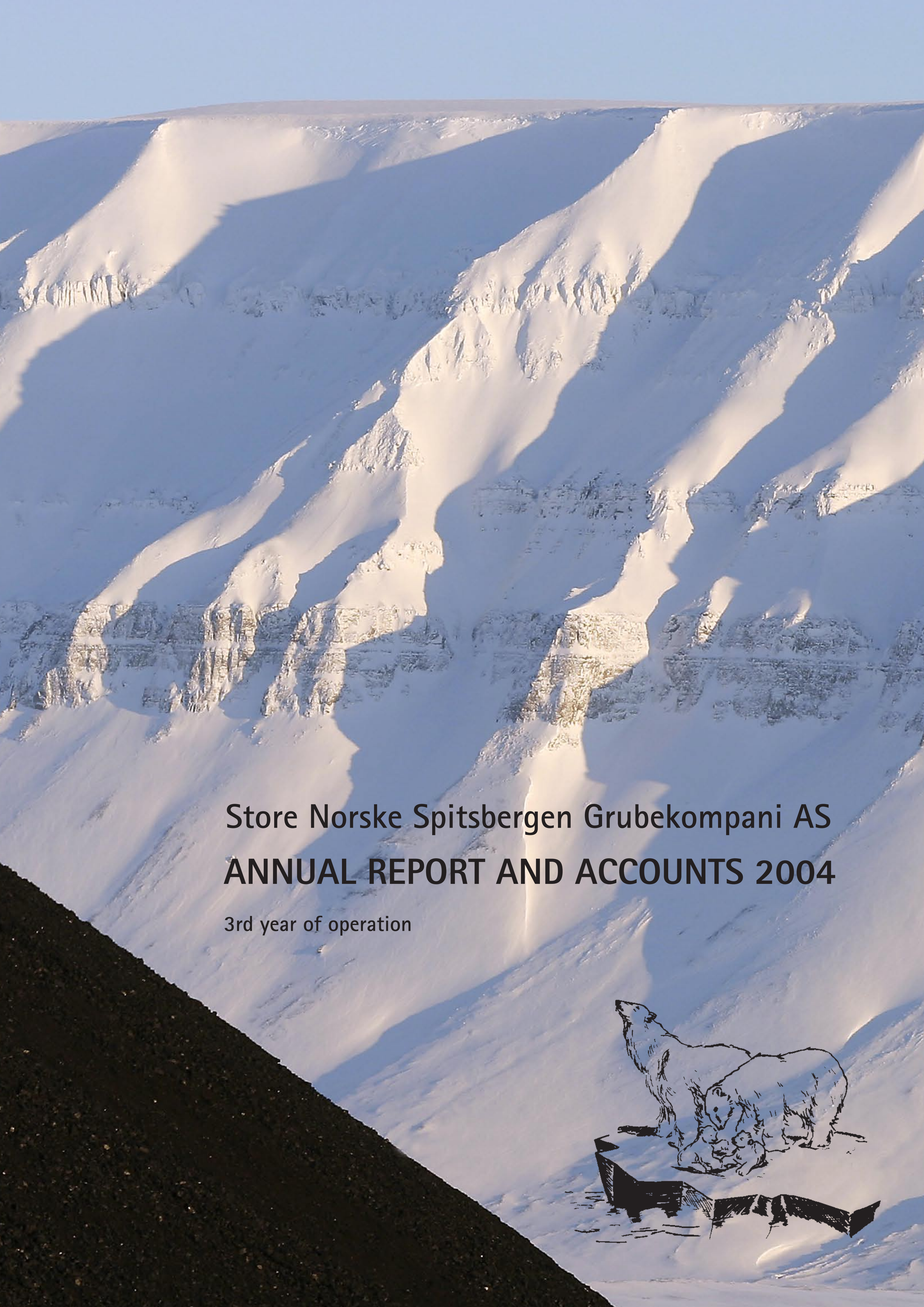


Store Norske Spitsbergen Grubekompani AS

ANNUAL REPORT AND ACCOUNTS 2004

3rd year of operation

Store Norske Spitsbergen Grubekompani
Aktieselskap
Third year of operation
The company´s business registration no: 984 015 097
Share Capital: 150 100 000

Board of directors:		**Administration:**	
Steinar Høgaas	Chairman of the board	Robert Hermansen	Chief Executive Director
Ole Fredrik Hienn	Vicechairman of the board	Ester Knudsen	Deputy Chief Executive Director
Esther Kostøl		Gunnar Østby	Production Director
Lise Chatwin Olsen		Harry Higraff	Technical Director
Atle Fornes		Venche Horseide	Sales and Marketing Director
Sverre Henning Engh	Employee´s representative	Gudmund Vangberg	Human Resources Director
Jarle Haagensen	Employee´s representative	Sissel Danielsen	Financial Director
Anita Johansen	Employee´s representative	Per Nilssen	Safety Superviser

Chief Executive Director Robert Hermansen (to the left), Atle Fornes, Sverre Henning Engh, Esther Kostøl, Vicechairman of the Board Ole Fredrik Hienn, Anita Johansen, Chairman of the Board Steinar Høgaas, Jarle Haagensen and Lise Chatwin Olsen.

Table of contents

Good teamwork has produced good results

100 years since the story began

In 1905 John Munro Longyear moored in Advent Bay. The first houses were erected and the first coals carried to the boat down a natural cutting. The name of Skjæringa [The Cutting] stems from those days. A year later, Mr. Longyear teamed up with Mr. Ayer, a financier, to establish the Arctic Coal Company. Their business address was in Boston. Ever since 1906 coal has been extracted by the people who settled in the small community which gradually came to be known by the name of Longyearbyen – Longyear's Town.

In 1916 ownership was passed over to Det Norske Spitsbergen syndicate and a joint stock company, Store Norske Spitsbergen Kulkompani, was established on 30 November. When Norway took over sovereignty of the archipelago in 1925, Svalbard had already experienced a long and exciting period of coal mining and Store Norske operations. In fact, the company's community and activities in Longyearbyen may well have been the most important reason why the archipelago came to be Norwegian territory.

Settlement and commercial activities were important then as now. The world community has a growing interest in the northern areas and the riches found above and underneath the floor of the Barents Sea. In the middle of this area lies Svalbard. One of the questions asked is whether Svabard has its own continental shelf to which the Svalbard Treaty gives equal rights to all, or whether Svalbard is an "island" on the Norwegian shelf.
If things used to be exciting, they are certainly not becoming less so.

A good and safe community evolves

Incredibly, it is only 15 years since Longyearbyen was a "company town" where Store Norske generally ruled the ground. These days, the town has a number of good legs to stand on. Four good hotels bring tourists to the archipelago, and a number of smaller businesses help ensure that the tourists' demands for adventure and knowledge are met. Tourism is a growth industry and the future will bring challenges for the local authorities as well as an increasing number of pupils for the school.

At Store Norske we notice the new era in that virtually all of our employees now wish to bring their families to Longyearbyen. The application list for family housing is very long, and Store Norske's wholly owned housing company is about to launch a major development programme.

Most of Store Norske's employees work one-week shifts at Svea followed by a week off in Longyearbyen. The quality of the community is therefore very important to Store Norske – which is why we contribute in numerous ways to make the community a safe and pleasant place to grow up and live.

In return for the company's efforts to ensure that our employees have opportunities for meaningful spare time activities, we get loyal staff who are conscious of productivity levels.

Store Norske and the World

It is now three years since Store Norske Spitsbergen Grubekompani AS was established as a wholly owned subsidiary of Store Norske Spitsbergen Kulkompani AS. The two first years of operation gave sound profits. In 2004 sales were as high as NOK 1.3 bn. After total depreciations of NOK 82 million, and after having spent more than NOK 60 million on safeguarding the company's unsecured early retirement scheme, the bottom line showed a NOK 216 million profit.

A new record – which we aim to beat!

All coal on the world market is sold in US dollars. Even if the US dollar has fallen from NOK 9.40 to 6.20, we have

Key Figures in Store Norske

	1999	2000	2001	2002	2003	2004
Production (1000 tonnes)	404	632	1 788	2 132	2 944	2 904
Sales (NOK mill.)	124	223	557	687	940	1 310
Profit/loss before subsidies/ taxes (NOK mill.)	-87	-176	-133	63	78	217
Subsidies (NOK mill.)	87	154	136	0	0	0
Investment (NOK mill.)	63	353	347	69	181	173
Annual production – tonnes per employee	1 787	2 834	7 209	9 474	12 633	10 960
Staff as at 31 December	226	223	248	225	233	265
Absence due to sickness	6,8	7,0	7,1	6,2	8,8	6,0
						1999-2004
Growth in sales						955%
Growth in productivity						619%

achieved higher prices even after converting to Norwegian currency. The high rate of growth in China, and India, has had the greatest influence on the price increase.

The fact that Store Norske's sales to the metallurgical industry are increasing, is of great importance. These special qualities command a higher price per tonne than what can be obtained in the energy coal market. Our achievements in this field have been attained through the conscious efforts of everyone throughout the chain from pit to customers.

