

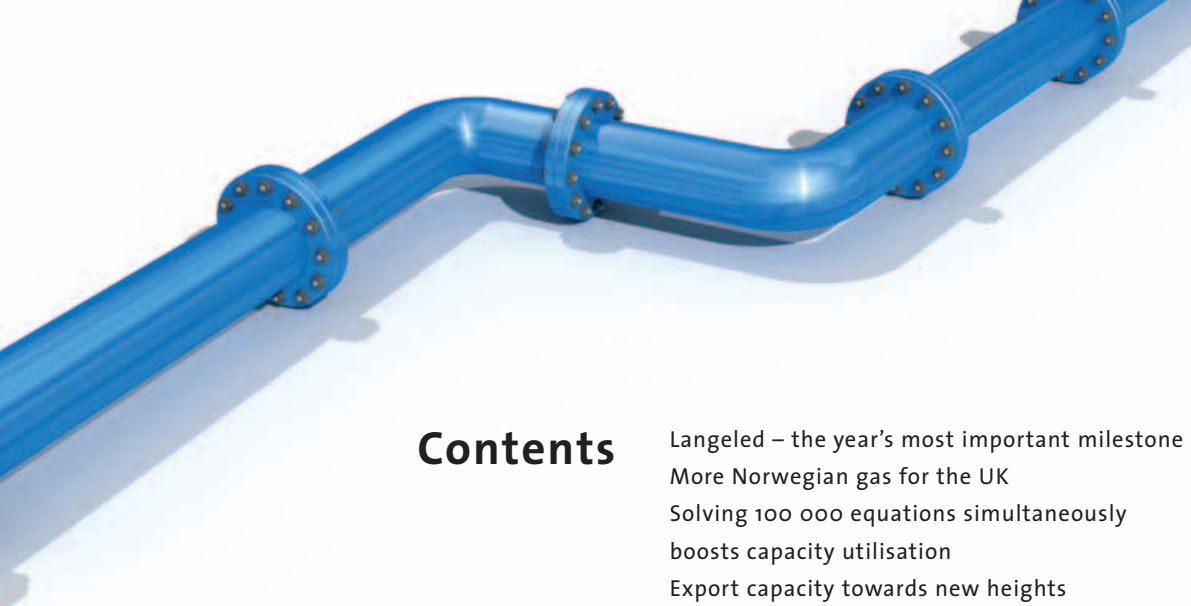
# Total integrated gas transport



Annual report 2004







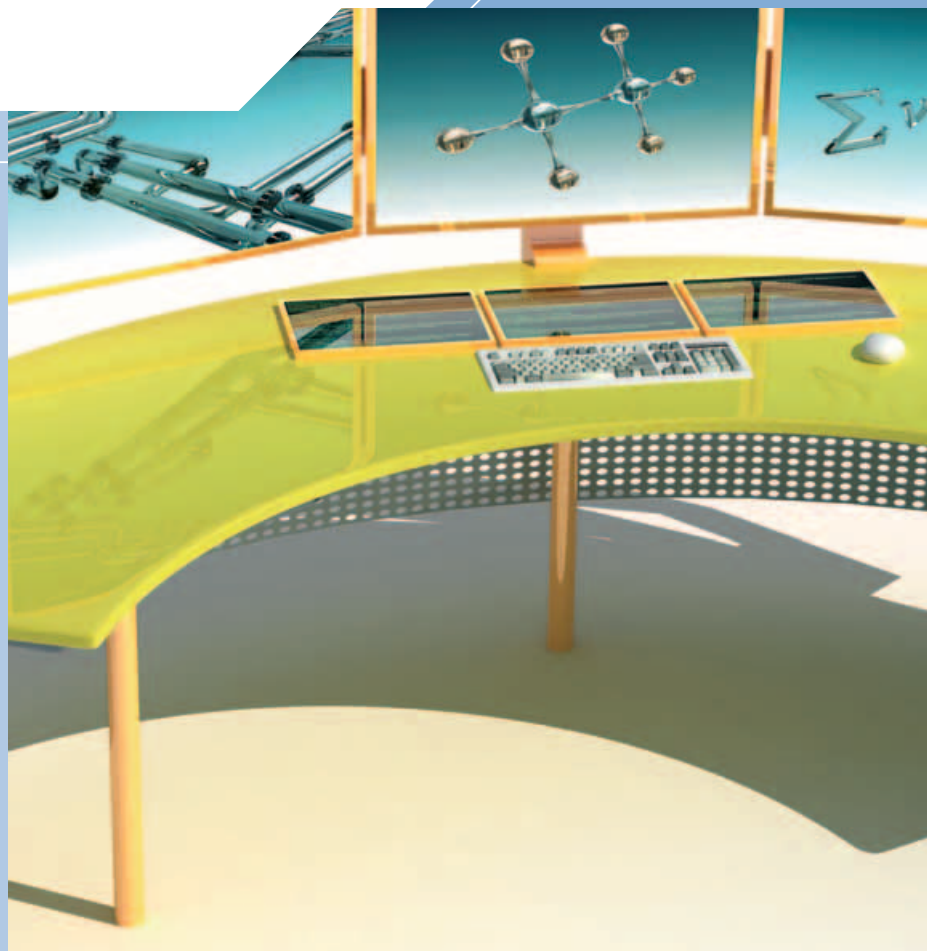
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## Total integrated gas transport

Gassco operates one of the world’s largest integrated systems for gas transport.

From its control centre at Bygnes north of Stavanger, the company managed the transport of energy corresponding to 13 per cent of total European gas consumption in 2004.





# Langeled – the year’s most important milestone

“ The decision to develop the Ormen Lange gas and condensate field in the Norwegian Sea and the Langeled export pipeline to the UK was the most important milestone in the Norwegian oil and gas industry during 2004. ”

Brian Bjordal

I had the good fortune to be present on 2 April 2004 when the Storting (parliament) approved the development of Ormen Lange and Langeled. These projects are very significant in several respects. Ormen Lange is the largest field currently under development on the Norwegian continental shelf (NCS), and will thereby be an important supplier of gas volumes in a long-term perspective. This also ranks industrially as one of the largest and most demanding projects on the NCS.

## A new dimension

The Langeled pipeline will give Norwegian gas exports a new dimension when substantial volumes of this commodity become available in the heart of Europe’s largest gas market.

We will take over as operator of Langeled when its southern leg becomes operational in the late summer of 2006. We also participated actively in the

“I’m pleased that 2004 was the year when we got seriously to grips with the development of new infrastructure for gas on the NCS through active participation and leadership,” says Brian Bjordal.



creation of the Langed partnership together with the owner companies, partly in order to establish the agreement and frame conditions required to get started with the development.

I am pleased that 2004 was the year when we got seriously to grips with the development of new infrastructure for gas on the NCS through active participation in and leadership of several projects. As operator, we are responsible for further development of the gas transport system. The aim is to see that Norway retains an integrated and well-run system to ensure the best utilisation of its oil and gas resources for the future.

### **Halten/Nordland**

Our work on a future export solution for gas from the important Halten/Nordland area of the Norwegian Sea naturally required a good deal of attention. We also focused on access conditions for Norwegian gas in the British infrastructure. The Ministry of Petroleum and Energy decided that we should head further work on clarifying these terms.

### **Good results**

Our results were good for most areas of the business in 2004. Costs were reduced by a total of eight per cent, and the target for gas transport regularity was met. Our projects are on schedule and to budget. We have a very interesting research and development portfolio, where I am particularly satisfied that we succeeded in identifying and realising improvements to capacity utilisation in the transport system.

### **HSE challenges**

My expectations for 2004 also embraced a significant improvement in results for health, safety and the environment (HSE) from 2003. Unfortunately, developments proved far less positive than I had hoped and believed. We have undoubtedly underestimated a number of HSE challenges related to major development projects such as the Troll upgrading project (TOP) at Kollsnes and the

Kårstø Expansion Project (KEP). We failed to achieve the results we had planned together with the companies which provide technical services under contract to us, even though a number of improvement measures were initiated. Detailed analyses are required to identify how we can meet our HSE targets.

### **Employees**

Our workforce expanded by eight people during 2004. That was a welcome increase. These new recruits represent and expertise which make our organisation even more complete for tackling challenging tasks in our business. But we are not expanding for its own sake. We need more heads because our tasks have expanded in both size and complexity. This growth is paralleled by rising external expectations about our ability to perform. I am sure we will live up to these. Brains are more important than numbers.

### **Reputation**

Many of our staff are making an active contribution to building up our identity and reputation. I set great store by this. Identity and pride are important cornerstones in all organisations, and not least in a young company like ours. I would particularly mention our summer programme for engineering students. While our industry needs more personnel with a technical background, applications to study subjects such as chemistry and process technology are declining. The summer student scheme helps to combat this trend. Nor should the positive experience of our company obtained by programme participants be ignored.

