



08

Annual report



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Today's reality

Growth in the world economy gave way in 2008 to an economic downturn and a financial crisis which nobody quite knows the outcome of. Oil prices fell dramatically, while the level of costs in our industry have remained high. Welcome to today's reality.

I gave my comments in our 2007 annual report the title "A different day". My message then was that operations on the Norwegian continental shelf (NCS) faced a trend which differed from the one we had experienced historically. That was still by and large the case at the end of 2008.

Oil production is continuing to fall, our costs remain high and we have complex projects both offshore and on land. At the same time, the climate challenges are here to stay.

But one significant change has occurred. At 31 December 2007, oil was priced at USD 96 per barrel. During the subsequent spring, it reached close to USD 140. By the end of the year, you could hardly get USD 40 for a barrel of North Sea crude. That has been a dramatic decline, which could have consequences for planned projects and investments on the NCS and therefore also for decisions related to the gas transport system.

At a time of great uncertainty in the world economy and growing complexity in our everyday lives, maintaining a strategic grip which takes a long-term view is important. We must jointly exploit and maximise the opportunities which nevertheless exist on the NCS. To manage that, the focus must remain on the classic cornerstones – high standards for health, safety and the environment, cost efficiency, delivering results which live up to user expectations, and a full commitment to human expertise in all its dimensions.

Almost two-thirds of the gas consumed in the European Union comes from external sources. Demand is increasing steadily, and the EU is becoming ever more dependent on imported gas. Security of supply will accordingly remain a key issue for the years to come.

Norway's role as one of the EU's most important energy suppliers gives us a position and a significance in Brussels which we would not otherwise have enjoyed. But that role is a demanding one, with clear performance specifications. For the NCS as a gas producer and for us at Gassco as operator of the transport system, this is primarily a question of reliability and credibility.

We can certainly point to high regularity in our gas deliveries to Europe – not only for 2008, but also for

earlier years. But that performance is not a matter of course. Good results depend on hard and honest toil in this area, as in the rest of the real world.

More wells were drilled on the NCS during 2008 than in any previous year. And 25 discoveries were made. We are nevertheless producing our reserves faster than we are managing to replace them. The picture is more positive for gas than for oil, to be sure, but the signs are that Norwegian gas production is approaching a plateau, too. Accurate communication in this area also contributes to the credible image of the NCS as a gas supplier to Europe.

A long-term approach for us in Gassco relates primarily to operation of the integrated transport system in every dimension – safety, regularity, cost-efficiency and optimum capacity utilisation. In a system where key facilities are aging, increasing robustness has come to describe activities which are in reality about long-term reliability.

Increased robustness is also a common denominator for many of our projects. We have a substantial project portfolio with a high degree of complexity. I am proud of our ability to execute demanding ventures with a relatively small organisation, either alone or in company with our partners. The diverless tie-in of Tampen Link with the Statfjord interfield pipeline system during the autumn is a good example in this respect.

All the same, we still have scope for improvement where projects are concerned. I have noted that the degree of unpredictability in the decision base is too great at the various stages of a number of schemes. We must do better here. More weight must be given to improving processes and enhancing quality.

We will work for unified development of the gas transport system in the overall best interests of the NCS. Our mandate from the government gives us the influence to affect the future of these waters. But such influence must always be exerted with respect for the complementary and strategic relationship between user and producer, and the need for regulation and coordination.




Brian D Bjordal
President and CEO



Directors' report 2008

Introduction

Gassco is a limited company owned by the Norwegian state, which operates the integrated gas transport system from the NCS to European countries.

This system comprises pipelines, gas treatment facilities, platforms and receiving terminals in continental Europe and the UK.

The company's head office is at Bygnes in Karmøy local authority. It also has branches in Germany, Belgium and France, which are responsible for technical operation of the continental receiving terminals.

Framework conditions for Gassco, including the relationship between it and the owners of the gas transport system, are determined by the government. Gassco has entered into agreements on the purchase of operating services at the processing plants in Norway and the receiving terminals in the UK. The owners of the gas resources finance all major investments, which are capitalised in their respective accounts. The owners of the gas transport systems 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. However, changes to the real economy which affect the level of activity in the industry could mean changes in the level of Gassco's activities. Given the company's frame conditions, the annual accounts, balance sheet and liquidity will not be specifically discussed.

Gassco's management system and associated control routines have been constructed on the basis of the internal control principle. This has been done to safeguard the company's assets as well as efficient, acceptable and legal operation in accordance with specified goals. Management and control are exercised through various processes which involve one or more of Gassco's departments. The company's management handbook describes the corporate governance and decision-making structure. Furthermore, a dedicated quality assurance process has been established for projects. Gassco's management reviews the management system twice a year, including the overall risk picture, and regularly checks that the business is being pursued in accordance with the company's overall strategy. The board conducts a similar review

once a year. See the chapter on corporate governance for further details on the company's internal control and risk management system.

Organisation

Gassco had 317 permanent employees at 31 December 2008, including 120 at the continental receiving terminals. Four employees completed personal development programmes in 2008 which gave formal credits in the Norwegian educational system.

Two of them were women. These employees are upgrading their qualifications – from engineer to graduate engineer, for instance. Gassco currently has one office trainee in Norway and three apprentice process technicians in Germany.

The company's job advertisements emphasise its desire for a good gender balance, age spread and diversity in the workforce. Candidates with different ethnic backgrounds are also urged to apply for vacancies. Qualified candidates from a minority background will always be called for interview.

Women account for 21 per cent of Gassco's workforce. Recruiting more female graduates is a priority for the company. In determining and negotiating pay, Gassco places special emphasis on equal treatment of men and women.

Gassco uses a number of systems and tools to ensure systematic employee, management and organisational development. The company established an organisational development plan in 2008 which provides an overall presentation of the measures to be implemented during the coming year.

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

Gassco's philosophy is zero harm to people, the environment and material assets. This view is based on a conviction that all harm can be prevented by systematic and purposeful HSE&Q work. No incidents in Gassco's operator area resulted in loss of life during 2008. The company registered one personal injury classified as serious.

