Annual Report and Annual Accounts 2018



The path towards green progress



# Annual Report and Annual Accounts 2018

Annual General Meeting 24 April 2019 Photos: Ólavur Frederiksen, Jens Kristian Vang, Finnur Justinussen, Alan Brockie, Høgni í Jákupsstovu, Minesto, Høgni Heinesen, Landsbyggifelagið, Kári Durhuus, Benjamin Rasmussen, Otto West, Pauli Djurholm, Eyðna J.M. Joensen, and SEV.

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# Annual Report of the Board of Directors

Some four years have passed since SEV charted its "green" course, which the Faroese Government later adopted and incorporated into its "green" policy for the entire country: "100% onshore green energy in the Faroe Islands by 2030". It would appear that most Faroese support this green goal and it has led to considerable debate, both in the political and commercial realms, as how best to achieve this ambitious and progressive goal.

There are many paths toward this goal, but SEV is convinced that, in order to provide the greatest benefit to the entire Faroese community, what is of paramount importance is to ensure that the production of electricity is secure, inexpensive and green. This has to be the fundamental principle guiding those who desire to promote the green course and who thus wish to join together to build up this new sector of society that is based on sustainable energy resources.

SEV is well prepared to continue along the green course and we have laid out the milestones that will guide Faroese society as a whole toward this goal. The green course must be studied and refined so that we can discover several paths toward the same goal. The board, management and staff are striving continuously to achieve the many milestones along this eleven-year effort, in which not only financial constraints, but also an understanding of the importance of SEV's core services, are key components in reaching the green goal.

The business activity of SEV since the last Annual General Meeting is discussed in some detail in this report, wherein the Board highlights the issues it believes have the most importance for the shareholders of SEV. This Report is submitted in accordance with §3, paragraph 12b and §4, paragraph 11a of the Articles of Association of the Company.

#### The Core of the Electrical System

Following the green course has resulted in major expansion and development of the electrical system. The initial green vision advanced in 2014 resulted in a concrete long-term project that was detailed in the energy study *Energy Storage in the Faroe Islands, 2018.* The study was based on known technical possibilities and laid out how best to economically expand the Faroese power system. The study clearly showed that expansion of green energy resources was economically



Board and Management from left: Jón Nielsen (DOO) Jónsvein Hovgaard representing Suðuroy, Heri Mortensen (DOP), Marin Katrina Frýdal representing Tórshavn, Kristian Eli Zachariasen representing Northern Islands, Hans Jákup Johannesen, Vice Chairman, representing Eysturoy, Sune Jacobsen representing Vágoy, Bogi Bendtsen (DOA), Hákun Djurhuus (CEO), John Zachariassen, Chairman, representing Northern Streymoy, and Vinjard Tungá representing Sandoy.

the best choice. According to the project plan, wind and solar energy should be extended over the coming years. The plan also calls for the construction of pumped storage systems to augment the hydropower systems.

As our green energy resources are being expanded, it is also important to keep focus on the core business of SEV, namely the obligation to supply electricity and to ensure this power supply is provided economically and for the benefit of all its consumers. Therefore, we continually operate, strengthen and expand the grid. We provide a constant supply of high-quality electricity. This core service is today provided by oil-fired thermal power plants and hydropower facilities, but by 2030 the thermal power plants will only serve as back-up sources of power, while the core of the entire electrical system will be the hydropower power plants and their associated pumped storage systems and the grid itself. In order to provide a secure supply of electricity in the Faroe Islands, it is of paramount importance that the various core services remain under the domain of a singular, strong entity, irrespective of any changes to the electrical system that might be promoted by the government authorities in the future.

SEV shall continue to be the core of the Faroese electrical system, operating under the banner: "Samstary, Eldhugin, og Virðing" [Co-operation, Enthusiasm and Respect]. With these values as the foundation of their work, our competent employees will continue to meet the challenges the lie ahead, as they constantly set new and challenging goals. Regardless of whether the focus is the expansion of green energy resources or a secure and reliable electricity system, which shall also be inexpensive to access, dedicated, energetic and reliable staff are needed to operate the Faroese power system. Regardless of how much copper or how many automated, technical solutions we use to augment the electrical system, the system itself will never be better than the staff, with their high-quality competence and skills, who manage and operate the electricity system. The Board is well-pleased that SEV has created an excellent working environment that encourages the continuous search for the latest knowledge, coupled with an emphasis on employee experience that has strengthened over the decades.

# Annual Report of the Board of Directors

# **Initial Preparatory Steps**

Over the past several years, numerous preparatory studies of the electrical energy system were conducted. All of the studies that were carried out since we launched the green course in 2014 have indicated that the way is clear for green progress. The first phases toward the green milestones are behind us. Now, to reach the goal requires the requisite positive ground rules and the joint collaboration of everyone involved.

The energy policy statement *A Green Faroe Islands in 2030* was submitted to the Minister of Energy Sirið Stenberg in June 2018. SEV, who had a representative in the working group, agreed with the proposed policy. The policy statement outlined how it would be possible to reach the goal formulated by the Faroese Government.

The previously mentioned energy study that the Environment Agency submitted to the Minister of Energy in August 2018 is a good foundation upon which to base the next steps necessary to reach the goal of 100% sustainable energy in the country by 2030. The study was done in co-operation with ORKA of the Environment Agency, SEV and Dansk Energi [Danish Energy]; the advisory companies EA Energy Analyses and Norconsult carried out simulations and analyses of a number of scenarios.

There has been a considerable political debate as to whether the power production and grid divisions of SEV should be split off into separate entities. This running debate caused SEV to arrange for an investigation of this issue. Experts from Danish Energy carried out the study on behalf of SEV. The report was made available for the public on 4 February 2019. Briefly, the conclusion of the study is that there is space both for SEV and other producers of electricity to play a significant role in future power production in the Faroe Islands. The study further suggested that new power projects within wind, solar and tidal energy should be offered for tender where the Energy Authority would select the lowest tender consistent with the rules of the request for tenders. In connection with such tenders, it was recommended that the Energy Authority shall exclude SEV from the tender, if the Authority believes that the competition for the tender among the various other parties is sufficient. When it comes to core services of electricity operating within the entire electrical system that continually ensure a secure and reliable supply of electricity, however, the experts believed that is would be best that SEV oversee and manage these core services.

#### **Political Trends**

In a proposal for the passage of Matter No. 075/2018, the Faroese Parliament asked the Government "to submit to the Parliament a report exploring how SEV's Grid Division could be separated from the other operations of SEV such that full transparency of the costs of the grid could be obtained". In this connection, the Parliament requested the Government to "coordinate the drafting of the report to reflect the work already underway within the government to speed up the development of the production of green energy – and in this connection safeguard more competition in the production and sale of electricity as much as possible to benefit the consumer and to advance the plans that the Faroe Islands by 2030 would operate on-shore with only sustainable energy".

SEV was summoned to a meeting with the Commerce Committee of the Parliament, which was dealing with the motions referenced above. At the meeting, SEV submitted to the Committee the report from Dansk Energi, as well as several comments on the matter at hand.

The proposal was passed on 6 March 2019 with 27 "Yes" votes and one vote against. The Board was pleased with the passage of the proposal and the study the Parliament requested. Our hope is that such a study will enhance the discussion and offer well-articulated reasons for a possible future separation of the Grid and Production Divisions.

Thus, it is evident that there is ongoing political interest for change within the electrical system of the country. Some politicians are in favour of splitting up the power company and creating a free-market situation with producers and commercial companies having direct contact with customers bypassing SEV. The experts at Dansk Energi, who carried out the above-mentioned study, suggest that such a system would increase the price of electricity by 9-15 øre/kWh.

The Board of Directors and management have had meetings and discussions with the political parties and the owners of SEV regarding these issues to obtain a better understanding of the points of view of the involved parties. SEV is in favour of reasonable changes and had asked for the afore-mentioned study on the possibility of separating the Grid and Production Divisions. It is advisable to proceed with the separation and it is also important that all the municipalities that own SEV stipulate to their rights and collectively work to ensure that the proper decisions are made that will advance Faroese society as a whole, e.g. that competition is assured in all wind energy requests for tenders.



In the past three requests for tenders, Neshagi, Húsahagi, and above Porkeri, SEV submitted the lowest price for the production of electricity. Therefore, the Board places much stress on SEV continuing to participate in the upcoming requests for tenders to ensure electricity consumers the lowest possible price.

Not only the Parliament, but also the media and experts have an interest in the energy sector. When the newspaper, *Sosialurin*, reported on the energy sector in 25 February 2019 issue, the famous Faroese oceanographer, Bogi Hansen, was quoted: "Bogi Hansen is convinced that the government ought to undertake concrete initiatives to speed along the green course. 'Initially, the government should pitch in and help SEV to expand the electricity grid rather than putting up obstacles, which the politicians are attempting to do now', he observes. He believes as well that it is imperative to make it easier and cheaper for the consumer to choose green solutions as environmentally-friendly cars, geothermal heat pumps and district heating".

Regardless of which political path is taken, and regardless of which projects are envisioned after possible political changes are instituted in the electrical energy sector, it is extremely important to hold fast to the idea that the core services remain in one strong entity and that the over-arching goal should be to supply secure, inexpensive and green electrical energy to private consumers, industry and the entire Faroese community.

The Board trusts that the studies of the energy sector that have been done and shall be carried out in future, combined with elevating and constructive political dialogue, will transport the Faroese consumer, society in general, industry and SEV further along the green course so that we can achieve the goal by 2030.

#### The Consumer

To support the vision of becoming 100% green onshore by 2030, it is imperative that over time consumers switch to electrical systems for heating and transportation. The changes instituted by the government allowing for the VAT-free purchase of heat pumps and electric vehicles, etc., together with lower electricity prices for specific customer groups, are making a difference. The Board has stipulated new terms and prices for electricity for heat pumps and electric vehicles – DKK 1.39 per kWh, including VAT. This is DKK 0.50/kWh lower than the highest electricity price. The Electricity Production Authority has approved these prices, which enter into effect on 1 April 2019.

Politicians should, however, also be aware that the above support initiatives have an effect on the competitive ability of P/F Fjarhitafelagið [the hot water district heating company owned partly by SEV], which already is a green heating solution.

In order to ensure closer contact with our consumers, SEV will undertake to be more visible on the various social medias outlets that our customers access daily. Our desire is to enhance the awareness of SEV in the daily lives of our customers. Our hope is that our customers will have SEV "at their fingertips" so-to-speak, such that our customers at any time can reach out and instantly get the assistance and information they desire.

SEV shall always maintain a focus on the needs of the customer and thus be aware of the ongoing needs and interests of the customer in an era of constant change.

#### The Pumped Storage System at Vestmanna

Based on the study Energy Storage on the Faroe Islands, 2018, SEV has again taken up the initiative to install a pumped storage system in the Vestmanna area (reference is made to a previous application to the Energy Authority in November 2013). In a letter dated 31 August 2018, permission was sought to install a pumped storage system as part of a new hydropower plant inside the mountain between the reservoirs at Heyga Dam and Mýra Dam. The plan consists of several steps, the first expansion would come online in 2024 and would consist of a new Heyga hydropower plant with 25 MW turbines, a new Mýra hydro power plant with 40 MW turbines and 70 MW pumps, as well as new tunnels. Later, it would be possible to increase the current water storage capacity by constructing new reservoirs and thereby increase the output. As each thermal energy plant produces less and less power, the core services of SEV will shift from the Sund thermal power plant to the hydropower plants at Vestmanna.

The plan outlined above is impressive and ground-breaking in its vision and will in time become the key lynchpin of a new green electricity system. The project will not be completed in a day, however. The application forecasts that the project planning and the permitting process administered by the various government agencies should be completed by the middle of 2020. This project will be crucial relative to how much wind power can eventually flow into the electricity system. It is critical that the projected drilling be completed swiftly, so that the pumped storage system does become a bottle-neck along the path toward a green future.

# Annual Report of the Board of Directors

## Wind Power on Suðuroy and the Total Solution

The Board decided to explain in some detail the best total solution for the entire electricity system. This total solution vision is based on the following assumptions:

- The Sandoy tunnel will open in 2024 with the ability to carry a 60-kV cable to Suðuroy via Sandoy.
- The pumped storage system above Vestmanna will come online as planned in 2024.
- Bakkafrost has determined to build a brood stock facility in Skálavík, which will require a 60-kV electrical supply on Sandoy. SEV was informed about this project late in 2018.
- The pumped storage system on Suðuroy will be much more costly than originally estimated and will only be able to come online in 2023.

Work is underway to detail the pumped storage system on Suðuroy, the undersea cable to Suðuroy or both options in one solution. The detailed report will be presented at the Annual General Meeting for its review. Just before the closing of the tender, SEV was compelled to share the detailed report referenced above to the Energy Authority with the consequence that it was necessary to reconsider the windfarm tender for Suðuroy, which had envisioned a 12 MW tender.

Due to the changed circumstances, SEV then initially suggested a wind farm of 6 MW. This disturbed one of the contenders, Magn, who stated that the company withdrew from the Suðuroy wind power tender process because the project was reduced by half after SEV had revealed the new information about the energy needs on Suðuroy.

SEV regretted that Magn decided not to participate and therefore SEV immediately suggested the possibility for a tender of a total of 12 MW in a two-step process, enabling Magn to come back into the tender process, meaning a request for tender where one or many contenders had the possibility of submitting a winning tender, but in two construction stages. The original project planning had always projected that the Suðuroy project would be carried out in two phases, wherein the last half of the intended 12 MW was directly linked to the pumped storage system being operational. The Energy Authority decided, however, to adhere to a 6 MW request for tenders.

The request for tender process for Suðuroy was long and complicated. Nevertheless, SEV is pleased that the Energy Authority stipulated the final conditions and carried on with the revised tender. At the end of the day, SEV submitted the lowest bid of the two tenders offered and on 29 March SEV was granted permission by the Environment Agency to install wind turbines consistent with the terms of the tender.

#### Other Green Initiatives

ORKA has asked for tenders for an 18 MW windfarm at Eiði. The tender deadline is 1 August 2019 and SEV is preparing a bid.

Further, a request for tenders is underway for an 18 MW windfarm in the central region of the country situated on Hoyvíkshagi, which is considered an "open door" request. The guidelines for the former "open door" tender for Húsahagi in 2012, at the time, enabled all participants, pursuant to the Electricity Production Act, to take over the agreement that SEV had entered into with the farmer of Húsahagi. These guidelines have now been amended by the Energy Authority whereby the "relevant applicant shall document access to the respective area intended for the windfarm". This means that only applicants who previously had an agreement with the farmer on Hoyvíkshagi can submit a tender. In other words, competition has been excluded from Hoyvíkshagi.

ORKA and SEV have pinpointed five areas where the necessary preparations need to be accomplished before a windfarm can be installed, namely Eiðisvatn, á Glyvrafjalli, on Sandoy, on Kirkjubøreyni and Junkarahagi in Kvívík. Windmeters are in place at Eiðisvatn and new weather masts will soon be placed at the other locations.

New technical protocols for connecting into the electricity system have been established, both for production units and customers. Now it is possible for small producers of solar, wind and hydropower below 11 kW to transmit power into the grid under attractive technical conditions and at stipulated prices. Production units larger than 11 kW operate under the same connection terms as SEV uses for its own power plants and in each case a price agreement between SEV and the producer shall be agreed upon and approved by ORKA.

P/f Føroysk Náttúruorka, which is a new subsidiary of Bakkafrost, has entered into such a connection agreement with SEV. The company intends to build a biogas plant at Skarðshjalla, where one of the motors at the plant will produce electricity, which SEV will purchase.



# Research and Knowledge

SEV has now partnered with the Faroese Research Council in a program that provides stipends to industry-focused PhD candidates. SEV entered into a three-year agreement with an energy engineering PhD candidate in co-operation with the University of the Faroe Islands and Ålborg University. The doctoral study is entitled Guaranteed Supply for a Stable Grid and Reliable Electrical Production in a 100% sustainable *electrical system in the Faroe Islands.* The Faroe Islands stands at the cutting-edge of future electrical power production and we are therefore, in the main, forced to carry out ourselves the research needed to sustain an isolated island community like the Faroe Islands. In many instances, we do not have the option of using research from abroad because it just does not exist. What this means is that other countries, especially, island communities, are interested in the research being conducted here in the Faroe Islands.

SEV and the Swedish company, Minesto, which is a leader in tidal energy technology, have entered into an agreement to install two 100 kW tidal energy units, which will be continually updated. The trials will begin this year and the plan is that the trials will continue over the next few years in Vestmannasund. This is an exciting project with rather unique new technology that we have not seen before. A kite-like device with turbine blades attached is fastened to the ocean floor and then circles about in a figure-eight pattern generating electricity as the turbines spin in the water. On SEV's website more information is available about how the kite works.

In the agreement, SEV has committed to purchase the electricity generated from the Minesto tidal energy turbines during an experimental period running for some years. In addition, SEV has committed to provide necessary infrastructure, such as access to the grid and the necessary permitting. Preparations are underway for the project in collaboration with several Faroese subcontractors.

In June 2018, the Board and members of the management team attended the annual conference of Eurelectric, which was held this time in Ljublana, Slovenia. One of the main topics discussed at the conference was how power production will be organized to accommodate green electricity (track 1) and how the consumer can be encouraged to support this transition to green electric solutions (track 2). We clearly understood that the Faroe Islands is on the right course and that we are very much at the forefront of this progressive thinking compared to other countries in Europe. During the trip, we also visited a company in Switzerland working with hydropower pumps and turbine systems.

## Other Expansion Initiatives

The construction work on the new Station 3 at the Sund thermal power plant incorporating a 37 MW engine power is progressing well. This construction will result in the Sund thermal power plant having an increase in motor capacity equating to more than the current peak demand for electricity. It is anticipated that the new facility will come online at the beginning of 2020 at a total cost projected to be somewhat over DKK 700 million, which includes a new coupling station for around DKK 60 million.

The new day tank facility at the Sund thermal power plant went operational in November 2018. Altogether, the new tank yard and the day tank building is projected to cost DKK 143.4 million. This is some DKK 6 million higher than projected. SEV believes that it received good value for money.

The increasing demand for electricity, especially from the fish farming and pelagic industries, has also demanded considerable expansion of the electricity grid. The new coupling stations at Runavík, near Eið close to Kambsdalur and north of Strond in Klaksvík are tangible evidence of the increased demand, combined with extensive cable laying. The major expansion within the fish farming industry stems from, among others, the fact that smolt are being raised longer on land before they are placed in the ocean cages. This expansion is expected to continue for several more years. In addition, a new coupling station will be built in Vestmanna to replace the out-dated facility.

Overall, with regard to the grid, which is a part of the core electricity infrastructure, ever since SEV, following the destructive Christmas hurricane of 1988, began to place the entire grid underground, the number of disruptions year to year in the grid have been reduced considerably. In 1989, there were 197 disruptions in the high voltage grid. Now, 30 years later in 2018 the number of disruptions equalled 12. Thus, the number of breaks declined by 94% after 30 years, even though the decline was not constant over the years. One must remember that all disruptions are not the same as a major comprehensive power outage, but each disruption in the high voltage grid does impact one or several customers.

The Board is pleased with the good progress being made in grid infrastructure. We offer thanks to our competent staff and a common integrated electrical system, which has afforded us the opportunity to enjoy a reliable and secure electricity grid in the Faroe Islands, which will also serve as the foundation for a secure, green and inexpensive supply of electric energy in the future, when double the current demand for electricity will flow through the grid.

# Annual Report of the Board of Directors

## Other Board issues

A question from the Sand municipality regarding deputy or substitute members of the Board, etc. has been answered and the requisite adjustments were made to the operational bylaws of the Board. A report on the issue was submitted to the owners of the Company. At present, a memo is being prepared that discusses the circumstances surrounding the election of SEV's Board of Directors.

During the Extraordinary General Meeting held in the autumn of 2016, the question of board compensation was discussed. The Board considered the issue and intended that the issue would be addressed at the Extraordinary General Meeting in November 2018. The government administration that is the approving body in such matters is presently working with this same issue and we therefore deemed it appropriate to await their conclusions on this matter and thus have their thinking in mind when the Board again reviewed the issue. At the Extraordinary General Meeting in November 2018, it was agreed that the current remuneration structure for the Board would also be in effect for 2019.

Onshore electric power to vessels has been discussed at several Annual General Meetings of the Company and therefore the Board has addressed this matter in some detail. The situation is that considerable investment will need to be made in the quays and onboard the individual vessels to accommodate the supply of power. To the extent that the vessels and the harbour authorities undertake this investment and request to be supplied with electricity, SEV will provide power in the usual manner. In the event there are discussions regarding how to arrange this in other ways, SEV is most open to participate in these discussions.

#### The Financial Result 2018

The result for 2018 is DKK 38.1 million after taxes. This is not a sufficient result, given the business activity of the Company. It is critical to achieve a better result, especially given the major investments requiring concomitant self-financing that stand before us.

Oil continues to be a major expense of SEV; total consumption was DKK 105.8 million in 2018. This reflects an increase of some DKK 21.1 million compared to 2017 and a total of DKK 54.9 million compared to 2016. The expenditure for oil is the main factor for the pressure on pricing of electricity that the Faroese have felt and continue to feel.

# **Budget for 2019**

The budget for this year reflects an increase in the price of electricity of 10 øre/kWh excluding VAT effective on 1 January 2019. This is expected to generate a budgeted profit of DKK 81.3 million before taxes, or DKK 66.6 million after taxes. The financial results in the coming years should be on par with this result at the very least, given the major expansion required to ensure electricity supply security and reliability and to forge ahead along the course to a green future, which will also call for considerable self-financing.

Please refer to the reports of the SEV Board entitled *Financial Trends 2018* and the *Operations, Financial and Investment Budget 2019* available on SEV's website, www.sev.fo.

# **Engagement and Innovation**

There is considerable interest to participating in the green transition, especially in the central region of the country. The Board and management are proud to once again declare that concrete steps have been taken again on the path to a green future. We offer these, among others, for your consideration:

After the wind power request for tenders, SEV has been granted permission to erect the wind turbines above Porkeri.

The report, *Energy Storage on the Faroe Islands, 2018,* which SEV produced together with ORKA and Dansk Energi, was submitted to the Minister of Energy in August.

The report produced by Dansk Energi exploring the potential of separating the Grid and Production Divisions of SEV.

The various studies yielded considerable knowledge and understanding and provide a solid foundation for long-term projects. The related projects call for an increase in wind power, based on current requests for tenders, from 18 MW up to 60 MW over the next two years.

Development and progressive thinking shall continue to be the hallmark of SEV, incorporating innovative and agile thinking as the norm into the daily operations of the Company.



We are pleased with our very good relations with the Faroese authorities and in general overall good working relations throughout the country, even though an occasional stumbling block may sometimes occur along the road. SEV is prepared to co-operate and assist all those interested in working on the green course in a cooperative way, whether it be technically, financially or environmentally. In order to reach the goal, it is imperative as well that the consumer must be aware and supportive of green power solutions in order to preserve our Earth for the coming generations.

Even if accomplishing our vision might seem distant and far away, in 2015 SEV was awarded the Nordic Council's Prize for Nature and the Environment for our Vision 2030. Our vision is now becoming a reality, as the entire Faroese community has adopted the green course as their own.