### **Exciting years ahead**

The future for the NCS appears more exciting and dynamic at the beginning of 2005 than it did a year earlier. New entrants will unquestionably strengthen the overall system, and exploration activity is expanding again. It is nevertheless important not to underestimate the challenges ahead.

As I see it, costs and efficiency represent the biggest and most extensive challenges both along the gas axis and in other activities on the NCS. But a one-sided focus on cost reductions is not enough. We must also give weight to the value creation concept by adopting new technology and knowledge. Having industrial participants who tackle the challenges in a consistent manner is therefore important. A long-term approach will be impossible without the ability and willingness to change, and an awareness that the world is dynamic.

### **Changed regime**

This dynamism is also the background for a number of changes we have proposed in today's operator regime. Our mandate as a neutral and independent operator means that we have to think holistically and not favour individual participants.

These waters must be attractive for future investment, and competitive in an international perspective. Providing efficient operatorship with fewer interfaces in the gas area is our most important contribution in that respect.



**Brian Bjordal**  
President and CEO



# More Norwegian gas for the UK



**The Vesterled transport system has been expanded, and Langeled is under construction as the world's longest underwater gas pipeline. Norwegian gas is in demand in the UK.**

Britain ranks as Europe's largest gas market, and is also set to become more dependent on imports. That combination makes the UK a very attractive outlet for Norwegian gas. As operator of the transport system, Gassco wants to optimise opportunities for Norwegian gas sellers to take positions in the British market.

## **From Frigg to future**

Gas ceased to flow from the Frigg field on 26 October 2004, after just over 25 years of production. This output was sold to UK customers via the pipeline to the receiving terminal at St Fergus in Scotland. At peak, Frigg supplied the British with a third of their daily gas requirements. But the closure of this field does not mean that the flow of gas to St Fergus has ceased. The Scottish terminal is being upgraded as a landfall for Norwegian gas in the UK market. In cooperation with TOTAL E&P UK PLC, which is responsible for technical operation at St Fergus, these facilities are being

organised both commercially and technically for long-term operation as the northernmost landfall for Norwegian gas in Britain.

Capacity in the 350-kilometre Vesterled pipeline, which runs from Heimdal to St Fergus, has also been expanded from 27 million standard cubic metres per day (scm/d) to 36 million scm/d. This represents a substantial increase, which Norwegian gas sellers intend to exploit.

## **World's longest**

Running for 1 160 kilometres from the Norwegian west coast to the north-east coast of England, Langeled will be the world's longest underwater gas pipeline.

Gassco will take over as operator for Langeled in the autumn of 2006, when the southern leg from the Sleipner Riser platform to the receiving terminal at Easington becomes operational. The northern leg from the terminal Nyhamna to Sleipner Riser is due to follow a year later.

With Langeled in place, capacity for direct Norwegian gas exports to the UK market will be increased to almost 100 million scm/d. Combined with the capacity expansion in Vesterled, this means that Norwegian gas could meet

about 20 per cent of British demand on days with high export rates.

## **A new dimension**

Expanded access to the UK market for Norwegian gas also adds a new dimension to Gassco's operations. As operator for the Norwegian gas transport system, its interaction with grid operator National Grid Transco and contacts with British government bodies in the energy area will become increasingly important.

Within a few years, however, more capacity than Vesterled or Langeled can offer is likely to be needed for transporting Norwegian gas to Britain. The UK market is perceived as highly attractive, and the capacity reservations Gassco has received confirm that picture.

As the company responsible for developing new gas transport infrastructure on the NCS, Gassco is assessing together with other players how capacity can be expanded in the longer term, partly by exploiting existing British infrastructure and partly by expanding today's system by building new facilities.





- Market shares for Norwegian gas: Germany 31 per cent, France 30 per cent, UK seven per cent (when Ormen Lange comes on stream).

- Including Ormen Lange, Norwegian deliveries will cover more than 14 per cent of European gas consumption.



**Thor Otto Lohne, executive vice president finance and commercial development:** “Greater access to the UK market for Norwegian gas will add a new dimension to Gassco’s operations. Its interaction with grid operator National Grid Transco and contacts with British government bodies in the energy area will become increasingly important.”

# Solving 100 000 equations simultaneously boosts capacity utilisation

Gassco has launched a project to create a mathematical real time model for the Kårstø gas processing plant to optimise its operation. The main aim is to maximise capacity utilisation in these facilities.



**Svein Birger Thaulé, executive vice president for technology:** “Optimising operation in real time calls for very advanced modelling and computational methodology. The 3PM project will describe the Kårstø plant and its control functions with the aid of more than 100 000 equations which are solved simultaneously.”

- Gassco’s vision is to continue developing the competitiveness of Norwegian gas in Europe through commercially-oriented research and development.





Capacity in the plant has been expanded in several phases, from an original processing volume of 16.8 million scm/d for rich gas to 88 million scm/d when the KEP 2005 development is completed in the autumn of 2005. This staged expansion means that Kårstø now embodies several systems built to different designs. That applies not least to export compression and fractionation of natural gas liquids.

### Big variations

The result has been extra challenges in integrating the systems to achieve full capacity utilisation. Together with broad quality variations in the rich gas arriving at Kårstø from the various fields, this creates a need for advanced models to optimise operation.

The plant production performance model (3PM) project is being pursued jointly by Gassco and Statoil, the technical service provider at Kårstø. Essentially, the target of this development is a real-time model which makes it possible to compute how the various systems should be operated to maximise processing capacity for rich gas.

That requires precise management of specific unit operations, which is made possible through the implementation of

model predicted control (MPC) in the distillation columns. The MPC project is being pursued in parallel with 3PM.

### Advanced models

“Optimising operation in real time calls for very advanced modelling and computational methodology,” explains Svein Birger Thaule, Gassco’s executive vice president for technology. “The 3PM project will describe the Kårstø plant and its control functions with the aid of more than 100 000 equations solved simultaneously. Several thousand recorded values will be transmitted to the model at any given time, so that it represents the actual operating condition.”

In addition to its real-time module, 3PM will have a simulation module for capacity analyses. Important applications for the latter will be capacity calculations in the booking process Gassco administers for companies shipping gas via Kårstø, and evaluating alternative modifications to the plants.

The job of constructing the advanced mathematical model has been assigned to Invensys, which will use the ROMEo commercial modelling tool from Simulation Science Inc.

### Testing

To ensure that the 3PM solution provides an accurate description of the Kårstø systems, it must be tested on real operating data. This means that completion and testing for large parts of the model will occur after KEP 2005 has been completed. To ensure that the model is tested under stable operating conditions before being taken into use, factory acceptance testing for 3PM will first take place in April 2006.



Gassco’s aim is for the 3PM project to yield a one per cent increase in capacity utilisation at Kårstø. That would represent an annual gain amounting to about 180 million scm of gas for the owners. The project has a total budget of roughly NOK 40 million.

# Export capacity towards new heights

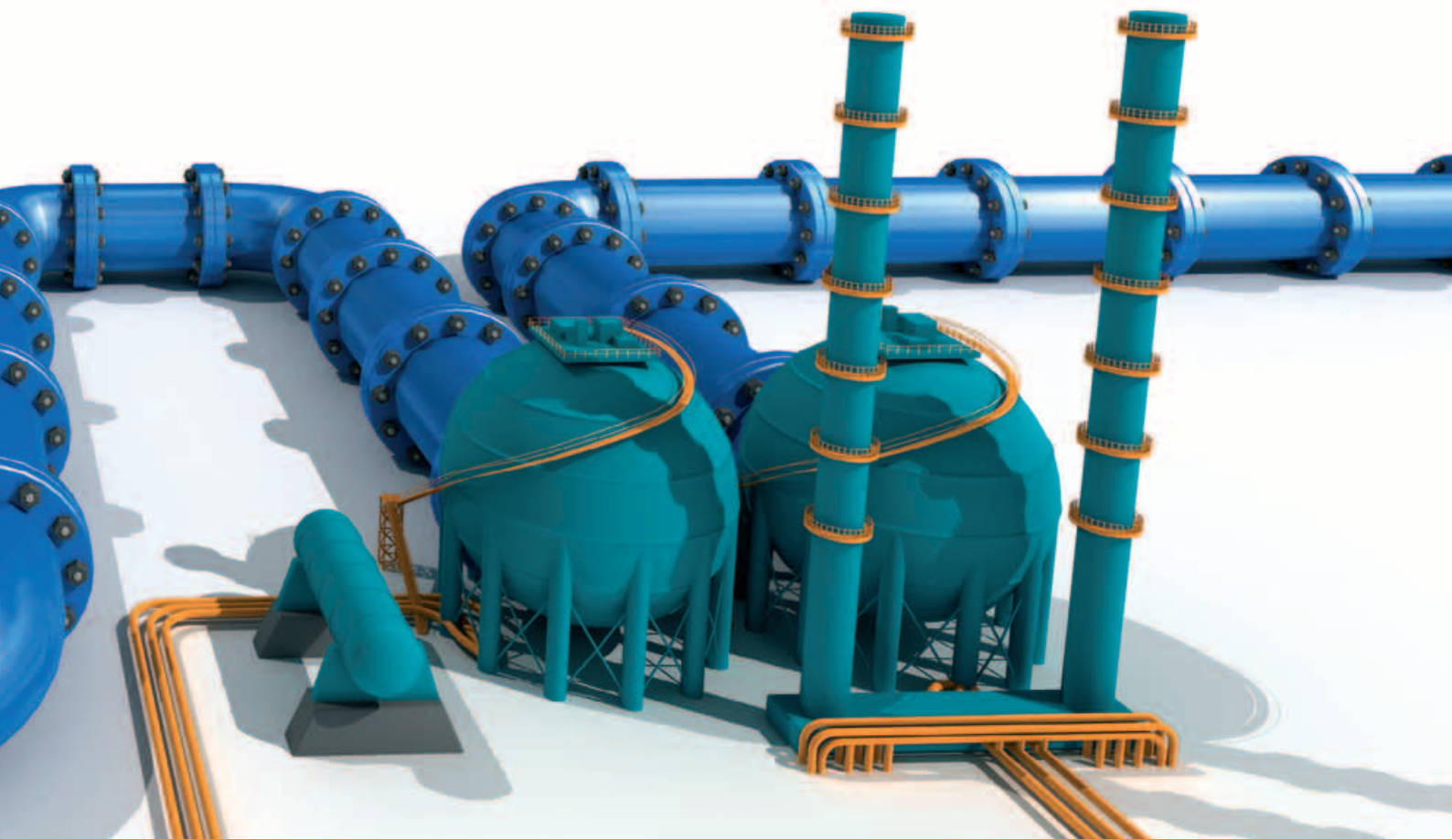
The ability to export gas from the NCS will be increased by a substantial percentage over the next few years through a number of major and minor development projects in the integrated transport system.

