



ANNUAL REPORT 2018



1 NORWEGIAN GAS HAS NEVER BEEN IN SUCH DEMAND



FRODE LEVERSUND
President and CEO

Right now, we are involved in unprecedented value creation. Our gas deliveries to continental Europe and the UK are at their second-highest level ever. More than 114 billion standard cubic metres were exported by pipeline in 2018. That has generated record revenues for Norwegian society.



Europe needs our contribution, and Norwegian gas has never been in such demand. For the second year in a row, we experienced little difference between summer and winter in our gas deliveries. Norway meets about 25 per cent of the gas required in the European and British energy mix. It is not merely significant, but essential. Norway's own energy supplies are based on hydropower. We Norwegians are fortunate in having good access to natural resources. At the same time, the country exports gas volumes with an energy content roughly nine times greater than its annual hydropower output. This means Norwegian gas is needed. In other words, we play a very important role in ensuring secure energy supplies for people in Europe and the UK.

The German coal commission recently recommended shutting down all Germany's power stations based on this fuel by 2038. Norwegian gas will play a key role in phasing out coal and in reaching the common goals set in the Paris agreement. The UK is cited as Europe's best example, with CO₂ emissions at their lowest for 120 years.

Norwegian gas is to be trusted. We deliver energy with more than 99 per cent reliability. And we do this with the lowest-ever CO₂ emissions per unit produced.

99%

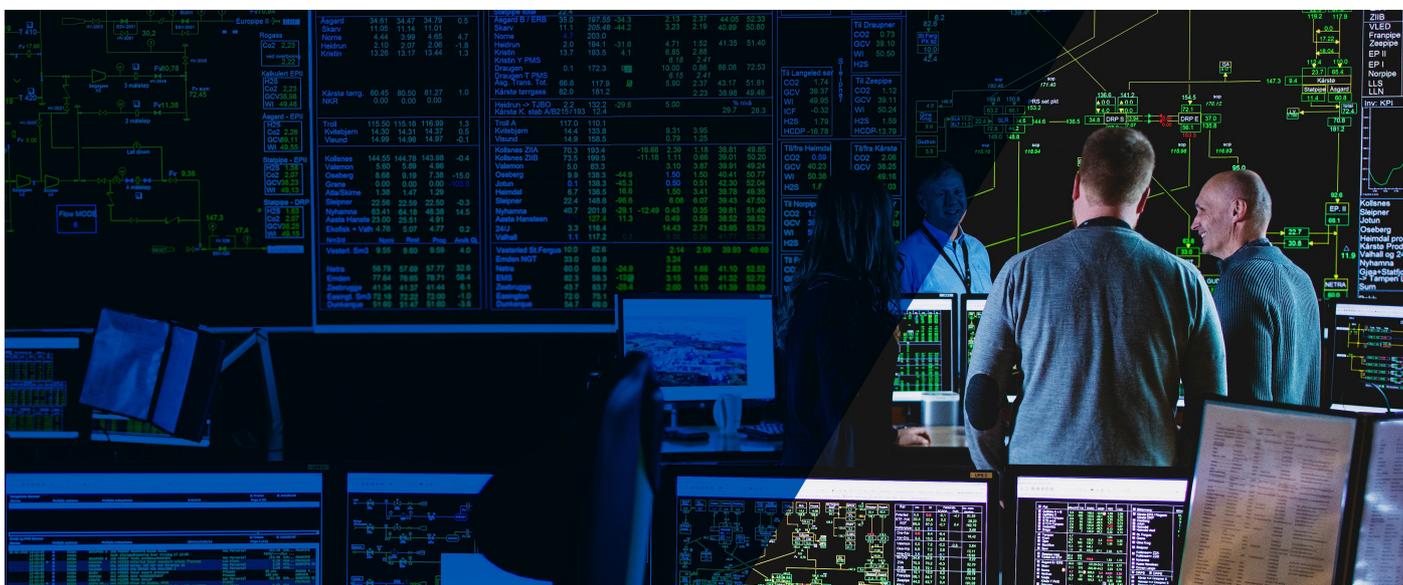
We can be proud of this. At the same time, it is not enough. We in Gassco have extensive plans and specific activities which, taken together, mean we will contribute more. This work will help Norwegian gas to stay competitive, reliable and as important for Europe as hydropower is to Norway. At the same time, this will help Europe to reach its climate goals. These objectives are also Norway's, as part of Europe.

The Petroleum Safety Authority Norway's main issue for 2019 is safe, strong and clear. We can never be satisfied with our health, safety and environmental results. These are perishable commodities, and new challenges and risks will emerge. We must also ensure that they are understood and minimised. The same applies to competitiveness. The signals indicate that the oil and gas industry is back on a rising curve. It is then important to emphasise that we must never be satisfied if we are going to stay competitive and constantly occupy our proper position. The pace of change today demands that we are alert and determined.

The Norwegian continental shelf (NCS) is still developing. That has been demonstrated by the start-up of the Polarled pipeline in late 2018, which opened up a completely new province for Norwegian gas to Europe. This facility crosses the Arctic Circle under water and expands Norway's existing gas pipeline system to just under 9 000 kilometres.

Our industry has an exciting future. Big quantities of energy and remaining resources are available. We must ensure that we make the right choices now. A 70-20-10 rule could be a good way of visualising the big picture. On the road to a renewable society, I think that 70 per cent of the activities which Norway makes it living from today will still be central 50 years from now. The difference is that they will not be pursued in the same way. Twenty per cent will be new areas where some of the opportunities can be discerned today, while the final 10 per cent will be fundamentally new and unknown.

Natural gas lies within the 70 per cent. To be part of the solution, Norway must make new discoveries, produce with lower emissions than its competitors and constantly improve its competitiveness. At a time when short-term thinking threatens to take over, we in Gassco will continue to create value for sustaining Norwegian prosperity and to think long-term.



2 DIRECTORS' REPORT

Introduction

Gassco is a limited company owned by the Norwegian state. It operates the integrated gas transport system from the Norwegian continental shelf (NCS) to European countries. This network 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 Norwegian government. The company's primary roles are 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, Zeepipe Terminal, Dunkerque Terminal DA, Valemon Rich Gas Pipeline, Utsira High Gas Pipe, Knarr Gas Pipeline, Haltenpipe, Nyhamna, Polarled and Vestprosess DA joint ventures.

Gassco has entered into agreements with Equinor, Shell and North Sea Midstream Partners on the purchase of technical operating services for pipelines, gas terminals, platforms and process plants.

Gassco does not make a profit or a loss from its operations. Costs are covered by the joint ventures, the users and third parties. This means that its economic and financial risks are very limited.

Gassco's strategic goals

- Safe, reliable and efficient operation – 24/7.
- Reduce climate impact through sustainable operation and business development.
- Maintain high Norwegian gas exports beyond 2030.
- Efficient organisation of the NCS infrastructure.

The management system 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 prudent operation in accordance with applicable legislation, statutory regulations 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. Gassco draws up an annual plan for its work on CSR, which is followed up by the executive management.

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 2018.



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. Sickness absence during 2018 was 3.16 per cent for the whole business.

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. This helps to identify trends in order to ensure that improvement initiatives are measurable and as effective as possible.

