



Annual Report and Annual Accounts 2011



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Annual general meeting April 27, 2012

Images: SEV and others

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Report from the Board of Directors

The composition of SEV's Board recently changed. The Chairman last term, Páll á Reynatúgvu, resigned from the position when he was elected to the Faroese Parliament on October 29, 2011. With the former chairman's resignation, Bødvar Hjartvarsson joined the Board as the representative of the District of Sandoy, while Niclas Hentze has represented Suðuroy since the last general meeting, when Niels Olaf Eyvindsson left the Board.

Jákup Suni Lauritsen, who was previously Vice-Chairman, is the new Chairman of the Board. Kári E. Jacobsen has taken over as Vice-Chairman.

Expanding renewable energy production

The Eiði 2 project is advancing. Drilling south towards Blásendi at Selatrað continues. The total stretch will span 8.3 km, and drilling has now progressed past the fifth kilometre. The crew is currently drilling through sill-formations of columnar basalt, which are harder, so the pace has slowed considerably. The tunnel was originally scheduled to enter operation in spring 2013, but the timetable is currently under review. Major expansions and changes are also underway at Eiði Plant. The third turbine was mounted and the remaining installations, including the other two turbines, are undergoing a major overhaul. Modernizations include automation and swift regulation, which will facilitate the interoperation required between production units when more wind power is supplied to the electricity grid.

An attempt was made to obtain an authorization from Sjóvar Municipality to include the rivers around the village of Selatrað in electricity production. This was done in accordance with a decision made by SEV's Board of Representatives in 2003, and SEV has already secured an authorization

from Yvirfriðingarnevndin (Faroese natural heritage conservation body), however, Sjóvar Municipality rejected the application. We naturally respect their decision and the opinions put forward by the local population. This expansion would, nevertheless, have increased the share of green energy considerably at a very low cost.

SEV was awarded the contract in the first call for tenders organized by the Faroese Electricity Authority, pursuant to the recently enacted Electricity Production Act. An appeal was lodged against the Authority's decision, which meant that SEV had to wait for the production license. The Board of Appeal reached its conclusion on February 13, 2012, upholding the Authority's decision. This means that all necessary licenses and authorizations for setting up the three wind turbines on Eystnes have been secured. SEV also signed a contract with Enercon for the purchase of the three turbines to be installed in August 2012. Preparations are underway for building a road, laying the foundations and connecting to the grid.

During the winter storms of 2011/2012, all three wind turbines in Neshagi sustained damages, two were completely destroyed. The possibility of purchasing two new 900 kW Enercon wind turbines to replace the three 660 kW Vestas turbines is currently under study and discussion.

For over a year, SEV has engaged in protracted talks with Sp/f Røkt regarding cooperating on the pump system at the hydroelectric Vestmanna Plant. The result of the talks is a 'letter of intent' on cooperation, though, the parties have yet to sign it.

SEV recently published a communication on a large-scale wind farm project in South Streymoy, which the company offers to build and develop for the Faroese power grid. A 10 MW wind farm could save 10,000 tons of oil a year, but it is a great technical

challenge for the power grid, making it work would require considerable research and development. The idea of such an expansion was positively received, however, the authorities are of the opinion that the procedure of first installing and developing the farm, then offering the turbines for sale, is not compatible with the Electricity Production Act in force. SEV therefore did not pursue the project any further.

SEV closely monitors developments in the area of tidal energy. In November 2011, SEV and Knud Simonsen participated in an international seminar where a number of manufacturers were presenting tidal turbines, current developments and studies underway. The company is in contact with some of these suppliers and is trying to promote the Faroes as a testing ground for their equipment.

P/F Fjarhitafelagið, in which SEV owns a 50% stake, is still working on the project of building a reserve supply station Inni á Gøtu in Hoyvík. Fjarhitafelagið and SEV have confirmed and formalised their cooperation regarding the Sund facilities and heat supply in written agreements.

General Strategy of the Ministry of Trade and Industry

In August 2011, the Faroese Ministry of Trade and Industry published a report entitled 'General Strategy for the Electricity Sector in the Faroes' (Heildarætlan fyri elorkuøkið í Føroyum). According to the coalition agreement, the new coalition will base its policy on this document. This is a broad-ranging report and it proposes major changes in the area.

SEV was invited to comment on the report. The announcements of both Faroese and Danish parliamentary elections prolonged the process, but comments were presented to the Ministry of Trade and Industry on February 17, 2012.



SEV Board of Directors. Back left to right: Bødvar Hjartvarsson, Marin Katrína Frýdal, Niclas Hentze and Steinbjørn O. Jacobsen. Front left to right: Kári E. Jacobsen, Jákup Suni Lauritsen and Pauli T. Petersen.

Since then the working party that drafted the comments has met with the Ministry, to discuss how the parties can cooperate closely in future.

SEV's financial situation

Oil remains by far the largest single expense for the company. In 2011 SEV used DKK 142.6 million worth of oil. This is DKK 25.3 million more than stipulated in the budget. It virtually equals all other operating expenses, which totalled DKK 152.8 million,

with production accounting for DKK 90.8 million, grid activities DKK 35.5 million and administration DKK 26.5 million.

Substantial borrowing was necessary in 2011. Outstanding loans increased by DKK 100 million and overdraft facilities by DKK 30 million.

SEV considers that in order to make sure that the company has sufficient liquidity, it should have the means to pay for one shipment of oil and enough left over to replace an

important part of machinery, if one should fail.

Company insurance procedures are currently under review. Seeing as SEV's economic leverage has decreased, it must also reduce risks related to damages and similar incidents, which could burden its finances.

The Board is currently working on updating its Rules of Procedure and the regulations governing relations between the Board, Managing Director,

department directors and production manager of SEV. It is focusing on increasing company performance in the areas of finance, insurance and HSE (health, safety and the environment).

SEV is currently undertaking a benchmarking exercise. We are co-operating with independent experts from foreign consultancy firms. In addition to helping us generate comparative figures from power systems similar to ours, these experts are also working out financial ratios, which we can use to manage the company's development. We aim to have this task completed just after the summer holidays this year.

For the second consecutive year, SEV emerges with a record deficit, for 2011 it was DKK 49.44 million. This is not a satisfactory result; we must turn things around in order to maintain our creditworthiness. This was also the Board's starting point for drawing up the 2012 budget.

At the general meeting the Board presented a 2012 budget with a DKK 1.3 million profit. The budget proposed a price rise of DKK 0.15 per kWh excluding VAT. However, the shareholders decided that the electricity price should rise by DKK 0.10 per kWh, excluding VAT, and that the company, in addition to savings of DKK 5 million proposed by the Board, should save another DKK 5 million. The budget adopted for 2012 runs a DKK 6.3 million deficit. The proposed DKK 10 million cuts were implemented, which meant that nine people stopped working for the company. Furthermore, the company will no longer have offices open to customers in Klaksvík or Vestmanna.

The Board is still of the opinion that the company in future should, at least, balance its books.

Communication with shareholders

Over the last year, the company has communicated closely with shareholders. The exchange has been, and will remain, characterized by open-

ness. Representatives of the municipalities were invited to six different meetings where they were briefed on sustainable energy as well as the potential for expansion; the future of the company was also discussed. The first meeting was held in Tórshavn on February 23, 2011, where expansion options were presented. At the second meeting the expansion options were discussed and it also took place in Tórshavn, on March 30, 2011. The third meeting was on August 26, 2011, in Løkshøll in Runavík. On that occasion, economic, technical and environmental analyses of each individual expansion option were presented.

In November 2011 two further meetings took place in Tórshavn, one on the 17, the other on the 29. Both meetings dealt with the General Strategy from the Ministry of Trade and Industry, the company's expansion options and its 2012 budget. In February 2012, there was another meeting to discuss the conclusions and reply to the hearing organized by the Ministry on the General Strategy.

The Board considers that the meetings in general were useful and informative, and that the owners are pleased with the series of meetings.

Staff

On July 1, 2011, Bogi Bendtsen took up the position of Director of Administration. He succeeded John P. Danielsen who resigned after 25 years of service. There was a reception at the Tórshavn office to mark the occasion. Quite a number of visitors joined us to greet the outgoing and incoming department directors.

The company has changed its pension age policy. The pension age, which was 70, was lowered to 67 as of October 1, 2011.

Company operations

The turbine and generator at Heyga Plant in Vestmanna were completely overhauled. Plant operations were shut down between May and December 2011.

The thermal plants in Sund and Vágur still carry the greatest load in the Faroese electricity grid. The engines at these plants have clocked up so many operating hours by now, that time and money are being set aside for replacements. We can only conclude that we will continue to rely heavily on oil for a time to come, even though we are expanding as much as we can with power from renewable sources of energy.

Not everything can be planned, unexpected events do occur. One of the greatest demonstrations was Hurricane Berit, which swept across the Faroes on the night of November 24 and morning of November 25, 2011. Wind speeds, recorded by a measuring mast in Húsahagi in Tórshavn, showed that the maximum average speed over 10 minutes was 48 m/s, and gusts over 2 seconds peaked at 68 m/s. Supplying power that night went well. Only a handful of areas experienced power cuts of over an hour, in spite of several incidents. Major incidents included seawater flooding Eiði Plant, three reactor coils in Skálabotnur catching fire, and the roof coming off Fossá Plant in Vestmanna.

Compared to the Christmas Hurricane in 1988, SEV escaped virtually unscathed on this occasion. The systematic cabling initiated then is now bearing fruit.

Things did not run quite as smoothly in early 2012. On January 9 a Vestas wind turbine in Neshagi sustained severe storm damages, the nacelle with all its equipment and blades fell off. A similar accident occurred on March 6, when the tower of another turbine failed and the whole turbine collapsed. Experts from Vestas and the insurer inspected the damages. We are working on bringing new wind power into operation again as quickly as possible.

Jákup Suni Lauritsen
Chairman of the Board
April 2012

The past year



Change of Chairman at SEV



Jákup Suni Lauritsen, newly elected Chairman of the Board of SEV, hands the outgoing Chairman, Páll á Reynatúgvu, a token of the Board's appreciation, a unique oystercatcher – national bird of the Faroes.

The Board of SEV changed in November 2011 as Páll á Reynatúgvu, Chairman since February 2009, had to resign following his election to the Faroese Parliament.

Pursuant to the Faroese Home Rule Act, members of parliament may not serve on boards and councils under parliamentary oversight and SEV board members are subject to these provisions.

At a board meeting on November 14, 2011, Páll á Reynatúgvu officially resigned as Chairman and member

of the board. Bødvar Hjartvarsson succeeded him as a substitute member for the District of Sandoy.

The new Chairman of the Board is Jákup Suni Lauritsen and Kári E. Jacobsen is now Vice-Chairman.

They were elected to the Board representing the islands of Vágoy and Eysturoy, respectively. Jákup Suni Lauritsen was Vice-Chairman before become Chairman.

The remaining five board members are: Marin Katrina Frýdal, representing Tórshavn Municipality, Steinbjørn

O. Jacobsen, representing Norðoyggjar, Niclas Hentze, representing Suðuroy (he succeeded Niels Olaf Eyvindsson in summer 2011), Pauli T. Petersen, representing North Streymoy, and Bødvar Hjartvarsson, representing the District of Sandoy.

Oil spill response exercise

In early October 2011, a large-scale oil spill response exercise took place in Sund. Tórshavn Fire Brigade, Landsverk (Office of Public Works) and SEV led the drill, which also involved other direct participants and observers.

Both public authorities and private entities participated, including: the oil companies Magn and Effo, Maritime Rescue and Coordination Center Tórshavn, Faroese Environment Agency, The Faroe Islands Fisheries Inspection, Skálafjørður Fire Brigade, Fuglafjørður Fire Brigade, Lív lifeboat and Port of Tórshavn.

The new Environmental Management System at Sund Plant stipulates that such exercises must be carried out regularly.

“As Landsverk, on January 1, 2012, took over responsibility for oil spill response at sea outside municipal ports it also needs such exercises, we therefore decided to co-organize this drill”, states Annika F. Berg, SEV HSE Manager.

The fictional exercise scenario was that a pipe had started leaking while pumping heavy oil from a vessel to a tank at Sund Plant.

For the purpose of the exercise, non-polluting bark chippings were released into the sea to mimic an oil spill.

The response was well organized. Only one hour after the alarm had sounded the lifeboat Lív was on site towing an oil barrier from the Sund quay northwards along the coast where the ‘oil’ was drifting.

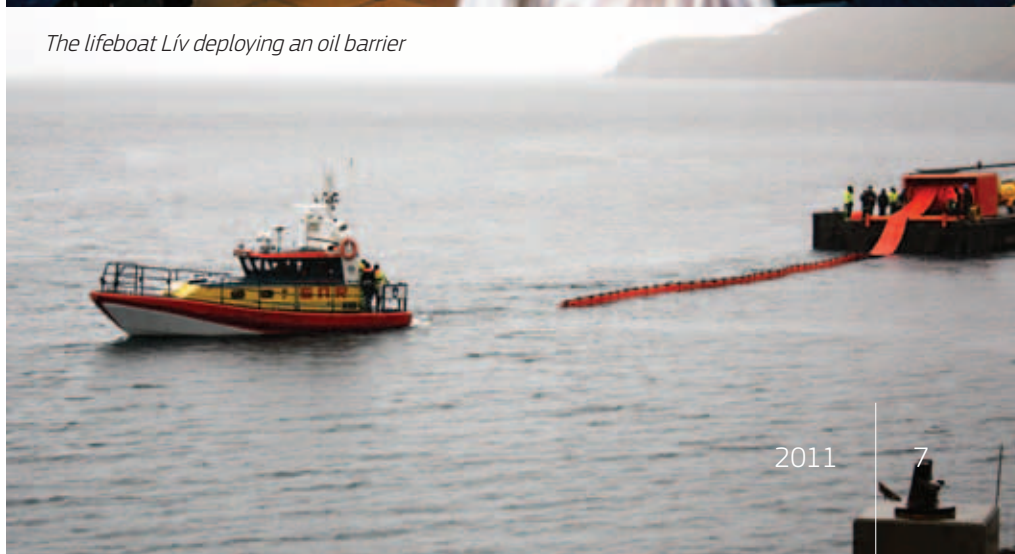
“The exercise proved such a success that all parties agreed to continue cooperating to advance environmental protection”, says Annika F. Berg.



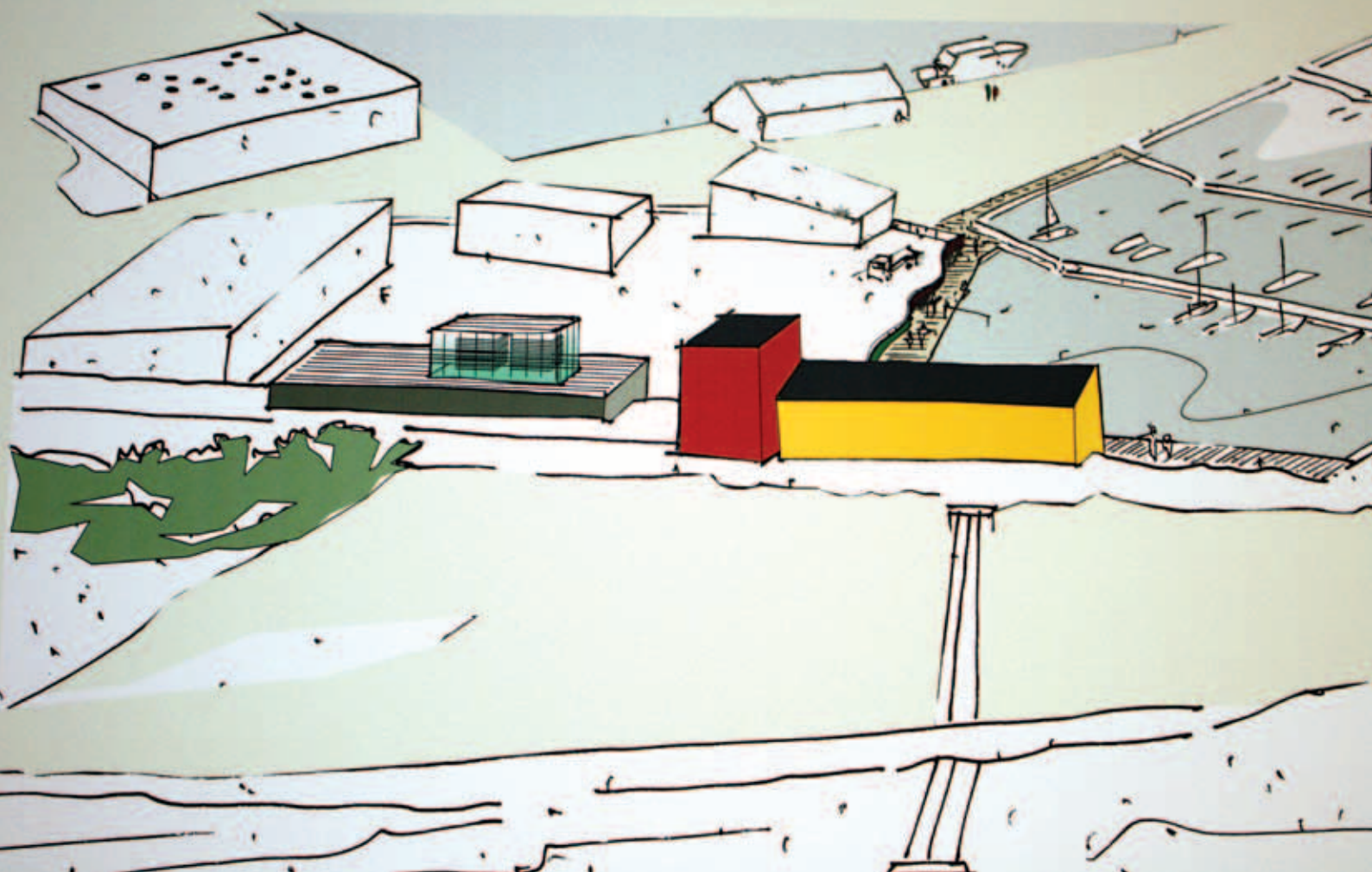
Fire fighters from three different brigades participated in the drill



Drill participants receive a briefing on how to proceed



The lifeboat Lív deploying an oil barrier



New substation underway in Vestmanna

SEV's old substation at Vákurinn is in need of such extensive overhauls that, rather than repairing it, the company has decided to replace it with a new substation Inni á Fjörð in Vestmanna.

In order to substitute it, SEV called for tenders from three architect firms, which were invited to prepare proposals for a new substation as well as repairs to Fossá Plant, so that the new substation and the old Fossá Plant together would function as a well-integrated aesthetic unit.

The architect firms invited were Selmar Nielsen Arkitektur Sp/f, Árni Winther Arkitektar and Arkitektar AF, v/Albert Isfeldt & Guðmund S. Hansen.

The tenders were submitted to SEV's main office on October 17,

2011, and a panel was appointed to examine them and select a winner.

The panel was made up of Jákup Suni Lauritsen, Chairman of the Board, Hákon Djurhuus, General Manager, Finn Jakobsen, Director of Distribution and Production, Hogni Hansen, architect, Karl A. Olsen, Mayor of Vestmanna Municipality, and Mikael Viderø, Senior Town Planner of Tórshavn Municipality. Ragnar Heinesen, construction engineer at consultant architect firm Landsbyg-gifelagið, was secretary of the panel.

Árni Winther Arkitektar won the tender

At a meeting before Christmas, the panel decided to accept the proposal from Árni Winther Arkitektar.

In its explanation, the panel stated, "the proposal is a real accomplishment, an excellent architectural solution for the builder. With this proposal, the builder's requirements were met in an exemplary manner, and it has also served as inspiration for further requirements and plans in the area, as well as for the builder's identity".

It also said, "the proposal is designed as a clear and simple solution, which, in the interplay between existing and new structures, conveys the history and thoughts of the builder about its own activities and visions. It is a statement about stability, continuity and social commitment based on a functional and rational approach".



The new substation with a glass block on the roof will be built where the 'old garage' Inni á Fjørð, which will be removed, is currently located.

Fossá Plant unchanged

Fossá Plant will preserve its original appearance.

The proposal envisions that the Municipality would draw up a general plan for the area. The riverbank east of the estuary could be tidied up and a public path could be built between the bridge and the boat basin. SEV's storage area would be fenced off, to clearly distinguish open-access areas from energy production areas. The path could be lined with low light posts.

The plan is to start designing the new substation immediately and



The winning proposal

build it in the course of 2012 and 2013. Fossá Plant would be repaired simultaneously.

Once work is completed, the existing substation at Vákurinn will be closed down.

An average year for renewable energy

The year 2011 was an average one for renewable energy.

While the weather had an adverse impact on renewable energy production in 2010, 2011 proved much more of a success. According to statistics published by DMI (Danish weather office), Tórshavn received 1165 mm of rain in 2010, compared to 2262 mm in 2011. The average precipitation in Tórshavn over the last 12 years was 1423 mm.

Of the total electricity production in 2011 of 273.8 million kWh, around 40% were generated by water or wind, which is a rise of about 10% on the previous year, when renewables only made up 29% of total energy production.

In addition to the lower rainfall, Fossá Plant was out of production

most of the year owing to repairs and maintenance.

While electricity production grew by 1.7% from 2009 to 2010 (to 280.4 million kWh), generation in 2011 decreased by 2.3% due to a fall in demand.

In 2011 hydroelectricity and wind power accounted for 34% and 6%, respectively, of electricity production, while thermal plants made up the rest.

With Fossá Plant undergoing repairs, Fossá River is flowing as freely as in the old days





First electric car conference in the Faroes

2011 was the year when electric cars really made inroads in the Faroes. On February 15, 2011, the Nordic House hosted the first-ever electric car conference in the Faroes, which was co-organized by SEV.

The conference was part of a Nordic project in the Northwest Atlantic entitled El-mobility (e-mobility). The objective was to test drive electric cars at our latitude and assess how increased use of electric cars might impact on future transport and the power grid.

NORA (Nordic Atlantic Cooperation), an organization under the Nordic Council based in Tórshavn,

was the main sponsor of the project, which included all three West Nordic countries: Greenland, Iceland and the Faroes.

Seven institutions and energy companies in these three countries participated in the project, which was launched in 2010 and concluded in autumn 2011. A joint project report is scheduled for submission to the Nordic Council in spring 2012.

SEV represented the Faroes in the project and set up a joint electric car working group with the Faroese Earth and Energy Directorate, which coordinated the initiative in the Faroes.

SEV also acquired three electric

cars for the trial and they were test driven around the country over the course of the year by both experts and ordinary drivers.

The public agency overseeing services to people with special needs at institutions and in the home, Nærverkið, was among the many institutions and companies that had the chance to test the cars. When the agency subsequently purchased them all, it became the first Faroese institution to adopt these environmentally friendly vehicles.



Around 150 invited guests attended the electric car conference in the Nordic House

Finn Jakobsen, SEV Director of Distribution and Production, Johan Dahl, Minister and Jákup Sørensen, NORA





This fast and elegant electric sports car naturally caught the test drivers' attention



Fossá Plant water pipes



Repairs and maintenance

As in 2010, repairs and maintenance made their mark on SEV's work in 2011.

Over 2010 and 2011 turbines and generators were repaired at Fossá Plant. The overhaul was completed by late April – early May 2011, and the plant resumed operation at full capacity.

The two large pipes leading water from the tunnel above down to Fossá Plant were sandblasted and painted in 2010. The last time they under-

went such maintenance was in 1986. According to the Norwegian company that executed the task, these repairs will guarantee that the pipes from 1953 and 1955, respectively, will last another 30 – 35 years.

In 2011 similar repairs began at Heyga Plant. The pipe leading down to the plant was sandblasted and painted and the turbine underwent a major overhaul. Operations resumed there on December 16, 2011.

With the modernizations and new

equipment, Heyga Plant is now better equipped to play its part in a power grid where an increasing share of energy production is based on intermittent energy.

In connection with Strond Plant, repairs to the pipeline between Svar-tadalur and Strandadalur are underway. This is the first step in a major repair plan for the pipeline, which has had several idle periods.

It could also be mentioned that Sund Plant has started using a sludge



Strond Plant

dewatering unit. This unit significantly decreases the volume of waste oil.

Furthermore, the power plants on Fugloy and Dímun islands now have an additional new diesel unit each, which takes them up to three and two diesel units, respectively.

Ever fewer lines

Work on replacing the 0.4, 10, 20 and 60 kV grid continues in 2011.

“The 0.4 kV transmission lines are disappearing”, says Jón Nielsen, Director of SEV’s Operations Department.

This year SEV once again removed approximately 2 km of low-voltage lines and replaced them with cables. Similarly, around 20 km of 10 and 20 kV lines were replaced with cables. This work is carried out in close cooperation with the authorities, municipalities, Landsverk and Faroese Telecom.

“We also had to build eleven new 10 and 20 kV transmission substations around the country, in order to reinforce the grid in certain areas. Some of the old stations also had to be replaced, because they were obsolete and worn down”, states Jón Nielsen.

The 60 kV lines are also being replaced. These are the lines connecting hubs. The oldest stretches were

put up in the 60’s and both pylons and other parts of the installation are weathered and worn. SEV therefore started replacing parts of these stretches a few years back. This year ten pylons were replaced on the stretch between Vestmanna and the 60 kV substation in Skálabotnur.

As in previous years, a lot of effort went into maintaining the power grid to secure constant supply for customers.

This stood SEV in good stead in the 2011 November and Decem-

ber storms. Only minor faults were experienced on the lines across the Faroes.

There were 23 disruptions to the high-voltage grid in 2011. This is the lowest number of faults since SEV’s Operations Department started registering high-voltage grid faults. In 2010 there were 27 faults on the high-voltage grid. The decreasing number of faults should be seen in light of the systematic maintenance efforts over recent years.



Overhead lines replaced by underground cables





Seawater flooded Eiði Plant in the storm on November 24, 2011; fortunately, it did not cause major damages to machinery or equipment

Wreckage from
wind turbine



Winter storms in 2011/2012

Storms played havoc with wind turbines and power plants in 2011 and early 2012.

During the storm in November 2011, all three Vestas turbines in Neshagi sustained damages. Furthermore, seawater flooded Eiði Plant and brought production to a halt there for a few days. The wind also blew off part of the roof on Fossá Plant. In Skálabotnur three reactor coils were severely damaged. In the storm Christmas Day, the Neshagi wind turbines took another beating; one was seriously damaged.

One of the three large wind

turbines was virtually wrecked in the hurricane-force wind on Monday January 9, 2012.

The turbine had been idle since it was damaged in the storm Christmas Day. Representatives of the wind turbine producer had just visited the Faroes to inspect the damages. At the time, they also secured the turbine as well as possible and planned on returning to repair it when the spare parts would be available.

However, in the storm on the aforementioned Monday evening, when gusts reached speeds of 30 – 40 m/s, the blades, rotor and gear

fell off the turbine and were wrecked. The tower was left standing and did not sustain any major damages. On March 7, 2012, we found that another turbine in Neshagi had sustained major damages; the southernmost turbine tower had snapped off slightly above the middle.

The damages are currently under investigation to determine their causes. SEV is also reviewing the option of purchasing two new 900 kW turbines from Enercon to replace the three 660 kW Vestas turbines.