- Development activity on the NCS is currently high, with capital spending in 2005 expected to exceed NOK 80 billion.

- About NOK 1 700 billion has been invested on the NCS. That corresponds to roughly NOK 6 million for every hour of every day over 30 years. (Source: Ministry of Petroleum and Energy)



**Arnulf Østensen, executive vice president for technical operations:**  
“Our role as operator means that Gassco is continuously working to identify measures which can provide even greater flexibility in the transport system.”



During the contract year from October 2004 to September 2005, Gassco can offer gas exporters a daily capacity of 268 million scm/d – up by 20 million scm/d from the previous contract year.

Capacity available to gas exporters will rise to 280 million scm/d in the 2005–06 contract year. Developing Kårstø to receive gas from the Kristin field in the Norwegian Sea is among the projects which will raise export capacity to new heights.

#### **KEP 2005**

The KEP 2005 project will expand processing capacity for rich gas at Kårstø from 72 to 88 million scm/d. Due to be ready on 1 October, this development also includes a new plant for removing carbon dioxide.

Kristin gas is rich in ethane, and the project will increase Kårstø's annual capacity for ethane separation from 620 000 to 950 000 tonnes. KEP 2005 represents an investment in the order of NOK 4 billion.

#### **Kollsnes**

Capacity at the Kollsnes gas processing plant north-west of Bergen increased by 26 million scm/d on 1 October 2004.

The new facility which then became operational separates NGLs such as propane and butane from the gas produced by Kvitebjørn, Troll and Visund.

To meet growing demand for Norwegian gas, it has also been resolved to increase capacity in the two pipelines which export dry gas from Kollsnes. Zeepipe IIB will be expanded by eleven million scm/d in 2005, while Zeepipe IIA is due to get a 16 million scm/d boost in 2006.

The latter expansion coincides with an increase in export capacity at Kollsnes to 143 million scm/d through the installation of a new export compressor. Five such units are already operational at the plant. Like these, the new compressor will be an integrated part of the process facilities. The cost of this unit is being borne by the Troll field licensees.

#### **Langeled**

The Langeled pipeline will transport gas over the 1 160 kilometres from Nyhamna in western Norway, where Ormen Lange production is to be processed, via the Sleipner Riser platform to the Easington receiving terminal on the English east coast.

Export capacity for dry gas will make a new leap to about 350 million scm/d when the southern leg of Langeled becomes operational in the autumn of 2006. The sixth export compressor at Kollsnes and upgrading the Zeepipe IIA pipeline makes it possible to export gas through the southern leg of Langeled before Ormen Lange comes on stream.

#### **Operator role**

Its operator role also means that Gassco works continuously to identify measures which can make the transport system even more flexible. A new cross-over being installed between the Europipe facilities and the Norse Gas Terminal in Emden is a case in point.

Debottlenecking and improved flexibility are also the goal of studies relating to a possible new cross-over between Zeepipe IIA and the Heimdal Riser platform. This would expand export capacity for Norwegian gas both to the UK and to continental Europe.



# Gassco's operations

Gassco is the operator for the following companies/partnerships:  
Gassled, Zeepipe Terminal, Dunkerque Terminal, Norne Gas  
Transportation System and Haltenpipe.





## Key figures for 2004

<b>FINANCIAL FIGURES</b> (NOK million)	<b>2004</b>	<b>2003</b>
Gross tariffs	20 822	20 045
Operating costs	2 982	2 252
Operating investment	639	349
Investment in fixed assets	2 395	1 294
• KEP 2005 – Kårstø	1 460	1 061
• TOP – Kollsnes	642	0
• KECU – Kollsnes	198	0
• Vesterled Bypass	95	33
• NET 1	0	200

<b>GAS TRANSPORT</b>	<b>2004</b>	<b>2003</b>
Regularity (%)	99.82	99.83
Quality (%)	99.99	99.99
Gas delivered to receiving terminals in Europe (billion scm)	74.89	71.13
Highest delivery per day (million scm)	265.13	248.1
Total volume other products supplied by gas transport system (million tonnes)	8.59	8.45
Ship calls at Kårstø	592	615

Financial and other key figures in this section relate to Gassco's entire area of responsibility.

The following companies have interests in the joint ventures operated by Gassco:





## Gassco's operations

### Transport plan

The transport plan is a document which describes current capacity utilisation in the Norwegian gas transport system, and what Gassco expects such utilisation to be in future. It is based on information about the quantity of gas transported through the system on a daily basis, and forecast capacity requirements for coming years from the companies selling gas.

Updated annually, the plan has a 10-year perspective. Its goal is to identify requirements for new transport capacity through new pipelines, additional compressor stations, debottlenecking systems and so forth.

### Delivery record

Gas exports from the NCS to European customers through the system operated by Gassco totalled 74.89 billion scm in 2004 as against 71.13 billion scm the year before. January was the peak month for gas exports, at just over 7.5 billion scm.

### Rich and dry gas

Rich gas is a mix of lighter and heavier gas components, such as methane, ethane, propane and butane, piped as a single stream from the field to processing facilities on land or an offshore installation.

Dry gas is a common designation for gas with no liquid components under pressure. It consists primarily of methane, but can also contain ethane. Dry gas is piped from the NCS to receiving terminals in various countries.

### Gassled

Gassled is a joint venture between oil and gas companies on the NCS, which was created on 1 January 2003. With no employees, it is organised through various committees which have specific duties. Gassled owns most of the infrastructure for transporting gas from the NCS. Gassco operates these transport systems on behalf of the joint venture.





— Existing pipelines  
 ..... Planned pipelines

# Directors' report 2004

Gassco AS operates transport and processing facilities for natural gas from the Norwegian continental shelf (NCS). Its shares are owned by the Norwegian government.



The company's duties and responsibilities are regulated in Storting (parliamentary) documents, by statute and in other formal ways. Its creation was based on the following three principal considerations:

- transport and processing facilities will serve all gas producers and contribute to achieving efficient and unified exploitation of resources on the NCS
- the operator of the gas transport system is neutral in relation to all system users
- the operator has a central role in further development of the transport system.

## **Gassco's duties are:**

1. *To operate the Norwegian gas transport system in accordance with the general provisions of civil law*

## *concerning the duties to be performed.*

Gassco is operator for the joint ventures/companies Gassled, Zeepipe Terminal, Dunkerque Terminal, Norne Gas Transportation System and Haltenpipe. This responsibility includes system operation, plant and pipeline operation, development, licence administration and commercial operation.

Plant and pipeline operation and development comprise technical operation, maintenance, modification and development of transport facilities offshore and on land. This work is largely performed through technical service agreements with technical service providers. Licence administration and commercial operation include keeping licence accounts, budgeting, reporting, chairing joint venture committees, negotiations, and the conclusion

and administration of commercial agreements and arrangements.

2. *To have a special operator responsibility when the work may involve the exercise of official authority and responsibilities under public law.*

Gassco exercises this special responsibility in connection with system operation, capacity administration and infrastructure development.