Gassco worked purposefully in 2018 to identify, follow up and implement measures in the wake of incidents. The frequency of incidents defined as critical rose from 2017 to 2018. Five critical incidents occurred in 2018, compared with one in 2017. One of these was classified as critical at red level 2 because of its actual consequences. The other four were rated critical at red level 2 because of their potential. All five of these critical incidents have been investigated.

The personal injury frequency for Gassco's operator area in 2018 was 4.42, compared with 5.28 in 2017 – a 16.3 per cent improvement from the year before. The main reasons for this enhanced performance were purposeful work on HSE and continuous improvement. The board wants to see systematic

improvement work in the HSE field in order to reach the goal of zero personal injuries or critical incidents in 2019.

No gas leaks larger than 0.1 kg/s were recorded in 2018. Gassco registered a minor fire at Kårstø during the year. All process plants, gas terminals and platforms were operated within their annual emission/discharge limits in 2018. Three cases of reportable oil and chemical discharges occurred, affecting Draupner, Kollsnes and Heimdal respectively. All were of minor significance for the natural environment.

Health and safety results	Results 2018	Results 2017
Deaths	0	0
Personal injuries in total	19	20
Lost-time injuries	7	6
Fires	1	0
Gas leaks	0	1
Critical incidents	5	1
Unlicensed emissions/discharges	0	0
Accidental discharges, oil/chemicals	3	0

The company was awarded 914 389 emission allowances free of charge in 2018, and purchased 551 000. Each allowance corresponds to the emission of one tonne of CO₂.

Emissions/discharges to the natural environment		Emissions 2018	Emissions 2017
	Nitrogen oxides	926.3 kilograms	963.9 kilograms
To the air	Carbon dioxide	1 360 kilotonnes	1 403 kilotonnes
	Safety flaring	17.1 kilotonnes	20.7 kilotonnes
To water	Oil	202 kilograms	226 kilograms
	TOC	10 929 kilograms	5 338 kilograms
To soil/water	Accidental discharges, oil/chemicals	13 760 litres	0 litres



One of Gassco's strategic goals is to reduce its climate impact through sustainable operation and business development. A road map to 2030 was drawn up during 2018 to support this strategic goal. This work was pursued with the broad involvement of both owners and shippers, and the road map will be an important strategic aid in defining activities which should be the focus of Gassco's attention.

Supervision in the form of audits, verifications and management inspections plays an important role in Gassco's follow-up of its business. The company is also subject to control by official regulators and the owners. Substantially more audits of Gassco were conducted by the authorities during 2018 than in the preceding years. The audits in 2018 identified 10 nonconformities and 36 learning points. These nonconformities varied in their level of seriousness, and actions and deadlines have been established for closing them. Learning points provide the basis for further improvements. The board is pleased with the work done, and is concerned to ensure that active efforts are made to implement improvements.

The emergency response organisation is an important component in Gassco. The response organisation at Bygnes held and participated in nine exercises during 2018. These drills demonstrated that Gassco has a robust and well-functioning emergency response organisation. Gassco's response organisation was mobilised nine times in 2018, compared with an annual average of six in recent years.

The company will continue its efforts to achieve HSE&Q improvements, in close cooperation with the companies carrying out operating assignments on Gassco's behalf. Particular attention is directed at all conditions which have 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 projects. The procedure for risk management in Gassco reflects updated knowledge in the risk management field. New tools and risk pictures have been developed and function well.

Gassco is continuing work to put a new archive system and a new collaboration solution in place, and these are expected to be implemented during 2019. The company is also working purposefully on security, particularly in relation to ICT.

Based on a survey, the company initiated a comprehensive cultural programme named "One Gassco" to pursue preventive efforts with HSE.

DEATHS

0

PERSONAL INJURIES

19

LOST-TIME INJURIES



FIRES

1

CRITICAL INCIDENTS

5

GAS LEAKS

0

ACCIDENTAL DISCHARGES OIL/CHEMICALS

3

UNLICENSED EMISSIONS/DISCHARGES

0

EMISSIONS TO THE AIR

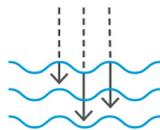


NO_x 926.3 T

CO₂ 1 360 KT

FLARING FOR SAFETY REASONS 17.1 KT

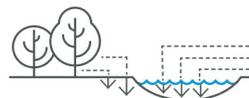
DISCHARGES TO WATER



OIL 202 KG

TOC 10 929KG

DISCHARGES TO SOIL/WATER



OIL / CHEMICALS 13 760 L

Operation of the gas transport system

Natural gas deliveries from the Norwegian gas transport system to Europe came to 114.2 billion scm in 2018, compared with 117.4 billion scm the year before. Total deliverability was 99.16 per cent, as against 99.48 per cent in 2017. Incorporation of new operatorships is not included in the 2017 figure. Norwegian deliveries to continental Europe and the UK remained high, and have only once been higher – in 2017. Given the very high level of utilisation in the transport system, the board is pleased with the high production availability and regularity achieved by the whole gas transport system in 2018.

Vessel traffic, which includes shipment of natural gas liquids (NGL) and light oil (Gudrun Blend) from Kårstø, is carefully coordinated with daily gas transport in order to avoid full product stores and field shutdowns. A total of 633 ship calls were recorded at Kårstø during the year without causing any incidents of significance for gas transport.

Gas transport	2018	2017
Deliverability (%)	99.16 ¹	99.48
Quality (%)	99.97	99.97
Gas delivered to terminals in Europe (billion scm)	114.2	117.4
Highest delivery per day (million scm)	368.3	376.0
Average gross calorific value (kWh/scm)	10.9	10.9
Total volume other products delivered from the gas transport system (million tonnes)	103 ²	10.2

¹ Includes volumes for all Gassco-operated licences.

² Includes volumes from Kårstø, Vestprosess and Nyhamna.

The gas transport system has a 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 and more intensively utilised, with more fields tied in and a larger number of gas qualities, delivering with almost 100 per cent availability in the market has become more demanding.

Operating costs excluding electricity and taxes for the facilities operated by Gassco over the past five years have been reduced by just over NOK 500 million. This will be an annual saving for the future. Operating costs for 2018 totalled NOK 7 437 million, while the target for the year was NOK 7 035 million. The 2018 figure also includes Nyhamna, Vestprosess and Polarled, since Gassco became operator for these facilities in 2017 and 2018. Increased electricity tariffs are the primary reason why actual costs exceeded the target. Improvements to the expense of operating the gas transport system contribute to cost cuts and value creation on the NCS.

Development of the gas infrastructure

Gassco took over the operatorship for the Vestprosess process plant at Mongstad on 1 January 2018. This facility treats NGL from the Kollsnes gas processing plant and the Sture terminal. The NGL is fractionated into various components used at the Mongstad refinery or exported from there.

Completed in 2018, upgrading work at the Nyhamna gas processing plant allows it to receive gas from Aasta Hansteen. This field began gas production in December 2018.

The subsea tie-in of the gas pipeline from Johan Sverdrup field to the Statpipe rich gas pipeline for gas deliveries to the Kårstø plant was completed in the third quarter of 2018. Plans call for gas exports from Johan Sverdrup to commence in late 2019.

Gassco carried out a conceptual study in 2018 for a spur from the Europipe II pipeline to Nybro in Denmark. This spur forms part of the Baltic Pipe infrastructure project, which could transport Norwegian natural gas to both Danish and Polish markets from 2022.

