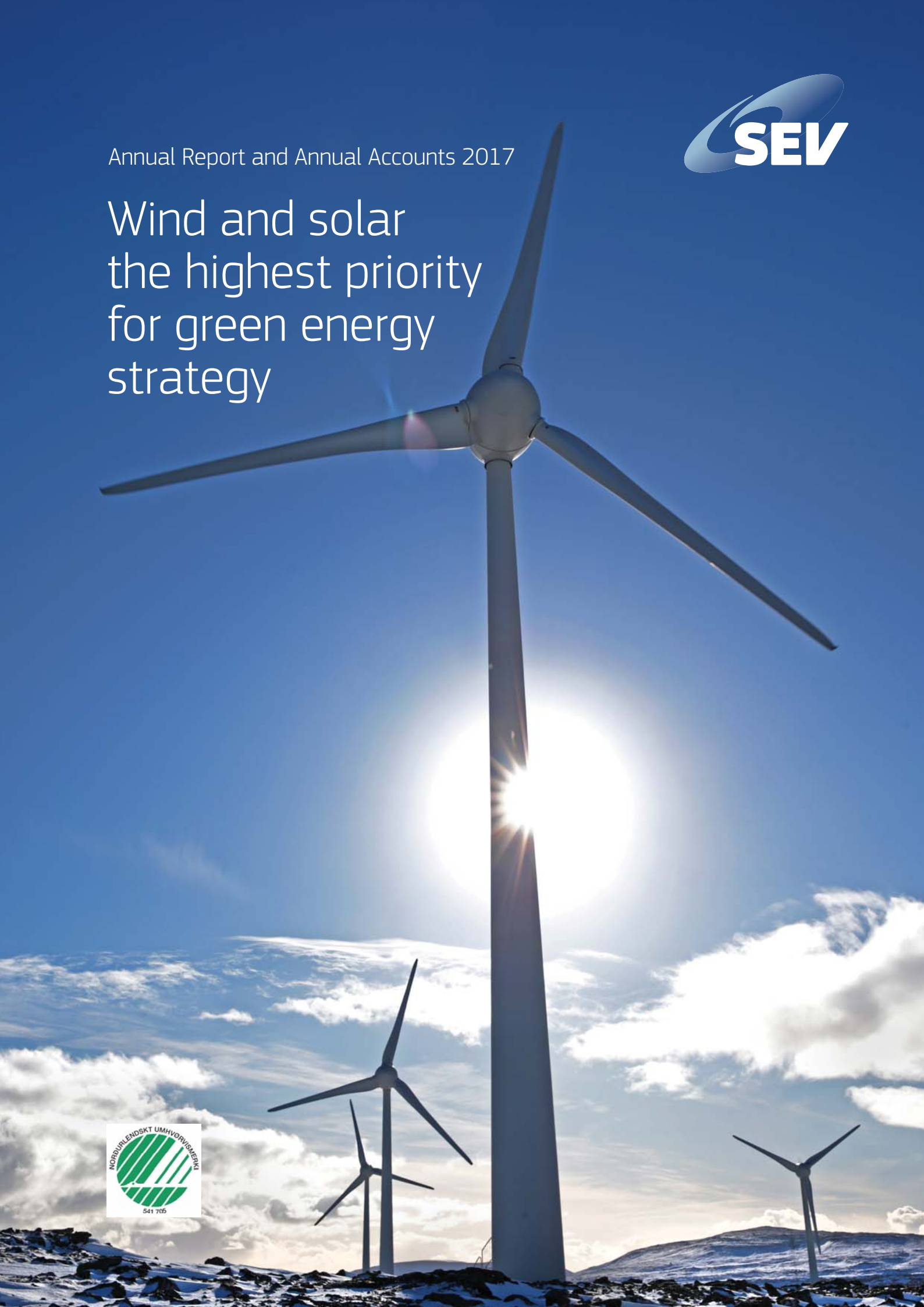
Annual Report and Annual Accounts 2017

Wind and solar the highest priority for green energy strategy



Annual Report and Annual Accounts 2017
Annual General Meeting 24 April 2018
Photos: Alan Brockie, Høgni í Jákupsstovu, Jesper Theilgaard, Matts Lindqvist, Kári Durhuus, Lea Káradóttir Durhuus, Ólavur Frederiksen and SEV.

Layout, printing, binding: Føroyaprent

Contents

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 Board's Report

The Board and Management are pleased to report that the Company is on track on all fronts. The goal is, as is well-known by now, to reach 100 percent green energy on-shore by 2030

The green course requires considerable ongoing learning in the electricity system. For example, the diverse green course agenda encompasses studies and preparatory initiatives in a variety of areas, because the demand is ever present for a steady advance along the green course in order to continuously work toward the goal envisioned for 2030. The vision, which was announced in 2014, requires much more than technical projects; each project result should spring forth from and be informed by our research work.

One example is the completed 18 MW wind farm project that SEV technically and financially developed at Hoyvíkshaga, subsequent to the government authorities putting out a tender for a wind farm at that location. This project resulted in a considerable increase in the "green" portion of total electricity production.

Of the daily work at SEV, the leading task is to ensure that the electricity utility meets its production security and production obligations in such manner that the electricity produced, and its consistent supply, is of the highest quality. New systems derived from a continuous process of development are another aspect of our main initiatives. All these efforts should be working in concert all the time, which certainly is characteristic of our green energy expansion initiatives, our care for the environment, our prudent financial management, and our responses to an ever-growing demand for electric power.

SEV shall provide its customers a steady supply of electric power consistent with the demand 24 hours a day throughout the year. At the same time, the electricity utility is fully engaged in assisting our customers to shift their energy sources – all to the betterment of our entire society. Consistent with our Company values -- Co-operation, Enthusiasm, Respect [in Faroese, Samstarv, Eldhugi og Virðing – SEV], our creative and talented staff daily solve all the challenging tasks encountered in our business sector.

In our daily work, we humbly take pride in our efforts to preserve and protect the electricity utility SEV, which is the property of all the Faroese people.

The efforts of SEV since the last Annual General Meeting are detailed further in this report, wherein the Board explores the goals that the Board believes have the greatest interest for the owners. The report is submitted pursuant to Article 3, paragraph 12b and Article 4, paragraph 11a of the Company's Articles of Association.

Diverse activities

The Board is continuously striving to speed up the green course and to prioritize green investment ahead of the Company's time plan. The Board has visited the various installations of SEV throughout the country. The purpose of these visits was to give the Board Members the necessary insight into

the business activities of the Company, which would in turn give the Board Members the necessary solid foundation and understanding to carry out their individual work on the Board.

The Company desires to use the new system adopted by the Research Council through which the possibility exists to gain financial support for Ph.D. candidates working in the sector. Work is underway whereby such a research associate could participate in the work on the green course of the Development Department.

In order to support the vision of a 100% green country by 2030, it is absolutely critical that, as the future unfolds, our customers shift over to electric solutions, especially for heating and transport. The government's programme to make the purchase of heat pumps and electric vehicles, etc. VAT-free, and to reduce the price of electricity for specific consumer categories, augers well for a green future. The Health and Interior Ministry has once again submitted to the Parliament proposed legislation that shall authorize the government authorities to approve lower electricity pricing for heat pumps and electric vehicles. The idea being that increased sales within these two groups would adequately cover any variable costs. In this regard, no action has been undertaken on the current budget of the Company, nor at the same time other technical conditions that might need to be implemented to adjust to lower pricing. Relative to this, we can take advantage of our current capacity in the electric system. However, one must also bear in mind that such systems will thus become competitive against P/F Fjarhitafelagið, which is already a green heating solution.

In order to evaluate the priorities along the green course forward to 2030, a work group with representatives from SEV, ORKA and Dansk Energi, along with outside consultants, drafted two reports – one from Norconsult and one from Ea Energianalyse.

One conclusion of the studies is that the Faroe Islands ought to build out wind energy farms as swiftly as possible; in addition solar systems should be erected to increase the amount of renewable energy available during the summer months, when normally there is little rain and wind. With a recommendation to build out wind energy as speedily as possible, one must also bear in mind that such an initiative shall also include security measures such as those previously deployed by SEV, namely the technical capacity to permit more wind energy into the electricity system – e.g. via a battery system – as each wind farm is connected to the grid. Wind is an unstable energy source; therefore, it is necessary that development moves forward in the correct technical order or sequence, such that production security and the overall integrity of the electricity system is not compromised.

Another conclusion derived from the studies is that SEV ought to continue to build out energy storage capacity designed to increase hydropower production via pumping systems installed at current hydropower installations. However, the studies also showed that it is not necessary to expand the hydropower storage capacity to the extent originally envisioned. It is interesting to also note that the new motors at the Sund thermal power plant, which will come online in 2019, will create the possibility to more beneficially take advantage of current hydropower plants. However, the hydropower plants cannot in the same manner be a back-up for off-line motors at the Sund power plant. The studies reveal also that tidal energy will not be cost-effective in the years ahead, compared to solar, wind and hydropower.

Both these reports were incorporated into the work to draft a new energy policy that the Health and Interior Ministry has set into motion. SEV was represented on the work group and also received the policy proposal from the work group for comment.

When people discuss energy and SEV, the perspective often emerges that one must differentiate between the grid and production. Often this perspective stands alone without further explanation. In order to provide a more detailed explanation about what this entails, SEV has now asked experts from Dansk Energi to draft a report on this situation. The report is planned to be completed at the end of 2018.

Investigation into the current global reality regarding tidal energy technology and the potential to build out this energy resource in the Faroe Islands is underway. Sp/f Rák is engaged in this research. As planned, the report shall be submitted by year-end 2018.

The Commercial Appeals Board on 25 November 2016 presented its determination that the conditional provisions regarding the production permit for the pumping system at Vestmanna were annulled. SEV notified ORKA in a letter dated 31 March 2017 to take notice of the decision of the Commercial Appeals Board, while at the same time SEV asked that its application be taken up again for review. SEV has not heard back from the government authorities regarding this.

The Company has received a letter from Sands Municipality dated 16 May 2017 wherein questions were raised regarding the participation of the substitute Board Member on the Board. The Board is working at present on re-drafting the provisions regarding the participation of Board Members on the Board. When the Board has completed this work, the Sands Municipality will receive an answer and the owners of the Company will receive a report on the matter.

Following a request from the Annual General Meeting, the previous Board worked on a proposal for incorporating technical experts on the Board of SEV. The question was presented to the Health and Interior Ministry and the Company has sent a reminder to the Ministry, but no answer has been received from the Health and Interior Ministry.

At the autumn 2016 Annual General Meeting, the question was raised regarding Board compensation. The Board worked on this issue, which will be explained in more detail in an upcoming General Meeting. The intent is to complete the work on this project before the autumn Annual General Meeting in 2018.

SEV took part in the Faroese exhibition at Climate Planet held in Copenhagen on 13 October 2017 with a good response. In the morning was a special program for invited guests. The evening programme was open to the public as part of the Culture Night events in the Danish capital. The Board decided to organise this event in association with a study tour whereby the Board visited a variety of organizations that are interested in the area of electric energy.

The collaboration agreement with Sp/f Røkt expired on 1 September 2013. According to the production permit, the companies should in good time present to the government authorities a new price agreement, but SEV heard nothing from Sp/f Røkt. The government authorities have demanded that Sp/f Røkt prepare a new price agreement with SEV. Therefore, negotiations between Sp/f Røkt and SEV on a new price agreement are currently underway.

Expansion in renewable energy

The tender for wind energy in Porkeri has been postponed because the wind measurements indicate a difficult wind environment where the first wind measurement mast was erected. SEV is now endeavouring to erect another mast that will stand further toward the East. This latest mast shall hopefully show that the wind environment is sufficient if the wind turbines are placed somewhat further East. A condition in the tender from ORKA is that all the energy shall be utilized in the Suðuroy electric system, and therefore SEV intends to build out a pumping station at Botni or Vatnsnesvatn, in addition to a battery system being set up to balance the flow of power to the grid. During the Annual General Meeting today, the project shall be discussed and at a future General Meeting the decision will be taken as to whether SEV will undertake to construct a pumping station at Botni or at Vatnsnesvatn. The total wind energy tender of 12 MW on Suðuroy is conditioned on the installation of a pumping station.

ORKA and SEV have identified four locations where the necessary preparatory work should be undertaken to inform

the expansion of wind energy. These areas are the outfields at Eiðisvatn, Junkarahaga at Kvívík, Sandoy and Kirkjubøreyn. During the summer of 2018, the intent is to set up 100-meter-high wind measurement masts in these areas.

The Board also is continually monitoring the status of the forthcoming wind energy expansion in the central region of the country where SEV, as mentioned, is operating an 18 MW wind farm that has reduced oil consumption by 12,900 tonnes annually, which corresponds to 40% of total oil usage in 2017. The government authorities are endeavouring to issue a tender as soon as possible for Hoyvíkshaga, where the potential is good and there is room for six, 3MW wind turbines.

The new technical requirements for connection to the electric grid, both with regard to production units and customers, are complete. Efforts are underway to develop minimal conditions for small (less than 11 kW) solar, wind and hydropower plants to produce electricity into the grid. When the government authorities have approved these conditions, they will enter into effect. On the other hand, for an imagined "electric utility" to become a reality, the company's customers should be able to both purchase and sell electricity.

Other expansion

The work to construct a new Station 3 at the Sund thermal power plant with 37 MW motor capacity is underway. The construction will mean that the Sund thermal power plant will be upgraded to have a motor capacity corresponding to somewhat more than the current demand of electricity, when it is at the highest (point load) level. The site preparation work is completed, and the concrete work is underway. Agreements are in place with all the main suppliers. The new station is envisioned to be completed during the last half of 2019 and the total cost is estimated to be around DKK 710 million. A new coupling station valued at around DKK 60 million is included.

A new day tank house for oil storage at the Sund power plant is finished. The total project that includes a new updated tank yard and the consolidation of all the day tanks and other equipment related to the storage and use of oil for Stations 1, 2 and 3 will cost around DKK 134 million.

Increasing demand for electric power, which especially arises from the fish farming and pelagic fisheries, has also required considerable expansion of the grid. Coupling stations in Runavík, Innan Eiði and northern Strond that cost several tens of millions of kroner each is a visible example of this. Together with this expansion, considerable cable-laying work is also underway.

Accounting result for 2017

The Company's result for 2017 is DKK 89.0 million. This is a satisfactory result, which is, however, also necessary given the major investment including self-financing that lies ahead.

Oil continues to be a large expenditure of SEV, amounting to DKK 84.7 million in 2017. This represents an increase of DKK 33.8 million, compared to 2016.

Budget for 2018

The budget for the coming year reflects a price reduction of 5 ore/kWh excluding VAT required by the Electricity Production Commission and projects a total profit of DKK 79.5 million. The price for export customers in the special commercial rate schedule is not, however, lowered. The Board is not in agreement with the oversight Commission that it was prudent to lower the price of electricity now, given the considerable and extensive expansion that will benefit production security, production obligation and the green sustainable course lying ahead, while at the same time SEV will be self-financing much of the investment. SEV and the Electricity Production Commission are currently deliberating regarding the overarching conditions for the economy of SEV to ensure the long-term financial viability of the Company.

Please confer also to the reports of the SEV Board Financial Trends 2017 and Operations, Financial and Investment Budget 2018, which provide more detailed discussion of the circumstances dictating the budget.

Imaginative, new thinking is a prerequisite

Development and enterprising initiative should characterize the Company for many years into the future if we should considerably advance the green course into the future.

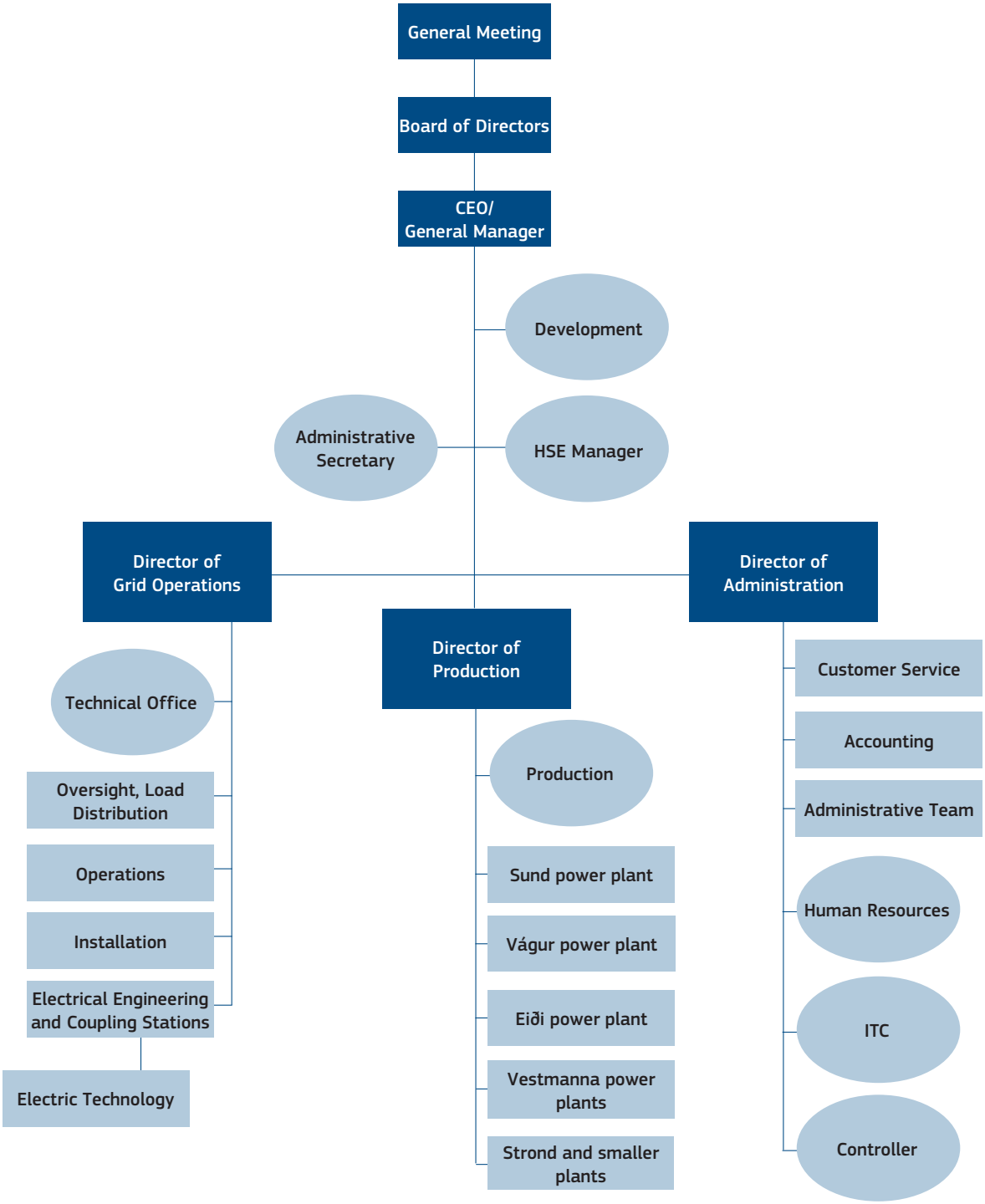
SEV has a Development Department that is continually working with new ideas and initiatives because management and staff continually have in mind that the goal is new thinking and a country supplied with 100% green electric energy by 2030.

The project plan that SEV continually adapts in concert with the country's government authorities and outside consultants is a valuable supplement to the comprehensive green course being charted into the future. SEV's plan is a significant thread in the overall shift in energy resources, which is critical as we all join together to follow the green course all the way to our goal of 100% green energy by 2030.

Oil shall be replaced by renewable energy resources. It is still green going forward. Together, we stand strong and remain willing to lift the Company to the place where we can achieve the goal.

John Zachariassen, Chairman of the Board
March 2018

Corporate Organization



Wind and solar have the highest priority for Faroese green energy strategy

A tool used for strategic long-term planning for green energy, shows that wind and solar power are the highest priorities for sustainable power generation in the Faroe Islands, together with current hydropower production. Power storage capacity needs to be added to the electricity grid, but tidal energy production remains too expensive

Wind and Solar the Highest Priorities for Green Strategy

The green energy strategy focuses on development of sustainable power sources, battery storage, stability of the power grid, cost constraints and supply demand because all these factors need to be integrated into the overall strategy to make the Faroe Islands 100% green by 2030.

A working group comprised of representatives from SEV and Orka, together with Ea Energianalyse in Copenhagen, have projected priorities for a green energy strategy. Ea Energianalyse used a computer model, called Balmorel, to prioritize larger scale development of technology, and to project costs and supply demand in the time period up to 2030.

The results are described in the report "Balancing a 100% renewable electricity system". The report from Ea Energianalyse places emphasis on the need for the Faroe Islands to increase the wind energy component of its strategy as soon as possible. In addition, solar arrays need to be installed to increase renewable energy in the summer time when there may be insufficient precipitation and wind.

Another conclusion in the report is that SEV should continue to develop power reservoirs, but that an envisioned pumping system may not need to be as large as previous estimates

The wind farm at Húsahagi, operational since October 2014, was a great leap forward towards the green vision. SEV is ready to build further wind farms to fulfill the vision.

