Group's medium-term goal is to hold proven and probable reserves of approximately 1,000 Mboe (including two-thirds in the form of natural gas). In order to attain this goal, the Group plans to maintain its activity level in the current production zones of Northern Europe, continue development in North Africa (Algeria and Egypt) and establish itself in new zones that are likely to supply Europe with gas. As part of its strategy of targeting European markets, the Group will seek new production sites from which extracted gas may be transported to Europe on competitive terms and conditions.

6.1.3.1.1.2. Development of its Exploration-Production business

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

In 2005, in the context of pursuing research of gas basins near its consumer markets, Gaz de France has increased its facilities by entering into a new country, Mauritania, by committing to participate in three equity investments in three exploration blocks with the Dana Petroleum company. An increase in Gaz de France's presence has been negotiated with Wintershall for the most promising block, with the intention of becoming an operator for the development as well as production stages.

6.1.3.1.1.3. The legal context of its Exploration-Production activities

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

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

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

6.1.3.1.1.4. Exploration: reserves

As of December 31, 2005, the Group held approximately 322 exploration and/or production permits (more than 60% of which are operated by the Group) in nine countries. Out of 13 wells drilled in 2005, 11 wells resulted in success. These wells increased the Group's proven and probable reserves in 2005 and may supply new reserves in future years.

The tables below set forth the Group's proven and probable reserves (including developed and undeveloped reserves [6]) as of the dates indicated and their geographic breakdown:

Changes in the Group's reserves [7]

In Mboe	2003	2004	2005
Proven and probable reserves	614.0	632.3	697.2
Of which natural gas	*452.2*	*477.8*	*516.5*
Of which liquid hydrocarbons	*161.8*	*154.5*	*180.7*
Portion of proven and probable reserves attributable to companies consolidated by the equity method	55.3	63.0	55.7
TOTAL	**669.3**	**695.3**	**752.9**

(6) *Proven, developed reserves are those that can be produced from an existing facility. Proven, undeveloped reserves are those which would necessitate the drilling of a new well either at a location not previously developed or significant additional investments at an existing facility, such as a compressor unit.*

(7) *The amounts are rounded to the nearest amount based on the database so that small differences may appear between the detailed line amounts and the total.*

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

Natural gas

In Mboe	2003	2004	2005
Germany	115.9	110.7	123.7
Norway	150.6	195.1	222.3
The United Kingdom	85.5	80.1	72.2
The Netherlands	111.3	108	111.4
Kazakhstan	9.4	3.2	4.1
Others	6.1	10.9	10.2
TOTAL	**478.8**	**508.0**	**544.0**
Change	36.0%	6.1%	7.1%

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

Liquid hydrocarbons

In millions of barrels of oil	2003	2004	2005
Germany	49.9	44.8	46.6
Norway	58.6	60.7	87.7
The United Kingdom	31.8	35.3	30.7
The Netherlands	1.3	1	0.9
Kazakhstan	48.8	45.4	43.0
Others	0.1	0.1	0.1
TOTAL	**190.5**	**187.3**	**209.0**
Change	43.5%	-1.6%	11.5%

Changes in the Group's reserves by country: total

Total = Natural gas + Liquid hydrocarbons

In Mboe	2003	2004	2005
Germany	165.8	155.5	170.3
Norway	209.2	255.8	310.0
The United Kingdom	117.3	115.4	103.0
The Netherlands	112.6	109	112.2
Kazakhstan	58.2	48.6	47.2
Others	6.2	11	10.3
TOTAL	**669.3**	**695.3**	**752.9**
Change	38.2%	3.9%	8.3%

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

In Mboe	2003	2004	Natural gas 2005
Reserves as of 12/31 N-1	351.8	478.8	508.0
Revised amount + discoveries	9.1	15.5	62.0
Purchases and sales of assets	146.9	46.4	1.3
Production	(29.0)	(32.8)	(27.4)
Reserves as of 12/31	**478.8**	**508.0**	**544.0**

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

In millions of barrels of oil	2003	2004	Liquid hydrocarbons 2005
Reserves as of 12/31 N-1	132.7	190.4	187.3
Revised amount + discoveries	24.6	2.6	36.7
Purchases and sales of assets	46.2	10.7	0
Production	(13.0)	(16.4)	(15.0)
Reserves as of 12/31	**190.5**	**187.3**	**209.0**

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

In Mboe	2003	2004	Natural gas and liquid hydrocarbons 2005
Reserves as of 12/31 N-1	484.5	669.3	695.3
Revised amount + discoveries	33.7	18.1	98.7
Purchases and sales of assets	193.1	57.1	1.3
Production	(42.0)	(49.2)	(42.4)
Reserves as of 12/31	**669.3**	**695.3**	**752.9**

As of December 31, 2005, Gaz de France's proven and probable reserves for liquid hydrocarbons and natural gas increased to 752.9 Mboe (including the portion attributable to subsidiaries consolidated by the equity method, compared to 695.3 Mboe in 2004), 72.3% of which is gas reserves or 86.3 billion cubic meters. Gaz de France seeks a split of two-thirds natural gas, one-third liquid hydrocarbons, in the years to come. Gaz de France leads exploration in 10 countries, particularly in Europe and North Africa.

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

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

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

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

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

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

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

The rate of renewal for reserves for a given period is defined as the ratio of additions of reserves (discoveries, net acquisitions and revisions), to production for a given period. The Group's rate of renewal for reserves was 545% in 2003, 153% in 2004 and 236% in 2005, i.e. 301% on average for the period 2003-2005.

6.1.3.1.1.5. Production

The following tables set forth Gaz de France's production of natural gas and of liquid hydrocarbons by country for each of the three years ended on December 31, 2003, 2004 and 2005.

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

In Mboe	2003	2004	2005
Germany	6.8	10.2	8.8
Norway	-	-	-
The United Kingdom	12.4	11.2	9.0
The Netherlands	9.4	11	9.3
Others	0.5	0.4	0.3
TOTAL	**29**	**32.8**	**27.4**

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

In Mbbl	2003	2004	2005
Germany	2.4	3.9	3.5
Norway	2.9	4.9	4.0
The United Kingdom	5.5	4.9	4.8
The Netherlands	0.1	-	0.1
Others	2.1	2.7	2.5
TOTAL	**13**	**16.4**	**15.0**

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

In Mboe	2003	2004	2005
Germany	9.2	14.1	12.3
Norway	2.9	4.9	4.0
The United Kingdom	17.9	16.1	13.8
The Netherlands	9.5	11	9.4
Others	2.6	3.1	2.8
TOTAL	**42**	**49.2**	**42.4**

During the year ended December 31, 2005, Gaz de France's production of natural gas and liquid hydrocarbons increased to 42.4 Mboe, two-thirds of which related to natural gas production.

6.1.3.1.1.6. Exploration-Production activity by country

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

Germany

Gaz de France has increased its presence in Germany since its purchase in 2003 of the German activities of Preussag Energie (since renamed Gaz de France Produktion Exploration Deutschland GmbH, or "PEG"), which has allowed it to increase considerably its presence on this market. On December 31, 2005 the Group held in Germany 18.9 billion cubic meters of proven and probable reserves of natural gas and 45.6 Mboe of proven and probable reserves of liquid hydrocarbons. Gas produced from its PEG assets, amounting to 1.1 billion cubic meters, is mainly sold to E.On-Ruhrgas. Furthermore, PEG holds rights to four underground storage sites with a net capacity of 276 million cubic meters which it rents to German distributors. Finally, PEG has enabled Gaz de France to indirectly expand its presence in the German market due to its 11% share in EGM, which owns transmission and distribution infrastructure and markets a portion of the gas produced by its shareholders in northwestern Germany.

In Germany, furthermore, Gaz de France is the sole shareholder in EEG, which has proven and probable reserves of approximately 5.4 Mboe as of December 31, 2005 (in 2005, EEG produced 2.1 Mboe, 90% of which was gas). EEG holds and operates a storage facility in a saline cavity called Peckensen, for the benefit in particular of the Group's Purchase and Sale of Energy segment.

Norway

The Group has an equity interest in seven oil and natural gas fields, off-shore from Norway, with its share of proven and probable reserves being approximately 310 Mboe as of December 31, 2005 (approximately 71.7% of which is in the form of gas). Gaz de France has been designated an operator by the Norwegian authorities for the production phase for one of these fields (Gjøa), to begin in 2008 or in 2010. The Group currently produces only crude oil in Norway, with gas production due to start in 2007 as part of the first LNG project in Europe (Snøhvit project), and the development of the natural gas reserves for the Njord field (only the oil reserves are currently being produced). Gaz de France plans to make available all or part of its gas production in Norway to its Purchase and Sale of Energy segment.

United Kingdom

The Group holds shares in 28 fields located in the British North Sea, 13 of which are in production. The share of proven and probable reserves in these fields held by the Group (including reserves held through its 22.5% stake in EFOG) was, as of December 31, 2005, 103 Mboe, approximately 70.2% of which was in the form of gas.

During the year ended December 31, 2005, the Group sold approximately 70% of its consolidated natural gas production in the United Kingdom, to its Purchase and Sale of Energy segment (including sales to Gaselys), for resale mainly on the British market. During the year ended December 31, 2005, new fields have entered into production (including the Munro field in August) and the new production wells were drilled on certain fields (CMS III, for example), allowing the production capacity to grow in the short-term. In January 2006, the new Hunter field also went into production.

On November 7, 2005, Gaz de France agreed, in the context of an asset exchange agreement with Dana Petroleum to sell all of it equity interest in the Johnston field and 25% of the Anglia field.

The Netherlands

The Group holds shares in 39 fields along the Dutch coast, 32 of which are fields in production for which Gaz de France is the majority operator. On December 31, 2005, the share of proven and probable reserves held by the Group in these fields represented 112.2 Mboe, of which 99.2% was in gas form. During the year ended December 31, 2005, the Group sold 25% of the natural gas produced in The Netherlands to its Purchase and Sale of Energy segment for sale in the Benelux countries and in Germany.

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

The use of licenses significantly extends the historical production zone of ProNed in The Netherlands. The gas produced by these gas fields is primarily sold to its Purchase and Sale of Energy segment.

Algeria, Mauritania and the Ivory Coast

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

Since 2002, the Group has been the holder of an exploration-production permit for Touat in the south of Algeria on the coasts of Sonatrach. During 2005, the Group pursued work relating to the evaluation of its resources as contemplated under Phase 1 of the project, which reinforced the pre-feasibility evaluation. During phase 2, which was initiated at the beginning of 2005, the Group pursued pre-development studies, appraisals of the different deposits included in the license and a commercial feasibility and transmission study with Sonatrach.

Gaz de France, following the asset exchange agreement with Dana Petroleum dated November 7, 2005 and the agreement with Wintershall dated December 20, should enter into three Mauritanian off-shore blocks (24% in block 1, 27.85% in block 7 and 26% in block 8). The definitive conclusion of these agreements remains conditioned on the approval of the different governmental entities.

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

Egypt

The Group won a bidding process and on September 15, 2005 finalized an concession agreement with Egypt's national company, EGAS, and the Egyptian government, and so obtained a 100% stake in the off-shore West El Burullus block, located next to the Nile river. Gaz de France expects, in the context of the asset exchange mentioned above, to sell 30% to Dana Petroleum.

Kazakhstan

EEG has a 17.5% holding in Kazgermunai LLP, which operates three oil and gas fields in Kazakhstan. On December 31, 2005, the share of proven and probable reserves of these fields held by the Group was 47.2 Mboe, of which 8.8% was in gas form. The Group is considering disposing of its stake in these fields.

6.1.3.1.1.7. Marketing

Approximately 71% of the natural gas currently produced by Gaz de France is sold to third parties in Europe under short-term or long-term agreements that were negotiated prior to the acquisition of these companies by the Group. The purchases are mainly by Gasunie in The Netherlands and E.On-Ruhrgas in Germany. Long-term agreements under which Gaz de France sells its gas production are indexed to the spot prices of gas and/or the average prices of petroleum products. Although the development of the price for natural gas tends to follow that of petroleum, there is nevertheless a time lag, generally between six and nine months, before changes in the prices for petroleum products impact the long-term selling prices for natural gas.

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

6.1.3.1.2. Purchase and Sale of Energy

The segment's revenues and EBITDA

In millions of euros	2005	2004*
Revenues (before eliminations)	17,252	13,855
Revenues related to third parties	*16,769*	*13,690*
EBITDA	**251**	**265**

(*) *As restated under IFRS, pro forma after the reform of the financing of the retirement plan, not audited.*

6.1.3.1.2.1. Purchase and Sale of Energy segment strategy

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

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

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

Gaz de France intends to pursue investments in its infrastructure in France which will contribute to providing natural gas network access to one million new customers using natural gas for heating between 2003 and 2007, or 606,343 by the end of 2005, since the beginning of the project.

6.1.3.1.2.2. Description of Activities

Gaz de France is the leading supplier and purchaser of natural gas in the French market and is one of the leaders in Europe. Primarily through its Purchase and Sale of Energy segment, Gaz de France sells natural gas to approximately 11 million customers in France (of which 10.4 million are individual household customers) and approximately 521 customers abroad located at approximately 4,090 sites (mostly major industrial customers). Subsidiaries that are part of the Transmission and Distribution International segment serve approximately 2.7 million customers. In addition, Gaz de France sells other energy products (primarily electricity) to eligible customers.

The Group sold a total of 749 TWh of natural gas in 2005 (compared to 708 TWh in 2004). Of this amount the Purchase and Sale of Energy segment sold 644 TWh, including 465 TWh in France, 114 TWh abroad and 65 TWh of short-term sales. Gaz de France's share of the natural gas sold by subsidiaries that are part of the Transmission and Distribution - International segment was approximately 75 TWh in 2005; and the Exploration-Production segment sold approximately 30 TWh of natural gas in 2005, mainly under long-term contracts. Except where otherwise indicated, references to the Group's natural gas sales in this section include only the sales by the Purchase and Sale of Energy segment.

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

6.1.3.1.2.2.1. Purchase of energy and hedging

6.1.3.1.2.2.1.1. Gaz de France's natural gas supply policy

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

Gaz de France is one of the leading purchasers of natural gas in Europe. It has a portfolio of long-term contracts that covered more than 83% of its 2005 requirements. The portion attributable to long-term contracts is likely to be stable as a result of new contracts recently entered into force (in particular, a contract in 2005 to purchase Egyptian LNG).

Gaz de France is one of the largest customers of the most important suppliers of natural gas to Europe, particularly Norway, Russia, Algeria and The Netherlands. The Group is also one of the main participants in the LNG sector, with significant expertise that allows it to play a leading role in the development of this sector. The Group's natural gas supply sources also include its own Exploration-Production segment and short-term markets.

Gaz de France intends to remain a significant buyer of natural gas from its traditional suppliers and strengthen its long-term relationships, including through the development of new partnerships. At the same time, it is developing relationships with new suppliers, particularly in Egypt and Libya (Libyan gas sold in Italy), in order to meet its growing needs resulting from its expansion in Europe.

The table below shows the sources of Gaz de France's supply for each of the three years ended December 31, 2003, 2004 and 2005 (excluding consumption for its own account and losses):

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

	Year ended December 31,		
(in TWh)	2003	2004	2005
Long-term contracts with third parties	471.6	507.0	539.5
Production of the Exploration-Production segment	11.0	27.2	21.6
Short-term purchases (1)	58.9	95.6 (2)	107.5
Other sources	1.6	0.4	0.3
TOTAL	**543.1**	**630.2**	**668.9**

(1) *The increase of the share of supply coming from the short-term purchases in 2004 and 2005 is due in part (i) to an interruption caused by the partial unavailability of the Skikda plant in Algeria and (ii) the increase in sales volume which is coupled with the fact that deliveries under certain new long-term contracts (Egypt, in particular) have not yet reached their plateau (see paragraph 6.1.3.1.2.2.1.1.4 - "Optimized management of Gaz de France's supplies"). These short-term purchases were also realized in the context of hedging transactions.*
(2) *The net balance of short-term purchases and sales was 36 TWh. in 2004.*

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

Gaz de France's long-term contracts in general have an initial term of 20 years. As of December 31, 2005, the average remaining term of Gaz de France's long-term contracts (weighted by their importance in the supply portfolio) was almost 13 years (compared to 15 years in 2004), and no significant contract is set to expire during the next five years.

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

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

The supply contracts provide for one or more delivery points. The delivery points for gas supplied by pipeline are located along the European transmission system. For LNG, the gas is sometimes delivered at the loading points for ships at the suppliers' liquefaction plants. As a result, Gaz de France uses both transportation of gas by land and by sea. Gaz de France's total cost for the transportation by land and by sea was €248.3 million (excluding subsidiaries) in 2005.

The minimum quantities that Gaz de France (outside of subsidiaries) is required to take pursuant to existing long-term contracts are 49 billion cubic meters in 2006, 186 billion cubic meters for the period between 2007 and 2010 and 374 billion cubic meters for 2011 and beyond.

In addition, following undertakings made to the European Commission and an agreement with the CRE, Gaz de France made available to other suppliers 15 TWh of natural gas per year at the Gaz de Sud Exchange Point for a period of three years, or for a total of 45 TWh. These provisions are made available through the auction of 6 TWh of gas per year and through a mutually agreed sale of 9 TWh per year. The first deliveries of gas began on January 1, 2005. The length of these contracts corresponds to the construction period for the new LNG terminal in Fos-Cavaou, which should allow third parties to obtain direct supplies of natural gas that they can then sell in this region. Gaz de France does not expect this program to have any material impact on the results of operations of the Purchase and Sale of Energy segment.

6.1.3.1.2.2.1.1.2. Diversification of natural gas suppliers

Gaz de France maintains diversified sources of supplies in order to limit its counterparty risks, to protect itself against interruptions affecting specific sites and to adapt its gas purchases to its needs. The 2005 fiscal year was marked by the commencement of Egyptian LNG deliveries, in July 2005.

The table below shows the geographical distribution of Gaz de France's sources (including its own resources) for gas supplies, for each of the three years ended on December 31, 2003, 2004 and 2005.

Year ended December 31,

	2003		2004		2005	
	(TWh)	**(%)**	**(TWh)**	**(%)**	**(TWh)**	**(%)**
Norway	159.7	29.4%	171.7	27.2%	165.1	24.7%
Russia	116.4	21.4%	130.1	20.6%	130.4	19.5%
Algeria	110.1	20.3%	88.8	14.1%	99.1	14.8%
The Netherlands	61.7	11.4%	104.5	16.6%	94.9	14.2%
United Kingdom	28.1	5.2%	28.9	4.6%	25.8	3.9%
Egypt					25.7	3.8%
Libya	-	-	0.5	0.1%	10.1	1.5%
Nigeria	6.7	1.2%	8.7	1.4%	8.6	1.3%
Germany	-	-	1.1	0.2%	1.3	0.2%
Other sources (1)	60.5	11.1%	95.9	15.2%	107.9	16.1%
TOTAL	**543.1**	**100.0%**	**630.2**	**100.0%**	**668.9**	**100%**

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

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

For many years, the Group has maintained long-term relationships with its traditional suppliers principally through its supply contracts. The Group is pursuing additional relationships, such as partnerships, in order to enrich its relations with its suppliers. For example, it developed partnerships with Norwegian, Dutch and Algerian companies as part of its Exploration-Production business activity. In 2005, new supply contracts were signed with Gaz de France's Dutch E&P and with its two partners, for a total of 13 billion cubic meters for a period of 12 years. Joint ventures have been created with Gazprom and Sonatrach in several areas, and Gaz de France has an interest in the Snøhvit (Norway) LNG facility, the construction of which is being overseen by Statoil. In connection with the celebration of the 30th anniversary of the commencement of deliveries of Russian gas to France, Gaz de France and Gazprom signed a cooperation agreement in September 2005. This agreement aims to strengthen and develop cooperation between the two companies, and in particular relates to terms of gas supplies, large-scale gas transmission, as well as protection of the environment and corporate patronage (see chapter 22 – "Material contracts").

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

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

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

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

6.1.3.1.2.2.1.1.3. Supply of liquefied natural gas (LNG)

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

In 2005, according to the International Group of Liquefied Natural Gas Importers (known by its French acronym "GIIGNL"), the Group was the world's sixth largest buyer of LNG and the second most important European market participant. During the fiscal year ended December 31, 2005, 24% of its supply of natural gas consisted of LNG. Gaz de France anticipates that this figure may reach 29% by 2008, particularly through deliveries of LNG from Egypt and Norway.

Most LNG is bought on a long-term FOB basis by Gaz de France, which then handles its transmission to the destination terminals. The maritime shipping handled directly by the Group in 2005 involved contractual commitments of approximately 115 TWh per year of Algerian LNG (the actual deliveries in 2005 remained considerably less than that, as a result of the decreased availability in the beginning of 2004 of the Algerian plant in Skikda) and of 25.7 TWh of Egyptian LNG, for which deliveries began in July 2005 (contractual undertakings are 55 TWh on a full year basis, starting in 2006). This will be complemented by LNG from Norway, starting in 2007, in an amount up to approximately 7.4 TWh on a full year basis. Offloading is mainly done at the French LNG terminals of Montoir-de-Bretagne and Fos-sur-Mer, but also in Spain and the United States. This FOB supply scheme allows Gaz de France to optimize the organization of maritime shipping and to take advantage of short-term commercial opportunities for purchases and sales of cargoes en route to their destinations. For both 2004 and 2005, Gaz de France was able to unload 25 shipments in the United States, taking advantage of advantageous conditions in those markets.

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

- owner and charterer of six LNG tankers (of which three are currently in service and at the date of filing of this *Document de Référence*, delivery of the other three is expected in 2006):
  - Tellier – 40,000 cubic meters (owned by the Group),
  - Descartes – 50,000 cubic meters (owned by the Group),
  - Edouard LD – 129,300 cubic meters (jointly owned – 50%-50% with Louis Dreyfus Armateurs),
  - Gaz de France energY® – 74,000 cubic meters (under construction, to be owned by Gaz de France, upon the repayment of financing arranged through a tax-efficient entity),
  - Provalys – 153,500 cubic meters (under construction, to be owned by Gaz de France upon delivery, although financing was arranged through a tax-efficient entity),
  - Gaselys – 153,500 cubic meters (under construction, 60% of which is owned by the NYK Group and to be 40% owned by Gaz de France upon the repayment of financing arranged through a tax-efficient entity);

- charterer of seven other LNG tankers from third parties:
  - Ramdane Abane – 126,000 cubic meters (Algeria),
  - LNG Lerici – 65,000 cubic meters (Italy),
  - Tenaga Satu – 130,000 cubic meters (Malaysia, short-term charter from 2003 to 2007),
  - Maran Gas Asclepius – 145,800 cubic meters (Greece, short-term charter from 2005 to 2007),
  - Methane Polar – 71,500 cubic meters (Singapore, short-term charter from 2005-2006),
  - Castillo de Villalba – 138,000 cubic meters (Spain, short-term charter from 2005-2006),
  - Galleoma – 126,500 cubic meters (Singapore, short-term charter from 2005-2006).

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

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

6.1.3.1.2.2.1.1.4. Optimized management of Gaz de France's supplies

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

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

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

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

The significant presence of Gaz de France in the short-term market also facilitates the management of the periodic interruptions of normal supplies. For example, when the Skikda plant in Algeria interrupted its supply in January 2004, Gaz de France relied largely on the short-term market in order to offset the reduction of Algerian deliveries.

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

6.1.3.1.2.2.1.1.5. Short-term markets: Gaselys

Gaselys, an energy trading company, was created in 2001 by the Group (51%) and Société Générale (49%) in order to intervene in the European gas and electricity markets (gas hubs, electricity trading markets).[8]

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

Gaselys' main business activities are the following:

- purchase and sales transactions on spot markets for gas, electricity and oil;
- sale to third parties of energy derivative products, both on an independent basis and in conjunction with energy purchases from the Group; and
- trading for the Group's account and its own account.

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

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

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

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

Gaselys has also developed a complementary electricity sales offering for large French consumers. This service, which is in addition to the complete range of energy supply services offered by the Group, allows large customers to optimize their energy supply portfolio through structured products, including supply in bulk at fixed or indexed prices, optimization and utilization of contract flexibility. Gaselys delivered more than 1.7 TWh of electricity to major French consumers in 2005 (compared to 3 TWh in 2004).

Gaselys has a presence in the following natural gas, electricity and oil markets:

- the NBP in the United Kingdom, the Zeebrugge Hub in Belgium and the Title Transfer Facility (TTF) in The Netherlands for gas;
- the United Kingdom (UK Power Exchange), France (Powernext) and Germany for electricity; and
- all major crude and refined product markets in Europe and the United States (financial transactions only).

Gaselys has implemented a strict risk management policy, which includes a daily report on risk profiles, as well as strict "value-at-risk" and "stress test limits" procedures. A risk management committee supervises and controls the formulation of the risk management policy. Gaselys is also subject to the supervision of the French Banking Commission.

6.1.3.1.2.2.1.2. Supply and production of electricity from gas

To support its combined gas and electricity offerings, the Group intends to build an optimized electricity supply portfolio. It is taking positions supplying production installations with gas, as power generation is the key driver of growth in the consumption of natural gas in Europe. The Group favours integrated projects in which it can sell gas for producing electricity and capture a portion of the downstream margins. As in the case of natural gas, Gaz de France will combine its own resources with both short- and long-term contractual arrangements: 50-60% of its own resources produced in the Group's stations in France and abroad, long-term supply contracts with producers will provide up to 20-30% of the resources, while the remainder will be acquired on the market as opportunities arise.

In France, where the dual offering is very recent, the Group is able to use the electricity produced at its Dunkerque facility and, to a certain extent, will be able to use the supplies produced by the cogeneration pool that it has developed. In addition, like the other suppliers of electricity in France, the Group has access to the wholesale French electricity market and in 2005 concluded an electricity supply agreement with EDF (see chapter 22 – "Important agreements").

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

The Group is taking part in a 1,200 MWe combined cycle project developed with the American company AES in Cartagena, Spain. In this project, Gaz de France supplies gas under a tolling contract, pursuant to which it supplies gas and receives, in return, the proceeds from the electricity generated by the power plant, covering the entire output of the facility. By taking this type of position, the Group is able to capture profits generated by arbitrage between gas and electricity. The start up of this project is scheduled for the second half of 2006, with sales of electricity to be made on the Spanish market.

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

6.1.3.1.2.2.2. Sale of Energy

6.1.3.1.2.2.2.1. Segmentation of its gas customers

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

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

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

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

The table below shows the breakdown, by customer category, of the Group's natural gas sales (excluding trading activity) for each of the two years ended on December 31, 2004 and 2005.

Consolidated gas sales of the Gaz de France Group (1)

In TWh	2005	2004
SALES BY THE PURCHASE AND SALE OF ENERGY SEGMENT		
In France		
Residential	139	138
Business	189	190
Major industrial and commercial customers	115	116
Other customers	22	34
Total France	**465**	**478**
In Europe		
Industrial and commercial customers	105	78
Other customers	9	9
Total Europe	**114**	**87**
Sales on the short-term markets	65	58
TOTAL PURCHASE AND SALE OF ENERGY SEGMENT	**644**	**623**
Sales by subsidiaries of the Transmission and Distribution - International segment	75	53
Sales by the Exploration-Production segment (excluding internal sales)	30	32
TOTAL GROUP	**749**	**708**

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

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

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

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

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

Gaz de France's major industrial and commercial customers are, for the most part, European customers that have progressively become eligible to choose their gas supplier between August 2000 and July 2003. As of December 31, 2005, Gaz de France had more than 700 customers in this category, spread over more than 4,000 sites elsewhere in Europe.

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

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

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

- a risk management and price engineering package, using the trading and arbitrage expertise of Gaselys (see paragraph 6.1.3.1.2.2.1.1.5. – "Short-term market: Gaselys"). Gaz de France offers its major customers fixed prices for a defined time period, allowing them to avoid the impact of sudden price fluctuations, or dynamic management of energy purchases over the course of the year; and

- packages combining energy and performance optimization, with the support of the Gaz de France's Services segment, through which Gaz de France offers services such as:
  - the management or optimization of heating installations or power consumption to accompany the sale of gas, and
  - the combined sales of gas and electricity, and in some cases steam, optimizing the operation of decentralized power generation assets that customers own or acquire, including acquisition-related services (including in some cases partnerships) such as construction management, financing and operation of power generation units (cogeneration, tri-generation or combined cycle facilities).

The Group seeks to extend the average term of its contracts. However, the high-energy prices in 2005 limited customer interest in contracts that last longer than a year. The average term for contracts with major industrial and commercial customers in France was in 2005 1.5 year (as compared to 1.2 year in 2003 and 1.6 year in 2004), without taking into account two major contracts with particularly long terms.

Gaz de France believes that its product and service offerings to its major industrial and commercial customers have allowed it to limit its market share losses in France and to establish itself as a major participant in the most important markets in Europe, with a competitive gas price for its entire portfolio. Gaz de France has retained the majority of its contracts. Despite growing competition (among the large accounts, 74 sites changed suppliers during the 2004-2005 period), Gaz de France sold in 2005 as much gas as it sold in 2004 (i.e. 115 TWh). Gas sales lost to competing operators since the opening of the markets was 32.5 TWh in 2005 in Gaz de France's historical region. Gaz de France's share of the market for major industrial and commercial customers in France decreased slightly from 73% in 1999 to 64.5% at the end of 2005. This loss was offset in volume by the growth of the market in France.

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 and Germany.

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

Circumstances have evolved as follows: in 2005, the increase in prices in Spain allowed the development of true competition from which Gaz de France was able to benefit. On the other hand, in Germany access to local distributors remains difficult due to the strong presence of historic market participants. In accordance with its strategic aims, Gaz de France has diversified its portfolio, for example by positioning itself as a distributor in Italy.

Foreign sales (primarily made to large industrial clients) increased from 5 TWh in 2000 to 78 TWh in 2004 and 105 TWh in 2005. Overall, sales to large industrial and commercial clients in France and Europe increased from 200 TWh in 2004 to 220 TWh, excluding sales to Dunelys [9] which came to 5.2 TWh in 2005, or an increase of 12.5%.

The table below shows the Group's sales in these markets for the years ended December 31, 2003, 2004 and 2005.

Change in the volumes sold by country

Volume sold In TWh	2003	2004	2005
United Kingdom	28.2	33.7	34.6
Belgium	9.1	15.9	21.2
The Netherlands	4.7	13.1	20.2
Italy	6.6	10.3	16.9
Spain	_	1.9	5.2
Germany	0.6	2.8	6.7

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

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

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

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

(9) *Dunelys is a company that provides the commercial contracts necessary for the functioning of DK6 (especially gas and electricity).*

6.1.3.1.2.2.2.2.2. Individual household customers in France—Dolce Vita®

Individual household customers use energy for their personal needs such as heating, cooking, and hot water. As of December 31, 2005, Gaz de France had approximately 10.4 million customers in this category in France. Most of these customers use natural gas for heating, with about 68% of individual household customers served by Gaz de France equipped with individual furnaces. Gaz de France is seeking to win one million new customers using natural gas for heating between 2003 and 2007, when the residential market will be open to competition. Since July 2003, Gaz de France has acquired more than 606,343 new customers in France that use natural gas for heating, including 578,022 in the individual household market. The goal of "one million new customers" for heating should be achieved by the second half of 2007.

The volume of natural gas sales to individual household customers in 2005 is at a level almost identical to the preceding year: 139 TWh in 2005 compared 138 TWh in 2004.

This figure is the result of several factors:

- pursuing the development of the natural gas market,
- slightly warmer weather in 2005 than in 2004.

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

Gaz de France's product and service offering to individual household customers is marketed under the Dolce Vita® brand, launched in November 2002. This brand conveys a message of living comfortably at home associated with the use of natural gas. Dolce Vita® includes four specific offerings, each of which provides a technical solution for heating and hot water, associated services, advice and assistance in financing and managing systems. Gaz de France also offers a "Gaz de France Quality Diagnostic" service that tests residential gas systems for defects that could affect safety.

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

For the individual household customer market, Gaz de France has eight sales divisions that provide advice and branch management, as well as eight operational marketing divisions. National teams organize advertising campaigns and provide support functions. Until the opening of the individual household market on July 1, 2007, customer service functions such as individual customer relations and billing will be handled by EDF Gaz de France Distribution (a joint division of Gaz de France and EDF). Beginning in 2007, these functions will be handled directly by Gaz de France, which is in the process of putting in place the organisational structures that will be responsible for these activities.

To meet the challenges of the open market, Gaz de France is designing and developing customer relationship management (CRM) and billing tools. These systems have already performed well in the mid-market customer market (which has been open to competition since July 1, 2004), and are expected to be ready for the liberalization of the individual household market in July 2007. Gaz de France is also using more traditional methods to maintain close contact with customers. For example, as in 2004 nearly two million people in France received a sales offer either in the mail or by telephone in 2005.

The Group also has a mediator whose role is to seek, as an amicable last resort, solutions to disputes primarily tied billing of natural gas consumers and network connection. In 2005, the mediator will have had 57 cases to handle, 90% of which resulted in a solution beneficial, either in whole or part, to the party requesting the mediation.

6.1.3.1.2.2.2.2.3. Mid-market customers in France—Provalys® and Energies Communes®

Mid-market customers are primarily composed of professionals, retailers, SMEs, certain industrial customers, apartment buildings, public and private service sector customers, and local communities. As of December 31, 2005, Gaz de France served approximately 636,000 mid-market customer sites.

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

Since July 1, 2004, mid-market customers have been able to select their natural gas supplier. They may exercise this option by selecting a product or service offering from Gaz de France or a competitor, or they may keep their current regulated contracts entered into before July 1, 2004. As of December 31, 2005, approximately 22% of newly eligible customers (in volume) exercised this option, and nearly all of them selected Gaz de France offerings (compared to 10% in 2004).

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

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

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

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

- a choice of pricing formulas for gas and electricity, such as a one-year fixed price that provides customers with visibility, or a price that is revised every six months or every quarter to reflect market conditions, with or without minimum subscription periods, and in some cases including financial engineering solutions;
- solutions for the supply of energy and related services for professional customers (Personalized Energy *("Énergie Personnalisée")*) or for PME/PMI searching for a better mastery of their costs (Energy Mastered *("Énergie Maîtrisée")*);
- support services for consumption management including, for example:
  - a historical overview of consumption patterns and prior invoices,
  - invoices that include information relating to the customer's contract,
  - access to the ExpertGaz hotline for technical advice, and
  - an Internet service called "My online account" that permits customers to track their consumption levels;
- financing solutions: for the public sector (in partnership with Dexia), for apartment buildings (in partnership with Banque Solfea [10]), and for other private mid-market customers (in partnership with the BNP-Paribas Lease Group);
- optional advice and technical services: diagnostic services (for example "Diagnostic Serenity Pro", an on-site energy evaluation service), advice on regulatory requirements for installations on the customer's premises, and advice, environmental audit services and training relating to the regulation, maintenance and operation of heating installations; and
- product offerings adapted to multi-site clients including:
  - summary invoices showing total consumption at all sites, with an option for decentralized payments for customers that want their various sites to be autonomous in terms of the purchase of energy,
  - centralization of multiple invoices with a single payment (for those who want decentralized management but centralized payment) and a summary table, and
  - a "single formula" consolidating invoices for all sites for those who prefer centralized management.

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

- the "no worry gas" package offers natural gas along with a group of services (including price offerings, consolidated invoices, consumption data) based on the principles of simplicity and energy optimization. This also includes "conversion of simple gas" which offers, in addition to supply services, management services adjusted to the problems of local communities;
- the "complete power" package meets temporary needs that arise during the term of a contract, such as changes in facilities or the construction of new buildings. These are "premium services" over and above the basic contract ("ExpertGaz Hotline", training, software for energy management, advice and environmental audit services for heating installations, etc.); and
- "custom solutions" are also available for communities that seek to manage local energy policy actively, including waste-to-energy, heating network management, cogeneration and clean transportation with natural gas vehicles.

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

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

6.1.3.1.2.2.2.2.4 Natural Gas Vehicle (NGV)

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

6.1.3.1.2.2.3 Sales price of natural gas

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

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

Administrative rates

There are two types of administrative rates:

- public distribution rates for customers using less than 5 GWh per year and connected to a distribution network; and

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

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

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

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

Public distribution rates

The public distribution rates apply to approximately 10.9 million customers. There are currently six different main categories of public distribution rates, including four for residential use or small central heating systems, and two seasonal rates that apply to medium and large central heating systems, with higher rates in winter and lower rates in summer. The B1 rate (and related rates), applicable to individual heating, cooking and hot water, is the most widely applied rate, with approximately 7 million customers as of December 31, 2005.

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

In November 2004, the rate limit was limited to 5.2%, or 0.15 c€/kWh. This change, which was less than half the increase in the Group's gas supply costs, generated earnings losses of €130 million in 2004. As of January 1, 2005, the rates applied were set 0.15 c€/kWh below their level.

Public Service Contract

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

- rates are revised quarterly;
- rates are revised on the basis of a formula so that, on average, they cover:
  - natural gas supply costs, which generally allows the Group to pass on to its customers fluctuations in the market price of gas. Rate revisions take into account changes in the market price of petroleum products over a six-month period ending one month before the revision,
  - other supply costs (including a reasonable margin customary for this business), calculated on the basis of average costs necessary to supply gas to public distribution customers;
- Gaz de France is required to pass on to customers in each year a fixed productivity gain factor equal to 1.4% per year (in real terms, on average) of its costs other than natural gas supply costs;
- if the French State rejects a rate movement proposal by Gaz de France, in accordance with the terms of the contract, the terms of compensation must be determined together with the Company so that financial neutrality is established within twelve months;
- except in case of contrary legislative or regulatory provisions, the rate provisions of this contract extend beyond July 1, 2007. The French State and Gaz de France agree to readjust the different terms of the rate formula described above for July 1, 2007;
- starting July 1, 2007, each party may request the opening of negotiations to adapt all or some of these provisions. If no agreement is reached after six months of negotiations, either party may terminate the rate provisions of the contract.

June 16, 2005 ministerial order

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

- reflection of the changes in supply costs on July 1, September 1 and November 1, 2005 and then quarterly starting January 1, 2006;
- progressive remediation of the 0.15 c€/kWh deferral in the rate levels, spread across three rate movements: 0.02 c€/kWh on July 1, 2005, 0.09 c€/kWh on September 1, 2005 and 0.04 c€/kWh on January 1, 2006;
- return costs to "at-level" reflection, other than gas supply costs: 0.05 c€/kWh on January 1, 2006 (or 2.8% of corresponding costs);
- compensation for the April 2006 – December 2007 period of €500 million [11] for the accumulated earnings shortfall as of January 1, 2006: 0.14 c€/kWh for the April 1, 2006 movement.

Under the June 16, 2005 order, the rates evolved as follows:

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

At the time of the November 1 rate movements, Gaz de France put in place commercial measures for individual household customers using gas heating (B1 and related rates) to limit the impact of the increase, for which the total cost €162 million, of which €61 million was in 2005.

The December 29, 2005 and April 28, 2006 ministerial orders

Under the December 29 order (after the unfavourable opinion of CRE), the French State suppressed the January 1, 2006 rate movement that would have occurred under the June 16, 2005 order. In addition, the following rate movements were suppressed: the 0.05 c€/kWh increase intended to return costs (other than gas supply costs) to "at-level," as

(11) *Due to the progressive at-level remediation of the rates during 2005, and, starting January 1, 2005, taking into account adjustments in non-supply costs, the earnings shortfall increased to €370 million in 2005. As of January 1, 2006 the total shortfall came to €500 million (or €130 million plus €370 million).*

well as the 0.14 c€/kWh increase for the April 1, 2006 to compensate the accumulated earnings shortfall.

The suppression of the January 1 rate movements generated an additional earnings shortfall of €250 million for the January 1, 2006 to March 31, 2006 period. The total accumulated earnings shortfall as of April 1, 2006 reached €750 million.

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

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

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

Based on these proposals the French government approved on March 22, 2006:

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

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

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

Current situation

As of May 1, 2006 the situation is the following:

- the accumulated revenue losses since November 2004 reached €750 million as of April 1, 2006;
- the rates are at a level which is 2.3% below the level that Gaz de France deems necessary to cover all the costs such that it will cause additional revenue losses of €125 million in 2006;
- the Group is also exposed to the risk that the gas supply costs will not be reflected in case of changes in the market price for oil products as well as a shift in the exchange rate of the euro against the US dollar;
- there is no longer a multi-annual context set by ministerial order, with there now remaining only the 2005-2007 public service contract.

Subscription rates

As of December 31, 2005, the subscription rates applied to fewer than 2,500 customers. These rates change quarterly based on the proposal of Gaz de France through the tacit approval of the ministries of the economy and energy, following the opinion of the CRE. The rate paid by a given customer depends on the amount it consumes, its maximum flow rate and the distance between the main transmission network and the delivery point (for customers connected to the transmission system) or between the transmission system and the customer's distribution network. Rates are revised quarterly, and take into account changes in the US dollar/euro exchange rate and the price of a portfolio of petroleum-based products, as well as an annual adjustment for inflation. The last revision occurred on April 1, 2006, when the rates decreased by 0.093 c€/kWh.

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

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

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

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

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

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

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

In order to meet its customers' needs as they develop with the opening of the European energy markets, the Group has added an electricity component to commercial product and service offerings for eligible customers (see paragraph 6.1.3.1.2.2.2.2 - "Gaz de France's Product and Service Offerings and Brand Strategy"). In 2005, total electricity sales, including sales on the market and excluding Gaselys, were 20.9 TWh of electricity (compared to 9.8 TWh in 2004), including 5.6 TWh in France and 14.4 TWh in the United Kingdom (compared to 9.7 TWh in 2004). Additionally, the Gaz de France's portion of Gaselys' sales was 0.9 TWh (sales to final customers). The Group is developing its ability to supply electricity, in large part as a result of its strong presence in the cogeneration sector in France. The Group is also selectively becoming involved in the production of electricity from natural gas in certain geographical markets that exhibit good commercial prospects.

This convergence of gas and electricity product and service offerings to customers is a fundamental trend in the European energy industry. Gaz de France is already experimenting with this on the British market through its subsidiary Gaz de France Energy Supply and Solutions ("GDF ESS"), whose customer portfolio is oriented toward the business market. In 2005, GDF ESS sold 13.2 TWh of electricity (compared to 8.4 TWh in 2004) to 177 customers at 2,490 sites.

6.1.3.1.2.2.2.5.1 Major industrial and commercial customers

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

Nonetheless, electricity is a significant part of the relationship between Gaz de France and its customers. It is a significant element of the custom Gaz de France energY® package, combining the sale of energy and services.

The cogeneration market is an example of the importance of electricity for Gaz de France's customer base. For several years beginning in 2000, Gaz de France took advantage of favorable legislation that guaranteed the price of electricity sold by cogeneration. Through its Services segment, the Group helped its customers in the design, financing and structuring of cogeneration projects (see paragraph 6.1.3.1.3.2 - "Description of the Services Segment Business Activities"). It also took advantage of its involvement in these projects by selling natural gas for use in the cogeneration facilities.

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

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

6.1.3.1.2.2.2.5.2. Mid-market customers and individuals

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

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

During 2005, 55,356 new sites contracted with Gaz de France for a 600 GWh. At the end of 2004, Gaz de France already supplied 1,104 sites with electricity.

One of the principal choice motivators for these customers relates to the confidence instilled by Gaz de France.

Gaz de France intends to extend this type of product and service offering to the Dolce Vita® brand for French individual household customers as soon as they become eligible to choose their energy supplier.

6.1.3.1.3. Services

Segment Revenues and EBITDA

In millions of euros	2005	2004*
Revenues (before eliminations)	1,916	1,439
Revenues from third parties	*1,848*	*1,373*
EBITDA	166	94

(*) *As restated under IFRS, pro forma after the reform of the financing of the retirement plan.*

6.1.3.1.3.1. Services Segment Strategy

The Services segment complements Gaz de France's development, which is part of the Group's efforts to vertically integrate its activities. Its complementary strategic role is the basis for the scope of activity of the Services segment, with respect to both the services offered and geographic presence.

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

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

The mission of the Services segment is two-fold:

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

In 2005, several significant contracts were concluded: Cofathec Coriance won a contract relating to the operation of a heating network that serves the town Pierrelatte and greenhouses in La Drôme, following a bidding with the largest market participants; the contract is for €160 million over 20 years.

In Italy, Cofathec has been entrusted with the construction and management of a tri-generation installation (electricity, heating and air-conditioning) for Sassari university (Sardinia); the contract is for €35.5 million over 30 years. In the same country Cofathec won a maintenance contract for the 2006 Olympic Games in Turin.

6.1.3.1.3.2. Description of the Services' segment business activities

The missions of the Services segment are the following:

- take control of the management of the customers' energy utilities;
- offer complete innovative energy solutions, that are respectful of the environment and go beyond the simple supply of natural gas;
- offer methods for mastery and reduction of energy consumption with a comparable level of comfort.

In this context the Services segment offers business operation, maintenance and construction services. They can implement energy solutions in the interests of long-term, sustainable development, in accordance with the Gaz de France Group's commitments in this regard. They currently have significant background experience in energy derived from wood, geothermals, combustible renewables, etc. Similarly, the Services segment has developed expertise in the areas of Facility Management, heating networks and Natural Gas Vehicles as a complement to Gaz de France's power generation projects.

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

Conventional energy services

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

Facility management services

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

Industrial maintenance

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

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

Industrial management of power generation units

The Group's service offering are made available in the following two complementary forms:

- Financing and construction of cogeneration facilities on behalf of third parties, are also employed for the management of Gaz de France's own power generation activities, particularly for its DK6 power plant in Dunkerque (put into service on March 22, 2005) and the Shotton power plant in the United Kingdom;
- Design and maintenance of cogeneration and tri-generation installations.

Natural gas for vehicles

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

Management of grids for heating and cooling

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

6.1.3.2. Infrastructures Division

6.1.3.2.1. Transmission and Storage - France

Segment Revenues and EBITDA

In millions of euros	2005	2004*
Revenues (before eliminations)	2,124	2,145
Revenues from third parties	*221*	*68*
EBITDA	1,271	1,291

(*) *As restated under IFRS, pro forma after the reform of the financing of the retirement plan, not audited.*

6.1.3.2.1.1. Strategy for the Transmission and Storage – France segment

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

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

6.1.3.2.1.2. Description of the business activities of the Transmission and Storage - France segment

Since January 2005, the activities of the Transmission and Storage - France segment have been separated into two units in order to meet new regulatory requirements:

- the subsidiary GRTgaz, which manages the transmission network (gas pipelines and compression stations); and
- the major infrastructure department, which manages LNG terminals and storage sites.

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

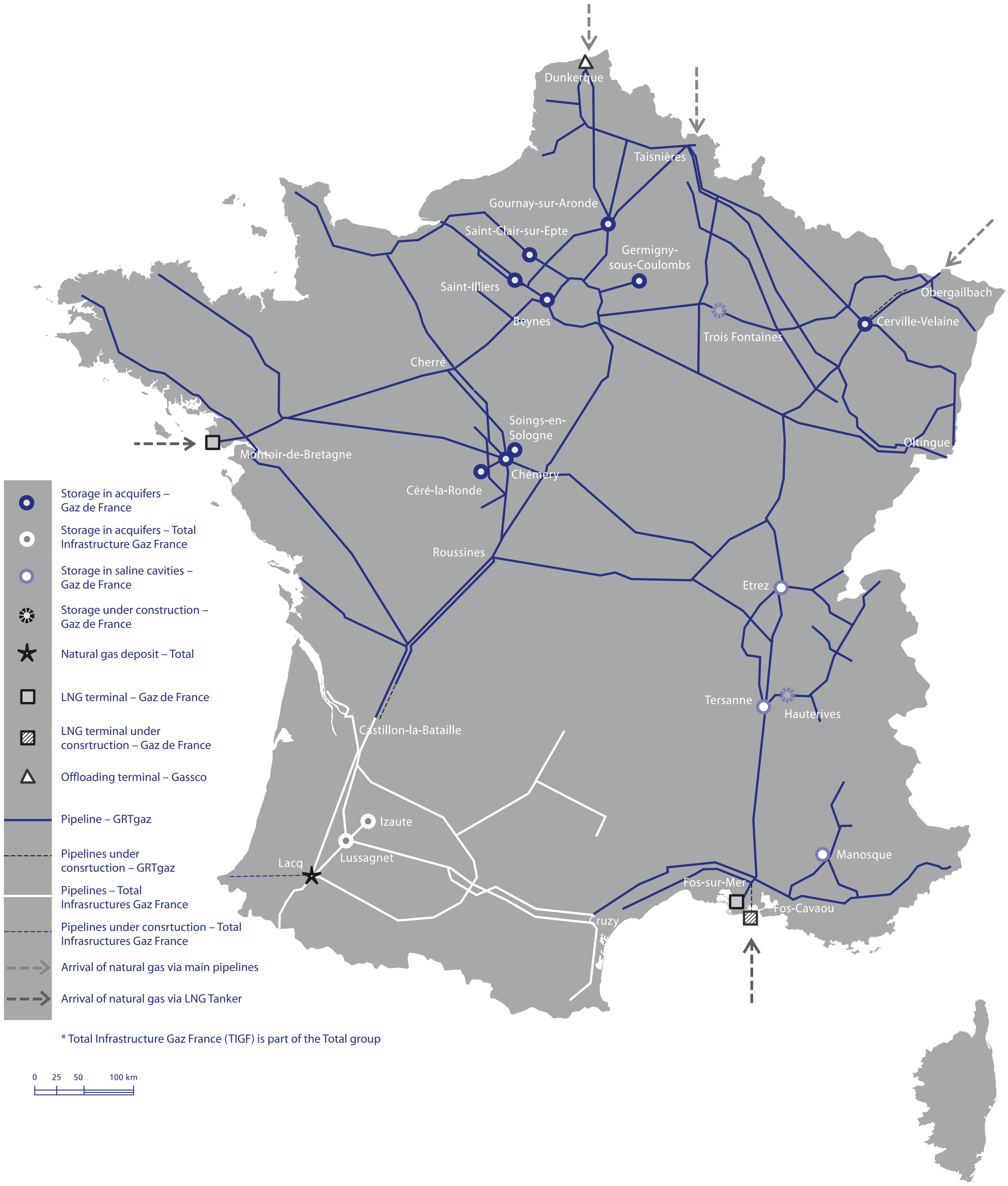
6.1.3.2.1.2.1. Transmission activity

6.1.3.2.1.2.1.1. Transmission network - GRTgaz

The Group has the longest high-pressure natural gas transmission network in Europe. As of December 31, 2005, the French network was composed of 31,589 kilometres of gas pipelines, including 6,757 kilometres of the main high-pressure network, and more than 24,832 kilometres of regional networks, giving the Group coverage in a large portion of France. During the year ended December 31, 2005, the Group transported 62.3 billion cubic meters of gas, or 711 TWh, on its French network, compared to 695 TWh in 2004.

Since January 1, 2005, the transmission network has been managed by GRTgaz, a *société anonyme* (limited liability company) and wholly-owned subsidiary of Gaz de France, which changed its corporate name from Gaz de France Réseau Transport on October 11, 2005.

This subsidiary owns and develops the transmission network, controls the flow of natural gas in it and provides access to gas suppliers, in addition to marketing activities.



* Total Infrastructure Gaz France (TIGF) is part of the Total group

0 25 50 100 km

The main network transports natural gas from the network's access points (such as LNG terminals and connection points with international gas pipeline networks) to the regional network. The regional network transports natural gas to more than 4,310 delivery stations connected to industrial customers and to local distribution networks. The average age of the pipelines is 25 years. In determining the regulated asset base, used for calculation of rates, the average economic life of the pipelines was determined to be 50 years.

GRTgaz also operates 27 compression stations for pumping gas through transmission pipelines and for maintaining the pressure required for optimum transmission conditions. On January 1, 2006, these stations were composed of 97 gas compressors with a total power of 501 MWe.

GRTgaz also uses compression facilities located at six storage sites, which are operated by the major infrastructure department.

GRTgaz's transmission network has eight connection points with international gas pipeline networks, giving it supply source connections to the North Sea, The Netherlands, Russia, Nigeria, North Africa and the Middle East, and with Total Infrastructures Gaz France (previously called "Gaz du Sud-Ouest") which operates in southwest France. The connection points link Gaz de France with other European markets for which the exchange of gas is growing, including the markets in Northern Europe, Germany and Austria, Spain and Italy.

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

Changes in the length of the network and the volumes of gas transported

	Year ended December 31,			
	2002	2003	2004	2005
Main network (kilometres)	6,560	6,470	6,585	6,757
Regional network (kilometres)	24,255	24,715	24,780	24,832
Total (kilometres)	**30,815**	**31,185**	**31,365**	**31,589**
Volumes transported (TWh)	**640**	**655**	**695**	**711**

6.1.3.2.1.2.1.2. Management of the transmission network

In accordance with European regulations, a French law dated August 9, 2004 requires the legal separation of the management of the gas transmission network. This law extends the obligations arising under a French law dated January 3, 2003, which requires the maintenance of separate accounts for activities related to transmission, distribution, storage and operation of new LNG facilities, for activities not related to gas, and for any other activities, and prohibits cross-subsidies between gas activities. In this context, Gaz de France's Board of Directors decided to make Gaz de France Réseau Transport the operator of its transmission network in France effective January 1, 2005. On October 11, 2005 this dedicated subsidiary changed its corporate name to GRTgaz, and at the same time adopting a new logo different from Gaz de France.

GRTgaz's by-laws and corporate management rules are intended to ensure the independence of GRTgaz from the management of Gaz de France

6.1.3.2.1.2.1.3. Access to the transmission network in France

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

The principal terms of the transmission agreements include the following:

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

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

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

Although the Group's Purchase and Sale of Energy segment is GRTgaz's main customer, transmission agreements were signed in 2005 with 16 other customers, for a total of €133 million of revenues in 2005, or 6.3% of the Transmission and Storage - France segment's revenues (compared to 1.4% in 2004). Currently, access to the transmission network is granted on a "first come, first served" basis under negotiated, one-year agreements. Since July 1, 2004 GRTgaz has offered monthly agreements and since January 1, 2005 multi-year and daily agreements.

Since January 1, 2005, shippers may reserve a significant portion of transmission capacity on a long-term basis: up to 80% of the total available fixed transmission capacity for up to 20 years. Any transmission capacity that is still available may be purchased on an annual, monthly or daily basis. These options improve GRTgaz's ability to utilize all of its available capacity while offering security and flexibility to transporters. Regulatory provisions permit the release of unused reserved capacity, so that it can be reserved by other shippers.

6.1.3.2.1.2.1.4. Transmission tariffs

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

6.1.3.2.1.2.1.4.1. Basis for determining rates

The method for setting rates provided for under the French law of January 3, 2003 was first applied in 2004. Currently applicable rates were set so that the total revenues produced by the system would be equal to:

- the operating costs necessary for the management, good functioning and maintenance of the networks related to the operation of the transmission infrastructure, net of certain incidental revenues;
- the charges for depreciation of the fixed assets that are part of the network (also called the "regulated asset base"). These charges are determined in accordance with the following principles:
  - the initial regulated asset base reflected the economic value of the network's assets resulting from the purchase of the network from the French State (formerly the concession grantor) in 2002; this base is then adjusted to reflect the acquisition of new assets and the retirement of assets at the end of their useful economic life, and is re-evaluated each year on the basis of the French consumer price index, excluding tobacco,
  - depreciation applicable to the various categories of assets included in the regulated asset base is determined on a straight-line basis over the assets' useful economic life; and
- the product of a specified rate of return applied to the regulated asset base. The rate of return is determined based on the economic risk relating to the operation of the transmission infrastructure. The current rate is 7.75% (real, pre-tax) for assets in service before January 1, 2004, and 9% (real, pre-tax) for assets placed in service after January 1, 2004; a 12% rate (real, pre-tax) is applied for a 5 to 10-year period on a case-by-case basis for assets that significantly contribute to improving the operation of the market (creation of new points of entry, decongestion of the network).

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

6.1.3.2.1.2.1.4.2. Rate setting process

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

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

The regulated asset base used to determine these rates is based on an estimate, made during the process of setting the rate structure, of the average level forecast for the period during which the rates will apply. In order to make this estimate, assets are deemed to be revalued on January 1 and July 1 of each year by applying a projected inflation factor. All of the new investments planned for a given year are deemed to be implemented on June 30, and all assets for which the depreciation period ends during the course of a year are deemed to be fully depreciated as of June 30.

The regulated asset base used to determine the current rates apply and since January 1, 2005 was €5,415 million.

The approval process for a rate structure may extend beyond the intended effective date of the rate structure. As a result, the decree approving the rates proposed by the CRE that were to be effective from January 1, 2004 to September 1, 2005 was not approved until September 2004. The Group decided to apply this structure beginning on July 1, 2004, the effective date of the second European gas directive. Similarly, in November 2004 the CRE proposed rates to the Minister for the Economy and the Minister for Energy to be effective from January 1, 2005 for a period of 12 to 18 months. While waiting for the decree to be published (which was published in May 27, 2005, given the Group's unwinding of its partnerships with Total (see paragraph 9.1.2 - "Principal factors having an impact on business activities and results of operations") and certain undertakings it has given to the European Commission, the Group had decided to apply the CRE's proposal from January 1, 2005. The Group intends to have discussions with the public authorities seeking to establish more stable rules for the future.

The rate currently in force is the subject of French Decree No. 2005-607 dated May 27, 2005, concerning rules relating to the setting of rates for access to its natural gas transmission network, which modifies French Decree No. 2004-994 dated September 21, 2004 and French Decree No. 2005-22 dated January 11, 2005, and, under the 2005 decree, ministerial approval of the rates applicable to the use of the natural gas transmission network will be deemed to be given, if neither of the ministers responsible for their review disapproves the rates during the two months following receipt of the proposal of the CRE concerning rates for public access to the natural gas transmission network.

6.1.3.2.1.2.1.4.3. Rate structure

Transmission tariffs in France are currently calculated in accordance with a multi-zone entry/exit principle based on a four-zone territorial breakdown for Gaz de France. This model is in the process of being introduced generally in Europe, following the recommendations for the internal gas market made by the "Madrid Forum" (a meeting of European transmission operators, among others). This model includes the following variables:

- costs of reserved capacity, calculated on the basis of the subscribed capacity per user, for entry into each zone;
- transmission costs, calculated on the basis of subscribed capacity at the exit points from each zone in the main network;
- costs of subscribed capacity for connections between zones;
- costs of subscribed capacity for transmission on the regional network;
- costs of subscribed capacity for the use of delivery stations and annual fixed costs for each delivery station used.

6.1.3.2.1.2.2. Major infrastructures

6.1.3.2.1.2.2.1. LNG terminals

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

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

The Group's two LNG terminals, Fos-Tonkin and Montoir-de-Bretagne, enable it to deliver to the French transmission network approximately 15.5 billion cubic meters of gas per year. At the end of 2005, this capacity temporarily reached 17 billion cubic meters of gas, so as to facilitate the reception of new Egyptian LNG. Quantities received in 2005 reached 12 billion cubic meters of gas.

- Fos-Tonkin, which was put into service in 1972, is located on the Mediterranean coast and receives LNG mainly from Algeria and also now from Egypt. It has a regasification capacity of 5.5 billion cubic meters per year, which temporarily reached 7 billion cubic meters at the end of 2005, and can receive ships transporting up to 75,000 cubic meters of LNG and three tanks with a total capacity of 150,000 cubic meters. This terminal has an initial estimated useful life of 40 years. It was renovated in the mid-1990s in order to modernize it. The temporary increase in the regasification capacity put into service at the end of 2005 is part of the transition for putting into service the future Fos-Cavaou terminal, which is under construction at a neighbouring site.
- Montoir-de-Bretagne, which was put into service in 1980, is located on the Atlantic coast and receives LNG mainly from Algeria, Nigeria and also now Egypt. It has a regasification capacity of 10 billion cubic meters per year, two piers, which can receive ships transporting up to 200,000 cubic meters of LNG, and three tanks with a total capacity of 360,000 cubic meters. This terminal has an initial estimated useful life of 40 years.

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

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

6.1.3.2.1.2.2.2. Storage

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

- 12 underground facilities (11 of which are wholly-owned) in France (one of which is composed of two storage holds) including nine storage facilities in aquifers (with 8.2 billion cubic meters of total working gas) and three in saline cavities (with 0.9 billion cubic meters of total useable working gas); and
- 63 compressors providing total power of approximately 215 MWe as required for the withdrawal and injection of natural gas, and facilities for the processing of gas and interconnection with transmission networks.

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

6.1.3.2.1.2.2.3. Access to LNG terminals and gas storage in France

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

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

6.1.3.2.1.2.2.4. Infrastructure tariffs

6.1.3.2.1.2.2.4.1. LNG terminals

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

<u>2004-2005</u>

With respect to the 2004-2005 period, the applicable rates of return were 9.75% (real, pre-tax) on assets put in service before January 1, 2004 and 11% (real, pre-tax) on assets put in service after January 1, 2004. For the calculation of the rate applicable in 2005, the regulated asset base held was in total €420 million. This rate is based on a rate proposal made by the CRE in July 2003 to the Ministers of the Economy and Energy and has been applied by Gaz de France since July 1, 2004. The implementing decree was published in September 2004. Its effectiveness was initially only lasted until September 2005 and later was extended to the end of 2005 by a new decree issued in December 2005.

The Group's regulated asset base is composed of the following groups of assets: offloading systems and auxiliary facilities, regasification facilities, civil engineering projects and buildings, tanks and other facilities (including compression). These assets were taken into consideration globally for both the Fos-Tonkin and Montoir terminals. The resulting rate is applied uniformly to both terminals. In order to determine annual fixed costs, the CRE uses a straight-line basis for depreciation over 20 to 40 years for the various components of the LNG terminals with the most important assets being depreciated over 40 years. The Fos-sur-Mer and Montoir-de-Bretagne terminals were put into service in 1972 and 1980, respectively.

The rate in effect in 2005 includes four variables:

- the quantity offloaded;
- the number of offloading operations;
- the storage usage at the LNG terminal, corresponding to the level of LNG inventory at the terminal as determined on a daily basis; and
- the extent of gas in-kind, which is designated to cover gas consumption necessary for processing cargo.

<u>2006-2007</u>

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

The new tariff reduces the different rates of return by 0.5 point. This reduction adjusts itself to changes in the capital market that occur following the implementation of the preceding rate, essentially a drop in the risk-free rate of return and of the rate of return for spreads.

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

The regulated asset base increased to €388 million as of January 1, 2006, taking into account investments budgeted for 2005 and assets to be fully depreciated in 2005.

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

The 2006-2007 rate formula is composed of six periods. The 2004-2005 period is in principle over, with the exception of the storage period, which is replaced by two new periods (an offloading capacity period and an offloading capacity usage period), completed by a new seasonal change period (called a regularity period), which provides an incentive to spread deliveries uniformly across seasons. This new formula was put into place through close collaboration between the CRE, the Major Infrastructures Department and the customers. This agreement also led to an expansion in the range of services offered, so that there are now three services typically made available: a "continuous" service, a "banner" service and a "spot" service. Additionally, each terminal makes available to its users ways to have complementary flexibility, by allowing the possibility to realize mutual exchanges of LNG and to enter into the secondary market for regasification capacity.

6.1.3.2.1.2.2.4.2. Storage

Storage access prices are determined on a negotiated basis and are published by Gaz de France. Gaz de France's prices are based on principles submitted to the CRE.

For information, Gaz de France estimates that the economic value of the asset base for its storage facilities (an indicator used internally to determine storage prices) was €2,480 million as of January 1, 2006, taking into account budgeted investments for 2005 and assets scheduled to be fully depreciated in 2005.

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

Each storage service is allocated a specific reservation unit price. This price is included in the rate, which is set on the basis of the following three variables:

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

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

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

GRTgaz is seeking to obtain quality certification for its transmission, storage and regasification activities. Gaz de France was certified in 2004 in accordance with the ISO 9001 standard for the following activities: determining quantities of energy delivered, adding an odour to delivered gas, transmission of gas on and connection to the transmission network and its regasification at the LNG terminals. Its storage activity is expected to be certified in early 2006.

The Group has also applied for ISO 14001 environmental certification. At the end of 2005 the certification was obtained for 11 of the Seveso II classified sites out of the 14 counted by the Major Infrastructures department. Currently only three underground storage sites located in Saint-Illiers, Saint-Clair-sur-Epte and Soings-en-Sologne remain to be certified The program is being continued in light of the current 2006 certification of these three last sites with the Major Infrastructures division and of an additional GRTgaz compression station. At the end of 2005, 4 supplementary compression stations were certified.

The Group also launched in 2001 a multi-year inspection and transmission pipeline renovation program. At the end of 2005, 47% of the transmission network had been inspected.

6.1.3.2.2. Distribution France

Segment Revenues and EBITDA

In millions of euros	2005	2004*
Revenues (before eliminations)	2,951	2,972
Revenues from third parties	*299*	*355*
EBITDA	1,352	1,399

(*) *As restated under IFRS, pro forma after the reform of the financing of the retirement plan, not audited.*

In 1960, the Gaz de France distribution network served nearly 350 communities and 5.8 million customers in France. As of December 31, 2005, Gaz de France's French distribution networks were the longest in Western Europe, with more than 180,700 kilometres of pipelines serving 8,965 communities that accounted for approximately 76% of the French population. Gaz de France operates its network under long-term concession agreements, with a volume-weighted average remaining duration of approximately 19.5 years [12]. Under French Law No. 46-628 dated April 8, 1946, almost all of the concession agreements of Gaz de France are subject to mandatory renewal upon expiration.

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

- Gaz de France and EDF continue to maintain a joint division (EDF Gaz de France Distribution), which in particular takes handles the operation, maintenance and construction work on their respective distribution networks, which allows them to benefit from economies of scale;
- Management of the distribution networks is entrusted to a specific Gaz de France management group, Gaz de France Réseau Distribution (or GRD).

Management of the distribution networks is independent from Gaz de France's production and supply activities; however, Gaz de France retains the right to supervise the economic aspects such as approval of the relevant manager's annual budget.

6.1.3.2.2.1. Strategy for the Distribution France segment

Due to major changes in the energy market, Gaz de France, as the distributor ("the distributor"), intends to facilitate the involvement of all stakeholders in the accomplishment of Gaz de France's industrial and social projects and reinforce its legitimacy as an operator of public Services with respect to the regulator, the French State, local communities, customers and all of the gas community.

The distributor intends to promote growth based on important opportunities to develop different uses and increase the number of natural gas customers in France. Its goals are centred on the following key points:

- **Continue developing a profitable distribution network in France.** In order to promote and keep up with the growth of demand for natural gas, as the distributor it intends to continue its active investment strategy to the extent it satisfies the Group's profitability criteria. In doing so, its goal is:

(12) *The average remaining duration of Gaz de France's concessions is calculated by weighting the remaining duration of each concession by the volume that is transmitted. In other words, the relative weight of each concession is expressed through its transmitted volume.*

– to create an expanded and denser distribution network in France with the goal of acquiring one million new customers using natural gas for heating between 2003 and 2007;

– continue the development and densification of the network beyond 2007;

– continue providing service to new communities, but at a more measured pace than that pursued during the preceding five years.

- **Maintain quality services for network users and local communities.** To achieve this objective, the distributor intends to do the following:

  – optimize the terms and conditions of access to infrastructure with the goal of allowing each gas supplier to benefit from the best technical services, while respecting its transparency and non-discrimination obligations and its duty to provide to each end consumer smooth access to the distribution network;

  – strengthen its already strong ties to the local communities that are its concession grantors.

- **Reinforce the safety and image of natural gas in France.** The distributor guarantees a high level of safety and reliability across the entire distribution network system by meeting high operation standards, through an appropriate renewal investment program and a managed maintenance policy.

- **Improve the stability of the rate structure applicable to infrastructure use.** The distributor maintains a constructive dialogue with the CRE. Gaz de France intends to pursue discussions with the CRE with a view to obtaining multi-year rate structures for use of its distribution networks, in order to increase the medium-term visibility for this activity.

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

The Group is also preparing for the important July 1, 2007 deadline through:

- the complete opening of the market and implementation of organization and information systems required to manage information tied to more than 12 million eligible customers; and

- change the legal status of its distribution activities in accordance with French Directive 2003/55.

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

6.1.3.2.2.2.1. Background information

The Group operates the main natural gas distribution network in France, covering the vast majority of municipalities with at least 10,000 inhabitants in the covered areas. The distribution network is one of the leading networks in Europe. As of December 31, 2005, 45.1 million people were living in municipalities connected to Gaz de France's distribution network, or 76% of the French population. As of the same date, the distribution network in France was approximately 180,700 kilometres long and had approximately 11 million delivery points in 8,965 municipalities in France. During the year ended December 31, 2005, the Group's distribution network in France transported more than 337 TWh of gas compared to 335 TWh in 2004.

The purpose of its distribution activities in France is to transport the gas sold by the senders of such gas (eligible customers, suppliers) and also marketing services tied to end consumer deliveries. Gaz de France's distribution network transports gas from interface points with national or regional high-pressure gas transmission networks to customers located in several thousand municipalities across France.

Gaz de France's distribution network grew at the rate of approximately 3.4% *per annum*, on average, from 2001 to 2005. During that period, Gaz de France gained nearly 950,000 new customers and served 1,715 additional municipalities. The coverage zone excludes zones served by networks of distributors which were not nationalized at the time of creation of Gaz de France in 1946, particularly Strasbourg, Bordeaux and Grenoble, and also 32 additional municipalities covered by an order dated April 3, 2000 under the 2000-2003 coverage plan for distributors which were not nationalized, pursuant to French Law No. 98-546 of July 2, 1998.

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

Development of Gaz de France's distribution networks:

Year ended December 31,

	2001	2002	2003	2004	2005
Length of the network (km)	158,200	163,950	169,244	174,540	180,700
New municipalities connected	770 (1)	450 (1)	300 (1)	98	97
Connected users (in millions)	10.4	10.6	10.8	10.9	11
Gross quantity shipped (TWh)	314	299	321	335	337

(1) *The differences between these figures and those appearing on page 60 of the Document de Base are explained in the following manner: a new information system for the management of dealer economics was implemented in 2003, which has back-up information on a historical database. In 2005, a new system permitted the correction of certain pre-existing data so that they could be conformed to reality.*

The Group anticipates that over the next three years, new municipalities will be connected at a slower rate than over the last few years. On the other hand, the Group intends to achieve a marked increase in network extensions and the number of delivery points in municipalities already covered, in order to reach its target of acquiring one million new customers that use natural gas for heating between 2003 and 2007. Since the beginning of this project until December 31, 2005, the Group gained 606,343 new heating customers.

The Group also intends to invest in improving the quality of service and safety of its distribution network, particularly by accelerating the replacement of the remaining gray cast iron pipelines, in anticipation of the publication of the French order issued December 1, 2005, which prohibits the operation of gray cast iron pipelines starting January 1, 2008. This program anticipates the absorption of the 2,040 kilometres of gray cast iron remaining as of December 31, 2004 (a low number compared to other European countries) over the next 3 years: 2005, 2006 and 2007. In 2005, 1,030 kilometres were replaced under this plan, surpassing by 15.7% the projected goal of 890 kilometres, at a cost of €180 million, which is line with the global amount budgeted for the 3-year period (€527 million). The Group regularly inspects its distribution network on the basis of age in order to monitor deterioration and pressure levels, environmental risks and other characteristics of the conduits. It inspects its networks every 12 to 36 months, and its networks that use gray cast iron pipelines three times a year, allowing it to have completed the work found to be necessary.

6.1.3.2.2.2.2. Concession agreements

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

As of December 31, 2005, Gaz de France held a portfolio of 6,357 agreements (compared to 6,437 in 2004) covering a total of 8,965 municipalities (compared to 8,868 in 2004). Almost all of these agreements are concession agreements for natural gas negotiated for an initial period that is generally between 25 and 30 years.

The 8,965 municipalities served by Gaz de France under its 6,357 concession agreements are divided into two groups:

- 8,878 municipalities as to which Gaz de France has exclusive rights pursuant to a French law dated April 8, 1946. For these municipalities Gaz de France is legally the only operator to which they may grant a concession to distribute gas to the public. These municipalities include those that granted concessions to Gaz de France for their public distribution of gas prior to the adoption of the coverage plan, dated April 3, 2000, as well as the municipalities allocated to Gaz de France under that coverage plan.
- 87 municipalities that awarded concession agreements to Gaz de France in the 2003-2005 period for a term of 25 or 30 years following the opening of the market to competition. Under these agreements, local authorities are able to select a concessionaire through public bidding. As of December 31, 2005, these municipalities represent less than 0.02% of the customers and the distributor.

As of December 31, 2005, the volume-weighted average remaining duration for the Group's concession agreements was 19.5 years.

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

Period	% of concession agreements expiring	% of gas delivered under expiring concession agreements
2006-2010	4%	7%
2011-2015	6%	6%
2016-2020	12%	11%
2021-2025	19%	32%
2026 and beyond	59%	44%

Municipalities over which Gaz de France does not have exclusive rights are entitled to freely choose their operator following a public competitive bidding process conducted in accordance with paragraph III L. 2224-31 of the General Code for Local Communities (the "CRCT"), an option that they have used in practice since 2003. Since 2003, Gaz de France has won 235 new municipalities, of which 87 were provided natural gas as of December 31, 2005. To date, nearly all new concessions for natural gas subject to public competitive bidding were awarded to Gaz de France, with only eight being granted to other operators, corresponding to a 96.7% success rate. Public competitive bidding for propane was conducted by certain municipal authorities, and several propane agreements have been awarded to other operators.

6.1.3.2.2.2.3. Organization of the distributor

The Group's distribution business included both the operation of the distribution network and the sale of natural gas to customers. The Group carried out a significant proportion of its distribution activities through the division "EDF GDF Services" ("DEGS"). DEGS was a joint division of Gaz de France and EDF, established to create economies of scale benefiting both companies. It was in charge of the construction, operation and maintenance of the Group's natural gas distribution network, as well as sales and billing functions. However, EDF and Gaz de France negotiated their own concession agreements, made network investment decisions and set their service rates independently.

EDF and Gaz de France also engaged in independent marketing and organization of their sales networks.

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

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

  GRD is responsible for the management of the Group's distribution network in France. In addition, GRD allocates the quantities of gas consumed by its customers among various suppliers, and charges users for the transmission of gas on its distribution network on the basis of rates proposed by the CRE and set by the Minister for Energy. GRD's management of the distribution network is independent of Gaz de France's production and supply operations, and is subject to governance rules that are designed to prevent discriminatory practices with respect to network access.
- On July 1, 2004, Gaz de France and EDF created a joint division to operate the electricity and gas distribution networks, called EDF Gaz de France Distribution ("EGD"). EGD performs the following functions with respect to Gaz de France:
  - the realization of construction projects, development activities and maintenance work for the gas distribution network;
  - technical operation of the network and distribution facilities;
  - meter-reading activities for gas customers;
  - day-to-day relations with local authorities and authorities that grant concessions (ongoing relations regarding the ordinary operation of the networks: scheduling of work, information, etc.).

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

- The costs relating to the activities of EDF Gaz de France Distribution, which relate directly to one of the companies, regardless of their nature, are directly booked to these companies, so that there is no cash flow between these companies. Additionally, the costs relating to the joint operator's personnel that are indefinitely tied to uniquely gas activities, are directly booked to Gaz de France.
- Costs relating to activities performed for both the EDF and Gaz de France accounts, without distinguishing between them, regardless of their nature, are split between the parties by applying the contractual settlement rates. These costs are divided between EDF and Gaz de France at the source, meaning that from the event incurring the expense, the portion of the expense relating to each company is directly booked to the accounts of the company concerned, so that there is no cash flow between the companies. The definition of the variables that go into the calculation (the basis, etc.) of each settlement rate is identical for EDF and Gaz de France. The most frequently used settlement rate is the one relating to the number of delivery points for electricity and gas. The settlement rate in effect in EGD leads to a global partition of approximately 75% for EDF and 25% for Gaz de France in 2005. The costs relating to the personnel of the joint operator that are indefinitely tied to uniquely mixed gas/electricity activities, are directly divided between and booked to EDF and Gaz de France based on the applicable settlement rate.
- Conversely, certain costs can be initially booked to one of the companies and then be billed to the other company. Some of the operator's personnel that are connected via the administration (and as a result the accounting) of one of the two companies, can, on occasion, perform tasks for the benefit of the other company. The hours worked for the other company are the other company are collected on a daily basis and billed to the other company once a month. In 2005, Gaz de France billed €69 million to EDF and EDF billed €76 million to Gaz de France. Certain services provided to the joint operator are ensured (and accounted for) by one of the companies, which then bills the other company, always on the basis of a contractual settlement rate. These services primarily relate to information technology, telecommunications, automobile services and real estate. In 2005, for services provided to the joint operator, Gaz de France billed €99 million to EDF and EDF billed €172 million to Gaz de France.

Customer management

Until 2007, Gaz de France's goals (attributed to EDF Gaz de France Distribution) with respect to its customers not yet eligible are the same as the goals it set out in July 2004. In this manner is governed the relationship between EDF and Gaz de France or between distributor and commercializers.

Management of residential customers not yet eligible is assured by close to 8,000 "mixed" advisers through:

- customer service points and partnership contact points ("service points at the post office" as well as "service information and mediation points," "service points for individuals" and "public service houses"), which are accessible within 20 minutes to 98% of the population. These service points handled 8.5 million physical visits in 2005;

- customer platform that ensures back-office support and the reception of calls during business hours; and
- seven national call centres accessible seven days a week, 24 hours a day, which handled 30 million phone calls in 2005.

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

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

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

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

Two bodies make joint decisions for the two companies regarding the management of EDF Gaz de France Distribution. Each body's role is established consistent with the delegation of powers granted to the various managers:

- a committee that is responsible for network management issues, composed of two distribution network managers from each of the two groups, each with equal voting rights; the manager of EDF Gaz de France Distribution participates in this committee but has no voting rights; and
- a management board at the Group level that is responsible for ensuring the consistency of both groups' general policies towards EDF Gaz de France Distribution, and makes decisions that do not relate to day-to-day network management; this panel is made up of two managers from each of the two groups, each with equal voting rights.

Neither EDF nor Gaz de France can impose decisions on each other without the approval of the other party. In addition, Article 5 of French Law No. 46-628 dated April 8, 1946 as currently applied through Article 2 of the French law dated August 9, 2004, states that each company assumes liability for its own activities which are provided through the common operator, which is not a legal entity.

The agreement may be modified:

- *At the request of EDF and Gaz de France*. To this end, an impact study may, if applicable, be performed. In addition EDF and Gaz de France will meet regularly, or at the request of one of the two companies, in order to proceed with a general review and an evaluation of the application of the provisions of the agreement, the first of these meetings to occur before December 31, 2006.
- *Due to a change in the law*. The agreement should be modified, while respecting the global equilibrium of the agreement, in order to take into account applicable changes in the legal and regulatory context.
- *Due to changes in economic circumstances*. The conditions, particularly the financial ones, stated in the agreement, were determined as a function of provisions in effect at the time of signing in the areas of accounting, tax and cashflow management, along with economic and legal circumstances at that date. As a result, if following changes in the circumstances that led to EDF and Gaz de France concluding an agreement:
  - one of the parties finds itself subject to tax, legal, economic, or financial or other measures or events, or to a legal proceeding, leading to significant consequences, particularly of a financial nature, for this party; or
  - the provisions of the agreement come to irregular or illegal, having the effect of increasing the costs borne by this party under the obligations agreed to under the terms of the agreement, which significantly reduces the advantages this party draws from the agreement or to cause the agreement to be irregular or illegal.

The relevant party will immediately advise the other party. The parties will negotiate in good faith to take into account these new circumstances.

In addition, the agreement covers the methods for settling differences between the parties. In case of a dispute relating to the agreement, the parties must meet in order to put in place all means necessary to come to an amicable settlement to the dispute within at most one month from the date of this meeting. If there is no amicable settlement at the end of this period and to the extent that the investigation of the dispute does not harm the independence of the management of the managers of the distribution network, EDF and Gaz de France will communicate a common agreement without delay, while respecting the mandatory confidentiality rules, to the members of the supervisory board mentioned above which have received authorization to this effect, the elements of this dispute in order to seek an amicable settlement within 20 days.

If there is no amicable settlement between the parties, the dispute will be submitted, before any application to a competent court, to an external mediation proceeding. The parties will jointly agree on a mediator and define its mission and the time-period within which to achieve it. The solution proposed by the mediator will not be mandatory or binding.

If the mediator's solution is rejected by one of the parties, the dispute may be submitted to competent courts in Paris, which alone may resolve any disagreement relating to contractual formation, validity, execution or interpretation of the agreement.

EGD also manages the supply of natural gas (sales and billing) for non-eligible customers (individual household customers). The Distribution France segment passes on all expenses related to this activity to the Purchase and Sale of Energy segment. Gaz de France plans to transfer to the Purchase and Sale of Energy segment all of its activities relating to the supply of gas (sales and billing), relating to individual household customers by the time the gas market is completely deregulated in July 2007.

6.1.3.2.2.2.4. Access to the distribution network

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

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

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

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

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

6.1.3.2.2.2.5. Transmission tariffs for the distribution network

GRD applies the 2005 rates, which are set by the public authorities by the ministerial order dated January 11, 2005 and by the ministerial order dated January 14, 2005. These rates were the subject of a CRE proposal dated December 19, 2003. The rate of return applied to the regulated asset base is 7.75% (real, pre-tax) for all assets, regardless of when the assets were put into service.

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

The regulated asset base used to determine the applicable 2005 rates for use of the distribution network is €11.742 million as of January 1, 2004. Gaz de France estimates that the level of the regulated asset base as of January 1, 2006 was €12.455 million, taking into account investments budgeted for 2006 and the assets to be fully depreciated in 2006.

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

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

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

Gaz de France provided to the CRE, from April 2005 to October 2005, all the elements necessary to create a rate structure for the use of natural gas distribution networks. On October 26, 2005 the CRE sent its rate proposal to the responsible energy ministry to be applied starting January 1, 2006. The French Decree dated December 27, 2005 officially approved this proposal. The rates are intended to apply over a two year period.

To implement these rates, The Energy Regulation Commission applied the following principles:

- the rate cover operating costs and capital charges (the "cost plus" method);
- the operating costs are determined in accordance with Gaz de France's audited financial results conducted in 2004/2005 by the CRE and take into the effects of the reform of the retirement plan (taking into account the fixed-rate contribution (CTA) implemented in 2005);
- the methods for calculating capital charges have been revised, so that the regulated asset base (BAR) increases during the two regulatory periods in an amount based on the level of investments and inflation, while decreasing in an amount based on the level of depreciation, amortization and downgrading. The assets that are in service until December 31, 2002 are integrated into the BAR at their net value (while deducting amounts made by third parties), those put into service since January 1, 2003 are integrated at their gross value;
- the rate of return on the BAR is estimated based on a "financial asset evaluation model" (MEDAF).,

The details of the CRE's proposal includes the following starting from January 1, 2006:

- the regulated asset base (BAR) held is €12.455 million. It increases from 6% compared to that held for the preceding rate (11.742 million);
- the real rate of return before taxes is determined by the Energy Regulation Commission in accordance with the table below:

Determination of the real rate of return before taxes

Risk-free rate	2.4%
Spread for debt	0.3%
Risk premium (real)	4.5%
Beta	1%
Leverage	40%
Corporate tax rate	33.33%
Cost of debt (real)	2.7%
Cost of earnings (real)	10.3%
Average weighted cost of capital (real)	7.25%

Source: Energy Regulation Commission.

The decrease in the rate from 7.75% to 7.25% reflects changes in the capital markets since the implementation of the preceding rate (decrease in the risk-free rate and spreads:

- the amount of costs to be covered was set at a total of €2.689 million for 2006;
- the anticipated amount of the volumes transmitted expected for 2006 is 339 TWh compared to 326 TWh for the previous rate;
- between 2006 and 2007, revenues will change as a function of actual volumes (this increase is estimated to be 2%).

Globally, this proposal suggests a decrease in the unit rate (including CTA) of 0.7%

Gaz de France estimated that, all things being equal, an increase in the operator's EBITDA by around 2%.

6.1.3.2.2.2.6. Relations with the CRE

The range of services (for suppliers or final customers) not covered by the transmission tariffs were updated in October 2005 after being presented to the Energy Regulation Commission.

In 2005 the Gaz de France distributor created a code of conduct containing the organization's internal measures for preventing all discriminatory practices with respect to access to the network, to guarantee the protection of commercially sensitive information and to insure transparency with respect to access to the network. This code, which is applicable to all distribution activities, was presented to the CRE in June 2005. The distributor, based on an audit, wrote a report on the effective implementation of this code. This report was provided to the CRE on September 29, 2005 and presented to Gaz de France's Board of Directors on November 16, 2005. Finally, on December 6, 2005, CRE published on its site its annual report on compliance with its code of conduct and the independence of the network managers. For the Gaz de France distributor the main observations are the following:

- the code is published on the distributor's website, but it is still difficult for users to access;
- the managers of ERD and EGD have made it a priority to implement the code; operational verification of this implementation falls under the authority granted for the GRD audit;
- the code dedicates an insufficiently large portion of the organization to the verification and treatment of claims;
- specific training is conducted for professional specialties that are exposed to the risks of discrimination and disclosure of commercially sensitive information ("CSI");
- particular attention has been paid to the dual agents of EGD due to their involvement with two types of energy; this coordination with the electricity distributor should be reinforced for the development of their respective codes;
- indicators of the adherence to commitments have been put in place and relayed to the CRE;
- the real estate measures for the separation and protection of facilities should be pursued n 2006 and 2007;
- the name of the distributor and how it is visually identified should no longer refer to the supplier;
- measures guaranteeing the professional interests of people that assure management functions permitting them to act with complete independence, without being subject to the pressures of being part of the parent company, should be included in the bylaws or the internal rules of the parent company;
- generally, the current code does not put enough emphasis on the non-discrimination obligation by placing in inordinate amount of emphasis on the protection of CSI.

In addition, the CRE scheduled three audits within GRD over the course of 2005. They related to the following topics:

- the profitability of the investments made by Gaz de France for the development of the natural gas distribution network;
- the information system that has been analyzing since July 1, 2004 the transmission process and relationships between suppliers and final customers; and
- the calculation of the consumption profiles by type of customer.
- The results of the last two audits were discussed in September 2005 and the recommendations were implemented during the first quarter of 2006. Globally, the profitability of the development investments of the distributor were confirmed through a sampling of the work sites considered. The CRE made recommendations in terms of subjecting the entire decision-making process to quality

control, ex-post systematic oversight planning and the traceability of business information. These recommendations were already partially implemented through new procedures in place since July 1, 2004. The remainder will be implemented in 2006, including the organization of experience-based oversight of work sites.

6.1.3.2.3. Transmission and Distribution - International

Segment Revenues and EBITDA

In millions of euros	2005	2004*
Revenues (before eliminations)	2,283	1,467
Revenues from third parties	*2,257*	*1,427*
EBITDA	344	400
Share of revenues of equity affiliates	34	3

(*) *As restated under IFRS, pro forma after the reform of the financing of the retirement plan, not audited.*

6.1.3.2.3.1. Strategy of the Transmission and Distribution – International segment

Gaz de France intends to participate actively in the consolidation trend of companies in the energy sector in Europe, based on the experience it has acquired on the domestic market and the areas where it has a presence. The implementation of this strategy by the Group includes two elements:

- the development of a presence in supply infrastructures and the securitization of the European market by participating in major transmission, storage and LNG infrastructure projects. In a market that is characterized by increasing dependence on imports from non-European countries, Gaz de France will in this way position itself to benefit from the growth of the European natural gas market;
- researching growth opportunities in the European distribution sector, drawing on its expertise in the areas of energy marketing and network management and using its existing market positions, including its presence in Austria, Hungary, Slovakia, Romania, Italy, Belgium and Germany.

The Group owns equity in many companies operating pipelines on natural gas supply routes in Western Europe, as well as transmission and distribution systems in countries like Germany, Belgium, Slovakia, Austria, Italy, Romania and Hungry. Some of these companies also conducting marketing activities directed at 2.7 million customers in the world (portion attributable to Gaz de France), to whom it has sold 75 TWh of natural gas in 2005 (portion attributable to Gaz de France).

The Group also has holdings in companies in North and Central America, as well as in an LNG terminal in India.

6.1.3.2.3.2. Description of business activities

6.1.3.2.3.2.1. Important events in 2005

On May 31, 2005 the Group became a majority shareholder in Distrigaz Sud, a natural gas distributor in Romania. This acquisition allowed Gaz de France to develop its position as a primary participant in the European energy markets, by strengthening its position in central and eastern Europe, where the Group is already present in Hungry and Slovakia. It also allows Gaz de France to access an emerging market with more than 22 million inhabitants with a strong gas tradition (Romania produces close to two-thirds of the gas it consumes). Additionally, the on-going process of integrating the country into the European Union contributes to its macro-economic and financial stability.

On September 28, 2005, in Brussels, the Group acquired a 25.5% indirect equity interest in the share capital of Société de Production d'Électricité ("SPE") through the joint holding company Segebel held 50/50 in partnership with Centrica. This new company is presently the second-leading participant in the Belgian market. In total, it serves close to a million electricity customers, 400,000 gas customers, 7 TWh of electricity production, 10 TWh of electricity sales and 12 TWh of gas sales. As a result it makes a significant contribution to the Group's positioning in all of the energy sectors and in the northern European market.

For more concerning these acquisitions, see also chapter 22 – "Material contracts."

In 2005 Gaz de France proceeded with its withdrawal from South America. In Argentina, the Group sold 15% it still held in GasNEA, a licensed distributor in five provinces in the northern portion of the country. In Uruguay, the Group signed on November 24 a contract with Petrobras (Brazil) for the sale of its 51% equity ownership in Gaseba Uruguay, the natural gas distributor in the town Montevideo. The sale is expected to become effective during the first half of 2006, following the authorization of local administrative authorities.

6.1.3.2.3.2.2. Description of business activities by country

6.1.3.2.3.2.2.1. Europe

Italy

The Group has a 44% interest in the distribution company **Arcalgas Progetti,** a 42.6% interest in the sales company **Arcalgas Energie** and a 40% interest in **Italcogim.**

Their historical shareholders hold the balance of the capital of these companies. Gaz de France has options to purchase the remainder of the capital of Arcalgas Progetti and Arcalgas Energie. These options are exercisable beginning in May 2006 for four months. The other shareholders have an option to sell their shares in these companies to the Group during the same period. Gaz de France has an option to purchase the remainder of Italcogim exercisable until the beginning of August 2008. The other shareholders have an option to sell their shares to Gaz de France in August 2008 for a period of six months. The total price that the Group could be required to pay in respect of all of these options is €393 million (€276 million for Italcogim and €117 million for Arcalgas, an increase of €13 million corresponding to partial compensation of the other shareholders for a decrease in the dividends distributed).

As of December 31, 2005, Arcalgas Energie was supplier to nearly 193,000 individual household customers and 207 industrial customers and close to 14,800 service sector customers through the 3,790-kilometre long Arcalgas Progetti network located in 163 concession areas in northern Italy. During the year ended December 31, 2005, Arcalgas Energie sold nearly 5.2 TWh of natural gas.

As of December 31, 2005, Italcogim was supplier to nearly 570,000 individual household customers and service sector customers and 226 industrial customers through a 7,826 kilometre long network located in 255 concession areas mainly in the south of Italy (Puglia), in central Italy (south of Rome) and in the North (near Milan, the North-East). During the year ended December 31, 2005, Italcogim sold approximately 8.6 TWh of natural gas.

With these equity interests, Gaz de France pursues its development goals for Italy where there are investment opportunities. Its goal is to grow significantly its market share by participating in bidding for concessions, by purchasing distribution and marketing in medium size towns and by making use of its supply capacities in this country (see chapter 4 – "Risk factors").

Germany

MEGAL GmbH & Co. KG ("MEGAL") (held 44% by the Group [13], 51% by E.On-Ruhrgas and 5% by the ÖMV group, an Austrian energy company) is a company organized under German law with its registered office in Essen; this company owns construction projects which it must build and operate in order to allow the managers of the transmission network, E.On-Ruhrgas and Gaz de France Deutschland (GDF DT), to assure the gas transmission and transit services that it offers in southern Germany. MEGAL has a 1,075 kilometre long cumulative pipeline network linking the Czech and Austrian borders to the French border.

On October 1, 2005 GDF DT, which is wholly-owned by the Group, began its operating activities related to the commercialization of its capacities, which currently include 58.7% of the Megal network.

In 1998 the Group acquired **GASAG** AG, a natural gas distributor in the Berlin Land area under a exclusive concession agreement for the 1998-2004 period. For Gaz de France this equity interest is the basis for fostering its strategic position in Germany, the number one gas market in Europe. The company is held 31.6% by the Group, 31.6% by Vattenfall Europe (a Swedish electricity company) and 36.85% by E.On-Ruhrgas, and has a 75.1% stake in Erdgas Mark Brandenburg ("EMB") and a natural gas distributor in the Brandebourg Land. On December 31, 2005, GASAG had more than 783,000 customers in Berlin and Brandenburg, mainly individual household customers, connected to the 11,360-kilometre long distribution network. GASAG's consolidated sales for 2005 were 25.5 TWh for consolidated revenues of €1 billion. GASAG also holds and operates storage facilities with a total working gas of 380 million cubic meters.

Vatenfall Europe and Gaz de France signed a shareholders' agreement governing their joint control of GASAG, which expires in 2018 and from December 31, 2007 may be terminated each year.

GASAG is researching the development of its sales in the context of the opening of the markets and rate restrictions, with the goal of increase its share of the Berlin heating market to 46% in 2004 and 51% in 2010.

Belgium

Segeo is held 25% by the Group and 75% by Fluxys and as of December 31, 2005 has a 160 kilometre long pipeline going from The Netherlands to France, mainly transporting gas from the North Sea. The Group has reserved 80% of the capacity of this pipeline until 2008.

On September 28, 2005 Gaz de France and Centrica, through their joint subsidiary Segebel, held 50/50, acquired a 51% equity interest in the Belgian company, Société de Production d'Électricité ("SPE") (which gives the Group a 25.5% indirect interest in SPE). At the time of this acquisition a partnership relating to SPE which brings together SPE itself, Luminus, a marketing company created by Centrica and the intermunicipal Flemish distribution entities, and also ALG Négoce, a marketing company created by Gaz de France and the Association Liégeoise du Gaz. This partnership, as formed, will permit Gaz de France to develop its efforts to produce and sell energy on the Belgian market. SPE is the second largest producer of electricity in Belgium, with 1,600 MW of capacity primarily from co-generation gas power plants, but also hydroelectric power plants, equity interests in 4% of the nuclear power plants at Doel and Tihange as well as the right to output from the Chooz power plant. In addition, the SPE partnership will make 10 TWh of electricity sales to close to 1 million customers and 12 TWh of gas sales to 400,000 customers.

Gaz de France and Centrica set out in a shareholders' agreement for Segebel the governance rights which puts them on equal footing and in particular grants them reciprocal pre-emption rights in the case of a sale. In addition an agreement between the SPE shareholders prohibits the transfer of ownership for three years and grants reciprocal pre-emption rights to minority shareholders for the next seven years.

Slovakia

SPP is an integrated company active in the purchase, transit, transmission, distribution, sale and storage of natural gas in Slovakia, a state that became a member of the European Union on May 1, 2004. The Group and E.On-Ruhrgas, acquired through their subsidiary Slovak Gas Holding BV, in which they each own 50%, a 49% equity interest in SPP, with the remainder held by the Slovakian State. Gaz de France and

(13) *As indicated on page 67 of the Document de Base, MEGAL was previously held 43% by the Group, 50% by E.On-Ruhrgas, 5% by the ÖMV group and 2% by the Stichting Megal. On September 9, 2005 Stichting Megal, a foundation organized under Dutch law and held 50/50 by the Group and E.On-Ruhrgas, sold its equity interest in MEGAL to its two founders. As a result the portion of MEGAL's capital held by the Group increased to 44% and that held by E.On-Ruhrgas increased to 51%.*

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). SPP is Gaz de France's most important investment outside of France. It should be noted that this gas company transmits through its infrastructure 90% of the Russian gas destined for the European Union.

SPP holds and operates Slovakia's gas transmission and distribution network, which had a total length of 32,800 kilometres as of December 31, 2005. The portion of the SPP network, that is part of the east-west transit gas pipeline, that extends from the Ukrainian border to the Czech and Austrian borders, is 2,300 kilometres long and has a total capacity of 95 billion cubic meters per year. SPP contractually reserves 95% of its transit network capacity for customers such as Gazprom (until 2008), Wintershall (the largest German oil and natural gas producer), VNG (a German gas trading and services company) and Transgas (a Czech gas company). The capacity reserved by Gazprom includes a part used for the transmission of natural gas to France. SPP's transit system includes four compression stations along this gas pipeline, with total power of 1,100 MW.

In Slovakia SPP sold 70 TWh of natural gas in more than 1.4 million customers during the year ended December 31, 2005. SPP held 100% of Slovakia's eligible customer market. In addition, SPP holds 56% of Nafta, owner and operator of natural gas storage facilities in Slovakia with 1.7 billion cubic meters of capacity. SPP also owns storage facilities in the Czech Republic through its 50% owned subsidiary SPP Bohemia. Finally, SPP holds 35% of the company Pozagas, along with Nafta (35%) and Gaz de France (30%), a company that has storage facilities located near the SPP transmission networks with 620 million cubic meters of working gas and for which Nafta is the operator.

SPP has a contractual right to a capacity of 300 million cubic meters in these facilities. Gaz de France and ÖMV each have the right to 160 million cubic meters of capacity until 2012.

Austria

BOG (held 44% by the Group, 51% by ÖMV and 5% by E.On-Ruhrgas) has the commercialization rights until 2014 to the capacities of a 250-kilometre pipeline held by ÖMV going from the Slovak border to the German border and connecting to the MEGAL transmission pipeline – which was built during the same period for the delivery of Russian gas to Western Europe. In 2005, the Group used 72% of this pipeline capacity.

The Group holds 20% of the Société d'Investissement en Autriche (SIA), in partnership with EDF (80%), a company which itself holds 25% plus one share of the holding company ESTAG (corresponding to a minority block under Austrian law). The Styria Land holds the rest of ESTAG's shares and concluded with SIA a shareholders' agreement which gives to SIA more extensive powers than those of a minority block. In particular Gaz de France has a representative on the Supervisory Board of its subsidiary STGW. The main subsidiaries of ESTAG are:

- Steweag-Steg, a 65.4% subsidiary of the rest were held by Verbund the primary producer of electricity in Austria, the most important distributor and seller of electricity in the Styria Land;
- Steierische Gas Wärme (STGW), a wholly owned subsidiary, which is the main transmitter, distributor and seller of gas and heating in Styria Land.

Portugal

The Group has a 12.7% interest in Portgas, together with Elyo (12.7%), and Energias de Portugal (EDP) (72.2%), with whom they have entered into a shareholders' agreement. 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).

Portugal has obtained a dispensation allowing it to delay the implementation of the European gas directive until 2007. The market in the Portgas concession area is not open to competition. As of December 31, 2005, Portgas was supplier to more than 145,000 customers through a 2,425 kilometre long network.

Spain

Gaz de France holds 12%, along with six other partners, in a company studying the Medgaz project, which will directly connect Algeria and Spain through a pipeline with eight billion cubic meters of capacity per year. In 2005, the project was declared a priority of the Spanish government and they have begun public consultation with the goal of obtaining a permit to construct in Spanish territory. For their part, the Algerian authorities have delivered a construction permit for Algerian territory.

Hungary

Egaz (held 99.4% by the Group) and Degaz (held 99.8% by the Group) are two distributors and sellers of natural gas on the Hungarian gas market. These equity interests are part of the Group's European development strategy with the goal of serving between 20% and 25% of the Hungarian distribution market, given that the country is expected to be a transit area for countries to the south of it. As of December 31, 2005, their distribution network totaled 22,700 kilometres and supplied more than 764,000 customers with consolidated revenues equal to €547 million. With majority control having been acquired in 1995, these companies consistently improved productivity and made development progress. They continue to adapt to regulatory changes and the development of competition in a country where growth is sustained and which has recently rejoined the European Union.

