



ANNUAL REPORT AND ANNUAL ACCOUNTS 2008

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REPORT FROM THE BOARD OF DIRECTORS

NEW BOARD OF DIRECTORS

On 1 January 2009, the new Company by-laws entered into force. SEV now functions according to a straightforward, practicable and more modern organizational structure. The Company continues as a co-operative, but is now organized in a manner similar to a limited liability corporation.

At the first Annual General Meeting of the Company on 6 February 2009, a new board of directors was elected. The following individuals were elected: Niels Olaf Eyvindsson, representing the Suðuroy electoral district; Páll á Reynatúgvu, Sandoy electoral district; Marin Katrina Frýdal, Tórshavn municipality; Pauli T. Petersen, Streymoy electoral district; Jákup Suni Lauritsen, Vágoy electoral district; Kári E. Jacobsen, Eysturoy electoral district; and Steinbjørn O. Jacobsen, Norðoy electoral district. The Board subsequently elected Páll á Reynatúgvu as Chairman and Jákup Suna Lauritsen as Vice Chairman.

ELECTRICITY PRODUCTION ACT

As of 1 January 2009, pursuant to the Electricity Production Act, all activities related to the electricity grid and all electricity generation shall be carried out by providers who have received a concession from the Electricity Commission. A great deal of energy has been focused on ensuring effective collaboration and negotiation between SEV and the Commission in order to meet the conditions stipulated in the new legislation. SEV was granted a provisional concession for all of its activities on 30 December 2008, which is effective until 1 June 2009. Negotiations continue on the final conditions.

SEV has reviewed the new law thoroughly and completely agrees with the intent of the law. However, it is important that the relevant governmental authorities and SEV are in full agreement regarding who retains ultimate responsibility and agree upon the conditions stipulated in the law.

INTERNAL CHANGES IN ORGANIZATIONAL STRUCTURE

The organization of the Company has been strengthened with two, new general staff members. On 1 November 2008, Annika F. Berg was hired as the manager of the new Health, Safety and Environment Department, and, on 1 January 2009, Leivur Hansen began his duties as manager of the new Public Relations Department.

In this connection, the previous management had approved a new health, safety and environment policy. Work is now underway to develop a new process by which SEV in the future can provide a so-called “green” accounting of its activities.

Moreover, there have been major changes within operations and production. As of 1 January 2009, the two divisions were merged into one. Finn Jakobsen assumed responsibility as manager of the new division with the following five individuals serving as department managers: Jón A. Nielsen, Anders Nedergaard-Hansen, Terji Nielsen, Hogni Hansen and Dánjal Jógvan Hansson.

FINANCIAL LOSS IN 2008

The year 2008 had its distinctive challenges. SEV's total result was a loss of 31.1 million DKK, compared to a budgeted loss of 1.6 million DKK for 2008, or 29.5 million DKK worse than projected in the budget approved in November 2007.

Sales for the year were as planned, but expenses were greater than estimated. Record-breaking oil prices resulted in an expenditure for oil of 120 million DKK or 17 million DKK more than budgeted. The expenses related to the renovation of the Sund power plant of some 5 million DKK were projected to be booked in 2009, but were instead booked in 2008. The repair of the oil tanks at Vágur and Sund ran around 5 million DKK more than projected. Moreover, the operational expenses of the Electricity Commission ascribed to the Company were ca. 1 million DKK.

Both 2007 and 2008 showed very clearly how exposed we are to the price of oil and the volatility in this unstable market. So from an economic perspective, let alone the environmental considerations, it is extremely important to become independent of oil.

ELECTRICITY GENERATION FROM RENEWABLE ENERGY SOURCES

In 2008, 40% of our electricity generation was from renewable energy sources, 35% from our hydropower plants and 5% from windmills.

All necessary permits are in place so that the Eiði 2 project can be carried out in its entirety. The remaining work on this project will get underway as soon as possible. When completed, our hydroelectric production will increase by some 17%.

The Electricity Commission has announced that the tender for windmills will be let out in the autumn of 2009. More than likely, the tender will be for a total of 3 MW, which equates to an increase of windpower generation of over 75%.

SEV has determined that all aspects of the technology related to combined wind and hydro-pumping systems should be investigated as soon as possible. This includes, inter alia, determining which technology could be used and also researching all the potential sites for such development in the country.

At the last representative assembly meeting in the history of the Company, which was held on 21 November 2008, a 10-year development plan was submitted. The new Board of Directors of SEV believes that it is extremely important to craft a long-term, energy development plan for the entire country, especially one with a focus on sustainable energy resources. The Board has not completed its evaluation of the 10-year development plan that was presented to the representative assembly.

It is absolutely critical that a political determination be made as soon as possible with regard to how energy development should be carried out in order to meet the goals of the Government's energy policy. In this regard, it is also extremely crucial that there exists a joint willingness for cooperation and meaningful dialogue between SEV and the governmental authorities regarding the generation of electricity, the country's energy resources and our environment.

The SEV Board of Directors has approved a grant of 250,000 DKK to a project of the University of the Faroe Islands under the direction of Knud Simonsen, lecturer in the Natural Sciences Department, to map out the potential of tapping the energy of the tides around the Faroes in a commercially reasonable and environmentally responsible manner.

For some time now the wave energy project of P/F Sewave has itself been in rough water, because of the diminished interest of the Scottish company, Wavegen, which owned one-half of Sewave. The issue was resolved by SEV assuming their part of Sewave. The project is now being re-evaluated and revised. The EU has offered to support the project and SEV is prepared to provide additional funding to the project, conditioned on others contributing the requisite funds.

FUTURE PROSPECTS

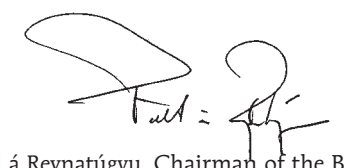
Europe has adopted the so-called EU 20/20/20 climate and energy package. EU Member States have agreed by the year 2020 to reduce energy consumption by 20%, to reduce greenhouse emissions by 20% and to increase the use of renewable energy sources by 20%.

There is wide agreement that these goals can only be met if there is a diligent effort to electrify energy consumption, especially land-based consumption. Therefore, one can anticipate steady advances in the years ahead in electricity-based technology, especially related to the distribution of electricity and its use in heating. We at SEV need to keep this in mind and stay fully apprised of the advances in technology taking place that will impact our expansion plans, both with regard to renewable energy sources and the distribution grid as a whole.

RESEARCH AND DEVELOPMENT

As the country's providers of energy, it is important for the municipalities, as the owners of SEV, to assume full responsibility for actively promoting research and development in future energy possibilities.

In summary, as one of the providers of future energy to the country, we face tremendous tasks and obligations ahead with all the attendant challenges. We also bear an immense responsibility toward the coming generations of energy consumers, the coming generations of Faroese. We must assume this obligation as well, as a responsible member of the world community.

Páll á Reynatúgvu, Chairman of the Board

SEV – A GOOD PLACE TO WORK

Out of roughly 150 employees, one fourth – 37 – have worked with sev for 25 years or more.

The number of SEV employees has remained fairly constant over the last few years. At present, 148 people work for SEV, compared to 200 twenty years ago.

Of the current employees, 25 work in administration, 62 are in production, 37 in operations, 7 are in engineering, 6 work in the technical department, and 8 are employed in the installation department.

PUBLIC RELATIONS MANAGER AND HSE MANAGER

In order to strengthen communications both internally and externally, it was decided to appoint a communications manager. Providing relevant public relations advice and facilitating systematization of all communications are key tasks of the communications manager, who is also responsible for our energy advisory service for our customers and the corporate website. Leivur Hansen began in this position on 1 January 2009.

HSE stands for health, safety and environment. SEV is extremely focused on these three areas, both internally and externally, and operates at a high level of proficiency. HSE operations of SEV are being continually enhanced and SEV is keen to stay abreast of advances in these areas. For this reason, it was decided to strengthen the work in this area by dedicating one individual to take responsibility for enterprise health, safety and environment. The manager of the HSE department is mandated to organize and implement initiatives for the development of this area, as well as provide advice and counsel to both management and staff on questions in this area. Moreover, the HSE manager shall arrange for suitable training in the area. Annika Flagstad Berg began in the position of HSE manager on 1 November 2008.

ADMINISTRATION

The administration department, under the leadership of the administration department manager, is divided into four areas – financial accounting, accounts receivable, human resources,

and general administration. A total of 20 people work in these four sections. Although the majority work in the headquarters building on Landavegur in Tórshavn, SEV also has offices in Klaksvík, Vestmanna and Vágur. Several employees carry out duties in several areas and are not directly bound to one section or another.

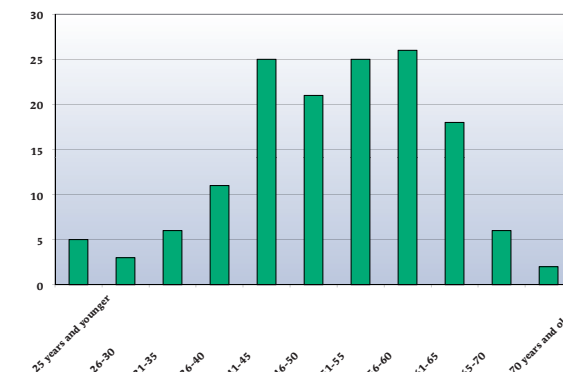
In 2008, a total of 25 employees worked for the managing director and the department manager for administration. The average age was 49 and the average length of service with SEV was 14 years. In 2008, two employees – or 8% have worked for SEV for 25 years or more. The majority of the employees within this section are paid in accordance with a wage agreement entered into between SEV and Starvsmannafelagið [a workers union].

TECHNICAL

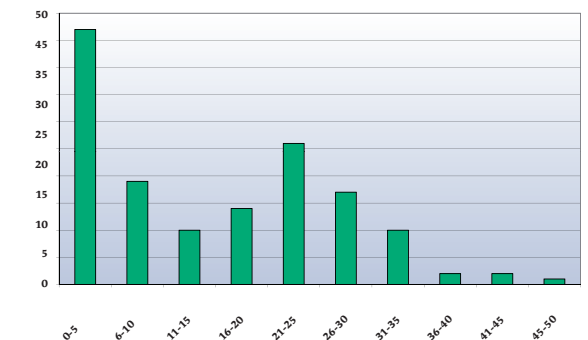
The technical department, under the leadership of the technical department manager, is split up into five sections – production, operations, engineering, electrical technical, and installation.

The production section encompasses all the major electrical power plants and the small power stations throughout the country. Sixty-two people work in this section. In 2008, the average age was 52 and the average length of service with SEV was 14 years. Of these employees, 18 – or 29% – have worked for SEV for 25 years or more. Over two-thirds of the production staff are mechanical engineers, and one-third are craftsmen and labourers. In June 2008, a new wage agreement was signed between the Kommunala Arbeidsgevarafelag Føroya [the Faroese municipal employers association] and the Maskinmeistarafelagið [the mechanical engineers union] covering the engineers who work for SEV. The old agreement with the Maskinmeistarafelagið expired on 1 July 2008. A significant change was that the mechanical engineers who work for SEV as of 1 October 2008 would be covered under the wage tables and the bonus scale of the Ministry of Finance for publicly employed mechanical engineers.

Age – all employees 2008



Length of service – all employees 2008



OPERATIONS

Operations encompasses all the electrical high tension lines, divided into three regions – north, central, and south. The warehouse and workshop are under this department. The department employed 37 people in 2008. The average age was 48, and the average length of service with SEV was 19 years. As of 2008, there were 14 employees – or 38% – in the operations department that had worked for SEV for 25 years or more. Operations employees are more or less equally governed by the wage agreements between SEV and the Starvsmannafelagið for line foremen, the Kommunala Arbeidsgevarafelag Føroya and the Føroya Handverkarafelag og Landsfelag Handverkanna [craftsmen unions] for linemen and installers working with SEV and the Arbeidsgevarafelag Føroya [an employers association] and the Føroya Arbeidarafelag [a workers union].

CIVIL ENGINEERING

The civil engineering department is essentially an cross-over department that offers advice throughout the company and works with projects that cut across the entire company. Seven engineers work within the department and they are compensated consistent with the wage agreement between the Ministry of Finance and Akademikarafelagið [a professional employees union]. One could say that this agreement had a difficult birth. The wage agreement between the Verkrøðingafelag Føroya [an engineers union] and the Ministry of Finance expired on 1 October 2007. Four unions – Føroya Byggifrøðingafelag [construction engineers], Føroya Verkrøðingafelag [civil engineers], Arkitektafelag Føroya [architects] and the Magistarafelag Føroya [union for those with advanced graduate degrees] – decided to form the Akademikarafelag Føroya [literally, the academics union of the Faroes] and succeeded under the auspices of the newly created union to successfully negotiate a new wage agreement. Later, the new union entered into an agreement with the Ministry of Finance, conditioned on the formal establishment of the Akademikarafelagið. At the end of 2008 the union became a reality and the agreement entered into effect. With regard to civil engineers, the agreement stipulated, inter alia, that the

bonus scale would be rescinded and the bonus wage would be incorporated into the monthly wage.

ELECTRICAL TECHNICAL

The electrical technical department is also a cross-over department and for the most part works on the electrical aspects of the power stations. There are six employees in this section. The installation section works throughout the country and is responsible for all the laying and installation of electrical cables as well as inspection and maintenance. There are 8 employees in this section. The staff in these two sections are paid in accordance with the wage agreements with the Starvsmannafelagið and the various Handverkarafelagið, respectively.

A total of 24 people work in the various divisions (engineering, electrical technical, and installation) within the technical department, including the technical department manager and the various staff that are the manager's direct reports. The average age is 48 and the average length of service is 12 years. Of these, three employees – or 12.5% – have worked with SEV for 25 years or more.

In 2008, there was the equivalent of 148 full-time employees. The average age was 50 and the average length of service was 15 years.



Oluffa undir Kletti, Human Resources Manager; Annika F. Berg, HSE Manager; Leivur Hansen, Public Relations Manager.



Music is always a part of employee events at SEV.

SPECIAL EVENTS IN 2008

The Starvsfólkafelagið [literally, the employees association] of SEV was especially active in 2008. The following employees sit on the board of the SEV employees association: Jón Nielsen, Anna Vang, Martin Dam and Otto West. The first arrangement organized in 2008 was a Shrove Festival held at the Tórshavn power plant. This gathering had to be postponed twice because of severe weather in January and February, which demanded that our employees remain on station.