The company is required to supervise and control operation of the transport systems, and to transport gas from the NCS to Europe in a safe and cost-effective manner which ensures that shippers receive the agreed quantities of gas at all times, at the right quality and in accordance with contractual terms, and to allocate spare capacity in the transport systems as specified by legislation and statutory regulations.



Gassco will coordinate processes and take the initiative over further development of and investment in the infrastructure for gas transport and processing from the NCS. This includes research and development.

Framework conditions for Gassco, and for the relationship between it and the owners of the gas transport system, are determined by the authorities.

The owners of the gas transport system finance all major investments, which are capitalised in their accounts. They also finance Gassco's operation, with the company making cash calls in advance on the basis of liquidity budgets and prognoses. Gassco does not make a profit or a loss from its operations. This means that its economic and financial risks are limited. Given these frame conditions, the annual accounts, balance sheet and liquidity will not be specifically discussed.

The company's registered office is at Bynes in Karmøy local authority.

### **Activities in 2004**

Gas volumes transported to European markets during 2004 amounted to 74.89 billion scm, an increase of 5.7 per cent from the year before. Kårstø received 592 ship calls, 23 fewer than in 2003. There were 14 shippers in various parts of the gas transport system.

Gassco operated the gas transport system with a delivery regularity of 99.82 per cent in 2004. This high performance was achieved despite three extensive shut-downs at Kårstø caused by failures in the external power supply. In addition, more liquid than expected entered the system during shut-down of the Frigg pipeline.

As in 2003, virtually all gas deliveries during the year were within the contractual quality specifications.

Gassco began using the advanced and newly-developed Origo integrated computer system on 1 January to manage overall operation of the Norwegian gas transport system. This solution has functioned well

since it became operational. A new and greatly simplified agreement was concluded between TOTAL E&P UK PLC. Replacing a large number of earlier agreements, this accord ensures forward-looking operation of Vesterled and St Fergus. Agreements were also concluded to regulate the projects for bypassing the MCP01 riser platform and for removing equipment and topside facilities on this installation.

### **Focus on cost-efficient operation**

Gassco focused great attention on cost-effective operation in 2004. The approved Gassled budget for operating costs reflected an ambition to cut expenditures by eight per cent compared with the original proposal for 2004. With the aid of its technical service providers, Gassco succeeded in meeting this target without incurring operational consequences. During 2004, the company also recommended and secured approval for a Gassled improvement programme which aims to cut operating costs at existing facilities by NOK 500 million per year up to 2009. That corresponds to a reduction of almost 20 per cent compared with the approved 2004 budget. This ambition builds in part of the implementation of a programme to improve operational efficiency at Kårstø, and the decommissioning and removal of the H7 platform. Plans also call for simplified decision-making processes, a reduced number of interfaces, a greater degree of standardisation, the introduction of best practice in a number of areas and the assessment of competitive tendering for a number of services.

### **High utilisation of transport capacity**

The internet-based GasViaGassled.com marketplace for purchase and sale of capacity comprises primary and secondary markets. This system is under constant development.

Two main reservation rounds were carried out in the primary market during 2004, one in April and the other in September. A new shipper joined in 2004 as a gas transporter through Gassled. Three new shippers also

purchased gas transport capacity from the 2007 gas year. During the April reservation round, the main focus was on the 2004 gas year and the sale of extra capacity from the Tampen area to Kårstø, from the Halten Bank to Kårstø and at Kårstø. Capacity for the 2005–2010 gas years was offered for sale in the September round. All capacity up to 2009 has been sold. Where the exit points are concerned, activity was highest towards St Fergus. All available capacity there for the 2005 gas year was sold, but spare capacity is still available from the 2006 gas year. At the Norseas Gas Terminal in Emden, 7.5 million scm/d of new capacity through Norpipe was offered but not sold. Among the other exit points, only Dornum is not sold out for the next four gas years.

Active use was made of the secondary market, where users concluded 4 423 contracts in 2004 and capacity totalling 17 579 billion scm was reallocated. Ninety-seven per cent of these trades were made bilaterally, with three per cent concluded in the open marketplace.

### **Transport capacity expanded**

The Kollsnes gas processing plant was incorporated in Gassled at 1 February 2004, and Gassco took over as operator from the same date. Since it was resolved that gas from the Kvitebjørn field should be processed at this facility, new units had to be built there to extract more natural gas liquids (NGL) – propane, butane and naphtha – from the gas and for separation of monoethylene glycol (MEG). Gassco also took over the operatorship for this project on 1 February 2004. The NGL facility began receiving gas from Kvitebjørn as scheduled on 1 October 2004, and the MEG unit will be completed in the first quarter of 2005. The original budget for these facilities was NOK 2 995 million, and the latest forecast is NOK 2 876 million.

The Kårstø Expansion Project (KEP 2005), which will enable the plant to start receiving gas from the Kristin field on 1 October 2005, progressed by and large according to plan. Its original budget was NOK 5.7 billion, while the



## Board of directors of Gassco 2004



**Brit Kristin Sæbø Rugland**  
Chair (born 1958)

President and owner of Rugland Investment. Previously president and CEO, Navion, vice president shipping and maritime technology, Statoil, and vice president corporate control, Statoil. Holds a number of industrial directorships. Chair since 2001.



**Odd Håkon Hoelsæter**  
Director (born 1945)

President and CEO, Statnett SF, since 1992. Previously operations vice president, Samkjøringen (Norwegian national grid), and head, Hydro Aluminium Energi. Currently chair of Nord Pool ASA, a director of Nordel and a member of the ETSO steering committee. Director since 2001.



**Trygve Refvem**  
Deputy chair (born 1947)

Senior consultant, "Europa-programmet". Previously executive vice president, Norsk Hydro, vice president, Hydro Agri and vice president, Hydro Oil and Gas. Deputy chair since 2001.



**Margaret Elin Hystad**  
Director (born 1969)

President and owner of Karmsund Maritime AS. Local representative from Karmøy, with experience from maritime industry and business development. Holds several directorships and elective offices. Director since 2002.



**Elisabeth Krokeide**  
Director (born 1962)

Vice president finance, Mjøskraft AS. Previously chief financial officer, Raufoss ASA, business adviser, Sparebanken Nor, and controller, Moelven Industrier ASA. Holds a number of industrial directorships. Director since 2001.



**Kjellaug Høie Jonassen**  
Worker director (born 1960)

Senior financial coordinator, Gassco. Previously worked with Statoil's product management department and participated in the transfer of operations to Gassco. Chair, Norwegian Oil and Petrochemical Workers Union (Nopef) in Gassco. Worker director since 2004.



**Asbjørn Eik-Nes**  
Worker director (born 1952)

Maritime education, employed after his career at sea by Hagland Agency and Statoil. Participated in the transfer of operations to Gassco. Chair, Norwegian Society of Engineers (Nito). Worker director since 2004.

latest forecast is NOK 4.1 billion. Langeded, the new transport system from Ormen Lange to Easington in the UK, is also on schedule. The developer is Hydro in cooperation with Statoil. Gassco is responsible for operational preparations.

### **Upgraded transport system**

The 2002–03 transport plan identified a need for increased capacity in the Zeepipe IIA/B pipelines and upgraded export capacity from Kollsnes. This will make it possible to exploit capacity in the southern leg of Langeded before Ormen Lange gas production reaches plateau. The capacity expansion project for Zeepipe IIA/B includes gravel dumping to stabilise the pipelines, work on valves and instrumentation at Kollsnes, and instrumentation on Draupner and Sleipner Riser. The project for upgrading export capacity at Kollsnes involves the installation of another export compressor and temperature-controlled bypasses on the aftercoolers in the existing compressors. Gassco proposed in 2004 that both these projects be sanctioned. An engineering, procurement and construction (EPC) contract has been concluded and the compressor ordered. The total budget is NOK 829 million.

Tampen Link is the name of a new pipeline from Statfjord B which will tie into the UK's Flagger transport system. This line will be about 23 kilometres long, with a planned diameter of 32 inches and a transport capacity of up to 33 million scm/d. Work on an owner agreement and technical concept began in early 2004. A plan for installation and operation is due to be submitted to the government in early 2005, with the line scheduled to become operational on 1 October 2007.

An extensive conceptual study on gas transport from the Halten-Nordland area was carried out in 2004. Two main alternatives were studied – a new pipeline to the Tampen area tied into transport systems on the NCS or the UK continental shelf, or a tie-in to Åsgard Transport combined with necessary

upgrading work to the Kårstø facilities. NOK 46 million was devoted to research and development projects in 2004. A number of these activities were pursued in cooperation with other players, so that total spending far exceeds Gassco's share. The most important results achieved in 2004 were the development and testing of technology for diverless tie-in of new pipelines to existing infrastructure with preinstalled Tees. A system was also developed for more efficient and accurate handling of data from pipeline inspections, which could reduce the cost of such monitoring. An improved method was obtained for calculating the freezing point of water-rich propane in order to reduce methanol injection in this commodity at Kårstø.

