

Annual report 2011



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Everyday life in a globalised world

Frequent changes of scene and dramatic shifts, with the main roles taken by new actors virtually every day – such is the world stage. The constant volatility in the main arena affects us all. We must grasp that we live in very dynamic times, and act accordingly.

Over the decade since Gassco was established, I have used our annual report to look both backwards and forwards.

My starting point in 2007 was that operations on the Norwegian continental shelf (NCS) faced developments which differed from those we had become accustomed to seeing. This was understandable enough, since declining production, rising costs and climate challenges were key issues.

By the end of 2008, the financial crisis had struck. Oil prices fell from USD 140 per barrel to USD 40 in the space of six-seven months, and the downturn threatened planned projects both within our operatorship and elsewhere on the NCS.

Like many others, I was affected by uncertainty in 2009. The financial crisis had quietened down, but its repercussions continued to shake the real economy. The gas market and supply position in Europe appeared very unpredictable, while continued exploration on the NCS still failed to make the really big strikes.

“A year of sharp reminders” was a natural heading for my review of 2010. The tragedy on the Deepwater Horizon drilling rig affected the whole industry, while

operating problems caused by cold weather and ice put 30 per cent of Norwegian gas exports on hold during the first weekend of January. That was very bad news for a freezing Europe.

Major oil discoveries sparked justified optimism on the NCS in 2011, but do not necessarily alter the realities facing Norwegian gas production in the long term. Up to 2020, to be sure, the country has plenty to be pleased about. Gas from many smaller fields will be phased into existing infrastructure, and development of the Luvu and Linnorm fields in the Norwegian Sea is moving steadily closer. So is a new gas pipeline from these fields to the Nyhamna processing plant – a solution where we have also been the architect on behalf of the licensees and the government.

No other industry in Norway can compare with the petroleum sector in terms of scope, value creation and government revenues. Gas production will also remain at a high and stable level for the next decade. But forecasts predict a decline in this output over the longer term. After 2020, new producing fields and transport solutions will be needed to fill spare capacity in an infrastructure where some NOK 260 billion has been invested.

To ensure long-term gas supplies, good decisions must be taken over the next few years. These must be based on an integrated understanding of the opportunities for further development of gas resources. That applies particularly to the development potential in the far north.

The number of players on the NCS is constantly growing, and the ownership of the gas infrastructure has also acquired a different and less industrial >>




Brian D Bjordal
President and CEO

“To ensure long-term gas supplies, good decisions must be taken over the next few years.”

Everyday life in a globalised world

character over the past year. Efforts to identify the best solutions from an integrated perspective could therefore be both demanding and highly interesting. I am nevertheless convinced that a consensus exists on the goal – that the oil and gas sector will remain Norway's most important industry for many decades to come.

We at Gassco want to contribute with other relevant players to developing integrated projections for Norwegian gas. We have accordingly taken the initiative on the NCS2020 study, which aims to build knowledge to underpin future decisions for developing gas production on and transport systems from the NCS. Necessary planning and investment decisions take time, and 10 years is not a long period in that perspective. Achieving good collaboration between players on the NCS is a crucial condition for safeguarding the industry's long-term profitability.

Some would doubtless ask whether the world really needs more Norwegian gas. Pessimists point to unclear signals from the EU on the place of gas in the future energy picture, combined with a substantial commitment to renewable energy in big member states. It is also a fact that Russian gas is strengthening its market position through the new North Stream I and II export systems. In addition, shale gas production may make the USA independent of imports and perhaps even a future gas exporter.

For my part, I prefer to be an optimist. The starting point must be the global perspective, where the basic formulae are that energy = gross domestic product and GDP = prosperity. In addition, the International Energy Agency (IEA) notes in its latest outlook that world energy requirements will increase by a third up to 2035 as a result of economic growth in China, India and Asian developing countries. Gas and renewables

are expected to meet two-thirds of this expansion. But coal will nevertheless cover more of the world's energy needs than gas in 2035. This represents perhaps the greatest future challenge. Forty-one per cent of the world's electricity is generated today by coal-fired power stations, and burning coal accounts for 25 per cent of carbon emissions from human activity. But coal is cheap and easy to produce, and supplies are virtually unlimited. When gas replaces it, greenhouse gas emissions go down. The advantages of gas must accordingly be accepted in a climate-policy context. In a world which cannot manage without fossil energy, gas combined with renewables could be very important for reaching climate policy goals.

I noted initially that 10 years have passed since we were established as a state-owned company. I had the honour of becoming our first employee back in 2001. At the end of 2011, I have the honour of leading a very competent organisation with 353 employees. I am very proud of what we have achieved and the results we have delivered over this decade. We have taken over day-to-day operation of five receiving terminals in four different countries, we have become the operator for Langeled – one of the world's longest underwater gas pipelines – and we have been responsible for extensive upgrading of the big processing plants which represent important cornerstones in the transport network for Norwegian gas. These are just some of the milestones which could be mentioned. Perhaps most importantly of all, we have delivered huge volumes of gas to Europe without loss of human life and with very high reliability.

However, yesterday's results can never beat tomorrow's performances. History helps us to understand who we are, but it never repeats itself. Or, as Charles Darwin actually said: "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change".





Directors' report 2011

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, France and the UK (from 1 October 2011), which are responsible for day-to-day operation of the 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 general 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 management and infrastructure development. The general 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 terminal in Scotland. The company itself is responsible for day-to-day operation of the receiving terminals in continental Europe and in England (from 1 October 2011) and for the Gjøa Gas Export pipeline.

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 system manual 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.

Corporate social responsibility (CSR) is an integrated part of the company's organisational culture, strategy, operational activities and ethical conduct towards the world at large. The company's ethical guidelines conform with the UN's Global Compact and the OECD's guidelines for multinational companies. Gassco exercises its CSR in part through support for clubs and organisations in the region where its head office is located and in other local communities in which the company pursues activities. Culture and sport are Gassco's selected areas for collaboration, and particular emphasis is given to supporting activities and measures for children and young people. Gassco's tendering process clarifies whether the supplier has established its own policy and guidelines for CSR, and whether it has been involved in incidents related to corruption, child labour or breaches of human rights or the rights of employees to unionise. Information on such matters is obtained from the suppliers themselves, from internet searches and from Achilles. Possible conditions uncovered will be significant in qualifying the supplier for participation in the tendering process.

