



06

Annual report

CONTENTS – GASSCO ANNUAL REPORT 2006

OUR BEST YEAR SO FAR	PAGE	3
DIRECTORS' REPORT 2006	PAGE	5
CORPORATE GOVERNANCE	PAGE	13
FINANCIAL STATEMENTS 2006	PAGE	19
NOTES	PAGE	23
AUDITOR'S REPORT	PAGE	30



Brian D Bjordal
President and CEO of Gassco



Our best year so far

Deliveries of Norwegian gas to Europe have almost doubled since Gassco was established in the spring of 2001.

Norway ranked at the end of 2006 as the world's third largest gas exporter, and met about 15 per cent of Europe's needs for this commodity. The Norwegian ability to deliver has great significance for security of supply in such countries as the UK, Germany and France. In other words, the way we at Gassco exercise our operatorship has significance for the energy requirements of millions of people. This is a big responsibility, and one we will approach with respect. But there is no need to allow our operator duties and the importance of secure supplies to keep us awake at night.

I have no difficulty in accepting that we initially appeared a rather uncertain and unclear player. We had to gain experience in order to form a view of who we are and to play the role assigned to us as a company. After five years of operation, however, I think we can reasonably claim to have been a success.

We had our best year so far in 2006. Together with the companies who provide technical services on our behalf, we have managed to reverse a negative trend for health, safety and the environment (HSE), and to get a better grip on the challenges facing us in this area at the end of 2005. At the same time, the flow of gas through the transport system has lived up to the expectations of shippers about the way we discharge our operator duties.

The integrated gas transport system has been described as a "jewel" of the Norwegian continental shelf. That might sound a little pompous. But it is nevertheless true that, in overall terms, this system is unique – even on a global basis. Nobody is likely to be surprised to learn that I am very concerned to take good care of this jewel. The welfare of the transport system is at the top of our agenda in Gassco, whether this involves making existing facilities more robust or developing new infrastructure as part of an integrated perspective.

We are also very gratified to have been entrusted with assignments over and above our primary area of responsibility. This confirms that we enjoy the confidence both of the government and of industrial players. In late 2005, the Ministry of Petroleum and Energy commissioned us to coordinate the job of identifying value chains for carbon dioxide. After six months of work, we could submit a report to the minister in June which identified 11 value chains based on Norwegian and foreign carbon sources. We concluded in October that the technical basis exists for a new gas transport system to eastern Norway and western Sweden. Danish interests have also subsequently signed up to these plans, and the project is moving steadily towards an investment decision in 2009.

The petroleum industry has always been a dynamic business. Statoil and Hydro announced plans to merge in December. It is not difficult to agree that these two companies will be stronger in the international arena together rather than separately. On the NCS, the merged company will be a formidable power factor and hold 80 per cent of all operatorships. The question is how that power will be exercised. At the same time, it is important to remember that the NCS is more diverse today than it has ever been. We in Gassco have also noted great interest from international players who want to participate in the remaining gas resources on the NCS. This is very positive, because diversity is always the best condition when demanding challenges need to be overcome. The principal challenges on the NCS over the next few years will relate primarily to our ability to ensure development of the resource potential. Success with exploration and new discoveries over the next few years will be crucial for the long-term perspective.

The level of activity was high in 2006, with the focus on important projects such as Ormen Lange, Langeled and Snøhvit. At the same time, however, we have seen developments forced onto the waiting list because their cost is too high. We must be prepared for the possibility that the level of costs could continue to act as brake both on making older installations more robust and on developing new fields and infrastructure over the next few years.

Climate policy is on the agenda to stay. At conferences where a single conservationist used to be wheeled out as an alibi, none of the speakers can now avoid this issue. It could be tempting to ask how deeply ingrained this environmental commitment is with some players. For my part, I am convinced that leaders in the oil and gas industry – such as myself – must not play a reactive role in environmental discussions. We should rather take an active part in the debate and become contributors to the job of finding the right solutions.



Directors' report

Gas deliveries from the NCS are rising and have never been higher than now.

Introduction

Gassco is a state-owned limited company which operates the integrated gas transport system from the NCS to European countries. Framework conditions for Gassco, including 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 respective accounts. They also finance Gassco's operation, with the company making cash calls in advance on the basis of liquidity budgets and forecasts. 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.

Comprising pipelines, gas treatment facilities, platforms and receiving terminals in continental Europe and the UK, the integrated transport system is under constant development.

Daily gas production from the NCS exceeded 300 million standard cubic metres for the first time on Monday 11 December 2006. At 31 December, the integrated transport system for Norwegian gas to Europe could deliver in the order of 350 million cubic metres per day. That represents a doubling over five years.

