Annual Report 2016

SEV

P/F Vindfelagið í Neshaga

Tórshavn Company register no. 6387

NORÐURLENDSKT UMHVØRVISMERKI
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RENEWABLE ENERGY SUMMIT
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Annual Report 2016
Annual General Meeting 31 March 2017
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The Company

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Registered Office: Tórshavn
Accounting Year: 01.01-31.12
Business Tax Registration No: 622656
Business Registration No. 6387

Board of Directors

John Zachariassen, Chairman (COB)
Hans Jákup Johannesen, Vice Chairman
Marin Katrina Frýdal
Jónsvein Hovgaard
Sune Jacobsen
Vinjard Tungá
Kristian Eli Zachariasen

Management

Hákun Djurhuus, Managing Director (CEO)

Auditor

P/F Januar
State-authorized Public Accountants
Óðinshædd 13, PO Box 30, FO-110 Tórshavn
Telephone: 31 47 00 Fax: 35 17 01
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Management Attest

The Board of Directors and Management today have hereby submitted the Annual Report and Accounts of P/F Vindfelagið í Neshaga for fiscal year 1 January – 31 December 2016.

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

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

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

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

Tórshavn, 31 March 2017

Management

Hákun Djurhuus
Managing Director

Board of Directors

John Zachariassen
Chairman

Hans Jákup Johannesen
Vice Chairman

Marin Katrina Frýdal

Jónsvein Hovgaard

Sune Jacobsen

Vinjard Tungá

Kristian Eli Zachariasen

Independent Auditor's Report and Certification

To the owners of P/F Vindfelagið í Neshaga

Report on the Financial Statements

We have audited the financial statements of Vindfelagið í Húsahaga for the financial year 1 January to 31 December 2016, which comprise the income statement, balance sheet, cash flow statements and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Faroese Financial Statements Act.

Management's Financial Statements Responsibility

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Faroese Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Faroese audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

The audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of Vindfelagið í Húsahaga's financial position as at 31 December 2016 and of the results of the Company's operations for the fiscal year 1 January to 31 December 2016 in accordance with the Faroese Financial Statements Act.

Statement on the Management's review

Pursuant to the Faroese Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Tórshavn, the 31st of March 2017

P/F Januar
State Authorized Public Accountants

Hans Laksá
State Auth. Auditor

Key Figures and Financial Ratios

Figures in DKK	2016	2015
	t.DKK	tDKK
Net Sales	6,552	-
Results before depreciation, amortization and impairment	5,834	-
Result before interest	2,809	-
Interest	-1,019	-
Annual Result	**1,545**	**-**
Balance Sheet		
Total Assets	36,965	-
Equity	**8,545**	**-**

Management Review

Main Activities
The activity of the Company is the production of electricity from wind power.

Business Activities and Financial Status of the Company

Sales for 2016 were DKK 6.6 million. Production of electric power was 14.5 GWh in 2016.

The costs for goods and services was DKK 681,000, while wage expense was DKK 37,000

Depreciation was DKK 3.0 million, according to the accounting principles.

Interest expense was DKK 1.0 million in 2016.

The result after taxes for 2016 was DKK 1.5 million, which is around DKK 1.1 million better than projected. It is anticipated that the result for 2017 will be worse than the previous year.

Special Risks
The Company has undertaken initiatives to secure itself against possible risks.

The Company has entered into a pricing agreement that secures a sale of 8.4 GWh per year to the parent company, SEV, for an agreed upon price, which, in 2016, was DKK 0.4309 per kWh for the production from the three wind turbines on Eystnes. For the two wind turbines at Vørðan, the sales price is DKK 0.40 per kWh. Thus, the Company's income stream is well secured.

The Company has also executed an administrative contract with the parent company SEV that encompasses all the Company's administrative needs and office expenses.

The Company is in negotiation with the supplier of the wind turbines for maintenance in the same manner as that executed with P/F Vindfelagið í Húsahaga. This agreement will ensure that the Company will know is costs for maintenance, spare parts and inspection.

