Annual report and accounts

# 2008

Store Norske Spitsbergen Kulkompani AS
Store Norske Spitsbergen Grubekompani AS

PHOTO: TOMMY DAHL MARKUSSEN

| Store Norske Spitsbergen Kulkompani AS | 93rd year of operations |
|---|---|
| Enterprise no.: | 916 300 395 |
| Share capital l: | 164 490 000 |

| Store Norske Spitsbergen Grubekompani AS | 7th year of operations |
|---|---|
| Enterprise no.: | 984 015 097 |
| Share capital l: | 150 100 000 |

| Board of Directors: | |
|---|---|
| Bård Mikkelsen | Chairman |
| Lisbeth Alnæs | Vice-Chairman |
| Ole Fredrik Hienn | |
| Grethe Fossli | |
| Anne-Cathrine Haadem | |
| Henning Kløften | Staff representative |
| Thomas Hukkelås | Staff representative |
| Bjørn Martinsen | Staff representative |

| Administration: | |
|---|---|
| Bjørn Arnestad | Chief Executive Officer |
| Magne Larsen | Production Director |
| Nils Tokheim | Marketing Director |
| Terje Carlsen | Human Resources Director |
| Sissel Danielsen | Financial Director |
| Ester Knudsen | Property and Prospecting Manager |
| Einar Fjerdingøy | Chief HSE Officer |
| Harry Higraff | Director of Project and Investment Development |

PHOTO: TORBJØRN JOHNSEN

*Chief Executive Officer Bjørn Arnestad (left), Thomas Hukkelås, Vice-Chairman Lisbeth Alnæs, Grethe Fossli, Henning Kløften, Anne-Cathrine Haadem, Bjørn Martinsen, Chairman Bård Mikkelsen and Ole Fredrik Hienn.*

# Contents

# An unusual year

2008 was an unusual year. We began January with a coal price of around 130 USD per tonne, and all the indications pointing straight up. Six months later, in July, the coal price reached an incredible 219 USD per tonne.

But of course nothing ever just keeps growing, and this proved to be the case with the price of coal. Over the summer and autumn prices plummeted, not just for coal, but also for oil, steel, aluminium, nickel, and for most other commodities. The world entered a financial crisis that then developed into an international industrial crisis - and the coal price continued to fall. By the beginning of 2009 it was approaching 70 USD per tonne. Since the opening of Svea Nord the market for coal has on the whole been a seller's market. The situation is now reversed, and we are faced with a buyer's market with new challenges like the customer's need for coal, product price and quality, and the cost levels within our own operation.

2008 was nevertheless a good year for Store Norske. In fact, financially 2008 was the best year in the company's 92-year history, and this is due solely to the high price of coal. As a consequence our sales increased from two to three billion kroner, most of which ended up on the bottom line in the form of a healthy profit.

As a result Store Norske currently has some financial strength and is free to plan for the future – though we cannot afford to wait around. It is a fact that Svea Nord's core will be worked out in a little under five years, and planning is underway for a new mine in Lunckefjell. However a new mine costs money - a lot of money - and this is why the excellent result for 2008 is so important. This does not mean that we can take it easy, however. It is essential that we trim our costs in response to the lower price for coal, which, as things stand, will remain low for some years to come.

In 2008 an increased focus was brought to bear on our entire operation. The main cause of this was the work on the new White Paper on Svalbard. While there is no doubt that Store Norske is important for the Norwegian presence on Svalbard, coal mining in general – and on Svalbard in particular – is controversial from an environmental perspective.

Store Norske and coal mining are both important for Longyearbyen. The social and commercial analysis for 2008 commissioned from The Norwegian Institute for Urban and Regional Research (NIBR) by the Longyearbyen Local Administration concludes that "mining continues to be, in absolute terms, the most important basic industry in Longyearbyen and Svea, whether the effects of the activity are measured directly or indirectly". According to the report, coal mining accounts for about 40% of employment. Half of all children in Longyearbyen have parents who work for Store Norske or for associated companies.

In view of this, it is important that Store Norske manages its resources as efficiently as possible. Production volume is extremely important for long-term planning of the coal mining operation. If too many Store Norske employees do not live permanently in Longyearbyen, this will weaken the family-based society and make coal mining less suitable as a tool in Norway's Svalbard policy. We must bear this in mind, and this is also in line with the signals we are getting from the owner – the Norwegian state. We are therefore preparing for production volume to be reduced from over three million tonnes a year towards two million tonnes a year. We are also preparing new working hours arrangements, and new family housing will hopefully encourage our employees to settle in Longyearbyen with their families for longer or shorter periods.

Fortunately there were no serious work-related accidents in 2008. However the injury situation is still not good and we are still seeing too many minor injuries. Our HSE and safety work (including sensible working hours arrangements) must always have the first and the highest priority. We are constantly working on improving our work routines and our approach to health, safety and the environment. We have a zero tolerance policy on injuries, and by far the most important goal for 2009 is that there should be no workplace injuries in Store Norske.

For me personally, 2008 has also been an unusual year. I started as Chief Executive Officer in March, following in the footsteps of someone who had left a clear impression both on the company and on Svalbard. Robert Hermansen retired in the autumn of the same year, and he deserves to be thanked for the very important work he has done for Store Norske. Thanks must also go to the company's employees. They have ensured that I have had a very thorough introduction to everything from longwall mining to riding a snowmobile – two different but entirely necessary skills for anyone hoping to function and thrive in Store Norske and on Svalbard.

Longyearbyen, 15 March 2009

Bjørn Arnestad

PHOTO: TOMMY DAHL MARKUSSEN

## Key figures for Store Norske

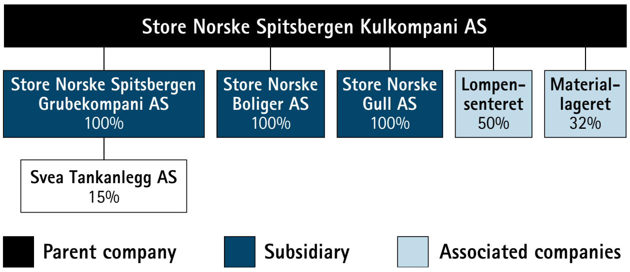
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| Production (1,000 tonnes) | 2 132 | 2 944 | 2 904 | 1 471 | 2 395 | 4 073 | 3 430 |
| Number of employees at 31.12 – group | 225 | 233 | 265 | 314 | 366 | 396 | 387 |
| Sickness absence – group (percentage) | 6,2 | 8,8 | 6,0 | 8,3 | 8,7 | 8,9 | 8,1 |
| Injuries involving absence | 4 | 4 | 10 | 23 | 17 | 14 | 20 |
| Turnover (NOK million) | 696 | 945 | 1 315 | 1 139 | 1 267 | 1 827 | 3 445 |
| Tonnes/employee | 9 013 | 12 854 | 11 664 | 5 081 | 7 044 | 10 691 | 8 761 |
| Profit before tax (NOK million) | 68 | 74 | 227 | 53 | -85 | 130 | 1 056 |
| Profit after tax (NOK million) | 64 | 65 | 219 | 46 | -78 | 112 | 881 |
| Depreciation (NOK million) | 32 | 64 | 85 | 66 | 101 | 154 | 152 |
| Equity % | 29,0 | 32,2 | 35,4 | 35,9 | 26,9 | 26,1 | 42,6 |
| Interest-bearing debt (NOK million) | 460 | 495 | 390 | 777 | 1 035 | 614 | 24 |
| Coal price (USD per tonne) | 36 | 39 | 64 | 67 | 72 | 83 | 175 |


VOLVO

PHOTO: KIM BIERBRAUER

# Annual report of Store Norske Spitsbergen Kulkompani AS

Store Norske Spitsbergen Kulkompani AS (SNSK) is the parent company in the Store Norske group. The company has three wholly-owned subsidiaries: Store Norske Spitsbergen Grubekompani AS (SNSG), which carries out mining operations on Svalbard (the main operation), Store Norske Boliger AS (SNB), which manages the group's residential accommodation, and Store Norske Gull AS (SNG), which conducts prospecting operations.




The Norwegian state, represented by the Ministry of Trade and Industry, owns 99.9% of the shares in SNSK. The remainder of the shares are owned by private shareholders.

SNSK has mining concessions for large areas of Svalbard. These concessions are held in reserve for future operations. The company owns several pieces of land on Svalbard, including the two central properties, Longyeardalen and Adventdalen, covering Longyearbyen. The company leases land to companies establishing in Longyearbyen.

## Key facts about the company in 2008

As a parent company, SNSK has worked hard on securing conditions for the group operations, including the supply of capital, insurance conditions and recruitment.

At 31.12.08 SNSK had 54 employees, compared with 59 in 2007. Functions within the company include finance and accounting, wages, personnel and training, purchasing and material administration (coal stocks), ICT and management. With the exception of the warehouse, which is kept in Svea, all the company's operations are based at the head office in Longyearbyen. The group had a total of 387 employees.

Sickness absence was 8.9% for SNSK and 8.1% for the group. Sickness absence in 2007 was 4.7% for SNSK and 8.9% for the group.

Personnel turnover in 2008 was 5% for SNSK and 8% for the group as a whole. Personnel turnover in 2007 was 10% for SNSK and 9% for the group. The average length of employment in the company has fallen from 11 years in 2007 to 8.5 years in 2008. The period of employment within the group has fallen from 8 years to 7.5 year. The employees' average age is 44 years in the company and 39 years in the group, these figures being the same as for 2007.

## Financial review

The Board of Directors considers that the annual financial statements published for the parent company and the group provide a true and fair description of the performance, results and financial position of the company and the group. The accounts have been prepared under the going concern assumption.

## Operating income and profit

Turnover in the parent company was NOK 136.2 million. Turnover in the group was NOK 3,444.6 million. There was an operating loss of NOK 46.9 million for the parent company and an operating profit of NOK 1,253.2 million for the group. The parent company posted a pre-tax profit of NOK 204.2 million while the group posted NOK 1,056.4 million. The profit after the transfer of NOK 250 million as a group contribution from SNSG and taxes was NOK 211.1 million for the parent company and NOK 880.7 million for the group.

This year the company conducted a review of the conditions and principles used for recognising pension cost and the pension commitment in the accounts, see Note 8 to the accounts.

## Financial information

The parent company had investments of NOK 0.4 million in 2008. There were investments in the group of NOK 134.2 million.

The parent company has no foreign currency exposure, but at group level most sales are transacted in foreign currency, primarily the US dollar. Active hedging and long-term currency loans are used to reduce the currency risk and are used as part of the mining company's activities.

All coal sales in SNSG are made through Oxbow Coal GmbH, and as a result all credit risk is through just one customer. All receivables as at 31.12.08 have been settled in 2009.

At year-end, the parent company had no long-term debt. Short-term debt was NOK 232.0 million, of which NOK 200 million is in the form of a provision for dividends to shareholders. The group had long-term debt of NOK 24.2 million and short-term debt of NOK 856.0 million.

At year-end, non-restricted equity in the parent company was NOK 3.6 million, while in the group it was NOK 857.7 million.

**Allocation of profit**
Of the parent company's after-tax profit of NOK 211.1 million, the Board of Directors proposes that NOK 200 million be used for dividends and NOK 11.1 million be transferred to other reserves.

**Corporate social responsibility**
Store Norske has an active and conscious approach to the considerations that must be taken into account in order to make a positive contribution to the development of the society in which the company is a major participant. This is in line with the objective of the state's ownership of Store Norske.

Store Norske's product, in addition to coal, is a long-term and stable presence in Longyearbyen. In view of this, the Board of Directors considers it important to achieve a balance between the operational and financial goals and the social objectives.

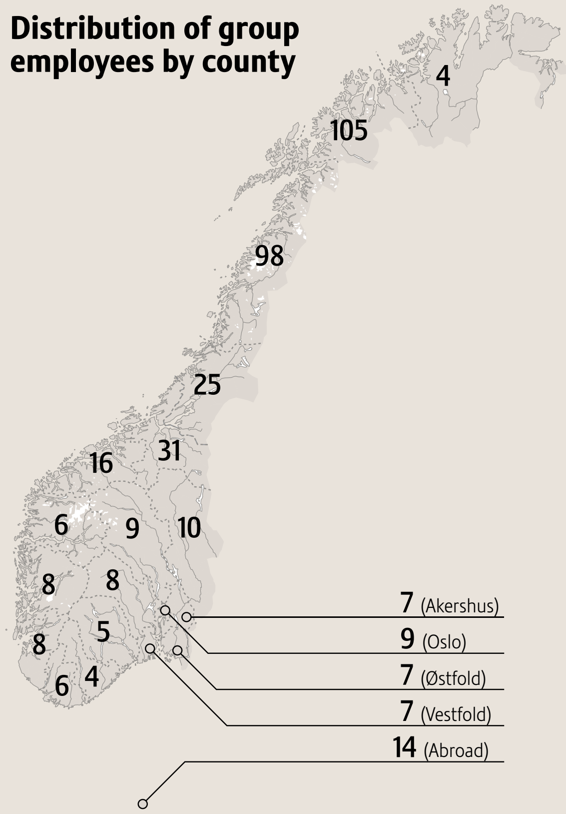
In connection with the new government white paper on Svalbard, The Norwegian Institute for Urban and Regional Research (NIBR) has analysed the importance of coal mining for the development of Longyearbyen. The analysis shows that coal mining is of crucial importance for stability and the family community in Longyearbyen. The analysis also concludes that if coal mining were wound up in 2012, about 40% of all the man-years in Longyearbyen would be lost. The population of Longyearbyen would be reduced by 800–900 residents.

During 2008 Store Norske provided financial support for a number of events, clubs and associations in Longyearbyen, primarily activities aimed at children and young people but also sporting and cultural events for the population at large. Support with a local perspective will continue to be given priority in the future.

**Research and development**
Store Norske is supporting research into the treatment of greenhouse gases from the production of electricity from fossil fuels. The company is a partner in the EU-financed DYNAMIS research project, the goal of which is to build a zero-emissions coal power station in Europe.

The company is also participating in the steering group for the "$CO_2$-free Svalbard" research project, initiated by UNIS and the research foundation SINTEF Energiforskning. In 2008, Store Norske supported the drilling of a test borehole in Longyearbyen in order to investigate the suitability of the bedrock for depositing and storing $CO_2$.

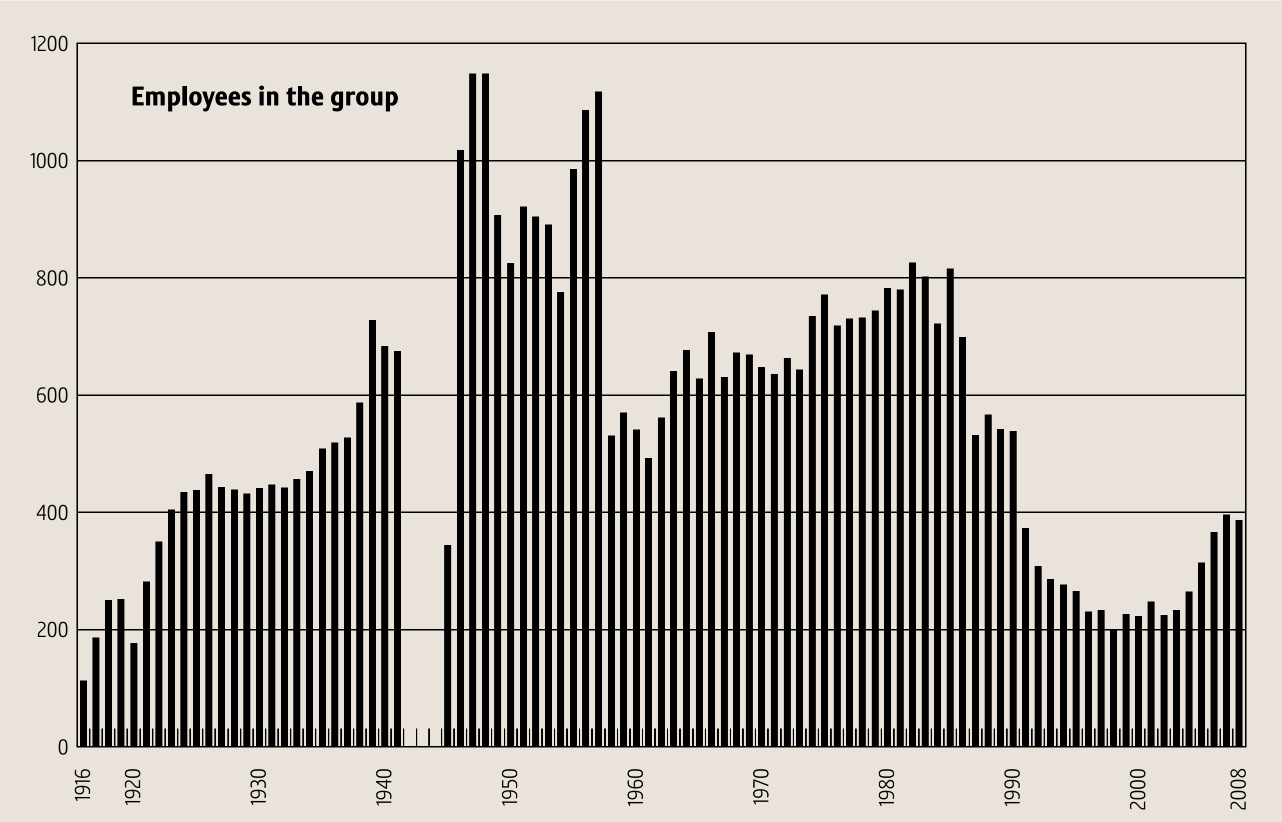
**Distribution of group employees by county**




## Wholly-owned companies

**Store Norske Spitsbergen Grubekompani AS**
Most of Store Norske's operations are conducted within this company. In 2008 the company posted an after-tax profit of NOK 961.2 million and operating income of NOK 3,353.5 million. The company had 333 employees at 31.12.2008. All administrative services were purchased by SNSK.

**Store Norske Boliger AS**
The company owns housing stock comprising 421 units in Longyearbyen which are let out to the group companies for their employees and the employees of LNSS. Most income is internal to the group, and the result after tax was a loss of NOK 4.3 million from a




turnover of NOK 41.1 million. The company had no employees at 31.12.2008. All services are purchased by SNSK.

**Store Norske Gull AS**
The company was founded in 2003 and is primarily engaged in prospecting activities on Svalbard and in Finnmark and Troms.

