



Dalkia

Financial Report

2006



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Consolidated financial statements

Year ended December 31, 2006

Two year summary of consolidated financial data

Consolidated financial statements
Year ended December 31, 2006

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005 adjusted ⁽¹⁾	December 31 2005
Revenue	6,154.7	5,493.3	5,432.1
Of which international revenue	2,620.3	2,236.5	2,228.0
Operating profit	382.8	322.0	332.8
Profit before tax and share of profit of associates	311.9	246.5	257.4
Profit attributable to minority interests	(33.6)	(21.6)	(21.5)
Profit attributable to equity holders of the parent	171.6	122.1	128.9
Earnings per share (in euros)	2.68	1.92	2.02
Equity attributable to equity holders of the parent	1,894.9	1,760.6	1,711.0
Non-current liabilities	1,353.0	1,467.0	1,562.6
Non-current assets	3,063.8	2,908.9	2,994.2
Working capital requirement	827.1	770.5	734.9
Cash flow	602.1	579.4	576.7
Purchases of property, plant and equipment	299.7	229.3	245.1
Purchases of non-current financial assets	101.3	207.0	207.0
Investments in leases (IFRIC 4)	62.9	78.9	69.9
Total investments	463.9	515.2	522.0
Net debt	1,300.8	1,323.9	1,323.9
Weighted average number of employees	42,651	39,429	39,429

(1) Adjustments are described in §2.1 on page 13.

Consolidated income statement

<i>(in millions of euros)</i>	Note	2006	%	2005 adjusted	%	2005	%
Revenue	23	6,154.7		5,493.3		5,432.1	
Cost of sales		(5,018.4)		(4,474.3)		(4,402.3)	
Distribution costs		(135.7)		(124.9)		(124.9)	
Administrative expenses		(617.2)		(553.0)		(553.0)	
Other income and expenses, net		(1.4)		(19.1)		(19.1)	
Operating profit		382.8	6.2%	322.0	5.9%	332.8	6.1%
Finance costs, net		(65.8)	(1.1)%	(73.1)	(1.3)%	(73.1)	(1.3)%
Other financial income and expenses, net		(5.1)		(2.5)		(2.3)	
Income tax expense	24	(109.4)	(1.8)%	(104.7)	(1.9)%	(108.9)	(2.0)%
Share of profit of associates		2.6		1.9		1.9	
Profit for the period		205.1	3.3%	143.7	2.6%	150.4	2.8%
Attributable to minority interests		33.6		21.6		21.5	
Attributable to equity holders of the parent		171.6	2.8%	122.1	2.2%	128.9	2.4%

1. CONSOLIDATED REVENUE

Consolidated revenue for the year ended December 31, 2006 totaled €6,154.7 million (2005 adjusted: 5,493.3 million), representing an increase of 10% based on a comparable structure and constant exchange rates.

The total breaks down by region as follows:

<i>Revenue (in millions of euros)</i>	2006	2005 adjusted	2005
France	3,534.4	3,256.8	3,204.1
International	2,620.3	2,236.5	2,228.0
Total	6,154.7	5,493.3	5,432.1
% international	42.6%	40.7%	41.0%

Domestic revenue grew by €277.6 million, led by higher energy prices.

International revenue was €383.8 million higher, including €71.8 million from acquisitions, which had a significant impact in Italy, Brazil and Israel. International revenue generated by the specialized subsidiaries rose to €150.9 million from €114.4 million in 2005.

2. CONSOLIDATED OPERATING PROFIT / CASH FLOW

<i>(in millions of euros)</i>	2006	2005 adjusted	2005
Operating profit	382.8	322.0	332.8
+ Provisions for impairment of non-financial assets	118.2	173.3	178.0
+ Total warranty provisions	112.2	108.0	89.7
+ CO ₂ swap	(6.3)		
- Disposal gains	(0.9)	(23.6)	(23.6)
+ Other financial income and expenses, net	(5.1)	(2.5)	(2.3)
+ Provisions for impairment of financial assets	2.3	1.6	1.6
- Dividends	(1.3)	(1.5)	(1.5)
+ Other financial items	0.2	2.0	2.0
Cash flow	602.1	579.4	576.7

The above figures include statutory profit-sharing costs, which are included in employee benefits expense in the consolidated income statement in the same way as the cost of discretionary employee profit-sharing plans set up by certain subsidiaries. In 2006, statutory profit-sharing costs amounted to €8.2 million (2005: €11.2 million).

Employee benefits expense for the year came to €1,456.9 million (2005: €1,323.9 million). The weighted average number of employees stood at 42,651 (2005: 39,429). Research and development expenditure came to €5.7 million for the year.

3. FINANCE COSTS AND OTHER FINANCIAL INCOME AND EXPENSES, NET

Finance costs and other financial income and expenses amounted to a net expense of €70.9 million in 2006 (2005 adjusted: €75.6 million), representing a €4.7 million improvement. The total breaks down as follows:

- Finance costs, net declined to €65.8 million (2005 adjusted: €73.1 million), reflecting a decrease in average debt;
- Other financial income and expenses represented a net expense of €5.1 million (2005 adjusted: €2.5 million).

4. PROFIT FOR THE PERIOD

The contribution to profit of fully consolidated companies rose by 42.7% to €205.1 million (2005 adjusted: €143.7 million).

The Group's share of profit of associates came to €2.6 million (2005 adjusted: €1.9 million).

Profit attributable to minority interests amounted to €33.6 million (2005 adjusted: €21.6 million).

In all, profit attributable to equity holders of the parent came in at €171.6 million (2005 adjusted: €122.1 million).

5. CONSOLIDATED EQUITY

Total equity at December 31, 2006 amounted to €2,092.7 million (2005 adjusted: €1,856.0 million).

Equity attributable to equity holders of the parent stood at €1,894.9 million (2005 adjusted: €1,760.6 million). The year-on-year increase reflected profit for the period of €171.6 million, positive translation adjustments of €13 million and the recognition in retained earnings of €2.1 million in net actuarial gains on pension and other post-employment benefit obligations, partly offset by dividend payments of €64 million.

Equity attributable to minority interests amounted to €197.8 million (2005 adjusted: €95.4 million).

6. NET DEBT

Net debt declined to €1,300.8 million at December 31, 2006 (2005: €1,323.9 million). The total breaks down as follows:

<i>(in millions of euros)</i>	<i>December 31, 2006</i>	<i>December 31, 2005 adjusted</i>	<i>December 31, 2005</i>
Long-term debt	839.3	979.0	979.0
Short-term debt	235.2	258.5	258.5
Total debt	1,074.5	1,237.5	1,237.5
Cash and cash equivalents	(686.8)	(681.1)	(681.1)
Bank overdrafts	913.1	767.5	767.5
Net cash and cash equivalents	226.3	86.4	86.4
Net debt	1,300.8	1,323.9	1,323.9
Non-current lease receivables (IFRIC 4)	(651.0)	(699.0)	(676.6)
Other non-current financial receivables	(17.2)	(26.5)	(26.4)
Current lease receivables (IFRIC 4)	(120.1)	(113.5)	(108.9)
Other current financial assets	(22.9)	(18.0)	(18.5)
Economic net debt	489.6	467.1	493.5

Net cash and cash equivalents consists of cash, current account advances and financial assets maturing in less than three months, less bank overdrafts. At December 31, 2006, net cash and cash equivalents represented a liability of €226.3 million versus a liability of €86.0 million at the previous year-end, representing a negative swing of €139.9 million.

Economic net debt includes receivables under contracts classified as leases in accordance with IFRIC 4 and other current financial assets. Economic net debt amounted to €489.6 million at December 31, 2006 (2005 adjusted: €467.1 million).

7. CONSOLIDATED BALANCE SHEET

Total assets amounted to €7.1 billion at December 31, 2006 (2005: €6.7 billion).

Non-current assets stood at €3,063.8 million (2005 adjusted: €2,908.9 million). The €154.9 million year-on-year increase was mainly attributable to the increase in purchases of property, plant and equipment (€139.8 million of which €103.4 million outside France), translation adjustments (€16.6 million of which €15.5 million in the Czech Republic and €2.3 million in Poland), final fair-value adjustments to property, plant and equipment at the Lodz plant, in accordance with the purchase accounting method (€84.5 million), and at Valorec (€1.3 million), the first-time consolidation of newly acquired companies (€16.3 million of which €4.7 million for Thermelec, €5.4 million for Canada-based CCUM and €3.9 million in Italy), the reclassification of Dalkia France assets as intangible assets under IFRIC 12 (€14.8 million) and the first-time full-consolidation of Dalkia Brazil (€1.1 million), offset by net amortization and depreciation expense (€105.6 million), disposals and scrapping (€11.9 million), deconsolidations (€0.9 million), reclassification as other liabilities (€3.7 million at Olterm), reclassifications as subsidies in Poland (€14.2 million), reclassifications as lease receivables under IFRIC 4 (€3.0 million at CRAM, €9.5 million at Dalkia France and €5.4 million at Industelec Sud-Est), and various other reclassifications (€3.0 million).

Current assets amounted to €4,001.1 million at December 31, 2006 (2005 adjusted: €3,824.6 million), representing an increase of €176.5 million. The total includes inventories with a carrying amount of €317.7 million (2005 adjusted: €270.3 million), trade and other receivables for €2,853.6 million (2005 adjusted: €2,741.8 million), short-term receivables under contracts classified as leases in accordance with IFRIC 4 for €120.1 million (2005 adjusted: €113.5 million), other current financial assets for €22.9 million (2005 adjusted: €18.0 million) and cash and cash equivalents for €686.8 million (2005: €681.1 million).

Working capital requirement came to €827.1 million at December 31, 2006 (2005 adjusted: €770.5 million).

Non-current liabilities totaled €1,353.0 million at December 31, 2006 (2005 adjusted: €1,467.0 million), including long-term debt of €839.3 million (2005 adjusted: 978.9 million).

Subsequent events

None.

CONSOLIDATED BALANCE SHEET

<i>(in millions of euros)</i>	<i>Note</i>	<i>December 31, 2006</i>	<i>December 31, 2005 adjusted</i>	<i>December 31, 2005</i>
Goodwill	4	832.4	829.4	829.4
Intangible assets	5	356.5	314.9	88.2
Property, plant and equipment	6	869.2	757.5	865.8
Publicly owned utility network financed and managed by the Group	7	66.3	60.8	277.8
Investments in associates	8	19.6	14.5	14.5
Investments in non-consolidated companies	9	36.7	20.1	20.1
Non-current finance receivables (IFRIC 4)	10			676.6
Non-current operating financial assets	10	651.0	699.0	
Other non-current financial assets	11	47.3	47.1	47.1
Deferred tax assets	12	184.9	165.6	174.7
Non-current assets		3,063.8	2,908.9	2,994.2
Inventories and work-in-progress	13	317.7	270.3	275.8
Trade and other receivables	13	2,853.6	2,741.8	2,700.0
Current finance receivables (IFRIC 4)	10			108.9
Current operating financial assets	10	120.1	113.5	
Other short-term financial receivables	14	1.4		0.5
Other current financial assets	14	21.5	18.0	18.0
Cash and cash equivalents	15	686.8	681.1	681.1
Current assets		4,001.1	3,824.6	3,784.3
Total assets		7,064.8	6,733.5	6,778.5

EQUITY AND LIABILITIES

<i>(in millions of euros)</i>	<i>Note</i>	<i>December 31, 2006</i>	<i>December 31, 2005 adjusted</i>	<i>December 31, 2005</i>
Share capital		968.9	968.9	968.9
Additional paid-in capital		112.1	112.1	112.1
Retained earnings and profit for the period		813.9	679.6	630.0
Minority interests		197.8	95.4	95.2
Equity	16	2,092.7	1,856.0	1,806.2
Long-term provisions	17	304.4	301.3	366.5
Long-term debt	18	839.3	978.9	978.9
Other non-current liabilities	19	19.6	44.3	90.9
Deferred tax liabilities	12	189.7	142.4	126.3
Non-current liabilities		1,353.0	1,467.0	1,562.6
Trade and other payables	13	2,344.3	2,241.6	2,240.8
Short-term provisions	20	126.7	142.9	142.9
Short-term debt	21	235.2	258.5	258.5
Bank overdrafts	22	913.1	767.5	767.5
Current liabilities		3,619.3	3,410.6	3,409.7
Total equity and liabilities		7,064.8	6,733.5	6,778.5

CONSOLIDATED CASH FLOW STATEMENT

<i>(in millions of euros)</i>	2006	2005 (adjusted)	2005
Profit attributable to equity holders of the parent	171.6	122.1	128.9
Profit attributable to minority interests	33.6	21.6	21.6
Depreciation, amortization, provisions and impairment losses on operating assets	230.4	281.3	267.7
Amortization and impairment losses on financial assets	2.3	1.6	1.6
Other adjustments	0.3	2.0	2.0
Disposal and dilution (gains)/losses, net	(0.9)	(23.6)	(23.6)
Share of profit of associates	(2.6)	(1.9)	(1.9)
Dividends received	(1.3)	(1.5)	(1.5)
Finance costs, net	65.8	73.1	73.1
Income tax expense	109.4	104.7	108.9
Other	(6.4)		
Cash flow	602.1	579.4	576.8
Net change in working capital requirement	(40.2)	(68.3)	(55.5)
Income taxes paid	(113.0)	(70.8)	(70.8)
Net cash from operating activities	448.9	440.3	450.5
Purchases of property, plant and equipment	(299.7)	(229.3)	(245.1)
Proceeds from the sale of property, plant and equipment	12.3	20.0	19.8
Purchases of non-current financial assets	(101.3)	(207.0)	(207.0)
Proceeds from the sale of non-current financial assets	101.9	24.3	24.3
Operating financial assets:			
Recognized during the period	(62.9)	(78.9)	(69.9)
Received during the period	134.0	121.2	108.6

<i>(in millions of euros)</i>	2006	2005 (adjusted)	2005
Dividends received	2.8	3.0	3.0
Increase in long-term financial receivables	(0.5)	(0.6)	(0.4)
Long-term financial receivables settled during the period	2.6	5.5	17.1
Change in short-term financial receivables	(0.7)	(3.4)	(5.7)
Purchases and sales of other current financial assets, net	(3.5)	0.9	0.9
Effect of changes in scope of consolidation	(22.9)	15.5	15.5
Net cash used in investing activities	(237.8)	(328.7)	(338.9)
(Decrease) increase in short-term debt	(62.5)	(299.0)	(299.0)
Increase in long-term debt and other non-current liabilities	27.2	26.7	26.7
Decrease in long-term debt and other non-current liabilities	(189.9)	(219.8)	(219.8)
Proceeds from issue of share capital	15.6	(1.7)	(1.7)
Dividends paid	(78.7)	(81.9)	(81.9)
Interest paid	(65.8)	(73.1)	(73.1)
Net cash used in financing activities	(353.9)	(648.8)	(648.8)
Net cash and cash equivalents at beginning of period	(86.4)	616.0	616.0
Effect of exchange rate changes on cash and cash equivalents	2.9	(165.2)	(165.2)
Net cash and cash equivalents at end of period	(226.3)	(86.4)	(86.4)
Cash and cash equivalents	686.8	681.1	681.1
- Bank overdrafts	(913.1)	(767.5)	(767.5)
Net cash and cash equivalents at end of period	(226.3)	(86.4)	(86.4)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(in millions of euros)</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Retained earnings and profit for the period</i>	<i>Translation reserve</i>	<i>Equity attributable to equity holders of the parent</i>	<i>Minority interests</i>	<i>Total equity</i>
At January 1, 2005 (adjusted)	968.9	112.1	596.9	12.6	1,690.4	103.8	1,794.2
Issue of share capital						0.8	0.8
Effect of changes in scope of consolidation			0.4	(0.1)	0.3	11.5	11.8
Dividends			(68.8)		(68.8)	(13.1)	(81.9)
Exchange differences on translating foreign operations				13.9	13.9	5.7	19.6
Gains and losses on cash flow hedges taken to equity			(32.1)		(32.1)	(0.1)	(32.2)
Other			30.4	4.5	34.9	(34.8)	0.1
Profit for the period			122.1		122.1	21.6	143.7
At January 1, 2006	968.9	112.1	648.8	31.0	1,760.6	95.4	1,856.0
Issue of share capital			9.5		9.5	5.8	15.3
Effect of changes in scope of consolidation			(2.6)	2.6	0.0	40.1	40.1
Dividends			(63.7)		(63.7)	(14.9)	(78.6)
Exchange differences on translating foreign operations			0.2	13.2	13.4	1.9	15.3
Gains and losses on cash flow hedges taken to equity						(0.1)	(0.1)
Recognition of actuarial gains and losses			2.1		2.1		2.1
Other			1.1	0.3	1.4	36.2	37.6
Profit for the period			171.6		171.6	33.6	194.2
At December 31, 2006	968.9	112.1	767.0	47.0	1,894.9	197.8	2,092.7

Notes to the consolidated financial statements

Consolidated financial statements
Year ended December 31, 2006

NOTE 1

PRESENTATION OF THE GROUP

Dalkia is 66%-owned by Veolia Environnement and 34% by French electricity utility EDF. It is the leading European provider of energy services to businesses and local authorities. These services include heating and cooling systems, heating and multi-technical services, industrial utilities, installation and maintenance of production equipment, and integrated facilities management services. Since its creation, it has focused on energy and environmental optimization. Supported by a broad range of services, it helps customers optimize their energy chain, from production to systems operation and equipment maintenance. In addition, Dalkia's subsidiary Citelum provides public lighting services, while Proxiserve, a subsidiary co-owned with Veolia Water, provides consumer services. With operations in 38 countries and deep European coverage, Dalkia partners customers operating on an international scale, offering the same quality of local support in each country. As of December 31, 2006, Dalkia employed some 48,800 people worldwide.

Dalkia France and its subsidiaries are responsible for the Group's French operations and Dalkia International and its subsidiaries for international operations.

The Dalkia Group comprises:

- Dalkia International and its subsidiaries (75.79%-owned by Dalkia and 24.14% by EDF).
- Dalkia France and its subsidiaries (99.91%-owned by Dalkia).
- Clemessy and its subsidiaries (99.52%-owned by Dalkia), Dalkia Investissement and its subsidiaries (jointly owned by Dalkia and EDF on a 50-50 basis) and Industelec and its subsidiaries.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION OF THE 2006 CONSOLIDATED FINANCIAL STATEMENTS

In accordance with regulation 1606/2002/EC of the European Parliament and Council dated July 19, 2002 and European Commission regulation 1725/2003/EC dated September 29, 2003, Dalkia has adopted IFRS as its primary basis of accounting as from 2005. Accordingly, the 2006 consolidated financial statements have been prepared in conformity with the International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs) and related interpretations published by the International Accounting Standards Board (IASB), as adopted by the European Union.

However, IFRIC interpretation 12 – Service Concession Arrangements, published in November 2006, has been early adopted by the Group from January 1, 2006, although it is not scheduled for adoption by the European Union until June/July 2007 and is effective for annual periods beginning on or after January 1, 2008. The resulting change of method has been applied retrospectively in accordance with IAS 8.

As a result, Dalkia's 2005 consolidated financial statements and 2004 consolidated financial information have been adjusted to take into account the retrospective application of IFRIC 12.

The accounting policies described below have been applied consistently across all the periods presented in the consolidated financial statements. The consolidated financial statements are prepared using the historical cost convention, with the exception of derivative instruments, financial instruments held for trading and available-for-sale financial instruments, which are measured at fair value in accordance with IAS 32 and IAS 39.

Except for the early adoption of IFRIC 12, the consolidated financial statements presented in this report according to the IFRSs adopted by the European Union as of December 31, 2006 would have been identical had they been prepared according to the IFRSs published by IASB as of the same date.

The 2006 consolidated financial statements were approved by the Supervisory Board on April 4, 2007.

2.2 BASIS OF PRESENTATION OF THE 2006 CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented in millions of euros, unless otherwise specified.

They include the financial statements of Dalkia SAS and its subsidiaries for annual periods ended December 31. The financial statements of the subsidiaries cover the same accounting periods as the parent company financial statements and have been prepared using the same accounting policies.

