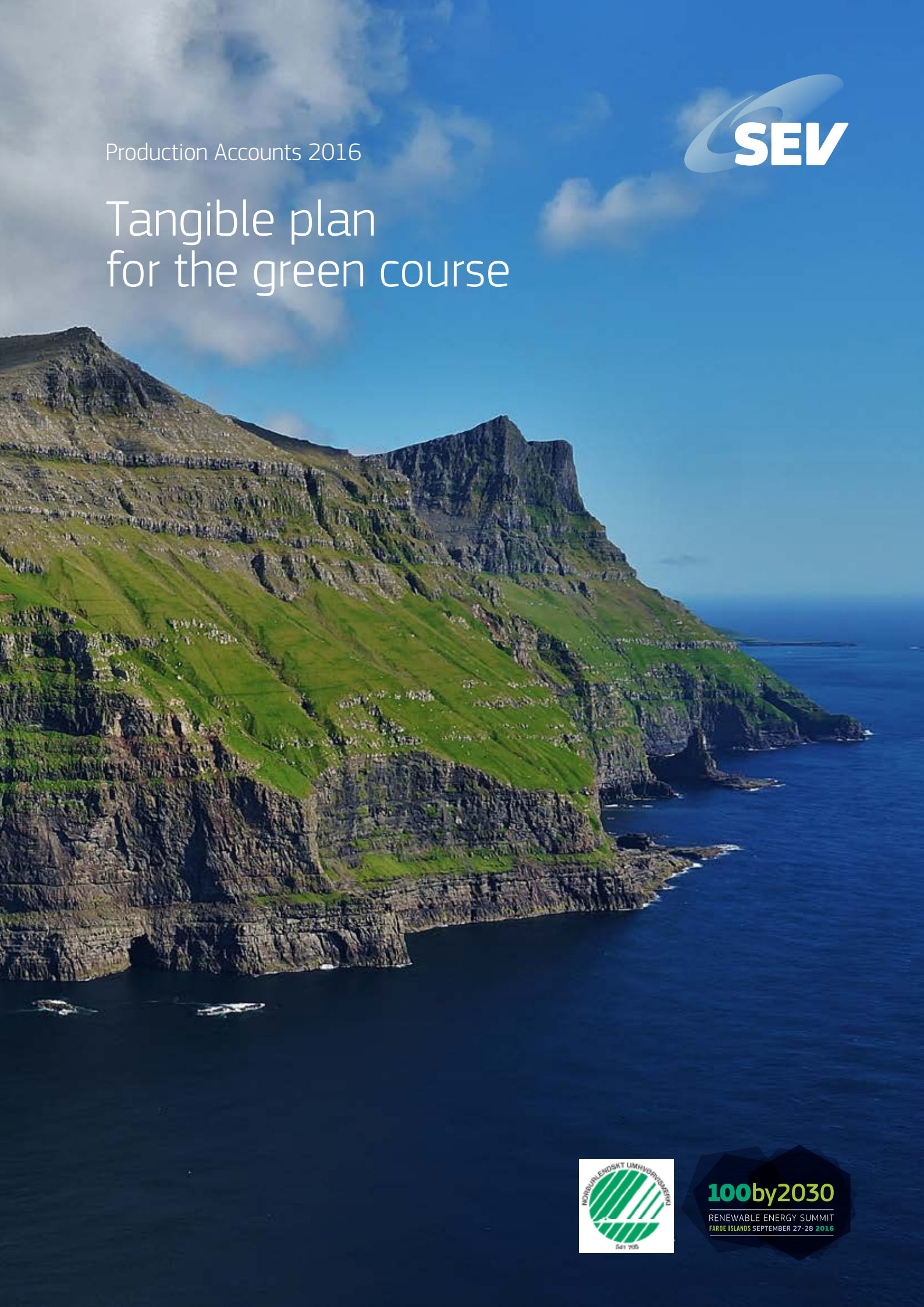
Production Accounts 2016

Tangible plan for the green course



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RENEWABLE ENERGY SUMMIT
FAROE ISLANDS SEPTEMBER 27-28 2016

Annual Report and Annual Accounts 2016
Annual General Meeting 21 April 2017
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Electricity Company SEV (Elfelagið SEV) Production Accounts 2016

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The Company

Elfelagið SEV
Administration:
Landavegur 92
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FO-110 Tórshavn
Telephone:+298346800
Website: www.sev.fo
Email: sev@sev.fo

Registered office: Tórshavn
Accounting year: 01.01-31.12
Business Registration No.:331538

Board

John Zachariassen, Chairman of the Board
Hans Jákup Johannesen, Vice Chairman of the Board
Marin Katrina Frýdal
Jónsvein Hovgaard
Sune Jacobsen
Vinjard Tungá
Kristian Eli Zachariasen

Management

Hákun Djurhuus, Managing Director, CEO
Bogi Bendtsen, Director of Administration, CFO
Jón Nielsen, Director of Distribution, COO
Heri Mortensen, Director of Production, CPO

Auditor

JANUAR State Authorized Public Accountants P/F

Management Report

The Board of Directors and Management hereby submit SEV's Annual Report and Accounts for fiscal year 1 January - 31 December 2016.

The Report is drawn up pursuant to the Faroese Financial Statements Act.

It is our opinion that the accounting methods used are suitable and that the Accounts give a true and fair view of the Company's assets, liabilities, financial position as at 31 December 2016 and the result of operations for fiscal year 1 January - 31 December 2016.

It also our opinion that the Management Review constitutes a true and fair report on the matters included in it.

The Annual Report is submitted to the Annual General Meeting with a recommendation for approval.

Tórshavn, 31 March 2017.

Management

Hákun Djurhuus
Managing Director, CEO

Financial Management

Bogi Bendtsen
Director of Administration, CFO

Board

John Zachariassen
Chairman

Hans Jákup Johannesen
Vice Chairman

Marin Katrina Frýdal

Jónsvein Hovgaard

Sune Jacobsen

Vinjard Tungá

Kristian Eli Zachariasen

Independent Auditor's Report

The Production Accounts have been prepared as a supplement to the Consolidated Group Annual Report and Accounts of Elfelagið SEV.

We have completed the audit of the Annual Accounts of Elfelagið SEV and it did not result in any qualifications or request for additional information. Please refer to page 60 in the Consolidated Group Annual Report and Accounts of Elfelagið SEV for the complete auditor's report.

Tórshavn, 31 March 2017

P/F Januar
State Authorized Public Accountants P/F

Hans Laksá
State auth. auditor

Key Figures and Financial Ratios

Figures in tDKK	2016	2015	2014	2013	2012
Income statement	*t.DKK.*	*t.DKK.*	*t.DKK.*	*t.DKK.*	*t.DKK.*
Net Sales	265.526	234.920	*278.328*	*306.519*	*298.663*
Result before depreciation, amortization and impairment	152.882	95.673	*85.070*	*84.125*	*76.959*
EBIT	93.722	36.443	*37.704*	*41.820*	*35.126*
Financial items, net	-12.116	-11.221	*-11.773*	*-14.050*	*-13.592*
Annual results	***81.466***	**25.222**	***25.931***	***27.770***	***21.534***
Balance sheet					
Total assets	1.187.159	1.049.924	*997.612*	*887.638*	*847.741*
Equity	***721.333***	**699.806**	***587.497***	***561.566***	***533.796***
Financial ratios*)					
Return on equity	11.3%	3,8%	*4,5%*	*5,1%*	*4,1%*
Assets turnover	0,22	0,22	*0,28*	*0,35*	*0,35*
Equity/assets ratio	60,8%	66,7%	*58,9%*	*63,3%*	*63,0%*

*) Financial ratios are calculated in accordance with the recommendations of the Danish Society of Finanscial Analysts, *Recommendations and Financial Ratios 2011*.

Management Review

Main Activities

Elfelagið SEV is an inter-municipal cooperative electricity utility company. The purpose of the Company is to generate electric power and distribute it to its customers in the participating municipalities. According to the Articles of Association, the Company is to carry out its purpose consistent with economically sound commercial principles with due regard for the environment.

The operations permit granted to SEV for each individual production facility states that the accounts shall indicate whether each production facility operates at a profit or loss.

This accounting report for the production activities of SEV is a part of the consolidated accounts of SEV. This Management Review discusses SEV's production activities for the period 1 January 2016 to 31 December 2016.

Business Activity Overview and Financial Status

Production and Revenue

Table 1 gives an overview of production over the last six years in GWh.

Electricity production measured in GWh for 2016 was 317.4 GWh, compared to 314.4 GWh in 2015, or an increase of 3.0 GWh, corresponding to an increase in SEV's production in 2016 of 1.0% for the entire country. In the main central region of the country, production grew by 2.1%, and in Suðuroy production fell by 8.2%.

Production distribution among the various energy sources was 33.5% from hydro-power, which is 8.8% lower than in 2015; 16.4% from wind energy, which is 1.4% lower than in 2015; and finally, 50.1% was produced by the thermal power plants, which is 10.2% more than in 2015.

Significant rainfall again characterized 2015; substantial rain occurred throughout the spring months and into the summer. For the summer and fall months, the amount of rainfall was deemed to be consistent with a normal year, while winter again experienced significant rain. In the main, the weather throughout 2016 was good with less wind and very little rainfall. This impacted the production of electricity from wind and hydro-power the wrong way. Hydroelectric production in 2016 was 106.3 GWh, compared to 133.1 GWh in 2015, which is 26.8 GWh lower than in 2015 or 20.1% lower.

Electricity production from wind in 2016 was 52.1 GWh, corresponding to 16.4% of total electricity production was derived from wind, compared to 55.8 GWh in 2015, when the percentage was 17.7%.

In conclusion, the relative distribution between "green energy" and thermal energy was lower than projected with a 50-50 split between thermal and green energy for 2016. This projection should be compared to the distribution realized in 2015 when SEV produced 60% of its electricity from green energy

Over a span of many years, electricity production has fluctuated, which is evident in the Figure 1, which shows electricity production for the entire country from 1954 to 2016.

Figure 1 shows that there was a steady increase in the production of electricity since 1954 until the economic crisis of the early 1990s, when electricity production began to decline because of lower consumption. It was not until 1996 that production began to increase again, reaching the record-setting production in 2016 of 317.4 GWh, which was 3.0 GWh greater than in 2015, which up to then had been the best year

As can also be seen, hydro-power electricity production increased

Table 1. Sales in GWh	2011	2012	2013	2014	2015	2016	Difference compared to 2015 (GWh)	Difference compared to 2015 (%)
Settled sales to customers in GWh	*254,8*	*261,4*	*274,4*	*283,8*	288,1	291,4	+3,3	+1,1
Net loss and own use in GWh	*19,0*	*30,1*	*18,1*	*21,6*	26,3	26,0	-0,3	-1,1
Total annual production in MWh	*273,8*	*291,6*	*292,5*	*305,4*	314,4	317,4	+3,0	+1,0
Of which thermal	*166,8*	*181,0*	*180,1*	*150,2*	125,5	158,9	+33,4	+26,6
Of which hydro-power	*92,5*	*99,8*	*90,6*	*120,7*	133,1	106,3	-26,8	-20,1
Of which wind	*14,5*	*10,8*	*21,8*	*34,5*	55,8	52,1	-3,7	-6,6

Figure 1: Electricity production for the entire country from 1954 til 2016.

