



# **CONSOLIDATED ANNUAL FINANCIAL REPORT**

**2012**

**Njord Gas Infrastructure Group  
Njord Gas Infrastructure Holding AS**

## Njord Gas Infrastructure Group

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## **Board of Director's report 2012**

We are pleased to present the 2012 annual financial report for the consolidated Njord Gas Infrastructure Group (“the Group”) and for Njord Gas Infrastructure Holding AS (“the Holding Company”).

### **About the Njord Gas Infrastructure Group**

The Group's main business is long-term investment in gas infrastructure serving the Norwegian continental shelf. The Holding Company is a Norwegian private limited liability company headquartered in Stavanger, Norway. The Group's main activities are carried out through the Norwegian subsidiary, Njord Gas Infrastructure AS.

The Holding Company is owned by UBS International Infrastructure Fund Holding Coöperatie U.A. (82%) and CDC Infrastructure SA (18%).

The Group's and Holding Company's reporting currency is Norwegian Kroner (NOK). Foreign currency transactions are translated at market rates. Comparable figures from prior year are provided in brackets.

The financial statements of the Holding Company have been prepared in compliance with the Accounting Act and accounting principles generally accepted in Norway. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

### **Business activities**

Following the completion of the acquisition of an 8.036% interest in Gassled, an unincorporated joint venture gas pipeline business (the “Joint Venture”), on 16 June 2011, 2012 represents the Group's first full year of operation as Gassled owner.

Operationally, 2012 was an excellent year for Gassled with a system deliverability as high as 99.7%. 2012 also marked a new record for gas exportation from Norway to Europe with 107.6bn m3 delivered.

On 15 January 2013, the Ministry of Petroleum and Energy ('MPE') issued a consultation paper where the MPE proposes to reduce the capital element ('K') of the Gassled tariff by 90% for a majority of the tariff areas. The proposed tariff reductions will only apply to bookings made following implementation. No changes are proposed for existing bookings. The operational expense element ('O') and the capital investment element ('I') of the tariff will under the proposal remain unchanged.

Following the end of a two month consultation period, the MPE is currently evaluating responses before deciding on the implementation of a new tariff regulation. The proposal was initially contemplated implemented by 1 May 2013. However, on 11 April 2013, the MPE informed that more time was needed to prepare a resolution and that the contemplated implementation therefore was postponed to 1 July 2013.

The Board is concerned about the implications of the proposal for the Gassled owners and the long-term development of the gas transportation infrastructure on the Norwegian continental shelf and provided its response to the consultation paper on 15 March 2013. A full version of the response letter is available at the corporate website; <http://www.njordgasinfra.no/>.

## **Njord Gas Infrastructure Group**

Significant parts of the Gassled system are already booked for several years to come and so, the potential implications of the MPE's proposal for the Group will increase over time. However, based on an analysis of the financial implications, the Group forecasts that it will generate sufficient cash to service its debt obligations without the need to raise additional capital.

### **Going concern**

In accordance with the Norwegian Accounting Act section 3-3, the Board confirms that the conditions for continued operations as a going concern are present for the Holding Company and the Group and that the annual financial statements have been prepared under this presumption.

### **Income statement and statement of financial position**

Operating revenue for the year amounted to NOK 1,886 million (NOK 1,151 million). Net operating income for the year amounted to NOK 1,113 million (NOK 715 million).

Net financial expense of NOK 363 million (NOK 291 million) mainly relates to cost associated to the Group's bonds and swaps. The Board has evaluated that mitigating the underlying economic risk relating to cash flows as being of high importance to its stakeholders and expects that by synchronizing its debt service with its revenue base, the swapped position provides an effective hedge for the Group's overall cash flow position. However, the concept of using swaps to convert the three nominal bond series into a synthetic NOK denominated inflation linked bond as further outlined in Note 8 of the financial statements, creates an accounting mismatch that in the current and previous year adversely impacts the Group's net financial results.

The Group's tax expense was NOK 799 million (NOK 459 million). The effective tax rate for the year (107%) was higher than the corporate tax rate (28%) plus the petroleum tax rate (50%) at 78% mainly due to relatively more revenue than expense qualifying for the petroleum tax element as well as depreciation of permanent differences, partly offset by the uplift.

Net loss for the year amounted to NOK 48 million (loss of NOK 35 million).

At 31 December 2012, total consolidated assets amounted to NOK 6,229 million (NOK 6,441 million), of which the investment in Gassled amounted to NOK 4,734 million (NOK 4,856 million). Cash and cash equivalents amounted to NOK 829 million (NOK 552 million).

The differences in comparable figures from 2011 relate to the acquisition of the 8.036% interest in Gassled which for accounting purposes became effective on 1 June 2011 and to related operational and financial activities.

### **Capital and financing**

Net consolidated cash flow for the year was positive NOK 277 million (positive NOK 552 million). Cash flow from operating activities amounted to NOK 606 million (NOK 415 million). Cash flow to investing activities amounted to NOK - 168 million (NOK - 4,715 million) and cash flow from financing activities amounted to NOK - 161 million (NOK 4,851 million). A detailed cash flow statement is included in the financial statements.

## **Njord Gas Infrastructure Group**

On 9 June 2011, Njord Gas Infrastructure AS issued four series of bond loans which are listed on the Oslo Stock Exchange. The bonds were issued to part finance the Gassled acquisition and mature in 2027. The various bond series comprise a NOK 300 million index linked tranche, a NOK 550 million nominal tranche, a GBP 165 million nominal tranche and a USD 265 million nominal tranche.

Through the Company's investment in Gassled, it receives an inflation adjusted revenue stream which is mainly NOK denominated. In order to synchronize its debt service to its revenue base, the Company entered into three swap arrangements to exchange its nominal debt liabilities into a NOK denominated inflation linked debt service. These swap arrangements match the structure of the bonds perfectly and are expected to provide an effective hedge of the currency and cash flow risks underlying the nominal bond series.

The bonds were initially rated 'A-' by Standard & Poor's. However, in relation to the MPE's announcement regarding the proposal to reduce the tariff, Standard & Poor's issued a research update on 21 January 2013 where the Group's bond ratings are placed on CreditWatch negative in response to the tariff review. In the ratings review, Standard and Poor's state:

- *"The proposal is subject to consultation and therefore not final, but if approved, the tariff reductions would lead to a substantial fall in revenues for Norway-based asset company Njord Gas Infrastructure AS (NGI) for the period beyond 2022. We are therefore placing on CreditWatch negative the long-term issue ratings on the bonds issued by NGI. If enacted as proposed, the tariff reductions could lead to downgrades of more than one notch. We aim to resolve the CreditWatch placement following finalization of the tariff structure by the MPE."*

In April and November 2012, the Holding Company made partial repayments for a total of NOK 105 million on a NOK nominated shareholder loan. At balance sheet date, shareholder loans including accrued interest of NOK 157 million remain outstanding.

### **Risk management and internal control**

The Board of Directors shall ensure that the Group has good internal control functions and appropriate systems for risk management tailored to its operations and in accordance with the Group's core values, ethical guidelines and social responsibility policy. A review of the Group's most important risk areas and its internal control functions is conducted by the Board at minimum on an annual basis.

The Board has established three sub-committees to assist the Board to meet its responsibilities in relation to specific areas:

#### *Health, Safety & Environment Committee ('HSEC')*

The HSEC reviews the Group's HSE performance and the effectiveness of the health safety policy and environment policy in order to assist the Board to meet its oversight responsibilities in relation to the Group's health, safety and environment performance.

#### *Audit & Risk Committee ('AC')*

The AC reviews the effectiveness of the Group's financial reporting and internal control policies and its procedures for the identification, assessment, reporting and management of risks in order to assist the Board to meet its oversight responsibilities in relation to the Group's financial reporting, internal control, risk management and legal and regulatory compliance.

## **Njord Gas Infrastructure Group**

The auditor meets with the AC without any employees in the Group being present at least once each year.

### *Human Resources & Compensation Committee ('HRC')*

The HRC reviews the Group's remuneration policies and practices and oversees the organizational development and practices in order to assist the Board in ensuring the establishment of human resources and compensation policies and practices which is fair, responsible and create value for the owners.

### **Risks**

The Group's activities expose it to a variety of financial risks, including market risks, credit risks and liquidity risks. The Group's risk management program includes focusing on the unpredictability of financial markets and seeks to minimize potential adverse effects of such risks on its financial performance. The Group will therefore continue to manage its currency and cash flow exposures through certain derivative financial instruments for its long term exposures in accordance with market practice and to maintain flexibility in its liquidity base by keeping committed credit lines available.

The Group was established in 2010 and has a limited operating history. The acquisition of the ownership share in Gassled was completed in June 2011. Most of the Gassled assets are mature assets with a long operation history and stable management by Gassco. However, no assurance can be given that this trend will continue or that future results will correspond to the previous performance of the Gassled assets. Although the Group has taken out insurances against certain risks and losses, not all operating risks are insurable and the coverage is subject to exclusions and limitations. The occurrence of any events that affect Gassled operations and are not fully covered by insurance could have a material adverse effect of the Group's financial condition.

The Group has no significant assets except for those relating to the ownership share in Gassled. The operations, licenses and tariff system of Gassled are regulated by the MPE. The tariff regulations are designed to cover actual operating costs and capital costs for the facilities as well as a reasonable return on capital invested. As further outlined in the 'Business activities' section in this report, the MPE has issued a proposal to reduce the tariff, and no guarantee can therefore be given that the framework and/or the tariff basis will remain unchanged. A significant decrease in future bookings and/or an adverse change to the regulatory system under which Gassled operates may significantly reduce the Group's future cash flows.