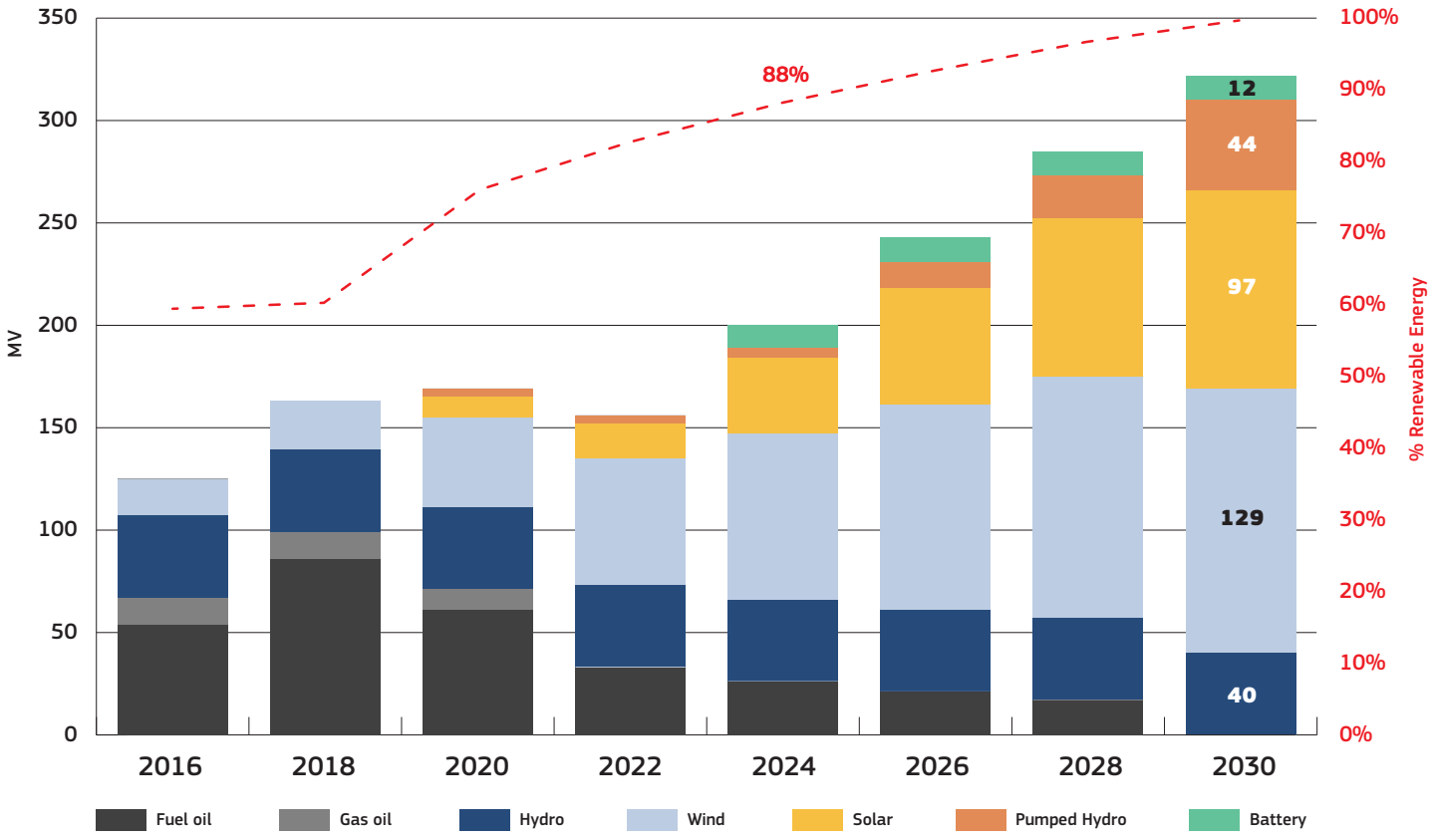


Diagram 1: Scale of development of various power generation sources, 2016 - 2030 (Source: Ea Energianalyse)

indicated. It also concludes that a battery system should be connected to any new wind farm in a similar way to what has been done in Húsahaga.

Tidal power has not yet been sufficiently developed and therefore its exploitation as a form of renewable energy is not economically viable at this point in time. However, SEV is paying great attention to the development of tidal and wave power generation so that these sources of energy will become part of the overall sustainable power strategy as soon as they become economically feasible.

Overall, the report from Ea Energianalyse concludes that, for the time being, wind and solar power are the primary priorities for sustainable power generation, and, concurrently, work should proceed to build out power storage capacity within the Faroese electricity grid.

Wind Power

Wind turbines are quickly and easily assembled, and, in addition, wind power is a relatively inexpensive source of electrical power. Therefore, as much electricity as possible should come from wind generation.

Strong and unsteady winds are characteristic of the Faroese climate. In many places, the average annual wind speed is in excess of 10/ms. As a result, electricity production from wind may be unpredictable, making it necessary to combine wind generation with a form of more stable electricity generation such as hydro power. Batteries can also be used to store power and balance fluctuations in the short term, seconds or minutes, to stabilize the electricity grid to exploit the wind more efficiently.

In addition to wind generation being unpredictable in the short-term, seconds to minutes, there is also a large difference in wind production between winter and summer. Measurements made in the Faroe Islands indicate, for example, that wind power production in June and July is a quarter of the production in December and January. Thus, wind energy should be used to operate pumping systems, which can transport water up into dams where it can be used again, as required, for hydroelectric power generation.

Solar power

Nowadays, solar power systems are quite inexpensive and, thus, highly attractive for a small archipelago like the Faroe Islands, even though solar power systems in the Faroe Islands will never produce as much energy as solar power systems in sunny countries.

Wind and Solar the Highest Priorities for Green Strategy

SEV is on the green track and there is great energy potential in the natural environment winter and summer, such as on this beautiful summer's day on Viðareiði.

Wind and Solar the Highest Priorities for Green Strategy

Solar power systems produce electricity from light, both in the visible and invisible spectrum. Thus, solar power production is possible in the Faroe Islands even on days with no sunshine. However, direct sunlight produces 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 production technology has fallen about 75% since its inception. The second reason is the interesting complimentary relationship among wind power, hydro power and solar power. The latter being most available in the summer months when there is little production from hydro power and wind power.

Solar power systems are easily and quickly assembled and require very little 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 to produce power for their own consumption. The excess power generated can be sold to SEV. The second option is to assemble solar arrays on a larger scale in open areas.

Power storage

Due to the unpredictable weather in the Faroe Islands, there is a great demand for power storage of excess generation that occurs over certain time periods in wet and windy conditions. The most obvious solution is a pumping system, which uses excess wind energy to pump water up into dams.

Gauging storage capacity requirements is closely connected to other available technologies. The most important question is whether or not to focus on reaching the status of 100% renewable energy under all possible conditions or to rely on the oil-fired thermal installation at Sund as a backup in dry periods with little wind, when there would be insufficient quantities of renewable power.

The conclusion of the assessment made by Ea Energianalyse was to build a power reservoir that could accommodate an annual storage capacity sufficient to supply power in a year with average precipitation and wind speeds. If there is a year with less than average precipitation and wind speeds, and, thus, insufficient power generation, the short-fall would be met with power produced by the oil-fired thermal installation at Sund. In this way, SEV will not be required to make extremely large investments in big and expensive dams.

In addition, it is not out of the question that the Sund plant could use bio-diesel, which would mean that all power would be generated from sustainable sources. The Sund plant would accommodate any short-fall from wind, hydro and solar power.

The solar power system on the roof of the Dentist Clinic Óðinshædd.

Hydro power

There is plentiful rainfall in the Faroe Islands. Ever since the first hydro power plant began operating on July 18, 1921, hydro power has been a very important part of Faroese electricity production. Nevertheless, hydro power, as well as wind power, is very weather dependent. Production figures indicate that during the summer months, production may be as low as 15% of production during the winter months.

Even though there are fluctuations in Faroese hydro power production, hydro power is a tremendously steady and reliable form of power generation when there is enough water in the dams. These plants can run for years if sufficient investment is made in plants, dams and tunnels. Most of the Faroese hydro power plants date from the middle of the 1950's and 1960's. With adequate maintenance, most of these plants will continue to operate for many years to come.

Summer time is a challenging period when it comes to hydro power. Efforts have been made to get as much water as possible into dams in the spring, so that hydro power plants with water reservoirs can continue to operate on an as-needed basis if one of the oil-fired thermal plants goes offline. This will change, however, with the completion of the new Sund thermal plant. Hydro power plants will no longer only be providers of reserve power. Hydro power plants will have a more integrated role in the power grid as a whole.

The importance of reliable hydro power plants should not be underestimated. This is especially true as it is anticipated that thermal production will decrease in the future, and hydro power will, to a great extent, become a more central part of overall electricity generation. This is because hydro power is reliable and can add security to the power grid as it is not so subject to fluctuations, making the power supply continuous and steady. This security of supply is currently provided by thermal plants.

Synergy between energy sources

Both precipitation amounts and wind speed decrease in the summer, and hours of sunshine increase until May, which in recent years has been the month with the highest average sunshine. Tidal stream power is much more reliable, and, even though it ebbs and flows, it is available all year round.

The Faroe Islands is exceptionally rich in sources of sustainable energy. If managed well, it will be possible to maximize seasonal usage of power sources from these diverse types of energy generation. Wind and hydro power can become the primary energy sources in winter time, when the excess power can be used in pumping systems to move water into dams where its potential energy can be stored until needed. In this way, the stored water potential in dams can be used together with wind and hydro power that is available during the Faroese summer.

Wind and Solar the Highest Priorities for Green Strategy

Even though tidal stream power fluctuates, it is predictable compared with other forms of sustainable energy. It is within the realm of possibility that tidal stream energy may become part of the total energy production in the years leading up to 2030. However, this depends on its continued development, including a reduction in the price of this technology.

When taking into account the combination of these renewable sources of energy, including power storage systems, for example, batteries and pumping systems, it is anticipated that the Faroe Islands can become independent of fossil fuels by 2030.

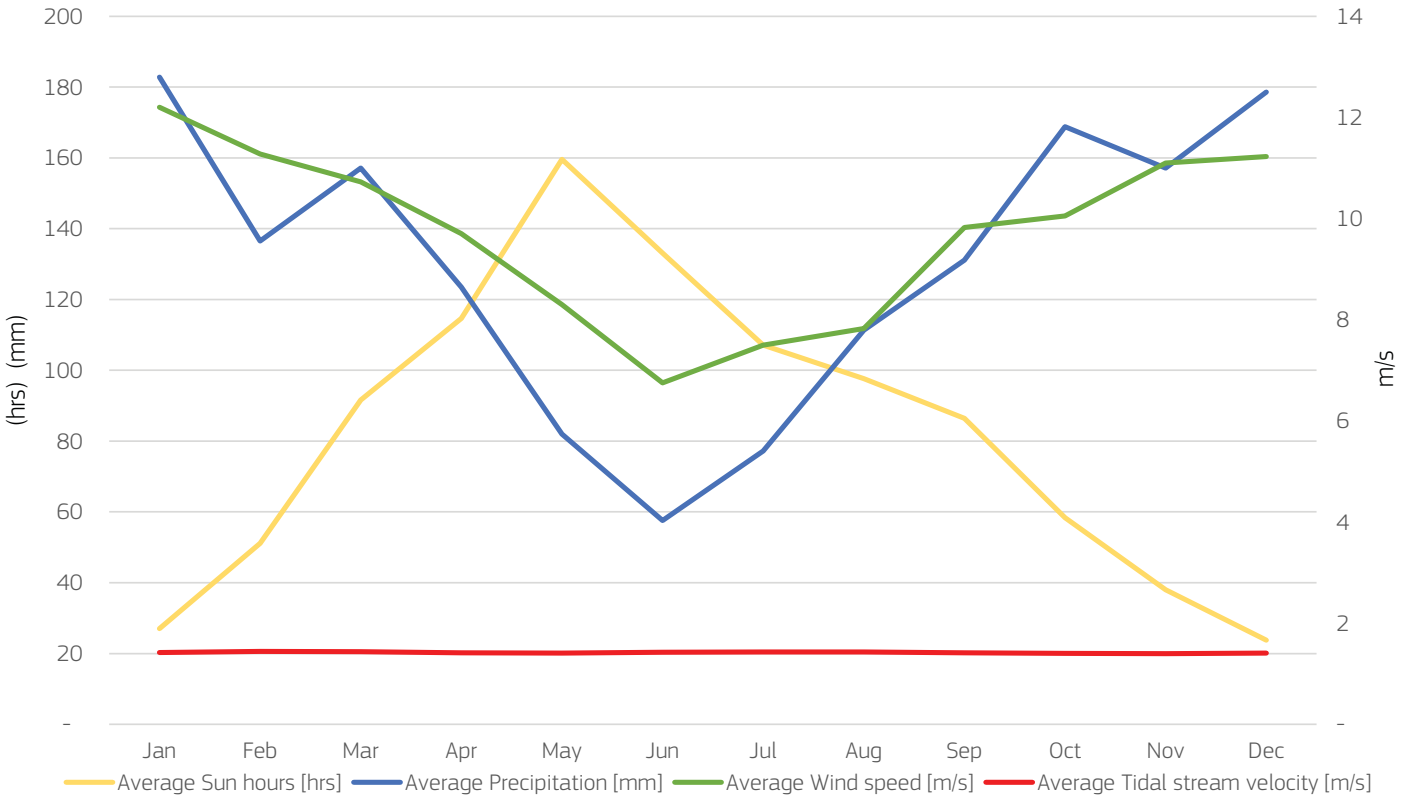
Economics and technology

For a realistic green strategy, it is increasingly important to evaluate and have flexibility built into planning in order to be able to take advantage of technological breakthroughs and price reductions.

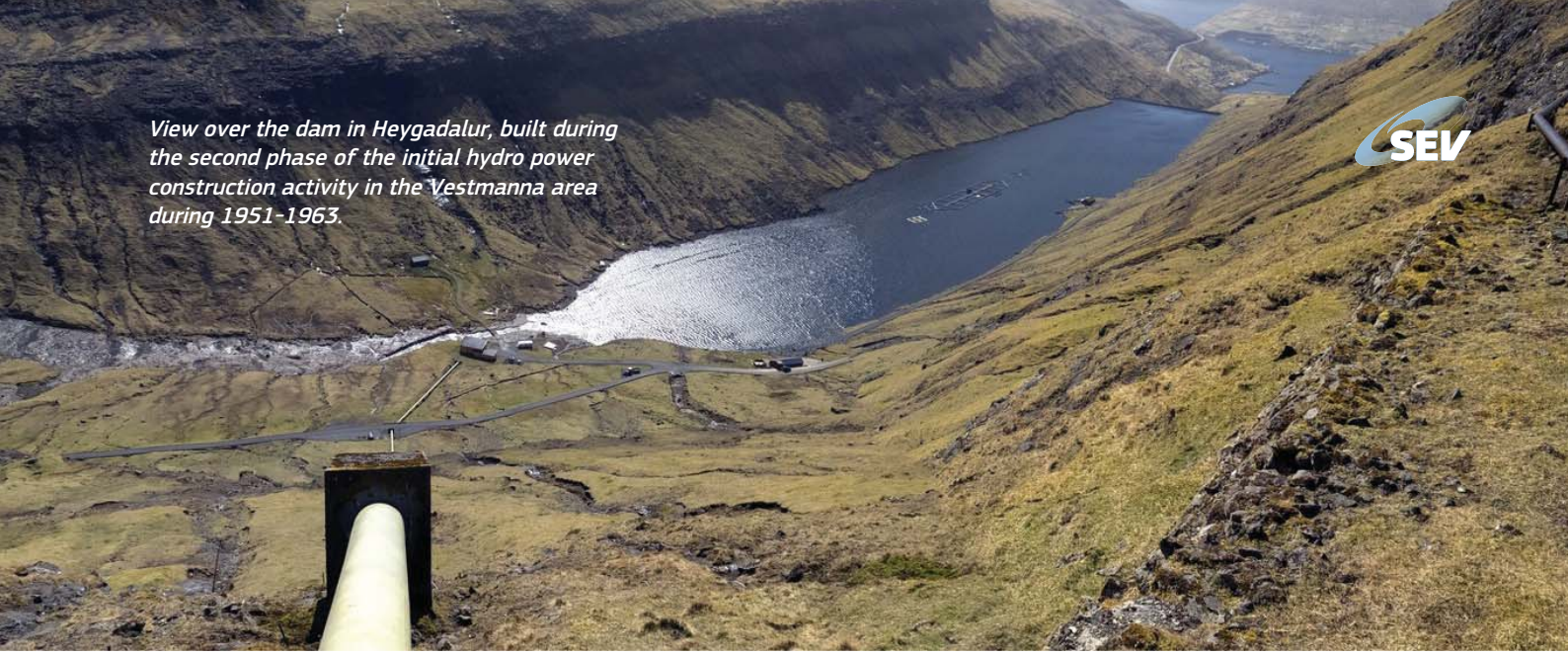
The speed of solar power development has increased in the last few years and technology has improved and become cheaper. It goes without saying that solar power should continue to be considered however, it is also important to focus on the development of alternative renewable power generation such as tidal stream power etc.

To achieve the goal of a 100% green Faroe Islands by 2030, there are three main themes to consider. One, the supply of electricity must be secure; two, all development and breakthroughs must be evaluated and actual costs considered; and three, protection of the environment.

It is important to our green energy strategy to make good decisions and time them effectively. Therefore, there is flexibility built into a well-defined green energy strategy to assure a prudent process that aims to achieve the wisest green energy solution for the Faroe Islands.



Interaction between energy sources.
The figure shows how the different energy sources interact.



View over the dam in Heygadalur, built during the second phase of the initial hydro power construction activity in the Vestmanna area during 1951-1963.

51% green energy in 2017

In 2017, 51% of the electricity production was derived from hydro and wind power. While this is only a small increase from 2016 green energy production, overall electricity consumption in 2017 increased by 5%

SEV generated 51% of its total electricity production from hydro and wind power in 2017; the oil-fired thermal power plants produced the remaining 49%. Compared to 2016, this represents but a small increase of 1%. However, overall electricity consumption for 2017 increased by 5% over 2016.

"Considering the high level of business activity in the Faroe Islands, which in turn results in relatively greater growth in electricity consumption, we are very pleased with the progress," commented Heri Mortensen, Director of Production.

He especially singled out wind-power production, which increased 14.5%, compared to 2016.

In this regard, Heri Mortensen stressed that wind power is much better utilized today. In 2017, which was the first full year that the Húsahagi battery system was deployed, 94% of the wind energy production from the Húsahagi windfarm was harnessed. This corresponds to an increase of 16% in the utilization of wind energy compared to 2015, which was the first full year the windfarm was in operation – but without the battery system.

"The battery system is, of course, the main reason for the higher rate of wind energy utilization. Consequently, we regularly update and enhance the battery system in collaboration with the wind turbine manufacturer, ENERCON, to boost energy utilization. In addition, our staff is gaining more and more experience in harnessing wind power, which is, by its very nature, a highly variable energy source. All these factors helped contribute to the good results experienced by the wind-power section," explained Heri Mortensen.

Hydropower production increased 4.6% in 2017, compared to 2016, which was a very dry year.

"All things considered, it is important to look at the positive developments in our green energy production in light of the increase in electricity consumption. Without a doubt, our experience demonstrates that wind power production should be expanded as quickly as possible. SEV is ready to install additional wind turbines, it is only a matter of inviting tenders," confirmed Heri Mortensen, Director of Production.

Electricity production reached record highs in 2017; SEV generated 334.3 GWh. This is 5.3% more than in 2016, when electricity production was 317.4 GWh.

The dam at Mýrarnar above Vestmanna was part of the second phase of the initial hydro power construction activity in the Vestmanna area during the 1950s and 60s. This was at the time the largest project attempted in the Faroe Islands. SEV continues to expand green electricity production for an affordable and collective price to the consumer.

Reduced electricity prices from 1 January 2018

In 2017, the Faroese Environment Agency instructed SEV to reduce the price of electricity by DKK 0.05/kWh from 1 January 2018. SEV agreed to the price reduction with reservations, stressing that the reduction may hamper planned green energy development and SEV is asking for clarification as well as guidelines for future pricing

The Environment Agency, in its role as a regulatory body, instructed SEV to reduce the price of electricity by DKK 0.05/kWh from 1 January 2018. SEV agreed to implement the price reduction, however, stated that this price reduction could have a delaying effect on planned green energy development projects. The price reduction will benefit all SEV's customers except export customers with usage exceeding 30,000 kWh per year, who fall under a special pricing schedule.

"We are engaged in contingency planning for our intended green energy development as the required price reduction is forcing SEV to reconsider and re-calculate certain project costs. The price reduction can cause a delay in the plans on Suðuroy for a wind farm, a battery installation, and a pump storage system," states Mr. John Zachariassen, Chairman of the Board of Directors of SEV.

At the Extraordinary General Meeting on 24 November 2017, SEV concluded that a coming General Meeting of the Board shall reconsider a part of future investments and their time frames. The new Board has decided to prioritize green energy projects and the associated investment, and the Board intends to continue to pursue this course.

SEV voluntarily reduced electricity prices on 1 January 2017. However, having taken this action does not imply that SEV agrees that the further reduction ordered for 2018 is prudent, given that at the same time, both SEV and the Faroese Government have set challenging future green energy milestones with the aim that in 2030 all land-based electricity will be produced from renewable sources.