Representatives of SEV, the Faculty of Science and Technology of the University of the Faroe Islands, the Faroese Government and the British isles south of the Faroes. The picture was taken in front of SEV's main office in Tórshavn on August 31, 2011



Fascinated by SEV's green expansions

In late August 2011, representatives of the British islands south of the Faroes visited SEV's main office along with the Faroese Prime Minister.

The visit was organized in conjunction with the summit between the leaders of the Shetlands, Orkneys, Hebrides and Faroes, which took place in Tórshavn at the time.

They came to SEV for a briefing on the green energy production capacity installed in the Faroes, and on future prospects for the sector.

Terji Nielsen, SEV project leader, presented expansions, such as the hydroelectric and wind power capacity already in place and future plans for Neshagi and South Streymoy.

The guests were particularly impressed by the wind farm project in South Streymoy proposed by SEV.

Bárður Niclasen, researcher, presented studies he has carried out in cooperation with oceanographer Knud Simonsen, who lectures at the Faculty of Science and Technology of

the University of the Faroe Islands. Over the past two years, they have studied the tidal stream in Faroese waters as a basis for harnessing tidal stream power.

Britain is a step ahead of the Faroes in this field. Trials with advanced

equipment are currently underway there and SEV is following them closely, in cooperation with the Faculty of Science and Technology of the University of the Faroe Islands.

Guests and hosts around the table. Kaj Leo Johannesen, Prime Minister, was at the head of the table



Vocational experience at SEV

SEV regularly offers students from polytechnics, secondary schools and other educational institutions vocational experience.

In addition to gaining an insight into SEV's many different activities, students also get the chance to lend a hand under meticulous expert supervision.

Vocational placements usually last two weeks. Students have the opportunity to rotate between different SEV departments and participated in activities in areas such as: installations, technology, engines and operations.

The Installation Department carries out tasks such as fitting electrical installations and electricity meters nationwide.

The Technology Department is in charge of installing and programming control systems for individual plants and the whole grid.

The Engine and Production Department produces electricity from oil, water and wind and is also responsible for areas such as engine maintenance.

The Operations Department is responsible for building and maintaining the Faroese power grid.

Almost every year, students enrolled on Faroese Initial Vocational Training in Technology courses (SIT Støðisútbúgving innan Tøkni), at the polytechnic Tekniski Skúli in Tórshavn, join SEV for vocational experience.

According to Tummas Marni Joensen, leader of the mechanical department at Tekniski Skúli, this placement is very important for them.

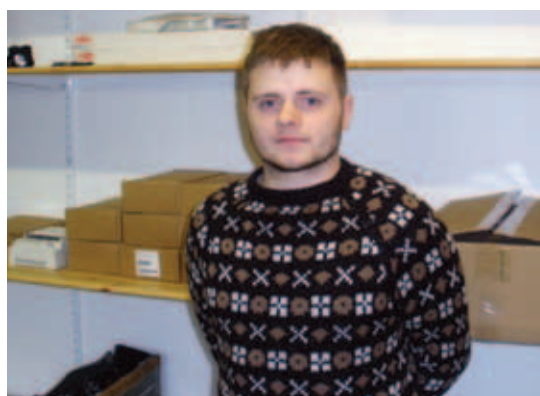
"Vocational experience is an important part of training and of students' further development.

It facilitates technical training at the school for both students and teachers, when they can discuss and refer to students' own practical experience", states Tummas Marni Joensen.

Leivur Petersen at work at Sund Plant



Regin við Streym



Martin Mortensen and the other three are all SIT students from the polytechnic in Tórshavn



Sjúrður Samuelsen is installing the control system of the new magnetisation equipment for Generator 1 at the Fossá Plant



Third turbine installed at Eiði Plant

In connection with the Eiði 2 South project, Eiði Plant was expanded to make room for a third turbine.

Both the turbine and generator arrived on December 2011 and have now been installed.

Once the third turbine is operational, repairs and modernizations of the two old turbines will commence. The aim is to get the new turbine into production in the first semester of 2012.

All three turbines should be available for electricity production when the Eiði 2 South project is completed in 2013.

The new turbine is of the same make as the two old ones – Voith. At 7.7 MW its capacity is greater than that of the other two, both 6.7 MW. They are, however, scheduled to be upgraded to the power of the new turbine.

The building itself was extended 12 metres northwards. The construction company MT Højgaard executed this expansion.

Work is advancing slightly slower than expected on the new water-catchment tunnel from Norðskáli south to Selatrað – called the Eiði 2 South project.

The hard material in the mountain has hampered progress. The tunnel-boring machine has needed repairs on a couple of occasions, due to damages occurring during drilling.

By March 1, 2012, around 5.5 km of the 8.4 km tunnel between Skáli and Blásendi had been drilled.

The contractor is Eiði 2 Suður Samtakið, a joint venture between construction companies MT Højgaard and J&K Petersen. The work is sched-



Valve and turbine 3 hoisted into place



Tunnel-boring machine heading for work

uled for completion in spring 2013, according to contract.

The Eiði 2 South project will increase hydroelectric production at Eiði Plant by about 16 million kWh.

Current production is around 40 million kWh per year.

The combined price of the Eiði Plant expansion and the Eiði 2 project will amount approximately DKK 250 million.

A varied year

for the Energy Advice Service



The energy advisor with students and staff from av Rásini in Saltangará

Energy advice

One of the purposes of SEV's Energy Advice Service is raising awareness in the Faroes about electricity and how best to use it. The Service's awareness-raising initiatives include inviting all year 9 students (15-16 years old) to visit SEV to learn about how electricity is produced and how we can use less of it. Students are taught what they can do to cut down on energy use at home. Visits include the presentation of a video on electrical accidents and their potential consequences. Students also participate in an exercise bike contest. The class that generates the most kWh on the bike wins.

In 2011, 32 classes totalling 667 students visited SEV's teaching facilities at the main office in Tórshavn. Instruction begins in September and runs through March. The winner of the 2011 exercise bike competition was class 9.b. from Oyrabakki School.

Visits to learn more about cutting down on energy use are also organized for kindergartens, after-school centres and residential homes. Every year SEV receives students from the Public Health School in Suðuroy.

Customers often contact SEV for advice on how to cut down on their energy use when electricity bills are sent out at the beginning of the

year, but the service is ready to offer advice all year.

'Use less' campaign

SEV considers it its responsibility to encourage people to cut down on their electricity use; it therefore launched the energy-saving campaign 'use less' in 2011. The campaign was mainly aimed at children and young people, reminding them to switch off electrical and electronic equipment after using it. The campaign slogan was "Tendra tá tú ert, sløkk tá tú fert" (On when you come, off when you go). All of 4,565 people signed up for a contest on the campaign website www.brukaminni.fo.



Learning at SEV

The contest was launched in parallel with the campaign. It offered several popular prizes and was decided on February 23, 2012, with a draw among the many participants.

The main prize was an I-phone and an I-pad. The runner-up received a low-energy freezer, and the third prize was a pack of ten LED light bulbs. The campaign was sponsored by: Faroese Telecom, Húsarhaldstól á Hálsi and P/F LM-handilin.



Kristiana Rein, energy consultant

Health, safety and the environment

Safety measures

One of SEV's Safety Committee's efforts in 2011 was to get the safety groups more active. Shift-work was in the spotlight, with a presentation from Magnar Kleiven to the staff concerned on the potential effects of working in shifts, and what can be done to counter them. A course on the use of cranes was arranged for plant employees. A regular inspection scheme for cranes and fork trucks was also established.

At Sund Plant, SEV organized a fire safety course in cooperation with the Tórshavn Fire Brigade, as well as oil spill response training.

happen. Below is a chart indicating the number of personal accidents, which resulted in one or more sick days in addition to the day of the accident. In 2011 seven personal accidents were reported to The Faroese Working Environment Service. The accidents involved broken bones, caused by falls in slippery conditions; wounds, caused by machine parts squeezing fingers; and carbon monoxide poisoning during work on a water-catchment tunnel (please refer to the segment on 'Accident at work' on the next page). This is the highest number of accidents in 15 years.



Annika F. Berg HSE Manager

Personal accidents

SEV's vision is that all its activities should be free from damages and injuries, and the company works systematically with safety and security to realize it. However, there is no way around the fact that accidents can

Personal accidents 1996 - 2011



Accident at work

On December 13, 2011, an accident regrettably occurred in connection with the Eiði 2 project work on the water-catchment tunnel between Norðskáli and Selatrað.

The high-voltage transformers on the tunnel-boring machine overheated. SEV's Operations Department was called in to solve the problem. It was when performing this task that five SEV employees and two employees of P/F Zacharias Leitisstein suffered carbon monoxide poisoning.

An appointment with Pál Weihe, Chief Physician, was later arranged. He concluded that the employees had not sustained any lasting injuries from the accident. In order to counteract any negative psychological aftereffects of the incident, a debriefing with Heri Kragsteen was also set up.

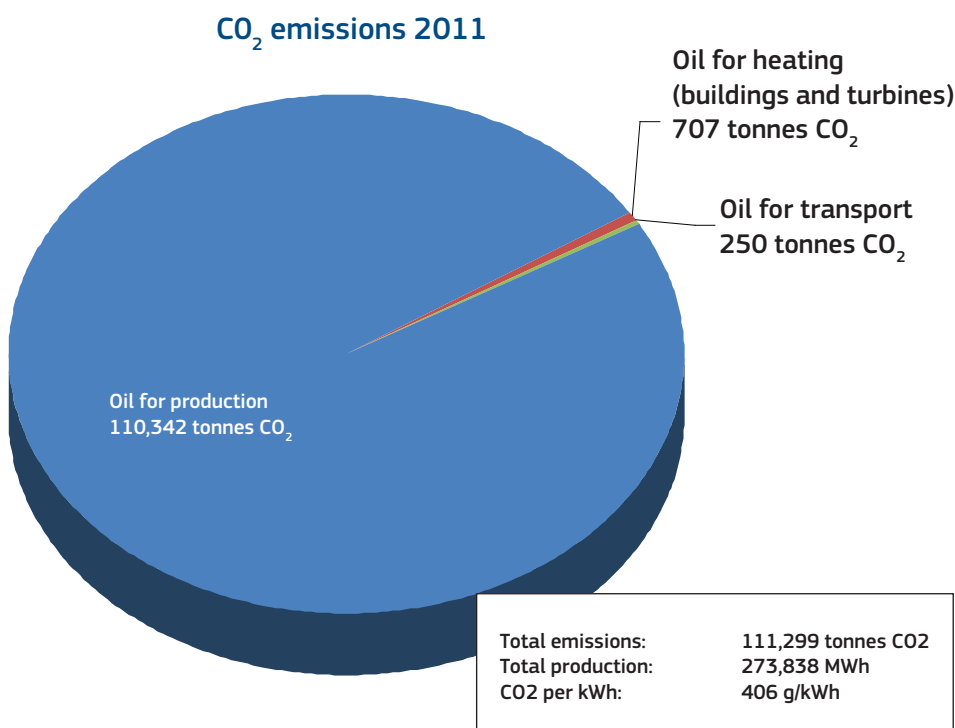
In order to ensure that no such accident ever happens again, SEV subsequently made significant improvements. The steps taken include acquiring equipment that measures the levels of carbon monoxide, flammable substances and oxygen in the air. The electricity supply was also changed, which means that it will no longer be necessary to switch the ventilation off when such work is carried out in the tunnel.

CO₂ Emissions

The burning of fossil fuels has a major impact on the environment. Most of the CO₂ emissions from SEV's activities are generated from oil used in electricity production. The second and third largest sources of emissions are oil used to heat buildings and turbines and oil used in land transport, respectively.



Eiði 2 South site



Waste

SEV's activities generate a large volume of waste. Much of it is buried in landfills or recycled. Some waste, including chemical residues, is sent for special processing.

Most of the waste recycled is used oil, which is handled by the Faroese waste disposal company IRF. Iron and metal also account for a large proportion of waste.

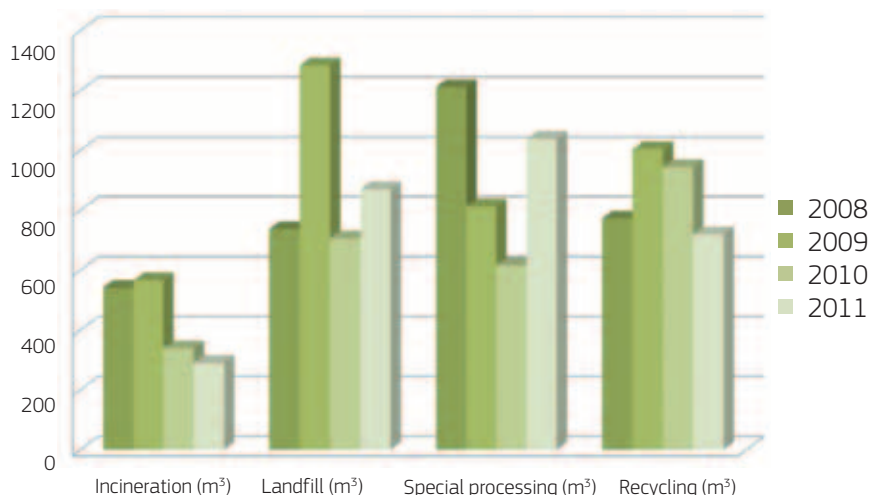
The chart on the right indicates that the volume of incinerated waste was reduced in 2011, when SEV implemented a system for separating cardboard and paper from waste for incineration. The chart also shows that the volume of specially processed waste rose in 2011. The replacement of high-voltage fields at the Trongisvágur Plant accounts for this increase. Furthermore, it is clear from the chart that there was a reduction in recycled waste in 2011, as compared to previous years. This is broken down into further detail on the chart in the bottom right corner.

The bottom chart offers an overview of recycled waste from 2008 to 2011. As indicated, the volume of cardboard and paper waste was considerably higher in 2011 than in previous years. As stated above, this owes to a system for separating cardboard and paper from general household waste, which was implemented at Sund Plant and the main office buildings on Landavegur in Tórshavn. Not only does the system reduce incinerated waste, it also generates a financial benefit.

It can also be seen from the chart, that the volume of waste oil transferred to IRF for recycling has decreased. The reason for this reduction is that new equipment was purchased for Sund Plant, which separates water from oil before it is transferred to IRF. Although the equipment was only inaugurated in September 2011, its effect can already be seen. It translates into a reduction of approximately 330 m³,

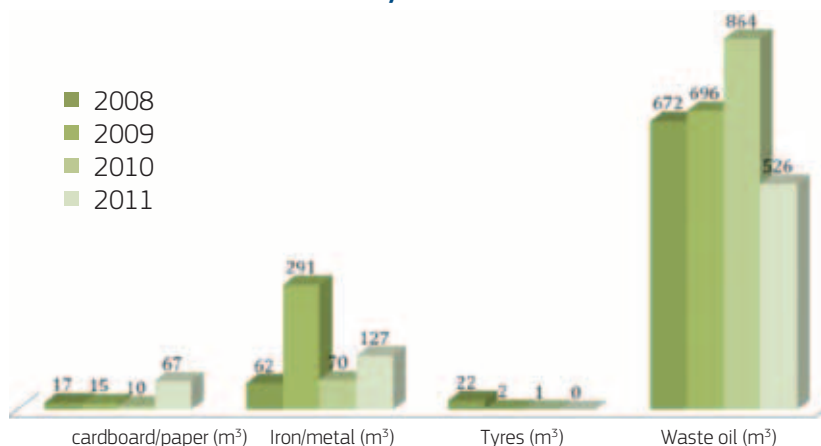
i.e., 330,000 litres, which also cuts costs.

Waste 2008-2011



The chart is an overview of waste treatment from 2008 to 2011

Recycled waste



The chart is an overview of waste sent for recycling between 2008 and 2010. Volumes are indicated in m³.



New wind turbines

ordered from Enercon

In autumn 2010, the Faroese Electricity Authority called for tenders to set up and operate three wind turbines with a total capacity of 3 MW in Neshagi, or another suitable location. Shortly before that, six companies were pre-approved for the tender, including SEV. The deadline for submitting tenders was February 11, 2011.

The Faroese Electricity Authority received tenders from three companies. On May 18, 2011, having assessed the submissions, the Authority announced that it had selected SEV's tender.

One of the tenderers lodged an appeal against the Authority's deci-

sion. The Authority therefore chose to delay issuing SEV with the production license required. On February 17, 2012, Vinnukærunevndin, the industrial appeals section under Føroya Kærustovnur (Faroese Board of Appeal), reached a decision in the matter. Vinnukærunevndin, "confirmed the decision reached by the Faroese Electricity Authority, now under Jarðfeingi".

SEV originally planned to order the turbines in summer 2011 for delivery in summer 2012. However, without the required license, the purchase contract could not be signed. It was therefore a great challenge for SEV to convince Enercon to maintain the

delivery deadline, without committing to a contract. As soon as Jarðfeingi granted the final approval, SEV signed the contract with Enercon.

The total cost of this project will amount to roughly DKK 30 million. The annual production of the three turbines is estimated at 10.7 million kWh. The project will cut heavy oil use at Sund Plant by 2,300 tonnes a year. At current oil prices this translates into a saving of DKK 10 million.

Construction of a road to Eystnes is now underway, and the turbines are expected to be mounted by late summer 2012.

SEV's employees



*Oluffa undir Kletti,
Human Resources Manager*

As stipulated by the Faroese Municipal Administration Act in Article 5.5, the employees of SEV are considered municipal workers and are subject to the rules, regulations and provisions governing the employment of individuals who work for Faroese municipalities.

SEV is an affiliate of the Faroese municipal employers' organization, Kommunala Arbeiðsgevarafelagið (KAF). The objective of KAF is: to safeguard the interests of its affili-

ates in the labour relations with their employees in all matters concerning wages and terms and conditions of employment. KAF enters agreements with the unions that represent SEV's employees. These unions include: Starvsmannafelagið, public employees' union; Maskinmeistarafelagið, engineers' union, representing engineers employed by SEV; Føroya Handverkarafelag/Landsfelag Handverkaranna, craftspersons unions, regarding wages and other working terms and conditions for the craftspersons employed by SEV. SEV also has employees graded and salaried pursuant to other agreements. Specifically, between the Faroese Ministry of Finance and the union for employees with graduate degrees, Akademikarafelagið; between the Faroese Ministry of Finance and the union of employees with degrees in economics or law, BLF; and between the Faroese Employers' Association and the Faroese Workers' Union.

As stipulated by the Faroese Municipal Administration Act in Article

5.5, the wages and terms and conditions of employment for individuals employed by municipalities or municipal bodies, such as SEV, require government approval. This falls within the mandate of the Department of Wages of the Faroese Ministry of Finance. The aim of this provision in the Municipal Administration Act is to ensure that all individuals working in public and local administration enjoy the same standards of wages and terms and conditions of employment.

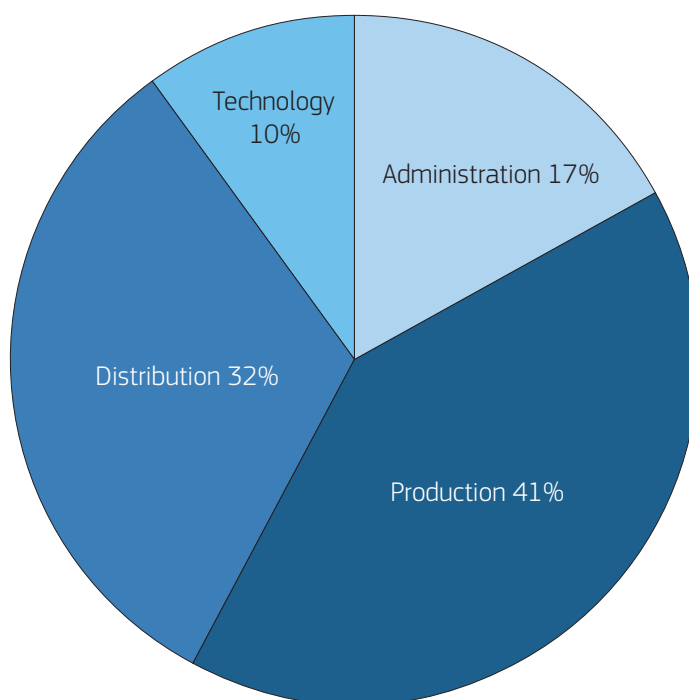
In 2011, 278 people were on SEV's payroll. The breakdown is as follows: 46 people received payments for participating in general meetings, committees or board activities; 33 were paid as meter readers; SEV disbursed 6 public servant pensions; SEV also paid wages to 45 assistants, substitutes and people in fixed-term positions; finally, 148 people were permanently employed by SEV.

The charts included shows statistics for people in permanent positions with SEV.

Employee distribution

By the end of 2011, 148 people were permanently employed by SEV. This means that there were 7 fewer than by the end of 2010 and 10 fewer than by the end of 2009. The distribution of employees between the different areas of work has remained unchanged in recent years.

The pie chart indicates the distribution of employees between the different areas as per December 31, 2011.

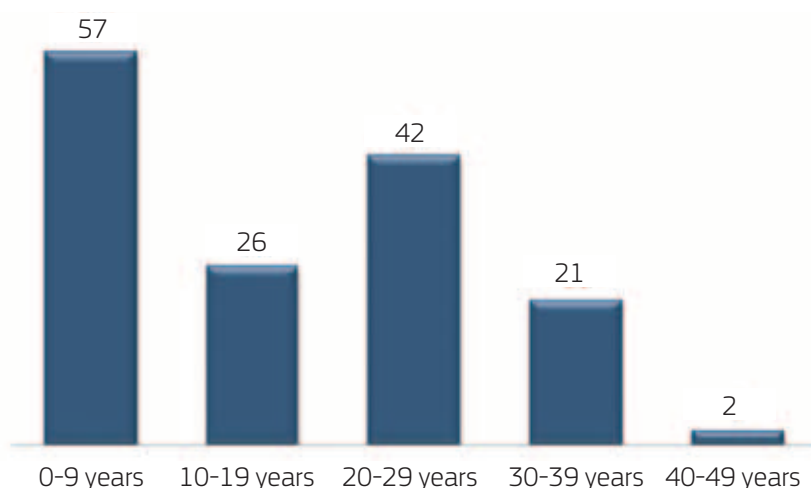


Length of service

The average length of service is rising. In 2009 it was 15 years. At the time, 40 employees, roughly 25%, had been with SEV for 25 years or more. By the end of 2011, the average length of service was 16 years, 44 employees, or 30%, had served SEV for 25 years or more.

The bar chart indicates the distribution of employees by length of service.

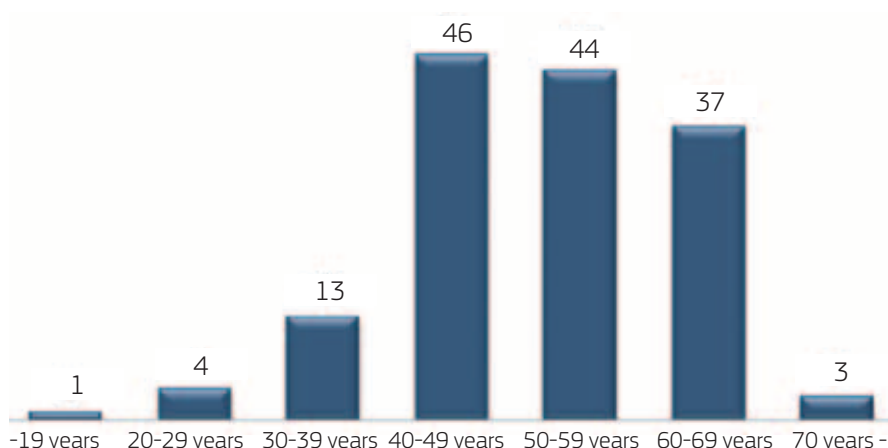
In spite of the high average length of service, the bar chart also shows that quite a few new employees have joined SEV. Of the 57 employees, who have worked for SEV for less than 10 years, 45, or around 30% of all permanent employees, were hired within the last 5 years.



Age

The average age of SEV employees is slowly rising. In 2009 it was 50 years and by the end of 2011 it was 51 years. As per December 31, 2011, 40 employees, 27%, were 60 years old or older. In 2009 this number was 29 employees, roughly 18%. Out of all SEV's permanent employees, 18, 12%, were under the age of 40 by the end of 2011.

The bar chart indicates the distribution of employees by age.



Pensionable age lowered from 70 to 67 years

At a meeting on June 14, 2011, SEV's Board decided to change the pensionable age for SEV's employees from 70 to 67 years. The change entered into effect on October 1, 2011. This meant that employees aged 67 or older on October 1, 2011, had to retire after October 1. The exact date was determined by their period of notice, or by agreement with their manager.

The change is likely to have an impact on the average age of employees in future. However, it is not yet evident in the 2011 figures, too little time has passed.

Employment anniversaries in 2011		
Jan 1	John P. Danielsen, director of administration	25 years
Jan 7	Bjarni Skorastein, craftsperson at Sund Plant	35 years
Jan 14	Páll Johannesen, line manager in Eysturoy	35 years
May 1	Tove Jenny Brink, technical assistant	25 years
May 1	Herluf Mortensen, engineer	30 years
May 1	Stig Nielsen, mechanical engineer at Sund Plant	30 years
May 1	Hans Jákup Petersen, plant manager at Strond	35 years
May 5	Trygvi Samuelsen, linesman in Tórshavn	35 years
May 15	Ingeborg Godtfred, administrative secretary	25 years
Aug 1	Anders Nedergaard-Hansen, production manager	25 years
Aug 1	Bogi Wardum, linesman in Tórshavn	30 years

Change of watch in SEV's administration

A public reception was held at SEV on June 17, 2011, on the occasion of John P. Danielsen retiring on July 1, 2011, and Bogi Bendtsen succeeding him as Director of Administration.



Páll á Reynatúgvu gives a speech while John P. Danielsen, Bogi Bendtsen, Hákun Djurhuus and others listen



John P. Danielsen

On July 1, 2011, John P. Danielsen resigned as Director of Administration. He had served SEV in this position for more than 25 years.



Bogi Bendtsen

SEV's new Director of Administration is 45-year-old Bogi Bendtsen. The Board appointed him by recommendation from the Managing Director. Along with Managing Director Hákun Djurhuus and the Director of Distribution and Production, Finn Jakobsen, he will be responsible for day-to-day management of SEV.