The company's management system covers such aspects as reporting, investigation and follow-up of incidents and non-conformities. This is important for

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achieving continuous improvement in the HSE&Q area. The company has defined performance indicators which show how HSE&Q results are developing over time. That helps to identify trends in order to ensure that improvement measures are as effective as possible. The personal injury frequency is an important performance indicator for Gassco. It came to 6.7 for the company's operator area in 2008, an increase from the year before. That meant Gassco unfortunately failed to reach its 2008 target for this indicator. One injury was classified as serious, while the remaining 39 were of a less serious nature.

The frequency of critical incidents increased slightly from 2007 to 2008. As in the year before, a number of such events in 2008 were related to the category of "dropped objects during work". Gassco will continue to devote great attention to achieving improvements in this area, including among companies which perform operations on its behalf. Special attention is paid to all conditions with the potential for causing a major accident.

An important part of Gassco's management system is its emergency response organisation. The latter held and participated in a number of exercises in 2008.

These were conducted in cooperation either with companies responsible for technical operation of facilities on Gassco's behalf or with employees at its continental receiving terminals.

Gassco registered five fires in 2008. None were classified as very critical.

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

Norway's plan for allocating emission allowances pursuant to the Act on Climate Emission Allowances is still under consideration. Gassco purchased 420 000 tonnes of carbon emission allowances in 2008. The company joined the Industrial Fund for Nitrogen Oxides on 14 November 2008. This fund is primarily tasked with reducing Norway's overall nitrogen oxide emissions by the end of 2011. Through its membership, Gassco is contributing to reaching that target.

The working environment in Gassco is good. This was confirmed by an organisational survey conducted in

HEALTH AND SAFETY RESULTS	Results 2008	Results 2007
Deaths	0	0
Total personal injuries	40	25
Lost-time injuries (included in personal injuries)	19	9
Fires	5	0
Gas leaks	4	1
Critical incidents	12	10
Emissions/discharges in excess of licence limits	0	0

EMISSIONS/DISCHARGES TO THE NATURAL ENVIRONMENT		2008	2007
To the air	Nitrogen oxides	940 tonnes	936 tonnes
	Carbon dioxide	1 460 kilotonnes	1 397 kilotonnes
	Safety flaring	34 kilotonnes	28 kilotonnes
To water	Oil	271 kilograms	362 kilograms
	Phenol	65 kilograms	64 kilograms
	TOC	8 028 kilograms	7 067 kilograms
To soil	Oil	None	None

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2008. Specific targets for 2008 were an overall sickness absence below three per cent. Results for the year show that the overall sickness absence was 2.91 per cent for the whole of Gassled (including providers of technical services) and 1.91 per cent for Gassco employees at Bygnes.

System operation

Norwegian gas exports to Europe through the integrated transport system totalled 94.6 billion standard cubic metres (scm) in 2008. In addition, 1.9 billion scm were delivered for injection into fields on the NCS, while 1.1 billion scm were supplied for domestic consumption. Increases from Ormen Lange and from the Statfjord area via the Tampen Link transport system boosted total deliveries in 2008. Through extensive blending of flows, Gassco delivered 100 per cent of the gas volumes to the agreed quality. When part of the transport system dropped out, gas was lifted from other fields/terminals and guided into the system. This meant that total delivery availability came to 99.78 per cent.

Planning of vessel traffic to and from Kårstø calls for careful coordination with daily gas transport to avoid filling product stores to capacity and causing field shutdowns. No incidents related to coordination occurred in 2008 which had any significance for gas transport. A total of 699 ship calls were recorded at Kårstø during the year, loading 7.54 million tonnes of liquids. In addition, 1.06 million tonnes of liquids produced at Kollsnes were delivered via the Vestprosess pipeline to Mongstad.

Capacity administration

Two capacity booking rounds were held in Gassled during 2008. The results of these rounds indicate that little spare capacity is available for sale in the primary market at the most attractive landfalls before 2017-18. Nevertheless, a good deal of spare capacity will be available earlier than this at the St Fergus landfall in the UK.

Operation and development of installations

Availability at the big processing plants in the transport system exceeded the target set for 2008. Plant availability was 97.7 per cent at the Kårstø facility and 99.28 per cent at Kollsnes. These high figures reflect the abil-

ity to execute planned maintenance when production restrictions arise on the fields. Gassco is currently implementing a number of major projects at its processing plants. Some will continue over the next few years, while others were completed in 2008.

The Kårstø expansion project (KEP2010) was sanctioned in July 2007, and comprises a number of sub-projects which are mainly intended to enhance the robustness of the processing plant. Estimates put the investment at NOK 6.5 billion. Progress with KEP2010 was regarded as good at 31 December, when just over 70 per cent of the detail engineering work and roughly a quarter of the total project had been completed.

A upgrading project covering two compressors and associated systems for safety and pressure protection at Kårstø was completed on schedule in 2008.

The decision was taken in October 2008 to replace four of the systems responsible for fiscal metering of liquid products from Kårstø, which no longer satisfy official requirements. This project has an investment framework of NOK 600 million, and the new metering systems are due to become operational in 2010 and 2011.

A new compressor for flash gas from condensate stabilisation was taken into use at the Kollsnes processing plant in 2008. This project had been prompted by operating problems with two piston compressors for flash gas as well as increased feedstock in the form of heavier hydrocarbons from the Kvitebjørn and Visund fields.

Gassco led the tie-in operation for the Tampen Link and Statfjord interfield pipeline system (Sips) transport systems in the autumn of 2008. The job was conducted in 145 metres of water as a remotely-operated tap and tie-in on a pipeline in full operation. This project represented a milestone as the first time such a tie-in had been completed anywhere in the world without diver assistance.

The gas terminals in continental Europe and the UK achieved an overall technical availability of 99.99 per cent, which is considered a very good result. A number of modification projects were conducted during 2008



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to maintain technical integrity at several of the terminals. Work was conducted in 2008 on technical studies for the necessary maturing of a project to increase robustness, which relates primarily to the Norsesea gas terminal (NGT) in Emden. This has been operational since 1977.

A technical availability of 100 per cent was achieved in the transport network.

Gassco is maintaining the ambitions in the Gassled cost-saving programme, which aims to trim NOK 500 million per year from operating expenditures by 2010. That corresponds to 20 per cent of modifiable operating costs when the programme was adopted in 2004. The company has also started work on a new improvement programme for the 2010-14 period.