Employee Day was held on 9 May in the Culture House in Fuglafjørð. The Starvsfólkafelagið in collaboration with the human resources department helped organize the event. Management reported on the affairs of the company in the morning. The afternoon saw a visit by Kristine Stricker Hestbech, who gave a talk entitled, „Det flydende rum – at være menneske i en centrifuge“ [literally, “The fluid room – to be human in a centrifuge.” This was a most interesting and relevant talk. Later, there was a tour of Fuglafjørð. The evening ended with dinner in the Culture House.

In exceptionally glorious weather, we set sail on 14 May 2008 from Bursatanga pier in Tórshavn and the Annual Employee Excursion for 2008 got underway. The excursion took us on a course toward Stóra Dímun, Skúvoy, and Klæmintsgjógv. The Starvsfólkafelagið arranged for this unforgettable excursion.

Another Employee Day was held on 28 November in our own conference facility in Vestmanna and the Starvsfólkafelagið also organized this event. First on the agenda was an update from management, followed by the annual meeting of the Starvsfólkafelagið. Two employees, Tórmód Nielsen and Eyðbjørn F. Petersen, were recognized and honoured for their remarkable performance at the Skopun power station, which provided power to all of Sandoy, while the new undersea cable to Sandoy was being laid. Elections were held to fill vacancies on the board of the Starvsfólkafelagið. Sjanna Hentze and Karsten Hansen were elected to replace Jón Nielsen and Martin Dam, who declined to serve again. Later, the meeting adjourned to the Vestmanna Church where Djóni Dalsgarð and Martin Joensen performed. Martin provide the music and Djóni talked about enneagram theory. This was a most pleasant time in a most delightful environment. The day ended with a special Christmastime dinner.

A Christmas party for children was held on 4 December at the headquarters on Landavegur in Tórshavn. Santa Claus came for a visit and everyone danced around the Christmas tree.

NEW ORGANIZATIONAL STRUCTURE

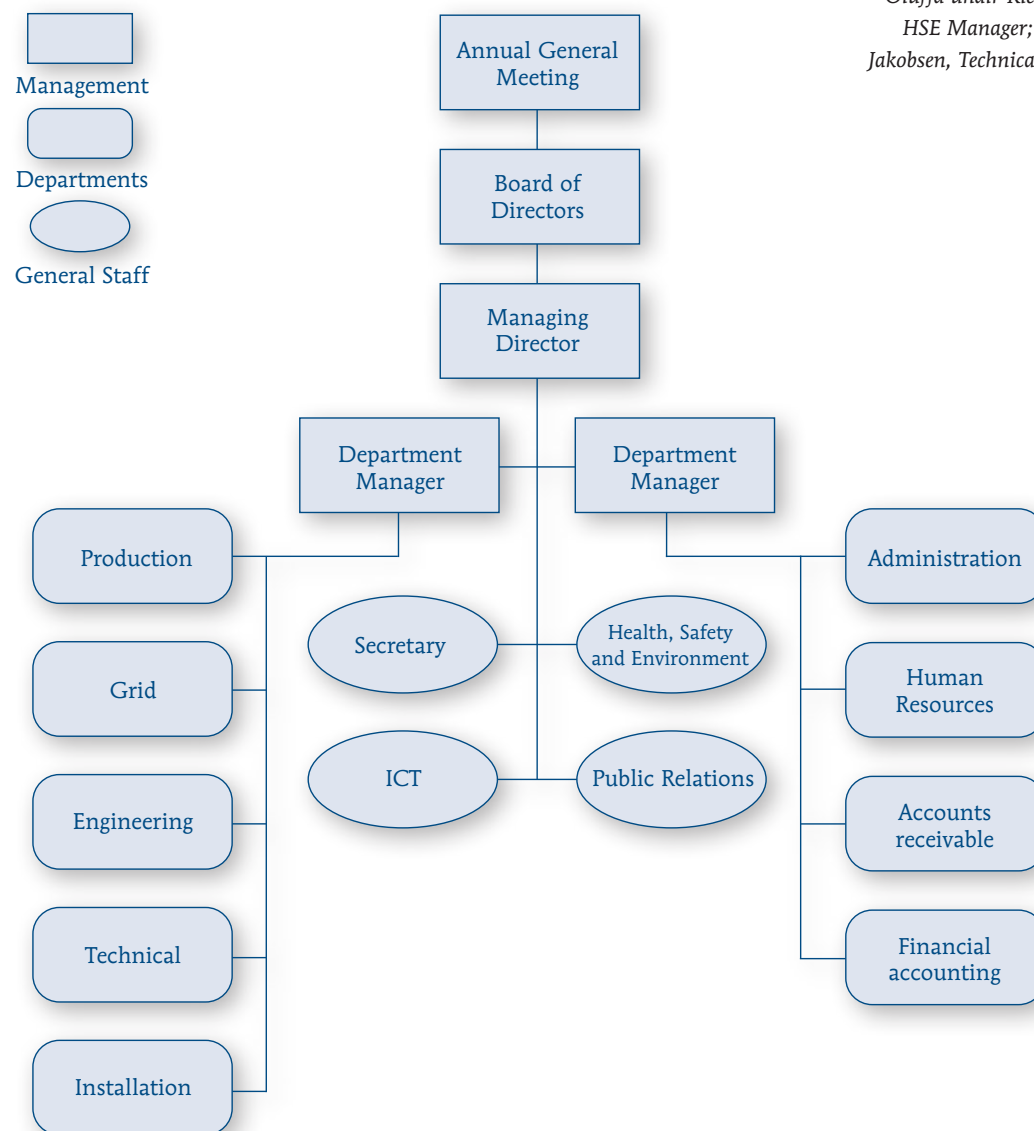
To enhance the ability of SEV to effectively address future challenges, reorganization was undertaken in 2008 and was concluded as of 1 January 2009. Previously, SEV was organized with one managing director and three department managers, one for production, one for distribution, and one for administration. Now there is one managing director and two department managers, one for technical matters and one for administration. In short, production and distribution was combined under the leadership of one manager.

CONSULTING STAFF

Four staff members report directly to the managing director. These are the corporate secretary, the IT manager, the public relations manager, and the manager for health, safety and the environment.



SEV general staff at one of its working meetings: (from left) Oluffa undir Kletti, Human Resources Manager; Annika F. Berg, HSE Manager; Leivur Hansen, Public Relations Manager; Finn Jakobsen, Technical Manager; John P. Danielsen, Finance Director; Hákun Djurhuus, Managing Director.



ANNUAL REPORT 2008

INTRODUCTION

Elfelagið SEV [SEV electricity utility] is an inter-municipal corporate enterprise, whose purpose is to produce electric power and to distribute said electricity among the residents in the member municipalities. Pursuant to the by-laws, the Company shall advance its business purpose according to commercial regulations on a commercially reasonable basis and with due regard for the natural environment. Pursuant to the Electricity Production Act, grid-related activities of SEV shall be financially independent, such that revenues are sufficient to pay for operations and necessary investment.

All municipalities in the Faroes are members of SEV. To year-end 2008, the members bear the responsibility for any debt of the Company and possible losses. As of 1 January 2009, the municipalities shall only bear the responsibility for debt related to employee expenses.

FINANCIAL DECLARATION

The operational result for 2008 is a loss of 31.1 million DKK, compared to a profit of ca. 12 million DKK the year before. Based on the 2008 budget approved in November 2007, a loss of some 2 million DKK was anticipated.

Revenue was 0.5 million DKK less than budgeted. Invoiced electricity sales grew by 11.4%. The majority of the growth in revenue stems from an across-the-board rate hike of 10 oyra per kWh beginning 1 January 2008.

Thus, all SEV revenue stems from the sale of electric power. Sales in kWh grew 0.8%, compared to 2007. Deferred payments for electricity consumption for the year calculated in the annual customer statements, as well as deferred consumption among the various rate groups influence year-on-year comparisons

somewhat. Therefore, the growth in electricity production, which is calculated at year-end each year, is never exactly the same as the growth in calculated sales.

Total operational expenses before depreciation was 259.6 million DKK. This reflects a growth in costs of 72 million DKK, or around 29.9 million DKK more than budgeted.

The growth in expenses stems, first and foremost, from unusually high oil prices, which peaked in the summer of 2008, and also from other commercial conditions, such as, e.g., wage and price increases and extraordinary operational expenses that do not come every year.

Oil expenses were 119.9 million DKK, compared to 72.6 million DKK in 2007. The main reason for this rise in expenses was, as noted, the unusually high cost of oil, but thermal production grew by 11.9%, or 17.8 million kWh, thus greatly impacting the consumption of oil.

In 2008, several major operational improvements impacted cost, notably, the replacement of electronic equipment at the Sund power plant, which cost 15.2 million DKK, the renovation of the tank farm, and the repair of the small storage tank for heavy fuel oil in Vágur, which together cost 3.1 million DKK, and the major repairs carried out on the small heavy fuel oil and gas oil tanks at the Sund power plant cost 6.6 million DKK. In addition, the new electricity control board cost 1 million DKK. These expenses have never been encountered before and are a consequence of the new Electricity Production Act. In accordance with the Act, SEV has moreover incurred extra administrative costs for consultant advice and assistance, etc.

Net interest costs grew from 2007 to 2008 from 2.3 to 3.5 million DKK. Interest expense on long-term loans and bank fees, etc.

declined from 7 to 6.8 million DKK. However, interest income declined more, from 4.7 million DKK to 3.2 million DKK. All of the activities of SEV in 2008, including investments, were funded by operational income and cash-on-hand, which was reduced considerably and thus yielded less interest.

Depreciation was 48.4 million DKK, compared to 49.5 million DKK the year before. Much of this stemmed from the depreciation basis, but most investment had been depreciated and this had been so large that the total depreciation declined.

INVESTMENT

Investment in fixed assets was 76.6 million DKK. This is 38.3 million DKK less than budgeted.

The greatest departure from the budget was that only 24.3 million DKK of a budgeted 35 million DKK was used for the hydropower expansion project, Eiði II. In addition, 8 million DKK had been set aside toward wave energy and 1 million DKK for windpower. In short, none of these amounts were expended in 2008.

The investment for hydro, wind and wave power that was not expensed in 2008 is carried over to 2009.

PROSPECT FOR FISCAL YEAR 2009

The approved budget for 2009, which was ratified in November 2008, assumes revenue of 57.9 million DKK before depreciation of 50 million DKK, or 7.9 million DKK after depreciation.

Income estimates for 2009 are based on SEV being granted permission to raise all rates by 4 oyra per kWh from 1 January 2009, and that electricity consumption will remain the same as in 2008. Electricity production data from January and February

2009 seems to indicate that the estimated electricity consumption is accurate.

On the other hand, if SEV is not granted permission to raise the electricity rates, estimated income will be around 10 million DKK less than budgeted.

Expenditures for oil will have the greatest impact on the budget. Some 97.3 million DKK has been budgeted and this was based on the oil price in October 2008. If the oil price and the USD exchange rate remains at essentially the same level throughout 2009 as the first part of the year (i.e., up to 23 March 2009), then oil expenses will be ca. 25-30 million DKK less than budgeted.

Thus, in summary, with reservation for fluctuations in oil prices, the operational result for 2009 should be somewhat better than the budgeted 7.9 million DKK after depreciation of 50 million DKK and thus the result is considered to be satisfactory.

EVENTS SUBSEQUENT TO THE CLOSE OF THE FISCAL YEAR

From the closing date of the financial statement until today's date, nothing has occurred that would impact the true and fair assessment of the Company set forth in the Annual Report.

CERTIFICATION OF INDEPENDENT AUDITOR

To the owners of Elfelagið SEV.

CERTIFICATION OF THE ANNUAL REPORT

We have audited the annual report of Elfelagið SEV for the fiscal year 1 January – 31 December 2008, which comprises the certification of the management, the report of management, the accounting principles applied, the income statement, the balance sheet, equity capital report, cash flow statement and relevant notes. The Annual Report has been prepared in accordance with applicable legislation.

MANAGEMENT RESPONSIBILITY FOR THE ANNUAL REPORT

Management is responsible for preparing an Annual Report that gives a true and fair view in accordance with applicable legislation. This responsibility extends to designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an Annual Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable under the given circumstances.

AUDITOR RESPONSIBILITY

Our responsibility is to express an opinion on the Annual Report based on our audit. We conducted our audit in accordance with applicable Faroese auditing standards and regulations, which require that we uphold ethical standards, and plan and conduct the audit to obtain reasonable assurance that the Annual Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence concerning the amounts and disclosures in the Annual Report. The procedures selected depend on the auditor's judgment,

including the assessment of the risks of material misstatement in the Annual Report, whether due to fraud or error. In making said risk assessments, the auditor considers the internal controls in place relevant to the preparation and fair presentation of the Annual Report in order to design audit procedures that are appropriate under the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. An audit also includes evaluating the appropriateness of the accounting principles applied by management, as well as evaluating the overall presentation of the Annual Report.

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

Our audit did not result in any qualification.

OPINION

It is our opinion that the Annual Report gives a true and fair view of the Company's assets, liabilities, and financial position as at 31 December 2008, and of the results of the Company's operations and cash flow for the fiscal year 1 January – 31 December 2008 in accordance with applicable legislation.

Tórshavn, the 3rd of April 2009

RASMUSSEN & WEIHE

A certified public accounting firm

Hans Laksá Jóannes Olsen
Chartered Public Accountant Registered Accountant

ACCOUNTING PRINCIPLES

GENERAL

The accounting principles remain unchanged from the previous year.

INCOME

Income from the sale of electricity is accrued. At year-end, annual consumption is calculated for all customers.

TANGIBLE ASSETS

Tangible assets are booked at cost price and depreciated using the straight-line method. The depreciation period is from 3 to 20 years.

FINANCIAL ASSETS

Financial assets are booked at purchase price.

LIABILITIES

Liabilities are booked at their corresponding value, and provisions are set aside for potential losses.

INVENTORY

The inventory of oil and other material is booked at the estimated minimal cost price value and current pricing.

SECURITIES (ACCOUNTS RECEIVABLE)

Bonds are booked at fair adjusted value.

EQUITY

Elfelagið SEV is an inter-municipal corporate co-operative, in which all the municipalities in the Faroes are members. The equity held by each municipality at year-end is based on the respective population-base.