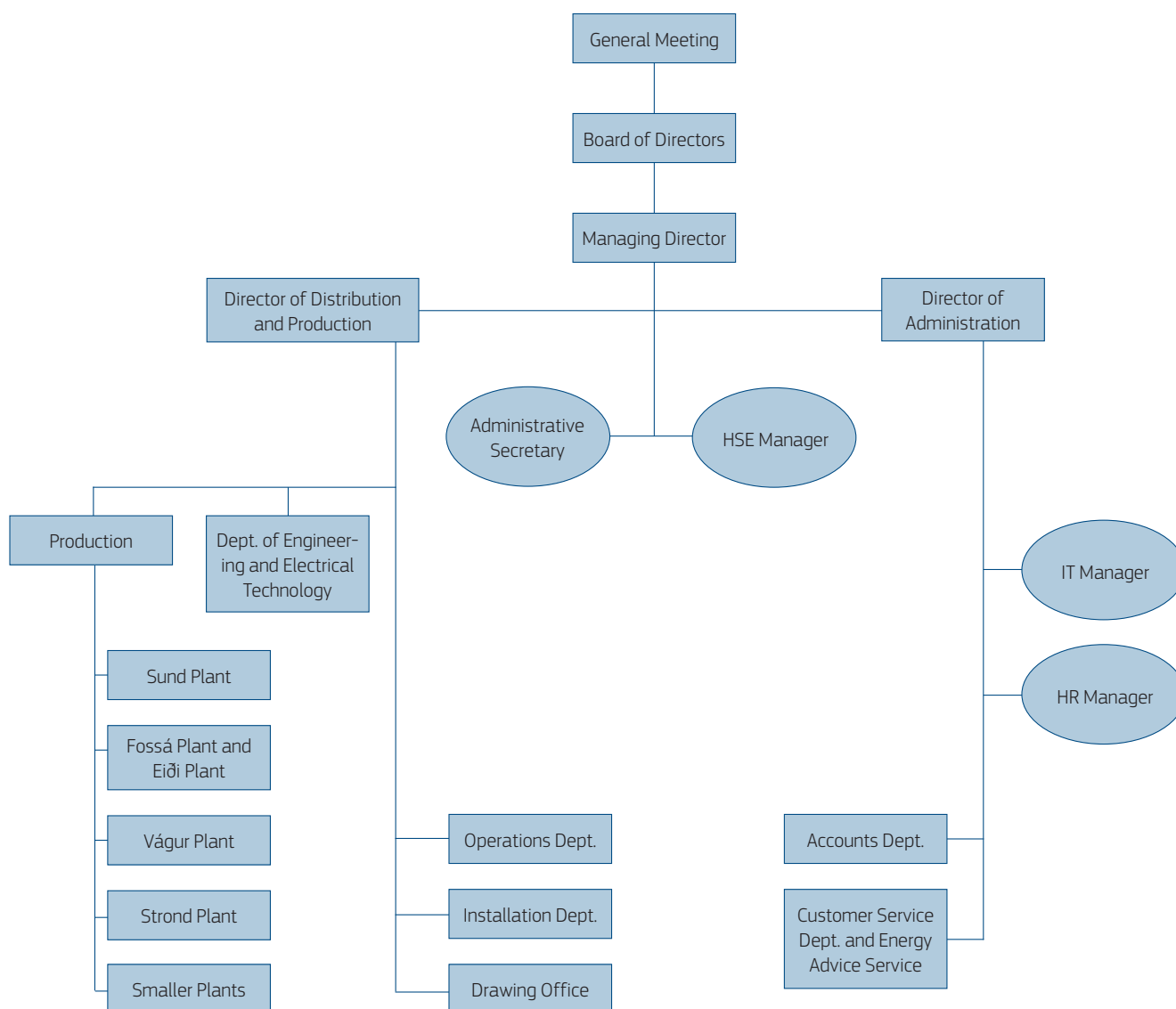
Description of organizational structure

Technological progress and the changing requirements of authorities and stakeholders affect the tasks assigned to SEV, as well as how it executes them. In turn, this leads to changes and adaptations in the content of the work carried out by SEV's departments and employees.

It is therefore necessary to regularly review and update descriptions of organizational structure, definitions of each department's areas of responsibility and tasks, as well as

contents of individual job descriptions.

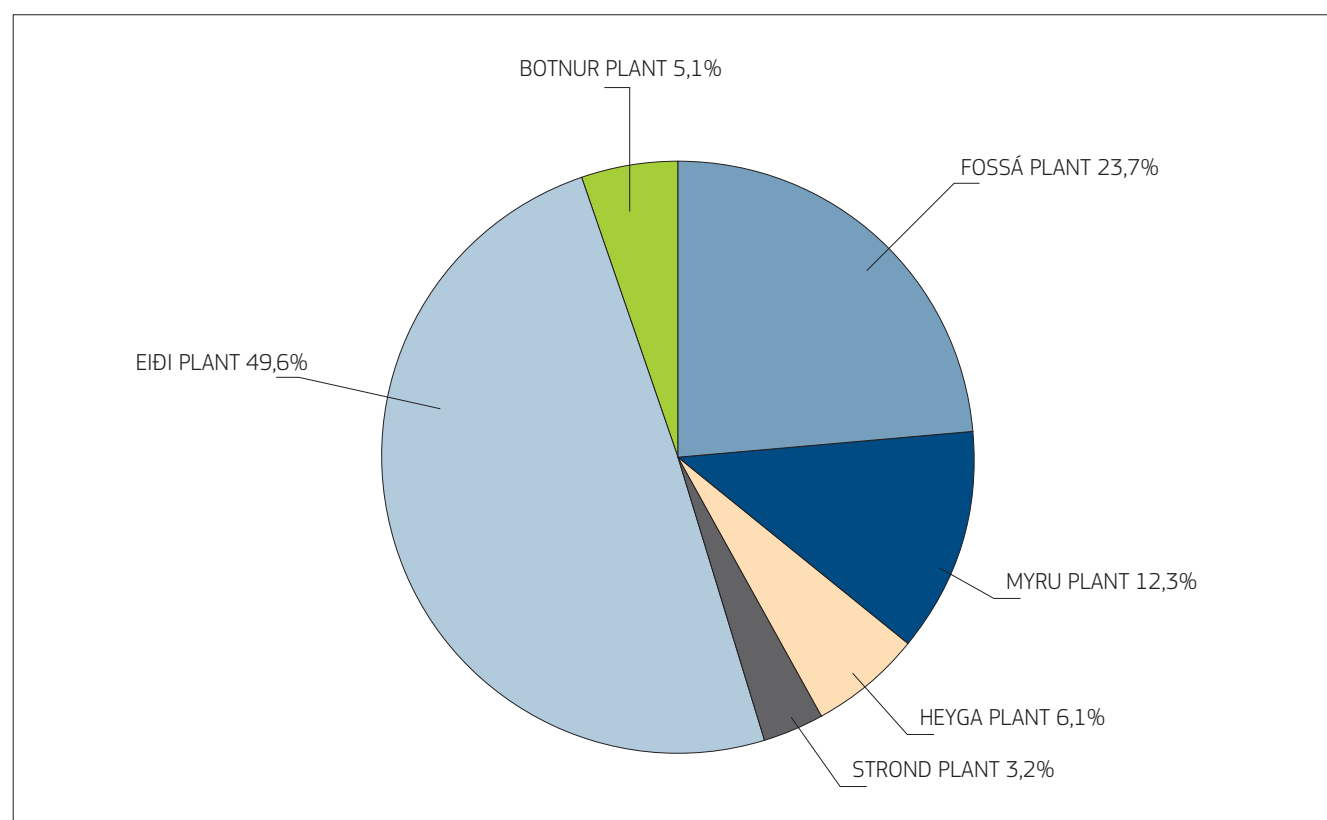
In light of this, a project was launched in 2011. Its objective is to produce a detailed and updated description of the current structure of SEV, its departments and the different areas of responsibility. This description of organizational structure will provide a better overview and greater transparency. The project is well underway and is expected to be completed in 2012.



Distribution grid

	Fugloy	Svínoy	Víðoy	Borðoy	Kunoy	Kallsøi	Eysturoy	Streymoy	Vágoy	Mykines	Nólsøi	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suðuroy	Units in total
<i>TRANSMISSION SUBSTATIONS, NUMBER</i>																		
6kV Transmission substations	1			2														3
10kV Transmission substations		1	6	32	4	7		67			1			16			51	185
20kV Transmission substations				2			111	77	30				1					221
60kV Transmission substations				1			2	4										7
Areas total	1	1	6	37	4	7	113	148	30		1		1	16			51	416
<i>TRANSFORMERS, NUMBER</i>																		
6kV Transformers	2			4				1										7
10kV Transformers		1	6	38	4	7		78			1			18			60	213
20kV Transformers				4			129	104	35				1	3			3	279
60kV Transformers				1			6	12										19
Areas total	2	1	6	47	4	7	135	195	35		1		1	21			63	518
<i>CABLE DISTRIBUTION CABINETS, NUMBER</i>																		
0.4kV cable distribution cabinets	13	25	79	502	30	30	1569	2316	511	7	38		10	217	11		850	6208
<i>LINES AND CABLES</i>																		
60kV line				1.02			37.57	42.99										81.58 km
60kV cable				0.09			13.68	14.81										28.58 km
20kV line							60.27	52.60	9.27								12.03	134.17 km
20kV cable				11.46			151.54	143.74	39.52				0.56	0.63			4.30	351.75 km
10kV line		3.23	16.31	13.84	9.37	6.44		4.70						12.14			44.24	110.27 km
10kV cable		0.55	3.96	29.86	2.75	11.15		68.92			1.47			34.10			59.20	211.96 km
6kV line	2.19			7.17														9.36 km
6kV cable	0.17			0.07				0.16										0.40 km
0.4kV line				0.32				0.04									1.70	2.06 km
0.4kV cable	1.10	4.22	11.34	60.78	2.99	2.97	197.19	285.19	57.37	0.55	3.38	0.38	0.90	28.96	0.88	0.05	95.07	753.32 km
<i>METERS</i>																		
Remote kWh meters	58	76	265	302	82	117	2673	3423	836	52	175	0	43	783	54	2	509	9450
Non-remote kWh meters	2	2	8	2208	2	4	2639	7091	735	1	5	2	0	31	0	2	2371	15103
Area kWh meters total	60	78	273	2510	84	121	5312	10514	1571	53	180	2	43	814	54	4	2880	24553
Increase 2011		3		6	0	0	50	85	9	0	2	0	0	3	0	0	11	167

Hydroelectric power generation for the whole country – power plant regions 2011



Investments 1997 – 2011

SEV Investments 1997 – 2011															
Investments (DKK million)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hydroelectric plants	30.7	35.1	43.3	13.7	8.6	8.6	0.0	0.3	0.3	0.5	4.0	27.4	41.7	46.6	66.9
Other production plants	0.1	0.1	1.1	5.8	30.4	18.1	52.0	18.0	20.0	2.3	2.8	5.0	3.1	2.7	0.8
Distribution plants	12.5	21.0	13.8	13.6	14.6	19.5	17.4	18.6	18.2	32.8	41.9	41.1	19.6	21.7	9.1
Joint property	0.5	0.1	1.8	0.7	0.1	0.0	0.1	0.8	0.0	0	0.8	0.0	0	0	0
Land	-	-	-	1.5	-4.8	0.0	0.0	0.0	0.0	0	0.0	0.0	0	0	0
Other production equipment	2.1	1.8	2.6	1.5	2.4	1.7	2.4	2.0	3.2	2.2	2.5	3.1	5.6	5.7	3.9
Total	45.9	58.1	62.6	36.8	51.3	47.9	71.9	39.7	41.7	37.8	52.0	76.6	70.0	76.7	80.7

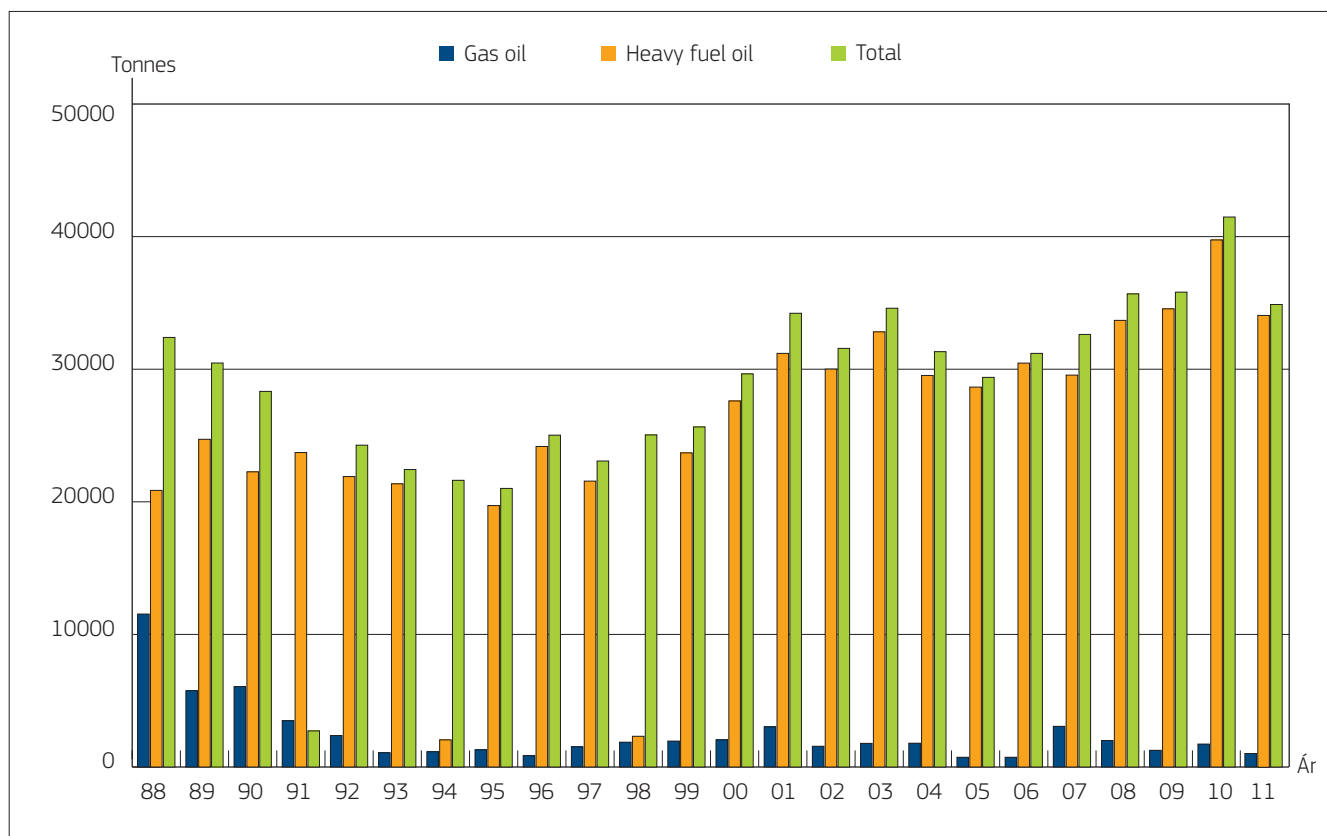
Engine overview as per December 31, 2011

Location	Engine	MW	Hp	Engine type	Engine manufacturer	Powered by	Year	Age	Hours
Botnur Plant	T1	1.00	1,360	Pelton water turbine	Voith	Water	1965	46	177,596
Botnur Plant	T2	2.00	2,719	Francis water turbine	Voith	Water	1966	45	136,449
Eiði Plant	T1	6.70	9,109	Francis water turbine	Voith	Water	1987	24	87,752
Eiði Plant	T2	6.70	9,109	Francis water turbine	Voith	Water	1987	24	81,698
Neshagi	M1	0.15	204	Wind turbine (fixed pitch)	Nordtank	Wind	1993	18	110,000
Neshagi	M2	0.66	898	Wind turbine	Vestas	Wind	2005	6	42,793
Neshagi	M3	0.66	898	Wind turbine	Vestas	Wind	2005	6	45,235
Neshagi	M4	0.66	898	Wind turbine	Vestas	Wind	2005	6	38,934
Skopun Plant	M1 – M3	1.83	2,483	4-T	Mercedes and Deutz	Gas oil	1984		
Small plants		1.70	2,311	4-T	Deutz, Mercedes, Perkins	Gas oil			
Strond Plant	M2	2.30	3,127	4-T KV 12 SS	Mirrleese Blackstone	Gas oil	1965	46	78,839
Strond Plant	M3	3.60	4,895	4-T 12 M 453 K	Krupp Mak	Gas oil	1982	29	45,291
Strond Plant	T1	1.40	1,903	Francis water turbine	Sulzer Hydro	Water	1998	13	40,488
Sund Plant	M1	8.10	11,013	4-T 9M43C	Caterpillar/MaK	Heavy oil	2001	10	41,773
Sund Plant	M2	8.10	11,013	4-T 9M43C	Caterpillar/MaK	Heavy oil	2004	7	35,474
Sund Plant	M3	5.70	7,750	4-T KV16MAJOR	Mirrleese Blackstone	Heavy oil	1978	33	69,538
Sund Plant	M4	12.40	16,859	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1983	28	153,444
Sund Plant	M5	12.40	16,859	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1988	23	127,806
Trongisvágur Plant	M1	2.00	2,719	4-T	Nohab	Gas oil	1973	38	81,520
Vágur Plant	M1	2.70	3,671	4-T 9 M 453	Krupp Mak	Heavy oil	1983	28	107,342
Vágur Plant	M2	2.70	3,671	4-T 9 M 453	Krupp Mak	Heavy oil	1983	28	110,165
Vágur Plant	M3	4.32	5,874	4-T 9M32C	Caterpillar/MaK	Heavy oil	2004	7	46,211
Vestmanna	Fossá 1	2.10	2,855	Pelton water turbine	Maier	Water	1953	58	201,906
Vestmanna	Fossá 2	4.20	5,710	Francis water turbine	Voith	Water	1956	55	314,310
Vestmanna	Heyga 1	4.90	6,662	Francis water turbine	Voith	Water	1963	48	203,508
Vestmanna	Mýru 1	2.40	3,263	Francis water turbine	Voith	Water	1961	50	334,196
		101.38	137,834		Total power:	101	MW		
						137.00	Hp		

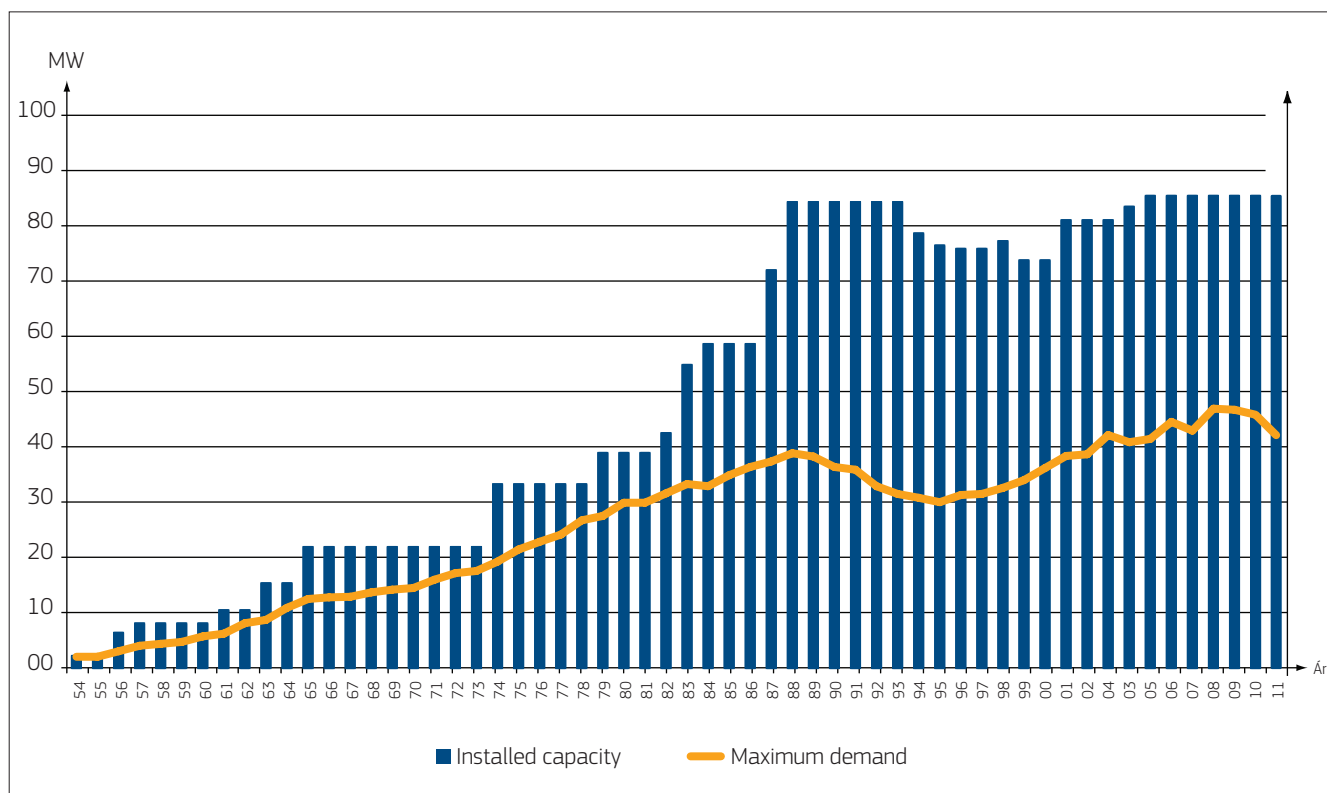
Settled electricity sales in kWh

	2005	2006	2007	2008	2009	2010	2011	Broyting
Agriculture, aquaculture, fisheries and other commodities	15,777,670	19,280,759	22,051,851	23,065,700	25,750,667	25,948,229	26,358,161	1.6
Manufacturing, production and construction	51,092,559	53,752,050	54,738,036	53,821,274	51,991,512	48,927,411	44,517,399	-9
Retail, catering and lodging	19,124,422	20,973,652	21,686,476	22,943,675	22,594,103	22,506,377	22,366,543	-0.6
Transport, postal and telecoms services	18,682,436	21,752,822	23,306,471	25,075,762	24,371,029	28,706,990	31,784,095	10.7
Finance, insurance and other business services	3,809,231	3,915,595	4,008,046	4,239,439	4,456,466	4,247,976	4,241,944	-0.1
Public and private services, churches, congregations, etc.	32,049,660	34,079,230	35,240,703	36,171,787	35,631,941	36,539,380	36,843,539	0.8
Street lighting	6,122,808	5,562,036	6,781,265	7,034,366	6,661,691	6,848,860	7,272,701	6.2
Residential housing, apartments, holiday homes and boathouses	74,942,971	75,553,437	77,590,254	81,549,873	80,450,334	81,271,141	81,423,113	0.2
Total (excluding SEV's own use)	221,601,757	234,869,581	245,403,102	253,901,877	251,907,742	254,996,364	254,807,495	-0.1
SEV's own use and loss of power	23,319,243	24,608,419	24,012,898	21,927,123	23,619,258	25,326,636	19,035,505	-6.2
Electricity production per calendar year	244,921,000	259,478,000	269,416,000	275,829,000	275,527,000	280,323,000	273,843,000	-2.3

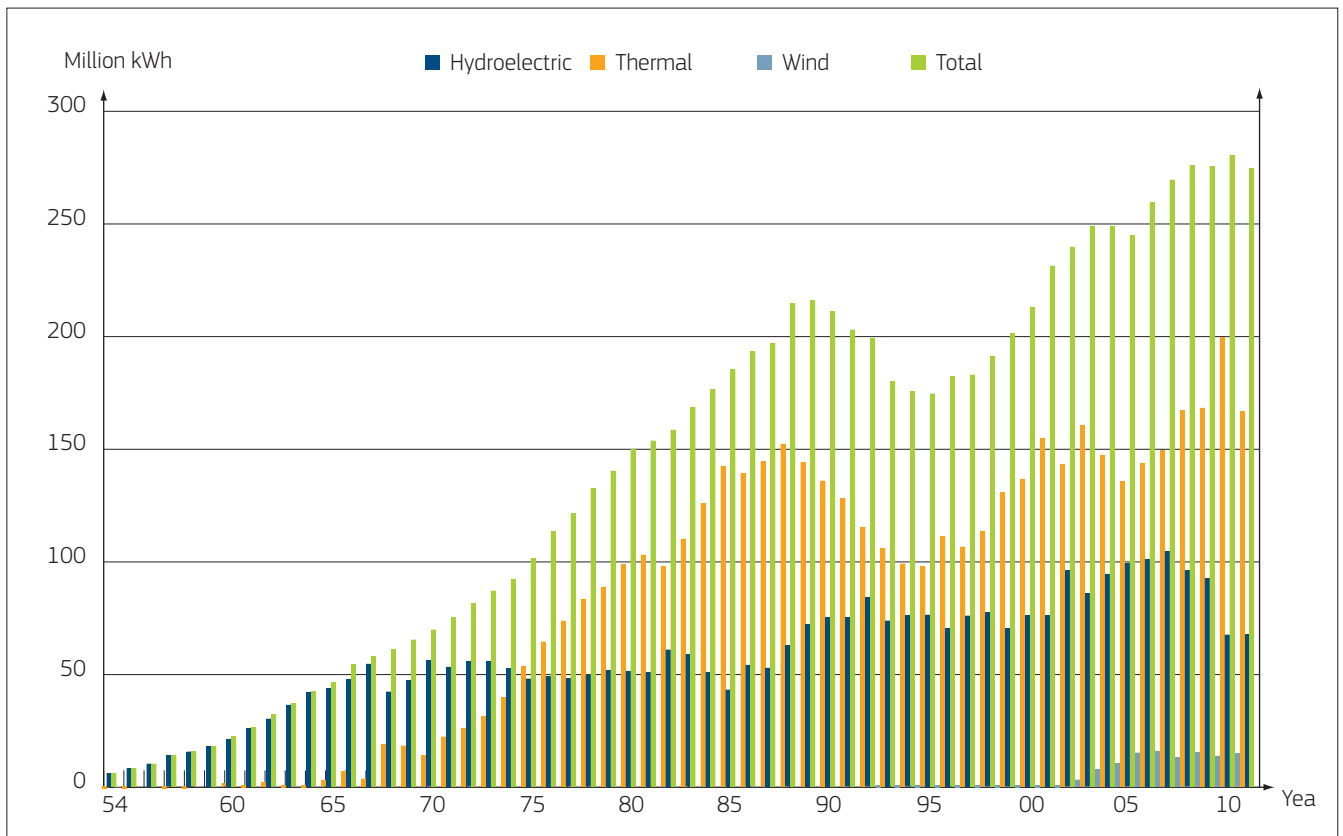
Oil consumption in tonnes, 1988-2011



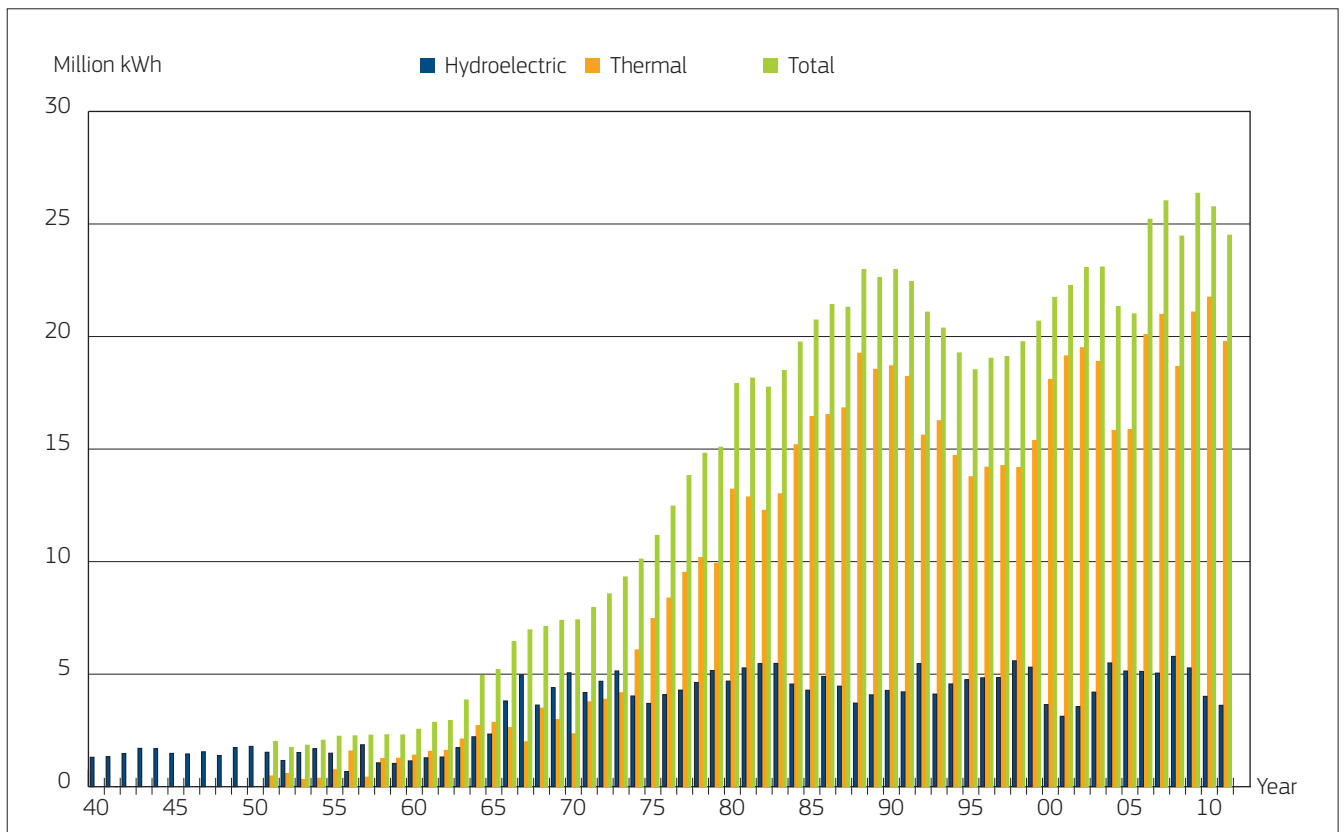
Maximum demand and installed capacity – central region, 1954-2011



