ANNUAL REPORT AND ACCOUNTS

2011

STORE NORSKE SPITSBERGEN KULKOMPANI AS

STORE NORSKE SPITSBERGEN GRUBEKOMPANI AS

The Haugen residential area in Longyearbyen. Photo: Torbjørn Johnsen

Store Norske Spitsbergen Kulkompani AS	96th year of operations
Enterprise no.:	916 300 395
Share capital l:	164,490,000

Store Norske Spitsbergen Grubekompani AS	10th year of operations
Enterprise no.:	984,015,097
Share capital l:	150,100,000

Board of Directors:	
Bård Mikkelsen	Chairman
Lisbeth Alnæs	Vice-Chairman
Anne Cathrine Haadem	
Grethe Fossli	
Egil Ullebø	
Thomas Hukkelås	Staff representative
Stian Torbergsen	Staff representative
Odd Egil Hofstad	Staff representative

Senior management group (as of 31 December 2011):	
Bjørn Arnestad	Chief Executive Officer (to 31.12.2011)
Per Andersson	Chief Executive Officer (from 01.01.2012)
Ingrid Dahn	Director of Human Resources
Sissel Danielsen	Financial Director
Per Nilssen	Director of Mining Operations
Roy Are Hanssen	Planning and Project Manager
Cato Lund	Technical Manager
Einar Fjerdingøy	HSE Manager
Morten Often	Exploration Manager
Sveinung L. Thesen	Administrative Manager and Legal Advisor
Terje Carlsen	Communication Manager

Egil Ullebø (to left), CEO Per Andersson, Anne Cathrine Haadem, Vice-Chairman Lisbeth Alnæs, Stian Torbergsen, Grethe Fossli, Odd Egil Hofstad, Chairman Bård Mikkelsen and Thomas Hukkelås. Photo: Tommy Dahl Markussen.

Contents

Challenges and development

2011 has been a year with many great challenges for Store Norske. After a long and demanding process, the contracts with LNS/LNSS and Jebsens/Polar Coal were terminated. Both Jebsens and Leonhard Nilsen had worked with Store Norske for many years. As a consequence, the 'divorce' was very painful, not least for the many people who were affected. Wherever possible, we have tried to take that into account.

But we also need to look to the future. Through our agreements with the Danish shipping company DS Norden and the contractor AF Gruppen, we have secured the competence of experienced partners capable of shipping coal to the Continent and providing transport services in Svea in a sound and professional manner. The same applies to our co-operation agreement with Glencore International to sell and market our coal. Glencore is one of the world's largest coal traders, with unique knowledge of and access to the coal market.

Where production was concerned, 2011 was a challenging year. We are coming to the end of the core in the Svea Nord mine. Now that the best coal has been extracted, the stone content can be as high as 50%. In reality, this makes the coal impossible to sell. As a consequence, it has been deemed essential to build a washing plant to purify the coal.

Right at the end of 2011, the mining machines in Svea Nord reached the Marthabreen glacier. Only a few metres of rock separate the 'old' galleries from the glacier outside, and it is on the other side of the glacier that the future of Store Norske will lie for the next few years: Lunckefjell.

In the autumn of 2010, we submitted an application to the Governor of Svalbard for permission to open the new mine in Lunckefjell. The application was accompanied by solid technical, environmental and economic reports on every imaginable and unimaginable aspect of the project. Following thorough consideration, the Governor recommended the application and it was sent on to the Ministry of the Environment – which on 22 December 2011 said yes to Store Norske's plans. This made a wonderful Christmas present for Store Norske, our 400 or so employees and their families, and for Longyearbyen. We are sure that, based on the assumptions contained in the reports, Lunckefjell will be a sustainable mining project in every respect:economically, environmentally and technically.

Even though we have been through some tough times and still have great challenges ahead of us, it is not only necessary but also right to be optimistic with regard to Store Norske's future on Svalbard. Lunckefjell may have been clarified, but we must not forget the Gruve 7 mine. In February 2011, the Board of Directors adopted a new mining operations plan for the near-50-year-old mine in the Adventdalen valley. New production targets were set, more miners were taken on, and over NOK 100 million will be invested in modern equipment. The coal quality in Gruve 7 is very attractive, prices are good and we have plenty of drive and energy behind us. And so there is every reason for optimism.

Store Norske has a skilled and committed workforce. They are our most important resource, and our aim is for none of our workers to suffer injury in the workplace. One injury is always one injury too many, and mining is a dangerous industry. This makes it imperative for us to work purposefully and systematically to prevent accidents and personal injury. We have sound systems in place to do this; but success in this area requires every individual to maintain a constant daily focus on health, safety and the environment in their own working situation and that of their colleagues.

I took over as CEO on 1 January 2012, and wish to thank my predecessor, Bjørn Arnestad, for all the hard work he has put in for Store Norske. It is with excitement, great motivation and not a little awe that I assume the task of leading this great company, so rich in tradition, which is far more than an ordinary production enterprise.

Store Norske is in many ways unique as an industrial enterprise because we have many tasks and activities in addition to our mining operations. We are charged with managing large land areas on Svalbard to the benefit of our owners, running our own airport and an entire small community in

Svea, prospecting for and securing future coal and mineral resources, and operating an advanced logistics system in and out of Svalbard – just to mention a few. We also operate in a part of the world with climate-related challenges that industry on the Norwegian mainland does not face.

Our owner, the Norwegian State, expects the company to be run on sound business principles and to produce a return on its investment, while also contributing to the further development of the Svalbard community.

In a few years' time, Store Norske will be celebrating its 100th anniversary. From our starting point today, we have mining operation plans for almost another 20 years. But our ambition to maintain a presence on Svalbard stretches further than the remaining years of coal resources. What is happening currently in the Far North with the increased focus we are seeing on both oil, gas and mineral exploration, is opening up new opportunities both for the Svalbard communuity and for Store Norske with its presence and broad expertise. Our purchase of the majority of the shares in the logistics company Pole Position Spitsbergen AS is part of our long-term strategy.

This is sending out a powerful signal that we wish to be a significant actor on Svalbard for many years into the future.

Per Andersson
Chief Executive Officer

Per Andersson, CEO. Photo: Terje Carlsen

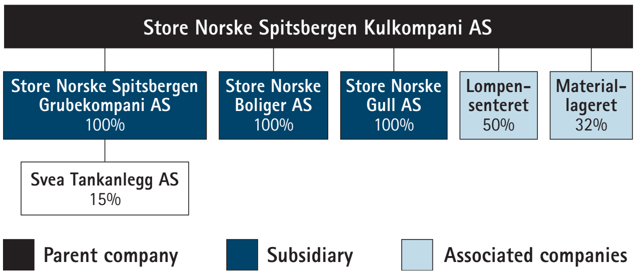
Key figures for Store Norske

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Production (1,000 tonnes)	2,944	2,904	1,471	2,395	4,073	3,430	2,641	1,935	1,386
Number of employees at 31.12 – group	233	265	314	366	396	387	368	337	370
Sickness absence – group (percentage)	8.8	6.0	8.3	8.7	8.9	8.1	8.5	7.0	7.4
Injuries involving absence	4	10	23	17	14	20	13	3	6
Turnover (NOK million)	945	1,315	1,139	1,267	1,827	3,445	2,041	1,507	1,444
Tonnes/employee	12,854	11,664	5,081	7,044	10,691	8,761	6,996	5,489	3,922
Profit before tax (NOK million)	74	227	53	– 85	130	1,056	432	349	70
Profit after tax (NOK million)	65	219	46	– 78	112	881	363	276	55
Depreciation (NOK million)	64	85	66	101	154	152	225	157	119
Equity %	32.2	35.4	35.9	26.9	26.1	42.6	62.0	66.0	65.0
Interest-bearing debt (NOK million)	495	390	777	1,035	614	24	23	22	21
Coal price (USD per tonne)	39	64	67	72	83	175	128	131	129

Svea in the Arctic night Photo: Bjørnar Kvitle

Annual Report of Store Norske Spitsbergen Kulkompani AS

Store Norske Spitsbergen Kulkompani AS (SNSK) was founded in 1916, and is the parent company in the Store Norske group. SNSK has three wholly-owned subsidiaries: Store Norske Spitsbergen Grubekompani AS (SNSG), which carries out mining operations on Svalbard, Store Norske Boliger (SNB), which owns and lets the group's residential accommodation to tenants, and Store Norske Gull AS (SNG), which conducts prospecting operations.



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

Key facts about the company

The company's core business is the development of land properties and rights on Svalbard.

SNSK owns several pieces of land on Svalbard, including the two central properties in Longyeardalen and Adventdalen, which cover most of the Longyearbyen planning area. The company leases land to companies starting up in Longyearbyen.

SNSK and its subsidiaries have mining claim areas and concessions and have located coal and mineral deposits in large parts of Svalbard. The concessions that are not in operation are held in reserve for future operations.

Directors' statement

In the opinion of the Board of Directors, the annual financial statements presented for the parent company and for the group give a true and fair view of the performance, results and financial position of the company and the group. The accounts have been prepared on the assumption that each entity is a going concern.

Operating income and profit

The parent company's turnover for 2011 was NOK 9.3 million, up from NOK 7.9 million for 2010. All the group's employees are employed by SNSG, and SNSK purchases services from SNSG.

The group had a turnover of NOK 1 444 million in 2011, compared with NOK 1 507 million in 2010.

The parent company reported an operating loss of NOK – 6.0 million for 2011, compared with an operating loss of NOK – 0.4 million for 2010. The group posted an operating profit of NOK 53.2 million for 2011, compared with NOK 311 million for 2010. The parent company reported profit after tax of NOK 21.5 million for 2011, down from NOK 124.4 million in 2010, while the group had an after-tax profit for 2011 of NOK 55.4 million, down from NOK 276.1 million in 2010. The change in turnover from 2010 is attributable to lower sales volumes and lower prices.

Financial information

The parent company had no investments in 2011, while there was group investment during the year for NOK 152.5 million, down from NOK 171.3 million in 2010.

The parent company has no foreign currency exposure, although at group level most sales are transacted in foreign currency, primarily the US dollar. Active hedging reduces the foreign exchange risk and is carried out as part of SNSG's hedging strategy.

The group has credit insurance to reduce the risk on debtors.

At year-end, the parent company had no long-term debt. Short-term debt totalled NOK 59.5 million, of which NOK 25 million is in the form of provision for dividends. The group had long-term debt in 2011 of NOK 20.7 million and short-term debt of NOK 309.1 million.

At year-end 2011 the parent company had non-restricted equity totalling NOK 0.9 million, down from NOK 3.4 million in 2010, while the group's non-restricted equity totalled NOK 1 352.6 million, compared with NOK 1 469.1 million in 2010.

Allocation of profit

Of the parent company's after-tax profit of NOK 21.5 million, the Board recommends that NOK 25 million be allocated as dividend and that NOK 3.5 million be allocated from other reserves (other equity).

Contract audit

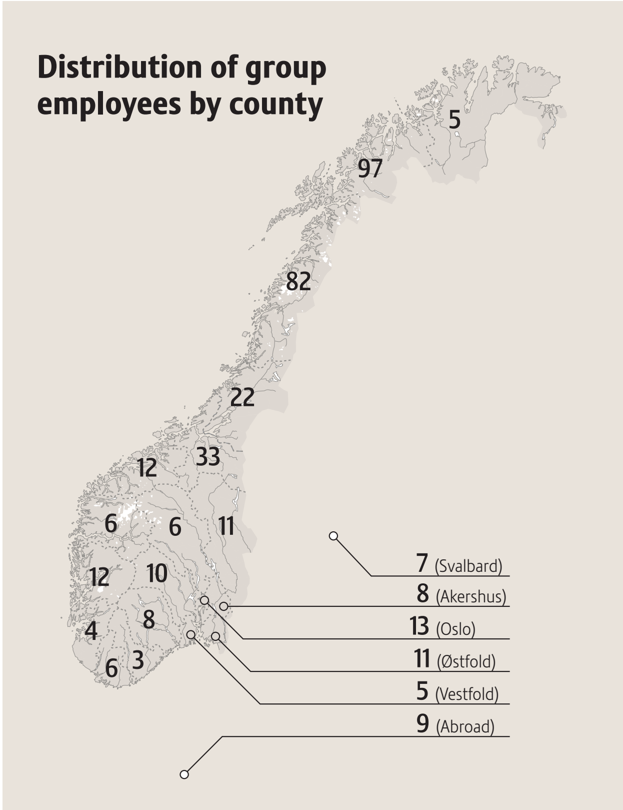
The Store Norske group has carried out a comprehensive audit of its long-term contracts with three key suppliers, focusing particularly on contract durations, conditions and legal aspects. On the basis of what the audit revealed, in 2010/2011 the group terminated its contract with Polar Coal KS for the marine transport of coal, the coal sales commission agreement with Oxbow Coal BV, and contracts with LNS/LNSS for land transport etc. None of the contractual counterparties accepted the terminations. The counterparties consequently took legal action against the group claiming reinstatement of contract and/or compensation for alleged unfounded termination of contract.

The arbitration case against Polar Coal KS was listed for hearing in August 2011, but the parties reached a settlement shortly before that. The dispute with Oxbow Coal BV came before Oslo District Court in the autumn of 2011. Judgment was passed in December 2011. The court found in favour of the Store Norske group, which was also awarded costs. Oxbow Coal BV has appealed the judgment, and if the appeal is allowed it will be heard by the Borgarting Court of Appeal in the autumn of 2013. In the summer of 2011, LNS/LNSS applied for an interim court order for the right to continue the contracts with SNSG until the termination dispute was settled. The case was heard by Nord-Troms District Court in July 2011. The court found in favour of the Store Norske group, which was awarded costs. LNS/LNSS have also sued the Store Norske group claiming reinstatement of contract and compensation for loss of income and costs as a consequence of alleged unfounded termination of contract. The case will be considered by an appointed court of arbitration in the autumn of 2012. The Store Norske group are of the opinion that there is also a claim to be made against LNS/LNSS. Please refer otherwise to Note 20 to the annual accounts.

Wholly-owned subsidiaries

Store Norske Spitsbergen Grubekompani AS (SNSG)

Most of SNSK's operations are conducted within this company, SNSG. SNSG reported an after-tax profit of NOK 69 million for 2011, and operating income of NOK 1 432.9



million. The company had 370 employees as of 31 December 2011. The company sells administrative services to other companies in the Store Norske group.

Store Norske Boliger AS

The company owns housing stock comprising 370 residential units in Longyearbyen, which are let to the group companies to house their employees and also to employees of AF Gruppen. Most of the income is internal to the group, and for 2011 the company reported an after-tax profit of NOK 2.8 million and operating income of NOK 26.3 million. The company had no employees as of 31 December 2011. All services are purchased from SNSG.

Store Norske Gull AS

The company was founded in 2003 and is engaged in prospecting activities on Svalbard, and in Finnmark and Troms on the Norwegian mainland.

In 2009, the company began surveying for gold in St. Jonsfjorden on the west side of the Spitsbergen archipelago. As the Governor of Svalbard is calling for an environmental impact assessment to be made of the potential drilling at St. Jonsfjorden, there will be no exploratory drilling in this area in 2012. Store Norske Gull AS will continue its exploratory activities in Troms and Finnmark in 2012.

The company had no revenues of its own in 2011. There was an after-tax loss of NOK 12.8 million for 2011.

Store Norske Gull AS had no employees as of 31 December 2011. All services are purchased from SNSG.

Associated companies and other companies

Materiallageret AS

The company is 32 per cent owned by Store Norske Spitsbergen Kulkompani AS. The company lets properties in Longyearbyen, where Store Norske has its offices.