Organisation

Gassco had 353 permanent employees at 31 December 2011, including 146 at the receiving terminals in continental Europe and the UK. Two employees completed personal development programmes in 2011 which gave formal credits in the Norwegian educational system. These employees are upgrading their qualifications – from BSc to MSc, for instance. Gassco currently has three office trainees in Norway and three 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.

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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 emphasis on the expertise required to meet forthcoming challenges will continue to occupy a key place. The company has a relatively restrictive employment policy. Increased requirements for resources are largely met by personnel on temporary contracts if the new work is not permanent in nature.

As a result of increased staffing in recent years, a new office wing was completed during 2011 and occupied in December.

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

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 2011.

The working environment in Gassco is good. The company had a target for 2011 of an overall sickness absence below three per cent. That goal was met. Sickness absence for the year was 2.32 per cent in the whole of Gassled (including providers of technical services) and 2.21 per cent for Gassco employees.

Gassco has ensured good physical access to its buildings.

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 measurable and as effective as possible.

All permanent employees and contract personnel in Gassco took an e-learning course on the company's management system in 2011. An introductory HSE course has also been developed for the company's as-

sets, which in its final form will cover the head office at Bygnes and the gas terminals in continental Europe and the UK operated by Gassco on a day-to-day basis. This e-learning initiative is one of several planned measures to strengthen the organisation's HSE expertise and build a strong shared HSE culture in the company.

The major accident perspective governs thoughts and actions at Gassco. A large number of safety barriers have been established to avoid major accidents at its assets. The condition and functionality of these barriers are verified regularly. Gassco's concern is to ensure that they are maintained in an integrated and consistent manner, so that the risk of major accidents is reduced as much as possible. The barrier KPI was adopted in 2011 and became part of Gassco's KPI scorecard for the first time. This KPI provides an automatically generated overview which shows whether selected barriers in the assets are intact. Together with a selection of proactive indicators, their condition is aggregated on a monthly basis and reported in the performance management Gassco (PMG) tool.

Experience transfer and durable learning from incidents have again been followed up systematically in 2011 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 showed a marked decline from 14 the year before to just three such events in 2011. These incidents were classified as critical in terms of their HSE potential. The personal injury frequency for Gassco's operator area in 2011 was 4.1, a slight increase from three in 2010. Two gas leaks larger than 0.1 kilograms per second were recorded in 2011, but neither was classified as very critical. Gassco registered two fires within its operator area in 2011. One went out of its own accord immediately after igniting, and the other was quickly extinguished manually. The company will continue to devote great attention to achieving improvements in the HSE&Q 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 2011. Some of these were conducted in cooperation with companies responsible for technical operation of assets on Gassco's behalf, and

Directors' report 2011

others with employees at its receiving terminals. Gassco operated all processing plants, pipelines and platforms in accordance with applicable emission/dischARGE permits in 2011. Two accidental discharges of chemicals occurred, of which one was classified as less serious and the other as fairly serious.

The company purchased 230 000 emission allowances in 2011, corresponding to 18 per cent of its total greenhouse gas emissions during the year.

Health and safety results

	Results 2011	Results 2010
Deaths	0	0
Total personal injuries	24	22
Lost-time injuries (included in personal injuries)	13	9
Fires	2	0
Gas leaks	2	2
Critical incidents	3	14
Emissions/discharges in excess of licence limits	0	0
Accidental discharges, oil/chemicals	2	3

Emissions/discharges to the natural environment

	Emissions 2011	Emissions 2010
To the air	Nitrogen oxides	1 137.8 tonnes
	Carbon dioxide	1 337 kilotonnes
	Safety flaring	24.6 kilotonnes
To water	Oil	442 kilograms
	Phenol	62 kilograms
	TOC	8 491 kilograms
To soil	Oil	1 346 litres

System operation

Deliveries from the NCS to Europe were somewhat lower in 2011 than the year before. Gas deliveries were nevertheless high in a historical perspective.

This produced a total delivery availability of 99.17 per cent compared with 98.78 per cent in 2010.

Preparations were made in 2011 for gas deliveries from Skarv, Marulk and Morvin (starting in 2012), and five new shippers delivered gas to the transport system.

These fields and shippers 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 658 ship calls were recorded at Kårstø during the year, whilst there were no incidents in relation to coordination which were significant for gas transport.



At Dunkerque.

Gas transport	2011	2010
Regularity (%)	99.17	98.78
Quality (%)	99.99	99.98
Gas delivered to receiving terminals in Europe (billion scm)	94.21	97.33
Highest delivery per day (million scm)	360.8	355.4
Average gross calorific value (kWh/scm)	10.99	11.09
Total volume other products supplied by the gas transport system (million tonnes)	7.99	7.62

Capacity management

New regulations in force from 1 July 2011 have meant a number of changes to the rules for capacity allocation. Gassco's booking system has been amended as a result of the changes. These include the introduction of daily

interruptible capacity. The changes provide greater flexibility for shippers with regard to the end point where they can take out the gas. The right to make long-term bookings was also expanded somewhat.

Assets management and development

The operating position at the Kårstø processing plant was very good during 2011, with a production availability of 96.75 per cent. That was 2.64 percentage points above target.

Production availability for the processing plant at Kollsnes presented challenges in 2011. These related primarily to power supply instabilities as a result of unstable weather.

External corrosion under the insulation on piping has been a priority area to prevent gas leaks. The insulation, scaffolding and surface treatment (ISO) project at Kårstø identified and fixed a number of cases of corrosion. Greater attention will also be devoted to corrosion at Kollsnes, where an ISO project is being established. A number of ladders and walkways at Kollsnes made of glassfibre-reinforced epoxy/plastic (GRE/GRP) are in a weakened condition after 15 years of operation. A project costed at about NOK 800 million has accordingly been initiated for extensive replacement of such structures.

