

Norwegian gas to Europe



Annual report 2005





Gassco AS – annual report 2005

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Total integrated gas transport

Gassco operates one of the world's largest integrated systems for gas transport. The company managed the transport of gas corresponding to 15 per cent of total European gas consumption in 2005.





“The fourth year has been the most eventful in our brief history as operator for the infrastructure which transports Norwegian gas to continental Europe. European demand for Norwegian gas is constantly growing. Our ability to deliver affects the daily lives of millions of people. At the same time, the Norwegian government has given us important assignments in new areas.”



Brian D Bjordal
President and CEO
of Gassco

The fourth year

Norwegian gas exports are constantly setting new records. The transport systems to continental Europe are operating at full capacity. Even minor shutdowns on the Norwegian continental shelf have an impact in a market increasingly dependent on imports. It is accordingly very gratifying to be able to report that transport system regularity remains extremely high and close to 100 per cent. Ensuring that companies exporting Norwegian gas and their European customers find the transport system reliable is commercially critical for us. I would therefore praise both our own employees and our partners for good and purposeful contributions.

Continuous and purposeful safety work also forms part of this picture. Unfortunately, we experienced several serious incidents at installations covered by our operatorship during 2005. These events put confidence in our safety work to the test. As an operator, we are measured on our safety performance. I am pleased that we as a team succeeded in tackling these challenges, and that our safety results proved acceptable at the end of the year.

When the Langeled pipeline is filled with gas from the Ormen Lange field on 1 October 2007, Norwegian gas exports will be approaching a plateau. Planning new pipeline systems is a complex job involving many participants. Expanding gas exports from Norway after 2008 accordingly calls for decisions and choices of direction in the near future.

As the architect for developing Norway's gas transport system, we will be a driving force. But we neither can nor wish to work on infrastructure development alone. Our basic desire is to cooperate with the industry on the NCS. To achieve good collaboration, we must help to clarify roles and responsibilities. We want to contribute to effective interfaces so that the decision-making structure also ensures that the overall system is well-functioning and complementary. Our goal is to be able to present an integrated and well-run transport system 50 years from now, to the benefit of owners, users, the government and Norwegian society.

Our role in leading work, on behalf of a large group of industrial players, to establish the commercial basis for a new gas pipeline to eastern Norway and western Sweden has given our architect role a broader dimension. This assignment also represents both a big vote of confidence and an equally substantial challenge.

The government has set ambitious goals for carbon dioxide capture at gas-fired power stations and for creating a value chain for carbon transport and injection. If Norway as a gas nation succeeds in implementing carbon capture and storage, we will achieve something without parallel in the world and with major environmental and industrial spin-offs. We have been given the job of coordinating the negotiations, and responsibility for leading the work relating to infrastructure and transport. For us, this assignment marks a

major recognition of our expertise and a very important contribution to developing and strengthening the specialist gas community we represent. We will do what we can to achieve success, but the job is very demanding.

Our company will be built on human capital. We recruited 16 new and able employees in 2005. But smart heads are not enough. We are a small company, with complex interfaces to our surroundings. So good collaboration is crucial for achieving positive results. We must have the ability to build the relationships required to function in the best possible way, both in-house and in relation to our owner and other government authorities.

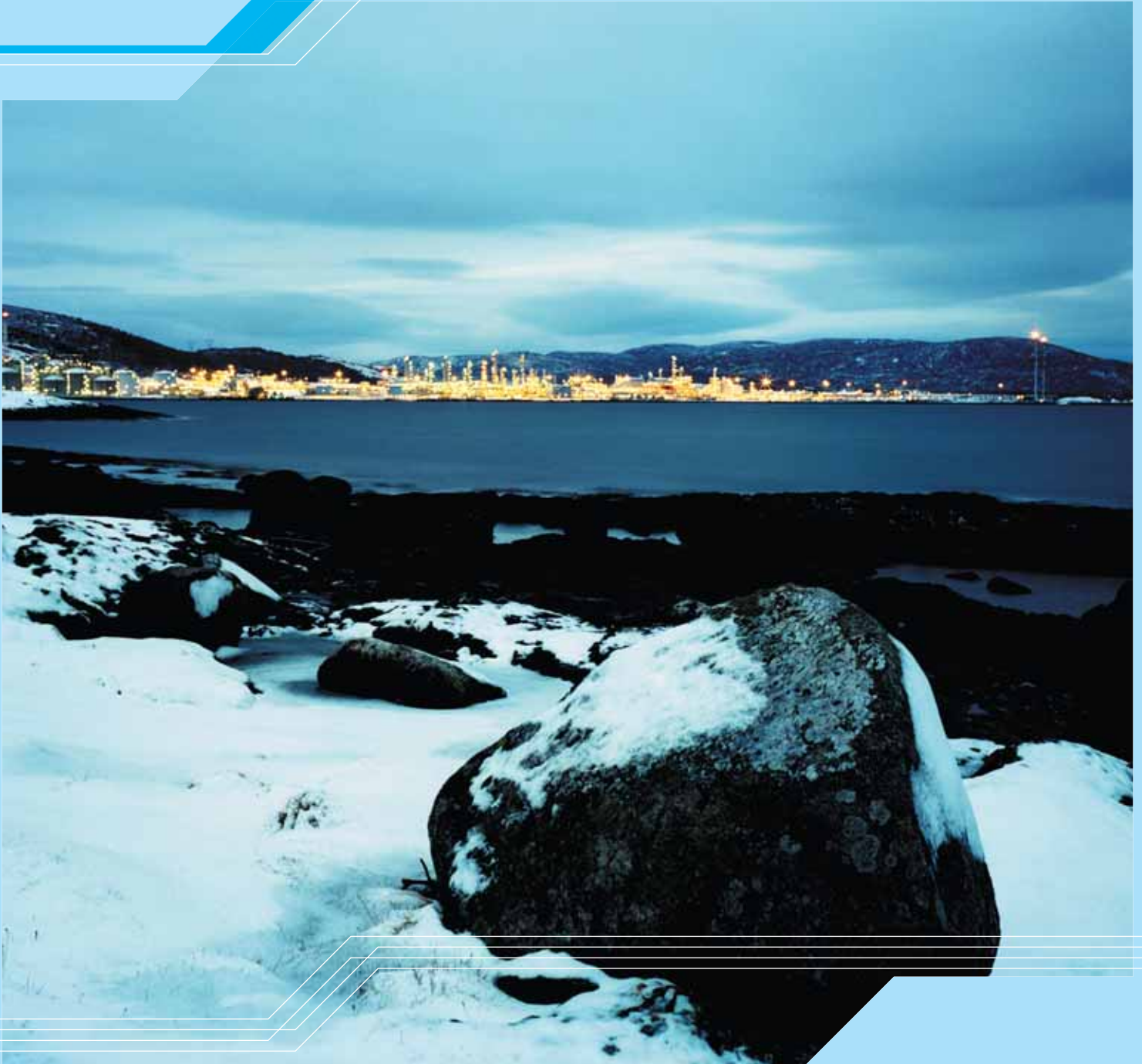
We must make our skills even clearer and more visible over the years to come. As a company, we have leading-edge expertise in gas transport. The assignments we have been given during 2005, not least for the Gas in Norway and Sweden and Carbon Value Chain projects, demonstrate that we are developing, that demand for our services is rising, and that we are heading in the right direction as a centre of expertise.

