



Nordic Prize Winner 2015



Annual Report and Annual Accounts 2015

Annual General Meeting 29 April 2016

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Board of Directors and Management in SEV. Back row from left: Karl M. Rasmussen, board member; Finn Jakobsen, Director of Distribution; Anders Nedergaard-Hansen, Director of Production; Frits Poulsen, board member; Bødvar Hjartvarsson, board member; and Steinbjørn O. Jacobsen, board member. Front row from left: Bogi Bendtsen, Director of Administration; Jákup Suni Lauritsen, Chairman of the Board; Hákun Djurhuus, CEO; Bogi Andreasen, Vice Chairman; and Karl A. Olsen, board member.



Report from the Board of Directors

Both in the Faroe Islands and abroad, SEV has garnered significant interest regarding its green course toward the future. In its collaboration charter, the new government coalition, composed of the Social Democrats and the Republican and Progress parties, expressed the vision of 100% green energy in the Faroes by 2030 relative to on-shore consumption.

On 27 October 2015, the Nordic Council awarded SEV the annual Nature and Environment Prize, declaring:

“The prize goes to the Faroese electricity company SEV for its ambitious targets and innovation. SEV’s work is not only important for the phasing in of renewable energy in the Faroe Islands, but also for the European grid as a whole. Its ambitious targets and the creative nature of its efforts to reduce dependency on fossil fuels make SEV a worthy recipient of the Nordic Council Nature and Environment Prize 2015.”

Aksel Johannesen, the Faroese Prime Minister, stated in his speech before the Nordic Council, which took place the same day that the Prize was awarded later in the evening, that the Faroes had launched a green revolution. Altogether, these confirmatory acknowledgements attest that SEV is leading the way and has charted the right course.

The Company has also become economically stronger over the past two years and in 2015 the Company realized a profit of DKK 103 million. This surplus will be used to self-finance the considerable expansion that lies ahead, e.g., investment in production from green energy resources and expansion of the oil-fired power plants that will continue to provide the Company’s reserve power for many years into the future, even though the goal is 100% green electricity production by 2030.

SEV’s challenge remains, on the one hand, its universal service obligation to provide a continuous and stable supply of electric power, and, on the other, its expansion into green energy, environmental protection and the fluctuating price of oil. However,

the greener the Company becomes the less oil will remain an economic threat to the Company and by extension to the Faroese community at large, while at the same time environmental protection is enhanced.

SEV must continually meet the need for electric power, while at the same time engaging in the speedy electrification of the country. Daily, these efforts present a major and exciting challenge and the activities undertaken by the Company are many and varied. SEV’s highly-skilled and competent employees daily perform challenging tasks, consistent with the Company’s values: Co-operation, Enthusiasm and Respect. In Faroese: *Samstarv, Eldhugi og Virðing – SEV.*

The activities undertaken by SEV since the last Annual General Meeting are described in some detail below. Further, the Board of Directors discusses the issues that it deems to be of greatest interest to the shareholders. This report is provided pursuant to § 3, paragraph 12b and § 4, paragraph 11a of the Company’s Articles of Association.

Diverse activities

The license for the use of hydropower officially expired on 5 October 2013. Subsequently, the Ministry of Industry regularly and formally extended the license for several months at a time while the parties worked on the language of a new license. On 1 July 2015, SEV received a proposed term sheet setting forth the new material terms and conditions of the hydropower license. On the same day, SEV received a denial of its application for a license to construct a pumping system at its existing hydropower facility in Vestmanna, and a conditional assurance of a production permit for a pumped storage system in Vestmanna that did not extend to Heygadal or Mýra. SEV also received a copy of the extended and expanded provisional license provided Sp/f Røkt, wherein the government authority granted Sp/f Røkt a conditional provisional licence to the pumping systems between Heygadal and Mýra. The Board of Directors was not satisfied with the handling of its application and the conclusions reached by the government authorities. Efforts were immediately launched to have the then



sitting Prime Minister, Kaj Leo Holm Johannesen, review the case with no result. SEV determined also to appeal the decision of the government to the Industrial Appeal Board. The Health and Interior Ministry currently is reviewing the conditions for a new water permit, while at the same time the current license was extended to 30 April 2016.

At SEV's Extraordinary General Meeting held on 19 June 2015, it was unanimously agreed that the SEV Board of Directors shall authorise the transfer of the five wind turbines located at Neshagi into a 100%-owned subsidiary of SEV and to undertake all the various matters related to this transfer. The Extraordinary General Meeting also authorised the transfer of the 13 wind turbines at Húsahagi into a 100%-owned subsidiary of SEV and to undertake all the various matters related to this transfer.

In connection with this reorganization, which, among other things, required amendment of SEV's Articles of Association, both the Ministry of Industry and Social Affairs stipulated that they would enter their respective final decisions on the actual plans, once the Ministries had received the proposed divestiture agreements and the respective articles of association for approval. SEV is currently working on the establishment of these two subsidiary companies with an effective date of 1 January 2016. This work encompasses, among other factors, the valuation of assets, divestiture agreements, memoranda of incorporation, articles of association, certificate of incorporation, pricing schedules between SEV (the grid division) and the new companies, the budget for

2016 and attendant communication with, e.g., the Electricity Production Commission, the Ministry of Health and the Interior, and SEV's financial lenders.

The Company has been working on a proposal to add experts to the Board. After the proposal was discussed at the Annual General Meeting on 24 April 2014, the Company submitted a proposal to the Ministry of Industry and the former Ministry of Interior for comments. At the Annual General Meeting held on 24 April 2015, it was announced that the proposal would be submitted to a subsequent Annual General Meeting when an answer was received from the government authorities. On 29 September 2015, the Company asked the Ministry of Industry for an update and was advised that the matter had been submitted to the Ministry of Health and the Interior for review. The issue was discussed at a meeting between SEV and the Ministry on 4 March 2016, but no answer has been received from the Health and Interior Ministry.

The Board is pleased with the good and close co-operation that exists with the current political coalition. There was unified agreement on the country's energy policy that was articulated in the coalition's collaboration covenant. It is important that we in the Faroes, who have but limited energy resources available, collaborate together and use our resources in the best way possible for the greatest overall future enhancement of our small society.

The 2015 Nature and Environment Prize awarded to SEV by the Nordic Council was also accompanied by a cash award of DKK

350,000. The Board had previously decided that, if the Company were to win, the prize money should be donated in full as a grant to the Páls Aquatic Centre for a pool-side lift for the disabled. On 27 November 2015, a public reception was held at the Dansifrøi studio in Tórshavn where SEV celebrated the award of the Prize and the CEO of SEV presented the prize money to the chairman of the board of the Páls Aquatic Centre.

For many years, SEV owned 20% of P/F FDS, which, among other activities, generated digital maps of the country and operated the website, www.kortal.fo. This company was closed down and its activities transferred to the Faroese Environment Agency.

Development plans for sustainable power

The battery system for the Húsahagi wind farm is now installed and is presently being tested. Testing is expected to take one month and it is anticipated that the battery system will become operational early in May.

Accompanied by SEV employees and representatives from the Faroese Earth and Energy Directorate and the Ministry of Industry, the Board of Directors visited Germany in 2015 to gain a closer look at the SEV battery system. The battery system has a storage capacity of 2.3 MW per 0.7 MWh. The group also visited Wemag, which has a 5 MW per 5 MWh battery system installed at Schwerin, Germany. Later that same day, the group visited Younicos, which developed the control system for this battery installation, which is the largest battery system in Germany.

Currently, SEV is working on the erection of a wind measurement mast on Suðuroy. It is anticipated that Orka, which is a new department within the Environment Agency that is designed to oversee the electricity power sector, will announce a wind power licencing round for Suðuroy this year. Orka and SEV have agreed that SEV, in the first instance, shall pay for the various measurement studies to be conducted, the cost of which shall be included in the respective tenders and subsequently repaid to SEV by the successful applicant.

SEV is underway to erect charging stations for electric vehicles. The first charging station was erected in Klaksvík just before Christmas 2015. Subsequently, during 2016, charging stations will be placed in Tórshavn, at the airport, in Runavík, við Streymin [on Eysturoy], and on Sandoy and Suðuroy. It is believed that this placement will meet the country's interim demand for charging stations.

A co-operation contract for the delivery of surplus heat from the Vágur power plant to the Páls Aquatic Centre has been executed.

With financial support from NORA and NAHA, SEV is collaborating on a green project on the island of Stóra Dímun. The project is investigating sustainable energy possibilities on the island focused on production that is linked into a battery system or a hydrogen storage facility.

In order to map out the possibilities relative to the expansion of electricity production from current and projected renewable energy resources that would also incorporate current and potential energy storage options, a feasibility study was set into motion in collaboration with Orka, Dansk Energi and SEV. It is anticipated that the first results will be available early in 2017.

Other expansions

The installation of a new motor at the Vágur power plant is almost finished. Several construction delays occurred, but it is anticipated that the project will be completed in June 2016. It is expected that costs will hold to budget.

The project planning for the extension of the Sund power plant continues. A new station 3 is expected to replace station 2, which houses the oldest motors from 1983 and 1988 and which are expected to soon fail as a consequence of age. It is anticipated that a final project proposal can be submitted for resolution at the Extraordinary General Meeting to be held later this year.

The updating and extension of the oil storage tank farm at the Sund power plant is completed with the exception of two technical construction issues that can only be addressed once the day tank storage facility is completed. Work on the day tank storage facility has begun, even though the related equipment is being designed and it is anticipated that the total project plan will be completed in the last half of 2017. The day tank storage facility and its related equipment will be extended some 50% to facilitate the provision and handling of oil to be used by station 3. The intended tender for the largest portion of this equipment is conditioned on whether the decision will be made to construct station 3, thus release of the tender is delayed until after this decision is taken.

The significant growth in Faroese industry continues and this is reflected in the increased demand for electricity. The pace is rapid and it is a challenge for the Company to keep pace. The coupling stations in Runavík and at Inni á Eið in Fuglafjordur are good examples of this. The extension and expansion of the 60 kV transmission grid, which is continually being upgraded, continues consistent with the long-term plan.

As owners of P/F Fjarhitafelag, Tórshavn Municipality and SEV have jointly stipulated their vision regarding the future development of the company and any associated expansion. Fjarhitafelag has taken this vision under advisement and is currently working on a corresponding analysis and project plan.

Technical operations

The Fossá power plant is now updated and modernized both outside and in. The control room, which previously had been transferred to the Eiði hydropower plant, has now been shifted back to the Fossá power plant.

The penstock piping at the Mýra hydropower plant has been painted and new valves have been purchased for installation this summer.

The tank fencing and alarm systems have been updated on the islands of Mykines, Skúvoy and Fugloy.

The coupling station at Húsareyn went online in March 2015. The work on the Runavík coupling station is progressing. The project design work for the coupling station at Eiði is underway.

The undersea cables over Skálafjord and Fuglafjord were successfully laid in the last half of 2015.

Major reorganization and modernization of the grid in Runavík has been carried out. The grid has also been enhanced on Southern Streymoy between the Sund power plant, Húsareyn and Varðagøta, and upgrades were also undertaken on Suðuroy.

The goal of shifting out all the electric meters and replacing them with digital wireless meters will be completed in 2016. Moreover, work continues to install meters at all the transformer stations, which will help improve SEV's ability to ensure its customers a secure supply of electricity.

Significant need for financing

The work to put into place the requisite financing for the anticipated expansion over the coming years is proceeding apace. The plan is to execute an agreement with a mandated lead arranger who will in turn syndicate around DKK 1 billion through a US Private Placement. It is intended that the remaining sum of DKK 0.6 billion be acquired through bank financing.

Result 2015

The Company's result for 2015 is DKK 103 million. This is a satisfactory result, but, after carrying a deficit for many years in a row until 2012, and coupled with the major investment that lies ahead requiring financing, there is a need for considerable self-financing.

It will be necessary to maintain a similar good result into the future so that the Company can maintain a secure budget in these challenging times that will include considerable expansion.

Budget 2016

The budget for 2016 forecasts a surplus of DKK 72 million. The trends relative to certain expenses suggest that the result will indeed be somewhat better.

A green course ahead

It is with great pleasure that the Board can state that SEV has definitely charted the right course toward a green future. The tasks ahead are many and varied.

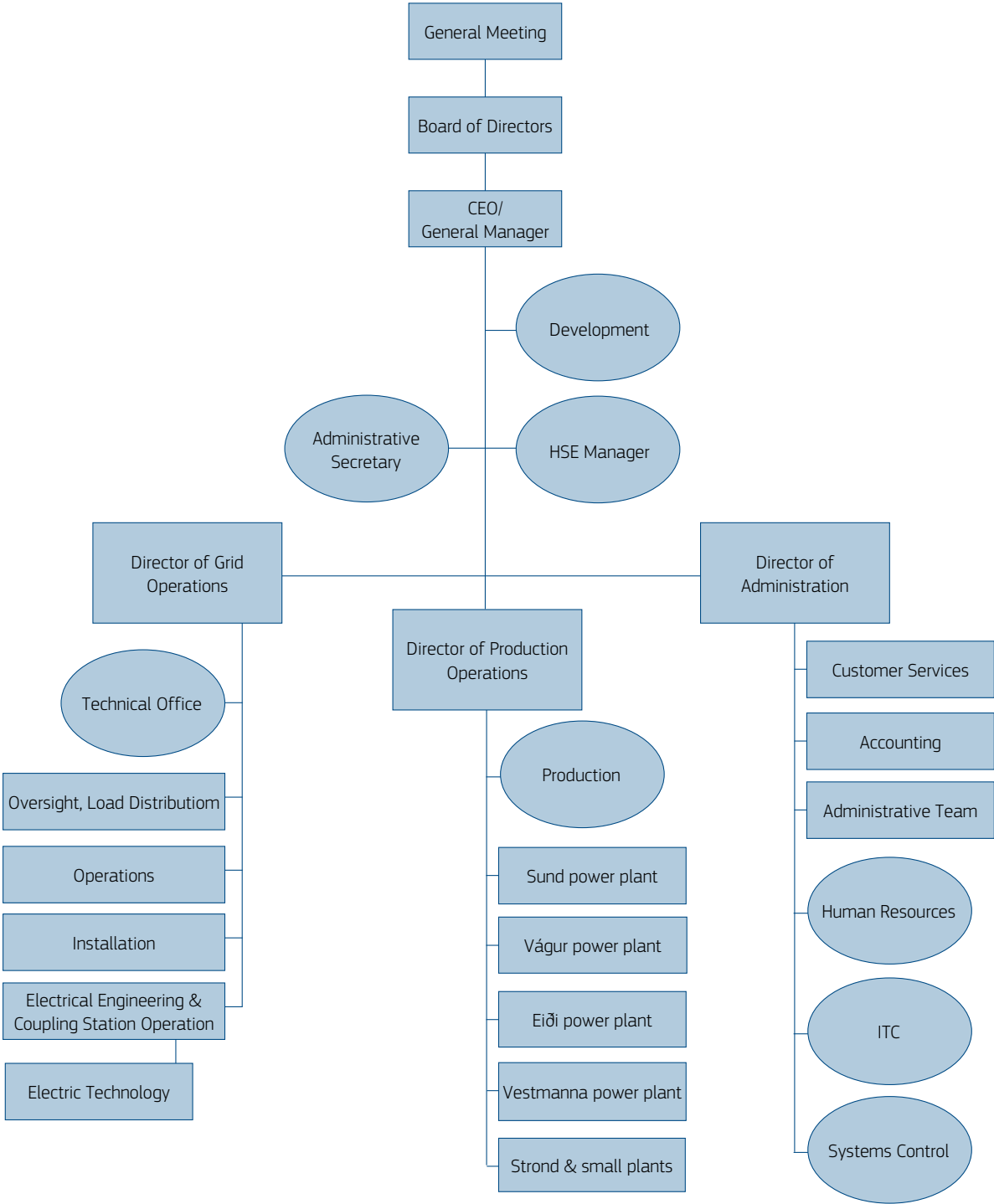
The growing demand for electrical power may very well represent SEV's greatest challenge ever.

First and foremost, the future will herald green power with oil serving as a reserve source of power. Further ahead, the aim is to abandon fossil fuels and provide 100% green electricity from renewable sources of energy. Nevertheless, supplying electricity and the daily operation of the Company remain our main focus from day to day, followed by maintenance, expansion, research and collaboration, both domestically and abroad. SEV is a source of employment throughout the Faroes and attracts new knowledge and competence to the islands through its diverse collaboration with producers, suppliers and partners within the electric power industry.

All in all, SEV is dedicated to ensuring the Faroese community a green future that is economically sustainable and that ensures the Faroe Islands a reliable and green source of electric power into the future.

Jákup Suni Lauritsen
Chairman of the Board
April 2016

Corporate Organization



Significant Events

Since SEV's Last General Meeting

Electric energy was **60% green** in 2015

In 2015, SEV produced 60% of its electric power from water and wind, while electricity production was at the highest level ever. Production from oil declined by 16% for the second year in a row.



42%

Hydropower played a significant role in the production numbers for 2015, generating 42% of all electrical energy.



In 2015, 18% of the electric power was generated by wind energy and the Neshagi and Húсахagi wind farms had a major impact on overall production numbers.



The hydroelectric reservoirs and the Fossá power plant in Vestmanna, which were built in the 1950s and 1960s, constituted the first major expansion of SEV, which was founded on 1 October 1946. Hydropower was the principal source of energy in the early years.

With the close of 2015, SEV concluded yet another good and green year. The production data for the past year on the whole is headed in the right direction.

Of SEV's total electricity production, 60% is derived from water and wind; the oil-fired power plants thus account for 40%.

- We have achieved our goal for 2015, and we are quite pleased with this result, noted Hákun Djurhuus, CEO of SEV.

He observed that the last time SEV produced 60% of its power from renewable energy resources was in 1973, when hydropower supplied most of the total electricity production, which at the time was four times less than today.

The wind turbines at Neshagi and Húсахagi have had a major impact on the production numbers, which indicate that wind power production reached 17.8%. Compared to 2014, this was an increase of 61.8%. The battery storage system at Húсахagi will come online this year, and it is designed to greatly enhance wind power production, thus increasing the overall contribution of wind power in the years ahead.

Hydropower provided 42.3% of total electricity production in 2015, which amounts to an increase of 10.3% compared to 2014.

The Eiði hydropower plant set a record in 2015. The plant produced 68.1 GWh, which represents an increase of 10.2% compared to production in 2014. The expansion of the Eiði power plant, coupled with the new water collection tunnel above Norðskála running south toward Selatrað, is the principal reason it is possible to produce more electricity from hydropower.

Production from the oil-fired power plants decreased by 16.4%, and this is the second year in a row that thermal production has declined by some 16%.

Electricity production in 2015 was the highest ever. SEV produced 314.4 GWh in 2015, which is 2.95% more than in 2014, when total electricity production was 305.4 GWh.



norden

Nordisk Råds
natur- og miljøpris 2015



norden

norden og miljøpris 2015

SEV awarded Nordic Prize

Innovations in the energy sector and the goal of reaching 100% green energy in the Faroes by 2030 made SEV the winner of the 2015 Nordic Nature and Environment Prize.



The Harpa Concert Hall in Reykjavík, Iceland provided a regal venue for the thrilling entertainment accompanying the award of the Nature and Environment Prize. Eivør Pálsdóttir was among those performing.

Tuesday night, the 27th of October 2015 shall stand as a significant milestone in the history of SEV. On that evening, representatives of SEV were in Reykjavík where the Nordic prizes for literature, children’s and youth literature, film, music, as well as nature and environment were to be awarded.

SEV, together with ten other nominees from Denmark, Finland, Iceland, Norway, Sweden and Åland, had been nominated for the prize.

Harpa, the prestigious music and conference hall in Reykjavík, was full of invited guests for the awards ceremony, which was being held in association with the Nordic Council annual meeting. Among the formally-attired guests were Nordic politicians, representatives from the media, civil servants and others connected with the event, which was also broadcast live on Icelandic, Norwegian and Faroese national television.

The stage was set, and the burning question was who among the many nominees in the five different categories would be called up to accept their respective awards. Among the representatives for SEV were Jákup Suni Lauritsen, Chairman of the Board, and Hákun Djurhuus, CEO.

Music and entertainment contributed to the joyful mood in the large hall, where the famous Faroese singer Eivør Pálsdóttir was among those performing. Before each award was announced,

a stillness would sweep the hall. This precipitous quiet, which heightened the excitement and tension among those gathered, was soon followed by thunderous applause as each of the awards was presented.

A great time

When it came time for the nature and environment prize to be awarded, the excitement felt by the Board Chairman and the CEO was palpable.

Then came the announcement from the stage: “The winner of the Nordic Council’s 2015 Nature and Environment Prize - the Faroese



Jákup Suni Lauritsen, Chairman of the Board; Hákun Djurhuus, CEO; Kári Durhuus, Corporate Communications Consultant, and Sirið Stenberg, Minister of Energy standing in the Harpa Concert Hall several hours before learning that SEV had won the Nordic prize.



Jákup Suni Lauritsen, Chairman of the Board (on left), and Hákun Djurhuus, CEO, were full of emotion and pride, when, on behalf of everyone at SEV, they received the 2015 Nature and Environment Prize. A completely packed house applauded the award of the Prize, which was also televised live in Iceland, Norway and the Faroes.

energy company, SEV". Accompanied by resounding applause and cheering, Jákup Suni Lauritsen and Hákun Djurhuus went to the stage to receive the prize on behalf of SEV.

Reykjavík won the prize in 2014, and therefore the mayor of Reykjavík, Dagur B. Eggertsson, handed the SEV representatives the prize with the following words: *"The prize goes to the Faroese electricity company SEV for its ambitious targets and innovative initiatives toward the green electrification of the Faroese electric grid. SEV's work is not only important for the phasing in of renewable energy in the Faroe Islands, but also for the European grid as a whole. Its ambitious goals and its creative efforts to reduce dependency on fossil fuels make SEV a worthy recipient of the Nordic Council Nature and Environment Prize 2015."*

Jákup Suni Lauritsen, Chairman of the Board, stated in his acceptance speech:

"Thank you so very much!! This is a great honour for me, as Chairman, to accept the Nordic Council's Nature and Environment Prize 2015. We are aiming at a 100% green energy future for the Faroes by 2030. Wind, water, solar and tidal energy will help us reach our goal, along with innovative technical solutions.

"It was such a great honour to be among those nominated. However, to stand here with the award in hand is so monumental that words fail to express our appreciation and gratitude.

"Thank you to the judging committee and to the Nordic Council. Thank you to our own management and skilled employees. Thank you to our owners, the Faroese municipalities. Thank you to the Faroese Government, who so keenly supports our green course. Thank you to all the Faroese watching tonight.

"We won this time, but I will not forget the other nominees. Good luck and best wishes for the success of your projects, for we wage a joint campaign".

A milestone

Sirið Stenberg, the Faroese Energy Minister, was among the many offering their congratulations to SEV both at Harpa and at the reception at the Faroese Representation Office in Reykjavík, later that same night.



Hosts, Ólafur Egilsson and Charlotte Bøving, who were both lively and upbeat, contributed their special charm and magic to the festivities.



Many fashionably-dressed guests gathered at the Harpa Concert Hall to witness the award of the Nordic prizes. Among them were politicians, government officials, the media and others associated with the awards ceremony.