While the regulatory framework seeks to preserve the income of each Gassled participant in the event that it does not invest in additions of new gas transport assets into Gassled, there can be no assurance that such additions will not affect the Group's income. The Group may require additional capital in the future due to unforeseen events, for participation in expansion projects to the Gassled pipeline system and/or other business opportunities that may be presented to it.

The clients of the Joint Venture are generally oil companies with a strong financial basis, but – as with suppliers and customers in general – there is always a risk that unforeseen financial difficulties or contractual disagreements may arise which could have adverse effects on the financial condition of the Group.

## Njord Gas Infrastructure Group

### Health, safety and environment

At the date of this report, the Group has six employees. No serious work incidents or accidents resulting in personal injuries or damages to materials or equipment occurred in 2012.

Sick leave was 0.8% during the year and the working environment is considered good. The Board and the management continue to focus on equal positions and opportunities for men and women among its employees and Board members. 2/3 of the employees are women. At present there are no female members of the Board of Directors.

### External environment

The Group together with its Joint Venture partners works actively on measures that can reduce any negative impact on the environment.

### Annual results and year-end appropriations

The Board proposes the following appropriation of the annual loss of NOK 240,544 in the Holding Company:

Loss transferred from other equity:	NOK 240,544
Total appropriation:	NOK 240,544

At balance sheet date, the Holding Company had total equity of NOK 914,060,621 of which NOK 456,617,530 were unrestricted. The Board will propose a dividend payment of NOK 88,305,767 for the ordinary general meeting to take place in May 2013.

Stavanger, 25 April 2013

The Board of Directors of Njord Gas Infrastructure Holding AS



Tore I. Sandvold  
**Chairman**



Paul J. Moy  
**Director**



Gautier M. J. F Chatelus  
**Director**



Mark A. Gilligan  
**Director**



Dan Jarle Flølo  
**CEO**

## Njord Gas Infrastructure Group

### Consolidated income statement

<i>NOK thousands</i>	Note	Year ended 31 December 2012	Year ended 31 December 2011
Transportation and processing revenue	5	1,886,018	1,150,762
<i>Operating expense</i>			
Transportation and processing expense		-462,548	-256,298
Depreciation	10	-290,440	-164,507
Employee benefit expense	6	-9,012	-2,176
Other operating expense	7	-10,767	-12,349
<b>Total operating expense</b>		<b>-772,768</b>	<b>-435,331</b>
<b>Net operating income/(loss)</b>		<b>1,113,250</b>	<b>715,431</b>
<b>Net financial income/(expense)</b>	8	<b>-362,530</b>	<b>-291,245</b>
<b>Net income/(loss) before taxes</b>		<b>750,720</b>	<b>424,186</b>
Income tax (expense)/credit	9	-799,153	-459,112
<b>Net income/(loss) for the period</b>		<b>-48,433</b>	<b>-34,926</b>

### Consolidated statement of comprehensive income

<i>NOK thousands</i>	Year ended 31 December 2012	Year ended 31 December 2011
Net income/(loss) for the period	-48,433	-34,926
<b>Total comprehensive income/(loss)</b>	<b>-48,433</b>	<b>-34,926</b>

# Njord Gas Infrastructure Group

## Consolidated statement of financial position

<i>NOK thousands</i>	Note	As at 31 December 2012	As at 31 December 2011
<b>Assets</b>			
<i>Non-current assets</i>			
Gas transportation and processing facilities	10	4,611,579	4,718,391
Buildings	10	121,839	124,939
Construction in progress	10	0	12,630
Other fixtures & equipment	10	346	368
Asset retirement reimbursement	11	124,997	368,175
Other financial assets	12	205,436	393,127
<b>Total non-current assets</b>		<b>5,064,196</b>	<b>5,617,629</b>
<i>Current assets</i>			
Asset retirement reimbursement, current portion	11	71,576	30,450
Trade and other receivables	13	264,191	240,648
Cash and cash equivalents	14	828,853	551,724
<b>Total current assets</b>		<b>1,164,620</b>	<b>822,823</b>
<b>Total assets</b>		<b>6,228,816</b>	<b>6,440,452</b>
<b>Equity and liabilities</b>			
<i>Equity</i>			
Share capital	15	457,263	914,525
Other paid in capital		457,263	0
Retained earnings		-85,416	-36,983
<b>Total equity</b>		<b>829,109</b>	<b>877,542</b>
<i>Liabilities</i>			
<i>Non-current liabilities</i>			
Deferred tax liabilities	9	207,320	103,987
Shareholder loans	16/18	156,692	259,531
Bond loans	16/18	4,050,858	4,131,394
Asset retirement obligation	11	126,835	369,858
<b>Total non-current liabilities</b>		<b>4,541,705</b>	<b>4,864,769</b>
<i>Current liabilities</i>			
Asset retirement obligation, current portion	11	71,576	30,450
Current taxes	9	423,414	298,707
Other financial liabilities	12	65,351	43,212
Bond loans	16/18	192,941	207,260
Trade and other payables	17	104,720	118,512
<b>Total current liabilities</b>		<b>858,002</b>	<b>698,141</b>
<b>Total liabilities</b>		<b>5,399,707</b>	<b>5,562,910</b>
<b>Total equity and liabilities</b>		<b>6,228,816</b>	<b>6,440,452</b>

Stavanger, 31 December 2012/25 April 2013

The Board of Directors of Njord Gas Infrastructure Holding AS



Tore I. Sandvold  
Chairman



Paul J. Moy  
Director



Gautier M. J. F Chatelus  
Director



Dan Jarle Flølo  
CEO



Mark A. Gilligan  
Director

## Njord Gas Infrastructure Group

### Consolidated statement of changes in equity

<i>NOK thousands</i>	<b>Nominal share capital</b>	<b>Other paid in capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
Total equity as at 1 January 2011	100	0	-2,057	-1,957
Total comprehensive income/(loss) for the year	0	0	-34,926	-34,926
Increase in share capital (1)	914,425	0	0	914,425
<b>Total equity as at 31 December 2011</b>	<b>914,525</b>	<b>0</b>	<b>-36,983</b>	<b>877,542</b>

(1) Proceeds of NOK 15,130 thousands was received in 2010 for share capital not registered until 2011.

<i>NOK thousands</i>	<b>Nominal share capital</b>	<b>Other paid in capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
Total equity as at 1 January 2012	914,525	0	-36,983	877,542
Total comprehensive income/(loss) for the year	0	0	-48,433	-48,433
Reduction of share capital	-457,263	457,263	0	0
<b>Total equity as at 31 December 2012</b>	<b>457,263</b>	<b>457,263</b>	<b>-85,416</b>	<b>829,109</b>

## Njord Gas Infrastructure Group

### Consolidated statement of cash flow

<i>NOK thousands</i>	Note	Year ended 31 December 2012	Year ended 31 December 2011
<b><i>Cash flows from operating activities</i></b>			
Net income/(loss) before taxes		750,720	424,186
Depreciation	10	290,440	164,507
Interest expenses and finance expenses not paid		5,168	0
Foreign exchange and other gains and losses		168,307	296,359
Changes in trade and other receivables	13	(23,543)	(299,685)
Changes in trade and other payables	17	(13,636)	166,711
Changes in other long term receivables		(0)	1,683
Tax payments	9	(571,113)	(338,510)
<b>Net cash flow used in operating activities</b>		<b>606,342</b>	<b>415,251</b>
<b><i>Cash flows from investing activities</i></b>			
Investment costs - acquisition of joint venture	4/10	0	(4,639,170)
Investment in property plant and equipment	10	(167,876)	(75,751)
<b>Net cash flow used in investing activities</b>		<b>(167,876)</b>	<b>(4,714,920)</b>
<b><i>Cash flows from financing activities</i></b>			
Proceeds from increase in capital	15	0	899,295
Proceeds from issue of bond loans, net of issue costs	16/18	0	3,712,504
Proceeds from issue of shareholder loans	16/18	0	1,196,461
Repayment of shareholder loans	16/18	(105,335)	(957,054)
Repayment of bond loans	16/18	(4,424)	0
Repayment of principal on swap contracts	12/18	(51,579)	0
<b>Net cash flow used in financing activities</b>		<b>(161,338)</b>	<b>4,851,206</b>
<b>Net change in cash and cash equivalents</b>		<b>277,128</b>	<b>551,537</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>551,724</b>	<b>187</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>14</b>	<b>828,853</b>	<b>551,724</b>
Interest paid		(203,153)	(74,739)

## **Notes to the consolidated accounts**

### **Note 1 - General information**

Njord Gas Infrastructure Holding AS (the “Holding Company”), which is the parent company in the Njord Gas Infrastructure Group (the “Group”), is a limited liability company incorporated and domiciled in Norway, with its main office in Stavanger. The Group, through its wholly-owned subsidiary Njord Gas Infrastructure AS, holds an 8.036% interest in Gassled, which owns the Norwegian gas transport infrastructure.

The Group’s presentation currency is Norwegian Kroner (“NOK”). All amounts in the financial statements are provided in NOK thousands unless stated otherwise.

The financial statements were authorized for issue by the Board of Directors on 25 April 2013.

### **Note 2 - Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### ***2.1 Basis for preparation***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements following the Norwegian Accounting Act.

The consolidated financial statements have been prepared on a historical cost basis with some exceptions, as detailed in the accounting policies set out below.

#### ***2.2 Basis of consolidation***

The consolidated financial statements comprise the financial statements of Njord Gas Infrastructure Holding AS and entities controlled by the Group (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed are included in the consolidated financial statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The financial statements of subsidiaries are prepared for the same reporting period using consistent accounting policies as those of the Group. All intercompany balances and transactions have been eliminated upon consolidation.