### **Organisation**

Gassco had 129 employees at 31 December 2004 compared with 121 a year earlier. A further section of the new offices was occupied, and everyone who previously worked in temporary structures moved into the new building before 31 December.

Women account for 29 per cent of Gassco's workforce but only two of its 21 managers, giving them a 9.5 per cent share of management positions. This proportion is even lower in jobs requiring higher educational qualifications. Appointing more female graduates will improve the basis for expanding the number of women managers. Four of eight new recruits in 2004 were women, including one of the three graduate engineers appointed.

Working hours at Gassco are the same for men and women. The company has seven part-time employees, all female. Each of these can transfer to full-time working at short notice should they wish to.

Gassco had six employees on personal development programmes in 2004 which give formal credits in the Norwegian educational system. Five were women, who will thereby upgrade their qualifications (from technician to

engineer, from engineer to graduate engineer and so forth). We regard this as very positive. The company gives individual consideration to applications for further education, so that studies can be combined with work and family.

In determining and negotiating pay, Gassco places special emphasis on equal treatment of men and women and on ensuring that pay differentials are explained by the performance, responsibility and potential of each employee. The company's own comparative figures indicate that it has achieved this goal. Differences in age, experience, education and job mean that there is little merit in comparing the average pay of different groups of men and women, for instance. However, none of the unions have raised any issues concerning differences in pay practice.

Provisions in Gassco's local pay agreements ensure that women on maternity leave receive their full salary over and above National Insurance rates.

Gassco has not so far considered adopting special measures directed at female employees. The company believes that flexible and individual treatment will identify the requirements of individual employees.

### **Health, safety, the environment and quality (HSE&Q)**

Gassco's target is zero harm. This objective is based on a conviction that all harm to people, the environment and material assets can be prevented by systematic and purposeful work.

The trend for injuries within the company's area of activity in 2004 was unfortunately negative and unsatisfactory. Measures have been defined which will be implemented to help reverse this development. These relate to such aspects as the use of personal protective gear, making management commitment more visible and improving the HSE&Q culture in projects – including a greater focus on sub-contractors.

Based on the HSE&Q results for 2003, Gassco implemented an integrated HSE&Q management system for its operator area in 2004. This is tailored to the challenges faced by the company. An important part of this system is registration, reporting and follow-up of incidents, non-conformance and losses. Gassco has defined performance indicators which show how results are developing over time. That helps to identify trends in order to ensure that purposeful action is as effective as possible.

Another important part of the management system is the contingency plan and associated emergency response organisation. The latter carried out exercises in 2004 as planned. In addition, it was mobilised in connection with a rupture in the pipeline from the Jotun field.

The working environment in Gassco is good. Organisational surveys were conducted in the spring and autumn of 2004, and the results were good by comparison with other similar companies. Women and men gave virtually the same scores to the various questions. The company aims to achieve a better result in new surveys to be held during 2005. Gassco's objective is to have a working environment which stimulates creativity, efficiency and enthusiasm. This is enshrined in specific targets designed to show whether the goal has been met. Such targets in 2004 were overall sickness absence below three per cent and zero occupational illnesses. Results for the year show that overall sickness absence was 2.89 per cent for Gassco's operator area and 1.19 per cent for the company's own employees.

Ninety-six injuries were suffered in 2004, of which 27 resulted in lost time. None of the incidents caused loss of life. The most serious events involving injuries related to broken bones. The majority of the injuries were suffered in connection with major development projects at the land-based Kollsnes and Kårstø plants, which represented

**Table 1. Health and safety performance**

	2004	2003
Deaths	0	0
Injuries	96	21
Injury frequency (%)	14.41	6.77
Lost-time injuries (incl in injuries)	27	9
Sickness absence (%)	2.89	2.48
Fires	2	4
Gas leakages	2	14
Critical incidents	33	5
Emissions/discharges in excess of licence limits	0	0
No of nominal work-years in Gassco's area of responsibility	4 012.0	1 591.4

**Table 2. Emissions/discharges to the natural environment**

		2004	2003
To the air	Nitrogen oxides	1 143 tonnes	1 127 tonnes
	Carbon dioxide	1 321 000 tonnes	1 293 000
	Flaring for safety reasons	30 800 tonnes	14 540 tonnes
To water	Oil	162 kilograms	269 kilograms
	Phenols	59.8 kilograms	40 kilograms
	Total organic carbon (TOC)	7 188 kilograms	2 283 kilograms
To soil	Oil	303 litres	9 705 litres

a substantial increase in the overall level of activity within Gassco's area of responsibility.

A total of 33 incidents defined as critical occurred in 2004, and 30 of these were classified as HSE-critical. Nine of the incidents had actual consequences. Twenty-one had an HSE potential, which means that no harm actually occurred but that a insignificant change in conditions could have caused a serious HSE incident. The remaining three of the 33 incidents are defined as critical because of a high loss of production.

Two fires occurred in 2004, as well as two gas leaks. This represents an improvement from the year before.

Gassco operated all the pipelines and transport-related facilities (gas processing plants, riser and compressor platforms and receiving terminals) within the limits set by relevant emission/discharge permits. Nor has operation of the various transport-related facilities led to extensive acute emissions or discharges.

A new Norwegian Act on emission trading with carbon dioxide was passed in 2004, and Gassco has implemented measures to ensure that it satisfies the requirements set by this statute.

### Prospects

Gassco's central position in the value chain gives it a substantial responsibility for the financial results of Norwegian



petroleum activities. Transport operations link Norway's producing fields with Europe's gas market. The 74.89 billion scm of gas piped to European markets in 2004 represent 15 per cent of current consumption in OECD Europe. This proportion could rise to 20 per cent in 2010 – in other words, a volume of 115 billion scm. That represents an increase from today's 260 million scm/d to 360 million scm/d. Efficient operation and a consequent high level of delivery reliability will be crucial for this growth. Development of new reserves in the Halten Bank and Tampen areas, and the focus on steady and stable operation of a number of liquid-rich fields tied back to Kårstø indicate that the years to come will see a demand and a need for high capacity utilisation in all parts of the Kårstø plant. The long-term modification and maintenance programme for these systems will be reviewed in 2005 with a view to increasing such utilisation.

Another crucial requirement for this growth is that Gassco continually assesses the need for and coordinates the further development of transport facilities so that Norway maintains an integrated and well-run system. This is intended to contribute to good overall utilisation of the resources on the NCS through efficient and safe delivery of gas at the lowest possible cost. The annual transport plan is the foundation for Gassco's recommendations. One of the most important of these, made on the basis of this year's plan, is to relieve transport in the cross-over between Sleipner R and Draupner S. This could partly be solved by laying a branch-off from Zeepipe IIA to Heimdal.

#### Research and development

Research and development (R&D) is a priority area for Gassco. A five-year plan for 2003–07 embraces projects rooted in clear commercial requirements. Their underlying drivers

are increased capacity utilisation in the infrastructure, energy-efficient operation of the facilities and preserving infrastructure integrity. Plans call for a number of important R&D projects to be pursued up to 2007.

#### Share capital and shareholders

The company's share capital at 31 December 2004 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government.

#### Net profit and allocations

The net profit is NOK 548 754, which will be transferred to other equity.

In accordance with section 3, sub-section 3 of the Norwegian Accounting Act, the board confirms that the accounts have been prepared on the assumption that the company is a going concern.

Bygnes, 3 March 2005



**Brit Kristin Sæbø Rugland**  
Chair



**Trygve Refvem**  
Deputy chair



**Elisabeth Krokeide**  
Director



**Odd Håkon Hoelsæter**  
Director



**Margaret Elin Hystad**  
Director



**Kjellaug Høie Jonassen**  
Worker director



**Asbjørn Eik-Nes**  
Worker director



**Brian David Bjordal**  
President and CEO

# Corporate governance

Gassco's organisation has distinctive features which derive from two different forms of public sector affiliation – the administrative agency and the state-owned company. This yields special decision-making and management principles.



Balancing between the administrative and company roles calls for a clear and well communicated understanding of Gassco's role, responsibilities and objectives in relation to the Ministry of Petroleum and Energy, the owners and users of the gas transport system, and other government authorities.

Corporate governance in Gassco covers the overall management and control systems intended to ensure that the interests of the owner, the employees, the users of the gas transport system and other parties are adequately protected. It will also ensure that the company is run in a safe, cost-efficient, sustainable and ethically acceptable manner.

### Gassco's object

According to its articles of association, Gassco's object is to operate transport systems for natural gas on and from the NCS, including pipelines and terminals, either on its own account or through participation in or together with other companies, and activities related to this. The company operates a gas transport system which administers substantial assets, and in which owners and users are represented by many of the big global players in the oil and gas industry. The company's objective is to deliver the agreed quality of products and services to the users of the gas transport system. On that basis, its focus is on expertise. Gassco regards its employees as the key to value creation and the development of the company.