We are proud and pleased at the confidence shown in us, and have much to offer.



Brian D Bjordal
President and CEO

Key milestone for Norway as a gas nation



A milestone for Norway as a gas nation was passed on 15 December 2005 when Gassco chief executive Brian Bjordal submitted the report on Gas in Norway and Sweden (GIN-S) to petroleum and energy minister Odd Roger Enoksen. This study deals with gas distribution to eastern Norway and western Sweden.

“Gassco’s report identifies important perspectives relating to domestic use of gas, and illuminates key issues for energy transport”, commented Enoksen.

Long on the agenda

Using gas in mainland Norway has long been on the national agenda. The government called as early as 1995 for a closer look at the possibilities. Industry has also pointed out that using natural gas on land might have big positive consequences and could create new business opportunities.

Power demand increasing

This interest reflects not least the sharp expansion in Norwegian electricity demand. The country has consumed more power than it generates for a number of years, making up the shortfall through imports. At the same time, Norway’s gas resources are formidable and its production could be almost doubled from today’s level.

That level of production would be sustainable for a number of years.

The technological challenges associated with distribution and use of gas on land are also surmountable. Norway has built up world-class expertise in this area over the past 35 years. A total of 6 600 kilometres of Norwegian pipelines have so far been laid over the seabed.

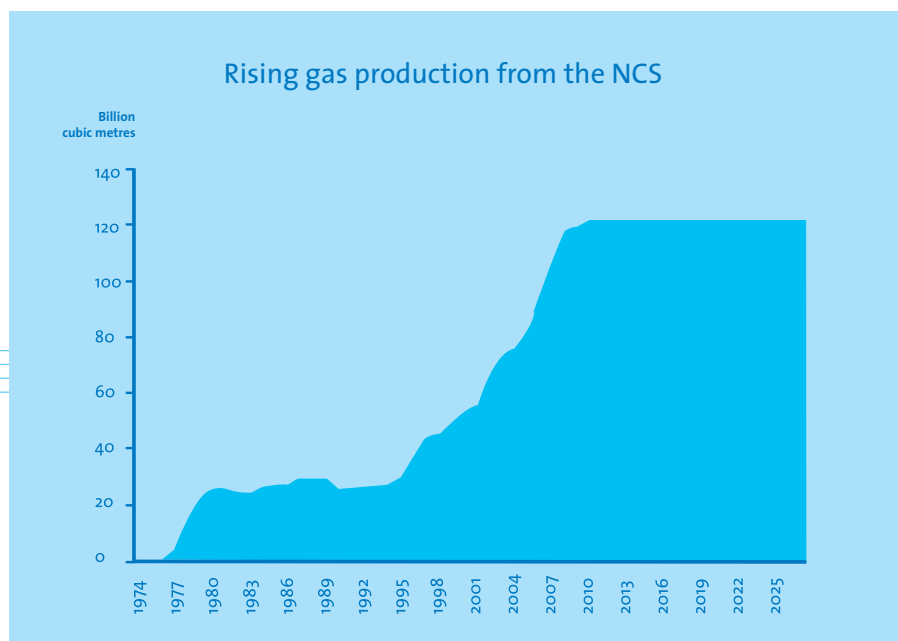
An important job

Gassco was commissioned by the Ministry of Petroleum and Energy (MPE) on 29 April 2005 to develop business plans for establishing gas pipelines to Skogn/Trondheim and the Grenland area of eastern Norway respectively, with opportunities for extending a pipeline to western Sweden. A written report was to be submitted to the MPE by the end of 2005. The business plans were to build on specific discussions with relevant commercial players about financing such installations, and on discussions with key recipients about buying transport capacity. Drawing on earlier studies, Gassco was also to assess the existing technical basis for a decision.

Assembling the players

Further progress with the pipeline to Skogn/Trondheim requires that Industrikraft Midt-Norge secures a gas purchase contract for a planned gas-fired power

Gassco was commissioned by the Ministry of Petroleum and Energy (MPE) on 29 April 2005 to develop business plans for establishing gas pipelines to Skogn/Trondheim and the Grenland area of eastern Norway respectively.



Norwegian gas production is set to rise sharply up to 2010. Part of this output could be piped to eastern Norway and western Sweden. Source: MPE



The challenge has been a source of pride to Gassco's still-young organisation, and has undoubtedly helped to develop its expertise as well as strengthening the specialist gas community it represents.

station at Skogn. Uncertainties in the gas and electricity markets made it impossible to implement the project for a 2009 start-up, and this has therefore been put on ice.

Gassco has established a sponsor group* of 18 industry companies and local authorities in both countries to fund continued studies on the pipeline to eastern Norway and western Sweden until a concept can be chosen. The agreement between these players was signed on the day the GIN-S report was submitted to the MPE. A management committee has subsequently been appointed for the Phase II project. Gassco chairs this body and leads the work.

Optimism

The interest and enthusiasm encountered by Gassco from industrial players and politicians give grounds for optimism. The

job now is to identify the best technical, financial and environmental solutions for laying the pipeline.