Organisation

Gassco had 155 permanent employees at 31 December 2006. Six employees completed personal development programmes in 2006 which gave formal credits in the Norwegian educational system. Four of these were women. Several of these employees are upgrading their qualifications – from engineer to graduate engineer, for instance.

Women account for 30 per cent of Gassco's workforce. Four of 14 new recruits with higher education in 2006 were women. Recruiting more women with higher education is a priority for the company.

In determining and negotiating pay, Gassco places special emphasis on equal treatment of men and

women. The company has six part-time employees, all female. Each of these can transfer to full-time working at short notice should they wish to. Gassco currently has one office trainee.

The company initiated a management development programme in 2006, which is due to continue in 2007-08. Both existing executives and selected candidates for management posts will participate in the programme.

Health, safety, the environment and quality

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.

Gassco's management system covers such aspects as registration, reporting, investigation and follow-up of incidents and non-conformances. This is important for achieving continuous improvement in the HSE area. The company has defined performance indicators which show how HSE results are developing over time. That helps to identify trends in order to ensure that improvement measures are as effective as possible. An important part of the management system is the contingency plan and associated emergency response organisation. The latter held and participated in several exercises in 2006, including a major national anti-terrorism test and a big exercise related to the Draupner S/E platforms, where a gas leak with subsequent explosion was simulated.

HSE trends for the company's business were positive in 2006, with a decline in the frequency of critical incidents and personal injuries. The company takes the view that improvement measures implemented both in 2006 and in earlier years underlie this positive development. Introducing an expanded HSE training programme for everyone working at the Kårstø processing plant is one example.

The working environment in Gassco is good. Organisational surveys conducted in 2006 yielded positive results. Specific targets for 2006 were an overall sickness absence below three per cent and zero occupational

Directors' report



illnesses. Results for the year show that overall sickness absence was three per cent for Gassco's operator area and 1.4 per cent for the company's own employees.

Twenty-seven personal injuries were suffered in 2006, of which nine resulted in lost time. None of the incidents caused loss of life. A total of seven incidents defined as critical occurred in 2006, and six of these were classified as HSE-critical. Five of the incidents 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. An incident is defined as critical if it results in a large loss of production. A total of five gas leaks occurred during 2004 at Gassco-operated installations. Four related to the operation of processing plants on land, while one was on an offshore installation. No fires occurred at any Gassco installation during the year.

Gassco operated all its facilities and installations within prevailing emission/discharge permits. Nor have operations led to extensive acute emissions or discharges.

The company purchased 4 000 European Union emission allowances (EUAs) for the Dunkerque terminal and 15 000 for the St Fergus terminal in 2006, corresponding to 19 000 tonnes of carbon dioxide. These were intended to meet requirements in excess of the allocated free allowances.

HEALTH AND SAFETY PERFORMANCE

	2006	2005
Deaths	0	0
Total personal injuries	27	43
Lost-time injuries (included in total personal injuries)	9	17
Fires	0	2
Gas leaks	5	5
Critical incidents	7	24
Emissions/discharges in excess of licence limits	0	0

EMISSIONS/DISCHARGES TO THE NATURAL ENVIRONMENT

		2006	2005
To the air	Nitrogen oxides	965 tonnes	1 144 tonnes
	Carbon dioxide	1 378 kilotonnes	1 394 kilotonnes
	Safety flaring	27 kilotonnes	32 kilotonnes
To water	Oil	476 kilograms	403 kilograms
	Phenol	92 kilograms	88 kilograms
	TOC	6 293 kilograms	7 814 kilograms
To soil	Oil	0 litres	2 215 litres

Directors' report



System operation

Gas deliveries from the NCS are growing, and have never been higher than at present. The start-up of the new Langeled South gas transport system and a new gas export compressor at Kollsnes boosted total transport capacity from the NCS by almost 25 per cent compared with 2005.

Britain ranks as the most dynamic gas market in Europe. Higher deliveries to the UK via Langeled South have increased the need for information. It has transpired that relatively small changes in deliveries to the British market can yield big price variations. Information about planned maintenance and deliveries is accordingly much in demand from both the media and the authorities in the UK.

The fact that a number of the Norwegian fields have a gas quality which requires their production to be processed or blended before delivery to the buyer presents a challenge. Through extensive blending of gas flows, Gassco has nevertheless managed to deliver gas to the agreed quality specifications virtually all the time. The gas flows are blended in an optimum way with the aid of advanced mathematical models. To be prepared for future challenges, it has been resolved to construct a new model which can be used for transport modelling and leak detection.

Planning of vessel traffic to and from Kårstø calls for careful coordination with daily gas transport to avoid full product stores and field shut-downs. No incidents occurred during 2006 in relation to coordination which had any significance for gas transport. A total of 638 ship calls were recorded at Kårstø during 2006, loading 8 369 426 tonnes of liquids. In addition, 1 485 642 tonnes of liquids produced at Kollsnes were delivered via Vestprosess to Mongstad.