Assessments have been made by Gassco of the need for future development in Norway's gas infrastructure. Among other conclusions, this work has identified changed transport and process needs in the Heimdal area. Based on that requirement, a project has been launched to tie together the pipelines in the Heimdal area on the seabed. Studies have also been initiated for removing the Heimdal riser platform.

Gassco assesses transport concepts for all gas reserves in order to identify the best solutions for the NCS. These include evaluating transport solutions for the gas resources covered by the Noaka (North of Askja, Krafla and Alvheim) project, Troll Phase 3 and Luno II in connection with the choice of concept by the licensees.

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

The Norwegian gas infrastructure is largely powered by electricity from the grid. A new transmission line between Modalen and Mongstad is under construction for planned completion in 2019. This is a step in securing two robust supply routes to Kollsnes. Timely development of the power grid in line with changed requirements is crucial for Gassco's operations. It accordingly follows up studies and network plans by relevant grid operators.

Organisation

Two organisational development projects were prominent during 2017 and 2018: the competence development project and the reorganisation of the staff and support units in Gassco.

Both projects have been followed up closely by the company's board. Implemented throughout the organisation, the competence development project concentrated primarily on the foreign terminals in 2018. Structured and forward-looking talent and management development has been an important guideline in this project. The board's follow-up of ongoing competence and management development in the company has been handled through involvement in and reviews by the competence development committee, which reports status and development trends back to the board. This ensures that the board's duties with regard to Report no 27 (2013-14) to the Storting and White Papers concerning the exercise of state ownership are taken care of.

Management and personnel development in Gassco is rooted in the company's vision and values base.

Gassco's vision: "Gassco – securing energy supply"

**Gasscos' value base:
"Gassco – on TRACK"**

T – transparent
R – respectful
A – accountable
C – challenging
K – knowledgeable

An employee survey was conducted in Gassco during 2018. Put briefly, this showed an organisation with a strong commitment and capacity to act. The survey report was presented to a joint meeting of all employees, the board, elected union officers, safety delegates and the working environment committee (AMU). Each unit has reviewed its own results and identified improvement areas. Some overriding issues have been followed up specially with common performance indicators in 2019 as well. These include the ability of the organisation to give and receive feedback as well as the degree of worker participation and information. These issues will be followed up in departmental meetings and performance assessment reviews.

Gassco had 330 permanent employees at 31 December 2018, including 139 at the gas terminals in continental Europe and the UK. The company currently has two office trainees in Norway, and none abroad.

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. Qualified candidates from a minority background will be called for interview.

Women account for 26 per cent of Gassco's workforce. Recruiting more women graduates and facilitating female career development in the company are among its priorities. In determining and negotiating pay, Gassco pays special attention to equal treatment of men and women. Women account for 57 per cent of Gassco's executive management team.

The company's human resources policy concentrates attention on equal opportunities and further development of talented people at all levels of the organisation.

Gassco has ensured good physical access to its buildings, including for people with disabilities. Workplaces are individually customised for employees with actual or incipient repetitive strain injuries. Collaboration with the company health and safety delegate services is open and solution-oriented.



Innovation

To support its strategic goals and to strengthen the attention devoted to new technical solutions, Gassco created an innovation unit with effect from 1 February 2018.

This unit is responsible for challenging and facilitating innovation processes by identifying available and emerging technologies and solutions. It is also in charge of the company's digitalisation programme.

The latter aims to help reduce risk and the environmental footprint, as well as enhancing value creation through more automation, increased production and reduced costs.

Attention in Gassco was concentrated in 2018 on developing expertise with digitalisation as well as initiating work on its digital strategy.

Research and development provides a key strategic instrument for innovation and digitalisation. The R&D portfolio in 2018 comprised the following strategic programmes, where digitalisation has been a central cross-cutting aspect.

Value creation beyond 2030: To make provision for increased future volumes and value creation beyond 2030, work continued in 2018 on gas quality specifications for rich gas systems. Developing solutions for metering gas quantity and quality on the seabed has been a key priority, along with gas transport solutions for new regions such as the Barents Sea.

Effective operation: Work on testing and implementing robots for inspecting pressure vessels and equipment has continued in order to help ensure safe and efficient operation. A priority has been developing and testing digital solutions for condition monitoring of critical equipment.

Sustainable development: The main focus in this programme during 2018 was expertise development with hydrogen and carbon capture, transport and storage (CCS). Work was also done to bring forward innovative digital solutions for detecting and quantifying diffuse emissions.

NOK 80.4 million was spent on R&D activities in 2018.

Share capital and shareholders

Net profit was NOK 0. The company's equity at 31 December 2018 was NOK 15 248 350.

The total balance sheet at 31 December 2018 was NOK 1 011 million, and the company had liquid assets through bank deposits of NOK 313 million at the same date.

Gassco is organised so that the company does not make a profit or a loss from its operations, and has been exempted from capital and income taxes pursuant to section 2-32, paragraph one of the Norwegian Taxation Act. On that basis, market, liquidity and credit risk is considered to be low.

Pursuant to section 3-3a of the Norwegian Accounting Act, the board confirms that the accounts have been prepared on the assumption that the company is a going concern.

Prospects

Natural gas deliveries from Norway cover about a quarter of Europe's total consumption. Norwegian gas will continue to occupy a key place in the security of European energy supply for a long time to come.

While gas consumption in Europe is expected to be high, its impact on the climate is to be reduced. The European energy mix will require natural gas in periods when the contribution from renewable solar and wind power is reduced and for a possible phasing-out of coal. Gassco will continue its efforts to reduce the climate footprint of Norway's natural gas, and to improve energy utilisation at all stages.

The Norwegian Petroleum Directorate estimates that less than half of Norway's expected gas resources have been produced. Forecasts show that the level of deliveries will remain high in the long term, and that annual deliveries are also expected to stay at a high level up to 2035.

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 Aasta Hansteen gas field and the Polarled pipeline open up a new area of the NCS and will lead to increased exploration for gas resources in the Norwegian Sea. The existing gas infrastructure in the Barents Sea is expected to be fully utilised for the next 15-20 years, and expectations for gas resources in this part of the NCS are great. A coordinated development of Barents Sea resources will be important for establishing new transport solutions so that the area's resource potential can be realised.

Delivering Norwegian natural gas to the European market on competitive terms and with high regularity remains important. Gassco's role will be to ensure that value creation on the NCS is maximised by maintaining a safe, reliable and efficient gas infrastructure.

The company has initiated work on an expanded strategic analysis of operating parameters and external factors which could affect its strategic goals and future prospects. This work will continue in 2019.

Bygnes, 28 March 2019

Sign.

Mimi K Berdal

Chair

Sign.

Nina Schieldrop Lie

Director

Sign.

Johan E Hustad

Director

Sign.

Tor Rasmus Skjærpe

Director

Sign.

Jan Skogseth

Director

Sign.

Hilde Fadnes Hølland

Director*

Sign.

Brynjar Aardal

Director*

Sign.