Store Norske's most important competitors and colleagues are found in Australia and North America. It is the coal producers in these parts of the world who lead the rapid technical development. Also, these are the parts of the world from which we buy most of our production and safety equipment.

It is evident that rising shipping costs and metal prices will cause our own costs to increase.

We need to improve – all the time

Luckily, thanks to our new production equipment and our competent, motivated workforce, our rate of productivity has increased, which is one of the keys to our results.

But we cannot rest on our laurels. The consumption of coal is rising fast and new efficient producers are entering the market. If we are to stay in the lead, among the most productive producers in the world, we need to improve year on year. During the winter and spring of 2005, we conducted a series of information and team building sessions for all our staff.

The sessions sought to provide information about the company's current situation, plans, strategies, objectives and foundation. Furthermore, they focused on team building: how we should work together – and separately, and what we should be best at, how to improve.

The sessions showed great involvement, and it is good to know that the people who work for Store Norske are so passionate about their workplace. One of the tasks was to discuss the values we want Store Norske to represent. Three such values recurred at virtually all of the 20 sessions: pride, safety and team spirit. These values will form the basis for our work in the future.

The rules of the game – the rules we should be working to at Store Norske – were another topic for discussion. We have received much valuable input, some of which have already produced results. We will continue to work with the many proposals for improvement in order to establish a "best practice" for everyone to relate to. For us to achieve our objectives, it is important to acknowledge the equal importance of every employee.

The information and team building sessions were held in order to make us better equipped for handling an ever fiercer international competition. To survive, we simply need to be the best and to look ahead all the time. We can never allow ourselves to come to a stand-still, satisfied with the results we achieved yesterday or last year. The sessions have shown us that we have the knowledge, attitudes, energy and will to make it!

Robert Hermansen

Annual report for Store Norske Spitsbergen Grubekompani AS

Key Facts about the Company in 2004

In December 2001, the Norwegian Parliament gave its approval for permanent coal mining operations at Svea Nord. For the third year running, the company can point to a sound profit: NOK 216.7 million before tax. In the first two years of operation without a government subsidy, the pre-tax profit was NOK 62.5 million (2002) and NOK 77.8 million (2003.)

The company runs two mines, both of them with entry points up on the hillside. Gruve 7 is situated in Adventdalen, 15 km from Longyearbyen, whereas the other mine, Svea Nord, is situated in Svea, approximately 60 km south of Longyearbyen.

While there is a road connection between Gruve 7 and Longyearbyen, there is no road between Longyearbyen and Svea. Consequently, all personnel are carried by a 16-seater plane. The service is run by Lufttransport AS, under a contract with Store Norske Spitsbergen Grubekompani AS (SNSG). This contract has recently been extended by five years. There are flight departures five days a week, and there are several departures a day. In the course of a year, approx. 20,000 passengers are carried between Longyearbyen and Svea by plane.

SNSG's head office is situated in Longyearbyen, yet most of the staff are working in Svea. They work in different shift rotations, the most typical of which involves seven days of work followed by seven days off. Svea is a mining community for the company's employees and working partners only.

All SNSG staff live in Longyearbyen. With its 265 employees and their families, the company contributes considerably to maintaining a stable family community here. It is estimated that the mining operations at Svea and Gruve 7 generate approx. 400 man-years. This figure includes activities that have been separated out. Sober assessment would indicate that SNSG's mining activities provide a basis for approx. 600 jobs in Longyearbyen and at Svea.

At Svea, SNSG buy haulage services from Leonhard Nilsen & Sønner Spitsbergen AS (LNSS) and catering services (canteen and cleaning) from ISS AS.

The company reached an important milestone in 2004 when the 5.6 kilometre transport tunnel was opened, providing a direct link between the mine in Svea Nord and the Braganzavågen bay at Svea. We started using the tunnel in May. The official opening ceremony in September was conducted by Mr. Børge Brende, the Norwegian Minister of Trade and Industry, who in his speech referred to the tunnel as an "environmental tunnel".

The tunnel cuts down the travel distance for coal from 12 to 5 kilometres. There is no longer a need to carry coal over the steep Høganesbreen glacier, as all road-haulage now involves a flat road. This has improved the drivers' safety considerably, and there has been no traffic accidents involving personal injuries on the route between Svea and the coal stores by Kapp Amsterdam after the tunnel was opened. Considerable reductions have also been seen in the level of pollution from coal dust, and in fuel consumption. Furthermore, the tunnel was all-important for the process of conducting vast amounts of melt water out of the mine over the summer months. The tunnel also secures the power supply to Svea Nord.

Round half way through the tunnel an 800 metre branch to the coal fields at Svea Øst has been made. In this way, access has already been secured for potential future operations.

Towards the end of the year, the next generation of mine development equipment arrived at Svea: a so-called ABM25 bolter-miner. This machine is able to both cut and bolt and replaces the continuous miner (CM) and the traditional bolting rig. The bolter-miner weighs almost 100 tonnes and is manned by five operators. This machinery will represent better safety, because the roof is bolted immediately after the cutting.

In compliance with a wish expressed by the company' largest owner, the Department of Trade and Industry, part-privatisation of SNSG has been explored, within the premise that the government would retain its majority stake. Major international players in the coal market had indicted an interest in the company. The matter caused unease among staff, and following a thorough process, the Board of SNSG recommended that the focus be shifted onto further development of the company and that the part-privatisation issue be closed. The Department of Trade and Industry accepted this recommendation.

The company's annual turnover was NOK 1,309.9 million and profit before tax was NOK 216.7 million.

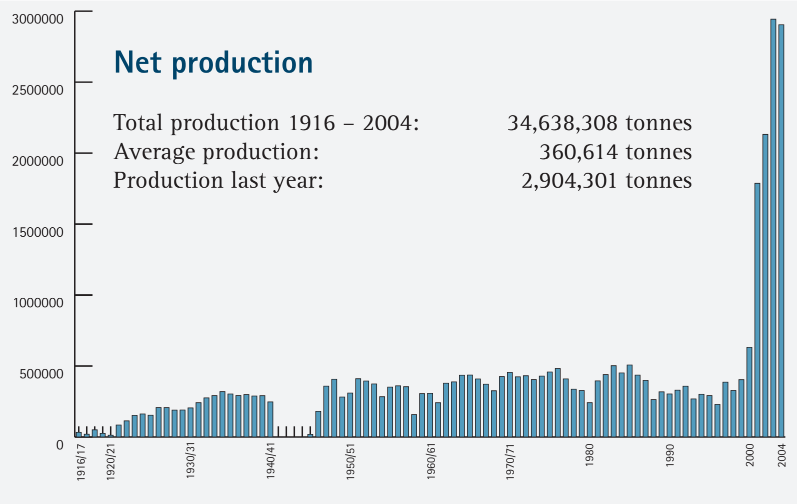
As at 31 December 2004, the company had a staff of 265.

Operation

SNSG's third year of operation continued the positive trend from 2002 and 2003. For both mines the production amounted to 2.9 million tonnes of coal in 2004.

Svea Nord

The stoping equipment is the main production equipment at Svea Nord and this is responsible for most of the company's overall production. The third stope panel at Svea Nord was started in mid May 2004, using a new cutter. The old one was sent back to the factory for an overhaul. Every time a new panel is started, the stope equipment is given a



comprehensive overhaul and components are replaced.

Mine development and stoping work has held a stable level throughout the year. At the end of the year, 2,094,726 tonnes had been produced from the third stope panel. In total, 9,400 metres of drift (main drift and crosscut) were developed, the same as the year before. It is company policy to increase the rate of mine development whenever coal prices are good.

A total of 2,841,701 tonnes were produced at Svea Nord in 2004, of which approx. 230,000 tonnes came from mine development.

Systematic follow-up of the roof during the blocking out process, has lead to revised bolting patterns. Among other things, this means that a greater amount of long cable bolts are being used. Rock conditions at main entrance 3 (H3) required extra work to safeguard the roof.

In the summer of 2003, melt water gave rise to problems in the mine. In 2004 there was three times the amount of last year's water – it peaked at 6 million litres an hour – but the water was now conducted through the transport tunnel and there was no need for pumping.

This meant there were no interruptions to production. In order to provide a furter safeguard aginst water seeping into the mine, drain pipes have been ordered with a capacity of 20 million litres an hour. These pipes will be mounted in the transport tunnel over the winter of 2005.

Gruve 7

Gruve 7 in Adventdalen operates as a separate business unit. The mine delivers c. 25,000 tonnes annually to the coal-fired power station in Longyearbyen. Operationally and financially the ideal annual production level is 70 – 80,000 tonnes, and consequently coal is also delivered from Gruve 7 to the international market. Gruve 7 coals hold a very high quality and there is great demand for it from German metallurgical industry and elsewhere. In 2004 two shipments of Gruve 7 coal were despatched from the old coal pier at Hotellneset outside Longyearbyen.

Gruve 7 has a workforce of 18, 14 of whom are working in the actual mine (underground). The mine is worked five days a week on daytime shifts. The production method is called room-and-pillar mining. 62,600 tonnes of coal were produced in 2004, against 73,257 tonnes in 2003. This equals 16.8 tonnes per man/shift, against 19.4 tonnes per man/shift in 2003. The fall was primarily caused by the fact that more mine development work and production preparations were carried out than earlier.