The company has mining claims in Finnmark and in Troms. On the basis of the explorations carried out in 2008, an early estimate has been made of the ore potential in two of the areas in which the company operates. Work is still at an early stage and further exploration work is planned, with core drilling to take place in 2009.

The company had no income of its own in 2008. The loss after tax was NOK 34.4 million.

At 31.12.2008, Store Norske Gull AS had five employees. All administrative services were purchased from the parent company.

## Associated and other companies

**Materiallageret AS**
32% owned by Store Norske Spitsbergen Kulkompani AS. The company lets out properties in Longyearbyen, where Store Norske has its offices.

**Lompensenteret AS**
50% owned by Store Norske Spitsbergen Kulkompani AS. The object of the company is to operate business premises in Longyearbyen.

**Svea Tankanlegg AS**
15% owned by Store Norske Spitsbergen Grubekompani AS. The objects of the company are to procure, store and distribute fuel in Svea.

**External environment**
The parent company has carried out mining operations in the area around Longyearbyen since 1916. During this period, locally restricted pollution has occurred in the form of acid run-off and residues from mining operations. Measures have been taken to counteract pollution from operations which took place prior to Svea Nord. The consequences of current operations continue to be dealt with in consultation with local and central environmental authorities.

Clearing-up and maintenance operations on and around Store Norske's operating and closed-down facilities in the Longyearbyen continued in 2008. A total of 45 tonnes of metallic waste was collected and sent to the mainland.

As a result of the environmental impact studies carried out, the group has gained a high level of

PHOTO: TOMMY DAHL MARKUSSEN

expertise in mining-related environmental issues. Monitoring programmes and collaboration with universities has provided a good insight into working methods for producing good solutions, among other things for shipping coal from the Van Mijenfjord and oil protection contingency measures in Svea. As a result of the work on Svea Nord, many employees have acquired important knowledge of environmental issues in the Arctic and gained considerable experience in obtaining, organising and applying this knowledge.

**Equal opportunities**
SNSK is concerned with equal opportunities and is aware of possible gender discrimination. There are three women on the company's Board of Directors. Two of the management positions in the group are occupied by women, and six by men.

**The Board of Directors and the Chief Executive Officer**
In 2008 the Board of SNSK met seven times, once on Svalbard. New board members were elected in 2008. Esther Kostøl and Lise Chatwin Olsen resigned from the Board. Anne-Cathrine Haadem and Grethe Fossli joined as new board members. Thomas Hukkelås and Bjørn Martinsen are new employee representatives on the Board of Directors. Bjørn Helge Nygård and Anita Johansen resigned from the Board of Directors. Robert Hermansen resigned as the company's Chief Executive Officer on 2 March 2008. Bjørn Arnestad took up the position of Chief Executive Officer on the same date. The Board of Directors would like to thank Robert Hermansen for the very important work he has done for the group as Chief Executive Officer from 1999 to 2008.

**Future prospects**
The objective of the State's ownership of Store Norske is for the company to be run in accordance with sound business principles and to contribute actively to year-round Norwegian activity and habitation on Svalbard. Both the company's strategic direction and the operational plans and measures are aimed at these objectives.

Coal-mining operations on Svalbard are the company's core activity, and they will form the basis for its existence and development for many years to come. The core in Svea Nord is expected to be worked out by 2014. The company is then planning to continue operations in Svea by opening up the deposit in Lunckefjell, which is located northeast of the Svea Nord core area.

The employees represent a broad and well-balanced mix of the skills and expertise the group needs both for its current operations and in order to invest in future activities. The group pursues extensive prospecting activities for coal and mineral deposits on Svalbard and on the mainland.

**Thank you to the group's employees**
The Board of Directors would like to thank all the employees and representatives in the group and its subsidiaries and associated companies for the motivation and loyalty demonstrated in 2008.

Longyearbyen, 31st December 2008
28th March 2009

The Board of Directors of Store Norske Spitsbergen Kulkompani AS

Bård Mikkelsen
Chairman

Lisbeth Alnæs
Vice-Chairman

Ole Fredrik Hienn

Anne-Cathrine Haadem

Grethe Fossli

Thomas Hukkelås

Bjørn Martinsen

Henning Kløften

Bjørn Arnestad
Chief Executive Officer

PHOTO: INGE BAKKELAND

# Profit & loss account, Store Norske Spitsbergen Kulkompani AS

NOK 1000

| Group 2008 | Group 2007 | | Note | Parent company 2008 | Parent company 2007 |
|---|---|---|---|---|---|
| 3 353 487 | 1 871 527 | Coal sales CIF | 1)2)13) | 0 | 0 |
| 5 271 | 1 274 | Other sales income | 3) | 129 424 | 139 016 |
| 14 306 | 11 810 | Rental income | | 6 312 | 4 471 |
| 71 511 | -58 090 | Other operating income | 4) | 459 | 2 767 |
| **3 444 575** | **1 826 520** | **Total operating income** | | **136 195** | **146 254** |
| -7 006 | 141 761 | Change in stocks | 5) | 0 | 0 |
| -566 644 | -376 279 | Wages and salaries, national insurance contributions and pension expenses | 6)7)8) | -93 938 | -66 759 |
| -684 944 | -669 204 | Freight relating to coal sales | | 0 | 0 |
| -781 192 | -666 854 | Other production and operating costs | 9) | -88 291 | -73 336 |
| -151 548 | -153 502 | Depreciation | 11) | -838 | -781 |
| **-2 191 335** | **-1 724 079** | **Total operating costs** | | **-183 068** | **-140 877** |
| **1 253 241** | **102 442** | **Operating profit/loss** | | **-46 873** | **5 378** |
| | | | | | |
| 27 212 | 108 203 | Financial income | 12) | 269 054 | 13 193 |
| -224 072 | -80 913 | Financial expenses | 12)13) | -17 953 | -11 426 |
| **-196 860** | **27 290** | **Net financial items** | | **251 100** | **1 767** |
| **1 056 381** | **129 731** | **Profit/loss before tax** | | **204 228** | **7 145** |
| -175 632 | -17 933 | Taxes | 14) | 6 857 | 2 828 |
| **880 749** | **111 798** | **Profit/loss after tax** | | **211 085** | **9 972** |
| | | | | | |
| | | **Application of profit/loss for the year:** | | | |
| | | Group contribution paid | | | |
| 200 000 | 7 004 | Dividend | 21) | 200 000 | 7 004 |
| 0 | 0 | Group contribution paid | 21) | 0 | 6 917 |
| 680 749 | 104 794 | Other equity | 21) | 11 085 | -3 949 |

Longyearbyen, 31st December 2008
28th March 2009

The Board of Directors of Store Norske Spitsbergen Kulkompani AS

Bård Mikkelsen
Chairman

Lisbeth Alnæs
Vice-Chairman

Ole Fredrik Hienn

Anne-Cathrine Haadem

Grethe Fossli

Thomas Hukkelås

Bjørn Martinsen

Henning Kløften

Bjørn Arnestad
Chief Executive Officer

# Balance sheet, Store Norske Spitsbergen Kulkompani AS

| | | | | | NOK 1000 |
|---|---|---|---|---|---|
| Group | | | | Parent company | |
| 2008 | 2007 | | Note | 2008 | 2007 |
| 115 445 | 13 168 | Intangible assets | 14) | 20 552 | 12 682 |
| 771 919 | 789 731 | Tangible assets | 11) | 7 086 | 8 034 |
| 9 168 | 11 935 | Financial assets | 15) | 237 277 | 237 277 |
| **896 532** | **814 833** | **Total fixed assets** | | **264 915** | **257 992** |
| 378 968 | 351 245 | Stocks | 5) | 1 032 | 150 |
| 223 284 | 554 872 | Receivables | 16)17) | 243 136 | 261 326 |
| 1 171 640 | 33 247 | Bank deposits, cash | 18) | 4 869 | 4 728 |
| **1 773 892** | **939 364** | **Total current assets** | | **249 038** | **266 204** |
| **2 670 425** | **1 754 197** | **Total assets** | | **513 952** | **524 197** |
| 164 490 | 164 490 | Share capital | 22)23) | 164 490 | 164 490 |
| 973 187 | 292 438 | Other equity | 22) | 24 161 | 13 076 |
| **1 137 677** | **456 928** | **Total shareholders' equity** | | **188 651** | **177 566** |
| 552 505 | 163 449 | Provisions | 20) | 93 329 | 39 136 |
| 24 205 | 366 548 | Long-term debt | 19) | 0 | 0 |
| 956 039 | 767 273 | Short-term debt | 16)19) | 231 973 | 307 494 |
| **1 532 748** | **1 297 269** | **Total debt** | | **325 301** | **346 631** |
| **2 670 425** | **1 754 197** | **Total debt and shareholders' equity** | | **513 952** | **524 197** |

# Cash flow statement, indirect model
# Store Norske Spitsbergen Kulkompani AS

| | | NOK 1000 | | |
|---|---|---|---|---|
| Group | | | Parent company | |
| 2008 | 2007 | | 2008 | 2007 |
| | | **Cash flow from operating activities:** | | |
| 1 056 381 | 129 731 | Profit/loss before tax | 204 228 | 7 144 |
| -626 | -1 017 | Tax paid for the period | 0 | 0 |
| -74 | 248 | Profit/loss on sale of fixed assets | -74,15 | 0 |
| 8 | 0 | Gain on sale of shares | 0 | 0 |
| 151 548 | 153 503 | Ordinary depreciation | 838 | 781 |
| -27 724 | -158 929 | Change in stocks | -882 | -150 |
| -32 756 | -3 522 | Change in accounts receivable | -1 019 | 898 |
| 225 612 | 5 487 | Change in accounts payable | 10 828 | 3 541 |
| 360 752 | 23 839 | Differences in pension funds/ commitments | 49 192 | 2 733 |
| 2 795 | -1 258 | Profit/loss using the equity and gross method | 0 | 0 |
| 0 | 0 | Write-down of financial assets | 0 | 0 |
| 124 727 | -9 249 | Effect of exchange rate movements | 0 | 0 |
| 0 | 0 | Items classified as investing or financing activities | -250 000 | |
| 239 319 | 146 098 | Change in other accruals | 250 694 | -175 152 |
| **2 099 962** | **284 932** | **Net cash flow from operating activities** | **263 805** | **-160 205** |
| | | | | |
| | | **Cash flow from investment activities:** | | |
| 648 | 600 | Sale of tangible assets | 648 | |
| -134 237 | -101 036 | Purchase of tangible assets | -391 | -6 848 |
| 0 | 237 | Reduced sales consideration in respect of assets sold previously | 0 | 0 |
| 43 | 0 | Sale of shares and units in other companies | 0 | 0 |
| 0 | -500 | Purchase of shares and units in other companies | 0 | -78 782 |
| **-133 546** | **-100 699** | **Net cash flow from investment activities** | **257** | **-85 630** |
| | | | | |
| | | **Cash flow from financing activities:** | | |
| 0 | 24 000 | New long-term debt | 0 | 0 |
| 0 | 250 000 | New short-term debt | 0 | 250 000 |
| -324 125 | -106 158 | Repayment of existing long-term debt | 0 | 0 |
| -250 000 | 0 | Repayment of existing short-term debt | -250 000 | 0 |
| -247 073 | -349 158 | Net change in overdraft facility | 0 | 0 |
| 0 | 0 | Shareholders' equity | 0 | 0 |
| 0 | 0 | Repayments of shareholders' equity | 0 | 0 |
| -6 824 | -7 004 | Dividends paid | -7 004 | -7 004 |
| -0 | 0 | Group contribution paid/received | -6 917 | -3 209 |
| **-828 022** | **-188 320** | **Net cash flow from financing activities** | **-263 921** | **239 787** |
| | | | | |
| | | **Effect of exchange rate movements on cash and cash equivalents** | | |
| 1 138 394 | -4 088 | Net change in cash and cash equivalents | 141 | -6 047 |
| 33 247 | 37 335 | Cash and cash equivalents at beginning of period | 4 728 | 10 775 |
| **1 171 640** | **33 247** | **Cash and cash equivalents at end of period** | **4 869** | **4 728** |

# Notes to the accounts, Store Norske Spitsbergen Kulkompani AS and the group

## Note 1 Accounting principles

The accounts have been prepared in accordance with Norwegian accounting rules and standards and generally accepted accounting principles. All figures are stated in NOK 1000 unless otherwise specified. Amounts in foreign currencies are stated separately.

**Consolidated accounts**
The consolidated accounts cover the parent company Store Norske Spitsbergen Kulkompani AS and subsidiaries and associated companies. An overview of the companies is provided in Note 15. Associated companies are included in the consolidated accounts using the equity method.

The group's results and financial position are shown as one unit. Internal transactions among the companies such as revenues, expenses, receivables, debt and paid-up shares have been eliminated.

**Parent/Subsidiary**
SNSK – Store Norske Spitsbergen Kulkompani AS
SNSG – Store Norske Spitsbergen Grubekompani AS
SNB – Store Norske Boliger AS
SNG – Store Norske Gull AS

*Associated companies*
Materiallageret AS
Lompensenteret AS

**Income recognition**
Sale of goods and services is recognised in income at the time of delivery.

**Classification and valuation of balance sheet items**
Current assets and short-term debt cover items which fall due for payment within one year, as well as items associated with the operating cycle. Other items are classified as fixed assets/long-term debt.

Current assets are valued at the lower of cost and fair value. Short-term debt is recognised in the balance sheet at the original nominal amount.

Fixed assets are valued at cost but written down to fair value if the decrease in value is not expected to be temporary. Long-term debt is recognised in the balance sheet at nominal value at year-end.

**Subsidiaries / Associated companies**
Subsidiaries are valued using the cost method in the company accounts. The investment is valued at cost price of the shares unless a write-down has been necessary. The investment is written down to fair value if the decrease in value is due to reasons which cannot be assumed to be temporary and the write-down is considered necessary in accordance with generally accepted accounting principles. Write-downs are reversed if the basis for the write-down no longer exists.

Dividends and other payments are recognised in income for the year in which the subsidiary made the allocation. If the dividend exceeds the share of retained profit after the acquisition, the excess represents repayment of the capital invested and the value of the investment is deducted from the payments in the balance sheet.

Associated companies are valued at cost in the company accounts, while the equity method is used in the consolidated accounts. The share of profit/loss is based on profit/loss after tax in the company in which the investment has been made, less internal gains and any amortisation of goodwill as a result of the cost price of the shares being higher than the acquired share of equity in the balance sheet. In the profit & loss account the share of profit/loss is shown under financial items.

**Stocks**
Coal stocks are measured at the lower of the total coal production costs and net sales value. The stock of operating materials and spare parts is measured at the lower of cost and fair value.

**Tangible assets and depreciation**
Tangible assets are recognised in the balance sheet and depreciated if they have a useful life of more than three years and if they have a significant cost price. Depreciation is based on the useful life of the assets.

**Receivables**
Accounts receivable and other receivables are recognised in the balance sheet at nominal value less provision for bad debts. Provision for bad debts is made on the basis of a specific assessment of

the individual items. An unspecified provision to cover expected losses is also made for other accounts receivable.

**Insurance settlement after the fire**

The fire in Svea Nord on 30 July 2005 resulted in considerable costs for the company. The company had insurance cover for loss of equipment and loss of profit. For 2005 and 2006, insurance losses were recognised in income based on a conservative estimate. The case between the company and the insurance companies was heard by Nord-Troms District Court in autumn 2007. In 2007, the insurance sum was adjusted downwards to the same compensation amount plus interest ordered by the ruling. The decision was appealed to Hålogaland Court of Appeal, which then considered the case in autumn 2008. The difference between previously booked insurance compensation and the decision issued by the Court of Appeal has been recognised in income in 2008. The insurers submitted an appeal in this case to the Supreme Court. In March 2009 a decision was received from the Appeal Committee dismissing the appeal.

**Cash flow**

The cash flow statement has been compiled using the indirect method. Cash and cash equivalents cover cash, bank deposits and other short-term, liquid investments which can be converted into known cash amounts with immediate effect and negligible currency risk, and which have a due date within three months of the acquisition date.

**Receivables and payables in foreign currency**

Receivables and payables in foreign currency are recognised at the exchange rate prevailing at 31 December.

**Mine development costs**

The cost of mine development and preparation of new coalfields is recognised as an expense.
The preparation of new fields includes moving stopes from one panel to the next.

**Exploration costs**

The cost of exploring new deposits is recognised as an expense.

**Pension commitments**

The group has a pension scheme for all its employees. Pension assets and costs are shown net in the balance sheet. Actuarial calculations of pension commitments and costs are carried out each year, taking account of expected wage increases based on straight line accrual. The net pension cost for the period is included under Wages and salaries.

**Taxes**

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

## Note 2 Revenue, group

TONNES

Coal sales CIF can be broken down as follows:

| | Energy | Cement | Metallurgical industry | Other industry | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Svalbard | 24 457 | | | | 24 457 | 27 258 |
| Norway | | 35 444 | | 17 641 | 53 084 | 178 106 |
| Denmark | 409 337 | | | 2 700 | 412 037 | 324 365 |
| Finland | | | | 64 598 | 64 598 | 0 |
| Netherlands | | | 70 919 | | 70 919 | 42 253 |
| Iceland | | 9 335 | | | 9 335 | 25 281 |
| Germany | 1 103 687 | 4 168 | 763 197 | 73 212 | 1 944 265 | 2 339 253 |
| Poland | 104 434 | | | | 104 434 | 0 |
| England | 142 803 | | | | 142 803 | 74 978 |
| Portugal | 226 662 | | | | 226 662 | 219 263 |
| France | 292 346 | | | | 292 346 | 280 561 |
| Greece | | 76 320 | | | 76 320 | 66 835 |
| USA | | | | | 0 | 32 257 |
| Switzerland | | | | 32 343 | 32 343 | 0 |
| **Tonnes 2008** | **2 303 725** | **125 266** | **834 116** | **190 494** | **3 453 602** | |
| **Tonnes 2007** | **1 927 782** | **344 276** | **1 021 814** | **316 538** | | **3 610 410** |

Coal sales CIF totalled NOK 3,368.8 million. Total coal export levies of NOK 15.3 million have been deducted from sales income.

## Note 3 Other sales income

The parent company sells administrative services to the subsidiaries SNSG, SNB and SNG. In the consolidated accounts, this income is eliminated against the costs in the respective companies.

