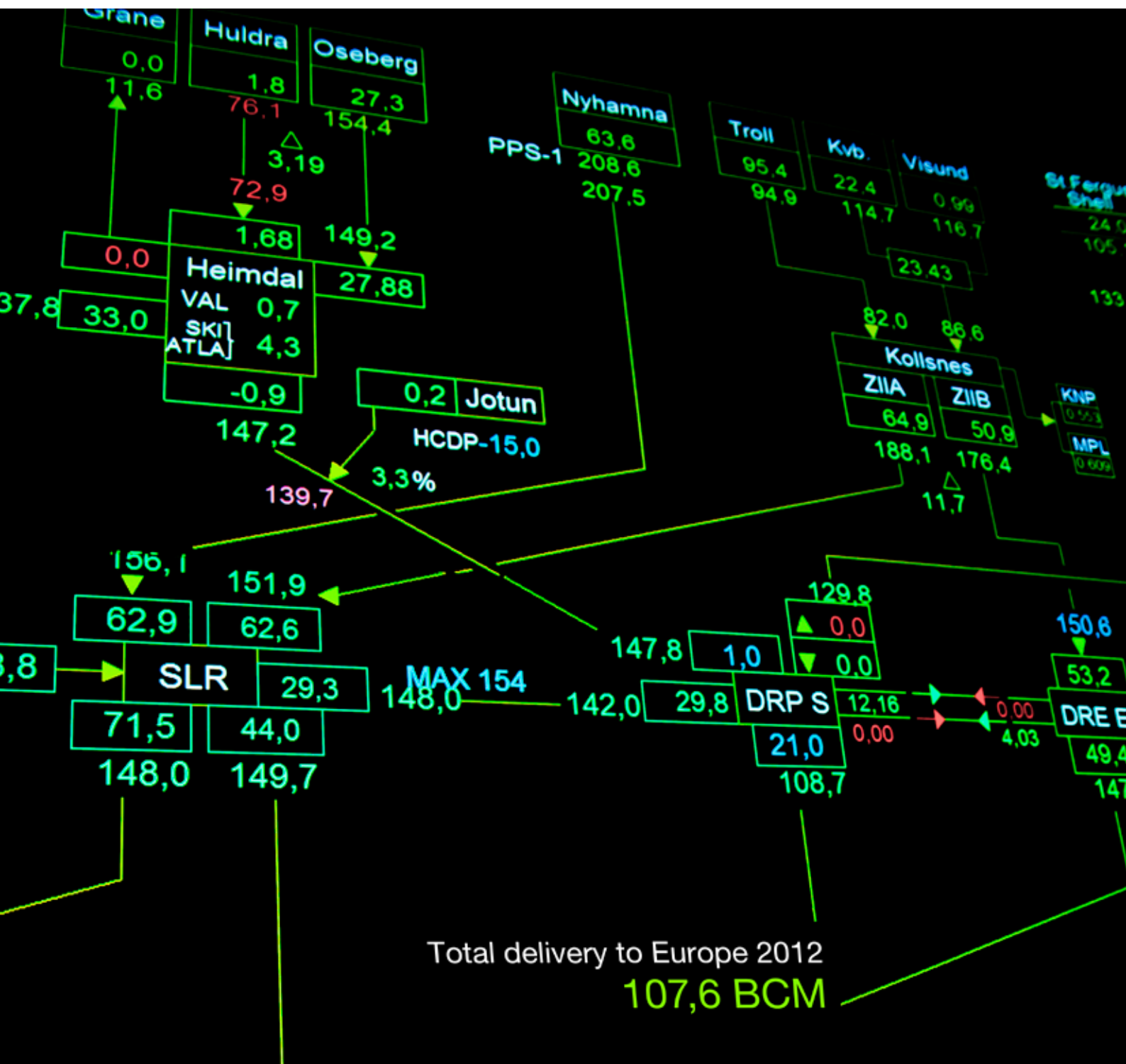


Annual report 2012



CONTENTS

GASSCO ANNUAL REPORT 2012

NAVIGATING IN DIFFICULT WATERS	PAGE 3
DIRECTORS´ REPORT	PAGE 7
CORPORATE GOVERNANCE	PAGE 19
FINANCIAL STATEMENTS	PAGE 25
NOTES	PAGE 29
AUDITOR´S REPORT	PAGE 41

Navigating in difficult waters

Population growth and urbanisation mean that world energy demand will be constantly increasing. At the same time, greenhouse gas emissions must be reduced. No realistic solutions exist for a large-scale shift to renewable energy. So the world needs more gas. The alternative is much worse.

The global population will exceed nine billion in 2050. India will be the world's most populous nation by that year, with 1.8 billion residents. Countries which already have large populations, such as Brazil and Indonesia, will see their numbers triple. The biggest percentage increase is nevertheless expected to be in Africa. At the same time, millions of people are leaving the countryside in search of a better life. As early as 2020, almost half the world's population will live in urban areas. Fifty per cent of China's people will be urbanised within the next 10 years. Most agree that these trends will have dramatic consequences for world energy consumption.

A growth of 35-46 per cent in energy demand up to 2035 is forecast by the International Energy Agency (IEA). While gas and renewables are expected to account for two-thirds of this increase, coal is nevertheless expected to meet more of the world's energy needs than gas in 2035. Here lies one of the biggest challenges for the future. Coal-fired power stations currently account for 41 per cent of world electricity generation, while burning coal is responsible for 25 per cent of human-produced carbon emissions. Coal is cheap and easy to produce, and supplies are almost unlimited.

I note that the EU ideally wants to see decarbonisation and reduced use of all non-renewable energy. But the reality is a little different. Lower industrial output in Europe has driven prices for emission allowances right down, prompting many of Europe's coal-fired power stations to be brought back on line. At the same time, shale gas output means that more gas-fired electricity is being generated in the USA at the expense of coal. That in turn has led to a 72 per cent increase in American coal exports to Europe since 2010.

When gas replaces coal, greenhouse gas emissions go down. Gas in interaction with renewable energy could therefore be invaluable for reaching climate policy goals in a world which cannot manage without fossil energy. Unfortunately, we are unable to come up with financial incentives which make it attractive to shift from coal to gas. A global system of emission allowances appears to be a long way off, and the allowance system we have does not function as intended.

