

/ ANNUAL REPORT 2005



/ ACTIVE IN ALL SECTORS OF THE ENERGY BUSINESS

## A model of profitable and sustainable growth



### > Exploration

A benchmark operator in nine countries, Gaz de France prospects and develops new deposits in Europe, Algeria, Egypt and Mauritania. The medium-term objective is to own reserves of 1,000 million barrels oil equivalent (boe).

### > Production

Gaz de France produces natural gas (27.4 million boe in 2005), oil (15 million boe in 2005) and electricity. The objective is to produce 50% to 60% of its electricity sales in the long term. By 2012, the Group plans to own renewable energy assets that will account for 10% of its production of electricity.

### > Purchase of energy

Norway, Russia, Algeria, the Netherlands, the United Kingdom, Egypt, Nigeria and Libya are Gaz de France's prime suppliers of natural gas. Eighty-one percent of procurement is secured through long-term contracts. In 2005, Gaz de France signed its first significant contract to purchase electricity.

### > LNG terminals

Shipped by LNG tankers, liquefied natural gas is unloaded and regasified at the terminals in Montoir-de-Bretagne and Fos-sur-Mer, and the Fos-Cavaou terminal will increase total LNG capacity in 2007.

## ACTIVITIES STRUCTURED AROUND SIX BUSINESS LINES

On one side, businesses related to the production, purchase and sale of energy.

### Energy Supply and Services

Exploration and Production  
Purchase and Sale of Energy  
Services

On the other, **mainly regulated activities**<sup>1</sup>.

### Infrastructures

Transmission and Storage France  
Distribution France  
Transmission and Distribution International

<sup>1</sup> In compliance with the European Directive on the deregulation of the energy market.



### > Transmission

Gas is moved throughout France via 31,589 kilometers of pipelines that belong to the Gaz de France Group. It is the largest transmission system in Europe. Access is open to all the shippers that operate in France.

### > Storage

Natural gas is stored in underground facilities at 12 sites, representing a capacity of 9.1 billion m<sup>3</sup> in 2005, which are equally open to shippers working in France. The Group ranks second in the field of storage in Europe. This activity accounts for almost 25% of Gaz de France's annual sales in France.

### > Distribution

Natural gas is distributed through a 180,700-kilometer network of pipes serving more than 8,900 municipalities and 76% of the population of France. Open to all natural gas suppliers operating in France, the distribution network is Europe's largest.

### > Marketing and Sales

One of Europe's leading natural gas suppliers with almost 14 million customers, Gaz de France markets its energies (gas, electricity) through dedicated brands: Gaz de France energy<sup>®</sup> (large European customers), Provalys<sup>®</sup> (small businesses and professionals), énergies communes<sup>®</sup> (local governments) and DolceVita<sup>®</sup> (residential customers).

### > Services

Gaz de France proposes a wide range of services related to its energy offering, including the design, operation and maintenance of industrial facilities, comprehensive energy solutions for local governments and commercial premises, as well as boiler maintenance for residential customers.

## ORGANIZATION OF REGULATED OPERATIONS

The development and management of the transmission system in France are the responsibility of the Group subsidiary GRTgaz.

**Distribution in France** is conducted by two entities.

The Gaz de France Distribution Strategy division oversees the development of distribution assets, manages the access of all natural gas suppliers to the Gaz de France network, and negotiates with franchising local governments.

The EDF Gaz de France Distribution Operations division, a joint venture with EDF, is responsible for operating the system.

GRTgaz

EDF Gaz de France Distribution Operations  
Gaz de France Distribution Strategy

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# Profile

## / Businesses

A major energy player in Europe, Gaz de France produces, purchases, transports, distributes and sells energy (natural gas, electricity) and related services to all its customers (residential, business/commercial, and local government users).

## / An ambition

To rank among the leading energy utilities in Europe so as to supply energy and services at a competitive price, be recognized as a benchmark infrastructure operator in Europe, promote sustainable development and create value for shareholders.

## / Decisive advantages

Gaz de France has strong positions in the European energy market. As of December 31, 2005, the Group:

- › operated the largest natural gas *transmission system*\* in Europe;
- › managed the largest European natural gas *distribution network*;
- › was a leading European supplier of natural gas;
- › had one of Europe's most diversified natural gas procurement portfolios;
- › was one of Europe's largest buyers of natural gas.

\* The terms in italics are defined in the Glossary on page 54.

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**22.394**  
billion euros  
in net sales

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**36.4%**  
of the Group's  
net sales outside  
of France

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**1.743**  
billion euros  
net income  
Group share

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**14.503**  
billion euros  
shareholders' equity

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**52,958**  
employees

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**749**  
billion kWh  
of natural gas sold

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## An international group



Égáz headquarters in Hungary



Production facility operated by Gazprom, a major Russian supplier of Gaz de France



Shotton CHP plant

Gaz de France operates in more than 30 countries. The Group is a qualified exploration and production operator in nine countries and ranks among the largest buyers of *liquefied natural gas* in the world. It has more than 19,000 employees outside of France, representing approximately 36% of the total workforce. International activities account for 36.4% of total net sales.

### > A strong base in Europe

The Group conducts the majority of its activities through distribution, transmission and marketing subsidiaries in Europe.

### > International suppliers

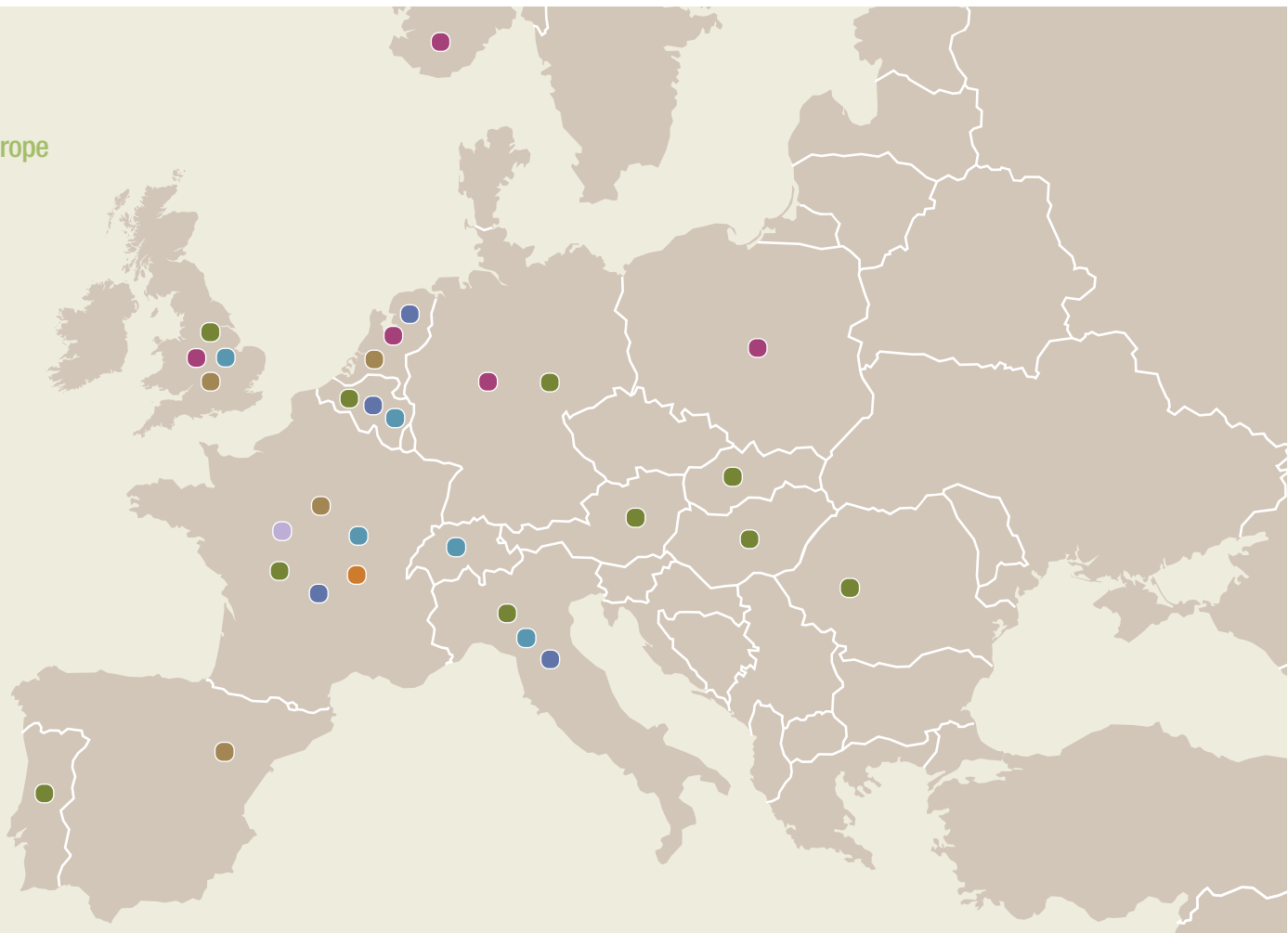
The Group is active outside of Europe through its exploration and production activities and natural gas procurement. Its exploration and production projects and the ongoing diversification of its suppliers will give Gaz de France the opportunity to operate in other countries.

### > Two-pronged development

The Group plans to play an active role in the trend to consolidation in the energy sector in Europe:

- by developing its presence in infrastructures to supply and secure the European market through participation in major transmission, storage and LNG projects;
- by identifying opportunities for growth in distribution in Europe.

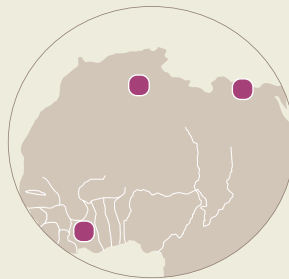
## > Europe



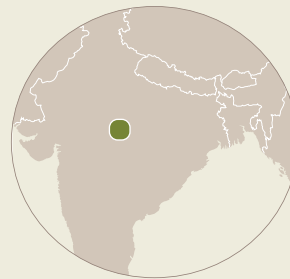
## > North America



## > Africa



## > India



### SUBSIDIARIES

- Exploration and Production
- Services
- Distribution France
- Purchase and Sale of Energy
- Transmission and Storage France
- Transmission and Distribution International
- Other

/ MESSAGE FROM THE CHAIRMAN

# 2005, a major step forward



“For us, deregulation primarily means more customer services and combined gas and electricity offerings, since many consumers have expressed the wish to have a single supplier for both gas and electricity.”

2005 was a very good year for Gaz de France, as evidenced by the success of its IPO on July 8 and the achievement of its financial objectives in spite of a difficult energy environment. These good results demonstrate the pertinence of our growth model and the motivation and drive of all the Company's teams, ensuring its success. They also highlight our customers' confidence in the full range of Gaz de France brands.

We met and even exceeded our objectives, in spite of a significant rise in energy prices and strong pressure on supplies. We had committed to generate net income of more than 1.5 billion euros, and we did better than planned with the highest net income (Group share) in our history, which totaled 1.74 billion euros. At 4.26 billion euros, EBITDA was up 2.2%, within the announced range. Last but not least, the total dividend paid for 2005 increased by 60%, beyond the objective of 40% forecast at the time of the IPO.

These good results also reflect our dynamic achievements in marketing and sales. Sales of gas increased by 6% in 2005. In France, we won more than 240,000 new customers. In Europe, the Group took over Distrigaz in Romania and acquired an equity interest in SPE, Belgium's second largest electricity utility. International activities now account for 36% of net sales, and with almost 14 million customers, we have become the leading European supplier in terms of the number of gas customers.