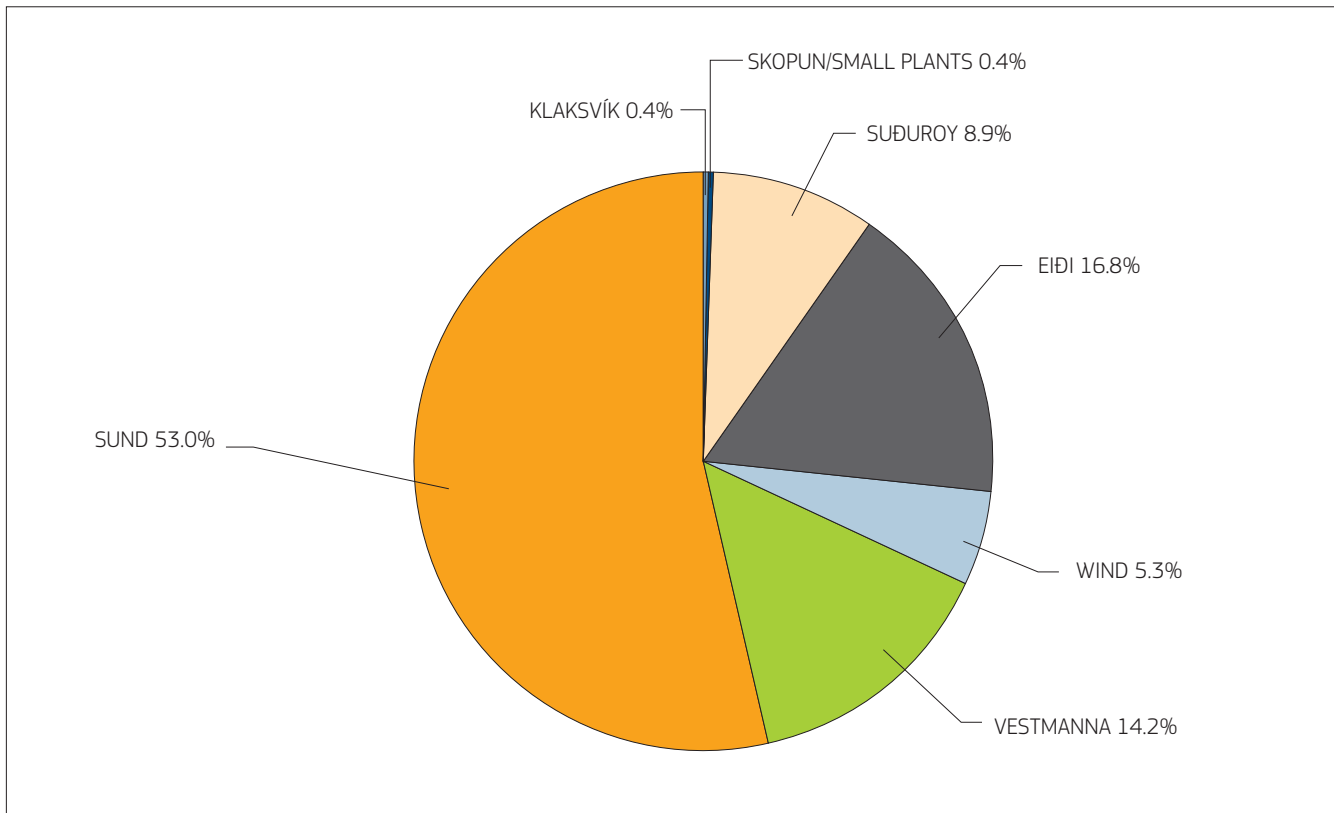
Electricity generation for the whole country, 1954 – 2011



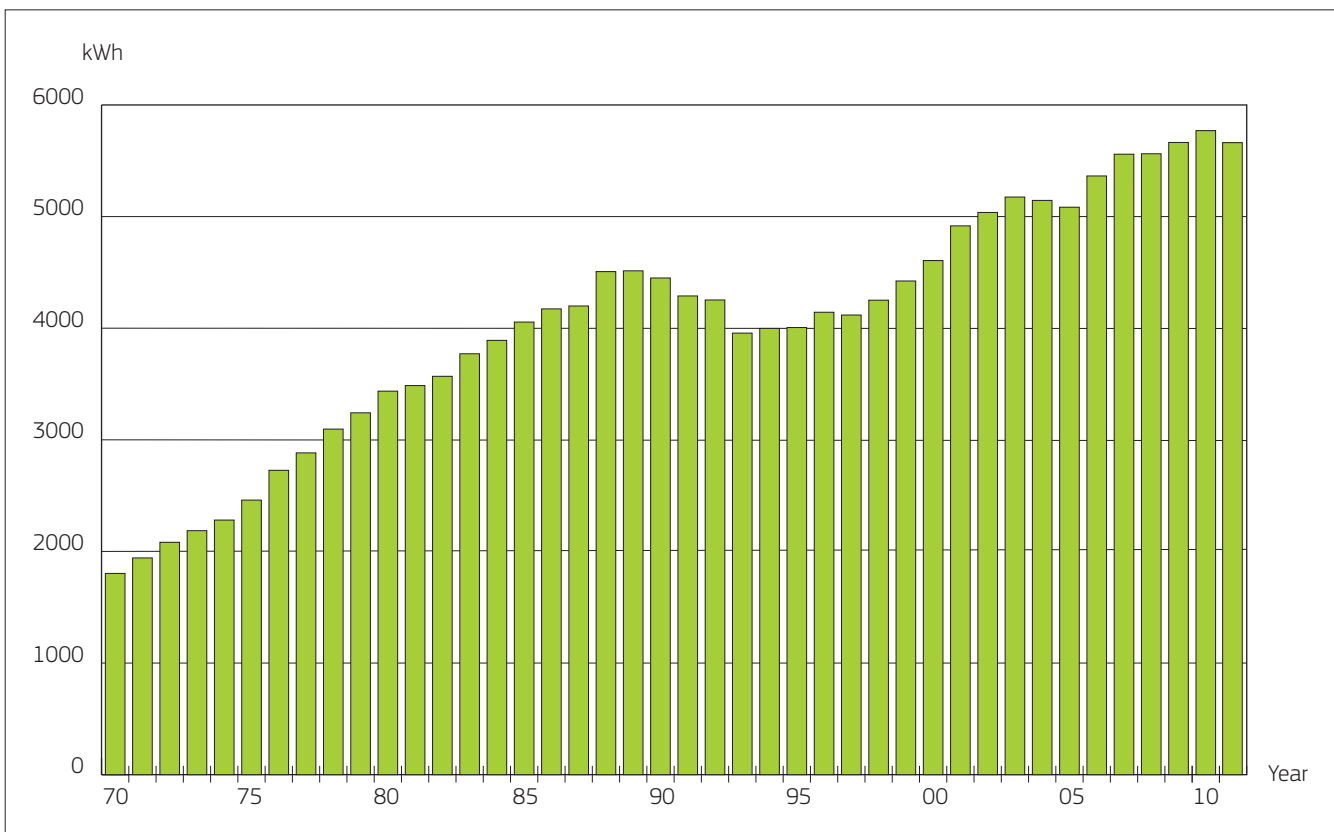
Electricity generation in Suðuroy, 1940 – 2011



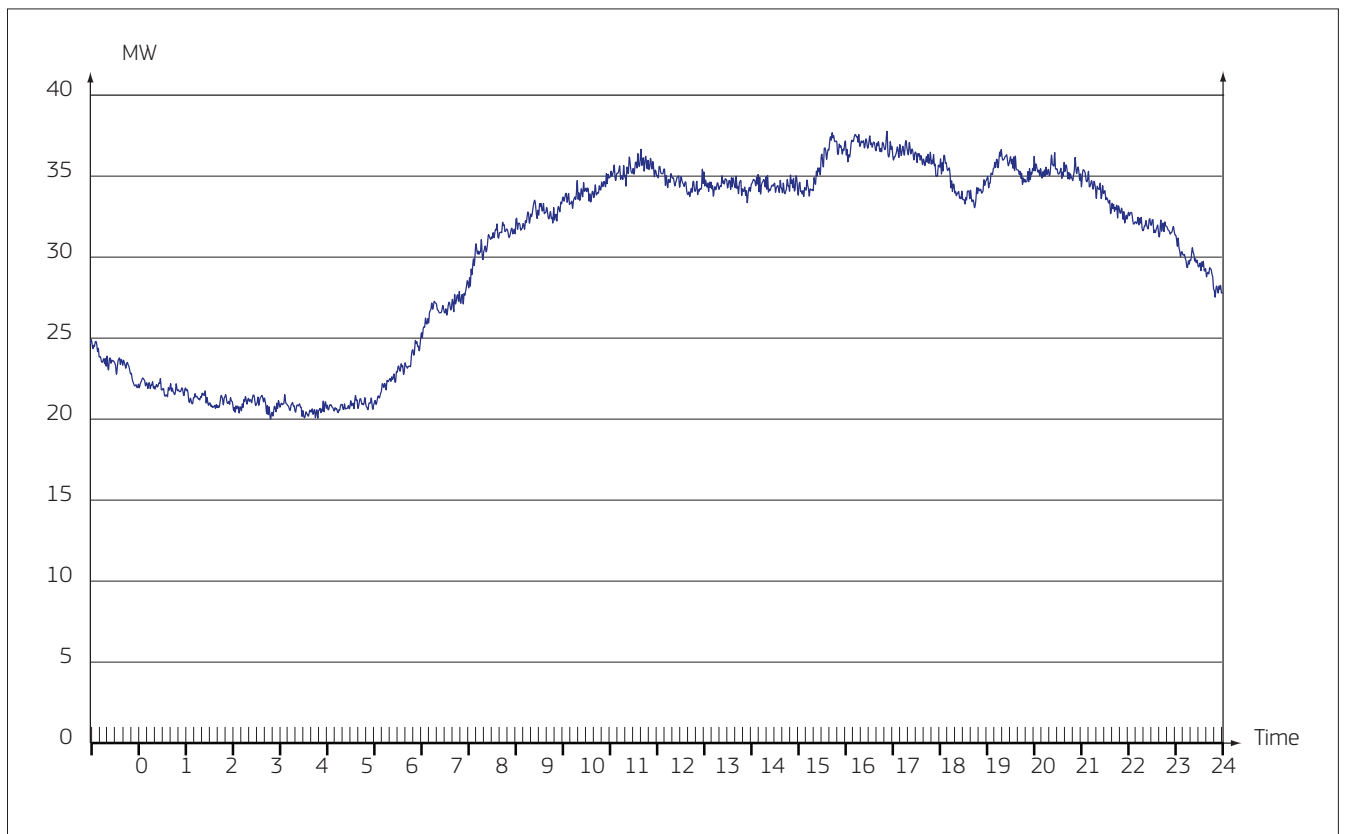
Electricity generation for the whole country – power plant regions 2011



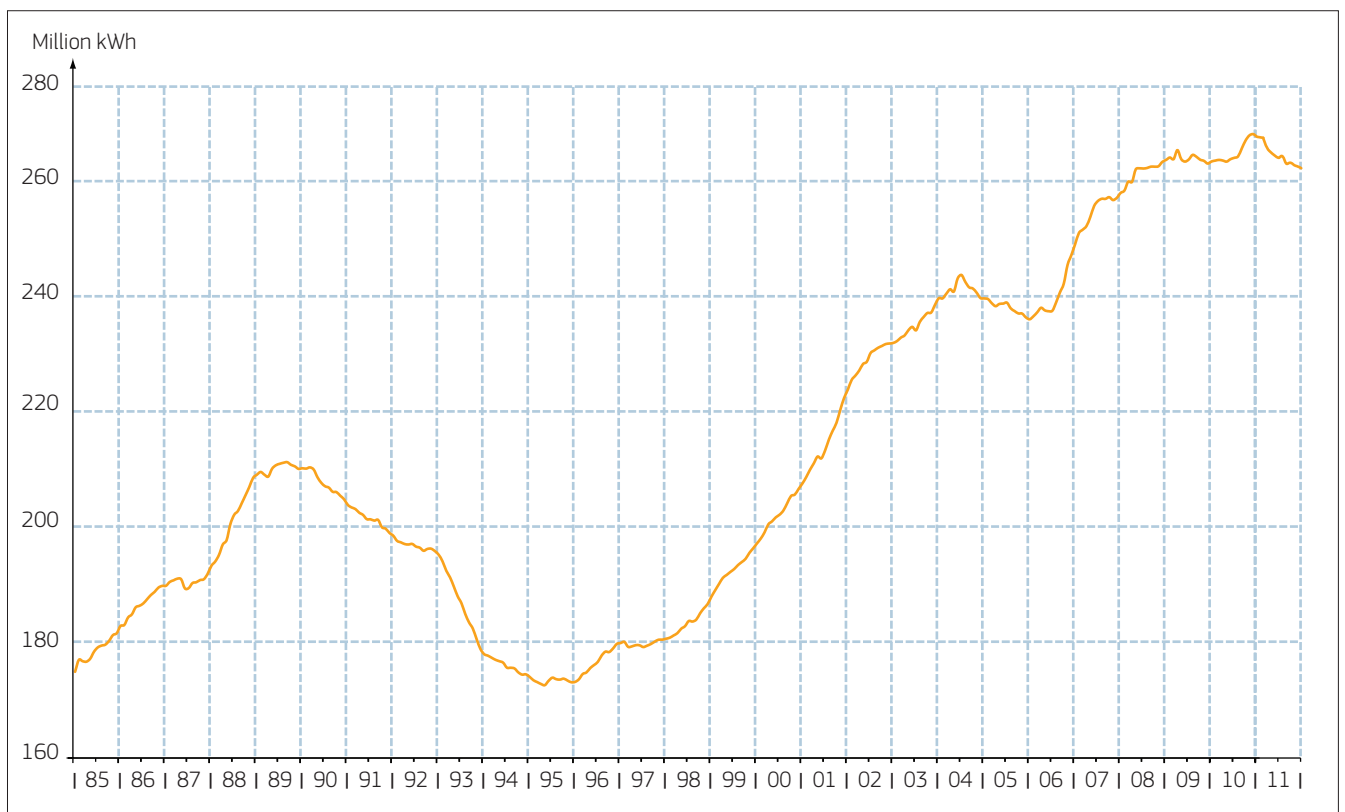
Electricity generation per capita, 1970-2011



24-hour load, central region, Wednesday October 5, 2010



12-month generation for the whole country, 1985-2011





Annual Report and Annual Accounts 2011

Elfelagið SEV

Annual Report and Accounts 2011

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Company

Elfelagið SEV
Landavegur 92
FO-100 Tórshavn
Faroe Islands
Phone: + (298) 346 800
Fax: + (298) 346 801
Website: www.sev.fo
Registered office: Tórshavn
Accounting year:
January 1 – December 31

Board

Jákup Suni Lauritsen, Chairman
Kári E. Jacobsen, Vice Chairman
Marin Katrina Frýdal
Steinbjørn O. Jacobsen
Niclas Hentze
Pauli T. Petersen
Bødvar Hjartvarsson

Management

Hákun Djurhuus, Managing Director
Bogi Bendtsen,
Director of Administration
Finn Jakobsen, Director of
Distribution and Production

Auditing

NOTA
A certified public accounting firm

Management statement

We hereby present SEV's Annual Report and Accounts for the accounting year January 1, 2011 to December 31, 2011.

The Annual Report and Accounts have been drawn up pursuant to the provisions in the Faroese Accounts Act and the Company Statutes.

It is our opinion that the accounting method used ensures that the Annual Report and Accounts give a true and fair

view of the company's assets, liabilities and financial position, as well as the results of operations and cash flows. It is also our opinion that the Management Review constitutes a true and fair report on the matters included in it.

The Annual Report and Accounts are submitted to the General Meeting and the Board recommends their approval.

Tórshavn April 3, 2012

Board:

Jákup Suni Lauritsen
Chairman

Kári E. Jacobsen
Vice Chairman

Marin Katrina Frýdal

Steinbjørn O. Jacobsen

Niclas Hentze

Pauli T. Petersen

Bødvar Hjartvarsson

Management:

Hákun Djurhuus
Managing Director

Financial Management:

Bogi Bendtsen
Director of Administration

To the shareholder of Elfelagið SEV

Independent auditor's report

We have audited the Annual Accounts of Elfelagið SEV for the fiscal year 1 January – 31 December 2011, which comprises the accounting principles applied, income statement, balance sheet, cash flow statement, statement of distribution of activities, distribution of operations and relevant notes. The Annual Report has been prepared in accordance with the Faroese Accounts Act.

Management's responsibility for the Annual Report

Management is responsible for preparing Annual Accounts that give a true and fair view in accordance with the Faroese Accounts Act. This responsibility extends to designing, implementing and maintaining internal control relevant to the preparation and fair and accurate presentation of Annual Accounts, which are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the Annual Accounts based on our audit. We conducted our audit in accordance with international auditing standards and other provisions in Faroese auditing legislation,

which require that we uphold ethical standards, and plan and conduct the audit to obtain reasonable assurance that the Annual Accounts are free from material misstatement.

An audit involves performing the auditing procedures required to obtain audit evidence concerning the amounts and disclosures in the Annual Accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the Annual Accounts, 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 and true presentation of the Annual Accounts. The auditor does so 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. The audit also includes evaluating the appropriateness of the accounting principles applied by management, evaluating whether the accounting estimates made by management are reasonable, as well as evaluating the overall presentation of the Annual Accounts.

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 qualifications.

Conclusion

It is our opinion that the Annual Accounts give a true and fair view of the company's assets, liabilities, and financial position as on 31 December 2011, and of the results of the company's operations and cash flow for the accounting year, 1 January – 31 December 2011, pursuant to the Faroese Accounts Act.

Report on the Management Review

Pursuant to the Faroese Accounts Act, we have read the Management Review.

We have not taken any additional action in this matter, when auditing the Annual Accounts. Considering the above statement, it is our opinion that the information in the Management Review corresponds to the Annual Accounts.

Tórshavn April 3, 2012

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Hans Laksá
Chartered Public Accountant

Jørmann Petersen
Chartered Public Accountant

Key figures and financial ratios

KEY FIGURES

Figures in tDKK	2011	2010	2009	2008	2007
Results					
Net sales	316,391	280,816	279,870	276,860	249,105
Index	127	113	112	111	100
Results before depreciation, amortization and impairment	20,886	8,021	69,282	20,752	63,795
Index	33	13	109	33	100
EBIT	-34,936	-47,644	14,467	-27,605	-14,329
Index	244	333	-101	193	100
Financial items, net	-14,454	-10,139	-5,210	-3,533	-2,293
Index	630	442	227	154	100
Annual results	-49,390	-57,783	9,257	-31,138	12,036
Index	-410	-480	77	-259	100
Balance sheet					
Total assets	1,243,765	1,200,554	1,151,024	484,126	539,325
Index	231	223	213	90	100
Equity	842,276	889,131	945,563	325,987	357,125
Index	236	249	265	91	100
Cash flow statement					
Net cash flows from					
Operations	-13,200	12,172	44,164	19,332	71,535
Investments	-80,672	-78,826	-71,856	-76,613	-52,038
Financing	108,615	72,055	40,158	-18,018	-18,930
Annual cash flows	14,743	5,401	12,466	-75,299	567

FINANCIAL RATIOS

	2011	2010	2009	2008	2007
Profitability					
Return on equity	-5.6%	-6.3%	1.0%	-9.1%	3.4%
Return on assets	1.8%	0.7%	6.0%	4.3%	11.8%
Asset turnover	0.25	0.23	0.24	0.57	0.46
Solvency					
Equity/asset ratio	67.8%	74.1%	82.1%	67.3%	66.2%
Other					
Employees with SEV as main source of income	138	146	153	148	145
Average full-time equivalents	166	175	-	-	-

Calculation of financial ratios

Return on equity	$\frac{\text{Results from operations before taxes}}{\text{Average equity}}$
Profit margin	$\frac{\text{Result of ordinary operations}}{\text{Net sales}}$
Return on assets	$\frac{\text{Result of ordinary operations} \times 100}{\text{Average value of operating assets}}$
Asset turnover	$\frac{\text{Net sales}}{\text{Total assets}}$
Equity/asset ratio	$\frac{\text{Equity year-end} \times 100}{\text{Total assets}}$

Financial ratios are calculated in accordance with the recommendations of the The Danish Society of Financial Analysts

Management review

Main activities

Elfelagið SEV (SEV electricity utility) is an inter-municipal corporate enterprise. Its purpose is to make electricity available and to distribute it among residents of participating municipalities. Pursuant to the statutes, the company shall advance its business purpose according to the principles of commerce, on a financially sound basis, and with due regard for the environment. Pursuant to the Electricity Production Act, SEV's grid operations shall be financially sustainable, generating adequate revenues to pay for operations and necessary investments.

All municipalities in the Faroes are members of SEV. Until December 31, 2008, the members were liable for any company debt and possible losses. As of January 1, 2009, the municipalities are only liable for employee expenses.

This Review includes company activities from January 1, 2011 to December 31, 2011.

Development of company activities and financial situation

The company's operating expenses are usually divided into employee wages and materials and services. These expenses are, in turn, subdivided into production activities, grid activities and administration.

The 2011 operating result was a DKK 49.4 million deficit, down from a deficit of DKK 57.8 million in 2010. The budget approved by the extraordinary general meeting in November

2010 contained a DKK 32.9 million deficit.

SEV increased the electricity price as of January 1, 2011 by DKK 0.15 per kWh, with the approval of the Faroese Electricity Authority. Moreover, the Authority and SEV acknowledged that, considering the high price of oil as well as the expansions and replacements required in both lines and production, further price increases will be necessary. On January 1, 2012, the company increased the price of electricity by DKK 0.10 per kWh.

Revenues

The company grossed DKK 319.2 million in 2011, more than the DKK 314.5 million forecast, resulting in additional income of DKK 4.7 million. Electricity charges made up far the largest share of revenue, amounting to DKK 296.4 million, whereas DKK 22.8 million accrued from fixed charges and other sources of revenue. Electricity production in 2011 was 273,843 MWh, as compared to 280,323 MWh in 2010; this represents a reduction of 6,480 MWh, equivalent to 2.3%.

Of the 273,843 MWh total production in 2011, thermal plants generated 166,815 MWh, whereas 92,502 MWh were hydroelectric power and 14,526 wind power. Sp/f Røkt produced part of this. In comparison, in 2010, thermal plants generated 199,344 MWh, this means that power generation at thermal plants fell by 16.3% in 2011. Hydroelectric power production in 2010 was 67,395 MWh, so there was a 37.3%

increase in 2011. Finally, in 2011 wind power generation also rose by 6.9% on 2010, when it was 13,584 MWh.

Statement of revenues for power plants

The basis for calculating the revenues of production plants, as well as determining the cost of managing the grid, spinning reserve, supplemental reserve and other costs related to grid responsibility, are the company's current records from an ordinary business year.

Power plant revenues must include plant expenses as well as profit on production. The calculated profit of DKK 26.2 million is fixed at 5% of each plant's assets. This 5% profit was determined based on the return on long-term mortgage bonds, which are comparable to long-term production plant investments.

Expenses

In 2011 expenses summed DKK 368.6 million, DKK 21.1 million more than the DKK 347.5 million originally estimated. In 2010 expenses totalled DKK 338.5 million, which means that they rose by DKK 30.1 million, an 8.9% increase. The cost of materials, services and wages amounted to DKK 152.9 million, DKK 1.2 million more than the forecast of DKK 151.7 million. That same item cost DKK 145.0 million in 2010, which translates into a 5.5% rise, in 2011, of DKK 7.9 million.

In 2011 the company recognized the cost of preparing the Víkarvatn pro-

ject, as well as that of preparing the expansion of the office buildings at Landavegur, as expenses of DKK 4.2 million and DKK 1 million, respectively, a total of DKK 5.2 million. Furthermore, the company set aside a DKK 1 million reserve for expenses related to potential disputes. These expenses are recognized in the materials and service expenses of the administration, but they were not foreseen in the 2011 budget.

Cost of supply guarantee, spinning reserve and supplemental reserve

Total plant expenses accrue from the cost of producing electricity plus the cost of responsibility for the grid. They can be subdivided into the cost of managing the grid, the cost of guaranteeing supply, spinning reserve and supplemental reserve, as well as other costs related to grid responsibility. Power plants sell their electricity production to the grid, which pays for the purchase plus the cost of part of the plants' grid responsibility.

Grid management expenses

The Suðuroy grid is managed from Vágur Plant, while the grid covering the rest of the Faroes is managed from Fossá Plant in Vestmanna.