The Norwegian continental shelf (NCS) is characterised by optimism and a willingness to move forward, with an ever-growing ability to improve recovery from existing fields. With a record number of developments, the government is handing out more production licences than ever. We at Gassco are particularly pleased about developments in the Norwegian Sea. By the end of 2013, all the signs were that the Aasta Hansteen field and a new pipeline to the Nyhamna processing plant would be a reality by 2016. We have been the architect for this pipeline solution, which takes account of potential production from undiscovered Norwegian Sea resources.

Made at the start of 2012, the Havis oil discovery boosted the industry's expectations for the >>



Brian D Bjordal
Brian D Bjordal
President and CEO

“The NCS is characterised by optimism and a willingness to move forward, with an ever-growing ability to improve recovery from existing fields.”

Navigating in difficult waters

Barents Sea even further after interesting finds the year before. The treaty with Russia on the former area of overlapping claims also came into force in 2011, expanding the NCS by 87 500 square kilometres. Seismic data acquired by the Norwegian Petroleum Directorate from the area west of the boundary show that oil and gas are probably to be found there, and that the long-term potential lies in the far north.

But the skies over the NCS are not free of clouds. It takes 10 years on average to bring a discovery into production. Many new gas finds must be booked every year to maintain output from the NCS, and timely phasing-in of these discoveries will be crucial for maintaining its level of production and competitiveness. The industry is also struggling to recruit enough competent personnel. An able engineer without a job in Norway will soon be as rare as a bear in a boulevard, and reining-in the level of Norwegian costs would probably be hard. Even with an oil price of USD 100 per barrel, deciding on certain oil developments is likely to be a tough business.

Norway has never exported more gas to Europe than it did in 2012, and there is every reason to celebrate the status of Norwegian gas as a commodity in demand. At the same time, however, I must unfortunately pour cold water on expectations that a new export record for 2013 is a foregone conclusion. Gas prices are also under heavy pressure, given such factors as US shale gas, liquefied natural gas (LNG) and low growth in the world's major economies. Norway must accordingly be ready and able to adapt to the reality it faces.

For us at Gassco, 2012 was a year of very good performances. Our ambition is to deliver gas to the market with virtually 100 per cent deliverability and, with a result of 99.69 per cent, we came very close to that demanding goal. Almost 60 per cent of Norwegian gas exports pass through our two processing plants at Kårstø and Kollsnes, so I find it particularly gratifying to be able to report that these facilities achieved very good operating results in 2012.

The Kårstø expansion project (KEP) is coming to an end, with all construction activities completed. Some six million work-hours have been devoted to this extensive upgrade since it began in 2008 – without serious incidents or noteworthy reduction in production availability. I would accordingly praise our own employees and those of our partners for good planning and collaboration in a day-to-day setting which has clearly been demanding. In my view, the core of our business will always consist of two main goals: good daily operation and the ability to develop and adapt.

Finally, I would note that the future is always more demanding than the past. So we must simply accept that, although we are all born under the same sky, not all of us have the same horizon.

“Almost 60 per cent of Norwegian gas exports pass through our two processing plants at Kårstø and Kollsnes.”





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Directors' report 2012

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, 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 are furthermore 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 itself is responsible for day-to-day operation of the receiving terminals in continental Europe and the UK, and for the Gjøa Gas Export pipeline. The company has entered into extensive agreements on the purchase of technical operating services for other pipelines, receiving facilities, platforms and processing plants.

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.

Gassco's strategic goals

- Gassco will represent best practice for health, safety and the environment.
- Gassco will be characterised by leading-edge expertise in its core areas.
- Gassco will be responsible for first class operation, maintenance and development of transport and

processing facilities.

- Gassco will ensure value creation through integrated development of the gas transport system.
- Gassco will be perceived as a professional, neutral and independent system operator and administrator of capacity in the transport system.
- Gassco will have an active relationship with changes to its operating parameters and new business areas.

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 is a company where people achieve good results through collective action. Its organisation cultivates pride and enthusiasm. The individual's talents are valued and further developed, and differences are respected. Gassco recognises that the sum of individual contributions represents the strength of the collective. Its goals are reached through knowledgeable people.

Gassco's vision

Norwegian gas transport to Europe – reliable and forward-looking.

Gassco's values base

- We will conduct our business in an ethical, sustainable and socially responsible manner.
- The expertise of our employees provides the basis for safe and reliable gas transport..
- We look ahead and find solutions. We value talent and a positive attitude by our employees.
- Our goal is that everyone will achieve personal development in a healthy business culture and a good social environment.
- All behaviour in our organisation must accord with our values. Managers have a special responsibility.

Gassco had 359 permanent employees at 31 December 2012, including 149 at the receiving terminals in continental Europe and the UK. The company currently has two office trainees in Norway and two apprentice electricians in Germany.

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. The company has pursued a programme for personal development of its employees during recent years, which will be continued. At the same time, a management development programme will be initiated to build further on the one which ended in 2009.

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 resource requirements are largely met by personnel on temporary contracts if the new work is not permanent in nature.

Equal opportunities and anti-discrimination

The company's human resources policy is gender-neutral and ensures equality of opportunity in all areas. Job advertisements manifest the company's 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 has ensured good physical access to its buildings, so that all facilities are also available to people with disabilities. Workplaces are individually customised for employees with repetitive strain injuries.

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

Gassco has a philosophy of zero accidents and no harm to people, the environment or 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 2012.

The working environment in Gassco is good. The company's target for a number of years has been an overall sickness absence below three per cent. That goal was met again in 2012. Sickness absence for the year was 2.24 per cent in the whole business (including Gassco and providers of technical services).

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 initiatives are measurable and as effective as possible.

Gassco launched a programme during 2012 to strengthen HSE expertise in its organisation and to build a strong and unified HSE culture. In that connection, the company established a set of "life-saving rules". Compliance with these is mandatory in projects without a technical service provider and at the pipeline receiving facilities where Gassco itself is responsible for day-to-day operation.

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



At Bygnes.

The frequency of incidents defined as critical declined from 14 in 2010 and three in 2011 to just two. The 2012 events caused no harm to the environment, people or material assets, but are classified as critical because they could have caused serious injury with insignificant changes in the circumstances. In other words, their potential is regarded as serious and probable.

The personal injury frequency for Gassco's operator area in 2012 was 4.0, a slight decline from 4.1 in 2011.