Enhanced expertise

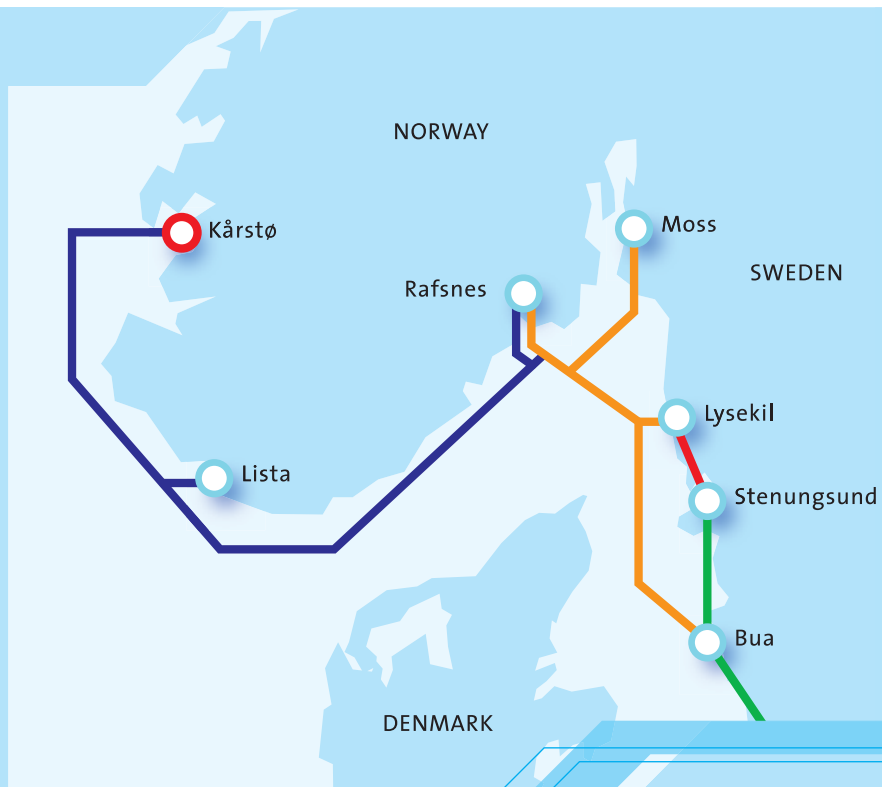
Being given such an assignment is perceived by Gassco as a big vote of confidence. The challenge has been a source of pride to its still-young organisation, and has undoubtedly helped to develop its expertise as well as strengthening the specialist gas community it represents.

More detailed information about GIN-S can be found at www.gassco.no.

* Agder Energi, Akershus Energi, Bamble local authority, Borealis, E-ON Ruhrgas, Göteborg Energi, Hafslund, Hydro Polymers, Lyse Nett, Nova Naturgas, Perstorp, Preem Petroleum, Stora Enso, Skagerak Energi, Statoil, Vattenfall, Yara and Østfold Energi.

The concept

- A dry gas pipeline from Kårstø to Rafnes in the Grenland area, with ethane injection at Kårstø
- Possible landing of gas at Lista
- At Rafnes, the ethane will be removed in a separation plant and used locally as petrochemical feedstock
- Part of the natural gas will be used in the Grenland area, with the rest piped on to Østfold/Oslo and Sweden (Lysekil and Bua).
- Overall annual volume base at start-up: three billion cubic metres of natural gas and up to 650 000 tonnes of ethane
- Overall annual volume base after five years: six-seven billion cubic metres of natural gas
- First deliveries: 2010/2011
- Investment (early estimate): about NOK 8.9 billion (2005 money), excluding separation plant at Rafnes and possible receiving terminals at Lista, in Østfold and in western Sweden



The planned gas pipeline to eastern Norway and western Sweden.

Gassco's assessment of the basis for a gas pipeline around the Norwegian coast from Kårstø shows that industrial players in Agder, Grenland, Østfold/Oslo and western Sweden are very interested in buying gas.

“The Gassco report marks a significant stride towards using gas in Norway”, said petroleum and energy minister Odd Roger Enoksen when the GIN-S study was submitted to him on 15 December 2005. Below left (from left): Odd Håkon Hoelsæter, chief executive of Statnett, Enoksen and Brian Bjordal, chief executive of Gassco.



Gassco's operations 2005

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

Financial figures		
(NOK million)	2005	2004
Gross tariffs	24 005	20 822
Operating costs	3 340	2 982
Operating investment	654	639
Investment in fixed assets	1 567	2 395
• KEP 2005 - Kårstø	992	1 460
• TOP - Kollsnes	86	642
• KECU - Kollsnes	266	198
• Vesterled Bypass	151	95
• H 7 Bypass	43	0
• Langeled	29	0

Gas transport		
	2005	2004
Regularity (%)	99.57	99.82
Quality (%)	99.99	99.99
Gas delivered to receiving terminals in Europe (billion scm)	81.51	74.89
Highest delivery per day (million scm)	276.81	265.13
Gross calorific value (kW/t per scm)	11.25	11.29
Total volume other products supplied by gas transport system (million tonnes)	9.60	8.59
Ship calls at Kårstø	598	592

Zones and tariffs

Gassled is divided into areas with fixed tariffs for transport and/or processing within each area.

Gassled area A:

Embraces the pipeline carrying rich gas from the Tampen area of the North Sea to the processing complex at Kårstø

Gassled area B:

Embraces the pipeline carrying rich gas from the Halten Bank area of the Norwegian Sea to Kårstø.

Gassled area C:

Embraces the Kårstø processing complex

Gassled area D:

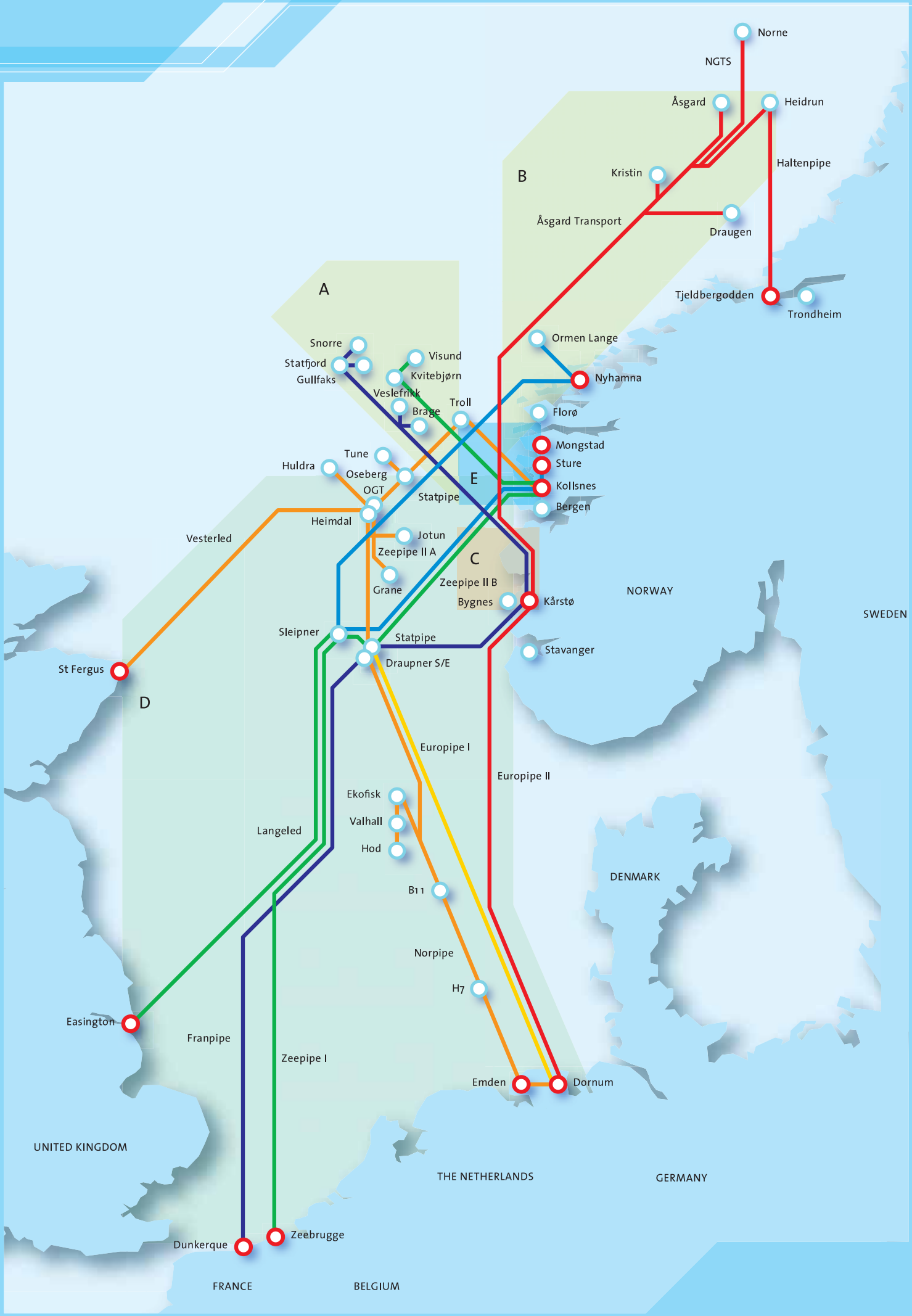
Embraces a number of pipelines, platforms and receiving terminals for transporting dry gas from Kollsnes, Kårstø and various fields to receiving terminals in the UK, France, Belgium and Germany.

Gassled area E:

Embraces the Kollsnes processing plant.

Gassco is the operator for the following companies/partnerships:





Directors' report 2005

Gas deliveries from the NCS have never been higher than in 2005.



Gassco is operator for the integrated gas transport system from the NCS to European countries.

Introduction

Millions of people in Europe use Norwegian gas. Reliable and forward-looking transport solutions are accordingly a vision for Gassco as a company.

Gassco is a state-owned limited company which operates the integrated gas transport system from the NCS to European countries. Comprising pipelines, gas treatment facilities, platforms and receiving terminals in continental Europe and the UK, this system is under constant development.

Petroleum and energy minister Thorhild Widvey performed the official opening of Gassco's new office building at Bygnes in Karmøy local authority on 16 March 2005.

Gas deliveries from the NCS field have never been higher than they were in 2005, at 85.48 billion standard cubic metres (scm). This represents an increase of 8.5 per cent from the year before. Companies selling Norwegian gas have also booked most of the capacity in the transport system for 2006.

The Kårstø gas treatment plant could celebrate the 20th anniversary of its start-up in 2005. Capacity at the facility has increased fivefold since 1985 through expansions, modifications and installation of new equipment. The latest stage in this growth was the Kårstø expansion project (KEP 2005), completed on 1 October 2005 within budget and on schedule. KEP 2005 ranked as one of the largest land-based industrial projects in Norwegian history, and the first major development where Gassco was operator from start to finish.

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

Organisation

Gassco had 143 permanent employees at 31 December 2005. It has a very competent and stable workforce. The high level of activity on the NCS poses a big challenge for recruiting qualified personnel. That applies both to newly-qualified engineers and senior specialists. Gassco gives weight to an active and forward-looking recruitment policy.

Six employees completed personal development programmes in 2005 which give formal credits in the Norwegian educational system. Five were women. Several of these employees are upgrading their qualifications – from engineer to graduate engineer, for instance. The company gives individual consideration to all applications for further development and education, so that studies can be combined with work and family.

Women account for 29 per cent of Gassco's workforce but only three of its 23 managers. Six of 16 new recruits with higher education in 2005 were women. Recruiting more women with higher education and facilitating management development are priorities, in order to improve the basis for increasing the number of women managers.

In determining and negotiating pay, Gassco places special emphasis on equal treatment of men and women. Pay differentials will be based on the performance, responsibility and potential of each employee, and not on gender.

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 currently has two office trainees.

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

Gassco's target is zero harm to people, the environment and material assets. This goal is based on a conviction that all

harm can be prevented by systematic and purposeful work.

Total personal injuries and the personal injury frequency developed positively in Gassco's operator area during 2005. A number of improvement measures were initiated in the wake of a negative trend the year before and an enforcement notice from the Petroleum Safety Authority Norway in early 2005 following incidents at Kårstø with a major HSE&Q potential. The company believes that this response made a substantial contribution to the positive trend in 2005. It will nevertheless continue to make purposeful efforts to improve results in this area even further.

A central element in ensuring continuous improvement is Gassco's HSE&Q management system. Registration, reporting and follow-up of incidents, non-conformance and losses play a key role in this respect. 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 several exercises in 2005, including a major mobilisation when an incident relating to the pipeline across Karmøy was simulated. Local rescue resources, the police, the fire brigade and other relevant players took part.

The working environment in Gassco is good. Organisational surveys conducted in 2005 yielded positive results. 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 2005 were an overall sickness absence below three per cent and zero occupational illnesses. Results for the year show that overall sickness absence was 3.28 per cent for Gassco's operator area and 1.47 per cent for the company's own employees.

Forty-three personal injuries were suffered

in 2005, of which 17 resulted in lost time. None of the incidents caused loss of life. A total of 24 incidents defined as critical occurred in 2005, and 18 of these were classified as HSE-critical. Five of the incidents had actual consequences. Thirteen 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 six of the 24 incidents are defined as critical because of a high loss of production.

Two fires occurred in 2005, as well as five gas leaks. The leaks occurred both at land-based plants and on offshore installations. Gassco will intensify its efforts to reduce the number of such leaks, including the implementation of measures from the Norwegian Oil Industry Association (OLF) as well as other specific action.