All intragroup balances, transactions, income, expenses and unrealized gains and losses included in the carrying amount of assets are eliminated in full in consolidation.

Subsidiaries are consolidated as from the date they are acquired – corresponding to the date when control is transferred to the Group – until the date when the Group ceases to exercise control.

Minority interests correspond to the share of the Group's profit or loss and net assets attributable to outside shareholders. They are shown as a separate line item in the income statement and are recorded separately from equity attributable to equity holders of the parent in the consolidated balance sheet.

2.3 CONSOLIDATION METHODS

Companies controlled by Dalkia are fully consolidated. Control is defined as the power to determine, directly and/or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities.

Associates, corresponding to companies in which Dalkia exercises significant influence, are accounted for by the equity method. Significant influence is considered as being exercised when Dalkia holds at least 20% of the associate's capital and voting rights.

Companies that are controlled jointly by Dalkia and one or more partners under a contractual arrangement are consolidated by the proportionate method, in accordance with IAS 31.

In accordance with interpretation SIC 12, special purpose entities (SPEs) are consolidated when the substance of the relationship between Dalkia or its subsidiaries and the SPE indicates that the SPE is controlled by Dalkia. Control may arise through the predetermination of the SPE's activities, or from circumstances where, in substance, Dalkia has the power to govern the SPE's financial and operating policies or has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the SPE's activities.

In accordance with IAS 27, the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Dalkia and its subsidiaries exercise control or significant influence.

2.4 TRANSLATION OF THE FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES (IAS 21)

The 2006 balance sheets, income statements and cash flow statements of subsidiaries whose functional currency is different from the parent company's presentation currency have been translated into the presentation currency of the consolidated financial statements at the exchange rate at December 31, 2006 for the balance sheet and the average exchange rate for the year for the income statement and cash flow statement. The resulting translation differences have been recognized in equity. The main exchange rates used to translate

the financial statements of subsidiaries located outside the euro zone are as follows:

<i>Closing rate (one currency unit = €xx)</i>	<i>At December 31, 2006</i>	<i>At December 31, 2005</i>	<i>Average rate (one currency unit = €xx)</i>	<i>2006</i>	<i>2005</i>
Polish zloty	0.2610	0.2590	Polish zloty	0.2564	0.2486
Czech koruny	0.0364	0.0344	Czech koruny	0.0354	0.0335
British pound	1.4892	1.4592	British pound	1.4665	1.4640

2.5 TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS (IAS 21 – IAS 39)

Foreign currency transactions are translated into euros at the exchange rate on the transaction date and foreign currency assets and liabilities are converted into euros at the closing rate. The resulting gains and losses are recognized in profit. Loans granted to foreign subsidiaries, for which settlement is neither planned nor likely to occur in the foreseeable future, are treated as part of the Group's net investment in the foreign operation. Exchange differences arising on the translation of monetary items that form a part of a net investment in a foreign operation are recognized initially in a separate component of equity ("Translation reserve") and recognized in profit on disposal of the net investment. Exchange gains and losses on foreign currency borrowings and currency derivatives that hedge the Group's net investment in foreign operations are recognized in equity, under "Translation reserve". Cumulative translation gains and losses recognized directly in equity are reclassified into profit when the foreign operation is sold. Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are converted into euros at the exchange rate on the transaction date. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are converted into euros at the exchange rate on the date at which their fair value was determined.

In May 2006, the European Union adopted the revised version of IAS 21, effective from January 1, 2006. The revised text specifies that, in the case of a net investment in a foreign operation, exchange differences arising on a monetary item (such as a loan) denominated in a currency other than the functional currency of either the reporting entity or the foreign operation is recorded in a separate component of equity ("Translation reserve"). The effect of applying the revised version of IAS on the 2006 consolidated financial statements was not material.

2.6 PROPERTY, PLANT AND EQUIPMENT (IAS 16 AND IAS 17)

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Each significant part of an item of property, plant and equipment is recognized separately and depreciated over its useful life. Borrowing costs that are directly attributable to the acquisition, construction or production of identified items of property, plant and equipment are added to the carrying amount of the asset in accordance with IAS 23 – Borrowing Costs. In accordance with IAS 17 – Leases, finance leases are recognized in property, plant and equipment at the fair value of the leased asset or, if lower, the present value of the minimum lease payments, and are depreciated over the shorter of the lease term and their useful life, unless ownership is expected to pass to the lessee at the end of the lease term. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the Group. Given the nature of Dalkia's business, the Group does not hold any investment property.

2.7 GOVERNMENT GRANTS (IAS 20)

Grants related to property, plant and equipment

As allowed by IAS 20, government grants for the acquisition of property, plant and equipment are deducted in arriving at the carrying amount of the related asset. They are recognized as income over the life of depreciable assets by way of a reduced depreciation charge.

If the asset is being constructed over several periods, the portion of the grant not yet used is recorded in the balance sheet under "Other liabilities".

Grants related to concession arrangements

In principle, grants related to concession arrangements (see Note 2.20) are unconditional and are not repayable.

As allowed under IAS 20, they are recognized as a deduction from intangible assets or financial assets, based on the accounting model applied by the Group. If the intangible asset model is applied, the grant reduces the amortization charge of the asset over the remaining term of the arrangement.

If the financial asset model is applied, the related grant is treated as part of the repayment of the asset.

Operating grants

Operating grants are by definition related to operating items. They are recognized on a systematic and rational basis over the periods necessary to match them with the related costs.

2.8 INTANGIBLE ASSETS (IAS 38)

Intangible assets are identifiable non-monetary assets without physical substance. They are recognized at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets consist mainly of fees paid to local authorities for public service contracts, which are amortized over the life of the contract, contracts acquired in business combinations, patents, licenses and software.

2.9 BUSINESS COMBINATIONS AND GOODWILL (IFRS 3)

All business combinations are accounted for by the purchase method. Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. The acquired assets and assumed liabilities and contingent liabilities are initially recognized at fair value. Any excess of the purchase price over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed is recognized as goodwill.

Under IFRS, goodwill is not amortized but is tested for impairment at least once a year. The test is performed at the level of the cash-generating unit (CGU) to which the goodwill belongs. Based on the definition in IAS 36, the Group's CGUs correspond to geographical regions within a specific business segment. They generally reflect the level at which operating performance is measured.

2.10 IMPAIRMENT OF ASSETS (IAS 36)

Depreciable property, plant and equipment and amortizable intangible assets are tested for impairment when there are any internal or external indicators that their recoverable amount is less than their carrying amount.

Goodwill and intangible assets with an indefinite useful life are tested for impairment on an annual basis following the preparation of the business plan or at any time during the year when there is an indication that they may be impaired. In the latter case, projections are downgraded, impairment tests are performed at June 30 and an impairment loss is recognized in the interim balance sheet – first, to reduce the carrying amount of goodwill and then, if necessary, to reduce the carrying amount of intangible assets with indefinite useful lives.

If the recoverable amount of the asset or group of assets is less than its carrying amount, the carrying amount is reduced to its recoverable amount, defined as the higher of fair value less costs to sell and value in use.

Value in use is measured by estimating the future cash inflows and outflows to be derived from continuing use of the asset, CGU or group of CGUs, taking into account any residual value, and applying the appropriate discount rate to those future cash flows. This rate is estimated from the current market risk-free rate of interest and the risks specific to the asset for which the future cash flows estimates have not been adjusted. Given the nature of the Group's business, CGUs correspond to a country or group of countries.

On disposal, fair value less costs to sell is estimated using the multiples method based on broker research reports or by reference to observed prices for similar recent transactions.

Impairment losses can be reversed, with the exception of impairment losses on goodwill.

2.11 INVENTORIES (IAS 2)

Inventories are measured at the lower of cost and net realizable value, in accordance with IAS 2. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale

2.12 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (IFRS 5)

Assets and disposal groups classified as held for sale, and any associated liabilities, are measured at the lower of carrying amount and fair value less costs to sell.

The results of discontinued operations are presented as a separate line item in the income statement.

2.13 PROVISIONS (IAS 37)

In accordance with IAS 37, a provision is recorded when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the obligation can be measured reliably.

A restructuring provision is recorded when the restructuring has been announced and a detailed formal plan has been drawn up or started to be implemented before the period-end. No provisions are recorded for future operating costs.

Long-term provisions are discounted when the impact is material; discounting adjustments are recognized in the income statement under "Other financial income and expenses".

The discount rates applied at December 31, 2006 and 2005 were as follows:

<i>Discount rates</i>	<i>December 31, 2006</i>	<i>December 31, 2005</i>
Euros		
2 to 5 years	4.37%	3.25%
6 to 10 years	4.60%	3.88%
Beyond 10 years	5.20%	4.32%
British pound		
2 to 5 years	5.60%	4.88%
6 to 10 years	5.56%	5.11%
Beyond 10 years	5.60%	5.10%

2.14 FINANCIAL INSTRUMENT (IAS 32 AND 39)

Financial assets and liabilities

Financial assets comprise available-for-sale financial assets, held-to-maturity investments, financial assets held for trading, derivative instruments, loans and receivables and cash and cash equivalents.

Financial liabilities comprise borrowings, other financing, bank overdrafts, derivative instruments and operating liabilities.

Financial assets and liabilities are recognized and measured in accordance with IAS 39 – Financial Instruments: Recognition and Measurement.

Recognition and measurement of financial assets

Financial assets are recognized on the settlement date. They are initially recognized at fair value net of transaction costs, except for financial assets classified as at fair value through profit, for which the transaction costs are recognized directly in profit.

On the acquisition date, the Group classifies each financial asset in one of the following four accounting categories defined in IAS 39:

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. They are initially recognized at fair value and are subsequently measured at amortized cost determined by the effective interest method.

At each period-end, the Group assesses whether there is objective evidence that held-to-maturity investments have been impaired. When such evidence exists, an impairment test is performed and an impairment loss is recognized in profit when the assets' carrying amount exceeds their recoverable amount.

Available-for-sale financial assets

Available-for-sale financial assets consist mainly of shares in non-consolidated companies and marketable securities that are not classified in any other category of financial assets. They are measured at fair value, with changes in fair value recognized in equity; however, in the case of a material, other-than-temporary impairment, the impairment loss is recorded in profit. Any reversals of impairment losses on available-for-sale debt instruments such as receivables and fixed income securities are recognized in profit.

Gains and losses on remeasurement at fair value recognized directly in equity are reclassified into profit when the available-for-sale financial asset is sold. Fair value corresponds to market price for listed securities and estimated value in use for unlisted securities, determined using the most appropriate financial criteria for each individual investment. When investments in non-consolidated companies are not traded on an active market and their fair value cannot be reliably estimated, they are measured at cost less any impairment loss.

Loans and receivables

This category includes receivables from non-consolidated companies, other loans and receivables and trade receivables. These instruments are initially recognized at fair value and are subsequently measured at amortized cost, determined by the effective interest method.

They are tested for impairment at each period-end, and an impairment loss is recognized in profit when their carrying amount exceeds their recoverable amount.

Financial assets at fair value through profit

This category includes financial assets held for trading, i.e. financial assets acquired principally for the purpose of being sold in the near term that constitute part of a portfolio of identified financial instruments which are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets at fair value through profit also include units in money market funds, the management and performance of which are based on their fair value. Changes in fair value of these assets are recognized in profit.

Cash and cash equivalents

Cash equivalents are assets that are held to meet the Group's short-term cash needs rather than for investment or other purposes. They include cash at bank, deposits with maturities of less than three months, units in money market funds and money market securities. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. They are treated as financial assets at fair value through profit.

Cash and cash equivalents in the cash flow statement include bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Recognition and measurement of financial liabilities

With the exception of financial liabilities held for trading and derivative instruments, which are measured at fair value, borrowings and other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost, determined by the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or the period to the next interest reset date to the net carrying amount of the financial liability. Hedge accounting is applied to borrowings that are hedged by fair value hedges. A fair value hedge is a hedge of the exposure to changes in fair value of a recognized liability or an identified portion of such a liability that is attributable to a particular risk and could affect profit.

Put options granted to minority shareholders

Under IAS 27, minority interests in fully consolidated subsidiaries are treated as a component of equity.

Under IAS 32, put options granted to minority shareholders of subsidiaries are recognized as a liability.

In the absence of any IFRIC interpretation or any IFRS dealing specifically with these options, the following accounting treatment has been applied as a temporary solution that may change in future:

- the liability is recorded in “Borrowings” at the fair value of the put, by adjusting minority interests and, if necessary, goodwill;
- discounting adjustments to the carrying amount of the liability are recognized in “Finance costs”. Changes in the value of variable price puts due to adjustments to the calculation assumptions are recognized in goodwill.

If the put option lapses without being exercised, the liability and the adjustment to goodwill are cancelled by reinstating minority interests in equity.

Recognition and measurement of derivative instruments

Dalkia uses derivative instruments to hedge the currency and interest rate risks arising from its operating, financial and investing activities. Financial instruments acquired as hedges that do not meet the criteria for hedge accounting are classified as financial instruments held for trading.

Derivative instruments are recognized in the balance sheet and measured at fair value. Except as explained below, changes in the fair value of derivative instruments are recognized in profit. The fair value of derivatives is measured using standard valuation techniques, based on estimates and assumptions from observable, active markets.

Certain derivative instruments are designated as fair value or cash flow hedges or a hedge of the net investment in a foreign operation:

- a fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an identified portion of such an asset or liability, that is attributable to a particular risk – mainly interest rate or currency risk – and could affect profit;
- a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction – such as a forecast purchase or sale – and could affect profit;
- a hedge of a net investment in a foreign operation is a hedge of the exposure to currency risk of the net investment, including any loans qualified as forming part of the net investment (IAS 21).

Hedge accounting is applied to an asset, a liability, a firm commitment, future cash flows or a net investment in a foreign operation when:

- the hedging relationship is formally designated and documented at the inception of the hedge;
- the hedge is expected to be highly effective, is assessed on an ongoing basis and is determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated. The ineffective portion of the gain or loss on the hedging instrument is recognized directly in profit.

The effects of applying hedge accounting are as follows:

- For fair value hedges of assets and liabilities, the hedged portion of the asset or liability is measured at fair value. Changes in fair value are recognized in profit and are offset by the effective portion of the gain or loss arising from remeasurement at fair value of the hedging instrument;
- For cash flow hedges, the effective portion of the gain or loss arising from remeasurement at fair value of the hedging instrument is recognized directly in equity, and changes in the fair value of the hedged portion of the underlying are not recognized in the balance sheet. The ineffective portion of the gain or loss is recognized in profit. Cumulative gains and losses recognized in equity are reclassified into profit when the hedged item affects profit;
- For hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognized directly in equity under "Translation reserve" and the ineffective portion is recognized in profit. The cumulative gain or loss recorded under "Translation reserve" is reclassified into profit on disposal of the foreign operation.

Treasury stock

Treasury stock is recognized as a deduction from equity. Gains and losses arising on the sale of treasury stock are recorded directly in equity and have no effect on profit.

2.15 PENSION AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS (IAS 19)

Dalkia has set up several retirement plans for employees. Obligations under these plans are measured using the projected unit credit method, based on the probability of employees remaining with the Company until retirement, estimated final salaries and an appropriate discount rate. Discount rates are determined separately for each monetary zone. The accounting treatment of these obligations leads to the recognition of retirement assets or provisions in the balance sheet and recognition of the net cost.

Dalkia elected to recognize cumulative actuarial gains and losses in retained earnings at January 1, 2004 and to early adopt the amendment to IAS 19 as from January 1, 2005. In line with this amendment, actuarial gains and losses are recognized directly in equity and no amortization is recognized in profit.

2.16 SHARE-BASED PAYMENTS (IFRS 2)

Application of IFRS 2 – Share-Based Payment led to recognition of the cost of stock options and other share-based compensation awarded by the Group to employees. The cost of these plans – representing the fair value of the options or other rights at the grant date – is recognized in profit and in equity over the vesting period, which corresponds to the periods of employee service. In accordance with IFRS 2, to maintain the comparability of the 2006 and 2005 financial statements, only plans set up after November 7, 2002 that had not yet vested as of January 1, 2005 are measured and recognized in employee benefits expense.

The fair value of stock options is calculated using a binomial model taking into account the expected life of the options, the risk-free interest rate, observed historical volatility and the expected dividend yield.

The cost of share-based payments corresponds to the difference between the share purchase price under the plan and the average share price at the purchase date less the discount reflecting the lock-up period.

2.17 REVENUE (IAS 18)

Revenue corresponds to the sale of goods and services and is measured at the fair value of the consideration received or receivable.

It is recognized when the following conditions are met:

- The amount of revenue can be measured reliably;
- The significant risks and rewards incidental to ownership have been transferred to the buyer;
- It is probable that the economic benefits will flow to the seller;
- The costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

Sale of goods

The sale of goods corresponds to the recycling and sale of fuel. Revenues arising from these activities are recorded on delivery of the goods, corresponding to the point of transfer of the risks incidental to ownership.

Rendering of services

Services include heating, thermal and public lighting services, and account for the bulk of the Group's revenue.

Service revenues are recognized when the services are rendered and it is probable that the economic benefits will flow to the Group.

Dalkia renders these services according to the terms and conditions of contracts entered into with public or industrial customers at a set price and within a pre-determined timeframe. Billing is based on the amount of thermal power delivered and the corresponding price set out in the contract.

In view of the specific nature of Dalkia's business, fees and taxes collected on behalf of local authorities are excluded from revenue provided that their recovery is considered probable. Revenues from contracts containing a lease (see IFRIC 4 and IAS 16) include:

- Principal repayments received from the local authority;
- Finance income from the financial receivable.

Principal repayments are excluded from revenue while finance income is included.

Fees and taxes collected on behalf of local authorities are excluded from revenue provided that their recovery is considered probable

Construction contracts (excluding service concession arrangements)

Construction contracts correspond mainly to equipment installation. The related revenues are recognized in accordance with IAS 11 (see Note 2.22).

Arrangements containing a lease (IFRIC 4)

Arrangements covered by IFRIC 4 (see Note 2.21) usually involve rendering services to industrial customers. The services to be rendered are agreed between the parties and specified in the contract. Examples include Build Operate Transfer (BOT) contracts.

The service includes financing the construction of the specific asset for the customer and operating the asset.

The revenues arising from the financing of the asset are treated as revenue from construction contracts under IAS 11 and recognized under "Operating financial assets". These revenues are measured according to the contract's stage of completion at the balance sheet date, as determined based on the ratio that the costs incurred up to the balance sheet date bear to the estimated total costs of the contract. Interest expense on the construction financing is billed to the customer and recognized as revenue under "Income from financing arranged on behalf of third parties" from the start date of the construction phase.

The revenues derived from operating the asset are recognized according to the methods used for delivery of goods or services, depending on how the asset is used.

Service concession arrangements (IFRIC 12)

See Note 2.20 on service concession arrangements.

2.18 FINANCE COSTS AND OTHER FINANCIAL INCOME AND EXPENSE

Finance costs include interest payable on loans measured at amortized cost and losses on interest rate derivatives, whether or not they qualify for hedge accounting.

Finance income comprises gains on interest rate derivatives, whether or not they qualify for hedge accounting, and interest earned on cash and cash equivalents. Interest income is recognized in the income statement when it is earned and is measured using the effective interest method. The interest portion of payments under finance leases is measured by the effective interest method.

Other financial income and expenses include mainly income from finance receivables measured at amortized cost, dividends, exchange gains and losses, impairment losses on financial assets and discounting adjustments to provisions.

2.19 INCOME TAX (IAS 12)

Income tax comprises current and deferred taxes.

Deferred tax assets are recognized for deductible temporary differences, tax loss carryforwards and tax credits. Deferred tax liabilities are recognized for taxable temporary differences.

Deferred tax assets and liabilities are adjusted for the effects of any changes in tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred taxes are not discounted.

Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profit will be available against which they can be utilized. A valuation allowance is recorded when it is no longer probable that the related tax benefit will be realized

2.20 SERVICE CONCESSION ARRANGEMENTS (IFRIC 12)

The Group decided to early adopt IFRIC 12 – Service Concession Arrangements in the 2006 consolidated financial statements.