Sales / Market

In 2004, 2,886,421 tonnes of coal were sold. This is up 55,065 tonnes on last year. Most deliveries were made to coal-fired power stations in Germany and Denmark. Most of the customers are in northern Europe, but the company made deliveries as far south as Greece.

The coal prices continued to rise in the world market throughout 2004. The high prices were partly due to coal consumption, but also to rising prices in the bulk trade, which in turn is caused by the continued high demand for iron ore and coal in Chinese steel industry. Consequently, a large part of the world's bulk fleet is involved with transport to China.

This high price was beneficial for SNSG, but the continued fall in the dollar was a negative influence. However, by hedging the dollar at an early point, SNSG managed not to suffer the full impact of the real fall in the exchange rate. Apart from the volumes sold to the local power station in Longyearbyen, all sales are made in USD.

The sale of all SNSG coal is routed through SSM Coal, which is one of Europe's largest trading companies for coal, coke and anthresite. This market partnership works well and ensures a take-up for the company's production.

In the same way as SSM Coal in Rotterdam and Druisburg is a strategic sales partner, Jebsens shipowning company in Bergen is an equally important partner with regard to shipping. Our special waters, particularly at the entrance of the Van Mijenfjord, make it important that SNSG is in control of which ships sail on Svea. This is why all coal is sold CIF, in Intercom terminology. This means that SNSG is contracting the ships.

Shipping

The ice conditions in 2004 presented us with major challenges at Svea. The ice disappeared unusually late from the Van Mijenfjord, so no ship could call until 25 July, which was 18 days later than in 2003. Moreover, the autumn was cold, so that the ice settled at the end of November, effectively stopping all further shipping.

Over the shipping season, there were a total of 54 coal ships, of which 34 were pan-max (70,000 tonnes), 11 handysize (30,000 tonnes) and nine were smaller ships. In Longyearbyen, there were two coal ships. Despite the ice problems during part of the season, loading operations took place without any major problems. The loading plant at Kapp Amsterdam had an average capacity of 1798 tonnes per hour.

All sailing up and down the Van Mijenfjord went without problems, as was also the case for the tug boats based at Svea over the shipping season. The two Danish tugs from Svitzer has acuired considerable expertise on the local sailing conditions and the waters from Svea and past the Akselsundet at the mouth of the fjord.

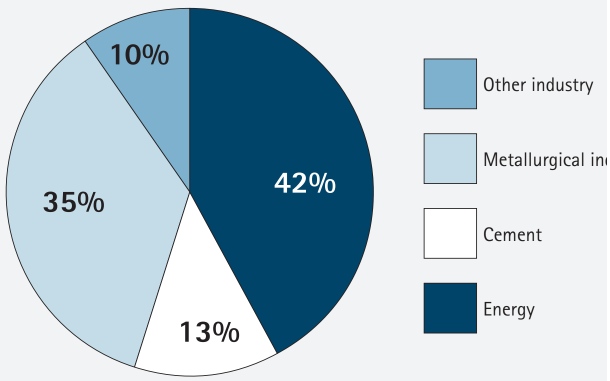
The oil spill prevention team organises regular time-tabled drills. In partnership with technical personnel from the Coast Directorate, courses in emergency management have also been held. Ballast water from the large ports in Europe is changed in open seas, so that only seawater is released into the Van Mijenfjord. Regular checks are carried out.

The shipping regulations also incude provisions that Panmax ships may carry a maximum of 350 tonnes of bunker oil when in the waters round Spitsbergen. SNSG has drawn up inspection procedures to ensure compliance with these regulations.

In 2002, IMO, the UN shipping organisation, decided that all international harbours should introduce terrorism protection measures according to the so-called ISPS code within 1 July 2004. Actions have been taken to comply with these regulations, and the appropriate system is now in use at Kapp Amsterdam in Svea and at Hotellneset in Longyearbyen. Any person entering the safety zone will now need advance clearance.

Transport and loading activities at Svea are carried out by Leonhard Nilsen & Sønner Spitsbergen AS (LNSS), a company owned by Leonhard Nilsen & Sønner AS. The partnership is working well.

Sale of coal per market



Health, Environment and Safety

Safety has been high on the agenda at SNSG, and the company's objective is for all jobs to be carried out under safe conditions, so that no-one is injured while going about their work.

There were no serious injuries in 2004. On the other hand, there was a number of minor lost-time injures. The frequency of injuries is measured as the number of lost-time injuries per 1 million working hours (lost-time frequency). In 2004 this figure was 22, against 10 in 2003. Some of the injuries were caused by traffic accidents.

The total absence figure in 2004 was 6.0% against 8.8% in 2003. Company health services are bought from the Longyearbyen hospital, and representatives of the hospital attend regular meetings of the company's working environment committee. In the latter half of 2004, SNSG joined forced with LNSS and ISS at Svea and employed a half-time physiotherapist for a specific project. One of the aims was to stimulate physical activity among staff of all three companies and to assess the ergonomics of individual work stations.

SNSG is the principal enterprise at Svea, which means the company carries overall responsibility for its subcontractors' health and safety measures. This is pursued by coordinating the health and safety services of all players. For larger projects where external companies take part, HES plans must be drawn up in advance, highlighting the risks involved and describing all preventive measures. All operation and construction meetings shall have HES as a fixed item on the agenda.

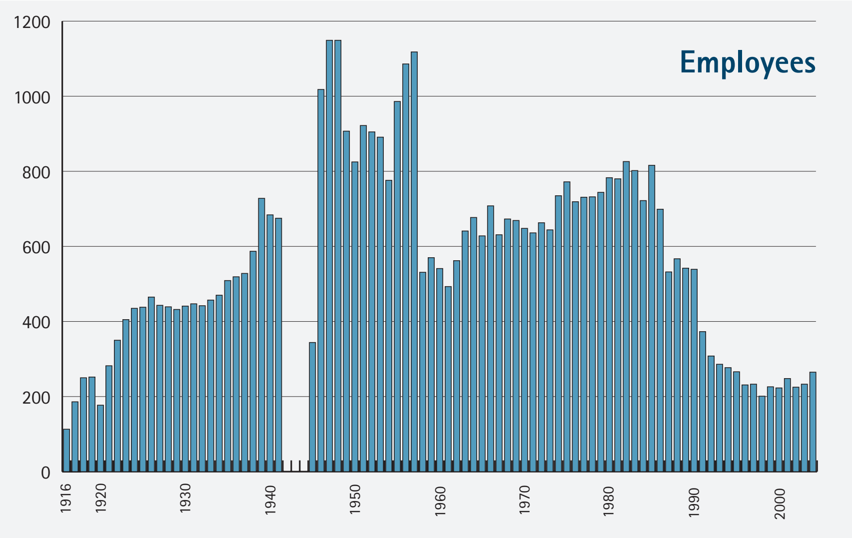
Gruve 7 at Longyearbyen had no injuries this year. This means it is now 5 years since the last injury occurred there, a fact which was duly celebrated by all employees at Gruve 7 having dinner with the Minister of Trade and Industry, Børge Brende, when he visited Longyearbyen in the autumn of 2004.

The safety service constitutes a key HES tool, with its safety delegates and a head safety delegate in addition to a technical manager (safety supervisor). Because the company's activities are scattered, the business is divided into 16 safety areas. There was a total of 21 safety delegates in 2004.

Outdoor Environment

Since 2001, when permanent operation of Store Norske's coal mines at Svalbard was passed by the Norwegian parliament and the responsible authorities (the Governor of Svalbard and the Mining Authority) approved the company's activities, SNSG has complied with all the rules and requirements that were set out in accordance with the company's own report. No regulations have been infringed and there is no disagreement between the governing authorities and the company about any of these issues.

In 2003 the State Pollution Control Authority introduced the requirement for an emission licence for Svea. The licence



application, which was submitted in April 2004, followed the template of similar documents for mainland operations. No major objections or comments were forthcoming during the consultation process. The company worked well and constructively with the pollution control authority in drawing up the licence application and the environmental risk analysis for the activities at Svea. This study forms the basis for the acute pollution preparedness plans which the control authority insisted be prepared for the future.
In 2004, the area in and around Svea has undergone an extensive clean-up operation. Large amounts of scrap metal were collected and shipped to the mainland. There is strict compliance with the waste management plan that was introduced in 2003.

No problems have occurred in association with shipping activities, and extensive safety measures have been implemented.

SNSG's environmental monitoring programme includes the monitoring of flora and fauna within the impact area. Cultural remains within the impact area have been mapped and measures implemented in partnership with the Governor's department of the environment.

Working Environment

Company surveys show that in psycho-social terms SNSG's employees still feel they have a good job. Health risks are measured on an on-going basis, and the safety aspect of all work operations is being analysed, also from a psycho-social perspective. New measures are constantly being introduced in order to improve safety.

In 2004 new shower and changing room facilities were opened for the miners at Svea.