Directors' report

Capacity administration

Two capacity booking rounds are held in Gassled during 2006. The results of these rounds indicate that little spare capacity is available for sale to the primary market during the contract years up to 2015 and 2016.

Gassco held a Langeled investor booking round in March 2006, when the owners of Langeled South were able to book capacity up to their share of the investment in accordance with applicable rules. Langeled South was incorporated in Gassled from 1 September 2006, and Easington became a new exit point in the dry gas area from 1 October.

Operation and development of installations

Availability at the big processing plants in the integrated transport system was very high in 2006. The Kårstø facility achieved a plant availability of 98.03 per cent. Unavailabilities related largely to operational disruptions in process trains and compressor problems. The Craier plant, which became operational in 2005 to cope with an increase in carbon-rich gas to Kårstø, functioned satisfactorily. The Kollsnes processing facility achieved a plant availability of 97.88 per cent. Unavailabilities were largely caused by operational disruptions related to compressors and the condensate stabilisation system. Some shutdowns were also experienced because of voltage drops in the power supply.

After the sixth export compressor had been installed at Kollsnes on 1 October, a capacity test showed that this plant can produce 143 million standard cubic metres of sales gas per day with an optimum blend of gas from the fields which deliver to it. However, the condensate stabilisation system represents a bottleneck. The decision was accordingly taken to invest in a new compressor and stabilisation unit.

The Kårstø master plan (KMP) was established in 2005 with the aim of identifying measures which could further enhance the robustness of the facilities at this plant and, if possible, expand their capacity. About 50 sub-projects were identified at an early stage in the process. Two of these were defined as early projects for completion in 2007 and 2008 respectively. Twenty-five others have been matured and concentrated in the Kårstø expansion project (KEP) 2010, with the first of the sub-projects due for completion in 2010.

A technical availability of 99.98 per cent was achieved for the transport network, which is regarded as a very good result.

In cooperation with ConocoPhillips, Gassco is well under way with projects relating to bypassing and removing the H7 platform on the Norpipe line. Plans call for H7 to be bypassed in the summer of 2007, with the platform removed at a later date (tentatively set at 2014).

The start-up and operation of the Langeled South pipeline and the receiving terminal at Easington in the UK were implemented as planned from 1 October 2006. With the incorporation of Langeled South in Gassled, Gassco has taken over the operatorship of this pipeline, the Easington terminal and the completion of Langeled North. The northern leg of the pipeline is due to be ready in mid-May 2007 in order to deliver gas from the Sleipner fields for testing the Ormen Lange and Nyhamna installations and to commence regular gas exports from Ormen Lange on 1 October 2007.

In August 2006, the Gassled joint venture decided that Gassco should execute the activities required to take over day-to-day operation of the continental receiving terminals from 1 July 2007. The project to implement this takeover has been established, and is on schedule.

A cost-saving programme was adopted for Gassled in 2004 with the ambition of trimming NOK 500 million per year from operating expenditures by the end of 2009. The budget process for 2007 has shown that this target is very challenging, but the ambition is still to maintain the overall target of reducing annual operating costs by NOK 500 million.

Infrastructure development

Gassco performs annual analyses to identify future transport needs and requirements for reducing the effect of bottlenecks in the system. Based on reported requirements from shippers, these assessments result in a transport plan. A perspective analysis was also performed in 2006, providing integrated NCS-wide assessments of future transport scenarios for the next 25 years and strengthening the basis for ensuring that observations from the transport plan also apply in a longer-term perspective.

The company has a central and coordinatory role in the gas network expansion (GNE) project, which aims to assess an increase in processing capacity at Kollsnes—including new gas transport solutions—based on higher gas offtake from the Troll field. In addition, opportunities for linking gas from fields in the Tampen and Halten/Nordland areas to a possible new transport solution from Kollsnes will be evaluated.

Directors' report

These transport concepts include both continental and British alternatives for reception, as well as options which involve partial use of existing gas infrastructure.

Challenges posed by the carbon dioxide content in gas due to be piped to Kårstø for processing from 2014 are confirmed by the 2006 transport plan. Assessments made by Gassco on the basis of updated transport requirements reported from shippers show that this challenge could arise as early as 2010, and even sooner for small volumes. In order to handle the increased carbon dioxide quantities, a project has been initiated to assess opportunities for diluting the carbon content in the gas transport system. Prospects for building plants which can separate part of the carbon dioxide volume from the gas flow are also being considered.