Gassco manages technical integrity through risk-based follow-up of each asset. Given the aging of the transport system, enhancing the robustness of the assets was a key concern in 2011 and will remain so in the years to come. Enhancing the robustness of the NGL facility at Kollsnes continued, and availability of this plant improved. Plant availability at the Kollsnes process plant was 97.22 per cent in 2011, below the target for the year.

Other effects of aging are that the electrical control systems for the compressors are becoming outdated, and that boilers must be updated. The decision has been made to upgrade the control system for the Kollsnes export compressors and Kårstø's Statpipe booster compressor at a cost of roughly NOK 400 million. Steam boilers play an important role in gas processing at Kårstø. Two of these have been upgraded in the KEP2010 project. It has also been decided to upgrade two other boilers in the Statpipe facility at a cost of about NOK 600 million.

Work at Kårstø includes the Kårstø expansion project (KEP2010) to enhance robustness and the NGL metering project, which involves replacing the fiscal metering systems for liquid products. These two projects have estimated costs of NOK 6 billion and NOK 740 billion respectively. The double inlet crossover (Dixo) project to increase flexibility in blending carbon dioxide with gas at Kårstø was completed and put into operation in 2011, on time and to budget.

The Kollsnes project (KOP) was sanctioned for this processing plant in 2009 to enhance the robustness of the facility substantially and to implement the tie-in of a new pipeline from Troll A. Expected to cost NOK 3.1 billion, the work will be completed in the first quarter of 2012.

A technical availability of 99.92 per cent was achieved by the transport network, which broke down into 99.86 per cent for platforms and 99.98 per cent for pipelines.

It was resolved in 2010 to install a bypass in the Norpipe line around the B11 compressor platform at an estimated cost of NOK 890 million. The work was on schedule at 31 December.

The removal projects for the H7 and 2/4-5 platforms were fully matured, with the investment decision taken in late 2011. A similar project was also initiated for removal of B11.

The receiving terminals in continental Europe and the UK achieved an overall technical availability of 99.99 per cent in 2011.

Gassco took over day-to-day operation of the Langeled receiving terminal at Easington in the UK on 1 October 2011, with the whole take-over process completed on schedule. The Gassco AS UK Branch has been established, and recruitment of 26 employees completed. A new building with an integrated control room and administrative facilities for the new organisation has been completed and occupied.

Work continued in 2011 on maturing a project to enhance robustness in Emden, which relates primarily to the Norse Gas Terminal (NGT).

The on-going Gassled improvement programme for 2010-2014, which focuses on HSE, regularity and costs, made good progress.

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 2011 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.

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In the Norwegian Sea gas infrastructure (NSGI) project, Gassco has developed and recommended a transport solution for gas from Luva, Linnorm and other sources in the area with a 2016 start-up. The concept choice, which has been approved by the sponsoring companies, includes a pipeline running directly to Nyhamna for processing and onward export in the existing transport system.

An investment decision to receive light oil from Gudrun at Kårstø has been made in the Gudrun onshore modification project. The field is due on stream in 2014.

Other development projects pursued by Gassco include:

- technical and commercial work to expand capacity at the Zeebrugge receiving terminal
- transport solutions for the Hild, Knarr, Atla, Jetta, Bøyla, Draupne, Luno, Dagny and Eirin fields
- studies at Kollsnes on receiving more feedstock from Kvitebjørn, Visund and other sources in the area, as well as assessing facilities downstream from Kollsnes
- a study of integrated solutions for expanding transport capacity for gas at Melkøya – pipeline and LNG options
- studies of various solutions for gas in Goliat with start-up in 2014-15, including a CNG option and one with a tie-in to the gas liquefaction plant at Melkøya.

In addition to the regular meetings of the user forums (the User Advisory Board, the Operating Forum, the NGL Forum and the NCS Gas Infrastructure Forum) and the Industry Arena, various working meetings have been held. These meetings are partly a consequence of the changes in the ownership of Gassled, and have concentrated on the coordinated development of gas solutions for the NCS (NCS2020) and changes in the companies' work and decision-making processes for the business. The goal has been to ensure good processes for optimum value creation on the NCS.

Gassco is responsible for developing carbon transport solutions from planned full-scale capture plants at Kårstø and Mongstad. Gassco continued research and development work during 2011 in areas related to this part of the carbon chain, where the industry needs to learn more.

Research and development

Gassco's R&D budget for 2011 was NOK 79.4 million. In the order of six internal work-years were devoted to implementing the programme. The most important projects were:

- leak monitoring – acoustic monitoring of third-party contact with pipelines to ensure the integrity of the latter and to avoid gas leaks
- establishing a programme to secure improvements in external pipeline inspection
- ART – a new internal inspection tool based on acoustic resonance technology able to measure wall thickness in pipelines, with the construction of a full-scale prototype and a start to testing
- establishing a programme to develop monitoring methods and tools for electrically powered compressors, as well as initial tests
- identifying sub-insulation corrosion on process-plant piping
- developing an offline plant production performance model (3PM) to optimise capacity utilisation at Kårstø
- implementing a new pipeline model system (newPMS) in Gassco's control room.

A total of NOK 15.4 million in supplementary funding was received from Gassled.

Share capital and shareholders

The company's share capital at 31 December 2011 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 368 686, 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

Norwegian gas exports have expanded substantially over the past 15 years. Norway is the second largest supplier of gas to the European market after Russia, and currently meets almost 20 per cent of total consumption.

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Norway is regarded as a reliable gas supplier with high regularity, and Norwegian gas plays an important role in European energy supply. Gas is also regarded as important in a climate context, since it can replace coal and balance non-flexible renewable power in Europe's future energy mix.¹ Norwegian gas emits less carbon dioxide from production and transport than other sources, such as Russian gas or LNG.

