

# Annual report 2015



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# Stay optimistic – Norwegian gas is in a strong position

“Safety comes first” is a refrain in our industry. So let me start these comments with our HSE results for 2015. To use football jargon, we conceded no goals on three of six indicators. Not bad, but the objective is zero for all of them. We can be pleased that the personal injury frequency was record-low, but must also note six critical incidents. That was six too many, and makes it clear that we and our partners in the operations and project arenas have an improvement potential.

Security is becoming an increasingly central concern in our industry. Everyone who pays attention to the news understands why. We have also been compelled to implement security measures at facilities we operate. Some of these enhancements are very visible, others less so. Computer hacking is one security risk which has unfortunately become more prominent. We possess computer systems which are vital for Norwegian gas exports. They are well protected, but all of us nevertheless have a responsibility to contribute to good data security.

We delivered more gas than ever through the transport system to Europe during 2015. I feel huge pride and pleasure over this result. A delivery record like this confirms to me that Norwegian gas has a strong position in Europe’s energy mix. I believe this will persist. Europe needs more gas in combination with renewable energy to reach its climate goals. Even in a green future scenario, European gas consumption will be four times higher than Norwegian gas production.

Two factors in particular encourage my optimism. First, we see a strengthening of the argument that gas plays an important role in reaching the two-degree target by replacing more polluting coal. The UK has decided to close several coal-fired power stations within 10 years. That is very positive for gas from Norway. Second, the Norwegian government has now announced aggressive goals for production and storage of gas from Norway in a long-term perspective. That is very good. We need predictable parameters and political marketing of Norway as a gas nation in European fora.

Although the market wants Norwegian gas, delivery records do not just happen. High and stable production is essential. Without a well-functioning transport system, however, the export machine will grind to a halt. Availability is a key word here. How many hours in the gas day is the transport system available to producers and exporters? As the operator, we are measured by that standard – and rightly so. Outages and shutdowns are noted and have their price, regardless of their cause. This is about the competitiveness of Norwegian gas. I am confident that I lead an organisation which is conscious of this responsibility.

With a deliverability of 99.38 per cent, we also performed well in 2015. In this context, however, decimals are synonymous with substantial value. The corresponding figure for 2014 was 99.92 per cent. Our ambition should be to return to that level in the coming year.

Norway’s gas infrastructure has been developed step by step over 40 years to meet a growing need for transport capacity. I see no reason why this progress should not continue. Without generating big media headlines, three new gas transport systems were brought on line in 2015, and a number of licences are assessing the development of gas discoveries. In the far north, the new Polarled pipeline is ready for use. The Arctic Circle has been crossed for the first time by a submarine pipeline. Aasta Hansteen and other future gas producers in the Norwegian Sea have gained their access to the market.

According to the Norwegian Petroleum Directorate (NPD), Norway’s continental shelf (NCS) contains much undiscovered gas. In fact, more than half the resources remain to be produced. Those who maintain that the sun has already set on our industry should also note that more wells than ever were drilled on the NCS in 2015, including for exploration. Most of the discoveries made during the year were admittedly small, but the willingness to recover the resources is there.

At the same time, negative trends were undoubtedly present in 2015. Reading about good industry colleagues losing their jobs is depressing. But the job of cutting costs must continue. And we in Gassco have to play our part. Operating costs in the Gassled partnership are to be reduced, while our operating budget is to be kept at the 2014 level over the next few years. We are part of an industry which is under heavy pressure, and must also change the way we work as a company. Our improvement programme is about simplification, renewal and the long term. More specifically, this means enhancing the efficiency of the business and setting clear priorities for our core assignments. It does not mean that we will be on the defensive over new activities and roles. Quite the contrary. As a company, we have built up unique value-chain expertise – an expertise which can also be utilised in work on other value chains than those we traditionally deal with.

Finally, it could be worth issuing a reminder that much can change in a short time. A few years ago, everything was running smoothly down the line. Now we face speed restrictions and even some application of the brakes. We are riding a train en route to a future which may well be demanding, but which I nevertheless see no reason to fear. Getting aboard is much better than staying behind on the platform.



  
**Frode Leversund**  
President and CEO



We do our work professionally and with a high level of integrity. Millions of people depend on us delivering.



# Directors' report

## 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, process facilities, platforms and gas 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.

Operating parameters for Gassco are determined by the government. The company's primary roles are furthermore defined as the exercise of special and normal operator responsibilities. The special operatorship refers to the exercise as a government authority of duties allocated to Gassco pursuant to the Norwegian Petroleum Act and associated regulations. It covers system operation, capacity management and infrastructure development. The normal operatorship refers to the technical operation of process plants, pipelines, platforms and terminals pursuant to the Norwegian Petroleum Act's provisions on operator responsibility. These duties are further regulated by agreements with the Gassled, Valemon Rich Gas Pipeline, Utsira High Gas Pipeline, Knarr Gas Pipeline and Haltenpipe joint ventures.

Gassco has entered into extensive agreements with Statoil and Total on the purchase of technical operating services for pipelines, receiving facilities, platforms and process plants.

Gassco does not make a profit or a loss from its operations. Its costs are met by the joint venture, the users and third parties. This means that its economic and financial risks are very limited. Consequently, the annual accounts, balance sheet, equity and liquidity are not specifically discussed.

### Gassco's strategic goals are

- to represent best practice for health, safety and the environment
- to be responsible for efficient operation, maintenance and development of transport and process facilities
- to be perceived as a professional, neutral and independent system operator and administrator of capacity in the transport system
- to maximise value creation through integrated development of the gas transport system
- to possess leading-edge expertise in its core areas
- to relate actively to changes in 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 integral 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, sport and environmental diversity 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 the Achilles supplier network. Information obtained will be a significant factor when qualifying a supplier for participation in the tendering process.

## Organisation

Gassco appointed a new CEO in 2015 after the previous incumbent took early retirement. The company has a functionally structured organisation, with business units for system operation, asset management, and business development and finance. In addition come five technical support departments – technology, projects, HSE&Q, public relations and human resources – as well as a controller function.

Some staff, support and service units are also organised as part of the business units. ICT is placed under system operation, while finance and legal services are incorporated in business development and finance. The Gassco organisation is characterised by highly competent personnel with their attention concentrated on operations.

**The company's vision and values base**

- Gassco's vision is "Norwegian gas transport to Europe – reliable and forward-looking".
- Gassco will conduct its business in an ethical, sustainable and socially responsible manner.
- Gassco does its work professionally and with a high level of integrity.
- Gassco takes an integrated approach, and its employees help each other to achieve their full potential.
- Gassco looks ahead and finds solutions.
- All behaviour in Gassco must accord with its values. Managers have a special responsibility.

Gassco had 355 permanent employees at 31 December 2015, including 142 at the gas terminals in continental Europe and the UK. The company currently has two office trainees in Norway and one IT/office trainee in Germany.

A number of systems and tools are used by Gassco to ensure systematic employee, management and organisational development. The company prepares an annual plan for employee development every year, which provides an overall presentation of the measures to be implemented during the coming year.

Gassco's employee survey was last conducted in 2014. During 2015, the company assessed various options for carrying out such exercises every other year. A new employee survey is planned for 2016. In addition, a special organisational evaluation was conducted during 2015 with the help of a third party to ensure that the company's organisational structure and work processes are optimised and tailored to existing assignments and tomorrow's needs.

Continuous organisational development with the emphasis on the expertise required to meet forth-coming challenges will continue to occupy a key place. Gassco pursued a very restrictive recruitment policy in 2015 because of conditions in the industry.