#### ***2.3 Investments in joint ventures***

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. The Gassled joint venture (the “Joint Venture”) is not a separate legal entity. However, the ownership of the integrated set of assets and liabilities is regulated by a contractual agreement giving the Group the rights to its share of the respective assets and liabilities.

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The Group has accounted for the investment in Gassled as an asset acquisition based on the “joint control” concept under IAS 31. The Group’s view is that no individual partner can be considered to control the assets.

Interests in jointly controlled assets are recognized by including the Group’s share of assets liabilities, income and expense on a line-by-line basis. At balance sheet date, the interest in the Joint Venture is included in the following lines in the statement of financial position; gas transportation and processing facilities, buildings, construction in progress and other fixtures & equipment, in addition to working capital assets and liabilities.

### ***2.4 Foreign currency***

The functional currency of the Holding Company and its subsidiary is NOK. Monetary assets and liabilities denominated in other currencies are translated at exchange rates prevailing at balance sheet date. Foreign currency revenues and expenses are translated at exchange rates prevailing at transaction date. Realized and unrealized gains and losses resulting from foreign exchange are recognized in the income statement as incurred.

### ***2.5 Property, plant and equipment***

Property, plant and equipment are stated at historic cost less accumulated depreciation and any impairment loss.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property, plant and equipment are depreciated on a straight-line basis over expected useful life. If individual parts of property, plant and equipment have different useful lives, they are accounted for and depreciated separately.

### ***2.6 Impairment of tangible assets***

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether any indication of impairment exists. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been

## **Njord Gas Infrastructure Group**

determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the income statement.

### ***2.7 Asset retirement obligation***

Provisions for asset retirement obligations are recognized when the Group has an obligation (legal or constructive) to dismantle and remove gas transportation and processing facilities. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

In accordance with underlying agreements, the majority of the future asset retirement costs will be reimbursed from the companies utilizing the gas transportation system for transportation of gas (the 'Shippers'). To the extent that an asset retirement obligation recognized in the balance sheet may be reclaimed by the Shippers, it will therefore result in a corresponding receivable from the Shippers. Any part of the provision for asset retirement obligations that are to be borne by the Group is capitalized as a part of the asset cost and depreciated over the assets expected useful life.

The liability and the corresponding receivable are accreted for the change in its present value each reporting period. Accretion expense and income related to the time value of money are classified as part of financial expense and are presented net in the income statement.

The provision and the discount rate are reviewed at each reporting period.

### ***2.8 Financial instruments at fair value through profit or loss***

#### ***Derivatives***

Derivative instruments are classified as financial assets or liabilities at Fair Value Through Profit or Loss ("FVTPL"). The carrying value of derivative instruments at FVTPL represents the instrument's fair market value. Any gains or losses arising on re-measurement recognized in the income statement as incurred.

The net gain or loss recognized in profit or loss incorporates transaction cost and interest expense incurred on the financial liability.

### ***2.9 Financial assets***

Short term receivables are initially recognized at fair value plus any transaction costs. The receivables are subsequently carried at amortized cost using the effective interest method (if the amortization effect is material). The carrying amount of the asset is reduced by any impairment losses.

### ***2.10 Financial liabilities***

Financial liabilities, other than those recognized at FVTPL, are initially recognized at fair value less direct transaction costs. Subsequent to initial recognition, interest-bearing liabilities are measured at amortized cost with any difference between cost and redemption being recognized in the statement of income over the expected duration of the loan.

### ***2.11 Cash and cash equivalents***

Cash and cash equivalents include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

## **Njord Gas Infrastructure Group**

### ***2.12 Revenue***

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from gas transportation and gas processing is recognized as earned in line with underlying agreements.

### ***2.13 Taxes***

Income taxes for the period comprise tax payable and changes in deferred tax. The tax rates and tax laws used to compute tax are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are calculated on the basis of existing temporary differences between the carrying amounts of assets and liabilities in the financial statement and their tax bases, together with tax losses carried forward at balance sheet date. Deferred tax assets and liabilities are calculated based on the tax rates and tax legislation that are expected to exist when the assets are realized or the liabilities are settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

### ***2.14 Segment reporting***

The Group only operates within one business segment and therefore does not report segment information.

### ***2.15 Cost of equity transactions***

Transaction costs directly linked to an equity transaction are recognized directly in equity, net after tax.

### ***2.16 Cash flow statement***

The cash flow statement is prepared by using the indirect method.

### ***2.17 Equity***

#### ***Fund for unrealized gains***

The Group recognizes its nominal bonds at fair value using the fair value option based on the “accounting mismatch” criterion in IAS 39.9. The nominal bonds and the corresponding swap contracts are considered as a group of assets or liabilities for the purpose of recognition of unrealized gains in the fund for unrealized gains. Any applicable unrealized gains on the bonds are therefore recognized in the fund for unrealized gains net of the unrealized losses on the related derivatives and vice versa.

### ***2.18 New and amended standards and interpretations***

Amendments to standards effective for the accounting periods starting 1 January 2012 did not have any impact on the Group’s financial statement.

### ***IFRS and IFRIC issued but not adopted by the Group***

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group are listed below.

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It is assessed that none of the standards, amendments and interpretation to existing standards will have material impact on the financial statements as they currently are presented, however they may have impact in the future.

### ***IAS 1 Financial statement presentation – Presentation of items of other comprehensive income (amendment)***

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment may affect presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

### ***IAS 19 Employee benefits (amendment)***

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

### ***IAS 27 Separate financial statements (as revised in 2011)***

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2014 (IASB effective date is 1 January 2013).

### ***IAS 28 Investments in associates and joint ventures (as revised in 2011)***

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2014 (IASB effective date is 1 January 2013).

### ***IAS 32 - Amendment: offsetting financial assets and financial liabilities***

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement. The amendment becomes effective for annual periods beginning on or after 1 January 2014.

### ***IFRS 7 Financial instruments - amendment: New disclosure requirements - Offsetting of financial assets and financial liabilities***

The IASB has introduced new disclosure requirements regarding the effect of netting arrangements. The amendment becomes effective for annual periods beginning on or after 1 July 2013.

### ***IFRS 9 Financial instruments: Classification and measurement***

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. According to IASB the standard is effective for annual periods beginning on or after 1 January 2015. EU has not yet decided on effective date. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the Group's financial assets and financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### ***IFRS 10 Consolidated financial statements***

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2014. (IASB effective date is 1 January 2013). In October 2012 IFRS 10 was amended to provide a consolidation exception for investment entities, however, this does not affect the Group.

### ***IFRS 11 Joint arrangements***

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Currently it is assessed that the application of this new standard not will impact the financial position of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2014 (IASB effective date is 1 January 2013).

### ***IFRS 12 Disclosure of interest in other entities***

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2014. (IASB effective date is 1 January 2013).

### ***IFRS 13 Fair value measurement***

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

### ***“Annual improvements May 2012”***

Annual Improvements issued in May 2012 includes several changes effective from 1 January 2013. It is currently assessed that these amendments does not affect the financial statements of the Group.

**Note 3 – Accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under current circumstances.

*i. Critical accounting estimates and assumptions*

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

*Income taxes*

The Group is mainly subject to income taxes under the Norwegian Petroleum Tax jurisdiction. Judgment is required in determining the provision for income taxes. During the ordinary course of business, transactions and calculations occur for which the ultimate tax effect is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The accounting of deferred income tax asset relies upon management's judgment of the Group's ability to generate future positive taxable income in the respective jurisdiction.

*Removal cost*

Estimating the costs of decommissioning/removal activities are challenging and relevant risks and uncertainties as well as potential changes to technology and regulations need to be considered. Most of the removal activities are expected to take place many years into the future and removal technology and cost are constantly changing. The estimates include assumptions of probability that the Group will be required to remove various assets, required duration and rates for rigs, marine operations and heavy lift vessels that can vary considerably depending on the assumed removal complexity. As a result, estimating decommissioning obligations involves significant judgment.

The Group has based its estimated cost on indicated cost expectations prepared by the operator of Gassled. The discount rate is based on market quoted swap rates for each currency group and additionally includes an estimate for inflation and a risk premium. The estimates for inflation are based on management's best estimate. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the provisions in the period in which such determination is made. The obligations are reclaimable from the Shippers (ref. Note 2.7), and any potential changes to the provisions will therefore not impact the income statement.

*Fair value of bond loans and derivative financial instruments*

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses FVTPL to account for its nominal bond loan series and related swap instruments. Due to the terms and structure of the derivatives and the bond loan, the measurement of fair value is complex, and requires substantial judgment.

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The Group calculates the fair value of its FVTPL financial instruments by applying conventional bond and swap valuation techniques based on market quoted swap rates and management's best estimate of market expectations for future inflation. Changes in the combined fair values of the bonds and swaps are mainly impacted by changes in Norwegian interest rate and changes in expectations for future Norwegian consumer price inflation ("CPI"). The fair value of the nominal bond loan series may additionally be impacted by changes to assumed credit risk. For 2011 and 2012, none of the fair value loss on the bond is attributable to changes in credit risk. The estimated loss position of the swaps at inception is recognized as a financial asset which amortize linearly until maturity date.