## Note 4 Other operating income

The company has insurance for operational losses as a result of interruptions caused by fire. The operating loss is calculated as the difference between the result of operations which would have been achieved in the indemnity period with and without the damage which occurred. The indemnity period is 12 months. An insurance settlement following the fire in Svea Nord on 30 July 2005 was considered by Nord-Troms District Court in autumn 2007, when the compensation level was reduced to the amount recognised in accounts in 2005 and 2006. The difference of NOK 64.8 million was reversed in 2007. In 2008 the difference between the Court's decision and that of the Court of Appeal was recognised in income at NOK 69.9 million under other operating income, and NOK 13.9 million under interest received.

## Note 5 Stocks – group

The stock of coal is measured at the lower of the net sales income and total cost of coal production. The production cost for 2008 was NOK 379 per tonne. Prices on the market fell dramatically during autumn 2008, and continued to fall over the first two months of 2009. The measurement of net sales price is based on an assumed price of 68.50 USD per tonne, less sales costs.

The net sales price for the stock of coal on Svalbard has been measured at NOK 300 per tonne. The value of the stock of coal in Antwerp includes added freight and sales costs, and is measured at NOK 445 per tonne.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Tonnes | NOK | Tonnes | NOK |
| Coal stocks, Longyearbyen | 15 020 | 4 506 | 12 797 | 3 839 |
| Coal stocks, Svea Mine | 448 141 | 134 442 | 498 138 | 149 441 |
| Coal stocks, Antwerpen | 24 420 | 10 873 | 0 | 0 |
| **Total** | **487 581** | **149 821** | **510 935** | **153 280** |

Stocks of operating materials and spare parts are valued at average cost from the supplier. Items which are more than two years old and which are not expected to be used in the next year are valued at 0 in the balance sheet.

| | Group | | | | Parent company | |
|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2007 | 2006 |
| | Consumables | Spare parts | Consumables | Spare parts | Consumables | |
| Cost | 163 280 | 197 240 | 360 520 | 103 000 | 169 391 | 272 391 |
| Written down | -35 877 | -96 528 | -132 405 | -12 556 | -62 021 | -74 577 |
| **Value in the balance sheet** | **127 404** | **100 711** | **228 115** | **90 444** | **107 370** | **197 814** |

## Note 6 Management Remuneration

NOK 1000

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Remuneration of Chief Executive Officer/General Manager: | | | | |
| - Salary | 3 647 | 2 463 | 1 910 | 2 463 |
| - Other reportable payments | 58 | 23 | 56 | 23 |
| - Pension benefits | 467 | 0 | 130 | 0 |
| Directors' fees | 1 080 | 1 055 | 1 000 | 1 000 |
| Statutory audit | 755 | 832 | 99 | 120 |
| Tax consultancy service/assessment papers | 47 | 0 | 13 | 0 |
| Other auditor services | 759 | 608 | 354 | 31 |

Robert Hermansen resigned as Chief Executive Officer on 2 March, and Bjørn Arnestad took up the position as of the same date.

Salaries and remuneration within the parent company are broken down as follows:

| | | |
|---|---|---|
| Robert Hermansen | Salary | 380 |
| Bjørn Arnestad | Salary | 1,330 |
| | Salary – pension cover 60-67 | 200 |
| | Pension benefits 67 years | 130 |
| | Free car/accommodation/telephone | 56 |

The Chief Executive Officer is included in the same ordinary retirement pension scheme (67 years) as other employees, though not in the early retirement pension scheme from the age of 60. The Chief Executive Officer does not have a severance pay agreement or bonus scheme.

Figures for the group include salary paid to the General Manager of Store Norske Gull AS. The pension scheme for the General Manager in this company is from the age of 57.

## Note 7 Specification of wages, salaries and national insurance contributions

NOK 1000

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Wages and salaries | 300 751 | 299 082 | 42 907 | 46 561 |
| Pension costs | 258 628 | 65 206 | 42 584 | 10 414 |
| Other payments | 7 265 | 11 991 | 8 447 | 9 784 |
| **TOTAL** | **566 644** | **376 279** | **93 938** | **66 759** |

The total number of man-years for SNSK and the group in 2008 was 55 and 467 respectively.

## Note 8 Pension costs and commitments – group

SNSK has pension schemes covering 51 persons.

The group has pension schemes covering a total of 423 persons, 45 of whom have taken early retirement. There are 131 persons in receipt of an ordinary pension, 62 of whom receive a retirement pension, 36 a spouse's pension, 14 a children's pension and 19 a disability pension. The schemes provide entitlement to defined future benefits, primarily dependent on the number of service years, salary at retirement age and the amount of state pension received. The pension commitments are covered by an insurance company.

The company's pension schemes comprise both an ordinary retirement pension scheme (from the age of 67) and a voluntary early retirement pension scheme (from the age of 60) for all employees. The assumption of contributory period for accounting purposes for the ordinary retirement pension scheme (the 67 scheme) has been calculated based on a normal retirement age of 60 years. The reason for this is that the pension cost should be recognised as an expense in the periods during which the employees are actually working for the company, cf. the matching principle in the Norwegian Accounting Act. A high proportion of the employees who remain working for Store Norske until the age of 60 are expected to take up the offer of the early retirement pension. In reality, the right to an ordinary retirement pension is accrued when an employee takes early retirement. For this reason, it has been decided that the contributory period for the ordinary retirement pension should also be calculated based on a retirement age of 60.

The ordinary retirement pension (from the age of 67) is covered by an insurance scheme. This scheme meets the requirements of the legislation on compulsory occupational pensions.

The group has a voluntary early retirement pension scheme from the age of 60. The requirement for accruing pension entitlements connected with this scheme is that the employee must remain employed until the age of 60. Up until 2007, the early retirement pension scheme was secured by an insurance scheme. The insurance contract for the early retirement pension scheme was cancelled with effect from 01.01.2007. All employees received paid-up policies covering their accrued entitlements in the scheme as at 01.01.2007. The group is continuing to fulfil its pension commitment with regard to the early retirement pension scheme from the age of 60, despite the cancellation of the insurance contract. This means that early retirement pensions accrued after 01.01.2007 will be paid out directly from the group's day-to-day operations. For accounting purposes, this commitment with regard to the early retirement pension scheme is calculated by an actuary and reflected in the accounts according to the same principles as for the ordinary retirement pension scheme from the age of 67. In estimating the pension commitment, account is nevertheless taken of the fact that employees retiring before 60 years of age do so without any entitlements from the early retirement pension scheme.

Previous schemes securing pension benefits on the basis of a pensionable wage exceeding 12 G (Top-Hat schemes) were terminated in 2008. In practice this means that the accounting commitment as at 31.12.07 in connection with these schemes is put at zero in the year's accounts. This change is classified as a change to cost of scheme and the effect is carried through profit or loss in accordance with generally accepted accounting principles. For the group, this change to cost of scheme, seen in isolation, produces an effect on net income (cost reduction) of NOK 14.4 million. The amount is shown as the difference between the calculated commitment as at 31.12.07 (after setting the estimate variance from the regular cost of the scheme to zero) totalling NOK 23.9 million, and payments on termination of the schemes, being NOK 9.4 million.

This year the company conducted a review of the assumptions and principles used for recognising pension cost and the pension commitment in the accounts.

Over time considerable unamortised estimate variances have built up. The result is that the commitment that has been recognised in the balance sheet in previous years' accounts has been considerably lower than the non-covered pension commitment that had actually been calculated. The reason for this build-up in unamortised estimate variances in previous years is that the options in NRS 6 were used that allow the estimate variances to be moved around (corridor method and spreading estimate variances over the remaining contributory period). In order for the accounts to better reflect the actual pension commitment, it has been decided this year to depart from the optional schemes with the corridor method and spreading over the remaining contributory period. This change-over has been defined as a change in accounting principle. As a result, the estimate variances that arose in 2008 are recognised in the profit and loss account, whereas the effect of the change in accounting principle is entered directly in equity. The effect of the change in accounting principle will be measured based on the figures from 1 January. The effect of the change in accounting principle in terms of amount (before tax) is in practice the same as the unamortised estimate variances as at 31.12.07. The total effect of the change in accounting principle for the group (before tax) is NOK 138.5 million. The comparison figures have been adjusted in accordance with the new principle. This means in practice that the comparison figures shown in the accounts have been adjusted as if the new principle had also been used at the closing of accounts for previous financial years.

Calculation of the pension commitment and the year's cost is based on a number of actuarial and demographic assumptions. According to the calculation assumptions, it is the discount rate in particular that has been the subject of assessment in presenting the accounts for the year. Regnskapsstiftelsen's [the Norwegian Accounting Standards Board's] most recent recommendation provides a considerable interval range for acceptable discount rates according to Norwegian accounting practice (between 3.8 and 5.8 %). The reason for this is, among other things, the current international financial crisis. The SNSK group sells its products on an international market where developments in international trends are assumed to be of considerable significance for the group's income and economic situation. It has therefore been decided to set the discount rate at the conservative end of the scale, i.e. at 3.8%. This is in accordance with what companies that adhere to International Financial Reporting

Standards (IFRS) (including all quoted companies) are obliged to base their consolidated accounts on. This discount rate is substantially lower than the one used as a basis at the previous closing of accounts (5.5% for 2007). This change in the discount rate is of considerable significance for the actuarially calculated pension commitment. The change in the discount rate therefore resulted in a substantial estimate variances in 2008.

Another cause of the estimate variances is the change-over from an insurance scheme to financing from day-to-day operations with regard to the early retirement pension scheme. See the more detailed account of the change above. In connection with the change-over there were a number of unanticipated effects/variances compared to what was expected. There was greater uncertainty than usual concerning the previous year's calculations due to uncertain basic data for the early retirement pension schemes. For further details, see last year's notes. A number of variances also arose from the different methods used to measure the value of pension assets in the previous insured scheme and the paid-up policies that have been issued. Employees were also given paid-up policies for accrued entitlements as at 01.01.2007, even though it would otherwise have been a condition that they had actually remained in work until reaching early retirement age in order to get/retain these pension entitlements. In summary, the above factors have resulted in significant negative accounting effects as a consequence of termination of the insurance scheme. There has been some doubt as to whether these changes should really be regarded as a change to cost of scheme or as an estimate change. Since the pension commitment is largely unchanged, it has been decided to treat the transition as a financing arrangement rather than as a change to the cost of the pension scheme. The effects have accordingly been treated as estimate variances. Since, according to the new principle, these estimate variances are recognised as an expense in the year in which they arise, it makes no difference to the cost for the year whether the variances are classified as estimate variances or a change to cost of scheme.

In accordance with the new principle for the accounting treatment of estimate variances (see the section above), the estimate variances that arose during 2008 have been recognised as costs as a component of the pension cost. A changed discount rate and the effects of reorganising the early retirement pension scheme resulted in extremely large estimate variances in 2008. These are the main causes of the substantial increase in pension cost and overall wage costs compared with 2007.

At 31.12.08 the company had a net pension commitment recognised in the balance sheet of NOK 83.1 million, and the group had a commitment of NOK 387.3 million.

| | Group | | Parent company | |
|---|---|---|---|---|
| **Pension costs** | **2008** | **2007** | **2008** | **2007** |
| Current value of the year's pension contributions | 35 930 | 41 514 | 7 510 | 8 544 |
| Interest cost on the pension commitment | 22 656 | 26 453 | 3 565 | 4 580 |
| Return on pension assets (less admin. costs) | -13 856 | -19 924 | -1 486 | -3 245 |
| Actuarial loss/gain recognised in profit & loss account | 201 653 | 17 163 | 38 814 | 536 |
| Effect of change to cost of scheme recognised in profit & loss account | 12 245 | 0 | - 5 819 | 0 |
| **Net pension costs** | **258 628** | **65 206** | **42 584** | **10 415** |

| | Group | | Parent company | |
|---|---|---|---|---|
| **The pension commitment** | **2008** | **2007** | **2008** | **2007** |
| Accrued pension commitments (DO) | -648 333 | -530 923 | -108 435 | -95 637 |
| Pension assets (at market value) | 261 004 | 385 269 | 25 336 | 61 731 |
| Accrued pension commitments (DBO) | -387 329 | -145 654 | 83 099 | -33 906 |
| Effect of estimate variances not recognised in profit & loss account | 0 | 0 | 0 | 0 |
| **Net pension commitment recognised in balance sheet** | **387 329** | **-145 654** | **83 099** | **-33 906** |

| **Economic premises:** | **2008** | **2007** | **2008** | **2007** |
|---|---|---|---|---|
| Discount rate | 3,80 % | 5,50 % | 3,80 % | 5,50 % |
| Expected return | 6,30 % | 5,75 % | 6,30 % | 5,75 % |
| Wage increase | 4,50 % | 4,50 % | 4,50 % | 4,50 % |
| Adjustment to basic state pension | 4,25 % | 4,25 % | 4,25 % | 4,25 % |
| Adjustment to current pension | 4,25 % | 4,25 % | 4,25 % | 4,25 % |
| Expected rate of voluntary exit before age of 40 | 6,00 % | 6,00 % | 6,00 % | 6,00 % |
| Expected rate of voluntary exit after age of 40 | 1,00 % | 1,00 % | 1,00 % | 1,00 % |

## Note 9 Related party transactions

SNSG and SNSK lease properties for employees in Longyearbyen from SNB. SNSK sells administrative services to other companies in the group. Internal transactions have been eliminated in the consolidated accounts.

## Note 10 Other operating costs

Operating costs mainly comprise consultants' fees, IT costs and administrative expenses. This item is also made up of insurance premiums, mining concession fees and loss on sales of operating equipment. NOK 12.3 million of the operating costs relate to research and development.

## Note 11 Tangible fixed assets, depreciation schedule

| Parent company | Machinery, fixtures, transport resources | Buildings | Technical plant | Mines, land | Plant under construction | TOTAL |
|---|---|---|---|---|---|---|
| Acquisition cost at 01.01.08 | 1 144 | 7 500 | | 504 | | 9 148 |
| Additions in the year | 391 | | | | | 391 |
| Disposals in the year | 648 | | | | | 648 |
| **Acquisition cost at 31.12.08** | **887** | **7 500** | | **504** | | **8 891** |
| Accumulated depreciation at 01.01.07 | 114 | 1 000 | | | | 1 114 |
| Reversed acc. depreciation on sale | 146 | | | | | 146 |
| Depreciation for the year | 163 | 675 | | | | 838 |
| **Book value as at 31.12.08** | **756** | **5 825** | | **504** | | **7 086** |
| **Estimated useful life** | **7 år** | **10/20 år** | | | | |

| Group | Machinery, fixtures, transport resources | Buildings | Technical plant | Mines, land | Plant under construction | TOTAL |
|---|---|---|---|---|---|---|
| Acquisition cost at 01.01.08 | 40 060 | 356 097 | 343 508 | 803 037 | 1 503 | 1 544 205 |
| Additions in the year | 5 272 | 33 020 | 10 494 | 85 451 | | 134 237 |
| Reclassification | | 1 503 | | | -1 503 | 0 |
| Disposals in the year (disposals/scrapping) | 648 | | | | | 648 |
| **Acquisition cost at 31.12.08** | **44 684** | **390 620** | **354 002** | **888 488** | **0** | **1677 794** |
| Accumulated depreciation at 01.01.08 | 23 910 | 65 520 | 208 784 | 456 261 | | 754 475 |
| Depreciation for the year | 5 663 | 11 192 | 34 739 | 99 953 | | 151 547 |
| Reversed acc. depreciation on sale | 146 | | | | | 146 |
| **Book value at 31.12.08** | **15 257** | **313 908** | **110 479** | **332 274** | **0** | **771 918** |
| **Estimated remaining useful life** (incl. 2008) | **3–7 years** | **6/20 years** | **6 years** | **3–7 years** | | |

The mine is depreciated on the basis of the production volume in relation to the estimated quantity of coal in the core field in Svea Nord. Other fixed assets are depreciated according to their expected useful life. The block of bedsits in Svea is depreciated for accounting purposes, while the dwellings in Longyearbyen are not.

| | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Additions | Disposals | Additions | Disposals | Additions | Disposals | Additions | Disposals | Additions | Disposals |
| Machines, fixtures, transport | 4 192 | 0 | 2 922 | 137 | 8 250 | 0 | 8 455 | 1 014 | 5 272 | 648 |
| Buildings | 16 373 | 0 | 9 651 | 0 | 33 813 | 0 | 52 955 | 0 | 33 020 | 0 |
| Technical plant | 10 957 | 0 | 43 084 | 0 | 8 497 | 0 | 17 076 | 3 868 | 10 494 | 0 |
| Real estate/mines | 147 774 | 0 | 91 167 | 0 | 32 284 | 0 | 21 047 | 101 600 | 85 451 | 0 |
| Plant under construction | 0 | 0 | 45 258 | 0 | 0 | 0 | 1 503 | 0 | 0 | 0 |
| **TOTAL** | **179 296** | **0** | **192 082** | **137** | **82 843** | **0** | **101 037** | **106 482** | **134 237** | **648** |

## Note 12 Financial items

| | Group | | Parent company | |
|---|---|---|---|---|
| **Financial income** | **2008** | **2007** | **2008** | **2007** |
| Interest received, bank deposits | 8 435 | 391 | 83 | 163 |
| Interest received on subordinated loan | | | 16 875 | 11 312 |
| Interest received from insurance settlement | 13 939 | | | |
| Interest received from customers/suppliers | 36 | | 1 | |
| Unrealised gains on foreign currency loans | | 9 249 | | |
| Foreign exchange gains from futures contracts | | 90 648 | | |
| Other foreign exchange gains | 6 372 | 5 505 | 12 | 12 |
| Dividends | 1 226 | 1 144 | 1 047 | 872 |
| Group contribution | | | 250 000 | |
| Interest received from group companies | | | 1 037 | 834 |
| Income on investments in associated companies | 906 | 1 258 | | |
| Other financial income | | 8 | | |
| **TOTAL** | **30 913** | **108 203** | **269 054** | **13 193** |

| | Group | | Parent company | |
|---|---|---|---|---|
| **Financial expenses** | **2008** | **2007** | **2008** | **2007** |
| Interest costs, bank debt | 42 186 | 64 756 | | |
| Interest costs, subordinated loan | 16 875 | 11 312 | 16 875 | 11 312 |
| Loss on exchange on futures transactions | 142 945 | | | |
| Loss on exchange, foreign currency loans | 15 023 | | | |
| Other foreign exchange losses | 6 878 | 4 537 | 7 | |
| Interest received from group companies | 0 | | 1 061 | 98 |
| Write-down of shares | 8 | | | |
| Other financial expenses | 157 | 307 | 10 | 16 |
| **TOTAL** | **224 072** | **80 913** | **17 953** | **11 426** |

## Note 13 Hedging transactions

The company has a hedging strategy that is intended to provide stability and long-term protection by limiting the economic effects of unexpected fluctuations in the foreign currency, coal and freight markets. Coal sales and coal freights are recognised at the average hedged/achieved exchange rate and coal price.

