

# Annual report 2010



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# A year of sharp reminders

**The beginning of 2010 provided me with a sharp reminder of what Norwegian gas means for Europe and how important security of supply is for those who depend on our ability to fulfil our contractual deliveries.**

On the first weekend of January, the Kårstø gas processing plant had to shut down partially because of problems with cold and ice. The position was further exacerbated when the Nyhamna processing facility for gas from Ormen Lange also ran into operating problems for the same reason. Overnight, 30 per cent of Norwegian gas exports were put on hold. With Europe in the grip of a deep freeze, that was extremely bad news.

Petroleum and energy minister Terje Riis-Johansen visited us on 15 January for a town hall meeting. He also reported on worried phone calls from a ministerial counterpart in a country where Norwegian gas means a great deal for its energy position. The minister concerned needed reassurance that everything possible was being done on the Norwegian side to overcome the supply difficulties.

We have a good history where operational reliability is concerned, both at Kårstø and at other plants. Everyone involved also made a massive commitment to solving the difficulties posed by cold and ice in January, but it is also the case that we will not compromise on safety. If problems arise with technical safety equipment, such as a flare system in this case, the plant is shut down or production reduced until the issue has been identified and solved. Nevertheless, we must be ready to accept that safe and efficient operation is also about delivering in line with the expectations which the outside world has of us.

Like very many colleagues in the industry, I have thought a lot about *Deepwater Horizon*. How can we take on board the lessons offered by the tragedy on that drilling rig off Louisiana on 20 April?

Under the auspices of the Norwegian Oil Industry Association (OLF) as the sector's common arena, projects have been established with a view to learning lessons, transferring experience and implementing improvements. That is good. Personally, I think a lot depends on people's expertise and understanding of the complex operations they are assigned to execute. We often read in investigation reports on undesirable incidents that procedures were not observed. There is no reason to cast doubt on such conclusions. But we can ask why this is so. Was comprehension of the procedure for a complex operation inadequate, or was attention concentrated in the wrong place? One thing is certain – people will make mistakes. We must therefore develop systems, procedures and attitudes which counter that reality.

Critical incidents are about individual risk and conditions which could lead to a major accident, also known as process risk. Within our operatorship, we see a steady decline in incidents involving personal injury. I am very pleased about that. Critical incidents related to process risk will call for greater attention in future. We have also implemented measures which will give us better tools for measuring risk exposure and creating the basis for improvement.

In speeches and press interviews during 2010, I pointed out that the supply of gas feedstock from the Norwegian continental shelf (NCS) to the big process plants in Norway could decline substantially in the long term. My intention has been to voice a realistic view based on facts. We conduct annual transport analyses based on bookings from the licensees on the NCS.



A handwritten signature in dark ink, appearing to read 'Brian D Bjordal'.

**Brian D Bjordal**  
President and CEO

“But it is also the case that we will not compromise on safety.”

## A year of sharp reminders

The pictures which emerge from these analyses illustrate a reality which, in my view, needs to be communicated. The question of access to long-term gas resources will not resolve itself, and the challenges cannot be put on hold. Many people undoubtedly agree with me on that. So it must also be permissible to hope for greater national consensus that gas is an asset rather than a problem. That would accord with the way this fantastic natural resource is perceived in the rest of Europe.

There is no reason to write off the gas perspective for the NCS as uninteresting. Remaining gas reserves are substantial, and the willingness to explore among a steadily growing number of players is definitely present. In addition, we have a unique transport system in global terms.

During October, we celebrated the 25th anniversary of one of Norway's most important industrial plants. I have said before and am happy to repeat yet again: the story of Kårstø is nothing less than fantastic. The plant's capacity has increased more than fivefold since it came on line in 1985, and it now receives gas from 30 fields on the NCS. And more are in view. Operator BP has notified the start-up of Skarv in the Norwegian Sea during August 2012. Rich gas from that field will be important in maintaining the feedstock base for Kårstø during the years to 2020. So will the light oil due to begin flowing from Gudrun to Kårstø in January 2014 – a conceptual choice which also involves the plant in a demanding project to make the necessary modifications.

The Gjøa field began production on 7 November, with gas deliveries to the British transport system via the new Gjøa gas export pipeline. As operator for the latter, we are also directly responsible for its technical operation. In an overall picture where it is becoming ever more important to tap the resources in small and marginal fields, Gjøa and its associated infrastructure could also become a future hub for a number of developments.

Integrated and cost-effective transport solutions are crucial, too, for maturing new fields in the Norwegian Sea. When making our assessments in Gassco, we always start from an optimum utilisation of existing facilities and infrastructure. Nor should it come as any surprise that the most profitable solution is to exploit existing installations – in which billions of kroner have already been invested – as much as possible and for as long as possible. Landing gas from

Luva and Linnorm at Nyhamna accordingly represents the best option because much of the infrastructure is already in place. In addition, the Langeled pipeline has spare capacity for transporting the gas on to market.

I can well understand that industry and politicians in Nordland county want to participate in future value creation from gas fields in the Norwegian Sea. We have also proposed that a T-joint be incorporated in the gas pipeline from Luva to Nyhamna. That would mean a possible future landing of gas in Nordland could be achieved at a lower cost.

At a conference this autumn, I gave a paper entitled *The decade for settling accounts*. I consider it absolutely essential that we look up from time to time, and at least make an attempt to understand the challenging reality we are all part of. The world's energy needs are growing, and the climate challenges remain unsolved. At the same time, it is completely unrealistic to believe that fossil energy will lose ground in a global perspective over the next 20 years. Growth will be driven in particular by increased energy requirements in Asia, the Middle East, Latin America and Africa. Economic development, energy consumption and greenhouse gas emissions are closely related. Most people agree that it will be impossible to curb greenhouse emissions by denying others access to the growth and prosperity enjoyed by the industrialised world.

I will not attempt to solve the challenges related to energy consumption and climate here. Rather, I would conclude with a reminder that society's attitudes will always develop, and hopefully to the better. As humans, we have at least a fantastic ability to adapt. "The decade for settling accounts" could therefore also become "the decade of opportunities".





GASSCO  
VAR LERVÅG

GASSCO







# Directors' report 2010

## 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 processing 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. The company's primary roles can furthermore be defined as the exercise of special and normal operator responsibilities. The special operatorship refers to the performance of duties allocated to Gassco pursuant to the Norwegian Petroleum Activities Act and associated regulations. It relates to system operation, capacity administration and infrastructure development. The normal operatorship refers to the technical operation of processing plants, pipelines, platforms and receiving terminals pursuant to the Norwegian Petroleum Activities Act's provisions on operator responsibility. These duties are regulated in the operator agreement with the Gassled joint venture, which owns the vast majority of the infrastructure for transporting gas from the NCS.

Gassco has entered into extensive agreements on the purchase of technical operating services for processing plants, pipelines and platforms and for the receiving terminals in the UK. The company itself meets the need for technical operating services at the receiving terminals in continental Europe and for the Gjøa Gas Export line which became operational in 2010.

Gassco does not make a profit or a loss from its operations. This means that its economic and financial risks are very limited. Consequently, the annual accounts, balance sheet and liquidity are not specifically discussed.