Lompensenteret AS

The company is 50 per cent owned by Store Norske Spitsbergen Kulkompani AS. The company operates commercial buildings in Longyearbyen.

Svea Tankanlegg AS

The company is 15 per cent owned by Store Norske Spitsbergen Grubekompani AS. The company's objects are to procure, store and distribute fuel in Svea.

Corporate Social Responsibility

Report to the Storting No. 13 (2010–2011) Active and Long-Term Ownership (a Norwegian government white paper) states that the aim of state ownership of Store Norske is to contribute to maintaining and further developing the community in Longyearbyen in a manner which supports the overarching objectives of Norwegian Svalbard policy. The same aims are expressed in *Report to the Storting No. 22 (2008–2009) Svalbard.*

Store Norske is mindful of the importance of fulfilling its societal responsibilities. The parent company has adopted ethical guidelines, which all the subsidiaries in the group comply with. These ethical guidelines form the framework for the desired standard of ethical conduct required from all the group's employees, and they also contain rules designed to combat corruption and safeguard human rights. The ethical guidelines were revised in 2011/2012.

After the Norwegian State, the parent company is the largest land-owner on Svalbard. In order to ease the changeover brought about by the introduction of local democracy in the Longyearbyen planning area, the company has entered into agreements with the Longyearbyen local government that will provide a safety net in dealings with all planning and building matters as well as reduced ground rents for use of land that is for the public benefit.

In preparation for *Report to the Storting No. 22 (2008–2009) Svalbard*, a study was made by the Norwegian Institute of Urban and Regional Research of the importance of coal mining for the Longyearbyen community (NIBR Report 2008:22). The study's conclusion was that the Store Norske group was still the most important basis for the community on Svalbard and that it assists in strengthening and maintaining a robust family-based community, despite the fact that many employees choose to spend their leisure time on the mainland. This conclusion has again been confirmed by the latest NIBR report published in 2011. The report points out that, of the various primary industries, it is coal mining that has the largest ripple effects on Svalbard. Store Norske alone is responsible for 25 per cent of all man-years worked on Svalbard. Including sub-contractors, this proportion is 37 per cent.

In order to encourage the group's employees and their families to choose to live in Longyearbyen, in 2011 Store Norske built a number of large family dwellings. This work will continue in 2012. For Store Norske, as for the other industries and businesses in Longyearbyen, providing jobs and educational opportunities for spouses/partners poses a great challenge and is an important factor in helping to maintain a stable family community. Store Norske aims to intensify its efforts in this sphere in the time ahead.

The Store Norske group is an important contributor to sport and culture in Longyearbyen. This is essential in order to create an attractive society for employees and their families. In 2011 SNSG provided financial support for, amongst other events, the Svalbard skiing marathon, the Sun Festival week, the music festivals Dark Season Blues and Polarjazz, and a number of other local events and activities. Store Norske is particularly keen to support activities for children and young people, and is a major sponsor of Camp Svalbard, an activities camp for adolescents from Longyearbyen. Store Norske has also supported the establishment of a motocross track for children and young people at Hotellneset outside Longyearbyen.

The group also takes part in technology projects, such as the Longyearbyen CO_2 Lab together with the University Centre in Svalbard (UNIS), and helps to maintain the local voluntary rescue service. In 2011 Store Norske supported Longyearbyen Hospital in acquiring emergency medical equipment for the use of the emergency medical services when responding to accidents and sickness.

The Store Norske group is conscious of the environmental impact of its activities and works actively to ensure that discharges, emissions and impact on the landscape and wildlife are kept to a minimum. With support from the Svalbard Environmental Protection Fund, Store Norske has continued carrying out extensive rehabilitation of the historic ropeway angle station in Endalen and the Gruve 2B mine in Longyearbyen. Both are listed as industrial heritage sites.

In 2010 Store Norske embarked on a project to establish a mining museum in the Gruve 3 mine, which is planned to be an all-year facility open to local residents and visitors to Longyearbyen. On the basis of the preliminary work carried out, the Board resolved to continue the planning for a knowledge centre and museum in Gruve 3. The Svalbard Environmental Protection Fund has made a grant of NOK 1.9 million for this project, which is the largest single grant ever awarded by the Fund.

Research and Development

The Store Norske group has no R&D department of its own. However, it collaborates with established research institutions, and has collaborative agreements with, amongst others, the University Centre in Svalbard (UNIS), the University of Tromsø and the Norwegian University of Science and Technology, Trondheim (NTNU). SNSG is a partner in the Longyearbyen CO_2 Lab, which is aiming for a CO_2-free Svalbard, and Store Norske is an industrial partner in the centre for carbon capture and storage (SUCCESS) at the national research centre for environmentally friendly energy at Christian Michelsen Research (CMR) in Bergen.

The Store Norske group is keen to encourage skills and competence development among its own employees, and accordingly offers workers tuition in the mining trade certificate, other relevant trade certificates, and tertiary vocational education and further and higher education in specific subject areas such as mining, management and finance.

Store Norske offers mining apprenticeships and accepts up to five apprentices annually. In 2011 Store Norske took on two heavy equipment mechanic apprentices. The group pursues an open dialogue with Longyearbyen school regarding the need for apprenticeship places and contributes in fields of education and training in which Store Norske has resources. In 2012 Store Norske will contribute with equipment for the course in technical and industrial production (TIP) at upper secondary school level 1.

Health, safety and environment

Health, safety and environment (HSE) is a priority issue for the entire group. Safety was also advanced as a key responsibility for the group in *Report to the Storting No. 22 (2008–2009) Svalbard*. Safety in the mines and in prospecting activities has always had high priority, and the entire group works systematically to identify risk and to mitigate it.

The parent company has long been engaged in mining operations in the area around Longyearbyen, and during this period local pollution has occurred, such as acid run-off and the remains of earlier mining operations. The consequences of current mining activities are dealt with promptly and in consultation with local and central environmental authorities.

In 2011 SNSG experienced an increase in the number of accidental personal injuries compared with 2010, which to date is the year in the company's history with the fewest personal injuries. During 2011 there were six lost-time injuries, compared with three in 2010. This gives a Lost Time Injury Frequency Rate (number of injuries per 1 million hours worked) of 9.2, compared with 4.9 in 2010. Action was taken and the focus was intensified on improving the negative trend the company had in the last half of 2011.

SNSG has a permit to operate in Svea issued by the Norwegian Climate and Pollution Agency (KLIF), and has incorporated the conditions for the permit in its internal control procedures.

Clear-up and maintenance operations continued in 2011 on and around Store Norske's existing and closed-down facilities in the Longyearbyen area. In collaboration with the Governor of Svalbard, a strategy was prepared in 2010 for managing the industrial and cultural heritage and archaeology in Longyearbyen and surrounding areas.

Gender equality and equal opportunities

Mining has traditionally been a male-dominated industry. Store Norske's objective is to recruit more women to the company. SNSG's senior management team consists currently of two women and nine men. There are three women on the company's Board of Directors. SNSG employs 30 women and 340 men. Women made up 8.1 per cent of the company's workforce in 2011, which is on a par with 2010 (8 per cent).

Discrimination

The group's ethical guidelines state that there shall be no discrimination against employees, partners, customers or other interested parties on the grounds of religion, gender, sexual orientation, age, nationality, ethnicity, marital status, disability or other factors.

Risk management and internal control

SNSK is exposed to risk in a number of areas and throughout the entire value chain. The most important risks relate to market operations, operating activities, project implementation and framework conditions. Managing risk well is important for value creation and is an integral part of all SNSK's business activities. The group has risk management systems in place for, amongst other things, oil pollution protection, quality control, mine rescue, and fire and emergency preparedness.

In 2011 the Store Norske group established an internal audit unit. The purpose of the unit is to assist the Board and management in undertaking an independent and neutral assessment of whether the group's most critical risks are sufficiently well managed and controlled.

Corporate Governance in Store Norske

SNSK is located in Svalbard, registered in Norway, and its corporate governance is based on Norwegian company legislation. The Store Norske group's business operations are guided by the company's articles of association, vision, core values, business concept and ethical guidelines.

In the light of the Norwegian State's ownership interests in Store Norske, the group has elected to comply with the State principles of good ownership. These principles are based on the way the State conducts itself as an owner and what the State expects from state-owned enterprises, and are incorporated in *Report to the Storting No. 13 (2010–2011) Active and Long-Term Ownership.*

The principles of corporate governance regulate the relations between the owners, the Board and the group's management. These are the key stakeholders with regard to the steering, management and control of the business. SNSK manages large assets on behalf of the company's owners. The company's presence on Svalbard has an importance and a significance which far exceeds its commercial operations.

Store Norske's other stakeholders include the company's employees, customers, contractors, lenders, society at large and the local Svalbard community. The relationship with these parties is regulated by means of the Store Norske group's business principles and SNSK's ethical guidelines for the staff, as well as other internal rules and regulations. Within SNSK, good corporate governance is intended to facilitate long-term and lasting value creation for the owners, staff, other stakeholders and society at large.

Sound, transparent management and control of the business is intended to create confidence in Store Norske's stakeholders by means of predictability and credibility. Open and accessible communication aims to ensure that Store Norske maintains good relations with society in general and in particular with the stakeholders affected by the business.

The principles of corporate governance are adopted by the Board of Directors of Store Norske Spitsbergen Kulkompani AS and apply for this company.

The Board has resolved that these principles shall also apply for the entire Store Norske group. Operating subsidiaries prepare equivalent principles for their own corporate structure and submit them for adoption by their respective boards of directors. The principles applied by the group are in effect generally, although the necessary company-specific adaptations are also made.

In partly owned subsidiaries in which SNSK has a minority position, SNSK will work to implement equivalent corporate governance guidelines in collaboration with the other owners.

SNSK has developed business principles intended as normative for overarching decisions taken in the company, and which describe what the company stands for and what role and responsibilities the company has. The ethical guidelines for the staff indicate the consequences that the company's business principles imply for the individual. They are also intended to function as a useful tool in situations involving ethical dilemmas. In 2011 the Board asked the administration to revise the company's ethical guidelines. This work was completed in the spring of 2012.

The Board of Directors and CEO

The Board of Directors of SNSK held seven meetings during the year, two of which took place in Svalbard. As in previous years, in 2011 the Board conducted a review of its own performance. Bjørn Arnestad left the post of CEO on 31 December 2011. Per Andersson became the new CEO on 1 January 2012. The Board wishes to thank Bjørn Arnestad for the very considerable effort he has made on the group's behalf as CEO from 2008 to 2011.

Outlook

SNSK is the parent company in the Store Norske group and owns land properties and rights that are of great national value and interest. The parent company's operations are performed by the subsidiaries, thus protecting the parent company's assets. This arrangement will continue in the future.

The core business of the Store Norske group is mining, which in 2012 will be carried on in the Svea Nord core and in the Gruve 7 mine.

At the end of 2011, SNSG was granted the necessary permits to start preparations for opening mining operations in Lunckefjell with the planned main production to start in 2015. The infrastructure on the Marthabreen glacier commenced construction in March 2012. The production in Lunckefjell will be based on natural exploitation of the existing established infrastructure in Svea, and will ensure continuity in the company's long-term plans to deliver between 1.5 and 2 million tonnes of coal annually.

Profitable and long-term management of the coal resources is the company's prime purpose. It is therefore viewed as essential to exploit further the potential for greater effectivisation of operational forms and use of resources within the frameworks provided in the Svalbard Environmental Protection Act. This will position the company better as regards managing varying operational conditions in the rock, and make the company more robust in relation to changes in the market price of coal.

In order to meet the market's demands and expectations of product quality, in 2010-2011 SNSG installed and put into operation two washing plants for purifying coal in Svea. These plants, which increase the product quality and thus the value of the coal, are used to purify the coal in the current production in Svea Nord and, from 2015, will also be used to treat some of the coal to be extracted from Lunckefjell.

On the basis of Store Norske's long-term plan, the company will have coal reserves until 2026, based on the annual volumes stipulated above (see Note 21 to the accounts).

The implementation of the Lunckefjell project will give Store Norske the opportunity to further develop its own resources and expertise in Arctic mining in a vulnerable environment and subject to the most stringent environmental requirements. The group will make full and responsible use of these opportunities and experience by surveying coal reserves which will provide a natural potential for stable, secure and profitable operations after the Lunckefjell period (2019).

The group has long experience of and high expertise in mineral prospecting and exploration in the Far North, both on Svalbard and in Troms and Finnmark on the Norwegian mainland. In line with the increased interest in and focus on the future exploitation of these natural resources that we are seeing both nationally and internationally, it is natural for the group to consider developing further this commercial area within an industrial solution.

The development of activities in the Far North, such as oil and gas exploration, and the diminishing ice in the Arctic seas and changes in global logistics patterns, as well as increased investment in Arctic research, represent new areas of opportunity for Svalbard. Wherever it is natural to do so, the Store Norske group will position itself to make full use of the opportunities this may represent for creating alternative activity based on existing resources, expertise and experience.

Thanks to the group's employees

The Board of Directors would like to thank all the group's employees and elected officers for all their hard work, and for the dedication and loyalty they have demonstrated in 2011.

Longyearbyen, 31st December 2011 / 13th April 2012

The Board of Directors of Store Norske Spitsbergen Kulkompani AS

Bård Mikkelsen
Chairman

Lisbeth Alnæs
Vice-Chairman

Egil Ullebø

Anne Cathrine Haadem

Grethe Fossli

Thomas Hukkelås

Stian Torbergsen

Odd Egil Hofstad

Per Andersson
Chief Executive Officer

Profit & loss account,
Store Norske Spitsbergen Kulkompani AS

NOK 1000

Group				Parent company	
2011	2010		Note	2011	2010
1,415,736	1,477,070	Coal sales CIF	2)11)	0	0
761	3,309	Other sales income		– 10	22
24,049	24,402	Rental income		7,618	7,304
3,470	2,362	Other operating income		1,663	550
1,444,016	**1,507,143**	**Total operating income**		**9,270**	**7,876**
– 125,306	134,119	Change in stocks	3)	0	0
– 337,874	– 345,434	Wages and salaries, national insurance contributions and pension expenses	4)5)6)	– 167	– 24
– 246,317	– 302,018	Freight relating to coal sales		0	0
– 562,003	– 525,581	Other production and operating costs	7)8)	– 14,869	– 8,017
– 119,304	– 157,230	Depreciation	9)	– 202	– 202
– 1,390,803	**– 1,196,144**	**Total operating costs**		**– 15,238**	**– 8,243**
53,212	**310,999**	**Operating profit/loss**		**– 5,967**	**– 367**
33,461	46,410	Financial income	10)	28,945	125,974
– 16,944	– 8,578	Financial expenses	10)	– 476	– 3
16,517	**37,832**	**Net financial items**		**28,468**	**125,971**
69,729	**348,831**	**Profit/loss before tax**		**22,501**	**125,604**
– 14,362	– 72,690	Taxes	12)	– 1,040	– 1,233
55,367	**276,141**	**Profit/loss after tax**		**21,461**	**124,371**
		Application of profit/loss:			
25,000	124,500	Dividend		25,000	124,500
30,367	151,641	Other equity		– 3,539	– 129