### *ii. Critical judgments in applying the Group's policies*

Assumptions applied for the purpose of estimating the fair value of the Group's nominal bond loan series and related swaps include expectations for future Norwegian interest rate and future CPI. For the swapped position of the Group, an increase in Norwegian interest rates will have a favorable impact on the Group's income statement and vice versa. An increase in CPI will have an adverse impact on the Group's income statement and vice versa. For example:

*If expectations for future Norwegian interest rates (all other variables kept constant) at 31 December 2012 had been:*

- 50bps higher, then profit before tax would have been NOK 148.0 million higher
- 50bps lower, then profit before tax would have been NOK 155.7 million lower

Management's estimate of CPI as applied in relation to these financial statements is 1.75%. *If expectations for future CPI (all other variables kept constant) at 31 December 2012 had been:*

- 25bps higher, then profit before tax would have been NOK 71.4 million lower
- 25bps lower, then profit before tax would have been NOK 70.0 million higher
- 50bps higher, then profit before tax would have been NOK 144.2 million higher
- 50bps lower, then profit before tax would have been NOK 138.7 million lower

## **Note 4 – Acquisition of interest in Gassled**

On 16 June 2011, the Group completed its acquisition of an 8.036% interest in Gassled, the Norwegian offshore gas transmission system, from ExxonMobil and Production Norway AS.

As further described in the accounting principles, it is assessed that this transaction does not represent a business combination, and it is therefore treated as an asset purchase. The consideration and transaction costs have consequently been allocated between identifiable assets acquired and liabilities incurred.

Assets and liabilities recognized at acquisition comprise i) gas transportation and processing facilities, ii) buildings, iii) other fixtures & equipment, iv) construction in progress as well as working capital interests.

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### Note 5 – Segment information

The Group operates within one business segment; namely its investment in gas the transportation infrastructure connected to the North Sea. The Group does therefore not separate its activities into different operating or geographical segments.

#### *Specification of major customers*

Approximately 71% (73%) of the Group's revenue was from a national oil company with investment grade credit rating. Estimated total revenue attributable to this customer during the year was NOK 1.3 billion (NOK 0.8 billion).

### Note 6 – Employee benefit expense

#### *Specification of employee benefit expense*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Payroll expense	7,381	1,716
Social security tax	1,103	246
Pensions	303	153
Other personnel expense	225	61
<b>Total employee benefit expense</b>	<b>9,012</b>	<b>2,176</b>
Total number of man-years (rounded)	6	1

#### *Pensions*

The Group has a defined contribution pension plan for its employees, which satisfies the statutory requirements in the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon").

See information in Note 19 "Related parties" regarding remuneration of key management.

### Note 7 – Other operating expense

#### *Specification of other operating expense*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Legal fees	1,845	1,010
Other consulting fees and temporary staff <sup>1)</sup>	6,254	8,723
Lease expenses and other office costs	675	540
IT expense	195	366
Recruiting costs	59	996
Other operating expense	1,739	713
<b>Total operating expense</b>	<b>10,767</b>	<b>12,349</b>

(1) See Note 19 "Related parties" disclosure

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### *Specification of auditor's fees*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Statutory audit	413	244
Other assurance services	0	14
Tax advisory services	649	0
Other advisory services	116	47
<b>Total auditor's fees (incl. VAT)</b>	<b>1,177</b>	<b>306</b>

### **Note 8 – Finance income and expense**

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Interest income	16,250	7,572
Net gain on derivative instruments (swaps)	0	356,489
Net currency translation effects	0	373
<b>Total finance income</b>	<b>16,250</b>	<b>364,434</b>
Interest expense	27,051	32,109
Net loss on derivative instruments (swaps)	241,049	0
Amortization of day 1 loss	11,450	6,679
Fair value loss on bond loans at FVTPL	97,079	589,309
Other financial expenses	1,827	27,581
Net currency translation effects	325	0
<b>Total finance expense</b>	<b>378,780</b>	<b>655,678</b>
<b>Net financial income/(expense)</b>	<b>-362,530</b>	<b>-291,245</b>

The majority of the Group's revenues are NOK denominated and subject to annual inflation adjustments. In order to synchronize its debt exposure to its cash flows from operations (ref. Note 18), the Group has entered into three series of swap arrangements (ref. Note 12). Each series of swaps replicate perfectly the three nominal bond series so that the Group effectively has swapped all of its nominal bond positions into a NOK denominated inflation linked position.

The management expects that the concept of converting the three nominal bond series into a synthetic NOK denominated inflation linked position provides an effective hedging of the Group's overall cash flow position. However, the synthetic position creates an accounting exposure/mismatch that is distinct and separate from the underlying economic exposure of the Group and that would not arise for a conventional NOK denominated inflation linked bond position recognized at amortized cost.

Market expectations for swap rates reduced following inception in 2011 and in 2012 which causes a net adverse impact on the Group's financial statements, although it does not reflect the underlying exposure of the Group's operations overall. This is due to the 'Fair Value Through Profit and Loss' approach ('FVTPL') applied for the recognition of the bonds and swaps which requires the Group to value the financial instruments marked-to-market. The full unrealized change in fair value of the financial instruments is recognized in the income statement immediately. In reality however, those exposures are matched against the operating cash flows which will be recognized in the income statement as incurred.

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### Note 9 – Tax

#### Income taxes recognized in the income statement

<i>NOK thousands</i>	2012	2011
Tax payable	738,642	355,125
Tax payable, adjustment previous years	-42,821	0
Change in deferred tax	103,333	103,987
<b>Total income tax expense recognized in the income statement</b>	<b>799,153</b>	<b>459,112</b>

#### Reconciliation of income tax

<i>NOK thousands</i>	2012	2011
<b>Profit/(loss) before income tax</b>	<b>750,720</b>	<b>424,187</b>
Expected income tax at nominal tax rate (28%)	210,202	118,772
Expected petroleum tax (50%)	375,360	212,094
Permanent differences (1)	113,637	55,899
Financial items	173,428	130,457
Onshore items	-45,457	-37,356
Uplift	-21,972	-19,897
Change in valuation allowance and changes related to prior years	-6,043	-856
<b>Total income tax expense recognized in the income statement</b>	<b>799,153</b>	<b>459,112</b>
<b>Effective income tax rate</b>	<b>106.5 %</b>	<b>108.2 %</b>

(1) Permanent differences mainly relate to depreciation of property, plant and equipment recognized at acquisition of interest in Gassled (section 10 resolution).

#### Specification of tax effects on temporary differences, tax losses and uplift carried forward

<i>NOK thousands</i>	2012	2011
Property, plant and equipment	301,697	137,554
Loans and swap contracts	-77,253	-24,597
Asset retirement obligation	-1,434	-1,313
Tax losses carried forward	-15,691	-7,657
Total deferred tax liabilities/(assets)	207,320	103,987
Valuation allowance for deferred tax assets	0	0
<b>Total deferred tax liabilities/(assets) recognized</b>	<b>207,320</b>	<b>103,987</b>

Deferred tax is calculated based on tax rates applicable at balance sheet date. Ordinary income tax is 28%, to which is added a special petroleum tax for oil and gas companies at the rate of 50%, giving a total tax rate of 78%.

#### Tax payable

<i>NOK thousands</i>	2012	2011
Tax payable recognized on acquisitions in 2011 (1)	0	282,092
Tax payable recognized in the income statement in 2011	0	355,125
Tax paid in 2011	0	-338,510
Tax payable for year 2012	738,642	0
Tax paid for year 2012	-341,120	0
Tax payable, adjustment previous years not yet assessed	25,892	0
<b>Total tax payable</b>	<b>423,414</b>	<b>298,707</b>

(1) The tax payable recognized on acquisition relates to the activity from the investment in Gassled in the period 1 January - 31 May 2011. The effective date for tax purposes for the investment was 1 January 2011, while the transaction date for accounting purposes was 1 June 2011.

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### Note 10 – Property, plant and equipment

<i>NOK thousands</i>	Gas transportation and processing facilities	Buildings	Construction in progress	Other fixtures & equipment	Total
<b>Cost</b>					
<b>Cost at 1 January 2011 (1)</b>	<b>14,138</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,138</b>
Additions through acquisition	4,797,445	124,758	8,743	0	<b>4,930,946</b>
Additions since acquisition	67,103	4,388	3,887	373	<b>75,751</b>
Disposals	0	0	0	0	<b>0</b>
<b>Cost at 31 December 2011</b>	<b>4,878,685</b>	<b>129,146</b>	<b>12,630</b>	<b>373</b>	<b>5,020,835</b>
Additions	163,490	4,387	0	0	<b>167,877</b>
Transferred from construction in progress	12,630		(12,630)	0	<b>0</b>
Disposals	0	0	0	0	<b>0</b>
<b>Cost at 31 December 2012</b>	<b>5,054,805</b>	<b>133,533</b>	<b>0</b>	<b>373</b>	<b>5,188,712</b>
<i>(1) In 2010, incurred acquisition related costs were capitalized pending the completion of the acquisition.</i>					
<b>Depreciation and impairment</b>					
<b>Accumulated at 1 January 2011</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Depreciation for the year	(160,295)	(4,207)	0	(6)	<b>(164,507)</b>
Impairment	0	0	0	0	<b>0</b>
Disposals	0	0	0	0	<b>0</b>
<b>Accumulated at 31 December 2011</b>	<b>(160,295)</b>	<b>(4,207)</b>	<b>0</b>	<b>(6)</b>	<b>(164,507)</b>
Depreciation for the year	(282,932)	(7,486)	0	(22)	<b>(290,440)</b>
Impairment	0	0	0	0	<b>0</b>
Disposals	0	0	0	0	<b>0</b>
<b>Accumulated at 31 December 2012</b>	<b>(443,226)</b>	<b>(11,693)</b>	<b>0</b>	<b>(28)</b>	<b>(454,947)</b>
Carrying amount at 31 December 2011	4,718,391	124,939	12,630	368	4,856,328
<b>Carrying amount at 31 December 2012</b>	<b>4,611,579</b>	<b>121,839</b>	<b>0</b>	<b>346</b>	<b>4,733,764</b>

<b>Depreciation plan</b>	Linear	Linear	Linear	Linear
<b>Estimated useful life (years)</b>	17.6 (1)	17.6 (1)	17.6 (1)	17.6 (1)

*(1) Depreciation over 17.6 years corresponds to the period from the acquisition of the interest in Gassled to the end of the current license period. Additions in 2012 is depreciated over 16.5 years.*

#### **Planned investments**

The figures in the table below are based on the Group's share of the investments in the four year plan of the Joint Venture. The amounts are based on estimated cost and time for non-discretionary projects and do not necessarily represent committed liabilities.