A large proportion of the Group's assets are comprised of assets acquired under concession arrangements with public sector entities (grantors) and/or by companies acquired by the Group through partial or full privatization programs. These arrangements vary considerably according to the country or business concerned.

However, they generally provide for the direct or indirect involvement of the grantor in determining the nature of the service to be rendered, remuneration for that service and the restitution of the assets used by the Group to the grantor at the end of the term of the arrangement.

In order to be treated as a service concession arrangement under IFRIC 12, an arrangement must meet the following two criteria:

- The grantor controls the services to be provided with the infrastructure, decides to whom the services must be provided and sets the price to be charged for those services;
- The grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

According to IFRIC 12, the infrastructure may not be recognized as property, plant and equipment of the operator, but as a financial asset and/or an intangible asset based on the nature of the consideration received or receivable by the operator.

Financial asset model

A financial asset is recognized when the operator has an unconditional, contractual right to receive cash or other financial assets from the grantor. In the case of a construction contract, the operator has this unconditional right if payment is guaranteed by the contract:

- The operator receives a fixed amount from the grantor over the term of the arrangement;
- The operator has a right to charge users over the term of the arrangement, but any shortfall will be reimbursed by the grantor.

Assets classified as financial assets under IFRIC 12 are recorded in the balance sheet under “Operating financial assets” and measured at amortized cost. In the absence of contractual specifications, the effective interest rate corresponds to the weighted average cost of capital of the entity that holds the assets concerned.

In accordance with IAS 39, an impairment loss is recognized in profit when the carrying amount of these assets exceeds their estimated fair value. Fair value is estimated based on the assets’ recoverable amount, calculated using the discounted cash flow method (value in use).

The short-term portion of the financial assets is presented under “Current operating financial assets” and the long-term portion under “Non-current operating financial assets”.

In accordance with IAS 18, revenue from these financial assets includes:

- Progress payments received under the construction contract (according to IAS 11);
- Excluding principal repayments;
- The remuneration for the services rendered.

Intangible asset model

The intangible asset model is used when the operator has a right to charge users over the term of the arrangement and is not guaranteed a fixed payment. The operator has a right to charge the grantor based on usage of the services over the term of the arrangement.

Assets classified as intangible assets under IFRIC 12 are recognized in the balance sheet under “Intangible assets from publicly-owned utility networks financed and managed by the Group”. These assets are generally amortized on a straight-line basis over the term of the arrangement.

In the case of assets classified as intangibles, revenue includes:

- Revenues from constructing the asset (according to IAS 11);
- All income received in respect of the contract.

Bifurcated model

According to this model, the operator is guaranteed a fixed payment from the grantor partly in the form of a financial asset and partly in the form of an intangible asset. However, some arrangements specify that the grantor pays the operator a fixed amount to cover part of the cost of the investment, while the operator charges users for the balance.

In this case, the guaranteed amount covering the investment is recognized as a financial asset and the balance as an intangible asset.

2.21 ARRANGEMENTS COVERED BY IFRIC 4

IFRIC 4 gives guidance on whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with IAS 17 – Leases. It specifies that, on the basis of the transfer of risks and rewards, an arrangement contains a lease if it depends on the use of a specific asset and conveys a right to control the use of that asset.

If such is the case, the operator assumes the role of lessor vis-à-vis the customer. If the lease transfers the risks and rewards of ownership of the asset to the customer according to IAS 17, the operator/lessor recognizes the asset as a financial asset rather than as property, plant and equipment.

Such financial assets are recorded under “Operating financial assets”. They are initially recognized at the lower of fair value and the present value of minimum lease payments at inception of the lease, and are subsequently measured at amortized cost using the effective interest method.

The short-term portion is presented under “Current operating financial assets” and the long-term portion is presented under “Non-current operating financial assets”. Contracts meeting the IFRIC 4 criteria include contracts with industrial customers, Build-Operate-Transfer (BOT) contracts, incineration and co-generation contracts, for which the demand or volume risk is transferred in substance to the customer.

During the construction phase, the financial receivable is recognized by crediting revenue based on the stage of completion method prescribed in IAS 11 – Construction Contracts.

The receivable is initially recognized at the present value of minimum lease payments, and is subsequently measured at amortized cost using the effective interest method.

Interest on the receivables is determined by analyzing the contract and related financing. It is based on the Group’s average borrowing cost and/or the cost of the debt taken on to finance the contract.

2.22 CONSTRUCTION CONTRACTS (IAS 11)

Revenues and expenses related to construction contracts are recognized by reference to the stage of completion of the contract activity, in accordance with IAS 11.

Construction contracts are contracts specifically negotiated with local authorities or private partners for the construction of infrastructure for the rendering of services. They are generally fixed price contracts, as defined in IAS 11.

Contract revenue is measured at the fair value of the consideration received or receivable provided that the costs to complete the contract and the stage of contract completion at the balance sheet date can be measured reliably.

The stage of completion is measured based on the ratio that contract costs incurred for work performed to date bear to the estimated total contract costs.

Costs incurred are recognized as an expense in the income statement.

They do not include any administrative or distribution costs.

When it is probable that the total contract costs will exceed total contract revenue, a provision is recognized immediately, irrespective of the stage of completion of contract activity, based on the Group’s best estimate

of the final loss after taking into account any rights to additional revenue or rights of recourse, to the extent that it is probable that the revenue will be received and can be reliably measured. The provision is recorded in the balance sheet under liabilities.

Advances received by the contractor before the related work is performed are recognized in the balance sheet under "Advances and downpayments received". If costs incurred, plus recognized profits less recognized losses (including provisions for losses), determined contract-by-contract, exceed progress billings, the gross amount due from customers is recognized as an asset under "Gross amount receivable from customers for construction work". If progress billings exceed costs incurred plus recognized profits less recognized losses, the gross amount due to customers is recognized as a liability under "Gross amount due to customers for construction work".

2.23 CO₂ EMISSIONS ALLOWANCES

Under the Kyoto Treaty, Dalkia is committed to reducing greenhouse gas emissions from energy plants under management.

Dalkia has been given allowances for the amount of CO₂ that may be emitted by each of these plants in the period 2005-2007. Each year, the Group is required to surrender allowances to cover its emissions.

In the absence of a specific IFRS relating to the issue, Dalkia has elected to account for such allowances using the net liability approach.

Under this approach, in the event that emissions have been made in excess of the Group's rights, IAS 37 requires recognition of a liability corresponding to the allowances that will have to be surrendered in three years time.

The liability is determined based on emissions during the period, allowances held and the fair value of the allowances at the balance sheet date (or the forward price, in the case of forward purchases). When the allowances are surrendered, the liability is canceled and the purchased allowances are recognized as an operating expense. Allowances are treated as rights to the reimbursement of a commitment received without consideration and are recognized in "Other intangible assets" in accordance with IAS 38, at a value of zero.

Allowances purchased solely for trading purposes are recognized as intangible assets at cost. If their fair value is lower than their acquisition cost at the balance sheet date, an impairment loss is recognized.

Carbon trading transactions are recognized based on the policies used to manage the related emissions allowances.

Proceeds from the sale of surplus rights are recorded as a deduction from cost of sales.

2.24 SEGMENT INFORMATION (IAS 14)

The Group's primary segment reporting format under IAS 14 is the geographical segment within a business segment. Geographic segments include France, the Northern Europe Region, the Eastern Europe Region, the North Atlantic Region, the Southern Region and the Development Region. Application of IAS 14 has not led to any change in presentation of segment information compared with the French GAAP presentation.

2.25 STANDARDS AND INTERPRETATIONS NOT EARLY ADOPTED BY THE GROUP AND NOT MENTIONED IN NOTE 2.20

Dalkia elected not to early adopt the following standards, amendments and interpretations:

- IFRS 7 - Financial Instruments: Disclosures and the amendment to IAS 1 - Presentation of Financial Statements: Capital Disclosures are effective from January 1, 2007. Their application will lead to the disclosure of additional information concerning financial instruments. Dalkia has launched a review of the practical consequences of applying these texts and does not expect them to have any material impact on the consolidated financial statements.
- IFRS 8 - Operating Segments, scheduled for adoption by the European Union in May or June 2007, will be applicable to the Group from January 1, 2009. A review is underway to determine the practical consequences of its application.
- IFRIC 7 - Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies, is applicable from January 1, 2007. Its application is not expected to have any material impact.

- IFRIC 8 - Scope of IFRS 2 – Share-based Payment is effective from January 1, 2007. Its application is not expected to have any material impact.
- IFRIC 9 - Reassessment of Embedded Derivatives is applicable from January 1, 2007. Its application is not expected to have any material impact.
- IFRIC 10 - Interim Financial Reporting and Impairment, scheduled for adoption by the European Union in May or June 2007, will be applicable from January 1, 2007. Its application is not expected to have any material impact.
- IFRIC 11 Group and Treasury Share Transactions, scheduled for adoption by the European Union in May or June 2007, will be applicable from January 1, 2008. Its application is not expected to have any material impact.

2.26 USE OF ESTIMATES

In preparing the financial statements, management may be required to make estimates and use assumptions that affect the reported amount of assets and liabilities, income and expenses and contingent assets and liabilities.

Actual results may be significantly different from these estimates.

The estimates and underlying assumptions are based on past experience and other factors considered as reasonable under the circumstances. They provide a basis on which to exercise judgment in determining the carrying amounts of assets and liabilities that cannot be obtained directly from other sources.

Actual values may differ from estimated values.

The estimates and underlying assumptions are reviewed at regular intervals.

The effect of any changes in accounting estimates is recognized in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The main estimates concern the amounts of employee benefit obligations and deferred taxes, the measurement of long-lived assets (property, plant and equipment and intangible assets) and the assessment of certain risks covered by provisions.

All of these estimates are based on estimated future cash flows determined from data collected according to an organized process and validated by line managers,

as well as on projected market data derived from external indicators and used according to documented methodologies that are applied consistently from one year to the next.

NOTE 3 SIGNIFICANT EVENTS

None.

NOTE 4 GOODWILL

Goodwill can be analyzed as follows:

<i>(in millions of euros)</i>	<i>December 31, 2006</i>	<i>December 31, 2005 adjusted</i>	<i>December 31, 2005</i>
Gross	857.6	855.1	842.4
Impairment	(25.2)	(25.7)	(13.0)
Net	832.4	829.4	829.4

Goodwill and intangible assets with an indefinite useful life are not amortized but are tested for impairment at least once a year, or more often when there is an indication that they may be impaired. The recoverable amount of the cash-generating unit (CGU) to which the assets belong is estimated using the discounted cash flows method, based on the Group's strategic business plan for the first five years, with data for the final year extrapolated over the next ten years. The growth rate applied varies depending on the business and the country.

Movements in net goodwill in 2006 were as follows:

(in millions of euros)	Decembre 31, 2005 (adjusted)	Changes in scope of consolidation	Translation adjustment	Other movements	December 31, 2006
Total France	480.2	2.4	0	1.1	483.7
Total International	349.2	31.0	0.6	(32.1)	348.7
Total	829.4	33.4	0.6	(31.0)	832.4

In 2006, movements in goodwill due to changes in the scope of consolidation primarily concerned:

- Final fair value adjustments to net assets acquired in the Zespol Elektrociepłowni w Łodzi (Poland) business combination, leading to a €55.8 million reduction in goodwill, and the write-off of goodwill on the sale of 34% of IFM;
- Goodwill recognized on acquisition of TDU in Australia for €10.0 million and of new Italian subsidiaries for €34.4 million;
- Remeasurement at fair value of put options granted to minority shareholders in Poland, leading to a €7.4 million adjustment of goodwill.

Dalkia France

In 1997, Vivendi Universal transferred its 92.96% interest in Dalkia France to Dalkia. In 1998, Dalkia underwrote a share issue by Dalkia France, which had the effect of increasing its interest by 2.24%. In 2000, Veolia Environnement transferred a further 4.27% of Dalkia France's capital to Dalkia. In 2002, Dalkia bought out the minority interests in Dalkia France amounting to 0.44%, bringing its total interest at December 31, 2002 to 99.91%. Goodwill on the successive acquisitions was as follows (in millions of euros):

Dalkia's equity in the fair value of net assets acquired (a)	813.4
Purchase price (b)	1,043.1
Total goodwill (b) – (a)	229.7
Residual goodwill at December 31, 2006	202.5

Until December 31, 2003, this goodwill was being amortized over a period of forty years.

Clemessy

In February and September 2001, Dalkia acquired 100% of SRPG (subsequently merged into Dalkia) and 99.44% of Clemessy – two French engineering and electrical maintenance companies. Goodwill on the acquisition was as follows (in millions of euros):

Dalkia's equity in the fair value of net assets acquired (a)	(7.1)
Purchase price (b)	94.1
Total goodwill (b) – (a)	101.2
Residual goodwill at December 31, 2006	72.9

Dalkia Investissement

In January and April 2001, Dalkia acquired 50% of Dalkia Investissement (formerly Cogetherm), a French company involved in the design and construction of electricity and heat cogeneration plants. Goodwill on the acquisition was as follows (in millions of euros):

Dalkia's equity in the fair value of net assets acquired (a)	107.8
Purchase price (b)	200.0
Total goodwill (b) – (a)	92.2
Residual goodwill at December 31, 2006	78.4

Siram

In October 2001, Dalkia SRL acquired 100% of Siram, Italy's second largest heating systems management company. Goodwill on the acquisition was as follows (in millions of euros):

Dalkia's equity in the fair value of net assets acquired (a)	28.4
Purchase price (b)	83.6
Total goodwill (b) – (a)	55.2
Residual goodwill at December 31, 2006	51.1

Dalkia Poznan Zec

In June 2004, Dalkia Polska and Dalkia Poznan (formerly Poznanska) respectively acquired stakes of 50% and 35% in Poznan Zep, which has since been renamed Poznan Zec. Dalkia Polska subsequently sold a 10% stake in the company to the EBRD. In 2006, Dalkia Polska acquired 13% of Dalkia Poznan Zec shares held by employees. Goodwill on the acquisition was as follows (in millions of euros):

Dalkia's equity in the fair value of net assets acquired (a)	28.0
Purchase price (b)	56.8
Total goodwill (b) – (a)	28.8
Residual goodwill at December 31, 2006	28.8

Zespol Elektrocieplowni w Lodzi

In September 2005, Dalkia Polska acquired 51% of Zespol Elektrocieplowni w Lodzi. Goodwill on the acquisition was as follows:

Dalkia's equity in the fair value of net assets acquired (a)	107.1
Purchase price (b)	107.0
Total goodwill (b) – (a)	(0.1)
Residual goodwill at December 31, 2006	0.0

NOTE 5**INTANGIBLE ASSETS**

Movements in net intangible assets in 2006 were as follows:

<i>(in millions of euros)</i>	<i>December 31, 2005 (adjusted)</i>	<i>Additions</i>	<i>Disposals</i>	<i>Amortization charges/ reversals</i>	<i>Changes in scope of consolidation</i>	<i>Translation adjustments</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Fees paid to local authorities for public service contracts	2.0			(0.1)			(1.9)	0.0
Trademarks, business goodwill	3.0	8.8	(0.5)	(0.4)	(2.4)	(0.3)		8.2
Internally-developed software	1.5			(1.0)				0.5
Purchased software	37.0	7.7	(0.1)	(13.8)	0.2	0.2	1.5	32.7
Intangible assets (IFRIC 4)	247.0	45.2	(0.2)	(27.4)		0.7	27.5	292.9
Other	24.4	3.4	(0.5)	(3.6)	0.3		(1.8)	22.2
Total	314.9	65.1	(1.3)	(46.3)	(1.9)	0.6	25.3	356.5

NOTE 6**PROPERTY, PLANT AND EQUIPMENT**

Movements in property, plant and equipment in 2006 were as follows:

<i>(in millions of euros)</i>	<i>December 31, 2005 (adjusted)</i>	<i>Additions</i>	<i>Disposals</i>	<i>Depreciation charges/ reversals</i>	<i>Changes in scope of consolidation</i>	<i>Translation adjustments</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Cost	2,034.2	126.8	(65.9)		19.2	39.3	(297.5)	1,856.1
Depreciation	(1,276.7)		54.4	(100.2)	(7.7)	(22.9)	366.1	(986.9)
Net	757.5	126.8	(11.5)	(100.2)	11.5	16.4	68.7	869.2

Additions to property, plant and equipment in 2006 included €23.7 million in France and €103.1 million outside France.

Property, plant and equipment can be analyzed as follows:

<i>(in millions of euros)</i>	December 31, 2005 adjusted	December 31, 2006		
		Cost	Depreciation and impairment	Net
Thermal Energy - France	54.0	171.5	(125.8)	45.7
Specialized subsidiaries	52.5	156.1	(104.6)	51.5
Total France	106.5	327.6	(230.4)	97.2
North Atlantic Region	21.0	66.7	(38.6)	28.1
Northern Europe Region	51.8	119.4	(55.8)	63.6
Southern Region	15.8	52.4	(34.9)	17.5
Eastern Europe Region	555.7	1,277.1	(625.6)	651.5
Development Region	6.7	12.1	(1.7)	10.4
International holding company		0.8		0.8
Total International	651.0	1,528.5	(756.5)	772.0
Total	757.5	1,856.1	(986.9)	869.2

Property, plant and equipment break down as follows by category:

<i>(in millions of euros)</i>	December 31, 2005 adjusted	December 31, 2006		
		Cost	Depreciation and impairment	Net
Land	33.4	27.8	(0.9)	26.9
Buildings	198.3	395.2	(202.3)	192.9
Plant and equipment	434.8	1,148.8	(616.7)	532.1
Construction in progress	29.9	58.6		58.6
Other	61.2	225.7	(167.0)	58.7
Total	757.5	1,856.1	(986.9)	869.2

NOTE 7**PUBLICLY-OWNED UTILITY NETWORK FINANCED AND MANAGED BY THE GROUP**

Movements in 2006 were as follows:

<i>(in millions of euros)</i>	<i>December 31, 2005 adjusted</i>	<i>Additions</i>	<i>Disposals</i>	<i>Depreciation charges/ reversals</i>	<i>Translation adjustments</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Publicly-owned utility network financed and managed by the Group - Cost	119.8	13.0	(4.9)		0.3	(7.1)	121.1
Depreciation	(59.0)		4.6	(5.6)	(0.1)	5.4	(54.8)
Publicly-owned utility network financed and managed by the Group - Net	60.8	13.0	(0.3)	(5.6)	0.2	(1.7)	66.3

NOTE 8**INVESTMENTS IN ASSOCIATES**

Dalkia's main investments in associates are as follows:

	<i>Decembre 31</i>					
	<i>% interest</i>		<i>Group's share of net assets</i>		<i>Group's share of profit</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Compagnie de chauffage de Grenoble	41.95%	41.95%	3.2	5.6	0.3	0.3
Cadiom	33.80%	33.80%	2.1	2.1	0.1	0.2
Other (unit value less than €2 million)			14.3	6.8	2.2	1.4
Total			19.6	14.5	2.6	1.9

Movements in investments in associates in 2006 were as follows:

<i>(in millions of euros)</i>	2005	Share of profit for the period	Dividends received	Translation adjustments	Other movements	2006
Compagnie de chauffage de Grenoble	5.6	0.3				5.9
Cadiom	2.1	0.1		(0.1)		2.1
Other (unit value less than €2 million)	6.8	2.2	(1.4)		4.0	11.6
Total	14.5	2.6	(1.4)	(0.1)	4.0	19.6

NOTE 9

INVESTMENTS IN NON-CONSOLIDATED COMPANIES

Investments in non-consolidated companies are classified as available-for-sale financial assets under IAS 39. They are measured at fair value, with changes in fair value recognized directly in equity. Cumulative impairment losses recognized directly in equity are reclassified into profit when there is objective evidence that the impairment is other than temporary.