Romania

In order to reinforce its presence in central Europe, Gaz de France signed on October 18, 2004 a contract to acquire 51% of the share capital of the Romanian company **Distrigaz Sud.** The rest of this company's capital is held by the Romanian state. This transaction, which closed May 31, 2005, allows the Group to have an important position on a promising market, in a country which will shortly enter the European Union. Distrigaz Sud provides natural gas to approximately 1,000,000 customers through its distribution network, which is 14,261 kilometres long. Distrigaz Sud sold approximately 44 TWh of natural gas in 2005.

On June 28, 2005 Gaz de France signed a contract with European Bank for Reconstruction and Development (BERD) and Société Financière Internationale (SFI), based on their 10% ownership in the share capital of a holding company, which will hold 51% of Distrigaz Sud. SFI's and BERD's investments were completed on February 2, 2006. Each has the right to designate an observer that does not have the right to vote on the Distrigaz Sud Board of Directors and a put option with respect to its equity interest for 120 days starting from June 1 of every year for the following years: 2010 to 2013. Gaz de France a right of first refusal for 120 days starting from June 1 of every year starting in 2014. The transfer price for these options is calculated by multiplying the percentage of the equity interest sold by a multiple that is between 7.75 and 8.25, depending on the year and the EBITDA of the company and as decreased by the net debt.

Poland

The Group is a minority shareholder (22.2%) along with EDF (77.44%) in the cogenerator EC Wybrzeze in the Gdansk. ECW has the capacity to produce 330 MW of electricity, principally from coal, and supplies the urban heating networks of the towns Gdansk and Gdynia. This equity interest is part of its development goals for this country, which has recently entered the European Union, which has an energy sector that is in the middle of evolving and promises to have strong medium term development in the gas sector.

A shareholders' agreement signed in July 2000 gives Gaz de France a put option for all of its equity interest, which is exercisable between January 15, 2005 and January 15, 2008 at the initial share price (e.g. €172 per share) +6.5% per year and a call option that would allow it to increase its equity interest in the company by 25%, which is exercisable between January 15, 2005 and January 15, 2008, under the same conditions and where there is a gas supply to the facilities.

6.1.3.2.3.2.2.2. Outside of Europe

Canada

Gaz Métropolitain (13.2% held indirectly by the Group) is the third largest natural gas distributor in Canada and the only gas distributor in the State of Vermont in the United States. As of December 31, 2005, Gaz Métropolitain supplied more than 200,000 customers from distribution networks totalling 10,000 kilometres.

Intragaz (in which GDF Québec has a 40% indirect interest) holds the right to manage and operate storage facilities in Quebec with 140 million cubic meters of working gas as of December 31, 2005. The entire storage capacity is contractually used by Gaz Métropolitain.

Mexico

The Group's wholly-owned subsidiaries Consorcio Mexicas, Tamauligas and Natgasmex hold three licenses for natural gas distribution in Mexico. In accordance with these licenses, the Group distributed natural gas to more than 210,000 customers in the suburbs of Mexico City, in Puebla and in the Matamoros region (Norte Tamaulipas) during the year ended on December 31, 2005. It sold more than 5 TWh to its direct customers and delivered 13 TWh on behalf of third parties.

The Gaz de France 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-kilometre long Mayakan gas pipeline, located in the Yucatán peninsula. CFE, the Mexican historic national electricity company, has contractually reserved 95% 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 reinforcement program.

South America

In Uruguay, the Group signed in November 2005 a contract with Petrobras for the sale of its 51% equity ownership in Gaseba Uruguay, the natural gas distributor in the town Montevideo. They are currently negotiating the authorizations necessary for this sale with the Uruguay authorities.

In Argentina, the Group sold in June 2005 the 15% it still held in GasNEA, a licensed distributor in five provinces in north-east Argentina. The Group is currently negotiating the end of its term as technical operator of GasNEA.

India

Petronet LNG, a company created by the Indian authorities to implement projects for importing LNG into India, developed the first LNG supply chain in the Indian market, with an LNG terminal put into service in January 2004 at Dahej in Gujarat State.

The Group is a partner of the Dahej project, under a service contract signed with Petronet LNG, under which it provides technical assistance for the operation and maintenance of equipment. The Group has a 10% interest in Petronet LNG, 34.8% of the shares of which are listed on a stock exchange in India.

Following the success of the first phase of the Dahej project, Petronet LNG decided to double the capacity of this terminal so that it will increase from 5 million tons of LNG per year to 10 million tons with implementation anticipated to occur in 2009. In addition the Company decided to build a second terminal at Kochi in Kerala State.

6.1.4. Legislative and regulatory environment in France

The production, transmission, distribution and supply of natural gas were nationalized by French Law No. 46-628 dated April 8, 1946, which granted to Gaz de France a quasi-monopoly over these activities. This monopoly has evolved over time, mainly as a result of European directives aimed at creating inside the European Union a market for natural gas, most significantly by permitting customers in one Member State to purchase natural gas from alternative suppliers in the same or a different Member State.

The gradual opening of the natural gas market, which began in 1990, has been effected primarily through two directives: European Directive 98/30 dated June 22, 1998, and European Directive 2003/55 dated June 26, 2003.

Under Directive 98/30, only "eligible" customers – including those whose annual consumption of gas per site exceeded a certain threshold – were granted the right to choose their supplier. The first directive was implemented in France by French Law No. 2003-8 of January 3, 2003.

Directive 2003/55 repealed Directive 98/30 and strengthened the opening of the gas market by allowing all customers other than individual household customers (meaning customers who buy gas for their own domestic use) to choose their supplier beginning on July 1, 2004 and allowing all customers to choose their supplier beginning on July 1, 2007. Directive 2003/55 was implemented in France primarily by French Law No. 2004-803 of August 9, 2004, although some provisions of the directive had already been integrated into French law prior to the adoption of this law.

The two directives and their implementing laws (January 3, 2003 and August 9, 2004) also include provisions that guarantee non-discriminatory access to the principal infrastructure (gas transmission and distribution systems, LNG facilities and gas storage facilities), and that require the separation of the infrastructure activity of "integrated" companies (which are companies that exercise more than one gas activity) from production and supply activities under the supervision of the Energy Regulation Commission ("CRE"), together with separate accounting systems, separate management and in some cases the creation of separate legal entities.

French Law No. 2005-781 dated July 13, 2005 concerning the agenda setting the energy policy plans has improved and amended these legislative provisions.

6.1.4.1. The supply of natural gas in France

6.1.4.1.1. Eligible and non-eligible customers

French Law No. 2003-8 of January 3, 2003 and Decree No. 2003-302 dated April 1, 2003, amended by Decree No. 2004-420 dated May 18, 2004 define an eligible customer as one that is not an individual household customer, meaning one that does not purchase natural gas for domestic use regardless of the level of gas consumption.

Eligibility is determined on a site-by-site basis. A site is a location listed by its identity number in a national register of enterprises and business entities or, for non-industrial and non-commercial customers, a location where gas is consumed. Individual household customers will not be eligible until July 1, 2007.

Eligible customers whose annual consumption is under 100,000 Kwh have to send to their suppliers a written statement certifying that they meet the conditions set by the Decree of April 1, 2003 as amended by the Decree of May 18, 2004.

Eligible customers have the right through their agent to choose their natural gas supplier. To exercise this right, they can decide to terminate the existing transportation and supply contract with 30 days notice.

Gaz de France allowed customers meeting the eligibility criteria of the Directive 98/30 to choose their supplier as of August 10, 2000, the date on which the directive was due to be implemented into French law. If an eligible customer does not cancel its contract, it is considered not to have exercised its right to choose its supplier, and is supplied on the basis of the contract in effect on the date on which it became eligible, subject to changes in administrative tariffs applicable to non-eligible customers.

The French law of August 9, 2004 requires separate accounting for the supply of gas to eligible and non-eligible customers.

6.1.4.1.2. Authorization to supply natural gas

Directive 2003/55 restating the provisions of Directive 98/30 on this point provides that Member States may grant authorizations to supply natural gas to customers. Directive 2003/55 extends this rule to biogas and to biomass gas or to other types of gas, provided it is technically possible to introduce them into and transport them safely within the natural gas network.

The authorization process is based on principles of non-discrimination and transparency, and the applicable criteria and procedures must be made public and refusals must be grounded.

In France, the January 3, 2003 law and Decree 2004-250 of March 19, 2004, provide that supply authorizations are issued by the Minister of Energy on the basis of the technical, economic and financial capabilities of the applicant and the compatibility of the proposal with public service obligations. The Minister has a period of five months following the filing of a complete application to issue or refuse an authorization, no decision meaning a refusal. Authorizations are exclusive and may not be transferred by the recipient, but may, in the event of a change of operators, be transferred by decision of the Minister of Energy. A supplier who has received an authorization must, no later than March 1 of each year, update certain parts of the information provided in the application for authorization, along with any other legally required information. Starting March 1, 2007 suppliers will be allowed to update their information every three years.

Each authorization specifies the categories of customers to which the supplier may sell gas. To sell gas to categories of customers not covered by an existing authorization, a supplier must apply for a new authorization.

Gaz de France has been authorized, by an order issued by the Minister of Energy dated September 14, 2004, to supply natural gas to the following categories of customers:

- non-domestic customers, whether or not they perform a mission of general interest;
- distributors;
- other suppliers of natural gas; and
- domestic customers.

Gaz de France supplies non-eligible customers connected to the distribution system under this authorization, as well as distribution permits that, until July 1, 2007, will continue to apply to the supply of gas to non-eligible customers. The Ministers of the Economy and Energy approve the rates for the sale of gas to non-eligible customers after consultation with the CRE. In the absence of any regulation regarding tariffs, the provisions included in the distribution permits will apply.

6.1.4.2. Transmission, storage and transit of natural gas in France

Directive 2003/55 provides that the transmission business is upstream from distribution activity and involves the transmission of natural gas through national or regional (in the case of France) high-pressure gas pipeline systems to permit the supply of customers, but does not include the actual supply of gas. Storage facilities are owned and/or operated, according to the directive, by companies engaged in the natural gas sector and, in practice, are used to optimize gas supplies in light of fluctuations in consumption.

The method of designating the operators of transmission systems and storage facilities is not detailed in the directive, which simply stipulates that this designation must be made for a period of time to be determined by the Member States taking into consideration efficiency and economic balance. The directive does, however, clearly specify requirements that such operators must meet, including the operation, maintenance and development of safe, reliable and efficient facilities. Operators must also ensure that the natural gas transmission and storage infrastructure ensures effective and safe operation of the interconnected network.

French law requires non-discriminatory access to the gas transmission system, subject to the supervision of the CRE. In order to ensure the independence of the system operator, Gaz de France has separated the management and operation of its transmission network from its supply and production activities, in accordance with the requirements of Directive 2003/55. Management of the transmission network is now handled by a separate legal entity, GRTgaz (previously named Gaz de France Réseau Transport), which is owned by Gaz de France, but is managed independently from it. For more details on the applicable regulations see paragraph 6.1.4.5 - "Separate management and legal separation of operators of transmission and distribution networks".

6.1.4.2.1. The construction and operation of natural gas pipelines

The January 3, 2003 law provides that the construction and operation of natural gas transmission pipeline systems requires the issuance of an authorization by the Minister of Energy following public inquiry addressing the economic, financial and technical capabilities of the applicant, the compatibility of its proposal with public service principles and functions, environmental protection, as well as the safety of the natural gas pipelines and the networks or facilities connected to them. The authorized operator is granted the right to occupy the public domain and also specific easement rights for construction work. These authorizations are exclusive and non-transferable except with the authorization of the administration. The beneficiaries of the natural gas transmission authorizations carry out their duties under the terms and conditions provided by these authorizations and in the specifications attached thereto.

These specifications must comply with the general specifications set by Decree dated January 15, 1952, as amended by the Decree dated October 3, 2003. These specifications define, in particular, the general use of the infrastructure for which authorizations have been granted by indicating an order of priority for the customers to be supplied, the conditions under which the transmission systems are built and operated and the public service obligations imposed on the operator.

This authorization system was established by Law No. 2001-1276 dated December 28, 2001 Amending Finances Law of 2001, to replace the concession rights previously granted by the State to operators of the transmission network. In 2002, Gaz de France purchased from the French State the transmission network that it operates and now owns. Gaz de France received a transmission authorization on June 4, 2004, which was transferred on January 1, 2005 to Gaz de France Réseau Transport, which has become GRTgaz, under application of Article 12-III of Law No. 2004-803 dated August 9, 2004.

The operation of an LNG regasification facility does not require a specific authorization. However, an LNG terminal is a facility subject to environmental protection classification (Seveso facilities) and, as a result, its operation is subject to specific prefectural authorization (see paragraph 6.1.5.1.2.1 – "Facilities classified for environmental protection purposes (within France)".

6.1.4.2.2. Storage

The identification, creation, testing, fitting out and operation of natural or artificial underground cavities or natural formations with the characteristics required to constitute leak-proof reservoirs for the storage of natural gas or liquid, liquefied or gaseous hydrocarbons (hereinafter "underground storage facilities") are subject, pursuant to the Law of January 3, 2003, to the issuance of mine permits governed by the Mining Code. This regime provides that efforts to identify underground storage areas can be carried out only by the owner of the land or, where such consent is not given, under a permit issued by the Minister responsible for mines or by the holder of an exclusive search permit.

Underground storage facilities can only be operated in accordance with a permit specifying the area and the geological formations to which it applies. Permits are granted by decree of the Council of State after public inquiry and competitive bidding. When an existing storage permit is up for renewal, the holder of the existing permit may be granted a renewal without public competitive bidding so long as all of the relevant geological formations are geographically covered by the existing permit.

The holders of underground gas storage permits must operate them in a manner compatible with the safe and effective functioning of the interconnected natural gas networks.

The Law of August 9, 2004 provides priority rules for access to the storage facilities. The highest priority is assigned to storage of gas necessary to ensure the proper functioning and balancing of the transmission networks, the next to the supply of domestic customers and to domestic or non-domestic customers with missions of general interest or whose contracts do not permit interruptible supplies, and the final priority right to storage necessary to permit compliance with legally mandated public service obligations. The CRE has jurisdiction to settle disputes involving access to storage facilities.

An authorized supplier is required to hold gas inventories as of October 31 of each year in a quantity sufficient to ensure the supply of its customers during the period between November 1 and March 31. This inventory can be used to supplement other instruments. Failure to comply with these requirements may result in imposition of the administrative and monetary penalties specified by the Law of August 9, 2004.

6.1.4.2.3. Transit

European Directive 91/296 dated May 31, 1991 created a natural gas transit legal regime among the major high-pressure natural gas networks and listed the entities responsible for such networks. This directive defined transit as a transmission activity involving the crossing of at least one intracommunity border, where the original or destination network is located in the territory of the European Community. It also specified that transit activities require the signing of transit agreements between the parties responsible for the networks and, as applicable, the entities responsible for imports and exports of natural gas in the Member States concerned.

Directive 2003/55 repealed the provisions of Directive 91/296 as of July 1, 2004. However, contracts concluded under Directive 91/296 and still in effect as of that date continue to be valid and may still be implemented in accordance with the provisions of Directive 91/296 until they expire. After July 1, 2004, Directive 2003/55 provides that the operators of transmission systems must have access to the networks of other transmission systems operators, and in particular for cross-border transmission.

The Law dated January 3, 2003, as modified by the Law dated August 9, 2004 and the Decree No. 2005-877 dated July 23, 2005, provides that, under certain conditions, a new major gas infrastructure (in particular one that permits interconnections between Member States) may be exempted from the provisions relating to third-party access. The Law of January 3, 2003 further provides for the possibility of exemptions for transit operations from generally applicable tariffs and conditions.

6.1.4.3. Distribution in France

Directive 2003/55 defines distribution as the transmission of natural gas through local or regional networks of gas pipelines for the purpose of supplying both professional and domestic customers, but not including the actual supply. In practice, it covers activities of development and operation of the distribution network and transmission through that network, as well as the delivery of natural gas.

6.1.4.3.1 Distribution monopoly

Articles 1 and 3 of the Nationalization Law dated April 8, 1946 grants Gaz de France a monopoly over distribution, which today covers nearly all of the 8,965 local municipalities it serves.

This monopoly is, however, subject to certain exceptions:

- The first exception is included in Article 23 of the 1946 Law, which provides that local gas activities that were already in the public sector were not to be nationalized. These activities were generally to retain the form they had, although these non-nationalized distributors have been allowed to extend their business to neighbouring local municipalities that did not have a gas distribution system by Article 88 of the Law dated February 6, 1992 relating to the territorial administration of the Republic, as amended.
- The second exception is triggered by Article 50 of the Law dated July 2, 1998 which provides for a national plan to extend the gas supply network to municipalities or groups of municipalities not supplied with gas. Gaz de France or a non-nationalized distributor was required to supply those municipalities within a three-year period. Municipalities not included in the coverage plan, or for which work was not undertaken during the required three-year period, could be supplied by the distributor of their choice, as approved by the Minister of Energy on objective and non-discriminatory terms and conditions (Article 2224-31-III of the General Code of Territorial Communities). Under Law No. 2005-781 dated July 13, 2005, which supersedes the coverage plan, all communities without gas service can receive public distribution gas supply from the operator of their choice.

In order to comply with the requirements of Directive 2003/55 as enacted into law, Gaz de France, in cooperation with EDF, reorganized its distribution activities, which are now managed by GRD and EGD (for more details on each of these entities, see paragraph 6.1.3.2.2.2.3 - "Distributor's organization").

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 (principally by Gaz de France) under concessions granted by municipalities or groups of municipalities. The concession agreements that link the municipalities to Gaz de France are concluded or renewed, as applicable, based on recommended specifications established jointly by the National Federation of Concession Granting Municipalities ("FNCCR") and Gaz de France in 1994. Certain provisions of the recommended specifications are presented below.

Operation of the distribution service

Under the concession agreement, the municipality grants to the distributor the exclusive right to construct and operate the distribution infrastructure and to distribute natural gas in the territory covered by the agreement.

The concessionaire is responsible for the construction and operation of the infrastructure at its own expense and at its own risk. In return, it is authorized to collect from the users a price designed to compensate it for the obligations it assumes. Failure to meet these obligations would expose the concessionaire to contractually specified penalties.

Concession fees and distribution of the costs of the concession

The concessionaire pays the municipality both concession royalties and public domain occupancy fees as specified in Articles L. 2333-84 *et seq.* and R. 2333-114 *et seq.* of the General Code of Territorial Communities.

The concession royalties include two components: (i) a component related to operations, which is intended to cover the municipality's costs, relating primarily to its oversight obligations, and (ii) a component related to investments, as the municipality that grants the concession may construct a portion of the infrastructure and provide that infrastructure to the concessionaire.

Concession assets

The concession agreement provides that the distribution network infrastructure is the property of the relevant municipality as soon as it is built, while construction costs are borne by the distribution network operator. The operator is granted the exclusive right to use the infrastructure during the term of the concession. The concession agreement includes provisions relating to the supply of gas to non-eligible customers, including provisions relating to the rates charged for the supply of gas. As the rates charged for the sale of gas to non-eligible customers are regulated and set by the Ministers of the Economy and Energy (Article 7 of the Law dated January 3, 2003), the provisions of the concession agreement relating to rates for gas do not apply. The concession agreement does not contain provisions relating to rates charged for the use of the distribution network. Those rates are approved by the same two Ministers based on the CRE's proposal.

Duration of the concession

The concession agreement is, by nature, limited in term: the term of the concession agreements between local municipalities and Gaz de France is generally set between 25 and 30 years. The circumstances under which the concession agreement may be terminated before its stated expiration date are strictly limited to specified situations, and in any event may not occur before half of the concession term has expired. Termination requires two years' advance notice, as well as indemnification of Gaz de France by the concession grantor.

6.1.4.4. Access by third parties to the networks in France

A right of access by third parties to the transmission and distribution networks was instituted, so as to allow eligible customers based in a member State effectively to choose their natural gas supplier located in the same or in another member State.

French law provides for exceptions from the general commercial conditions and rates for the use of the transmission and distribution networks and LNG facilities (see paragraph 6.1.3.2.1.2.1.4 – "Transmission tariffs") when they are justified by the particular terms and conditions of use of the infrastructure and facilities, such as gas transit. Other exceptions may be granted by the Energy Ministry for new LNG infrastructures, storage or interconnections between transmission networks based on the CRE's recommendation, and the European Commission may ask for the amendment or annulment of this decision.

6.1.4.4.1. Terms and procedures for access to the transmission and distribution networks, to LNG facilities and to storage facilities

The Law of January 3, 2003 provides eligible customers, suppliers and their agents with a right of access, on a regulated basis, to transmission, distribution and LNG infrastructure, including auxiliary services.

This right is intended to ensure the supply of natural gas to eligible customers and to allow the performance of natural gas transit contracts among the large high pressure gas transmission networks in the Common European Economic space. Directive 2003/55 also requires Member States to ensure that natural gas companies and eligible customers have access to the upstream gas pipeline systems, meaning gas pipelines operated and/or built in connection with a petroleum or gas production project, or used for the transmission of natural gas from one or more production sites to a plant, treatment terminal or final onshore terminal.

Operators of the transmission and distribution networks and LNG and storage facilities must refrain from any discrimination among users or categories of users of the infrastructure or facilities they operate.

The refusal by an operator to sign a contract for access to its transmission or distribution system or to LNG facilities must be based on reasonable grounds and reported to the applicant as well as to the CRE. It is permitted only if:

- the network has insufficient capacity;
- technical reasons justify the refusal;
- granting access to the system would make it impossible for the operator to fulfill its public service obligations; or
- a temporary prior exemption is granted by the CRE, in a situation where access to the system could lead to serious economic and financial difficulties for the operator in respect of the take or pay contracts to which it is a party, to the extent that the development of demand for its LNG could not reasonably be anticipated at the time these contracts were concluded.

In order to ensure access to the transmission or distribution networks or LNG facilities, the operators of the transportation or distribution network must put in place natural gas movement programs established by the suppliers. The operator must at all times guarantee balanced natural gas flows, and the safety and efficiency of its network in the light of the technical constraints to which it is subject. The operator must also monitor the availability and performance of the services and reserves required for the functioning of the network and interconnections and carry out the necessary metering. Each operator of natural gas transmission, distribution or storage infrastructure or LNG facilities and any supplier using such infrastructure or facility is required to furnish to the other operators the necessary information to guarantee proper functioning of the interconnected network and storage facilities.

Natural gas operators of transmission and distribution networks as well as of LNG facilities and holders of natural gas storage permits must draw up and make public instructions specifying the technical design and operational requirements needed to connect to their facilities.

With respect to storage, Directive 2003/55 requires that parties be granted access, either on a regulated or negotiated basis, to storage facilities when required for technical or economic reasons in order to allow them to supply customers efficiently. The Law of August 9, 2004 provides for negotiated access to storage facilities for authorized natural gas suppliers, on the basis of general terms and conditions that must be published by the operator of the facilities. The definition of a storage facility includes gas in pipelines, but excludes the auxiliary services and temporary LNG storage infrastructure necessary for the process of regasification and delivery into the transmission network.

The Law of August 9, 2004 provides that operators may only refuse access to storage facilities on the basis of:

- a lack of capacity or technical reasons relating to the integrity and safety of the storage facilities;
- an order of priority set by the Minister of Energy in order to ensure the fulfilment of public service obligations; or
- evidence that access is not necessary on technical or economic grounds for the efficient supply of customers under the terms and conditions specified in the contract.

Eligible customers may also be supplied by a direct pipeline, in which case the States are responsible for determining the conditions for granting any necessary permit with respect to the construction or operation of the pipeline. Direct pipelines in France are subject to the regulations governing transmission activities. Directive 2003/55 and the Law of January 3, 2003 provide that authorization for the construction of a direct pipeline may be limited to cases where the customer is refused access to the network or has commenced litigation with respect to a dispute over access.

6.1.4.4.2. Non-discrimination, confidentiality of information and separate accounting

According to the Law of August 9, 2004, the activities of a network operator are subject to a "code of conduct" in order to prevent discriminatory practices relating to third-party access to transmission and distribution networks. With respect to the transmission and distribution of natural gas, the application of this code was the subject of an annual report in 2005 prepared and made public by the operator of the transmission network and submitted to the CRE. The CRE must publish a report each year regarding compliance with the code of conduct by the operator. Its first report on compliance with its code of conduct by the transmission and distribution network operators was issued in November 2005.

Each operator of natural gas transmission, distribution or storage facilities or LNG facilities must keep all information confidential where the communication of such information could adversely affect fair competition. Operators are obliged to advise the CRE of measures taken to preserve such confidentiality. Non-compliance with this confidentiality obligation is subject to criminal fines.

In accordance with the Law of January 3, 2003, every company engaged in one or more activities in the natural gas sector must have separate management accounts concerning the transmission, distribution and storage of natural gas as well as the operation of LNG facilities and all other activities that are not connected with natural gas. In addition, in accordance with the Law of August 9, 2004, any company engaged in an activity in the gas sector must create separate accounts for its activities involving the supply of gas to eligible and non-eligible customers. The operators must obtain CRE approval of the rules of allocation, the scope of activities for which separate internal accounts are to be provided and the principles of separate accounting. These accounts are not published.

6.1.4.5. Separate management and legal separation of operators of transmission and distribution networks

Pursuant to Directive 2003/55, where the operator of a transmission or distribution network or, if applicable, an operator of a combined network or multiple infrastructures (transmission, LNG, storage and distribution) is part of a vertically integrated company (such as Gaz de France), the network operator must be legally separate from the organization and decision-making bodies of the entities engaged in other activities, including production and supplies. This independence obligation does not automatically entail an obligation on the part of the vertically integrated company to transfer ownership of the assets of the networks operated, but only to separate at the management level or place in a subsidiary the activities concerned. The directive also specifies different obligations incumbent on the management of the operator of the transmission or distribution network, in order to guarantee its independence. However, directives and other regulations recognize a right to economic supervision and management of the integrated company, which may be exercised through approval of the annual business plan and budget of the operator of the infrastructure concerned. The relevant provisions were implemented in France by the law of August 9, 2004, which required the legal separation of the natural gas transmission business of Gaz de France. This legal separation was completed effective January 1, 2005. With respect to distribution, the Directive 2003/55 provides that Member States may postpone compliance with the obligation of legal separation until July 1, 2007. At the date of the registration of this *Document de Référence,* the French legislature has not yet made a decision concerning this obligation with respect to distribution.

6.1.4.6. Regulation and supervision of the natural gas sector

In order to settle disputes likely to arise among the operators in a market open to competition, Directive 2003/55 requires each Member State to designate one or more independent authorities to ensure non-discrimination, effective competition and efficient functioning of the natural gas market (in addition to the general role of the European Commission in relation to European competition law). Such authorities are obligated to monitor the proper application of the rules relating to the management and allocation of interconnection capabilities, procedures designed to remedy congestion in the networks and the time required for the operators to carry out connections to and repair of the networks.

In France, these obligations have been implemented in two ways. First, the CRE was established as an independent administrative authority for the regulation of the gas and electricity sectors. Second, the Minister of Energy has certain powers of oversight and has the right to impose penalties. Municipalities, in their capacity as concession granting authorities, may also monitor proper compliance with the obligations arising under a distribution concession agreement.

6.1.4.6.1. The Energy Regulation Commission

The CRE is an independent administrative authority created in 2000 to regulate the electricity sector in France, whose authority was extended by a Law dated January 3, 2003 to the regulation of gas activities. The charter of the CRE guarantees its autonomy and impartiality and provides it with the resources necessary for its operation. The CRE does not have legal personality.

The CRE has substantial powers, aimed chiefly at ensuring the regulation of the networks through access control, as well as regulating the natural gas market.

Tariffs regulation powers

The CRE proposes to the Ministers of the Economy and Energy the rates for the use of the transmission and distributions networks and LNG facilities. Under the Law dated July 13, 2005, the ministers' approval is deemed granted, except if one of the ministers opposes it within two months of receiving the CRE's proposal. The CRE also gives its opinion on the rates for the sale of natural gas. Finally, it gives its opinion on exemptions, jointly granted by decree by the Ministers of Energy and the Economy, from the normal tariffs for the transmission and distribution networks and LNG facilities, as well as exemptions from the general commercial terms and conditions for the use of the infrastructure (see paragraph 6.1.3.2.1.2.1.3 – "Access to the transmission networks in France", paragraph 6.1.3.2.1.2.1.4 – "Transmission tariffs", paragraph 6.1.3.2.1.2.2.3 – "Access to LNG terminals and gas storage in France", paragraph 6.1.3.2.1.2.2.4 – "Infrastructure tariffs", paragraph 6.1.3.2.2.2.4 – "Access to the distribution network", and paragraph 6.1.3.2.2.2.5 – "Transmission tariffs for the distribution network"). It also gives its opinion to the minister on exceptions that it may grant to give access to new infrastructures.

Powers relating to the right of access to the network

The CRE protects the right of access to natural gas networks. It is therefore consulted in advance as to draft regulations relating to access to the natural gas transmission and distribution infrastructure and to LNG facilities. Network operators and operators of LNG facilities must inform the CRE of the general terms and conditions of use of their infrastructure and of their facilities. In the event of a refusal of access to a natural gas transmission or distribution network or an LNG facility based on a lack of capacity or a difficulty related to connecting the facilities of the applicant for access to the network, the CRE may request and, if necessary, require the operator to proceed with the necessary improvements if they are economically justified or if a potential customer indicates that it will agree to pay for them.

Disputes regarding network access

The CRE may be called upon to settle disputes relating to access to the network as between operators and users of the natural gas transmission and distribution infrastructure, or between the operators and users of the LNG facilities, or in the event of a dispute concerning storage. It has substantial discovery and investigatory powers. Its decisions may include certain periodic penalty payments. The Law dated July 13, 2005 indicates that settlement dispute requests do not apply to non-eligible customers.

Powers relating to separate accounting principles for regulated and unregulated businesses

The CRE approves, after recommendations by the French Competition Council Competition, the separate accounting principles proposed by integrated companies as described above in order to ensure there is no discrimination, cross-subsidies, or restriction of competition. The separate accounts created according to these principles are provided to it each year.

The CRE has a right of access to the books and to the economic, financial and labour information of companies active in the gas sector. The CRE has the power to review the costs and expenses taken into account by the operators in calculating the regulated tariffs.

Pursuant to the Law of August 9, 2004, the CRE may give its opinion prior to the dismissal of any person serving as the chief executive officer of an operator of a transmission or distribution network. In addition, it prepares an annual report on compliance by the network operators with their codes of conduct, evaluates their management independence and makes additional proposals, if necessary.

Duties relating to the oversight of organized markets

The Law dated July 13, 2005 gives to the CRE the power to oversee transactions effected on organized natural gas markets as well as cross-border trades.

Penalties

The CRE may impose a temporary ban on access to the transmission and distribution networks as well as to the LNG facilities for a period not to exceed one year, or impose a monetary penalty if an operator of the natural gas transmission or distribution networks, an operator of LNG facilities or the users of these networks and facilities fail to comply with the decisions of the CRE made:

- following the breach of a provision of the law or regulations relating to access to or use of networks and facilities;
- following a breach of the cost allocation rules, in the accounting scope and of the principles determining the financial links between businesses with separate accounting as they had been approved;
- for the settlement of a dispute related to access to, or use of, the networks and facilities; or
- following a breach of the obligations governing the communication of documents and information or the obligation of an operator to provide access to its accounting, economic, financial and labour information necessary to the CRE for the exercise of its oversight mission.

The monetary penalty that may be incurred in these cases is a maximum of 3% of sales (excluding taxes) for the last complete financial year, which is increased to 5% in the event of a new breach of that same obligation.

6.1.4.6.2. The Ministers of the Economy and Energy

The Ministers of the Economy and Energy have investigatory powers that allow them to obtain any information concerning gas companies necessary for the application of the Law of January 3, 2003 and of the Law No. 2005-781 dated July 13, 2005. Investigations are conducted by officials and agents qualified for this purpose. The Minister of Energy and the CRE may, if applicable, appoint an expert.

The Minister of Energy may impose a monetary penalty or announce the withdrawal or suspension, for a period of no more than one year, of the authorization to supply natural gas or the authorization to pursue transmission activities, against parties guilty of breaches of legal provisions and requirements relating to access to the natural gas networks, to the transparency of the natural gas sector, to public service obligations, to the security of supply, or to the transmission and distribution of natural gas. Monetary penalties or the withdrawal of authorizations may also be imposed on the holders of natural gas underground storage concessions in the event of non-compliance with the specifications of the concession and the provisions of the Law of January 3, 2003 that are applicable to storage.

6.1.4.6.3. The National Public Service Agency for the Electricity and Gas Industries

The objective of this agency, created under the supervision of the Economic and Social Council, is to examine the conditions under which electricity and gas companies implement their public service obligations. It issues opinions on and makes proposals concerning questions under its jurisdiction, which are publicly available. It files an annual report with the French Parliament and the French government on changes in the rates for the sale of gas and electricity for each type of customer.

The agency is formed with representatives of each category of customers, the municipalities granting concessions, local communities that have created a non-nationalized distributor covered by the Law dated April 8, 1946, representative union organizations, EDF and other operators in the electricity sector, Gaz de France and other operators in the gas sector, associations active in the economic and social field and local and national elected officials.

6.1.4.7. Other regulations and agreements that impact the business of Gaz de France

6.1.4.7.1. Public service obligations

The law imposes public service obligations on operators of natural gas transmission and distribution networks, on operators of LNG facilities, on suppliers and distributors of natural gas and on holders of natural gas underground storage permits.

These obligations concern the safety of individuals and facilities, the continuity of gas delivery, security of supply, the quality and price of the products and services provided, environmental protection, energy efficiency, balanced territorial development, the emergency supply of gas to non-domestic customers performing missions of general interest and the continuous delivery to persons in a precarious situation. They vary in terms of the different categories of operators under the terms and conditions fixed by Decree No. 2004-251 dated March 19, 2004. The public service obligations are specified in permits for the supply or transmission of natural gas, natural gas underground storage concessions or the specifications for.

6.1.4.7.2. Public service contract

The public service missions of Gaz de France in the energy sector are defined by the Law of January 3, 2003. These missions are implemented for Gaz de France through a public service contract, as provided by Article 1 of the Law of August 9, 2004.

The Public Service Contract, signed on June 10, 2005 under the terms approved by Gaz de France's Board of Directors on March 22, 2005, reiterates the public service obligations of Gaz de France, emphasizing certain obligations, such as supply security and continuity and industrial safety. It also contains provisions relating to the resources that are to be put in place by Gaz de France to ensure access to public services by customers (including destitute customers), together with research and development and environmental protection policies. It also sets down the principles for the multi-annual evolution of public distribution tariffs.

6.1.4.7.3. Public Bidding Requirements

Procurement by Gaz de France in excess of certain thresholds established by European Directive 2003/17 dated March 31, 2004 and implemented in France by the Order No. 2005-649 dated June 6, 2005, and the Decree No. 2005-1741 dated December 30, 2005, which concern bidding procedures for contracts in the water, energy, transmission and postal services sectors, is subject to mandatory public bidding procedures. The current thresholds are €420,000 for public contracts for supplies and services and €5,270,000 for public works contracts (in each case, excluding VAT).

The procurement procedures require the publication of a notice, competitive bidding among the candidates and the award of contracts on the basis of predetermined, objective and non-discriminatory criteria.

6.1.4.7.4. Authorization for supply of electricity

Gaz de France engages in the purchase for resale of electricity to eligible customers in accordance with the provisions of Decree No. 2004-388 dated April 30, 2004 on the purchase of electricity for resale to eligible customers and the obligations of suppliers to provide information to electricity customers. On September 13, 2004, Gaz de France received the acknowledgment specified in Article 2 of this decree allowing it to make purchases for resale to eligible customers for a period of five years following the application submitted to the Minister of Energy on June 15, 2004.

6.1.5. Environment / Sustainable development

6.1.5.1. Environment

6.1.5.1.1. Environmental policy

Since 1993, Gaz de France's pro-environment activities have been formalized into company-wide environmental plans. In 2004, the most recent environmental plan was supported with an action plan promoting sustainable development.

The Group's environmental policy, as updated in 2004, is structured around the following three main objectives:

- responding to environmental issues (activities to prevent the greenhouse effect, nuisance-reduction, preservation of air quality and health);
- integrating the environment into the overall management system of each division (by implementing environmental management systems that can be evaluated by independent outside agencies, such as ISO certification or the reference standards of social rating agencies, by defining quantified performance objectives, by integrating the Quality Safety Environment and Risks ("QSER") method, by training employees); and
- promoting greater responsibility in environmental matters (by increasing knowledge about the impact of the group's activities and products, by evaluating the environmental risks and opportunities and their consequences, by developing offerings that respect the environment, by raising the awareness of suppliers, etc.).

6.1.5.1.2. Applicable regulations

The activities of Gaz de France are subject to many environmental regulations in France and abroad (in particular, European regulations), depending on their location.

The facilities in which Gaz de France carries out its activities are likely to be subject to French Law No. 2003-699 dated July 30, 2003 relating to the prevention of technological and natural risks and repairing damage (to the environment). This law creates technological risk prevention plans around all sites classified as at risk, and allows for the prohibition new construction within exposed areas. In addition, it reinforces the obligation to restore a classified facility and covers sub-contracting in plants at risk.

6.1.5.1.2.1. Facilities classified for environmental protection purposes (within France)

Certain facilities operated by Gaz de France, specifically compression stations, underground storage facilities, LNG terminals and three depots (propane in Saint-Flour and Bastia and butane in Ajaccio) are classified for environmental protection purposes (**"ICPE"**).

Information relating to the regulations applicable to ICPEs is discussed in paragraph 8.2.1 "Facilities classified for environmental protection purposes (within France)".

6.1.5.1.2.2. Former industrial sites

The rehabilitation of former industrial sites gave rise to protocols entered into with the administrations of France and Germany.

Information relating to the actions taken by Gaz de France with respect to the rehabilitation of sites polluted by its former activities is discussed in paragraph 8.2.2 – "Former industrial sites".

6.1.5.1.2.3. Quality of the air, atmosphere and resources

The Group must, in compliance with the Environmental Code, and in accordance with specific regulations (on waste, noise, air, protection of water resources, etc.) establish an air quality policy to reduce atmospheric pollution, to preserve air quality, to protect water resources and to save or rationalize energy. More specifically, for atmospheric discharges, Gaz de France is subject to various orders that specifically apply to classified facilities.

6.1.5.1.3. 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, solid and liquid waste, water consumption) are followed at the Group-wide level through an indicator measuring the environmental impact of Gaz de France. Additionally, senior management for each of the operating activities evaluates their performance in the following areas: regulatory compliance, action plans, definition of performance indicators, evaluating results and implementation of a system for continuous improvement.

6.1.5.1.3.1. Emissions and pollutants

The Group's activities result in the emission of different types of gaseous substances into the atmosphere, as described below.

Greenhouse gases (carbon and methane). Carbon dioxide (carbon dioxide or CO^2) comes from exploration-production activities and the transmission and production of electricity or heat (cogeneration, combined cycle, heating systems). Gaz de France produces approximately 3,584 million tons of emissions every three year that are subject to quotas of France's National Allocation Plan. Outside France, Gaz de France produces approximately 1 million ton subject to quotas (the allocation for Italian facilities have not yet been finalized). Since 2004, these emissions have been the subject of monitoring and controls in France. These procedures were extended to the entire Group in 2005.

Methane results from distribution and transmission activities. The network replacement program makes it possible for Gaz de France to reduce the amount of emissions per cubic meter that it distributes and/or transports each year (see the environmental indicators). These emissions have been cut in half since 1990.

Nitrogen oxides ("NOx"). NOx comes from the combustion of natural gas (compression stations and electricity production installations, in particular) and various fuels used in the liquefaction process. Gaz de France has set an objective to reduce its NOx emissions in France by 80% compared to their 1999 levels between now and 2006.

In 2005 NOx emissions increased due to a cold winter (which caused strong demand for underground resources) and delays in the schedule for 2 important renovation projects concerning the reduction in NOx emissions (at the Roussines and La Neuvelotte sites). The implementation of these new facilities at the end of 2005 will permit it to respect the commitments that it has made for 2006 (which are to decrease NOx emissions by 80% compared to 1999, at a constant scope of consolidation).

6.1.5.1.3.2. Water

The Group's activities inject few pollutants into the water. The major impact on aquatic mediums are the following:

- the process waters from production platforms, which are all equipped with treatment systems; and
- the liquid wastes from the on-site treatment by biological and/or physical-chemical means of the effluents from natural gas bleeding from aquifer storage areas. In the area of natural gas storage in aquifers, the treatment of 80% of the effluents is handled by specialized firms. The remainder is treated on-site by physical-chemical means (dilute effluents) or by incineration (concentrated effluents).

More than 99% of the Group's water consumption is the result of industrial uses. This water is mainly involved in the process of regasifying LNG at the LNG tanker terminal sites. The water is taken from natural sources to regasify the LNG before it is returned to the same medium. Different measurements are taken in order to limit consumption and expand the recycling of waste water.

6.1.5.1.3.3. Waste products

The principal waste products of the Group involve:

- OIWs (Ordinary Industrial Wastes) and HIWs (Hazardous Industrial Wastes) generated by transmission activities and the rehabilitation of former gas plant sites;
- drilling muds linked to exploration work;
- jobsite waste; and
- bleeding effluents and effluents from the treatment of natural gas from storage facilities.

Gaz de France is reducing waste production at the source as well as recycling and recovering waste. The brine produced during the creation of salt cavities is primarily recycled in the chemical industry. The tar from the sites of former gas plants is incinerated in energy-recovery installations and polluted soil from these sites is reused off-site after thermal desorption, while drilling muds are sent to a specialized storage centre. Every new pipe laying project involves a thorough impact study on biodiversity, hydrology and the subsoil, as well as other parameters.

Hazardous products are subject to consumption monitoring. The Group has noted a 25% drop in waste produced since 1996 with respect to methanol, and 50% since 1999 with respect to oils.

6.1.5.2. Sustainable development policy

The Group's commitment to sustainable development is an integral part of its strategy and constitutes one of the key elements of its industrial and social planning. It reflects the values and principles that guide its actions and determine the dynamics of its corporate planning, both through its desire to grow and to take into account the impact of its activities, but also through its involvement in the community's social and economic life.

Approval and oversight of the advancement of the policies relating to the environmental and social responsibilities of Gaz de France are handled by the committee for sustainable development and ethics.

Gaz de France has largely implemented its sustainable development program by starting in 2000 an "Agenda 21" initiative, which is an action program promoting sustainable development for the 21st century of its activities both in France and abroad. In 2004, a sustainable development policy was approved and the 2004-2006 Sustainable Development Action Plan ("SDAP") was presented to the Board of Directors of Gaz de France.

6.1.5.2.1. Aspects of the legislative context

In France, the program law dated July 13, 2005 setting the guiding principles for the national energy policy. It defines four main objectives, which overlap with a portion of the sustainable development imperatives for the energy sector:

- guarantee supply security and national energy independence;
- maintain competitive prices for the provision of energy;

- protect public health and the environment, by combating the worsening of greenhouse gases; and
- encourage better social and territorial cohesion.

In terms of tools, the law encourages diversification of the French energy portfolio, control over the demand for energy (energy conservation certificates have been introduced as a complement to relevant provisions of the Kyoto Protocol and CO^2 emission permits for the European market), the development of innovation and research in the energy sector and ensuring the adequacy of storage and transmission facilities as compared to need.

6.1.5.2.2. Sustainable Development Policy

Implementation of the sustainable development policy of Gaz de France is pragmatic, in the context of a process of continuous improvement that brings together both employees and concerned outside parties.

The Group's sustainable development policy, as defined in 2004, is structured around four lines of action described below:

6.1.5.2.2.1. Responding to energy issues through innovation and revitalization of the supply of products and services

The following are the principal themes of this policy:

- becoming a major participant in the struggle against the greenhouse effect, specifically by developing the activities and offerings of the Group that aim at improving efforts to reduce greenhouse gases (CO^2 deposits), receiving CO^2 credits (in particular by participating in investment funds like the Carbon Prototype Fund), controlling energy use, strengthening the environmental value of its product offerings, preparing innovative decarbonization projects, such as CO^2 wells, or sequestration (projects to capture and geologically sequester CO^2);
- reinforcing the process for the innovation of the new product offerings of the Group, particularly in terms of energy efficiency, renewable energy sources and new uses for natural gas, such as natural gas vehicles ("NGV");
- participating in studies and projects that enable it to build the future of energy resources (e.g. the potential of the hydrogen vector); and
- encouraging the development of renewable energy sources: By 2012 the Group has the goal of holding renewable energy assets equal to 10% of its power generating facilities. By 2007 Gaz de France intends to have 100 MW of electrical power produced with renewable energy.

6.1.5.2.2.2. Fully exercising every aspect of the Group's societal and environmental responsibilities.

This aspect of the development policy focuses on the following points:

- adapting corporate governance, in particular with QSEGR managerial integration which consists of making sure that safety and environmental risks are covered by the management system (see paragraph 6.1.5.1.1 – "Environmental Policy"). This risk control procedure is part of an on-going improvement initiative;
- limiting the impact of Gaz de France activities on the environment (activities, buildings, vehicles, etc.) while pursuing ISO 14001 certifications, principally for Seveso classified facility sites, but also by limiting the impact and risks to the public (quality and safety of indoor facilities, reduction of gray cast iron pipelines, mapping of low pressure urban networks, installation of underground storage); and
- changing the nature of relations with the Group's suppliers through its purchasing and subcontracting procedures.

6.1.5.2.2.3. Developing a Group human resources basis for handling industrial issues

The Group is seeking to create a standard framework for its human resources practices (see chapter 17 – "Employees"). This framework is intended to be applied within all the subsidiaries controlled by the Group. The basis for these developments will be consultation, dialogue and listening to all perspectives (management, employees and their representatives).

Over and beyond the improvement of working conditions, specifically in the area of public health and safety, reflected in the search to reduce the frequency and severity of incidents, the Group is taking new initiatives to strengthen all forms of equality (for example, non-discrimination and the promotion of diversity, the role of women in the workplace, senior citizens and the handicapped), consistent with the values of sustainable development.

6.1.5.2.2.4. Playing an active part in the development of geographic areas where the Group is present

Geographic presence and integration of the Group's regional development activities are important ways in which the Group distinguishes itself, particularly for elected representatives. Gaz de France has taken the following measures to implement this policy:

- support for the sustainable development initiatives (ex. "Agenda 21") of local communities;
- the promotion of solidarity within the context of the Group's policy;
- the Group's actions to support local economic development and the effects resulting from its development activities, specifically the expansion of its network;
- increasing dialogue with different regional parties; and
- promotion by Gaz de France of issues related to land development: employment of young people, teaching good environmental management practices for natural settings and locations, and promoting activities for tourists like hiking.

6.1.5.2.3. Priorities for 2006

Each year its priorities for implementing Gaz de France's sustainable development policy are reviewed and updated. In 2006, the Group is working on making progress in the following areas:

- respond to important current and future energy issues;
- strengthen social cohesion within the Group;
- create dialogue between the Group and interested parties.

6.1.5.2.3.1. Response to important current and future energy issues

For Gaz de France, this entails specifying its vision for the future of the gas sector in the medium and long-term, in particular by establishing different scenarios for the evolution of energy management and by preparing a scenario entitled "Reducing GES emissions by 75% by 2050".

For Gaz de France, it also entails noting the importance of the fight against climate change, by taking actions on its own initiative to:

- develop its renewable energy strategy;
- increase the energy efficiency of its customers, principally through energy conservation certificates, as well as at industrial facilities;
- manage constraints tied to the management of greenhouse gas emissions by researching the creation of economic opportunities.

6.1.5.2.3.2. Strengthen social cohesion within the Group and approachability of its sustainable development actions

This second priority targets the Group's beliefs and commitments in the area of social responsibility, by reinforcing internal social cohesion and by fostering a sense of belonging and the Group's attractiveness by:

- defining and implementing concrete commitments in the area of CSR (company social responsibility), especially with respect to the "ethics" initiative (values, code of conduct, management system), preparation of a reference guide for HR practices as well as diversity initiatives. Diversity initiatives are based on a diversity charter signed by Gaz de France in 2005 and includes several sub-projects (diversity of nationalities, cultures, male/female mix, diversity of backgrounds and ages, as well as the integration of the disabled);
- knowledge management, based on the exchange of best practices, internal and external communication of the meaning of actions that implicate Gaz de France's social responsibility and supporting the management of sustainable development with quality tools.

6.1.5.2.3.3. Dialogue between the Group and interested parties

The Group has the goal of creating a dialogue concerning its entire sustainable development policy, with a representative sample of all its partners in order to identify areas of progress, communication of its policies and new actions. This cross-disciplinary initiative has just completed its current initiatives concerning efforts to listen to and have a focused dialogue on precisely defined topics, with groups of interested parties with respect to the Group which share a common concern (customers, consumer associations, NGO's, shareholders, investors, regional players like communities and neighbours, etc.).

6.1.6. New products or activities

In 2005, the Group did not initiate any new products or activities.

6.2. Principal markets

6.2.1. Presentation

See paragraph 6.1.1 – "General Presentation – The natural gas sector in France and in the world."

6.2.2. Breakdown of revenues

2005 revenues and EBITDA

In millions of euros	Energy Supply and Services division			Infrastructures division				Total Group
	Exploration-Production	Purchase and Sale of Energy	Services	Transmission & Storage France	Distribution France	Transmission & Distribution International	Eliminations, Other and Non Allocated**	
Revenues	1,139	17,252	1,916	2,124	2,951	2,283	(5,271)	22,394
EBITDA	726	251	166	1,271	1,352	344	109	4,219
Operating results	**457**	**203**	**94**	**942**	**895**	**249**	**(56)**	**2,784**

Revenues and 2004 EBITDA*

In millions of euros	Energy Supply and Services division			Infrastructures division				Total Group
	Exploration-Production	Purchase and Sale of Energy	Services	Transmission & Storage France	Distribution France	Transmission & Distribution International	Eliminations, Other and Non Allocated**	
Revenues	968	13,855	1,439	2,145	2,972	1,467	(5,320)	17,526
EBITDA	625	265	94	1,291	1,399	400	99	4,173
Operating results	**229**	**263**	**53**	**938**	**541**	**286**	**17**	**2,327**

(*) *Revised under IFRS, pro forma, following the reform of the retirement plan, not audited.*
(**) *This column includes 2004 revenues from the DK6 subsidiary; in 2005, this subsidiary was reclassified into the Services segment.*

6.3. Important events

The Company's initial public offering occurred on July 7, 2005.

6.4. Degree of dependence

Gaz France's natural gas supply is frequently provided through the national company of the country in which the natural gas originates. This fact may constitute an element of dependency for the Group and be a risk tied to the political and economic conditions of the supplying country.

Gaz de France has implemented a diversification policy for its natural gas supply portfolio. See paragraph 6.1.3.1.2.2.1.1.2 – "Diversification of supplies."

See also chapter 4 – "Risk Factors."

6.5. Factors relating to its competitive position

The integration of the Group into the various natural gas market businesses and the development of its regulatory environment expose it to various types of competition. Gaz de France believes that the keys to success in its industry are quality of service, good customer relations, gas prices and the ability to obtain transmission contracts.

6.5.1. Exploration-Production

There is significant competition in the Exploration-Production activity between oil and gas operators to acquire assets and permits for exploring and producing oil and natural gas. The Group produced 27.4 Mboe of natural gas in 2005, and, according to IFP's 2004 data, it ranks tenth among natural gas producing companies in Europe. The main participants in this sector are ExxonMobil, the Royal Dutch Shell group, BP, Total and ENI.

However, in terms of size and nature of activity, Gaz de France can be compared with other gas market participants who have developed their Exploration-Production activity, such as RWE, Centrica, Gas Natural and E.On-Ruhrgas.

6.5.2. Purchase and Sale of Energy

The Group is one of the leading natural gas suppliers in Europe, one of the largest natural gas buyers in the world and one of the leading importers of LNG in Europe.

In December 2005, the Purchase and Sale of Energy segment served 10.4 million household customers, more than 636,000 mid-market customer-sites primarily composed of professionals, retailers, small and medium-sized businesses, apartment buildings, certain private and public service providers and local communities) and more than 700 major industrial and commercial customers spread out over more than 4,000 sites, more than 500 of which were located in Europe outside of France. The data in this paragraph only relates to the Purchase and Sale of Energy segment and so excludes the Transmission and Distribution International segment.

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

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

The implementation of the 1998 and 2003 European directives concerning the opening of the European gas market as well as the progressive creation of a new organization of this market through the appearance of hubs and spot gas markets in the United Kingdom and, more recently, in Belgium and The Netherlands, are resulting in a gradual increase in competition in the European natural gas market. This development of competition translates into the possibility for a growing number of consumers to contact the gas supplier of their choice, as well as the creation of third-party access to transmission and distribution networks and to the LNG infrastructure necessary to implement this free choice of supplier (see paragraph 6.1.4 – "Legislative and Regulatory Environment in France").

Gaz de France has retained the majority of its contracts with large customers which have been eligible to choose their own supplier in France since August 2000, and has limited the share acquired by competing operators to 32.5 TWh in 2005 (within Gaz de France's historical area). Gaz de France's share of the market for major industrial and commercial customers in France decreased slightly from 73% in 1999 to 64.5% at the end of 2005. Eligible volume market share losses are primarily due to the market share gains of Total, Distrigaz, Eni, E.On-Ruhrgas and EDF.

In other European markets targeted by Gaz de France, the Group competes with traditional operators that hold very large market shares, such as Centrica, Gasunie, Distrigaz, E.On-Ruhrgas, Wingas, ENI and Gas Natural.

6.5.3. Services

In the market for individual customers, Savelys is the leader with more than 25% of the market compared to another national competitor, Proxiserve (Veolia), which holds less than 10% of the market. The rest of the market participants are local companies and installation craftsmen. It should be noted that Savelys (previously CGST Save – Domoservices) is, after Centrica, the second leading European company in the domestic, furnace maintenance market.

The services sector is dominated by the following 2 companies:

- Dalkia (a subsidiary of EDF and Veolia), which is historically well-connected with local communities and has heating networks with a very developed cogeneration pool, which gives it an estimated market share of 40%;
- Elyo (Suez), which is number two, with an estimated market share of 35% in the same niche.

Cofathec Group is in third place with less than a 10% share of the market, ahead of a few still independent groups (Idex, Hervé Thermique) and small, regional companies.

In other services activities (natural gas for vehicles, managing facilities in a controlled environment and industrial maintenance), the Group must contend with considerable competition at the national and regional level in the context of a fragmented market.

Recently, new entrants to the market have become active in the services market, especially Facility Management, having developed from either the building industry (Vinci) or the electricity sector (Cegelec, Forclum).

On the industry one finds the same actors with the same positions, excluding the new entrants from the building industry.

In the area of power generation, the subsidiaries of Suez and Air Liquide are more active in the area of large combined cycle facilities. Dalkia is not present in this niche.

In Italy, Cofathec Servizi, a subsidiary of the Group, is second to Dalkia in the traditional energy services market, which should see the arrival of new participants, such as Enel.

In the United Kingdom, the main competitors to Cofathec Heatsave, a Gaz de France subsidiary, are WS Atkins, Drake & Skull, Dalkia and Johnson Control, all of which offer a complete range of building services.

6.5.4. Transmission and Storage – France

Transmission network: GRTgaz

Although the transmission and distribution infrastructure allow competition in the supply of gas through the access of third parties to the networks, the operation of this infrastructure remains by its very nature largely closed to competition.

In Europe, opportunities for growth appear essentially through the purchases of existing network operators or the development of new infrastructure such as LNG terminals (Fos-Cavaou) or new main pipelines (Gazoduc Méditerranée for routing Algerian natural gas to Spain), and there is strong competition between potential candidates in the context of these acquisitions.

Storage

From an economically and technical viewpoint, proximity to the market is a competitive advantage in the area of gas storage. From this perspective, Gaz de France currently has a very strong position in the French marketplace, where the only other operator is the Total group, which is rather far behind. For the future, Gaz de France has a good development portfolio of geological structures, which are strictly rationed. In addition it should be noted that the burden of new investments that must be financed for the duration of the project (the development of a new storage project takes about a decade) tend to strongly limit the number of potential new entrants. On the other hand, storage only represents one solution among others to the market's need for modulation (i.e. matching supply to fluctuations in demand). Gaz de France's storage options compete with several other solutions, such as the implementation of possible supply flexibility or the management of demand (in particular to have recourse to a portfolio of customers whose service may be interrupted, if applicable). In this context, various on-going changes at the European level, such as the development of gas hubs and increases in the capacity of gas pipeline transmission networks, contribute to the development of competition in the modulation market.

6.5.5. Distribution France

Distribution in France is mostly carried out by Gaz de France. 22 distributors that were not nationalized under a French law dated April 8, 1946 represent 5% of the national market for gas distribution. The Gaz de France Group holds shares in three of the largest local distribution companies: 24.9% of Gaz de Strasbourg, also owned by Total and the city of Strasbourg, 16.0% of Gaz de Bordeaux, also owned by Total, Dalkia and the city of Bordeaux, and 4.3% of Gaz Électricité de Grenoble also owned by Elyo, EDF and the city of Grenoble.

Under the French law dated April 8, 1946, Gaz de France has exclusive rights in towns that granted concessions for their public natural gas distribution on or before April 11, 2000 or and those served by Gaz de France under the 2000-2003 coverage plan dated April 3, 2000. As a result, Gaz de France is the only operator that may provide public gas distribution services to these local communities.

When the other municipalities need gas supplies they must seek bids from agreed upon gas distributors in accordance with paragraph III of Article 2224-31 in the General Code for Local Communities (designated municipalities authorized under the public service designation). As of December 31, 2005, Gaz de France had acquired the vast majority of new concession agreements. Several towns conducted public competitive bidding for propane. In this area, Primagaz, Butagaz and Antargaz in particular, were candidates. Gaz de France did not take part in these public-bidding rounds, since its profitable criteria for these transactions were not met.

6.5.6. Transmission and Distribution – International

Since the transmission of gas constitutes a natural monopoly, it is a strictly regulated sector in Europe. On the other hand, the sale of gas and electricity is progressively being opened to competition, under the terms of the two European directives currently in effect concerning gas and electricity.

Since the Group includes a diversified group of companies active in many countries and in segments all along the gas and electricity chain, it's competitors are as numerous and varied. In Europe the main competitors on the open markets are the large trading companies like Eon, Distrigaz and ENI. New competitors have penetrated the market for natural gas market, such as the large European energy producers: EDF, RWE and ENEL. The Group is well-equipped to confront the defensive strategies of historic operators in each of the countries where it is marginally present.

In Mexico, where the gas market is open to competition, Pemex is an active, but not aggressive competitor. The use of liquefied propane gas (GPL), an alternative to natural gas, is a more formidable form of competition.

7 ORGANISATIONAL CHART

The Company exercises its own operating activities and does not act as a simple holding company with respect to its subsidiaries. An exhaustive list of the Group's consolidated companies is presented in paragraph 20.1.1.1 – "Consolidated financial statements for the year ended December 31, 2005 under IFRS/ Notes/ Note 37."

The Company has approximately 270 direct or indirect subsidiaries. The following chart is a simplified organisational chart showing the principal subsidiaries held by Gaz de France (indicating its rounded percentage interest in the share capital), as of the date of the filing of this *document de référence*. Except as otherwise indicated, the percentage of voting rights held by Gaz de France in the Group's companies is identical to the percentage of capital appearing in the organisational chart below.

GAZ DE FRANCE S.A.

Energy Supply and Services

EXPLORATION - PRODUCTION

- 100% EEG Erdgas Erdöl GmbH (Germany)
- 100% GDF PRODUKTION EXPLORATION DEUTSCHLAND (PEG) (Germany)
- 100% GDF PRODUCTION NEDERLAND (The Netherlands)
- 39% NGT
- 100% GDF BRITAIN (United Kingdom)
- 23% EFOG (United Kingdom)
- 100% GAZ DE FRANCE NORGE (Norway)
- 100% GAZ DE FRANCE EXPLORATION ALGERIA (The Netherlands)
- 100% GAZ DE FRANCE EXPLORATION EGYPT (The Netherlands)

PURCHASE AND SALE OF ENERGY

- 100% MESSIGAZ (France)
- 51% GASELYS (France)
- 50% METHANE TRANSPORT (France)
- 100% GDF ESS (United Kingdom)
- 50% MED LNG & GAS (Jersey)
- 40% GAZTRANSPORT & TECHNIGAZ (France)

SERVICES

- 100% COFATHEC
- 100% FINERGAZ
- 100% GNVERT
- 34% NE VARIETUR
- 59% SAVELYS (ex CGST-SAVE)
- 100% DK6

Infrastructures

TRANSMISSION AND STORAGE FRANCE

- 100% GRTgaz

DISTRIBUTION FRANCE

- 25% GAZ DE STRASBOURG

TRANSMISSION AND DISTRIBUTION INTERNATIONAL

Latin America

- 100% GASODUCTOS DEL BAJIO (Mexico)
- 68% SERVICIOS MAYAKAN (Mexico)
- 50% ENERGIA MAYAKAN (Mexico)
- 100% CONSORCIO MEXI-GAS (Mexico)
- 100% NATGASMEX (Mexico)
- 100% TAMAULIGAS (Mexico)
- 51% GASEBA URUGUAY (Uruguay)

Canada

- 100% GDF QUEBEC
- 13,2% GAZ METROPOLITAIN (1)

Europe

- 100% DEGAZ (Hungary)
- 99% EGAZ (Hungary)
- 32% GASAG (Germany)
- 44% MEGAL GMBH (Germany)
- 25% SPP (Slovakia)
- 43% POZAGAS (Slovakia)
- 13% PORTGAS (Portugal)
- 25% SEGEO (Belgium)
- 44%* 33%** ARCALGAS PROGETTI (Italy)
- 43%* 33%** ARCALGAS ENERGIE (Italy)
- 40% ITALCOGIM (Italy)
- 51% DISTRIGAZ SUD (Romania)
- 25% SPE (Belgium)

(1) Company held throught and intermediate company, Noverco, which is itself held 18% by the Group.
(*) Share capital
(**) Voting rights

Other principal subsidiaries

- 100% GDF INTERNATIONAL
- 100% COGAC
- 55% BANQUE SOLFEA (ex PETROFIGAZ)

The functions exercised by the Company's managers (Chief Executive Officer, Chief Operating Officers, members of the Board of Directors and Members of the Executive Committee) in the Company's main subsidiaries are presented in chapter 14 – "Administrative, Management and Supervisory Bodies and Senior Management."

A chart showing the flow of physical and economic assets between the Group's segments is presented in paragraph 6.1.1 – "Overview."

The presentation of the business activity and strategic economic assets of the Company's main subsidiaries is presented in chapter 6 – "Business Overview."

The Group realized two major acquisitions during the year ended December 31, 2005: the acquisition of 51% of the share capital of the Romanian company Distigaz Sud S.A. and the acquisition of 25% of the share capital of the Belgian company SPE. Information relating to these two acquisitions is presented in chapter 22 – "Material Contracts."

In addition, the information relating to the flow of financial assets between the Company and its main subsidiaries is presented in chapter 19 – "Related Party Transactions."

8 PROPERTY, PLANT AND EQUIPMENT

8.1. Property

Gaz de France owns or leases a real estate portfolio including 1,440 housing units (of which 1,147 are owned and 293 are leased), 477 service sites used as offices or for other business activities, or a total of 1,184,197 m² of floor space, either as the owner (881,197 m²), pursuant to a finance lease (180,000 m²) or pursuant to a commercial lease (123,000 m² leased from a third party). 79% of the service sites that are either owned or leased pursuant to a finance lease, are located outside of Paris, while the rest are located in Île-de-France, whereas essentially all of the commercially leased property is in Île-de-France (about 86,000 m²). Among its real estate assets, whether owned or leased, Gaz de France manages 326 sites built on land that in the past supported a gas production plant and are now the subject of a program to rehabilitate these sites as described below in paragraph 8.2.2 "Former industrial sites."

Its service sites are exclusively used for Gaz de France's business activities or rented to EDF. The sites owned by Gaz de France have a 8 to 10% vacancy rate for the sake of flexibility.

There is no major charge on Gaz de France's significant, non-concession assets which are fully-owned and which are not already the subject of a provision.

The Group is currently streamlining its real estate portfolio by selling off housing units as well as vacant service sites, limiting the acquisition and construction of new properties, and by outsourcing the maintenance and management of its properties to specialized service companies. The Group intends to promote the rational use of the real estate that it owns or leases by billing to its business activities the market value of the properties they occupy.

8.2. Environmental issues related to the holding of real estate by the Company

8.2.1. Facilities classified for environmental protection purposes (within France)

Certain facilities operated by Gaz de France, specifically compression stations, underground storage facilities, LNG terminals and three depots (propane in Saint-Flour and Bastia and butane in Ajaccio) are classified for environmental protection purposes (known by the French acronym **"ICPE"**).

Under the terms of the French Environmental Code, ICPE regulations apply to plants, shops, depots, jobsites and, in general, to facilities that may present dangers or inconveniences to the vicinity, to public health and safety, to agriculture, to the protection of nature and the environment, and to the conservation of sites, monuments and other archeologically important items.

Industrial activities subject to this legislation are enumerated in a list issued in a Council of State decree – the nomenclature – and are subject, depending on the gravity of the danger or problems presented by their operation, either to a declaration system (in which case the facilities concerned must be operated in accordance with standardized operating directives), or to an authorization system (in this case, the authorization to operate takes the form of a prefectural decree issued after consultation with various agencies and a public investigation, which contains mandatory operating directives specific to the facilities that the operator must follow).

The ICPEs are placed under the control of the Prefect and the regional divisions of industry, research and the environment ("DRIRE"), which are responsible for organizing the inspection of the classified facilities. The inspectors of classified facilities are responsible for defining the technical directives imposed on the facilities, subject to authorization by prefectural decree, and ensuring compliance with the applicable regulations by the ICPEs through the analysis of documents and periodic inspections.

In the event of non-compliance with the conditions imposed on the operator of an ICPE, and irrespective of any criminal prosecution, the Prefect may impose administrative penalties, such as the posting of a sum equal to the amount of the work required for compliance, the mandatory implementation of the measures specified by the decree, or suspension of operations, or may also propose the shutdown or elimination of the facilities by decree of the Council of State.

In addition, some ICPEs are subject to the provisions of an Order of May 10, 2000. This order defines a number of additional procedures designed to prevent major risks. "Seveso" facilities must have specific safety management tools at their disposal because of their size or the nature of their activities and because they present risks of a major accident. This applies to Gaz de France's LNG terminals and the underground storage facilities it operates. These plants must take necessary measures to prevent major accidents and to limit the consequences of such accidents. More specifically, they must implement an "internal operational plan" specifying the terms and procedures for the intervention of the operator in the facilities in the event of an accident as well as a "specific intervention plan" prepared by the Prefect based on information provided by the operator and intended to be a back up for the internal operational plan when the consequences of the accident are likely to extend outside the facilities. In addition, the start of operations in these plants is subject to the prior posting of financial guarantees, the amount of which is set in the prefectural authorization order, and which are intended to guarantee that the operator will be responsible for the cost of any actions required in case of an accident and the cost of restoring the site after the facility has been shut down.

8.2.2. Former industrial sites

Gaz de France pays particular attention to former gas plants, which, prior to the development of natural gas, were the centres for the production of manufactured gas at which it ceased production in 1971. These former operations are likely to be the source, in the subsoil of the sites on which they were built, of substances which can, under certain conditions, present an environmental risk in terms of their location, their nature, their mobility, whether of natural or accidental causes, or their chemical characteristics.

Gaz de France has also, since the beginning of the 1990s, committed itself before the Ministry of the Environment to the voluntary, organized and coordinated treatment of the sites of its former gas plants, beyond the strict application of its legislative or regulatory obligations. Along those lines, it has conducted an exhaustive inventory of these sites and has ranked them according to their environmental sensitivity, while at the same time a major research program was put in place both to provide better information about gas by-products and also to identify new methods of treatment. These actions have made it possible to adopt effective and appropriate measures aimed at preventing any risk of damage to people and to the environment at an economically bearable cost and to specify the terms and conditions and the timetable for their application.

Gaz de France's commitment was reflected in its signing on April 25, 1996 of a memorandum of agreement covering a 10-year period with the Ministry of the Environment relating to the control and monitoring of the rehabilitation of former gas plant sites. In 2001, this protocol was supplemented by developing, with the Ministry, the general objectives of rehabilitation, and those specific to Gaz de France's lands, in order to set a framework for the cleanup of the sites that are changing use, as well as in 2002, setting a procedure for the monitoring of the quality of underground waters. On April 26, 2006, the protocol commitments were put in place for 467 sites. Gaz de France has honoured its protocol commitments and a report will be drafted jointly with the Ministry of the Environment. Furthermore, the rehabilitation of former gas plant sites has made it possible to preserve the use or to promote the return to urban development use of 332 hectares of land. The continued implementation of this approach should lead to the return to urban development of another 29 hectares in the years ahead.

As of December 31, 2005, the total sums devoted (since the beginning of this process) to the rehabilitation of former gas plant sites totals €143 million, and the accounting provision established for this purpose was €231 million.

In Germany, EEG is pursuing a rehabilitation program for sites polluted by its former activities (gas plants and exploration and production sites). This work is carried out in cooperation with the relevant authorities of the Länder of Saxony-Anhalt, Thuringia and Mecklenburg-Western Pomerania and with the BvS (German federal privatizations bureau) for the Land of Brandeburg which finances the greatest share of such expenses.

Future obligations to dismantle exploration-production facilities are governed by the laws of the various countries in which Gaz de France operates, including: in The Netherlands, the mining law; in Germany, the provisions set by the WEG (German association for the oil and gas industry) and the provisions negotiated with the German State and the Länder; in the United Kingdom, the 1998 UK Petroleum Act and the regulations of the United Kingdom Government's Department of Trade and Industry.

Provisions accrued for environmental obligations in foreign countries in which the Gaz de France group operates came to €351 million as of December 31, 2005. With the exception of GASAG (€11 million) and SPE (€11 million), which relate to the Transportation and Distribution International segment, the accrued provisions relate to subsidiaries of the Exploration - Production segment under obligations to restore sites and principally concern Preussag for €125 million and ProNed for €101 million. €9 million in expenditures materialized in 2005 and gave rise to the use of provisions.

9 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

9.1. General presentation

9.1.1. Consolidated financial information (key figures)

The tables below show information taken from the Group's consolidated balance sheet, income statement and cash flow statement for the 2005 fiscal year under IFRS standards. With respect to the 2004 IFRS financial information presented in comparative form:

- the balance sheet and cash flow statement are taken from the comparative information presented in the 2005 IFRS consolidated financial statements,
- the income statement includes unaudited pro forma information following the reform of the financing of the retirement plan.

SUMMARY CONSOLIDATED INCOME STATEMENT

In millions of euros	Published 2005	Pro forma 2004
Net Revenues	**22,394**	**17,526**
Capitalized expenses	336	344
Purchases and other external charges	(15,886)	(11,367)
Personnel expenses	(2,410)	(2,122)
Other operating income and expenses	(215)	(208)
EBITDA (1)	**4,219**	**4,173**
Depreciation, amortization and provisions	(1,303)	(1,845)
Employee shareholdings	(132)	
Operating income	**2,784**	**2,328**
Net finance costs	(202)	(179)
Other financial income and expenses	(236)	(318)
Share of income in companies accounted for by the equity method	189	125
Income before taxes	**2,535**	**1,956**
Corporate income tax	(794)	(563)
Consolidated net income before deducting minority interests	**1,741**	**1,393**
Minority interests	(2)	40
Consolidated net income	**1,743**	**1,353**
Earnings per share in euros	**1.85**	**1.50**

(1) *EBITDA is a measure of operating performance that corresponds to the term "Excédent brut opérationnel", which is defined as operating income before depreciation, amortization and certain other operating expenses.*

SUMMARY CONSOLIDATED BALANCE SHEET

In millions of euros	2005	2004
Goodwill and other intangible assets	1,936	1,321
Concession tangible assets	10,732	10,191
Non-concession tangible assets	15,271	14,155
Investments in companies accounted for by the equity method	693	385
Non-current financial assets	1,379	1,125
Other non-current assets	474	554
Total non-current assets	**30,485**	**27,731**
Inventories and work in process	1,451	907
Receivables	8,071	6,192
Current derivative financial instruments	1,756	
Cash and cash equivalents	2,119	837
Assets of financial affiliates	895	440
Total current assets	**14,292**	**8,376**
Assets classified as held for sale	0	402
TOTAL ASSETS	**44,777**	**36,509**
Shareholders' equity	**14,503**	**10,998**
Minority interests	**300**	**212**
Liabilities related to concessions	8,609	8,234
Provisions other than renewal provisions	2,895	2,784
Deferred tax liabilities	2,731	2,741
Financial debt (including irredeemable securities)	3,947	4,334
Other non-current liabilities	175	411
Total non-current liabilities	**18,357**	**18,504**
Provisions (short-term)	164	94
Social liabilities (short-term)	527	377
Financial debt (short-term)	1,165	971
Trade accounts payable and related payables	3,203	1,848
Tax liabilities	154	115
Other financial liabilities	1,171	948
Other short-term liabilities (including liabilities of financial affiliates)	5,233	2,403
Total short-term liabilities	**11,617**	**6,756**
Liabilities classified as held for sale	0	39
SHAREHOLDERS' EQUITY AND LIABILITIES	**44,777**	**36,509**

SUMMARY CONSOLIDATED CASH FLOW TABLE

In millions of euros	2005	2004
Cash flow from operations before taxes and changes in working capital requirements	**4,229**	**4,176**
Changes in working capital requirements	(501)	(282)
Corporate income taxes paid	(562)	(705)
Net cash from operating activities	**3,166**	**3,189**
Net cash used in investing activities	**(2,463)**	**(1,847)**
Of which:		
Investments	(3,061)	(2,133)
Divestitures and other investments	598	286
Amount available after financing investments	**703**	**1,342**
Financing activities	**408**	**(1,129)**
Impact of exchange rate fluctuations	**10**	**6**
Change in cash and cash equivalents	**1,121**	**219**

9.1.2. Principal factors having an impact on business activities and results of operations

Introduction

During the period from 2003 to 2005, the Group's results of operations reflected the development of its activities, both in France and outside France, and in particular the following general trends:

- increased consumption of natural gas in France as a result of a significant number of new connections of communities and customers, and relatively cold weather in 2005 and 2004 compared with 2003, which together resulted in increased sales volumes of natural gas and increased flow volumes through the transmission and distribution networks;
- rate revisions for the sale of natural gas in France that reflected, in principle, changes in the Group's supply costs; this had been the case until November 2004, when the revision of the rates reflected only partially the increase in supply costs. As a result the rate movements set by the public authorities were insufficient to cover fully the increase in the supply prices, particularly oil (see paragraph 6.1.4.7.2 – "The public service contract" and thereafter "Administrative rates and regulated rates");
- a significant expansion of business in France and outside of France, including an increase in sales of natural gas abroad and significant external growth transactions, including for France the acquisition of Savelys in which the Group increased its participation from 20 to 59% in March 2005 (Services Segment), and internationally the acquisition of 51% of the Romanian distributor Distrigaz Sud on May 31, 2005 and the acquisition on September 28, 2005 of 25.5% of the group SPE, which is active in power generation and sale of energy – gas and electricity – in Belgium (Transmission and Distribution – International) and the impact on the full 2004 fiscal year of the acquisition of the German business of Preussag Energie at the end of May 2003 (Exploration - Production);
- the impact of the gradual opening of the French natural gas market, in particular: the loss of market share among those French customers who have the option of choosing their natural gas supplier (an impact that was more than offset by market growth and sales outside of France); and the implementation of marketing tools, new information technology systems and a new management organization for the transmission and distribution networks. The Group is also preparing for July 1, 2007 when the market for individuals will be open to individuals, by separating sales from the management of its distribution networks (telephone help line centres, separation of joint bills for GDF and EDF) and the implementation of a new information system;
- the institution of a new rate structure for the use of infrastructure in France in July 2004, which had a limited impact on the Group's consolidated net income because of the minimal use of infrastructure by external customers. The consequences for the allocation of operating income between the Group's segments, however, were more significant.

- several non-recurring factors (in addition to the changes in the scope of consolidation mentioned above), including:
  - complete severance of the cross-holdings with Total starting at the beginning of 2005 which has resulted in a positive global impact before taxes of €77 million booked under other operating income and expenses;
  - a significant increase in depreciation, amortization and provisions in the Distribution France segment in 2004, due to the costs of the accelerated program to replace older gray cast iron pipelines, and a decrease in 2005 in amounts set aside for the renewal of concession assets tied to a readjustment in the replacement value of renewable assets.

The Group's consolidated revenues increased from €17,526 million in 2004 to €22,394 million in 2005. Operating income rose from €2,328 million in 2004 to €2,784 million largely due to the depreciation, amortization and provisions described above and the change in gas sales rates decided by the public authorities in November 2004. Its consolidated net income increased from €1,353 million in 2004 to €1,743 million in 2005.

The Group's strengthened its financial structure, in particular through its significant operational cash flow, which amounted to €4,229 million in 2005 compared to €4,176 million in 2004 to which is added the share capital increase completed in July 2005 for €1,869 million. The Group's net indebtedness at December 31, 2005, including irredeemable securities, stood at €√2,993 million, or 21% of shareholders' equity, compared to 41,8% as of December 31, 2004. The Group's solid financial position should allow it to pursue a strategy of controlled, profitable investment consistent with its objective of regular increases in net income.

Rate regulation

Gaz de France sells natural gas based on two pricing systems:

- administrative rates for individual household customers and eligible customers who have not exercised their right to choose their natural gas supplier; and
- negotiated rates for eligible customers who have exercised their right to choose their natural gas supplier and so have left the administrative rate system.

Administrative rates

The Group sells natural gas on the basis of two types of administrative rates:

- public distribution rates for those customers connected to the distribution network that consume less than 5 GWh per year; and
- subscription rates for those customers connected to the distribution network that consume more than 5 GWh per year and for customers connected directly to the transmission network.

The public distribution rates are set by the Ministers of the Economy and Energy based on the proposal of Gaz de France and the opinion of the CRE. The subscription rates 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.

Public distribution rates

The table below shows the average level of changes in the public distribution rates made in 2003, 2004 and 2005:

Month	Average level of rate changes
2003	
May 1	€1.22 per MWh
November 1	(€2.8) per MWh
2004	
May 1	-
November 15	€1.50 per MWh
2005	
July 1	€1.24 per MWh
September 1	€0.9 per MWh
November 1	€4.45 per MWh

The methods for fixing the public distribution rates in 2003 and 2004 are described in paragraph 5.2.1 of the *Document de Base*. Concerning the methods for fixing the public distribution rates in 2005, see chapter 6 of this document.

Subscription rates

The table below sets out the average changes in subscription rates established each quarter in 2003, 2004 and 2005.

Date	Average change in rate
2003	
January 1	€1.49 per MWh
April 1	€0.96 per MWh
July 1	(€1.85) per MWh
October 1	(€0.29) per MWh
2004	
January 1	(€0.21) per MWh
April 1	(€0.56) per MWh
July 1	€1.91 per MWh
October 1	€0.96 per MWh
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

Regulated rates

The process that is used to determine regulated rates for the use of transmission, distribution and LNG infrastructure was established pursuant to the French law of January 3, 2003. The rates are set in order to provide total revenues equal to:

- the operating costs necessary for the management, good functioning and maintenance of the transmission networks, net of certain incidental revenues;
- the depreciation of the fixed assets that are part of the networks (also called the "regulated asset base") over their economic life; and
- the product of a specified rate of return applied to the regulated asset base. The rate of return is determined separately for each of the transmission network, the distribution networks and the LNG terminals, and specific rates apply to certain new investments.

For a description of the rates applicable to different types of infrastructure and to new investments see paragraph 6.1.4.4 "Third-party access to networks in France."

Rates for the use of storage facilities are determined on a negotiated basis. Gaz de France applies principles similar to those described above to set storage rates.

Gaz de France's published rates for the use of infrastructure are set on the basis of estimates of operating costs and depreciation. The estimates are made at the time that the rate structure is determined. Differences that arise between the estimates and the costs actually incurred by Gaz de France are not reflected in rate adjustments.

In 2003 and the first half of 2004, Gaz de France determined its rates for the transmission network using a methodology that was approved by the CRE. Gaz de France began on July 1, 2004 to apply rates approved by public authorities pursuant to the system established by the law of January 3, 2003. These rates result from the application of a different methodology.

A new rate for the use of the infrastructure network entered into force as of January 1, 2005.

The rates for the use of the distribution network were also set by Gaz de France based on a methodology approved by CRE: a new rate was published and entered into force as of January 1, 2006.

Macroeconomic and weather factors

Three main external factors affect the Group's results of operations: oil prices, the US dollar/euro exchange rate and weather conditions. The impact of these factors is discussed in detail below in section 10.3 "Quantitative and qualitative disclosures about risk".

Oil prices

Fluctuations in the market price of oil affect Gaz de France's result of operations primarily in two ways:

- in the Exploration-Production segment, a rise in oil prices results in an increase in revenues and operating income, with a proportionally more significant impact on operating income because operating costs in the segment do not vary with oil prices;
- in the Purchase and Sale of Energy segment, a rise in oil prices has the opposite effect, as it increases operating costs. This increase is normally passed on through rate increases, but subject to a time

lag if the rate revision that should apply under the relevant formula described above is not fully reflected in the revised rate. See "—Rate Regulation."

Oil prices again increased significantly in 2005 following strong growth in 2004. The average price per barrel of Brent crude oil (as quoted in Rotterdam and reported by Platts) rose to $54.40 in 2005 compared with $38.20 in 2004 and $28.80 in 2003. On December 31, 2005, the average price per barrel of Brent crude oil was $58.20.

US dollar/euro exchange rate

The US 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 US dollars. In 2005 the US dollar/euro exchange rate was stable compared to 2004, averaging 1.24. On December 31, 2005, the US dollar/euro exchange rate was 1.18.

Periodically, the US dollar/euro exchange rate has an additional effect on the Group's results of operations because certain of the Group's investment and acquisition contracts, as well as certain of its loans, are denominated in US dollars.

Weather conditions

Weather conditions have a significant effect on natural gas consumption, particularly on consumption by residential customers in France, where natural gas is mainly used for heating. The effect of weather conditions is particularly significant in the winter. The impact is not linear, but depends, among other things, on the average temperature over a given period, the number of hours of sunshine and the time of day that the sunshine occurs.

In France, 2005 was slightly colder than an average year with a cold climate adjustment of 5.1 TWh (This climate adjustment was 7.8 TWh in 2004, which was also colder than the previous year's average.)

Seasonality

The Group's results of operation are also affected by the seasonal nature of natural gas consumption, which is higher in the winter than in other seasons due to the use of natural gas in heating and power generation (a significant amount of electricity is also consumed for heating). Therefore, changes in weather conditions and rate revisions in the first quarter and, to a lesser extent, the fourth quarter of a given year, have a more significant effect on the Group's results of operations than similar changes in the second and third quarters.

Changes in scope of consolidation

Changes in the scope of the Group's consolidation had a significant impact on Gaz de France's revenues and operating income for the 2004-2005 period, concerning principally:

Distrigaz Sud

Gaz de France acquired on May 31, 2005, 51% of the share capital of the Romanian distributor Distrigaz Sud for €310 million.

SPE

On September 28, 2005, Gaz de France and Centrica announced the finalization of the acquisition of 51% of the share capital of the Belgian company Société de Production Électrique (SPE), a €250 million investment by Gaz de France.

Increase in the share capital of Savelys (formerly CGST Save)

Gaz de France increased its equity interest in the share capital of Savelys from 20% to 59% for an amount €81 million, with the remaining 41% held by Sigma.

The table below sets out the effects of changes in the scope of consolidation on the Group's revenues and operating income in 2005, it being noted the there were no significant changes to the scope of consolidation during 2004.

In millions of euros	Year ended December 31, 2005
Revenues	**807**
Of which:	
- Distrigaz Sud	364
- SPE	132
- Savelys	311
Operating income	**5**
Of which:	
- Distrigaz Sud	(11)
- SPE	(1)
- Savelys	17

Retirement commitments – entry into force of the reform of the financing of the retirement plan

The entry into force of the reform of the financing of the retirement plan resulting from French Law No. 2004-803 dated August 9, 2004 was implemented in exchange for the adoption or signature of regulatory and contractual texts:

- through a special French national fund for the electricity and gas industries ("CNIEG", Caisse nationale des industries électriques et gazières) taking responsibility for the funding of the retirement benefits and benefits relating to workers compensation, temporary and permanent disability and occupational safety costs as of January 1, 2005, in connection with French public retirement programs in particular;
- through the implementation of the rate surcharge ("CTA", Contribution Tarifaire d'Acheminement) on electricity and natural gas transmission and distribution services under a mechanism similar to the VAT; the implementation of the CTA is accompanied by a lowering of the natural gas transmission tariffs. It caused a decrease in revenues and a corresponding lightening of the retirement expenses supported by regulated activities of Transmission and of Distribution in France.

The payment of the initial, fixed-rate and final contributions owed by Gaz de France in 2005 for the financial support of the French public retirement programs (€249 million for CNAV relating to non-regulated activities and 90% of €137 million for the supplementary retirement programs ARRCO and AGIRC) was made during the first half of 2005 through withdrawals from dedicated insurance funds.

Winding-up of partnerships with Total

Until January 1, 2005 Gaz de France and Total had cross-shareholdings in the French companies GSO and CFMH operating in the transmission and storage area. These cross-shareholdings were unwound at the beginning of January 2005. In addition Gaz de France sold to Total its 30% interest in GSO and Total sold to Gaz de France its 45% interest in CFMH. In the context of this transaction Gaz de France also sold to Total various assets including a portfolio of CFMH's industrial customers representing in 2004 approximately 13 TWh in sales volume.

Dissolution by merger of the assets of CFM and CFMH into Gaz de France SA was completed in July 2005.

The unwinding of the cross-shareholdings constituted non-recurring transactions, which had an impact on the Group's revenues of €77 million before taxes and €50 million after taxes.

These transactions primarily relate to indemnities tied to early contract termination and the sales of assets.

Creation of the GRTgaz subsidiary

On January 1, 2005 Gaz de France created the wholly owned subsidiary GRTgaz for its transmission activities. The creation of this subsidiary has no impact on the consolidated financial statements of the Group.

9.2. Comparison of years ended December 31, 2003 and 2004 under CRC standards

See paragraph 5.2.2 of the *Document de Base*.

9.3. Comparison of years ended December 31, 2004 and 2005

Preliminary Note

Accounting principles applied to the financial statements as of December 31, 2005 are identical to the ones used for the preparation of IFRS comparative data disclosed by the Group, except for IAS 32 and 39 on financial instruments, which the Group has been applying as from January 1, 2005 without restating 2004 financial statements.

Group's key figures based on the published 2004 financial results under IFRS

		Published data	
In millions of euros	2005	2004	Change %
Net sales	22,394	17,731	26.3%
EBITDA	4,219	4,457	-5.3%
Operating income	2,784	2,612	6.6%
Consolidated net income – Group share	**1,743**	**1,151**	**51.4%**

Given the significant impacts of the reform of the financing of retirement plans and with a view to make comparisons between 2004 and 2005 income easier, the Group produced in addition to published IFRS 2004 financial statements 2004 data prepared as though the reform of the financing of retirement plans had been applied as from January 1, 2004.

If the reform of the financing of retirement plans had entered into force as of January 1, 2004, data as of December 31, 2004 would have been as follows:

	Published data	Pro forma after the reform of the financing of retirement plans	
In millions of euros	2005	2004 pro forma	Change %
Net sales	22,394	17,526	27.8%
EBITDA	4,219	4,173	1.1%
Operating income	2,784	2,328	19.6%
Consolidated net income – Group share	**1,743**	**1,353**	**28.8%**

An explication of the portion of the 2004 income statement (published data), in the pro forma income statement, after the reform of the financing of retirement plans, is detailed in §E of the Notes to consolidated financial statement for 2004 and 2005.

For an economic and financial better understanding, a comparison of 2005 with 2004 income disclosed further below will be based on 2004 data pro forma after the reform of the financing of the retirement plan (unaudited data).

Group revenues

The Group's revenues were €22,394 million in 2005, a growth of 27.8% compared to €17,526 million realized in 2004 (an increase of 23% at a constant scope of consolidation). The growth of 2005 consolidated revenues compared to 2004 consolidated revenues after the reform of the financing of retirement plan (if the reform of the financing of retirement plans had entered into force as of January 1, 2004) relates to a positive price effect of €2,805 million, a positive volume effect of €1,256 million and a positive scope of consolidation effect of €807 million.

This growth was primarily driven by:

- the increase in energy prices;
- the rise in volumes sold to major industrial and commercial customers in Europe;
- the increase in the sales of the Transmission and Distribution International segment relating in particular to external growth achieved in this segment through the integration of Distrigaz Sud and SPE;
- the increase in the sales of the Services segment, particularly relating to the total integration of Savelys.

By volume, the Group's gas sales increased by about 6% (749 TWh in 2005 compared to 708 TWh in 2004).

Gas sales in France have been stable (except for a decrease of approximately 12 TWh in 2005 essentially resulting from a consolidation effect following the unwinding of the cross-shareholding with Total).

The portion of net sales generated abroad grew: it accounted for 36.4% of the Group's net sales in 2005 (29.9% based on the 2004 IFRS pro forma after the reform of the financing of retirement plans) and 59.6% of the growth in the Group's net sales between 2004 and 2005.

Group EBITDA

Group EBITDA (operating income before taxes, depreciation, amortization and certain other operating expenses) increased by 1.1% compared to 2004; outside of the impact of IAS 32/39 (- €44 million in 2005) the increase would have been 2.2%. Changes in EBITDA were in particular marked by a shortfall due to the increases in the costs of gas purchases, which were only partially reflected in the public distribution rates.

Group operating income

Group operating income increased by 19.6%, a noticeably higher amount than for EBITDA, which may primarily be explained by changes that favoured total net provisions due to a readjustment in 2005 of the future replacement value of renewable concession assets. In addition provisions were booked in 2004 to take into account the accelerated replacement of gray cast iron distribution pipelines (€264 million).

An expense of €132 million was booked in 2005 following the initial public offering in 2005, through application of IFRS 2.

9.3.1. Revenues and income by segment

The table below presents a breakdown of the Group's net sales, EBITDA, operating income and capital expenditures by segment between 2004 and 2005. 2004 data are data pro forma after the reform of the financing of retirement plans.

	Net Sales			EBITDA		
In millions of euros	2005	2004 pro forma	Change %	2005	2004 pro forma	Change %
ENERGY SUPPLY AND SERVICES BRANCHES						
Exploration and Production	1,139	968	17.7%	726	625	16.2%
Purchase and sale of energy	17,252	13,855	24.5%	251	265	-5.3%
Services	1,916	1,439	33.1%	166	94	76.6%
INFRASTRUCTURES BRANCH						
Transmission and Storage France	2,124	2,145	-1.0%	1,271	1,291	-1.5%
Distribution France	2,951	2,972	-0.7%	1,352	1,399	-3.4%
Transmission and Storage International	2,283	1,467	55.6%	344	400	-14.0%
Eliminations, other and non allocated (1)	(5,271)	(5,320)	-	109	99	-
TOTAL GROUP	**22,394**	**17,526**	**27.8%**	**4,219**	**4,173**	**1.1%**

(1) *This captation included DK6 income in 2004; in 2005, the subsidiary was reclassified in Services segment.*

In millions of euros	Operating income			Capital expenditures	
	2005	2004 pro forma	Change %	2005	2004 pro forma
ENERGY SUPPLY AND SERVICES BRANCHES					
Exploration and Production	457	229	99.6%	500	387
Purchase and sale of energy	203	263	-22.8%	46	10
Services	94	53	77.4%	61	43
INFRASTRUCTURES BRANCH					
Transmission and Storage France	942	938	0.4%	447	314
Distribution France	895	541	65.4%	793	713
Transmission and Storage International	249	286	-12.9%	138	76
Eliminations, other and non allocated (1)	(56)	18	-	31	85
TOTAL GROUP	**2,784**	**2,328**	**19.6%**	**2,016**	**1,628**

(1) *This captation included DK6 income in 2004; in 2005, the subsidiary was reclassified in Services segment.*

9.3.1.1. Energy Supply and Services

9.3.1.1.1. Exploration - Production

Macroeconomic data

Average value	2005	2004	Variation
Brent (in USD)	54.4	38.2	+42%
EUR/USD exchange rate	1.24	1.24	-
Brent (in EUR)	43.8	30.8	+42%

Consolidated production of hydrocarbons (excluding entities consolidated by the equity method)

	2005	2004	Variation
Combined productions (Mboe)	34.6	40.8	-15.2%
Gas (Mboe)	24.1	29.1	-17.2%
Liquids (Mbl)	10.5	11.7	-10.3%

Net sales

The Exploration - Production segment's net sales amounted to €1,139 million in 2005 compared with €968 million in 2004, up by 17.7%.

Sold volumes of oil products reached €1,023 million in 2005 compared with €865 million in 2004, up by 18.3%.

This growth is mainly driven by the positive impact on prices estimated at €286 million due to the rise in prices of oil and gas products in the United Kingdom. The positive impact was partly offset by the decrease in sales of oil and gas products by 15.2% with regard to 2004, (34.6 Mboe in 2005 compared with 40.8 Mboe in 2004) or an estimated -€128 million on net sales. This expected decrease is in line with profiles of production of assets currently in the portfolio. It concerned the UK (-2.3 Mboe), the Netherlands (-1.6 Mboe), Germany (-1.5 Mboe) and to a lesser extent

Norway (-0.8 Mboe). The commissioning of new developments at the end of 2005 and in early 2006 (in the Netherlands and in the UK) should increase 2006 production levels close to 2004 ones.

Other sales, namely including transmission, storage and trading activities, grew by 12.6%, up to €116 million.

EBITDA and operating income

EBITDA rose from €625 million in 2004 to €726 million in 2005, up by 16.2%. The growth in net sales is partly offset by the increase in operating expenses, mainly related to purchases of natural gas for resale, the increase in royalties paid resulting from higher oil prices, the recognition in income statement of pre-operating costs due to deferrals incurred in projects in Norway and to a lesser extent an increased effort of exploration in 2005.

Operating income reached €457 million in 2005 and nearly doubled 2004 operating income (€229 million). Operating income in 2004 included impairment expenses net of reversals for €58 million. The 2005 operating income included impairment expenses net of reversals of €11 million. These non-recurring items excluded, operating income was up by 63%, due to the growth in EBITDA and reduced amortization charge linked with the decrease in production and the positive reassessment of reserves.

Capital expenditures

Capital expenditures amounted to €500 million in 2005 and €387 million in 2004. The rise in expenditures was driven by the development of new fields which started producing at the end of 2005 and early 2006 namely in the UK and the Netherlands, and by a more sustained effort in exploration in 2005 (13 wells were drilled in 2005 versus 8 in 2004). Expenditures were incurred in Norway (41% of expenditures), the Netherlands (28%), the UK (16%), Germany (10%) and Algeria (5%).

Exploration

Exploration costs amounted to €114 million compared with €80 million in 2004, up by 42%. In 2005 exploration was very successful: 13 wells were drilled of which 11 were successful. Discoveries were achieved in the UK (4), the Netherlands (3), Norway (1), Germany (1) and Algeria (2 appraisal wells).

In 2004, 8 wells had been drilled of which 6 were successful. 3 discoveries had been achieved in the Netherlands, 2 in the UK and 1 in Algeria (appraisal well).

Oil and gas reserves*

Reserves as of December 31	2005	2004	Var. %
Proven and probable reserves (Mboe)	753	695	8.3%
Natural gas (Mboe)	544	508	7.1%
Liquid hydrocarbons (Mbl)	209	187	11.8%

(*) *Consolidated entities and share of proven and probable reserves of entities consolidated by the equity method (unaudited).*

Proven and probable reserves reached 753 Mboe as of December 31, 2005 compared with 695 Mboe as of December 31, 2004, up by 8.3%. The increase is due to discoveries and extensions achieved in 2005 and revisions in the levels of reserves in Norway and Germany.

The Group renewal rate of proven and probable reserves is +236% in 2005 compared to +153% in 2004.

9.3.1.1.2. Purchase and Sale of Energy

Net sales

Net sales of the Purchase and Sale of Energy segment rose by 24.5% to €17,252 million.

The rise in energy prices, together with the increase of volumes sold, greatly contributed to the growth in the segment's net sales.

Sale of gas

Sales of the Purchase and Sale of Energy segment amounted to 644 TWh in 2005, a 3.4% increase compared with 2004.

Year ended December 31

	2005		2004		Percentage change	
SALES OF NATURAL GAS TO CUSTOMERS	TWh	In millions of euros	TWh	In millions of euros	TWh	In millions of euros
In France						
Residential	139	4,810	138	4,604	0.1%	4.5%
Business	189	4,956	190	4,272	ns	16.0%
Major industrial and commercial customers	115	2,137	116	1,701	-0.1%	25.6%
Other customers	22	415	34 (1)	377	-35.3%	10.1%
TOTAL FRANCE	**465**	**12,318**	**478**	**10,954**	**-2.7%**	**12.5%**
In Europe						
Major industrial and commercial customers	105	1,938	78	1,056	34.6%	83.5%
Other customers	9	189	9	145	-	30.3%
TOTAL EUROPE	**114**	**2,127**	**87**	**1,201**	**31.0%**	**77.1%**
Sales on the short-term market	65	1,096	58	754	12.1%	45%
TOTAL SALES BY THE PURCHASE AND SALE OF ENERGY SEGMENT	**644**	**15,541**	**623**	**12,909**	**3.4%**	**20.4%**

(1) *After a 22 TWh netting in purchase and sale transactions with GSO (in compliance with IFRS).*

The increase was mainly driven by growing sales of natural gas to major industrial and commercial customers outside France, which amounted to 105 TWh in 2005 compared with 78 TWh in 2004 and generated net sales of €1,938 million, up by 86.5%. Most of this growth was generated in the UK, the Netherlands, Italy and Belgium.

In TWh	2005	2004
The United Kingdom	34.6	33.7
Belgium and Luxembourg	21.2	16.2
The Netherlands	20.2	13.1
Italy	16.9	10.3
Spain	5.2	1.9
Germany	6.7	2.8

In France, the slight decrease in volumes sold mainly proceeded from the sale of a part of CFM's portfolio of customers to Total in connection with the winding-up of cross-holdings between Gaz de France and Total at the beginning of 2005, as well as by weather conditions slightly less favorable than in 2004. Gaz de France sold 6.6 TWh in 2005 within the framework of the gas release scheme in the southeast of France.

Sales of electricity

Sales of electricity started in France in the last quarter of 2004. They reached 5.6 TWh in 2005 and €228 million of revenues.

In the UK, sales of electricity grew by 48% compared with 2004 and accounted for 14.4 TWh in 2005, generating €853 million of revenues.

EBITDA and operating income

The Purchase and Sale of Energy segment's EBITDA stood at €251 million in 2005, down by 5.3% compared with 2004.

The change in EBITDA between 2004 and 2005 included the impact of the winding-up of cross-holdings between Gaz de France and Total (€70 million) as well as the positive impact of a non-recurring adjustment of transmission tariffs invoiced by a subsidiary of the Transmission and Distribution International segment (€27 million). It also included the impact of the application of IAS 39 starting in 2005 for -€44 million.

These items excluded, EBITDA decreased by 25.3%. In France, higher natural gas purchase costs linked with the increase in oil product prices was only partly passed through on regulated rates. This negative impact

(€130 million in 2004) is estimated to amount to €370 million in 2005. Additionally commercial rebates granted during the winter 2005-2006 affected by €61 million 2005 EBITDA. These effects were partly offset by reductions in inventories carried out at weighted average cost, and by positive impacts of lower purchase prices resulting from the application of new transmission tariffs and storage tariffs by Infrastructure branch activities.

Operating income decreased from €263 million in 2004 to €203 million in 2005, a 22.8% decrease. 2004 operating income included a reversal of provision on a specific litigation of €50 million.

Capital expenditures

Capital expenditures of the Purchase and Sale of Energy segment amounted to €46 million in 2005 versus €10 million in 2004. In 2005 they namely included €20 million for new software to prepare for the opening of the French market to residential customers.

9.3.1.1.3. Services

Net sales

Services segment's net sales reached €1,916 million in 2005, up by 33.1% compared with 2004 (8.7% on a constant consolidation basis).