### Forward contracts, USD

Most coal sales are transacted in US dollars. In order to reduce the risk of exchange rate fluctuations, the company enters into futures contracts to hedge future sales of US dollars. As the forward contracts are used as hedging instruments, unrealised exchange gains on the balance sheet date are not recognised. Unrealised loss on exchange on the balance sheet date is recognised at NOK 142.9 million.

As at 31.12.08 the following forward exchange contracts had been entered into:

| Matures | USD million | Average rate |
|---|---|---|
| 2009 | 150 | 6.50 |
| 2010 | 80 | 6.85 |
| 2011 | 60 | 7.25 |

In addition, the following options contracts on the sale of USD have also been entered into:

| Matures | USD million | Minimum rate |
|---|---|---|
| 2009 | 65 | 6.08 |
| 2010 | 40 | 6.60 |
| 2011 | 20 | 7.50 |

The average rate obtained in 2008 was 5.55 NOK/USD. The average rate at Norges Bank for 2008 was 5.64 NOK/USD. The loss as a result of currency hedging for 2008 was NOK 44.2 million.

### Coal hedging

By year-end 2009 the company had entered into the following transactions to hedge coal prices:

| Year | Tonnes | Average price in USD per tonne |
|---|---|---|
| 2009 | 1 000 000 | 186.89 |
| 2010 | 175 000 | 167.27 |

In 2008 a quantity of 800,000 tonnes of coal was hedged at a price of usd 159.20 per tonne. The hedging gain for 2008 was NOK 189.3 million.

## Note 14 Tax cost

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| **The tax charge for the year is made up as follows:** | | | | |
| Tax payable on profit for the year | 280 474 | 926 | 1 013 | |
| Change in deferred tax | -104 842 | 17 005 | -7 870 | -2 828 |
| **Total tax charge on profit on ordinary activities for the year** | **175 632** | **17 931** | **-6 857** | **-2 828** |
| **Tax payable is made up as follows:** | | | | |
| Ordinary profit/loss before tax | 1 060 082 | 135 390 | -45 772 | 7 145 |
| Permanent differences | -134 299 | 618 | -16 479 | 496 |
| Change in temporary differences | 1 075 811 | 48 330 | 83 350 | -3 363 |
| Group transactions, affiliated companies | -906 | | | |
| Use of loss carry-forward | -282 341 | -175 074 | -14 674 | -4 278 |
| Utilised remuneration carried forward from previous years | -93 | | -93 | |
| Taxable loss SNG | 34 708 | | | |
| **Basis for tax payable** | **1 752 962** | **9 264** | **6 332** | **0** |
| **Tax, 16%, representing the total tax payable on the profit for the year** | **280 474** | **926** | **1013** | **0** |
| | | | | |
| **Tax payable in the balance sheet is made up as follows:** | | | | |
| Tax payable on profit for the year | 280 474 | 926 | 1 013 | |
| Tax payable on group contribution | | | | |
| **Total tax payable** | **280 474** | **926** | **1 013** | **0** |
| | | | | |
| **Specification of the basis for deferred tax, differences assessed** | | | | |
| Fixed assets | -13 199 | 41 016 | -194 | 122 |
| Current assets | -79 314 | 17 987 | -220 | -220 |
| Receivable relating to insurance settlement | | 368 572 | | |
| Profit and loss account | -20 207 | | -20 207 | |
| Other differences | -63 232 | -83 526 | -10 230 | -30 489 |
| Provision for loss on contracts | -157 445 | | -14 500 | |
| Accounting change in pension commitment | -387 330 | -7 185 | -83 099 | -14 513 |
| Change in accounting principle – adjustment of comparison figures | | -138 469 | | -19 393 |
| Debt | | 18 218 | | |
| Loss carry-forward | -48 914 | -296 548 | | -14 674 |
| Unused dividend capacity | | -93 | | -93 |
| **Total** | **-769 641** | **- 80 028** | **-128 449** | **-79 260** |
| **Deferred tax/tax asset (-), 16%** | **-123 143** | **12 805** | **-20 552** | **-12 682** |
| Unrecognised tax asset | 7 698 | 2 201 | | |
| **Recognised tax asset** | **-115 445** | **-10 604** | **-20 552** | **-12 682** |
| | | | | |
| **Reconciliation of tax charge for the year:** | | | | |
| Profit before tax | 1 060 082 | 135 390 | -45 772 | 7 145 |
| 16% tax on the profit before tax | 169 613 | 13 539 | -7 324 | 715 |
| **Total tax charge for the year** | **175 632** | **17 931** | **-6 857** | **-2 828** |
| Difference | 6 019 | 4 392 | 466 | -3 543 |
| The difference is due to the tax effect of: | | | | |
| Permanent differences | -21 488 | 62 | -2 637 | 50 |
| Profit from associated companies according to the equity method | -145 | | | |
| Change in the tax rate from 10 to 16% | | 3 506 | | -3592 |
| Deferred tax asset not recognised in balance sheet - change | 5 496 | 826 | | |
| Change in accounting principle | 22 155 | | 3 103 | |
| **Total** | **6 018** | **4 394** | **466** | **3 542** |

A change was made in the year's accounts to the principles used to measure the pension commitment. See the more comprehensive discussion in the pension note, Note 8. The effect of the change in accounting principle in connection with the pension commitment was carried directly in equity. However, the change in accounting principle also affects temporary differences as at 01.01.08. In accordance with generally accepted accounting principles, the tax effect of the change in accounting principle has also been carried directly in the balance sheet (equity and deferred tax). In the same way, the tax charge in the comparison figures for 2007 has been adjusted in accordance with what it would have been if the new principle for treating estimate variances had also been applied at the closing of the 2007 accounts.

## Note 15 Shares

| | | | Group | | Parent company | |
|---|---|---|---|---|---|---|
| | | % | 2008 | 2007 | 2008 | 2007 |
| **Subsidiary** | | | | | | |
| SNSG | Sveagruva | 100 | 0 | 0 | 150 115 | 150 115 |
| SNB | Longyearbyen | 100 | 0 | 0 | 78 282 | 78 282 |
| SNG | Longyearbyen | 100 | 0 | 0 | 2 000 | 2 000 |
| **Associated company** | | | | | | |
| Materiallageret AS | Longyearbyen | 32 | 3 647 | 4 349 | 2 880 | 2 880 |
| Lompensenteret AS | Longyearbyen | 50 | 3 971 | 6 064 | 3 500 | 3 500 |
| **Other shares** | | | | | | |
| Svea Tankanlegg AS | Sveagruva | 15 | 752 | 752 | 0 | 0 |
| FabLab Tecnolocy AS | Lyngen | 17 | 0 | 51 | 0 | 0 |
| Barentsinstituttet AS | Sør-Varanger | 6 | 0 | 100 | 0 | 0 |
| TIL-TAK | Tromsø | | 500 | 500 | 500 | 500 |
| **Total** | | | **8 870** | **11 816** | **237 777** | **237 277** |

In the company accounts the shares are recognised at cost, while in the consolidated account they are recognised using the equity method. SNSG has undertaken to buy back the shares in Svea Tankanlegg AS from the other shareholders at face value if there are no other buyers.

## Note 16 Intercompany balances

| Parent company | 2008 | 2007 |
|---|---|---|
| **Receivables** | | |
| SNSG, long-term | | |
| SNSG, subordinated loan | | 250 000 |
| SNSG, current | 241 801 | |
| SNB, current | | 1 811 |
| SNG, current | | 7 566 |
| **Debt** | | |
| SNSG | | -19 745 |
| SNB, current | | |
| SNG, group contribution | | -6 917 |
| **Total** | **241 801** | **232 715** |

In 2007, the Norwegian state, as represented by the Ministry of Trade and Industry, issued a subordinated loan to the parent company in order to help with the liquidity situation pending an insurance settlement. The parent company lent the same amount as a subordinated loan to SNSG subject to the same interest rate and repayment terms. This loan was repaid in its entirety in 2008.

## Note 17 Accounts receivable

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net accounts receivable at 31.12 | 200 023 | 167 266 | 1 259 | 239 |
| Bad debt recognised in accounts | 0 | 57 | 0 | 0 |
| Change in loss reserves | 0 | 0 | 0 | 0 |
| Reserve for bad debts at 31.12 | 1 232 | 1 232 | 220 | 220 |

The reserve for bad debts is considered adequate to cover possible future losses.

## Note 18 Bank deposits, cash

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Cash | 12 | 20 | 0 | 0 |
| Bank deposits | 1 146 501 | 4 150 | 804 | 361 |
| Withholding deposit (tax) | 25 127 | 29 076 | 4 065 | 4 367 |
| **Total** | **1 171 640** | **33 247** | **4 869** | **4 728** |

## Note 19 Debt

The parent company did not have any debt to credit institutions at 31.12.08, and therefore had not pledged any assets as security.

### Group

| Type of loan | 2008 | 2007 |
|---|---|---|
| Overdraft facility | 0 | 247 073 |
| Mortgage loans | 24 205 | 366 548 |
| **Total secured debt** | **24 205** | **613 621** |
| Debt which falls due for payment more than 5 years after the end of the financial year | 19 101 | 92 087 |
| Subordinated loan | 0 | 250 000 |
| **Book value of pledged assets** | | |
| Tangible fixed assets | 555 250 | 776 208 |
| Shares | 752 | 903 |
| Stocks | 377 936 | 351 095 |
| Accounts receivable | 199 678 | 167 993 |

The group has pledged the following assets as security:

- Land registry no. 12 Indre Lågfjord
- Mining concessions in the Svea area and around Gruve 7
- Operating materials and accessories
- Coal stocks and inventories
- Shares owned by the group
- Accounts receivable
- Dwellings in Longyearbyen and Svea

### Guarantees

The group has issued a NOK 4 million guarantee to Norske Romsenter Eiendom AS to cover the costs of a possible breakage/failure of submarine fibre cables to the mainland.

### Short-term debt

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Bank overdraft facility | 0 | 247 073 | 0 | 0 |
| Accounts payable | 120 923 | 132 973 | 22 786 | 11 957 |
| Prepayments from customers | 237 653 | 230 | 230 | 230 |
| Unpaid govt. charges & special taxes | 24 739 | 28 999 | 4 014 | 4 361 |
| Tax payable | 280 474 | 926 | 1 013 | 0 |
| Intercompany accounts | 0 | 0 | 0 | 26 662 |
| Loan NHD | 0 | 250 000 | 0 | 250 000 |
| Dividends owing | 200 000 | 7 004 | 200 000 | 7 004 |
| Wages/holiday pay owing | 35 858 | 42 060 | 3 910 | 7 367 |
| Provision for accrued costs | 56 313 | 57 997 | 0 | 97 |
| Other short-term debt | 79 | 11 | 20 | 11 |
| | **956 039** | **767 273** | **231 973** | **307 494** |

## Note 20 Provisions

Other short-term debt includes provision for environmental measures and miscellaneous accrued costs. The parent company has made a provision of NOK 5.2 million for clearing up around the mine area in Longyearbyen, and NOK 5 million for demolition and clearing up in Longyearbyen, while SNSG AS made a provision of NOK 12 million for future winding-up/clear-up costs at Svea.

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Pension commitments | 387 330 | 145 653 | 83 099 | 33 906 |
| Clear-up costs | 22 230 | 15 230 | 10 230 | 5 230 |
| Unrealised foreign exchange losses | 142 945 | 0 | | |
| **Total** | **552 505** | **160 883** | **93 329** | **39 136** |

## Note 21 Coal reserves

The company has decided to use NI 43-101 as a guideline for assessing the mineral reserve basis. This means that we will have a substantial change in reporting compared to last year. The main difference is that there will be differentiation between resources and reserves, and there will be sub-groups within each group indicating the level of certainty of the deposits. The table below shows how the company has classified its reserve base.

| | Resources | | | Reserves | |
|---|---|---|---|---|---|
| **Location** | **Assumed** | **Indicated** | **Measured** | **Probable** | **Certain** |
| All figures are in millions of tonnes | | | | | |
| Svea Nord, core | | | | 3,2 | 8,2 |
| Svea Nord, marginal zone | | | | 6,0 | |
| Svea Øst | | 3,8 | | | |
| Lunckefjell | | 13,2 | | | |
| Ispallen | | 14,3 | | | |
| Areas that can be worked from Svea | | 31,3 | | 9,2 | 8,2 |
| The Gruve 7 area | 0,4 | | 0,4 | 0,2 | |
| Bassen | 11,5 | | | | |
| The Gruve 3 area | | 5,0 | | | |
| Areas that can be worked from LYB | 11,9 | 5,0 | 0,4 | 0,2 | |
| Reindalen | | 27,0 | | | |
| Resources protected | | 27,0 | | | |
| **Total resources and reserves – million tonnes** | **11,9** | **63,3** | **0,4** | **9,4** | **8,2** |

Coal in the group's resources is shown as an in situ figure, i.e. the amount of coal in millions of tonnes that is in the mountain. Coal in the group's reserves is shown in tonnes of commercial coal.

## Note 22 Shareholders' equity

| | Group | | | Parent company | | |
|---|---|---|---|---|---|---|
| | Share capital | Other equity | Total | Share capital | Other equity | Total |
| Shareholders' equity at 31.12.2007 | 164 490 | 408 751 | 573 242 | 164 490 | 29 366 | 193 856 |
| Adjusted equity 01.01 | | | | | | |
| - Pension commitments | | -138 469 | -138 469 | | -19 393 | - 19 393 |
| - Deferred tax | | 22 155 | 22 155 | | 3 103 | 3 103 |
| **Shareholders' equity at 01.01.2008** | **164 490** | **292 437** | **456 928** | **164 490** | **13 076** | **177 566** |
| Profit/loss for the year | | 880 749 | 880 749 | | 211 085 | 211 085 |
| Group contribution paid | | 0 | 0 | | | |
| Provision for dividend | | -200 000 | -200 000 | | -200 000 | -200 000 |
| **Equity at 31.12.2008** | **164 490** | **973 187** | **1 137 677** | **164 490** | **24 161** | **188 651** |

## Note 23 Shareholders

The share capital in the company comprises 328,980 shares of NOK 500 each with equal voting and dividend rights.

Overview of major shareholders at 31.12.2008:

| Name | No. of shares | Percentage |
|---|---|---|
| The Norwegian state | 328 782 | 99,9 |
| P. Juls Sandvik AS | 33 | |
| Christiania Minekompani AS | 20 | |
| Morten Samuelsen | 20 | |
| Ivar Ytreland | 17 | |

At 31.12.08 the board member Ole Fredrik Hienn had 1 share in the company.

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To the Annual Shareholders' Meeting of Store Norske Spitsbergen Kulkompani AS

## AUDITOR'S REPORT FOR 2008

**Respective Responsibilities of Directors and Auditors**
We have audited the annual financial statements of the Store Norske Spitsbergen Kulkompani AS as of 31 December 2008, showing a profit of TNOK 211 085 for the parent company and a profit of TNOK 880 749 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the financial statements. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

**Basis of Opinion**
We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**
In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company and of the Group as of 31 December 2008, the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

Bodø, March 28, 2009
KPMG AS

Ingar Andreassen
*State Authorised Public Accountant*

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

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Stavanger
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Tromsø
Trondheim
Tønsberg
Ålesund

PHOTO: KIM BIERBRAUER

# Annual report of Store Norske Spitsbergen Grubekompani AS

Store Norske Spitsbergen Grubekompani AS (SNSG) is a wholly-owned subsidiary of Store Norske Spitsbergen Kulkompani AS (SNSK), which is the parent company in the Store Norske group. 2008 was SNSG's seventh year of operations.

**Key facts about the company in 2008**
SNSG carries out operations in two coalmines: The one mine is Gruve 7 in Adventdalen, 15 kilometres outside Longyearbyen. The other mine is Svea Nord in Svea, approximately 60 kilometres south of Longyearbyen. In 2008, some 3,361,783 tonnes of coal were produced in Svea Nord, and 68,460 tonnes in Gruve 7. In 2007 these figures were 3,998,146 in Svea Nord and 75,199 in Gruve 7. A total of 3,430,243 tonnes of coal was produced in 2008.

In November 2007 Nord-Troms District Court issued a ruling in the case relating to the fire in the Svea Nord mine. SNSG won on most of the main points. Of the total claim for approx. NOK 790 million, the company was however awarded only approx. NOK 540 million plus interest in the court of first instance. SNSG has therefore decided to lodge an appeal with the Court of Appeal against parts of the District Court's ruling. The case went before Hålogaland Court of Appeal in September 2008. The ruling was issued before Christmas that same year, and the Court increased SNSG's insurance pay-out by NOK 70 million compared with the ruling issued by Nord Troms District Court. The insurers appealed against two limited parts of the Court of Appeal's ruling to the Supreme Court. The appeal was dismissed by the Supreme Court's Appeal Committee in March 2009. The ruling from the Court of Appeal was accordingly left standing as final.

The quality certification work in accordance with NS-ISO 9001 continued throughout 2007. The company became ISO certified in June 2008.

Robert Hermansen resigned as the company's Chief Executive Officer on 2 March 2008. Bjørn Arnestad took over as the Chief Executive Officer of SNSK and SNSG from the same date.

**Market**
Coal sales from Svea during 2008 totalled 3,387,365 tonnes compared to 3,540,608 in 2007. Sales from Gruve 7 were 66,237 tonnes compared with 69,802 in 2007. The shipped weight was 3,411,785 tonnes from Svea and 39,544 tonnes from Longyearbyen.

24% of these sales went to steelworks and 10% went to cement production and other smaller areas of consumption. The remaining 66% went to coal-fired power stations, primarily in Germany, which represent by far the largest market for coal from Store Norske. North-western continental Europe continues to be the company's natural geographic market.

The price of coal is determined internationally, and this rose throughout the first half of the year. At the start of the year, the price (CIF ARA) was USD 129 per tonne. The increase was substantial, and the market price during the summer was as high as USD 219 per tonne before falling again. The market price fell dramatically from the end of October, and by the end of the year it was USD 81 per tonne. These prices are quoted based on a calorific value of the coal of 6,000 kcal/kg. The calorific value of the coal from Svea and Longyearbyen is 15-20% higher than this, and so the actual prices obtained will be correspondingly higher.