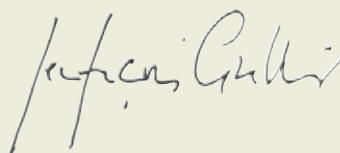
At the same time, the Group reinforced the security of its supply chain. In 2005, we took delivery of the first shipments of Libyan gas, which will be used to supply our 700,000 Italian customers, and gas from Egypt, which as of 2006 will represent 10% of our natural gas supplies. Altogether, we have the most balanced supply portfolio in Europe. In 2005, Gaz de France began to produce electricity, in particular by starting up operations at the DK6 plant in Dunkerque, which has a production capacity of almost 800 MW. For us, deregulation primarily means more customer services and combined gas and electricity offerings, since many consumers have expressed the wish to have a single supplier for both gas and electricity. That is why Gaz de France is bolstering its capacity in electricity.

The outlook for 2006 is promising. Our ambition is to be a leading European energy utility, and this involves four main objectives – to confirm our standing as the benchmark supplier of natural gas, to pursue a procurement policy that guarantees the Group's competitiveness in gas and electricity for the benefit of our customers, to bolster our position in infrastructure businesses and accelerate our development in Europe.

These prospects are, of course, to be viewed in the framework of our projected merger with Suez. The project is in line with our strategy. This great project is ambitious and European with a dynamic of growth and development for the customers, employees and shareholders of Gaz de France.

**Jean-François Cirelli,**

Chairman and Chief Executive Officer, Gaz de France



/ CORPORATE GOVERNANCE

# Executive Committee of Gaz de France (as of March 31, 2006)



/ Members of the Executive Committee

- 1** Chairman and Chief Executive Officer  
Jean-François Cirelli
- 2** Chief Operating Officer  
Yves Colliou
- 3** Chief Operating Officer  
Jean-Marie Dauger
- 4** Vice President, Strategy  
Stéphane Brimont
- 5** Senior Vice President,  
International  
Pierre Clavel



- 6 Vice President, Equity Acquisitions**  
Emmanuel Hedde
- 7 Chief Financial Officer**  
Philippe Jeunet
- 8 Vice President, Market Development and Sales**  
Jean-Pierre Piollat
- 9 Vice President, Corporate Communications**  
Raphaële Rabatel
- 10 Senior Vice President, Human Resources**  
Philippe Saimpert

## / Executive Committee

The Executive Committee is the Group's principal strategic policy body. Chaired by Jean-François Cirelli, Chairman and Chief Executive Officer, it is composed of:

- the two Chief Operating Officers,
- the officers in charge of the Group's operating branches,
- the Vice Presidents in charge of human resources, strategy, corporate communications and equity acquisitions, and the Chief Financial Officer.

It examines questions and approves decisions related to the Group's strategy and general management oversight, in particular, the Company's investment programs. It prepares and implements the decisions of the Board. It meets every week to discuss strategic issues that cut across divisions or concern a particular sector. The agenda is determined on the basis of member proposals.

## / CORPORATE GOVERNANCE

## Board of Gaz de France (as of March 31, 2006)



## / Board

The Board is composed of 18 members appointed or elected for a period of five years. They fall into the following categories:

- six representatives of the French government named by decree issued by the Ministère de l'Économie, des Finances et de l'Industrie;
- six members elected by the Shareholders' Meeting;
- six employee representatives elected in conformity with law n° 83-675 of July 26, 1983, on the democratization of the public sector.

The members' charter requires that the members of the Board of Gaz de France exercise their functions with independence, loyalty and professionalism.

**The Board relies on two advisory committees.**

The role of the Audit and Financial Reporting Committee is to examine the relevance of current financial reporting policies, the financial statements, the budget, internal control and audit, risk management and the performance of the Group's main subsidiaries and affiliates.

The role of the Strategy and Investments Committee is to give its opinion to the Board on the main strategic policies implemented by the parent company and the Group, significant investment and disposal projects, and any other question concerning corporate strategy and investments the Board asks the Committee to study.

## / Members of the Board

## CHAIRMAN

**1 Jean-François Cirelli<sup>(2)</sup>**

Chairman and Chief Executive Officer

**2 Olivier Barrault<sup>(3)</sup>**

sponsored by the Fédération Nationale des Syndicats du Personnel des Industries de l'Énergie Électrique, Nucléaire et Gazière C.G.T.

**3 Jean-Louis Beffa<sup>(2)</sup>**

Chairman and Chief Executive Officer, Saint-Gobain

Chairman, Claude Bernard Participations  
Vice Chairman, BNP Paribas

**4 Éric Buttazzoni<sup>(3)</sup>**

sponsored by the Fédération Nationale des Syndicats du Personnel des Industries de l'Énergie Électrique, Nucléaire et Gazière C.G.T.

**5 Bernard Calbrix<sup>(3)</sup>**

sponsored by the Fédération chimie énergie C.F.D.T.

**6 Aldo Cardoso<sup>(2)</sup>**

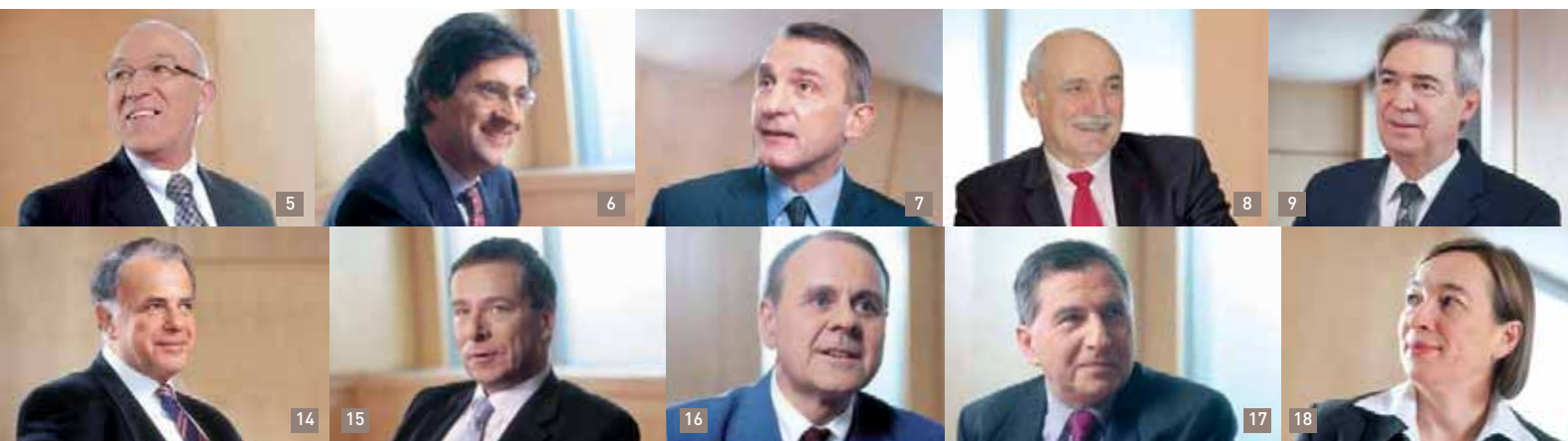
Member of the Board of Directors, Orange, Rhodia, Imerys, Accor and Mobistar (Belgium)  
Director, Axa Investment Managers and Bureau Veritas

## / Board member participation in 2005

- Plenary sessions of the Board (10 meetings): **84%**
- Audit and Financial Reporting Committee (9 meetings): **91%**
- Strategy and Investments Committee (5 meetings): **89%**

**Board members' fees**

- 2,000 euros per Board meeting
  - 1,250 euros per Committee meeting
- Representatives of the French government and employee representatives are paid no fees.

**7 Paul-Marie Chavanne<sup>(1)</sup>**

Executive Vice President, La Poste Group  
Chairman and Chief Executive Officer,  
Geopost Group

**8 Guy Dollé<sup>(2)</sup>**

President of the Management Board, CEO,  
Arcelor

**9 Christian Frémont<sup>(1)</sup>**

Préfet of the Provence Alpes-Côte-d'Azur  
Region

Préfet of Bouches-du-Rhône

**10 Clara Gaymard<sup>(1)</sup>**

President, Investment in France Agency  
Ambassador, special representative  
of France for international investment

**11 Yves Ledoux<sup>(3)</sup>**

sponsored by the Fédération Nationale  
des Syndicats du Personnel des  
Industries de l'Energie Electrique,  
Nucléaire et Gazière C.G.T.

**12 Peter Lehmann<sup>(2)</sup>**

Member of the Board, Northern Ireland  
Authority for Energy Regulation

**13 Jean-François Le Jeune<sup>(3)</sup>**

sponsored by the Fédération Nationale  
de l'Electricité et du Gaz C.G.T. - F.O

**14 Philippe Lemoine<sup>(2)</sup>**

Chairman and Chief Executive Officer,  
LaSer

Chief Executive Officer, Sygma Banque  
and Cofinoga

**15 Jacques Rapoport<sup>(1)</sup>**

Secrétaire général des ministères,  
in charge of social affairs  
Inspecteur général des finances

**16 Daniel Rouvery<sup>(3)</sup>**

sponsored by the Fédération des Industries  
électriques et gazières CFE-CGC

**17 Denis Samuel-Lajeunesse<sup>(1)</sup>**

Chief Executive Officer, Agence  
des participations de l'Etat, Ministère  
de l'Economie, des Finances  
et de l'Industrie

**18 Florence Tordjman<sup>(1)</sup>**

Subdirector, Gas and Distribution of  
Fossil Fuel Energies, Energy and Raw  
Materials division, Ministère de  
l'Economie, des Finances et de  
l'Industrie

(1) Representatives of the French government

(2) Members of the Board elected by the  
Shareholders' Meeting

(3) Elected employee representatives

## Other qualified individuals attending Board meetings

### SECRETARY, CONSEIL SUPÉRIEUR CONSULTATIF DES CMP

René Camporesi

### COMPTROLLERS

Charles Coppolani

Chief of the Economic and  
Financial Control unit

Dominique Lemaire

General Comptroller

### CHIEF OPERATING OFFICERS

Yves Colliou

Jean-Marie Dauger



## / Challenges

# A major player in the European energy market

In 2005, through an Initial Public Offering (IPO), Gaz de France acquired the resources it needed to strengthen its position as a leading energy player in Europe. The Group confirms its ambition and reaffirms its commitment to sustainable development.

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### / An energy utility

The natural gas market is growing rapidly, but as suppliers search for the best solutions for their customers and competition increases, Gaz de France must rapidly diversify its energy offering. This diversification begins by building an electricity production capacity. Fifty to sixty percent of the electricity portfolio will be composed of the Company's own resources, produced in the Group's power plants in France and other countries. Gaz de France targets proprietary electricity production capacity of 5,000 MW in the medium term. Long-term procurement contracts with producers will complement these resources for 20% to 30%, and the rest will be acquired on the market. By the end of 2007, 100 MW may be produced from renewable energies. By 2012, the Group plans to own renewable energy assets that will account for 10% of its power-generating facilities. The Group will

thus be able to propose combined gas-electricity offerings with related services to ensure the loyalty of gas heating customers in France, thereby increasing Group margins.