Changes in the recoverable amount of investments in non-consolidated companies in 2006 were as follows:

<i>(in millions of euros)</i>	December 31, 2005	Additions	Disposals	Changes in scope of consolidation	Impairment	Translation adjustments	Other movements	December 31, 2006
Cost	28.2	97.5	(77.4)	(18.0)		(1.0)	14.9	44.2
Provisions	(8.1)			(1.3)	0.5		1.6	(7.4)
Net	20.1	97.5	(77.4)	(19.3)	0.5	(1.0)	16.5	36.7

NOTE 10**OPERATING FINANCIAL ASSETS (IFRIC 12)**

Movements in operating financial assets in 2006 were as follows:

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>Additions</i>	<i>Settlements</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Non-current operating financial assets	699.0	62.9	(9.0)	(101.9)	651.0
Current operating financial assets	113.5	0.1	(125.0)	131.5	120.1
Total	812.5	63.0	(134.0)	29.6	771.1

Operating financial assets can be analyzed as follows:

<i>(in millions of euros)</i>	<i>Non-current operating financial assets</i>		<i>Current operating financial assets</i>	
	<i>December 31, 2006</i>	<i>December 31, 2005</i>	<i>December 31, 2006</i>	<i>December 31, 2005</i>
Thermal Energy – France	577.5	629.5	101.9	97.5
Specialized subsidiaries	18.1	15.1	4.0	4.4
Total France	595.6	644.6	105.9	101.9
North Atlantic Region	12.4	8.6	1.1	1.0
Northern Europe Region	1.1	1.3	0.2	0.2
Southern Region	35.7	37.7	10.2	7.8
Eastern Europe Region	6.3	6.8	2.7	2.6
Development Region				
Total International	55.5	54.4	14.2	11.6
Total	651.0	699.0	120.1	113.5

NOTE 11

OTHER NON-CURRENT FINANCIAL ASSETS

Movements in other non-current financial assets in 2006 were as follows:

<i>(in millions of euros)</i>	December 31, 2005	Additions	Redemptions /disposals	Changes in scope of consolidation	Fair value adjustments	Translation adjustments	Other movements	December 31, 2006
Other long-term financial receivables (gross)	26.4	0.5	(2.6)			(0.1)	(6.9)	17.3
Other long-term financial receivables (net)	26.4	0.5	(2.6)			(0.1)	(6.9)	17.3
Other long-term investments (gross)	23.5	7.5	(28.3)	22.9	7.3	0.1	(0.2)	32.9
Impairment losses on other long-term investments	(2.9)							(2.9)
Other long-term investments (net)	20.7	7.5	(28.3)	22.9	7.3	0.1	(0.2)	30.0
Other non-current financial assets (net)	47.1	8.0	(30.9)	22.9	7.3	0.1	(7.1)	47.3

Other non-current financial assets are classified in the following categories under IAS 39:

<i>(in millions of euros)</i>	<i>Held-to-maturity investments</i>		<i>Loans and receivables</i>	
	December 31, 2005	December 31, 2006	December 31, 2005	December 31, 2006
Other long-term financial receivables (net)	26.4	10.2		7.1
Other long-term investments (net)	16.8	28.3	3.9	1.7
Other non-current financial assets (net)	43.2	36.8	3.9	8.8

NOTE 12**DEFERRED TAX ASSETS AND LIABILITIES****12.1 NET DEFERRED TAXES**

Temporary differences giving rise to deferred tax assets and liabilities can be analyzed as follows:

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>Operations-related movements</i>	<i>Changes in scope of consolidation</i>	<i>Revaluations</i>	<i>Translation adjustments</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Deferred tax assets							
Employee benefits	41.3	(2.3)		(0.4)	0.2	2.7	41.5
Provisions for impairment in value	22.5	(2.5)				15.1	35.1
Tax loss carryforwards and tax credits	54.7	9.2			(0.2)	1.6	65.4
Other deductible temporary differences	96.5	0.9	1.0	0.2	0.8	3.0	102.5
Total deferred tax assets	215.1	5.3	1.0	(0.2)	0.8	22.4	244.4
Unrecognized deferred tax assets	(49.5)	(9.9)			0.1	(0.2)	(59.5)
Recognized deferred tax assets	165.6	(4.6)	1.0	(0.2)	0.9	22.2	184.9
Deferred tax liabilities							
Provisions for impairment in value	32.7	3.4			0.1	(3.3)	32.9
Asset revaluation	16.7	1.8			0.9	27.9	47.3
Other taxable temporary differences	93.1	5.2	(0.1)		8.6	2.6	109.5
Total deferred tax liabilities	142.4	10.4	(0.1)		9.6	27.2	189.7
Net deferred tax assets (liabilities)	23.2	(15.0)	1.1	(0.2)	(8.7)	(5.0)	4.8

12.2 TAX LOSS CARRYFORWARDS AND TAX CREDITS

At December 31, 2006, the Group had unused tax loss carryforwards and tax credits representing a potential tax saving of €66.0 million (based on current tax rates), expiring in the following periods:

Year	Amount (in millions of euros)	o/w International (in millions of euros)
2007	3.0	2.5
2008	2.4	0.8
2009	1.1	0.4
2010	0.2	0.2
2011	8.0	5.3
2012 and beyond	51.3	37.8
Total	66.0	47.0

NOTE 13

WORKING CAPITAL REQUIREMENT

Changes in working capital requirement in 2006 were as follows:

(in millions of euros)	December 31, 2005	Operations-related movements	Changes in scope of consolidation	Translation adjustment	Other movements	December 31, 2006
Inventories and work-in-progress, net	270.3	36.7	12.2	1.4	(2.9)	317.7
Trade and other receivables, net	2,741.8	54.6	89.4	4.9	(37.0)	2 853.6
Trade and other payables, net	(2,241.6)	(25.5)	(67.9)	(8.7)	(0.5)	(2,344.2)
Working capital requirement	770.5	65.8	33.7	(2.4)	(40.4)	827.1
Net change in working capital requirement						56.6

Movements in trade and other receivables in 2006 were as follows:

<i>Trade and other receivables</i> <i>(in millions of euros)</i>	<i>December 31,</i> <i>2005</i>	<i>Operations-</i> <i>related</i> <i>movements</i>	<i>Impairment</i> <i>losses</i>	<i>Reversals of</i> <i>impairment</i> <i>losses</i>	<i>Changes in</i> <i>scope of</i> <i>consolidation</i>	<i>Translation</i> <i>adjustments</i>	<i>Other</i> <i>movements</i>	<i>December 31,</i> <i>2006</i>
Raw materials and supplies	121.5	11.2			3.0	1.3		137.1
Work-in-progress	149.0	23.7			6.4	0.2	0.1	179.4
Finished goods	5.9	1.8			3.1			10.8
Total cost	276.4	36.7			12.5	1.5	0.1	327.3
Impairment losses on raw materials and supplies	(5.0)		(4.4)	1.8		(0.1)	(0.4)	(8.2)
Impairment losses on work-in-progress	(0.5)		(0.3)	0.3				(0.4)
Impairment losses on finished goods	(0.6)		(0.1)		(0.3)			(1.0)
Total impairment losses	(6.1)		(4.8)	2.1	(0.3)	(0.1)	(0.4)	(9.6)
Inventories and work-in-progress, net	270.3	36.7	(4.8)	2.1	12.2	1.4	(0.3)	317.7
Change in inventories and work-in-progress, net								47.4

Movements in trade and other receivables in 2006 were as follows:

<i>Trade and other receivables (in millions of euros)</i>	<i>December 31, 2005</i>	<i>Operations-related movements</i>	<i>Charge to provisions</i>	<i>Provision reversals</i>	<i>Changes in scope of consolidation</i>	<i>Translation adjustments</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Trade receivables	2,306.2	70.3			79.7	4.7	(45.2)	2,415.7
Prepayments	88.5	9.5			1.7	0.2		99.9
Other receivables	196.6	(41.1)			8.0	0.4	(0.7)	163.2
Prepaid and recoverable taxes	269.0	15.9			1.3		0.7	286.9
Trade and other receivables – gross	2,860.3	54.6			90.7	5.3	(45.2)	2,965.7
Provisions on trade receivables	(82.1)		(22.8)	24.9	(1.3)	(0.4)	(0.9)	(82.7)
Provisions on other receivables	(36.4)		(4.9)	12.6			(0.7)	(29.4)
Total provisions on trade and other receivables	(118.5)		(27.7)	37.5	(1.3)	(0.4)	(1.6)	(112.1)
Trade and other receivables, net	2,741.8	54.6	(27.7)	37.5	89.4	4.9	(46.8)	2,853.6
Change in trade and other receivables, net								111.9

Movements in trade and other payables in 2006 were as follows:

<i>Trade and other payables</i> <i>(in millions of euros)</i>	<i>December 31,</i> <i>2005</i>	<i>Operations-</i> <i>related</i> <i>movements</i>	<i>Changes</i> <i>in scope of</i> <i>consolidation</i>	<i>Translation</i> <i>adjustment</i>	<i>Other</i> <i>movements</i>	<i>December 31,</i> <i>2006</i>
Trade payables	1,266.9	9.5	49.8	8.6	(0.5)	1,334.3
Other payables	469.1	8.2	11.8	(0.2)	0.2	489.1
Income taxes payable	30.3	(2.4)	0.3	0.1		28.3
Other taxes payable	315.7	(7.9)	1.3	0.1	0.7	310.0
Deferred income	159.7	18.1	4.7	0.1		182.6
Trade and other payables	2,241.6	25.5	67.9	8.7	0.5	2,344.3
Change in trade and other payables						102.6

NOTE 14

OTHER CURRENT FINANCIAL ASSETS

Movements in other current financial assets in 2006 were as follows:

<i>(in millions of euros)</i>	<i>December 31,</i> <i>2005</i>	<i>Operations-</i> <i>related</i> <i>movements</i>	<i>Changes</i> <i>in scope of</i> <i>consolidation</i>	<i>Translation</i> <i>adjustments</i>	<i>Other</i> <i>movements</i>	<i>December 31,</i> <i>2006</i>
Other short-term financial receivables (gross)	7.9	1.6	0.1			9.6
Impairment losses on other short-term financial receivables	(7.9)	(1.0)			0.7	(8.2)
Other short-term financial receivables (net)	(0.0)	0.6	0.1		0.7	1.4
Marketable securities (gross)	18.1	3.5				21.6
Impairment losses on marketable securities	(0.1)					(0.1)
Marketable securities (net)	18.0	3.5				21.5
Other current financial assets (net)	18.0	4.2	0.1		0.7	22.9

Other current financial assets are classified in the following categories under IAS 39:

<i>(in millions of euros)</i>	<i>Financial assets at fair value through profit or loss</i>		<i>Loans and receivables</i>		<i>Available-for-sale financial assets</i>		<i>Derivative instruments at fair value</i>	
	<i>December 31, 2005</i>	<i>December 31, 2006</i>	<i>December 31, 2005</i>	<i>December 31, 2006</i>	<i>December 31, 2005</i>	<i>December 31, 2006</i>	<i>December 31, 2005</i>	<i>December 31, 2006</i>
Marketable securities					17.0	20.6	1.0	1.0

NOTE 15

CASH AND CASH EQUIVALENTS

Movements in cash and cash equivalents in 2006 were as follows:

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>Operations-related movements</i>	<i>Changes in scope of consolidation</i>	<i>Translation adjustments</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Cash	152.9	54.0	5.7	3.8	2.7	219.1
Cash equivalents	528.2	(86.5)	27.7	2.1	(3.8)	467.7
Total cash and cash equivalents	681.1	(32.5)	33.4	5.9	(1.1)	686.8

NOTE 16 EQUITY

16.1 EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

1. Share capital:

At December 31, 2006, the Company's share capital was made up of 63,741,355 shares with a par value of €15,2 each.

2. Appropriation of profit and dividends paid:

The 2006 dividend amounted to €1.00 per share, representing a total payout of €63,741,000.

3. Translation reserve:

In accordance with the option available under IFRS 1, cumulative translation gains and losses at January 1, 2004 were transferred to retained earnings in the opening IFRS balance sheet.

Movements in the translation reserve in 2006 were as follows:

<i>(in millions of euros)</i>	<i>Gross</i>	<i>Deferred taxes</i>	<i>Net</i>
At December 31, 2005			
Exchange gains on translation of foreign operations	33.2		33.2
Exchange losses on net investments in foreign operations by holding companies (NIH)	(2.2)		(2.2)
Total	31.0		31.0
Movements for the year			
Exchange gains on translation of foreign operations	17.1		17.1
Exchange losses on net investments in foreign operations by holding companies (NIH)	(1.1)		(1.1)
Total	16.0		16.0
At December 31, 2006			
Exchange gains on translation of foreign operations	50.3		50.3
Exchange losses on net investments in foreign operations by holding companies (NIH)	(3.3)		(3.3)
Total	47.0		47.0

The translation reserve breaks down as follows by currency:

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>Movements</i>	<i>December 31, 2006</i>
Czech koruny	23.8	11.7	35.5
British pound	0.5	1.1	1.6
Polish zloty	5.1	2.1	7.2
Hungarian forint	0.4	0.3	0.7
Other currencies	1.2	0.8	2.0
Total	31.0	16.0	47.0

4. Gains and losses on cash flow hedges taken to equity:

<i>(in millions of euros)</i>	<i>Gross</i>	<i>Deferred taxes</i>	<i>Net</i>
At December 31, 2005			
Cash flow hedges	(0.6)	0.2	(0.4)
Total	(0.6)	0.2	(0.4)
Movements for the year			
Cash flow hedges	0.1		0.1
Total	0.1	0.0	0.1
At December 31, 2006			
Cash flow hedges			
Total	(0.5)	0.2	(0.3)

16-2 MINORITY INTERESTS

<i>(in millions of euros)</i>	<i>2006</i>	<i>2005</i>
Minority interests at January 1	95.4	103.8
Effect of changes in scope of consolidation	40.1	14.5
Minority interests in consolidated profit	33.6	21.5
Dividends paid to minority interests in subsidiaries	(14.9)	(13.1)
Effect of exchange rate changes on minority interests	1.9	5.7
Other movements	41.9	(37.2)
At December 31	197.8	95.4

Put options granted to minority holders were recognized as a liability at December 31, 2006, leading to a €44.0 million deduction from minority interests at that date.

NOTE 17**LONG-TERM PROVISIONS**

Movements in long-term provisions in 2006 were as follows:

<i>(in millions of euros)</i>	December 31, 2005	Charges	Reversals (provisions used)	Reversals (surplus provisions)	Changes in scope of consolidation	Translation adjustments	Other	December 31, 2006
Provisions for pension obligations	128.6	11.3	(18.0)	(0.1)	0.1	1.1	12.5	135.5
Provisions for other post-employment benefit obligations	50.5	6.7	(1.2)	(0.2)	3.6	0.4	(2.0)	57.8
Total provisions for pension and other post-employment benefit obligations ⁽¹⁾	179.1	18.0	(19.2)	(0.3)	3.7	1.5	10.5	193.3
Provisions for replacement and total warranty ⁽²⁾	52.0	5.3	(2.8)				0.2	54.7
Provisions for claims ⁽³⁾	17.3	4.1	(3.6)	(0.3)			(1.7)	15.8
Provisions for litigation (including tax and employee litigation) ⁽⁴⁾	24.5	3.0	(2.0)	(1.3)		0.5	(7.7)	17.0
Provisions for impairment in value of work-in-progress and long-term contract losses ⁽⁵⁾	0.7	0.1	(0.1)	(0.1)				0.6
Restructuring provisions ⁽⁶⁾								
Provisions for liabilities of subsidiaries ⁽⁷⁾	0.5						(0.2)	0.3
Other ⁽⁸⁾	27.2	35.7	(34.6)	(0.4)	0.1	0.5	(5.6)	22.9
Total	301.3	66.2	(62.3)	(2.4)	3.8	2.5	(4.5)	304.4

(1) See Note 27.

(2) Dalkia generally has a contractual obligation to maintain and repair the networks managed under public service contracts. The related costs are analyzed based on IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. Where appropriate, as in the event of a delay in performing the work, a provision is recorded.

(3) Provisions for claims correspond to the difference between the amount of the claim and the amount that is expected to be recovered from insurance companies or other third parties.

(4) Reversals of provisions for tax risks totaled €1.7 million at December 31, 2006, including €1.1 million relating to Socoma. A provision for current tax risks was recorded for Dalkia SAS in the amount of €4 million.

(5) Provisions for long-term contract losses cover losses on construction contracts and some long-term operating contracts which have become loss-making due to changes in operating conditions.

(6) Provisions for restructuring at December 31, 2006 concern restructuring plans decided and announced prior to the year-end. The provisions cover employee severance payments, the cost of early retirement plans, payments in lieu of notice, training for employees whose jobs are being eliminated, unit closure costs and write-offs of property, plant and equipment, inventories and other assets.

(7) Provisions for liabilities of subsidiaries are intended to cover the risk of the Group being required to honor the liabilities of non-consolidated companies.

(8) Other provisions mainly include €7 million for the Vilnius contract in Lithuania and €12 million for restoring sites and dismantling plants compared to €11.4 million at December 31, 2005.

NOTE 18
LONG-TERM DEBT

Changes in long-term debt in 2006 were as follows:

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>New borrowings</i>	<i>Redemptions and repayments</i>	<i>Changes in scope of consolidation</i>	<i>Translation adjustments</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Bonds	26.1				1.5		27.6
Other long-term debt	884.6	34.7	(162.6)	13.9	(0.3)	(36.2)	734.1
Put options granted to minority shareholders	68.2	11.8		(2.4)			77.6
Total long-term debt	978.9	46.5	(162.6)	11.5	1.2	(36.2)	839.3

Long-term debt can be analyzed as follows by maturity:

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>Maturity</i>			<i>December 31, 2006</i>
		<i>1 to 2 years</i>	<i>2 to 5 years</i>	<i>more than 5 years</i>	
Bonds	26.1	27.6			27.6
Other long-term debt	952.8	253.0	399.1	159.6	811.7
Total	978.9	280.6	399.1	159.6	839.3

Long-term debt can be analyzed as follows by original currency (at amortized cost or fair value):

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>December 31, 2006</i>
Euros	750.1	658.9
Czech koruny	37.7	34.2
Autres	191.1	146.2
Total	978.9	839.3

NOTE 19**OTHER NON-CURRENT LIABILITIES**

Movements in other non-current liabilities in 2006 were as follows:

<i>(in millions of euros)</i>	December 31, 2005	Operations-related movements	Changes in scope of consolidation	Translation adjustment	Other movements	December 31, 2006
Other non-current liabilities	44.3	(9.0)	22.7	0.2	(19.6)	19.6

NOTE 20**SHORT-TERM PROVISIONS**

Movements in short-term provisions in 2006 were as follows:

<i>(in millions of euros)</i>	December 31, 2005	Charges	Reversals (provisions used)	Reversals (surplus provisions)	Changes in scope of consolidation	Translation adjustment	Other	December 31, 2006
Provisions for pension obligations	7.3	0.3	(0.7)	(0.1)			(6.8)	
Provisions for other post-employment benefit obligations	5.3	0.3	(1.7)				(3.9)	
Total provisions for pension and other post-employment benefit obligations	12.6	0.6	(2.4)	(0.1)			(10.7)	
Provisions for claims	26.1	14.3	(15.8)				1.8	26.4
Provisions for litigation (including tax and employee litigation)	56.0	15.3	(24.6)	(2.1)	0.1	0.2	6.8	51.8
Provisions for impairment in value of work-in-progress and long-term contract losses	10.4	4.5	(6.5)	0.1	0.1		0.1	8.7
Restructuring provisions	7.3	4.0	(8.4)	(0.5)			(0.5)	1.9
Provisions for liabilities of subsidiaries	1.0	0.2	(0.4)				0.3	1.1
Other	29.4	18.6	(14.4)	(3.8)	0.7	0.1	6.2	36.8
Total	142.9	57.5	(72.5)	(6.4)	0.9	0.3	4.0	126.7

See Note 17 for further details.