A number of concepts have been assessed during the year for increasing capacity in the dry gas network (area D). It was resolved to October to shelve the projects for increasing Sleipner pressure and for a Zeepipe II spur to Heimdal. The decision was taken to continue work on a concept involving the possible dedication of gas flow from Sleipner to Draupner, with a planned start-up in October 2007. This solution would facilitate increased transport capacity to Zeebrugge and Easington.

Gassco resolved in November to launch a study into opportunities for transporting future gas from the Halten/Nordland area. This work is based on information from shippers about future gas transport needs and assessments of the volume base made by the Norwegian Petroleum Directorate. The goal is to find good integrated solutions, taking account of the existing transport network and projects under way which could have synergies with future gas transport from the Norwegian Sea, including Halten/Nordland.

The technical calculations which provide a basis for continuing work on the Gas in Norway/Sweden (GIN-S) project were submitted by Gassco on 5 October to the 18 Norwegian and Swedish industrial and energy companies involved in the financing and planning of a gas pipeline to Grenland and west Sweden. An estimated investment of roughly NOK 7.3 billion would be required to lay a pipeline from the Kårstø processing plant to Grenland and western Sweden. In addition comes the cost of an ethane separation facility in Grenland and reinforcements to the Swedish high-pressure distribution network, including receiving terminals. Work is under way to put the necessary commercial agreements in place for potential future owners of such a pipeline system.

In cooperation with Gassnova and Petoro, Gassco carried out an early-phase project in the first half of 2006 to identify whether a technical, economic and commercial potential exists for creating one or more carbon value chains. This work was commissioned by the Ministry of Petroleum and Energy. The basic idea involves capturing carbon dioxide from emissions sources and transporting it to offshore fields for injection in the reservoir to improve oil recovery. The findings of the project are described in a separate report which has been submitted to the ministry.

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 system integrity, enhancing the energy efficiency of installations and equipment, and reducing emissions.

Execution of this programme relies to a great extent on research expertise in the supplies industry, research institutions such as the Norwegian University of Science and Technology, Sintef, other leading universities, Statoil and other Gassled companies.

Gassco devoted NOK 65 million to the R&D programme in 2006, with its own commitment totalling roughly six work-years. Areas given priority were pipeline technology (including intervention and system integrity), detection of trace elements, and projects related to control of hydrocarbon and water dew points.

The most important deliveries in 2006 were the factory acceptance test for the plant production performance model and the award of a contract to Atmos International Limited UK for acquisition and development of a new pipeline model system due to be implemented and ready for use by 2009. The three most capital-intensive projects in 2006 related to increased processing capacity at Kårstø, the next-generation transport management system and expanded transport capacity. Their overall financing came to NOK 35 million. A new project on integrated operations was introduced in the autumn of 2006 with the aim of reducing losses as a result of production and maintenance shutdowns. The pipeline integrity project was also expanded to embrace work relating to the receiving terminals.

Share capital and shareholders

The company's share capital at 31 December 2006 was NOK 10 million, divided between 10 000 shares. All the

Directors' report



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 625 908, 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.

Prospects

Increased gas consumption in Europe strengthens Norway's position as a reliable and forward-looking producer and supplier of natural gas. Analyses carried out by Gassco on the basis of transport requirements reported by gas owners on NCS show that demand

for capacity is still growing, and that Norwegian gas could account for up to 20 per cent of total European consumption by 2010. This means that daily transport capacity may expand from today's 350 million standard cubic metres to more than 400 million.

The Ministry of Petroleum and Energy has initiated a process together with Gassco and the petroleum industry to ensure that overall considerations are taken into account in work processes relating to infrastructure development on the NCS. A clear understanding of the roles and responsibilities of each player is important. The work of defining roles and responsibilities in this context is due to be completed during the first half of 2007.

Great attention is being paid by the European Union to the security of energy supply. Gassco will ensure that Norway continues to have the most efficient and reliable network for transporting gas to Europe.

Kollsnes, 8 March 2007

Brit Kristin Sæbbø Rugland
Chair

Trygve Refvem
Deputy chair

Elisabeth Krokeide
Director

Arild N. Nystad
Director

Kjellaug Høie Jonassen
Director*

Bjarne Aarset
Director*

Brian D Bjordal
President and CEO of Gassco

*Worker director

Board of directors of Gassco 2006



Brit Kristin Sæbø Rugland

Chair (born 1958)

She is president and owner of Rugland Investment and president of Stavanger Investing AS. Previously president and CEO, Navion, vice president shipping and maritime technology, Statoil, and vice president corporate control, Statoil. Holds a number of industrial directorships and sits on the main board of the Bank of Norway. Chair since 2001.



Trygve Refvem

Deputy chair (born 1947)

He works now as an 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.



Elisabeth Krokeide

Director (born 1962)

She is project director at 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.



Arild N. Nystad

Director (born 1948)

He is a partner in and the managing director of the PetroManagement 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.