The management handbook describes the company's corporate governance. Risk assessments are conducted and the most hazardous activities at any given time identified in order to ensure safe operation of the business. Gassco's management system and

associated control routines ensure efficient and acceptable operation in accordance with applicable legislation and specified goals. Control routines are implemented in three ways:

- self-regulation in the line organisation
- independent checks conducted by an impartial party
- independent system audits conducted by an impartial party.

Gassco's corporate social responsibility is secured as an integrated part of day-to-day operation and through its enterprise and risk management. The company satisfies the 10 principles in the UN's Global Compact for human rights, environmental protection and anti-corruption.

## Organisation

Gassco had 325 permanent employees at 31 December 2010, including 125 at the continental receiving terminals. Two employees completed personal development programmes in 2010 which gave formal credits in the Norwegian educational system. These employees are upgrading their qualifications – from engineer to graduate engineer, for instance. Gassco currently has two office trainees in Norway and five apprentice process technicians in Germany.

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

Women account for 23 per cent of Gassco's workforce. Recruiting more women 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 prepares an annual organisational development plan, which provides an overall presentation of the measures to be implemented during the coming year.

Continuous organisational development with the focus on the right expertise to meet forthcoming challenges will continue to occupy a key place.



At Dornum.

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

The working environment in Gassco is good. The company had a target for 2010 of an overall sickness absence below three per cent. That goal was met. Sickness absence for the year was 2.28 per cent in the whole of Gassled (including providers of technical services) and 2.48 per cent for Gassco employees.

Gassco has ensured good physical access to its buildings.

Gassco has a philosophy of zero harm to people, the environment and material assets. This 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 2010.

The company's management system covers such aspects as reporting, investigating and following up incidents and non-conformities. This is important for achieving continuous improvement in the HSE&Q area. The company has defined key performance indicators (KPIs) 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.

Gassco has established a large number of safety barriers to avoid major accidents at its facilities. The condition and functionality of these are verified

regularly. Gassco is concerned to ensure that the barriers are maintained in an integrated and consistent manner, so that the risk of major accidents is reduced as much as possible. The company has been the prime mover in developing a system which automatically generates overviews to show whether specified barriers in the facilities are intact. Together with a selection of proactive indicators, such as the backlog of maintenance work related to safety-critical work, their condition is aggregated on a monthly basis and reported in the PMG performance management tool. The system was tested in 2010 and forms part of the KPI scorecard for Gassco in 2011.

Experience transfer and durable learning from incidents have again been followed up systematically in 2010 through analyses and purposeful action. The effect of measures adopted is followed up, and they are reinforced as required.

The frequency of incidents defined as critical increased from 2009. Of 14 critical incidents in 2010, compared with five the year before, three were serious personal injuries and three were potentially serious personal injuries. Five of the incidents related to dropped objects, while the remainder were classified as critical in terms of their HSE potential. The personal injury frequency for Gassco's operator area in 2010 was three, a decline from 4.2 in 2009. Two gas leaks were

HEALTH AND SAFETY RESULTS	Results 2010	Results 2009
Deaths	0	0
Total personal injuries	22	24
Lost-time injuries (included in personal injuries)	9	7
Fires	0	3
Gas leaks	2	1
Critical incidents	14	5
Emissions/discharges in excess of licence limits	0	1



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EMISSIONS/DISCHARGES TO THE NATURAL ENVIRONMENT		Emissions 2010	Emissions 2009
To the air	Nitrogen oxides	<b>1 137.8 tonnes</b>	902 tonnes
	Carbon dioxide	<b>1 372 kilotonnes</b>	1 341 kilotonnes
	Safety flaring	<b>24.6 kilotonnes</b>	17.3 kilotonnes
To water	Oil	<b>442 kilograms</b>	394 kilograms
	Phenol	<b>62 kilograms</b>	77 kilograms
	TOC	<b>8 491 kilograms</b>	5 421 kilograms
To soil	Oil	<b>1 346 litres</b>	1 040 litres

recorded in 2010, but neither were classified as very critical. Gassco registered no fires within its operator area in 2010. The company will continue to devote great attention to achieving improvements in the HSE and quality area, including at the companies which perform operations on its behalf. Special attention is paid to all conditions with the potential for causing a major accident.

An important component of Gassco is its emergency response organisation, which held and participated in a number of exercises during 2010. Some of these were conducted in cooperation with companies responsible for technical operation of facilities on Gassco's behalf, and others with employees at its continental receiving terminals.

Gassco operated all processing plants, pipelines and platforms in accordance with applicable emission/discharge permits in 2010. Nor did operations lead to extensive acute emissions/discharges. A total of three accidental discharges of oil and chemicals occurred, all of which were classified as less serious.

A carbon strategy was established for Gassco in 2010, covering the challenges faced by the company in related to greenhouse gas emissions. Gassco purchased 140 000 emission allowances in 2010, corresponding to 11 per cent of its total greenhouse gas emissions during the year.

### System operation

Deliveries from the NCS to Europe stabilised at a high level, even though the year was affected by many shutdowns associated with planned maintenance of processing plants, platforms and receiving terminals. Certain technical operating challenges, both on platforms and at processing plants, gave a total delivery availability of 98.78 per cent compared with 99.60 per cent in 2009.

Gas deliveries began in 2010 from Gjøa, Vega and Vega South. These fields are now incorporated in Gassco's systems and form part of operational gas transport.

Vessel traffic with natural gas liquids (NGL) from Kårstø calls for careful coordination with daily gas transport to avoid full product stores and field shutdowns. A total of 596 ship calls were recorded at Kårstø during the year, whilst there were no incidents in relation to coordination which were significant for gas transport.

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<b>GAS TRANSPORT</b>	<b>2010</b>	2009
Regularity (%)	<b>98.78</b>	99.60
Quality (%)	<b>99.98</b>	99.98
Gas delivered to receiving terminals in Europe (billion scm)	<b>97.33</b>	96.56
Highest delivery per day (million scm)	<b>355.40</b>	352.20
Average gross calorific value (kWh/scm)	<b>11.09</b>	11.11
Total volume other products supplied by the gas transport system (million tonnes)	<b>7.62</b>	8.66

### Capacity administration

Two capacity booking rounds were held in Gassled during 2010. Particular interest was shown in capacity for area D (the dry gas zone) during the period from 2018 and beyond. Capacity in Zeebrugge is now sold out for the whole licence period up to 2028, while capacity in Easington is sold out up to 2027.

The investors in the Gjøa gas export line have reserved capacity for production from Gjøa, Vega and Vega South in accordance with the applicable regulations which regulate the access regime.

Otherwise, work on amending the access regime continued throughout the year in cooperation with the Ministry of Petroleum and Energy. New regulations are expected to be circulated for consultation during 2011.

### Operation and development of installations

Gassco's goal for the operation and development of its facilities is that this work will be pursued in a safe, reliable and cost-effective manner. Technical integrity is managed through risk-based follow-up of plant operation.

Given the ageing of the transport system, enhancing the robustness of the facilities will be a key concern in the years to come. Gassco will devote constant attention to the safe and efficient utilisation of the transport system in order to position the NCS as a reliable supplier of gas to the European market.

Production availability for the processing plants at Kårstø and Kollsnes presented challenges in 2010. The Kårstø facility was partially shut down for a number of days in January and December because of ice formation in the flare system. At the end of January, the plant was also forced to reduce its delivery capacity following the

failure of a compressor. Delivery capacity from Kollsnes had to be reduced towards the end of the year because of problems associated with the NGL plant.