NOTE 21

SHORT-TERM DEBT

Movements in short-term debt in 2006 were as follows (at amortized cost or fair value):

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>Redemptions and repayments</i>	<i>Changes in scope of consolidation</i>	<i>Translation adjustments</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Short-term debt	258.5	(62.5)	0.3	0.1	38.8	235.2

NOTE 22

BANK OVERDRAFTS

Movements in bank overdrafts in 2006 were as follows:

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>Operations-related movements</i>	<i>Changes in scope of consolidation</i>	<i>Translation adjustments</i>	<i>Other movements</i>	<i>December 31, 2006</i>
Thermal Energy – France	(60.1)	77.7			4.2	21.8
Specialized subsidiaries	46.6	11.5	0.4	(0.6)	0.7	58.6
Total France	(13.5)	89.2	0.4	(0.6)	4.5	80.4
North Atlantic Region	19.1	22.6	(0.1)	(0.6)	6.3	47.3
Northern Europe Region	36.5	15.7	10.0	(0.1)	(9.6)	52.5
Southern Region	269.1	12.3	16.9	(1.2)	1.6	298.8
Eastern Europe Region	198.4	(66.1)	0.1	5.4		137.6
Development Region	0.1	6.1	6.5	0.1		12.7
International holding companies	53.9	82.1	17.7			153.7
Total International	577.0	72.6	51.1	3.6	(1.7)	702.6
Corporate	204.0	(74.5)			0.6	130.1
Bank overdrafts	767.5	87.4	51.5	2.9	3.8	913.1

NOTE 23
REVENUE

Sources of revenue

<i>(in millions of euros)</i>	2006	2005 (adjusted)	2005
Sales of goods	44.5	40.2	39.4
Sales of services	6,067.2	5,407.8	5,348.7
Finance revenue (IFRIC 4)	43.0	45.3	44.0
Total revenue	6,154.7	5,493.3	5,432.1

NOTE 24
INCOME TAX EXPENSE

24.1 ANALYSIS OF INCOME TAXES

Income tax expense can be analyzed as follows:

<i>(in millions of euros)</i>	2006	2005 adjusted	2005
Current tax	(90.3)	(87.4)	(87.4)
France	(48.2)	(47.3)	(47.3)
Other countries	(42.1)	(40.1)	(40.1)
Deferred tax (charge) /benefit	(14.2)	(18.8)	(23.0)
France	(4.8)	(7.0)	(7.8)
Other countries	(9.5)	(11.8)	(15.2)
Provisions for tax risks	(4.9)	1.5	1.5
France	(4.9)	1.7	1.7
Other countries		(0.2)	(0.2)
Total	(109.1)	(104.7)	(108.9)

Since January 1, 2001, Dalkia has filed a consolidated tax return with certain French subsidiaries. As parent company of the tax group, Dalkia is liable for the payment of income tax on the taxable profit of the entire tax group and also retains any tax savings.

24.2 RECONCILIATION OF TAX RATES

	2006	2005
Standard tax rate	34.43%	34.93%
Non-allowable goodwill amortization		3.23 %
Permanent differences between accounting and tax profit	(8.5)%	3.00%
Reduced tax rate on long-term capital gains		0.04%
Impact of tax loss carryforwards		(0.74)%
Other differences, net	2.4%	1.84%
Effective tax rate ^(a)	28.3%	42.30%

(a) The effective tax rate is obtained by dividing the tax charge by pre-tax profit.

NOTE 25

EMPLOYEE BENEFITS

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

a - Description of plans in force:

The Group has set up defined benefit pension plans (company and multi-employer plans), defined contribution plans and other post-employment benefit plans, in accordance with local regulations and the applicable collective bargaining agreements.

The most significant defined benefit plans are in the United Kingdom, where the projected benefit obligation stood at €184.7 million at December 31, 2006, and in France, where it amounted to €76.9 million. Plans in France correspond mainly to statutory retirement bonuses. Benefits paid under these plans are based on the employee's final salary and years of service.

Certain Group companies participate in multi-employer defined benefit pension plans set up in accordance with the applicable collective bargaining agreements. In accordance with IAS 19, these plans are accounted for as defined contribution plans, because sufficient information is not available to account for them as defined benefit plans and the Group has no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plans. The Group's main multi-employer plans are in Sweden and the Netherlands, and cover approximately 500 employees. The corresponding expense recorded in the income statement represents the contributions paid for the year and totaled €1.3 million in 2006. This amount is not included in the tables below.

Group companies have set up defined contribution plans in most host countries. The cost of these plans amounted to €5 million for 2006, which is not included in the tables below.

b - Obligations under defined benefit plans:

<i>Change in projected benefit obligation (in millions of euros)</i>	<i>Pension plans</i>	
	2006	2005
Projected benefit obligation at January 1	340.5	231.2
Current service cost	13.6	11.8
Interest cost	14.0	12.9
Employee contributions	1.0	0.9
Acquisitions	4.1	18.5
Disposals		(0.8)
Curtailements/settlements	(0.3)	
Actuarial (gains)/losses		60.4
Benefits paid	(11.8)	(9.9)
Plan amendments	3.7	1.3
Other (including changes in scope of consolidation and translation adjustments)	(4.6)	14.3
⁽¹⁾ Projected benefit obligation at December 31	360.2	340.5

<i>Change in plan assets (in millions of euros)</i>	<i>Pension plans</i>	
	2006	2005
Fair value of plan assets at January 1	157.2	128.6
Expected return on plan assets	9.6	8.7
Actuarial gains/(losses)	1.7	10.6
Employer contributions	16.8	8.5
Employee contributions	1.0	0.9
Acquisitions		
Disposals		
Curtailements/settlements	(0.1)	
Benefits paid	(5.5)	(4.3)
Other (including changes in scope of consolidation and translation adjustments)	2.3	4.2
⁽²⁾ Fair value of plan assets at December 31	183.0	157.2

The average weighting of plan assets at December 31, 2006 and 2005 was as follows:

	At December 31, 2006	At December 31, 2005
Equities	54%	47%
Bonds and other debt securities	37%	36%
Insurance policies	2%	10%
Liquid assets	7%	6%
Other	1%	1%

(in millions of euros)	Pension plans	
	At December 31, 2006	At December 31, 2005
Funded status = (2) – (1)	(177.2)	(183.3)
Unrecognized past service cost	3.5	(0.4)
Unrecognized actuarial gains and losses		
Other		
Net deficit	(173.7)	(183.7)
Provision	173.6	183.7
Surplus	(0.1)	

The projected benefit obligation under defined benefit plans totaled €117.2 million for unfunded plans and €243.0 million for partially or fully funded plans at December 31, 2006, versus €112.8 million and €227.7 million respectively at December 31, 2005. Actual return on plan assets came to €11.3 million in 2006 and €19.3 million in 2005.

The cost of these plans for 2006 and 2005 was as follows:

(in millions of euros)	Pension plans	
	2006	2005
Current service cost	13.6	11.8
Interest cost	14.0	12.9
Expected return on plan assets	(9.6)	(8.7)
Expected return on reimbursement rights	(0.1)	
Recognition of past service costs	(0.1)	(0.2)
Curtailments/settlements	(0.3)	0.1
Other	(0.7)	4.1
Net benefit plan costs	16.8	19.9

c - Actuarial assumptions:

The actuarial assumptions used to calculate the projected benefit obligation vary depending on the country where each plan is based. In France, obligations are funded primarily under insured plans and the expected long-term rate of return on plan assets is directly related to observed historical rates of return. In the United Kingdom, plan assets are mainly held in trustee-administered funds invested in equities and bonds. The expected long-term rates of return are based on statistical data relating to long-term market performance

Pension plans

The following average assumptions were used to calculate projected benefit obligations under pension plans at December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
<i>Pension plans</i>		
Discount rate	4.77%	4.45%
Rate of future salary increases	3.28%	3.3%

The following average assumptions were used to calculate projected pension obligations under pension plans at December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
Discount rate	4.15%	5.0%
Expected return on plan assets	6.15%	6.3%
Rate of future salary increases	3.07%	3.8%
Average residual life expectancy (in years)	13.7	15.0

The actual return on plan assets came to 6.7% and 14.7% in 2006 and 2005 respectively.

Amounts for 2006 were as follows:

<i>(in millions of euros)</i>	<i>Pension plans</i>
Projected benefit obligation at year-end	(360.2)
Fair value of plan assets at year-end	183.0
Deficit	(177.2)
Actuarial gains and losses/ experience adjustments to the projected benefit obligation	3.7
Actuarial gains and losses/ experience adjustments to plan assets	1.7

NOTE 26 LEASES

Certain items of property, plant and equipment are held under finance leases where the Group is lessee. Finance receivables are recognized in the balance sheet arising from contracts classified as finance leases in accordance with IFRIC 4, where the Group is lessor. In addition, the Group is party to a certain number of operating leases, as lessee.

26.1 FINANCE AND OPERATING LEASES WHERE THE GROUP IS LESSEE

Finance and operating leases where the Group is lessee can be analyzed as follows by type at December 31, 2006:

<i>(in millions of euros)</i>	<i>Finance leases</i>		<i>Operating leases</i>	
	<i>Gross</i>	<i>Accumulated depreciation</i>	<i>Net</i>	
Land	0.2		0.2	34.8
Buildings	5.0	(4.3)	0.7	97.8
Plant	319.9	(215.4)	104.5	5.4
Other	86.9	(47.5)	39.4	14.7
Property, plant and equipment owned by the Group	412.0	(267.3)	144.7	152.7
Publicly-owned utility network financed and managed by the Group	215.4	(96.3)	119.1	3.8
Total 2006	627.4	(363.5)	263.8	156.5
Total 2005	266.6	(153.0)	113.6	111.1

Finance receivables arising under contracts classified as finance leases in accordance with IFRIC 4 where the Group is lessor totaled €119.6 million at December 31, 2006 and €187.6 million at December 31, 2005.

26.2 FUTURE MINIMUM LEASE PAYMENTS

Future minimum lease payments under non-cancelable leases totaled €415.6 million at December 31, 2006 and at €467.1 at December 31, 2005. Future payments under finance leases are measured at present value (€304.3 million at December 31, 2006) and recognized under long-term or short-term debt (see Note 18 and Note 21 respectively).

Analysis of future minimum lease payments at December 31, 2006:

(in millions of euros)	Operating leases	Finance leases (recognized in the balance sheet)
2006	31.6	57.8
2007	23.7	56.4
2008	22.3	47.7
2009	20.1	43.6
2010	19.5	38.6
2011 and beyond	39.3	171.4
Total future minimum lease payments	156.5	415.6
Finance charge		111.3
Present value of future minimum payments under finance leases		304.3

NOTE 27 TAX AUDITS

Dalkia has recorded provisions for tax audits in process during 2006. The Group considers these provisions to be adequate.

NOTE 28 OFF-BALANCE SHEET COMMITMENTS

28.1 COMMITMENTS GIVEN BY TYPE

(in millions of euros)	December 31, 2005	December 31, 2006	Within one year	Expiry In one to five years	More than five years
Operating guarantees given	323.7	329.1	61.2	255.1	12.8
Performance bonds ⁽¹⁾	319.4	315.9	59.3	254.2	2.4
Other	4.3	13.2	1.9	0.9	10.4
Financial guarantees given	68.3	37.9	4.4	4.5	29.0
Loan guarantees ⁽²⁾	65.5	35.3	2.2	4.3	28.5
Sellers' warranties	2.8	2.6	2.2	0.2	0.2
Commitments given	7.9	8.8	0.2	8.6	
Written put options	7.9	0.9	0.2	0.7	
Written call options ⁽³⁾		7.9		7.9	
Other commitments given	197.0	167.6	44.0	85.7	37.9
Letters of credit	3.1	2.4	0.3		2.1
Other ⁽⁴⁾	193.9	165.2	43.7	85.7	35.8
Total	596.9	543.4	109.8	353.9	79.7

⁽¹⁾ Performance bonds are issued by heating, air-conditioning and electrical contracting companies to guarantee completion of construction work, and by some heating services companies in respect of their operating contracts.

⁽²⁾ Guarantees given to financial institutions for loans made to non-consolidated companies or associates, and the portion of guarantees covering the non-consolidated share of debt contracted by proportionately consolidated companies, where Dalkia's commitment covers the entire liability.

⁽³⁾ This item corresponds to a call option on Gaz de Bordeaux shares granted to the Bordeaux municipal authorities. The option has a 30-month exercise period ending June 20, 2009.

⁽⁴⁾ Other commitments given primarily comprise undertakings made by the Polish companies Dalkia Poznan, Dalkia Poznan Zec and Zespól Elektrociepłowni w Łodzi to invest in replacing plant and equipment in the respective amounts of €46.3 million, €25.4 million and €25.6 million.

28.2 COMMITMENTS GIVEN BY SEGMENT

Other commitments given can be analyzed as follows:

<i>(in millions of euros)</i>	<i>December 31, 2006</i>	<i>December 31, 2005</i>
Thermal Energy – France	66.8	82.5
Specialized subsidiaries	98.0	108.8
Total France	164.8	191.3
North Atlantic Region	39.4	41.7
Northern Europe Region	8.0	6.3
Southern Region	206.6	205.3
Eastern Europe Region	110.2	138.8
Development Region	2.7	3.3
International holding companies	7.1	6.5
Total International	374.0	402.0
Corporate	4.6	3.6
Total	543.4	596.9

28.3 COMMITMENTS RECEIVED

<i>(in millions of euros)</i>	<i>December 31, 2006</i>	<i>December 31, 2005</i>
Commitments received	732.4	1,395.6
Commitments from customers in connection with financing granted by the Group	25.2	15.5
Sellers' warranties	0.1	0.1
Commitments related to long-term contracts resulting from the sale of electricity contract receivables	501.6	630.5
CO ₂ emissions allowances for 2006 and 2007	87.8	566.9
Other	117.7	182.6

Commitments received in 2006 for CO₂ emissions allowances correspond to allowances for 2007, breaking down into €26.1 million in France and €61.7 million outside France. They concern emissions from the facilities under the Group's management.

The decline in other commitments received at December 31, 2006 reflects the acquisition by IFM on of 34% of Zespol Elektrociepłowni w Łodzi shares for €87.3 million.

28.4 SPECIFIC CONTRACTUAL COMMITMENTS

a - The Dalkia Group has a contractual commitment to replace the property, plant and equipment managed on behalf of customers:

Expenses under these commitments incurred by companies transformed into public equity partnerships are assumed by Veolia Environnement in exchange for a fixed annual payment. Total estimated expenses to be incurred over the remaining life of contracts held by these companies amounted to €549.3 million at December 31, 2006 (including €0.3 million payable within one year, €4.1 million within one to five years, and €544.9 million beyond five years), compared with €535.1 million at December 31, 2005.

b - Dismantling costs:

Under the terms of certain contracts, the Dalkia Group may be required to dismantle plant and systems if the contract is not renewed. No provision has been booked for these costs, as it is not known whether or not the contracts will be renewed.

28.5 CLAIMS AND LITIGATION NOT COVERED BY PROVISIONS

The Group is involved in various claims and legal proceedings in the normal course of business. Although the outcome of these claims and legal proceedings is unknown, Dalkia considers that in light of the information currently available, and based on the opinion of its legal counsel, they will not have a material adverse effect on the Group's financial position or results of operations.

NOTE 29

DEBT SECURED BY COLLATERAL

At December 31, 2006, €28.0 million worth of debt of the Group's Polish companies – mainly Dalkia Poznan – was secured by collateral.

Breakdown by type of collateral:

<i>(in millions of euros)</i>	<i>Pledged amount (a)</i>	<i>Total balance sheet caption (b)</i>	<i>% (a) / (b)</i>
Property, plant and equipment	15.4	935.5	1.6%
Total non-current assets	15.4	3,063.8	0.5%
Current assets	12.6	4,001.1	0.3%
Total collateral	28.0	7,064.8	0.4%

Collateral can be analyzed as follows by expiry date of the guarantee:

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>December 31, 2006</i>	<i>Expiry date</i>		
			<i>Within one year</i>	<i>In one to five years</i>	<i>More than five years</i>
Property, plant and equipment	17.9	15.4	2.4	10.5	2.5
Mortgages	0.7	0.7		0.7	
Pledges	17.2	14.7	2.4	9.8	2.5
Current assets	17.7	12.6	2.6	7.6	2.4
Pledges of receivables	17.7	12.6	2.6	7.6	2.4
Total	35.6	28.0	5.0	18.1	4.9

NOTE 30**RELATED PARTY TRANSACTIONS**

Related party transactions mainly concern the Group's parent companies, Veolia Environnement and EDF, their subsidiaries that do not form part of the Dalkia Group, and all of Dalkia's interests in associates and non-consolidated companies. The main related party transactions break down as follows:

<i>(in millions of euros)</i>	<i>December 31, 2006</i>	<i>December 31, 2005</i>
Receivables		
Trade and other receivables	71.9	74.2
Current account advances and short-term finance receivables	269.3	323.3
Payables		
Other long-term debt		
Trade and other payables	64.5	18.3
Current account advances and other short-term debt	732.1	603.6
Revenue	499.2	456.7
Operating expenses	(80.2)	(49.6)
Financial expenses	(23.6)	(19.0)
Financial income	14.7	17.8

These transactions relate to:

- A cash-pooling agreement with Veolia Environnement, Dalkia's parent company. At December 31, 2006, sums advanced to the Group by Veolia Environnement amounted to €690.4 million, generating €7.5 million in net interest expense during the year.
- €1.3 million in fees paid to Veolia Environment for guarantees.
- A fixed annual payment to Veolia Environnement of €77.6 million in 2006. The Dalkia Group's principal heating companies in France have contractual replacement and total warranty commitments in respect of property, plant and equipment that they manage under contracts with public or private utilities. Expenses incurred in relation to these commitments by companies transformed into public equity partnerships are assumed by Veolia Environnement as general partner of these companies, in exchange for a fixed annual payment and a statutory dividend.
- A service agreement, under which Veolia Environnement billed Dalkia €9.3 million in 2006.
- Operation of cogeneration plants by Dalkia as electricity producer. Under current legislation (electricity contracts no. 97-01 and 99-02), all or part of the electricity produced by Dalkia is purchased by EDF based on the contract's general terms and conditions and on the specific terms and conditions approved by the Minister responsible for the electricity industry, which take into account the particular features of the producer's cogeneration plants. Total electricity sales by Dalkia to EDF amounted to €482.6 million in 2006.

NOTE 31

CO₂ EMISSIONS ALLOWANCES

The increase in greenhouse gas emissions has led certain governments and members of the international community to introduce legislation curbing CO₂ production. At the international level, the Kyoto Protocol drafted in 1997 entered into force in February 2005. At the European level, the European Union introduced an emissions trading scheme under Directive 2003/87/EC of the European Parliament and Council dated October 13, 2003. The scheme has been in place since the beginning of 2005.

Under the scheme, Dalkia has been given allowances by the various EU members for the amount of CO₂ that may be emitted by its plants in the period 2005-2007. Allowances granted, sold and used in 2006 were as follows:

<i>Volume (in thousand of metric ton)</i>	<i>January 1, 2006</i>	<i>Allowances granted</i>	<i>Allowances bought or sold, net</i>	<i>Allowances</i>	<i>December 31, 2006</i>
Total	1,464	14,230	(3,466)	(11,203)	1,025

Purchases and sales of allowances are recognized according to the own-use policy. Allowances available at the end of the 2006 were exchanged in a swap, as explained in Note 32.

In light of emissions forecasts, Dalkia does not expect to run out of allowances in 2007.

NOTE 32

DERIVATIVES AND MANAGEMENT OF MARKET RISKS

Derivative instruments that do not qualify for hedge accounting consist of a carbon credit/carbon emission rights swap expiring at the end of 2007, concerning 1.6 million metric tons of CO₂. The swap is recognized as an asset in the amount of €6.3 million.

NOTE 33

SEGMENT INFORMATION

The Group's business segments reflect its organizational structure. Operations in France are divided into Thermal Energy and Specialized subsidiaries and International operations are divided into Regions.

The North Atlantic Region primarily includes operations carried out in the United Kingdom, the Benelux countries and North America.

The Northern European Region principally corresponds to Germany, Sweden, Switzerland, Lithuania and Estonia.

The Southern Region mainly includes Italy, Spain, Portugal and Latin America. The Eastern Europe Region covers the Czech Republic, Poland, Slovakia, Hungary and Romania.

The Development Region corresponds to emerging geographic markets.