Kjellaug Høie Jonassen

Worker director (born 1960)

She is a senior financial coordinator with Gassco. Previously worked with Statoil's product management department and participated in the transfer of operations to Gassco. Chair, Gassco branch, Industry Energy union. Worker director since 2004.



Bjarne Aarset

Worker director (born 1973)

He is a principal engineer with Gassco, and worked earlier for Statoil on transport optimisation and system design. He chairs the Gassco branch of the Norwegian Society of Chartered Technical and Scientific Professionals (Tekna), and has been a worker director since 2006.



Corporate governance

One of the company's principal objectives is to transport gas from the NCS to delivery points in the UK and continental Europe.

Gassco's object

Gassco's object is to operate transport systems for natural gas on and from the NCS, including pipelines, gas processing plants and receiving 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. Their owners and users are represented by many of the big global players in the oil and gas industry. One of the company's principal objectives is to transport gas from the NCS to delivery points in the UK and in continental Europe (Germany, Belgium and France) at the right time and in accordance with prevailing quality requirements. In addition, it is responsible for third-party access to the Norwegian transport system and for ensuring further development of the 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 protected. It will also ensure that the company is run in a safe, efficient, sustainable and ethically acceptable manner.

Management structure and governing bodies

Gassco has an organisation which combines distinctive features from 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 chief executive and the management team. The Gassco board works to safeguard the owner's interests, but also has a responsibility towards employees, government authorities, customers/shippers, partners, suppliers and other stakeholders. 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 statutory provisions.

In addition, Gassco is subject to management and control by Gassled and other joint ventures for which the company exercises an operator function.

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

General meeting

Gassco AS is a limited company wholly owned by the Norwegian state. 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 net profit or coverage of net loss. The general meeting is also responsible for electing directors. Deloitte is the company's external auditor and is appointed by the general meeting. Apart from the owner, the AGM 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 consisted for most of 2006 of six directors, including four 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, instructions for the board and the chief executive, 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 sys-

Corporate governance

tems 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 executives possess broad and in-depth expertise relevant to the company's challenges and the business for which it exercises operator responsibility. The board appoints the chief executive, and establishes instructions both for its own work and 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 indicate 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 support functions.

Responsibilities and roles

The roles of the various governing bodies are defined through legislation, agreements, 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.

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.

The Gassled joint venture is organised through the following committees:

Management
Operating
Commercial
Infrastructure development.

Under its special operator responsibility, Gassco manages the operation of the total transport system and is subject in that context to special requirements for neutrality and non-discrimination. This also includes responsibility for capacity administration and further development of the transport system.

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,

Corporate governance

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 of their basic pay annually, depending on the extent to which targets have been met. Senior personnel have a personal performance contract which specifies 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 pay.

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, Origo and Licenceweb 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. Gassco's management regularly checks that the business is being conducted in accordance with its strategy. 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, in-house instructions and the TSPs' own in-house requirements. The results of these supervisory activities will be used to achieve continuous improvement and further development of Gassco's management system. 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 twice a year. Relevant government agencies, users and owners of the gas transport system and the external auditor supervise Gassco's operatorship, associated activities and management system.

Gassco has established ethical rules in writing for its employees and elected officers, which specify how they should behave in various circumstances. These 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.