Plant availability in 2010 was 95.73 per cent at the Kårstø facility, and 95.62 per cent for Kollsnes.

Gassco is currently implementing a number of major projects at its processing plants. The project portfolio at Kårstø includes the Kårstø expansion project (KEP2010) to enhance robustness, the double inlet crossover (Dixo) to increase flexibility in blending carbon dioxide with gas at Kårstø, and the NGL metering project, which involves replacing the fiscal metering systems for liquid products. The total investment estimate is NOK 7.5 billion. Progress with the projects was regarded as good at 31 December.

The Kollsnes project (KOP) was sanctioned for this processing plant in 2009. It is intended to enhance the robustness of the facility and implement the tie-in of a new pipeline from Troll A. The investment estimate is NOK 2.8 billion, and the project was on schedule at 31 December.

A technical availability of 99.74 per cent was achieved by the transport network, which broke down into 99.49 per cent for platforms and 100 per cent for pipelines.

It was resolved in 2010 to implement the project to install a bypass in the Norpipe line around the B11 compressor platform. This decision was prompted by the fact that B11 would have faced substantial upgrading costs, while capacity in Norpipe is sufficient without the use of the platform's compressors. Good progress is also being made with the removal projects for the H7 and 2/4-S platforms.

The receiving terminals in continental Europe

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and the UK achieved an overall technical availability of 99.94 per cent in 2010.

Gassco began preparations during the year to take over direct operation of the Langeled receiving terminal at Easington in the UK from 1 October 2011. The Gassco AS UK Branch has been established, and recruitment is well under way. Construction is under way on a building with a control room and facilities for the new organisation. Work on establishing the necessary systems, procedures and agreements is on schedule.

A concept was also chosen in 2010 for a project to enhance robustness in Emden, which relates primarily to the Norse Gas Terminal (NGT).

As an extension to Gassled's cost-saving programme, which was completed at the end of 2009, Gassco has established a new Gassled improvement programme for 2010-14, with attention focused on HSE, regularity and costs.

### Infrastructure development

Coherent further development of the gas infrastructure is 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 based on analyses of user needs. The 2010 transport plan indicates that utilisation of the gas infrastructure will be good for the next few years. However, the forecast shows a declining trend because gas production further ahead in time is uncertain. Unlike earlier transport plans, the 2010 version shows a clear change in that new discoveries cannot fully replace production from existing fields. The resource base in some fields has also been reduced.

A brief summary of the infrastructure development projects pursued by Gassco in 2010 is provided below.

- Assessments of plans for development and operation (PDOs) of the Valemon and Marulk fields.
- Assessments related to the choice of transport solution from the Valemon, Marulk, Pan Pandora and Jordbær fields.
- Studies at Kårstø for receiving light oil and condensate from Gudrun and Dagny/Ermintrude from 2014 and 2016 respectively.
- Studies of various transport solutions for new gas in the Norwegian Sea, covering the Luva and Linnorm fields and other resources in the area, for start-up in

2016. The options considered include a direct pipeline with a landfall at Nyhamna, a landfall in Nordland with liquefied natural gas (LNG) to the market, and a landfall in Nordland with a pipeline to Nyhamna and LNG to the market. The chosen solution with a direct link to Nyhamna will use the existing transport system in a cost-effective manner.

- Studies of new capacity to Denmark and the Netherlands, and for an expansion of capacity at the Zeebrugge receiving terminal.
- Tie-in of rich gas from Goliat to the processing plants at Tjeldbergodden, Nyhamna, Kollsnes or Kårstø as ship-borne compressed natural gas (CNG). This work is expected to be continued to a choice of concept during 2011.
- Studies related to gas quality in rich gas entering the Kårstø processing plant.
- Studies of the need for transport solutions in the far north, including possible industrial use of natural gas.

Gassco is responsible for developing carbon transport solutions from planned full-scale capture plants at Kårstø and Mongstad. Conceptual studies were carried out in 2010 for a pipeline from Mongstad to alternative geological stores on the NCS. They also covered research and development in areas related to this part of the carbon chain, where the industry needs to learn more.

An active involvement will be maintained by Gassco in efforts to develop systems which can reduce carbon emissions.

In collaboration with Gassnova, Gassco delivered updated assessments in March 2010 related to solutions for integrating the process plant and Naturkraft's gas-fired power station at Kårstø. Submitted to the Ministries of Petroleum and Energy and of the Environment, the report describes opportunities and challenges presented by integrated solutions which permit carbon capture, transport and storage from Kårstø.

Opportunities and challenges for gas-based industry have been discussed in Gassco's industry arena with industrial upstream and downstream players. The focus of this work in 2010 was on carbon emission requirements and regulatory regimes in Norway and the European Union. The 2011 programme will relate in part to development of the far north.

Meetings were held in the new user fora – the User

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Advisory Board, the Operating Forum, the NGL Forum and the NCS Gas Infrastructure Forum. An assessment conducted among participants shows that they are satisfied with the structure and content of the various fora.

### Research and development

The following areas have been selected for the 2010-2015 period to support Gassco's core business, commercial goals and strategic targets.

- Pipelines: secure their integrity and prevent major accidents.
- Offshore installations and land-based plants: protect facilities against major accidents, secure the desired regularity and develop methods for optimum maintenance.
- Capacity and gas quality: ensure optimum production and the correct gas quality. Attention in each of these areas will be concentrated on projects which support the safety and environmental aspects.

Gassco devoted about NOK 75 million to its R&D programme in 2010. Some nine work-years were devoted to implementing the programme. The most important projects were:

- a model for optimising capacity utilisation at Kårstø (3PM)
- upgrading the transport model system for Gassco's control room (New PMS)
- leak monitoring to learn more about third-party incidents
- development of new technology for internal inspection of pipelines (ART – gas pipe scanner prototype)
- development of new burner technology for boilers at Kårstø (NBD)

- ageing programme to safeguard the integrity and robustness of the facilities
- project activities to help reduce and manage carbon emissions.

The PMS, 3PM and NBD projects received a total of NOK 62 million in supplementary funding from Gassled.

### Share capital and shareholders

The company's share capital at 31 December 2010 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 926 111, 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. Exploration activity remains high and the licensees on the NCS expect to make additional discoveries.

Two special features of the NCS could nevertheless influence the future development of the gas transport system. One is the decline in output from producing gas fields, and the other is the development of new areas north of the existing transport system in the Norwegian Sea and the far north.

Viewed overall, work on the transport plan shows that existing gas transport and processing capacity could be a challenge in the 2016-2020 period. After that,



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spare capacity will grow unless additional discoveries are made and new field developments matured. Field development projects currently under way could meet their transport requirements through existing capacity

in the system with two exceptions – Luva and Linnorm – in the Norwegian Sea, where a new transport system must be established.