The main task of SEV is to provide secure, inexpensive and green electric power and on this basis our entire corporate enterprise aspires to serve the entire Faroese community – every household, every office, every business. If we are able to continue to hold firm with these goals, we shall need the continued support of the municipalities and the mayors. On behalf of the Board, I encourage all municipality politicians to safeguard our vision and help us to build a country based upon renewable power resources and to help us obtain the most from our energy resources – our most valuable resources, which can be beneficially tapped to produce electric power for all.

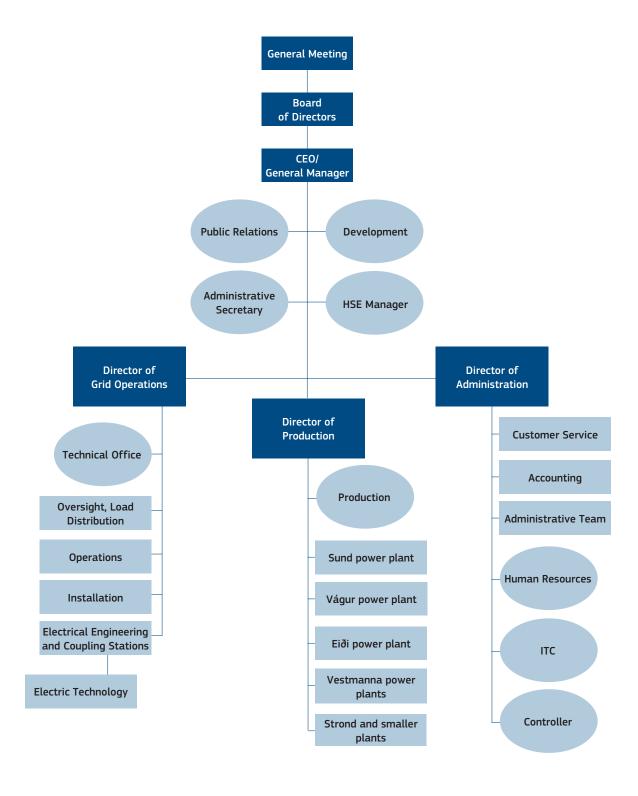
We stand on the threshold of a new combination of power resources for Faroese society. To a large degree, it is our choices that will determine how secure, inexpensive and green our electric power will be for the advanced Faroese community of the future.



Johan Zachariassen, Chairman of the Board

March 2019

# **Corporate Organization**





# The Path Towards Green Progress

The latest research studies on electric power well support the current milestones laid out on the path toward green energy self-sufficiency. What is required now is for everyone to collectively work together to achieve the goal of 100% green onshore electric power by 2030

In 2014, SEV laid out the strategy and milestones needed to reach the 2030 green energy goal. Over the years, more and more people have embraced the vision. The path previously envisioned by SEV is well supported by two, brand-new studies on, respectively, energy storage and the potential of separating grid operations from electricity production. Now, all that is needed is to forge ahead at full speed on the various green projects that are envisioned. Through good co-operation, we shall reach the goal.

These are the words of John Zachariassen, Chairperson of the SEV Board of Directors, who is convinced that we will reach the 2030 green energy goal, if we all collectively pull together along a clear, unified path.

"The overall project plans are in place and clear. Recent studies indicate that we should build-out proportionally both solar and wind power over the coming years. In addition, it is envisioned that SEV should remain at the centre of the electricity system. The production of electric energy from wind, solar, tidal currents and bio-gas could be accomplished through competitive tenders," noted John Zachariassen.

The latest tender offering in Porkeri confirms that SEV submitted an especially competitive bid and therefore the SEV Board wishes to emphasize the importance of SEV continuing to submit bids in the upcoming competitions to produce electricity from wind energy.

"It has been exciting to follow the ground-breaking projects set into motion in 2018 that envision electricity being produced from bio-gas and tidal current energy," commented John Zachariassen.

In addition, he also noted that SEV had obtained low-cost financing, enabling SEV to take the next steps along the path toward a green future for the benefit of Faroese society in general, most especially Faroese industry. Moreover, a good foundation has been laid over the last several years for continued green development.

"Four years have passed since the last wind turbine was erected at Húsahagi. The Húsahagi windfarm is linked to a battery system that helps supply a steady flow of electricity into the national grid. With such a battery system, we are able to exploit a greater share of our unstable wind energy," stated Johan Zachariassen.

He noted that these past four years have afforded SEV with invaluable experience, and the interesting results of the recent studies have also provided SEV with vital knowledge upon which to build. That said, it remains a prerequisite that the core suppliers of electricity remain securely in a combined entity, where hydropower and thermal energy continue to serve as the backbone of the electricity system in the years ahead. However, as more and more sources of green energy are brought into the electricity system, hydropower and the attendant pumped storage systems will play an everexpanding role in the total electricity system and the thermal power plants will eventually serve only as a source of reserve power because the Faroe Islands does not have an electricity power cable linkage to any neighbouring country.

"The development of green energy is good for the environment and will impact other industry sectors as well, such as the local fishing industry, fish farming, and tourism, which will enable them to market their goods and services as coming from a clean and green environment. Moreover, electricity from green energy is less expensive to produce because the operational running costs are much less than comparable thermal energy power plants. In the end, everyone in Faroese society wins," observes John Zacharissen.

In summoning up, the Chairperson of the SEV Board of Directors concludes that the path to a green future over the course of the next 15 or so years is ready and clear, but following the path demands a broad political consensus as to how to organize the electricity system so that the system is stable and secure, inexpensive and green, thus benefiting as much as possible the entire Faroese community.

"It will be easier to work toward achieving the goal, if we all know and value the path ahead and the necessity of joint collaboration as a team," reflects John Zachariassen.



# **Energy Report Favours Sun and Wind**

A study undertaken by the Environment Agency at the behest of the Ministry of Health and the Interior recommends initially to expand the wind and solar energy capacity of the country and that subsequently in several years it would be advisable to install a hydropower pump storage system in Vestmanna

The study the Environment Agency submitted to Sirið Stenberg, the Minister of Energy, in August 2018 is a good platform upon which to initiate the next steps toward reaching the land-based goal of 100% sustainable energy in the Faroe Islands by 2030.

Briefly, the study concluded that wind and solar energy ought to be built-out over the next several years and eventually thereafter it would be advisable to construct a wind-powered pumping station near the Vestmanna hydropower plant. Additionally, the long-planned projects focused on the installation of wind turbines, related battery systems and hydropower pumping systems on Suðuroy were also recommended in the study as a rational and reasonable step to take immediately.

Investments are projected to be DKK 400 million annually from 2016, increasing to DKK 650-700 million annually by 2030. The study also indicated a small increase in the price of energy from 2016 through 2020, decreasing in 2024 to below the energy price level of 2016 and further decreasing slowly through to 2030.

# Focus of the study

With a focus on expanding the Faroese energy system, the study explored potential technical solutions and what solutions would be the most economically feasible. The study is entitled Energy Storage in the Faroe Islands 2018 and was drafted by the Energy Department of the Faroese Environment Agency in collaboration with the Faroese electric utility SEV, and Dansk Energi (Danish Energy), and the engineering consultants, EA Energy Analyses and Norconsult, who conducted various simulations and studies that were incorporated into the comprehensive study of the Energy Department.

These particular studies focused on renewable energy sources, energy storage, grid stability and sustainability, financial calculations, technical challenges and energy demand, including the transformation of energy resources from oil to sustainable sources within travel, transport and heating during the coming years. All these factors are interdependent and must work together in order to reach the land-based goal of making the Faroe Islands 100% green by 2030 and therefore a highly detailed study was necessary to form the basis upon which to take the next concrete steps on the course to a green Faroe Islands.

The study divided the time period between now and the year 2030 into two parts – the first five years and the subsequent years onward along the green course.

# **Initial Years**

During the first five years, sustainable energy production was encouraged, in the main, via advanced wind turbines like those installed at the Húsahagi windfarm that are connected to sophisticated battery systems that equalise the delivery of electricity to the grid for either seconds or minutes during fluctuations in wind energy production. The study further deemed that it was necessary to install solar panel systems to capitalize on the sunlight during the summer months when often there is too little rain and wind

In addition, essential expansion of the electricity grid should be carried out during the first five-year period to handle the increased supply of power and the different power sources that will result from the shift from oil to constantly more and more sustainable energy resources. In this initial five-year timeframe, the windfarms destined for Eiði and Porkeri, which are currently out for tender, should be advanced and implemented, as well as the hydropower pump storage system on Suðuroy.





The first step to construct the wind-powered hydropower pumping station at Vestmanna can be undertaken without any extensive alteration of the existing dam and this endeavour reasonably could be initiated around 2024-25. Any extension of the current dam will not be necessary until we near 2030. The study also projected that after 2025 an undersea cable would be laid to Suðuroy, which would prove an advantage to the country's entire electric system.

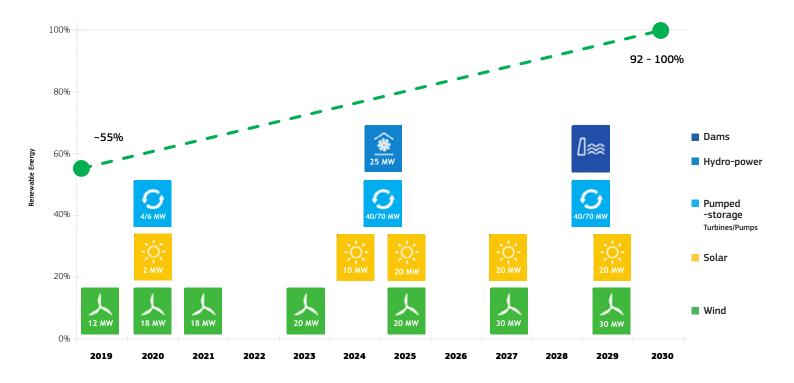
The study also stressed that it would be necessary for SEV to remain constantly apprised of any new, innovative solutions being developed within the sustainable energy sector and that, as a consequence, it should be ready to adjust any long-term plans in place to take advantage of each new technological and sustainable innovation that comes along.

Batteries to store energy for longer periods could also serve as future energy storehouses in the Faroe Islands, but the study of energy storage needs in the Faroe Islands indicated that currently the cost of such long-term storage batteries was prohibitive and thus not economically viable at present.

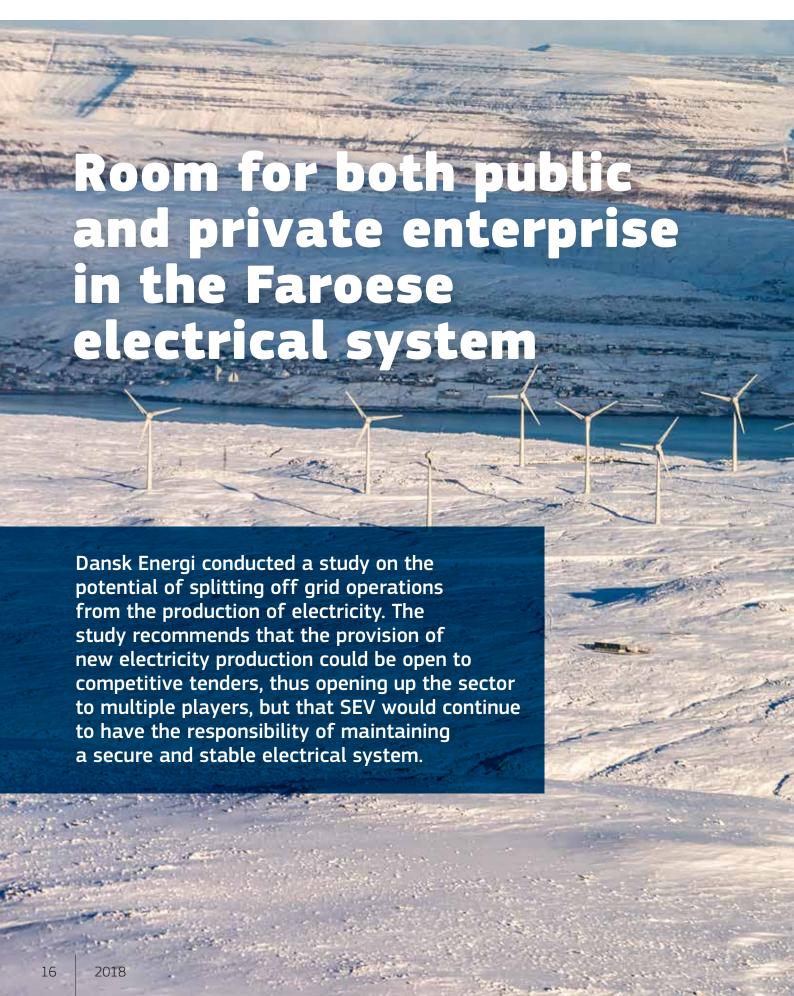
Tidal current energy is at present but little developed and therefore it is not economically prudent at present to depend on this source of sustainable energy. Nevertheless, it is crucial to stay abreast of developments in tidal current technology and SEV is doing just that by entering into a collaboration agreement with the Swedish company, Minesto, who will conduct trials of its so-called submarine power plants in the tidal currents of Vestmannasund.

# Subsequent time-period

The period after the initial five years will continue to focus on the expansion of sustainable energy resources. It is estimated that during this period the average two-year expansion of both wind and solar energy will be between 20 MW and 30 MW. Also the gradual expansion of hydropower pump storage systems will continue in order to secure maximum utilisation of the hydropower energy output.



# The Path to 2030





# Room for both public and private enterprise in the Faroese electrical system

Both SEV and private electricity production companies could play an important role in the Faroese electrical system of the future. This, in short, is the essence of the study conducted by the Danish energy trade association, Dansk Energi, on the potential of dividing the Faroese electrical system into electricity production and grid management.

The study suggests that new electrical power production from, e.g., wind, solar and tidal energy, could be put out to competitive tender, whereby the power authority would choose the lowest bid, consistent with the various tender requirements and stipulations. The power authority, however, could block SEV from submitting a tender if it deemed the competition among the other parties was satisfactory.

# Core electricity security best resides with SEV

With regard to the key or core supply security and stability of the Faroese electrical system, the experts from Dansk Energi deemed it best that SEV maintain continued oversight of this aspect of the electrical system.

In general, core electrical supply/stability refers to the thermal power plants, the large reservoirs and hydropower plants of SEV that supply the Faroese electrical system with a constant and stable flow of electricity, which at any given time can play a large or small role in electricity production depending on the supply of electricity from the other sources of energy, e.g. wind turbines, solar and tidal current energy. A future hydropower pump storage system and the grid itself are also core elements of electric security in a small island society such as the Faroe Islands, which is unable to purchase energy via electric cable linkages from neighbouring countries.

SEV already possesses the hydropower reservoirs and the thermal power plants; this is the principal reason the experts from Dansk Energi recommend that SEV maintains overall responsibility for these core elements and the electric stability they represent. These core elements are closely connected to the potential of storing energy in, e.g., hydropower reservoirs and oil storage tanks, even though oil consumption on the whole is to be gradually reduced as more and more green energy resources are integrated into the Faroese electricity system. When electricity production is 100% green, it will be, first and foremost, the hydropower reservoirs, pumping systems and possible battery systems that will ensure the stability of the electrical system with oil serving as a reserve energy resource.



# Important to compare with other island communities

The study recommended that the electrical grid should continually be managed as a self-contained entity and that the grid should be benchmarked against other grids, e.g., the grid in Bornholm, which is similar to the Faroese grid, or to the grid in Iceland. It also suggested to individually "benchmark" the other respective operational units within the Faroese electrical system.



The Dansk Energi experts also advocate a study be initiated to explore the role of SEV in a future electrical system wherein electric power is purchased from several different producers of electricity. The study also suggests that SEV should internally review its current operational procedures to determine if it is possible to enhance its operations and make them more effective. This review should be carried out by independent experts.

Finally, the study states that, in the event the transition to green heating and green transport is too slow, the Faroese governmental authorities, if deemed necessary, could direct SEV to take a more active role in this transition for a limited period of time.

Dansk Energi undertook this study upon the request of SEV, who had informed the Faroese energy authorities in advance of its intent to have the study carried out. SEV subsequently submitted the conclusions of the study to the respective Faroese governmental authorities.

# Green electrical power production almost 49% in 2018

Of the total 2018 electrical power production, 48.8% came from sustainable wind and hydropower. This reflects a small decline, compared to the previous two years, when more than half of the electrical production was green power

Production more than

**32.5 days** 

Wind: max 77.55%

Hydro: max **89,14%** 

A total of 48.8% of the total electrical production in 2018 was green electrical power; the remaining 51.2% came from the thermal power plants. Hydropower produced 30.7% of last year's electrical production, which is 2.6% lower, compared to 2017. On the other hand, wind power production set a record in 2018 with 18.1% of the total electricity production. The relative percentages in 2017 between hydropower and wind power was 33.3% and 17.8%, respectively.

The windfarm at Húsahagi produced 40 GWh in 2018, which is the highest wind power production to date at Húsahagi.

The main reason for the decline in hydropower production in 2018 is a combination of less rain and more freezing weather at the beginning of the year. The period from January to April 2018 had less rain compared to other years, while at the same time the severe cold weather caused many weeks of freezing. Thus, no rainwater flowed into the reservoirs because the rain, what there was, turned into ice in the terrain surrounding the reservoirs. In addition, the Faroe Islands experienced unusually dry weather in the second half of May and in the first half of June.

rapidly, creating an ever-expanding demand for electrical power. In 2018, electricity production increased by 5.3%; SEV generated 352 GWh of power, the highest production ever in the Company's history. Electricity production in 2017 increased by a similar percentage, equalling 334 GWh.

Hydro: max **89,14% GREEN** Wind: max 77.55% 13 days Main area The wheels of commerce and the community are turning Production more than Hydro: max 93.8% **GREEN GREEN** 0 days 21 days Suðuroy 2018



# Unusually Large Increase in Demand

SEV's 2018 GWh electricity production was an exceptional "green" year, but, given the unusually large increase in power demand during 2017 and 2018, overall "green" production was actually proportionally less than before, when compared to total production for the period

When considering the percentages of "green" electricity production over the last four years, 2015 was an outstanding year with 60% of production derived from hydropower and wind. Subsequent years saw a percentage decline in green energy production of some 10% from the peak in 2015, even though the annual green production in percent has held steady since 2015 – 50% in 2016, 51% in 2017, and 49% in 2018.

If one considers total green GWh production, however, the picture is completely opposite, with 2018 being the best "green" year since 2015:

172 GWh green in 2018 out of total 352 GWh
171 GWh green in 2017 out of total 334 GWh
158 GWh green in 2016 out of total 317 GWh
189 GWh green in 2015 out of total 314 GWh

The main reason for the reduction of 10% from 60% to 50% was the good weather in 2016 and the uncommon major increase of some 5% in electricity demand in 2017 and 2018. This trend appears to be continuing, however, as the first quarter of 2019 has experienced an increase in power demand of some 10%, compared with the same period in 2018.

# 2016, 2017 og 2018

The very good weather enjoyed in 2016 was the main reason for the large decrease in green power production compared with 2015, which was a record year for hydropower production because of the exceptional rainfall. On the other hand, 2016 was an unusually dry year.

The year 2017 marks the first time that the unique battery system at Húsahagi was deployed for an entire year. As a consequence, some 94% of the wind power generated at Húsahagi was transferred into the grid, which represents an increase of some 16% compared to 2016 when the battery system at Húsahagi was only operational the last four months of the year. At the same time, the demand for power increased by 5.3%, compared with 2016 when total production was 317 GWh. In 2017, total production was 334 GWh.

This growth in demand continued in 2018 when electricity production again increased by 5.3% over the previous year. Total productionin 2018 was some 352 GWh. At the same time, the Húsahagi windfarm produced 40 GWh, which reflects the greatest wind energy production to date at Húsahagi. Less rain, less frost and especially the dry weather in the second half of May and the first half of May 2018 had the effect that overall hydropower production was somewhat less than in 2017.

"The trend appears to hold, as the increase in demand during Q1 2019 was about 10% higher than the same period in 2018."

# New Trials with Tidal Current Turbines in Vestmanna Sound

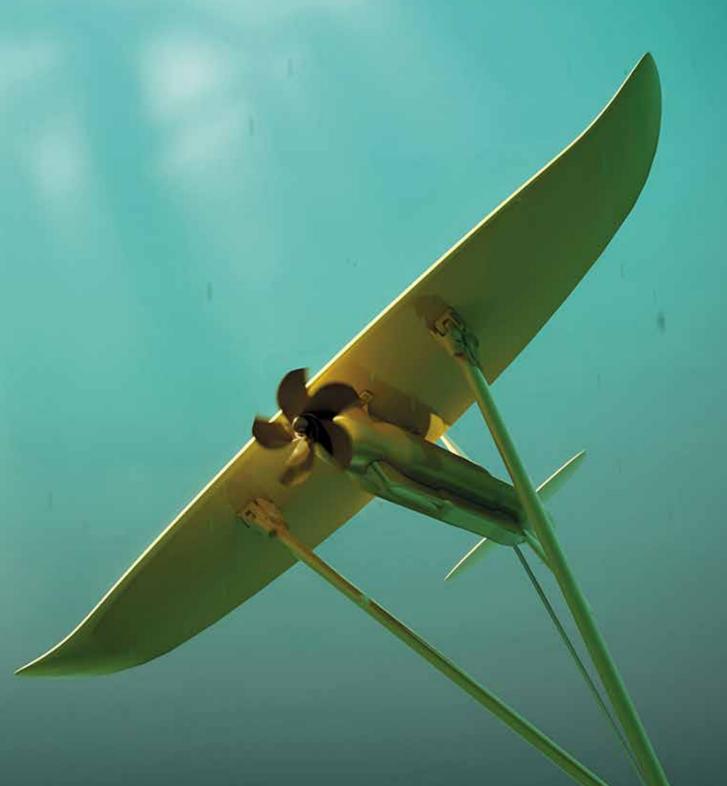
SEV and the Swedish company, Minesto, have entered into an agreement to explore new tidal current technology in Vestmanna Sound, beginning around the end of 2019, initially with two tidal current turbines

The Swedish company, Minesto, is a leader in tidal energy technology. The collaboration agreement between SEV and Minesto calls for trials to commence at the end of 2019 or early 2020.

The project agreement encompasses the installation and operation of two Minesto DG 100 units, which are part of Minesto's Deep Green technology, special

subsea "kite" turbines designed to produce electricity. The technology is brand-new in the tidal current energy industry. The device (which looks like a flying dragon) is affixed to the ocean floor and then "flies" in a figure 8 pattern. Attached under the "dragon" is a turbine propeller that rotates as the dragon moves through the water thus generating electricity.





The Minesto DG 100 tidal turbines to be installed on the sea bed in Vestmannasund, travel in a figure of eight while producing electricity.

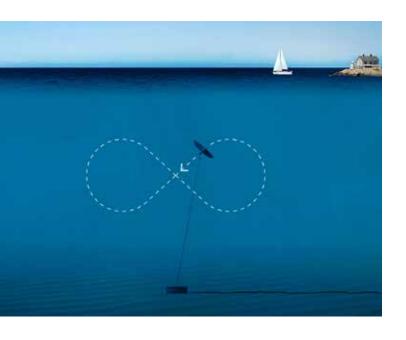
# New Trials with Tidal Current Turbines in Vestmanna Sound

SEV has committed to purchasing the energy that the Minesto turbines produce during a trial period envisioned to last a number of years. SEV further will supply related technical equipment, connection to the grid and all the various government permits required. Preparations for the project in Vestmanna Sound are underway.