The cost of managing the grid at Fossá Plant, DKK 2.3 million, is calculated as: total wage expenses at Fossá Plant in an ordinary business year of DKK 3 million, less wage expenses for ordinary plant operation of DKK 0.7 million. The cost of ordinary operation at the plant is fixed as the same as the combined cost of operating the Mýru and Heyga plants, which is DKK 0.7 in an ordinary business year. The cost of managing the grid from Fossá Plant is used as the cost of managing the grid in Suðuroy, which is DKK 2.3 million.

Supply guarantee, spinning reserve and supplemental reserve expenses
Supply guarantee, spinning reserve and supplemental reserve expenses are estimated at 5% of total operating expenses, including depreciation, for Sund Plant and Vágur Plant, which amount to DKK 8.4 million and DKK 1.3 million, respectively. This is a fixed estimate of expenses.

Other grid responsibility expenses are based on costs accruing to SEV of small plants throughout the Faroes, which are considered extra plants or supplemental reserve. Operating expenses for wages and materials are reimbursed to small plants for the guarantee of supply, the rest as own production. Strond Plant receives a guarantee of supply reimbursement for the operating expenses of wages and materials for thermal production of electricity. Own production accounts for the remaining expenses.

Summary grid responsibility expenses

The total cost of managing the Faroese power grid is DKK 4.6 million, while the cost of guaranteeing supply, spinning reserve and supplemental reserve at the Sund and Vágur plants is set to DKK 9.7 million. The cost of guaranteeing supply, etc. from other plants is DKK 4.0 million, which means that the estimated total expenses of guaranteeing supply, spinning reserve, supplemental reserve and managing the power grid is DKK 18.3 million.

Cost of oil

The cost of oil in 2011 was DKK 142.6 million. The 2011 budget forecast for oil expenses was DKK 117.3 million, meaning that the actual cost was DKK 25.3 million higher than expected, which constitutes a 21.6% hike.

Production at thermal plants decreased by 32,529 MWh, which is 16.3% down from 199,344 MWh, in 2010, to 166,815 MWh in 2011. The fall in production at thermal plants corresponded to a decrease in electricity consumption of 6,480 MWh, a 25,107 MWh rise in hydroelectric generation, and a 942 MWh increase in wind power generation.

It can therefore be concluded that hiked oil prices caused the increase in oil expenses in 2011. Had production at thermal plants not decreased, oil expenses would have been higher. Oil expenses make up 38.7% of expenses, depreciations and amortizations in 2011. Operating results are thus highly susceptible to fluctuations in the price of oil and in the US dollar exchange rate; any major deviations from the assumptions underlying the budget will have a significant impact on this result.

Wage expenses

Total wage expenses amounted to DKK 62.6 million, as compared to the DKK 65.3 million budgeted for 2011, which means that they were DKK 2.7 million lower than expected. In 2010 wage expenses summed DKK 2.5 million less, at DKK 65.1 million, so there has been a 3.8% reduction in total wage expenses.

Wage expenses in production amounted to DKK 32.1 million rather than the expected DKK 26.3 million. The additional expense of DKK 5.8 million was caused by more wages being paid at most plants owing to the many repairs and maintenance tasks. In 2010 these wage costs were DKK 31.1 million, constituting a DKK 1.0 million, or 3.2%, rise on 2010.

On the other hand, grid wage expenses were DKK 6.2 million lower

than expected, totalling DKK 20.4 million as compared to the expected DKK 26.6 million. This expense item totalled DKK 23.5 million in 2010, so it was DKK 3.1 million lower in 2011, which means there was a 13.2% year-on-year reduction.

The reason for the lower-than-forecast use in 2011 is that wage expenses were expected to be DKK 4.3 million higher for the departments of technology and engineering. Furthermore, operations wage expenses were also DKK 1.9 million lower than calculated.

Administration wage expenses amounted to DKK 10.0 million as compared to the DKK 12.4 million forecast, which means that DKK 2.4 million less than expected were spent. In 2010 administration wage expenses were slightly higher at DKK 10.4 million, which means that there has been a minor reduction in wage expenses of DKK 0.4 million.

Materials and services

The cost of materials and services summed DKK 90.3 million, as compared to the budgeted DKK 86.4 million, making it DKK 3.9 million higher than expected. The total recognizes the DKK 4.2 million cost of preparing the Víkarvatn project, the DKK 1.0 million cost of preparing for the expansion of the office buildings at Landavegur, and a reserve of DKK 1.0 million set aside for the resolution of potential disputes.

The expenses mentioned were not budgeted for 2011. Had they not been recognized as costs, materials and services expenses would have amounted to DKK 84.1 million, which is DKK 2.3 million lower than originally forecast.

Damages caused by storms in the winter of 2011/2012 also had a

minor impact on the company's materials and services expenses, and, by extension, on the 2011 results, in spite of the fact that the company is well insured.

Production activities

Materials and services expenses for production plants totalled DKK 58.7 million, as compared to the DKK 46.1 million forecast; which means there was additional cost of DKK 12.6 million. The additional cost stems from unexpected repair expenses arising during maintenance and repairs at production plants, particularly Fossá Plant, Eiði Plant and Sund Plant. These same expenses totalled DKK 46.4 million in 2010, which means that expenses in this area were up DKK 12.3 million in 2011, a 26.5% increase on 2010.

Grid activities

Grid materials and service expenses summed DKK 15.1 million, DKK 4.6 million less than the budgeted DKK 19.7 million, owing to lower use at the company's operations departments. In 2010 these expenses equalled DKK 18.5 million, which means that this area of expense was DKK 3.4 million cheaper in 2011 than in 2010, an 18.4% reduction.

Administration

Administration materials and services expenses amounted to DKK 16.5 million in 2011, DKK 4.1 million lower than the forecast DKK 20.6 million. This lower figure includes the costs of the Víkarvatn project, Landavegur project and reserve for potential disputes, which sum DKK 6.2 million. If these costs are subtracted, then the total expenses are DKK 10.3 million lower than expected. The reduction owes to lower administrative expenses, including study and consultancy expenses.

In 2010 these expenses totalled DKK 15 million, meaning that the cost rose by DKK 1.5 million on 2011, a 10% increase.

Financial expenses

Interest expenses netted DKK 14.4 million, against the estimated DKK 15.6 million. SEV paid DKK 1.2 million less than expected, thanks to lower-than-forecast interest rate levels on its variable loans.

The company is partially exposed to fluctuations in international interest rate levels, because some of the company's loans were taken out with variable interest. The interest rate on the Eiði 2 project building loan is due for review by the end of 2013, when it will be converted into a long-term loan.

Depreciations

The method of calculating depreciations changed as of January 1, 2009, on orders from the Faroese Electricity Authority. Property values changed significantly as of January 1, 2009, and, at the same time, depreciation periods were considerably lengthened for most properties.

Based on retrospective assessments, the company's depreciations pursuant to the new method of calculation, with extended depreciation periods and higher property values, are DKK 5.5 million higher in 2009 and DKK 5.9 million higher in 2010 than they would have been with the previous shorter depreciation periods and lower property values. If company assets, which had been depreciated to zero, had not been recognized in the calculation under the new depreciation method, depreciations would have been significantly lower. However, any changes have to apply to the whole sector, without any exclusion.

An evaluation was carried out in order to assess the impact over time of the changes to the depreciation method. It is based on the assumption that the company will invest DKK 50 million annually over the coming years and that these are subject to ordinary depreciation. The evaluation indicates that depreciations are slightly lower with the new method compared to the old depreciation method. However, this does not mean that the company can simply lower the price of electricity, or refrain from increasing it, because that would eliminate any surplus liquidity from operations, which is needed to secure self-financing of planned investments. The company needs balanced operations. Results without any self-financing at all would not allow SEV to invest in modernizing thermal plants and expanding the grid, while also having to invest in expanding renewables.

Depreciations for 2011 amounted to DKK 55.8 million, DKK 4.2 million lower than the budgeted DKK 60.0 million. Depreciations for 2010 summed DKK 55.7 million, which is the same level as in 2011. Budget preparations for each coming year include an assessment of which investments are likely to be completed during that year, because they become assets subject to depreciations when they start operating. The difference between these assessments and the actual figures confirmed accounts for the difference between recognized and budgeted depreciations. Investments were also slightly lower than expected.

Special risks

The company has limited exposure to individual clients. The company constantly monitors customers' level of indebtedness to SEV.

As mentioned in the segment on financial expenses, the company is susceptible to changes in interest rate levels, but has chosen not to hedge using financial instruments or put in place other such safeguards.

The company is closely monitoring interest rate levels and continuously reviews whether implementing safeguards against interest rate risks would be advantageous.

The company is also sensitive to fluctuations in oil price and the US dollar exchange rate, because oil is traded in dollars. The company has not hedged against oil price fluctuations and does not purchase dollars under forward contracts. Current company procedures for the area are currently under review.

Investments

Investments in tangible fixed assets amounted to DKK 80.7 million, as indicated in the table below.

This is DKK 46.6 million less than budgeted for 2011. Work on Eiði Plant is progressed slower than expected, DKK 10.5 million less than budgeted were therefore invested

there. Whereas DKK 3.3 million less than expected were spent on Sund Plant and DKK 8.0 million were left unspent on long-term projects and wind turbines. Investments in substations and the grid were also lower than originally calculated. Finally, investments in the Grana collaboration, equipment and remote metering were DKK 9.2 million lower than estimated.

Liquidity

In the 2011 budget the company planned for loans and bank overdrafts totalling DKK 130 million, which were secured. The company's change in liquidity from operations was minus DKK 13.2 million, this result leaves no self-financing for investments in 2011. The company must also make repayments every year; these amounted to DKK 18.9 million in 2011.

By the end of the year, the company's liquidity was DKK 56.9 million. In addition, the company's unused bank overdrafts total DKK 5.4 million, which means that all-in-all DKK 62.3 million are available to the company in cash-on-hand and credit.

Investments	Actual figures 2011		Initial budget 2011	
	DKK million	percent	DKK million	percent
Eiði Plant	66.5	82.4	77.0	60.5
Botnur Plant	0.5	0.6	0.0	0.0
Vágur Plant	0.1	0.0	0.0	0.0
Sund Plant	0.7	0.9	4.0	3.1
Small plants	0.0	0.0	7.1	5.6
Long-term project and wind turbines in Neshagi DKK 28 million	0.0	0.0	8.0	6.3
Total investment in production plants	67.8	84.0	96.1	75.5
Substations, grid, etc.	9.1	11.2	18.1	14.2
Equipment, IT equipment, remote metering, Grani project, etc.	3.9	4.8	13.1	10.3
Total	80.7	100.0	127.3	100.0

At the beginning of January 2012, the company took out a cash flow loan of DKK 80 million. The aim is to have a sound cash flow, in order to ensure that SEV is always capable of paying cash for one oil shipment plus the cost of an accident at one of the production plants or the grid.

The company's day-to-day operations also require stable liquidity. Moreover, in light of the uncertainty on the global financial markets, it is sensible to secure sound liquidity.

Environment

The company prioritizes the environment and therefore greatly emphasizes full compliance at all times with environmental requirements, regulations and standards.

Knowledge resources and development

It is very important for the company that pertinent and sufficient knowledge and experience are available in all areas of activity, and arrangements are in place for relevant staff training. The company continuously works on developing safety, security and quality of supply. SEV is working on plans to increase the production share of renewable energy sources, such as hydroelectricity, water and tidal power.

Outlook for 2012

For 2012 SEV expects a deficit of DKK 6.3 million, which is a significant improvement on the 2011 deficit of DKK 49.4 million. The expected deficit includes revenues or savings of DKK 10 million approved at SEV's extraordinary general meeting on December 19, 2011.

The expected average electricity price for 2012 is DKK 1.28 per kWh, and no significant changes are expected to the current composition of the electricity use of SEV's

clients. Based on this average price, SEV foresees total revenues from electricity sales of DKK 319.5 million. This revenue is supplemented by income from fixed charges, connection charges and other items amounting to DKK 18.7 million. This makes SEV's total expected revenue DKK 338.2 million. The DKK 19.0 million increase in revenues on 2011 owes to the DKK 0.10 per kWh hike in electricity price in 2012.

Operating expenses, before potential savings in administration, are estimated at DKK 126.5 million in 2012, as compared to DKK 152.9 million in 2011, which is a 17.3% reduction of DKK 26.4 million. The main reason for this is that SEV expects a gradual reduction in expenses related to grid activities; also, maintenance work at some plants has been postponed to 2013. On the other hand, the winter storms of 2011/2012 will lead to increased spending on repairing the grid and replacing the company's wind turbines in Neshagi.

SEV budgeted oil expenses of DKK 134.5 million for 2012. However, based on oil prices in the first quarter of 2012, the cost of oil may exceed the original budget by DKK 15 – 20 million.

The estimated result of ordinary operating activities in 2012 is DKK 74.2 million. This figure does not take into account the DKK 10 million savings the company must make in 2012. Depreciations and net interest expenses budgeted amount to DKK 68.2 million and DKK 22.3 million, respectively. The rise in interest expenses stems from a rise in company debt to fund operations and investments.

With an estimated deficit of 6.3 million in 2012, there will be a change

in liquidity from operations of DKK 62 million, and after repayments of DKK 20.7 million, DKK 41.3 million will be left for self-financing company operations and investments. The calculation does not take into account changes in working capital. This is significantly higher than the previous year.

If the company is to continue making the necessary investments in developing and maintaining the grid and production plants, as well as investing in expanding renewables, it must secure adequate self-financing from operations.

In order for the company to maintain adequate liquidity and also secure funding from lenders for the major investments ahead in the coming years, the company must balance its books and achieve an accordingly satisfactory result from operations.

Events after the close of the accounting year

Since the day the balance sheet was prepared, the company has suffered damages to two of its wind turbines. They were both wrecked and are incapable of producing electricity.

The company is currently looking into how to regenerate this electricity production. One solution is to install turbines similar to the ones lost in the storms; another would be to install newer and more advanced turbines instead. The company is expected to sustain some losses from this accident, in spite of having insurance against such damages.

Income statement

	Note	2011 DKK	2010 tDKK
Net turnover	1	316,392,690	278,263
Cost of oil	2	-142,640,371	-125,258
Materials and services	3	-90,289,592	-79,922
Gross proceeds		83,462,727	73,083
Wages	4	-62,576,236	-65,061
Results before depreciation, amortization and impairment		20,886,491	8,021
Depreciation, amortization and impairment of fixed assets		-55,822,669	-55,665
Results before financials		-34,936,178	-47,644
Financial income		505,687	685
Financial expenses	5	-14,959,521	-10,825
Net financials		-14,453,834	-10,139
Results before tax		-49,390,012	-57,783
Tax on annual results	6	0	0
Annual results		-49,390,012	-57,783
Proposed distribution of results:			
Results		-49,390,012	-57,783
Opening adjustment		2,534,565	1,351
Results carried over beginning-of-year		884,991,155	941,423
For use		838,135,708	884,991
Proposed distribution of the amount:			
Results carried-over		838,135,708	884,991
Total		838,135,708	884,991

Balance sheet as at 31 December

ASSETS	Note	31.12.11 DKK	31.12.10 tDKK
Power plants	7	539,062,909	569,761
Distribution stations	7	373,226,403	376,128
Buildings and land	7	37,243,022	38,267
Operating equipment	7	7,762,709	8,988
Investment works in progress		125,082,447	64,384
Total tangible fixed assets		1,082,377,490	1,057,528
Investments in associates	8	2,850,000	2,850
Total financial assets		2,850,000	2,850
Total assets		1,085,227,490	1,060,378
Oil inventory		38,787,135	38,483
Materials inventory		11,321,099	11,734
Total inventory		50,108,234	50,217
Goods and service debtors	9	42,340,297	36,372
Other debtors		5,199,715	7,347
Prepayments		4,002,434	4,097
Total debt		51,542,446	47,816
Cash-on-hand		56,886,927	42,144
Total current assets		158,537,607	140,176
Total assets		1,243,765,097	1,200,554

Balance sheet as at 31 December

LIABILITIES	Note	31.12.11 DKK	31.12.10 tDKK
Deposit	10.16	4,139,875	4,140
Results carried over	10.16	838,135,707	884,991
TOTAL EQUITY		842,275,582	889,131
Provisions for pensions and equivalent liabilities		18,031,268	18,731
Provisions for deferred tax	11	0	0
Other provisions		1,001,129	0
Total provisions		19,032,397	18,731
Bank borrowings	12	283,647,141	202,121
Total long-term debt		283,647,141	202,121
Current portion of long-term debt	12	15,360,000	15,859
Bank borrowings		27,587,468	0
Prepayment received from customers		22,504,458	20,271
Trade creditors		24,724,978	48,484
Corporate tax	13	0	0
Other creditors		186,823	5,958
Prepayments		8,446,250	
Total Short-term debt		98,809,977	90,572
TOTAL DEBT		382,457,118	292,693
TOTAL LIABILITIES		1,243,765,097	1,200,554

Mortgages and other obligations 14

Cash flow statement

	Note	2011 DKK	2010 DKK
Annual results		-49,390,012	-57,783
Adjustments	15	70,276,503	65,761
Changes in working capital			
Inventories		108,477	-20,548
Receivables		-3,726,906	-2,533
Trade creditors		-23,759,303	33,938
Other operating debt		5,210,648	0
Operating cash flows before financials		-1,280,593	18,835
Interest income received and equivalent revenues		505,687	685
Interest expenses paid and equivalent expenses		-14,959,521	-8,699
Opening adjustment		2,534,565	1,351
Cash flows from operations		-13,199,863	12,172
Purchase of tangible fixed assets		-19,972,955	-27,264
Changes to work in progress		-60,698,845	-51,562
Cash flows from investments		-80,671,800	-78,826
Loans		100,000,000	90,000
Repayments on long-term debt		-18,972,495	-17,945
Bank overdraft withdrawals (max, DKK 33 million)		27,587,468	0
Cash flow from financing		108,614,973	72,055
Total cash flows over the year		14,743,310	5,401
Opening cash-on-hand		42,143,617	36,772
Closing cash-on-hand		56,886,927	42,144
Breakdown of closing cash-on-hand:			
Cash-on-hand		56,886,927	42,144
Total		56,886,927	42,144

Distribution of activities, production and grid

OPERATIONS tDKK	Production	2011 Grid	Total	Production	2010 Grid	Total
Revenues	301,698,840	14,693,850	316,392,690	238,266	39,997	278,263
Cost of oil	-142,306,499	-333,872	-142,640,371	-124,731	-527	-125,258
Materials and services	-58,674,498	-31,615,094	-90,289,592	-46,416	-33,507	-79,923
Wages	-32,134,966	-30,441,270	-62,576,236	-31,103	-33,958	-65,061
Results of ordinary operations	68,582,877	-47,696,386	20,886,491	36,016	-27,995	8,021
Depreciations	-31,538,754	-24,283,915	-55,822,669	-31,306	-24,359	-55,665
Results before financials	37,044,123	-71,980,301	-34,936,178	4,710	-52,354	-47,644
Net financials	-10,809,778	-3,644,056	-14,453,834	-4,710	-5,429	-10,139
Results before taxes	26,234,345	-75,624,357	-49,390,012	-	-57,783	-57,783
Taxes	-	-	-	-	-	-
Annual results	26,234,345	-75,624,357	-49,390,012	-	-57,783	-57,783

BALANCE SHEET						
tDKK	Production	2011 Grid	Total	Production	2010 Grid	Total
ASSETS						
Real estate, power plants, etc.	543,296,589	413,998,455	957,295,044	574,157	418,988	993,145
Investment works in progress	121,478,051	3,604,395	125,082,446	54,357	10,027	64,384
Fixed assets	664,774,640	-417,602,850	1,082,377,490	628,514	429,015	1,057,529
Share equity	-	2,850,000	2,850,000	-	2,850	2,850
Financial assets	-	2,850,000	2,850,000	-	2,850	2,850
TOTAL ASSETS	664,774,640	420,452,850	1,085,227,490	628,514	431,865	1,060,379
Oil inventory	38,787,135	-	38,787,135	38,483	-	38,483
Materials inventory	-	11,321,099	11,321,099	-	11,714	11,714
Contract work in progress	-	-	-	-	19	19
Total inventory	38,787,135	11,321,099	50,108,234	38,483	11,733	50,216
Electricity debtors	-	35,247,039	35,247,039	-	32,144	32,144
Other debtors	-	6,987,293	6,987,293	-	4,228	4,228
Other receivables	-	9,308,114	9,308,114	-	11,444	11,444
Total debt	-	51,542,446	51,542,446	-	47,816	47,816
Cash-on-hand	-	56,886,927	56,886,927	-	42,143	42,143
TOTAL CURRENT ASSETS	38,787,135	119,750,472	158,537,607	38,483	101,692	140,175
TOTAL ASSETS	703,561,775	540,203,322	1,243,765,097	666,997	533,557	1,200,554
LIABILITIES						
Deposit	-	4,139,875	4,139,875	-	4,140	4,140
Capital account	469,508,384	368,627,323	838,135,707	449,017	435,974	884,991
Total equity	469,508,384	372,767,198	842,275,582	449,017	440,114	889,131
Pensions	-	18,031,268	18,031,268	-	18,731	18,731
Deferred tax	-	-	-	-	-	-
Other provisions	-	1,001,129	1,001,129	-	-	-
Total provisions	-	19,032,397	19,032,397	-	18,731	18,731
Loans	229,007,141	70,000,000	299,007,391	217,980	-	217,980
Bank borrowings	-	27,587,468	27,587,468	-	-	-
Electricity creditors	-	22,504,458	22,504,458	-	20,271	20,271
Other creditors	-	24,724,978	24,724,978	-	48,484	48,484
Other debt	-	186,823	186,823	-	5,957	5,957
Prepayments	5,046,250	3,400,000	8,446,250	-	-	-
Total debt	234,053,391	148,403,727	382,457,118	217,980	74,712	292,692
TOTAL LIABILITIES	703,561,775	540,203,322	1,243,765,097	666,997	533,557	1,200,554

DISTRIBUTION OF REVENUES

	Production	Grid	Total
Sales	-	319,197,094	319,197,094
Own production and purchased electricity	283,393,092	-286,197,496	-2,804,404
Grid responsibility and grid management	18,305,748	-18,305,748	-
PRODUCTION RESULTS	301,698,840	14,693,850	316,392,690

DISTRIBUTION OF OPERATIONS – PRODUCTION

	Revenues	Oil	Materials	Wages	Depreciations	Interest	Total
Thermal	205,157,142	-140,314,593	-20,446,282	-22,956,154	-15,974,781	-	5,465,332
Water	93,493,878	-1,991,905	-36,991,573	-8,965,113	-14,406,296	-10,809,778	20,329,213
Wind	3,047,820	-	-1,236,643	-213,699	-1,157,678	-	439,800
Production results	301,698,840	-142,306,498	-58,674,498	-32,134,966	-31,538,755	-10,809,778	26,234,345

DISTRIBUTION OF OPERATIONS – GRID

	Revenues	Oil	Materials	Wages	Depreciations	Interest	Total
Grid less management	1,524,872	-252,604	-15,098,621	-20,420,202	-22,299,018	-	-56,545,573
Management	13,168,979	-81,268	-16,516,474	-10,021,068	1,984,897	-3,644,056	-19,078,784
Grid results	14,693,851	333,872	-31,615,095	-30,441,270	-24,283,915	-3,644,056	-75,624,357

Applied accounting principles

General

The Annual Report was prepared in accordance with the provisions in the Faroese Annual Accounts Act for Class C medium-sized companies.

The applied accounting principles are unchanged from last year.

Amounts in the income sheet, balance sheet, notes, etc. are rounded to whole figures without decimals, and comparative figures for the previous year are rounded to whole thousands. As each figure is rounded individually, there may be rounding differences between the additions presented and the sum of the underlying figures.

Basis for recognition and measurement

Income is recognized in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortization and impairment losses, are also recognized in the income statement.

Assets are recognized in the balance sheet when future economic benefits are likely to flow to the company and the value of such assets can be measured reliably. Liabilities are recognized in the balance sheet when they are reasonably likely to occur and can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently,

each item in the account is measured as described below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the time at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

FOREIGN CURRENCY

The annual report is presented in Danish kroner (DKK).

During the year, foreign currency transactions are translated into Danish kroner using the rate of exchange applicable at the date of transaction. However, transactions with guaranteed exchange rates are recorded at the guaranteed rate. Receivables and liabilities in foreign currencies are translated into Danish kroner using the exchange rates applicable at the balance sheet date, with the exception of amounts with guaranteed exchange rates, which are recorded at the guaranteed rate. Realized and unrealized translation gains and losses are recognized in the income statement under financial items.

STATEMENT OF OPERATIONS

Net turnover

Revenues from the sale of goods and services are included in the income statement, provided that delivery

has been effected and the risk has passed to the buyer by the end of the accounting year. Net sales are measured without VAT.

Other expenses

This item comprises costs related to purchasing oil, materials and other services, as well as other administrative costs.

Distribution of activities, production and grid

For each production plant, revenues are calculated as: the total expenses of the plant plus a production profit of 5% on its individual assets. The calculated profit of 5% was determined based on the returns on long-term mortgage bonds, which are comparable to the long-term investments of a plant.

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

The cost of managing the grid in the central region is calculated as: total wage expenses at Fossá Plant, less wage expenses for ordinary operation of the plant. The cost of managing the grid in Suðuroy is the same as

the cost of managing the grid in the central region.

The cost of supply guarantee, spinning reserve and supplemental reserve is estimated at 5% of the total operating expenses, including depreciations for Sund Plant and Vágur Plant. This is a fixed cost estimate.

Other costs related to grid responsibility accrue from the expenses of all small plants. Operating expenses for wages and materials are reimbursed to small plants for the guarantee of supply. The rest as own production. Strond Plant receives a guarantee of supply reimbursement for the operating expenses of wages and materials used in thermal production. Remaining expenses accrue from own production.

Depreciation

Depreciation and amortization of fixed assets are arranged as systematic depreciation over the assets' expected useful lives. The company applies the following useful lives and residual values:

	Useful life	Residual value
Production and distribution plants	35 - 50 years	0%
Buildings	50 years	0%
Production equipment and furnishings	3 - 5 years	0%

Building plots are not depreciated.

Financials

Financials include interest receivable and interest payable, realized and unrealized capital gains and losses on securities, debt and transfers in foreign currencies, amortization of financial assets and liabilities in addition to interest expenses. Financial revenues and financial expenses are

recorded as accruing from amounts coming under the accounting year.

Dividends from equity investments are recognized as revenues in the accounting year when they are notified.

Taxes

The current and changed deferred taxes for the period are recognized in the income statement as taxes for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognized directly in equity.

BALANCE SHEET

Tangible Assets

Tangible assets are measured in the balance sheet at cost less accumulated depreciation or, when the latter is lower, at the recoverable amount. The recoverable amount is the value of the asset in connection with continued use or sale.

Cost includes acquisition value as well as direct and indirect expenses from the time of acquisition to the time when the asset is ready for use. Interests on loans taken out to fund production are not included in cost.

Profits or losses from the transfer of tangible fixed assets are calculated as the difference between selling price less cost of distribution and carrying amount, when the fixed asset is sold.

Financial assets

Investments in associates are recognized in the balance sheet at acquisition value less any depreciation.

Depreciation of fixed assets

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

have depreciated. This is done in addition to regular write-offs.