Gassco operated the pipelines, gas processing plants, riser and compressor

platforms and receiving terminals within prevailing emission/discharge permits. Nor has their operation led to extensive acute emissions or discharges. Where information technology security is concerned, a new fully-redundant underground computer room with electromagnetic shielding was installed in 2005. Gassco also renewed its battery bank and emergency generator, and upgraded the independent reserve control room. The company purchased 10 000 European Union emission allowances (EUAs) for the St Fergus terminal and 1 246 for the Dunferque terminal in 2005, corresponding to 11 246 tonnes of carbon dioxide. This was intended to meet requirements in excess of the allocated free allowances.

System operation

Gas deliveries from the NCS have never been higher than they were in 2005. Through investment and enhanced expertise, Gassco has been able to boost efficiency and capacity and has thereby

made it possible to expand deliveries. It is only a few years since gas transport requirements differed relatively substantially between summer and winter. That made it easier to carry out maintenance in the summer season. The trend today is for maximum capacity to be also in demand during the summer. This makes the maintenance planning Gassco carries out for all installations and plants related to the NCS very demanding.

Another challenge is that the gas quality in a number of the Norwegian fields requires production to be processed or blended before delivery to the buyer. Through extensive blending of gas flows, Gassco has nevertheless managed to deliver gas to quality specifications virtually the whole time.

European gas markets have differing levels of maturity. The most dynamic are in the UK and Belgium. The goal is to have the largest possible transport capacity available for users at all times. Transport capacity depends to a certain extent on sea temperature along the pipeline route. Additional capacity can be sold during the cold months. Based on good temperature data, which are updated daily, and advanced calculation models, Gassco works out the additional daily capacity available for sale in the winter season.

The Visund, Kristin and Urd fields began delivering gas to the transport system in 2005.

Planning of vessel traffic to and from Kårstø calls for careful coordination with daily gas transport. A total of 598 ship calls were recorded during 2005, loading 8 367 533 tonnes of liquids.

New European requirements for standardisation, process automation and simplification have prompted major changes to Gassco's computer systems. Roughly 720 daily messages are now sent from and received by the control room. To be ahead of further developments, the company participates actively in European industry associations which develop standards for future gas transport.

Health and safety performance

	2005	2004
Deaths	0	0
Total personal injuries	43	96
Lost-time injuries (incl in total personal injuries)	17	27
Fires	2	2
Gas leaks	5	2
Critical incidents	24	33
Emissions/discharges in excess of licence limits	0	0

Emissions/discharges to the natural environment

		2005	2004
To the air	Nitrogen oxides	1 144 tonnes	1 143 tonnes
	Carbon dioxide	1 394 kilotonnes	1 321 kilotonnes
	Flaring for safety reasons	32 kilotonnes	31 kilotonnes
To water	Oil	403 kilograms	162 kilograms
	Phenols	88 kilograms	60 kilograms
	Total organic carbon (TOC)	7 814 kilograms	7 188 kilograms
To soil	Oil	2 215 litres	303 litres

The goal is that all European countries will apply the same quality standards, message types, communication solutions, and deadlines.

Capacity management

Two capacity booking rounds are held during the year. After the 2005 rounds, little spare capacity is available for sale over the next five years. Looking further ahead, increasing capacity will be available in the whole transport system. The various processes at Kårstø were split up after 1 June 2005 and sold as separate services from the September 2005 booking round. Two new Kårstø services were also introduced at 1 October, for separating out hydrogen sulphide and carbon dioxide respectively.

During the spring, capacity will be allocated in Langeled, the new big pipeline to the UK. Gassco worked during 2005 to prepare for capacity reservations by shippers in Langeled.

Capacity is managed in the web-based GasViaGassled system, which gives shippers an overview of their own capacity as well as of available capacity in both primary and secondary markets. This system was upgraded several times during 2005. Gassco has developed a system for in-house calculation of shippers' rights to place capacity reservations in the pipeline network. This saves time and simplifies quality assurance of the calculations.

The number of shippers in Gassled increased from 14 to 17 during the year.

Operation and development of installations

The challenge for Gassco as operator is to operate all the installations in a safe and cost-effective manner while also continuously seeking improvements in order to remove operational bottlenecks and enhance accessibility in the integrated gas transport system.

During 2005, the operator focused on important areas such as making the installations more robust, enhancing technical integrity and increasing capacity

utilisation by optimising preventive and corrective maintenance, while maintaining high regularity. Gassco also actively pursued on-going development projects and start-up operations to receive gas from Kristin. Overall processing capacity at Kårstø was increased from 77 million scm per day (Mscm/d) to 88 Mscm/d.

Operations were good in 2005, and overall technical availability for pipelines, platforms and receiving terminals totalled 99.98 per cent. This result was achieved at the same time as complex jobs, integrated projects and operational modifications were pursued alongside preventive maintenance and inspection activities. Gassco also worked on improved methods for risk-based condition monitoring and inspection of complex gas transport systems in close cooperation with relevant Norwegian and foreign government agencies, technical service providers and relevant contractors. These activities will continue in 2006.

Several major projects were executed during 2005. The KEP 2005 project for expanding process capacity, increasing ethane recovery and separation of carbon dioxide from the feed stream was completed on schedule and well below the cost control estimate in the plan for installation and operation.

The Kårstø master plan (KMP) was established in 2005 in order to identify measures which can further improve the robustness of the plant's facilities while increasing their capacity. Gassled has decided to continue work on an expansion of Gassled area B at Kårstø for phasing-in Skarv gas from 2010. At the same time, the Skarve licensees have reached a decision on the choice of concept and thereby on starting pre-engineering. Plans call for a final investment decision by both Gassled and the Skarv licence to be taken in the autumn of 2006.

In cooperation with Total E&P UK Plc, Gassco has executed a successful project relating to Vesterled which means that this gas pipeline is now disconnected from and bypasses the MCP01 platform. This project was completed in the summer

Operations were good in 2005, and overall technical availability for pipelines, platforms and receiving terminals totalled 99.98 per cent.

of 2005 in accordance with the specified plans and budgets.

Gassco is cooperating with Statoil and contractors on installing new export compressors at Kollsnes. Intended to help increase export capacity at the plant to 143 Mscm/d, this project represents an investment in the order of NOK 830 million and is due for completion in the autumn of 2006.

The Langeled operatorship is due to be taken over by Gassco in 2006. Principal work in 2005 involved activities related to operational preparations and the formalisation of the necessary commercial contracts. Gassco has therefore concluded separate agreements with Britain's Centrica, which will serve as technical service provider for the Easington receiving terminal.