INCOME STATEMENT

	Note	2008	tDKK 2007
Income	1	276,859,873	249,105
Cost of oil and purchased electricity	2, 8	-122,108,508	-75,366
Other expenses	3, 4, 8	-108,792,518	-88,833
Administrative costs	3, 5	-25,206,602	-21,111
Result before interest and depreciation		20,752,245	63,795
Interest expenses	6	-3,532,925	-2,293
Result before depreciation		17,219,320	61,502
Depreciation	7	-48,357,208	-49,466
Annual result		-31,137,888	12,036

BALANCE SHEET AS AT 31 DECEMBER

	Note	2008	tDKK 2007
ASSETS			
Buildings, power plants, etc, Investment work in progress	7	344,563,293 46,070,150	345,605 16,773
Fixed assets		390,633,443	362,378
Share equity		4,975,168	4,975
Financial assets		4,975,168	4,975
TOTAL FIXED ASSETS		395,608,611	367,353
Oil inventory		8,469,329	20,118
Materials inventory		9,451,984	11,304
Work in progress with foreign invoice		623,216	775
Total inventory		18,544,529	32,197
Electricity debt	9	35,794,423	29,029
Other debt		4,868,438	2,681
Other accounts receivable		5,003,425	8,459
Total Debt		45,666,286	40,169
Bonds		39,286	80
Securities		39,286	80
Cash-on-hand		24,267,689	99,526
TOTAL CURRENT ASSETS		88,517,790	171,972
TOTAL ASSETS		484,126,401	539,325
LIABILITIES			
Deposit		4,139,875	4,140
Capital account	10	321,846,965	352,985
TOTAL EQUITY	11	325,986,840	357,125
Loans	12	105,797,141	123,815
Long-term debt		105,797,141	123,815
Electricity debt	13	18,667,142	13,002
Other debt		31,475,821	43,489
Holiday pay debt		2,199,457	1,894
Short-term debt		52,342,420	58,385
TOTAL DEBT		158,139,561	182,200
TOTAL LIABILITIES		484,126,401	539,325
Pension liability	14		
Mortgage surety interest	15		

CAPITAL REPORT

(1,000 DKK)	2008	2007
Result for the year	-31,138	12,036
Depreciation	48,357	49,466
Change in liquidity (operations)	17,219	61,502
Change in debt	-5,497	-10,236
Change in short-term debt	-6,044	22,676
Change in oil inventory	11,650	-1,769
Change in materials inventory	2,004	-638
	19,332	71,535
Investment: fixed assets, change in work in progress	-76,613	-52,038
Securities	0	0
Installment payments	-18,018	-18,930
Changes in liquidity	-75,299	567
Beginning cash-on-hand	99,526	98,914
Beginning bonds	80	125
Liquidity ending balance	24,307	99,606
Liquidity ending balance:		
Cash-on-hand	24,268	99,526
Bonds	39	80
	24,307	99,606

NOTES TO ANNUAL ACCOUNTS

	2008	2007
1. Income		
kWh charge, etc.	255,881,252	229,627
Fixed payments	15,969,793	15,518
Hook-ups	3,253,852	2,630
Delinquency fees and other sales	1,754,976	1,330
	276,859,873	249,105
2. Oil expenses and purchase of electricity		
Sund power plant	94,719,258	50,022
Oyra power plant	14,182,411	13,279
Skopun power plant	5,538,578	6,100
Strond power plant	3,008,644	1,581
Small plants and buildings	2,474,321	1,583
Purchase of electricity	2,185,296	2,801
	122,108,508	75,366
3. Wages		
Wages, production, see Note 4	22,757,038	21,784
Wages, distribution, see Note 4		16,507
Wages, administrative, see Note 5	7,450,325	6,930
Wages, board of directors and managing director, see Note 5	1,303,840	1,420
Wages for fixed assets	1,926,982	2,153
Wages for pension, see Note 5	756,632	682
Pension payments, see Note 4,5	4,358,001	3,575
	57,168,221	53,051
4. Other operational expenses		
Power plants	66,521,239	53,836
Buildings	1,768,764	1,774
	68,290,003	55,610
Connection stations	2,436,302	810
Distribution, etc.	29,380,781	23,907
Installation Department	4,171,507	3,776
Project design / management	1,859,637	2,190
Low-voltage Department	2,654,288	2,540
	40,502,515	33,223
	108,792,518	88,833

	tDKK	
5. Administrative expenses	2008	2007
Wages, administrative, including pension payments	8,154,737	7,311
Wages, Board of Directors and managing director	1,303,840	1,420
Advertising and telephone	1,620,166	1,605
Consultants, printing, postage, computers, etc.	2,272,181	1,888
Travel, etc.	747,639	591
Studies and external consultancy	3,283,786	1,825
Bank fees and charges	1,734,177	1,532
Other administrative expenses	2,461,949	1,894
	21,578,475	18,066
Insurance	579,592	754
Loss on unpaid debt	496,423	144
Pension payments	756,632	682
Worker pension payments	1,795,480	1,465
	25,206,602	21,111
6. Interest expenses		
Interest on fixed-term loans	5,751,807	6,656
Other interest and bank charges	1,024,863	352
	6,776,670	7,008
Interest income	-3,243,745	-4,715
	3,532,925	2,293

7. Fixed Assests and depreciation	Beginning balance 1 Jan 2008	Additions & Disposals 2008	Depreciated 2008	Ending balance 31 Dec 2008
Production	182,404,017	3,232,316	22,470,888	163,165,445
Distribution	146,614,802	41,012,996	21,128,419	166,499,379
Joint property	8,279,495	0	1,976,954	6,302,541
Land	2,692,969	-24,000	0	2,668,969
Other equipment	5,614,209	3,093,697	2,780,947	5,926,959
	345,605,492	47,315,009	48,357,208	344,563,293

8. Production				tDKK
			2008	2007
	Oil expenses	Materials	Wages	Totals
Turbine depart.	0	130,801	1,421,858	1,552,659
Fossa plant	0	941,165	3,476,763	4,417,928
Heyga plant	0	334,215	52,257	386,472
Mýra plant	0	499,220	144,016	643,236
Eiði plant	4,550	170,099	339,235	513,884
Botni plant	0	222,505	3,666	226,171
Vágur plant	14,182,411	7,030,554	4,279,434	25,492,399
Tvøroyri plant	0	137,201	14,596	151,797
Sund plant	94,719,258	29,728,904	11,425,192	135,873,354
Skopun plant	5,538,578	769,504	761,694	7,069,776
KG plant	3,008,644	353,636	1,150,162	4,512,442
Windmill 150 kW	0	115,387	27,565	142,952
Windmill 750 kW	0	340,036	33,287	373,323
Small plants (KG joint work)	0	16,413	0	16,413
Mobile aggregate	5,813	273,095	20,659	299,567
Fugloy	856,633	223,090	313,548	1,393,271
Svínoy	470	2,555	27,092	30,117
Mykines	360,286	113,248	300,393	773,927
Hestur	0	1,838	25,260	27,098
Koltur	102,106	115,265	69,636	287,007
Nólsoy	0	54,463	48,403	102,866
Skúvoy	412,095	145,320	283,603	841,018
Dímun	116,726	512,595	71,813	701,134
	119,307,570	42,231,109	24,290,132	185,828,811

9. Electricity customers		
Payments during fiscal year:		
Ordinary customers	3,595,020	204
Maximum customers	4,664,810	1,198
	8,259,830	1,402
Unpaid balances:		
Ordinary customers	22,774,373	20,384
Maximum customers	5,760,220	7,743
	28,534,593	28,127

Provision for loss from unpaid debt of electricity customers	-1,000,000	-500
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Total Electricity Customer Debt	35,794,423	29,029
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10. Capital account		
Beginning balance	352,984,853	340,949
plus annual result	-31,137,888	12,036
Ending balance	321,846,965	352,985

11. Distribution of Equity	Municipal contribution	Equity 31.12.2008	Equity 31.12.2007
Hvannasund	36,375	2,933,567	3,207
Klaksvík	502,000	32,670,186	36,045
Fugloy	17,500	267,295	317
Svínoy	18,250	267,295	354
Viðareidi	25,250	2,345,518	2,595
Kunoy	12,625	1,062,499	1,180
Húsar	17,500	387,578	442
Eiði	78,625	4,644,258	5,139
Sunda	177,367	11,025,937	11,730
Fuglafjørður	136,250	10,377,746	11,376
Leirvík	62,000	5,867,135	6,554
Gøta	84,500	7,237,024	7,911
Nes/Runavík	332,133	33,786,144	36,893
Sjógv	92,875	6,735,845	7,513
Kvívík	59,125	4,042,844	4,468
Vestmanna	125,250	8,386,395	9,046
Sandavágur	81,250	5,566,428	5,935
Miðvágur	88,375	7,470,908	8,140
Sørvágur	127,500	7,571,143	8,088
Sandur	72,250	3,909,196	4,254
Skopun	71,000	3,374,605	3,745
Skálavík	30,750	1,129,323	1,298
Húsavík	25,125	835,298	951
Skúvoy	17,875	367,531	442
Hvalba	103,625	4,898,189	5,596
Tvøroyri	255,250	11,827,823	13,234
Famjin	23,125	735,062	818
Hov	22,875	768,474	877
Porkeri	51,000	2,231,917	2,485
Vágur	218,375	9,388,753	10,462
Sumba	81,375	2,532,625	2,794
Tórshavn	1,092,500	131,342,299	143,236
	4,139,875	325,986,840	357,125

12. Installments, interest, remaining principal (1,000 DKK):

	New loan	Payments	Interest	Balance pr. 31/12-08	Balance pr. 31/12-07
Loan	0	18,018	5,598	105,797	123,815

13. Electricity assets DKK 18,667,142

This is debt owed to customers who have used less electricity than they have paid for, and therefore they have a credit with SEV.

14. Pension liabilities

In 2008, the Company paid a pension to four former employees and, in addition, is liable for the pensions of two employees who are still working for the Company. This liability is not listed in the annual accounts.

15. Mortgages

The fixed assets of the Company are mortgaged.

DISTRIBUTION GRID

	Fugloy	Svínoy	Viðoy	Borðoy	Kunoy	Kallsoy	Eysturoy	Streymoy	Vágoy	Mykines	Nólsoy	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suðuroy	Total
6kV Transformer	1			2														3
10kV Transformer		1	6	32	3	7		61			1			16			48	175
20kV Transformer				2			108	73	28				1					212
60kV Transformer				1			2	4										7
Total areas	1	1	6	37	3	7	110	138	28	0	1	0	1	16	0	0	48	397
6kV Transformer	2			4														6
10kV Transformer		1	6	38	3	7		71			1			18			56	201
20kV Transformer				4			125	96	32				1	1			3	262
60kV Transformer				1			3	8										12
Total areas	2	1	6	47	3	7	128	175	32	0	1	0	1	19	0	0	59	481
0,4kV cable	13	19	76	479	28	29	1544	2262	500	7	38		10	211	11		800	6027
60kV line				1.04			39	42.4										82.44 km
60kV cable				1.8			13.7	14.3										29.8 km
20kV line							78	64.3	13.1								12	154.3 km
20kV cable				8.2			135.3	134.1	33.6				0.6	0.7			4.6	317.1 km
10kV line		3.4	17.3	13.6	11.8	14.8		9.9						17.3			58.6	146.7 km
10kV cable		0.53	2.5	32.9	0.15	7.2		64.8			1.5			23.8			53.2	186.58 km
6kV line	2.25			7.2														9.45 km
6kV cable	0.087			0.066														0.153 km
0,4kV line				0.76			1.2	0.9									1.4	4.26 km*
0,4kV cable	1.06	3.63	11.3	56.8	2.64	3	190.2	272	55.1	0.551	3.4	0.373	0.865	25.9	0.881		89.3	717 km
Wireless kWh meter			3	63			927	1312	638	1	169			7	51	2	14	3187
Non-wireless kWh meter	61	75	264	2459	82	122	4395	9156	927	52	5	2	43	804	3	2	2877	21329
kWh meters, total pr area	61	75	267	2522	82	122	5322	10468	1565	53	174	2	43	811	54	4	2891	24516

*All of Suðuroy not incl. (e.g. lines in Tvøroyri)

SEV SUPPORTS INTERESTING SURVEY OF TIDAL FLOW ENERGY

On 1 March, researchers at the Science Department of the University of the Faroe Islands began an interesting project to determine which areas in the Faroes were the most promising sites for the production of electricity from tidal action.

At its last meeting in January, the management board of SEV approved a grant of 250,000 DKK to support the project organized by the University, which is entitled: "Mapping the tidal system energy potential in the Faroe Islands."

The project is intended, inter alia, to determine which areas in the Faroes are the most promising sites for the production of electricity from tidal action, and how electricity production might impact these "tapped" sites and the surrounding area.

The tidal flow between the islands in many locations is quite fast and there has been much discussion in the past about producing electricity from these renewable energy sources.

SOLELY A FAROESE STUDY

Knud Simonsen, an oceanographer and lecturer at the Science Department of the University of the Faroe Islands, is responsible for the project.

Earlier, he had been involved with the study that was conducted in Vestmanna Sound in connection with a proposal to build a power station there in the late 1980s.

However, the technology available at the time was deemed insufficient to make such an operation commercially feasible.

Since that time there have been tremendous strides abroad in the relevant technology and now in several countries there are concrete plans to build tidal stream power plants.

SEVERAL PRELIMINARY STUDIES HAVE BEEN COMPETED

The Science Department has worked for several years on the development of computer simulations of the tidal flow and the Department has completed measurements of the tidal flow.

Now they are engaged in a simulation project using a precise tidal flow pattern plus the tidal flow measurements taken at several of the main sounds in order to study how tidal flow energy over the continental shelf can be utilized.

In addition to Knud Simonsen, Bárður Niclasen is participating in the study. He is working as a designated project researcher at the University, where he has lately been working on wave modulation.

Hákun Djurhuus, managing director of SEV, (right) wishes Knud Simonsen the best of luck with the project.
Hans Pauli Joensen, department chair of the University Science Department (centre) and Bárður Niclasen, researcher.



NO PROJECT WITHOUT FINANCIAL SUPPORT

In addition to funding from SEV, Knud Simonsen has been granted a 900,000 DKK award from the Faroese Research Council toward the costs of the project, which in total will cost 2.5 million DKK.

The rest of the cost will be borne by the University, which will invest in the equipment needed and will cover wages.

"It goes without saying that without the grants from SEV and the Research Council it would have been impossible to undertake such a project," notes Knud Simonsen, who also emphasized that the funding also helps to develop relevant competencies in the Faroes.

BENEFICIAL TO THE MARICULTURE INDUSTRY AS WELL

The study will also be of benefit to the mariculture and coastal fishing industries, Simonsen observed.

"By learning more about the tidal drift, it will be easier for us to determine where in the Faroes are the best conditions for the raising of farmed cod and salmon, which equipment is most

suitable for use in such farming, and, if fish disease should return, how the disease might spread by the tidal drift," said Simonsen.