As petroleum production in the North Sea and the southern Norwegian Sea matures, attention will turn to new growth areas. This process is already under way, and substantial investment is expected to be made in finding and developing new resources and in ensuring that the gas can be transported to market. With output from the mature areas expected to decline after 2020, this trend will be necessary if Norway is to maintain its level of gas production.

LNG shipment from Melkøya is the only gas infrastructure currently developed in the far north. It is important to clarify a possible integration with the existing gas infrastructure in the Norwegian and North

Seas before deciding on a further development of facilities in the Barents Sea.

Considerable uncertainty prevails about the level and composition (small/large deposits) of undiscovered resources on the NCS, and about when these will be phased in. Gassco has accordingly launched the NCS2020 study to assess future developments in the light of this uncertainty. The purpose is to understand how infrastructure can be extended northwards, what that will mean for the NCS overall, and what consequences it will have for future decisions to be taken for new and existing gas infrastructure.

Despite great uncertainty related to recoverable resources, a set of observations has emerged from this work which will determine the course of continued infrastructure development. Providing unified projections for future Norwegian gas production and possible infrastructure development, the NCS2020 study contributes assessments which could form the basis for decisions on new and existing gas facilities.

Bygnes, 23 March 2012



Ottar Inge Rekdal
Chair



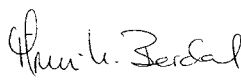
Trygve Refvem
Deputy chair



Elisabeth Krokeide
Director



Sverre Quale
Director



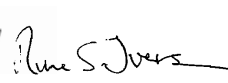
Mimi K Berdal
Director



John Kristian Økland
Director*



Marianne Hirzel
Director*



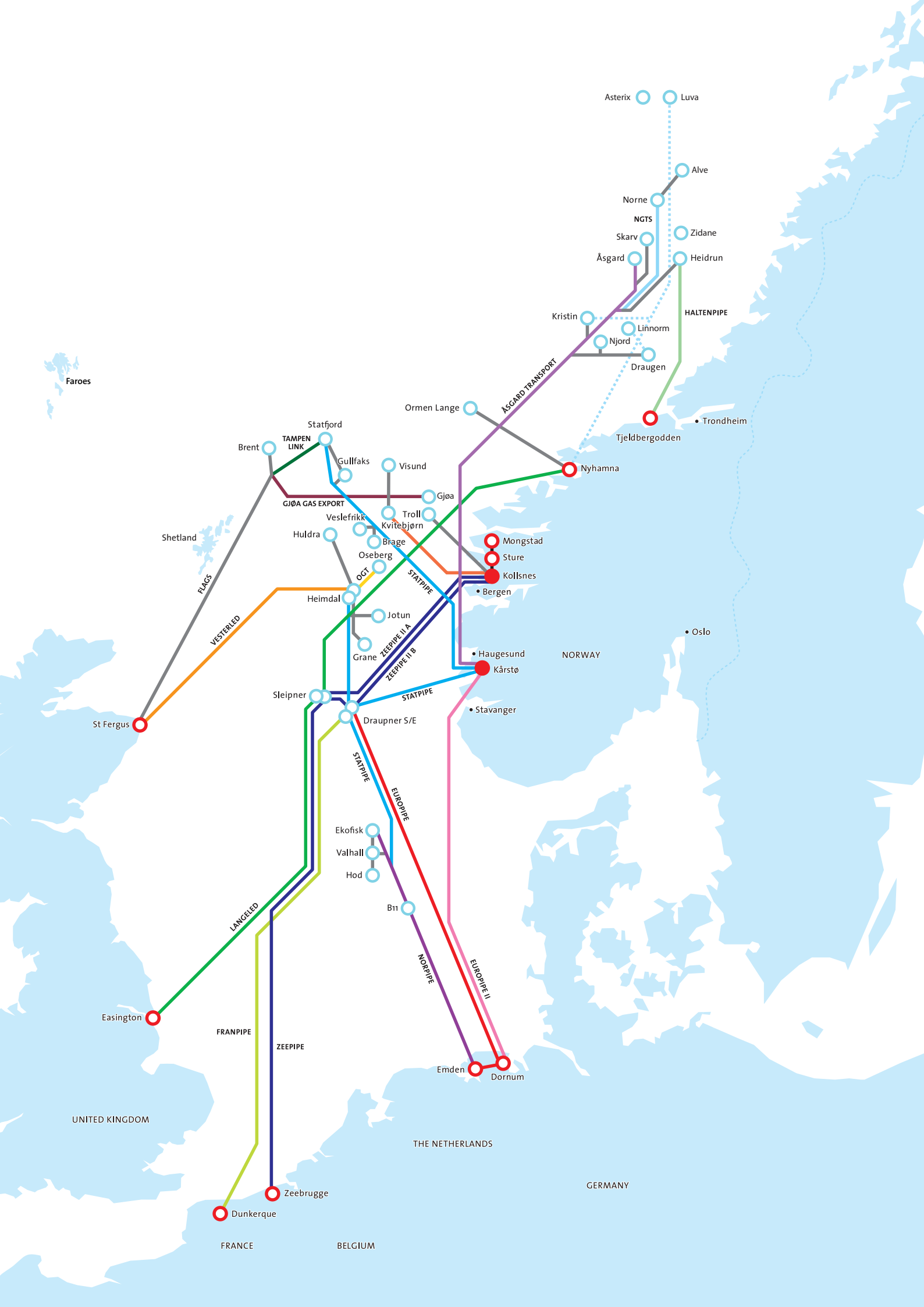
Rune Sæbøe Iversen
Director*



Brian D Bjordal
President and CEO

¹ See the IEA's *World Energy Outlook* 2011, for example.

*Elected by the employees



Board of directors 2011



Ottar Inge Rekdal

Chair (born 1949)

He previously worked for Statoil, where he held a number of management positions, including head of gas development and market, the development division and technology. Over the past 12 years, has worked exclusively on international operations – including responsibility for Statoil's activities in west Africa, north Africa, Europe and the Middle East as well as international gas operations. A director of Linjebygg Offshore and Ocean Installer. Mr Rekdal became chair of Gassco on 1 January 2012.