SEV representatives (third and fourth from left) together with the other recipients of the 2015 Nordic Prizes.



The Chairman and CEO of SEV were sparkling with excitement as the big moment drew near.

“The Nordic Nature and Environment Prize is an outstanding acknowledgement and endorsement of SEV’s vision of making the Faroes greener by 2030, and fits well with the goals of the present coalition government, so we are working toward a common goal,” stated Sirið Stenberg.

She noted that the Húshagi wind farm and its associated battery system are good examples of SEV’s innovation.

“The prize is a clear sign that our neighbours see what considerable work has been done in the area of renewable energy in the Faroes, potentially making it a leading nation in energy solutions. We should explore new, innovative systems in our small, isolated country that could eventually benefit larger countries,” stated Sirið Stenberg, the Faroese Energy Minister.

The Chairman and CEO of SEV also acknowledged the major importance the prize has for SEV and the Faroe Islands.

“SEV and its many, many talented employees have received a major acknowledgement and endorsement of our joint efforts that proves that we are on the right course,” observed Hákun Djurhuus, CEO of SEV.

At the same time, he also stated that innovative and creative thinking are absolutely essential over the next 15 years, if the goal of 100% green energy in the Faroes by 2030 is to be achieved.

Both the CEO and the Chairman were in agreement that the prize was a significant milestone along the path toward a green future that could very well open up doors and unleash the potential for SEV to collaborate with key companies engaged in the development of green energy solutions.

“The Nature and Environment Prize has enormous importance, because it strengthens us as a country and as an energy nation,” noted Chairman Jákup Suni Lauritsen.

SEV contributed Nordic Prize to the Páls Aquatic Centre

SEV contributed its DKK 350,000 Nordic Nature and Environment Prize to the Páls Aquatic Centre for the purchase of a lift for the disabled.

Everyone in the Vágur community in Suðuroy worked hard to bring the dream of the Páls Aquatic Centre into reality. Such vision and effective collaboration reflects the overall corporate philosophy of SEV, which continually informs the projects and activities of SEV.

In recognition of the collaborative efforts of the people of Vágur, the Board of SEV decided to donate its environment prize award of DKK 350,000 to the Páls Aquatic Centre, an award that SEV was greatly honoured to receive and pass on to the people of Vágur.

SEV donated its prize to this local initiative to enable the purchase of a special lift chair for the disabled, ensuring that everyone has equal access to the Olympic-sized swimming pool in the Aquatic Centre.

Jákup Suni Lauritsen, Chairman of the SEV Board, observed that “the aquatic centre project was only made possible by the total commitment of the entire Vágur community, a project that, at first, seemed impossible, but nevertheless through the combined efforts of everyone became a reality”. A great deal of the construction work was done by volunteers, thus reducing the overall costs of the project.

Jákup Suni Lauritsen further noted that the Board of SEV has great respect for those involved in bringing the Páls Aquatic Centre into reality, because their efforts reflect the collaborative philosophy guiding the future of SEV.

“The Olympic-sized swimming pool of the Páls Aquatic Centre is symbolic of the green energy course being charted by SEV. Many technical challenges lie ahead, but, working together and following our mutual philosophy of collaboration and joint sacrifice, SEV shall realize the dream of 100% green energy in the Faroes by 2030”, stated Jákup Suni Lauritsen.

All were welcome – both children and adults – when SEV contributed a check for DKK 350,000 to the Páls Aquatic Centre on Friday, 27 November 2015, which was the amount of the Nature and Environment Prize awarded to SEV by the Nordic Council. Many people came expressly to congratulate SEV on winning the



John Henrik Holm, Chairman of the Páls Aquatic Centre, accepted a grant of DKK 350,000 from SEV, which represented the monetary award accompanying the 2015 Nature and Environment Award.



NORDIC NATURE AND

– reception held in the Dansifrøi hall

prestigious award and remained to watch the representatives of SEV in turn contribute the award to the Páls Aquatic Centre.

Aksel V. Johannesen, the Faroese Prime Minister; Sirið Stenberg, Minister of Energy; Heðin Mortensen, Chairman of the Municipal Association; and Jákup Suni Lauritsen, Chairman of the Board of SEV, all offered their formal acknowledgements and congratulations. Hákun Djurhuus, the CEO of SEV, subsequently handed over the check for DKK 350,000 to the Chairman of the Páls Aquatic Centre, John Henrik Holm.

Musical entertainment and choral singing was also a part of the reception, along with a variety of food and beverage. SEV had envisioned a relaxed, informal gathering where both children and adults would be welcome, which of course meant that BUBU the clown would stop by for a visit with the children.



ENVIRONMENT PRIZE



NORDIC NATURE AND

– reception held in the Dansifrøi hall



ENVIRONMENT PRIZE



SEV awarded **Tórshavn Municipality Green Prize**

On the opening day of Environment Week held in the capital in early May 2015, SEV was awarded the prestigious Green Prize by Tórshavn Municipality in recognition of its unstinting efforts to promote the “greening” of the Faroes.

Jákup Súni Lauritsen, Chairman of SEV, was both pleased and honoured to accept the Green Prize on behalf of SEV on 2 May 2015, on the opening day of Environment Week in Tórshavn Municipality.

Sigrun Mohr, Chairwoman of the Nature and Environment Committee of Tórshavn Municipality, awarded the Prize stating:

“The Green Award from Tórshavn Municipality is awarded to an individual or an institution that has benefitted the environment. The Prize this year is awarded to a company in recognition of its significant environmental focus and leadership, which has permeated its overall corporate strategy.

“We can all be very proud of the wind farm at Húsahagi and we are confident that the continuous work of SEV will help ensure that our electricity consumption in the coming years will be powered by 100% green energy.

“This year Tórshavn Municipality decided to recognise SEV with the

Green Prize to express its appreciation of SEV’s green strategy. The green course you have charted has the utmost importance for our environment and is a role model for other companies and agencies in the Faroe Islands.”

“It is a great honour and pleasure to receive this Prize. This recognition will no doubt help inspire and motivate us to continue along our charted green course,” observed Jákup Suni Lauritsen, Chairman of the Board of SEV, upon receiving the Green Prize from Tórshavn Municipality.

During 2015, SEV generated 60% of its electricity production from renewable energy resources, such as water and wind. The year before, 2014, 51% of SEV’s electricity production was derived from renewable energy, marking the first time since the mid-1970s that SEV’s annual power production from renewables exceeded its oil-fired thermal production.

SEV’s thermal electricity production was reduced by some 16% annually during both 2014 and 2015.



Sigrun Mohr, Chairwoman of the Nature and Environment Committee of the Tórshavn Municipal Council (top photo), presented SEV with its Green Award, along with the Vice Chairwoman of the Committee, Elin Lindenskov (middle photo). Jácup Suni Lauritsen, Chairman of the SEV Board, received the award and offered his thanks on behalf of SEV (lower photo).



Terji Nielsen, Head of Development for SEV, remains optimistic about SEV's green course, but he emphasized that SEV must continually explore and adopt the latest and most innovative technology available.

SEV's viable green strategy

Achieving 100% green energy power by 2030 is a viable and credible goal for SEV and Faroese society as a whole. The goal is achievable, but only through the thoughtful and continuous deployment of technological innovation, observes SEV's Head of Development.

The Faroese Government and SEV are unitedly working toward making the Faroe Islands a "green" land by 2030. No other country in the world, aside from those who have easy access to naturally-occurring renewable energy resources, has envisioned such an ambitious and futuristic goal.

SEV announced its goal of 100% green energy on land by 2030, when the Húсахagi wind farm went operational on 9 October 2014. The present government's coalition agreement endorses this vision.

"The foundation underpinning our joint green initiative is thus very strong. As we chart our green course into the future, it is imperative that we seek out and deploy the best available technologies in renewable energy," notes Terji Nielsen, Head of Development at SEV.

The green course envisioned by SEV is a most ambitious and progressive goal and often the question is asked if it is indeed possible. Terji Nielsen observes that the answer is not a simple "yes" or "no", but, when all is said and done, the short and clear answer is closer to a resounding "Yes!" than a "No!".

"Renewable energy, climate change and the advancement and technical evolution of society as a whole are not simple issues that are easily addressed and managed. At the same time, the goal of a 100% green Faroes by 2030 is a very credible and reasonable goal for the entire country to embrace. The goal can be achieved, but only through the thoughtful and continuous deployment of technological innovation," observes Terji Nielsen, SEV's Head of Development.

The history of SEV

From the very beginning, SEV was a "green" company. Starting in 1954, when SEV first began operations, all the way to 1974, a good half of its electricity production was from renewable hydropower (Figure 1).

The significant increase in energy demand in the mid-1970s, when consumption grew by 10-12% per year, necessitated that SEV's oil-fired power plants take over more and more of the total electricity production, until by 1985 some 77% of all electricity production was derived from the oil-fired power plants. Subsequently, oil-fired production has steadily declined until today (2015) some 60% of total electricity production is derived from renewable energy resources, which is the highest level in recent history.

Future power demand from now to 2030

As is often said, *"It is difficult to predict, especially the future"*. This is also true when it comes to predicting the future power demands of the country from now to 2030.

Obviously, there will be the so-called "normal" growth, which in the main will reflect the increased activity in the country, but in addition to this is the anticipated growth in electricity demand stemming from so-called "electrification", which is a product of people giving up, for example, their old oil-fired furnaces to heat their homes and buildings and installing more modern heat pumps that rely on electricity. Another aspect of future electrification is the adoption of electric vehicles over vehicles powered by fossil fuels.

SEV's Head of Development believes that it is self-evident that for people to engage in and accept this revolutionary change, electrification must provide a tangible financial benefit to each and every member of society. In general, SEV forecasts annual growth of around 2% per year, and, when electrification is factored in, annual growth could reach around 4.5% per year between 2016 and 2030.

Figure 2 captures future growth in electricity demand, assuming an annual growth in electricity consumption of around 4.5%, and total electricity production in 2030 derived from renewable energy resources.

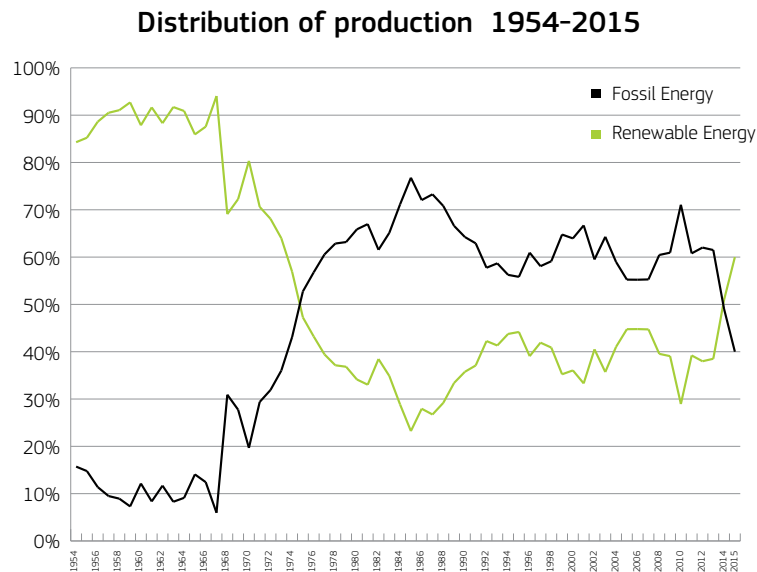
Figure 2 shows a constant decrease in oil-fired production, as more and more renewable energy flows into the grid until the Faroes reaches 100% green energy production in 2030.

Electricity production

The Faroe Islands has an abundance of renewable energy resources, such as wind, hydro, tidal currents and wave power, and even sun during the summer. These sources of electric power are all very different, each with their own specific characteristics, of which wind, solar and wave energy are the most inconsistent.

All in all, there is a good deal of wind in the Faroe Islands. The average annual wind speed is over 10 m/s (~25 mph), which is almost the perfect speed for efficient wind energy electricity production. However, Faroese wind conditions are highly unstable, both with regard to speed and direction. It is exactly this instability that makes wind energy electricity production in the Faroes so unpredictable and inconsistent.

Figure 1. Distribution of production 1954-2015.



Solar energy is also quite variable in the Faroes, as is wave energy, which is dependent on the size and force of the waves, which again are factors of weather and wind.

Thus, it is necessary to take certain steps to balance out the unsteady and unpredictable flow of electricity into the grid from wind, solar energy and wave action in order to adequately meet the electricity demand of the country.

Such an initiative, for example, could be a battery back-up system that could balance the energy production fed into the grid from not only wind, but also solar and wave action. Battery systems are becoming more and more common in connection with wind and solar energy production. As battery systems grow larger and larger, the cost becomes less and less. Coupled with a battery system, wind power then becomes an energy resource that is easy to control, in much the same way as our experience with hydropower reveals, the only prerequisite for which is a ready supply of water.

Hydropower is a recognized steady source of power, given sufficient water in a reservoir, that can be tapped depending on demand. If, however, there is little rainfall, the reservoir will empty quite quickly. Thus, hydropower is not a long-term secure source of energy. Given the current reservoir systems in the Faroes, hydropower is not always available, especially during the summer months when there is often a lack of rainfall.

Tidal current energy fluctuates with well-understood regularity throughout the archipelago. Even though the tidal currents shift, it is quite possible to calculate in advance how best to tap this naturally-occurring source of energy so that there is a continuous generation of base-load electric power.

Energy storage

The power sources referenced above are continually fluctuating, and therefore it is advisable to have the possibility to store some

energy for those times when no power is available. For example, often during the summer months there is but little wind and rain and wave action is minimal. Also at the same time, tidal current availability may be limited and dense fog may make solar impractical, thus rendering neither power resource sufficient to meet the ongoing energy demands of the country.

Therefore, it is important to develop a power reserve or storage infrastructure that could be used to store power for shorter or longer periods, so that the power from renewable energy resources remains available year round, 24 hours a day. Utilizing such a power reserve infrastructure will help ensure that 100% of the country's stable electrical power can be derived from renewable energy resources.

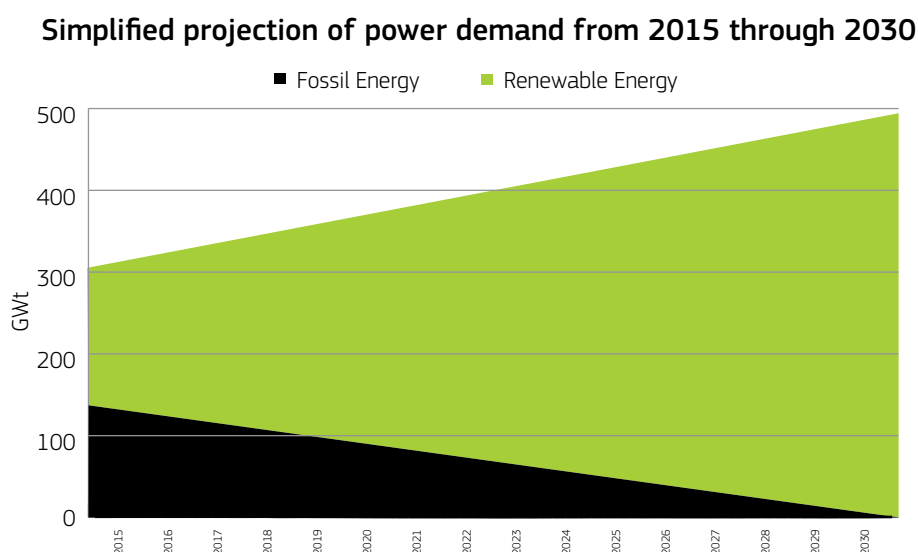
There are different ways to store power. One possibility is to store or reclaim power via a pumped-storage system whereby excess power is used to pump water used by the hydropower plants back up to the reservoirs, where it can be re-used again when demand warrants.

Another storage possibility is to use excess power to produce hydrogen and store it in suitable tanks for future use. When power is needed, the hydrogen can be oxidized to generate electrical power, either via fuel cells, gas-fired turbines or motors.

It is also possible to store power in the form of heat. The surplus power from renewable energy resources could easily be transferred, for example, into a district heating storage system.

"There are many other ways to store energy that we do not have the space to explore in more detail here. Overall, one can say that we potentially have sufficient power capacity available, but the challenges ahead are many – for example, how best to stabilize the even flow of power into the grid from unstable, fluctuating energy resources, or how to store this power for later use," observes Terji Nielsen, SEV's Head of Development

Figure 2. Simplified projection of power demand from 2015 through 2030.



Power Consumption

If the Faroes is to succeed in becoming independent of oil and to rely only upon renewable energy resources, it is imperative that consumption in the main matches production. This can be achieved by having, for example, electric vehicles recharge or heat pumps operate at times when the most renewable energy is available. This is often at night, when the overall demand for electricity is generally much lower, compared to the energy demand during the day.

The same is also true for other electrical devices and household appliances, such as washing machines, driers and automatic dishwashers, which could be set to operate at night.

Industry should also be encouraged to adapt its energy demand for renewable energy production. For instance, freezers, as much as practicable, could be set to operate during the night.

In addition, in future it will be necessary to connect more and more industrial installations to SEV's PowerHub system, which disconnects certain power units of big electrical consumers, if it appears that a black out is imminent. Generally, these large industrial consumers rarely notice that certain equipment has been disconnected from the grid for a short period of time while SEV works to bring online other production capacity to generate sufficient electrical power. The electrical equipment linked to a PowerHub system are generally components that can tolerate a brief disruption in power, either for a few seconds or a few minutes.

Terji Nielsen notes that there is little doubt that most consumers, whether private or commercial, will need an extra incentive to shift their electricity consumption to the evening hours. He believes that one effective incentive might be a lower cost of power at night, which is generally the time when there is the potential for excess capacity because of reduced consumption overall. Under

such a model, it would be quite possible to find customers willing to shift their consumption patterns.

Another method would be to connect certain selected electrical equipment or appliances to a so-called SmartGrid whereby a signal from SEV would initiate, e.g., the charging of electric vehicles, heat pumps, washing machines, etc. at a reduced cost. This signal would be dependent on the amount of additional renewable energy capacity, such that when there is more power available than demand the system will switch on the pre-selected heat pumps, charging stations, etc. as well as shut off power to those components when there was insufficient renewable electrical power available from the grid.

The purpose of the SmartGrid is to maintain a balanced electrical system thereby minimizing either over production or waste and ensuring that the greatest possible benefit is derived from the green energy resources of the country.

Terji Nielsen believes that it is quite possible to achieve the goal of 100% green electrical production by 2030 when one only considers the existing technical equipment and solutions.

"The question of what the ultimate cost will be to reach this goal remains as yet unanswered and will remain unanswered for some time into the future. Studies are, however, underway that will give us a better understanding of the costs associated with the necessary technological solutions, the anticipated investment and ongoing operations," observes Terji Nielsen, SEV's Head of Development.



Power from the Eiði reservoir contributed to the increase in hydropower production in 2015.

2015, a year of records for SEV

SEV's production statistics clearly reflect the considerable expansion undertaken during the last few years. In many ways, 2015 was a record year for SEV.



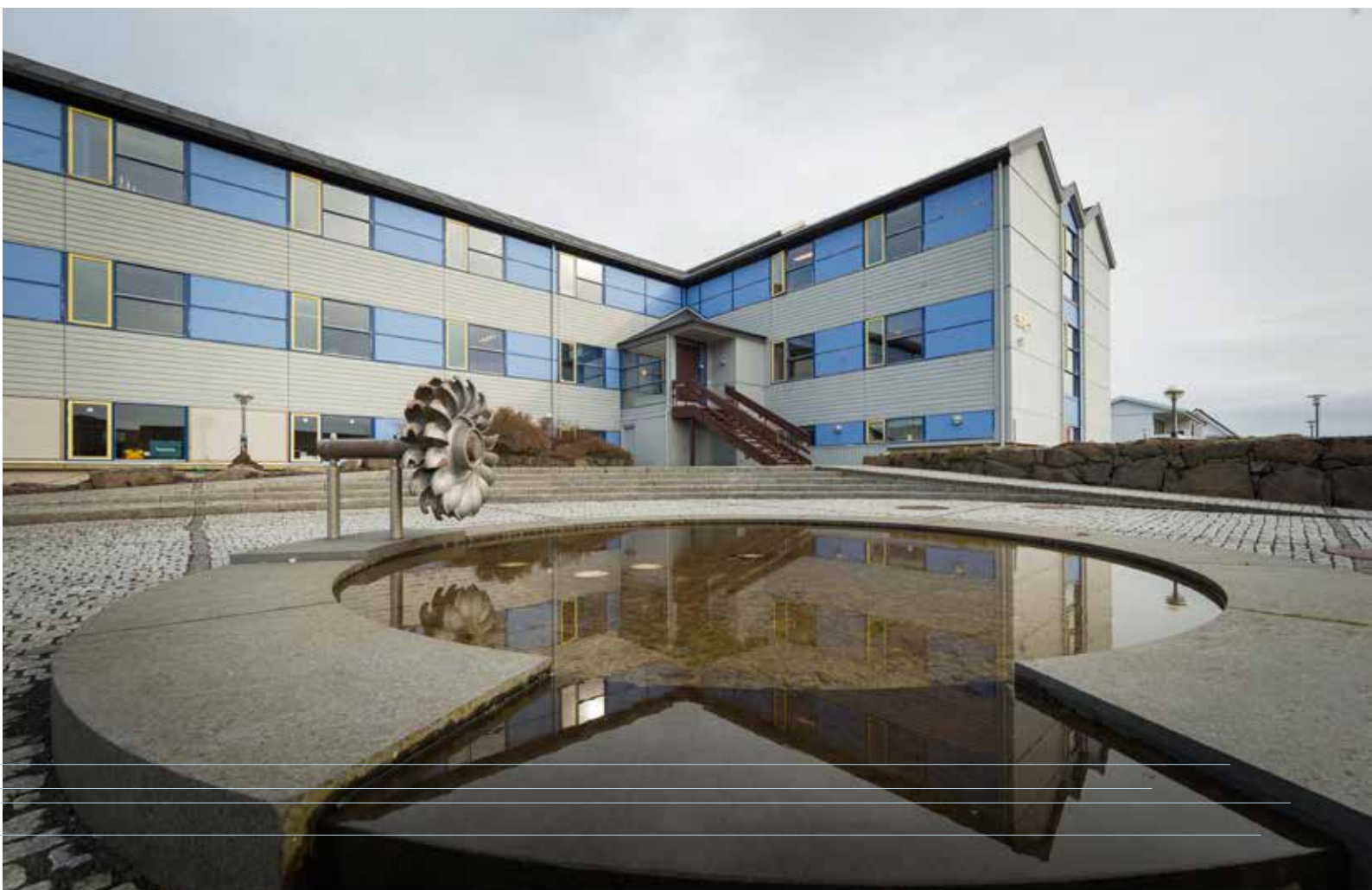
Sunset at Húsahagi, where the wind turbines had a significant impact on the green production numbers of 2015.

Never before has SEV produced so much electricity as in 2015, and the Company also set a production record from water and wind. 2015 was the first year in which the new wind turbines at Húsahagi were in operation a whole year.

The Eiði hydropower plant, where extensive expansion and improvements were undertaken over the last few years, hit a record production in 2015, and the Strond hydropower plant had never before produced as much electricity as in 2015.

Compared to all other years and months, December 2015 also now holds the record for total electricity production.