Infrastructure development

Integrated further development of the gas infrastructure will be an important instrument for securing effective resource management on the NCS. Gassco prepares an annual transport plan which includes assessments of future requirements for developing transport capacity. These evaluations are based on analyses of user needs.

The 2008 transport plan shows that the gas infrastructure will experience high utilisation over the next five years. A number of new fields are likely to be brought on stream after that. If these developments are to be phased in as additional to gas from existing fields, more transport capacity to new or current markets may need to be established.

In the longer term, the requirement for further development of the gas infrastructure will relate to gas from the Norwegian Sea. Its scope will depend on the resource base and on the extent to which existing infrastructure can be utilised.

On the basis of the findings in the 2008 transport plan, infrastructure development projects have been launched to increase robustness, expand capacity, debottleneck the transport system and tackle gas quality challenges.

A brief summary of the infrastructure development projects being pursued by Gassco in 2008 is provided below.

- Challenges related to an increased carbon content in rich gas arriving at the Kårstø processing plant. Work is continuing on new piping at this facility to boost opportunities for carbon extraction. A decision on this Dixo project is due in 2009.
- The need to reinforce the western part of the gas infrastructure. This GIR project has assessed various reinforcement options with a potential start-up in 2013. Tie-ins to existing UK infrastructure are also being assessed.
- Renewed consideration of export solutions for new gas from the Norwegian Sea. These studies concentrate primarily on using existing gas infrastructure.
- A feasibility study at Kårstø in connection with the Gudrun development to identify necessary modifications for accepting and stabilising light oil and condensate from this field and the Sleipner area.

Agreements have been signed on incorporating Norne gas transport, Etanor and the Kvitbjørn gas pipeline in Gassled.

Industrial and energy companies in Norway, Sweden, Denmark, Germany and Poland are backing the financing and planning of the Skanled gas transport system. If sanctioned for construction, this facility will carry gas to eastern Norway, western Sweden and Jutland in Denmark.

Gassco submitted the basic technical concept for Skanled with associated cost estimates in January 2008 as a foundation for continued work on the project. Plans call for a possible investment decision in October 2009 and a start to operation in December 2012-13.

The Norwegian government has commissioned Gassco to plan solutions for carbon transport and storage from planned capture facilities at Kårstø and Mongstad.

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Recommendations by the company were submitted in December 2008 to Gassnova and the Ministry of Petroleum and Energy. These cover the transport solutions to be included in the concept which will continue to be pursued up to an investment decision in the fourth quarter of 2009. The work has embraced solutions to various locations on the NCS for long-term sub-surface storage. The planned pipelines would be the longest of their kind ever built for underwater carbon transport, which makes such solutions particularly demanding.

Research and development

A strategy was adopted in early 2008 for Gassco's research and development programme in 2008-12. This represents a continuation and further development of the 2003-07 R&D programme.

The following areas have been established for the 2008-12 period to support Gassco's core business, commercial goals and strategic targets.

1. Safety and transport system integrity.
2. System capacity and quality, which involves increased utilisation and optimisation of the transport system.
3. The environment, with the focus on carbon management and energy efficiency.

4. Technology monitoring and network building to identify new technologies which can be applied to Gassco's operatorship.

Gassco devoted about NOK 90 million to its R&D programme in 2008. The development of the pipeline modelling system (PMS) and the plant production performance model (3PM) also received NOK 15 million in additional finance from Gassled.

About nine work-years were devoted to implementing the programme, of which four concentrated on the PMS and 3PM.

The most important deliveries in 2008 were:

- the Art gas pipe scanner prototype, representing new technology for condition monitoring of pipelines
- the water ingress detector prototype, representing new technology for corrosion detection in process-plant pipework
- improved calculation of available capacity
- the 3PM to optimise capacity utilisation at Kårstø
- the PMS upgrade for transport modelling
- developing a database for information on trace components.



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Share capital and shareholders

The company's share capital at 31 December 2008 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

Net profit was NOK 401 670, which will be transferred to other equity.

Pursuant to 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

Substantial gas resources remain on the NCS. The Norwegian Petroleum Directorate estimated in 2008 that proven reserves totalled 2 217 billion scm, with possible total gas resources coming to about 6 000 billion scm. Of the latter, 21 per cent has already been produced. Exploration activity remains high and further discoveries are expected. This could mean that gas deliveries from the NCS may continue for another 40-50 years.

The oldest parts of the existing gas infrastructure have been in operation for more than 30 years. With the pipelines considered to be in good condition, it is expected to be possible to extend their commercial life substantially. However, Gassco is paying great attention to increasing the robustness of existing infrastructure. A number of projects are under way, with major


modifications planned at the Kårstø and Kollsnes processing plants and the receiving terminal in Emden. Robustness is also being enhanced on the Draupner and B11 platforms. Because the gas infrastructure is aging, boosting robustness will continue to occupy a key place in coming years. Gassco will pay constant attention to safe and effective utilisation of the gas infrastructure in order to position the NCS as a reliable supplier of gas to the European market.

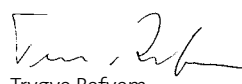
Together with Gassco and the petroleum industry, the Ministry of Petroleum and Energy has initiated a process to ensure that a coherent approach is taken to the development of the gas infrastructure on the NCS. The work of defining roles and responsibilities in this context has been completed, and new updated regulations were introduced with effect from January 2009.

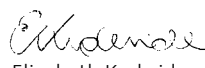
Should systems for transport and storage of carbon dioxide from industrial sources come to be installed on the NCS, Gassco's leading-edge expertise in submarine pipeline transport would make it natural for the company to seek a key role related to the construction and operation of such systems. That would mean a further extension of its core competence to embrace the special conditions related to carbon transport.


Gassco expects to play a substantial role in the continued development of Norway's gas infrastructure, and pays constant attention to having the right expertise for discharging the multitude of tasks embraced by its operator area.

