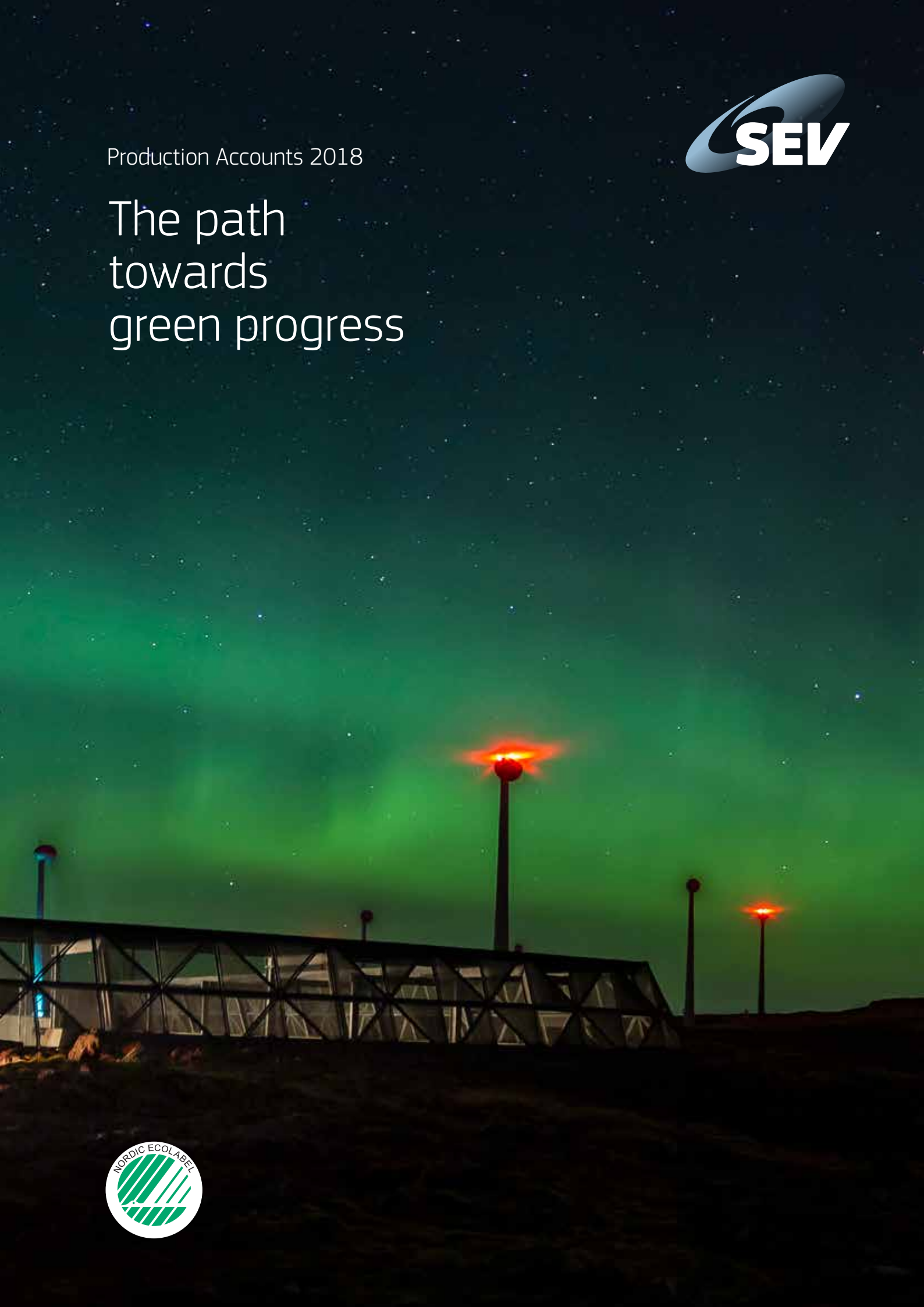
Production Accounts 2018

The path towards green progress



Annual Report 2018
Annual General Meeting 24 April 2019
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Production Accounts 2018

Contents

Electricity Company SEV (Elfelagið SEV) Production Accounts 2018

Contents

The Company

Elfelagið SEV
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Website: www.sev.fo
Email: sev@sev.fo
Registered office: Vestmanna
Accounting year: 01.01-31.12
Business Registration No.:331538