When there is an indication of depreciation, impairment tests are carried out on each individual asset and each asset category. Depreciated assets are written down to the recoverable amount, if this is lower than the carrying amount.

The recoverable amount is either the net realizable value or the capital value; it is always the higher of the two. Capital value is calculated as the current value of the expected net revenues accruing from using an asset.

Inventories

Inventories are measured at the lower of cost according to the FIFO principle and net realizable value. The cost of raw materials and consumables, as well as goods for resale, is measured as purchase prices plus expenses incurred directly in connection with the purchase.

The cost of produced goods and of goods in production is measured as value of direct material and labour costs. Interests on production loans are not included in cost.

Receivables

Receivables are measured less potential risks of bad debts on the basis of individual assessments.

Calculations of potential losses are written-off on the basis of assessments of each individual debtor.

Prepayments

Prepayments recognized under assets are expenses paid in advance for the following accounting year.

Provisions

Provisions for pension liabilities are recognized in the balance sheet

based on actuarial data, unless the liabilities are insured.

Other liabilities provided for include warranty commitments, work in progress, etc. and are recognized when the company at the closing of accounts has such an obligation. Provisions are recognized based on an assessment of the fair value of the obligation.

Current and deferred taxes

Current tax payable and receivable is recognized in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Deferred tax is calculated on the basis of all temporary differences between the carrying amount and tax base of assets and liabilities and is recognized in the balance sheet at the tax regulations and rates applicable on the balance sheet date.

Deferred tax assets, including tax deficits carried-over, are recognized at the expected realizable value.

Payables

Long-term debt is recorded in the balance sheet at cost at the time of contracting such debt. It is subsequently recorded at amortised cost. Capital losses and loan expenses are distributed over the repayment period on the basis of the calculated effective rate of interest at the time of contracting such debt.

Short-term debt is also measured at amortised cost, which usually corresponds to the nominal value.

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities as well as

changes in liquidity and cash-on-hand at the beginning and end of the year.

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

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

Cash flows from financing comprise financing from and dividends paid to shareholders, the arrangement and repayment of long-term liabilities other than provisions, in addition to overdraft withdrawals.

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

Notes

1. NET TURNOVER

kWh charges etc.	296,388,398	261,845
Fixed charges	16,507,466	16,105
Connection fees	1,332,800	1,579
Other charges, reminders and other sales	4,968,430	1,287
Purchase of wind power etc.	-2,804,404	-2,553
Total	316,392,690	278,263

2. COST OF OIL

Gas oil	6,410,245	9,065
Heavy fuel oil	129,853,160	109,807
Lubricating oil	6,376,966	6,386
Total	142,640,371	125,258

3. MATERIALS AND SERVICES

Lines	9,985,442	10,606
Dams, pipelines and tunnels	8,174,538	10,493
Tanks and environmental	443,220	220
Engines	25,882,122	15,108
Electric and technical	5,241,735	5,019
Buildings and land	3,062,605	3,191
General meeting and Board	773,475	253
Studies and consultancy	12,717,075	8,912
IT	2,434,510	3,211
Management and office expenses	2,609,493	1,921
Loss on unpaid debt	1,594,872	4,546
Other operating expenses	1,010,089	606
Other administrative expenses	16,360,416	15,836
TOTAL	90,289,592	79,922

4. EMPLOYEE EXPENSES

Wages	54,400,170	57,120
Pensions	6,292,807	6,010
Contributions	1,883,259	1,932
Total	62,576,236	65,061
Employees with SEV as main source of income	138	146
Average number of employees	166	175

5. FINANCIAL EXPENSES

Interests, loans and bank borrowings etc.	14,959,521	10,825
Total	14,959,521	10,825

6. TAXES ON ANNUAL RESULTS

Corporate tax	0	0
Adjustment of deferred tax	0	0
Total	0	0

7. TANGIBLE FIXED ASSETS

Amount in DKK	Production plants	Distribution stations	Buildings and land	Equipment
Acquisition value beginning-of-year	1,272,737,109	738,657,899	59,493,221	94,768,959
Net annual addition	555,397	18,661,251	0	756,307
Acquisition value year-end	1,273,292,506	757,319,150	59,493,221	95,525,266
Depreciation, amortization and impairment beginning-of-year	-702,975,874	-362,529,931	-21,225,724	-85,780,902
Depreciation, amortization and impairment over the year	-31,253,723	-21,562,816	-1,024,475	-1,981,655
Depreciation, amortization and impairment year-end	-734,229,597	-384,092,747	-22,250,199	-87,762,557
Carrying amount year-end	539,062,909	373,226,403	37,243,022	7,762,709

Notes

	31.12.11	31.12.10
8. INVESTMENTS IN ASSOCIATES	DKK	tDKK
Acquisition value beginning-of-year	2,850,000	2,850
Acquisition value year-end	2,850,000	2,850
Carrying amount year-end	2,850,000	2,850

Associates

Name and registered office	Share	Equity	Annual results	Recognized value
P/F Fjarhitafelagið	50%	41,318,818	3,733,986	2,750,000
P/F FDS	20%	375,044	-137,026	100,000

No 2011 accounts are available for P/F Fjarhitafelagið. The amounts stated are from 2010.

9. TRADE CREDITORS

Electricity debtors	38,097,039	34,294
Other debtors	7,443,258	4,278
Receivables write-down	-3,200,000	-2,200
Total	42,340,297	36,372

10. EQUITY

Total in DKK	Deposit	Result carried over
<i>Equity statement January 1, 2010 – December 31, 2010</i>		
Balance on December 31, 2009	4,139,875	941,423,298
Opening adjustment	0	1,350,544
Balance on January 1, 2010	4,139,875	942,773,842
Profit carried over	0	-57,782,687
Balance on December 31, 2010	4,139,875	884,991,155
<i>Equity statement January 1, 2011 – December 31, 2011</i>		
Balance on December 31, 2010	4,139,875	884,991,155
Opening adjustment	0	2,534,565
Profit carried over	0	-49,390,012
Balance on December 31, 2011	4,139,875	838,135,707

	31.12.11 DKK	31.12.11 t.DKK
11. PROVISIONS FOR DEFERRED TAX		
Provisions for deferred tax beginning-of-year	0	0
Tax deferred in the year	0	0
Total	0	0

12. PAYABLES

	Repayment in the first year	Outstanding debt after 5 years	Total payables Dec. 31, 2011	Total payables Dec. 31, 2010
Bank borrowings	15,360,000	220,526,667	299,007,141	217,979,636
Total	15,360,000	220,526,667	299,007,141	217,979,636

A DKK 180 million loan from the Investment Fund of the Faroes was arranged for the Eiði 2 South project and the third turbine at Eiði Plant. These projects are in progress and the loan will be raised to DKK 218 million in 2012. The agreement with the Investment Fund stipulates a 14-year repayment period commencing in 2014.

A DKK 70 million loan from BankNordik was arranged for financing company operations. The agreement with BankNordik stipulates an 18-year repayment period commencing in 2014.

Notes

	31.12.11	31.12.10
13. TAX PAYABLE	DKK	t.DKK
Tax payable beginning-of-year	0	0
Tax paid in the year	0	0
Tax owed from previous years	0	0
Calculated corporate tax for the current year	0	0
Total	0	0

14. MORTGAGES AND OTHER OBLIGATIONS

The total mortgage on the company's assets is DKK 410 million.
The company is not bound by any other obligations.

	2011	2010
15. ADJUSTMENTS	DKK	t. DKK
Amortizations	55,822,669	55,665
Interest revenues and equivalent revenues	-505,687	-685
Interest expenses and equivalent expenses	14,959,521	8,699
Depreciation of tangible financial assets	0	2,082
Total	70,276,503	65,761

	Municipal deposit	Equity 2011	Equity 2010
16. DISTRIBUTION OF EQUITY	DKK	DKK	t. DKK
Eiði	78,625	11,637,439	12,280
Eystur	146,500	34,268,028	36,180
Fámjin	23,125	1,871,843	1,976
Fugjafjørður	136,250	26,533,271	28,000
Fugloy	17,500	658,611	695
Hov	22,875	2,081,763	2,196
Húsar	17,500	939,796	988
Húsavík	25,125	2,162,610	2,288
Hvalba	103,625	12,344,171	13,030
Hvannasund	36,375	7,389,192	7,796
Klaksvík	520,250	83,438,356	88,135
Kunoy	12,625	2,437,118	2,562
Kvívík	59,125	10,159,386	10,724
Nes/Runavík	332,133	88,416,133	93,278
Porkeri	51,000	5,442,209	5,746
Sandur	72,250	9,681,947	10,193
Sjógv	92,875	16,643,445	17,569
Skálavík	30,750	2,808,733	2,965
Skopun	71,000	8,150,826	8,601
Skúvoy	17,875	780,903	824
Sørvágur	127,500	19,552,398	20,625
Sumba	81,375	6,301,158	6,643
Sund	177,367	28,757,355	30,379
Tórshavn	1,092,500	345,521,076	364,748
Tvøroyri	255,250	29,941,942	31,587
Vága	169,625	33,595,751	35,503
Vágur	218,375	23,878,484	25,218
Vestmanna	125,250	20,848,208	22,034
Viðareiði	25,250	6,033,431	6,369
Total	4,139,875	842,275,582	889,131



Production Accounts 2011

Elfelagið SEV

Production Accounts 2011

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Company

Elfelagið SEV
Landavegur 92
FO-100 Tórshavn
Faroe Islands
Phone: + (298) 346 800
Fax: + (298) 346 801
Website: www.sev.fo
Registered office: Tórshavn
Accounting year:
January 1 – December 31

Board

Jákup Suni Lauritsen, Chairman
Kári E. Jacobsen, Vice Chairman
Marin Katrina Frýdal
Steinbjørn O. Jacobsen
Niclas Hentze
Pauli T. Petersen
Bødvar Hjartvarsson

Management

Hákun Djurhuus, Managing Director
Bogi Bendtsen,
Director of Administration
Finn Jakobsen, Director of
Distribution and Production

Auditing

NOTA
A certified public accounting firm

Management statement

We hereby present SEV's Production Accounts for the accounting year January 1, 2011 to December 31, 2011.

The Production Accounts have been drawn up pursuant to the provisions in the Faroese Accounts Act and the Company Statutes.

It is our opinion that the accounting method used ensures that the Production Accounts give a true and fair view of

the company's assets, liabilities, financial position and the results of operations.

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

Tórshavn April 3, 2012

Board:

Jákup Suni Lauritsen
Chairman

Kári E. Jacobsen
Vice Chairman

Marin Katrina Frýdal

Steinbjørn O. Jacobsen

Niclas Hentze

Pauli T. Petersen

Bødvar Hjartvarsson

Management:

Hákun Djurhuus
Managing Director

Financial Management:

Bogi Bendtsen
Director of Administration

Independent auditor's report

The Production Accounts have been prepared as a supplement to the Annual Report and Accounts of Elfelagið SEV. In relation to production activities, the auditors verify that the figures in the 2011 Production Accounts correspond to the audited 2011 Annual Report and Accounts of Elfelagið SEV.

We have completed the audit of the Annual Accounts of Elfelagið SEV and it did not result in any qualifications or request for additional information. Please refer to pages 5 and 6 in the Annual Report and Accounts of Elfelagið SEV for the complete auditor's report.

Tórshavn April 3, 2012

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A certified public accounting firm

Hans Laksá
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Key figures and financial ratios

KEY FIGURES

Figures in tDKK	2011	2010
Results		
Net sales	301,699	238,266
Index	127	100
Results before depreciation, amortization and impairment	68,583	36,016
Index	190	100
EBIT	37,044	4,710
Index	786	100
Financial items, net	-10,810	-4,710
Index	230	100
Annual results	26,234	0
Index		
Balance sheet		
Total assets	703,562	666,997
Index	105	100
Equity	469,508	449,017
Index	105	100
Cash flow statement		
Net cash flows from		
Operations	56,772	
Investments	-67,800	
Financing	11,028	
Annual cash flows	-75,299	567

FINANCIAL RATIOS

	2011	2010
Profitability		
Return on equity	5.7%	0.0%
Asset turnover	0.43	0.36
Solvency		
Equity/asset ratio	66.7%	67.3%
Other		
Employees with SEV as main source of income	52	57
Average full-time equivalents	61	67

Calculation of financial ratios

Return on equity	$\frac{\text{results from operations before taxes}}{\text{Average equity}}$
Asset turnover	$\frac{\text{Net sales}}{\text{Total assets}}$
Equity/asset ratio	$\frac{\text{Equity closing balance}}{\text{Total assets}}$

Financial ratios are calculated in accordance with the recommendations of the The Danish Society of Financial Analysts. No key figures or financial ratios are available for the period preceding 2010.

Management review

Main activities

Elfelagið SEV (SEV electricity utility) is an inter-municipal corporate enterprise. Its purpose is to make electricity available and to distribute it among residents of participating municipalities. Pursuant to the statutes, the company shall advance its business purpose according to the principles of commerce, on a financially sound basis, and with due regard for the environment.

These production accounts for SEV's production activities are part of SEV's complete accounts. This Review includes the production activities of the company from January 1, 2011 to December 31, 2011.

Development of company activities and financial situation

The basis for calculating the revenues of production plants, as well as determining the cost of managing the grid, spinning reserve, supplemental reserve and other costs related to grid responsibility, are the company's current records from an ordinary business year.

Revenues

Power plant revenues must include plant expenses as well as profit on production. The calculated profit of DKK 26.2 million is fixed at 5% of each plant's assets. This 5% profit was determined based on the return on long-term mortgage bonds, which are comparable to long-term production plant investments.

Production grossed DKK 301.7 million in 2011. Of these revenues,

Sund Plant accounted for DKK 171.7 million, which is 56.9%, and Vágur Plant for DKK 27.1 million, 9.0%. This means that the total revenues of the two largest thermal plants amount to DKK 198.8 million, which is 65.9%. At 12.4%, the production plants in Vestmanna account for revenues of DKK 37.3 million. It should be noted, however, that the plants were out of production part of the year owing to large-scale repairs in 2011. Eiði Plant generates 15.6% of total production with revenues of DKK 47.1 million.

The 2011 production operating result was a DKK 26.2 million profit, as compared to a result of DKK 0.0 million in 2010. The result of Eiði Plant of DKK 18.6 million accounts for 71% of this profit.

Electricity production in 2011 was 273,843 MWh, as compared to 280,323 MWh in 2010; this represents a reduction of 6,480 MWh, equivalent to 2.3%.

Of the 273,843 MWh total production in 2011, thermal plants generated 166,815 MWh, whereas 92,502 MWh were hydroelectric power and 14,526 wind power. Sp/f Røkt produced part of this. In comparison, in 2010, thermal plants generated 199,344 MWh, this means that power generation at thermal plants fell by 16.3% in 2011. Hydroelectric power production in 2010 was 67,395 MWh, so there was a 37.3% increase in 2011. Finally, in 2011 wind power generation also rose by 6.9% on 2010, when it was 13,584 MWh.

Expenses

In 2011 expenses summed DKK 275.4 million, DKK 37.2 million more than in 2010 when expenses totalled 238.2 million, which means that they rose by DKK 15.6%. Operating expenses are usually separated into wages, on the one hand, and materials and services, on the other. For production plants the cost of oil accounts for a significant share of total expenses.

The cost of materials, services and wages amounted to DKK 90.8 million. That same item cost DKK 77.5 million in 2010, which translates into a 17.2% rise, in 2011, of DKK 13.3 million.

Cost of supply guarantee, spinning reserve and supplemental reserve

Total plant expenses accrue from the cost of producing electricity plus the cost of responsibility for the grid. They can be subdivided into the cost of managing the grid, the cost of guaranteeing supply, spinning reserve and supplemental reserve, as well as other costs related to grid responsibility. Production plants sell their electricity production to the grid, which pays for the purchase plus the cost of part of the plants' grid responsibility.

Grid management expenses

The Suðuroy grid is managed from Vágur Plant, while the grid covering the rest of the Faroes is managed from Fossá Plant in Vestmanna.

The cost of managing the grid at Fossá Plant, DKK 2.3 million, is

calculated as: total wage expenses at Fossá Plant in an ordinary business year of DKK 3 million, less wage expenses for ordinary plant operation of DKK 0.7 million. The cost of ordinary operation at the plant is fixed as the same as the combined cost of operating the Mýru and Heyga plants, which is DKK 0.7 in an ordinary business year. The cost of managing the grid from Fossá Plant is used as the cost of managing the grid in Suðuroy, which is DKK 2.3 million.

Supply guarantee, spinning reserve and supplemental reserve expenses

Supply guarantee, spinning reserve and supplemental reserve expenses are estimated at 5% of total operating expenses, including depreciation, for Sund Plant and Vágur Plant, which amount to DKK 8.4 million and DKK 1.3 million, respectively. This is a fixed estimate of expenses.

Other grid responsibility expenses are based on costs accruing to SEV of small plants throughout the Faroes, which are considered extra plants or supplemental reserve. Operating expenses for wages and materials are reimbursed to small plants for the guarantee of supply, the rest as own production. Strond Plant receives a guarantee of supply reimbursement for the operating expenses of wages and materials for thermal production of electricity. Own production accounts for the remaining expenses.

Summary grid responsibility expenses

The total cost of managing the Faroese power grid is DKK 4.6 million, while the cost of guaranteeing supply, spinning reserve and supplemental reserve at the Sund and Vágur plants is set to DKK 9.7 million. The cost of guaranteeing supply, etc. from other plants is DKK 4.0 million, which means that the estimated

total expenses of guaranteeing supply, spinning reserve, supplemental reserve and managing the power grid is DKK 18.3 million.

Cost of oil

The cost of oil in 2011 was DKK 142.3 million. The 2011 budget forecast for oil expenses was DKK 117.3 million, meaning that the actual cost was DKK 25.0 million higher than expected, which constitutes a 21.3% additional cost. The cost of oil in 2010 was DKK 124.7 million.

Production at thermal plants decreased by 32,529 MWh, which is 16.3% down from 199,344 MWh, in 2010, to 166,815 in 2011. The fall in production at thermal plants corresponded to a decrease in electricity consumption of 6,480 MWh, a 25,107 MWh rise in hydroelectric generation, and a 942 MWh increase in wind power generation.

It can therefore be concluded that hiked oil prices caused the increase in oil expenses in 2011. Had production at thermal plants not decreased, oil expenses would have been higher. Oil expenses make up 51.7% of expenses, depreciations and amortizations in 2011. Operating results are thus highly susceptible to fluctuations in the price of oil and in the US dollar exchange rate; any major deviations from the assumptions underlying the budget will have a significant impact on this result.

Much the largest share of oil expenses, DKK 142.3 million, are incurred by Sund and Vágur plants, their respective expenses are: DKK 124.4 million, 87.4% and DKK 14.8 million, 10.4%.

Wage expenses

Wage expenses in production amounted to DKK 32.1 million rather

than the expected DKK 26.3 million. The additional expense of DKK 5.8 million was caused by more wages being paid at most plants owing to the many repairs and maintenance tasks. In 2010 these wage costs were DKK 31.1 million, constituting a DKK 1.0 million, or 3.2%, rise on 2010.

Of the total production wage expenses of DKK 32.1 million, Sund Plant accounted for DKK 15.4 million, approximately half of the amount. Vágur Plant incurred wage expenses of DKK 5.4 million, which is roughly 16.8%. Wage expenses at Fossá Plant summed DKK 4.8 million, which is 15%. Total wage expenses at Fossá and Vágur plant are higher than indicated in production, because the grids in the central region and Suðuroy are managed from these plants. These expenses are reimbursed to the plants from the grid.

To sum up, it can be noted that wage expenses at thermal plants are much higher than at hydroelectric or wind power plants.

Materials and services

Materials and services expenses for production plants totalled DKK 58.7 million, as compared to the DKK 46.1 million forecast; which means there was additional cost of DKK 12.6 million. The additional cost stems from unexpected repair expenses arising during maintenance and repairs at production plants, particularly Fossá Plant, Eiði Plant and Sund Plant. These same expenses totalled DKK 46.4 million in 2010, which means that expenses in this area were up DKK 12.3 million in 2011, a 26.5% increase on 2010.

Materials and wage expenses at Sund Plant were DKK 15.8 million, which accounts for 26.9% of 2011

expenses. Sund and Vágur plants usually have significantly higher materials and wage expenses as compared to equivalent expenses at the hydroelectric and wind power plants. However, expenses at Fossá and Heyga plants were especially high in 2011, due to extensive repair and maintenance works. Expenses summed DKK 12.9 million and DKK 15.1 million, respectively, which account for 22.0% and 25.7% of expenses. This means that these two hydroelectric plants accounted for nearly half of expenses in 2011.

Financial expenses

Interest expenses summed DKK 10.8 million and can be attributed, in full, to the expansion of Eiði Plant.

The company is partially exposed to fluctuations in international interest rate levels, because some of the company's loans were taken out with variable interest. The interest rate on the Eiði 2 project building loan is due for review by the end of 2013, when it will be converted into a long-term loan.

Depreciations

The method of calculating depreciations changed as of January 1, 2009, on orders from the Faroese Electricity Authority. Property values changed significantly as of January 1, 2009, and, at the same time, depreciation periods were considerably lengthened for most properties.

However, this does not mean that the company can simply lower the price of electricity, or refrain from increasing it, because that would eliminate any surplus liquidity from operations, which is needed to secure self-financing of planned investments. The company needs balanced operations. Results without any self-financing at all would not allow SEV to invest

in modernizing thermal plants and expanding the grid, while also having to invest in expanding renewables.

Depreciations for 2011 amounted to DKK 31.5 million. Sund Plant depreciated assets by DKK 12.6 million and Eiði Plant by DKK 12.4 million. This amounts to a combined asset depreciation of DKK 25 million of a total value of DKK 31.5 million, which translates into a depreciation of 79.4%.

Budget preparations for each coming year include an assessment of which investments are likely to be completed during that year, because they become assets subject to depreciations when they start operating. The difference between these assessments and the actual figures confirmed accounts for the difference between recognized and budgeted depreciations. Investments were also slightly lower than expected.

Special risks

The production share of activities carries limited risk related to sale of production, because only the grid purchases the electricity generated by production activities. Production is also susceptible to changes in interest rate levels, but has chosen not to hedge using financial instruments or put in place other such safeguards. The company is closely monitoring

interest rate levels and continuously reviews whether implementing safeguards against interest rate risks would be advantageous.

Production is particularly sensitive to fluctuations in oil price and the US dollar exchange rate, because oil is traded in dollars. The company has not hedged against oil price fluctuations and does not purchase dollars under forward contracts. Current company procedures for the area are currently under review.

Investments

Investments in tangible fixed assets amounted to DKK 67.8 million, as indicated in the table below.

The 2011 budget forecasts investments of DKK 96.1 million, however, actual investments in 2011 totalled DKK 67.8 million, which is DKK 28.3 million less than budgeted. Work on Eiði Plant is progressed slower than expected, DKK 10.5 million less than budgeted were therefore invested there. Whereas DKK 3.3 million less than expected were spent on Sund Plant and DKK 8.0 million were left unspent on long-term projects and wind turbines.

Liquidity

Currently liquidity is not separated into production and grid, but it will be

Investments	Actual figures 2011		Initial budget 2011	
	DKK million	percent	DKK million	percent
Eiði Plant	66.5	98.1	77.0	80.1
Botnur Plant	0.5	0.7	0.0	0.0
Vágur Plant	0.1	0.2	0.0	0.0
Sund Plant	0.7	1.0	4.0	4.2
Small plants	0.0	0.0	7.1	7.4
Long-term project and wind turbines in Neshagi DKK 28 million	0.0	0.0	8.0	8.3
Total investment in production plants	67.8	100.0	96.1	100.0

in 2012. In the current accounts production plant liquidity is fixed at DKK 0 million, but all plant operations are funded by the grid, which secures sufficient liquidity for plants.

By the end of the year, liquidity was DKK 56.9 million for both production and grid combined. In addition, the company's unused bank overdrafts total DKK 5.4 million, which means that all-in-all DKK 62.3 million are available to the company in cash-on-hand and credit.

At the beginning of January 2012, the company took out a cash flow loan of DKK 80 million. The aim is to have a sound cash flow, in order to ensure that SEV is always capable of paying cash for one oil shipment plus the cost of an accident at one of the production plants or the grid.

The company's day-to-day operations also require stable liquidity. Moreover, in light of the uncertainty on the global financial markets, it is sensible to secure sound liquidity.

Environment

The company prioritizes the environment and therefore greatly emphasizes full compliance at all times with environmental requirements, regulations and standards.

Knowledge resources and development

It is very important for the production plants that pertinent and sufficient knowledge and experience are available in all areas of activity, and arrangements are in place for relevant staff training. The production plants continuously works on developing safety, security and quality of supply. SEV is working on plans to increase the production share of renewable energy sources, such as hydroelectricity, water and tidal power.

Outlook for 2012

For 2012 SEV expects a result after tax similar to that of 2011, a surplus of approximately DKK 30 – 50 million. The surplus recognizes grid responsibility payments and profit. All production is sold to the grid.

Operating expenses, before potential savings in administration, are estimated at DKK 57.5 million in 2012, as compared to DKK 90.8 million in 2011, which is a 36.5% reduction of DKK 33.1 million. The main reason for this is that SEV expects a gradual reduction in expenses related to maintenance at production plants, because this work has been postponed to 2013. On the other hand, the winter storms of 2011/2012 will lead to increased spending on repairing the grid and replacing the company's wind turbines in Neshagi.

SEV budgeted oil expenses of DKK 134.5 million for 2012. However, based on oil prices in the first quarter of 2012, the cost of oil may exceed the original budget by DKK 15 – 20 million, which means that they will amount to DKK 150 – 160 million.

Depreciations are likely to be slightly higher than confirmed this year. They are estimated at DKK 37.5 million as compared to DKK 31.5 million. Interest expenses are expected to rise with a DKK 99 million increase in debt, which is used to fund investments at Eiði Plant, with DKK 69 million, and the new wind turbines in Neshagi, with DKK 30 million. The wind turbines are expected to be installed this summer. Interest expenses are therefore expected to increase from around DKK 11 million to roughly DKK 16 million.

With an estimated surplus of DKK 30 to 50 million in 2012, there will be a

change in liquidity from operations of approximately DKK 60 to 80 million.

Adequate self-financing from operations is needed to contribute to funding future investments and maintenance of existing production plants, as well as investments in renewables.

Events after the close of the accounting year

Since the day the balance sheet was prepared, the company has suffered damages to two of its wind turbines. They were both wrecked and are incapable of producing electricity.

The company is currently looking into how to regenerate this electricity production. One solution is to install turbines similar to the ones lost in the storms; another would be to install newer and more advanced turbines instead. The company is expected to sustain some losses from this accident, in spite of having insurance against such damages.