The company's occupational pension plan was changed from a defined-benefit basis to a defined-contribution scheme with effect from 2016. Transitional arrangements will apply for employees born in or before 1963. In the long term, this change will reduce pension costs and make them more predictable.

Gassco considers change to be essential at a time when cost cuts and efficiency improvements are needed, and

a project called Gassco 2016 has been launched in that connection. With simplification, renewal and the long term as key goals, this work will continue in 2016.

**Equal opportunities and anti-discrimination**

The company's human resources policy is gender-neutral and meets its goals for equality of opportunity, diversity and continuous organisational development. 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 24 per cent of Gassco's workforce. Recruiting more women graduates is a priority for the company. In determining and negotiating pay, Gassco pays special attention to 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 2015.

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 2015. Sickness absence during the year was 2.32 per cent for 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 work 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.

Experience transfer and durable learning from incidents are followed up systematically through analyses and purposeful action. Gassco worked purposefully in 2015 to identify, follow up and implement measures from five different investigations. The frequency of incidents defined as critical increased from 2014 to 2015, when six such events occurred. That compared with one the year before and four in 2013. The critical incidents in 2015 did not cause any serious personal injury, but have been classified as critical because insignificant changes in the circumstances could have led to more serious injuries. In other words, the potential of the incident was regarded as serious. Four of the critical incidents related to the construction of a new gas terminal (GEP) in Emden. Another involved ice falling from a tarpaulin used to cover scaffolding at the Kårstø process plant. Gassco also recorded a critical security incident in the form of an intrusion into a fenced-off area at Karmøy associated with the facility for gas deliveries to Gasnor. Gassco investigated five of the critical incidents in 2015 in order to identify their causes and assess corrective measures. To achieve continuous improvement, the board wants to see that experience transfer and learning continue to occupy a key place during 2016.

The personal injury frequency for Gassco's operator area in 2015 was 2.3, which represented a slight increase from 2014. The board regards the flattening out of the personal injury frequency as a result of purposeful measures which have been initiated. Continuous efforts are required in the HSE field to reach the goal of zero personal injuries in 2016.

No gas leaks larger than 0.1 kilograms per second were recorded in 2015. Gassco registered no fires within its operator area. Two chemical discharges occurred in 2015, which were classified as less serious and moderately serious respectively. These accidental discharges were reviewed in order to prevent similar escapes in future.

Supervision in the form of audits, verifications and management inspections plays an important role in Gassco's follow-up of its business. Similarly, the company is subject to checks by official regulators and the Gassled joint venture. Such supervision provides lessons for further improvement, but by and large confirmed in 2015 that the business is conducted in a positive way.

An important component in Gassco is its emergency response organisation. The response organisation at Bygnes held and participated in 11 exercises during 2015. Some of these were conducted in cooperation with companies responsible for technical operation of assets on Gassco's behalf, and others with employees at its terminals. Local exercises were also staged at the facilities. These drills provide the organisation with good training and experience as the basis for further improvements. The exercises in 2015 demonstrated that Gassco's emergency response organisation functions well.

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, with special emphasis given to the safety of processes and people.

Risk management plays a key role in Gassco's management processes and is utilised throughout the business in decision processes and development projects. Units and projects carry out assessments to identify Gassco's most important risks. A risk overview with associated measures forms part of the semi-annual review of Gassco's management system. Particular attention was paid in 2015 to risks with a major accident potential. Gassco has also worked on expanding the risk concept and the associated understanding and management of risk in order to ensure a better reflection of uncertainty and the knowledge base which assessments related to consequences/losses and probability build on. This work will be extended in 2016.

All process plants, gas terminals and platforms were operated in accordance with applicable emission/discharge permits in 2015. The company purchased 402 094 allowances to cover its CO<sub>2</sub> emissions in 2015. The allowances purchased in 2015 covered about 29 per cent of total emissions during the year. The remainder was covered by 970 424 free allowances, which each correspond to the emission of one tonne of CO<sub>2</sub>.

PERMANENT  
EMPLOYEES IN 2015

355

<b>HEALTH AND SAFETY RESULTS</b>	<b>Results 2015</b>	<b>Results 2014</b>
Deaths	0	0
Total personal injuries	13	14
Lost-time injuries	4	3
Fires	0	3
Gas leaks	0	0
Critical incidents	6	1
Unlicensed emissions/discharges	0	0
Accidental discharges, oil/chemicals	2	5

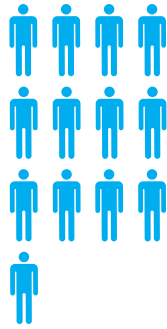
<b>EMISSIONS/DISCHARGES TO THE NATURAL ENVIRONMENT</b>		<b>Emissions 2015</b>	<b>Emissions 2014</b>
To the air	Nitrogen oxides	896.7 tonnes	898.1 tonnes
	Carbon dioxide	1 369 kilotonnes	1 381 kilotonnes
	Safety flaring	27.9 kilotonnes	21.6 kilotonnes
To water	Oil	138 kilograms	207 kilograms
	Phenol	10 kilograms	18 kilograms
	TOC	3 868 kilograms	13 149 kilograms
To soil/ water	Accidental discharges, oil/ chemicals	342 litres	689 litres



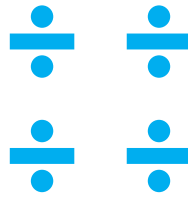
DEATHS

0

PERSONAL INJURIES



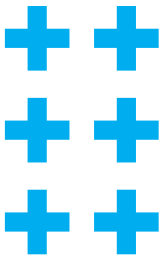
LOST-TIME INJURIES



FIRES

0

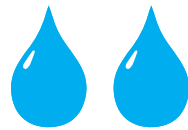
CRITICAL INCIDENTS



GAS LEAKS

0

ACCIDENTAL OIL/CHEMICAL DISCHARGES



UNLICENSED EMISSIONS/DISCHARGES

0

EMISSIONS TO THE AIR



DISCHARGES TO WATER



DISCHARGES TO SOIL/WATER



**Operation of the gas transport system**

Deliveries from the Norwegian gas transport system to Europe came to 108.4 billion scm in 2015, compared with 101.1 billion scm the year before. Gas exports from the NCS thereby set a new annual record. This was achieved despite a reduction in regularity from 2014. The highest delivery for a single day was 365.3 million scm, which also represented a new daily record. Total deliverability was 99.38 per cent, compared with 99.92 in 2014.

The Gassco board is pleased with the development of Norwegian gas exports, and continuous efforts are being made to safeguard the competitiveness of Norwegian gas.

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 787 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 process 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.

DELIVERABILITY  
**99.38%**

<b>GAS TRANSPORT</b>	<b>2015</b>	2014
Deliverability (%)	<b>99.38</b>	99.92
Quality (%)	<b>99.98</b>	99.99
Gas delivered to terminals in Europe (billion scm)	<b>108.4</b>	101.1
Highest delivery per day (million scm)	<b>365.3</b>	352.4
Average gross calorific value (kWh/scm)	<b>10.91</b>	10.91
Total volume other products delivered from Kårstø (million tonnes)	<b>9.64</b>	8.11

Capacity utilisation and production availability at the Kårstø process plant were very high. Statpipe train 200 had a turnaround during the year, with particular attention paid to dealing with internal corrosion.

Production availability for the process plant at Kollsnes was somewhat below target, primarily because of power cuts and challenges in the process trains. Capacity utilisation set a new record at Kollsnes in 2015, particularly because it was higher than has been normal in the summer season.