Balance sheet, Store Norske Spitsbergen Kulkompani AS

NOK 1000

Group				Parent company	
2011	2010		Note	2011	2010
163,774	116,246	Deferred tax assets	12)	7,034	8,074
627,970	595,080	Tangible assets	9)	1,624	1,826
10,179	9,282	Financial assets	13)	237,320	237,277
801,924	**720,608**	**Total fixed assets**		**245,979**	**247,178**
425,472	532,869	Stocks	3)	0	139
61,997	64,152	Receivables	14)15)	154	78,189
101,265	40,253	Financial investments	16)	0	0
1,183,440	1,282,950	Bank deposits, cash	17)	805	8,857
1,772,175	**1,920,224**	**Total current assets**		**958**	**87,185**
2,574,098	**2,640,832**	**Total assets**		**246,938**	**334,362**
164,490	164,490	Share capital	22)23)	164,490	164,490
1,516,342	1,585,389	Other equity	22)	7,901	11,440
1,680,832	**1,749,879**	**Total shareholders' equity**		**172,391**	**175,930**
563,449	408,798	Provisions	6)19)	15,003	15,230
20,745	21,941	Long-term debt	18)	0	0
309,073	460,214	Short-term debt	12)14)18)	59,544	143,202
893,266	**890,953**	**Total debt**		**74,547**	**158,432**
2,574,098	**2,640,832**	**Total debt and shareholders' equity**		**246,938**	**334,362**

Longyearbyen, 31st December 2011 / 13th April 2012

The Board of Directors of Store Norske Spitsbergen Kulkompani AS

Bård Mikkelsen
Chairman

Lisbeth Alnæs
Vice-Chairman

Egil Ullebø

Anne Cathrine Haadem

Grethe Fossli

Thomas Hukkelås

Stian Torbergsen

Odd Egil Hofstad

Per Andersson
Chief Executive Officer

Cash flow statement, indirect model
Store Norske Spitsbergen Kulkompani AS

NOK 1000

Group			Parent company	
2011	2010		2011	2010
		Cash flow from operating activities:		
69,729	348,831	Profit/loss before tax	22,501	125,604
– 76,942	– 91,316	Tax paid for the period	0	0
– 772	– 51	Profit/loss on sale of fixed assets	0	0
– 43	0	Gain on sale of shares	– 43	0
119,305	157,230	Ordinary depreciation	202	202
107,394	– 82,420	Change in stocks	139	46
– 4,580	58,723	Change in accounts receivable	78,234	58,727
– 18,717	37,002	Change in accounts payable	– 2,210	– 1,621
34,575	8,697	Differences in pension funds/ commitments	0	0
– 892	– 184	Profit/loss using the equity and gross method	0	0
2,343	– 253	Increase in value of short-term investments	0	0
– 17,677	– 16,022	Change in other accruals	– 109,918	– 179,232
213,723	**420,237**	**Net cash flow from operating activities**	**– 11,095**	**3,726**
		Cash flow from investment activities:		
1,093	572	Sale of tangible assets	43	0
– 228,130	– 171,310	Purchase of tangible assets	0	0
– 60,000	– 40,000	Purchase of shares and units in other enterprises	0	0
– 287,037	**– 210,738**	**Net cash flow from investment activities**	**43**	**0**
		Cash flow from financing activities:		
– 1,196	– 1,193	Repayment of existing long-term debt	0	0
– 25,000	– 164,000	Dividends paid	– 25,000	– 124,500
0	0	Group contribution paid/received	28,000	124,500
– 26,196	**– 165,193**	**Net cash flow from financing activities**	**3,000**	**0**
		Effect of exchange rate movements on cash and cash equivalents		
– 99,510	44,306	Net change in cash and cash equivalents	– 8,052	3,725
1,282,950	1,238,644	Cash and cash equivalents at beginning of period	8,857	5,132
1,183,440	**1,282,950**	**Cash and cash equivalents at end of period**	**805**	**8,857**

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 13. 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.

The abbreviated names of the companies are:
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

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.

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 total coal production costs or net realisable value. Stocks of operating materiel and spare parts are measured at the lower of cost or assumed realisable 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.

Financial instruments
The company transacts coal sales in US dollars. Financial instruments are used on US dollars and coal to secure hedge future revenues. As the hedging instruments used are forward contracts (cash flow hedging), unrealised gains or losses are not recognised in the accounts.

Financial investments
Financial investments comprise investments in equities funds and bonds. This portfolio is considered to be for short-term investment for trading purposes and is carried at fair value. Changes in unrealised exchange gains and losses are recognised in profit or loss immediately together with other investment returns.

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.

Leasing
Leasing is classified as financial leasing when risk and ownership benefits are transferred to the lessee. Other leasing is classified as operational leasing. Measurement is based on the substance of the transaction.

Receivables and payables in foreign currency
Receivables and payables in foreign currencies are carried at the rate of exchange prevailing at year-end.

Mine development costs
The costs of preliminary mine development and facilitating coal extraction from new coal fields are charged to expense during the current period in line with production. Facilitating extraction in new coal fields includes moving mining equipment from one coal panel to the next.

Exploration costs
The costs of surveying for future deposits are charged to expense during the current period.

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. The group employs the possibility of recognising directly in equity the annual variance estimate from the regular cost of the scheme.

Taxes
The tax charge for the year is computed on the basis of the year's accounting result. It comprises both the tax payable for the period and the change in deferred tax/tax assets. Deferred tax/tax assets are computed on the basis of differences between the carrying amounts of assets and liabilities and their tax base. Deferred tax assets are recognised in the balance sheet if it is deemed more likely than not that the asset can be used in a later tax period.

Note 2 Revenue, group

Coal sales CIF

	2011	2010
Coal sales	1,423,619	1,482,781
Coal export tax	– 7,883	– 5,711
Total	**1,415,736**	**1,477,070**

Coal sales CIF can be broken down as follows:

Tonnes	Energy	Cement	Metallurgical industry	Other industry	2011	2010
Svalbard	25,158				25,158	26,198
Norway		39,998			39,998	66,423
Denmark	144,198				144,198	182,291
Netherlands					0	1,412
Germany	959,894		44,055	54,572	1,058,521	901,699
Poland					0	110,462
England	194,563				194,563	69,218
Portugal	162,420				162,420	216,906
France					0	136,102
Switzerland				39,917	39,917	0
Tonnes 2010	**1,486,233**	**39,998**	**44,055**	**94,489**	**1,664,775**	
Tonnes 2009	**1,404,567**	**92,125**	**1,412**	**212,607**		**1,710,711**

Note 3 Stocks – group

Coal stocks – group

Coal stocks are measured at the lower of net sales income and total coal production costs. At year-end 2011, the lowest production cost was measured as NOK 450 per tonne. Freight and sales costs are added to the value of coal stocks in Europe, with stocks being measured at NOK 515 per tonne.

	2011		2010	
	Tonnes	NOK	Tonnes	NOK
Coal stocks, Longyearbyen	9,458	4,256	9,665	4,349
Coal stocks, Svea	584,447	263,001	772,008	347,404
Coal stocks, Europe	16,271	8,386	106,960	57,406
Total	**610,176**	**275,643**	**888,633**	**409,159**

Stocks of operating materiel

Stocks of operating materiel and spare parts are measured at the average cost price 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 (zero) in the balance sheet.

	Group						Parent company	
	2011			2010			2011	2010
	Cost price	Written down	Book value	Cost price	Written down	Book value	Book value	Book value
Consumables	129,360	– 52,611	76,749	120,150	– 55,951	64,199	0	139
Spare parts	189,529	– 116,449	72,894	168,461	– 108,951	59,511	0	0
Total operating materiel	**318,889**	**– 169,060**	**149,829**	**288,611**	**– 164,902**	**123,710**	**0**	**139**

Note 4 Remuneration to senior executives etc.

The Board of Directors has adopted an executive pay statement describing the Store Norske group's policy with respect to setting executives' pay and other remuneration to the group's senior executives. The executive pay policy within the group complies with the guidelines for state-owned enterprises. Senior executives comprise the CEO and other senior executives within the group.

Fixed pay among senior executives is viewed as competitive, but not as wage-leading in the sector. The further growth and profitability of the group depends on the efforts of employees to secure the prolonged development of the business and the improvement of profitability, and the fixed pay element is intended to contribute to this.

The fixed pay (gross annual salary before tax) is intended to be the main element of executive pay. Increases in fixed pay are expected to be moderate in both 2012 and 2013.

The Store Norske group does not operate with variable pay or incentive schemes for senior executives, and there is no contractual termination payment scheme for management or senior executives.

The Board carries out regular reviews of the group's pension schemes to ensure they are reasonable and balanced.

	Group		Parent company	
	2011	2010	2011	2010
Statutory audit	525	515	45	30
Tax consultancy service/assessment papers	45	45	10	10
Other auditor services	149	75	12	0
Other assistance, auditing firm*	3,923	6,072	0	0

*Other assistance from auditing firm relates to contract audit.

The CEO and members of the Board of Directors receive their remuneration from subsidiaries.

Note 5 Specification of wages, salaries and national insurance contributions

	Group		Parent company	
	2011	2010	2011	2010
Wages and salaries	259,756	262,916	0	0
Pension costs	62,283	68,573	0	0
Other remuneration	15,835	13,945	167	24
Total	**337,874**	**345,434**	**167**	**24**

SNSK had no employees in 2011. All employees were moved on 1 January 2009 to SNSG, which sells services to other companies in the Store Norske group.

The group employed 400 full-time equivalents in 2011, compared with 382 in 2010. The number of full-time equivalents is the sum of all hours worked in the group (including temporary workers and overtime) divided by the normal working hours for the various working time schemes.

Note 6 Pension costs and commitments – group

The group's pension schemes cover a total of 384 people, 49 of whom have taken early retirement. There are 136 persons in receipt of an ordinary pension, 76 of whom receive a retirement pension, 32 a spouse's pension, 8 a children's pension and 20 a disability pension.

The group'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. 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.

The ordinary retirement pension (from age 67) is covered by an insurance scheme. This scheme meets the requirements of the Norwegian legislation on compulsory occupational pensions, while pensions under the scheme for voluntary early retirement between age 60 and 67 are paid directly from the group's day-to-day operations. For accounting purposes, the pension commitment relating to the early retirement scheme is calculated by an actuary and allowance made in the accounts using the same principles as for the ordinary retirement pension scheme from age 67.

Employees residing in Finland are covered by a separate pension scheme in accordance with Finnish law.

To avoid large fluctuations in pension costs in the profit and loss account, annual estimate variances from the regular cost of schemes are recognised directly in equity.

As of 31 December 2011, the company had a net pension commitment recognised in the balance sheet totalling NOK 491.2 million relating to the different insurance schemes.

	Group	
Pension costs	**2011**	**2010**
Present value of the year's pension contributions	51,960	53,095
Interest cost on the pension commitment	24,040	25,356
Return on pension assets (less admin. costs)	– 14,252	– 12,831
Actuarial loss/gain recognised in profit & loss account	0	0
Effect of change to cost of scheme recognised in profit & loss account	0	0
Net pension cost pension schemes	61,748	65,620
Pension cost age 55 scheme 2009	0	2,223
Pension cost employees Finland	499	730
Total net pension cost	**62,283**	**68,573**

The pension commitment	**2011**	**2010**
Accrued pension commitments (DO)	764,058	606,559
Pension assets (at market value)	272,823	268,407
Accrued pension commitments (DBO)	**– 491,235**	**– 338,152**
Net pension comm. recogn. in balance sheet – pension scheme	– 491,235	– 338,152
Net pension comm. recogn. in balance sheet age 55 scheme 2009	– 6,705	– 6,705
Net pension commitment recognised in balance sheet	**– 497,940**	**– 344,857**

Economic premises:	2011	2010
Discount rate	2.60%	3.80%
Expected return on pension assets	4.10%	6.30%
Annual expected wage increase	3.50%	4.50%
Annual expected adjustment to basic state pension	3.25%	4.25%
Annual expected adjustment to current pension	3.25%	4.25%
Expected rate of voluntary exit before age 40	6.00%	6.00%
Expected rate of voluntary exit after age 40	1.00%	1.00%

Note 7 Related party transactions

The parent company purchases administrative services from SNSG. See Note 19 to SNSG's accounts.

Note 8 Other operating costs

Operating costs are chiefly consultancy fees, IT costs and purchased services. The item also includes maintenance and mining claim tax. For the group, operating costs consist of production costs, accommodation and community costs at Svea, administrative costs, insurance premiums and mining claim tax. Reasearch and Development activities account for NOK 2.4 million of the operating costs.

Note 9 Tangible fixed assets

Parent company	Machinery, fixtures, transport resources	Building	Land	Total
Acquisition cost at 01.01.11	887	7,500	504	8,891
Additions in the year	0	0	0	0
Disposals in the year	0	0	0	0
Acquisition cost at 31/12/2011	**887**	**7,500**	**504**	**8,891**
Accumulated depreciation at 01.01.10	440	6,625	0	7,065
Reversed acc. depreciation on sale	0	0	0	0
Depreciation for the year	127	75	0	202
Book value as at 31.12.11	**320**	**800**	**504**	**1,624**
Estimated useful life	**7 years**	**10/20 years**		

Group	Machinery, fixtures, transport resources	Buildings	Technical plant	Mines, land	Plant under construction	Total
Acquisition cost at 01/01/2010	45,812	406,612	400,024	921,515	90,166	1,864,129
Additions in the year	5,716	21,353	38,628	29,719	57,056	152,472
Disposals in the year (disposals/scrapping)	– 5,616	0	0	0	0	– 5,616
Reclassification	0	0	75,936	0	– 75,936	0
Acquisition cost at 31/12/2010	**45,912**	**427,965**	**514,588**	**951,234**	**71,286**	**2,010,985**
Accumulated depreciation at 01.01.10	35,457	107,744	326,536	799,312	0	1,269,048
Reversal of accum. depreciation at sale/scrappage	– 5,338	0	0	0	0	– 5,338
Depreciation/write-downs for the year	5,127	12,407	36,932	64,837	0	119,304
Book value at 31.12.11	**10,665**	**307,814**	**151,120**	**87,085**	**71,286**	**627,970**
Estimated remaining useful life (incl. 2011)	**3-6 years**	**6/20 years**	**6 years**	**3-6 years**		

The mine is depreciated on the basis of the year's 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 bedsit accommodation in Svea is depreciated for accounting purposes, while the dwellings in Longyearbyen are not. Plant under construction relates to the development of a district heating plant in Svea, a loading plant in Longyearbyen and the mine at Lunckefjell.

Note 10 Financial items

	Group		Parent company	
Financial income	**2011**	**2010**	**2011**	**2010**
Interest received	20,081	17,720	196	215
Foreign exchange gains	11,666	27,898	2	0
Share dividend/income from investment in associated companies	1,671	538	704	265
Gain on sale of shares	43	0	43	0
Group contribution/interest	0	0	28,000	125,494
Increase in value of financial instruments	0	253	0	0
Total	**33,461**	**46,410**	**28,945**	**125,974**

	Group		Parent company	
Financial expenses	**2011**	**2010**	**2011**	**2010**
Interest costs	1,035	1,046	0	0
Foreign exchange losses	13,566	7,532	2	0
Interest received from group companies	0	0	473	0
Other financial expenses/unrealised losses	2,343	0	1	3
Total	**16,944**	**8,578**	**476**	**3**

Note 11 Hedging transactions

The group 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, coal freights and commission are recognised at the average hedged/achieved exchange rate and coal price.

Forward contracts, USD

Most coal sales are transacted in US dollars. To reduce the risk of exchange rate fluctuations, the group enters into forward contracts to hedge future sales of USD. As the forward contracts are used as hedging instruments, unrealised gains or losses are not recognised on the balance sheet date.