### / A European dimension

The Group has always been European by reason of its activities in the exploration and production, procurement and transmission of natural gas. At a time when the European energy landscape takes on new forms, Gaz de France affirms its determination to rank among Europe's energy leaders. Its development strategy is focused on Europe and defined country by country. It targets the acquisition of firms that have gained independence through privatization in new countries, and the profitable expansion of the Group's role in the countries in which it is already present. The Group plans to invest 17.5 billion euros<sup>1</sup> in the period 2005-2008. Gaz de France also plans to participate in the development of new routes for the transportation of LNG and in large-scale projects designed to enable European energy infrastructures to keep pace with the growing demand.



DK6 combined cycle power plant at Dunkerque

<sup>1</sup> IPO data





Gaz de France operates in Hungary

### / Efficiency and responsibility

To ensure its commitment to increase EBITDA in 2006, Gaz de France bolsters its investment strategy by a proactive policy to enhance productivity and the financial results of the Group's activities.

Gaz de France also implements an ambitious sustainable development strategy. A condition of its growth, this policy sets three priorities for 2005-2006:

- to address the energy challenges of today and tomorrow by active programs to fight against global warming, increase energy efficiency and develop renewable energies;
- to meet the expectations of stakeholders by limiting its impacts and participating in local development;
- to develop a corporate culture and implement a human resources policy that match the Group's challenges and development in Europe.

### / DYNAMIC GROWTH

According to the International Energy Agency, natural gas will become the world's second source of energy by 2030. In Europe, its share in total energy consumption is expected to rise from 23% in 2002 to more than 32% in 2030, and its share in the production of electricity to increase from 15% to 32%. This growth is boosted by increased demand and the environmental qualities of natural gas, the fossil energy that produces the lowest CO<sub>2</sub> emissions. Bolstered by these strong growth markets, Gaz de France has defined four strategic priorities:

- to develop an ambitious commercial strategy;
- to pursue a procurement policy that guarantees the Group's competitiveness;
- to strengthen Gaz de France's position in infrastructure businesses;
- to accelerate the Group's profitable development in Europe.

#### OBJECTIVE

**15%**  
of the  
natural gas

market in  
Europe in the  
medium term



Nicolas Vanier, Gaz de France's partner in the fight against global warming



## SHAREHOLDERS' REVIEW

We thank all  
the shareholders  
who have  
demonstrated  
their confidence  
in Gaz de France

## / Gaz de France IPO

On July 7, 2005, almost 20% of Gaz de France's capital was sold in an IPO. It had previously been 100%-owned by the French State. The share was first traded on July 8. The Initial Public Offering was a success. The Group became part of the CAC 40 stock market index on September 1, 2005, and of the Dow Jones Stoxx 600 index on September 19, 2005.

### GAZ DE FRANCE SHARE INFORMATION

ISIN code:  
**FR0010208488**  
 Mnemonic:  
**GAZ**

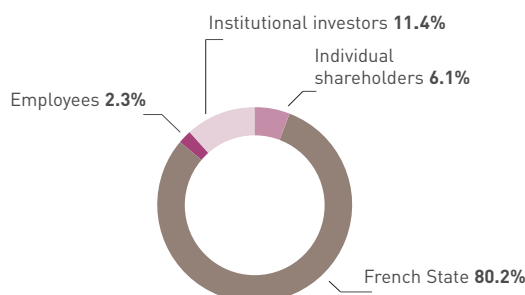
Listing:  
**Euronext Paris**

Total number  
 of shares:  
**983,871,988**

Market  
 capitalization  
 as of 12/31/2005:  
**24.361 billion euros**

Indexes:  
**CAC 40, SBF 120,  
 Euronext 100,  
 CACALL SHARES,  
 Dow Jones  
 Stoxx 600**

### Shareholding structure



The Group has 1,230,111 individual shareholders who represent 6.1% of the capital; 12,343 institutional shareholders with 11.4% of the capital and 69,000 current and former employee shareholders with 2.3%. The French State is the Company's main shareholder with 80.2% of the capital.

*[Shareholders identified as of November 30, 2005]*

### / A dynamic dividend policy

When the Company went public, Gaz de France committed to implement a policy of regular growth in dividends. On the basis of the 2005 results, a dividend per share of 0.68 euro, up 48% from 2004, will be submitted to the Annual Shareholders' Meeting that has been called for May 24, 2006. The total dividend to be paid for 2005 represents an increase of 60%, well beyond the 40% objective the Group announced at the time of the IPO.

### / First Annual Shareholders' Meeting, October 7, 2005

Gaz de France's first Annual Shareholders' Meeting brought together 400 individual, institutional and employee shareholders in Paris. Its purpose was to appoint the six members of the Board, who with the six employee representatives and the six members named by decree of the French government, make up the Board. The members nominated<sup>2</sup> were all elected.



Annual Shareholders' Meeting, October 7, 2005

### / Information available

To maintain constant dialogue with its shareholders, the Group makes available a variety of sources of information, including a website, a toll-free telephone number, a newsletter, and a shareholder's guide. In the last quarter of 2006, shareholders' meetings, visits to facilities and pedagogical training sessions on how the stock market operates will round out these initiatives.

<sup>2</sup> Jean-François Cirelli, Jean-Louis Beffa, Aldo Cardoso, Guy Dollé, Peter Lehmann, Philippe Lemoine

## Gaz de France share price in 2005



## CALENDAR

Annual  
Shareholders'  
Meeting:  
May 24, 2006

Dividend paid:  
May 30, 2006

## Shareholders' log

Share price (on July 7, 2005)	23.20 euros (IPO)
Share price (on December 31, 2005)	24.76 euros
Highest price (between 7/7/2005 and 12/31/2005)	28.54 euros
Lowest price (between 7/7/2005 and 12/31/2005)	24.37 euros
Number of shares (as of 12/31/2005)	983,871,988
Market capitalization (as of 12/31/2005)	24.361 billion euros
Dividend per share 2004 pro forma	0.46 euro
Dividend per share 2005	0.68 euro <sup>3</sup>

<sup>3</sup> Subject to the approval of the Annual Shareholders' Meeting

## / www.gazdefrance.com

Under the Finance heading, the Web site of Gaz de France has an area reserved for institutional investors and an area reserved for individual investors. An area for employee shareholders is lodged on the Group's intranet. Real-time information is available on the share price, Company events, the annual and semiannual financial statements, and shareholders' meetings. Practical information on the stock market and shareholding can be consulted and all public documents downloaded.

## / CONTACTS

### Investor Relations

33 1 47 54 77 25  
GDF-IR-TEAM@gazdefrance.com

### Individual shareholders

33 1 41 33 20 19  
actionnairesindividuels@gazdefrance.com

### Employee shareholders

actionnariat.salarie@gazdefrance.com

## / Financial Highlights

With a 29% increase to 1,743 million euros, net income (Group share) for 2005 is the highest ever reported by the Group. For 2006, the Group targets strong growth in EBITDA and net income (Group share).

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Certain statements in this report that describe Gaz de France's intentions, expectations or projections may constitute forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievement to be materially different from its intentions, expectations or projections. The forward-looking statements in this report speak only as of its date and Gaz de France undertakes no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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### / Business

In a general environment characterized in 2005 by a sharp rise in the price of petroleum products, Gaz de France reported significant growth in activity and income.

Consolidated net sales 2005 rose to 22,394 million euros, up 28%. The growth primarily resulted from higher selling prices of natural gas, which reflected a rise in procurement costs that followed an increase in the price of petroleum products, but also increased energy sales. Natural gas sales totaled 749 billion kWh at the end of 2005.

The percentage of net sales generated by international activities grew to account for 36.4% of the Group's net sales in 2005 (30% in 2004\*).

### / Results

In 2005, the Group's EBITDA, excluding IAS 32/39, totaled 4,263 million euros, in line with the Group's objective of 0% to 3% growth in EBITDA in 2005.

The Group's operating income amounted to 2,784 million euros in 2005.

Consolidated net income (Group share) totaled 1,743 million euros in 2005, up 29% from 2004\*.

Net income per share increased by 23% to 1.85 euros.

### / Financial structure

In 2005, the Group's operating cash flow (before tax and change in working capital requirements) was 4,229 million euros.

Investments were up 44% to 3,061 million euros – capital expenditures increased by 20% to 2,387 million euros and external growth investments totaled 674 million euros, primarily owing

to the acquisition of an equity interest in Distrigaz Sud and SPE and the increased holding in Savelys. Shareholders' equity stood at 14,803 million euros at the end of 2005. With Group net debt of 2,993 million euros at the end of 2005, the debt-to-equity ratio was 20% at the end of the year.

### / Outlook for 2006

When the results for the fiscal year 2005 were announced on March 16, 2006, the Group's objective for the year 2006 was growth in EBITDA of more than 12% and net income (Group share) exceeding 2 billion euros. These prospects were based on the price of oil at that date and excluding any costs linked to the projected merger of Gaz de France and Suez.

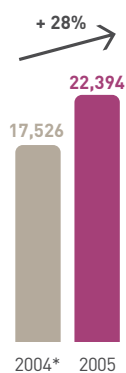
Following the French government's announcement on March 21, 2006, that the April 1, 2006, rise in rates was to be limited to 5.8%, the Group stated that 2006 EBITDA would be negatively impacted in the amount of 125 million euros. It nevertheless indicated that it was not altering its financial objectives for 2006, if prices for petroleum products remained at the current level.

The Group also intends to pursue a dynamic dividend policy. The increase in the dividend will be greater than the rise announced when the IPO took place. The Group plans to distribute a dividend of more than 1 euro<sup>4</sup> per share as of 2006.

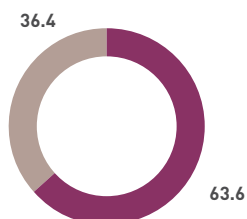
\* Pro forma IFRS after the reform of the pension financing system

<sup>4</sup> This objective in no way represents a commitment by Gaz de France. The effective distribution of dividends is appreciated by the Board after each fiscal year on the basis of the Group's results, its financial base and any other relevant factors.



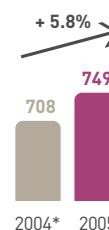


**NET SALES**  
(millions of euros)

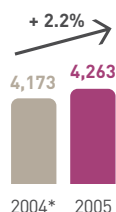


**PERCENTAGE OF 2005 NET SALES  
GENERATED BY INTERNATIONAL ACTIVITIES**  
(%)

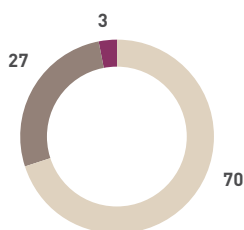
■ France  
■ International



**SALES OF NATURAL GAS**  
(billions of kWh)

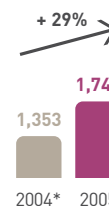


**EBITDA**  
excluding IAS 32/39  
(millions of euros)

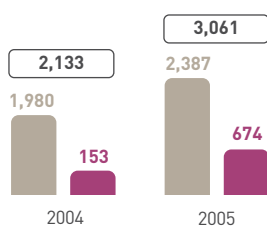


**EBITDA BY SEGMENT IN 2005** (%)

■ Energy Supply and Services  
■ Infrastructures  
■ Other

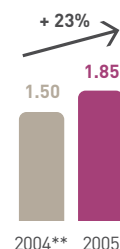


**CONSOLIDATED NET INCOME**  
(Group share)  
(millions of euros)

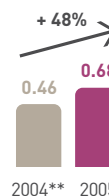


**INVESTMENTS**  
(millions of euros)

■ Capital expenditures  
■ External growth investments  
○ Total



**CONSOLIDATED NET INCOME**  
(Group share) per share  
(euros)



**DIVIDEND PER SHARE**  
(euros)

\*\*Average number of shares in 2005: 943,435,994 versus 903,000,000 in 2004 adjusted for the stock split



BUSINESS REVIEW

Backed by  
its experience,  
Gaz de France  
accelerates its  
development

## / Energy Supply and Services

# Imagining tomorrow's offerings



In 2005, Gaz de France continued to diversify its supply sources, boosted the competitiveness of its offerings in the supply of energies and related services, and confirmed the Group's aggressive progress.