Moreover, the project will also mean that a detailed tidal chart could be made available in the future that will benefit the coastal fishing industry, among others.

SEV EAGERLY AWAITS

Hákun Djurhuus, managing director of SEV, notes that the electricity utility decided to support this project because it was prudent for the company to investigate every potential renewable energy resource.

"We feel that this is a development option with apparently great potential and we await with eagerness the results of this most interesting project, which will no doubt shed invaluable light on the potential of this renewable energy resource," says the managing director of SEV.

The project will take two years and is expected to be completed on 1 March 2011.



Jákup Suni Lauritsen Steinbjørn O. Jacobsen Páll á Reynatúgvu Kári E. Jacobsen



Marin Katrína Frýdal Pauli Petersen Niels Olaf Eyvindsson



John P. Danielsen, finance manager, and Ingeborg Godtfred, corporate secretary, during the drawing that would determine who would represent the Northern Islands on the Board for the next four years.

MANAGEMENT CHANGES AT SEV

On 1 January 2009, the new corporate by-laws entered into effect for SEV. In the main, the by-laws reflected the shift from being a co-operative association to operating as a limited liability corporation.

This shift in management means that a general meeting and a board of directors replace the representative assembly and the management board, which were previously in place.

According to the by-laws, only one representative from each municipality has the right to vote at the general meeting. The representative exercises one vote for each 1000 inhabitants in a municipality. At the general meeting, the annual report and the annual accounts for the previous year are approved. An extra general meeting is held in November to approve the budget for the following year.

ELECTION OF THE BOARD

The general meeting to elect a new board for the following four years shall be held no later than two months after the municipal council elections. The first meeting under the by-laws was held on 6 February 2009.

All member municipalities, with the exception of Fámjin, were at the meeting, i.e. 29 of the 30 municipalities.

The Board is comprised of a representative from each of the seven administrative areas of the country: Northern Islands (6

municipalities), Eysturoy (6), Northern Streymoy/Sundalagið (3), Vágoy (2), Southern Streymoy (1), Sandoy (5), and Suðuroy (7). The municipalities in each administrative area jointly select one board member and a deputy board member.

HOTLY-CONTESTED ELECTIONS AND A TOSS-UP

At the general meeting there were several hotly contested elections – Sandoy, Northern Streymoy/Sundalagið, Eysturoy and the Northern Islands. In one instance (the Northern Islands), it became necessary to hold a drawing to determine the board member.

The following individuals were elected: Páll á Reynatúgvu, Chairman, Sandoy; Jákup Suni Lauritsen, Vice Chairman, Sørvgur; Marin Katrína Frýdal, Hoyvík; Steinbjørn O. Jacobsen, Klaksvík; Kári E. Jacobsen, Glyvrrar; Niels Olaf Eyvindsson, Nes-Hvalba, and Pauli Petersen, Vestmanna.

Deputy board members are: Bødvar Poulsen, Dali; Erik Davidsen, Sørvgur; Heðin Mortensen, Tórshavn; Elsebeth G. Hansen and Jákup M. Kjeld, Toftir; Niclas Hentze, Sumba, and Martin Petersen, Kvívík.



SOME 3,200 NEW DIGITAL ELECTRICITY METERS DEPLOYED

Deployment around the country of the new digital electricity meters is going well.

Since undertaking this work in 2006, over 3,200 new electricity meters have been set up and connected to the wireless meter reading system of SEV, for the most part in Streymoy, Eysturoy and on Vágoy.

The first village that was connected to the system was Skúvoy. Subsequently, the following villages have been added: Sørvgur, Vatnsoyrrar, Kvívík, Nólsoy, Hamarin á Argjum, Kirkjubøur, Velbastaður, Kaldbak, Oyri, Oyrarbakki, Norðskáli, Svínáir, Ljósa, Tjørnuvík and Eiði.

Moreover, all new housing and commercial developments throughout the country are immediately linked to the wireless meter reading system.

Thus, it is now possible for SEV to wirelessly monitor the electricity meters in all these locations and thereby obtain invaluable information regarding the electricity grid and the quality of the voltage being delivered to our customers.

24,500 ELECTRICITY METERS

There are around 24,500 electricity meters in the Faroes, and all of these are intended to be replaced and new meters installed

that will be able to communicate with the wireless meter reading system.

As each wireless meter is installed, the number of people who previously knocked on each and every door in the Faroes and read the electricity meters of SEV gets smaller and smaller.

The Installation Department of SEV is determined to install some 2,500 new electricity meters per year, thus reaching the goal of total coverage by 2018.

As soon as the new electricity meter is installed, a customer can begin to monitor daily their electricity usage via the SEV website.

On our website it is still possible for our customers to calculate their energy usage, based on the annual accounting done at the beginning of each year, and thereby manage their own energy consumption.

By entering in the figures from the electricity meter on our website, one can see if you owe money to SEV or if your account balance is positive.

SMALLEST SCHOOL WINS ANNUAL SEV COMPETITION ON OIL CONSUMPTION

Velbastað School participated for the first time in the competition and won a convincing and well-deserved victory, ahead of 13 other schools.

Nine students in the 7th grade at Velbastað School won the annual competition of SEV on energy use.

At a gathering in the Nordic House on 1 April, the class was chosen the winner of the annual competition.

This was the first time that Velbastað School took part in the competition and moreover was the smallest school participating this time.

Nevertheless, the children from Velbastað won a convincing and well-deserved victory, ahead of 13 other classes from the bigger schools around the country.



Both teachers and students in the winning class confessed that the competition demanded so much effort that they more than once thought about giving up.

This was especially the case in connection with the creative aspect of the competition, which required the competitors to design an advertising campaign on electricity savings in which the intended audience were young people, 13–16 years of age.

“But when both of the girls in the class determined that under no circumstances would the class give up, this gave the others new inspiration and energy to forge ahead so that they were nevertheless able to persevere and succeed in the competition, and we all are overjoyed today,” said one of the proud and happy teachers, Búi Dahl, after receiving the first prize.

The first prize was a weekend in Reykjavík for the entire class onboard Atlantic Airways, which supported the competition.

SEV plans on using the winning advertisement of Velbastað School in a forthcoming advertising campaign directed toward young people, 13–16 years of age. The purpose of the campaign is to encourage them to reduce the use of electricity at both school and home.

The photo that graces the cover of this year’s Annual Report is of the Velbastað winners. Back row, from the left: Egi Kárason Djurhuus, Ólavur T. Patursson, Rannvá Egholm, Teitur Lassen and Dánjal Petur Jensen. Front row, from the left: Saranja Hammer, teacher; Búi Dahl, teacher, Tinna í Gardi Patursson and Ári Hansen. Tóki Hjartarson, Niclas Brimnes and Joan Neshamar, senior teacher, are absent.

SEV SUPPORTS TACC

In April 2008, former Vice President and presidential candidate in the USA and Nobel Laureate, the Honorable Mr. Al Gore, visited the Faroe Islands

His visit was in connection with the international conference on climate change in the Atlantic Ocean (Transatlantic Climate Change Conference), organized by the House of Industry and Bitland. It was held at the Nordic House, 7–8 April 2008.

This was the first conference of its type held in the Faroes.

Al Gore was the keynote speaker at the conference, which featured no less than 31 other speakers from the Faroes and other Nordic countries, the United Kingdom and the USA.

The electricity utility, SEV, was among the companies that financially supported the event and thus was able to present its “green profile” and vision at this most important international forum.



Hákon Djurhuus, managing director of SEV, together with former Vice President Al Gore in the Nordic House.

SEV PRESENTS ITS 10-YEAR DEVELOPMENT PLAN TO GOVERNMENT OFFICIALS

In January 2009, at a meeting with the prime minister, ministers, and members of Parliament, SEV management presented SEV's 10-year development plan, which the representative board unanimously adopted in November 2008.

Also present were senior officials from the office of the prime minister, and representatives from the Faroese Earth

and Energy Directorate and the Postal and Telecom Surveillance Authority. SEV also discussed the permission from the Environmental Protection Board to undertake the Eiði 2 South project.

This project is part of the 10-year development plan, which also includes hydropower from the Víkar Reservoir, increased wind power, and investment in

thermal generation on the mainland and on Suðuroy, plus other improvements. The total cost of the expansion is estimated to be 1.9 billion DKK, of which one billion is to be financed.

GOAL OF 63% SUSTAINABLE ENERGY BY 2018

The Faroese energy policy stipulates that

at least 20% of the energy production on land by 2015 shall come from sustainable resources. Consistent with this vision, the management board of SEV several years ago mandated that the electricity production from sustainable resources should be increased from 45% to 55% by 2015.

This forward-looking goal is reflected in

the 10-year plan, which mandates that 63% of SEV electricity production should be derived from green energy by 2018.

Questions about a possible electricity cable from Iceland were addressed at the meeting. A feasibility study is being conducted and representatives from the Faroese Earth and Energy Directorate and SEV, among others, noted that more

studies should be undertaken before the concept is presented for political review. There has been no political decision taken, however, on whether to continue with such studies.

Some 40 participants attended the meeting where SEV presented the 10-year plan to government officials.

SEV TO BEGIN EIÐI 2 SOUTH

SEV is engaged in final preparations before undertaking the Eiði 2 hydropower expansion, which includes the lengthening of the water-catchment tunnel from Norðskála south to Blásenda.

In January 2009, the Environmental Protection Board conditionally approved the 10 May 2006 decision of the Nature Conservancy Board of Eysturoy district.

In January 2008, SEV began construction of the northern part of Eiði 2, which included boring a water-catchment tunnel between Svínáir and Norðskála. This work is expected to be completed in November. The work to lengthen the water-catchment tunnel along with the shafts, stream intakes and distribution systems from Skálá and south to Blásenda is expected to take three years.

APPROVAL TOOK FIVE YEARS

Five years have come and gone since SEV sought permission to undertake the Eiði 2 project from the environmental protection and conservation authorities. One reason it took so long to make a determination was the decision by the Environmental Protection Board in 2006 to order an environmental impact assessment of the project.

The environmental impact assessment was completed and forwarded to the Board in April of last year. According to the Board, the assessment provided no basis upon which to reject the application.

"Even though the impact on the natural environment is great, hydropower is an important 'green' energy resource," noted the Environmental Protection Board in summarizing its reasoning to approve the application.

LESS OIL AND CO₂

The Eiði 2 project will increase the hydroelectric production of SEV by a total of 16 million kWh per year. This is equal to some 6.2% of total production. The Eiði 2 project will also mean that the oil usage of SEV will be reduced by around 3,600 tonnes per year, with a reduction in CO₂ emissions of some 10,000 tonnes.

Thus, the Eiði 2 project is a very important part of the goal of SEV to increase production from sustainable resources to 55% in 2015 from 45% today.

TEN-YEAR PLAN SETS OUT THE COURSE

To advance its "green" footprint, SEV drafted a 10-year development plan that sets the course toward this goal and ensures that the course is maintained.

While hydropower plays a major role, SEV is also dedicated



to expanding wind energy production as well. The electricity production legislation that entered into effect on 1 January 2009 contains specific provisions regarding the tendering of bids to supply wind energy electricity generation, thus opening up competition in this area. SEV has elected to organize itself to be able to engage in such bidding on an equal footing with other providers of wind energy electricity generation.

STREAMS NEVER RUN DRY

One of the conditions stipulated by the Environmental Protection Board in granting permission for the Eiði 2 South project was that a sufficient quantity of water was always present in the streams in the Norðskála region. The condition was that water should not be taken from the streams if the flow is less than 4 liters per second.

Pursuant to Board recommendations, SEV has the responsibility

- to study the animal and plant life occurring in specific sampling areas 5, 10 and 15 years after the hydropower system is commissioned,
- to regularly study the bird life in the area,
- to ensure that before excavation begins in an area that the sod is stripped away, stored and then laid back when the work is completed, and

- to ensure that a study of the fjord/sound is repeated every other year for the next decade.

COST OF 250 MILLION KRÓNUR

The northern section of the Eiði 2 project, which is in progress now, will cost around 67 million DKK, and the southern part is estimated to cost 155 million DKK. An additional turbine shall be installed at the Eiði power plant, which is expected to cost 28 million DKK. Thus, the total cost will be around 250 million DKK.

While SEV itself has financed the Eiði 2 north project, it will be necessary to loan XX million DKK from various financial institutions to finance the remainder of the work. The project will be let out to tender as soon as the project specification work is completed, probably in the fall.

GREEN ACCOUNTING

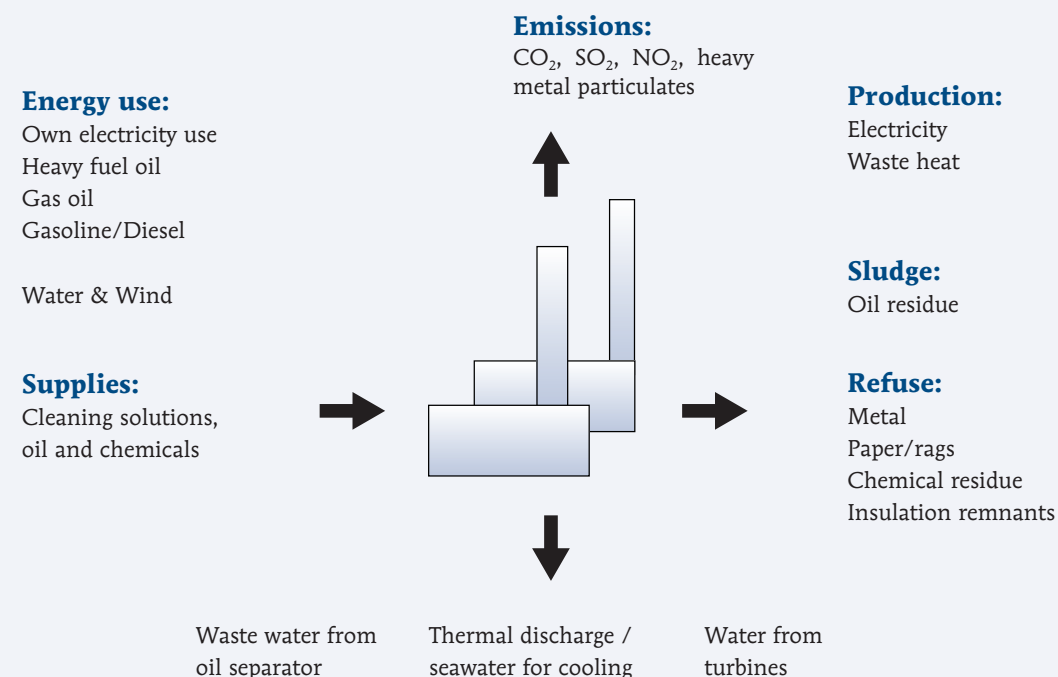
Companies in the Faroes are not required to undertake “green” accounting. SEV on its own initiative undertook to conduct a green accounting for all the activities of the company. This accounting is designed to provide insight into the environmental impact of SEV operations. The goal is to make it possible for all interested parties to follow the outcomes of environmental initiatives within SEV and also to encourage us to place greater emphasis on environmental initiatives thereby enhancing our corporate goodwill in the community. Such an accounting will also enable SEV to show that we take seriously our wish to advance toward sustainability in the beneficial use of our natural resources.