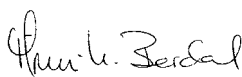
Bygnes, 27 March 2009



Brit Kristin Sæbø Rugland
Chair


Trygve Refvem
Deputy chair

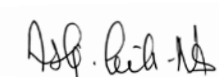

Elisabeth Krokeide
Director


Sverre Quale
Director


Mimi K Berdal
Director


Leif Idar Langelandsvik
Director*


Marianne Hirzel
Director*


Asbjørn Eik-Nes
Director*


Brian D Bjørdal
President and CEO

*Worker director

Board of directors of Gassco 2008



Brit Kristin Sæbø Rugland

Chair (born 1958). She is president of Rugland Investment and Stavanger Investing AS. Previously president and CEO, Navion, vice president shipping and maritime technology, Statoil, and vice president corporate control, Statoil. Sits on the main board of the Bank of Norway and holds a number of industrial directorships. Ms Rugland has been chair of Gassco since 2001.



Trygve Refvem

Deputy chair (born 1947). He works 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. Mr Refvem has been 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 advisor, Sparebanken Nor, and controller, Moelven Industrier ASA. Holds a number of industrial directorships. Ms Krokeide has been a director since 2001.



Mimi K Berdal

Director (born 1959). She works today as a lawyer with her own law practice. Previously served as a legal advisor with Total Norge, and as an associate and partner in the Arntzen de Besche law firm. She also holds a number of directorships in listed and private companies covering various sectors. Ms Berdal has been a director since 2007.



Sverre Quale

Director (born 1956). He is chief executive of Avinor. Previous appointments include director of the Norwegian Railway Inspectorate and the Norwegian Accident Investigation Board. He chairs the board of Oslo Airport Gardermoen and is a director of Esra Norway. Mr Quale has been a director since 2007.



Leif Idar Langelandsvik

Worker director (born 1975). Elected by and from among the employees. He is a senior engineer and head of the Gassco branch of the Norwegian Society of Chartered Technical and Scientific Professionals (Tekna). Mr Langelandsvik has been a worker director since 2008.



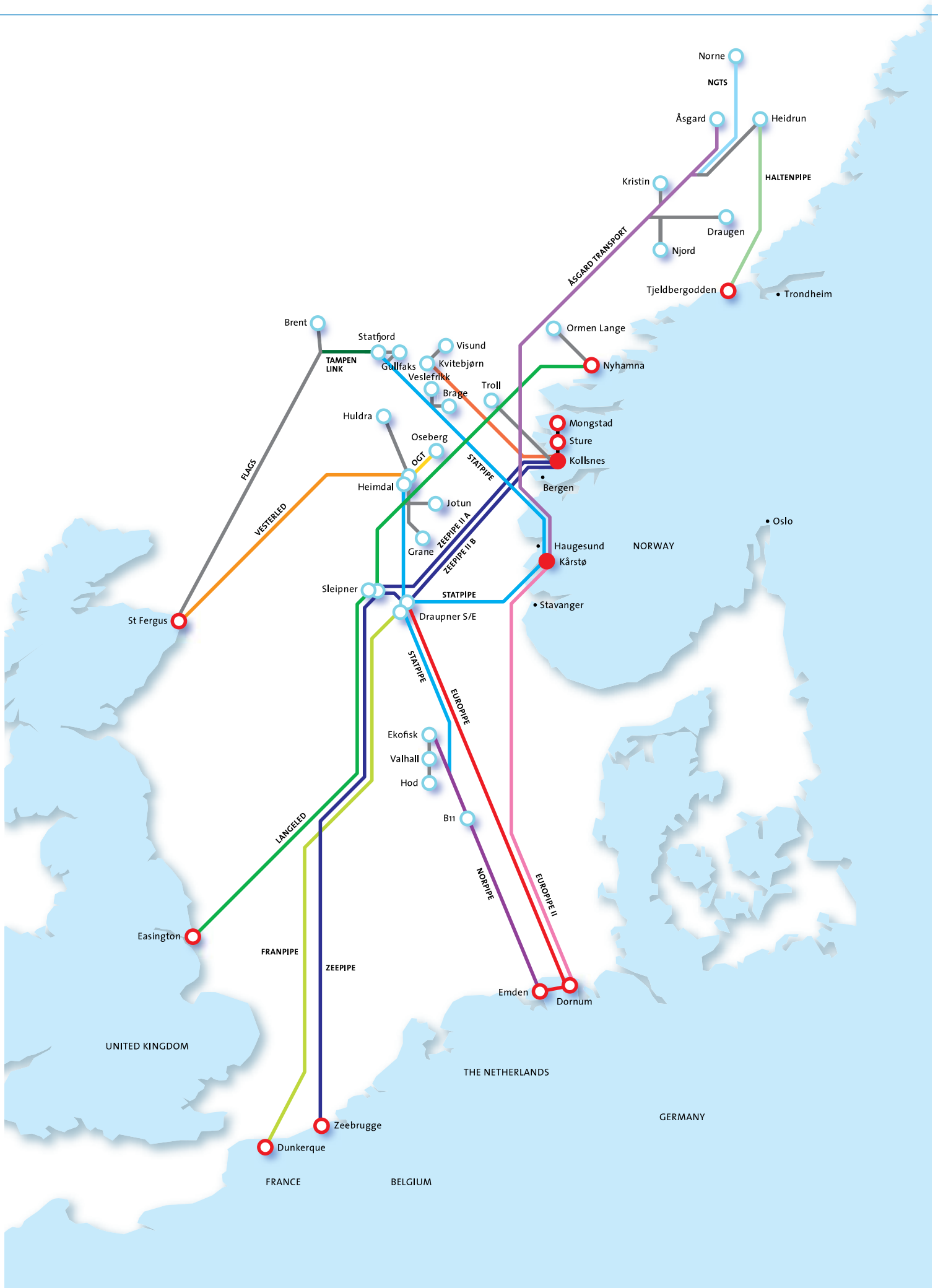
Marianne Hirzel

Worker director (born 1969). Elected by and from among the employees. She is a document controller and head of the Gassco branch of the Industry Energy (IE). Ms Hirzel has been a worker director since 2008.



Asbjørn Eik-Nes

Worker director (born 1952). Elected by and from among the employees. He is a senior engineer and head of the Gassco branch of the Norwegian Society of Engineers (Nito). Mr Eik-Nes has been a worker director since 2008. He also served on the board in 2004-05.