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 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

project director in the department of energy and process engineering at the Norwegian University of Science and Technology (NTNU). Previous appointments include chief executive of Multiconsult and Avinor, and director of the Norwegian Railway Inspectorate and the Norwegian Accident Investigation Board. He has chaired the boards of Oslo Airport Gardermoen and Barlindhaug Consult, and been a director of Esra Norge. 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 administrative lead for the Gassco Emden project and head of the Gassco branch of the Industry Energy (IE) union. Ms Hirzel has been a director since 2008.



Rune Sæbøe Iversen

Worker director (born 1970). He

is a project manager in Gassco, and heads the Norwegian Society of Graduate Technical and Scientific Professionals (Tekna) branch at the company. Mr Iversen has been a director since 2010.



Corporate governance

The board's presentation of 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 highest 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. No transactions take place with close associates, and further comment on this subject is not considered relevant.

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 2011 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 general and special operatorships.

The general operatorship relates to asset management 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 general 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.

Corporate governance

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 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 acts 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 accounted in 2011 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 plan or a pay guarantee agreement. None of the directors own shares in the company. The board met six times in 2011, and attendance was 94 per cent. Directors are elected for up to 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, procedure for corporate social responsibility (CSR), 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

Corporate governance

systems and for ensuring that the business is pursued in accordance with the company's values base and guidelines on ethics and CSR.

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.

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 call 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.

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 plans). 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 adjusted on an on-going basis 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.

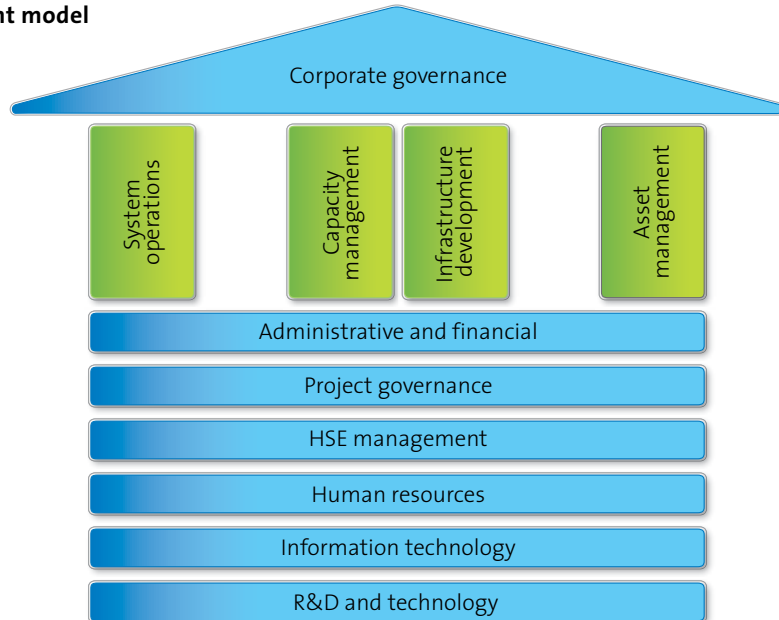
Gassco's management structure builds on established and communicated goals, strategies and values, including ethical rules.

Gassco's executive management, which comprises a 10-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 system manual, 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.

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 general operatorships. Finally, the model defines a total of six groups of staff and support processes.

The topmost level includes processes for regulating Gassco's work in relation to the owner (the government) and the board. Corporate governance embraces such processes as establishing a management system manual, 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, who is responsible for the final decision, 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 Gassled.

Mandates for the user fora – the User Advisory Board, the Operating Forum, the NGL Forum, the NCS Gas Infrastructure Forum and the Industry Arena – have been established on the basis of input from the companies involved. Participants in these bodies are licensees, shippers and users of gas in Norway. The Ministry of Petroleum and Energy has approved the mandates, and

a Gassco evaluation shows that the established mandates and fora function as intended. The formal decision-making power rests with the owners/sponsors, but new work processes will ensure that shippers exert genuine influence ahead of any decisions.

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.

Ethics and CSR

Gassco has established written ethical rules for its employees and elected officers. These rules require each person to behave with due care and attention, and to refrain from behaviour 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

Corporate governance

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 conducts its business in accordance with the principles for good CSR. This is enshrined in the company's governing documentation through the management of CSR procedure.

CSR forms an integrated part of the company's organisational culture, strategy, operational activities and ethical conducts towards the world at large. Through CSR, Gassco as a company takes responsibility for its activities, including the way these affect various social players.

A general respect for human rights is an integral part of Gassco's value base. The company's ethical guidelines conform with the UN's Global Compact and the OECD's guidelines for multinational companies. Its ethical guidelines are described in a separate document which forms part of Gassco's governing documentation.

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 assets, 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 in health, safety, the environment and quality, costs, regularity, product quality, customer satisfaction and the attainment of strategic targets. These employees can achieve a bonus of up to 10 per cent of their basic pay.

The board's declaration on pay and other remuneration for senior executives, see note 3 to the accounts, details the remuneration of senior executives and the terms of the company's remuneration policy, including the bonus plan. The board's declaration is considered by the general meeting.

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.

User information is made available to the shippers in Gassco's Origo booking system and through the user fora.

In addition, License to Share is used as a medium of communication with Gassco's owners and shippers, while Authorityweb is used with the authorities.

Real-time information and details about planned and unplanned shutdowns are posted on Gassco's website.

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. The auditor attends board meetings where the accounts are considered. In addition, the board has an annual meeting on its own with the auditor.