Very high production availability was achieved for platforms and pipelines.

The gas terminals achieved 100 per cent production availability in 2015. The board is

extremely satisfied with the high level of production availability and regularity achieved throughout the gas transport system in 2015.

The gas transport system is operated cost-efficiently, but the high level of costs in the industry has made spending cuts necessary. Gassco succeeded in keeping 2015 costs about NOK 500 million below the budget of NOK 4 300 million. The bulk of the reduction resulted from cost-cutting measures, but some was also achieved by postponing activities.

Gassco has now spent three years in a row removing platforms. The H7 platform, the support structure for the 2/4-5 tripod and the B11 platform have been taken away. The total bill for these projects was around NOK 2.2 billion.

Mechanical outfitting of the new gas terminal in Emden was completed by the Gassco Emden Project (GEP) on 10 December 2015. Final testing of all systems is currently under way before the plant becomes operational during the first quarter of 2016. Estimated at NOK 5 billion when the project was approved, the total cost is expected to be roughly NOK 3.7 billion.

Upgrading work is under way at the Kalstø facility, where the Statpipe, Sleipner Condensate and Åsgard Transport pipelines come ashore. This project is expected to be completed by 2017. Important tie-ins will be carried out during 2016 in conjunction with a turnaround at Kårstø.

An onshore gas security project for the land-based assets in Norway was completed in 2015.

Upgrades costing almost NOK 10 billion have been carried out at Kårstø over the past seven years. Work on upgrading two steam boilers at the facility was completed in 2015. A choice of concept was also made for upgrading the fire water and blowdown systems at Kårstø as well as the upgrading of two additional boilers. The project will represent an investment of roughly NOK 1 billion. A decision on implementation is expected in the autumn of 2016.

Work continued in 2015 on plans to upgrade the control systems and other electrical facilities at Kollsnes. The total estimated cost of these modifications is about NOK 500 million.

The process facilities in Norway are heavily dependent on stable electricity supplies, and power supply failures will often cause operating disruptions. A great deal of work has been devoted to making Gassco's own assets more robust to interruptions in the power grid. Newly developed equipment has been installed at Kårstø and Kollsnes, for example, to provide computer-modelled management of the large electric motors which will ensure that the compressors do not have to shut down as a result of brief voltage drops. Gassco is also involved in other plans for development of and quality improvements to the power grid.

### Development of the gas infrastructure

Gassco received several transport licences as operator during 2015. Furthermore, CapeOmega has become a new partner in the Gassled licence.

Three new gas transport systems became operational: the Utsira High Gas Pipeline, the Valemon Rich Gas Pipeline and the Knarr Gas Pipeline. In that connection, Gassco made preparations related to transfer of the operatorship and conditions for use. In addition to the Valemon Rich Gas Pipeline and the Utsira High Gas Pipeline, the Haltenpipe facility has become part of the regulated transport system pursuant to chapter 9 of the petroleum regulations.

A tie-in performed on the Vesterled pipeline in the UK sector makes provision for gas from the Mariner field.

Work was done to improve functionality and increase capacity at the plants. Examples include removing trace substances from rich gas and facilitating flexibility for ethane sales at Kårstø.

It was decided at the beginning of 2015 to make modifications which will increase capacity for handling rich gas at Kårstø by 5.7 million scm per day from the 2016 contract year. Work has also been initiated to expand transport capacity in the Kvitebjørn Gas Pipe by 9.5 million scm/d from the end of 2016.

In the Polarled project, Gassco is responsible for preparing operation and for clarifications related to the future ownership structure for this pipeline and the Nyhamna terminal, the timing for takeover of the operatorship, and conditions for use.

Gassco was appointed the operations operator for the 156-kilometre pipeline from the Johan Sverdrup field in 2015. This facility will tie into Statpipe in the sea west of Karmøy for onward transport of the gas to the Kårstø process plant. The company's operator role begins when the system become operational, which is planned for 2018.

GAS QUALITY **99.98%**



The expertise of our personnel is the basis for safe and reliable gas transport.

A number of gas discoveries are being considered for development, and Gassco has assessed future gas transport solutions for the resources in Butch, Alpha Central, Vette, Frigg Gamma Delta, Krafla, Astero, Skarfjell, Afrodite, Pil, Bue and Trestakk.

Gassco conducts analyses and prepares annual transport plans, which assess future requirements for developing transport capacity based on analyses of user needs. These plans show that the gas infrastructure will be well utilised over the next decade.

The company is evaluating the potential for new transport solutions from the Barents Sea. Planned exploration activity in that area is expected to identify recoverable gas resources which can provide the basis for new gas infrastructure in and from the Barents Sea.

Gassco submitted a conceptual study for a transport solution from a full-scale demonstration plant for carbon capture to the government in May 2015. A new government mandate has been given to the company for a feasibility study of ship-based concepts as part of full-scale carbon capture and storage in Norway. Gassco is collaborating closely with Gassnova in performing these studies.

### Research and development

Gassco devoted NOK 65 million to R&D activities in 2015. Attention focused on pipeline technology, the process and receiving facilities, gas quality and capacity.

### Key projects

- A computer-modelled management system for electrically driven compressors has been installed and is undergoing further development. One function of this technology is to reduce the risk of this equipment shutting down because of unexpected power supply fluctuations.

- Cost-effective solutions for subsea valve assemblies are being developed, with the emphasis on control systems and power supplies. These solutions could contribute to improved utilisation and a more flexible gas transport system through future tie-ins, for example, and/or infrastructure reinforcements.
- Work is under way on improving the decision support model based on present value by incorporating both financial and technical parameters in infrastructure studies.
- A first use of robot technology for internal inspection of pressure vessels and storage tanks is being made at Kårstø. A test site is also being created at the plant for testing robot technology and inspection tools.
- A process model of Kårstø is under development to ensure optimum capacity utilisation at the plant. The model is used in both operational and project contexts.