No gas leaks larger than 0.1 kilograms per second were recorded in 2012. Gassco registered three fires within its operator area in 2012. None were serious in nature and they were quickly extinguished. A total of seven accidental discharges of chemicals occurred in 2012, four of which were classified as less serious and three as moderately serious. These discharges were largely caused by technical failures in equipment. Efforts to implement the maintenance programme in full will be stepped up in order to prevent such faults. In those cases where the failure was the result of human error, routines for safe working in the operations organisations have been reviewed.

An important component of Gassco is its emergency response organisation. The response organisation at Bygnes held and participated in 10 exercises during 2012. Some exercises were conducted in cooperation with companies responsible for technical operation of assets on Gassco's behalf, and others with employees at its receiving facilities. Local exercises were also staged at the plants.

The company will continue its efforts to achieve HSE&Q improvements. These will also be sought at companies carrying out operating assignments on Gassco's behalf.

Particular attention is paid to all conditions with a major accident potential.

Gassco operated all processing plants, pipelines and platforms in accordance with applicable emission/discharge permits in 2012, with the exception of Kollsnes. Diffuse emissions are measured every third year in accordance with an established programme. Follow-up measurements conducted at the Kollsnes processing plant in 2012 showed that emissions of non-methane volatile organic compounds (nmVOCs) had increased above the permitted limit. Gassco will submit a report on these results to the Norwegian Climate and Pollution Agency (Klif) and apply on that basis for an increase in the emission permit.

The company purchased 20 000 emission allowances to cover its carbon emissions in 2012. New EU regulations implemented in Norway through the Climate Act mean that a number of types of emission allowance from non-EU countries will be banned from 2013. Gassco accordingly opted in the spring of 2012 to change its strategy for purchasing emission allowances, and is now only buying EU allowances (EUAs) in the EU's allowance market. The 20 000 allowances purchased in 2012 covered about 1.5 per cent of its total emissions during the year. The other 98.5 per cent were covered by allowances which were either free (87.7 per cent) or purchased in earlier years (10.8 per cent).

Directors' report 2012

HEALTH AND SAFETY RESULTS	Results 2012	Results 2011
Deaths	0	0
Total personal injuries	23	24
Lost-time injuries (included in personal injuries)	10	13
Fires	3	2
Gas leaks	0	2
Critical incidents	2	3
Emissions/discharges in excess of licence limits	1	0
Accidental discharges, oil/chemicals	7	2

EMISSIONS / DISCHARGES TO THE NATURAL ENVIRONMENT		Emissions 2012	Emissions 2011
To the air	Nitrogen oxides	1 180.1 tonnes	966.8 tonnes
	Carbon dioxide	1 389 kilotonnes	1 272 kilotonnes
	Safety flaring	18.0 kilotonnes	21.3 kilotonnes
To water	Oil	375 kilograms	526 kilograms
	Phenol	69 kilograms	49 kilograms
	TOC	9 713 kilograms	8 499 kilograms
To soil	Accidental discharges, oil/chemicals	1 421 litres	830 litres

System operation

Gas deliveries from the NCS to Europe were the highest ever in 2012, at 107.6 billion scm. Total deliverability was 99.69 per cent compared with 99.17 per cent in 2011.

Preparations were made in 2012 for gas deliveries from Skarv, Marulk, Atla, Visund South and Morvin, and two 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, without giving rise to any incidents of significance for gas transport.

The transport network has a built-in flexibility which makes it possible to compensate for production disruptions on fields, at processing plants and on riser platforms. This flexibility can be utilised through the management exercised by Gassco's control room, which operates around the clock. As the transport system has become increasingly complex, with more fields tied in and a larger number of gas qualities, the ambition is to deliver with almost 100 per cent availability in the market. Gassco has now completed a development project to adopt the advanced New Pipeline Model

GAS TRANSPORT	2012	2011
Deliverability (%)	99.69	99.17
Quality (%)	99.99	99.99
Gas delivered to receiving terminals in Europe (billion scm)	107.6	94.2
Highest delivery per day (million scm)	356.9	360.8
Average gross calorific value (kWh / scm)	10.95	10.99
Total volume other products supplied by the gas transport system (million tonnes)	7.96	7.99

System. This has proved to lie at the leading edge internationally, and was also nominated for the 2012 Engineering Achievement of the Year award.

Capacity management

Two booking rounds were conducted during the year, with a relatively low level of activity. Daily activity was relatively high during the year, with extensive use of interruptible capacity.

Gassco has entered into a collaboration with the owners of the Segal transport system on the UK continental shelf, which carries gas to St Fergus. Shippers who transport gas in Gassled areas F and G for onward transport through Segal can now book capacity right through to the delivery point in Gassco's booking system.

Asset management and development

Operation of the Kårstø processing plant went well during 2012. At the same time, utilisation of the facility was lower than expected because of reduced deliveries from fields. Available yearly capacity was 96.36 per cent, 1.1 percentage points above target. Good production results were achieved by the processing plant at Kollsnes in 2012. Utilisation of the facility was high in both winter and summer, while the targets set for production availability were also reached. Production availability came to 98.84 per cent.

A production availability of 99.95 per cent (target 99.95 per cent) was achieved for platforms in the transport network and 99.995 per cent (target 99.990 per cent)

for pipelines. The 2011 figures were 99.86 per cent for platforms and 99.98 per cent for pipelines.

The pipeline receiving facilities in continental Europe and the UK achieved a combined production availability of 99.95 per cent in 2012, while the target was 99.99 per cent. Although the delivery losses are small, they are more noticeable because losses at terminals have immediate consequences for deliveries from the gas transport system.

The gas transport system is well maintained. Upgrading and renewal projects are initiated in areas where normal maintenance is not enough to sustain technical integrity. Analyses of technical condition and identification of upgrading needs are documented in reports, with estimates of the remaining commercial life for the various systems in the plants.

Renewing surface treatment on insulated piping is important for preventing corrosion which could lead to gas leaks. The insulation, scaffolding and surface treatment (ISO) project at Kårstø, under way since 2007, will be completed in 2013. Surface treatment will then have been renewed on insulated piping in the oldest parts of the plant. This project has involved extensive work on scaffolding and inside the production trains. When completed, it will have cost about NOK 1.2 billion. A new ISO project was launched at Kollsnes in 2012. Running over four-five years, it is expected to cost about NOK 300 million.

Design solutions at older facilities will often differ from those used in more recent plants. Technical safety analyses compare designs at the various installations with updated design standards as a way of identifying opportunities for improvement and risk reduction. This can lead in turn to upgrading work, usually combined with upgrades to maintain the facility's integrity.