The Vestmanna area had the highest production since 1982, and the oil-fired power plant at Sund produced 46.4% less power during 2015, compared with 2010, when the production at Sund was the highest ever.



The statistics, which were compiled at SEV's headquarters at Landavegur 92 in Tórshavn, speak for themselves – nine records for 2015.

Below is an overview of the records achieved by SEV during 2015.

Electricity Production		Record in 2015	Compared with 2014	Change +/-
Total	↑	314.4 GWh	305.4 GWh	+ 9.00 GWh
Wind production	↑	55.8 GWh	34.5 GWh	+ 21.30 GWh
Hydro production	↑	133.1 GWh	120.7 GWh	+ 12.40 GWh
Total Green Energy	↑	188.9 GWh	155.2 GWh	+ 33.70 GWh
Production in Dec. 2015	↑	29.76 GWh	27.62 GWh	+ 2.14 GWh
Eiði Hydropower Plant	↑	68.1 GWh	61.8 GWh	+ 6.30 GWh
Strond Hydropower Plant	↑	4.5 GWh	3.1 GWh	+ 1.40 GWh
Vestmanna Area	↑	54.8 GWh	54.6 GWh in 1982	+ 0.20 GWh
Sund Oil-fired power plant	↓	93.9 GWh	175.1 GWh in 2010	- 81.20 GWh

Important investment and expansion lie ahead

Important investment and expansion projects lie ahead for SEV. Over the course of the next five years, SEV will invest some DKK 1.7 billion in the enhancement of the national electricity grid, consistent with SEV's green energy plan.

During the period 2016-2020, SEV's production and grid infrastructure will be systematically strengthened, consistent with SEV's universal service obligation and the Company's green strategy. The investment in the grid over the next five years is forecast to be DKK 1.7 billion.

The goal of SEV's green strategy is to make the Faroe Islands independent of fossil fuel within the next 15 years. The intent is that all electrical power will be produced from renewable energy resources - hydro, wind, tidal currents and solar.

At the same time, over the next 15 years the Faroes will witness a sea-change in energy usage - the so-called electrification of society. The goal of this process of electrification in the Faroes is to ensure that every home and building will be heated using renewable energy resources, while all country-wide transport will be by electric vehicles.

Even though the green course that has been charted for the country will, over the next few decades, take it toward even more electrical power being produced from renewable energy resources, oil nonetheless will remain a key reserve energy resource, especially during the summer months, for example, when it is often difficult to produce sufficient power using only hydro and wind energy.

Sufficient electricity production must be available throughout the day, every day. A key component of ensuring a continuous delivery of electrical power is the grid infrastructure. As a consequence, in the years ahead SEV will be taking the steps necessary to strengthen and enhance the grid, while at the same time remaining committed to its universal service obligation, its overall green strategy, and the ongoing electrification of the country, all of which includes ensuring sufficient reserve power via SEV's oil-fired production facilities.

Expansion of the grid infrastructure

It remains critical to the mission of SEV that the grid be continuously updated and enhanced such that the Faroes always has the best possible grid in place to not only receive electrical power production from a variety of energy resources, but also to effectively distribute that power throughout the country.

For the period 2016-2020, SEV has reserved DKK 682 million for the expansion and enhancement of the grid.

During this period, new coupling stations will be built in Vestmanna, Runavik, Sund, Innan Eið and at Skarðshjalla for a total of DKK 223 million.

Investment in other grid enhancements and undersea cabling is projected to total some DKK 260 million. An undersea cable between the main region of the country and the island of Suðuroy is included in this budget, however, this particular project remains subject to further scrutiny and study.

Investment in the wireless electric meters, the Húsahagi battery system, and the new control system is forecast to be DKK 36 million over the span of the next five years.

A new administration building, incorporating additional storage and a workshop, is needed. The investment for this administration building and its associated facilities is projected to equal some DKK 113 million over the period 2016-2020. In addition, DKK 50 million is set aside for various and unanticipated administrative expenses over this same period.

Green Investment

SEV has set aside DKK 75 million for further investment in wind power during the period 2016-2020. Specifically, this amount is



Húsahagi coupling station glows with its own light show in the midst of the winter darkness.

designed to fund a feasibility study and design work, extending to the construction of a DKK 50 million wind farm on Suðuroy, which will enable SEV to effectively participate in a government-sponsored tender process for wind energy production on Suðuroy.

According to current plans, two or three wind turbines would be set up on Suðuroy, becoming operational in 2017. The goal is that, in future, two additional wind turbines could be erected at the envisioned Suðuroy wind farm, subject to electricity demand and technical feasibility.

In addition, DKK 24 million is set aside in the 2020 budget for an expansion of wind energy, specifically for the project planning of another wind farm comparable in size to the current wind farm at Húsahagi.

Hydropower has been considerably expanded over the course of the last few years. Thus, over the next five years only minor investment is required for this power resource. For budget years 2016 and 2017, only small improvements and repairs are anticipated, costing an estimated DKK 24 million.

Imaginative thinking and innovation are the key watchwords in charting SEV's green course into the future, but such a passage is also dependent on advances in technology related to the various sources of energy. SEV is thus following closely the trends in solar and tidal energy, and is closely examining the potential for pumped-storage at its Vestmanna hydropower facility. A total of DKK 64 million is set aside for the latter initiative in the 2019 and 2020 budgets.

All in all, as SEV's green expansion unfolds, the ultimate goal is to ensure that sound investment, innovation and technological advances jointly contribute to sustainable projects.

Oil backup security

It is, of course, advisable to continue to chart a green course into the future, but it is equally advisable to update and expand the Company's major oil-fired power plants in order to address the

ever-growing demand for electricity and the eventual electrification of the entire country. These oil-fired facilities will continue to offer the security of uninterrupted electrical power for society as a whole well into the future.

Fossil fuel will remain SEV's major source of reserve energy for many more years to come. Investment in the oil-fired power plants is forecast to be DKK 858 million during the period 2016-2020.

By far the greatest portion of this investment – approximately DKK 800 million – is reserved for the expansion of the Sund oil-fired power plant, which, over the coming years, will continue to play a significant role as the central core of an electrical system designed to ensure a secure and reliable source of power, when, for example, unstable and fluctuating renewable energy resources cannot meet the demand for electric power.

The expansion undertaken at the Sund oil-fired power plant includes the shifting out of old motors and the installation of entirely new motors, which will require the construction of a new facility to house the new motors. The oil tank farm will be expanded and a new 60 kV coupling station will also be built at Sund.

The Vágur oil-fired power plant is also being enlarged and this expansion is anticipated to be completed in 2016. DKK 18 million is set aside for investment in the Vágur oil-fired power plant during 2016, where a new facility will be built to house a new motor. In addition, other facilities will be added to the power plant and the oil tank farm will be expanded. New high tension equipment has also been installed at the power plant. The total investment to date at the Vágur oil-fired power plant equals DKK 94 million.

Additional investment in the oil-fired power plants around the country during the period 2016-2020 is projected to be around DKK 40 million.

Faroese green power at Arctic conference

The CEO of SEV explored the challenges of green energy in the Faroe Islands with over 300 participants at the Arctic Circle 2015 Conference in Reykjavík.

SEV's future green course was presented at the Arctic Circle 2015 Conference held in Reykjavík, Iceland in October 2015. Hákun Djurhuus, CEO of SEV, and Jákup Suni Lauritsen, Chairman of the SEV Board, represented SEV at the conference.

Hákun Djurhuus participated in a long presentation on the Faroe Islands, along with Prime Minister Aksel V. Johannesen and the Faroese member of the Danish Parliament, Sjurður Skaale. Some 1,700 participants attended the conference, while between 300 and 400 attended the special break-out session on the Faroes.

In his presentation, Hákun Djurhuus discussed SEV's green energy vision for the Faroe Islands and the goal of making the country independent of fossil fuel by 2030. The vision is that the country will be powered by electricity produced only from sustainable resources – water, wind, tidal currents and the sun.

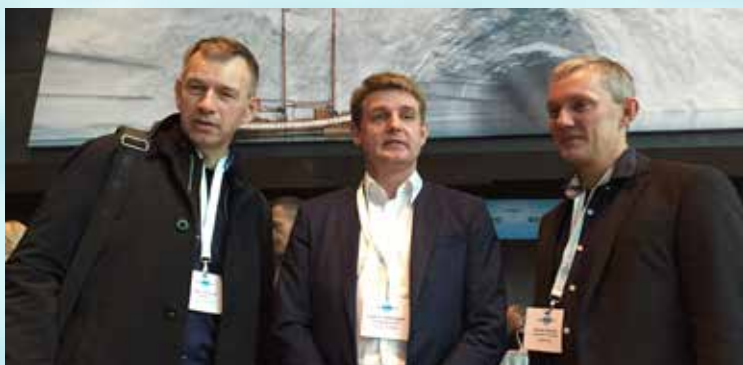
Djurhuus further highlighted the challenge in the Faroes of getting enough wind power, an inconsistent source of energy, into the Faroese grid, which is isolated in the North Atlantic and separate from other national grids. The Faroe Islands has no possibility to link into a larger grid system to purchase electric power, as does Denmark, for example, which can purchase power as needed from Sweden and Germany. Consequently, the Faroes must have its own electricity back-up system.

The challenge is to gain as much from unsteady wind power as possible while at the same time providing a stable and reliable transmission of electricity. In the Faroes, this is accomplished with a specially-designed and newly installed battery back-up system at the Húsahagi wind farm that regulates and augments the supply of electricity from the wind turbines so that a constant supply of electricity is achieved.

Another challenge in the Faroes is the scarcity of wind and rain during the summer months. As a consequence, work is underway on a pumped storage solution. Another option is to separate hydrogen from water. In both cases, the aim is to tap the surplus power derived from wind. A pumped storage system is designed to pump the water used by hydroelectric plants back up to the reservoirs above the power plants. Wind power can also be used to produce hydrogen from water, which can then be used as needed.

The Icelandic President, Ólafur Ragnar Grímsson, who visited SEV during his official visit to the Faroe Islands in August 2015, was present at the conference. Also attending were French President Hollande; Prince Albert II of Monaco; the Mayor of Reykjavík, Dagur B. Eggertsson, and Dagfinn Høybråten, Secretary General of the Nordic Council of Ministers.

The Arctic Circle organization endeavours to increase co-operation in the Arctic region by promoting dialogue about the region and by strengthening international focus on the Arctic. The conference was held in Harpa, the new concert hall and conference centre in Reykjavík.



From left: Hákun Djurhuus, CEO of SEV; Aksel V. Johannesen, Faroese Prime Minister, and Sjurður Skaale, Danish Parliament Member from the Faroe Islands, who together presented on the Faroe Islands at the Arctic Circle Conference in Reykjavík.

” The vision is that the country will be powered by electricity produced only from sustainable resources – water, wind, tidal currents and the sun



Hákon Djurhuus, CEO of SEV, presented the green strategy that will enable the Faroe Islands to be independent of oil by 2030.



From left: Kaj Leo Holm Johannesen, former Prime Minister; Jákup Suni Lauritsen, Chairman of the Board; Ólafur Ragnar Grímsson, President of Iceland; Bogi Andreasen, Vice Chairman of the Board, and Hákun Djurhuus, CEO.



Icelandic President visited SEV

An undersea power cable between Iceland, the Faroes and the continent; the beneficial use of wind power, and the green vision of SEV were among the many topics on the agenda during the visit of the Icelandic President to SEV as part of his official state visit to the Faroe Islands in August 2015.

Representatives from SEV had the opportunity to discuss with Icelandic President Ólafur Ragnar Grímson the possibility of a power cable between Iceland and the Faroes during his visit to SEV on Tuesday, 11 August 2015.

In this connection, discussions were also held on how to better tap the potential of wind energy by transferring excess wind energy production via a cable to Iceland.

"In general, we discussed the challenges of inconsistent wind power linking into an electricity grid and how a cable between Iceland, the Faroes and the European continent would open up the potential for cheaper wind energy overall, because surplus power could be utilized by several countries, regardless of which wind turbine produced the electricity," noted Hákun Djurhuus, CEO of SEV.

Hákun Djurhuus also discussed with the Icelandic President the vision of utilizing 100% green energy by 2030, where wind and water would be the main on-shore energy resources for the Faroes.

The Icelandic President had requested to visit SEV during his official state visit in order to familiarize himself with the power company and its various initiatives, to discuss possible collaboration with Iceland, the future projects and challenges being addressed by SEV, as well as the multiple solutions existing within the sustainable energy sector.

Jákup Suni Lauritsen, Chairman of the SEV Board, Bogi Andreasen, Co-chairman, and Hákun Djurhuus, CEO, hosted the President's visit.



Many people gathered in Klaksvík on the occasion of SEV deploying the first fast-charge electric vehicle charging station.

SEV charging stations to be installed around the Faroes

SEV installed the very first electric vehicle “quick charger” in the Faroes in Klaksvík in December 2015. Accordingly, quick chargers will be installed at selected locations throughout the country.

The installation of electric vehicle (EV) charging stations around the country is a concrete step toward the ultimate total electrification of the Faroe Islands. SEV allocated DKK 1 million toward this endeavour and the first quick charger was set up in Klaksvík in December 2015.

SEV will erect the next charging station in the Tórshavn town centre. Subsequently, others will follow at the airport, on Eysturoy, Sandoy and Suðuroy.

“The first EV quick charger that we installed in Klaksvík was a major leap toward our vision of a totally electrified Faroes, where the presence of more and more electric vehicles on Faroese roads in the coming years will be a significant marker along the path of making the Faroes greener,” observes Hákun Djurhuus, CEO of SEV.

The charging station at Klaksvík will make it possible to travel by electric vehicle from, for example, Tórshavn to Klaksvík, where the vehicle can be recharged quickly, and then one can either return to Tórshavn or journey on.

The charging station in Klaksvík is a so-called “Quick Charge” charging station, which is able to charge an electric vehicle up to 80% of capacity in 20 minutes, which is considerably faster than older technology.

SEV’s CEO noted the vast importance of joint co-operation and the setting of realistic common goals and milestones along the



From left: Sirið Stenberg, Minister of Energy, and Jógvan Skorheim, Mayor of Klaksvík, listen as Hákun Djurhuus, CEO of SEV, briefly explains the new charging station to the assembled audience.

path toward a greener Faroes, such that everyone can experience the steady and tangible electrification of the Faroes.

“The green initiatives of the Faroese government and the EV charging station in Klaksvík, where the municipality itself, as an expression of its commitment to a green future, purchased two electric vehicles, are significant examples of the milestones along the path toward total electrification of the Faroes,” attests Hákun Djurhuus, CEO of SEV.

SEV believes that the introduction of the EV quick charge stations is an important step along the green path toward the complete electrification of the Faroe Islands, making the country totally independent of oil. The vision is that by 2030 all of our power will come from electricity produced by renewable resources – water, wind, tidal currents and solar energy.

SEV is heating Páls Aquatic Centre



SEV is delighted that the new Páls Aquatic Centre in Vágur on Suðuroy will be utilizing surplus heat from the Vágur power plant, which is consistent with SEV's overall green vision, even though the heat is generated by an oil-fired power plant.

The heating of the Páls Aquatic Centre and its Olympic-sized swimming pool with surplus heat from the Vágs oil-fired power plant is yet another example of the green vision of SEV.

The Vágur oil-fired power plant provides surplus heat to the Páls Aquatic Centre and SEV is quite pleased with the excellent collaboration that resulted in the adoption of such a green solution for the heating of the Olympic-sized, 50-metre long-course pool, the first of its kind in the Faroes.



Both the water in the pool and the Aquatic Centre's hot water and heating system is linked into the distant heating infrastructure originating at the Vágur power plant, thus enhancing the overall benefit of the oil-fired power plant even more.

"When the Páls Aquatic Centre is able to take advantage of the excess heat from our Vágur oil-fired power plant, we are able to kill two birds with one stone. I personally am quite pleased with the project in Vágur, which truly demonstrates that when people collectively work together in a spirit of unity and evince a strong will, anything is possible," notes Hákun Djurhuus, the CEO of SEV.

The Vágur oil-fired power plant was recently expanded to meet the ever-growing need for electric power on Suðuroy, which greatly accelerated when, for example, the fish processing facility of Varðin Pelagic in Tvøroyri opened.



Education at Húsahagi

A new education centre has been erected in association with the Húsahagi coupling station. SEV considers this new centre an integral part of its ongoing obligation to foster education in the wider community. SEV staff provides training for students at all levels.

Ultimately, SEV is owned by the people of Faroe Islands, and SEV considers it a duty to inform the general public about electricity production, green energy and the prudent use of electricity. As a part of this ongoing effort, SEV offers classes for elementary and middle school students, university students and others as the need arises.

This training, which previously was conducted at SEV's headquarters on Landavegur in Torshavn, is now offered in the new education centre associated with the new coupling station at the Húsahagi wind farm.

The coupling station, which transfers power from the wind turbines to SEV's 60 kV grid, also houses the new battery system, designed to regulate and balance the power flowing from the wind turbines into the grid.

The coupling station blends well into the surrounding landscape and from the classroom one is able to see the wind turbines in action and the resultant production of green energy.

"Our training programs are now conducted in an excellent, quite appropriate facility that admirably reflects the unique combination of nature, green energy and modern technology found at the wind farm," observes Hákun Djurhuus, CEO of SEV.

He further noted that the green energy strategy of SEV, which aims to produce 100% green power by 2030, is grounded in a community-wide appreciation and understanding of the benefits of green electricity production and responsible consumption.

"We must gain as much from our renewable energy resources as possible, and use the power we produce wisely and responsibly. By providing comprehensive and relevant training, SEV will be able to appropriately raise the understanding and awareness of



Students at all levels and other interested groups are welcome to attend special training sessions provided by SEV. The training is held in a purpose-built facility associated with the Húsahagi wind farm.

the younger generations, their teachers and other advisors who work daily with our children and youth," states Hákun Djurhuus.

The goal of SEV is to provide training at all levels where the knowledge and expertise of SEV could be beneficial.

Every year, SEV holds an "education day" for all 9th grade students and their teachers from throughout the entire country. They are introduced to green energy production and responsible energy consumption. Also SEV is quite often asked for information on green energy from the country's high schools and other higher education centres.

"Having the correct attitude about the necessity of green energy production, coupled with a comprehensive understanding of renewable energy production, will carry the country onward along our green course, and as a consequence SEV is strongly convinced of the importance of ongoing public education on the potential benefits of a green future. We have the perfect environment for this type of education and a very competent staff, so I believe that everything is in place for an excellent and comprehensive educational experience," notes Hákun Djurhuus, CEO of SEV.

A variety of well-qualified experts from SEV teach at the Húsahagi training facility, depending on the need of those seeking information about SEV and its energy production.

High Demand for Jobs with SEV

Over the last two years, SEV has created 40 new positions as a result of new initiatives linked to its green energy strategy. Job satisfaction remains high, although modern trends are gradually influencing the historic work environment of the 70-year-old power company.

There is significant interest in working for SEV, which has employed 40 people over the last two years.

This reflects not only new positions, but also replacements for people leaving SEV due to age or other work. Included in the ranks of the newly-employed are apprentices, trainees, those with specific intellectual and developmental disabilities (I/DD), and those participating in temporary work initiatives of the Faroese Unemployment Office.

The green energy course being charted by SEV is slowly shifting the employment focus of the Company, as new tasks and projects unfold. Job descriptions in many cases are being updated to reflect the new work being undertaken as SEV pursues its green course and initiates new expansion projects, which often require new competencies and skills.

“Changes in the types of employees now being brought into the Company also slowly, but surely, alter the historic work environment of the Company, because our new employees, of course, come with a variety of other experiences and expectations”, comments Bergtóra Høgnadóttir, Human Resources Manager at SEV. *“Because some 30% of SEV’s employees are new, these unique experiences and expectations directly colour the Company’s evolving work environment.”*

“When we review possible candidates for a position, we consider everything, including skills, experience, education, age, gender and personality,” notes Bergtóra Høgnadóttir.

The Human Resources Manager further emphasized that changes in staffing and the work environment evolve steadily and continually. SEV certainly has the need for new vitality, but SEV also has the need, of course, for the experienced and highly-skilled employees that have built the Company to what it is today. Deep experience, a solid work ethic and enthusiasm for the job are just some of the remarkable characteristics of SEV’s long-time employees.



The interest in working at SEV is great and new challenges continually present themselves along the course to a green future.

“In such a complex and diversified enterprise that is so extremely important to Faroese society as a whole, there is a need for a well-organized, consistent strategy to address and incorporate the many changes the future will bring and that enables our new employees to positively and constructively build upon the achievements of those who have gone before,” observes Bergtóra Høgnadóttir, Human Resources Manager.

The average age of SEV’s employees is still somewhat high, despite the recent changes in staffing. Each year, the Company celebrates several 25-year anniversaries; the average age of all employees is 49.8, which equates to 145 in terms of full-time employees.

The Human Resources department (HR) is first and foremost focused on ensuring that SEV’s employees thrive and develop and that there is minimal turnover.

“HR, in close collaboration with management, the department managers, and, indeed, all the employees, works hard to meet these important objectives. The first Satisfaction Survey conducted by SEV in 2013 indicated that the staff in the main were very satisfied with the working conditions within the Company,” states Bergtóra Høgnadóttir.

She concluded that the changes in staffing and the overall activities of the Company remain consistent with and continue to reflect the corporate vision of Co-operation, Enthusiasm and Respect (Samstarv, Eldhugi and Virðing - SEV).



Good results flow

from SEV's systematic HR strategy

Both the Company and SEV employees are benefitting from the systematic Human Resources strategy that SEV initiated three years ago. Employee satisfaction and engagement surveys reveal a very high degree of job satisfaction.



Two satisfaction and engagement surveys conducted in 2013 and 2015 revealed that employees are thriving and quite happy working at SEV.

successful results without our very skilled employees and our well-managed human resources strategy that remains continually focused on quality employment development, professional recruitment, meaningful jobs and well-formulated goals. All of these provide the requisite foundation for a modern company to achieve satisfactory financial results,” observed SEV’s CFO and Director of Administration, Bogi Bendtsen.

He further noted that it is difficult to say exactly which aspect of the business has the greatest impact on the day-to-day working life of the Company, whether it’s the human resources strategy, the green energy course stretching into the future, or other factors, but without a doubt there are many different factors that impact the work day.

“It is quite evident that our strategic goals are a key aspect of our operations that provide our employees the opportunity for an exciting workday, and that human resources is the value area that develops our employees and helps them reach their professional goals, as well as assisting them during personally difficult times,” explained Bogi Bendtsen.

Bergtóra Høgnadóttir, SEV’s HR manager, agrees with Bogi Bendtsen, adding that a modern workplace integrates quality human resources management to better ensure that a company’s employees develop their skills and competencies and have a sense of well-being and success.

“An advanced, modern company endeavours to structure itself to enable its employees to achieve a high level of job satisfaction with appropriate and meaningful challenges in a safe and secure work environment. As the recent satisfaction and engagement survey shows, such an effort pays off for the Company because happy and contented staff experience fewer sick days, contribute more to business operations and commit fewer errors,” commented Bergtóra Høgnadóttir.

High level of job satisfaction

The HR manager, as well as the Director of Administration, are very satisfied with the high level of job satisfaction at SEV, which reflects the overall picture of satisfaction at SEV after management decided to focus more attention on human resources and implemented satisfaction surveys. Two years separated the recent surveys, which were conducted at the turn of the year in 2013 and 2015.