The Company has a long-term loan from the parent company, SEV, for which, from December 2016 and for the next 10 years, the Company will pay a fixed interest of 2.003% per year, which SEV itself has secured. The company takes out insurance in line with the parent company's insurance strategy.

Investments
The Company has insured its assets consistent with the insurance strategy of the parent company, SEV.

Liquidity
The Company does not maintain its own liquidity. The Company uses the liquidity of the parent company, SEV, to pay debt as it falls due and thus the Company maintains a current account with the parent company, SEV. The parent company has exceptionally good liquidity and has also secured access to operational financing over the next few years if the need arises.

The natural environment
The Company has a high regard for the natural environment and all relevant legislation, directives, rules and regulations are always followed.

Professional knowledge and human resources development
Along with the parent company, SEV, the Company is an active developer of knowledge within the field of wind energy production in the Faroe Islands, and strives continually to enhance the quality and the amount of electricity production from wind.

Prospects for 2017
The Company antiicipates that its operations will be at the same level as in 2016.

According to the Company's budget, the result is projected to be around DKK 487,000 for 2017.

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

Accounting Principles

General

The annual accounts of P/F Vindfelagið í Húsahaga are prepared in accordance with the provisions of the Faroese Financial Statements Act for class B corporations.

The Annual Accounts are presented in Danish kroner (DKK).

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

Assets are recognized 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 recognized 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. Realized and unrealized translation gains and losses are recognized 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 recognized 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 and fees and reflect deduction of rebates in connection with sales.n.

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 supplies and services and other administrative costs.

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 amortization of intangible and tangible fixed assets are based on an asset's forecasted useful life.

Financials

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

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.

BALANCE SHEET

Tangible assets

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

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

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

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

	Useful Life	*Residual value*
Wind turbines	15 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 or 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 the higher of either the net realizable or sale value or the capital value. Capital value is calculated as the current value of the expected net revenues accruing from the use of the asset. .

Receivables

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

Current and deferred taxes

Current tax, payable and receivable, is recognized 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. 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 recognized in the Balance Sheet based on intended use of the asset and how the debt is intended to be repaid.

Deferred tax receivables, including authorized tax deficits carried forward, are recognized at the anticipated realizable 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 recognized at net realized 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 the tax rate are incorporated into the operational accounts.

Liabilities

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

Debt to financial institutions is valued at amortized realized value, which corresponds to the residual debt for a cash loan. Regarding the value of bonds, the amortized realized 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 amortized realized value, which usually corresponds to the nominal value.

Income statement 1 January – 31 December

	Note	2016 DKK	*2015 t.DKK*
Net Sales	1	**6,552,138**	**-**
Other expenditure (goods and services)	2	-680,568	-
Gross proceeds		**5,871,571**	**-**
Employee expenses	3	-37,371	-
Depreciation, amortization and impairment of fixed assets		-3,025,470	-
Result before financials		**2,808,730**	**-**
Financial expenses	4	-1,018,632	-
Result before tax		**1,790,097**	**-**
Tax on annual result	5	-244,883	-
Annual result		**1,545,214**	**-**
Proposed distribution of result			
Result carried forward		**1,545,214**	-
Total distribution		**1,545,214**	**-**

Balance Sheet 31 December 2016

ASSETS	Note	31.12.16 DKK	*31.12.15 t.DKK*
Production facilities	6	34,073,302	-
Investment work-in-progress	6	465,641	-
Total tangible fixed assets		**34,538,943**	**-**
Total fixed assets		**34,538,943**	**-**
Inter-company account		2,182,898	
Prepayments		243,256	
Total receivables		**2,426,154**	**-**
Total current assets		**2,426,154**	**-**
Total assets		**36,965,097**	**-**

Balance Sheet 31 December 2016

LIABILITIES	Note	31.12.16 DKK	*31.12.15 t. DKK*
Equity	7	7,000,000	-
Result carried forward	7	1,545,214	-
Total equity		**8,545,214**	**-**
Provision for deferred tax	5	244,883	-
Total provisions		**244,883**	**-**
Long-term debt	8	25,604,402	-
Total long-term debt		**25,604,402**	**-**
Current portion of long-term debt	8	2,570,598	-
Total short-term debt		**2,570,598**	**-**
Total debt		**28,175,000**	**-**
Total liabilities		**36,965,097**	**-**