The Gassco Emden project (GEP) is an example of a major upgrade driven by the need both to maintain technical integrity and to improve design while reducing risk. Operational in 1977, the Norsea Gas Terminal in Emden formed part of the Ekofisk development. The GEP involves building a new facility to replace the old plant. Sanctioned in 2012, this project has a cost framework of roughly NOK 5 billion.

An alternative upgrading strategy has been chosen for the gas terminal at St Fergus, which has also been in operation since 1977. This involves a number of small one-to-one upgrades as well as several defined projects for upgrading safety .

All construction activities in KEP2010 were completed during 2012. Significant systems at Kårstø have been upgraded in this project, which had a cost framework of NOK 6 billion. Following its completion, it has been decided to upgrade the two remaining Statpipe boilers as well as the control system for the electrically driven booster compressors. The NGL metering project involves replacing the metering systems for natural gas liquids with new ones. These are now installed, and the project will be completed in 2013.

The Kollsnes project (KOP), completed in 2012, had two components – the tie-in of a third gas pipeline from Troll and upgrading the water treatment facility and the glycol train in the process plant. This project cost almost NOK 3 billion.

As a consequence of the decision to develop Gudrun, it was resolved that light oil produced from this North Sea field will be processed at Kårstø. The oil will be piped to the plant via the Sleipner condensate line. Work at Kårstø is organised in the Gudrun onshore modifica-

tions (GOM) project, which will be completed in the spring of 2014 at a cost of almost NOK 750 million. Gassco operates 1 200 kilometres of pipeline with a diameter of more than 30 inches in waters deeper than 180 metres. No effective contingency provision exists for repairing these lines, since restrictions apply to diving beyond 180 metres. Together with the Troll licence, Gassco has decided to develop remotely operated repair equipment for water depths down to 1 000 metres. Costed at roughly NOK 500 million, this project is developing several new technology components – including remotely operated hyperbaric welding.

The decision to remove the B11 compressor platform was taken in late 2012. This operation now forms part of a larger project which also embraces the removal of platforms H7 and 2/4-5. The total cost is estimated to be roughly NOK 2.8 billion.

Gassco gives emphasis to continuous improvement of the gas transport system in order to achieve safe, reliable and cost-effective operation. The current Gassled improvement programme for 2010-2014 is making good progress.

Infrastructure development

Continuous and coherent development of the gas infrastructure is an important instrument for securing effective resource management on the NCS. Gassco prepares annual transport plans, which assess future requirements for developing transport capacity based on analyses of user needs. The 2012 transport plan indicates that utilisation of the gas infrastructure will be good for the next few years. However, the forecast reveals a declining trend because gas production further ahead in time from fields tied into the existing infrastructure is uncertain and shows a tendency to fall.

Conducted by Gassco in 2012, the NCS2020 study illustrates the outlook for undiscovered resources on the NCS. This assessment is based on the Norwegian Petroleum Directorate's assessments of the potential for future oil and gas discoveries. The goal is to increase understanding of the resource base for developing the gas infrastructure beyond 2020, and to illustrate the



At Kalstø.

consequences for future decisions related to both new and existing gas infrastructure. Establishing scenarios for future Norwegian gas production creates alternative views of possible gas infrastructure development up to 2040. The study shows that further development of gas infrastructure in the far north will make an important contribution to enhancing value creation on the NCS.

The NCS2020 study has contributed to the assessments which underpinned decisions in such areas as the Polarled (previously NSGI) project and the continued development of Snøhvit. Polarled will be a new 480-kilometre gas pipeline which ties Aasta Hansteen into the processing plant at Nyhamna in western Norway for export through the existing transport system. A tie-in between Polarled and the Kristin platform will also link the new infrastructure to the existing Åsgard Transport system on the Halten Bank.

Gassco has been responsible for maturing the project up to the choice of concept in the late autumn of 2011, when Statoil took over as development operator on behalf of the Polarled partners. At the request of the partners and the government, Gassco has assessed integrated infrastructure options for gas production from the area. The company has also led the commercial process between the Polarled partners and the owners of the facilities which the pipeline will tie into.

Polarled involves an expansion of the existing transport system and facilitates the phasing-in of resources from existing and future discoveries in the Norwegian Sea.

Gassco has carried out assessments in connection with the choice of concept by the Snøhvit licence for possible further development of gas transport capacity from Melkøya. In that context, Gassco has conducted an assessment of various transport options on the basis of an overall continental shelf perspective.

In February, Gassco was requested on the basis of a mandate from the Ministry of Petroleum and Energy to assess infrastructure solutions for the oil discoveries on the Utsira High – in other words, the Edvard Grieg, Ivar Aasen and Johan Sverdrup fields. Gassco led work to establish a technical and commercial basis for concept selection on behalf of the participants in the licences. This work resulted in a decision to mature an oil transport solution for Edvard Grieg and Ivar Aasen which involves laying a new oil pipeline from the Utsira High to tie into the existing Grane oil pipeline, which runs to the Sture terminal near Bergen. It was also resolved to continue work on a transport solution for oil from Johan Sverdrup, independently of the solution for Edvard Grieg and Ivar Aasen.

Directors' report 2012

Gassco restructured the collaboration arenas for its business during 2012. The User Advisory Board – the meeting place for the infrastructure users – has been replaced with a new forum for collaboration between the owners, the users and Gassco called the Infrastructure Advisory Board (IAB). This reorganisation of work and decision-making processes for the business was prompted partly by changes in the owner composition of Gassled, and has focused on user influence over the work processes which lead to decisions on the gas infrastructure. The goal has been to ensure good processes for maximising value creation on the NCS.

Other development projects pursued by Gassco include:

- technical and commercial work to expand capacity at the Zeebrugge receiving facility
- gas transport solutions for the Edvard Grieg, Ivar Aasen, Varg and Goliat fields
- studies at Kollsnes on receiving more feedstock from Kvitebjørn, Visund and other sources in the area

Research and development

Gassco's R&D budget for 2012 was NOK 67.7 million. Attention focused on pipeline technology, the processing and receiving facilities, gas quality and capacity.