In general, SEV is disputing whether the Environment Agency has the legal right to unilaterally order the price reduction and SEV has asked for further relevant clarification.

SEV, however, is glad to have a good working relationship with the regulator and an agreement has been reached with the Environment Agency for timely dialogue and discussion before possible further electricity price reductions for 2019.

"We feel the need to actively collaborate in order to reach our target for 2030, which requires a balance among its universal supply obligation, production security, budgetary prudence, green development and a power-use transition of customers from oil to electricity, using heat pumps and electric vehicles etc.," states, Zachariassen.

Mr. Zachariassen also stresses that the current price for electricity, to a large extent, is expected to finance these green projects, which in the long run will be more economical than oil-fired power plants.

With a view to the present favourable Faroese economy and low oil prices, SEV believes that now is the right time to set aside money for future green projects.

SEV featured at Climate Planet in Copenhagen

SEV, along with Atlantic Airways, Tórshavn Municipality and The Ministry of Health and Interior, promoted "Green Faroes" as part of Climate Planet held at Town Hall Square on 13 October 2017 during the festive Culture Night in Copenhagen, Denmark

Singer-songwriter Eivør Pálsdóttir closed the Green Faroes programme with a breath-taking and inspiring concert. For an entire day the Faroe Islands was the focus of Climate Planet, which was situated in the heart of the Danish capital for four weeks during September and October 2017.

Faroese tourism, film and food culture, fisheries and fish-farming – and Faroese innovations in sustainable energy – were all featured at Climate Planet during Copenhagen's Culture Night. A portion of the programme was led by two hosts from the Danish Broadcasting Corporation (DR), Mr. Jacob Illeborg, who is half-Faroese, and Mr. Jesper Theilgaard, who together presented some thrilling videos and interviewed guests on the Climate Planet stage. SEV sponsored the Green Faroes programme, together with Atlantic Airways, Tórshavn Municipality and The Ministry of Health and Interior.

The day-long programme began with a morning seminar for invited guests and in the afternoon, everyone was welcome to the Climate Planet exhibit featuring the Faroe Islands. When Cultural Night officially began at 18:00, visitors with a "culture-passport" could gain free admittance to a splendid North Atlantic experience in the heart of Copenhagen.

Mr. Jesper Theilgaard, well-known Danish meteorologist, discussed the climate challenge in the North Atlantic Ocean with videos and satellite data projected on the Climate Planet NASA-globe, and the four wide-screens, which are a unique feature of Climate Planet, with a focus on the Faroe Islands as an example of green sustainability in the heart of the North Atlantic Ocean.

SEV at Climate Planet in Copenhagen

Mr. Jacob Illeborg, host of DR Kontant, explored the history of the revolutionary green strategy of the Faroe Islands via video and interviews with guests on the Climate Planet stage. Taking centre-stage was the innovative and progressive goal embraced by the Faroe Islands to generate all its electricity from sustainable energy resources by 2030. The question up for debate was how this forward-thinking goal would impact Faroese society, especially tourism, fish-farming, the fisheries industry, and modern-day Faroese food culture, etc.

In addition, the special film on climate change produced by Climate Planet was shown. The film, based on NASA satellite images and technology, is narrated by meteorologist Jesper Theilgaard and explores the history of the planet's climate change from the Big Bang and on into the future.

Also on tap during the Faroese programme at Climate Planet were the Faroese films Vetrarmorgun [Winter Morning] by Sakaris Stórá, Skuld [Guilt] by Heiðrik á Heygum and Tunnan [The Barrel] by Jónfinn Stenberg and Jóannes Lamhauge. Singer-songwriter Eivør Pálsdóttir ended the day with a spellbinding concert.

Guests at the Faroese programme featured at Climate Planet included Mrs. Sirið Stenberg, the Faroese Minister of the Environment and Energy Affairs; Mrs. Turið Horn, Chair of the Environment Committee of Tórshavn Municipality; Mr. Hákun Djurhuus, CEO of SEV; Mr. Árni Olsen, Marketing Manager of Atlantic Airways; Mr. Gutti Winther, the renowned Faroese television chef, and Mr. Jørgen Christensen, CTO of Dansk Energi.

Climate Planet originated in Århus when the city was acclaimed the European Capital of Culture for 2017. The organisers of Climate Planet erected a 20-metre-high exhibition hall in the shape of planet Earth, which was situated near the harbour in Århus during the summer of 2017 and a large number of visitors watched a specially-produced film about Earth's climate history.

The exhibition hall of Climate Planet features outstanding technical and video equipment making it possible to host a variety of interesting programmes, both inside and outside the "planet".

Climate Planet was in Copenhagen from 22 September to 23 October 2017 and then subsequently moved to COP23 in Bonn, Germany in November 2017.

The Climate Planet was on the Town Hall Square in Copenhagen for 4 weeks in September and October 2017, where SEV along with Tórshavn Municipality, the Ministry for the Environment and Energy, and Atlantic Airways arranged for a Faroese segment during the Culture Night in the Danish capital..

SEV at Climate Planet in Copenhagen

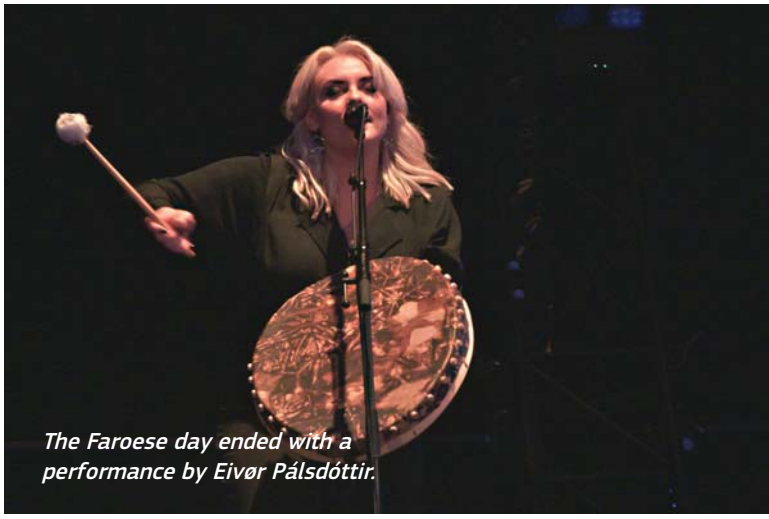
Hákun Djurhuus, CEO of SEV, in discussion with DR host, Jakob Illeborg.

Terji Nielsen, Manager of Development at SEV, featured in short film produced for the occasion in the Climate Planet.

SEV at Climate Planet in Copenhagen

Sirið Stenberg, Minister of Energy Affairs, attended the Climate Planet.

Many people attended the Faroese event at the Climate Planet during the culture night in Copenhagen on 13 October 2017, when thousands were about town.



The Faroese day ended with a performance by Eivør Pálsdóttir.

The battery station at Húsahagi awarded first prize at international conference

The battery station in Húsahagi was recognised as the best initiative from among the 27 projects reviewed at an international sustainable energy conference held in Cologne, Germany

Battery system at Húsahagi awarded 1st price at international conference

The battery station at the Húsahagi wind farm, which is designed to supply a steady flow of power from the wind turbines into the national electricity grid, was selected as the best project from among 27 projects reviewed at a major international sustainable energy conference held during June 2017 in Cologne, Germany. The award-winning, first-prize battery station is the result of a collaboration among SEV; SAFT, the French battery manufacturer, and the German wind turbine producer, ENERCON.

Because the battery station is such an innovation and has the potential to be used around the world, it has attracted considerable attention from multiple sources beyond the Faroe Islands. The battery station was, for example, referenced in the Nordic Council's report on energy cooperation in the Nordic countries, which was also published in June 2017.

Mr. Terji Nielsen, Head of Development at SEV noted, "We are very proud of this prize and the great interest in the battery station expressed by the international energy sector. It encourages SEV to continue exploring new technology, as we press onward toward our goal of 100% green power production in the Faroe Islands by 2030".

Mr. Michael Lippert from SAFT Batteries presented the battery station at the conference on behalf of SEV, SAFT and ENERCON.

When it was revealed that the Faroese battery station had received first prize, Mr. Lippert sent a quick greeting to SEV, stating: "The congratulations flowed in abundance, because we were able to demonstrate a concrete example of a battery system in full operation in an electrical power system".

Michael Lippert of SAFT Batteries, pictured centre, presented on behalf of SEV, SAFT, and ENERCON at the sustainable energy conference in Cologne.

The green strategy of the Faroe Islands is recognised in a Nordic Council report

An energy report from the Nordic Council of Ministers discusses the battery system at Húsahagi and other energy storage systems in the Faroe Islands

A report about Nordic energy cooperation, entitled Strong today – Stronger tomorrow, references, among other initiatives, the green energy strategy of the Faroe Islands, and especially the battery station at Húsahagi and the possibilities for other energy storage schemes within the Faroese energy system, which have sparked much interest.

The report, published in June 2017, also mentions the Faroe Islands as an energy testbed and that the knowledge gained in the Faroe Islands about the shift to green energy, including the battery system and other energy storage initiatives, should be widely disseminated, with a focus on areas with small populations.

The Nordic Council of Ministers commissioned the study on 27 October 2015 – the very same day that SEV was awarded the Nordic Nature and Environment prize in Reykjavík, Iceland. Mr. Jorma Ollila from Finland, who served as the chairman of Royal Dutch Shell and the chairman and CEO of Nokia Corporation for several years, was responsible for drafting the report on behalf of the Nordic Council of Ministers.

Mr. Jorma Ollila, who also had a meeting with SEV on 7 September 2016, interviewed more than 100 individuals, who took the opportunity to share their perspectives on how best to strengthen Nordic energy cooperation.

Jorma Ollila, pictured right, author of "Strong today – stronger tomorrow", together with the Norwegian Minister of Energy, Terje Søviknes, centre, and Dagfinn Høybråten, General Sectretary of the Nordic Council of Ministers, when the Nordic energy report was published.

The report noted that representatives from the Faroe Islands, Greenland and Iceland jointly emphasised that any Nordic energy cooperation should incorporate a partnership focused on specific solutions tailormade for the challenges facing the outlying countries of the Nordic region that are not linked into the common Nordic electricity grid.

"The battery system at Húsahagi and our innovative initiatives exploring other energy solutions are examples of the subjects discussed in the report. Innovative thinking and distinctive solutions are a prerequisite for reaching the goal of 100% green energy production in the Faroe Islands by 2030", Mr. Hákun Djurhuus, CEO of SEV, explained.

Mr. Jorma Ollila observed in the report that we should take full advantage of the potential for innovation in the energy sector to create new jobs in the sector.

"The shift to green energy is already underway – if the Nordic countries do not fully and totally take part in this shift, jobs will be created elsewhere", Mr. Jorma Ollila observed, among other things, in the preface to the Nordic energy report, Strong today – Stronger tomorrow. The report references 14 proposals on how Nordic energy collaboration could be strengthened.

The report from the Nordic Council of Ministers is available at Norden.org/strongertomorrow.

Customers as power producers

SEV has offered its customers the opportunity to become producers of electric power via their own small power plants. It will be especially interesting to see how the solar panels of a customer could impact the country's green strategy.

In the future, customers can both produce power for their own consumption, and sell excess power into the power grid of SEV. In that way, a customer becomes a "prosumer", or in Faroese an *elfelagi* – meaning a person that cooperates with a supplier of electricity regarding both production and consumption.

Mr. Hákun Djurhuus, the CEO of SEV, noted: "SEV is offering the opportunity for our customers to sell electrical power into SEV's grid, which in the end will help each individual household save money. Thus, the total electricity bill for a "prosumer" will be reduced".

He also observed that this kind of cooperation and teamwork with customers could very well play a significant role in the process of making the Faroe Islands 100% green by 2030.

"We invite our customers to become a part of charting the green energy course ahead. Such participation will no doubt help contribute to a sense of ownership in the major project of making the Faroe Islands green by 2030. SEV is owned by all the Faroese people and we have always together solved the problems facing us, and it is our hope that everyone will rally together again to help chart this historic course to a green,

Ordinary citizens can now become "prosumers" – i.e. a customer who both buys power from SEV and sells power from their own small power plant. Picture left is Hans Black, who has installed a wind mill in his own garden. On the large picture is Ólavur Poulsen, who has built a hydro power plant at Vatnsoyrar.

sustainable energy future for the Faroe Islands. Together, we stand strong," observed Mr. Hákun Djurhuus, CEO of SEV.

SEV has recommended the parameters for connecting to the grid be changed, enabling SEV customers to set up their own mini power plants, e.g. rooftop solar panels, small-scale hydropower plants and small wind turbines.

Small-scale power plants produce at most 11 kW. SEV has stipulated new technical requirements for these small-scale power plants that must be met before being allowed to connect to the grid. In addition, all the provisions of the Act on Electricity Production, as well as any other requirements of the government authorities, must be followed.

"Previously, solar energy experiments were undertaken in the Faroe Islands, but now we believe the time is right for solar power to make a real difference, especially during the summer months when the consumption of oil is the greatest because there is minimal wind and rain", noted Mr. Hákun Djurhuus, CEO of SEV.

Security of supply is top priority

SEV is constantly striving to obtain as much green energy as possible. However, it is imperative to expand the Sund thermal power plant because oil will remain a necessary source of power to ensure security of supply while SEV continues to chart the course to a green energy future

Security of Supply is Top Priority

Expansion of the Sund thermal power plant is a part of ensuring total electricity supply security. The Sund power plant is designed to always ensure a steady supply of electricity to the entire Faroese community, as renewable energy resources are built out in the future as part of the 2030 green energy strategy. The oldest and largest motors at the Sund power plant have reached the end of their projected useful life and would of necessity need to be replaced.

Along with the hydro power plants, the Sund thermal power plant will continue to be the heart of the Faroese power system for many years into the future, because both hydro power and oil are stable sources of power that do not fluctuate under production, thus ensuring a steady flow of power into the grid, which helps mitigate brown-outs and power surges at the wall socket.

"Power all the time – that is the watchword of the entire electrical system. If the system falters, the whole community suffers. SEV is dedicated to providing stable electricity solutions, as we chart the course toward a green energy future," observes Hákun Djurhuus, CEO of SEV.

He moreover noted that, according to the Electricity Production Act, SEV has the ultimate obligation of ensuring electricity

The Sund power plant will, along with hydro, be the backbone of the electricity supply for many years to come. The role of the plant will gradually change from primary to back-up plant, as more green energy sources are added in years to come.

supply security and quality in the Faroe Islands, and that SEV takes this responsibility very seriously. “This responsibility can never be ignored,” affirms Hákun Djurhuus.

Thus, we are not free of oil quite yet, even though SEV has charted a green energy future that embraces wind, hydro power and solar. In addition, SEV is closely following developments in tidal energy, which could become a source of green energy in just a few years, if it can be developed sufficiently to be a commercially viable alternative.

Nevertheless, Hákun Djurhuus notes that in the years ahead the role of the Sund thermal power plant will diminish to that of an extra measure of insurance supporting the entire electrical system, as more and more renewable energy resources are integrated into production.

“For the Faroes, the Sund thermal power plant can be likened to a “reserve back-up” and the grid integration that exists among many countries on the European continent. For example, Denmark, Norway, Sweden and Germany provide back-up power for each other. When power production goes awry in one country, it can purchase power from another so that supply security is not jeopardised.

“In the Faroe Islands, the Sund thermal power plant will be our reserve back-up for many years into the future, because we are not linked into a larger electrical grid system, such as that found on the European continent,” observes Hákun.

The new, expanded Sund thermal power plant will meet all modern-day design standards. The motors are of excellent quality, and, as the demand for electricity increases, can match the needed power requirements immediately. The new thermal power plant is scheduled to begin operations in 2019.

Security of Supply
is Top Priority

Expansion of Sund power plant according to plan

The new section at the Sund power plant, Station 3, is making good progress and is expected to be handed over to SEV in October 2019

At the Sund power plant, the new extension, Station 3, is starting to take shape and a trial run is scheduled for Autumn 2019. SEV is anticipated to officially take over the plant in October 2019.

The oldest and largest motors at the Sund power plant are nearing retirement. The plant is in critical need of an update if SEV is to continue to deliver uninterrupted electrical power from thermal and hydro, which are stable sources of energy. This will be done at the same time as the expansion on the green course continues.

Preparations for Station 3 started in 2014 through 2015 by developing ideas and agendas. During this time the Board was updated at regular intervals about the development of the project. At the Extraordinary Board Meeting on 30 September 2016 the Board was given permission and authorisation to implement the 'Expansion of the Sund power plant' which was estimated to cost up to DKK 800 million.

On 14 June 2016 SEV and MAN signed a conditional agreement for supplying the motors and on 10 November 2016 SEV signed an agreement with BWSC to install technical equipment. SEV and Articon signed an agreement about development on 23 December 2016, and on 23 January 2017, the parties signed a contract regarding the construction of the plant building.

During the preparation phase, material was prepared for processing by the responsible authorities as well as a development plan for the main project was outlined.

Site development began in February 2017 by preparing the site for the extensive build. Excavation of the site started in April when the site was prepared for blasting. The first blast

Many blasts have been made during the extension of the Sund plant. Pictured here is one of the largest.

was set off on 24 May 2017, and the occasion was marked with a small get-together of Sund employees, SEV-staff and others with interest in the project.

In October 2017 the foundation was ready to cast and concrete was poured into the first form on 5 October 2017.

On 29 March 2017 the first of 4 motors was tested in Augsburg, Germany. The remaining 3 motors were supposed to be manufactured in August and September 2017. However because the motors and generators were not scheduled for instalment until June 2018, it was agreed to postpone production until April 2018.

The technical equipment for the fuel supply, lubricating oil, cooling water, and district heating will be installed in units in Wismar, Germany. The first of these units was tested at the factory on 9 January 2018. Two of the eight large motor mufflers were tested on 11 January 2018 in Coswig, Germany.

After a 60 day trial period, Station 3, will, if everything goes according to plan, be handed over to SEV.

SEV completes the installation of public quick-charge stations

The public quick-charge stations installed by SEV around the islands afford additional charging security for electric vehicle owners. The vision is that in general electric vehicles would be charged at home or at work

In 2015, SEV started a project to install public charging stations for electric vehicles around the country, and in August 2017, the all stations planned in the project were installed.

"The public charging stations offer an extra layer of charging security for electric vehicle owners, as they have the possibility to charge their vehicles at a public station even when away from home or work. The vision, of course, is that all electric vehicles would in general be charged at home or work," commented Mr. Hákun Djurhuus, CEO of SEV.

The charging stations at the airport were the last to be installed. The two charging stations at the airport can charge four vehicles at the same time; one of the charging stations is a so-called "quick-charge" station.

In total, there are currently eight public charging stations that can charge two electric vehicles at the same time

The public quick-charge stations around the islands are an additional charging security for electric vehicle owners for when they have not been able to charge at home or at work.

while delivering an 80% charge in only 20 minutes. This is considerably faster than older charging stations. In addition, two ordinary charging stations have been installed; these require a somewhat longer time to fully charge a vehicle, depending on the model. These slower charging stations were installed alongside the quick-charge stations at the airport and in the capital, Tórshavn.

The first quick-charge station was installed in Klaksvík shortly before Christmas 2015, and afterwards charging stations are installed at við Streymin, Tvøroyri, Tórshavn, Vestmanna, Sandur, Runavík and at the airport. Overall, 20 electric vehicles can be charged at the same time at the public charging stations around the country.

SEV considers the first quick-charge station set up in Klaksvík an important step on the path toward a green future in the Faroe Islands, as it marked the first time it was possible to drive, for example, from Tórshavn to Klaksvík in an electric vehicle with the possibility of quickly recharging a vehicle at a public charging station and then immediately driving back to Tórshavn.

The charging stations are an important step in the green strategy of full electrification of the Faroe Islands. The overarching goal of the green strategy of SEV is that by 2030 all electricity will be generated from sustainable resources – hydro, wind, tidal and solar power.

An overview map of all the charging stations in the Faroe Islands is available at Kortal.fo. Choose the “Green energy” link on the right and then click “Charging points for electric cars”. Information about the charging stations in the Faroe Islands is also available at Uppladdning.nu. Click on Faroe Islands on the map and then select a specific location for detailed information about the charging station at that location.

510 students attend classes at Húsahagi

During the school year 2016-17, SEV held classes in electrical power for 510 ninth-grade students at the wind farm at Húsahagi. The electric utility considers such education an important civic duty

For many years now, SEV has been a part of the curriculum for ninth-grade students in the Faroe Islands. Students participate in a day-long field course on power production; green, sustainable energy, and the sensible use of energy.

During the 2016-17 school year, SEV offered its programme to 510 ninth-grade students at the wind farm at Húsahagi. The students were from 24 different schools.

Previously, the training took place at SEV's headquarters in Tórshavn, but in January 2016 the program was moved to the brand-new conference centre and classroom facility at the wind farm at Húsahagi. Consequently, the day-long programme is now offered in an excellent purpose-built training facility in an environment where nature, green energy and high-tech go hand-in-hand.

SEV considers education about electrical production; green, sustainable energy, and the sensible use of energy as a corporate responsibility and civic duty. One aspect of this initiative is the programme designed for elementary/middle school students, but SEV also collaborates with students and teachers at the high school and university level seeking specific information about the production of electricity.