"We are most pleased with this agreement with SEV, which is a world-class, progressive partner with a revolutionary vision to shift to renewable energy resources and tap the potential of tidal current energy. By using Minesto's equipment, it will be possible in future to produce cheap, sustainable energy that will greatly contribute to the vision of a green Faroe Islands by 2030," observed Dr. Martin Edlund, Managing Director of Minesto.

The collaboration is a part of SEV's comprehensive vision of integrating tidal current energy into overall power production in the Faroe Islands. If SEV can ascertain during the trial periods that the Deep Green technology can withstand the harsh and demanding environment of Vestmanna Sound and that the technology is economically viable and complimentary to other technology, it is quite possible that the Deep Green turbines of Minesto could become a part of the green Faroese power production. The intent is to produce 30 – 70 MW from tidal current turbines, assuming the acquisition and operation of such equipment is economically realistic and sustainable.

The Faroe Islands is an isolated group of islands unable to purchase energy for neighbouring countries. Thus, SEV itself must continually produce the power needed.







# New Trials with Tidal Current Turbines in Vestmanna Sound



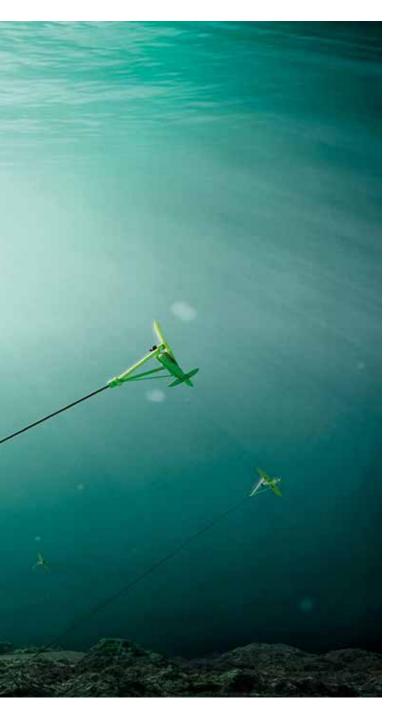
"Of necessity, we have to create our own potential for a sustainable future, and we at SEV are continually striving to adapt our operational plans to meet the goal of 100% onshore sustainable energy by 2030," notes Hákun Djurhuus, CEO of SEV.

Together with its consultancy firm, Sp/f RÁK, SEV has investigated over the past year the tidal currents found in the Faroe Islands, because it is well understood that tidal

current energy can be a very valuable renewable energy resource for the Faroe Islands, if it proves economically viable.

"Tidal current energy at a reasonable cost can be an important part of electricity production. We are eager to investigate these possibilities more closely together with Minesto and their innovative technology that produces electricity from the tidal currents," notes Hákun Djurhuus, CEO of SEV.







"We ourselves have to create the possibilities for a sustainable future, and at SEV we continually adapt the plan to reach 100% sustainable electricity production on shore by 2030."



The first Deep Green turbine is expected to be attached to the seabed of Vestmanna Sound in late 2019 or early 2020 and the second soon thereafter. Minesto and SEV are financing the project, together with public funds.

Minesto has the goal of improving tidal and wave energy production globally thus reducing the environmental impact of the world-wide power industry. Minesto is very much in favour of tidal energy and has patented the Deep Green technology, which also has won several prizes.

# ar from SEV has undertaken a solar energy pilot project in the village of Sumba on Suðuroy. A solar energy system will be erected on Sumba's former football (soccer) pitch during the summer of 2019. Solar energy is a good supplement to the sustainable energy resources in the Faroe Islands, especially during the period May to August when there is plentiful sunshine and often limited rain and wind

Even though the Faroe Islands is not known for an overabundance of sunshine, it is advisable to incorporate solar energy into the mix of sustainable energy resources available to the country, as it proceeds on its path to a green energy future. Solar energy is especially interesting during the summer months when a proportionally significant amount of sunshine spills over the country, while at the same time there is but little rain and wind to power the waiting hydropower plants and wind turbines.

Therefore, SEV plans to launch a solar energy pilot project in Sumba during the summer of 2019. The solar energy system is expected to generate some 200-500 kW, which is deemed sufficient for around 35 households. The system is projected to cost DKK 2-3 million.

The plan is to erect the solar energy array on the former football pitch at Krossurin in the village of Sumba. The municipal council has already granted approval of the project. Further permitting will be required from the Nature Conservancy Authority and the local construction authorities. A production license must also be obtained from the Environment Agency before initiating the project.

"It is very important to bring solar energy into the mix of sustainable energy resources in the Faroe Islands, because we could potentially generate from solar energy alone some 5-7% of our total electricity production, which estimates project will be about 600 GWh annually by 2030. This is an invaluable contribution toward the sustainable green energy future envisioned for the Faroe Islands, especially during the summer months," states Terji Nielsen, SEV's Development Manager.

"Solar power is especially interesting during the summer half of the year with relatively high number of solar hours, and when there is less rainfall and wind to power the hydro-plants and wind farms."





Terji Nielsen, SEV's Development Manager, is in charge of the pilot project in Sumba.

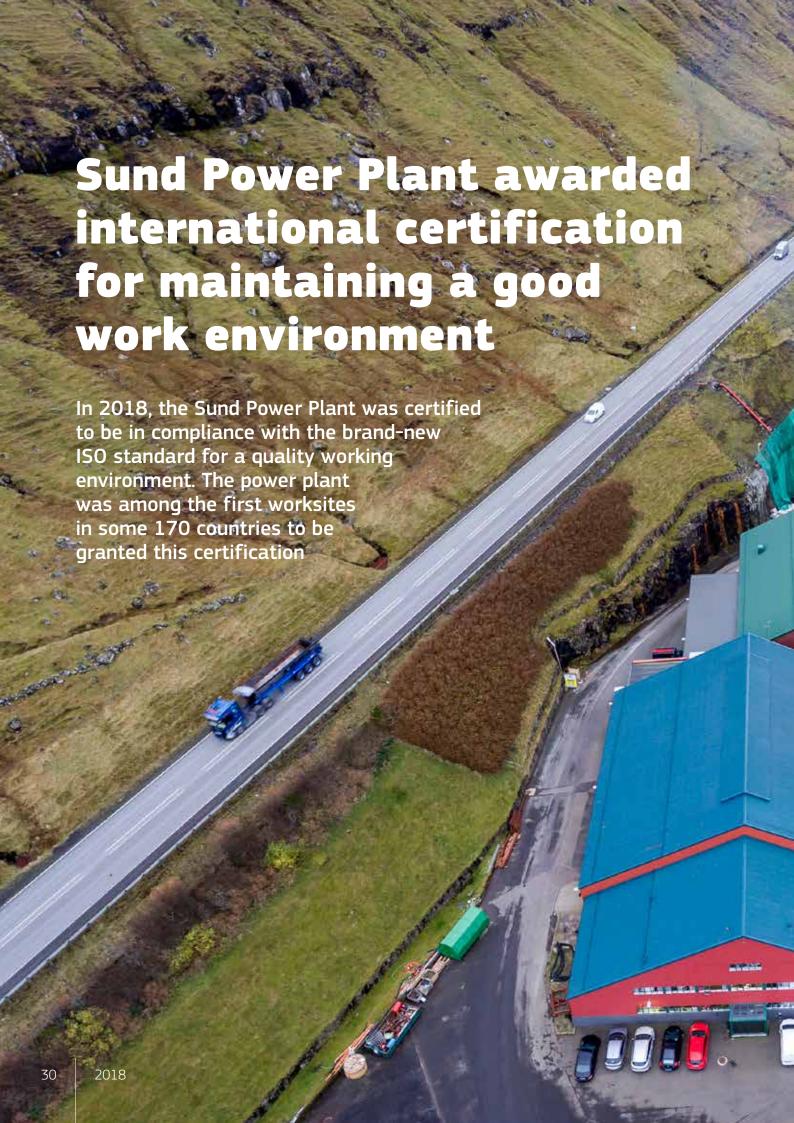
The Development Manager points out that solar power arrays have become so inexpensive nowadays that they have become highly attractive even for small archipelagos like the Faroe Islands, even though solar power here will never generate as much energy as that generated in other more sun-drenched countries.

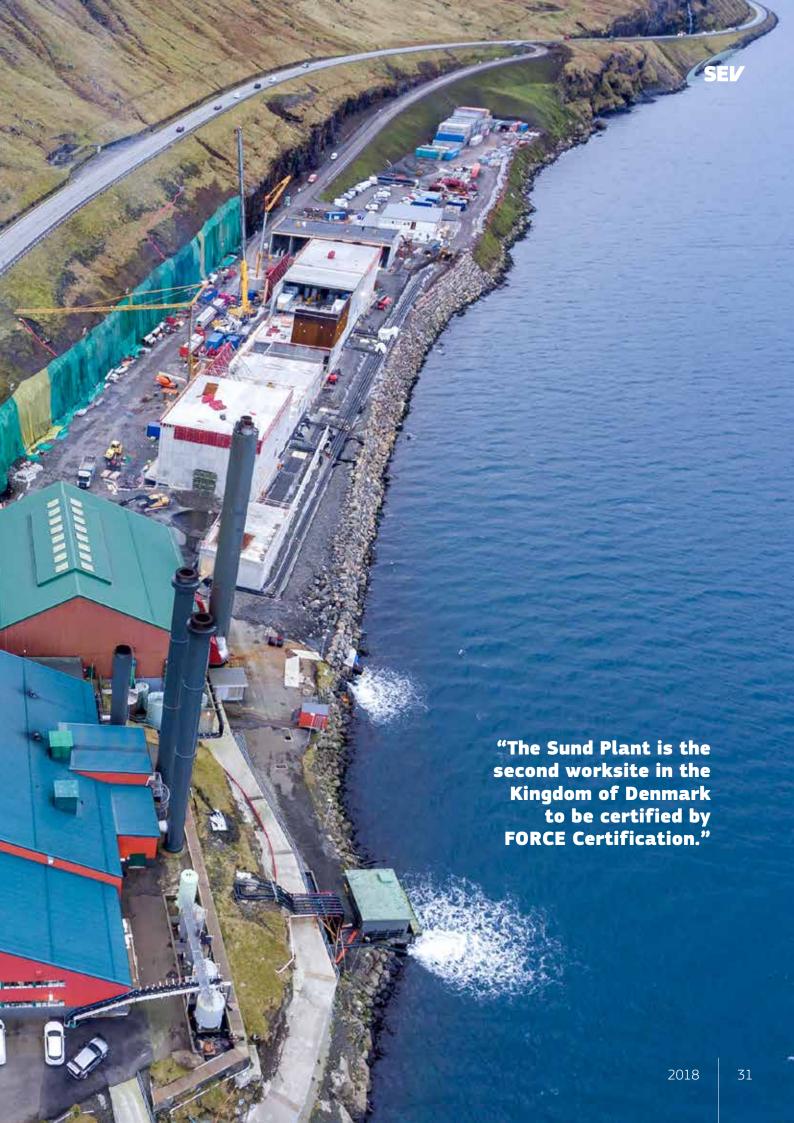
Solar power systems produce electricity from both the visible and invisible spectrum. Thus, solar power production is possible in the Faroe Islands even on days with no overt direct sunshine. That said, direct sunlight generates more power than would be produced on a cloudy day.

There are two special reasons why solar power is of interest in the Faroe Islands. The first is that the price of solar energy production technology has fallen about 75% since 2006. The second reason is the interesting

complimentary relationship among wind power, hydropower and solar power, the latter being most available in the summer months in the Faroe Islands when limited production is derived from hydro and wind power.

Solar power arrays are assembled easily and quickly and require very little ongoing maintenance. There are two different ways to set up a solar power system. One option is for homeowners to invest in a small rooftop installation and thus generate a portion of their own consumption. Any excess generated power can be sold to SEV. The second option is to erect large solar arrays in a variety of flat, open areas. In this regard, Sumba is well placed to accommodate such a large array because the football pitch is flat and ready to serve as the perfect foundation for a solar energy system.





# Sund Power Plant awarded international certification for maintaining a good work environment

During the course of 2018, the SEV thermal power plant at Sund was inspected and found to be in full compliance with the new ISO standard related to the work environment, DS/ ISO 45001:2018, which went into effect in 2018. Some 170 countries participate in the ISO standards system. The Sund power plant is among the very first worksites in the world to be inspected and certified as being compliant with the ISO standard for occupational health and safety.

The Danish certification institute, FORCE Certification, conducted the inspection of the Sund power plant and subsequently awarded the certification. FORCE Certification is the only entity in Denmark permitted to certify that companies are compliant with the DS/ISO 45001:2018 standard and the Sund Power Plant is one of only two worksites in the Danish Kingdom to receive such certification.

"The new standard helps to ensure a good working environment and our next step will be to expand the certification process to encompass all the operations of SEV," observed Annika F. Berg, the Health, Safety and Environment (HSE) department head at SEV.

SEV is familiar with such certification processes. Earlier, SEV was recognised for conforming to environmental preservation standards. In 2010, the environmental management system in place at the Sund Power Plant was found compliant with the DS/EN ISO 14001 standard. When the Sund power plant was again certified in 2014, it received the very best recommendations.

Later, the entire environmental protection system in place at SEV was certified compliant with the ISO 14001 standard, even though only the power plants at Sund and Vágs shall conform to this standard.

"These certifications acknowledge and reflect the hard work and determination of both management and staff, and they inspire and motivate us all to continually improve, thus ensuring that SEV remains to be a good workplace," concludes Annika F. Berg, head of HSE.





Annika F. Berg, HSE Manager says, that the plan is for all of SEV to be certified to the same ISO Standard for working environment as the Sund Plant. Pictured left is Gunnhildur Øster Bech, electrician at SEV.







## The first major HSE goal achieved

SEV is dedicated to remaining a leading company in the area of occupational Health, Safety and Environment (HSE). The first step toward this overarching goal was the establishment of a management system focused on the work environment of the Sund thermal power plant to ensure ISO standards compliance, an effort that was accorded international recognition last year. The next step is now to implement this management system throughout SEV operations



Hákun Djurhuus, CEO of SEV, when appointed as CEO more than 10 years ago chose to assign Health, Safety and Environment to an HSE Manager in a seperate department.

It has taken considerable time and energy to plan, organize and implement a comprehensive HSE program. After 10 years of effort, SEV was globally recognized in 2018 for its leading HSE initiative when it was credited for being one of the first companies in the world to comply with the new HSE standards promulgated by the International Organization for Standardization (ISO), DS/ISO 45001:2018 at the Sund thermal power plant. This HSE management system is now to be implemented throughout SEV.

On 1 January 2008, Hákun Djurhuus was appointed CEO and Managing Director of SEV. One of his first tasks was to organise the HSE department.

"To my mind there was little doubt that SEV, as the country's largest electricity provider, should implement HSE as an independent area with its own manager, even though SEV at the time was operating according to all applicable laws and regulations," states Hákun Djurhuus.

Thus, on 1 October 2008, Annika F. Berg was appointed HSE manager with direct reference to the Managing Director and among her initial tasks was to lay the groundwork to launch a comprehensive HSE plan.

### "HSE is a matter of personal safety, whereby SEV organizes the individual's work in a safe and respectful manner."

### HSE as a special department

"The very first step was to organise the new HSE initiative as a coherent and comprehensive department, consistent with current legislation and regulations. We also set the goal of making SEV one of the leading companies in the safeguarding of HSE values for the benefit of both staff and the company as a whole," notes Ms Annika F. Berg, HSE Manager.

Both the Managing Director and the HSE Manager continue to stress the overarching importance of the HSE initiative, both for the individual staff member, as well as SEV overall as a leading company in HSE compliance, thus ensuring SEV remains a top-notch workplace.

"We 'borrow' our staff from their families, from their partners and children and it is our responsibility to safeguard them whilst they are at the workplace," observes Annika F. Berg, who further notes that, in the end, it all comes down to ensuring overall safety and good health for everyone at SEV.

Another important aspect of HSE is the environment and the management of SEV's practices and projects that could potentially impact the natural environment. SEV has always endeavoured to protect the natural environment, especially in connection with its various projects around the country.

"HSE is not only a matter of personal safety where SEV endeavours to ensure a safe and secure working environment for each and every employee, but also HSE has major importance for SEV as a company, because when our employees are able to work in a well-managed and safe environment, SEV is a more effective and efficient electric utility," observes Hákun Djurhuus, Managing Director.

### SEV is an important player

Hákun Djurhuus notes that SEV plays a key role in Faroese society because the provision of electric power keeps the wheels of commerce and the community turning and everyone at SEV knows and appreciates the importance of SEV for the community at large. Therefore, it is critical that all of the departments of SEV are well-managed and that the Company is a role-model for all, especially regarding the natural environment.

The Human Resources Department (HR) is responsible for the overall well-being and welfare of SEV staff and a wellmanaged HSE Department underpins and supports the efforts of the HR Department.

"When accidents or illness occur during the workday that is my responsibility as HSE Manager, but day-to-day human resource operations are the responsibility of the HR Manager. Thus, our areas of responsibility are closely related and overlap in a way. It is one of SEV's great strengths that there exists this natural collaboration and synergy with regard to the working environment of all SEV employees," observes Annika F. Berg.

Given the success of these past 10 years, both the Managing Director and the HSE Manager are contemplating a new HSE goal, namely, to work toward ensuring that all of SEV's operations are internationally recognised as being compliant with the entire ISO 9001 standards scheme. A final decision on this goal is pending.



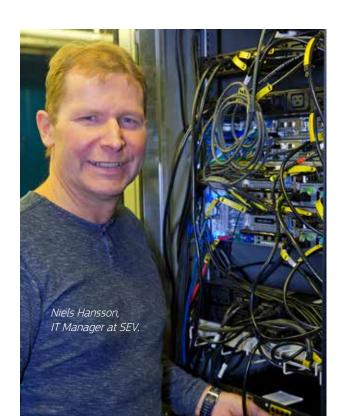
# IT Security Top Priority for All Employees

IT is a most important and well-integrated part of SEV's operational infrastructure; thus, all employees need to keep IT security foremost in their thinking each and every day

Over the last 20 years, Information Technology (IT) has become a well-integrated part of SEV's operational infrastructure, reflected most notably in its electricity production and grid operations, but also over the last few years SEV has integrated IT into its communications with customers, especially via its wireless electric meters.

This operational reality underlines the importance of each and every employee having a demonstrable understanding of the importance of IT security, starting with closing-down their personal computer at the end of the workday, to understanding the necessity of exercising care when accessing the Internet or any social media.

"There should be no 'breach' in our IT system, because such a breach could quickly allow the entire system to be compromised, and this can easily happen if our employees





do not appreciate the importance of IT security. Breakdowns and malfunctions within the IT system, as well as hackers, are constant threats, but equally major problems are always present if SEV employees fail to observe basic IT security," observes Niels Hansson, IT leader of SEV.

He stresses that employees who are careless about IT security pose a major threat for any modern company, most especially SEV. Therefore, it is of paramount importance to continually remind every employee of their collective responsibility to ensure IT security.

"This perhaps sounds overly serious, but in the field of IT security it is a proven fact that no 'weak link' can be tolerated and if any are detected everything must be done to remedy

the situation quickly and to strengthen that part of the system," further notes Niels Hansson.

"Awareness" is an expression that IT managers use daily as an effective management tool. "Awareness" for an IT manager encompasses not only the provision of periodic IT information forums for employees, but also the regular testing of employees to measure and ensure their knowledge and understanding of IT security.

"Aside from providing information forums on IT security for all employees, it is also critical to maintain direct contact with each individual employee to measure their ongoing sensitivity to and understanding of IT security in the workplace," observes Niels Hansson.



The new Sund thermal power plant, which stands as a bridge between an historical time of dependency on oil and the coming green future, is keenly focused on ensuring a clean environment and reliable power stability



### "Great emphasis is placed on exhaust scrubbing to curb pollution and to comply with all requirements."

SEV is constantly striving to produce as much green energy as possible. However, even though the country is on a course toward 100% green energy electricity production by 2030, it proved necessary to expand the Sund thermal power plant with an additional motor (Station 3) to ensure the necessary reserve power.

The principal purpose of the Sund thermal power plant is to provide a reliable and stable supply of electricity at any time, day or night, especially when in the future SEV's green sustainable power resources might suffer a breakdown or other malfunction. Even though the Sund thermal power plant is powered by oil, it is a welcome part of the green energy future of the Faroe Islands.

"We are very focused on installing the best smoke scrubbers possible to minimize any environmental pollution, as well as complying with all relevant regulations, while at the same time playing a major role in power stability and reliability," notes Dávid Reinert Hansen, Project Manager.

Mr. Hansen also pointed out that the thermal motors at the power plant can be adapted to burn natural gas instead of oil in the event that a natural gas storage facility is erected in the Faroe Islands at a later date. The construction at the Sund power plant, which was initiated in February 2017, is proceeding as planned.

### The Project

The expansion of the Sund power plant is a complex and extensive project. To support the production of electricity by the thermal motors, a variety of ancillary systems are required, such as fuel supply, delivery of lubricants, cooling systems, air venting systems, plus waste collection and disposal systems. At the same time, a system has been installed to tap the excess heat of the motors for distant heating purposes, as well as systems designed to rinse the smoke produced by the thermal motors and to supress noise pollution – all are part of the extensive expansion project.



The plant is also equipped with emergency light generators, systems to supply electric power to the power plant itself, equipment monitoring systems, fire warning systems, and other safety measures. The building also houses workshops for the maintenance of the thermal motors, etc., as well as storage for necessary spare parts.

The construction project encompasses the supply of the motors and generators, the supply and installation of related mechanical and electrical equipment, the installation of the motors and generators, and the construction of the building housing all the new equipment and the coupling station next to the power plant.

The project is being managed by two contractors, who have the principal responsibility, respectively, of the construction and the mechanical and electrical installation. Both contractors have several teams at the construction site and work is progressing concurrently in several places at the same time. A number of subcontractors have also been engaged for specialized work.

The very extensive concrete work required large formworks and scaffolding and at times our strong winds hampered this work. The coordination and management of the construction



### CONSTRUCTION PROGRESS DURING 2018

**January** The concrete work started on a large scale with the pouring of the basement, foundation structures and pipe tunnels.

**April** The first basement was completed, and the installation of the mechanical equipment began.

**May** The foundations for the motors were poured and the first foundation for the coupling station was laid.

**June** The concrete elements to the coupling station were erected, and the pump house with the cooling water intake was enclosed.

**July** The motors and the generators arrived in the Faroe Islands and were installed.

**August** The traverse cranes in the motor hall and the pump house were installed, and the installation of equipment in the coupling station was initiated.

**September** The work of preparing the district heating systems was started and the foundation for the smokestack was poured.

October The roof of the motor halls

was completed, and installation of the electrical equipment began.

**November** The equipment for the first boiler room was installed and connected, and preparations for the installation of the mechanical equipment in the pump house got underway.

**December** Most of the coupling station was enclosed and work on the electrical installations began.

work and the installation of such large and heavy mechanical equipment is very demanding. But, all in all, the work on the project has gone well due to the diligence, skill and hard work of the crew and the project managers on site.