### Management structure

Gassco's management structure is based on established and communicated goals, strategies and values, including ethical rules. Management and control are secured through a number of bodies and processes.

### Relations between governing bodies

Governing bodies in Gassco are the general meeting, the board of directors, the external auditor, and the president and CEO with his management team. The Gassco board comprises seven

directors, including five elected by the general meeting and two elected by and among the employees. Directors normally serve for two years at a time. Continuity on the board is secured by providing new directors with a detailed briefing on the company's history, status and challenges. On accession, new directors must sign declarations of willingness to serve and of confidentiality, and confirm that they have read the company's articles, ethical guidelines, rules of procedure for the board, the chief executive's instructions, and the matrices for exercising powers of attorney on the company's behalf. The board gives weight to avoiding conflicts of interest, and to ensuring that directors and management possess broad and in-depth expertise relating to the company's challenges and the activities it operates.

The board holds six-eight meetings per year. It is also kept informed about the business through regular reporting between meetings. The chair can summon extraordinary meetings as required. It has not been found either necessary or appropriate to appoint any sub-committees. A schedule has been prepared to show the board's role in relation to the various issues. The board evaluates its work and competence on an annual basis.

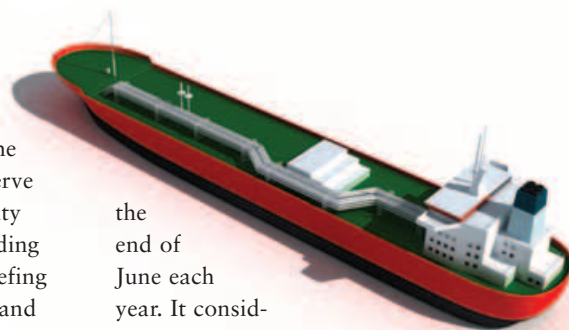
The chief executive is not a director, but has been given a power of attorney on behalf of the company.

### Responsibility and roles

The roles of the various governing bodies are defined through legislation, statutory regulations and Gassco's articles of association. Gassco AS is a limited company wholly owned by the Norwegian government. The minister of petroleum and energy serves as the general meeting, and is thereby responsible for administering the government's ownership of the company.

The annual general meeting is held in Oslo or on the island of Karmøy before

the end of June each year. It considers and adopts the profit and loss account, the balance sheet and the proposed application of profit or settlement of loss, and determines the dividend. Apart from the owner, the meeting is attended by the directors, the chief executive and the auditor. The E&P and market department of the Ministry of Petroleum and Energy is responsible for day-to-day supervision of Gassco.



Gassco's principal duties and responsibilities are formally defined in the following documents:

- article two of the articles of association on the company's object
- section 4, sub-section 9 of the Norwegian Petroleum Act concerning Gassco's special operator responsibility, and section 66 of the petroleum regulations concerning Gassco's system responsibility
- the operator and ownership agreements for the transport joint ventures and companies.

The company's principal assignments and responsibilities mean that it is required to discharge the following duties:

1. Operate the Norwegian gas transport system in accordance with the general provisions of civil law concerning the duties to be performed.



2. A special operator responsibility when the work may involve the exercise of official authority and responsibilities under public law.

### Gassco as operator

Gassco's operator responsibility relates to the operation of gas transport systems on behalf of the Gassled, Zeepipe Terminal, Dunkerque Terminal, Norne Gas Transportation System and



Haltenpipe joint ventures/companies, which are principally owned by oil and gas companies represented on the NCS.

Agreements have been concluded by Gassco on the purchase of technical services. The technical service providers perform their work in the various sections of the gas transport system on behalf of Gassco.

Gassco is responsible as operator for safe and efficient operation, making cash calls to fund its activities, collection and payment of tariffs, work programmes, budgets, procurement and insurance. The company is not intended to make a profit or a loss from its operator role. Requirements for maintaining neutrality and transparency in the conduct of its operatorship have been specified by the government.

### Gassled's committees

Collaboration in the Gassled joint venture is organised through the following committees:

- management
- operating
- project
- infrastructure development
- commercial

### Management systems and control routines

Management and control are exercised through various processes which involve one or more of the governing bodies. The shareholder's management and control of the business is exercised through annual and extraordinary general meetings. Powers of attorney matrices were created for Gassco at its start-up. The management manual describes the company's corporate governance, the decision-making process for issues to be considered by the management and the board, and the organisation, role and main activities of each department. Terms of reference for the various joint ventures and their committees have been established and approved by the owners. A special quality assurance process for projects has been established and approved by Gassled.

Primary responsibility for Gassco's supervisory role rests with the HSE&Q department. Through selected supervisory activities, it exercises control of risks which could affect Gassco's financial results, management and ability to meet its targets. The results of these activities will be used for continuous improvement and further development of Gassco's management system.

The chief executive is responsible for ensuring that the management reviews the management system regularly, and at least once a year.

Relevant government agencies supervise Gassco's operatorship, associated activities and management system.

Users and owners of the gas transport system undertake audits to check that Gassco's internal systems and routines are satisfactory.

Gassco's external auditor is appointed by the general meeting. The auditor does not carry out other work for the company which could compromise their integrity.

Gassco has established ethical rules in writing for its employees and elected officers, which specify how they should behave in various circumstances. The rules require each person to behave with due care and attention, and to refrain from acts which could weaken the trust reposed in them or their independence. The core values adopted by Gassco provide guidelines for the individual's responsibilities and behaviour. Employees receive a briefing on Gassco's ethical rules and values when they join the company.

### Management tools

The board and chief executive utilise such activities as strategic planning, budgeting and periodic financial and operational reporting as important tools in the management of the business. Follow-up and control are pursued in part through monthly operational and financial reporting on the development and status of the company and all its business areas. Balanced performance management is utilised in the business areas.

### Controls

Gassco has an internal control system which ensures that its values are observed as well as securing efficient, sound and lawful operation in line with the company's specified targets. The internal control process covers risk analyses and supervision of managers



as well as checks to make sure that the business is being run in accordance with its strategies. The status of and risks in the control processes are reported up the organisation to the chief executive and the board. Gassco supervises inhouse activities and the work of its

technical service providers (TSPs) in accordance with an annual supervision plan, which is intended to help ensure that activities within its area are conducted as required by legislation, statutory regulations and inhouse instructions. Overall management and control of the system is exercised by the HSE&Q department.

### **Risk assessment**

Risk assessment is a key part of Gassco's management processes, and is used particularly in decision-making processes relating to infrastructure developments and project execution.

In addition, quantitative risk analyses are updated in connection with the operation of all facilities which are assessed in relation to established acceptance criteria.

### **Assessment and remuneration**

The board is responsible for overall assessment of the company's development in relation to specified targets. Remuneration of directors and the chief executive is specified in Note 3 to the accounts. The directors' fees are fixed, and determined annually by the general meeting. The company has a general performance contract, which

gives all employees the opportunity to receive a bonus of up to five per cent annually, depending on the extent to which targets have been met. Senior personnel have a personal performance contract which sets stringent requirements for results in health, safety, the environment and quality, costs, regularity, product quality, customer satisfaction and the attainment of strategic targets. These employees can achieve a bonus of up to 15 per cent of their basic salary.

Gassco's management (from left): **Jan Hauge**, executive vice president product management, **Sigve Apeland**, HSE&Q manager, **Kjell Varlo Larsen**, public affairs manager, **Svein Birger Thaulle**, executive vice president technology, **Ingolf Voll**, administration manager, **Arnulf Østensen**, executive vice president technical operations, **Brian Bjordal**, president and CEO, **Trine Lund**, controller, **Elisabeth Sande**, administrator, and **Thor Otto Lohne**, executive vice president finance and commercial development.