<i>Revenue</i> <i>(in millions of euros)</i>	2006	2005 adjusted	2005
Thermal Energy – France	2,694.6	2,447.6	2,394.5
Specialized subsidiaries	990.7	923.6	923.6
Total France	3,685.3	3,371.2	3,318.1
North Atlantic Region	583.1	515.6	515.6
Northern Europe Region	388.4	369.2	361.5
Southern Region	824.6	717.4	717.4
Eastern Europe Region	644.1	501.0	500.6
Development Region	28.9	18.3	18.3
International holding companies	0.3	0.6	0.6
Total International	2,469.4	2,122.1	2,114.0
Revenue	6,154.7	5,493.3	5,432.1

<i>Operating profit</i> <i>(in millions of euros)</i>	2006	2005 adjusted	2005
Thermal Energy – France	160.6	172.3	180.4
Specialized subsidiaries	16.9	3.1	3.1
Total France	176.6	175.4	183.5
North Atlantic Region	16.9	14.8	14.8
Northern Europe Region	44.9	26.0	26.0
Southern Region	64.7	58.4	58.4
Eastern Europe Region	107.6	81.2	81.4
Development Region	0.1	(0.1)	(0.1)
International holding companies	(17.4)	(20.7)	(18.2)
Total International	216.8	159.6	162.3
Corporate	(11.5)	(13.0)	(13.0)
Operating profit	381.9	322.0	332.8

<i>Capital employed (in millions of euros)</i>	2006	2005 adjusted	2005
Thermal Energy – France	764.2	753.5	763.4
Specialized subsidiaries	173.4	175.7	175.7
Total France	937.6	929.2	939.1
North Atlantic Region	90.8	41.5	41.5
Northern Europe Region	228.6	178.4	177.8
Southern Region	488.9	414.4	414.4
Eastern Europe Region	698.6	668.8	667.2
Development Region	26.0	3.3	3.3
International holding companies	(0.3)	31.0	20.9
Total International	1,532.6	1,337.4	1,325.1
Corporate	14.3	(5.3)	(5.3)
Capital employed	2,484.5	2,261.3	2,258.9

NOTE 34

CHANGES IN SCOPE OF CONSOLIDATION

A total of 417 companies were consolidated in 2006, including 206 companies outside France:

	2006			2005		
	France	International	Total	France	International	Total
Fully consolidated	140	17	157	137	16	153
Proportionately consolidated	60	179	239	58	161	219
Accounted for by the equity method	11	10	21	11	4	15
Total	211	206	417	206	181	387

The number of consolidated companies was higher in 2006, particularly abroad, with the acquisition of subsidiaries in Sweden and Italy and the creation of subsidiaries in Canada, the United States and China.

NOTE 35**AVERAGE NUMBER OF EMPLOYEES**

Analysis by category:

	2006	2005
Managers	6,125	5,646
Other	36,527	33,783
Total	42,651	39,429

<i>Average number of employees</i>	2006	2005
Thermal Energy – France	10,969	10,602
Specialized subsidiaries	9,313	9,204
Total France	20,282	19,806
North Atlantic Region	4,193	3,928
Northern Europe Region	2,901	2,678
Southern Region	8,398	6,158
Eastern Europe Region	6,021	6,440
Development Region	856	419
Total International	22,369	19,623
Total average number of employees	42,651	39,429

The year-on-year increase in the average number of employees concerns operations in France, reflecting 378 new employees at Dalkia France and 114 at Citelum, and operations outside France, reflecting the consolidation of Caroli, Rettagliata and Simav in Italy (424 additional employees), TDU in Australia (368 additional employees) and the change in consolidation method for Brazil (1,263 additional employees).

The total compensation paid to executive officers in 2006 amounted to €1,143,000. Attendance fees paid by Dalkia and its subsidiaries to members of the Supervisory Board in 2006 amounted to €229,000.

NOTE 36**CONSOLIDATING COMPANY**

The Dalkia Group's consolidated financial statements are consolidated by:

VEOLIA ENVIRONNEMENT
36-38, avenue Kléber
75799 Paris Cedex 16
FRANCE

ADJUSTMENTS TO THE 2005 CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF IMPACTS OF IFRIC 12 ON THE GROUP'S KEY PERFORMANCE INDICATORS

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>December 31, 2005 adjusted</i>	<i>Difference</i>
Income statement			
Revenue	5,432.1	5,493.3	61.2
Income from financing arranged on behalf of third parties	44.0	45.2	1.2
Operating profit	332.8	322.0	(10.8)
Profit attributable to equity holders of the parent	128.9	122.1	(6.8)
Balance sheet			
Intangible assets ⁽ⁱ⁾	88.2	314.9	226.7
Property, plant and equipment	1,143.6	818.3	(325.3)
Operating financial assets	785.5	812.5	27.0
Trade receivables	2,700.0	2,741.8	41.8
Equity attributable to equity holders of the parent	1,711.0	1,760.6	49.6
Total equity	1,806.2	1,856.0	49.8
Cash flow statement			
Cash flow	576.8	579.4	2.6
Net change in working capital requirement	(55.5)	(68.3)	(12.8)
Purchases of property, plant and equipment	(245.1)	(235.8)	9.3
Operating financial assets recognized during the period	(69.9)	(78.9)	(9.0)
Operating financial assets settled during the period	108.6	121.2	12.6
Net debt	1,323.9	1,323.9	0.0

⁽ⁱ⁾ Excluding goodwill and including intangible assets of publicly owned networks financed and managed by the Group.

B. RECONCILIATION OF EQUITY AT DECEMBER 31, 2005 TO ADJUSTED EQUITY AT DECEMBER 31, 2005

<i>(in millions of euros)</i>	<i>Share Capital</i>	<i>Additional paid-in capital</i>	<i>Translation reserve</i>	<i>Retained earnings and profit for the period</i>	<i>Fair value reserve</i>	<i>Equity attributable to equity holders of the parent</i>	<i>Minority interests</i>	<i>Total equity</i>
December 31, 2005	968.9	112.1	31.0	599.7	(0.7)	1,711.0	95.2	1,806.2
Financial assets				(4.8)		(4.8)		(4.8)
Intangible assets				32.6		32.6		32.6
Other			(0.1)	21.3	0.7	21.9	0.2	22.1
December 31, 2005 (adjusted)	968.9	112.1	30.9	648.8		1,760.6	95.4	1,856.0

C. 2005 ADJUSTED CONSOLIDATED FINANCIAL STATEMENTS

C.1 Consolidated balance sheet

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>IFRIC 12 adjustment</i>	<i>December 31, 2005 (adjusted)</i>
Goodwill	829.4		829.4
Other intangible assets	88.2	226.7	314.9
Property, plant and equipment of publicly-owned utility networks financed and managed by the Group	277.8	} (325.3)	818.3
Other property, plant and equipment	865.8		
Investments in associates	14.5		14.5
Investments in non-consolidated companies	20.1		20.1
Non-current lease receivables (IFRIC 4)	676.6	} 22.4	699.0
Non-current operating financial assets			
Other non-current financial assets	47.1		47.1
Deferred tax assets	174.7	(9.1)	165.6
Non-current assets	2,994.2	(85.3)	2,908.9

Consolidated balance sheet

<i>(in millions of euros)</i>	<i>December 31, 2005</i>	<i>IFRIC 12 adjustment</i>	<i>December 31, 2005 (adjusted)</i>
Inventories and work-in-progress	275.8	(5.5)	270.3
Trade receivables	2,700.0	41.8	2,741.8
Current lease receivables (IFRIC 4)	108.9	} 4.6	113.5
Current operating financial assets			
Other short-term financial receivables	0.5		0.5
Other current financial assets	18.0		18.0
Cash and cash equivalents	681.1		681.1
Current assets	3,784.3	40.2	3,824.6
TOTAL ASSETS	6,778.5	(45.0)	6,733.5
Share capital	968.9		968.9
Additional paid-in capital	112.1		112.1
Retained earnings and profit for the period	630.0	49.6	679.6
Minority interests	95.2	0.2	95.4
Equity	1,806.2	49.8	1,856.0
Long-term provisions	366.5	(65.2)	301.3
Long-term debt	978.9		978.9
Other non-current liabilities	90.9	(46.6)	44.3
Deferred tax liabilities	126.3	16.1	142.4
Non-current liabilities	1,562.6	(95.6)	1,467.0
Trade payables	2,240.8	0.8	2,241.6
Short-term provisions	142.9		142.9
Short-term debt	258.5		258.5
Bank overdrafts	767.5		767.5
Current liabilities	3,409.7	0.8	3,410.6
TOTAL EQUITY AND LIABILITIES	6,778.5	(45.0)	6,733.5

C.2 Consolidated income statement

<i>(in millions of euros)</i>	2005	IFRIC 12 adjustment	2005 (adjusted)
Revenue	5,432.1	61.2	5,493.3
<i>O/w income from financing arranged on behalf of third parties</i>	44.0	1.2	45.3
Cost of sales	(4,402.3)	(72.0)	(4,474.3)
Distribution costs	(124.9)		(124.9)
Administrative expenses	(553.0)		(553.0)
Other income and expenses, net	(19.1)		(19.1)
Operating profit	332.8	(10.8)	322.0
Finance costs, net	(73.1)		(73.1)
Other financial income and expenses, net	(2.3)	(0.2)	(2.5)
Income tax expense	(108.9)	4.2	(104.7)
Share of profit of associates	1.9		1.9
Profit for the period	150.4	(6.8)	143.7
Attributable to minority interests	21.5	0.1	21.6
Profit for the period attributable to equity holders of the parent	128.9	(6.8)	122.1

C.3 Consolidated cash flow statement

<i>(in millions of euros)</i>	2005	IFRIC 12 adjustment	2005 (adjusted)
Profit attributable to equity holders of the parent	128.9	(6.8)	122.1
Profit attributable to minority interests	21.6		21.6
Depreciation, amortization, provisions and impairment losses on operating assets	267.7	13.6	281.3
Amortization and impairment losses on financial assets	1.6		1.6
Disposal and dilution (gains)/losses, net	(23.6)		(23.6)
Share of profit of associates	(1.9)		(1.9)
Dividends received	(1.5)		(1.5)
Finance costs, net	73.1		73.1
Income tax expense	108.9	(4.2)	104.7
Other	2.0		2.0
Cash flow	576.8	2.6	579.4
Net change in working capital requirement	(55.5)	(12.8)	(68.3)
Income taxes paid	(70.8)		(70.8)
Net cash from operating activities	450.5	(10.2)	440.3
Purchases of property, plant and equipment	(245.1)	15.8	(229.3)
Proceeds from the sale of property, plant and equipment	19.8	0.2	20.0
Purchases of non-current financial assets	(207.0)		(207.0)
Proceeds from the sale of non-current financial assets	24.3		24.3
Operating financial assets:			
Recognized during the period	(69.9)	(9.0)	(78.9)
Settled during the period	108.6	12.6	121.2

<i>(in millions of euros)</i>	2005	IFRIC 12 adjustment	2005 (adjusted)
Dividends received	3.0		3.0
Increase in long-term financial receivables	(0.4)	(0.2)	(0.6)
Long-term financial receivables settled during the period	17.1	(11.6)	5.5
Change in short-term financial receivables	(5.7)	2.3	(3.4)
Purchases and sales of other current financial assets, net	0.9		0.9
Effect of changes in scope of consolidation	15.5		15.5
Net cash used in investing activities	(338.9)	10.2	(328.7)
(Decrease) increase in short-term debt	(299.0)		(299.0)
Increase in long-term debt and other non-current liabilities	26.7		26.7
Decrease in long-term debt and other non-current liabilities	(219.8)		(219.8)
Proceeds from issue of share capital	(1.7)		(1.7)
Purchases of treasury shares			
Dividends paid	(81.9)		(81.9)
Interest paid	(73.1)		(73.1)
Net cash used in financing activities	(648.8)	0.0	(648.8)
Net cash and cash equivalents at beginning of period	616.0	0.0	616.0
Effect on cash and cash equivalents of exchange rate changes and changes in scope of consolidation	(165.2)		(165.2)
Net cash and cash equivalents at end of period	(86.4)	0.0	(86.4)
Cash and cash equivalents	681.1		681.1
- Bank overdrafts	(767.5)		(767.5)
Net cash and cash equivalents at end of period	(86.4)	0.0	(86.4)

NOTE 37

PRINCIPAL COMPANIES CONSOLIDATED IN 2006

The principal companies consolidated in 2006 were as follows:

37.1 FRANCE

<i>Company and address</i>	<i>Registration no.</i>	<i>Consolidation method</i>	<i>Group tax relief</i>	<i>% shareholding at Dec. 31, 2006</i>
Dalkia SAS - Saint-André - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	403 211 295 00023	FC	YES	100.00
Dalkia international - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	433 539 566 00011	PC	YES	75.79
Société de Participations et d'Investissements Diversifiés (SPID2) 233. place Ronde - 92800 PUTEAUX - PARIS LA DÉFENSE	399 345 206 00029	PC	YES	75.79
Dalkia Middle East Holding - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	443 376 272 00011	PC	YES	75.79
Dalkia France - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	456 500 537 00018	FC	YES	99.91
Dalkia Investissement and subsidiaries 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	404 434 987 00073	PC		50.00
VEETRA - 36/38. avenue Kléber - 75116 Paris	434 007 19100019	FC	YES	100.00
Edenkia - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	434 109 807 00017	EM		50.00
Valmy Énergies - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	479 833 105 00014	FC	YES	99.91
Générale de Téléactivités (GTA) - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	382 613 057 00035	FC		99.91
Société de Valorisation de l'Énergie (VALENERG) 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	392 319 315 00017	FC		99.91
Solycaf Combustibles - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	397 844 283 00028	FC		99.91
Cogestar - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	404 324 097 00025	FC		99.91
Périn Frères - 37. av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	785 420 720 01389	FC	YES	99.91
Cogestar 2 - 33. place Ronde - 92800 PUTEAUX	431 951 540 00019	FC	YES	99.91
Cogénération de la Région Lyonnaise (CORELY) - 184. cours Lafayette - 69441 LYON	399 296 342 00013	PC		50.95
Dalkia Technologies - 60. chemin des Fontaines - 38190 BERNIN	443 115 951 00016	FC		66.61

FC: Full consolidation. PC: Proportionate consolidation. EM: Equity method.

<i>Company and address</i>	<i>Registration no.</i>	<i>Consolidation method</i>	<i>Group tax relief</i>	<i>% shareholding at Dec. 31, 2006</i>
Société de Réalisations Thermiques du Nord (SRTN) Centrale Thermique/ZUP des 3 Ponts - 35, bd Beaurepaire - 59100 ROUBAIX	476 580 873 00034	FC	YES	99.91
Société de Réalisation et de Gestion du Réseau de Chaleur de la Métropole Nord (RESONOR) 37, av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	328 898 325 00043	FC	YES	99.91
Calais Énergie - 70, rue Mollien - 62100 CALAIS	418 251 138 00016	FC		99.91
Société de Cogénération de Picardie (SOCOPIC) - 22, rue Alphonse Paillat - 80000 AMIENS	424 432 722 00017	FC	YES	99.91
Falaise Énergie - 37, av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	444 485 098 00016	FC	YES	99.91
Mons Énergie - Chaufferie de Mons-en-Barœul - 1, rue de Normandie - 59370 MONS-EN-BARŒUL	441 783 362 00011	FC		99.91
La Normande de Cogénération (LNC) - 1, rue de la Cotonnière - 14053 CAEN	421 118 894 00011	FC		59.94
Groupement de Distribution de Chaleur (GDCL) 37, av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ-LEZ-LILLE	326 768 652 00017	FC		99.91
Société de Réalisations et d'Exploitation du Chauffage Urbain de Vandoeuvre (SOREV) Centrale Thermique - Rue Jeanne d'Arc - 54500 VANDOEUVRE	766 800 049 00013	FC	YES	99.87
Nancy Énergie - 32, av. Charles de Gaulle - 54420 PULNOY	338 121 098 00010	PC		49.96
Chauffage Urbain de Hautepierre - 60, rue Jean Giraudoux - 67200 STRASBOURG	392 849 543 00013	FC		99.91
Hautepierre Cogénération - 60, rue Jean Giraudoux - 67200 STRASBOURG	392 975 504 00011	FC		99.91
Société Nouvelle d'Exploitation Thermique de l'Esplanade - 3 E, rue du Fort - 67118 GEISPOLSHEIM	421 926 387 00018	FC		68.26
Strasbourg Energie - 3 E, rue du Fort - 67118 GEISPOLHEIM	421 682 931 00017	FC		99.91
Société de Développement Énergétique de la Vallée de la Rosselle (SODEVAR) 2, rue de Metz - 57800 FREYMING-MERLEBACH	414 271 528 00013	FC	YES	99.91
Société de Cogénération de Travaux - 32, av. Charles de Gaulle - 54524 PULNOY	423 572 528 00010	FC	YES	99.91
Sarre Énergie Services (SARRES) - 32, av. Charles de Gaulle - 54425 PULNOY	421 252 107 00014	PC		49.95
Ebange Energie Services (EES) - 32, av. Charles de Gaulle - 54425 PULNOY	441 320 058 00015	FC		99.91
Thermesys - 19-21, allée Évariste Galois - 18000 BOURGES	644 500 662 00072	FC		99.91
SERDI - 61, av. du Lac - 21000 DIJON	017 051 384 00018	PC		49.95
Société de Chauffage Urbain de Créteil (SCUC) - 1, rue des Archives - 94000 CRÉTEIL	413 513 672 00019	FC		99.91

<i>Company and address</i>	<i>Registration no.</i>	<i>Consolidation method</i>	<i>Group tax relief</i>	<i>% shareholding at Dec. 31, 2006</i>
Compagnie du Réseau de Chaleur de Châtillon (COCHAREC) 23, av. de la Division Leclerc - 92320 CHATILLON-SOUS-BAGNEUX	342 363 131 00016	FC		99.91
Groupement Thermique des Ulis (THERMULIS) Centrale Thermique des Ulis - av. de Provence - 91940 LES ULIS	303 905 830 00012	FC		99.91
Société de Valorisation de l'Énergie Ile-de-France - Champagne-Ardenne (VALENERGIA) 195, rue J.-J. Rousseau - 92130 ISSY-LES-MOULINEAUX	392 494 258 00016	FC	YES	99.91
Service Urbain de Climatisation des Hauts-de-Seine (SUCLIM) Technopolis 52 - 195, rue J.-J. Rousseau - 92130 ISSY-LES-MOULINEAUX	692 020 449 00074	FC		67.94
Société urbaine de climatisation - 195 Rue J.-J. Rousseau - 92138 ISSY-LES-MOULINEAUX	450 639 505 00012	FC	YES	99.91
Société de Climatisation de Suresnes (SOCLIS) Technopolis 52 - 195, rue J.-J. Rousseau - 92130 ISSY-LES MOULINEAUX	303 388 261 00039	FC		65.28
SOCLIP - Technopolis 52 - 195, rue J.-J. Rousseau - 92130 ISSY-LES-MOULINEAUX	672 037 892 00052	FC	YES	99.91
Société de Climatisation de Courbevoie (SOCLIC) Technopolis 52 - 195, rue J.-J. Rousseau - 92130 ISSY-LES-MOULINEAUX	334 796 307 00034	FC	YES	99.91
Société Mantaise d'Exploitation de Chauffage (SOMEC) 195, rue J.-J. Rousseau - 92130 ISSY-LES-MOULINEAUX	632 045 167 00046	FC	YES	99.91
Prochalar - 9, bd de la Libération - 93200 SAINT-DENIS	784 325 631 00074	FC	YES	99.91
Société Seine Marnaise de Chauffe Rationnelle (SEMCRRA) 23, rue Germain Siraudin - 77000 VAUX-LE-PENIL	788 336 055 00066	FC	YES	99.91
Cogecel - 28, rue Kléber - 92320 CHATILLON-SOUS-BAGNEUX	323 890 236 00017	FC		99.91
Groupement Thermique de Nemours (GTNM) Zup de Nemours Mont-St-Martin rue Denis Papin - 77140 NEMOURS	907 160 014 00011	FC		64.94
Réseau Ouest Parisien (RESOP) Technopolis 52 - 195, rue J.-J. Rousseau - 92130 ISSY-LES-MOULINEAUX	330 458 530 00020	FC		99.91
Gie Dalkia/SOCCRAM pour le Chauffage de la ville nouvelle d'Évry (GIE ÉVRY) Av. de la Liberté - 91000 ÉVRY	785 195 355 00033	FC		99.91