The expansion of the Sund power plant is expected to

be completed sometime in 2019 and trial operations are scheduled to begin in the autumn of 2019. Total costs are projected to be within budget.

# The Fossá hydropower plant has produced electricity for 65 years

The Fossá hydropower plant at Vestmanna produced its first electricity 65 years ago. For all these years, the facility also managed and distributed into the national grid all the electricity produced in the country



At a gala celebration on the 5th of May 1954, attended by representatives from the Faroese Parliament and Government and the Danish Parliament, the Fossá hydropower plant was officially inaugurated. The ferry, M/S Tjaldur, arrived in Vestmanna with many guests and in the evening a festive dinner was held in the gymnastics hall of the local school, where 220 invited guests gathered to celebrate the first major expansion of SEV.

The hydropower construction carried out at Vestmanna during the 1950s, with its associated dams above the village, tunnels, pipe lines, coupling stations, grid construction and the Fossá hydropower plant itself, was, at the time, the biggest construction project ever undertaken in the Faroe Islands.

Nevertheless, the first production and distribution of electricity from the Fossá hydropower plant took place a few months prior to the above-mentioned celebration date. On Wednesday, 2 December 1953 at 16:30, the power plant was tested for the first time when electricity flowed to the power plant itself and to the small hamlet of Fitjarnir in Vestmanna adjacent to the power plant.

Fifteen minutes later power was transferred into the Tórshavn grid. On the 5th and 6th of December, electricity was transferred to the Vestmanna and Eysturoy grids, respectively. During all of December 1953, a number of villages were connected to the grid and the last area to be

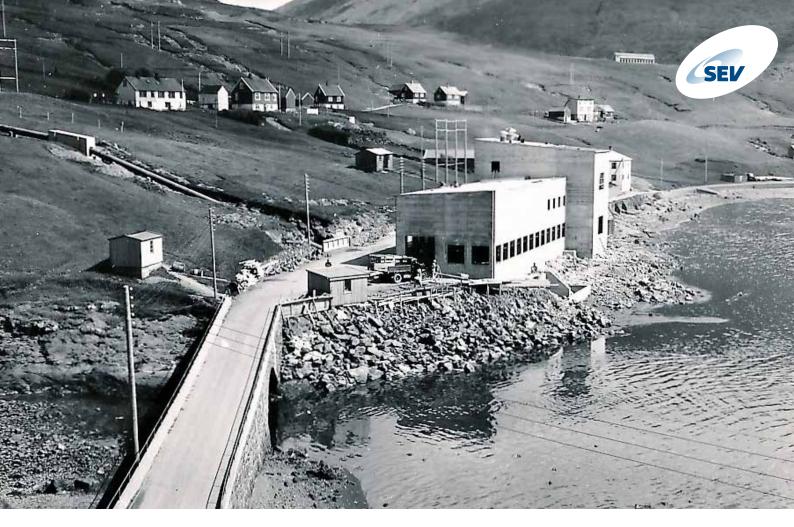
connected was the hamlet of Fjørð in Vestmanna where the Fossá hydropower plant itself is located. This last connection of the first major expansion of the electricity system of SEV occurred on 22 December, at which point all of Vestmanna village was successfully connected to the grid.

During all these 65 years, the Fossá hydropower plant has been instrumental in co-ordinating the supply of electrical power from the various power plants into the grid. In 2015, the power supply control room was renovated and updated when the power plant itself underwent a major overhaul.

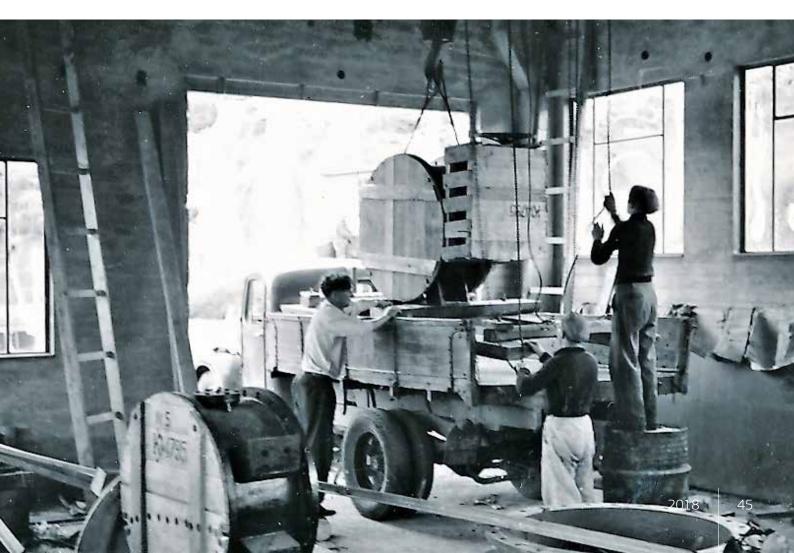
A survey undertaken in January 1954 showed that some 1,300 households received electricity from the Fossá hydropower plant. Earlier projections estimated that some 2,000 customers would be connected to the grid in this very first expansion phase.

Initially, demand equated to approximately 600 KWH, peaking at 800 KWH. This represents 1.4% of SEV's entire electricity load today, which in November 2018 equalled some 58 MW!

The dams in Vestmanna constructed in connection with the Fossá hydropower plant were placed at Frammi við Vatnið in Fonsdal and at Lómundaroyri. During the period 1956 to 1963, further expansion of the hydropower system in the Vestmanna area took place, including the new production facilities at Mýra and Heygadal.



The Fossá hydro-power plant in Vestmanna underwent trial production on 2 December 1953. The hydro-power construction in Vestmanna was, at that time, the largest construction attempted in the Faroe Islands. In the 65 years since then, the Fossá plant has been the control centre for the whole electricity production.







### Offboarding

"Offboarding" is the term used to refer to the transition from the world of work into the world of retirement and the concept is gradually being embraced by everyone at SEV, led by SEV's progressive Human Resources Department.

"In general, offboarding is the process by which employees early-on prepare to leave the world of work before finding themselves literally on cusp of actual retirement and SEV is actively engaged in assisting and supporting them to ensure a pleasant and manageable transition," observes Bergtóra Høqnadóttir, SEV's HR Manager.

During her master's degree studies in Positive Psychology, Bergtóra Høgnadóttir closely researched the notion of offboarding in the context of leaving the labour market. In connection with her thesis research, she interviewed six employees of SEV – three had already retired on a pension and the others were nearing retirement age. From the interviews, she concluded that once the HR Department had raised the concept of "offboarding", everyone, for the most part, had taken the time to explore the issues surrounding the reality of retirement with their partners and families, as well as friends.

Some of those interviewed stated that, following these conversations with family and friends, they had identified unknown aspects of the world of retirement and had gained greater insight and understanding about the so-called "third chapter of life", which life after the hectic years of working every day is often called.

### A society obligation

New studies in Denmark have revealed that some 50,000 Danes over the age of 65 feel lonely. Comparable data for the Faroe Islands would suggest that some 420 Faroese over the age of 65 would also feel lonely and all alone.

"Some truly become depressed over having to leave the job because of age. I feel it is a moral obligation of our society and Faroese companies in particular to help all employees to achieve a meaningful and purposeful retirement," states Bergtóra Høgnadóttir.

Five years ago, a so-called 60+ Team was established at SEV. This was the first step toward creating a focused and systematic senior transition process at SEV for its employees who are 60 years of age and older, and their partners. The 60+ Team organises many relevant events and activities, including meeting former colleagues who retired because of age.



"In general, our 60+ Team is a successful initiative and we are now continuously engaged in strengthening our senior transition process so that an employee's last years at SEV and his or her life after SEV will be as good and meaningful as possible," adds Bergtóra Høgnadóttir.

Based on her professional and educational background and experience, Bergtóra Høgnadóttir is quite firm in her view that an employer is obligated to ensure that its employees are accorded a good start on the job, that the working conditions are good while they are at work, and that the employer also shall endeavour to ensure the transition from the labour market is good and life in retirement is meaningful.



### **Good Ambassadors**

A good company attracts good people. If an employee's final years on the job are not too stressful and if he or she is enabled to come to terms with their impending retirement and life beyond work, the employee, of course, will have more energy and zest to fully engage in their work during the last few remaining years on the job, which, of course, will be of benefit to the company.

The HR Manager suggests that, if the workplace as a whole and management especially endeavour to ensure a good transition as a company's employees "leave the ship", they will become good ambassadors for their former employers.

Bergtóra Høgnadóttir is confident that it is beneficial for both the employer and the employees who are approaching retirement age to prepare well for the upcoming "third phase of life". She also recommends that the various trade unions, to the extent possible, should consider inserting language about a retirement transition process into their respective agreements with employers, and that the politicians also consider offboarding transition strategies within the labour market and not just the age of retirement and the money involved, when they debate the conditions and circumstances of their fellow citizens who are advancing in age.

"It is not just about adding years to one's life, but also about adding life to one's years," concludes Bergtóra Høgnadóttir, HR Manager, paraphrasing the US President, Abraham Lincoln.

# Employees of SEV

At year-end 2018 there were 156 full-time equivalent employees at SEV. Production is the largest business unit by number of employees, employing 66 people. Many positions within production are manned around the clock, and at the Sund plant there are always 2 people on duty at the same time.

In terms of trade qualifications of our employees, more than half are engineers or electricians. The largest single occupational group are engineers.

There are 26 women among the 156 full-time equivalent employees of SEV.

### Age

The average age of SEV's employees increased slightly to just below 51 years. It is worth keeping in mind that the the Board decided to increase the retirement age from 67 to 70 years, because our employees are fit and hard-working even at 67. There is a trend towards increasing retirement ages but also the prospect of retiring has weighed heavy on many an employee of SEV's mind. An increase in retirement age should naturally lead to higher average age of employees.

A few years ago, there were no apprentices at SEV but as of December 2018, there were no less than five. Two electrician apprentices, two mechanical apprentices, and one office clerk apprentice – four men and one woman. The youngest apprentice was only 15, when he started.

### Adjusted positions

It is important for SEV, that also people whose capacity for work is somehow curtailed, are able to participate in the labour market. SEV currently has two employees in this category.

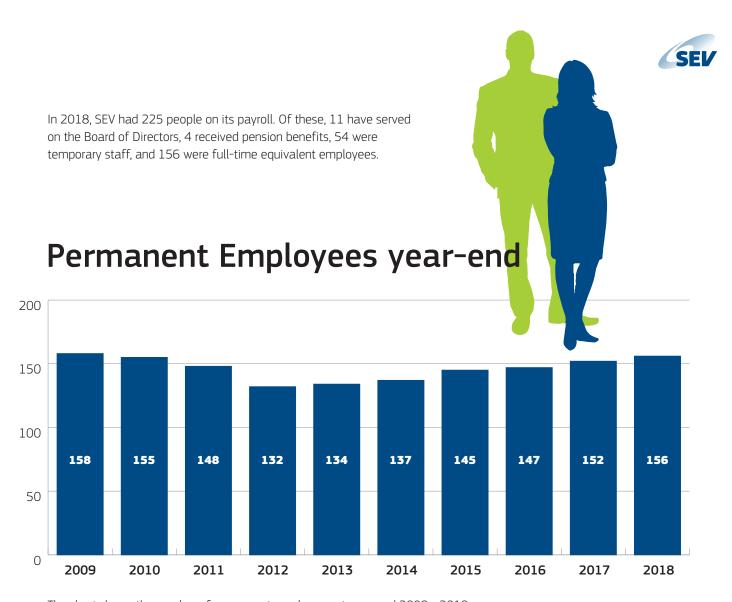
### Length of employment

The age of employment is high at SEV compared to many other employers and also considering the generally high level of economic activity for many years now. More than half of SEV's employees have been with us for longer than 10 years, some have been more than 40 years. It is often said that people are more actively seeking work in times of low unemployment, but this does not seem to be the case with our employees, even at less than 2% unemployment at the moment. Those that do leave SEV mostly do so because of retiring, or because they need time at sea to maintain their qualifications.

SEV always strives to give our employees the chance to improve their skills and qualifications. The aim is that our employees should be better qualified when they leave than when they started at SEV.

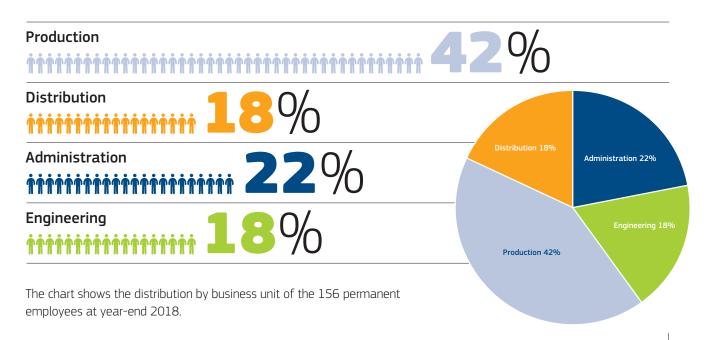
### Change in composition of employees

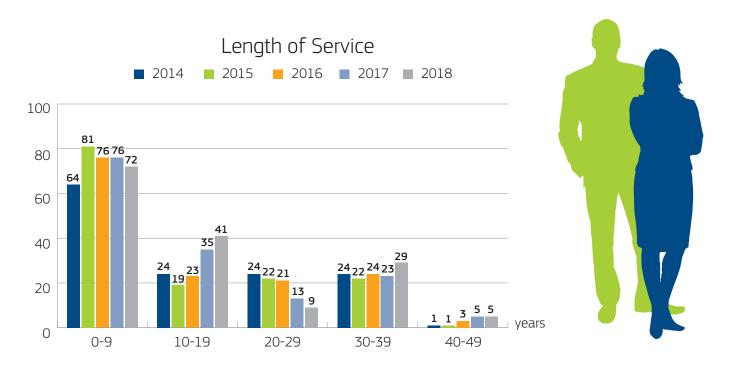
We welcomed quite a number of new employees in 2018. The main additions were five engineers at Sund, and also positions as business analyst, in marketing, installers, and electricians. Also new positions in relation to the 2030 target to make the Faroe Islands' on-shore electricity production 100% green, including a Phd. research position in electrical engineering in conjunction with the Science Faculty at the Faroe Islands University and Ålborg University in Denmark.



The chart shows the number of permanent employees at year-end 2009 - 2018.

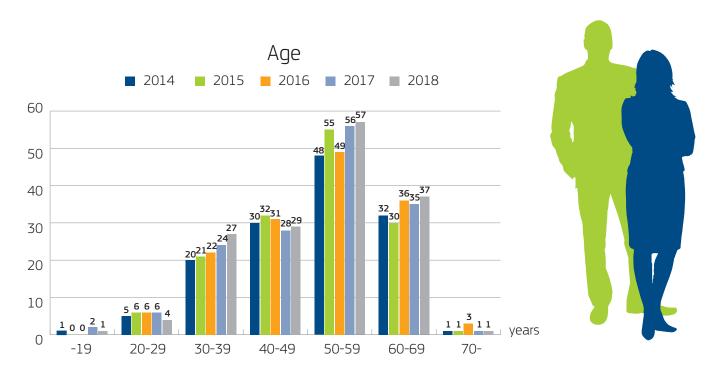
### **Distribution of Employees**





### Years of employement

The average length of employment is 14.6 years. In 2018, 37 people or 24% of all employees have been employed with SEV for 25 years or more.



### Age

The average age of employees is slowly decreasing. In 2014 and 2015 the average age was just over 50. In 2016 the average age was 51.5 years and in 2017 it decreased to 50 years, increasing to 50.9 years in 2018.

The chart shows that compared to 2017, there is a small increase in the groups from 30 to 69, and a decrease in the youngest groups below 30.

At year-end 2018, there were 38 employees aged 60 and older.



# Health, safety and environment

### The Health, Safety and Environmental Policy (HSE)

On 17 December 2008, SEV promulgated its Health, Safety and Environmental Policy, which is available to the general public via SEV's homepage and is readily accessible throughout the Company.

### Safety

SEV prides itself on being a progressive and modern company. Consequently, we place a high priority on worker safety for the mutual benefit of everyone.

### Trygdararbeiði

In 2018 the focus has been on implementing the ISO 45001:2018 standard on the Sund plant.

Figure 1 shows SEV's organizational safety structure.

### Personal injuries

SEV works systematically and conscientiously throughout the Company to avoid accidents and injuries and our goal is that no one is ever injured. However, it is difficult to avoid injuries totally. Figure 2 shows the number of personal injuries that resulted in a worker's disability for one or more days. In 2018, one instance of personal injury was reported to the Occupational Safety & Health Administration (Arbeiðseftirlitið).

### The environment

Figure 3 portrays the principal impacts of SEV's power production on the environment. The different energy sources and the various chemicals that facilitate the production of electricity and heat are shown on the left. At the top, the emissions into the air are shown; at the bottom are the emissions into the sea. To the right are the actual production outcomes, e.g. electricity and district heating, and waste.

Electricity is produced by thirteen power plants scattered around the country. Three of the power plants are large oil-fired facilities located at Strond, Sund and Vágur. SEV operates six hydro-power plants – Strond, Eiði, Fossá, Mýra, Heyga and Botni. In addition, there are five small power plants providing electricity on the islands of Fugloy, Mykines, Koltur, Skúvoy and Stóra Dímun.

SEV also operates six wind turbines located on the Neshagi

### **SAFETY BOARD**

Safety rep. Safety rep. Work Leader Work Leader HSE Manager CEO Director of Grid Operations Director of Administration
Robert Joensen Vilhelm Hansen Otto West Jørgin Mørkøre Annika F. Berg Hákun Djurhuus Jón Nielsen Heri Mortensen Bogi Bendtsen

### **SAFETY GROUPS**



Figure 1. The Safety Board of SEV.

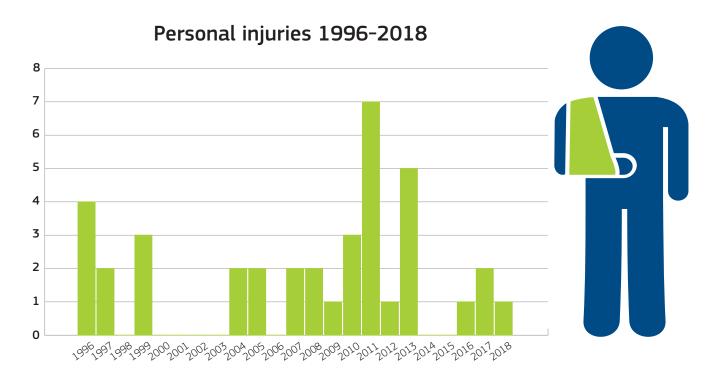


Figure 2. Number of personal injuries that resulted in a worker's disability for one or more days that were reported to the Occupational Safety & Health Administration.

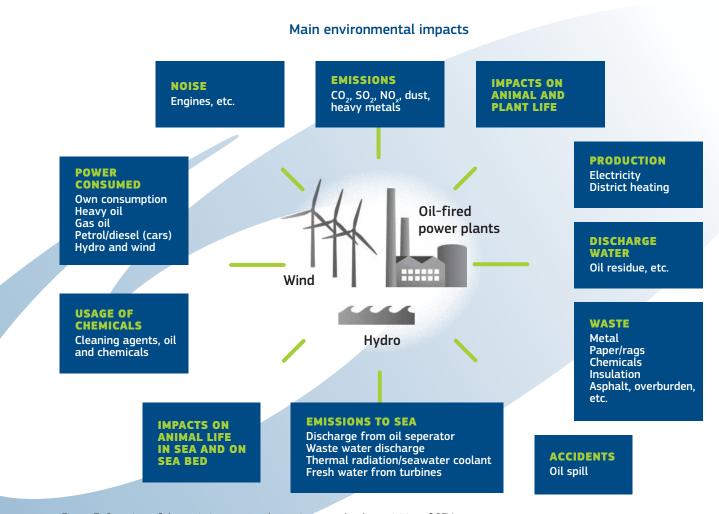


Figure 3. Overview of the main impacts on the environment by the activities of SEV.





EXISTING ENVIRONMENTAL PERMITS	Valid from:
Environmental permit of wind turbine in Neshagi	14.05.04
Environmental permit of Sund power plant	28.03.18
Environmental permit of wind farm in Neshagi	13.01.12
Environmental permit of Vágur power plant	18.11.15
Environmental permit of wind farm in Húsahagi	16.01.13

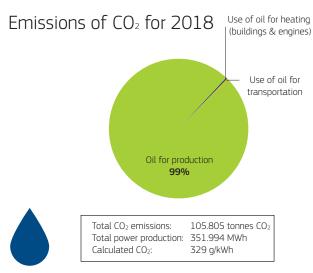


Figure 4. CO<sub>2</sub> emissions 2018.

promontory on the island of Eysturoy and 13 wind turbines at Húsahagi outside Tórshavn.

### **Environmental permits**

Companies, facilities and equipment listed in the Annex to the Faroese Environmental Protection Act (Løgtingslóg um umhvørvisvernd, No. 134) must obtain an Environmental Permit. SEV is required to have environmental permits for its production facilities at Sund and Vágur, and the wind turbines at Neshagi and Húsahagi. In 2015, SEV renewed the Environmental Permit for the power plant in Vágur due to the extension of the power plant.

### **Carbon Dioxide emissions**

One of SEV's largest environmental impacts stems from the burning of fossil fuels. The greatest portion of SEV's  $\rm CO_2$  emissions originates from oil-fired electricity and heat production. Additionally,  $\rm CO_2$  emissions originate from the



Figure 5.  ${\it CO_2}$  emissions, electricity production and specific  ${\it CO_2}$  from 2008-2018.

### Energy sources

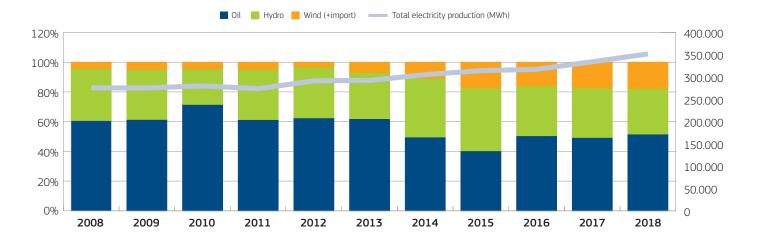


Figure 6. Thermal and green energy share.

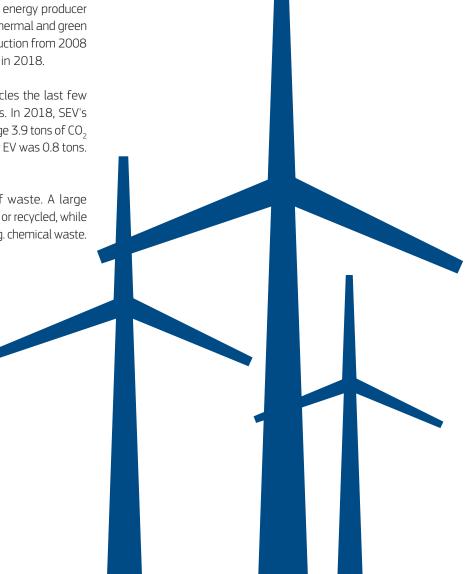
use of oil for the heating of buildings and motors, as well as transport. Figures 4 and 5 show SEV's  $\rm CO_2$  emissions for 2018 and  $\rm CO_2$  emissions from 2008 to 2018, respectively.