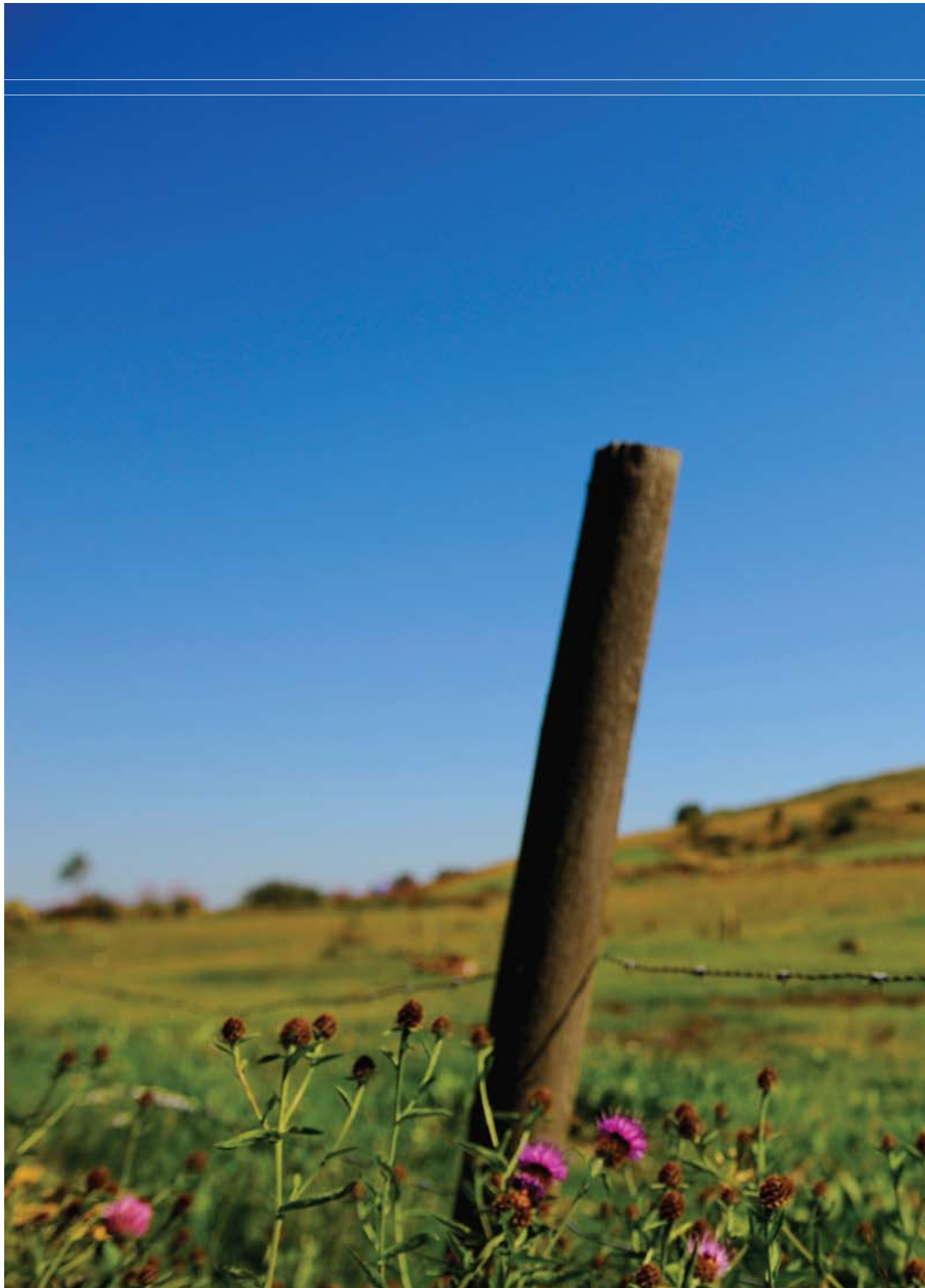
Gassco's activities

Financial information and other key figures in this section refer to Gassco's whole area of responsibility.

GAS TRANSPORT	2008	2007
Regularity (%)	99.78	99.71
Quality (%)	100.00	99.99
Gas delivered to receiving terminals in Europe (billion scm)	94.60	86.68
Highest delivery per day (billion scm)	331.77	314.67
Average gross calorific value (kWh/scm)	11.16	11.11
Total volume other products supplied by gas transport system (million tonnes)	8.60	9.42
Ship calls at Kårstø	699	755

FINANCIAL FIGURES (amounts in NOK million)	2008	2007
Gross tariffs	26 616	26 416
Operating expenses	5 205	4 101
Operating investments	790	618
Major investments	2 676	1 593
* KEP2010 - Kårstø	1 304	512
* CY2008 deethaniser	231	165
* Kollsnes flash gas and condensate project	768	716
* Tampen Link	249	131
* Turboexpander upgrade, Kollsnes	124	69







NATURGASS



Corporate governance

Corporate governance in Gassco accords with relevant points in the Norwegian code of practice in this area. Since the company is not listed, but is a wholly state-owned limited company which does not have the generation of profits and income for the shareholder as its object, most aspects relating to shareholders are not relevant and are accordingly not covered below.

Gassco's object

Gassco's object is defined in its articles of association. This 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. The owners and users of the gas transport systems 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 ensuring third-party access to the Norwegian upstream transport system and for further development of the system pursuant to applicable legislation.

Gassco regards its employees as the key to value creation and further 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, and the users and owners of the gas transport system 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 its duties under public and civil law

respectively calls for a clear and well-communicated understanding of Gassco's role, responsibilities and objectives in relation to the owners and users of the gas transport system, the Ministry of Petroleum and Energy 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, infrastructure owners, suppliers and other stakeholders.

Its established management principles are intended to secure good operation 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

The general meeting is the company's 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, such that the board overall possesses appropriate and adequate expertise. Women account for 60 per cent of directors elected by the general meeting. 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

Corporate governance



Ministry of Petroleum and Energy is responsible for day-to-day supervision of Gassco.

Corporate assembly

Pursuant to the Act on Limited Companies, a corporate assembly must be elected for companies with more than 200 employees. However, agreement can be reached between the company and a majority of its employees or unions representing two-thirds of the workforce that the company should not have such a body. Gassco took over direct operation of the terminals in Germany, Belgium and France during 2007, which meant that its workforce exceeded 200. Agreement was reached with the employees in spring 2008 that no corporate assembly should be established. The employees have elected an additional worker director with alternate.