Three years ago SEV’s management decided to intensify its human resources (HR) strategy, resulting in benefits for both Company and employees. An employee satisfaction and engagement survey was carried out at year-end 2015. The results indicated a very high level of job satisfaction, even more than in 2013, which also revealed a high degree of job satisfaction.

Over the last several years, SEV has achieved excellent results in many areas and 2015 proved to be a singularly exceptional year with 60% of its electricity production derived from green energy and the Company being awarded two environment awards: the Nature and Environment Prize from the Nordic Council and the Green Award from Tórshavn Municipality.

“It would be impossible for us as a company to reach such



Bogi Bendtsen, Director of Administration, and Bergtóra Høgnadóttir, Human Resources Manager, are convinced that a comprehensive HR strategy plays a major role in the ongoing development and overall well-being of all SEV employees.

Overall, the survey conducted in 2015 exhibited a definite advance over the 2013 survey, which also revealed a strong level of satisfaction. Respectively, 107 and 113 persons participated in the surveys.

The majority of the employees stated in the surveys that they enjoy meaningful and satisfactory work, that they are happily engaged in their work, and that they are proud of being a part of SEV. Confidence in the CEO and the management team was quite high in both surveys, and the surveys also revealed that the employees had a high level of trust in each other.

When 70% or more of the respondents positively answer the survey questions, the result is deemed satisfactory. The 2015 survey consisted of 44 questions, of which 32 were answered positively, yielding a positive response rate of more than 70% and in some cases 80% and even 90%.

An answer is considered positive when the respondent answers “totally agree” or “agree”. The other answer options are: “partly agree”, “partly disagree”, “disagree”, “totally disagree” and “don’t know”.

SEV has a zero-tolerance policy concerning stress, harassment and safety. Unfortunately, the surveys indicate that these important goals, as yet, remain elusive.

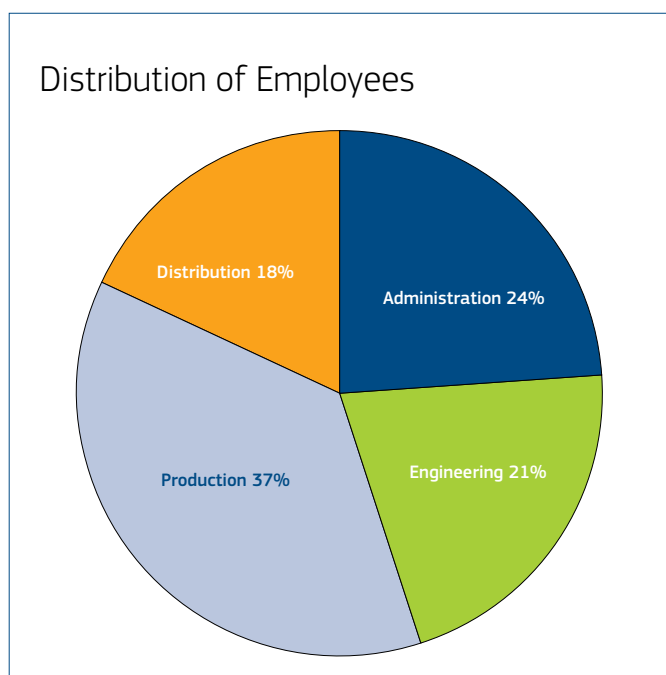
“We remain strongly committed to our overall HR goals and will continue to focus on them in the years ahead. We are especially committed to achieving our zero-tolerance policy goals,” notes Bergtóra Høgnadóttir.

Below is a comparison of selected questions and their answers from the satisfaction and engagement surveys from 2013 and 2015.

Details of the satisfaction survey	2013	2015	Difference
	<i>Totally agree or agree</i>	<i>Totally agree or agree</i>	
I have confidence in the CEO	70.8%	85.7%	+14.9 %-level ↑
I have confidence in management	64.2%	81.3%	+17.1 %-level ↑
I agree with SEV's direction	51.4%	74.1%	+22.7 %-level ↑
I recommend others to apply to SEV	70.8 %	94.6%	+23.6 %-level ↑
I am proud of working at SEV	70.8%	96.4%	+25.6 %-level ↑
I have high job satisfaction	76.4%	91.1%	+14.7 %-level ↑
I get information about important matters	42.5%	91.1%	+48.6 %-level ↑
I have a satisfying job	77.1%	91.1%	+14.0 %-level ↑
We have good co-operation in my department	77.9%	89.3%	+11.4 %-level ↑

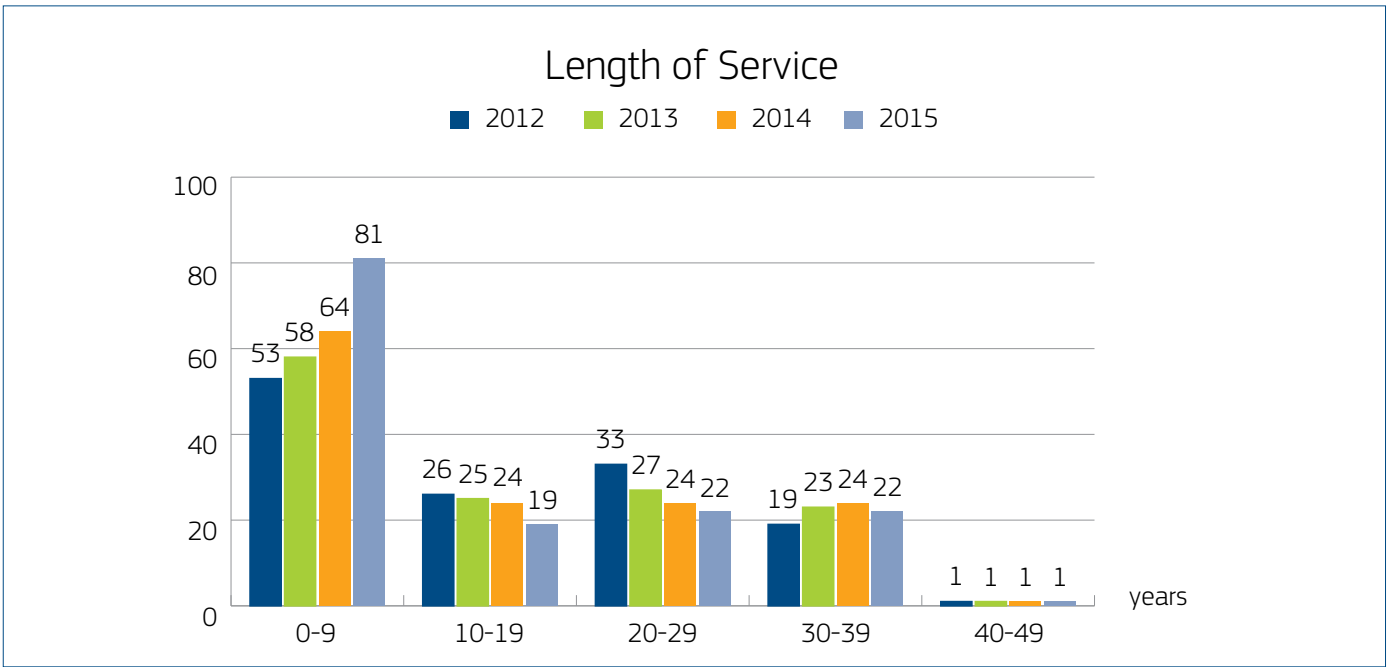
Our Employees

In 2015, SEV had 213 people on its payroll. Of these, 8 served on the Board of Directors, 3 were employed as meter-readers, 5 received pension benefits, 52 were temporary workers and 145 were full-time equivalent employees.



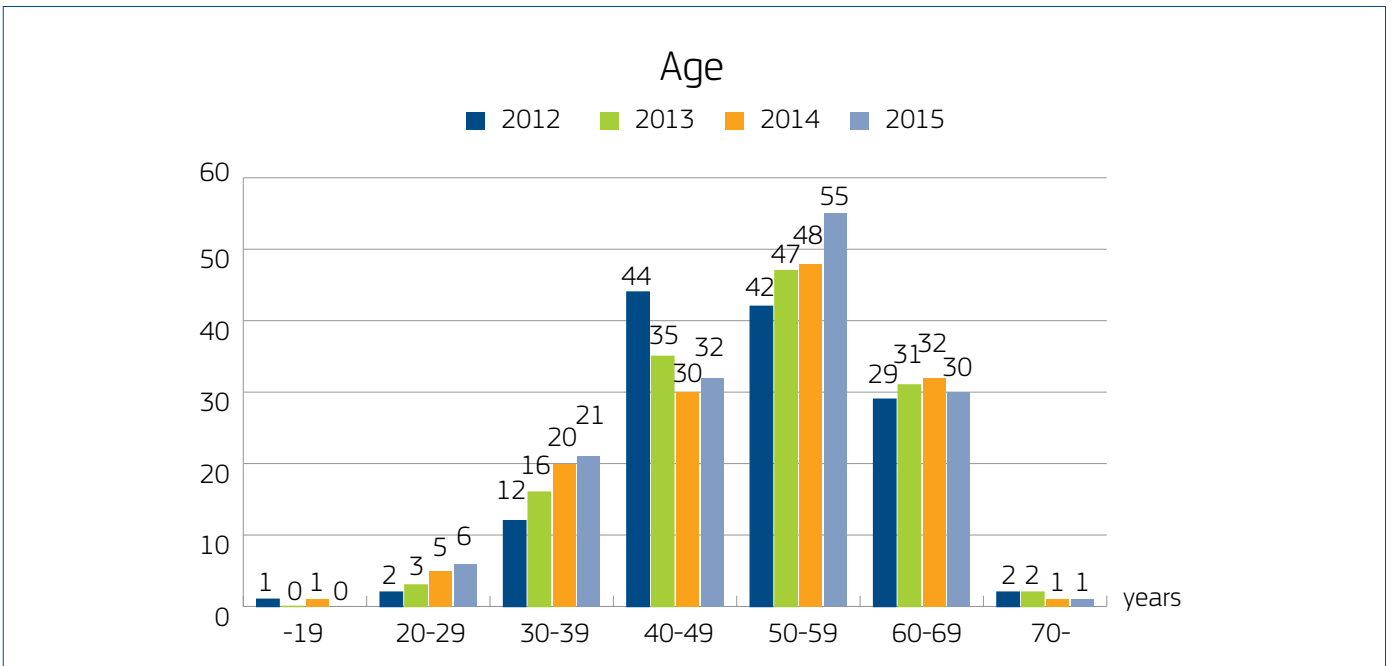
Distribution of Employees

The chart below shows the distribution by business unit of the 145 regular job employees at year-end 2015.



Years of Employment

The average number of employment years is 14. In 2015, 42 people or around 29% of all employees had been employed with SEV for 25 years or above. In 2014, the number was 46, or 33%.



Average Age of Employees

The average age of our employees is slowly decreasing. For 2012 and 2013, the average age was a little over 51 years, and for 2014 it was close to 50 years. In 2015 the average age was 49.8 years.

The chart above shows a slight reduction of employees occurred within the age group 60-69 years, while the number of employees in all other groups is increasing. The largest increase was in the age group 50-59 years. By year-end 2015, there were 28 employees 60 years of age and older.

Health, safety and environment

Green Accounting

The Health, Safety and Environmental Policy (HSE)

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

Safety

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

Safety Measures

In 2015, SEV's safety measures have, among others, focused on emergency preparedness for serious accidents or traumatic incidents. Ensuring that staff have new work clothes and protective clothing has also been a primary focus.

The diagram below (Figure 1) shows SEV's organizational safety structure.

Personal Injuries

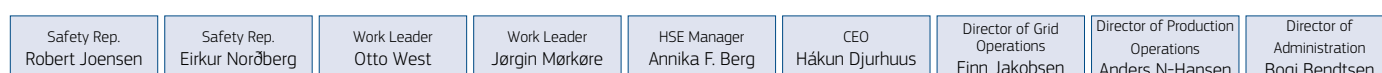
SEV works systematically and conscientiously throughout the Company to avoid accidents and injuries and our goal is that no one is ever injured. However, it is difficult to avoid injuries totally. The graph below (Figure 2) shows the number of personal injuries that resulted in a worker's disability for one or more days for the period 1997 to 2015. In 2015, no personal injury was reported to the Occupational Safety & Health Administration (Arbejdseftirlitið).

The Environment

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

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

SAFETY BOARD



SAFETY GROUPS

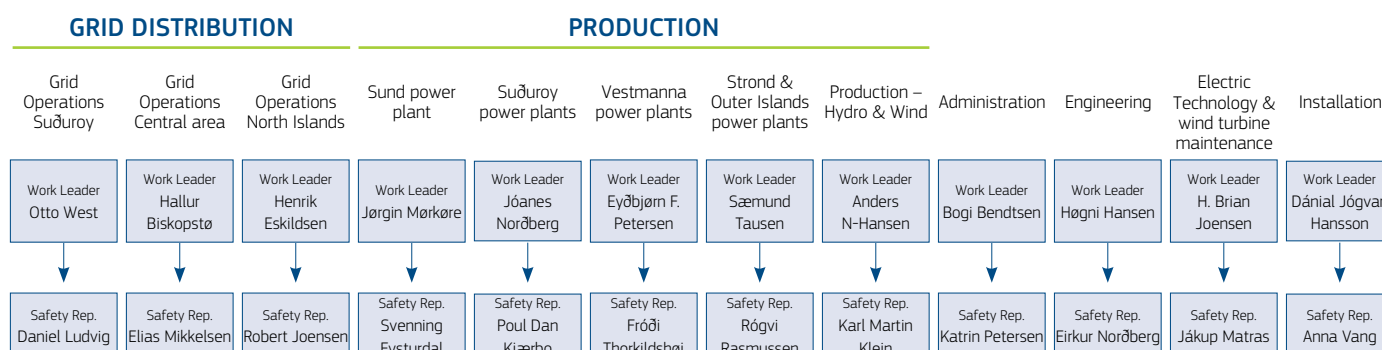


Figure 1. The Safety Board of SEV.

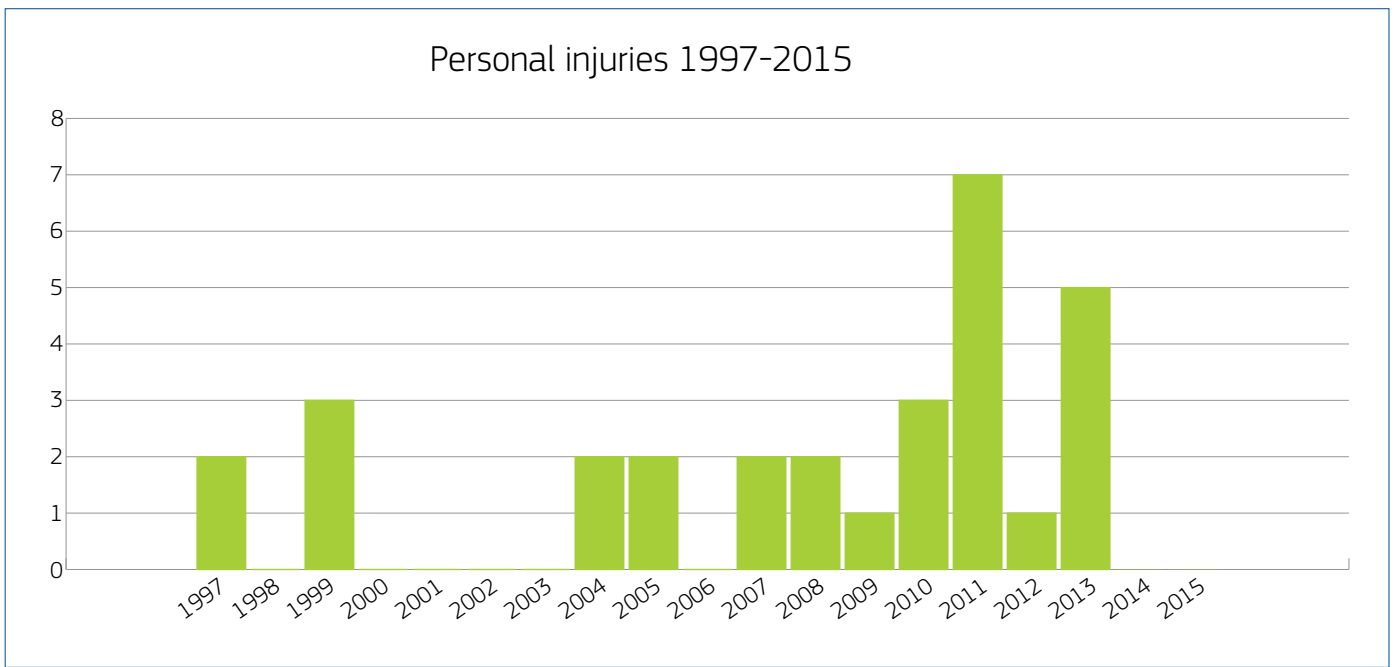


Figure 2. Number of personal injuries that resulted in a worker's disability for one or more days for the period 1996 to 2015 that were reported to the Occupational Safety & Health Administration.

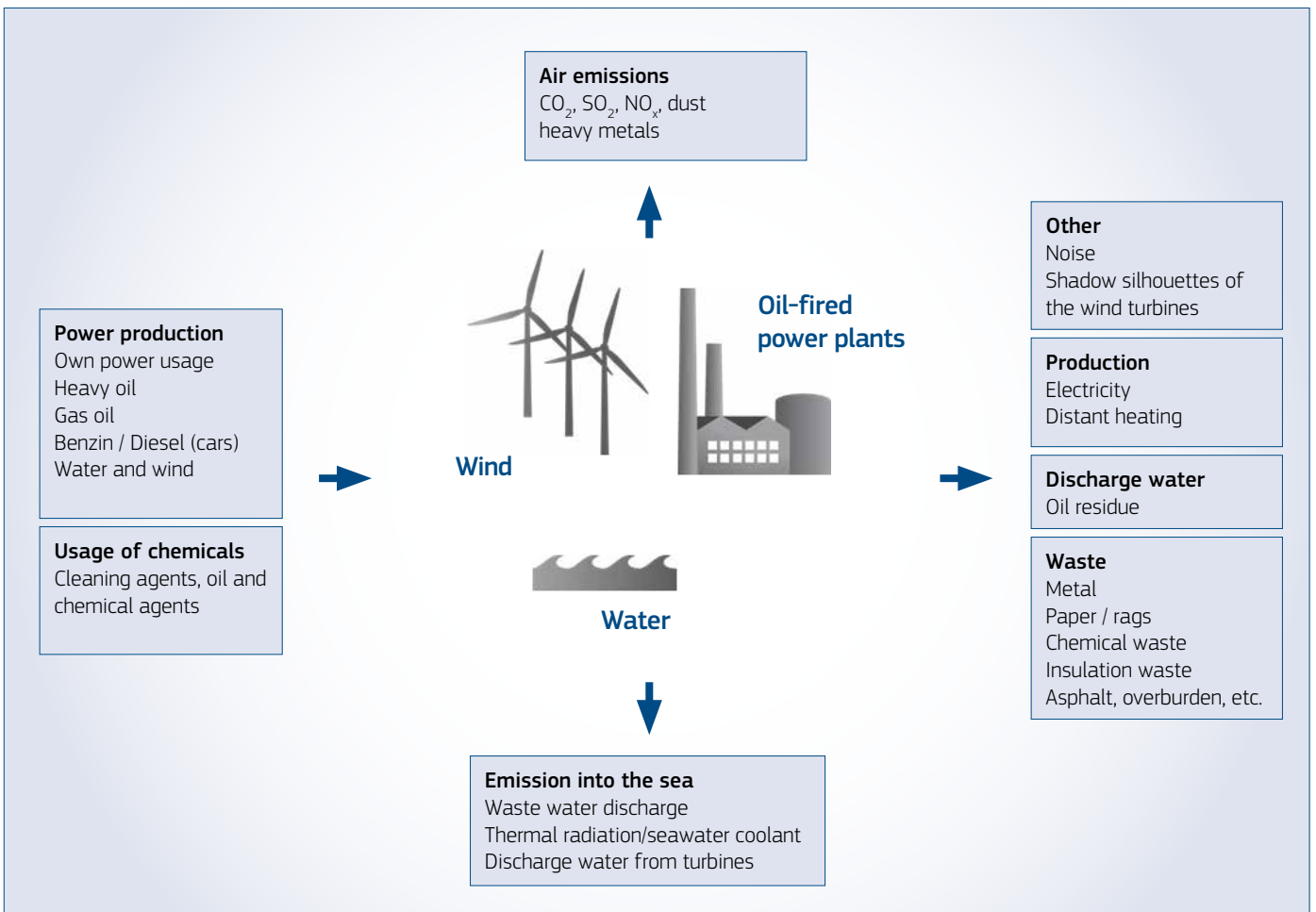


Figure 3. Overview of the main impacts on the environment by the activities of SEV.

Valid Environmental Permits:
Valid as of:

Authorization for the wind turbines at Neshagi	14.05.04
Authorization for the power plant at Sund	28.04.11
Authorization for the wind turbines at Neshagi	13.01.12
Authorization for the power plant at Vágur	18.11.15
Authorization for the wind turbines at Húsahagi	16.01.13

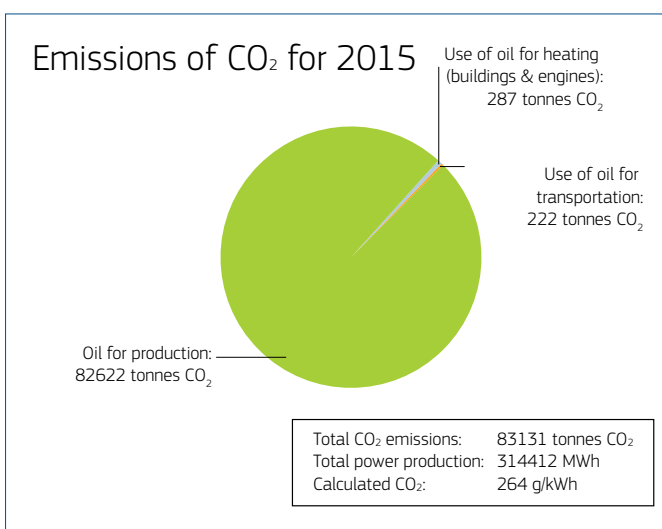


Figure 4. Amount of CO₂ emissions for 2015.

SEV also operates six wind turbines located on the Neshagi promontory on the island of Eysturoy and 13 wind turbines at Húsahagi outside Tórshavn.