SEV's main aim is to become 100% green energy producer by 2030. Figure 6 shows the proportion of thermal and green energy production and the increase in production from 2008 to 2018. The green energy share ws 49% in 2018.

SEV has purchased several electrical vehicles the last few years with a view to reduce  ${\rm CO_2}$  emissions. In 2018, SEV's diesel and petrol vehicles emitted on average 3.9 tons of  ${\rm CO_2}$  per vehicle, while the average emission per EV was 0.8 tons.

### Waste

SEV produces a considerable amount of waste. A large proportion of the waste is either incinerated or recycled, while some waste is sent for special processing, e.g. chemical waste.





### Waste 2017-2018



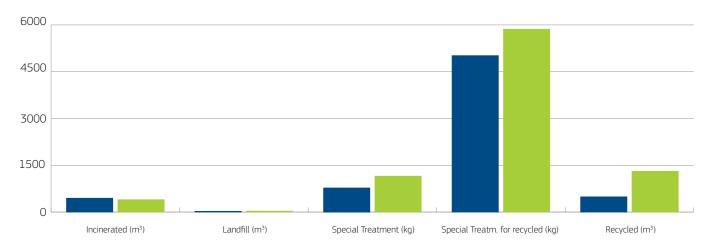


Figure 7. Various types of waste 2017 and 2018.

In connection with construction activity there is much soil and rock delivered for landfill. This would ordinarily be considered as a burden for the environment, but since the soil and rock is not contaminated and can be recycled, these figures are not included here. It is also difficult to collect the relevant data, as SEV employs subcontractors for this type of work.

Figure 8 shows various types of waste for recycling. Waste oil

type of work.

is normally the largest category but cables were prominent in 2018 due to a clear out of a depot. Figure 7 shows that waste for special treatment was even higher in 2018 than 2017; this was also due to the afore mentioned clear out.



Figure 8. Waste for recycling 2017 and 2018.

### Annual Report and Annual Accounts 2018

### Electricity Company SEV (Elfelagið SEV) Annual Report 2018

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### The Company

Elfelagið SEV Administration: Landavegur 92 Post Box 319 FO-110 Tórshavn

Telephone: +298 346800

Web: www.sev.fo Email: sev@sev.fo

Registered office: Vestmanna Financial 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

### **Auditing**

JANUAR P/F

State Authorized Public Accountants Óðinshædd 13, Post Box 30, F0-110 Tórshavn Telephone: +298 314700 Fax: +298 351701

Email: januar@januar.fo Web: www.januar.fo



### Management Report

The board of directors and the management have today presented the annual report of Elfelagið SEV and the group for the financial year 1 January to 31 December 2018.

The annual report has been presented in accordance with the Faroese Financial Statements Act.

We consider the accounting policies used appropriate, and in our opinion, the consolidated annual accounts and the annual accounts provide a true and fair view of the assets, the liabilities and the financial position, consolidated and for the company respectively as on 31 December 2018 and of the results of the activities, consolidated and of the company respectively and of consolidated cash flows in the financial year 1 January to 31 December 2018.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

Tórshavn, 5 April 2019

Management		Financial Management
Hákun Djurhuus Managing Director, CEO		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 Fli 7achariasen		

### The independent auditor's report

### To the management of Elfelagið SEV

### **Opinion**

We have audited the consolidated annual accounts and the annual accounts of Elfelagið SEV for the financial year 1 January to 31 December 2018, which comprise accounting policies used, profit and loss account, balance sheet and notes, consolidated and for the company respectively and cash flow statement for the company. The consolidated annual accounts and the annual accounts are prepared in accordance with the Faroese Financial Statements Act.

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets, liabilities and financial position, consolidated and for the company respectively at 31 December 2018 and of the results of the company's operations, consolidated and for the company respectively and of the company's cash flows for the financial year 1 January to 31 December 2018 in accordance with the Faroese Financial Statements Act

### **Basis for opinion**

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts". We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in the Faroe Islands, and we have fulfilled our other ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

### The management's responsibilities for the consolidated annual accounts and the annual accounts

The management is responsible for the preparation of consolidated annual accounts and annual accounts that give a true and fair view in accordance with the Faroese Financial Statements Act.

The management is also responsible for such internal control as the management determines is necessary to enable the preparation of consolidated annual accounts and annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts and the annual accounts, the management is responsible for evaluating the group's and the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the consolidated annual accounts and the annual accounts, unless the management either intends to liquidate the group or the company or to cease operations, or if it has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts and the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of the consolidated annual accounts and the annual accounts.

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands, we exercise professional evaluations and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement in the consolidated annual accounts and the annual accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of the internal control relevant to the audit 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 group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's preparation of the consolidated annual accounts and the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts and the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated annual accounts and the annual accounts, including the disclosures in the notes, and whether the consolidated annual accounts and the annual accounts reflect the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or the business activities within the group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control that we identify during our audit.

### Statement on the management's review

The management is responsible for the management's review.

Our opinion on the consolidated annual accounts and the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

In connection with our audit of the consolidated annual accounts and the annual accounts, our responsibility is to read the management's review and in that connection consider whether the management's review is materially inconsistent with the consolidated annual accounts and the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, it is our responsibility to consider whether the management's review provides the information required under the Faroese Financial Statements Act.

Based on the work we have performed, we believe that the management's review is in accordance with the consolidated annual accounts or the annual accounts and that it has been prepared in accordance with the requirements of the Faroese Financial Statement Acts. We did not find any material misstatement in the management's review.

Tórshavn, 5 April 2019

P/F JANUAR

State Authorised Public Accountants

Hans Laksá Jógvan Amonsson

State Authorised Public Acc. State Authorised Public Acc.

### **Key Figures and Financial Ratios**

Numbers in t. DKK	2018	2017	2016	2015	2014
Income Statement					
Net sales	427,460	432,277	420,270	421,952	410,551
Result before depreciation, amortization and impairment	197,097	226,255	243,621	221,483	155,573
Result before financial items	81,960	123,513	150,383	127,897	78,376
Financial items	-34,634	-32,948	-48,286	-24,830	-20,613
Annual result	38,084	88,974	92,754	103,067	<i>57,763</i>
Balance Sheet	· · · · · · · · · · · · · · · · · · ·				
Total assets	2,722,020	2,447,178	2,303,961	1,960,373	1,742,038
Cash-on-hand	190,785	247,993	335,498	221,889	131,459
Equity	1,207,723	1,196,397	1,141,003	1,042,921	939,854
Long-term debt	1,341,582	1,133,188	1,042,116	830,000	691,411
Financial ratios *)	· · · · · · · · · · · · · · · · · · ·			· · · · · · · · · · · · · · · · · · ·	
Return on equity	3.2%	7.6%	8.1%	10.4%	6.3 %
Return on assets	3.2%	5.2%	7.1%	6.9%	4.9 %
Net debt/EBITDA	6.2	4.2	3.1	2.8	3.6
Asset turnover	0.16	0.18	0.18	0.22	0.24
Equity/asset ratio	44.4%	48.9%	49.5%	53.2%	54.0%

### Calculation of financial ratios

Return on equity —	Result from operations before taxes x 100 Average equity						
Return on assets	Result of ordinary operations x 100 Average value of operating assets						
Net debt/EBITDA	Net liability (liabilities – cash-on-hand) EBITDA						
Asset turnover	Net sales Total assets						
Equity ratio	Equity year-end x 100 Total assets						

<sup>\*)</sup> Financial ratios are calculated in accordance with the recommendations of the The Danish Society of Financial Analysts, Recommendations and Financial Ratios 2010.



### **Management Review**

### **Main Activities**

SEV is an inter-municipal cooperative electricity association with the objective of providing electric power and to distribute it amongst the residents of the participating municipalities. Pursuant to the Electricity Production Act, §3, paragraph 1, the Municipalities may participate in electricity production activities pursuant to § 1, paragraph 1 without regard to the provisions of §50, paragraph 1 of the Municipal Government Act. Thus, given that the electricity production sector has been partially liberalized, the Municipalities have secured the authority to produce electricity on a commercially viable basis.

According to SEV's Articles of Association, these objectives are to be promoted according to business principles based on an economically sound foundation with due regard simultaneously for the environment. According to the Electricity Production Act, SEV (including grid operations), is to be financially self-sufficient and viable, generating adequate revenues to pay for operations and necessary, planned investments. SEV's operational permit states that each production facility shall maintain accounts to determine profit or loss.

Every municipality in the Faroe Islands is a member of SEV. Until year-end 2008, the members were liable for any financial debt or possible operational loss of the firm. As of 1 January 2009, the municipalities only had responsibility for the Company's liabilities regarding employees. The review herein covers the total activities of the Company for the period 1 January – 31 December 2018.

### Business Activity Overview and Financial Status Relative to 2018 Budget

Pursuant to § 3, paragraph 13b and § 4, paragraph 12b of the Company's Articles of Association, at the Extraordinary General Meeting in the autumn of each year, the Company shall review the financial status of the Company since the Annual General Meeting, which in this case was held on 24 April 2018. Further review was conducted at the Extraordinary General Meeting held on 30 November 2018. For more detailed information, please refer to the report presented at the meeting entitled Financial Status 2018 available on the Company's website, www.sev.fo. The information presented is based on actual numbers as of the end of September plus projections and the budget for the remainder of the year. Table 1 shows the differences, as well,

Table 1. Difference between budget, projections and actual in DKK million.	Financial Accounts 2014	Financial Accounts 2015	Financial Accounts 2016	Financial Accounts 2017	Financial Accounts 2018	Difference between actual 2017 and 2018	Budget 2018	Difference between budget and actual 2018
Net sales	410.6	422.0	420.3	432.3	427.5	-4.8	436.1	-8.7
Oil expenses	141.5	86.2	50.9	84.7	105.8	-21.0	91.1	14.7
Goods and services	49.8	49.9	59.3	53.9	50.4	3.5	52.4	-2.0
Wages	63.6	64.3	66.5	67.4	74.2	-6.8	71.9	2.3
Total expenses	255.0	200.5	176.6	206.0	230.4	24.3	215.3	15.0
EBITDA	155.6	221.5	243.6	226.3	197.1	-29.2	220.8	-23.7
Depreciation	77.2	93.6	93.2	102.7	115.1	-12.4	110.8	4.3
Result before financial items	78.4	127.9	150.4	123.5	82.0	-41.6	110.0	-28.0
Net interest	20.6	24.8	48.3	32.9	34.6	-1.7	30.4	4.2
Result before tax	57.8	103.1	102.1	90.6	47.3	-43.2	79.5	-32.2
Тах	0	0	9.3	1.6	9.2	-7.6	0.0	9.2
Annual result	57.8	103.1	92.8	89.0	38.1	-50.9	79.5	-41.5

between the accounts for 2017 and 2018, as well as between and the accounts and the budget for 2018.

SEV has worked since 1 January 2016 to establish independent subsidiaries to manage the windfarms at, respectively, Neshagi and Húsahagi. The consolidated accounts of SEV indicate that the purchase of wind power will continue to increase, while at the same time the cost of supplies and wages, depreciation and interest will decline. The results of the subsidiaries are incorporated into the consolidated accounts via the capital equity portion. The total result of SEV's consolidated accounts are not impacted by this.

It was originally budgeted that the Company would earn a result in 2018 of DKK 79.5 million. The final result for 2018 was DKK 47.3 million before taxes and DKK 38.1 million after taxes or a decline compared to budget of DKK 41.5 million after taxes. Thus, the Company experienced a decline in revenue compared to that budgeted.

The principal reasons for the decline in revenue are lower earnings, higher oil costs, and higher costs overall compared to those budgeted.

The reason for the decline in earnings stems from lower connection fees. A part of the connection fees that came in 2017 were originally budgeted as income in 2018, thus this reflects a balancing between years. Other income is DKK 1.6 million less than budgeted. Sale of kWh and income from fixed fees was as budgeted.

Oil expenses were DKK 14.7 million higher than budgeted because 1) oil prices were higher than originally estimated, 2) balancing of oil storage value to then current rates, and 3) a greater consumption of gas oil and heavy oil than budgeted.

The operational result is impacted if the trends in oil prices and the US dollar exchange rate are different than projected in the budget. Given the Company's strategy to attempt to hold to the budget relative to the purchase of oil, the Company hedged part of the oil purchases for 2018 at prices higher than the prices projected in the budget.

In the Production Division accounting report, which is available at www.sev.fo, oil consumption and pricing is discussed in more detail.

The cost of goods and services is DKK 2.0 million lower than budgeted. The Production Division used DKK 0.5 million more than budget, while the Grid Division came in DKK 1.6 million under budget. Administration used DKK 0.9 million less than budgeted.

Wage expenses are DKK 2.3 million higher than budgeted. The principal reason for this increase is that the set-aside for vacation pay was some DKK 4.0 million more than budgeted. Disregarding this additional outlay for vacation pay, wage expenses were lower than budgeted.

Depreciation was budgeted at DKK 110.8 million, but actual depreciation was DKK 115.1 million, or DKK 4.3 million higher than budgeted. Depreciation has increased over the last several years and an increase in depreciation reflects the investment and transfer to fixed assets undertaken by the Company over the last few years. During work on the 2019 budget, projections were carried out to determine which investments would be expected to be completed and taken into use during the coming year and would thus become an asset subject to depreciation and amortization. The difference between actual and budgeted depreciation is based on this ongoing analysis and the fact that the actual amount booked, and actual investment was somewhat lower than budgeted.

Net interest and provision expenses were DKK 34.6 million, of which unrealised exchange rate gains were DKK 8.9 million and unrealised adjustments on derivatives were a charge of DKK 7.4 million.

In summary, the decline in the net result of DKK 41.5 million, compared to the budget is due to four main operational factors: lower net turnover, especially because connection fees were lower than budgeted; higher oil expenses; higher wage expenses, and higher depreciation.

### Business Activities and Financial Status of the Company

The operational result after taxes for 2018 was a surplus of DKK 38.1 million, compared to a surplus in 2017 of DKK 89.0 million. The Extraordinary General Meeting held on 24 November 2017 approved the 2018 budget indicating a surplus of DKK 79.5 million.

SEV lowered the kWh price of electricity for all customer groups in 2018, except for those customers in the special pricing tariff group that have a consumption rate greater than 30,000 kWh. In 2017, SEV lowered the kWh price for all customers by DKK 0.05 per kWh. The fixed fee rate remained unchanged.

Table 3 shows the changes in pricing over the last several years.

It is critical to maintain a satisfactory result such that the operations of the Company can yield effective self-financing of the investment that lies ahead. This is necessary to ensure that the debt carried by the Company does not become overly great, nor that the Company cannot attract the required financing at



Table 2. Income statement from sale of electricity power and fixed base rate from customer groups in DKK million	Actual 2017	/III / Actual /IIIX		Budget 2018	Difference betw and bu	veen actual udget 2018	
	Total	Total	In DKK	%	Total	In DKK	%
Agriculture, fish farming, fishing industry, and primary raw materials industry	47.7	65.1	17.3	36.3	53.7	11.3	21.1
Production and construction	99.3	96.2	-3.1	-3.2	97.3	-1.1	-1.2
Retail, restaurants and hotels	34.1	33.5	-0.5	-1.6	33.6	-0.1	-0.4
Transport, postal services and telecommunications	31.9	31.0	-0.9	-2.7	30.5	0.5	1.6
Financial services, insurance and other service industries	4.8	4.8	-0.1	-1.2	5.1	-0.4	-7.4
Public and private services, churches	58.3	57.2	-1.1	-1.9	58.8	-1.6	-2.8
Street lights	9.7	9.1	-0.5	-5.2	9.0	0.2	1.8
Single-family homes, apartments, vacation homes, boathouses, heat pumps and EV's	124.1	122.3	-1.7	-1.4	131.6	-9.3	-7,1
Total	409.9	419.2	9.3	2.3	419.8	-0.6	-0.1

reasonable terms. At the same time, operational revenue must be at such a level that the Company can meet its debt obligations even in the face of an economic downturn.

In order to meet the goal of realizing a satisfactory surplus, SEV estimated the need for price harmonization, studied the operational data and estimated the requisite investment for the coming year. It is advisable that the budget be sustainable and that SEV be financially strong over the course of the coming years, especially given the major expansion project at the Sund power plant for around DKK 700 million, while investment in other areas will also increase.

Since the investments relating to the 2030 vision have been implemented earlier than forecasted the regirement for self-financing is likely to be higher than 25% in the next budget.

SEV's long-term aim is that the debt to EBITDA-ratio shall not exceed a factor of 6.0. The Company did not reach this goal at present, given the operational profit for 2018 was DKK 38.1 million and the net debt to EBITDA in 2018 was a factor of 6.2.

The company therefore is cognizant of this and has increased the price of electricity for 2019 by DKK 0.10 per kWh for all customers and the budget calls for net debt to EBITDA in 2019 to be a factor of 6.0 such that the Company again meets its in-house financial key figures requirement. According to the Company's loan agreements net debt tot EBITDA should not ecxeed 9.0 times.

### Revenue

There are three factors that impact SEV's main revenue stream: changes in electricity prices, changes in overall electricity consumption, and shifts between the various customer price groups.

Table 4 breaks down the Company's net turnover for the past 6 years in DKK millions. More detail on the revenue figures can be found in the Grid Division Accounts, available on www.sev.fo.

Total revenue for 2018 was DKK 429.9 million, compared to DKK 435.1 million in 2017, corresponding to a decline of DKK 5.2 million.

Revenue from electricity sales and fixed fees in 2018 was DKK 419.2 million, compared to DKK 409.9 million in 2017. Income was thus DKK 9.3 million more in 2018. Income derived from connection fees suffered a decline in 2018, based in the main from a balancing between anticipated earnings in this area in 2017 and 2018.

As can be seen in Table 4, the Company's income has steadily increased from 2012 through 2017 with a slight decline in 2018. This is due in part to higher volumes of electricity consumption, as well as the price increases put in place over time to counter the effects of an increased cost of oil used in electricity production.

The revenue from the fixed fee has remained very even over the last several years at around DKK 16-17 million annually. On the other hand, revenue from connection fee, various service fees and other income fluctuates from year to year.

Table 3. Price changes	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Change in price for private customers	-0.05	-0.05	0.00	0.00	0.00	0.05	0.10	0.15	0.00	0.00
Change in price for industrial customers > 30,000 kWh	0.00	-0.05	0.00	0.00	0.05	0.11	0.10	0.15	0.00	0.00

Table 5 shows the result for each sold kWh over the last few years in DKK.

Table 6 shows the trend in settled customer sales over the last 6 years in GWh. The Table shows that sales to the Company's customers have increased steadily year-on-year. Own-use of electricity and network loss, of which the greatest loss is attributed to network loss, have also increased consistent with increased sales overall. At the same time, there is a certain amount of harmonization between years that results from the various fluctuations in reading the electric meters from year-to-year. This particular issue has been resolved now that the Company has finally fully deployed wireless meters throughout the country. SEV works continuously on reducing network loss.

The natural climate cycles directly impact wind and hydropower electricity production from year to year, both up and down. Generally, average annual electrical production from hydropower is about 114 GWh.

The year 2013 was an especially dry year, even though there was considerable rainfall from the middle of November until year-end. In addition, the Heyga power plant did not operate at full capacity part of 2013, because of construction disruptions at the power plant. For part of 2014, the Fossá power plant was not in operation because the control system for the turbines was being upgraded. Even though the Fossá power plant did not produce electricity for part of 2014, the end result was that for 2014 considerably more electricity was produced from hydropower, thus 2014 was a good year for hydroelectricity production. There was

considerable rainfall through to April, as well as fall and winter experienced significant rainfall.

This significant rainfall continued into 2015, with substantial rain throughout the spring and into the summer months. For the summer and fall months, the amount of rainfall was deemed to be consistent with a normal year, while the winter again experienced significant rainfall. In the main, the weather in 2016 was good with but little wind and rain. This had a negative impact on the potential for electricity production from wind and hydro. Electricity production from hydropower in 2017 was somewhat less than budgeted, but certainly more than in 2016. This is based in the main from the maintenance carried out on the reservoir dam at Vestmanna connected to the Fossá power plant and the dam linked to the Strond power plant. At the same time, the weather in the spring and summer was good and this impacted the production of electricity from hydropower.

The amount of rainfall during the first months of 2018 was less than in 2017. In addition, there was considerable frost in those first months that caused the freezing of the reservoirs, which, all told, negatively impacted the production of electricity from hydropower. Less rainfall and freezing conditions meant that SEV did not produce as much electricity from hydropower as budgeted. In 2018, as well, the turbines at the power plant north of Strond were upgraded during the month of May. No other hydropower plants experienced any repairs or upgrading and these have therefore produced power throughout the year, however, consistent with the amount of rainfall that occurred. Electricity production to date from wind has been at the greatest

Table 4. Net turnover DKK million							Difference	Change in %
	2013	2014	2015	2016	2017	2018	compared to 2017	
kWh payment	362.4	379.2	385.0	392.7	393.1	402.2	9.1	2.3
Base-rate payment	16.6	16.5	16.4	16.6	16.8	17.0	0.2	1.3
Connection fee	6.9	14.7	16.2	8.0	27.4	9.2	-18.2	-66.4
Service fee etc.	1.3	2.7	6.7	5.3	-2.2	1.4	3.6	-164.5
Income	387.2	413.1	424.4	422.7	435.1	429.9	-5.3	-1.2
Purchased wind energy	-2.6	-2.5	-2.4	-2.4	-2.8	-2.7	0.2	-5.4
Net turnover	384.6	410.6	422.0	420.3	432.3	427.2	-5.1	-1.2



Table 5. Result for kWh sold DKK	2013	2014	2015	2016	2017	2018	Difference to 2017 (DKK)	Difference to 2017 (%)
Average income per kWh sold	1.41	1.46	1.47	1.45	1.42	1.34	-0.08	-5.5
Average cost per kWh sold	1.37	1.25	1.11	1.10	1.13	1.22	0.09	8.2
Result for kWh sold	0.04	0.21	0.37	0.35	0.29	0.12	-0.17	-59.1

level ever experienced by SEV since the Company undertook to produce electricity from wind.

Hydro production was 108.1 GWh in 2018, compared to 111.2 GWh in 2017, a decrease of 3.1 GWh or 2.8% less. Production of electricity from hydropower equalled some 30.7% of total electricity production.

The first Vestas wind turbine at Neshagi was damaged in the beginning of January 2012, followed by a second turbine in March. This had a significant impact on the production of electricity from wind energy in 2012, as can be seen in Table 6. In 2013, there was a significant increase in the production of electricity from wind energy, because the new wind turbines on Neshagi were in operation throughout 2013. Again in 2014, wind production increased significantly because the new Húsahagi windfarm went operational on 9 October 2014. Production increased in 2014 by 12.7 GWh or 58.3%, compared to 2013.

The year 2015 was a good "wind-year" with considerable wind, while 2016 was a "satisfactory wind-year" for electricity production from wind. Electricity production from wind in 2017 was better than in 2015, which was a good "wind-year". Production from wind in 2018 was the best to date with 63.8 GWh, compared to 59.7 GWh in 2017 or 3.9 GWh greater, corresponding to 6.9%.

Production of electricity from wind equalled 18.1% of total electricity production.