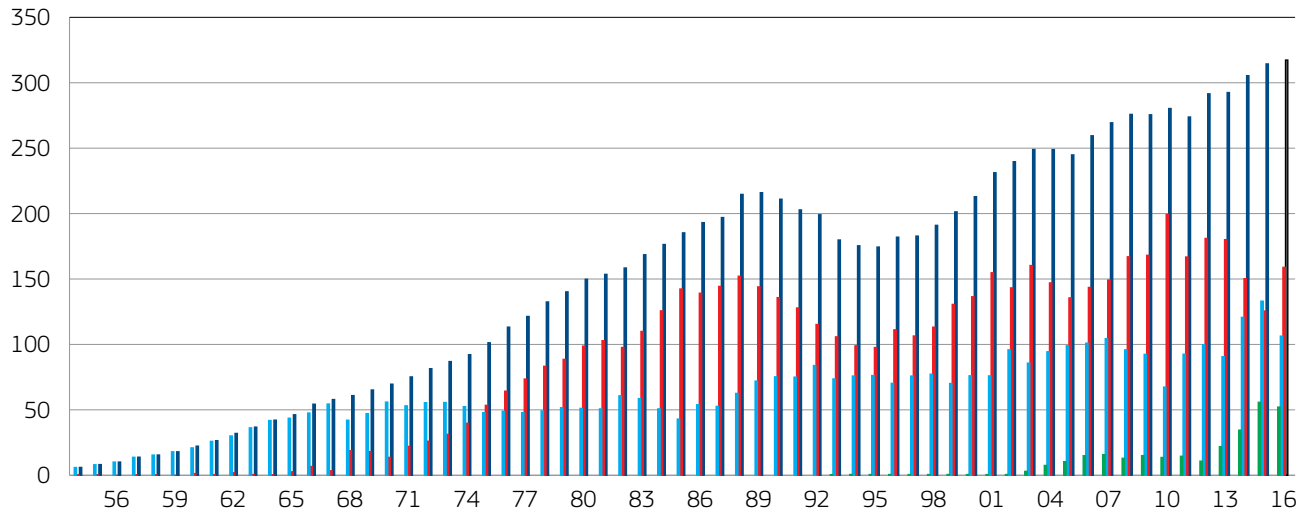


Figure 2: Total Monthly Electricity Production from 1985 through 2016.

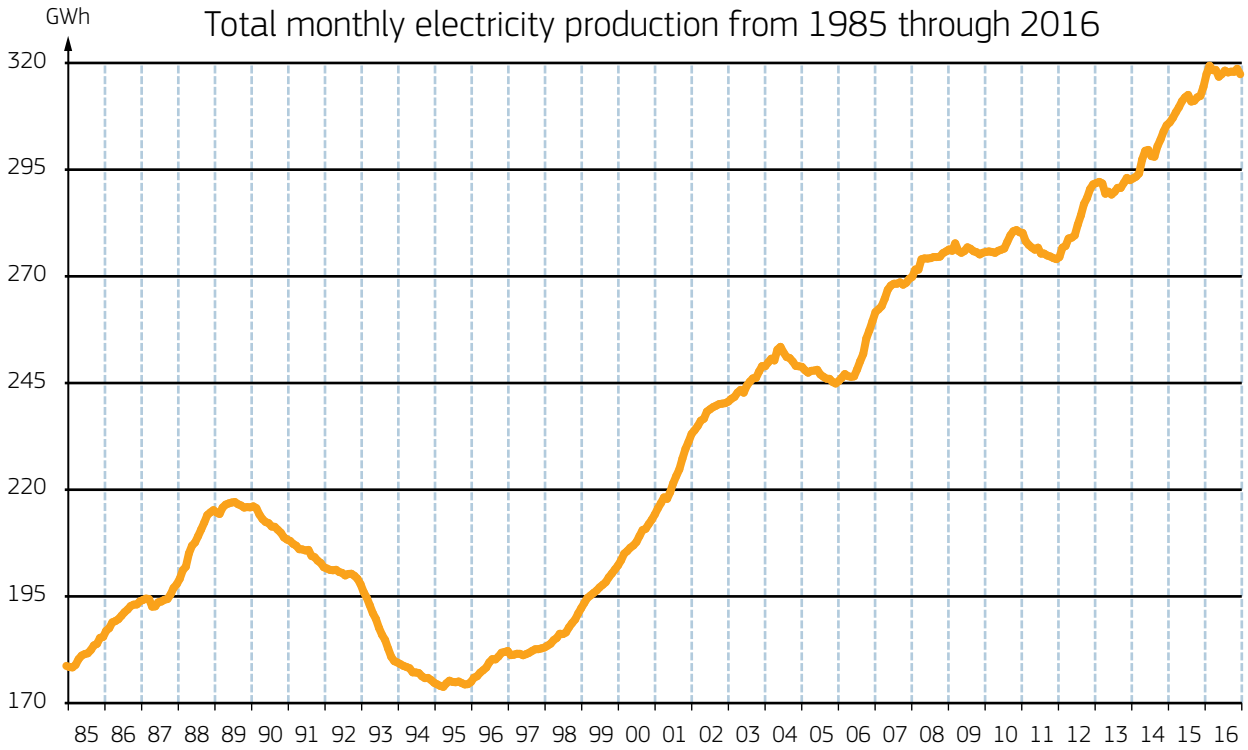
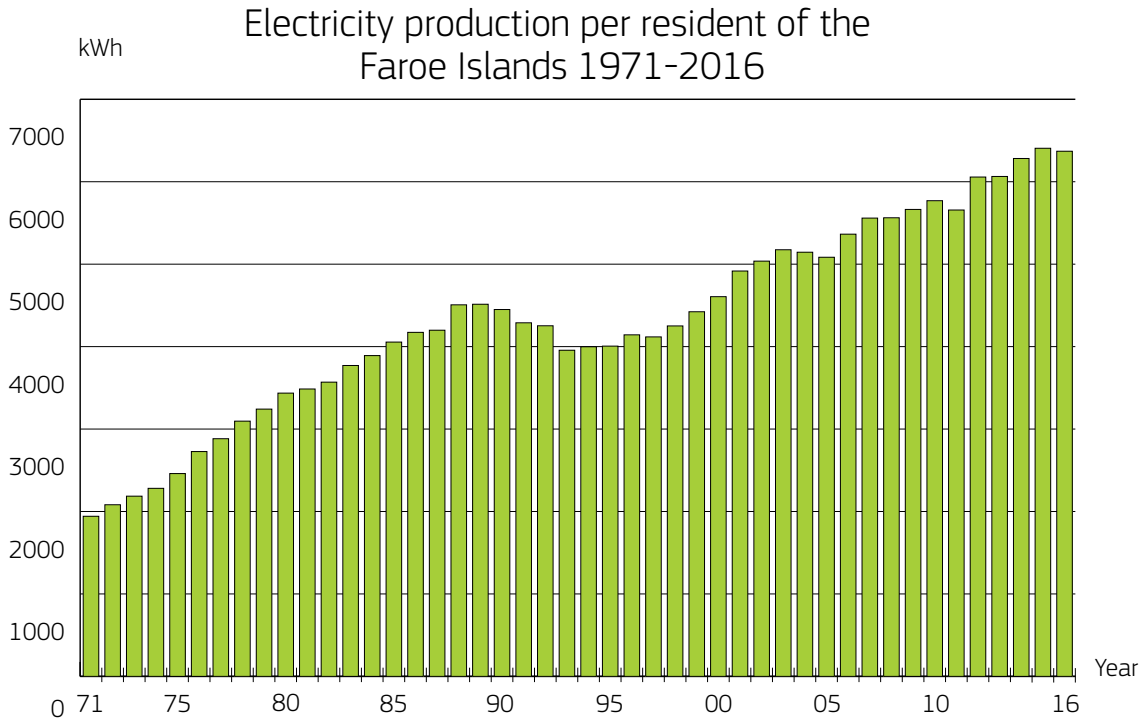


Figure 3: Electricity Production per Resident of the Faroe Islands 1971-2016



significantly by the end of the 1980s, following the opening of the new Eiði hydro-power plant. Hydro-power generation again increased from 2002 through 2007 because of the Eiði 3 power plant, and subsequently has remained quite stable.

During 2010 and 2011, a complete overhaul was carried out on the turbines and penstocks at the Fossá and Heyga power plants. Turbine 1 at the Eiði power plant was overhauled in 2012 and Turbine 2 was upgraded in 2013. This reconditioning is reflected in the production figures shown in the graph above, because production fell off during 2010 and 2011. It can also be seen that in 2010 and 2013 it rained very little compared to other years.

During the month of June 2012, SEV inaugurated the new Turbine 3 at the Eiði hydro-power plant, which together with Eiði 2 South increased hydro-power electricity production by some 14 GWh annually. The tunnel project concluded at year-end 2013.

In November 2012, the wind farm at Neshagi went online, and on 9 October 2014 the new wind farm at Húsahagi also went online. SEV anticipates that these wind farms will produce considerable power and during the time they have been operational production has gone well. Further, the Company forecasts that wind energy production output will now increase after the new battery system at the Húsahagi wind farm became officially operational in September 2016.

Figure 2 shows monthly electricity production from 1985 through and including December 2016. As can be seen, production declined in 2011, then steadily grew throughout the twelve months of 2012, only to decline and then grow a bit in 2013, and then continued to grow throughout 2014 and 2015 and held steady at the same level through 2016.

Figure 3 shows electricity production in the Faroe Islands per inhabitant from 1971 to 2016. The graph indicates the same pattern as Figures 1 and 2 for total electricity production for the entire country.

Throughout the country, SEV has different types of production power plants installed, ranging from thermal to hydro and wind.

Figure 4 shows the geographical distribution of SEV's production in 2016. As Figure 4 shows, the largest amount of electricity is produced by the Sund thermal power plant, while the next largest is produced by the Eiði hydro-power plant. Total hydroelectric production equalled 106 GWh, while production at the Sund thermal power plant equalled 127 GWh.

Figure 5 shows the relative production of the hydro-power plants in 2016. As Figure 5 shows, the largest hydroelectric plant is located at Eiði, then comes the Fossá hydro-power plant in Vestmanna. The hydro-power plant at í Botni produces 3.6% of total electricity production.

SEV is bound by a universal service obligation. This means that SEV shall always have sufficient power available to meet the demand for electricity.

Figure 6 shows the amount of available reserve power versus

Figure 4: Geographical devision of electricity production 2016

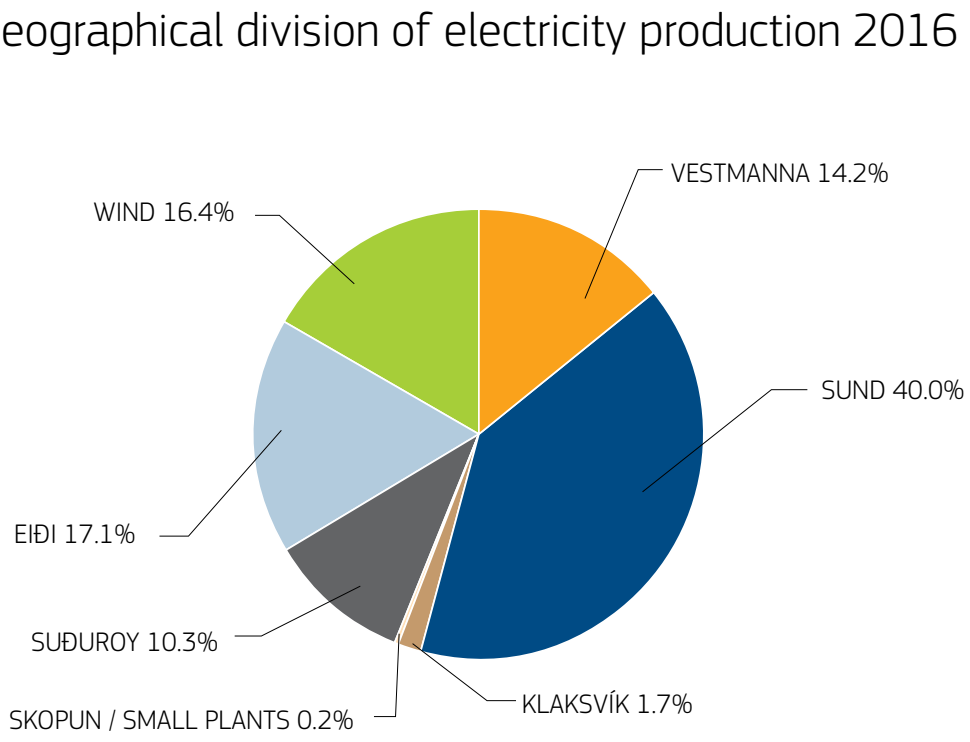


Figure 5: Electricity production by hydro-power plants in 2015 as a percentage of entire hydro-power production