As at 31.12.11 the following forward exchange contracts had been entered into:

Matures	USD million	Average rate
2012	130	6.21
2013	90	6.15
2014	60	6.17

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

Matures	USD million	Minimum rate
2012	40	6.59
2013	20	6.23
2014	20	6.43

The average rate obtained in 2011 was 6.60 NOK/USD. The average rate at Norges Bank for 2011 was 5.61 NOK/USD.

Coal hedging

By year-end 2011, the group had entered into the following transactions to hedge coal prices:

Year	Tonnes	Average price in USD per tonne
2012	325,000	118
2013	275,000	120
2014	275,000	123
2015	50,000	127

In 2011 a quantity of 616 670 tonnes of coal was hedged at a price of USD 156 per tonne. The hedge gain for 2011 was NOK 144.6 million, compared with NOK 344.4 million for 2010. As these are transactions to hedge coal sale contracts, the gain is recognised as part of the revenues from coal sales.

Note 12 Tax cost

	Group		Parent company	
	2011	2010	2011	2010
The tax charge for the year is made up as follows:				
Tax payable on profit for the year	42,058	73,486	0	0
Tax payable for previous year	739	1,054	0	0
Change in deferred tax assets	– 47,528	– 2,053	1,040	1,233
Tax on equity transfers	19,093	0	0	0
Correction of prior year error	– 1	204	0	0
Total tax charge on profit on ordinary activities for the year	**14,362**	**72,690**	**1,040**	**1,233**
Tax payable is made up as follows:				
Ordinary profit/loss before tax	69,729	349,028	22,501	125,604
Permanent differences	– 113,551	42,965	– 16,201	– 117,896
Change in temporary differences incl. equity adjustments	306,688	68,772	– 6,300	– 7,708
Group transactions, affiliated companies	0	0	0	0
Use of loss carry-forward	0	0	0	0
Utilised remuneration carried forward from previous years	0	0	0	0
Taxable loss SNG	0	0	0	0
Basis for tax payable	**262,866**	**460,765**	**0**	**0**
Tax, 16%, representing the total tax payable on the profit for the year	**42,059**	**73,722**	**0**	**0**
Tax payable in the balance sheet is made up as follows:				
Tax payable on profit for the year	42,059	73,486	0	0
Tax payable for previous year	0	1,054	0	0
Tax payable on group contribution	0	0	0	0
Total tax payable	**42,059**	**74,540**	**0**	**0**
Specification of the basis for deferred tax, differences assessed:				
Fixed assets	– 225,106	– 209,810	– 4,533	– 4,669
Current assets	– 122,176	– 6,926	– 20	– 220
Profit and loss account	– 10,346	– 12,932	– 10,346	– 12,932
Other differences	– 162,952	– 144,027	– 24,139	– 25,230
Provision for loss on contracts	– 4,926	– 7,413	– 4,926	– 7,413
Pensions	– 497,940	– 344,857	0	0
Loss carry-forward	– 89,595	– 80,588	0	0
Total	**– 1,113,041**	**– 806,553**	**– 43,964**	**– 50,464**
Deferred tax asset 16%	**– 178,087**	**– 129,048**	**– 7,034**	**– 8,074**
Tax asset not reported	14,312	12,803	0	0
Deferred tax asset recognised in balance sheet	**– 163,774**	**– 116,246**	**– 7,034**	**– 8,074**
Reconciliation of tax charge for the year:				
Profit before tax	69,729	349,028	22,501	125,604
16% tax on the profit before tax	11,157	55,844	3,600	20,097
Total tax charge for the year	**14,361**	**73,789**	**1,040**	**1,234**
Difference	**3,204**	**17,945**	**– 2,560**	**– 18,863**
The difference is due to the tax effect of:				
Permanent differences	– 18,136	6,875	– 2,560	– 18,863
Profit from associated companies according to the equity method	0	0	0	0
Deferred tax asset not recognised in balance sheet – change	1,510	875	0	0
Correction of prior year estimate	0	1,258	0	0
Correction of prior year error	738	0	0	0
Equity adjustment and change in accounting principle, pensions	19,093	8,937	0	0
Total	**3,204**	**17,945**	**– 2,560**	**– 18,863**

Note 13 Shares

	Head office	%	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Subsidiary						
SNSG	Svea mine	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	4,366	4,102	2,880	2,880
Lompensenteret AS	Longyearbyen	50	4,518	3,889	3,500	3,500
Other shares						
Svea Tankanlegg AS		15	752	752	0	0
TIL-TAK AS	Tromsø		0	500	0	500
TIL Holding AS	Tromsø		543	0	543	0
Total shares			**10,179**	**9,244**	**237,320**	**237,277**
Pre-paid leasing			0	38	0	0
Total fixed-asset investments			**10,179**	**9,282**	**237,320**	**237,277**

In the company accounts the shares are recognised at cost, while in the consolidated accounts 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 14 Intercompany balances

Parent company	2011	2010
Receivable SNSG	0	78,096
Debt SNSG	22,235	0

Note 15 Accounts receivable

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Net accounts receivable at 31.12	50,298	45,718	174	312
Bad debt recognised in accounts	5	26	0	0
Change in loss reserves	0	0	0	0
Reserve for bad debts at 31.12	1,025	1,225	20	220

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

Note 16 Financial investments

The item consists of short-term investments in equities funds and bonds, which are measured at market value at year-end.

Group	2011	2010
Acquisition cost	100,000	40,000
Accrued return	3,608	0
Unrealised change in value	– 2,343	253
Fair value	101,265	40,253

Note 17 Bank deposits, cash

	Group		Parent company	
	2011	**2010**	**2011**	**2010**
Cash	0	3	0	0
Bank deposits	1,162,712	1,262,678	805	8,857
Withholding deposit (tax)	20,728	20,269	0	0
Total	**1,183,440**	**1,282,950**	**805**	**8,857**

Note 18 Debt

The parent company did not have any debt to credit institutions at 31.12.11, and therefore had not pledged any assets as security.

Group

Type of loan	2011	2010
Overdraft facility		
Mortgage loans	20,745	21,941
Total secured debt	**20,745**	**21,941**
Debt which falls due for payment more than 5 years after the end of the financial year	14,386	15,679
Book value of pledged assets		
Tangible fixed assets	388,683	374,790
Shares	752	752
Stocks	425,472	532,869
Accounts receivable	50,150	45,418

The company has in addition furnished as security Register 12 Indre Lågfjord and Claims in the Svea area and around the Gruve 7 mine.

Guarantees

The group has issued a NOK 4 million guarantee to Norsk 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	
	2011	**2010**	**2011**	**2010**
Accounts payable	76,721	124,514	5,942	8,152
Unpaid govt. charges & special taxes	20,342	20,270	0	0
Tax payable	42,059	74,540	0	0
Dividends owing	25,000	124,500	25,000	124,500
Other short-term debt	144,951	116,390	0	0
Group debt	0	0	19,235	0
Total	**309,073**	**460,214**	**59,544**	**143,202**

Note 19 Provisions

Provisions for liabilities and charges consist of provisions for environmental measures and miscellaneous accrued costs.

In the parent company provision of NOK 15.0 million has been made for clearing up the site around the mine and plant in Longyearbyen, while in SNSG AS provision of NOK 50.5 million has been made for future closing down/clear-up costs in Svea.

	Group		Parent company	
	2011	**2010**	**2011**	**2010**
Pension commitments	497,940	344,857	0	0
Education and training support	0	2,205	0	0
Clear-up operations	65,509	61,736	15,003	15,230
Total	**563,449**	**408,798**	**15,003**	**15,230**

Note 20 Contingent liabilities

SNSG has recently carried out an extended audit of the company's commercial contracts. The audit revealed an imbalance in the contracts for the marine transport of coal, for land transport and for coal sales commission agreements. This caused the company to terminate these contracts. The coal sales company Oxbow responded by suing Store Norske and claiming compensation for loss of income. The action was heard by Oslo District Court in the autumn of 2011. The court found in favour of Store Norske, which was awarded costs. Oxbow has appealed the decision.

Following the termination of the shipping contract with Polar Coal, that company announced its intention to take legal action, and the case was listed for hearing by an appointed court of arbitration in August 2011. The parties reached an out-of-court settlement prior to the hearing.

The contractors and transport companies LNS/LNSS have sued Store Norske claiming reinstatement of contract and compensation for loss of income and costs of vacating Svea. The case will be heard by an appointed court of arbitration in the autumn of 2012.

No provision has been made in the accounts for receivables or claims relating to these matters.

Note 21 Coal reserves

The company uses the NI 43-101 standard as a guideline for assessing the mineral reserve base.

The standard distinguishes between resources and reserves where within each group there is a sub-group indicating the level of certainty of the deposit.

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

All figures are in millions of tonnes	Group			Parent company	
Location	**Assumed**	**Indicated**	**Measured**	**Probable**	**Certain**
Svea Nord, core		1.5		3.4	1.1
Svea Nord, marginal zone		2.0	6.0		
Svea Øst		3.8			
Lunckefjell	1.5			8.1	
Ispallen		14.3			
Areas that can be worked from Svea	**1.5**	**21.6**	**6.0**	**11.5**	**1.1**
The Gruve 7 area		2.0			1.9
Bassen	12.0				
The Gruve 3 area		5.0			
Areas that can be worked from LYB	**12.0**	**7.0**	**0.0**	**0.0**	**1.9**
Total resources and reserves	**13.5**	**28.6**	**6.0**	**11.5**	**3.0**

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 01.01.2011	164,490	1,585,389	1,749,879	164,490	11,440	175,930
Profit/loss for the year	0	55,367	55,367	0	21,461	21,290
Provision for dividend	0	– 25,000	– 25,000	0	– 25,000	– 25,000
Estimate variances pensions	0	– 99,414	– 99,414	0	0	0
Equity at 31.12.2011	**164,490**	**1,516,342**	**1,680,832**	**164,490**	**7,901**	**172,391**

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 31.12.2011:

Name	No. of shares	Percentage
The Norwegian state	328,782	99.9
P. Juls Sandvik AS	33	
Fredrik W. Hjort Enger	33	
Morten Samuelsen	20	
Christiania Minekompani AS	20	

pwc

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

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Store Norske Spitsbergen Kulkompani AS, which comprise the financial statements of the parent company, showing a profit of NOK 21 461 000, and the financial statements of the group, showing a profit of NOK 55 367 000. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2011, and the income statement and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the parent company and the group Store Norske Spitsbergen Kulkompani AS as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

PricewaterhouseCoopers AS, Postboks 6128, NO-9291 Tromsø
T: 02316, www.pwc.no
Org.no.: 987 009 713 MVA, Medlem av Den norske Revisorforening

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Tromsø, 13. April 2012
PricewaterhouseCoopers AS

Kent-Helge Holst
State Authorised Public Accountant (Norway)

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

From Svea Nord. Photo: Tore Meek

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 of the Store Norske group. SNSG was founded in 2001. 2011 was the company's tenth year of operations.

Key facts about the company in 2011

SNSG's core business is coal mining. The company owns Indre Lågfjord where the Svea mines are located and where the principal operations occur. The company has secured its rights to coal production through 127 mining claims in Svea and surrounding areas.

Coal is produced from two mines. Most of the production comes from the Svea Nord mine, which is in Svea about 60 kilometres south of Longyearbyen. In Longyearbyen, coal production takes place in the Gruve 7 mine by agreement with the parent company.

A total of 1 386 320 tonnes of saleable coal was produced in 2011, compared with 1 934 931 tonnes in 2010.

Directors' statement

In the opinion of the Board of Directors, the annual financial statements presented for the company give a true and fair view of the company's results and financial position as of 31 December 2011.

The accounts have been prepared on the assumption that each entity is a going concern.

Market

Coal sales from Svea totalled 1.60 million tonnes in 2011, compared with 1.65 million tonnes in 2010. Coal sales figures from the Gruve 7 mine were 69 200 tonnes, up from 65 200 tonnes in 2010. Eighty-nine per cent of sales went to energy production. Eight per cent went to cement and paper production or other smaller areas of consumption. The remaining 3 per cent went to steel works. Approximately 350 000 tonnes of shipped tonnage was washed coal.

In 2011 the company terminated its sales contract with Oxbow Coal B.V. Responsibility for coal sales was assumed both organisationally and legally by Store Norske Spitsbergen Grupekompani AS. At the same time the company decided to build up its own marketing and product department for selling coal to its customers. In order to maintain and strengthen market expertise in coal sales to both the energy sector and the metallurgical industry and the steelworks (PCI coal), a marketing contract was signed with the Swiss company Glencore International AG. In terms of volumes, the breakdown of coal sales in 2011 was about 900 000 tonnes sold through the contract with Oxbow and about 700 000 tonnes sold by SNSG itself.

The average sales price of the coal was USD 116 per tonne. Approximately 25 per cent was sold at prices fixed at the date of contract and the remaining 75 per cent was sold at index-regulated prices. Including hedging of coal prices in the paper market, a price was achieved of USD 129 per tonne. The API#2 price index varied in 2011 between USD 133.70 (16 March) and USD 109.58 (15 December), with an average through the year of USD 121.54. In September 2011, a falling price trend began which lasted until the end of the year and continued into the first quarter of 2012.

In connection with the building and commissioning of coal washing plants for the Svea coal, Store Norske will develop from being a typical bulk supplier of coal into more of a niche supplier of special products, where the focus will be on profitability and on continuous sales optimisation based on customer requirements and market demand.

Operating income and profit

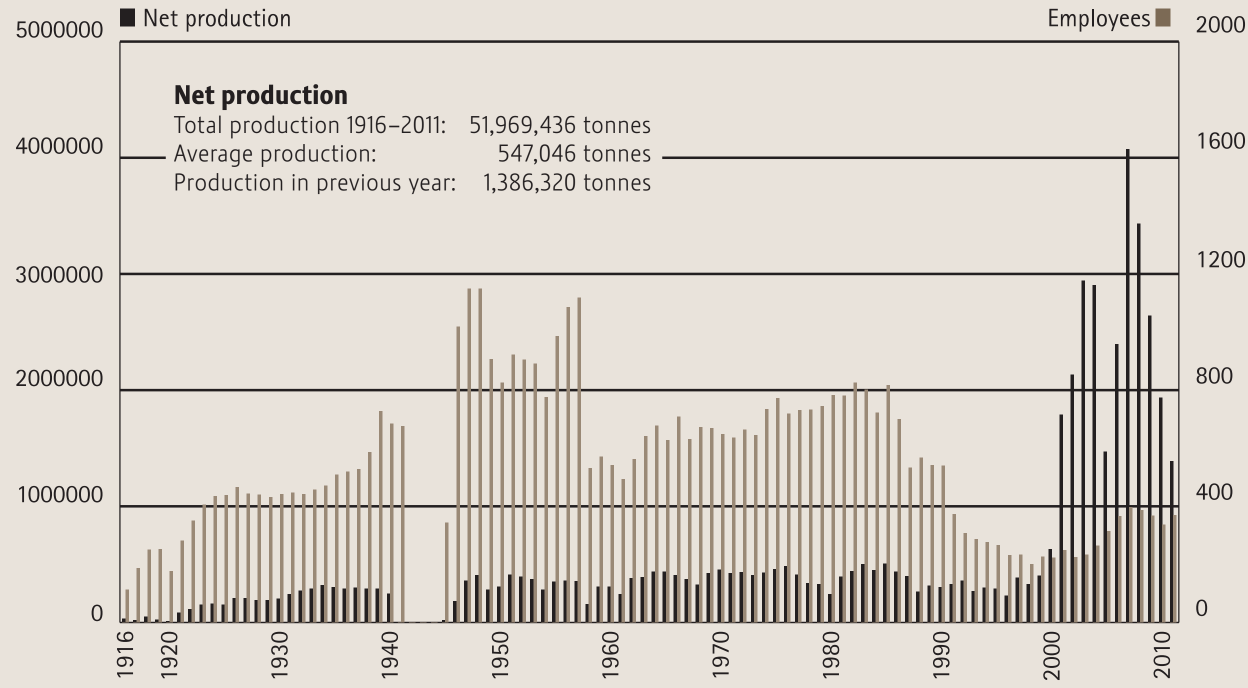
Total coal sales CIF in 2011 were worth NOK 1 415.7 million, down from NOK 1 477.1 million the preceding year. Total turnover for 2011 was NOK 1 432.9 million, compared with NOK 1 496.9 million in 2010. Operating profit was NOK 69 million, down from NOK 336.8 million in 2010. Profit after tax was NOK 69 million, down from NOK 297.7 million in 2010.