/ **JEAN-MARIE DAUGER**, CHIEF OPERATING OFFICER

"Sustainable development is part and parcel of our corporate culture. In the energy business, it is an essential criterion of our activities. As the planet's energy needs incessantly continue to increase and resources are limited, it is necessary to use energy in a rational manner. This is why we have always encouraged our customers to conserve energy. This value added will be our primary competitive advantage in the market that is now opening up."



Energy Supply and Services includes very diversified but complementary lines of business, from the discovery of natural gas to its sale to the end user. In exploration and production, Gaz de France is a qualified operator in nine countries. Energy procurement ensures supply through long-term contracts and spot purchases, as opportunities occur. Energy is sold under dedicated brand names, and is associated with services that boost the value of the offerings and lock in customer loyalty in Europe.

### / New world of energy

To back its growth ambitions, Gaz de France secures its energy resources. The Group continues to expand its natural gas procurement portfolio, working closely with its traditional suppliers and with new parts of the world via LNG chains, e.g. Egypt. At the same time, the Group develops its electricity capacity to meet customer demand for combined gas-electricity offerings.

### / Commercial offensive

To become France's preferred energy supplier, Gaz de France has bolstered its offerings by combining energies and associating efficient services, such as boiler maintenance for residential customers and energy audits for local governments.

To rank among Europe's leading energy utilities, the Group optimizes the profitability of sales to its key accounts, proposes its energy offerings in Europe and promotes its dedicated brands.

### / Preparing for 2007 unbundling

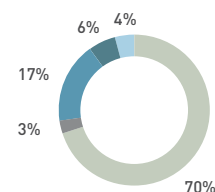
Gaz de France's Energy Supply and Services activities are actively preparing for the deregulation of the residential energy market. Customer confidence in the Group, the reliability of its supplies, its innovative services and the competitiveness of its offerings will be decisive arguments.

# Almost 27%

of Group EBITDA

# 11.1 million customers

in France  
and 2.7 million  
throughout  
the world



**Energy Supply and Services**

- Exploration and Production
- Purchase and Sale of Energy
- Services

■ Infrastructures  
■ Not allocated

**BREAKDOWN  
OF EBITDA**

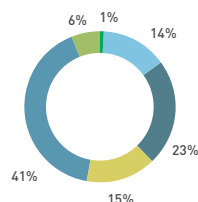
## Energy Supply and Services

## Exploration and Production

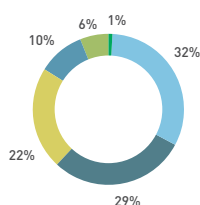
## New growth reserves for the Group

The first stage in the gas industry, Exploration and Production reported strong growth in net sales in 2005, generated significant profitability, and honed its growth strategy. The Group is a qualified operator in nine countries.

#### GEOGRAPHIC BREAKDOWN OF RESERVES (GAS AND LIQUID HYDROCARBONS)



#### GEOGRAPHIC BREAKDOWN OF PRODUCTION (GAS AND LIQUID HYDROCARBONS)



## / A year of transition

In 2005, net sales were boosted by the rise in the price of oil and for the first time rose to more than 1 billion euros, accounting for 5% of the Group's net sales and for 17% of EBITDA. This sector's EBITDA totaled 726 million euros.

The production of natural gas stood at 27.4 million barrels oil equivalent (boe), down 17% from 2004 and in line with forecasts. This temporary decrease was linked to the gap between the shutdown of former deposits and the startup of new fields, and comes before a scheduled significant upturn in production in 2006. The production of oil totaled 15 million boe, up almost 18% from 2004, but investments are required to offset the fact that the oil fields have arrived at maturity and to maintain the current level of production. At the end of 2005, the Group's reserves totaled 753 million boe, compared with 695.3 million boe in 2004, of which 72% were gas reserves. The replacement rate of exploration and production reserves in 2005 stood

at 236%. In 2005, 11 exploratory and appraisal wells out of 13 were successfully drilled in the Netherlands, Norway, the United Kingdom, Germany and Algeria.

## / Egypt and Mauritania

The foreseeable depletion of resources in the North Sea is an incentive for Gaz de France to expand its field of *exploration* and production to more distant geographic regions. In 2005, The Group became an operator in Egypt by negotiating the 100% franchise of the West El Burullus offshore *deposit*, off Alexandria. Seismic surveying will begin in 2006, and the first wells will be drilled in 2007. Production is scheduled for 2010.

The agreement signed with the British oil company Dana Petroleum illustrates the new dynamics in the sector. Gaz de France has entered the Mauritanian *upstream* market by an exchange of equity interests. Negotiations with Wintershall strengthened the Company's presence in the most promising *block* with the possibility that the Group take responsibility for operations once production begins.



Platform in the North Sea





## / Interview

**JAN TREFFERS**, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, GAZ DE FRANCE PRODUCTION NEDERLAND B.V.

In 2005, ProNed drilled four exploration wells offshore on the Dutch Continental Shelf. Two wells were in license block K12, already in production since 1983, and two wells in license block G14, from which production commenced in early 2006. Three out of the four exploration wells were successful and added approximately 10.7 million boe to ProNed's reserves, which exceeded our production in 2005. Since Gaz de France acquired ProNed in 2000, we have been very successful in offshore exploration in the Netherlands with a success ratio of 65% for the average of four exploration wells we drill every year. Given our current portfolio, we plan to drill four more exploration wells in 2006.

## / Targeted exploration investments

Gaz de France has an ambitious objective – to own 1,000 million boe of proved and probable reserves. The ongoing rise in the price of oil makes production assets more expensive and justifies a sustained exploration development strategy. In 2005, the Group invested 114 million euros (tax included) in exploration, representing a significant increase in that budget in comparison with the previous three years.

**27.4**  
million  
boe

of natural gas  
produced

The Group's other strategic focus is the concentration of investments and efforts on several large fields with high profitability. Eventually, the Touat field in the south of Algeria, for which the Group has had an exploration and production license with Sonatrach since 2002, is expected to produce a significant quantity of gas. The Gjoa and Snøhvit fields in Norway and the LNG operations in Mauritania count among the major projects the Group has also decided to focus on.

## / Development that is well understood

Success cannot exist without involvement in the local economy. In Algeria, for example, the Solimed medical van traveled through the Adrar region, where the Touat field is located. The Group backed this initiative, in partnership with the government and local Algerian companies. Training local qualified staff to meet the needs of projects in Algeria and Mauritania is also a current practice at Gaz de France in terms of local economic benefits, ensuring its long-term involvement in these countries.

## Energy Supply and Services

# Purchase and sale of energy > Energy procurement

## Securing the Group's energy resources

A key stage in the gas industry, energy procurement activities develop Gaz de France's supply portfolio implementing a proven strategy based on long-term contracts, partnerships with major suppliers, competitive energies and the development of an electricity capacity.

# 24%

of Group supplies  
represented by  
LNG in 2005

### / Risk control

In 2005, the Group's natural gas supplies totaled 669 billion kWh, making Gaz de France one of Europe's largest buyers of natural gas. Eighty-one percent of these supplies came from long-term contracts, 16% were purchased on the spot and short-term markets, and 3% were provided by Group reserves.

With one of the most diversified portfolios in Europe, Gaz de France continues to develop relations with its major suppliers in Norway (30%),

Russia (23%), Algeria (18%) and the Netherlands (17%). The increase in shipments of Libyan gas via the underground Gela pipeline in Sicily helps secure supplies, as does the protocol signed with Gazprom in September 2005, which strengthens cooperation between the two companies.

Gaz de France's ambition is to have a 15% share of the European natural gas market in the medium term, and this objective is an incentive for the Group to expand the portfolio of its main suppliers.

The use of short-term markets enables Gaz de France to match demand and secure its supplies. Its energy-trading subsidiary, Gaselys, trades in the markets and optimizes the competitiveness of its purchases.

### / Priority to renewable energy

Gaz de France develops its own electrical resources by focusing on the production of electricity from gas and renewable energies, primarily wind power and biomass. Wind-power production of 100 MW of environmentally friendly electricity is planned for 2007. In the United Kingdom, the Shotton CHP plant has been recognized as environmentally friendly since it generates little pollution.



Trading room

## / Interview



**CHRISTIANE LE CAMUS,**  
CONTRACT ADMINISTRATOR,  
SUPPLY AND TRANSIT  
DEPARTMENT

### What are the objectives and consequences of the new supply contract with Egypt?

The first shipment of Egyptian LNG was unloaded at Montoir-de-Bretagne on July 21, 2005, and the planned annual pace of 60 shipments by large LNG tankers began in November. This new contract (4.8 billion m<sup>3</sup> per year) represents an increase of almost 50% of Gaz de France's LNG resources. Through Egyptian LNG, Gaz de France has acquired greater flexibility in its supply portfolio management and capitalizes on its positions in the LNG market, especially in the Atlantic basin.

## / First deliveries of Egyptian gas

The growing distance between the places where natural gas is consumed and production sites makes the transport of liquefied natural gas (LNG) more and more competitive. As Europe's second largest LNG operator, Gaz de France has increased the portion of this type of transport in its procurement.

In July 2005, the Group took delivery of the first shipment of Egyptian LNG. By the terms of the contract signed in 2002, Gaz de France will import 4.8 billion m<sup>3</sup> of gas per year for 20 years, an amount that represents approximately 10% of its supplies. This contract made Egypt the fifth largest supplier of Gaz de France in 2005, on an equal footing with the United Kingdom. It has led to new investments in LNG transport and unloading capacity with the construction of new tankers and an *LNG terminal* at Fos-Cavaou in the south of France. In 2005, Gaz de France also shipped natural gas from Libya to Europe.

The supply of LNG from Algeria and Nigeria boosted the percentage of LNG to 24% of Gaz de France's total supplies in 2005.

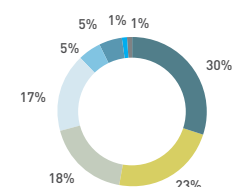
## / First production of electricity

The May 2005 startup of the DK6 facility represents an important stage in Gaz de France's electricity production strategy. A first in France, the Dunkerque combined cycle power plant uses either natural gas or Arcelor's blast-furnace gas to produce electricity. The result of an original partnership with the steel industry leader, DK6 gives Gaz de France a substantial production capacity of 533 MW of electricity, together with optimal energy efficiency. With the Shotton *cogeneration* facility in the United Kingdom (215 MW), in operation since 2004, and the Cartagena plant in Spain (1,200 MW), which is scheduled to start operations in 2006, DK6 consolidates Gaz de France's electricity production capacity, and gives concrete form to its diversification strategy.

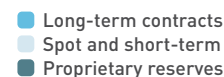
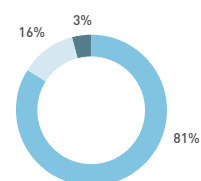
The Group continues to develop new projects with its partners. On January 10, 2006, Suez, via its subsidiary Electrabel France, and Gaz de France signed an industrial partnership agreement that aims to combine the development of two production sites in southern France.