The Company anticipates that the output from wind production will remain at a fairly high level due to the battery system at Húsahagi and the performance of the windfarm at Húsahagi since it started in 2014.

For further details on production and its distribution among the various sources of power, please refer to SEV's Production Division accounts. available at www.sev.fo.

### **Expenses**

Table 8 shows the distribution of SEV's total expenses from 2012 to 2018 in DKK million. From 2017 to 2018, expenses increased by DKK 38.3 million, or by 11.1%.

The expenses related to production stability, rolling power, available power and the cost of managing the power grid are noted in the accounts for production and the grid. These accounts are available on SEV's website, www.sev.fo.

### Oil Expenses

Overall oil expenses encompass the cost of heavy oil, gas oil and lubricating oil, but by far the largest portion is heavy oil. Table 8 shows that oil expenses are again increasing after they had declined considerably in 2016 compared to previous years. Oil costs in 2016 had declined to DKK 50.9 million, which was the lowest they had been in many years, and by 2018 these costs had increased again to DKK 105.8 million. Oil expenses correspond to 27.6% of total expenses for 2018. SEV used 35,976 tonnes of heavy fuel oil in 2018, compared to 32,631 tonnes in 2017, or 3,345 tonnes more in 2018 due to increased demand for electricity.

Table 6. Settled sales in GWh	2013	2014	2015	2016	2017	2018	Share of production in %	Diffrence GWh to 2017	Difference % to 2017
Settled customer sales in GWh	274.4	283.8	288.1	291.4	306.5	320.5	91.1	14.0	4.6
Network loss and own consumption in GWh	18.1	21.6	26.3	25.9	27.8	31.5	8.9	3.6	13.1
Total production in MWh per year	292.5	305.4	314.4	317.4	334.3	352.0	100.0	17.7	5.3
Thermal	180.1	150.2	125.5	158.9	163.4	180.1	51.2	16.7	10.2
Hydro	90.6	120.7	133.1	106.3	111.2	108.1	30.7	-3.2	-2.8
Wind	21.8	34.5	55.8	52.1	59.7	63.8	18.1	4.1	6.9

Table 7. Heavy fuel oil consumption in tonnes	2016	2017	2018	2018 Budget	Difference budget and actual 2018	Difference actual 2017 and 2018
Heavy fuel oil	32,195	32,631	35,976	35,300	676	3,345

This expense is directly related to the price fluctuations on the world market, as well as electricity consumption and fluctuations in the production of electricity from wind and hydropower.

For further, more detailed information on oil expenses and pricing, please refer to SEV's Production Division accounts, available at www.sev.fo.

### **Goods and Services**

Table 9 shows the trend in total expenses for goods and services from 2013 to 2018 in DKK million.

Expenses related to goods and services for 2018 equalled DKK 50.4 million, compared to DKK 53.9 million in 2017, corresponding to a lower consumption of DKK 3.5 million.

### **Employee Expenses**

Table 10 shows the trend in total employee expenses from 2013 to 2018 in DKK million. Wage expense for 2018 equalled DKK 74.2 million, compared to DKK 67.4 million in 2017, or a higher cost of some DKK 6.8 million. The principal reasons for this increase are: wage agreement increases; a greater number of employees, and increased set-aside for vacation pay, etc. by some DKK 4.0 million. There are a number of union groups within the Company, and SEV follows the public wage agreements that are in effect for the different union groups.

Employee wage expense related to production activities was DKK 36.7 million in 2018, compared to DKK 33.9 million in 2017, reflecting an increase in wage expense of DKK 2.8 million.

The wage expense for grid activities has remained static over the last few years. Grid-related wage expenses for 2018 were DKK 23.5 million, compared to DKK 21.0 million in 2017, or an increase of DKK 2.5 million.

Administrative employee expenses have steadily increased over the last few years. In 2018, administrative employee expenses were DKK 14.0 million, compared to DKK 12.4 million in 2017, which reflects an increase of DKK 1.6 million over the previous year.

### Financial Expenses

During 2016, the Company worked on the refinancing of existing debt of some DKK 830 million, as well as locating financing for upcoming investment, for example, the expansion of Station 3 at the Sund thermal power plant, and on 19 December 2016, new financing finally closed. The new financing combines financing funded by bonds for DKK 1,042 million and bank financing, which is in the form of drawing rights totalling DKK 626 million, which by year-end 2018 has been drawn by DKK 306 million. The total amount of financing acquired by SEV in December 2016 equalled DKK 1,668 million.

The Company is carrying gross debt as of year-end 2018 of DKK 1,343 million, compared to DKK 1,133 million for 2017 or DKK 210 million more. Interest expense at year-end 2018 is DKK 34.6 million, against DKK 28.4 million in 2017. The Company has also entered into interest rate hedge agreements to mitigate interest rate risks and currency exchange risks – these instruments reflect an unrealised charge of DKK 7.4 million. This debt fluctuates depending on conditions in the interest-rate markets. In addition, income of DKK 8.9 million resulted from exchange rate balancing.

Table 8. Expenses DKK million	2013	2014	2015	2016	2017	2018	Dfference DKK to 2017	Difference % to 2017	Share of expenses in 2018 in %
Oil	167.9	141.5	86.2	50.9	84.7	105.8	21.0	24.8	27.6
Purchased power	2.6	2.5	2.4	2.4	2.8	2.7	-0.2	-5.4	0.7
Goods and services	54.1	49.8	49.9	59.3	53.9	50.4	-3.5	-6.5	13.2
Employee expenses	58.7	63.6	64.3	66.5	67.4	74.2	6.8	10.1	19.4
Depreciation	70.0	77.2	93.6	93.2	102.7	115.1	12.4	12.1	30.1
Interest	22.0	20.6	24.8	48.3	32.9	34.6	1.7	5.1	9.0
Total	375.4	355.3	321.3	320.6	344.6	382.8	38.3	11.1	100.0



Table 9. Total expenses for goods and services DKK million	2013	2014	2015	2016	2017	[ 2018	Ofference DKK to 2017	Difference % to 2017
Framleiðsla	24.1	21.1	21.3	28.2	25.0	22.4	-2.7	-10.7
Net	15.4	11.9	11.8	12.4	10.4	9.9	-0.5	-4.6
Fyrisiting	14.6	16.8	16.8	18.6	18.5	18.1	-0.3	-1.9
Total	54.1	49.8	49.9	59.3	53.9	50.4	-3.5	-6.5

Net interest expense was DKK 34.6 million in 2018, compared to DKK 32.9 million in 2017, corresponding to an increase of DKK 1.7 million. Accounting for 2018 and 2017 include changes in the balancing of financial instruments.

Currently, total gross debt is carried at a fixed rate of interest, based on the loan instruments executed that carried a fixed rate of interest, as well as the interest hedging agreements.

### Depreciation

Depreciation for 2018 amounted to DKK 115.1 million against DKK 102.7 million in 2017, corresponding to an increase of DKK 12.4 million. This means that depreciation is now the largest expense item, corresponding to 30.1% of total costs. Previously, oil expenses were the largest expense. This change arose because of the Company's major investments undertaken over the past few years. The cost of oil is, however, increasing and is at a very high level.

### **Special Risks**

The risks facing the Company can be subdivided into the following categories:

## Market risks

Over the last three years especially, SEV has undertaken significant investment in its production facilities and the grid, and SEV shall continue to make major investments in infrastructure, e.g., the expansion of the Sund thermal power plant for some DKK 700 million. Given all the investment that SEV has undertaken and will

embrace in the future, it could be said that, to a certain degree, SEV is a project-based company, which necessitates a long-term view and the adoption of a budget that reflects this long-term vision. This means, consequently, that it is advisable to understand and be sensitive of critical cost factors, such as the cost of oil, currency exchange costs and interest costs.

The potential for SEV to cover increased costs through adjusting the price of electricity or other fees, either partially or wholly, is limited and the possibility of running a deficit or realizing an unsatisfactory operational result is only acceptable for a limited time. Pricing levels, in the end, is a subject for the owners of SEV and thus has a political dimension, and is also subject to the approval of the Electricity Production Commission, while the financing of increased costs via the liquidity gained from loan facilities is only feasible over very short time periods, and limits the potential for planned investment in infrastructure when increases in financing is used to cover increased costs.

In connection with the loan facilities taken out by SEV, the various financial institutions reviewed SEV's key financial indicators for the most critical business areas; the requirements relative to these figures are quite specific and not negotiable. In order to obtain competitive financing, it is necessary for SEV to meet the specific requirements stipulated by the financial institutions and consistent with what SEV itself considers financially prudent to address the most critical risks relative to increasing costs. SEV is an interesting customer to provide financing to, and, according to SEV's consultants, it can be considered an "investment grade"

Table 10. Wages DKK million	2013	2014	2015	2016	2017	2018	Dfference DKK to 2017	Difference % to 2017
Production	30.7	30.9	32.0	33.7	33.9	36.7	2.8	8.3
Grid	19.5	19.9	21.1	20.7	21.0	23.5	2.5	11.7
Administration	10.5	11.7	11.9	12.4	13.8	14.3	1.8	14.8
Adjustment to pension benefit obligations	-1.9	1.1	-0.7	-0.2	-1.4	-0.3	1.1	
Total	58.7	63.6	64.3	66.5	67.4	74.2	6.8	10.1

client. This affords SEV the possibility to secure excellent financing by any number of measures. In order for SEV to maintain this "ratings level", it is necessary to remain commercially viable with sufficient profit such that the key accounting figures are on a par with those of the companies against which SEV must compete for financing.

SEV, in conjunction with SEB, which is SEV's financial and hedging consultant, has developed a risk hedging strategy against oil, currency exchange and interest rate fluctuations. The hedging strategy is a part of the loan facility agreements that the Company undertook in December 2016

#### Interest rate risks

SEV has evolved a strategy to secure a fixed rate of interest for up to 100% of its debt with a repayment period longer than 12 months. At the same time, the average repayment period for debt associated with a fixed rate of interest shall be between five and ten years. This will be done in such a manner so that SEV can achieve coverage of its interest rate risk within a range of 80% to 100% of total debt at any given time. The debt can either carry an agreed-upon fixed rate of interest, or a floating variable rate of interest that is governed by an interest rate swap agreement.

This hedging strategy or methodology requires that the fixed-rate debt shall be continually monitored such that when the fixed-rate portion of SEV's total debt falls below 80% or increases to over 100%, then the interest rate swap agreements should be activated. Consequently, this review might necessitate that certain interest rate swap agreements should be terminated to ensure, for example, that the percentage of fixed-rate interest loans does not exceed 100% of the total loans held by SEV. As a result of such a course of action, the value of the interest rate swap agreements will grow. A positive value decreases the financial needs of SEV, while a negative value increases the financial

needs. SEV, in the main, books the positive value of the interest rate swap agreements with the assets of the Company. SEV strives to maintain a positive balance of its interest rate swap agreements over time, wherein the goal is to have an average fixed-rate interest term of between 5 and 10 years.

In connection with SEV's new loan facilities, SEV secured a fixed rate of interest on all of its gross debt as at year-end 2017 of DKK 1,042 million from a bond issue with an average repayment period of around 8.3 years. In addition, in December 2016, the Company executed interest rate swap agreements for the debt that would be assumed when and if the Company has need for bank financing as each new infrastructure investment is undertaken. This is consistent with the strategy to secure against interest rate risk. Thus, an increase in interest rates will, generally, not have an impact on the majority of the interest-bearing debt carried by SEV for the next eight years.

## Oil price and exchange rate risks

One consequence of the investment budget for the coming years is that the current hedging strategy for oil and currency exchange has been expanded to cover an additional four years beyond the current year. This is the same time period during which the loan facilities of the Company are expected to increase by some DKK 600 million to around DKK 1,600 million.

SEV has covered its oil price risk consistent with the benchmarks below:

	Year 1	Year 2	Year 3	Year 4	Year 5
Oil price hedge	80%	60%	40%	20%	20%

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



This benchmarking strategy is designed such that the hedging coverage is undertaken the initial year for a specific operational year. In year two, the respective hedging coverage is increased to cover a period of five years. This template ensures a step-wise creation of secure hedging at a level that ensures an average pricing position during those various years. SEV has covered the risk with a fixed price hedge.

At the same time as the hedging coverage for oil is executed, the dollars that are to be used for the respective oil purchase are also purchased as at a specific settlement date to cover the dollar exchange risk.

In the event of an increase in the price of oil and an increase in the dollar exchange rate, such risk hedging will have a dampening effect on expenses and the operational result will be more stable.

## Liquidity risk

SEV has established the protocol that before any specific project is undertaken the necessary financing must be in place for the project. This ensures that financing is always available for a specific project.

In addition, the Company shall always have at least DKK 100 million available in the bank, if the necessity should arise. In connection with the operation of the Company, this DKK 100 million is available to cover any exigencies for a period of six months in the event that the Company does not have any income. Moreover, SEV considers it desirable to have access to a line of credit that would support the liquidity of the Company, if necessary.

## Credit and counter-party risks

## Accounts receivable from customers

The Company carefully and continually monitors its customer accounts receivable. The Company has in place specific procedures for the follow-up on delinquent outstanding accounts. If an invoice is not paid by the deadline, the customer is sent a reminder and if again the customer does not pay by the stipulated due date, then a third reminder is sent and the electricity to the customer is cut-off. This procedure limits the risk relative to the Company's customers, however, the Company can be at risk from an individual large customer.

Available liquidity of the Company can be placed in bonds or loaned to banks

### Cash-on-hand in banks

The Company continually takes steps to diversify its cash among several banks that are financially strong as to minimize the inherent risk.

#### **Bonds**

One possibility relative to maintaining cash-on-hand is to purchase Danish treasury bonds or mortgage-backed bonds. In order to limit currency rate risk in this connection, only short-term bonds are considered

#### Insurance

In association with its insurance advisor, Sp/f Íti v/Ali Celebi (previously, Willis Føroyar), SEV actively works to cover its insurance risk, such that no individual damage claim or combination of damage claims would impact the overall operational result by more than DKK 10 million.

### Operational risks

It is quite clear that it is impossible to avoid all operational risks, but these risks can be minimized to an acceptable level through appropriate initiatives, procedures and oversight prescribed by the Board and Management.

### **Production security**

The purpose of the Electricity Production Act is, among other factors, to ensure that the provision of electricity throughout the Faroe Islands takes into consideration production stability, the economy of the country and the environment. The price of electricity shall not be higher than necessary to address these factors, as well as the other services/obligations that the Company has toward its customers. SEV shall always maintain a secure and effective operation that meets the stipulated goal of production stability and security. The Company thus continually strives to enhance its production stability and the quality of its electric power production.

At the same time, in connection with production stability, it is necessary to address the consequences of storms and other events. In this context, SEV, over many years, has worked to bury electric cables so that the danger of a negative impact in this area is minimized.

## IT and in-house procedures

Risk reduction efforts within SEV reflects the IT security policy and guidelines, etc., in effect, which extend to procedures, oversight, and the division of functions and functionality. Also, SEV continues to facilitate the education and development of its staff in this regard.

## Health and safety

The Company takes health and safety very seriously. The Company endorses a zero-tolerance policy, meaning that the goal is that no one shall suffer a work-related injury, nor shall there be any injury that results from other activity other than the work of the Company. In this connection, the Company has instituted the requisite policy and procedures.

### **Environment**

SEV uses heavy oil and gas oil in the production of electricity and the Company uses several dangerous chemicals for cleaning, etc. of the motors. The Company again takes the protection of the environment very seriously and the regulations and requirements in this area are always diligently followed.

### Strategic risks

In the main, the strategic risks of the Company are linked to how the Company organizes its activities, the political environment, and the competence of its employees, etc. Strategic risk can be reduced through the application of an effective project plan. Work is underway to realize the plan to increase that part of production that is based on renewable energy resources, such as hydro-power, wind and tidal energy. This plan also extends to the new control system from Schneider Electric and the smartgrid solution. To continually ensure that the Company benefits from new ideas and new inspiration, the Company emphasizes candour, openness and honesty throughout its entire operations and dealings with others.

## New, disruptive technology

New, disruptive technology is continually evolving and impacting the world around us. Thus, SEV strives to follow and adapt the potential inherent in this evolving, disruptive technology.

#### **Projects**

SEV is continually developing and upgrading its production capacity and the grid. In this connection, many projects have been

undertaken. Thus, in this regard, it is necessary to closely monitor these projects and for major projects oversight committees are established along with the appointment of a project leader for each individual projec.

## Professional knowledge and development

The training and development of staff is the key to development of the Company and to limit strategic risk. The Company strives to ensure that the requisite knowledge and experience is in place in every area of the Company to the level deemed necessary and as a consequence the Company arranges for suitable training of staff. In addition, SEV arranges for continual leadership training to enhance and support their work for SEV.

#### Investment

As 2018 has ended, realised investments equalled DKK 436.0 million, compared to DKK 388.5 million in 2017, which is DKK 47.5 million more than the previous year. Table 11 gives more detail on the investments during the year. According to the budget for 2018, planned investment equalled DKK 554.7 million, thus actual investment was DKK 118.7 million less than budgeted.

The Table shows the original budget breakdown for DKK 554.7 million. Revisions and reprioritisation of DKK 0.2 million is consistent with current approved policies for the investment of DKK 554.7 million in 2018. Also shown in the Table is a comparison of the revised budget versus actual investments in 2018.

Table 11. Investment DKK million	Original investment budget 2018	Revisions to budget 2018	Budget including revisions	Actual investments 2018	Difference between actual and budget 2018
	1	2	3=1+2	4	5=3-4
Fossá power plant	2.6	0.0	2.6	0.4	-2.2
Heygar power plant	0.8	0.0	0.8	0.1	-0.7
Mýra power plant	4.5	0.0	4.5	1.8	-2.6
Eiði power plant	6.1	0.3	6.3	2.6	-3.7
Botni power plant	9.4	0.0	9.4	4.7	-4.7
Vágur power plant	7.5	0.0	7.5	6.7	-0.8
Sund power plant	325.1	0.5	325.6	255.3	-70.3
Strond power plant	9.1	0.0	9.1	5.4	-3.7
Small power plants	18.3	0.3	18.6	2.9	-15.8
Suðuroy wind turbines	5.0	0.0	5.0	2.2	-2.8
Total investment in power production	388.3	1.1	389.4	282.2	-107.2
Coupling stations and power grid. etc.	146.4	-1.1	145.3	138.6	-6.6
Administrative offices, equipment and ITC	20.0	0	20.0	15.1	-4.9
Total	554.7	0.0	554.7	436.0	-118.7



Table 12. Investment DKK million	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Hydro-power plants	27.4	41.7	62.8	82.0	58.5	72.4	29.4	13.4	8.5	17.2	15.1
Other electrical power plants	20.2	13.4	3.3	0.8	60.0	34.7	149.5	108.3	135.4	250.5	266.4
Distribution facilities	41.1	19.6	21.7	9.1	31.2	43.8	88.1	95.9	86.7	109.4	143.5
Other operational assets	3.1	5.6	5.7	3.9	3.1	4.1	8.2	14.5	11.2	11.3	11.0
Total	91.8	80.3	93.5	95.8	153.8	155.0	275.2	232.1	241.7	388.5	436.0

Compared to the 2018 budget and reprioritisation, net investment equalled DKK 436.0 million and this is DKK 118.7 million less than planned. This reflects, which Table 11 shows, a lower investment of DKK 107.2 million in production, DKK 6.6 million less investment in the grid, and DKK 4.9 million less investment in administration. Within production, this especially reflects the reduced investment in the Sund thermal power plant. At the same time, there was reduced investment in coupling stations and the administrative building, compared to that budgeted.

Investment in the Fossá power plant equalled DKK 0.4 million, while investment in the Heyga power plant was DKK 0.1 million. Investment in the Mýra power plant was DKK 1.8 million, of which DKK 1.0 million was used to asphalt the roadway to the facility. Other investment equalled DKK 0.8 million.

Investment in the Eiði power plant was DKK 2.6 million, of which DKK 1.8 million was for asphalting the roadway to the southern dam. Other investments were DKK 0.8 million.

Investment in the Botni power plant equalled DKK 4.7 million, of which DKK 3.7 million was for the pumping system. Other investment equalled DKK 1.0 million.

Investment in the Vágs power plant was DKK 6.7 million, of which DKK 1.4 million was for the new Scada system (power plant operating system), and DKK 0.9 million are related to finishing work of the new M4 engine. A new watch station was built for DKK 0.5 million and DKK 1.0 million was used for spare parts inventory for the M4 engine. Moreover, fire extinguishing equipment was also purchased for DKK 0.6 million. Other investment equalled DKK 2.3 million.

The total investment in the Sund power plant in 2018 was DKK 255.3 million, which is less than budgeted. The investment in Station 3 for 2018 equalled DKK 226.6 million, which can be detailed thusly: DKK 81.3 million for the motor; DKK 15.9 million for project management and consultancy work; DKK 82.3 million for the buildings, and DKK 46.9 million for other items.

The new tank yard and the day tank house has been under construction since 2012. The project is now completed, and the

new house was officially taken into use on 8 November 2018. Some DKK 25.0 million was invested in the project in 2018. Total investment for the tank yard, buildings, tanks, technical equipment and electrical work equalled DKK 143.4 million, which is DKK 6.0 million more than budgeted. SEV believes it has received good value for money in this project.

Investment in the Strond power plant was DKK 5.4 million, of which DKK 2.7 million was for the refurbishment of the turbines, DKK 0.7 million for the dam in Strandadalur. Other investments were DKK 2.0 million.

The investment in the coupling stations and the grid equalled a total of DKK 138.6 million. Investment in the coupling stations was DKK 76.2 million, while investment in the grid, etc. was DKK 54.9 million. Investment in the wireless meters, engineering and technical equipment was DKK 8.2 million, of which the wireless meters, etc. equalled DKK 1.1 million, and DKK 5.2 million was for the new grid control system. Other investment equalled DKK 1.9 million.

The investment in the coupling stations can be specified as: Eið, DKK 5.6 million; Vestmanna, DKK 6.7 million; Strond, DKK 24.1 million; Tvøroyri DKK 6.7 million; and Sund (Station 3), DKK 28.9 million. Other coupling station investment equalled DKK 4.2 million.

The DKK 54.9 million that was invested in the grid can be divided thusly: DKK 13.4 million in the Northern Islands, DKK 10.5 million on Eysturoy, DKK 3.3 million on Vágoy, DKK 1.3 million in Mid-Streymoy, DKK 11.4 million in South Streymoy, DKK 1.2 million on Sandoy, and DKK 7.7 million on Suðuroy. In addition, there was some DKK 6.0 million in other investment in the grid.

Investment relative to the headquarters building, tools, IT equipment, etc. was considerably less than budgeted, especially because the upgrading of the headquarters building on Landavegur has been postponed. Investment in office furnishing and parking facilities for the headquarters building equalled DKK 15.2 million; the emergency generator cost DKK 0.6 million. Investment in IT equipment and software, etc. equalled DKK 4.2 million. Refurbishment of the facility at á Oyrunum in Vágur was carried out for DKK 0.5 million.