Board of directors

The Gassco board comprises eight directors, including five elected by the general meeting and three elected by and from among the employees. All directors elected by the general meeting are independent of the company's day-to-day management and significant business associates. None of the directors own shares in the company. 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 authority matrix.

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 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.

Between six and 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 extra 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 established a compensation committee to support its work on the conditions of employment for the chief executive and on the framework and principles governing such conditions for other employees (including bonus schemes). The committee has three members, who are the chair, the deputy chair and one director.

The chief executive is not a director, but has been given a power of attorney on behalf of the company. Power of attorney has also been given to the heads of the German and Belgian terminals.

Gassco's management

The chief executive 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 concerning the company's object
- section 4, sub-section 9 of the Norwegian Petroleum Activities Act concerning Gassco's special operator responsibility, and sections 59 and 66 of the petroleum regulations concerning Gassco's capacity administration and responsibility for the system and its further development
- the operator and ownership agreements for the transport joint ventures and companies.

Corporate governance

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 covering 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 in the conduct of its operatorship have been specified by statute.

Management system

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 board ensures that the company is run in accordance with its strategy and objectives through board meetings and periodic reporting from the company. The management system is reviewed annually by the board. Gassco's executive management regularly checks that the business is being conducted in accordance with its strategy. Relevant government agencies as well as users and owners of the gas transport system also conduct regular audits and supervision of Gassco's operatorship, associated activities and management

system. The chief executive is responsible for ensuring that the executive management reviews the management system twice a year.

The management manual, including the subordinate procedures, describes the company's corporate governance. The management system includes Gassco's management model, also known as "the Gassco house", which describes all the company's processes. This model was updated in 2008. Gassco gives weight to good internal control, and has designed the management system and associated control systems accordingly in order to safeguard the company's values and efficient, acceptable and legal operation in accordance with specified objectives.

A special decision-making process has been established for issues to be considered by the executive management and the board. An authority matrix has been established, along with a decision matrix which describes the decision-making processes to be observed for important issues, with whom the final decision rests, 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 verification process for projects has been established and approved by Gassled.

Primary responsibility for Gassco's supervisory role rests with the HSE&Q department, which draws up annual supervision plans. This unit conducts internal audits and audits the work of the TSPs. These audits are supplemented by other types of supervision/ verification carried out by units and projects in Gassco, both in-house and of TSPs. This helps to ensure that operations are conducted as required by legislation, statutory regulations, in-house instructions and the TSPs' own in-house requirements. The results of these supervisory activities are used to achieve continuous improvements 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.



Corporate governance



Gassco has established ethical rules in writing for its employees and elected officers. 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. The regulations have been updated in accordance with new guidelines from the owner. 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.

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 as a tool in the business areas.

Risk assessment

Risk assessment plays a key part of Gassco's management processes, and is used throughout business, including decision-making processes relating to infrastructure developments and to the execution of development projects. 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 system. Quantitative risk analyses are updated in connection with the operation of all facilities, which are assessed in relation to established acceptance criteria. Action lists with deadlines for implementation are drawn up for identified risks.

Remuneration

The general meeting determines directors' fees, which are independent of the results achieved. None of the directors elected by the general meeting have separate

assignments for the company in addition to their directorship. The auditor's fee is also determined by the general meeting. The board determines the remuneration of the chief executive, including any bonus payments, in accordance with guidelines set by the general meeting. The chief executive determines the remuneration of other members of the company management team in accordance with guidelines set by the board. 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 an annual bonus of up to 7.5 per cent of their basic pay, depending on the extent to which targets have been met. Senior personnel have a personal performance contract which specifies stringent requirements for results with 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 website. Licenceweb is used as a means of communication with Gassco's owners, while Authorityweb is used with the authorities.

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





Income statement

Amounts in NOK 1 000	Note	2008	2007
Operating income and expenses			
Other operating income	2	0	0
Total operating income	2, 3, 4	0	0
Financial income and expenses			
Other interest income		644	511
Net financial items		644	511
PROFIT BEFORE TAX			
Tax on ordinary activities	8	242	(156)
Profit on ordinary activities		402	667
Net profit			
		402	667
Transfers:			
Allocated to other equity		402	667
Total transfers		402	667

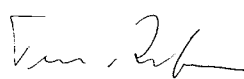
Balance sheet

Amounts in NOK 1 000	Note	At 31 Dec 08	At 31 Dec 07
ASSETS			
Intangible assets			
Deferred taxes	8	6 52	52
Total intangible assets		6 52	52
Tangible assets			
Land, buildings and other property	4	36 711	30 109
Operating equipment and fixtures	4	38 259	34 956
Total tangible assets		74 971	65 066
Other long-term receivables			
Other receivables	3, 7	80 355	49 304
Total other long-term receivables		80 355	49 304
TOTAL FIXED ASSETS		155 978	114 421
CURRENT ASSETS			
Receivables			
Accounts receivable		27 123	95 488
Other receivables		4 112	44 438
Total current receivables		31 235	139 925
Bank deposits and cash	9	169 886	107 774
TOTAL CURRENT ASSETS		201 121	247 699
TOTAL ASSETS		357 100	362 121

Bygnes, 27 March 2009



Brit Kristin Sæbø Rugland
Chair



Trygve Refvem
Deputy chair



Elisabeth Krokeide
Director



Sverre Quale
Director

Amounts in NOK 1 000	Note	At 31 Dec 08	At 31 Dec 07
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	3 975	3 573
Total retained earnings		3 975	3 573
TOTAL EQUITY		13 975	13 573
LIABILITIES			
Provisions			
Pension commitments	7	43 769	21 993
Total provisions		43 769	21 993
Long-term liabilities			
Long-term interest-bearing debt	10	4 375	5 625
Total long-term liabilities		4 375	5 625
Current liabilities			
Accounts payable		80 053	73 238
Tax payable	8	3 865	2 679
Tax and other withholdings	9	22 009	17 065
Other current liabilities		189 055	227 948
Total current liabilities		294 982	320 930
TOTAL LIABILITIES		343 125	348 548
TOTAL EQUITY AND LIABILITIES		357 100	362 121