Emergency Preparedness and Safety

SNSG is working actively with safety. The company's employees are constantly reminded about existing risk factors, and they receive training on an ongoing basis in how to avoid injuries and accidents. Employees of external companies who carry out work for SNSG, receive HES training before they start work.

Rock-mechanical conditions, methane gas, ventilation, coal dust and water are all matters which influence the safety situation in a coal mine, and the same applies for the use of equipment and the way in which individual work operations are carried out. SNSG works closely with senior technical experts and suppliers of equipment in order to improve the safety situation and prevent injuries. In particular, this involves the Norwegian University of Science and Technology and SINTEF in Trondheim.

As a consequence of a fatal accident in the mine in 2003, SNSG was fined NOK 1 million. A number of measures to prevent similar accidents from happening have been implemented. In 2004, a mining engineer was employed specifically to follow up mine safety work. Among other things, small gauges have now been installed in the roof of the mine in order to monitor creep and the risk of rockslides.

In the course of the year, a monitoring system was introduced which uses electronic tagging to automatically record all movements in and out of the mine. Anyone who enters the mine is equipped with such a tag.

Distances at Svalbard are vast and temperature and weather conditions can be extreme. This means there is a possibility that people will be cut off from the mainland or the rescue centre at Longyearbyen. As a consequence, SNSG has set up a number of emergency preparedness teams, organised as separate units. There is a mine rescue corps, and acute emergency team, a fire and rescue service, and an oil spill protection team. The teams have frequent drills and attend courses on a regular basis. In 2004, the acute emergency team at Svea demonstrated their competence in real-life situations, among them the treatment and stabilisation of a patient with cardiac infarcation.
A total of 95 people are involved with these teams.

Personnel

As at 31 December 2004, the company employed 265 staff, against 233 at the same time the year before. Out of these, 151 were working under ground.

The company's staff turnover was 8% against 12.7% in 2003. The average period of employment in the company is now 8.7 years. Staff distribution per age group still shows a trend towards a younger workforce. The average age has now fallen to 38.4 years.

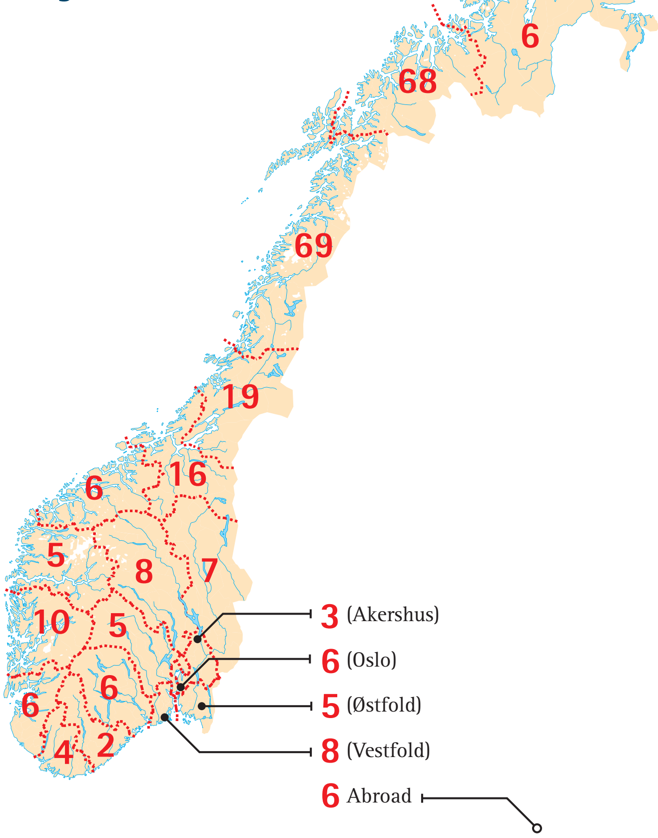
SNSG puts much effort into training and raising staff competencies, as this continues to be a matter of high importance. Many SNSG employees attend further education courses organised by the company or other bodies. In 2004, four candidates graduated in mining studies, a further 24 passed their mining theory exam, and nine passed their heating engineer's theory exam. In 2004, a partnership scheme was set up with Stjørdal Technical College, with a view to offer a three-year course in mineral resources engineering. A special course curriculum has been drawn up. There was significant interest in the course, and in the autumn of 2004, 38 students enlisted. Most of them work in the mines and study during their weeks off duty.

Equal Opportunities

SNSG is concerned with equal opportunities and is aware of the potential for sexual discrimination. Traditionally, mining has been a male dominated industry involving hard physical labour. This is why women have never been involved with mining. It is company policy to recruit more women for traditionally male-dominated jobs. In 2004 a female apprentice was employed in the mine.

The company has three female Directors, and three of the seven management positions are held by women. Longyearbyen Workers' Union, unit 142 of NAF, is a woman. Most of the company's employees are members of the Longyearbyen Workers' Union. Their head woman is also a member of the company's board of directors, sitting as staff representative.

Regional distribution of staff



Community Issues

Being the largest employer and principal corporation at Svalbard, SNSG has contributed financially to a number of events in Longyearbyen in 2004. These have primarily been events and activities for children and youngsters, but have also included sports and cultural events such as Polar Jazz and the Svalbard skiing marathon. SNSG is also one of the largest employers in northern Norway, and most of the company's employees come from northern Norway. This is why we also consider it natural for us to make a certain level of contribution towards cultural and sports activities on the mainland. In 2004, we have been working with Tromsø Sports Club and Troms Skiing Association, and this partnership has seen tangible results in the form of a visit to Longyearbyen in August by Tromsø Sports Club's A-team to hold a series of football classes for children. Furthermore, the active skiers of Troms Skiing Association put their distinctive mark on the Svalbard ski marathon. The association also organises the Store Norske Cup, which is extremely popular with the participants.

Finance

Operating income and profit

Coal sales CIF totalled NOK 1,303.5 million, against NOK 935.8 million in 2003. The increase was primarily attributed to higher coal prices. The operating income was NOK 220.9 million against NOK 68.5 million in 203, while profit before taxes was up from NOK 77.8 million to NOK 216.7 million.

Investment

In the coarse of 2004, the company has made investments to the amount of NOK 173.4 million.

Liquidity

Due to the climatic conditions at Svalbard, coal can only be shipped in the period from July to November. This means that the company produces for storage between the months of December and July. Cash from sales is never available till the autumn. The cashflow required to maintain operation during the period of producing for storage, is funded by an overdraft facility.

Financial risk

On the world market, coal is generally sold in USD, whereas most of SNSG's costs are in Norwegian currency. The dollar exchange rate has fallen from just over NOK 9 at the beginning of 2002 to NOK 6 at the end of 2004. The company's total revenue was USD 181 million in 2004.

In order to reduce the currency risk, the company enters into futures contracts for forward trading in dollar. In 2004, the company achieved an average exchange rate of NOK 7.06 against NOK 8.40 in 2003. The average market rate USD/NOK was 6.74 in 2004 against NOK 7.08 in 2003.
The company has loans in USD. This reduces the company's overall currency risk in that interest and loan repayments

reduce the total currency input. Also, coal shipping services are invoiced in USD. Certain consumables and fixed assets are also invoiced in USD.

Financial Items

Over 2004, the company has reduced its debt to credit institutions (incl. overdraft) by NOK 87.6 million. At the end of the year, the company held an unused overdraft facility of NOK 190 million. The company's long-term debt is in both Norwegian currency and USD.

Application of profit

The Board of Directors propose that NOK 109. 4 million of the company's NOK 199.9 million profit be paid as group contribution to the parent company, and that NOK 90.5 million be allocated to other equity.

Annual Accounting Statement

The Board of Directors consider the annual accounts submitted to the parent company and the group to be a satisfactory description of the position held by the company and the group at the turn of the year.

The accounts have been drawn up on the presumption that the company will continue its operation, as the Board of Directors find no indication to the contrary.

Board of Directors / Chief Executive

The Board of Directors held five meetings in 2004. At the 2004 AGM all shareholder representatives were re-elected to the Board. Staff representative Torstein Nilsen from the Miners' Union was replaced by Sverre Henning Engh. At the last meeting in 2004, the Board offered Chief Executive Robert Hermansen to continue in his position after 67 years of age.

Prospects

In 2004, SNSG started an extensive exploration programme involving core drilling for new commercial coal fields. This work continues in 2005 with three drill rigs in operation in the area round Svea. All geological knowledge about the area indicates a high probability of finding new reserves. SNSG has linked up with specialists on the exploitation of low-thickness reserves, and we will make use of their expertise when planning for the mining of Ispallen south of Svea.

The company expects the price of coal to remain high for a couple of more years. In order to build up equity and fortify the company in preparation for low business cycles, production will increase over the next two years, as will the rate of mine development. This means the mine will take on more staff and that the company will make further investments in modern equipment. It is important to remain focused on safety during this process.

The level of competence required by modern mining will continue to rise. SNSG will allocate substantial resources to staff training and initiatives designed to raise competence levels. This will be achieved through working with Stjørdal Technical College and educational institutions such as the Norwegian University of Science and Technology in Trondheim, Tromsø University and UNIS at Svalbard.