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

Gassco has a key role in assessing alternative transport solutions as well as technical and commercial aspects – including transport terms and conditions – for the Troll further development project. The transport solution covers unprocessed gas from Troll B and processed gas from Troll A via Kollsnes, and includes both continental and UK alternatives.

During the early summer, the company was commissioned by the Ministry of Petroleum and Energy (MPE) to develop business plans for laying gas pipelines to Grenland and Skogn/Trondheim respectively, and to report in writing to the MPE before 1 January 2006. The report was submitted on 15 December 2005. On the same day, 18 industrial companies and local authorities in the Agder, Grenland,

Østfold/Oslo and western Sweden signed an agreement which secures funding for further work up to a possible choice of concept in October 2006.

Costs and improvement programme

Gassco adopted a cost-saving programme for Gassled in 2004 which aims to trim NOK 500 million annually from operating costs by the end of 2009. Detailed plans were drawn up in 2005, and measures initiated to reach this target. The work is expected to show results as early as 2006, with most of the cost savings estimated to come in 2007-09.

A key activity in 2006 will be to secure the implementation of measures to enhance efficiency at the Kårstø plant in line with Gassled's improvement programme for both cost savings and the timing of when they will be phased in. The cost-saving programme will be reviewed during the first quarter of 2006 in order to ensure that all plans and activities are on schedule, reassess the potential for reaching project targets, and evaluate new savings. The clear ambition is to maintain the overall target of trimming NOK 500 million from annual operating costs.

Research and development

A five-year research and development programme was launched in 2003 with the focus on enhancing capacity utilisation in the infrastructure, strengthening systems integrity, achieving energy-efficient installations and reducing emission. Execution of these projects relies to a great extent on expertise at Statoil as technical service provider and research institution, and on relevant expertise in the other Gassled companies, the supplies industry, research institutions and universities. Gassco devoted NOK 73 million to R&D in 2005, with its own commitment totalling six work-years.

The most capital-intensive projects in 2005 were numerical modelling of the Kårstø plant and qualifying new technology to reduce nitrogen oxide emissions.

Kårstø's plant production performance model will be used to strengthen planning work associated with processing future gas suppliers and optimising operation in real time. This numerical model ranks as the most advanced of its kind, and is due to come into ordinary operation at the plant in 2006.

Three Rolls Royce gas turbines at Kårstø release 450 tonnes of nitrogen oxides per year. Gassco has tested new technology to reduce these emissions, based on a patented Cheng Low NOx (CLN) technology where fuel gas is pre-blended with supercritical steam before injection into the combustion chamber. Full-scale tests of this solution show that annual nitrogen oxide emissions can be reduced by at least 290 tonnes through CLN installation on the three turbines.

A joint project with Statoil has developed technology for installation of tees on existing underwater pipelines. Plans now call for this solution to be used to tie in the new Tampen Link pipeline from Statfjord to Britain's Flaga transport system. The machine completed in 2004 for remote tie-in of pipelines in deep water will be used for the project in 2007.

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 82 billion scm of gas which Gassco piped to European markets in 2005 represent 15 per cent of 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 270 Mscm/d to 360 Mscm/d.

Efficient operation and a high level of delivery reliability will be crucial for this growth. Development of new reserves in the Tampen area, the Troll field and the Halten Bank, and a 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 big demand and



need for high capacity utilisation in all parts of this plant. Implementation of the KMP project in 2006 will aim to improve the utilisation factor.

Another essential 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 proposals, made on the basis of this year's plan, is to facilitate an expansion of capacity in Åsgard Transport at Kårstø in order to phase in gas from Skarv. Studying various transport solutions for Troll further development will be a key activity in 2006. At the same time, increasing capacity and improving flexibility in part by laying a branch-off from Zeepipe II A to Heimdal Riser is under consideration.

Another important activity in 2006 will be the start of negotiations between the commercial players in a carbon dioxide value chain. Gassco was given overall responsibility by the MPE on 19 December 2005 for initiating such talks in addition to a special responsibility for work relating to infrastructure and transport. The reservoir and carbon capture aspects of establishing a carbon value chain will be handled by Petoro and Gassnova respectively.

Share capital and shareholders

The company's share capital at 31 December 2005 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 491 340, 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.


The transport system 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.

Bygnes, 7 March 2006


Brit Kristin Sæbø Rugland
Chair



Elisabeth Krokeide
Director


Margaret Elin Hystad
Director


Asbjørn Eik-Nes
Worker director


Trygve Refvem
Deputy chair


Arild Nystad
Director


Kjellaug Høie Jonassen
Worker director


Brian D Bjordal
President & CEO

Board of directors of Gassco 2005

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.

Arild Nystad

Director (born 1948)

Partner and managing director, Petro-Management consultancy. Previously a researcher with IKU/Sintef and the Chr Michelsen Institute (CMI). Resource management director, Norwegian Petroleum Directorate, and head, RC Consultant. Headed the team to establish Petoro in 2001. Has also been a director and president of the International Association of Energy Economics (IAEE). Director since the spring of 2005.

Asbjørn Eik-Nes

Worker director (born 1952)

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

Trygve Refvem

Deputy chair (born 1947)

Independent consultant. Previously senior consultant, Europe programme, 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)

Project director, Eidsiva Vekst AS. Previously vice president finance, Mjøskraft AS, 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, Gassco branch, Norwegian Oil and Petrochemical Workers Union (Nopef). Worker director since 2004.

From left: Arild Nystad, Asbjørn Eik-Nes, Trygve Refvem, Brit Kristin Sæbø Rugland, Kjellaug Høie Jonassen, Elisabeth Krokeide and Margaret Elin Hystad.



Corporate governance





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. Gassco regards its employees as the key to value creation and the development of the company. On that basis, its focus is on expertise.

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.

The management structure and governing bodies of Gassco have an organisation which draws on the distinctive features of two different forms of public-sector entity – the administrative agency and the state-owned company. That creates 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.

Governing bodies in Gassco are the general meeting, the board of directors, the external auditor, and the chief executive with his management team. The Gassco board works to safeguard the owner's interests, but also has a responsibility towards employees, government authorities, partners, suppliers and customers/

shippers. Its established management principles are intended to secure good management and control of the business. These principles are subject to continuous amendment in order to ensure that the company operates in conformity with the statutory provisions which regulate its activities.

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.