The growth in sales was mainly brought by the subsidiary Savelys.

On March 23, 2005, Gaz de France Group raised from 20% to 59% its share in the capital of Savelys, a company specialized in the maintenance of furnaces for individual customers and collective housing in France.

As from January 1, 2005, this subsidiary was fully consolidated in the Group's financial statements while it was accounted for by the equity method until then. In 2005, Savelys contributed for €311 million to the segment's net sales.

The increase in sales was also driven by the commissioning of the combined cycle plant DK6 in Dunkerque that started operations on March 22, 2005, the growth of business in France and Italy, as well as the growth of energy prices.

In France, Cofathec's revenues (with respect to the Services segment) amounted to €771 million (+7%). Abroad, revenues reached €614 million compared with €572 million in 2004. The growth was mainly achieved in Italy.

EBITDA and operating income

EBITDA of the Services segment amounted to €166 million in 2005, up by 76.6% compared with 2004.

This growth was principally related to the commissioning of the combined cycle plant DK6, to the full consolidation of Savelys' income as from January 1, 2005 and to the continuing improvement in profitability of activities in Italy.

Operating income stood at €94 million, up by 77.4% from 2004. It namely included amortization and depreciation of DK6 and Savelys.

Capital expenditures

The Services segment's capital expenditures amounted to €61 million in 2005 versus €43 million in 2004. Capital expenditures realized in 2005 mainly concerned the combined cycle plant DK6 and heat and cold networks in France.

9.3.1.2. Infrastructures

9.3.1.2.1. Transmission and Storage France

Net sales

The segment's net sales amounted to €2,124 million in 2005 versus €2,145 million in 2004, down by 1%.

The decrease in net sales primarily proceeded from:

- the application of access rate to storage facilities since July 1, 2004 (access rates to storage facilities are negotiated) and the implementation of a new transmission rate contribution as from January 1, 2005;
- the impact of the disposal of storage assets of Izaute in the winding-up of the cross-holdings between Gaz de France and Total;

These impacts were partly offset by the positive impact resulting from increased delivered volumes in LNG terminals and higher subscribed by shippers transmission capacities as well as additional invoicing linked with the non-respect by customers of contracted capacities in transmission and in storage.

EBITDA and operating income

EBITDA amounted to €1,271 million in 2005, down by 1.5% compared with 2004.

2005 EBITDA included two non-recurring transactions with opposite effects:

- the net proceed resulting from the disposal of Izaute cushion gas to Total in the framework of the winding-up of cross-holdings for €11 million;
- the specific additional cost linked with employee shareholding for €7 million.

These transactions excluded, EBITDA decreased by 1.9%.

Operating income reached €942 million in 2005, or a decrease of 0.4%. The decline in EBITDA is reduced by a decrease in amortization related to the sale of assets to Total in connection with the winding-up of cross-holdings between Gaz de France and Total at the beginning of 2005 and the centralization of the management of real estate at Group level.

In addition, this decrease includes two non-recurring negative readjustments of €31 million related to putting in place third-party access to storage and €29 million related to the sale of rights for the Izaute storage.

Capital expenditures

Capital expenditures of the segment in 2005 amounted to €447 million versus €314 million in 2004. The rise in capital expenditures was mainly due to the ongoing construction of the new LNG terminal of Fos-Cavaou, started in the second half of 2004. In 2005, 43.8% of capital expenditures were dedicated to Transmission, 30.5% to Storages and 25.7% to the construction of LNG terminals (23% for Fos-Cavaou).

9.3.1.2.2. Distribution France

Net sales

Net sales of the Distribution France segment amounted to €2,951 million in 2005 compared with €2,972 million in 2004, down by 0.7%.

Despite a warmer weather than in 2004, 338 TWh of natural gas were carried on the Distribution network in 2005, or a 0.9% increase. The positive impact of the increase in distributed volumes was for the main part offset by the growth in the fixed-rate contribution.

EBITDA and operating income

EBITDA of the segment stood at €1,352 million in 2005 compared with €1,399 million in 2004, down by 3.4%.

The decrease in net sales apart, 2005 EBITDA included the specific additional cost linked with employee shareholding for €28 million.

Operating income rose from €541 million in 2004 to €895 million in 2005, or a 65.4% growth. This positive change namely proceeded from lower net allowances to the provision for replacement namely resulting from the additional allowance of €264 million booked in 2004 to account for the acceleration of the replacement of gray cast iron pipelines and the adjustment of future replacement costs of renewable assets in 2005.

The implementation of the IFRS and more particularly the revision of the "Provision for replacement" under the application of IAS 37, with all other things being held equal, resulted in the following differences, compared to under French GAAP:

- an improvement of operating results, which were €29 million in 2004 and €237 million in 2005, or a difference of €208 million, principally resulting from the effect of the adjustment in 2005 of the replacement value of renewable assets for which the accounting was applied in a completely retroactive fashion;
- a deterioration in the financial results due to the annual charge for the derecognition of certain provisions, which was €198 million in 2004 and €212 million in 2005, such variation not requiring any particular explication.

As a result, 2005 was characterized by a non-recurring reduction in the current allocation to the provision for repairs, which starting in 2006 should return to a level consistent with 2004 allocations.

Capital expenditures

Capital expenditures of the segment in 2005 amounted to €793 million versus €713 million in 2004.

The rise in capital expenditures primarily related to the replacement of gray cast iron pipelines (1,030 km were replaced versus an objective of 890 km). In 2005, 22.7% of capital expenditures were dedicated to the replacement of gray cast iron pipelines.

54.6% were dedicated to the development of network in the context of the program "one million new heating customers": 2,250 kilometres of new pipelines were commissioned; and more than 243,000 new heating customers were gained by Gaz de France, thus driving to 606,343 the number of new heating customers gained since the beginning of the program "one million new heating customers".

9.3.1.2.3. Transmission and Distribution International

Net sales

Net sales of the segment stood at €2,283 million in 2005 compared with €1,467 million in 2004, up by 55.6%.

Net sales included the acquisition of Distrigaz Sud on December 31, and SPE on October 1. On a constant consolidation basis net sales grew by 20.8%.

Adjusted for the impact of the non-recurring adjustment of transmission rate mainly benefiting to the Group's Purchase and Sale of Energy segment, the rise in net sales on a constant consolidation basis was above 24.3%. It mainly resulted from rate increases applied by the distribution subsidiaries in the Slovak Republic and Mexico in the last quarters of 2004 and 2005, as well as in Hungary and Germany in 2005.

EBITDA and operating income

EBITDA stood at €344 million in 2005 versus €400 million in 2004, down by 13.9%.

This change was due to the impact of two non-recurring transactions:

- in the first half of 2004: the positive impact linked with negative goodwill recognized in income while acquiring higher interests in the capital stock of the two Hungarian distribution subsidiaries for €31 million;
- in the first half of 2005: pass through of decreased net sales related to the non-recurring adjustment of transmission rate in Germany mainly benefiting to the Group's Purchase and Sale of Energy segment for €51 million.

Non-recurring items excluded, EBITDA grew by 7.3% and 6.5% on a constant consolidation basis, namely due to the impact of higher gas selling prices.

Operating income amounted to €249 million in 2005 compared with €286 million in 2004, down by 13%. The change included the impact of non-recurring transactions and change in consolidation scope mentioned above. It also included reversals of impairments on assets in Mexican Distribution subsidiaries as a consequence of better financial outlooks, as well as a reversal of a provision for litigation in Germany. These items excluded, operating income grew by 7.7%. In addition to the positive impact of higher selling prices, operating income was favourably impacted by a decrease in provisions.

Capital expenditures

Capital expenditures of the segment totaled €138 million in 2005 (€76 million in 2004).

They included in 2005 €44 million of capital expenditures incurred by Distrigaz Sud and €4 million by SPE.

9.3.2. Other financial items

The Group's **financial income** improved by €59 million, showing net expenses of €438 million as of December 31, 2005 compared with €497 million as of December 31, 2004.

Net finance costs

Net finance costs as of December 31, 2005 stood at €202 million, a 23 million increase compared with December 31, 2004.

An unfavourable impact on exchange result of €42 million excluded, gross interests remained stable (€232 million in 2005 versus €228 million in 2004). Gross indebtedness average cost was 4.9% compared with 4.8% in 2004.

Proceeds from cash equivalents improved by €23 million (€26 million versus €3 million in 2004) as a consequence of the investment of cash received from the capital opening in July 2005.

Other financial items

Other financial result amounted to - €236 million as of December 31, 2005 compared with - €318 million as of December 31, 2004. This change mainly resulted from reduced discounting expenses related to provisions (excluding provisions for retirement) (for €101 million) and the disposal of Technip securities (gain of €107 million). 2004 discounting expenses related to other provisions included retroactive expenses in connection with the new estimate of the provision for dismantling distribution pipelines.

These impacts were partly offset by exchange losses for €38 million primarily resulting from the unfavourable change of the USD rate in 2005. The "USD position" set up in 2002, fully settled during the second half of 2005, generated an exchange loss in 2005, but the global result since 2002 has been largely positive.

Tax expenses as of December 31, 2005 amounted to €794 million compared with €563 million as of December 31, 2004. This change mainly resulted from increased income before tax between the two periods and a non-recurring gain in 2004 for €34 million subsequent to the 0.5% decrease in tax nominal rate in France.

Consolidated net income – Group share totaled €1,743 million as of December 31, 2005, up by 28.8% compared with the 2004 IFRS pro forma after the reform of the retirement plans.

9.4. Commitments of the Group

9.4.1. Retirement and other employee benefit commitments

Retirement commitments

The Group's retirement benefit commitments amounted to €1,562 million as of December 31, 2005, compared to €1,784 million as of December 31, 2004.

Employee benefits

Other commitments relating to employee benefits include primarily end-of-career benefits and exceptional leaves, reduced energy price benefits (giving employees of Gaz de France and EDF the right to purchase natural gas and electricity at preferential prices), and allowances for worker's compensation, temporary and permanent disability and occupational safety costs. All of the other commitments relating to employee benefits are detailed in Note 28-2 to the consolidated financial statements for the year ended December 31, 2005 under IFRS. The aggregate amount of other employee benefit commitments was €1,152 million as at December 31, 2004 and €1,232 million as at December 31, 2005.

Coverage of retirement and employee benefit commitments

Retirement commitments and other employee benefits are partly covered by provisions and partly by insurance. As at December 31, 2005, the aggregate amount of these commitments was €2,794 million (€1,562 million for retirement benefits and €1,232 million for other employee benefits).

As of December 31, 2005, hedging assets amounted to a global total of €1,864 and is reflected in a €1,809 million and a net hedging asset of €159 million.

9.4.2. Commodity commitments

In order to meet medium- and long-term customer demand for natural gas, the Group secures its supply through contracts with durations of up to 25 years. These contracts put in place reciprocal commitments with respect to predetermined quantities of natural gas, which are comprised of:

- a commitment by the Group to take minimum quantities, and
- a commitment by suppliers to provide these quantities at competitive prices.

This price competitiveness is ensured through price adjustment formulas and clauses. Most of the Group's procurement is secured through such contracts. As of December 31, 2005, the Group's purchase commitments totaled 51 billion cubic meters for 2006, 191 billion cubic meters for the 2007-2009 period and 382 billion cubic meters for 2010 and beyond.

At the request of the European Commission's Directorate-General for Competition and of the French Energy Regulation Commission (known by the French acronym "CRE"), Gaz de France implemented a program for the sale of temporary gas ("gas release") for the Gas Exchange Point (GEP) in the southern area of the transmission network in France. This temporary sale began in 2005 and concerns 15 TWh per year over three years (see paragraph 6.1.3.1.2.2.2.4 – "Availability of temporary gas in southwest France (gas release)").

To satisfy its undertaking to receive certain volumes, the Group was ready to conclude there long-term contracts to reserve capacities for land and sea transmission and regasification.

The subsidiaries in the Exploration-Production sector have also committed to make certain minimum quantities of natural gas available to their customers. The corresponding commitment represented 8 billion cubic meters as of December 31, 2005, including 3 billion cubic meters maturing in less than a year.

Comparison of 2003 and 2004 natural gas and electricity commitments

The table below summarizes the Group's natural gas and electricity commitments as of December 31, 2004 and 2005:

Natural gas

In millions of cubic meters	2005	2004
PURCHASE CONTRACTS		
Up to one year	51	45
Between one and four years	191	188
Four years and beyond	382	414
Gas release In TWh	38	45
Exploration-Production:		
Commitments to make available:	8	7
Of which are less than one year	3	2

9.4.3. Contract obligations of a disbursement nature

In millions of euros Contract obligations	Total	Payments due by period At less than a year	From one to five years	At more than five years
Long-term debt	3,711	1,102	452	2,157
Finance Lease commitments	778	69	386	323
Operating leases	142	33	97	12
Capital expenditures commitments	1,649	627	980	42
Other commitments	54	39	13	2
TOTAL	**6,334**	**1,870**	**1,928**	**2,536**

(Amounts are not discounted.)

Capital expenditures commitments of less than a year amounted to €627 million (€507 million as of December 31, 2004), of which €286 million (€344 million as of December 31, 2004) were linked with the LNG terminal construction at Fos-Cavaou (which should be operated in 2008). Other capital expenditures commitments mainly regarded three gas-tankers (for a total amount of around €458 million), which should be ready between 2006-2007, and capital expenditures of the Exploration-Production segment for €359 million to be spread between 2006-2007.

9.5. ROCE and ROE

For 2005, the return on capital employed ("ROCE") was 10.5%, as compared with 9.6% in 2004.

This is an accounting measure of the profitability of an industrial activity and is defined as follows: the quotient obtained by dividing (i) the Group's consolidated net income, plus net financial costs, less tax savings on the net financial costs (applying the Group's average tax rate), by (ii) total shareholders' equity at year end, plus financial debt, less net cash.

The return on equity ("ROE") was stable at 12.0% in 2005, as compared with 12.3% in 2004.

This is an accounting measure of the profitability of the company's shareholders' equity and is defined as: the Group's consolidated net income, divided by consolidated shareholders' equity (after deduction of minority interests) at the close of the fiscal year.

10 LIQUIDITY AND CAPITAL RESOURCES

10.1. Liquidity

Operating cash flows before tax, financial costs and change in working capital requirements stood at €4,229 million as of December 31, 2005, compared with €4,176 million in 2004, indicating a slight growth of +1.2% compared to 2004 (see also explications of the changes in EBITDA at the level of each segment).

To these resources is added the share capital increase for €1,869 million.

The taxes paid came to €562 million in 2005 compared to €705 million in 2004.

Working capital requirements grew by €501 million in 2005, mainly due to the increase in gas inventories as a consequence of a joint effect of higher volumes injected into storages in the framework of the management of the risk of cold winters and higher purchase prices.

Total investments amounted to €3,061 million as of December 31, 2005, a significantly higher amount than the one of 2004 (€2,133 million).

Capital expenditures totaled €2,016 million as of December 31, 2005, up by €388 million compared with 2004.

Acquisitions net of acquired cash and cash equivalents reached €674 million in 2005. They mainly concerned the acquisition of the Romanian company Distrigaz Sud, the acquisition of a 25.5% interest in the Belgian group SPE, the purchase of minority interests in CFM in connection with the winding-up of cross-holdings with Total, as well as the acquisition of a 39% interest in the Savelys group's capital, bringing the share of Gaz de France to 59%.

Other investments amounted to €371 million in 2005 (€352 million in 2004). They mainly related to the increase in deposits linked with forward transactions and the construction of a LNG carrier.

Proceeds from sale of assets amounted to €479 million in 2005 (€178 million in 2004). They mainly comprised disposals of assets in the winding-up of cross-holdings between Gaz de France and Total as well as the sale of a part of Technip group's securities.

Dividends paid in the first half of 2005 amounted to €420 million, of which €418 million by Gaz de France SA to the State and €2 million of dividends paid to minority shareholders of fully consolidated subsidiaries.

Taking into account all of these factors, the net decrease in indebtedness between December 31, 2005 and December 31, 2004 came to €1,474 million.

10.2. Financial structure

The Group's shareholders' equity as of December 31, 2005, after dividends paid, stood at €14,503 million.

The Group's net financial indebtedness as of December 31, 2005 (including irredeemable securities), after dividends paid, stood at €2,993 million (21% of shareholders' equity), compared with €4,592 million as of January 1, 2005, down by €1,599 million. Net financial indebtedness as of January 1, 2005, includes effects tied to the implementation as of this date of IAS 32-39 in an amount of €125 million. Excluding this effect, the change in Net financial indebtedness comes to €1,474 million.

Gross financial debt (including irredeemable securities) amounted to €5,112 million as of December 31, 2005 (hedging excluded). Gross financial debt was at 77% on the long term and at 57% at fixed rate before accounting for hedges. After accounting for hedges, the portion of gross financial debt at fixed rate amounted to 60%. Gross financial debt was mainly borne by the parent company (for 71%) and 90% of gross debt was denominated in euros.

On February 18, 2005, the Group signed a €3 billion multi-currency revolving credit facility, which has a seven-year maturity. This new credit, which replaced the syndicated revolving credit facility of €2 billion, is for Group's general corporate purposes and intended to support short-term financing programs. It has not been used since its signature.

Gaz de France has also short-term financing programs through a program of treasury bills of €1.25 billion and through a global program of Euro commercial paper and US commercial paper of US$1 billion. Those financing programs were not used as of December 31, 2005.

As of December 31, 2005 long-term debt of Gaz de France is rated Aa1 and AA-, respectively by Moody's and Standard & Poors.

On June 23, 2005 Moody's new rating method "Government Related Issuers" regarding issuers benefiting from the state support led to an upgraded long-term rating of Gaz de France from Aa3 to Aa1.

The Fitch agency, which rates Gaz de France on a un-requested basis, granted an AA rating to the senior long-term debt.

On February 27, 2006 following the announced merger project of Gaz de France and Suez, Standard's & Poors and Moody's placed the long-term rating on review for downgrade.

The Fitch agency announced on February 16, 2006 a change in its rating method for energy and utilities companies, that led to an upgrade of the senior long-term debt of Gaz de France from AA to AA+. On March 6, 2006 the Fitch agency announced a rating watch evolving.

Maturity schedule for financial debt before hedging, excluding irredeemable securities

In millions of euros	12/31/2005						01/01/2005
	Bonds	Bank loans	Used lines of credit	Finance lease commitments	Other financial debt	Total	Total
Maturities between one and two years	66	294	23	68	714	1,165	978
Maturities between two and three years	0	124	2	74	38	238	495
Maturities of less than one year	0	98	8	121	0	227	305
Maturities between three and four years	22	79	0	70	0	171	130
Maturities between four and five years	0	76	0	121	4	201	139
Maturities between five and six years	0	44	0	57	3	104	166
Maturities of greater than six years	1,982	130	0	267	4	2,383	2,587
TOTAL FINANCIAL DEBT	**2,070**	**845**	**33**	**778**	**763**	**4,489**	**4,800**
Current portion	**66**	**294**	**23**	**68**	**714**	**1,165**	**978**
Non-current portion	**2,004**	**551**	**10**	**710**	**49**	**3,324**	**3,822**

Gaz de France believes that it has the ability to access the cash necessary to meet its debts as they mature. This statement is based on its cash and cash equivalents as of December 31, 2005 (€2,119 million), on its short-term financing programs and on its syndicated credit line of €3 billion, not used as of December 31, 2005 and on its growth objectives for EBITDA as indicated in chapter 13.

Gaz de France does not have restrictions on the use of its capital, which could measurable effect, directly or indirectly, its operations.

Breakdown of financial debt by currency, excluding irredeemable securities

		12/31/2005
	In millions of euros	% of debt in the currency
Euro (EUR)	4,009	89%
U.S. Dollar (USD)	342	8%
Yen (JPY)	58	1%
Pounds sterling (GBP)	36	1%
Other	44	1%
TOTAL FINANCIAL DEBT	**4,489**	**100%**

Debt denominated in foreign currencies amounted to 11% of total debt and was partly hedged, although the hedges did not qualify for hedge accounting according to IAS 39. Gaz de France namely converted in euros its two private bond issues in yens (JPY), which totaled €58 million as of December 31, 2005.

Financial debt (including irredeemable securities)

In millions of euros	12/31/2005 Book value	%	01/01/2005 Book value	%
BEFORE ACCOUNTING FOR FINANCIAL HEDGES				
Fixed rate	2,891	57%	2,877	53%
Floating rate	2,221	43%	2,553	47%
TOTAL FINANCIAL DEBT	**5,112**	**100%**	**5,430**	**100%**
AFTER ACCOUNTING FOR FINANCIAL HEDGES				
Fixed rate	3,077	60%	3,058	56%
Floating rate	2,035	40%	2,372	44%
TOTAL FINANCIAL DEBT	**5,112**	**100%**	**5,430**	**100%**

As of January 23, 2006, Gaz de France concluded with a financial institution an interest rate risk hedging transaction with respect to compensation on the irredeemable securities.

It is a swap maturing on October 15, 2035, a notional amount of €480 million, comprising two successive periods:

a) until October 15, 2015, with a coefficient multiplier of 130% of the notional amount mentioned above, and

b) of 100% thereafter and until the maturity date.

Gaz de France receives a variable rate equal to the annual average of the ten-year CMS rate (Constant Maturity Swap) in euros, and pays a fixed, all-inclusive rate (including expenses and bank commissions tied to the transaction) of 4.3285%.

The ten-year CMS rate chosen correlates well with the TMO reference used to determine the coupon on the irredeemable securities, while bringing greater market liquidity and an expected permanence to the duration of the hedging.

After this transaction, gross debt as of December 31, 2005, including irredeemable securities, is 72% at a fixed rate and 28% at a variable rate.

Financial commitments

Commitments on equity interests

The Group entered into simultaneous sale and purchase options on shares with the current shareholders of two Italian gas distribution companies (Arcalgas and Italcogim). These options can be exercised on a staggered basis until 2007 for a total of €0.4 billion.

Other purchase options on shares amounted to €252 million (with respect to Gaselys and Savelys) and sale options of shares to €84 million (with respect to Savelys).

The Group is committed to subscribe to future capital increases for €22 million.

Other financial commitments

Commitments granted to banks by Gaz de France and by the consolidated subsidiaries, as a guarantee for loans raised by some consolidated subsidiaries, are eliminated from consolidated commitments.

In millions of euros	12/31/2005	Of which at less than a year	Of which from one to five years	Of which beyond five years	12/31/2004
COMMITMENTS GRANTED:					
Lines of credit	3,360	353	1	3,006	2,383
Guarantees and endorsements	341	73	230	38	285
Market counter-guarantee endorsements	25		25		21
Pledge, mortgage and collaterals	9	1	8		
Performance bonds	307*	49	239	19	62
Other commitments granted	9	2	7		
TOTAL	**4,051**	**478**	**510**	**3,063**	**2,751**
COMMITMENTS RECEIVED:					
Lines of credit	3,424	418	0	3,006	2,385
Guarantees and endorsements	166	44	105	17	319
Market counter-guarantee endorsements					1
Performance bonds	143	5	131	7	378
Other commitments received	2	1	1		6
TOTAL	**3,735**	**468**	**237**	**3,030**	**3,089**

(*) *As of December 31, 2005, Cofathec recorded €200 million relating to works' guarantees granted to customers.*

Since February 2005, Gaz de France has benefited from a line of revolving credit in the amount of €3 billion maturing in February 2012.

This line of credit replaces a prior line of €3 billion in place since 2002.

10.3. Quantitative and qualitative disclosures about market risk

10.3.1. General presentation

The risk management department defines a comprehensive risk management policy for Gaz de France, while applying risk management procedures at Group level. It monitors cross-division operations within the Group in order to ensure the identification, quantification and good management of risks (financial, industrial, human, etc.).

The management of financial risks – interest rate, foreign exchange, liquidity and counterparty risks – is the responsibility of the finance department. The centralization of this activity ensures efficient implementation of risk control policy by making it possible to aggregate risks, control positions and concentrate trading in a single unit.

The consolidated management of counterparty risk and the consistency of management decisions are guaranteed by cross-division decision-making bodies, i.e. the interest rate and foreign exchange committee and the credit committee.

10.3.2. Exchange and interest rate risks

To manage its exposure to exchange rate fluctuations, the Group uses forward contracts to buy or sell foreign currencies, in order to hedge against its gas purchases, tangible assets and financing activities.

Settlement of U.S. dollar loan

In 2002, Gaz de France had taken out a US$973 million loan, which was managed, depending upon market conditions and the Group's consolidated cash position, as pure or synthetic debt (through the use of forward financial instruments).

The Group decided to settle this loan for several reasons: a downward trend in the underlying position to be hedged, a desire to manage the risk of variation and the change in the level of the euro-U.S. dollar exchange rate. As a result, the position was reduced to US$523 million in 2004, and then completely settled in 2005.

Currency translation risks on financing activities

In millions of euros	12/31/2005	Maturity					
	Book value	< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	> 5 years
FINANCIAL DEBT EXPOSURE							
USD	342	99	54	56	56	44	33
JPY	58	36			22		
GBP	36	3	3	3	3	3	21
Other	44	25	7	6	6		
TOTAL FINANCIAL DEBT EXPOSURE	**480**	**163**	**64**	**65**	**87**	**47**	**54**
FIRM COMMITMENTS OF FORWARD CURRENCY PURCHASES AND SALES							
Management hedge							
Long position JPY	(58)	(36)			(22)		
Total positions on firm commitments	**(58)**	**(36)**			**(22)**		
NET POSITION AS OF DEC. 31, 2005	**422**	**127**	**64**	**65**	**65**	**47**	**54**

Interest rate risk on financing activities

The table below presents the net position before and after managing the interest rate risk for financial debt.

In millions of euros	12/31/2005	Maturity					
	Book value (fair value)	< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	> 5 years
EXPOSED FINANCIAL DEBT	**4,489**	**1,165**	**238**	**228**	**171**	**201**	**2,486**
Fixed rate	2,891						
Floating rate	1,598						

"MANAGEMENT" HEDGE JPY	Average fixed rate*	12/31/2005 Notional amounts	< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	> 5 years
Interest rate swaps paid floating rate EUR/ received floating rate JPY		58	36			22		
INTEREST RATE HEDGES ON EXPOSED FINANCIAL DEBT								
Interest rate swaps								
Paid fixed/received floating rate	6,8%	184	28	29	31	31	43	22
Total interest rate hedges		184	28	29	31	31	43	22
NET POSITION AFTER HEDGES AS OF DEC. 31, 2005		**4,305**	**1,137**	**209**	**197**	**140**	**158**	**2,464**

(*) *Average rate for interest rate swaps represent the guaranteed average fixed rate.*

The Group entered into interest rate swaps to medium- and long-term loans from floating rate to fixed rates. The hedged commitments totaled €184 million as of December 31, 2005.

Following the sale of employee homeowner loans in 2001 and 2003 to a special purpose vehicle, Gaz de France retains a marginal interest rate risk on a nominal amount equal to the difference between the actual remaining capital due and the remaining capital due according to the theoretical model at the date of the sale. This difference amounted to €7 million as of December 31, 2005 for the Group. The nominal amount of the corresponding interest rate swap, recorded in the balance sheet, amounted to €331 million: €169 million of paid floating/received fixed swaps and €162 million of paid fixed/received floating swaps.

Financial affiliates hedge interest rate risk on their assets (issued with a fixed rate) by interest rate swaps that allow them to refinance at a fixed rate (in notional amounts of €246 million as of December 31, 2005.

Lastly, private placements in Japanese yen were hedged by a euro/ Japanese yen cross-currency swap against the three-month Euribor rate, which fulfilled the objectives of a management hedge, even if they did not qualify for hedge accounting under IFRS.

10.3.3. Derivative financial instruments

The Group uses derivative financial instruments mainly to manage risks related to currency translation, interest rate and commodity price, to which it is exposed in the course of its operations.

In millions of euros	Asset N on-current	Asset Current	Asset Total	Liability N on-current	Liability Current	Liability Total
Commercial transactions	-	1,740	1,740	-	1,708	1,708
Financial transactions	-	16	16	15	78	93
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	**-**	**1,756**	**1,756**	**15**	**1,786**	**1,801**

Qualitative information on derivative financial instruments is divided into two parts, transactions of a commercial nature and transactions of a financial nature.

The Group supplied "price engineering" products aiming at:

- responding to customers' increasing expectations in the field of the management of the "price" risk. Transactions regard swaps aiming at setting a sale or purchase price at the time of negotiation for a specified quantity of commodities at a future date. They serve to secure and guarantee the margin on a commercial transaction, whatever the future price of the commodity. Options are used to guarantee ceiling prices for commodities (calls) as well as, in some cases, floor prices (puts).

  Besides, transactions said to be "index creations" are generated to rebalance the indexation of the supply portfolio on Zeebrugge and NBP indexes to hedge future possible sales on these markets. In connection with its trading activities, the Group also entered into forward purchases and sales of electricity;
- giving value to a part of the flexibility embedded in supply contracts (through the Gaselys subsidiary). Gaz de France developed thereby an activity aiming at giving value to "arbitrage" opportunities included in its gas contracts. These "arbitrage" transactions aim at optimizing resource cost.

Quantitative information on commercial transactions

In millions of euros	Fair value		Notional amounts
	Asset	Liability	
COMMODITY DERIVATIVE INSTRUMENTS			
(Natural gas, oil, electricity)			
OPTIONS AND SWAPTIONS			
Hedges			
Not qualifying as hedges	28		239
Long position	**28**		**239**
Hedges			
Not qualifying as hedges		34	325
Short position		**34**	**325**
Total options and swaptions	**28**	**34**	**564**
SWAPS ET FORWARD CONTRACTS			
(NATURAL GAS, OIL, ELECTRICITY)			
Hedges	248	27	1,874
Not qualifying as hedges	1,413	51	4,704
Long position	**1,661**	**78**	**6,578**
Hedges	20	236	1,142
Not qualifying as hedges	31	1,360	4,097
Short position	**51**	**1,596**	**5,239**
Total Swaps and forward contracts	**1,712**	**1,674**	**11,817**
Total commodity derivatives	**1,740**	**1,708**	**12,381**
TOTAL DERIVATIVE INSTRUMENTS RELATED TO COMMERCIAL TRANSACTIONS	**1,740**	**1,708**	**12,381**

Quantitative information on financial transactions

In millions of euros	Fair value		Notional amounts
	Asset	Liability	
CURRENCY DERIVATIVE INSTRUMENTS			
CURRENCY FORWARD CONTRACTS			
Long position	-	-	13
Short position			
Total currency forward contracts	**-**	**-**	**13**
Total currency derivative	**-**	**-**	**13**
INTEREST RATE DERIVATIVE INSTRUMENTS			
INTEREST RATE SWAPS			
Paid fixed/received floating rate	-	15	606
Received fixed/paid floating rate	16	16	184
Floating rate towards floating rate	-	1	58
Total interest rate swaps	**16**	**32**	**848**
Total interest rate derivatives	**16**	**32**	**848**
DERIVATIVE INSTRUMENTS ON SECURITIES	**-**	**61**	**110**
TOTAL DERIVATIVE INSTRUMENTS RELATED TO FINANCIAL TRANSACTIONS	**16**	**93**	**971**

The paid fixed/received floating rate swaps (-€15 million) corresponded to transactions qualifying as hedges. Subsidiaries exposed to an interest rate risk were hedged against unfavorable changes in interest rates on bank loans.

The received fixed/paid floating rate swaps (€16 million at fair value in assets and liabilities) were not qualifying as hedges.

Gaz de France hedged the value of its Technip shares on December 16, 2004. Gaz de France bought from a financial institution put options on shares and simultaneously sold to it an identical number of call options. The maturity of these options is between 6 and 12 months at the closing date and their nominal value was €110 million at the end of December 2005. Gaz de France transferred its shares to the financial institution under a repurchase agreement but has the right to take them back at any moment on request. As of December 31, 2005, Gaz de France still holds approximately 3.55% of Technip, for an amount of approximately €110 million, as well as the corresponding options half of which mature in June 2006 and the other half in December 2006.

Derivative financial instruments – Maturity and currency

The breakdown of derivative financial instruments by maturity and currency was as follows:

In millions of euros	Total	Notional amounts					
		< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years
Commodity derivatives	12,381	8,709	2,772	664	233	3	-
TOTAL COMMERCIAL TRANSACTIONS	**12,381**	**8,709**	**2,772**	**664**	**233**	**3**	**-**
Currency derivatives	13	13					
Interest rate derivatives	848	167	93	75	79	52	382
Derivative instruments on shares	110	110					
TOTAL FINANCIAL TRANSACTIONS	**971**	**290**	**93**	**75**	**79**	**52**	**382**

10.3.4. Liquidity risk

The Group ensures its liquidity through its short-term note programs in a maximum amount of €1.25 billion and through its. Commercial paper programs in a maximum amount of US$1 billion, which was unused as of December 31, 2005. Since January 2005, Gaz de France has entered the U.S. and euro commercial paper markets though a global program, with a limit on the aggregate outstanding amount of US$1 billion, which allows proceeds to be used both for current cash requirements and for external growth operations.

On February 18, 2005, Gaz de France signed a new €3 billion syndicated credit facility to replace its 2002 facility. This facility matures in February 2012. As of December 31, 2005, Gaz de France had not drawn on this facility.

In order to optimize the liquidity management at Group level, the Finance division of Gaz de France carried on the implementation of an automated "cash-pooling."

10.3.5. Credit risk

The Group credit risk or counterparty risk is monitored by the Credit Committee. It corresponds to the loss the Group would have to bear in case of a counterparty's failure, leading to the non compliance of its contractual obligations *vis-à-vis* Gaz de France. The Group policy on this issue is based on a systematic diversification of its counterparty portfolio and on the follow up of the financial position of its most important counterparties. This follow up guarantees the sufficient reactivity to manage this risk immediately and to reduce the impact of failure of the Group's important counterparties by using the relevant legal instruments ("netting" arrangements, invoice requirements, issue of bank endorsement or parent company guarantees, other guarantees...).

Bank counterparties with which the Group deals must have a rating by Standard & Poor's or Moody's equal or higher than A-/A3 respectively for the long term and the best rating for the short terms, except for particular cases duly authorized by the Chief Financial Officer.

The Group pays an increasing attention to customer and supplier counterparties. The governance framework is based on a regular follow up (at least an annual review) of the financial position of major customers. Its aims are both prevention (guarantee requirements and other restrictive conditions to deal with the counterparty) and valuation of this risk in connection with prices proposed to major customers.

"Trading" counterparties are also specifically analyzed in the Gaselys Risk Committee, where Risk representatives of both parent companies sit, Gaz de France and the Société Générale. The Gaselys portfolio counterparties show a very satisfying average rating with over 80% of the counterparty risk presenting a financial profile similar to a long term rating higher than A-/A3 at S&P/Moody's.

10.3.6. Climate risk

Significant weather variations, in particular temperature variations, can create changes in demand for natural gas from one year to the next.

Gaz de France has chosen not to hedge this risk. In the long term (i.e., beyond 10 years), the expected value of this risk is zero and therefore it is neutral for Gaz de France. In the medium term, there will be a certain degree of variation in income due to changes in weather conditions.

In addition, Gaz de France is obliged under French regulations to hedge the delivery risks of an especially cold winter (at the 2% risk level, meaning weather conditions that occur on average twice every one hundred years). This hedging is carried out through the flexibility that is built into Gaz de France's supply contracts, a storage plan and the maintenance of a portfolio of clients which are interruptible.

11 RESEARCH AND DEVELOPMENT, INTELLECTUAL PROPERTY

11.1. Research and Development

Research and development plays an important role in the Group's strategy for the future and the optimization of its operations. Its role is both to clarify the future, by contributing to the Group's long-term vision and also to provide competitive advantages for the different business activities, within the context of sustainable development.

In 2005 Gaz de France's gross expenditures on Research and Development were approximately €80 million. They are presented in the context of a three-year research plan, which covers the 2005-2007 period.

These expenditures are stable compared to the previous three-year plan for 2002-2004 for which gross expenditures on Research and Development were also €80 million.

Main areas of R&D

The main areas of R&D cover all the activities of the natural gas market and are focused around four large priorities:

Security: this is a permanent area of research to which Gaz de France dedicates a significant portion of its efforts. The obligation to ensure the security of people and physical property has always been the first condition to the exercise of its business activities; this is why all its research programs integrate the requirements of heightened security. The polyethylene technology, invented by Gaz de France and now extensively used throughout the distribution network, is an example of this.

Economic performance, for both itself and its customers. This priority concerns improving the economic performance of its operations by reducing of its construction, operation and maintenance costs and their environmental impact, improving control over the consumption of energy, researching optimal management of its assets, as well as investment options.

Developing competitive advantages for the Group's sales activities. This priority concerns the positioning of the range of products and services offered by Gaz de France, the energy chain which shapes them and the uses which derive therefrom as the best solution for each segment of customers. The new combustion processes (for example oxidation without flames which was developed for the steel and glass industries), and more recently making natural gas fuel available at home, are examples of these programs.

Preparing for the future in the context of sustainable development. Research and Development contributes to the Group's positioning with respect to long-term projects: the establishment of energy scenarios, controlling large-scale operations using renewable energies (solar, biomass), controlling energy, hydrogen economy, fuel cells, capture and storage of CO^2 and waste treatment.

More specifically, in the infrastructures area, the programs primarily target:

- control of industrial risks and improvement in the economic performance of facilities;
- issues relating to procedures, controls and specifications of gas characteristics for which the transmission operator plays a central role;
- the development of tools to aid decisions aimed at optimizing the management of assets; and
- the reinforcement of actions taken to identify and evaluate in advance technological changes likely to have an impact on the economics of gas infrastructure projects, especially in the LNG domain.

With respect to sales activities, the programs in particular concern:

- the security of internal facilities and the quality of internal air through the development of new technologies or the improvement of existing technologies;
- dual offers for gas along with multiple services and the dual offer of gas and electricity;
- the development of new services especially for industrial platforms;
- the offer of natural gas fuel at home; and
- medium and long-term sales projections by market in order to clarify the marketing function of the Group.

Partnerships

Gaz de France's research division uses an original approach that consists in entering into partnerships every time that it is possible with other participants in the gas industry as interpreted in the broadest sense, regardless of whether they are upstream in university centers, or intermediaries that drive consumption (buildings and public works, household appliances, cars, etc.) or industrial users (steel and glass industries, etc.).

Gaz de France's research division actively participates in projects implemented under the six European Union's Framework Research and Development Programs (FRDP). In particular it coordinates the "EU-DEEP" project, which brings together around 40 European market participants, to work on the decentralized production of energy. It also actively participates in the European platform for hydrogen as well as the European Commission's Naturalhy project for which the goal is to evaluate and elaborate on the probable scenarios for future changes, to pursue technological demonstrations on hydrogen gasoline and fuel cells.

In France it is heavily involved in programs aimed at decreasing greenhouse gas emissions (the "Energy Building" Foundation), innovative energy technologies (particularly hydrogen as a vector, fuel cells) in the context of the National Research Agency or the development of renewable energies, particularly through its involvement with the TENERRDIS industrial cluster in the Rhône-Alpes region.

Technical capabilities

The multidisciplinary capabilities of Gaz de France's research division brings together the different business activities of the gas chain, the electricity product offered by Gaz de France, expertise relating to the security problems, sustainable development, micro and macro economics, future outlook, ergonomics, new technologies, as well as issues related to energy usage and services. Research programs are developed by teams that typically bring together numerous capabilities that cut across different fields. This characteristic makes Gaz de France's research division a valuable point of entry into the Group for young engineers (40% of young engineers who join Gaz de France are hired by that division).

For the benefit of the Group, Gaz de France's research division is also responsible for the following: the protection of the intellectual assets of Gaz de France (patents, licenses, trademarks, etc.) and realizing value from those assets. It also is engaged in IT activities, including, specifically, management of a portion of the information and knowledge management system (monitoring, documentation).

The quality control system

The research division uses a quality control system for its own activities in order to maximize the value of the projects and to improve its working methods. It is ISO 9001 V 2000-certified for its software production and industrial measurement activities, COFRAC-accredited for its metrology and pipe testing activities and, finally, ISO 14001 certified in terms of environmental and safety regulations. While the core of the work of the research division is done for the Group, it also engages in research services for the benefit of third parties.

11.2. Intellectual property

Gaz de France holds around 1,500 patents and, as a result of its research and development activities, is constantly filing new patents. It also protects all prototypes resulting from its research and development activities. Certain partnerships generate research results, which are held jointly. Gaz de France also grants licenses to third parties covering internally developed technologies. The Group also holds intellectual property rights in the form of other trademarks, technological processes and software.

In addition to the Company's logo, Gaz de France uses a number of banner trademarks for its commercial offerings, including Dolce Vita®, for individual household customers, Provalys®, for mid-market customers, Gaz de France EnergY®, for major industrial and commercial customers and Energies Communes®, for local communities. A breakdown of the protection provided by these trademarks is provided in the table below.

Trademark	Type	Countries	Classes of protection
Dolce Vita	-	France	4, 11, 35, 37, 39
Dolce Vita	Special fonts	France	4, 9, 11, 16, 35, 36, 37, 38, 39, 42
Dolce Vita	Special fonts	Uruguay	4, 9, 11, 35, 37, 38, 39, 42
Dolce Vita	Special fonts	Italy, Germany, Spain, Slovakia, Hungary	4, 9, 11, 16, 35, 37, 38, 39, 42
Dolce Vita	Special fonts	United Kingdom	4, 11, 35, 37, 39, 42
Dolce Vita	Special fonts	France	4, 9, 16, 35, 37, 38, 39, 42
Provalys	-	France, Benelux, Italy, United Kingdom, Germany, Spain, Monaco, Switzerland	4, 9, 11, 12, 16, 35, 36, 37, 38, 39, 41, 42
Provalys	Semi-figurative	France	4, 9, 11, 12, 16, 35, 36, 37, 38, 39, 41, 42
Gaz de France energY	Special fonts	France	16, 25, 35, 38, 41
Gaz de France energY	Special fonts	Community trademark: 25 countries of the European Union	16, 25, 35, 38, 41
Gaz de France energY	Semi-figurative	France	4, 11, 16, 25, 35, 38, 41
Gaz de France energY	Semi-figurative	Community trademark: 25 countries of the European Union	4, 11
Energies Communes	-	France	4, 11, 12, 16, 35, 37, 38, 39, 41, 42
Energie Commune	-	France	4, 11, 35, 42
Energie Commune	Semi-figurative	France	4, 11, 35

For a description of the offerings associated with these trademarks, see paragraph 6.1.3.1.2.2.2 – "Sale of Energy".

12 TREND INFORMATION

Anticipated partnership between Gaz de France and Suez

Gaz de France and Suez, through its subsidiary Electrabel France signed an industrial partnership project that aims to develop and diversify their respective power generation and electricity supply capacities.

Under the terms of this memorandum of understanding Gaz de France and Electrabel France have agreed to coordinate development of two combined cycle gas turbine projects, of approximately 420 MW each, which they plan to complete separately in the Fos-sur-Mer zone:

- for Gaz de France, at the Sollac Méditerranée site (planned startup in 2008);
- for Suez, on leased property at the Port of Marseilles Authority (planned startup in 2009).

Beyond the benefits expected from the enlarged project scope, the two companies will actively seek synergies between the two projects, particularly in the areas of engineering, operation and maintenance. In addition, the memorandum of understanding provides for reciprocal shareholdings in the companies owning the respective assets, as well as reciprocal contracts for capacity sharing.

Anticipated merger between Gaz de France and Suez

Gaz de France's board of directors, which met on February 26, 2006, and Suez's board of directors, which met on February 25, 2006, have approved a friendly merger between the two groups. This union is an extension of existing cooperation between the two groups and brings to fruition discussions commenced several months earlier.

The merger would be preceded by the payment of an exceptional dividend of €1.25 billion by Suez to its shareholders, equivalent to €1 per Suez share. The exchange ratio in the merger after the proposed dividend would be one share for one share. This exchange ratio would represent a premium for Gaz de France shareholders of 3.9% on the basis of the average stock price over the three months prior to February 24, 2006.

The new group, with a strong Franco-Belgian identity, would have €64 billion in revenues and would be one of Europe's leading players in the energy and environment sectors. This transaction fully would meet the strategic ambitions of the two groups, thus facilitating their accelerated implementation. The new group would benefit from an unrivalled position in terms of complementary skills, employee talent and quality of assets. The energy asset portfolio, primarily located in France and Belgium, would allow it to benefit fully from the gas-electricity convergence (gas supply for power generation, dual energy offer of gas and electricity to customers) and to serve successfully the fully liberalized energy market on July 1, 2007.

The merger between the two companies would create a European leader in gas and liquefied natural gas (LNG) with a secure, diversified and flexible supply portfolio. In an increasingly energy-dependent Europe, the critical size of the new group would make it a natural partner of large producing countries and will favor the emergence of major energy projects. The new group would continue to implement a dynamic development policy in its Exploration - Production business activities.

The combination of the industrial and commercial know-how of the two groups in the areas of energy and the environment would permit the new entity to compete on equal terms with the main players in a fully liberalized market, for the benefit of end-users. With solid positions in its domestic markets, France and the Benelux countries, the new group would have the necessary financial and human resources to accelerate its international development. In Europe, the new group would become the fifth-largest producer of electricity, the operator of the largest gas transmission and distribution network benefiting from significant storage capabilities, and the leading European energy services provider, as well as a world leader in water and environmental services.

The new group, with an increased weight in the stock market indices, would become a key stock market player in the utilities sector.

The proposed merger is expected to generate significant synergies in the short and medium term. In the short term, it is expected that the group would be capable of generating €500 million in operational synergies per year before tax. A significant portion of these synergies is expected to be generated from optimized supply strategies (portfolio optimization, reduced procurement costs, increased LNG trading). The remainder would come from dual-energy offers, primarily in France, from the optimization of energy services and from savings on non-energy related purchases. These synergies are expected to be realized in equal installments over three years. In the longer term, additional synergies are expected to result from the optimization of the group's investment program and the development of revenue synergies. The carry forward of existing tax losses would permit further substantial savings.

The public service mission of Gaz de France would be continued and maintained. The status of the employees of Gaz de France and Suez would not be affected by this transaction.

This project has the support of the French and Belgian governments, which are important partners for both groups in the energy and environment sectors. The commitments made by Suez to the Belgian government at the time of the acquisition of Electrabel would be fully respected, in particular the development plan for the LNG terminal at Zeebrugge.

After confirmation of the exchange ratio by the merger auditing auditors (*commissaires à la fusion*), this merger will be submitted for approval by the extraordinary shareholders' meetings of both companies, after having received the specific approval of the Equity Interests and Transfers Commission (*Commission des Participations et Transferts*) and the applicable competition authorities (prenotification was sent to the European Commission on April 9, 2006). This proposed merger will be presented beforehand to the representative bodies of the employees. As announced by the French Prime Minister, the French government should, in the shortest time frame possible, submit to the French Parliament for its approval an amendment of the French law dated August 9, 2004, allowing a change in the minimum level of the ownership by the French State.

The transaction is scheduled to be completed during the second half of 2006.

In addition, the Group published on May 4, 2006 a press release concerning the merger plans, and more specifically the schedule and synergies. This press release indicates:

- merger process on schedule: one month after establishing merger task forces that fully involve the operational teams, Gaz de France and Suez confirm that the process is moving forward. Technical and operational integration is on schedule as announced. Both groups confirm their objective to put the proposed merger forward to their respective shareholders during the month of December 2006;
- an upward revision of the synergies announced:
  - €1.1 billion per year (before-taxes) operational synergies:
    - €500 million per year short-term operational synergies confirmed (by 2009). These synergies primarily result from the optimization of gas-supply costs and procurement savings that the new group will benefit from,
    - €600 million per year in additional medium-term operational synergies identified (by 2012). This includes development synergies through accelerated growth of the new group and operational cost savings beyond those available in the short term,
  - medium-term investment synergies estimated at €100 million per year,
  - merger-related financial and tax optimization potential confirmed.

Details of operational savings: €1.1 billion

Short-term savings: €500 million

- optimization of gas supply: €250 million.

  By joining forces, Suez and Gaz de France will benefit from a diversified gas-supply portfolio and gain in terms of size. The new group portfolio will:

  - enhance buying position with suppliers,
  - strengthen optimization opportunities (e.g. geographical, time, LNG vs. natural gas swaps, gas vs. electricity arbitraging), and
  - allow for extended LNG arbitraging, particularly across the Atlantic basin.
- procurement savings other than in energy: €120 million.
  - Joint procurement management will enable the new group to:
  - bolster its negotiating power with suppliers,
  - align purchasing terms with those most advantageous for each of the entities.

Integration of the two groups will also lead to significant savings and reduced overhead costs: optimization of real estate, pooling of IT systems, etc.

- operational cost reduction: €50 million.

In the short term, the new group will benefit from economies of scale. For example, the services division will be able to pool technical service networks and optimize sales and operational coverage.

- sales cost savings: €80 million.

Combining Gaz de France's client base with the two groups' gas and electricity expertise will enable the new group to optimize its sales and marketing costs for developing a multi-energy offering in the context of the full deregulation of energy markets on July 1, 2007.

Additional medium-term synergies: €600 million

- operational cost savings: €250 million.

In the medium term, the new group will implement economies of scale across the board. Examples include:

- extending procurement integration to more group entities and more purchasing categories will generate additional savings beyond the short-term savings identified;
- sharing IT systems, creating joint platforms for support services (e.g. real estate, business development) to optimize overhead costs.

- revenue synergies: €350 million.

The new group will be ideally positioned to benefit from the dynamic energy sector created by the deregulation of energy markets and by investments needed in Europe.

In France, the new group will use its enhanced means of production and client base for continued growth and new production capacity investments. In Europe, its development will be accelerated by the complementary geographic and industrial positions of the two groups.

Upstream, its position across the entire natural-gas chain and its solid financial structure will enable it to undertake new exploration and production, and liquefied natural gas (LNG) projects to access new supplies.

Investments in the order of €1.5 billion (for building new electrical power plants, LNG chain) will be needed to implement the revenue synergies.

Implementation of synergies: timeline and related costs

The total synergies resulting from the Gaz de France and Suez merger will amount to €500 million per year before tax by 2009 and €1.1 billion per year before tax by 2012. These synergies will directly impact the group's generation of cash.

These savings are based on significant complementarities, the optimization of external spending and new development potential. The one-off implementation costs are estimate to be approximately €150 million for the 2007 financial statements and €150 million for the 2010 financial statements.

Financial and tax synergies

- The merger will also allow the group to optimize capital expenditure (excluding maintenance capex). For instance:
  - non-duplication of the cost of entering certain markets, and
  - development investment rationalization and optimization.

The pooling and optimization of the investment plans should have an estimated €100 million positive impact on cash flow per year.

- The merger will allow the group to benefit from a €3.1 billion Suez loss carried forwards. This tax optimization should have a positive effect estimated to be €1 billion spread over the financial statements for the three prior years after the date of the merger.
- The potential for optimization of the financial structure is confirmed:
  - reduction of the risk profile thanks to better balanced industrial and geographical portfolio of assets,
  - a dynamic dividend policy offering competitive yield,
  - potential for additional distribution and share buy-backs, and
  - rating objective: > A.

Exploration-Production: Gaz de France brings on stream five gas fields offshore from The Netherlands

Gaz de France has brought four gas fields on stream in the Dutch North Sea, through its subsidiary, GDF Production Nederland BV (ProNed). The fields are located North of Terschelling in blocks G14, G16a and G17a. This production will be added to the field north-west of Den Helder, in block K2, which came on stream in December 2005.

ProNed estimates total reserves of the five fields at 18 billion cubic meters of natural gas, with ProNed's share amounting to 8 billion cubic meters. Approximately 12.8 billion cubic meters has been purchased and will be brought to the market by Gaz de France.

Maximum production capacity for the five fields is estimated at 7.2 million cubic meters per day, which includes 3.6 million cubic meters per day for ProNed.

The project began in 2004 with the discovery and acquisition of the fields by Gaz de France, and consisted of the relocation of two existing platforms and one sub-sea completion, the construction of two new platforms and the laying of a 46-km offshore gas pipeline. Total investment in the project is over €300 million, of which €164 million was financed by Gaz de France.

This transaction allows Gaz de France to double its production capacity in The Netherlands in the medium-term.

Revision of agreements between Gaz de France and Dana Petroleum

A revision of the signed agreements between Gaz de France and Dana Petroleum was completed during the quarter of 2006. These agreements included both the transfer of Gaz de France's interests in its Touat permit in Algeria and exchanges of exploration and production assets, allowing Gaz de France to strengthen its presence in Mauritania.

The Algerian company Sonatrach did not approve the transfer of 20% of Gaz de France's interests to Dana Petroleum in the Touat permit located in the Sbaa basin, in Algeria. As a result, this specific transaction will not take place.

Gaz de France and Dana Petroleum are eager to pursue their cooperation and have confirmed their willingness to proceed with the exchange of exploration and production assets in the United Kingdom, Egypt and Mauritania. In the meantime, discussions have started aimed at a possible transfer of other Gaz de France assets to Dana Petroleum. The definitive realization of this collaboration is conditioned on the approval of the different governmental authorities.

Results of the CRE audit for the years 2003 to 2005

The CRE carried out a detailed audit of Gaz de France's supply costs from November 2005 to February 2006. This audit confirms that the pricing formula setting the conditions for changes in public distribution rates was a fair reflection of Gaz de France's supply costs.

Changes in gas prices

On March 31, 2006, the commission of three independent experts (see chapter 6) submitted their conclusions and proposed:

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

Based on these proposals the French government approved on March 22, 2006:

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

Under an April 28 order (which received an unfavorable opinion from the CRE), the French State increased rates by 5.8% as of May 1. In addition in suppressed the principle of quarterly movements.

Taking into account this last order, the situation, as of May 1, 2006, is the following:

- the accumulated revenue losses since November 2004 reached €750 million as of April 1, 2006;
- the rates are at a level which is 2.3% below the level that Gaz de France deems necessary to cover all the costs such that it will cause additional revenue losses of €125 million in 2006;
- the Group is also exposed to the risk that the gas supply costs will not be reflected in case of changes in the market price for oil products as well as a shift in the exchange rate of the euro against the U.S. dollar;
- there is no longer a multi-annual context set by ministerial order, with there now remaining only the 2005-2007 public service contract.

Gaz de France believes that all modifications to rates must fall within the principles set by the law and respect the economic equilibrium of the company, as recalled by the ministers. In particular, the possibility of a shift to an annual movement in the current context of highly volatile oil prices, must be subject to careful examination.

Sale by Total of its equity interests in Gaz de Strasbourg and Société du Gaz de Bordeaux

The Total Group announced the signature on April 26, 2006 of two agreements under which it sells to Caisse des Dépôts et Consignations its equity interests in two local distribution companies, Gaz de Strasbourg (25%) and Société du Gaz de Bordeaux (16%). The final settlement of these transactions is subject to the possible exercise of the preemption rights and applicable agreements within each of these two companies.

Gaz de France holds a 24.89% equity interest in Gaz de Strasbourg and a 16% equity interest Société du Gaz de Bordeaux.

13 PROFIT FORECASTS OR ESTIMATES

13.1. Profit forecasts or estimates for the group

At the time the Group's publication of its annual results for 2005, on March 16, 2005, the Group set as its objectives for 2006, 12% growth in EBITDA and for net income to exceed €2 billion. These estimates were based on oil prices current as of that date, excluding the costs of the planned merger between Gaz de France and Suez.

Following an announcement on March 21, 2006 by the French government of a rate increase as of April 1, 2006, that is limited to 5.8%, the Group indicated that the negative impact on 2006 EBITDA would be €125 million. However it indicated there would be no change in its financial objectives for 2006, subject to current short-term prices for petroleum products remaining at the same level.

The Group also plans to pursue a dynamic dividend distribution policy. The dividend's growth will be in excess of the objectives presented at the time of the IPO. The Group envisions a dividend above 1 euro per share starting in 2006.

This objective in no way constitutes an undertaking by the Company, and future dividends will be determined for each year based on the Company's revenues, its financial situation and all other factors deemed relevant by the board of directors in preparing proposals for the general shareholders' meeting.

This document contains forward-looking statements based on the estimates and projections for the future of Gaz de France's management. Readers are informed that these statements, based on currently available data, are subject to risk factors and some uncertainties. Revenues and real events may differ from this information and forward-looking statements, which readers should in no way consider certain. In addition Gaz de France does not have any obligation to update the forward-looking statements in this document.

13.2. Report of the statutory auditors on forward-looking statements

To Jean-François Cirelli, CEO of Gaz de France

In our capacity as Statutory Auditors of your company and in accordance with European Commission (EC) Regulation No. 809/2004, we hereby present our report on Gaz de France's earnings before interest, tax, depreciation and amortization (EBITDA) and consolidated net income – Group Share forecasts for the year 2006 included in chapter 13 of its "document de reference" for the year 2005.

These forecasts and underlying significant assumptions were prepared under your responsibility, in accordance with the provisions of European Commission (EC) Regulation No. 809/2004 and the CESR advice on forecasts.

It is our responsibility to express, in accordance with the terms required by Annex I, item 13.3 of European Commission (EC) Regulation No. 809/2004, our conclusion on the appropriateness of the preparation of such forecasts.

We conducted our work in accordance with the professional guidelines applicable in France. Our work included an assessment of the procedures implemented by the management to prepare the forecasts, as well as the performance of procedures to obtain assurance about whether the accounting methods used are consistent with those used for the preparation of historical data of Gaz de France. Our work also involved discussing these forecasts with the management of Gaz de France in order to collect data and explanations we deemed necessary.

We remind you that, as this concerns forecasts, which are uncertain by nature, actual results may differ significantly from the forecasts presented, and so we do not express any conclusion about the potential realisation of such forecasts.

In our opinion:

- the forecasts have been appropriately prepared on the basis indicated;
- the accounting basis used for the purposes of these forecasts is consistent with the accounting methods used by Gaz de France.

Without qualifying the above conclusion, we draw your attention to the existence of uncertainties on the interpretation and application of some IFRS rules, especially those regarding service concession arrangements for which the IFRIC published draft interpretations. Should the final interpretations differ from these draft interpretations, the forecasts published by the company could be significantly changed.

This report is issued for the sole purpose of filing with the AMF of the "document de reference" for the year 2005 and may not be used in any other context.

La Défense, May 4, 2006

Statutory Auditors

ERNST & YOUNG AUDIT		MAZARS & GUERARD	
Patrick Gounelle	Philippe Hontarrède	Michel Barbet-Massin	Xavier Charton

14 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1. Composition of Administrative and Management Bodies

14.1.1. Board of Directors

Gaz de France's Board of Directors is currently composed of 18 members appointed pursuant to French Law No. 83-675 dated July 26, 1983, as amended, concerning the liberalization of the public sector and the provisions of a French Decree dated October 30, 1935, as amended, concerning the French State's supervision of companies that receive financial assistance from the French State.

Pursuant to Article 6 of the law dated July 26, 1983 mentioned above, since the French State holds less than 90% of the share capital of the Company (but more than the majority of the share capital), the Company's Board of Directors is composed of 18 representatives, of which six are employee representatives elected in accordance with the provisions of Chapter II of the law mentioned above. The other members are appointed by the general shareholders' meeting in accordance with the provisions of the French Commercial Code that apply to *sociétés anonymes*, subject to the appointment, if applicable, of representatives of the French State by decree.

As of the date of this document, the French State has appointed six representatives to the Company's Board of Directors pursuant to a French decree dated November 20, 2004. Consequently, the Board of Directors is composed of six representatives of the French State, six representatives appointed by the general shareholders' meeting and six employee representatives elected by the employees.

Directors are appointed for five-year terms. The Company's by-laws provide that a director appointed to replace another director will exercise his or her duties for the remainder of the prior director's term until the reappointment of the entire Board of Directors. The term of the six directors appointed by the general shareholders' meeting on October 7, 2005 runs until the reappointment of the entire Board of Directors on November 22, 2009.

In accordance with the law and the Company's by-laws, each director must hold at least one share for the entire duration of their term, except as waived under any applicable legal or regulatory provisions. Under the law dated July 26, 1983, this obligation does not apply to representatives of the French State or employee representatives.

The representatives of the French State and the employee representatives perform their duties for free. However, they may be reimbursed by the Company for their business expenses (Article 11 paragraph 3 of the law dated July 26, 1983 and Article 2 of the internal regulations of Gaz de France's board of directors).

The general shareholders' meeting sets the total amount of attendance fees (*jetons de présence*) based on the board of directors' proposal (See paragraph 15.1.1 – "Board of directors").

The following table sets out the composition of Gaz de France's Board of Directors, as of the date of the filing of this *document de référence.*

Name and professional address	Age (1)	First appointed/ elected	Starting Date of current term	Other directorships and business experience (current)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Chairman and Chief Executive Officer					
Jean-François Cirelli Gaz de France 23 rue Philibert Delorme 75840 Paris Cedex 17	47	Sep. 15, 2004	Nov. 24, 2004 (as a qualified individual) July 10, 2005 (as a director appointed by the shareholders' meeting)	-	-

(1) *At the date of registration of this document de référence.*

Name and professional address	Age	First appointed/ elected	Starting Date of current term	Other directorships and business experience (current)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Directors (Representatives of the French State)					
Paul-Marie Chavanne Géopost 2 ter rue Louis Armand 75015 Paris	54	Nov. 20, 2004	Nov. 23, 2004	Inspector of Finances Chief Operating Officer of La Poste Chairman and Chief Executive Officer of Géopost Director of Sofipost, Banque Postale, Europe Airpost SA, Poste Immo, Generali Assurances-lard, Generali Assurances-Vie, Geopost UK	President of the Management Board of Autodistribution
Christian Frémont Préfecture des Bouches-du-Rhone Bd Paul Peytal 13282 Marseille Cedex 20	63	July 4, 1999	Nov. 23, 2004	Prefect of the Provence-Alpes Côte d'Azur region Prefect of the southern area of Defense Prefect of the Bouches-du-Rhône regional department	
Clara Gaymard French Agency for the International Development of Enterprises 2 avenue Vélasquez 75008 Paris	46	Nov. 20, 2004	Nov. 23, 2004	President of the French Agency for International Investments Itinerant deputy ambassador for International Investments	Chief clerk on loan to the National Auditors' Department Director of Ubifrance and of the French Agency for the International Development of Enterprises Member of the strategy committee of the *École supérieure du commerce extérieur*
Jacques Rapoport Management and services of the health and solidarity administrations-DAGPB 10 place des cinq martyrs du lycée Buffon 75656 Paris Cedex 14	53	Nov. 20, 2004	Nov. 23, 2004	Inspector General of Finances General secretary of the Ministers, in charge of social affairs Director of ENA	President of RVS (Orlyval Service)
Denis Samuel-Lajeunesse French Government Shareholding Agency Ministry of Economy, Finance and Industry 139 rue de Bercy 75012 Paris	58	Nov. 20, 2004	Nov. 23, 2004	General Director of the French Government Shareholding Agency of the Ministry of Economy, Finance and Industry Director of France Télécom, Thales and Alstom Member of the CNP Assurances Supervisory Board	Director of Air France, Banque Bonasse, Descours et Cabaud, RVI (Renault Véhicules Industriels) and April Groupe. Chairman and Chief Executive Officer of Lyonnaise de Banque and Banque de Vizille. Permanent representative of Lyonnaise de Banque on the board of directors of Compagnie Lyonnaise du Bât d'Argent, SPIL, CIC Information and Siparex Associés.

Name and professional address	Age	First appointed/ elected	Starting Date of current term	Other directorships and business experience (current)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Florence Tordjman Ministry of Economy, Finance and Industry Energy and Raw Materials Division Télédoc 132 – 61 bd Vincent Auriol 75013 Paris	46	Nov. 20, 2004	Nov. 23, 2004	Civil Administrator *hors classe* Assistant Vice President of gas and distribution of fossil energies to the Energy and Raw Materials Branch, to the Ministry of Economy, Finance and Industry	Director of the French association of natural gas for vehicles
Directors (appointed by the general shareholders' meeting) (2)					
Jean-Louis Beffa Saint Gobain "Les Miroirs" 92096 La Défense Cedex	64	Nov. 20, 2004	Nov. 23, 2004	Chairman and Chief Executive Officer of Saint-Gobain Permanent representative of Compagnie de Saint-Gobain on the Board of Directors of Saint-Gobain PAM Director of Saint-Gobain Cristeleria (Spain) Director of Saint-Gobain Corporation (U.S.A.) President of Claude Bernard Participations Vice Chairman of the Board of Directors of BNP Paribas Member of the statutory Supervisory Board of Le Monde and Partenaires Associés Director of the Bruxelles Lambert group Member of the Supervisory Board of Le Monde Member of the Supervisory Board of the publishing company of Le Monde	
Aldo Cardoso 45 Bd de Beauséjour 75016 Paris	50	Nov. 20, 2004	Nov. 23, 2004	Director of Orange, Rhodia, Accor, Imerys and Mobistar (Belgium) Censor of Axa Investment Managers and censor of Bureau Veritas	Director of Penauilles Polyservices Director of Axa Investment Managers and Bureau Veritas
Guy Dollé 19 avenue de la Liberté L-2930 Luxembourg (GD)	63	Sep. 10, 2004	Nov. 23, 2004	President of General Management of Arcelor	General Managing Director of Usinor President of the French Steel Federation Director of IDRH

(2) *Jean-François Cirelli also falls into this category. All of the directors belonging to this category were appointed by the General Shareholders' Meeting on October 7, 2005 so that they continued the directorship that they previously held as "qualified individuals."*

Name and professional address	Age	First appointed/ elected	Starting Date of current term	Other directorships and business experience (current)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Peter Lehmann 28 Birchwood Road Londres SW17 9BQ Great Britain	61	Nov. 20, 2004	Nov. 23, 2004	Member of the Northern Ireland Authority for Energy Regulation President of the Supervisory Board of Fuel Poverty Member of the Board of Directors of the Agency for Invalids under the Ministry of Work and Retirement President of Greenworks Director of CILT (the National Center for Languages)	President of Energy Saving Trust Director of Carbon Trust, Accuread and Project Fullemploy
Philippe Lemoine LaSer 66 rue des Archives 75150 Paris cedex 03	56	Nov. 20, 2004	Nov. 23, 2004	Chairman and Chief Executive Officer of LaSer and Chairman and Chief Executive Officer of Cofinoga Director of Monoprix, Member of the Supervisory Board of BHV, President of Société des Grands Magasins Galeries Lafayette, President of Banque Sygma President of the *Fondation Internet Nouvelle Génération* Director of La Poste (President of the Audit Committee), Co-Manager of GS1 France. Director of Maison des Sciences de l'Homme, Rexecode and the Franco-American Foundation Member of the CNIL.	Co-president of the Management Board of the Galeries Lafayette Group (until May 2005) Director of the *Fondation Internet Nouvelle Génération*
Directors (Employee representatives) (3)					
Olivier Barrault EDF GDF Z.A.I. Les Malines-Lisses 91016 Evry Cédex	49	May 31, 1994	Sep. 14, 2004	Representative for the National Federation of unions for workers in the electrical energy, nuclear and gas industries-CGT	
Eric Buttazzoni Gaz de France Courcellor 2 Bureau 6067 33-35 rue d'Alsace 92300 Levallois-Perret	45	May 6, 2004	Sep. 14, 2004	Representative for the National Federation of unions for workers in the electrical energy, nuclear and gas industries-CGT	

(3) *These representatives were elected on May 6, 2004 for five years by the employees of Gaz de France and four of its subsidiaries: Cofathec Services, Omega Concept, ADF Ateliers de Fos and ADF Maintenance Industrielle, in accordance with French Law No. 83-675 dated July 26, 1983 as amended, relating to the liberalization of the public sector. They started their current term as directors of Gaz de France on September 14, 2004.*

Name and professional address	Age	First appointed/ elected	Starting Date of current term	Other directorships and business experience (current)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Bernard Calbrix Gaz de France Agence Normandie 16 rue Henri Rivière BP 1236 76177 Rouen Cedex	53	June 18, 2003	Sep. 14, 2004	Representative for the Chemical Energy Federation-CFDT	
Jean-François Lejeune Gaz de France 23 rue Philibert Delorme 75840 Paris Cedex 17	60	May 6, 2004	Sep. 14, 2004	Representative for the Federation CGT-FO	
Yves Ledoux Direction Transport Région Normandie 16 rue Henri Rivière 76000 Rouen	49	May 6, 2004	Sep. 14, 2004	Representative for the National Federation of unions for workers in the electrical energy, nuclear and gas industries-CGT Director of GRT Gaz	
Daniel Rouvery Immeuble Le Guynemer 18 rue du capitaine Guynemer La Défense 6 92938 Paris La Défense Cedex	58	May 6, 1999	Sep. 14, 2004	Representative for the Federation for the electrical and gas industries-CFE-CGC	

Information concerning the members of the Board of Directors

To Gaz de France's knowledge, there are no family ties between the members of the Board of Directors, nor with the two Chief Operating Officers.

To Gaz de France's knowledge, none of the member of the Board of Directors have been convicted of fraud in the past five years. None of the members have acted as manager or director in a bankruptcy, which led to sequestration or liquidation of the assets in the past five years and none have been the subject of criminal liability or official public sanction issued by a statutory or regulatory authority (including a designated professional organization). None of the members has been prevented by a court from acting as a member of a board of directors, senior management or supervisory board of an issuer or from participating in the management or oversight of the affairs of an issuer in the past five years.

Detailed information concerning the background and business experience of the members of the Company's Board of Directors.

Jean-François Cirelli, 47, has a degree from the *Institut d'Études Politiques* of Paris and the *École Nationale d'Administration* in addition to a law degree. From 1985 to 1995, he worked at the Treasury Department of the Ministry of Economy and Finances before becoming technical adviser to the President of the French Republic from 1995 to 1997, and then economic adviser from 1997 to 2002. In 2002, he was appointed assistant director in the office of the Prime Minister, Jean-Pierre Raffarin, and was responsible for economic, industrial and social matters. He has been the Chairman and Chief Executive Officer of Gaz de France since September 2004.

Paul-Marie Chavanne, 54, has a degree from the *École Centrale de Paris* and the *École Nationale d'Administration*. As Inspector of Finances, Paul-Marie Chavanne worked at the Ministry of Economy and Finances from 1978 to 1989, at the Directorate General of Finances, then the Treasury Department. He was Chief Executive Officer of Société Soparges from 1989 to 1991, deputy vice president of Automobiles Citroën from 1992 to 1997, Chief Executive Officer, then President of the Strafor Facom group from 1997 to 1999, President of the Autodistribution Group from 1999 to 2001, Chairman and Chief Executive Officer of Géopost and Chief Operating Officer of the group La Poste since September 1, 2001.

Christian Frémont, 63, has a degree from the *École Nationale d'Administration*. From 1972 to 1976 he worked at the Ministry of Economy and Finances. From 1977 to 1989 he was deputy vice president then director of internships at the *École Nationale d'Administration*, also responsible for the school's international relations from 1984 to 1989. Since 1990 he has been a prefect and has held successive prefect positions in Ariège, Finistère, Pas de Calais and in the Aquitaine region. He was also appointed deputy vice president of the cabinet of the Interior Ministry in 1992 and director general of the administration of this ministry from 1997 to 2000. Since 2003 he has been prefect in the Provence-Alpes-Côte d'Azur region, the southern area of Défense and the Bouches-du-Rhône regional department.

Clara Gaymard, 46, a former student at the *École Nationale d'Administration*, has a degree from the *Institut d'Etudes Politiques de Paris* and also has a degree in law and history. Clara Gaymard began her career in 1982 as an *attachée* to the City of Paris administration, in the cabinet of the mayor, Jacques Chirac and then in the Office of International Relations. Thereafter she held the position of auditor and chief clerk of the Court of Accounts between 1986 and 1990. Between 1991 and 1993, she was appointed Commercial Counselor at the economic expansion post in Cairo (Egypt), which is part of the global network of the Office of External Economic Relations (OEER) within the Ministry of Economy and Finances. In March 1993 Clara Gaymard became Head of the European Office of the OEER. She was then put in charge of the Vice-Directorate for small and medium sized companies (known by the French acronym PME) and regional activity for four years before leading the PME Initiative within the same organization until 2003. Additionally between 2000 and 2001 she was auditor at the 53rd session of IHEDN. Since February 2003 Clara Gaymard has managed the French Agency for International Investments, in charge of the promotion, researching and receiving international investments in France.

Jacques Rapoport, 53, a former student at the *École Nationale d'Administration*, is an Inspector General of Finances. From 1976 to 1982 at the beginning of his career he was a customs inspector, and then from 1985 to 1989 he worked at the Directorate General of Finances. In 1989 he joined the management of RATP under the authority of Christian Blanc, the chief executive officer. Starting in 1990 he successively held positions as central management controller, chief financial officer and Director of the Metro. In 1999 he became deputy vice president of the RATP in charge of its industrial activities (engineer, construction work, maintenance) and from 2002 to 2004 he was deputy vice president of all the operating activities which includes, operations, security, engineering, construction and maintenance. Since 2005 he has been General secretary of the Ministers, in charge of social affairs.

Denis Samuel-Lajeunesse, 58, has a degree from the *Institut d'Etudes Politiques de Paris*, with a master's degree in economics and was a former student at the *École Nationale d'Administration*. He spent 19 years in the Treasury Department, during two years of which he was an alternate executive director for France in Washington from 1977 to 1979 and six years as head of the International Affairs Service from 1986 to 1992. From 1992 to 2002, he was Chief Executive Officer of the Lyonnaise de Banque and the Banque de Vizille. Since 2003 he has been General Director of the French Government Shareholding Agency of the Ministry of Economy, Finance and Industry.

Florence Tordjman, 46, has a degree from the *Institut d'Etudes Politiques de Paris* and the *École Nationale d'Administration*. She also has a masters degree in history and bachelor's degrees in history and geography from the *Université Paris IV Sorbonne*. Since 1993 she has held different positions within the Ministry of Economy, Finance and Industry. From 1993 to 1997 while part of the information technology and communications division, she was in charge of European R&D programs relating to information technology and communications and starting in 2000, manager of the office of industrial policy and competition. At the Treasury Department from 1997 to 2000 she was in charge of monitoring multilateral development banks and issues relating to the financing of the public aid to development. Since October 2001 she has been in charge of the department of gas and distribution of fossil fuels within the energy and raw materials division.

Jean-Louis Beffa, 64, has a degree from the *École Polytechnique*, is a Corps of Mines engineer and also has a degree from the *Institut d'Etudes Politiques de Paris*. He has managed the Saint Gobain group for 20 years.

Aldo Cardoso, 50, has a degree from the *École Supérieure de Commerce de Paris* and has a master's degree in commercial law and a degree in accounting. From 1979 to 2003, he held several positions successively at Arthur Andersen: consultant, principal (1989), President of France (1994), member of the board of directors of Andersen Worldwide (1998), President of the board of directors (not executive) of Andersen Worldwide (2000) and Managing Director of Andersen Worldwide (2002-2003). Since 2003 he has been the director of French and foreign companies.

Guy Dollé, 63, has a degree from the *École Polytechnique*. He began his career in 1966 at the Steel Industry Research Institute and then joined the Usinor group in 1980. He has assumed several industrial responsibilities at the Dunkerque factory before becoming an industrial director of Sollac before the merger between Usinor and Sacilor. He then became president of the long product division in charge of planning and strategy for the Usinor's stainless steel products. He became Usinor's Chief Executive in 1999 and following the creation of Arcelor in 2002, president of Arcelor's senior management.

Peter Lehmann, 61, was graduated from Oxford University and received a doctorate in economics from Sussex University. From 1971 to 1998 he held various position 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 Centrica's board of directors, a company that took over a portion of the business activities of British Gas. From 1999 to 2005 he was president of the Energy Saving Trust, created by the government based on the proposal of participants in the energy sector in order to promote control of energy. Peter Lehmann is currently Chairman of the Supervisory Board of Fuel Poverty as a representative for the British government, member of the Northern Ireland Authority for Energy Regulation, Member of the Board of Directors of the Agency for Invalids under the Ministry of Work and Retirement, President of Greenworks, a non-profit start-up company which generates €2 million of revenues and finally, director of CILT (the National Language Center).

Philippe Lemoine, 56, has a degree from *Institut d'Etudes Politiques de Paris* (Public Service), with a degree in advanced economic studies, a bachelor's degree in law and was a laureate in the *Concours Général de Droit Civil* (Civil Law General Competition). In 1970, he began a career as a researcher at INRIA. In 1976, he joined the Ministry of Industry (Information Systems) where he in particular participated in the drafting of the NORA-MINC report. He then joined the minister's office of Norbert Segard and Pierre Aigrain, became Government Commissioner at the CNIL, in charge of different matters under the Minister of Research, Laurent Fabius and the Prime Minister, Pierre Mauroy. In 1984 he joined the Galeries Lafayette Group of which he became co-President of the Executive Board in 1998 and he held the position until May 2005. Currently Philippe Lemoine is the Chief Executive Officer of LaSer, a services company developing in Europe and which has 6,000 employees, and is a subsidiary of Galeries Lafayette and BNP-Paribas.

Olivier Barrault, 49, holds a BTS (a French technical degree) in mechanical engineering research and an associates' degree in sciences and industrial (energy) techniques from the National School for Arts and Crafts. He began his career within the gas and electricity industries in 1979 in the distribution area. In 1985 he became head of operations then manager in charge of service purchases for the center at Essonne. He has been a director of Gaz de France since 1994, as a representative of CGT.

Éric Buttazzoni, 45, has a degree from *École des Hautes Études Commerciales* – HEC, and held several positions with Gaz de France's finance department before becoming head of the finance and accounting division for the Pays de Somme distribution center, positions that he held from 1991 to 1994. From 1994 to 2001 he was head of the balance sheet and revenues department of Gaz de France's finance management.

Bernard Calbrix, 53, began his career in 1976 within the Sochan Company, specialized in the management of HVAC installations. From 1980 to 1994, he held several union positions within this company. In 1994, he joined the Group when Gaz de France acquired the Cofathec group. From 1994 to 2003 he held the positions of secretary general of the CFDT construction and woodworking union in Rouen and represented the national CFDT Federation for construction and woodworking within the branch for services management relating to equipment, energy and environment. He is currently an operating agent within ths regional entity of Cofathec Services of Rouen.

Yves Ledoux, 49, 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 Lejeune, 60, joined the joint services division of Gaz de France and EDF in 1964. In 1976 he was seconded to perform union activities. He was successively secretary general of the Nanterre union, secretary general of the Paris region FO unions, secretary general of UNSC-FO, federal secretary of FNEM-FO and deputy secretary general of FNEM-FO. Since 2004 he has been employed as a manager within Gaz de France's common resources department.

Daniel Rouvery, 58, has a degree from the *École Supérieure d'Electricité*. In 1973 he joined EDF-GDF Services. In 1980 he received a degree from *Institut Auguste Comte des Sciences de l'Action* and joined the EDF-GDF Services Franche Comté Sud center as manager of the distribution of gas and electricity for the town Besançon. In 1983 he joined Gaz de France's strategy division where he worked on the study and the financing of development for areas not served by natural gas and the development of investment programs. In 1987 he joined EDF GDF Services and then in 1994 Gaz de France's senior management staff following the creation of the Group's purchases delegation (excluding gas). Since January 2004 he has participated in the finance management transformation program for EDF Gaz de France Distribution.

14.1.2. Senior management, executive committee and organization of operations

Chairman of the Board of Directors

In accordance with Article 10 of the law dated July 26, 1983 and the by-laws of the Company, the Chairman of the Board of Directors is appointed by decree from among the members of the Board of Directors based on the nomination by the Board of Directors. **Jean-François Cirelli** was appointed Chairman of the Company under the French Decree dated October 14, 2005. He was appointed Chairman of the Board of Directors of the Company the first time when it was a *société anonyme* by a French Decree dated November 24, 2004 (before then **Jean-François Cirelli** was appointed Chairman of Gaz de France when it was an EPIC by a French Decree dated September 15, 2004 and exercised his duties as legal representative of the Company and assumed the general management of the Company until the publication of the French Decree dated November 24, 2004 on November 26, 2004).

The Chairman's duties may be terminated under the terms provided for under Article 10 of the law dated July 26, 1983 mentioned above (revocation by decree).

Senior management

The Chairman of the Board of Directors is also the Company's Chief Executive Officer and oversees the Company's senior management.

Under the bylaws of the Company, the Board of Directors may, based upon nominations made by the Chief Executive Officer, appoint up to five people to assist the Chief Executive Officer under the title Chief Operating Officer (*directeur général délégué*), and so on October 7, 2004 it appointed **Yves Colliou** and **Jean-Marie Dauger** as Chief Operating Officers. **Yves Colliou** and **Jean-Marie Dauger** had already been the Chief Operating Officers since they were appointed by the Board of Directors on December 17, 2004.

As of the date of registration of this *document de référence*, **Jean-François Cirelli**, **Yves Colliou** and **Jean-Marie Dauger** are in charge of the general management of the Group.

Name and professional address	Title	Date appointed	Age (1)	Other directorships and business experience (current)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Jean-François Cirelli Gaz de France 23 rue Philibert Delorme 75840 Paris Cedex 17	**Chairman and Chief Executive Officer**	Oct. 15, 2005 (French Decree of Oct. 13, 2005)	47	-	-
Yves Colliou Gaz de France 23 rue Philibert Delorme 75840 Paris Cedex 17	**Chief Operating Officer for the Infrastructures division**, Support activities and Human Resources	Oct. 7, 2005	60	Representative of GDF Berliner Investissements on the Board of Directors of GRT Gaz	Director of GRT Gaz Chairman of the board of directors of Servance Développement Director of COGAC
Jean-Marie Dauger Gaz de France 23 rue Philibert Delorme 75840 Paris Cedex 17	**Chief Operating Officer for the Supply,** Production and Trading of Energy, as well as International activities	Oct. 7, 2005	54	Chairman of the Board of Directors of GDF International and Gaselys Chairman of GNL Transport Investissements, Gaz de France Norge SA and GDF Britain Ltd. Vice-president and member of the Supervisory Board of Fragaz President and member of the supervisory board of GDF Produktion Exploration Deutschland GmbH Director of COGAC, and MED LNG & GAS Ltd Legal Representative of GDF International as manager of Méthane Transport SNC	

(1) *As of the date of registration of this document de référence.*

Information concerning the Chairman and Chief Executive Officer and the Chief Operating Officers of the Company

To the knowledge of Gaz de France, **Jean-François Cirelli**, **Yves Colliou** and **Jean-Marie Dauger** have no family ties between them nor with the members of the Board of Directors.

To Gaz de France's knowledge, neither **Jean-François Cirelli**, nor **Yves Colliou** nor **Jean-Marie Dauger** have been convicted of fraud in the past five years. To the Company's knowledge, none of them have acted as manager or director in a bankruptcy, which led to sequestration or liquidation of the assets in the past five years and none have been the subject of criminal liability or official public sanction issued by a statutory or regulatory authority. To Gaz de France's knowledge, none of them has been prevented by a court from acting as a member of a board of directors, senior management or supervisory board of an issuer or from participating in the management or oversight of the affairs of an issuer in the past five years.

Executive committee

Chaired by the Chief Executive Officer, the executive committee is in charge of discussing and approving issues and decisions relating to the Group's strategy and general management, including its investment plans.

The executive committee meets weekly and its agenda is set based on the proposals of its members.

The table below shows the composition of the executive committee as of the date of registration of this *document de référence*.

Name	Title	Age [(1)]	Other directorships and business experience (current)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Jean-François Cirelli	**Chairman of the Executive committee**	47	-	-
Yves Colliou	**Chief Operating Officer** for the Infrastructures division, Support activities and Human Resources	60	Representative of GDF Berliner Investissements on the Board of Directors of GRT Gaz	Director of GRT Gaz Chairman of the Board of Directors of Servance Développement Director of COGAC
Jean-Marie Dauger	**Chief Operating Officer** for the Supply, Production and Trading of Energy, as well as International activities	54	Chairman of the Board of Directors of GDF International and Gaselys Chairman of GNL Transport Investissements, Gaz de France Norge SA and GDF Britain Ltd. Vice-president and member of the Supervisory Board of Fragaz President and member of the supervisory board of GDF Produktion Exploration Deutschland GmbH Director of COGAC, and MED LNG & GAS Ltd Legal Representative of GDF International as manager of Méthane Transport SNC	
Stéphane Brimont	**Senior Vice President of Strategy** Advisor to the Chairman and Chief Executive Officer	37	Director of GRTgaz	Director of Autoroutes du Sud de la France (ASF), Société des Autoroutes du Nord et de l'Est (SANEF), Société Nationale Corse Méditerranée (SNCM), Compagnie Générale Maritime et Financière (CGMF), Autoroutes et Tunnel du Mont Blanc (ATMB) and Société Française du Tunnel Routier du Fréjus (SFTRF)
Pierre Clavel	**Senior Vice President of the International division**	49	Chief Operating Officer of GDF International Director of Segebel, SPE and SEGEO Member of the supervisory boards of Megal GmbH, GDF Produktion Exploration Deutschland GmbH and ETAC BV	

(1) *As of the date of registration of this document de référence.*

Name	Title	Age	Other directorships and business experience (current)	Other directorships over the course of the last five years (excluding Gaz de France subsidiaries)
Emmanuel Hedde	**Vice President of the Equity Acquisitions division and manager of the Development of Shareholding**	58	Chairman of Laurentides Investissements Chief Operating Officer of GDF Investissements 2 and Mexique Investissements Director of GDF International, COGAC, Gas Del Sur, Gaz Métro Inc., GDF Québec, MEG International, Noverco Inc., GDF Energy Inc. and MEG Holdings US Corporation Member of the supervisory board of Savelys Permanent Representative of GDF International and of COGAC	
Philippe Jeunet	**Senior Vice President and Chief Financial Officer**	52	Chief Executive Officer of GDF Berliner Investissements Chairman of Banque Solfea Director of COGAC, Gaselys, GDF International, GRT Gaz, GDF Production Investissements, SFIG and SEGEO Member of the supervisory boards of Gasag and MEGAL GmbH Permanent Representative of COGAC Member of the management committee of Cofathec	Director of Technip, SFIH, Villages, Vêtements Hertz and SA Jeunet
Jean-Pierre Piollat	**Director of Customer Relations**	55	Director of COGAC and Climespace Member of the management committee of Cofathec Member of the compensation committee of Banque Solfea Director of Banque Solfea and shareholder member of AFG	
Raphaële Rabatel	**Senior Vice President of Communications**	43	-	
Philippe Saimpert	**Senior Vice President of Human Resources**	52	-	Director of SAFIDI (EDF Group)

Detailed information concerning the background and business experience of the members of the Company's senior management and executive committee

Jean-François Cirelli, 47, has a degree from the *Institut d'Etudes Politiques* of Paris and the *École Nationale d'Administration* in addition to a law degree. From 1985 to 1995, he worked at the Treasury Department of the Ministry of Economy and Finances before becoming technical adviser to the President of the French Republic from 1995 to 1997, and then economic adviser from 1997 to 2002. In 2002, he was appointed assistant director in the office of the Prime Minister, Jean-Pierre Raffarin, and was responsible for economic, industrial and social matters. He has been the Chairman and Chief Executive Officer of Gaz de France since September 2004.

Yves Colliou, 60, is an engineer graduated from the *École Catholique des Arts et Métiers*. In 1974, he joined EDF GDF Services (now EGD) in the Mulhouse center. In 1978, he joined the commercial department and then the supply branch of Gaz de France. Since 1985, he has held various positions, in particular in the area of human resources, and operational duties at EDF GDF Services. In 1996, he was appointed head of the department of the President and the general management of EDF before becoming, in 1998, head of EDF GDF Services. In January 2002, Yves Colliou joined the general management of Gaz de France, as a director, before he was appointed general management's Deputy Vice President in June 2002. He has been Chief Operating Officer of Gaz de France's Infrastructures division, Support Activities and Human Resources since December 2004.

Jean-Marie Dauger, 54, has a degree from the *École des Hautes Études Commerciales* – HEC. After starting his career at Péchiney, banque Trad (Lebanon) and in the financial department of EDF, Jean-Marie Dauger joined the Group in 1978. First, he held various positions in the production and in transmission divisions and in services related to movement of gas. In 1985, he joined the gas supply division, which he managed from 1991 to 1995. In 1995, he became vice-president of the strategy and management division. In 2000, Jean-Marie Dauger was appointed senior management's Deputy Vice President. In December 2004 he was appointed Chief Operating Officer for the Supply, Production and Trading of Energy, as well International activities.

Stéphane Brimont, 37, has a degree from the *École Polytechnique* and the *École Nationale des Ponts et Chaussées*. After first working at Crédit Lyonnais in New York, he joined the administration of the Vaucluse regional equipment department as regional head of urbanism and construction. In 1997, he joined the budget management for the Ministry of Economy, Finance and Industry where he held various positions, in particular: head of "research, postal services and telecommunications", and head of "transportation". In May 2002, he joined the office of the Prime Minister, Jean-Pierre Raffarin, where he was adviser for budgetary matters. He joined the Group in September 2004 and was appointed Senior Vice President of Strategy in December 2004.

Pierre Clavel, 49, has a degree from the *École Polytechnique* and the *École des Mines* of Paris. He started his career in engineering, gas plant and thermal production project management within the Gaz de France and EDF groups. In 1997, he was appointed Vice President of Gaz de France's transmission division. In 1999, he joined EDF GDF Services as Vice President of a group of centers in the Centre Auvergne and Limousin region. In 2001, he was appointed Vice President of the Group's natural gas supplies, then, in 2002, Vice President (Designate) of the Purchase and Sale of Energy division of Gaz de France in charge of the Group's natural gas supplies. He was appointed Senior Vice President of the International division in December 2004.

Emmanuel Hedde, 58, has an engineering degree from the *Institut Supérieur d'Électronique de Paris* and the *Institut de Contrôle de Gestion*. He began his career as an engineer in the information industry for the engineering company SOFRESID. In 1973, he became a vice president of a mechanics and surface treatment factory at *Société Nouvelle de Métallisation*, then he joined *Crédit d'Equipement des Petites et Moyennes Entreprises* ("CEPME") in 1980 and became deputy vice president of the *Agence Centrale* in 1990. He joined Gaz de France in 1993 as Deputy Vice President of services for subsidiaries and equity interests in the financial and legal services department. He then became director of this service before being appointed deputy director of the financial division in 2000. He was appointed Vice President of large projects and then, in December 2004, Vice President of the Equity Acquisitions division. He is also manager of the Development of Shareholding.

Philippe Jeunet, 52, has a degree from the *Institut d'Études Politiques* of Paris and a law degree. Before joining Gaz de France, he spent most of his career within the CEPME Group, where he exercised various duties in the area of industrial and tourist company finance areas. He ran two venture capital companies, Avenir Tourisme and Promotour Investissement. From 1984 to 1986, he was a *rapporteur* at the *Comité interministériel de restructuration industrielle* (CIRI) and the *Bureau des financements industriels* of the Treasury division. He joined Gaz de France in 1991 as Deputy Vice President of the Financial and Legal Services Department in charge of subsidiaries and equity interests. He successively held within the Group the positions of Vice President of supplies and gas projects (1995-1998) and Vice President of international development until 2000. Since May 2000, he has been Senior Vice President and Chief Financial Officer of Gaz de France.

Jean-Pierre Piollat, 55, has a degree from the *Institut National Polytechnique* of Grenoble. He has spent his entire career at Gaz de France and EDF, mainly in management, commercial development and marketing positions. In 1975, he joined the general management of EDF, then the commercial department of Gaz de France, where he exercised development and marketing duties. Beginning in 1984, he exercised various operational and functional duties within EDF GDF Services. Having managed the Seine-et-Marne center since 1991, he was appointed in 1995 to serve as Vice President of a group of centers in the Méditerranée and Ouest regions at EDF GDF Services. In 1997, he was Vice President of the strategic Marketing division, then in 2002 of the Market Development and Sales division of Gaz de France. In December 2004, he was appointed Director of the Group's "Customer Relations" division, which groups together the market development and sales division, the Services segment, and the marketing division of Gaz de France.

Raphaële Rabatel, 43, has a degree from the *Institut d'Études Politiques* of Paris and a degree in history. She has held various communication positions in several companies: Rhône Poulenc from 1988 to 1996, Paribas from 1996 to 2000, Caisse Nationale des Caisses d'Epargne in 2000 and Image Sept from 2000 to 2002. As of March 2002, she was Vice President of communications for the JCDecaux group, responsible for external and internal communications. She has been Senior Vice President of the Group's Communications division since January 2005.

Philippe Saimpert, 52, graduated from *École des Hautes Études Commerciales* – HEC and from 1978 held various positions within EDF GDF Services (now EGD) and the joint Personnel and Labor Relations division for Gaz de France and EDF. In 2002, he was appointed Vice President of the Group's Human Resources and then held the position of Vice President (Designate) of EGD from April 2004. He has been Senior Vice President of Human Resources for the Group since December 2004.

Organization of operations

Since the end of 2004, Gaz de France is organized into 4 operational branches:

- **Yves Colliou**, Chief Operating Officer for the Infrastructures division;
- **Jean-Marie Dauger**, Chief Operating Officer for the Energy Supply and Production division;
- **Jean-Pierre Piollat**, Senior Vice President of Customer Relations; and
- **Pierre Clavel**, Senior Vice President of the International division.

14.2. Conflicts of interest of the Administrative Bodies and Senior Management

Conflicts of Interest

To the Company's knowledge there is no conflict of interest between the duties of the members of the Board of Directors and the Chief Operating Officers with respect to the Company and their private interests or other duties, it being noted that Philippe Lemoine is president of the Board of Directors of Cofinoga, a partner company with Gaz de France within Banque Solfea, Denis Samuel-Lajeunesse is director of Alstom, a company that has business relations with Gaz de France, Guy Dollé is president of the senior management of Arcelor, and the Arcelor group has business arrangements with Gaz de France and Yves Ledoux is a member of the SMEDAR office (French acronym for Mixed Union for the Elimination of Waste in the Rouen Arrondissement), which is a partner with Gaz de France in the context of a research project.

Arrangement or agreements concerning the designation of members of the Board of Directors or the Chief Operating Officers.

No arrangement or agreement was concluded with the main shareholders, customers, suppliers or others under which one of the members of the Board of Directors or Chief Operating Officer was selected in that capacity.

Restrictions on the sale of shares

The Company's shares that were potentially acquired by the chief operating officers and the directors representing the employees upon the initial public offering of the Company's share capital which occurred on July 7, 2005, in the context of the Employee Offering (described in the *note d'opération* filled with the AMF on June 22, 2005) are likely to be subject to restrictions concerning their sale. If applicable, the shares acquired may be untransferable during certain periods the length of which is a function of the formula chosen from among the five formulas offered to the employees in the context of the Employee Offering.

15

COMPENSATION AND BENEFITS

15.1. Interest and compensation for the Board of Directors, the Chairman and Chief Executive Officer and the Chief Operating Officers

15.1.1. Board of Directors

- **The representatives of the French State** (Paul Marie Chavanne, Christian Frémont, Clara Gaymard, Jacques Rapoport, Denis Samuel-Lajeunesse and Florence Tordjman): no form of compensation was paid in fiscal year 2005, including attendance fees or otherwise, by the Company and by companies controlled by the Company.
- **The directors appointed by the employees** (Olivier Barrault, Eric Buttazzoni, Bernard Calbrix, Jean-François Lejeune, Yves Ledoux and Daniel Rouvery): no form of compensation was paid, including attendance fees or otherwise, by the Company or by the companies controlled by the Company for their exercise of their duties as directors in fiscal year 2005.
- **The directors appointed by the general shareholders' meeting** other than the Chairman of the Board of Directors (Jean-Louis Beffa, Aldo Cardoso, Guy Dollé, Peter Lehmann and Philippe Lemoine) receive attendance fees.

The general shareholders' meeting sets the global amount of attendance fees, based on the Board of Directors' proposal. The annual shareholders' meeting held March 29, 2005 fixed the total amount of attendance fees to cover the period from the date they were nominated, namely November 22, 2004, to December 31, 2004 in the amount of €20,560.89. These directors were paid €2,000 for each Board of Directors meeting and €1,250 for each committee meeting.

For 2005, the Board of Directors will propose to the general shareholders' meeting to be held on May 24, 2006 a global amount of €105,250, based on the following criteria: €2,000 for each Board of Directors meeting and €1,250 for each committee meeting, except for the president of the audit and financial statements committee, Aldo Cardoso, who will receive €2,000 for each meeting of that committee. Under these criteria the breakdown of the attendance fees among the directors appointed by the general shareholders' meeting for the 2005 fiscal year will be the following:

Name	Attendance fees
Jean-Louis Beffa	€12,000
Aldo Cardoso	€42,250
Guy Dollé	€12,000
Philippe Lemoine	€20,000
Peter Lehmann	€19,000
Total	€105,250

These directors will not receive any other compensation or payments in-kind from the Company or the companies controlled by the Company for their directorships in fiscal year 2005.

15.1.2. Chairman and Chief Executive Officer and the Chief Operating Officers

The table below shows the gross amounts before taxes of the compensation paid and payments in-kind given to the Chairman and Chief Executive Officer and the Chief Operating Officers of the Company in 2005:

Name and position	Fixed compensation	Variable compensation	Exceptional compensation	In-kind payments	Total
Jean-François Cirelli Chairman and Chief Executive Officer	€304,748	€35,525	€0	€16,985	€357,257
Yves Colliou Chief Operating Officer	€273,284	€67,610	€0	€20,057	€360,951
Jean-Marie Dauger Chief Operating Officer	€274,192	€79,512	€15,000	€16,893	€385,597

For comparative purposes, the net amounts before taxes of compensation and payments in-kind granted to the Chairman and Chief Executive Officer and the Chief Operating Officers of the Company in 2004 was as follows:

- Jean-François Cirelli: €78,043 (Jean-François Cirelli having been appointed Chairman of Gaz de France's EPIC Board of Directors by decree dated September 15, 2004 and Chairman of the Board of Directors of Gaz de France by decree on November 24, 2004, this amount corresponds to compensation and payments in-kind for the period September 15 to December 31, 2004;
- Yves Colliou: €251,530;
- Jean-Marie Dauger: €238,589.

Variable compensation paid in 2005 to Jean-François Cirelli was set at flat rate for the fulfillment of his term as Chairman of the Board of Directors for the September 15 to December 31, 2004 period. The variable annual compensation that he will receive as from 2006 will be capped at 40% of the amount of his fixed compensation and will be calculated 70% based on net revenues, EBITDA and change in the Group's productivity and 30% based on qualitative criteria.

Variable compensation paid to Yves Colliou and Jean-Marie Dauger is capped at 30% of the amount of fixed compensation before taxes and is calculated based on the Group's financial results and on those of their respective branches, as described in Paragraph 14.1.2 – "Senior Management, executive committee and organization of operations"

The Chairman and the Chief Operating Officers have not received any compensation or payment in-kind from companies controlled by the Company as defined in Article 233-16 of the Commercial Code. They do not benefit from any special retirement program and have not received any signing bonus, nor will they receive a departure bonus.

15.2. Total amount set aside for the payment of pensions, retirement benefits and other benefits

Information concerning the equity participation held by the members of the Board of Directors and the Chief Operating Officers in the share capital of the Company and existing stock options appears in Paragraph 17.2 – "Equity interests and stock options of the directors and the Chief Operating Officers."

With respect to the amounts set aside by the Company for the payment of pensions, retirement benefits and other benefits, see paragraph 20.1.1.1 "Consolidated accounts for the year ended December 31, 2005 under IFRS standards/Notes/Note 30.2."

16

BOARD PRACTICES

16.1. Terms of the members of the Administrative Bodies

The term of the current members of the Board of Directors ends November 22, 2009.

The dates of the first appointment or election, as well as the dates of the beginning of the current terms of each of the members of the Board of Directors and of each of the Chief Operating Officers is presented in paragraph 14.1 – "Composition of administrative and management bodies."

16.2. Information concerning the service contracts between the members of the Board of Directors and Senior Management and the Company or its affiliates

To the Company's knowledge, there is no service contract between the members of the board of directors or the Chief Operating Officers and the Company or any of its affiliates.

The six directors representing the employees and the two Chief Operating Officers are connected to the Company through work contracts.