### LONG-TERM NATURAL GAS PROCUREMENT PORTFOLIO

IN 2005 BY GEOGRAPHIC ORIGIN (including proprietary resources integrated into the Group's procurement portfolio and excluding spot and short-term transactions)



### PROCUREMENT PORTFOLIO BY TYPE OF SUPPLY



## Energy Supply and Services

# Purchase and sale of energy > Sale of energy

## France's preferred energy supplier

In 2005, with a natural gas market 70% open to competition, Gaz de France confirmed its relations with eligible customers and honed its competitive advantages and organization to be ready for the complete deregulation of energy markets in 2007.

---

104  
billion kWh

increase in sales  
to large European  
customers

---

### / Growth in all segments

On July 1, 2004, the market was opened to companies, professionals and local governments so that 70% of the market was deregulated. Twenty-two percent of *eligible customers* decided to ask for competitive bids. The majority preferred the offerings of Gaz de France. In 2005, energy sales reflected performance in all customer segments, in line with stated objectives.

- Sales to large industrial and commercial customers were confirmed, with 219 billion kWh of gas sold, including 104 billion kWh outside of France, up 35% from 2004.

- In the French market, sales in volume decreased slightly by 3% to 465 billion kWh, including 326 billion kWh in the deregulated market for corporate, professional and local government customers, and 139 billion kWh in the residential market.
- Efforts to win an additional one million heating customers between 2003 and 2007 were pursued, with half of the objective achieved by the end of 2005.
- For Gaz de France, the year 2005 marked a milestone in the sale of electricity to corporate and professional customers, for a quantity of electricity sold of 20.9 billion kWh (compared with 9.8 billion kWh in 2004), of which 14.4 billion kWh in the United Kingdom.

### / Rate formula

In 2005, the exceptional surge in the price of petroleum products resulted in a more limited increase in gas rates. By the terms of the decree of June 16, 2005, rates increased by 1.241 euros/MWh on July 1, 2005, by 0.9 euro/MWh on September 1, and by 4.45 euros/MWh on November 1. A new decree on December 29, 2005, modified the decree of June 16, and cancelled the January 2006 increase as well as the prior-period adjustments scheduled for January 1 and April 1, 2006. As of December 31, 2005, the Group was not allowed to pass the full rise in costs through to its rates, representing a loss in consolidated net sales of 500 million euros between November 2004 and the end of 2005. In the first quarter of 2006, in application of current legislation and its public service contract, Gaz de France requested compensation for these losses and the definition of rate increase rules that would secure the Company's financial base. As of March 31, 2006, natural gas rates in France remain among the most competitive in Europe.

## / Interview



**MARK BAILEY,**  
SALES AND SPECIAL MARKETS  
IN THE UNITED KINGDOM,  
GAZ DE FRANCE ENERGY  
SUPPLY AND SOLUTIONS

**Demand side management is a Gaz de France ESS innovation in electricity sales to large customers. What are the advantages?**

Gaz de France ESS offers a range of products to complement its supply contracts. Some are designed for customers that can control their consumption. These specialized products enable them to use their flexibility, and thus to reduce their energy costs directly, making Gaz de France ESS supply contracts more competitive. By providing integrated product offerings (electricity or natural gas), Gaz de France ESS reinforces its positive perception by a growing number of customers.

**243,000**  
new

natural gas heating  
customers

**Objective:**  
**1 million**

additional gas  
heating customers  
between 2003  
and 2007

## / New relations with customers

On July 1, 2007, the residential market for natural gas and electricity will be deregulated, and this includes the 10.4 million residential customers of Gaz de France. The Group prepares for this event by adapting its customer relations and billing services, which are now run by EDF Gaz de France Distribution Operations.

To ensure direct management of this segment in 2007, Gaz de France will organize its own customer relations activities by adapting 32 existing customer service centers previously managed by EDF Gaz de France Distribution Operations.

This new organization will enable Gaz de France to implement its new commercial strategy – to promote a combined gas-electricity offering with related services in order to ensure the loyalty of its residential customers in France. The organization of sales channels will also be redesigned.

DolceVita® boutiques have been opened in Toulouse, Lyon, Lille and Paris. The Group will also develop telephone sales and strengthen partnerships with installers, plumbers and electricians to remain close to its customers.



Gaz de France boutique in Toulouse

## Energy Supply and Services

### Services

# A major competitive advantage for Gaz de France

The final link in the energy chain, Services promote dynamic growth, accelerate the Group's development in Europe, introduce innovative offerings and play a decisive role in Gaz de France's commercial expansion



The new logo of Cofathec's non-French subsidiaries

#### / A successful year

In 2005, the Services segment reported net sales of 1.9 billion euros, up 33%, and expanded its portfolio in all the areas of competence that characterize its subsidiaries.

Cofathec Coriance won its bid to operate the district heating network that serves the southern French city of Pierrelatte and its neighboring greenhouses after a competitive tender in which major companies took part. The contract is worth 160 million euros over 20 years.

In Italy, Cofathec was commissioned to build and manage a trigeneration facility (electricity and HVAC) for the University of Sassari in Sardinia. This contract is for 35.5 million euros over 30 years. Cofathec was also awarded the maintenance contract for the 2006 winter Olympic Games in Turin.



Wood-burning heater at Alençon in Normandy

#### / Exemplary accomplishments

In France, the Alençon wood-burning heater illustrates Gaz de France's aggressive strategy with regard to renewable energies. The challenge was to heat 1,074 residences in a neighborhood by recycling waste from local sawmills. The solution developed by Cofathec Services uses wood, which provides 74% of the energy, gas and fuel oil. The result was an expected reduction in heating bills and exemplary control of greenhouse gas emissions.

In the United Kingdom, Cofathec and Gaz de France signed an agreement with the Energy System Trade Association (ESTA), which promotes energy efficiency in buildings. The first operation launched in partnership – "What colour is your building?" – encouraged architects and construction companies to evaluate dwellings on the basis of their heat loss.



Cofathec ADF won a European tender for the multi-technical maintenance of Shell refineries in France (Petit-Couronne near the English channel, and Berre in the south, near Marseille), an 80 million euro contract over 6 years.

Cofathec Services took on the complete renovation of the Tour Mornay high-rise in Paris (HVAC: 4.8 million euros) and the maintenance of the Beauchamp and Pithiviers 3M industrial sites near Paris (buildings, engineering, electricity, masonry: 5.8 million euros per year for 3 years).



Cofathec Services at work

### / Targeted acquisitions

The objective of the Services branch is to be present in all the countries in which Gaz de France sells energy, in order to enhance customer relations, win or ensure the loyalty of customers, and in any case increase customer value.

In Europe, the increased equity interest (from 20% to 59%) in Savelys, Europe's second largest specialist in residential boiler servicing, broadens the range of services Gaz de France offers its residential and professional customers, looking forward to the complete deregulation of the energy market. In Italy, the acquisition of AEM in Milan strengthens Cofathec's position in the heart of this industrial region. In France, the acquisition of Sermi at Le Havre enables Cofathec to display its expertise near oil industry sites in Normandy.

### / Developing partnerships

For Gaz de France, customer expectations are the starting point for all its offerings, which are developed in partnership.

In 2005, the Services segment oversaw the construction of the DK6 plant before assuming responsibility for its technical operation for 20 years. Arcelor wanted blast-furnace gas to be put to good use, since flaring is now forbidden. The solution proposed by Gaz de France, and developed in partnership with Arcelor, is a *combined cycle power plant* that is unique by its capacity to burn blast-furnace gas and natural gas simultaneously. Arcelor can thus be supplied with an alternative source of electrical energy, while providing Gaz de France with a substantial production capacity.

n°2  
in Europe

in residential  
boiler servicing  
via Savelys

50%  
of net sales

outside of France

## / Interview

YVES LEDERER, CHAIRMAN, COFATHEC CORIANCE

**Cofathec Coriance won a major contract: the operation of the district heating network in the southern French city of Pierrelatte and its neighboring greenhouses. What were the decisive advantages?**

Good synergies at the level of the Gaz de France Group enabled us to prepare this file upstream from the tender. Cofathec Coriance's development team then imagined innovative technical solutions and a rate policy adapted to the network's very specific environment. Lastly, we established a relation of confidence with the delegating authority by proposing truly balanced contractual clauses. In this way, the conditions were created to ensure a long-term partnership.



## / Infrastructures

# A pivotal role in European gas trading



In 2005, Gaz de France adapted to the new regulatory requirements, made significant investments in its system in France and strengthened its positions in Europe in order to confirm its role as a benchmark infrastructure operator.

**/ YVES COLLIOU, CHIEF OPERATING OFFICER**

"Of course, the deregulation of the energy markets has profoundly modified the organization of Gaz de France. But in fact, it only reinforces the responsible commitments the Group has always assumed. Our outstanding performance in terms of safety through to customer meters is an absolute priority. The acceleration of the program to replace grey cast iron mains is an illustration. Our exemplary performance with regard to non-discrimination and efficiency vis-à-vis all natural gas shippers will give leverage to our legitimacy throughout Europe and to Gaz de France's lasting success."



The Infrastructures branch owns and operates the French transmission system, two LNG terminals and gas storage facilities. It also ensures distribution to end users. These activities, most of which are regulated, generate recurrent revenues. They account for 70% of the Group's EBITDA. In Europe, the branch relays its transmission and distribution activities through subsidiaries and affiliates that secure delivery of supplies and contribute to growth.

70%  
of EBITDA

1.7  
billion euros

in capital expenditures  
(excluding external  
growth projects)

### / The system, a challenge in deregulation

An important part of Gaz de France's economic model, the management of infrastructures generates significant and recurring revenues, which assure the Company of a solid base. In 2005, to guarantee their efficiency in the framework of deregulation, Gaz de France invested 1.7 billion euros (excluding external growth projects), representing more than half of its total investment program. The development of the transmission system and *debottlenecking*, the renovation of storage facilities, the expansion of the distribution network to hook up a million additional customers in the period 2003-2007, and the securing of all the infrastructures provide Gaz de France with a highly efficient industrial tool.

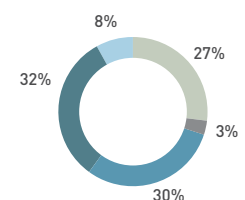
### / Unbundling, a challenge in regulation

Deregulation involves the creation of a transparent competitive environment that modifies the organization of infrastructure management. As of January 1, 2005, the management of the transmission system's 31,589 kilometers was transferred to GRTgaz, a separate corporate entity that is a Group subsidiary.

Gaz de France has become a shipper, like its counterparts, and GRTgaz applies strict neutrality. System access rates are set by public authorities on the recommendation of the French energy regulatory commission, which examines the actual costs incurred by the infrastructure manager. The next step is the unbundling of distribution activities. Gaz de France will thus be ready for the competition in 2007.

### / Europe, a major challenge

The deregulation of the energy markets stimulates the ambition of Gaz de France, which intends to become Europe's benchmark infrastructure manager. In 2005, while capitalizing on its assets in France, the Group fully integrated Distrigaz Sud in Romania and SPE in Belgium, signed transportation agreements in Germany, and stayed on the lookout for value-creating opportunities that might occur.



**Infrastructures**

- Transmission and Storage France
- Distribution France
- Transmission and Distribution International

- Energy Supply and Services
- Not allocated

**BREAKDOWN  
OF EBITDA**

## Infrastructures

## Transmission and Storage France &gt; Transmission

# Independence of the transmission system fosters natural gas trading

An historical activity of Gaz de France, the management of the natural gas transmission system is now in the hands of the subsidiary GRTgaz: 31,589 kilometers of pipelines throughout France, 2,650 employees and a public service mission that benefits all customer classes.

