GASSCO

08

Annual report

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GASSCO ANNUAL REPORT 2008

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Today's reality

'ROWTH IN THE WORLD ECONOMY GAVE WAY IN TO AN ECONOMIC DOWNTURN
OUTCOME OF /IL PRICES FELL DRAMATICALLY WHILE THE LEVEL OF COSTS IN OU

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

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

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

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

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

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

We can certainly point to high regularity in our gas deliveries to Europe – not only for 2008, but also for earlier years. But that performance is not a matter of course. Good results depend on hard and honest toil in this area, as in the rest of the real world.

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

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

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

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

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

"RIAN $ "JOR
President and CEO

Directors' report 2008

)NTRODUCTION

Gassco is a limited company owned by the Norwegian state, which operates the integrated gas transport system from the NCS to European countries. This system comprises pipelines, gas treatment facilities, platforms and receiving terminals in continental Europe and the UK.

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

Framework conditions for Gassco, including the relationship between it and the owners of the gas transport system, are determined by the government. Gassco has entered into agreements on the purchase of operating services at the processing plants in Norway and the receiving terminals in the UK. The owners of the gas resources finance all major investments, which are capitalised in their respective accounts. The owners of the gas transport systems also finance Gassco's operation, with the company making cash calls in advance on the basis of liquidity budgets and forecasts. Gassco does not make a profit or a loss from its operations. This means that its economic and financial risks are limited. However, changes to the real economy which affect the level of activity in the industry could mean changes in the level of Gassco's activities. Given the company's frame conditions, the annual accounts, balance sheet and liquidity will not be specifically discussed.

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

/RGANISATION

Gassco had 317 permanent employees at 31 December 2008, including 120 at the continental receiving terminals. Four employees completed personal development programmes in 2008 which gave formal credits in the Norwegian educational system. Two of them were women. These employees are upgrading their qualifications – from engineer to graduate engineer, for instance. Gassco currently has one office trainee in Norway and three apprentice process technicians in Germany.

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

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

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

(EALTH SAFETY THE ENVIRONMENT AND QUALITY (3% 1

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

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

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

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

An important part of Gassco's management system is its emergency response organisation. The latter held and participated in a number of exercises in 2008. These were conducted in cooperation either with companies responsible for technical operation of facilities on Gassco's behalf or with employees at its continental receiving terminals.

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

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

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

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

(% ! ,(4 ! . $ 3 ! & % 4 9 2 % 3 5 , 4 3	Results 2008	Results 2007
Deaths	0	0
Total personal injuries	40	25
Lost-time injuries (included in personal injuries)	19	9
Fires	5	0
Gas leaks	4	1
Critical incidents	12	10
Emissions/discharges in excess of licence limits	0	0

% -) 3 3) / . 3 ($!)23 %3 4(%4 .!452!, %.6)2/.-%.4		2008	2007
To the air	Nitrogen oxides	940 tonnes	936 tonnes
	Carbon dioxide	1 460 kilotonnes	1 397 kilotonnes
	Safety flaring	34 kilotonnes	28 kilotonnes
To water	Oil	271 kilograms	362 kilograms
	Phenol	65 kilograms	64 kilograms
	TOC	8 028 kilograms	7 067 kilograms
To soil	Oil	None	None

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

3YSTEM OPERATION

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

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

#APACITY ADMINISTRATION

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

/PERATION AND DEVELOPMENT OF INSTALLATIONS

Availability at the big processing plants in the transport system exceeded the target set for 2008. Plant availability was 97.7 per cent at the Kårstø facility and 99.28 per cent at Kollsnes. These high figures reflect the ability to execute planned maintenance when production restrictions arise on the fields. Gassco is currently implementing a number of major projects at its processing plants. Some will continue over the next few years, while others were completed in 2008.

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

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

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

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

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

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

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

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

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

)NFRASTRUCTURE DEVELOPMENT

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

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

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

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

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

- Challenges related to an increased carbon content in rich gas arriving at the Kårstø processing plant. Work is continuing on new piping at this facility to boost opportunities for carbon extraction. A decision on this Dixo project is due in 2009.

- The need to reinforce the western part of the gas infrastructure. This GIR project has assessed various reinforcement options with a potential start-up in 2013. Tie-ins to existing UK infrastructure are also being assessed.

- Renewed consideration of export solutions for new gas from the Norwegian Sea. These studies concentrate primarily on using existing gas infrastructure.