Investments

The company invested NOK 132.0 million in 2011, compared with NOK 164.7 million in 2010.

Liquidity

Because the Van Mijenfjord is iced over for parts of the year, shipping can only take place between July and November. As a result, the company produces coal for stocks for most of the year and there is no added liquidity



for financing operations during this period. In 2011, the company had sufficient liquidity to finance operations during the winter period without raising loans.

Financial information

The company sells coal in a market with fluctuating prices and where sales transactions are conducted chiefly in US dollars. As a consequence, the company's income is in US dollars, whereas most of its costs are in Norwegian kroner. In order to achieve the greatest degree of predictability in relation to price fluctuations, the company has a hedging strategy designed to limit the economic effects of unexpected fluctuations in the currency, coal and freight markets.

Coal prices are secured using the hedging market. The net gain from the coal hedging contracts in 2011 was NOK 144.6 million, down from NOK 344.4 million in 2010.

The company secured a net US dollar inflow for 2011. The average exchange rate attained for the year was 6.60 NOK/USD. The average exchange rate at Norges Bank for the year was 5.61 NOK/USD. At the start of 2011, the US dollar exchange rate was NOK 5.86, while at the end of the year it was NOK 5.99.

The company has credit insurance to reduce the risk of bad debts.

At the end of the year the company had no interest-bearing debt to credit institutions. The majority of liquid assets consisted of deposits in Norwegian banks. At 31 December 2011, a total of NOK 101.3 million had been invested in equities funds and bond funds.

At year-end the company had non-restricted equity of NOK 1 172.1 million, compared with NOK 1 289.9 million at the end of 2010.

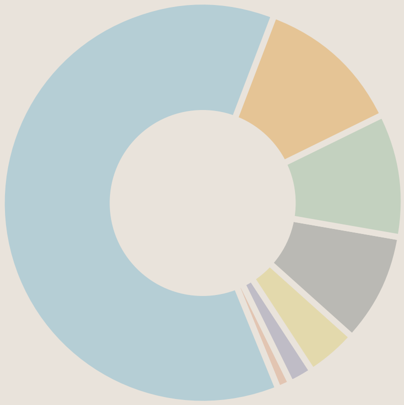
Allocation of profit

The Board of Directors recommends that the after-tax profit for the year of NOK 69 million be allocated to group contribution of NOK 41.5 million, with NOK 28 million going to SNSK and NOK 13.5 million to Store Norske Gull. It is proposed to allocate NOK 27.5 million to other reserves (other equity).

Contract audit

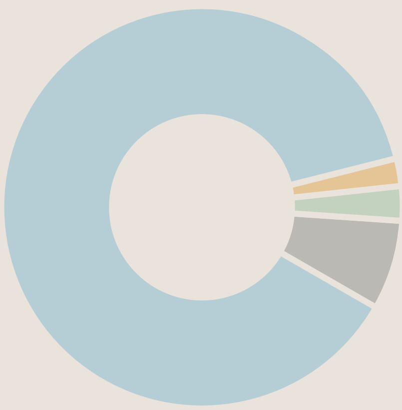
The company has carried out a comprehensive audit of its long-term contracts with three key suppliers, focusing particularly on contract durations, conditions and legal aspects. On the basis of what the audit revealed, in 2010/2011 the company terminated its contract with Polar Coal KS for the marine transport of coal, the coal sales commission agreement with Oxbow Coal BV, and contracts with LNS/LNSS for land transport etc. None of the contractual counterparties accepted the terminations.

Store Norske's 2011 coal sales in tonnes, by country



Germany	62 %
England	12 %
Portugal	10 %
Denmark	9 %
Switzerland	4 %
Norway	2 %
Svalbard	1 %

Store Norske's 2011 coal sales in tonnes, by market



Energy	88 %
Cement industry	2 %
Metallurgical industry	3 %
Other industry	7 %

The counterparties consequently took legal action against the company claiming reinstatement of contract and/or compensation for alleged unfounded termination of contract.

The arbitration case against Polar Coal KS was listed for hearing in August 2011, but the parties reached a settlement shortly before that. The dispute with Oxbow Coal BV came before Oslo District Court in the autumn of 2011. Judgment was passed in December 2011. The court found in favour of SNSG, which was also awarded costs. Oxbow Coal BV has appealed the judgment, and if the appeal is allowed it will be heard by the Borgarting Court of Appeal in the autumn of 2013. In the summer of 2011, LNS/LNSS applied for an interim court order for the right to continue the contracts with SNSG until the termination dispute was settled. The case was heard by Nord-Troms District Court in July 2011. The court found in favour of SNSG, which was awarded costs. LNS/LNSS have also sued the company claiming reinstatement of contract and compensation for loss of income and costs as a consequence of alleged unfounded termination of contract. The case will be considered by an appointed court of arbitration in the autumn of 2012. Store Norske is of the opinion that there is also a claim to be made against LNS/LNSS. Please refer to Note 26 to the annual accounts.

Resource base

In 2008, SNSG decided to conform to international standards for its reporting of mineral resources and reserves. The company's resource and reserve base is reported in Note 27 to the accounts, and is still largely limited to surveyed deposits in the Svea area.

The coal deposits in the Lunckefjell mountain north-east of Svea Nord have now been well-surveyed, indicating probable reserves of 8.1 million tonnes, although there remain a few drill holes to complete before there can be a secure basis for planning mining operations. The remaining studies will also help determine whether the mining area in Lunckefjell can be expanded into an area with dirt band towards the south-east as a result of the possibilities offered by the washing plant in Svea.

A more detailed survey of the Svea Nord rim zone still remains to be done. Svea Øst and Ispallen south of Svea must be better surveyed with more core drilling. There are continued positive results from the initial surveys at the Operafjellet mountain and the field will be surveyed further. These studies form part of the drilling programme for 2012-2013.

The company estimates the Gruve 7 mine to have coal reserves of 1.9 million tonnes. In addition, there are

The Marthabreen glacier seen from the Lunckefjell side. Photo: Bjarki Friis

indicated resources of 2 million tonnes of coal which have a higher sulphur content than the known resources.

Svea Nord

The Svea Nord mine accounts for most of the company's total coal production. The main mining method used is longwall stoping. In 2011 there was preparatory development work for longwall stoping in DT8 and HT3 to ready the longwall panels for future production. There was also preparatory development work for the main galleries H5 and H6, which will provide future access to the Marthabreen glacier and Lunckefjell. This development work was completed in week 2 of 2012. Production from longwall stoping was carried on in the last part of panel D6 and the first part of panel D8. Final production in the D8 panel is planned to take place in July 2012. The average height of the coal seam is 3.5 metres.

Production of saleable coal from Svea Nord totalled 1 317 313 tonnes in 2011, down from 1 871 999 tonnes in 2010. Gross production totalled 1 516 960 tonnes, down from 1 909 048 tonnes. 6 080 drift metres were developed during the year (2010:5 406), of which 3 715 drift metres were developed in the course of stoping development and 2 365 drift metres in main galleries.

Production conditions in the mine have become more challenging than the previous year. There is an increasing element of dirt band, making it heavier to work, and an increasing proportion of the volumes netted consist of rock. The panels are getting shorter, and the development mining required per tonne of coal is increasing. The distance to the production sites is getting longer and so transport times are increasing. At the same time, more road maintenance is required as well as work to make safe the drifts in the mine. The geology is becoming more difficult in terms of fault zones. This makes it particularly challenging for the development mining.

During the year preparations were made and development work started for two longwall panels in the south-eastern part of the mine. By year-end, the development work was well advanced and is scheduled to be completed during the course of July 2012. Longwall stoping in this field is planned to start in October 2012.

Gruve 7

In 2011 the Gruve 7 mine produced 69 007 tonnes of saleable coal, up from 62 932 tonnes in 2010. The production method used is room-and-pillar mining, and at the end of 2011 there were two operating areas in progress: AT-12 and DT-6. The average seam height in these two production locations is 1.4 metres. Work on making safe the main gallery, which commenced in 2008, continued in 2011 and is now largely completed.

Further measures have been taken to reduce the fugitive dust emissions which form when coal is discharged

From the Gruve 7 mine. Photo: Emilie Sommervold

from the silo and loaded onto trucks at the mine. These measures have already proven to be effective.

Operations in Gruve 7 have followed the mining operations plan adopted by the Board of Directors in February 2011. The investment plan described in the new plan has also been followed. During 2012 it is planned to invest in new mining equipment, which will increase production efficiency. Four new miners have been taken on in accordance with the plan. Work to make safe the drifts in the mine in order to get to future production areas furthest inside the mine has commenced and will continue throughout 2012.

Washing plants in Svea

Owing to an increasing stone content in the coal from Svea Nord, the company decided to establish a washing plant to increase the quality of and earnings from the product. In 2010 the company began washing coal at a small washing plant at Kapp Amsterdam. The plant has the capacity to purify 100 tonnes of coal per hour. In January 2011, work began on assembling a larger washing plant in Svea. This plant has the capacity to wash 400 tonnes of coal per hour, and came into operation on 11 June. Between 11 June and 20 November 2011, a gross total of 735 065 tonnes of coal was washed, producing a net total of 360 186 tonnes. In addition, 63 631 tonnes of filter-cake were produced.

Operations at the large washing plant have throughout the period suffered from start-up problems. On 20 November, operations were halted following a workplace accident. A risk and vulnerability assessment was conducted, resulting in a major improvement project. This project continued until the plant recommenced operations at the beginning of March 2012.

Lunckefjell

In December 2011, SNSG gained approvals from the Norwegian Ministry of Environment, under the Svalbard Environmental Protection Act, to open a new mine in Lunckefjell. The approvals were given subject to a number of conditions, including the restoration of the landscape and restitution of the character of the wilderness, a ban on the use of heavy oil in coal shipments, strict emission and discharge requirements, and a thorough monitoring and reporting regime. Based on these approvals and the business plan for the project, the Board has approved a continuation of the Lunckefjell development plan.

In June 2011, SNSG entered into a contract with Veidekke Entreprenør AS for the establishment of the infrastructure up to Lunckefjell. Veidekke began work in March 2012, with the plan being to lay down the basic infrastructure over two seasons. Development work is planned to start in the Lunckefjell mine in September 2013. The first longwall panel will be ready for operations to commence in the first half of 2015 and will take over the main production in Svea for the Svea Nord core, which will then be worked out.

The Lunckefjell deposits are estimated to consist of about 60 per cent coal of PCI (Pulverised Coal Injection) quality. In addition to the generally high calorific value of these deposits, which add a premium to the basic market price of energy coal, the coal will be able to be sold to the metallurgical market with an additional charge.

Svea community

There is no road connection between Longyearbyen and Svea. All transport of personnel is by aircraft. The air route is operated by Lufttransport AS on contract to SNSG. Lufttransport has an older 16-seater Dornier aircraft, and at the end of 2010 a new 19-seater Dornier was put into service on the route between Svea and Longyearbyen. The contract with Lufttransport has been extended until 2016.

In 2011 three large new buildings were erected in Svea. These include a new washing plant with a capacity of 400 tonnes per hour, built to prepare the coal that comes out of the mine, and also an adjacent storage hall for sand and magnetite.

The power station in Svea had an energy recovery plant added in 2011. In this connection, an extensive district heating network has been developed in Svea, which will utilise the exhaust heat for heating the mine, amongst other things. This will help reduce diesel fuel consumption, which again gives environmental gains.

On 1 September 2011, AF Gruppen took over as the operating contractor in Svea after LNSS. AF Gruppen is responsible for operations such as transporting the coal from the washing plant to Kapp Amsterdam, road maintenance and maintenance of the airport runway.

Shipping

In 2011, all tonnage was shipped out by a new shipping partner, Dampsskibselskapet Norden AS. There were 25 shipments by sea in total in 2011, including three shipments of Gruve 7 coal from Longyearbyen. From Svea, 15 panamax-sized loads (approximately 82 000 tonnes) were shipped and seven handymax-sized loads (approximately 54 000 tonnes).

The shipping season was planned to start on 15 July, but owing to a great deal of ice in the Van Mijenfjord it was not possible to receive ships before 1 August. Four vessels arrived in the period 19-28 July, and these had a total of 46 waiting days. Two planned shipments were postponed until 2012 owing to production delays at the washing plant in Svea. With these exceptions, all shipping in 2011 took place according to set plans, also with respect to oil protection preparedness, port safety and other reporting to the authorities. There were no events or non-conformances of significance for shipping safety or the natural environment on Svalbard in 2011.

External environment

On 1 January 2007, the company was awarded an operating permit by the Norwegian Pollution Control Authority (STF), now the Norwegian Climate and Pollution Agency (KLIF). The permit applies to mining operations in Svea. In 2011, the permit was extended to include dumps of low grade waste produced from the washing plant.

Further improvements were made to the recycling centre in Svea in 2011. A magnet is now employed, which makes for better sorting of metal waste. The recycling centre in Svea handles and sorts all types of waste, except for food waste, which is ground up. The waste is registered according to type and quantity and shipped to the Norwegian mainland. Scrap iron and other scrap materiel was collected up in 2011 and will be send to the Norwegian mainland for recycling in the summer of 2012.

There was one case of acute pollution or discharge in 2011. Approximately 100 m^3 of diesel ran out in the ground beneath the generator housing at Isfjord Radio. The discharge was due to leakage in the diesel supply pipe to one of the generator's motors. The problem was discovered during routine checks at the beginning of 2012. Action was taken immediately, and control restored. An investigative programme and schedule of measures has been prepared in collaboration with authorities and consultants.

The work of controlling fugitive dust emissions to air from the new coal sieving plant in the Gruve 7 mine continued in 2011. The attainment of total environmental gain from relocating the plant from Hotellneset to Gruve 7 is contingent on the completion of this work.

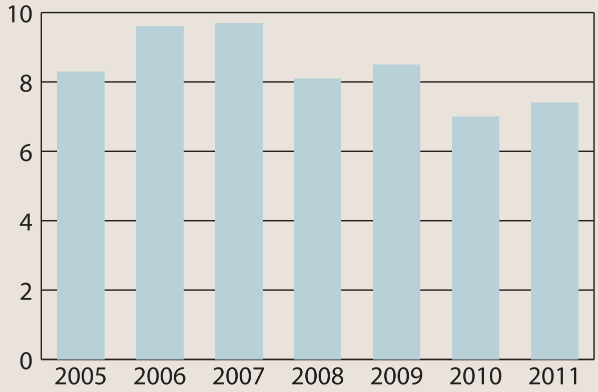
SNSG received an inspection visit from KLIF in connection with the company's application for an operating permit for the washing plant at Svea.