16.3. Activities of the Board of Directors

The Board of Directors' activities are governed by French laws and regulations, it's the Company's *statuts* (by-laws) and by the Board of Directors' "*Réglement Intérieur*" or "**Internal Regulations** [1]." which were adopted by the Board on December 17, 2004. These Internal Regulations describe the responsibilities of the Board of Directors and its members as well as the operation of the Board of Directors and its committees, including a code (*Charte de l'administrateur*) that governs the behavior of its directors.

The internal regulations are subject to review, as necessary, by the Board of Directors. Moreover, each director undertakes to make any recommendation that seemed necessary to improve the operation of the board, particularly the time of a scheduled review of the regulations and agrees to accept the judgment of the Board of Directors in the evaluation of the his/her own behavior as director.

Communication of information to the directors

Under the terms of the Internal Regulations, except if otherwise necessary, the chairman of the Board of Directors will send to the directors at least five full working days before the holding of each meeting all information and documents that will be necessary to the performance of their duties as well as, to the extent possible, a draft of the minutes from the preceding meeting.

The Internal Regulations require the Chairman of the Board of Directors to communicate regularly to the Board (and between board meetings, if necessary) all relevant information concerning the Company, including press releases and financial information. The Chairman of the Board of Directors will regularly make a presentation concerning the status of major, on-going projects. Each director may receive any training that is necessary to properly perform his or her duties as a director, or if applicable, as a member of a committee, and which is either provided by the company or approved by it.

In addition, directors may, in order to receive all information necessary, meet with the principal operational officers of the Company or the Group independently from the Chairman and senior management, to discuss the topics included on the Board of Directors' agenda. Their questions must be responded to as soon as possible.

(1) *The Internal Regulations may be modified at any time by the Board of Directors.*

Functions of the Board of Directors

The Board must consider the major strategic, economic, financial or technological objectives of the Company's and the Group's activities, before voting on decisions relating to them.

In addition to the matters that the Board of Directors is legally required to consider, the Board agenda must also include — after study, if applicable, by the competent committees — and vote on certain types of material transactions, including contracts with the French State relating to the Group's public service obligations, certain acquisitions or sales of equity interests, certain long-term energy purchase contracts, certain industrial investments and certain financial transactions.

In addition the Chairman must include on the Board's agenda:

- at least twice a year, a review of the financial and cash flow situation, as well as the Company's and the Group's commitments;
- once a year, and as necessary (especially in the case of financial difficulties), disclosure relating to the situation of the Company's principal subsidiaries and equity interests;
- once a year, an examination of the policy for purchases outside of gas as well as gas sales transactions that exceed an annual materiality threshold;
- once a year, an examination of the energy supply policy.

The Internal Regulations also provide that the Chairman must provide to the directors at least every six months disclosure relating to the most significant contracts awarded during the prior period.

Board of Directors' meetings

The Board of Directors meets as often as the Company's business needs so, and at least eight times a year, including at least once each quarter. The Chairman sets the agenda for the meetings.

The Board of Directors met ten times in 2005, with an average attendance by its member of 84.5%.

During 2005 the Board of Directors examined the following topics:

- strategy;
- the budget;
- approval of the financial statements and proposal for the allocation of revenues;
- division of attendance fees;
- semi-annual financial statements;
- application of IFRS standards;
- sureties, financial backing and guarantees;
- increase in share capital in the context of the initial public offering of shares and stock exchange listing;
- Group's energy supply policy;
- as well as a certain number of transactions tied to investments and important undertakings in the context of its development.

The Internal Regulations provide for the appointment by the Board of Directors, upon the nomination of the Chairman, of a Secretary to the Board of Directors that may not be a director.

16.4. Director code of behavior *(charte de l'administrateur)*

In the context of the Internal Regulations, the Board of Directors adopted a code (*Charte de l'administrateur*) that governs the behavior of its directors. This code in particular provides:

- Directors must act in all circumstances in the business interest of the Company, it being understood that the ultimate criteria in the taking of a decision must be the Company's long-term interest, which will assure its continuation and development. Directors must, regardless of their designation, consider themselves representatives of all the shareholders.
- Directors will take full responsibility for their rights and obligations. They must know and respect the legal and regulatory provisions relating to their duties, as well as the Company's own rules that come from its by-laws and the Board of Directors' Internal Regulations.
- Directors will exercise their duties with independence, loyalty and professionalism.
- Directors will ensure that they maintain in all circumstances the independence of their judgments, decisions and actions. It is forbidden for them to be influenced by anything outside of the business interest which they have the duty to defend. They have a duty to inform the Board of Directors of anything to their knowledge that may effect the interests of the company. They have a duty to clearly express their questions and opinions and to endeavor to convince the Board of Directors of the relevance of their positions. In case of disagreement, they will ensure that such disagreements are explicitly reduced to writing in the minutes describing the deliberations.
- Directors will endeavor to avoid all conflicts that may exist between their personal and financial interests and those of the Company. They will inform the Board of Directors of any conflicts in which they could be implicated. For situations in which a conflict of interest cannot be avoided, such director must abstain from deliberations as well as any decision relating the subjects concerned.

- Directors may not take any action that may harm the Company's interests and must act in good faith in all circumstances. They must keep secret the disclosures and debates in which they participate and respect the confidential character of the information given such as that by the Chairman of the Board of Directors. They are forbidden from using privileged information to which they have access for their personal benefit or for the profit of anyone else. In particular, if a director holds non-public information relating to the Company, such director must abstain from using such information to complete or to complete through a third-party any transaction with respect to the Company's securities.
- Directors undertake to dedicate the time and attention necessary to their duties. They will stay abreast of the fields and the specifics of the company, its issues and values, including by questioning principal officers. They will participate in meetings of the Board of Directors with attentiveness and diligence. They will endeavor to participate in at least one of the Board of Directors' special committees. They will attend general shareholders' meetings. They will endeavor to obtain in an appropriate amount of time the elements that they view as information indispensable to the Board of Directors' deliberations. They undertake to update the information that is useful to them and have the right to request training from the Company, which are necessary for the proper exercise of their duties.
- Directors will contribute to the collegiality and efficiency of the Board of Directors' and its special committees. They will make all recommendations that would improve the way in which the Board of Directors functions, particularly at the time of the Board's periodic evaluation. They will accept the evaluation of their own actions by the Board of Directors. They undertake, along with all the member of the Board of Directors, to ensure that their supervisory duties are accomplished with efficiency and without any obstacles. In particular they will ensure that the Company puts in place procedures allowing to control compliance with the laws and regulations, in both substance and spirit. They will ensure that all the positions adopted by the Board of Directors will, without exception, be the subject of formal decisions, which are well-founded and correctly included in the Board of Directors' minutes.

16.5. Committees of the Board of Directors

Gaz de France's by-laws permit the Board of Directors to establish committees, notably an audit and financial statements committee and a strategy committee, to deliberate such issues as the Company or its Chairman may decide.

The Internal Regulations of the Board of Directors, as adopted by the Board of Directors following its meeting on October 17, 2004, state that the Board of Directors may establish permanent or temporary committees, intended to facilitate the proper functioning of the Board of Directors to aid the efficient preparation of its decisions. The Board of Directors, on the recommendation of and in coordination with the Chairman, designate the members and chairman of the committees, taking into consideration the capabilities, experience and availability of the directors which they wish to appoint and respecting the equilibrium of the Board of Directors. The annual report of the Company includes disclosure relating to the activities of each of its committees over the course of the past year.

The mission of a permanent or temporary committee consists in studying the subjects and projects that the Board of Directors or the Chairman refer to it, to prepare the work and the decisions of the Board of Directors relating to these subjects and projects, as well as reporting its conclusions to the Board of Directors in the form of reports, propositions, opinions, information or recommendations. The committees and the performance of their duties is the responsibility of the Board of Directors.

In principle the length of the term of the members of the permanent committees is two fiscal years, unless the remainder of the director's term on the Board of Directors is too short to complete the entire period two year period; in that case the director's term on the committee will be as long as its term on the Board of Directors. The terms of the members of permanent committees are renewable subject to the maintenance of the quality of the people concerned. The renewal of the terms of the members of permanent committees is done at the Board of Directors' meeting at which the annual financial statements are approved.

The permanent committees were established on December 17, 2004, when the Internal Regulations were adopted, with the composition, functions and operating methods described below.

Each committee makes note of all its work at it's the next meeting of the Board of Directors, which includes disclosures, opinions, proposals, or recommendations as written in the minutes of its meetings. No committee may consider issues on its own initiative which would go beyond the limits of its stated functions. The committees have no power to make decisions.

16.5.1. Audit and financial statements committee *(Comité d'audit et des comptes)*

16.5.1.1. Composition and operation

The audit and financial statements committee, created December 17, 2004, is composed of the five following directors: Aldo Cardoso, who chairs the committee, Eric Buttazzoni, Denis Samuel-Lajeunesse, Paul-Marie Chavanne and Bernard Calbrix.

The audit and financial statements committee holds at least four meetings per year, two of which are for the examination of semi-annual and annual financial statements and one which is for the examination of the budget. The chairman of the committee proposes the agenda of the committee meetings. In 2005 the committee met nine times with an average level of attendance of 91% of its members. During the course of its meetings this committee considered, in particular, the following topics: the 2005 budget, the 2004 financial statements, draft annual report, draft business activities report and draft management report, the 2004 consolidated IFRS accounts, the drafting of the *Document de Base* for the initial public offering, the financial policy (2004 balance sheet and outlook for 2005-2006), 2004 financial results and outlook for the main subsidiaries and equity interests, risk management, 2004 audit report and 2005 audit program and the semi-annual financial statements.

Main participants in the audit and financial statements committee are Senior Management, the Finance Department, the Audit Department as well as the Company's independent statutory auditors. Hearings with the Finance Department may be held outside the presence of the Chairman of the Board of Directors. Hearings with the independent statutory auditors may be held outside the presence of all employees and managers of the Company. In order to perform its functions, the committee may use outside experts to the extent needed.

The Chairman of the Strategy and Investment Committee receives the agendas for the audit and financial statements committee and may attend those meetings.

16.5.1.2. Functions

Financial statements

The functions of the audit and financial statements committee with respect to this topic include:

- ensuring the relevance and permanence of the accounting methods adopted for the establishment of the consolidated or unconsolidated financial statements as well as the appropriate treatment at the Group level of significant transactions;
- undertaking an examination of the Company's main subsidiaries and equity interests once a year, or as needed (especially in case of financial difficulties);
- at the time of the approval of the financial statements, undertaking the required examination and giving its opinion on the drafts of the annual and 6-month consolidated and unconsolidated financial statements prepared by the Finance Department before they are presented to the Board of Directors. To do this, the committee has discussions with the independent statutory auditors, Senior Management and the Finance Department concerning in particular depreciation and amortization, provisions, treatment of goodwill, principles of consolidation and off-balance sheet commitments. They may examine all of the financial statements for the needs of specific transactions (contributions, mergers, market transactions, payment of interim dividends, etc.);
- staying informed of the Group's financial strategy and terms of major financial transactions;
- reviewing drafts of the annual business activities report and of the annual management report before their publication; and
- examining the scope of consolidation and the choice of principles for the consolidation of the Group's companies.

Risks

The functions of the audit and financial statements committee with respect to this topic include:

- examining risks and significant undertakings, in particular through the assessment of such risks.
- examining the risk management policy in all domains (especially the insurance policy, financial management and participation on the futures markets);
- undertaking an annual review of the Company's main subsidiaries.

Internal and external control, internal audit, Independent Statutory Auditors

The functions of the audit and financial statements committee with respect to this topic include:

- verifying that the internal procedures for collection and for controlling information guarantee their reliability and examining the Group's internal audit plan and the intervention plan of the independent statutory auditors;
- meeting with the managers in charge of the internal control and audit, giving its opinion on the organization of these services, taking into account work programs and receiving a summary of the internal audit activities of the Company and the Group as well as all the auditors' reports requested by the chairman of the committee;
- receiving regularly the report of the Group's external independent statutory auditors on the methods used for completing their work;
- making sure that the rules, principles and recommendations guaranteeing the independence of the independent statutory auditors are complied with;

- proposing to the Board of Directors, if applicable, a decision on any significant points of disagreement between the independent statutory auditors and Senior Management likely to arise in the course of the performance of their work;
- supervising the procedure for selecting or renewing (through bidding) the term of the independent statutory auditors by overseeing the selection of the "lowest responsible bidder", preparing an opinion on the fees sought for the execution of the legal control functions, preparing an opinion on the choice of the independent statutory auditors and making this recommendation to the Board of Directors; and
- making known the details of the all fees paid by the Company and the Group to the independent statutory auditors accounting firms and the networks of the auditors, ensuring that the amount of such fees or the portion of the revenues of the independent statutory auditors accounting firms and their networks which such fees represent are not of a nature that would compromise their independence.

Finance policy

The functions of the audit and financial statements committee with respect to this topic include:

- being informed by the Finance Department of the strategy and financial situation of Group, the methods and techniques used to define their financial policies;
- staying informed about the Company's main communications concerning its financial statements;
- examining the Company's budget; and
- examining all issues of a financial or accounting nature that are given to it by the Chairman of the Board of Directors or by the Board of Directors.

16.5.2. Strategy and investment committee

16.5.2.1. Composition and operation

The strategy and investment committee is composed of seven members: Jacques Rapoport who chairs the committee, Peter Lehmann, Florence Tordjman, Denis Samuel-Lajeunesse, Olivier Barrault, Daniel Rouvery and Jean-François Lejeune.

The strategy and investment committee holds meeting at least four times per year. The agenda of the meetings is proposed by the chairman of the committee. In 2005 the strategy and investment committee met five times with an average member attendance rate of 89%.

The committee addressed the following subjects during its meetings: the Isle of Grain LNG terminal in the United Kingdom, it's the Company's strategy and business plan, the Public Service Contract, it's the Company's plan to acquire the entirety of the share capital of CGST Save – Savelys, Gaz de France's policy for NGV, Gaz de France's electricity strategy and investment projects.

In order to complete its work, the strategy and investment committee may have meetings with the members of the management of the Company and the Group and use external experts, as necessary.

The chairman of the audit and financial statements receives the agenda of the strategy and investment committee and may attend its meetings.

16.5.2.2. Functions

The functions of the strategy and investment committee include:

- with respect to strategy, explaining to the Board of Directors its opinion on the major strategic objectives of the Company and the Group, in particular its industrial, commercial, social, research and development and sustainable development policies, the Group's Public Service Contract, as well as all other important strategic issues which the Board of Directors refers to it;
- with respect to investment, studying and providing its opinion to the Board of Directors on the issues that are submitted to it relating to the major transactions depending from the Board of Directors concerning external growth, disinvestments and the sale of companies, or the purchase or sale of equity interests, investments, the creation and modernization of industrial equipment and works on an annual or multi-year basis, as well as the major real estate projects of the Board of Directors.

16.6. Limitations on the powers of Senior Management

16.6.1. Decisions submitted for prior approval to the Board of Directors

Article 2.4 (c) of the Internal Regulations of the Company's Board of Directors, as adopted by the Board of Directors at its December 17, 2004 meeting, provides that "*beyond the issues reserved to the competence of the Board of Directors by the applicable legislative and regulatory provisions the following must be included in the agenda, after study, as applicable, by the competent committee, examinations and vote:*

1) contracts concluded with the French State relating to the goals and methods for the implementation of the Company's public service goals; thereafter the performance of these contracts is included once a year in the Board's agenda;

2) the Gaz de France Group's multi-annual strategic plan;

3) draft of the Company's annual budget;

4) projects relating to the acquisition, expansion or sale of equity interests or business activities, joint venture projects or the realization of contributions having important financial or strategic implications in which the Company or its Group grants an accommodation or accepts external accommodations, whenever its financial exposure per transaction (including acquired liabilities and off-the-balance-sheet obligations) for this type of transaction exceeds €100 million, before taxes, or its equivalent in foreign currency; for projects not related to the Company's strategy and for those not involving the energy sector, this threshold is lowered to €30 million per transaction, before taxes;

5) the Group's long-term energy projects for transactions in amounts greater than 10 billion kWh per year;

6) the Group's industrial investment projects or construction agreements for which the value is evaluated at more than €50 million per transaction, before taxes;

7) supply and services agreement projects (excluding the supply of energy) for which the amount is evaluated at more than €30 million per transaction, before taxes;

8) loan projects in the form of the issuance of securities or credit agreement concerning the Company and its subsidiaries, whenever the amount per transaction exceeds €100 million and does not fall into a category previously and duly authorized by the Board of Directors. At the same time this ceiling (or this provision) does not apply to the refinancing of existing accommodations;

9) acquisition, sale or exchange projects by the company in real estate or real estate rights as well as real estate leasing projects for and amount of more than €25 million per transaction, before taxes;

10) the total and per transaction amount of sureties, financial backings and guarantees, that the Board authorizes for each year for the Chairman and Chief Executive Officer.

16.6.2. Limitations on the power of the Chief Operating Officers

The Board of Directors at its January 26, 2005 meeting decided to harmonize the powers of the Chief Operating Officers with the provisions cited above of the Board of Directors' Internal Regulations by limiting its powers as follows:

"With respect to the areas for which Jean-Marie Dauger and Yves Colliou are responsible in their capacity as Chief Operating Officers, Jean-Marie Dauger and Yves Colliou may conclude all acts, contracts and agreements and commit Gaz de France to the extent that per transaction exposure is set at €100 million, except for the following specific matters for which their powers will be limited to:

- *€30 million before taxes or its equivalent in foreign currency for projects relating to the acquisition, expansion or sale of equity interests or business activities, joint venture projects or the realization of contributions having important financial or strategic implications in which the Gaz de France or its Group grants an accommodation or accepts external accommodations (including acquired liabilities and off-the-balance-sheet obligations) whenever these projects are not related to the Company's strategy or do not involve the energy sector;*
- *10 billion kWh per year for the Group's long-term energy purchase projects;*
- *€50 million before taxes for the Group's industrial investment or construction agreement projects;*
- *€30 million before taxes for supply and services agreement projects (excluding the supply of energy)*
- *€25 million before taxes for acquisition, sale or exchange projects by Gaz de France in real estate or real estate rights as well as real estate leasing projects."*

16.7. Internal control report

In accordance with the provisions of paragraph 6 of Article L. 225-37 of the French Commercial Code, the Chairman of the Board of Directors, has prepared an internal control report which will be presented to the general shareholders' meeting called on May 24, 2006 to approve the financial statements for the year ended December 31, 2005, as appears in Appendix C to this *document de référence*. The report of the independent statutory auditors on this report appears in Appendix D.

16.8. Statement concerning Corporate Governance

As of the date of registration of this *document de référence*, the Company complies with the requirements of France's corporate governance regime subject to certain terms which are specific to companies belonging to the public sector.

The Internal Regulations of the Company's Board of Directors that were adopted by it following its December 17, 2004 meeting, aim to guarantee the transparent functioning of the Board of Directors. The main provisions of the Internal Regulations are summarized in paragraph 16.3 – "Activities of the board of directors." The director code of behavior (*Charte de l'administrateur*), which is attached to the Internal Regulations, deals with independence, loyalty and the professionalism of directors; these main provisions are summarized in paragraph 16.4 – "Director code of behavior (*Charte de l'administrateur*)."

For the sake of transparency and public disclosure, the Company intends to act based on the recommendations of the report of the work group chaired by Daniel Bouton for the improvement of corporate governance, which presented its conclusions to the public on September 23, 2002, to the extent permitted by the legislative and regulatory provisions that are applicable to the Company, especially as relates to its belonging to the public sector. The application of the corporate governance rules, in compliance with said legislative and regulatory principles, is intended to prevent abusive control by the majority shareholder.

17 EMPLOYEES

The organization of human resources within the Group is divided between the Company, the French subsidiaries, among which, in the Services sector, are companies in the Cofathec group which has grown gradually over the last ten years and Savelys group, and the other foreign subsidiaries. The integration of these different companies into the Group's human resources varies in terms of how long each unit has been in the Group.

17.1. Human Resources – Employees

17.1.1. Group Employees

As of December 31, 2005, the Group had 52,958 employees, of which 64.22% were employed in France. These are pro rata figures for subsidiaries that are subject to proportional consolidation (see paragraph 17.1.2 – "Employees in France (Gaz de France and its French subsidiaries)). Among these employees, 21,902 (or 41.4% of the total number of the Group's employees), were working as of December 31, 2005, for Gaz de France or in divisions operated jointly with EDF; 31,056 employees were working in French and foreign subsidiaries.

The following table breaks down the Group's employees (As of December 31,) by segment for the past three years:

Segments	2003	2004	2005
Purchase and Sale of Energy	3,533	2,977	2,940
Exploration-Production	1,260	1,232	1,205
Services	8,146	8,124	12,545
Transmission and Storage - France	4,400	4,413	4,383
Distribution France	14,392	15,345	15,110
Transmission and Distribution - International	3,937	3,786	14,479
Other, including common functions	2,433	2,374	2,296
TOTAL	**38,101**	**38,251**	**52,958**

2005 marked a turning point in the composition of the employees of the Group: for the first time the number of employees in subsidiaries, 31,056, is greater than those in the Company. Approximately 61.02% of the employees of subsidiaries work outside of France.

The increase in the Group's employees by 38.5% in 2005 explains itself principally by the completion of external growth transactions: the acquisition of Distrigaz Sud in Romania (10,696 employees), the acquisition of an equity interest in the share capital of the Belgian company SPE (248 employees) and the integration of the Savelys group (4,150 employees).

The table below shows the Group's employees from December 31, 2005 by domain:

Employees	Exploration-Production	Purchase and Sale of Energy	Services	Transmission and Storage-France	Distribution France	Transmission and Distribution-International	Other	Total
Company	118	2,695		1,723	15,110		2,256	21,902
Subsidiaries	1,087	245	12,545	2,660		14,479	40	31,056
TOTAL	**1,205**	**2,940**	**12,545**	**4,383**	**15,110**	**14,479**	**2,296**	**52,958**

The Infrastructures division (Transmission and Storage – France, Distribution France, Transmission and Distribution – International) accounts for the largest portion (64%) of the Group's total employees.

17.1.2. Employees in France (Gaz de France and its French subsidiaries)

As of December 31, 2005, 34,008 of the Group's employees worked in France. About 64.4% were employed by Gaz de France, with the Group's share of all employees decreasing consistently over the past twenty years. The number of Gaz de France employees in France decreased by approximately 1% in 2005.

As of January 1, 2005, some Gaz de France employees were transferred to its transmission system management subsidiary, GRTgaz. These transfers involved around 2,611 employees, who retain the status of the personnel in the electric and gas industries ("IEG").

The categories of employees in Gaz de France reflect the technical nature of its employees' professions, with 22% managers (cadres), 50.4% supervisors and 27.6% white and blue collar workers.

Most of the 15,110 employees in the Distribution France division are part of the division that is jointly managed by EDF and Gaz de France (EGD) (see paragraph 6.1.3.2.2.2.3 – "Organization of the distributor"). This arrangement is the result of the consolidation of around 8,000 employees working exclusively in the gas domain (each counts as 1) and of the gas portion of the activity (around 25%) of around 23,000 jointly managed employees performing combined activities. At the end of 2004 there were 57,553 EGD employees.[1]

17.1.3. Employees outside France (foreign subsidiaries)

As of December 31, 2005, 18,950 of the Group's employees worked outside of France, a figure that has been constantly rising from 1999 to 2005. Between 2004 and 2005, this figure has more than doubled due to the acquisition and integration of new companies in Romania and Belgium.

The calculation of the number of employees was made in terms of consolidated staff, so that the actual number of employees in each of the Group's subsidiaries was weighted in terms of the percentage of financial consolidation of the subsidiary.

The following table shows the breakdown of the Group's employees outside of France by country and by segment as of December 31, 2005:

Personnel	Exploration-Production	Purchase and Sale of Energy	Services	Transmission and Distribution-International	Total
Germany	831	-	-	501	1,332
Benelux countries	194	-	139	248	581
Canada	-	-	-	32	32
Hungary	-	-	-	1,188	1,188
Italy	-	-	2,265	-	2,265
Mexico	-	-	-	394	394
Monaco	-	-	29	-	29
Norway	20	-	-	-	20
Romania	-	-	-	10,696	10,696
United Kingdom	42	183	664	-	889
Slovakia	-	-	-	1,222	1,222
Switzerland	-	-	104	-	104
Uruguay	-	-	-	198	198
TOTAL	**1,087**	**183**	**3,201**	**14,479**	**18,950**

(1) *The number of employees working in the joint structures of EDF and Gaz de France at the end of 2005 was 60,837 (of which 57,553 were at EGD).*

17.2. Equity interests and stock options of Directors and Chief Operating Officers

The table below shows the number of Company shares that, to the Company's knowledge, were held by directors and officers as of December 31, 2005.

Directors and officers	Title	Number of shares as of 12/31/2005
Jean-François Cirelli	Chairman and Chief Executive Officer Director appointed by the general shareholders' meeting	4,044
Jean-Louis Beffa	Director appointed by the general shareholders' meeting	4,000
Aldo Cardoso	Director appointed by the general shareholders' meeting	44
Guy Dollé	Director appointed by the general shareholders' meeting	76
Peter Lehman	Director appointed by the general shareholders' meeting	600
Philippe Lemoine	Director appointed by the general shareholders' meeting	575
Paul-Marie Chavanne	Director appointed by the French State	-
Christian Frémont	Director appointed by the French State	0
Clara Gaymard	Director appointed by the French State	0
Jacques Rapoport	Director appointed by the French State	0
Denis Samuel-Lajeunesse	Director appointed by the French State	0
Florence Tordjman	Director appointed by the French State	44
Olivier Barrault	Director appointed by the employees	0
Eric Buttazzoni	Director appointed by the employees	0
Bernard Calbrix	Director appointed by the employees	FCPE shares corresponding to 77 Company shares
Jean-François Lejeune	Director appointed by the employees	-
Yves Ledoux	Director appointed by the employees	0
Daniel Rouvery	Director appointed by the employees	FCPE shares corresponding to 698 Company shares
Jean-Marie Dauger	Chief Operating Officer	2,418
Yves Colliou	Chief Operating Officer	1,992

No director or officer holds subscription or share purchase options.

17.3. Profit-sharing, participation and employee share ownership

17.3.1. Profit-sharing

A three-year voluntary profit-sharing agreement covering the 2002-2004 period has made it possible to pay each employee of Gaz de France an average of €960 based on the Group's 2002 results €950 based on the Group's 2003 results, and €991 based on the Group's 2004 results (also paid to GRTgaz employees). A total of €24.2 million in profit-sharing payments were made in 2004, representing 3.26% of overall payroll costs.

An employee's share of profits is divided into three parts, respectively calculated at the Group's level (EBITDA divided by revenues), at the level of groups of entities and at the local level, in order to take into account the specific results linked to the different areas of business. Joint Gaz de France and EDF employees receive a share of the profits based on the percentage of their activities devoted to each of the two companies, determined through an allocation formula. Employees can choose either to receive the profit-sharing payment, invest it in Gaz de France's corporate savings plan ("PEE") or put it into a time savings account that is subject to the same terms and conditions as those of the corporate savings plan.

A new agreement was concluded June 3, 2005 for Gaz de France for the 2005-2007 period, which is based on two levels of criteria: criteria analyzed at the level of the company (EBO/CA and respect of the emission quotas for CO2) and criteria analyzed at a decentralized level (5 to 6 criteria at the segment level or at the level of the division to which the employee belongs). The ceiling was increased to 3.7% of gross salary.

The employee savings plan was changed under an agreement signed with the unions on November 29, 2004 and applicable as of February 1, 2005. The Company's employees can make payments on an individual basis or make profit-sharing payments into their corporate savings plan. The employees' profit-sharing payments are 100%-matched, while deposits made by individuals are 60%-matched for the first €610 and are 35%-matched for the next €610, subject to a total annual limit per employee. These matching provisions are applicable for a period of three years ending December 31, 2007.

17.3.2. Participation

As of the date of this *document de référence*, Gaz de France had not set up a profit participation system, since Gaz de France was not on the list of state-owned companies to which mandatory employee profit-sharing applied.

17.3.3. Employee shareholders

At the time of the initial public offering of share capital in 2005, Gaz de France offered to it's the Group's employees and former employees the opportunity to become shareholders. Close to 68,906 of them became shareholders, benefiting from financial incentives permitted under the Frenc hLaw dated 1986, the French Labor Code and the French law dated August 9, 2004. Following this transaction, they held 2.3% of the Company's shares.

The Group has also put in place a group savings plan (known by the French acronym PEG) as part of an indefinite-term agreement signed with the unions on February 22, 2005, which is opened to all French subsidiaries in which the Group holds more than 50% of the share capital.

An employee in France can choose between five different formulas, described in the *note d'opération* filed with the AMF on June 22, 2005, including a discount on the purchase price, contribution by the company, free shares, differed payment, assuming responsibility for the costs of managing the securities or the implementation of a financial mechanism minimizing the risk incurred (multiplier effect). All of the provisions allowed a significant decrease in the acquisition price of the shares in exchange for blockage of the securities for longer or shorter periods. (See also paragraph 21.1.7.2.2 – "Grant of free shares in the context of the Employee Offering").

This information was the subject of very significant communications made in various forms so that each person entitled to the offer is informed.

17.4. Organization of the Group's labor

17.4.1. Labor policy applicable to the Group

The Group's labor policy cannot be dissociated from its industrial plans. Its implementation must mobilize all of the Group's employees and partners, each of which must be associated with and benefit from it. One of the main prerequisites for the success of the industrial and labor plan lies in the Group's capacity to motivate its employees, through its human resources practices and labor policies, to upgrade their working skills, to prepare them for changes in their profession and to develop their sense of belonging to the Group. This important policy must be developed over time, in continued collaboration with all of the Group's employee representatives.

The actions and projects it has undertaken implement these goals.

Upgrading of employment skills

Gaz de France and its subsidiaries in which it holds a stake of more than 50% of the capital, have established a system to continue to optimize skills in terms of present and future needs. It was deployed in 2005 and pursued in 2006. This system rests on the following three "Head of Group" processes:

- informing management about changes in jobs and job skills: forward-looking work is carried out for each of the Group's large areas of activity. A reference person is put in charge of conducting this work in each of these areas (changes in business activities, human resources, needs/differences in competency) and propose action plans to management to cover these needs and future issues;
- managing skills consistent with the Group's objectives: this process permits the integration in the management's annual dialogue of human resources mangement aspects, taking into account the changes in the business activities in each area; and
- ensuring the maintenance of "key Group skills": this relates to the identification of the Group's key competencies and the implementation of appropriate management measures for them to ensure that they are available to Gaz de France both now and in the future.

Preparation for changes in skills and business lines

A program for the professionalization of the staff (entitled "Cap competencies") has been in place since 2003 and is geared for the Group's managers and executives. The objectives of this program are:

- facilitating and accompanying changes in the Group (such as the transformation of Gaz de France into a stock corporation, reorganization measures linked to the opening of markets in France, the listing of Gaz de France's shares, etc.);
- integrating and motivating the Group's newly arrived managers;
- motivating and securing the loyalty of current and future managers;
- creating a Group management culture and a common understanding of current or coming changes.

In 2005 more than 1,450 managers (cadres) at all levels (from newly hired managers to executives) participated in the Cap competencies since its deployment in the following areas: knowledge of the Group and of its industrial and labor plan, support/guidance of changes and the Group's management culture, and the development of the business skills and self-development.

The motivation of employees and the sense of belonging to the Group

An initiative was begun in 2003 together with French trade union organizations and including the European Enterprise Committee. It led to the signing of a "declaration of common intent" in June 2004 by the five French unions in which the signatories expressed their common desire to implement advances in labor policies.

The Group's goal is to have the best economic, labor and environmental practices in all areas of the Group's involvement, in order to ensure its durability and its growth.

The Group and the French trade unions shared objective is to create a Group-wide standard policy for human resources practices to apply to all entities controlled by the Group. This standard policy must take into account the diversity of national cultures and labor laws, respect the local context and integrate the subsidiarity of the management and labor relations of each entity.

In the context of this objective, the Chief executive officer signed on November 22, 2005 a Diversity Charter under which Gaz de France commits to develop its diversity and fight against all forms of discrimination.

This charter is also integrated with the sustainable development policy with respect to equal opportunity and completes the undertakings already made: Worldwide Pact, WBCSD (World Business Council for Sustainable Development), a professional equality agreement signed by the Company in 2004.

Preparation of a Group labor-reporting program

Designed in collaboration with the Business Units, the subsidiaries, the management control division and the consolidated accounting department, this unique Reporting program for the Group, guided by the Group's Human Resources Management is in process of preparation, to be implemented in 2006.

Based on the Group's scope of consolidation that corresponds to the entities controlled by the Group in the financial sense of consolidation, it will permit a global vision of the Group's Human Resources, favor internal cohesion and the development of tool for measuring the Group's social and societal performance.

17.4.2. Group Employees within Gaz de France (in France)

17.4.2.1. IEG branch personnel

21,797 of the Company's employees as of December 31, 2005, benefit from a special status: the IEG branch personnel status. 2,654 employees of GRTgaz, as of December 31, 2005, also benefit from this status. The IEG branch personnel statute was created by French Decree N°. 46-1541 dated June 22, 1946.

In accordance with the provisions of Article L. 134-1 of the French Labor Code, the provisions of the status can be supplemented and their conditions of application may be determined by company agreements or pacts, within the limits specified by the status.

In addition, a French Law No. 2000-108 dated February 10, 2000 relating to the modernization and expansion of the public electricity service, expanded the conventional path in the electric and gas sectors by introducing branch collective bargaining agreements that must be complied with by all companies in the sector, including foreign companies, in order to conduct their activities in France. The IEG status is a true professional branch status.

IEG personnel receive special benefits, specifically:

- a special retirement system whose financing conditions have been amended effective January 1, 2005 (see paragraph 17.4.2.5 – "Retirement");
- a mandatory, supplementary health insurance program;
- special worker representation bodies in which the duties of union delegates and personnel delegates are combined;
- provisions concerning the mobility of employees among companies belonging to the IEG branch; and
- certain family benefits, including compensation in the event of marriage or the birth of a child, as well as provisions usually determined as part of collective bargaining agreements or at the corporate level, including provisions relating to compensation.

17.4.2.2. Hiring

In three years, from 1999 to 2001, Gaz de France hired 3,300 new employees (with IEG status), representing a turnover of 14% of the staff. During the same period, the number of departures (retirement, resignations, etc.) totaled 2,800. This rate of staff turnover, linked to the agreement of January 25, 1999 on the reduction of weekly working hours, has made it possible to reduce the age distribution by one year on average (the average age of employees is now 42), to increase the level of employee training and to provide new jobs with new skills recruited outside of Gaz de France.

Gaz de France hired 627 people in 2002 463 in 2003, and 694 in 2004. In 2005, 578 people were hired by Gaz de France and 62 by GRTgaz. Employees hired by the transmission and distribution activities represented 61% of the total, which make it possible to anticipate the loss of skilled employees linked to a large number of retirements.

The following is the age distribution of Gaz de France's employees by area of activity:

	Distribution	Commercial	Research	Supply and Trading	Exploration - Production	Transmission	Central entities	Total
% of employees	69%	10%	3%	2%	1%	8%	8%	100%
18-30	14%	13%	34%	27%	22%	15%	10%	14%
30-40	21%	37%	26%	40%	37%	28%	24%	25%
40-50	42%	34%	28%	22%	29%	41%	41%	40%
Over 50	23%	17%	12%	11%	13%	17%	25%	21%

17.4.2.3. Departures, dismissals and early retirement

The opportunities for early retirement linked to the agreement of January 1999 on the reduction of weekly working hours, have been eliminated since February 2003. Since then, the pace of new retirements has been weaker. In 2005, 744 employees permanently left Gaz de France and GRTgaz (retirements, resignations or dismissals and 33 deaths).

In general, the benefits related to IEG status and labor policies have enabled Gaz de France to earn the loyalty of its employees. In a survey conducted in 2004, 79% of the workers interviewed said they were satisfied or very satisfied with their work at Gaz de France (Source: Vve survey – "Vous et Votre Entreprise" – analysis of Gaz de France results).

17.4.2.4. Mandatory supplemental health insurance program

Within the gas and electricity industries, the health insurance program for current employees and retirees is mandatorily ensured by a special social security regime that offers:

- base services for the general program;
- supplemental services.

In the context of the regulations in effect until the beginning 2005, the IEG branch companies contributed to the financing of this regime equally with the insured persons (current and retired personnel).

Two regulatory provisions were passed in February 2005 to modify the financing of the regime and to update the contribution rates (French Decrees, No. 2005-126 and No. 2005-127 dated February 15, 2005).

These measures:

- ensured the financing of the supplementary illness program and the continuity of reimbursements to employees, retirees and their families;
- ended the participation of the enterprises in the financing of retirement portion; as a result they no longer have any undertaking in this regard upon the finalization of the 2004 accounts.

For a description of health care coverage, see paragraph 20.1.1.1 – "Consolidated financial statements as of December 31, 2005 under IFRS/Notes".

17.4.2.5. Retirement

A special IEG branch system

Following the electricity and gas nationalization French Law No. 46-628 dated April 8, 1946 the public authorities put in place the special retirement system that applies to all IEG companies.

The IEG Branch status, as established by French Decree No. 46-1541 dated June 22, 1946, fixed the conditions for retirement under this system. Companies are not entitled to modify the terms of the retirement system. In addition to servicing the pensions of IEG employees, this system also contributes to the financing of other retirement systems through compensation and overcompensation mechanisms.

The public authorities undertook the reform of the functioning and financing of the retirement system, in effect:

- previously, the retirement system applied primarily to Gaz de France and EDF, which currently account for approximately 96.27% of the IEG branch. The primary basis for determining retirement benefits in proportion to overall payroll costs was the dominant market positions of each of Gaz de France and EDF, as well as their legal monopoly in their respective activities;
- the context greatly changed during these last few years, due to the opening of the market to competition as well as the adoption of IFRS standards at the beginning of 2005.

French Law No. 2004-803 dated August 9, 2004 (Title IV) defined the main terms of this reform, which was implemented starting from January 1, 2005, under a certain number of application decrees passed at the end of 2004 and during the first half of 2005.

Status of the system prior to the 2004 reform

Until January 1, 2005, retirement benefits for IEG employees were financed exclusively by IEG actors, through a payroll deduction of 7.85% of gross salaries and through company contributions (known as a "balancing contribution"), determined in proportion to the payroll figures of IEG companies. This balancing contribution also made it possible to pay other social charges whose financing was shared among companies belonging to the IEG branch, such as worker's compensation, temporary and permanent disability and occupational safety costs. In 2004, this contribution represented €472 million for Gaz de France, representing 63.79% of the total payroll, excluding bonuses, for the relevant employees. This rate was 61.8% in 2003 and 60.0% in 2002.

The 2004 reform

The following are the principal stages of this reform:

- starting in 2002, at the request of the public authorities, negotiations were conducted with the unions to define specifications that would make it possible to reform retirement financing. These negotiations led to the signature in December 2002 by the IEG entities (employers) and by three representative unions of a "statement of conclusions", defining the principal stages of the reform;
- on this basis, the public authorities prepared a draft reform and informed the appropriate European authorities, which approved the reform on December 16, 2003;
- the reform was implemented by the French Law No. 2004-803 dated August 9, 2004, relating to public electricity and gas services

and to electricity and gas companies, whose Title IV reforms the IEG retirement system;

- the reform took effect January 1, 2005.

The principal characteristics of the 2004 reform

For a description of the reform and its impact on the retirement obligations of Gaz de France see chapter 20 "Financial Information Concerning the Issuer's Assets, Financial Condition and Results of Operations."

The key features of the reform are the following:

- maintenance of the special IEG retirement system;
- the creation of a national IEG retirement fund, in the form of a private social security agency, to assume the risks formerly managed by a pensions service depending from Gaz de France and EDF in respect of retirement benefits, disability, death benefits and worker's compensation. This fund, placed under the joint administration of the Social Security, Budget and Energy Ministers, is administered by a Board of Directors with half of its members composed of employer representatives and the other half of employee representatives. The Board of Directors of this fund met for the first time on January 31, 2005;
- the financing by the French public retirement programs that provide retirement benefits for all French companies (the *Caisse nationale d'assurance vieillesse* ("CNAV")) and the supplementary systems (AGIRC and ARRCO) of the financial obligations of the IEG retirement system, which may be tied to a reinsurance mechanism, through agreements providing for:
  - IEG companies and their employees to make contributions equivalent to those made by companies that are subject to such programs, and
  - an "initiation fee" designed to insure long-term economic neutrality of the financing;
- for special IEG retirement benefits that go beyond the coverage of the French public retirement programs and of certain specific laws, the reform distinguishes between:
  - benefits vested on December 31, 2004 and relating to natural gas or electricity transmission or distribution businesses (regulated activities). These will be funded by a rate surcharge on all natural gas and electricity transmission and distribution services. This surcharge will also finance a portion of the initiation fee related to the transmission and distribution activities as defined in the agreement with CNAV, as well as any amounts payable pursuant to an adjustment clause in the agreement relating to the supplemental retirement program (this clause is described in Note 21a "pensions" in the Notes to the consolidated financial statements for the year ended December 31, 2004). French Decree No. 2005-322 dated April 5, 2005 (relating to the evaluation and methods for dividing the specific rights passed) set the portion for Gaz de France's regulated activities to 81%,
  - benefits vested on December 31, 2004 and relating to other businesses. These will remain the responsibility of the IEG companies, which are also responsible for the portion of the initiation fee payable to CNAV that is related to other activities, as well as the initiation fee payable to AGIRC and ARRCO, and any amounts payable pursuant to the "adjustment" clause in the agreement relating to the supplemental retirement program. These benefits will be the subject of an IFRS standard for the portion not covered by external funds,
  - benefits vested after January 1, 2005 and not covered by the general public retirement programs remain the responsibility of each IEG company, calculated pro rata on the basis of payroll costs. These benefits will be the subject of an IFRS standard.

17.4.2.6. Labor outside Gaz de France

In 2005, the average number of temporary workers per month was 582, or 2.65% of the average monthly number of statutory employees. The average length of temporary labor agreements was 31 days. Outside labor was used in all of Gaz de France's business activities.

17.4.2.7. Information related to staff reduction and job protection plans, reclassification efforts, re-hiring and attendant measures

The IEG personnel rules do not provide for any job guarantees. However, because of its policies the Company has managed to date to protect jobs by:

- anticipating and monitoring essential organization changes;
- monitoring and encouraging geographic and job-related mobility; and
- developing skills (training, professional advancement programs, etc.) that support changes in job descriptions.

These policies have made it possible not only to avoid mass layoffs but also to maintain skills and develop collegiality among employees.

Finally, an agreement was signed on April 5, 2005 with the unions putting in place a process of consultation prior to any reorganization.

17.4.2.8. Organization and duration of work week, absenteeism

The master agreement dated January 25, 1999 and signed by the five representative union organizations reduced the work week at Gaz de France to 35 hours per week with no change in salaries and provision of services at least five days a week.

To maintain, and even increase the breadth of services offered despite reduced individual schedules, a large majority of the work force opted, within the framework of agreements negotiated locally with management bodies, for adjustments in work schedules generally accompanied by corresponding organizational adjustments. Thus, 84% of Gaz de France's personnel work in teams benefiting from adjusted work schedules.

Moreover, this agreement created the possibility for a collective reduction of the work schedule to 32 hours per week or an individual reduction to 32 hours or less, with partial compensation of salary losses. Within the context of these new provisions, 20% of the personnel were working part time as of December 31, 2005.

The number of hours of absence (excluding annual vacations) was 1,660,640 in 2005, which represents 5.66% of the actual time worked. The most frequent causes of absence involved illness.

17.4.2.9. Compensation

Gaz de France's and GRTgaz's compensation system and any general increases are determined at the IEG branch level.

Individual compensation levels are based on employment classifications. Each compensation level is approximately 50% higher than the compensation level just below it. Under the terms of a company-wide agreement negotiated with the IEG branch, 4.5% compensation increases within each compensation level are granted annually to approximately 1/5 of the Group's IEG employees, who are selected by management, based on their contributions to Gaz de France. At Gaz de France, ranking of job positions is determined using an analytic method derived from the Hay method.

The gross average monthly compensation was €2,982 (on a 12-month basis) in 2005. The breakdown by category was €4,643 for management, €2,715 for supervisors and €2,263 for blue and white-collar workers. The spread between the gross average monthly compensation of men and women favors men by 6%. A company-wide agreement on male/female equality was concluded for a three-year period in July 2004, specifically calling for the closing of the wage gap.

17.4.2.10. Employee relations and collective bargaining agreements

The practice of collective bargaining has been expanding within Gaz de France for approximately 10 years. These negotiations have developed either through joint agreements with EDF (in 2005 the Agreement for the Professional Integration of Handicapped People at EDF and Gaz de France signed February 24, 2005, an agreement on the consultation processes relating to the reorganizations of EDF and Gaz de France signed April 5, 2005, an agreement signed December 7, 2005 concerning the method relating to the prevention of litigation tied to the professional actions of agents which have a representative or union mandate), or through agreements specific to Gaz de France (In 2005 an agreement concerning the regulation of Gaz de France's corporate savings plan in France signed February 22, 2005, an amendment of the PEG agreement with Gaz de France signed March 21, 2005, the 2005-2007 profit-sharing agreement for Gaz de France SA signed June 3, 2005).

At the same time, IEG branch labor relations have been developing since 2001. In addition to annual negotiations on changes in the national base salary and an optional rate increase as of January 1, three agreements were signed in 2005, an agreement relating to the IEG solidarity day signed March 31, 2005, the national agreement relating to the revaluation of the national base salary on June 6, 2005 and the agreement on professional training on September 16, 2005.

The number of strike hours totaled 293,328 in 2004, representing 0.7% of the working hours for the year, and 116,540 in 2005, or 0.4% of the working hours for the year.

17.4.2.11. Personnel representation and union representation

The current groups representing IEG personnel, and therefore Gaz de France, were founded in 1946. The Auroux laws of 1982, which are the source of the current provisions of the French Labor Code on workers' councils and personnel delegates, are applicable to all businesses (including EPIC), which, however, can adapt to their needs their employee representative bodies in terms of form (requires a decree, which has not yet been issued) and substance (any adaptations must provide employees with the at least the same guarantees as those in the French Labor Code).

Gaz de France has been able to adapt its employee representative bodies, since it became a corporation under Article 28 of the French law dated August 9, 2004. This law requires that a decree implementing this law must be issued within three years of the law's publication, i.e., no later than August 11, 2007.

The principal legal differences between the laws and regulations applicable to the IEG Branch and the laws and regulations applicable to all French companies are as follows:

- a specific election procedure (single-round elections every three years, no formal group representing managers, monopoly on designation by the union organizations);
- joint labor-management committees that play a role equivalent to that of personnel delegates and joint production committees ("JPC") with prerogatives similar to those of a workers' council, except for training which requires joint committees and social work which relates to CMCAS;
- the allocation of jurisdiction between the joint labor-management committees and the JPCs is in the process of being revised.

At the triennial representation elections in 2003 (held jointly with EDF), turnout was important with nearly 85% of workers participating in the vote, the labor unions obtained the following percentages of the vote: CGT: 53%; CFDT: 19%; CGT-FO: 15.6%; CFE-CGC: 8.5%; CFTC: 3.1%, and other unions: 0.7%.

Every three years the JPC delegates elect representatives to JPC's senior consulting board (ASC of JPC), which is comparable to a central workers' council.

17.4.2.12. Health and safety conditions

In the context of its commitment to working, health and safety conditions, Gaz de France implements an active on-the-job accident prevention policy (in particular risks related to gas activities, road related risks and on-the-ground risks) and a policy of controlling risks likely to have an effect on employee health (in particular chemical risks, musculoskeletal and psycho-social risks). Gaz de France has created health and safety committees within each legal entity as well as a committee with nation-wide jurisdiction to examine the largest security and health problems.

An important management undertaking, the participation of everyone in the analysis of risks within the workplace and participation in implemented initiatives, synergy among those involved in prevention, the implementation of on-going improvement efforts, the promotion of innovation and learning from best practices, the development of partnerships with service providers and continuing attention to the professionalization of employees are the principal improvement factors.

Additionally, the Group has put in place an operating program relating to the security of its personnel on international missions.

The level of safety at Gaz de France, where the vast majority of personnel work in the historical business activities of Gaz de France such as transmission, distribution and sales, is part of an on-going improvement: the rate of frequency of accidents involving a stoppage is 4.1% (equals the number of accidents involving work stoppages per million of hours worked). At the end of 2005, the rate of severity was 0.2.

17.4.2.13. Training

Gaz de France has always paid particular attention to the management of its competencies, convinced that its capacity for technical and commercial innovation greatly depends on the level of professionalism and involvement of its employees.

In 2005 the Company devoted €36.2 million to training, or more than 4.4% of the gross amount of salaries paid.

In parallel with this major investment the company has entered into collective bargaining negotiations with the goal of concluding an agreement at the beginning of 2006 aimed at revising the general organization and the dialogue between labor and management with respect to training and to specify the methods for implementing the new provisions of the French "Training" Law dated May 4, 2004, in the context of the extension of the agreement signed with the IEG Branch in September 2005.

Gaz de France is also pursuing training through alternation by receiving a significant number of young people under apprenticeship and professionalization contracts and (this contracts represent 1.77% of its employees at the end of 2005).

This good public citizen approach permits the company, among other things, to develop a strong pool of competencies that allow it to insure a major part of the renewal of its competencies within occupations that are at the "heart of its business activities".

It should be noted that its future needs are now ascertained through the work of Gaz de France's national observer of business activities, put in place in 2005.

17.4.2.14. Handicapped personnel and accessibility

A transitional agreement was concluded with four union organizations for 2005. At the end of 2005, the negotiation of a new three-year agreement for 2006, 2007 and 2008 was entered into relating to the employment and the integration of handicapped workers in accordance with the French Law dated February 11, 2005, relating to equal rights, opportunities, accessibility and participation for the handicapped.

This negotiation will be informed by the conclusions of the joint group which led, during 2005, a detailed review of experience with prior agreements passed and which has formulated a certain number of proposals aimed at strengthening the measures put in place by the company in favor of handicapped workers.

17.4.2.15. Contribution for social activities

Gaz de France paid €135.4 million in 2005, compared to €119.5 million in 2004 to agencies managing social activities. It is legally required to make a contribution each year in the amount of 1% of revenues derived from distribution to final customers pursuant to the terms of the charter of the IEG branch.

Certain expenses related to transportation, meals and accommodation, which amounted to €28.5 million in 2005, must be added to this disbursement pursuant to Article R. 432-2 of the French Labor Code.

17.4.2.16. Subcontractors

The policy of the Company in terms of work done or services provided by third parties was debated in 2002 within the ASC of the JPCs. Within the context of compliance with the recommendations of the Ethics Charter (which was adopted in 2002 and defines three commitments: respect for and promotion of labor rights, maintaining the trust of the Group's partners and responsible business conduct) and taking into account the changing scope of Gaz de France's "core business" activities, this policy defines the terms and procedures that enable each division to respond to questions such as which tasks should be performed by outside service providers, as well as the principles and terms of their contracts.

17.4.3. The Group's Services employees

The scope of activities covered by the Services segment encompasses, on the hand activities under the holding company Cofathec, a diverse collection of companies, often divided into sub-groups, located in different European countries, and on the other hand the activities of other companies or groups, like Savelys.

Employees working in the Services segment of Gaz de France do not have the status of IEG personnel as described in paragraph 17.4.2.1 – "IEG Branch Personnel".

17.4.3.1. Labor policy of the Cofathec group

A number of collective bargaining agreements exist and a number of human resources policies have been implemented to solve a variety of problems, due to the diversity of the past history of the companies grouped together in the Cofathec group.

One of the goals of the labor policy in Cofathec has therefore been to promote convergence in a number of important areas. This convergence has been progressively implemented in terms of an overall adjustment that was started in 2002 and was continued in 2005. Another objective of this policy involves sustaining these different entities in the context of their unique labor environments in order to preserve their competitiveness. Thus, the policy of convergence seeks to avoid the deepening of the social differences that could harm the cohesion of a group of entities "brought together" in order to create synergies within a particular line of business and beyond that, within the customer branch of Gaz de France. At the same time, this policy must maintain the social dimension of the entities that are its profit centers.

Cofathec tries to bring together the different entities of which it is composed, but without assimilating them (no labor mergers).

On this basis, common social denominators within Cofathec are limited to:

- the management of common skills at the level of the business line (managers and supervisors), with the creation of a policy of mobility managed by a career committee;
- the policy of individual incentives (with respect to performance objectives) for management and the policy of putting in place collective profit-sharing agreements as incentives;
- the gradual development of a minimum base level of social guarantees (mutual and contingency insurance, retirement funds, etc.);
- staff management (search for productivity gains) and the management of payrolls (coordination of the mandatory annual negotiations carried out within the entities);
- the price attached to the security of employees, and
- coordination of the bodies representing employees on the Cofathec group committee.

17.4.3.2. Labor report for Cofathec

The Cofathec group had 8,351 employees at December 31, 2005, compared to 8,116 at the end of 2004, 8,146 at the end of 2003 and 7,775 at the end of 2002. Among the employees working within the Cofathec Services segment, 3,201 people were working in foreign subsidiaries in Italy, the United Kingdom, Switzerland, the Benelux countries and the principality of Monaco.

External growth operations were conducted chiefly between 1992 and 1998, so that staff levels are tending to stabilize after increasing regularly over the preceding years. New hires during 2004 were able to offset departures linked mainly to the termination of fixed-term contracts, resignations and early retirements, with an employee turnover rate of 11.77% for Cofathec Services.

The Cofathec group uses outside workers to replace personnel, who are absent due to illness or paid leave, in order to handle a temporary surge in business and in the context of prehiring. Some of the work of the Cofathec group is also subcontracted in terms of spot requirements or when the work involved does not match the area of activity of the subcontracting unit.

The Cofathec group hired nearly 94.35% of its people under indefinite term contracts. Employees of Cofathec have benefited from the 35-hour work week since 2001, with a specific annual contractual arrangement for managers. Certain subsidiaries of the Cofathec group benefit from a profit-sharing agreement that gives employees a stake in the company's results, but also taking into account the performance of the agencies in terms of on-the-job safety. In 2005, the company Cofathec Services paid out €1,577,630.50 to its employees as profit-sharing (compared to €1,708,000 in 2004).

Employees working in the Cofathec group are less unionized than employees in Gaz de France itself, with, for example, a rate of abstention from the elections between 55.54% and 71.94% according to the elections concerned for the company Cofathec Services.

The company Cofathec Services also implements an active training policy seeking to develop the skills and facilitate the professional mobility of its employees. In 2005, training expenses represented 3.5% of all salaries, with a larger number of employees benefiting from the program. The company Cofathec Services' social work budget was in the range of 1.1% of the total salaries in 2005.

17.4.3.3. Labor policy of the Savelys group

The Savelys group is the result of the merger between CGST-SAVE and DOMOSERVICES. Number one in France and number two in Europe, Savelys ensures the maintenance and repair of furnaces for individual household customers and apartment buildings primarily supplied with gas as well as related services like VMC gas and air-conditioning maintenance.

The Savelys group's position as France's market leader allows it to grow each year through attractiveness to its customers and through the acquisition of local companies and business assets.

Savelys is organized into 158 agencies and 94 branches, grouped into eight regional businesses and is managed by its Paris headquarters. This multi-site structure promotes proximity, responsiveness and economic performance.

The Company has 4,150 employees, of which 2,546 are technicians that perform 4,800,000 interventions per year.

Savelys has four key values, which are:

- respect and collegiality;
- proximity;
- security and quality;
- performance.

These four values are maintained internally through constant motivation efforts for its teams, which are expressed through a favorable labor policy. Each employee in direct contact with individual customers receives a portion of the revenues that he or she brings in.

The group status that was implemented when Savelys was created guarantees social protection at a high level.

Active participation in the important events in the life of the company benefits the participation of the employees in the decisions taken and makes more dynamic the sense of belonging to the group. As a result employee turn over has decreased by 50% in four years.

Investment training, which represents more than 3% of gross annual salaries, and ensures the development of skills and promotes internal promotion. More than 80% of the managers of profit centers (agencies) were promoted to the position, evidence of efficiency and performance.

17.4.4. Employees of the foreign subsidiaries of the Group, excluding the Services segment

17.4.4.1. Foreign subsidiaries integrated into the Group's labor policy

The foreign subsidiaries whose capital is wholly-owned by the Group, or for which it has majority ownership, are integrated into the labor policy implemented by Gaz de France, as described below. Outside of the Services segment, there are approximately 15,749 employees working in all of the Group's subsidiaries, i.e. approximately 83.11% of the foreign subsidiaries excluding the Services segment. These are, specifically, Exploration-Production subsidiaries in Germany, The Netherlands, Norway and the United Kingdom (1,087 employees), distribution subsidiaries in Hungary and Romania (11,884 employees), transmission and distribution subsidiaries in Mexico (394 employees) and in Uruguay (198 employees) and supply and trade subsidiaries in the United Kingdom (183 employees).

The Group does not control the labor policy in its foreign subsidiaries in which Gaz de France only holds a minority stake. There are 1,959 employees in these subsidiaries, outside of the Services segment.

17.4.4.2. Labor policy of the Group in foreign subsidiaries

The Group has started to put in place a labor policy for its foreign subsidiaries. In particular, a new consultative group, the European Enterprise Committee (EEC), implemented in 2002, based on the agreement dated November 14, 2001, which is an information and consultation center for employee representatives working in European companies controlled by the Group.

Under a 2003 commitment with the labor unions, in the context of the EEC, efforts to collect the Group's managerial practices in the areas of Human Resources were completed in 2005. This study, realized by a work group that brought together both personnel representatives and the Group's Management, is collecting information on the existing labor practices in the Group's companies. This analysis will be pursued in 2006 for an EEC specific seminar concerning the Group's labor policies.

As of now, within the framework of its ethics commitments, Gaz de France has agreed to make sure all its employees benefit from working conditions that will preserve their health and safety. Thus, a system is being progressively put in place that will make it possible to have better information on the health and safety records of the subsidiaries and to encourage them to undertake new actions based on the skills available in the different entities and, in particular, within Gaz de France. The data currently available show that the majority of the subsidiaries are in line with the safety record of their sector of activity.

18 PRINCIPAL SHAREHOLDERS

18.1. Principal shareholders

18.1.1. Majority shareholder

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.

18.1.2. Crossing legal thresholds

To the Company's knowledge, as of the date of registration of this *document de référence*, no shareholder 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 percentages under Article L. 233-7 of the French 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 French 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 it owns (to the extent that the payment of such shares has been called-up by the Company).

18.3. Statement concerning the majority shareholder control of the Company

As of the date of registration of this *document de référence*, the French State holds 80.2% of Gaz de France's shares. Article 24 of French Law No. 2004-803 dated August 9, 2004 provides that the French State must hold at least 70% of the share capital of the Company. See paragraph 16.8 – "Statement concerning corporate governance."

18.4. Agreement relating to the oversight of the Company

Under current legislation, the French state must hold at least 70% of the Company's share capital (see paragraph 18.3 – "Statement concerning the majority shareholder of the Company"). See paragraph 12 – "Trend Information."

19 RELATED PARTY TRANSACTIONS

2005-2007 Public Service Contract between Gaz de France and the French State

The public service functions of Gaz de France in the energy sector are defined by the French Law of January 3, 2003. These functions are implemented for Gaz de France through a Public Service Contract, as provided by Article 1 of the Law of August 9, 2004.

The Public Service Contract, approved by Gaz de France's Board of Directors on March 22, 2005, was signed by Gaz de France and the French State on June 10, 2005. It reiterates the public service obligations of Gaz de France, emphasizing certain obligations, such as supply security and continuity and industrial safety. It also contains provisions relating to the resources that are to be put in place by Gaz de France to ensure access to public services by customers (including destitute customers), together with research and development and environmental protection policies. It also sets down the principles for the multi-annual evolution of public distribution tariffs.

Agreement relating to the distribution activities of EDF Gaz de France Distribution

On April 18, 2005 Gaz de France and EDF signed an agreement defining their relations relating to the distribution activities of EDF Gaz de France Distribution, as described in paragraph 6.1.3.2.2.2.3 – "Organization of the distributor."

Agreement between the French State, Gaz de France and Société Générale relating to the implementation of the Employee Offering

In the context of the initial public offering of the Company, as described in paragraph 21.1.7.1 – "Initial public offering of the Company," the tri-party agreement was signed September 7, 2005 between the French State, Gaz de France and Société Générale (the "Agreement"). The Agreement was approved by the Board of Directors on July 11, 2005. The Agreement details the conditions for the implementation of the Employee Offering, as described in the *Note d'Operation* filed with the AMF on June 22, 2005. The Agreement governs the terms for collecting purchase orders, delivery of shares, payment of the acquisition price of the shares and the grant of free shares as described in paragraph 21.1.7.2.2 – "Grant of free shares in the context of the Employee Offering."

Concerning the payment of the acquisition price of the shares, the French State offered certain personnel and former personnel eligible for the Employee Offering options ranging from payment of the acquisition price of their shares on the delivery date to payment of the acquisition price of their shares through scheduled repayments three times over two years. In addition, Gaz de France and the Group companies concerned offered certain personnel and former personnel eligible for the Employee Offering the option to make scheduled repayments for the acquisition price over 24 or 36 months. In the context of the Agreement, Gaz de France agreed to put itself in the shoes of the personnel and former personnel opting for the 24-or 36-monthly payments and to make payments to the French State on their behalf three times over two years.

Access contract for the new LNG terminal of Fos Cavaou

Based on the growth of the LNG market and in the context of the new Egyptian gas supply contract, the Group started the construction of a third LNG terminal, Fos Cavaou, located at Fos-sur-Mer on the Mediterranean coast. The new terminal, designed by Gaz de France, should enter into service at the end of 2007. It will have a regasification capacity of 8.25 billion cubic meters per year, a landing stage able to handle ships with the largest capacities (150,000 cubic meters of LNG or more) and three reservoirs with a unit capacity of 110,000 cubic meters. The amount of the current investment is estimated at €550 million. This terminal will be held by a dedicated subsidiary, Société du Terminal Méthanier de Fos Cavaou, from then on the owner of the permit to build, which will later commercialize its capacities. Gaz de France will benefit from a twenty year contract with this company, allowing it to receive the Egyptian LNG (5.18 billion cubic meters per year).

In 2006 Total may take a 30.3% equity interest in the share capital of the company, which is currently a wholly owned subsidiary of Gaz de France. Additionally 10% of the total capacity of this new terminal will be open to more short-term transactions.

Operating and maintenance contract for the Fos Cavaou LNG terminal between Gaz de France and Société du Terminal Méthanier de Fos Cavaou

Under the terms of this contract dated January 26, 2006, Société du Terminal Méthanier de Fos Cavaou entrusts Gaz de France's Major Infrastructures business unit with the operation and maintenance of the Fos Cavaou LNG terminal for 25 years starting from the facilities' first operational reception and agrees to pay Gaz de France for all the reimbursable expenses undertaken by it during the construction and mobilization phases and during the operational phase. This contract should produce approximately €20 million per year for Gaz de France during the operational phase.

Service contracts between Gaz de France and GRTgaz

Gaz de France and its subsidiary GRTgaz concluded a contract in 2005 under which Gaz de France provides computer services for the benefit of GRTgaz. In 2005, these services came to a total amount of €44.4 million.

In addition Gaz de France and GRTgaz concluded a contract in 2005 aimed at defining and valuing the charges tied to the application of the status of the personnel in the electric and gas industries to the agents of GRTgaz as well as divisible and non-individualized services realized by Gaz de France's support functions for the benefit of GRTgaz. These charges and services were the basis of a payment in 2005 from GRTgaz to Gaz de France totaling €87 million.

Contract reserving capacity pursuant to third-party network access between Gaz de France and GRTgaz

Gaz de France and its subsidiary GRTgaz concluded a contract reserving capacity pursuant to third-party network access for €1.116 billion in 2005.

Long-term energy purchase contracts between Gaz de France and other companies of the Group

Gaz de France concluded the following energy purchase contracts with certain of its subsidiaries that it controls:

- with the company Dunelys, a series of energy purchase transactions for a total amount of €1 million in 2004 and €149 million in 2005;
- with the company Gaselys, a gas purchase contract for a total of €478 million in 2003, €922 million in 2004 and €1,306 million in 2005; and
- with the company GDF Britain Ltd., gas purchase contracts for a total of €64 million in 2003, €105 million in 2004 and €125 million in 2005.

In addition, Gaz de France buys the following quantities of energy from Group companies over which it does not have exclusive control:

- with the company EFOG under a gas purchase contract for an amount totaling €172 million in 2003, €188 million in 2004 and €188 million in 2004 and €262 million in 2005; and
- with the company FRAGAZ, under two long-term purchase contracts for gas coming from Russia for a total amount of €60 million in 2003, €129 million in 2004 and €190 million in 2005.

Energy contract between Gaz de France and certain of its subsidiaries

Gaz de France concluded the following energy sale contracts with certain of its subsidiaries:

- with the company Dunelys, a gas sale contract for a total of €5 million in 2004 and €80 million in 2005;
- with the company Gaselys, a series of energy sale transactions for a total of €237 million in 2003, €558 million in 2004 and €663 million in 2005;
- with the company Gaz de France Deutschland Gmbh, a gas sale contract for a total of €6 million in 2003, €35 million in 2004 and €113 million in 2005;
- with the company GDF ESS, gas sale contracts for a total of €293 million in 2003, €417 million in 2004 and €553 million in 2005; and
- with the company GDF STM The Netherlands BV a gas sale contract for a total of €280 million in 2005.

Gaz de France, S.A.

Special Report of the Statutory Auditors on Certain Related Party Transactions

To the Shareholders,

In our capacity as statutory auditors of your Company, we are required to report on certain contractual agreements with certain related parties.

In accordance with Article L.225-40 of French Company Law (Code de Commerce), we have been advised of certain contractual agreements which were authorized by your Board of Directors.

We are not required to ascertain whether any other contractual agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of agreements indicated to us. It is not our role to comment as to whether they are beneficial or appropriate. It is your responsibility, under the terms of Article 92 of the March 23, 1967 Decree, to evaluate the benefits resulting from these agreements prior to their approval.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify that the information provided to us is consistent with the documentation from which it has been extracted.

With the French State and Société Générale

Shareholder concerned

The French State

Nature and purpose

Agreement relating to the implementation of the Employee Offering

Conditions

In the context of the initial public offering of the Company's share capital, a tri-party agreement was signed on September 7, 2005 between the French State, Gaz de France and Société Générale (the "Agreement"). The Agreement was approved by the Board of Directors of your Company on July 11, 2005. The Agreement details the conditions for the implementation of the Employee Offering, as described in the Note d'Opération filed with the AMF on June 22, 2005. The Agreement governs the terms for collecting purchase orders, delivery of shares, payment of the acquisition price of the shares and the grant of free shares.

Paris et Paris-La Défense, le 19 avril 2006

Statutory Auditors

MAZARS & GUERARD		ERNST & YOUNG Audit	
Michel Barbet-Massin	Xavier Charton	Patrick Gounelle	Philippe Hontarrède

20 FINANCIAL INFORMATION CONCERNING ISSUER'S ASSETS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS

20.1. Historical financial information

20.1.1. Financial information for the year ended December 31, 2005

20.1.1.1. Consolidated financial statements for the year ended December 31, 2005 under IFRS

CONSOLIDATED BALANCE SHEETS - ASSETS

In millions of euros	Note	2005 Net	2004* Net
NON-CURRENT ASSETS			
Goodwill and other intangible assets	1	1,936	1,321
Concession assets	2	10,732	10,191
Non-concession tangible assets	2	15,271	14,155
Investments in companies accounted for by the equity method	3	693	385
Non-current financial assets	3	1,379	1,125
Non-current derivative instruments	26	-	-
Deferred tax assets	23	67	46
Other non-current assets		308	249
Non-current investments of financial affiliates	3	99	259
TOTAL NON-CURRENT ASSETS	**I**	**30,485**	**27,731**
CURRENT ASSETS			
Inventories and work-in-progress	4	1,451	907
Accounts receivables			
Trade accounts and related receivables	5	6,535	4,989
Income tax receivables		69	298
Other receivables	5	1,467	905
Current derivative instruments	26	1,756	-
Cash and cash equivalents	6	2,119	837
Assets of financial affiliates	5	895	440
TOTAL CURRENT ASSETS	**II**	**14,292**	**8,376**
Assets classified as held for sale	III	-	402
TOTAL ASSETS	**I TO III**	**44,777**	**36,509**

(*) *Changes to formerly published comparative information are detailed under supplemental disclosure D – 2.*

CONSOLIDATED BALANCE SHEETS - LIABILITIES

In millions of euros	Note	2005	2004*
SHAREHOLDERS' EQUITY – Group share			
Share capital		984	903
Additional paid-in capital		1,789	-
Consolidated Reserves and net income		11,536	9,991
Fair value adjustments reserve		194	104
TOTAL SHAREHOLDERS' EQUITY – Group share	**I**	**14,503**	**10,998**
MINORITY INTERESTS	**II**	**300**	**212**
TOTAL SHAREHOLDERS' EQUITY	**I**	**14,803**	**11,210**
NON-CURRENT LIABILITIES			
Liability related to concessions	8	8,609	8,234
Provision for employee benefits	28	1,089	1,067
Provisions	9	1,806	1,717
Deferred tax liability	23	2,731	2,741
Irredeemable securities	10	623	485
Financial debt	11	3,324	3,849
Non-current derivative instruments	26	15	
Liabilities of financial affiliates		19	274
Other non-current liabilities		141	137
TOTAL NON-CURRENT LIABILITIES	**III**	**18,357**	**18,504**
CURRENT LIABILITIES			
Provisions	9	164	94
Social liabilities		527	377
Financial debt	11	1,165	971
Trade accounts and related payables		3,203	1,848
Income tax payables		154	115
Other tax liabilities		1,171	948
Other liabilities		2,349	1,853
Current derivative instruments	26	1,786	
Liabilities of financial affiliates		1,098	550
TOTAL CURRENT LIABILITIES	**IV**	**11,617**	**6,756**
Liabilities related to assets classified as held for sale	V		39
TOTAL LIABILITIES	**I TO V**	**44,777**	**36,509**

(*) *Changes to formerly published comparative information are detailed under supplemental disclosure D – 2.*

CONSOLIDATED STATEMENTS OF INCOME

In millions of euros	Note	2005	2004*
Sales of goods		19,479	15,497
Services rendered		2,828	2,199
Revenues from financial affiliates		87	35
Revenues	**16**	**22,394**	**17,731**
Capitalized expenses		336	344
Purchases and other external charges	17	(15,886)	(11,367)
Personnel expenses	19	(2,410)	(2,043)
Other operating income	20	534	288
Other operating expenses	20	(749)	(496)
EBITDA		**4,219**	**4,457**
Depreciation, amortization and provisions	21	(1,303)	(1,845)
Employee share ownership	7	(132)	-
Operating income		**2,784**	**2,612**
Income from cash and cash equivalents		26	3
Gross finance costs		(228)	(182)
Net finance costs	**22**	**(202)**	**(179)**
Other financial income	22	488	402
Other financial expenses	22	(724)	(1,316)
Share of income in companies accounted for by the equity method		189	125
Income before tax		**2,535**	**1,644**
Corporate income tax	23	(794)	(453)
Group's consolidated net income		**1,741**	**1,191**
Minority interests		(2)	40
CONSOLIDATED NET INCOME – GROUP SHARE		**1,743**	**1,151**
Earning and diluted earnings per share (in euros)	31	1.85	1.27**

(*) *Changes to formerly published comparative information are detailed under supplemental disclosure D – 2.*
(**) *Pro forma earnings per share based on a par value of 1 euro. The number of shares was doubled in the first half of 2005 by division of the par value by two. Based on the effective par value, earnings per share in 2004 was:*

	2005	2004
Non diluted and diluted earnings per share (in euros)	1.85	2.55

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of euros	Note 24	2005	2004
I – OPERATING ACTIVITIES			
Operating income		**2,784**	**2,612**
Adjustments:			
Amortization, depreciation of long-term assets		1,323	1,336
Provisions		(29)	477
Other adjustments		151	(249)
Operating cash flow before tax and change in working capital requirements		**4,229**	**4,176**
Changes in working capital requirements		**(501)**	**(282)**
Inventories		(382)	59
Trade and related receivables		(1,194)	(900)
Trade and related payables		1,077	146
Other		(2)	413
Corporate income tax paid		(562)	(705)
Cash flow from operating activities	I	3,166	3,189
II – INVESTING ACTIVITIES			
1. Investments			
Capital expenditures		(2,016)	(1,628)
Acquisition of investments and related net of cash acquired		(674)	(153)
Other		(371)	(352)
Sub-Total		(3,061)	(2,133)
2. Proceeds			
Grants		13	15
Net proceeds from disposals of tangible and intangible assets and investments		479	74
Reduction in other financial assets		105	178
Interests received		(27)	(12)
Dividends received		28	31
Sub-total		**598**	**286**
Cash flow from investing activities	**(1 + 2) II**	**(2,463)**	**(1,847)**
III – CASH FLOW FROM OPERATING AND INVESTING ACTIVITIES	**(I + II) III**	**703**	**1,342**
IV – FINANCING ACTIVITIES			
1. Capital increase and additional paid-in capital		1,869	-
2. Dividends paid		(420)	(322)
3. Borrowings		1,297	2,723
4. Repayment of borrowings		(2,124)	(3,377)
5. Interest paid		(214)	(153)
Cash flow from financing activities	**IV**	**408**	**(1,129)**
V –EFFECT OF CHANGES IN EXCHANGE RATE	**V**	**10**	**6**
VI – CHANGE IN CASH AND CASH EQUIVALENTS (NOTE 6)	**(III + IV + V) VI**	**1,121**	**219**

RECOGNIZED INCOME AND EXPENSES

In millions of euros	2005	2004
Profit for the year	**1,741**	**1,191**
Recognition of actuarial gains and losses on employee benefits in equity	(32)	(236)
Fair value gains (losses) on cash flow hedges financial instruments:		
unrealised gain or loss	(47)	-
Fair value gains (losses) on available-for-sale financial assets:		
revaluation in shareholders' equity	62	-
transfer of revaluation in income	(119)	-
Currency translation adjustments	87	103
Total income and expenses recognized directly in equity	**(49)**	**(133)**
TOTAL RECOGNIZED INCOME AND EXPENSES FOR THE YEAR	**1,692**	**1,058**

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Shareholder's Equity – Group share									
In millions of euros	Share capital	Additional paid-in capital	Actuarial gains/ losses	Fair value reserves	Consolidated retained earnings and other reserves	Net income	Translation adjustments reserves	TOTAL	Minority Interests	TOTAL Shareholders' equity
Shareholders' equity as of 01/01/2004 IFRS	**903**				**779**	**910**		**2,592**	**254**	**2,846**
2004 net income						1,151		1,151	40	1,191
Total income and expenses recognized in equity			(236)				104	(132)	(1)	(133)
TOTAL RECOGNIZED INCOME AND EXPENSES*			**(236)**			**1,151**	**104**	**1,019**	**39**	**1,058**
2003 net income allocation					592	(592)		-		-
Dividends paid						(318)		(318)	(5)	(323)
Other					7,705			7,705	(76)	7,629
Shareholders' equity as of 12/31/2004 IFRS	**903**		**(236)**		**9,076**	**1,151**	**104**	**10,998**	**212**	**11,210**
Impact of the first-time adoption of IAS 32 and 39 as of Jan. 1 2005				261	(63)			198	(6)	192
Shareholders' equity as of 01/01/2005 IFRS	**903**		**(236)**	**261**	**9,013**	**1,151**	**104**	**11,196**	**206**	**11,402**
2005 net income						1,743		1,743	(2)	1,741
Total income and expenses recognized in equity			(48)	(107)	16		90	(49)		(49)
TOTAL RECOGNIZED INCOME AND EXPENSES*			**(48)**	**(107)**	**16**	**1,743**	**90**	**1,694**	**(2)**	**1,692**
2004 net income allocation					1,151	(1,151)		-		-
Dividends paid (0,93 euros per share)					(418)			(418)	(2)	(420)
Issuance of shares	81	1,789						1,870		1,870
Employee share ownership					132			132		132
Change in scope of consolidation									100	100
Other				3	26			29	(2)	27
Shareholders' equity as of 12/31/2005 IFRS	**984**	**1,789**	**(284)**	**157**	**9,920**	**1,743**	**194**	**14,503**	**300**	**14,803**

(*) *See detailed information in Recognized income and expenses on previous page.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A – Summary of significant accounting policies

Introduction

1. Background

In compliance with European regulation 1606/2002 dated July 19, 2002 on international accounting and financial reporting standards, the Gaz de France Group's consolidated financial statements for the year ended December 31, 2005 have been prepared according to the international accounting standards ("IAS/IFRS"), applicable as at that date 2005, as approved by the European Union.

The 2005 financial statements are the first ones published in accordance with IAS/IFRS, including comparative figures for 2004 prepared according to the same standards, except for IAS 32 and 39 effective as from January 1, 2005.

The impact of the changeover to IFRS on the Group's shareholders' equity and income are detailed under supplemental disclosure D. Preliminary information on changeover was disclosed in the prospectus dated April 1, 2005.

In 2005, a number of standards underwent evolution or interpretation. When retrospectively adopted, it changed the 2004 comparative data restated under IFRS. The 2004 financial statements under IFRS, disclosed under supplemental disclosure D (summary of impacts of IFRS on Group' equity as of January 1, 2004, balance sheet as of December 31, 2004, 2004 statement of income) took into account changes, which occurred in 2005.

2. Adoption of standards and interpretations effective as of December 31 or by earlier application

As from January 1, 2005, the Group applies:

- IAS 32 and 39 on financial instruments: in November 2004, the European Union endorsed IAS 39, except for some provisions. Discrepancies between the standard published by the IASB and the one adopted by the European Union do not affect the Group. Impacts on the Group's shareholders' equity at the date of first-time adoption of these standards are detailed under supplemental disclosure B § 2.
- IFRS 2 on share-based payments.

The Group elected, as soon as 2004 comparative financial information were drawn up, the earlier adoption of:

- IFRS 5 "Non current assets held for sale and discontinued operations", compulsory as from January 1, 2005;
- amendment to IAS 19 published in December 2004, which allows actuarial gains and losses to be recognized against equity, and endorsed by the European Union on November 24, 2005;
- IFRIC 1 "Changes in current assets on dismantling, restoration and related", compulsory for financial years starting on September 1, 2004 and adopted by the European Union on December 29, 2004.

3. Standards and interpretations issued during the year which were not applied earlier

The Group elected not to apply earlier the following standards, amendments or interpretations:

- IFRS 7 "Financial instruments: disclosures", applicable as from January 1, 2007;
- amendment to IAS 39 "Fair value option", applicable as from January 1, 2006;
- amendment to IAS 39 "Intra-group cash flow hedge" applicable as from January 1, 2006;
- amendment to IAS 1 on the presentation of financial statements – capital disclosures, applicable as from January 1, 2007;
- IFRIC 4 "Determining whether an arrangement contains a lease", applicable as from January 1, 2006.

4. Accounting treatment for concessions – Gaz de France SA

4.1. IFRIC's works and effective rules

In March 2005, IFRIC published three draft interpretations, requiring comments, D12 "Determining the Accounting Model", D13 "The Financial Asset Model" and D14 "The Intangible Asset Model".

In November 2005, in a publication summarizing its ongoing works, the IFRIC indicated that it would not be able to finalize its interpretations for financial statements closing in 2005 and confirmed that concessions did not enjoy any specific exemption in the existing IFRS and that one had to comply with standards' hierarchy (IAS 8).

4.2. Gaz de France's particular situation

Gaz de France operates distribution networks in the framework of public service concession contracts, granted by local authorities for 25 to 30 years. According to specifications applying to concessions, Gaz de France bears all the risks and most of the rewards resulting from the operation of networks for the whole period.

The law of April 8, 1946 on the nationalization of electricity and gas provides for that Gaz de France is its own successor at the end of the concession. However, combined legal and contractual texts regulating the activity of Gaz de France does not make Gaz de France owner of the networks.

The financing treatment selected by Gaz de France takes into account all the consequences of the provisions contained in concession contracts, in particular:

- the obligation to return for free concession assets at the end of the concession contract;
- the obligation to maintain the network running normally during the whole duration of the contract.

4.3. Outlooks

The Group continues to follow with great attention IFRIC's pending works on concessions. If it is analyzed that Gaz de France has a right of use of infrastructures during the time of the concession contracts and on the basis of the current state of draft interpretations and of the legal and contractual context, most of concession contracts would be considered as complying with the Intangible Asset Model.

The full application of this model could have induced Gaz de France, as of December 31, 2005, to reduce concession assets and liabilities at the level of the amount under the item "Concession grantors' rights in assets".

5. Elected options for the preparation of IFRS 2005 financial disclosure and 2004 comparative data

In compliance with the provisions of IFRS 1, the Group elected to retain, for preparing the 2004 opening balance sheets and the first IFRS financial statements in 2005, the exemptions to the general principle of retrospective adoption of the following IFRS:

- *Business combinations:* in accordance with IFRS 3, the Group did not restate retrospectively business combinations carried out prior to January 1, 2004.
- *Pension commitments and related benefits:* cumulative actuarial gains and losses related to the existing corridor at transition date, which were not accounted for, were fully recognized as liability in the balance sheet against equity;
- *Foreign currency translation adjustments related to foreign operations:* cumulative adjustments as of January 1, 2004, related to the adjustment of financial statements of foreign operations were reclassified as consolidated retained earnings in the transition balance sheet;
- *The designation of priorly recognized financial instruments:* the classification of certain financial instruments under financial assets available for sale or at fair value through profit and loss was carried out at the date of adoption of IAS 39 and not at the date of initial recognition;
- *Share-based payments:* the Group elected to apply IFRS 2 to the sole equity instruments granted after November 7, 2002 and for which rights were not vested as of December 31, 2004. Similarly, liabilities induced by transactions, the share-based payment of which was made before December 31, 2004, were not restated.

The Group elected not to apply the following exemptions:

- *Fair value or revaluation used as deemed cost:* the Group chose to use the historical cost of tangible and intangible assets, in accordance with IAS 16 and IAS 38 and not to use this option.

Finally, the Group is not affected by the exemption relating to compound financial instruments, as no instrument of this type was issued before January 1, 2005 (date of adoption of IAS 39).

Similarly, the Group is not affected by the transition provisions related to IFRS 4 on "Insurance policies".

The Group will apply IFRS 6 - Exploration for and evaluation of mineral resources, and IFRS 7 – Financial instruments: Disclosures, as from 2006. The Group considers that there will be no major impact on the consolidated financial statements at the time of adoption of these standards.

1. General Information

1.1. Approval of financial statements

The 2005 consolidated financial statements were prepared under the responsibility of the Board of Directors, who approved them by a deliberation of March 15, 2006.

They will be submitted for approval to the shareholders' ordinary general meeting, which will be convened on May 24, 2006. The general meeting may change submitted financial statements.

1.2. General principles for the preparation of financial statements

The financial year is 12 months long and covers the period running from January 1 to December 31. For companies not closing their annual statements as of December 31, no interim situation is drawn up due to the low impact of these companies and to the fact that the statements are closed at the earliest three months before December 31.

Consolidated financial statements are prepared following the historical cost method, except for some financial instruments which, from January 1, 2005, have been accounted for based on their fair value, meaning:

- Financial assets held for trading purposes (trading),
- Financial assets available for sale,
- Derivative financial instruments, and
- Assets and liabilities which are fair value hedged.

2. Accounting policies

2.1. Disclosure policies

Balance sheets structure

Current assets comprise:

- assets intended for sale or consumption in the Group's operating cycle, and
- cash and cash equivalents.

All other assets are classified as non-current assets.

Current liabilities comprise:

- liabilities related to the Group's operating cycle, and
- those liabilities due to be settled within 12 months after the balance sheet date.

All other liabilities are classified as non-current liabilities.

Bank overdrafts are classified as current liabilities.

Income statement structure

Income statement is presented by nature of expenses and structured around following indicators:

Earnings before interest, tax, depreciation and amortization (EBITDA)
This includes all expenses (except for amortization and provisions) and income directly linked to the Group's activities, these items being either

recurring items relating to its operations or the result of non-recurring or unusual events or decisions, including extraordinary events over which the Group has no control.

Operating income
This corresponds to EBITDA, after deduction of amortization and provisions.

Consolidated net income of the Group
This corresponds to the operating income after deduction of financial charges and income, and after tax (current or deferred), and to the Group's share of income or loss from companies accounted for by the equity method (after deduction of any potential impairment).

Non-diluted earnings per share is calculated by dividing the annual net income by the average number of shares.

Diluted earnings per share is calculated by dividing the annual net income by the average number of shares, including potential dilutive instruments.

Currency

The consolidated financial statements are prepared in euros and presented in millions of euros.

2.2. Use of estimates

The preparation of the consolidated financial statements requires the Gaz de France Group's Management to make estimates and assumptions that have an impact on the amounts reported in the financial statements or in the notes, particularly with regard to:

- provisions for dismantling and site restoration,
- provisions for risks,
- provisions for employee benefits,
- tax expense and recognition of deferred tax assets,
- recognition of goodwill and its potential impairment.

Given the specific features of the main business segments within the Group (impact of commodity prices and currency exchange rates) estimates of results and future cash flows are subject to change.

The financial statements reflect management's best estimates, on the basis of available information at closing date.

2.3. Accounting policies applied by the group in absence of specific provisions in the standards

Acquisitions of minority interests

The acquisitions of minority interests are not currently covered by IFRS. Pending works at IASB on the accounting treatment of this type of transactions are included in the important amendments expected on IFRS 3 "Business combinations". Therefore, without any specific rules, the Group applies the previous French GAAP method. In the event the Group acquires additional interests in a subsidiary, the difference between the purchase price and the consolidated carrying amount of these acquired minority interests is recorded as goodwill in the Group's consolidated financial statements.

Commitments to purchase minority interests

The Group signed agreements with minority shareholders of consolidated subsidiaries, providing that the Group is committed to purchase their shares, as from a given date, for an amount which can be fixed or determined at purchase date.

Currently, these commitments are recognized as a financial debt for their purchase value (which can be the discounted value of strike price in case of fixed price) against a reduction in minority interests, the difference between the amount of the financial debt and the one of the commitment is recorded as goodwill. This method reflects the accounting treatment which would have been applied at the date of acquisition. In the statement of income, minority interests remain computed and the subsequent change in value of the commitment is recorded as an adjustment of goodwill.

This accounting method could be reviewed later according to the IFRIC's conclusions (IASB interpretation body), which opinion has been requested on this issue and which currently debates on the accounting impact of such commitments.

Recognition of greenhouse gas emission rights

In the absence of IFRS or standard interpretation with regard to recognition of CO2 emission quotas, the following provisions were implemented. Quotas granted for free are recognized at zero value. Transactions on the market are recognized at their transaction value. The possible adjustment between available quotas and obligations of return at maturity date is posted in provisions for risks and charges at market value.

2.4. Financial affiliates

The financial statements of financial affiliates are prepared in accordance with generally accepted accounting policies in France for financial entities. For purposes of the IFRS consolidated financial statements, accounts have been reclassified as follows:

- customer loans are recorded as current or non-current assets of financial affiliates,
- refinancing of customer loans is included in liabilities of financial affiliates.

Income from customer loan activity is posted to "income from activity of financial affiliates" and is included in revenues.

For Gaselys only the gross margin from trading activity is reported under "Revenues from financial affiliates" heading.

2.5. Foreign currency translation

2.5.1. Foreign currency translation of transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into euros applying the exchange rate at the date of the transaction. Monetary balance sheet items are translated into euros using the closing rate. Translation adjustments arising from these transactions are recorded in the income statement as exchange gains or losses.

Non-monetary balance sheet items are accounted for using the historical exchange rate at the date of the transaction. The recoverable amount of impaired tangible assets, however, is determined using the exchange rate in force at the closing date.

2.5.2. Translation of foreign currency statements from subsidiaries outside the euro zone.

Subsidiaries whose functional currency is different from the currency of the parent company are translated using the exchange rate in force at the closing date.

Assets and liabilities, including goodwill and fair value adjustments, are translated into euros using the exchange rate in force at the closing date.

The statement of income is translated on the basis of the official average exchange rate as long as it is not reconsidered in light of material changes in the rates.

The resulting translation adjustments are recorded in equity.

For autonomous operations whose functional currency is different from the local currency, the translation is carried out in two stages. First, historical exchange rates are used to translate from the local to the operating currency. Second, the exchange rate in force at the closing date is used to translate from the operating currency to the euro.

Principal exchange rates

The main exchange rates used in 2005 and 2004 are disclosed under supplemental disclosure C Note 38.

2.6. Scope and methods of consolidation

Subsidiaries, sub-subsidiaries and special purpose entities controlled by the Group are consolidated.

Principles of consolidation

Companies controlled by the Group are fully consolidated. These include companies over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their operations.

Control is deemed to exist when the Group directly or indirectly owns more than half of the voting rights of an entity. This principle also applies to special purpose entities, whatever their legal form, including when no equity interest is involved.

Companies over which the Group exercises joint control with a limited number of joint-ventures partners according to a contractual agreement are consolidated using proportionate consolidation: the assets, liabilities, income and expenses of the company are combined line by line with the similar items in each category of assets and liabilities of the financial statements, in proportion to the share that is owned.

Associates are entities over which the Group has significant influence. Significant influence is defined as the power to participate in the financial and operating policy decisions of the company, but not to exercise control or joint control over those policies. It is deemed 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 subsidiaries and the related consolidated method are detailed under supplemental disclosure C Note 37.

Intercompany transactions

Intercompany accounts between consolidated companies are eliminated. Elimination is based on the share of the investment in case of proportionate consolidation.

2.7. Business combinations

Business combinations are accounted for using the purchase method.

For each new consolidated acquisition, those identifiable assets, liabilities and contingent liabilities of the acquired company which satisfy the IFRS recognition criteria are accounted for at fair value, determined at the date of acquisition, except for non-current assets classified as held for sale, which are recognized at fair value based on the amount that would be realized upon disposal, net of sales 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 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 by 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 currency of the acquired company. It is subsequently accounted for at cost, less depreciation, and is not amortized but is subject to impairment tests annually or on a more frequent basis if indications of identified impairment exist.

Adjustments of 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. Beyond impacts of adjustments are posted to the income statements unless they represent corrections of errors.

Net income, revenues and expenses of subsidiaries acquired (or disposed) during the period are accounted for in the consolidated income statement from the acquisition date (or through the date of disposal).

Lastly, 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 net value of assets or liabilities as reported in the balance sheets and the amount resulting from the application of tax rules.

Deferred taxes are calculated by fiscal entity, according to the "liability method", with all the temporary differences maintained.

Deferred tax assets are generated mainly by business combinations, provisions and loss carry-forwards when their recoverability is likely. They are recognized only if it is likely that a taxable profit will be available on which temporary differences can be computed.

Deferred tax liabilities are partly due to changes in the useful lives of fixed assets, the staggering of the taxation of gains on sales, the effects of business combinations, temporary differences in investments accounted for by the equity method and, from 2005, the impact of the revaluation of financial assets available for sale.

Deferred tax liability is recognized for all taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures, except when the Group controls the reversal of the difference and 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 quasi-enacted tax rates at closing date. The impact of a change in tax rate is recognized in income or in equity, depending upon the item to which it corresponds. For interim financial statements, income tax is calculated for each fiscal entity by applying to the income before tax an effective tax rate estimated for the year.

Deferred taxation is classified as non-current asset or liability.

2.9. Intangible assets

Research and development costs

Research costs are charged to expense when incurred.

Development costs are charged to expense unless they meet the recognition criteria of IAS 38. These costs mainly comprise costs incurred on development projects aiming at significantly improving new processes assessed as technically feasible, or for which the usefulness has been determined (for products to be used internally), and which are likely to generate economic benefits.

These capitalized costs include direct staff costs and the costs of materials and services.

Subsequently such capitalized costs are carried at cost less cumulated amortization and depreciation. An impairment test is systematically performed upon projects in progress that are unavailable for use on an annual basis, or on a more frequent basis if indications of impairment exist.

Other intangible assets

Other intangible assets encompass in particular the acquired use rights of patents, licenses, brands, admission rights on distribution networks (outside of France), acquired customer contracts, emission quotas, rights of capacity on plants and software that was purchased or internally generated.

Costs on elements internally generated, such as trademarks and other similar elements, are booked as expenses.

Intangible assets acquired from third parties are accounted for at purchase price plus costs related to the purchase and costs attributable to bringing the asset to its working condition. Intangibles acquired through business combinations are recognized at fair value at acquisition date.

Internally generated software is posted in the balance sheet at the cost of production.

Subsequent costs related to information systems are capitalized if they increase the future economic benefits of the specific asset to which they relate and if this cost can reliably be allocated to the asset. All other expenses, including those linked with the development of internally generated intangible assets in connection with the business (such as brands or customer listings) are not capitalized, but rather are expensed in the period in which they were incurred.

Intangible assets with indefinite useful lives are not amortized, but are subject to systematic impairment testing at least once a year.

Intangible assets with finite useful lives are amortized over their useful lives and depreciated if there is an indication of impairment.

2.10. Concession assets

Concession assets, which mainly relate to distribution assets, embodying the right of use of infrastructures during the concession contract, are recorded as a specific item in fixed assets.

Their gross value is made of the cost of infrastructures financed by the company (initial assets and replacements put into the concession by Gaz de France) and the value of assets provided free of charge by third parties and concession grantors.

<u>Initial assets financed by the company</u>
Initial assets financed by the company give rise to a straight-line concession amortization, spread over the term of the contract. This amortization is recognized in reduction of assets for the portion of amortization spread over on the service life of underlying facilities and under liabilities for the complementary portion (concession termination amortization).

In case of early renewal of a concession, net book values at the date of renewal remain amortized according to the initial amortization plan.

Amortization assets is recognized under "depreciation, amortization and provisions" in operating income.

<u>Assets provided free of charge</u>
The value of concession facilities granted free of charge is booked as assets against, under non-current liabilities, the item "Concession grantors' rights". Each such asset is depreciated using the straight-line method over the service life of the asset to recognize the loss in value of the asset and the corresponding reduction in liabilities. This depreciation has no impact on the statement of income.

<u>Replaceable concession assets</u>
Replaceable concession assets are assets that are likely to be replaced before the term of the corresponding concession agreement.

Replaceable concession assets (generally corresponding to assets granted free of charge at the beginning or during the life of the contract) are subject to a provision for replacement, which covers assets' replacement costs. Provisions for replacement are charged against operating income as "depreciation, amortization and provisions".

Useful lives
Distribution concession assets are amortized between 10 and 45 years.

2.11. Tangible assets

Initial recognition

Group tangible assets are recognized at their acquisition or production cost. The cost includes all directly costs attributable to the fixed asset, as well as dismantling costs that will be necessary at the end of the asset's life.

Borrowing costs directly attributable to the purchase, building or production of certain assets are accounted for as financial expenses in the period in which they were incurred until the date of first use.

Subsequent review of tangible assets

Tangible assets are subsequently measured based on the cost model (cost less amortization and depreciation).

Components

When parts of an asset cannot be separated from one another, the asset is recognized globally. If, from the beginning, one or several components have different useful lives, each component is separately accounted for and is subject to specific amortization.

This principle is mainly applied in the case of complex technical facilities, (such as compression and cogeneration facilities...)

Recurring major repair costs or the costs of major planned inspections are capitalized as a component and amortized over the period between two major inspections.

Amortization method and useful lives

Amortization embodying the consumption of future economic benefits is calculated on a straight-line basis, except for productive assets of the Exploration-Production segment.

Amortization is based on useful lives, determined according to the expected use of assets, or on the basis of the durations adopted by regulatory authorities in their rate determinations. The useful lives of the primary classes of assets are as follows:

- technical facilities;
  - distribution facilities (conduits, connections, pressure and metering stations): from 30 to 45 years;
  - other distribution facilities: from 10 to 20 years;
  - transmission facilities (networks, connections, compression): from 30 to 50 years;
  - storage facilities: from 30 to 50 years;
  - LNG terminals: from 20 to 40 years;
- buildings: from 20 to 40 years;
- other fixed assets: from 3 to 15 years.

Useful lives are reviewed at each closing date when expectations differ from previous estimates and changes are posted as changes in estimates, in accordance with IAS 8.

Subsequent costs

Subsequent costs are capitalized if they meet the IAS 16 recognition criteria, which is assessed before the investment is made. These costs can lead to an increase in production capacity, or the probable useful life or value of an asset. Similarly, costs related to security and environmental compliance are capitalized when they are necessary to enable other assets to carry on generating economic benefits.

Costs incurred for fixed asset maintenance are recognized in the income statement in the period in which they are incurred.

Site dismantling asset

Assets are recognized against provisions accrued for the obligation to dismantle and restore certain sites. As soon as the asset subject to such obligation begins operation, Gaz de France accrues all expected future costs, discounted based on the expected date of dismantling.

This asset is amortized on a straight-line basis over the residual useful life until the dismantling occurs.

Investment grants

Investment grants received by the Group are deferred and recognized in income on the same basis as the amortization of the asset to which they relate.

Non-concession assets

Non-concession assets are those that belong to the Group itself or have been financed through finance lease agreements. They are depreciated on the basis of their estimated service lives.

Lease agreements

Financial leases
Long term lease agreements are treated as finance leases as soon as they transfer to the lessee the major part of the risks and rewards incidental to the ownership of the leased assets, whether or not the ownership is transferred at the end of the contract. They comprise leases, as well as certain chartering contracts for LNG carriers or bookings of transmission capacity.

Assets financed under finance lease contracts are capitalized in tangible assets as soon as the Group has the right to exercise its right of use, at the lower of fair value of the leased assets and present value of the minimum lease payments. These assets are amortized over the period that is the shorter of the useful life of the asset or the contract 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.

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 made are recognized as an expense for the applicable period.

Exploration and production assets

The Group applies the "successful efforts" accounting method to account for exploration and production costs.

Costs of exploratory and evaluation drillings
Exploratory and evaluation drilling costs are capitalized in assets in progress until fields are acknowledged to be economically profitable.

Otherwise, expenditures in exploration and development are written off in the year in which they proved unsuccessful.

Expenditures which result in the discovery of commercial reserves are transferred to the relevant tangible asset accounts and amortized over the production period.

Other exploratory costs
Other exploratory costs, such as geological and geophysical activities, are expensed in the period in which they are incurred.

Mining rights relating to unproved reserves are capitalized and written down if no discovery of commercial reserves is achieved.

Amortization of mining rights begins at the time of production.

Production tangible assets, including restoration costs, are amortized according to the unit of production method ("UOP"), in line with the depletion of the property based on proved, developed reserves.

2.12. Depreciation of intangible and tangible assets

Impairment

Impairment testing is systematically carried out on an annual basis on goodwill and intangible assets that have indefinite useful lives, and on a more frequent basis if indications of impairment exist.

Tangible assets and intangible assets with finite useful lives undergo impairment testing only when indications of impairment exist. Impairment is generally the result of significant changes in the asset's operational environment, or of a lower-than-expected economic performance.

Main indicators of impairment used by the Group are:

- external indicators:
  - major changes in the economic, technological, political environment or on the market on which the company operates or to which the asset is dedicated,
  - drop in demand;
- internal indicators:
  - obsolescence or material degradation not planned in the amortization plan,
  - lower-than-expected performance through a decrease in EBITDA,
  - diminution of reserves for exploration-production,
  - changes in energy prices and dollar rates.

Assets or goodwill are depreciated to reduce their carrying amount to their recoverable amount when the recoverable amount is lower. The recoverable amount is the highest value of the fair value net of exit costs and of 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.

Globally speaking, CGUs correspond to the legal structure of the group's subsidiaries, except for:

- the Exploration and Production segment, where the CGU consists of hydrocarbon field or of several fields, when they are in close geographical proximity or have similar economic characteristics and when each field does not generate cash flows independent from those of the others in the group;
- the parent company where CGUs are consistently defined to follow segment reporting.

Impairment is recognized when the carrying value of the CGU to which the assets belong exceeds the recoverable value of the CGU. The recoverable amount is generally determined by reference to the value in use of the assets' group, calculated based on the present value of the future cash flows expected from these assets in the context of economic assumptions and operating conditions planned by the Group's General Management, in particular on energy prices.