Kenneth Flotve

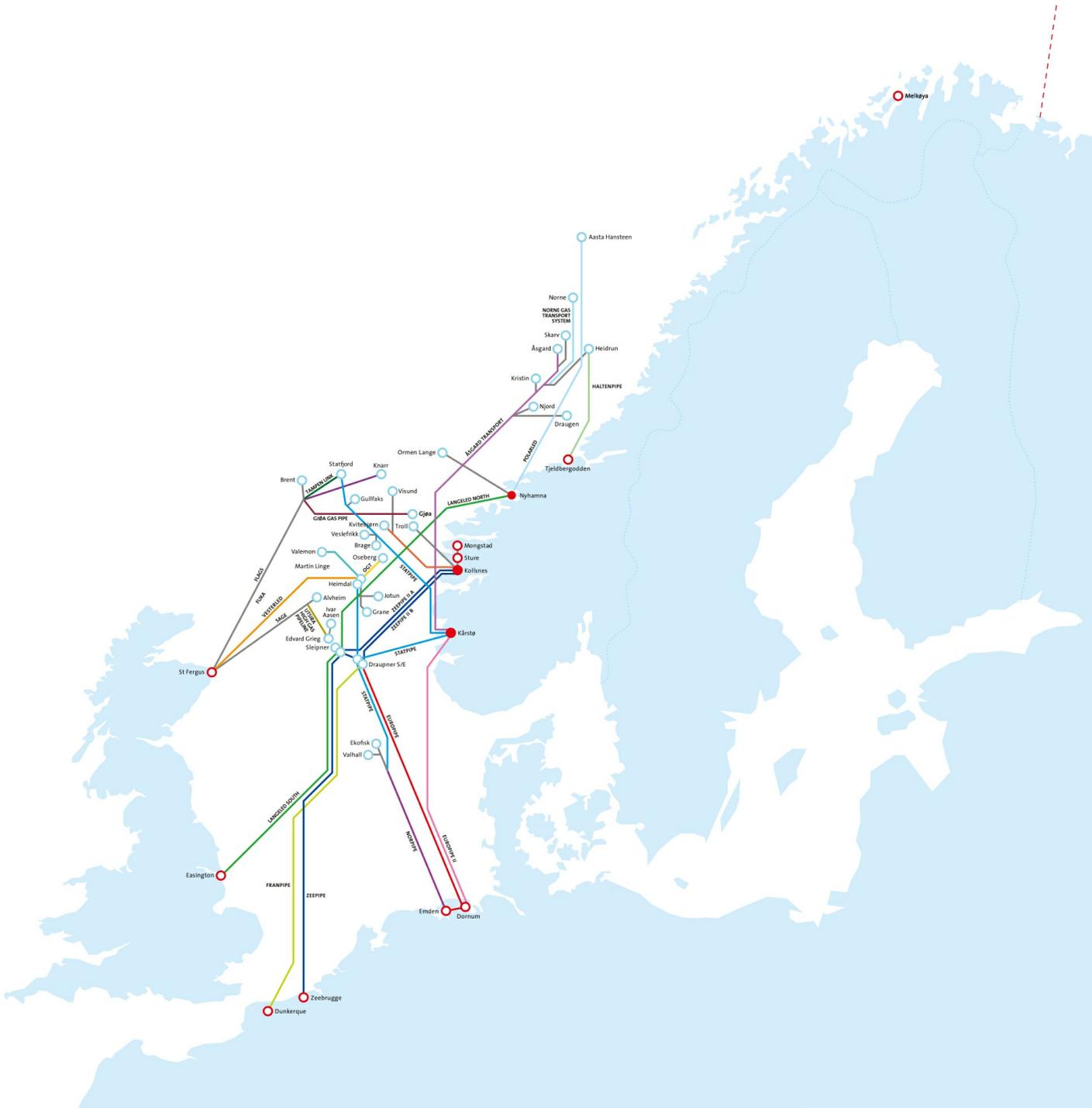
Director*

Sign.

Frode Leversund

President and CEO

* Elected by the employees





BOARD OF DIRECTORS



Mimi K Berdal

Chair (born 1959). With a background as a lawyer, she currently runs her own business. Berdal previously served as a legal advisor with Total Norge, and as a partner in the Arntzen de Besche law firm. She also has broad experience of boardroom work in and as the chair of listed and private companies covering various sectors. Berdal has been a director since 2007 and chair since 2016.



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. Lie 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). Hustad is a professor and director of NTNU Energy. He has served as pro-rector at the Norwegian University of Science and Technology (NTNU) with responsibility for innovation, headed the department of energy and process technology at the NTNU, and occupied several management posts at the university and at Sintef. He was also head of the centre for renewable energy (NTNU/Sintef/IFE), 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.



Jan Skogseth

Director (born 1955). He has an MSc from the South Dakota School of Mines & Technology and more than 35 years of experience from the oil, gas and renewables industry, working for oil companies and the supplies sector in Norway and internationally. Skogseth was CEO of Aibel from 2008 to 2017, and played an important role in establishing that company on several continents. He has held several board appointments, including many years of service as chair of the oil and gas section of the Federation of Norwegian Industries. Skogseth is currently a director of SR Bank ASA, Scatec Solar ASA and PSW Group AS. He has been a director since 2018.



Tor Rasmus Skjærpe

Director (born 1950). He graduated as a petroleum engineer from the NTNU and is currently a consultant in the oil and gas sector. Skjærpe was with the Proactima consultancy in 2014-16, where he delivered services related to leadership as well as risk and management systems. He has previously held various executive position with Petoro and Norsk Hydro in operations, technology, licence management and strategy. Skjærpe has been a director since 2017.



Kenneth Flotve

Worker director (born 1964). He works in the IT department of Gassco AS and heads the Gassco branch of the Norwegian Society of Engineers and Technologists (Nito). Flotve has been a director since 2018.



Hilde Fadnes Hølland

Worker director (born 1972). She is a senior administrative officer in Gassco AS, and chair of the Gassco branch of the Norwegian Union of Industry and Energy Workers. Hølland has been a director since 2018.



Brynjar Aardal

Worker director (born 1981). He is a principal engineer in Gassco AS and head of the Gassco branch of the Norwegian Society of Graduate Technical and Scientific Professionals (Tekna). Aardal has been a director since 2017.



3 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 group. 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.

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 from the perspective of Norwegian society.

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 more than 40 years. 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. Gassco has been assigned responsibility for operating the upstream gas pipeline network by the Ministry of Petroleum and Energy (MPE) 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 Valemon Rich Gas Pipeline, the Utsira High Gas Pipe, the Knarr Gas Pipeline, Nyhamna, Polarled and Vestprosess DA. 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 Equinor, Shell and North Sea Midstream Partners 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 on the NCS, through the integrated transport network, to the gas terminals.

Capacity administration involves the determination of committable physical capacity in the pipeline network and the process plants, and the allocation of transport capacity in these facilities. 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 vision

Gassco – securing energy supply.

Gassco's strategic goals

- Safe, reliable and efficient operation – 24/7.
- Reduce climate impact through sustainable operation and business development.
- Maintain high Norwegian gas exports beyond 2030.
- Efficient organisation of the NCS infrastructure.

The company's strategic goals are evaluated annually, and strategic action plans and key performance indicators (KPIs) with goals and traffic lights are established and approved by the board. The KPIs measure how far the company has achieved the sectoral policy goals set by the MPE. By ensuring good HSE results, high regularity of gas deliveries to continental Europe and the UK, and operating costs below the budget ambition, Gassco contributes to maximising value creation from the NCS.