Environmental Permits

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

Emissions into the air

One of the largest impacts on the environment stems from the burning of fossil fuels by SEV. The greatest portion of SEV's CO₂ emissions originates from oil-fired electricity and heat production. Additionally, CO₂ emissions originate from the use of oil for the

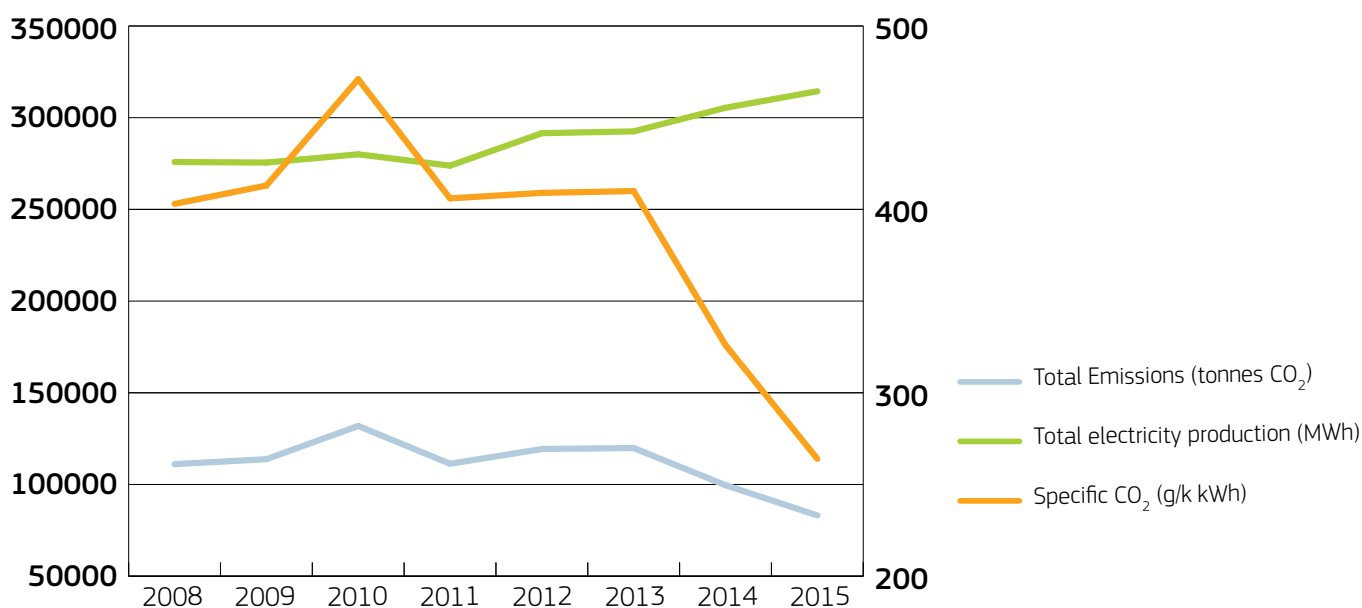


Figure 5. CO₂ emissions, electricity production and specific CO₂ for the period 2008 to 2015.

heating of buildings and motors, as well as transport. The graphs above (Figures 4 and 5) show SEV's CO₂ emissions for 2015 and CO₂ emissions from 2008 to 2015.

District Heating

Normally, a vast amount of heat is lost through the smokestacks during the production of electricity from oil-fired facilities. At the power plant at Sund, however, this heat is being partially recycled to help pre-heat the heavy oil prior to combustion.

By year-end 2008, some of the excess heat produced at Sund was also linked to the Hoyvik district heating system. Today, 999 customers are connected to Fjarhitafelagið (the district heating company owned equally by SEV and Tórshavn Municipality). The graph to the right (Figure 6) shows how much district heating SEV has provided over the last four years.

In 2015 SEV provided Fjarhitafelagið with 5.05 GWh. This is a considerable decrease compared to previous years, which the above diagram (Figure 6) also indicates. One reason for this decrease is that the Sund power plant produced less electricity last year due to the fact that SEV produced increasingly more electricity from sustainable energy sources in 2015.

Waste

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

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

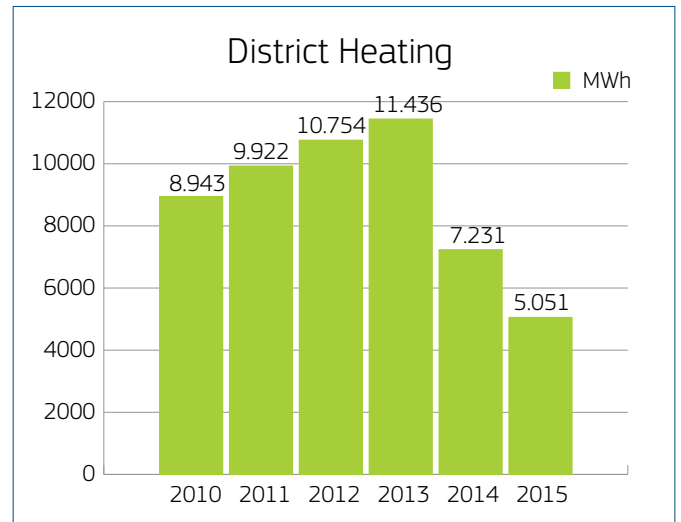


Figure 6. Heat provided by SEV for Fjarhitafelagið in MWh.

The chart below (Figure 7) shows that the quantity of waste going through a special treatment increased significantly in 2015. The reason is that SEV removed a large number of old accumulators when the storage room at the Sund power plant was cleared out.

The graph below (Figure 8) shows recycled waste from 2010 through 2015. The method of separating out cardboard and paper was improved in 2015. The graph shows that the recycling of iron and metal is also increasing.

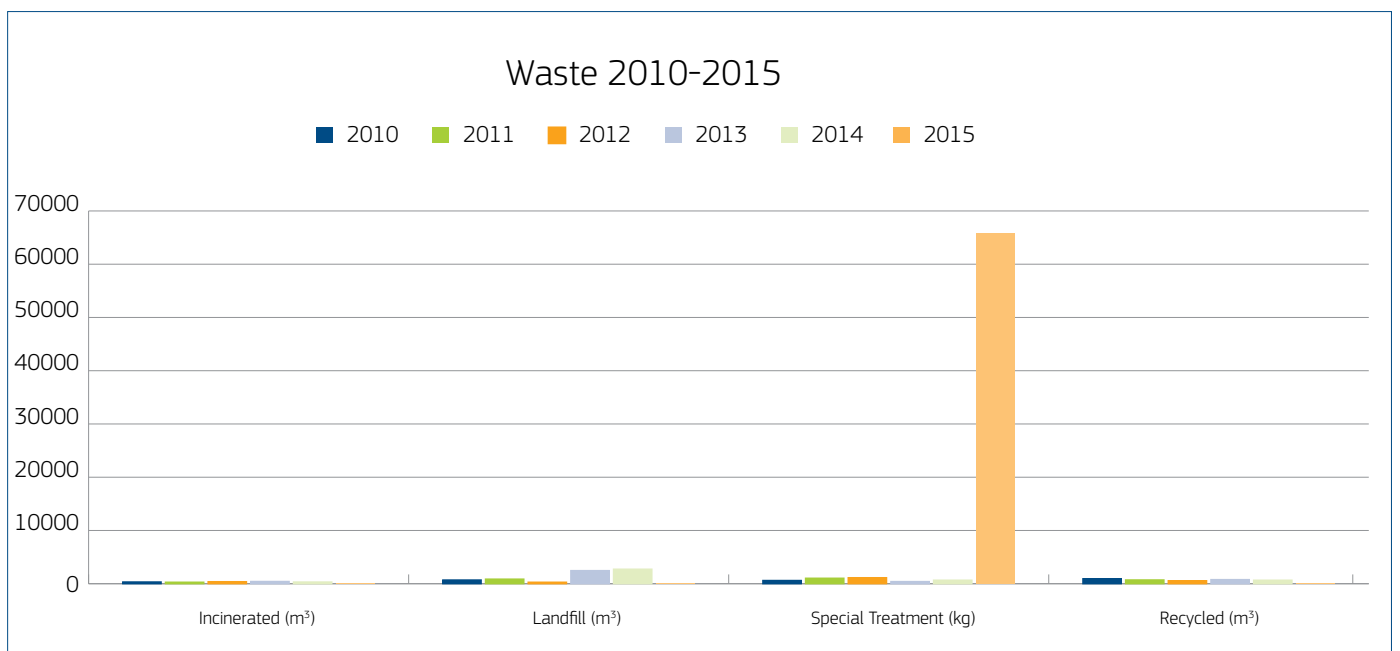


Figure 7. Waste generated by SEV from 2010 to 2015.

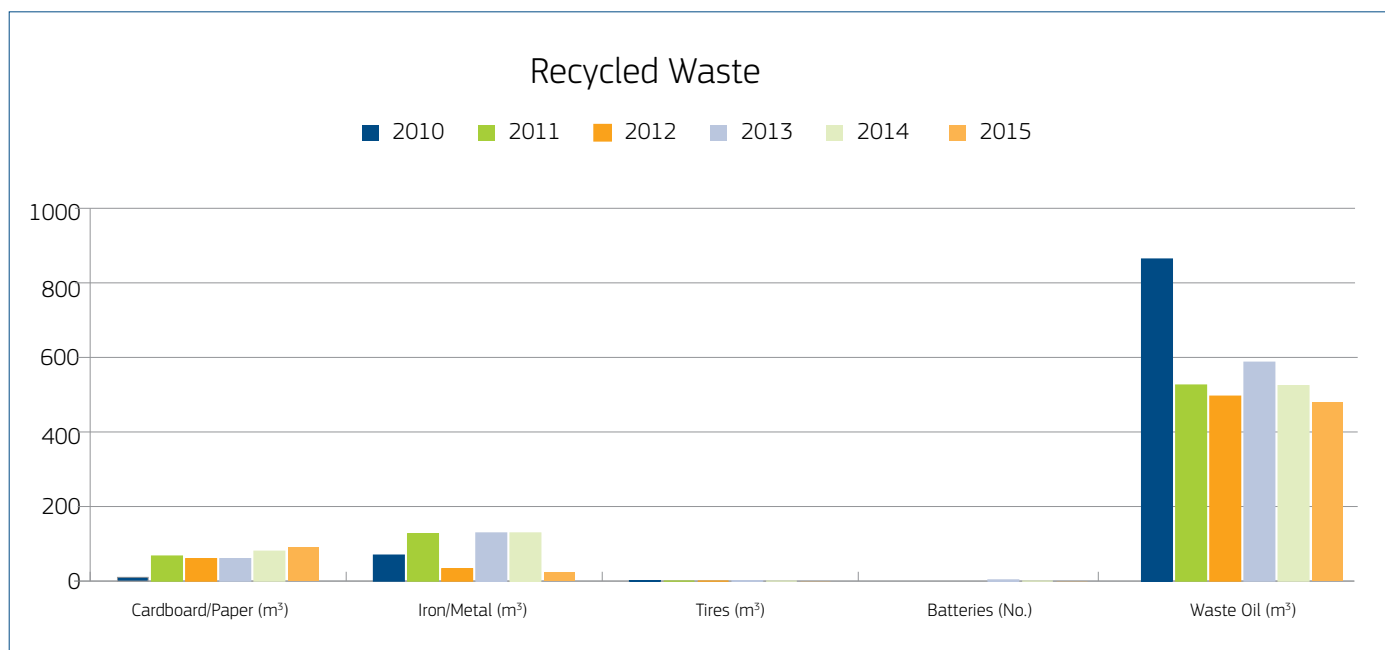


Figure 8. Amount of recycled waste from 2010 to 2015.

Annual Report and Annual Accounts 2015

Electricity Compagny SEV (Elfelagið SEV) Annual Accounts 2015

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The Company

Elfelagið SEV
Administration:
Landavegur 92
Post Box 319
FO-110 Tórshavn
Telephone: +298 346800
Website: www.sev.fo
Email: sev@sev.fo
Registered office: Tórshavn
Accounting year: 01.01-31.12
Business Registration No.: 331538

Board

Jákup Suni Lauritsen, Chairman of the Board
Bogi Andreasen, Vice Chairman of the Board
Karl A. Olsen, Member of the Board
Karl M. Rasmussen, Member of the Board
Steinbjørn O. Jacobsen, Member of the Board
Bødvar Hjartvarsson, Member of the Board
Frits Poulsen, Member of the Board

Management

Hákun Djurhuus, Managing Director, CEO
Bogi Bendtsen, Director of Administration, CFO
Finn Jakobsen, Director of Distribution, CTO
Anders Nedergaard-Hansen, Director of Production, COO

Auditing

JANUAR State Authorized Public Accountants P/F

Management Report

The Board of Directors and Management hereby submit SEV's Annual Report and Accounts for fiscal year 1 January - 31 December 2015.

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

It is our opinion that the accounting methods used are suitable and that the Accounts give a true and fair view of the Company's assets, liabilities, financial position as at 31 December 2015 and the result of operations for fiscal year 1 January - 31 December 2015.

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

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

Tórshavn, 8 April 2016

Management

Hákun Djurhuus
Managing Director, CEO

Financial Management

Bogi Bendtsen
Director of Administration, CFO

Board

Jákup Suni Lauritsen
Chairman

Bogi Andreassen
Vice Chairman

Karl A. Olsen

Karl M. Rasmussen

Steinbjørn O. Jacobsen

Bødvar Hjartvarsson

Frits Poulsen

Independent Auditor's Report

To the owners of Elfelagið SEV

Report on the Financial Statements

We have audited the financial statements of Elfelagið SEV for the financial year 1 January to 31 December 2015, which comprise income statement, balance sheet, cash flow statement and notes, including summary of significant accounting policies, for the Company. The financial statements are prepared in accordance with the Faroese Financial Statements Act.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of Elfelagið SEV's financial position as at 31 December 2015 and of the results of the Company's operations and cash flows for the fiscal year 1 January to 31 December 2015 in accordance with the Faroese Financial Statements Act.

Statement on the Management's review

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

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

Tórshavn, 8 April 2016

P/F Januar

State Authorized Public Accountants P/F

Hans Laksá
State auth. auditor

Key Figures and Financial Ratios

Figures in tDKK	2015	2014	2013	2012	2011	2010
Income Statement						
Net Sales	421.952	410.551	384.625	355.787	316.393	278.263
Results before depreciation amortization and impairment	221.483	155.573	103.914	76.041	36.310	14.638
Result before financials	127.897	78.376	33.877	8.265	-24.803	-36.283
Financial results	-24.830	-20.613	-22.011	-20.535	-14.454	-10.139
Annual results	103.067	57.763	11.866	-12.270	-39.257	-46.422
Balance sheet						
Total assets	1.960.373	1.742.038	1.475.209	1.411.000	1.286.519	1.233.175
Cash-on-hand	221.889	131.459	66.593	87.384	29.299	42.144
Total Equity	1.042.921	939.854	882.091	870.225	882.495	921.752
Total long-term debt	830.000	691.411	510.254	461.583	299.007	217.890
Financial ratios *)						
Return on equity	10.4%	6.3 %	1.4 %	-1.4 %	-4.4 %	-4.9 %
Return on assets	6.9%	4.9 %	2.3 %	0.6 %	-2.0 %	-3.0 %
Net liability	2.8	3.6	4.3	4.9	7.4	12.0
Asset turnover	0.22	0.24	0.26	0.25	0.25	0.23
Equity/asset ratio	53.2%	54.0 %	59.8 %	61.7 %	68.8 %	74.7 %

Calculation of financial ratios

$$\text{Return on equity} = \frac{\text{Result from operations before taxes} \times 100}{\text{Average equity}}$$

$$\text{Return on assets} = \frac{\text{Result of ordinary operations} \times 100}{\text{Average value of operating assets}}$$

$$\text{Net liability} = \frac{\text{Net liability (liability - cash-on-hands)}}{\text{EBITDA}}$$

$$\text{Asset turnover} = \frac{\text{Net sales}}{\text{Total assets}}$$

$$\text{Equity/asset ratio} = \frac{\text{Equity year-end} \times 100}{\text{Total assets}}$$

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

Management Review

Main Activities

SEV is an inter-municipal cooperative electricity firm. The objective of the Company is to provide electricity power and distribute it amongst the residents of the participating municipalities. According to the Articles of Association, these objectives are to be promoted according to business principles based on an economically sound foundation with due regard simultaneously for the environment. According to the Electricity Production Act, SEV (including grid operations), is to be financially viable, generating adequate revenues to pay for operations and necessary, planned investments.

Every municipality in the Faroe Islands is a member of SEV. Until year-end 2008, the members were liable for any financial debt or possible operational loss of the firm. As of 1 January 2009, the municipalities are solely liable for the firm's responsibility concerning employee expenses. The present report covers the collective activities of the Company during the period 1 January 2015 to 31 December 2015.

2015 Budget vs. Actual

Pursuant § 3, paragraph 13b and § 4, paragraph 12b of the Articles of Association, SEV shall inform the shareholders at the autumn Extraordinary General Meeting about the Company's fiscal status

since the last Annual General Meeting, which in this case was held on 24 April 2015. The Extraordinary General Meeting was briefed on 27 November 2015, and reference was also made to the report published on the Company's website, www.sev.fo. The briefing was based on actual data as at the end of September, and included forecasts for the remainder of 2015.

Table 1 shows a summary of the 2015 budget vs. actual figures.

Detailed explanations regarding the differences between the budget, financial forecasts and the actual financial accounts

Currently, not all of the electric meters have been shifted out and replaced by wireless digital meters, and thus it remains difficult to determine during the year a customer's specific level of electricity consumption, as the electric meters for some customers are only read once a year. Subsequently, the Company cannot make a detailed monthly comparison between production and which customers, or group of customers, consumed a higher level of electricity. The generation of these necessary forecasts will, in the main, require these data. To this end, SEV has exchanged almost all of the old electric meters with more modern meters that can be read automatically by the Company's Customer Service

Table 1

Difference between budget, projections and actual in DKK million.	Financial Accounts 2012	Financial Accounts 2013	Financial Accounts 2014	Budget 2015	Financial accounts as at 30 Sep. 2015	Projections 2015	Financial Accounts 2015	Difference between adjusted budget and financial accounts	Difference between projections and financial accounts	Difference between 2014 and 2015
Net Turnover	355.8	384.6	410.6	407.7	310.1	424.7	422.0	14.3	-2.7	11.4
Oil Expense	166	167.9	141.5	109.1	71.8	93.2	86.2	-22.9	-7.0	-55.3
Supplies	53.5	54.1	49.8	68.9	36.6	54.1	49.9	-19.0	-4.2	0.1
Wages	60.2	58.7	63.6	71.3	48.7	68.1	64.3	-7.0	-3.8	0.7
Total Expenses	279.7	280.7	255.0	249.3	157.1	215.4	200.5	-48.8	-14.9	-54.5
Earnings Before Depreciation and Amortisation (EBITDA)	76.0	103.9	155.6	158.5	153.0	209.3	221.5	63.0	12.2	65.9
Depreciation	67.8	70.0	77.2	97.5	75.1	86.9	93.6	-3.9	6.7	16.4
Earnings Before Interest	8.3	33.9	78.4	60.9	77.8	122.4	127.9	67.0	5.5	49.5
Net Interest	20.5	22.0	20.6	23.8	18.5	24.4	24.8	1.0	0.4	4.2
Earnings before Tax	-12.3	11.9	57.8	37.2	59.3	98.1	103.1	65.9	5.0	45.3

Table 2

Income statement from sale of electricity power and fixed base rate from customer groups in DKK million	Account 2014	Budget 2015	Forecast 2015	Account 2015	Difference between forecasted and actual accounts 2015		Difference between actual accounts in 2014 and 2015	
	Total	Total	Total	Total	In DKK	%	In DKK	%
Agriculture, fish farming, fishing industry, and primary raw materials industry	37.5	35.1	39.0	44.3	9.2	26.2	6.8	18.1
Production and construction	90.2	87.8	92.9	92.4	4.6	5.2	2.2	2.4
Retail, restaurants and hotels	35.6	33.1	36.3	32.6	-0.5	-1.5	-3.0	-8.4
Transport, postal services and telecommunications	34.7	33.5	34.8	33.8	0.3	0.9	-0.9	-2.6
Financial services, insurance and other service industries	5.5	5.5	5.4	5.5	0.0	0.0	0.0	0.0
Public and private services, churches	54.4	54.2	56.9	54.7	0.5	0.9	0.3	0.6
Street lights	10.4	11.1	10.8	10.4	-0.7	-6.3	0.0	0.0
Single-family homes, apartments, vacation homes, and boathouses	127.4	132.4	131.0	127.5	-4.9	-3.7	0.1	0.1
Total	395.7	392.7	407.1	401.2	8.5	2.2	5.5	1.4

Department. Work continues to exchange the remaining meters and SEV expects to complete this project in 2016.

Net turnover was forecast to be DKK 424.7 million, but actual net turnover was DKK 422.0 million, or DKK 2.7 million less. Total turnover for 2015 from kWh consumption and the fixed base rate was estimated to be DKK 407.1 million, while actual turnover was DKK 401.2 million, which is DKK 5.9 million less than forecast. The original forecast assumed an increase in private consumption, but in the final analysis the Company experienced a decline in sales to private customers, while the Company had a greater increase in sales to its commercial customers.

The Company originally budgeted a result for 2015 of DKK 37.2 million, but the final result for 2015 was DKK 103.1 million, or an increase compared to budget of DKK 65.9 million. The Company had forecast a result of DKK 98.1 million; the final result was DKK 103.1 million, or DKK 5.0 million better than forecast. The Company thus had a considerably greater yield than originally budgeted and even forecast.

The reason for this increase is based on improvements in several areas: Net turnover was DKK 14.3 million more than budgeted, as a result of increased sales; oil expenses were DKK 22.9 million less, based on low oil consumption and lower oil prices; goods and services expenses were some DKK 19.0 million lower; wage expenses were lower than budgeted by DKK 7.0 million, based on a pension equalization plan, and the positions that were

intended to be filled at the beginning of the year were not filled until the middle of the year and overall there were lower wage expenses than budgeted.

In addition, depreciation was DKK 3.9 million less than budgeted, in the main because there was lower investment than budgeted. Overall, the increase in the result of DKK 65.9 million, compared to the budget, was derived from four main operational areas.

Table 2 above shows the Company's forecasted and actual income derived from electricity consumption sales and the fixed base rate in DKK millions for the various customer groups.

Income is derived from connection fees and other payments. The budgeted amount was DKK 17.8 million for 2015, while the forecast was for DKK 20.4 million. Actual income for 2015 for this line item was DKK 22.9 million, which is better than budgeted or forecast. Income from the connection fees and other sources in 2014 was DKK 17.4 million. Thus, this income was DKK 4.0 million greater in 2015 than in 2014.

Company income from kWh consumption and the fixed base rate in 2015 was a total of DKK 401.2 million, compared to an income in 2014 of DKK 395.7 million. This income was thus DKK 5.5 million higher in 2015. When actual income is compared to that budgeted in 2015, which was DKK 392.7 million, this income was DKK 8.5 million greater than budgeted.

Table 3

Heavy fuel oil consumption in tonnes	2013	2014	2015	2015 Budget	2015 Forecasted	Difference between budget and actual accounts 2015	Difference between forecast and actual accounts 2015	Difference between 2014 and 2015
Heavy oil	36.893	30.880	25.738	27.781	27.570	-2.043	-1.832	-5.142

Compared to 2014, the Company in 2015 realised an increase of DKK 5.5 million in turnover from kWh consumption and the fixed base rate. This increase was especially visible in the customer group agriculture and fishing industry. Several analyses of the sales figures can be found in the Company's grid accounts available at www.sev.fo.

Oil expenses were forecast to be DKK 93.2 million, while actual expenses equalled DKK 86.2 million, which is DKK 7.0 million higher. The biggest reason for the lower expense was a lower than forecast oil consumption and a favourable dollar exchange rate on the oil in storage at year-end.