<i>Company and address</i>	<i>Registration no.</i>	<i>Consolidation method</i>	<i>Group tax relief</i>	<i>% shareholding at Dec. 31, 2006</i>
Société de Développement du Chauffage d'Évry (SDCE) Technopolis - 195, rue J.-J. Rousseau - 92130 ISSY-LES-MOULINEAUX	389 765 512 00022	FC		99.91
DALCEO - Avenue de la Paix - 92120 MONTROUGE	450 758 800 00012	PC		49.95
Société Multi Services de Saint-Quentin-en-Yvelines (SOMUSSY) ZA du Moulin à Vent - 78280 GUYANCOURT	327 192 779 00012	FC	YES	99.91
TECNI - 13, rue de l'Abreuvoir - 92400 COURBEVOIE	602 049 900 00114	FC	YES	99.91
Société Antonienne de Production et de Distribution de Chaleur (ADIC) Av. Léon Harmel - 92160 ANTONY	301 459 319 00010	FC		99.91
Société de Chauffage Urbain de Villeneuve-Saint-Georges (SCVG) Centrale Géothermique rue Charles Péguy - 94290 VILLENEUVE-ST-GEORGES	420 925 927 00014	FC		99.91
Société d'Exploitation de Chauffage de Vénissieux (SECV) LE LASER - 184, cours Lafayette - 69003 LYON	966 505 000 00010	FC		82.53
Productions et Distributions Thermiques - (PRODITH) LE LASER - 184, cours Lafayette - 69003 LYON	969 502 335 00025	FC	YES	98.76
ELVIA - Énergie Lyon Villeurbanne Avenir - 184 cours Lafayette - 69003 LYON	479 182 727 00012	FC	YES	98.91
MEVIA - 184, cours Lafayette - 69003 LYON	478 989 460 00017	FC	YES	98.91
E2S - 5, cours de la République - 69100 VILLEURBANNE	408 468 213 00017	FC	YES	99.91
Omnium Thermique des Grands Ensembles (OMNITHERM) LE LASER - 184, cours Lafayette - 69003 LYON	961 505 229 00016	FC		66.58
SP La Duchère - 3, rue du Doyen Georges Chapas - 69006 LYON	961 505 229 00024	FC		77.24
SP Bron Parilly - Bron Parilly - LE LASER 184, cours Lafayette - 69441 LYON Cedex 3	957 502 917 00017	PC		49.95
Société Energie Electrique de Grandrif - LE LASER - 184, cours Lafayette - 69003 LYON	315 720 367 00038	FC		64.45
La Sioule - LE LASER 184, cours Lafayette - 69003 LYON	976 220 277 00058	FC	YES	95.58
Chauffage Urbain d'Autun (CUA) - ZUP de St-Pantaléon - Faubourg St-Pierre - 71400 AUTUN	312 099 633 00017	FC		83.24
Société d'exploitation de Chauffage Urbain d'Autun (SECUA) - Faubourg St-Pierre - 71400 AUTUN	420 757 031 00018	FC		83.24
Société Thermique de St Étienne-Montreynaud (STSM) - LE LASER 184, cours Lafayette - 69003 LYON	714 501 418 00020	FC		83.24

<i>Company and address</i>	<i>Registration no.</i>	<i>Consolidation method</i>	<i>Group tax relief</i>	<i>% shareholding at Dec. 31, 2006</i>
Secum - 15, rue Paganini - 42000 SAINT-ÉTIENNE	439 390 634 00012	FC		83.26
Industelec Sud-Estand subsidiaries - 184, Louis Lafayette - 69006 LYON	325 464 501 00031	FC	YES	100.00
Société Niçoise de Réalisations Thermiques (SONITHERM) - 33, route de l'Ariane - 06000 NICE	302 510 151 00012	PC		47.76
SOMESYS - Hermès Park av. d'Haïfa - 13008 MARSEILLE	057 804 064 00111	FC	YES	99.91
Société d'Exploitation de Chauffage de Climatisation et d'Applications Thermiques (SECCAT) Parc Mûre 16, bd des Aciéries Bât. A - 13010 MARSEILLE	067 801 613 00042	FC		99.91
Acier Provence Recyclage - Hermès Park av. d'Haïfa - 13008 MARSEILLE	401 838 057 00016	FC		65.90
Société Générale d'Exploitation Thermique (SOGET) - 29, av. Princesse Grace - MONTE-CARLO (Monaco)		FC		99.91
Société Méditerranéenne de Distribution Thermique (SOMEDITH) 99, av. des Aygaldes - 13015 MARSEILLE	325 322 212 00011	PC		49.95
Société Fleury Chauffage (SOFLEC) - 9, rue Antonin Magne - 45400 FLEURY-LES-AUBRAIS	086 880 259 00030	FC	YES	99.91
Société de Chauffage d'Orléans (SOCOS) - la Source - 2, av. Claude Guillemin - 45100 ORLÉANS	086 480 969 00012	FC	YES	99.91
Société de Chauffage des Bords du Cher (SCBC) - 1, promenade de Florence - 37000 TOURS	654 801 315 00023	FC		99.91
Société Nantaise de Distribution de Chaleur (NADIC) - 33, rue du Pré Gauchet - 44000 NANTES	864 801 527 00028	FC	YES	99.91
Société d'Exploitation d'Équipements Techniques et Commerciaux (SETCO) 55, bd des Expositions - 33525 BRUGES	472 200 245 0026	FC	YES	99.91
Société de Distribution de Chaleur de Limoges (SDCL) Allée Moulin Pinard - Parc Uzurat - 87100 LIMOGES	775 716 541 00062	FC	YES	99.91
Société de Distribution de Chaleur de Limoges-Beaubreuil (SDCLB) Allée Moulin Pinard - Parc Uzurat - 87100 LIMOGES	316 000 298 00034	FC	YES	99.91
Société Thermique de Laval-Saint-Nicolas (STLN) Centrale Thermique - ZUP Saint-Nicolas - 53000 LAVAL	556 850 303 00026	EM		37.95
Curdem - 7, rue du 19 Mars 1962 - 28630 LE COUDRAY	434 874 681 00019	FC	YES	95.91
Dikeos - 2, allée du Petit-Cher - 37550 SAINT-AVERTIN	441 393 030 00016	FC		59.90
Dalkia Atlantique Services - Rue Louis de Broglie - 44327 NANTES Cedex	379 196 181 00018	FC	YES	99.99
SORADEC - Lotissement artisanal Les Morais - 74110 SAINT-JORIOZH	076 920 487 00048	FC	YES	99.91

<i>Company and address</i>	<i>Registration no.</i>	<i>Consolidation method</i>	<i>Group tax relief</i>	<i>% shareholding at Dec. 31, 2006</i>
Optimège - 193, rue de Bercy - 75012 PARIS	722 057 387 00028	FC	YES	99.91
Cadrazur - 37, avenue du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	309 567 600 00049	FC	YES	99.91
Cogetec - 55, bd des Expositions - 33525 BRUGES	308 173 640 00027	FC		99.91
Chauffage Rationnel et Applications Modernes (CRAM) and subsidiaries 203, rue Demidoff - 76600 LE HAVRE	788 212 660 00013	FC		64.93
VE Est - 36/38, avenue Kléber - 75016 PARIS	440 218 121 00018	PC		44.97
SENSE SAS - Rue Annette Bloch - 25200 MONTBÉLIARD	444 590 921 00052	PC		42.71
Climatelec - 3, rue Nicolas Appert - 41700 CONTRES	345 254 924 00011	FC	YES	99.91
Société de Climatisation Interurbaine de la Défense (CLIMADEF) 2, rue d'Alençon - 92404 COURBEVOIE	672 022 779 00025	PC		39.96
Société d'Exploitation Thermique du Mirail (SETMI) - Chemin de Perpignan - 31100 TOULOUSE	670 801 216 00011	PC		38.22
Société Bretonne d'Exploitation de Chauffage (SOBREC) - Avenue Charles Tillon - 35000 RENNES	659 200 513 00029	PC		49.95
Société Mancelle de Distribution de Chaleur et d'Incineration de Résidus Urbains (MCI) 206, rue de l'Angevinière - 72000 LE MANS	950 452 961 00028	PC		49.95
Gespace France - 13, rue Madeleine Michelis - 92200 NEUILLY-SUR-SEINE	354 098 170 00013	FC	YES	99.89
Clemessy and subsidiaries - 18, rue de Thann - 68200 MULHOUSE	945 752 137 00012	FC	YES	99.52
Citelum and subsidiaries - 37, rue de Lyon - 75012 PARIS	389 643 859 00019	FC	YES	99.91
Proxiserve and subsidiaries - 28/30, rue Édouard Vaillant - 92300 LEVALLOIS-PERRET	334 873 726 00148	PC		49.95
Crystal SA and subsidiaries - 37, av. du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	322 498 270 00014	FC	YES	99.91
Am'Tech Industrie - 7, rue du Théâtre - 91300 MASSY	392 156 436 00033	FC	YES	99.91
Sterience - 52, rue d'Anjou - 75008 PARIS	434 013 280 00020	PC		50.96
Bayeux Energie - 37, avenue du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	491 325 403 00013	FC		99.91
Sarcelles Investissements - 2, allée des Moulinaux LE VAISSEAU - 92445 ISSY-LES-MOULINEAUX	489 139 865 00021	FC		99.91
Sarcelles Energie - 2, allée des Moulinaux - 92130 ISSY-LES-MOULINEAUX	487 479 362 00021	FC	YES	99.76
Valhoe - 37, avenue du Maréchal de Lattre de Tassigny - 59350 SAINT-ANDRÉ	488 001 793 0014	FC		59.95

37.2 INTERNATIONAL

<i>Company and address</i>	<i>Consolidation method</i>	<i>% shareholding at Dec. 31, 2006</i>
NORTH ATLANTIC REGION		
Dalkia PLC and subsidiaries - Elizabeth House 56-60 London Road - TW18 4BQ STAINES (United Kingdom)	PC	75.79
Dalkia NV and subsidiaries - 52 Quai Fernand Demets - 1070 ANDERLECHT (Belgium)	PC	75.79
Dalkia BV and subsidiaries - Wattbaan 2 3439 ML NIEUWEGEIN (Netherlands)	PC	75.79
Dalkia North America Holding and subsidiaries - 14 950 Heathrow Forest PKWAY St 20077 032 HOUSTON Tx (USA)	PC	75.79
Dalkia Canada INC - 130 King St West suite 1800 Exchange M5X1E3 TORONTO (Canada)	PC	75.79
CDH Solutions & operations INC - 1717 Rue du Havre K2K 2X3 MONTREAL (Canada)	PC	37.90
Climatisation et Chauffage Urbains de Montréal INC (CCUM) - 1717 Rue du Havre H2K 2X3 MONTREAL (Canada)	PC	37.90
NORTHERN EUROPE		
Dalkia GMBH and subsidiaries - Carl-Ulrich-Straße 4 63263 NEU ISENBURG (Germany)	PC	75.79
Dalkia AB - Hälsingegatan 47 113 31 STOCKHOLM (Sweden)	PC	75.79
Dalkia Facilities Management AB - Hälsingegatan 47 Box 6613 - 11384 STOCKHOLM (Sweden)	PC	75.79
Dalkia Industripartner AB (DIPAB) and subsidiaries - Hälsingegatan 47 - 11384 STOCKHOLM (Sweden)	PC	75.79
Dalkia Opak Facilities management AS - Hovfaret 13, 0275 OSLO (Norway)	PC	45.48
Dalkia Suisse and subsidiaries - 14, chemin du Foron 1226 THONEX (Switzerland)	PC	75.79
Compagnie Générale de Climatisation et de Maintenance (CGCM) 28, parc des Mayens - 1218 GRAND SACONNEX GENÈVE (Switzerland)	PC	75.79
Global Environnement Suisse and subsidiaries - 2, rue Belot - GENÈVE (Switzerland)	PC	36.00
Erakute and subsidiaries - Tartu mnt 16 10117 TALLINN (Estonia)	PC	75.79
Tallinna Kute - Punane 36 - 13619 TALLINN (Estonia)	PC	75.79
Dalkia EESTI - Punane 36 - 13619 TALLINN (Estonia)	PC	75.79
UAB Litesko and subsidiary (Druskininku) - Jocioniu 13 - 2300 VILNIUS (Lithuania)	PC	53.02
Vilnius Energija - V. Kudirkos g. 22 - 2001 VILNIUS (Lithuania)	PC	75.79
Dalkia Lietuva - Jogailos str. 4 - VILNIUS (Lithuania)	PC	38.65
Dalkia Latvia and subsidiary - 73 Tallinnas street - 1009 RIGA LV (Lithuania)	PC	75.79

FC: Full consolidation. PC: Proportionate consolidation. EM: Equity method.

<i>Company and address</i>	<i>Consolidation method</i>	<i>% shareholding at Dec. 31, 2006</i>
SOUTHERN EUROPE		
Siram SPA and subsidiaries - Via Bisceglie, 95 - 20152 MILANO (Italy)	PC	75.79
Dalkia Energia Y Servicios and subsidiaries - Cl Juan Ignacio Luca De tagna, 4 - 28 027 MADRID (Spain)	PC	75.79
Dalkia SGPS SA and subsidiaries - Estrada de Paço d'Arcos 2780 – 666 PAÇO D'ARCOS (Portugal)	PC	75.79
Dalkia Limitada and subsidiaries - Rua Fidencio Ramos, 223 – 13 andar, Vila Olimpia 4551-60 - SAO PAULO SP (Brazil)	PC	75.79
Clé Brésil Ltda - Rua Funchal 411, Conj. 93, Villa Olimpia - 04551-060 SAO PAULO (Brazil)	PC	18.95
Dalkia Chile and subsidiaries - Avenida Vitacura 2909 OF 204, Vitacura, SANTIAGO (Chile)	PC	75.79
Sadmitec and subsidiary - Benardo de Irigoyen 722 - 1° Piso 1072 BUENOS AIRES (Argentina)	PC	75.79
Dalkia Sa de CV and subsidiaries Torre Optima II, Av. Paseo de Las Palmas #275, Col. Lomas de Chapultepec - 11000 MEXICO – Distrito Federal (Mexico)	PC	75.79
Dalkia Israël and subsidiary - 10 Dubnov Street - 67 443 TEL AVIV (Israel)	PC	75.79
EASTERN EUROPE		
Dalkia Ceska Republika and subsidiaries - Štefáková 3123/ 152 - 709 74 OSTRAVA (Czech Republic)	PC	74.54
Dalkia As and subsidiaries - Kutlíkova 17 - Technopol - 85102 BRATISLAVA (Slovakia)	PC	75.79
C-Term and subsidiaries - Lenardova 6 - 852 39 BRATISLAVA (Slovakia)	PC	75.79
Dalkia Polska and subsidiaries - Ul Kruczkowskiego 8 - 00 380 VARSOVIE (Poland)	PC	49.26
Dalkia Poznan Spolka - UL. SWIERZAWSKA 18 - 60321 POZNAN (Poland)	PC	39.06
Dalkia Poznan Zep and subsidiaries - UL Gdyska 54 - 60960 POZNAN (Poland)	PC	39.56
Zespol Elektrociepłowni w Lodzi and subsidiary - UL. Jadzi Andrzejewkiej 5 - 90975 LODZ (Poland)	PC	25.12
Dalkia Zrt and subsidiaries - Budafoki út 91-93-H - 1117 BUDAPEST (Hungary)	PC	75.49
Dalkia Romania SRL and subsidiaries - 41 Str Frunzei, Etaj 3 Sector 2 - 70 634 BUCAREST (Romania)	PC	49.26
Dalkia Bulgaria - Persenk Street - Bl.1, entr. A, appt 2 - SOFIA (Bulgaria)	PC	75.79
Kompania Za Energozpestyavane AD (KES) - 29 Tsaritsa Yoana Blvd - 1324 SOFIA (Bulgaria)	PC	41.68

<i>Company and address</i>	<i>Consolidation method</i>	<i>% shareholding at Dec. 31, 2006</i>
DEVELOPING REGIONS		
MAF Dalkia Middle East LLC - Lexus Tower, P.O. Box 22707, DUBAI (United Arab Emirates)	PC	37.13
Hanbul Energy Management # 301 Inn-Jin Building 44-9 Samsung-Dong - Kangnam-Ku - 100-752 SEOUL (South Korea)	PC	37.90
Dalkia(s)pte ltd and subsidiary - 133 New Bridge - #16-03/05 Chinatown point - 059413 SINGAPOUR (Singapore)	PC	75.79
KJ Engeneering SDN BHD - 25 Jalan SS 18/6 - 47500 SABANG JAYA (Malaysia)	PC	38.65
Dalkia Technical services SDN BHD and subsidiary Level 7 Menara millennium - Bandar Damansara - Damansara heights - 50490 KUALA LUMPUR (Malaysia)	PC	75.79
Dalkia Gise Energy Management LTD Room 21G, Chengjian Plaza, 189 Tiyuxi Rd - Tianhe District - GUANGZHOU (China)	PC	56.84
Beijing Dayuan Energy Management CO LTD Room 703, n°3 Maizidianxi Road - CHAOYANG District - 100016 BEIJING (China)	PC	37.90
Dalkia Australia PTY LTD - 6-8 Lyon Park Road North Ryde - Unit A1 - NSW 2113 MACQUARIE PARK (Australia)	PC	75.79
TDU Australia PTY LTD - 6-8 Lyon Park Road - Unit A1 - NORTH RYDE - NSW 2113 MACQUARIE PARK (Australia)	PC	75.79



Parent company financial statements

Year ended December 31, 2006

FIVE-YEAR SUMMARY OF FINANCIAL DATA

<i>Year ended December 31 Period (in thousands of euros)</i>	<i>2006 12 months</i>	<i>2005 12 months</i>	<i>2004 12 months</i>	<i>2003 12 months</i>	<i>2002 12 months</i>
Capital at end of year					
Share capital	968,869	968,869	968,869	968,869	968,869
Number of shares	63,741,355	63,741,355	63,741,355	63,741,355	63,741,355
Operations and results					
Revenue	1,396	2,144	2,553	1,466	1,449
Profit before tax, employee profit-sharing, depreciation, amortization and provisions	100,738	88,618	80,559	50,486	32,848
Income tax expense	(8,603)	2,511	(5,171)	(14,747)	(14,268)
Employee profit-sharing					
Depreciation, amortization and provisions	3,959	(2,593)	(6,416)	(13,722)	14,766
Profit for the period	105,382	88,700	92,146	78,955	32,350
Total dividend		63,741	68,841	58,642	50,993
Per share data (€)					
Profit after tax and employee profit sharing but before depreciation, amortization and provisions	1.72	1.35	1.34	1.02	0.74
Earnings per share	1.65	1.39	1.45	1.24	0.51
Dividend per share		1.00	1.08	0.92	0.80
Employees					
Average number of employees	1	1	1	1	3
Total payroll costs	331	449	520	354	463
Total benefits	88	163	204	122	165

PRESENTATION OF THE FINANCIAL STATEMENTS

1. INCOME STATEMENT

Operating loss

The Company incurred an operating loss of €14,148,000 in 2006 (2005 operating loss: €10,748,000).

Net financial income and income from joint ventures

Net financial income rose to €110,973,000 (2005: €96,557,000), primarily on higher income from investments in subsidiaries and associates.

Dalkia's share in the profit of SNC Dalkia Investissement amounted to €4,296,000 in 2006.

Profit from continuing operations

Profit from continuing operations came to €101,133,000 (2005: €91,340,000).

<i>(in thousands of euros)</i>	2006	2005
Operating loss	(14,148)	(10,748)
Net financial income and income from joint ventures	115,280	102,088
Profit from continuing operations	101,132	91,340

Non-recurring expense

The Company recorded net non-recurring expense of €4,353,000 in 2006, primarily corresponding to the €4 million provision recognized at the end of the year to cover the risk of a tax reassessment following audits of the parent company financial statements for the years ended 2003, 2004 and 2005

Income tax savings

Tax savings for the consolidated tax group amounted to €8,333,000 for the year.