- A feasibility study at Kårstø in connection with the Gudrun development to identify necessary modifications for accepting and stabilising light oil and condensate from this field and the Sleipner area.

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

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

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

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

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

2ESEARCH AND DEVELOPMENT

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

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

1. Safety and transport system integrity.
2. System capacity and quality, which involves increased utilisation and optimisation of the transport system.
3. The environment, with the focus on carbon management and energy efficiency.
4. Technology monitoring and network building to identify new technologies which can be applied to Gassco's operatorship.

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

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

The most important deliveries in 2008 were:

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

$IRECTORS´ REPORT

3HARE CAPITAL AND SHAREHOLDERS

The company's share capital at 31 December 2008 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government.

.ET PROFIT AND ALLOCATIONS

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

Pursuant to section , sub-section of the Norwegian Accounting Act, the board confirms that the accounts have been prepared on the assumption that the company is a going concern.

0ROSPECTS

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

The oldest parts of the existing gas infrastructure have been in operation for more than 30 years. With the pipelines considered to be in good condition, it is expected to be possible to extend their commercial life substantially. However, Gassco is paying great attention to increasing the robustness of existing infrastructure. A number of projects are under way, with major modifications planned at the Kårstø and Kollsnes processing plants and the receiving terminal in Emden. Robustness is also being enhanced on the Draupner and B11 platforms. Because the gas infrastructure is aging, boosting robustness will continue to occupy a key place in coming years. Gassco will pay constant attention to safe and effective utilisation of the gas infrastructure in order to position the NCS as a reliable supplier of gas to the European market.

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

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

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

Bygnes, -arch

Brit Kristin Sæbø Rugland
Chair

Trygve Refvem
Deputy chair

Elisabeth Krokeide
Director

Sverre Quale
Director

Mimi K Berdal
Director

Leif Idar Langelandsvik
Director*

Marianne Hirzel
Director*

Asbjørn Eik-Nes
Director*

Brian D Bjordal
President and CEO

*Worker director

Board of directors of Gassco 2008

"RIT +RUGLAND

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

4RYGG2EEVEM

Deputy chair (born 1947). He works as an independent consultant. Previously senior consultant, Europe programme, executive vice president, Norsk Hydro, vice president, Hydro Agri, and vice president, Hydro Oil and Gas. Mr Refvem has been deputy chair since 2001.

%LISABETH +ROKEIDE

Director (born 1962). She is project director at Eidsiva Vekst AS. Previously vice president finance, Mjøskraft AS, chief financial officer, Raufoss ASA, business advisor, Sparebanken Nor, and controller, Moelven Industrier ASA. Holds a number of industrial directorships. Ms Krokeide has been a director since 2001.