General meeting

Gassco AS is a limited company wholly owned by the Norwegian government. The general meeting is its highest authority. 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 adopts the profit and loss account and the balance sheet, and determines the application of profit or coverage of loss. The general meeting is also responsible for electing directors. Apart from the owner, it 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.

Board of directors

The Gassco board comprises seven directors, including five elected by the general meeting and two elected by and from among the employees. Directors are elected 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 is responsible for ensuring an acceptable organisation of the business, for establishing control systems and for ensuring that the business is pursued in accordance with the company's values base and ethical guidelines. It 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 business it pursues.

The board appoints the chief executive, and establishes its own rules of procedure as well as instructions for the chief executive.

Six-eight board meetings are held every year. The board is also kept informed about the business through regular reporting between meetings. The chair can summon extraordinary meetings as required.

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 board has not found it either necessary or appropriate to appoint any sub-committees.

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

Gassco's management

The chief executive represents the company externally. He is responsible for day-to-day management of the company, and submits proposals for budgets, accounts and important decisions to the board. He has a nine-strong management team, consisting of vice presidents and a support organisation.

Auditor

Deloitte has been the company's external auditor since its creation in 2001. The external auditor is appointed by the general meeting. The auditor does not carry out other work for the company which could compromise their integrity.



Responsibilities and roles

The roles of the various governing bodies are defined through legislation, statutory regulations and Gassco's articles of association.

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's operator responsibility relates to the operation of gas transport systems on behalf of the Gassled, Zeepipe Terminal, Dunkerque Terminal DA, Haltenpipe and Norne Gas Transportation System joint ventures, 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 (TSPs) 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, 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.

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

- management
- operating
- commercial
- infrastructure development

Remuneration

The general meeting determines directors' fees, which are independent of the results achieved. The auditor's fee is also determined by the general meeting. The board determines the remuneration of the chief executive, including any bonus payments. The chief executive determines the remuneration of other members of the company management team. Remuneration of directors and the chief executive is specified in Note 3 to the accounts.

Performance pay

The board is responsible for overall assessment of the company's development in relation to specified targets. 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, regulatory, 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.

Information and communication

The board of Gassco has established a communication strategy which ensures an open dialogue both in-house and externally, so that the company's employees and other stakeholders are well informed about its business activities. Press releases and annual reports are posted to the company's web site. Licenceweb is used as a means of communication with Gassled's owners, while Authorityweb is

used with the authorities.

Shipper information is made available on the web-based GasViaGassled and Origo systems. In addition, shippers receive information through the User Forum, in which they all participate.

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. 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. Power of attorney matrices have been created. A decision-making matrix has been developed which describes the decision-making processes to be observed for important issues, who will take the final decision, and the source of the decision-taker's authority. 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. The company supervises in-house activities and the work of its 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 in-house instructions. The results of these supervisory activities will be used for continuous improvement and further development of Gassco's management system and general management within Gassco's operator area. Overall management and control to ensure that improvements in the management system are being observed and implemented is exercised by the HSE&Q department.



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 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. Special guidelines have been prepared on the use of IT, which describe the rights and duties of the company and the employees.

Internal control

Gassco's management system and associated supervisory routines are based on the internal control principle to ensure that its values are observed as well as securing efficient, sound and lawful operation in line with specified targets.

Management tools

The board and chief executive utilise such activities as strategic planning, budget-

ing 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.

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.



Financial statements 2005

Income statement – Gassco AS

Figures in NOK 1 000	Notes	2005	2004
OPERATING INCOME AND EXPENSES			
Total operating income	2	0	0
Total operating expenses	2, 3, 4	0	0
FINANCIAL INCOME AND EXPENSES			
Other interest income		209	197
Net financial items		209	197
Profit before tax		209	197
Taxes on ordinary activities	8	(282)	(352)
Profit from ordinary activities		491	549
Net profit		491	549
TRANSFERS			
Transfer to other equity		491	549
Total transfers		491	549

Balance sheet at 31 December – Gassco AS

Figures in NOK 1 000	Notes	2005	2004
Assets			
FIXED ASSETS			
INTANGIBLE FIXED ASSETS			
Deferred taxes	8	371	89
Total intangible fixed assets		371	89
TANGIBLE FIXED ASSETS			
Land, buildings and other property	4	18 703	16 192
Operating equipment and fixtures	4	32 084	33 297
Total tangible fixed assets		50 787	49 489
OTHER LONG-TERM RECEIVABLES			
Other receivables	3, 7	35 895	30 444
Total other long-term receivables		35 895	30 444
Total fixed assets		87 052	80 022
CURRENT ASSETS			
RECEIVABLES			
Accounts receivable		25 959	23 160
Other receivables	8	21 423	24 407
Total current receivables		47 382	47 567
Cash and bank deposits	9	67 570	138 677
Total current assets		114 952	186 245
TOTAL ASSETS		202 004	266 267

Bygnes, 7 March 2006


Brit Kristin Sæbø Rugland
Chair


Trygve Refvem
Deputy chair


Elisabeth Krokeide
Director


Arild Nystad
Director

Figures in NOK 1 000	Notes	2005	2004
Equity and liabilities			
EQUITY			
PAID-IN CAPITAL			
Share capital	5	10 000	10 000
Total paid-in capital		10 000	10 000
RETAINED EARNINGS			
Other equity	6	2 280	1 789
Total retained earnings		2 280	1 789
Total equity		12 280	11 789
LIABILITIES			
PROVISIONS			
Pension liabilities	7	23 259	19 170
Total provisions		23 259	19 170
OTHER LONG-TERM LIABILITIES			
Long-term interest-bearing debt	10	11 250	18 750
Total other long-term liabilities		11 250	18 750
CURRENT LIABILITIES			
Accounts payable		39 319	52 287
Tax and other withholdings	9	11 416	10 127
Other current liabilities		104 481	154 145
Total current liabilities		155 216	216 559
Total liabilities		189 724	254 479
TOTAL EQUITY AND LIABILITIES		202 004	266 267