Profit for the period

Profit for the period totaled €105,382,000 (2005: €88,700,000).

<i>(in thousands of euros)</i>	2006	2005
Profit from continuing operations	101,132	91,340
Net non-recurring expense	(4,353)	(129)
Income tax benefit/(expense)	8,603	(2,511)
Profit for the period	105,382	88,700

2. BALANCE SHEET

Total assets stood at €1,616,697,000 at December 31, 2006 (2005: €1,692,228,000).

Assets

1) Non-current assets

Net non-current assets amounted to €1,373,819,000 (2005: €1,374,605,000), a decrease of €786,000 that was mainly attributable to the following:

- Amortization of intangible assets in the amount of €523,000 for the year;
- The sale of shares in Sechaud & Metz for €254,000.

2) Current assets

Net current assets stood at €242,878,000 (2005: €317,623,000), including current account advances of €127,271,000 to Dalkia France and of €62,002,000 to Dalkia International.

Equity and liabilities

1) Equity

Equity at December 31, 2006, before appropriation of profit for the period, amounted to €1,269,274,000 (2005: €1,227,633,000).

2) Provisions for contingencies and charges

Provisions for contingencies and charges stood at €6,807,000 and mainly concerned the following:

- Provisions for claims and litigation of €1,180,000 originally recorded in the accounts of SFEE-Intelbat;
- A provision for the risk represented by Industelec Sud, corresponding to the subsidiary's negative net worth of €1,600,000;
- A provision of €4,000,000 to cover the risk of tax reassessments.

3) Liabilities

Liabilities stood at €340,615,000 (2005: €462,048,000), including current account advances of €200,151,000 from Dalkia Investissement and of €81,508,000 from Veolia Environnement.

3. CASH FLOW STATEMENT

<i>(in thousands of euros)</i>	2006	2005
Operating activities		
Earnings before interest, tax, depreciation and amortization (EBITDA)	(13,624)	(10,224)
Financial and non-recurring items	115,198	101,959
Income tax expense	8,599	(2,511)
Net change in working capital requirement	(20,782)	(12,259)
Net cash from operating activities	89,391	76,965
Investing activities		
Purchases of property, plant and equipment	(4)	
Purchases of non-current financial assets	(2)	(811)
Proceeds from the sale of shares	287	274
Proceeds from the sale of property, plant and equipment		
Net increase in long-term loans and deposits		
Net cash from (used by) investing activities	281	(537)
Financing activities		
Reduction in capital		
Repayments of long-term debt		
Dividends paid	(63,741)	(68,840)
Net cash used by financing activities	(63,741)	(68,840)
Net cash provided during the year	25,931	7,588
Opening net cash/(debt)	(139,277)	(146,865)
Closing net cash/(debt)	(113,346)	(139,277)

4. APPROPRIATION OF PROFIT

Proposed appropriation of profit available for distribution:

Profit available for distribution, in euros:

Retained earnings brought forward from prior years	51,603,900
Profit for the period	105,382,017
Total	156,985,917

Proposed appropriation, in euros:

Dividend per share	1.55
Total dividend	98,799,100
Legal reserve	5,269,101
Retained earnings	52,917,716
Total	156,985,917

Dividends paid in the past three years were as follows:

	2005	2004	2003
Number of shares	63,741,355	63,741,355	63,741,355
Dividend	1.00	1.08	0.92
Tax credit	0	0.54	0.46
Total revenue	1.00	1.62	1.38

BALANCE SHEET – ASSETS

<i>(in thousands of euros)</i> ASSETS	<i>Gross</i>	<i>Depreciation, amortization and provisions</i>	<i>Net December 31, 2006</i>	<i>Net December 31, 2005</i>
NON-CURRENT ASSETS				
Intangible assets				
Start-up costs				
Research costs				
Patents, software and licenses	2,648	1,945	704	1,226
Business goodwill				
Advances and downpayments for intangible assets				
Property, plant and equipment				
Land				
Buildings				
Plant and equipment				
Other assets	9	4	4	1
Construction-in-progress				
Financial assets				
Investments in subsidiaries and associates	1,376,278	3,215	1,373,063	1,373,330
Loans to subsidiaries and associates				
Other long-term loans	68	20	48	48
Other				
Total I	1,379,002	5,184	1,373,819	1,374,605

<i>(in thousands of euros)</i> ASSETS	<i>Gross</i>	<i>Depreciation, amortization and provisions</i>	<i>Net December 31, 2006</i>	<i>Net December 31, 2005</i>
CURRENT ASSETS				
Inventories and work-in-progress				
Raw materials and other supplies				
Work-in-progress				
Goods held for resale				
Supplier prepayments	2		2	1
Trade and other receivables				
Trade receivables	18,593		18,593	17,817
Other receivables	224,510	227	224,283	299,783
Marketable securities				
Cash				19
Prepaid expenses and accrued income				
Prepaid expenses	1		1	3
Total II	243,105	227	242,878	317,623
Deferred charges (III)				
Translation differences (IV)				
Total assets (I + II + III+IV)	1,622,108	5 411	1,616,697	1,692,228

BALANCE SHEET – EQUITY AND LIABILITIES

<i>(in thousands of euros)</i>	December 31, 2006	December 31, 2005
EQUITY AND LIABILITIES		
EQUITY		
Share capital	968,869	968,869
Additional paid-in capital	112,066	112,065
Revaluation reserve		
Other reserves		
Legal reserve	22,431	17,996
Statutory and contractual reserves	6,228	6,228
Regulated reserves	2,695	2,695
Other		
Retained earnings	51,604	31,080
Interim dividend		
Profit for the period	105,382	88,700
Total equity	1,269,274	1,227,633
Government grants		
Long-term deferred income		
Untaxed provisions		
Total I	1,269,274	1,227,633
Conditional advances		
Total II	0	0
PROVISIONS FOR CONTINGENCIES AND CHARGES		
Provisions for contingencies	2,807	2,547
Provisions for charges	4,000	
Total III	6,807	2,547

<i>(in thousands of euros)</i>	December 31, 2006	December 31, 2005
EQUITY AND LIABILITIES		
LIABILITIES		
Bank borrowings	192	1,205
Other debt	317,462	431,631
Trade payables	13,569	11,838
Accrued taxes and payroll costs	3,284	14,001
Due to suppliers of non-current assets		
Other liabilities	6,109	3,373
Accruals and deferred income		
Deferred income		
Total IV	340,615	462,048
Translation adjustments V		
Total equity and liabilities (I + II + III + IV + V)	1,616,697	1,692,228

INCOME STATEMENT

<i>(in thousands of euros)</i>	2006	2005
Revenue		
Sales of goods		
Sales of services	1,396	2,144
Total sales (A)	1,396	2,144
Reversals of provisions and depreciation, expense transfers		
Other revenue	12,301	12,302
Total other operating revenue (B)	12,301	12,302
Total revenue I (A+B)	13,696	14,446
Operating expenses		
Purchases of raw materials and other supplies	0	0
Other purchases and external charges	24,929	22,439
Taxes other than on income	835	489
Wages and salaries	331	449
Payroll taxes	88	163
Depreciation, amortization and provisions		
Depreciation of non-current assets	523	523
Provisions on current assets		
Provisions for contingencies and charges	0	0
Other expenses	1,138	1,131
Total operating expenses II	27,844	25,194
OPERATING LOSS (I-II)	(14,148)	(10,748)
Joint venture profits and losses		
Profit attributed to Dalkia or losses transferred to partners (III)	4,308	5,531
Losses attributed to Dalkia or profit transferred to partners (IV)		
Financial income		
Income from subsidiaries and associates	112,753	99,311

<i>(in thousands of euros)</i>	2006	2005
Income from other securities and long-term loans		
Other financial income	12,883	8,985
Reversals of provisions and expense transfers	1,010	
Net proceeds from disposals of marketable securities		
Total financial income V	126,646	108,296
Financial expenses		
Amortization and provisions	185	235
Interest and other financial expenses	15,488	11,504
Total financial expenses VI	15,674	11,739
NET FINANCIAL INCOME (V-VI)	110,973	96,557
PROFIT FROM CONTINUING OPERATIONS (I-II+III-IV+V-VI)	101,132	91,340
Non-recurring income		
Non-recurring income from revenue and capital transactions	347	321
Reversals of provisions and expense transfers	1,340	3,352
Total non-recurring income VII	1,687	3,673
Non-recurring expenses		
Non-recurring expense on revenue and capital transactions	440	3,802
Depreciation, amortization and provisions	5,600	0
Total non-recurring expenses VIII	6,040	3,802
NET NON-RECURRING INCOME (VII-VIII)	(4,353)	(129)
Income tax expense (X)	(8,603)	(2,511)
Total income (I+III+V+VII)	146,337	131,946
Total expenses (II+IV+VI+VIII+IX+X)	40,955	43,246
Profit for the period	105,382	88,700

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements of Dalkia for the twelve months ended December 31, 2006 have been prepared on a historical cost basis in accordance with the provisions of the French Commercial Code and standard CRC 99-03.

Intangible assets

Intangible assets are measured at their acquisition cost (purchase price plus transaction expenses), production cost or fair value in accordance with standards CRC 2004-06 and CRC 2002-10/2003-07.

They comprise software and licenses, amortized on a straight-line basis over a twelve-month rolling period in the case of software and over five years in the case of licenses.

Financial assets

Investments in subsidiaries and associates are stated at the lower of cost and fair value. Cost is equal to the purchase price excluding transaction expenses.

Fair value is equal to Dalkia's equity in the underlying net assets of the companies concerned, adjusted where applicable to take account of the importance of the investee companies to the Company and its growth and earnings prospects.

Receivables

Receivables are stated net of provisions for doubtful debts, calculated on the basis of the estimated risk of non-recovery and age of the receivable concerned.

Provisions for contingencies and charges

Provisions for contingencies and charges are estimated on the basis of known data at the year-end.

Group relief

Since January 1, 2001, Dalkia has filed a consolidated tax return with certain of its subsidiaries. The tax group comprised a total of seventy companies in 2006. The tax savings made by the tax group as a result of tax losses incurred by the subsidiaries accrued entirely to the parent company Dalkia.

<i>(in thousands of euros)</i>	<i>Without group relief</i>	<i>With group relief</i>
Income tax benefit/expense	0	8,333
Net income tax	0	8,333

2. NOTES TO THE BALANCE SHEET

ASSETS

1) Movements in non-current assets (gross)

<i>(in thousands of euros)</i>	<i>Opening balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Closing balance</i>
Intangible assets	2,648			2,648
Property, plant and equipment	5	4		9
Financial assets	1,376,604	2	260	1,376,346
Total	1,379,257	6	260	1,379,003

2) Movements in depreciation, amortization and provisions

<i>(in thousands of euros)</i>	<i>Opening balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Closing balance</i>
Intangible assets	1,422	523		1,945
Property, plant and equipment	3	1		4
Total	1,425	524		1,949

3) Maturities of assets

<i>(in thousands of euros)</i>	<i>Gross</i>	<i>Due within one year</i>	<i>Due beyond one year</i>
Non-current assets			
Loans	68		68
Other financial assets			
Current assets			
Trade receivables	18,593	18,593	
Other receivables	224,510	224,510	
Total	243,171	243,103	68

EQUITY AND LIABILITIES

1) Share capital

At December 31, 2006, Dalkia's share capital stood at €968,868,596, divided into 63,741,355 common shares with a par value of €15.20 each.

3) Provisions

2) Movements in equity before appropriation of profit

(in thousands of euros)

Opening balance	1,227,633
Dividend payment	(63,741)
Profit for the period	105,382
Closing balance	1,269,274

(in thousands of euros) Type of provision	Opening balance	Charges	Reversals (provisions used)	Reversals (surplus provisions)	Closing balance
Contingencies and charges					
Litigation	8				8
Claims	2,538			1,339	1,199
Other	1	5,600			5,601
Sub-total I	2,547	5,600	0	1,339	6,808
Impairment					
Financial assets	3,224	185		175	3,234
Trade receivables					
Other receivables	1,062			835	227
Sub-total II	4,286	185	0	1,010	3,461
Total (I+II)	6,833	5,785	0	2,349	10,269
Of which					
- operating					
- financial		185		1,010	
- non-recurring		5,600		1,339	

Provisions at December 31, 2006 included:

- Provisions for contingencies and charges of €1,600,000 for the Industelec Sud subsidiary;
- A provision of €4,000,000 to cover the risk of tax reassessments.

The provision reversal of €1,339,000 corresponds to the settlement of the June 24, 1997 claim originally recorded in the accounts of SFEE-Intelbat.

4) Maturities of liabilities

<i>(in thousands of euros)</i>	<i>Gross brut</i>	<i>Due within one year</i>	<i>Due in one to five years</i>	<i>Due beyond five years</i>
Bank borrowings	192	192		
Other debt	317,462	235,954	81,508	
Trade payables	13,569	13,569		
Accrued taxes and payroll costs	3,284	3,284		
Amounts due to suppliers of non-current assets				
Other liabilities	6,108	6,108		
Total	340,615	259,107	81,508	

3. OTHER INFORMATION

Accrued expenses and income included in balance sheet items

<i>(in thousands of euros)</i>	
Accrued expenses	
Trade payables	5,817
Accrued taxes and payroll costs	137
Other liabilities	492
Accrued income	
Trade receivables	3,799
Other receivables	42

Related party transactions

The table below shows a breakdown of amounts included in the balance sheet and income statement concerning transactions with related companies.

<i>(in thousands of euros)</i>	
Financial assets	
Investments in subsidiaries and associates	1,376,278
Receivables	
Trade receivables	18,564
Other receivables (excluding shareholders' advances)	3,885
Other receivables (shareholders' advances)	203,399
Payables	
Borrowings and other debt (shareholders' advances)	317,462
Trade payables	8,802
Other liabilities	5,617
Financial income	
Income from subsidiaries and associates	112,753
Other financial income	12,883
Financial expenses	
Interest and other financial expenses	15,488

Income from joint ventures

Income from joint ventures mainly concerned the Company's share in the profit of Dalkia Investissement SNC, amounting to €4,296,000 in 2006.

Consolidating company

Dalkia's financial statements are fully consolidated by:

Veolia Environnement
36/38, avenue Kléber
75799 PARIS CEDEX 16
RCS Paris 403 210 032

Off-balance sheet commitments

1) Pension plans

The Company pays retirement bonuses to employees, whose calculation is determined by the collective bargaining agreement and other applicable agreements. The present value of this obligation is determined on an actuarial basis using the projected unit credit method, which takes into account the probability of employees remaining with the Company until retirement, estimated future compensation and an appropriate discount rate.

The related provisions amounted to €203,000 for the year, based on a net discount rate of 4.40%, a retirement age of 65 and the assumption of voluntary departure.

2) Financial commitments

Dalkia has issued a counter-guarantee to the European Bank for Reconstruction and Development (EBRD) in respect of Dalkia International's guarantee of loans made to its Central and Eastern European subsidiaries by the EBRD. Total loans guaranteed by Dalkia International amounted to €10,533,000 at December 31, 2006.

Other commitments given amounted to €28,211,000 at December 31, 2006, principally comprising bank guarantees.

Remuneration paid to executive officers and members of the Supervisory Board

Total remuneration paid for 2006 to Dalkia's executive officers amounted to €1,143,000. Directors' fees paid to members of the Supervisory Board amounted to €94,500.

Shareholders

Dalkia's share capital is held by:

- Veolia Environnement: 66%;
- EDF: 34%

(in thousands of euros)	Share capital	Other equity*	% held	Book value		Loans and advances granted by Dalkia	Guarantees given by Dalkia	2005 revenue	2006 revenue	2005 profit	2006 profit	Dividends received by Dalkia in 2006
				gross	net							
A - Detailed data concerning subsidiaries and associates whose carrying amount exceeds 1% of Dalkia's share capital												
1) Subsidiaries (over 50%-owned)												
Clemessy - Mulhouse	19,281	18,356	99.52	121,134	121,134		16,162	357,165	376,090	9,920	10,111	4,481
Dalkia France Saint-André	220,103	486,761	99.91	578,838	578,838	127,271		1,730,652	1,870,454	65,341	72,447	97,256
Dalkia International Saint-André	1,760,127	38,689	75.45	464,215	464,215	62,002	10,533	98,012	111,185	14,631	15,018	9,296
2) Associates (10% to 50%-owned)												
Dalkia Investissement** Puteaux	48,800	186,315	50.00	200,000	200,000			10,248	10,395	8,592	10,723	4,296
B - Aggregate data concerning other subsidiaries and associates whose gross book value does not exceed 1% of Dalkia's share capital												
1) French subsidiaries				7,604	4,815	7,704	3,408					1,451
2) Foreign subsidiaries												
3) French associates				3,942	3,517	1,377						243
4) Foreign associates												
Total				1,375,733	1,372,519							

(*) Including profit for the period.
 (**) SNC general limited partnership.



Report of the Auditors on the consolidated financial statements

SALUSTRO REYDEL
1, cours Valmy
92923 Paris-La Défense Cedex

ERNST & YOUNG et AUTRES
41, rue Ybry
92576 Neuilly-sur-Seine Cedex

To the shareholders,

In compliance with the assignment entrusted to us by your shareholders' Annual General Meeting, we hereby report to you, for the year ended December 31, 2006, on the audit of the accompanying consolidated financial statements of Dalkia.

The consolidated financial statements have been approved by the Chairman. Our role is to express an opinion on these financial statements based on our audit.

1 - OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applicable in France. These standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, in view of the IFRSs adopted by the European Union, give a true and fair view of the group's financial position and of its assets and liabilities as of December 31, 2006, and of the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

2 - SUBSTANTIATION OF OUR ASSESSMENTS

Pursuant to the provisions of article L.823-9 of the French Commercial Code on the substantiation of our assessments, we draw your attention to the following matters:

- Notes 2.1 and 2.20 to the consolidated financial statements describe the change in accounting method that took effect during the period following the application of interpretation IFRIC 12 – Service concession arrangements. In accordance with IAS 8, comparative information presented in the 2006 consolidated financial statements relative to the year ended December 31, 2005 has been adjusted to account for the retrospective application of this new interpretation. As a result, the 2005 comparative information is different from the information published in the 2005 consolidated financial statements.

As part of our audit of the accounting methods applied by your Company, we checked whether the adjustments to the 2005 consolidated financial statements were made correctly and verified the corresponding disclosures in the notes to the 2006 consolidated financial statements under “Summary of impacts of IFRIC 12 on the Group’s key performance indicators”.

- Note 2.26 to the consolidated financial statements mentions the material judgments and estimates made by management. Based on our audit, we consider that these judgments and estimates mainly concern goodwill and other intangible assets (notes 2.8, 2.9, 2.10, 4 and 5), property, plant and equipment (notes 2.6, 2.10, 6, 7 and 10), deferred tax assets (notes 2.19 and 12), put options granted to minority interests (notes 2.14 and 14.2), provisions (notes 2.13, 17 and 20), CO₂ emissions allowances (notes 2.23 and 31) and pension and other post-employment benefit obligations (notes 2.15 and 25). For these items, we assessed the data and assumptions underlying the judgments and estimates, reviewed the Company’s calculations on a test basis, and obtained assurance that the disclosures in the above notes to the consolidated financial statements were appropriate. Our assessment of these matters formed an integral part of our overall audit of the consolidated financial statements, and therefore contributed to our unqualified opinion as expressed in the first part of this report.

3 - SPECIFIC INVESTIGATIONS

We also verified the information given in the management report, in accordance with the professional standards applicable in France. We have no comment as to its fair presentation and its conformity with the consolidated financial statements.

Paris - La Défense and Neuilly-sur-Seine, May 15, 2007

The Auditors

Salustro Reydel		Ernst & Young et Autres	
Member of KPMG International			
Bernard CATTENOZ	Bertrand VIALATTE	Jean BOUQUOT	Christine STAUB
Partner	Partner	Partner	Partner

Dalkia Corporate Communication – 04/2007
Graphic design and production: Corporate Factory – Printing: JPA
Photography: creativ collection and Tips/Photononstop



2006

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“Energy is our future-don’t let it go to waste!”