-IMI +"ERDAL

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

3VERRE 1UALE

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

,EIJDA,ANGELANDSVIK

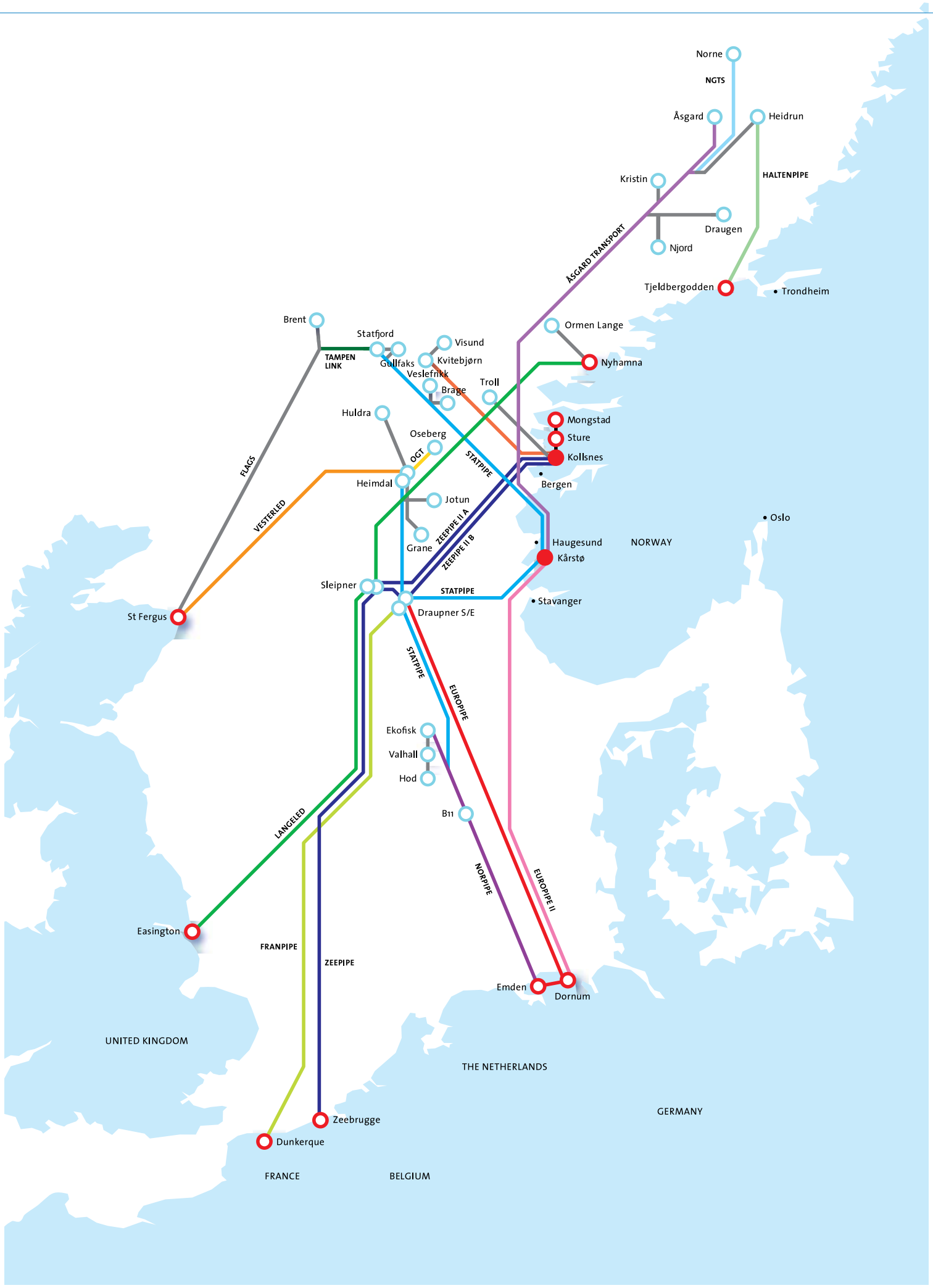
Worker director (born 1975). Elected by and from among the employees. He is a senior engineer and head of the Gassco branch of the Norwegian Society of Chartered Technical and Scientific Professionals (Tekna). Mr Langelandsvik has been a worker director since 2008.

-ARIANNE (IRZEL

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

!SBJžRN %IK .ES

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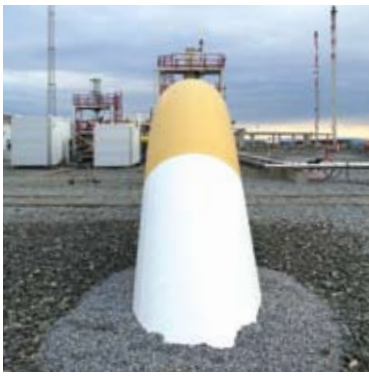
Dunkerque
FRANCE
BELGIUM

Gassco's activities

&INANCIAL INFORMATION AND OTHER KEY FIGURES IN THIS SECTION REFER TO 'A

'!342!.30/24	2008	2007
Regularity (%)	99.78	99.71
Quality (%)	100.00	99.99
Gas delivered to receiving terminals in Europe (billion scm)	94.60	86.68
Highest delivery per day (billion scm)	331.77	314.67
Average gross calorific value (kWh/scm)	11.16	11.11
Total volume other products supplied by gas transport system (million tonnes)	8.60	9.42
Ship calls at Kårstø	699	755



&).!.#)!, &)'5%3 (amounts in NOK million)	2008	2007
Gross tariffs	26 616	26 416
Operating expenses	5 205	4 101
Operating investments	790	618
Major investments	2 676	1 593
* KEP2010 - Kårstø	1 304	512
* CY2008 deethaniser	231	165
* Kollsnes flash gas and condensate project	768	716
* Tampen Link	249	131
* Turboexpander upgrade, Kollsnes	124	69

NATURGASS