The most important projects were

- improving methods and tools for external inspection of the pipelines
- welding/repair of submarine pipelines without diver assistance
- use of acoustic monitoring to safeguard pipeline integrity and avoid gas leaks

- improving methods and tools for monitoring electrically driven compressor trains at the processing plants
- further development of the pipeline model system (PMS) for simulation and monitoring, which was nominated for the 2012 Engineering Achievement of the Year award by Teknisk Ukeblad.
- Improving the model for calculating capacities and identifying bottlenecks at pipeline receiving facilities.

Share capital and shareholders

The company's share capital at 31 December 2012 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 211 159, 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. Gas deliveries from Norway are reliable and characterised by high deliverability. Norwegian gas plays an important role in Europe's future energy mix. Carbon emissions from gas production and transport are lower than for other fossil fuels.

Directors' report 2012

The European energy market is characterised by a high pace of development for renewable electricity generation in the form of wind and solar power. At the same time, coal consumption has increased and little commitment is being made to new gas-fired power capacity. Delivering Norwegian natural gas on competitive terms to the European market is important. Gassco's role will be to ensure high delivery availability and cost-effective transport in new gas infrastructure, while keeping the cost of using existing facilities low.

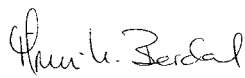
Expectations for discoveries in the Barents Sea are high, and the companies on the NCS are showing great interest in these waters. It is important that developments in the Barents Sea are evaluated in an area perspective, with the emphasis on maximising the value of petroleum resources on the NCS. Gassco has accordingly started work on maturing alternative area solutions for the Barents Sea. The company's work processes ensure that the relevant players on the NCS are able to contribute knowledge and participate in analyses, so that a robust basis is laid for decisions on

further development of the infrastructure in the far north.


In its climate White Paper, the government highlighted power from shore (PFS) as one of the most important measures for reducing Norway's carbon emissions in relation to new offshore developments. Licensees on the NCS are required to assess PFS for new oil and gas installations. Developments are expected to lead to an increase in PFS and thereby to a changed balance between supply and demand in the power grid. Gassco expects to contribute expertise and knowledge to ensure that both the gas infrastructure and new petroleum activities with land-generated electricity as their energy source meet expectations for cost efficiency and deliverability.


Bygnes, 21 March 2013



Ottar Inge Rekdal
Chair

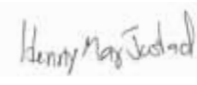

Mimi K Berdal
Deputy Chair



Nina Lie
Director


Johan Einar Hustad
Director

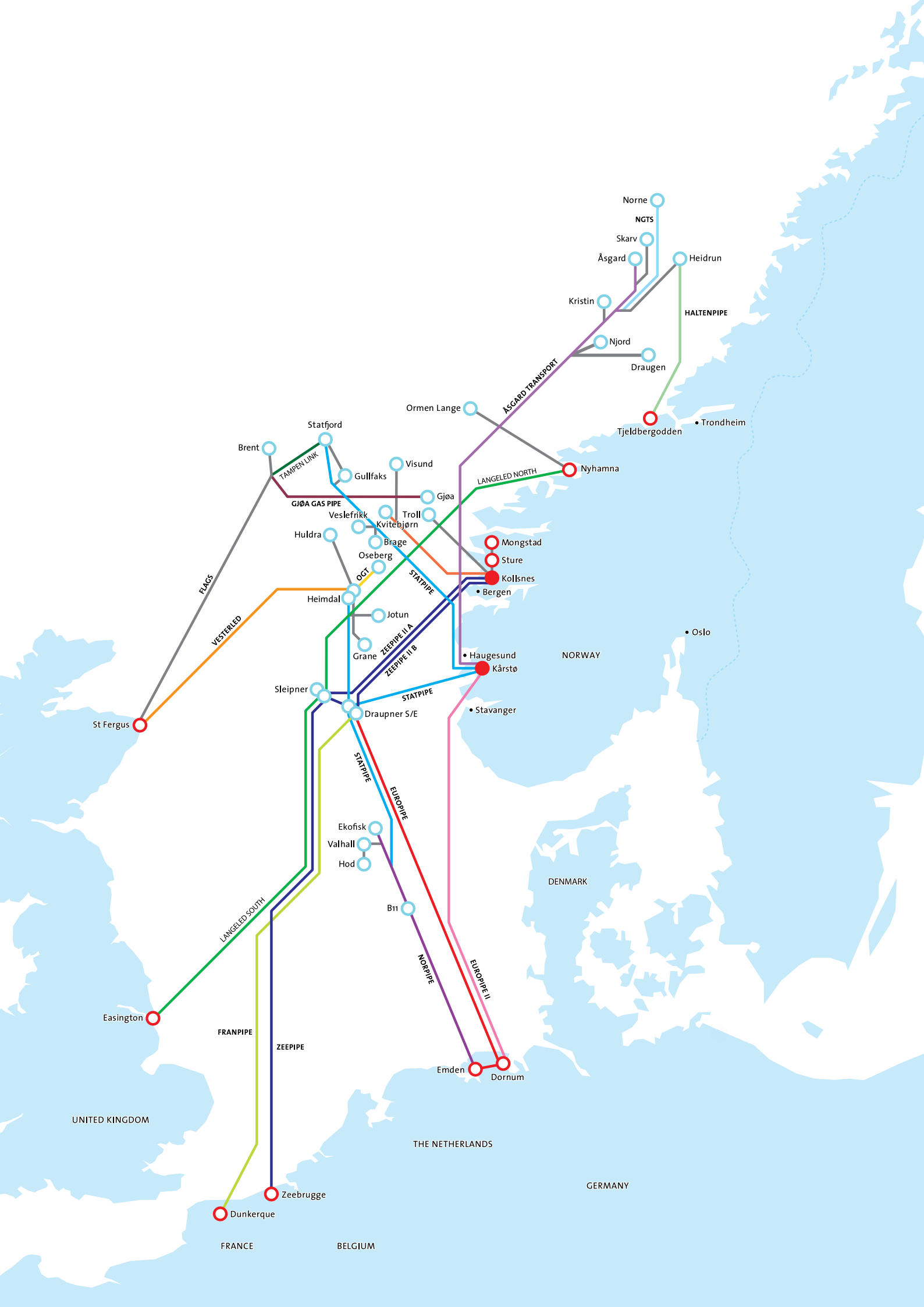

Sverre Quale
Director


Stig Arne Andersen
Director*


Henny May Justad
Director*


Geir Hausken
Director*

*Elected by the employees



Board of directors 2012



Ottar Inge Rekdal

Chair (born 1949)
He has worked for Statoil since 1975, holding a number of management positions. These include head of gas development and market for five years, the development division, and technology. Over the past 12 years, Mr Rekdal 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 on international gas operations. He is a director of Linjebygg Offshore and Ocean Installer. Mr Rekdal has been chair since 2012.