Risk in the company is reviewed quarterly with the board. Measures and actions relating to both risk and KPIs are followed up and reported monthly to the board and in owner meetings with the MPE.

Gassco has established guidelines for work on corporate social responsibility (CSR) which accord with the government's ownership policy and with the principles for good CSR. The principles in both the ISO standard and the UN Global Compact are incorporated in the company's governing documents. On the basis of these principles, Gassco has a list of core areas – including labour rights, climate and the environment, anti-corruption work and stakeholder analyses – which it works on. The company's ethical guidelines for procurement as well as the guidelines on IT use and whistleblowing also form part of its CSR efforts. CSR forms an integrated part of Gassco's organisation culture, strategy, operational activities and ethical conduct towards the world at large. An annual plan is drawn up for such work and followed up by management. Furthermore, work on CSR is entrenched in the Gassco board.

Through CSR, Gassco as a company takes responsibility for its activities – including the way these affect various players in society. 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 it pursues operations.

Where tendering processes are concerned, clarification is secured that the supplier has established its own CSR policy and guidelines, and that these accord with Gassco's requirements. Possible conditions which might be identified will have consequences for the supplier's participation in tendering processes.

A general respect for human rights is an integral part of Gassco's values base. Its ethical guidelines conform with the principles of the UN Global Compact and the OECD's guidelines for multinational companies, and support Gassco's values base. The ethical guidelines form part of the company's governing documentation, and apply to all employees and consultants in every country. Everyone joining the company receives an introduction to Gassco's ethical rules and value choices, and is kept regularly updated in this area.

Transactions with related parties

Equinor ASA and Gassco AS have a common owner in the MPE, and are accordingly related parties. Gassco purchases goods and services from Equinor ASA related to technical plant operation and third-party assignments at cost, pursuant to the technical service provider (TSP) agreement.

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 the chair and directors on behalf of the shareholder and ensures that, overall, the board has appropriate and adequate expertise, capacity and diversity. Women accounted in 2018 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 oil and gas department of the MPE 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, composition and independence

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 (introduction programme). 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.

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 for its own work, for the compensation committee 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. The board can also put items for decision or information on its agenda at its own initiative.

Four 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.

Four board meetings and one board seminar were held in 2018, and attendance was 97 per cent.

A decision matrix and a schedule have 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.

A power of attorney on behalf of the company has been awarded to the chief executive and to the heads of the German, Belgian/French and UK terminals.

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.

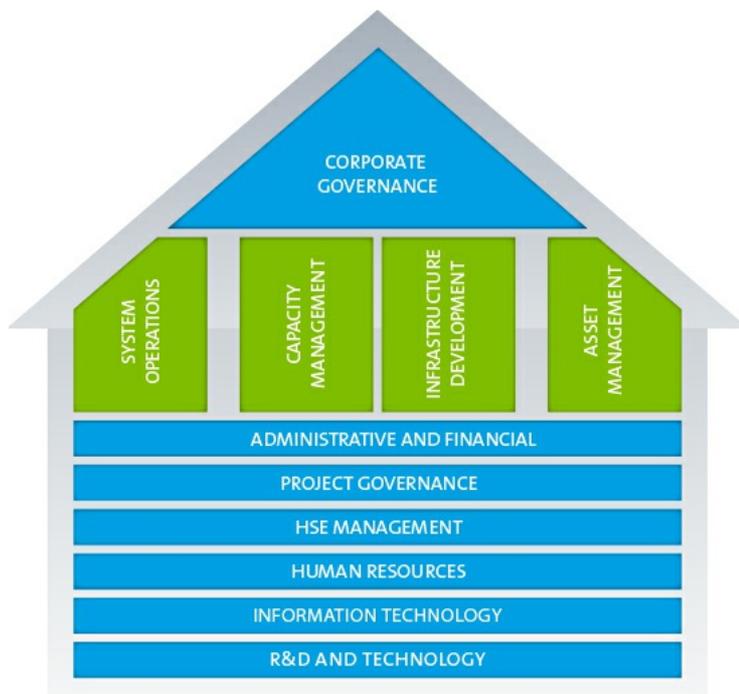
Compensation committee

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, pension terms, and organisational and competence development in the company. The committee comprises three directors who are 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 these have been adopted by the board.

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 are 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 seven-member management team, regularly checks that the business is being conducted in accordance with its strategy. Relevant government agencies, as well as users and owners of the gas transport system, also conduct regular audits and supervision of Gassco's operatorship as well as associated activities and management systems. The chief executive is responsible for ensuring that the executive management reviews the management system twice a year, and an annual plan has been established to ensure that this is done.

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.



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.

The corporate governance process group first embraces processes concerning control of the company by the owner (in other words, the MPE 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 monitoring activity rests with the compliance department, which draws up annual monitoring programmes. This unit conducts internal audits as well as auditing the work of the TSPs. Other types of internal and external monitoring activities are also conducted by Gassco's units and projects. A monitoring pool has been established with responsibility for conducting all activities of this kind where external management is not needed nor mandatory. 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 monitoring activities are used to achieve continuous improvements to 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 compliance department.

Integrated risk management

Integrated risk management plays a key part in Gassco's management processes, and is used throughout the business. 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. A dedicated risk committee has been established to ensure an integrated understanding of risk across the whole company. Gassco's corporate risk management procedure reflects new and updated knowledge in this field. New tools and risk pictures have also been developed and adopted.

Management tools

The board and chief executive utilise such activities as strategic planning, budgeting, periodic financial and operational reporting, and dedicated processes in conducting 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. Risk management and a balanced scorecard are utilised as tools in the business areas.

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 accordance with 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 (L2S) 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

PricewaterhouseCoopers (PwC) is the company's external auditor. 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. The company's internal control is among the subjects addressed in this meeting.



4 FINANCIAL STATEMENTS

INCOME STATEMENT

Note	Amounts in NOK 1 000	2018	2017
	OPERATING INCOME AND EXPENSES		
2	Total operating income	0	0
2,3,4	Total operating expenses	0	0
	FINANCIAL INCOME AND EXPENSES		
	Other interest income	0	0
	Net financial items	0	0
	Profit before tax	0	0
10	Tax on ordinary activities	0	0
	Profit/(loss) on ordinary activities	0	0
	Net profit/(loss)	0	0
	Transfers		
	Transferred to/(from) other equity	0	0
	Total transfers	0	0



BALANCE SHEET

Note	Amounts in NOK 1 000	At 31.12.2018	At 31.12.2017
	ASSETS		
	TANGIBLE ASSETS		
4	Land, buildings and other property	29 567	29 577
4	Operating equipment and fixtures	123 809	133 180
	Total tangible assets	153 376	162 756
	OTHER LONG-TERM RECEIVABLES		
3,9	Other receivables	318 448	298 944
	Total other long-term receivables	318 448	298 944
	TOTAL FIXED ASSETS	471 823	461 701
	CURRENT ASSETS		
	RECEIVABLES		
6	Accounts receivable	53 309	64 675
5	Other receivables	173 119	177 357
	Total current receivables	226 428	242 032
11	Bank deposits and cash	312 683	330 628
	TOTAL CURRENT ASSETS	539 111	572 660
	TOTAL ASSETS	1 010 934	1 034 361

Note	Amounts in NOK 1 000	At 31.12.2018	At 31.12.2017
	EQUITY AND LIABILITIES		
	EQUITY		
	PAID-IN CAPITAL		
7	Share capital	10 000	10 000
	Total paid-in capital	10 000	10 000
	RETAINED EARNINGS		
8	Other equity	5 248	5 248
	Total retained earnings	5 248	5 248
	TOTAL EQUITY	15 248	15 248
	LIABILITIES		
	Provisions		
9	Pension commitments	511 770	497 784
	Total provisions	511 770	497 784
	Long-term liabilities		
5,12	Other long-term liabilities	84 804	96 708
	Total long-term liabilities	84 804	96 708
	Current liabilities		
6	Accounts payable	139 588	119 539
11	Unpaid government charges and special taxes	103 459	114 615
5	Other current liabilities	156 065	190 468
	Total current liabilities	399 113	424 621
	TOTAL LIABILITIES	995 686	1 019 113
	TOTAL EQUITY AND LIABILITIES	1 010 934	1 034 361

Bygnes, 28 March 2019

Sign.