In recent years, the hedging of coal prices has become increasingly common practice in the international coal market. SNSG is also using hedging to protect the price of the company's coal.

In partnership with the SINTEF research foundation in Trondheim, SNSG is involved with international research projects on CO2-free coal-fired power stations (Dynamis and BIG CO2).

Thanks to all staff

The Board of Directors wish to thank all employees in Store Norske Spitsbergen Grubekomani AS for their demonstration of high work ethics, technical proficiency and loyalty in 2004. This contribution has meant that for the third year running, the company can demonstrate a healthy profit.

Longyearbyen, 31 December 2004 / 4 May 2005

Directors of STORE NORSKE SPITSBERGEN GRUBEKOMPANI AS

Steinar Høgaas
Chairman of the Board

Ole Fredrik Hienn
Vice Chairman

Jarle Haagensen

Lise Chatwin Olsen

Atle Fornes

Anita Johansen

Sverre Henning Engh

Esther Kostøl

Robert Hermansen
Chief Executive Officer

Profit and Loss Accounts
Store Norske Spitsbergen Grubekompani AS

NOK 1000	Note	Accounts 2004	Accounts 2003
Coal sales, CIF	2)	1 303 502	935 772
Other sales revenue		674	583
Rental income		49	88
Other operating income		5 629	3 069
TOTAL OPERATING INCOME		**1 309 853**	**939 511**
Changes in stock	14)	24 279	15 146
Wages, salaries and other staff costs	3)4)5)	-230 530	-158 668
Freight / commission on coal sales	6)	-449 388	-381 924
Production costs	7)	-164 212	-129 129
Housing and community costs	8)	-133 813	-113 562
Exploration	9)	-15 415	-11 197
Other operating costs		-37 889	-29 756
Depreciation and write-down	11)	-81 890	-61 953
TOTAL OPERATING COSTS		**-1 088 858**	**-871 043**
OPERATING PROFIT		**220 996**	**68 468**
Financial income	16)	27 708	30 523
Financial expenditure	17)	-32 051	-21 229
NET FINANCIAL ITEMS		**-4 342**	**9 294**
PROFIT BEFORE TAX		**216 653**	**77 762**
Tax payable		-13 503	-11 606
Changes in deferred tax	10)	-3 248	3 310
PROFIT AFTER TAX		**199 902**	**69 467**
Application of the year's profit:			
Group contribution		109 400	25 000
Other equity		90 502	44 467

Longyearbyen, 31 December 2004 / 4 May 2005

Directors of STORE NORSKE SPITSBERGEN GRUBEKOMPANI AS

Steinar Høgaas	Ole Fredrik Hienn	Jarle Haagensen	Lise Chatwin Olsen	
Chairman of the Board	Vice Chairman			
Atle Fornes	Anita Johansen	Sverre Henning Engh	Esther Kostøl	Robert Hermansen
				Chief Executive Officer

Store Norske Spitsbergen Grubekompani AS
Balance Sheet

NOK 1000	Note	2004	2003
FIXED ASSETS			
Intangible assets			
Net over-financed pension commitments	5)	42 470	15 069
Tangible assets			
Tangible assets	11)	586 943	290 720
Plant under construction (tunnel)	11)	0	204 723
Financial assets			
Investments in affiliated company	12)	36 752	36 752
Other long-term receivables	13)	10 000	10 000
TOTAL FIXED ASSETS		**676 165**	**557 264**
CURRENT ASSETS			
Stocks			
Operating materials	14)	62 106	43 303
Coal	14)	67 276	42 998
Receivables			
Accounts receivable from customers	15)	68 501	40 104
Other short-term receivables	13)	17 734	1 665
Bank deposits, cash			
Cash in hand, deposits in banks	1)	104 526	55 917
TOTAL CURRENT ASSETS		**320 144**	**183 986**
TOTAL ASSETS		**996 308**	**741 250**
SHAREHOLDERS' EQUITY AND DEBT			
SHAREHOLDERS' EQUITY			
Share capital	22)	-150 100	-150 100
Other equity	22)	-184 141	-82 699
TOTAL SHAREHOLDERS' EQUITY		**-334 241**	**-232 799**
DEBT			
Provisions for accounts payable			
Deferred tax	10)	-4 061	-813
Provisions for accounts payable	21)	-4 000	-2 000
Long-term debt			
Debt to credit institutions	17)	-271 665	-310 653
Long-term debt to parent company	13)	-19 000	0
Short-term debt			
Bank overdraft	17)	0	-48 574
Trade creditors	1)	-155 791	-35 724
Unpaid government levies		-12 354	-8 301
Tax payable	10)	-8 085	-9 106
Other short-term debt	13)	-59 392	-45 665
Inter-company payables	13)	-127 718	-47 616
TOTAL DEBT		**-662 067**	**-508 451**
TOTAL DEBT AND SHAREHOLDERS' EQUITY		**-996 308**	**-741 250**

Cash Flow Statement, SNSG AS, Indirect model

NOK 1000	2004	2003
Cash flows from operating activities:		
Profit before tax costs	216 653	77 762
Tax paid over the period	-3 584	0
Ordinary depreciation	81 890	61 953
Change in stocks	-43 082	-17 857
Change in accounts receivable	-28 397	-15 791
Change in accounts payable	120 068	-34 522
Change in pension funds / commitments	-27 401	-12 952
Loss on foreign exchange	-13 886	-6 519
Items classified as investing or financing activities	0	-18 194
Change in other accruals	-19 586	48 365
Net cash provided by operating activities	282 675	82 245
Cash flows from investing activities:		
Sale of fixed assets	0	0
Purchase of fixed assets	-173 390	-180 923
Purchase of shares and units in other companies	0	0
Net cash provided by investing activities	-173 390	-160 923
Cash flows from financing activities:		
New long-term debt	19 000	119 582
New short-term debt	0	0
Repayment of existing long-term debt	-25 102	0
Repayment of existing short-term debt	0	0
Net change in bank overdrafts	-48 574	-62 839
	0	0
Dividends paid	0	0
Group contribution paid	-6 000	-22 648
Net cash provided by financing activities	-60 675	34 095
Impact of exchange rate changes on cash and cash equivalents:		
Net increase in cash	48 610	-44 583
Cash balances at beginning of period	55 917	100 500
Cash balances at end of period	104 527	55 917

Notes to the accounts, SNSG AS

Note 1 Accounting principles

The accounts have been prepared in accordance with Norwegian accounting standards and generally accepted accounting principles. All figures are given in NOK 1000 unless otherwise stated. Any amounts in foreign currency are specified as such.

Principles of assessment and classification

Revenue items

Sale of goods and services are taken to income at the time of delivery.

Classification and assessment of balance sheet items

Current assets and short-term debt include items which fall due for payment within a year, and items associated with the goods cycle. Other items are classified as fixed assets / long-term debt.

Current assets are valued at the lower of cost and real value. On the balance sheet, short-term debt is stated at the original nominal value.

Fixed assets are valued at cost, but are written down to real value unless the decrease is expected to be of temporary character. Long-term debt is stated at the year-end nominal value.

Subsidiary / affiliated company

In the company accounts, the subsidiary is assessed according to the cost method. The investment is valued at cost of shares unless a write-down has been necessary. Items have been written down to their real value if their devaluation is caused by reasons which cannot be expected to be of a temporary character and if this is considered necessary in accordance with generally accepted accounting principles. Write-downs are reversed should the basis for their introduction cease to exist.

Dividends and other payments have been entered to income in the year in which the subsidiary made the allocation. Should the dividend exceed the share of retained profits after the purchase, the excess represents repayment of invested capital, and the value of the investment is deducted from the payments in the balance sheet.

The affiliated company has been valued at cost in the company's accounts. In the consolidated accounts, affiliated companies are valued according to the equity method. The share of the profit is based on profit after tax in the company in which investment has been made, less internal gains and any depreciation of added value, which is due to the fact that the price of the cost of the shares was higher than the acquired share of shareholders' equity entered on the balance sheet. In the profit and loss accounts, the share of the profit is entered under financial items.

Stocks

The stock of coal has been valued at the total cost of coal production.

The stock of operating materials and spare parts has been valued at the lower of cost and real value.

Fixed assets and depreciation

Fixed assets of considerable cost with a useful life of more than 3 years are entered on the balance sheet and depreciated. Depreciation is based on the length of the item's useful life in the context of Svea Nord's total resources.

Accounts receivable

Accounts receivable from customers and others are valued at their nominal value on the balance sheet, after provisions for expected losses.

Provisions for bad debt are made on the basis of specific assessment of individual items. For other accounts receivable, an unspecified depreciation is made to cover the expected loss.

Accounts receivable and payable in foreign currency

Accounts receivable and payable in foreign currency are entered at the rate of exchange as at 31 December.

Cash flows

The cash flow statement is prepared in accordance with the indirect method. *Cash and cash equivalents* include cash in hand, bank deposits and other short-term placings which with immediate effect and negligible currency risk may be converted to a known amount of cash, and provided the due date is less than 3 months from the date of acquisition.