Kristiana Rein, energy consultant, is a veteran of SEV's education programme, with students from Skúlin á Fløtum in Tórshavn.

All ninth-graders are invited for a day course on electric energy at SEV, conducted at the Húsahagi wind farm facility in the midst of green energy production. At bottom left, Bogi F. Sigurstein from the Installation department, presents to the students.

Employees of SEV

At year-end 2017 there were 152 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 152 full-time equivalent employees of SEV.

Age

The average age of SEV's employees decreased during 2017 but is still over 50 years. Also, 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.

On the other hand, the intake of apprentices has served to lower the average age of SEV's employees. Going back only a few years, there were no apprentices at SEV, but in December of 2017, there were no less than 6, four men and two women: three electrian apprentices, two mechanical apprentices, and one office clerk apprentice. 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, one of whom started in 2017.

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.

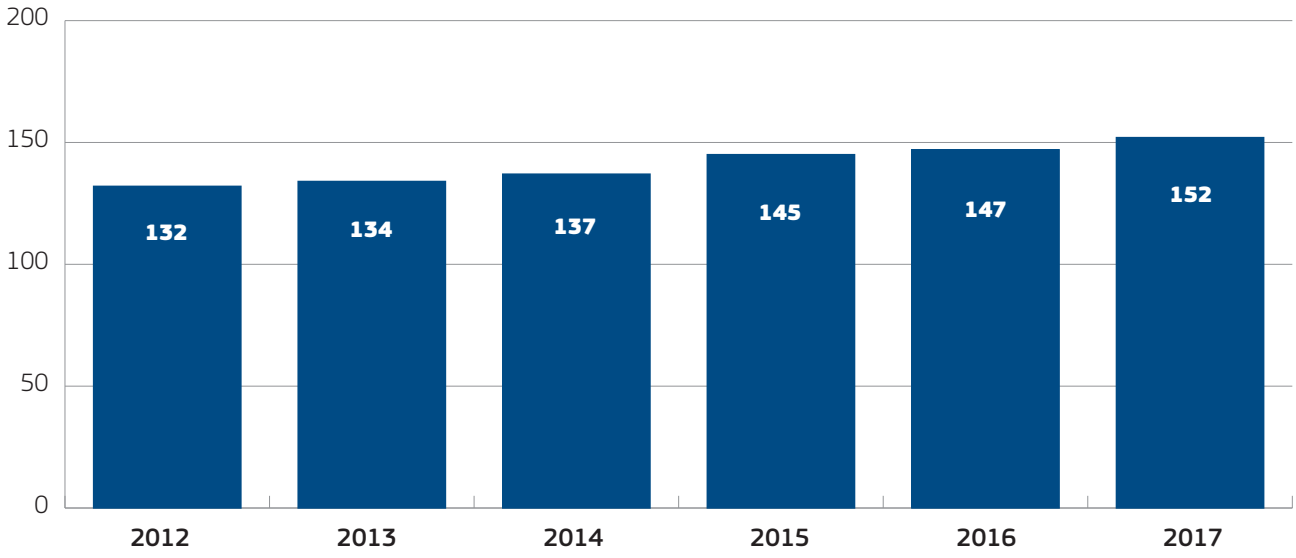
Change in composition of employees

We welcomed quite a number of new employees in 2017. The additions were mainly due to four new apprentices, one new adjusted position, the Development Department was set up, and there were also new positions in relation to the 2030 target to make the Faroe Islands' on-shore electricity production 100% green.

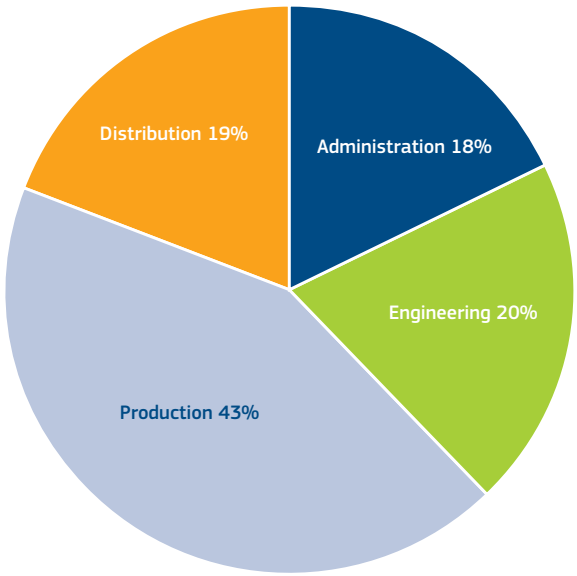
Our Employees

In 2017, SEV had 230 people on its payroll. Of these, 11 have served on the Board of Directors, 4 received pension benefits, 53 were temporary workers, and 152 were full-time equivalent employees.

Permanent Employees at Year-end

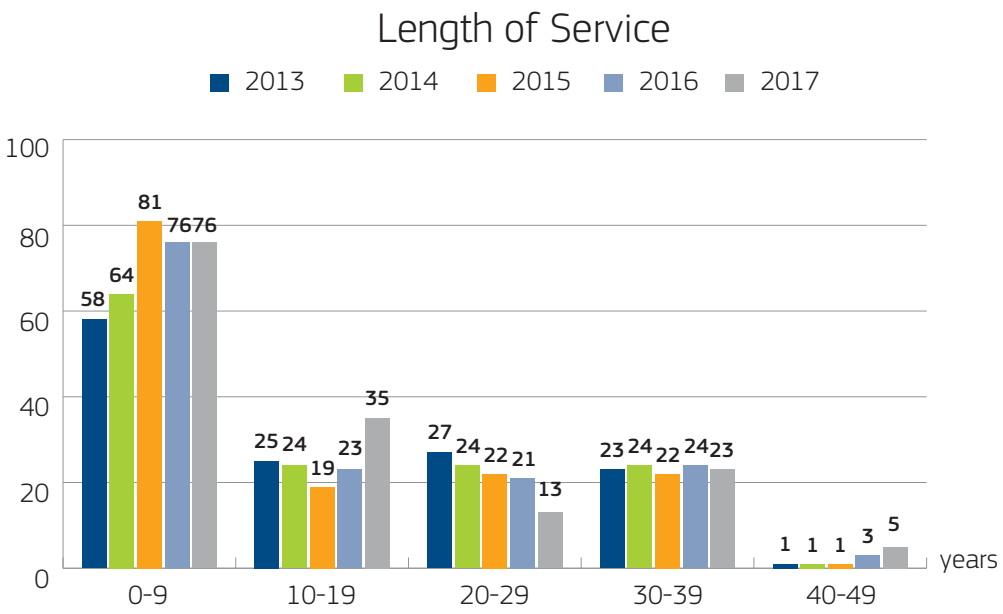


Distribution of Employees



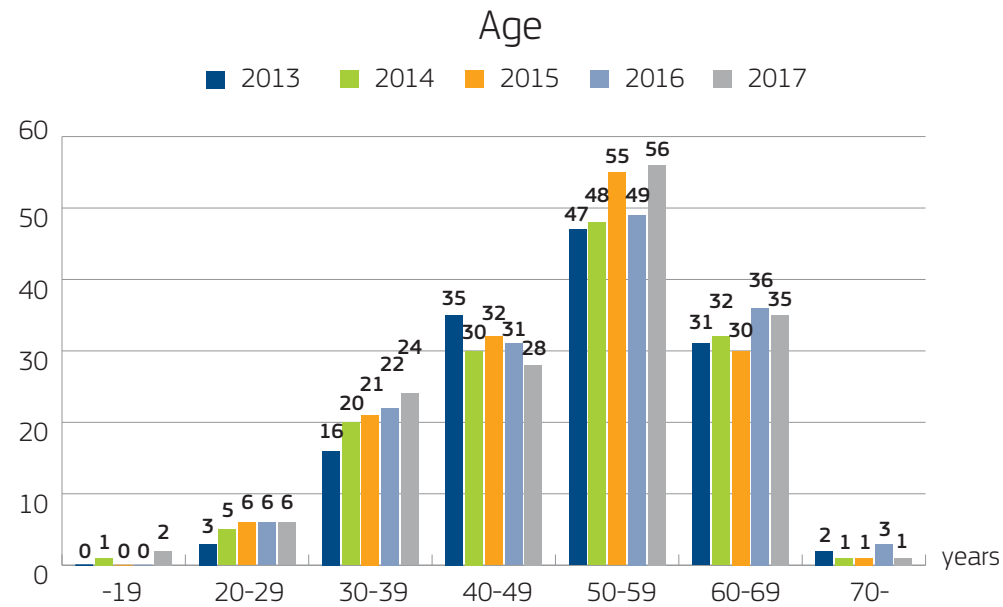
Distribution of Employees

The chart on the left shows the distribution by business unit of the 152 permanent employees at year-end 2017.



Years of employment

The average length of employment is 14 years. In 2017, 37 people or 24% of all employees have been employed with SEV for 25 years or more. In 2016, the number was 43 people, or 29%.



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 has decreased to 50 years.

The charts shows that compared to 2016, there is a small increase in the 30-39 age group, while both the 40-49 and 60-69 age groups decreased. The greatest increase is in the 50-59 age group.

At year-end 2017 there were 36 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.

Safety Measures

In 2017, SEV has focused on safety measures during power outages, and introduced risk assessments for high-risk work. Employees now also can report issues relating to HSE through an app. This will improve safety for our staff and others as well.

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 2017, two instances 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 promontory on the island of Eysturoy and 13 wind turbines at Húsahagi outside Tórshavn.

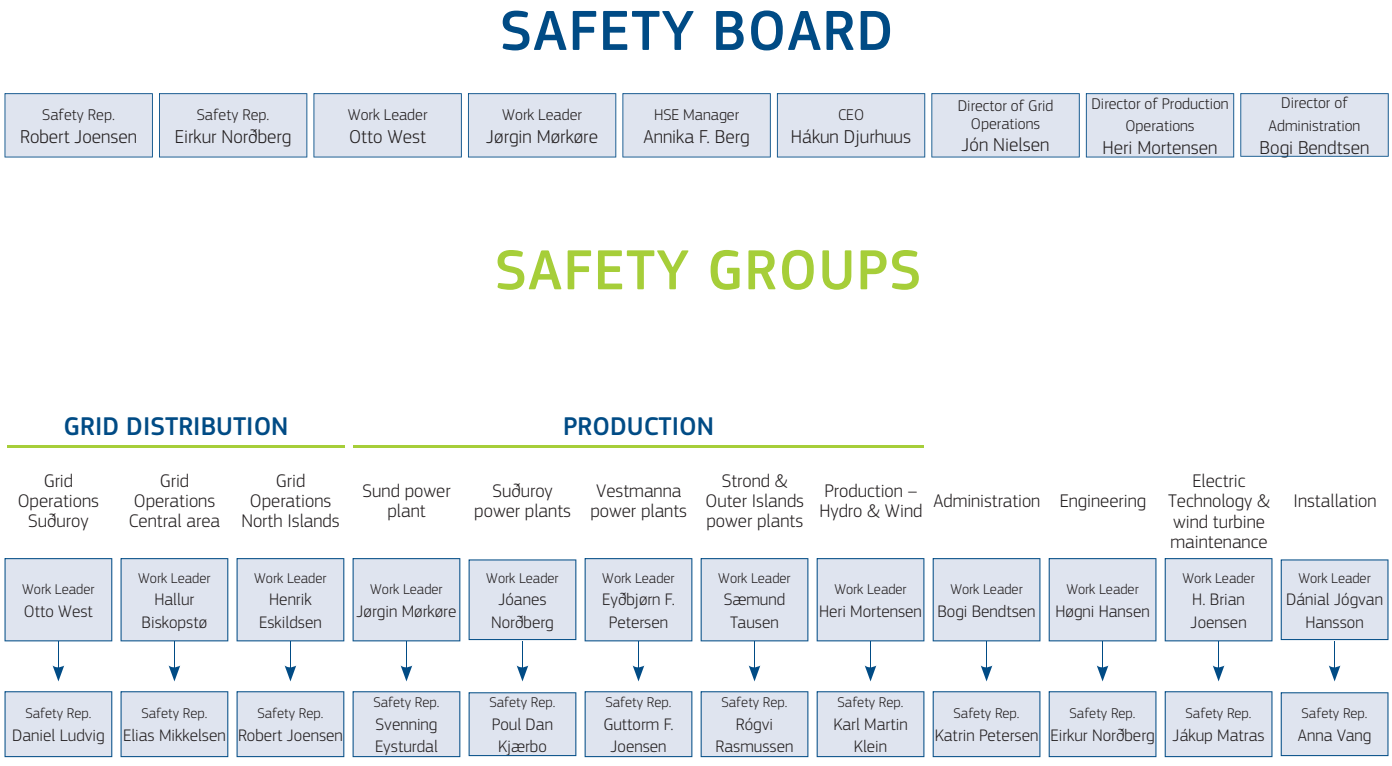


Figure 1. The Safety Board of SEV.

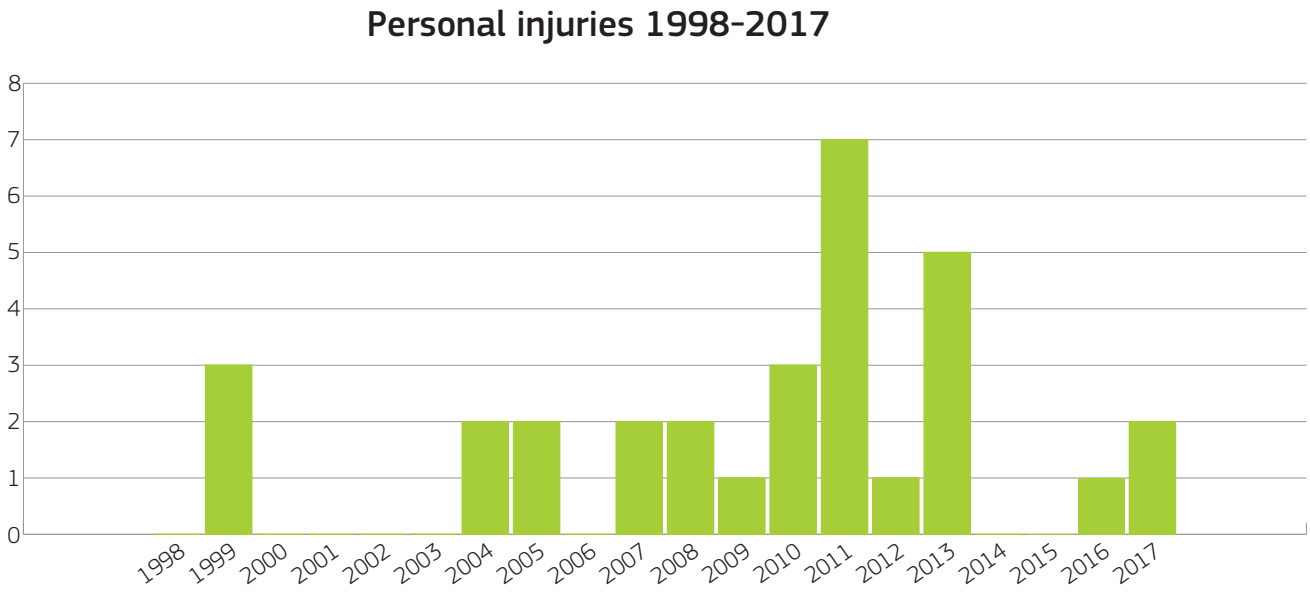


Figure 2. Number of personal injuries that resulted in a worker's disability for one or more days for the period 1998 to 2017 that were reported to the Occupational Safety & Health Administration.

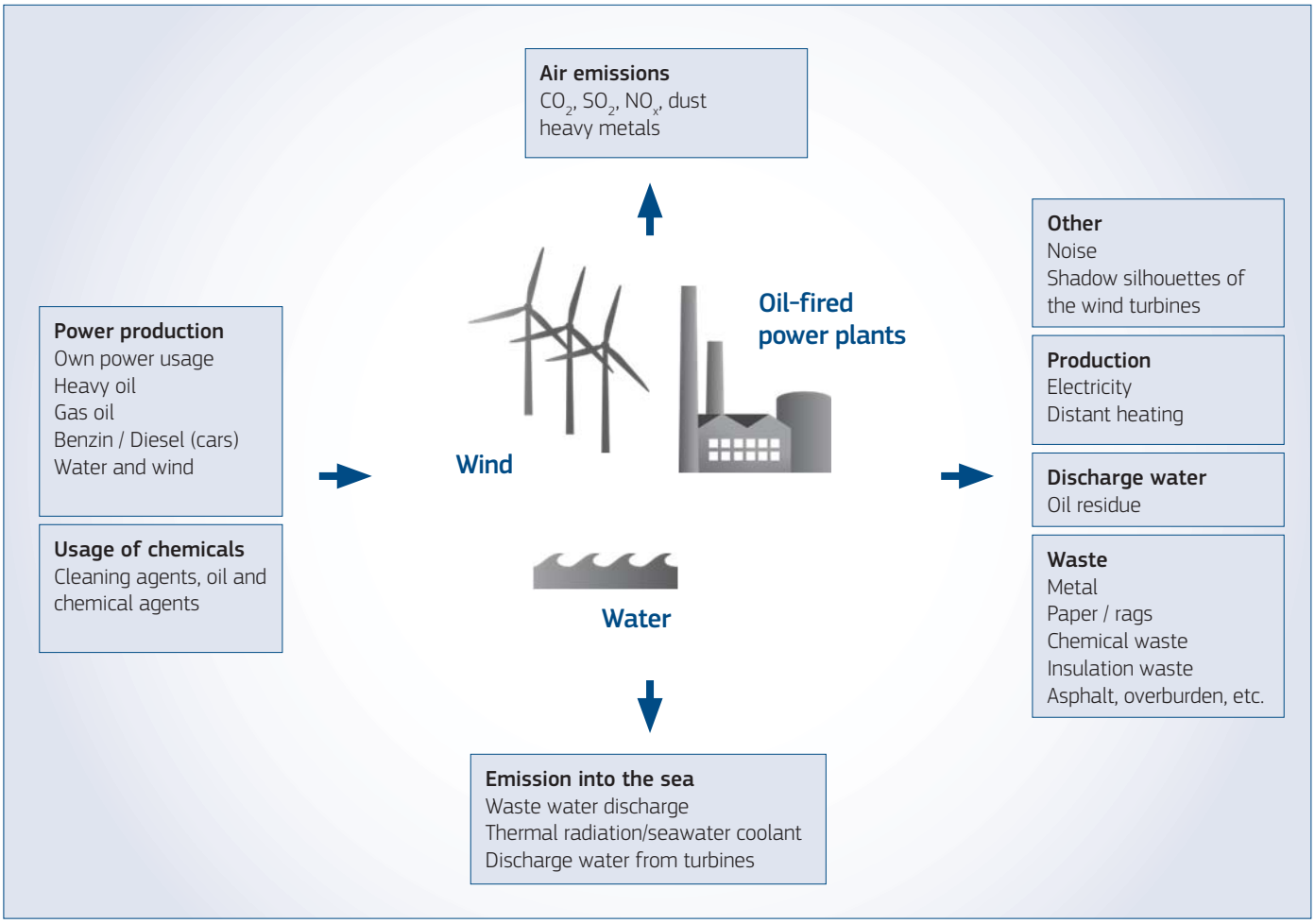


Figure 3. Overview of the main impacts on the environment by the activities of SEV.

Galdandi umhvørvisgóðkenningar:	Sett í gildi:
Umhvørvisgóðkenning av vindmyllum hjá SEV í Neshaga	14.05.04
Umhvørvisgóðkenning av elverkinum á Sundi	28.04.11
Umhvørvisgóðkenning av vindmyllunum hjá Elfelagnum SEV í Neshaga	13.01.12
Umhvørvisgóðkenning av vindmyllum hjá Elfelagnum SEV í Húsahaga	16.01.13
Umhvørvisgóðkenning av elverkinum í Vági	18.11.15

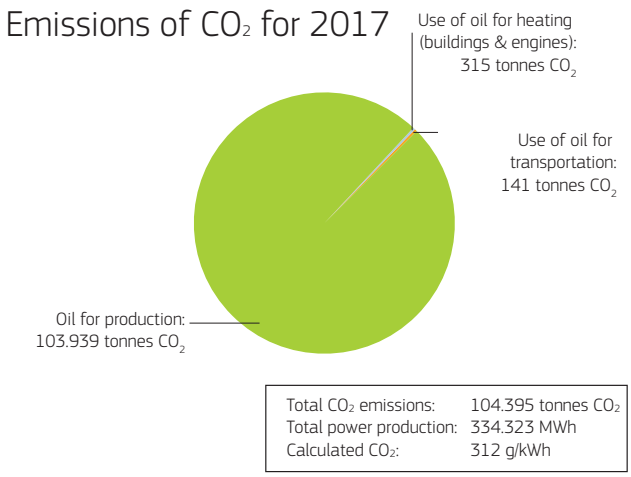


Figure 4. CO_2 emissions 2017.

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 CO_2 emissions originates from oil-fired electricity and heat production. Additionally, CO_2 emissions originate from the use of oil for the heating of buildings and motors, as well as transport. Figures 4 and 5 show SEV's CO_2 emissions for 2017 and CO_2 emissions from 2008 to 2017, respectively.