Mimi K Berdal

Chair

Sign.

Nina Schieldrop Lie

Director

Sign.

Johan E Hustad

Director

Sign.

Tor Rasmus Skjærpe

Director

Sign.

Jan Skogseth

Director

Sign.

Hilde Fadnes Hølland

Director*

Sign.

Brynjar Aardal

Director*

Sign.

Kenneth Flotve

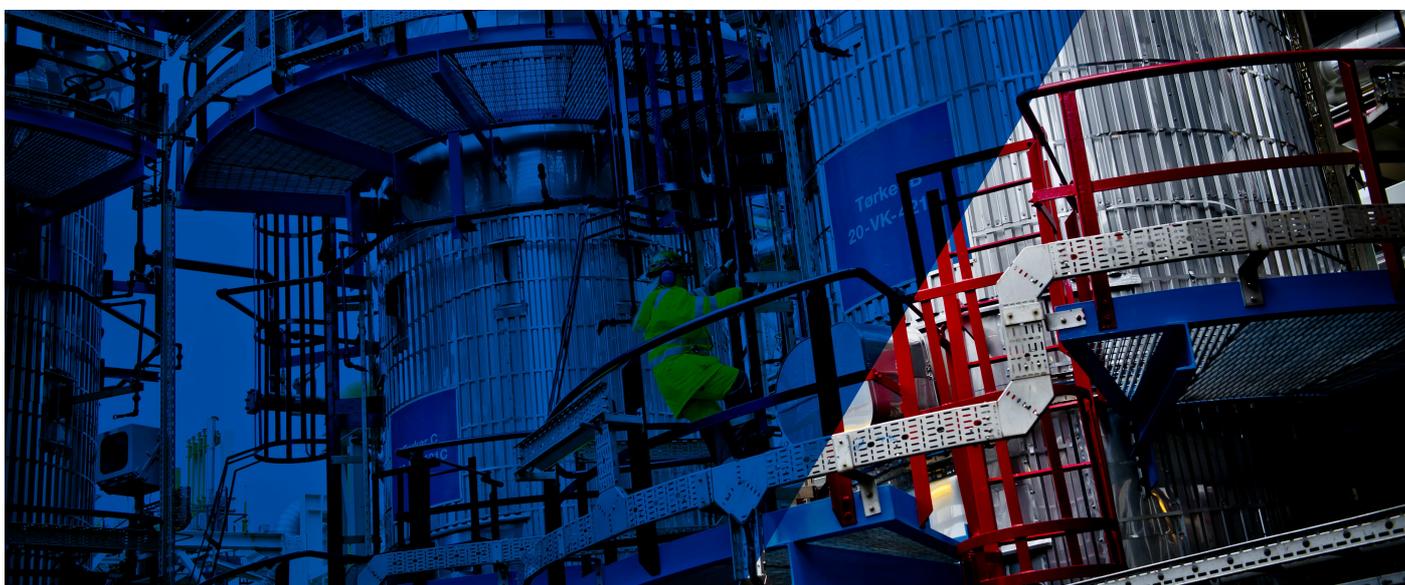
Director*

Sign.

Frode Leversund

President and CEO

* Elected by the employees



CASH FLOW STATEMENT

Note	Amounts in NOK 1 000	2018	2017
	CASH FROM OPERATIONAL ACTIVITIES		
	Profit on ordinary activities before tax	0	0
4	Depreciation	39 924	40 618
6	Change in accounts receivable	11 366	(12 828)
5	Changes in other current receivables	4 238	407 883
	Changes in long-term receivables	(19 503)	31 277
	Changes in accounts payable	20 049	(421 402)
	Changes in long-term commitments	13 986	(29 061)
5	Changes in other current liabilities	(45 558)	8 193
5	Changes in other long-term liabilities	(11 904)	(7 492)
	Net cash from operational activities	12 598	17 189
	CASH FROM INVESTMENT ACTIVITIES		
4	Net disbursement for acquisition of fixed assets	(30 543)	(25 373)
	Net cash from investment activities	(30 543)	(25 373)
	CASH FROM FINANCING ACTIVITIES		
	Redemption of long-term debt	0	0
	Net cash from financing activities	0	0
	Net change in cash and cash equivalents	(17 945)	(8 184)
	Cash and cash equivalents at 1 January	330 628	338 812
	Cash and cash equivalents at 31 December	312 683	330 628



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.

The company has chosen to use gross recording when presenting items related to the normal operatorship in the balance sheet. This means that gross figures are presented for balances with third parties related to the company's operator activities. These almost entirely concern accounts payable and VAT in the joint ventures.

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 company has various pension schemes. These are financed through payments to insurance companies, with the exception of the AFP early retirement scheme and a closed plan for pension benefits exceeding 12 times the National Insurance base rate (G). The company has both defined contribution and defined benefit plans.

Defined contribution plans Under defined contributions plans, the company makes contributions to an insurance company. It has no further commitments once the contributions have been paid. The contributions are recorded in the accounts as payroll costs. Possible contributions paid in advance are recorded in the balance sheet as an asset (pension funds) to the extent that the contribution can be refunded or reduce future payments.

Defined benefit plans A defined benefit plan is a pension scheme which is not a defined contribution plan. It typically defines a pension benefit which an employee will receive on retirement. This benefit normally depends on a number of factors, such as age, number of years with the company and level of pay. The capitalised commitment related to defined benefit plans is the present value of the defined benefits on the balance sheet date, less the fair value of the pension funds (amounts paid to an insurance company), adjusted for estimate variations and costs not recorded in the income statement related to pension earnings in earlier periods. The pension commitment is calculated annually by an independent actuary using a linear earnings method.

Taxes

In accordance with a decision by the tax authorities, the company is exempt from tax pursuant to section 2-32, paragraph one of the Taxation Act. On the basis of this decision, the company must continuously assess whether "economic activity" is pursued which incurs a liability to tax pursuant to section 2-32, paragraph two of the Taxation Act.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. Cash and cash equivalents include cash in hand, bank deposits and other short-term liquid investments which can be converted immediately and with insignificant price risk to known cash amounts and which have a remaining term to maturity of less than three months from the date of acquisition.