Mine development costs

The cost of mine development and preparation of coal fields has been carried to expense. The preparation of new fields include the movement of equipment from one panel to the next.

Exploration costs

The cost of exploring new resources has been carried to expense.

Pension commitments

The company has a pension scheme for all employees. Net pension funds and costs are entered on the balance sheet. Every year, actuary calculations are made to assess the level of pension commitments and costs. These calculations allow for expected wage increases based on linear accrual. The period's net pension cost is included under Wages and salaries.

Taxes

Tax costs for the year are calculated on the basis of the bottom line result. This includes both taxes payable and changes in deferred taxes. Deferred tax is calculated on the basis of differences between book values and tax values.

Note 2 Incomes

Coal sales CIF are distributed among the following markets and customer groups:

TONNES	Energy	Cement	Metallurgical industry	Other industry	2004 tonnes	2003 tonnes
Svalbard	27 332				27 332	22 124
Norway		125 612			125 612	116 399
Denmark	310 132				310 132	499 045
Finland	64 867				64 867	62 772
Sweden					0	29 238
Iceland		13 484			13 484	0
Germany	519 892	15 882	877 501	123 378	1 536 653	1 156 507
The Netherlands			146 395		146 395	72 553
England		144 460			144 460	145 206
Poland					0	25 004
Portugal					292 649	284 354
France				155 455	155 455	146 277
Greece		69 382			69 382	271 877
Tonnes 2004	1 214 872	368 820	1 023 896	278 833	2 886 421	
Tonnes 2003	1 324 610	692 630	576 641	237 475		2 831 356

Coal sales CIF total NOK 1,309.2 million. Coal export duties to a total of NOK 5.7 million are deducted from the overall sales revenue.

Note 3 Management Remuneration

	2004	2003
Salary, Chief Executive Officer	1 811	1 664
Directors' remuneration	585	555
Auditor's fee	360	375
Consultant auditor	288	289

The Chief Executive Officer is covered by the same pension scheme as other employees. No severance pay arrangements have been made for the CEO.

Note 4 Breakdown of wages, salaries and social security charges

	2004	2003
Wages and salaries	154 019	129 111
Pension costs	59 724	11 921
Other expenses	16 787	17 636
TOTAL	230 530	158 668

Over the year, the average number of staff has been 258.

Note 5 Pension costs and commitments

SNSG AS' pension schemes provide cover for a total of 301 people, of whom 45 have taken early retirement. There are 117 ordinary pensioners, of whom 51 receive a retirement pension, 32 receive a spouse's pension, 14 receive a children's pension and 20 receive a disability pension. The scheme provides entitlement to specified future payments. These are generally dependent on the number of years of membership, the rate of pay at retirement age, and the amount of state pension received. The company's pension commitments are covered by an insurance company. As at 31 December 2004, the company's pension commitment was over-financed by a total of NOK 42.5 million, which has been entered on the balance sheet. At the start of the year, the over-financed commitment was NOK 15.1 million. The entire over-financing can be entered on the balance sheet. In 2004 it was decided that all the company's pension schemes should be secured.

Under one of the early retirement schemes, employees never used to earn unconditional pension rights until they reached the retirement age of that particular scheme (60). Under this scheme, the company paid no premium for individual employees during their period of employment. This meant that employees who stopped working for the company before they turned 60, had no entitlement to a paid-up policy under this early retirement scheme. Pension rights under this scheme were thus unsecured until the employee turned 60.

In line with all other company pension schemes, this scheme is now secured. This means that premiums are paid on an ongoing basis during the period of employment. This safeguard involves considerable changes in the form of higher pension commitments. The company has had to cover the resultant lagging pension rights by the payment of a large lump sum in 2004. This accounts for a considerable part of the explanation why the estimated pension commitments and funds have seen a substantial increase. The effect of securing the scheme has been entered in the accounts as a plan change. The company has chosen to enter the entire effect of this change in the profit and loss accounts for 2004. This is the main reason for the increase in estimate discrepancy/ plan change, cf. below.

	2004			2 003		
Pension costs	**Secured**	**Unsecured**	**TOTAL**	**Secured**	**Unsecured**	**TOTAL**
Pension rights accrued over the year	19 014	0	19 014	7 603	2 895	10 498
Interest on pension rights accrued	15 183	0	15 183	9 705	2 350	12 055
Return on pension funds	-13 629	0	-13 629	-13 481	-539	-14 020
Estimate discrepancy / plan change entered under profit and loss	38 682	0	38 682	11 366	-142	11 225
Administrative costs	475	0	475	0	0	0
Net pension costs	59 724	0	59 724	15 193	4 564	19 758
Balance sheet figures						
Pension commitments accrued	-331 179	0	-331 179	-191 138	-43 800	-234 938
Pension funds (at market value)	306 646	0	306 646	227 009	9 911	236 920
Deferred commitment (estimate discrepancy not entered under profit and loss)	67 002	0	67 002	17 940	-4 853	13 087
Return on total commitment not entered on balance sheet	0	0	0	0	0	0
Over-financed pension commitment on balance sheet	42 470	0	42 470	53 811	-38 742	15 069
Net over-finance on balance sheet			42 470			15 069

Economic conditions	2004	2003
Discount rate	5,0 %	6,0 %
Expected return	6,0 %	7,0 %
Pay increase	4,0 %	4,0 %
Base Rate adjustment	3,0 %	3,0 %
Adjustment to current pensions	3,0 %	3,0 %
Expected rate of voluntary exit before 40 years of age	6 %	10 %
Expected rate of voluntary exit after 40 years of age	1 %	5 %

It has been considered necessary to change some of the conditions on which the calculations are based. The discount rate and expected return were reduced by one percentage point from 2003 to 2004, due to a general change in the interest market and expectations associated with long-term risk-free interest. Based on voluntary retirement statistics and expectations for future turnover, it has also been considered prudent to change the percentage for expected annual voluntary exits. In isolation, the above changes to the conditions bring an increase in the year's pension costs and gross pension commitment. The effect of changes to commitment conditions as at 1 January 2004 are incorporated in the plan changes accrued over the remaining accrual period through the use of a corridor. This is an important contributing factor in terms of explaining estimate discrepancies not entered under profit and loss.

Note 6 Freight / Commission on coal sales

	2004	2003
Shipping costs	303 906	225 988
Analysis costs	1 479	1 438
Commissions	43 727	32 886
Transport/Loading at Svea	100 275	121 612
TOTAL	449 388	381 924

Note 7 Production costs

Production costs generally cover equipment and services hired for production and maintenance. The blocking out of new panels is carried to expenses on an ongoing basis provided the preparatory works are carried out at pace with the stoping activities.

Note 8 Housing and community costs at Svea

Because there is no road to Svea, all employees stay there throughout on-duty periods. This gives rise to accommodation, sustenance and infrastructure costs. Housing and community costs also include goods and passenger transport and the running of the power station.

Note 9 Exploration costs

Exploration activities in new fields are carried to expense. In 2004, the company's exploration activities have focused on Rindersbukta bay and Gustavdalen valley. Both areas are close to Svea.

Note 10 Tax costs

	2004	2003
Tax payable:		
Ordinary profit before tax	216 653	77 762
Permanent differences	6 074	5 191
Change in temporary differences	-32 477	33 103
Basis for tax payable	190 250	116 056
Tax at 10%	19 025	11 606
Tax payable on the year's profit	19 025	11 606
Tax cost for the year:		
Tax payable on the year's profit	19 025	11 606
Tax remission	-5 522	0
Change in deferred tax	3 248	-3 310
Total tax cost for the year	**16 751**	**8 295**
Balance sheet figure for tax payable		
Tax payable on the year's profit	19 025	11 606
Tax related to group contribution made	-10 940	-2 500
Total tax payable	**8 085**	**9 106**
Basis for deferred tax / tax benefits		
Differences assessed		
Fixed assets	-16 673	-16 921
Current assets	-17 173	-14 750
Debt	65 096	52 986
Other accounting provisions	-30 535	-25 676
Pension funds	39 892	12 492
Total	**40 607**	**8 131**
Deferred tax	**4 061**	**813**

Note 11 Tangible fixed assets, depreciation table

	Machines, fixtures, transport resources	Buildings	Technical plant	Mines	Plant under construction	TOTAL
Cost at 1 Jan 04	**17 427**	**44 541**	**267 762**	**428 276**	**204 723**	**962 729**
Inflow 2004	4020	10 639	10 957	147 774	0	173 390
Reclassified	0	0	0	204 723	-204 723	0
Cost at 31 Dec 04	**21 447**	**55 181**	**278 719**	**780 773**	**0**	**1 136 120**
Accumulated depreciation at 1 Jan 04	12 590	40 160	100 641	313 896	0	467 286
Write-downs for the year	1 675	1 878	22 468	55 870	0	81 890
Book value as at 31 Dec 04	**7 183**	**13 143**	**155 610**	**411 007**	**0**	**586 943**
Expected remaining life (incl. 2004)	**3 - 8 år**	**8 år**	**8 år**	**8 år**		

Expected remaining life is calculated on the basis of the amount of coal in the core field at Svea Nord. Depreciation for the year is calculated on the basis of the year's coal production in relation to remaining reserves in the main field. Given the rate of recovery planned for the next years, the main field's expected remaining life, including 2004, is 8 years.