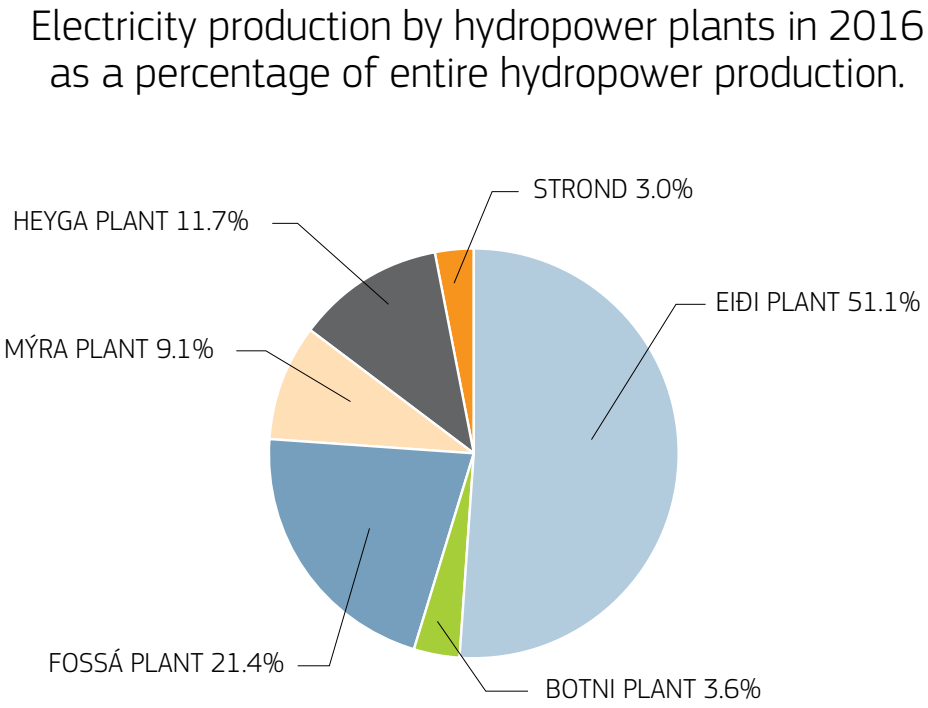
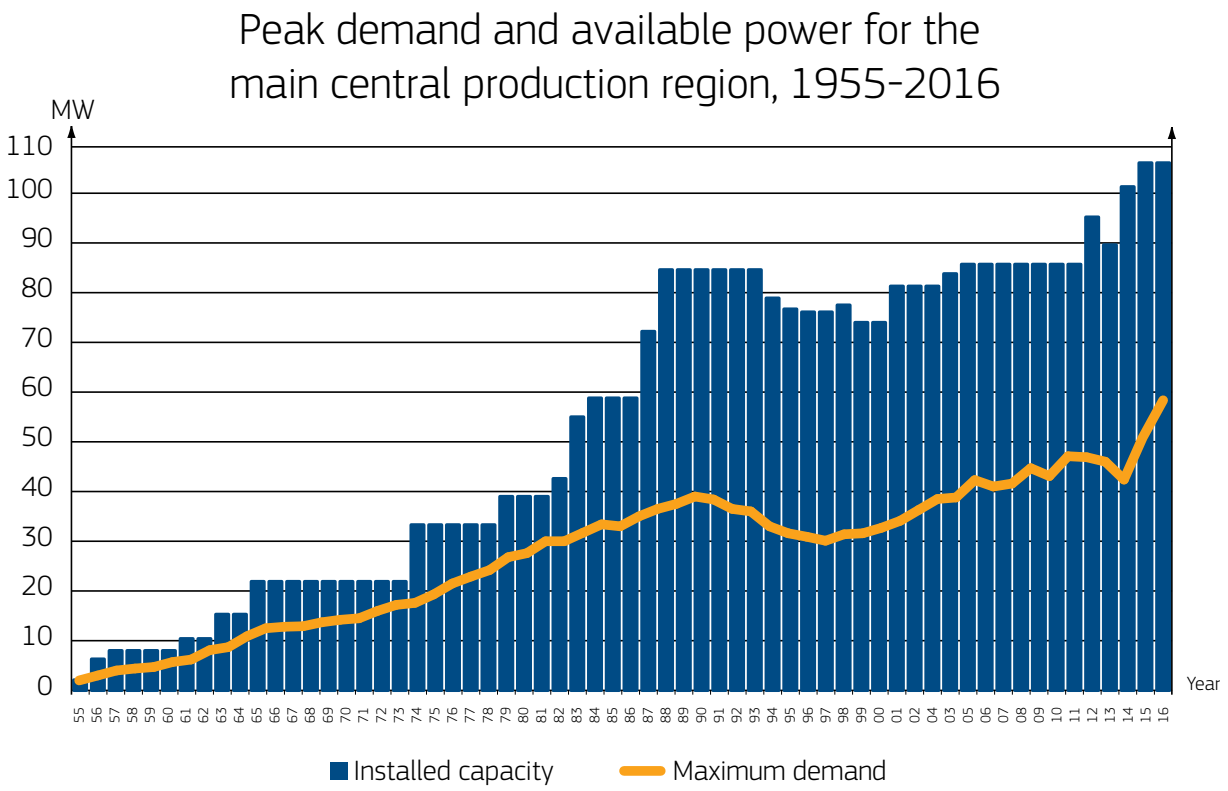


Figure 6: Peak demand and available power for the main central region



peak demand for the main central region from 1954 to 2016. The Figure shows the amount of available reserve power maintained by SEV compared to peak demand. The reason for such a high amount of available power is that a large portion of electricity production is derived from unstable energy resources, and thus it is necessary to ensure that an alternative energy supply is available.

The increase in available reserve power in 2012 is the result of the new turbine at the Eiði hydro-power plant and the wind farm at Neshagi. The decline in 2013 of 5.3 MW reflects the fact that M3 motor at the Sund thermal power plant was off-line. The increase in 2014 and 2015 of some 4.8 MW reflects the installation of two new motors at the Sund plant to replace the M3 motor, plus the wind farm at Húsahagi for some 11.7 MW. For 2016, there was no increase in available reserve power.

Figure 7 shows demand over a 24-hour period on Wednesday, 5 October 2016 in the central main region. As can be seen, demand is rather even from 9:00 in the morning to 20:00 in the evening. Over the last several years, average 24-hour demand has remained unchanged.

To meet the demand for electricity power, SEV has a diversified source of power that encompasses oil-fired thermal motors, hydro-power turbines and wind turbines.

Revenue

In 2011, SEV undertook to generate independent accounts for the Production Division and the Grid Division. In this regard, the Company determined to calculate earnings for the Production Division in the same manner as demanded for wind power tenders. Thus, this calculation of earnings affords an accurate picture of Production operations, compared to the requirement for a profit and an adequate return on assets of the Production Division. Therefore, 2011 was the first time earnings were calculated for the Production Division against that of the Grid Division.

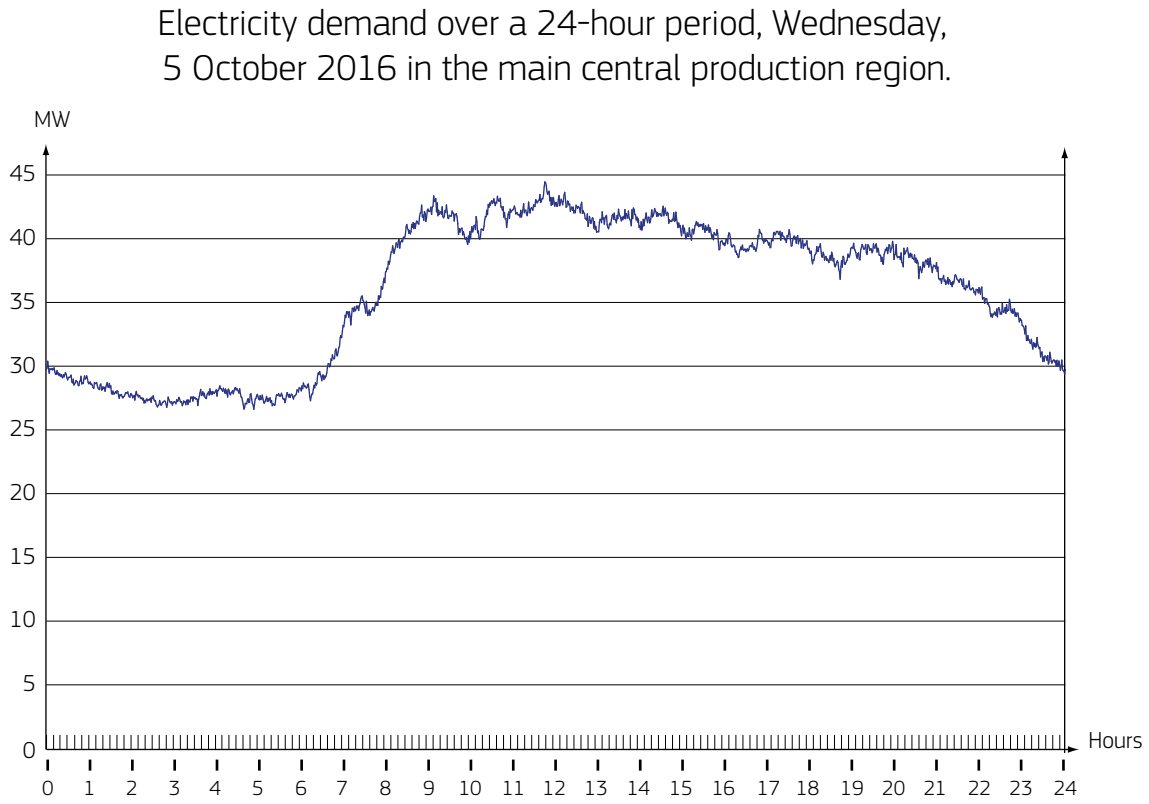
For the Production Division, this means that it shall always cover all of its costs, including its portion of the costs related to management of the grid and the universal service obligation related to the grid. In addition, the Production Division shall derive a profit corresponding to 4-5% of opening balance equity.

Calculated profit for 2016 was DKK 30.5 million, compared to DKK 24.8 million in 2015, corresponding to 5.0% and 4.2%, respectively, of the Production Division's opening balance equity. Earnings of 4-5% is believed by SEV to be a reasonable profit at present, compared to inflation and other investment possibilities

Total result for the Production Division was DKK 81.5 million, which reflects the requirement for self-financing.

According to the Electricity Production Act, Grid activities shall be financially self-sufficient, such that revenue is sufficient to cover operations and planned necessary investment in infrastructure.

Figure 7: Electricity demand over a 24-hour period, Wednesday, 5 October 2016 in the main region.



For the Grid Division, this means that it can have a revenue that covers grid-related operational expenses as well as planned infrastructure investment. Revenue for necessary investment is based on an expectation of own-financing.

When infrastructure investment is needed, a portion of the investment required shall be self-funded, thus negating that the entire investment be financed by a loan facility. SEV has determined that self-financing of some 25% is sufficient and the Production and Grid accounts for 2016 reflect this expectation.

The decision regarding self-financing is based on the budgeted investment for both Production and Grid. SEV's budget for 2017 projects investment from 2016-2020 for Production to be DKK 1,049 million, equalling on average some DKK 210 million annually, of which a 25% self-financing would be DKK 52 million or rounded to DKK 50 million. For the Grid Division, projected investment is set at DKK 547 million, corresponding to DKK 109 million annually, of which self-financing equals DKK 27 million, or rounded to DKK 30 million. It is advisable that self-financing is of a sufficient amount and this can be realized only from an operational profit.

Self-financing for each respective year shall be calculated thusly: operational cash flow less interest and repayment costs compared to the requirement of 25% self-financing of the annual average investment over the next five years.

For the Grid Division, this means that the annual result shall be adjusted such that the profit is equal to the expenses incurred by the Grid Division plus a self-financing requirement of 25% of the annual average investment in the grid over the next five years.

Distribution of profit between the Production Division and the Grid Division in previous years was based on an allocation to the Production Division that ensured that all costs were covered, including costs for its respective portion of grid administration and the grid's universal service obligation plus a 4-5% return on opening balance equity.