### Share capital and shareholders

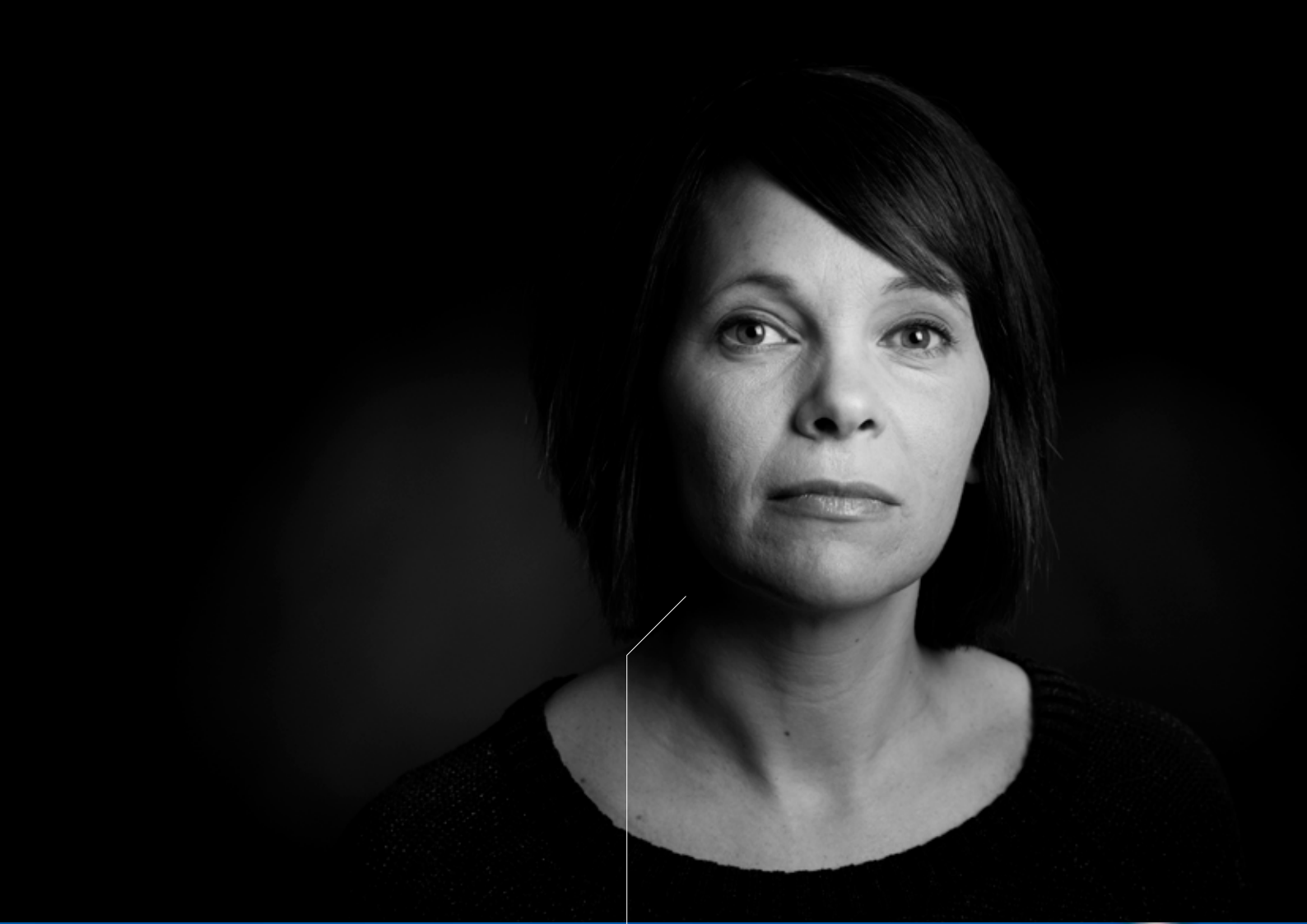
The company's share capital at 31 December 2015 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government.

### Net profit and its allocation

The net loss was NOK 1 453 941. This will be covered from other equity, which amounted to NOK 4 496 379 at 31 December 2015. Pursuant to section 3, sub-section 3a of the Norwegian Accounting Act, the board confirms that the accounts have been prepared on the assumption that the company is a going concern.

GAS DELIVERED TO  
THE EUROPEAN  
TERMINALS IN 2015  
(BILLION SCM)

108.4



We value talent and a positive attitude among our employees. The goal is that everyone should achieve personal development in a healthy business culture and a good social environment.



## Prospects

Gas deliveries from Norway cover about 25 per cent of Europe's total gas consumption, on a par with Russian gas exports to the European market.

Norwegian gas will continue to play an important role in Europe's energy portfolio in the future. Europe is expected to require gas in 2035 corresponding to four times today's production capacity on the NCS in order to reach the climate goals it has set. In addition, European gas imports are expected to rise over coming decades as domestic production declines.

Delivering Norwegian natural gas to the European market on competitive terms and with high regularity remains important. Gassco's role will be to maximise value creation on the NCS by providing cost-effective transport solutions in the long term.

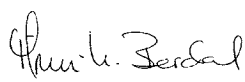
According to the NPD, only a third of Norway's estimated gas resources have been produced. New long-term forecasts show that the level of deliveries

will remain high, and a further third of the resources are expected to be produced over the next 20 years. Annual deliveries are accordingly likely to continue at somewhat below the present level up to 2035. After that year, a third of Norwegian resources should still remain for production.


About 80 per cent of the undiscovered gas resources are expected to lie in the Norwegian and Barents Seas. In order to keep gas production from the NCS high over the long term, further development of the gas transport system will be needed. The first step is the Polarled pipeline, which opens up a new area of the NCS and helps to encourage increased exploration activity in the Norwegian Sea. Furthermore, expectations for resources in the Barents Sea are great and interest in new exploration acreage from the 23rd licensing round has been high. A coordinated development of the Barents Sea will be important for establishing new transport solutions from the area, so that its resource potential can be realised.


Bygnes, 15 March 2016

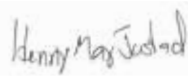
  
Ottar Inge Rekdal  
Chair

  
Mimi K Berdal  
Deputy chair

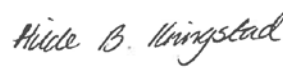
  
Nina Schieldrop Lie  
Director

  
Johan Einar Hustad  
Director

  
Terje Aven  
Director

  
Henny May Justad  
Director\*

  
Roar Bøe  
Director\*

  
Hilde Berge Kringstad  
Director\*

  
Frode Leversund  
President and CEO

\*Elected by the employees





# Board of directors



## **Ottar Inge Rekdal**

Chair (born 1949). He worked for Statoil from 1975 to 2011, holding a number of management positions. These include head of gas development and market for five years, the development division, and technology. During his final 12 years with Statoil, Rekdal worked exclusively on international operations – including responsibility for Statoil's activities in West and North Africa, Europe and the Middle East – as well as on international gas operations. He is a director of Ocean Installer. Rekdal has been chair since 2012.



## **Mimi K Berdal**

Deputy chair (born 1959). She works today as a lawyer with her own law practice. 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. Berdal has been a director since 2007.



## **Nina Schieldrop Lie**

Director (born 1962). She graduated from the Norwegian School of Economics (NHH) and also has an executive MBA in financial management and leadership from the same institution. She is senior adviser at DNB Konserninvesteringer. She has previously served as regional manager responsible for DNB's operations in the Stavanger region and as a vice president for Accenture Rogaland. She has been a CFO in the oil industry, including at oil company Petoro AS, Aker Drilling ASA and Navis ASA. Lie holds a number of directorships in such sectors as finance, technology and energy. She 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. 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. Hustad has been a director since 2012.



## **Terje Aven**

Director (born 1956). He is professor of risk management at the University of Stavanger, and has previously served as an adjunct professor at the Norwegian Institute of Technology (NTH) and the University of Oslo. He was with Statoil for several years. Aven has worked on various projects related to the gas transport network, directed at such aspects as risk, regularity, operation and maintenance. He has been a director since 2014.



## **Henny May Justad**

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



## **Roar Bøe**

Worker director (born 1977). He is a principal engineer in Gassco AS, and heads the company branch of the Norwegian Society of Graduate Technical and Scientific Professionals (Tekna). Bøe has been a director since 2015.



## **Hilde Berge Kringstad**

Worker director (born 1977). She is a transport engineer at Gassco AS and head of the Gassco branch of the Norwegian Society of Engineers and Technologists (Nito). Kringstad has been a director since 2015.



We look ahead and find solutions.

# 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 therefore 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 vision

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

## Gassco's values base

- Gassco's job is to ensure maximum value creation from the gas resources on the NCS.
- Gassco will conduct its business in an ethical, sustainable and socially responsible manner.

## How we want to be in Gassco

- We do our work professionally and with a high level of integrity.
- We take an integrated approach, and help each other to achieve our full potential.
- We look ahead and find solutions.

## Leadership in Gassco is characterised by

- performance
- integrated thinking
- a forward-looking approach
- commitment.

Gassco's organisation is now working on improvements based on simplification, renewal and long term as key terms.