**Financial statement 2004**





## Income statement – Gassco AS

Figures in NOK 1 000	Note	2004	2003
<b>Operating income and expenses</b>			
Total operating income	2	0	0
Total operating expenses	2,3,4	0	0
<b>Financial income and expenses</b>			
Other interest income		197	455
Net financial items		197	455
Profit before tax		197	455
Taxes on ordinary activities	8	(352)	21
Ordinary profit		549	434
<b>Profit for the year</b>		<b>549</b>	<b>434</b>
<b>Transfers:</b>			
To other equity		549	434
Total transfers		549	434

## Balance sheet 31 December – Gassco AS

Figures in NOK 1 000	Note	2004	2003
<b>Fixed assets</b>			
<b>INTANGIBLE FIXED ASSETS</b>			
Deferred taxes	8	89	0
<b>Total intangible fixed assets</b>		<b>89</b>	<b>0</b>
<b>TANGIBLE FIXED ASSETS</b>			
Land, buildings and other property	4	16 192	13 006
Operating equipment and fixtures	4	33 297	27 546
<b>Total tangible fixed assets</b>		<b>49 489</b>	<b>40 552</b>
<b>OTHER LONG-TERM RECEIVABLES</b>			
Other receivables	3,7	30 444	26 232
<b>Total other long-term receivables</b>		<b>30 444</b>	<b>26 232</b>
<b>Total fixed assets</b>		<b>80 022</b>	<b>66 784</b>
<b>CURRENT ASSETS</b>			
<b>RECEIVABLES</b>			
Accounts receivable		23 160	28 483
Other receivables	8	24 407	9 330
<b>Total current receivables</b>		<b>47 567</b>	<b>37 813</b>
Cash and bank deposits	9	138 677	69 994
<b>Total current assets</b>		<b>186 245</b>	<b>107 807</b>
<b>Total assets</b>		<b>266 267</b>	<b>174 591</b>

Bygnes, 3 March 2005

  
**Brit Kristin Sæbø Rugland**  
 Chair

  
**Trygve Refvem**  
 Deputy chair

  
**Elisabeth Krokeide**  
 Director

  
**Odd Håkon Hoelsæter**  
 Director

Figures in NOK 1 000	Note	2004	2003
<b>Equity and liabilities</b>			
<b>EQUITY</b>			
<b>PAID-IN CAPITAL</b>			
Share capital	5	10 000	10 000
Total paid-in capital		10 000	10 000
<b>RETAINED EARNINGS</b>			
Other equity	6	1 789	1 240
Total retained earnings		1 789	1 240
Total equity		11 789	11 240
<b>LIABILITIES</b>			
<b>PROVISIONS</b>			
Pension liabilities	7	19 170	18 473
Deferred taxes	8	0	263
Total provisions		19 170	18 736
Long-term interest-bearing debt	10	18 750	26 250
Total long-term liabilities		18 750	26 250
<b>CURRENT LIABILITIES</b>			
Accounts payable		52 287	56 116
Tax and other withholdings	9	10 127	9 948
Other current liabilities		154 145	52 301
Total current liabilities		216 559	118 365
Total liabilities		254 479	163 351
Total equity and liabilities		266 267	174 591



**Margaret Elin Hystad**  
Director



**Kjellaug Høie Jonassen**  
Worker director



**Asbjørn Eik-Nes**  
Worker director



**Brian David Bjordal**  
President and CEO



## Cash flow statement – Gassco AS

Figures in NOK 1 000	2004	2003
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Ordinary profit before tax	197	455
Depreciation	12 091	9 584
Changes in accounts receivable	5 323	(400)
Changes in other current receivables	(15 077)	2 780
Changes in long-term receivables	(4 213)	(3 011)
Changes in accounts payable	(3 829)	13 946
Changes in long-term commitments	697	(7 975)
Changes in other current liabilities	102 022	28 419
<b>Net cash flow from operating activities</b>	<b>97 211</b>	<b>43 798</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Investments in tangible fixed assets	(21 028)	(12 544)
<b>Net cash flow from investment activities</b>	<b>(21 028)</b>	<b>(12 544)</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>		
New long-term debt	0	37 500
Down payment long-term debt	(7 500)	(3 750)
<b>Net cash from financial activities</b>	<b>(7 500)</b>	<b>33 750</b>
<b>Net change in cash and cash equivalents</b>	<b>68 683</b>	<b>65 004</b>
Cash and cash equivalents at 1 January	69 994	4 990
Cash and cash equivalents at 31 December	138 677	69 994

## Notes – Gassco AS

### Note 1 Accounting principles

The annual accounts have been prepared in accordance with the 1998 Norwegian Accounting Act and Norwegian generally-accepted accounting principles.

#### **General rule for assessing and classifying assets and liabilities**

Assets intended for permanent ownership or use have been classified as fixed assets. Other assets are classified as current assets. Accounts to be repaid within one year are classified as current assets. The same criteria are used for classification of current and long-term liabilities. Fixed assets are carried at historical cost with a deduction for planned depreciation. If the real value of the fixed asset is lower than the book value, and this decline is not expected to be temporary, the asset is written down to fair value. Fixed assets with a limited economic life are depreciated on a straight-line basis over their economic life. Current assets are valued at the lower of historical cost and fair value. Other long-term and current liabilities are carried at nominal value.

#### **Assets and liabilities in foreign currency**

Transactions in foreign currencies in the balance sheet are converted at the year-end exchange rate.

#### **Accounts receivable**

Accounts receivable are posted at nominal value less provision for expected losses. Provision for losses is made on the basis of an individual assessment of each account.

#### **Bank deposits and cash**

Bank deposits and cash in hand include cash in hand, bank deposits and other means of payment with a due date shorter than three months from their acquisition.

#### **Pensions**

The presentation of pensions uses a linear earnings profile and expected final salary as the earnings basis. Employer's national insurance contribution (payroll tax) is included in the figures. Pension funds are posted at real value.

#### **Taxes**

Tax is set against profit before tax, and consists of taxes payable (taxes on the year's directly taxable income) and changes in net deferred tax. Deferred tax and deferred tax benefit are presented net in the balance sheet.

## Notes – Gassco AS

### Note 2 Income and expenses

Gassco AS is the operator of pipeline and transport-related gas processing facilities. This responsibility involves system and administrative activities, technical operations and development/construction. As operator, Gassco represents the licensees externally. The company can undertake investments or make agreements in accordance with approved budgets and authorisations.

The licensees cover all Gassco's expenses pertaining to the operatorship, and the company calls in the necessary funds in advance. Gassco has an independent responsibility for losses only where these are incurred wilfully or through gross negligence. The company accordingly has no risk related to the operatorship. Activities are deemed to be performed on behalf of the licensees and at their risk, and Gassco accordingly has no earnings from these. As a result, costs relating to the operatorship do not appear in the Gassco accounts. A net presentation of this kind accords with previous practice, in which the expenses of the operatorship were divided between the owners and in which the operator only included its own share of costs as an owner in its accounts.

### Note 3 Payroll costs, employees, remuneration, loans to employees, etc.

Figures in NOK 1 000

Payroll costs	2004	2003
Pay	77 835	70 038
Employer's national insurance contribution	14 038	13 898
Pension costs (see note 7)	11 683	13 272
Other benefits	9 967	5 016
<b>Total</b>	<b>113 523</b>	<b>102 224</b>
Average number of employees	126	117

Remuneration of senior staff	Pay	Pension costs	Bonus and other remuneration
President and CEO	1 758	329	312
Directors	1 055	0	0

The president and CEO is a member of the company's collective pension plan. This plan provides a pension of 66 per cent of final salary based on a full earning of pension entitlement. The president and CEO also has an agreement which entitles him to retire at the age of 62 with the same pension provided by the collective plan. The pension cost is the net present value of the year's pension earnings. The president and CEO also participates in the company's bonus scheme.



## Notes – Gassco AS

### Loans and security provided to management, shareholders, etc.

Figures in NOK 1 000	Amount	Interest rate	Duration
President and CEO – loan	476	0%	10 years
<b>Loans and security provided for:</b>			
	Loans	Security	
Employees	12 896	0	

### Auditor

NOK 663 794 was charged in 2004 as remuneration to Deloitte Statsautoriserede Revisorer AS for auditing Gassco and the licences operated by the company. NOK 48 500 was charged as remuneration for other services. Deloitte Advokater DA, which collaborates with Deloitte Statsautoriserede Revisorer AS, was paid NOK 48 000 for services rendered. NOK 496 561 was charged in 2004 as remuneration for other audit-related services supplied by collaborating companies abroad.

### Note 4 Tangible fixed assets

Figures in NOK 1 000	Buildings and other real property	Operating equipment, fixtures, tools, etc.	Total
Acquisition cost 1.1.04	14 951	39 175	54 126
Additions (purchased)	3 724	18 379	22 103
Disposals		(3 921)	(3 921)
Acquisition cost 31.12.04	18 675	53 633	72 308
Accumulated depreciation 31.12.04	2 483	20 336	22 819
Book value 31.12.04	16 192	33 297	49 489
Depreciation 2004	538	11 553	12 091
Economic lifetime	5,50 years	3,5,8 years	
Depreciation plan	Linear/none	Linear	

### Note 5 Share capital and shareholder information

The share capital of the company at 31 December 2004 consists of the following:

	Number	Nominal value	Book value
Share capital	10 000	NOK 1 000	NOK 10 000 000
<b>Ownership structure:</b>			<b>Shares</b>
The Norwegian government, represented the Ministry of Petroleum and Energy			10 000

## Notes – Gassco AS

### Note 6 Equity

Figures in NOK 1 000	Share capital	Other reserves	Total equity
Equity 1.1.04	10 000	1 240	11 240
Year's change in equity:			
Profit for the year		549	549
Equity 31.12.04	10 000	1 789	11 789

### Note 7 Pension costs, funds and commitments

The company has a collective pension plan covering all employees. The licensees refund a pension cost to Gassco which currently constitutes 11.2 per cent of pensionable income. This rate is meant to reflect the fact that pension responsibility vis-à-vis the operator is settled as the obligation arises. The rate is calculated in accordance with the recommended guidelines for calculating pension costs prepared by the Norwegian Oil Industry Association (OLF) in connection with the agreement for the North Sea licence awards of 2000. For this reason, refunded pension costs from the licensees differ from premium payments and pension costs as specified by the Norwegian Accounting Standards. It is assumed that the company will not be charged pension costs over time, and that these will be covered in their entirety by the licensees at the current rate. By agreement, the refund can be varied in an individual year. It corresponded in 2004 to the pension premium paid by the company. The company posts the pension commitment at 31 December 2004 to the balance sheet, with the corresponding receivable as a counter item. Charging licensees over and above the premium paid reduces the receivable. Net changes in pension obligations are charged both as a receivable and as a pension obligation.