**711**  
billion kWh  
of gas transported

**280**  
million  
euros

invested per year  
for medium-term  
projects



A transparent  
operator serving all  
natural gas suppliers

## / Confirmed performance

In 2005, deregulation took concrete form. At the end of December, GRTgaz had 16 natural gas shipper customers versus 12 in 2004.

In 2005, the system carried exceptional quantities of gas, i.e. 711 billion kWh for the year, under the best conditions. At the end of the 2004-2005 winter, as weather conditions were particularly harsh for the season, GRTgaz beat its daily record by transporting 3.36 billion kWh of natural gas in a single day in February.



Changing a pipeline section

## / Guaranteed impartiality

As of January 1, 2005, in conformity with the European directive and French law, the operation, marketing and sales of transmission system activities were transferred to a subsidiary and unbundled from Gaz de France's supply activities. The entity took on its own identity to manifest the independence of its management bodies vis-à-vis the parent company, and its impartiality in the market. Its management system guarantees the confidentiality of all information concerning natural gas suppliers.

In 2005, GRTgaz drew up a code of good conduct, which is posted on its Internet site ([www.grtgaz.com](http://www.grtgaz.com)). It lists the categories of sensitive information, defines good conduct on the part of those who possess such information, and sets the rules of non-discrimination that are to be applied in constructing and marketing the offering. The code was distributed to the whole GRTgaz workforce, and its application was the subject of a first report in October 2005, which was submitted to the French energy regulatory commission.



New compressor station

### / Proactive and reliable

To facilitate access by natural gas suppliers, GRTgaz pursues a major program of investments in the French transmission system totaling 280 million euros per year in the medium term. In 2005, the startup of three new compressors that are more powerful and cause less pollution improved the fluidity of the transmission system and enabled all natural gas shippers to lock in transportation performance. This debottlenecking program will be continued in 2008 and 2009.

To bolster the safety and security of its facilities, GRTgaz inspects pipelines using online pigging technology. In 2005, 2,500 kilometers of additional pipelines were inspected, a pace that GRTgaz plans to continue over the long term.

In 2005, 15.5 million euros were invested to ensure the security and protection of the Company's assets, rehabilitation included. The protection of the transmission system in sensitive areas and the replacement of obsolete pipelines were covered by a supplementary budget line in 2005 in the amount of 19 million euros.

### / Interview



**DANIEL BOURJAS,**  
VICE PRESIDENT, MARKETING AND SALES,  
GRTgaz

#### Use it or lose it

"The full range of transportation offerings was finalized at the beginning of 2005, with the possibility for shippers to buy capacity on a daily basis. To meet market needs, since December 2005, GRTgaz has made it possible for shippers to buy unused capacity a day ahead at entry and interconnection points that are considered saturated. This short-term mechanism, called Use It Or Lose It, has proved to be successful since it was introduced because it enables shippers to maximize capacity use."

# 31,589

km of pipelines

# 27

compressor stations

### / Respecting the landscape

This is the rule whenever the transmission system is expanded. By conducting initial surveys, cooperating with environment groups, covering the pipelines in such a way as to reproduce the natural order of layers of earth, and completely rehabilitating sites, GRTgaz respects the landscape and the memories embedded in the subsoil by organizing archeological digs every time the location of a pipeline route so requires. For example, in 2005, a farm from the Gaulish period was discovered at Cuvilly in northern France, and a major necropolis was identified at Laneuvelotte in eastern France.



## Infrastructures

## Transmission and Storage France &gt; Storage - LNG terminals

# Renewed performance and new capacities

Storage facilities and LNG terminals enable Gaz de France to optimize gas flows in the system and to diversify supply sources. They are managed by the Major Infrastructures division, which develops its capacities and offerings to keep pace with the growth of gas trading and to secure supplies.

9.1  
billion m<sup>3</sup>

in storage capacity (recoverable gas) at 12 facilities

17  
billion m<sup>3</sup>

in regasification capacity

700  
million euros

invested in renovations in 2005

## / Record performance

Deregulation provided a great boost for storage activities, which reached a record high in recoverable gas with 9.1 billion m<sup>3</sup>. The increased percentage of LNG in supplies and the first deliveries of Egyptian LNG stimulate the activity of LNG terminals, with deliveries of almost 21 million m<sup>3</sup> in 2005, the equivalent of 12 billion m<sup>3</sup> in gaseous form.

In 2005, storage cycling stood at exceptional levels. It was because of its stored supplies in France that Gaz de France was able to respond to the cold front at the end of the winter season, and continue to provide supplies, up to 25 billion kWh between February 15 and March 8, 2005. Gaz de France has the second largest storage capacity in Europe.

## / A strategic investment and a substantial quality policy

Growth in the demand for natural gas and the ability to respond that deregulation requires are incentives for Gaz de France to make significant investments in its infrastructures. The renovation of the Group's 12 *underground storage* facilities, programmed over the next 10 years, was launched in 2005 with a medium-term investment of 700 million euros, half of which is earmarked for performance and the other half for safety and the reduction of any impact on the environment.

In addition, the Group has undertaken an ambitious program to develop its storage and regasification capacities. This program may, however, change to reflect regulatory and market conditions.

The creation of a salt-cavity storage facility at Hauterives in southeast central France, upgrades at Etrez in east central France, and the first conversion of a depleted natural gas deposit into a storage facility at Trois-Fontaines, east of Paris, gave concrete expression to this ambition. In 2005, the construction of the LNG terminal at Fos-Cavaou mobilized 600 people and advanced in line with the schedule for startup. By the end of 2007, it will prove Gaz de France with additional LNG receiving capacity equivalent to 8.25 billion m<sup>3</sup> of natural gas per year.

Constantly focused on the quality of its services, the Major Infrastructures division pursued its certification policy. At the end of 2005, 11 out of



Underground salt-cavity storage facility



14 facilities were awarded level 6 certification in the International Safety Rating System (ISRS®), as well as ISO 14001 certification. LNG regasification, natural gas odorization and storage services are certified ISO 9001.

### / Transparent and non-discriminatory commercial impetus

Third party access to Gaz de France LNG terminals and storage facilities was made available, respectively, as of July 1, 2000, and July 1, 2004. To assure its customers of free and fair competition, a code of good conduct was drawn up in 2005 and distributed to the 1,690 employees of the Major Infrastructures division and to the French energy regulatory commission. It lists the measures to be taken at Gaz de France to protect sensitive commercial information, whether contractual provisions or information shared within the framework of their implementation.

In April 2005, storage service was made more attractive in two ways – a 25% reduction in contractual periods of unavailability related to maintenance, and a significant decrease in the fixed portion of the rates in response to requests from new gas suppliers. To strengthen the competitiveness of its offering and optimize the marketing of its capacities, Gaz de France developed a new day ahead service, which as of April 1, 2006, enables any user to access capacities that have been booked but not used. Many opportunities are immediately available online at the division's Internet site:

[www.grandesinfrastructures.gazdefrance.com](http://www.grandesinfrastructures.gazdefrance.com)

## / Interview



**VERONIQUE BURGUIÈRE,**  
IN CHARGE OF THE PROJECT  
TO BUILD A NEW LNG VAPORIZER  
AT FOS-TONKIN

### What contribution will the new LNG vaporizer at Fos-Tonkin make?

The new open-rack seawater vaporizer was started up at the end of 2005 at the Fos-Tonkin LNG terminal.

It increases the terminal's total regasification capacity by almost 30%, bringing it up to 7 billion m<sup>3</sup> of natural gas. It helps reduce NO<sub>x</sub> emissions from the compressors used in the GRTgaz transmission system.

The increase in capacity in southeastern France makes it possible to meet the growing needs of natural gas suppliers, while rebalancing the quantities carried with regard to the north of France.

## / Winning the confidence of the local community

The new LNG terminal at Fos-Cavaou introduces a balance in the geographical breakdown of natural gas entry points in France, most of which are located in the north, and secures energy supplies in the Provence-Alpes-Côtes-d'Azur region. It significantly helps reduce atmospheric emissions, because of the decline in the volume of compressed gas from the north of France in transmission infrastructures. To pay more attention to what the local community thinks about the visual impact of the facility, Gaz de France reduced the height of its storage tanks from 60 meters to 39 meters, and improved landscaping.

## Infrastructures

## Distribution France

# One of Europe's most extensive networks

**338**  
billion kWh  
of natural gas  
carried

**1,030**  
kilometers  
of grey cast iron  
mains replaced

**180,700**  
kilometers  
of mains

## / The impetus of deregulation

Since July 1, 2004, all professional customers, companies and local governments can choose their natural gas supplier. Without discrimination, the Gaz de France distributor carries the natural gas of all the suppliers chosen by their customers.

2005 was the first full year of deregulated market activity for the distributor – with almost 338 billion kWh carried, net sales totaled 2.9 billion euros.

In 2005, the network manager, Gaz de France Distribution Strategy carried natural gas for ten suppliers, including Gaz de France. It relies on the local operator EDF Gaz de France Distribution Operations, which builds, operates and maintains the network. Every month, the operator responds to 5,000 requests for information from entering suppliers, and connects 1,000 new eligible customers.



Polyethylene piping for distribution networks

With 180,700 kilometers of mains, the distribution network supplies natural gas to almost 9,000 municipalities and 76% of the population of France. Gaz de France distribution activities allow all those who have chosen this energy to benefit via a reliable and secure network that contributes to regional development. The Group affirms its determination to meet the needs and expectations of all its customers, both consumers and suppliers.

To ensure complete impartiality in the treatment of the different suppliers, a code of good conduct guides the distribution teams and lays down strict rules that must be respected concerning non-discrimination and the confidentiality of information. In liaison with the regulator, the distributor is preparing for total market deregulation in 2007 by adapting procedures and the information system.

## / 793 million euros for safety and network development

To implement its industrial strategy, Distribution relies on a program of regular, significant investments to ensure the quality and safety of the network, as well as its expansion. In 2005, 793 million euros were invested in the distribution network, accounting for approximately 50% of the investment of the Group's Infrastructures branch. Gaz de France will complete its program to replace grey cast iron mains in 2007. Until then, the Group has increased to three the number of annual inspections on the remaining grey cast iron mains.

In 2005, 1,030 kilometers of grey cast iron mains were replaced, a result in line with the objective of complete replacement by the end of 2007, leaving 1,064 kilometers, representing 0.6% of the distribution network. In 2006, an additional

890 kilometers will be replaced.

This large-scale project is in addition to the annual network maintenance program, enhanced in 2005 by training designed to develop employee skills and by an information system to expand the network's technical knowledge base.

In 2005, the Gaz de France distributor teams hooked up 243,000 additional consumers who had chosen natural gas heating, and laid 2,400 kilometers of new mains in a proactive network development program. This project involved an infill market plan and the connection of new municipalities that meet objective profitability criteria.

### / Working more closely with local governments and residential customers

In 2005, many municipalities not connected to the network investigated competitive offerings. The Gaz de France distributor put in a bid every time the conditions for profitability were met. One hundred seventy-seven municipalities chose the Gaz de France distributor. At the same time, 229 municipalities renewed their franchise contracts, either directly or through a departmental syndicate, thereby confirming their confidence in Gaz de France. Benefiting from years of close cooperation with local governments, the distributor's teams designate a dedicated contact for each local government.

As for residential customers, the 2005 survey indicates a high level of general satisfaction. The other key indicator in this survey is the Company's telephone availability. Given high marks by residential customers, this availability is 85% after three rings, at a level of the best service providers.