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Notes

1. NET TURNOVER	2016 DKK	*2015 t.DKK*
Production of electricity	6,552,138	-
Other sales	0	-
Total	**6,552,138**	**-**

2. OTHER EXPENSES (GOODS AND SERVICES)	2016 DKK	*2015 t.DKK*
Lines	0	-
Dams, pipelines and tunnels	35,316	-
Tanks and environmental	5,310	-
Turbines	278,869	-
Electric and technical	162	-
Buildings and land	47,023	-
General meeting and board	0	-
Studies and consultancy	7,917	-
IT	0	-
Management and office expenses	0	-
Other operating expenses	3,000	-
Other administrative expenses	302,969	-
Total	**680,568**	**-**

3. EMPLOYEE EXPENSES	2016 DKK	*2015 t.DKK*
Wages	37,382	-
Pensions	0	-
Contributions	89	-
TOTAL	**37,371**	**-**

Employees with the company as main source of personal income	-	-
Average number of employees	-	-

4. FINANCIAL EXPENSES	2016 DKK	*2015 t.DKK*
Interest, loans, and bank debt, etc.	1,018,632	-
Total	**1,018,632**	**-**

5. TAXES ON ANNUAL RESULT	2016 DKK	*2015 t.DKK*
Corporate tax	0	-
Adjustment of deferred tax	244,883	-
Total	**0**	**-**

6. TANGIBLE FIXED ASSETS

Amounts in DKK	Production facilities	Total 2016	*2015*
Acquisition value opening balance	0	0	-
Additions during the year	37,098,772	37,098,772	-
Acquisition value closing balance	37,098,772	37,098,772	**-**
Depreciation, amortization and impairment opening balance	0	0	-
Depreciation, amortization and impairment during the year	-3,025,470	-3,025,470	-
Depreciation, amortization and impairment closing balance	-3,025,470	-3,025,470	-
Book value year-end	**34,073,302**	**34,073,302**	**-**
Book value year-end 2015	-	-	
Work-in-progress opening balance	0	0	-
Investment booked to work-in-progress	465,641	465,641	-
Completed work transferred to depreciation	0	0	-
Closing balance	**465,641**	**465,641**	**-**
Work in progress year-end 2015	-	-	
Fixed assets at year-end	**34,538,943**	**34,538,943**	**-**
Fixed assets at year-end 2015	-	-	

7. EQUITY

Total in DKK	Equity	Result carried over	Total
Equity statement 01.01.16 - 31.12.16			
Balance 01.01.16	7,000,000	0	7,000,000
Annual result	0	1,545,214	1,545,214
Balance 31.12.16	7,000,000	1,545,214	8,545,214

8. DEBT

	Repayment in the first year ***DKK***	*Outstanding debt after 5 years* ***DKK***	*Total debt 31.12.16* ***DKK***
Long-term debt	2,570,598	17,576,599	28,175,000
Total	**2,570,598**	**17,576,599**	**28,175,000**

The outstanding debt after 5 years is calculated as an annuity loan to be paid over 10 years from 31.12.2016.