Income statement

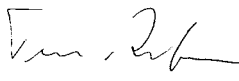
Amounts in NOK 1 000	Note	2011	2010
Operating income and expenses			
Total operating income	2	0	0
Total operating expenses	2,3,4	0	0
Financial income and expenses			
Other interest income		369	312
Net financial items		369	312
PROFIT BEFORE TAX			
Tax on ordinary activities	8	0	(614)
Profit on ordinary activities		369	926
Net profit		369	926
Transfers:			
Allocated to other equity		369	926
Total transfers		369	926


Balance sheet


Amounts in NOK 1 000	Note	At 31 Dec 11	At 31 Dec 10
ASSETS			
INTANGIBLE ASSETS			
Deferred taxes	8	1 571	1 483
Total intangible assets		1 571	1 483
TANGIBLE ASSETS			
Land, buildings and other property	4	33 409	35 486
Operating equipment and fixtures	4	62 372	54 678
Total tangible assets		95 781	90 164
OTHER LONG-TERM RECEIVABLES			
Other receivables	3,7	165 572	161 617
Total other long-term receivables		165 572	161 617
TOTAL FIXED ASSETS		262 925	253 264
CURRENT ASSETS			
RECEIVABLES			
Accounts receivable		51 601	60 703
Other receivables		10 851	8 259
Total current receivables		62 452	68 962
Bank deposits and cash	9	114 178	187 675
TOTAL CURRENT ASSETS		176 630	256 637
TOTAL ASSETS		439 554	509 901

Bygnes, 23 March 2012


Ottar Inge Rekdal
Chair


Trygve Refvem
Deputy chair


Elisabeth Krokeide
Director


Sverre Quale
Director

Amounts in NOK 1 000

	Note	At 31 Dec 11	At 31 Dec 10
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	5 775	5 406
Total retained earnings		5 775	5 406
TOTAL EQUITY		15 775	15 406
LIABILITIES			
Provisions			
Pension commitments	7	142 877	136 111
Total provisions		142 877	136 111
Long-term liabilities			
Long-term interest-bearing debt		625	1 875
Total long-term liabilities		625	1 875
Current liabilities			
Accounts payable		50 200	66 443
Tax payable	8	2 592	2 983
Tax and other withholdings	9	25 655	21 473
Other current liabilities		201 831	265 609
Total current liabilities		280 278	356 508
TOTAL LIABILITIES		423 780	494 495
TOTAL EQUITY AND LIABILITIES		439 554	509 901

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	2011	2010
Cash from operational activities		
Profit on ordinary activities before tax	369	312
Depreciation	24 719	22 984
Changes in accounts receivable	9 102	2 242
Changes in other current receivables	(2 592)	27 583
Changes in long-term receivables	(4 043)	(22 821)
Changes in accounts payable	(16 243)	21 740
Changes in long-term commitments	6 765	23 487
Changes in other current liabilities	(59 988)	44 943
Net cash from operational activities	(41 911)	120 470
Cash from investment activities		
Net additions/disposals of fixed assets	(30 337)	(31 516)
Net cash from investment activities	(30 337)	(31 516)
Cash from financial activities		
Redemption of long-term debt	(1 250)	(1 250)
Net cash from financial activities	(1 250)	(1 250)
Net changes in cash and cash equivalents	(73 497)	87 703
Cash and cash equivalents at 1 January	187 675	99 972
Cash and cash equivalents at 31 December	114 178	187 675

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, France and UK.

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, GBP).

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 2011.

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	2011	2010
Operating income and expenses			
Normal operatorship		7 449 941	8 916 342
Special operatorship		255 555	216 374
Other assignments		899 471	1 194 803
Total operating income		8 604 967	10 327 519
Payroll costs	3	396 526	379 720
Depreciation on fixed assets, Gassco	4	24 719	22 984
Other expenses		8 183 722	9 924 814
Total operating expenses*		8 604 967	10 327 519
Financial income and expenses			
Other interest income		369	312
Net financial items		369	312
PROFIT BEFORE TAX		369	312
Tax on ordinary activities	8	0	(614)
Profit on ordinary activities		369	926
Net profit		369	926

* See further specification of costs in the next table.

Notes

SPECIFICATION OF EXPENSES

Amounts in NOK 1 000

2011

2010

NORMAL OPERATORSHIP

GASSLED

Operating expenses	4 712 837	4 981 766
- Kårstø processing plant	1 508 337	1 710 258
- Kollsnes processing plant	1 088 780	1 136 493
- Receiving terminals	643 619	631 582
- Platforms	635 882	677 888
- Pipelines	274 588	275 000
- Other	378 458	406 354
- Taxes	183 172	144 192
Operating investment	780 059	1 016 728
- Kårstø	278 176	337 350
- Kollsnes	91 977	264 467
- Receiving terminals	114 547	116 265
- Platforms	59 963	111 823
- Pipelines	106 163	125 477
- Other	129 233	61 346
Project investment	1 710 689	2 696 917
- KEP 2010	539 879	1 217 269
- KOP robustness	636 641	755 426
- NGL metering upgrade	152 908	238 756
- DIXO	87 883	184 507
- GEP	117 624	161 694
- B11 bypass	79 783	19 194
- Other	95 972	120 071
Removal costs	59 024	33 559

HALTENPIPE

Operating expenses	49 567	57 389
Operating investment	249	101

ZEEPIPE TERMINAL

Operating expenses	31 991	36 792
Operating investment	26 686	29 232

DUNKERQUE TERMINAL

Operating expenses	55 196	49 334
Operating investment	23 644	14 524

TOTAL NORMAL OPERATORSHIP	7 449 941	8 916 342
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SPECIAL OPERATORSHIP

Operating expenses	255 555	216 374
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TOTAL SPECIAL OPERATORSHIP	255 555	216 374
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OTHER ASSIGNMENTS

Investment projects, third parties	667 048	978 955
Study assignments, government	16 544	53 616
Studies and other assignments, third parties	215 880	162 232

TOTAL OTHER ASSIGNMENTS	899 472	1 194 803
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GASSCO TOTAL EXPENSES	8 604 967	10 327 519
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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

	2011	2010
Gassled	24 252 933	26 305 801
Special operatorship	242 924	199 881
Haltenpipe	407 004	406 813
Zeepipe Terminal	194 590	205 374
Dunkerque Terminal	138 342	124 014
Total tariff revenues	25 235 793	27 241 883