Bygnes, 31 March 2011

Brit Kristin Sæbø Rugland  
Chair

Trygve Refvem  
Deputy chair

Elisabeth Krokeide  
Director

Sverre Quale  
Director

Mimi K Berdal  
Director

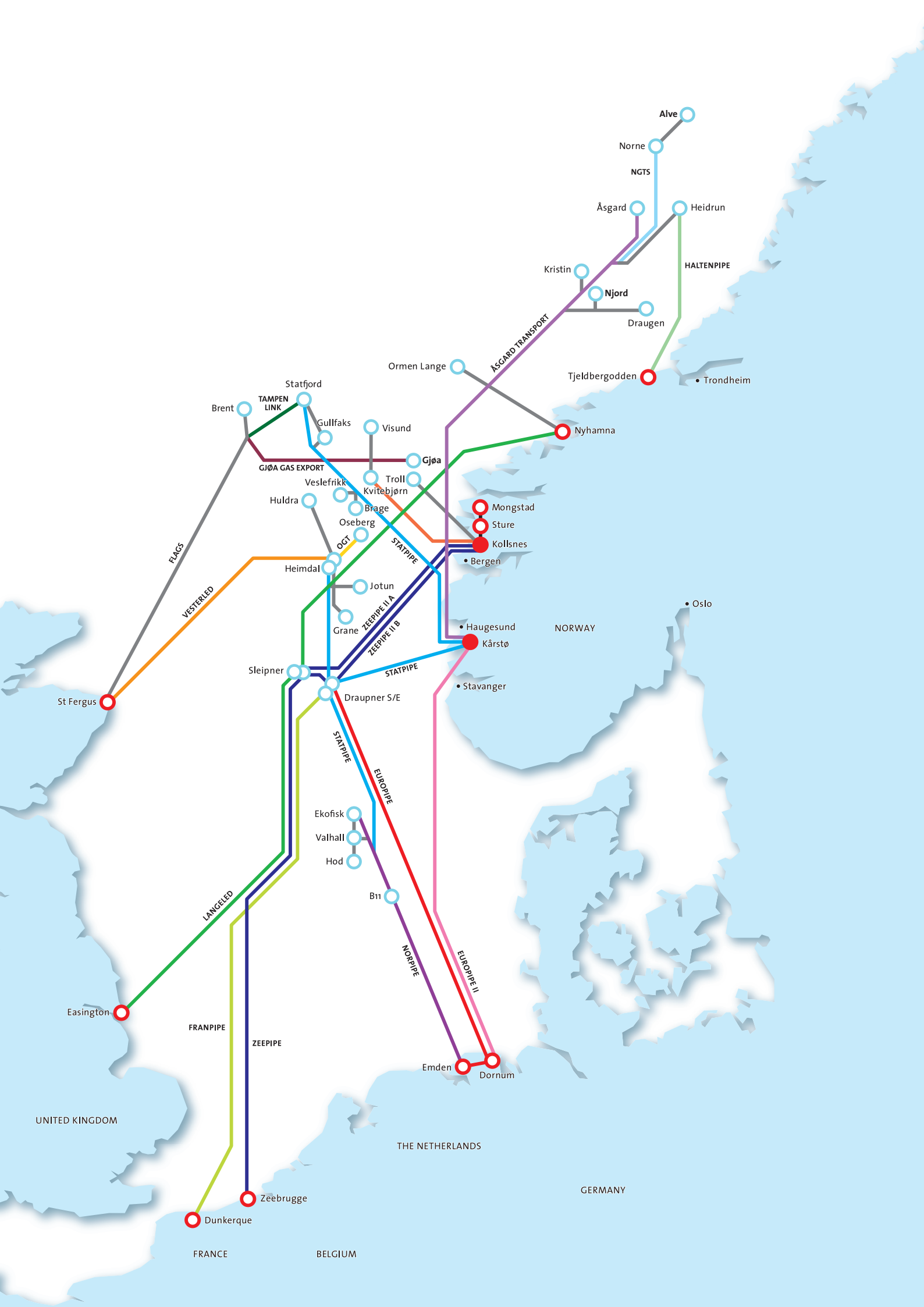
John Kristian Økland  
Director\*

Marianne Hirzel  
Director\*

Rune Sæbøe Iversen  
Director\*

Brian D Bjordal  
President and CEO

\* Elected by the employees



# Board of directors 2010



## **Brit Kristin Sæbø Rugland**

Chair (born 1958). She is president of Rugland Investment and Stavanger Investering 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, Mjøs kraft 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 Multiconsult. Previous appointments include chief executive of Avinor, and director of the Norwegian Railway Inspectorate and the Norwegian Accident Investigation Board. He has chaired the board of Oslo Airport Gardermoen and has long experience from the oil and gas industry, including nine years with Saga Petroleum. Mr Quale has been a director since 2007.



## **John Kristian Økland**

Worker director (born 1974). He is a principal engineer and project manager in Gassco AS, and also heads the company's branch of the Norwegian Society of Engineers and Technologists (Nito). Mr Økland has been a director since 2010.



## **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) union. Ms Hirzel has been a worker director since 2008.



## **Rune Sæbø Iversen**

Worker director (born 1970). He is a principal engineer in Gassco AS, and heads the Norwegian Society of Graduate Technical and Scientific Professionals (Tekna). Mr Iversen has been a director since 2010.







# Corporate governance

Governing bodies in Gassco are the general meeting, the board of directors, the chief executive and the management team. The roles and responsibilities of the various bodies are defined at the topmost level by legislation, statutory regulations, agreements and Gassco's articles of association.

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 business purpose, aspects relating to equity and dividend, equal treatment of shareholders and transactions with close associates, free transferability of the company's shares, the general meeting, a nomination committee and takeovers are not relevant and are accordingly not covered below.

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, ethical and socially responsible manner.

Gassco is a company where people achieve good results through collective action. Standards for employee behaviour and contribution are enshrined in the Gassco document *The way we want to be*. The company's values are to be positive, creative, clear, cooperative and forward-looking.

Good HSE&Q results are crucial for achieving positive commercial results. Gassco's goal is zero harm to people, the environment and material assets.

## Gassco's business

Gassco's business purpose is defined in its articles of association. This is to operate transport systems for natural gas on and from the NCS, including pipelines, platforms, 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 an extensive gas transport system which has been built up over almost 40 years, with an acquisition cost of roughly NOK 200 billion in fixed 2010 value. The owners and users of the gas transport systems are represented by many of the big global players in the oil and gas

industry, and annual tariff revenues in the system total NOK 25-30 billion.

Gassco's primary roles can be divided into two components – the normal and special operatorships.

The normal operatorship relates to management of facilities and the exercise of the operator role in accordance with statutory regulations and contractual agreements. An important part of this work is to ensure that activities are conducted in a manner which ensures that health, safety and environmental standards are met.

Gassco's normal operatorship relates to the operation of the Gassled and Haltenpipe gas transport systems.

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.

The special operatorship covers the exercise of public administrative duties assigned to Gassco pursuant to the Norwegian Petroleum Activities Act and the petroleum regulations. These duties are subject to some extent to the Public Administration Act and the Freedom of Information Act. Gassled and other owners have no right to issue instructions in respect of these duties. The special operatorship relates to system operation, capacity administration and infrastructure development.

System operation covers management of the upstream gas transport network (dispatching, user allocation, metering, supervision and so forth), including maintenance planning pursuant to section 4.9 of the Petroleum Activities Act and section 66 of the petroleum regulations.

Capacity administration involves the determination of physical capacity in the pipeline network and the allocation of transport capacity in the pipeline systems, pursuant to chapter 9 of the petroleum regulations. The allocation of transport capacity involves entering into transport contracts on behalf of Gassled.

Infrastructure development concerns the exercise of public administrative duties pursuant to section 66A of the petroleum regulations. In this context, Gassco works partly on the basis of funds paid by the users through the tariffs, pursuant to section 4 (vi) of the

## Corporate governance

tariff regulations, and partly on the basis of financing from an ad-hoc investor group which wishes to have an infrastructure project investigated in more detail.