The diagram below depicts the main impact SEV operations have on the environment. Thus, the generation of electricity results in:

Ordinary electricity generation is carried out by 13 power stations, which produce electricity based on demand. Of these 13 production facilities, three are large thermal power plants located at Strond, Sund and Vágur. SEV has six hydroelectric plants at Strond, Eiði, Fossá, Mýru, Heyga, and one at Botni. In addition, there are five small power stations that produce electricity for Fugloy, Mykines, Koltur, Skúvoy and Stóra Dímun.

In addition, SEV operates four windmills on Neshagi on Eysturoy.

One of the greatest challenges facing the environment is the burning of fossil fuels. The diagram below shows the level of discharge of CO₂ resulting from SEV operations.



THE NATURAL ENVIRONMENT

According to the by-laws of SEV, all electricity generation shall be conducted with due consideration for the natural environment.

On 17 December 2008, SEV officially published its HSE [Health, Safety, and Environment] policy, which is available on the SEV website (in Faroese) (<http://www.sev.fo>), and hangs prominently in all work areas.

Set forth below are extracts of the HSE policy related to the environment.

- We shall protect the environment as much as possible. We shall keep our work areas clean and orderly and clean up after ourselves.
- We shall choose the best available technology, taking into consideration both economic and environmental factors. All resources and materials shall be used in the best manner possible.
- We shall organize our work with due regard for health, safety and environmental factors in order to continually improve our

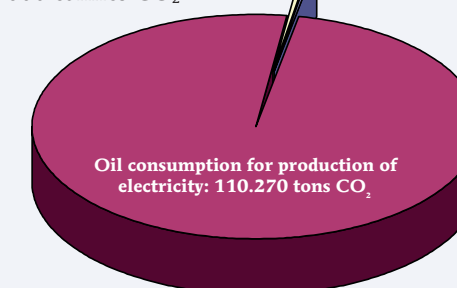
outcomes in this area. Our corporate goals and project criteria should steadily be updated to take advantage of developments in this area.

- We should maintain an open collaboration with the relevant governmental authorities to continually advance development in the area of health, safety and the environment.
- We shall take steps to ensure that all laws and regulations related to health, safety and the environment are strictly complied with and shall work toward upholding the international and national goals in this area.
- When choosing a supplier, contractor or business partner, we shall evaluate and take into consideration their respective attitudes and policies regarding health, safety and the environment.
- We will encourage all employees to actively participate in health, safety and environmental initiatives.

CO₂ emissions for 2008

Oil consumption for heating of buildings and running of engines:
600 tonnes CO₂

Oil consumption for transport:
220 tonnes CO₂



Total emissions: 111,090 tonnes CO₂
Total production: 275,829 MWh
CO₂ per kWh: 403 g/kWh

ENVIRONMENTAL ASSESSMENT APPROVAL:

Entered into force

Environmental Assessment Approval for Sund Power Plant
11 March 2004

Environmental Assessment Approval for SEV windmill on Neshagi
14 May 2004

SEV has petitioned for approval of the environmental assessment of the power plant in Vágur and for renewal of the approval for the Sund power station.

FOCUS ON REDUCING ENERGY CONSUMPTION AND CO₂ EMISSIONS

In January 2009, a strategy group of the Faroese Employers Association, in which SEV, among others, participated, published a comprehensive report and a series of recommendations on how energy consumption and thus CO₂ emissions could be reduced in the Faroes.

It is extremely important that the Faroese business community and society overall reduce their levels of energy consumption and the resultant CO₂ emissions.

So reports a strategy group created by the Faroese Employers Association to address energy and environmental issues after the international climate change conference, which the House of Industry and Bitland had organized in the Faroes in the spring of last year.

In January 2009, the group submitted to the Faroese Government its report and recommendations on how energy consumption and thus CO₂ emissions in the Faroes could be reduced so that the Faroes by 2015 and beyond could be among the leading nations addressing this issue.

SIMULTANEOUS PROGRESS IN THREE AREAS

In the main, the report looked at the significance of energy consumption in various business sectors and how energy consumption and CO₂ discharge could be reduced in a manner that would enable the business community to continue to provide the foundation for not only a high, but also a secure standard of living in the Faroes.

According to the report, three goals should be undertaken simultaneously to achieve the desired result.

In the first instance, Faroese companies should put into effect all reasonable energy saving measures.

Secondly, Faroese governmental authorities should take all the steps necessary to meet the obligations that will be stipulated in the forthcoming international convention to be approved in Copenhagen in December 2009. In this regard, all legislative and regulatory obstacles to effective energy savings should be eliminated immediately.

Faroese society uses way too much energy for heating. Therefore, the third goal that was recommended was that a nationwide building regulation be promulgated with updated requirements for the insulation of buildings. In this regard, a regulation should be stipulated requiring the evaluation of a building's energy efficiency so that relevant investment could be made to reduce the energy needs of an individual building.

CREATE AN ENERGY COUNCIL

All companies could save on energy. However, there are a variety of ways by which to accomplish this goal, and energy savings will vary from company to company.

The strategy group of the Faroese Employers Association recommended that an Energy Council be created with representatives with specialized knowledge in the area from both government and industry that would be mandated to encourage energy savings by all, government, business and private households alike.

In addition to serving as an advisory to the government, the Energy Council should also be mandated to generate recommendations on what policy measures should be implemented to reduce energy costs and CO₂ emissions.

The following individuals served on the strategy group that developed the report and recommendations: Bergur Poulsen, Havsbrún; Magni Arge, Atlantic Airways; Johnny í Grótinum, Føroya Bank; Viberg Sørensen, Føroya Reidarafelag; Joel undir Leitinum, Samskip; Hákun Djurhuus, SEV; Árni Jakobsen, SMJ, and Marita Rasmussen, House of Industry. Steinbjørn í Dali and Vilhjálmur Nielsen, both with Bitland, served as secretaries for the group.

COMPREHENSIVE MODERNIZATION CARRIED OUT AT SUND POWER PLANT

– which will result in considerably reduced outages in the future because of turbine generator failure.

Comprehensive modernization of the Sund power plant was carried out last year.

The old electrical components of turbine generators M4 and M5 were replaced. Mechanical improvements were also undertaken.

In the main, the low voltage and system control board was replaced as well as the frequency and voltage regulators.

These improvements provided the foundation for a new control system whereby all electricity generation and distribution can be controlled by one comprehensive system.

The Danish contractor, BWSC [Burmeister & Wain Scandinavian Contractor A/S], supervised the repair of the turbines that SEV had purchased from the company in 1983 and 1987, respectively.

FEWER OUTAGES IN THE FUTURE

Considerable effort has been expended to make the power generation control system as secure as possible. In this regard, redundancy is built into many of the components and system hardware.

With the completion of this work, hopefully in the future there will be considerably fewer electricity outages as a result of turbine generator failure.

Both MAK generators are now also linked into the same control system, such that the Sund power station is now controlled by just one comprehensive system.



Over the last few years, an automatization of the measurement of fuel tank levels and the fuel pump control system has been carried out. This work SEV itself took responsibility for, and this system is also linked into the new control system.

The intent is to also update the oldest turbine at the power plant, which was commissioned in 1979. It is anticipated that this work will be undertaken later this year.

SUSTAINABLE ENERGY RESOURCES ARE THE KEY TO A SECURE FUTURE

There can be little doubt that humanity and our mother earth are in grave danger from menacing, man-made climate change.

The industrial revolution inaugurated many good things, but the flip side, which threatens all of humanity, is the unrestrained use of the planet's coal and oil reserves. The burning of these fossil fuels releases into the atmosphere greenhouse gases that act as a layer of insulation around the earth, which diminishes the natural release of heat energy into space.

Therefore, it is absolutely critical that as soon as possible we embrace other sources of energy production, shifting from fossil fuels to sustainable energy resources. These renewable energy sources ultimately are derived from the greatest energy source, the sun. The goal is to harness the energy of the sun, the rain, the wind, the waves, and the tides.

EUROPE LEADS THE WAY

Europe as a whole has worked diligently on issues of renewable energy and climate change, and this part of the world is leading the way in discovering viable solutions for these problems. Although global energy issues are complex, this is not the time nor the place to delve into the differences between poor countries and rich, population growth, globalization, economic issues, competitiveness, etc. We simply must find a solution. As parliament member, Magni Laksáfoss, often says: "We must get rid of oil, before it gets rid of us." And the key to a secure future is renewable energy.

Europe decided several years ago a 20/20/20/ strategy by 2020, meaning that the goal of Europe as a whole was that by 2020 energy efficiency would increase by 20%, that emissions would be reduced by 20%, and that 20% of energy consumption would come from renewable sources.

THE FAROES DOES IT PART

Work on these complex questions is also taking place in the Faroes. In 2006, an energy policy was adopted that holds that by 2015, 20% of the energy used in the country should be derived from sustainable sources, and the energy consumed by the fishing fleet should be reduced by 15% per fishing effort.

SEV has responded to this energy policy, and as early as 2005 the management adopted goals in this area. Our goal was that by 2015, 55% of our energy production should come from renewable sources.

The enlargement of our Eiði hydropower works is underway. The northern part of the Eiði 2 project is nearing completion, while the southern phase, which was just recently approved by the Environmental Protection Board, will be put out to bid later this year. Moreover, the project specification work for the third turbine at the Eiði power plant has begun.

Recently, SEV consultants have updated a comprehensive overview of all the potential hydropower areas in the Faroes.

Daily management of SEV. (from left) Finn Jakobsen, Technical Manager; Hákun Djurhuus, Managing Director; John P. Danielsen, Finance Director.



SEV believes that the most interesting area for development is Víkar Reservoir. This area has been incorporated into the 10-year development plan.

THE WIND WINDS ITSELF UP

The new Electricity Production Act stipulates that with regard to wind energy, the Electricity Production Oversight Board, in collaboration with SEV, shall offer for tender the development of wind energy resources. Preparatory meetings have been held and the Board has stated that they anticipate the first tender to be in August this year. We have made preparations in this regard. The representative assembly gave the board of directors the authority to establish a subsidiary wind energy company, if that should prove necessary. Preparations to set up several windmills on Neshagi are also underway.

SEV has followed with great interest the work of the Risø research institute, which is intended to shed light on how to best integrate wind energy production into the grid. Just before the first of the year, a provisional report was released, a report to which SEV provided comments, and we look forward to receiving the final report.

Moreover, SEV has initiated a study of a water pump system that is powered by a windmill. The technology and the economics of the system need to be studied and an overview shall be made of all the possibilities in the Faroes.

SEV KEEPS PACE

Given the breakthroughs taking place abroad in electric vehicles, SEV must take the necessary steps to ensure that more wind energy production can be easily linked into the grid.

Many experiments have been conducted to tap the energy potential of waves. For several years now, SEV has participated in a P/F Sewave development project along with foreign turbine providers. Forging a workable collaboration has taken time and delayed the project. The parties recently reached an agreement that the turbine provider would withdraw from the project and turn over to SEV its shares of the company. Another turbine provider has agreed to participate and the final specification work of the trial shall be initiated as soon as funding is in place. SEV is open to contributing its share to the project, but additional funding must be arranged. If the project becomes operational, SEV is inclined to be a minority investor, while the majority should come from the other shareholders and/or government grants.

As noted elsewhere, a study is underway to explore the potential of tidal energy around the Faroes. It is anticipated that the result of this investigation will be available in two years. The advantage of tidal action compared to wind or wave energy is that with tidal action there is a regular shift in energy intensity, which is much easier to predict than before.

SEV SUPPORTS OVERSEAS FAROESE RESEARCHER

Now employed as a lecturer at Newcastle University, he intends to continue with his research in energy efficient and innovative electric motors.

He is 31 years old, married with two daughters. His name is Bogi Bech Jensen, son of Maiken and Árni Bech Jensen of Tórshavn. In 1994, he became a seaman. In 2000, he graduated as a marine engineer and continued sailing for another two years.

He later taught for two years at the Centre for Maritime Studies and Engineering and studied part-time at the University of the Faroe Islands, before he and his family packed their bags and moved to England in 2004. In 2006, he graduated with a Master of Science in electrical power engineering.

PHD IN PROGRESS

For two and a half years, Jensen has been engaged in research. In September 2006, he began to work on his PhD in energy-efficient asynchronous motors, also called induction motors.

Induction motors are the life blood of most industries. Most windmills use induction motors to generate electricity. Asynchronous induction motors are thus one of the most important electric motors.

According to Jensen, the difficulty with small induction motors is that their efficiency is not particularly high, compared to electric motors of the same size with permanent magnets. The advantage of an induction motor, however, is that it is extremely durable, inexpensive to produce and does not require a power electronic converter to operate.

“My PhD project investigates whether it is possible to reduce the magnetising current by employing a different winding structure in the stator and thus increasing the efficiency,” says Jensen.

GOOD RESULT

According to Jensen, the result so far looks promising. “It is not difficult to increase the efficiency, but the production costs of the motor increase correspondingly. But if the cost is to be competitive with ordinary induction motors, which have not changed much since the 1970s–1980s, then the challenge is much greater,” says Jensen, who continues:

“I have developed a motor with a greater efficiency, but I am working now to develop a production process that is equal in cost to current production methods.”

Jensen believes that his research will not cause the industry to alter the future production of induction motors. “But my research is a step in the right direction in the production of energy saving electrical equipment,” he emphasizes.

GOOD SUPPORT FROM THE FAROES

It can be very expensive to undertake a PhD in engineering, because it is not unusual for a researcher to build one, two or even several prototypes as part of the on-going research.

“The Research Council and SEV have supported my PhD project and the support has been instrumental in making it possible for me to undertake the project,” states Jensen.

“I built one prototype last year and will build another in the Spring, where a more desirable production process will be used. The goal is to conclude the research in September this year and to submit my PhD dissertation at the end of the year or early next year.”