Health, safety and environment

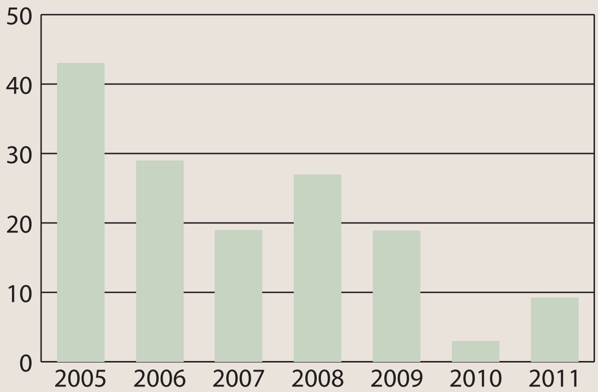
Health, safety and environment (HSE) have the highest priority at SNSG. The company's overall HSE goal is for it to operate so as to give rise to no work-related personal injuries or illness. Recognition of and compliance with this aim is of decisive importance for the company's work.

There were six work-related personal injuries in total in 2011, compared with three in 2010. Injury frequency is measured in terms of the number of injuries causing absence from work per 1 million working hours (Lost

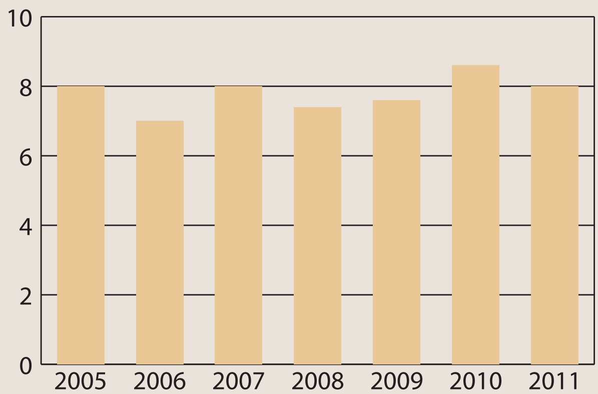
Sick leave



Lost Time Injury Frequency Rate (LTIFR)



Average employment period



Time Injury Frequency Rate). For 2011 this figure was 9.2, compared with 4.9 in 2010. Continuous work is being done to prevent injuries and also to reduce the risk of accidents. The total sickness absence rate in 2011 was 7.4 per cent, compared with 7.0 per cent in 2010. Continuous measures are being taken to reduce sick leave rates.

In 2011, SNSG established a system of safety instruction for all persons doing work for the company. The theoretical part of the mining safety training course was commenced and completed for some of the crews. Physical security and safety measures were also performed on machinery and fixed installations. In addition to the ordinary workplace safety studies, a programme of ergonomic studies in the workplace was also carried out.

SNSG has a number of preparedness teams: the mine rescue team, the emergency preparedness team, the fire and rescue service, and the oil pollution protection team. All emergency personnel practise and attend courses in accordance with in-house requirements and requirements issued by the authorities. In 2011, a large scale catastrophe exercise was held at the airfield in Svea in collaboration with, amongst others, the Governor of Svalbard.

Rock mechanics, methane gas, ventilation, coal dust and water are all factors which can impact on safety in a coal mine. So can the way in which equipment is used and how the individual work operations are performed. SNSG works closely with the most advanced technical and scientific environments, such as the Norwegian University of Science and Technology (NTNU) and SINTEF in Trondheim, and with equipment suppliers, to increase safety levels and prevent injury. In addition, the company enjoys a good and useful collaboration with the engineer representative from IMIU, the specialist underwriting agency providing insurance for mining companies.

A company health service is purchased from Longyearbyen Hospital, whose representatives have regular meetings with the company's working environment committee. The company health service has regular days at Svea, with activities including health check-ups, follow-up of the mine rescue team, and providing advice in connection with the preventive HSE work.

Personnel

As of 31 December 2011, the company had 370 employees, up from 337 in 2010. Of these, approximately 210 (including Gruve 7) worked underground. Staff turnover in SNSG was 8.3 per cent in 2011, down from 12.4 per cent in 2010. The average period of employment with SNSG is 8 years, compared with 8.6 years in 2010. The age composition of the workforce is relatively stable. The average age of the company's employees in 2011 was 40.3 years, compared to 40.7 years in 2010.

The staff in Svea are engaged in work relating to the mining operations. This is based on three different working hours schemes. About 186 employees work a shift/rotation system based on a 14/14 rotation on day shift or continuous shift. Ninety employees work a 7/7 rotation on day shift or continuous shift, while 20 administrative and management staff work five days a week and commute weekly between Svea and Longyearbyen.

The Gruve 7 mine is worked five days a week on daytime shifts. The workforce consists of 23 employees, 12 of whom work underground.

Education, training, skills and competence development

SNSG is continually investing in education, training, skills and competence development. The company registered 10 workers with new trade certificates in 2011. These included six with trade certificates in mining/rock blasting and mining, three in heavy equipment operation, and one in concrete work. In addition, one employee took a master craftsman's certificate in building and carpentry.

At tertiary technical college level, the company has employees taking courses in mineral resources engineering, construction and mechatronics. Eighteen employees took their final examinations in mineral resources engineering, and two in construction. This means an increase in skills and competence which will benefit SNSG in developing the company.

SNSG's operations are highly mechanised. Accordingly, there are very demanding requirements on documented and certificated safety training for those operating the machinery and equipment involved, both from the authorities and as part of the company's quality system. A very considerable effort goes into satisfying these requirements.

In 2010, SNSG began applying the INOSA management tool system for document control in safety training. The system is a platform for electronic learning. Work was done in 2011 to get more machines into the system, and also to assess whether the system could be applied in other ways. INOSA has given the company greater flexibility in staff training and helps to ensure that production does not suffer even when many staff are engaged in training activities.

One apprentice in rock blasting and mining completed his apprenticeship with SNSG in the autumn of 2011. In September, the company took on five new apprentices in rock blasting and mining, and two apprentices in heavy equipment operation. At year-end 2011, the company had a total of 12 apprentices.

Gender equality and equal opportunities

SNSG is concerned to ensure gender equality and equal opportunities, and to promote an awareness of possible gender discrimination. Mining has traditionally been a male-dominated industry involving hard physical work. SNSG aims to recruit more women to traditionally male-dominated functions in the company. The company employs 30 women and 340 men. There are three women on the company's Board of Directors. The company's senior management consists of two women and nine men.

In 2010, an employee claimed that the company had acted contrary to the Norwegian Gender Equality Act. The case was considered in 2011 by the Equality and Anti-Discrimination Ombud and in January 2012 by the Equality and Anti-Discrimination Tribunal. Both instances concluded that the company had not acted in breach of the Gender Equality Act.

Discrimination

The company complies with the ethical guidelines established by the parent company and has a value base according to which there shall be no discrimination against employees, partners, customers or other interested parties on the grounds of religion, gender, sexual orientation, age, nationality, ethnicity, marital status, disability or other factors.

Risk management and internal control

SNSG is exposed to risk in a number of areas and throughout the entire value chain. The most important risks relate to market operations, operating activities, project implementation and framework conditions. Managing risk well is important for value creation and is an integral part of all SNSK's business activities. The company has risk management systems in place for, amongst other things, oil pollution protection, quality control, mine rescue, and fire and emergency preparedness.

In 2011, the company started work on establishing an internal audit unit. The purpose of the unit is to assist the Board and management in undertaking an independent and neutral assessment of whether the group's most critical risks are sufficiently well managed and controlled.

The Board of Directors and CEO

The Board of Directors of SNSG held seven meetings in 2011, two of which were on Svalbard. As in previous years, in 2011 the Board conducted a review of its own performance. Bjørn Arnestad left the post of CEO on 31 December 2011. Per Andersson became the new CEO on 1 January 2012. The Board wishes to thank Bjørn Arnestad for the very considerable effort he has made on the group's behalf as CEO from 2008 to 2011.

Corporate Social Responsibility

Report to the Storting No. 13 (2010–2011) Active and Long-Term Ownership (a Norwegian government white paper) states that the aim of state ownership of Store Norske is to contribute to maintaining and further developing the community in Longyearbyen in a manner which supports the overarching objectives of Norwegian Svalbard policy. The same aims are also expressed in *Report to the Storting No. 22 (2008–2009) Svalbard.*

Store Norske is mindful of the importance of fulfilling its societal responsibilities. The parent company has adopted ethical guidelines, which all the subsidiaries in the group comply with. These ethical guidelines form the framework for the desired standard of ethical conduct required from all the group's employees, and they also contain rules designed to combat corruption and safeguard human rights. The ethical guidelines were revised in 2011/2012.

After the Norwegian State, the parent company is the largest land-owner on Svalbard. In order to ease the changeover brought about by the introduction of local democracy in the Longyearbyen planning area, the company has entered into agreements with the Longyearbyen local government that will provide a safety net in dealings with all planning and building matters as well as reduced ground rents for use of land that is for the public benefit.

In preparation for *Report to the Storting No. 22 (2008–2009) Svalbard* a study was made by the Norwegian Institute of Urban and Regional Research of the importance of coal mining for the Longyearbyen community (NIBR Report 2008:22). The study's conclusion was that the Store Norske group was still the most important basis for the community on Svalbard and that it assists in strengthening and maintaining a robust family-based community, despite the fact that many employees choose to spend their leisure time on the mainland. This conclusion has again been confirmed by the latest NIBR report published in 2011. The report points out that, of the various primary industries, it is coal mining that has the largest ripple effects on Svalbard. SNSG alone is responsible for 25 per cent of all man-years worked on Svalbard. Including sub-contractors, this proportion is 37 per cent.

In order to encourage the company's employees and their families to choose to live in Longyearbyen, in 2011 the Store Norske group built a number of large family dwellings. This work will continue in 2012. For SNSG, as for the other industries and businesses in Longyearbyen, providing jobs and educational opportunities for spouses/partners poses a great challenge and is an important factor in helping to maintain a stable family community. The company will intensify its efforts in this sphere in the time ahead.

SNSG is an important contributor to sport and culture in Longyearbyen. This is essential in order to create an attractive society for employees and their families. In 2011, SNSG provided financial support for, amongst other events, the Svalbard skiing marathon, the Sun Festival week, the music festivals Dark Season Blues and Polarjazz, and a number of other local events and activities. The company is particularly keen to support activities for children and young people, and amongst other things is a major sponsor of Camp Svalbard, an activities camp for adolescents from Longyearbyen. SNSG has also supported the establishment of a motocross track for children and young people at Hotellneset outside Longyearbyen.

The company also takes part in technology projects, such as the Longyearbyen CO_2 Lab together with the University Centre in Svalbard (UNIS), and helps to maintain the local voluntary rescue service. In 2011, SNSG supported Longyearbyen Hospital in acquiring emergency medical equipment for the use of the emergency medical services when responding to accidents and sickness.

SNSG is conscious of the environmental impact of its activities and works actively to ensure that discharges, emissions and impact on the landscape and wildlife are kept to a minimum. With support from the Svalbard Environmental Protection Fund, the company has continued carrying out extensive rehabilitation of the historic ropeway angle station in Endalen and the Gruve 2B mine in Longyearbyen. Both are listed as industrial heritage sites.

In 2010, the company embarked on a project to establish a mining museum in the Gruve 3 mine, which is planned to be an all-year facility open to local residents and visitors to Longyearbyen. On the basis of the preliminary work carried out, the Board resolved to continue the planning for a knowledge centre and museum in Gruve 3. The Svalbard Environmental Protection Fund has made a grant of NOK 1.9 million for this project, which is the largest single grant ever awarded by the Fund.

Outlook

SNSG's core business is coal mining, which in 2012 will take place in the Svea Nord core and in the Gruve 7 mine.

At the end of 2011, SNSG was granted the necessary permits to start preparations for opening mining operations in Lunckefjell with the planned main production to start in 2015. The infrastructure on the Marthabreen glacier commenced construction in March 2012. The production in Lunckefjell will be based on natural exploitation of the existing established infrastructure in Svea, and will ensure continuity in the company's long-term plans to deliver between 1.5 and 2 million tonnes of coal annually.

Profitable and long-term management of the coal resources is the company's prime purpose. It is therefore viewed as essential to exploit further the potential for greater effectivisation of operational forms and use of resources within the frameworks provided in the Svalbard Environmental Protection Act. This will position the company better as regards managing varying operational conditions in the rock, and make the company more robust in relation to changes in the market price of coal.

In order to meet the market's demands and expectations of product quality, in 2010-2011 SNSG installed and put into operation two washing plants for coal. These plants, which increase the product quality and thus the value of the coal, are used to wash the coal in the current production in Svea Nord and, from 2015, will also be used to treat some of the coal to be extracted from Lunckefjell.

The company is currently strengthening its own product and market competence in order to strengthen closeness to customers and to increase ownership of the sales processes.

On the basis of SNSG's long-term plan, the company will have coal reserves until 2026, based on the annual volumes stipulated in Note 27 to the accounts.

The implementation of the Lunckefjell project will give the company the opportunity to further develop its own resources and expertise in Arctic mining in a vulnerable environment and subject to the most stringent environmental requirements. The company will make full and responsible use of these opportunities and experience by surveying coal reserves which will provide a natural potential for stable, secure and profitable operations after the Lunckefjell period (2019).

Thanks to the company's employees

The Board of Directors would like to thank all the employees of Store Norske Spitsbergen Grubekompani AS for all their hard work, and for the commitment, technical expertise and loyalty they have demonstrated in 2011.