The User Advisory Board, the NCS Gas Infrastructure Forum, the Operating Forum and the NGL Forum have been established to look after user interests. They consider such matters as work programmes and budgets related to the exercise of the special operatorship.

Gassco's strategic goals are as follows.

- Gassco will represent best practice in health, safety and the environment.
- Gassco will be characterised by leading-edge expertise in the company's core areas.
- Gassco will be responsible for first-class operation, maintenance and development of transport and processing facilities.
- Gassco will secure value creation through integrated development of the gas transport system.
- Gassco will be a professional, neutral and independent system operator and administrator of capacity in the transport system.
- Gassco will take an active approach to changing frame conditions and new business areas.

### 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, determines the application of net profit or coverage of net loss, and elects the company's auditor as well as determining the auditor's fee.

The general meeting is also responsible for electing directors, such that the board overall possesses appropriate and adequate expertise, capacity and diversity. Women account for 60 per cent of directors elected by the general meeting. Apart from the owner, the AGM is attended by the directors, the chief executive and the auditor. The section for gas and infrastructure at the Ministry of Petroleum and Energy is responsible for day-to-day supervision of Gassco.

### Corporate assembly and board of directors Corporate assembly

Pursuant to the Norwegian Act on Limited Liability Companies, a corporate assembly must be elected for companies with more than 200 employees. However, agreement has been reached with the employees that the company should not have such a body. Instead, the employees have elected an additional worker director.

### 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 elected by the general meeting have separate assignments for the company in addition to their directorship. No alternates are elected for these directors, nor do they have a pension scheme or a pay guarantee agreement. None of the directors own shares in the company. Attendance in 2010 was 94 per cent. 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 chief executive is not a director. A power of attorney on behalf of the company has been awarded to the chief executive and to the heads of the German, Belgian and UK terminals.

### Work of the board

The board ensures an acceptable organisation of the business, and is responsible for establishing control systems and for ensuring that the business is pursued in accordance with the company's values base and guidelines on ethics and corporate social responsibility.

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

## Corporate governance

operator responsibility. The board appoints the chief executive, and establishes instructions both for its own work and for the chief executive.

The chief executive is responsible for day-to-day management of the company, and submits proposals for performance indicators, budgets, accounts and important decisions to the board.

Six to eight board meetings are held every year. The board is also kept informed about the business through regular reporting between meetings. A special portal has been established to provide directors with information. 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. In addition to attending board meetings where the accounts are considered, the auditor has an annual meeting with the board.

### Compensation committee

The board has established a compensation committee. Its role is to support the board in 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 comprises the chair, the deputy chair and one director.

### Audit committee

Following an assessment, the board has concluded that it does not need to appoint an audit committee. The company is subject to greater independent scrutiny and system audits by impartial parties than is usual for a joint stock company. Reports and feedback from such audits are communicated to the board on a continuous basis. The board conducts a special review with the external auditor in connection with the annual audit.

### Risk management and internal control

Management and control are exercised through various processes which involve one or more of the company's 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. Gassco's board works to safeguard the owner's interests, but also has a responsibility towards employees, government authorities, customers/users, infrastructure owners, suppliers and other stakeholders. The 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. The management system is reviewed annually by the board.

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

Gassco's management structure builds on established and communicated goals, strategies and values, including ethical rules.

Gassco's executive management, which comprises a nine-strong management team, 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.

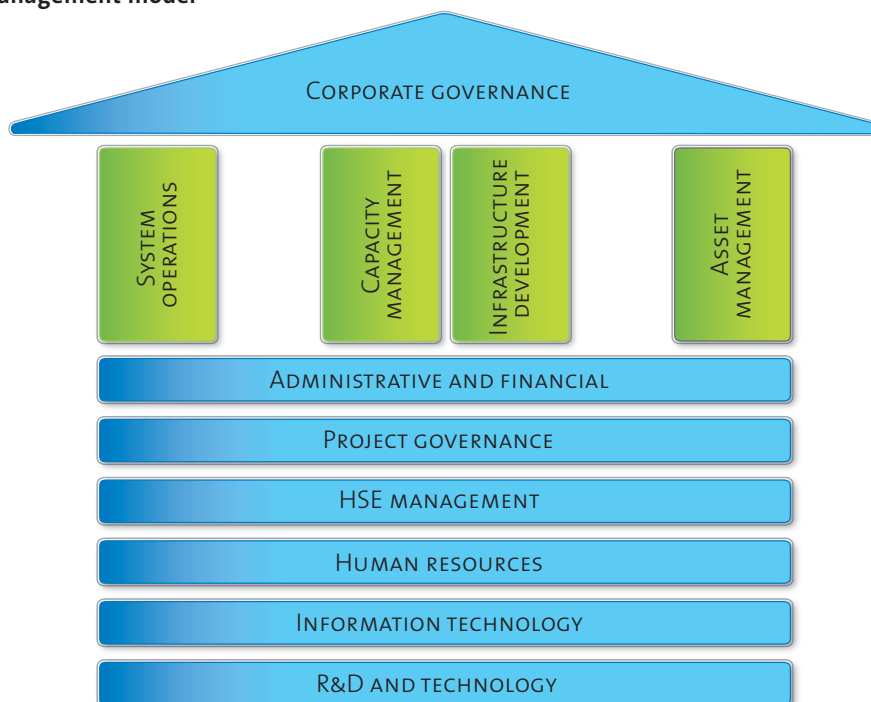
The management handbook, including the subordinate procedures, describes the company's corporate governance. Gassco has developed a management model which brings together and systematises all its processes. The company's duties and roles are derived from the overall goals, principles and frame documents governing Gassco's operations.

This model has a topmost level which brings together processes related to corporate governance in the company. The next level defines four groups of processes which describe Gassco's duties related to its special and normal operatorships. Finally, the model defines a total of six groups of staff and support processes.

The topmost level includes processes for

## Corporate governance

### Management model



*This model has a topmost level which brings together processes related to corporate governance in the company. The next level defines four groups of processes which describe Gassco's duties related to its special and normal operatorships. Finally, the model defines a total of six groups of staff and support processes.*

regulating Gassco's work in relation to the owner (the government) and the board. Corporate governance embraces such processes as establishing a management handbook, strategy, business plan and key performance indicators (KPIs), budgeting and decision-making processes, as well as important processes related to quality assurance. The latter include risk management, control mechanisms such as auditing and self-regulation, consistency checks, customer surveys and managing non-conformity.

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-maker'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 Gassco.

Mandates for the new user fora have been established on the basis of input from the companies

involved. They have been approved by the Ministry of Petroleum and Energy, and Gassco has evaluated whether established mandates and fora function as intended. None of the new fora has any decision-making authority.

Primary responsibility for Gassco's supervisory role rests with the HSE&Q department, which draws up annual supervision plans. This unit conducts internal audits as well as auditing 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 at 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 are exercised by the HSE&Q department.

Gassco has established ethical rules in writing for



## Corporate governance

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 placed 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.

Gassco exercises its corporate social responsibility as an integrated part of day-to-day operation and through its on-going enterprise and risk management. In addition, corporate social responsibility is secured through the company's governing documents, management handbook, procedures for ethics, the environment and social responsibility, and follow-up of relevant environmental indicators. The company satisfies the 10 principles in the UN's Global Compact for human and labour rights, environmental protection and anti-corruption.