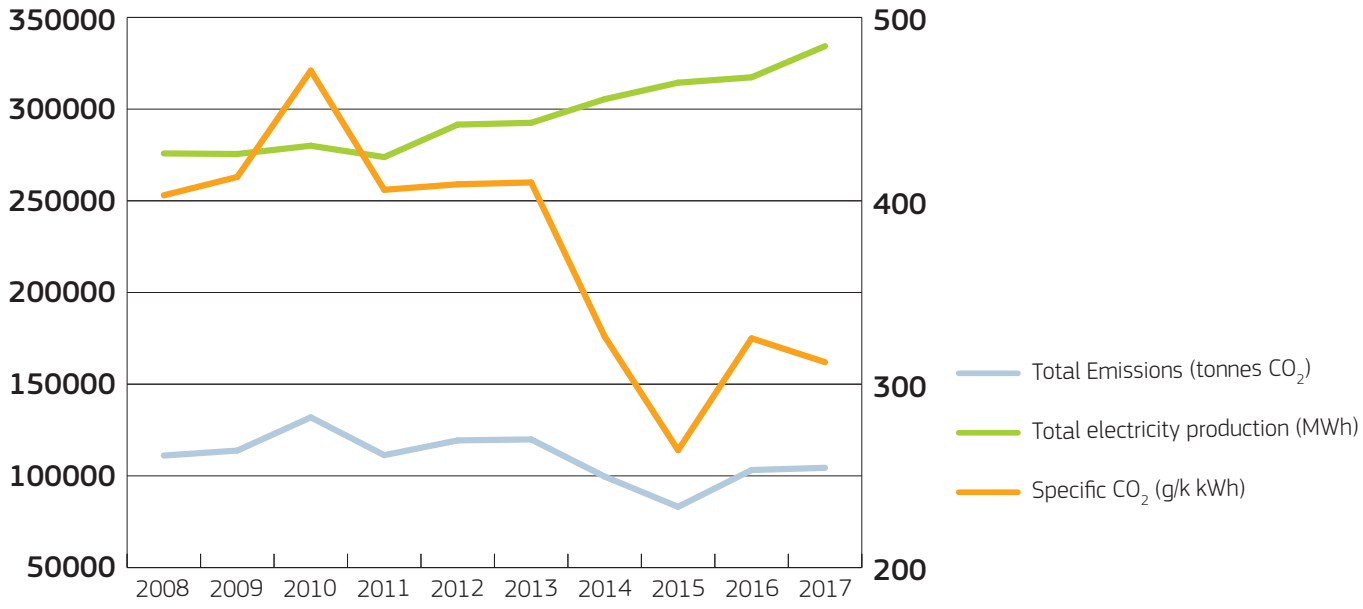


Figure 5. CO_2 emissions, electricity production and specific CO_2 for the period 2008 to 2017.

Figure 6. Waste generated by SEV from 2011 to 2017.

Waste

SEV produces a considerable amount of waste. However, a large portion of this waste is placed in landfills or recycled. Some waste is also sent for special processing, e.g. chemical waste.

Most of the waste SEV sends for recycling is waste oil, which is processed by IRF, the inter-municipal waste treatment company. Iron and metal is also recycled.

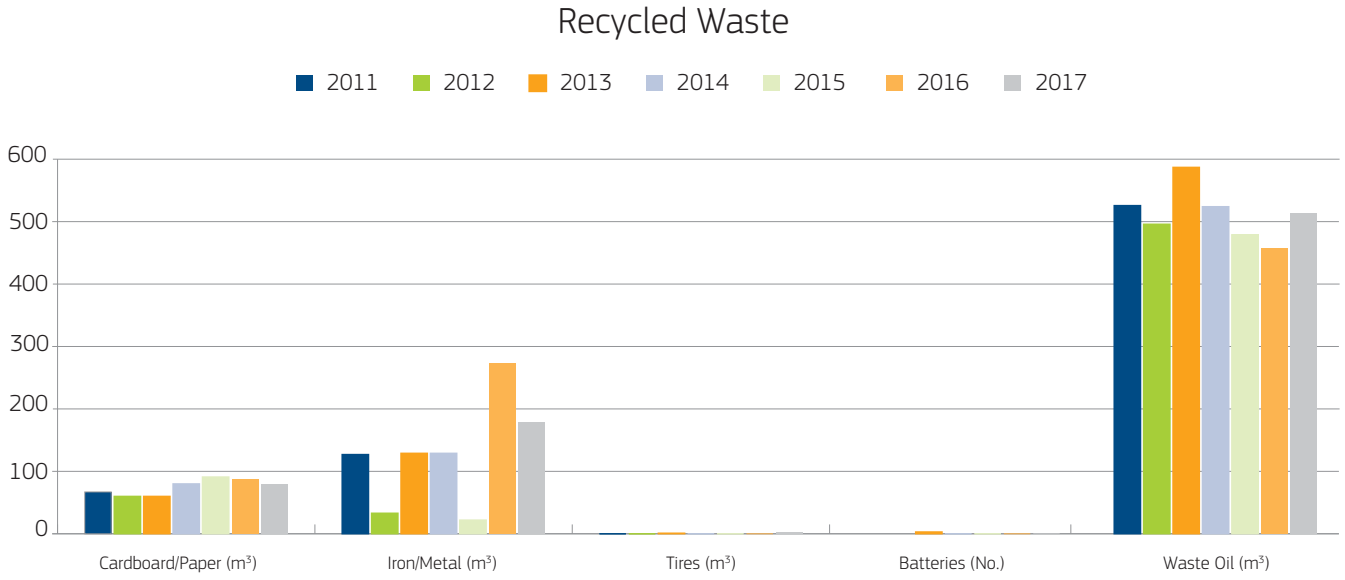


Figure 7. Amount of recycled waste from 2011 to 2017.

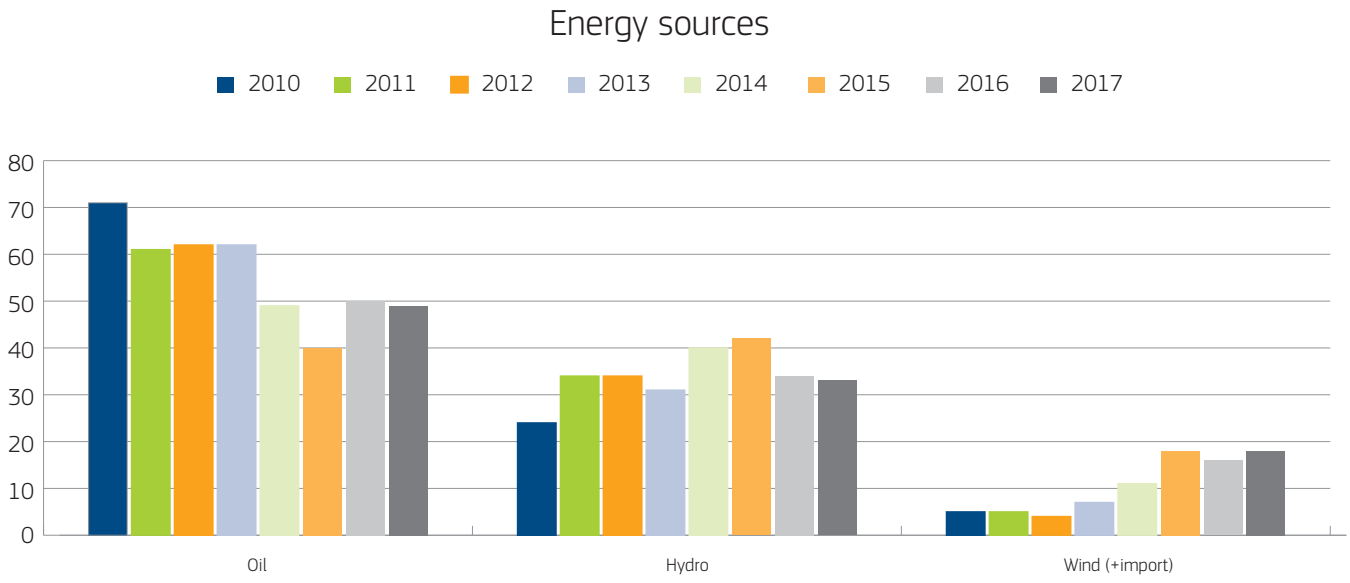


Figure 8. Thermal and green enery share in percent from 2010 to 2017.

Annual Report and Annual Accounts 2017

Electricity Company SEV (Elfelagið SEV) Annual Report 2017

Contents

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, FO-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 2017.

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 2017 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 2017.

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

Tórshavn, 6 April 2018

Management

Hákun Djurhuus
Managing Director, CEO

Financial Management

Bogi Bendtsen
Director of Administration, CFO

Board

John Zachariassen
Chairman

Hans Jákup Johannesen
Vice Chairman

Marin Katrina Frýdal

Jónsvein Hovgaard

Sune Jacobsen

Vinjard Tungá

Kristian Eli Zachariasen

The independent auditor's report

To the shareholders 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 2017, 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 2017 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 2017 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, 6 April 2018

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	2017	2016	2015	2014	2013
Income Statement					
Net sales	432,277	*420,270*	*421,952*	*410,551*	*384,625*
Result before depreciation, amortization and impairment	226,255	*243,621*	*221,483*	*155,573*	*103,914*
Result before financial items	123,513	*150,383*	*127,897*	*78,376*	*33,877*
Financial items	-32,948	*-48,286*	*-24,830*	*-20,613*	*-22,011*
Annual result	88,974	*92,754*	*103,067*	*57,763*	*11,866*
Balance Sheet					
Total assets	2,447,171	*2,303,961*	*1,960,373*	*1,742,038*	*1,475,209*
Cash-on-hand	247,993	*335,498*	*221,889*	*131,459*	*66,593*
Equity	1,196,397	*1,141,003*	*1,042,921*	*939,854*	*882,091*
Long-term debt	1,133,188	*1,042,116*	*830,000*	*691,411*	*510,254*
Financial ratios *)					
Return on equity	7.6%	*8.1%*	*10.4%*	*6.3 %*	*1.4 %*
Return on assets	5.2%	*7.1%*	*6.9%*	*4.9 %*	*2.3 %*
Net debt/EBITDA	4.2	*3.1*	*2.8*	*3.6*	*4.3*
Asset turnover	0.18	*0.18*	*0.22*	*0.24*	*0.26*
Equity/asset ratio	48.9%	*49.5%*	*53.2%*	*54.0%*	*59.8%*

Calculation of financial ratios

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

*) 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 2017.

Realised compared to budget and projection 2017

Pursuant to § 3, paragraph 13b and § 4, paragraph 12b of its Articles of Association, SEV shall inform the shareholders of the Company's financial status since the Annual General Meeting, which was held on 21 April 2017. The Extraordinary General Meeting was briefed on 24 November 2017 and reference was also made to the financial report published on the Company's website, www.sev.fo. The briefing was based on actual data as at the end of September and included forecasts and plans for the remainder of the year. Table 1 shows a summary of the 2017 budget and projection vs. actual figures.

Table 1. Difference between budget, projections and actual in DKK million.

	Financial Accounts 2013	Financial Accounts 2014	Financial Accounts 2015	Financial Accounts 2016	Financial Accounts 2017	Difference between actual 2016 and 2017	Budget 2017	Difference between budget and actual 2017	Projection 2017	Difference between projection and actual 2017
Net sales	384.6	410.6	422.0	420.3	432.3	12.0	419.2	13.1	418.1	14.2
Oil expenses	167.9	141.5	86.2	50.9	84.7	-33.8	69.0	-15.7	85.0	0.3
Goods and services	54.1	49.8	49.9	59.3	53.9	5.4	65.1	11.2	51.3	-2.6
Wages	58.7	63.6	64.3	66.5	67.4	-0.9	67.2	0.2	69.9	2.5
Total expenses	**280.7**	**255.0**	**200.5**	**176.6**	**206.0**	**29.4**	**201.3**	**-4.7**	**206.2**	**0.2**
EBITDA	**103.9**	**155.6**	**221.5**	**243.6**	**226.3**	**-17.3**	**207.9**	**18.4**	**211.9**	**14.4**
Depreciation	70.0	77.2	93.6	93.2	102.7	-9.5	113.2	10.5	99.7	-3.0
Result before financial items	**33.9**	**78.4**	**127.9**	**150.4**	**123.5**	**-26.9**	**104.7**	**18.8**	**112.2**	**11.3**
Net interest	22.0	20.6	24.8	48.3	32.9	15.4	37.1	4.2	26.0	-6.9
Result before tax	**11.9**	**57.8**	**103.1**	**102.1**	**90.6**	**-11.5**	**67.5**	**23.1**	**86.2**	**4.4**
Tax	0	0	0	9.3	1.6	7.7	0	-1.6	0	-1.6
Annual result	**11.9**	**57.8**	**103.1**	**92.8**	**89.0**	**-3.8**	**67.5**	**21.5**	**86.2**	**2.8**

Realised compared to budget and forecast 2017

The Company budgeted with a result of DKK 67.5 million, whereas the realised result was DKK 89.0 million after tax, or 21.5 million better than budgeted.

The reasons for this positive deviation are increased revenues and lower expenses than budgeted. Based on the good result for 2017, taxes are incorporated into the accounts.

Net turnover is DKK 13.1 million higher than budgeted, with connection fees DKK 13.2 higher than budget, while electricity sales were DKK 1.7 million lower than budget. Electricity sales, including a downward adjustment of DKK 4.8 million on one customer, improved by DKK 3.1 million compared to 2016. Several large new connections, which were anticipated for 2018, were completed early and are the reason why the connection fees for 2017 exceeded budget by such a wide margin. Fixed fee income is in line with budget, while other income is DKK 1,7 million higher.

Oil expenses are DKK 15.7 million higher than budget due to increase of oil prices of DKK 3.8 million, market value adjustment of oil stocks of 7.8 million, and higher consumption of oil, costing DKK 2.3 million for 1,061 tonnes over budgeted volume.

Changes in oil prices and USD exchange rates relative to the budget will have an effect on profits. Based on the Company's strategy to adhere to the budgeted amounts on oil purchases, the Company has hedged parts of its purchases in 2017 at higher prices than in the budget.

There is a detailed breakdown and commentary of oil consumption and prices in the Production Accounts, available on www.sev.fo.

The cost of goods and services are DKK 11.2 million lower than budgeted. The production division has used DKK 2.6 less than budget, while the grid division came in DKK 2.0 million under budget. Administration has used DKK 6.6 million less than budgeted.

Wage expenses are in line with the budget.

Depreciation was budgeted for DKK 113.2 million, but actual depreciation was DKK 102.7 million, or DKK 10.5 million lower than budget due to lower investment 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 in 2017. During work on the 2018 budget, projections were made out to determine which investments would be expected to be completed 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 expense was DKK 32.9 million, of which unrealised exchange rate gains were DKK 12.7 million and unrealised adjustments on derivatives were a charge of DKK 17.1 million.

In summary, the increase of the net result of DKK 21.5 million over the budget is due to four main factors in the P&L, each with roughly the same amount: net turnover, especially connection fees; higher oil expense; lower cost of goods and services; and lower depreciation.

Realised vs. projections for 2017

Effective 1 January 2016, SEV established independent subsidiaries to operate the wind farms at Neshagi and Húsahagi, respectively. For the parent company accounts, this means that the purchase of wind energy will increase, while the cost for consumables and wages, depreciation and interest would decline. The results derived from the subsidiaries would be reflected in the parent company capital accounts. The total result reflected in the Group's accounts would not be impacted by this.

Net turnover was forecast to be DKK 418.1 million, while actual net turnover was DKK 432.3 million, or DKK 14.2 million higher. The forecast result for the Group before taxes was DKK 86.2 million, while actual result after tax was DKK 89.0 million, or DKK 2.8 million higher than forecast.

Total sales in 2017 from the sale of electricity and the fixed fees was forecast to be DKK 406.1 million, while actual was DKK 405.1 million, which is DKK 1.0 million less than forecast.

Table 2 shows the forecast and actual income of the Company from electricity sales and the fixed fee in DKK million in the various customer tariff groups.

Revenue from connection fees and other income, which were forecast to be DKK 15.0 million, turned out to be DKK 30.0 million, which was DKK 15.0 million more. The reason is that several large connections were completed in 2017 instead of in 2018, as originally anticipated.

Oil expenses were forecast to be DKK 85.0 million, while actual costs equalled DKK 84.7 million, which was DKK 0.3 million lower than forecast.

Costs for goods and services were forecast to be DKK 51.3 million, while actual costs were DKK 53.9 million, which is DKK 2.6 million higher. The production plants were forecast to cost DKK 22.1

Table 2. Income statement from sale of electricity power and fixed base rate from customer groups in DKK million	Actual 2016	Actual 2017	Difference between actual 2016 and 2017		Budget 2017	Forecast 2017	Difference between actual and forecast 2017	
	Total	Total	In DKK	%	Total	Total	In DKK	%
Agriculture, fish farming, fishing industry, and primary raw materials industry	45.4	47.7	2.3	5.1	48.0	47.0	0.7	1.5
Production and construction	90.4	99.3	8.9	9.8	91.9	95.1	4.2	4.4
Retail, restaurants and hotels	35.3	34.1	-1.2	-3.4	32.7	34.3	-0.2	-0.6
Transport, postal services and telecommunications	34.6	31.9	-2.7	-7.9	32.8	30.7	1.2	3.9
Financial services, insurance and other service industries	5.4	4.8	-0.6	-11.3	5.4	5.6	-0.8	-14.3
Public and private services, churches	59.0	58.3	-0.7	-1.2	56.1	59.8	-1.5	-2.5
Street lights	10.5	9.7	-0.8	-7.7	10.5	9.2	0.5	5.4
Single-family homes, apartments, vacation homes, and boathouses	128.6	124.1	-4.5	-3.5	129.4	124.9	-0.8	-0.6
Total	**409.3**	**409.9**	**0.6**	**0.1**	**406.7**	**406.1**	**3.8**	**0.9**

million, while actually costing 25.0, or DKK 2.9 million more. The grid division was forecast at DKK 10.5 million, and actual was DKK 0.1 million lower at DKK 10.4 million. Administration expenses were forecast at DKK 18.6 million, and also came in at DKK 0.1 million less at DKK 18.5 million.

Wage expense related to production activities was forecast to be DKK 33.9 million, while actual costs were DKK 33.8 million, or DKK 0.1 million lower. For grid-related activities, wage expense was forecast at DKK 22.0 million, compared to an actual cost of DKK 21.0 million, or DKK 1.0 million lower.

Administration wages were forecast at DKK 14.0 million compared to DKK 12.4 million realised. The forecast included an adjustment of the pensions obligation of DKK 1.0 million, which did not materialise. The reason for the difference between the two divisions is, among others, that the forecast calculations did not focus sufficiently on the reallocation of costs between the two divisions.

Total wages were forecast at DKK 69.9 million, while realised wages were DKK 67.4 million, or DKK 2.5 million lower than forecast.

Depreciation is based on existing assets, as well as the addition and disposal of assets in 2017. Investment for 2017 was forecast to be DKK 431.1 million, but was actually DKK 388.5 million, or DKK 42.6 million lower. Depreciation was forecast to be DKK 99.7 million, while the actual amount was DKK 102.7 million, which is DKK 3.0 million higher than forecast. The reason for the difference is that completed work-in-progress transferred to fixed assets during the year had in the main short lifetimes.

Forecast net interest expense was DKK 26.0 million, while realised expense was DKK 32.9 million, or DKK 6.9 million higher. The forecast did not include unrealised exchange rate gains of DKK 12.7 million, nor unrealised adjustment charges on derivatives of DKK 17.1 million, which both combined increased interest expenses by DKK 4.4 million. The forecast did not include a charge of DKK 2.2 million on terminated interest rate hedges from 2016 either. Other interest rate expenses not included in the forecast were DKK 0.3 million.

The majority of the Company's loans for 2017 carried a fixed interest rate, consistent with the Company's interest rate policy.

Business Activities and Financial Status of the Company

The operational result after taxes for 2017 was a profit of DKK 89.0 million, compared to a profit of DKK 92.8 million in 2016. The budget approved at the Extraordinary General Meeting on 25 November 2016 forecast a profit of DKK 67.5 million for 2017.

SEV decreased its price for electricity for all users by DKK 0.05 per kWh in 2017, while prices for 2016 were unchanged. The fixed fees remain the same.

Table 3 below lists the price changes over a period of the last 10 years.

Table 3. Price changes	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Change in price for private customers	-0.05	0.00	0.00	0.00	0.05	0.10	0.15	0.00	0.00	0.10
Change in price for industrial customers > 30,000 kWh	-0.05	0.00	0.00	0.05	0.11	0.10	0.15	0.00	0.00	0.10

Over the coming years, it is critical to maintain a respectable 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 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 these goals and to estimate the need for price harmonization, operational data were studied and calculations made as to anticipated costs and investment for the coming year. It is advisable that the budget be sustainable and 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.

SEV's long-term aim is that the debt to EBITDA-ratio shall not exceed 6 times. The Company is within its aim for 2017 with net result of DKK 89.0 million and a debt to EBITDA-ratio of 4.2.

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.