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

Amounts in NOK 1 000

Payroll costs	2011	2010
Pay	255 410	233 893
Payroll tax	48 850	48 379
Pension costs	39 445	37 632
Other benefits	52 820	59 816
Total payroll costs	396 526	379 720
Work-years performed	353	325

REMUNERATION OF SENIOR STAFF 2011

Amounts in NOK 1 000

Surname, first name		Pay/remuneration ¹	Bonus ²	Other remuneration ³	Pension costs ⁴	Total	Loan
Bjordal Brian David	President and CEO	2 883	306	27	2 482	5 698	524
Lohne Thor Otto	Executive vice president business development and finance	2 257	224	42	1 463	3 985	542
Thaule Svein Birger	Executive vice president asset management	1 727	161	36	842	2 764	431
Hauge Jan	Executive vice president system operation	1 487	137	26	703	2 352	-
Alcock John	Executive vice president projects	1 286	80	32	425	1 823	437
Kaste Kristin Kinn	Executive vice president technology	993	62	21	128	1 204	297
Hansen Alfred Skår	Executive vice president HSE&Q	943	62	25	118	1 147	146
Larsen Kjell	Executive vice president public relations	1 094	72	33	264	1 463	429
Voll Ingolf Kornelius	Executive vice president human resources	1 136	74	32	272	1 514	345
Lund Trine	Controller	1 116	74	26	291	1 506	211

¹Pay/remuneration + fixed overtime payment

²Bonus paid in 2011 based on results in 2010

³Telephone, broadband, insurance etc.

⁴Net present value of the year's earned pension

Remuneration of directors

	Pay/remuneration
Directors	1 475

Loans and security provided to:

	Loans	Security
Employees	69 770	0

DECLARATION ON SENIOR EXECUTIVE PAY FOR GASSCO

The basis of the principles for remuneration of senior executives is that Gassco should be able to attract and retain personnel with the knowledge and experience required by the company. Gassco's most important context is the upstream oil and gas industry in Norway. It will offer competitive terms in relation to this, but not be a pacesetter on pay.

Remuneration of senior executives will accord with legal provisions and guidelines as well as good corporate governance. It will be equitable and non-discriminatory, and be based on the responsibility and authority of the post as well as individual performance.

In accordance with its guidelines, the board determines the pay and other conditions of the chief executive, while the latter determines the pay and benefits of the rest of the management team. A compensation committee comprising the chair, deputy chair and a director has been established. The executive vice president for human resources provides the committee's secretariat. It prepares matters for the board and supports the board in its work on the chief executive's conditions of employment as well as the framework and principles for the conditions of employment of other employees, including bonus plans.

Gassco's remuneration system comprises basic pay, bonus, pension and insurance plans, and other benefits. Nobody in Gassco has agreements on pay after termination of their employment or severance pay.

The bonus plan can provide a bonus of up to 10 per cent if agreed targets are met. These targets comprise a common performance contract for all Gassco employees as well as an individual performance contract for each executive.

Pension and insurance plans for the management team are the same as for other Gassco employees. The main plan is a defined-benefit plan with an age limit of 67, where the full benefit of 66 per cent of basic pay is achieved after 30 years of earning. A funded plan has been established with an external pension company for pay up to 12 times the National Insurance base rate (G), while an unfunded plan financed from operations covers pay levels above 12G. Gassco also has an early retirement plan financed from operations covering all employees born in 1950 or earlier. This provides a pension of 66 per cent of basic pay from the age of 62 with full pension earning. The pension plan includes survivor and child pensions.

Employer's liability insurance covers permanent injury, permanent disability and death. An all-year travel insurance policy is also in place, covering both business and private travel.

Under his contract of employment, the chief executive has the right to retire on 66 per cent of his basic pay upon reaching the age of 62.

Other benefits include payments in kind such as free phone, broadband and personal insurance. Gassco also offers all employees interest-free loans of up to NOK 500-600 000 with a term of eight years.

New guidelines on conditions of employment for senior executives in state-owned companies were introduced on 1 April 2011. These replace the guidelines established on 8 December 2006.

According to the guidelines, "that part of pension benefits which rests on a pension base in excess of 12G must be organised as a defined-contribution plan, with the contribution limited to a maximum of 30 per cent of basic pay in excess of 12G. Defined-contribution pension payments must be made to a separate legal entity separate from the undertaking with binding effect. Apart from a possible defined-benefit plan confined to a pension base up to 12G, undertakings will no longer be liable for any payment of pension benefits when an executive ceases to be employed by the undertaking." As mentioned above, Gassco has an unfunded defined-benefit pension plan for pay above 12G. Gassco's pension plan is a continuation of Statoil's pension plan in connection with the business transfer on 1 January 2002 – in other words, before the guidelines came into effect. The pension plan covers all employees in the company whose pay exceeds 12G and is not confined to senior executives. Gassco has established pension plans which are the same for all employees.

Gassco has started work on a collective review of its pension plans. This will examine all aspects of the pension plans and take account of the pension reform, the revised guidelines, the work of the banking law commission and industry practice at companies comparable with Gassco. This is an extensive and complicated job, which requires many considerations to be weighed against each other. The revised guidelines could mean, for instance, that the pension plan established for senior executive pay in excess of 12G will need to be less generous than for other employees. In the event, various transitional arrangements will have to be considered. The unions are involved in the work of the pension review. The goal is to tailor the pension plans to take account of other players in the industry and of the indications that changes will be made to pension legislation in the wake of the second interim report from the banking law commission.

Notes

Auditor

NOK 873 060 was charged in 2011 as fees to Deloitte AS for auditing Gassco and the licences operated by the company. NOK 283 800 was recorded as fees for other services. Deloitte Advokater AS also delivered services totalling NOK 149 360 for services which largely related to tax reviews. NOK 1 248 701 was recorded in 2011 as fees for other services supplied by collaborating companies abroad. Of this amount, NOK 870 629 related to auditing of branches and terminals abroad and the remainder to VAT and local tax reviews.