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 also regulated in the operator agreements with the Gassled, Haltenpipe, Zeepipe Terminal, Dunkerque Terminal, Valemon Rich Gas Pipeline, Knarr Gas Pipeline, Utsira High Gas Pipeline, Nyhamna and Polarled joint ventures, which own the infrastructure for transporting gas from the NCS.

In addition, Gassco carries out a number of study assignments for various government bodies and players on the NCS.

Gassco is not intended to make a loss or profit from its activities. All its expenses are therefore covered by the licensees for work related to the normal operatorship and by the gas shippers for work related to the special operatorship. Other assignments are financed by the client which awards the assignment.

Activities are thereby deemed to be performed on behalf of the clients and at their expense and risk, and costs related to Gassco's various assignments accordingly do not appear in the accounts for Gassco AS. A net presentation of this kind accords with practice at other operators where the expenses of the operatorship are divided between the owners.

However, the net presentation provides very limited information on Gassco's total activities and area of responsibility. Gassco's accounts are accordingly presented below in accordance with the proportionate consolidation method.

INCOME STATEMENT

Note	Amounts in NOK 1 000	2018	2017
	OPERATING INCOME AND EXPENSES		
	Normal operatorship	8 670 520	7 350 436
	Special operatorship	273 505	273 624
	Other assignments	129 336	229 198
	Total operating income	9 073 361	7 853 258
3	Payroll expenses	495 549	510 212
4	Depreciation of fixed assets, Gassco	39 924	40 618
	Other expenses	8 537 889	7 302 429
	Total operating expenses	9 073 361	7 853 258
	FINANCIAL INCOME AND EXPENSES		
	Other interest income	0	0
	Net financial items	0	0
	PROFIT BEFORE TAX	0	0
10	Tax on ordinary activities	0	0
	PROFIT/(LOSS) ON ORDINARY ACTIVITIES	0	0
	NET PROFIT/(LOSS)	0	0

Tariff revenues

Gassco is also responsible for administering capacity available at any given time in the pipeline network and at the treatment plants. On behalf of the transport system's owners, Gassco invoices all shippers on the NCS for their booked capacity in accordance with applicable tariffs. Tariffs paid by the shippers are transferred without delay to the transport system owners.

Amounts in NOK 1 000	2018	2017
TOTAL TARIFF REVENUES	31 458 344	27 670 318

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

Amounts in NOK 1 000

PAYROLL EXPENSES	2018	2017
Pay	350 918	351 786
Payroll tax	62 354	63 270
Pension costs (see note 9)	66 431	76 469
Other benefits	15 845	18 686
Total payroll expenses	495 549	510 212

WORK-YEARS PERFORMED	2018	2017
	330	332

Remuneration of senior staff in 2017

Amounts in NOK
1 000

Surname, forename		Pay/ remuneration ¹	Bonus ²	Other benefits ³	Pension costs ⁴	Total	Loans
Leversund, Frode	President and CEO	3 200	248	18	200	3 666	-
Alcock, Jonathan Peter	Executive vice president, asset management	1 808	129	9	626	2 572	330
Rossebø, Øystein Høyvik	Executive vice president, development and innovation	1 655	110	25	157	1 947	340
Kaste, Kristin Kinn	Executive vice president, system operation	1 594	106	28	160	1 888	17
Viksund, Randi	Executive vice president, HR	1 551	108	34	163	1 856	537
Lund, Trine	Chief compliance officer	1 489	104	20	1021	2 634	-
Aarhus, Britt	Chief innovation officer	1 386	96	30	161	1 673	575

¹ Pay/remuneration plus fixed overtime pay in 2018

² A bonus amounting to eight per cent of basic pay was paid on 31 March 2018 on the basis of results for 2017.

³ Telephone, broadband, insurance, etc

⁴ Pension premium and provision for 2018

Amounts in NOK 1 000

Remuneration of directors in 2017	Amount
Directors	1 856

Amounts in NOK 1 000

Loans and security provided to:	Loans	Security
Employees	67 314	0

Declaration on pay for Gassco's executive management for the 2018 financial statements

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

Remuneration of senior executives will accord with legal provisions and guidelines as well as with 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 and two directors 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 on severance pay.

The bonus scheme can provide a bonus of up to 10 per cent if agreed targets are met. The board approves the performance indicators relating to HSE, finance, operations and development. Different performance indicators are included in the bonus calculation for each year. The targets for the performance indicators have become more demanding in recent years, and clear boundaries have been established for when a target is met, partly met or not met. The bonus scheme is the same for all employees in Gassco.

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

Employer's liability insurance covers permanent injury, permanent disability and death. A health insurance policy is also in place, along with an all-year travel policy 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 introduced a defined contribution pension scheme at 1 January 2016 with rates of 7 and 25.1 per cent. At the same time, the pension plan for rates of pay exceeding 12G was terminated. The former defined benefit plan was retained for employees who will reach the age of 67 within 15 years or less. Gassco's pension arrangements have thereby been converted and adapted to the new National Insurance and AFP early retirement provisions as well as to guidelines from government on pay and other benefits for senior executives in state-owned companies.

Auditor

NOK 1 687 958 was charged in 2018 as fees to PricewaterhouseCoopers AS for auditing the company and the licences operated by Gassco AS. Furthermore, PricewaterhouseCoopers AS was paid fees of NOK 155 763 for consultancy work. No fees were paid to Advokatfirmaet PricewaterhouseCoopers AS for legal assistance in 2018.

Note 4 . Tangible fixed assets

Amounts in NOK 1 000

2018	Buildings and other real property	Operating equipment, fixtures, tools, etc	TOTAL
Acquisition cost 1 Jan 2018	47 888	333 912	381 800
Additions	-	30 573	30 573
Disposals/scraping	(1 718)	(5 392)	(7 110)
Conversion difference	-	59	59
Acquisition cost 31 Dec 2018	46 169	359 152	405 321
Accumulated depreciation 1 Jan 2018	18 311	200 732	219 043
Disposal accumulated depreciation	(1 718)	(5 368)	(7 087)
Depreciation for the year	10	39 914	39 924
Conversion difference	-	65	65
Accumulated depreciation 31 Dec 2018	16 603	235 343	251 945
Book value 31 Dec 2018	29 567	123 809	153 376
Economic lifetime	5,50 years	3,5,7,8,10 years	
Depreciation plan	Linear/none	Linear	

Note 5. Other receivables and liabilities

Amounts in NOK 1 000

OTHER CURRENT RECEIVABLES	2018	2017
Receivable from licences	164 778	173 218
Other current receivables	8 341	4 139
Total other current receivables	173 119	177 357

Amounts in NOK 1 000

OTHER LONG-TERM LIABILITIES	2018	2017
Liabilities to shippers	84 804	96 708

Amounts in NOK 1 000

OTHER CURRENT LIABILITIES	2018	2017
Liabilities to shippers	18 011	48 214
Liabilities to credit institutions	69 472	69 655
Payroll-related liabilities	68 133	69 602
Other current liabilities	449	2 996
Total other current liabilities	156 065	190 468

Note 6. Related parties

Equinor ASA and Gassco AS have a common owner in the Ministry of Petroleum and Energy, and are thereby related parties. Gassco AS purchased goods/services worth NOK 5 160 million, including VAT, in 2018 (2017: NOK 4 545 million) related to various technical service provider (TSP) and third-party assignments. NOK 17 698 million (2017: NOK 16 391 million) was invoiced net as services sold (including tariffs) to Equinor ASA/Equinor Energy AS. The net balance with Equinor was NOK 1 670 million at 31 December 2018 (2017: NOK 1 731 million). This figure also includes tariffs invoiced on behalf of the owners of the various joint ventures which are not recorded in the Gassco AS balance sheet.