Total revenue for 2017 was DKK 435.1 million, compared to DKK 422.7 million in 2016, corresponding to a increase of DKK 12.5 million. Revenue from electricity sales and fixed fees were DKK 409.9 million in 2017 compared to DKK 409.3 million in 2016, an increase of DKK 0.6 million. Electricity sales for 2017 include an adjustment for one customer of DKK 4.8 million charged too much in previous years. Revenue from fixed fees, connection fees and other income are DKK 46.9 million, where the connection fees stand out in 2017 with DKK 27.4 million.

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

As can be seen in Table 4, the Company's income has steadily increased since 2012. This is due in part to higher sales volumes, but also due to price increases put in place to counter the effects of an increased cost of oil used in production.

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

For the last several years, fixed fee income has been very consistent at around DKK 16 million annually. On the other hand, the income derived from connection fees, service fees, and other income fluctuates from year to year. Table 6 shows the trend in settled customer sales over the last 6 years in GWh. The table shows that settled sales have increased steadily, while network loss and own consumption have also increased. SEV works continuously on reducing network loss and its own consumption.

The natural climate cycles directly impact wind and hydro-power electricity production. Generally, electrical production from hydro-power is about 114 GWh annually.

Table 4. Net turnover DKK million	2012	2013	2014	2015	2016	2017	Difference compared to 2016	Change in % compared to 2016
kWh payment	335.0	362.4	379.2	385.0	392.7	393.1	0.4	0.1
Base-rate payment	16.4	16.6	16.5	16.4	16.6	16.8	0.2	1.3
Connection fee	2.3	6.9	14.7	16.2	8.0	27.4	19.4	240.9
Service fee etc.	4.7	1.3	2.7	6.7	5.3	-2.2	-7.5	-141.1
Income	**358.3**	**387.2**	**413.1**	**424.4**	**422.7**	**435.1**	**12.5**	**2.9**
Purchased wind energy	-2.5	-2.6	-2.5	-2.4	-2.4	-2.8	-0.4	18.8
Net turnover	**355.8**	**384.6**	**410.6**	**422.0**	**420.3**	**432.3**	**12.0**	**2.9**

Table 5. Result for kWh sold DKK	2012	2013	2014	2015	2016	2017	Difference to 2016 (DKK)	Difference to 2016 (%)
Average income per kWh sold	1.37	1.41	1.46	1.47	1.45	1.42	-0.03	-2.1
Average cost per kWh sold	1.42	1.37	1.25	1.11	1.10	1.13	0.03	2.7
Result for kWh sold	-0.05	0.04	0.21	0.37	0.35	0.29	-0.06	-17.1

The year 2013 was an especially dry year, even though there was considerable rain 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 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 hydro-power, thus 2014 was a good year for hydroelectricity production. There was considerable rainfall through to April, as well as the 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 hydro power was somewhat lower than budgeted, but better than 2016, nevertheless. Maintenance work has also been carried out on the dams in Vestmanna and Strond. The weather during the spring and summer was good, and these factors have all affected hydro production in 2017.

Hydro production was 111.2 GWh in 2017 compared to 106.3 GWh in 2016, an increase of 4.9 GWh or 4.6%. Hydro's share of total production was 33.3%.

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 wind farm went operational on 9 October 2014. Production increased in 2014 by 12.7 GWh or 58.3%, compared to 2013. The Húsahagi wind farm has worked well and has been in operation throughout 2015 and 2016. Moreover, 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 59.7 GWh compared to 52.1 GWh in 2016, or an increase of 7.6 GWh or 14.5%. Wind share of total production was 17.8% in 2017.

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 wind farm at Húsahagi since it started in 2016.

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

Table 6. Settled sales in GWh	2012	2013	2014	2015	2016	2017	Share of production in %	Diffrence GWh to 2016	Difference % to 2016
Settled customer sales in GWh	261.4	274.4	283.8	288.1	291.4	306.5	91.7	15.1	5.2
Network loss and own consumption in GWh	30.1	18.1	21.6	26.3	25.9	27.8	8.3	1.9	7.3
Total production in MWh per year	**291.6**	**292.5**	**305.4**	**314.4**	**317.4**	**334.3**	**100.0**	**17.0**	**5.3**
Thermal	181.0	180.1	150.2	125.5	158.9	163.4	48.9	4.5	2.8
Hydro	99.8	90.6	120.7	133.1	106.3	111.2	33.3	4.9	4.6
Wind	10.8	21.8	34.5	55.8	52.1	59.7	17.8	7.6	14.5

Table 7. Heavy fuel oil consumption in tonnes	2015	2016	2017	2017 Budget	Difference budget and actual 2017	Difference actual 2016 and 2017
Heavy fuel oil	25.738	32.195	32.631	31.570	1.061	436

Expenses

Table 8 shows the distribution of SEV's total expenses from 2012 to 2017 in DKK million. From 2016 to 2017, expenses have increased by DKK 24.0 million, or by 7.5%.

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

Table 8 shows that oil expenses are again increasing. After a reduction in oil expenses in 2016 to DKK 50.9 million, this expense has increased to DKK 84.7 million in 2017, which is on the same level as in 2015. Oil expenses correspond to 24.6% of total expenses for 2017. SEV used 32,631 tonnes of heavy fuel oil in 2017 compared to 32,195 tonnes in 2016, or 436 tonnes more due to less rainfall and increased demand for electricity.

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 hydro power. Oil expenses for 2017 were DKK 84.7 million, compared to DKK 50.9 million in 2016, corresponding to an increase of DKK 33.8 million. Oil expense encompasses the cost for heavy oil, gas oil and lubricating oil, but by far the largest portion is heavy oil.

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

The operational expenses of the Company are generally divided between employee wages and goods and services. These expenses are again subdivided among production activities, grid activities and administration.

Employee Expenses

Table 9 shows the trend in total employee expenses from 2012 to 2017 in DKK million.

Employee wage expense related to production activities was DKK 33.9 million in 2017, compared to DKK 33.7 million in 2016, reflecting an increase in wage expense of DKK 0.2 million.

The wage expense for grid activities has remained static over the last few years. Grid-related wage expenses for 2017 were DKK 21.0 million, compared to DKK 20.7 million in 2016, or an increase of DKK 0.3 million.

Administrative employee expenses have remained steady for the last five years at around DKK 10 .0 million per annum. In 2012, employee expenses increased by DKK 1.9 million, based on an increase in pension benefit obligations. The same held true for 2013 during which the pension benefits were DKK 1.9 million lower, but in 2014 these costs rose by DKK 1.2 million, because of the adjustment of overall pension benefit obligations. In 2015, the pension obligations were lower by DKK 0.7 million, such that the total employee expense for administration was DKK 11.2 million, or DKK 1 .7 million less. The pension obligation for 2016 was adjusted by DKK 0.2 million, and also for 2017 there was a downward adjustment of DKK 1.4 million.

Table 8. Expenses DKK million	2012	2013	2014	2015	2016	2017	Difference DKK to 2016	Difference % to 2016	Share of expenses in 2017 in %
Oil	166.0	167.9	141.5	86.2	50.9	84.7	33.8	66.4	24.6
Purchased power	2.5	2.6	2.5	2.4	2.4	2.8	0.4	18.8	0.8
Goods and services	53.5	54.1	49.8	49.9	59.3	53.9	-5.4	-9.1	15.6
Employee expenses	60.2	58.7	63.6	64.3	66.5	67.4	0.9	1.4	19.6
Depreciation	67.8	70.0	77.2	93.6	93.2	102.7	9.5	10.2	29.8
Interest	20.5	22.0	20.6	24.8	48.3	32.9	-15.3	-31.8	9.6
Total	**370.6**	**375.4**	**355.3**	**321.3**	**320.6**	**344.6**	**24.0**	**7.5**	**100.0**

Table 9. Wages DKK million	2012	2013	2014	2015	2016	2017	Difference DKK to 2016	Difference % to 2016
Production	28.3	30.7	30.9	32.0	33.7	33.9	0.2	0.4
Grid	20.0	19.5	19.9	21.1	20.7	21.0	0.3	1.6
Administration	9.8	10.5	11.7	11.9	12.4	13.8	1.4	12.7
Adjustment to pension benefit obligations	*2.1*	*-1.9*	*1.1*	*-0.7*	*-0.2*	*-1.4*	*-1.1*	
Total	**60.2**	**58.7**	**63.6**	**64.3**	**66.5**	**67.4**	**0.9**	**1.4**

Pension adjustment aside, employee wage expenses for 2017 equalled DKK 13.8 million, compared to DKK 12.4 million in 2016, which is DKK 1.4 million higher than the previous year. 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.

Goods and Services

Table 10 shows the trend in total expenses for goods and services from 2012 to 2017 in DKK million.

Expenses related to goods and services for 2017 equalled DKK 53.9 million, compared to DKK 59.3 million in 2016, corresponding to a lower consumption of DKK 5.4 million.

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. On 15 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 2017 has been drawn by DKK 106 million. The total amount of financing acquired by SEV in December 2016 equalled DKK 1,668 million.

The interest expense in relation to the gross debt of DKK 1,149 million by year-end 2017 is DKK 28.1 million. The Company has also entered into interest rate hedge agreements to mitigate interest rate risks - these instruments are an unrealised charge of DKK 6.5, and unrealised interest rate gains are DKK 1.6 million.

Net interest expense was DKK 32.9 million in 2017, compared to DKK 48.3 million in 2016, corresponding to a decrease of DKK 15.4 million. The main reasons for the decrease are lower interest rates, and that 2016 included an establishment fee of DKK 8.3 million.

Currently, the Company is carrying gross debt of DKK 1,133 million, with a fixed rate of interest secured by the issued bonds and the interest rate swap agreement now in place.

Depreciation

Depreciation for 2017 amounted to DKK 102.8 million against DKK 93.2 million in 2016, corresponding to an increase of DKK 9.6 million. This means that depreciation is now the largest expense item, corresponding to 29.8% of total costs. Previously, oil expenses were the largest expense. This change arose because of the Company's declining oil consumption, the declining price of oil on the international market and the increased investment undertaken by the Company resulting in greater depreciation.

The increased depreciation reflects the investment the Company made and associated addition to depreciation made over the past few years. When a budget is being prepared for the upcoming year, a determination is made as to which investments will be

Table 10. Total expenses for goods and services DKK million	2012	2013	2014	2015	2016	2017	Difference DKK to 2016	Difference % to 2016
Framleiðsla	27.6	24.1	21.1	21.3	28.2	25.0	-3.2	-11.2
Net	12.3	15.4	11.9	11.8	12.4	10.4	-2.0	-16.4
Fyrisiting	13.6	14.6	16.8	16.8	18.6	18.5	-0.2	-0.9
Total	**53.5**	**54.1**	**49.8**	**49.9**	**59.3**	**53.9**	**-5.4**	**-9.1**

completed during the coming year thus making the asset subject to depreciation. The difference between actual and budgeted depreciation has its basis in these determinations and the actual postings as well as the investments made was somewhat lower than budgeted.

For the 2012 financial statements, the depreciation method was revised relative to the upgrading or extension of the useful life of the motors and turbines, etc. Previously, this cost was booked as an expenditure in the operational year when the upgrade was made. In future, this cost will be depreciated over the period of the useful-life extension, rather than the total cost being booked as an expenditure in the operational year in question. This method ensures a more even expenditure over time.

However, this does not imply that the Company would be advised to decrease the price of electricity or refrain from increasing the price, because such actions would reduce the liquidity available to ensure the self-financing of anticipated investments. Company operations must stay balanced. A bottom-line with no self-financing is not advisable, especially if SEV intends to invest in new oil-fired power plants, and expand the grid, while at the same time investing in the expansion of renewable energy resources.

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" 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.

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

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%

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 smart-grid 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

Table 11. Investment DKK million	Original investment budget 2016	Revisions to budget 2016	Budget including revisions	Actual investments 2017	Difference between actual and budget 2017
	1	2	3=1+2	4	5=3-4
Fossá power plant	4.8	0.0	4.8	3.4	1.3
Heygar power plant	0.2	0.1	0.3	0.4	0.0
Mýra power plant	3.7	-0.1	3.5	0.7	2.9
Eiði power plant	3.3	0.0	3.3	3.0	0.3
Botni power plant	1.7	0.4	2.1	1.6	0.4
Vágur power plant	12.1	0.8	12.8	13.2	-0.4
Trongisvági power plant	1.0	-0.9	0.2	0.1	0.0
Sund power plant	470.3	-0.5	469.8	233.5	236.3
Strond power plant	9.0	0.1	9.2	8.2	1.0
Small power plants	4.1	0.8	4.8	3.7	1.1
Neshagi wind turbines	0.3	0.0	0.3	0.0	0.3
Húsahagi wind turbines	0.2	0.0	0.2	0.0	0.2
Suðuroy wind turbines	50.0	0.0	50.0	0.7	49.3
Total investment in power production	**560.4**	**0.7**	**561.1**	**268.5**	**292.7**
Coupling stations and power grid. etc.	140.7	2.0	142.7	110.0	32.7
Administrative offices, equipment and ITC	27.0	-1.4	25.6	10.0	15.6
Total	**728.1**	**1.3**	**729.4**	**388.5**	**341.0**

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

According to the budget for 2017, investments should have been DKK 728.1 million. As 2017 has ended, realised investments were 388.5 million, a shortfall of DKK 339.6 million. Table 11 gives more detail on the investments during the year.

The table shows the original budget breakdown for DKK 728.1 million. Revisions of DKK 1.3 million have been made. Also shown in the table is a comparison of the revised budget versus actual investments in 2017.

Table 11 shows that the investment shortfall was DKK 292.7 million in power production, DKK 32.7 in the grid, and DKK 15.6 in administration. Within power production, the shortfall is mainly due to lower than expected investment in the Sund power plant. The wind farm project in Suðuroy is postponed to 2019, and the budgeted investment did not materialise in 2017. On the grid, side, it was lower than expected investment in coupling stations that make up a majority of the shortfall, while lower investment spend on the administration building account for the administration shortfall.

Investment in the Fossá power plant were DKK 3.4 million, of which DKK 2.5 million for a sluice gate, DKK 0.3 million for fibre optic cable, and DKK 0.2 million for emergency power. Other investments were DKK 0.4 million.

Investment in the Heyga power plant were DKK 0.4 million.

Investment in the Mýru power plant were DKK 0.7 million, of which DKK 0.2 million were cladding for sluice gate house. Other investment was DKK 0.5 million.

Investment in the Eiðis power plant were DKK 3 million, of which DKK 2.4 million for operating tunnel. Other investments were DKK 0.6 million.

Investment in the Vágs power plant was DKK 13.2 million, of which DKK 2.5 million was for the new Scada system (power plant operating system), and DKK 3.7 million are related to finishing work of the new M4 engine from 2016.

The total investment in the Sund power plant in 2017 was DKK 233.5 million, which is less than budgeted. The work on the new

Table 12. Investment DKK million	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Hydro-power plants	27.4	41.7	62.8	82.0	58.5	72.4	29.4	13.4	8.5	17.2
Other electrical power plants	20.2	13.4	3.3	0.8	60.0	34.7	149.5	108.3	135.4	250.5
Distribution facilities	41.1	19.6	21.7	9.1	31.2	43.8	88.1	95.9	86.7	109.4
Joint assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Land assets	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Other operational assets	3.1	5.6	5.7	3.9	3.1	4.1	8.2	14.5	11.2	11.3
Total	**91.8**	**80.3**	**93.5**	**95.8**	**153.8**	**155.0**	**275.2**	**232.1**	**241.7**	**388.5**

tank yard is complete and it has been taken into use. The work on the day tank house is delayed, but is expected to finish in the spring of 2018. Investment in day tank house was DKK 51.9 million in 2017.

Investment in the Strond power plant was DKK 8.2 million, of which DKK1.7 million was for the building, DKK 2.4 million for mobile power generators, and DKK 2.4 million for the dam in Strandadalur. Other investments were DKK 1.7 million.

The investment in the coupling stations and the grid equalled a total of DKK 110.0 million. Investment in the coupling stations was DKK 61.1 million, while investment in the grid, etc. was DKK 44.3 million. Investment in the wireless meters, engineering and technical equipment was DKK 4.5 million, of which the wireless meters, etc. equalled DKK 1.9 million, and DKK 1.0 million was for the new grid control system. Other investment equalled DKK 1.6 million.

The investment in the coupling stations can be specified as: innan Eið, DKK 25.5 million; Havnadali, DKK 2.7 million; at Strond, DKK 12.2 million; Tvøroyri DKK 5.1 million; Porkerishálsur DKK 0.9 million, and Sund, DKK 9.0 million. Other coupling station investment equalled DKK 5.7 million.

Of the DKK 44.3 million that was invested in the grid can be specified as: DKK 11.7 million in the Northern Islands, DKK 13.1 million on Eysturoy, DKK 6.9 million on Vágoy, DKK 5.9 million in South Streymoy, DKK 0.7 million on Sandoy, and DKK 2.4 million on Suðuroy. In addition, there was some DKK 3.7 million 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 was temporarily postponed until 2022. Total investment equalled DKK 5.5 million, of which DKK 3.8 million was for office furnishings and parking facilities for the headquarters building, IT equipment and software, etc., and DKK 0.7 million for vehicles.

Table 12 shows the total gross investment of SEV from 2008 to 2017 in DKK million.

Since 2008 and to the end of 2017, SEV has invested DKK 1.807 million, corresponding to DKK 181 million per year for the last 10 year.

Tables 13 – 15 show the trend of investment, work-in-progress, and transfer to fixed assets during 2017 and 2016.

Investments of DKK 388.5 million are detailed in table 11.

Table 14 shows that the closing balance 2017 for work-in-progress was DKK 369.7 million compared to DKK 229.7 million in 2016. Completed work transferred to fixed assets was DKK 90.4 million in 2017, whereas DKK 215.2 million were transferred at the end of 2016.

Out of the closing balance for work-in-progress of DKK 518.1 million at year-end 2017, DKK 363.0 million relate to the Production Division, and DKK 155.1 to the Grid Division. Out of the Production Division share of DKK 363.0 million, DKK 4.2 are for the Fossá plant, DKK 10.7 million for the Vágur plant, DKK

Table 13. Total investment DKK million	2016	2017
Investment booked to work-in-progress	229.7	369.7
Investment booked directly as transition	12.0	18.8
Investment at year-end	**241.7**	**388.5**

Table 14. Work-in-progress DKK million	2016	2017
Opening balance	224.2	238.8
Investment booked to work-in-progress	229.7	369.7
Work transferred to fixed assets	-215.2	-90.4
Closing balance	**238.8**	**518.1**
Changes to work-in-progress	14.5	279.4

Table 15. Transfer to fixed assets DKK million	2016	2017
Work transferred to fixed assets	215.2	90.4
Investments booked directly to fixed assets	12.0	21.1
Transfers at year-end	**227.2**	**111.5**

332.2 million for the Sund plant, DKK 8.9 million for the Strond plant, and other plant DKK 6.3 million.

Work-in-progress for the Grid Division was split into coupling stations DKK 71.5 million, grid DKK 64.7 million, and control systems etc. DKK 18.8 million. In summary, work-in-progress increased by DKK 279.3 million in 2017, compared to an increase of DKK 14.5 million the previous year.

Table 15 shows, that in 2017, DKK 111.5 million were transferred to fixed assets, compared to DKK 227.2 million in 2016.

The largest investment projects transferred in 2017 are the new tank yard at the Sund power plant DKK 39.8, new cable Millum Fjarða DKK 3.8 million, and new cable between Sørvágur and Bø DKK 3.2 million.

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

Liquidity

The budget for 2017 anticipated increased lending of DKK 350 million, whereas the Company increased its long-term debt by DKK 106.0 million.

The change in liquidity in 2017 from operations was DKK 194.9 million, against DKK 143.8 million for 2016. 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 2017 was DKK 248.0 million, compared to DKK 335.5 million in 2016. In addition, the Company has access to drawing and overdraft rights in various banks equalling DKK 520 million.

Thus, the available cash-on-hand, credit, and available drawing rights equals DKK 768.0 million in 2017, compared to DKK 961.5 million in 2016. A major portion of the available drawing rights shall be used to finance upcoming investment in the years ahead.I t 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 2018

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. This positive development has continued over the last three years, witnessed by a profit in 2014 of DKK 57.8 million; DKK 103.1 million in 2015; DKK 92.8 million in 2016, and DKK 89.0 million after taxes in 2017. Altogether since 2008 through 2017, the Company has earned a total net profit of DKK 256 million, or a profit on average of DKK 25.6 million per year.

Even though the Company has lowered the price of electricity by DKK 0.05 per kWh for all customer groups, except for industrial customers > 30,000 kWh, it is anticipated that this positive profit trend will continue in 2018 as well, where the result is budgeted to be DKK 79.5 million before taxes.

The sales budget assumption for 2018 is an increase in average electricity usage of 6.7%, compared to actual increase of 5.2% in 2017. The increase is anticipated within several customer groups, each with their own rate of increase. Overall, there will be an increase in sale of kWh.

Based on realised sales for 2016 and partly for 2017, budgeted sales for 2018 is 321.8 GWh or DKK 402.8 million. Fixed fee income will remain almost unchanged at DKK 17.0 million. In addition, connection fees and other sales will add another DKK 19.0 million to sales, for a total sales income of DKK 438.8 million, compared to DKK 435.2 million in 2017. The increase year-on-year is DKK 3.6 million.