Longyearbyen, ~~31st December 2011~~
13th April 2012

The Board of Directors of Store Norske Spitsbergen Grubekompani AS

Bård Mikkelsen
Chairman

Lisbeth Alnæs
Vice-Chairman

Egil Ullebø

Anne Cathrine Haadem

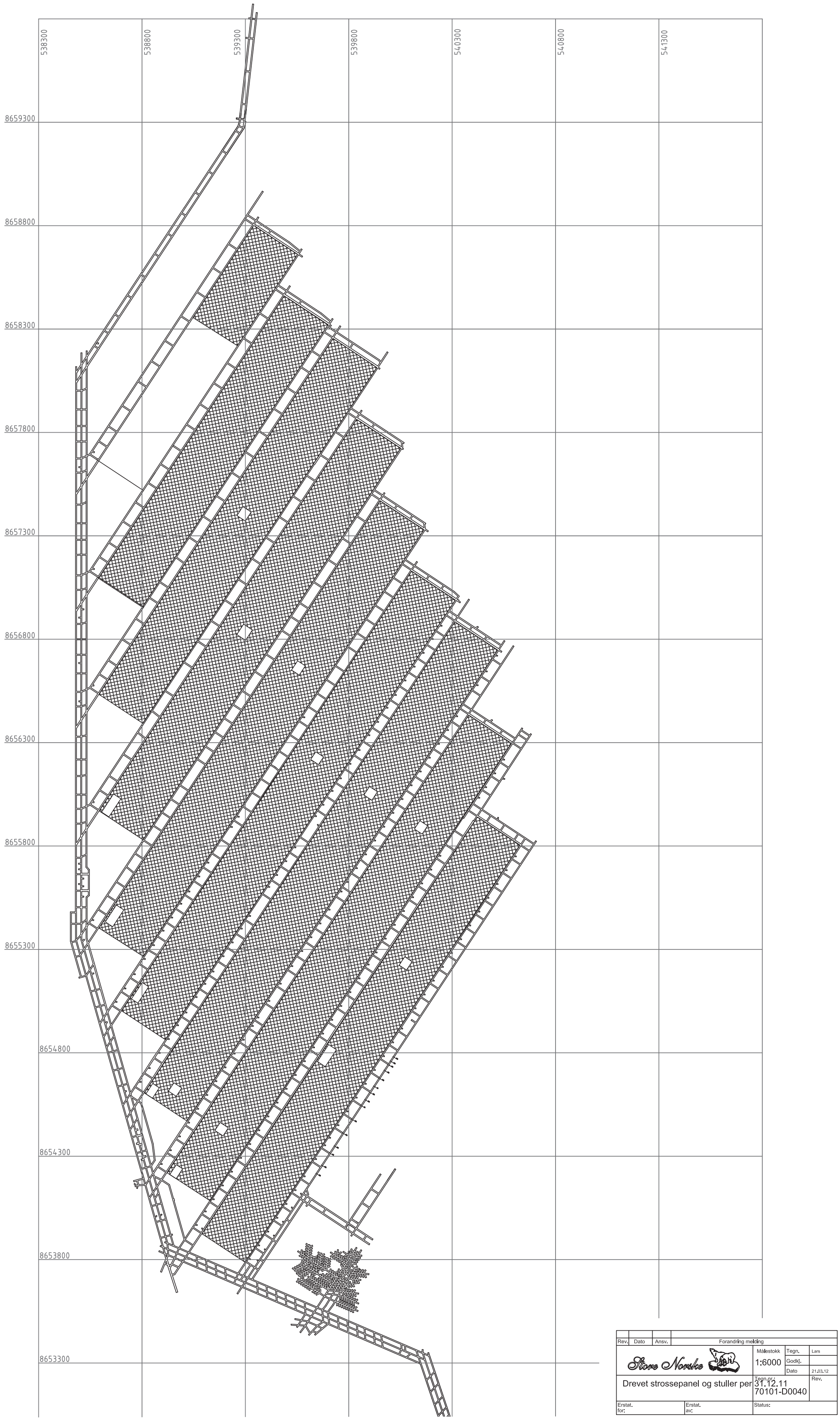
Grethe Fossli

Thomas Hukkelås

Stian Torbergsen

Odd Egil Hofstad

Per Andersson
Chief Executive Officer



Status as of 31 December 2011

Status as of 31 December 2011

Profit & loss account, Store Norske Spitsbergen Grubekompani AS

			NOK 1000
	Note	**2011**	**2010**
Coal sales CIF	2)15)	1,415,736	1,477,070
Other sales income	3)	15,321	17,835
Rental income		44	202
Other operating income		1,808	1,745
Total operating income		**1,432,908**	**1,496,851**
Change in stocks	4)	– 125,306	134,119
Wages and salaries, national insurance contributions and pension expenses	5)6)7)	– 347,621	– 358,884
Freight/ commission relating to coal sales	8)	– 246,317	– 302,018
Production costs	9)	– 240,266	– 187,925
Housing and social costs	10)	– 182,162	– 189,071
Costs of exploration	11)	– 20,787	– 17,628
Other operating costs	12)	– 83,624	– 82,762
Depreciation	13)	– 117,833	– 155,879
Total operating costs		**– 1,363,917**	**– 1,160,048**
Operating profit/loss		**68,991**	**336,804**
Financial income	14)	32,181	46,085
Financial expenses	14)	– 16,702	– 9,366
Net financial items		**15,479**	**36,719**
Profit/loss before tax		**84,470**	**373,523**
Taxes	16)	– 15,468	– 75,836
Profit/loss after tax		**69,002**	**297,687**
Allocation of profit:			
Group contribution paid		41,500	155,000
Other reserves		27,502	142,687

Balance sheet, Store Norske Spitsbergen Grubekompani AS

NOK 1000

	Note	2011	2010
Deferred tax assets	16)	156,723	108,153
Tangible assets	13)	346,895	333,002
Financial assets	17)	752	752
Total fixed assets		**504,370**	**441,907**
Stocks	4)	425,472	532,730
Receivables	18)20)	84,905	67,737
Financial investments	21)	101,265	40,253
Bank deposits, cash	22)	1,178,616	1,267,786
Total current assets		**1,790,258**	**1,908,506**
Total assets		**2,294,627**	**2,350,413**
Share capital	28)29)	150,100	150,100
Other equity	28)	1,328,800	1,398,033
Total shareholders' equity		**1,478,900**	**1,548,133**
Provisions	7)12)25)	548,446	393,568
Long-term debt	24)	0	0
Short-term debt	9)18)23)	267,281	408,711
Total debt		**815,727**	**802,279**
Total debt and shareholders' equity		**2,294,627**	**2,350,413**

Longyearbyen, 31st December 2011
13th April 2012

The Board of Directors of Store Norske Spitsbergen Grubekompani AS

Bård Mikkelsen
Chairman

Lisbeth Alnæs
Vice-Chairman

Egil Ullebø

Anne Cathrine Haadem

Grethe Fossli

Thomas Hukkelås

Stian Torbergsen

Odd Egil Hofstad

Per Andersson
Chief Executive Officer

Cash flow statement, indirect model
Store Norske Spitsbergen Grubekompani AS

		NOK 1000
	2011	**2,010**
Cash flow from operating activities:		
Profit/loss before tax	84,470	373,523
Tax paid for the period	– 73,817	– 88,914
Profit/loss on sale of fixed assets	– 772	0
Gain on sale of shares	0	0
Ordinary depreciation	117,833	155,879
Change in stocks	107,258	– 82,466
Change in accounts receivable	– 4,590	58,726
Change in accounts payable	– 36,284	38,180
Differences in pension funds/ commitments	34,575	8,697
Profit/loss using the equity and gross method	0	0
Increase in value of short-term investments	2,343	– 253
Change in other accruals	– 12,074	– 63,490
Net cash flow from operating activities	**218,942**	**399,882**
Cash flow from investment activities:		
Sale of tangible assets	1,050	0
Purchase of tangible assets	– 207,662	– 164,698
Purchase of shares and units in other enterprises	– 60,000	– 40,000
Net cash flow from investment activities	**– 266,612**	**– 204,698**
Cash flow from financing activities:		
Repayment of existing long-term debt	0	0
Dividends paid	0	0
Group contribution paid/received	– 41,500	– 155,000
Net cash flow from financing activities	**– 41,500**	**– 155,000**
Effect of exchange rate movements on cash and cash equivalents		
Net change in cash and cash equivalents	– 89,170	40,184
Cash and cash equivalents at beginning of period	1,267,786	1,227,602
Cash and cash equivalents at end of period	**1,178,616**	**1,267,786**

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 total coal production costs or net realisable value. Stocks of operating materiel and spare parts are measured at the lower of cost or assumed realisable 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.

Leasing
Leasing is classified as financial leasing when risk and ownership benefits are transferred to the lessee. Other leasing is classified as operational leasing. Measurement is based on the substance of the transaction.

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.

Receivables and payables in foreign currency
Receivables and payables in foreign currencies are carried at the rate of exchange prevailing at year-end.

Financial instruments
The company transacts coal sales in US dollars. Financial instruments are used on US dollars and coal to secure (hedge) future income. As the hedging instruments used are forward contracts (cash flow hedging), unrealised gains or losses are not recognised.

Financial investments
Financial investments comprise investments in equities funds and bonds. This portfolio is considered to be for short-term investment for trading purposes and is carried at fair value. Changes in unrealised exchange gains and losses are recognised in profit or loss immediately together with other investment returns.

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 costs of preliminary mine development and facilitating coal extraction from new coal fields are charged to expense during the current period in line with production. Facilitating extraction in new coal fields includes moving mining equipment from one coal panel to the next.

Exploration costs
The costs of surveying for future deposits are charged to expense during the current period.

Pension commitments
The company has pension schemes for all employees. Pension commitments and pension costs are shown net in the balance sheet. Actuarial calculations of pension commitments and pension costs are carried out each year. These take account of expected wage increases based on straight line accrual. The net pension cost for the period is included under Wages and salaries. The company employs the possibility of recognising directly in equity the annual variance estimate from the regular cost of the scheme.

Taxes

The tax charge for the year is computed on the basis of the year's accounting result. It comprises both the tax payable for the period and the change in deferred tax/tax assets. Deferred tax/tax assets are computed on the basis of differences between the carrying amounts of assets and liabilities and their tax base. Deferred tax assets are recognised in the balance sheet if it is deemed more likely than not that the asset can be used in a later tax period.

Note 2 Coal sales

	2011	2010
Coal sales	1,423,619	1,482,781
Coal export tax	– 7,883	– 5,711
Total	**1,415,736**	**1,477,070**

Coal sales CIF can be broken down as follows:

Tonnes	Energy	Cement	Metallurgical industry	Other industry	2011	2010
Svalbard	25,158				25,158	26,198
Norway		39,998			39,998	66,423
Denmark	144,198				144,198	182,291
Netherlands					0	1,412
Germany	959,894		44,055	54,572	1,058,521	901,699
Poland					0	110,462
England	194,563				194,563	69,218
Portugal	162,420				162,420	216,906
France					0	136,102
Switzerland				39,917	39,917	0
Tonnes 2011	**1,486,233**	**39,998**	**44,055**	**94,489**	**1,664,775**	
Tonnes 2010	**1,404,567**	**92,125**	**1,412**	**212,607**		**1 710 711**

Note 3 Other sales income

Other sales income consists of administrative services to other companies in the group in the sum of NOK 14,5 million, and the sale of material from stocks in Svea.

Note 4 Stocks

Coal stocks are measured at the lower of net sales income and total coal production costs. At year-end 2011, the lowest production cost was measured as NOK 450 per tonne. Freight and sales costs are added to the value of coal stocks in Europe, with stocks being measured at NOK 515 per tonne.

	2011		2010	
	Tonnes	NOK	Tonnes	NOK
Coal stocks, Longyearbyen	9,458	4,256	9,665	4,349
Coal stocks, Svea Mine	584,447	263,001	772,008	347,404
Coal stocks, Europe	16,271	8,386	106,960	57,406
Total coal stocks	**610,176**	**275,643**	**888,633**	**409,159**

Stocks of operating materials and spare parts are valued at average cost from the supplier. Items which are more than 2 years old and which are not expected to be used in the next year are valued at 0 in the balance sheet.

	2011			2010		
	Cost price	Written down	Book value	Cost price	Written down	Book value
Consumables	129,360	– 52,611	76,749	120,011	– 55,951	64,060
Spare parts	189,529	– 116,449	72,894	168,461	– 108,951	59,511
Total operating materiel	**318,889**	**– 169,060**	**149,829**	**288,472**	**– 164,902**	**123,571**

Note 5 Remuneration to senior executives etc.

The Board of Directors has adopted an executive pay statement describing the Store Norske group's policy with respect to setting executives' pay and other remuneration to the group's senior executives. The executive pay policy within the group complies with the guidelines for state-owned enterprises. Senior executives comprise the CEO and other senior executives in the group.

Fixed pay among senior executives is viewed as competitive, but not as wage-leading in the sector. The further growth and profitability of the company depends on the efforts of employees to secure the prolonged development of the business and the improvement of profitability, and the fixed pay element is intended to contribute to this. The fixed pay (gross annual salary before tax) is intended to be the main element of executive pay. Increases in fixed pay are expected to be moderate in both 2012 and 2013.

The company does not operate with variable pay or incentive schemes for senior executives, and there is no contractual termination payment scheme for management or senior executives The Board carries out regular reviews of the group's pension schemes to ensure they are reasonable and balanced.

	2011	2010
Remuneration of Chief Executive Officer/General Manager:		
- Salary	1,869	1,856
- Other reportable payments	94	90
- Salary, pension scheme age 60–67	200	200
- Pension benefits age 67	189	107
Directors' fees	1,167	1,073
Statutory audit	405	405
Tax consultancy service/assessment papers	15	15
Other assistance from auditor	137	75
Other assistance from auditing firm	3,923	6,072

The CEO is a member of the same ordinary retirement pension scheme (at age 67) as the other employees, but is not a member of the early retirement scheme from age 60. There is no severance payment scheme or bonus scheme for the CEO. Other assistance from auditing firm relates to contract audit.

Note 6 Specification of wages, salaries and national insurance contributions

	2011	2010
Wages and salaries	259,756	262,916
Pension costs	62,283	68,573
Other payments	25,582	27,395
Total	**347,621**	**358,884**

The company employed 400 full-time equivalents in 2011, compared with 382 in 2010. The number of full-time equivalents is the sum of all hours worked in the company (including temporary workers and overtime) divided by the normal working hours for the various working time schemes.

Note 7 Pension costs and commitments

SNSG has pension schemes covering a total of 384 persons, 49 of whom have taken early retirement. There are 136 persons in receipt of an ordinary pension, 76 of whom receive a retirement pension, 32 a spouse's pension, 8 a children's pension and 20 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.

The ordinary retirement pension (from age 67) is covered by an insurance scheme. This scheme meets the requirements of the Norwegian legislation on compulsory occupational pensions, while pensions under the scheme for voluntary early retirement between age 60 and 67 are paid directly from the day-to-day operations. For accounting purposes, the pension commitment relating to the early retirement scheme is calculated by an actuary and allowance made in the accounts using the same principles as for the ordinary retirement pension scheme from age 67.

Employees residing in Finland are covered by a separate pension scheme in accordance with Finnish law.

To avoid large fluctuations in pension costs in the profit and loss account, annual estimate variances from the regular cost of schemes are recognised directly in equity.

As of 31 December 2011, the company had a net pension commitment recognised in the balance sheet totalling NOK 491.2 million relating to the different insurance schemes.

Pension costs	2011	2010
Current value of the year's pension contributions	51,960	53,095
Interest cost on the pension commitment	24,040	25,356
Return on pension assets (less admin. costs)	– 14,252	– 12,831
Actuarial loss/(gain) recognised in profit & loss account	0	0
Effect of change to cost of scheme recognised in profit & loss account	0	0
Net pension cost pension schemes	61,748	65,620
Pension cost age 55 scheme 2009	0	2,223
Pension cost employees Finland	499	730
Total net pension cost	**62,283**	**68,573**

The pension commitment	2010	2011
Accrued pension commitments (DO)	764,058	606,559
Pension assets (at market value)	272,823	268,407
Accrued pension commitments (DBO)	– 491,235	– 338,152
Net pension comm. recogn. in balance sheet – pension scheme	– 491,235	– 338,152
Net pension comm. recogn. in balance sheet age 55 scheme 2009	– 6,705	– 6,705
Net pension commitment recognised in balance sheet	**– 497,940**	**– 344,857**

Economic premises:	2011	2010
Discount rate	2.60%	3.80%
Expected return on pension assets	4.10%	6.30%
Annual expected wage increase	3.50%	4.50%
Annual expected adjustment to basic state pension	3.25%	4.25%
Annual expected adjustment to current pension	3.25%	4.25%
Expected rate of voluntary exit before age 40	6.00%	6.00%
Expected rate of voluntary exit after age 40	1.00%	1.00%

Note 8 Freight and Commission on coal sales

	2011	2010
Shipping costs	134,274	187,941
Analysis costs	938	1,213
Commission	34,078	44,679
Transport/Loading Svea	77,027	68,185
Total	**246,317**	**302,018**

The result following the out-of-court settlement with Polar Coal is included under the item 'Shipping costs'.

Note 9 Production costs

Production costs consist mainly of materiel and contracted production, coal washing and maintenance services. Facilitation of new panels is charged to expense during the current period. At the end of 2011 there had not been sufficient development of drift metres corresponding to deconstruction of panel. Provision of NOK 9.1 million has been made for costs related to the development of the 869 drift metres needed. Costs incurred in moving production equipment between panels in the mine are distributed according to the tonnes produced. Provision of NOK 44.6 million has been made for future longwall moves. Finally, provision of NOK 33.8 million has been made for costs relating to non-preparation of 373 390 tonnes of coal. These provisions are included in the item 'Other short-term debt'.