Mimi K Berdal

Deputy chair (born 1959).
She works today as a lawyer with her own law practice. Ms Berdal 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.



Nina Lie

Director (born 1962).
She is senior adviser for strategy and group investment at DNB, where she previously headed the Stavanger region. Ms Lie has served as vice president for Accenture's financial outsourcing services in Norway, and CFO since 1995 in the rig industry (Fred Olsen Energy ASA and Aker Drilling ASA) and oil company Petoro. She is deputy chair for the Stavanger Region Chamber of Commerce and Rosenkildehuset AS and a director of Sarsia Seed AS. Ms Lie has been a director since 2012.



Johan Einar Hustad

Director (born 1954). He is professor and pro-rector at the Norwegian University of Science and Technology (NTNU) with responsibility for innovation and external relations. Prof Hustad has headed the department of energy and process technology at the NTNU and has occupied several management posts at the university and at Sintef. He was also head of the centre for renewable energy, Nordic research professor for Nordic energy research, and guest professor at Stanford University in the USA. He has served on a number of national and international committees and technical bodies. Prof Hustad has been a director since 2012.



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.



Stig Arne Andersen

Worker director (born 1975).
He is a principal engineer and estimator in Gassco AS, and also heads the company's branch of the Norwegian Society of Graduate Technical and Scientific Professionals (Tekna). Mr Andersen has been a director since 2012.



Henny May Justad

Worker director (born 1962).
She is a special consultant at Gassco AS and head of the Gassco branch of the Industry Energy (IE) union. Ms Justad has been a director since 2012.



Geir Hausken

Worker director (born 1973).
He is a principal engineer and project manager in Gassco, and heads the company branch of the Norwegian Society of Engineers and Technologists (Nito). Mr Hausken has been a director since 2012.

200-N Møterom

Geitungen

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's values base

- We will conduct our business in an ethical, sustainable and socially responsible manner.
- The expertise of our employees provides the basis for safe and reliable gas transport.
- We look ahead and find solutions. We value talent and a positive attitude by our employees.
- Our goal is that everyone will achieve personal development in a healthy business culture and a good social environment.
- All behaviour in our organisation must accord with our values. Managers have a special responsibility.

Gassco's vision

Norwegian gas transport to Europe – reliable and forward-looking.

Gassco's job is to ensure maximum value creation from the gas resources on the NCS. The company works professionally and with a high degree of integrity.

Good HSE&Q results are crucial for achieving positive commercial results. Gassco's goal is zero accidents and no harm to people, the environment or 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 2012 value. Owners and users of the gas transport systems include many of the big global players in the oil and gas industry as well as major investment companies. 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. The transport system 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

Corporate governance

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 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 Infrastructure Advisory Board (IAB), 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. The IAB provides an arena where owners and users can discuss relevant issues related to infrastructure development, and where good opportunities are provided for network-building.

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 operating parameters 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 2012 for 40 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 2012, and attendance was 92 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, plus a strategy meeting. 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.

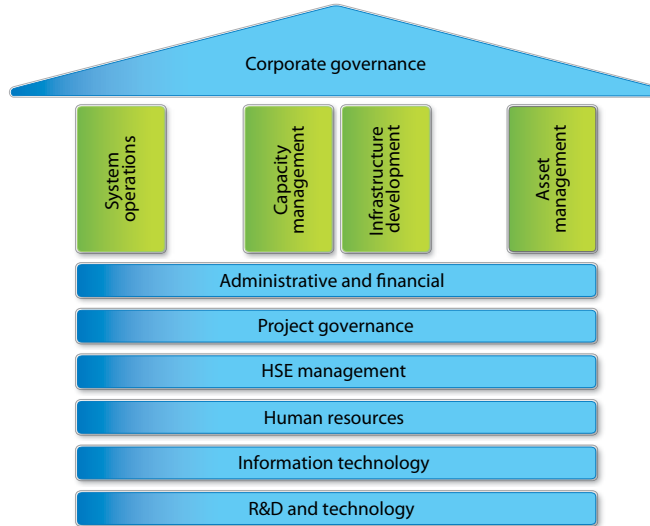
Gassco's management structure builds on established and communicated goals, strategies and values, including ethical rules.

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 the 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.

The user fora – the Infrastructure Advisory Board, the Operating Forum, the NGL Forum and the Industry Arena – have been established with relevant companies. Participants in these bodies are licensees on the NCS and qualified shippers. Industrial users of gas in Norway also participate in the Industry Arena. Although formal decisions are taken either by the owners of the gas infrastructure or by participants in the infrastructure development projects, the work

processes ensure that shippers exert genuine influence ahead of these 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 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

Corporate governance

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-related 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 for 2012 gave 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, production assurance, 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 has resolved to amend the bonus programme from 2013 so that all employees, regardless of their job, can achieve a bonus of up to 10 per cent of 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 booking system, in Origo and in the user fora.

In addition, License to Share is used as a medium of communication with Gassled'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.

FINANCIAL STATEMENTS

Income statement

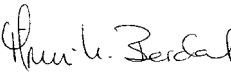
Amounts in NOK 1 000	Note	2012	2011
Operating income and expenses			
Total operating income	2	0	0
Total operating expenses	2,3,4	0	0
Financial income and expenses			
Other interest income		284	369
Net financial items		284	369
Profit before tax			
Tax on ordinary activities	8	73	0
Profit on ordinary activities		211	369
Net profit			
		211	369
Transfers:			
Allocated to other equity		211	369
Total transfers		211	369

Balance sheet


Amounts in NOK 1 000	Note	At 31 Dec 12	At 31 Dec 11
ASSETS			
INTANGIBLE ASSETS			
Deferred taxes	8	6 581	1 571
Total intangible assets		6 581	1 571
TANGIBLE ASSETS			
Land, buildings and other property	4	32 116	33 409
Operating equipment and fixtures	4	91 080	62 372
Total tangible assets		123 196	95 781
OTHER LONG-TERM RECEIVABLES			
Other receivables	3, 7	235 744	165 572
Total other long-term receivables		235 744	165 572
TOTAL FIXED ASSETS		365 521	262 925
CURRENT ASSETS			
RECEIVABLES			
Accounts receivable		61 249	51 601
Other receivables		22 105	10 851
Total current receivables		83 354	62 452
Bank deposits and cash	9	136 263	114 178
TOTAL CURRENT ASSETS		219 617	176 630
TOTAL ASSETS		585 138	439 554