In 2015, SEV consumed 25.738 tonnes of heavy fuel oil for electricity production, while the corresponding consumption in 2014 was 30.880 tonnes, corresponding to a decrease in consumption of 5.142 tonnes. The budget provided for a consumption of 27.781 tonnes of heavy oil, corresponding to reduced consumption of 2.043 tonnes. In the Operation Accounts, which are available at www.sev.fo, there is a more detailed discussion on oil consumption and cost.

Total cost for goods and services was forecast to be DKK 54.1 million, while the actual cost was DKK 49.9 million, which is DKK 4.2 million lower. The close oversight and management of the costs for supplies and services continues unabated, as the year before. The forecast was that operational activities would have consumption expenses of DKK 22.0 million, while actual cost equalled DKK 21.3 million or DKK 0.7 million lower. The power grid activities were forecast to cost DKK 12.6 million, while the actual cost was DKK 11.8 million, which was DKK 0.8 million less than forecast. Administrative costs were forecast to be DKK 19.4 million, while actual costs were DKK 16.8 million or DKK 2.6 million lower than forecast. In total, the cost for goods and services was DKK 4.2 million lower than the forecast.

Table 4 shows the differences relative to budget, forecast and actual for supplies and services in DKK.

Employee expenses for the production power plants were forecast to be DKK 32.7 million, while actual employee expenses amounted to DKK 32.0 million, or DKK 0.7 million lower than forecast. For power grid activities, employee expenses were forecast to be DKK 22.3 million, compared to an actual cost of DKK 22.1 million or DKK 0.2 million lower than forecast. The reason for the discrepancy between the two divisions is most likely the result of inaccurately estimating the distribution of employee expenses between the two divisions. Altogether, the difference is DKK 0.9 million lower than forecast.

Employee expenses for administration were forecast to be DKK 13.1 million, compared to an actual expense of DKK 11.2 million

or DKK 1.9 million less than forecast. In the main, the difference stems from the forecasting of a greater pension obligation than actually was booked at year-end 2015.

Total employee expenses were forecast to be DKK 68.1 million, while actual was DKK 64.3 million, or DKK 3.8 million less than forecast.

Depreciation was forecast to be DKK 86.9 million, while the actual amount was DKK 93.6 million, which is DKK 6.7 million higher than forecast. Depreciation is based on existing assets, including the addition and disposal of assets in 2015. Investment for 2015 was forecast to be DKK 272.2 million, but was DKK 232.1 million, or DKK 40.1 million lower.

Net interest expense was forecast to be DKK 24.4 million, while actual cost was DKK 24.8 million or DKK 0.4 million higher. SEV has continually negotiated with the various financial institutions regarding interest rates, which has had a positive impact on interest expenses. Moreover, the total loans held by the Company in 2015 were not larger than budgeted, and the loans were not subscribed as quickly as forecast to ensure satisfactory liquidity. These various factors positively impacted interest rate costs.

At the beginning of 2015, SEV's existing long-term loans all carried variable interest rates. At year-end 2015, the Company converted to a fixed rate of interest, such that the majority of the Company's loans beginning in 2016 will carry a fixed rate of interest.

Business Activities and Financial Status of the Company

Operational expenses of the Company are usually categorized into employee expenses, and supplies and services. These expenses are then further divided among production activities, power grid activities, and administration.

The 2015 operational result was a surplus of DKK 103.1 million, against a surplus of DKK 57.8 million in 2014. The budget approved by the Extraordinary General Meeting on 28 November 2014 specified a surplus of DKK 37.2 million for 2015.

On 1 January 2011, the Company increased its electricity prices by DKK 0.15 per kWh with the approval of the Faroese Electricity Production Commission. Simultaneously, both the Commission and SEV understood that, given the high price of oil and the need for expansion and upgrading of both the grid and the production facilities, higher prices in the future would be necessary. Therefore, as of 1 January 2012, SEV increased its prices by DKK 0.10 per kWh, and again on 1 January 2013 by DKK 0.05 per kWh for its private customers, and DKK 0.11 per kWh for its "industrial customers", which are subject to a special price tariff for industrial concerns, including fish farming, agriculture, the fishing industry

Table 4

Production Operations	Budget	Forecast	Actual Account 2015	Deviation between adjusted budget and actual account 2015	Deviation between forecast and actual account 2015
Hydropower plants, total	6.143.100	4.484.170	5.197.492	-945.608	713.322
Oil-fired power plants, total	14.469.700	10.390.967	9.779.003	-4.690.697	-611.964
Windpower, total	6.698.816	6.822.362	5.863.898	-834.918	-958.464
Small oil-fired plants, total	1.356.500	310.240	439.998	-916.502	129.758
Production Operations, total	28.668.116	22.007.739	21.280.390	-7.387.726	-727.349
Power Grid Operations					
Power grid, total	8.131.100	6.786.418	6.439.775	-1.691.325	-346.643
Oil depot, total	853.500	318.895	517.472	-336.028	198.577
Installation department	1.873.200	1.973.223	1.860.549	-12.651	-112.674
Coupling stations	985.700	511.817	601.807	-383.893	89.990
Engineering department	1.941.300	2.457.355	1.705.673	-235.627	-751.682
Technical department	433.200	599.291	690.162	256.962	90.871
Power Grid Operations, total	14.218.000	12.646.999	11.815.439	-2.402.561	-831.560
Administration					
Administration expenses	5.274.750	4.448.320	3.955.245	-1.319.505	-493.075
Insurance expense	1.244.300	1.466.564	1.812.963	568.663	346.399
Advertising and telephone	1.024.900	1.002.836	989.888	-35.012	-12.948
Board of Directors and employees	4.046.250	2.631.510	2.047.064	-1.999.186	-584.446
Research studies and consulting	10.318.200	5.670.790	4.379.414	-5.938.786	-1.291.376
Real property, etc.	1.372.000	1.298.688	1.213.500	-158.500	-85.188
ITC expenses	1.779.600	2.314.286	2.782.263	1.002.663	467.977
Loss and reserves	950.000	577.905	-340.458	-1.290.458	-918.363
Administration, total	26.010.000	19.410.900	16.839.880	-9.170.120	-2.571.020
Power Grid Operations and Administration, total	40.228.000	32.057.899	28.655.319	-11.572.681	-3.402.580
Production Operations, Power Grid Operations and Administration, total	68.896.116	54.065.638	49.935.709	-18.960.407	-4.129.929

and certain IT service providers with an annual usage above 20,000 kWh.

Moreover, the Company also increased the connection fee as of 1 January 2013 to ensure fiscal sustainability within this sector of the business. The connection fee had not been harmonized for many years, thus operations in this sector were not sustainable. With this increase, fiscal balance has been achieved in this part of the business.

The tariff for industrial customers was again increased by DKK 0.05 in January 2014. Increasing the price for certain customers as opposed to others is part of a strategy to enhance profitability within the various customer groups.

No changes to the tariffs was undertaken in 2015.

SEV has established the long-term goal of ensuring that its debt to EBITDA shall not be greater than a factor of six. The Company is currently holding to this goal with an operational profit in 2015 of DKK 103.1 million and a debt to EBITDA factor of 2.8.

The budgeted result for 2016 is a surplus of DKK 72.5 million, and the net debt to EBITDA factor is 4.7. SEV does not intend to amend the price of electricity nor the fixed base rate in 2016.

Over the coming five years, it is critical to maintain a respectable result such that the operations of the Company can yield effective self-financing of the investment that lies ahead. This is necessary to ensure that the debt carried by the Company does not become overly great, nor that the Company cannot attract the required financing at reasonable terms. At the same time, operational revenue must be at such a level that the Company can meet its debt obligations even in the face of an economic downturn.

In order to meet these goals and to estimate the need for price harmonization, operational data were studied and calculations

made as to anticipated costs and investment for the coming year. It is advisable that the budget be sustainable and be financially strong over the course of the coming year, especially given the major expansion project at the Sund power plant for around DKK 700 – 800 million, while investment in other areas will also increase.

Given the situation today with a satisfactory result of DKK 103.1 million for 2015, which is based in the main on increased kWh sales, the low price of oil and low rates of interest, and a large part of production stemming from wind and hydropower, the conclusion of the above study indicates that it will not be necessary to adjust upwards the prices paid by SEV's customers in order to achieve the Company's goal that the result before depreciation and interest (NIBD/EBITDA) is not greater than a factor of 6. In order to achieve this goal for the entire period of 2016-2025, it is critical to continue to have a good result, which at the very least is on par with the forecast result for 2016.

On the other hand, if there is a decline in kWh sales, or if the price of oil rises again, it will be absolutely critical to amend the price of electricity to ensure that the Company can carry out the planned expansion at the Sund power plant and other investment, while at the same time ensuring that the result before depreciation and interest (NIBD/EBITDA) is not greater than a factor of six during the period 2016-2025.

Revenue

There are three factors that impact SEV's main income: changes in electricity prices, changes in overall electricity consumption, and changing use patterns within the various customer price groups from year to year.

For 2015, SEV's total income was DKK 424.4 million, against DKK 413.1 million in 2014, corresponding to an increase of DKK 11.3 million or 2.7%. By far, the largest portion of SEV's income originates from electricity consumption payments, corresponding

Table 5

Net turnover DKK million	2010	2011	2012	2013	2014	2015	Difference compared to 2014 (DKK)	Difference compared to 2014 (%)
kWh payment	261.8	296.4	335.0	362.4	379.2	385.0	5.8	1.5
Base-rate payment	16.1	16.5	16.4	16.6	16.5	16.4	0.0	-0.3
Connection fee	1.6	1.3	2.3	6.9	14.7	16.2	1.5	10.4
Service fee etc.	1.3	5.0	4.7	1.3	2.7	6.7	4.0	144.1
Income	280.8	319.2	358.3	387.2	413.1	424.4	11.3	2.7
Purchased wind energy	-2.6	-2.8	-2.5	-2.6	-2.5	-2.4	0.1	-5.4
Net turnover	278.3	316.4	355.8	384.6	410.6	422.0	11.4	2.8

Table 6

Result for kWh sold DKK	2010	2011	2012	2013	2014	2015	Difference compared to 2014 (DKK)	Difference compared to 2014 (%)
Average income per kWh sold	1.10	1.25	1.37	1.41	1.46	1.47	0.01	1.5
Average cost per kWh sold	1.28	1.40	1.42	1.37	1.25	1.11	-0.14	-11.0
Result for kWh sold	-0.18	-0.15	-0.05	0.04	0.21	0.37	0.15	70.2

Table 7

Settled sales in GWh	2010	2011	2012	2013	2014	2015	Part of Productions in %	Difference compared to 2014 (GWh)	Difference compared to 2014 (%)
Settled customer sales in GWh	255.0	254.8	261.4	274.4	283.8	288.1	91.6	4.3	1.5
Network loss and own consumption in GWh	25.3	19.0	30.1	18.1	21.6	26.3	8.4	4.7	22.0
Total production in MWh per year	280.3	273.8	291.6	292.5	305.4	314.4	100.0	9.0	2.9
Oil-fired	199.3	166.8	181.0	180.1	150.2	125.5	39.9	-24.7	-16.4
Hydro	67.4	92.5	99.8	90.6	120.7	133.1	42.3	12.4	10.3
Wind	13.6	14.5	10.8	21.8	34.5	55.8	17.8	21.3	61.7

to DKK 385.0 million, while DKK 39.3 million is derived from the fixed base rate payments and other income. This pattern is the same as in the previous year.

Table 5 shows the distribution of the Company's net turnover for the last 6 years in DKK million.

As shown in Table 5 above, the Company's revenue has increased continuously from 2010 to 2015. This increase is due not only to an increase in kWh consumption, but also to various tariff increases put into effect over the last few years to counter the rising price of oil that SEV uses for production.

Table 6 shows the result for each sold kWh over the last few years in DKK.

For the last several years, the fixed base rate payment has been very consistent at around DKK 16 million annually. On the other hand, the income derived from connection fees, service fees, and other income fluctuates from year to year. Table 7 above shows the trend in settled customer sales over the last 6 years in GWh.

Table 7 shows that customer sales were constant except for 2011, after which sales grew. From 2009 to 2011, sales have been just above 250 GWh annually, while sales for the last four years have increased by, respectively, 2.6% in 2012, 5.0% in 2013, 3.4% in 2014 and 1.5% in 2015.

Network loss and SEV's own consumption (of which the greater share is network loss) grew consistently over the last few years

with the exception of 2011, when it decreased to 19 GWh, and then increased again to 30.1 GWh in 2012. In 2013, network loss and own consumption was 18.1 GWh, while for 2014 it equalled 21.6 GWh. For 2015, network loss was 26.3 GWh, or 4.7 GWh higher. The large fluctuations stem from differences in the staggered measurement of network loss and own consumption from year to year. SEV works continuously on reducing network loss and its own consumption.

The up and down fluctuations in the environment from year to year directly impacts wind and hydropower electricity production. Generally, electrical production from hydropower is about 100 GWh annually. With the completion of the Eiði 2 project, annual hydropower electricity production is expected to reach 114 GWh.

The year 2013 was an especially dry year, even though there was considerable rain from the middle of November until year-end. In addition, the Heyga power plant did not operate at full capacity part of 2013, because of construction disruptions at the plant. For part of 2014, the Fossá power plant was not in operation because the control system for the turbines was being upgraded. This work is now completed and the power plant is now producing electricity as usual.

Even though the Fossá power plant did not produce any electricity for part of 2014, it succeeded in producing considerably more hydroelectricity because 2014 was a good year for hydroelectric production. There was a large amount of rain all the way to April; the fall and winter months all the way to year-end also experienced considerable rain.

Table 8

Expenses DKK million	2010	2011	2012	2013	2014	2015	Difference compared to 2014	Difference compared to 2014 (%)	Expenses in 2015 (% of total)
Oil	125.3	142.6	166.0	167.9	141.5	86.2	-55.3	-39.1	26.8
Purchased power	2.6	2.8	2.5	2.6	2.5	2.4	-0.1	-5.4	0.7
Supplies and services	65.3	74.9	53.5	54.1	49.8	49.9	0.1	0.2	15.5
Employee expenses	65.1	62.6	60.2	58.7	63.6	64.3	0.7	1.1	20.0
Depreciation	58.9	61.1	67.8	70.0	77.2	93.6	16.4	21.2	29.1
Interest	10.1	14.5	20.5	22.0	20.6	24.8	4.2	20.5	7.7
Total	327.2	358.5	370.6	375.4	355.3	321.3	-34.0	-9.6	100.0

This significant rainfall continued into 2015, with substantial rain throughout the spring and into the summer months. For the summer and fall months, the amount of rainfall was deemed to be consistent with a normal year, while the winter again experienced significant rain. Hydroelectric production in 2015 was 133.1 GWh, compared to 120.7 GWh in 2014, which is 12.4 GWh more than in 2014, or 10.3% higher.

The first Vestas wind turbine at Neshagi was damaged in the beginning of January 2012, followed by a second turbine in March. This had a significant impact on the production of electricity from wind energy in 2012, as can be seen in Table 8. In 2013, there was a significant advance in the production of electricity from wind energy, because the new wind turbines on Neshagi were in operation throughout 2013. Again in 2014, wind production increased significantly because the new Húsahagi wind farm went operational on 9 October 2014. Production increased in 2014 by 12.7 GWh or 58.3%, compared to 2013. The Húsahagi wind farm has worked well and has been in operation throughout 2015. Moreover, 2015 was a good “wind-year” with considerable wind. Electricity production from wind was 55.8 GWh, corresponding to 17.8% of electricity production from wind. The Company anticipates that the output from wind production will increase once the new battery system at Húsahagi comes online in March 2016 as expected.

More detailed accounting information about SEV’s production and distribution is available at www.sev.fo.

Expenses

Table 8 shows the distribution of SEV’s expenses from 2010 to 2015 in DKK million.

As the Table above shows, there has been progress in expenditures over the last few years. Expenses for 2015 decreased by DKK 34.0 million or 9.6%, compared to the previous year.

The expenses related to production stability, rolling power, available

power, and the cost of managing the power grid are noted in the accounts for production and the grid. These accounts are available on SEV’s website, www.sev.fo.

Oil Expenses

Table 8 shows that oil purchases are the second largest expense incurred by SEV. This expense is linked directly to the price fluctuations in the global oil market, the changes in electricity consumption, as well as the swings the changes in electricity consumption and the swings in electrical power production from wind and hydropower. Oil expenses for 2015 were DKK 86.2 million, against DKK 141.5 million in 2014, making these costs DKK 55.3 million less than in 2014.

In the original budget for 2015, oil expense was estimated to be DKK 109.1 million, which corresponds to a decrease of DKK 25.1 million from that originally budgeted. Included in the oil expense is the cost of heavy oil, gas oil, and lubricating oil, but the share of heavy oil is the largest.

The amount of rainfall in 2015 was much more than normal. As a consequence, hydropower production in 2015 was 10.3% higher than in 2014, when precipitation was also great. Normal hydropower production (subsequent to the Eiði 2 South facility coming on line) is upwards of around 114 GWh, while in 2015 it was 133 GWh. At the same time, production from wind was much more than in the previous year, especially because the new wind farm at Húsahagi was in operation for all of 2015.

Oil expense corresponded to 26.8% of total expenses for 2015. Thus, if the price of oil and the exchange rate of the US dollar vary greatly from what was budgeted, the impact on the operational result will be quite significant. Consistent with the Company’s goal to remain true to the budget, SEV hedged the price of its oil purchases for 2015 at a cost lower than the adopted budget. The reason for this is the falling price of oil over the last few years.

For further, more detailed information on oil expenses and pricing,

Table 9

Trend in employee expenses DKK million	2010	2011	2012	2013	2014	2015	Difference compared to 2014 (DKK)	Difference compared to 2014 (%)
Production	31.1	32.1	28.3	30.7	30.9	32.0	1.1	3.7
Grid	23.9	20.4	20.0	19.5	19.9	21.1	1.2	6.2
Administration	10.0	10.0	11.9	8.6	12.9	11.2	-1.7	-13.0
Total	65.1	62.6	60.2	58.7	63.6	64.3	0.7	1.1

etc. refer to the production accounts available on the SEV website, www.sev.fo.

Employee Expenses

Table 9 shows the trend in employee expenses from 2010 to 2015 in DKK million.

Employee expenses for the production unit were DKK 32.0 million in 2015, compared to DKK 30.9 million in 2014, or an increase of DKK 1.1 million, reflecting consistent wage expenses in the main for all production centres.

Grid-related employee expenses have remained constant in recent years. In 2015, grid-related employee expenses were DKK 21.1 million, versus DKK 19.9 million in 2014, or an increase of DKK 1.2 million.

Administrative employee expenses have remained steady for the last five years at around DKK 10.0 million per annum. In 2012, employee expenses increased by DKK 1.9 million, based on an increase in pension benefit obligations. The same held true for 2013 during which the pension benefits were DKK 1.9 million lower, but in 2014 these costs rose by DKK 1.2 million, because of the harmonizing of overall pension benefit obligations. In 2015, the pension obligations were lower by DKK 0.7 million, such that the total employee expense for administration was DKK 11.2 million, or DKK 1.7 million less.

Discounting the harmonization of the Company's pension benefit obligations, employee expenses for 2015 equalled DKK 11.9 million, compared to DKK 11.7 million in 2014, which is DKK

0.2 million higher than the previous year. There are a number of union groups within the Company, and SEV follows the public wage agreements that are in effect for the different union groups.

Supplies and Services

Table 10 shows total expenses for supplies and services from 2010 to 2015 in DKK million.

Table 10 shows that expenses for supplies and services have in the main been greater than in 2015.

In 2015, expenses for supplies and services were DKK 49.9 million against DKK 49.8 million in 2014, corresponding to a higher consumption of around DKK 0.1 million, or about the same level as the previous year.

Financial Expenses

During 2015, the Company worked on the refinancing of the Company's total debt and securing the financing required for the investment scheduled in 2016. In June 2015, SEV entered into an agreement with its financial institutions for the provision of new financing to refinance current obligations and to cover the Company's financial needs for 2016; in total the agreed upon facility equalled DKK 1,100 million. Gross debt at year-end 2015 was DKK 830 million and the Company has an unused drawing right of DKK 268.6 million. Net interest expense was DKK 24.8 million in 2015, compared to DKK 20.6 million in 2014, corresponding to a higher expense of some DKK 4.2 million.

The Company was sensitive to fluctuations in international interest rates, as the loan facilities held by the Company in 2015 were

Table 10

Total expenses for supplies and services DKK million	2010	2011	2012	2013	2014	2015	Difference compared to 2014 (DKK)	Difference compared to 2014 (%)
Production	31.8	43.3	27.6	24.1	21.1	21.3	0.1	0.7
Grid	18.5	15.1	12.3	15.4	11.9	11.8	-0.1	-0.5
Administration	15.0	16.5	13.6	14.6	16.8	16.8	0.0	0.1
Total	65.3	74.9	53.5	54.1	49.8	49.9	0.1	0.2

subject to variable interest rates. At year-end 2015, the Company executed an interest hedging agreement (SWAP agreement) for DKK 600 million on the gross debt at year-end of DKK 830 million, such that the largest part of the Company's debt is now anchored at a fixed rate of interest.

Depreciation

Depreciation for 2015 amounted to DKK 93.6 million against DKK 77.2 million in 2014, corresponding to an increase of DKK 16.4 million. This means that depreciation is now the largest expense item, corresponding to 29.1% of total costs. Previously, oil expenses were the largest expense. This change arose because of the Company's declining oil consumption, the declining price of oil on the international market and the increased investment undertaken by the Company resulting in greater depreciation.

The increased depreciation reflects the investment the Company made in 2015 and its associated depreciation. When a budget is being prepared for the upcoming year, a determination is made as to which investments will be completed during the coming year thus making the asset subject to depreciation. The difference between actual and budgeted depreciation has its basis in these determinations.

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

However, this does not imply that the Company, without more, would be advised to decrease the price of electricity or refrain from increasing the price, because such actions would reduce the liquidity available to ensure the self-financing of anticipated investments. Company operations must stay balanced. A bottom-line with no self-financing is not advisable, especially if SEV intends to invest in new oil-fired power plants, and expand the grid, while at the same time investing in the expansion of renewable energy resources.

Special Risks

The Company has limited exposure to customer defaults and closely monitors its accounts receivable.

As mentioned under the financial expenses section above, the Company is sensitive to interest rate fluctuations. However, the Company chose not to secure this risk via derivatives or similar financial instruments in 2015. The Company monitors the trends in international interest rates, and continually evaluates whether it would be advantageous to secure itself against any interest risk. Thus, the Company at year-end secured itself against interest rate risk as outlined below.

Moreover, the Company remains sensitive to shifts in the price of oil and the exchange rate of the US dollar, as oil supplies are purchased in USD. This expense is the next largest expenditure in the budget after depreciation. In 2015, the Company hedged its oil purchases at a price lower than budgeted. The Company approaches its oil purchase and exchange rate hedging consistent with the strategy outlined below.

At the same time, the Company reviewed its insurance risk consistent with the strategy outlined below.

Hedging Strategy for Oil, Currency Exchange and Interest Rates

Over the last two years especially, SEV has undertaken major investment in its electricity production facilities and the grid, and SEV shall continue to take on big investment projects, such as the expansion of the Sund power plant, which represents an anticipated investment of between DKK 700 and 800 million. Given all the investment that SEV has undertaken and will embrace in the future, it could be said that, to a certain degree, SEV is a project-based company, which necessitates a long-term view and the adoption of a budget that reflects this long-term vision. This means, consequently, that it is advisable to understand and be sensitive to critical cost factors, such as the cost of oil, currency exchange costs and interest costs.