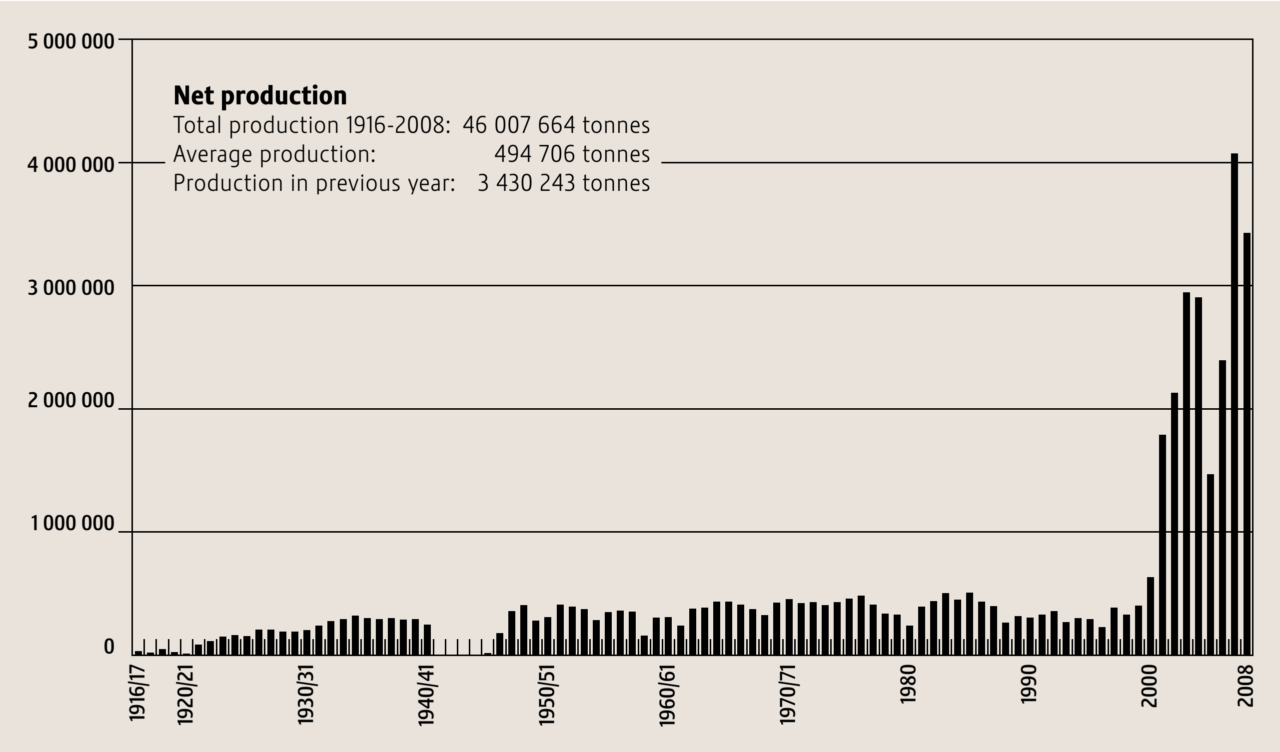
Coal prices continued to fall in 2009. In mid-March 2009 the price was a little less than USD 55 per tonne.

All sales, except those to the power plant in Longyearbyen, are in US dollars. Most contracts were entered into at the end of 2007 and during the first half of 2008.

The current financial crisis (with a subsequent industrial crisis), the effects of which really started to make themselves felt from last October, resulted in very fast changes in the market situation. Having previously been a typical seller's market, everything changed to a market in which, by the end of the year, there were scarcely any buyers. This was particularly the case with the metallurgical consumption area for coal. A number of buyers in this segment asked for deliveries to be delayed until 2009. All the coal is sold through the company Oxbow Coal GmbH.

**Financial review**
The Board of Directors considers that the annual financial statements published for the company provide a true and fair description of the company's results and financial position at year-end.

The accounts have been prepared under the going concern assumption.




**Operating income and profit**
Total coal sales CIF were worth NOK 3,353.5 million compared with NOK 1,871.5 million for the previous year. The operating profit was NOK 1,315.4 million compared with NOK 128.5 million in 2007, while profit after tax increased from NOK 134.6 million to NOK 961.2 million. This increase in profit was due entirely to coal prices.

This year the company conducted a review of the conditions and principles used for recognising pension cost and the pension commitment in the accounts, see Note 7 to the accounts.

**Investments**
The company made investments of NOK 118.1 million in 2008 compared with NOK 60.0 million in 2007.

**Liquidity**
Because the Van Mijenfjord is iced over for parts of the year, shipping only takes place in the period July-December. As a result, the company produces for stocks during much of the year and operations during this period have to be financed by means of credit.

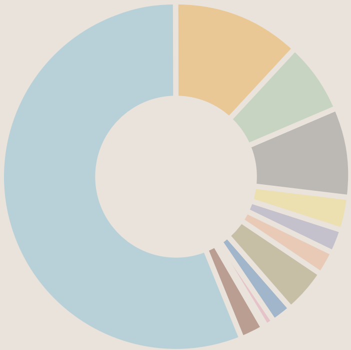
As a consequence of the good results and the insurance settlement following the fire, the company's liquidity by the end of the year was very good.

In 2008 the company reduced its interest-bearing debt (including overdraft facilities) by NOK 736.6 million and by the end of year it had no interest-bearing debt. Unutilised overdraft facilities at the end of the year were NOK 400 million. The company has also been granted revolving credit of NOK 160 million.

**Financial information**
Coal is primarily sold in US dollars on the world market, and as a result the company's income is in dollars, whereas most of its expenses are in Norwegian kroner. The company is consequently exposed to fluctuations in the NOK/USD rate. At the beginning of 2008 the Dollar rate was NOK 5.41, whereas by the end of the year it was NOK 6.99.

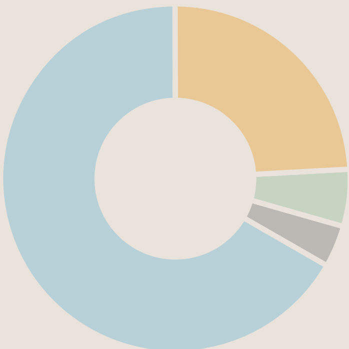
In order to achieve the greatest degree of stability and long-term protection against fluctuations, the company has a hedging strategy for limiting the economic effects of unexpected fluctuations in the currency, coal and freight markets. The company had secured a net dollar inflow for 2008. The average rate obtained for the year was 5.55 NOK/USD. The average rate at Norges Bank for the year was 5.64 NOK/USD. In 2008, the net dollar inflow for coal sales less costs was USD 513 million. The difference in the rate obtained and the average rate for the year was a hedging loss of NOK 46.2 million. At the end of 2007, three futures contracts that were originally supposed to have matured in 2008 were dissolved with a gain of NOK 90.6 million, which was then deducted from the inflow of currency in 2008.

Store Norske's 2008 coal sales in tonnes, by country



| | |
|---|---|
| Germany | 56.3% |
| Denmark | 11.9% |
| Portugal | 6.5% |
| France | 8.4% |
| Poland | 3.0% |
| Norway (incl. Svalbard) | 2.2% |
| Greece | 2.2% |
| United Kingdom | 4.1% |
| Finland | 1.8% |
| Switzerland | 0.9% |
| Iceland | 0.2% |
| Netherlands | 2.0% |

Store Norske's 2008 coal sales in tonnes, by market



| | |
|---|---|
| Energy | 66.7% |
| Metallurgical industry | 24.1% |
| Other | 5.5% |
| Cement industry | 3.6% |

Coal prices can be secured by using the hedging market. In 2008 the price of coal was historically high. The company secured the price of 800,000 tonnes of coal for autumn 2008 at an average price of USD 159.20. The net gain from the hedging contracts for 2008 was NOK 189.3 million. For 2009 the company has secured 1,000,000 tonnes of coal at an average price of USD 186.89, and for 2010, 175,000 tonnes at USD 167.27.

All coal sales in SNSG are made through Oxbow Coal GmbH, and as a result all credit risk is through just one customer. All receivables as at 31.12.08 have been settled in 2009.

By the end of the year the company had non-restricted equity of NOK 724.6 million.

**Allocation of profit**

The Board of Directors proposes that the profit after tax for the year of NOK 961.2 million be used for a group contribution of NOK 405.0 million, to be distributed as follows: NOK 250 million to SNSK, NOK 120 million to Store Norske Boliger and NOK 35 million to Store Norske Gull. NOK 556.2 million is transferred to other reserves.

**Resource base**

In 2008, Store Norske decided to adhere to international standards in its reporting of resources and reserves. Reorganising the reporting has involved a change in the classification of coal resources and reserves, though this is of no practical significance for the company's operational basis. Store Norske's resource and reserve base is described in Note 24 to the accounts.

The deposits in Lunckefjell, Svea Øst, the Svea Nord marginal zone and Ispallen deposits are all included in the company's future operating plans. A geological survey has been conducted, and work is now underway on operating plans for these fields.

According to the plan, the Lunckefjell deposit will be the next stage in operations in Svea, once the Svea Nord core area has been worked out in 2014. The work on a detailed technical and economic calculation and planning of the field is currently ongoing, and an environmental impact assessment to be used in support of an application for a permit to open the field is in progress. The plan currently anticipates access to Lunckefjell being obtained via Svea Nord, where the main drifts can be continued right out into the Martha glacier. The glacier can then be crossed using a road that ends at the Lunckefjell mine entrance. Extracting the coal in Lunckefjell directly after the Svea Nord core area means that the drift system in Svea Nord can be used to transport coal, personnel and materials.

The coalfields at Svea Øst and the Svea Nord marginal zone are considered a part of Svea Nord.

Gruve 7 has an annual production of 70,000 tonnes. The company believes that Gruve 7 has a likely coal reserve of 200,000 tonnes in addition to a resource of 400,000 tonnes.

Store Norske is continuously working on analyses of collected geological data and considering areas for further surveying.

**Svea Nord**
The Svea Nord mine accounts for most of the company's total production. The main production method used in the mine is longwall stoping. In the 2007 record year, operations continued throughout the summer in order to make up for some of the production lost as a consequence of the fire in 2005. There was a five-week stoppage during the summer period of 2008. This had been planned to coincide with the period during which there is substantial water infiltration and when holidays are taken. Operations in the mine resumed after the holidays. There was an unexpected period of water infiltration in September as a result of mild weather and relatively high precipitation.

Coal production from Svea during 2008 totalled 3,361,783 tonnes compared to 3,998,146 in 2007. Of this amount, 3,026,549 tonnes were from longwall stoping (2007: 3,583,141) and 335,234 tonnes from mine development (2007: 415,015). 6,480 drift metres were developed in the course of stoping development in DT2 and DT4, and also 3,827 drift metres in the H4 main drift.

Work was started on relocating longwall equipment from longwall panel C6 to D2 at the beginning of February 2008, and the new stope was started on 8 April following a move that had been completed ahead of schedule.

**Svea community**
There is no road connection between Longyearbyen and Svea. All transport of personnel is by means of 16-seater planes. The air route is operated by Lufttransport AS based on a contract with SNSG. There are flights five days a week with several departures each day. In 2008 there was a total of 2,639 aircraft movements (landings and take-offs) at Svea airfield. A total of 20,496 passengers and 43 tonnes of cargo was carried by the aircrafts. There are now two authorised AFIS agents and an operations manager with the task of managing air traffic to and from Svea. In order to improve security, in 2008 a fence with gates was erected around the airfield. In addition, the landing lights were upgraded and a new direction-finding station was installed.

In December 2008, forty-two new high-standard lodgings came into use. The mine office was extended and converted with the addition of seventeen new offices, together with conference rooms, cloakrooms and showers (sanitary facilities). There is now a total of 228 lodgings with their own bedrooms and bathrooms, and 38 simple lodgings with shared bathroom facilities in Svea. The company has a further 20 lodgings in Polartun that are let to research bodies (including SINTEF and UNIS).

In Svea, SNSG purchases transport services from Leonhard Nilsen & Sønner Spitsbergen AS and catering services (canteen and cleaning) from ISS AS.

**Gruve 7**
In 2008 Gruve 7 in Adventdalen was put under the control of SNSG, which consequently is now responsible for all coal production activity. The production method used is room-and-pillar mining. 68,460 tonnes of coal were produced in 2008 compared to 75,199 tonnes in 2007.

The mine delivers approximately 25,000 tonnes a year to the coal-fired power station in Longyearbyen. Operationally and financially, an annual production level of 70-80,000 tonnes is appropriate, a volume which allows Gruve 7 also to supply coal to the international market. Coal from this mine is of a very high quality, and there is a great demand for it from the German metallurgical industry and elsewhere. In 2008 two cargos of coal were shipped via the old coal pier at Hotellneset, outside Longyearbyen.

During 2008 a sieving and silo installation was established next to the surface installation and the raw coal silo at Gruve 7. This installation was commissioned in 2009, at the same time as operation of a similar installation at Hotellneset was finished. This will result in improved external environmental conditions at Hotellneset and around Longyear airfield, while increased emissions of dust into the environment around Gruve 7 must be expected. The company believes that the net external environmental impact resulting from this relocation will be reduced.

PHOTO: KIM BIERBRAUER

In the course of 2008 most of the main drifts in the mine were reinforced. This work is now continuing in 2009.

**Shipping**
There was a steep fall in the bulk cargo market during the last three months of the year. The company has long-term shipping contracts with Polar Coal KS, under the management of Kristian Jebsens Rederi AS. This has decreased the company's exposure to the strong and long-term increase in the cargo market, though at the same time it has meant that Store Norske has not been able to reduce its cargo rates to a new low price level for coal cargos.

The ice in the Van Mijenfjord means that coal can only be shipped from Svea during the second half of the year. All shipping in 2008 took place according to established plans in terms of oil protection preparedness, port safety (ISPS) and reporting to the authorities.

**External environment**
In 2003, the Norwegian Pollution Control Authority (SFT) introduced the requirement for SNSG to have an emissions licence for Svea. The application, which was submitted in April 2004, followed the template for similar documents for mainland operations. Collaboration with SFT on the emissions licence and on the process concerning the environmental risk analysis for operations in Svea has been constructive and positive. This analysis forms the basis for the acute pollution preparedness plans which SFT requires to be drawn up in the future. The company was granted an emissions licence by SFT that was valid from 1 January 2007.

Clear-up operations outside of cultural heritage areas in and around Svea continued in 2008. Maintenance work on the stock of buildings in Svea continued throughout the summer. Waste volumes going to landfill in Svea have been reduced from approx. 400 tonnes in 2005 to 140 tonnes in 2008. Pre-separation at source has been further developed and all hazardous waste is dispatched to the mainland. Improvements have been made to existing waste facilities, and work on plans for a new environmental station has continued throughout the year and will be completed in 2009.

There were no environmental problems associated with the shipping of coal in 2008.

SNSG has an environmental monitoring programme which includes the monitoring of flora and fauna within the impact area. A programme for surveying vegetation is being followed up.

There continued to be considerable emphasis in 2008 on clearing up outlying areas of Svea. There has been a big effort with workshops, the power station and stores, and these are now clean and tidy areas.

**Health, safety and the environment**
HSE is given top priority within SNSG. The company's overall HSE goal is for the company to be operated in a way that does not result in any injuries or illness. It must be possible to prevent all injuries and work-related disease. Recognition of this is of decisive importance to the company's work. The company must be operated with proper regard for the external environment and well within the limits set by the authorities.

There was a total of 20 personal injuries in 2008, compared to 14 in 2007. The distribution of these injuries was 17 in Svea Nord, two in Gruve 7 and one in Store Norske Gull. The frequency of injuries is measured as the number of injuries involving absence per 1 million working hours (lost-time incidence). The figure for 2008 was 26 compared with 19 in 2007. There has been a negative development in the number of injuries resulting in absence from work in 2008 compared with 2007, and there is active and continuous work aimed at investigating causal connections and assessing measures aimed at reducing the frequency of undesired events, circumstances and situations. There has been considerable focus on personal behaviour and measures in cases of undesired behaviour.

Total sickness absence in 2008 was 8.1% compared with 9.7% in 2007. This is a welcome improvement, although absence due to sickness is still too high.

Work on investigating the causes of this high rate of sickness absence was continued in 2008. The system of individual working environment interviews and interviews in connection with monitoring absence from the line, the personnel department and the HSE department was followed up. This work will be continued in 2009.

Key tools in the HSE work are the safety service, with safety delegates and a head safety delegate. In 2008, there was a total of 30 safety delegates and one head safety delegate.

SNSG has a number of preparedness teams: the mine rescue team, the emergency preparedness team, the fire and rescue service and oil pollution protection. All emergency personnel practise and attend courses in accordance with in-house requirements and requirements issued by the authorities.

Aspects of rock mechanics, methane gas, ventilation, coal dust and water can all affect safety in a coal mine, as can the use of equipment and how the individual work operations are performed. SNSG works closely with the leaders in the field, NTNU and SINTEF in Trondheim, and equipment suppliers to increase the level of safety and prevent injuries.

A company health service is purchased from Longyearbyen hospital, and representatives from here have regular meetings with the company's working environment committee. The company health service has regular days in Svea, and its activities consist of health check-ups, monitoring the mine rescue team and providing advice in connection with all preventive HSE work.

Since SNSG is the main company in Svea, it also has overall responsibility for its subcontractors' safety measures. The safety services of the various players are therefore coordinated. In the case of major projects involving external companies, HSE plans are drawn up to highlight potential risks and describe preventive measures. HSE is a fixed item on the agenda at all operations and construction meetings.

In 2008 a number of measures were implemented that were recommended in the analysis conducted by fire personnel. In Svea Nord, vibration monitors have been installed in all major bearings on the conveyor installation, and fire detectors and sprinklers have been installed at drive station T2. Non-flammable oil has been used on all feeds and a new approved fireproof diesel station has been installed.

**Personnel**

At 31.12.08 there were 333 employees in the company, compared with 337 at year-end 2007. Of these, about 200 (including Gruve 7) worked underground. Turnover in SNSG was 8.5% in 2008, compared with 9% in 2007. The average period of employment in the company was a little over 7 years. The breakdown of employees by age group shows that the workforce is relatively stable in terms of age. The average age of employees in the company went up from 38 in 2007 to 38.5 in 2008.

The people living in Svea are engaged in work related to mining operations. Employees have various working hours arrangements. About 200 of the company's employees work shift/rotation systems based on a 14/14 rotation, with a little over 80 working a 7/7 rotation system, and with most employees in administration and management commuting to Svea from Longyearbyen on a weekly basis.