Bygnes, 21 March 2013


Ottar Inge Rekdal
Chair



Mimi K Berdal
Deputy Chair



Nina Lie
Director

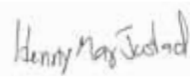

Johan Einar Hustad
Director


Amounts in NOK 1 000

	Note	At 31 Dec 12	At 31 Dec 11
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	5 986	5 775
Total retained earnings		5 986	5 775
TOTAL EQUITY		15 986	15 775
LIABILITIES			
Provisions			
Pension commitments	7	227 241	142 877
Total provisions		227 241	142 877
Long-term liabilities			
Long-term interest-bearing debt		-	625
Total long-term liabilities		-	625
Current liabilities			
Accounts payable		55 468	50 200
Tax payable	8	5 083	2 592
Tax and other withholdings	9	25 259	25 655
Other current liabilities		256 101	201 831
Total current liabilities		341 912	280 278
TOTAL LIABILITIES		569 152	423 780
TOTAL EQUITY AND LIABILITIES		585 138	439 554


Sverre Quale
Director


Stig Arne Andersen
Director*


Henny May Justad
Director*


Geir Hausken
Director*

*Elected by the employees

Cash flow statement

Amounts in NOK 1 000	2012	2011
Cash from operational activities		
Profit on ordinary activities before tax	284	369
Depreciation	25 080	24 719
Changes in accounts receivable	(9 648)	9 102
Changes in other current receivables	(11 254)	(2 592)
Changes in long-term receivables	(75 182)	(4 043)
Changes in accounts payable	5 268	(16 243)
Changes in long-term commitments	84 364	6 765
Changes in other current liabilities	56 292	(59 988)
Net cash from operational activities	75 205	(41 911)
Cash from investment activities		
Net additions/disposals of fixed assets	(52 495)	(30 337)
Net cash from investment activities	(52 495)	(30 337)
Cash from financial activities		
Redemption of long-term debt	(625)	(1 250)
Net cash from financial activities	(625)	(1 250)
Net changes in cash and cash equivalents	22 085	(73 497)
Cash and cash equivalents at 1 January	114 178	187 675
Cash and cash equivalents at 31 December	136 263	114 178

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 2012.

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	2012	2011
Operating income and expenses			
Normal operatorship		7 441 168	7 449 941
Special operatorship		287 858	255 555
Other assignments		615 166	899 471
Total operating income		8 344 192	8 604 967
Payroll costs	3	452 254	396 526
Depreciation on fixed assets, Gassco	4	25 080	24 719
Other expenses		7 866 857	8 183 722
Total operating expenses*		8 344 192	8 604 967
Financial income and expenses			
Other interest income		284	369
Net financial items		284	369
Profit before tax			
		284	369
Tax on ordinary activities	8	73	0
Profit on ordinary activities		211	369
Net profit			
		211	369

* See further specification of costs in the next table.

Notes

SPECIFICATION OF EXPENSES

Amounts in NOK 1 000

2012

2011

NORMAL OPERATORSHIP

GASSLED

Operating expenses	4 920 104	4 712 837
- Kårstø processing plant	1 521 377	1 508 337
- Kollsnes processing plant	1 108 795	1 088 780
- Receiving terminals	644 678	643 619
- Platforms	681 582	635 882
- Pipelines	337 127	274 588
- Other	451 267	378 458
- Taxes	175 278	183 172
Operating investment	1 017 911	780 059
- Kårstø	391 453	278 176
- Kollsnes	279 221	91 977
- Receiving terminals	162 584	114 547
- Platforms	58 628	59 963
- Pipelines	106 067	106 163
- Other	19 957	129 233
Project investment	1 112 424	1 710 689
- KEP 2010	417 736	539 879
- KOP robustness	24 115	636 641
- NGL metering upgrade	39 432	152 908
- DIXO	7 216	87 883
- GEP	138 404	117 624
- B11 bypass	159 816	79 783
- CUP (Compressor upgrade project)	113 814	56 613
- BUP (Boiler upgrade project)	209 761	26 096
- Other	2 130	13 263
Removal costs	193 161	59 024

HALTENPIPE

Operating expenses	56 673	49 567
Operating investment	259	249

ZEEPIPE TERMINAL

Operating expenses	38 072	31 991
Operating investment	26 157	26 686

DUNKERQUE TERMINAL

Operating expenses	54 313	55 196
Operating investment	22 093	23 644

TOTAL NORMAL OPERATORSHIP	7 441 167	7 449 941
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SPECIAL OPERATORSHIP

Operating expenses	259 088	243 508
Operating investments	28 770	12 046

TOTAL SPECIAL OPERATORSHIP	287 858	255 555
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OTHER ASSIGNMENTS

Investment projects, third parties	446 373	667 048
Study assignments, government	15 458	16 544
Studies and other assignments, third parties	153 335	215 880

TOTAL OTHER ASSIGNMENTS	615 166	899 472
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GASSCO TOTAL EXPENSES	8 344 192	8 604 967
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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

	2012	2011
Gassled	23 693 826	24 252 933
Special operatorship	255 435	242 924
Haltenpipe	416 598	407 004
Zeepipe Terminal	195 623	194 590
Dunkerque Terminal	135 298	138 342
Total tariff revenues	24 696 780	25 235 793

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

Amounts in NOK 1 000

Payroll costs	2012	2011
Pay	275 659	255 410
Payroll tax	57 632	48 850
Pension costs (see note 7)	53 941	39 445
Other benefits	65 023	52 820
Total payroll costs	452 254	396 526
Work-years performed	359	353

REMUNERATION OF SENIOR STAFF 2012

Amounts in NOK 1 000

Surname, first name		Pay/remu- neration ¹	Bonus ²	Other remu- neration ³	Pension costs ⁴	Total	Loan
Bjordal, Brian David	President and CEO	3035	235	56	3402	6729	332
Lohne, Thor Otto	Executive vice president business development and finance	2378	182	41	1474	4075	442
Thaule, Svein Birger	Executive vice president asset management	1825	121	39	1266	3250	347
Hauge, Jan	Executive vice president system operation	1570	103	28	976	2677	0
Alcock, John	Executive vice president projects	1375	96	27	547	2045	354
Larsen, Kjell	Executive vice president public relations	1170	81	24	435	1710	361
Voll, Ingolf Kornelius	Executive vice president human resources	1215	83	31	391	1720	285
Lund, Trine	Controller	1195	82	17	563	1858	127
Svendsen, Thorbjørn G	Executive vice president technology	1375	102	32	641	2149	311
Viksund, Randi I	Executive vice president HSE&Q	1020	49	19	271	1359	340

¹ Pay/remuneration + fixed overtime payment

² Bonus paid in 2012 based on results in 2011

³ Telephone, broadband, insurance etc.