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

In connection with the loan facilities taken out by SEV, the various financial institutions reviewed SEV's key financial indicators for the most critical business areas; the requirements relative to these figures are quite specific and not negotiable. In order to obtain competitive financing, it is necessary for SEV to meet the specific requirements stipulated by the financial institutions and consistent with what SEV itself considers financially prudent to address the most critical risks relative to increasing costs. When SEV ventures forth into the international loan market to secure financing, SEV is compared to comparable firms and thus must compete against these firms to gain the attention of the financial institutions and ultimately secure the best financing terms possible.

SEV is an interesting customer to provide financing to, and, according to SEV's consultants, it can be considered an "investment grade" client. This affords SEV the possibility to secure excellent financing

by any number of measures. In order for SEV to maintain this “ratings level”, it is necessary to remain commercially viable with sufficient profit such that the key accounting figures are on a par with those of the companies against which SEV must compete for financing. Therefore, SEV, in conjunction with SEB, which is SEV’s financial and hedging consultant, has developed a hedging strategy against oil, currency exchange and interest rate fluctuations. The hedging strategy is a part of the loan facility agreements that the Company undertook in 2014 and in June of 2015. The June 2015 agreement satisfies SEV’s financing requirements for 2015 and 2016.

Hedging Strategy for Oil Price and Currency Exchange Risks

One consequence of the investment budget for the coming years is that the current hedging strategy for oil and currency exchange has been expanded to cover an additional four years. This is the same time period during which the loan facilities of the Company are expected to increase by some DKK 700 – 800 million to around DKK 1,600 million. At the time of this writing, the price of oil is low, compared with the price of oil one or two years ago, which means that the time to enter into such hedging for a longer period of time is advantageous for SEV.

However, the price point is not determinative for price hedging itself, which is done to ensure stable and consistent operations.

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

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

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

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

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

Hedging Strategy for Interest Rate Risk

SEV has developed a strategy to hedge up to 75% of its debt with terms longer than 12 months and at fixed rates of interest. The

terms for these fixed-interest loans are between 5 and 8 years. This is accomplished in such a way that SEV can cover between 50-75% of its interest rate risk at any particular time. The debt can carry an agreed-upon fixed rate of interest or a variable rate, which is governed by an interest rate swap agreement permitting the substitution of a variable or floating rate of interest for a fixed rate.

This hedging strategy or methodology requires that the fixed-rate debt shall be continually monitored such that when the fixed-rate portion of SEV’s total debt falls below 50% or increases to over 75%, then the interest rate swap agreements should be revised. Consequently, this review might necessitate that certain interest rate swap agreements should be terminated to ensure, for example, that the percentage of fixed-rate interest loans does not exceed 75% of the total loans held by SEV. As a result of such a course of action, the value of the interest rate swap agreements will grow. A positive value decreases the financial needs of SEV, while a negative value increases the financial needs. SEV books the positive value of the interest rate swap agreements with the assets of the Company. SEV strives to maintain a positive balance of its interest rate swap agreements over time, wherein the goal is to have an average fixed-rate interest term of between 5 and 8 years.

In 2015, SEV securely hedged the interest rate on 73% of its gross debt at year-end of around DKK 830 million with an average term of seven years. This is consistent with the interest rate hedging strategy. Thus, an increase in general interest-rate levels will not influence the major portion of SEV’s overall cost of debt over the coming seven years.

Strategy for Insurance Risk

In association with its insurance advisor, Willis Føroyar, SEV actively works to cover its insurance risk, such that no individual damage claim or combination of damage claims would impact the overall operational result by more than DKK 10 million.

Strategy for Currency Exchange Risk

SEV has adopted the procedural policy that before it undertakes a specific project the financing for the project must be in place. In this way, the necessary funds for the project are always available.

In addition, SEV must always, at the very least, have DKK 100 million on reserve in its financial institutions, if needed. In connection with the operation of the Company, this DKK 100 million is available to cover any exigencies for a period of six months in the event that the Company does not have any income. Moreover, SEV considers it desirable to have access to a line of credit that would support the liquidity of the Company, if necessary.

Investments

According to the 2015 budget, anticipated investment was to be DKK 407.5 million and DKK 408.4 million following a

Table 11

Investment DKK million	Original investment strategy 2015	Revised investment strategy 2015	Budget after revision	Actual investment 2015	Difference between actual vs. budget 2015
	1	2	3=1+2	4	5=3-4
Fossá power plant	2.8	1.1	3.9	4.3	-0.4
Heygar power plant	0.4	0	0.4	0.1	0.3
Mýra power plant	13.7	-6.4	7.3	5.5	1.8
Eiði power plant	1.3	0	1.3	2.4	-1.1
Botni power plant	2.5	0	2.5	0.6	1.9
Vágur power plant	89.5	0	89.5	68.0	21.5
Trongisvági power plant	0.3	0	0.3	0.0	0.3
Sund power plant	90.1	5.5	95.6	41.2	54.4
Strond power plant	1.9	0	1.9	0.5	1.4
Small power plants	5.1	-0.6	4.5	1.1	3.4
Neshagi wind turbines	2.0	0	2.0	0.0	2.0
Húshagi wind turbines	8.2	0	8.2	-2.0	10.2
Total investment in power production	217.6	-0.4	217.2	121.7	95.5
Coupling stations and power grid. etc.	145.2	1.3	146.5	95.8	50.7
Administrative offices, equipment and ITC	44.6	0	44.6	14.6	30.0
Total	407.5	0.9	408.4	232.1	176.3

reprioritization of investment. Now that the year is over, gross investment stands at DKK 232.1 million, which is DKK 176.3 million less than budgeted after reprioritization. Table 11 details the investments in DKK million.

Table 11 shows how the investment of DKK 232.1 million was distributed.

Table 11 shows the original investment budget of DKK 407.5 million. Subsequent adjustments of minus DKK 0.9 million were made within the approved budgetary limits for an operational investment of DKK 408.4 million for 2015. Table 11 also shows the revised investment budget, compared to actual investment for 2015.

Compared to the 2015 budget, including the reprioritization of DKK 0.9 million, net investment was DKK 232.1 million, which is DKK 176.3 less than budgeted. As the Table above shows, this difference derives from less investment than budgeted in the Vágur and Sund power plants. At the same time, less investment than budgeted was made in the coupling stations and in the administrative headquarters.

Total investment at the Fossá power plant was DKK 4.3 million, of which DKK 0.5 million was dedicated to the new control system, while DKK 3.5 million was for the renovation of the building. Other investment was undertaken for DKK 0.3 million.

Investment in the Mýra power plant was DKK 5.5 million, of which DKK 3.9 million was dedicated to renovation of the penstock piping and DKK 1.6 million was for a new ventilator and wiring.

Investment in the Eiði hydropower plant was DKK 2.4 million, of which DKK 1.9 million was set aside for the Eiði 2 South installation and DKK 0.2 million was dedicated to the new control room. Other investment equalled DKK 0.3 million.

The work on the expansion of the Vágur power plant got underway in 2014. However, the project was stalled somewhat because unexploded dynamite was discovered on two occasions during excavation work. Work at the power plant is expected to be concluded in early May 2016, around four months late. Therefore, the investment in the Vágur power plant is somewhat lower than budgeted in 2015. The investment in the Vágur power plant for 2015 was DKK 68.0 million, of which DKK 67.3 million was dedicated to Station 3 (new M4 motor). Other investment equalled DKK 0.7 million.

Investment in the Sund power plant was DKK 41.2 million. The work on the new tank yard enclosure and the day tank storage facility was delayed by several months, but the work is expected to be completed during 2016. At the same time, the investment in Station 3 (the expansion of the Sund power plant) was less than budgeted in 2015. The updating of the motor control system was postponed for one year and this will get underway in 2016 rather than 2015. This means that the booked investment in

Table 12

Investment DKK million	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Hydropower plants	0.5	4.0	27.4	41.7	62.8	82.0	58.5	72.4	29.4	13.4
Other electrical power plants	2.3	2.8	20.2	13.4	3.3	0.8	60.0	34.7	149.5	108.3
Distribution facilities	32.8	41.9	41.1	19.6	21.7	9.1	31.2	43.8	88.1	95.9
Joint assets	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Land assets	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0
Other operational assets	2.2	2.5	3.1	5.6	5.7	3.9	3.1	4.1	8.2	14.5
Total	37.8	52.0	91.8	80.3	93.5	95.8	153.8	155.0	275.2	232.1

the Sund power plant was considerably less than budgeted. The investment in the day tank storage facility was DKK 23.2 million; investment in Station 3 was DKK 7.0 million, of which most was devoted to project preparation and planning; investment in the new M3 motor was DKK 3.6 million. Other investment equalled DKK 7.4 million.

Investment in the Strond power plant was DKK 0.5 million, comprised mostly of small projects.

The work on the coupling stations and the grid infrastructure for the Húsahagi wind farm got underway in 2013, but the majority of the work was postponed until 2014. The coupling station is now completed and is now operational. A negative adjustment of some DKK 2 million related to the procurement of the coupling station in 2014 can be noted in Table 11 above. This amount was booked under the Húsahagi wind farm, however, the expense should be associated with the coupling station. The amount was transferred to the correct account in 2015. The battery system that is designed to support the production of the Húsahagi wind farm arrived in the Faroes in February 2016 and is currently being installed.

The investment in the coupling stations and the grid totals DKK 95.8 million, of which the coupling stations represent DKK 38.1 million and the grid, etc. represents DKK 57.7 million. Investment in the coupling station at Eiði was DKK 3.6 million; the coupling

station at Húsareyn was DKK 15.8 million; the coupling station at Runavík was DKK 18.7 million.

Of the DKK 57.7 million invested in the grid, this investment can be subdivided thus: DKK 4.8 million expensed in the Northern Islands; DKK 29.8 million on Eysturoy; DKK 1.3 million on Vágoy; DKK 1.4 million in Mid-Streymoy; DKK 10.6 million in Southern Streymoy; DKK 1.8 million on Sandoy, and DKK 4.8 million on Suðuroy. In addition, other investment in the grid equalled DKK 3.2 million.

Investment in wireless electric meters, engineering and technical equipment amounted to DKK 12.3 million, of which investment in the new wireless meters equalled DKK 5.1 million; the battery system at Húsahagi, DKK 1.6 million; the new control system for the grid, DKK 1.4 million; the wind measurement tower on Suðuroy, DKK 1.6 million; electric vehicle charging stations, DKK 0.9 million. Other investment equalled DKK 1.7 million.

The investment in administrative buildings, tools, ICT equipment/software, etc. is considerably less than budgeted, especially because the renovation of the administrative headquarters on Landavegur in Tórshavn is not expected to begin until late in 2016. Investment equalled DKK 2.7 million, of which DKK 2.6 million was booked for ICT equipment and software and another DKK 0.1 million for miscellaneous expenditures.

Table 12 shows SEV's total gross investment from 2007 to 2015 in DKK millions.

Table 13

Total Investment DKK million	2015	2014
Investment booked to work-in-progress	217.3	260.7
Investment booked directly as transition	14.8	14.5
Investment at year-end	232.1	275.2

Table 14

Work-in-progress DKK million	2015	2014
Initial balance	142.3	85.5
Investment booked to work-in-progress	217.3	260.7
Work transferred to depreciation as transition	-135.1	-203.9
Balance as at year-end	224.4	142.3
Changes to work-in-progress	82.2	56.8

Table 15

Transition to fixed assets DKK million	2015	2014
Work transferred to depreciation as transition	135.1	203.9
Investment booked directly as transition to fixed assets	14.8	14.5
Transition as at year-end	149.9	218.4

Since 2006 and up to today, SEV has undertaken investments totalling DKK 1,267.3 million, corresponding to some DKK 126.7 million per year over the last ten years.

Tables 13 – 15 show the trend in investment, work-in-progress and transition to fixed assets in 2015 and 2014.

Table 14 shows investments booked as work-in-progress for 2015 of DKK 217.3 million, compared to DKK 260.7 million in 2014. At year-end, a total of DKK 135.1 million work-in-progress, compared to DKK 203.9 million in 2014, was transferred to the depreciation basis as a transition to fixed assets.

Of the year-end balance of DKK 224.4 million in 2015, compared to DKK 142.3 million in 2014, the production unit accounted for DKK 131.7 million and grid operations accounted for DKK 92.7 million. Of the DKK 131.7 million booked to the production unit, the Mýra power plant accounted for DKK 1.6 million, the Vágur power plant for DKK 75.3 million, the Sund power plant for DKK 50.0 million, while DKK 4.8 million was for miscellaneous.

Of the DKK 92.7 million in grid operations, the coupling stations accounted for DKK 24.8 million, the grid for DKK 47.5 million, the battery and control systems represented DKK 18.0 million, and miscellaneous was DKK 2.4 million. Thus, overall work-in-progress increased by DKK 82.2 million in 2015, against an increase of DKK 56.8 million in 2014.

Table 15 shows that in 2015 DKK 149.9 million was transferred to the account “transition to fixed assets”, compared to DKK 218.4 million in 2014.

The largest individual projects transferred to fixed assets at year-end include the Húsahagi coupling stations for DKK 57.9 million, the new M3 motor at the Sund power plant for DKK 18.4 million, the undersea cable over Skálafjörð for DKK 8.4 million, the undersea cable over Fuglafjörð for DKK 8.2 million, the building renovation at the Fossá power plant for DKK 5.7 million, and other miscellaneous investment for DKK 36.5 million.

Confer work-in-progress and note 7 in the annual accounts.

Liquidity

In the 2015 budget, loan facilities of some DKK 246.9 million

were budgeted. In 2015, the Company increased its net debt by DKK 138.6 million.

Corrected operational liquidity equalled DKK 183.9 million in 2015, compared to DKK 159.0 million in 2014. Thus, the Company was able to satisfactorily self-finance its investment and instalment payments. The Company also makes annual instalment payments, and in 2015 these payments amounted to DKK 19.4 million, against DKK 29.6 million in 2014.

The Company’s liquidity at year-end was DKK 221.9 million against DKK 131.5 million in 2014. In addition, the Company has unused drawing rights on its revolving credit loan facilities at various financial institutions of up to a total of DKK 268.6 million.

Thus, collectively, cash-on-hand, credit facilities, and unused drawing rights equal a total of DKK 490.5 million in 2015, against DKK 262.4 million in 2014. The largest portion of the unused drawing rights shall be used to finance investment in 2016.

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

The Natural Environment

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

Professional Knowledge and Human Resource Development

The Company fully acknowledges the importance of ensuring that the appropriate knowledge, expertise and experience is in place where necessary and thus offers relevant continuing education and professional training for its employees. Furthermore, SEV has initiated management training for its managers to support their work with SEV. The Company continually strives to enhance its quality of service and the security of its production. The Company will continue to advance its objective of increasing the use of renewable energy resources for electricity production, such as hydro, wind and tidal energy; additionally, the new control system supplied by Schneider Electric, the Smart Grid and Power Hub solutions are being deployed.

Prospects for 2016

From 2008 through and including 2012, the Company accumulated a total deficit of DKK 98.6 million. This deficit is a result of electricity prices that were too low. In 2013, the Company realised a surplus before taxes of DKK 11.9 million, hence the negative operational trend was reversed in 2013, and this positive development continued in 2014 where the result yielded a surplus of DKK 57.8 million and in 2015 the Company realised a surplus of DKK 103.1 million. Altogether, since 2008 through and including 2015, the Company has had a total surplus of DKK 74.1 million, or a profit on average of DKK 9.3 million.

This positive trend is expected to continue in 2016, where the result is budgeted to be DKK 72.5 million. The Company has hedged 80% of its anticipated oil purchases for 2016 at a much lower price than originally budgeted and thus it can be expected that the result will be better than budgeted but less than that of 2015.

Operating at a deficit as the Company has over the last several years since 2012 is not sustainable long term. Therefore, the promotion of tenable and sound operational solutions is critical. One such solution is to ensure sufficient pricing for each kWh. Consequently, considerable effort was dedicated to reviewing the pricing schedule and tariffs to determine if the various individual prices were adequate. In addition, the Company carried out cost-benefit analyses for the different customer groups and for individual customers in an effort to systematically improve profitability in each customer group. This effort will continue in 2016.

For 2016, the result after taxes is an estimated surplus of DKK 72.5 million, which is not as good as the actual booked result for 2015. On the other hand, the Company has hedged its purchase of oil for 2016 at a rate lower than budgeted, thus the result for 2016 is forecast to yield a surplus of around DKK 90 million, which is somewhat lower than the result for 2015.

Originally, budget calculations for 2016 were made using an average increase in the usage of electrical power of 1.7%, compared to an actual usage increase of 1.5% in 2015. The increase derives from growth within several customer groups, each with different rates of growth. Thus, an increase in the sale of kWh is forecast.

Based on 2014 sales, and partially on sales for 2015, the budget forecasts sales of 296.6 GWh in 2016, equating to DKK 397.1 million. The fixed-base-rate payment will remain essentially unchanged at DKK 16.7 million. In addition, income from connection fees, etc. is forecast to be DKK 14.1 million. Thus, the budget forecasts a total combined revenue of DKK 427.9 million for 2016, against DKK 424.4 million in 2015. This corresponds to an increase in income of DKK 3.5 million, compared to 2015.

The Shareholders decided that SEV shall undertake to establish independent subsidiaries to manage the wind farms erected at Neshagi and Húsahagi. This means that the purchase of wind power will increase, while at the same time the overall costs of equipment and wages, depreciation and interest will decrease. The result from the subsidiaries would be incorporated into the concern's annual accounts under capital assets. The total result for SEV, thus, would not be impacted.

Operational expenses are estimated to be DKK 135.2 million in 2016, against DKK 114.2 million in 2015, corresponding to an expenditure increase of DKK 21.0 million, or 18.4%. The principal reason for the increase is the anticipated additional

maintenance work to be carried out in 2016, plus the undertaking of numerous studies pursuant to the Action Plan that SEV developed in collaboration with the Ministry of Trade and Industry.

For 2016, oil expenses are budgeted at DKK 78.6 million. The Company hedged the majority of its oil purchase in 2015 at a lower cost-basis than budgeted. The Company again hedged its oil purchase for 2016 in January 2016 also at a lower cost than originally budgeted. At the same time, dollar purchases are hedged under terms that are budgeted, which will result in a reduced cost of some DKK 18 million. It is anticipated that the oil expense for 2016 will thus be DKK 60.6 million, compared to the original budget of DKK 78.6 million, all things being equal.

In 2016, the result from ordinary operations is expected to be DKK 191.8 million. Depreciation is budgeted at DKK 90.9 million, and net interest expense is DKK 29.4 million. The increase in interest expense flows from the increased investment and the debt carried by the Company to finance operations and infrastructure investment. The decrease in depreciation derives from the fact that the Neshagi and Húsahagi wind farms will be placed in independent subsidiaries that will account for the depreciation of the wind farms.

With an anticipated surplus of DKK 72.5 million for 2016, corrected operational liquidity is expected to be DKK 60.6 million. Liquidity at year-end 2016 is budgeted at DKK 192.8 million. These numbers are expected to be somewhat better based on lower oil expenses.

If the Company is to continue to make the necessary investment to develop and maintain the power grid and the production power plants, and to invest in the expansion of renewable energy resources, it is necessary that the Company ensure sufficient self-financing from its operations.

In order for SEV to maintain sufficient liquidity, and to obtain loans from the financial institutions for the major investments planned for the coming years, it is critical that the Company realises a satisfactory operational result.

More information about the 2016 Operational, Financial and Investment Budget Plan is available at www.sev.fo.

Events after the Closing of the Accounts

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

Accounting Principles

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

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

Amounts in the Income Statement, Balance Sheet, Notes, etc. are rounded to whole numbers, and comparative figures from the previous year are rounded to whole thousands. As each number is rounded individually, rounding differences may occur between the numbers presented and the sum of the underlying numbers.

Where a Table in the financial statement shows numbers in DKK rounded to whole thousand or million, and the Table shows differences between periods, either in DKK or percent, the comparisons are calculated on the basis of the underlying numbers and then rounded off. As a result of this, small differences can occur between the rounded numbers shown in the Table and the calculated comparisons.

Basis for recognition and valuations

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

Assets are recognised in the Balance Sheet when future economic benefits are likely to flow to the Company and the value of such assets can be measured reliably.

Liabilities are recognised in the Balance Sheet when they are reasonably likely to occur and can be measured reliably.

On recognition and valuation, due regard is given to foreseeable loss and risks arising before the time at which the Annual Report is presented, and relate to circumstances present as at the end of the fiscal year.

Translation of foreign currency

Foreign currency transactions are translated using the rate of exchange applicable as at the date of transaction. Realised and unrealised translation gains and losses are recognised in the Income Statement under financial items.

Receivables, liabilities and other financial booking in foreign currencies that are not translated as at the end of the fiscal year are translated using the exchange rates applicable as at the end

of the fiscal year. The difference between the exchange rate as at the end of the fiscal year and the exchange rate current as at the date of the transaction are recognised in the Income Statement under financial items.

INCOME STATEMENT

Net Sales

Net sales are recognised in the Income Statement, provided that delivery has been effected and the risk has passed to the buyer by the end of the fiscal year and income is reliably pending and is expected to be received. Net sales exclude VAT, fees and rebates in connection with sales.

Consumption of Goods and Services

Consumption of goods and services includes costs for the purchase of raw materials and consumables less rebates and changes in inventory during the year.

Other External Expenses

This item comprises external costs related to the purchase of oil, supplies and other services, as well as other administrative costs.

Operational Distribution – Production and Grid

For each production plant, revenue is calculated as: total expenses of the plant, plus a production profit on the plant's individual assets. A production profit is based on the forecasted return on long-term mortgage bonds and the asset valuation of a production plant.

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

The cost for managing / controlling the grid in the main region is calculated: total wage expense for the Fossá power plant minus the wage expense for ordinary operation of the power plant. The cost of managing / controlling the grid in Suðuroy is the same as the cost of managing the grid in the main region.

The cost of guaranteeing supply, spinning reserve and supplemental reserve is estimated as a part of total operating expenses, including a portion of the depreciation for the Sund power plant and Vágur power plant. This is a fixed cost estimate.

Other costs related to grid responsibility are based on the expenses of all the small power plants scattered around the country. Operating expenses for wages and supplies are reimbursed to the small plants as compensation for the supply guarantee; remaining costs are their own production. Strond power plant receives a guarantee of supply reimbursement for the operating expenses of wages and supplies used in thermal production. Remaining expenses accrue from their own production.

Employee Expenses

Employee expenses encompass wages plus vacation pay and pension benefits including other social benefits. Any compensation received from the government is deducted from employee expenses.

Depreciation and Write-offs

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

Financials

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

Dividends from equity investments in Associated Companies are recognised as revenues in the accounting year in which they are approved.

Interest expense and other loan costs to finance production of intangible and tangible fixed assets and are related to the production period are not included in the forecasted useful life of the asset.