### 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. A balanced scorecard is utilised as a tool in the business areas.

### Risk assessment

Risk assessment plays a key part in Gassco's management processes, and is used throughout the 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 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 also updated in connection with the operation of all operational facilities, which are assessed in relation to established acceptance criteria. Action lists with deadlines for implementation are drawn up for identified risks.

### Remuneration of directors

The general meeting determines directors' fees, which are independent of the results achieved.

### Remuneration of executive personnel

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. Licenseweb is used as a means of communication with Gassco's owners, while Authorityweb is used with the authorities.

User information is made available on the web-based Gassco Booking System, Origo and Licenseweb systems to supplement the data received by users through the user fora.

### Auditor

Deloitte is the company's external auditor, and is appointed by the general meeting. The auditor's fee is also determined by the general meeting.



# Income statement

Amounts in NOK 1 000	Note	2010	2009
<b>Operating income and expenses</b>			
Total operating income	2	0	0
Total operating expenses	2,3,4	0	0
<b>Financial income and expenses</b>			
Other interest income		312	309
<b>Net financial items</b>			
		312	309
<b>PROFIT BEFORE TAX</b>			
Tax on ordinary activities	8	(614)	(197)
<b>Profit on ordinary activities</b>			
		926	505
<b>Net profit</b>			
		926	505
<b>Transfers:</b>			
Allocated to other equity		926	505
Total transfers		926	505

# Balance sheet

Amounts in NOK 1 000	Note	At 31 Dec 10	At 31 Dec 09
<b>ASSETS</b>			
<b>INTANGIBLE ASSETS</b>			
Deferred taxes	8	1 483	1 148
<b>Total intangible assets</b>		<b>1 483</b>	1 148
<b>TANGIBLE ASSETS</b>			
Land, buildings and other property	4	35 486	37 585
Operating equipment and fixtures	4	54 678	44 047
<b>Total tangible assets</b>		<b>90 164</b>	81 632
<b>OTHER LONG-TERM RECEIVABLES</b>			
Other receivables	3,7	161 617	138 796
<b>Total other long-term receivables</b>		<b>161 617</b>	138 796
<b>TOTAL FIXED ASSETS</b>		<b>253 264</b>	221 575
<b>CURRENT ASSETS</b>			
<b>RECEIVABLES</b>			
Accounts receivable		60 703	62 945
Other receivables		8 259	35 841
<b>Total current receivables</b>		<b>68 962</b>	98 787
Bank deposits and cash	9	187 675	99 972
<b>TOTAL CURRENT ASSETS</b>		<b>256 637</b>	198 758
<b>TOTAL ASSETS</b>		<b>509 901</b>	420 334

Bygnes, 31 March 2011



Brit Kristin Sæbø Rugland  
Chair



Trygve Refvem  
Deputy chair



Elisabeth Krokeide  
Director



Sverre Quale  
Director



Beløp i 1 000 NOK

Note

At 31 Dec 10

At 31 Dec 09

**EQUITY AND LIABILITIES****PAID-IN CAPITAL**

Share capital	5	10 000	10 000
<b>Total paid-in capital</b>		<b>10 000</b>	10 000

**RETAINED EARNINGS**

Other equity	6	5 406	4 480
<b>Total retained earnings</b>		<b>5 406</b>	4 480

**TOTAL EQUITY**

15 406 14 480

**LIABILITIES****Provisions**

Pension commitments	7	136 111	112 625
<b>Total provisions</b>		<b>136 111</b>	112 625

**Long-term liabilities**

Long-term interest-bearing debt		1 875	3 125
<b>Total long-term liabilities</b>		<b>1 875</b>	3 125

**Current liabilities**

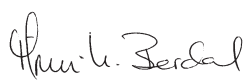
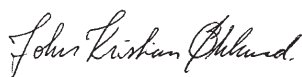
Accounts payable		66 443	44 702
Tax payable	8	2 983	2 629
Tax and other withholdings	9	21 473	16 244
Other current liabilities		265 609	226 529
<b>Total current liabilities</b>		<b>356 508</b>	290 104

**TOTAL LIABILITIES**

494 495 405 854

**TOTAL EQUITY AND LIABILITIES**

509 901 420 334


Mimi K Berdal  
Director

John Kristian Økland  
Director \*

Marianne Hirzel  
Director \*

Rune Sæbøe Iversen  
Director \*

Brian D Bjordal  
President and CEO

\* Elected by the employees

# Cash flow statement

Amounts in NOK 1 000	2010	2009
<b>Cash from operational activities</b>		
Profit on ordinary activities before tax	312	309
Depreciation	22 984	22 773
Changes in accounts receivable	2 242	(35 822)
Changes in other current receivables	27 583	(31 729)
Changes in long-term receivables	(22 821)	(58 440)
Changes in accounts payable	21 740	(35 350)
Changes in long-term commitments	23 487	68 856
Changes in other current liabilities	44 943	30 173
<b>Net cash from operational activities</b>	<b>120 470</b>	<b>(39 230)</b>
<b>Cash from investment activities</b>		
Net additions/disposals of fixed assets	(31 516)	(29 434)
<b>Net cash from investment activities</b>	<b>(31 516)</b>	<b>(29 434)</b>
<b>Cash from financial activities</b>		
Redemption of long-term debt	(1 250)	(1 250)
<b>Net cash from financial activities</b>	<b>(1 250)</b>	<b>(1 250)</b>
<b>Net changes in cash and cash equivalents</b>	<b>87 703</b>	<b>(69 914)</b>
<b>Cash and cash equivalents at 1 January</b>	<b>99 972</b>	<b>169 886</b>
<b>Cash and cash equivalents at 31 December</b>	<b>187 675</b>	<b>99 972</b>



# 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 or fair value.

Other long-term and current 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 2009.

### **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 deposit 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.

## Notes

### Note 2. The company's income and expenses

The company's primary roles can be defined as the exercise of special and normal operator responsibilities. The special operatorship refers to the performance of duties allocated to Gassco pursuant to the Norwegian Petroleum Activities Act and associated regulations. It relates to system operation, capacity administration and infrastructure development. The normal operatorship refers to the technical operation of facilities and platforms pursuant to the Norwegian Petroleum Activities Act's provisions on operator responsibility. These duties are regulated in the operator agreements with the Gassled, Haltenpipe, Zeepipe Terminal and Dunkerque Terminal joint ventures, which own the infrastructure for transporting gas from the NCS. Gassco also carries out a number of study assignments for various government bodies and players on the NCS.

Gassco does not make a profit or a loss from its operations. All its expenses are accordingly covered by the licensees in relation to the normal operatorship and the gas transporters in relation to the special operatorship.

Other assignments are financed by the client which awards the assignment. Activities are thereby deemed to be performed on behalf of the clients and at their expense and risk, and costs related to Gassco's various assignments accordingly do not appear in the accounts for Gassco AS. A net presentation of this kind accords with practice at other operators, with the expenses of the operatorship divided between the owners. However, it provides very limited information on Gassco's total activities and area of responsibility. Gassco's accounts are accordingly presented here in accordance with the proportionate consolidation method.