⁴ Net present value of the year's earned pension

Remuneration of directors in 2012:

	Remuneration
Directors	1 577

Loans and security provided to:

	Loans	Security
Employees	69 264	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 1953 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 600 000 with a term of ten 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 as a consequence of the banking law commissions work.

Notes

Auditor

NOK 1 063 696 was charged in 2012 as fees to Deloitte AS for auditing Gassco and the licences operated by the company. NOK 83 400 was recorded as fees for other services. Deloitte Advokater AS also delivered services totalling NOK 54 750 which largely related to tax reviews. NOK 1 128 214 was recorded in 2012 as fees for other services supplied by collaborating companies abroad. Of this amount, NOK 880 258 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 12	45 452	174 303	219 755
Additions 2012	815	51 715	52 531
Disposals 2012	0	(5 584)	(5 584)
Conversion difference	0	(262)	(262)
Acquisition cost 31 Dec 12	46 267	220 171	266 439
Accumulated depreciation 31 Dec 12	14 152	129 091	143 243
Book value 31 Dec 12	32 116	91 080	123 196
Depreciation 2012	2 108	22 972	25 080
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 2012 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 12	10 000	5 775	15 775
Year's change in equity			
Net profit		211	211
Equity 31 Dec 12	10 000	5 986	15 986

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 2012 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	2012	2011
For employees in Norway	2012	2011
Present value of pension earning for the year	61 045	44 746
Interest cost of pension commitment	16 792	18 020
Reduction/settlement	0	0
Return on pension funds	(7 311)	(8 993)
Administration costs	0	0
Recorded implementation effect	0	0
Recorded estimate loss/(gain)	20 385	9 110
Net pension cost	90 910	62 884

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

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

Amounts in NOK 1 000

2012	Secured (collective)	Unsecured (early retirement)	Other unsecured	Total
Earned pension commitments	668 915	242	142 565	811 721
Pension funds (at fair value)	(227 600)	0	0	(227 600)
Unrecorded effect of estimate changes	(337 890)	(62)	(71 470)	(409 422)
Net pension commitment	103 425	180	71 094	174 699

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

Economic assumptions	2012	2011
Discount rate	2.30%	2.60%
Expected return on pension funds	2.30%	4.10%
Expected pay growth	3.50%	3.50%
Expected adjustment to current pensions	3.25%	3.25%
Expected change in National Insurance base rate (G)	3.25%	3.25%

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 2012 satisfied local requirements.

Amounts in NOK 1 000

For employees in Belgium	2012	2011
Present value of pension earning for the year	2 042	2 157
Interest cost of pension commitment	1 819	1 921
Return on pension funds	(1 565)	(1 653)
Administration costs	0	0
Recorded implementation effect	0	0
Recorded estimate loss/(gain)	0	0
Net pension cost	2 295	2 424

Amounts in NOK 1 000

Secured	2012	2011
Earned pension commitments	56 514	48 932
Pension funds (at fair value)	(41 650)	(34 661)
Unrecorded effect of estimate changes	(8 938)	(2 941)
Net pension commitment	5 925	11 330

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

Economic assumptions	2012	2011
Discount rate	3.00%	3.80%
Expected return on pension funds	2.91%	4.84%
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.

Amounts in NOK 1 000

For employees in Germany	2012	2011
Present value of pension earning for the year	5 143	5 433
Interest cost of pension commitment	4 245	4 483
Return on pension funds	0	0
Administration costs	0	0
Recorded implementation effect	0	0
Recorded estimate loss/(gain)	0	0
Net pension cost	9 388	9 916

Amounts in NOK 1 000

Secured	2012	2011
Earned pension commitments	132 076	91 739
Pension funds (at fair value)	(85 460)	(78 073)
Unrecorded effect of estimate changes	0	0
Net pension commitment	46 616	13 666

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

	2012	2011
Economic assumptions	3.30%	4.90%
Discount rate	0.00%	0.00%
Expected return on pension funds	3.00%	3.30%
Expected pay growth	2.00%	2.00%
Expected adjustment to current pensions		

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	2012	2011
Tax payable	5 083	2 592
Refunded tax	0	(2 504)
Changes in deferred tax	(5 010)	(88)
Tax on ordinary profit	73	0

Tax payable	2012	2011
Tax payable in balance sheet	5 083	2 592

Reconciliation from nominal to effective tax rate	2012	2011
Ordinary profit before tax	284	369
Calculated income tax at nominal tax rate (28%)	80	103

Fiscal effect of the following items		
Tax effect on net refund under incentive scheme for R&D (Skattefunn)	(55)	(182)
Non-deductible cost, part of pension cost	51	2 587
Refunded tax	0	(2 504)
Non-taxable income, interest on tax receivable	(2)	(4)
Tax	73	0
Effective tax rate	26%	0.0%

Specification of temporary differences and their net tax effect

	2012		2011	
	Benefit	Obligation	Benefit	Obligation
Temporary differences, operating equipment	6 451	0	5 611	0
Unfunded pension	17 053	0	0	
Total	23 504	0	5 611	0
Net deferred tax benefit/obligation in the balance sheet	6 581	0	1 571	0

Notes

Note 9. Bank deposits

Bank deposits and cash include NOK 12 240 954 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.

Auditor's report 2012 - Gassco AS (page 1 of 2)



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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 31.12.2012, and the income statement, showing a profit of NOK 211.159 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 31.12.2012, 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.

Auditor's report 2012 - Gassco AS (page 2 of 2)



Page 2
Independent Auditor's Report to the
Annual Shareholders' Meeting of Gassco
AS

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

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, 21th of March 2013
Deloitte AS

Else Holst-Larsen (signed)
State Authorised Public Accountant (Norway)

[Translation has been made for information purposes only]