## / Interview



**RÉMY CARBONNIER,**  
HEAD OF THE DISTRIBUTION  
DEPARTMENT, GAS DIVISION,  
FRENCH ENERGY REGULATORY  
COMMISSION

### What preparations are underway for the deregulation of the residential customer market as of July 1, 2007?

On May 26, 2005, the French energy regulatory commission set up a Gas Working Group 2007 (GTG 2007) that brings together all the players concerned – public authorities, consumer groups, installers, natural gas suppliers, operators of transmission and distribution systems. The work group assigned itself the task of proposing practical solutions for the deregulation of residential energy markets, in particular by relying on the procedures developed when the professional customer market was opened as of July 1, 2004. Simplicity, transparency and consumer protection are the primary goals of the French energy regulatory commission.

## / Maintaining natural gas connection and a link with society

Since 1985, Gaz de France has worked closely with local social services, and trained employees to deal with customers who have difficulty paying their bills. Members of such teams give advice on how to limit energy consumption. In 2005, the system was reinforced, and it is Gaz de France that directly informs the social services to speed up the search for solutions and avoid the interruption of the supply of energy to individuals in difficulty. In addition to the sums regularly paid to the housing solidarity fund (more than 3 million euros in 2005), Gaz de France created a Gaz de France energy solidarity fund in 2005, which is endowed with 10 million euros.

## Infrastructures

## Transmission and Distribution International

# An active player in the European energy sector

International development is a vector of growth for Gaz de France. It illustrates the ambitions that motivate the Group, which seeks to expand its zone of influence within the framework of a profitable investment policy, a portfolio approach that targets complementarity, and controlled oversight of subsidiaries.

## 2.7 million

customers outside of France

## Almost 1 million

customers won in Romania through the acquisition of Distrigaz Sud

### / A dynamic impact

In 2005, international transmission and distribution activities reported net sales of 2.1 billion euros, representing 9.4% of the Group's net sales. If the exceptional 52 % increase over 2004 was in large measure due to the consolidation of the subsidiaries of Distrigaz Sud (Romania) and SPE (Belgium), international growth stood at 27%, on a constant basis, boosted by the commercial dynamism of subsidiaries.

### / Distribution: focus on Europe

Gaz de France's objective is a 15% market share in Europe in the medium term. To achieve this goal, the Group has multiplied equity acquisitions of European distribution networks that provide access to local customers.

On May 31, Gaz de France became the majority shareholder of the Romanian gas distribution company Distrigaz Sud, thereby adding approximately 14,000 kilometers of mains and almost 1 million customers to its portfolio. In 2005, Gaz de France launched its takeover of the company with a 100-day action plan focused on management, industrial safety and customer satisfaction in both the residential and commercial segments.

Through the acquisition (together with Centrica) of 51% of SPE (Société de Production d'Electricité), Gaz de France became Belgium's second largest energy utility with a market share of 10%. In addition to in-house production capacity of 1,580 MW and long-term access to 400 more MW in electricity, SPE contributes its hydropower expertise and a well-established position in wind power.

Outside of Europe, the Group plans to dispose of assets in South America. In Argentina, it is selling the 15% equity interest it still holds in GasNEA, and in Uruguay, its stake in Gaseba Uruguay. Outside of Europe, it only maintains positions in countries in which it has definite competitive advantages, such as in Mexico, where it ranks among the leading distributors of natural gas in volume, and in Canada, where the Group indirectly owns natural gas distribution and storage companies.



Arcalgas employees in Italy

## / Transmission: strengthened positions

Gaz de France's equity interests in European transmission systems secure the transportation of its supplies upstream from its facilities in France. In 2005, the Group became a transmission system operator in Germany through its subsidiary Gaz de France Deutschland Transport. In partnership with E.ON Ruhrgas Transport, this subsidiary markets to Gaz de France and third parties transportation capacities on the system owned by Megal, a subsidiary of Gaz de France and E.ON Ruhrgas.

Supplies from countries that are increasingly distant speed up the construction of international infrastructures. The startup of the Dahej regasification terminal opens the LNG route in India. In view of the success of the Dahej project, Petronet LNG, in which Gaz de France has a 10% equity interest, decided to double the terminal's capacity, from 5 million metric tons of natural gas per year to 10 million metric tons by 2009. In Egypt, the startup of the first liquefaction train at Idku assures Gaz de France of a role in global LNG operations.

## / Fundamental synergies

Gaz de France's Transmission and Distribution International segment includes 24 main subsidiaries and affiliates with a wide variety of equity ownership levels, from majority holdings (Égáz-Dégáz, Hungary, and Distrigaz Sud, Romania) to minority interests (Portgas, Portugal, and ECW, Poland) to joint control (SPP, Slovak Republic, and SPE, Belgium).

Gaz de France participates as an industrial and financial operator in the management of these companies. Synergies among subsidiaries and the Group help build commercial brands that satisfy local requirements and optimize the information system and procurement costs (e.g. in 2005, for natural gas meters).

## N°2

In the Belgian market through the acquisition of SPE

## / Interview



**LUC STERCKX,**  
CHAIRMAN OF SPE

### What is NEW SPE?

NEW SPE is Belgium's second largest producer and supplier of energy and natural gas, with net sales of 1.7 billion euros. The Group builds and operates conventional electric power plants, wind power farms, and biogas and biomass facilities. It markets electricity and gas under several brand names. Through the integration of different large energy utilities in Belgium, NEW SPE is a leader in the Belgian market, with almost 900,000 customers and 1,000 employees.





AND TOMORROW...

Gaz de France  
confirms its  
attractiveness  
and seeks  
growth opportunities

# 52,958 employees: the energy of Gaz de France

Internationalization, entry in the electricity market, preparation for the last phase of deregulation, Gaz de France leads a profound change in the Group and organizes operations and responsibilities to meet these challenges with the professionalism and commitment of all its employees.



### / In a spirit of confidence

Gaz de France's Initial Public Offering (IPO) was a remarkable success. Current and former employees now hold 2.3% of the Company's capital, a demonstration of their confidence in its potential for growth.



### / Bolstering skills and employee loyalty

A program applied throughout the Group in 2005 makes it possible to identify key skills, design the required professionalization procedures, and recruit staff that is indispensable. It ensures the constant adaptation of resources to the challenges Gaz de France faces, for example in electricity, finance and international development.



### / Ensuring health and safety

The Group implements an active policy of occupational accident prevention and risk control, marked by management involvement, the sharing of best practices and constant attention to the enhancement of employees' professional skills. A specific program was introduced for employees on international assignment. The results show continued improvement.



### / Defining the sector's future

To modernize the status of employees in the electrical and gas industries, Gaz de France has joined forces with sector companies to promote major professional advances. The Group thus supports efforts to simplify employee representation, introduce more flexibility into the compensation and position classification system, and improve social protection.



### / Develop a corporate culture

External growth has increased the Group's workforce from 38,251 employees in 2004 to 52,958 in 2005. Now almost 36% of the staff works outside of France. Gaz de France grounds its corporate culture on new bases that are European and competitive as it fosters mobility, stimulates initiative and highlights performance.



### / Encouraging diversity

The Group is resolutely committed to diversity. After the 2004 agreement on the professional equality of men and women, in 2005, Gaz de France signed a charter for corporate diversity. Initiatives are taken to reinforce equal opportunity in all its forms. Gaz de France works to ensure that diversity is respected with regard to gender, race, national origin, age, disability, etc., targeting improved performance.

# At the heart of the offerings, energy conservation

Advice, equipment, processes, training: Gaz de France encourages the energy efficiency of customer installations and the image of its brands in Europe.



### / Key European accounts: specially adapted services

To ensure energy efficiency and control of the price risk, provide information on trends in the energy market, propose ways to manage CO<sub>2</sub>, explain the issues at stake in the Kyoto Protocol and their consequences, Gaz de France energyY® constantly innovates and adapts its offering, country by country, to provide the best energy solutions for its key European accounts.



### / Local governments: long-term partners

The environment boiler audit, safety training for operators, high environmental quality initiatives, support for renewable energy projects, clean transportation vehicles – in these areas, énergies communes® prefers responsible partnerships to simple price bids.



### / Professional and corporate customers: sources of performance

The energy audit Sérénité Pro, guaranteed fixed rates for one or two years, indexation of rates according to the activity, real-time management via the customer's online account, and less expensive financing of modernization projects are ways Provalys® proposes personalized solutions to professionals and small businesses that optimize their energy bill.



### / Residential customers: comfort in the home

Audits of the quality of installation pipework and free advice on use. Condensing boilers that make possible energy savings of 20% and reduced-rate loans for the replacement of boilers. DolceVita® promotes comfort, energy conservation and lasting confidence prior to the deregulation of the residential market.

# Gaz de France research: leverage for growth and innovation

In 2005, Gaz de France invested approximately 80 million euros in research projects that boost the performance of its businesses, make its offerings more dynamic and forge its long-term competitiveness.





### / Guaranteeing efficient safety

Gaz de France focuses a major part of its research efforts on an area of constant innovation – the safety of people and property. Projects concern the development of technologies, such as the extensive use of polyethylene in distribution mains, decision-making software for transmission system monitoring and maintenance, and risk evaluation tools.



### / Discovering the technologies of the future: example of LNG

Since LNG continues to account for an ever greater percentage of total gas supplies, the Group has decided to invest in all the stages of its transportation and transformation. Research plays an important role on both the technical and economic front: development of the first cryogenic flexible pipe to unload LNG tankers, prediction of changes in the quality of an LNG shipment, analysis of the behavior of LNG stored in tanks using software (LNG Master) developed by Gaz de France research teams, which is now successfully marketed to other gas operators.



### / Providing competitive advantages

Gaz de France's research activities enhance the competitiveness of the Group's offerings and their adaptation to consumers' needs. In the industrial field, flameless oxidation technology makes it possible to increase the energy efficiency of furnaces and boilers by 30%, while reducing NO<sub>x</sub> emissions by 30% to 50%. Natural gas fuel for vehicles enables residential customers to benefit from Gaz de France research on clean transportation technology. Lastly, as a result of its growing expertise in electricity, the Group can now propose its first combined gas-electricity offerings.

# Natural gas, electricity, and then?

Global warming, the depletion of hydrocarbon reserves and Gaz de France's ambition as a leading European energy utility are incentives for the Company to prepare for different long-term prospects.



### / Renewable energy in action

Using water, the sun, the wind or plant and animal waste (biomass) to produce energy is the principle behind renewable energy, a development Gaz de France's customers look forward to. The Group has opted for solar power and wood for heating, wind power and biomass (waste, straw) to produce electricity. By the end of 2007, 100 MW of electricity may be produced from renewable resources. By 2012, the Group plans to own renewable energy assets that will account for 10% of its power-generating facilities. These energies are complementary to natural gas, and they reduce costs and CO<sub>2</sub> emissions, while helping to boost the local economy.



### / Europe supports hydrogen

Combined with oxygen or air, hydrogen can produce electricity or heat with no CO<sub>2</sub> emissions. Together with some forty international partners, Gaz de France takes part in the European project, dubbed NaturalHy, which studies the possibility to move a mixture of hydrogen and natural gas through current systems, until pure hydrogen energy arrives. At the same time, the Group experiments with using this mixture (Hythane) to power buses in Toulouse and Dunkerque.