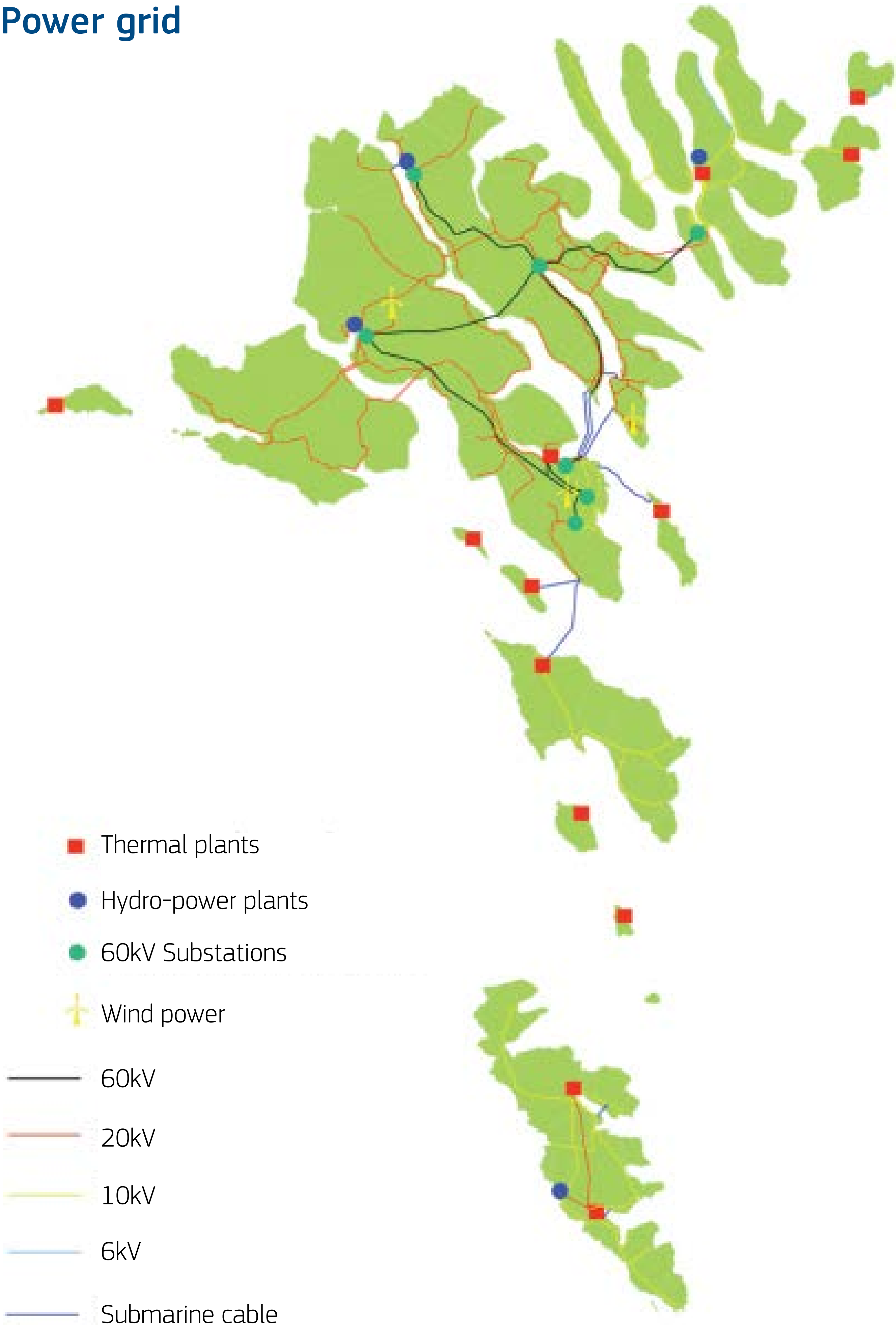
9. OVERVIEW OF TURBINE EQUIPMENT

Location	Turbine	MW	Type	Supplier	Powered by	Year	Age	Total Hours	Hours 2016
Neshagi	T1	0.9	Wind turbine (pitch reg.)	Enercon	Wind	2012	4	31,338	7,613
Neshagi	T2	0.9	Wind turbine (pitch reg.)	Enercon	Wind	2012	4	31,911	7,607
Neshagi	T3	0.9	Wind turbine (pitch reg.)	Enercon	Wind	2012	4	31,833	7,287
Neshagi	T4	0.9	Wind turbine (pitch reg.)	Enercon	Wind	2012	4	31,760	7,614
Neshagi	T5	0.9	Wind turbine (pitch reg.)	Enercon	Wind	2012	4	31,822	7,732

10. MORTGAGES AND OTHER OBLIGATIONS

The Company holds no mortgages nor is it subject to any court cases. The Company is bound by operating and maintenance agreements in 2017 equaling DKK 336,000.

Power grid


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

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