Income statement

	Note	2011 DKK	2010 tDKK
Net turnover	1	301,698,840	238,266
Cost of oil	2	-142,306,499	-124,731
Materials and services	3	-58,674,498	-46,416
Gross proceeds		100,717,843	67,119
Wages	4	-32,134,966	-31,103
Results before depreciation, amortization and impairment		68,582,877	36,016
Depreciation, amortization and impairment of fixed assets		-31,538,754	-31,306
Results before financials		37,044,123	4,710
Financial expenses	5	-10,809,778	-4,710
Results before tax		26,234,345	0
Tax on annual results	6	0	0
Annual results		26,234,345	0
Proposed distribution of results:			
Results		26,234,345	0
Opening adjustment		-5,743,184	0
Results carried over beginning-of-year		449,017,223	449,017
For use		469,508,384	449,017
Proposed distribution of the amount:			
Results carried-over		469,508,384	449,017
Total		469,508,384	449,017

Balance sheet as at 31 December

ASSETS	Note	31.12.11 DKK	31.12.10 tDKK
Power plants	7.16	541,861,521	572,576
Buildings and land	7	56,611	57
Operating equipment	7	1,378,457	1,524
Investment works in progress		121,478,051	54,357
Total tangible fixed assets		664,774,640	628,514
Total fixed assets		664,774,640	628,514
Oil		38,787,135	38,483
Total inventories		38,787,135	38,483
Total current assets		38,787,135	38,483
Total assets		703,561,775	666,997

Balance sheet as at 31 December

LIABILITIES	Note	31.12.11 DKK	31.12.10 tDKK
Results carried over	8	469,508,384	449,017
TOTAL EQUITY		469,508,384	449,017
Provisions for deferred tax	9	0	0
Total provisions		0	0
Bank borrowings	10	213,647,141	202,121
Total long-term debt		213,647,141	202,121
Current portion of long-term debt	10	15,360,000	15,859
Corporate tax	11	0	0
Prepayments		5,046,250	0
Total Short-term debt		20,406,250	15,859
TOTAL DEBT		234,053,391	217,980
TOTAL LIABILITIES		703,561,775	666,997
Production results per plant	12		
Engine overview	13		
Mortgages and other liabilities	14		

Cash flow statement

	Note	2011 DKK
Annual results		26,234,345
Adjustments	15	42,348,532
Changes in working capital		
Inventories		-304,115
Prepayments		5,046,250
Operating cash flows before financials		73,325,012
Interest expenses paid and equivalent expenses		-10,809,778
Opening adjustment		-5,743,184
Cash flows from operations		56,772,050
Purchase of tangible fixed assets		-678,385
Changes to work in progress		-67,121,170
Cash flows from investments		-67,799,555
Loans		30,000,000
Repayments on long-term debt		-18,972,495
Cash flow from financing		11,027,505
Total cash flows over the year		0
Opening cash-on-hand		0
Closing cash-on-hand		0

Applied accounting principles

General

The Production Accounts were prepared in accordance with the provisions in the Faroese Annual Accounts Act for Class C medium-sized companies. The applied accounting principles has changed as compared to last year on the following points:

- Profit is recognized in the sale of electricity
- Grid responsibility is broken down and presented separately in the accounts

The changes in the applied accounting principles affect the annual results and equity positively by DKK 26.2 million. Comparative figures, key figures and financial ratios have not been adjusted to these changes.

Amounts in the income sheet, balance sheet, notes, etc. are rounded to whole figures without decimals, and comparative figures for the previous year are rounded to whole thousands. As each figure is rounded individually, there may be rounding differences between the additions presented and the sum of the underlying figures.

Basis for recognition and measurement

Income is recognized in the production accounts as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortization and impairment losses, are also recognized in the production accounts.

Assets are recognized in the balance sheet when future economic benefits are likely to flow to the company and the value of such assets can

be measured reliably. Liabilities are recognized in the balance sheet when they are reasonably likely to occur and can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, each item in the account is measured as described below. On recognition and measurement, account is taken of foreseeable losses and risks arising before the time at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

FOREIGN CURRENCY

The annual report is presented in Danish kroner (DKK).

During the year, foreign currency transactions are translated into Danish kroner using the rate of exchange applicable at the date of transaction. However, transactions with guaranteed exchange rates are recorded at the guaranteed rate. Receivables and liabilities in foreign currencies are translated into Danish kroner using the exchange rates applicable at the balance sheet date, with the exception of amounts with guaranteed exchange rates, which are recorded at the guaranteed rate. Realized and unrealized translation gains and losses are recognized in the income statement under financial items.

STATEMENT OF OPERATIONS

Net turnover

Revenues from the sale of goods and services are included in the income statement, provided that delivery has been effected and the risk has passed to the buyer by the end of

the accounting year. Net sales are measured without VAT.

Other expenses

This item comprises costs related to purchasing oil, materials and other services, as well as other administrative costs.

Distribution of activities, production and grid

For each production plant, revenues are calculated as: the total expenses of the plant plus a production profit of 5% on its individual assets. The calculated profit of 5% was determined based on the returns on long-term mortgage bonds, which are comparable to the long-term investments of a plant.

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

The cost of managing the grid in the central region is calculated as: total wage expenses at Fossá Plant, less wage expenses for ordinary operation of the plant. The cost of managing the grid in Suðuroy is the same as the cost of managing the grid in the central region.

The cost of supply guarantee, spinning reserve and supplemental reserve is estimated at 5% of the total operating expenses, including depreciations for Sund Plant and Vágur Plant. This is a fixed cost estimate.

Other costs related to grid responsibility accrue from the expenses of all small plants. Operating expenses for wages and materials are reimbursed to small plants for the guarantee of supply. The rest as own production. Strond Plant receives a guarantee of supply reimbursement for the operating expenses of wages and materials used in thermal production. Remaining expenses accrue from own production.

Depreciation

Depreciation and amortization of fixed assets are arranged as systematic depreciation over the assets' expected useful lives. The company applies the following useful lives and residual values:

	Useful life	Residual value
Production and distribution plants	35 - 50 years	0%
Buildings	50 years	0%
Production equipment and furnishings	3 - 5 years	0%

Financials

Financials include interest receivable and interest payable, realized and unrealized capital gains and losses on securities, debt and transfers in foreign currencies, amortization of financial assets and liabilities in addition to interest expenses. Financial revenues and financial expenses are recorded as accruing from amounts coming under the accounting year.

Taxes

The current and changed deferred taxes for the period are recognized in the income statement as taxes for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognized directly in equity.

BALANCE SHEET

Tangible Assets

Tangible assets are measured in the balance sheet at cost less accumulated depreciation or, when the latter is lower, at the recoverable amount. The recoverable amount is the value of the asset in connection with continued use or sale.

Cost includes acquisition value as well as direct and indirect expenses from the time of acquisition to the time when the asset is ready for use. Interests on loans taken out to fund production are not included in cost.

Profits or losses from the transfer of tangible fixed assets are calculated as the difference between selling price less cost of distribution and carrying amount, when the fixed asset is sold.

Depreciation of fixed assets

Every year the carrying amount of tangible fixed assets is appraised to obtain an indication of whether they have depreciated. This is done in addition to regular write-offs.

When there is an indication of depreciation, impairment tests are carried out on each individual asset and each asset category. Depreciated assets are written down to the recoverable amount, if this is lower than the carrying amount.

The recoverable amount is either the net realizable value or the capital value; it is always the higher of the two. Capital value is calculated as the current value of the expected net revenues accruing from using an asset.

Inventories

Inventories are measured at the lower of cost according to the FIFO principle and net realizable value.

The cost of raw materials and

consumables, as well as goods for resale, is measured as purchase prices plus expenses incurred directly in connection with the purchase.

The cost of produced goods and of goods in production is measured as value of direct material and labour costs. Interests on production loans are not included in cost.

Other liabilities provided for include warranty commitments, work in progress, etc. and are recognized when the company at the closing of accounts has such an obligation. Provisions are recognized based on an assessment of the fair value of the obligation.

Current and deferred taxes

Current tax payable and receivable is recognized in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Deferred tax is calculated on the basis of all temporary differences between the carrying amount and tax base of assets and liabilities and is recognized in the balance sheet at the tax regulations and rates applicable.

Deferred tax assets, including tax deficits carried-over, are recognized at the expected realizable value.

Payables

Long-term debt is recorded in the balance sheet at cost at the time of contracting such debt. It is subsequently recorded at amortised cost. Capital losses and loan expenses are distributed over the repayment period on the basis of the calculated effective rate of interest at the time of contracting such debt.

Short-term debt is also measured at amortised cost, which usually corresponds to the nominal value.

1, NET TURNOVER

Own production	283,393,092	238,266
Grid responsibility	18,305,748	0
Total	301,698,840	238,266

2. COST OF OIL

Gas oil	6,410,245	9,065
Heavy fuel oil	129,853,160	109,807
Lubricating oil	6,043,094	5,859
Total	142,306,499	124,731

3. MATERIALS AND SERVICES

Lines	2,316,454	983
Dams, pipelines and tunnels	8,174,343	10,441
Tanks and environmental	431,912	220
Engines	25,878,436	15,108
Electric and technical	4,455,472	4,571
Buildings and land	2,112,951	2,069
General meeting and Board	406,634	126
Studies and consultancy	8,027,985	5,488
IT	220,948	283
Management and office expenses	600,242	436
Other operating expenses	731,674	579
Other administrative expenses	5,317,447	6,112
TOTAL	58,674,498	46,416

Notes

4. EMPLOYEE EXPENSES

Wages	28,870,024	28,093
Pensions	2,503,959	2,221
Contributions	760,983	789
Total	32,134,966	31,103
Employees with SEV as main source of income	52	57
Average number of employees	61	67

5. FINANCIAL EXPENSES

Interests, loans and bank borrowings etc.	10,809,778	4,710
Total	10,809,778	4,710

6. TAXES ON ANNUAL RESULTS

Corporate tax	0	0
Adjustment of deferred tax	0	0
Total	0	0

7. TANGIBLE FIXED ASSETS

Amount in DKK	Production plants	Buildings and land	Equipment
Acquisition value beginning-of-year	1,275,671,306	56,611	2,812,976
Net annual addition	555,397	0	122,987
Acquisition value year-end	1,276,226,704	56,611	2,935,963
Depreciation, amortization and impairment beginning-of-year	-703,095,345	0	-1,288,590
Depreciation, amortization and impairment over the year	-31,269,838	0	-268,916
Depreciation, amortization and impairment year-end	-734,365,183	0	-1,557,506
Carrying amount year-end	541,861,521	56,611	1,378,457

8. EQUITY

Total in DKK	Result carried over
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Equity statement January 1, 2010 – December 31, 2010

Balance on December 31, 2009	449,017,223
Opening adjustment	0

Balance on January 1, 2010	449,017,223
Profit carried over	0

Balance on December 31, 2010	449,017,223
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Equity statement January 1, 2011 – December 31, 2011

Balance on December 31, 2010	449,017,223
Opening adjustment	-5,743,184
Profit carried over	26,234,345
Balance on December 31, 2011	469,508,384

	31.12.11	31.12.10
9. PROVISIONS FOR DEFERRED TAX	DKK	t.DKK
Provisions for deferred tax beginning-of-year	0	0
Tax deferred in the year	0	0
Total	0	0

Notes

10. PAYABLES

	Repayment in the first year	Outstanding debt after 5 years	Total payables Dec. 31, 2011	Total payables Dec. 31, 2010
Bank borrowings	15,360,000	152,562,061	229,007,141	217,979,636
Total	15,360,000	152,562,061	229,007,141	217,979,636

11. TAX PAYABLE

	Deposit	Result carried-over
Tax payable beginning-of-year	0	0
Tax paid in the year	0	0
Tax owed from previous years	0	0
Calculated corporate tax for the current year	0	0
Total	0	0

A DKK 180 million loan from the Investment Fund of the Faroes was arranged for the Eiði 2 South project and the third turbine at Eiði Plant. These projects are in progress and the loan will be raised to DKK 218 million in 2012. The agreement with the Investment Fund stipulates a 14-year repayment period commencing in 2014.

12. PRODUCTION RESULTS PER PLANT (DKK)

	Revenues	Oil	Materials	Wages	Depreciation	Interest	Total
Sund Plant	171,712,667	-124,354,799	-15,824,738	-15,418,379	-12,606,498	-	3,508,253
Vágur Plant	27,136,828	-14,837,188	-2,946,095	-5,398,109	-2,297,336	-	1,658,100
Fossá Plant	18,801,411	-	-12,932,685	-4,831,148	-514,014	-	523,564
Heyga Plant	16,467,046	-34,484	-15,097,942	-693,306	-300,314	-	341,000
Mýru Plant	2,026,967	-1,891	-878,480	-302,221	-391,975	-	452,400
Eiði Plant	47,068,582	-3,225	-3,738,592	-1,565,847	-12,366,983	-10,809,778	18,584,157
Botnur Plant	1,743,361	-	-731,642	-227,216	-339,503	-	445,000
Strond Plant	7,386,511	-1,952,304	-3,612,233	-1,345,375	-493,506	-	-16,907
Wind power	3,047,820	-	-1,237,024	-213,699	-1,157,677	-	439,420
Small plants	6,307,647	-1,122,607	-1,675,069	-2,139,666	-1,070,946	-	299,359
Production results	301,698,840	-142,306,498	-58,674,500	-32,134,966	-31,538,752	-10,809,778	26,234,346

13. ENGINE OVERVIEW DECEMBER 31, 2011

Location	Engine	MW	Hp	Engine type	Engine manufacturer	Powered by	Year	Age	Hours
Botnur Plant	T1	1.00	1,360	Pelton water turbine	Voith	Water	1965	46	177,596
Botnur Plant	T2	2.00	2,719	Francis water turbine	Voith	Water	1966	45	136,449
Eiði Plant	T1	6.70	9,109	Francis water turbine	Voith	Water	1987	24	87,752
Eiði Plant	T2	6.70	9,109	Francis water turbine	Voith	Water	1987	24	81,698
Neshagi	M1	0.15	204	Wind turbine (fixed pitch)	Nordtank	Wind	1993	18	110,000
Neshagi	M2	0.66	898	Wind turbine	Vestas	Wind	2005	6	42,793
Neshagi	M3	0.66	898	Wind turbine	Vestas	Wind	2005	6	45,235
Neshagi	M4	0.66	898	Wind turbine	Vestas	Wind	2005	6	38,934
Skopun Plant	M1 – M3	1.83	2,483	4-T	Mercedes and Deutz	Gas oil	1984		
Small plants		1.70	2,311	4-T	Deutz, Mercedes, Perkins	Gas oil			
Strond Plant	M2	2.30	3,127	4-T KV 12 SS	Mirrleese Blackstone	Gas oil	1965	46	78,839
Strond Plant	M3	3.60	4,895	4-T 12 M 453 K	Krupp Mak	Gas oil	1982	29	45,291
Strond Plant	T1	1.40	1,903	Francis water turbine	Sulzer Hydro	Water	1998	13	40,488
Sund Plant	M1	8.10	11,013	4-T 9M43C	Caterpillar/MaK	Heavy oil	2001	10	41,773
Sund Plant	M2	8.10	11,013	4-T 9M43C	Caterpillar/MaK	Heavy oil	2004	7	35,474
Sund Plant	M3	5.70	7,750	4-T KV16MAJOR	Mirrleese Blackstone	Heavy oil	1978	33	69,538
Sund Plant	M4	12.40	16,859	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1983	28	153,444
Sund Plant	M5	12.40	16,859	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1988	23	127,806
Trongisvágur Plant	M1	2.00	2,719	4-T	Nohab	Gas oil	1973	38	81,520
Vágur Plant	M1	2.70	3,671	4-T 9 M 453	Krupp Mak	Heavy oil	1983	28	107,342
Vágur Plant	M2	2.70	3,671	4-T 9 M 453	Krupp Mak	Heavy oil	1983	28	110,165
Vágur Plant	M3	4.32	5,874	4-T 9M32C	Caterpillar/MaK	Heavy oil	2004	7	46,211
Vestmanna	Fossá 1	2.10	2,855	Pelton water turbine	Maier	Water	1953	58	201,906
Vestmanna	Fossá 2	4.20	5,710	Francis water turbine	Voith	Water	1956	55	314,310
Vestmanna	Heyga 1	4.90	6,662	Francis water turbine	Voith	Water	1963	48	203,508
Vestmanna	Mýru 1	2.40	3,263	Francis water turbine	Voith	Water	1961	50	334,196
Total output:		101.38	137,834						2,712,268

Notes

14. MORTGAGES AND OTHER OBLIGATIONS

The total mortgage on the company's assets is DKK 380 million.
The company is not bound by any other obligations.

	2011	2010
	DKK	t. DKK
15. ADJUSTMENTS		
Amortizations	31,538,754	31,306
Interest expenses and equivalent expenses	10,809,778	4,710
Total	42,348,532	36,016

16 Per production plant

Fossá Plant	10,249,544	10,685
Heyga Plant	6,812,319	7,112
Mýru Plant	9,041,368	9,431
Eiði Plant	373,396,681	385,731
Botnur Plant	8,892,030	8,831
Vágur Plant	33,005,129	35,326
Tvøroyri Plant	4,923,590	5,088
Sund Plant	83,371,755	95,787
Skopun	79,335	330
KG Plant	388,312	836
Mobile aggregate	9,296,703	10,453
Fugloy	462,683	614
Svínoy	542,438	739
Mykines	92,003	103
Skúvoy	991,645	1,116
Dímun	315,985	394
Total	541,861,521	572

The background is a solid dark blue color. Overlaid on this are several large, overlapping, organic shapes in lighter shades of blue, creating a sense of depth and movement. These shapes resemble stylized waves or flowing liquid.

Grid Accounts 2011

Elfelagið SEV

Grid Accounts 2011

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Company

Elfelagið SEV
Landavegur 92
FO-100 Tórshavn
Faroe Islands
Phone: + (298) 346 800
Fax: + (298) 346 801
Website: www.sev.fo
Registered office: Tórshavn
Accounting year:
January 1 - December 31

Board

Jákup Suni Lauritsen, Chairman
Kári E. Jacobsen, Vice Chairman
Marin Katrina Frýdal
Steinbjørn O. Jacobsen
Niclas Hentze
Pauli T. Petersen
Bødvar Hjartvarsson

Management

Hákun Djurhuus, Managing Director
Bogi Bendtsen, Director of Administration
Finn Jakobsen, Director of Distribution and Production

Auditing

NOTA
A certified public accounting firm

Management statement

We hereby present SEV's Grid Accounts for the accounting year January 1, 2011 to December 31, 2011.

The Grid Accounts have been drawn up pursuant to the provisions in the Faroese Accounts Act and the Company Statutes.

It is our opinion that the accounting method used ensures that the Grid Accounts give a true and fair view of the

company's assets, liabilities, financial position and the results of operations.

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

Tórshavn April 3, 2012

Board:

Jákup Suni Lauritsen
Chairman

Kári E. Jacobsen
Vice-Chairman

Marin Katrina Frýdal

Steinbjørn O. Jacobsen

Niclas Hentze

Pauli T. Petersen

Bødvar Hjartvarsson

Management:

Hákun Djurhuus
Managing Director

Financial Management:

Bogi Bendtsen
Director of Administration

Independent auditor's report

The Grid Accounts have been prepared as a supplement to the Annual Report and Accounts of Elfelagið SEV. In relation to grid activities, the auditors verify that the figures in the 2011 Grid Accounts correspond to the audited 2011 Annual Report and Accounts of Elfelagið SEV.

We have completed the audit of the Annual Accounts of Elfelagið SEV and it did not result in any qualifications or request for additional information. Please refer to pages 5 and 6 in the Annual Report and Accounts of Elfelagið SEV for the complete auditor's report.

Tórshavn April 3, 2012

NOTA

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Hans Laksá
Chartered Public Accountant

Jørmann Petersen
Chartered Public Accountant

Key figures and financial ratios

KEY FIGURES

Figures in DKK	2011	2010
Results		
Net sales	319,197	280,816
Index	114	100
Results before depreciation, amortization and impairment	-47,696	-27,995
Index	170	100
EBIT	-71,980	-52,354
Index	137	100
Financial items, net	-3,644	-5,429
Index	67	100
Annual results	-75,624	-57,783
Index	131	100
Balance sheet		
Total assets	540,203	533,557
Index	101	100
Equity	372,767	440,114
Index	85	100
Cash flow statement		
Net cash flows from		
Operations	-69,972	
Investments	-12,872	
Financing	97,587	
Annual cash flows	14,743	

FINANCIAL RATIOS

	2011	2010
Profitability		
Return on equity	-18.6%	-13.1%
Asset turnover	0.59	0.53
Solvency		
Equity/asset ratio	69.0%	82.5%
Other		
Employees with SEV as main source of income	86	89
Average full-time equivalents	105	108

Calculation of financial ratios

Return on equity	$\frac{\text{results from operations before taxes}}{\text{Average equity}}$
Asset turnover	$\frac{\text{Net sales}}{\text{Total assets}}$
Equity/asset ratio	$\frac{\text{Equity closing balance}}{\text{Total assets}}$

Financial ratios are calculated in accordance with the recommendations of the The Danish Society of Financial Analysts. No key figures or financial ratios are available for the period preceding 2010.

Management review

Main activities

Elfelagið SEV (SEV electricity utility) is an inter-municipal corporate enterprise. Its purpose is to make electricity available and to distribute it among residents of participating municipalities. Pursuant to the statutes, the company shall advance its business purpose according to the principles of commerce, on a financially sound basis, and with due regard for the environment.

These grid accounts for SEV's grid activities are part of SEV's complete accounts. This Review includes the grid activities of the company from January 1, 2011 to December 31, 2011.

Development of company activities and financial situation

The basis for calculating the expenses of purchasing electricity from the production plants, as well as determining the cost of managing the grid, spinning reserve, supplemental reserve and other costs related to grid responsibility, are the company's current records from an ordinary business year.

Revenues

The revenues of the grid accrue from the sale of electricity to business, private and public customers, including municipalities. Revenues also accrue from fixed charges and other charges paid by the customers mentioned.

The operating result in 2011 was a DKK 75.6 million deficit, as compared to a DKK 57.8 million deficit in 2010.

SEV increased the electricity price as of January 1, 2011 by DKK 0.15

per kWh, with the approval of the Faroese Electricity Authority. Moreover, the Authority and SEV acknowledged that, considering the high price of oil as well as the expansions and replacements required in both lines and production, further price increases will be necessary. On January 1, 2012, the company increased the price of electricity by DKK 0.10 per kWh.

The company grossed DKK 319.2 million in 2011, more than the DKK 314.5 million forecast, resulting in additional income of DKK 4.7 million. Electricity charges made up far the largest share of revenue, amounting to DKK 296.4 million, whereas DKK 22.8 million accrued from fixed charges and other sources of revenue. In 2010 revenues from electricity charges summed DKK 261.8 million and DKK 19 million from other charges.

The volume of electricity purchased in MWh in 2011 was 273,843 MWh, as compared to 280,323 MWh in 2010; this represents a reduction of 6,480 MWh, equivalent to 2.3%. Of the 273,843 MWh total production in 2011, thermal plants generated 166,815 MWh, whereas 92,502 MWh were hydroelectric power and 14,526 wind power. Sp/f Røkt produced part of this. In comparison, in 2010, thermal plants generated 199,344 MWh, this means that power generation at thermal plants fell by 16.3% in 2011.

Hydroelectric power production in 2010 was 67,395 MWh, so there was

a 37.3% increase in 2011. Finally, in 2011 wind power generation also rose by 6.9% on 2010, when it was 13,584 MWh.

Production at thermal plants decreased by 32,529 MWh, which is 16.3% down from 199,344 MWh, in 2010, to 166,815 MWh in 2011. The fall in production at thermal plants corresponded to a decrease in electricity consumption of 6,480 MWh, a 25,107 MWh rise in hydroelectric generation, and a 942 MWh increase in wind power generation.

Without a reduction in thermal plant production, the grid's total electricity purchase expenses would have been higher. Oil expenses accounted for 51.7% of the expenses, depreciations and amortizations of production plants in 2011. This is why the manner in which production is organized at the power plants has a great impact on operating results for the grid.

Expenses

In 2011 expenses summed DKK 394.8 million, while they totalled DKK 338.6 million in 2010, which means that they rose by DKK 56.2 million, a 16.6% increase. This amount recognizes a profit of DKK 26.3 million for production plants in 2011. No profit was calculated in 2010.

The cost of materials, services and wages amounted to DKK 62.0 million, whereas DKK 79.2 million was budgeted, which means that it was DKK 17.3 million lower than expected. That same item cost DKK 67.5

million in 2010, which translates into an 8.2% decrease, in 2011, of DKK 5.5 million.

In 2011 the DKK 4.2 million cost of preparing the Víkarvatn project and the DKK 1.0 million cost of preparing for the expansion of the office buildings at Landavegur were recognized as expenses, totalling DKK 5.2 million. Furthermore, a reserve of DKK 1.0 million was set aside for the resolution of potential disputes.

The expenses were recognized as administrative expenses for materials and services; however, they were not budgeted for 2011.

Cost of supply guarantee, spinning reserve and supplemental reserve
Total plant expenses accrue from the cost of producing electricity plus the cost of responsibility for the grid. They can be subdivided into the cost of managing the grid, the cost of guaranteeing supply, spinning reserve and supplemental reserve, as well as other costs related to grid responsibility. The grid purchases the electricity produced by the production plants, in addition to paying for the grid responsibility plants shoulder on behalf of the grid.

Grid management expenses
The Suðuroy grid is managed from Vágur Plant, while the grid covering the rest of the Faroes is managed from Fossá Plant in Vestmanna.

The cost of managing the grid at Fossá Plant, DKK 2.3 million, is calculated as: total wage expenses at Fossá Plant in an ordinary business year of DKK 3 million, less wage expenses for ordinary plant operation of DKK 0.7 million. The cost of ordinary operation at the plant is fixed as the same as the combined cost of operating the Mýru and Heyga plants,

which is DKK 0.7 in an ordinary business year. The cost of managing the grid from Fossá Plant is used as the cost of managing the grid in Suðuroy, which is DKK 2.3 million.

Supply guarantee, spinning reserve and supplemental reserve expenses
Supply guarantee, spinning reserve and supplemental reserve expenses are estimated at 5% of total operating expenses, including depreciation, for Sund Plant and Vágur Plant, which amount to DKK 8.4 million and DKK 1.3 million, respectively. This is a fixed estimate of expenses.

Other grid responsibility expenses are based on costs accruing to SEV of small plants throughout the Faroes, which are considered extra plants or supplemental reserve. Operating expenses for wages and materials are reimbursed to small plants for the guarantee of supply, the rest as own production. Strond Plant receives a guarantee of supply reimbursement for the operating expenses of wages and materials for thermal production of electricity. Own production accounts for the remaining expenses.

Summary grid responsibility expenses
The total cost of managing the Faroese power grid is DKK 4.6 million, while the cost of guaranteeing supply, spinning reserve and supplemental reserve at the Sund and Vágur plants is set to DKK 9.7 million. The cost of guaranteeing supply, etc. from other plants is DKK 4.0 million, which means that the estimated total expenses of guaranteeing supply, spinning reserve, supplemental reserve and managing the power grid is DKK 18.3 million.

Wage expenses

In 2011 total grid wage expenses, including administration, were DKK 8.6

million lower than expected, totalling DKK 30.4 million as compared to the expected DKK 39.0 million. This expense item totalled DKK 34.0 million in 2010, so it was DKK 3.6 million lower in 2011, which means there was a 10.6% year-on-year reduction.