Note 12 Shares in subsidiaries and other companies

Company	Place	Stake, %	Value on balance sheet
Store Norske Boliger AS	Longyearbyen	100	36 000
Svea Tankanlegg AS	Sveagruva	15	752
TOTAL			**36 752**

On the balance sheet, the shares are valued according to the cost method. Store Norske is committed to buying back the shares in Svea Tankanlegg AS at nominal value if no other buyers are forthcoming.

Note 13 Inter-company payments

			2004		
	Accounts receivable	Other receivables	Short-term debt	Long-term debt	Total
Store Norske Spitsbergen Kulkompani AS	0	0	-127 718	-19 000	-146 718
Store Norske Boliger AS	0	10 533	0	0	10 533
Store Norske Gull AS	0	8	0	0	8
TOTAL 2004	**0**	**10 542**	**-127 718**	**-19 000**	**-136 176**

			2003		
Store Norske Spitsbergen Kulkompani AS	0	0	-47 616	0	-47 616
Store Norske Boliger AS	0	614	-1 210	0	-596
TOTAL 2003	**0**	**614**	**-48 826**	**0**	**-48 212**

Note 14 Stocks

Coal stocks have been assessed at total production cost, which for 2004 was NOK 200 per tonne, against NOK 135 per tonne in 2003.

	2004		2003	
	Tonnes	NOK	Tonnes	NOK
Coal stocks, Longyearbyen	6 380	1 276	5 500	743
Coal stocks, Svea Mine	330 000	66 000	313 000	42 255
TOTAL	336 380	67 276	318 500	42 998

Stocks of operating materials and spare parts have been valued at average cost from supplier. Items older than one year are valued at 0 on the balance sheet, unless they are expected to be put into use over the next year.

	2004			2003		
	Cost	Written down	Balance sheet value	Cost	Written down	Balance sheet value
Stock of consumables, Longyearbyen	354	279	75	886	886	0
Stock of consumables, Gruve 7	17 743	15 001	2 742	17 591	17 591	0
Stock of consumables, Svea	84 495	62 328	22 167	75 841	53 955	21 886
Stock of consumables, Svea	56 531	19 408	37 123	43 978	22 561	21 417
TOTAL	159 123	97 016	62 106	138 296	94 993	43 303

Note 15 Accounts receivable

	2004	2003
Net accounts receivable as at 31 December	68 501	40 104
Bad debt entered in the accounts for the year	0	-19
Change in loss reserves	0	0
Provisions for bad debt as at 31 December	1 005	1 005

The provisions for bad debt are considered sufficient to cover possible future losses.

Note 16 Finansinntekter

	2004	2003
Interest received, bank deposits	397	160
Interest received from group companies	74	0
Unrealised gains on foreign exchange, loan	13 886	6 519
Other foreign exchange gains	13 127	5 219
Dividends	225	432
Sale of shares	0	18 194
TOTAL	**27 708**	**30 523**

The revenue from sale of shares in 2003 concerned the sale of shares in Leonhard Nilsen & Sønner Store Norske AS.

Note 17 Debt to credit institutions

Interest-bearing debt:

		2004		2003	
Type of loan	Bank	Balance	Interest paid	Balance	Interest paid
Overdraft	Sparebank1 Nord-Norge	0	6 228	48 574	6 854
Mortgage, NOK	Sparebank1 Nord-Norge	140 000	6 053	160 093	4 884
Mortgage, USD	Sparebank1 Nord-Norge	131 665	4 510	150 560	4 663
Unused overdraft (limit 190,000)		190 000		141 426	
Debt to mature more than 5 years after the end of the accounting year		217 332		116 500	

The mortgage in USD has been valued at the exchange rate of 31 December.

		Transactions		Balance		
Date		USD	NOK	USD	NOK	Exch. rate
Sept 2001	Loan established	23 864	210 000	23 864	210 000	8,80
31.12.01	Exchange rate adjustment		5 348	23 864	215 348	9,02
15.01.02	Repayment	-597	-5 348	23 267	210 000	9,03
31.12.02	Exchange rate adjustment		-47 925	23.267	162 071	6,97
15.10.03	Repayment	-711	- 4 992	22 556	157 079	6,96
31.12.03	Exchange rate adjustment		-6 519	22 556	150 560	6,68
	Repayment	-752	-5 009	21 804	145 551	6,66
31.12.04	Exchange rate adjustment		-13 886	21 804	131 665	6,04

The mortgage was taken out by the parent company SNSK in 2001 and was transferred to SNSG AS on 1 January 2002.

Note 18 Secured debt and guaranties

	2004	2003
Mortgage loan	271 665	150 560
Construction loan	0	160 093
Overdraft	0	48 574
TOTAL	**271 665**	**359 227**
Book value of assets pledged as security for debt		
Tangible assets	586 943	495 443
Shares owned by the company	36 752	36 752
Stocks	129 382	86 301
Accounts receivable	68 501	40 104
TOTAL	**821 578**	**658 559**

Børge Brende, the Minister of Trade and Industry (left), opened the new transport tunnel from Svea Nord to Svea in September 2004. Chairman Steinar Høgaas and CEO Robert Hermansen played hosts. Photo: Thorbjørn Johnsen, SNSG

The company has pledged the following assets as security:
- Land registry no. 12, Indre Lågfjord
- Rights and claim areas by the Van Mijenfjord south of Reindalen
- Operating materials and accessories
- Stocks of coal and goods
- Shares owned by the company
- Accounts receivable
- Buildings and plant at Svea

Guarantees

The company has issued a NOK 4 million guarantee to Norsk Romsenter Eiendom AS to cover the cost of a possible break/failure of sea fiber cables to the mainland.
In connection with the option purchase of a mine development machine, an EUR 1.8 million guarantee has been issued to its supplier.

Note 19 Terminkontrakter

Most of the coal is sold in USD. In order to reduce the risk of a fluctuating exchange rate, the company enters into futures contracts which secure future sales of dollars. Coal sales and freights are stated at the average secured/achieved exchange rate. Because the futures contracts are used as security instruments, any unrealised foreign exchange gains are not entered on the date of the balance sheet.

As at 31 December 2004, the company had entered into the following futures* for the sale of USD:

Matures	USD mill.	Average exch. rate
2005	105	7,20
2006	60	6,52
2007	30	6,35

I tillegg er det inngått følgende salgsopsjoner* på salg av USD:

Matures	USD mill.	Average exch. rate
2005	20	7,78
2006	40	6,35

* Sales options give SNSG AS the duty but not the right to sell at the agreed exchange rate, while a futures contract carries both an obligation and a right to sell at the agreed exchange rate.

Note 20 Coal reserves

Due to the geological conditions and technical circumstances surrounding coal reserves at Longyearbyen from the very start, the following technical definitions have traditionally been used to classify the coal reserves:

Definite coal: Areas which have been blocked out on three sides, and with a distance of less than 300 metres between observations.

Probable coal: Reserves outwith the areas classified as definite reserves, and with a given minimum distance to known observations.

Established coal: The sum total of definite and probable coal (in situ).

Sale-coal: Established reserves less expected losses caused by geological conditions, recovery, transport and coal preparation.

Developments in exploration drilling and mining methods have rendered these definitions obsolete. Core drilling can now be used to established the extent of a resource with the necessary degree of certainty.

Known sale-coal
Based on our experience of mining in Gruve 7, Svea West and Svea Nord, where we have carried out extensive diamond core drilling operations with much longer distances between holes than those required by these – to Store Norske – obsolete definitions, we have merged the classes of definite and probable coal into a single new class: known coal.

In the future, coal seams of less than 1.5 metres will not be included. Profitable mining is normally impossible on seams of lower thicknesses. When we calculate sale-coal tonnage, we take the chosen mining method into consideration. For Gruve 7 this will continue to be room & pillar mining, like today. For the Svea mine, including the Ispallen, we will consider only longwall stoping, even in areas where we will be cutting seams with a thickness of 1.5 – 2.5 metres.

Possible sale-coal
This is coal which there is a given probability we will find, on the basis of uncovering the outward bounds of the coal seams and some diamond bore holes.

Reservert salgskull mill. tonn pr. 31.12.04

	Mektighet	Mining method	Established	Potential
Svea Nord, core	2,8 - 4,5	Longwall stoping	20,0	
Svea area	1,5 - 2,8	Longwall stoping	22,0	
Gruve 7	1,3 – 1,7	Room & Pillar	1,4	1,0
TOTAL	**1,3 – 3,8**	**All methods**	**43,4**	**1,0**

In addition to these established amounts of sale-coal in the known reserves around Svea and Longyearbyen, geological knowledge and theories about the formation of coal reserves 60 million years ago have been used as a basis for initiating an extensive programme of diamond core drilling west of the Svea mine and south of Gruve 7 in Longyearbyen. We expect to see the results of the drilling programme in the course of the next 2-3 years.