Mimi K Berdal
Director

Leif Idar Langelandsvik
Director*

Marianne Hirzel
Director*

Asbjørn Eik-Nes
Director*

Brian D Bjordal
President and CEO

*Worker director

Cash flow statement

Amounts in NOK 1 000	2008	2007
Cash from operational activities		
Profit on ordinary activities before tax	644	511
Depreciation	19 630	18 435
Changes in accounts receivable	68 364	(75 268)
Changes in other current receivables	40 325	(16 701)
Changes in long-term receivables	(31 051)	(9 998)
Changes in accounts payable	6 815	3 207
Changes in long-term commitments	21 775	(3 786)
Changes in other current liabilities	(33 605)	96 480
Net cash from operational activities	92 897	12 880
Cash from investment activities		
Net additions/disposals of fixed assets	(29 535)	(30 843)
Net cash from investment activities	(29 535)	(30 843)
Cash from financial activities		
Repayment long-term debt	(1 250)	(1 250)
Net cash from financial activities	(1 250)	(1 250)
Net change in cash and cash equivalents	62 112	(19 213)
Cash and cash equivalents at 1 January	107 774	126 987
Cash and cash equivalents at 31 December	169 886	107 774

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.

Description of the company's business

Gassco AS was established on 14 May 2001 and is wholly owned by the Norwegian state. The company is responsible for transporting gas from the Norwegian continental shelf to Europe. Its head office is located in Bygnes, and it also has branch offices in Germany, Belgium and France.

General rules 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

Accounts for the branches abroad are compiled in the currency primarily used in their operations (EUR).

Balance sheets are converted from foreign currencies to Norwegian kroner at the exchange rate prevailing on 31 December, while income statements are converted at the average exchange rate for 2008.

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 a 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 recorded 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 pipelines and transport-related gas processing facilities. This responsibility involves system and administrative operations, 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 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, number of employees, remuneration, loans to employees, etc

Amounts in NOK 1 000

Payroll costs	2008	2007 *
Salaries	225 832	163 192
Payroll tax	44 026	29 302
Pension costs (see note 7)	48 837	24 459
Other benefits	21 338	13 981
Total payroll costs	340 033	230 933
Work-years performed	311	298

* 2007: Belgium, France and Germany included from 1 July 2007

Remuneration of senior staff	Salary/remuneration	Pension costs	Bonus and other remuneration
President and CEO	2 336	887	407
Directors	1 335	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, shareholder, etc

	Loan	Interest rate	Instalment plan	Security
President and CEO	404	0	10 years	0

Loans and security provided to:

	Loans	Security
Employees	54 517	0

Auditor

NOK 727 212 was recorded in 2008 as fees to Deloitte Statautoriserte Revisorer AS for auditing Gassco and the licences operated by the company. NOK 400 242 was recorded as fees for other services. Deloitte Advokater DA, which collaborates with Deloitte Statautoriserte Revisorer AS, was paid NOK 142 850 for services related to VAT and tax. NOK 1 579 737 was recorded in 2008 as fees for other services supplied by collaborating companies abroad. Of this amount, NOK 971 445 related to auditing of branches and terminals abroad and the remainder to VAT and local tax reviews.

Notes

Note 4. Tangible fixed assets

Amounts in NOK 1 000	Buildings and other real property	Operating equipment, fixtures, tools, etc	Total
Acquisition cost 1 Jan 08	33 113	90 535	123 648
Additions 2008	9 013	20 695	29 708
Disposals 2008	-	(3 176)	(3 176)
Conversion difference	-	60	60
Acquisition cost 31 Dec 08	42 126	108 114	150 241
Accumulated depreciation 31 Dec 08	5 415	69 855	75 269
Book value 31 Dec 08	36 712	38 260	74 971
Depreciation 2008	2 411	17 219	19 630
Economic lifetime	5.5 years	3, 5, 7, 8 and 10 years	
Depreciation plan	Linear/none	Linear	



Note 5. Share capital and shareholder information

The share capital in the company at 31 December 2008 consisted 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

Amounts in NOK 1 000	Share capital	Other equity	Total equity
Equity 1 Jan 08	10 000	3 573	13 573
Year's change in equity			
Net profit		402	
Equity 31 Dec 08	10 000	3 975	13 975

Notes

Note 7. Pension costs, funds and commitments

The company has pension plans which cover all its employees in Norway, Germany and Belgium.

In Norway, the plan gives the right to defined future benefits (defined benefit plan). These depend primarily on the number of years of pensionable service, the level of pay at retirement and the size of state pension benefits. The company has both secured and unsecured plans. The calculated premium for all the plans is expensed annually and refunded by the licensees, and reflects the fact that the pension responsibility vis-à-vis the operator is settled as the obligation arises. For this reason, refunded pension costs from the licensees differ from premium payments and costs pursuant to the Norwegian Accounting Standard.

Pursuant to the Norwegian Accounting Standard for Pensions (NRSP), the company posted the pension commitment at 31 December 2008 to the balance sheet with the corresponding receivable as a counter item. Changes in the calculated pension commitment will thereby have no effect on results.



Notes

The table below shows pension cost plus funds and commitments pursuant to the NRSP.

Amounts in NOK 1 000	2008
Present value of pension earning for the year	22 644
Interest cost on pension commitment	8 574
Return on pension funds	(6 620)
Administration costs	631
Recorded implementation effect	0
Recorded estimate loss/(gain)	2 975
Net pension cost	28 204



Amounts in NOK 1 000	Secured (collective)	Unsecured (early retirement)	Other unsecured	Total
Earned pension commitments	309 266	14 822	60 397	384 485
Pension funds (at fair value)	(122 590)	0	0	(122 590)
Unrecorded effect of estimate changes	(196 039)	(5 243)	(41 589)	(242 871)
Net pension commitment	(9 363)	9 579	18 808	19 024

Economic assumptions:

Discount rate	4.30%
Expected return on pension funds	6.30%
Expected pay growth	4.50%
Expected adjustment to current pensions	4.25%
Expected change in National Insurance base rate (G)	4.25%

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

Employees in Germany have defined benefit pension plans which are treated for accounting purposes as described above. The capitalised pension commitment at 31 December 2008 was EUR 852 296.