Margaret Elin Hystad

Margaret Elin Hystad
Director

Kjellaug Høie Jonassen

Kjellaug Høie Jonassen
Worker director

Asbjørn Eik-Nes

Asbjørn Eik-Nes
Worker director

Brian D Bjordal

Brian D Bjordal
President & CEO

Cash flow statement – Gassco AS

Figures in NOK 1 000

	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES		
Profit on ordinary activities before tax	209	197
Depreciation	13 838	12 091
Changes in accounts receivable	(2 799)	5 323
Changes in other current receivables	2 985	(15 077)
Changes in long-term receivables	(5 451)	(4 213)
Changes in accounts payable	(12 968)	(3 829)
Changes in long-term commitments	4 089	697
Changes in other current liabilities	(48 375)	102 022
Net cash flow from operational activities	(48 472)	97 211
CASH FLOW FROM INVESTMENT ACTIVITIES		
Investment in tangible fixed assets	(15 135)	(21 028)
Net cash flow from investment activities	(15 135)	(21 028)
CASH FLOW FROM FINANCIAL ACTIVITIES		
Repayment long-term debt	(7 500)	(7 500)
Net cash flow from financial activities	(7 500)	(7 500)
Net changes in cash and cash equivalents	(71 107)	68 683
Cash and cash equivalents at 1 January	138 677	69 994
Cash and cash equivalents at 31 December	67 570	138 677

Notes – Gassco AS

Note 1. Accounting principles

The annual accounts have been prepared in accordance with the 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 include cash, 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. The company's 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 AS accordingly has no earnings from these. As a result, costs relating to the operatorship do not appear in the Gassco AS 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 expenses, number of employees, remuneration, loans to employees, etc

Figures in NOK 1 000

Payroll costs	2005	2004
Salaries	90 546	77 835
Employer's national insurance contribution	16 183	14 038
Pension costs (see note 7)	13 057	11 683
Other benefits	10 278	9 967
Total	130 063	113 523
Average number of employees	138	126

Remuneration to senior personnel	Salary/remuneration	Pension costs	Bonus and other remuneration
President and CEO	1 894	406	320
Directors	1 060		

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 earned pension. The president and CEO also participates in the company's established bonus scheme.

Notes – Gassco AS

Loan and security provided to management, shareholders, etc

Figures in NOK 1 000	Amount	Interest rate	Instalment plan	Security
President and CEO – loan	332	0%	10 years	0
Loans and security provided for:	Loans			Security
Employees	14 258			0

Auditor

NOK 607 800 was charged in 2005 as remuneration to Deloitte Statsautoriserte Revisorer AS for auditing Gassco and the licences operated by the company. NOK 24 000 was charged as remuneration for other services. Deloitte Advokater DA, which collaborates with Deloitte Statsautoriserte Revisorer AS, was paid NOK 13 700 for services rendered. NOK 330 301 was charged in 2005 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 1.1.05	18 675	53 633	72 308
Additions (purchased)	3 532	11 864	15 395
Disposals		(1 966)	(1 966)
Acquisition cost 31.12.05	22 207	63 530	85 737
Accumulated depreciation 31.12.05	3 504	31 447	34 951
Book value 31.12.05	18 703	32 084	50 787
Depreciation 2005	1 021	12 817	13 838
Economic lifetime	5, 50 years	3, 5, 7, 8, 10 years	
Depreciation plan	Linear/none	Linear	

Note 5. Share capital and shareholder information

The share capital in the company at 31 December 2005 consists of the following:

	Number	Nominal value	Book value
Share capital	10 000	1 000	10 000 000

Ownership structure:	Shares
The Norwegian government, represented by 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 1.1.05	10 000	1 789	11 789
Year's change in equity:			
Profit for the year	0	491	491
Equity 31.12.05	10 000	2 280	12 280

Note 7. Pension costs, funds and commitments

The licensees refund a pension cost to Gassco which currently constitutes 13.6 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).

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 2005 to the pension premium paid by the company.

The company posts the pension commitment at 31 December 2005 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	2005
Current value of year's pension earnings	10 377
Interest cost of pension benefit	5 056
Yield on pension funds	(3 716)
Amortisation of loss	780
Accrued employer's national insurance contribution	1 762
Net pension cost	14 259

Notes – Gassco AS

Figures in NOK 1 000	Unsecured			Total
	Secured (group)	(contractual pension)	Other unsecured	
Earned pension benefit	82 808	4 677	1 783	89 267
Estimated effect of future pay regulation	25 691	977	588	27 256
Estimated pension commitments	108 499	5 654	2 371	116 523
Pension funds (at market value)	(75 700)	0	0	(75 700)
Actuarial loss	(18 680)	(1 195)	(563)	(20 439)
Accrued employer's national insurance contribution	1 991	629	255	2 874
Net pension commitments	16 110	5 087	2 062	23 259

The company has a collective pension plan covering all employees.

Economic assumptions:

Discount rate	5.0%
Expected pension increase/adjustment of NI base rate	2.0%
Expected yield on funds	5.5%
Expected pay regulation	3.0%

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

Note 8. Income taxes

Figures in NOK 1 000	2005	2004
Taxes for the year are as follows:		
Tax payable	0	0
Changes in deferred tax	(282)	(352)
Tax on ordinary profit	(282)	(352)
Tax payable in the balance sheet is calculated as follows:		
Total tax for the year	0	0
Tax payable in balance sheet	0	0
Reconciliation from nominal to effective tax rate:		
Profit for the year before tax	209	197
Calculated income tax at nominal tax rate (28%)	59	55
Fiscal effect of the following items:		
Tax effect on net refund under incentive scheme for R&D	335	405
Non-taxable income, interest on tax refund	6	2
Tax	(282)	(352)
Effective tax rate	(135.0%)	(178.6%)

Notes – Gassco AS

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

Figures in NOK 1 000	2005		2004	
	Benefit	Obligation	Benefit	Obligation
Operating equipment		4 752		5 638
Losses for carrying forward	6 078		5 955	
Total	6 078	4 752	5 955	5 638
Deferred tax benefit/obligation	371		89	
Deferred tax benefit not posted to balance sheet	0	0	0	0
Net deferred tax benefit/obligation in the balance sheet	371	0	89	0

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

The company had a tax loss of NOK 6 077 520 for carrying forward at 31 December 2005.

Note 9. Bank deposits

Bank deposits and cash include NOK 5 394 195 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	2005	2004
Bank loan	2 813	4 063

Auditor's report for 2005

To the Annual Shareholders' Meeting of Gassco AS

We have audited the annual financial statements of Gassco AS as of 31 December 2005, showing a profit of NOK 491.340. 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. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to produce the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. 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 good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These 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 good auditing practice 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 give a true and fair view of the financial position of the Company as of 31.12.2005, and the results of its operations and its cash flows for the year then ended, in accordance with good accounting practice in Norway
- the Company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice 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, 7. mars 2006

Deloitte

Hans Grønnestad

State Authorised Public Accountant (Norway)

www.gassco.no

Gassco AS PO Box 93 NO-5501 Haugesund, Norway.
Visiting address: Bygnes, Kopervik. Phone +47 52 81 25 00