The Gruve 7 mine is worked five days a week on daytime shifts. The workforce consists of 23 men, 11 of whom work underground.

The company's employees and their families play an important role in maintaining a stable family community in Longyearbyen. Over half of the group's 400 employees live in Longyearbyen. Store Norske makes a significant contribution to the cultural and sporting life of the local community and it intends to increase its focus in this area in the future.

Store Norske invests heavily in training and skills development. Since 1996, 158 mine workers have undergone vocational training and passed the qualifying examination in mining engineering. In all, 263 employees have passed qualifying examinations in a total of 17 different subjects over the last 20 years.

Within the company there was a focus on safety training for employees in 2008. Work was concentrated on this type of training in all departments. In Svea Nord there is a review of the individual mine workers' skills with regard to the functions they carry out in the mine. This work is now continuing in 2009 with documentation and registration in a separate skills register.

In addition to the company having eight apprentices, the company also works actively to help candidates with plenty of work experience to gain technical certificates. Employees have passed qualifying examinations in several subjects: mining, power generation engineering materials administration, industrial engineering, heavy plant operation and tunnel and rock engineering. In 2008 a new round of theoretical training was started for mining and power generation engineering. 70 employees in total are taking part in this training, which is provided during their off-duty time.

In January 2008 a new class of 24 students started at technical college (rock engineering). Work has also been done on offering courses in mechanical engineering and electrical engineering. A technical college for electrical engineers and mechanics (mechatronics) started in January 2009 with 21 students. This is a collaborative project with Stjørdal Training College. Training is provided during students' off-duty time.

PHOTO: INGE BAKKELAND

During 2008 two candidates completed training as quality auditors. They are now actively taking part in internal audits of the company's quality systems.

Together with the University of Tromsø's higher and further education programme, UVETT, a training course in industrial development has been planned (worth 20 ECTS credits), which is due to start in February 2009. Since Store Norske aims to be an active contributor to the community of Longyearbyen, these studies are open to outside participants.

A number of professional courses of various lengths and at various levels were also organised in 2008.

**Equal opportunities**
SNSG is concerned with equal opportunities and aware of possible gender discrimination. Mining is a traditionally male-dominated industry involving hard physical work, and for this reason there have never been many women involved in mining. The company has a target of recruiting more women to traditionally male-dominated functions in the company.

There are three women on the company's Board of Directors. The company's senior management consists of two women and six men.

**The Board of Directors and the Chief Executive Officer**
The Board of Directors of SNSG met eight times in 2008, once on Svalbard. New board members were elected in 2008. Lise Chatwin Olsen and Esther Kostøl resigned, and Grethe Fossli and Anne-Cathrine Haadem joined as new board members. Thomas Hukkelås and Bjørn Martinsen are new employee representatives on the board of directors. Bjørn Helge Nygård and Anita Johansen resigned from the board of directors. Robert Hermansen resigned as the company's Chief Executive Officer on 2 March 2008. Bjørn Arnestad took up the position of Chief Executive Officer from the same date. The Board of Directors would like to thank Robert Hermansen for the very considerable work he has done for the company as Chief Executive Officer from 1999 to 2008.

**Corporate social responsibility**
An important task for the company is to help ensure that the community in Longyearbyen is sustained and developed in a way that supports the overall goals of Norwegian Svalbard policy. The company intends to make an active contribution to this through the long-term management of the coal resources rather than maximising production. Store Norske will make the prospect of living in Longyearbyen with one's family more attractive to employees by means of good work-

PHOTO: TOMMY DAHL MARKUSSEN

ing hours arrangements and by constructing new family accommodation.

SNSG will continue, both on and outside Svalbard, to support research and take part in projects concerning the sustainable exploitation of coal as an energy resource and also other energy and environmental measures.

**Future prospects**
The company's main goal is the profitable and long-term management of the coal resources. The company's long-term plan envisages a reduction in production to 2.4 million tonnes. One consequence of this is that the workforce will be reduced from the current level of 400 to 300 during 2009 and 2010.

The challenges facing Store Norske became significantly more demanding in 2009. The coal price has fallen below USD 60 per tonne, and it is now a buyer's market. There is less demand for coal, primarily from the steel industry, and there is also greater competition for supplying coal to coal-fired power stations.

The market is now seeing sales contracts being cancelled, especially in the steel market, where production by the largest manufacturers has fallen by 50–70%.

Priority must therefore be given to focussing on product quality and cost level. Consistent and stable product quality is important in a buyer's market. The company's long-term viability is dependent on our ability to maintain a reasonable cost level.

A very important goal for the company is to reduce the number of injuries. HSE will continue to be the highest priority.

Modern mining demands ever-higher levels of expertise. SNSG will continue to invest heavily in training and skills development for its employees, including a collaborative project with Stjørdal Technical College and educational institutions such as NTNU in Trondheim, the University of Tromsø and the University Centre in Svalbard (UNIS).

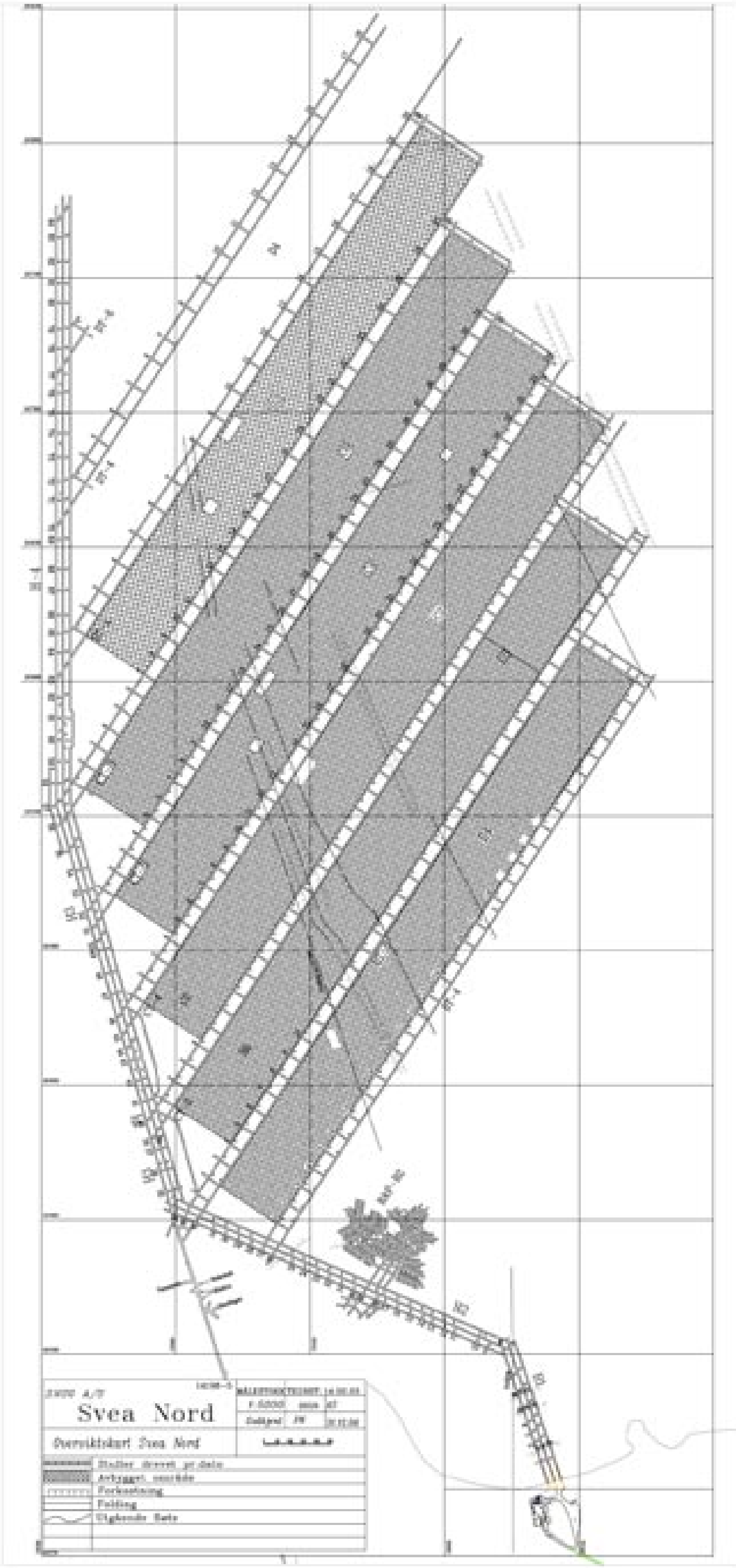
**Thank you all for your contribution**
The Board of Directors would like to thank all the employees of Store Norske Spitsbergen Grubekompani AS for their motivation, technical expertise and loyalty demonstrated in 2008.

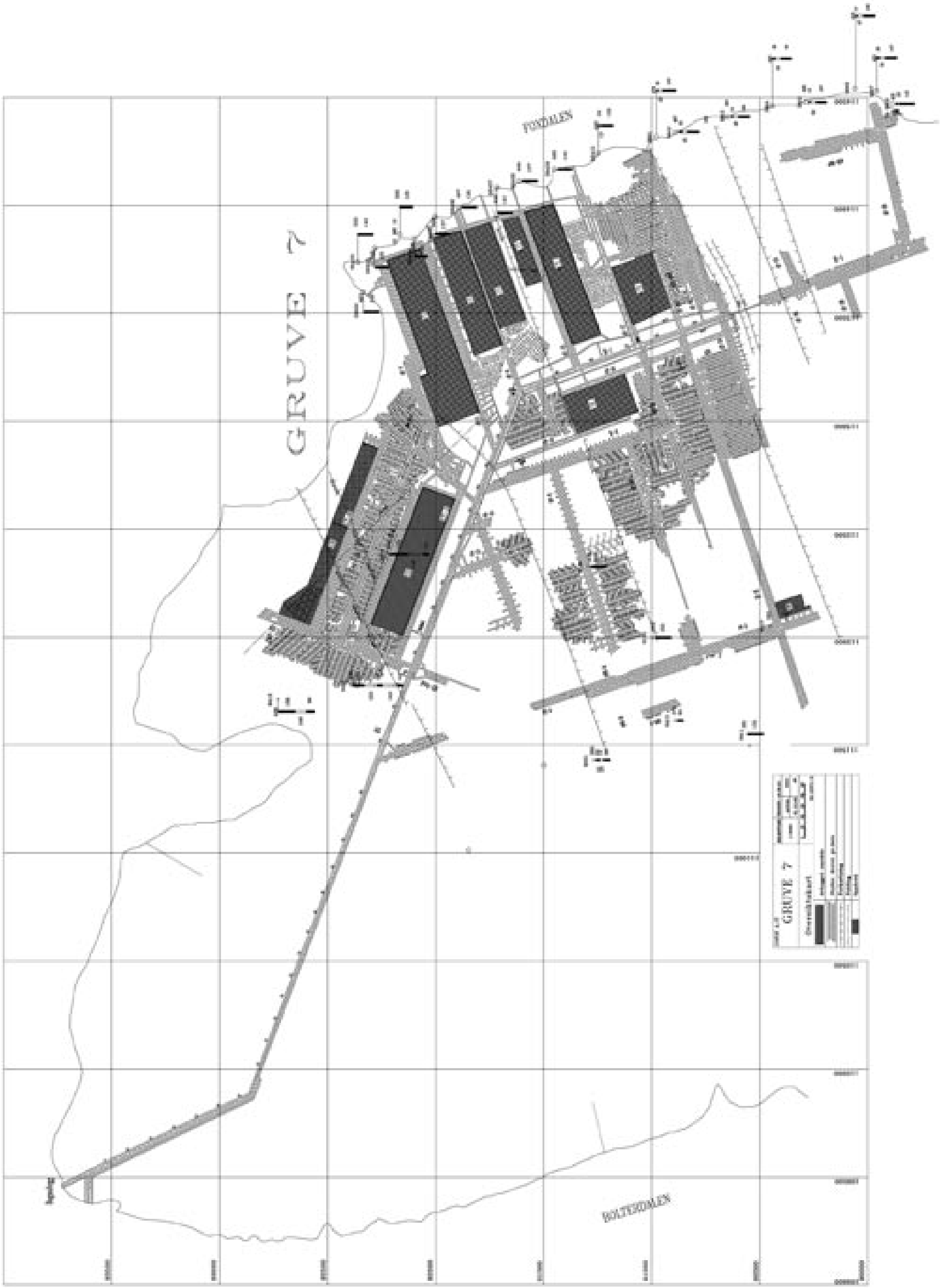
Longyearbyen, ~~31st December 2008~~
28th March 2009

The Board of Directors of Store Norske Spitsbergen Grubekompani AS

| | | | |
|---|---|---|---|
| Bård Mikkelsen<br>Chairman | Lisbeth Alnæs<br>Vice-Chairman | Ole Fredrik Hienn | Anne-Cathrine Haadem |

| | | | | |
|---|---|---|---|---|
| Grethe Fossli | Thomas Hukkelås | Bjørn Martinsen | Henning Kløften | Bjørn Arnestad<br>Chief Executive Officer |


Svea Nord


GRUVE 7
FOXDALEN
BOLTEDALEN

# Profit & loss account, Store Norske Spitsbergen Grubekompani AS

NOK 1000

| | Note | 2008 | 2007 |
|---|---|---|---|
| Coal sales CIF | 2)15) | 3 353 487 | 1 871 527 |
| Other sales income | | 1 247 | 1 274 |
| Rental income | | 230 | 0 |
| Other operating income | 3) | 71 023 | -18 582 |
| **Total operating income** | | **3 425 987** | **1 854 219** |
| | | | |
| Changes in stock | 4) | -7 006 | 141 761 |
| Wages and salaries, national insurance contributions and pension expenses | 5)6)7) | -495 293 | -338 777 |
| Freight/ commission relating to coal sales | 8) | -684 944 | -669 204 |
| Production costs | 9) | -326 279 | -313 591 |
| Housing and social costs | 10) | -271 999 | -202 670 |
| Costs of exploration | 11) | -17 415 | -20 387 |
| Other operating costs | 12) | -157 641 | -170 470 |
| Depreciation and write-downs | 13) | -150 048 | -152 352 |
| **Total operating costs** | | **-2 110 624** | **-1 725 691** |
| **Operating profit/loss** | | **1 315 362** | **128 528** |
| Financial income | 14) | 30 281 | 97 345 |
| Financial expenses | 14)15) | -201 190 | -73 278 |
| **Net financial items** | | **-170 909** | **24 067** |
| **Profit/loss before tax** | | **1 144 453** | **152 596** |
| Taxes | 16) | -183 301 | -18 006 |
| **Profit/loss after tax** | | **961 152** | **134 590** |
| | | | |
| **Allocation of the profit for the year** | | | |
| Group contribution paid | | -405 000 | 0 |
| Other reserves | | 556 152 | -99 552 |

Longyearbyen, 31st December 2008
28th March 2009

The Board of Directors of Store Norske Spitsbergen Grubekompani AS

Bård Mikkelsen
Chairman

Lisbeth Alnæs
Vice-Chairman

Ole Fredrik Hienn

Anne-Cathrine Haadem

Grethe Fossli

Thomas Hukkelås

Bjørn Martinsen

Henning Kløften

Bjørn Arnestad
Chief Executive Officer

# Balance sheet, Store Norske Spitsbergen Grubekompani AS

NOK 1000

| | Note | 2008 | 2007 |
|---|---|---|---|
| Intangible assets | 16) | 94 868 | 486 |
| Tangible assets | 13) | 513 462 | 545 438 |
| Financial assets | 17) | 752 | 903 |
| **Total fixed assets** | | **609 082** | **546 827** |
| Stocks | 4) | 377 936 | 351 094 |
| Receivables | 18)19) | 237 119 | 583 403 |
| Bank deposits, cash | 20) | 1 163 750 | 25 202 |
| **Total current assets** | | **1 778 806** | **959 699** |
| **Total assets** | | **2 387 888** | **1 506 526** |
| Share capital | 25)26) | 150 100 | 150 100 |
| Other equity | 25) | 819 462 | 263 310 |
| **Total shareholders' equity** | | **969 562** | **413 410** |
| Provisions | 16)23) | 459 176 | 121 747 |
| Long-term debt | 18)21) | 0 | 240 000 |
| Short-term debt | 16)18)21) | 959 150 | 731 369 |
| **Total debt** | | **1 418 326** | **1 093 116** |
| **Total debt and shareholders' equity** | | **2 387 888** | **1 506 526** |

# Cash flow statement, indirect model
# Store Norske Spitsbergen Grubekompani AS

| | | NOK 1000 |
|---|---:|---:|
| | **2008** | **2007** |
| **Cash flow from operating activities:** | | |
| Profit/loss before tax | 1 144 453 | 152 596 |
| Tax paid for the period | 0 | 0 |
| Gain/loss on sale of fixed assets | 0 | 240 |
| Capital gain on sale of shares | 8 | -42 282 |
| Ordinary depreciation | 150 048 | 152 352 |
| Change in stocks | -26 842 | -158 779 |
| Change in accounts receivable | -33 425 | -2 988 |
| Change in accounts payable | 212 533 | 1 296 |
| Differences in pension funds/ commitments | 311 560 | 21 106 |
| Write-down of financial assets | 0 | 0 |
| Effect of exchange rate movements | 142 945 | 0 |
| Items classified as investing or financing activities | 0 | 0 |
| Change in other accruals | 92 191 | 60 596 |
| **Net cash flow from operating activities** | **1 993 471** | **184 137** |
| | | |
| **Cash flow from investing activities:** | | |
| Sale of tangible assets | 0 | 600 |
| Purchase of tangible assets | -118 072 | -59 971 |
| Sale of shares and units in other companies | 43 | 78 282 |
| Purchase of shares and units in other companies | 0 | 0 |
| **Net cash flow from investing activities** | **-118 029** | **18 911** |
| | | |
| **Cash flow from financing activities:** | | |
| New long-term debt | 0 | 0 |
| New short-term debt | 0 | 250 000 |
| Repayment of existing long-term debt | -240 000 | -99 000 |
| Repayment of existing short-term debt | -250 000 | 0 |
| Net change in overdraft facility | -247 073 | -349 158 |
| Shareholders' equity | 0 | 0 |
| Repayments of shareholders' equity | 0 | 0 |
| Dividends paid | 180 | 0 |
| Group contribution paid/received | 0 | 0 |
| **Net cash flow from financing activities** | **-736 893** | **-198 158** |
| | | |
| **Effect of exchange rate movements on cash and cash equivalents:** | | |
| Net change in cash and cash equivalents | 1 138 549 | 4 891 |
| Cash and cash equivalents at beginning of period | 25 202 | 20 311 |
| **Cash and cash equivalents at end of period** | **1 163 751** | **25 202** |

# Notes to the accounts, Store Norske Spitsbergen Grubekompani AS

## Note 1 Accounting principles

The accounts have been prepared in accordance with Norwegian accounting rules and standards and generally accepted accounting principles. All figures are stated in NOK 1000 unless otherwise specified. Amounts in foreign currencies are stated separately.