Note 7. Share capital and shareholder information

The share capital of the company at 31 December 2018 comprised the following:

	Number	Nominal value	Book value
SHARE CAPITAL	10 000	1 000	10 000 000

OWNERSHIP STRUCTURE			Shares
The Norwegian government, represented by the Ministry of Petroleum and Energy			10 000

Note 8. Equity

Amounts in NOK 1 000	Share capital	Other equity	Total equity
Equity at 1 Jan 2018	10 000	5 248	15 248

Year's change in equity:

Profit for the year		-	-
Equity at 31 December 2018	10 000	5 248	15 248

Note 9. Pension costs, funds and commitments

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

Pension arrangements for employees in Norway:

A defined contribution plan is the main pension arrangement in Norway, with premiums paid representing the pension expense for the year. Gassco AS also has closed defined benefit pension schemes for employees who would reach the age of 67 in 15 years or less from 2015. These defined benefit plans 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.

The company recorded the calculated pension commitment at 31 December 2018 in the balance sheet, with the corresponding receivable from the licensees as a counter item. Changes to the calculated pension commitment will thereby have no effect on profit.

The table below presents pension costs plus funds and commitments.

Amounts in NOK 1 000

FOR EMPLOYEES IN NORWAY	2018	2017
Present value of pension earning for the year	16 830	24 980
Interest cost of the pension commitment	9 048	6 732
Curtailment/settlement	0	0
Administration costs	118	77
Early retirement packages	0	0
Recorded implementation effect/curtailment/settlement	0	(1 655)
Recorded estimate loss/(gain)	4 850	(14 191)
Net pension expenses/(gain)	30 846	15 944
DEFINED CONTRIBUTION PLANS	15 705	14 648

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 expense, liability and funds in the scheme. As a result, the company's liability is not recorded as debt in the balance sheet.

Plan members who would reach 67 years of age in more than 15 years converted to a defined contribution pension with effect from 1 January 2016. The curtailment effect of the product change was taken in 2015. The settlement effect was realised in 2016 together with the gain/loss on curtailment. The difference between actual funds leaving the plan and the estimated figure for 2015 yielded a gain on the settlement effect.

As part of the restructuring of the company, early retirement agreements were entered into for some of the company's employees in 2016. The company charged these early retirement costs in 2016. Possible estimate variations in future years will be charged out.

Amounts in NOK 1 000

2018	Funded (collective)	Unfunded (AFP)	Other unfunded	Total
Earned pension commitments	397 159	0	270 956	668 115
Pension funds (at fair value)	(291 000)	0	0	(291 000)
Unrecorded effect of estimate variations	0	0	0	
NET PENSION COMMITMENTS	106 159	0	270 956	377 115

Amounts in NOK 1 000

2017	Funded (collective)	Unfunded (AFP)	Other unfunded	Total
Earned pension commitments	380 681	0	277 952	658 632
Pension funds (at fair value)	(275 700)	0	0	(275 700)
Unrecorded effect of estimate variations	0	0	0	0
NET PENSION COMMITMENTS	104 981	0	277 952	382 932

ECONOMIC ASSUMPTIONS	2018	2017
Discount rate on corporate bonds	2.60%	2.40%
Expected return on pension funds	2.60%	2.40%
Expected pay growth	2.75%	2.50%
Expected adjustment to current pensions	1.5% / 2.5%	1.5% / 2.25%
Expected change to National Insurance base rate (G)	2.50%	2.25%

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

Pension arrangements for employees in Belgium

Employees in Belgium have either defined benefit or defined contribution plans. Funds in these plans at 31 December 2018 satisfied local requirements.

Amounts in NOK 1 000

FOR EMPLOYEES IN BELGIUM	2018	2017
Present value of pension earning for the year	4 281	3 976
Interest cost of pension commitment	1 652	1 017
Return on pension funds	(1 312)	(448)
Administration costs	0	0
NET PENSION COST	4 622	4 544

Amounts in NOK 1 000

FUNDED	2018	2017
Earned pension commitments	111 972	94 302
Pension funds (at fair value)	(85 577)	(81 206)
NET PENSION COMMITMENT	26 395	13 096

These arrangements apply to all the company's employees in Belgium.

ECONOMIC ASSUMPTIONS	2018	2017
Discount rate	1.60%	1.60%
Expected return on pension funds	1.50%	1.60%
Expected pay growth	2.00%	2.00%
Expected adjustment to current pensions	1.80%	1.80%

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

Pension arrangements for employees in France

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

Pension arrangements for employees in the UK

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

Pension arrangements for employees in Germany

Employees in Germany have various defined benefit pension plans.

Amounts in NOK 1 000

FOR EMPLOYEES IN GERMANY	2018	2017
Present value of pension earning for the year	13 802	13 786
Interest cost of pension commitment	6 363	5 593
Recorded estimate loss/(gain)	(1 373)	20 675
NET PENSION COST	18 792	40 054

Amounts in NOK 1 000

FUNDED	2018	2017
Earned pension commitments	320 028	298 799
Pension funds (at fair value)	(211 769)	(197 044)
NET PENSION COMMITMENTS	108 259	101 755

These arrangements apply to all the company's employees in Germany.

ECONOMIC ASSUMPTIONS	2018	2017
Discount rate	2.20%	1.90%
Expected return on pension funds	0.00%	0.00%
Expected pay growth	3.30%	3.30%
Expected adjustment to current pensions	1.80%	1.80%

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

Note 10. Income taxes

Taxes for the year are as follows

Amounts in NOK 1 000	2018	2017
Tax payable	0	0
Changes in deferred tax	0	0
TAX ON ORDINARY PROFIT	0	0

Amounts in NOK 1 000

TAX PAYABLE IN THE BALANCE SHEET IS AS FOLLOWS	2018	2017
Tax payable in the balance sheet	0	0

The company received a decision from the tax authorities dated 18 May 2017 which finds the company to be exempt from tax pursuant to section 2-32, paragraph one of the Taxation Act. Tax payments made in 2012-15 were repaid in 2017.

The company has reviewed the factual position concerning its activities in 2018 and concluded that the conditions for tax exemption were also fulfilled in that year. No tax payable has therefore been calculated for 2018 nor any temporary differences/deferred tax for either 2018 or 2017.

Note 11. Bank deposits

Bank deposits and cash include NOK 11 994 088 in tied tax withholdings.

Note 12. Guarantees

The company has furnished bank guarantees in the amount of EUR 500 000 to the Belgian authorities relating to Belgian VAT and GBP 400 000 to the UK authorities related to Langed, and a statutory bank guarantee in the amount of EUR 470 000 related to ATZ pensioners in Germany.



To the General Meeting of Gassco AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gassco AS, which comprise the balance sheet as at 31 December 2018, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, and 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.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to <https://revisorforeningen.no/revisjonsberetninger>

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 proposed allocation of the result 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.

Stavanger, 28 March 2019
PricewaterhouseCoopers AS

Gunnar Slettebø
Registered Public Accountant

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