Budgeted oil expenditure for 2018 is DKK 91.1 million, compared to DKK 84.7 million in 2017. In January 2016, the Company hedged part of its oil purchase for 2018 below current market prices. In January of 2017, the Company hedged more of its intended purchase of oil in 2018, and lastly, the remaining oil purchases for 2018 were hedged in February 2018, but at prices higher than used in the budget. The USD/DKK exchange rate has depreciated compared to the rate used in the budget, so overall the Company anticipates oil prices for 2018 in line with the budget, and if the volumes consumed do not deviate considerably from the budget, the Company should be able to reach its budget target for oil.

Operating expenses are budgeted at DKK 124.2 million in 2018 compared to DKK 121.3 million in 2017, an increase of DKK 3.0 million or 2.5%.

Budgeted EBITDA is DKK 220.8 million, with depreciation and net interest expenses of DKK 110.8 and 30.4 million, respectively. The increase in interest expenses is due to increased investment and the corresponding increase in lending to finance operations and investments.

With a budgeted pre-tax result of DKK 79.5 million for 2018, the change in liquidity from operations is expected to be DKK 229.7 million. Liquidity at year-end 2018 is budgeted at DKK 188.5 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.

More information for 2018 can be found in the Operational, Financial and Investment Budget Plan for 2018 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 years*	*0%*
Buildings	*50 years*	*0%*
Production equipment and furnishings	*3 - 5 years*	*0%*

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

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

Depreciation of Fixed Assets

Every year the carrying amount of tangible fixed assets is appraised to obtain an indication of whether they have lost value or have

been impaired. This is done in addition to general depreciation write-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 hegded 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	$\frac{\text{Result from operations before taxes x 100}}{\text{Average equity}}$
Return on assets	$\frac{\text{Result of ordinary operations x 100}}{\text{Average value of operating assets}}$
Net liabitity	$\frac{\text{Net liability (liability – cash-on-hands)}}{\text{EBITDA}}$
Asset turnover	$\frac{\text{Net sales}}{\text{Total assets}}$
Equity/asset ratio	$\frac{\text{Equity year-end x 100}}{\text{Total assets}}$

Income Statement 1 January – 31 December

Notes		Group		Parent	
		2017 DKK	*2016 t. DKK*	2017 DKK	*2016 t. DKK*
1	Net Sales	432,276,855	*420,270*	411,910,091	*399,559*
2	Cost of oil	-84,740,531	*-50,911*	-84,740,531	*-50,911*
3	Materials and services	-53,901,827	*-59,271*	-48,862,367	*-53,896*
	Gross proceeds	**293,634,497**	***310,087***	**278,307,193**	***294,752***
4	Wages	-67,379,656	*-66,466*	-67,260,195	*-66,369*
	Result before depreciation, amortization and impairment	**226,254,842**	***243,621***	**211,046,997**	***228,383***
	Depreciation, amortization and impairment of fixed assets	-102,741,792	*-93,238*	-92,397,286	*-82,933*
	Result before financials	**123,513,050**	***150,383***	**118,649,712**	***145,450***
8	Result from subsidiary companies	0	*0*	2,111,773	*1,063*
5	Financial income	0	*20*	0	*20*
5	Financial expenses	-32,947,685	*-48,306*	-30,753,991	*-44,576*
	Result before tax	**90,565,365**	***102,097***	**90,007,494**	***101,958***
6	Tax on annual result	-1,590,989	*-9,343*	-1,033,118	*-9,204*
	Annual result	**88,974,376**	***92,754***	**88,974,376**	***92,754***
	Proposed distribution of result				
	Results carried forward	88,974,376	*92,754*	88,974,376	*92,754*
	Total distribution	**88,974,376**	*92,754*	**88,974,376**	*92,754*

Balance Sheet 31 December

Notes	ASSETS	Group 2017 DKK	Group *2016 t. DKK*	Parent 2017 DKK	Parent *2016 t. DKK*
	Assets				
7	Power plants	949,800,062	*954,135*	833,218,850	*827,249*
7	Distribution stations	510,428,210	*505,781*	510,428,210	*505,781*
7	Buildings and land	38,924,056	*38,905*	38,924,056	*38,905*
7	Operating equipment	43,608,039	*37,593*	43,608,039	*37,593*
7	Investment work-in-progress	518,105,660	*238,753*	517,637,968	*238,288*
	Total tangible fixed assets	**2,060,866,027**	***1,775,168***	**1,943,817,123**	***1,647,816***
8	Investment in Associated and Subsidiary Companies	2,750,000	*2,750*	34,925,159	*32,813*
9	Loans to subsidiary companies	0	*0*	95,106,812	*103,175*
10	Derivatives	20,532,250	*50,658*	20,532,250	*50,658*
	Total financial assets	**23,282,250**	***53,408***	**150,564,221**	***186,646***
	Total fixed assets	**2,084,148,277**	***1,828,576***	**2,094,381,344**	***1,834,462***
	Current assets				
	Oil inventory	16,670,548	*15,086*	16,670,548	*15,086*
	Materials inventory	18,955,624	*20,307*	18,955,624	*20,307*
	Total inventory	**35,626,172**	***35,393***	**35,626,172**	***35,393***
11	Goods and service receivables	75,887,591	*93,663*	75,887,591	*93,663*
	Tax asset	7,047	*106*	0	*0*
	Prepayments	3,516,379	*10,725*	788,815	*7,867*
	Total recievables	**79,411,017**	***104,494***	**76,676,407**	***101,531***
	Cash-on-hand	**247,992,531**	***335,498***	**247,992,531**	***335,498***
	Total current assets	**363,029,721**	***475,385***	**360,295,110**	***472,422***
	Total assets	**2,447,177,997**	***2,303,961***	**2,454,676,454**	***2,306,885***

Balance Sheet 31 December

Notes		Group 2017 DKK	Group *2016 t. DKK*	Parent 2017 DKK	Parent *2016 t. DKK*
	Equity				
12	Deposits	4,139,875	*4,140*	4,139,875	*4,140*
	Hedge reserve	-28,251,267	*5,329*	-28,251,267	*5,329*
		0	*0*	3,905,897	*1,063*
	Results carried forward	1,220,508,747	*1,131,534*	1,216,602,850	*1,131,534*
	Total equity	**1,196,397,355**	***1,141,003***	**1,196,397,355**	***1,141,003***
	Provisions				
	Provisions for pensions and equivalent liabilities	17,089,212	*18,451*	17,089,212	*18,451*
	Deferred tax	12,110,938	*10,619*	11,406,904	*10,374*
	Total provisions	**29,200,150**	***29,069***	**28,496,116**	***28,824***
	Liabilities				
13	Long-term debt	1,132,318,261	*1,042,116*	1,132,318,261	*1,042,116*
	Total long-term debt	**1,132,318,261**	***1,042,116***	**1,132,318,261**	***1,042,116***
	Current portion of long-term debt	869,797	*923*	869,797	*923*
	Bank debt	0	*28*	0	*28*
	Prepayment received from customers	0	*5,217*	0	*5,217*
	Trade creditors	22,240,425	*34,719*	22,240,425	*34,719*
	Inter-company account	0	*0*	8,202,491	*3,168*
10	Derivatives	56,739,457	*33,998*	56,739,457	*33,998*
	Other creditors	9,412,552	*16,888*	9,412,552	*16,888*
	Total short-term debt	**89,262,231**	***91,773***	**97,464,721**	***94,941***
	Total debt	**1,221,580,492**	***1,133,889***	**1,229,782,982**	***1,137,057***
	Total liabilities	**2,447,177,997**	***2,303,961***	**2,454,676,454**	***2,306,885***
14	**Mortgages and other obligations**				
15	**Contingencies**				

Cash Flow Statement

Notes		Group 2017 DKK	Group *2016 t. DKK*
	Annual result	**88,974,376**	***92,754***
16	Adjustments	121,395,465	*150,867*
	Changes in working capital:		
	Inventories	-232,765	*-8,356*
	Receivables	-51,698,265	*-70,314*
	Trade creditors	-12,478,215	*2,608*
	Other operating debt	115,495,651	*28,165*
	Adjustment to opening balance derivatives	0	*-9,005*
	Derivatives	-33,580,201	*5,329*
	Operating cash flows before financials	**227,876,047**	***192,048***
	Interest income received and equivalent revenues	0	*20*
	Interest expenses paid and equivalent expenses	-32,947,685	*-48,246*
	Cash flows from operations	**194,928,363**	***143,821***
	Purchase of tangible fixed assets	-109,087,545	*-227,409*
	Changes to work-in-progress	-279,352,196	*-14,322*
	Changes to financial fixed assets	0	*40*
	Cash flow from investments	**-388,439,741**	***-241,691***
	Loan facilities	106,000,000	*1,042,116*
	Repayments on long-term debt	0	*-830,000*
	Bank overdraft withdrawals	5,584	*-638*
	Cash flow from financing	**106,005,584**	***211,478***
	Total cash flow during the year	**-87,505,794**	***113,609***
	Opening cash-on-hand	335,498,325	*221,889*
	Closing cash-on-hand	**247,992,531**	***335,498***
	Lines of credit	520,000,000	*626,000*
	Total	**767,992,531**	***961,498***

Group activities by production and grid

OPERATIONS	2017			*2016 (t DKK)*		
	Production	Grid	Total	*Production*	*Grid*	*Total*
Revenues	**279,101,302**	**153,175,553**	**432,276,855**	***265,526***	***154,743***	***420,270***
Cost of oil	-84,507,353	-233,178	-84,740,531	*-50,691*	*-221*	*-50,911*
Goods and services	-25,045,731	-28,856,096	-53,901,827	*-28,210*	*-31,061*	*-59,271*
Wages	-33,895,521	-33,484,135	-67,379,656	*-33,744*	*-32,722*	*-66,466*
Result of ordinary operations	**135,652,697**	**90,602,145**	**226,254,842**	***152,882***	***90,739***	***243,621***
Depreciation	-67,823,169	-34,918,623	-102,741,792	*-59,160*	*-34,078*	*-93,238*
Result before financial items	**67,829,528**	**55,683,522**	**123,513,050**	***93,722***	**56,661**	**150,383**
Net financial items	-9,487,625	-23,460,059	-32,947,685	*-12,116*	*-36,170*	*-48,286*
Result before tax	**58,341,903**	**32,223,462**	**90,565,365**	***81,606***	***20,491***	***102,097***
Tax	-557,871	-1,033,118	-1,590,989	*-139*	*-9,204*	*-9,343*
Annual result	**57,784,032**	**31,190,344**	**88,974,376**	***81,466***	***11,287***	***92,754***

Parent company activities by production and grid

OPERATIONS	2017			*2016 (t DKK)*		
	Production	Grid	Total	*Production*	*Grid*	*Total*
Revenues	**258,734,538**	**153,175,553**	**411,910,091**	***244,816***	***154,743***	***399,559***
Cost of oil	-84,507,353	-233,178	-84,740,531	*-50,691*	*-221*	*-50,911*
Goods and services	-20,006,271	-28,856,096	-48,862,367	*-22,834*	*-31,061*	*-53,896*
Wages	-33,776,060	-33,484,135	-67,260,195	*-33,647*	*-32,722*	*-66,369*
Result of ordinary operations	**120,444,853**	**90,602,145**	**211,046,997**	***137,644***	***90,739***	***228,383***
Depreciation	-57,478,663	-34,918,623	-92,397,286	*-48,855*	*-34,078*	*-82,933*
Result before financial items	**62,966,190**	**55,683,522**	**118,649,712**	***88,789***	**56,661**	**145,450**
Net financial items	-7,293,932	-21,348,286	-28,642,218	*-8,386*	*-35,106*	*-43,493*
Result before tax	**55,672,258**	**34,335,236**	**90,007,494**	***80,403***	***21,555***	***101,958***
Tax	0	-1,033,118	-1,033,118	*0*	*-9,204*	*-9,204*
Annual result	**55,672,258**	**33,302,118**	**88,974,376**	***80,403***	***12,351***	***92,754***

Group balance sheet by production and grid

BALANCE SHEET	2017			2016 (t DKK)		
	Production	Grid	Total	Production	Grid	Total
Assets						
Real estate, power plants, etc.	959,810,324	582,950,043	1,542,760,367	*963,522*	*572,892*	*1,536,415*
Investment work-in-progress	363,016,179	155,089,481	518,105,660	*159,391*	*79,363*	*238,753*
Fixed assets	**1,322,826,503**	**738,039,524**	**2,060,866,027**	***1,122,913***	***652,255***	***1,775,168***
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	20,532,250	20,532,250	*0*	*50,658*	*50,658*
Financial fixed assets	**0**	**23,282,250**	**23,282,250**	***0***	***53,408***	***53,408***
Total fixed assets	**1,322,826,503**	**761,321,774**	**2,084,148,277**	***1,122,913***	**705,663**	**1,828,576**
Oil inventory	16,670,548	0	16,670,548	*15,086*	*0*	*15,086*
Materials inventory	0	18,955,624	18,955,624	*0*	*20,307*	*20,307*
Total inventory	**16,670,548**	**18,955,624**	**35,626,172**	***15,086***	***20,307***	***35,393***
Electricity debtors	0	75,887,591	75,887,591	*0*	*93,663*	*93,663*
Other debtors/tax asset	7,047	0	7,047	*106*	*0*	*106*
Inter-company account	8,202,491	131,462,783	139,665,273	*42,990*	*30,063*	*73,053*
Other receivables/accruals	234,275	5,323,689	5,557,965	*6,065*	*6,702*	*12,766*
Total receivables	**8,443,813**	**212,674,064**	**221,117,876**	***49,160***	***130,428***	***179,588***
Cash-on-hand	0	247,992,531	247,992,531	*0*	*335,498*	*335,498*
Total current assets	**25,114,361**	**479,622,218**	**504,736,579**	***11,744***	***408,043***	***419,788***
Total assets	**1,347,940,864**	**1,240,943,992**	**2,588,884,856**	***1,049,924***	***999,389***	***2,049,312***

Included in Inter-company account Grid is share capital DKK 29,000,000 in subsidiary companies, as well as their total result from inception in 2016 of DKK 3,905,898

Parent company balance sheet by production and grid

BALANCE SHEET	2017			2016 (t DKK)		
	Production	Grid	Total	Production	Grid	Total
Assets						
Real estate, power plants, etc.	843,729,236	582,449,919	1,426,179,155	*836,636*	*572,892*	*1,409,528*
Investment work-in-progress	362,048,363	155,589,605	517,637,968	*158,925*	*79,363*	*238,288*
Fixed assets	**1,205,777,599**	**738,039,524**	**1,943,817,123**	***995,561***	***652,255***	***1,647,816***
Share equity	0	34,925,159	34,925,159	*0*	*32,813*	*32,813*
Loans to subsidiary companies	0	95,106,812	95,106,812	*0*	*103,175*	*103,175*
Derivatives	0	20,532,250	20,532,250	*0*	*50,658*	*50,658*
Financial fixed assets	**0**	**150,564,221**	**150,564,221**	***0***	***186,646***	***186,646***
Total fixed assets	**1,205,777,599**	**888,603,744**	**2,094,381,344**	***995,561***	**838,901**	**1,834,462**
Oil inventory	16,670,548	0	16,670,548	*15,086*	*0*	*15,086*
Materials inventory	0	18,955,624	18,955,624	*0*	*20,307*	*20,307*
Total inventory	**16,670,548**	**18,955,624**	**35,626,172**	***15,086***	***20,307***	***35,393***
Electricity debtors	0	75,887,591	75,887,591	*0*	*93,663*	*93,663*
Other debtors/tax asset	0	0	0	*0*	*0*	*0*
Inter-company account	0	102,462,783	102,462,783	*39,821*	*0*	*39,821*
Other receivables/accruals	-2,493,288	3,282,104	788,815	*3,207*	*6,702*	*9,909*
Total receivables	**-2,493,288**	**181,632,478**	**179,139,189**	***43,029***	***100,365***	***143,393***
Cash-on-hand	0	247,992,531	247,992,531	*0*	*335,498*	*335,498*
Total current assets	**14,177,260**	**448,580,633**	**462,757,892**	***58,115***	***456,170***	***514,285***
Total assets	**1,219,954,859**	**1,337,184,377**	**2,557,139,236**	***1,053,676***	***1,295,072***	***2,348,748***

Group balance sheet by production and grid

BALANCE SHEET	2017			2016 (t DKK)		
	Production	Grid	Total	*Production*	*Grid*	*Total*
Liabilities						
Deposit	0	4,139,875	4,139,875	*0*	*4,140*	*4,140*
Capital account	750,116,569	442,140,912	1,192,257,480	*691,269*	*445,594*	*1,136,863*
Total equity	**750,116,569**	**446,280,787**	**1,196,397,355**	***691,269***	***449,734***	***1,141,003***
Pensions	0	17,089,212	17,089,212	*0*	*18,451*	*18,451*
Deferrec tax	704,034	11,406,904	12,110,938	*245*	*10,374*	*10,619*
Total provisions	**704,034**	**28,496,116**	**29,200,150**	***245***	***28,824***	***29,069***
Long-term debt	**445,800,076**	**678,270,449**	**1,124,070,525**	***453,960***	***580,000***	***1,033,960***
Current portion of long-term debt	8,247,736	869,797	9,117,533	*8,156*	*923*	*9,079*
Bank loans	0	0		*0*	*28*	*28*
Prepayments	0	0		*0*	*5,217*	*5,217*
Inter-company account	139,665,273	0	139,665,273	*30,063*	*42,990*	*73,053*
Other creditors/accruals	3,407,176	8,046,962	11,454,137	*3,466*	*15,464*	*18,930*
Trade creditors	0	22,240,425	22,240,425	*0*	*34,719*	*34,719*
Derivatives	0	56,739,457	56,739,457	*0*	*33,998*	*33,998*
Total debt	**597,120,261**	**766,167,090**	**1,363,287,350**	***495,645***	***713,338***	***1,208,983***
Total liabilities	**1,347,940,864**	**1,240,943,992**	**2,588,884,856**	***1,187,159***	***1,191,897***	***2,379,056***

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 3,905,898

Parent company balance sheet by production and grid

BALANCE SHEET	2017			2016 (t DKK)		
	Production	Grid	Total	*Production*	*Grid*	*Total*
Liabilities						
Deposit	0	4,139,875	4,139,875	*0*	*4,140*	*4,140*
Capital account	746,941,410	445,316,071	1,192,257,480	*691,269*	*445,594*	*1,136,863*
Total equity	**746,941,410**	**449,455,946**	**1,196,397,355**	***691,269***	***449,734***	***1,141,003***
Pensions	0	17,089,212	17,089,212	*0*	*18,451*	*18,451*
Deferrec tax	0	11,406,904	11,406,904	*0*	*10,374*	*10,619*
Total provisions		**28,496,116**	**28,496,116**	***0***	***28,824***	***29,069***
Long-term debt	**358,941,000**	**773,377,261**	**1,132,318,261**	***358,941***	***683,175***	***1,042,116***
Current portion of long-term debt	0	869,797	869,797	*0*	*923*	*923*
Bank loans	0	0	*0*	*0*	*28*	*28*
Prepayments	0	0	*0*	*0*	*5,217*	*5,217*
Inter-company account	110,665,273	0	110,665,273	*0*	*42,990*	*42,990*
Other creditors/accruals	3,407,176	6,005,376	9,412,552	*3,466*	*15,464*	*18,930*
Trade creditors	0	22,240,425	22,240,425	*0*	*34,719*	*34,719*
Derivatives	0	56,739,457	56,739,457	*0*	*33,998*	*33,998*
Total debt	**473,013,449**	**859,232,316**	**1,332,245,765**	***362,407***	***816,513***	***1,178,920***
Total liabilities	**1,219,954,859**	**1,337,184,377**	**2,557,139,236**	***1,053,676***	***1,295,072***	***2,348,748***

Group operations by production and grid

DISTRIBUTION OF REVENUE

	Production	Grid	Total 2017	*2016 (t DKK)*
Sales	**220,934**	**434,900,228**	**435,121,162**	***422,664***
Own production and purchased electricity	262,077,691	-264,921,998	-2,844,307	*1,677*
Grid responsibility and grid management	16,802,676	-16,802,676	0	*-4,072*
Total revenue	**279,101,302**	**153,175,553**	**432,276,855**	***420,270***

PRODUCTION	Thermal	Hydro	Wind	Total 2017	*2016 (t DKK)*
Revenue	**190,393,862**	**68,223,751**	**20,483,689**	**279,101,302**	***265,526***
Oil	-81,228,921	-3,278,432	0	-84,507,353	*-50,691*
Goods and services	-13,289,228	-6,672,343	-5,084,159	-25,045,731	*-28,210*
Wages	-24,254,617	-9,503,895	-137,009	-33,895,521	*-33,744*
Depreciation	-28,316,918	-29,154,078	-10,352,173	-67,823,169	*-59,160*
Interest	-2,622,317	-4,671,615	-2,193,694	-9,487,625	*-12,116*
Tax	0	0	-557,871	-557,871	*-11,221*
Production result	**40,681,861**	**14,943,387**	**2,158,783**	**57,784,032**	***81,466***

GRID	Grid excluding management	Management	Total 2017	*2016 (t DKK)*
Revenue	**27,901,938**	**125,273,615**	**153,175,553**	***154,743***
Oil	-190,395	-42,782	-233,178	*-221*
Goods and services	-10,403,450	-18,452,646	-28,856,096	*-31,061*
Wages	-21,039,920	-12,444,215	-33,484,135	*-32,722*
Depreciation	-30,831,636	-4,086,987	-34,918,623	*-34,078*
Interest	-5,893	-23,454,166	-23,460,059	*-36,170*
Tax	0	-1,033,118	-1,033,118	*-9,204*
Grid result	**-34,569,356**	**65,759,701**	**31,190,344**	***11,287***