### Valuation and classification principles

**Income recognition**

Sale of goods and services is recognised in income at the time of delivery.

**Classification and valuation of balance sheet items**

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

Current assets are valued at the lower of cost and fair value. Short-term debt is recognised in the balance sheet at the original nominal amount.

Fixed assets are valued at cost but written down to fair value if the decrease in value is not expected to be temporary. Long-term debt is recognised in the balance sheet at nominal value at year-end.

**Stocks**

Coal stocks are measured at the lower of the total coal production costs and net sales value. The stock of operating materials and spare parts is measured at the lower of cost and fair value.

**Fixed assets and depreciation**

Fixed assets are recognised in the balance sheet and depreciated if they have a useful life of more than three years and have a significant cost price. Depreciation is based on the useful life of the assets. In the case of operating assets linked to production and mines in Svea Nord, depreciation is based on the useful life of the assets linked to the total resources in Svea Nord.

**Receivables**

Accounts receivable and other receivables are recognised in the balance sheet at nominal value less provision for bad debts. Provision for bad debts is made on the basis of a specific assessment of the individual items. An unspecified provision to cover expected losses is also made for other accounts receivable.

**Insurance settlement after the fire**

The fire in Svea Nord on 30 July 2005 resulted in considerable costs for the company. The company had insurance cover for loss of equipment and loss of profit. For 2005 and 2006, insurance losses were recognised in income based on a cautious estimate. The case between the company and the insurance companies was heard by Nord-Troms District Court in autumn 2007. In 2007, the insurance sum was adjusted downwards to the same compensation amount plus interest ordered by the ruling. The decision was appealed to Hålogaland Court of Appeal, which then considered the case in autumn 2008. The difference between previously booked insurance compensation and the decision issued by the Court of Appeal has been recognised in income in 2008. The insurers submitted an appeal in this case to the Supreme Court. In March 2009 a decision was received from the Appeal Committee dismissing the appeal.

**Receivables and payables in foreign currency**

Receivables and payables in foreign currency are recognised at the exchange rate prevailing on 31.12.08.

**Cash flow**

The cash flow statement has been compiled using the indirect method. Cash and cash equivalents cover cash, bank deposits and other short-term, liquid investments which can be converted into known cash amounts with immediate effect and negligible currency risk, and which have a due date within three months of the acquisition date.

**Mine development costs**

The cost of mine development and preparation of new coalfields is recognised as an expense. The preparation of new fields includes moving equipment from one panel to the next.

**Exploration costs**

The cost of exploring new deposits is recognised as an expense.

### Pension commitments

The group has a pension scheme for all its employees. Pension assets and costs are shown net in the balance sheet. Actuarial calculations of pension commitments and costs are carried out each year, taking account of expected wage increases based on straight line accrual. The net pension cost for the period is included under Wages and salaries.

### Taxes

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

## Note 2 Revenue

TONNES

Coal sales CIF can be broken down as follows:

| | Energy | Cement | Metallurgical industry | Other industry | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Svalbard | 24 457 | | | | 24 457 | 27 258 |
| Norway | | 35 444 | | 17 641 | 53 084 | 178 106 |
| Denmark | 409 337 | | | 2 700 | 412 037 | 324 365 |
| Finland | | | | 64 598 | 64 598 | 0 |
| Netherlands | | | 70 919 | | 70 919 | 42 253 |
| Iceland | | 9 335 | | | 9 335 | 25 281 |
| Germany | 1 103 687 | 4 168 | 763 197 | 73 212 | 1 944 265 | 2 339 253 |
| Poland | 104 434 | | | | 104 434 | 0 |
| England | 142 803 | | | | 142 803 | 74 978 |
| Portugal | 226 662 | | | | 226 662 | 219 263 |
| France | 292 346 | | | | 292 346 | 280 561 |
| Greece | | 76 320 | | | 76 320 | 66 835 |
| USA | | | | | 0 | 32 257 |
| Switzerland | | | | 32 343 | 32 343 | 0 |
| **Tonnes 2008** | **2 303 725** | **125 266** | **834 116** | **190 494** | **3 453 602** | |
| **Tonnes 2007** | **1 927 782** | **344 276** | **1 021 814** | **316 538** | | **3 610 410** |

Coal sales CIF totalled NOK 3,368.8 million. Total coal export levies of NOK 15.3 million have been deducted from sales income.

## Note 3 Other operating income

Other operating income comprises:

| | 2008 | 2007 |
|---|---|---|
| Sale of services | 85 | 0 |
| Insurance compensation for the 2005 fire | 69 927 | -64 791 |
| Other compensation | 0 | 2 275 |
| Other income | 1 011 | 1 652 |
| Sale of shares | 0 | 42 282 |
| **Total** | **71 023** | **-18 582** |

The company has insurance for operational losses as a result of interruptions caused by fire. The operating loss is calculated as the difference between the result of operations which would have been achieved in the indemnity period with and without the damage which occurred. The indemnity period is 12 months.

The insurance settlement following the fire in Svea Nord on 30 July 2005 was considered by Nord-Troms District Court in autumn 2007.

When the case was considered by Nord-Troms District Court, the compensation level was reduced to the amount recognised in accounts in 2005 and 2006, and the difference of NOK 64.8 million was reversed in 2007. In 2008 the difference between the Court's decision and that of the Court of Appeal was recognised in income at NOK 69.9 million under other operating income, and NOK 13.9 million under interest received.

## Note 4 Stocks

The stock of coal is measured at the lower of the net sales income and total cost of coal production. The production cost for 2008 was NOK 379 per tonne. Prices on the market fell dramatically during autumn 2008, and continued to fall over the first two months of 2009. The measurement of net sales price is based on an assumed price of 68.50 USD per tonne, less sales costs.

The net sales price for the stock of coal on Svalbard has been measured at NOK 300 per tonne. The value of the stock of coal in Antwerp includes added freight and sales costs, and is measured at NOK 445 per tonne.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Tonnes** | **NOK** | **Tonnes** | **NOK** |
| Coal stocks, Longyearbyen | 15 020 | 4 506 | 12 797 | 3 839 |
| Coal stocks, Svea Mine | 448 141 | 134 442 | 498 138 | 149 441 |
| Coal stocks, Antwerpen | 24 420 | 10 873 | 0 | 0 |
| **Total** | **487 581** | **149 821** | **510 935** | **153 280** |

Stocks of operating materials and spare parts are valued at average cost from the supplier. Items which are more than two years old and which are not expected to be used in the next year are valued at 0 in the balance sheet.

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Consumables** | **Spare parts** | **Total** | **Consumables** | **Spare parts** | **Total** |
| Cost | 163 280 | 197 240 | 360 520 | 103 000 | 169 391 | 272 391 |
| Written down | -35 877 | -96 528 | -132 405 | -12 556 | -62 021 | -74 577 |
| **Balance sheet value** | **127 404** | **100 711** | **228 115** | **90 444** | **107 370** | **197 814** |

## Note 5 Management remuneration

| | 2008 | 2007 |
|---|---|---|
| Statutory audit | 580 | 667 |
| Tax consultancy service/assessment papers | 18 | 0 |
| Other consultancy services provided by auditors | 283 | 554 |

The parent company is charged for the Chief Executive Officer's pay and directors' fees in their entirety.

## Note 6 Specification of wages, salaries and national insurance contributions

| | 2008 | 2007 |
|---|---|---|
| Wages and salaries | 251 588 | 258 573 |
| Pension costs | 212 181 | 54 792 |
| Other payments | 31 524 | 25 411 |
| **Total** | **495 293** | **338 777** |

The number of man-years in 2008 was 404 compared with 423 in 2007.

## Note 7 Pension costs and commitments

SNSG has pension schemes covering a total of 372 persons, 44 of whom have taken early retirement. There are 131 persons in receipt of an ordinary pension, 62 of whom receive a retirement pension, 36 a spouse's pension, 14 a children's pension and 19 a disability pension.

The company's pension schemes comprise both an ordinary retirement pension scheme (from the age of 67) and a voluntary early retirement pension scheme (from the age of 60) for all employees. The assumption of contributory period for accounting purposes for the ordinary retirement pension scheme (the 67 scheme) has been calculated based on a normal retirement age of 60 years. The reason for this is that the pension cost should be recognised as an expense in the periods during which the employees are actually working for the company, cf. the matching principle in the Norwegian Accounting Act. A high proportion of the employees who remain working for Store Norske until the age of 60 are expected to take up the offer of the early retirement pension. In reality, the right to an ordinary retirement pension is accrued when an employee takes early retirement. For this reason it has been decided that the contributory period for the ordinary retirement pension should also be calculated based on a retirement age of 60.

The ordinary retirement pension (from the age of 67) is covered by an insurance scheme. This scheme meets the requirements of the legislation on compulsory occupational pensions.

The group has a voluntary early retirement pension scheme from the age of 60. The requirement for accruing pension entitlements connected with this scheme is that the employee must remain employed until the age of 60.

Up until 2007, the early retirement pension scheme was secured by an insurance scheme. The insurance contract for the early retirement pension scheme was cancelled with effect from 1.1.2007. All employees received paid-up policies covering their accrued entitlements in the scheme as at 1.1.2007. The group is continuing to fulfil its pension commitment with regard to the early retirement pension scheme from the age of 60, despite the cancellation of the insurance contract. This means that early retirement pensions accrued after 1.1.2007 will be paid out directly from the group's day-to-day operations. For accounting purposes, this commitment with regard to the early retirement pension scheme is calculated by an actuary and reflected in the accounts according to the same principles as for the ordinary retirement pension scheme from the age of 67. In estimating the pension commitment, account is nevertheless taken of the fact that employees retiring before 60 years of age do so without any entitlements from the early retirement pension scheme.

Previous schemes securing pension benefits on the basis of a pensionable wage exceeding 12 G (Top-Hat schemes) were terminated in 2008. In practice this means that the accounting commitment as at 31.12.07 in connection with these schemes is put at zero in the year's accounts. This change is classified as a change to cost of scheme and the effect is carried through profit or loss in accordance with generally accepted accounting principles. For the group, this change to cost of scheme, seen in isolation, produces an effect on net income (cost reduction) of NOK 14.4 million. The amount is shown as the difference between the calculated commitment as at 31.12.07 (after setting the estimate variance from the regular cost of the scheme to zero) totalling NOK 23.9 million, and payments on termination of the schemes, being NOK 9.4 million.

This year the company conducted a review of the assumptions and principles used for recognising pension cost and the pension commitment in the accounts.

Over time considerable unamortised estimate variances have built up. The result is that the commitment that has been recognised in the balance sheet in previous years' accounts has been considerably lower than the non-covered pension commitment that had actually been calculated. The reason for this build-up in unamortised estimate variances in previous years is that the options in NRS 6 were used that allow the estimate variances to be moved around (corridor method and spreading estimate variances over the remaining contributory period). In order for the accounts to better reflect the actual pension commitment, it has been decided this year to depart from the optional schemes with the corridor method and spreading over the remaining contributory period. This change-over has been defined as a change in accounting principle. As a result, the estimate variances that arose in 2008 are recognised in the profit and loss account, whereas the effect of the change in accounting principle is entered directly in equity. The effect of the change in accounting principle will be measured based on the figures from 1 January. The effect of the change in accounting principle in terms of amount (before tax) is in practice the same as the unamortised estimate variances as at 31.12.07. The total effect of the change in accounting principle for the group (before tax) is NOK 138.5 million. The comparison figures have been adjusted in accordance with the new principle. This means in practice that the comparison figures shown in the accounts have been adjusted as if the new principle had also been used at the closing of accounts for previous financial years.

Calculation of the pension commitment and the year's cost is based on a number of actuarial and demographic assumptions. According to the calculation assumptions, it is the discount rate in particular that has been the subject of assessment in presenting the accounts for the year. Regnskapsstiftelsen's [the Norwegian Accounting Standards Board's] most recent recommendation provides a considerable interval range for acceptable discount rates according to Norwegian accounting practice (between 3.8 and 5.8 %). The reason for this is, among other things, the current international financial crisis. The SNSK group sells its products on an international market where developments in international trends are assumed to be of considerable significance for the group's income and economic situation. It has therefore been decided to set the discount rate at the conservative end of the scale, i.e. at 3.8 %. This is in accordance with what companies that adhere to International Financial Reporting Standards (IFRS) (including all quoted companies) are obliged to base their consolidated accounts on. This discount rate is substantially lower than the one used as a basis at the previous closing of accounts (5.5% for 2007). This change in the discount rate is of considerable significance for the actuarially calculated pension commitment. The change in the discount rate therefore resulted in substantial estimate variances in 2008.

Another cause of the estimate variances is the change-over from an insurance scheme to financing from day-to-day operations with regard to the early retirement pension scheme. See the more detailed account of the change above. In connection with the change-over there was a number of unanticipated effects/variances compared to what was expected. There was greater uncertainty than usual concerning the previous year's calculations due to uncertain basic data for the early retirement pension schemes. For further details, see last year's notes. A number of variances also arose from the different methods used to measure the value of pension assets in the previous insured scheme and the paid-up policies that have been issued. Employees were also given paid-up policies for accrued entitlements as at 1.1.2007, even though it would otherwise have been a condition that they had actually remained in work until reaching early retirement age in order to get/retain these pension entitlements. In summary, the above factors have resulted in significant negative accounting effects as a consequence of termination of the insurance scheme. There has been some doubt as to whether these changes should really be regarded as a change to cost of scheme or as an estimate change. Since the pension commitment is largely unchanged, it has been decided to treat the transition as a financing arrangement rather than as a change to the cost of the pension scheme. The effects have accordingly been treated as estimate variances. Since, according to the new principle, these estimate variances are recognised as an expense in the year in which they arise, it makes no difference to the cost for the year whether the variances are classified as estimate variances or a change to cost of scheme.

In accordance with the new principle for the accounting treatment of estimate variances (see the section above), the estimate variances that arose during 2008 have been recognised as costs as a component of the pension cost. A changed discount rate and the effects of reorganising the early retirement pension scheme resulted in extremely large estimate variances in 2008. These are the main causes of the substantial increase in pension cost and overall wage costs compared with 2007.

At 31.12.08 the company had a net pension commitment recognised in the balance sheet of NOK 304.2 million.

| Pension costs | 2007 | 2006 |
|---|---|---|
| Current value of the year's pension contributions | 28 419 | 32 970 |
| Interest cost on the pension commitment | 19 091 | 21 873 |
| Return on pension assets (less admin. costs) | -12 370 | -16 678 |
| Actuarial loss/(gain) recognised in profit & loss account | 162 838 | 16 627 |
| Effect of change to cost of scheme recognised in profit & loss account | 14 203 | 0 |
| **Net pension costs** | **212 181** | **54 792** |

| The pension commitment | 2008 | 2007 |
|---|---|---|
| Accrued pension commitments (DO) | -539 899 | -435 286 |
| Pension assets (at market value) | 235 668 | 323 539 |
| Accrued pension commitments (DBO) | -304 231 | -111 747 |
| Effect of estimate variances not recognised in profit & loss account | 0 | 0 |
| **Net pension commitment recognised in balance sheet** | **-304 231** | **-111 747** |

| Economic premises: | 2007 | 2006 |
|---|---|---|
| Discount rate | 3,80% | 5,50 % |
| Expected return | 6,30% | 5,75 % |
| Wage increase | 4,50% | 4,50 % |
| Adjustment to basic state pension | 4,25% | 4,25 % |
| Adjustment to current pension | 4,25% | 4,25 % |
| Expected rate of voluntary exit before age of 40 | 6,00 % | 6,00 % |
| Expected rate of voluntary exit after age of 40 | 1,00 % | 1,00 % |

## Note 8 Freight/Commission on coal sales

| | 2008 | 2007 |
|---|---|---|
| Shipping costs | 430 223 | 457 612 |
| Analysis costs | 1 435 | 857 |
| Commission | 114 093 | 60 543 |
| Transport/Loading Svea | 139 192 | 150 191 |
| **Total** | **684 944** | **669 204** |

## Note 9 Production costs

Production costs mainly comprise materials and bought-in services for production and maintenance. Preparation of new panels is expensed on an ongoing basis.

## Note 10 Housing and social costs in Svea

As there is no road link to Svea, employees live in Svea when they are working. This entails costs for accommodation, catering and operation of infrastructure as well as flights between Longyearbyen and Svea.

Housing and social costs also include costs of transporting goods and people and running costs for the power station.

Stocks of operating materials are written down if the items have been in stores for more than two years and it is not expected that they will be used in the following year. Write-downs in terms of net income in 2008 were NOK 57.8 million. These were primarily items bought in during the fire in 2005 and that were not used.

## Note 11 Exploration costs

Exploration and prospecting activities in new fields are expensed in the accounts. In 2008 the company conducted prospecting activities at Lunckefjell, Colesdalen and Skollfjellet.

## Note 12 Other operating costs

This item consists primarily of purchases of administrative services from SNSK. The item also consists of insurance premiums and mining concession fees.