Corporate governance



Internal control

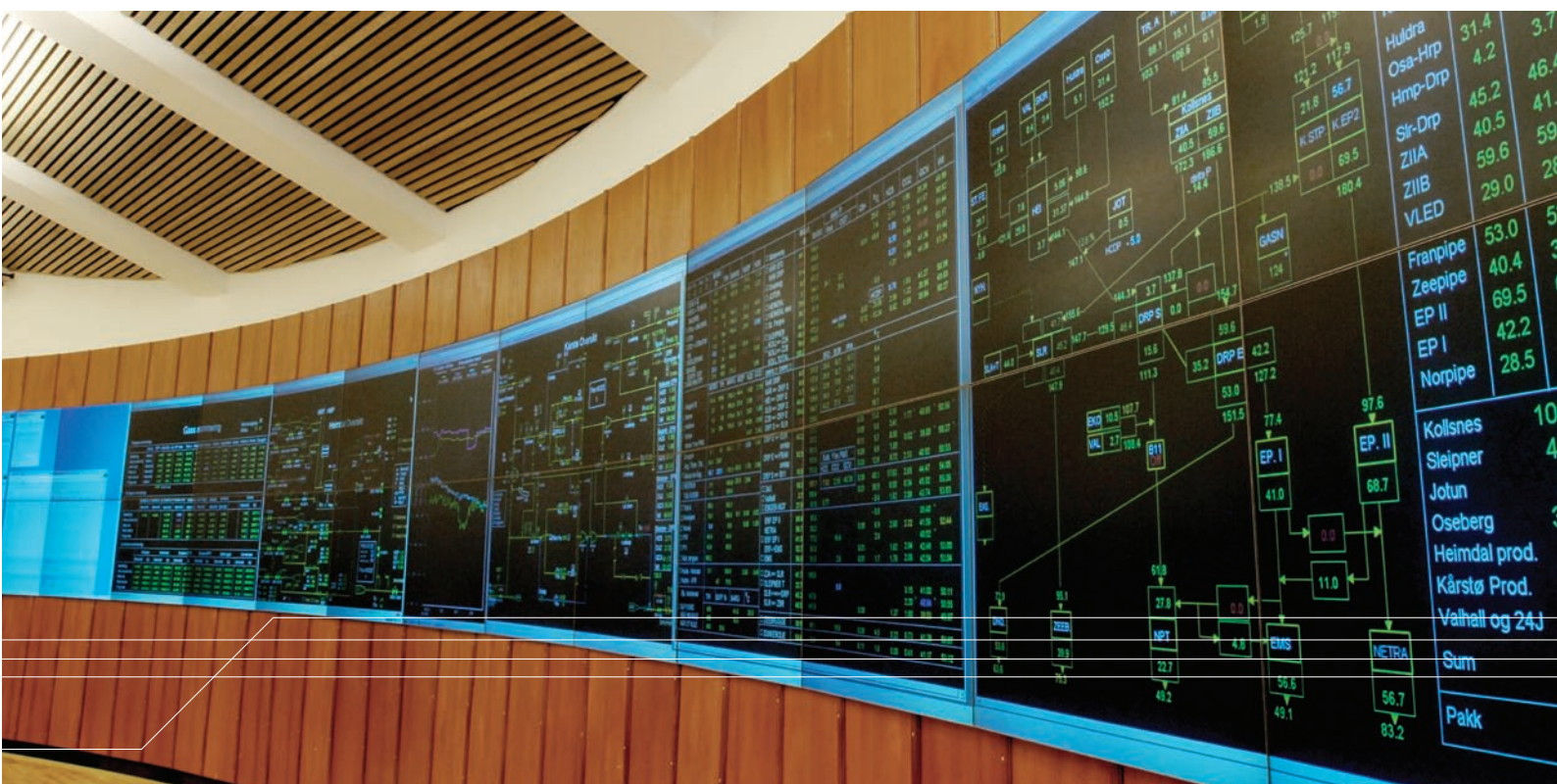
Gassco's management system and associated supervisory routines are based on the internal control principle to ensure that its values are observed as well as to secure efficient, sound and lawful operation in line with specified targets

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.

Risk assessment

Risk assessment is a key part of Gassco's management processes, and is used throughout business, including decision-making processes relating to infrastructure developments and when executing development project to eliminate or reduce identified risks. Risk assessment is pursued in each department and project, and aggregated up to provide an overview of Gassco's most important risks. Combined with associated risk-reducing and/or risk-eliminating measures, this overview forms part of the six-monthly review of the management systems. In addition, quantitative risk analyses are updated in connection with the operation of all facilities which are assessed in relation to established acceptance criteria.



Risk assessment is pursued in each department and project, and aggregated up to provide an overview of Gassco's most important risks. Combined with associated risk-reducing and/or risk-eliminating measures, this overview forms part of the six-monthly review of the management systems. In addition, quantitative risk analyses are updated in connection with the operation of all facilities which are assessed in relation to established acceptance criteria.



Income statement

Amounts in NOK 1 000	Note	2006	2005
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		310	209
Net financial items		310	209
PROFIT BEFORE TAX			
Taxes on ordinary activities	8	(316)	(282)
Profit on ordinary activities		626	491
Profit for the year			
Transfers:			
Allocated to other equity		626	491
Total transfers		626	491

Balance sheet

Amounts in NOK 1 000	Note	At 31.12.06	At 31.12.05
ASSETS			
INTANGIBLE ASSETS			
Deferred taxes	8	0	371
Total intangible assets		0	371
TANGIBLE ASSETS			
Land, buildings and other property	4	18 496	18 703
Operating equipment and fixtures	4	34 162	32 084
Total tangible assets		52 658	50 787
Other long-term receivables			
Other receivables	3,7	39 306	35 895
Total other long-term receivables		39 306	35 895
TOTAL FIXED ASSETS		91 964	87 052
CURRENT ASSETS			
Receivables			
Accounts receivable		20 220	25 959
Other receivables	8	27 736	21 423
Total current receivables		47 956	47 382
Bank deposits and cash	9	126 987	67 570
TOTAL CURRENT ASSETS		174 943	114 952
TOTAL ASSETS		266 907	202 004