SEV is providing 180,000 DKK in support of Jensen’s project.

Bogi Bech Jensen – from ship’s deck to lecturer at Newcastle University



SEVERAL OTHER PROJECTS

Jensen has been participating in other research projects. From September 2007 to September 2008, he worked on developing inductors for Höganäs AB in Sweden, which is the world’s largest producer of iron powder.

Since September 2008, he has been working on developing an electric motor for future electric vehicles for one the world’s largest car manufacturers, which cannot be named for reasons of “commercial sensitivity.”

“I have also participated in several small consultancy projects, and I am working at present on a project for Siemens, investigating the iron losses in the end-region of an 800 MW (800,000 kW) synchronous generator,” says Jensen.



ELECTRICITY PRODUCTION GROWTH

Production from thermal power plants sets a record.

In 2008, overall electricity production increased by 2.4%, compared to 2007. In the main regions (Northern Islands, Eysturoy, Streymoy, Vágoy and Sandoy), production increased by 3.3%, while Suðuroy experienced a fall in production of 6.0%.

HYDRO AND WIND POWER GENERATION FALLS

After a record year in 2007, with an electricity production from hydroelectric power stations of 104.5 GWh, electricity production declined in 2008 to average levels with a production of 95.9 GWh. This corresponds to a decline of 8.2%, compared to 2007 production levels. Total production from wind energy fell by 17.7%, compared to 2007. This decline stems from a bad wind year, which was worse in 2008 than in 2007.

SEV's windmill on Neshagi produced around 14% less electricity than in 2007. The wind power generation SEV purchased from Røkt fell by 22%. The significant reduction in imported power was the result of damage to the windmills during the storms of February 2008.

THERMAL POWER PLANTS SET A RECORD

As a consequence of the reduced production from both hydro and wind energy, SEV experienced record electricity production from its thermal power stations in 2008. The Sund power plant

produced around 52% of the total SEV electricity production in 2008, compared to 45% in 2007. BWSC [Burmeister & Wain Scandinavian Contractor A/S] completed their work at the Sund power station to update the M4 turbine before Christmas 2008.

In December 2008, the heat transmission system from the Sund station to Fjarhitafelagið [the waste heat transmission company] went into operation. Currently, the work related to implementing ISO 14001 standards at the Sund power station has advanced to the stage that certification is anticipated in early 2009.

OIL TANKS AND TANK FARM

In 2008, the 800 m3 GO and the 4,000 m3 HFO oil tanks underwent a total renovation, which, inter alia, included new tank bottoms. Apart from the old insulation on the tank wall of the 4,000 m3 HFO tank (which will be replaced in the first half of 2009), both tanks can today be considered totally new tanks.

The old tank farm on Strond was totally renovated in 2008. New tank bottoms were installed and walls were also replaced. At the same time, a new oil separator was installed in the waste oil drainpipe at the tank farm.

On Koltur, three new oil tanks with a storage capacity of 9,000 litres were commissioned in 2008.

POWER OUTAGES – 27 TIMES LAST YEAR

By way of comparison, there were 197 blackouts in 1988 as a result of breaks in the high voltage grid!

Although it is impossible to avoid a breakdown that might lead to a blackout, it is nonetheless true that such happenings around the country are occurring much less frequently over the past 20 years.

According to calculations made by the operations department of SEV, breakdowns in the high voltage grid resulted in blackouts occurring 27 times in various locations around the country.

By comparison, in 1988 there were 197 outages!

It should be noted, however, that the infamous Christmas hurricane that swept through that year and caused so much damage around the country no doubt played a major role in these recorded outages.

Since 1988, the number of outages has steadily declined, because, among other factors, SEV has focused on replacing aerial cables with underground cables.

In 1990, there were 119 outages, and since 2000, when there were a total of 91 blackouts, the number of outages has averaged around 37.

Of the 27 grid outages last year, 8 occurred in February, 4 in November, and 3 in December. In April, May, July, and October

there were 2 outages each month and in June and September there was 1 outage per month. In March and August there were no outages recorded.

Records maintained by the operations department show that most outages, 29.6%, were the result of breaks in the aerial cables. Breakdowns at the power station were responsible for 22.2% of the outages and in third place were ruptures in the cables at 18.5%.

NEW HIGH-VOLTAGE SWITCHGEAR INSTALLATION AT THE STROND POWER PLANT

The old Reyrolle circuit breaker system at the Strond power plant was replaced early in the Spring. These breakers served well. The first breakers went on-line in 1949. The new switchgear system is from ABB and incorporates the latest technology in relay protection.

NEW HIGH-VOLTAGE SWITCHGEAR INSTALLATION AT MÝRA POWER PLANT

The old switchgear dates back to when the Mýra power plant was first commissioned. That was in 1961 and now the time has come to replace this equipment. The new switchgear apparatus is from ABB and is the same type of switchgear used at Strond.



ELECTRICITY PRODUCTION ACT

The Electricity Production Act was ratified on 1 June 2007 and entered into effect on 7 June 2007. In the main, the Act made SEV subject to greater regulatory oversight.

The 5 October 1963 concession granted SEV the right to develop hydroelectric power until 5 October 2013. The concession stipulated, inter alia, production obligations and oversight. In this regard, there is little difference between the concession and the Electricity Production Act.

SEVERAL PRODUCERS OF ELECTRICITY

The Act endorses a gradual increase in the number of electricity providers. The Act did not directly intimate that SEV should split itself apart into several utility companies, or become a network company and one or more production companies. On the other hand, the Act stipulates that SEV shall distinguish between its network activities and its production activities in its annual accounts, beginning on 1 January 2009. Because SEV already maintains highly detailed accounts, this provision does not require any major adjustments in accounting procedures and the 2008 accounts already comply with this directive. It may be necessary to make certain adjustments pursuant to discussions with the Postal and Telecommunications Surveillance Authority (Fjarskiftiseftirlitið).

In the public comments to the Act, the Ministry of Industry noted that the Act declares, inter alia,

- that the national government assumes comprehensive responsibility over electricity generation,

- that there should be several producers of electricity, first and foremost, using wind energy,
- that energy production from sustainable resources, such as hydro, wind and others be increased,
- that the price of electricity is not greater than necessary, given due regard for production security, the environment and other services and obligations that the company has towards Faroese society as a whole.

CURRENT CIRCUMSTANCES OF SEV

Moreover, the Ministry of Industry set forth the current circumstances of SEV: "The changes set forth in the Act are based on the recognition that SEV is deemed to be a public utility and that the municipalities are the owners of SEV, and that the intent of the Act is to encourage collaboration between the national and municipal authorities." SEV also adopts this perspective and wishes to emphasize that the best result is gained through collaboration. SEV also believes that a comprehensive energy policy is the responsibility of the national authorities, just as the purpose of the Act indicates.

Upon the promulgation on 30 September 2008 of Directive No. 84 on the division of ministerial responsibility, the Minister of Trade and Industry took on administrative responsibility of the Electricity Production Act, with the exception of § 16, which

devolved to the Interior Minister. The Ministry of Industry delegated administrative authority to the Fjarskiftiseftirlitið. Pursuant to § 17, Clause 2 of the Act, the concessionaire shall pay for the administration of the Act, and in 2008 SEV bore a cost of 966,856 DKK.

FIRST TENDER IN AUGUST

In future, the Fjarskiftiseftirlitið shall evaluate and grant permission for new expansion initiatives. With regard to wind energy, expansion in this area will be done by tender, and the Fjarskiftiseftirlitið has sent out a notice that the first tender shall take place in August of this year. With regard to the expansion and development of hydroelectric power operations that have already been initiated, or that are directly related to on-going work, SEV shall be granted a license to continue with this expansion without Fjarskiftiseftirlitið reviewing said operational expansion.

With regard to the implementation of the Act, up to now the most energy has been spent on defining the conditions of the concessions that shall be granted to electrical infrastructure (grid-related) companies and to electricity utilities. Aside from certain technical details, these licenses contain provisions stipulating the economical framework within which the industry shall operate. On 30 December 2008, SEV received a provisional concession for

all of our activities, but SEV and the Fjarskiftiseftirlitið at present continue to have different views on relevant economic factors. The parties are continuing to negotiate on these matters.



Executive Director of the Faroese Postal & Telecom Surveillance Authority, Jógvan Thomsen, at the meeting in January where SEV presented its 10-year development plan before members of Parliament and Government ministers and other government officials.



The laying of the new undersea cable across Skopunarfjord went both well and quickly.

NEW UNDERSEA CABLE TO SANDOY

In the early part of August, a new undersea cable was laid across Skopunarfjord to replace the older cable that was hauled up toward the end of July.

The Swedish cable ship, Pleijel, owned by Baltic Offshore, laid the cable in collaboration with SEV.

The old cable, which was laid in 1984 between Kirkjubøur on Streymoy and Skopun on Sandoy, failed in February 2007. While awaiting a new cable, Sandoy was provided electricity from a small thermal power plant operated by SEV in Skopun.

The new cable, which is 9.6 km in length, was purchased from Prysmian in Italy for 19 million DKK. The total cost for all the work was around 22 million DKK.

The new cable is twice as strong as the previous cable and weighs 41 kg/m. The electricity cable consists of 120 mm² copper wires.

Once Sandoy was again connected to the mainland and electricity was flowing, the Skopun power station was shut down. In future, this station will only be used if additional power generation is required.

OLD CABLE PUT TO USE IN OTHER AREAS

During the two weeks the Pleijel was in the Faroes, SEV arranged for the ship to perform other cable services. The ship laid sections of the Sandoy recycled cable across Trongisvágssfjord and Sundalagið.

A section 1.1 km in length was laid across Trongisvágssfjord and a 1 km section was laid between the power plant at Eiði and Haldórsvík.

Cables had previously been laid in these areas, but they are now some 30 years old and quite worn from wave action, etc.

Sections of the old Sandoy cable that could not be recycled were sold to the NKT cable centre in Denmark.

The Pleijel also laid a new cable across Kalbaksfjord between Sund and Kaldbak and across Funningsfjord between Elduvík and Funning.

These two stretches had long been on the wish list of the operations department of SEV, who had wanted to improve the delivery of electricity in these regions.

HIGH TENSION LINES OVER LEIRVÍKSFJORD DISMANTLED

The Pleijel also assisted in the dismantling of the 20 kV high-tension lines across Leirvíksfjord. They retrieved the cable from the sea after it was cut. In the process, electricity was cut off to Borðoy first, and then Eysturoy.

When the Norðoy undersea tunnel was being built, a 20 kV cable was laid through the tunnel, thus eliminating the need for the aerial high-tension lines over the fjord. The aerial cables were four in number and had been stretched over Leirvíksfjord in the mid-1960s.

INVOICED ELECTRICITY SALES 2004–2008 IN MWH

Consumer sectors 2004	Total 2004	Total 2005	Total 2006	Total 2007	Total 2008	Change 2007–2008
1. Agriculture, aquaculture, fishing and raw materials industry	22,790	17,154	19,403	23,364	23,228	-0,6
2. Production and construction industries	53,399	52,284	57,184	58,845	58,775	-0,1
3. Retail stores, restaurants and hotels	19,050	19,336	20,451	22,124	22,804	3,1
4. Transport, postal services and telecoms	16,467	20,155	22,518	23,144	24,384	5,4
5. Financial services, insurance and other service industries	3,576	3,806	3,984	4,075	4,161	2,1
6. Public and private services, churches, religious organizations, etc.	32,702	34,483	34,885	39,745	41,195	3,6
7. Street lighting	5,954	6,193	6,588	6,739	6,967	3,4
8. Houses, apartments, summer homes, small boat storage	73,451	75,734	76,585	78,761	77,387	-1,7
Invoiced Electricity Sales, Total	222,389	229,145	241,598	256,797	258,901	0,8
Own consumption, SEV	5,599	5,417	5,556	5,555	5,555	0,0
Electricity Consumption, Total	232,988	234,562	247,154	262,352	264,456	0,8
Electricity generation, calendar year	248,967	244,877	259,478	269,416	275,829	2,4

Note: Invoiced electricity sales do not follow exactly the calendar year, while calculation of electricity generation is based on data available at the close of each year.

The difference between invoiced electricity sales and calculated production stems from line and transformer loss plus SEV's own consumption and certain deferred consumption.

Included in electricity generation is electricity purchased from other producers.

SEV INVESTMENT 1995–2008

Investment (mDKK)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Hydropower plants	4,7	30,7	35,1	43,3	13,7	8,6	8,6	0,0	0,3	0,3	0,5	4,0	27,4
Other electricity production plants	0,3	0,1	0,1	1,1	5,8	30,4	18,1	52,0	18,0	20,0	2,3	2,8	5,0
Dividends	9,3	12,5	21,0	13,8	13,6	14,6	19,5	17,4	18,6	18,2	32,8	41,9	41,1
Joint assets	2,2	0,5	0,1	1,8	0,7	0,1	0,0	0,1	0,8	0,0	0	0,8	0,0
Property	-	-	-	-	1,5	-4,8	0,0	0,0	0,0	0,0	0	0,0	0,0
Other equipment	2,0	2,1	1,8	2,6	1,5	2,4	1,7	2,4	2,0	3,2	2,2	2,5	3,1
Total	18,5	45,9	58,1	62,6	36,8	51,3	47,9	71,9	39,7	41,7	37,8	52,0	76,6