Table 2. Total Consumption of Heavy Oil in Metric Tonnes 2010-2016

2010	2011	2012	2013	2014	2015	2016	2016 Budget	Difference between budget and actual accounts 2015	Difference between 2015 and 2016
39.748	*33.961*	*36.746*	*36.893*	*30.880*	25.738	32.195	28.969	3.226	6.457

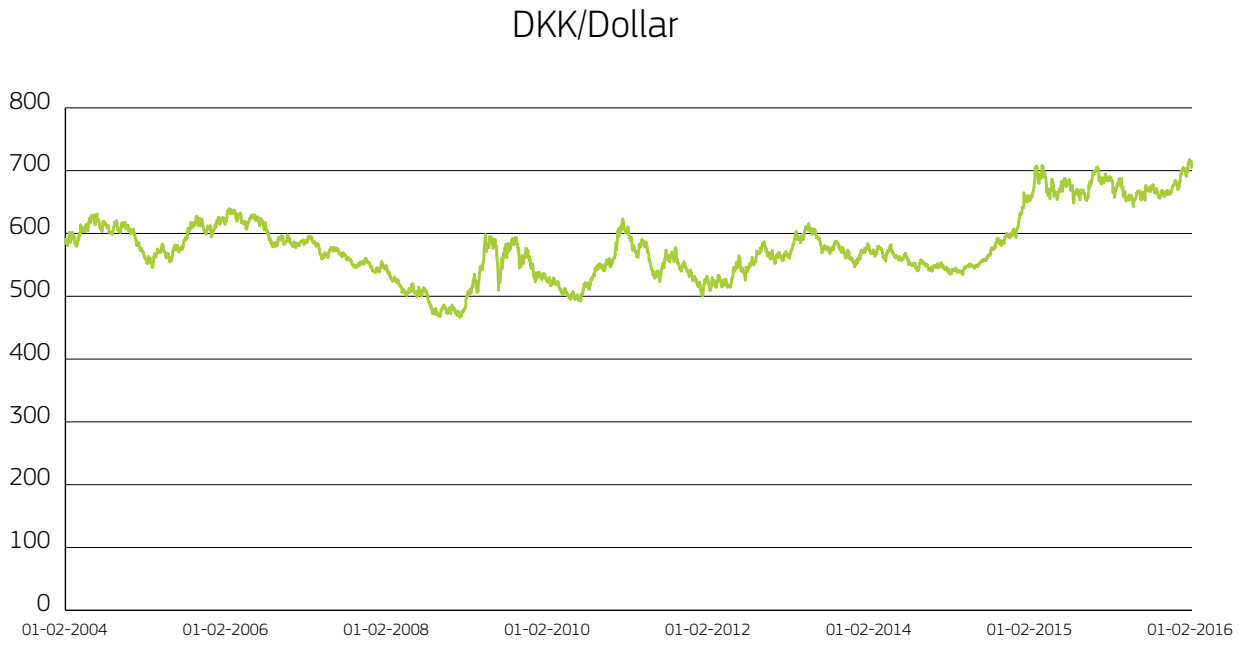


Figure 8. DKK/USD exchange rate 2004 to 2016.

Going forward, it will be necessary to increase the revenue of the Production Division relative to the Grid Division such that said revenue corresponds to the increased debt burden borne by the Production Division stemming from the anticipated expansion of the production power plants.

If SEV's total consolidated result was larger than the calculated allotment for the Production Division, the remainder was transferred to the Grid Division. This is now changed so that the Grid Division is allotted an adjusted result and not the Production Division.

Total income for the Production Division in 2016 was DKK 265.5 million, compared to DKK 234.9 million in 2015. Of this income, the Sund thermal power plant generated DKK 126.9 million or 47.8% and the Vágur thermal power plant generated DKK 36.3 million, or 13.7%

Thus, the two largest oil-fired thermal production power plants generated an income of DKK 163.2 million in 2016, corresponding to 61.5% against DKK 146.6 million or 62.4% in 2015. Thus, there was a higher production of thermal power in 2016 than in 2015. In 2016, all the hydro-power plants combined generated an income of DKK 64.8 million or 24.4%, against DKK 63.3 million or 27.2% in 2015.

The 2016 operational result posted a surplus of DKK 81.5 million, compared to DKK 25.2 million in 2015, when the requirement for self-financing was first incorporated into the accounts.

However, if one considers the operational result before deducting interest expenses, the total result was DKK 93.7 million. Production Division interest expense of some DKK 12.1 million stemmed in the main from the loan facilities for the construction undertaken at the Eiði hydro-power plant and the Húsahagi wind farm.

Expenses

Total expenses for 2016 were DKK 183.9 million, while total expenses for 2015 were DKK 209.7 million, corresponding to a decrease in expenses of DKK 25.8 million. Expenses are related to the purchase of oil, operational and financial costs and depreciation. A more detailed review of actual vs. budgeted expenses can be found in the Consolidated Annual Accounts available on the SEV website, www.sev.fo.

Operational costs are generally categorized into employee expenses, supplies and services. For the production power plants, oil expenses comprise a major part of overall expenses

Oil expenses were DKK 50.7 million in 2016, compared to DKK 85.9 million in 2015 thus the cost of oil was DKK 35.2 million less in 2016 than 2015. Expenses for goods and services and wages in 2016 were DKK 62.0 million, compared to DKK 53.3 million in 2015, such that these expenses in 2016 were DKK 8.7 million more, equalling 16.3%.

Oil Expenses

Grounded in the operational strategy the Company adopted to hold to the approved budget, the Company hedged its heavy oil purchase for 2016, which resulted in a cost lower than originally budgeted. A more detailed analysis of SEV's risk management

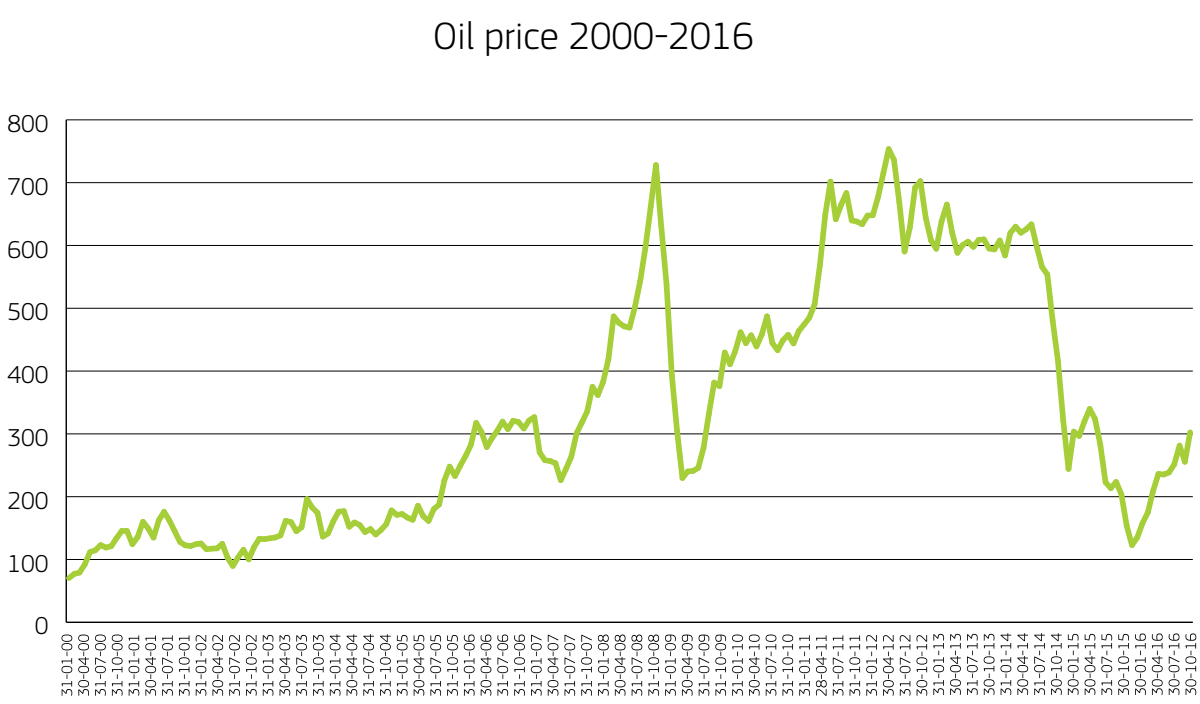


Figure 9: USD oil price per tonne heavy fuel oil 2000 to 2016.

strategy is available in the Group's Consolidated Annual Accounts found at www.sev.fo.

Table 2 shows oil consumption in metric tonnes for 2010-2016. As mentioned earlier, total production in 2016 increased by 3.0 GWh and production by the thermal power plants grew by 33.4 GWh, corresponding to 26.6%, from 125.5 GWh in 2015 to 158.9 GWh in 2016. Hydro-power electricity production decreased by 26.8 GWh, from 133.1 GWh down to 106.3 GWh, or 20.1%. Electricity production from wind power decreased by 3.7 GWh from 55.8 GWh down to 52.1 GWh, or 6.6%. The reason was less wind in 2016 than in 2015.

The price SEV pays for oil is linked to the international oil market and the USD exchange rate. The average price for heavy oil in 2014 was USD 554.10 per tonne and for 2015 the price was USD 260.70. The average price per tonne of heavy oil in 2016 was USD 216.80

The Table above shows the monthly fluctuation in the US dollar exchange rate from 2004 through 2016..

The USD exchange rate has fluctuated during the years 2012-2016. From a level of around DKK 5.60 to the dollar at the beginning of 2012, the exchange rate increased significantly to upwards of DKK 6.05 per dollar during the summer months only to fall to the same level at year-end 2012 as at the beginning of 2012. The exchange rate continued to decline throughout 2013 and into the early months of 2014, when the exchange rate in the summer of 2014 began a steady climb up to DKK 6.12 at year-end. At the beginning of 2015, the dollar exchange rate was DKK 6.19, which continued to grow until 13 April 2015 when it reached DKK 7.08 per dollar, its highest level. At year-end 2015, the exchange rate was DKK 6.83 per dollar. Overall, the dollar was stronger in 2015 and there is a distinct correlation between a decline in the price of oil and an increase in the dollar exchange rate..

At the beginning of the year 2016, the dollar exchange rate was DKK 6.83 per dollar, which declined until May when the exchange rate was DKK 6.43 per dollar. Subsequently, the dollar continued to strengthen until the election in the United States on 8 November when the exchange rate was DKK 6.74 per dollar. The exchange rate continued to increase and reached DKK 7.05 per dollar at year-end 2016. Overall, the dollar was strong in 2016.

As noted above, oil expenses equalled DKK 50.7 million in 2016, compared to DKK 85.9 million in 2015, corresponding to a lower cost of DKK 35,2 million.

As noted above, oil expenses equalled DKK 50.7 million in 2016, compared to DKK 85.9 million in 2015. Oil expenses also includes lubricating oil, gas oil and heavy oil, but the cost for heavy oil is by far the biggest.