Kollsnes, 8 March 2007



Brit Kristin Sæbø Rugland
Chair



Trygve Refvem
Deputy chair



Elisabeth Krokeide
Director



Arild N Nystad
Director

Amounts in NOK 1 000	Note	At 31.12.06	At 31.12.05
EQUITY AND LIABILITIES			
PAID-IN CAPITAL			
Share capital	5	10 000	10 000
Total paid-in capital		10 000	10 000
RETAINED EARNINGS			
Other equity	6	2 906	2 280
Total retained earnings		2 906	2 280
TOTAL EQUITY			
		12 906	12 280
LIABILITIES			
Provisions			
Pension commitments	7	25 779	23 259
Deferred taxes	8	766	0
Total provisions		26 545	23 259
Long-term liabilities			
Long-term interest-bearing debt	10	6 875	11 250
Total long-term liabilities		6 875	11 250
Current liabilities			
Accounts payable		70 031	39 319
Tax payable	8	1 044	0
Tax and other withholdings	9	12 507	11 416
Other current liabilities		136 999	104 481
Total current liabilities		220 581	155 216
TOTAL LIABILITIES			
		254 001	189 724
TOTAL EQUITY AND LIABILITIES			
		266 907	202 004

Kjellaug Høie Jonassen

Kjellaug Høie Jonassen
Director*

Bjarne Aarset

Bjarne Aarset
Director*

Brian D Bjordal

Brian D Bjordal
President and CEO of Gassco

*Worker director

Cash flow statement



<i>Amounts in NOK 1 000</i>	2006	2005
<i>Cash from operational activities</i>		
<i>Profit on ordinary activities before tax</i>	310	209
<i>Depreciation</i>	13 468	13 838
<i>Changes in accounts receivable</i>	5 739	(2 799)
<i>Changes in other current receivables</i>	(6 314)	2 985
<i>Changes in long-term receivables</i>	(3 411)	(5 451)
<i>Changes in accounts payable</i>	30 712	(12 968)
<i>Changes in long-term commitments</i>	2 520	4 089
<i>Changes in other current liabilities</i>	36 107	(48 375)
<i>Net cash from operational activities</i>	79 131	(48 472)
 <i>Cash from investment activities</i>		
<i>Fixed asset investments</i>	(15 339)	(15 135)
<i>Net cash from investment activities</i>	(15 339)	(15 135)
 <i>Cash from financial activities</i>		
<i>Repayment long-term debt</i>	(4 375)	(7 500)
<i>Net cash from financial activities</i>	(4 375)	(7 500)
 <i>Net change in cash and cash equivalents</i>	59 417	(71 107)
 <i>Cash and cash equivalents at 1 January</i>	67 570	138 677
<i>Cash and cash equivalents at 31 December</i>	126 987	67 570

Notes

Note 1. Accounting principles

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

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 short-term 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 rate.

Accounts receivable

Accounts receivable are posted at nominal value less provision for expected bad debts. Provision for bad debts 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 monetary instruments with maturity shorter than three months from the date of their acquisition.

Pensions

The presentation of pensions uses a linear earnings profile and expected final salary as the earnings basis. 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

Note 2. The company's income and expenses

Gassco AS is the operator for pipeline and transport-related gas processing facilities. This responsibility involves system and administrative operations, technical activities 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 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 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.

Notes

Note 3. Payroll expenses, employees, remuneration, loans to employees, etc

Amounts in NOK 1 000

Payroll costs	2006	2005
Salaries	101 895	90 546
Payroll tax	17 868	16 183
Pension costs (see note 7)	16 227	13 057
Other benefits	11 018	10 278
Total	147 007	130 063
Employees	149	138

<i>Remuneration of senior executives</i>	Salary/remuneration	Pension costs	Bonus and other remuneration
<i>President and CEO</i>	2 049	569	345
<i>Directors</i>	980	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 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.

Loans and security provided to management, shareholders, etc

		Amount	Interest rate	Installment plan	Security
<i>President and CEO</i>	<i>Loan</i>	188	0	10 year	0

Loans and security provided to:	Loans	Security
<i>Employees</i>	15 148	0

Auditor

NOK 595 399 was recorded in 2006 as fees to Deloitte Statautoriserte Revisorer AS for auditing Gassco and the licences operated by the company. NOK 30 000 was recorded as fees for other services. Deloitte Advokater DA, which collaborates with Deloitte Statautoriserte Revisorer AS, was paid NOK 101 010 for services related to VAT and reviews related to the transfer of terminals abroad. NOK 1 450 570 was charged in 2006 as fees for other services supplied by collaborating companies abroad. These services related entirely to VAT and local tax reviews in general, and to corresponding reviews relating to transfer of terminals in particular.