Practically, the estimate of cash flows is based on:

- business plans prepared on a 5-year explicit horizon. Beyond this horizon, previsions are extrapolated, until the earlier date of the asset or CGU end of use, except for justified exception, on the basis of a stable or decreasing growth rate;
- the current position of the asset or the CGU, without consideration of improvements in performance or capacity induced by future capital expenditures.

The discounting rate is the average weighted 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, as country risk or the risk specific to the activity.

Impairment is allocated to GCU assets in the following ranking: first, to the goodwill allocated to the CGU, then to the other CGU assets in proportion of their carrying value.

Impairment of goodwill cannot be reversed.

Other recognized depreciations are adjusted in case impairment has decreased within the limit of the net carrying value the asset would have had at the same date, had it not been depreciated.

2.13. Investments accounted for by the equity method

This item corresponds to interests in companies which are accounted for by the equity method. Under this method, the investment is initially accounted for at cost, and the carrying amount is then increased or reduced to recognize the investor's share in the results of the company after the date of acquisition. Dividends received from the company reduce the carrying amount of the investment.

Lastly, goodwill related to associates is included in the carrying amount of 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 dissociated from the underground storage facilities and is essential for operations.

Cushion gas
Valued at average acquisition cost, whatever the source, plus the cost of regasification, transmission and injection into the system, cushion gas is recorded as a fixed asset. It is amortized on a straight-line basis over the same duration as the above-ground installations of the underground storage facilities.

Working gas
Working gas is carried in inventory. In France it is valued at average acquisition cost on entering the French transmission system, including the cost of regasification, regardless of the source.

A write-down of inventory is recognized in income when the net realizable value, calculated as being the selling price minus direct and indirect expected costs of completion and disposal is less than the weighted average cost.

Group inventory outflows are valued on a weighted average cost basis.

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 administrative overhead.

Inventory outflows are accounted for using the weighted average unit cost method.

When the net realizable value of a category of inventories is lower than its value determined using the weighted average unit cost, depreciation is recognized for the difference.

Depreciations of spare part inventories (which do not constitute major components) and supplies are calculated based on the net realizable value, which is determined on the basis of a specific analysis of inventory turnover and obsolescence, taking account of the sale of parts as part of maintenance activities.

2.15. Accounts receivable and related receivables

Receivables

Receivables include all receivables related to operations and the sale of goods. Receivables are recorded at their nominal value, except those for which the effect of discounting is material. Bad debt is provisioned based on both specific allowances and general statistical provisions.

Gas that is delivered but not invoiced
Receivables also comprise unbilled revenue for energy delivered that has not yet been invoiced, whether or not the meters have been read.

These receivables relate to customers who are not billed monthly (mainly residential customers), as well as those for whom the invoicing period is not aligned with the consumption period of given month.

The share of reading costs related to these unrealized sales but which will be incurred during the next period, as well as the potential risk that these receivables will not be recovered, are the subject of a provision, in order to comply with the accounting principle that income and expenses should be matched.

Delivered but 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 but uninvoiced gas in the meter.

Other receivables

Other receivables, except for potential income tax receivables and customer advances, are measured according to the amortized cost method when the effects of discounting are significant. When these effects are not significant, receivables are recorded at nominal cost.

2.16. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank deposits, as well as investments in securities with very short maturities that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These include marketable securities with very short maturities such as money market funds (or "SICAV") and the monetary pool of securitized receivables (the "FCP"), as well as securities bearing maturities of three months or less from the date of their acquisition.

These investments are carried at fair value from January 1, 2005; the effects of revaluation are recognized in the financial result.

2.17. Non-current assets held for sale

Non-current assets held for sale represent a group of assets the Group intends to dispose of within 12 months, through sale, exchange for other assets or by any other means, but in each case in a single transaction.

Only non-current assets available for immediate and highly probable disposal are classified under "Non-current assets held for sale". This category of assets is accounted for in a specific way according to IFRS 5.

The Group measures non-current assets held for sale at the lower of its carrying amount and its fair value, (based on the amount that would be realized upon disposal, net of sales costs). Amortization of assets ceases to be accrued as from the date an asset is classified in this category.

2.18. Shareholders' equity

Fair value adjustment reserve

This reserve comprises the revaluation at fair value of (non-current) financial assets available for sale, 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 increase

External expenses directly linked to capital increase are recognized, after tax, in diminution of shareholders' equity. Other costs are charged to income statement.

Dividends

Dividends are recognized as debt in the period they are granted.

2.19. Treasury shares

Treasury shares are recorded at purchase cost and deducted from shareholders' equity. The gain or loss net of tax on disposal or cancellation of these shares is recorded directly in shareholders' equity.

2.20. Share-based payments

Article 11 of the law of 1986 on privatisation provides that, in case the State disposes interests in the market, shares must be proposed to employees and former employees of the Gaz de France Group. In connection with the capital opening, the State made an employee offering.

In accordance with IFRS 2, benefits granted to employees are measured at the grant date. They consist in an additional compensation, recognized in income statement as soon as rights are vested.

The Group retained July 7, 2005 as the grant date.

2.21. Liability linked to concessions

Concession grantors' right in assets

Considering the principles above mentioned, they include:

- the corresponding value of assets not financed by the company (net of accrued amortization);
- concession termination amortization constituted to reduce amortization duration to the concession contract's remaining life;
- the corresponding value of replaced assets, which will be returned to the concession grantor free of charge at the end of the concession contract, net of accrued amortization.

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.

When an asset is replaced, the new asset is recorded in assets, and the provision for replacement is correspondingly credited to "Concession grantors' rights in assets". The new asset is amortized as above mentioned for assets received free of charge.

Provision for replacement was discounted based on an inflation assumption of 2% per year and a nominal discount rate of 4% (considering an average maturity of approximately 13 years).

2.22. Employee benefits

2.22.1. Valuation methods of the Group obligations

<u>Valuation methods and actuarial assumptions</u>

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, the 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 harmonized in the euro zone.

Commitments of Gaz de France SA, GRTgaz and DK6 were calculated by the CNIEG and controlled by an independent actuary. The Group used an actuary firm to guarantee the coordination of the subsidiaries' reporting and ensure the consistency of data.

<u>Actuarial gains and losses</u>

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 fully recognized both in the balance sheet and in shareholder's equity.

For long-term benefits, actuarial gains and losses are fully recognized in income.

<u>Plan assets</u>

Plan assets are used to cover pension and other similar obligations. They are carried in the balance sheet at fair value or based on the value, if any, communicated by the fund administrator.

Actuarial gains and losses resulting from the difference between the assets' expected return and the actual return are recognized in assets against shareholders' equity.

Plan assets are deducted from the actuarial debt in determining the amount recognized in the balance sheet.

When the net actuarial debt at closing date (after deduction of the fair value of plan assets) is negative, an asset is recognized in the balance sheet without exceeding the total of deferred items and the present value of refunds likely to be recovered by the Group in the form of reductions in future contributions to the plan.

<u>Accounting for interest cost on provisions and expected return on plan assets</u>

Interest cost on provisions for employee benefits and expected return on plan assets are posted in "Other financial expenses".

2.22.2. Benefits to employees of Gaz de France SA, GRTgaz and DK6

Post-employment benefits (defined benefit plans)
In addition to retirement benefits, post-employment benefits for active and retired employees include a lump-sum payment at retirement, end-of-career exceptional leaves, reduced energy prices, solidarity benefits, immediate benefits in the event of death and partial reimbursement for educational costs.

Long-term benefits (defined benefit plans)
Long-term obligations comprise disability allowances, allowances for temporary work incapacity, allowances related to worker's compensation and occupational safety (including those linked with asbestos) and length-of-service awards. Long-term benefits are measured using actuarial techniques.

2.22. 3 Subsidiaries' employee benefits

Retirement benefits
Subsidiaries' retirement plans consist of defined contribution plans and defined benefit plans.

Defined contributions plans

Under these plans, the subsidiary is committed to pay regular contributions into a separate entity.

Contributions, together with the investment return from contributions, will be paid employees in the form of a retirement benefit. The amount of retirement benefit to be paid is determined by the amount of contributions paid in.

The subsidiaries' legal or constructive obligations are limited to contributions called in during the applicable period. These contributions are treated as operating expenses during that period.

Defined benefits plans

Under these plans, the subsidiary is committed to provide retired employees with a contractually agreed lump sum or level of benefits (such as a retirement benefit, a lump-sum payment at retirement, supplementary retirement benefits, etc.).

These commitments towards future and currently retired employees constitute the subsidiary's obligation, which must be accounted for.

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.

2.23. Other provisions for risks and charges

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources embodying future economic benefits will be required, and for which a reliable estimate can be made.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

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 the liability corresponding to a tangible asset that is depreciated over the estimated residual service life of the site in question, until the actual expenditure is made.

Provisions are discounted over the forecast operating life of the site.

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.

In all cases, the effect of subsequent adjustments of estimates (changes in dismantling schedules and costs, etc.) leads to a change in the asset value, and a corresponding change of amortization is accounted for prospectively. If the adjustment results in an addition to the cost of an asset, the Group tests the asset for impairment. Provisions and reversals are recorded in operating income; the unwinding charge of the discount is posted in "Other financial charges".

Other provisions for risks and charges
Provisions for risks and charges are recognized to cover regulatory, legal or constructive obligations resulting from past events for which the Group expects that an outflow of resources will be required.

All risks are regularly reviewed.

When used, provisions are reversed in the income statement to offset corresponding charges.

2.24. Accounts payable and related accounts

Other debt consists of social liabilities, prepayments and expenses incurred over the course of the year that will be paid subsequently, as well as the hedged portion of firm purchase or sale commitments qualifying for cash flow hedge accounting.

Accounts payable and other debt are recognized at cost, except for derivative instruments that are recognized at fair value as from January 1, 2005.

Grants

Revenues billed to customers to connect them to gas transmission and distribution networks are spread over the contracts' duration, except for Gaz de France SA and GRTgaz. Indeed, for the latter, principles applied to set rates for the use of gas transmission and distribution networks, on a "cost plus" basis aiming at covering a large part of the operating costs related to the gas transmission and distribution, and capital expenses (amortization, revenue), provide that the amounts so collected be deducted from the revenue base of Gaz de France or GRTgaz in the year they were invoiced, while the connection cost be included in the base of regulated assets which are remunerated on the assets' useful life. These principles result in spreading income on assets' service life.

2.25. Financial assets and liabilities (policies applied as from January 1, 2005)

Financial assets and liabilities which are not trading assets or liabilities or derivative instruments are initially recognized at fair value plus those transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

This provision applies to financial assets that are available for sale (shares and bonds), loans and receivables issued by the Company, investments held to maturity and issued borrowings and other financial debt.

2.25.1. Financial assets

Available for sales assets

This category encompasses non-consolidated investments, other investment securities and marketable securities, etc.

Changes in the fair value of these assets are recognized in shareholders' equity, under "fair value reserves" and are recycled through profit or loss when securities are sold or definitively impaired.

<u>Receivables of associated companies</u>
These are loans granted to companies in which the Group holds an interest, but which are not fully or proportionate consolidated.

Receivables are measured at amortized cost using the effective interest method.

They are the subject of impairment tests as soon as indications show that their recovering value would be lower than their book value and at least at each closing date. Impairment is recognized in income.

<u>Non-consolidated and other investments</u>
Non-consolidated and other investments that are neither issued receivables nor classified as financial instruments held for trading are classified in the category of financial assets available for sale and are recognized at fair value.

They are initially recognized at acquisition cost, then measured at fair value when the measurement of fair value is reliable.

Unrecognized gains and losses arising from changes in fair value are directly recognized in equity, in the "fair value adjustments reserve", and are recycled through profit or loss when the financial asset is derecognized or definitively impaired.

Investments for which no reliable measurement of fair value is available are recognized at cost.

Held to maturity

This category comprises instruments with determinable income and fixed maturity that the Group has the intention and the ability to hold to maturity, such as bonds and debt instruments.

Instruments are recognized at their amortized cost.

Held for trading investments

These are comprised of derivative instruments, as well as investment securities that are managed with a pattern of short-term profit-taking.

Subsequent fair value adjustments are recognized through profit or loss.

Financial assets at cost

Securities for which no fair value can be determined are accounted for at their cost.

Long-term loans and receivables

This category encompasses receivables concerning associated companies, trade receivables as well as loans to customers from financial affiliates. These are measured at amortized cost using an effective interest rate.

They undergo impairment tests when there are indications that their recoverable value would be lower than their carrying value and at least at each closing date. Impairment is recognized in income statement.

Current financial assets and liabilities

Other current assets or liabilities (including accounts receivables and other operating receivables, accounts payables and other operating payables and bank overdrafts) are measured, upon initial recognition, at the fair value of the consideration receivable or payable. This value is generally the nominal value owing to the relatively short period of time between the initial recognition of the instrument and its settlement.

2.25.2. Irredeemable securities

Gaz de France issued irredeemable securities in 1985 and 1986 as authorized by law no. 83.1, dated January 1, 1983, and by law no. 85.695, dated July 11, 1985. These securities are measured at their amortized cost. As they did not meet criteria defining an equity instrument, they were classified as debt/financial liabilities.

Remuneration

The remuneration of irredeemable securities, subject to a limit on return between 85% and 130% of the average bond interest rate, is composed of a fixed portion equal to 63% of the French Average Bond Rate ("TMO" in the French acronym) and a variable portion calculated on the basis of the growth in Gaz de France's "value added" in the previous year (or that of the consolidated group, Group share only, if this is more favorable).

The remuneration of irredeemable securities according to the effective interest method is treated as a borrowing cost in interest expense.

2.25.3. Financial liabilities and liabilities of financial affiliates

Financial debts are initially recognized for the consideration received, less the transaction costs incurred and any redemption or issuance premiums.

They are subsequently measured following the effective interest method. As a consequence, financial expenses computed include any issuance costs and issuance or redemption premiums.

Financial debt also includes the amount of minority interests, which the Group is committed to repurchase.

2.25.4. Derivative instruments and hedging

The Group mainly uses derivative financial instruments to manage the foreign exchange, interest rate and commodity risks to which it is exposed in the course of its operations.

Derivative financial instruments used by the Group mainly consist of forward currency contracts, currency options, futures and commodity options, interest rate swaps and currency swaps.

Derivative financial instruments are broken down in current/non-current assets and liabilities, according to the nature of the hedged underlying.

Initial measurement

Derivative financial instruments are initially recognized at fair value.

Subsequent measurement

Derivative financial instruments are re-measured at fair value at each closing date and changes in fair value are recognized as income or loss.

The fair value of quoted instruments is determined by reference to the market price of the instruments. For unquoted instruments for which quoted instruments exist that are similar in nature and maturity, fair value is determined by reference to the market price of these instruments.

For other unquoted instruments, fair value is determined using valuation techniques such as option pricing models or discounted cash flow analysis.

These valuation techniques incorporate assumptions based on market data.

Derivatives not qualifying as hedges

In addition to trading derivatives, these encompass derivative instruments that, though hedging transactions, do not meet all required criteria to qualify for hedge accounting. Changes resulting from fair value adjustments are recognized in the income statement.

Hedge accounting

Hedge accounting is applied when derivative financial instruments partly or totally offset the change in fair value or cash flows of a hedged item, asset, liability, firm commitment or forecast transaction, provided that the effectiveness of hedging is documented from the inception of, and throughout the life of, the instrument.

When entering into derivative contracts, the Group determines the nature of the hedge in question. In order to be able to apply provisions of 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 in offsetting the exposure to changes in the hedged item's fair value, from the inception until the term of the hedge.

Fair-value hedges

Fair value hedges encompass derivatives used to hedge foreign exchange, interest rate and certain commodity exposure. The gain or loss resulting from the re-measurement of these fair value hedging instruments is recognized in operating or financial income, depending on the nature of the hedged item.

Changes in the fair value of the hedged item are recognized in profit or loss symmetrically with changes in fair value of the hedging instrument.

Cash-flow hedges

Cash flow hedges are comprised of derivative financial instruments used to hedge the exposure to variability in cash flows associated with firm or highly probable future transactions, certain commodity contracts as well as floating interest rate borrowings.

The portion of the gain or loss on the hedging instrument is recognized in equity and deferred until the settlement of the hedged transaction or the recognition of the financial asset or liability or the income from the hedged item.

Only the ineffective portion of the gain or loss on the hedging instrument is immediately recognized in the income statement.

Hedges of a net investment in a foreign operation out the euro zone

Long-term loans and borrowings of which the reimbursement is neither planned nor foreseeable are part of the net investment in a foreign operation. Translation adjustments arising from these instruments are recognized in equity under the same heading as adjustments resulting from the translation of subsidiaries' foreign currency financial statements.

Changes in the fair value of hedging instruments set up to reduce the exposure to exchange rate risks on these net investments in foreign operations are recognized in equity, for the effective portion, symmetrically with translation adjustments, in the "fair value adjustments reserve", until the disposal of the foreign operation.

2.26. Statements of income

2.26.1. Revenues

Sales of goods and services rendered

Sales of goods are recognized when significant risks and rewards of ownership of the goods have been transferred to the buyer. Rendering of services is recognized based on the stage of the transaction's completion at the balance sheet date. The stage of completion is measured based on services performed. No revenue is recognized if there is significant uncertainty about the recoverability of the price of the transaction or of associated incurred costs, or about the possible return of the goods.

Construction contract

When the outcome of a construction contract can be reliably estimated, contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses, respectively, by reference to the stage of the contracted activity's completion. The stage of completion is measured based on surveys of work performed.

The contract margin after completion of the contract is regularly reviewed throughout the period of the contract; potential expected losses on construction contracts are fully provisioned.

A construction contract is deemed completed when the transfer of the ownership of the good occurs, and, for complex contracts dealing with the establishment of integrated facilities where there is a commitment to a final, global result, the contract is deemed completed as soon as the acceptance of the work has been delivered.

Interest

Interest income of the financial affiliates is recognized in the income statement pro rata, using the effective interest method.

2.26.2. Operating income

Operating income consists of gains and losses directly attributable to the activities of the Group, be they the result of recurring (and usual or common) items relating to the business's operations, or the result of non-recurring or unusual events or decisions, including extraordinary events over which the Group has no control.

Other operating gains and charges comprise the effect of disposals of tangible and intangible assets and restructuring costs.

2.26.3. 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.

2.26.4. Other financial items

These include:

- financial gains and losses relating to operations;
- expenses related to the unwinding of discounts on long-term provisions and the expected return of plan assets;
- other financial gains and losses not related to operations, such as the outcome of transactions on investments, whether or not related to the Company's operations.

2.26.5. Income tax

Income tax for the period consists of current income tax and deferred tax. It is recognized in the income statement, except for taxes relating to equity items, which are also recognized in equity.

Current income tax represents tax payable on the taxable income of the period, computed according to tax rates in force at closing date.

2.26.6. Earnings per share

Earnings per share is calculated by dividing net income - Group share by the weighted average number of outstanding shares during the period.

2.27. Statements of cash flows

This statement discloses actual cash flows of entities included in the scope of consolidation at closing date.

Most significant non-cash transactions, which have an impact on the balance sheet – such as investments without financing, reclassifications, the effects of mergers and partial transfers of assets and changes in accounting methods – are disclosed in the supplemental disclosures.

The impact on cash and cash equivalents of acquisitions of consolidated entities are disclosed in investing activities under the heading "Acquisition of investments and related net of cash acquired".

The impact of disposals net of cash disposed is disclosed under the heading "Net proceeds from disposals tangible and intangible assets and investments".

When they are material, cash flows generated between January 1 and the date of the disposal of investments that are excluded from the scope of consolidation during the period are nonetheless maintained in the statements of cash flows.

The Group's statements of cash flows is reported using the indirect method from operating income: cash flows from operating activities is determined starting from operating income, and then is adjusted for the effects of non-cash gains and losses.

Impairment of current assets is assimilated to permanent loss. As a consequence, the change in current assets is disclosed net of depreciation.

Cash flows linked to the payment of income tax, interest and the collection of financial gains are treated separately.

Cash and cash equivalents in the statements of cash flows consist of cash and cash equivalents, less bank overdrafts repayable on demand that are an integral part of the Company's cash management.

2.28. Principles of segment reporting

The breakdown of companies by segment is detailed in Note 37.

Primary segment reporting

Primary segment reporting is derived from the Group's main business segments.

A business segment is a distinguishable component of the Group that is engaged in providing services and products in a specific economic environment and subject to risks and returns that are different from those of other business segments.

The segmentation depends upon internal management and reporting structures: a business segment encompasses a sub-group of activities or of operating entities, each entity being separately managed and providing regularly available financial and management information.

As from 2003, the Group's activities have been divided into six segments, gathered into two branches, Energy Supply and Services and Infrastructures.

The Energy Supply and Services includes the following business segments:

• Exploration and Production

Through its subsidiaries and its participating interests, the Gaz de France Group enjoys a portfolio of oil and gas assets, mainly productive assets in the North Sea and in Germany, and fields to be explored and developed in Algeria and Egypt. The Exploration and Production business sells a great part of its productions to the Purchase and Sale of Energy business.

• Purchase and Sale of Energy

This segment pools sale and trading activities. Sales include all customers: residential customers, tertiary and other energy companies. They are mainly carried out by Gaz de France in France but also by Gaz de France and GDF ESS in other European countries outside France. The trading business is carried out by Gaselys.

• Services

The Services business lies in complementary services to energy supply, mainly:

- management and maintenance of facilities producing heat or cold, industrial maintenance, facilities in controlled environment, management of industrial units (Cofathec group),
- electricity production (Finergaz Group)
- Natural gas vehicle (GNVert)

The Infrastructures branch pools all activities in the field of transmission and distribution, divided into the following segments:

• Transmission in France

The gas transmission network is operated by the subsidiary GRTgaz for Gaz de France and, in compliance with European directives, for third parties. This segment also includes the operation of the LNG terminals and storage facilities.

• Distribution France

This segment pools the management of distribution networks in France – investing, replacements, maintenance – carried out by Gaz de France mainly for carrying gas for itself or for third parties.

The distribution networks are run through concessions granted by local authorities.

• Transmission and Distribution International

The Group holds participating interests in several gas transmission and distribution companies, mainly in Europe (Germany, Hungary, Slovak Republic, Portugal, Romania) and in Mexico. Most of them also sell gas.

Secondary segment reporting

Secondary segment reporting is divided on the basis of the major geographical areas in which the Group operates, including:

- France,
- Europe excluding France,
- the rest of the world.

Revenues are broken down by:

- origin (the area where sales were generated); and
- destination (the geographical area in which the beneficiary of the sale or the service is located).

Other Group indicators are broken down by location of origin.

Segment accounting policies

The business segments' accounting policies are those applied by the Group to prepare the consolidated financial statements, as disclosed in this appendix.

The assets and liabilities by business or geographical segment are those balances that exist at closing date.

The reconciliation of the data in the 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 branch are computed at market price.

Transactions mainly occur:

- between Purchase and Sale of Energy and Transmission France:
  - booking and use of capacities required to carry gas sold in the transmission network. Compensation for this service is based on rates to third-party access to the transmission network approved by the French Energy Regulation Commission (CRE).
  - booking and use of storage capacities required for sales activity.
- between Purchase and Sale of Energy and Distribution France: booking and use of capacities required to carry gas sold in the distribution network. Compensation for this service is based on rates to third-party access to the distribution network approved by the CRE.

Unallocated items
Unallocated gains and losses mainly comprise head-office expenses, research and development costs as well as miscellaneous income that are not directly attributable to businesses.

Unallocated fixed assets comprise headquarters' fixed assets, those allocated to research and to human resources management.

B – Comparability between financial years

1. Major transactions

1.1. Acquisitions

Name of subsidiary	Country	Activity	Acquired %	Date of acquisition
Distrigaz Sud	Romania	Transmission and international distribution	51%	05/31/2005
Groupe SPE	Belgium	Transmission and international distribution	25.5%	09/28/2005
Groupe Savelys (ex CGST Save)	France	Services	39%	03/23/2005
AEM**	Italy	Services	100%	04/01/2005
ADF Normandie	France	Services	100%	03/01/2005
Gaz de France Produktion Exploration Deutschland	Germany	Exploration & Production	- *	Nov, 2005

(*) *In compliance with the acquisition contract of Gaz de France Produktion Exploration Deutschland, signed in 2003, a price adjustment was paid. This additional amount corresponded to additional interests in an hydrocarbon well.*
(**) *Acquisition of assets.*

The impact of acquisitions on the consolidated financial statements can be summarized up as follows:

In millions of euros	Note	2005
Intangible assets		163
Tangible assets		703
Financial assets		39
Inventories and work-in-progress		52
Trade accounts and related receivables		236
Cash and cash equivalents		278
Sub-total	**(I)**	**1,471**
Trade accounts and related payables		215
Taxes and social liabilities		64
Provision for employee benefits		28
Financial debt		268
Deferred tax liabilities		104
Other liabilities		40
Sub-total	**(II)**	**718**
Minority interests*	(III)	(268)
Investments in companies accounted for by the equity method**	(IV)	(38)
Fair value of acquired net assets	**(I) – (II) + (III) + (IV)**	**447**
Goodwill		337
Total acquisition costs		**784**
Cash and cash equivalents		(278)
Due in subsequent financial years		-
Payment of the period related to acquisitions		**506**

(*) *Recognition of minority interests when acquiring Distrigaz Sud (held at 51%).*
(**) *Savelys Group (accounted for by the equity method in 2004 – fully consolidated in 2005).*

On March 1, 2005, the Group acquired 100% of ADF Normandie, which operates in the field of industrial maintenance and repairing. On March 1, 2005, the Group acquired 100% of ADF Normandie, which operates in the field of industrial maintenance and repairing.

On March 23, 2005, the Group increased its stake from 20% to 59% in CGST Save Group, renamed Savelys Group. This company is the first French group of maintenance of individual furnaces, owning 200 agencies in France and maintaining 1,350,000 furnaces between the public sector, the collective private sector and individual clients. Consolidated using the equity method in 2004, this company has been fully consolidated in the Group's financial statements as from 2005.

On May 31, 2005, the Group acquired 51% of Distrigaz Sud shareholders' equity. This Romanian company serves nearly one million customers, individuals and companies, in particular in Bucharest. It operates a natural gas distribution network of 13,800 km carrying some 6 billion cubic metres of natural gas per year in the Southern part of Romania. Its sales account for approximately one quarter of total natural gas consumption in Romania. This company is fully consolidated in the Group's financial statements.

On September 28, 2005, the Group acquired a 25.5% interest in the capital of the SPE Group (Société de Production d'Electricité). With this acquisition, the Group could develop its presence in electricity production and energy, gas and electricity commercialisation on the Belgian market. SPE is currently the second largest producer of electricity in Belgium, with a market share of nearly 10% and a network of mainly gas-fired power stations.

The main impact of these acquisitions on the statement of income since acquisition date was as follows:

In millions of euros	12/31/2005
Sales	807
Operating income	5
Net income	-

1.2. Acquisitions of minority interests

Name of subsidiary	Country	Activity	Acquired %	Date of acquisition
CFM CFMH	France	Purchase and sale of energy	45%	01/03/2005

In millions of euros	2005
Minority interests	167
Fair value of acquired net assets	**167**
Badwill	(7)
Total acquisition cost	**160**
Cash and cash equivalents	
Due in subsequent financial years	
Payment of the period related to acquisitions	**160**

To respond to changes in the market for natural gas in Europe, Gaz de France and Total signed a letter of intent in November 2003 to wind-up cross-holdings in their joint transmission and natural gas supply companies in France, 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 transactions occurred on January 3, 2005. Gaz de France is now the sole shareholder of CFM, and Total the sole shareholder of GSO. In addition, Total has acquired a part of the trading activities of CFM as well as the possibility to acquire an interest in the planned LNG terminal in Fos-sur-Mer.

Gaz de France merged CFM on July 1, 2005.

1.3. Companies accounted for by the equity method previously non consolidated

Name of subsidiary	Country	Activity	Acquired%	Date of acquisition
Italcogim Group	Italy	Transmission and Distribution International	40.00%	08/05/2003
Arcalgas Energie	Italy	Transmission and Distribution International	42.65%	05/07/2002
Arcalgas Progetti	Italy	Transmission and Distribution International	44.17%	05/07/2002

These investments have been held by the Group since 2002 and 2003, but were not integrated in the consolidated financial statements due to the Italian regulation limiting to 2% voting rights of foreign companies. The listing of Gaz de France since July 7, 2005 made this restriction on voting rights inapplicable, thus allowing the integration of these entities in the Group scope of consolidation.

The equity method was elected for these companies owing to the Italian regulation, which restricts control on these entities.

1.4. Disposals

Name of subsidiary	Country	Activity	Disposed%	Date of disposal
G.S.O.	France	Transmission-Storage France	30%	01/03/2005

The disposal of GSO is a part of the winding-up of cross-holdings between Total and Gaz de France mentioned in paragraph 1.2. Prior to the disposal, this company was consolidated using the equity method in the Group's financial statements.

The global positive impact of the winding-up of cross-holdings with Total amounted to 77.1 million euros posted in "Other operating income and expenses".

The Group' share in disposed assets and liabilities, representing the value of sold investments, can be disclosed as follows:

In millions of euros		2005
Goodwill and intangible assets		2
Tangible assets		165
Financial assets		0
Inventories and work-in-progress		30
Trade accounts and related receivables		47
Cash and cash equivalents		1
Sub-total	**(I)**	**246**
Trade accounts and related payables		30
Tax and social liabilities		17
Financial debts		60
Provision for employee benefits		2
Deferred tax liabilities		37
Other liabilities		1
Sub-total	**(II)**	**146**
Disposed net assets = inv. in cies accounted for by the equity method	**(I) – (II)**	**99**
Benefits (losses) on disposals		(4)
Net proceeds from the sale		**95**
Less		
Net disposed cash		(1)
		-
Cash consideration received of the period		**94**

2. Options for transition

The Group has been applying standards on financial instruments since January 1, 2005.

Accounting principles and valuation methods chosen by the Group in compliance with IAS 32 and 39 are detailed in Supplemental Disclosure B paragraph 2.

The first-time adoption of these standards resulted in an increased shareholders' equity by 192 million euros as of January 1st, 2005, which can be broken down between an increased shareholders' equity-Group share by 198 million euros and reduced minority interests by 6 million euros.

The following table summarizes IAS 32 and 39 impact on the Group's shareholders' equity as of January 1, 2005:

	Shareholders' equity – group share					
In millions of euros	Group's retained earnings	AFS fair value reserve [(a)]	CFH reserves [(b)]	Total reserves – group share	Minority interests	Total shareholders' equity
Shareholders' equity as of December 31, 2004 in IFRS before IAS 39	**10,998**			**10,998**	**212**	**11,210**
Net of deferred tax impacts of first-time adoption of IAS 32 and 39:						
Revaluation of assets available for sale		254		254		254
Derivative hedging instruments on assets available for sale	(11)			(11)		(11)
Valuation of irredeemable securities at amortized cost	(94)			(94)		(94)
Valuation of bonds at amortized cost	8			8		8
Derivative hedging instruments on interest rate risks			(14)	(14)	(6)	(20)
Derivative hedging instruments on commodities	31		21	52		52
Other	3			3		3
TOTAL IMPACT OF IAS 32 AND 39	**(63)**	**254**	**7**	**198**	**(6)**	**192**
Shareholders' equity as of January 1, 2005 in IFRS	**10,935**	**254**	**7**	**11,196**	**206**	**11,402**

(a) *Fair value adjustments reserve for assets available for sale.*
(b) *Cash flow hedge adjustments reserve.*

Revaluation at fair value of assets available for sale

Assets available for sale namely included non-consolidated investments, which, in compliance with IAS 39, are measured at fair value by reference to the market price for quoted financial instruments. Changes in fair value are directly recognized in equity, in the "fair value adjustments reserve – AFS".

Upon changeover securities held by the Group in Technip and Petronet LNG were therefore valued at fair value on the basis of their market price as of December 31, 2004.

Technip securities
The valuation at fair value of Technip securities resulted in the recognition in opening equity of a fair value adjustments reserve of 226 million euros. After accounting for financial hedges set up to preserve the value of securities, the impact of the changeover on equity amounted to 215 million euros.

Petronet LNG Securities
The Gaz de France Group holds a 10% equity interest in the Indian company Petronet LNG, which developed through the construction of the Dahej LNG terminal the first supplying network of LNG in India. A part of the company share capital is listed in New Delhi and Bombay stock exchanges.

The valuation at fair value of Petronet LNG securities on the basis of stock exchange price as of December 31, 2004, led to an increase in shareholders' equity of 26 million euros.

No deferred tax was computed on the revaluation at fair value of both securities, owing to a sufficient volume of long-term loss carry-forwards.

Other assets available for sale
The valuation of other assets available for sale did not have significant impact and increased shareholders' equity by 2 million euros.

Valuation of financial debt at amortized cost

In compliance with IAS 39, financial debt was valued at amortized cost using the effective interest rate method.

Irredeemable securities
Gaz de France issued irredeemable securities in 1985 and 1986 through two instalments A and B. Only irredeemable securities of the A instalment remain outstanding. Irredeemable securities of the A instalment include returns made out of two terms, one fixed and one variable. The fixed portion is based on a percentage (63%) of the bond average rate and the variable portion depends namely of Gaz de France's "value added". Minimum annual return amounts to 85% of the bond average rate and maximum return to 130% of the bond average rate.

Upon changeover, irredeemable securities were valued at amortized cost and accrued interests were calculated on the basis of the effective interest rate. Considering returns in the past debt was valued at 130% of the securities' historical value. This led to a reduction in shareholders' equity by 94 million euros net of deferred tax (144 million euros before deferred tax).

Bonds

As of January 1, 2005, bonds with maturity 2013 and 2018, including premiums and issuance costs, were valued at amortized cost, applying the method of the effective interest rate. This valuation led to cancel the net value of issuance premiums in the opening balance sheet and to adjust the value of bonds on the basis of calculated effective interest rates.

These restatements induced an increase in shareholders' equity by 8 million euros upon the first-time adoption of standards on financial instruments.

Recognition of derivative financial instruments

Derivative hedging instruments on interest rate risks on borrowings

The Group uses derivative cash flow hedging instruments to manage its exposure on cash flows, namely related to borrowings at floating rate. Upon changeover to IAS 32 and 39, the fair value of hedging instruments was recognized in the cash flow hedge adjustments reserve since the Group did not evidence, in the opening balance sheet, ineffective portions on these instruments, which would have been directly recorded in the first-time adoption reserves.

As of January 1, 2005, the valuation of derivative hedging instruments on borrowings led to reduce shareholders' equity by 14 million euros.

Derivative financial instruments on commodities

In compliance with IAS 39, the fair value of derivative financial instruments used by the Group to manage its exposure to changes in commodity prices was recognized, upon changeover:

- in cash flow hedge adjustments reserves for transactions qualifying for hedge accounting,
- in first-time adoption reserves for transactions not complying with criteria of hedge accounting and for commodity derivative instruments qualifying for fair value hedge accounting.

Hedge accounting

To prepare the opening balance sheets, the first time adoption standard (IFRS 1) requires that all instruments previously qualifying for hedge accounting under the French standards be accounted for under hedge accounting in IFRS.

Qualifying for hedge accounting transactions

Cash flow hedge

As of January 1, 2005, the valuation of cash-flow hedging instruments on gas purchases induced an increase in shareholders' equity of 21 million euros net of deferred tax via the cash flow hedge adjustments reserve (34 million euros before deferred tax).

Fair value hedge

As of January 1, 2005, the impact of the valuation of fair value hedging instruments was fully compensated for by the impact of the valuation at fair value of hedged contracts.

Transactions not qualifying for hedge accounting

These transactions, which do not comply with criteria of hedge accounting according to IAS 39, are elements of the Group's management policy. The recognition at fair value of these derivative instruments increased by 31 million euros net of deferred tax shareholders' equity (47 million euros before deferred tax) as of January 1, 2005.

3. Initial public offering and capital increase

The initial public offering of Gaz de France SA was made by listing on the stock exchange:

- 90,980,990 shares sold by the State,
- shares put on the market in connection with a capital increase of Gaz de France of 80,871,988 shares.

The offering took the form of a global guaranteed offering to institutional investors in France and outside France, of an offering at open price reserved to retail investors in France and of an employee offering.

The offered shares all participate to profits on the whole year 2005, since January 1, 2005.

The capital increase went along with an additional paid-in capital of 1,789 million euros.

The amount of emission costs due to the capital increase was computed (free of the corresponding tax credit) on the additional paid-in capital.

The capital increase induced an increase of shareholders' equity by 1,870 million euros.

First transactions in Paris stock exchange were held on July 8, 2005. Shares entered the CAC 40 on September 1, 2005.

Gaz de France shareholding after operation

In percentage of share capital, Gaz de France shareholding was as follows:

- the State holds 80.19% of the company's share capital and voting rights;
- shareholders (institutional and retail investors): 17.47%;
- employees: 2.34%.

C. Supplemental disclosures on the balance sheets, statements of income and statements of cash flows

1. BALANCE SHEETS – ASSETS

Note 1. Goodwill and other intangible assets

In millions of euros	Goodwill [(1)]	Concessions, patents, licenses and similar rights	Business goodwill	Intangible assets in progress	Other	Total intangible assets
Gross book value as of January 1, 2004	**1,313**	**186**	**6**	**6**	**47**	**1,558**
Additions		4		1	8	13
Disposals		(1)			(1)	(2)
Change in scope of consolidation					-	-
Foreign currency translation adjustments	41	(4)			1	38
Transfers						-
Other	(5)	46		(1)	(5)	35
Gross book value as of December 31, 2004	**1,349**	**231**	**6**	**6**	**50**	**1,642**
Additions		20	2	54	11	87
Disposals		(10)			(4)	(14)
Change in scope of consolidation	337	41	113	-	13	504
Foreign currency translation adjustments	22	12			1	35
Transfers		12		(13)	1	-
Other	6	(5)	(3)	30	4	32
Gross book value as of December 31, 2005	**1,714**	**301**	**118**	**77**	**76**	**2,285**
Amortization and depreciation as of December 1, 2004	**107**	**119**	**1**		**21**	**248**
Amortization for the year		20			5	25
Reversals						-
Impairment – allowances	52	(1)				51
Impairment – reversals		(21)				(21)
Change in scope of consolidation		-				-
Foreign currency translation adjustments		(2)			1	(1)
Other		18		2	(1)	19
Amortization and depreciation as of December 31, 2004	**159**	**133**	**1**	**2**	**26**	**321**
Amortization for the year	-	14	6		15	35
Reversals					(2)	(2)
Impairment – allowances	2					2
Impairment – reversals		(28)				(28)
Change in scope of consolidation		6	1			7
Foreign currency translation adjustments		4		1		5
Other	9	(2)			2	9
Amortization and depreciation as of December 31, 2005	**170**	**127**	**8**	**3**	**41**	**349**
Net book value as of December 31, 2004	1,190	98	5	4	24	1,321
Net book value as of December 31, 2005	**1,544**	**174**	**110**	**74**	**35**	**1,936**

(1) *including: SPP group (€ 734 million), Gasag (€ 203 million), Cofathec group (€ 174 million), Savelys group (€ 251 million), SPE (€ 43 million) and Distrigaz Sud (€ 32 million).**

(*) *additional information provided for the purposes of the* document de référence

The change in business goodwill primarily resulted from the increase in Gaz de France's equity interests from 20% to 59% in the Savelys group on March 23, 2005 and from the SPE Group's entry in the scope of consolidation.

Impairment reversals mainly concerned the Mexican distributions subsidiaries.

Goodwill recognized in the balance sheets as of December 31, 2004 mainly concerned:

- SPP Group: 718 millions of euros;
- Gasag: 203 millions of euros;
- Cofathec group: 165 millions of euros.

During the period, goodwill changed as follows:

In millions of euros	
Goodwill as of December 31, 2004	**1,190**
Change in scope of consolidation	
Savelys Group	251
SPE	43
Distrigaz Sud	32
Cofathec	11
Impairment	(2)
Currency translation adjustments	22
Other	(3)
Goodwill as of December 31, 2005	**1,544** (1)

(1) *including: SPP group (€ 734 million), Gasag (€ 203 million), Cofathec group (€ 174 million), Savelys group (€ 251 million), SPE (€ 43 million) and Distrigaz Sud (€ 32 million).**
(*) *additional information provided for the purposes of the* document de référence

Once identification and evaluation of acquired assets and liabilities finalized, goodwill generated by the increase in interest in the Savelys Group amounted to 251 million euros.

Acquisitions during 2005 of the Distrigaz Sud Group and the Société de Production d'Électricité (SPE) resulted in the recognition of goodwill for 32 million euros and 43 million euros. The Group may finalize the identification and the evaluation of assets acquired and liabilities assumed during 2006.

Currency translation adjustments mainly related to goodwill in Mexican peso and Slovakian krone.

Note 2. Concession assets and tangible assets

Note 2.a. Concession assets

In millions of euros	Gross book value as of December 31, 2005	Amortization and depreciation	Net book value as of 12/31/2005	Net book value as of 12/31/2004
Concession assets	**15,229**	**4,497**	**10,732**	**10,191**

Note 2.b Tangible assets

	Gross book value as of December 31, 2005	Amortization and depreciation	Net book value as of 12/31/2005	Net book value as of 12/31/2004
Tangible assets	**22,457**	**7,186**	**15,271**	**14,155**

Note 2. c. Changes in the period

Gross Value	Technical facilities									Total
	Trans-mission	LNG Terminals [a]	Storage	Distribu-tion [b]	Exploration Production	Other	Land	Buildings	Other Tangible Assets	Assets in progress and down payments	Concession assets and tangible assets
As of January 1, 2004	**6,620**	**407**	**2,744**	**15,003**	**3,523**	**1,180**	**219**	**1,184**	**501**	**1,401**	**32,782**
Additions	4		12	13	67	40		3	79	1,668	1,886
Disposals	(9)		(12)	(111)	(36)	(18)		(32)	(31)	(89)	(338)
Change in scope consolidation											
Foreign currency translation adj.	(5)			27	5	62	(1)	(19)	(8)	7	68
Transfers											
Other	131	9	(86)	1,445 [c]	(21)	(39)		41	14	(985)	509
As of December 31, 2004	**6,741**	**416**	**2,658**	**16,377**	**3,538**	**1,225**	**218**	**1,177**	**555**	**2,002**	**34,907**
Additions	9	1	34	14	39	49	1	3	26	1,816	1,991
Disposals	(5)		(26)	(67)	(20)	(26)	(2)	(20)	(43)	(16)	(225)
Change in scope consolidation	2	7	32	344	59	167	9	46	20	36	723
Foreign currency translation adj.	37		5	(4)	7	8	5	2	47	15	123
Transfers	214	9	163	899	124	415	2	58	27	(1,911)	-
Other	(10)	(3)	(9)	155	121	(39)	5	(20)	(23)	(10)	167
As of December 31, 2005	**6,988**	**430**	**2,857**	**17,718**	**3,868**	**1,799**	**238**	**1,246**	**609**	**1,932**	**37,686**

AMORTIZATION AND DEPRECIATION

As of January 1, 2004	**1,037**	**273**	**993**	**4,543**	**1,342**	**390**	**79**	**540**	**344**	**2**	**9,543**
Amortization for the year	240	14	89	29	331	167	5	64	37		976
Reversals	(5)		(6)	(62)	(34)	(17)		(22)	(26)		(172)
Impairment – allowances					21				23	10	54
Impairment – reversals					(47)						(47)
Change in scope of consolidation						11		(9)			2
Foreign currency translation adj.	3		1	10	(1)						13
Other	(3)	2	(64)	372	(1)	(81)		(3)	(33)		189
As of December 31, 2004	**1,272**	**289**	**1,013**	**4,892**	**1,611**	**470**	**84**	**570**	**345**	**12**	**10,558**
Amortization for the year	255	13	85	169	370	(2)	5	47	33		975
Reversals	8		(5)	(66)	(38)	4	(2)	(23)	(40)		(162)
Impairment - allowances								1	16	8	25
Impairment – reversals					(13)				(9)		(22)
Change in scope of consolidation	2	7	32	2		(32)		3	14		28
Foreign currency translation adj.	6		1	1	(4)	10		1	11		26
Other			(4)	276	45	(27)	(1)	(19)	(17)		253
As of December 31, 2005	**1,543**	**309**	**1,122**	**5,275**	**1,971**	**424**	**86**	**580**	**353**	**20**	**11,683**

Gross Value	Technical facilities									Total
	Trans-mission	LNG Terminals [(a)]	Storage	Distribu-tion [(b)]	Exploration Production	Other	Land	Buildings	Other Tangible Assets	Assets in progress and down payments	Concession assets and tangible assets
NET BOOK VALUE											
As of December 1, 2004	5,583	134	1,751	10,460	2,181	790	140	644	157	1,399	23,239
As of December 31, 2004	5,469	127	1,645	11,485	1,927	755	134	607	210	1,990	24,346
As of December 31, 2005	**5,445**	**122**	**1,736**	**12,442**	**1,896**	**1,378**	**152**	**666**	**257**	**1,910**	**26,003**

(a) *Namely includes the value related to concession assets of Gaz de France SA.*
(b) *The reclassification of 1,445 million euros of the Distribution assets is made of:*
575 million euros of assets from pending assets in progress;
674 million euros of dismantling assets;
196 million euros of various miscellaneous movements.

Impairment tests in 2005 namely led to recognize the depreciation of certain licenses of exploration and production in Germany (8 million euros) and exploration fields in England (16 million euros) and resulted in the reversal of depreciation previously recorded on exploration fields in Germany (17 million euros).

Capital expenditures (Concession assets, tangible and intangible assets) amounted to 2,016 million euros for 2005, compared to 1,628 million euros for 2004. They comprised 1,240 million euros of capital expenditures in the Infrastructures branch in France, namely for the Transmission and Storage France segment (447 million euros, composed by Gaz de France SA and GRTgaz) and the Distribution France segment (793 million euros). Capital expenditures of subsidiaries mainly concerned the Exploration-Production segment for 500 million euros (project development) and 24 million euros for electricity production, due in particular to the completion of the construction of the combined cycle plant in Dunkerque.

Tangible assets included dismantling assets for the following amounts:

In millions of euros	Gross book value as of December 31, 2005	Amortization	Net book value as of December 31, 2005	Net book value as of December 31, 2004
Dismantling assets	1,016	219	797	726

Dismantling assets were recognized in 2004 for a gross amount of 674 million euros; they represent the counterpart for the provision for site restoration recognized by Gaz de France in connection with the dismantling of the distribution network (see note 9).

Note 2.d. Leased assets

En millions d'euros	Gross book value as of December 31, 2005	Amortization and depreciation	Net book value as of December 31, 2005	Net book value as of December 31, 2004
Technical facilities	782	211	571	585
Constructions	307	124	183	193
Other	3	1	2	1
TOTAL LEASED ASSETS	**1,092**	**336**	**756**	**779**

Note 3. Investments in companies accounted for by the equity method, non-current financial assets and investments of financial affiliates

Note 3.a. Investments in companies accounted for by the equity method

The Group's equity interests in associated companies and percentages of equity interests are detailed in note 31.

The following amounts represented the Group's share of assets, liabilities and incomes in associated companies:

In millions of euros	December 31, 2005	December 31, 2004
Non-current assets	1,161	997
Current assets	491	445
Non-current liabilities	(620)	(602)
Current liabilities	(396)	(361)
Net assets	**636**	**478**
Goodwill	57	6
Investments in cies accounted for by the equity method (Balance sheets)	**693**	**484***
Sales	838	1,096
Net income	189	125

(*) *GSO included, classified in the preliminary IFRS financial statements as of December 31, 2004 in the heading "Assets classified as held for sale". GSO's equity investment amounted to 99 million euros.*

The change in the caption "investments in companies accounted for by the equity method" was mainly due to the consolidation in 2005 of the Italian companies Italcogim, Arcalgas Progetti and Arcalgas Energie and to the change in the consolidation method of the Savelys Group.

The exploration-production company EFOG accounted for approximately 25% of above-described assets, 14% of sales and 40% of investments in companies accounted for by the equity method. The EFOG net income accounted for 68% of the income of the companies accounted for by the equity method.

In millions of euros	December 31, 2005	December 31, 2004
Value of investment at opening date	**240**	**263**
Share of income	128	77
Impact shareholders' equity	-	-
Translation adjustments	8	(2)
Dividends	(98)	(98)
Other	-	-
Value of investment at closing date	**278**	**240**

Note 3.b. Proportionate consolidated companies

Following amounts represented the Group share in assets, liabilities, income and expenses, before elimination of intercompany transactions:

In millions of euros	December 31, 2005	December 31, 2004
Non-current assets	2,479	2,060
Current assets	3,935	1,345
TOTAL ASSETS	**6,414**	**3,405**
Non-current liabilities	1,059	856
Current liabilities	3,645	981
TOTAL LIABILITIES	**4,704**	**1,837**
Income	1,593	1,331
Expenses	1,317	1,110
Net Income	276	221

Note 3.c. Non-current financial assets and investments of financial affiliates

In millions of euros	Non consolidated investments	Other assets available for sale	Loans	Receivables of associated companies	Deposits	Total non-current financial assets	Investments of financial affiliates
Gross book value as of Jan. 1, 2004	**483**	**153**	**170**	**216**	**48**	**1,070**	**227**
Additions	22	26	78	60	30	216	34
Disposals	(4)	(5)	(101)	(5)	(2)	(117)	-
Transfers and other	40	10	-	(22)	-	1	(2)
Gross book values as of Dec. 31, 2004	**541**	**184**	**147**	**249**	**76**	**1,197**	**259**
Impact of first-time adoption of IAS 32.39	254	(20)	-	8	-	242	1
Gross book value as of Jan. 1, 2005	**795**	**164**	**147**	**257**	**76**	**1,439**	**260**
Additions	6	9	108	12	255	390	-
Disposals	(143)	(7)	(31)	(33)	(32)	(246)	(2)
Fair-value adjustments	109	2	-	-	-	111	2
Change in scope of consolidation	(241)	-	3	(15)	-	(253)	-
Transfers and other	(2)	(12)	(11)	9	19	3	(161)
Goss book value as of Dec. 31, 2005	**524**	**156**	**216**	**230**	**318**	**1,444**	**99**
Depreciation as of Jan. 1, 2004	**45**	**6**	**1**	**17**	**-**	**69**	**-**
Depreciation for the period	6	1	-	-	-	7	-
Reversals	-	(1)	-	-	-	(1)	-
Transfers and other	(2)	-	-	(1)	-	(3)	-
Depreciation as of Dec. 31, 2004	**49**	**6**	**1**	**16**	**-**	**72**	**-**
Impact of first-time adoption of IAS 32.39	-	-	-	-	-	-	-
Depreciation as of Jan. 1, 2005	**49**	**6**	**1**	**16**	**-**	**72**	**-**

In millions of euros	Non consolidated investments	Other assets available for sale	Loans	Receivables of associated companies	Deposits	Total non-current financial assets	Investments of financial affiliates
Depreciation for the period	1	-	1	-	-	2	-
Reversals	-	(1)	-	(5)	-	(6)	-
Transfers and other	-	(3)	-	-	-	(3)	-
Depreciation as of Dec. 31, 2005	**50**	**2**	**2**	**11**	**-**	**65**	**-**
Net Book value as of Dec. 31, 2004	**492**	**178**	**146**	**233**	**76**	**1,125**	**259**
Net Book value as of Dec. 31, 2004	**474**	**154**	**214**	**219**	**318**	**1,379**	**99**

Gaz de France hedged the value of its Technip shares on December 16, 2004. Gaz de France bought from a financial institution put options on shares and simultaneously sold to it an identical number of call options. The maturity of these options is between 6 and 12 months at the closing date. Gaz de France transferred its shares to the financial institution under a repurchase agreement but has the right to take them back at any moment on request.

Information on the main non-consolidated investments

In millions of euros	% equity interest	Net book value	Net income	Equity (excluding net income)	Net sales	End of latest reported year
TECHNIP Group	- *	174	55	1,883	2,532	06/30/2005
Petronet	10.00	92	(5)	171	364	03/31/2005
Sté d'invest. en Autriche	20.00	76	66	368	-	12/31/2005
ECW	22.00	33	9	129	214	12/31/2004
Other		99				
NET TOTAL		**474**				

(*) *Gaz de France transferred its shares to a financial institution under a repurchase agreement.*

Note 4. Inventories and work-in-progress

In millions of euros	Gross book value as of Dec. 31, 2005	Depreciation	Net value as of Dec. 31, 2005	Gross book value as of Dec. 31, 2004	Depreciation	Net value as of Dec. 31, 2004
Gas inventories	1,336		1,336	828		828
Other inventories and work-in-progress	138	(23)	115	98	(19)	79
Inventories and work-in-progress	**1,474**	**(23)**	**1,451**	**926**	**(19)**	**907**

Note 5. Other current assets (financial instruments excluded)

In millions of euros	Gross book value as of Dec. 31, 2005	Depreciation	Net value as of Dec. 31, 2005	Net value as of Dec. 31, 2004
Trade accounts and related receivables	**6,726**	**(191)**	**6,535**	**4,989**
Prepaid expenses	162	-	162	60
Other receivables	1,333	(28)	1,305	845
TOTAL OTHER RECEIVABLES	**1,495**	**(28)**	**1,467**	**905**
Assets of financial affiliates	**895**	**-**	**895**	**440**

The growth of Trade accounts receivables between December 2004 and December 2005 was mainly due to the increase in sales (+28%), to the acquisitions of the company Distrigaz Sud and the SPE Group (respectively 163 million euros and 65 million euros as of December 31, 2005) and to the change in the consolidation method of the Savelys group (63 million euros as of December 31, 2005).

Assets of the subsidiaries Solfea Bank and Gaselys are posted under the specific caption of current assets of financial affiliates, owing to their specific activity.

Note 6. Cash and cash equivalents

In millions of euros	December 31, 2005	December 31, 2004	Change
Cash on hand– euros	1	1	0
Cash on hand – other currencies	4	4	0
Bank accounts – euros	593	299	294
Bank accounts – other currencies	312	168	144
Cash on hand and bank accounts	**910**	**472**	**438**
Money market funds (SICAV) and mutual investment fund (FCP)	1,095	262	833
Negotiable certificates of deposit and time deposits with maturities within 3 months	114	103	11
Cash equivalents	**1,209**	**365**	**844**
Cash and cash equivalents	**2,119**	**837**	**1,282**
Bank overdrafts – euros	(663)	(471)	(192)
Bank overdrafts – other currencies	(36)	(35)	(1)
Total Bank overdrafts	**(699)**	**(506)**	**(193)**
Current accounts considered as cash	**28**	**(21)**	**51**
Impact of IAS 32-39	**(17)**		**(17)**
Change in cash flow in the statements of cash flows	**1,431**	**310**	**1,121**

2. Balance sheets – liabilities

Note 7. Shareholders' equity

Note 7.a. Outstanding shares

	December 31, 2005	December 31, 2004
OUTSTANDING ORDINARY SHARES:		
As of January 1, 2005	**451,500,000**	**451,500,000**
As of April 28, 2005		
New shares after the decrease in the par value from 2 to 1 euro per share	451,500,000	
Number of shares before capital increase	**903,000,000**	
As of July 7, 2005		
Capital increase – share issue	70,323,469	
Capital increase – complementary issue in connection with the over-allotment option	10,548,519	
Number of shares issued	**80,871,988**	
As of December 31, 2005	**983,871,988**	**451,500,000**

The capital increase was supplemented by an additional paid-in capital of 1,789 million euros.

Share capital	December 31, 2005
Issued and fully paid-up shares of 1 euro each	983,871,988
	-
TOTAL NUMBER OF SHARES	**983,871,988**

Each share granted a simple voting right.

First transactions in Paris stock exchange were held on July 8, 2005.

The share entered the CAC 40 on September 1, 2005.

Non-diluted earnings per share were calculated by dividing the annual net income by the average number of shares outstanding during the period.

Diluted earnings per share were calculated by dividing the annual net income by the average number of shares including possible dilutive instruments. As of December 31, 2005, there was no dilutive instrument.

Note 7.b. Employee offering

In compliance with the law of 6 August 1986 on privatisations, the initial public offering included an offering reserved to employees and to some former employees of Gaz de France and of its majority-held subsidiaries. Thereby, the State granted, under certain conditions, a reduction in the price offered to retail investors and the allocation of free shares.

23 million shares were acquired in the context of this offering.

IFRS 2 "Share-based payment" requires to value in the Group's financial statements the benefits granted and defines the principle of a valuation at fair value at grant date.

The benefit granted being immediate, an expense of 132 million euros was fully recognized in the period against shareholders' equity. The Group valued the benefit granted to employees at fair value at grant date by considering the period of the share non-transferability.

The Group chose as grant date the date of the initial public offering consistently with the announcement to the employees of the main conditions of the plan, according to the position of the French National Accounting Council (CNC) of December 21, 2004 relating to company saving plans.

Note 7.c. Currency translation adjustments

In millions of euros	December 31, 2005	December 31, 2004
USD zone	10	(2)
GBP zone	4	-
Canadian dollar (CAD)	2	(2)
Slovak Krown (SKK)	127	94
Norwegian Krone (NOK)	26	10
Mexican peso (MXN)	23	(6)
Romanian lei (RON)	(7)	-
Hugarian forint (HUF)	7	12
Other currencies	1	(2)
TOTAL	**194**	**104**

Note 8. Liability related to concessions

In millions of euros	December 31, 2005	December 31, 2004
Concession grantors' rights	4,788	4,373
Provisions for replacement	3,821	3,861
TOTAL LIABILITY RELATED TO CONCESSIONS	**8,609**	**8,234**

Provision for replacement of concession assets

This item primarily concerns the replacement of Gaz de France's distribution facilities.

It is calculated as described in the Summary of Significant Accounting Policies in Supplemental Disclosure A. The amount of reversals for use of the period (256 million euros) contributed to increase the item "Concession grantors' rights".

Note 9. Provisions (employee benefits and liabilities relating to concessions excluded) [(1)]

				Reversals in statement of income						
In millions of euros	Amounts as of Jan. 1, 2004	Allowances (statement of income)	Increase (counterpart in balance sheet)	Amount utilized during the period	Unutilized amount reversed during the period	Reclassi-fication	Change in scope of con-solidation	Foreign currency translation adjustments	Unwinding effect of discount	Amounts as of Dec. 31, 2004
Site restoration	600	52	691	(82)		(17)			210	1,454
Litigation	105	13		(4)	(8)					106
Other	414	82		(94)	(153)	2				251
TOTAL	**1,119**	**147**	**691**	**(180)**	**(161)**	**(15)**	**-**	**-**	**210**	**1,811**
Of which:										
included in current liabilities	293	51		(83)	(161)	(4)		(1)	(1)	94
included in non-current liabilities	826	96	691	(97)		(11)		1	211	1,717
TOTAL	**1,119**	**147**	**691**	**(180)**	**(161)**	**(15)**	**-**	**-**	**210**	**1,811**

				Reversals in statement of income							
In millions of euros	Amounts as of Dec. 31, 2004	Allowances (statement of income)	Increase (counterpart in balance sheet)	Amount utilized during the period	Unutilized amount reversed during the period	Reversals in statement of income	Reclassi-fication	Change in scope of consolida-tion	Foreign currency translation adjust-ments	Unwind-ing effect of dis-count	Amounts as of Dec. 31, 2005
Site restoration	1,454	8	115	(21)		(34)	17	11	1	94	1,645
Litigation	106	50		(25)	(11)		12	7	1		140
Other	251	77		(66)	(5)		(95)	22		1	185
TOTAL	**1,811**	**135**	**115**	**(112)**	**(16)**	**(34)**	**(66)**	**40**	**2**	**95**	**1,970**
Of which:											
included in non-current liabilities	1,717	59	115	(34)	(13)	(34)	(112)	11	2	95	1,806
included in current liabilities	94	76		(78)	(3)		46	29			164
TOTAL	**1,811**	**135**	**115**	**(112)**	**(16)**	**(34)**	**(66)**	**40**	**2**	**95**	**1,970**

The principle of the provision for site restoration is presented in the Supplemental disclosure A. It primarily concerns Gaz de France and its Exploration and Production subsidiaries.

The Gaz de France and GRTgaz sites concerned are:

- first the lands on which manufactured gas production plants were located. The accrual, determined statistically on the basis of samples of representative sites, amounted to 164 million euros as of December 31, 2005 (163 million euros as of December 31, 2004);
- second, the pipelines, storage facilities and LNG terminals in service (1,129 million euros as of December 31, 2005, and 1,018 million euros as December 31, 2004).

For the latter, as for Exploration and Production facilities (320 million euros as of December 31, 2005, and 275 million euros as of December 31, 2004) the present value of estimated dismantling costs was fully accrued, with a corresponding entry in property, plant, and equipment. Corresponding amortization was charged to operating income and unwinding of discount was charged to financial income.

In 2004, Gaz de France changed the calculation of the provision for dismantling distribution pipelines, on the basis of a new, more reliable inventory of facilities and on new assessments of future dismantling costs given the current regulatory and environmental framework. City planning regulations have led to an assessment of the risk so as to anticipate a complete removal of 20% of the network and a secured abandonment of 80% of the pipelines. The assessment of the provision,

(1) *Employee benefits are detailed in note 28 and liability related to concessions is detailed in note 8.*

based on technical surveys, was carried out using a 2% growth rate of costs and a 5% discount year over 60 years. This provision amounted to 861 million euros as of December 31, 2004. It was accrued in counterpart to a dismantling asset for 675 million euros. This new estimate is accounted for in the income statement prospectively as from 2000, when conditions were met to permit its calculation. Consequently, 2004 operating income was affected by 184 million euros including retroactive allowances of 132 million euros, mainly posted in financial items.

Reclassifications of provisions were mainly made with corresponding entries in tangible assets (reassessment of site restoration costs) and in depreciation of certain assets. Change in scope of consolidation concerned Distrigaz Sud, the Savelys group and the SPE group.

Note 10. Irredeemable securities

	12/31/2005	12/31/2005	12/31/2004
Irredeemable securities	623	630	485

Gaz de France issued irredeemable securities in 1985 and 1986 using two instalments, A and B. Only irredeemable securities of the A instalment remain outstanding.

On February 24, 2005, the Group cancelled 7,000 irredeemable securities, which it had redeemed in March 2004. The impact was a reduction of "irredeemable securities" in the liabilities of 6 million euros.

As from January 1, 2005, along with the adoption of IAS 32 and 39 on financial instruments, irredeemable securities are valued at amortized cost, based on 130% of the French average bond rate (see Section B – Comparability between financial years).

Since August 1992, these irredeemable securities may be redeemed, in whole or in part, at any time, at Gaz de France's option at a price equal to 130% of their nominal value.

From 2003 to 2005, the amount of income payable by security was: 38.26 euros in 2005, 44.67 euros in 2004, 44.25 euros in 2003.

Note 11. Analysis of financial debt by nature before accounting for financial hedges

In millions of euros	Book value as of Jan. 1, 2004	Increase	Decrease	Foreign currency translation adjustments	Other	Book value as of Dec. 31, 2004
Bonds	**2,054**	**23**			**10**	**2,087**
Bank loans	**1,182**	**280**	**(262)**	**(14)**	**19**	**1,205**
Finance leases and related	**863**	**31**	**(59)**			**835**
Lines of credit	**77**	**56**	**(73)**		**(20)**	**40**
Bank overdrafts	539		(36)	1		504
Commercial paper and treasury bills	677	2,461	(3,050)		13	101
Miscellaneous	52	13	(12)		(5)	48
Other financial debt	**1,268**	**2,474**	**(3,098)**	**1**	**8**	**653**
TOTAL FINANCIAL DEBT	**5,444**	**2,864**	**(3,492)**	**(13)**	**17**	**4,820**
Current	**1,606**	**2,690**	**(3,412)**	**2**	**85**	**971**
Non-current	**3,838**	**174**	**(80)**	**(15)**	**(68)**	**3,849**

In millions of euros	Book value as of Dec. 31, 2004	Impact of first-time adoption of IAS 32/39	Book value as of Jan. 1, 2005	Increase	Decrease	Foreign currency translation adjustments	Other	Book value as of Dec. 31, 2005
Bonds	**2,087**	**(20)**	**2,067**	**2**	**(22)**		**23**	**2,070**
Bank loans	**1,205**	**-**	**1,205**	**43**	**(688)**	**39**	**246***	**845**
Finance leases and related	**835**	**-**	**835**	**3**	**(66)**		**6**	**778**
Lines of credit	40	-	40	11	(17)		(1)	33
Bank overdrafts	504	-	504	178		2	6	690
Commercial paper and treasury bills	101	-	101	1,235	(1,335)			1
Miscellaneous	48	-	48	22	(2)	1	3	72
Other financial debt	**653**	**-**	**653**	**1,435**	**1,337**	**3**	**9**	**763**
TOTAL FINANCIAL DEBT	**4,820**	**(20)**	**4,800**	**1,494**	**2,130**	**42**	**283**	**4,489**
Current	**971**	**7**	**978**	**1,464**	**(1,902)**	**4**	**621**	**1,165**
Non-current	**3,849**	**(27)**	**3,822**	**30**	**(228)**	**38**	**(338)**	**3,324**

(*) *This change is mainly due to entries in the scope of consolidation (see supplemental disclosure B).*

Bonds

Private placements in yen are hedged by EUR/JPY cross currency swaps against three-month Euribor plus margin. These various transactions were conducted under the EMTN program set up in October 2002.

In millions of euros	Book value as of Dec. 31, 2005	Nominal value	Issue date	Maturity	Initial rate	Stock exchange where listed
Public issues	**1,237**	1,250 MEUR	02/2003	02/2013	4.75%	Paris/ Luxembourg
euros	743	750 MEUR	02/2003	02/2018	5.125%	Paris/ Luxembourg
Private placements	**30**	**30 MEUR**	**11/2003**	**12/2006**	**Euribor 3m JPY Libor 6m+0.005%**	**Paris**
euros	36	5,000 MJPY	11/2003	12/2006		Luxembourg
yen	22	3,000 MJPY	03/2004	03/2009	0.658%	None
Other	**2**					
TOTAL BONDS	**2,070**					

Bank loans

As of December 31, 2005, bank loans totalled 845 million euros. The decrease by 360 million euros was mainly owed to the reimbursement of bank debt raised to finance operations in Germany (-378 million euros), entries in the scope of consolidation (+127 million euros) and the reimbursement of the loan corresponding to the "repurchase agreement" detailed underneath (-110 million euros).

Covenants and guarantees

The parent company concluded a "repurchase agreement", through which it transfers to a financial institution the legal ownership of the Technip securities in exchange of a loan of same amount. The covenant includes a regular review of the financial rating of both parties.

Some loans raised by the Group's subsidiaries can include guarantees and articles requiring the compliance with ratios. As of December 31, 2005, the Group complied with the provisions of the said clauses.

Finance lease

Finance lease totalled 778 million euros as of December 31, 2005, down by 57 million of euros compared with December 31, 2004.

As of December 31, 2005, finance leases primarily concerned:

- distribution and storage facilities of a German subsidiary for 345 million euros;
- loans related to two LNG tankers for 145 million euros;
- various real estate leasings for 153 million euros;
- loans raised for the acquisition of varied technical facilities.

Lines of credit

On February 18, 2005, the Group signed a 3 billion euros multi-currency syndicated credit facility which matures in seven year. This new credit facility, which replaces the 2 billion euros syndicated credit facility signed in August 2002, is intended to finance the Group's general business needs and support its short-term financing programs. As of December 31, 2005, it was not used.

As of December 31, 2005, the other lines of credit used amounted to 33 million euros.

Treasury bills and commercial paper

Gaz de France SA has short-term financing facilities programs of 1 billion US dollars for commercial paper and of 1.25 billion euros for treasury bills. These financing programs were unused as of December 31, 2005.

Note 12. Breakdown of financial debt by maturity before accounting for financial hedges

In millions of euros	12/31/2005						01/01/2005
	Bonds	Bank loans	Used lines of credit	Finance lease and related	Other financial debts	Total	Total
One year and less	66	294	23	68	714	1,165	978
From 1 to 2 years	0	124	2	74	38	238	495
From 2 to 3 years	0	98	8	121	0	227	305
From 3 to 4 years	22	79	0	70	0	171	130
From 4 to 5 years	0	76	0	121	4	201	139
From 5 to 6 years	0	44	0	57	3	104	166
From 6 years and beyond	1,982	130	0	267	4	2,383	2,587
TOTAL FINANCIAL DEBT	**2,070**	**845**	**33**	**778**	**763**	**4,489**	**4,800**
Current	**66**	**294**	**23**	**68**	**714**	**1,165**	**978**
Non-current	**2,004**	**551**	**10**	**710**	**49**	**3,324**	**3,822**

Note 13. Breakdown of financial debt by currency before accounting for financial hedges

In millions of euros	12/31/2005 Amount	% of the debt in currencies
EUR	4,009	89%
USD	342	8%
JPY	58	1%
GBP	36	1%
Other	44	1%
TOTAL FINANCIAL DEBTS	**4,489**	**100%**

Debt denominated in foreign currencies amounted to 11% of total debt and was partly hedged. Though hedges did not qualify for hedge accounting according to IAS 39. Gaz de France namely converted in euros its two private bond issues in yens (JPY), which totalled 58 million euros as of December 31, 2005.

Note 14. Breakdown of financial debt by interest rate

Bonds and bank loans

In millions of euros	12/31/2005		01/01/2005	
Before accounting for financial hedges	**Book value**	**%**	**Book value**	**%**
Fixed rate under 5%	1,347	60%	1,291	59%
Fixed rate between 5% and 10%	888	40%	881	41%
Sub-total fixed rate	**2,235**	**77%**	**2,172**	**66%**
Floating rate	680	23%	1,100	34%
TOTAL	**2,915**	**100%**	**3,272**	**100%**

In millions of euros	12/31/2005		01/01/2005	
After accounting for financial hedges	**Book value**	**%**	**Book value**	**%**
Fixed rate under 5%	1,347	56%	1,319	56%
Fixed rate between 5% and 10%	1,074	44%	1,034	44%
Sub-total fixed rate	**2,421**	**83%**	**2,353**	**72%**
Floating rate	494	17%	919	28%
TOTAL	**2,915**	**100%**	**3,272**	**100%**

Impact of interest rate hedging is detailed in note 27.a

Financial debt (irredeemable securities included)

In millions of euros	12/31/2005		01/01/2005	
Before impact of swaps	**Book value**	**%**	**Book value**	**%**
Fixed rate	2,891	57%	2,877	53%
Floating rate	2,221	43%	2,553	47%
TOTAL FINANCIAL DEBT	**5,112**	**100%**	**5,430**	**100%**

In millions of euros	12/31/2005		01/01/2005	
After impact of swaps	**Book value**	**%**	**Book value**	**%**
Fixed rate	3,077	60%	3,058	56%
Floating rate	2,035	40%	2,372	44%
TOTAL FINANCIAL DEBT	**5,112**	**100%**	**5,430**	**100%**

Long-term financial debt

Long-term financial debt included irredeemable securities, bonds, bank loans and finance lease (current and non-current).

It totalled 4,316 million euros as of December 31, 2005 (4,737 million euros as of January 1, 2005).

The average effective interest rate of this long-term debt was around 4.9% in 2005.

Note 15. Net financial debt

In millions of euros	12/31/2005	01/01/2005
Irredeemable securitie	623	630
Financial debt	4,489	4,800
TOTAL BEFORE ACCOUNTING FOR FINANCIAL HEDGES	**5,112**	**5,430**
Net balance of hedges	15	19
TOTAL AFTER ACCOUNTING FOR FINANCIAL HEDGES	**5,127**	**5,449**
Cash and cash equivalents	2,119	838
Net financial debt before accounting for financial hedges	**2,993**	**4,592**
Net financial debt after accounting for financial hedges	**3,008**	**4,611**

3. Statements of income

Note 16. Revenues

In millions of euros	12/31/2005	12/31/2004
Gas sales	19,479	15,497
Services rendered and miscellaneous	2,828	2,199
Revenues from financial affiliates	87	35
REVENUES	**22,394**	**17,731**

As of December 31, 2005, the Group's net sales increased by 28% compared with 2004 and by 23% on a constant consolidation basis.

This increase mainly resulted from higher selling prices for natural gas in France and in Europe, but also from the increase of volumes sold, mainly in the Purchase and Sale of Energy segment.

Volumes of natural gas sold to "residential customers" and to "businesses and major industrials" amounted respectively to 139 TWh and 304 TWh. Sales outside France amounted to 105 TWh, up by 34% compared with 2004.

Volumes of electricity sold increased by 48% compared with 2004 up to 14.4 TWh.

Note 17. Purchases and other external charges

In millions of euros	12/31/2005	12/31/2004
Energy purchases	12,756	8,800
Other purchases	3,130	2,567
Purchases and other external purchases	**15,886**	**11,367**

The rise in energy purchases by 45% as of December 31, 2005 was driven by the rise in supplying costs; for example in the case of Gaz de France SA, the average import price has increased by 36% and imported volumes by 6%.

Note 18. Research and development costs

In 2005, research and development costs totalled 73 millions euros, compared with 90 million euros in 2004.

Note 19. Personnel expenses

In millions of euros	12/31/2005	12/31/2004
Wages and salaries	1,541	1,296
Social contributions	467	285
Pension commitments and other commitments due to employees (defined benefit programs)	106	277
Employees' profit sharing	8	3
Other costs	288	182
TOTAL	**2,410**	**2,043**

The rise in wages and salaries between December 31, 2004 and December 31, 2005 was due in particular to the Savelys Group, now fully consolidated, whereas it was accounted for by the equity method in prior year, as well as the acquisition of the Distrigaz Sud company.

The increase in social contributions is primarily related to the reform of the financing of retirement plans of the parent company (see also supplemental disclosure E) and the integration of the Savelys Group and the Distrigaz Sud company. The growth in the cost of commitments to employees of defined-benefit schemes was owed to the reform of the financing of retirement plans (see also supplemental disclosure E). Other costs namely grew under the impact of the additional amount paid by the employer in connection with employee share ownership.

Workforce

The Group's workforce totalled 52,958 employees as of December 31, 2005, against 38,088 employees as of December 31, 2004. This growth was the outcome of the integration as of June 30, 2005 of Distrigaz Sud (10,696 employees) and the full consolidation of the Savelys Group (4,150 employees) as of January 1, 2005.

Note 20. Other operating income and expenses

In millions of euros	12/31/2005	12/31/2004
Reversals of provision on current assets	80	39
Operating grants	11	9
Gains on derivative instruments	164	-
Net income on fixed assets disposals		1
Negative goodwill	12	31
Other	267	208
TOTAL OTHER OPERATING INCOME	**534**	**288**

In millions of euros	12/31/2005	12/31/2004
Provisions on current assets	70	59
Other taxes	263	209
Losses on derivative instruments	191	-
Net loss on fixed assets disposals	3	-
Other	222	228
TOTAL OTHER OPERATING EXPENSE	**749**	**496**
Other net operating income and expense	**(215)**	**(208)**

Disposals of tangible and intangible assets

In millions of euros	Expense	Income
Disposals of tangible and intangible assets	59	56
Net result of disposals	3	

The tax effect on the net result of disposals amounted to 1 million euros.

Note 21. Net depreciation, amortization and provisions

Asset depreciation and amortization

In millions of euros	12/31/2005	12/31/2004
Concession termination amortization (net of transfer of charges)	377	360
Other amortization (net of reversals)	972	937
Amortization (net of reversals) (I)	**1,349**	**1,297**

"Other amortization" encompassed:

- 43 million euros for the amortization of intangible assets (25 million as of December 31, 2004);
- 939 million euros for the amortization of tangible assets (942 million euros as of December 31, 2004);
- 13 million euros of reversals in connection with the termination of concession agreements (30 million euros as of December 31, 2004).

In millions of euros	12/31/2005	12/31/2004
Impairment of goodwill	2	52
Impairment of other intangible assets (net of reversals)	(28)	(21)
Impairment of other tangible assets (net of reversals)	(1)	9
Net depreciation of fixed assets (II)	**(27)**	**40**

Provisions for risks and charges

In millions of euros	12/31/2005	12/31/2004
Allowances	265	549
Reversals	(284)	(41)
Net provisions for risks and charges (III)	**(19)**	**508**

Main changes in the period regarded allowances and reversals of the provision for replacement. In 2004, net provisions (538 million euros) included an amount of 264 million euros related to the accelerated replacement of gray cast iron distribution pipelines of Gaz de France.

In 2005, net provisions (1 million euros) were mainly the result of an adjustment in the replaceable assets' future replacement values.

In millions of euros		
TOTAL AMORTIZATION, DEPRECIATION AND PROVISIONS (I) + (II) + (III)	**1,303**	**1,845**

Note 22. Financial income

In millions of euros	12/31/2005	12/31/2004
NET FINANCE COST		
Gross finance cost	**(228)**	**(182)**
Interest expenses	(232)	(228)
Net foreign currency translation adjustments	4	46
Proceeds from cash and cash equivalents	26	3
Gains on sales of cash equivalents (liquid marketable securities)	26	3
TOTAL NET FINANCE COST	**(202)**	**(179)**
OTHER FINANCIAL ITEMS		
Other financial income		
Exchange gains not linked with financial debts	70	76
Gains on exchange rate derivative instruments	1	5
Gains on investments derivative instruments	66	
Dividends received	28	31
Interest gains	48	18
Expected return on plan assets	90	81
Net proceeds of sales of non-current financial assets	81	6
Reversals of provisions for financial risks and charges	28	121
Other	76	64
Sub-total	**488**	**402**
OTHER FINANCIAL EXPENSES		
Exchange losses not linked with financial debts	(108)	(74)
Loss on exchange rate derivative instruments	(10)	(8)
Loss on investments derivative instruments	(58)	
Interest costs (borrowings excluded)	(24)	(26)
Unwinding effect of discount of provisions for employee benefits	(117)	(720)
Unwinding effect of discount of other provisions	(308)	(409)
Impairment of non-current financial assets	-	(8)
Granted financial forgiveness of debt	(2)	(3)
Financial provisions for risks and charges	(25)	(1)
Other	(72)	(67)
Sub-total	**(724)**	**(1,316)**
TOTAL OTHER FINANCIAL ITEMS	**(235)**	**(914)**

Main changes in other financial items were due to the unwinding effect of discount of provisions and to the sale of Technip shares (gain of 112 million euros). The unwinding effect of discount of provisions for employee benefits in 2004 was calculated on the basis of commitments prior to the reform of the financing of retirement plans (see also Note 28 and supplemental disclosure E). The unwinding effect of other provisions included, as of December 31, 2004 an adjustment for the revaluation of the provision for the dismantling of distribution pipelines. (see Note 9).

Note 23. Income tax

Gaz de France had elected the tax consolidation system for a 5-year period, which ended on December 31, 2002. It was renewed for a new 5-year period, until December 31, 2007.

Income tax expenses consisted of the following:

In millions of euros	12/31/2005	12/31/2004
Current tax	867	597
Deferred tax	(73)	(144)
INCOME TAX	**794**	**453**

Note 23.a. Reconciliation of actual and theoretical income tax expense

In millions of euros	12/31/2005	12/31/2004
Income before tax	2,535	1,644
Badwill (note 20)	(12)	(31)
Impairment of goodwill (note 21)	2	52
Share of net income of investments in cies accounted for by the equity method	(189)	(125)
Income before tax and impact of goodwill	**2,336**	**1,540**
Legal tax rate	**34.93%**	**35.43%**
Theoretical tax expense	816	546
Prior year differences in tax rates		(32)
Differences in tax rates	18	18
Utilization of tax loss carry-forwards or temporary differences previously not capitalized	(34)	(39)
Capitalization of tax loss carry-forwards or temporary differences previously not capitalized	(17)	(18)
Net losses of the period not capitalized		8
Permanent differences	11	(30)
ACTUAL TAX EXPENSE	**794**	**453**
Effective tax rate	**33.98%**	**29.43%**

Note 23.b. Current tax and deferred tax

23.b.1. Current tax

In millions of euros	12/31/2005	12/31/2004
Current tax – asset	69	298
Current tax – liability	(154)	(115)
NET CURRENT TAX	**(85)**	**183**

23.b.2. Variation d'impôts différés

In millions of euros	12/31/2004	FTA	Income	Shareholders' equity*	Change in consolidation method	Other	12/31/2005
Deferred tax assets	46	-	23	23	7	(32)	67
Deferred tax liabilities	(2,741)	19	50	29	(104)	16	(2,731)
NET DEFERRED TAX	**(2,695)**	**19**	**73**	**52***	**(97)**	**(16)**	**(2,664)**

(*) *Main impacts of the treatment of deferred tax on shareholders' equity regarded:*
- *the adoption of standards on financial instruments for 20 million euros;*
- *the treatment of actuarial gains and losses related to retirement plans and other commitments to employees for 16 million euros.*

23.b.3. Breakdown of deferred tax assets and liabilities by nature of temporary differences

In millions of euros	12/31/2005	01/01/2005	12/31/2004	Impact FTA 01/01/2005 IAS 32-39
Fixed assets	157	152	152	
Accelerated cost recovery		(1)	(1)	
Other regulated provisions	9	2	2	
Provisions and accrued expenses	363	318	318	
Unrealized income in inventory		3	3	
Contributions from customers	6	1	1	
Loss carry-forwards	180	116	116	
Financial instruments	47	19		19
Other	39	33	33	
Deferred tax asset	**801**	**643**	**624**	**19**
Fixed assets	(2,321)	(2,550)	(2,550)	
Accelerated cost recovery	(539)	(145)	(145)	
Other regulated provisions	(157)	(138)	(138)	
Provisions and accrued expenses	(268)	(260)	(260)	
Unrealized income in inventory	(2)	(2)	(2)	
Contributions from customers	(142)	(150)	(150)	
Loss carry-forwards				
Financial instruments				
Other	(36)	(74)	(74)	
Deferred tax liability	**(3,465)**	**(3,319)**	**(3,319)**	
NET DEFERRED TAX	**(2,664)**	**(2,676)**	**(2,695)**	**19**

Note 23.c. Justification of deferred tax recognition of assets

In millions of euros	12/31/2005	12/31/2004
Deferred tax assets not covered by deferred tax liabilities but justified by reasonable evidences	49	16
TOTAL	**49**	**16**

Note 23.d. Deferred tax unrecognized assets

In millions of euros Nature of temporary differences	Total	Less than five years	More than five years	Indefinite carry-forwards
Loss carry-forwards	13	3		10
Other temporary differences	19	17	1	1
TOTAL	**32**	**20**	**1**	**11**

4. STATEMENTS OF CASH FLOWS

Note 24. Statements of cash flows

Operating activities

Operating cash flow before tax and change in working capital requirements amounted to 4,229 million euros as of December 31, 2005, compared with 4,176 million euros as of December 31, 2004.

Change in working capital requirements (-501 million euros) mainly reflected the strong growth in activity and an increase in inventories in term of quantities and values. It included the change in financial instruments as from accounts used since January 1, 2005 in accordance with IAS 32 and IAS 39.

Operating activities globally generate a positive cash inflow as of December 31, 2005 of 3,166 million euros.

Investing activities

Capital expenditures amounted to 2,016 million euros as of December 31, 2005. Main expenditures are detailed in note 2.

Acquisitions reached 674 million euros as of December 31, 2005. They mainly comprised the acquisition of the Romanian company Distrigaz Sud, the purchase of minority interests in CFM in the framework of the winding-up of cross-holdings with Total, the acquisition of 39% of the Savelys group and the acquisition of the SPE group (see supplemental disclosure C).

Investing activities globally amounted to 3,061 million euros as of December 31, 2005, which was a significant increase compared to the level of 2004 (2,133 million euros as of December 31, 2004).

Financing activities

Cash flows from financing activities amounted to 408 million euros as of December 31, 2005, compared with a 1,129 million euros cash outflow as of December 31, 2004, mainly due to the capital increase.

Dividends paid amounted to 420 million euros, of which 418 million euros for the dividend paid to the State and 2 million euros for minority interests of the consolidated subsidiaries.

Cash and cash equivalents

As of December 31, 2005, change in cash and cash equivalents totaled 1,121 million euros compared with 219 million euros as of December 31, 2004.

Investing and financing transactions without cash impact in the period

In millions of euros	12/31/2005	12/31/2004
Lease acquisitions	9	17

5. Financial instruments

Note 25. Fair value of financial instruments

The main methods and assumptions used to estimate the fair value of financial instruments are detailed below.

Regarding cash and cash equivalents, trade accounts receivables and payables, Gaz de France deemed that the most representative of their market value was their book value, owing to these items' high degree of liquidity.

Market values of non-consolidated investments in listed companies were based on their stock market value at the end of the period.

The market value of convertible, exchangeable and indexed bonds was determined using the stock market value.

In millions of euros	Book value as of 12/31/2005	Fair value as of 12/31/2005	Book value as of 01/01/2005	Fair value as of 01/01/2005	Book value as of 12/31/2004
Instruments valued at fair value					
Technip shares	174	174	231	231	5
Petronet LNG shares	92	92	40	40	14
Instruments valued at amortized cost					
Irredeemable securities	623	603	630	608	485
Bonds	2,070	2,207	2,067	2,169	2,087

Disclosed values of irredeemable securities and bonds are expressed accrued interests excluded.

Fair values of the different derivative financial instruments held by the Group are detailed below (note 26).

Note 26. Derivative financial instruments

The Group uses derivative financial instruments mainly to manage risks related to currency translation, interest rate and commodity price, to which it is exposed in the course of its operations.

In millions of euros	Asset			Liability		
	Non-current	Current	Total	Non-current	Current	Total
COMMERCIAL TRANSACTIONS						
Commodity derivatives	-	1,740	**1,740**	-	1,708	**1,708**
Sub-total	**-**	**1,740**	**1,740**	**-**	**1,708**	**1,708**
FINANCIAL TRANSACTIONS	**-**	**-**	**0**	**-**	**-**	**-**
Interest rate derivative	-	16	16	15	17	32
Derivative securities	-	-			61	61
Sub-total	**-**	**16**	**16**	**15**	**78**	**93**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	**-**	**1,756**	**1,756**	**15**	**1,786**	**1,801**
Commercial transactions	-			-	53	53
Financial transactions	-	-	-	-	-	-
TOTAL HEDGED FIRM COMMITMENTS		**-**	**-**		**53**	**53**

Qualitative information on derivative financial instruments is divided into two parts, transactions of a commercial nature and transactions of a financial nature.

Note 26.a. Quantitative information on commercial transactions

In millions of euros	Fair value		
	Asset	Liability	Notional amounts
COMMODITY DERIVATIVE INSTRUMENTS			
Options and swaptions			
LONG POSITION:			
Hedges			
Natural gas			
Oil			
Electricity			
Sub-total hedges			
Not qualifying as hedges			
Natural gas	23		150
Oil	2		45
Electricity	3		44
Sub-total not qualifying as hedges	28		239
Sub-total long position	**28**		**239**
SHORT POSITION:			
Hedges			
Natural gas			
Oil			
Electricity			
Sub-total hedges			
Not qualifying as hedges			
Natural gas		28	287
Oil		4	21
Electricity		2	17
Sub-total not qualifying as hedges		34	325
Sub-total short position		**34**	**325**
TOTAL OPTIONS AND SWAPTIONS	**28**	**34**	**564**

In millions of euros	Fair value		
	Asset	Liability	Notional amounts
SWAPS ET FORWARD CONTRACTS			
LONG POSITION:			
Hedges			
Natural gas	7	3	57
Oil	241	24	1,817
Electricity			
Sub-total hedges	248	27	1,874
Not qualifying as hedges			
Natural gas	426	10	1,564
Oil	668	41	2,247
Electricity	319	-	893
Sub-total not qualifying as hedges	1,413	51	4,704
Sub-total long position	**1,661**	**78**	**6,578**
Short position:			
Hedges			
Natural gas	1	63	136
Oil	19	173	1,006
Electricity			
Sub-total hedges	20	236	1,142
Not qualifying as hedges			
Natural gas	4	828	1,792
Oil	27	186	1,431
Electricity		346	874
Sub-total not qualifying as hedges	31	1,360	4,097
Sub-total short position	**51**	**1,596**	**5,239**
Total Swaps and forward contracts	**1,712**	**1,674**	**11,817**
Total commodity derivatives	**1,740**	**1,708**	**12,381**
TOTAL DERIVATIVE INSTRUMENTS RELATED TO COMMERCIAL TRANSACTIONS	**1,740**	**1,708**	**12,381**

The Group supplied "price engineering" products aiming at:

- responding to customers' increasing expectations in the field of the management of the "price" risk. Transactions regard swaps aiming at setting a sale or purchase price at the time of negotiation for a specified quantity of commodities at a future date. They are namely used to secure and guarantee the margin on a commercial transaction, whatever the future price of the commodity. Options are used to guarantee ceiling prices for commodities (calls) and sometimes floor prices (puts).

Besides, transactions said to be "index creations" are generated to rebalance the indexation of the supply portfolio on Zeebrugge and NBP indexes to hedge future possible ales on these markets. In connection with its trading activities, the Group also entered into forward purchases and sales of electricity

- giving value to a part of the flexibility embedded in supply contracts (through the Gaselys subsidiary). Gaz de France SA developed thereby an activity aiming at giving value to "arbitrage" opportunities included in its gas contracts. These "arbitrage" transactions aim at optimizing resource cost.

Note 26.b. Quantitative information on financial transactions

In millions of euros	Fair value		
	Asset	Liability	Notional amounts
CURRENCY DERIVATIVE INSTRUMENTS			
Currency forward contracts			
Long position:			
Hedges			
Not qualifying as hedges			
Sub-total long position	**-**	**-**	**-**
Short position:			
Hedges	N/S*		12
Not qualifying as hedges		N/S*	1
Sub-total short position	**-**	**-**	**13**
Total currency forward contracts	**-**	**-**	**13**
Total currency derivative	**-**	**-**	**13**
INTEREST RATE DERIVATIVE INSTRUMENTS			
Interest rate swaps			
Paid fixed/received floating rate			
Hedges		15	606
Not qualifying as hedges			
Sub-total paid fixed/received floating rate	**-**	**15**	**606**
Hedges			
Not qualifying as hedges	16	16	184
Sub-total received fixed/paid floating rate	**16**	**16**	**184**
Floating rate towards floating rate			
Hedges			
Not qualifying as hedges		1	58
Sub-total floating rate towards floating rate	**-**	**1**	**58**
Total interest rate swaps	**16**	**32**	**848**
Total interest rate derivatives	**16**	**32**	**848**
Derivative instruments on securities	-	61	110
TOTAL DERIVATIVE INSTRUMENTS RELATED TO FINANCIAL TRANSACTIONS	**16**	**93**	**971**

(*) *NS: not significant.*

The paid fixed/received floating rate swaps (-15 million euros) corresponded to transactions qualifying as hedges. Subsidiaries exposed to an interest rate risk were hedged against unfavourable changes in interest rates on bank loans.

The received fixed/paid floating rate swaps (16 million euros at fair value in assets and liabilities) were not qualifying as hedges.

Gaz de France hedged the value of its Technip shares on December 16, 2004. Gaz de France bought from a financial institution put options on shares and simultaneously sold to it an identical number of call options. The maturity of these options is between 6 and 12 months at the closing date and their nominal value was 110 million euros at the end of December 2005.

Gaz de France transferred its shares to the financial institution under a repurchase agreement but has the right to take them back at any moment on request.

Note 26.c. Derivative financial instruments – Maturity and currency

The breakdown of derivative financial instruments by maturity and currency was as follows:

In millions of euros	Notional amounts						
	Total	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years
COMMERCIAL TRANSACTIONS							
Commodity derivative instruments							
Natural gas							
US dollar	349	346	2	1			
English pound	2,603	1,632	684	220	64	3	
Euro	1,035	678	150	119	88		
Sub-total natural gas	**3,987**	**2,656**	**836**	**340**	**152**	**3**	
Oil							
US dollar	1,576	1,124	337	105	10		
English pound							
Euro	4,991	3,727	1,035	158	71		
Sub-total oil	**6,567**	**4,851**	**1,372**	**263**	**81**		
Electricity							
US dollar							
English pound	572	374	194	4			
Euro	1,255	828	370	57			
Sub-total electricity	**1,827**	**1,202**	**564**	**61**			
TOTAL COMMODITY DERIVATIVES	**12,381**	**8,709**	**2,772**	**664**	**233**	**3**	**-**
TOTAL COMMERCIAL TRANSACTIONS	**12,381**	**8,709**	**2,772**	**664**	**233**	**3**	**-**
FINANCIAL TRANSACTIONS							
Currency derivative instruments							
Currency forward contract							
US dollar	1	1					
English pound	12	12					
Euro							
Sub-total currency forward contract	**13**	**13**					
TOTAL CURRENCY DERIVATIVES	**13**	**13**					
Interest rate derivative instruments							
Interest rate swaps							
US dollar	152	26	27	29	29	41	
English pound	32	2	2	2	2	2	22
Euro	606	103	64	44	26	9	360
Other	**58**	**36**			**22**		
Sub-total interest rate swaps	**848**	**167**	**93**	**75**	**79**	**52**	**382**
TOTAL INTEREST RATE DERIVATIVES	**848**	**167**	**93**	**75**	**79**	**52**	**382**
Derivative instruments on shares	**110**	**110**					
TOTAL FINANCIAL TRANSACTIONS	**971**	**290**	**93**	**75**	**79**	**52**	**382**

Note 27. Information on risks

Note 27.a. Interest rate and foreign exchange risk

Gaz de France chose a centralized management of risk at Group head level. This should permit the implementation of a policy insuring in fine the identification, the comprehensive management and the reporting of risks. In this context, the management of financial risks, and in particular interest rate and foreign exchange risk, is the responsibility of the Finance division, which monitors the monthly cross-division decision-making bodies, devoted to financial risks: the Interest Rate and Foreign Exchange Committee and the Credit Committee.

With a view to managing its exposure to fluctuations of currency rates, the Group uses forward purchases and sales of currencies to hedge its gas purchases, its capital expenditures and its financing activities.

Settlement of USD position

In 2002, Gaz de France set up a borrowing position of 973 million US dollars, alternatively managed by pure debt or by synthetic debt (use of forward financial instruments), depending mainly on market conditions and the position of centralized cash.

The decision was made to reduce this position for several reasons: decrease in the hedged underlying, concern for controlling the volatility risk and level of the EUR/USD exchange rate. Consequently, the position was reduced to 523 million US dollars in 2004 and then totally settled in 2005.

Currency translation risks on financing activities

In millions of euros	12/31/2005	Maturity					
	Book value	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years
EXPOSED FINANCIAL DEBT							
USD	342	99	54	56	56	44	33
JPY	58	36			22		
GBP	36	3	3	3	3	3	21
Other	44	25	7	6	6		
Total	**480**	**163**	**64**	**65**	**87**	**47**	**54**
FIRM COMMITMENTS OF FORWARD CURRENCY PURCHASES AND SALES							
Management hedge							
Long position	(58)	(36)			(22)		
JPY							
Total positions on firm commitments	**(58)**	**(36)**			**(22)**		
NET POSITION AS OF DEC. 31, 2005	**422**	**127**	**64**	**65**	**65**	**47**	**54**

Interest rate risk on financing activities

The table below presents the net position before and after managing the interest rate risk for financial debt.

In millions of euros	12/31/2005	Maturity					
	Book value (fair value)	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years
Exposed financial debt	**4,489**	**1,165**	**238**	**228**	**171**	**201**	**2,486**
Fixed rate	2,891						
Floating rate	1,598						

	Average fixed rate*	12/31/2005 Notional amounts	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years
"MANAGEMENT" HEDGE JPY								
Interest rate swaps paid floating rate EUR/ received floating rate JPY		58	36			22		
INTEREST RATE HEDGES ON EXPOSED FINANCIAL DEBT								
Interest rate swaps Paid fixed/received floating rate	6.8%	184	28	29	31	31	43	22
Total interest rate hedges		**184**	**28**	**29**	**31**	**31**	**43**	**22**
NET POSITION AFTER HEDGES AS OF DEC. 31, 2005		**4,305**	**1,137**	**209**	**197**	**140**	**158**	**2,464**

(*) *Average rate for interest rate swaps represent the garanteed average fixed rate.*

The Group entered into interest rate swaps to convert from floating rate to fixed rate medium- and long-term loans. Hedged borrowings amounted to 184 million euros as of December 31, 2005.

Following the sale of employee mortgage loans in 2001 and 2003 to a special purpose vehicle, Gaz de France had a marginal interest rate risk on a nominal amount equal to the difference between the actual remaining capital due and the remaining capital due according to the theoretical model at the date of the sale. The Group remaining exposure totalled 7 million euros as of December 31, 2005. The nominal amount of the corresponding interest rate swaps, recorded in the balance sheet, amounted to 331 million euros: 169 million euros of paid floating/received fixed swaps and 162 million euros of paid fixed/received floating swaps.

Financial affiliates hedged the interest rate risk on their assets (issued with a fixed rate) by interest rate swaps that allowed them to refinance at a fixed rate (notional amount of 246 million euros as of December 31).

Finally, private placements in yen were hedged by a EUR/JPY cross currency swap against three-month Euribor, which responded to objectives of management hedge, even if they did not qualify for hedge accounting under IFRS.

Note 27.b. Liquidity risk

The Group ensured its daily liquidity through a treasury bills program for a maximum amount of 1.25 billion euros and commercial paper programs for a maximum amount of 1 billion US dollars, not used at the end of 2005. Since January 2005, Gaz de France has had access to the markets of the US Commercial Paper and of the Euro Commercial Paper through a program said to be "global", within the limit of the maximum accrued debt of 1 billion US dollars, which make possible the use of the funds not only for current cash needs but also in case of external growth operations.

On February 18, 2005, Gaz de France contracted a new syndicated loan to replace the one dating back to 2002, amounting to 3 billion euros with maturity in February 2012, fully unused as of December 31, 2005.

In order to optimize the liquidity management at Group level, the Finance division of Gaz de France carried on the implementation of an automated "cash-pooling".

Note 27.c. Credit risk

The Group credit risk or counterparty risk is monitored by the Credit Committee. It corresponds to the loss the Group would have to bear in case of a counterparty's failure, leading to the non compliance of its contractual obligations vis à vis Gaz de France. The Group policy on this issue is based on a systematic diversification of its counterparty portfolio and on the follow up of the financial position of its most important counterparties. This follow up guarantees the sufficient reactivity to manage this risk immediately and to reduce the impact of failure of the Group's important counterparties by using the relevant legal instruments ("netting" arrangements, invoice requirements, issue of bank endorsement or parent company guarantees, other guarantees…).

Bank counterparties with which the Group deals must have a rating by Standard & Poor's or Moody's equal or higher than A-/A3 respectively for the long term and the best rating for the short terms, except for particular cases duly authorized by the Chief Financial Officer.

The Group pays an increasing attention to customer and supplier counterparties. The governance framework is based on a regular follow up (at least an annual review) of the financial position of major customers. Its aims are both prevention (guarantee requirements and other restrictive conditions to deal with the counterparty) and valuation of this risk in connection with prices proposed to major customers.

"Trading" counterparties are also specifically analyzed in the Gaselys Risk Committee, where Risk representatives of both parent companies sit, Gaz de France and the Société Générale. The Gaselys portfolio counterparties show a very satisfying average rating with over 80% of the counterparty risk presenting a financial profile similar to a long term rating higher than A-/A3 at S&P/Moody's.

6. Other information

Note 28. Retirement commitments and other commitments to employees

Note 28.1. Retirement commitments to employees of Gaz de France, GRTgaz and DK6

The retirement plan for regular electricity and gas industry employees is specific, legal and mandatory. The conditions for determining retirement benefits and for financing the benefits plan, which were defined in the specific national rules applicable to these employees (under the decree of June 22, 1946) are the prerogative of the French government. The companies themselves have no legal right to adapt or modify the terms.

The system of financing retirement benefits for IEG employees was reformed in accordance with the French law no. 2004-803 dated on August 9, 2004 and its implementation decrees. The main financial impacts of the reform are discussed below.

1. Reform of the retirement plans in the electricity and gas industries

1.1 The national fund for electricity and gas industries

As from January 1, 2005, the funds for retirement benefits and benefits relating to workers compensation, temporary and permanent disability and occupational safety costs of the electricity and gas industries are insured under a special French national fund for the electricity and gas industries ("CNIEG", *Caisse nationale des industries électriques et gazières*). The CNIEG is a social security legal entity under private law placed under the joint supervision of the Ministers in charge of social security, budget and energy. As from January 1, 2005, electricity and gas industry employees and pensioners are fully affiliated to this fund.