<i>NOK thousands</i>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Investments	134,282	185,230	143,041	11,572

**Note 11 – Assets retirement obligation and reimbursement**

Provisions have been made for estimated costs for abandonment of gas transportation assets and processing facilities. However, in line with underlying agreements, the majority of these expected future expenses are reimbursable by the users of the system; the Shippers. This is reflected in the financial statements by the recognized asset retirement reimbursement that corresponds to the recognized liabilities (to the extent applicable).

The majority of the recognized asset retirement obligations and reimbursements is expected to incur over the next 4 years. The current license period expires in 2028. However, the outlook for continued production of Norwegian gas far beyond 2028 is considered highly probable. Following a detailed review during 2012, the Group therefore allocates a low probability that it will become liable for the cost of abandonment upon depletion of Norwegian gas on the continental shelf under the existing license.

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Asset retirement reimbursement, non-current portion	124,997	368,175
Asset retirement reimbursement, current portion	71,576	30,450
<b>Total asset retirement reimbursement</b>	<b>196,573</b>	<b>398,625</b>

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Asset retirement obligation, non-current portion	124,997	368,175
Asset retirement obligation, non-reimbursable non-current portion (1)	1,838	1,683
<b>Total non-current asset retirement obligation</b>	<b>126,835</b>	<b>369,858</b>
Asset retirement obligation, current portion	71,576	30,450
<b>Total provision</b>	<b>198,411</b>	<b>400,308</b>

(1) The non-reimbursable portion of the provision is recognized as an asset cost (ref. Note 10)

**Changes in provision**

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Balance at 1 January	400,308	0
Additional provisions recognised	0	400,308
Change in provision - reimbursable (1)	-202,052	0
Change in provision - non-reimbursable	-44	0
Unwinding of discount - non-reimbursable	199	0
<b>Balance at 31 December</b>	<b>198,411</b>	<b>400,308</b>

(1) As described above, changes in provision for reimbursable obligations are recognised as an adjustment to the asset retirement reimbursement.

**Note 12 – Other financial assets and liabilities**

As described in Note 8, the Group has entered into a series of swap arrangements that are matched perfectly to each nominal bond tranche (timing, payment structure, maturity) so that the Group effectively has exchanged its economic exposure to local currency denominated nominal debt service for NOK denominated inflation linked debt service. The following tables summarize the contracts and the carrying amounts:

***Summary of contracts***

<b>Bond loan/swap contracts</b>	<b>Group pays to swap providers</b>	<b>Group receives from swap providers</b>	<b>Maturity</b>
USD 265m nominal	NOK inflation linked interest and principal	USD nominal interest and principal	30 Sept. 2027
GBP 165m nominal	NOK inflation linked interest and principal	GBP nominal interest and principal	30 Sept. 2027
NOK 550m nominal	NOK inflation linked interest and principal	NOK nominal interest and principal	30 Sept. 2027

***Carrying amounts***

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Fair value on derivative financial instruments	-27,843	170,537
Loss on derivative instruments at inception	167,928	179,377
Less current portion (a net liability)	65,351	43,212
<b>Other financial assets</b>	<b>205,436</b>	<b>393,127</b>

***The purposes of the swap arrangements***

***1) Reduce bond currency risk***

After taking into account the swaps, the Group is only exposed to debt service in NOK so that its debt service obligations are not impacted by movements in USD and GBP versus NOK.

***2) Match debt service with the NOK inflation linked cash flows of Gassled***

Through the Group's investment in Gassled, it receives an inflation adjusted revenue stream that is mainly NOK denominated. By entering into the swap arrangements, the Group has effectively exchanged its nominal bond debt liabilities (NOK nominal bond loan, USD nominal bond loan, GBP nominal bond loan) for NOK denominated inflation linked debt service to match the underlying inflation linked NOK denominated cash from operations.

***Loss of derivative instruments at inception***

The fair value of the swap contracts has been calculated by valuation techniques that incorporate all factors that market participants would consider in setting a price. At initial recognition the best estimate of a fair value gave rise to a loss at inception of NOK 186,056 thousands. Consistent with IAS 39, this loss was not recognized in the income statement at initial recognition. The loss at inception was capitalized, and will be reflected in the income statement on a linear basis over the duration of the swaps. The remaining balance of the loss recognized at inception was NOK 167,928 thousands (NOK 179,377 thousands) at balance sheet date.

The loss reflects credit charges from the swap counterparties and a limited market for such transactions.

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### Note 13 – Trade and other receivables

#### *Specification of trade and other receivables*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Trade receivables	0	168,750
Accrued income	164,265	0
Working capital, Joint Venture	72,264	47,973
Prepaid expenses	25,537	23,925
Other short term receivables	2,125	0
<b>Trade and other receivables</b>	<b>264,191</b>	<b>240,648</b>

#### *Trade receivables*

All of the Group's trade receivables in 2012 and 2011 were receivable from solid oil and gas companies. No allowance for doubtful debts has been made, and no loss has been recognized during 2012 or 2011. Trade receivables are non-interest bearing.

#### *Age of trade receivables*

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>&lt;30 days</b>	<b>30-60 days</b>	<b>61-90 days</b>	<b>&gt; 90 days</b>
<b>2012</b>	0	0	0	0	0	0
<b>2011</b>	168,750	168,750	0	0	0	0

### Note 14 – Cash and cash equivalents

#### *Specification of cash and cash equivalents*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Bank deposits - NOK	827,468	551,553
Bank deposits - USD	2	2
Bank deposits - EUR	1,369	163
Bank deposits - GBP	13	6
<b>Cash and cash equivalents</b>	<b>828,853</b>	<b>551,724</b>

#### *Restricted cash included in the above*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Customary withholding tax in relation to employee benefits	728	211
Debt service requirements	197,579	198,803

All cash and cash equivalents are bank deposits.

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### Note 15 – Share capital

#### *Movements in share capital*

	Number of shares	Share capital (NOK thousands)
<b>End balance at 31 December 2010</b>	<b>1,000</b>	<b>100</b>
Capital increase in 2011	9,144,250	914,425
<b>End balance at 31 December 2011</b>	<b>9,145,250</b>	<b>914,525</b>
Capital decrease in 2012 through reduction of nominal amount	0	(457,263)
<b>End balance at 31 December 2012</b>	<b>9,145,250</b>	<b>457,263</b>

The share capital is denominated in NOK, and the nominal value per share NOK 50 (NOK 100). All issued shares are of equal rights. No potential shares, such as share options, were issued as of 31 December 2012.

#### *Shareholders as of 31 December 2012*

	Shares	Ownership
UBS International Infrastructure Fund Holding Coöperatie UA	7,499,105	82.0 %
CDC Infrastructure SA	1,646,145	18.0 %
<b>Total number of shares</b>	<b>9,145,250</b>	<b>100.0 %</b>

#### *Dividends paid and proposed*

No dividend was paid in 2011 or 2012. Dividend of NOK 88,305,767 will be proposed for the ordinary general meeting in 2013. The proposed dividend is not recognized as a liability in the financial statements as at 31 December 2012.

### Note 16 – Shareholder loans and bond loans

To finance the acquisition of the interest in Gassled, the Group has entered into several loan agreements. The bond loans were issued on 9 June 2011 and were listed on the Oslo Stock Exchange on 20 June 2011. Interest is paid semi-annually in arrears. The tables below summarize the contracts. The carrying amounts are provided in Note 18.

#### *Summary of contracts*

<b>Loan</b>	<b>Nominal amount remaining</b>	<b>Interest rate</b>	<b>Maturity</b>	<b>Category</b>
NOK real bond loan (1)	NOKm 296	4.3000%	30 Sept. 2027	Amortized cost
NOK nominal bond loan (2)	NOKm 550	6.1525%	30 Sept. 2027	FVTPL
GBP nominal bond loan (3)	GBPm 165	5.2410%	30 Sept. 2027	FVTPL
USD nominal bond loan (4)	USDm 265	5.1000%	30 Sept. 2027	FVTPL
NOK shareholder loans	NOKm 154	6.0000%	30 Sept. 2028	Amortized cost

(1) Series 1 - NOK Index Linked Bond Issue 2011/2027 - ISIN NO 001 060768.2

(2) Series 2 - NOK Senior Secured Bond Issue 2011/2027 - ISIN NO 001 060769.0

(3) Series 3 - GBP Senior Secured Bond Issue 2011/2027 - ISIN NO 001 061111.4

(4) Series 4 - USD Senior Secured Bond Issue 2011/2027 - ISIN NO 001 061112.2

## Njord Gas Infrastructure Group

### *Guarantee*

Njord Gas Infrastructure Holding AS, the parent company, has provided a guarantee for all of Njord Gas Infrastructure AS' obligations and liabilities under its loan arrangements.

### *Assets pledged as security*

The Group has entered into market conventional security arrangements in relation to its lenders and swap providers on a first priority basis over its assets; inter alia its ownership share in Gassled and related insurances and receivables. The carrying values of the secured assets were NOK 6.2 billion (NOK 6.4 billion) at balance sheet date.

### *Undrawn credit facilities*

The Group has available to it, subject to customary conditions precedent, a NOK 250 million revolving credit facility. The facility is subject to a floating interest charge. In an amendment agreement entered into in December 2012, the facility was extended to expire on 18 December 2017. No drawdown was made under the credit facility at balance sheet date.