The fact that the cost of oil in 2016 was lower than in 2015 stems from falling oil prices and that the Company hedged its oil purchases for 2016 at a low level in January 2016 and entered into an extension in June 2016. On the other hand, heavy oil

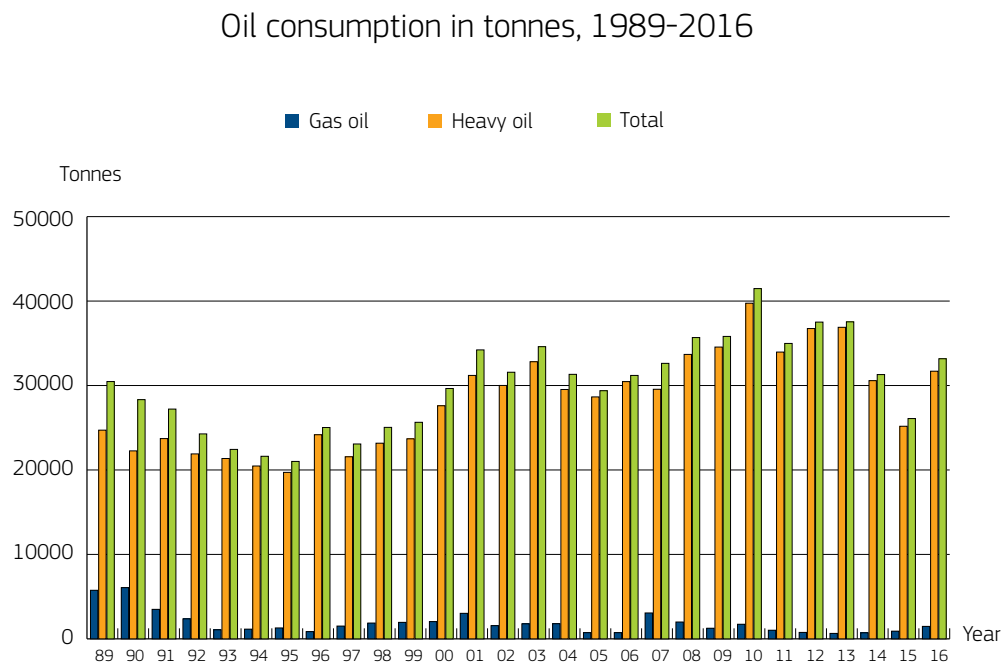


Figure 10: Oil consumption in tonnes 1989 – 2016

consumption increased by 6,457 tonnes compared to 2015, which translates into an increased oil expense.

The average cost for each tonne of heavy oil was DKK 1,139 in 2016 and DKK 2,859 in 2015, corresponding to a reduced cost of DKK 1,720 per tonne.

The average cost for each litre gas oil was DKK 4.21 in 2016 and DKK 5.04 in 2015, corresponding to a reduced cost of DKK 0.83 per litre. For lubricating oil the average cost per litre was DKK 22.93 in 2016 and DKK 24.08 in 2015 or DKK 1.15 lower.

By far the largest portion of the oil expense of some DKK 50.7 million came from the Sund and Vágur thermal power plants, with, respectively, DKK 38.3 million and DKK 7.7 million, or 90.7% of total oil consumption. In the end, 75.5% of total oil expense stems from the Sund thermal power plant alone.

Figure 9 shows the trend in oil prices from 2000 to the end of 2016. Figure 9 shows that the price of heavy oil increased steadily from 2000 to the autumn of 2006, at which time it progressively decreased until the beginning of 2007, when the price of heavy oil was approximately USD 220 per tonne. From then until the autumn of 2008, the price of heavy oil soared until topping out at well above USD 700 per tonne. Then the financial crisis broke, and the price of heavy oil plunged to the same level as seen at the beginning of 2007, around USD 220 per tonne

Subsequently, the price of heavy oil steadily rose and by the end of 2013, the price of heavy oil was USD 608 per tonne, which is a very high level. The price of heavy oil declined in January of 2014 to USD 584 per tonne, but subsequently rose to USD 633 in June and then to fall precipitously to USD 321 per tonne in December 2014. The average price for heavy oil in January 2015 was USD 244 per tonne, and then it continued to grow until May 2015 when it was USD 340 per tonne. Subsequently, the price of heavy oil began to fall until it reached USD 154 per tonne in December 2015. The average price of heavy oil during 2015 was USD 261 per tonne.

In January 2016, the average price per tonne of heavy oil was USD 122.90. It continued to rise through the year until October when it reached on average USD 281.40 per tonne of heavy oil. Subsequently, the price fell to USD 255.50 on average during November and then rose to USD 302.5 on average per tonne of heavy oil in December 2016. The average price per tonne of heavy oil during 2016 was USD 216.80.

Oil expenses corresponded to 27.6% of total costs and depreciation for 2016 for the Production Division. Thus, the trends in the price of oil and the exchange rate of the US dollar have a major impact on the operational result and not the least when these trends are compared to the respective budget.

Figure 10 shows an overview over oil consumption related to the production of electricity from 1989 to 2016, distributed among gas oil, heavy oil and total consumption.

Among other items of interest, it can be seen that the total amount of gas oil is 4.5% in 2016, compared to 3.5% in 2015. The Figure shows also that the total amount of oil in 2016 was much higher than in 2015. This corresponds well with the other

Figures seen above that show that electricity production from thermal energy was considerably higher in 2016 than in 2015.

Supplies and Services

In 2016, power plant expenses for supplies and services equalled DKK 28.2 million, against DKK 21.3 million in 2015. This equates to an increase in consumption of DKK 6.9 million. For further details on costs for the last several years, confer the Group's Consolidated Annual Accounts at www.sev.fo.

In 2012, the Company changed its accounting procedures relative to the posting of extensive maintenance designed to prolong the useful life of the production assets. Previously to 2012, the Company amortized these expenses as a lump sum for the fiscal year in which the maintenance took place. This particular accounting principle was re-evaluated. Now, expenses related to prolonging the useful life of production assets and associated equipment will be amortized over the commensurate number of additional useful-life years.

In 2016, expenses for supplies and services at the Sund power plant amounted to DKK 9.9 million, against DKK 6.8 million in 2015, or 35.1% of total expenses for supplies and services in 2016. This reflects an increase of some DKK 3.1 million, or 45.6% for costs at the Sund power plant. The Vágur power plant contributed DKK 3.4 million in 2016 toward total expenses, against DKK 2.8 million in 2015, corresponding to an increase of DKK 0.6 million, or 21.4% of costs for the Vágur power plant.

Expenses related to the grid and SEV's universal service obligation

The total expenses incurred by the power plants reflect not only the cost of electricity production, but also a portion of the cost related to the universal service obligations of the Company relative to operation of the grid.

Total grid-related expenses can be subdivided into the expenses for managing the power grid, the cost of ensuring the stable delivery of electricity, rolling power, available power reserve, and other costs related to the grid and SEV's universal service obligation. The electricity production plants sell their power to the Grid Division. This payment by the Grid Division includes the price of electricity and a portion of the universal service obligation attributed to the production plants

Expenses related to managing the power grid

The Suðuroy electricity grid is managed at the production plant in Vágur, while management of the power grid for the remainder of the country takes place at the Fossá power plant in Vestmanna.

The total expense of DKK 2.3 million for the management of the power grid at the Fossá power plant is calculated thusly: total employee expense at the Fossá power plant (DKK 3.0 million for a normal operational year) minus employee expenses related to the operation of the power plant itself per operational year (DKK 0.7 million). The cost to operate the power plant itself is deemed to be the same as the cost to run the Mýra and Heyga power plants combined, which corresponds to DKK 0.7 million for a normal operational year. The same cost for managing the power grid at the Fossá power plant is used as the basis for the cost of managing the power grid on Suðuroy, corresponding to DKK 2.3 million.

The expenses related to SEV's universal service obligation, rolling power and available power reserve

The expenses related to providing a continuous power supply, rolling power and an available power reserve are estimated to be 5% of total operational expenses, including depreciation, for the Sund and Vágur power plants, which equals DKK 4.0 million and DKK 1.1 million, respectively. This reflects a "best estimate" calculation.

The cost of the universal service obligation relative to the grid is, additionally, based on SEV's operational cost for its smaller power plants around the country that are deemed to be extra power plants or power reserves. The smaller plants receive a reimbursement for employee expenses and supplies relative to operations in return for a supply guarantee. The remaining costs are recovered via a "purchase of production" for resale. The Strond power plant receives reimbursement for its operational related employee expenses and supplies relative to the thermal production of electricity in return for a supply guarantee. The remaining costs are recovered via a purchase of production for resale.

Summary of Expenses related to SEV's universal service obligation

The total cost for managing the country-wide power grid is DKK 4.6 million. The cost for ensuring the power supply, rolling power and available power reserves at the Sund and Vágur power plants is stipulated at DKK 5.1 million. The cost to guarantee supply, etc. from the other power plants is DKK 5.6 million, equating to an estimated total cost for ensuring a stable power supply, and rolling and reserve power, plus management of the power grid of DKK 15.3 million.

Employee Expenses

Employee expenses relative to production were DKK 33.7 million in 2016, against DKK 32.0 million in 2015 which corresponds to a higher employee expense of DKK 1.7 million, or 5.3%.

Of the total employee expense in 2016, which equalled DKK 33.7 million, DKK 16.7 million or 49.6% was attributed to the Sund thermal power plant, while DKK 5.6 million or 16.6% was attributed

to the Vágur thermal power plant. Comparable expenses in 2015 were DKK 15.9 million or 49.5% for Sund, which is DKK 0.8 million higher than in 2015, while for the Vágur power plant it was DKK 5.2 million, corresponding to 16.2%, meaning that the employee expense for the Vágur power plant was slightly higher in 2016.

In 2016, employee expense for the Fossá power plant was DKK 4.9 million, corresponding to 14.5%, against DKK 4.5 million or 14.0% in 2015. The reason for the increased employee expense for both the Fossá and Vágur power plants relative to the budget is based on the management and control of the power grid in the main region and on Suðuroy. The Grid Division reimburses these expenses to the production units, as explained above.

In conclusion, one can see that the employee expense at the thermal power plants accounts for the vast majority of this total expense. Hydro-power and the wind turbines only account for DKK 11.5 million or 34.1% of the total employee expense of DKK 33.7 million, of which only a part is the cost of managing the grid.

Financial Expenses

Interest expense in 2016 was DKK 12.1 million, compared to DKK 11.2 million in 2015, of which a large portion stems from the expansion of the Eiði power plant and the wind farm at Húsahagi.

During 2016, the Company undertook to refinance its total debt and to secure financing for the investments projected for 2017 and beyond. Confer the Group's Consolidated Annual Accounts available at www.sev.fo for a more detailed discussion

Depreciation

Total depreciation for 2016 was DKK 59.2 million against DKK 59.2 million in 2015.

For 2016, the assets at the Sund power plant were depreciated by DKK 14.2 million, against DKK 14.0 million in 2015, and the Eiði hydro-power plant assets were depreciated DKK 19.3 million, against DKK 19.3 million in 2015, corresponding to total asset depreciation in 2016 for both production units of DKK 33.5 million, compared to 33.3 million in 2015. The depreciation in 2016 for these two power plants of DKK 33.5 million is 56.6% of the total depreciation of DKK 59.2 million.

The Vágur power plant was depreciated by DKK 5.0 million, the new wind turbines at Húsahagi were depreciated by DKK 7.3 million for 2016, the wind turbines at Neshagi were depreciated by DKK 3.0 million, and the hydro-power plant in Vestmanna was depreciated by DKK 7.8 million.

In general, with regard to budgeting for the following year, a determination is made as to which investments would be expected to be completed and taken into service, thus making the completed asset subject to depreciation. The difference between the actual and forecast depreciation is based on these estimates and what was actually booked, plus the total amount of investment was somewhat lower than budgeted.

Special Risks

Please confer the Group's Consolidated Annual Report and Accounts for a detailed discussion of risk assessment and management, available at www.sev.fo.

Investment

Investment in tangible fixed assets for 2016 was DKK 143.9 million, as shown in Table 4.

The budget for 2016 projected an investment of DKK 186.5 million, following a re-evaluation of priorities, compared to an actual

Market risk	Credit and counter-party risk	Operational risk	Strategic and other risk
Interest rate	Receivables	Supply Security	The strategic risks are related to how the company organizes its operations, the political environment, image, etc.
Oil price	Bank deposits	IT	
Exchange rate	Bonds	Error in internal procedures	
Liquidity	Insurance	Human error	New disruptive technologies
		Health, safety, and environment	Projects
			Level of knowledge and development

Table 3. Investment in Fixed Assets	Original budget for 2016 investment	New priorities 2016 investment	Expected according to new priorities	Investments according to 2016 Financial Accounts	Deviations according to Financial Accounts and balanced budget
	1	2	3=1+2	4	5=4-3
Fossáverkið	2,3	-1,7	0,6	0,6	0,0
Heygaverkið	0,4	-0,1	0,3	0,2	-0,1
Mýruverkið	2,7	1,5	4,2	3,5	-0,7
Eiðisverkið	1,8	0,5	2,3	1,5	-0,7
Verkið í Botni	2,0	0,0	2,0	0,3	-1,6
Vágsverkið	18,2	21,0	39,2	34,1	-5,1
Verkið í Trongisvági	3,7	0,0	3,7	0,0	-3,7
Sundsverkið	142,8	-20,8	122,0	97,4	-24,6
Verkið á Strond	4,6	0,0	4,6	2,3	-2,2
Smærri verk	7,7	-0,1	7,5	4,1	-3,4
Vindmyllur í Neshaga	0,2	0,0	0,2	0,0	-0,2
Vindmyllur í Húsahagi	0,2	-0,2	0,0	-0,2	-0,2
Total investment in production units	**186,3**	**0,2**	**186,5**	**143,9**	**-42,6**

budget of DKK 217.0 million in 2015. Actual investment in 2016 was DKK 143.9 million, or DKK 42.6 million less than budgeted.