### INCOME STATEMENT

Amounts in NOK 1 000	Note	2010	2009
<b>Operating income and expenses</b>			
Normal operatorship		8 916 342	8 202 566
Special operatorship		216 374	203 834
Other assignments		1 194 803	547 515
<b>Total operating income</b>		<b>10 327 519</b>	8 953 914
		-	-
Payroll costs	3	379 720	361 560
Depreciation on fixed assets, Gassco	4	22 984	22 773
Other expenses		9 924 814	8 569 581
<b>Total operating expenses*</b>		<b>10 327 519</b>	8 953 914
<b>Financial income and expenses</b>			
Other interest income		312	309
Net financial items		312	309
<b>PROFIT BEFORE TAX</b>		<b>312</b>	309
Tax on ordinary activities	8	2 648	2 133
Refunded tax	8	(3 261)	(2 330)
<b>Profit on ordinary activities</b>		<b>926</b>	505
<b>Net profit</b>		<b>926</b>	505

\* See further specification of costs in the next table.

## Notes

### SPECIFICATION OF EXPENSES

Amounts in NOK 1 000

2010

2009

#### NORMAL OPERATORSHIP

##### Gassled

<b>Operating expenses</b>	<b>4 981 766</b>	4 583 983
- Kårstø processing plant	<b>1 710 258</b>	1 536 623
- Kollsnes processing plant	<b>1 136 493</b>	868 487
- Receiving terminals	<b>631 582</b>	669 018
- Platforms	<b>677 888</b>	641 862
- Pipelines	<b>275 000</b>	240 675
- Other	<b>406 354</b>	488 235
- Taxes	<b>144 192</b>	139 084
<b>Operating investment</b>	<b>1 016 728</b>	1 039 110
- Kårstø	<b>337 350</b>	308 418
- Kollsnes	<b>264 467</b>	252 946
- Receiving terminals	<b>116 265</b>	118 821
- Platforms	<b>111 823</b>	242 146
- Pipelines	<b>125 477</b>	71 380
- Other	<b>61 346</b>	45 398
<b>Project investment</b>	<b>2 696 917</b>	2 284 723
- KEP2010	<b>1 217 269</b>	1 776 793
- KOP robustness	<b>755 426</b>	211 864
- NGL metering upgrade	<b>238 756</b>	207 992
- Dixo	<b>184 507</b>	63 856
- GEP	<b>161 694</b>	-
- Other	<b>139 265</b>	24 219
<b>Removal costs</b>	<b>33 559</b>	92 762

#### HALTENPIPE

Operating expenses	<b>57 389</b>	64 233
Operating investment	<b>101</b>	314

#### ZEEPIPE TERMINAL

Operating expenses	<b>36 792</b>	38 054
Operating investment	<b>29 232</b>	26 000

#### DUNKERQUE TERMINAL

Operating expenses	<b>49 334</b>	61 400
Operating investment	<b>14 524</b>	11 988

<b>TOTAL NORMAL OPERATORSHIP</b>	<b>8 916 342</b>	<b>8 202 566</b>
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#### SPECIAL OPERATORSHIP

Operating expenses	<b>216 374</b>	203 834
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<b>TOTAL SPECIAL OPERATORSHIP</b>	<b>216 374</b>	<b>203 834</b>
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#### OTHER ASSIGNMENTS

Investment projects, third parties	<b>978 955</b>	355 353
Study assignments, government	<b>53 616</b>	63 229
Studies and other assignments, third parties	<b>162 232</b>	128 933

<b>TOTAL OTHER ASSIGNMENTS</b>	<b>1 194 803</b>	<b>547 514</b>
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<b>GASSCO TOTAL EXPENSES</b>	<b>10 327 519</b>	<b>8 953 914</b>
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## Notes

Gassco is also responsible for administering capacity available in the pipeline network and processing plants at any given time. On behalf of the owners of the transport systems, Gassco invoices all users on the NCS for the capacity booked on the basis of the applicable tariffs. Tariffs paid by the users are transferred immediately to the owners of the transport system.

### TARIFF REVENUES

Amounts in NOK 1 000	2010	2009
Gassled	26 305 801	28 266 933
Special operatorship	199 881	224 936
Haltenpipe	406 813	408 171
Zeepipe Terminal	205 374	220 460
Dunkerque Terminal	124 014	140 818
<b>Total tariff revenues</b>	<b>27 241 883</b>	<b>29 261 318</b>

### Note 3. Payroll expenses, number of employees, remuneration, loans to employees, etc

Amounts in NOK 1 000

Payroll costs		2009
Pay		
Payroll tax		
Pension costs	37 632	34 214
Other benefits		45 378
<b>Total payroll costs</b>		
Work-years performed	325	322

Remuneration of senior staff	Pay/remuneration	Pension costs	Bonus and other remuneration
President and CEO	2 564	1 838	457
Directors	1 473	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.

Pursuant to the Norwegian Accounting Standard for Pensions (NRSP), the company posted the pension commitment at 31 December 2010 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

### 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 10	45 452	128 783	174 235
Additions 2010	-	31 697	31 697
Disposals 2010		(12 629)	(12 629)
Conversion difference		(108)	(108)
Acquisition cost 31 Dec 10	45 452	147 743	193 195
Accumulated depreciation 31 Dec 10	9 966	93 065	103 031
<b>Book value 31 Dec 10</b>	<b>35 486</b>	<b>54 678</b>	<b>90 164</b>
	-	-	-
Depreciation 2010	2 099	20 885	22 984
Economic lifetime	5,5 years	3,5,7,8 and 10 years	
Depreciation plan	Linear/none	Linear	

### Loan and security to management, shareholders, etc

	Loan	Interest rate	Instalment plan	Security
President and CEO	116	-	10 years	-
<b>Loans and security provided to:</b>			<b>Loans</b>	<b>Security</b>
Employees			63 982	0

### Auditor

NOK 829 935 was charged in 2010 as fees to Deloitte AS for auditing Gassco and the licences operated by the company. NOK 7 000 was recorded as fees for other services. Deloitte AS also delivered services totalling NOK 232 120 for services which largely related to tax reviews. NOK 1 471 862 was recorded in 2010 as fees for other services supplied by collaborating companies abroad. Of this amount, NOK 718 360 related to auditing of branches and terminals abroad and the remainder to VAT and local tax reviews.

## Notes

### Note 5. Share capital and shareholder information

The share capital in the company at 31 December 2010 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 10	10 000	4 480	14 480
Year's change in equity			
Net profit		926	
<b>Equity 31 Dec 10</b>	<b>10 000</b>	<b>5 406</b>	<b>15 406</b>

### Note 7. Pension costs, funds and commitments

The company has pension plans which cover all its employees in Norway, Germany, France 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 2010 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 commitment pursuant to the NRSP.

Amounts in NOK 1 000

<b>For employees in Norway</b>	<b>2010</b>
Present value of pension earning for the year	39 915
Interest cost of pension commitment	17 154
Reduction/settlement	(15 352)
Return on pension funds	(7 932)
Administration costs	0
Recorded implementation effect	3 388
Recorded estimate loss/(gain)	11 066
<b>Net pension cost</b>	<b>48 238</b>

The company also has an agreement on early retirement (AFP). The new AFP scheme, which applies from 1 January 2011, is to be regarded as a defined benefit multi-company plan, but will be treated in the accounts as a defined contribution plan until reliable and adequate information is available which allows the group to account for its proportionate share of the pension costs, liability and funds in the scheme. As a result, the company's liability is not recognised as debt in the balance sheet.