## Note 17 – Trade and other payables

### *Specification of trade and other payables*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Working capital Joint Venture	90,211	105,005
Other accruals and provisions	3,258	3,161
VAT payable	9,146	9,146
Trade payables	205	634
Salary related provisions	1,900	565
<b>Total trade and other payables</b>	<b>104,720</b>	<b>118,512</b>

### *Terms and conditions for trade and other payables*

Trade payables are non-interest bearing and are normally settled on 30-day terms. All other payables are settled as they fall due.

**Note 18 – Financial instruments and risk management**

*Financial instruments by category*

*NOK thousands*

**At 31 December 2012**

<b>Financial assets</b>	<b>Loans and receivables</b>	<b>Fair value through profit or loss</b>	<b>Total carrying amount</b>
Derivative financial instruments (1)	0	205,436	<b>205,436</b>
Trade receivables (2)	0	0	<b>0</b>
Cash and cash equivalents	828,853	0	<b>828,853</b>
<b>Total</b>	<b>828,853</b>	<b>205,436</b>	<b>1,034,288</b>

(1) *The capitalized loss at inception is included as part of the financial instrument (ref. Note 12)*

(2) *Other receivables are not included*

<b>Financial liabilities</b>	<b>Amortized cost</b>	<b>Fair value through profit or loss</b>	<b>Total carrying amount</b>
Trade payables (1)	205	0	<b>205</b>
Bond loans (2)	304,832	3,938,968	<b>4,243,799</b>
Shareholder loans	156,692	0	<b>156,692</b>
Derivative financial instruments	0	65,351	<b>65,351</b>
<b>Total</b>	<b>461,729</b>	<b>4,004,319</b>	<b>4,466,048</b>

(1) *Other payables are not included*

(2) *Three of the four bond loans are recognized at FVTPL*

**At 31 December 2011**

<b>Financial assets</b>	<b>Loans and receivables</b>	<b>Fair value through profit or loss</b>	<b>Total carrying amount</b>
Derivative financial instruments (1)	0	393,127	<b>393,127</b>
Trade receivables (2)	168,750	0	<b>168,750</b>
Cash and cash equivalents	551,717	0	<b>551,717</b>
<b>Total</b>	<b>720,467</b>	<b>393,127</b>	<b>1,113,594</b>

(1) *The capitalized loss at inception is included as part of the financial instrument (ref. Note 12)*

(2) *Other receivables are not included*

<b>Financial liabilities</b>	<b>Amortized cost</b>	<b>Fair value through profit or loss</b>	<b>Total carrying amount</b>
Trade payables (1)	634	0	<b>634</b>
Bond loans (2)	306,584	4,032,070	<b>4,338,654</b>
Shareholder loans	259,531	0	<b>259,531</b>
Derivative financial instruments	0	43,212	<b>43,212</b>
<b>Total</b>	<b>566,748</b>	<b>4,075,282</b>	<b>4,642,030</b>

(1) *Other payables are not included*

(2) *Three of the four bond loans are recognized at FVTPL*

## Njord Gas Infrastructure Group

### *Fair value of financial instruments*

The fair value of financial instruments that is recognized at fair value through profit and loss in the financial statements is provided in the table "financial instruments by category" in the previous table. The carrying amounts of financial instruments recognized at amortized cost in the financial statements approximate their fair values except as detailed below.

<i>NOK thousands</i>	2012		2011	
	Carrying amount at amortized cost	Fair value	Carrying amount at amortized cost	Fair value
NOKm 300 real bond loan	304,832	327,842	306,584	328,964
Shareholder loans	156,692	177,567	259,531	285,651

### *Fair value measurements recognized in the statement of financial position*

The following table provides an analysis of financial instruments that are measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

<i>NOK thousands</i>		Level 1	Level 2	Level 3
<i>Assets</i>				
Derivative financial assets	31 December 2012	0	0	205,436
Derivative financial assets	31 December 2011	0	0	393,127
<i>Liabilities</i>				
Derivative financial liabilities	31 December 2012	0	0	65,351
Bond loans recognized at FVTPL	31 December 2012	0	3,938,968	0
Derivative financial liabilities	31 December 2011	0	0	43,212
Bond loans recognized at FVTPL	31 December 2011	0	4,032,070	0

Level 1 - Fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - Fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In relation to the Level 3 derivative financial asset/liability, a loss of NOK 241,049 thousand (gain of NOK 356,489 thousand) was recognized during the year. These amounts are exclusive the effects from amortization of loss recognized at inception of these derivatives (ref. Note 8 and 12). The Group still holds these net assets at balance sheet date.

In relation to the Level 2 financial liability, a loss of NOK 97,079 thousand (a loss of NOK 589,309 thousand) was recognized during the year (ref. Note 8). The Group still holds this liability at balance sheet date.

### Financial risk management

#### *Overview*

The Group is exposed to a variety of risks from its use of financial instruments, including credit risk, liquidity risk, interest rate risk and currency risk. This note presents information about the Group's exposure to each of the above mentioned risks, and the Group's objectives, policies and processes for managing such risks. At the end of this note, information regarding the Group's capital management is provided.

#### *Market risk from financial instruments*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: market risk (e.g. interest rate risk and currency risk), commodity price risk and other price risk. The Group's financial assets and liabilities are mainly exposed to interest rate and currency risks.

##### *a) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest risk arises from long-term borrowings. Borrowings issued at variable rates expose it to cash flow risk. Borrowings issued at fixed rates expose it to fair value interest rate risk.

All of the Group's revenues are from its investment in the Joint Venture, the majority of which are NOK denominated and subject to annual inflation adjustments. In order to synchronize its debt service with its revenue base, the Group's policy is to maintain its borrowing exposures in NOK denominated inflation linked instruments. Three out of four of the Group's bond loan series are denominated in nominal NOK, GBP and USD (ref. Note 16). In order to reduce its cash flow risk, the Group has entered into three series of swap arrangements (ref. Note 12) that effectively swaps the nominal currency bond positions into NOK denominated inflation linked positions. Quantitative data on the sensitivities of the Group's net position is included in Note 3.

##### *b) Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is primarily exposed to foreign exchange risk arising from various currency exposures with respect to the USD, EUR and GBP in relation to its debt obligations as well as from certain commercial transactions. As described above, the Group has entered into swap arrangements to hedge its currency exposures arising from its debt obligations (ref. Note 12).

For operational transactions denominated in foreign currencies, the Group's policy is to exchange into foreign currency as required on a spot basis.

#### *Accounting risk/mismatch*

The majority of the Group's revenues are NOK denominated and subject to annual inflation adjustments. In order to synchronize its debt exposure to its cash flows from operations (ref. Note 18), the Group has entered into three series of swap arrangements (ref. Note 12). Each series of swaps replicate perfectly the three nominal bond series so that the Group effectively has swapped all of its nominal bond positions into a NOK denominated inflation linked position.

## **Njord Gas Infrastructure Group**

It is the management's expectation that the concept of converting the three nominal bond series into a synthetic NOK denominated inflation linked position provides an effective hedging of the Group's overall cash flow position. However, the synthetic position creates an accounting exposure/mismatch that is distinct and separate from the underlying economic exposure of the Group and that would not arise for a conventional NOK denominated inflation linked bond position recognized at amortized cost.

Market expectations for swap rates reduced over the period following inception in 2011 and in 2012 which in both years causes a net adverse impact on the Group's financial statements, although it does not reflect the underlying exposure of the Group's operations overall. This is due to the FVTPL approach applied for the recognition of the bonds and swaps which requires the Group to value the financial instruments marked-to-market. The full change in value of the financial instruments is recognized in the income statement immediately. In reality however, those exposures are matched against the operating revenues which will be recognized in the operating income as incurred.

### ***Credit risk***

The carrying amounts of financial assets represent the Group's maximum credit exposure. Except for derivative instruments and cash and cash equivalents, the Group is only exposed to credit risk related to receivables owned through the Joint Venture. Receivables owned through the Joint Venture are receivable from large, solid oil and gas companies. The counterparty to the cash and cash equivalents and the derivative instruments are large banks with solid credit ratings. The Group monitors the credit ratings of its main counterparties on an on-going basis.

### ***Capital management***

A key objective in relation to capital management is to ensure that the Group maintains a sufficient capital structure in order to support its business development and to maintain a strong credit rating. The Group evaluates its capital structure in light of current and projected cash flows, potential new business opportunities and the Group's financial commitments. In order to maintain or adjust the capital structure, the Group may issue new shares or bonds or return capital to shareholders. At balance sheet date, the Group's equity ratio was 13.3% (13.6%).

The Group maintains and monitors its cash flow forecasting to ensure it has sufficient cash to meet operational needs and financial obligations. Such forecasting takes into consideration the Group's debt financing plans and compliance. The Group also has committed credit lines available to it (ref. Note 16). The Group's debt facilities are subject to customary covenant requirements. The Group has not been in breach of any such requirements during the year.

### ***Liquidity risk***

Liquidity risk is the risk of being unable to pay financial liabilities as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its financial liabilities as they fall due, under normal as well as extraordinary circumstances, without incurring unacceptable losses or risking damage to the Group's reputation. Prudent liquidity risk management implies maintaining sufficient cash and the availability of appropriate funding.

## Njord Gas Infrastructure Group

### *Maturities of liabilities*

The following table details the contractual maturities for the Group's financial liabilities. The table includes amounts for both principal and interest payments. The contractual amounts were estimated based on an assumption of no inflation beyond known adjustments and market exchange rates prevailing at balance sheet date.