For the year 2016, it was the Vágur and Sund thermal power plants that left their mark on the investment numbers. With respect to the Sund power plant, it was the tank farm and the day tank storage facility. With regard to the Vágur power plant, it was the expansion of production capacity with a new motor. The new motor came online on 1 September 2016.

In 2016, transfers from work-in-progress to being directly booked as a fixed asset (depreciation basis) amounted to DKK 116.2 million, compared to DKK 43.6 million in 2015. Confer "work-in-progress" and Note 7 in the Consolidated Annual Accounts.

Table 4. Total investment	2016	2015
Investment booked to work-in-progress	143,1	119,0
Investment booked directly as transition	0,9	2,7
Investment at year-end	**143,9**	**121,7**

Table 5. Work-in-Progress	2016	2015
Opening balance	131,7	53,7
Investment booked to work-in-progress	143,1	119,0
Work transferred to depreciation as transition	-115,3	-41,0
Closing balance	159,4	131,7
Changes to work-in-progress	**27,8**	**78,0**

Table 6. Transition to fixed assets	2016	2015
Work transferred to depreciation as transition	115,3	41,0
Investment booked directly to fixed assets	0,9	2,7
Transition as at year-end	**116,2**	**43,6**

For a more detailed discussion regarding investment, refer to the Consolidated Annual Accounts at www.sev.fo.

Liquidity

Liquidity has not been divided between the Production Division and the Grid Division. SEV utilizes an internal transfer pricing mechanism to balance the accounts of the two divisions. Thus, the liquidity of the production units is set to DKK 0.00 million, while all the activities of the power plants are financed by payments from the Grid Division, thereby securing the necessary liquidity. The same is applicable to the wind farm companies that are also financed by the Grid Division.

At year-end 2016, SEV's total liquidity was DKK 335.5 million, against DKK 221.9 million in 2015. In addition, there are the unused drawing rights provided by the credit loan facilities with the financial institutions which equalled DKK 626 million.

Thus, total cash-on-hand and available credit equalled DKK 961.5 million in 2016, against DKK 490.5 million in 2015. It is deemed necessary to have sufficient liquidity to cover daily operations of the Company. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets.

The goal is to maintain sufficient liquidity so that SEV is always able to pay cash for an oil purchase or to cover the cost of any damage at the power plants or to the grid. Furthermore, it is deemed necessary to have sufficient liquidity to cover daily operations of the power plants and the grid. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets. Further details on the Company's liquidity are available in the Group's Consolidated Annual Accounts available on the Company's website, www.sev.fo.

Prospects for 2017

Based on the budget for 2017, the result before tax is DKK 32.1 million. The final result can be expected to be higher than the budgeted result due to the way the Company allocates income to satisfy the 25% equity financing requirement on investments. This level of result is satisfactory, and must remain so in years to come.

Operating expenditure is budgeted at DKK 56.7 million in 2017 compared to 61.9 million in 2016, lower by DKK 5.2 million on 8.4%.

Oil expenditure is budgeted at DKK 69.0 million in 2017 compared to DKK 50.7 million in 2016. The company's long-term risk management strategy is to hedge the oil purchase price at no higher than the budget price. In January 2016, the company hedged 60% of the 2017 purchase, while the remaining 40% were hedged in January 2017. The volume hedged in January 2016 is reflected in the budget price, while the volume hedged in 2017 was somewhat dearer than the budget price, which means the cost of oil in 2017 will exceed the budgeted price.

Depreciation is budgeted at DKK 67.6 million in 2017 versus DKK 59.2 million in 2016. Interest expenditure is expected to increase due to increase in debt for financing the investments in Húsahagi, the Vágur power plant, and the Sund power plant. Interest expenditure is budgeted at DKK 19.1 million versus 12.1 million in 2016, the increase is due to an increase in lending to finance investment in production assets.

With the budgeted result for 2017 at a satisfactory level, the production operations provide sufficient equity financing for investments. It is necessary for the operations to provide its share of financing for future investments in existing plant and new investments in renewable energy sources.

More information for 2017 can be found in the Operational, Financial and Investment Budget Plan for 2017 available at www.sev.fo.

Events after the Closing of the Accounts

From the closing date of the financial statements to date, nothing has occurred that would impact the assessment of the annual accounts.

Accounting Principles

General

The Annual Accounts for the Elfelagið SEV Production Division are prepared in accordance with the provisions of the Faroese Financial Statements Act for large Class C corporations.

The Production accounts were compiled in a manner similar to the accounts of a consolidated group, without, however, any harmonization of internal postings for operations and adjustments. This was done to provide the reader with as much information as possible on all the various production activities of the entire SEV Group. Otherwise, the Annual Accounts were compiled consistent with the same accounting principles as the previous year and are stated in DKK.

Amounts in the Income Statement, Balance Sheet, Notes, etc. are rounded to whole numbers, and comparative figures from the previous year are rounded to whole thousands. As each number is rounded individually, rounding differences may occur between the numbers presented and the sum of the underlying numbers.

Where a table in the financial statement shows numbers in DKK rounded to whole thousand or million, and the table shows differences between periods, either in DKK or percent, the comparisons are calculated on the basis of the underlying numbers and then rounded off. As a result of this, small differences can occur between the rounded numbers shown in the table and the calculated comparisons.

Basis for recognition and valuations

In the Income Statement, income is recognised as earned. The same pertains to value adjustments of financial assets and liabilities. Included in the Income Statement are all expenses, including depreciation, amortisation, provisions, and impairment losses derived of changes in the financial estimates of the amounts that otherwise have been recognised in the operational accounts.

Assets are recognised in the Balance Sheet when future economic benefits are likely to flow to the Company and the value of such assets can be measured reliably.

Liabilities are recognised in the Balance Sheet when they are reasonably likely to occur and can be measured reliably.

On recognition and valuation, due regard is given to foreseeable loss and risks arising before the time at which the Annual Report is presented, and relate to circumstances present as at the end of the fiscal year.

Translation of foreign currency

Foreign currency transactions are translated using the rate of exchange applicable as at the date of transaction. Realised and unrealised translation gains and losses are recognised in the Income Statement under financial items.

Receivables, liabilities and other financial booking in foreign currencies that are not translated as at the end of the fiscal year are translated using the exchange rates applicable as at the end of the fiscal year. The difference between the exchange rate as at the end of the fiscal year and the exchange rate current as at the date of the transaction are recognised in the Income Statement under financial items.

INCOME STATEMENT

Net Sales

Net sales are recognised in the Income Statement, provided that delivery has been effected and the risk has passed to the buyer by the end of the fiscal year and income is reliably pending and is expected to be received. Net sales exclude VAT, fees and rebates in connection with sales.

Consumption of Goods and Services

Consumption of goods and services includes costs for the purchase of raw materials and consumables less rebates and changes in inventory during the year.

Other External Expenses

This item comprises external costs related to the purchase of oil, supplies and other services, as well as other administrative costs.

Operational Distribution – Production and Grid

For each production plant, revenue is calculated as: total expenses of the plant, plus a production profit on the plant's individual assets. A production profit is based on the forecast return on long-term mortgage bonds and the asset valuation of a production plant.

Total power plant expenses accrue from the cost of producing electricity, plus grid responsibility costs. These costs can be subdivided into the cost for management / control of the electricity grid, the cost of guaranteeing supply, spinning reserve, supplemental reserve and other costs related to grid responsibility.

The cost for managing / controlling the grid in the main central region is calculated: Total wage expense for the Fossá power plant minus the wage expense for ordinary operation of the power plant. The cost of managing / controlling the grid in Suðuroy is the same as the cost of managing the grid in the main region.

The cost of guaranteeing supply, spinning reserve and supplemental reserve is estimated as a part of total operating expenses, including

depreciation, for the Sund power plant and Vágur power plant. This is a fixed cost estimate.

Other costs related to grid responsibility are based on the expenses of all the small power plants scattered around the country. Operating expenses for wages and supplies are reimbursed to the small plants as compensation for the supply guarantee; remaining costs are their own production. Strond power plant receives a guarantee of supply reimbursement for the operating expenses of wages and supplies used in thermal production. Remaining expenses accrue from their own production.

According to the Electricity Production Act, the activities of the grid shall be self-supporting such that the income earned is sufficient to pay for operations and planned necessary investment.

For the Grid Division, this means that it shall derive an income that corresponds to the expenses that the grid department has such that the Grid Division can pay for its operations as well as derive sufficient income to pay for the planned necessary investment in the grid. The income set aside for necessary investment shall reflect the requirement for self-financing.

SEV has determined that self-financing of 25% is satisfactory and this decision is reflected in SEV's annual accounts and the accounts of both the Production and Grid Divisions.

The stipulated amount of self-financing is based on the anticipated investment for both production and the grid over a period of five years, which is the current year and the next four years. The self-financing for the current year is calculated thusly: cash-flow from operations less cost of interest and repayment of principle compared to the requirement for 25% self-financing of annual average investment over the next five years.

For the Grid Division, this means that the annual result will be adjusted such that the profit corresponds to the expenses of the grid plus the self-financing of 25% of the annual average investment in the grid over the next five years. If the total result for the SEV Group is greater than the result for the Grid Division, the remainder of the result will be transferred to the Production Division.

Employee Expenses

Employee expenses encompass wages plus vacation pay and pension benefits including other social benefits. Any compensation received from the government is deducted from employee expenses.

Depreciation and Write-downs

The depreciation and amortisation of intangible and tangible fixed assets are based on an asset's projected useful life.

Financials

Financials include interest receivable and interest payable, realised and unrealised capital gains and losses on financial assets and debt. Financial revenue and expense are booked at value for the relevant accounting year.

Dividends from equity investments in Associated Companies are recognised as revenues in the accounting year in which they are approved.

Interest expense and other loan costs to finance production of intangible and tangible fixed assets that are related to the production period are not included in the projected useful life of the asset.

BALANCE SHEET

Tangible Assets

Tangible assets are valued at acquisition cost less accumulated depreciation and write-downs. Land is not depreciated.

The depreciation basis includes the acquisition value less the expected residual value at the end of the asset's prescribed useful life.

Acquisition value includes the purchase price and costs directly accruing from the time of acquisition to the time when the asset is ready for use.

Depreciation is based on an asset's projected useful life and the residual value of the asset:

	Useful life	*Residual value*
Distribution plants	*10 - 50 years*	*0%*
Buildings	*50 years*	*0%*
Production equipment and furnishings	*3-5 years*	*0%*

Equipment with an expected useful life under one year is expensed in the year of acquisition.

Regarding own production assets, the acquisition value includes the cost of supplies / consumables, parts, suppliers, direct wage expense and indirect production costs.

Depreciation of Fixed Assets

Every year the carrying amount of tangible fixed assets is appraised to obtain an indication of whether they have lost value or have been impaired. This is done in addition to general depreciation write-downs.

When a loss in value is indicated, impairment tests are carried out on each individual asset and each asset category. Assets with impaired value are written down to the recoverable amount, if this amount is lower than the carrying amount.

The recoverable amount is either the net realisable or sale value or the capital value. Capital value is calculated as the current value of the expected net revenues accruing from using an asset or asset group.

FINANCIAL ASSETS

Capital investment in Associated Companies

Investment in Associated Companies is recognised in the Balance Sheet at acquisition value. If the net realisable value is lower than the acquisition value, it is depreciated to the lower value.