### / Fuel cell trials

Powering a fuel cell with hydrogen opens up many applications in the transport sector, the supply of electricity and heat to residential customers, and the operation of portable electronic devices. This is the goal of the European Hydrogen and Fuel Cell Technology Program created by the European Commission, in which Gaz de France plays an active role. The Group is currently testing a new generation of high-temperature fuel cells in an effort to reduce costs and improve reliability over time for this promising energy vector.



### / Decentralized energies relayed

The European Decentralized Energy Program (EU-DEEP) aims to optimize procurement by complementing the principal energy by additional sources of energy, such as renewable energies and fuel cells. Gaz de France coordinates this ambitious 30-million-euro project that involves some forty partners throughout Europe focused on the development of decentralized energy.



### / Support from competitiveness centers

To expand its research, the Group has participated in three of the competitiveness centers created by the French government in 2004 to pool the country's research efforts: **Enerrdis**, in southeastern France (new technologies based on renewable energies); **Derbi**, in southwestern France (energy-producing buildings, energy systems, decentralized production of electricity); **Ville et Mobilité Durable**, near Paris (new construction and urban development technologies).

APPENDIX

# 2005 Financial Summary

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## CONSOLIDATED STATEMENT OF INCOME

(IFRS, pro forma statement of income after the reform of the pension financing system)

Millions of euros	2004	2005	% CHANGE
<b>NET SALES</b>	<b>17,526</b>	<b>22,394</b>	<b>+ 28%</b>
Capitalized expenses	344	336	-2%
Purchases and other external charges	(11,367)	(15,886)	+ 40%
Personnel expenses	(2,122)	(2,410)	+ 14%
Other operating income and expense	(208)	(215)	+ 3%
<b>EBITDA</b>	<b>4,173</b>	<b>4,219<sup>1</sup></b>	<b>+ 1%</b>
Depreciation, amortization and provisions	(1,845)	(1,303)	-29%
Employee shareholding		(132)	ns
<b>OPERATING INCOME</b>	<b>2,328</b>	<b>2,784</b>	<b>+ 20%</b>
Net financial expense	(179)	(202)	+ 13%
Other financial income and expense	(318)	(236)	-26%
Share of income in companies accounted for by the equity method	125	189	+ 51%
<b>Income before tax</b>	<b>1,956</b>	<b>2,535</b>	<b>+ 30%</b>
Corporate income tax	(563)	(794)	+ 41%
<b>CONSOLIDATED NET INCOME</b>	<b>1,393</b>	<b>1,741</b>	<b>+ 25%</b>
Minority interests	40	(2)	ns
<b>CONSOLIDATED NET INCOME GROUP SHARE</b>	<b>1,353</b>	<b>1,743</b>	<b>+ 29%</b>
<b>CONSOLIDATED NET INCOME GROUP SHARE PER SHARE<sup>2</sup></b>	<b>1.50</b>	<b>1.85</b>	<b>+ 23%</b>

<sup>1</sup> 4,263 million euros excluding IAS 32/39

<sup>2</sup> Average number of shares in 2005: 943,435,994 versus 903,000,000 in 2004 adjusted for the stock split

## CONSOLIDATED STATEMENT OF CASH FLOWS

Millions of euros	2004	2005
<b>OPERATING CASH FLOW BEFORE TAX AND CHANGE IN WORKING CAPITAL REQUIREMENTS</b>	<b>4,176</b>	<b>4,229</b>
Change in working capital requirements	(282)	(501)
Corporate income tax paid	(705)	(562)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3,189</b>	<b>3,166</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,847)</b>	<b>(2,463)</b>
Investments	(2,133)	(3,061)
Proceeds from asset sales	286	598
<b>NET CASH AFTER OPERATING AND INVESTING ACTIVITIES</b>	<b>1,342</b>	<b>703</b>
<b>FINANCING ACTIVITIES</b>	<b>(1,129)</b>	<b>+ 408</b>
<b>IMPACT OF EXCHANGE RATE FLUCTUATIONS</b>	<b>6</b>	<b>10</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>219</b>	<b>1,121</b>

## CONSOLIDATED BALANCE SHEET

Millions of euros

<b>ASSETS</b>	<b>2004</b>	<b>2005</b>
Goodwill and other intangible assets	1,321	1,936
Franchised tangible assets	10,191	10,732
Non-franchised tangible assets	14,155	15,271
Investments in companies accounted for by the equity method	385	693
Non-current financial assets	1,125	1,379
Other non-current assets	554	474
<b>TOTAL NON-CURRENT ASSETS</b>	<b>27,731</b>	<b>30,485</b>
Inventories and work in process	907	1,451
Accounts receivable	6,192	8,071
Current derivative instruments		1,756
Cash and cash equivalents	837	2,119
Assets of financial affiliates	440	895
<b>TOTAL CURRENT ASSETS</b>	<b>8,376</b>	<b>14,292</b>
Assets classified as held for sale	402	0
<b>TOTAL ASSETS</b>	<b>36,509</b>	<b>44,777</b>

## SHAREHOLDERS' EQUITY AND LIABILITIES

<b>Total shareholders' equity Group share</b>	<b>10,998</b>	<b>14,503</b>
<b>Minority interests</b>	<b>212</b>	<b>300</b>
Liabilities related to franchises	8,234	8,609
Provisions other than provisions for replacement	2,784	2,895
Deferred tax liability	2,741	2,731
Financial debt (incl. irredeemable securities)	4,334	3,947
Other non-current liabilities	411	175
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>18,504</b>	<b>18,357</b>
Provisions	94	164
Social liabilities	377	527
Current financial debt	971	1,165
Trade accounts payable and related payables	1,848	3,203
Tax liabilities	115	154
Other tax liabilities	948	1,171
Other current liabilities (incl. liabilities of financial affiliates)	2,403	5,233
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,756</b>	<b>11,617</b>
Liabilities related to assets classified as held for sale	<b>39</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>	<b>36,509</b>	<b>44,777</b>

Net debt	4,592 <sup>1</sup>	2,993
Total shareholders' equity (incl. minority interests)	11,210	14,803
<b>NET DEBT RATIO</b>	<b>41%</b>	<b>20%</b>

<sup>1</sup>As of January 1, 2005



## NET SALES BY SEGMENT

(IFRS, pro forma after the reform of the pension financing system)

Millions of euros	2004	2005	% CHANGE
<b>Energy Supply and Services</b>			
Exploration and Production	968	1,139	+ 18%
Purchase and Sale of Energy	13,855	17,252	+ 25%
Services	1,439	1,916	+ 33%
<b>Infrastructures</b>			
Transmission and Storage France	2,145	2,124	-1%
Distribution France	2,972	2,951	-1%
Transmission and Distribution International	1,467	2,283	+ 56%
Eliminations and other	(5,320)	(5,271)	
<b>GROUP TOTAL</b>	<b>17,526</b>	<b>22,394</b>	<b>+ 28%</b>

## EBITDA BY SEGMENT

(IFRS, pro forma after the reform of the pension financing system)

Millions of euros	2004	2005	% CHANGE
<b>Energy Supply and Services</b>			
Exploration and Production	625	726	+ 16%
Purchase and Sale of Energy	265	251	-5%
Services	94	166	+ 77%
<b>TOTAL ENERGY SUPPLY AND SERVICES</b>	<b>984</b>	<b>1,143</b>	<b>+ 16%</b>
<b>Infrastructures</b>			
Transmission and Storage France	1,291	1,271	-2%
Distribution France	1,399	1,352	-3%
Transmission and Distribution International	400	344	-14%
<b>TOTAL INFRASTRUCTURES</b>	<b>3,090</b>	<b>2,967</b>	<b>-4%</b>
Other	99	109	
<b>GROUP TOTAL</b>	<b>4,173</b>	<b>4,219 <sup>1</sup></b>	<b>+ 1%</b>

<sup>1</sup> 4,263 million euros excluding IAS 32/39

## / Glossary

### **Biomass**

Any organic (plant or animal) material that is available on an available and renewable basis and a part of which may be used to produce energy.

### **Block**

an area appropriate in size for the exploration and production of hydrocarbons.

### **Cogeneration**

Simultaneous production of heat (steam or superheated water or a mixture of air and combustion products) and electricity from a single fuel, which could be natural gas.

### **Combined cycle power plant**

An electric power plant with a gas turbine whose flue gas powers a conventional steam boiler. The steam produced actuates a turbine generator.

### **Compressor station**

Permanent facility that increases gas pressure.

### **Conversion units**

- 1 kWh = 0.093 m<sup>3</sup> of natural gas  
(1 m<sup>3</sup> of gas = 10.71 kWh)
- 1,000,000 kWh = 93,353 m<sup>3</sup> of natural gas
- 1,000,000,000 kWh = 93,352,941 m<sup>3</sup>
- 1 billion m<sup>3</sup> of natural gas = 6.301 million barrels oil equivalent (boe)

### **Debottlenecking**

Upgrading one or more parts of a facility that thereby allows fuller use of other parts of that facility.

### **Deposit**

Hydrocarbons contained in porous rock formations.

### **Distribution network**

Network for the distribution of natural gas (medium or low pressure) within a defined area.

### **Downstream**

Transmission, storage and distribution of natural gas and related services.

### **Eligible customers**

Customers who are free to purchase gas or electricity from the supplier of their choice in order to power operations or resell the energy.

### **Energy trading**

Purchase and sale of energy in energy markets.

### **Exploration**

Search for oil and gas.

### **French energy regulatory commission**

(Commission de Régulation de l'Energie - CRE) an independent administrative authority.

It was created when the energy markets were deregulated, and its organization was defined by the law of January 3, 2003. It is responsible for guaranteeing and monitoring access to the French transmission systems and distribution networks under conditions of transparency and neutrality. It establishes the rules that govern the energy market and implements the provisions related to public service obligations. The commission proposes natural gas transportation rates, which must then be submitted for approval to the French Ministry of the Economy, Finances and Industry. It makes sure no discrimination or unfair competition occurs. It provides oversight, conducts audits and issues penalties when required. The Gaz de France Distribution Strategy division is the commission's contact for Gaz de France's distribution activities.

### **Gas hub**

Interconnection of a transmission system with gas arriving from different sources that provides the physical possibility to exchange volumes of gas among these sources and end-users.

### **Gasification**

Transformation of liquid or solid products into gas.

### **Gas pipeline**

High-pressure, long-distance transmission system. Pipelines may be connected to international trunk lines and supply or cross several countries.

### **Liquefaction of natural gas**

Transformation of natural gas from a gaseous to a liquid state to facilitate transport by tanker and/or storage.

### **Liquefied natural gas (LNG)**

Natural gas transformed into a liquid state by lowering its temperature to -162°C, thus reducing its volume 600 times.

### **LNG tanker**

Ship transporting liquefied natural gas cooled to -162°C.

### **LNG terminal**

Port facility with special features used to load/unload liquefied natural gas onto/from LNG tankers.

### **Production (of a gas or oil field)**

Commercial operation of a natural gas or oil deposit.

### **Reliable supplies**

Energy available at any time in the desired quantity and quality under given economic conditions.

### **Reserves**

Unproduced but recoverable volume of gas or oil in a deposit.

### **Spot market**

Market for the short-term (a day to three years) purchase and sale of energy.

### **Transmission system**

Trunk lines to transport high-pressure gas (> 60 bars) to distribution networks downstream.

### **Underground storage**

Use of porous geological formations (aquifer) or natural or man-made cavities (salt or hard rock) for the storage of natural gas or liquid hydrocarbons.

### **Upstream**

Gas exploration and production activities.

### **Well**

Orifice dug in the ground or underground to tap a deposit.

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