#### Per 31 December 2012

<i>NOK thousands</i>	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade and other payables	-205	0	0	0	-205
Bond loans, interest and principal	-101,583	-104,570	-1,489,078	-4,058,431	-5,753,662
Derivative financial instruments	-15,213	-50,008	-268,373	-59,666	-393,260
Shareholder loans	0	0	0	-156,692	-156,692
<b>Total liabilities</b>	<b>-117,001</b>	<b>-154,579</b>	<b>-1,757,452</b>	<b>-4,274,789</b>	<b>-6,303,820</b>

#### Per 31 December 2011

<i>NOK thousands</i>	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade and other payables	-1,153	0	0	0	-1,153
Bond loans, interest and principal	-104,164	-108,563	-1,303,583	-4,634,357	-6,150,667
Derivative financial instruments	6,744	-44,488	-203,330	705,080	464,005
Shareholder loans	0	0	0	-259,531	-259,531
<b>Total liabilities</b>	<b>-98,573</b>	<b>-153,051</b>	<b>-1,506,913</b>	<b>-4,188,807</b>	<b>-5,947,345</b>

## Note 19 – Related party disclosure

### *Purchases from related parties*

*NOK thousands*

<b>Related party</b>	<b>Year ended 31 December 2012</b>	<b>Year ended 31 December 2011</b>
UBS International Infrastructure Fund Holding Coöperatie UA (1)	575	1,151
CDC Infrastructure SA	0	432
Sandvold Energy AS (100% owned by the Chairman of the Board) (2)	1,995	4,381

*Amounts above are exclusive of VAT and include refunds*

- (1) *UBS Limited was one of two banks that were engaged by the Group to be joint lead arrangers on its bond offering in 2011. UBS Limited is a group company to UBS International Infrastructure Fund Holding Coöperatie UA, who owns 82% of the share capital of the Holding Company. Following a successful bond issuance on 9 June 2011, UBS Limited was paid a fee of NOK 13,575 thousands. UBS Limited is also one of two banks that are counterparties to the Group's swaps arrangements.*
- (2) *Regarding the fees recognised in 2011, NOK 2,522 thousand relates to one-off payments for consultancy services in relation to the acquisition of the Group's ownership in Gassled.*

## Njord Gas Infrastructure Group

### *Balances with related parties*

Information regarding loans from related parties is provided in Note 16 and 18. Information regarding swap arrangements with related parties is provided in Note 12 and 18. Information regarding other balances with related parties is provided in the following table:

*NOK thousands*

<b>Related party (1)</b>	<b>As at 31 December 2012</b>	<b>As at 31 December 2011</b>
CDC Infrastructure SA - trade payables	0	432
Sandvold Energy AS (100% owned by the Chairman of the Board) - trade payables	0	218

*(1) Information about shareholder loan is provided in Note 16. Information about derivative financial instruments is provided in Note 12.*

### *Compensation to key management*

*NOK thousands*

#### **Year ended 31 December 2012**

<b>Position</b>	<b>Salary</b>	<b>Pension contribution</b>	<b>Other remuneration</b>	<b>Total 2012</b>
Chief Executive Officer (CEO)	1,934	70	8	<b>2,012</b>
Finance Director	1,707	70	7	<b>1,784</b>
Technical & HSE Director	1,236	34	12	<b>1,282</b>
<b>Total</b>	<b>4,877</b>	<b>174</b>	<b>27</b>	<b>5,078</b>

#### **Year ended 31 December 2011**

<b>Position</b>	<b>Salary</b>	<b>Pension contribution</b>	<b>Other remuneration</b>	<b>Total 2011</b>
Chief Executive Officer (CEO) (1)	597	18	4	<b>618</b>
Finance Director (2)	0	0	5	<b>5</b>
Technical & HSE Director (3)	536	8	4	<b>548</b>
<b>Total</b>	<b>1,133</b>	<b>26</b>	<b>12</b>	<b>1,171</b>

*(1) The CEO was employed from 1 September 2011*

*(2) The Finance Director was employed from 1 January 2012*

*(3) The Technical & HSE Director was employed on a 60% basis from 1 August 2011. Prior to employment, the engagement was on a consultancy basis.*

### *Compensation to Board of Directors*

NOK 100 thousands was recognized as remuneration of the Chairman in 2012.

NOK 100 thousands was recognized as remuneration of the Chairman in 2011. NOK 100 thousands for remuneration of the Chairman for 2010 was recognized in 2011.

## Njord Gas Infrastructure Group

### Note 20– Operating leases

The Group has entered into an operating lease for office facilities.

#### *Operating expense related to lease agreements accounted for as operating leases*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Office rental	505	415
Other	44	7
<b>Total</b>	<b>549</b>	<b>422</b>

#### *Future minimum lease payments under office lease*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Within 1 year	357	420
1 to 5 years	0	338
After 5 years	0	0
<b>Total</b>	<b>357</b>	<b>758</b>

### Note 21– Capital commitments

Information regarding the Group's share of planned investment in gas transportation and processing facilities is provided in Note 10.

### Note 22 – Events after balance sheet date

On 15 January 2013, the Ministry of Petroleum and Energy ('MPE') issued a consultation where the MPE proposes to reduce the capital element ('K') of the Gassled tariff by 90% for a majority of the tariff areas. The proposal is based on tariff reductions being effective only for bookings made following implementation. No changes are proposed for existing bookings. The operational expense element ('O') and the capital investment element ('I') of the tariff will under the proposal remain unchanged.

Following end of a two month consultation period for stakeholders to respond, the MPE is currently evaluating responses before deciding on the implementation of a new tariff regulation. The proposal was initially contemplated implemented by 1 May 2013. However, on 11 April 2013, the MPE informed that more time was needed to prepare a resolution and that the contemplated implementation therefore was postponed to 1 July 2013.

Based on an analysis of the financial implications of the MPE's proposal, the Group forecasts that it will generate sufficient cash to service its debt obligations without the need to raise additional capital and that no asset impairment will be required.

The Group's bonds (as further described in Note 18) were initially rated 'A-' by Standard & Poor's. However, in relation to the MPE's announcement regarding the proposal to reduce the tariff, Standard & Poor's issued a research update on 21 January 2013 where the Group's bond ratings are placed on CreditWatch negative in response to the tariff review.

## NJORD GAS INFRASTRUCTURE HOLDING AS

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## Njord Gas Infrastructure Holding AS

### Income statement

<i>NOK thousands</i>	Note	Period ended 31 December 2012	Period ended 31 December 2011
Operating income		0	0
<i>Operating expense</i>			
Employee benefit expense	3	-29	-57
Other operating expense	4	-290	-237
<b>Total operating expense</b>		<b>-318</b>	<b>-295</b>
<b>Operating income/(loss)</b>		<b>-318</b>	<b>-295</b>
<i>Financial income and expense</i>			
Finance income		0	4
Finance expense		-16	-1
<b>Net financial income/(expense)</b>		<b>-16</b>	<b>3</b>
<b>Net income/(loss) before taxes</b>		<b>-334</b>	<b>-292</b>
Income tax credit/(expense)	5	94	87
<b>Net income/(loss) for the period</b>		<b>-241</b>	<b>-205</b>

# Njord Gas Infrastructure Holding AS

## Statement of financial position

<i>NOK thousands</i>	Note	As at 31 December 2012	As at 31 December 2011
<b>Assets</b>			
<i>Non-current assets</i>			
Deferred tax asset	5	181	87
Investments in subsidiaries	6	826,089	914,395
<b>Total non-current assets</b>		<b>826,270</b>	<b>914,482</b>
<i>Current assets</i>			
Dividend receivables		88,306	0
Cash and cash equivalents		2	8
<b>Total current assets</b>		<b>88,308</b>	<b>8</b>
<b>Total assets</b>		<b>914,578</b>	<b>914,490</b>
<b>Equity and liabilities</b>			
<i>Equity</i>			
Share capital	7/8	457,263	914,525
Other paid in capital	7/8	368,957	0
<b>Total paid in capital</b>		<b>826,219</b>	<b>914,525</b>
<i>Retained earnings</i>			
Other equity	7	-464	-224
<b>Total equity</b>		<b>825,755</b>	<b>914,301</b>
<b>Liabilities</b>			
<i>Non-current liabilities</i>			
Loan from subsidiary	3	476	110
<b>Total non-current liabilities</b>		<b>476</b>	<b>110</b>
<i>Current liabilities</i>			
Dividend payable		88,306	0
Trade and other payables	9	41	78
<b>Total current liabilities</b>		<b>88,347</b>	<b>78</b>
<b>Total liabilities</b>		<b>88,823</b>	<b>188</b>
<b>Total equity and liabilities</b>		<b>914,578</b>	<b>914,490</b>

Stavanger, 25 April 2013

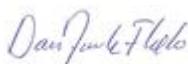
The Board of Directors of Njord Gas Infrastructure Holding AS



Tore I. Sandvold  
Chairman



Gautier M. J. F. Chatelus  
Director



Dan Jarle Flølo  
CEO



Paul J. Moy  
Director



Mark A. Gilligan  
Director

## Njord Gas Infrastructure Holding AS

### Statement of cash flow

<i>NOK thousands</i>	Note	Period ended 31 December 2012	Period ended 31 December 2011
<b><i>Cash flows from operating activities</i></b>			
Net income/(loss) before taxes		(334)	(292)
Interest expenses and finance expenses not paid	3	16	1
Changes in trade and other payables	9	(37)	78
<b>Net cash flow used in operating activities</b>		<b>(355)</b>	<b>(213)</b>
<b><i>Cash flows from investing activities</i></b>			
Investment in subsidiary		0	(899,295)
Loan to subsidiary		0	111
<b>Net cash flow used in investing activities</b>		<b>0</b>	<b>(899,184)</b>
<b><i>Cash flows from financing activities</i></b>			
Loan from subsidiary		350	110
Cash from paid in capital	3	0	899,295
<b>Net cash flow used in financing activities</b>		<b>350</b>	<b>899,405</b>
<b>Net change in cash and cash equivalents</b>		<b>(6)</b>	<b>8</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>8</b>	<b>0</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>2</b>	<b>8</b>
Interest paid		0	0

## **Notes to the accounts**

### **Note 1 – General information**

Njord Gas Infrastructure Holding AS' (the "Holding Company") main business is long-term investment in gas infrastructure serving the Norwegian continental shelf. The Holding Company is a Norwegian private limited liability company headquartered in Stavanger, Norway. The Group's main activities are carried out through its Norwegian subsidiary, Njord Gas Infrastructure AS, which holds an 8.036% interest in Gassled, which owns the Norwegian gas transport infrastructure.