Table 13. Total investment DKK million	2017	2018
Investment booked to work-in-progress	369.7	420.9
Investment booked directly as transition	18.8	15.1
Investment at year-end	388.5	436.0

Table 14. Work-in-progress DKK million	2017	2018
Opening balance	238.8	518.1
Investment booked to work-in-progress	369.7	420.9
Work transferred to fixed assets	-90.4	-256.8
Closing balance	518.1	682.1
Changes to work-in-progress	279.4	164.0

Table 12 shows the total gross investment of SEV from 2009 to 2018 in DKK million.

Since 2008 to today, SEV has invested DKK 2,244 million, corresponding to DKK 204 million per year for the last 11 years.

Tables 13 – 15 show the trend of investment, work-in-progress, and transfer to fixed assets during 2018 and 2017.

Table 14 shows that the closing balance 2018 for work-in-progress was DKK 420.9 million, compared to DKK 369.7 million in 2017. Completed work transferred to fixed assets was DKK 256.8 million in 2018, whereas DKK 90.4 million was transferred at the end of 2017.

Out of the closing balance for work-in-progress of DKK 682.1 million at year-end 2018, DKK 514.2 million relate to the Production Division, and DKK 167.9 million to the Grid Division. Out of the Production Division share of DKK 514.2 million, DKK 5.0 million was for the power plant at Botni; DKK 6.7 million for the Vágur plant; DKK 484.2 million for the Sund plant; DKK 5.0 million for the Strond plant; and other power plants, DKK 13.3 million.

Work-in-progress for the Grid Division of some DKK 167.9 million was split into coupling stations DKK 46.6 million, grid DKK 86.8 million, and control systems, etc. DKK 34.6 million. In summary, work-in-progress increased by DKK 164.0 million in 2018, compared to an increase of DKK 279.4 million in 2017.

Table 15 shows that DKK 271.9 million was transferred to fixed assets in 2018, compared to DKK 111.5 million in 2017.

The largest investment projects transferred at year-end 2018 are the new tank house at the Sund power plant for DKK 103.1 million, and the new coupling stations at Eið and Strond for, respectively, DKK 42.2 million and DKK 38.9 million.

Table 15. Transfer to fixed assets DKK million	2017	2018
Work transferred to fixed assets	90.4	256.8
Investments booked directly to fixed assets	21.1	15.1
Transfers at year-end	111.5	271.9

Please refer to work-in-progress and Note 7 n the Annual Accounts.

## Liquidity

In 2018, the Company increased its debt burden by DKK 200 million, compared to DKK 106.0 million in 2017, when the Company had available funds from the refinancing in 2016 for intended investment. The 2018 budget called for loan facilities of some DKK 350 million.

The change in liquidity in 2018 from operations was DKK 178.7 million, against DKK 194.9 million for 2017. Thus, the self-financing relative to investment and repayment was positive. The loan facility agreements with financial investors that the Company entered into in December 2016 stipulate that no instalment payments shall be paid, but that the debt shall be paid in its entirety when the term of the facility is reached.

The liquidity of the Company at year-end 2018 was DKK 190.8 million, compared to DKK 248.0 million in 2017. In addition, the Company has access to unused drawing rights and a line of credit in various banks equalling DKK 314.9 million.

Thus, the available cash-on-hand, credit, and available drawing rights equalled DKK 505.7 million in 2018, compared to DKK 768.0 million in 2017. A major portion of the available drawing rights shall be used to finance upcoming investment in the years ahead.

It is deemed necessary to not only maintain a solid liquidity for the daily operations of the Company, but also to ensure sufficient liquidity against the uncertainty of the global financial markets.

## **Prospects for 2019**

From 2008 through and including 2012, the Company accumulated a total deficit of DKK 98.6 million. This deficit is a result of electricity prices that were too low. In 2013, the Company realized a surplus after taxes of DKK 11.9 million, hence demonstrating that the negative trend in operations was reversed in 2013. Altogether since 2008 through 2018, the Company has earned a total net profit of DKK 303 million, or a profit on average of DKK 27.5 million per year.



A profit of DKK 81.3 million before taxes is projected for 2019 and DKK 66.6 million after taxes because the Company intends to increase the price of electricity by DKK 0.10 per kWh for all customer groups.

Originally, electricity consumption was projected to increase by 7.1% in 2019, compared to an actual increase of 4.6% in 2018. The increase is anticipated within several customer groups, each with their own rate of increase. Overall, there will be an increase in the sale of kWh.

Based on realised sales for 2017 and partly for 2018, budgeted sales for 2019 are 338.4 GWh or DKK 456.2 million. Fixed fee income will remain almost unchanged at DKK 17.1 million. In addition, connection fees and other sales will add another DKK 12.0 million to sales, for a total sales income of DKK 485.3 million in 2019, compared to DKK 429.9 million in 2018. The increase year-on-year is DKK 55.4 million.

Budgeted oil expenditure for 2019 is estimated to equal DKK 116.1 million, compared to DKK 105.8 million in 2018. In January 2016 and January 2017, the Company hedged part of its oil purchase for 2019. Further, the oil supply for 2019 was hedged in February and December of 2018 at a price lower than budgeted, while the dollar exchange rate fell relative to the budgeted rate such that the total price hedging for the amount budgeted is better than budgeted for 2019. If the volume of oil consumed does not increase considerably from that projected in the budget, oil expenses will be lower than budgeted, however, the balancing of the value of oil held in storage to reflect market prices must be taken into consideration.

Operating expenses are budgeted at DKK 130.7 million in 2019, compared to DKK 126.0 million in 2018, an increase of DKK 4.7 million or 3.7%.

The result from ordinary operations is budgeted at DKK 235.9 million for 2019. Depreciation is budgeted at DKK 123.0 million and net interest expenses are budgeted at DKK 31.6 million. Increased interest expense stems from the increase in investment and debt held by the Company to finance operations and investment.

With a budgeted pre-tax result for 2019 of DKK 81.3 million and DKK 66.6 million after tax, the change in liquidity from operations is expected to be DKK 240.2 million. Liquidity at year-end 2019 is budgeted at DKK 198.2 million.

If the Company is to continue to make the necessary investment to develop and maintain the power grid and the production power plants, and to advance the investment in the expansion of renewable energy resources, it is necessary that the Company ensure sufficient self-financing from its operations. With sufficient self-financing in place, the Company will be able to maintain satisfactory liquidity, which is a prerequisite to obtain loan financing for the major investments that stand before the Company in the coming years.

It is budgeted that the financial key figures for net debt to EBITDA will be a factor of 6.0 and the equity basis will be 43.4%. Given these figures, SEV will be within its own in-house guidelines and well within the permitted levels for key figures stipulated by financial institutions.

More information for 2019 can be found in the Operational, Financial and Investment Budget Plan for 2019 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**

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

The Annual Accounts apply the same accounting principles as the previous year and are presented in Danish kroner.

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 forecasted 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 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 a portion of the 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-offs**

The depreciation and amortisation of intangible and tangible fixed assets are based on an asset's forecasted 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 and are related to the production period are not included in the forecasted useful life of the asset.

## Results from equity in subsidiaries

After full elimination of intercompany profit, the equity investment in the group enterprise is recognised in the profit and loss account at a proportional share of the group enterprise's results after tax.

### **BALANCE SHEET**

## **Tangible Assets**

Tangible assets are valued at acquisition cost less accumulated depreciation and write-offs. 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 forecasted useful life and the residual value of the asset:

	Useful life	Residual value
Production and distribution plants	10 - 50 year	rs 0%
Buildings	50 yea	rs 0%
Production equipment and furnishings	3 - 5 yea	rs 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-offs.

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.

## Equity in subsidiaries

Equity in subsidiaries is recognised in the balance sheet at a proportional share under the equity method, the value being calculated on the basis of the accounting policies of the parent company by the deduction or addition of unrealised intercompany profits and losses, and with the addition or deduction of residual value of positive or negative goodwill measured by applying the acquisition method.

To the extent the equity exceeds the cost, the net revaluation of equity in subsidiaries are transferred to the reserves under the equity for net revaluation as per the equity method. Dividends from the subsidiary that is expected to be decided before the approval of this annual report are not subject to a limitation of the revaluation reserves. The reserves are adjusted by other equity movements in the subsidiaries.

Newly taken over or newly established companies are recognised in the annual accounts as of the time of acquisition. Sold or liquidated companies are recognised at the time of cession.

## **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 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 amortised acquisition cost, which generally corresponds to nominal value. To guard against possible loss, receivables are written-down to net realised value.

### **Prepayments**

Prepayments that are included under assets include express costs attributable to the coming fiscal year.

#### Cash-on-hand

Cash-on-hand includes cash-on-hand and short-term (under 3 months) securities that could be readily converted to cash and where there is an insignificant risk for changes in valuation.

#### **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 then applicable as at the end of the fiscal year.

Adjustments to deferred tax resulting from changes to 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 to 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 describedbelow. 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, thenhedge 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 for 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 installment 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.

## **Prepayments**

Prepayments recognised under debt include payments attributable to the subsequent accounting year.

#### **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 -	Result from operations before taxes x 100  Average equity		
Return on assets -	Result of ordinary operations x 100  Average value of operating assets		
Net liabitity	Net liability (liability – cash-on-hands) EBITDA		
Asset turnover	Net sales Total assets		
Equity/asset ratio	Equity year-end x 100  Total assets		





# **Income Statement 1 January – 31 December**

		Group		Parent	
otes		2018 DKK	2017 t. DKK	2018 DKK	2017 t. DKK
1	Net Sales	427,459,938	432,277	407,997,666	411,910
2	Cost of oil	-105,771,305	-84,741	-105,771,305	-84,741
3	Materials and services	-50,391,190	-53,902	-44,893,375	-48,862
	Gross proceeds	271,297,443	293,634	257,332,986	278,307
4	Wages	-74,200,907	-67,380	-74,084,563	-67,260
	Result before depreciation, amortization and impairment	197,096,536	226,255	183,248,424	211,047
	Depreciation, amortization and impairment of fixed assets	-115,136,412	-102,742	-104,768,977	-92,397
	Result before financials	81,960,124	123,513	78,479,446	118,650
8	Result from subsidiary companies	0	0	1,192,108	2,112
5	Financial expenses	-34,634,249	-32,948	-32,619,759	-30,754
	Result before tax	47,325,875	90,565	47,051,795	90,007
6	Tax on annual result	-9,242,279	-1,591	-8,968,199	-1,033
	Annual result	38,083,596			

## **Balance Sheet 31 December**

	ASSETS	Group		Parent		
otes		2018 DKK	2017 t. DKK	2018 DKK	2017 t. DKK	
	Assets					
7	Power plants	1,006,248,811	949,800	899,567,342	833,219	
7	Distribution stations	613,422,280	510,428	613,422,280	510,428	
7	Buildings and land	37,629,141	38,924	37,629,141	38,924	
7	Operating equipment	42,255,787	43,608	42,255,787	43,608	
7	Investment work-in-progress	682,126,340	518,106	679,887,481	517,638	
	Total tangible fixed assets	2,381,682,358	2,060,866	2,272,762,031	1,943,817	
8	Investment in Associated and Subsidiary Companies	2,750,000	2,750	36,117,267	34,925	
9	Loans to subsidiary companies	0	0	86,859,076	95,107	
10	Derivatives	3,043,212	20,532	3,043,212	20,532	
	Total financial assets	5,793,212	23,282	126,019,554	150,564	
	Total fixed assets	2,387,475,570	2,084,148	2,398,781,585	2,094,381	
	Current assets		······································	······································		
	Oil inventory	24,183,568	16,671	24,183,568	16,671	
••••	Materials inventory	19,809,583	18,956	19,809,583	18,956	
	Total inventory	43,993,151	35,626	43,993,151	35,626	
	Goods and service receivables	87,543,801	75,888	87,247,507	75,888	
	Tax asset	134,364	7	0	0	
	Prepayments	12,827,920	3,516	9,450,830	789	
	Total recievables	100,506,086	79,411	96,698,337	76,676	
		190,785,456	247,993	190,785,456	247,993	
	Cash-on-hand	,,,				
	Cash-on-hand Total current assets	335,284,693	363,030	331,476,944	360,295	



## **Balance Sheet 31 December**

		Group		Parent		
otes		2018 DKK	2017 t. DKK	2018 DKK	201. t. DK	
	Equity					
12	Deposits	4,139,875	4,140	4,139,875	4,140	
•••••	Hedge reserve	-53,839,512	-28,251	-53,839,512	-28,25.	
	Reserve for net revaluation as per the equity method	0	0	4,367,267	3,900	
	Results carried forward	1,257,422,578	1,220,509	1,253,055,312	1,216,60	
	Total equity	1,207,722,941	1,196,397	1,207,722,941	1,196,39	
	Provisions	······································	······································			
	Provisions for pensions and equivalent liabilities	16,800,646	17,089	16,800,646	17,089	
	Deferred tax	25,086,747	12,111	23,981,316	11,40	
	Total provisions	41,887,393	29,200	40,781,962	28,496	
13	Long-term debt	1,341,582,000	1,132,318	1,341,582,000	1,132,318	
	Total long-term debt	1,341,582,000	1,132,318	1,341,582,000		
13	<b>Total long-term debt</b> Current portion of long-term debt	<b>1,341,582,000</b> 869,797	<b>1,132,318</b> 870	<b>1,341,582,000</b> 869,797	1,132,318	
13				•••••••••••	<b>1,132,31</b> 8	
13	Current portion of long-term debt  Bank debt	869,797	870	869,797	<b>1,132,318</b> 870	
13	Current portion of long-term debt  Bank debt  Prepayment received from customers	869,797 6,064	870 0	869,797 6,064	<b>1,132,31</b> 8	
13	Current portion of long-term debt  Bank debt  Prepayment received from customers  Trade creditors	869,797 6,064 1,165,948	870 0 0	869,797 6,064 1,165,948	<b>1,132,31</b> 6	
13	Current portion of long-term debt  Bank debt  Prepayment received from customers  Trade creditors	869,797 6,064 1,165,948 55,125,961	870 0 0 22,240	869,797 6,064 1,165,948 55,125,961	<b>1,132,318</b> 870 0 22,240	
	Current portion of long-term debt  Bank debt  Prepayment received from customers  Trade creditors  Inter-company account	869,797 6,064 1,165,948 55,125,961 0	870 0 0 22,240	869,797 6,064 1,165,948 55,125,961 8,603,697	1,132,318 876 ( 22,240 8,202 56,739	
	Current portion of long-term debt  Bank debt  Prepayment received from customers  Trade creditors  Inter-company account  Derivatives	869,797 6,064 1,165,948 55,125,961 0 59,284,937	870 0 0 22,240 0 56,739	869,797 6,064 1,165,948 55,125,961 8,603,697 59,284,937	1,132,314 876 22,246 8,20, 56,731	
	Current portion of long-term debt  Bank debt  Prepayment received from customers  Trade creditors  Inter-company account  Derivatives  Other creditors	869,797 6,064 1,165,948 55,125,961 0 59,284,937 15,115,221	870 0 0 22,240 0 56,739 9,413	869,797 6,064 1,165,948 55,125,961 8,603,697 59,284,937 15,115,221	1,132,318 870 ( 22,240 8,202 56,739 9,413 97,465	
	Current portion of long-term debt  Bank debt  Prepayment received from customers  Trade creditors  Inter-company account  Derivatives  Other creditors  Total short-term debt	869,797 6,064 1,165,948 55,125,961 0 59,284,937 15,115,221 131,567,929	870 0 0 22,240 0 56,739 9,413	869,797 6,064 1,165,948 55,125,961 8,603,697 59,284,937 15,115,221 <b>140,171,626</b>	1,132,318 876 22,246 8,200 56,739 97,469 1,229,780	
	Current portion of long-term debt  Bank debt  Prepayment received from customers  Trade creditors  Inter-company account  Derivatives  Other creditors  Total short-term debt  Total debt	869,797 6,064 1,165,948 55,125,961 0 59,284,937 15,115,221 131,567,929 1,473,149,929	870 0 0 22,240 0 56,739 9,413 89,262 1,221,580	869,797 6,064 1,165,948 55,125,961 8,603,697 59,284,937 15,115,221 140,171,626 1,481,753,626	1,132,318 870 0 22,240 8,202 56,739 9,413 97,465 1,229,783 2,454,676	

## **Cash Flow Statement**

		Group	Group
Notes		2018 DKK	2017 t. DKK
	Annual result	38,083,596	88,974
16	Adjustments	159,012,940	121,395
	Changes in working capital:		
	Inventories	-8,366,980	-233
	Receivables	5,121,808	-51,698
	Trade creditors	32,885,536	-12,478
	Other operating debt	13,344,499	115,496
	Derivatives	-26,758,011	-33,580
	Operating cash flows before financials	213,323,388	227,876
	Interest income received and equivalent revenues	0	0
	Interest expenses paid and equivalent expenses	-34,634,249	-32,948
	Cash flows from operations	178,689,140	194,928
	Purchase of tangible fixed assets	-271,932,063	-109,088
	Changes to work-in-progress	-164,020,681	-279,352
	Changes to financial fixed assets	0	O
	Cash flow from investments	-435,952,744	-388,440
	Loan facilities	200,000,000	106,000
	Repayments on long-term debt	0	O
	Bank overdraft withdrawals	56,529	6
	Cash flow from financing	200,056,529	106,006
	Total cash flow during the year	-57,207,076	-87,506
	Opening cash-on-hand	247,992,531	335,498
	Closing cash-on-hand	190,785,456	247,993
	Lines of credit	314,913,000	520,000
	Total	505,698,456	767,993



## Group activities by production and grid

OPERATIONS		2018		2	2017 (t DKK)	
•••••	Production	Grid	Total	Production	Grid	Total
Revenues	259,063,153	168,396,785	427,459,938	279,101	153,176	432,277
Cost of oil	-105,521,710	-249,595	-105,771,305	-84,507	-233	-84,741
Goods and services	-22,356,136	-28,035,054	-50,391,190	-25,046	-28,856	-53,902
Wages	-36,699,519	-37,501,387	-74,200,907	-33,896	-33,484	-67,380
Result of ordinary operations	94,485,787	102,610,749	197,096,536	135,653	90,602	226,255
Depreciation	-74,221,249	-40,915,163	-115,136,412	-67,823	-34,919	-102,742
Result before financial items	20,264,538	61,695,586	81,960,124	67,830	55,684	123,513
Net financial items	-9,339,987	-25,294,262	-34,634,249	-9,488	-23,460	-32,948
Result before tax	10,924,551	36,401,324	47,325,875	58,342	32,223	90,565
Tax	-274,080	-8,968,199	-9,242,279	-558	-1,033	-1,591
Annual result	10,650,471	27,433,125	38,083,596	57,784	31,190	88,974

# Parent company activities by production and grid

OPERATIONS		2018		2	2017 (t DKK)	
	Production	Grid	Total	Production	Grid	Total
Revenues	239,600,881	168,396,785	407,997,666	258,735	153,176	411,910
Cost of oil	-105,521,710	-249,595	-105,771,305	-84,507	-233	-84,741
Goods and services	-16,858,321	-28,035,054	-44,893,375	-20,006	-28,856	-48,862
Wages	-36,583,175	-37,501,387	-74,084,563	-33,776	-33,484	-67,260
Result of ordinary operations	80,637,674	102,610,749	183,248,424	120,445	90,602	211,047
Depreciation	-63,853,814	-40,915,163	-104,768,977	-57,479	-34,919	-92,397
Result before financial items	16,783,860	61,695,586	78,479,446	62,966	55,684	118,650
Net financial items	-7,325,497	-24,102,155	-31,427,651	-7,294	-21,348	-28,642
Result before tax	9,458,364	37,593,432	47,051,795	55,672	34,335	90,007
Тах	0	-8,968,199	-8,968,199	0	-1,033	-1,033
Annual result	9,458,364	28,625,233	38,083,596	55,672	33,302	88,974

## Group balance sheet by production and grid

BALANCE SHEET		2018			2017 (t DKK)	
	Production	Grid	Total	Production	Grid	Total
Assets	•••••••••••••••••••••••••••••••••••••••	•••••••••••••••••••••••••••••••••••••••	• • • • • • • • • • • • • • • • • • • •	••••••••••••••••••	• • • • • • • • • • • • • • • • • • • •	
Real estate, power plants, etc.	1,012,594,890	686,961,128	1,699,556,018	959,810	582,950	1,542,760
Investment work-in-progress	514,203,956	167,922,384	682,126,340	363,016	155,089	518,106
Fixed assets	1,526,798,846	854,883,512	2,381,682,358	1,322,827	738,040	2,060,866
Share equity	0	2,750,000	2,750,000	0	2,750	2,750
Loans to subsidiary companies	0	0	0	0	0	0
Derivatives	0	3,043,212	3,043,212	0	20,532	20,532
Financial fixed assets	0	5,793,212	5,793,212	0	23,282	23,282
Total fixed assets	1,526,798,846	860,676,724	2,387,475,570	1,322,827	761,322	2,084,148
Oil inventory	24,183,568	O	24,183,568	16,671	0	16,671
Materials inventory	0	19,809,583	19,809,583	0	18,956	18,956
Total inventory	24,183,568	19,809,583	43,993,151	16,671	18,956	35,626
Electricity debtors	0	87,247,507	87,247,507	0	75,888	75,888
Other debtors/tax asset	430,658	0	430,658	7	0	7
Inter-company account	8,603,697	348,918,783	357,522,481	8,202	131,463	139,665
Other receivables/accruals	5,743,461	9,126,045	14,869,506	234	5,324	5,558
Total receivables	14,777,816	445,292,336	460,070,152	8,444	212,674	221,118
Cash-on-hand	0	190,785,456	190,785,456	0	247,993	247,993
Total current assets	38,961,385	655,887,374	694,848,759	25,114	479,622	504,737
Total assets	1,565,760,231	1,516,564,098	3,082,324,329	1,347,941	1,240,944	2,588,885

## Parent company balance sheet by production and grid

BALANCE SHEET	2018			2017 (t DKK)				
	Production	Grid	Total	Production	Grid	Total		
Assets								
Real estate, power plants, etc.	905,913,422	686,961,128	1,592,874,550	843,729	582,450	1,426,179		
Investment work-in-progress	511,965,097	167,922,384	679,887,481	362,048	155,590	517,638		
Fixed assets	1,417,878,519	854,883,512	2,272,762,031	1,205,778	738,040	1,943,817		
Share equity	0	36,117,267	36,117,267	0	34,925	34,925		
Loans to subsidiary companies	0	86,859,076	86,859,076	0	95,107	95,107		
Derivatives	0	3,043,212	3,043,212	0	20,532	20,532		
Financial fixed assets	0	126,019,554	126,019,554	0	150,564	150,564		
Total fixed assets	1,417,878,519	980,903,066	2,398,781,585	1,205,778	888,604	2,094,381		
Oil inventory	24,183,568	0	24,183,568	16,671	0	16,671		
Materials inventory	0	19,809,583	19,809,583	0	18,956	18,956		
Total inventory	24,183,568	19,809,583	43,993,151	16,671	18,956	35,626		
Electricity debtors	0	87,247,507	87,247,507	0	75,888	75,888		
Other debtors/tax asset	0	0	0	0	0	0		
Inter-company account	0	315,551,517	315,551,517	0	102,463	102,463		
Other receivables/accruals	2,366,370	7,084,460	9,450,830	-2,493	3,282	<i>789</i>		
Total receivables	2,366,370	409,883,483	412,249,854	-2,493	181,632	179,139		
Cash-on-hand	0	190,785,456	190,785,456	0	247,993	247,993		
Total current assets	26,549,939	620,478,522	647,028,461	14,177	448,581	462,758		
Total assets	1,444,428,458	1,601,381,588	3,045,810,046	1,219,955	1,337,184	2,557,139		