## Gassco's business

The company's business purpose, as described in its articles of association, is to operate transport systems for natural gas on and from the NCS, including pipelines, platforms, process facilities and gas 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 40 years, with an acquisition cost of roughly NOK 230 billion in 2015 value and annual operating costs of about NOK 5 billion. Owners and users of the gas transport systems are mainly large 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 has been assigned responsibility for operating the upstream gas pipeline network by the Ministry of Petroleum and Energy pursuant to section 4, sub-section 9 of the Petroleum Act.

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

The normal operatorship relates to asset management, licence administration and project development. An important part of asset management is to see to it that activities are conducted in a manner which ensures that health, safety and environmental standards are met. Gassco's normal operatorship relates to operation and maintenance of the gas transport systems Gassled, Zeepipe Terminal, Dunkerque Terminal DA, Haltenpipe, the Gjoa Gas Pipe, the Valemon Rich Gas Pipeline, the Utsira High Gas Pipeline and the Knarr Gas Pipeline. The company is subject to the authority of the owners to issue instructions pursuant to the operator agreements. Each partnership has a management committee (MC) which can establish sub-committees, such as the operating committee (OC) and project committee (PC). These can be given mandates as required.

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. Agreements have been entered into with Statoil and Total for this type of service.

The special operatorship covers the exercise as a government authority of duties assigned to Gassco pursuant to the Petroleum Act and chapter 9 of the petroleum regulations. The transport system owners have no right to issue instructions in respect of these duties. The special operatorship covers system operation, capacity administration and infrastructure development.

System operation covers planning, monitoring, coordinating, managing and following up product flows from the fields through the integrated transport network to the gas terminals.

Capacity administration involves the determination of physical capacity in the pipeline network and the allocation of transport capacity in the pipeline systems. The allocation of transport capacity involves entering into transport contracts on behalf of the owners.

Infrastructure development includes studies and development projects in the Norwegian gas pipeline network. Gassco is required to assess the continued development of the upstream gas pipeline network with a view to achieving integrated transport solutions for the petroleum sector. In that context, the company 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 investor groups which wish 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 for the special operatorship. The IAB provides an arena where owners and users can discuss relevant issues concerning operational and strategic topics related to continued development of the infrastructure.

#### **Gassco's strategic goals**

- Gassco will represent best practice in health, safety and the environment.
- Gassco will be responsible for efficient operation, maintenance and development of transport and process facilities.
- Gassco will be a professional, neutral and independent system operator and administrator of capacity in the transport system.
- Gassco will maximise value creation through integrated development of the gas transport system.
- Gassco will be characterised by leading-edge expertise in the company's core areas.

- Gassco will relate actively to changes in 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 also elects directors and ensures that, overall, the board has appropriate and adequate expertise, capacity and diversity. Women accounted in 2015 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 has 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 owns shares in the company. 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 articles of association, the ethical guidelines, the procedure for corporate social responsibility (CSR), the instructions for the board, the compensation

committee and the chief executive, and the authority matrix for the company.

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. It is responsible for establishing control systems and for ensuring that the business is pursued in accordance with the company's values base and guidelines on ethics and 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 board determines strategy, performance indicators, budgets, accounts and other important issues on the basis of proposals from the chief executive, who is responsible for day-to-day management of the company.

Six to eight board meetings are usually 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.

Six board meetings and one board seminar were held in 2015, and attendance was 83 per cent. The board pursued processes and held meetings related to the appointment of a new CEO.

A schedule has been prepared for the board, which specifies its 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 prepare matters for the board which concern the conditions of employment for the CEO, the frameworks and principles governing such terms for other employees (including bonus plans) and other conditions relating to remuneration,

supplementary benefits, incentive models and pension terms in the company. The committee comprises three of the directors appointed by the general meeting. It is chaired by the chair of the board or one of the other committee members appointed by the board. Instructions have been prepared for the appointment and work of the compensation committee, and have been adopted by the board.

The compensation committee held several meetings in connection with the company's transition to a new collective pension plan.

### 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.

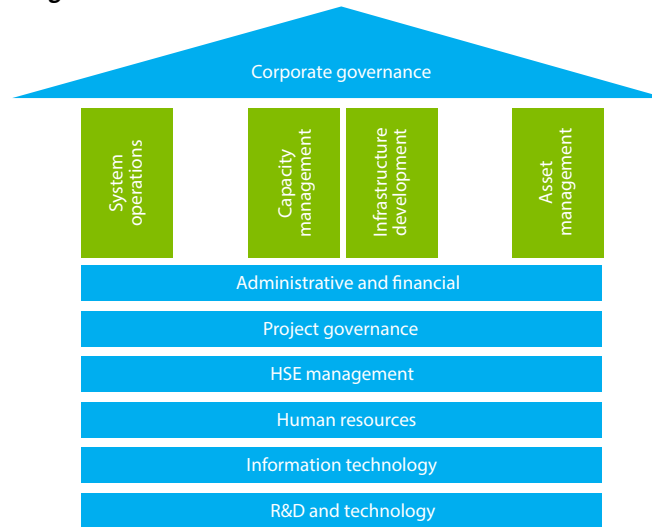
### Risk management and internal control

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 the infrastructure owners in joint ventures for which the company exercises operator functions. 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.

## The company's management model



*Gassco's management model has three levels. The topmost level comprises the corporate governance process group. Next come four groups of processes related to Gassco's duties within the special and normal operatorships. The third level consists of six groups of staff and support processes.*

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.

The corporate governance process group first embraces processes concerning control of the company by the owner (in other words, the ministry and the board). Second, it covers processes for management of the company, including the establishment of the management system manual, the transport plan and the budget and business plan, as well as the determination of strategies and key performance indicators (KPIs), budgeting and decision-making processes, and 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.

The user fora – the Infrastructure Advisory Board (IAB), the Operating Forum, the NGL Forum and the NCS Gas Infrastructure Forum – have been established with participation from relevant companies. Participants in these bodies are licensees on the NCS and qualified shippers. Gassco continuously evaluates whether the established user fora function as intended. Although formal decisions are taken either by the owners of the gas infrastructure or by participants in specific 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. Other types of internal and external supervision/verification of suppliers are also conducted by Gassco's units and projects. 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 consultants. Everyone joining the company receives an introduction to Gassco's ethical rules and values, and is kept regularly updated in this

area. 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. Furthermore, work on CSR is entrenched in the Gassco board.

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

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, and support Gassco's values base. The ethical guidelines form part of Gassco's governing documentation.

#### **Management tools**

The board and chief executive utilise such activities as strategic planning, budgeting, periodic financial and operational reporting and dedicated processes for systematic risk 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 assessments are carried out in each unit and in every project to provide the basis for preparing 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. Particular attention is devoted to risks with a major accident potential, which forms the basis for workshops on major accident risk pursuant to the industry standard. Quantitative risk analyses are also updated in connection with the operation of all operational assets, where risks are assessed in relation to established acceptance criteria. In addition, Gassco works to expand the risk concept and the associated understanding and management of risk in order to ensure a better reflection of uncertainty and the knowledge base which assessments related to consequences/losses and probability build on.

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. The declaration on senior executive pay is presented to the general meeting as a separate item.

#### **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 provides all employees with the opportunity to receive an annual bonus of up to 10 per cent of basic pay, depending on the extent to which targets have been met.

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 infrastructure 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 AS is the company's external auditor for fiscal 2015. The auditor's fee is 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.



We will conduct our business in an ethical,  
sustainable and socially responsible manner.