1.2. Financial backing agreements with the general retirement programs

The CNIEG and the various general French public benefit programs (CNAV, AGIRC, ARRCO) have entered into financial agreements under which the benefits that CNIEG provides will be covered by the general French public benefits programs, under financially neutral terms. The terms and conditions under which the CNIEG pays benefits contributions to these programs, and in turn how these programs pay pension benefits to the CNIEG, mirror the conditions and forms which would apply if employees belonging to the CNIEG were covered by France's general social security program or by the relevant complementary retirement benefit programs.

In compliance with the principle of financial neutrality, the agreements determine the amount and form of payments that must be made for initial, fixed-rate and final contributions designed to cover the permanent costs of the plan. They also stipulate the additional cash costs that CNIEG must pay, based on an assessment that was carried out on the date of the reform, which took account of the demographic, financial and economic situation of each of these programs and those of the electricity and gas industry program, as well as the respective pay level and structure of those individuals covered by the programs.

The initiation fee owed to the French public benefits program (CNAV) is 7,649 million euros for the whole electricity and gas sector: 40% of this amount was paid in the first half of 2005, or 3,060 million euros; the share of the Gaz de France Group, 249 million euros, was withdrawn from plan assets (Note 28.4.c). The remaining amount of this initiation fee, which is to be paid over 20 years beginning in 2005, will be financed by the fixed-rate contributions on electric and natural gas transmission and distribution services (see § 1.4).

The amount of the initiation fee due to complementary retirement benefit programs is designed to cover cash reserves and the costs of managing these programs. It amounts to 798 million euros in total. 90% of it, or 718 million euros (123 million euros for the Gaz de France Group), was paid during the first half of 2005. It was withdrawn from plan assets (Note 28.4.c). The remaining part will be paid in 2006.

A predefined adjustment clause was included in the agreements signed with the complementary French public benefits programs (AGIRC and ARRCO). In 2010, as a result of this clause, there will be a review of the overall payroll for the electricity and gas industries between 2005-2010. It could lead to either an increase of the benefit commitments that the French public benefit programs will take on, or to the payment to the CNIEG of an additional contribution capped at 918 million euros. At the end of 2005, considering the revaluation clause, the share of Gaz de France in the mentioned 918 million euros was 30 million euros.

1.3. Specific benefits of the electricity and gas industry special retirement plan

Certain specific benefits of employees covered by the electricity and gas industry special retirement plan are not covered by the general French public benefits programs.

The law of August 9, 2004 and its implementation decrees apportioned certain specific benefits relating to the periods vested as of December 31, 2004 ("past specific rights") among the various electricity and gas industry companies. 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").

1.4. The rate surcharge on electricity and natural gas transmission and distribution services ("CTA")

The law of August 9 provided for a rate surcharge to be paid the CNIEG on each electricity and natural gas transmission and distribution transactions. These rate surcharges finance past regulated specific rights.

The decree 2005-322 of April 5, 2005 set the portions related to transmission and distribution activities of Gaz de France to 2.69% and

11.18% respectively of "past specific rights" retirement plans of all electricity and gas industry companies (IEG).

They also finance the respective share of the initiation fee defined in the agreement with the CNAV, and if applicable, of the charge related to the adjustment clause included in the agreements with the complementary retirement programs.

The levels of the rate surcharges are periodically set by the Ministers in charge of social security, budget and energy, after consultation with the Energy Regulation Commission.

These rate surcharges, which will mainly be collected by gas and electricity providers, will be off-set by a decrease in the prices of gas and electricity, so as to guarantee price neutrality for customers.

1.5. Past rates specific rights not financed by fixed-rate contribution

The past non-regulated specific rights are financed by electricity and gas industry companies in proportions defined by the decree 2005-322 of April 5, 2005, or for Gaz de France 3.25% of "past specific rights" retirement plans of all those companies.

Retirement plans detailed in paragraph 4 below include all of the past non-regulated specific rights allocated to Gaz de France.

Retirements benefits as presented in paragraph 4 below include all the past, specific, unregulated rights allocated to Gaz de France.

1.6. Specific rights acquired as from January 1, 2005

Specific rights acquired as from January 1, 2005 are wholly financed by IEG companies proportionally to their respective weights in terms of payroll in the IEG sector. The relative weight of the Gaz de France Group within the electricity and gas industry companies accounts for 16.76% based on the 2005 payroll estimated for all those companies.

Retirement plans detailed in paragraph 4 below include all of the future specific rights allocated to Gaz de France.

1.7. The guarantee from the French State

Regarding the past specific rights, the CNIEG enjoys a guarantee of last resort from the French State.

1.8. Gaz de France's financial obligations as from January 1, 2005

Pursuant to the law of August 9, 2004 on public service obligations in the electricity and gas industry, as from January 1, 2005, the financial obligations of Gaz de France to CNIEG are as follows:

- paying its share of the contributions of the general retirement benefit commitments, which the CNIEG must in turn pay to CNAV, AGIRC and ARRCO;
- paying a contribution to finance those benefits that exceed the rights of the French public benefits program and which are not financed by the rate surcharge;
- paying its share of the initiation fee, the surcharge and the final contribution due to the CNAV, AGIRC and ARRCO and not financed by the rate surcharge;
- paying its share of the expenses for the management of CNIEG, as well as charges related to the other retirement and benefit programs for worker's compensation, temporary and permanent disability and occupational safety costs; and
- in its role as a gas and electricity provider (and gas transporter, as the case may be), collecting and paying CNIEG the rate surcharge.

2. Calculation of retirement benefit commitments

Gaz de France's commitments are determined according to an actuarial methodology that is applied to all employees in the electricity and gas industry.

This projected unit credit method incorporates estimates of:

- final pay, reflecting seniority, level of salary and career promotions;
- age of retirement, determined on the basis of criteria that are characteristic of employees in the electricity and gas industry (such as years of active service, number of children for women);
- the changes in the population of retired persons, based on mortality tables (provided by the French Bureau of Statistics) and on a turnover rate based on statistics for employees in the electricity and gas industry; and
- payment of retirement benefits to surviving spouses, incorporating the life expectancy of employees and their spouses, and the percentage of married employees in the electricity and gas industry.

Commitments are calculated using the following principles:

- they are evaluated on the basis of the rights vested as of the date of calculation, in the electricity and gas industry benefits program as well as the French public benefits program;
- they are determined for all employees, both active and retired, who depend on the specific retirement program in place in the electricity and gas industry; and
- they comprise the contribution to expenses for the management of CNIEG.

The discount rate used as of December 31, 2005 is a nominal discount rate of 4.25% compared to 4,5% as for December 31, 2004.

3. Summary of commitments

As of December 31, 2004, Provisions for retirement benefits, which were recorded as off-balance sheet items under French GAAP, as well as Gaz de France's contribution to the CNIEG management costs and an adjustment for exceptional leaves, amounted to 1,784 million euros.

Table 4.B details the change in pre-reform commitments between January 1, 2004 (13,064 million euros) and December 31, 2005 (1,562 million euros) as well as reform effects. In compliance with the law of August 9, 2004, the impact of the reform (11,817 million euros) was recognized in equity (table 4.D).

The change in commitments during 2005 was mainly related to the payment of initial, fixed-rate and final contributions to ARRCO-AGIRC (123 million euros) and CNAV (249 million euros).

The company set up plan assets, the fair value of which was 1,702 million euros as of December 31, 2005 (table 4.C). It resulted in a net asset posted in the balance sheet for 159 million euros for hedging retirement plans (table 4.F).

Historically, Gaz de France outsourced the hedging of its pension liabilities and lump-sum payments at retirement through insurance contracts, the management of the funds being entrusted to asset management companies.

These diversified funds are characterized by an active management referring to compound indexes, adapted to long term maturity of liabilities and taking into account State bonds in the euro zone as well as shares of the biggest companies in the euro zone and outside the euro zone.

With a view of the pension reform and of its impact, contributions from the end of 2002 to the end of 2004 were made on monetary funds.

4. Detailed tables

4.A. Main actuarial assumptions

Retirement benefits: Parent company, GRTgaz and DK6	12/31/2005	12/31/2004
Discount rate	4.25%	4.5%
Expected rate of return on plan assets	4.7%	4.7%

For the calculation of the expected rate of return on plan assets, the asset portfolio is divided in homogeneous sub-groups, by main asset categories and geographical zones, based on the composition of reference indexes and of volumes in each of the funds on December 31 of the previous year.

An expected return for the year is applied to each sub-group, publicly supplied by a third party; global performance in absolute value is then reconstituted and reported to the portfolio value of the beginning of the year.

In 2005, the payment of initiation fees was taken into account, for it impacted the composition of the portfolio (withdrawn on monetary funds).

4.B. Change in the present value of obligations

In millions of euros	12/31/2005 Post-reform	12/31/2004 Post-reform	12/31/2004 Pre-reform
Opening present value of the obligation	**1,784**		**13,064**
Current service cost	+113		+202
Interest cost on benefit obligation	+68		+666
Net actuarial losses (gains)	+72		+1,521
Benefits paid for all programs (financed or not)	-103		-470
Initial, fixed-rate and final contributions	-372		
Closing present value of the obligation	**1,562**		**14,983**
Reform			
CNAV backing		-5,738	
AGIRC/ARRCO backing		-3,086	
Rate surcharge		-5,182	
Other		+391	
Initial, fixed-rate and final contributions due to:			
CNAV		+249	
AGIRC and ARRCO		+137	
Maximum amount due under the predefined revision clause (AGIRC and ARRCO)		+30	
Closing present value of the obligation		**1,784**	

4.C. Change in fair value of plan assets

In millions of euros	12/31/2005	12/31/2004
Opening fair value of plan assets	**1,827**	**1,588**
Expected return on plan assets	+86	+74
Contributions (net of management costs)	+112	+210
Actuarial gains (losses) on plan assets	+84	+12
Benefits paid	-35	-57
CNAV, AGIRC, ARRCO exceptional contributions	-372	
Closing fair value of plan assets	**1,702**	**1,827**

Plan assets return

	2005	2004
Actual return on plan assets	9.3%	5.4%

Most of the growth of asset fair value is related to an excellent behaviour of the financial markets and to the asset portfolio, which showed a 9.3% return in 2005, which is much higher than the initially expected return rate (4.7%)

4.D. Determination of amounts posted in the balance sheet and in the statement of income

In millions of euros 12/31/2004	Liabilities (1)	Assets (2)	Net assets/liabilities (1 – 2)
Opening, pre-reform	**13,064**	**1,588**	**11,476**
Income or expenses of the period	868	74	+794
Contributions paid to funds for the part of financed programs		210	-210
Benefits paid for the part of non-financed programs	(470)	(57)	-413
Actuarial gains or losses	139	12	+127
Impact of the reform	(11,817)		-11,817
Closing, post-reform	**1,784**	**1,827**	**-43**

In millions of euros 12/31/2005	Liabilities (1)	Assets (2)	Net assets/liabilities (1 – 2)
Opening	**1,784**	**1,827**	**-43**
Income or expenses of the period	+181	+86	+95
Contributions paid to funds for the part of financed programs	-	+112	-112
Actuarial gains or losses	+72	+84	-12
Benefits paid for the part of non-financed programs	-103	-35	-68
Initial, fixed-rate and final contributions	-372	-372	-
Closing, post-reform	**1,562**	**1,702**	**-140**

4.E. Elements of costs of the period

In millions of euros Elements of costs of the period	12/31/2005 Post-reform	12/31/2004 Pre-reform
Current service cost	+113	+202
Interest cost on benefit obligation	+68	+666
Expected return on plan assets	-86	-74
TOTAL COSTS OF THE PERIOD	**+95**	**+794**

The calculation of the total annual cost for 2004 is based on the company's commitment before the implementation of the reform of the financing of the retirement plans in the electricity and gas industries. Tables in Supplemental disclosure E – PRO FORMA elements of 2004 statement of income after the reform of the financing of the retirement plans - detail the income and expenses of pro forma post-reform 2004 financial year.

Service cost is an operating cost included in personnel expenses. Interest cost on benefit obligation (representing the unwinding effect of the discount of the obligation), as well as expected return on plan assets are posted in Other financial income and expenses.

4. F. Reconciliation of recognized assets and liabilities

In millions of euros	12/31/2005 Post-reform	12/31/2004 Post-reform
Present value of totally or partially financed obligation at closing date	1,562	1,724
Present value of non-financed obligation at closing date	-	60
Fair value of plan assets	(1,702)	(1,827)
TOTAL	**(140)**	**(43)**
Amount of provisions recognized in liabilities	19	60
Amount recognized in assets	(159)	(103)

Note 28.2. Other employee benefits

2.1. Post-employment benefits and long-term benefits to employees of Gaz de France SA and GRTgaz

The following additional benefits to active and retired employees are granted:

- long-term benefits:
  - allowances related to worker's compensation and occupational safety,
  - disability allowances, and
  - length of service awards;
- post-employment benefits:
  - reduced energy prices,
  - medical insurance,
  - a lump-sum payment at retirement,
  - end-of-career exceptional leaves,
  - immediate benefits in the event of death,
  - partial reimbursement of educational costs, and
  - solidarity benefits.

Gaz de France applies various discount rates to take into account the maturities of the benefits listed above, depending upon the type of commitment. Except for the commitments relating to the lump-sum payment at retirement and to death benefits, which are evaluated on the basis of the nominal discount rate of 4.25% the other commitments are evaluated on the basis of a nominal discount rate of 4%.

2.1.1. Employees' compensation and compensation for occupational injuries

Like employees of the French public benefits program, electricity and gas industry employees are covered by employees' compensation and other occupation safety guarantees. These benefits cover all the employees and the beneficiaries of employees who died as a result of occupational injuries, or injuries suffered on the way to work.

The amount of the obligation corresponds to the probable present value of the benefits to be paid to the current beneficiaries, taking into account the possible survivors' retirement benefits.

As of December 31, 2005, commitments for these compensations were valued at 169 million euros (165 million euros as of December 31, 2004, management costs included).

2.1.2. Reduced energy prices

Article 28 of the national statute regarding electricity and gas industry employees provides that all employees (whether active or inactive) enjoy benefits in kind in the form of reduced energy prices, called "Employees' rate", whereby companies in the industry supply electricity and gas to employees at reduced prices. For the retirement phase, this benefit constitutes a defined post-employment benefit plan that is to be provisioned as employee services are rendered.

The commitment of Gaz de France related to the supply of natural gas to Gaz de France and EDF employees corresponds to the probable present value of kWhs provided to retired employees, valuated on the basis of the unit cost.

The agreed price for the exchange of energy with EDF must also be added to this cost base. According to the financial agreements signed with EDF in 1951 regarding the supply of electricity to Gaz de France employees by EDF at a reduced price, Gaz de France supplies natural gas to EDF employees at reduced price, supplemented by a cash payment made to account for the differential. The commitment related to the agreement on energy exchange corresponds to the probable present value of the cash adjustment payable in respect of Gaz de France employees once retired.

The number of people who benefit from the employees' rate is identical to the number who benefit from the special benefits plan.

As of December 31, 2005, obligations for reduced energy prices benefits were valued at 527 million euros (447 million euros as of December 31, 2004).

2.1.3. Medical insurance

Provision of medical insurance is statutorily guaranteed for employees in and retirees from the electricity and gas industries, under a social security program that provides the basic benefits under the French public benefits program and complementary benefits.

Before the reform detailed below, companies in the sector and their active and former employees each contributed in equal part to finance the plan.

Regulatory provisions went into effect in February 2005 to change the financing of the plan, leading to:

- the creation of two separate accounting bases (one for employees and one for retirees), separately balanced, and under which active employees finance retirees' benefits, through a fixed-rate specific contribution;
- the cancellation of any company contribution to finance the retirees' base; from now on, employers will finance 65% of the contributions associated with active employee illnesses.

As of December 31, 2004, the plan would have required a calculation of the commitments based on the benefits paid. Because the two accounting bases (for active employees and for retirees) were not previously separated for accounting purposes, the value of the commitment could not be determined.

Due to the reform of the financing plan, the company no longer had obligation for post-employment benefits, when 2004 financial statements were closed by the Board of Directors.

2.1.4. Lump-sum payment at retirement

Lump-sum payments at retirement are paid to employees once they begin to benefit from their retirement plan. Such payments are made to retirees' beneficiaries in case of the employees' death prior to retirement.

The company uses the "projected unit credit method" to determine the value of its obligation for lump-sum payments at retirement.

As of December 31, 2005, commitments for lump-sum payments at retirement were valued at 123 million euros (105 million euros as of December 31, 2004) and were almost fully covered by an insurance policy.

2.2. Subsidiaries' employee benefits

Description of post-employment benefits and other long-term benefits programs

The main post-employment benefits and other long-term benefits programs in the Group's French and foreign subsidiaries are described below:

In France, in addition to the lump-sum payments at retirements included in the various collective agreements applicable to the subsidiaries, one of the subsidiaries runs a defined benefit retirement plan, paying retirement benefits that are based on the employee's length of service in the company and his salary at the end of his career.

In Germany, various subsidiaries implemented all or part of the following programs: defined benefit retirement programs, pre-retirement programs, length-of-service awards, benefits in kind and individual commitment retirement benefits.

Employees of the Group's subsidiaries in the Netherlands and Norway enjoy a defined benefit retirement plan.

In Italy, employees are entitled to the TFR ("Trattamento di Fine Rapporto"), at the end of their working contract, for example upon retirement.

In Slovak Republic, subsidiaries implemented both an end-of-career allowances program and a length-of-service awards program.

In Romania, the subsidiary implemented an end-of-career allowances program, a decease plan and an incapacity plan.

In Belgium, the subsidiary implemented a pre-retirement scheme, a defined benefit pension scheme, length of service bonuses, a medical insurance for retirees and reduced energy prices for retirees.

Measurement of pension commitments and other long-term benefits

Obligations related to these different programs were assessed by different independent actuaries depending upon the country and based upon the methods and principles set forth in IAS 19.

Plan assets

Some subsidiaries, specifically those in the Netherlands and Norway, cover their defined benefit retirement plan commitments through external insurance funds. The same occurs for some of the retirement benefit programs and end-of-career allowances for French subsidiaries.

Plan assets are funded by contributions paid by the company and, in some cases, by employees.

2.3. Detailed tables

2.A. A Main actuarial assumptions for the measurement of obligations

Assumptions on mortality, employee turnover, pay increases, financial discounting and plan assets return were set according to each country's own economic and demographic environment.

	12/31/2005	12/31/2004
Discount rate Euro zone	4.25% or 4% depending on risks	4.5%
Expected rate of return on plan assets	Between 4% et 6% depending on countries	Between 4% et 6% depending on countries

2.B. Change in present value of the obligation

In millions of euros	Other post-employment benefits		Long-term benefits		Total	
	12/31/2005	12/31/2004	12/31/2005	12/31/2004	12/31/2005	12/31/2004
Opening present value of the obligation	**902**	**771**	**250**	**212**	**1,152**	**983**
Current service cost	46	16	21	60	67	76
Interest costs on obligation	40	39	9	13	49	52
Net actuarial losses (gains)	70	111		3	70	114
Benefits paid for all programs (financed or not)	(48)	(35)	(23)	(38)	(71)	(73)
Change in scope of consolidation	24	-	4	-	28	-
Settlement	(76)				(76)	
Other	17	-	(4)	-	13	-
Closing present value of the obligation	**975**	**902**	**257**	**250**	**1,232**	**1,152**

2.C. Change in fair value of plan assets

In millions of euros **Other post-employment benefits**	12/31/2005	12/31/2004
Opening fair value of plan assets	**154**	**143**
Expected return on plan assets	5	8
Contributions (net of management costs)		12
Actuarial gains (losses) on plan assets	10	5
Benefits paid	(5)	(14)
Other	(2)	-
Closing fair value of plan assets	**162**	**154**

Plan assets return

	2005	2004
Actual rate of return on plan assets	9.7%	Between 4% and 9% depending on country

2.D. Determination of amounts posted in the balance sheet and statement of income

In millions of euros 12/31/2004	Liabilities (1)	Assets (2)	Net assets/liabilities (1 – 2)
Opening	**983**	**143**	**840**
Income or expenses of the period	128	8	120
Contributions paid to funds for the part of financed programs		12	(12)
Benefits paid for the part of non-financed programs	(73)	(14)	(59)
Actuarial gains/losses	114	5	109
Closing	**1,152**	**154**	**998**

In millions of euros 12/31/2005	Liabilities (1)	Assets (2)	Net assets/liabilities (1 – 2)
Opening	**1,152**	**154**	**998**
Income or expenses of the period	40	5	35
Contributions paid to funds for the part of financed programs			
Benefits paid for the part of non-financed programs	(71)	(5)	(66)
Actuarial gains/losses	70	10	60
Other	41	(2)	43
Closing	**1,232**	**162**	**1,070**

2.E. Elements of costs of the period

	Other post-employment benefits		Long-term benefits		Total	
In millions of euros	12/31/2005	12/31/2004	12/31/2005	12/31/2004	12/31/2005	12/31/2004
Current service cost	46	16	21	60	67	76
Interest cost	40	39	9	13	49	52
Settlement	(76)	-	-	-	(76)	
Expected return on plan assets	(5)	(8)		-	(5)	(8)
COST OF DEFINED BENEFIT PLANS	**5**	**47**	**30**	**73**	**35**	**120**

2.F. Reconciliation of recognized assets and liabilities

	Other post-employment benefits		Long-term benefits		Total	
En millions d'euros	12/31/2005	12/31/2004	12/31/2005	12/31/2004	12/31/2005	12/31/2004
Present value of totally or partially financed obligation at closing date	179	159		-	179	159
Present value of non-financed obligation at closing date	796	743	257	250	1,053	993
Fair value of plan assets	(162)	(154)		-	(162)	(154)
AMOUNT OF PROVISION	**813**	**748**	**257**	**250**	**1,070**	**998**

Note 28.3. Reconciliation with balance sheet

In millions of euros	12/31/2005	12/31/2004
Retirement	19	60
Other employee benefits	1,070	998
Miscellaneous		9
PROVISION FOR EMPLOYEE BENEFITS IN BALANCE SHEET	**1,089**	**1,067**

Note 29. Consolidated commitments

Note 29.a. Financial commitments

Note 29.a.1. Commitments on equity interest

The Group entered into simultaneous sale and purchase options on shares with the current shareholders of two Italian gas distribution companies (Arcalgas and Italcogim). These options can be exercised on a staggered basis until 2007 for a total of 0.4 billion euros.

Other purchase options on shares amounted to 252 million euros and sale options of shares to 84 million euros.

The Group is committed to subscribe to future capital increases for 22 million euros.

Note 29.a.2. Other financial commitments

Commitments granted to banks by Gaz de France and by the consolidated subsidiaries, as a guarantee for loans raised by some consolidated subsidiaries, are eliminated from consolidated commitments.

In millions of euros	12/31/2005	Of which at less than a year	Of which from one to five years	Of which beyond five years	12/31/2004
COMMITMENTS GRANTED:					
Lines of credit	3,360	353	1	3,006	2,383
Guarantees and endorsements	341	73	230	38	285
Market counter-guarantee endorsements	25		25		21
Pledge, mortgage and collaterals	9	1	8		
Performance bonds	307 (*)	49	239	19	62
Other commitments granted	9	2	7		
TOTAL	**4,051**	**478**	**510**	**3,063**	**2,751**
COMMITMENTS RECEIVED:					
Lines of credit	3,424	418	0	3,006	2,385
Guarantees and endorsements	166	44	105	17	319
Market counter-guarantee endorsements					1
Performance bonds	143	5	131	7	378
Other commitments received	2	1	1		6
TOTAL	**3,735**	**468**	**237**	**3,030**	**3,089**

(*) *As of December 31, 2005, Cofathec recorded 200 million euros relating to works' guarantees granted to customers.*

Since August 2002, Gaz de France has benefited from a line of revolving credit in the amount of 2 billion euros. This amount was increased to 3 billion euros as from February 2005 and its maturity is 2012.

Note 29.b. Commodity commitments

Commitments related to natural gas

In order to meet customer demand for natural gas in the medium and long term, the Group secured its supplies through contracts that may last up to 25 years. These contracts included reciprocal commitments referring to determined quantities of gas:

- a commitment by the Group to take delivery of minimum quantities;
- a commitment by suppliers to provide quantities at competitive prices.

This competitiveness is ensured by price adjustment formulas and clauses. Most of the Group's gas procurement is negotiated through such contracts. As of December 31, 2005, the Group's commitments totaled 51 billion m^3 for 2006, 191 billion m^3 for the period running from 2007 to 2009 and 382 billion m^3 for 2010 and beyond.

At the request of the Directorate General of Competition of the European Commission and of the Commission for Energy Regulation, Gaz de France implemented a program of gas release on the gas exchange point of the Southern area of the transmission network in France. This gas release started in 2005 and regards 15 TWh per year during three years.

In order to meet its commitments to take delivery of determined volumes of gas, the Group was led to enter into contracts to book land and sea transport capacities and regasification.

Moreover, subsidiaries in the Exploration and Production sector committed to make minimal quantities of natural gas available to their customers. The corresponding commitment represented 8 billion m^3 as of December 31, 2005, of which 3 billion m^3 of less than a year.

Change in commitments

The table below presents the change in commitments related to natural gas between 2004 and 2005:

	12/31/2005	12/31/2004
Natural gas (billions of m^3)		
Purchase contracts:		
within 1 year	51	45
from 1 year to 4 years	191	188
4 years and beyond	382	414
"Gas release" (in TWh)	38	45
Exploration-Production Sector:		
Commitments to make available	8	7
Of which at less than a year	3	2

Note 29.c. Contract obligations of a disbursement nature

In millions of euros		Payments due by period		
Contract obligations	**Total**	**At less than a year**	**From one to five years**	**At more than five years**
Long-term debt	3,711	1,102	452	2,157
Finance Lease commitments	778	69	386	323
Operating leases	142	33	97	12
Capital expenditures commitments	1,649	627	980	42
Other commitments	54	39	13	2
TOTAL	**6,334**	**1,870**	**1,928**	**2,536**

(Amounts are not discounted.)

Capital expenditures commitments at less than a year amounted to 627 million euros (507 million euros as of December 31, 2004), of which 286 million euros (344 million euros as of December 31, 2004) were linked with the LNG terminal construction at Fos Cavaou (which should be operated in 2008). Other capital expenditures commitments mainly regarded three gas-tankers (for a total amount of around 458 million euros), which should be ready between 2006-2007, and capital expenditures of the Exploration-Production segment for 359 million euros to be spread between 2006-2007.

Note 30. Information on related parties

Note 30.1. Transactions with legal entities

The Group concluded various transactions with related companies, which were all carried out in the normal course of its activities.

In accordance with the Group policy, these transactions were carried out at current market conditions. They included:

- relations of a commercial or financial nature between Gaz de France and its subsidiaries, in accordance with the usual practices for transactions between the parent company and affiliated companies, mainly energy purchases and sales and cash centralization;
- relations with EDF, with which a certain number of shared services exist, mainly for local public service operating activities through the EDF Gaz de France Distribution structure and for human resource management;
- energy supply and services in connection with local authorities and State services.

Relations with the CNIEG (*Caisse Nationale des Industries Electriques et Gazières*), which manages old age, disability and survivors' pensions for employees of EDF, Gaz de France and non-nationalized companies are detailed in note 28.

In 2005, the State sold shares at reduced price to employees and to a number of former employees of Gaz de France and of certain subsidiaries; the effective implementation of the employee offering was managed by Gaz de France (see note 7).

Note 30.2. Transactions with members of the Board of Directors and of the Executive Committee

Members of the Board of Directors who are employees of Gaz de France and members of the Executive Committee receive a remuneration made of gross pay, bonuses, profit-sharing, additional amount and benefits in kind. They enjoyed the employee offering in the context of the Gaz de France initial public offering, under conditions at best similar to the ones applied to all employees.

2004 data are not disclosed since they would not be comparative as Gaz de France was changed into a limited liability company in November 2004.

In thousand of euros	**2005**
Short term benefits (employer's contribution to social charges excluded) (1)	3,346
Short term benefits: employer's contribution to social charges	1,335
Post-employment benefits (2)	544
Other long term benefits (2)	66

(1) *Includes gross pay, bonuses, profit-sharing, additional amount and benefits in kind paid during the period.*
(2) *Service costs.*

Besides, members of the Board of Directors, elected by the General Meeting, are granted attendance fees, which amounted to 105 thousand euros in 2005.

Note 31. Earnings per share

Note 31.1 Non-diluted earnings per share

	2005	2004
Earnings available to shareholders (millions of euros)	**1,743**	**1,151**
Number of outstanding ordinary shares at the beginning of the period	451,500,000	-
Number of ordinary shares issued during the year	532,371,988	451,500,000
Number of outstanding ordinary shares at the end of the period	983,871,988	451,500,000
Par value per share (euros)	1	2
Earnings value per share (non diluted) (euros)	**1.85**	**1.27***

(*) *Pro forma earnings per share based on a par value of 1 euro. The number of shares was doubled in the first half of 2005 by division of the par value by two. Based on the effective par value, earnings per share in 2004 was:*

	2005	2004
Non diluted and diluted earnings per share (in euros)	1.85	2.55

Shares issued on the market will all participate in the dividends on the whole year 2005, since January 1, 2005.

Note 31.2. Profit diluted per share

No dilutive instrument existed. Consequently, diluted earnings per share are identical to the non-diluted earnings per share.

Note 32. Business segment reporting

In millions of euros 12/31/2005– Gaz de France Group	Energy Supply and Services	Infrastructures	Other	Unallocated	Eliminations	Total
Statement of income						
External revenues	19,549	2,777	25	43	-	22,394
Internal revenues	375	4,558	58	662	(5,653)	0
Revenues	19,924	7,335	83	705	(5,653)	22,394
EBITDA	1,143	2,967	14	95	-	4,219
Operating income	754	2,086	14	-70	-	2,784
Of which:						
Personnel expenses	837	1,245	15	313	-	2,410
Depreciation of goodwill	2	-	-	-	-	2
Amortization of tangible and intangible assets	376	946	17	10	-	1,349
Impairment of tangible and intangible assets	7	(36)	-	-	-	(29)
Share of income of companies accounted for by the equity method	155	34	-	-	-	189
Balance sheet						
Segment assets	**6,824**	**23,237**	**318**	**9**	**-**	**30,388**
Goodwill	466	1,051	27	-	-	1,544
Other intangible assets	125	239	19	9	-	392
Tangible assets and Concession assets	4,177	21,569	257	-	-	26,003
Investments in companies accounted for by the equity method	332	361	-	-	-	693
Derivative instruments	1,724	17	15	-	-	1,756
Segment liabilities	**2,104**	**9,708**	**243**	**-**	**-**	**12,055**
Liability related to concessions	66	8,543	-	-	-	8,609
Provisions for site restoration	327	1,154	164	-	-	1,645
Derivative instruments	1,711	11	79	-	-	1,801
Cash flow						
Capital expenditures	607	1,378	19	12	-	2,016
Other information						
Workforce	16,690	33,972	183	2,113	-	52,958

Energy Supply and Services

In millions of euros 12/31/2005–Energy Supply and Services	Exploration and Production	Purchase and Sale of Energy	Services	Eliminations	Total
Statement of income					
External revenues	932	16,769	1,848	-	19,549
Internal revenues	207	483	68	(383)	375
Revenues	1,139	17,252	1,916	(383)	19,924
EBITDA	726	251	166	-	1,143
Operating income	457	203	94	-	754
Of which:					
Personnel expenses	88	223	526	-	837
Depreciation of goodwill	-	-	2	-	2
Amortization of tangible and intangible assets	267	44	65	-	376
Impairment of tangible and intangible assets	7	-	-	-	7
Share of income of companies accounted for by the equity method	128	24	3	-	155
Balance sheet					
Segment assets	**3,246**	**2,326**	**1,252**	**-**	**6,824**
Goodwill	38	7	421	-	466
Other intangible assets	6	57	62	-	125
Tangible assets and Concession assets	2,923	508	746	-	4,177
Investments in companies accounted for by the equity method	279	30	23	-	332
Derivative instruments	-	1,724	-	-	1,724
Segment liabilities	**324**	**1,742**	**38**	**-**	**2,104**
Liability related to concessions	-	31	35	-	66
Provisions for site restoration	324	3	-	-	327
Derivative instruments	-	1,708	3	-	1,711
Cash flow					
Capital expenditures	500	46	61	-	607
Other information					
Workforce	1,205	2,940	12,545	-	16,690

Infrastructures

In millions of euros 12/31/2005–Infrastructures	Transmission and Storage France	Distribution France	Transmission-Distribution International	Eliminations	Total
Statement of income					
External revenues	221	299	2,257	-	2,777
Internal revenues	1,903	2,652	26	(23)	4,558
Revenues	2,124	2,951	2,283	(23)	7,335
EBITDA	1,271	1,352	344	-	2,967
Operating income	942	895	249	-	2,086
Of which:					
Personnel expenses	283	802	160	-	1,245
Depreciation of goodwill	-	-	-	-	-
Amortization of tangible and intangible assets	333	472	141	-	946
Impairment of tangible and intangible assets	-	-	(36)	-	(36)
Share of income of companies accounted for by the equity method	-	-	34	-	34
Balance sheet					
Segment assets	**7,243**	**11,661**	**4,333**	**-**	**23,237**
Goodwill	-	-	1,051	-	1,051
Other intangible assets	3	47	189	-	239
Tangible assets and Concession assets	7,240	11,599	2,730	-	21,569
Investments in companies accounted for by the equity method	-	15	346	-	361
Derivative instruments	-	-	17	-	17
Segment liabilities	**167**	**9,477**	**64**	**-**	**9,708**
Liability related to concessions	-	8,518	25	-	8,543
Provisions for site restoration	167	959	28	-	1,154
Derivative instruments	-	-	11	-	11
Cash flow					
Capital expenditures	447	793	138	-	1,378
Other information					
Workforce	4,383	15,110	14,479	-	33,972

In millions of euros 12/31/2004 – Gaz de France Group	Energy Supply and Services	Infrastructures	Other	Unallocated	Eliminations	Total
Statement of income						
External revenues						
Internal revenues						
Revenues	16,157	6,766	71	794	(6,057)	17,731
EBITDA	996	3,363	52	46	-	4,457
Operating income	557	2,038	29	(12)	-	2,612
Of which:						
Personnel expenses	614	1,097	4	328	-	2,043
Depreciation of goodwill	51	1	-	-	-	52
Amortization of tangible and intangible assets	386	891	9	11	-	1,297
Impairment of tangible and intangible assets	10	(22)	-	-	-	(12)
Share of income of companies accounted for by the equity method	115	10	-	-	-	125
Balance sheet						
Segment assets	**3,917**	**21,441**	**600**	**94**	**-**	**26,052**
Goodwill	209	955	26	-	-	1,190
Other intangible assets	52	68	2	9	-	131
Tangible assets and Concession assets	3,347	20,342	572	85	-	24,346
Investments in companies accounted for by the equity method	309	76	-	-	-	385
Segment liabilities	**299**	**9,224**	**165**			**9,688**
Liability related to concessions	29	8,205	-	-	-	8,234
Provisions for site restoration	270	1,019	165	-	-	1,454
Cash flow						
Capital expenditures	440	1,103	83	2	-	1,628
Other information						
Workforce	12,149	23,527	77	2,335	-	38,088

Energy Supply and Services

In millions of euros 12/31/2004 – Energy Supply and Services	Exploration and Production	Purchase and Sale of Energy	Services	Eliminations	Total
Statement of income					
External revenues					
Internal revenues					
Revenues	968	14,060	1,439	(310)	16,157
EBITDA	625	277	94	-	996
Operating income	229	275	53	-	557
Of which:					
Personnel expenses	80	187	347	-	614
Depreciation of goodwill	50	1	-	-	51
Amortization of tangible and intangible assets	310	40	36	-	386
Impairment of tangible and intangible assets	10	-	-	-	10
Share of income of companies accounted for by the equity method	77	22	16	-	115
Balance sheet					
Segment assets	**2,853**	**485**	**579**	**-**	**3,917**
Goodwill	38	6	165	-	209
Other intangible assets	3	42	7	-	52
Tangible assets and Concession assets	2,572	423	352	-	3,347
Investments in companies accounted for by the equity method	240	14	55	-	309
Segment liabilities	**270**		**29**		**299**
Liability related to concessions	-	-	29	-	29
Provisions for site restoration	270	-	-	-	270
Cash flow					
Capital expenditures	387	10	43		440
Other information					
Workforce	1,232	2,793	8,124	-	12,149

Infrastructures

In millions of euros 12/31/2004 – Infrastructures	Transmission and Storage France	Distribution France	Transmission-Distribution International	Eliminations	Total
Statement of income					
External revenues					
Internal revenues					
Revenues	2,179	3,143	1,467	(23)	6,766
EBITDA	1,343	1,620	400	-	3,363
Operating income	990	762	286	-	2,038
Of which:					
Personnel expenses	256	759	82	-	1,097
Depreciation of goodwill	-	-	1	-	1
Amortization of tangible and intangible assets	358	415	118	-	891
Impairment of tangible and intangible assets	-	-	(22)	-	(22)
Share of income of companies accounted for by the equity method	6	1	3	-	10
Balance sheet					
Segment assets	**7,202**	**11,152**	**3,087**	**-**	**21,441**
Goodwill	-	-	955	-	955
Other intangible assets	4	8	56	-	68
Tangible assets and Concession assets	7,198	11,128	2,016	-	20,342
Investments in companies accounted for by the equity method	-	16	60	-	76
Segment liabilities	**157**	**9,041**	**26**		**9,224**
Liability related to concessions	-	8,181	24	-	8,205
Provisions for site restoration	157	860	2	-	1,019
Cash flow					
Capital expenditures	314	713	76		1,103
Other information					
Workforce	4,413	15,344	3,770	-	23,527

Note 33. Geographical reporting

In millions of euros 12/31/2005	France	Europe excluding France	Rest of the world	Eliminations	Total
Revenues	17,747	5,739	222	(1,314)	22,394
Operating income	2,005	694	85	-	2,784
Segment assets	22,633	7,164	591	-	30,388
Capital expenditures	1,367	611	38	-	2,016

In millions of euros 12/31//2004	France	Europe excluding France	Rest of the worlds	Eliminations	Total
Revenues	14,457	3,835	183	(744)	17,731
Operating income	2,064	490	58	-	2,612
Segment assets	19,853	5,732	467	-	26,052
Capital expenditures	1,149	445	34	-	1,628

Note 34. Breakdown of net revenues by geographical area of destination

In millions of euros	12/31/2005	12/31/2004
France	14,245	12,485
United-Kingdom	2,516	1,808
Italy	1,108	661
Hungary	631	520
Germany	944	757
Other European countries	2,451	1,320
Rest of the world	499	180
	22,394	**17,731**

Note 35. Greenhouse gas emission quotas

The publication in the Official Journal of the European Union of October 25, 2003 of directive 2003/87/CE of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community, led the French government to design a regulation transposing the directive (Ordinance n° 2004-330 of April 15, 2004 creating a system of greenhouse gas emission allowance trading).

Summary of the impact of this regulation for the facilities in France of the Gaz de France Group

The reduction of greenhouse gas emissions regards in the first place industrial companies, according to the mechanism provided for in the directive and transposed into French regulation. At the beginning of the year, the State allocates a number of quotas to companies, determined according to the national allocation plan. Companies must return the quotas at the beginning of the following year. Quotas can be sold.

The creation of emission quota trading market as soon as 2005 will also generate trading activity of quotas and of the corresponding derivative products. The accounting nature of affected assets is fundamentally different for an industrial company or for a trader.

Consequently, the accounting treatment will be different for industrial companies which receive quotas free of charge, can trade them and must return them and for traders, which freely negotiate these rights.

In the absence of IFRS or interpretations related to the accounting of greenhouse gas emission quotas, and with the withdrawal by the IASB of its interpretation IFRIC 3 – Emission rights, the following provisions were implemented: quotas granted free of charge were recognized at zero value. Transactions on the market were recognized at transaction value. The possible adjustment between available quotas and the obligation to return them at maturity was provisioned under risks and expenses at their market value.

In France, the national quota allocation plan mainly regards electricity power stations (DK6, Finergaz group)

Data 2005 Group

Euros per ton	12/31/2005
Average price of quota on different reference markets (Powernext, EEX, UK)	21.15

In millions of tons	Number of quotas
Number of quotas granted free of charge in 2005	7.0
Quota balance as of 12/31/2005	6.4
Number of tons of CO_2 emitted as of 12/31/2005	4.4

For the Group, the adjustment between available quotas and the obligation to return them back at maturity amounted to 2 million tons of surplus, which were not valued.

Reconciliation of recognized assets and liabilities and of related income and expenses

In millions of tons	Assets	Liabilities		Income Statement
	Intangible assets	Quotas to be returned	Provisions	Income/(Expenses)
JANUARY 1, 2005				
Change in the period:				
Purchase/Expenses			0.1	(0.1)
Sales/Income				0.6
Restitutions				
Other				
Dec. 31, 2005 before netting	**-**	**-**	**0.1**	**0.5**
Netting				
DEC. 31, 2005 BALANCE IN THE BALANCE SHEET	**-**	**-**	**0.1**	

In millions of euros	Assets	Liabilities		Statement of income
	Intangible assets	Quotas to be returned	Provisions	Income/(Expenses)
JANUARY 1, 2005				
Change in the period:				
Purchase/Expenses			3	(3)
Sales/Income				11
Restitutions				
Other				
Dec. 31, 2005 before netting	**-**	**-**	**3**	**8**
Netting				
DEC. 31, 2005 BALANCE IN THE BALANCE SHEET	**-**	**-**	**3**	

Note 36. Subsequent events

Merger project between Gaz de France and Suez

The Board of Directors of Gaz de France, which met on February 25 and 26, 2006, approved the proposed merger between Gaz de France and the Suez group.

The achievement of this project is linked to a certain amount of conditions and authorizations.

This merger will be submitted to the approval, after confirmation of the exchange ratio by the appraisal auditors, during the extraordinary shareholders' meeting of the two companies.

The finalization of the transaction should occur in the second half of 2006, once all diligences have been completed.

Implementation of an interest rate risk hedging

On January 23, 2006, Gaz de France concluded with a bank an interest rate risk hedging on the remuneration of its irredeemable securities A.

This swap, with a maturity date of October 15, 2035 and of a notional amount of 480,128,216 euros, includes two subsequent periods:

a) until October 15, 2015, with a multiplier coefficient of 130% of the notional amount above-mentioned and

b) of 100% thereafter and until the final deadline.

Gaz de France received a floating rate equal to the annual average rate of CMS at 10 years (Constant Maturity Swap) in euros and pays an all-in fixed rate of 4.3285%.

The CMS 10 year rate has a very good correlation with the TMO reference used for the determination of the coupon of irredeemable securities, while bringing a better market liquidity and an early permanence on the hedging duration.

Bringing of gas fields on stream in the North Sea

Gaz de France, through its subsidiary GDF Production Nederland BV (ProNed), brought five gas fields on stream started in the Dutch North Sea.

Note 37. Scope of consolidation: complete list of consolidated companies

Companies	Country	Cons. meth. 2005	Percentage interest 2005	Percentage interest 2004
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**
ENERGY SUPPLY AND SERVICES				
Exploration-Production				
GDF Britain Group	United Kingdom	F	100.00	100.00
Efog	United Kingdom	E	22.50	22.50
GDF Production Nederland	Netherlands	F	100.00	100.00
GDF Holding Noordzee	Netherlands	F	100.00	100.00
N.G.T.	Netherlands	P	38.57	38.57
GDF Exploration Algeria	Netherlands	F	100.00	100.00
GDF Exploration Egypt	Netherlands	F	100.00	100.00
GDF Exploration Germany	Netherlands	F	100.00	100.00
GDF Exploration Lybia	Netherlands	F	100.00	-
GDF Exploration Poland	Netherlands		Sold	100.00
GDF Exploration UK	Netherlands	F	100.00	100.00
GDF Participation Nederland	Netherlands	F	100.00	100.00
E.E.G. Group	Germany	F	100.00	100.00
Gaz de France Production Exploration Deutschland	Germany	F	100.00	100.00
Gaz de France Norge	Norway	F	100.00	100.00
Production North Sea Netherlands	USA	F	100.00	100.00
Purchase and sale of energy				
Messigaz	France	F	100.00	100.00
GDF International Trading	France	F	100.00	100.00
G.D.F. Armateur	France	F	100.00	100.00
GDF Armateur 2	France	F	100.00	100.00
GDF Méthane Investissements 2	France	F	100.00	100.00
GDF Méthane Investissements 3	France	F	100.00	100.00
GazTransport et Technigaz	France	E	40.00	40.00
Compagnie Française du Méthane (CFM) et CFMH – Négoce	France		Merged	55.00
Méthane Transport	France	P	50.00	50.00
NYK Armateur	France	P	40.00	40.00
Gaselys	France	P	51.00	51.00
Gaselys UK	United Kingdom	P	51.00	51.00
Groupe GDF Energy Supply & Solutions	United Kingdom	F	100.00	100.00
Med Ing & Gas	United Kingdom	P	50.00	50.00
GDF Supply Trading & Marketing	Netherlands	F	100.00	-
Etac	Netherlands	E	80.00	80.00

Companies	Country	Cons. meth. 2005	Percentage interest 2005	2004
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**
Services				
Cofathec Group	France	F	100.00	100.00
Finergaz Group	France	F	100.00	100.00
GNVert	France	F	100.00	100.00
DK6	France	F	100.00	100.00
Savelys Group (ex CGST-Save)	France	F	100.00	100.00
Thion Group	France	E	34.00	34.00
INFRASTRUCTURES				
Transmission and storage France				
GRTgaz	France	F	100.00	-
Compagnie Française du Méthane (CFM) et CFMH – Transport	France		Merged	55.00
Gaz du Sud-Ouest (GSO)	France		Sold	30.00
Distribution France				
Gaz de Strasbourg	France	E	24.90	24.90
Transport and Distribution International				
Sofregaz	France		Sold	34.00
Italcogim Group	Italy	E	40.00	-
Arcalgas Energie	Italy	E	42.65	-
Arcalgas Progetti	Italy	E	44.17	-
Megal GmbH	Germany	P	43.00	43.00
Gaz de France Deutschland	Germany	F	100.00	100.00
Gaz de France Deutschland Transport	Germany	F	100.00	-
Gasag Group	Germany	P	31.57	31.57
Megal Finco	Caiman Islands		Liquidated	43.00
SPE Group	Belgium	P	25.50	-
Segeo	Belgium	E	25.00	25.00
Portgas	Portugal	E	12.67	12.67
Degaz	Hungary	F	99.77	99.77
Egaz	Hungary	F	99.42	99.42
Distrigaz Sud	Romania	F	51.00	
Pozagas	Slovak Republic	P	43.37	43.37
Slovensky Plynarensky Priemysel Group (SPP)	Slovak Republic	P	24.50	24.50
GDF Québec Group	Canada	F	100.00	100.00
Noverco Group	Canada	E	17.56	17.56

Companies	Country	Cons. meth. 2005	Percentage interest 2005	2004
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**
Energia Mayakan	Mexico	F	67.50	67.50
Servicios Mayakan	Mexico	F	67.50	67.50
Compania Gasoductos del Bajio	Mexico	F	100.00	100.00
Gasoductos del Bajio	Mexico	F	100.00	100.00
MI Comercializadora	Mexico	F	100.00	100.00
MI Consultadores	Mexico	F	100.00	100.00
MI Servicios	Mexico	F	100.00	100.00
Servicios Industriales de Energia	Mexico		Deconsolidated	50.00
Transnatural	Mexico	P	50.00	50.00
Consorcio Mexigaz	Mexico	F	100.00	100.00
Natgasmex	Mexico	F	100.00	100.00
Tamauligas	Mexico	F	100.00	100.00
Gaseba	Argentina	F	100.00	100.00
Gaseba Uruguay	Uruguay	F	51.00	51.00
OTHER				
Cogac	France	F	100.00	100.00
GDF International	France	F	100.00	100.00
S.F.F	France	F	100.00	100.00
Société Immobilière Assomption La Fontaine	France	F	100.00	100.00
GDF Production Investissements	France	F	100.00	100.00
GDF Production Investissements Pays-Bas	France	F	100.00	100.00
GDF Berliner Investissements	France	F	100.00	100.00
Mexique Investissements	France	F	100.00	100.00
Gas del Sur	France	F	100.00	100.00
GDF Styrie Investissements	France	F	100.00	100.00
Laurentides Investissements	France	F	100.00	100.00
GDF Investissements 2	France	F	100.00	100.00
GDF Investissements 24	France	F	100.00	100.00
GDF Investissements 29	France	F	100.00	100.00
GDF Investissements 35	France	F	100.00	-
GNL Transport Investissements	France	F	100.00	100.00
GNL Marine Investissements	France	F	100.00	100.00
Banque SOLFEA (ex Pétrofigaz)	France	P	54.72	54.72
Verona Investissements	France	F	100.00	-

Companies	Country	Cons. meth. 2005	Percentage interest 2005	2004
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**
GDF Milano	Italy	F	100.00	-
Segebel	Belgium	P	50.00	-
GDF Investment Netherlands	United Kingdom	F	100.00	100.00
Investment Gas Holland	United Kingdom	F	100.00	100.00
MI del Bajio Marketing	Netherlands	F	100.00	100.00
Merida Pipeline	Netherlands	F	67.50	67.50
Mayakan Pipeline	Netherlands	F	67.50	67.50
Slovak Gas Holding	Netherlands	P	50.00	50.00
Merida Holding	Barbados	F	67.50	67.50

Information regarding the consolidation method of the following subsidiaries:

- Gaselys: sharing the control with the Société Générale justifies the use of the proportionate consolidation method;
- SPP Group: sharing the control with the Slovakian State and the Rhurgas company justifies the use of proportionate consolidation method;
- Noverco Group: the possibility to participate in decisions in the field of financial and operational policy justifies the consolidation by the equity method;
- Solfea: sharing the control with the Cofinoga Group justifies the use of the proportionate consolidation method.

Breakdown of 11 subgroups

Cofathec Group	Cofathec	France
	ADF Environnement	France
	ADF Maintenance Industrielle	France
	ADF Normandie	France
	ADF S.A.	France
	ADF Tarlin	France
	APS Sinergia	Italy
	Aquatherm	Belgium
	Artault et Cie	France
	Aulnay Energie Services	France
	Blanc Mesnil Energie Services	France
	Busseuil	France
	Cadsud	France
	Calliance	France
	Castagnetti	Italy
	Chaleur	Switzerland
	Chelles Chaleur	France
	Climespace	France
	Cofathec ADF	France
	Cofathec Ascensori	Italy
	Cofathec Benelux	Belgium
	Cofathec Energie Services	France
	Cofathec Energy	United-Kingdom
	Cofathec Energy Services	United-Kingdom
	Cofathec Energy Services UK	United-Kingdom
	Cofathec GMI	Belgium
	Cofathec Heatsave	United-Kingdom
	Cofathec Oméga	France
	Cofathec Progetti	Italy
	Cofathec Maintenance	France
	Cofathec Projis	France
	Cofathec Rueda	Belgium
	Cofathec Sales	United-Kingdom
	Cofathec Services	France
	Cofathec Servizi	Italy
	Cofathec UK	United-Kingdom

Coriance	France
Cottier Equipements	France
Danto Rogeat	France
Drôme Energie Services	France
Ecotermica Servizi	Italy
Energie Meaux	France
Gennedith	France
Globalia	France
Korb	Belgium
Korb Service	Belgium
Les Mureaux Energie Services	France
Minerg Appelsa Services	Switzerland
Multiservicios Tecnologicos	Spain
Neu Montage Maintenance	France
Nuova Sipe	Italy
Omega Concept	France
Omega Concept Italie	Italy
Pictet	France
Prasi	Italy
Preci Mecanic	France
Raichon Fluides et Energies	France
Rege Plastiques	France
R+M Réalisation et Maintenance	France
Ris Energie Services	France
Russia Explorer	France
Saccir	Italy
SCI Administration Office	France
SCI Camp Jouven	France
SCI Grand Canal	France
Sedel	France
SEP Les Gresilles	France
SEP Mégajoule	France
SEP Opération Saint Michel	France
S.E.P.T.	France
Stade Energie SAS	France
SI Servizi	Italy
SI Servizi Adriatica	Italy

	Sofredith	France
	Sogit	France
	Somoclim	Monaco
	Société Thermique de La Doua	France
	Société Thermique de Salon de Provence	France
	Torino Sanita	Italy
	Trigno Energy	Italy
Savelys Group (ex CGST Save)	Savelys	France
	Depann'Gaz Services	France
	Elec Gaz Services	France
	Eurl Gaz 42	France
	H. Saint Paul	France
	SCI Châlon	France
	SCI M. Valentin	France
	SCI T. Balma	France
	SCI T. Louis	France
	SCI Tinqueux	France
	SCI Vandorme	France
	Therm'Opale Service	France
Finergaz Group	Finergaz	France
	Société de Cogénération de Montoir	France
	Ficobel	France
	Compagnie de Cogénération de Champblain	France
	Société Gardannaise de Cogénération	France
	Société Girondine de Cogénération	France
	Gensel	France
	Compagnie de Cogénération de la Braye	France
	Figenal	France
	Corely	France
	Isergie	France
	FINergaz Energie Services	France
	SEP Michelin Joué les Tours	France
	SEP Michelin Bourges	France
	SEP Michelin Montceau les Mînes	France
	SEP Michelin Roanne	France

	SEP Michelin Poitiers	France
	SEP SKW Rousselot	France
	Compagnie de Cogénération de la Dordogne	France
	COBEFI	France
	GIE Etoile Bassens	France
	Compagnie de Cogénération de la Vologne	France
	INCO	France
	EUROFIN	France
	Société de Cogénération de Chalampé	France
	Société de Cogénération du Bourray	France
Thion Group	Ne Varietur	France
	Thion	France
	Arizzoli, Bernard et Perre	France
	Bes	France
	Charbonnière de Saône et Loire	France
	Curchal	France
	Decoparc	France
	Gie Soccram Dalkia	France
	Jesel & Widemann	France
	Juratrom	France
	Maison Balland Brugneaux	France
	SC2M	France
	Scider	France
	Sicar	France
	Soccram	France
	Socomin	France
	Soparec	France
	Sotrapac	France
	Storapro	France
	Tournaux	France
	Trottier Escribe	France
GDF Britain Group	GDF Britain	United-Kingdom
	Gaz de France Britain E&P Ltd	United-Kingdom
GDF Energy Supply & Solutions Group	GDF Energy Supply & Solutions	United-Kingdom
	Gaz de France Generation Ltd	United-Kingdom
	Gaz de France Marketing Ltd	United-Kingdom

	Gaz de France Sales Ltd	United-Kingdom
	Gaz de France Services Ltd	United-Kingdom
	Gaz de France Solutions Ltd	United-Kingdom
S.P.P. Group	Slovensky Plynarensky Priemysel	Slovak republic
	Geoterm Kosice	Slovak republic
	Interkvet	Slovak republic
	Groupe Nafta (9 entités)	Slovak republic
	Probugas	Slovak republic
	Prva paroplynova spolocnost	Slovak republic
	Slovgeoterm	Slovak republic
	Slovrurgas	Slovak republic
	SPP Bohemia	Czech Republic
Gasag Group	GASAG	Germany
	BAS	Germany
	BEGA.tec	Germany
	E.M.B.	Germany
	GASAG WärmeService	Germany
	HSWBerlinDat	Germany
	RWE Westbrandenburgische Beteiligungsgesellschaft GmbH Dortmund	Germany
	Netz-Beteiligungs-GmbH Berlin Brandenburg	Germany
E.E.G. Group	Erdgas Erdöl GmbH	Germany
	E.E.G.T.	Germany
	Kazgermunai	Kazakhstan
	VEGO OEL	Germany
GDF Québec Group	GDF Québec Inc	Canada
	BELLC	Unites States
	Intragaz Holding	Canada
	Intragaz Sec	Canada
	Intragaz Holding Limited Partnership	Canada
	Intragaz Energy Limited Partnership	Canada
	Intragaz US Inc	United States
	MEG International	Canada
	MEG Holding US	United States
	Rabaska Lp	Canada

Noverco Group	Noverco Inc	Canada
	Gaz Metropolitain Inc	Canada
	Gaz Metropolitain Sec	Canada
Italcogim Group	Italcogim SPA	Italy
	Tecnomontaggi	Italy
	Italcogim Vendite	Italy
	Italcogim Reti	Italy
	ASM Energia	Italy
	Alento Gas	Italy
	Natural Gas	Italy
SPE Group	SPE	Belgium
	City Power	Belgium
	ALE Trading	Belgium
	ALG Négoce	Belgium
	Luminus	Belgium
	SPE Power Company	Belgium

Note 38. Exchanged rates used in the financial statements

The main exchange rates used out the euro zone are listed below:

	12/31/2005		12/31/2004		12/31/2003	
	Average rate	Closing rate	Average rate	Closing rate	Average rate	Closing rate
Currencies/EURO						
USD U.S. dollar	1.24	1.18	1.24	1.36	1.13	1.26
CAD Canadian dollar	1.51	1.37	1.62	1.64	1.58	1.62
HUF Hungarian forint	248.04	252.87	251.66	245.97	253.61	262.50
CHF Swiss franc	1.55	1.56	1.54	1.54	1.52	1.56
SKK Slovak krown	38.59	37.88	40.02	38.74	41.49	41.17
GBP English pound	0.68	0.69	0.68	0.70	0.69	0.70
UYU Uruguayan peso	30.48	28.46	35.59	35.88	31.88	36.64
MXN Mexican peso	13.57	12.54	14.04	15.18	12.22	14.18
NOK Norwegian krone	8.01	7.98	8.37	8.24	8.00	8.41
ARS Argentine peso	3.64	3.58	3.66	4.05	3.34	3.67
ROL Romanian lei	3.62	3.68				

D. Financial impact of the changeover to IFRS

D.1. Impact of the changeover to ifrs on the December 31, 2004 comparative data

Background

In compliance with European regulation 1606/2002 dated July 19, 2002 on international accounting and financial reporting standards, completed by the different regulations published until December 31, 2005, the Gaz de France Group's consolidated financial statements for the year ended December 31, 2005 are prepared according to the international accounting standards ("IAS/IFRS"), applicable as of December 31, 2005, as approved by the European Union. The 2005 financial statements are the first ones published in accordance with IAS/IFRS standards and present the 2004 financial statements prepared under the same principles for purposes of comparison (excluding IAS 32 and IAS 39, which are to be applied as from January 1, 2005).

2004 financial disclosure on the impact of changeover to IFRS was prepared by applying to 2004 data IFRS standards and interpretations applying as of December 31, 2005.

Regarding the accounting treatment of concessions, the IFRIC published in March 2005 three draft interpretations, requiring comments, D12 "Determining the Accounting Model", D13 "The Financial Asset Model" and D14 "The Intangible Asset Model" and indicated in November 2005, in a publication summarizing its works' state of play, that it would not be able to finalize the interpretations for financial statements closing in 2005 and confirmed that concessions did not enjoy any specific exemption in the existing IFRS and that one had to comply with standards' hierarchy (IAS 8).

Given the particular position of Gaz de France owed to the legal and contractual environment, the accounting treatment selected by Gaz de France for the changeover to IFRS draws all the consequences of the provisions contained in concession contracts, in particular:

- The obligation of free restitution of concession assets at the end of the concession,
- The obligation of maintaining the network in normal state of running during the whole duration of the contract.

This accounting treatment applied as of January 1, 2004 for purposes of preparing the opening balance sheet for the first-time adoption of IFRS, effective as of December 31, 2005 and comparative data for 2004.

Finally, regarding the reform of the medical insurance plan detailed in supplemental disclosure to the consolidated financial statements as of December 31, 2004, the commitment to retirees could not be measured at January 1, 2004 and December 31, 2004 on the basis of benefits paid, since the Group did not maintain separate accounts for active employees and retirees. As a result, in accordance with IAS 19, no provision has been recognized for that purpose. As a result of the reform of the financing plan that occurred in February 2005, Gaz de France has retained a defined contribution commitment for active employees and no longer bears an obligation for retirees, as it no longer contributes to the financing of their medical insurance plan.In 2002, Gaz de France launched its program for the changeover to international accounting standards, in order to adopt International Financial Reporting Standards ("IFRS") as from January 1, 2005.

With a view to disclosing the comparative data for the year 2005 and in accordance with the recommendation of the French Autorité des marchés financiers (the "AMF") on the communication of financial information during the changeover period, the Group prepared 2004 financial information on the changeover to IAS/IFRS, presenting preliminary information on the expected financial impact of the changeover to IFRS.

Basis for the preparation of the 2004 IFRS comparative data – disclosure of standards and interpretations applied for the preparation of the 2004 financial information on the changeover to IAS/IFRS

The effects of the conversion of the Group's financial statements from CRC 99-02 standards to IFRS have been derived using standards and interpretations adopted by European regulation 1606/2002, dated July 19, 2002. The regulation was supplemented by various regulations issued up to December 31, 2005 adopting changes in the 13 IAS standards (as part of the "Standard Improvement" project for IFRS 1, 2, 3, 4 and 5, IAS 32 and 39 and to the IFRIC 1 interpretation).

The Group has applied IFRS 5 for the preparation of the 2004 IFRS comparative data.

The Group has applied the amendment to IAS 19 issued in December 2004 on the recognition of actuarial gains and losses in shareholders' equity, although this amendment will not go into effect until 2006.

The Group has applied IFRS 2 for share-based payments.

The Group has applied IAS 32 and 39 for financial instruments as from January 1, 2005, which required to book additional adjustments against shareholders' equity as from January 1, 2005 upon the initial adoption of the standards. The 2004 IFRS comparative data do not reflect a restatement for the impact of these two standards.

Communication of financial information

The Group follows the recommendations of the AMF and of the Committee of European Securities Regulators ("CESR") on disclosing the financial impact of change in accounting principles.

The 2004 IFRS comparative data are presented in the form of reconciliation statements established in accordance with IFRS 1 for the Income Statement, the Balance Sheet and the Statements of changes in Shareholders' Equity, along with a presentation of IFRS accounting principles and supplementary notes detailing the most significant effects.

The accounting reconciliations do not include any correction of errors.

Details of changes to priory published transition information in the preliminary information as of December 31, 2004, included in the prospectus filed with the French Autorité des marchés financiers on April 1, 2005 under number I. 05-037, are described in supplemental disclosure D-2 "Changes to changeover information previously published".

The recognition of changes led to a decrease in opening shareholders' equity after deferred tax by 42 million euros and to an increase in net income in 2004 of 33 million euros.

General principles applied for the preparation of the 2004 IFRS financial information

Excluding the exceptions detailed below, the Group applied the general rule provided for by IFRS 1 – First time adoption of IFRS, which requires that IFRS standards in force at the closing date for the first IFRS consolidated financial statements be applied retrospectively, as if they had always been applied.

This retrospective application of IFRS for the opening balance sheet on the date of changeover (January 1, 2004) required:

- the recognition of all assets and liabilities as defined by the standards,
- the derecognition of assets and liabilities which do not meet the criteria defined by IFRS,
- the reclassification of assets and liabilities in compliance with IFRS, and
- the measurement of assets and liabilities according to the principles chosen by the Group in accordance with IFRS.

Description of the accounting options tied to the first adoption of IFRS and which were held for the preparation of the initial balance sheet as of January 1, 2004.

Description of accounting choices related to the first time adoption of IFRS and retained for the preparation of the opening balance sheet as of January 1, 2004

In compliance with the provisions of IFRS 1, in the preparation of its opening balance sheet, the Group elected to adopt the following exemptions to the general principle of IFRS retrospective application:

Business combinations

The Group chose not to restate retrospectively those business combinations that occurred prior to the date of the IFRS changeover.

Retirement benefit commitments and other employee benefits

In accordance with this option, total actuarial gains and losses at the time of the changeover that were not recognized in compliance with the corridor rule are fully recognized as liabilities, with a corresponding reduction in shareholders' equity.

Foreign currency translation adjustments linked with foreign operations

The Group chose to set the adjustments in its financial statements for foreign currency translation related to its foreign operations at zero as of January 1, 2004. The foreign currency translation adjustments recognized previous to this date, in accordance with French GAAP and after taking into account the IFRS restatements, were reclassified as consolidated reserves in the transitional balance sheet. This reclassification has no impact on the total amount of shareholders' equity. In the case of the subsequent disposal of these subsidiaries, the net proceeds of the disposal will not include translation adjustments prior to January 1, 2004, but will include translation adjustments recognized after this date.

Presentation of financial statements

Balance sheets

In compliance with IAS 1, the Group differentiates in its balance sheets between current and non-current assets, which are determined according to the Group's operating cycle.

Current assets comprise:

- assets intended for sale or consumption as part of the Group's operations, and
- cash and cash equivalents.

All other assets are classified as non-current assets.

Current liabilities comprise:

- liabilities related to the Group's operations, and
- those liabilities due to be settled within 12 months of the balance sheet date (including bank overdrafts).

All other liabilities are classified as non-current liabilities.

Under IFRS, "other-equity" does not exist. Therefore, irredeemable securities are reclassified as non-current liabilities.

Assets and liabilities related to concessions for which French GAAP treatment was maintained until now are identified as such in the Balance Sheet; specifically, concession grantor's rights and provisions for the replacement of concession assets are aggregated under the item "liability related to concessions."

Statements of income

In accordance with the option available under IAS 1, the Group made the decision to present its income statement in terms of the nature of expenses.

The concepts of operating and exceptional income as set out by French GAAP do not exist under IFRS, and an IFRS income statement does not disclose a figure for value added.

On the other hand, the Group chose to present the following items:

Earnings before interest, tax, depreciation and amortization (EBITDA)

This includes all expenses (except for amortization and provisions) and income directly linked to the Group's activities, these items being either recurring items relating to its operations or the result of non-recurring or unusual events or decisions, including extraordinary events over which the Group has no control.

Operating income

This corresponds to EBITDA, after deduction of amortization and provisions.

Consolidated net income of the Group

This corresponds to the operating income after deduction of financial charges and income, and after tax (current or deferred), and to the Group's share of income or loss from companies accounted for by the equity method (after deduction of any impairment).

Statements of cash flows

The Group's statements of cash flows is reported using the indirect method, starting from operating income; cash flows from operating activities are determined starting from operating income, and are then adjusted for the effects of non-cash gains and losses.

Under IFRS, cash flows linked to the payment of income tax are treated separately.

Further, under IFRS, cash flows relating to the payment of debt-related financial expenses and the recovery of financial gains are disclosed in financing activities and investing activities, respectively.

The changeover to IFRS does not result in any other major adjustments.

Summary of the impact of IFRS on Group equity as of January 1, 2004, and on 2004 net income (after the reform for the financing of retirement plans)

In millions of euros		Standard	Shareholder's Equity Group Share	Minority Interests	Shareholder's Equity 12/31/2003	Net Income	Change in Reserves 2004*	Foreign currency translation adjustments reserve 2004*	Shareholder's Equity* 12/31/2004
Under French GAAP			9,587	269	9,856	1,105	(430)	62	10,593
Restatements (net of deferred tax)									
Goodwill	I.1	IAS 21and 38	14		14	69		40	123
Fixed assets:									
Component analysis and change in useful lives	II.1 and II.2	IAS 16	814		814	206			1,020
Impairments tests	II.3	IAS 36	(178)		(178)	(53)			(231)
Sub-total fixed assets			**636**		**636**	**153**			**789**
Provisions for employee benefits	III.3 and IV.2	IAS 19	(7,648)		(7,648)*	(113)	7,477		(284)
Other provisions	III.1 and III.2 and III.4	IAS 37	547		547	(125)			422
Grants	VI.	IAS 20	(77)		(77)	(4)			(81)
Derecognition of discount of deferred taxes	IV.3	IAS 12	(481)		(481)	119			(362)
Change in percentage of interest	V.	SIC 33	28		28	5			33
Other	VII.		(14)	(15)	(29)	(18)	22	2	(23)
TOTAL RESTATEMENTS			**(6,995)**	**(15)**	**(7,010)**	**86**	**7,499**	**42**	**617**
Under IFRS			**2,592**	**254**	**2,846**	**1,191**	**7,069**	**104**	**11,210**

(*) *Including minority interests.*

Summary of the impact on the main financial items

Shareholders' equity on January 1, 2004, prepared in conformity with IFRS, amounts to 2,846 million euros, which represents a major decline compared to the 9,856 million euros published according to French GAAP.

The reform of the financing of retirement plans discharges the Company as of December 31, 2004, of the obligations assumed by the general French public benefit programs. It also provides for the financing of vested specific benefits relating to regulated activities through a rate surcharge on transmission and distribution transactions.

As the reform occurred after January 1, 2004, the reconciliation of opening shareholder's equity shows a difference reflecting total pre-reform commitments, less plan assets, existing provisions and deferred tax assets.

The IFRS 2004 statement of income includes the personnel expenses related to retirement benefit plans prior to the financing reform (794 million euros before tax, including in particular the unwinding of discount costs for 666 million euros posted in financial expenses). Income under French GAAP comprised benefits paid and contributions to plan assets for 623 million euros before tax (see C – note 28 and E schedule 2 – reconciliation of statement of income). The effects of the reform of the financing of retirement plans were directly recognized in equity as of December 31, 2004 (see the table above, column "change in reserves 2004" and line "provisions for employee benefits"). Details of effects of the reform are disclosed in section D – retirement plan obligations – reconciliation of equity at January 1, 2004 under French GAAP – December 31, 2004 IFRS post-reform.

As of January 1, 2005, equity is further adjusted due to the application of IAS 32 and IAS 39 relating to financial instruments (see B note 2- options for transition)

The Group's 2004 IFRS net income (1,302 million euros) is 197 million euros higher than its net income under French GAAP (1,105 million euros) following the combined effect of the application of IAS 16 (change in the useful lives of fixed assets: +206 million euros net of deferred tax), IAS 19 (provisions for employee benefits: -113 million euros net of deferred tax) and IAS 12 (effect of the derecognition of the discount of deferred tax: +119 million euros).

Net revenues declined from 18,129 million euros under French GAAP to 17,731 million euros under IFRS. This decrease is due both to the presentation of gas sales and purchases with a subsidiary on a net basis (-312 million euros) and the change in the method of consolidation of another subsidiary (-72 million euros).

Net indebtedness (excluding the liabilities of financial affiliates) rose from 4,411 million euros under French GAAP to 4,487 million euros under IFRS. This increase is due to the reclassification of non-money-market marketable securities as non-current assets (+38 million euros), the consolidation of a pool of securitized receivables (+26 million euros) and the change in the method of consolidation for a subsidiary (+7 million euros).

Description of changes in accounting principles and IFRS adjustments

I. Goodwill

I.1 Translation of foreign companies' financial statements to euros (IAS 21)

In compliance with IAS 21 on the translation of foreign companies' financial statements, goodwill, denominated in the parent company's currency (euros) in the Group's financial statements are restated in the opening balance sheet with retrospective effect, to be considered as assets of the subsidiary in local currency.

Assessment of goodwill in the subsidiary's currency at the exchange rate for the date of the changeover generates a translation adjustment of 14 million euros. This adjustment is directly recognized in equity in the opening balance sheet, in accordance with the option selected by the Group for the treatment of previous foreign currency translation adjustments. Foreign currency translation adjustments recognized subsequent to the changeover are posted as translation adjustments as of December 31, 2004 (in the amount of 40 million euros).

I.2 Derecognition of goodwill amortization

Goodwill is no longer amortized, but instead is subjected to systematic impairment tests annually, or on a more frequent basis if indications of identified impairment exist.

In 2004, the restatement in IFRS of goodwill amortization recognized under French GAAP resulted in an increase in income of 69 million euros.

II. Non-concession tangible assets

II.1 Implementation of the components analysis (IAS 16)

Under IFRS, elements of an asset that are distinctly operated are recognized as separate assets, if, at the outset, one or more elements of the asset have a separate useful life or are subject to different patterns of consumption or related future economic benefits. Each recognized component is subject to its own amortization plan.

This treatment also applies to recurring major repair expenses and major inspections, which are recognized as components amortized over the period between two major inspections.

As to the parent company, which already has in place a detailed listing of its assets, the implementation of the components method mainly affected technical installations of underground storage facilities, LNG terminals and compression stations.

Regarding subsidiaries, the main activities concerned were:

- the Services segment, for cogeneration facilities;
- the Purchase and Sale of Energy segment, for LNG carriers, for which the Group followed the guidance of the Syndicat des Armateurs de France (the professional organization of the French shipping industry).

In the opening balance sheet, this method led to the recognition of 12 million euros of additional amortization and to the recognition of a component asset for major maintenance of 3 million euros, resulting in a global loss on shareholders' equity of 9 million euros, or 7 million euros after deferred tax (see §IV.1).

2004 IFRS net income was reduced by 6 million euros compared to net income under French GAAP, due to the increase in amortization.

II.2 Changes in useful lives (IAS 16)

For the preparation of its consolidated financial statements, Gaz de France previously determined the useful lives of its fixed assets by reference to customary methodology of determining useful, consistent with the applicable tax laws and regulations.

As part of the changeover to international standards, the depreciation periods applied to technical facilities were reviewed for adjustment to align them with their expected useful lives.

When the Group's accounting useful lives under French GAAP were different from expected useful lives, the restatement of amortization in the opening balance sheet was computed retrospectively.

In their review of the useful lives of their assets, the Group's various subsidiaries have in some cases increased the useful lives of their assets. For subsidiaries acquired before January 1, 2004, amortization was restated as from the date of the acquisition of the subsidiary on the basis of the deemed cost of assets recognized at that date. The change in useful lives results in an increase in opening shareholders' equity of 1,272 million euros, or 814 million euros after deferred tax (see §IV.1).

The restatement of 2004 IFRS amortization compared to that under the principles the Group previously applied results in an increase in income of 315 million euros, or 206 million euros after deferred tax.

II.3 Impairment of tangible assets (IAS 36)

Impairment tests aim at confirming the recoverability of the carrying amount of an asset. They are carried out under IFRS on assets or groups of assets when internal or external indications of impairment have been identified. The recoverable amount is measured based on the greater of the present value of future discounted cash flows, or if applicable, the fair value (based on the amount that would be realized upon disposal, net of sales costs). An impairment is recognized when the asset's carrying amount is higher than its recoverable value.

The Group reviewed the definition of Cash Generating Units ("CGUs") and confirmed the basis for its current division. Generally speaking, cash generating units correspond to the legal structure of the Group's subsidiaries, except for:

- the Exploration-Production segment, where the cash generating unit consists of fields, or of several fields when they are in close geographical proximity or have similar economic characteristics, and when each field in the Group does not generate cash flows independent from those of the others in the Group; and
- the parent company, where cash generating units are consistently defined to follow segment reporting.

For impairment tests, the Group used references similar to those described in IAS 36. However, some adjustments identified during the review related exclusively to the Exploration-Production segment, since the Group used a model based on an analysis of undiscounted cash flows.

Due to this difference in principles, an impairment of the Exploration-Production segment's assets was recognized in the opening balance sheet for 192 million euros, or 92 million euros after deferred tax (see §IV.1). Besides, a thorough definition of CGU in the Services segment, inducing a recalculation of the working capital requirement to be financed, led to record goodwill impairment of 86 million euros as of January 1, 2004.

In 2004, these impairments were adjusted by 23 million euros (of which 68 million euros were allowances and 45 million euros were reversals), or 53 million euros after deferred tax.

III. Provisions

III.1 Derecognition of provisions that no longer meet the IAS 37 criteria

Under IFRS, provisions for major repair do not comply with the definition of a liability, whereas under certain conditions under French GAAP, they can be recognized as a provision if they are part of a program covering several years (such as expenses which have the only purpose of verifying the good working order of facilities and at maintaining these facilities). Under IFRS, repair expenses are directly expensed in the period or must be capitalized as a distinct component amortized over the period between two major inspections. Equity in the opening IFRS accounts takes into account the reversal of provisions for major repair, in the amount of 40 million euros.

In the opening IFRS accounts, the impact on equity of the reversal of other provisions that no longer comply with the recognition criteria of provisions defined by IAS 37 amounted to 26 million euros.

Globally, the impact on shareholders' equity, net of deferred tax, amounted to 43 million euros.

The adjustment of 2004 allowances had an impact on income of -16 million euros, of which -14 million euros related to the provision for major repairs.

III.2 Discounting of long-term provisions (IAS 37)

Under IFRS, long-term provisions are discounted if the effect of discounting is significant. Under French GAAP, the Group discounted some of its long-term provisions when the discounting effect was significant, such as, for example, the provisions for dismantling and site restoration of its currently operated sites.

The discounting of long-term provisions led to an increase in shareholders' equity as of January 1, 2004 of 769 million euros, of which 45 million euros related to the provision for the restoration of former manufactured gas plant sites and 714 million euros related to the provision for replacement.

The impact on equity, net of deferred tax, amounted to 504 million euros (see §IV.2).

Similarly, allowances to provisions for site restoration of former manufactured gas plant sites were computed on a discounted basis in 2004. The combined impact of the unwinding effect of the discount of the opening provision and the discounting of the allowance for the period itself resulted in an increase in net income of 24 million euros, or 16 million euros after deferred tax.

In 2004, the discounting impact of the provision for replacement was a decrease in income by 169 million euros, or 111 million euros after deferred tax.

III.3 Provisions for employee benefits (IAS 19)

IAS 19 requires that a provision for employee benefits that are to be paid at a future date be accrued if these benefits are provided under defined benefit plans, whereas under French GAAP these commitments need only be subject to an informational note in supplemental disclosure (providing information on their measurement and on the actuarial assumptions used).

Impact on shareholders' equity as of January 1, 2004: 11,847 million euros.

- Parent company

As of January 1, 2004, retirement benefit commitments and other similar commitments (including actuarial gains and losses which would have been identified if the Group had applied IAS 19 since the very beginning), disclosed as off-balance sheet commitments in accordance with the option provided by French law were fully provisioned in the IFRS opening balance sheet. These commitments do not include the commitment for medical insurance, which could not be calculated. Lastly, the liability recognized is net of plan assets held to cover these commitments and dedicated to the payment of future benefits.

An additional provision corresponding to the valuation of the Gaz de France share in the operating costs of the National Fund of Electricity and gas Industries ("CNIEG") (equal to 122 million euros), as well as an adjustment of 45 million euros mainly related to exceptional leaves and to reduced energy price benefits are recorded under IFRS as of January 1, 2004.

The global impact on equity for the parent company's employee benefits commitments amounts to -11,833 million euros.

Compared to note 21 in the financial statements prepared under French GAAP, the IFRS impact can be analyzed as follows:

In millions of euros **Note 21:**	
Total commitments at December 31, 2003	13,805
Less medical insurance commitment	(115)
Less accrued provisions	(339)
Less plan assets	(1,685)
IFRS adjustments:	
CNIEG management costs	122
Other	45
IMPACT ON IFRS EQUITY AS OF JANUARY 1, 2004	**11,833**

• Subsidiaries

The preliminary analysis conducted prior to the implementation of IFRS had identified discrepancies in the application methods among the most significant subsidiaries. The adjustments were recognized in the opening balance sheet, together with a decrease in equity of 14 million euros.

Globally, the equity was reduced by 7,648 million euros.

Impact on 2004 net income: 172 million euros, or 113 million euros after deferred tax

This corresponds to the 2004 charge for all post-employment and long-term benefits for the Group's employees. This consists of cost of services for the period and interest costs, less expected return on plan assets, if any.

In addition, benefits paid and contributions made, recorded as expenses in 2004 under the Group's principles, were restated under IFRS.

Impact on reserves as of December 31, 2004: 11,601 million euros (11,690 million euros of which were for retirement benefits).

The impact of the reform to the financing of the retirement plans amounted to 13,199 million euros (pre-reform obligation: 14,983 million euros – post-reform obligation: 1,784 million euros). Most of the post-reform balance corresponds to actuarial gains or losses on retirement benefit obligations and related plan assets that are recognized in equity, in compliance with the principles retained by the Group (1,509 million euros).

Globally, the net impact on equity is an increase by 7,477 million euros, given deferred taxation that accounts for 4,124 million euros (see §IV.2).

III.4 Negative goodwill/Reversals

Under IFRS, negative goodwill is immediately recognized in net income, while under French GAAP it is recorded as a liability and subsequently reversed through the income statement according to the objectives set at acquisition date.

As of January 1, 2004, 15 million euros of negative goodwill accounted for as a liability was reclassified in equity in the opening balance sheet.

The net income effect of 2003 negative goodwill booked in 2004 under French GAAP, and the recognition of new negative goodwill in 2004, were reversed. The impact is a net increase in IFRS net income of 27 million euros.

IV. Deferred taxes

IV.1 Deferred taxes on fixed assets

As of January 1, 2004, adjustments to fixed assets (see II) led to the recognition of 420 million euros of deferred tax liabilities (impact of the change in useful lives) and of 72 million euros of deferred tax assets (impact of other restatements), against a global reduction in equity of 348 million euros.

Compared to French GAAP, the 2004 adjustments to fixed assets generated an additional deferred tax liabilities of 136 million euros, mainly related to the adjustments to useful lives of assets (110 million euros) and deferred tax assets of 7 million euros.

IV.2 Deferred taxes on provisions

Adjustments to provisions (see III) generated net deferred tax assets of 4,157 million euros, mainly resulting from provisions for employee benefits (4,199 million euros of deferred tax assets related to employee benefit restatements and 42 million euros of deferred tax liabilities related to other provisions). These deferred tax assets will for the most part be recognized in equity following the reform of the financing of the retirement benefit plans.

In 2004, compared to French GAAP, additional net income due to deferred tax on restatements of provisions amounted to 111 million euros, of which 59 million euro of deferred tax income related to employee benefits and 58 million euros related to the discounting of the provision for replacement.

The adjustment of deferred taxes on employee benefits following the reform of the financing for retirement benefit plans, as well as actuarial differences, generated a reduction in equity for the period in the amount of 4,124 million euros.

IV.3 Derecognition of discounting of deferred taxes

Deferred taxes are not discounted under IFRS, in contrast to the principle chosen by the Group under French GAAP. This change in the opening balance sheet resulted in a reduction in equity of -481 million euros, the main part of which resulted from the deferred tax recognized on the capital gain for the purchase of the transmission network from the French State in 2002.

In 2004, the derecognition of a discount of deferred taxes under IFRS increased net income by 119 million euros.

V. Change in percentage of interest and scope of consolidation

Under IFRS, the analysis of equity instruments or specific contractual terms for purposes of determining the percentage interest in equity affiliates for the scope of consolidation led to an increase in the item "Investments in companies accounted for by the equity method" and the opening equity by 28 million euros.

The increase in the percentage of consolidation of two companies accounted for by the equity method led to an increase in IFRS net income of 5 million euros.

VI. Grants

Revenues billed to customers to connect them to gas transmission and distribution networks are spread over the contracts' duration, except for Gaz de France SA and GRTgaz. Indeed, for the latter, principles applied to set rates for the use of gas transmission and distribution networks, on a "cost plus" basis aiming at covering a large part of the operating costs related to the gas transmission and distribution, and capital expenses (amortization, revenue), provide that the amounts so collected be deducted from the revenue base of Gaz de France or GRTgaz in the year they were invoiced, while the connection cost be included in the base of regulated assets which are remunerated on the assets' useful life. These principles result in spreading income on assets' service life.

An analysis of this treatment for all the Group's subsidiaries led to recognize deferred income for a number of subsidiaries, which induced a decrease in the opening shareholders' equity.

As of January 1, 2004, the impact of the adoption of IAS 20 before deferred tax led to a decrease in shareholders' equity by -102 million euros, or an impact after deferred tax by -77 million euros.

As of December 31, 2004, the restatement under IFRS of connection fees reduced income by -6 million euros, or an impact after deferred tax by -4 million euros.

VII. Miscellaneous

Because the tests for control are stricter under IFRS, the scope of consolidation includes a pool of securitized receivables.

Gaz de France owns shares in a securitization vehicle (FCC APIGAZ) that was set up as part of a 1995 securitization of employee mortgage loans. The company retains risks and benefits incidental to ownership. Because the tests for control are stricter under IFRS, the scope of consolidation for the 2004 IFRS financial statements includes this pool of securitized receivables for the first time. The consolidation of the pool of securitized receivables entails the recognition of receivables for their residual carrying value with issued shares of the FCC still outstanding.

The impact of this consolidation on opening shareholders' equity was -12 million euros, and the impact on 2004 net income was -1 million euros.

Reconciliation of balance sheet as of December 31, 2004 - Assets: French GAAP CRC – IFRS standards

Balance sheet - Assets French GAAP 99-02	CRC Amount as of December 31, 2004	IFRS Recl.	IAS 16 Tangible assets	IAS 38 Intangible assets	IAS 36 Impairment of assets	Other	IAS 12 Income Taxes	Total Restatements	Amount as of December 31, 2004	Comparative Data IFRS Balance Sheet -Assets
Fixed assets										Non-current assets
Goodwill	997	340		67.8	(137)	54		324	1321.3	Goodwill and other intangible assets
Other intangible assets	372	(372)						(372)	0	
Non-concession tangible assets	11,507	1,522	1,300		(163.4)	(10)		2,648	14,155	Tangible assets
Concession tangible assets	8,071	306	1,814					2,120	10,191	Concession assets
Construction in progress	1,985	(1,984)				(1)		(1,985)	0	
Investments in companies accounted for by the equity method	442	(93)		2.2		41	(7)	(57)	385	Investments in companies accounted for by the equity method
		435	(460)		71			46	46	Deferred tax assets
Other long-term investments	1,090	2				33		35	1,125	Non-current financial assets
Other non-current assets		249						249	249	Other non-current assets
Financial sector investments	257	2						2	259	Non-current financial sector investments
Total fixed assets	**24,721**	**407**	**2,653.5**	**70**	**(229.6)**	**116.5**	**(7)**	**3,010.4**	**27,731.4**	**Total non-current assets**
Inventories and work-in-progress	1,022	(115)						(115)	907	Inventories and work-in-progress
Receivables										Receivables
Trade and related receivables	5,155	(144)				(22)		(166)	4,989	Trade and related receivables
Other	1,302	(165)				100	(34)	(99)	1,203	Other
Current assets of financial affiliates	440							0	440	Investments of financial affiliates
Marketable securities	285	589				(37)		552	837	Cash and cash equivalents
Cash on hand	582	(582)						(582)	0	
Assets due to be sold		402						402	402	Assets classified as held for sale
Total current assets	**8,786**	**(15)**	**0**	**0**	**0**	**41**	**(34.43)**	**(8.43)**	**8,777.57**	**TOTAL CURRENT ASSETS**
TOTAL ASSETS	**33,507**	**392**	**2,654**	**70**	**(230)**	**158**	**(41)**	**3,002**	**36,509**	**TOTAL ASSETS**

Reconciliation of balance sheet as of December 31, 2004 - Liabilities: French GAAP CRC – IFRS standards

Balance sheet - liabilities	CRC	IFRS										Comparative data IFRS Balance sheet- Liabilities
	Amount as of December 31, 2004	Reclassifi-cation	IAS 16 Tangible assets	IFRS 3 Business combinations	IAS 37 Provisions	IAS 19 Employee benefits	IAS 20 Grants	Other	IAS 12 Income taxes	Total Restate-ments	Amount as of December 31, 2004	
Shareholders' equity- Group share												Shareholders' equity- Group share
Share capital	903									0	903	Share capital
Consolidated retained earnings and net income	9,553	(129)						7,639		7,510	17,063	Consolidated retained earnings and net income
								(7,072)		(7,072)	(7,072)	First time adoption
										0	0	Fair value adjustment reserves
Other	(79)	129						54		183	104	Foreign currency translation adjustments reserve and other
Total share-holders' equity- Group share	**10,377**	**0**		**0**	**0**	**0**		**621**	**0**	**621**	**10,998**	**Total share-holders' equity- Group share**
Minority interests	**216**							**(4)**		**(4)**	**212**	**Minority interests**
Total share-holders' equity	**10,593**	**0**		**0**	**0**	**0**		**617**	**0**	**617**	**11,210**	**Total share-holders' equity**
Other equity												Non-current liabilities
Value of concessions grantors' rights	3,810	3,453	1,515		(544)					4,424	8,234	Liability related to concessions
Irredeemable securities	485	(485)								(485)	0	
Total other equity	**4,295**									**0**		
Provisions for risks and charges	**7,698**	**(7,698)**								**(7,698)**	**0**	
		541				526				1,067	1,067	Provisions for employee benefits
		1,864		(41)	(105)					1,717	1,717	Provisions (long-term)
		2,198	106		226	(179)	(27)	417		2,741	2,741	Deferred Tax liability

Balance sheet - liabilities	CRC	IFRS										Comparative data IFRS Balance sheet-Liabilities
	Amount as of December 31, 2004	Reclassification	IAS 16 Tangible assets	IFRS 3 Business combinations	IAS 37 Provisions	IAS 19 Employee benefits	IAS 20 Grants	Other	IAS 12 Income taxes	Total Restatements	Amount as of December 31, 2004	
Liabilities												
		485								485	485	Irredeemable securities
Financial debt	4,793	(966)						22		(944)	3,849	Financial debt (long-term)
		274								274	274	Liabilities (long-term) of financial affiliates
		29					108			137	137	Other non-current Liabilities
		(306)	**1621**	**(41.1)**	**(423)**	**347**	**81**	**439**	**0**	**1,718**	**18,504**	**Total non-current liabilities**
												Current liabilities
		94								94	94	Provisions (short-term)
		380						(3)		377	377	Social liabilities (short-term)
		964						7		971	971	Financial debt (short-term)
Trade accounts payable and related payables	1,889	(39)						(2)		(41)	1,848	Trade accounts payable and related payables
Taxes and social contributions	1,472	(408)						(1)		(409)	1,063	Tax payable
Other debt	1,931	(48)						(30)		(78)	1,853	Other liabilities
Liabilities of finacial affiliates	836	(286)								(286)	550	Liabilities (short-term) of financial affiliates
		39								39	39	Liabilities related to assets classified as held for sale
Total liabilities	**10,921**	**696**		**0**	**0**	**0**		**(29)**	**0**	**667**	**6,795**	**Total current liabilities**
TOTAL SHARE-HOLDERS' EQUITY AND LIABILITIES	**33,507**	**391**	**1,621**	**(41.1)**	**(423)**	**347**	**81**	**1,027**	**0**	**3,002**	**36,509**	**TOTAL SHARE-HOLDERS' EQUITY AND LIABILITIES**

Reconciliation of 2004 income statement: French GAAP CRC – IFRS standards

Consolidated statement of income French GAAP CRC 99-02	Amount as of December 31, 2004	Reclas-sifica-tion.	IAS 16 Tangible assets	IAS 38 Intangible assets	IAS 36 Impair-ment of asstes	IFRS 3 Business combination	IAS 37 Provi-sions	IAS 19 Employee benfits	SIC 33 Change in interest share	IAS 12 Income taxes	IAS 20 Grants	Other	Total Restate-ments	Amount as of December 31, 2004	IFRS consolidated statement of income
Net revenues	18,129	(18,129)											(18,129)		
		15,497											15,497	15,497	Sales of goods
		2,281									(10)	(72)	2,199	2,199	Services rendered
		35											35	35	Revenues from financial affiliates
Production	18,129	(317)									(10)	(72)	(398)	17,731	Revenues
Capitalized expenses	345	(1)											(1)	344	Inventories and capitalized expenses
Purchase and other external charges	(11,916)	533										16	549	(11,367)	Purchase and other external charges
Value added	6,558												0		
Personnel expenses	(2,220)	338						(172)				11	177	(2,043)	Personnel expenses
taxes and other	(245)	245											245	0	
EBITDA	4,093												0		
		252				32					4		288	288	Other operatin income
		(498)										2	(496)	(496)	Other operating expense
						32		(172)			(6)	(43)	364	4,456.8	EBITDA
Depreciation, amortization and provisions (net of reversals and transfers of charges)	(2,448)	270	318		(23)		38					1	603	(1,845)	Depreciation, amortization and provisions
Other operating income (expenses)	(47)	47											47		
Operating income	**1,598**	**869**	**318**	**0**	**(23)**	**32**	**38**	**(172)**	**0**	**0**	**(6)**	**(42)**	**1,014**	**2,612**	**Operating income**
Financial income (expense)	**(34)**	**34**											**34**		
		3											3	3	Income from cash and cah equivalents
		(181)										(1)	(182)	(182)	Gross finace costs

Consolidated statement of income French GAAP CRC 99-02	Amount as of December 31, 2004	Reclassification.	IAS 16 Tangible assets	IAS 38 Intangible assets	IAS 36 Impairment of asstes	IFRS 3 Business combination	IAS 37 Provisions	IAS 19 Employee benfits	SIC 33 Change in interest share	IAS 12 Income taxes	IAS 20 Grants	Other	Total Restatements	Amount as of December 31, 2004	IFRS consolidated statement of income
														(179)	Net finance costs
		402											402	402	Other financial income
		(1,111)					(198)		(7.3)				(1,316)	(1,316)	Other financial expense
Income before exceptional items of consolidated companies	**1564**														
		95							16.5			14	125	125	Share of profit or loss in companies accounted for by the equity method
Exceptional Items	17	(17)											(17)		
Corporate income tax	(509)	(4)	(106)		(30)		52	59		74	2	9	56	(453)	Corporate income tax
Net income from companies accounted for by the equity method	**1,072**														
Share in income from companies accounted for by the equity method	92	(92)											(92)		
Goodwill amortization	(59)			59									59		
Group's consolidated net income	**1,105**	**(3)**	**211**	**59**	**(52)**	**32**	**(109)**	**(113)**	**9**	**74**	**(4)**	**(20)**	**86**	**1,191**	**Group's consolidated net income**
CONSOLIDATED NET INCOME-GROUP SHARE	**1,046**														
Consolidated net income-Minority interests	59	2										(21)	(19)	40	Consolidated net income-minority interests
														1,151	**CONSOLIDATED NET INCOME-GROUP SHARE**

Main restatements in the 2004 statements of cash flows

Net cash from operating activities

- Operating income: The Group IFRS statements of cash flows is prepared using the indirect method, starting from operating income; under French GAAP, the statements of cash flows was prepared starting from net income. Subsequent adjustments of non-cash gains and losses in the IFRS statement thus include income tax paid (-705 million euros) and exclude the withdrawal of income from entities accounted for by the equity method, as disclosed in French GAAP.
- Amortization, depreciation of long-term assets and provisions: This item, common to both IFRS and French GAAP, is reduced by 685 million euros in the IFRS statement, mainly as the result of restatements of amortization following changes in the useful lives of fixed assets (-315 million euros) and the cancellation for IFRS purposes of goodwill amortization and reversals of negative goodwill recognized under French GAAP (-64 million euros). Additionally, certain required adjustments under French GAAP (the indirect method starting from net income), such as the unwinding effect of discounts for long-term provisions (-211 million euros) and reversals of provisions on financial debt (+120 million euros) are not required under IFRS (the indirect method starting from operating income).
- Other adjustments: This includes dividends received from entities accounted for by the equity method (135 million euros). It is reduced by 318 million euros in the IFRS statement. The main differences between this item and the "other movements" item under French GAAP relates to non-cash retirement benefit costs (+222 million euros, of which 172 million euros related to the adjustment of 2004 consolidated income [resulting from the change to IFRS]32) classified under the heading "amortization and provisions" under French GAAP and the adjustment of changes in deferred tax (not necessary under IFRS) for +96 million euros, offset by non-cash flows linked to the unwinding effect of the discount for employee benefits and the expected return of plan assets (net impact of -626 million euros).
- Change in working capital requirements: The main difference between the two accounting standards has to do with the reclassification under IFRS of paid income tax on a separate line (+114 million euros).

Investing activities

- Reduction of long-term investments: The discrepancy between the two accounting standards is attributable to the reclassification of some marketable securities previously maintained in current assets as non-current assets (+37 million euros).
- Interest received: This corresponds to interest received on investments; the indirect method starting from operating income under IFRS makes it necessary to adjust the statement of cash flows to reflect this interest.
- Dividends received: This corresponds to dividends received from non-consolidated investments.

Financing activities

- Dividends paid: The method of consolidation of a subsidiary is different under IFRS than under French GAAP.
- Financial interests paid: This encompasses interest paid on financial debt. Since the IFRS statements of cash flows starts from operating income, or a balance excluding the effect of financing costs, an adjustment for interest paid.