Inventory

Inventory is measured at cost price according to FIFO principles. If the net realisable value of the inventory is lower than the acquisition value, it is depreciated to the lower value.

The acquisition value of goods for sale, including raw materials and consumables, is measured as the purchase price plus freight expenses.

The acquisition value of finished goods and goods-in-production is measured as the acquisition value of the raw materials, consumables, direct labour costs and indirect production costs. Indirect production costs include indirect supplies and wages, plus maintenance and depreciation of machinery, buildings and equipment used in production. In addition, the booked costs include costs to manage and administer production, plus R&D costs relative to the goods.

Receivables

Receivables are valued at the amortised acquisition cost, which generally corresponds to nominal value. To guard against possible loss, receivables are written-down to net realised value.

Current and Deferred Taxes

Current tax, payable and receivable, is recognised in the Balance Sheet as the tax computed on the basis of the taxable income for the year, adjusted for tax paid on account the previous year. Current tax payable and receivable tax are recognised based on the set off permitted by law and the booked amounts generally calculated at net or current.

Deferred tax is calculated on the basis of all temporary differences between the carrying amount and the tax base of assets and liabilities. This is recognised in the Balance Sheet based on intended use of the asset or how the debt is intended to be repaid.

Deferred tax assets, including tax deficits carried forward, are recognised at the anticipated realisable value, either by adjusting the tax on future income or by off-setting deferred tax within the same legal tax entity. Possible deferred net receivable tax is recognised at net realised value.

Deferred tax is valued consistent with the tax regulations and tax rates applicable as at the end of the fiscal year.

Adjustments to deferred tax resulting from changes to the tax rate are incorporated into the operational accounts..

Other Provisions

Provisions include anticipated costs for guarantees, loss from work-in-progress, adjustments, etc. Provisions are recognised when the Company has a legal or material debt based on an event that had occurred and it is probable that the debt will be paid by utilising the financial assets of the Company.

Provisions are valued at net realised value or at current value when it is expected that the debt shall be paid in the distant future.

Derivative Financial Instruments

The Company holds derivative financial instruments to hedge its foreign currency, fuel price exposures, and interest rate risk.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The Company holds no trading derivatives.

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

Cash Flow Hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly inequity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain

or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Liabilities

Relative to loan facilities, financial debt is recognised at realised or acquisition value, corresponding to the received amount less transaction fees. Subsequently, financial debt is recognised at the amortised realised value, which corresponds to capitalised value plus effective interest such that the difference between the received amount and the nominal value is recognised in the operational accounts over the period of the loan facility.

Debt to financial institutions is valued at amortised realised value, which corresponds to the residual debt of a cash loan. Regarding the value of bonds, the amortised realised value is calculated as the cash value on the date the bond was issued, adjusted by the booked depreciation during the instalment period of the effective rate of interest at the time of contracting such debt.

Other debt is also measured at the amortised realised value, which usually corresponds to the nominal value.

Cash Flow Statement

The Cash Flow Statement is prepared using the indirect method and shows cash flows from operations, investing and financing activities, changes in liquidity and cash-on-hand at the beginning and at the end of the year.

Cash flows from operating activities are adjusted for non-cash operating items, changes in working capital and tax paid.

Cash flows from investments comprise the acquisition and disposal of intangible, tangible and financial assets, adjusted for changes in accounts receivable and any liabilities on said items.

Cash flows from financing comprise financing from shareholders, dividends paid to shareholders, the initiation and subsequent repayment of long-term liabilities, in addition to withdrawals from credit facilities.

Cash-on-hand at the beginning and end of the year comprises both cash and bank deposits.

KEY FIGURES

The Key Figures are calculated consistent with The Danish Finance Society [Den Danske Finansanalytikerforenings], *Recommendations and Financial Ratios 2010*.

The Key Figures and ratios shown in the overview are calculated thus:

Return on equity	$\frac{\text{Result}}{\text{Average equity x 100}}$
Return on assets	$\frac{\text{Result of ordinary operations x 100}}{\text{Average value of operating assets}}$
Equity/asset ratio	$\frac{\text{Equity year-end x 100}}{\text{Total assets}}$

Income statement

	Nota	2016 DKK	*2015* *t. DKK*
Net turnover	1	**265,526,363**	***234,920***
Cost of oil	2	-50,690,609	*-85,945*
Supplies and services	3	-28,210,055	*-21,280*
Gross proceeds		**186,625,699**	***127,695***
Wages	4	-33,743,959	*-32,022*
Depreciation, amortization and impairment of fixed assets		-59,159,936	*-59,230*
Operational result		**93,721,804**	***36,443***
Other financial costs	5	-12,116,304	*-11,221*
Result before tax		**81,605,500**	***25,222***
Tax on annual result	6	-139,116	*0*
Annual result		**81,466,384**	***25,222***
Proposed distribution of result			
Result carried forward		**81,466,384**	*25,222*
Total distribution		**81,466,384**	***25,222***

Balance Sheet

ASSETS	Nota	31.12.16 DKK	*31.12.15* *t. DKK*
Power plants	7, 14	958.270.595	*901.916*
Buildings and land	7	3.911.550	*2.930*
Operating equipment	7	1.340.019	*1.598*
Investment work-in-progress		159.390.674	*131.735*
Total tangible fixed assets		**1.122.912.838**	***1.038.179***
Total fixed assets		**1.122.912.838**	***1.038.179***
Oil inventory		15.086.325	*11.744*
Total inventory		**15.086.325**	***11.744***
Inter-company accounts - Grid		42.989.610	*0*
Tax asset	6	105.767	*0*
Prepayments		6.064.704	*0*
Total receivables		**49.160.081**	***0***
Total current assets		**64.246.406**	***11.744***
Total assets		**1.187.159.244**	***1.049.924***

Balance Sheet

LIABILITIES	Nota	31.12.16 DKK	*31.12.15 t. DKK*
Deposits	8	29,000,000	*0*
Result carried forward	8	692,332,537	*610,866*
TOTAL EQUITY		**721,332,537**	***610,866***
Deferred tax	6	244,883	*0*
Total provisions		**244,883**	***0***
Bank debt	9	453,960,187	*349,676*
Total long-term debt		**453,960,187**	***349,676***
Current portion of long-term debt	9	8,155,813	*0*
Inter-company accounts - Grid		0	*88,940*
Other debt		0	*441*
Prepayments		3,465,824	*0*
Total short-term debt		**11,621,637**	***89,381***
TOTAL DEBT		**465,581,824**	***439,058***
TOTAL LIABILITIES		**1,187,159,244**	***1,049,924***

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Cash flow statement

	Nota	*2016 DKK*	*2015 t. DKK*
Annual Results		**81.466.384**	***25.222***
Adjustments	13	71.276.240	*70.451*
Changes in working capital:		-3.341.970	*8.029*
Receivables		-105.767	*1.655*
Inter-company accounts - Grid		-131.929.383	*41.838*
Other operating debt		-2.795.236	*204*
Operating cash flow before financials		**14.570.267**	***147.398***
Interest expenses paid and similar expenses		-12.116.304	*-11.221*
Adjustments to prior years		0	*306*
Cash flow from operations		**2.453.962**	***136.483***
Purchase of tangible fixed assets		-116.237.640	*-43.638*
Changes to work-in-progress		-27.655.828	*-78.045*
Cash flow from investment		**-143.893.469**	***-121.683***
Loan facilites		462.116.000	*0*
Repayments of long-term debt		-349.676.494	
Deposits		29.000.000	*-14.800*
Cash flow from financing		**141.439.506**	***-14.800***
Total Cash flow during the year		0	*0*
Opening cash-on-hand		0	*0*
Closing cash-on-hand		**0**	***0***

Notes

1. NET TURNOVER	2016 DKK	*2015 t. DKK*
Own production	249,000,376	*210,125*
Grid responsibility	15,298,358	*18,046*
Other sales	1,227,629	*6,749*
Total	**265,526,363**	***234,920***

2. OIL EXPENSES		
Gas oil	7,571,175	*7,534*
Heavy fuel oil	37,139,605	*73,584*
Lubricating oil	5,979,830	*4,826*
Total	**50,690,609**	***85,945***

3. SUPPLIES AND SERVICES	2016 DKK	*2015 t. DKK*
Lines	10,182	*83*
Dams, pipelines and tunnels	438,301	*263*
Tanks and environmental	311,868	*275*
Motors	8,888,167	*8,584*
Electric and technical	468,534	*900*
Buildings and land	724,813	*610*
General Meeting and Board	106,201	*157*
Studies and consultancy	9,368,384	*5,183*
IT	498,158	*503*
Management and office expenses	762,200	*631*
Other operating expenses	596,078	*505*
Other administrative expenses	6,037,171	*3,588*
Total	**28,210,055**	***21,280***

4. EMPLOYEE EXPENSES	2016 DKK	*2015 t. DKK*
Wages	30,002,096	*28,551*
Pensions	2,773,092	*2,603*
Contributions	968,772	*868*
Total	**33,743,959**	***32,022***
Employees with SEV as main source of personal income	54	*54*
Average number of employees	63	*63*

5. FINANCIAL EXPENSES	2016 DKK	*2015 t. DKK*
Interest, loans and bank debt, etc.	12,116,304	*11,221*
Total	**12,116,304**	***11,221***

6. TAXES ON ANNUAL RESULT		
Corporate tax	0	*0*
Deferred tax	244,883	
Tax asset	-105,767	*0*
Total	**139,116**	***0***

7. TANGIBLE FIXED ASSETS

Amount in DKK	Production plants	Distribution	Buildings	Equipment	Total 2016	2015
Acquisition value, opening balance	1,838,908,965	5,358,336	3,048,428	5,683,340	1,852,999,069	*1,809,177,116*
Net annual addition	114,787,510	0	1,080,114	186,515	116,054,140	*43,638,453*
Acquisition value year-end	**1,953,696,475**	**5,358,336**	**4,128,542**	**5,869,856**	**1,969,053,209**	***1,852,815,568***
Depreciation, amortization and impairment, opening balance	-941,280,631	-1,070,330	-118,628	-3,901,520	-946,371,109	*-887,140,946*
Depreciation, amortization and impairment during the year	-58,280,351	-152,904	-98,364	-628,316	-59,159,936	*-59,230,163*
Depreciation, amortization and impairment, closing balance	-999,560,982	-1,223,234	-216,992	-4,529,837	-1,005,531,045	*-946,371,109*
Carrying amount year-end	**954,135,494**	**4,135,101**	**3,911,550**	**1,340,019**	**963,522,164**	***906,444,459***
Carrying amount year-end 2015	*897,628,335*	*4,288,005*	*2,929,800*	*1,598,319*	*906,444,459*	

Work-in-progress	Production Plants	Distribution	Buildings	Equipment	Total 2016	*2015*
Work-in-progress opening balance	131,238,230	1,555	128,059	183,501	131,551,345	*53,690,179*
Investment booked to work-in-progress	141,438,788	2,933	1,707,506	0	143,149,227	*119,030,068*
Completed work transferred to depreciation	-114,346,784	0	-963,114	0	-115,309,898	*-40,985,400*
Closing Balance	**158,330,235**	**4,488**	**872,451**	**183,501**	**159,390,674**	***131,734,846***
Balance at year-end 2015	*131,605,232*	*1,555*	*128,059*	*0*	*131,734,846*	
Fixed assets at year-end	**1,112,465,729**	**4,139,589**	**4,784,001**	**1,523,520**	**1,122,912,838**	***1,038,179,305***
Fixed assets at year-end 2015	*1,029,233,567*	*4,289,560*	*3,057,859*	*1,598,319*	*1,038,179,305*	

8. EQUITY

Total in DKK	Share capital	Profit carried forward
Equity statement 01.01.15 - 31.12.15		
Balance 01.01.15	0	587,497,257
Profit carried forward	0	25,222,341
Adjustments to prior years	0	-1,853,446
Balance 31.12.15	0	610,866,153
Equity statement 01.01.16 - 31.12-16		
Balane 01.01.16	29,000,000	610,866,153
Profit carried forward	0	81,466,384
Balance 31.12.16	29,000,000	692,332,537

9. DEBT

	Repayment the first year ***DKK***	*Outstanding debt after 5 years* ***DKK***	*Total debt 31 Dec.16* ***DKK***	*Total debt 31 Dec..15 t.* ***DKK***
Debt to financial institutions	0	358,941,000	358,941,000	*349,676,494*
Debt to SEV	8,155,813	69,549,136	95,019,187	*0*
Tilsamans	**8,155,813**	**428,490,136**	**453,960,187**	*349,676,494*

During the year, the Company took out loans totaling DKK 212.1 million. Long-term debt was refinanced in December 2016 via the USPP market through which bonds for a total of DKK 1,042,116 were sold. There is no repayment for the first year and the current loan agreement is due and payable on average in 9.3 years.