# Income statement

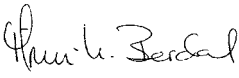
Amounts in NOK 1 000	Note	2015	2014
Total operating income	2	0	0
Total operating expenses	2,3,4	0	0
<b>Financial income and expenses</b>			
Other interest income		219	264
Net financial items		219	264
<b>Profit before tax</b>			
Tax on ordinary activities	8	1 673	140
<b>Profit on ordinary activities</b>		<b>(1 454)</b>	<b>124</b>
<b>Net profit</b>			
		<b>(1 454)</b>	<b>124</b>
<b>Transfers:</b>			
Transferred to/(from) other equity		(1 454)	124
Total transfers		(1 454)	124

# Balance sheet


Amounts in NOK 1 000	Note	At 31 Dec 15	At 31 Dec 14
<b>ASSETS</b>			
<b>INTANGIBLE ASSETS</b>			
Deferred taxes	8	18 653	16 363
<b>Total intangible assets</b>		<b>18 653</b>	<b>16 363</b>
<b>TANGIBLE ASSETS</b>			
Land, buildings and other property	4	23 985	28 791
Operating equipment and fixtures	4	138 808	124 378
<b>Total tangible assets</b>		<b>162 793</b>	<b>153 169</b>
<b>OTHER LONG-TERM RECEIVABLES</b>			
Other receivables	3, 7	483 452	716 844
<b>Total other long-term receivables</b>		<b>483 452</b>	<b>716 844</b>
<b>TOTAL FIXED ASSETS</b>		<b>664 898</b>	<b>886 376</b>
<b>CURRENT ASSETS</b>			
<b>RECEIVABLES</b>			
Accounts receivable		68 800	94 410
Other receivables	10	118 703	52 786
<b>Total current receivables</b>		<b>187 503</b>	<b>147 196</b>
Bank deposits and cash	9	414 166	381 660
<b>TOTAL CURRENT ASSETS</b>		<b>601 669</b>	<b>528 856</b>
<b>TOTAL ASSETS</b>		<b>1 266 567</b>	<b>1 415 232</b>

Bygnes, 15 March 2016

  
Ottar Inge Rekdal  
Chair

  
Mimi K Berdal  
Deputy chair

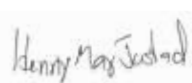
  
Nina Schieldrop Lie  
Director

  
Johan Einar Hustad  
Director

Amounts in NOK 1 000	Note	At 31 Dec 15	At 31 Dec 14
<b>EQUITY AND LIABILITIES</b>			
<b>PAID-IN CAPITAL</b>			
Share capital	5	10 000	10 000
<b>Total paid-in capital</b>		<b>10 000</b>	<b>10 000</b>
<b>RETAINED EARNINGS</b>			
Other equity	6	4 496	5 950
<b>Total retained earnings</b>		<b>4 496</b>	<b>5 950</b>
<b>TOTAL EQUITY</b>		<b>14 496</b>	<b>15 950</b>
<b>LIABILITIES</b>			
<b>Provisions</b>			
Pension commitments	7	510 649	730 429
<b>Total provisions</b>		<b>510 649</b>	<b>730 429</b>
<b>Long-term liabilities</b>			
Other long-term liabilities		119 205	-
<b>Total long-term liabilities</b>		<b>119 205</b>	-
<b>Current liabilities</b>			
Accounts payable		53 710	57 090
Tax payable	8	3 963	7 348
Tax and other withholdings	9	23 606	26 045
Other current liabilities		540 938	578 370
<b>Total current liabilities</b>		<b>622 217</b>	<b>668 853</b>
<b>TOTAL LIABILITIES</b>		<b>1 252 071</b>	<b>1 399 282</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1 266 567</b>	<b>1 415 232</b>



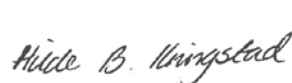
Terje Aven  
Director



Henny May Justad  
Director\*



Roar Bøe  
Director\*



Hilde Berge Kringstad  
Director\*



Frode Leversund  
President and CEO

\*Elected by the employees

# Cash flow statement

Amounts in NOK 1 000	2015	2014
<b>Cash from operational activities</b>		
Profit on ordinary activities before tax	219	264
Depreciation	34 806	31 907
Changes in accounts receivable	25 610	(18 873)
Changes in other current receivables	(65 917)	(38 957)
Changes in long-term receivables	231 102	(214 854)
Changes in accounts payable	(3 380)	39 626
Changes in long-term commitments	(219 780)	220 034
Changes in other current liabilities	(44 930)	183 212
Changes in other current liabilities	119 205	0
<b>Net cash from operational activities</b>	<b>76 937</b>	<b>202 359</b>
<b>Cash from investment activities</b>		
Net additions/disposals of fixed assets	(44 430)	(34 685)
<b>Net cash from investment activities</b>	<b>(44 430)</b>	<b>(34 685)</b>
<b>Cash from financial activities</b>		
New loans raised	0	0
Redemption of long-term debt	0	0
<b>Net cash from financial activities</b>	<b>0</b>	<b>0</b>
<b>Net changes in cash and cash equivalents</b>	<b>32 506</b>	<b>167 674</b>
<b>Cash and cash equivalents at 1 January</b>	<b>381 660</b>	<b>213 986</b>
<b>Cash and cash equivalents at 31 December</b>	<b>414 166</b>	<b>381 660</b>

# Notes

## Note 1. Accounting principles

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

### Description of the company's business

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

### Accounts receivable

Accounts receivable are posted at nominal value less provision for expected bad debts. Provision for bad debts is made on the basis of an individual assessment of each account.

### Bank deposits and cash

Bank deposits and cash include cash, bank deposits and

other monetary instruments with a maturity shorter than three months from the date of their acquisition.

### Pensions

The presentation of pensions uses a linear earnings profile and expected final salary as the earnings basis. Payroll tax is included in the figures. Pension funds are recorded at real value.

### Taxes

Tax is set against profit before tax, and consists of taxes payable (taxes on the year's directly taxable income) and changes in net deferred tax. Deferred tax and deferred tax benefit are presented net in the balance sheet.

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

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 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 Act's provisions on operator responsibility.

These duties are regulated in the operator agreements with the Gassled, Haltenpipe, Zeepipe Terminal, Dunkerque Terminal, Valemon Rich Gas Pipeline, Knarr Gas Pipeline and Utsira High Gas Pipeline 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.

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	2015	2014
<b>Operating income and expenses</b>				
Normal operatorship			7 775 065	9 319 375
Special operatorship			306 556	304 104
Other assignments			604 004	278 246
<b>Total operating income</b>			<b>8 685 625</b>	<b>9 901 725</b>
<b>Financial income and expenses</b>				
Payroll costs	3		532 832	536 273
Depreciation on fixed assets, Gassco	4		34 806	31 907
Other expenses			8 117 987	9 333 545
<b>Total operating expenses*</b>			<b>8 685 625</b>	<b>9 901 725</b>
<b>Financial income and expenses</b>				
Other interest income			219	264
<b>Net financial items</b>			<b>219</b>	<b>264</b>
<b>Profit before tax</b>				
			219	264
Tax on ordinary activities	8		1 673	140
<b>Profit on ordinary activities</b>			<b>(1 454)</b>	<b>124</b>
<b>Net profit</b>				
			<b>(1 454)</b>	<b>124</b>