Reconciliation of equity at January 1, 2004: French GAAP CRC - IFRS standards

		Shareholder's Equity - Group share						
	Standard	Capital stock	Foreign currency translation adjustment	Consolidated retained earnings	Net income	Total-Group Share	Minority Interests	TOTAL Shareholder's equity
Shareholders' equity - Group share as of January 1, 2004 (CRC)		**903**	**(129)**	**7,903**	**910**	**9,587**	**269**	**9,856**
RESTATEMENTS								
Goodwill								
Translation of goodwill in local currency	IAS 21			14		14		14
Derecognition of goodwill amortization	IAS 38							
Tangible and intangible assets								
Component analysis	IAS 16			(9)		(9)		(9)
Change in useful lives	IAS 16			1,272		1,272		1,272
Impairment tests	IAS 36			(278)		(278)		(278)
Other				(6)		(6)		(6)
Provision for employee benefits	IAS 19			(11,847)		(11,847)		(11,847)
Other provisions								
Derecognition of provisions that do not meet the IAS 37 criteria	IAS 37			66		66		66
Discount of non-current provisions	IAS 37			769		769		769
Derecognition of negative goodwill/reversal	IAS 22			15		15		15
Others								
Grants	IAS 20			(102)		(102)		(102)
Deferred tax								
On tangible and intangible assets				(348)		(348)		(348)
On provisions (including employee benefits)				3,911		3,911		3,911
Derecognition of discount of deferred taxes	IAS 12			(481)		(481)		(481)
Other deferred tax	IAS 12			15		15		15
Change in interest share	SIC 33			28		28		28
Other				**(14)**		**(14)**	**(15)**	**(29)**
Total Restatements				**(6,995)**		**(6,995)**	**(15)**	**(7,010)**
Neutralization of translation adjustment reserves			**129**	**(129)**				
Shareholders' equity - Group share as of January 1, 2004 (IFRS)		**903**		**779**	**910**	**2,592**	**254**	**2,846**

Reconciliation of equity at December 31, 2004: French GAAP CRC - IFRS standards

		Shareholder's Equity - Group share						
	Standard	Capital stock	Foreign currency translation adjustment	Consolidated retained earnings	Net income	Total-Group Share	Minority Interests	TOTAL Shareholder's equity
Shareholders' equity - Group share as of December 31,2004 (CRC)		**903**	**(67)**	**8,495**	**1,046**	**10,377**	**216**	**10,593**
RESTATEMENTS								
Goodwill								
Translation of goodwill in local currency	IAS 21		40	14		54		54
Derecognition of goodwill amortization	IAS 38				69	69		69
Tangible and intangible assets								
Component analysis	IAS 16			(9)	(9)	(18)		(18)
Change in useful lives	IAS 16			1,272	315	1,587		1,587
Impairment tests	IAS 36			(278)	(23)	(301)		(301)
Other				(6)	8	2		2
Provision for employee benefits	**IAS 19**			**(249)**	**(172)**	**(421)**		**(421)**
Other provisions								
Derecognition of provisions that do not meet the IAS 37 criteria	IAS 37			66	(13)	53		53
Discount of non-current provisions	IAS 37			769	(145)	624		624
Derecognition of negative goodwill/ reversal	IAS 22			15	31	46		46
Others								
Grants	IAS 20			(102)	(6)	(108)		(108)
Deferred tax								
On tangible and intangible assets				(348)	(136)	(484)		(484)
On provisions (including employee benefits)				(213)	111	(102)		(102)
Derecognition of discount of deferred taxes	IAS 12			(481)	117	(364)		(364)
Other deferred tax	IAS 12			15	(43)	(28)		(28)
Change in interest share	**SIC 33**			**28**	**5**	**33**		**33**
Other				**(18)**	**(3)**	**(21)**	**(4)**	**(25)**
Total Restatements			**40**	**476**	**105**	**621**	**(4)**	**617**
Neutralization of translation adjustment reserves			**129**	**(129)**				
Shareholders' equity - Group share as of January 1,2004 (IFRS)		**903**	**102**	**8,842**	**1,151**	**10,998**	**212**	**11,210**

D.2. Changes to changeover disclosure previously published

CONSOLIDATED BALANCE SHEETS - ASSETS

In millions of euros		12/31/2004 Final IFRS Net	12/31/2004 Preliminary Information Net	Change	Change Details IAS 16 Tangible Assets	IAS 36 Impairment of Assets	Recl.
NON-CURRENT ASSETS							
Goodwill and other intangible assets		1,321	1,403	(82)		(86)	4
Concession assets		10,191	8,071	2,120	1,814		306
Non-concession tangible assets		14,155	12,556	1,599		(68)	1,667
Construction in progress			1,977	(1,977)			(1,977)
Investments in companies accounted for by the equity method		385	385	0			
Non-current financial assets		1,125	1,144	(19)			(19)
Non-current derivative instruments							
Non-current deferred taxes assets		46	19	27			27
Other non-current assets		249	0	249			249
Non-current investments of financial affiliates		259	259				
TOTAL NON-CURRENT ASSETS	**I**	**27,731**	**25,814**	**1,917**	**1,814**	**(154)**	**257**
CURRENT ASSETS							
Inventories and work-in-progress		907	907	0			
Accounts receivable							
Trade accounts and related receivable		4,989	5,136	(147)			(147)
Other receivables		905	1,314	(409)			(409)
Income tax receivable		298	0	298			298
Current deferred taxes assets							
Current derivative instruments							
Cash and cash equivalents		837	819	18			18
Assets of financial affiliates		440	440	0			
TOTAL CURRENT ASSETS	**II**	**8,376**	**8,616**	**(240)**			**(240)**
ASSETS CLASSIFIED AS HELD FOR SALE	**III**	**402**	**402**				
TOTAL ASSETS	**I TO III**	**36,509**	**34,832**	**1,677**	**1,814**	**(154)**	**17**

CONSOLIDATED BALANCE SHEETS - LIABILITIES

In millions of euros		12/31/2004 Final IFRS	12/31/2004 Preliminary Information	Change	Change details: IAS 20 Grants	Change details: IAS 16 Tangible Assets	Change details: IAS 36 Impairment of assets	Change details: IAS 37 Provisions	Change details: Recl.
SHAREHOLDERS' EQUITY - GROUP SHARE									
Capital Stock		903	903						
Consolidated retained earnings and net income		17,063	17,063						
First time adoption		(7,072)	(7,420)	348	(81)	(193)	(121)	357	
Fair value adjustments reserve									
Foreign currency translation adjustments and other		104	104						
Total shareholders' equity - Group share	**I**	**10,998**	**10,650**	**348**	**(81)**	**193**	**(121)**	**357**	
Minority interests	**II**	**212**	**212**						
Total shareholders equity	**I**	**11,210**	**10,862**	**348**	**(81)**	**193**	**(121)**	**357**	
NON-CURRENT LIABILITIES									
Liability related to concessions		8,234	7,263	971		1,515		(544)	
Provision for employee benefits		1,067	1,067						
Provisions		1,717	1717						
Deferred tax liability		2,741	2,307	434	(27)	106	(33)	187	201
Irredeemable securities		485	485						
Financial debt		3,849	3,849						
Non-current derivative instruments									
Liabilities of financial affiliates		274	275	(1)					(1)
Other non-current liabilities		137	0	137	108				29
TOTAL NON-CURRENT LIABILITIES	**III**	**18,504**	**16,963**	**1,541**	**81**	**1,621**	**(33)**	**(357)**	**229**
CURRENT LIABILITIES									
Provisions		94	276	(182)					(182)
Social liabilities		377	377	0					
Financial debt		971	971	0					
Trade accounts payable and related payables		1,848	1,848	0					
Current taxes		115	0	115					115
Other fiscal debt		948	1,063	(115)					(115)
Other liabilities		1,853	1,883	(30)					(30)
Liabilities of financial affiliates		550	550	0					
TOTAL CURRENT LIABILITIES	**IV**	**6,756**	**6,968**	**(212)**					**(212)**
LIABILITIES RELATED TO ASSETS CLASSIFIED AS HELD FOR SALE	**V**	**39**	**39**	**0**					
TOTAL LIABILITIES	**I TO V**	**36,509**	**34,832**	**1,677**		**1,814**	**(154)**		**17**

CONSOLIDATED STATEMENTS OF INCOME

In millions of euros	12/31/2004 Final IFRS	12/31/2004 Preliminary Information	Change	Change details			
				IAS 20 Grants	IAS 16 Tangible Assets	IAS 37 Provisions	Recl.
Sales of goods	15,497	15,497					
Services rendered	2,199	2,209	(10)	(10)			
Revenues from financial affiliates	35	35					
Revenues	**17,731**	**17,741**	**(10)**				
Capitalized expenses	344	344					
Purchase and other external charges	(11,367)	(11,367)					
Personnel expenses	(2,043)	(1,998)	(45)				(45)
Other operating income	288	357	69	4			(73)
Other operating expenses	(496)	(579)	(83)				83
EBITDA	**4,457**	**4,498**	**(41)**	**(6)**			**(35)**
Depreciation, amortization and provisions	(1,845)	(1,980)	135		58	29	48
Operating income	**2,612**	**2,518**	**94**	**(6)**	**58**	**29**	**13**
Income from cash and cash equivalents	3	3					
Gross finance costs	(182)	(154)	(28)				
Net finance costs	**(179)**	**(151)**	**(28)**				
Other financial income	402	402					
Other financial expenses	(1,316)	(1,133)	(183)			(198)	15
Share of income incompanies accounted for by the equity method	125	125					
Income before tax	**1,644**	**1,761**	**(117)**	**(6)**	**58**	**(169)**	
Corporate income tax	(453)	(492)	39	2	(21)	58	
Group's consolidated net income	**1,191**	**1,269**	**(78)**	**(4)**	**37**	**(111)**	
Minority interests	**40**	**40**					
CONSOLIDATED NET INCOME - GROUP SHARE	**1,151**	**1,229**	**(78)**	**(4)**	**37**	**(111)**	

D.2.1. Changes: reclassification

Reclassification consolidated balance sheets

Fixed assets in progress were classified in the corresponding items: tangible and intangible assets. Assets in progress totalled 1,977 millions euros as of December 31, 2004.

Non-current receivables of the Services segment were reclassified from the item Other current receivables to the item Other non-current receivables for a total of 147 million euros as of December 31, 2004. The same reclassification was applied to plan assets in connection with employee benefits for an amount of 100 million euros as of December 31, 2004.

As of December 31, 2004, some marketable securities were reclassified from Non-current financial assets to Cash and cash equivalents for 19 million euros.

Current deferred tax liabilities were reclassified in non-current deferred tax liabilities for 182 million euros.

Current deferred tax assets were reclassified in non-current deferred tax assets for 10 millions euros.

Other receivables were reclassified in current tax receivables for 298 million euros. Similarly, other tax liabilities were reclassified in current tax for 115 million euros.

Reclassification consolidated statements of income

Personnel expenses in the statement of income disclosed for 58 million euros were reclassified against reversal of provision for risks and expenses and 13 million euros were reclassified in unwinding cost of discounting in financial income.

10 million euros of other operating income and expenses were reclassified in provisions for risks and charges.

28 million euros of other financial expenses were reclassified in gross financial debt cost.

73 million euros of expenses and income relating to the sale of tangible and intangible assets were netted.

D.2.2. Changes: restatements

IAS 20. Grants

Revenues billed to customers to connect them to gas transmission and distribution networks are spread over the contracts' duration, except for Gaz de France SA and GRTgaz. Indeed, for the latter, principles applied to set rates for the use of gas transmission and distribution networks, on a "cost plus" basis aiming at covering a large part of the operating costs related to the gas transmission and distribution, and capital expenses (amortization, revenue), provide that the amounts so collected be deducted from the revenue base of Gaz de France or GRTgaz in the year they were invoiced, while the connection cost be included in the base of regulated assets which are remunerated on the assets' useful life. These principles result in spreading income on assets' service life.

An analysis of this treatment for all the Group's subsidiaries led to recognize deferred income for a number of subsidiaries, which induced a decrease in the opening shareholders' equity.

As of January 1, 2004, the impact of the adoption of IAS 20 before deferred tax led to a decrease in shareholders' equity by -102 million euros, or an impact after deferred tax by -77 million euros.

As of December 31, 2004, the restatement under IFRS of connection fees reduced income by -6 million euros, or an impact after deferred tax by -4 million euros.

IAS 16. Change in useful lives

For the preparation of its consolidated financial statements, Gaz de France previously determined the useful lives of its fixed assets by reference to customary methodology of determining useful, consistent with the applicable tax laws and regulations.

As part of the changeover to international standards, the depreciation periods applied to technical facilities were reviewed for adjustment to align them with their expected useful lives. The useful life of distribution facilities (Concession assets) were also reviewed.

The change in useful lives of Distribution facilities resulted in an increase in opening shareholders' equity of 155 million euros after deferred tax.

The restatement of 2004 IFRS amortization compared to that under the principles the Group previously applied resulted in an increase in income of 58 million euros, or 37 million euros after deferred tax.

IAS 36. Impairment of tangible assets

For impairment tests, the Group used references similar to those described in IAS 36. However, some adjustments identified during the review related exclusively to the Exploration-Production segment, since the Group used a model based on an analysis of undiscounted cash flows.

Due to this difference in principles, an impairment of the Exploration-Production segment's assets was recognized in the opening balance sheet for 68 million euros, or 35 million euros after deferred tax. Besides, a thorough definition of CGU in the Services segment, inducing a recalculation of the working capital requirement to be financed, led to record goodwill impairment of 86 million euros as of January 1, 2004.

IAS 37. Discounting of long term provisions

Provision for replacement was discounted based on an inflation assumption of 2% per year and of a nominal discounting rate of 4% (considering an average life of around 13 years).

The restatement led to an increase in the opening shareholders' equity by 468 million euros after deferred tax and to a decrease in income in 2004 by 169 million euros, or 111 millions euros after deferred tax.

E. Pro forma elements of 2004 statement of income after the reform of the financing of retirement benefit programs
(unaudited)

1. Principles

In order to compare the 2004 and 2005 statements of income, it is necessary to analyze the impact of the reform of the financing of retirement benefit plans on the various items in the statement of income.

The preparation of a pro forma statement of income entails making a number of assumptions to simulate the impact that the reform of the financing of retirement benefit plans would have generated had it been implemented as from January 1, 2004.

The assumptions that were made for these purposes are as follows:

- allocations among divisions are based on payroll costs determined as of December 31, 2003; the impact of changes in this element between the beginning and the end of the period is included in actuarial gains and losses;

the discounting rate selected to determine the unwinding cost of discounting for 2004 is the one used at December 31, 2003 to compute retirement benefit commitments at that date (a 5% nominal rate);

- the amount of the rate surcharge is determined on the basis of a global calculation of the rate surcharge, to be deducted from Gaz de France's net revenues;
- the income related to the expected return on plan assets takes into account the expected return on these assets as of January 1, 2004, considering their composition of that same date;
- the determination of the service costs corresponds to the increase in 2004 in future specific rights' commitments; and
- the 4.5% bonus granted by the Company in 2005 to offset the increase in employee social contributions brought about by the reform is taken into account in 2004 expenses.

2. Financial impact – simplified disclosure

2.1. Pre-reform 2004 actual income and expenses – French GAAP

In the 2004 consolidated statements of income, the following amounts are included:

In millions of euros		12/31/2004	
↗ Personnel expenses	TMG related cost (Retirement benefit portion)	(470)	
↘ Personnel expenses	Return of plan assets	+57	Principal payments received
↗ Purchases and other external charges	Plan assets (contributions)	(210)	Paid contributions
↘ Income Tax	Related current tax	+221	
NET INCOME		**(402)**	**REDUCTION IN INCOME**

2.2. Pre-reform 2004 IFRS income and expenses

In the 2004 IFRS statement of income, the following amounts are included:

In millions of euros		12/31/2004	
↗ Personnel expenses	Service costs	(202)	
↗ Other financial expenses	Unwinding cost of discounting, net of the plan assets' expected return	(592)	Unwinding of discounting at 5% rate – plan assets' expected rate of return: 4.7%
↘ Income tax	Deferred tax income	+281	
TOTAL		**(513)**	**REDUCTION IN INCOME**

2.3. Post-reform pro forma 2004 income and expenses

In millions of euros Statement of income item	Nature of impact	12/31/2004	Comments
↘ Net revenues (1)	1- Fixed-rate contribution (CTA)	(205)	
↗ Personnel expenses (1)	2- Increase in social contributions	(141)	Contributions to general benefit programs
↗ Personnel expenses (1)	3- Bonus and related contributions	(40)	Bonus of 4.5% granted to employees (including social contributions)
↗ Other financial expenses	4- Unwinding cost of discounting	(70)	At a 5% rate
↗ Personnel expenses (1)	5- Service costs	(100)	Future specific rights
↗ Other financial income	6- Assets' expected return	+74	At a 4.7% rate
	Global impact before tax	(482)	
↘ Income Tax	Current tax	+137	(1 +2 +3) * tx IS
↘ Income Tax	Deferred tax	+34	(4 +5 +6) * tx IS
	Global Impact After Tax	(311)	Reduction in income

(1) *Impacts operating income.*

3. Summary

Based on 2004 data, under consistent IFRS principles, the reform as led to an increase in net income of 202 million euros (311 million euros of costs net of tax after the reform, compared to 513 million euros before the reform, see § 2.2) and 91 million euros compared with 2004 net income under French GAAP (311 million euros compared to 402 million euros under French GAAP of cost net of tax – see § 2.1)

Impact of changeover to IFRS on the income statement disclosure of expenses related to retirement plans is as follows:

- under French GAAP, expenses and income for retirement plans were items of EBITDA;
- under IFRS, the fixed-rate contribution, social contributions, bonuses and related contributions and service costs are items of EBITDA, whereas unwinding cost of discounting and assets' expected return are items of Other financial income and expenses.

As a whole, the combined impact of the reform of the financing of retirement plans and of the changeover to IFRS on the disclosure of the statement of income can be summed up as follows:

In millions of euros	12/31/ French GAAP 2004	IFRS	IFRS
Impact on:	Pre-reform	Pre-reform	Post-reform
EBITDA	(623)	(202)	(486)
Other financial income		+74	+74
Other financial expenses		(666)	(70)
Tax	+221	+281	+171
GLOBAL IMPACT AFTER TAX	**(402)**	**(513)**	**(311)**

If the reform of the financing of retirement plans had applied as of January 1, 2004, the 2004 statement of income would have been as follows:

In millions of euros	2004 Post-reform	2004 Pre-reform
Net revenues	**17,526**	**17,731**
Capitalized expenses	344	344
Purchases and other external charges	(11,367)	(11,367)
Personnel expenses	(2,122)	(2,043)
Other operating income and expenses	(208)	(208)
EBITDA	4,173	4,457
Depreciation, amortization and provisions	(1,845)	(1,845)
Operating income	**2,328**	**2,612**
Net finance costs	(179)	(179)
Other financial income	402	402
Other financial expenses	(720)	(1,316)
Share of net income of investments in companies accounted for by the equity method	125	125
Income before tax	**1,956**	**1,644**
Income tax	(563)	(453)
Group net consolidated income	**1,393**	**1,191**
Minority interests	40	40
NET CONSOLIDATED INCOME – GROUP SHARE	**1,353**	**1,151**

4. Business Segment reporting

If the reform of the financing of retirement plans had applied as of January 1, 2004, business segment reporting as of December 31, 2004 disclosed in note 32 would have been as follows:

	12/31/2004					
Gaz de France Group	Energy Supply and Services	Infrastructures	Other	Unallocated	Eliminations	Total
STATEMENT OF INCOME						
External revenues						
Internal revenues						
Revenues	15,952	6,561	71	794	(5,852)	17,526
EBITDA	984	3,090	53	46	-	4,173
Operating income	545	1,765	29	(12)	-	2,327
Of which:						
Personnel expenses	626	1,165	4	328	-	2,123
Depreciation of goodwill	51	1	-	-	-	52
Amortization of tangible and intangible assets	383	891	12	11	-	1,297
Impairment of tangible and intangible assets	10	(22)	-	-	-	(12)
Share of income of companies accounted for by the equity method	115	10	-	-	-	125
Balance sheet						
Segment assets						**26,052**
Goodwill	209	955	26	-	-	1,190
Other intangible assets	52	68	2	9	-	131
Tangible assets and concession assets	3,347	20,342	572	85		24,346
Investments in companies accounted for by the equity method	309	76	-	-	-	385
Segment liabilities	**299**	**9,224**	**165**	**-**	**-**	**9,688**
Concession liabilities	29	8,205	-	-	-	8,234
Provisions for site restoration						1,454
Cash flow						
Capital expenditures	440	1,103	83	2	-	1,628
Other information						
Workforce	12,149	23,527	77	2,335	-	38,088

Energy Supply and Services

	12/31/2004				
Energy Supply and Services	Exploration and Production	Purchase and Sale of Energy	Services	Eliminations	Total
STATEMENT OF INCOME					
External revenues					
Internal revenues					
Revenues	968	13,855	1,439	(310)	15,952
EBITDA	625	265	94	-	984
Operating income	229	263	53	-	545
Of which:					
Personnel expenses	80	199	347	-	626
Depreciation of goodwill	50	1	-	-	51
Amortization of tangible and intangible assets	310	37	36	-	383
Impairment of tangible and intangible assets	10	-	-	-	10
Share of income of companies accounted for by the equity method	77	22	16	-	115
Balance sheet					
Segment assets	**2,853**	**485**	**579**	**-**	**3,917**
Goodwill	38	6	165	-	295
Other intangible assets	3	42	7	-	52
Tangible assets and concession assets	2,572	423	352	-	3,347
Investments in companies accounted for by the equity method	240	14	55	-	309
Segment liabilities	**270**	**-**	**29**	**-**	**299**
Concession liabilities	-	-	29	-	29
Provisions for site restoration	270	-	-	-	270
Cash flow					
Capital expenditures	387	10	43	-	440
Other information					
Workforce	1,232	2,793	8,124	-	12,149

Infrastructures

Infrastructures	12/31/2004 Transmission and Storage France	Distribution France	Transmission-Distribution International	Eliminations	Total
INCOME STATEMENT					
External revenues					
Internal revenues					
Revenues	2,145	2,972	1,467	(23)	6,561
EBITDA	1,291	1,399	400	-	3,090
Operating income	938	541	286	-	1,765
Of which:					
Personnel expenses	272	811	82	-	1,165
Depreciation of goodwill	-	-	1	-	1
Amortization of tangible and intangible assets	358	415	118	-	891
Impairment of tangible and intangible assets	-	-	(22)	-	(22)
Share of income of companies accounted for by the equity method	6	1	3	-	10
Balance sheet					
Segment assets	**7,202**	**11,152**	**3,087**		**21,441**
Goodwill	-	-	955	-	955
Other intangible assets	4	8	56	-	68
Tangible assets	7,198	11,128	2,016	-	20,342
Investments in companies accounted for by the equity method	-	16	60	-	76
Segment liabilities	**157**	**9,041**	**26**	**-**	**9,224**
Concession liabilities	-	8,181	24	-	8,205
Provisions for site restoration					1,019
Cash flow					
Capital expenditures	314	713	76	-	1,103
Other information					
Workforce	4,413	15,344	3,770	-	23,527

F. Reminder: consolidated financial statements as of December 31, 2004 – CRC 99-02 standards

CONSOLIDATED BALANCE SHEETS

In millions of euros		2004 Net	2003 Net	2002 Net
FIXED ASSETS				
Goodwill		997	1,060	1,046
Other intangible assets		372	334	364
Non-concession tangible assets		11,507	11,540	10,328
Concession assets		8,071	7,793	7,272
Assets in progress		1,985	1,390	1,094
Investments in companies accounted for by the equity method		442	452	462
Other long-term investments		1,090	970	743
Non-current investments of financial affiliates		257	227	253
	I	**24,721**	**23,766**	**21,562**
CURRENT ASSETS				
Inventories and work-in-process		1,022	1,082	1,141
Accounts receivable				
- Trade accounts and related receivables		5,155	4,216	3,711
- Other		1,302	1,602	1,334
Marketable securities		285	158	143
Cash on hand		582	572	450
Assets of financial affiliates		440	161	195
	II	**8,786**	**7,791**	**6,974**
TOTAL	**I TO II**	**33,507**	**31,557**	**28,536**

CONSOLIDATED STATEMENTS OF INCOME

In millions of euros	Note	2004	2003	2002
TOTAL EQUITY				
Shareholders' equity- group share				
Share capital		903	903	903
Consolidated retained earnings and net income		9,553	8,813	8,373
Other		(79)	(129)	(17)
	I	**10,377**	**9,587**	**9,259**
Minority interests	**II**	**216**	**269**	**246**
OTHER EQUITY				
Value of franchises -Franchisors' inherent rights		3,810	3,553	3,209
Irredeemable securities		485	485	485
	III	**4,295**	**4,038**	**3,694**
Provisions for liabilities and charges	**IV**	**7,698**	**6,665**	**5,442**
LIABILITIES				
Financial debt		4,793	5,409	4,467
Trade accounts and related payables		1,889	1,769	1,851
Taxes and social contributions		1,472	1,358	1,518
Other debt		1,931	2,060	1,617
Liabilities of financial affiliates		836	402	442
	V	**10,921**	**10,998**	**9,895**
TOTAL	**I TO V**	**33,507**	**31,557**	**28,536**

CONSOLIDATED STATEMENTS OF INCOME

In millions of euros	Note	2004	2003	2002
Net sales		**18,129**	**16,647**	**14,546**
Inventories		-	(6)	-
Capitalized expenses		345	292	341
Production		**18,474**	**16,933**	**14,887**
Input		(11,916)	(10,535)	(9,427)
Value added		**6,558**	**6,398**	**5,460**
Payroll costs		(2,220)	(2,055)	(1,984)
Taxes and assimilated		(245)	(209)	(184
EBITDA		**4,093**	**4,134**	**3,292**
Depreciation, amortization and provisions (net of reversals and transfers of charges)		(2,448)	(2,158)	(1,628)
Other operating income (expense)		(47)	(97)	(113)
Operating income		**1,598**	**1,879**	**1,551**
Financial income (expense)		**(34)**	**(139)**	**(22)**
Income before exceptional items of consolidated companies		**1,564**	**1,740**	**1,529**
Exceptional items		**17**	**(5)**	**(45)**
Corporate income tax		(509)	(752)	(605)
Impact (net of taxes) of transmission network purchase		-	-	2,774
Net income from consolidated companies		**1,072**	**983**	**3,653**
Share in income of companies accounted for by the equity method		92	73	42
Goodwill amortization		(59)	(76)	(40)
Group's consolidated net income		**1,105**	**980**	**3,655**
CONSOLIDATED NET INCOME - GROUP SHARE		**1,046**	**910**	**3,612**
Consolidated net income - Minority interests		59	70	43
Earnings per share in euros		2.32	-	-

N.B. *The calculation of net income per share did not apply to Gaz de France, in 2003 and 2002, since the Company's capital was not divided into shares (see Summary of Significant Accounting Policies - Shareholders' equity).*

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of euros	Note	2004	2003	2002
I – OPERATING ACTIVITIES				
Net income – Group share	a	1,046	910	3,612
Minority interests	b	59	70	43
Net income (loss) of companies accounted for by the equity method	c	(93)	(73)	(42)
Depreciation, amortization and provisions	d	2,498	2,533	1,438
Other activities	e	(203)	(289)	(2,663)
Dividends received from companies accounted for by the equity method	f	111	33	21
1. Cash flow (a + b + c + d + e + f)	1	**3,418**	**3,184**	**2,409**
2. Change in working capital requirements	2	**+346**	**+474**	**(472)**
Net cash from operating activities	(1 – 2) I	**3,072**	**2,710**	**2,881**
II – INVESTING ACTIVITIES				
1. Investments (note 17)				
Capital expenditures on property, plant and equipment		1,609	1,681	1,623
Growth investments		154	1,189	1,923
Acquisition of transmission network			-	109
	1	**1,763**	**2,870**	**3,655**
2. Other activities		**352**	**306**	**223**
3. Proceeds				
Grants		5	2	13
Net proceeds from sale of assets		74	95	265
Reduction of long-term investments		141	314	101
	3	**220**	**411**	**379**
Net cash used in investing activities	(1 +2 -3) II	**1,895**	**2,765**	**3,499**
III – NET CASH AFTER OPERATING AND INVESTING ACTIVITIES	(I – II) III	**1,177**	**(55)**	**(618)**
IV – FINANCING ACTIVITIES				
1. Capital increase and additional paid-in capital	1		**5**	**1**
2. Dividends	2	**(357)**	**(498)**	**(379)**
3. Issuance of borrowings	3	**2,723**	**8,276**	**2,775**
4. Repayments of borrowings	4	**3,367**	**7,576**	**1,887**
Net cash after financing activities	(1 +2 +3 – 4) IV	**(1,001)**	**+207**	**+510**
V – IMPACT OF EXCHANGE RATE FLUCTUATIONS	V	**+6**	**+12**	**+2**
VI – CHANGE IN CASH AND CASH EQUIVALENTS (NOTE 19)	(III + IV + V) VI	**+182**	**+164**	**(106)**

20.1.1.2 Report of the Statutory Auditors on the consolidated financial statements under IFRS for the year ended December 31, 2005

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 and this is presented after 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, together with the statutory auditors' report addressing financial and accounting information in the Presidents' report on internal control, should be read in conjunction with French law and professional auditing standards applicable in France.

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, 2005.

The 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. These financial statements have been prepared for the first time in accordance with IFRSs as adopted by the EU. They include comparative information restated in accordance with the same standards in respect of financial year 2004, except for IAS 32 and IAS 39 which have been applied as from January 1, 2005.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2005 and of the results of its operations for the year then ended, in accordance with IFRSs as adopted by the EU.

Without qualifying our opinion, we draw attention to the introduction of Note A to the consolidated financial statements and Notes A-2.10 and A-2.21 which describe the accounting treatment adopted regarding concessions, in the absence of specific provisions in IFRSs as adopted by the EU for this topic. Paragraph 4.3 "Prospects" of the introduction of Note A to the consolidated financial statements states in particular that the application of the intangible asset model as determined by draft IFRIC interpretation D14 could have induced Gaz de France, as of December 31, 2005, to reduce concession assets and liabilities by the amount under the item "Concession grantors' rights in assets".

II. Justification of assessments

In accordance with the requirements of article L. 823-9 of French company law (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- we ensured that the introduction of Note A to the consolidated financial statements and Notes A-2.3, A-2.10 and A-2.21 give adequate disclosure on the accounting treatment adopted by your company regarding the topics for which there are no specific provisions in IFRSs as adopted by the EU, such as concessions, acquisitions of minority interests, commitments to purchase minority interests and recognition of emission rights of greenhouse gas emission;
- as stated in Notes A-2.12, C-1and C-2 to the consolidated financial statements, Gaz de France carried out systematic impairment tests on each goodwill and intangible assets that have indefinite useful lives and impairment tests on tangible assets and intangible assets that have finite useful lives when indications of impairment are shown. As part of our assessment of significant estimates performed to prepare the financial statements, we have examined the methodology applied by the company, the parameters used for these accounting estimates and ensured the reasonableness of recorded values in the books;

- as stated in Notes A-2.21, A-2.23, C-8 and C-9 to the consolidated financial statements, your company, in the course of its operations, provides for the replacement of gas distribution concession assets in France and for restoration of certain sites (lands on which manufactured gas production plants were located, storage facilities, LNG terminals, transmission and distribution pipelines, exploration and production facilities). As part of our assessment of significant estimates performed to prepare the financial statements, we have examined the assumptions and the calculation methodology of the provisions considered by your company as reflecting the best estimate of the obligations under current regulatory requirements and we ensured of the reasonableness of the resulting provisions;
- note C-28 to the consolidated financial statements relating to retirement plans and other commitments to employees describes the reform of the financing of the electricity and gas industry retirement plan and the measurement method of the remaining obligation resulting from this reform. 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 company and we ensured of the reasonableness of the estimates;
- as stated in Notes A-2.20 and C-7b to the consolidated financial statements, your company, as part of the offering of shares reserved to employees, has recognized an expense for the whole amount of the benefit granted against shareholders' equity. As part of our assessment of significant estimates performed to prepare the financial statements, we have examined the assumptions and the calculation methodology of the benefit granted as well as the information disclosed by the company and we ensured of the reasonableness of the estimates;

The assessments were thus made in the context of the performance of our audit of the annual financial statements taken as a whole and therefore contributed to the formation of our unqualified audit opinion expressed in the first part of this report.

III. Specific verifications and information

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 and Paris-La Défense, April 19, 2006

The Statutory Auditors

Mazars & Guerard	**Ernst & Young Audit**
Michel Barbet-Massin Xavier Charton	Patrick Gounelle Philippe Hontarrède

20.1.2. Financial information for the year ended December 31, 2004

20.1.2.1. Consolidated financial statements for the year ended December 31, 2004

The Group's consolidated financial statements in accordance with French GAAP for the year ended December 31, 2004, appear on pages 217 to 263 of the Document de Base of the Company registered with the Autorité des marchés financiers on April 1, 2005 under registration No. I.05-037. They are incorporated by reference into this document de reference.

20.1.2.2. Report of the Statutory Auditors on the consolidated financial statements for the year ended December 31, 2004 under French GAAP

The report of the Statutory Auditors on the consolidated financial statements in accordance with French GAAP for the year ended December 31, 2004 appears on pages 263 to 265 of the Document de Base of the Company registered with the Autorité des marchés financiers on April 1, 2005 under registration No. I.05-037. It is incorporated by reference into this document de reference.

20.1.3. Financial information for the year ended December 31, 2003

20.1.3.1. Consolidated financial statements for the year ended December 31,2003 under French GAAP

CONSOLIDATED BALANCE SHEET

In millions of euros	Note	2003 Net	2002 Net	2001 Net
FIXED ASSETS				
Goodwill	1	1,060	1,046	403
Other intangible assets	1	334	364	468
Non-franchised tangible assets	1	11,540	10,328	3,965
Franchised tangible assets	1	7,793	7,272	8,282
Construction in progress	1	1,390	1,094	1,249
Investments in companies accounted for by the equity method	2a	452	462	400
Other long-term investments	2b	970	743	682
Financial sector investments	2b	227	253	272
	I	**23,766**	**21,562**	**15,721**
CURRENT ASSETS				
Inventories and work in process	3	1,082	1,141	1,130
Accounts receivable	4			
Trade accounts receivable and related receivables		4,216	3,711	4,081
Other		1,602	1,334	1,403
Marketable securities	5	158	143	433
Cash on hand		572	450	277
Current financial sector assets	**4**	**161**	**195**	**79**
	II	**7,791**	**6,974**	**7,403**
TOTAL	**I TO II**	**31,557**	**28,536**	**23,124**

SHAREHOLDERS' EQUITY AND LIABILITIES

In millions of euros		Note	2003	2002	2001
SHAREHOLDERS' EQUITY – Group share					
Capital stock			903	903	903
Consolidated retained earnings and net income			8,813	8,373	5,017
Other			(129)	(17)	42
	I	6	9,587	9,259	5,962
MINORITY INTERESTS	**II**	**6**	**269**	**246**	**300**
OTHER EQUITY					
Value of franchises -					
Franchisors' inherent rights			3,553	3,209	3,122
Irredeemable securities			485	485	485
	III		**4,038**	**3,694**	**3,607**
PROVISIONS FOR LIABILITIES AND CHARGES	**IV**	**7a**	**6,665**	**5,442**	**4,663**
LIABILITIES					
Financial debt			5,409	4,467	3,604
Trade accounts payable and related payables			1,769	1,851	1,787
Taxes and social contributions			1,358	1,518	1,467
Other debts			2,060	1,617	1,394
Financial sector liabilities			402	442	340
	V	**8**	**10,998**	**9,895**	**8,592**
TOTAL	**I TO V**		**31,557**	**28,536**	**23,124**

CONSOLIDATED STATEMENT OF INCOME

In millions of euros	Note	2003	2002	2001
Net sales	**10**	**16,647**	**14,546**	**14,357**
Inventory		(6)	-	(8)
Capitalized expenses		292	341	312
Production		**16,933**	**14,887**	**14,661**
Input		(10,535)	(9,427)	(9,719)
Value added	**11**	**6,398**	**5,460**	**4,942**
Payroll costs		(2,055)	(1,984)	(1,900)
Taxes and assimilated		(209)	(184)	(191)
EBITDA		**4,134**	**3,292**	**2,851**
Depreciation, amortization and provisions (net of reversals and transfers of charges).	13	(2,158)	(1,628)	(1,084)
Other operating income (expense)		**(97)**	**(113)**	**(130)**
Operating Income		**1,879**	**1,551**	**1,637**
Financial income (expense)	**14**	**(139)**	**(22)**	**(120)**
Income before exceptional items of consolidated companies		**1,740**	**1,529**	**1,517**
Exceptional income and charges	**15**	**(5)**	**(45)**	**(24)**
Corporate income tax	16	(752)	(605)	(551)
Impact (net of taxes) of the acquisition of transmission Systems		-	2,774	-
Net income from consolidated companies		**983**	**3,653**	**942**
Share in income of companies accounted for by the equity method		73	42	33
Goodwill amortization		(76)	(40)	(21)
Group's consolidated net income		**980**	**3,655**	**954**
Consolidated income – Group Share		**910**	**3,612**	**891**
Consolidated income – Minority interests		70	43	63

N.B.: *calculation of earnings per share is not applicable to Gaz de France, since its capital is not divided into shares (Notes B – Capital stock).*

CONSOLIDATED CASH FLOW STATEMENT

In millions of euros		2003	2002	2001
I- CASH FLOW FROM OPERATING ACTIVITIES				
Net income – Group share	a	910	3,612	891
Minority interests	b	70	43	63
Net income (loss) from companies accounted for by the equity method	c	(73)	(42)	(33)
Amortization and provisions	d	2,533	1,438	805
Other activities	e	(289)	(2,663)	485
Dividends received from companies accounted for by the equity method	f	33	21	13
1. Cash flows (a+b+c+d+e+f)	1	**3,184**	**2,409**	**2,224**
2. Change in working capital requirements (Note 18)	2	**+474**	**-472**	**+190**
Net cash flow from operating activities	(1 - 2) I	**2,710**	**2,881**	**2,034**
II – CASH FLOWS FROM INVESTING ACTIVITIES				
1. Capital expenditures (Note 17)				
Capital expenditures on property, plant and equipment		1,681	1,623	1,331
Growth investments		1,189	1,923	377
Acquisition of the transmission system (note C)		-	109	-
	1	**2,870**	**3,655**	**1,708**
2. Other activities	2	**306**	**223**	**202**
3. Proceeds				
Grants		2	13	1
Net proceeds from sale of assets		95	265	30
Reduction of long-term investments		314	101	242
	3	**411**	**379**	**273**
Net cash used in investing activities	(1 + 2 - 3) II	**2,765**	**3,499**	**1,637**
III - NET CASH FLOWS AFTER OPERATING AND INVESTING ACTIVITIES	(I - II) III	**(55)**	**(618)**	**397**
IV – CASH FLOWS FROM FINANCING ACTIVITIES				
1. Capital increase and additional paid-in capital	1	**5**	**1**	**2**
2. Dividends	2	**(498)**	**(379)**	**(31)**
3. Issuance of borrowings	3	**8,276**	**2,775**	**229**
4. Repayment of borrowings	4	**7,576**	**1,887**	**450**
Net cash used in financing activities	(1 + 2 + 3 – 4) IV	**+207**	**+510**	**-250**
V –EFFECT OF EXCHANGE RATE FLUCTUATIONS IN CASH AND CASH EQUIVALENTS V		**+12**	**+2**	**+42**
VI – CHANGE IN CASH AND CASH EQUIVALENTS (NOTE 19)	(III + IV + V) VI	**+164**	**-106**	**+189**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. Principles of consolidation

The Consolidated financial statements include the accounts of Gaz de France and of significant subsidiaries over which the Group exercises either legal or effective control, joint or a significant influence.

There are 265 companies in the consolidation scope. 76 companies and 11 sub-groups are directly consolidated. Of the 76 companies, 50 are "fully consolidated" (F), 16 are "consolidated by the proportionate consolidation method" (P) and 10 are "accounted for by the equity method" (E).

Main companies	Country	2003 method	Percentage interest		
			2003	2002	2001
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**	**Parent company**
ENERGY AND SERVICES OFFERING BRANCH					
Exploration and Production					
GDF Britain Group	United Kingdom	F	100.00	100.00	100.00
Efog	United Kingdom	E	22.50	22.50	22.50
GDF Production Nederland	Netherlands	F	100.00	100.00	100.00
N.G.T.	Netherlands	P	38.57	38.57	38.57
Groupe E.E.G.	Germany	F	100.00	100.00	75.00
Gaz de France Produktion Exploration Deutschland	Germany	F	100.00	-	-
Gaz de France Norge	Norway	F	100.00	100.00	100.00
Supply Trade and Sales					
Messigaz	France	F	100.00	100.00	100.00
CFM et CFMH - Négoce	France	F	55.00	55.00	55.00
Gaselys	France	P	51.00	51.00	51.00
Méthane Transport	France	P	50.00	50.00	50.00
Groupe GDF Energy Supply & Solutions	United Kingdom	F	100.00	100.00	100.00
Services					
Groupe Cofathec	France	F	100.00	100.00	100.00
Groupe Finergaz	France	F	100.00	100.00	100.00
GNVert	France	F	100.00	100.00	100.00
Groupe CGST Save	France	E	20.00	20.00	20.00
INFRASTRUCTURES UNIT					
Transmission and storage in France					
CFM et CFMH – Transport	France	F	55.00	55.00	55.00
G.S.O.	France	E	30.00	30.00	30.00
Distribution in France					
Gaz de Strasbourg	France	E	24.90	24.90	24.90

Main companies	Country	2003 method	Percentage interest 2003	2002	2001
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**	**Parent company**
International Transmission and Distribution					
Sofregaz	France	E	34.00	34.00	34.00
Groupe Gasag	Germany	P	31.57	31.57	31.57
Megal GmbH	Germany	P	43.00	43.00	43.00
Megal Finco	Cayman islands	P	43.00	43.00	43.00
Degaz	Hungary	F	72.59	72.59	72.59
Egaz	Hungary	F	63.96	63.96	63.96
Groupe Slovensky Plynarensky Priemysel	Slovakia	P	24.50	24.50	-
Groupe GDF Québec	Canada	F	100.00	100.00	100.00
Groupe Noverco	Canada	E	17.56	17.56	17.56
Consorcio Mexigas	Mexico	F	100.00	100.00	100.00
Natgasmex	Mexico	F	100.00	100.00	100.00
Tamauligas	Mexico	F	100.00	100.00	100.00
Energia Mayakan	Mexico	F	67.50	67.50	67.50
Gasoductos del Bajio	Mexico	F	100.00	100.00	100.00
Servicios Industriales de Energia	Mexico	P	50.00	50.00	50.00
Transnatural	Mexico	P	50.00	50.00	50.00
Gaseba	Argentina	F	100.00	100.00	96.91
Gaseba Uruguay	Uruguay	F	51.00	51.00	49.42
OTHER					
Cogac	France	F	100.00	100.00	100.00
GDF International	France	F	100.00	100.00	100.00
Pétrofigaz	France	P	54.72	54.72	54.72

The exhaustive list of companies in the consolidation scope has been enclosed in Supplementary Disclosures (D), note 26.

B. Summary of significant accounting principles

General policies

Accounting standards

The Group's consolidated financial statements are prepared in conformity with the generally accepted accounting principles in France (French GAAP), in particular the decree of June 22, 1999 which confirms regulation 99-02 of the French financial accounting standards board (CRC).

In some cases, the subsidiaries' individual financial statements have been restated in order to harmonize the Group's valuation methods.

Pursuant to article 4 of law n° 46.628 of April 8, 1946, Gaz de France presents its accounting and financial statements according to the applicable rules in industrial and commercial companies. Gaz de France keeps its books in accordance with the French uniform chart of accounts.

Pursuant to the decree of October 22, 1947, and article 9 of the decree of August 29, 1949, Gaz de France's chart of accounts was approved by the Ministry of the Economy, Finance and Budget on August 7, 1985, at the recommendation of the French financial accounting standards advisory council (CNC), dated December 19, 1984.

Reporting currency

The consolidated financial statements are prepared in euros.

Use of estimates

While preparing the consolidated financial statements, Gaz de France Group had to make estimates and assumptions which affect the amounts reported in the financial statements and accompanying notes, namely for provisions, recognition of deferred tax assets, calculation of goodwill and employee benefits.

The financial statements reflect the best estimates, based on the information available on the balance sheet date.

Consolidation policy and procedures

The consolidation scope

Companies consolidated by the Group comprise significant subsidiaries and sub-subsidiaries over which the Group has at least a significant influence.

Non-significant subsidiaries are not consolidated. The evaluation of a company's significance is based on the accounts of the subgroup to which it belongs, with the relative weight of sub-subsidiaries being taken into account. Overall, earnings from non-significant subsidiaries account for less than 5% of the Group's key figures (balance sheet total, shareholders' equity, net sales and workforce).

Consolidation methods

Subsidiaries and sub-subsidiaries over which Gaz de France holds legal or effective control, directly or indirectly, are fully consolidated.

The subsidiaries and sub-subsidiaries over which Gaz de France exercises shared control are consolidated on a proportionate consolidation method.

The other subsidiaries and sub-subsidiaries are accounted for under the equity method.

Inter-company accounts between consolidated companies have been eliminated when significant transactions are involved. For companies consolidated by the proportionate consolidation method, the elimination is based on the proportionate percentage in the accounts.

Financial sector subsidiaries

The financial statements of the financial sector subsidiaries are prepared in accordance with the chart of accounts for financial institutions.

They are reclassified as follows in the Group's accounts:

- customer loans are posted in the Investments or Current Assets of the finance sector;
- refinancing of customer loans is posted under financial sector Liabilities.

The closing date

Fiscal year lasts 12 months, from January 1 to December 31. No interim accounts were drawn up for non-calendar year companies, since the impact of these companies was minor and their accounts closing date was within three months or less of the parent's accounts closing date.

Goodwill

A "surplus from initial consolidation" was determined for each consolidated company during the Group's first consolidation. It is equal to the difference between the value of investments as of December 31, 1991 and the proportionate share of shareholders' equity at the same date. This surplus is maintained in the Group's balance sheet as a consolidation reserve until the sale of the equity interest.

For all newly consolidated companies, goodwill arising on consolidation is measured by the difference between the purchase price and the share of the estimated fair value of net assets at the date of acquisition.

Goodwill is amortized following the straight-line method over a maximum period of 20 years, determined according to the nature of the business of each subsidiary concerned.

Business goodwill is stated at its market value and impairment may be recognized.

Any negative goodwill is recorded under provisions. This amount is reversed over a period determined according to the nature of the business of each subsidiary concerned.

Foreign currency translation

Balance sheet items are translated into euros using the closing rate method (rate as of December 31), and the statement of income is translated on the basis of the official average exchange rate. Translation adjustments in the balance sheet and statement of income are recorded in equity under "Translation adjustment" in "Other".

For self-contained subsidiaries whose functional currency is different from the local currency, the translation is carried out two steps. First, it is converted from the local to the functional currency at the historical exchange rate, then from the measurement currency to the euro, using the closing rate method.

Deferred taxes

Deferred income taxes arise out of timing differences between the net value of assets or liabilities as reported in the balance sheet and the amount resulting from the application of tax rules.

Deferred taxes are calculated by fiscal entity, according to the "liability method", with all the timing differences maintained.

Net deferred tax assets and liabilities are recognized when these tax assets are deemed to be recoverable with reasonable certainty.

In most cases, deferred tax assets and liabilities are discounted at a rate of 5% on the basis of the turnaround schedule for corresponding timing differences.

Shareholders' equity

Capital stock

The capital stock of Gaz de France is the sum of: initial capital, which represents the net sum of the rights, assets and obligations transferred to the Company when the sector was nationalized in 1946, and the capitalized surplus in the form of special funds granted by the French government until 1982.

The calculation of earnings per share does not apply to Gaz de France, since its capital is not divided up into shares.

Other equity

Value of franchises – Franchisors' inherent rights

Pursuant to French GAAP concerning operations carried out under a public service franchise and articles 521-1 and 523-1 of CRC regulation 99-03, the value of franchisors' inherent rights to franchised property recorded in the assets, is also carried on the liabilities side of the balance sheet.

It includes:

- the corresponding value of assets not financed by the Company;
- the corresponding value of the assets replaced by using the provision for asset replacement;
- the franchised asset termination fund;
- the depreciation of assets not financed by the Company and of non-replaceable assets, which is deducted.

Irredeemable Securities

Gaz de France issued irredeemable securities in 1985 and 1986 as authorized by law n° 83.1 of January 1, 1983 and law n° 85.695 of July 11, 1985. Their issue price is posted under liabilities. Their remuneration is recognized as an interest expense.

Intangible assets

Goodwill is recorded under a specific asset heading.

The other intangible fixed assets mainly include:

- leases;
- business goodwill;
- costs of user rights to patents and licenses;
- software;

Capital increase costs, debt issue expenses and R&D costs are recorded as expenses for the fiscal year.

The Group's intangible assets are stated at their acquisition or production cost.

In the event of an unfavorable event, assets undergo an impairment test and an impairment write-down is recognized if the assets' current value is lower than its value.

Tangible assets

The Group's tangible assets are stated at their acquisition or production cost.

The following are the average depreciation periods for property, plant and equipment built by the Group:

- 30 years for gas utility pipes;
- 25 years for transmission pipelines and underground storage facilities.

These service lives vary for property, plant and equipment acquired by the Group, according to the local situations and the residual service life of equipment on the acquisition date. They never exceed the service lives applicable to assets of the same type built by the Group.

In the event of unfavorable prospects, assets undergo an impairment test and a provision is recognized if the assets' current value is lower than its net value.

Non-franchised assets

Non-franchised assets are those which belong to the Group itself or have been financed through leasing agreements. Premises and equipment are depreciated on the basis of their estimated service lives.

Franchised assets

These items are fixed assets:

- financed by the Company: they are initial assets or replacements brought into the franchise by Gaz de France;
- and granted for free by third parties and franchisors.

Pursuant to articles 393-1 and 442-22 of CRC regulation 99-03, all Gaz de France assets operated under a franchise are recorded as a special item in the assets.

Initial assets financed by the Company:

Among assets, so-called "initial items" financed by the company give rise to the so-called caducité amortization spread over the term of the contract to account for the financing of the "last item" ("non-replaceable") that must be return for free at the end of the franchise. Upon early renewal of a franchise, the balance of the relevant accounts is written off for an amount which would have been recorded until the normal termination of the contract. This expense is transferred to a specific account for franchised fixed assets. These assets are depreciated over the remaining life of the original contract. Depreciation of assets over the life of the contract and transfers of charges are recorded under "Depreciation, amortization and provisions" in the income statement.

Assets granted for free by third parties:

The value of granted for free franchised equipment is stated in the assets with a corresponding amount recorded as "Value of franchises – Franchisors' inherent rights". Each asset is depreciated using the straight line method over the service life of the asset to record the loss in value of the asset and the corresponding reduction in the franchisor's rights. This depreciation has no impact on the income statement.

Replaceable franchised assets:
Replaceable franchised assets are assets which are likely to be replaced before the term of the corresponding franchise contract.

Replaceable franchised assets financed by the Company are depreciated on a straight line basis.

In addition, these assets are covered by a provision for replacement calculated for each asset on the difference between the asset replacement cost, determined according to the appropriate indexes and its original cost, i.e., the depreciable base. This provision is accrued gradually when the franchised assets are put into service and remains in effect until their actual replacement. It is posted under "Provisions" (article 441-15 of CRC regulation 99-03).

Replaceable franchised assets granted for free at the beginning or in the process of the contract are solely subject to a provision for replacement which covers the total replacement cost of the assets.

Provisions for replacement and depreciation for premises and equipment depreciation and replacement are posted under "Depreciation, amortization and provisions" in the statement of income.

When an asset is replaced, the replacing asset is recorded in the assets, and the related accrued provision for replacement is credited to "Franchisors' inherent rights – used provisions".

Non-replaceable franchised assets:
Non-replaceable franchised assets are assets which are not likely to be replaced before the term of the corresponding franchise contract.

Non-replaceable franchised assets are depreciated on a straight line basis using the service life of each item to record the decrease in value of the asset and the corresponding reduction in "Value of franchises – Franchisors' inherent rights". This depreciation has no effect on the statement of income.

The item "Value of franchises – Franchisors' inherent rights" is constituted by depreciation of franchised asset termination and/or by a reduction of the provision for replacement previously booked.

Leasing agreements

Long-term lease agreements for which the Group bears nearly all the risks and advantages inherent to the ownership of leased assets are recorded as finance leases. These are mainly finance-lease contracts and lease agreements for which the rental payments cover the main part of the fair value of leased goods.

Fixed assets financed by leasing agreements are posted under tangible assets with a contra account under loans. According to the characteristics of the leasing agreements, the goods are depreciated either over the service life of similar categories of fixed assets, or over the duration of the leasing agreement. The loan is depreciated over the duration of the agreement. The portion of fees that exceeds the repayment of the initial capital is recognized as an interest expense.

Exploration and production companies

The accounts of consolidated subsidiaries and companies accounted for by the equity method involved in exploration and production were prepared in accordance with that sector's specific accounting policies, as defined by the Financial Accounting Standards Board (F.A.S.B. standard 19). These rules are compliant with French GAAP.

The Group applies the "successful efforts" accounting method.

Geological and geophysical expenses are recorded as expenses in the year they are incurred.

Unproved properties are capitalized; they are depreciated if no marketable reserves are discovered.

Drilling in process is capitalized. The cost of drilling exploratory wells, which did not result in the discovery of proven marketable reserves, is charged to expense.

Site restoration costs are charged to expense using the unit-of-production method, on the basis of proven developed reserves.

Fixed assets linked to gas production (proven properties, productive exploratory wells, development expenses and production start up costs) are depreciated using the unit-of-production method, on the basis of proven developed reserves.

Long-term investments

Investments in companies accounted for by the equity method

This item corresponds to the value of the share in companies accounted for by the equity method.

Other long-term investments include:

Interests in unconsolidated companies

The gross value of interests in unconsolidated companies is their cost of acquisition. When the assets' current value determined on the basis of the net value of the interest, corrected to account for subsequent events, is lower than the value, the difference is provisioned against.

Loans to companies in which the Group has equity stakes

These assets represent loans made to companies in which the Group has an equity interest and which are not fully consolidated. These loans may be written down for impairment if the shareholders' equity of the affiliate becomes negative.

Other long-term investments

This item mainly includes securities, other than equity stakes, which the group intends to hold on the long term.

Gas in underground storage facilities

The gas injected into underground storage facilities includes working gas, which can be pumped without damaging consequences for future operations, and cushion gas, which cannot be taken from underground storage facilities and is essential to their operation.

Cushion gas

Valued at average acquisition cost, regardless of the source, plus the costs of regasification, transmission and injection into the system, cushion gas is recorded as a fixed asset. It is depreciated on a straight-line basis over 25 years, like the above-ground installations of underground storage facilities.

Working gas

Working gas is included in inventory. It is valued at average acquisition cost on entering the French transmission system, including the cost of regasification, regardless of the source.

A write-down of inventory is recognized in income when the net realizable value calculated as being the selling price minus direct and indirect expected costs of completion and disposal, is less than the weighted average cost.

Valuation of inventories

Group inventory outflows are valued on a weighted average cost basis. The financial statements of subsidiaries which apply another inventory valuation method are not restated when the cost to produce these restatements is considered disproportionate with regard to its effect on the consolidated financial statements.

Accounts receivable

Accounts receivable include all receivables corresponding to the sale of energy, related services and receivables relating to the operating cycle. Based on the risk of unrecoverability, calculated using both case by case and statistic analyses, the latter including historical actual write-offs data, accounts receivable are provided for.

Receivables also include energy deliveries which have not yet been invoiced, whether covered or not.

Retirement commitments and other benefits

In the notes, Gaz de France discloses the commitments estimated for pensions, other post-employment benefits and long-term benefits.

Insurance policies have been taken out to cover the payment of pension benefits (partial coverage) and end-of-career compensations (full coverage).

Disability allowances and allowances for industrial accidents, disease and inability to work outstanding at year-end are fully funded.

The same applies to long-service benefits, and special end-of-career leaves.

Provisions for pensions and related benefits are accounted for by the subsidiaries in their accounts.

The special status of Gaz de France and the resulting commitments are disclosed in note 21.

Other provisions

- Provisions for site restoration are designed to cover the present value for reclaiming sites where gas facilities are or were located. The amount of provisions reflects the best estimate of discounted total future costs, with respect to current regulatory requirements, technical knowledge and acquired experience.

  Provisions are initially accrued as a counterpart to a tangible asset that is depreciated over the estimated residual operational life of the corresponding site. The effect adjustments of estimate is reported in the statement of income prospectively. Allocations and reversals of provisions, including the unwinding of discounting charge are recorded to operating expenses.
- Service companies record provisions for full warranty and product maintenance contracts.

Foreign currency translations

Foreign currency transactions are translated into euros by applying the exchange rate in force on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in force on the balance sheet date. The resulting exchange rate differences of these transactions are recorded as income or loss.

Non-monetary assets and liabilities denominated in foreign currency are reported at the historical cost applicable on the date of the transaction, with the exception of revalued non monetary assets and liabilities, which are converted at the applicable exchange rate on the date of revaluation.

Financial instruments

The financial instruments used by the Group to hedge and manage its foreign exchange, interest rate and "commodity" risks are recorded as off-balance sheet commitments for capital and future interests in swap contracts which are valued on the basis of December 31 rates.

Hedging transactions

The change in the market value of contracts for forward purchases or sales of foreign currencies is recognized in the income statement symmetrically to the gain (loss) on the hedged item.

Commodity derivatives are stated at market value and recorded symmetrically to the gain (loss) on the hedged item. In the event of the disappearance of the hedged item, the hedging operation is unwound and the losses and gains are recognized as income.

Other transactions

Unrealized losses are recognized in the income statement. Unrealized gains resulting from over-the-counter transactions are only recorded if these markets have sufficient volume and liquidity. When the contracts are unwound, the losses and gains are recognized in the income statement.

Research and development costs

Research and development costs are expensed the period in which they were incurred.

Uncompleted contracts

Service contracts which are not completed at the end of the account closing date are accounted for by the percentage-of-completion method.

Disclosure in the statement of income of trading activities (gaselys subsidiary)

Only the gross margin generated by these activities is recorded in net sales.

Exceptional items

Consolidated exceptional income and loss include unusual or infrequent items as well as items considered to be of an exceptional nature under promulgated GAAP, mainly profit or loss on disposal of fixed assets.

Statement of cash flows

The Group's statement of cash flows has been prepared according to the indirect method, from net income.

Since write downs of current assets are written-off, the change in current assets is reported net of write downs. The cash position of the statement of cash flows includes cash and cash equivalents minus bank overdrafts.

The most significant movements that have an impact on the balance sheet but which are not considered as cash flow – in particular fixed asset acquisitions under leasing agreements - are reported in the Notes.

C. Changes in accounting policies

1. Major transactions

1.1. Major transactions in 2003

a) Acquisition of the German company, Preussag Energie

In May 2003, Gaz de France acquired the oil and gas exploration and production businesses of the TUI group in Germany. Gaz de France Produktion Exploration Deutschland – formerly Preussag Energie – reports annual net sales of around 280 million euros and employs 630 people.

The acquisition price paid by Gaz de France net of cash represents an investment of 859 million euros and led to the recognition of 96 million euros of goodwill. The fair value acquisition balance sheet is as follows:

In millions of euros Assets		Shareholders' equity and liabilities	
Fixed assets	1,493	Shareholders' equity	981
Current assets	312	Provisions	729
		Operating debt	95
TOTAL ASSETS	**1,805**	**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES**	**1,805**

The main impacts of the acquisition of Gaz de France Produktion Exploration Deutschland on the consolidated accounts as of December 31, 2003 were as follows:

- net sales: +163 million euros;
- operating Income: +32 million euros;
- net income – Group share: +33 million euros;
- balance sheet total: +1,375 million euros;
- net debt: -34 million euros.

b) Other changes in consolidation scope by creation, acquisition and disposal

The other main changes in the consolidation scope in 2003 were as follows:

- in Services, acquisition via Cofathec of the remaining 50% of Cofathec Jacorossi Progetti, 100% of Raichon Fluides et Energies and 100% of Nuova Sipe.

The main impacts of these other changes on the consolidated accounts as of December 31 2003 were as follows:

- net sales: +47 million euros;
- operating income: -14 million euros;
- net income – Group share: -30 million euros;
- balance sheet total: +11 million euros;
- net debt: +1 million euros.

1.2. Major transactions in 2002

a) Acquisition of the Slovakian gas group Slovensky Plynarensky Priemysel (S.P.P.)

In July 2002, Gaz de France and Ruhrgas jointly acquired, a 49% equity interest in the Slovak gas group S.P.P. At December 31, 2002, Gaz de France and Ruhrgas each held 24.5% of S.P.P., with Gazprom having a purchase option (see section D – Note 20).

Since S.P.P. is jointly controlled by the Slovak State, Ruhrgas and Gaz de France, S.P.P. is consolidated on proportional at 24.5%.

The price paid by Gaz de France (1,427 million euros) led to the recognition of 685 million euros of goodwill. The fair value acquisition balance sheet is as follows:

In millions of euros Assets		Shareholders' equity and liabilities	
Fixed assets	822	Shareholders' equity	742
Current assets	113	Provisions	84
		Financial debt	69
		Operating debt	40
TOTAL ASSETS	**935**	**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES**	**935**

S.P.P. reported annual net sales (proportional 24.5%) of approximately 380 million euros. The consolidated financial statements for 2002 included the activity of the S.P.P. group in the second half of 2002.

b) Other changes in consolidation scope through creation, acquisition and disposal

The other main changes in the consolidation scope in 2002 were as follows:

- in Exploration and Production, acquisition of 100% of the British firm CalEnergy Gas (now Gaz de France Britain E & P Limited) and of an additional 25% equity interest in the EEG Group (which now consolidates Kazgermunai in Kazakhstan on proportional and no longer by the equity method);
- in Supply and Trading, creation of G.D.F. Armateur, and acquisition via GDF Energy Supply & Solutions of 100% of the British firm RWE Trading Direct (now Gaz de France Marketing Limited);
- in Distribution, acquisition of an additional 35% equity interest in EMB, then sale of the Group's total equity interest in EMB (80%) to Gasag; and sale of a 41% equity interest in GasNEA (the gain from the sale was not significant);
- in Services, acquisition via Cofathec of 100% of Zanzi company (since merged into Cofathec Servizi), 100% of Tarlin and 50% of Climespace;
- creation of DK6 to hold the commitments for the construction of a combined cycle plant at Dunkerque;

The main impacts of these other changes on the consolidated financial statements as of December 31, 2003 were as follows:

- net sales: +158 million euros;
- operating income: +68 million euros;
- net income – Group share: +67 million euros;
- balance sheet total: +337 million euros;
- net debt: +47 million euros.

c) Acquisition of the transmission system in France

Pursuant to article 81 of the amended law of finances for 2001, existing franchise contracts were terminated and, correlatively, ownership of the gas transmission System was transferred to Gaz de France on July 10, 2002. The values determined by the special evaluation commission, which were communicated to Gaz de France by the Minister of the Economy, Finance and Industry, were as follows:

- 4,933 million euros in compensation for the early termination of Gaz de France's franchises;
- 5,042 million euros representing the sale price of the transmission system to Gaz de France.

The net effect of this transaction on the Group's cash position (-109 million euros) was recorded as a special item in "Capital expenditures" in the statement of cash flows.

The effect of this transaction on 2002 net income and on Shareholders' equity as of December 31, 2002, was an extraordinary income (net of taxes) of 2,774 million euros for the Gaz de France Group.

2. Changes in accounting principles

2.1. Changes in accounting principles in 2003

First application of CRC regulation 00-06 on liabilities for certain provisions for site restoration.

Until December 31, 2002, provisions for the costs of restoring operating sites of technical facilities were accrued gradually. Beginning on January 1, 2003, these costs are totally accrued under liabilities as a contra account to a tangible asset at the present value of future restoration costs. The retroactive application of this change in accounting principles led to the reversal of one million euros from reserves on December 31, 2003 (note 6).

2.2. Reminder of changes in accounting principles in 2002

a) First application of CRC regulation 00-06 on liabilities

In application of this new regulation, the Group reversed certain provisions for major repairs related to facilities upgrades. These repairs are now recognized in the statement of income when they are incurred, while expenses related to facility improvement or the extension of estimated service life are capitalized.

The first application of this regulation is considered as a change in accounting principle. Consequently, provisions for major repairs which do not meet the new criteria were reversed for their amount net of tax and with an adjustment of retained earnings as a counterpart, i.e. 30 million euros as of December 31, 2002 (note 6).

b) Early renewal of franchise agreements

As of January 1, 2002, depreciation of assets over the outstanding term of the original agreement in the event of the early renewal of a franchise agreement is recorded in assets as a special item in franchised tangible assets (see section B - Franchised assets). Until December 31, 2001, they were considered as deferred charges (234 million euros as of December 31, 2001).

c) Elimination of the legal revaluations of 1959 and 1976

As of January 1, 2002, the legal revaluations of 1959 and 1976 were eliminated from the consolidated financial statements in conformity with CRC regulation 99-02. The result was a decrease in net fixed assets and retained earnings in the amount of 26 million euros as of December 31, 2002 (note 6).

3. Segment division

The Group's activities are now divided into six segments placed into two business units, Energy and Services offering branch and Infrastructures branch. The chosen segmentation provides better information on the activity level and the profits derived from energy trading, as well as from transmission and distribution infrastructures This information is namely based on the transmission system Third-Party Acess tariffs and of distribution network TPA tariff proposals that have been submitted by the French regulator (CRE).

Data concerning the account closing date ended December 31, 2002 have been restated in accordance with this new segmentation.

D. Supplementary disclosures

Note 1. Intangible and tangible assets

In millions of euros	Gross value at Dec. 31, 2003	Accumulated amortization and depreciation	Net value at Dec. 31, 2003	Net value at Dec. 31, 2002	Net value at Dec. 31, 2001
INTANGIBLES					
Goodwill	1,362	302	1,060	1,046	403
Other intangible assets	512	178	334	364	468
	1,874	**480**	**1,394**	**1,410**	**871**
PROPERTY, PLANT AND EQUIPMENT					
Non franchised	18,002	6,462	11,540	10,328	3,965
Franchised	13,402	5,609	7,793	7,272	8,282
	31,404	**12,071**	**19,333**	**17,600**	**12,247**
Constructions in progress, payments on account	**1,392**	**2**	**1,390**	**1,094**	**1,249**
	34,670	**12,553**	**22,117**	**20,104**	**14,367**

The cumulative depreciation and amortization amounted to 10,438 million euros at December 31, 2002.

Depreciation and provisions for 2003 are broken down by nature in note 13.

The business goodwill of Services subsidiaries were systematically subject to impairment tests on December 31, 2003. The method used was based on the expected net cash flows per sub-group. This approach resulted in the recognition of an impairment loss of 21 million euros for the Italian subsidiaries' business goodwill.

The 93 million euros in provisions recognized at December 31, 2002 on the fixed assets of Mexican Distribution subsidiaries remained unchanged at December 31, 2003. The operating conditions for 2003 show no indication of additional impairment compared to December 31, 2002.

Goodwill (gross value) changed as follows:

In millions of euros	
Goodwill on Dec. 31, 2002 (gross value)	**1,250**
Gaz de France Production Exploration Deutschland	96
Translation adjustments and other	16
GOODWILL ON DEC. 31, 2003 (GROSS VALUE)	**1,362**

So-called "caducité" depreciation of assets, recognized in the event of the early renewal of a franchise agreement and which is spread over the remaining life of the original contract, is recorded in franchised fixed assets:

In millions of euros	Gross value, at Dec. 31, 2003	Depreciation	Net value at Dec. 31, 2003	Net value at Dec. 31, 2002	Net value at Dec. 31, 2001
	454	47	407	253	-

At December 31, 2001, the same type of depreciation was accounted for as deferred charges (section C note 2.2b).

Non-franchised property, plant, and equipment presented above include leased facilities in the following amounts:

In millions of euros	Gross value at Dec. 31, 2003	Amortization and depreciation	Net value at Dec. 31, 2003	Net value at Dec. 31, 2002	Net value at Dec. 31, 2001
Leased facilities	1,030	253	777	498	496

Note 2. Long-term investments

Note 2.a. Investments in companies accounted for by the equity method

	Share of net equity		
In millions of euros	at Dec. 31, 2003	at Dec. 31, 2002	at Dec. 31, 2001
French companies	137	137	79
Foreign companies			
- EFOG	263	244	241
- Other	52	81	80
TOTAL	**452**	**462**	**400**

The main items in EFOG's balance sheet as of December 31, 2002, are as follows:

In millions of euros Assets		Shareholders' equity and Liabilities	
Fixed assets	1,399	Shareholders' equity	1,167
Current assets	822	Provisions and long-term deferred taxes	355
		Long-term financial debt	544
		Operating debt	155
TOTAL ASSETS	**2,221**	**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES**	**2,221**

Note 2.b. Other long-term investments and financial sector investments

In millions of euros	Gross value at Dec. 31, 2003	Of which more than one year	Contingencies	Net value at Dec. 31, 2003	Net value at Dec. 31, 2002	Net value at Dec. 31, 2001
OTHER LONG-TERM INVESTMENTS						
Non-consolidated equity interests	486	-	45	441	190	202
Receivable related to investments	216	130	17	199	222	179
Loans	118	98	1	117	107	79
Other long-term investments	215	194	2	213	224	222
	1,035	**422**	**65**	**970**	**743**	**682**
Financial sector investments	**227**	**120**	**-**	**227**	**253**	**272**
	1,262	**542**	**65**	**1,197**	**996**	**954**

Gaz de France sold loans granted to employees to an ad-hoc entity ("*Fonds Commun de Créances*") for a consideration of 265 million euros (91 million euros sold in 2003 and 174 million euros in 2001). Gaz de France was given a mandate to continue managing these commitments.

The investments of the subsidiaries Pétrofigaz and Gaselys are accounted for in a specific financial sector item owing to the specific nature of their activity.

Main unconsolidated investments

In millions of euros	% stake	Net value	Income/Loss	Shareholders' equity (excuding net income)	Net sales	Latest FYE
Italcogim	40.00	186	22	153	276	- (1)
Investment firm in Austria	20.00	81	7	395	-	Dec. 31, 03
GDF Milano - Arcalgas	100.00	56	1	56	-	Dec. 31, 02
EC Wybrzeze	14.05	20	7	108	112	April 30, 03
Groupe Technip	7.15	5	(20)	1,958	4,711	Dec. 31, 03
Other		93				
TOTAL		**441**				

(1) *Estimated data on Dec. 31, 2003.*

The market value of Technip securities was 146 million euros at Dec. 31, 2003.

Equity investments in the Italian gas distribution companies Arcalgas and Italcogim are not consolidated because of the restrictions on control resulting from the regulations currently in these countries.

Note 3. Inventories and work in process

In millions of euros	Gross value at Dec. 31, 2003	Depreciation	Net value at Dec. 31, 2003	Net value at Dec. 31, 2002	Net value at Dec. 31, 2001
Gas inventories	998	-	998	1,061	1,041
Other inventories and work in process	99	15	84	80	89
INVENTORIES AND WORK IN PROGRESS	**1,097**	**15**	**1,082**	**1,141**	**1,130**

Note 4. Receivables and other current assets

In millions of euros	Gross value at Dec. 31, 2003	Of which more than one year	Depreciation	Net value at Dec. 31, 2003	Net value at Dec. 31, 2002	Net value at Dec. 31, 2001
Trade accounts receivables	**4,365**	**121**	**149**	**4,216**	**3,711**	**4,081**
Deferred taxes	27	9	-	27	111	95
Prepaid expenses	46	-	-	46	46	32
Deferred charges (Section C – Note 2.2 B)	-	-	-	-	2	235
Due from affililates	287	74	1	286	44	88
Other receivables	1,281	97	38	1,243	1,131	953
	1,641	**180**	**39**	**1,602**	**1,334**	**1,403**
Financial sector current assets	**161**	**-**	**-**	**161**	**195**	**79**
	6,167	**301**	**188**	**5,979**	**5,240**	**5,563**

Note 5. Marketable securities

In millions of euros	Gross value at Dec. 31, 2003	Depreciation	Net value at Dec. 31, 2003	Net value at Dec. 31, 2002	Net value at Dec. 31, 2001
Marketable securities	167	9	158	143	433

The market value of marketable securities was 172 million euros as of December 31, 2003.

Note 6. Shareholders' equity at minority interests

In millions of euros	Group share	Minority interests
Shareholders' equity at Dec. 31, 2000	**5,050**	**204**
Dividends paid	-	(27)
Translation adjustments	21	3
Changes in percentage interest and consolidation scope	-	56
Miscellaneous	-	1
Net income	891	63
Shareholders' equity at Dec. 31, 2001	**5,962**	**300**
Dividends paid	(312)	(53)
Translation adjustments	(7)	(2)
Changes in percentage interest and consolidation scope	-	(41)
Elimination of legal revaluations of 1959 and 1976 (section C – note 2.2 c)	(26)	-
First application of CRC regulation 00-06 on liabilities (section C - note 2.2 a)	30	-
Miscellaneous	-	(1)
Net income	3,612	43
Shareholders' equity at Dec. 31, 2002	**9,259**	**246**
Dividends paid	(456)	(42)
Translation adjustments	(109)	(12)
Changes in percentage interests and consolidation scope	-	2
Impacts of changes in accounting principles and miscellaneous	(17)	5
Net income	910	70
Shareholders' equity at Dec. 31, 2003	**9,587**	**269**

The "Translation adjustments" item results from:

- the difference between the value of shareholders' equity of foreign corporations translated at the December 31, 2003 exchange rate and the value of shareholders' equity translated at the historical exchange rates after restatement, if any, to reflect the Group's accounting principles;
- the difference, for foreign companies, between net income translated at the year-end rate and that translated at the average exchange rate;
- net foreign exchange gains (losses) related to foreign currency loans taken out by French companies to finance foreign companies.

Translation adjustments which are now constant, recorded as of December 31, 1998, for euro-zone subsidiaries totaled to -2.3 million euros for the Group share and -0.3 million euros for minority interests.

Cumulative translation adjustments as of December 31, 2003, included in shareholders' equity - Group share – totaled to -130 million euros (-17 million euros at December 31, 2002 and -7 million euros at December 31, 2001).

Minority interests is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries.

Note 7. Provisions

Note 7.a. Provisions for liabilities and charges

In millions of euros	Balance as of Dec. 31, 2002	Addition	Unused	Used	Reclassifica-tions	Changes in consolidation scope	Translation adjust-ments	Balance as of Dec. 31, 2003
Replacement of franchised assets	2,901	513	(101)	(210)	-	-	-	3,103
Site restoration	504	14	-	(20)	66	86	(2)	648
Employee benefits	190	195	-	(5)	-	84	-	464
Taxes	26	5	-	(3)	-	-	-	28
Major repairs and full warranty	120	25	(4)	(36)	(9)	-	-	96
Deferred taxes	1,434	129	-	(188)	(74)	558	(2)	1,857
Negative goodwill net of reversals	22	(7)	-	-	-	-	-	15
Other provisions	243	265	(11)	(76)	16	2	(1)	438
Financial sector provisions	2	3	-	(2)	13	-	-	16
Provisions for liabilities and charges	**5,442**	**1, 142**	**(116)**	**(540)**	**12**	**730**	**(5)**	**6, 665**

Changes in the consolidation scope mainly related to the acquisition of Gaz de France Produktion Exploration Deutschland (section C 1.1 a).

7.a.1. Replacement of franchised assets.

This item concerns the replacement of the gas distribution facilities in France.

It is calculated as described in section II. The amount of reversals for use in the year (210 million euros) contributed to an increase in the item "Value of franchises – Franchisors' inherent rights".

Thirty-one percent of the provision for replacement of distribution networks is expected to be used between 2004 and 2008 and 69% after 2008.

7.a.2. Site restoration

The principle of this provision is presented in the section B. It mainly concerns Gaz de France and its exploration and production subsidiaries.

The Gaz de France sites concerned are:

- first the lands on which manufactured gas production plants were located. The accrual is determined statistically on the basis of samples of representative sites.
- second, the pipes, storage sites and methane carrier terminals in service.

For the latter, as for exploration and production facilities, the estimated cost of dismantling equipment is fully accrued under liabilities, with a counter part in tangible assets. The related depreciation and unwinding of discounting charge are recorded to operating income (loss) (section C – 2.1).

7.a.3. Employee benefits

For Gaz de France, pension commitments are partly covered by insurance type funds and a provision of 137 million euros. Long-service benefits are accrued (24 million euros).

For the first time in 2003, Gaz de France accrued disability pensions and allowances for labor accidents, occupational illness and inability to work (151 million euros), as well as the exceptional end-of-career leaves (27 million euros).

NOTE 7.b. Depreciation and amortization

In millions of euros	Balance as of Dec. 31, 2002	Addition	Unused	Used	Reclassifica-tions	Changes in consolidation scope	Translation adjust-ments	Balance as of Dec. 31, 2003
Intangible assets	33	1	(1)	-	36	-	(7)	62
Tangible assets	54	-	-	-	(7)	-	(16)	31
Long-term investements	70	20	(7)	-	(28)	15	-	70

Note 8. Debts

Note 8.a. Debt schedule

In millions of euros	Balance as of Dec. 31, 2003	Maturity 1 year or less	1 to 5 years	6 to 10 years	More than 10 years	Balance at Dec. 31, 2002	Balance at Dec. 31, 2001
FINANCIAL DEBT							
Leasing	862	56	230	297	279	607	563
Bonds	2,053	-	67	1,244	742		
Other loans	1,716	899	621	159	37	3,078	2,244
Bank overdrafts	546	546	-	-	-	625	678
Miscellaneous	232	203	16	6	7	157	119
	5,409	**1,704**	**934**	**1,706**	**1,065**	**4,467**	**3,604**
Trade accounts payable	**1,769**	**1,767**	**2**	**-**	**-**	**1,851**	**1,787**
Taxes and social contributions	**3,418**	**3,356**	**28**	**34**	**-**	**3,135**	**2,861**
Financial sector debt	**402**	**402**	**-**	**-**	**-**	**442**	**340**
DEBTS	**10,998**	**7,229**	**964**	**1,740**	**1,065**	**9,895**	**8,592**

In 1999, Gaz de France sold receivables to guarantee a 198 million euro loan. The 4-year program ended in 2003. Since the sale of receivables was without recourse, the transaction resulted in a decrease in trade accounts receivable and a reduction in financial debt of 198 million euros from 1998 to 2002 inclusive.

Note 8.b. Categories of bonds

	Balance at Dec. 31, 2003	Date of issue	Date of maturity	Rate	Listing market
PUBLIC ISSUES					
- euro	MEUR 1,250	02/2003	02/2013	4.75%	Paris/Luxembourg
	MEUR 750	02/2003	02/2018	5.125%	Paris/Luxembourg
PRIVATE INVESTMENT					
- euro	MEUR 30	12/2003	12/2006	3-mo. Euribor	Paris
- yen	MJPY 5,000	12/2003	12/2006	6-mo. JPY Libor +0.005%	Luxembourg

The private investments in yen are covered by a EUR/JPY cross currency swap at 3-month Euribor. These various transactions have been concluded under the EMTN program established in October 2002.

Note 8.c. Analysis of bonds and other loans

	Balance at Dec. 31, 2003	Maturity 1 year or less	1 to 5 years	6 to 10 years	More than 10 years
EUR	3,211	650	526	1,280	755
USD	472	233	123	105	11
GBP	45	14	-	18	13
Other	41	2	39	-	-
TOTAL	**3,769**	**899**	**688**	**1,403**	**779**

The hedges swaps are detailed in Note 20 a.

Less than 30% of debts contain financial covenants; these relate solely to subsidiaries. The Gaz de France Group complies with these covenants in its operations.

Note 8.d. Other financial debt

Other financial debt (leasing, bank overdrafts and miscellaneous) are mainly denominated in euros.

Note 9. Debt analysis by interest rate and by currency after taking financial hedging instruments into account

Note 9.a. Debt by Interest Rate

Leasing debt, bonds and other debt negotiated at a fixed rate or converted to a fixed rate through interest-rate swaps totaled 3,008 million euros at December 31, 2003.

Fixed-rate financing of less than 3 months at origin is not included in this amount.

Note 9b. Debt by Currency

After accounting for currency hedging instruments, bonds and other loans were categorized by currency as follows:

In millions of euros	Dec. 31, 2003	%
EUR	2,651	70.34
USD	45	1.19
GBP	1,069	28.36
Other	4	0.11
TOTAL	**3,769**	**100**

Note 10. Net Sales

In millions of euros	2003	2002	2001
GAS SALES			
- domestic	11,371	10,481	11,015
- foreign	2,516	1,830	1,493
Services rendered and miscellaneous	2,760	2,235	1,849
NET SALES	**16,647**	**14,546**	**14,357**

Note 11. Value added

In millions of euros	2003	2002	2001
Group share	5,956	5,214	4,686
Minority interests	442	246	256
VALUE ADDED	**6,398**	**5,460**	**4,942**

Irredeemable securities are remunerated on the basis of the official average bond interest rate and growth in the value added of Gaz de France or of the consolidated entity (Group share only), whichever is more favorable.

Note 12. Research and Development Expense

In 2003, research and development expense totaled 89 million euros, down from 118 million euros in 2002.

Note 13. Depreciation, Amortization and Provisions

Note 13.a. Depreciation (net of reversals)

In millions of euros	2003	2002	2001
"*Caducité*" Depreciation of franchised assets	494	331	374
Other depreciation (net of reversals)	1,150	950	629
DEPRECIATION (NET OF REVERSALS)	**1,644**	**1,281**	**1,003**

The increase in "*caducité*" depreciation of franchised assets was due to the early termination of franchise contracts. These additional depreciation is capitalized under fixed assets with transfers of charges account as a counterpart (note 1).

The increase in other depreciation and amortization was mainly the result of additional depreciation of transmission facilities acquired in July 2002 (151 million euros in 2002 and 291 million euros in 2003).

Note 13.b. Provisions (Net of Reversals)

In millions of euros	2003	2002	2001
Replacement of franchised assets	412	408	315
Site restoration	(6)	5	44
Employees (note 7 a)	190	(3)	-
Major repairs and full warranty	(15)	55	35
Impairment write-downs	28	(4)	(27)
Other operating provisions	78	(45)	(172)
PROVISIONS (NET OF REVERSALS)	**687**	**416**	**195**

The increase in provisions for employees was mainly due to the establishment, in 2003, of provisions for exceptional early retirement and regular pension and benefit payments in force at the end of the year (disability allowances, allowances for industrial accidents, disease and inability to work).

Note 13.c. Transfers of Charges on Fixed Assets

In millions of euros	2003	2002	2001
Transfers of charges on fixed assets	(173)	(69)	(114)

These transfers of charges relate to "*caducité*" depreciation of franchised assets capitalised under assets (note 1).

Note 14. Financial income (expense)

In millions of euros	2003 Expense	2003 Income	2003 Net	2002 Net	2001 Net
Interest and related expenses	**340**	**122**	**(218)**	**(120)**	**(176)**
Income from non-consolidated equity interests	-	39	39	35	39
Foreign exchange gains (losses)	195	357	162	44	21
Net financial provisions	136	14	(122)	19	(4)
TOTAL	**671**	**532**	**(139)**	**(22)**	**(120)**

Note 15. Exceptional items

In millions of euros	Expense	Income
Sale of intangible and tangible assets	62	74
Sale of long-term investments	13	23
Other	49	22
	124	**119**
EXCEPTIONAL ITEMS	**5**	**-**

Taxes on exceptional items totaled 3 million euros.

Note 16. Taxes and deferred taxes

Gaz de France is the parent company of a group that has opted for a tax consolidation as defined in Article 223A of the French Tax Code comprising 84 companies in 2003.

The tax expense on income was as follows:

In millions of euros	2003	2002	2001
Tax current	720	573	483
Deferred tax	32	32	68
INCOME TAX	**752**	**605**	**551**

The impact of the tax audit of Gaz de France for the years 1995-1997 was recognized in the 2001 accounts.

Note 16.a. Tax proof: reconciliation of theoretical tax expense and actual income tax

In millions of euros	2003	2002	2001
Consolidated net income before taxes	1,735	1,484	1,493
Theoretical tax expense (applicable tax rate in France)	615	526	544
Impact of discounted deferred taxes	45	16	14
Impact of differences in tax rates	(16)	(2)	(7)
Impact of the use of tax loss carryforwards	(30)	(10)	(13)
Impact of the year's unused deficits	43	63	55
Other permanent differences	95	12	(42)
ACTUAL INCOME TAX	**752**	**605**	**551**

Note 16.b. Deferred tax

In millions of euros	At Dec. 31, 2002	Income	Other	At Dec. 31, 2003
		Change during the year		
Deferred tax liability	(1,434)	59	(482)	(1,857)
Deferred tax asset	111	(17)	(67)	27
NET DEFERRED TAX	**(1,323)**	**42**	**(549)**	**(1,830)**

Note 16.c. Breakdown of deferred tax assets and liabilities on the basis of temporary differences

In millions of euros	2003	2002	2001
Fixed assets	(1,583)	(1,091)	(172)
Provisions and accrued expenses	10	50	48
Unrealized profits in inventory	11	9	9
Loss carryforwards	66	65	64
Deferred taxation on contributions from customers for franchised assets	(132)	(126)	(137)
Accelerated cost recovery	(98)	(85)	(135)
Other regulated provisions	(117)	(114)	(103)
Other	13	(31)	27
NET DEFERRED TAXES	**(1,830)**	**(1,323)**	**(399)**

Note 16.d. Unrecognized deferred tax assets

In millions of euros	Unrecognized deferred tax assets			
Nature of temporary differences	**Total**	**Less than 5 years**	**More than 5 years**	**Indefinite carryforwards**
Loss carry forwards	52	29	7	16
Other temporary differences	34	13	20	1
TOTAL	**86**	**42**	**27**	**17**

Note 17. Capital expenditures

Capital expenditures on property, plant and equipment include acquisition of tangible and intangible assets.

Growth investments include long-term investments and the effect on cash and cash equivalents of changes in the consolidation scope.

Investing and financing activities with no effect on changes in cash and cash equivalents:

In millions of euros	2003	2002	2001
Leasing acquisitions	45	7	24

Note 18. Change in working capital requirements

In millions of euros	2003	2002	2001
Change in inventories	(67)	(8)	(91)
Change in accounts receivable*	436	(276)	748
Change in trade accounts payable*	(10)	(32)	(14)
Change in other items	115	(156)	(453)
Change in working capital requirements	**474**	**(472)**	**190**

(*) *Net of payments on account.*

The sale of receivables described in note 8 resulted in an increase of 152 million euros in accounts receivable in 2003.

Note 19. Cash and cash equivalents

Cash and cash equivalents include available cash, temporary bank overdrafts, and highly liquid, readily convertible securities that are stable in value, as well as current accounts used as cash resources.

In millions of euros	2003	2002	2001
Cash and cash equivalents	512	450	277
Marketable securities	158	143	433
Bank overdrafts	(546)	(625)	(663)
Current accounts considered as cash	(24)	(1)	8
Net cash in the financial sector	60	29	47
Cash and cash equivalents	**160**	**(4)**	**102**

Note 20. Consolidated off-balance sheet commitments

Note 20.a. Financial commitments

Financial risk management policy (interest and currency rates) is defined at Group head office level in order to aggregate all the risks, control positions and perform market transactions from a single point.

Consolidated management of the counterparty risk and the coherence of management decisions are achieved primarily by cross-company decision-making bodies: the Exchange Rate Committee and Credit Committee.

Hedging currency risk

To manage its exposure to exchange rate fluctuations, Gaz de France uses forward contracts to buy or sell foreign currencies to hedge its gas purchases, tangible assets and financing activities.

In millions of euros	Commitments set portion as of Dec. 31, 2003 by due date			Estimated value as of Dec. 31, 2003	Foreign exchange differential as of Dec. 31, 2003	Commitments set portion as of Dec. 31, 2002
Forward contracts	2004	2005	2006 and beyond			
SHORT POSITION						
- GBP	418	106	-	523	1	155
- USD	791	36	1	818	10	136
- Other currencies	4	-	-	4	-	-
LONG POSITION						
- GBP	165	14	1	163	(17)	43
- USD	437	81	16	572	38	241
- Other currencies	5	-	38	42	(1)	-

The foreign exchange differential on these commitments was -27 million euros as of December 31, 2002.

Gaz de France entered into a currency option for a nominal value of 11 million euros.

As of December 31, 2003, exposure to currency exchange risks was as follows:

In millions of euros	USD	GBP
Bonds and other loans	472	45
Other debts (receivables)	41	(254)
Net balance sheet position	**513**	**(209)**
Forward currency buying	(534)	(180)
Forward currency selling	828	524
NET EXPOSURE (HEDGED FORWARD TRANSACTIONS)	**807**	**135**

Hedging interest rate risk

In millions of euros	Notional amount as of Dec. 31, 2003					Notional amount as of Dec. 31, 2002
Maturities for swaps	**One year or less**	**1 to 5 years**	**From 6 to 10 years**	**More than 10 years**	**Total**	
Swaps fixed-rate payer/floating-rate receiver	551	184	-	201	936	925
Swaps floating-rate payer/fixed-rate receiver	118	270	159	235	782	432
Swaps floating rate to floating rate	-	39	-	-	39	-

Gaz de France entered into short-term rate swaps mainly to convert fixed rate commercial paper to floating rate paper. The amount hedged was 551 million euros at December 31, 2003 and 925 million at December 31, 2002.

Following the sale of employee homeowner loans in 2001 and 2003 to a special purpose vehicle, Gaz de France has kept part a minor of the interest rate risk on a nominal amount equal to the difference between the remaining capital amount actually owed and the theoretical model of the remaining capital amount owed at the time of sale. This difference came to 5 million euros on December 31, 2003. The nominal value of the corresponding interest rate swaps was 200 million euros.

The Group also entered into interest rate swaps to convert variable rate medium and long-term loans to fixed-rate. The hedged commitments totaled 220 million euros at December 31, 2003 and 226 million euros a year earlier.

Financial sector subsidiaries hedge interest rate risk on their assets (issued with a fixed rate) with interest rate swaps, which enable them to refinance their debt at a fixed rate. The notional value of these swaps was 215 million euros as of December 31, 2003 and 206 million euros on December 31, 2002. The instruments mature mainly in 2004.

Lastly, the Group's private investments in yen are hedged by a EUR/JPY cross currency swap at 3-month Euribor. These various transactions were concluded under the EMTN program established in October 2002 (note 8a).

Commitments on companies outside the consolidation scope

Gazprom has a purchase option of 0.5 billion euros on a portion of the shares of the Slovak gas utility Slovenksy Plynarensky Priemysel (SPP). This option can be exercised until July 2004 (section C – 1.2 a).

In addition, the Group entered into simultaneous sale and purchase options on shares with the current shareholders of two Italian gas distribution companies (Arcalgas and Italcogim). These options can be exercised on a staggered basis between 2004 and 2007 for a total of 380 million euros.

Other financial commitments granted and received

In millions of euros	Dec. 31, 2003		Dec. 31, 2002	
	Commitments granted	**Commitments received**	**Commitments granted**	**Commitments received**
Lines of credit in foreign currencies (1)	2,258	2,258	1,832	1,832
Guarantees and endorsements	374	158	363	130
Performance bonds	74	6	80	4
Other	6	4	34	11
TOTAL	**2,712**	**2,426**	**2,309**	**1,977**

(1) *Since August 2002, Gaz de France has been extended a revolving credit line of 2 billion euros that will expire in 2007. The banks have the right to withdraw individually if control were to change hands.*

Note 20.b. Commodity commitments

Commitments related to natural gas

In order to meet customer demand for natural gas in the medium and long term, the Group secures its supplies through contracts that may last up to 25 years.

These contracts include reciprocal commitments referring to determined quantities of gas:

- a commitment by the Group to take delivery of minimum quantities;
- a commitment by suppliers to provide quantities at competitive prices.

This competitiveness is ensured by price adjustment formulas and clauses. Most of the Group's gas procurement is negotiated through such contracts.

As of December 31, 2003, the Group's commitments totaled 45 billion m^3 for 2004, 194 billion m^3 for the period 2005-2008 and 466 billion m^3 for 2009 and beyond.

In addition, the Group entered into forward purchases and sales of natural gas within the framework of its trading activities: purchases and sales of natural gas in spot markets and financially engineered sales to industrial customers; and at Gaselys, cash and carry campaigns and spread trading.

As of December 31, 2003, Group commitments within the year totaled 5 billion m^3 in forward purchases within the year and 6 billion m^3 in forward sales within the year.

In order to meet its commitments to take delivery of determined volumes of gas, the Group was led to enter into contracts to book land and sea transport capacities.

Finally, the subsidiaries in the exploration and production sector committed to make minimum quantities of natural gas available to their customers. The corresponding commitment represented 5 billion m^3 as of December 31, 2003, including 1 billion m^3 within the year.

Commitments related to oil and electricity

Within the framework of its trading activities, Gaz de France engages in forward purchases and sales of oil and electricity. As of December 31, 2003, these commitments were as follows:

In TWh	Oil	Electricity
Long position	12	4
Short position	10	4

In addition, the Group has electricity production capacities from gas of 16 TWh per annum for 22 years.

Derivative Instruments

Gaz de France uses derivative instruments to manage its exposure to fluctuations in the price of commodities. Swaps and options, generally backed by physical transactions concerning natural gas, are used as hedging instruments. Swaps allow a sale or purchase price to be fixed at the time of negotiation for a specified quantity of gas at a future date. They serve to secure and guarantee the margin on a commercial transaction, whatever the future price of gas. Options serve to guarantee ceiling prices for gas (calls) and sometimes floor prices (puts).

	Notional amount as of Dec. 31, 2003				Differential as of Dec. 31, 2003 *In millions of euros*	Notional amount as of Dec. 31, 2002 *In millions of euros*
	In millions of euros of GWh by maturity			*In millions of euros*		
	2004	2005	2006 and beyond			
OPTIONS (LONG POSITION)						
- Natural gas	2,129	-	-	22	-	62
- Oil	1,824	88	-	14	(1)	39
- Electricity	-	112	-	3	-	8
OPTIONS (SHORT POSITION)						
- Natural gas	1,606	-	-	15	(1)	63
- Oil	335	-	-	4	-	23
Electricity	-	112	-	3	-	9
SWAPS						
- Natural gas	30,629	5,096	377	482	29	118
- Oil	133,829	27,512	3,121	1,505	25	799

As of December 31, 2002, the commitment differential on derivative instruments was 14 million euros.

Consolidated commitments include 51% of Gaselys' commitments with third parties as well as 49% of Gaz de France's commitments with Gaselys.

Note 20.c. Counterparty risk

Gaz de France conducts a counterparty risk management policy based partly on systematic diversification of its counterparties, and partly on an evaluation of their financial situation.

Consequently, all the financial instruments used to manage its interest rate and exchange rate risks are contracted with counterparties with a rating (long term/short term) by Standard & Poor's or Moody's higher than A-/A3.

Energy counterparties of the trading subsidiary are evaluated and rated on the basis of financial analysis with reference, when available, to the counterparty's S&P or Moody's rating. According to the result of this financial evaluation and the Group's relations with the counterparty, Gaz de France may make use of legal instruments such as master netting arrangements (providing setoff of accrued payables and accrued receivables towards the same counterparty) or guarantee agreements (comfort letter, parent company guarantee, bank endorsement).

Finally, given Gaz de France's divisional structure, the customer risk associated with the supply of gas is largely confined to the Trading Division, whose customers are all eligible for the opening up of the market beginning on July 2004. Consequently, the customer risk is now being closely monitored by the Credit Committee, which meets with representatives from the Financial and Trading Divisions on a monthly basis. In addition to analysis of the major counterparties' capacity, this Committee is responsible for defining a governance framework for the management and monitoring of credit risk in Trading, on the eve of the opening up of the markets.

Note 20d. Other commitments

In millions of euros	Dec. 31, 2003		Dec. 31, 2002	
	Commitments granted	Commitments received	Commitments granted	Commitments received
Investment commitments	1,004	1,004	1,049	1,049
Rental commitments and related commitments	97	97	167	167
Commitments related to non-consolidated equity interest	165	165	201	201
Other	3	5	42	-
TOTAL	**1,269**	**1,271**	**1,459**	**1,417**

Commitments related to non-consolidated equity interest are mainly swaps. Gaz de France has subscribed to two financial instruments, the underlying entity of which is a service-sector company. These swaps, which have a nominal value of 165 million euros, allow the Group to benefit from the income on the securities as well as from any change in their value, while assuming the cost of their financing, i.e. approximately 5 million euros per year.

The commitments granted to banks by Gaz de France and its consolidated subsidiaries as a guarantee for loans contracted by consolidated subsidiaries are eliminated from consolidated commitments.

Note 20.e. Coverage of insurable risks

Following its identification of insurable risks (in particular those linked to damage to its own property as well as to damage to third parties, including environmental harm) initiated over the past few years, Gaz de France has instituted a policy of systematically transferring significant risks. Accordingly, the insurance policies taken out provide high coverage levels so that, in the event of a loss, the effect on the Group's financial situation would be limited.

In order to ensure that the coverage is coherent, the insurance management is centralized for the Group. This has allowed new projects at subsidiaries to be integrated within existing policies and influence brought to bear for majority-controlled subsidiaries.

Note 20.f. Other points

Gaz de France and its tax consolidated subsidiaries were subject to a tax audit for fiscal 2001 and 2002. The conclusions of the audits currently underway are expected to be known by the end of 2004.

In 2003, Gaz de France launched a general audit on the physical inventory of assets belonging to Distribution in France. The operation is designed to reconcile the book position as of January 1, 2004 with the technical files showing the actual position on that date. It will also be concerned with the accuracy of movements affecting business assets (date of commissioning, decommissioning, transfers).

Preliminary work to prepare reference data and validate the concept and methodology was completed in December 2003.

The impact of any inventory discrepancies on the financial statements for 2004 cannot be evaluated yet.

Note 21. Pension commitments and other commitments to employees

Note 21.a. Commitments related to post-employment benefits

1. Characteristics of the electricity and gas industry retirement plan

The retirement plan for regular electricity and gas industry employees is specific, legal and mandatory. The conditions for determining retirement benefits and for financing the plan, which were defined in the specific national code for these employees (decree of June 22, 1946) are the prerogative of the French government. The companies themselves have no legal right to adapt or modify the terms.

The plan is not an employer plan, but is part of legislation governing mandatory pension schemes as defined in article L 711-1 of the French Social Security code. It is not limited to nationalized utilities but includes all electricity and gas industry companies, whatever their legal status.

Gaz de France is a state-owned public utility with industrial and commercial activities that has obligations as well as rights and guarantees pursuant to its status.

2. Current financial obligations of Gaz de France

The French law transposing the European Directive on Electricity of February 10, 2000, which laid down the principle of the extension of the status of employees of the electricity and gas industries, led to the extension of the special retirement plan to new operators entering the French electricity and gas market. In article 46, it introduced provisions leading to a change in the presentation of the accounts of the Electricity and Gas Industries plan, which is now included in the financial statements of EDF.

Every year, Gaz de France records the Company's contribution to the pension plan in its financial statements. This contribution, which includes the expenses of compensation with the other legal retirement plan regulations, is determined by the application of a general average rate to an assessment basis of payrolls excluding premiums. In 2003, the contribution of Gaz de France amounted to 437 million euros (422 million euros in 2002) and the general average rate was 61.8% (60% in 2002).

3. Commitments related to pensions and other post-employment benefits

Pursuant to the recommendations of the CNC dated April 1, 2003 (2003-R.01), the commitments of Gaz de France are determined on an actuarial basis applied to all employees in electricity and gas industries.

This projected unit credit method incorporates estimates of:

- end-of-career, reflecting seniority, level of salary and a significant parameter of career advancement. It does not take inflation into account since the increase in basic salary is deemed to correlate with it;
- age of retirement, determined on the basis of criteria that are characteristic of employees in electricity and gas industries (years of active service, number of children for women);
- the number of retired persons, based on mortality tables (French Bureau of Statistics) and on a turnover rate based on statistics for employees in electricity and gas industries;
- payment of pensions to surviving spouses, incorporating life expectancy of employees and their spouses, and the percentage of married employees in electricity and gas industries.

Commitments are calculated using the following principles:

- they are evaluated on the basis of the rights vested as of the date of calculation;
- they are stated before deduction of the share financed by employee contributions. As an indication, at December 31, 2003, employee contributions totaled 56 million euros, and Gaz de France's employer contribution was 437 million euros;
- they are determined for all employees, both active and retired, who depend on the specific pension system in effect in the electricity and gas industries. The allocation of the relative share of each electricity and gas industry company is calculated pro rata to respective payrolls, excluding bonuses;

Under these conditions, using a discounted rate net of inflation of 3%, commitments related to pensions and other post-employment benefits are evaluated at 13.62 billion euros before taxes, of which 12.91 billion euros for pensions (12.51 billion as of December 31, 2002) and 0.71 billion euros for the following benefits – medical insurance, reduced energy prices, solidarity benefits, immediate benefits in the event of death, partial reimbursement of educational costs and lump sum payments at retirement.

The commitment for these benefits (excluding retirement pensions) was evaluated at 1.14 billion euros as of December 31, 2002. Its reduction by 0.43 billion is mainly due to a change in the valuation of obligations related to the benefit of discount energy prices (substitution of the assessment of actual outlay of resources without counterpart for the value of the energy supplied at the sale price).

These pension commitments and other post-employment benefits would involve a significant deferred tax asset.

Gaz de France took out insurance policies with several insurers towards its obligations in terms of pensions and lump-sum retirement benefits. As of December 31, 2003, the value of these contracts stood at 1.68 billion euros.

For pensions, payments to insurers totaled 0.37 billion euros in 2003 (identical amount to payments in 2002).

Finally, Gaz de France recorded a provision for retirement benefits in the amount of 137 million euros as of December 31, 2003 (unchanged from December 31, 2002). In 2003, for the first time, Gaz de France recorded a reserve of 27 million euros for special end-of-career leaves.

4. Reorganization of pension financing

At the request of the public authorities, Gaz de France and the other electricity and gas utilities opened discussions with four representative labor organizations in order to propose to the State a series of recommendations on how to reorganize the way the special electricity and gas industry pension scheme is financed. This initiative produced an agreement entitled "Reorganized the financing of the special retirement plan of the Electricity and Gas Industries" signed by the employer representatives and three labor organizations. This document was submitted to the Minister of the Economy, Finances and Industry on January 10, 2003.

The public authorities are currently consulting with the different parties in this reform and they have presented the principles of the projected reorganization to the European Commission, which has approved the accounting for it with Community rules (decision dated December 16, 2003). The reform is due to take effect in 2005, after the necessary legislative modifications have been made.

In addition to maintaining the special Electricity and Gas Industries plan, in organizational terms, this reform consists of creating a pension fund that manages all the benefits and obligations of the plan. It sets up financial agreements with the standard pension schemes (CNAV, AGIRC and ARRCO) for the portion of benefits corresponding to their own offerings. The reform finances, through a fixed rate contribution, the commitments introduced by the transmission and distribution activities, which correspond to the portion of benefits in excess of the benefits offered by the standard pension scheme at the date of the reform.

After reform, the gross commitments for pensions will be limited to the portion of benefits acquired in excess of the benefits offered by the standard scheme under general law and not financed by the fixed-rate contribution.

Note 21.b. Commitments related to long-term benefits granted to Gaz de France employees

These commitments represent 183 million euros, at a discounted rate net of inflation of 3% (173 million euros in 2002). They concern the following:

- disability allowances, allowances for industrial accidents, disease and disability compensation current at the year end (151 million euros);
- disability benefits due following temporary occupational incapacity (8 million euros);
- long-service benefits (seniority medals: 24 million euros).

Gaz de France has recorded a 24 million euro provision for seniority medals in France (25 million euros as of December 31, 2002).

In addition, in 2003, for the first time, Gaz de France recorded a provision of 151 million euros for pensions and benefits current at the year end (disability, occupational accident, occupational illness and disability).