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 personnel and goods transport, and operation of power plant and storage facilities.

Note 11 Exploration costs

Exploration and prospecting activities in new fields are expensed in the accounts. In 2011 the company conducted prospecting activities at Lunckefjell, Svea Nord, Breinosa, Ispallen and Operafjellet.

Note 12 Other operating costs

	2011	2010
Administrative costs	79,015	77,862
Mining claim tax	336	336
Provision for clear-up costs	4,000	4,000
Other costs	273	564
Total	**83,624**	**82,762**

Note 13 Tangible fixed assets

	Machinery, fixtures, transport resources	Buildings	Technical plant	Mines, land	Plant under construction	Total
Acquisition cost at 01.01.11	39,393	141,250	400,024	921,011	90,166	1,591,844
Additions in the year	5,716	885	38,628	29,719	57,056	132,004
Disposals in the year (disposals/scrapping)	– 5,616	0	0	0	0	– 5,616
Reclassification	0	0	75,936	0	– 75,936	0
Acquisition cost at 31/12/2011	**39,493**	**142,135**	**514,588**	**950,730**	**71,286**	**1,718,231**
Accumulated depreciation at 01/01/2011	32,528	100,465	326,536	799,312	0	1,258,841
Reversal of accum. depreciation at sale/scrappage	– 5,338	0	0	0	0	– 5,338
Depreciation/write-downs for the year	3,929	12,135	36,932	64,837	0	117,833
Book value at 31.12.11	**8,374**	**29,535**	**151,120**	**86,581**	**71,286**	**346,895**
Estimated remaining useful life (incl. 2011)	**3-6 years**	**6/20 years**	**6 years**	**3-7 years**		

The mine is depreciated on the basis of the year's 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. Plant under construction relates to the development of a district heating plant in Svea, a loading plant in Longyearbyen and the mine at Lunckefjell.

Note 14 Financial items

Financial income	2011	2010
Interest received on bank deposits	15,153	17,372
Interest received, group	783	514
Interest received, financial investm.	4,544	0
Foreign exchange gains	11,626	27,855
Share dividend	75	90
Increase in value of financial instr.	0	253
Total	**32,181**	**46,085**

Financial expenses	2011	2010
Interest costs	820	1,905
Foreign exchange losses	13,539	7,461
Decrease in value of financial instr.	2,343	0
Total	**16,702**	**9,366**

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, coal freights and commission 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 forward contracts to hedge future sales of USD. As the forward contracts are used as hedging instruments, unrealised exchange gains or losses are not recognised on the balance sheet date.

As of 31 December 2011 the following forward exchange contracts had been entered into:

Matures	USDm	Average exch rate
2012	130	6.21
2013	90	6.15
2014	60	6.17

In addition the following options contracts on the sale of USD had been entered into:

Matures	USDm	Minimum exch rate
2012	40	6.59
2013	20	6.23
2014	20	6.43

The average exchange rate obtained in 2011 was 6.60 NOK/USD. The average rate at Norges Bank for 2011 was 5.61.

Coal hedging

At year-end 2011, the company had entered into the following contracts to hedge the price of coal:

Year	Tonnes	Average price USD per tonne
2012	325,000	118
2013	275,000	120
2014	275,000	123
2015	50,000	127

In 2011, a quantity of 616 670 tonnes of coal was hedged at a price of USD 156 per tonne. The hedge gain for 2011 was NOK 144.6 million. As these are transactions to hedge coal sale contracts, the gain is recognised as part of the revenues from coal sales.

Note 16 Tax costs

	2011	2010
Tax cost for the year is made up as follows:		
Tax payable on profit for the year	41,526	72,764
Tax payable for previous year	739	1,054
Change in deferred tax assets	– 48,570	– 3,289
Tax on group contribution	2,680	5,104
Tax on equity transfers	19,093	0
Correction of prior year error	0	204
Total tax cost on ordinary profit for the year	**15,468**	**75,836**
Tax payable in tax cost for the year is made up as follows:		
Ordinary profit/loss before tax	84,470	373,523
Permanent differences	– 111,743	36,741
Change in temporary differences	303,562	76,408
Group contribution paid with tax effect	– 16,749	– 31,898
Basis for tax payable	**259,540**	**454,774**
Tax, 16%, representing the total tax payable on the profit for the year	**41,526**	**72,764**
Tax payable in the balance sheet is made up as follows:		
Tax payable on profit for the year	41,526	72,764
Tax payable for previous year	0	1,054
Total tax payable	**41,526**	**73,817**
Specification of the basis for deferred tax, differences assessed:		
Fixed assets	– 220,680	– 205,685
Current assets	– 121,151	– 5,701
Provision relating to current assets	– 1,005	– 1,005
Other accounting provisions	– 138,742	– 118,708
Pension funds	– 497,940	– 344,857
Total	**– 979,518**	**– 675,956**
Deferred tax/tax benefit, 16%	**– 156,723**	**– 108,153**
Reconciliation of tax charge for the year:		
Profit before tax	84,470	373,523
16% tax on the profit before tax	13,515	59,764
Total tax charge for the year	15,468	75,837
Difference	**1,953**	**16,074**
The difference is due to the tax effect of:		
Permanent differences	– 17,879	5,879
Correction of prior year estimate	0	1,258
Correction of prior year error	739	0
Tax on equity transfers	19,093	8,937
Total	**1,953**	**16,074**

Note 17 Shares in subsidiaries and other companies

Company	Location	Ownership %	Balance sheet 2011	Balance sheet 2010
Svea Tankanlegg AS	Svea mine	15	752	752
Total			**752**	**752**

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

	2011			2010		
	Receivables	Short-term debt	Total	Receivables	Short-term debt	Total
SNSK	19,235	0	19,235	0	78,096	– 78,096
SNB	210	0	210	0	16,723	– 16,723
SNG	4,408	0	4,408	4,195	0	4,195
Total	**23,853**	**0**	**23,853**	**4,195**	**94,820**	**– 90,624**

Note 19 Related party transactions

Remuneration to senior executives is shown in Note 5, and intercompany balances are shown in Note 18, while financial income is shown in Note 14.

The company's related party transactions	2011
Sale of services:	
SNSK	3,600
SNB	4,360
SNG	6,600
Purchase of goods:	
SNB	20,531

Note 20 Accounts receivable

Accounts receivable from customers	2011	2010
Net accounts receivable at 31.12	50,150	45,560
Bad debt recognised in accounts	0	26
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 short-term receivables

In addition to acccounts receivable from customers and intercompany balances, the company has prepayments of NOK 10.9 million relating mainly to prepaid insurances.

Note 21 Financial investments

The item comprises short-term investments in equities funds and bonds. The investments were carried at market value at year-end.

	2011	2010
Acquisition cost	100,000	40,000
Accrued return	3,608	0
Unrealised change in value	– 2,343	253
Fair value	**101,265**	**40,253**

Note 22 Bank deposits, cash

	2011	2010
Cash	0	3
Bank deposits	1,157,887	1,247,515
Withholding deposit (tax)	20,728	20,268
Total	**1,178,616**	**1,267,786**

Note 23 Debt

Interest-bearing debt:

The company had no long-term debt at the end of the year. The company has an unutilised overdraft limit of NOK 400 million.

Short-term debt:	2011	2010
Accounts payable	77,714	113,998
Unpaid govt. charges & special taxes	20,342	20,270
Tax payable	41,526	73,817
Intercompany accounts	0	94,820
Other short-term debt	127,699	105,806
Total	**267,281**	**408,711**

Note 24 Pledges and guarantees

	2011		2010	
	Loan facility	Balance	Loan facility	Balance
Bank overdraft facility	400,000	0	400,000	0
Total	**400,000**	**0**	**400,000**	**0**

Book value of assets pledged as security for debt (overdraft facility):

	2011	2010
Tangible fixed assets	346,895	333,002
Shares owned by the company	752	752
Stocks	425,472	532,730
Accounts receivable	50,150	45,560
Total	**823,269**	**912,044**

Guarantees

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

Note 25 Provisions for liabilities and charges

	2011	2010
Pension commitments	497,940	344,857
Education and training support	0	2,205
Clear-up costs	50,506	46,506
Total	**548,446**	**393,568**

In 2011 a provision was made in the accounts of NOK 4 million for future clear-up costs at Svea. The total provision for clear-up operations is NOK 50.5 million.

Note 26 Contingent liabilities

SNSG has recently carried out an extended audit of the company's commercial contracts. The audit revealed an imbalance in the contracts for the marine transport of coal, for land transport and for coal sales commission agreements. This caused the company to terminate these contracts. The coal sales company Oxbow responded by suing Store Norske and claiming compensation for loss of income. The action was heard by Oslo District Court in the autumn of 2011. The court found in favour of Store Norske, which was awarded costs. Oxbow has appealed the decision.

Following the termination of the shipping contract with Polar Coal, that company announced its intention to take legal action, and the case was listed for hearing by an appointed court of arbitration in August 2011. The parties reached an out-of-court settlement prior to the hearing.

The contractors and transport companies LNS/LNSS have sued Store Norske claiming reinstatement of contract and compensation for loss of income and costs of vacating Svea. The case will be heard by an appointed court of arbitration in the autumn of 2012. No provision has been made in the accounts for receivables or claims relating to these matters.

Note 27 Coal reserves

The company uses the NI 43-101 standard as a guideline for assessing the mineral reserve base. The standard distinguishes between resources and reserves where within each group there is a sub-group indicating the level of certainty of the deposit.

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

All figures are in millions of tonnes	Resources			Reserves	
Location	**Assumed**	**Indicated**	**Measured**	**Probable**	**Certain**
Svea Nord, core		1.5		3.4	1.1
Svea Nord, marginal zone		2.0	6.0		
Svea Øst		3.8			
Lunckefjell	1.5			8.1	
Ispallen		14.3			
Areas that can be worked from Svea	**1.5**	**21.6**	**6.0**	**11.5**	**1.1**
The Gruve 7 area		2.0			1.9
Bassen	12.0				
The Gruve 3 area		5.0			
Areas that can be worked from LYB	**12.0**	**7.0**	**0.0**	**0.0**	**1.9**
Total resources and reserves	**13.5**	**28.6**	**6.0**	**11.5**	**3.0**

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 28 Shareholders' equity

	Share capital	Other equity	Total
Shareholders' equity at 01.01.2011	150,100	1,398,033	1,548,133
Result for the year		69,002	69,002
Estimate variances pensions net after tax		– 99,415	– 99,415
Group contribution paid net after tax		– 38,820	– 38,820
Equity at 31.12.2011	**150,100**	**1,328,800**	**1,478,900**

Note 29 Ownership structure

The share capital comprises 150 100 shares each with a nominal value of NOK 1000. The parent company, Store Norske Spitsbergen Kulkompani AS, owned 100% of the shares in SNSG as of 31 December 2011. A copy of the consolidated financial statements may be obtained from the parent company.

From Gruve 7 outside Longyearbyen. Photo: Mikhail Stepanskiy

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

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Store Norske Spitsbergen Grubekompani AS, which comprise the balance sheet as at 31 December 2011, and the income statement, showing a profit of NOK 69 002 000 and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Store Norske Spitsbergen Grubekompani AS as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

PricewaterhouseCoopers AS, Postboks 6128, NO-9291 Tromsø
T: 02316, www.pwc.no
Org.no.: 987 009 713 MVA, Medlem av Den norske Revisorforening

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Tromsø, 13. April 2012
PricewaterhouseCoopers AS

Kent-Helge Holst
State Authorised Public Accountant (Norway)

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

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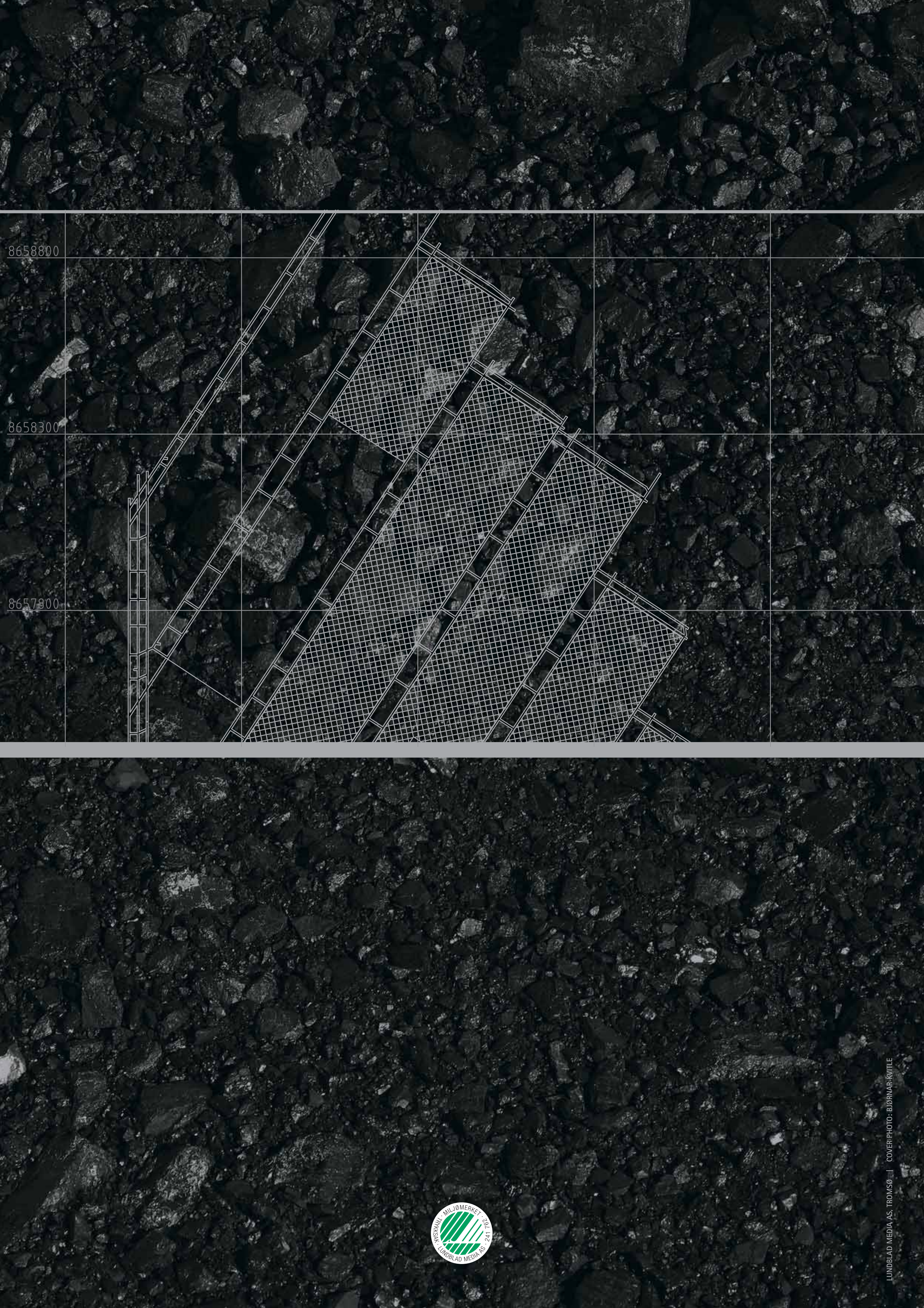

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