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

**SPECIFICATION OF EXPENSES**

Amounts in NOK 1 000		2015	2014
<b>NORMAL OPERATORSHIP</b>			
<b>GASSLED</b>			
<b>Operating expenses</b>		<b>4 285 896</b>	<b>4 862 618</b>
- Kårstø process plant		1 174 976	1 436 696
- Kollsnes process plant		867 579	942 186
- Gas terminals		678 185	613 698
- Platforms		524 304	522 077
- Pipelines		308 719	420 216
- Other		452 966	669 922
- Taxes		279 167	257 823
<b>Operating investment</b>		<b>956 473</b>	<b>929 088</b>
- Kårstø		449 908	378 983
- Kollsnes		185 195	263 051
- Gas terminals		184 106	130 081
- Platforms		117 245	119 286
- Pipelines		15 191	36 834
- Other		4 828	853

<b>Project investment</b>	<b>1 682 640</b>	<b>2 597 614</b>
- KEP 2010	-	13 160
- GEP Emden	956 901	1 587 231
- B11 bypass	-	2 721
- CUP compressor upgrade	6	(6 981)
- BUP boiler upgrade	10 299	191 583
- Norne export riser	90 297	27 685
- Remote PRS	36 642	159 576
- CSL corrosion	159 083	109 076
- Kalstø robustness	233 836	75 593
- Onshore gas security	129 567	438 027
- Kollsnes E&I	48 252	-
- Kårstø integrity project (KIP)	7 409	-
- Foster Wheeler A/C boiler revamp	9 876	-
- Other	472	(57)
<b>Removal costs</b>	<b>623 533</b>	<b>714 026</b>
<b>HALTENPIPE</b>		
Operating expenses	43 611	58 000
Operating investment	148	139
<b>VALEMON RICH GAS PIPELINE</b>		
Operating expenses	6 585	-
Operating investment	61	-
<b>KNARR GAS PIPELINE</b>		
Operating expenses	6 923	-
Operating investment	-	-
<b>UTSIRA HIGH GAS PIPELINE</b>		
Operating expenses	294	-
Operating investment	-	-
<b>ZEEPIPE TERMINAL</b>		
Operating expenses	49 421	44 582
Operating investment	26 066	23 097
<b>DUNKERQUE TERMINAL</b>		
Operating expenses	67 393	64 196
Operating investment	26 022	26 016
<b>TOTAL NORMAL OPERATORSHIP</b>	<b>7 775 065</b>	<b>9 319 375</b>
<b>SPECIAL OPERATORSHIP</b>		
Operating expenses	279 369	291 222
Operating investments	27 187	12 882
<b>TOTAL SPECIAL OPERATORSHIP</b>	<b>306 556</b>	<b>304 104</b>
<b>OTHER ASSIGNMENTS</b>		
Investment projects, third parties	548 141	220 023
Study assignments, government	5 234	543
Studies and other assignments, third parties	50 629	57 680
<b>TOTAL OTHER ASSIGNMENTS</b>	<b>604 004</b>	<b>278 246</b>
<b>GASSCO TOTAL EXPENSES</b>	<b>8 685 625</b>	<b>9 901 725</b>

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	2015	2014
Gassled	25 685 920	26 597 165
Special Operator	298 370	307 321
Haltenpipe	425 388	430 326
Valemon Rich Gas Pipeline	199 927	-
Knarr Gas Pipeline	98 379	-
Utsira High Gas Pipeline	259	-
Zeepipe Terminal	96 090	85 469
Dunkerque Terminal	166 836	158 173
<b>Total tariff revenues</b>	<b>26 971 169</b>	<b>27 578 454</b>

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

Amounts in NOK 1 000	2015	2014
<b>Payroll costs</b>		
Pay	368 450	360 905
Payroll tax	67 858	66 809
Pension costs (see note 7)	81 586	88 016
Other benefits	14 938	20 543
<b>Total payroll costs</b>	<b>532 832</b>	<b>536 273</b>
Work-years performed	355	359

#### Remuneration of senior staff in 2014

Amounts in NOK 1 000		Pay/ remuneration <sup>1</sup>	Bonus <sup>2</sup>	Other remuneration <sup>3</sup>	Pension costs <sup>4</sup>	Total	Loan
<b>Surname, forenames</b>							
Bjordal Brian	President and CEO*	3 276	296	16	4 530	8 117	-
Leversund Frode	President and CEO**	1 000	0	4	82	1086	-
Lohne Thor Otto	Executive vice president business development and finance	2 569	229	23	2 050	4 871	142
Thaule Svein Birger	Executive vice president asset management	1 996	175	20	1 101	3 292	97
Hauge Jan	Executive vice president system operation	1 697	147	19	928	2 791	-
Alcock John	Executive vice president projects	1 562	134	9	562	2 267	370
Larsen Kjell	Executive vice president public relations	1 273	107	9	424	1 813	439
Voll Ingolf Kornelius	Executive vice president human resources	1 332	112	27	507	1 978	105
Lund Trine	Controller	1 310	110	19	464	1 903	-
Svendsten Torbjørn G	Executive vice president technology	1 485	127	16	562	2 190	435
Viksund Randi I	Executive vice president HSE&Q	1 179	99	30	535	1 843	475

<sup>1</sup> Pay/remuneration + fixed overtime payment at 31 Dec 15

<sup>2</sup> Bonus paid in 2014 based on results in 2014

<sup>3</sup> Telephone, broadband, insurance etc.

<sup>4</sup> Net present value of the year's earned pension

\* Brian Bjordal - CEO to 30 September 2015

\*\* Frode Leversund - CEO from 1 October 2015



Amounts in NOK 1 000

<b>Remuneration of directors in 2015</b>	<b>Remuneration</b>
Directors	1 781

Amounts in NOK 1 000

<b>Loans and security provided to:</b>	<b>Loans</b>	<b>Security</b>
Employees	78 306	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 know-ledge 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 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 serves as the committee's secretariat. This 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.

Pension and insurance plans for the management team are the same as for other Gassco employees.

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. This plan can also be offered to others on the basis of an individual assessment.

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.

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 12 years.

Gassco established a work group in 2014 comprising representatives of the executive management and the unions to assess alternatives for a new occupational pension plan covering employees. In June 2015, the board of Gassco resolved to introduce a defined-contribution plan with rates of 7 and 25.1 per cent and which would come into effect at 1 January 2016. Changes and adjustments to the risk coverage and personal insurances were also adopted, and the pension plan for pay over 12 times the National Insurance base rate (G) was discontinued. Certain groups were compensated for losses suffered from the transfer to the new plan. The former defined-benefit plan will be retained for employees who will reach the age of 67 in 15 years' time or less. Gassco's pension plan has thereby been converted and adapted to the new National Insurance and early retirement (AFP) provisions and to guidelines from the government on pay and other benefits for senior executives in state-owned companies.

**Auditor**

NOK 758 700 was charged in 2015 as fees to Deloitte Statsautoriserte Revisorer AS for auditing Gassco AS and the licences operated by the company. NOK 1 000 was recorded as fees for other services in 2015. Fees for auditing of branches abroad amounted to NOK 254 570 in 2015.