## Note 13 Tangible fixed assets, depreciation schedule

| | Machinery, fixtures, transport resources | Buildings | Technical plant | Mines, land | Total |
|---|---|---|---|---|---|
| Acquisition cost at 01.01.08 | 36 669 | 115 588 | 343 508 | 802 533 | 1 298 298 |
| Additions in 2008 | 2 845 | 19 282 | 10 494 | 85 451 | 118 072 |
| Disposals in the year (disposals/scrapping) | | | | | 0 |
| **Acquisition cost at 31.12.08** | **39 514** | **134 870** | **354 002** | **887 984** | **1 416 370** |
| Accumulated depreciation at 01.01.08 | 23 357 | 64 458 | 208 784 | 456 261 | 752 860 |
| Reversed acc. depreciation on sale | | | | | 0 |
| Depreciation for the year | 5 035 | 10 320 | 34 739 | 99 953 | 150 047 |
| **Book value at 31.12.08** | **11 122** | **60 092** | **110 479** | **331 770** | **513 462** |
| **Estimated remaining useful life (inkl 2008)** | **3–6 years** | **6/20 years** | **6 years** | **3–7 years** | |

The mine is depreciated on the basis of the production volume in relation to the estimated quantity of coal in the core field in Svea Nord. Other fixed assets are depreciated according to expected useful life.

| | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Additions | Disposals | Additions | Disposals | Additions | Disposals | Additions | Disposals | Additions | Disposals |
| Mach., fixtures, transport | 4 020 | 0 | 2 922 | 137 | 6 646 | 0 | 6 381 | 727 | 2 845 | 0 |
| Buildings | 10 639 | 0 | 38 247 | 0 | 6 694 | 0 | 15 466 | 0 | 19 282 | 0 |
| Technical plant | 10 957 | 0 | 43 084 | 0 | 8 497 | 0 | 17 076 | 3 868 | 10 494 | 0 |
| Landed property/mines | 147 774 | 0 | 91 167 | 0 | 32 283 | 21 138 | 21 048 | 101 600 | 85 451 | 0 |
| Plant under construction | 0 | 0 | 45 258 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **173 390** | **0** | **220 678** | **137** | **54 120** | **21 138** | **59 971** | **106 195** | **118 072** | **0** |

## Note 14 Financial items

| Financial income | 2008 | 2007 |
|---|---|---|
| Interest received, bank deposits | 8 222 | 195 |
| Interest received, group | 1 858 | 781 |
| Interest received from insurance settlement | 13 939 | 0 |
| Interest received from customers/suppliers | 35 | 0 |
| Foreign exchange gains from futures contracts | 0 | 90 648 |
| Other foreign exchange gains | 6 047 | 5 450 |
| Dividends | 180 | 272 |
| **Total** | **30 281** | **97 345** |

| Financial expenses | 2008 | 2007 |
|---|---|---|
| Interest on short-term loans | 17 748 | 39 477 |
| Interest on mortgage loans | 16 943 | 17 655 |
| Interest, group | 16 875 | 12 084 |
| Interest, suppliers | 122 | 279 |
| Loss on exchange on futures transactions | 142 945 | 1 930 |
| Loss on exchange, other | 6 550 | 1 854 |
| Loss on sale of shares | 8 | 0 |
| **Total** | **201 190** | **73 278** |

## Note 15 Hedging transactions

The company has a hedging strategy that is intended to provide stability and long-term protection by limiting the economic effects of unexpected fluctuations in the foreign currency, coal and freight markets. Coal sales and coal freights are recognised at the average hedged/achieved exchange rate and coal price.

### Forward contracts, USD

Most coal sales are transacted in US dollars. In order to reduce the risk of exchange rate fluctuations, the company enters into futures contracts to hedge future sales of USD. As the forward contracts are used as hedging instruments, unrealised exchange gains on the balance sheet date are not recognised. Unrealised loss on exchange on the balance sheet date is recognised at NOK 142.9 million.

As at 31.12.08 the following forward exchange contracts had been entered into:

| Matures | 2009 | 2010 | 2011 |
|---|---|---|---|
| Million USD | 150 | 80 | 60 |
| Average rate | 6.50 | 6.85 | 7.25 |

In addition, the following options contracts on the sale of USD have also been entered into:

| Matures | 2009 | 2010 | 2011 |
|---|---|---|---|
| Million USD | 65 | 40 | 20 |
| Minimum rate | 6.08 | 6.60 | 7.50 |

The average rate obtained in 2008 was 5.55 NOK/USD. The average rate at Norges Bank for 2008 was 5.64 NOK/USD. The loss as a result of currency hedging for 2008 was NOK 44.2 million.

### Coal hedging

By year-end 2009 the company had entered into the following transactions to hedge coal prices:

| Year | 2009 | 2010 |
|---|---|---|
| Tonnes | 1 000 000 | 175 000 |
| Average price in USD per tonne | 186.89 | 167.27 |

In 2008 a quantity of 800,000 tonnes of coal was hedged at a price of USD 159.20 per tonne. The hedging gain for 2008 was NOK 189.3 million.

## Note 16 Tax costs

| | 2008 | 2007 |
|---|---|---|
| **Tax cost for the year is made up as follows:** | | |
| Tax payable on profit for the year | 277 682 | |
| Change in deferred tax | -94 381 | 18 006 |
| **Total tax cost on ordinary profit for the year** | **183 301** | **18 006** |
| | | |
| **Tax payable in tax cost for the year is made up as follows:** | | |
| Ordinary profit/loss before tax | 1 144 453 | 152 595 |
| Permanent differences | -117 897 | -42 158 |
| Change in temporary differences | 976 627 | 60 359 |
| Utilised deficit from previous year | -267 667 | -170 796 |
| **Basis for tax payable** | **1 735 515** | **0** |
| **Tax, 16%, representing the total tax payable on the profit for the year** | **277 682** | **0** |
| | | |
| **Tax payable in the balance sheet is made up as follows:** | | |
| Tax payable on profit for the year | 277 682 | |
| Tax payable on group contribution | | |
| **Total tax payable** | **277 682** | **0** |
| | | |
| **Specification of the basis for deferred tax, differences assessed** | | |
| Fixed assets | -13 798 | 40 451 |
| Current assets | -78 083 | 18 214 |
| Provision relating to insurance payment | -1 005 | 368 572 |
| Other accounting provisions | -52 863 | -50 863 |
| Provision for loss on contracts | -142 945 | |
| Pension funds | -304 231 | 7 328 |
| Change in accounting principle – adjustment of comparison figures | | -119 076 |
| Accumulated taxable loss | | -267 667 |
| **Total** | **-592 924** | **- 3 041** |
| **Deferred tax/tax benefit (-), 16%** | **-94 868** | **-487** |
| | | |
| **Reconciliation of tax charge for the year:** | | |
| Profit before tax | 1 144 453 | 152 595 |
| 16% tax on the profit before tax (10% in 2007) | 183 113 | 15 260 |
| Total tax charge for the year | 183 301 | 18 006 |
| **Difference** | **189** | **2 747** |
| | | |
| **The difference is due to the tax effect of:** | | |
| Permanent differences | -18 864 | -4 216 |
| Change in the tax rate from 10 to 16% | | 6 962 |
| Change in accounting principle | 19 052 | |
| **Total** | **189** | **2 746** |

A change was made in the year's accounts to the principles used to measure the pension commitment. See the more comprehensive discussion in the pension note, Note 7. The effect of the change in accounting principle in connection with the pension commitment was carried directly in equity. However, the change in accounting principle also affects temporary differences as at 01.01.08. In accordance with generally accepted accounting principles, the tax effect of the change in accounting principle has also been carried directly in the balance sheet (equity and deferred tax). In the same way, the tax charge in the comparison figures for 2007 has been adjusted in accordance with what it would have been if the new principle for treating estimate variances had also been applied at the closing of the 2007 accounts.

**Note 17** Shares in subsidiaries and other companies

| Company | Location | Ownership % | Balance sheet 2006 | Balance sheet 2005 |
|---|---|---|---|---|
| Svea Tankanlegg AS | Sveagruva | 15 | 752 | 752 |
| FabLab Technology AS | Lyngen | 0 | 0 | 51 |
| Barentsinstituttet AS | Sør-Varanger | 0 | 100 | 100 |
| **Total** | | | **752** | **903** |

The shares are recognised at cost in the balance sheet. SNSG has undertaken to buy back the shares in Svea Tankanlegg AS from the other shareholders at face value if there are no other buyers.

**Note 18** Balances with group companies

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | Receivables | Short-term debt | Long-term debt | Total | Receivables | Short-term debt | Long-term debt | Total |
| SNSK | 0 | 241 801 | 0 | -241 801 | 19 745 | 250 000 | 0 | -230 255 |
| SNB | 12 858 | 0 | 0 | 12 858 | 10 011 | 0 | 0 | 10 011 |
| SNG | 2 925 | 0 | 0 | 2 925 | 3 101 | 0 | 0 | 3 101 |
| **Total** | **15 783** | **241 801** | **0** | **-226 018** | **32 857** | **250 000** | **0** | **-217 143** |

**Note 19** Accounts receivable

| | 2008 | 2007 |
|---|---|---|
| Net accounts receivable at 31.12 | 198 673 | 165 248 |
| | | |
| Bad debt recognised in accounts | 0 | 57 |
| Change in loss reserves | 0 | 0 |
| Reserve for bad debts at 31.12 | 1 005 | 1 005 |

The reserve for bad debts is considered adequate to cover possible future losses.

**Other current receivables**

Other current receivables come to NOK 38.5 million and consist of prepaid costs of NOK 22.7 million and group-related receivables of NOK 15.8 million. Other current receivables mainly relate to prepayments to suppliers and prepaid insurance premiums.

**Note 20** Bank deposits, cash

| | 2008 | 2007 |
|---|---|---|
| Cash | 12 | 20 |
| Bank deposits | 1 142 987 | 472 |
| Withholding deposit (tax) | 20 751 | 24 709 |
| **Total** | **1 163 750** | **25 202** |

## Note 21 Debt

**Interest-beaing debt:**

| | | 2008 | | 2007 | |
|---|---|---|---|---|---|
| Type of loan | Bank | Balance | Interest cost | Balance | Interest cost |
| Overdraft facility | DnB NOR | 0 | 17 748 | 246 605 | 39 477 |
| Mortgage loans | DnB NOR | 0 | 16 943 | 240 000 | 17 655 |
| Subordinated loan | | 0 | 16 875 | 250 000 | 11 313 |
| Unutilised bank overdraft facility (limit 400 000) | | 400 000 | 0 | 153 395 | 0 |
| Debt which falls due for payment more than 5 years after the end of the financial year | | 0 | 0 | 0 | 0 |

**Short-term debt:**

| | 2008 | 2007 |
|---|---|---|
| Bank overdraft facility | 0 | 247 073 |
| Accounts payable | 94 041 | 119 232 |
| Prepayments from customers | 237 423 | 0 |
| Unpaid govt. charges & special taxes | 20 455 | 24 639 |
| Tax payable | 277 682 | 0 |
| Intercompany accounts | 241 801 | 250 000 |
| Wages/holiday pay owing | 31 496 | 34 693 |
| Provision for accrued costs | 56 193 | 55 733 |
| Other short-term debt | 58 | 0 |
| **Total** | **959 150** | **731 369** |

## Note 22 Pledges and guarantees

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Loan facility | Balance | Loan facility | Balance |
| | 160 000 | 0 | 240 000 | 240 000 |
| Bank overdraft facility | 400 000 | 0 | 400 000 | 246 605 |
| **Total** | **560 000** | **0** | **640 000** | **486 605** |

| Book value of assets pledged as security for debt (overdraft facility): | 2008 | 2007 |
|---|---|---|
| Tangible fixed assets | 513 462 | 545 438 |
| Shares owned by the company | 752 | 903 |
| Stocks | 377 936 | 351 095 |
| Accounts receivable | 199 678 | 166 253 |
| **Total** | **1 091 828** | **1 063 689** |

The company has pledged the following assets as security:

Land registry no. 12 Indre Lågfjord
Mining concessions in the Svea area and around Gruve 7
Operating materials and accessories
Coal stocks and inventories
Shares owned by the company
Accounts receivable
Buildings and plant in Svea

**Guarantees**

The company has issued a NOK 4 million guarantee to Norske Romsenter Eiendom AS to cover the costs of a possible breakage/failure of submarine fibre cables to the mainland.

## Note 23 Provisions for liabilities and charges

| | 2008 | 2007 |
|---|---|---|
| Pension commitments | 304 231 | 111 747 |
| Clear-up costs | 12 000 | 10 000 |
| Unrealised foreign exchange losses | 142 945 | |
| **Total** | **459 176** | **121 747** |

In 2008 a provision was made in the accounts of NOK 2.0 million for future clear-up costs at Svea. The total provision for clear-up operations is NOK 12 million.

## Note 24 Coal reserves

The company has decided to use NI 43-101 as a guideline for assessing the mineral reserve base. This means that we will have a substantial change in reporting compared to last year.

The main difference is that there will be differentiation between resources and reserves, and there will be sub-groups within each group indicating the level of certainty of the deposits.

The table below shows how the company has classified its reserve base.

| | Resources | | | Reserves | |
|---|---|---|---|---|---|
| **Location** | **Assumed** | **Indicated** | **Measured** | **Probable** | **Certain** |
| Svea Nord, core | | | | 3.2 | 8.2 |
| Svea Nord, marginal zone | | | | 6.0 | |
| Svea Øst | | 3.8 | | | |
| Lunckefjell | | 13.2 | | | |
| Ispallen | | 14.3 | | | |
| Areas that can be worked from Svea | | 31.3 | | 9.2 | 8.2 |
| The Gruve 7 area | 0.4 | | 0.4 | 0.2 | |
| Bassen | 11.5 | | | | |
| The Gruve 3 area | | 5.0 | | | |
| Areas that can be worked from LYB | 11.9 | 5.0 | 0.4 | 0.2 | |
| Reindalen | | 27.0 | | | |
| Resources protected | | 27.0 | | | |
| **Total resources and reserves – million tonnes** | **11.9** | **63.3** | **0.4** | **9.4** | **8.2** |

Coal in the group's resources is shown as an in situ figure, i.e. the amount of coal in millions of tonnes that is in the mountain. Coal in the group's reserves is shown in tonnes of commercial coal.

## Note 25 Shareholders' equity

| | Share capital | Other equity | Total |
|---|---|---|---|
| Shareholders' equity at 31.12.2007 | **150 100** | **363 334** | **513 434** |
| Adjusted equity 01.01 | | | |
| - Pension commitments | | -119 076 | -119 076 |
| - Deferred tax | | 19 052 | 19 052 |
| **Shareholders' equity at 01.01.2008** | **150 100** | **263 310** | **413 410** |
| Profit/loss for the year | | 961 152 | 961 152 |
| Group contribution paid | | -405 000 | -405 000 |
| **Equity at 31.12.2008** | **150 100** | **819 462** | **969 562** |

The share capital comprises 150,100 shares each with a nominal value of NOK 1,000.

## Note 26 Ownership structure

At 31.12.2008 Store Norske Spitsbergen Kulkompani AS owned 100% of the shares in the company.

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To the Annual Shareholders' Meeting of Store Norske Spitsbergen Grubekompani AS

## AUDITOR'S REPORT FOR 2008

**Respective Responsibilities of Directors and Auditors**
We have audited the annual financial statements of the Store Norske Spitsbergen Grubekompani AS as of 31 December 2008, showing a profit of TNOK 961 152. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the financial statements. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

**Basis of Opinion**
We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**
In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2008, the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

Bodø, March 28, 2009
KPMG AS

Ingar Andreassen
*State Authorised Public Accountant*

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

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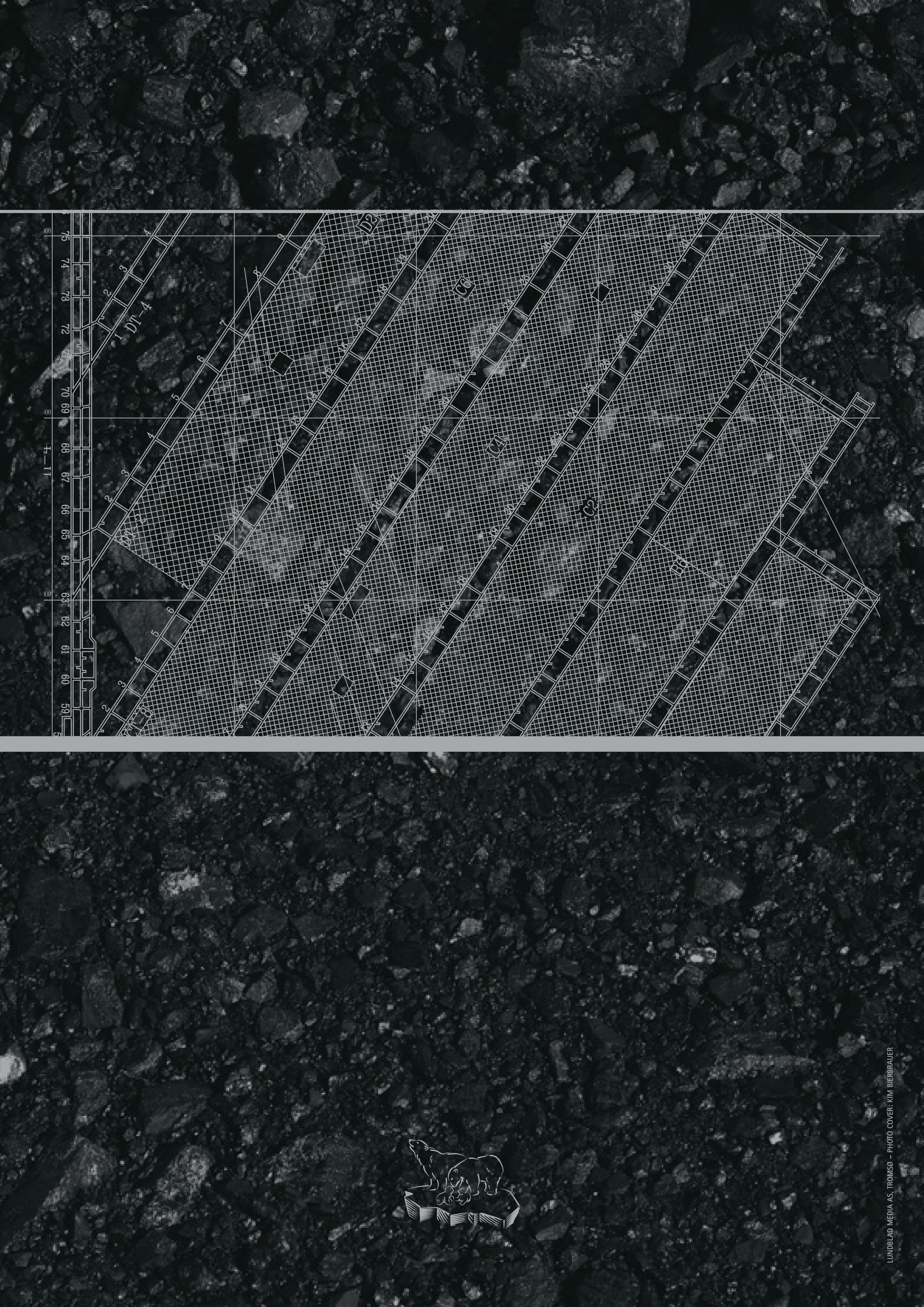

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