10. PRODUCTION RESULTS PER PLANT (DKK)

	Revenue	Oil	Supplies	Wages	Depreciation	Interest	Taxes	Total
Sund power plant	126,910,635	-38,253,844	-9,863,143	-16,667,723	-14,237,209	-46,291		47,842,426
Vágur power plant	36,295,127	-7,662,836	-3,364,190	-5,581,609	-4,951,660	-75,669		14,659,163
Fossá power plant	14,122,793		-1,970,397	-4,867,965	-4,490,431			2,794,001
Heyga power plant	4,840,818	-12,147	-868,006	-385,274	-2,109,441			1,465,950
Mýra power plant	4,347,061		-560,693	-403,869	-1,196,337			2,186,162
Eiði power plant	40,037,658		-4,001,054	-1,789,759	-19,333,066	-8,264,178		6,649,602
Botni power plant	1,467,221		-310,982	-86,729	-455,152			614,358
Strond power plant	8,504,338	-2,395,335	-1,184,312	-2,247,875	-903,381			1,773,435
Wind power	20,822,155		-5,403,931	-113,063	-10,312,573	-3,730,166	-139,116	1,123,306
Small power plants	8,178,557	-2,366,447	-683,348	-1,600,091	-1,170,688			2,357,982
Production result	**265,526,363**	**-50,690,609**	**-28,210,055**	**-33,743,959**	**-59,159,936**	**-12,116,304**	**-139,116**	**81,466,384**

11. POWER PLANT OVERVIEW AS AT 31 DECEMBER 2016

Location	Unit	MW	Unit type	Engine manufacturer	Powered by	Year	Age	Hours	2016
Botnur	T1	1,00	Pelton hydro turbine	Voith	Hydro	1965	51	197,200	2,933
Botnur	T2	2,00	Francis hydro turbine	Voith	Hydro	1966	50	154,747	3,233
Eiði power plant	T1	7,00	Francis hydro turbine	Voith	Hydro	1987	29	105,676	3,433
Eiði power plant	T2	7,00	Francis hydro turbine	Voith	Hydro	1987	29	103,611	5,003
Eiði power plant	T3	7,70	Francis hydro turbine	Voith	Hydro	2012	4	26,415	5,967
Húsahagi	T1	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	17,989	7,689
Húsahagi	T2	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	17,442	7,375
Húsahagi	T3	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	17,700	7,421
Húsahagi	T4	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	17,742	7,290
Húsahagi	T5	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	17,597	7,358
Húsahagi	T6	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	17,278	7,424
Húsahagi	T7	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	17,327	7,097
Húsahagi	T8	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	17,154	6,899
Húsahagi	T9	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	17,991	7,384
Húsahagi	T10	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	18,106	7,385
Húsahagi	T11	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	18,687	7,590
Húsahagi	T12	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	18,078	7,411
Húsahagi	T13	0,90	Windmill (pitch reg.)	ENERCON	Wind	2014	2	18,688	7,555
Neshagi	V1	0,90	Windmill (pitch reg.)	ENERCON	Wind	2012	4	31,338	7,613
Neshagi	V2	0,90	Windmill (pitch reg.)	ENERCON	Wind	2012	4	31,911	7,607
Neshagi	V3	0,90	Windmill (pitch reg.)	ENERCON	Wind	2012	4	31,833	7,287
Neshagi	V4	0,90	Windmill (pitch reg.)	ENERCON	Wind	2012	4	31,760	7,614
Neshagi	V5	0,90	Windmill (pitch reg.)	ENERCON	Wind	2012	4	31,822	7,732
Neshagi	V6	0,15	Windmill (fixed pitch)	Nordtank	Wind	1993	23	125,900	5,000
Skopun	M1 – M3	1,83	4-T	Mercedes og Deutz	Gas oil	1984		-	
Small power plant		1,70	4-T	Deutz, Mercedes, Perkins	Gas oil			-	
Strond	M3	3,60	4-T 12 M 453 K	Krupp Mak	Gas oil	1982	34	47,801	852
Strond	T1	1,40	Francis hydro turbine	Sulzer Hydro	Hydro	1998	18	59,446	3,798
Sund power plant	M1	7,85	4-T 9M43C	Caterpillar/MaK	Heavy fuel oil	2001	15	61,502	4,284
Sund power plant	M2	7,85	4-T 9M43C	Caterpillar/MaK	Heavy fuel oil	2004	12	56,360	4,246
Sund power plant	M3A	2,40		MTU	Gas oil	2015	2	747	511
Sund power plant	M3B	2,40		MTU	Gas oil	2015	2	745	489
Sund power plant	M4	12,40	2-T 12 L55 GSCA	B&W Götaverken	Heavy fuel oil	1983	33	178,257	6,077
Sund power plant	M5	12,40	2-T 12 L55 GSCA	B&W Götaverken	Heavy fuel oil	1988	28	154,436	3,733
Vágur power plant	M1	2,70	4-T 9 M 453	Krupp Mak	Heavy fuel oil	1983	33	120,697	1,246
Vágur power plant	M2	2,70	4-T 9 M 453	Krupp Mak	Heavy fuel oil	1983	33	119,763	1,318
Vágur power plant	M3	4,20	4-T 9M32C	Caterpillar/MaK	Heavy fuel oil	2004	12	81,663	5,736
Vágur power plant	M4	4,00	4-T 9L32	Wartsila	Heavy fuel oil	2016	1	3,896	3,896
Vágur aggregate	M1-M3	3,00	4- T C1250 D2R (3 stk. containeranlæg)	Cummins Diesel	Gas oil	2014	2	1,835	170
Vestmanna	Fossá 1	2,10	Pelton hydro turbine	Maier	Hydro	1953	63	221,175	3,323
Vestmanna	Fossá 2	4,20	Francis hydro turbine	Voith	Hydro	1956	60	346,427	6,457
Vestmanna	Heygav. 1	4,90	Francis hydro turbine	Voith	Hydro	1963	53	228,460	5,195
Vestmanna	Mýruv. 1	2,40	Francis hydro turbine	Voith	Hydro	1961	55	371,409	5,731

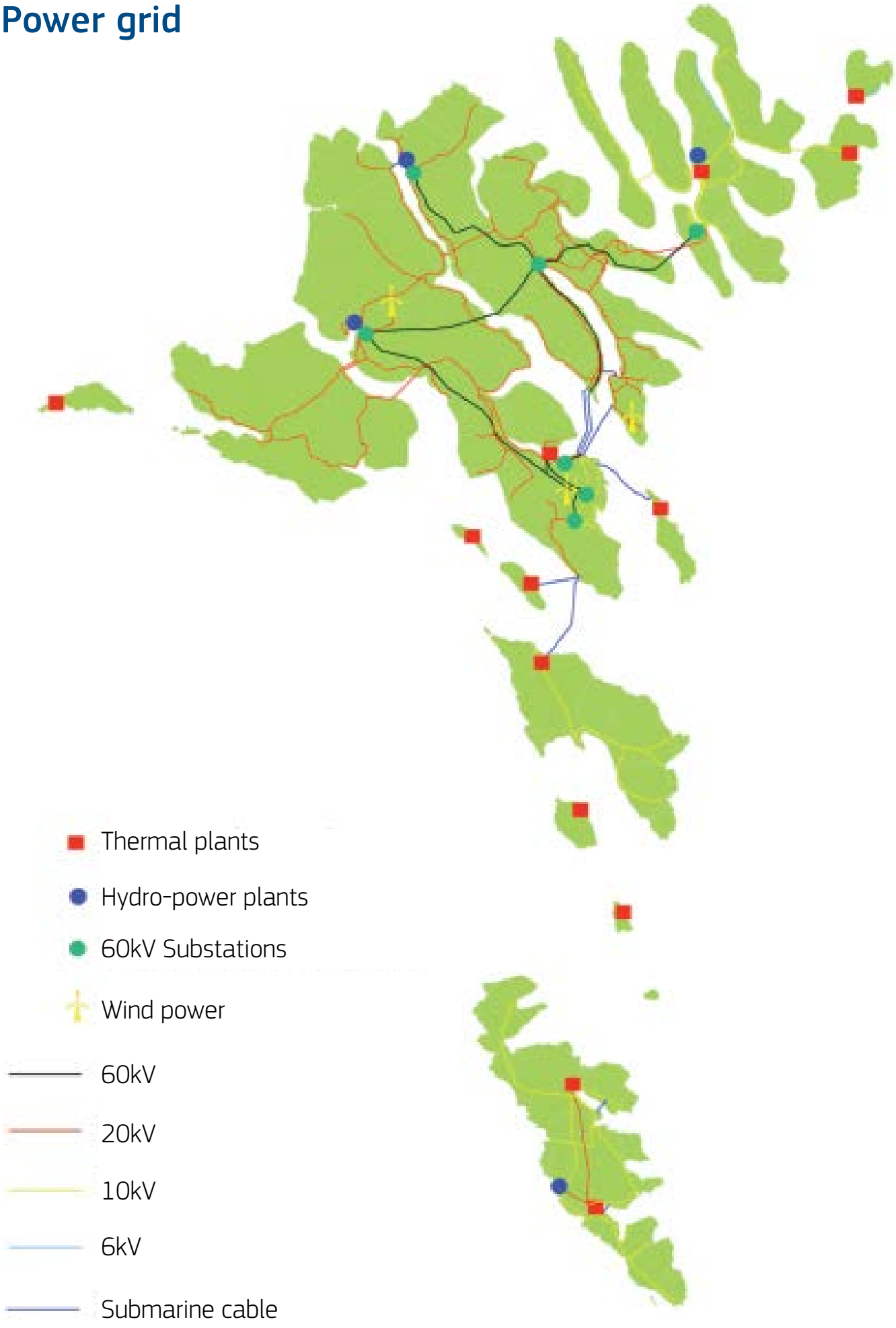
12. MORTGAGES AND OTHER OBLIGATIONS

Please refer to the Elfelagið SEV Consolidaled Group Annual Accounts for information relative to mortages, legal proceedings and other liabilities.

	2016	*2015*
13. ADJUSTMENTS	**DKK**	***DKK***
Amortization	59,159,936	*59,230,*
Interest expense and similar expenses	12,116,304	*11,221*
Tilsamans	**71,276,240**	***70,451***

14. Asset value of production plant	**2016**	***2015***
Fossáverkið	37,223,795	*41,224*
Heygaverkið	25,231,738	*27,341*
Mýruverkið	18,220,375	*14,568*
Eiðisverkið	511,255,354	*530,310*
Verkið í Botni	8,160,168	*8,501*
Vágsverkið	133,309,426	*32,355*
Verkið á Tvøroyri	5,218,168	*5,570*
Sundsverkið	79,475,663	*92,361*
Skopun	0	*0*
Verkið á Strond	8,018,591	*9,574*
Vindorkutøkni	126,802,285	*137,298*
Smáverk	157,577	*0*
Mobilaggregat	1,132,608	*0*
Fugloy	1,462,330	*5*
Svínoy	116,363	*173*
Mykines	1,184,594	*1,340*
Skúvoy	868,736	*1,065*
Dímun	432,824	*231*
Power plants according to Production Accounts	**958,270,595**	***901,916***
Grid equipment, etc. connected with power plants	-4,135,101	*-4,288*
Power plants according to Group Accounts	**954,135,494**	***897,628***

Power grid


Thermal plants
Hydro-power plants
60kV Substations
Wind power
60kV
20kV
10kV
6kV
Submarine cable

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