**Note 4. Tangible fixed assets**

Amounts in NOK 1 000	<b>Buildings and other real property</b>	<b>Operating equipment, fixtures, tools, etc</b>	<b>Total</b>
Acquisition cost 1 Jan 15	46 823	288 429	335 252
Additions 2015	-	48 795	48 795
Disposals 2015	(4 890)	(8 047)	(12 937)
Conversion difference	-	345	345
<b>Acquisition cost 31 Dec 15</b>	<b>41 933</b>	<b>329 522</b>	<b>371 455</b>
Accumulated depreciation 31 Dec 15	17 948	190 714	208 662
<b>Book value 31 Dec 15</b>	<b>23 985</b>	<b>138 808</b>	<b>162 793</b>
			-
Depreciation 2015	455	34 351	34 806
Economic lifetime	5,50 years	3,5,7,8,10 years	
Depreciation plan	Linear/none	Linear	

**Note 5. Share capital and shareholder information**

**The share capital of the company at 31 December 2015 consisted of the following:**

	<b>Number</b>	<b>Nominal value</b>	<b>Book value</b>
Share capital	10 000	1 000	10 000 000

**Ownership structure:**

	<b>Shares</b>
The Norwegian government, represented by the Ministry of Petroleum and Energy	10 000

**Note 6. Equity**

Amounts in NOK 1 000	Share capital	Other equity	Total equity
Equity 1 Jan 14	10 000	5 950	15 950
Year's change in equity			
Net profit		(1 454)	(1 454)
<b>Equity 31 Dec 14</b>	<b>10 000</b>	<b>4 496</b>	<b>14 496</b>

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

The company has pension plans which cover all its employees in Norway, Germany, France, Belgium and the 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 funded and unfunded 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 IAS 19 Employee benefits, the company posted the pension commitment at 31 December 2015 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 commitments pursuant to the Norwegian Accounting Standards for Pensions (NRSP).

Amounts in NOK 1 000	2015	2014
<b>For employees in Norway</b>		
Present value of pension earning for the year	72 554	56 712
Interest cost of pension commitment	21 811	29 079
Return on pension funds	(7 799)	(10 911)
Administration costs	164	150
Recorded implementation effect	(93 058)	
Recorded estimate loss/(gain)	(162 559)	161 834
<b>Net pension cost</b>	<b>(168 887)</b>	<b>236 864</b>

The company also has an agreement on early retirement (AFP). The new AFP scheme, which applies from 1 January 2011, is to be regarded as a defined-benefit multi-company plan, but will be treated in the accounts as a defined-contribution plan until reliable and adequate information is available which allows the group to account for its proportionate share of the pension costs, liability and funds in the scheme. As a result, the company's liability is not recognised as debt in the balance sheet. The transition to a defined-contribution pension from 2016 reduces earlier expenses by NOK 93 million.

Amounts in NOK 1 000				
<b>2014</b>	<b>Funded (collective)</b>	<b>Unfunded (early retirement)</b>	<b>Other unfunded</b>	<b>Total</b>
Earned pension commitments	787 138	0	164 118	951 256
Pension funds (at fair value)	(339 500)	0	0	(339 500)
<b>Net pension commitment</b>	<b>447 638</b>	<b>0</b>	<b>164 118</b>	<b>611 756</b>

Amounts in NOK 1 000				
<b>2015</b>	<b>Funded (collective)</b>	<b>Unfunded (early retirement)</b>	<b>Other unfunded</b>	<b>Total</b>
Earned pension commitments	619 066	0	156 260	775 326
Pension funds (at fair value)	(390 020)	0	0	(390 020)
<b>Net pension commitment</b>	<b>229 046</b>	<b>0</b>	<b>156 260</b>	<b>385 306</b>

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

<b>Economic assumptions</b>	<b>2015</b>	<b>2014</b>
Discount rate on corporate bonds	<b>2.70%</b>	2.30%
Expected return on pension funds	<b>2.70%</b>	2.30%
Expected pay growth	<b>2.50%</b>	2.75%
Expected adjustment to current pensions	<b>2.25%</b>	2.50%
Expected change in National Insurance base rate (G)	<b>2.25%</b>	2.50%

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

Employees in Belgium have either defined-benefit or defined-contribution plans. Funds in these plans at 31 December 2015 satisfied local requirements.

Amounts in NOK 1 000

<b>For employees in Belgium</b>	<b>2015</b>	<b>2014</b>
Present value of pension earning for the year	4 386	3 524
Interest cost of pension commitment	1 703	2 467
Return on pension funds	(1 241)	(1 825)
Administration costs	260	289
<b>Net pension cost</b>	<b>5 108</b>	<b>4 455</b>

Amounts in NOK 1 000

<b>Funded</b>	<b>2015</b>	<b>2014</b>
Earned pension commitments	86 475	89 570
Pension funds (at fair value)	(60 273)	(66 799)
<b>Net pension commitment</b>	<b>26 202</b>	<b>22 771</b>

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

<b>Economic assumptions</b>	<b>2015</b>	<b>2014</b>
Discount rate	1.50%	1.90%
Expected return on pension funds	1.50%	1.90%
Expected pay growth	2.00%	2.00%
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 the UK**

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

Employees in Germany have various defined-benefit pension plans.

Amounts in NOK 1 000

<b>For employees in Germany</b>	<b>2015</b>	<b>2014</b>
Present value of pension earning for the year	13 314	12 508
Interest cost of pension commitment	5 923	5 565
Recorded estimate loss/(gain)	(956)	44 498
<b>Net pension cost</b>	<b>18 281</b>	<b>62 571</b>

Amounts in NOK 1 000

<b>Funded</b>	<b>2015</b>	<b>2014</b>
Earned pension commitments	264 580	232 711
Pension funds (at fair value)	(165 437)	(136 806)
<b>Net pension commitment</b>	<b>99 143</b>	<b>95 905</b>

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

<b>Economic assumptions</b>	<b>2015</b>	<b>2014</b>
Discount rate	<b>2.25%</b>	2.40%
Expected return on pension funds	<b>0.00%</b>	0.00%
Expected pay growth	<b>3.00%</b>	3.00%
Expected adjustment to current pensions	<b>1.80%</b>	2.00%

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

**Note 8. Income taxes**

Amounts in NOK 1 000

<b>Taxes for the year are as follows</b>	<b>2015</b>	2014
Tax payable	3 963	7 348
Changes in deferred tax	(2 290)	(7 208)
<b>Tax on ordinary profit</b>	<b>1 673</b>	<b>140</b>

<b>Tax payable</b>	<b>2015</b>	2014
<b>Tax payable in balance sheet</b>	<b>3 963</b>	<b>7 348</b>

<b>Reconciliation from nominal to effective tax rate</b>	<b>2015</b>	2014
Ordinary profit before tax	219	264
Extraordinary profit before tax	0	0
<b>Profit for the year before tax</b>	<b>219</b>	<b>264</b>

Calculated income tax at nominal tax rate (28%)	59	71
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<b>Fiscal effect of the following items</b>		
Tax effect on net refund under incentive scheme for R&D (Skattefunn)	0	0
Non-deductible cost, pension premium	129	73
Changed tax rate, deferred tax benefit	1 492	0
Non-taxable income, interest on refunded tax	(7)	(4)
<b>Tax</b>	<b>1 673</b>	<b>140</b>
Effective tax rate	763%	53%

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

	2015		2014	
	Benefit	Obligation	Benefit	Obligation
Temporary differences, operating equipment	8 202		9 593	
Unfunded pension	66 411		51 012	
Total	74 613	0	60 605	0
Deferred tax benefit/obligation	18 653		16 363	
Uncapitalised deferred tax benefit	0	0	0	0
Net deferred tax benefit/obligation in the balance sheet	18 653	0	16 363	0







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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, showing a loss of NOK 1.453.941. The financial statement comprises of the balance sheet as at 31.12.2015, and the income statement 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 31.12.2015, 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.

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## **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 coverage of the loss 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, 15.3.2016  
Deloitte AS

Else Holst-Larsen  
State Authorised Public Accountant (Norway)

Translation has been made for information purposes only