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 11	45 452	147 743	193 195
Additions 2011	0	30 346	30 346
Disposals 2011	0	(3 775)	(3 775)
Conversion difference	0	(11)	(11)
Acquisition cost 31 Dec 11	45 452	174 303	219 755
Accumulated depreciation 31 Dec 11	12 043	111 930	123 973
Book value 31 Dec 11	33 409	62 372	95 781
Depreciation 2011	2 077	22 642	24 719
Economic lifetime	5,50 years	3,5,7,8 and 10 years	
Depreciation plan	Linear/none	Linear	

Note 5. Share capital and shareholder information

The share capital of the company at 31 December 2011 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

Notes

Note 6. Equity

Amounts in NOK 1 000	Share capital	Other equity	Total equity
Equity 1 Jan 11	10 000	5 406	15 406
Year's change in equity			
Net profit		369	369
Equity 31 Dec 11	10 000	5 775	15 775

Note 7. Pension costs, funds and commitments

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

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 2011 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.

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

Amounts in NOK 1 000	2011	2010
For employees in Norway	2011	2010
Present value of pension earning for the year	44 746	39 915
Interest cost of pension commitment	18 020	17 154
Reduction/settlement	0	(15 352)
Return on pension funds	(8 993)	(7 932)
Administration costs	0	0
Recorded implementation effect	0	3 388
Recorded estimate loss/(gain)	9 110	11 066
Net pension cost	62 884	48 238

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.

Notes

Amounts in NOK 1 000

2010	Secured (collective)	Unsecured (early retirement)	Other unsecured	Total
Earned pension commitments	379 422	481	82 218	462 121
Pension funds (at fair value)	(176 700)	0	(1 282)	(177 982)
Unrecorded effect of estimate changes	(166 273)	(48)	(29 438)	(195 760)
Net pension commitment	36 449	433	51 497	88 379

Amounts in NOK 1 000

2011	Secured (collective)	Unsecured (early retirement)	Other unsecured	Total
Earned pension commitments	547 457	619	114 184	662 259
Pension funds (at fair value)	(204 000)	0	0	(204 000)
Unrecorded effect of estimate changes	(285 817)	(654)	(53 908)	(340 379)
Net pension commitment	57 639	(35)	60 276	117 880

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

Economic assumptions	2011	2010
Discount rate	2.60%	4.00%
Expected return on pension funds	4.10%	5.40%
Expected pay growth	3.50%	4.00%
Expected adjustment to current pensions	3.25%	3.75%
Expected change in National Insurance base rate (G)	3.25%	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 2011 satisfied local requirements.

Amounts in NOK 1 000

For employees in Belgium	2011	2010
Present value of pension earning for the year	2 157	3 047
Interest cost of pension commitment	1 921	1 945
Return on pension funds	(1 653)	(1 572)
Administration costs	0	0
Recorded implementation effect	0	0
Recorded estimate loss/(gain)	0	0
Net pension cost	2 424	3 419

Amounts in NOK 1 000

Secured	2011	2010
Earned pension commitments	48 932	45 851
Pension funds (at fair value)	(34 661)	(31 572)
Unrecorded effect of estimate changes	(2 941)	(2 663)
Net pension commitment	11 330	11 616

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

Economic assumptions	2011	2010
Discount rate	3.80%	3.70%
Expected return on pension funds	4.84%	4.97%
Expected pay growth	4.00%	4.00%
Expected adjustment to current pensions	2.00%	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 pension plans which comply with local requirements.

For employees in UK

Employees in UK have defined-contribution pension plans which comply with local requirements.

Notes

Employees in Germany have various defined-benefit pension plans.

For employees in Germany	2011	2010
Present value of pension earning for the year	5 433	5 366
Interest cost of pension commitment	4 483	3 631
Return on pension funds	0	0
Administration costs	0	0
Recorded implementation effect	0	0
Recorded estimate loss/(gain)	0	0
Net pension cost	9 916	8 997

Secured	2011	2010
Earned pension commitments	91 739	79 060
Pension funds (at fair value)	(78 073)	(42 944)
Unrecorded effect of estimate changes	0	0
Net pension commitment	13 666	36 116

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

Economic assumptions	2011	2010
Discount rate	4.90%	4.60%
Expected return on pension funds	0.00%	0.00%
Expected pay growth	3.30%	3.00%
Expected adjustment to current pensions	2.00%	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

Taxes for the year are as follows	2011	2010
Tax payable	2 592	2 983
Refunded tax	(2 504)	(3 261)
Changes in deferred tax	(88)	(335)
Tax on ordinary profit	0	(614)
Tax payable	2011	2010
Tax payable in balance sheet	2 592	2 983
Reconciliation from nominal to effective tax rate	2011	2010
Ordinary profit before tax	369	312
Calculated income tax at nominal tax rate (28%)	103	87
Fiscal effect of the following items		
Tax effect on net refund under incentive scheme for R&D (Skattefunn)	(182)	(554)
Non-deductible cost, part of pension cost	2 587	3 131
Refunded tax	(2 504)	(3 261)
Non-taxable income, interest on tax receivable	(4)	(16)
Tax	0	(614)
Effective tax rate	0.0%	(196.4%)

Specification of temporary differences and their net tax effect

	2011		2010	
	Benefit	Obligation	Benefit	Obligation
Temporary differences, operating equipment	5 611	0	5 297	0
Net deferred tax benefit/obligation in the balance sheet	1 571	0	1 483	0

Notes

Note 9. Bank deposits

Bank deposits and cash include NOK 11 389 884 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.



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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Gassco AS

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Gassco AS, which comprise the balance sheet as at 31.12.2011, and the income statement, showing a profit of NOK 368.686 and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Gassco AS as at 31.12.2011, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the allocation of the profit

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit complies with the law and regulations and that the information is consistent with the financial statements.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that 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 bookkeeping standards and practices generally accepted in Norway.

Haugesund, 23. March 2012
Deloitte AS

Else Holst-Larsen
State Authorised Public Accountant (Norway)

(Translation has been made for information purposes only)