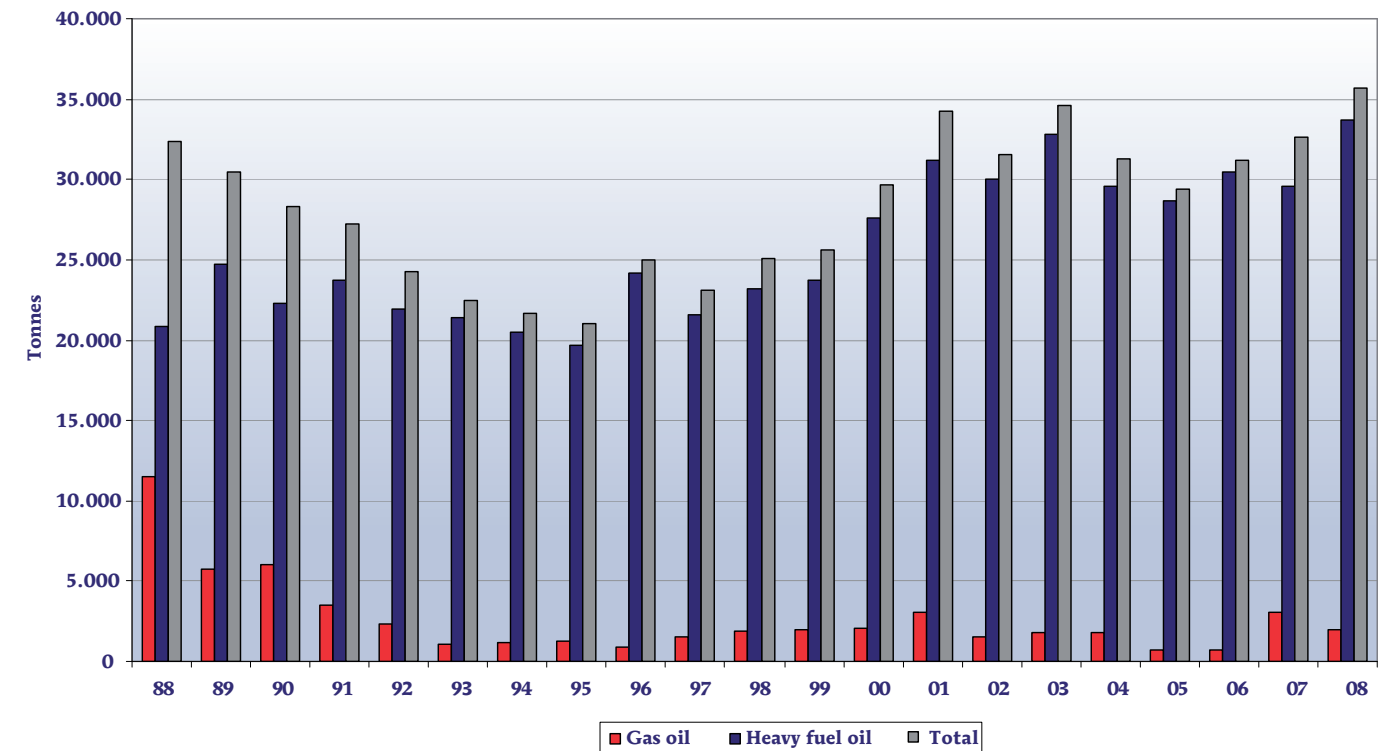
Source: SEV

TURBINE OVERVIEW AS AT 31 DECEMBER 2008

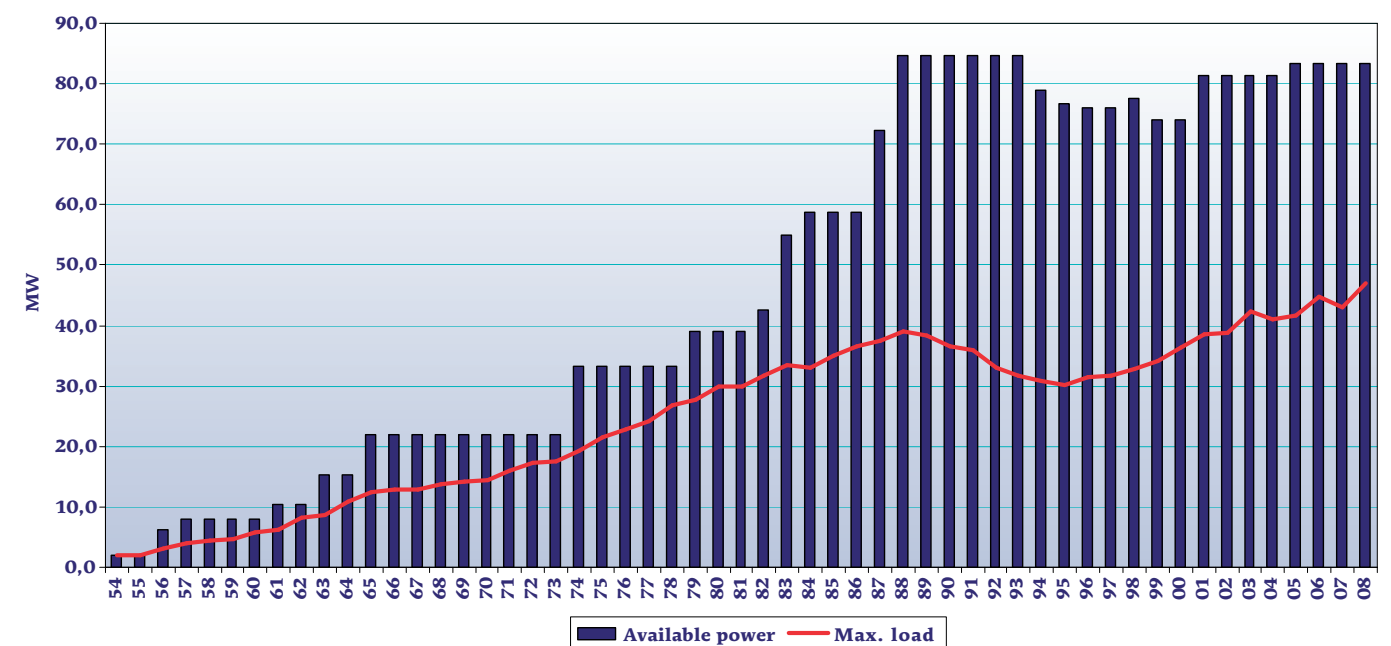
2008

Location	Turbine	MW	Hk	Type	Turbine Mfg.	Drive Power	Year	Age	Hours
Botnur	T1	1.00	1,360	Pelton hydro turbine	Voith	Hydro	1965	43	169,713
Botnur	T2	2.00	2,719	Francis hydro turbine	Voith	Hydro	1966	42	130,085
Eiði	T1	6.70	9,109	Francis hydro turbine	Voith	Hydro	1987	21	75,472
Eiði	T2	6.70	9,109	Francis hydro turbine	Voith	Hydro	1987	21	70,628
Neshagi	M1	0.15	204	Windmill (fixed pitch)	Nordtank	Wind	1993	15	
Neshagi	M2	0.66	898	Windmill	Vestas	Wind	2005	3	20,233
Neshagi	M3	0.66	898	Windmill	Vestas	Wind	2005	3	21,096
Neshagi	M4	0.66	898	Windmill	Vestas	Wind	2005	3	21,815
Skopun	M1 – M3	1.83	2,483	4-T	Mercedes and Deutz	Gas Oil	1984	24	
Small plants		1.70	2,311	4-T	Deutz, Mercedes, Perkins	Gas Oil			
Strond	M1	0.50	680	4-T HFB7	Mirrleese Blackstone	Gas Oil	1950	58	30,135
Strond	M2	2.30	3,127	4-T KV 12 SS	Mirrleese Blackstone	Gas Oil	1965	43	78,627
Strond	M3	3.60	4,895	4-T 12 M 453 K	Krupp Mak	Gas Oil	1982	26	43,150
Strond	T1	1.40	1,903	Francis hydro turbine	Sulzer Hydro	Hydro	1998	10	33,027
Sund	M1	8.10	11,013	4-T 9M43C	Caterpillar/MaK	Heavy Oil	2001	7	25,297
Sund	M2	8.10	11,013	4-T 9M43C	Caterpillar/MaK	Heavy Oil	2004	4	19,539
Sund	M3	5.70	7,750	4-T KV16MAJOR	Mirrleese Blackstone	Heavy Oil	1978	30	78,051
Sund	M4	12.40	16,859	2-T 12 L55 GSCA	B&W Götaverken	Heavy Oil	1983	25	135,194
Sund	M5	12.40	16,859	2-T 12 L55 GSCA	B&W Götaverken	Heavy Oil	1988	20	108,995
Tvøroyri	M1	2.00	2,719	4-T	Nohab	Gas Oil	1973	35	81,517
Vágur	M1	2.70	3,671	4-T 9 M 453	Krupp Mak	Heavy Oil	1983	25	103,578
Vágur	M2	2.70	3,671	4-T 9 M 453	Krupp Mak	Heavy Oil	1983	25	104,256
Vágur	M3	4.32	5,874	4-T 9M32C	Caterpillar/MaK	Heavy Oil	2004	4	28,672
Vestmanna	Fossá 1	2.10	2,855	Pelton hydro turbine	Maier	Hydro	1953	55	195,758
Vestmanna	Fossá 2	4.20	5,710	Francis hydro turbine	Voith	Hydro	1956	52	305,300
Vestmanna	Heygav. 1	4.90	6,662	Francis hydro turbine	Voith	Hydro	1963	45	190,765
Vestmanna	Mýruv. 1	2.40	3,263	Francis hydro turbine	Voith	Hydro	1961	47	317,166
Total Power						101.85	MW		
						138.51	Hk		

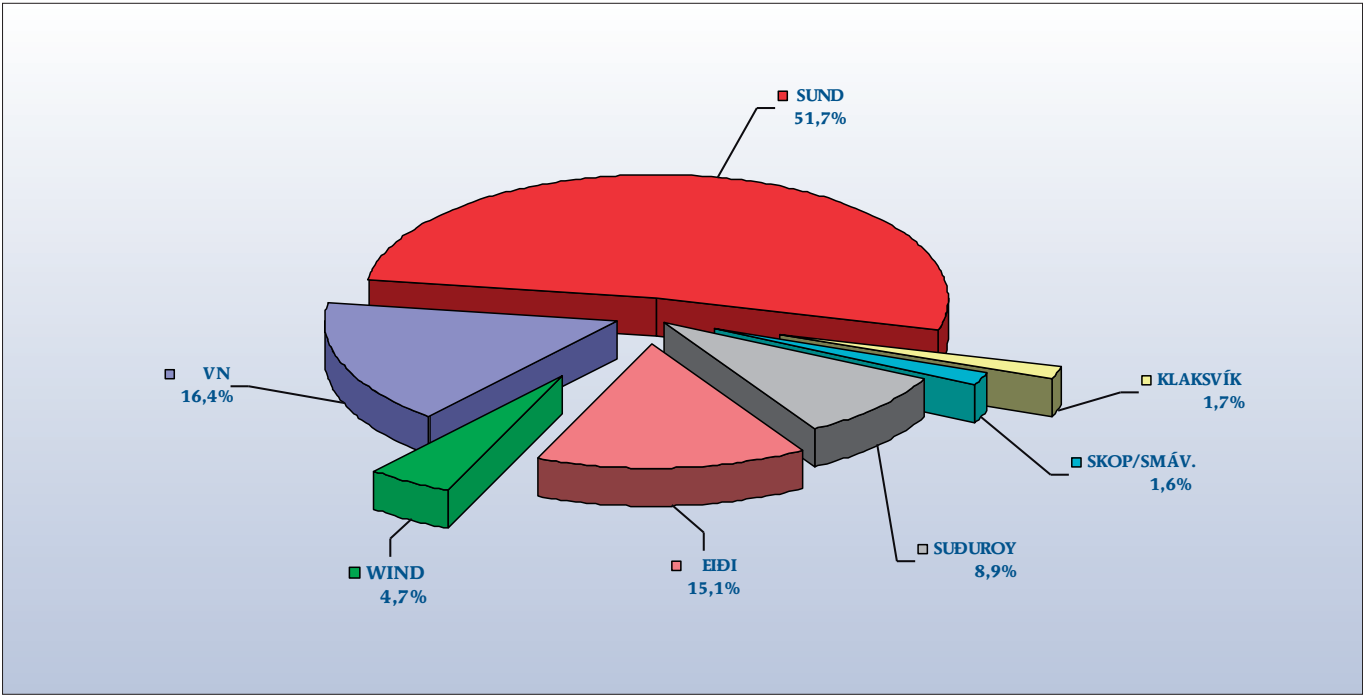
Oil consumption in tonnes 1988–2008



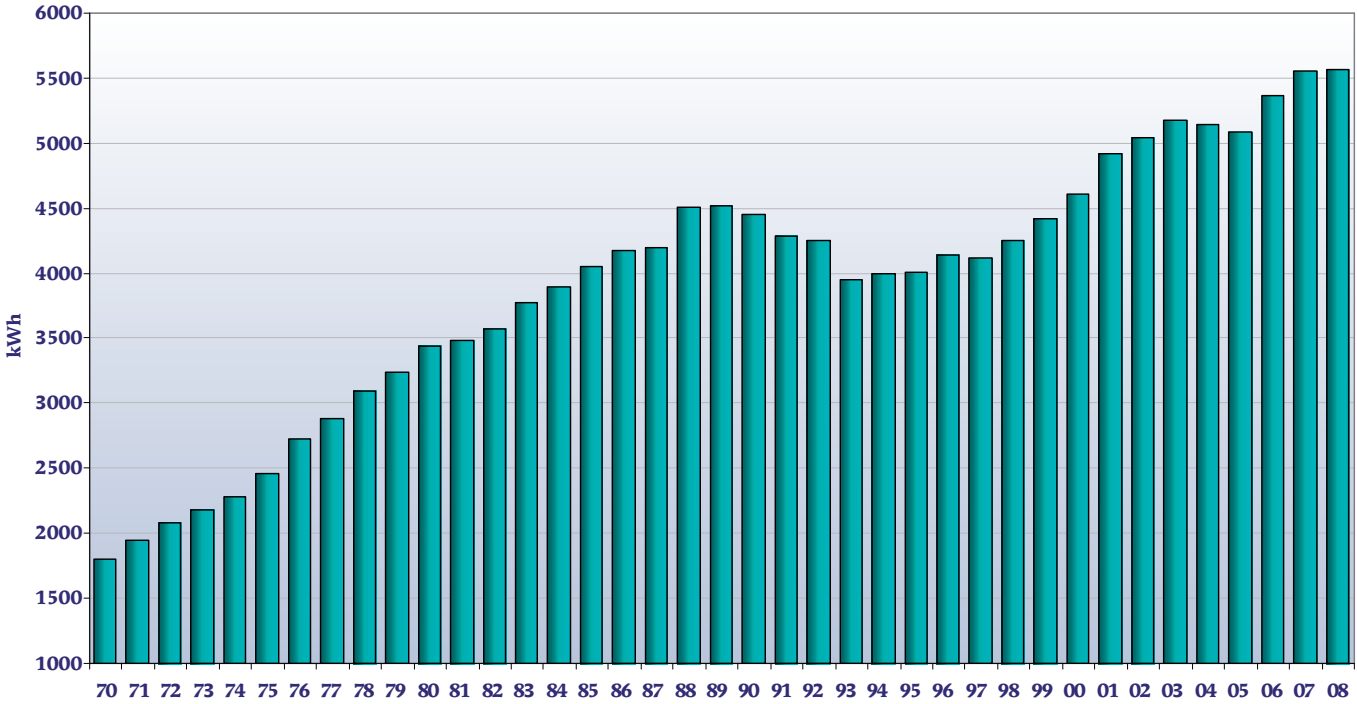
Maximum load and available power – Central region 1954–2008