Note 22. Workforce

The Group employed 38,101 people as of December 31, 2003, as compared with 37,853 as of December 31, 2002. The breakdown was 36,072 in fully consolidated companies and 2,029 for the share of companies consolidated on a proportionate consolidation method.

The average headcount for the period was 38,293 people with 36,118 in fully consolidated companies and 2,175 for the share of companies consolidated on a proportionate consolidation method. The corresponding payroll costs totaled 2,055 million euros in 2003, as compared with 1,984 million euros in 2002.

Note 23. Business segment reporting

The **Energy and Services offering branch** incorporates the following segments:

Exploration and Production

Through its consolidated subsidiaries and companies non-consolidated equity interest, Gaz de France Group has a portfolio of oil and gas assets, principally oil and gas-producing assets in the North Sea and Germany, and exploration and development fields in Algeria and Egypt. The E&P segment sells a major part of its production to the Supply, Trade and Sales division.

Supply, Trade and Sales

This segment comprises the Trading businesses. Sales deal with all customers, whether residential, commercial or other energy companies. Sales are made principally through Gaz de France and CFM Négoce in France, and through Gaz de France and GDF ESS in other European countries outside France. The Trading business is operated by Gaselys.

Services

The Services business consists of the provision of services related to the supply of energy, chiefly:

- the running and maintenance of heating and cooling production facilities, industrial maintenance, controlled environment facilities, and the management of industrial units (Cofathec Group);
- electricity production (Finergaz Group);
- natural gas vehicles (GNVert).

The **Infrastructures branch** incorporates all the transport and distribution businesses for the different segments:

Transmission, Storage, and LNG terminals in France

Gaz de France wholly owns and operates the network for the transmission of gas to its customers and, pursuant to European directives, to third parties. This segment also includes the management of LNG terminals and storage facilities as well as the Compagnie Française du Méthane (CFM) transmission business.

Distribution in France

This segment incorporates the management of distribution networks in France – investment, renovation, maintenance – mainly provided by Gaz de France.

The distribution networks are operated on a franchise system granted by local authorities.

International Transmission and Distribution

The Group owns holdings in a number of gas transmission and distribution companies, mainly in Europe (Germany, Hungary, Slovak Republic and Portugal) and in Mexico. Most of these companies also market gas.

Internal services are invoiced between segments at market price, and mainly involve the following services:

- between Supply, Trade and Sales and Transmission in France:

  reservation and utilization of supply capacities in the commercial gas transmission network. Compensation for this service is based on rates for Third-party Access to the Transmission Network approved by the French Energy Regulation Committee,

  reservation and utilization of storage capacities necessary for the marketing of gas;
- between Supply, Trade and Sales and Distribution in France: reservation and utilization of supply capacities in the commercial gas distribution network. Compensation for this service is based on the draft rates for Third-party Access to the Distribution Network proposed by the French Energy Regulation Committee.

In addition, indirect expenses are re-charged between segments.

The elimination of internal services in the consolidation process should be taken into account when segment indicators are reconciled with the financial statements.

December 31, 2003

In millions of euros Gaz de France Group	Energy and Services offering branch	Infrastructures branch	Other	Eliminations	Total
Net sales	15,161	6,525 [(a)]	60	(5,099)	16,647
EBITDA	950	3,169	15	-	4,134
Operating income	465	1,446	(32)	-	1,879
Net tangibles and intangibles	3,766	17,809	542	-	22,117

Energy and Services offering branch	Exploration and Production	Supply, Trade and Sales	Services	Eliminations	Total
Net sales	703	13,338	1,340	(220)	15,161
EBITDA	397	499	54	-	950
Operating income	145	316	4	-	465
Net tangibles and intangibles	2,824	333	609	-	3,766

Infrastructures branch	Transmission and Storage in France	Distribution in France	International Transmission and Distribu-tion	Eliminations	Total
Net sales	1,937	3,305	1,304	(21)	6,525
EBITDA	1,228	1,557	384	-	3,169
Operating income	609	598	239	-	1,446
Net tangibles and intangibles	6,350	8,603	2,856	-	17,809

(a) *Includes 1,647 of external net sales.*

The principal impact of changes in consolidation on the contribution of the Energy and Services offering branch as of December 31, 2003 was as follows:

- net sales: 210 million euros;
- EBITDA: 80 million euros;
- operating income: 18 million euros;
- net tangible and intangible assets: 1,534 million euros.

The principal impact of changes in consolidation scope on the contribution of the Infrastructures branch as of December 31, 2003 was as follows:

- net sales: 427 million euros;
- EBITDA: 169 million euros;
- operating income: 119 million euros;
- net tangible and intangible assets: 1,431 million euros.

December 31, 2002

In millions of euros Gaz de France Group	Energy and Services offering branch	Infrastructures branch	Other	Eliminations	Total
Net sales	13,381	6,024 [a]	38	(4,897)	14,546
EBITDA	500	2,768	24	-	3,292
Operating income	238	1,321	(8)	-	1,551
Net tangibles and intangibles	2,063	17,757	284	-	20,104

Energy and Services offering branch	Exploration and Production	Supply, Trade and Sales	Services	Eliminations	Total
Net sales	413	11,826	1,244	(102)	13,381
EBITDA	235	250	15	-	500
Operating income	46	207	(15)	-	238
Net tangibles and intangibles	1,309	195	559	-	2,063

Infrastructures branch	Transmission and Storage in France	Distribution in France	International Transmission and Distribution	Eliminations	Total
Net sales	1,883	3,106	1,061	(26)	6,024
EBITDA	1,166	1,368	234	-	2,768
Operating income	720	539	62	-	1,321
Net tangibles and intangibles	6,723	7,994	3,040	-	17,757

(a) *Includes 1,166 of external net sales.*

Note 24. Geographical segment reporting

Dec. 31, 2003

In millions of euros	France	Europe excluding France	NAFTA	Rest of the world	Eliminations	Consolidated
Net sales	14,096	2,897	142	11	(499)	16,647
EBITDA	3,366	725	39	4	-	4,134
Operating income	1,531	327	18	3	-	1,879
Net tangibles and intangibles	16,193	5,487	427	10	-	22,117

Dec. 31, 2002

In millions of euros	France	Europe excluding France	NAFTA	Rest of the world	Eliminations	Consolidated
Net sales	12,549	2,215	136	14	(368)	14,546
EBITDA	2,849	438	11	(6)	-	3,292
Operating income	1,470	157	(85)	9	-	1,551
Net tangibles and intangibles	15,630	3,954	509	11	-	20,104

Net sales are analyzed according to the geographical area where the sales originated.

Net sales analyzed by destination are detailed in note 10.

The Group's fixed assets are analyzed by the area in which they are located.

Note 25. Subsequent events

Unwinding of cross-holdings between Total and Gaz De France

To meet the changing market for natural gas in Europe, Gaz de France and Total signed an agreement of intent to unwind their cross-holdings in their joint transmission and natural gas supply companies in France, Gaz du Sud-Ouest (GSO 30%-owned by Gaz de France) and Compagnie Française du Méthane (CFM 55%-owned by Gaz de France).

Under the terms of this balanced agreement of intent, Gaz de France would become the sole shareholder of CFM, and Total the sole shareholder of GSO. In addition, Total would assume some of the trading business of CFM and a stake in the LNG terminal being built at Fos-sur-Mer.

It is not expected that there will be any negative impact on the shareholders' equity of the Gaz de France Group when this agreement takes effect.

Gaz De France increases stake in Egaz and Degaz

Gaz de France has increased its stake in the two Hungarian distribution companies, Egaz and Degaz, and it now holds almost all their capital, after buying out the stake of the Hungarian company Mol for a total of 44.3 million euros. This transaction is still subject to approval by the Hungarian Energy Office.

Egaz and Degaz are already fully consolidated.

Note 26. Exhaustive list of companies in the consolidated entity

Companies	Country	Consol. method 2003	Percentage interest 2003	Percentage interest 2002
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**
ENERGY AND SERVICES OFFERING BRANCH				
Exploration and Production				
GDF Britain Group	United Kingdom	F	100.00	100.00
Efog	United Kingdom	E	22.50	22.50
GDF Production Nederland	Netherlands	F	100.00	100.00
GDF Holding Noordzee	Netherlands	F	100.00	100.00
N.G.T.	Netherlands	P	38.57	38.57
GDF Exploration Algeria	Netherlands	F	100.00	100.00
GDF Exploration Egypt	Netherlands	F	100.00	100.00

Companies	Country	Consol. method 2003	Percentage interest 2003	Percentage interest 2002
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**
GDF Exploration Germany	Netherlands	F	100.00	100.00
GDF Exploration Poland	Netherlands	F	100.00	100.00
GDF Exploration UK	Netherlands	F	100.00	100.00
GDF Participation Nederland	Netherlands	F	100.00	100.00
E.E.G. Group	Germany	F	100.00	100.00
Gaz de France Produktion Exploration Deutschland	Germany	F	100.00	-
Gaz de France Norge	Norway	F	100.00	100.00
Production North Sea Netherlands	United States	F	100.00	100.00
Supply, Trade and Sales				
Messigaz	France	F	100.00	100.00
GDF International Trading	France	F	100.00	100.00
GDF Armateur	France	F	100.00	100.00
GDF Armateur 2	France	F	100.00	-
GDF Méthane Investissements 2	France	F	100.00	-
GazTransport et Technigaz	France	F	40.00	40.00
Compagnie Française du Méthane (CFM) et CFMH – Négoce	France	F	55.00	55.00
Méthane Transport	France	P	50.00	50.00
Gaselys	France	P	51.00	51.00
Gaselys UK	United Kingdom	P	51.00	51.00
GDF Energy Supply & Solutions Group	United Kingdom	F	100.00	100.00
Gaz de France Deutschland	Germany	F	100.00	100.00
Etac	Netherlands	E	25.00	25.00
Services				
Cofathec Group	France	F	100.00	100.00
Finergaz Group	France	F	100.00	100.00
GNVert	France	F	100.00	100.00
CGST Save Group	France	E	20.00	20.00
Thion Group	France	E	34.00	34.00

			Percentage interest	
Companies	Country	Consol. method 2003	2003	2002
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**
INFRASTRUCTURES BRANCH				
Transmission and Storage France				
Compagnie Française du Méthane (CFM) et CFMH – Transport	France	F	55.00	55.00
Gaz du Sud-Ouest (GSO)	France	E	30.00	30.00
Distribution in France				
Gaz de Strasbourg	France	E	24.90	24.90
International Transport and Distribution				
Sofregaz	France	E	34.00	34.00
Megal GmbH	Germany	P	43.00	43.00
Megal Finco	Cayman Islands	P	43.00	43.00
Gasag Group	Germany	P	31.57	31.57
E.V.O.	Germany	E	24.50	24.50
Segeo	Belgium	E	25.00	25.00
Portgas	Portugal	E	12.67	12.67
Degaz	Hungary	F	72.59	72.59
Egaz	Hungary	F	63.96	63.96
Pozagas	Slovak Republic	P	43.37	43.37
Slovensky Plynarensky Priemysel (SPP) Group	Slovak Republic	P	24.50	24.50
GDF Québec Group	Canada	F	100.00	100.00
Noverco Group	Canada	E	17.56	17.56
Energia Mayakan	Mexico	F	67.50	67.50
Servicios Mayakan	Mexico	F	67.50	67.50
Compania Gasoductos del Bajio	Mexico	F	100.00	-
Gasoductos del Bajio	Mexico	F	100.00	100.00
MI Comercializadora	Mexico	F	100.00	100.00
MI Consultadores	Mexico	F	100.00	100.00
MI Servicios	Mexico	F	100.00	100.00
Servicios Industriales de Energia	Mexico	P	50.00	50.00
Transnatural	Mexico	P	50.00	50.00
Consorcio Mexigas	Mexico	F	100.00	100.00
Natgasmex	Mexico	F	100.00	100.00
Tamaulipas	Mexico	F	100.00	100.00

Companies	Country	Consol. method 2003	Percentage interest 2003	Percentage interest 2002
GAZ DE FRANCE	**France**	**Parent company**	**Parent company**	**Parent company**
Gaseba	Argentina	F	100.00	100.00
Gaseba Uruguay	Uruguay	F	51.00	51.00
OTHER				
Coñac	France	F	100.00	100.00
GDF International	France	F	100.00	100.00
S.F.F	France	F	100.00	100.00
Société Immobilière Assomption La Fontaine	France	F	100.00	100.00
DK6	France	F	100.00	100.00
GDF Production Investissements	France	F	100.00	100.00
GDF Production Investissements Netherlands	France	F	100.00	100.00
GDF Berliner Investissements	France	F	100.00	100.00
Mexico Investissements	France	F	100.00	100.00
Gas del Sur	France	F	100.00	100.00
GDF Styrie Investissements	France	F	100.00	100.00
Laurentides Investissements	France	F	100.00	100.00
GDF Investissements 2	France	F	100.00	100.00
GDF Investissements 24	France	F	100.00	100.00
GNL Transport Investissements	France	F	100.00	100.00
GNL Marine Investissements	France	F	100.00	100.00
Pétrofigaz	France	P	54.72	54.72
SDIG Mc Cann Corporate	France	-	Deconsolidated	34.00
GDF Investment Netherlands	United Kingdom	F	100.00	100.00
Investment Gas Holland	United Kingdom	F	100.00	100.00
MI del Bajio Marketing	Netherlands	F	100.00	100.00
Merida Pipeline	Netherlands	F	67.50	67.50
Mayakan Pipeline	Netherlands	F	67.50	67.50
Slovak Gas Holding	Netherlands	P	49.00	-
Merida Holding	Barbados	F	67.50	67.50

Breakdown of 11 subgroups		
Cofathec Group	Compagnie Française des Activités Thermiques et Climatiques	France
	ADF Group (14 entities)	France
	APS Sinergia	Italy
	Aquatherm	Belgium
	Artault et Cie	France
	Aulnay Énergie Services	France
	Blanc Mesnil Énergie Services	France
	Busseuil	France
	Calliance	France
	Castagnetti	Italy
	Chaleur	Switzerland
	Chelles Chaleur	France
	Climespace	France
	Cofathec Benelux	Belgium
	Cofathec Énergie Services	France
	Cofathec Energy	United-Kingdom
	Cofathec Entreprise	France
	Cofathec GMI	Belgium
	Cofathec Heatsave	United-Kingdom
	Cofathec International	France
	Cofathec Italia	Italy
	Cofathec Jacorossi Progetti	Italy
	Cofathec Maintenance	France
	Cofathec Projis	France
	Cofathec Rueda	Belgium
	Cofathec Sales	United-Kingdom
	Cofathec Service Industria	Italy
	Cofathec Services	France
	Cofathec Servizi	Italy
	Cofathec UK	United-Kingdom
	Coriance	France
	Cottier Équipements	France
	Danto Rogeat	France
	Énergie Meaux	France
	Gennedith	France

	Globalia	France
	Korb	Belgium
	Korb Service	Belgium
	Les Mureaux Énergie Services	France
	Minerg Appelsa Services	Switzerland
	Neu Montage Maintenance	France
	Nuova Sipe	Italy
	Omega Concept	France
	Omega Concept Italie	Italy
	Pictet	France
	Prasi	Italy
	Raichon Fluides et Énergies	France
	R+M Réalisation et Maintenance	France
	Ris Énergie Services	France
	Saccir	Italy
	SEP Les Gresilles	France
	SEP Opération Saint Michel	France
	S.E.P.T.	France
	Stade Énergie SAS	France
	Servizi Lombardia	Italy
	SI Servizi	Italy
	SI Servizi Adriatica	Italy
	SI Servizi Umbria	Italy
	Sofredith	France
	Sogit	France
	Somoclim	Monaco
	Société Thermique de La Doua	France
	Société Thermique de Salon-de-Provence	France
CGST Save Group	CGST SAVE	France
	H. Saint-Paul	France
	PROMODO Group (16 entities)	France
	Depann'Gaz Services	France
Finergaz Group	Finergaz	France
	Société de Cogénération de Montoir	France
	Ficobel	France
	Compagnie de Cogénération de Champblain	France

	Société Gardannaise de Cogénération	France
	Société Girondine de Cogénération	France
	Gensel	France
	Compagnie de Cogénération de la Braye	France
	Figenal	France
	Corely	France
	Isergie	France
	FINergaz Énergie Services	France
	SEP Michelin Joué-les-Tours	France
	SEP Michelin Bourges	France
	SEP Michelin Montceau-les-Mînes	France
	SEP Michelin Roanne	France
	SEP Michelin Poitiers	France
	SEP SKW Rousselot	France
	Compagnie de Cogénération de la Dordogne	France
	COBEFI	France
	GIE Étoile Bassens	France
	Compagnie de Cogénération de la Vologne	France
	INCO	France
	EUROFIN	France
	Société de Cogénération de Chalampé	France
Thion Group	Ne Varietur	France
	Thion & Cie	France
	Arizzoli, Bernard et Perre	France
	Bes	France
	Charbonnière de Saône-et-Loire	France
	Curchal	France
	Decoparc	France
	Gie Dalkia Soccram	France
	Gie Soccram Dalkia	France
	Jesel & Widemann	France
	Juratrom	France
	Maison Balland Brugneaux	France
	SC2M	France
	Scider	France
	Sicar	France
	Soccram	France

	Socomin	France
	Soparec	France
	Sotrapac	France
	Storapro	France
	Tournaux	France
	Trottier Escribe	France
GDF Britain Group	GDF Britain	United-Kingdom
	Gaz de France Britain E&P Ltd (ex CalEnergy Gaz UK)	United-Kingdom
GDF Energy Supply & Solutions Group	GDF Energy Supply & Solutions	United-Kingdom
	Gaz de France Marketing Ltd	United-Kingdom
	Gaz de France Sales Ltd	United-Kingdom
	Gaz de France Services Ltd	United-Kingdom
	Gaz de France Solutions Ltd	United-Kingdom
S.P.P. Group	Slovensky Plynarensky Priemysel	Slovak Republic
	Geoterm Kosice	Slovak Republic
	Interkvet	Slovak Republic
	Nafta Group (9 entities)	Slovak Republic
	Probugas	Slovak Republic
	Prva paroplynova spolocnost	Slovak Republic
	Slovgeoterm	Slovak Republic
	Slovrurgas	Slovak Republic
	SPP Bohemia	Czech Republic
Gasag Group	GASAG	Germany
	BAS	Germany
	BEGA.tec	Germany
	HSW	Germany
	E.M.B.	Germany
	GASAG WärmeService	Germany
E.E.G. Group	Erdgas Erdöl GmbH	Germany
	E.E.G.T.	Germany

	Kazgermunai	Kazakhstan
	VEGO OEL	Germany
GDF Québec Group		
	GDF Québec Inc	Canada
	BELLC	United States
	Intragaz Holding	Canada
	Intragaz Sec	Canada
	Intragaz Holding Limited Partnership	Canada
	Intragaz Energy Limited Partnership	Canada
	Intragaz US Inc	United States
	MEG International	Canada
	MEG Holding US	United States
Noverco Group	Noverco Inc	Canada
	Gaz Metropolitain Inc	Canada
	Gaz Metropolitain Sec	Canada

20.1.3.2. Report of the Statutory Auditors on the consolidated financial statements for the year ended December 31, 2003

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 and this is presented after 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, together with the statutory auditors' report addressing financial and accounting information in the Presidents' report on internal control, should be read in conjunction with French law and professional auditing standards applicable in France.

Statutory Auditors' Report on the consolidated financial statements

(Free translation of a French language original)

In compliance with our assignment, we have audited the accompanying consolidated financial statements of Gaz de France for the year ended December 31, 2003.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities and financial position of the Group as of 31 December 2003, and of the results of the Group's operations included in the consolidation for the year then ended, in accordance with French accounting principles.

Without qualifying our opinion, we draw attention to the matter disclosed in Note C-2.1 to the consolidated financial statements relating to the conditions of the first application to certain provisions for site restoration of CRC regulation 00-06 on liabilities.

Justification of our assessments

Justification of our assessments

In accordance with the requirements of article L. 225-235 of the Commercial Code relating to the justification of our assessments, which came into effect for the first time this year, we bring to your attention the following matters:

- As stated in Note B to the consolidated financial statements, Gaz de France applies, for exploration and production activities, accounting principles as defined by American standards. Namely the acquisition of Preussag Energie was accounted for following these principles (Note C-1.1.a). As part of our assessment of significant estimates used for the preparation of the financial statements, we have examined the conditions of such application and namely the allocation of purchase prices. We carried out an assessment of the reasonableness of these estimates.
- As stated in Note D-1 to the consolidated financial statements, Gaz de France carried out impairment tests on tangible and intangible long living assets for which there was an indication of a potential impairment loss. As part of our assessment of significant estimates used for the preparation of the financial statements, we have examined the methodology applied by the company and parameters used for these accounting estimates and ensured the reasonableness of accounted values in the books.
- As stated in Notes B, D-7.a and D-13.b to the consolidated financial statements, Gaz de France, in the course of its business, provides for replacement of franchised gas distribution assets in France and for restoration of certain sites. As part of our assessment of significant estimates used for the preparation of the financial statements, we ensured that hypothesis and the calculation methodology of provisions reflect the best estimate of the company of its obligations in connection with current regulatory requirements.
- Note D-21 to the consolidated financial statements relating to pension commitments and other commitments related to post-employment benefits describes the features of the electricity and gas industry retirement plan and indicates the amount of the obligation of Gaz de France resulting from this plan as well as the value of subscribed insurance contracts to deal with obligations. This Note also indicates the process in progress relating to the reorganization of the way the electricity and gas industry retirement plan is financed. As part of our assessment of significant estimates used for the preparation of the financial statements, we have examined data and actuarial assumptions used for the calculation of the engagement as well as the information disclosed by the company; for remainder purposes, these engagements are not provided for, in accordance with the alternative treatment as laid out by applicable French regulation. We have carried out the assessment of the reasonableness of the estimates.

Our assessments on these matters were made in the context of the performance of our audit of the consolidated financial statements taken as a whole and therefore contributed to the development of the unqualified audit opinion expressed in the first part of this report.

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 with regard to its fair presentation and conformity with the consolidated financial statements.

March 17, 2004

The Statutory Auditors

Mazars & Guérard

Michel Barbet-Massin, Xavier Charton

Ernst & Young Audit

Patrick Gounelle, Philippe Hontarrède

20.2. Dividend policy

The following table shows the dividends paid by the Company for the last three fiscal years:

	2004 (1)	2003	2002
Dividends (in millions of euros)	418	318	456
Number of shares (in millions)	903	-	-
Dividend per share (in euros)	0.46	-	-

(1) *The number of shares and dividends per share was revised to be coherent with the decision of the general shareholders' meeting held on April 28, 2005 authorized the division of the number of shares by two, bringing the composition of the share capital to 903 million instead of 451.5 million. With this number of shares, the 2004 dividend per share would have been €0.464 instead of €0.927, approved by the general shareholders' meeting on May 29, 2005.*

The board of directors will submit for the approval of the general shareholders' meeting the distribution to each share of the Company of a net dividend of €0.68 per share for 2005, a 48% increase compared with 2004. The total dividend paid for 2005 increased 60%, which is beyond the goal announced by the Group at the time of the initial public offering of shares, or 40%.

The Group plans to pursue a dynamic dividend distribution policy. The dividend's growth will be in excess of the objectives presented at the time of the IPO. The Group envisions a dividend above 1 euro per share starting in 2006. This objective in no way constitutes an undertaking by the Company, and future dividends will be determined for each year based on the Company's revenues, its financial situation and all other factors deemed relevant by the board of directors in preparing proposals for the general shareholders' meeting.

20.3. Legal proceedings and arbitration

Gaz de France is involved in a number of legal and arbitration proceedings in the ordinary course of business. Neither Gaz de France nor any of its subsidiaries are or have been party to any legal or arbitration proceedings, during the last 12 months, likely to have in the future, or having had in the recent past, a significant impact on the business, operating results, the financial situation or profitability of the Group. Gaz de France is not aware of any potential legal or arbitration proceedings that would be likely to have such an impact.

The total amount claimed against Gaz de France and its subsidiaries in the context of ongoing legal or arbitration proceedings is less than €100 million.

The Group is party to legal proceedings relating to the LNG terminal under construction at Fos Cavaou, described in paragraph 6.1.3.1.2.2 - "Major Infrastructures". The Prefect of the Bouches du Rhône department, in an order dated December 15, 2003, authorized Gaz de France to operate an LNG terminal at Fos Cavaou, in accordance with the French ICPE regime. A planning permit was issued the same day by an order of the Prefect. The planning permission has been challenged under two petitions for cancellation filed with the Administrative Court of Marseilles, one by the municipality of Fos sur Mer, the other by the Syndicat d'Agglomération Nouvelle ("SAN"). No decision has been rendered in respect of either petition. The operating permit issued under the ICPE regime is also the subject of two petitions for cancellation before the Administrative Court of Marseilles, one filed by the "Association de Defense et de Protection du Littoral du Golfe de Fos sur Mer" (Association for the Defense and Protection of the Fos sur Mer Gulf Coastline – "ADPLGF"), and the other brought by a private individual. The complaint filed by ADPLGF included a request for a preliminary injunction, which was rejected in a decision issued on October 12, 2004 by the "Juge des référés" of the Administrative Court of Marseilles. The plaintiff association has appealed this decision to the highest competent court, the Council of State, but its request has not yet been accepted.

At the end of 2003, Gaz de France was indicted for involuntary manslaughter and injury in a criminal investigation initiated following an explosion on December 4, 1999 in Dijon, causing the death of 11 persons. Under an order dated December 22, 2005, Gaz de France was ordered to appear before the correctional Court. The trial was held from February 20 to February 24, 2006. Under a judgment dated February 23, 2006, the correctional Court of Dijon ordered Gaz de France to pay a fee of €200,000 for involuntary homicide and €4,500 for involuntary injury. Gaz de France appealed this decision on April 3, 2006.

On December 26, 2004, a gas explosion at 12 rue de la Martre in Mulhouse, France resulted in 17 deaths and significant material damage. The judicial investigation opened for homicides and involuntary injury is currently under way. On December 14, 2005 the investigating judge met with the families to keep them informed following the filing of the reports of the judicial experts. According to the information communicated by the press, this report attributes the cause of the explosion to a "crack" in Gaz de France's distribution gas conduits the day after the explosion. On March 21, 2006, the investigating judge questioned Gaz de France. The risk run by individuals is a monetary penalty for involuntary manslaughter: the maximum penalty in case of recklessness or negligence is €225,000 and in the case of a deliberate violation of the security obligation imposed by law or regulation, €375,000. To this primary penalty may be added a penalty for involuntary injury for which the amount varies according to the "TWD rate" (Temporary Work Disability) for injured persons.

20.4. Absence of significant change in the commercial or financial situation

There has been no significant change in the commercial or financial situation of the Group since January 1, 2005.

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ADDITIONAL INFORMATION

21.1. General information concerning the share capital of the Company

21.1.1. Share capital

As of the date of registration of this *Document de Référence*, the Company's share capital amounts to €983,871,988 with a par value of €1 each, all of which are fully subscribed for and are fully paid.

As of January 1, 2005 the Company's share capital amounted to €903,000,000, divided into 451,500,000 shares with a par value of €2 each, all of which were fully subscribed for and were fully paid.

The General Shareholders' Meeting held on April 28, 2005 decided to decrease the par value of the shares to €1 per share and authorized the Board of Directors to proceed with share capital increases. Pursuant to this authorization, the Board of Directors at its June 22, 2005 meeting made the following decisions in the context of the Company's initial public offering and listing on Eurolist by Euronext Paris:

- to increase the share capital through a public offering with a par value of €70,323,469 through the issuance of 70,323,469 new shares with a par value of €1 each,
- under the conditions and within the limits of the overallotment option subscription, to increase share capital up to an additional maximum par value of €10,548,519 by the issuance of 10,548,519 new shares with a par value of €1 each. The overallotment option mentioned above having been exercised, this additional share capital increase was carried out in full.

21.1.2. Irredeemable securities

Gaz de France issued irredeemable securities *(titres participatifs)* in 1985 and 1986 in two tranches, A and B. Only the irredeemable securities in Tranche A remain outstanding, since the Tranche B irredeemable securities were fully redeemed in 2000. The irredeemable securities in Tranche A, which have a nominal value of €762.25 per security, include the right to receive two income streams, one of which is fixed and the other of which is variable. The fixed portion is calculated by applying an interest rate equal to 63% of the French average bond rate *(taux moyen obligataire)* and the variable portion is determined on the basis of the "value added" of Gaz de France. The total annual amount of income payable may not be less than 85% of the average bond rate or more than 130% of the average bond rate. As of December 31, 2005 there were 629,887 irredeemable securities from Tranche A outstanding, with a total par value of €480,131,365.75. Their total market value, based on the closing price on December 30, 2005 (€965), was €607,840,955. Since August 1992, Gaz de France may redeem these securities at its option, in whole or in part, at a price equal to 130% of their nominal value.

Income payable per unit in respect of the outstanding irredeemable securities over the past three years

(in euros)	2003	2004	2005
Fixed payment	21.44651	21.64820	18.54120
Floating payment	28.49367	32.53893	34.79366
Total theoretical payment	49.94018	54.18713	53.33486
Minimum payment	28.93577	29.20790	25.01590
Maximum payment	44.25471	44.67090	38.25961
Gross payment per security	44.25471	44.67090	38.25961

Gaz de France is subject to the provisions of Articles 242-1 *et seq.* of French Decree No. 67-236 dated March 23, 1967, which applies to issuers of irredeemable securities. Under Article 222 of this decree, such an issuer must publish in the *BALO* the convocation notice for the General Shareholders' Meeting for the holders of irredeemable securities, except if all the securities are issued in registered form.

Variation in the share price lows and highs and the volume of transactions for Gaz de France's irredeemable securities

	Volume of securities	Share price *(in euros)*	
		High	Low
2003			
September	1,924	935	920
October	346	931	886
November	325	899	890
December	113	910	895
2004			
January	326	918	900
February	473	920	905
March	360	940	910
April	2,202	959	940
May	733	955	948
June	504	959	951
July	448	965	955
August	203	968	960
September	1,473	977	966
October	703	978	939
November	578	963	954
December	932	963	955
2005			
January	1,263	970	961
February	304	977	966
March	648	975	970
April	304	979	970
May	226	980	975
June	442	989	975
July	170	981	977
August	163	987	977
September	139	992	980
October	470	990	955
November	238	969	955
December	266	965	953
2006			
January	245	965	951
February	878	959	946

Stock exchange information: Reuters.

In October 2002 Gaz de France implemented a debt issuance program for the issuance of Euro Medium Term Notes (**"EMTN"**). Under this program Gaz de France completed two bond issuances (Series 1 and 2) on February 19, 2003 with a fixed interest rate and par values equal to €1.25 billion and €750 million, respectively. This program was revised in December 2004 so that the total authorized par value equalled €4 billion (registered with the *Autorité des marchés financiers* on December 7, 2004 under the number P.04-209).

The total amount of Gaz de France's bond obligations was €2,070,000,000 as of December 31, 2005.

Principal characteristics of the bonds issued by Gaz de France

Issuance	Currency	Interest rate	Maturity date	Amount issued (in foreign currency) *(in millions)*	Listing	ISIN code
EMTN	Euros	4.75%	February 19, 2013	1,250	Euronext Paris Luxembourg stock exchange	FR0000472326
EMTN	Euros	5.125%	February 19, 2018	750	Euronext Paris Luxembourg stock exchange	FR0000472334
Private placement	Euros	3 mo. Euribor	December 22, 2006	30	Euronext Paris	FR0010036665
Private placement	Japanese Yen	Japanese Yen 6 mo. Libor +0.05%	December 19, 2006	5,000	Luxembourg stock exchange	FR0010036632
Private placement	Japanese Yen	0.658%	March 26, 2009	3,000	None	FR0010069534

For more information on the bonds issued by Gaz de France see paragraph 20.1.1.1 – "Consolidated financial statements as of December 31, 2005 under IFRS/ Notes/ Note 11.

Gaz de France also uses short-term financing programs (commercial paper, Euro Commercial Paper and US Commercial Paper). Gaz de France must fulfill its obligations as an issuer of negotiable debt. These obligations are dictated by the terms of French Decree No. 92-137 dated February 13, 1992 and its related order effective from February 13, 1992. Under these texts the issuers of negotiable debt must create a financial presentation file concerning its business, financial situation and issuance program. This file is updated each year following the General Shareholders' Meeting called to approve the financial statements for the previous year. In addition, Gaz de France is obligated to update the financial file immediately following any modification relating to the ceiling for the amount outstanding, to its rating, as well as any change which is likely to have a material impact on the outlook for the issued securities or the repayment of the debt issued under the debt issuance program. These updates are sent to the Banque de France. The Company makes the financial file and its updates available to the *Autorité des marchés financiers*.

21.1.3. Purchase by the Company of its own shares

As of the date of filing of this *Document de Référence*, neither the Company nor any of its subsidiaries hold any of the Company's shares.

Authorization granted by the General Shareholders' Meeting on April 28, 2005

The General Shareholders' Meeting held on April 28, 2005 adopted resolutions authorizing the Board of Directors to purchase the Company's own shares for the following purposes:

- the implementation of a corporate savings plan under the conditions of French law, including Articles 443-1 *et seq.* of the French Labour Code;
- to deliver of shares (by exchange, payment or otherwise) in the context of external growth transactions;

- to deliver of shares following the exercise of rights attached to securities giving access to the share capital through redemption, conversion, exchange, presentation of a warrant or in any other manner;
- the cancellation of all or part of the repurchased securities, subject to the adoption by the General Shareholders' Meeting of a resolution granting to the Board of Directors the power to reduce the share capital by cancelling treasury shares (resolution adopted by the General Shareholders' Meeting on the same day); or
- to make them available in the context of a liquidity contract signed with an investment services provider.

This repurchase program is also intended to allow the Company to accomplish any other goal authorized or which may be authorized under French laws and regulations currently in force, in which case the Company will notify its shareholders by press release.

The number of shares repurchased by the Company may be in an amount such that:

- the number of shares bought by the Company during the share repurchase program does not exceed 5% of the shares constituting the Company's share capital, so that at any time this percentage applies to share capital as adjusted for transactions that impact the share capital and occur after the General Shareholders' Meeting on April 28, 2005; and
- the maximum number of shares held by the Company at any time does not exceed 10% of the shares constituting the Company's share capital.

The maximum share repurchase price and the minimum sale price must be equal to 200% and 50%, respectively, of the price of the shares offered in the context of the initial public offering and listing of the shares on Eurolist by Euronext Paris, excluding acquisition costs.

As a result, the total amount that may be affected by the share repurchase program may not exceed €1.5 billion.

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 par value of the shares, an increase in the share capital through the incorporation of reserves, the grant of free shares, the division or regrouping of securities, the distribution of reserves or all other assets, the repayment of share capital and all other transactions relating to shareholders' equity.

This authorization, given to the Board of Directors for 18 months, has not been used as of the date of registration of this *Document de Référence*.

21.1.4. Other securities giving access to the share capital

As of the date of registration of this *Document de Référence*, the shares described in paragraph 21.1.1 – "Share capital" above are the only securities giving access to the share capital of the Company.

A portion of these securities may give rise to the grant of free shares under the conditions described in paragraph 21.1.7.2 – "Shares granting the right to free shares".

21.1.5. Subscribed for but not paid-up share capital, share capital increase commitments

As of the date of the filing of this *Document de Référence*, there is no subscribed but not fully paid share capital, nor any acquisition rights or obligations attached to the subscribed share capital, nor any commitment to carry out a share capital increase.

The Company's shareholders granted to the Board of Directors at the General Shareholders' Meeting held on April 28, 2005 the authorizations described below:

Relevant securities	Authorization period and expiration date	Maximum par value of capital increase *In millions of euros*
Issuances with preferential subscription rights Share capital increases from all types of securities	26 months June 28, 2007	200 (2) (this maximum global amount is counted against the maximum global par value amount of €200 million)
Issuances without preferential subscription rights (1) Share capital increases from all types of securities	26 months June 28, 2007	200 (2) (this maximum global amount is counted against the maximum global par value amount of €200 million)
Share capital increases by including premiums, reserves, profits or other	26 months June 28, 2007	200 (this maximum global amount is counted against the maximum global par value amount of €200 million)
Employee offerings Savings plans participants	26 months June 28, 2007	30 (this maximum global amount is counted against the maximum global par value amount of €200 million)
Repurchase plan (3)	18 months October 2006	1,500 or 5% of the share capital

(1) *This authorization to increase the share capital was used at the time of the initial stock market listing of the Company in the amount of €80,871,988.*
(2) *The authorization adopted by the General Shareholders' Meeting on April 28, 2005 granted to the Board of Directors the ability to increase the number of securities to be issued in case of a share capital increase with or without preferential subscription rights at the same price as offered for the initial public offering, within the time constraints and limits provided by applicable regulations.*
(3) *The General Shareholders' Meeting on April 28, 2005 authorized, for a 26-month-period, the Board of Directors to reduce the share capital of the Company through the cancellation of all shares held by the Company (the maximum number of shares that may be cancelled by the Company under this authorization, for a 24-month period, is 10% of the shares that form the share capital).*

21.1.6. Share capital subject to an option

As of the date of registration of this *Document de Référence*, the Company's share capital is not subject to any option or agreement.

The options relating to the share capital of certain companies belonging to the Group and agreements relating to the placement of the share capital of certain companies belonging to the Group are described in paragraph 6.1.3.1.2.2.1.1.5 – "Short-term markets: Gaselys" and paragraph 6.1.3.2.3.2.2.1 – "Europe."

21.1.7. Changes in the share capital over the last three years

Date	Event	Resulting amount of share capital
November 17, 2004	French Decree No. 2004-1223 dated November 17, 2004	€903,000,000
April 28, 2005	Division of the par value of the shares by two	€903,000,000
July 7, 2005	Opening of the share capital – Increase in the share capital to €70,323,469	€973,323,469
July 8, 2005	Exercise of the Overallotment Option – Increase in the share capital by €10,548,519	€983,871,988

21.1.7.1. Initial public offering of the Company's share capital

The initial public offering of the Company's share capital included the following:

- an International Offering to institutional investors inside and outside France, for a price of €23.40 per share;
- an Open Price Offering to individual investors in France, for a price of €23.20 per share; and
- an Employee Offering, for a price of €18.56 per share for the pricing formulas with a discount and €23.20 for the pricing formulas without a discount.

The initial public offering (excluding the Employee Offering) was conducted such that 50% was offered in the Open Price Offering and 50% was offered in the International Offering (excluding the overallotment option).

Trading in Gaz de France's shares on Eurolist by Euronext Paris commenced at 12:00 p.m. on July 8, 2005.

This initial public offering was conducted through the offer by French State of 90,980,990 shares and Gaz de France of 80,871,988 (after the exercise of the overallotment option on July 8, 2005). In addition the French State offered 30,326,995 shares (after the exercise of the overallotment option on July 8, 2005) to the Company's personnel and certain former personnel, as well as certain subsidiaries in the context of the Employee Offering.

These events did not modify the voting rights of the shares, as described in paragraphs 18.2 – "Voting rights" above and 21.2.3 – "Rights, privileges and restrictions attached to the shares" below.

21.1.7.2. Shares granting the right to free shares

The free shares mentioned in paragraphs 21.1.7.2.1 and 21.1.7.2.2 will be given by the French State to their beneficiaries and will not give rise to the issuance of new shares.

21.1.7.2.1. The grant of free shares in the context of the Open Price Offering

Individuals with French nationality or which are residents of France or of another state which is party to the agreement on the European Economic Area ("EEA") who acquired Gaz de France shares at the time of the Company's initial public offering in the context of the Open Price Offering, either through reservations or through "A" Orders (priority orders) have the right to:

- the grant of one free share for every 10 shares acquired and held for at least 18 months. Regardless of the initial amount, the right to free shares is calculated with reference to an initial purchase corresponding to no more than €4,575; and
- the waiver of deposit charges for a period of 18 months from the date of settlement/delivery of the shares purchased in the context of the Open Price Offering.

Individuals with French nationality or which are residents of France or of another state which is party to the EEA agreement who 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 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, do not have the right to free shares nor to the waiver of deposit charges.

The terms and conditions governing the grant of free shares and the waiver of deposit charges are more fully described in paragraphs 2.3.3.4 and 2.3.3.5 of the *Note d'Opération* which was granted a visa by the AMF on June 22, 2005.

21.1.7.2.2. The grant of free shares in the context of the Employee Offering

In the context of the Employee Offering, the employees of Gaz de France or of one of its subsidiaries, located in France or abroad, in which Gaz de France holds directly or indirectly the majority of the share capital on the opening day of the Employee Offering and certain former employees (the "Beneficiaries") could subscribe to Gaz de France shares giving them the right to receive free shares in the following proportions:

- the "Gaz Dispo" formula: one free share for every three shares acquired and held continually for one year, up to a total value of free shares equal to €1,258 per subscriber under all the formulas;
- the "Gaz Plus" formula: one free share for every two shares acquired and held continually for three years, up to a total value of free shares equal to €700 and beyond that amount, one free share for every four shares acquired, up to a total value of free shares equal to €1,258 under all the formulas;
- the "Gaz Abond" formula (reserved to Beneficiaries that were employed, retired or pre-retired from companies participating in a group savings plan (known by the French acronym "PEG") (other than foreign branches) provided that such persons are eligible for PEG, and the employees of foreign branches and subsidiaries participating in an international group savings plan (known by the French acronym "PEGI"), provided that such persons are eligible for PEGI): one free share for every share acquired and held continually for three years, up to a total value of free shares equal to €700 and beyond that amount, one free share for every four shares acquired, up to a total value of free shares equal to €1,258 under all the formulas;
- the "Gaz Transfert" formula (reserved to Beneficiaries eligible for PEG who have kept in the former Gaz de France Plan savings that are still available at the opening date of the Employee Offering): one free share for every four shares acquired and held continually for three years, up to a total value of free shares equal to €700 and beyond that amount, one free share for every six shares acquired, up to a total value of free shares equal to €1,258 under all the formulas.

Proportions of free shares granted to Beneficiaries that have acquired Gaz de France shares in the context of the Employee Offering

	"Gaz Dispo"	"Gaz Plus"	"Gaz Abond"	"Gaz Transfert"
Retention condition	Continuous ownership of the shares for one year	Continuous ownership of the shares for three years		
Free share allocation	One free share for every three shares acquired	One free share for every two shares acquired up to €700 of free shares	One free share for every share acquired up to €700 of free shares	One free share for every four shares acquired up to €700 of free shares
		One free share for every four shares acquired, beyond that	One free share for every four shares acquired, beyond that	One free share for every six shares acquired, beyond that
	Up to a maximum of 1,258 of free shares per subscriber under all formulas			

The main characteristics of the Employee Offering are described in section 2.3.4 of the *Note d'Opération* which was granted a visa by the AMF on June 22, 2005, and in particular describes untransferability and unavailability conditions of the shares acquired or the means for holding them and the deposit charges, as well as all the advantages granted to the Beneficiaries in the context of the Employee Offering (especially the discount and employer contribution).

21.1.7.3. The Company's Shareholders

Under the terms of Article 9.2 of the by-laws, in order to identify its shareholders, the Company may request that any entity or nominee, in accordance with applicable legal and regulatory provisions and subject to the sanctions provided for by the French Commercial Code, provide information permitting the identification of the Company's shareholders with current or future voting rights at its shareholders' meetings and in particular the number of shares held by each.

The Company had a study completed in November 2005 of its securities with identifiable shareholders (known by the French acronym "TPI"), permitting it to identify 1,242,454 shareholders holding at least 10 shares, of which 1,230,111 were individual shareholders and 12,343 institutional investors.

According to this study, as of November 30, 2005 the share capital of the Company breaks down as follows:

Shareholders	Percentage of the share capital
French State	**80.2%**
Public, of which:	**17.5%**
- institutional investors	11.4%
- individual investors	6.1%
Employees	**2.3%**

21.2. Incorporating documents and by-laws

21.2.1. Corporate purpose

Gaz de France's corporate purpose appears in Article 2 of the by-laws:

"The Company's corporate purpose, in France and abroad, is:

a) search for, produce, import, export, buy, transport, store, distribute, furnish and commercialize combustible gas as well as any other energy source;

b) engage in gas trading as well as any other energy source;

c) furnish services connected with the previously mentioned activities;

d) ensure the performance of the public service obligations of Gaz de France in the energy sector as defined under currently applicable laws and regulations, including in particular French Law No. 46-628 dated April 8, 1946 concerning the nationalization of the electricity and gas industry, French Law No. 2003-8 dated January 3, 2003, concerning the gas and electricity markets and energy public service, as well as French Law No. 2004-803 dated August 9, 2004, concerning gas and electricity public service and gas and electricity companies;

e) enter into any transactions or participate in any type of activity directly or indirectly connected to the previously mentioned activities, or which ensure the development of the company's asset base, including research and development activities, through the creation of companies or new enterprises, contributions, the subscription or sale of securities or right with respect to entities, acquisitions of interests and equity stakes, in any form whatsoever in any company or enterprise, existing or to be created, through a merger, association or in any other manner;

f) create, acquire, rent, lease or manage any moveable property, real estate or business, rent, install, operate any establishment, business, factory, workshop related to any of the previously mentioned activities;

g) take, acquire, operate or sell any business process or patent related to the previously mentioned activities; and

h) more generally, carry out transactions and business activities of all types, whether industrial, commercial, financial or relating to moveable property or real estate, including services or research, directly or indirectly related, in whole or in part, to any of the business purposes mentioned above, or to any similar, complementary or connected business purpose, as well as any which aids the development of the company's business."

21.2.2. Statutory provisions relating to the administrative bodies – Internal Regulations of the Board of Directors

See chapter 16 – "Board Practices".

21.2.3. Rights, privileges and restrictions attached to the shares

The Company's shares all belong to the same class. The by-laws do not contain any provision that discriminates between shareholders based on certain shareholders holding a substantial number of shares.

Except in the cases where the law otherwise provides, each shareholder has as many voting rights in shareholders' meetings as the number of paid-up shares it owns (to the extent that the payment of such shares has been called-up by the Company). There are no provisions in the by-laws that grant double voting rights or multiple votes per share for Gaz de France shareholders.

Under the terms of Article 10 of the by-laws of the Company, each share gives the right to ownership of the Company's assets, division of the profits and payment upon dissolution, in a portion proportional to the quantity of share capital owned. Unclaimed dividends are payable to the French State five years after the date on which the dividends were payable.

All securities, whether old or new, shall be entirely assimilated provided that they are of the same type, that they have been equally paid-up and that they have the same rights; in case of a profit distribution, as well as in case of a partial or total redemption of their nominal capital, they will receive the same net amount, with the taxes and fees to which they may be subject divided uniformly between them.

The shareholders are responsible for losses only to the extent of their contributions.

In addition, each share gives the right to vote and be represented at the General Shareholders' Meetings in accordance with the legal and statutory conditions. Any shareholder is automatically deemed to have approved the Company's by-laws and all decisions of the Company's General Shareholders' Meetings.

Any time it is necessary to own several shares in order to exercise any right whatsoever, in the case of an exchange, reorganization or the grant of shares, or as a result of a share capital increase or decrease, a merger or any other corporate transaction, the owners of isolated shares or of an insufficient number of shares may exercise such right provided that they make their own business of regrouping or, as the case may be, of purchasing or saling the necessary shares or rights.

Under the terms of Article 12 of the by-laws, the shares are indivisible with respect to the Company. Co-owners of shares are represented at General Shareholders' Meetings by one of them or by one agent. In the case of disagreement, at the request of the most diligent co-owner, a court may appoint an agent. The voting rights attached to shares belong to the owner of the shares' benefits, in the case of the Ordinary General Shareholders' Meetings and to the bare owner (who does not own the shares' benefits), in the case of the Extraordinary General Shareholders' Meetings.

21.2.4. Changes in the rights attached to the shares

The rights attached to the shares as they appear in the Company's by-laws can only be changed by the Extraordinary General Shareholders' Meetings.

All increases in the commitments of the shareholders must be unanimously approved by all shareholders.

21.2.5. General Shareholders' Meetings

21.2.5.1. Convocation

Ordinary or Extraordinary Shareholders' Meetings, and if applicable Special Shareholders' Meetings are called, convened and conducted under the terms of conditions provided for by law. They are held at the company's headquarters or in any other place indicated in the final notice for the meeting *(Avis de convocation).*

21.2.5.2. Conditions for admission

Any shareholder, regardless of the number of shares held, has the right to attend General Shareholders' Meetings and participate in the deliberations, if the shares are fully paid and subject to the following conditions:

- for a holder of registered shares, its shares are registered on the Company's share registry; and
- for a holder of bearer shares, the deposit, at the place specified in the notice of the meeting, of a certificate from an accredited financial intermediary evidencing that such shares may not be transferred from the date of the deposit until the date of the meeting.

These formalities must be completed at least five calendar days before the meeting. The Board of Directors may shorten this requirement for the benefit of all shareholders.

The Board of Directors may, if it seems advisable, send to the shareholders individualized admission cards in each shareholder's name and require them to be presented in order to receive access to the General Shareholders' Meeting.

Upon decision of the Board of Directors when convening the shareholders' meeting, the shareholders may participate to the meeting by videoconference or any other means of telecommunications, including the Internet, that allows proper identification in accordance with the terms and conditions set by applicable regulations. If applicable, this decision will be communicated in the meeting notice published in the *Bulletin des annonces légales obligatoires* (**"BALO"**).

Shareholders may be represented at any meeting either by their spouse or another shareholder. Shareholders may vote by mail, subject to applicable regulations, if their quality as a shareholder was certified by the depository of the certificate(s) of registration or immobization 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 228-1 of the French Commercial Code (securities holders that do not live in French territory within the meaning of Article 102 of French Civil Code) may be represented, under certain legal conditions, by a registered nominee.

21.2.6. Clauses constraining change in control of the Company

In accordance with French Law No. 2004-803 dated August 9, 2004 and French Decree No. 2005-125 dated February 15, 2005, as well as Article 6 of the Company's by-laws, the French State must hold at all times more than 70% of the Company's share capital. See however chapter 12 "Trend Information".

21.2.7. Crossing certain statutory thresholds

Article 9.3 of the Company's by-laws provides that any individual or entity, acting alone or in concert with others, that becomes the owner, directly or indirectly, of more than 0.5% of the share capital and/or voting rights of the Company must notify it by certified mail, return receipt requested, within five trading days from the day such 0.5% threshold is crossed. This information must identify the person concerned, as well as all others acting in concert with such person and indicate the total number of shares, voting rights and securities that eventually give access to the capital, which it owns directly and in concert. These notification requirements also apply to any subsequent additional increases of at least 0.5% of the share capital and/or the voting rights. The notification requirement also applies, with the same notification period requirements, to any subsequent decrease of at least 0.5% or multiple thereof.

Any registered nominee which holds shares in accordance with paragraph 3 of Article 228-1-f 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 233-14 of the French Commercial Code, if any shareholder fails to make the required notifications, the shares in excess of the relevant threshold which should have been disclosed in accordance with applicable by-law provisions identified above, provided that such shares are listed on a regulated market, will be deprived of voting rights for all shareholders' meetings until the end of a two-year period following the date on which the owner thereof complies with the notification requirements. Such a suspension of voting rights may be sought at the request of one or more shareholders holding at least 0.5% of the share capital or voting rights of the Company through a shareholder resolution included in the minutes of the General Shareholders' Meeting.

At the date of registration of this *Document de Référence*, the Company had received a declaration that the 0.5% statutory threshold for share capital and voting rights had been crossed by one shareholder.

21.2.8. Changes in share capital

Under the terms of Article 6 of the Company's by-laws, the share capital may be increased, reduced or repaid under the terms provided by law.

22 MATERIAL CONTRACTS

This section presents a summary of the material contracts, other than the contracts concluded in the ordinary course of business, concluded by any group entity during the last two years preceding the date of registration of this *Document de Référence*.

Agreement relating to the distribution activities of EDF Gaz de France Distribution

On April 18, 2005 Gaz de France and EDF signed an agreement defining their relations relating to the distribution activities of EDF Gaz de France Distribution, as described in paragraph 6.1.3.2.2.2.3 – "Organization of the distributor".

2005-2007 Public Service Contract between Gaz de France and the French State

The public service functions of Gaz de France in the energy sector are defined by the French Law of January 3, 2003. These functions are implemented for Gaz de France through a Public Service Contract, as provided by Article 1 of the Law of August 9, 2004.

The Public Service Contract, as approved by Gaz de France's Board of Directors on March 22, 2005, was signed by Gaz de France and the French State on June 10, 2005. It reiterates the public service obligations of Gaz de France, emphasizing certain obligations, such as supply security and continuity and industrial safety. It also contains provisions relating to the resources that are to be put in place by Gaz de France to ensure access to public services by customers (including destitute customers), together with research and development and environmental protection policies. It also sets down the principles for the multi-annual evolution of public distribution tariffs.

Supply contract between EDF and Gaz de France

For the commercial development of Gaz de France in electricity, Gaz de France and EDF concluded an electricity purchase contract on June 6, 2005 for three years.

Memorandum of understanding between Gaz de France and Electrabel

Gaz de France and Suez, through its subsidiary Electrabel, signed on January 10, 2006 an industrial partnership project that aims to develop and diversify their respective power generation and electricity supply capacities.

Electrabel and Gaz de France have agreed to coordinate development of two combined cycle gas turbine projects, of approximately 420 MW each, which they plan to complete separately in the Fos-sur-Mer zone:

- at the Sollac Méditerranée site for Gaz de France (planned startup in 2008);
- on leased property at the Port of Marseille's Authority for Electrabel (planned startup in 2009);

Under the terms of this agreement Electrabel and Gaz de France will actively seek synergies between the two projects, particularly in the areas of engineering, operation and maintenance. They also hope to benefit from the enlarged project scope.

In addition, the memorandum of understanding provides for reciprocal shareholdings in the companies owning the respective assets, as well as reciprocal contracts for capacity sharing.

Agreement concerning the development of cooperation between Gazprom and Gaz de France

On the 30th anniversary of the first contracts signed by Gaz de France for the purchase of Russian gas, Gaz de France and Gazprom signed on September 19, 2005 a protocol setting out the main steps to be taken to strengthen and develop this cooperation. In particular, Gazprom is beginning work on a North European pipeline running under the Baltic Sea, and the two groups have agreed to continue joint studies with a view to developing supplies of Russian gas to Gaz de France, and increasing security of supply on the European market.

Acquisition of Distrigaz Sud

On October 18, 2004 Gaz de France concluded an agreement with the Romanian Ministry of Commerce and the Economy to acquire 51% of the share capital of the Romanian gas distribution company Distrigaz Sud, with the remaining 49% retained by the Romanian State.

Distrigaz Sud is managed by a Board of Directors for which five of the seven members are appointed based on the proposal of Gaz de France to the Ordinary General Shareholders' Meeting based on a simple majority. The Chief Executive Officer is appointed by the Board of Directors based on a simple majority.

Gaz de France finalized this acquisition on May 31, 2005 which represents approximately €310 million.

Gaz de France entered into an agreement on June 24, 2005 with the European Bank for Reconstruction and Development (EBRD) and the International Finance Company (IFC) in order to sell each of those entities a 5% indirect interest in the share capital of Distrigaz Sud SA. This acquisition of an equity interest in Distrigaz Sud by EBRD and IFC along side of Gaz de France was completed February 2, 2006 for approximately €60 million. Both EBRD and IFC each have the right to appoint an observer without the right to vote to the Board of Directors of Distrigaz Sud.

Acquisition of SPE

On September 23, 2005 Gaz de France and Centrica, concluded an agreement to acquire a 51% equity interest in the Belgian company SPE, based on the contribution to SPE of their respective equity interests in ALG Négoce and Luminus and the acquisition of a portion of the share capital of SPE. The remainder of the share capital (49%) is held by the Association Liégeoise du Gaz and Publium (which held interests in ALG Négoce and Luminus along side of Gaz de France and Centrica) and by the historical shareholders of SPE.

Gaz de France and Centrica have purchase options, and the minority shareholders of SPE have cross-sale options; these options may be exercised if certain changes occur in the share capital of the holding companies that own the SPE securities.

Gaz de France and Centrica appoint the majority of the directors on SPE's Board of Directors; however, the agreement of a majority of the directors appointed by the minority shareholders is necessary for the adoption of certain limited strategic decisions.

This acquisition and its contributions were finalized on September 28, 2005, with the acquisition completed by Gaz de France coming to approximately €250 million.

23 INFORMATION FROM THIRD PARTIES EXPERTS STATEMENTS AND STATEMENTS OF INTEREST

23.1. Statements or reports

Not applicable.

23.2. Information from third parties

Not applicable.

24 DOCUMENTS ON DISPLAY

During the validity of this *document de référence*, the following documents (or copies of these documents) may, where applicable, be consulted:

a) the memorandum and articles of association of the Company;

b) all reports, correspondence and other documents, historical financial information, valuations and statements made by an expert at the request of the Company, any part of which is included or referred to in this *document de référence*; and

c) the historical financial information of the Company and its affiliates for each of the two fiscal years preceding the publication of this *document de référence*.

The documents cited above may be consulted at the Company's headquarters at the Legal Division – Corporate Law Department, 23, rue Philibert-Delorme 75840 Paris Cedex 17.

25 INFORMATION ON HOLDINGS

For information on the companies in which Gaz de France holds a portion of the capital which is likely to have an impact on the appreciation of its assets, see paragraph 6.1.3 – "Description of Activities." See also chapter 9 – "Management's Discussion and Analysis of Financial Condition and Results of Operations."

A

APPENDIX A

Table of measurement units for natural gas and other energy products

Units of measurement

- 1 kWh = 0.09 cubic meters of natural gas (*i.e.,* 1 cubic meters of gas = 11 kWh);
- 1 GWh = 91,000 cubic meters of natural gas;
- 1 TWh = 1 billion kWh = 91 million cubic meters;
- 1 billion cubic meters of gas = 6.2 million barrels of oil equivalent (Mboe).

APPENDIX B

Glossary

Biomass

Organic non-fossil material of biological origin, a part of which constitutes an exploitable energy resource.

Branch line

A transmission line that ensures the connection between the transmission line and one or more delivery points and that is for the exclusive or principal purpose of supplying a customer or a distribution network. Branch lines are part of the network.

Cogeneration

Technique that allows for production of heat (in the form of steam, superheated water or as a mixture of air and combustion products) and electricity by a turbine or engine powered by a fuel, such as natural gas.

Combined cycle plant

Electricity generating plant comprising a gas-turbine generator unit whose exhaust gases are fed to a waste-heat boiler. The steam raised by the boiler is used to drive a turbine generator.

Combined heat and power station

A thermal power station in which the steam raised in the boilers is used to generate power by means of turbo-generators.

Commercializer

Engages in the sale of gas or other energy sources to third parties (end customers, distributors, etc.).

CRE

French Energy Regulation Commission *(Commission de régulation de l'énergie,* or "CRE"). An independent, administrative commission for the regulation of energy established by a French law dated February 10, 2000. Its obligations were extended to the gas sector by a French law dated January 3, 2003. The commission is primarily responsible for overseeing the establishment of effective, transparent and non-discriminatory access to the infrastructures of the gas and electricity industries. More generally, it is responsible for overseeing the proper functioning of the markets for gas and electricity.

Connection equipment

All of the equipment, ensuring the connection of the site of consumption or the distribution network to the transmission network. The connection equipment is made up of on or more branch lines and one or more delivery sites.

Connection

An action that allows physical connection of a user to the network.

Current gas

The quantity of available gas in an underground gas storage reservoir.

Cushion gas

The quantity of gas associated with gas storage that can never be completely recovered.

Development (of a gas or oil field)

All operations and construction work performed to bring a field into production.

Distribution network

Network used for the distribution of natural gas (at medium or low pressure) within a particular region or enterprise.

Downstream

Natural gas transmission, storage, distribution and associated services.

Eligible customers

Consumers of electricity or gas, which are authorized to receive supplies for one or more sites or to resell energy from one or more suppliers of electricity or gas of their own choosing.

Equalization zone

A group of assets that is comprised of entry points, delivery points and a gas exchange point in which the sender must ensure the equilibrium.

Exploration

The act of searching for new hydrocarbon deposits.

Facilities management

Customer services associated with energy supply (maintenance and small repairs).

Gas exchange point

A virtual point connected with an equalization zone or a transmitter may sell gas to another to another transmitter.

Gas hub

Junction on a transmission network where gas arrives from several sources and where it is physically possible to exchange gas volumes between these sources and the final markets.

Gas pipeline

Pipes carrying gas at high pressure over long distances. They may be connected to international networks and serve one or more countries and transport gas across a country to another destination.

Liquefaction of natural gas

An operation to convert natural gas into a liquid for its transport by ship or storage.

Liquefied natural gas (LNG)

Natural gas converted to the liquid phase by reducing its temperature to -162°C, which reduces its volume by 600 times compared to the gaseous stage.

LNG tanker

Tanker designed to carry liquefied natural gas at a temperature of -162°C.

LNG terminal

Port facility with installations for liquefied natural gas carriers.

LNG terminal access contract

Contract between the LNG terminal operator and a transmitter defining the terms and conditions for reception, storage and regasification of LNG deliveries delivered by the transmitter to a LNG terminal.

Modulation

Term indicating the difference between actual gas consumption by a customer and the conditions corresponding to regular off-loading on a yearly basis of its average daily consumption. The coverage of the variations of consumption (daily, weekly or seasonally) is generally ensured through underground storage, to which their customers and their suppliers may have access, either directly (in countries where third-party access to storage – regulated or negotiated – is provided for. Or in the form of the provision of modulation services.

Natural gas for vehicles

Composed of 100% natural gas, this fuel is used mainly in public transportation in cities and "clean" cars.

Negotiated Third Party Network Access

The terms of access to the network are negotiated between the manager of the network and market participants (eligible customers, distributors, producers, etc.) on a case-by-case basis.

Offshore platform

A platform structure designed for offshore drilling operations.

Oil field

Porous rocks containing hydrocarbons.

Pipe

Pipes used to carry natural gas. They may be made of aluminum, copper, steel, cast iron or polyethylene.

Principal network

Includes all of the high-pressure, large-diameter natural gas transmission structures that tie together the interconnection points to neighbouring transmission networks, storage facilities and LNG terminals. These facilities are connected to the regional networks as well as certain industrial consumers and the distribution network.

Probable reserves

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

Production (of an oil or gas field)

Commercial exploitation of a hydrocarbon field.

Producer

An individual or legal entity that produces natural gas and/or electricity. A producer is a supplier.

Proven reserves

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, developed reserves

Reserves that can be produced from an existing facility.

Proven, undeveloped reserves

Reserves that would necessitate the drilling of a new well either at a location not previously developed or significant additional investments at an existing facility, such as a compressor unit.

Pressure-reducing station

Set of appliances and their pipes and auxiliaries, whose main function is to reduce the variable upstream gas pressure to a preset downstream pressure.

Regional network

Includes all of the high-pressure, large-diameter transmission structures that tie together the interconnection points to neighbouring transmission networks, storage facilities and LNG terminals. The regional networks, the distribution networks as well as certain industrial consumers are connected to it.

Regulated rates

Sales rates for non-eligible customers and eligible customers who have not exercised their eligibility rights.

Reserves (of a field)

Volume of oil or gas trapped in the reservoir rock.

Resources

Certain amounts of discovered hydrocarbons for which there is no total guarantee of extraction due to certain technical, economic and commercial risks. These are equivalent to technical reserves.

Spot market

Short term market for exchange transactions and the purchase/sale of deliverable energy.

Storage access contract

Contract between the storage operator and a transmitter for access to natural gas storage facilities at one or more storage groups.

Storage site

All of the structures, facilities and systems, composed in particular by underground gas storage including cavities in saline layers or porous geological formations in the aquifer level, wells, pipelines, facilities for compression, treatment, measurement, release, transmission systems, information systems, etc.

Supplier

A legal entity with authorization for either gas or, having so declared itself to the public authorities, for electricity, and which supplies at least one end customer with gas or electricity, either with energy that it produces itself, or with energy that it has bought (trader).

Supply security

The assurance that energy will be available in the quantities and qualities required under given economic conditions.

Trader

Gas or electricity provided which purchases energy from an energy supplier in order to resell it to end customers or other traders.

Take or pay

Long-term contract under which a producer supplies guaranteed quantities of gas to an operator who undertakes to pay for these quantities, even if he does not actually take the gas.

Third Party Network Access

Right granted to every user (eligible customers, distributors, producers) to use a transmission or distribution network in exchange for a right of access payment.

Town gas

Network gas originally used for lighting. It has been replaced by natural gas.

Transmission capacity

The highest permissible continuous loading of a transmission structure, taking account of operating stability and pressure loss.

Transmission network

Network to transmit energy at high pressure (> 60 bar) toward the distribution networks located downstream.

Underground gas storage

Storage in porous geological formations, natural or artificially created cavities (saline or aquifer), suitable for the storage of liquid or gaseous fuels.

Upstream

Gas exploration and production of hydrocarbons.

APPENDIX C

Report of the Chairman of the Board of Directors on the preparation and organization of the Board of Directors' activities and on internal control procedures (2005)

Preamble:

Pursuant to the provisions of Article L. 225-37 of the French Commercial Code based on Article 117 of the Law on Financial Security dated August 1, 2003, the Chairman of the Board of Directors explains in this report the manner in which the Board of Directors prepares and organizes its work, and the internal control processes established by Gaz de France.

This report, prepared by the Audit and Risk Management Division, was drawn up in collaboration with the Finance and Accounting Division, the Management Control Division, the Financial Reporting Division, the Sustainable Development Division, the Legal Division, the Office of the Chairman and the Chief Operating Officers.

This report was presented to the Audit and Financial Statements Committee for information purposes.

Chapter 1 Control background

1.1. Organisational principles

a) Internal control procedures, a tool to help achieve goals

Each senior manager or department head organizes and manages the internal control procedures for the activities for which he is responsible, in order to reasonably assure that targets set by him are reached. These internal control activities are carried out at all hierarchical and operational levels of the concerned entity and include the implementation of the delegations of power, the setting-up of control and self-control devices, the assessment of operational performances, the security of the asset base and the separation of functions.

This approach is consistent with the commonly recognized definition of internal control as a process implemented by the Board of Directors, management and staff of the company, designed to reasonably ensure the achievement of targets in the following categories:

- completion and optimization of operations;
- reliability of financial information;
- compliance with applicable laws and regulations.

One of the objectives of the internal control system is therefore to anticipate and manage risks tied to the company's business, particularly in the accounting and financial areas. Like all control systems, however there is no guarantee that these risks will be exhaustively covered.

b) Internal Audit, a management support function

By their very purpose which is to control the internal control devices, internal audits aim at continually improving performance. They are based on the following four phases: planning, implementation, assessment, and improvement. In accordance with the Group's management principles, Gaz de France has organized its internal audit resources in a decentralized way. Consistency throughout is ensured by the directional oversight of the Audit and Risk Management Division.

c) Managerial regulation of Quality, Safety, Environment

The Group has set up a "Quality, Safety and Environment" policy. A steering committee composed of the heads of the Quality, Environment, Risk Management Divisions, the Safety and Accident Prevention task force and the Management Control Division, prepares contracts in the area of "Quality, Safety and Environment" with the relevant entities and contributes to the completion of performance and management reviews with each entity.

1.2. Control participants

a) Board of Directors and senior management

Legal framework

French Decree No. 2004-1223 dated November 17, 2004, implementing French Law No. 2004-803 dated August 9, 2004 concerning gas and electricity public service and gas and electricity companies, converted the by-laws of Gaz de France from the form of an EPIC (a public institution with an industrial and commercial character known by the French acronym "EPIC") into a limited liability company *(société anonyme* or "SA").

The Chairman of the Board of Directors, in conformity with the terms of the articles of incorporation, also acts as the Chief Executive Officer of the company. Appointed by a Decree of the French government's cabinet after the nomination by the Board of Directors, he is assisted by two Chief Operating Officers.

The Board of Directors of Gaz de France SA is composed of 18 members: six directors elected by General Shareholders' Meeting, six representatives of the French State appointed by decree, and six employee representatives elected by the personnel. The directors' term of office is five years. The directors' average Board meeting attendance rate in 2005 was 84.5%. The Chairman of the Board's term of office was renewed by a decree dated October 13, 2005.

The representatives of the French State and the qualified individuals were appointed by a decree published in France's official journal on November 21, 2004.

Senior management's powers

Restrictions on the powers of the senior management require the Board of Directors to approve decisions on:

- the Group's multi-year strategic plan;
- proposed industrial investments or building contracts for the Group (for amounts greater than €50 million per transaction, excluding taxes);
- proposed borrowings in the form of a securities offering or loan agreement concerning the Company or its subsidiaries (for transactions exceeding €100 million, excluding taxes, and not included in the budget previously authorized by the Board of Directors);
- proposed contracts for the supply of goods and services (for an amount greater than €30 million, excluding taxes);
- any proposed acquisition of, sale or exchange of buildings or real estate rights (for an amount greater than €25 million per transaction, excluding taxes).

Corporate governance

The Chief Operating Officers assist the Chairman and Chief Executive Officer with strategic planning and operational management of the Group.

Board of Directors' functions

The Board of Directors' functions are two-fold:

- functions imposed by applicable legislation and regulation, which includes approving financial statements and the management report, calling General Shareholders' Meetings, adoption of proposed resolutions, appointment of the Chief Executive Officer and Chief Operating Officers, determination of senior management's powers;
- functions defined by the Board's Internal Regulations and resulting from the restriction of senior management's powers, as indicated above.

In 2005, the Board of Directors examined, in particular, matters concerning:

- strategy;
- the budget;
- approval of the financial statements and proposal for the allocation of revenues;
- the allocation of attendance fees;
- the semi-annual financial statements;
- the application of IFRS standards;
- sureties, endorsements and guaranties;
- the increase in share capital in the context of the initial public offering of shares and stock exchange listing;
- the Group's energy supply policy;
- as well as a certain number of transactions tied to the Group's important investments or commitments regarding the Group's development.

Committees of the Board of Directors

The Board of Directors has two committees: the Audit and Financial Statements Committee and the Strategy and Investment Committee.

The Board of Directors, upon proposal of its Chairman and following deliberations, appoints the members of the committees and their chairmen.

The term of office of the committee members is two fiscal years. Their duties consist of preparing work to aid the Board's decisions.

They carry out their duties under the authority of the Board of Directors.

The Audit and Financial Statements Committee

Composed of five members, it holds at least four meetings a year (nine in 2005), including two meetings to review the six-month and annual financial statements before their examination by the Board of Directors and one meeting to review the budget.

The main interlocutors of the Audit and Financial Statements Committee are Senior Management, the Finance and Accounting Division, the Management Control Division, the Audit and Risk Division, and the Company's Statutory Auditors. To complete its work, the Committee may have meetings with the members of the management of the Company and the Group or use external experts, as necessary.

The Committee's duties cover two essential areas:

- financial statements, budget forecasts, and duties of the Statutory Auditors;
- risks, internal and external control and internal audit.

Strategy and Investment Committee

Composed of seven members, the Strategy and Investment Committee holds at least four meetings per year (five in 2005). To complete its work, the Committee may have meetings with the members of the Company's and group's Senior Management or also use external experts, as necessary.

It gives the Board of Directors its opinion on the major strategic objectives of the Company and the Group. The Committee studies and provides its opinion to the Board of Directors on issues submitted to it relating to major transactions – in particular regarding external growth, divestment and industrial equipment.

b) Managing bodies

Joint coordination, allocation and management require the creation of formal bodies to enable interaction and collaboration on issues whose strategic importance justifies the approval of or review by Senior Management. These bodies are the following:

Executive Committee

Chaired by the Chief Executive Officer, the Executive Committee is in charge of discussing and approving issues and decisions relating to the Group's strategy and general management such as the investment programs and the budget of the Group.

The Executive Committee meets each week. An agenda is prepared upon the proposal of its members (the Chief Operating Officer for "Infrastructures," the Chief Operating Officer for "Supply and Production," the Senior Vice President of Strategy – Advisor to the Chairman and Chief Executive Officer, the Senior Vice President of "International," the Senior Vice President in charge of "Equity Acquisitions," the Vice President and Chief Financial Officer, the Senior Vice President of Customer Relations, the Senior Vice President of Communications and the Senior Vice President of Human Resources).

Planning Committee

This committee ensures the upstream strategic management of all external growth projects and makes a progressive selection following standardized steps for the presentation of the projects. It assesses the Group's investment and divestment decisions and the Group's financial planning decisions, with the exception of investments and decisions of Infrastructures France.

The chairman of the committee makes those decisions that are within his power; the Chairman and Chief Executive Officer makes those decisions that are beyond the committee chairman's power after consultation with the Executive Committee and, if need be, a vote by the Board of Directors.

There is a specific decision-making framework for decisions by the Group's subsidiaries.

The committee follows the progress of its external growth projects, as well as its investment and financial planning programs related to previous acquisitions or financial commitments.

Upstream/Downstream Committee

This committee makes proposals concerning the Group's sales volume and margin objectives by geographic area, supervises their completion, studies short-term arbitrage opportunities useful to reaching set objectives and manages internal transfer prices. It explores possible synergies between the sales of energy and the sales of services and proposes the integration of certain activities that might create value for the Group.

Infrastructure Committee

The functions of this committee are:

- to ensure the technical consistency of the conduct and development of the national, European and international infrastructures with regard to equipment and safety standards while respecting the autonomy of intervening entities in regulated areas;
- to ensure the maintenance of the technical skills necessary for the Group to keep its industrial tools in good performance conditions,
- to propose the development of research programs to be used in the context of the Three-Year Research Contract;
- to organize approval across the Group of the Group's positions vis-à-vis the French Energy Regulation Commission *(Commission de régulation de l'énergie)* and ensuring its consistent application;
- to propose the Group's policies regarding facilities (IT, real estate, purchases, etc.) while ensuring performance;
- to coordinate support for operational activities (tracking costs, organization of activities and responsibilities, etc.);
- for its informational system, specifically to review IT projects, to authorize their launch after verifying their consistency with the Group's goals, the development of the information system, and the IT framework, and to ensure control of the system and authorize deployment at the end of the development stage of a project.

Senior Executives Committee

The aim of this committee is to prepare decisions relating to appointments to key positions and follow-up of the career management of the Group's senior executives. In this respect, it also prepares the appointment of certain directors of the Group's subsidiaries.

Human Resources Committee

This committee coordinates human resources departments: it enables operating departments to express their expectations and to merge them. This body reviews the Group's human resources policies before they are approved by senior management.

Corporate Communications Committee

This committee reviews issues relating to the evolution of public opinion and expectations, reviews corporate communications strategies, and defines annual plans on these topics.

The committee approves, before circulation, communications campaigns of any nature and the use of communications media.

It coordinates the management of human resources in the communications area, optimizes its budget choices and ensures the most efficient allocation of resources.

Sustainable Development and Business Ethics Committee

This goal of this committee is to propose policies for the Group with regards to sustainable development, environmental protection and quality and to ensure that the business segments and centralized entities follow the policies. In addition, the committee proposes the rules of professional ethics applicable to the Group and monitors their proper application.

c) Other participants in the internal supervision of Gaz de France

The organization is structured around four Segments bringing together operational activities, three centralized divisions to support those Segments and four Group management functions.

Four operational segments

"Supply and Production" is under the responsibility of a Chief Operating Officer and groups together the Exploration and Production Division, the Supply and Trading Division, the Electricity Division and the Liquid Natural Gas (LNG) department.

"Infrastructures" is under the responsibility of a Chief Operating Officer and includes the Major Infrastructures Division, the subsidiary GRTgaz, the Gaz de France Réseau Distribution Division, the EDF Gaz de France Distribution Division (under the common management of Gaz de France and EDF), the Regulatory and Economic Affairs department, the Safety and Security department, upon which the Health Security department depends, and the Research Division.

"Customer Relations" groups together the Market Development and Sales Division, and the Services activities and the Marketing Division. Its manager reports to the Chairman and Chief Executive Officer.

"International" is made up of a Central European Division, an International Corporate Development Division and an International Subsidiaries Division and is supervised by the Chief Operating Officer in charge of "Supply and Production."

Three centralized Divisions

The Financial and Legal Division is under the responsibility of the Chairman and Chief Executive Officer and is composed of the following entities:

- *The Management Control Division* steers the budgetary process and prepares the budgetary decisions. It sets up and produces the Group's management charts, follows up on the monthly results by comparing them to the budget forecasts (segment reviews) and carries out the periodic reevaluation of the annual financial results (overall performance reviews). It identifies the necessary corrective actions and leads the "management control" channels at the heart of the operational branches.
- *The Finance and Accounting Division* prepares the financial statements, defines the goals and organization of the financing for the Group's activities and manages its financial situation. It designs the accounting system, manages the Group's taxation, furnishes the data necessary to elaborate upon financial reporting and manages the Group's relationship with the French Government Shareholding Agency *(Agence des Participations de l'État)*. It sets the Group's insurance policy and implements it.

The two preceding divisions are under the authority of the Vice President and Chief Financial Officer.

- *The Equity Acquisitions Division* is in charge of external growth and sales operations in France as well as the Group's major business projects. It ensures support for the operational segments for growth operations for which they are responsible abroad.
- *The Legal Division* sets the Group's legal policies, the rules for using legal advisers, and it assists with the Group's governance and follows significant business events and litigations.

Human Resources Division is the responsibility of a Senior Vice President reporting to the Chief Operating Officer in charge of Infrastructures and groups together the Human Resources Division with two entities common to Gaz de France and EDF (the National Centre for Labour Relations and the Professional Training Department).

Support Functions Division is the responsibility of a Senior Vice President who reports to the Chief Operating Officer of Infrastructures and groups together:

- the support functions for the Group's governance:
  - the Sustainable Development Division, which notably proposes the Group's policies regarding sustainable development, quality, and ethics,
  - the Organization and Cost Control Division, which notably leads and directs the studies of the Group's organization, optimizes the organization, and proposes appropriate modifications;
- the logistical support functions:
  - the Purchases Division which, in particular, defines and puts in place the Group's purchase policies by monitoring purchases performance criteria,
  - the Information Systems Division which, in particular, defines the Group's information technology policy, the global architecture of the information system and the technical policies,
  - the Logistical Solutions Division which, in particular, proposes and carries out logistical policies identified as stemming from Gaz de France SA and manages the service for buildings,
  - the Operational Human Resources unit which, in particular, implements Human Resource policies and projects and directs individual professional projects including the reorientation of personnel within headquarters' central functions,
  - the Real Estate Management Division, which, in particular, proposes and implements the Group's real estate policy and the policy of rehabilitating the sites of old gas plants.

Each of the divisions is responsible for the follow-up of its activities within the Group.

Management functions

These divisions are under the authority of the Chairman and Chief Executive Officer.

The *Strategy Division* prepares and formalizes the Group's strategy and assists the Segments and Operational Entities with their strategy including oversight of strategy and competition and studying economic and strategic issues. It is in charge of the "Group's strategy" within its operational segments.

The *Corporate Communications Division* proposes and implements the external corporate communications policy, manages internal communication and ensures the consistency of all communicated messages and coordination between participants in the Group's corporate communications. It is in charge of all participants in the Group's corporate communications.

The Audit and Risk Division:

- The *Audit Division* checks the effectiveness and consistency of the various control structures, carries out, at senior management's request, Group audits and ensures follow-up on decisions made by the Group's management committees following audits. In line with its missions, it ensures the independence of the decentralized internal audit functions so as to guarantee that they have a large scope for investigation, freedom of opinion and assurances that their recommendations are taken into account. It is responsible for the professionalism of the Group's audit resources; in this respect, the operation, management and regulation of the Group's audit entities are based on the assessment of the professionalism of audit entities and on an audit framework of the control devices in line with the normally recognized standards (COSO: Committee of Sponsoring Organizations of the Treadway Commission).

- The *Risk Management Division* formalizes the risk policy and supervises its implementation by the relevant entities within the framework (process and tools) approved by Gaz de France and consolidates the Group's risk assessment for senior management. It also manages the Risk Management channels.

In 2005, the Audit and Risk Management Division presented the following issues to the Board's Audit Committee:

- the results of audits conducted in 2004;
- changes in risk levels observed at the Group level at the end of 2004;
- project relating to the Group's 2005/2006 audit program;
- an overview of the internal and external audit processes of Gaz de France.

The *Executive Development Division* manages the careers of the Group's senior executives. The joint senior management Human Resources Division for Gaz de France and EDF, reports its activities to the Executive Development Division.

Subsidiary management

Senior Management assigns each subsidiary or equity interest of the Group to an entity, which Senior Management holds responsible for achieving the objectives set for the subsidiary, its financial results, and respecting policies set by the Group.

Based on this entity's proposal, a head director for the subsidiary is appointed. For the most important subsidiaries the head director is appointed by the Chairman and Chief Executive Officer, and for the other subsidiaries by the Chief Operating Officer or the head of "Customer Relations." Depending on local legislation and Gaz de France's rights, other directors may also be appointed.

1.3. Behavioural guidelines

a) Director Code of Behaviour

The Board of Directors on December 17, 2004 adopted its Internal Regulations and the Director Code of Behaviour *(Charte de l'administrateur)*, which is a professional ethics code that describes the rules of good conduct, to be implemented and complied with by the directors.

b) Ethics commitments

In accordance with the United Nations Declaration of Human Rights, the European Union Charter of Fundamental Rights and the Conventions of the International Labour Organization, the ethics commitments of Gaz de France were published in 2002 (see its website at www.gazdefrance.com) and apply to the Company's relationships in France with its employees and business partners (employee representatives, customers, shareholders, suppliers, industrial and financial companies, public authorities). In 2005, this effort was expanded by implementing ethics measures applicable to the entire Group. The measures seek to define shared values, the rules of behaviour to both internal and external parties and the ethical rules applicable to all companies where Gaz de France is a majority shareholder.

c) Sustainable development

Sustainable development is a major component of Gaz de France's transformation and of its ambition to be one of the top five energy operators in Europe. The economic, social, and environmental stakes touch upon all of Gaz de France's activities, from exploration-production to the supply of energy products and services, and in all countries where the Group is present. For all these reasons Gaz de France is committed to sustainable development and has integrated this commitment into its business plan.

The Group's sustainable development policy has set four goals:

- to exercise fully the Group's societal and environmental responsibility towards the various stakeholders;
- to respond to energy issues with dynamic new product and service offerings;
- to construct a Human Resources and corporate base for the Group in order to take up the industrial stakes;
- to play an active role in the land development.

d) Commitment to sustainable development

Gaz de France's commitment to sustainable development takes the form of concrete, quantifiable objectives, which are followed-up. Each year the Group publicly accounts for its progress, each year, in its sustainable development report and on its website www.developpementdurable.gazdefrance.com, in accordance with the reporting measures of the Global Reporting Initiative. This website contains all the Group's quantifiable commitments.

With regard to the environmental dimension of sustainable development, Gaz de France has defined the commitments to respect – by all entities and companies of the Group, whatever their activities may be – to safeguard and improve the environment.

e) Enterprise diversity charter

This charter, signed on November 20, 2005, 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.

f) Internal audit charter

This charter, as approved by the audit committee in June 2004, is the professional reference standard for the Gaz de France group's internal auditors.

Chapter 2
Risk assessment and control process

The risk assessment and control process is designed to be highly consistent with the proposed development of the Company and liberalization of the marketplace.

2.1. Constant improvement through the development of a global risk assessment system

In 2004, Gaz de France designed a common Group methodology for identifying, evaluating and prioritizing risks.

In 2005, the Group formalized and communicated its risk policy: this policy defines goals, the guiding principles for risk management, individual roles and responsibilities and the terms and conditions of the system control.

2.2. A decentralized system based upon managerial responsibility

Management is at the centre of the Group's system and is responsible for its risk management.

Each entity of the Group is in charge of the identification of its risks and calculation of its exposure, as well as preparation and implementation of plans of actions to reduce them. Each entity annually reports these factors in a major risk evaluation report prepared for one of the Chief Operating Officer or the Chairman and Chief Executive Officer.

As part of the Audit and Risk Division, the Risk Management Division is responsible for ensuring consistent management, setting policies and promoting risk awareness throughout the Group through the establishment of communications networks.

2.3. Evaluating the Group's major risks: a tool to aid decision-making

Risks identified by different entities are aggregated and analyzed to determine the Group's risks. The evaluation of major risks is presented annually to Gaz de France's executive committee, and then to the Board of Directors' Audit and Financial Statements Committee.

The executive committee organizes the monitoring of risks, for which it designates specific "owners" that are responsible for managing the risk and must report on them to the executive committee annually. At the beginning of 2005 the executive committee evaluated the Group's risks and designated ten major Group risks that it wanted to monitor. This evaluation was presented to the Board of Directors' Audit and Financial Statements Committee.

The Group's main risks, that were listed in the *Document de base* registered with the AMF (No. I. 05-037), were evaluated, compared and prioritized.

2.4. Internal Audit Program Design

Based, in particular, on the risk evaluation, the Audit and Risk Division defines and prioritizes the subjects of an audit in order to preferentially improve risk control of the Group's highest risk items. For this reason, the exposure to risks detected by prior Group audits is assessed each year by the Audit and Risk Management Division. The audit program is approved by the Chief Executive Officer and presented to the Audit and Financial Statements Committee.

2.5. Operational and Financial Risk Control

In order to reach its operational and financial objectives, the Group has set up certain control procedures aimed at optimizing operations in connection with its activity.

After having identified and measured the risks to be insured by the Group, Gaz de France created and implemented a policy under which all risks whose occurrence could have significant impact on its financial results are systematically insured. This policy concerning insurance may be modified at any time based on market conditions, opportunities, management's assessment of risks and the adequacy of their coverage. Insurance management is centralized, which makes it possible to have a homogeneous and coordinated overall control of insurable risks at the Group level, along with a centralized approach to insurance purchases.

For financial risks, each year the Vice President and Chief Financial Officer presents to the Board of Directors a report on the Group's financial policies. This report, which is reviewed by the Audit and Financial Statements Committee prior to being submitted to the Board of Directors, describes financial management over the past fiscal year, details the main financial policy choices made by the Group (financing, asset management, financial risk management and hedging) and gives the outlook for the coming year.

The Exchange and Interest Rate Committee and the Credit Committee, which are under the authority of the Vice President and Chief Financial Officer, prepare the framework for ensuring the consistent management of financial risks. These two committees are responsible for setting the methods and processes that make it possible to manage, track and report financial risks according to explicit, specific procedures and risk boundaries.

Chapter 3
Internal accounting and finance control system

The management of the Group's financial affairs is decentralized.

The Financial and Legal Division is primarily responsible for the definition, implementation and supervision of the application of the Group's policies concerning finance, management controls, financial risk management, taxation, accounting and financial reporting.

It is responsible for the preparation of the unconsolidated financial statements, the financial statements for activities accounted for separately and the consolidated financial statements for the Chairman, the French Government Shareholding Agency *(Agence des Participations de l'État)* and certain external control bodies. It oversees compliance with the financial governance principles and, in particular, ensures the quality and accuracy of the information provided to the Audit and Financial Statements Committee concerning financial statements, the financial reporting policy and internal accounting and finance controls.

It must guarantee the consistency of the financial information communicated internally and externally, both in France and abroad.

One of the main events in 2005 was the initial public offering of Gaz de France's share capital.

Gaz de France drafted a *Document de base*, registered with the *Autorité des marchés financiers* under reference No. I. 05-037, which is updated annually by a *Document de Référence*.

Gaz de France's profit centres and subsidiaries are each responsible for their own internal control systems with respect to accounting and finances. At the end of each fiscal year each profit centre delivers a certificate indicating the qualitative conditions for the production of accounting information and the implementation of the accounting and finance internal control plan; the Chief Executive Officers of the main subsidiaries sign a letter of representation.

3.1. Supervision of accounting and finance: organization

a) Finance and Accounting and Management Control Divisions

The Accounting Department defines the Group's accounting and finance audit policy. This function involves the identification and assessment of risks and the risk management based on the quality of the Group's accounting processes, particularly under the financial security standards prepared by the Accounting Department.

A Reporting Handbook defines the Group's accounting principles and describes the organization of the management processes. This document enables those active in this area to adapt their behaviour to its principles and procedures and to contribute to the Group's financial consolidation and management reporting processes. This standard is also used by external auditors and directors of subsidiaries.

Used in connection with a tool for reporting across the Group (HFM – edited by Hyperion), it enables to ensure the quality of the treatment of the financial information and the implementation of procedures designed to improve the relevance, reliability and timeliness of information. In 2006, a system and software upgrade are planned in order to improve the utility's performance and provide users with additional features.

Financial information sent by subsidiaries to the head of the Group goes through monitored delivery procedures, in which each step is traced.

Users, based on their profile, can access this application and the Reporting Handbook after receiving authorization, which is managed by a centralized administrative group.

In compliance with European regulation 1606/2002 dated July 19, 2002, the Group's consolidated financial statements are prepared according to the international accounting standards IAS/IFRS as approved by the European Union, which are applicable as at the date of preparation of the current financial statements.

b) Role of profit centres

The four segments of the Gaz de France Group contain eight profit centres in charge of directing the operational entities (departments of Gaz de France and its subsidiaries) that are linked with them.

The financial responsibilities of the profit centres cover the following areas:

- subsidiary management;
- cash flow projections;
- identification of financial risks and tracking the hedging of risks;
- overseeing the consistency of the management data from subsidiaries;
- accounting doctrines specific to certain profit centres;
- finance and asset expertise applied to the management of regulated assets;
- supervision of consolidated accounting restatements done by the subsidiaries; and
- internal accounting and finance control.

Organization of internal accounting and finance control

The respective responsibilities of the Finance and Accounting Division and the Management Control Division on the one hand, and of the profit centres on the other, are formalized in rules subject to review as necessary. Under these rules the profit centres are required to develop an efficient accounting and finance control system.

Exploration -Production

This activity is completely performed by subsidiaries; it is overseen by the Exploration and Production Division (DEP).

The management comptrollers for DEP lead a financial segment that oversees the application of the Group's procedures, identifies and shares best practices, and so ensures consistency within the business activity. Management comptrollers exercise internal control and verify the preliminary and final financial information periodically provided to the Group.

Major Infrastructures Division (Direction des grandes infrastructures (DGI))

This division is responsible for storage and LNG Terminals.

Connected with DGI's Deputy Vice President, the Centre for Professional Services is responsible for providing Accounting, Management, Human Resources, Purchasing and Logistical services.

Relations between the Financing and Accounting Division and the Centre for Professional Services are regulated by protocols defining tasks arising from their respective responsibilities and are measured against a quality indicator scorecard.

The accounting section ensures the dispersal of the Group's instructions, particularly regarding finance and accounting internal controls based on the following principles:

- procedures that define the division of responsibilities;
- an accounting and finance internal control plan for the Units prepared under the responsibility of the Unit Vice Presidents;
- the Unit's annual tax statements, signed by the Unit's Vice President; and
- control of the formal quality of the accounting carried out by the Professional Services Centre's accounting section.

Financial information generated by the DGI is subject to the controls of the Accounting and Finance Division.

GRTgaz Subsidiary

Finance and accounting internal controls for the subsidiary responsible for gas transmission are provided by the subsidiary's Finance Division.

Supply and Trading

The Supply and Trading Division has its own head of internal audits and a team in charge of quality.

Standard operating procedures for internal controls are in place for this division. A quality insurance is currently being settled for its gas and electricity buying and selling activities – which are hedged through various financial instruments.

The Supply and Trading Division's financial management reports to the Finance and Accounting Division, which performs annual reviews of the quality of accounting and financial information generated.

Distribution

In France this business activity is provided by Gaz de France Réseau de Distribution Division and EDF Gaz de France Distribution Division, a shared service between Gaz de France and EDF.

Each of these entities has defined functions and has policies for finance and accounting internal controls. The EDF Gaz de France Distribution Division is in charge of keeping accounting records. It has defined an accounting and tax quality standard and carries out accounting and finance audits.

The Market Development and Sales Division

This profit centre is led by the Market Development and Sales Division for Gaz de France; its accounting is performed by the Logistical Solutions Division.

Internal accounting and finance control is ensured by the Accounting Department of the Logistical Solutions Division. Internal controls specific to the core business are carried out by the Market Development and Sales Division, which established an internal control plan and carried out various control activities, in particular the management of client portfolios (managing files and the accounting pertaining to them).

Services Activities

The activities of this profit centre are performed by subsidiaries and the different companies that perform these service activities are united in a sub-group, which is also a consolidation tier.

The finance controls for these subsidiaries are performed by the management control of the Services segment in a manner consistent with the Group's principles.

The practice and deployment of the internal accounting and financing control program for the sub-group is provided for 2006.

"International" Segment

The "International" Segment groups together the Group's transmission, distribution and sales activities performed internationally by Gaz de France's subsidiaries.

The accounting and finance internal controls are implemented by Gaz de France representatives occupying governance positions in the principal subsidiaries; they are complemented by the management oversight and monitoring performed by the "International" Segment's management comptrollers.

Common Functions

These functions are not grouped into one Unit.

Accounting for the divisions that perform support or management functions is handled by the Logistical Solutions Division, which performs quality control on the accounts for which it is responsible.

During 2005 this division created an audit function whose purpose is to reinforce the internal controls for common functions.

Standardized year-end certificate

The certificate, signed by the Vice President of the division concerned, officially submits its financial statements to the Finance and Accounting Division. In this document, the conditions in which the financial statements have been produced (precision, "exhaustive" nature of economic information, approvals and deadlines), the extent of justifications related to the financial statements, as well as the controls that have been completed, which have allowed them to proceed with these assessments.

A general evaluation letter including a summary concerning the quality of the accounting and assessing the internal accounting and finance control is attached to the certificate.

These two documents make it possible for the Chairman and Chief Executive Officer, the Vice President of the Finance and Accounting Division and Vice President of the Accounting Department to sign a representation letter addressed to the Statutory Auditors.

Role of the subsidiaries

The subsidiaries are responsible for the management of the risks to which they are exposed. Within each profit centre there is an audit function that, in connection with the Audit and Risk Management Division and the Group's Audit and Accounting Quality Division, checks the effectiveness of the control exercised by the subsidiaries that report to it.

The subsidiaries apply the Reporting Handbook's procedures for accounting and management reporting.

With respect to finances, in most of the companies, in particular operating companies, there is an internal control head that reports to senior management or the financial department and implements standardized control procedures.

In companies that have no internal control function, management auditors exercise control.

For holding companies and companies recently incorporated, the management control department conducts internal control activities.

The two subsidiaries of the Group belonging to the financial sector function within a regulated framework governed by the rules and standards of the banking sector. Notably, they are subject to the supervision of the banking commission *(commission bancaire)*.

Internal controls carried out by the subsidiaries are reviewed by the "finance and accounting audit" representatives present in the business segments. The Group's Audit and Accounting Quality Division attends summary meetings and is informed of the important events relating to the financial information for subsidiaries likely to affect the Group's financial risk evaluation and require particular attention.

The main subsidiaries deliver representation letters; this principle will be progressively applied to all subsidiaries. In this document, the Chairman, the Chief Operating Officer and/or the Vice President and Chief Financial Officer of the subsidiaries must assert their responsibility for the accuracy and consistency of the financial statements and covenant to communicate to the Statutory Auditors any information that could have an impact on the financial statements (undertakings, risks, internal control failure, etc.).

c) Control of financial information

The Group's Management Control Division and the Vice President for Financial Reporting must, after prior review by the chief financial officers of the profit centres, systematically approve messages including financial, economic or sensitive information.

d) Procedures for the establishment and control of separate accounts

In accordance with the French law dated January 3, 2003, every company engaged in one or more activities in the natural gas sector must have separate management accounts for the transmission, distribution and storage of natural gas as well as the operation of LNG facilities and all other activities that are not connected with natural gas.

In addition, in accordance with the French law dated August 9, 2004, any company engaged in an activity in the natural gas sector must create separate accounts for its activities involving the supply of gas to eligible and non-eligible customers.

Gaz de France obtains French Energy Regulation Commission *(Commission de régulation de l'énergie)* approval of the allocation rules, the scope of activities for which separate internal accounts are to be provided and the principles of separate accounting, which are incorporated into its information system.

Such separate accounts are not published.

3.2. Duties of Statutory Auditors

The firms ERNST & YOUNG and MAZARS & GUÉRARD act as the Statutory Auditors of the Gaz de France Group. Their term of office was renewed in 2002 for six fiscal years.

In the context of their assignment relating to the certification of the financial statements, they review the organization and operation of the accounting and internal control systems for finance and accounting impact, in order to determine the quality of the financial information that is generated. They give their recommendations on the procedures and internal control systems that could have an effect on the quality of the information produced.

In 2005, in addition to the audit of sensitive processes, the work of the Statutory Auditors focused predominantly on the application of IFRS standards, especially in the area of capital assets and financial instruments.

In almost all of the main subsidiaries, at least one of the Statutory Auditors belongs to the network of the Group's Statutory Auditors.

3.3. The quality process of the Finance and Accounting and Management Control Divisions

The three primary duties of the Finance and Accounting and Management Control Divisions with respect to Gaz de France's Senior Management are:

- optimizing financial performance;
- accelerating the availability of pertinent and reliable data for management;
- promoting the Group's financial image in the context of a share capital offering by reinforcing the notion of rigorous, honest and transparent accounting.

In applying the Group's risk management policies to its key processes, the Finance and Accounting and Management Control Divisions decided to put in place a quality management system for the "Production and reporting of the Group's financial information", which is one of the thirty key processes identified by Senior Management.

This plan was launched in 2005 and will be further pursued in 2006.

The Group's Audit and Accounting Quality Division leads the management of the account closing process. This entails specifying the organization of the due diligence required for the audit of Gaz de France's annual consolidated accounts, identifying the different actors in the closing process, identifying the process' critical tasks and at the same time assigning a level of risk to that task.

The key dates are included on a closing calendar that is communicated to all the participants involved in the process. This calendar is monitored daily, allowing at the end of the accounting period a review of experiences accompanied by an action plan for improvement. This plan is presented to a committee of directors of the Finance and Accounting and Management Controls Divisions.

APPENDIX D

Statutory Auditors' report, prepared in accordance with Article L. 225-235 of the Commercial Code, on the report prepared by the President of the Board of Gaz de France, on information given on the internal control procedures relating to the preparation and processing of financial and accounting information

Year ended December 31, 2005

In our capacity as Statutory Auditors of Gaz de France, and in accordance with Article L. 225-235 of the Commercial Code, we report to you on the report prepared by the President of your Company in accordance with Article L. 225-37 of the Commercial Code for the year ended December 31, 2005.

It is for the President to give an account, in his report, notably of the conditions in which the tasks of Board of Directors are prepared and organized and the internal control procedures in place within the Company.

It is our responsibility to report to you our observations on the information given in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We conducted our work in accordance with the professional guidelines applicable in France. These guidelines require us to perform procedures to assess the fairness of the information given in the President's report, on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the President's report; and
- obtaining an understanding of the work performed to support the information given in the President's report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the President of the Board's report, prepared in accordance with Article L. 225-37 of the Commercial Code.

La Défense, April 19, 2006

Statutory Auditors

ERNST & YOUNG AUDIT		MAZARS & GUERARD	
Patrick Gounelle	Philippe Hontarrède	Michel Barbet-Massin	Xavier Charton

E APPENDIX E

Fees paid by the Company to the independent statutory auditors

	2004			2005		
	Mazars & Guérard	Ernst & Young Audit	Total	Mazars & Guérard	Ernst & Young Audit	Total
Certification and audit of the individual and consolidated accounts by the independent Statutory Auditors	2,067	2,123	4,190	2,044	2,229	4,273
Related activities	493	479	972	1,595	1,949	3,554
Other services provided, of which:	9	835	844	16	409	425
• legal and tax related		691	691	1	388	389
• information technology						
• internal audit						
• other	9	144	153	15	21	36
TOTAL	**2,569**	**3,437**	**6,006**	**3,655**	**4,587**	**8,242**

(*) *The scope of consolidation for the declaration of fees is Gaz de France together with all the subsidiaries integrated globally.*
(**) *Related activities primarily includes work done to convert the Group's financial statement to IFRS standards and work related to the initial public offering.*

GAZ DE FRANCE

23, rue Philibert Delorme
75840 Paris Cedex 17 - France

tel.: +33 (0)1 47 54 20 20
fax: +33 (0)1 47 54 38 58

www.gazdefrance.com