## Group balance sheet by production and grid

BALANCE SHEET		2018		2017 (t DKK)				
BALLAUVEE SHEET	Production	Grid	Total	Production	Grid	Total		
Liabilities	••••••••••••	•••••••••••••••••••••••••••••••••••••••	•••••••••••••••••••••••••••••••••••••••	•••••	• • • • • • • • • • • • • • • • • • • •			
Deposit	0	4,139,875	4,139,875	0	4,140	4,140		
Capital account	756,399,774	447,183,292	1,203,583,066	750,117	442,141	1,192,257		
Total equity	756,399,774	451,323,167	1,207,722,941	750,117	446,281	1,196,397		
Pensions	0	16,800,646	16,800,646	0	17,089	17,089		
Deferrec tax	1,105,431	23,981,316	25,086,747	704	11,407	12,111		
Total provisions	1,105,431	40,781,962	41,887,393	704	28,496	29,200		
Long-term debt	437,368,796	895,781,924	1,333,150,720	445,800	678,270	1,124,071		
Current portion of long-term debt	8,431,280	869,797	9,301,076		870	9,118		
Bank loans	0	6,064	6,064	0	0	0		
Prepayments	0	1,165,948	1,165,948	0	0	0		
Inter-company account	357,522,481	0	357,522,481	139,665	0	139,665		
Other creditors/accruals	4,932,470	12,224,337	17,156,807	3,407	8,047	11,454		
Trade creditors	0	55,125,961	55,125,961	0	22,240	22,240		
Derivatives	0	59,284,937	59,284,937	0	56,739	56,739		
Total debt	808,255,026	1,024,458,968	1,832,713,995	597,120	766,167	1,363,287		
Total liabilities	1,565,760,231	1,516,564,098	3,082,324,329	1,347,941	1.240.944	2,588,885		

Included in Inter-company account Production is share capital DKK 29,000,000 in subsidiary companies, as well as their total result from inception in 2016 of DKK 4,367,267

## Parent company balance sheet by production and grid

BALANCE SHEET		2018			2017 (t DKK)	
	Production	Grid	Total	Production	Grid	Total
Liabilities	••••••••••••••••	•	•••••••••••••••••••••••••••••••••••••••	•••••••••••••••••••••••••••••••••••••••	••••••••	
Deposit	0	4,139,875	4,139,875	0	4,140	4,140
Capital account	756,399,774	447,183,292	1,203,583,066	746,941	445,316	1,192,257
Total equity	756,399,774	451,323,167	1,207,722,941	746,941	449,456	1,196,397
Pensions	0	16,800,646	16,800,646	0	17,089	17,089
Deferrec tax	0	23,981,316	23,981,316	0	11,407	11,407
Total provisions		40,781,962	40,781,962	0	28,496	28,496
Long-term debt	358,941,000	982,641,000	1,341,582,000	358,941	773,377	1,132,318
Current portion of long-term debt	0	869,797	869,797	0	870	870
Bank loans	0	6,064	6,064	0	0	0
Prepayments	0	1,165,948	1,165,948	0	0	0
Inter-company account	324,155,214	0	324,155,214	110,665	0	110,665
Other creditors/accruals	4,932,470	10,182,751	15,115,221	3,407	6,005	9,413
Trade creditors	0	55,125,961	55,125,961	0	22,240	22,240
Derivatives	0	59,284,937	59,284,937	0	<i>56,739</i>	56,739
Total debt	688,028,684	1,109,276,459	1,797,305,143	473,013	859,232	1,332,246
Total liabilities	1,444,428,458	1,601,381,588	3,045,810,046	1,219,955	1,337,184	2,557,139

# Group operations by production and grid

DISTRIBUTION OF REVENUE										
	Production	Grid	Total 2018	2017 (t DKK)						
Sales	504,041	429,647,947	430,151,988	435,121						
Own production and purchased electricity	239,722,725	-242,414,774	-2,692,050	-2,844						
Grid responsibility and grid management	18,836,387	-18,836,387	0	0						
Total revenue	259,063,153	168,396,785	427,459,938	432,277						

PRODUCTION	Thermal	Hydro	Wind	Total 2018	2017 (t DKK)
Revenue	172,483,181	66,934,322	19,645,649	259,063,153	279,101
Oil	-101,173,126	-4,348,584	0	-105,521,710	-84,507
Goods and services	-11,777,177	-5,000,702	-5,578,258	-22,356,136	-25,046
Wages	-26,196,587	-10,374,919	-128,013	-36,699,519	-33,896
Depreciation	-33,773,708	-30,024,440	-10,423,101	-74,221,249	-67,823
Interest	-2,651,054	-4,674,443	-2,014,490	-9,339,987	-9,488
Tax	0	0	-274,080	-274,080	-558
Production result	-3,088,470	12,511,235	1,227,707	10,650,471	57,784

Grid excluding				
management	Management	Total 2018	2017 (t DKK)	
8,990,764	159,406,021	168,396,785	<i>153,176</i>	
-237,557	-12,038	-249,595	-233	
-9,926,810	-18,108,244	-28,035,054	-28,856	
-23,499,547	-14,001,840	-37,501,387	-33,484	
-34,619,162	-6,296,001	-40,915,163	-34,919	
-11,516	-25,282,746	-25,294,262	-23,460	
0	-8,968,199	-8,968,199	-1,033	
-59,303,829	86,736,954	27,433,125	31,190	
	-237,557 -9,926,810 -23,499,547 -34,619,162 -11,516	-237,557 -12,038 -9,926,810 -18,108,244 -23,499,547 -14,001,840 -34,619,162 -6,296,001 -11,516 -25,282,746	8,990,764     159,406,021     168,396,785       -237,557     -12,038     -249,595       -9,926,810     -18,108,244     -28,035,054       -23,499,547     -14,001,840     -37,501,387       -34,619,162     -6,296,001     -40,915,163	



# Parent company operations by production and grid

#### DISTRIBUTION OF REVENUE

	Production	Grid	Total 2018	2017 (t DKK)
Sales	504,041	429,647,947	430,151,988	435,121
Own production and purchased electricity	220,260,453	-242,414,774	-22,154,322	-23,211
Grid responsibility and grid management	18,836,387	-18,836,387	0	0
Total revenue	239,600,881	168,396,785	407,997,666	411,910

PRODUCTION	Thermal	Hydro	Wind	Total 2018	2017 (t DKK)
Revenue	172,483,181	66,934,322	183,377	239,600,881	258,735
Oil	-101,173,126	-4,348,584	0	-105,521,710	-84,507
Goods and services	-11,777,177	-5,000,702	-80,442	-16,858,321	-20,006
Wages	-26,196,587	-10,374,919	-11,669	-36,583,175	-33,776
Depreciation	-33,773,708	-30,024,440	-55,666	-63,853,814	-57,479
Interest	-2,651,054	-4,674,443	0	-7,325,497	-7,294
Tax	0	0	0	0	0
Production result	-3,088,470	12,511,235	35,599	9,458,364	<i>55,672</i>

Grid	excludina	

GRID	management	Management	Total 2018	2017 (t DKK)
Revenue	8,990,764	159,406,021	168,396,785	<i>153,176</i>
Oil	-237,557	-12,038	-249,595	-233
Goods and services	-9,926,810	-18,108,244	-28,035,054	-28,856
Wages	-23,499,547	-14,001,840	-37,501,387	-33,484
Depreciation	-34,619,162	-6,296,001	-40,915,163	-34,919
Interest	-11,516	-24,090,639	-24,102,155	-21,348
Tax	0	-8,968,199	-8,968,199	-1,033
Grid result	-59,303,829	87,929,061	28,625,233	33,302

## Notes

	Grou		Parer	nt
1. NET TURNOVER	2018	2017 t. DKK	2018	2017 t. DKK
kWh charges etc.	402,198,899	393,086	402,198,899	393,086
Fixed charges	17,020,639	16,806	17,020,639	16,806
Connection fees	9,218,830	27,426	9,218,830	27,426
Other charges, reminders and other sales	1,713,619	-2,197	1,713,619	-2,197
Purchase of wind power etc.	-2,692,050	-2,844	-22,154,322	-23,211
Total	427,459,938	432,277	407,997,666	411,910
2. COST OF OIL				
Gas oil	12,665,410	8,202	12,665,410	8,202
Heavy fuel oil	86,195,876	70,138	86,195,876	70,138
Lubricating oil	6,910,019	6,401	6,910,019	6,401
Total	105,771,305	84,741	105,771,305	84,741
3. GOODS AND SERVICES				
Lines	3,097,317	2,587	3,097,317	
Dams, pipelines and tunnels	21,641	-22	21,641	- <i>22</i>
Tanks and environmental	298,480	253	298,480	
Engines	8,838,418	8,498	4,535,940	4,909
Electric and technical	544,002	452	531,232	
Buildings and land	2,223,297	2,373	1,970,330	
General meeting and Board	766,380	419	766,380	419
Studies and consultancy	7,705,566	11,947	7,190,691	
IT	5,452,206	4,971	5,452,206	4,971
Management and office expenses	3,099,832	2,390	3,099,832	2,386
Loss on unpaid debt	538,068	231	538,068	231
Other operating expenses	655,973	595	652,010	594
Other administrative expenses	17,150,009	19,209	16,739,247	18,479
Total	50,391,190		44,893,375	48,862
4. EMPLOYEE EXPENSES				<u> </u>
Waqes	63,567,997	57,299	-63,452,397	57,180
Pensions	7,637,539	7,376	-7,637,125	7,376
Contributions	2,995,371	2,704	-2,995,041	2,704
Total	74,200,907	67,380	-74,084,563	67,260
Included in employee expenses are:	,===,,==,	3.,223	,	2.,200
Managment and Board of Directors	2,023,768	2,127	2,023,768	2,127
Total	2,023,768	2,127	2,023,768	2,127
Employees with SEV as main source of income	145	141	145	141
Average number of employees	172	167	172	167



			Group	)	Par	ent
5. FINANCIAL ITEMS			2018	2017 t. DKK	2018	2017 t. DKK
Interest income			0	0	0	C
Result from subsidiary companies			0	0	-1,192,108	-2,112
Adjustment financial fixed assets			-49,335	0	-49,335	C
Interest on loans		•	30,569,024	24,863	28,556,768	22,671
Establishment fees, commissions			2,294,240	3,538	2,294,240	3,538
Unrealised exchange rate gains or losses			8,868,327	-12,703	8,868,327	-12,703
Unrealised adjustments on derivatives	••••••	•••••	-7,352,431	17,092	-7,352,431	17,092
Other interest expenses		• • • • • • • • • • • • • • • • • • • •	304,423	158	302,189	156
Total			34,634,249	32,948	31,427,651	28,642
6. TAXES ON ANNUAL RESULTS						
Corporation tax		• • • • • • • • • • • • • • • • • • • •	0	0	0	
Tax asset		• • • • • • • • • • • • • • • • • • • •	0	0	. <b>.</b>	
Adjustment of deferred tax			9,242,279	1,591	8,968,199	1,033
Total			9,242,279	1,591	8,968,199	1,033
				· · · · · ·		
7. TANGIBLE FIXED ASSETS, GROUP	· · · · · · · · · · · · · · · · · · ·					
Amounts in DKK	Production plant	Distribution stations	Buildings	Equipment	Total 2018	2017
Acquisition value opening balance	2,016,215,707	1,006,291,398	72,536,975	197,802,009	3,292,846,088	3,183,758,543
Additions during the year	136,569,828	131,434,227	61,141	12,208,067	280,273,262	111,466,847
Disposals during the year	-6,702,643			-1,638,556	-8,341,199	-2,379,302
Acquisition value closing balance	2,146,082,892	1,137,725,625	72,598,115	208,371,520	3,564,778,151	3,292,846,088
Depreciation opening balance	-1,066,415,644	-495,863,188	-33,612,918	-154,193,970	-1,750,085,721	-1,647,343,929
Depreciation for the year	-80,121,079	-28,440,157	-1,356,056	-13,560,319	-123,477,611	-105,081,494
Depreciation reversed on disposals	6,702,643	0	0	1,638,556	8,341,199	2,339,702
Depreciation closing balance	-1,139,834,081	-524,303,345	-34,968,975	-166,115,733	-1,865,222,133	-1,750,085,721
Book value year-end	1,006,248,811	613,422,280	37,629,141	42,255,787	1,699,556,018	1,542,760,367
Book value year-end 2017	949,800,062	510,428,210	38,924,056	43,608,039	1,542,760,367	
Work-in-progress						
Opening balance	362,516,054	142,856,823	10,967,906	1,764,877	518,105,660	238,753,464
Investment booked to work-in-progress	279,562,724	129,516,479	9,948,775	1,830,921	420,858,899	369,726,517
Completed work transferred to depreciation	-126,155,271	-130,392,864	0	-290,083	-256,838,218	-90,374,322
Closing balance	515,923,508	141,980,438	20,916,681	3,305,714	682,126,340	518,105,660
Closing balance year-end 2017	362,516,054	142,856,823	10,967,906	1,764,877	518,105,660	
Fixed assets year-end	1,522,172,319	755,402,717	58,545,822	45,561,501	2,381,682,358	2,060,866,027
Fixed assets year-end 2017	1,312,316,116	653,285,033	49,891,962	45,372,915	2,060,866,027	

## 7. TANGIBLE FIXED ASSETS, PARENT COMPANY

Amounts in DKK	Production plant	Distribution stations	Buildings	Equipment	Total 2018	2017
•••••	·······	•••••••••••••••••••••••••••••••••••••••	······································	· · · · · · · · · · · · · · · · · · ·	•••••••••••••••••••••••••••••••••••••••	
Acquisition value opening balance	1,878,985,082	1,006,291,398	72,536,975	197,802,009	3,155,615,464	3,046,567,519
Additions during the year	136,102,137	131,434,227	61,141	12,208,067	279,805,571	111,387,647
Disposals during the year	-6,702,643			-1,638,556	-8,341,199	-2,339,702
Acquisition value closing balance	2,008,384,576	1,137,725,625	72,598,115	208,371,520	3,427,079,836	3,155,615,464
Depreciation opening balance	-1,045,766,232	-495,863,188	-33,612,918	-154,193,970	-1,729,436,309	-1,637,039,023
Depreciation for the year	-69,753,644	-28,440,157	-1,356,056	-13,560,319	-113,110,176	-94,736,988
Depreciation reversed on disposals	6,702,643	0	0	1,638,556	8,341,199	2,339,702
Depreciation closing balance	-1,108,817,234	-524,303,345	-34,968,975	-166,115,733	-1,834,205,286	-1,729,436,309
Book value year-end	899,567,342	613,422,280	37,629,141	42,255,787	1,592,874,550	1,426,179,155
Book value year-end 2017	833,218,850	510,428,210	38,924,056	43,608,039	1,426,179,155	
Work-in-progress						
Opening balance	362,048,363	142,856,823	10,967,906	1,764,877	517,637,968	238,287,823
Investment booked to work-in-progress	278,068,746	128,771,598	9,948,775	1,830,921	418,620,039	369,684,867
Completed work transferred to depreciation	-125,687,579	-130,392,864	0	-290,083	-256,370,527	-90,334,722
Closing balance	514,429,529	141,235,557	20,916,681	3,305,714	679,887,481	517,637,968
Closing balance year-end 2017	362,048,363	142,856,823	10,967,906	1,764,877	517,637,968	
Fixed assets year-end	1,413,996,872	754,657,837	58,545,822	45,561,501	2,272,762,031	1,943,817,123
Fixed assets year-end 2017	1,195,267,213	653,285,033	49,891,962	45,372,915	1,943,817,123	



	31.12.18	31.12.17
8. INVESTMENTS IN ASSOCIATED AND SUBSIDIARY COMPANIES	DKK	t. DKK
Acquisition value opening balance	31,750,000	31,750
Acquisition value closing balance	31,750,000	31,750
Subsidiary companies' result opening balance	3,175,159	1,063
Result from subsidiary companies	1,192,108	2,112
Subsidiary companies' result closing balance	4,367,267	3,175
Carrying amount year-end	36,117,267	34,925

#### Associated and subsidiary companies

Name and registered office	Share	Equity	Annual result	Recognized value
P/F Fjarhitafelagið, Tórshavn	50%	61,187,011	418,775	2,750,000
P/F Vindfelagið í Húsahaga, Tórshavn	100%	21,331,415	-636,480	21,331,415
P/F Vindfelagið í Neshaga, Tórshavn	100%	12,035,852	1,828,587	12,035,852

 $The financial statement for P/F Fjarhitafelagi \eth for the year 2018 is not available. The numbers shown are from 2017.$ 

	Duration	Loan amount	Balance 31.12.18	Repayments next year	Balance in 5 years
9. LOANS TO SUBSIDIARY COMPANIES					
P/F Vindfelagið í Húsahaga	12 years	75,000,000	63,834,201	5,769,944	39,972,511
P/F Vindfelagið í Neshaga	10 years	28,175,000	23,024,875	2,661,335	12,018,883
Total		103,175,000	86,859,076	8,431,280	51,991,394
		Assets	Liabilities	Total	31.12.17
10. DERIVATIVES		Assets 31.12.18	Liabilities 31.12.18	Total 31.12.18	31.12.17 t. DKK
10. DERIVATIVES Oil-price hedge					
		31.12.18	31.12.18	31.12.18	t. DKK
Oil-price hedge		<b>31.12.18</b>	<b>31.12.18</b> -14,583,091	<b>31.12.18</b> -14,583,091	<b>t. DKK</b> 20,532

Derivatives are used to fix interest rates and exchange rates on loans, as well as the price and the exchange rate used for oil purchases. The values shown are the differences between market value on the balance sheet date compared to the future value of the instruments.

Total	87,543,801	75,888
Receivables write-down	-2,981,882	-3,209
Other debtors	1,420,766	724
Goods and service debtors	89,104,917	78,373
11. GOODS AND SERVICES DEBTORS	DKK	t. DKK
	31.12.18	31.12.17

## 12. EQUITY, GROUP

Amounts in DKK		Deposit	Derivatives reserve	Result carried over	Total
Equity statement 01.01.17 - 31.12.17					
Balance 01.01.17		4,139,875	5,328,933	1,131,534,371	1,141,003,179
Adjustment to derivatives	•••••••••••••••••••••••••••••••••••••••	0	-33,580,200	0	-33,580,200
Annual result		0	0	88,974,376	88,974,376
Balance 31.12.17		4,139,875	-28,251,267	1,220,508,747	1,196,397,355
Equity statement 01.01.18 - 31.12.18					
Balance 01.01.18		4,139,875	-28,251,267	1,220,508,748	1,196,397,355
Change in adjustment to derivatives	•••••••••••••••••••••••••••••••••••••••	0	-25,588,245	-1,169,766	-26,758,011
Annual result	•••••••••••••••••••••••••••••••••••••••	0	0	38,083,596	38,083,596
Balance 31.12.18		4,139,875	-53,839,512	1,257,422,578	1,207,722,941
Amounts in DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
Equity statement 01.01.17 - 31.12.17			reserve		
Balance 01.01.17	4,139,875	5,328,933	1,063,385	1,130,470,986	1,141,003,180
Change in adjustment to derivatives	0	-33,580,200	0	0	-33,580,200
Result from subsidiary companies	0	0	2,111,773	-2,111,773	0
Annual result	0	0	0	88,974,376	88,974,376
Balance. 31.12.17	4,139,875	-28,251,267	3,175,159	1,217,333,589	1,196,397,355
Equity statement 01.01.18 - 31.12.18					
			3,175,159	1,217,333,589	1,196,397,355
Balance 01.01.18	4,139,875	-28,251,267	5,175,155		
Change in adjustment to derivatives	4,139,875 0	-28,251,267 -25,588,245	0	-1,169,766	-26,758,011
Change in adjustment to derivatives  Result from subsidiary companies	0		0 1,192,108	-1,169,766 -1,192,108	-26,758,011 0
Change in adjustment to derivatives	0	-25,588,245	0	-1,169,766	-26,758,011

## 13. LONG-TERM DEBT

	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.18	Total debt t. DKK 31.12.17
Debt to financial institutions	0	1,342,451,797	1,342,451,797	1,133,188
Tilsamans	0	1,342,451,797	1,342,451,797	1,133,188

There are no repayments in the next financial year, and the average maturity date is 7.3 years.



#### 14. MORTGAGES AND OTHER OBLIGATIONS

As security for import duty credit, a guarantee of DKK 1.4 million has been issued to TAKS, and as security for credit cards, the company is liable for guarantees of DKK 1.3 million. A payment guarantee for purchase of motors of DKK 5.1 million has been issued. Total obligations DKK 7.8 million.

#### 15. CONTINGENCIES

The group has a contingency of DKK 4.8 million due to operations and rental agreements of subsidiary companies.

	2018	2017
16. ADJUSTMENTS	DKK	t. DKK
Adjustment financial fixed assets	-49,335	0
Interest expensed and equivalent expenses	33,167,687	28,558
Unrealised interest expenses	1,515,896	4,389
Depreciation	115,136,412	102,742
Interest rate adjustment during the year on loan in USD	0	-15,885
Tax	9,242,279	1,591
Total	159,012,940	121,395

17. Equity distribution	Municipal contribution	Equity 2018	Equity 2018	Equity 2017
	DKK	DKK	%	t. DKK
Eiðis	78,625	16,962,764	1.41	16,999
Eysturkommuna	146,500	49,646,542	4.12	49,203
Fámjins	23,125	1,850,909	0.15	1,865
Fuglafjarðar	136,250	36,409,026	3.03	36,407
Fugloyar	17,500	866,882	0.07	874
Hovs	22,875	2,366,352	0.20	2,314
Húsavíkar	25,125	2,577,216	0.21	2,668
Hvalbiar	103,625	15,814,731	1.31	16,126
Hvannasunds	36,375	9,723,131	0.81	9,775
Klaksvíkar	537,750	121,644,571	10.11	120,694
Kunoyar	12,625	3,420,668	0.28	<i>3,376</i>
Kvívíkar	59,125	13,870,105	1.15	14,072
Nes / Runavíkar	332,133	125,885,262	10.46	123,315
Porkeris	51,000	7,473,925	0.62	7,390
Sands	72,250	12,206,630	1.01	12,277
Sjóvar	92,875	24,928,703	2.07	24,200
Skálavíkar	30,750	3,256,663	0.27	<i>3,353</i>
Skopunar	71,000	10,800,876	0.90	10,979
Skúvoyar	17,875	984,028	0.08	992
Sørvágs	127,500	28,161,937	2.34	27,789
Sumbiar	81,375	8,504,811	0.71	8,452
Sunda	177,367	42,078,900	3.50	41,270
Tórshavnar	1,092,500	506,258,840	42.06	499,068
Tvøroyrar	255,250	40,157,703	3.34	40,609
Vága kommuna	169,625	48,873,378	4.06	48,519
Vágs	218,375	31,442,029	2.61	32,228
Vestmanna	125,250	28,958,531	2.41	29,064
Viðareiðis	25,250	8,457,953	0.70	8,382
Total	4,139,875	1,203,583,066	100.00	1,192,257

# Power grid

Submarine cable