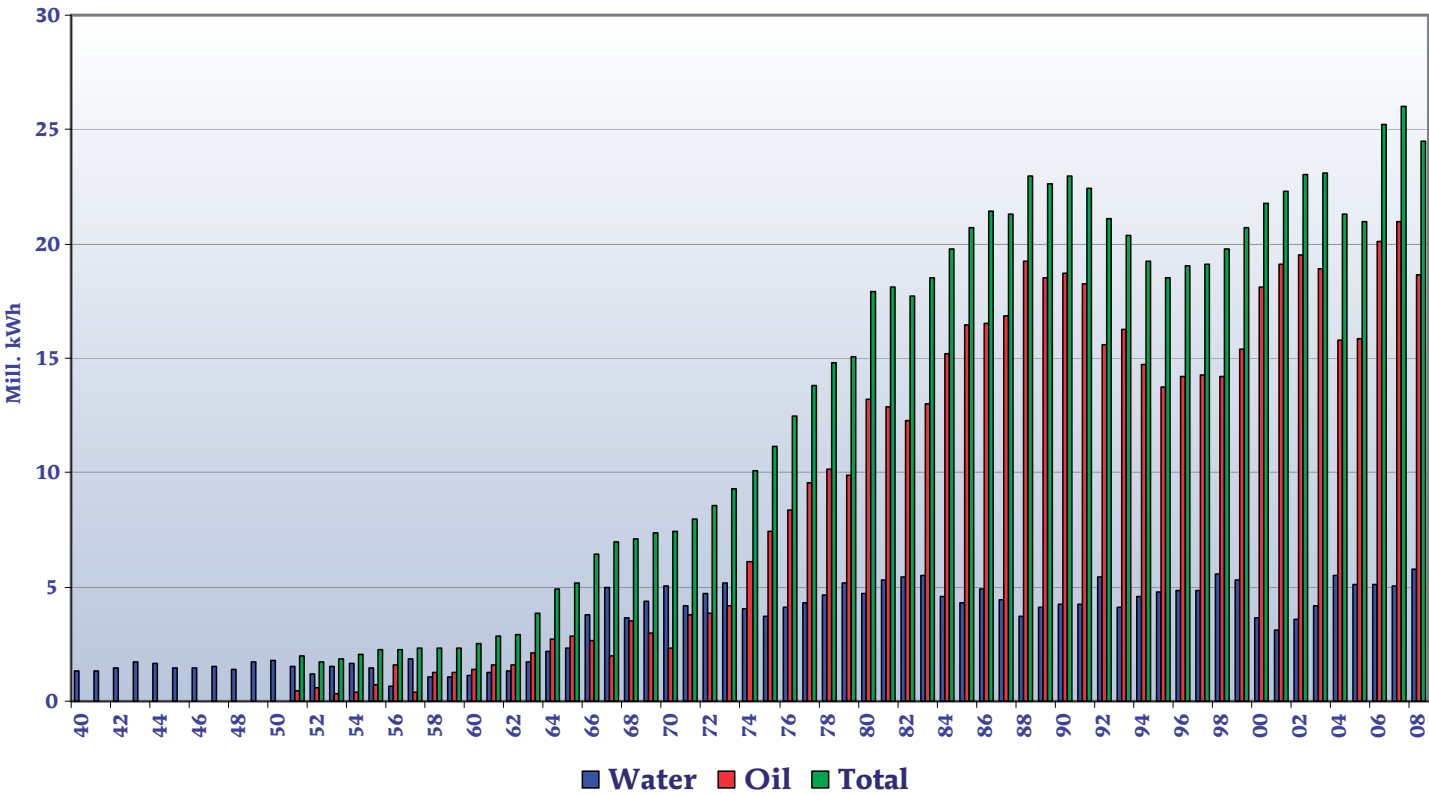
Electricity generation for the entire country by power plant, 2008



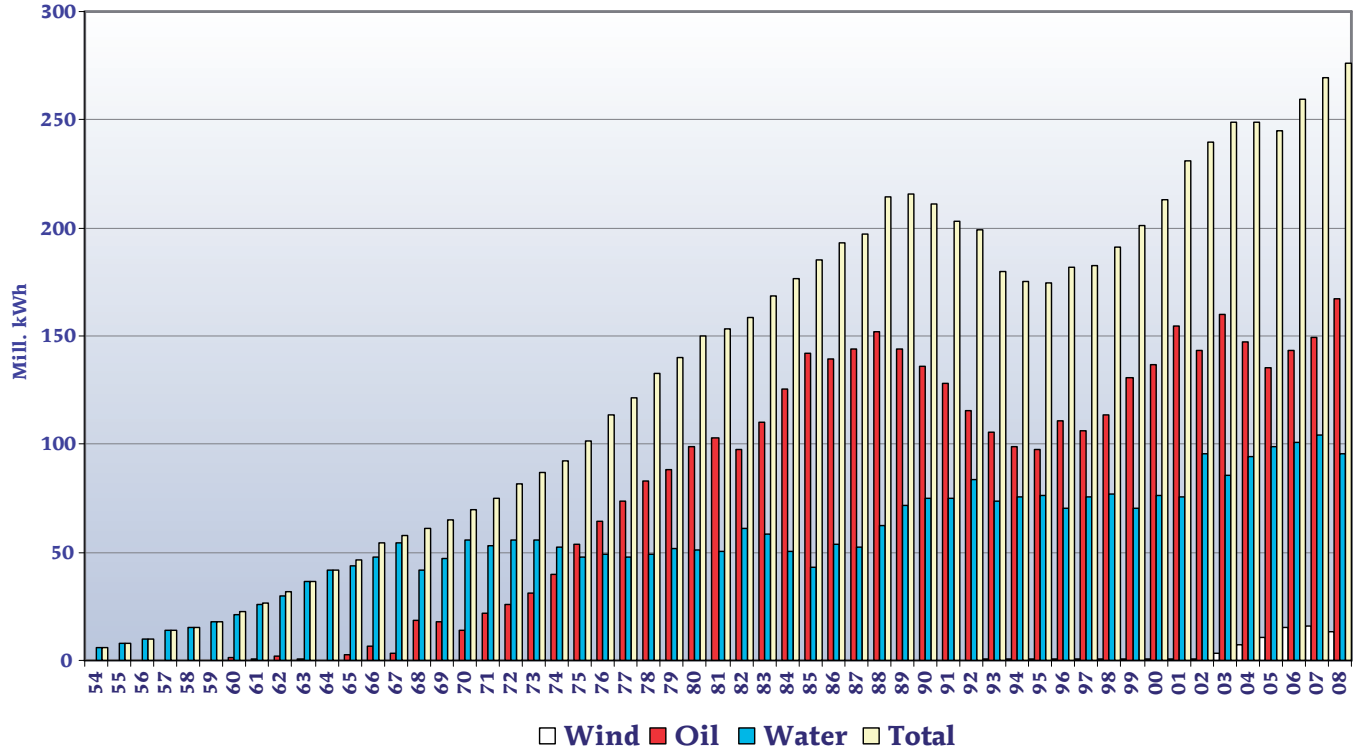
Electricity generation per capita 1970–2008



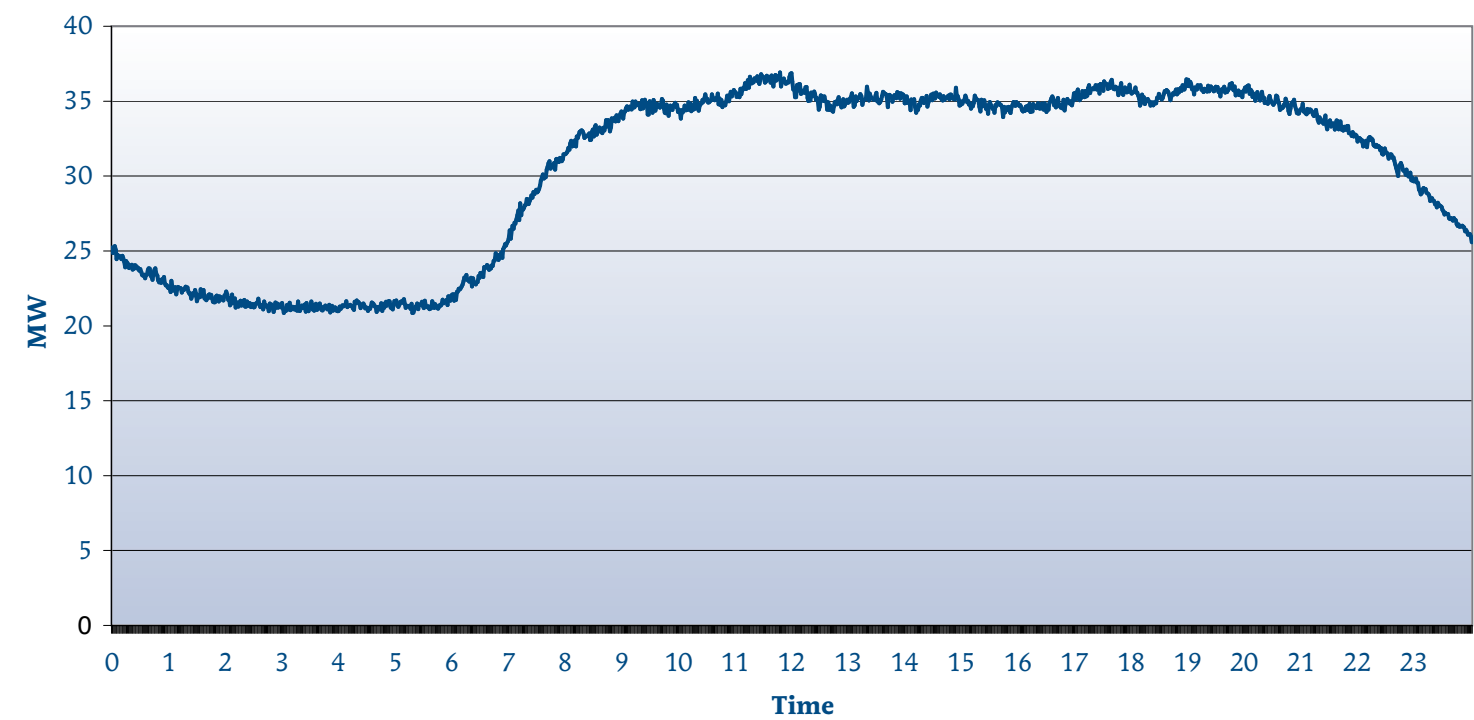
Electricity generation on Suðuroy 1954–2008



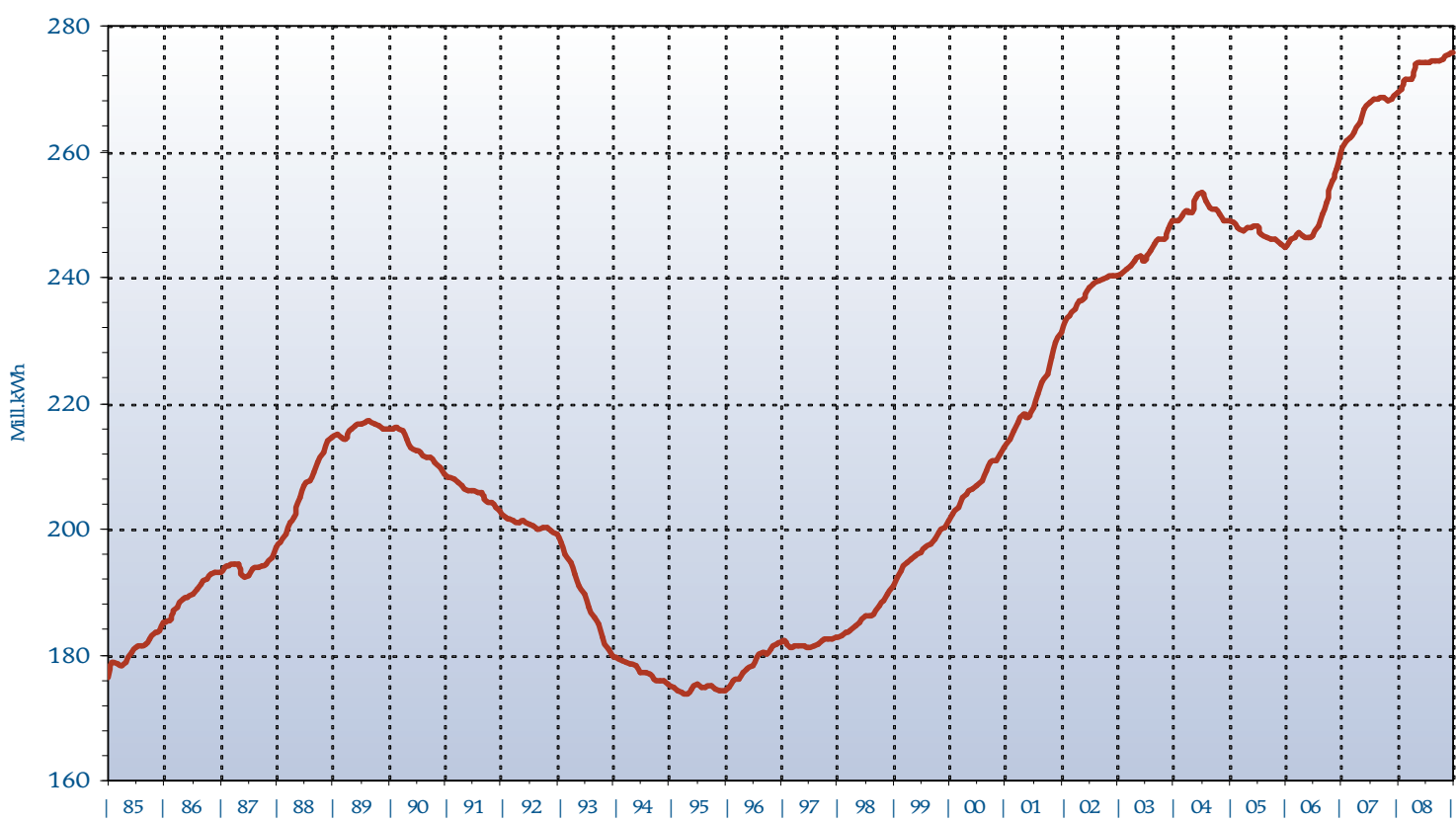
Electricity generation for the entire country 1954–2008



Daily Load 7 October 2008



Total SEV
Annual 12-month electricity generation from 1985 to 2008





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