Amounts in NOK 1 000	<b>Secured (collective)</b>	<b>Unsecured (early retirement)</b>	<b>Other unsecured</b>	<b>Total</b>
Earned pension commitments	379 422	481	82 218	462 121
Pension funds (at fair value)	(176 700)		(1 282)	(177 982)
Unrecorded effect of estimate changes	(166 273)	(48)	(29 438)	(195 760)
<b>Net pension commitment</b>	36 449	433	51 497	88 379

This plan covers all the company's employees in Norway.

### Economic assumptions:

Discount rate	4.00%
Expected return on pension funds	5.40%
Expected pay growth	4.00%
Expected adjustment to current pensions	3.75%
Expected change in National Insurance base rate (G)	3.75%

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

## Notes

Employees in Belgium have either defined benefit or defined contribution plans. Funds in these plans at 31 December 2010 satisfied local requirements.

Amounts in NOK 1 000

<b>For employees in Belgium</b>	<b>2010</b>
Present value of pension earning for the year	3 047
Interest cost of pension commitment	1 945
Return on pension funds	(1 572)
Administration costs	0
Recorded implementation effect	0
Recorded estimate loss/(gain)	0
<b>Net pension cost</b>	<b>3 419</b>

Amounts in NOK 1 000

	<b>Secured</b>
Earned pension commitments	45 851
Pension funds (at fair value)	(31 572)
Unrecorded effect of estimate changes	(2 663)
<b>Net pension commitment</b>	<b>11 616</b>

This plan covers all the company's employees in Belgium.

<b>Economic assumptions:</b>	<b>2010</b>
Discount rate	3.70%
Expected return on pension funds	4.97%
Expected pay growth	4.00%
Expected adjustment to current pensions	2.00%

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

### **For employees in France**

Employees in France have defined contribution pensions plans which comply with local requirements.

## Notes

Employees in Germany have various defined benefit pensions plans.

Amounts in NOK 1 000

<b>For employees in Germany</b>	<b>2010</b>
Present value of pension earning for the year	5 366
Interest cost of pension commitment	3 631
Return on pension funds	0
Administration costs	0
Recorded implementation effect	0
Recorded estimate loss/(gain)	0
<b>Net pension cost</b>	

Amounts in NOK 1 000

	<b>Secured</b>
Earned pension commitments	79 060
Pension funds (at fair value)	(42 944)
Unrecorded effect of estimate changes	0
<b>Net pension commitment</b>	<b>36 116</b>

This plan covers all the company's employees in Germany.

<b>Economic assumptions:</b>	<b>2010</b>
Discount rate	4.60%
Expected return on pension funds	0.00%
Expected pay growth	3.00%
Expected adjustment to current pensions	1.75%

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

<b>Taxes for the year are as follows:</b>	<b>2010</b>	2009
Tax payable	<b>2 983</b>	2 629
Refunded tax	<b>(3 261)</b>	(2 330)
Changes in deferred tax	<b>(335)</b>	(496)
<b>Tax on ordinary profit</b>	<b>(614)</b>	(197)

#### **Tax payable:**

Tax payable in balance sheet	<b>2 983</b>	3 629
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#### **Reconciliation from nominal to effective tax rate:**

Ordinary profit before tax	<b>312</b>	309
Calculated income tax at nominal tax rate (28%)	<b>87</b>	86
Fiscal effect of the following items :		
Tax effect on net refund under incentive scheme for R&D (Skattefunn)	<b>(554)</b>	(554)
Non-deductible cost, part of pension cost	<b>3 131</b>	2 595
Refunded tax	<b>(3 261)</b>	(2 330)
Non-taxable income, interest on tax receivable	<b>(16)</b>	7
<b>Tax</b>	<b>(614)</b>	(197)
Effective tax rate	<b>(196.4%)</b>	(63.8%)

#### **Specification of temporary differences and their net tax effect:**

	2010		2009	
	Benefit	Obligation	Benefit	Obligation
<b>Temporary differences, operating equipment</b>	<b>5 297</b>	<b>0</b>	4 100	0
<b>Net deferred tax benefit/obligation in the balance sheet</b>	<b>1 483</b>	<b>0</b>	1 148	0

### Note 9. Bank deposits

Bank deposits and cash include NOK 9 159 292 in tied tax withholdings.

### Note 10. Guarantees

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 pensioners in Germany.





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

To the annual general meeting of Gassco AS

## AUDITOR'S REPORT FOR 2010

### Statement on the annual accounts

We have audited the annual financial statements of Gassco AS, which comprise the balance sheet at 31 December 2010, the income statement, which shows a profit of NOK 926 111, and the cash flow statement for the fiscal year then ended, and a description of significant accounting principles applied and other information in the notes.

#### *Responsibility of the board and president for the annual accounts*

The board of directors and the president are responsible for preparing the annual financial statements and for ensuring that they provide a true and fair picture pursuant to the rules of the Norwegian Accounting Act and Norwegian generally accepted accounting principles, and for such internal control as the board and president find necessary to permit the preparation of financial statements which are free of material misstatements as a result of either malpractice or error.

#### *The auditor's responsibility and duties*

Our responsibility is to express an opinion on these annual financial statements on the basis of our audit. We have conducted our audit in accordance with legislation, regulations and good auditing practice in Norway, including the International Standards on Auditing. These auditing standards require that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves conducting activities to acquire accounting evidence to support the amounts and disclosures in the financial statements. The activities selected depend on the auditor's judgement, including an assessment of the risks that the annual financial statements contain material misstatements, whether these are due to malpractice or error. In making such a risk assessment, the auditor takes account of the internal controls relevant for the company's preparation of financial statements which provide a true and fair picture. The purpose is to devise auditing activities which are appropriate in the circumstances, but not to express an opinion on the effectiveness of the company's internal control. An audit also includes an assessment of whether the accounting principles applied are appropriate and whether accounting estimates made by the executive management are reasonable, as well as an assessment of the overall presentation of the financial statements.

In our opinion, the accounting evidence gathered is sufficient and appropriate for providing a basis for our conclusion.

#### *Conclusion*

In our opinion, the annual financial statements have been prepared in accordance with legislation and regulations, and give a true and fair view of the financial position of Gassco AS at 31 December 2010 and of the results of its operations and its cash flows for the fiscal year then ended in accordance with the rules of the Norwegian Accounting Act and Norwegian generally accepted accounting principles.

#### *Statements on other conditions*

Conclusion on the directors' report and application of the net profit

On the basis of our audit of the financial statements as described above, it is our opinion that the information in the directors' report concerning the financial statements, the going concern assumption and the proposal for applying the net profit comply with the law and regulations and are consistent with the annual financial statements.

#### *Conclusion on registration and documentation*

On the basis of our audit of the financial statements as described above, and the checks we have found necessary pursuant to the international standard on assurance engagements (ISAE) 300 concerning assurance engagements other than audits or reviews of historical financial information, it is our opinion that the executive management has fulfilled its duty to produce a proper and clearly set-out registration and documentation of the company's accounting information in accordance with the law and good bookkeeping practice in Norway.

Haugesund, 31 January 2011  
Deloitte AS

Else Holst-Larsen  
State authorised public accountant (Norway)

Note: the translation from Norwegian has been prepared for information purposes only.