Employees in Belgium have both defined benefit and defined contribution plans. Funds in these plans at 31 December 2008 satisfied local requirements.

Notes



Note 8. Income taxes

Amounts in NOK 1 000

Taxes for the year are as follows:	2008	2007
Tax payable	3 865	2 679
Underprovision for tax payable earlier years	0	0
Refunded tax	(3 022)	(2 018)
Changes in deferred tax	(600)	(817)
Tax on ordinary profit	242	(156)

Tax payable:	2008	2007
Tax payable in balance sheet	3 865	2 679

Reconciliation from nominal to effective tax rate:	2008	2007
Profit for the year before tax	644	511
Calculated income tax at nominal tax rate (28%)	180	143
Fiscal effect of the following items:		
Tax effect on net refund under incentive scheme for R&D (Skattefunn)	0	(293)
Non-deductible cost, part of pension cost	3 079	2 018
Refunded tax	(3 022)	(2 018)
Non-taxable income, interest on tax receivable	5	(6)
Tax	242	(156)
Effective tax rate	37.6%	(30.6%)

Specification of temporary differences and their net tax effect:

	2008		2007	
	Benefit	Obligation	Benefit	Obligation
Temporary differences, operating equipment	2 329	0	184	0
Net deferred tax benefit/obligation in the balance sheet	652	0	52	0

Notes

Note 9. Bank deposits

Bank deposits and cash include NOK 8 402 092 in tied tax withholdings.

Note 10. Guarantees and long-term debt

The company has furnished a bank guarantee in the amount of EUR 500 000 to the Belgian authorities relating to Belgian VAT and a statutory bank guarantee in the amount of EUR 2 000 000 related to ATZ pension in Germany.

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

Amounts in NOK 1 000	2008	2007
Bank loan	0	625





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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Gassco AS

AUDITOR'S REPORT FOR 2008

We have audited the annual financial statements of Gassco AS as of 31 December 2008, showing a profit of NOK 401.670. 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 prepare 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 other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We have 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 law and regulations and give a true and fair view of the financial position of the Company as of 31.12.2008, 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 see to proper and well arranged recording and documentation of accounting information in accordance with 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 law and regulations.

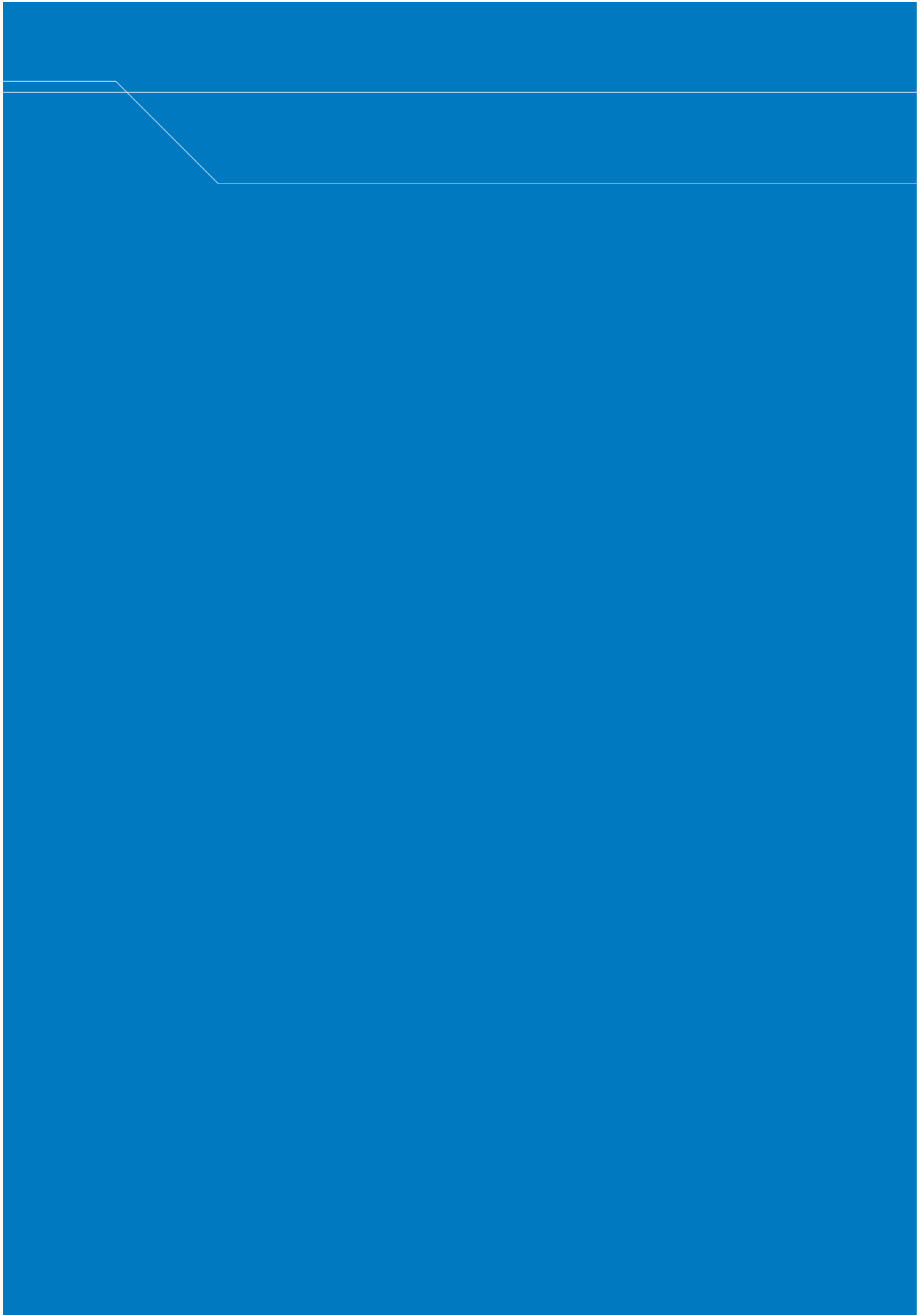
Haugesund, 27. mars 2009
Deloitte AS

Knut Terje Fagerland (signed)
State Authorised Public Accountant (Norway)

Audit • Tax & Legal • Consulting • Financial Advisory.

Member of
Deloitte Touche Tohmatsu

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