Parent company operations by production and grid

DISTRIBUTION OF REVENUE

	Production	Grid	Total 2017	*2016 (t DKK)*
Sales	**220,934**	**434,900,228**	**435,121,162**	***422,664***
Own production and purchased electricity	241,710,927	-264,921,998	-23,211,071	*-19,033*
Grid responsibility and grid management	16,802,676	-16,802,676	0	*-4,072*
Total revenue	**258,734,538**	**153,175,553**	**411,910,091**	***399,559***

PRODUCTION	Thermal	Hydro	Wind	Total 2017	*2016 (t DKK)*
Revenue	**190,393,862**	**68,223,751**	**116,925**	**258,734,538**	***244,816***
Oil	-81,228,921	-3,278,432	0	-84,507,353	*-50,691*
Goods and services	-13,289,228	-6,672,343	-44,700	-20,006,271	*-22,834*
Wages	-24,254,617	-9,503,895	-17,548	-33,776,060	*-33,647*
Depreciation	-28,316,918	-29,154,078	-7,667	-57,478,663	*-48,855*
Interest	-2,622,317	-4,671,615	0	-7,293,932	*-8,386*
Tax	0	0	0	0	*0*
Production result	**40,681,861**	**14,943,387**	**47,010**	**55,672,258**	***80,403***

GRID	Grid excluding management	Management	Total 2017	*2016 (t DKK)*
Revenue	**27,901,938**	**125,273,615**	**153,175,554**	***154,743***
Oil	-190,395	-42,782	-233,178	*-221*
Goods and services	-10,403,450	-18,452,646	-28,856,096	*-31,061*
Wages	-21,039,920	-12,444,215	-33,484,135	*-32,722*
Depreciation	-30,831,636	-4,086,987	-34,918,623	*-34,078*
Interest	-5,893	-21,342,393	-21,348,286	*-35,106*
Tax	0	-1,033,118	-1,033,118	*-9,204*
Grid result	**-34,569,356**	**67,871,474**	**33,302,118**	***12,351***

Notes

	Group		Parent	
1. NET TURNOVER	**2017 DKK**	***2016 t. DKK***	**2017 DKK**	***2016 t. DKK***
kWh charges etc.	393,085,991	*392,684*	393,085,991	*392,684*
Fixed charges	16,805,843	*16,586*	16,805,843	*16,586*
Connection fees	27,426,328	*8,045*	27,426,328	*8,045*
Other charges, reminders and other sales	-2,197,001	*5,349*	-2,197,001	*5,349*
Purchase of wind power etc.	-2,844,307	*-2,394*	-23,211,071	*-23,105*
Total	**432,276,855**	***420,270***	**411,910,091**	***399,559***
2. COST OF OIL				
Gas oil	8,202,077	*7,792*	8,202,077	*7,792*
Heavy fuel oil	70,137,757	*37,140*	70,137,757	*37,140*
Lubricating oil	6,400,696	*5,980*	6,400,696	*5,980*
Total	**84,740,531**	***50,911***	**84,740,531**	***50,911***
3. GOODS AND SERVICES				
Lines	2,586,873	*3,820*	2,586,873	*3,820*
Dams, pipelines and tunnels	-21,880	*438*	-21,880	*403*
Tanks and environmental	252,739	*316*	252,739	*311*
Engines	8,497,803	*8,888*	4,908,528	*4,792*
Electric and technical	452,104	*715*	452,104	*714*
Buildings and land	2,372,540	*2,051*	1,869,037	*1,941*
General meeting and Board	418,802	*399*	418,802	*399*
Studies and consultancy	11,946,948	*13,573*	11,736,201	*13,536*
IT	4,971,144	*4,145*	4,971,144	*4,145*
Management and office expenses	2,390,449	*3,146*	2,386,049	*3,121*
Loss on unpaid debt	230,538	*-144*	230,538	*-144*
Other operating expenses	594,601	*954*	593,651	*688*
Other administrative expenses	19,209,164	*20,969*	18,478,579	*20,170*
Total	**53,901,827**	***59,271***	**48,862,367**	***53,896***
4. EMPLOYEE EXPENSES				
Wages	57,299,222	*56,665*	57,180,095	*56,568*
Pensions	7,376,163	*7,291*	7,375,971	*7,291*
Contributions	2,704,270	*2,511*	2,704,130	*2,510*
Total	**67,379,656**	***66,466***	**67,260,195**	***66,369***
Included in employee expenses are:				
Managment and Board of Directors	2,126,929	*1,892*	2,126,929	*1,892*
Total	**2,126,929**	***1,892***	**2,126,929**	***1,892***
Employees with SEV as main source of income	141	*136*	141	*136*
Average number of employees	167	*162*	167	*162*

	Group		Parent	
5. FINANCIAL ITEMS	**2017 DKK**	***2016 t. DKK***	**2017 DKK**	***2016 t. DKK***
Interest income	0	*-20*	0	*-20*
Result from subsidiary companies	0	*0*	-2,111,773	*-1,063*
Adjustment financial fixed assets	0	*60*	0	*60*
Interest on loans	24,862,638	*26,140*	22,670,834	*22,410*
Establishment fees, commissions	3,537,837	*10,233*	3,537,837	*10,233*
Unrealised exchange rate gains or losses	-12,702,908	*-986*	-12,702,908	*-986*
Unrealised adjustments on derivatives	17,092,132	*12,722*	17,092,132	*12,722*
Other interest expenses	157,986	*137*	156,096	*137*
Total	**32,947,685**	***48,286***	**28,642,218**	***43,493***

6. TAXES ON ANNUAL RESULTS				
Corporation tax	0	*0*	0	*0*
Tax asset	0	*-106*	0	*0*
Adjustment of deferred tax	1,590,989	*9,482*	1,033,118	*9,204*
Total	**1,590,989**	***9,343***	**1,033,118**	***9,204***

7. TANGIBLE FIXED ASSETS, GROUP

Amounts in DKK	Production plant	Distribution stations	Buildings	Equipment	Total 2017	*2016*
Acquisition value opening balance	1,953,696,475	976,258,719	71,169,685	182,633,664	3,183,758,543	*2,956,350,005*
Additions during the year	62,558,831	30,032,679	1,367,290	17,508,047	111,466,847	*227,408,539*
Disposals during the year	-39,600	0	0	-2,339,702	-2,379,302	*0*
Acquisition value closing balance	**2,016,215,707**	**1,006,291,398**	**72,536,975**	**197,802,009**	**3,292,846,088**	***3,183,758,543***
Depreciation opening balance	-999,560,982	-470,477,562	-32,264,663	-145,040,722	-1,647,343,929	*-1,554,106,276*
Depreciation for the year	-66,854,663	-25,385,626	-1,348,255	-11,492,950	-105,081,494	*-93,237,654*
Depreciation reversed on disposals	0	0	0	2,339,702	2,339,702	*0*
Depreciation closing balance	-1,066,415,644	-495,863,188	-33,612,918	-154,193,970	-1,750,085,721	*-1,647,343,929*
Book value year-end	**949,800,062**	**510,428,210**	**38,924,056**	**43,608,039**	**1,542,760,367**	***1,536,414,614***
Book value year-end 2016	*954,135,494*	*505,781,157*	*38,905,021*	*37,592,942*	*1,536,414,614*	
Work-in-progress						
Opening balance	158,513,736	70,032,236	5,234,323	4,973,168	238,753,464	*224,247,698*
Investment booked to work-in-progress	261,684,733	100,372,651	7,100,873	568,261	369,726,517	*229,681,249*
Completed work transferred to depreciation	-57,682,415	-27,548,064	-1,367,290	-3,776,552	-90,374,322	*-215,175,483*
Closing balance	**362,516,054**	**142,856,823**	**10,967,906**	**1,764,877**	**518,105,660**	***238,753,464***
Closing balance year-end 2016	*158,513,736*	*70,032,236*	*5,234,323*	*4,973,168*	*238,753,464*	
Fixed assets year-end	**1,312,316,116**	**653,285,033**	**49,891,962**	**45,372,915**	**2,060,866,027**	***1,775,168,078***
Fixed assets year-end 2016	*1,112,649,230*	*575,813,393*	*44,139,344*	*42,566,111*	*1,775,168,078*	

7. TANGIBLE FIXED ASSETS, PARENT COMPANY

Amounts in DKK	Production plant	Distribution stations	Buildings	Equipment	Total 2017	*2016*
Acquisition value opening balance	1,816,505,451	976,258,719	71,169,685	182,633,664	3,046,567,519	*2,956,350,005*
Additions during the year	62,479,631	30,032,679	1,367,290	17,508,047	111,387,647	*228,057,680*
Disposals during the year	0	0	0	-2,339,702	-2,339,702	*-176,299,432*
Acquisition value closing balance	**1,878,985,082**	**1,006,291,398**	**72,536,975**	**197,802,009**	**3,155,615,464**	***3,008,108,252***
Depreciation opening balance	-989,256,076	-470,477,562	-32,264,663	-145,040,722	-1,637,039,023	*-1,554,106,276*
Depreciation for the year	-56,510,157	-25,385,626	-1,348,255	-11,492,950	-94,736,988	*-82,932,747*
Depreciation reversed on disposals	0	0	0	2,339,702	2,339,702	*38,459,266*
Depreciation closing balance	-1,045,766,232	-495,863,188	-33,612,918	-154,193,970	-1,729,436,309	*-1,598,579,757*
Book value year-end	**833,218,850**	**510,428,210**	**38,924,056**	**43,608,039**	**1,426,179,155**	***1,409,528,495***
Book value year-end 2016	*827,249,375*	*505,781,157*	*38,905,021*	*37,592,942*	*1,409,528,495*	
Work-in-progress						
Opening balance	158,048,095	70,032,236	5,234,323	4,973,168	238,287,823	*224,431,198*
Investment booked to work-in-progress	261,643,083	100,372,651	7,100,873	568,261	369,684,867	*229,681,249*
Disposals during the year	0	0	0	0	0	*-649,142*
Completed work transferred to depreciation	-57,642,816	-27,548,064	-1,367,290	-3,776,552	-90,334,722	*-215,175,483*
Closing balance	**362,048,363**	**142,856,823**	**10,967,906**	**1,764,877**	**517,637,968**	***238,287,823***
Closing balance year-end 2016	*158,048,095*	*70,032,236*	*5,234,323*	*4,973,168*	*238,287,823*	
Fixed assets year-end	**1,195,267,213**	**653,285,033**	**49,891,962**	**45,372,915**	**1,943,817,123**	***1,647,816,318***
Fixed assets year-end 2016	*985,297,470*	*575,813,393*	*44,139,344*	*42,566,111*	*1,647,816,318*	

8. INVESTMENTS IN ASSOCIATED AND SUBSIDIARY COMPANIES	31.12.17 DKK	*31.12.16* *t. DKK*
Acquisition value opening balance	31,750,000	*2,750*
Addition equity P/F Vindfelagið í Húsahaga		*22,000*
Addition equity P/F Vindfelagið í Neshaga		*7,000*
Acquisition value closing balance	**31,750,000**	***31,750***
Subsidiary companies' result opening balance	1,063,385	*0*
Result from subsidiary companies	2,111,773	*1,063*
Subsidiary companies' result closing balance	3,175,159	*1,063*
Carrying amount year-end	**34,925,159**	***32,813***

Associated and subsidiary companies

Name and registered office	Share	Equity	Annual result	Recognized value
P/F Fjarhitafelagið, Tórshavn	50%	60,758,235	1,149,428	2,750,000
P/F Vindfelagið í Húsahaga, Tórshavn	100%	21,967,894	449,723	21,967,894
P/F Vindfelagið í Neshaga, Tórshavn	100%	10,207,264	1,662,050	10,207,264

The financial statement for P/F Fjarhitafelagið for the year 2017 is not available. The numbers shown are from 2016.

9. LOANS TO SUBSIDIARY COMPANIES	Duration	Loan amount	Balance 31.12.17	Repayments next year	Balance in 5 years
P/F Vindfelagið í Húsahaga	12 years	75,000,000	69,478,537	5,644,336	46,136,301
P/F Vindfelagið í Neshaga	10 years	28,175,000	25,628,275	2,603,400	14,861,876
Total		**103,175,000**	**95,106,812**	**8,247,736**	**60,998,177**

10. DERIVATIVES	Assets 31.12.17	Liabilities 31.12.17	Total 31.12.17	*31.12.16* *t. DKK*
Oil-price hedge	20,532,250	0	20,532,250	*26,604*
Currency hedge	0	-27,115,107	-27,115,107	*24,053*
Interest rate hedge	0	-29,624,350	-29,624,350	*-33,998*
Total	**20,532,250**	**-56,739,457**	**-36,207,207**	***16,660***

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.

11. GOODS AND SERVICES DEBTORS	31.12.17 DKK	*31.12.16* *t. DKK*
Goods and service debtors	78,373,005	*90,782*
Other debtors	723,586	*6,090*
Receivables write-down	-3,209,000	*-3,209*
Total	**75,887,591**	***93,663***

12. EQUITY, GROUP

Amounts in DKK	Deposit	Derivatives reserve	Result carried over	Total
Equity statement 01.01.16 - 31.12.16				
Balance 01.01.16	4,139,875	-9,005,200	1,038,780,669	1,033,915,345
Adjustment to derivatives	0	14,334,133	0	14,334,133
Annual result	0	0	92,753,702	92,753,702
Balance 31.12.16	4,139,875	5,328,933	1,131,534,371	1,141,003,180
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
Change in 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

12. EQUITY, PARENT COMPANY

Amounts in DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
Equity statement 01.01.16 - 31.12.16					
Balance 01.01.16	4,139,875	-9,005,200	0	1,038,780,669	1,033,915,345
Change in adjustment to derivatives	0	14,334,133	0	0	14,334,133
Result from subsidiary companies	0	0	1,063,385	-1,063,385	0
Annual result	0	0	0	92,753,702	92,753,702
Balance. 31.12.16	4,139,875	5,328,933	1,063,385	1,130,470,986	1,141,003,180
Equity statement 01.01.17 - 31.12.17					
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

13. LONG-TERM DEBT

	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.17	*Total debt t. DKK 31.12.16*
Debt to financial institutions	0	1,027,188,058	1,133,188,058	*1,042,116*
Tilsamans	**0**	**1,027,188,058**	**1,133,188,058**	***1,042,116***

There are no repayments in the next financial year, and the average maturity date is 8.3 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. Total obligations DKK 2.7 million.

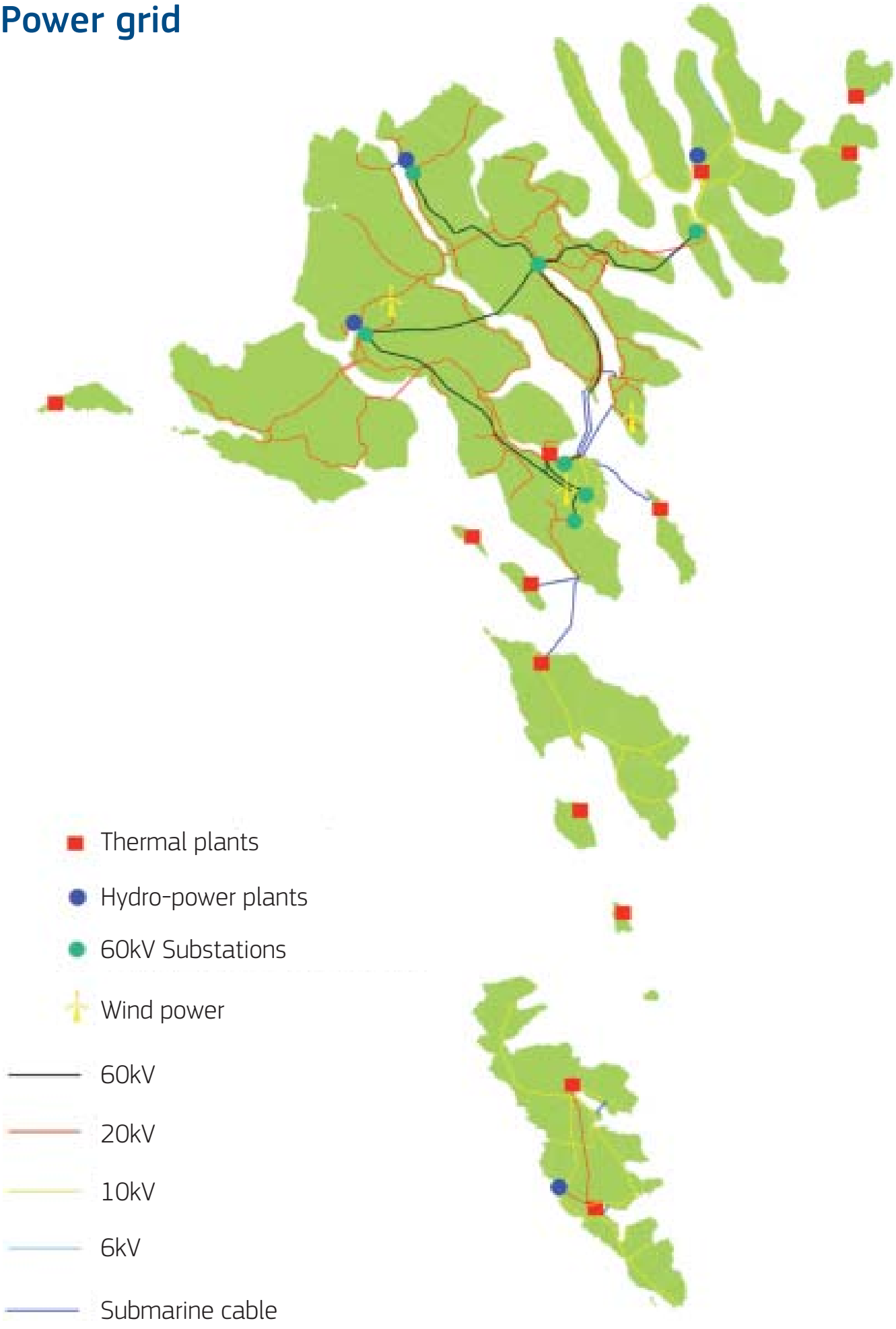
15. CONTINGENCIES

The group has a contingency of DKK 4.4 million due to operations and rental agreements of subsidiary companies.

	2017	*2016*
16. ADJUSTMENTS	**DKK**	***t. DKK***
Interest income and equivalent income	0	*-20*
Adjustment financial fixed assets	0	*60*
Interest expensed and equivalent expenses	28,558,461	*36,510*
Unrealised interest expenses	4,389,224	*11,736*
Depreciation	102,741,792	*93,238*
Interest rate adjustment during the year on loan in USD	-15,885,000	*0*
Tax	1,590,989	*9,343*
Total	**121,395,465**	***150,867***

17. Equity distribution	Municipal contribution	Equity 2017	Equity 2017	*Equity 2016*
	DKK	DKK	%	*t. DKK*
Eiðis	78,625	16,999,196	1.43	*15,836*
Eysturkommunan	146,500	49,203,228	4.13	*46,960*
Fámjins	23,125	1,865,189	0.16	*1,917*
Fuglafjarðar	136,250	36,406,611	3.05	*34,661*
Fugloyar	17,500	873,570	0.07	*1,027*
Hovs	22,875	2,313,779	0.19	*2,373*
Húsa				*890*
Húsavíkar	25,125	2,667,929	0.22	*2,693*
Hvalbiar	103,625	16,125,626	1.35	*15,813*
Hvannasunds	36,375	9,774,537	0.82	*9,241*
Klaksvíkar, including the former Húsa Municipality	537,750	120,694,290	10.12	*114,366*
Kunoyar	12,625	3,376,229	0.28	*3,126*
Kvívíkar	59,125	14,071,556	1.18	*13,600*
Nes / Runavíkar	332,133	123,314,999	10.34	*117,949*
Porkeris	51,000	7,389,928	0.62	*6,731*
Sands	72,250	12,277,197	1.03	*12,071*
Sjóvar	92,875	24,200,244	2.03	*22,248*
Skálavíkar	30,750	3,352,619	0.28	*3,309*
Skopunar	71,000	10,978,647	0.92	*10,360*
Skúvoyar	17,875	991,620	0.08	*958*
Sørvágs	127,500	27,788,963	2.33	*25,739*
Sumbiar	81,375	8,452,378	0.71	*8,009*
Sunda	177,367	41,270,270	3.46	*38,883*
Tórshavnar	1,092,500	499,068,054	41.86	*476,154*
Tvøroyrar	255,250	40,609,190	3.41	*39,385*
Vága kommuna	169,625	48,518,538	4.07	*46,207*
Vágs	218,375	32,227,642	2.70	*30,942*
Vestmanna	125,250	29,063,903	2.44	*27,405*
Viðareiðis	25,250	8,381,548	0.70	*8,009*
Total	**4,139,875**	**1,192,257,480**	**100.00**	***1,136,863***

Power grid


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

Elfelagið SEV · Boks 319 · FO-110 Tórshavn · Tlf. +298 34 68 00 · sev@sev.fo · www.sev.fo