The table below shows pension cost plus funds and obligations in accordance with the Norwegian Accounting Standard for Pensions.

Figures in NOK 1 000	2004
Current value of year's pension earnings	7 627
Interest cost of pension benefit	3 942
Yield on pension funds	(3 208)
Amortisation of loss	41
Accrued employer's national insurance contribution	1 185
Net pension cost	9 587

## Notes – Gassco AS

Figures in NOK 1 000	Secured (group)	Unsecured (contractual pension)	Other unsecured	Total
Earned pension benefit	61 562	3 627	1 457	66 646
Estimated effect of future pay regulation	15 403	749	416	16 568
Estimated pension obligations	76 965	4 376	1 873	83 214
Pension funds (at market value)	(60 539)	0	0	(60 539)
Actuarial loss	(4 814)	(738)	(322)	(5 874)
Accrued employer's national insurance contribution	1 637	513	219	2 369
Net pension commitments	13 249	4 151	1 770	19 170

Number of employees covered by the pension plan:

131

Economic assumptions:

Discount rate	5.5%
Expected pension increase/adjustment of NI base rate	2.0%
Expected yield on funds	6.0%
Expected pay regulation	2.5%

Actuarial assumptions for demographic factors and natural wastage are based on assumptions normally applied in the insurance industry.

### Note 8 Income taxes

Taxes for the year are as follows:

Figures in NOK 1 000	2004	2003
Tax payable	0	0
Changes in deferred tax	(352)	21
Tax on ordinary profit	(352)	21

Tax payable in the balance sheet is calculated as follows:

	2004	2003
Total tax for the year	0	0
Tax payable in balance sheet	0	0

Reconciliation from nominal to effective tax rate:

	2004	2003
Profit for the year before tax	197	455
Calculated income tax at nominal tax rate (28%)	55	127
Fiscal effect of the following items:		
Non-taxable income	407	106
Non-deductible costs	0	0
Tax	(352)	21
Effective tax rate	(178,6 %)	4,7 %



## Notes – Gassco AS

Specification of temporary differences and losses for carrying forward, and net tax effect of these:

Figures in NOK 1 000	2004		2003	
	Benefit	Obligation	Benefit	Obligation
Operating equipment	0	5 638	0	4 849
Receivables	0	0	0	570
Losses for carrying forward	5 955	0	4 480	0
<b>Total</b>	<b>5 955</b>	<b>5 638</b>	<b>4 480</b>	<b>5 419</b>
Deferred tax benefit/obligation	89	0	0	263
Deferred tax benefit not posted to balance sheet	0	0	0	0
Net deferred tax benefit/obligation in the balance sheet	89	0	0	263

Deferred tax benefit is posted on the basis of future income.

The company had a tax loss NOK 5 954 936 for carrying forward at 31 December 2004.

Expiry dates for the carry-forward period for losses:

	Figures in NOK 1 000
2005	0
2006	0
2007	0
2008	0
2009	0
After 2009	5 955
Unrestricted in time	0
<b>Total</b>	<b>5 955</b>

### Note 9 Bank deposits

Bank deposits and cash in hand include NOK 4 800 636 in tied tax withholdings.

### Note 10 Guarantees and long-term debt

The company has furnished a bank guarantee to the Belgian authorities relating to Belgian VAT in the amount of EUR 500 000.

Debts falling due more than five years from the end of the financial year total:

Figures in NOK 1 000	2004	2003
Bank loan	4 063	5 625

## Auditor's report for 2004 – Gassco AS

We have audited the annual financial statements of Gassco AS as of 31 December 2004, showing a profit of NOK 548.754. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. These financial statements are the responsibility of the Company's Board of Directors and President and CEO. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing standards in Norway. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. To the extent required by law and generally accepted auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and present the financial position of the Company as of 31.12.2004, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting principles in Norway
- the Company's management has fulfilled its duty to maintain the Company's accounting process in such a proper and well-arranged manner that the accounting process is in accordance with the law and generally accepted accounting practices in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations

Haugesund, 3 March 2005

DELOITTE

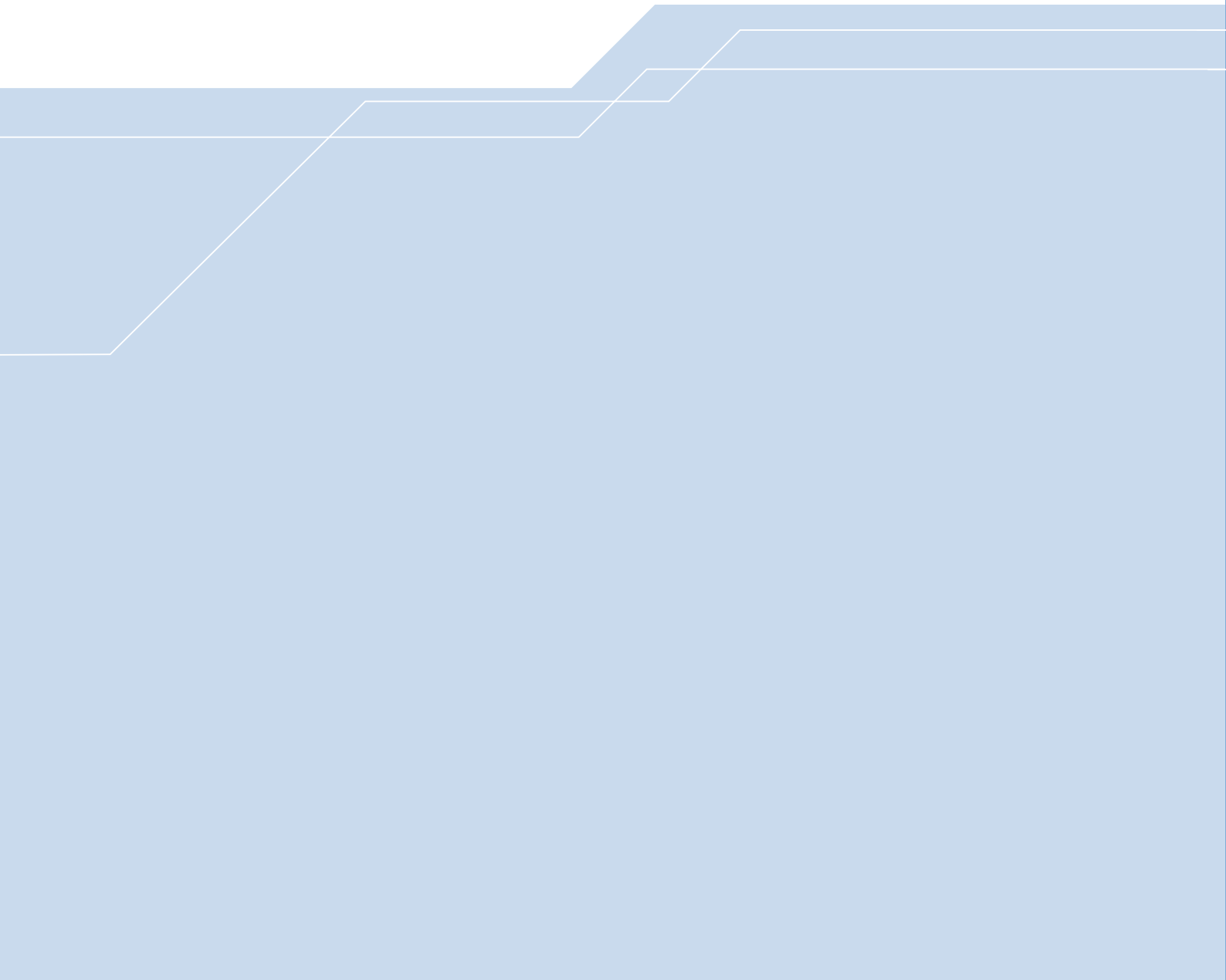
**Hans Grønnestad**

State Authorised Public Accountant (Norway)

Translation from the original Norwegian version



**Gassco. Total integrated gas transport**







[www.gassco.no](http://www.gassco.no)

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