BALANCE SHEET

Tangible Assets

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

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

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

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

	<i>Useful life</i>	<i>Residual value</i>
<i>Production and distribution plants</i>	<i>10 - 50 years</i>	<i>0%</i>
<i>Buildings</i>	<i>50 years</i>	<i>0%</i>
<i>Production equipment and furnishings</i>	<i>3 - 5 years</i>	<i>0%</i>

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

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

Depreciation of Fixed Assets

Every year the carrying amount of tangible fixed assets is appraised to obtain an indication of whether they have lost value or have been impaired. This is done in addition to general depreciation write-offs.

When a loss in value is indicated, impairment tests are carried out on each individual asset and each asset category. Assets with impaired value are written down to the recoverable amount, if this amount is lower than the carrying amount.

The recoverable amount is either the net realisable or sale value or the capital value. Capital value is calculated as the current value of the expected net revenues accruing from using an asset or asset group.

Capital Investment in Associated Companies

Investment in Associated Companies is recognised in the balance sheet at acquisition value. If the net realisable value is lower than the acquisition value, it is depreciated to the lower value.

Inventory

Inventory is measured at cost price according to FIFO principles. If the net realisable value of the inventory is lower than the acquisition value, it is depreciated to the lower value.

The acquisition value of goods for sale, including raw materials and consumables, is measured as the purchase price plus freight expenses.

The acquisition value of finished goods and goods-in-production is measured as acquisition value of the raw materials, consumables, direct labour costs and indirect production costs. Indirect production costs include indirect supplies and wages, plus maintenance and depreciation of machinery, buildings and equipment used in production. In addition, the booked costs include costs to manage and administer production, plus R&D costs relative to the goods.

Receivables

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

Prepayments

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

Cash-on-hand

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

Current and Deferred Taxes

Current tax, payable and receivable, is recognised in the Balance Sheet as the tax computed on the basis of the taxable income for the year, adjusted for tax paid on account the previous year. Current tax payable and receivable tax are recognised based on the set off permitted by law and the booked amounts generally calculated at net or current.

Deferred tax is calculated on the basis of all temporary differences between the carrying amount and the tax base of assets and liabilities. This is recognised in the Balance Sheet based on intended use of the asset or how the debt is intended to be repaid.

Deferred tax assets, including tax deficits carried forward, are recognised at the anticipated realisable value, either by adjusting the tax on future income or by off-setting deferred tax within the same legal tax entity. Possible deferred net receivable tax is recognised at net realised value.

Deferred tax is valued consistent with the tax regulations and tax rates then applicable as at the end of the fiscal year.

Adjustments to deferred tax resulting from changes to tax rate are incorporated into the operational accounts.

Other Provisions

Provisions include anticipated costs for guarantees, loss from work-in-progress, adjustments, etc. Provisions are recognised when the Company has a legal or material debt based on an event that had occurred and it is probable that the debt will be paid by utilising the financial assets of the Company.

Provisions are valued at net realised value or to current value when it is expected that the debt shall be paid in the distant future.

Liabilities

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

Debt to financial institutions is valued at amortised realised value, which corresponds to the residual debt for a cash loan. Regarding the value of bonds, the amortised realised value is calculated as

the cash value on the date the bond was issued, adjusted by the booked depreciation during the installment period of the effective rate of interest at the time of contracting such debt.

Other debt is also measured at the amortised realised value, which usually corresponds to the nominal value.

Prepayments

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

CASH FLOW STATEMENT

The Cash Flow Statement is prepared using the indirect method and shows cash flows from operations, investing and financing activities, changes in liquidity and cash-on-hand at the beginning and at the end of the year.

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

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

Cash flows from financing comprise financing from shareholders, dividends paid to shareholders, the initiation and subsequent repayment of long-term liabilities, in addition to withdrawals from credit facilities.

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

Key Figures

The Key Figures are calculated consistent with The Danish Finance Society [Den Danske Finansanalytikerforenings], *Recommendations and Financial Ratios 2010*.

The Key Figures and ratios shown in the overview are calculated thus:

<i>Return on equity</i>	$\frac{\text{Result from operations before taxes} \times 100}{\text{Average equity}}$
<i>Return on assets</i>	$\frac{\text{Result of ordinary operations} \times 100}{\text{Average value of operating assets}}$
Net liability	$\frac{\text{Net liability (liability - cash-on-hands)}}{\text{EBITDA}}$
<i>Asset turnover</i>	$\frac{\text{Net sales}}{\text{Total assets}}$
<i>Equity/asset ratio</i>	$\frac{\text{Equity year-end} \times 100}{\text{Total assets}}$



Income statement 1 January – 31 December

Notes	2015 DKK	2014 t. DKK
1 Net Sales	421.952.498	410.551
2 <i>Cost of oil</i>	-86.195.931	-141.500
3 <i>Materials and services</i>	-49.935.709	-49.834
Gross proceeds	285.820.857	219.217
4 <i>Wages</i>	-64.337.566	-63.644
Result before depreciation, amortization and impairment	221.483.291	155.573
<i>Depreciation, amortization and impairment of fixed assets</i>	-93.586.559	-77.197
Result before financials	127.896.732	78.376
Financial income	204.064	567
5 Financial expenses	-25.033.968	-21.180
Results before tax	103.066.828	57.763
6 <i>Tax on annual results</i>	0	0
Annual results	103.066.828	57.763
Proposed distribution of results		
<i>Results carried forward</i>	103.066.828	57.763
Total distribution	103.066.828	57.763

Balance sheet 31 December

ASSETS		
Notes	2015 DKK	2014 t. DKK
Assets		
7 Power plants	897.628.335	913.395
7 Distribution stations	429.539.497	358.800
7 Buildings and land	39.231.784	40.169
7 Operating equipment	35.844.113	33.542
7 Investment work-in-progress	224.431.198	142.275
Total tangible fixed assets	1.626.674.927	1.488.181
8 Investment in Associated Companies	2.850.000	2.850
Total financial assets	2.850.000	2.850
Total assets	1.629.524.927	1.491.031
Current assets		
Oil inventory	11.744.354	19.773
Materials inventory	15.293.017	26.731
Total inventory	27.037.371	46.504
9 Goods and service receivables	77.533.673	68.796
Other receivables	0	8
Prepayments	4.387.430	4.239
Total Receivables	81.921.104	73.044
Cash-on-hand	221.889.276	131.459
Total current assets	330.847.750	251.007
Total assets	1.960.372.677	1.742.038

Balance sheet 31 December

Notes		2015 DKK	2014 t. DKK
Equity			
10	Deposits	4.139.875	4.140
	Results carried forward	1.038.780.669	935.714
	TOTAL EQUITY	1.042.920.544	939.854
Provisions			
	<i>Provisions for pensions and equivalent liabilities</i>	18.845.044	19.366
	<i>Other provisions</i>	0	0
	Total provisions	18.845.044	19.366
Liabilities			
11	<i>Bank debt</i>	830.000.000	568.233
	Total long-term debt	830.000.000	568.233
	<i>Current portion of long-term debt</i>	0	123.178
	<i>Bank debt</i>	1.589.119	1.572
	<i>Prepayment received from customers</i>	19.481.196	21.282
	<i>Trade creditors</i>	32.110.734	51.092
	<i>Other creditors</i>	15.426.040	17.461
	Total short-term debt	68.607.089	214.586
	TOTAL DEBT	898.607.089	782.819
	TOTAL LIABILITIES	1.960.372.677	1.742.038
12	Mortgages and other obligations		
13	Contingencies		

Cash flow statement

Notes	2015 DKK	2014 t. DKK
Annual results	103.066.828	57.763
14 <i>Adjustments</i>	118.416.463	97.810
<i>Changes in working capital</i>		
<i>Inventories</i>	19.466.811	9.302
<i>Receivables</i>	-8.877.540	-13.269
<i>Trade creditors</i>	-18.981.101	11.511
<i>Other operating debt</i>	-4.357.574	16.513
Operating cash flows before financials	208.733.887	179.629
<i>Interest income received and equivalent revenues</i>	204.064	567
<i>Interest expenses paid and equivalent expenses</i>	-25.033.968	-21.180
Cash flows from operations	183.903.983	159.016
<i>Purchase of tangible fixed assets</i>	-149.924.055	-218.405
<i>Changes to work-in-progress</i>	-82.156.179	-56.789
Cash flow from investments	-232.080.234	-275.194
<i>Loan facilities</i>	158.020.121	210.720
<i>Repayments on long-term debt</i>	-19.431.505	-29.563
<i>Bank overdraft withdrawals (max. DKK 30 million)</i>	17.434	-114
Cash flow from financing	138.606.049	181.044
Total cash flow during the year	90.429.798	64.867
<i>Opening cash-on-hand</i>	131.459.477	66.593
Closing cash-on-hand	221.889.275	131.459
Lines of credit	268.600.000	130.982
Total	490.489.276	262.441

Distribution of activities, production and grid

OPERATIONS tDKK	2015			2014 (tkr.)		
	Production	Grid	Total	Production	Grid	Total
Revenues	234.920.333	187.032.165	421.952.498	278.328	132.223	410.551
Cost of oil	-85.944.814	-251.118	-86.195.931	-141.238	-263	-141.500
Supplies and services	-21.280.390	-28.655.319	-49.935.709	-21.139	-28.694	-49.834
Wages	-32.021.973	-32.315.593	-64.337.566	-30.881	-32.764	-63.644
Result of ordinary operations	95.673.156	125.810.135	221.483.291	85.070	70.502	155.573
Depreciation	-59.230.163	-34.356.396	-93.586.559	-47.366	-29.831	-77.197
Results before financials	36.442.993	91.453.739	127.896.732	37.704	40.671	78.376
Net financials	-11.220.652	-13.609.252	-24.829.904	-11.773	-8.840	-20.613
Results before taxes	25.222.341	77.844.487	103.066.828	25.931	31.831	57.763
Taxes	-	-	-	-	-	-
Annual results	25.222.341	77.844.487	103.066.828	25.931	31.831	57.763

Distribution of activities, production and grid

BALANCE SHEET tDKK	2015			2014 (tkr.)		
	Production	Grid	Total	Production	Grid	Total
Assets						
Real estate, power plants, etc.	906.444.459	495.799.270	1.402.243.729	922.036	423.870	1.345.906
Investment work-in-progress	131.734.846	92.696.352	224.431.198	53.690	88.585	142.275
Fixed assets	1.038.179.305	588.495.622	1.626.674.927	975.726	512.455	1.488.181
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	1.038.179.305	591.345.622	1.629.524.927	975.726	515.305	1.491.031
Oil inventory	11.744.354	-	11.744.354	19.773	-	19.773
Materials inventory	-	15.293.017	15.293.017	-	16.793	16.793
Work-in-progress	-	-	-	-	-	-
Future work-in-progress	-	-	-	-	9.938	9.938
Total inventory	11.744.354	15.293.017	27.037.371	19.773	26.731	46.504
Electricity debtors	-	74.200.996	74.200.996	-	63.644	63.644
Other debtors	-	3.332.677	3.332.677	-	5.160	5.160
Acct.-grid/production	-	88.939.773	88.939.773	-	44.943	44.943
Other receivables	-	4.387.430	4.387.430	1.655	2.584	4.239
Total debt	-	170.860.877	170.860.877	1.655	116.331	117.986
Cash-on-hand	-	221.889.276	221.889.276	-	131.459	131.459
TOTAL CURRENT ASSETS	11.744.354	408.043.169	419.787.523	21.428	274.522	295.950
TOTAL ASSETS	1.049.923.659	999.388.791	2.049.312.451	997.154	789.827	1.786.981

Distribution of activities, production and grid

BALANCE SHEET tDKK	2015			2014 (tkr.)		
	Production	Grid	Total	Production	Grid	Total
LIABILITIES						
Deposit		4.139.875	4.139.875		4.140	4.140
Capital account	610.866.153	427.914.516	1.038.780.669	587.497	348.217	935.714
Total equity	610.866.153	432.054.391	1.042.920.544	587.497	352.356	939.854
Pensions	-	18.845.044	18.845.044		19.366	19.366
Other provisions	-	-	-	-	-	-
Total provisions	-	18.845.044	18.845.044	-	19.366	19.366
Long-term debt	349.676.494	480.323.506	830.000.000	248.718	319.515	568.233
Current portion of long-term debt	-	-	-	115.758	7.420	123.178
Bank loans	-	1.589.119	1.589.119		1.572	1.572
Electricity creditors	-	19.481.196		-	21.282	21.282
Other creditors	-	14.984.800	14.984.800	237	17.224	17.461
On account-grid/production	88.939.773	-	88.939.773	44.943	-	44.943
Other debt	441.239	32.110.734	32.551.973		51.092	51.092
Trade creditors	89.381.012	68.165.850	157.546.862	160.939	98.590	259.529
Total debt	439.057.506	548.489.356	987.546.862	409.657	418.104	827.762
TOTAL LIABILITIES	1.049.923.660	999.388.791	2.049.312.451*	997.154	789.827	1.786.981

Total liabilities of 2,049,312,451 less inter-company balance of 88,939,773 equals the consolidated balance sheet total of 1,960,372,677.

Operations – production and grid

DISTRIBUTION OF REVENUE

	Production	Grid	Total 2015	2014 (t. DKK)
Sales	6.749.060	417.604.994	424.354.054	413.089
Own production and purchased electricity	210.125.342	-212.526.898	-2.401.556	-2.538
Grid responsibility and grid management	18.045.931	-18.045.931	-	-
Production results	234.920.333	187.032.165	421.952.498	410.551

PRODUCTION

	Thermal	Water	Wind	Total 2015	2014(tkr)
Revenues	151.824.888	63.302.517	19.792.928	234.920.333	278.328
Oil	-84.566.946	-1.377.868	-	-85.944.814	-141.238
Supplies	-10.219.001	-5.197.492	-5.863.898	-21.280.390	-21.139
Wages	-18.353.159	-28.070.634	-12.806.371	-59.230.163	-47.366
Depreciation	-22.688.821	-8.617.604	-715.549	-32.021.973	-30.881
Interest	-117.500	-7.102.763	-4.000.389	-11.220.652	-11.773
Production results	15.879.462	12.936.158	-3.593.278	25.222.341	25.931

GRID

	Grid less management	Management	Total 2015	2014(tkr)
Revenues	16.139.495	170.892.670	187.032.165	132.223
Oil	-222.550	-28.568	-251.118	-263
Supplies	-11.815.439	-16.839.880	-28.655.319	-28.694
Wages	-21.109.783	-11.205.810	-32.315.593	-32.764
Depreciation	-28.727.961	-5.628.434	-34.356.396	-29.831
Interest	-	-13.609.252	-13.609.252	-8.840
Grid results	-45.736.238	123.580.725	77.844.487	31.831

Notes

1. NET TURNOVER	2015 DKK	2014 t. DKK
<i>kWh charges etc.</i>	385.049.525	379.210
<i>Fixed charges</i>	16.428.281	16.477
<i>Connection fees</i>	16.175.093	14.656
<i>Other charges, reminders and other sales</i>	6.701.155	2.745
<i>Purchase of wind power etc.</i>	-2.401.556	-2.538
Total	421.952.498	410.551

2. COST OF OIL	2015 DKK	2014 t. DKK
<i>Gas oil</i>	7.785.561	8.421
<i>Heavy fuel oil</i>	73.583.881	127.245
<i>Lubricating oil</i>	4.826.489	5.835
Total	86.195.931	141.500

3. MATERIALS AND SERVICES	2015 DKK	2014 t. DKK
Lines	3.693.829	3.966
Dams, pipelines and tunnels	264.020	290
Tanks and environmental	274.703	423
Engines	8.634.886	10.094
Electric and technical	993.258	1.335
Buildings and land	2.097.241	1.972
General meeting and Board	313.545	362
Studies and consultancy	10.529.757	7.853
IT	4.423.458	2.245
Management and office expenses	2.751.426	3.867
Loss on unpaid debt	-340.458	863
Other operating expenses	1.036.672	431
Other administrative expenses	15.263.372	16.133
Total	49.935.709	49.834

4. EMPLOYEE EXPENSES	2015 DKK	2014 t. DKK
<i>Wages</i>	55.415.325	55.310
<i>Pensions</i>	6.783.250	6.294
<i>Contributions</i>	2.138.990	2.041
Total	64.337.566	63.644

Included in employee expenses are the following:

<i>Management and board</i>	2.191.504	1.979
Total	2.191.504	1.979
<i>Employees with SEV as main source of personal income</i>	134	128
<i>Average number of employees</i>	161	160

5. FINANCIAL EXPENSES	2015 DKK	2014 t. DKK
<i>Interests, loans and bank loans etc.</i>	25.033.968	21.180
Total	25.033.968	21.180

6. TAXES ON ANNUAL RESULTS	2015 DKK	2014 t. DKK
<i>Corporate tax</i>	0	0
<i>Adjustment of deferred tax</i>	0	0
Total	0	0

7. TANGIBLE FIXED ASSETS

Amount in DKK	Production plants	Distribution stations	Buildings	Equipment	Total 2015	2014
<i>Acquisition value beginning-of-year</i>	1.796.308.695	780.210.254	69.980.140	159.926.861	2.806.425.950	2.581.385.794
<i>Net annual addition</i>	42.600.270	95.327.712	400.580	11.595.493	149.924.055	218.404.641
Acquisition value year-end	1.838.908.965	875.537.966	70.380.719	171.522.353	2.956.350.005	2.799.790.435
<i>Depreciation, amortization and impairment beginning-of-year</i>	-882.913.819	-421.410.157	-29.811.129	-126.384.612	-1.460.519.717	-1.376.687.168
<i>Depreciation, amortization and impairment over the year</i>	-58.366.812	-24.588.313	-1.337.806	-9.293.628	-93.586.559	-77.197.033
<i>Depreciation, amortization and impairment year-end</i>	-941.280.631	-445.998.469	-31.148.935	-135.678.240	-1.554.106.276	-1.453.884.201
Carrying amount year-end	897.628.335	429.539.497	39.231.784	35.844.113	1.402.243.729	1.345.906.233
Carrying amount year-end 2014	913.394.876	358.800.097	40.169.011	33.542.249	1.345.906.233	
Work-in-progress						
<i>Initial balance</i>	53.512.181	86.274.327	1.488.367	1.000.144	142.275.019	85.486.142
<i>Investment booked to work-in-progress</i>	118.677.872	92.578.457	499.655	5.533.844	217.289.827	260.707.051
<i>Work transferred to depreciation as transition</i>	-40.584.820	-92.162.995	-400.580	-1.985.253	-135.133.648	-203.918.175
Balance year-end	131.605.232	86.689.789	1.587.443	4.548.735	224.431.198	142.275.019
Balance at year-end 2014	53.512.181	86.274.327	1.488.369	1.000.144	142.275.019	
Fixed assets at year-end	1.029.233.567	516.229.286	40.819.227	40.392.848	1.626.674.927	1.488.181.252
Fixed assets at year-end 2014	966.907.057	445.074.424	41.657.378	34.542.393	1.488.181.252	

8. INVESTMENTS IN ASSOCIATED COMPANIES

	31.12.15	31.12.14
	<i>DKK</i>	<i>t. DKK</i>
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

Associated companis

Name and registered office	Share	Equity	Annual results	Recognized value
P/F Fjarhitafelagið, Tórshavn	50%	57.444.936	3.419.299	2.750.000
P/F FDS, Tórshavn	20%	652.827	-23.131	100.000

The numbers shown are for the fiscal year 2014. P/F FDS has been voluntarily liquidated in 2016, and the recognized value for 2016 will therefore be 0.

9. GOODS AND SERVICE DEBTORS

	31.12.15	31.12.14
	<i>DKK</i>	<i>t. DKK</i>
Goods and service debtors	77.950.996	67.994
Other debtors	3.682.677	5.502
Receivables write-down	-4.100.000	-4.700
Total	77.533.673	68.796

10. EQUITY

<i>Total in DKK</i>	Deposit DKK.	Result carried over DKK:	Total
Equity 01.01	4.139.875	935.713.841	939.853.716
Result carried over	0	103.066.828	103.066.828
Equity as at 31.12	4.139.875	1.038.780.669	1.042.920.544

11. DEBT

	DKK	DKK	DKK	t.DKK
	<i>Repayment in the first year</i>	<i>Outstanding debt after 5 years</i>	<i>Total debt 31 Dec. 2015</i>	<i>Total debt 31 Dec. 2014</i>
Debt to financial institutions	0	0	830.000.000	568.233
Total	0	0	830.000.000	568.233

The company has taken up new loans of DKK 158 million in 2015. The company's long-term debt was provisionally refinanced in July of 2015 by a consortium of banks, lead by Skandinaviska Enskilda Banken, including Íleggingargrunnurin, BankNordik and Eik Banki, while SEV is working towards a final long-term settlement of its financing, expected to be completed in the summer of 2016. There are no loan repayments in the first year, and the existing loans are due for repayment within 5 years. Therefore the long-term debt will be refinanced in 2016, and new loans taken up as well to finance upcoming investments.

12. MORTGAGES AND OTHER OBLIGATIONS

As collateral against bank loans, the assets of the Company have been mortgaged for a total of DKK 646 million.

13. CONTINGENCIES

The Company has a contingency of DKK 0 million

	2015	2014
	DKK	t. DKK
14. ADJUSTMENTS		
Amortization	93.586.559	77.197
Interest revenues and equivalent revenues	-204.064	-567
Interest expenses and equivalent expenses	25.033.968	21.180
Total	118.416.463	97.810

15. Equity distribution

	<i>Municipal contribution</i>	<i>Equity 2015</i>	<i>Equity 2014</i>	<i>Eginogn 2014</i>
	<i>DKK</i>	<i>DKK</i>	<i>%</i>	<i>t. DKK</i>
Eiði	78.625	14.507.284	1.40	13.136
Eysturkommunan	146.500	42.634.944	4.10	38.428
Fámjins	23.125	1.837.167	0.18	1.767
Fuglafjørður	136.250	31.675.293	3.05	29.210
Fugloyar	17.500	844.674	0.08	768
Høvs	22.875	2.322.855	0.22	2.247
Húsa	17.500	886.908	0.09	941
Húsavíkar	25.125	2.470.673	0.24	2.247
Hvalbiar	103.625	15.014.089	1.45	13.904
Hvannasunds	36.375	8.404.511	0.81	7.586
Klaksvíkar	520.250	104.739.635	10.08	94.121
Kunoyar	12.625	2.850.776	0.27	2.477
Kvívik	59.125	12.290.014	1.18	10.966
Nes / Runavíkar	332.133	108.709.605	10.47	96.617
Þorkeiðis	51.000	6.503.993	0.63	5.800
Sands	72.250	11.128.586	1.07	10.101
Sjóvar	92.875	20.018.785	1.93	18.014
Skálavíkar	30.750	2.787.426	0.27	2.689
Skopunar	71.000	9.375.887	0.90	8.603
Skúvoyar	17.875	908.025	0.09	826
Sørvágs	127.500	23.524.184	2.26	20.933
Sumbiar	81.375	7.327.551	0.71	6.798
Sunda	177.367	35.666.380	3.43	31.610
Tórshavn	1.092.500	433.296.889	41.71	388.850
Tvøroyrar	255.250	35.793.081	3.45	33.224
Vága kommuna	169.625	42.043.672	4.05	38.255
Vágs	218.375	28.106.543	2.71	25.580
Vestmanna	125.250	25.635.870	2.47	23.333
Viðareidís	25.250	7.475.369	0.72	6.683
Total	4.139.875	1.038.780.669	100%	935.714

Power grid