Notes

Note 4. Tangible fixed assets

<i>Amounts in NOK 1 000</i>	Buildings and other real property	Operating equipment, fixtures, tools, etc	TOTAL
Acquisition cost 1 Jan 06	19 708	63 530	83 239
Additions 2006	455	15 052	15 507
Disposals 2006	0	(1 788)	(1 788)
Acquisition cost 31 Dec 06	20 163	76 795	96 957
Accumulated depreciation 31 Dec 06	1 666	42 633	44 299
Book value 31 Dec 06	18 496	34 162	52 658
Depreciation 2006	661	12 807	13 468
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 2006 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	

Note 6. Equity

<i>Amounts in NOK 1 000</i>	Share capital	Other reserves	Total equity
Equity 01 Jan 06	10 000	2 280	12 280
Year's change in equity			
Profit for the year		626	
Equity 31 Dec 06	10 000	2 906	12 906

Notes

Note 7. Pension costs, funds and commitments

The licensees refund a pension cost to Gassco which currently constitutes 13,4 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 approved 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 2006 to the pension premium paid by the company.

The company posts the pension commitment at 31 December 2006 to the balance sheet, with the corresponding receivable as a counter item. Charging licensees over and above the premium paid changes the receivable. Net changes in pension obligations are posted as a receivable and as a pension obligation.

Notes

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

<i>Amounts in NOK 1 000</i>	2006
Current value of year's pension earnings	13 806
Interest cost of pension benefit	5 968
Yield on pension funds	(4 528)
Amortisation of loss/(gain)	0
Actuarial loss	609
Net pension cost	15 854

	Secured (group)	Unsecured (contractual pension)	Other unsecured	Total
Earned pension commitments	126 237	7 516	3 212	136 965
Pension funds (at market value)	(88 710)	0	0	(88 710)
Unrecorded effect of estimate changes	(20 260)	(1 377)	(839)	(22 475)
Net pension obligations	17 267	6 139	2 373	25 779

The company has a collective pension plan covering all employees.

Economic assumptions:

Discount rate	5.00%
Expected pension increase/adjustment of NI base rate	2.00%
Expected yield on funds	5.50%
Expected pay regulation	3.00%

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

Notes

Note 8. Income taxes

Amounts in NOK 1 000

Taxes for the year are as follows:	2006	2005
Tax payable	1 044	0
Under-allocation for tax payable earlier years	1 370	0
Refunded tax	(3 867)	0
Changes in deferred tax	1 137	(282)
Tax on ordinary profit	(316)	(282)

Tax payable:	2006	2005
Tax payable in balance sheet	1 044	0

Reconciliation from nominal to effective tax rate:	2006	2005
Profit for the year before tax	310	209
Calculated income tax at nominal tax rate (28%)	87	59
Fiscal effect of the following items :		
Tax effect on net refund under incentive scheme for R&D (Skattefunn)	(403)	(335)
Non-deductable cost, part of pension cost	3 867	0
Refunded tax	(3 867)	0
Non-deductable cost, interest on tax payable	1	(6)
Tax	(316)	(282)
Effective tax rate	(101.9%)	(135.0%)

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

	2006		2005	
	Benefit	Obligation	Benefit	Obligation
Operating equipment	0	2 734	0	4 752
Losses for carrying forward	0	0	6 078	0
Total	0	2 734	6 078	4 752
Deferred tax benefit/obligation	0	(766)	371	0
Deferred tax benefit unrecorded in balance sheet	0	0	0	0
Net deferred tax benefit/obligation in the balance sheet	0	(766)	371	0

Notes

Note 9. Bank deposits

Bank deposits and cash include NOK 6 057 272 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.

Debt falling due more than five years from the end of the financial year totals:

<i>Amounts in NOK 1 000</i>	<i>2006</i>	<i>2005</i>
<i>Bank loan</i>	<i>1 563</i>	<i>2 813</i>





Deloitte AS
Sundgaten 119
5527 Haugesund
Telefon: 52 70 25 40
Telefax: 52 70 25 41
www.deloitte.no

Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Gassco AS

AUDITOR'S REPORT FOR 2006

We have audited the annual financial statements of the Gassco AS as of 31 December 2006, showing a profit of NOK 625.908,-. 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 generally accepted 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 generally accepted 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 generally accepted 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 December 31, 2006, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted 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 generally accepted 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, March 8, 2007
Deloitte AS

Hans Grønnestad (signed)
State Authorised Public Accountant (Norway)

Audit • Tax & Legal • Consulting • Financial Advisory •

Member of
Deloitte Touche Tohmatsu

Org.nr.: 980 211 282



GASSCO AS P O Box 93, NO-5501 Haugesund. Visiting address: Bygnesvegen 75, NO-4250 Kopervik. Tel +47 52 81 25 00 www.gassco.no