Conservation areas
Now that the Nordenskiold national park has been established, we no longer consider the areas round the Reindal, Lunckefjell and Kolfjell reserves to be potential exploration areas for coal mining. The rules that apply for the building of roads and plant within the national park, bar all prospects of profitable coal mining.

Note 21 Tidying

In the accounts for 2004, a sum of NOK 2 mill. has been allocated to future tidying operations at Svea. Total provisions for tidying costs are stated at NOK 4 million.

Note 22 Shareholders' Equity

	Share capital	Other equity	Total
Shareholders' equity at 1 January 2004	150 100	82 699	232 799
Profit for the year	0	199 902	199 902
Net group contribution made	0	-98 460	-98 460
Shareholders' equity at 31 December 2004	150 100	184 141	334 241

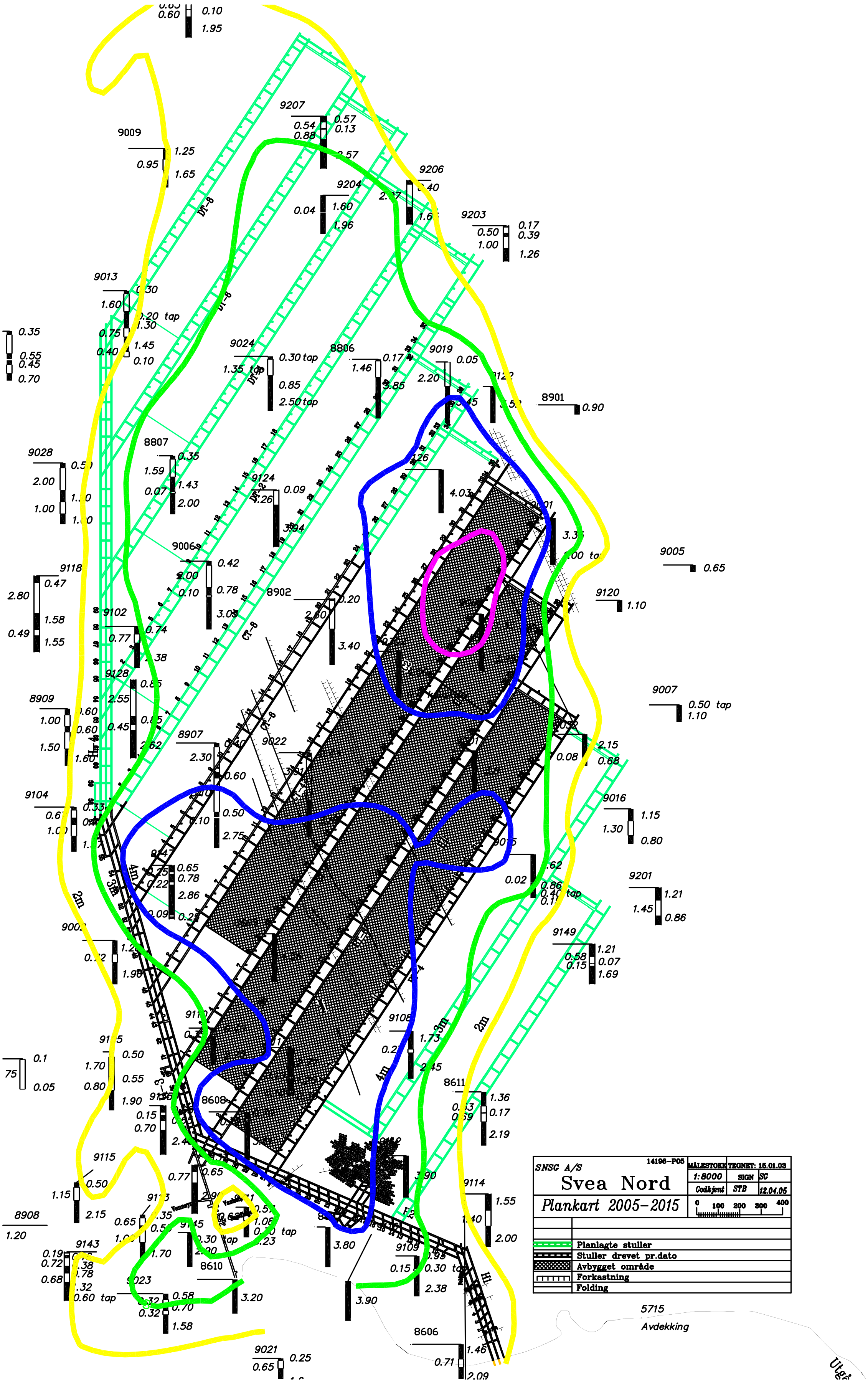
The share capital is made up of 150,000 shares, each with a nominal value of NOK 1000.

Note 23 Ownership structure

As at 31 December 2004, Store Norske Spitsbergen Kulkompani AS held 100% of the company's shares.

Photo: Torbjørn Johnsen, SNSG

Photo: Tommy Simonsen, To-Foto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SIGN SG
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Avbygget område
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Folding
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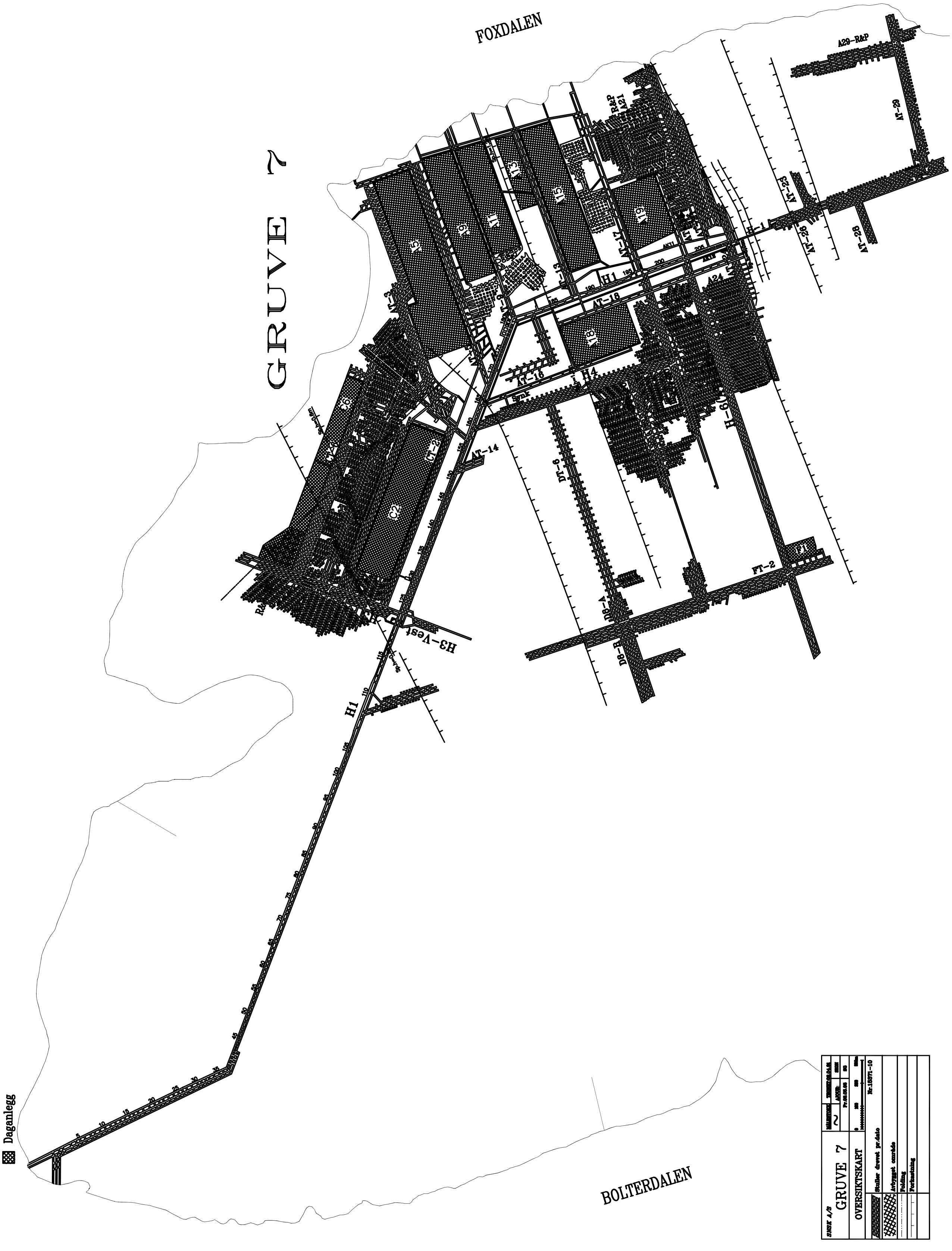
Avdekking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GRUVE 7
A29-R&P
AT-29
AT-28
AT-26
AT-18
AT-17
AT-14
H1
H4
H3-Vest
DT-8
FT-2
BOLTERDALEN
Daganlegg
GRUVE 7
OVERSIKTSKART