The financial statements were authorized for issue by the Board of Directors on 25 April 2013.

All amounts in the financial statements are stated in Norwegian Kroner ("NOK") thousands unless stated otherwise. Comparable figures from prior year are provided in brackets.

### **Note 2 - Summary of significant accounting principles**

#### **2.1 Basis for preparation**

The financial statements for Njord Gas Infrastructure Holding AS have been prepared in accordance with the provisions of the Norwegian Accounting Act and generally accepted accounting practices in Norway ("N-GAAP").

#### **2.2 Shares in subsidiaries**

Shares in subsidiaries are measured using the cost method of accounting in the parent company accounts. Investments are valued at the acquisition cost of the shares unless impairment losses have been made.

Shares in subsidiaries are impaired to fair value when a decrease in value is not considered to be temporary. Impairment losses are reversed when the reason for the impairment no longer applies.

#### **2.3 Foreign currency**

The functional currency of the Holding Company is NOK. Monetary assets and liabilities denominated in other currencies are translated at exchange rates prevailing at balance sheet date. Foreign currency revenues and expenses are translated at exchange rates prevailing at transaction date. Realized and unrealized gains and losses resulting from foreign exchange are recognized in the income statement as incurred.

#### **2.4 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus any transaction costs. After initial measurement, the assets are subsequently measured at amortized cost using the effective interest rate method (if the amortization effect is material), less any impairment losses.

## Njord Gas Infrastructure Holding AS

### 2.5 Taxes

Income taxes for the period comprise tax payable and changes in deferred tax.

Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are calculated on the basis of existing temporary differences between the carrying amounts of assets and liabilities in the financial statement and their tax bases, together with tax losses carried forward at the balance sheet date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

### Note 3 – Related party disclosure

#### *Compensation to the Board of Directors*

NOK 25 thousands was recognized as remuneration of the Chairman in 2012.

NOK 25 thousands was recognized as remuneration of the Chairman in 2011. NOK 25 thousands for remuneration of the Chairman for 2010 was recognized in 2011.

The Holding Company does not have any employees.

#### *Loan from subsidiary*

The Holding Company has a loan from its subsidiary with an outstanding balance of NOK 476 thousands (NOK 110 thousands) at balance sheet date. The final repayment date on the loan is 30 September 2028.

There were no sales or purchases of goods or services with related parties during 2012 or 2011.

### Note 4 – Remuneration of auditor

#### *Specification of remuneration to the auditor*

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Statutory audit	19	16
Other advisory services	0	4
<b>Total auditor's fees incl. VAT</b>	<b>19</b>	<b>20</b>

## Njord Gas Infrastructure Holding AS

### Note 5 – Income tax expense

<b>Income taxes recognized in the income statement</b>		
<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Income tax credit	94	87
<b>Income tax credit/(expense)</b>	<b>94</b>	<b>87</b>
<b>Reconciliation of income tax</b>		
<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
<b>Profit/(loss) before income taxes</b>	<b>(334)</b>	<b>(292)</b>
Expected income tax at nominal tax rate (28%)	94	82
Change valuation allowance	0	5
<b>Total income tax credit/(expense) recognized in the income statement</b>	<b>94</b>	<b>87</b>
<b>Temporary differences relate to the following items:</b>		
<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
Tax losses carried forward 28%	645	311
<b>Basis deferred tax asset</b>	<b>645</b>	<b>311</b>
Deferred tax asset not recognized	0	0
<b>Deferred tax asset recognized in balance sheet</b>	<b>181</b>	<b>87</b>

Capitalization of deferred income tax assets is subject to strict requirements in respect of the ability to substantiate that sufficient taxable profit will be available against which the unused tax losses can be utilized.

### Note 6 – Shares in subsidiaries

<i>Company</i>	<b>Country of incorporation</b>	<b>% of equity and voting</b>
Njord Gas Infrastructure AS	Norway	100

### **Reconciliation of acquisition cost**

<i>NOK thousands</i>	<b>2012</b>	<b>2011</b>
<b>Acquisition cost</b>	<b>914,395</b>	<b>914,395</b>
Dividend	-88,306	0
<b>Net value recognized in balance sheet</b>	<b>826,089</b>	<b>914,395</b>

### **Guarantee issued**

The Holding Company has provided a guarantee for all of Njord Gas Infrastructure AS' obligations and liabilities under its loan arrangements.

## Njord Gas Infrastructure Holding AS

### Note 7 – Reconciliation of equity

<i>NOK thousands</i>	Share capital	Other paid in capital	Other equity	Total equity
Total equity as at 1 January 2012	914,525	0	-224	914,301
Reduction nominal value per share	-457,263	457,263	0	0
Proposed dividend	0	-88,306	0	-88,306
Net loss for the year	0	0	-241	-241
<b>Total equity as at 31 December 2012</b>	<b>457,263</b>	<b>368,957</b>	<b>-464</b>	<b>825,755</b>

### Note 8 – Share capital

#### *Movements in share capital*

<i>NOK thousands</i>	Number of shares	Share capital
Issued as at 1 January 2012	9,145,250	914,525
Reduction of nominal value per share	0	(457,263)
<b>End balance at 31 December 2012</b>	<b>9,145,250</b>	<b>457,263</b>

The share capital is denominated in NOK and the nominal value per share is NOK 50 (NOK 100). All issued shares are of equal rights. No potential shares, such as share options, were issued as of 31 December 2012.

#### *Shareholders as of 31 December 2012*

	Shares	Ownership
UBS International Infrastructure Fund Holding Coöperatie UA	7,499,105	82.0 %
CDC Infrastructure SA	1,646,145	18.0 %
<b>TOTAL</b>	<b>9,145,250</b>	<b>100.0 %</b>

#### *Dividends paid and proposed*

No dividend was paid in 2011 or 2012. Dividend of NOK 88,305,767 will be proposed for the ordinary general meeting in 2013. The proposed dividend is recognized as a liability in the financial statements as at 31 December 2012.

### Note 9 – Trade and other payables

#### *Specification of trade and other payables*

<i>NOK thousands</i>	2012	2011
Trade payables	0	18
Other accruals and provisions	41	60
<b>Total trade and other payables</b>	<b>41</b>	<b>78</b>

### Note 10 – Events after balance sheet date

On 15 January 2013, the Ministry of Petroleum and Energy ('MPE') issued a consultation paper where the MPE proposes to reduce the capital element ('K') of the Gassled tariff by 90% for a majority of the tariff areas. The proposal is based on tariff reductions being effective only for bookings made following implementation. No changes are proposed for existing bookings. The operational expense element ('O') and the capital investment element ('I') of the tariff will under the proposal remain unchanged.

Following the end of a two month consultation period for stakeholders to respond, the MPE is currently evaluating responses before deciding on the implementation of a new tariff regulation. The proposal was initially contemplated implemented by 1 May 2013. However, on 11 April 2013, the MPE informed that more time was needed to prepare a resolution and that the contemplated implementation therefore was postponed to 1 July 2013.

As described in Note 6, the Holding Company is guarantor for all of Njord Gas Infrastructure AS obligations and liabilities under its loan arrangements. Based on an analysis of the financial implications of the MPE's proposal, the Holding Company forecasts that Njord Gas Infrastructure AS will generate sufficient cash to service its debt obligations without the need to raise additional capital.

The bonds (further described in Note 18 of the consolidated financial statements) issued by Njord Gas Infrastructure AS were initially rated 'A-' by Standard & Poor's. However, in relation to the MPE's announcement regarding the proposal to reduce the tariff, Standard & Poor's issued a research update on 21 January 2013 where the bond ratings are placed on CreditWatch negative in response to the tariff review.

**Responsibility statement**

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2012 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and income statement of the Holding Company and the consolidated Group.

We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the Holding Company and the Group, together with a description of the principal risks and uncertainties facing Njord Gas Infrastructure Holding AS and the Group.

**Stavanger, 31 December 2012/25 April 2013**

**The Board of Directors of Njord Gas Infrastructure Holding AS**



Tore I. Sandvold  
**Chairman**



Paul J. Moy  
**Director**



Gautier M. J. F Chatelus  
**Director**



Mark A. Gilligan  
**Director**



Dan Jarle Flølo  
**CEO**

To the Annual Shareholders' Meeting of  
Njord Gas Infrastructure Holding AS

## AUDITOR'S REPORT

### Report on the financial statements

We have audited the accompanying financial statements of Njord Gas Infrastructure Holding AS, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2012, the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2012, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors' and Chief Executive Officer's responsibility for the financial statements*

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

*Opinion on the financial statements of the Parent Company*

In our opinion, the financial statements of Njord Gas Infrastructure Holding AS have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Opinion on the financial statements of the Group*

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

**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 Directors' report concerning the financial statements, the going concern assumption and the proposal for the 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 the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Stavanger, 25 April 2013  
ERNST & YOUNG AS



Tor Inge Skjellevik  
State Authorised Public Accountant (Norway)