Grid activity wage expenses were DKK 6.2 million lower than expected, totalling DKK 20.4 million as compared to the expected DKK 26.6 million. This expense item totalled DKK 23.5 million in 2010, so it was DKK 3.1 million lower in 2011, which means there was a 13.2% year-on-year reduction.

The reason for the lower-than-forecast use in 2011 is that wage expenses were expected to be DKK 4.3 million higher than the actual expenses for the departments of technology and engineering. Furthermore, operations wage expenses were also DKK 1.9 million lower than calculated.

Administration wage expenses amounted to DKK 10.0 million as compared to the DKK 12.4 million forecast, which means that DKK 2.4 million less than expected were spent. In 2010 administration wage expenses were slightly higher at DKK 10.4 million, which means that there has been a minor reduction in wage expenses of DKK 0.4 million.

Materials and services

Materials and services expenses totalled DKK 31.6 million, as compared to the DKK 40.3 million forecast; which means they were DKK 8.7 million lower than budgeted. The expenses recognize the DKK 4.2 million cost of preparing the Víkarvatn project, the DKK 1.0 million cost of preparing for the expansion of the office buildings at Landavegur, and a reserve of DKK 1.0 million set

aside for the resolution of potential disputes. These items total DKK 6.2 million and were not recognized in the budgeted expenses for 2011.

Grid activities

Grid materials and service expenses summed DKK 15.1 million, which is DKK 4.6 million lower than the budgeted DKK 19.7 million, owing to lower use at the company's operations departments. In 2010 these expenses equalled DKK 18.5 million, which means that this area of expense was DKK 3.4 million cheaper in 2011 than in 2010, an 18.4% reduction. Damages caused by storms in the winter of 2011/2012 also had a minor impact on the company's materials and services expenses, and, by extension, on the 2011 results.

Administration

Administration materials and services expenses amounted to DKK 16.5 million in 2011, DKK 4.1 million lower than the forecast DKK 20.6 million. This lower figure includes the costs of the Vikarvatn project, Landavegur project and reserve for potential disputes, which sum DKK 6.2 million. If these costs are subtracted, then the total expenses are DKK 10.3 million lower than expected. The reduction owes to lower administrative expenses, including studies and consultancy expenses.

Financial expenses

Interest expenses summed DKK 3.6 million. The company is partially exposed to fluctuations in international interest rate levels, because the company's loans were taken out with variable interest.

Depreciations

The method of calculating depreciations changed as of January 1, 2009, on orders from the Faroese Electricity Authority. Property values changed

significantly as of January 1, 2009, and, at the same time, depreciation periods were considerably lengthened for most properties.

However, this does not mean that the company can simply lower the price of electricity, or refrain from increasing it, because that would eliminate any surplus liquidity from operations, which is needed to secure self-financing of planned investments. Operations must yield a surplus to enable investments in modernizing production plants and expanding renewables.

Depreciations for 2011 amounted to DKK 24.3 million, of these, DKK 22.3 million accrue from grid activities and DKK 2.0 million from administration.

Budget preparations for each coming year include an assessment of which investments are likely to be completed during that year, because they become assets subject to depreciations when they start operating. The difference between these assessments and the actual figures confirmed accounts for the difference between recognized and budgeted depreciations. Investments were also slightly lower than expected.

Special risks

The company has limited exposure to individual clients. The company constantly monitors customers' level of indebtedness to SEV.

As mentioned in the segment on financial expenses, the company is

susceptible to changes in interest rate levels, but has chosen not to hedge using financial instruments or put in place other such safeguards. The company is closely monitoring interest rate levels and continuously reviews whether implementing safeguards against interest rate risks would be advantageous.

Investments

Investments in tangible fixed assets amounted to DKK 13.0 million, as indicated in the table below.

This is DKK 18.2 million less than budgeted for 2011. Lower-than-expected investments of DKK 9.0 million were made in substations and the grid. Also, investments in the Grana collaboration, equipment and remote metering were DKK 9.2 million lower than estimated.

Liquidity

Currently liquidity is not separated into production and grid, but it will be in 2012. In the current accounts production plant liquidity is fixed at DKK 0 million, but all plant operations are funded by the grid, which secures sufficient liquidity for plants.

By the end of the year, liquidity was DKK 56.9 million for both production and grid combined. In addition, the company's unused bank overdrafts total DKK 5.4 million, which means that all-in-all DKK 62.3 million are available to the company in cash-on-hand and credit.

Investments	Actual figures 2011		Initial budget 2011	
	DKK million	percent	DKK million	percent
Substations, grid, etc.	9,1	70,0	18,1	58,0
Equipment, IT equipment, remote metering, Grani project, etc.	3,9	30,0	13,1	42,0
Total	13,0	100,0	31,2	100,0

At the beginning of January 2012, the company took out a cash flow loan of DKK 80 million. The aim is to have a sound cash flow, in order to ensure that SEV is always capable of paying cash for one oil shipment plus the cost of an accident at one of the production plants or the grid.

The company's day-to-day operations also require stable liquidity. Moreover, in light of the uncertainty on the global financial markets, it is sensible to secure sound liquidity.

Environment

The company prioritizes the environment and therefore greatly emphasizes full compliance at all times with environmental requirements, regulations and standards.

Knowledge resources and development

It is very important for the production plants that pertinent and sufficient knowledge and experience are available in all areas of activity, and arrangements are in place for relevant staff training. The production plants continuously works on developing safety, security and quality of supply. SEV is working on plans to increase the production share of renewable energy sources, such as hydroelectricity, water and tidal power.

Outlook for 2012

SEV expects the results after tax to be a deficit of between DKK 36 and 56 million, which is better than the 2011 results, which were a DKK 75.6 million deficit. This is not a satis-

factory result. Operations must be brought into balance by 2013 and yield an adequate surplus thereafter.

Events after the close of the accounting year

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

Income statement

	Note	2011 DKK	2010 tDKK
Net turnover	1	319,197,094	280,816
Electricity purchased		-283,393,092	-238,266
Wind power purchased		-2,804,404	-2,553
Grid responsibility and management	2	-18,305,748	0
Cost of oil	3	-333,872	-527
Materials and services		-31,615,094	-33,507
Gross proceeds		-17,255,116	5,963
Wages	4	-30,441,270	-33,958
Results before depreciation, amortization and impairment		-47,696,386	-27,995
Depreciation, amortization and impairment of fixed assets		-24,283,915	-24,359
Results before financials		-71,980,301	-52,354
Financial expenses	5	-3,644,056	-5,429
Results before tax		-75,624,357	-57,783
Tax on annual results	6	0	0
Annual results		-75,624,357	-57,783
Proposed distribution of results:			
Results		-75,624,357	-57,783
Opening adjustment		8,277,747	0
Results carried over beginning-of-year		435,973,933	493,757
For use		368,627,323	435,974
Proposed distribution of the amount:			
Results carried-over		368,627,323	435,974
Total		368,627,323	435,974

Balance sheet as at 31 December

ASSETS	Note	31.12.11 DKK	31.12.10 tDKK
Distribution stations	7.18	370,427,792	373,313
Buildings and land	7	37,186,411	38,211
Operating equipment	7	6,384,252	7,464
Investment works in progress		3,604,395	10,027
Total tangible fixed assets		417,602,850	429,015
Investments in associates	8	2,850,000	2,850
Total financial assets		2,850,000	2,850
Total assets		420,452,850	431,865
Materials inventory		11,321,099	11,733
Total inventories		11,321,099	11,733
Goods and service debtors	9	42,340,297	36,372
Other debtors		5,199,715	7,347
Prepayments		4,002,434	4,097
Total receivables		51,542,446	47,816
Cash-on-hand		56,886,927	42,143
Total current assets		119,750,472	101,692
Total assets		540,203,322	533,557

Balance sheet as at 31 December

		31.12.2011	31.12.2010
	Note	DKK	t.DKK
LIABILITIES			
Deposit	10	4,139,875	4,140
Results carried over	10	368,627,323	435,974
TOTAL EQUITY		372,767,198	440,114
Provisions for pensions and equivalent liabilities		18,031,268	18,731
Provisions for deferred tax	11	0	0
Other provisions		1,001,129	0
Total provisions		19,032,397	18,731
Bank borrowings	12	70,000,000	0
Total long-term debt		70,000,000	0
Current portion of long-term debt	12	0	0
Bank borrowings		27,587,468	0
Prepayment received from customers		22,504,458	20,271
Trade creditors		24,724,978	48,484
Corporate tax	13	0	0
Other creditors		186,823	5,957
Prepayments		3,400,000	
Total Short-term debt		78,403,727	74,712
TOTAL DEBT		148,403,727	74,712
TOTAL LIABILITIES		540,203,322	533,557
Grid results per area	14		
Grid overview	15		
Mortgages and other liabilities	16		

Cash flow statement

	Note	2011 DKK
Annual results		-75,624,357
Adjustments	17	27,927,971
Changes in working capital		
Inventories		412,592
Receivables		-3,726,906
Trade creditors		-23,759,303
Other operating debt		164,399
Operating cash flows before financials		-74,605,604
Interest expenses paid and equivalent expenses		-3,644,056
Opening adjustment		8,277,747
Cash flows from operations		-69,971,913
Purchase of tangible fixed assets		-19,294,571
Changes to work in progress		6,422,326
Cash flows from investments		-12,872,245
Loans		70,000,000
Bank overdraft withdrawals (max. DKK 33 million)		27,587,468
Cash flow from financing		97,587,468
Total cash flows over the year		14,743,310
Opening cash-on-hand		42,143,617
Closing cash-on-hand		56,886,927
Breakdown of closing cash-on-hand:		
Cash-on-hand		56,886,927
Total		56,886,927

Applied accounting principles

General

The Production Accounts were prepared in accordance with the provisions in the Faroese Annual Accounts Act for Class C medium-sized companies.

The applied accounting principles are unchanged from last year. It should be noted, however, that in 2011 production activities recognized a profit from electricity sales. This has a negative impact on the annual results of grid activities.

Amounts in the income sheet, balance sheet, notes, etc. are rounded to whole figures without decimals, and comparative figures for the previous year are rounded to whole thousands. As each figure is rounded individually, there may be rounding differences between the additions presented and the sum of the underlying figures.

Basis for recognition and measurement

Income is recognized in the production accounts as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortization and impairment losses, are also recognized in the production accounts.

Assets are recognized in the balance sheet when future economic benefits are likely to flow to the company and the value of such assets can

be measured reliably. Liabilities are recognized in the balance sheet when they are reasonably likely to occur and can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, each item in the account is measured as described below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the time at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

FOREIGN CURRENCY

The annual report is presented in Danish kroner (DKK).

During the year, foreign currency transactions are translated into Danish kroner using the rate of exchange applicable at the date of transaction. However, transactions with guaranteed exchange rates are recorded at the guaranteed rate.

Receivables and liabilities in foreign currencies are translated into Danish kroner using the exchange rates applicable at the balance sheet date, with the exception of amounts with guaranteed exchange rates, which are recorded at the guaranteed rate. Realized and unrealized translation gains and losses are recognized in the income statement under financial items.

STATEMENT OF OPERATIONS

Net turnover

Revenues from the sale of goods and services are included in the income statement, provided that delivery has been effected and the risk has passed to the buyer by the end of the accounting year. Net sales are measured without VAT.

Other expenses

This item comprises costs related to purchasing oil, materials and other services, as well as other administrative costs.

Distribution of activities, production and grid

For each production plant, revenues are calculated as: the total expenses of the plant plus a production profit of 5% on its individual assets. The calculated profit of 5% was determined based on the returns on long-term mortgage bonds, which are comparable to the long-term investments of a plant.

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

The cost of managing the grid in the central region is calculated as: total

wage expenses at Fossá Plant, less wage expenses for ordinary operation of the plant. The cost of managing the grid in Suðuroy is the same as the cost of managing the grid in the central region.

The cost of supply guarantee, spinning reserve and supplemental reserve is estimated at 5% of the total operating expenses, including depreciations for Sund Plant and Vágur Plant. This is a fixed cost estimate.

Other costs related to grid responsibility accrue from the expenses of all small plants. Operating expenses for wages and materials are reimbursed to small plants for the guarantee of supply. The rest as own production. Strond Plant receives a guarantee of supply reimbursement for the operating expenses of wages and materials used in thermal production. Remaining expenses accrue from own production.

Depreciation

Depreciation and amortization of fixed assets are arranged as systematic depreciation over the assets' expected useful lives. The company applies the following useful lives and residual values:

	Useful life	Residual value
Production and distribution plants	35 - 50 years	0%
Buildings	50 years	0%
Production equipment and furnishings	3 - 5 years	0%

Financials

Financials include interest receivable and interest payable, realized and unrealized capital gains and losses on securities, debt and transfers in foreign currencies, amortization of financial assets and liabilities in ad-

dition to interest expenses. Financial revenues and financial expenses are recorded as accruing from amounts coming under the accounting year.

Dividends from equity investments are recognized as revenues in the accounting year when they are notified.

Financial assets

Investments in associates are recognized in the balance sheet at acquisition value less any depreciation.

Depreciation of fixed assets

Every year the carrying amount of tangible fixed assets is appraised to obtain an indication of whether they have depreciated. This is done in addition to regular write-offs.

When there is an indication of depreciation, impairment tests are carried out on each individual asset and each asset category. Depreciated assets are written down to the recoverable amount, if this is lower than the carrying amount.

The recoverable amount is either the net realizable value or the capital value; it is always the higher of the two. Capital value is calculated as the current value of the expected net revenues accruing from using an asset.

Inventories

Inventories are measured at the lower of cost according to the FIFO principle and net realizable value. The cost of raw materials and consumables, as well as goods for resale, is measured as purchase prices plus expenses incurred directly in connection with the purchase.

The cost of produced goods and of goods in production is measured as value of direct material and labour costs. Interests on production loans are not included in cost.

Receivables

Receivables are measured less potential risks of bad debts on the basis of individual assessments.

Calculations of potential losses are written-off on the basis of assessments of each individual debtor.

Prepayments

Prepayments recognized under assets are expenses paid in advance for the following accounting year.

Provisions

Provisions for pension liabilities are recognized in the balance sheet based on actuarial data, unless the liabilities are insured.

Other liabilities provided for include warranty commitments, work in progress, etc. and are recognized when the company at the closing of accounts has such an obligation. Provisions are recognized based on an assessment of the fair value of the obligation.

Current and deferred taxes

Current tax payable and receivable is recognized in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Deferred tax is calculated on the basis of all temporary differences between the carrying amount and tax base of assets and liabilities and is recognized in the balance sheet at the tax regulations and rates applicable on the balance sheet date.

Deferred tax assets, including tax deficits carried-over, are recognized at the expected realizable value.

Payables

Long-term debt is recorded in the balance sheet at cost at the time of

contracting such debt. It is subsequently recorded at amortised cost. Capital losses and loan expenses are distributed over the repayment period on the basis of the calculated effective rate of interest at the time of contracting such debt.

Short-term debt is also measured at amortised cost, which usually corresponds to the nominal value.

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing

and financing activities as well as changes in liquidity and cash-on-hand at the beginning and end of the year.

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

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

Cash flows from financing comprise financing from and dividends paid to shareholders, the arrangement and repayment of long-term liabilities other than provisions, in addition to overdraft withdrawals.

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

Notes

1. NET TURNOVER

kWh charges etc.	296,388,398	261,845
Fixed charges	16,507,466	16,105
Connection fees	1,332,800	1,579
Other charges, reminders and other sales	4,968,430	1,287
Total	319,197,094	280,816

2. COST OF OIL

Gas oil	333,872	527
Total	333,872	527

3. MATERIALS AND SERVICES

Lines	7,668,873	9,624
Electric and technical	786,263	448
Buildings and land	949,655	1,122
General meeting and Board	366,841	126
Studies and consultancy	4,689,090	3,424
IT	2,213,563	2,929
Management and office expenses	2,009,250	1,485
Loss on unpaid debt	1,594,872	4,546
Other operating expenses	293,718	78
Other administrative expenses	11,042,969	9,725
TOTAL	31,615,094	33,507

4. EMPLOYEE EXPENSES

Wages	25,054,027	29,027
Pensions	4,264,967	3,789
Contributions	1,122,276	1,143
Total	30,441,270	33,958
Employees with SEV as main source of income	86	89
Average number of employees	105	108

5. FINANCIAL EXPENSES

Interests, loans and bank borrowings etc.	3,644,056	5,429
Total	3,644,056	5,429

6. TAXES ON ANNUAL RESULTS

Corporate tax	0	0
Adjustment of deferred tax	0	0
Total	0	0

7. TANGIBLE FIXED ASSETS

Amount in DKK	Distribution stations	Buildings and land	Equipment
Acquisition value beginning-of-year	735,723,702	59,436,610	91,955,983
Net annual addition	18,661,251	0	633,320
Acquisition value year-end	754,384,953	59,436,610	92,589,303
Depreciation, amortization and impairment beginning-of-year	-362,410,460	-21,225,724	-84,492,312
Depreciation, amortization and impairment over the year	-21,546,701	-1,024,475	-1,712,739
Depreciation, amortization and impairment year-end	-383,957,161	-22,250,199	-86,205,051
Carrying amount year-end	370,427,792	37,186,411	6,384,252

Notes

	31.12.11	31.12.10
8. INVESTMENTS IN ASSOCIATES	DKK	t.DKK
Acquisition value beginning-of-year	2,850,000	2,850
Acquisition value year-end	2,850,000	2,850
Carrying amount year-end	2,850,000	2,850

Associates

Name and registered office	Share	Equity	Annual results	Recognized value
P/F Fjarhitafelagið	50%	41,318,818	3,733,986	2,750,000
P/F FDS	20%	375,044	-137,026	100,000

No 2011 accounts are available for P/F Fjarhitafelagið. The amounts stated are from 2010.

	31.12.11	31.12.10
9. TRADE CREDITORS	DKK	t.DKK
Electricity debtors	38,097,039	34,294
Other debtors	7,443,258	4,278
Receivables write-down	-3,200,000	-2,200
Total	42,340,297	36,372

10. EQUITY

Total in DKK	Deposit	Result carried over
<i>Equity statement January 1, 2010 – December 31, 2010</i>		
Balance on December 31, 2009	4,139,875	493,756,620
Opening adjustment	0	0
Balance on January 1, 2010	4,139,875	493,756,620
Profit carried over	0	-57,782,687
Balance on December 31, 2010	4,139,875	435,973,933
<i>Equity statement January 1, 2011 – December 31, 2011</i>		
Balance on December 31, 2010	4,139,875	435,973,933
Opening adjustment	0	8,277,747
Profit carried over	0	-75,624,357
Balance on December 31, 2011	4,139,875	368,627,323

	31.12.11	31.12.10
11. PROVISIONS FOR DEFERRED TAX	DKK	t.DKK
Provisions for deferred tax beginning-of-year	0	0
Tax deferred in the year	0	0
Total	0	0

12. PAYABLES	Repayment in the first year	Outstanding debt after 5 years	Total payables Dec. 31, 2011	Total payables Dec. 31, 2010
Bank borrowings	0	67,964,606	70,000,000	0
Total	0	67,964,606	70,000,000	0

A DKK 70 million loan from BankNordik was arranged for financing company operations. The agreement with BankNordik stipulates an 18-year repayment period commencing in 2014.

Notes

	31.12.11	31.12.10
	DKK	t. DKK
13. TAX PAYABLE	Deposit	Result carried-over
Tax payable beginning-of-year	0	0
Tax paid in the year	0	0
Tax owed from previous years	0	0
Calculated corporate tax for the current year	0	0
Total	0	0

14. GRID RESULTS PER AREA

	Revenues	Oil	Materials	Wages	Depreciation	Interest	Total
Substations	36,477	-	-642,425	-633,406	-2,691,096	-	-3,930,450
Distribution stations	149,397	-252,604	-11,741,614	-14,124,939	-18,498,112	-	-44,467,872
Installations	1,336,998	-	-1,536,556	-3,397,154	-1,089,666	-	-4,686,378
Engineering	2,000	-	-579,594	-993,636	19,732	-	1,551,498
Technological	-	-	-598,432	1,271,067	-39,876	-	1,909,375
Grid without admin- istration	1,524,872	-252,604	-15,098,621	-20,420,202	-22,299,018	-	-56,545,573
Administration	13,168,979	-81,268	-16,516,474	-10,021,068	-1,984,899	-3,644,056	-19,078,786
Production results	14,693,851	-333,872	-31,615,095	-30,441,270	-24,283,917	-3,644,056	-75,624,359

15. GRID OVERVIEW

	Fugloy	Svínoy	Viðoy	Borðoy	Kunoy	Kallsoy	Eysturoy	Streymoy	Vágoy	Mykines	Nólsoy	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suðuroy	Units in total
<i>TRANSMISSION SUBSTATIONS, NUMBER</i>																		
6kV Transmission substations	1			2														3
10kV Transmission substations		1	6	32	4	7		67			1			16			51	185
20kV Transmission substations				2			111	77	30				1					221
60kV Transmission substations				1			2	4										7
Areas total	1	1	6	37	4	7	113	148	30		1		1	16			51	416
<i>TRANSFORMERS, NUMBER</i>																		
6kV Transformers	2			4				1										7
10kV Transformers		1	6	38	4	7		78			1			18			60	213
20kV Transformers				4			129	104	35				1	3			3	279
60kV Transformers				1			6	12										19
Areas total	2	1	6	47	4	7	135	195	35		1		1	21			63	518
<i>CABLE DISTRIBUTION CABINETS, NUMBER</i>																		
0.4kV cable distribution cabinets	13	25	79	502	30	30	1569	2316	511	7	38		10	217	11		850	6208
<i>LINES AND CABLES</i>																		
60kV line				1.02			37.57	42.99										81.58 km
60kV cable				0.09			13.68	14.81										28.58 km
20kV line							60.27	52.60	9.27						12.03		12.03	134.17 km
20kV cable				11.46			151.54	143.74	39.52				0.56	0.63			4.30	351.75 km
10kV line		3.23	16.31	13.84	9.37	6.44		4.70						12.14			44.24	110.27 km
10kV cable		0.55	3.96	29.86	2.75	11.15		68.92			1.47			34.10			59.20	211.96 km
6kV line	2.19			7.17														9.36 km
6kV cable	0.17			0.07				0.16										0.04 km
0.4kV line				0.32				0.04									1.70	2.06 km
0.4kV cable	1.10	4.22	11.34	60.78	2.99	2.97	197.19	285.19	57.37	0.55	3.38	0.38	0.90	28.96	0.88	0.05	95.07	753.32 km
<i>METERS</i>																		
Remote kWh meters	58	76	265	302	82	117	2673	3423	836	52	175	0	43	783	54	2	509	9450
Non-remote kWh meters	2	2	8	2208	2	4	1639	7091	735	1	5	2	0	31	0	2	2371	15103
Area kWh meters total	60	78	273	2510	84	121	5312	10514	1571	53	180	2	43	814	54	4	2880	24553
Increase 2011	-1	3	-1	6	0	0	50	85	9	0	2	0	0	3	0	0	11	167

Notes

16. MORTGAGES AND OTHER OBLIGATIONS

The total mortgage on the company's assets is DKK 30 million.

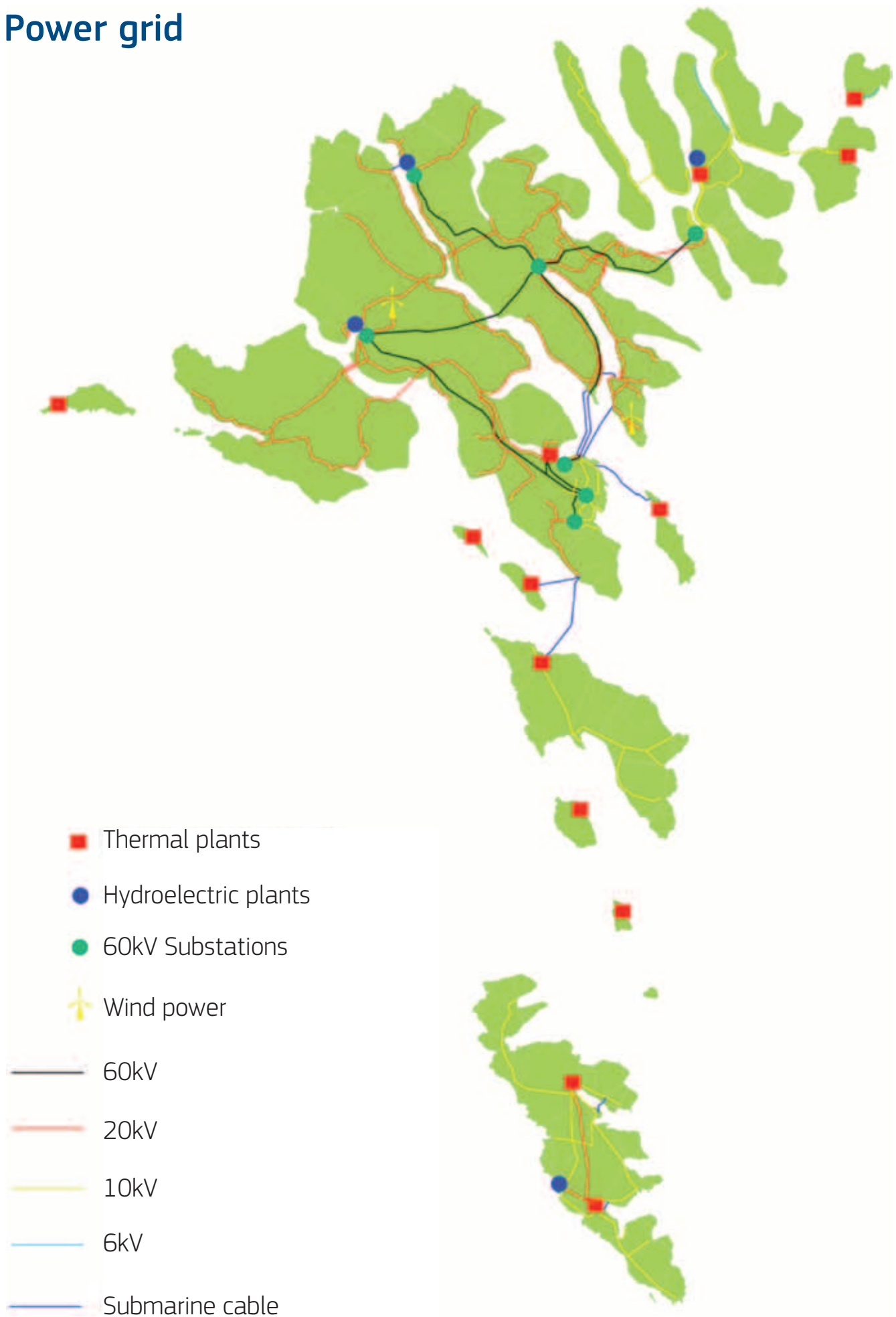
The company is not bound by any other obligations.

	2011	2010
17. ADJUSTMENTS	DKK	t. DKK
Amortizations	24,283,915	24,359
Interest expenses and equivalent expenses	3,644,056	5,429
Total	27,927,971	29,788

18 PER DISTRIBUTION PLANT

Substations	54,141,745	56,201
Distribution stations	316,286,047	317,112
Total	370,427,792	373,313

Power grid





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