Board

John Zachariassen, Chairman of the Board
Hans Jákup Johannesen, Vice Chairman of the Board
Marin Katrina Frýdal
Jónsvein Hovgaard
Sune Jacobsen
Vinjard Tungá
Kristian Eli Zachariasen

Management

Hákun Djurhuus, Managing Director, CEO
Bogi Bendtsen, Director of Administration, CFO
Jón Nielsen, Director of Distribution, COO
Heri Mortensen, Director of Production, CPO

Auditor

JANUAR State Authorized Public Accountants P/F
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Management Report

The Board of Directors and Management hereby submit SEV's Production Annual Report and Accounts for fiscal year 1 January - 31 December 2018. The Production Accounts are also a part of the Group's Annual Report.

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 2018 and the result of operations and cash flow for fiscal year 1 January - 31 December 2018.

It also our opinion that the Management 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, 5 April 2019

Management

Hákun Djurhuus
Managing Director, CEO

Financial Management

Bogi Bendtsen
Director of Administration, CFO

Board

John Zachariassen
Chairman

Hans Jákup Johannesen
Vice Chairman

Marin Katrina Frýdal

Jónsvein Hovgaard

Sune Jacobsen

Vinjard Tungá

Kristian Eli Zachariasen

Independent Auditor's Report

To the management of Elfelagið SEV

Opinion

We have audited the production accounts of Elfelagið SEV for the financial year 1 January - 31 December 2018, which comprise Income Statement, Statement of Financial Position, cash flow statement, and notes. The amounts in the production accounts are part of the annual accounts for Elfelagið SEV for the financial year 1 January – 31 December 2018, which we have audited.

In our opinion, the production accounts for Elfelagið SEV for the financial year 1 January - 31 December 2018 in all material aspects are prepared in accordance with the accounting principles described in the production accounts.

Basis of opinion

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in Faroe Islands. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the production accounts". We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Faroe Islands, and we have fulfilled our additional ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter in the production accounts – accounting principles

We draw the attention to the introduction in this statement of which it appears that the production accounts are prepared in accordance with the accounting principles described in the production accounts.

This has not affected our opinion on the production accounts.

The management's responsibilities for the production accounts

The management is responsible for the preparation of production accounts in accordance with the accounting principles described in the production accounts. The management is also responsible for such internal control as the management determines is necessary to enable the preparation of production accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the production accounts

Our objectives are to obtain reasonable assurance about whether the production accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or on aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of these production accounts.

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands, we exercise professional evaluations and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the grid accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding of internal control.

- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls.

- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by the management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control that we identify during our audit.

Tórshavn, 5 April 2019

P/F Januar
State Authorised Public Accountants

Hans Laksá
State Authorised Auditor

Jógvan Amonsson
State Authorised Auditor

Key Figures and Financial Ratios

Amounts in tDKK	2018	2017	2016	2015	2014
Income Statement					
Net Sales	259,063	279,101	265,526	234,920	278,328
Result before depreciation, amortization and impairment	94,486	135,653	152,882	95,673	85,070
EBIT	20,265	67,830	93,722	36,443	37,704
Net financial items	-9,340	-9,488	-12,116	-11,221	-11,773
Annual Result	**10,650**	**57,784**	**81,466**	**25,222**	**25,931**
Balance Sheet					
Total Assets	1,565,760	1,347,941	1,137,999	1,049,924	997,460
Equity	789,767	779,117	678,482	699,806	632,746
Long-term debt	437,369	358,941	358,941	349,676	364,477
Financial Ratios *)					
Return on equity	1.4%	7.9%	11.8%	3.8%	4.3%
Return on assets	1.4%	5.5%	8.6%	3.6%	4.0%
Net debt/EBITDA	4.7	2.6	2.3	3.7	4.3
Asset turnover	0.17	0.21	0.23	0.22	0.28
Equity ratio	50.4%	65.9%	59.6%	66.7%	63.4%

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

Management Review

Main Activities

Elfelagið SEV is an inter-municipal cooperative electricity utility company. The purpose of the Company is to generate electric power and distribute it to its customers in the participating municipalities. According to the Articles of Association, the Company is to carry out its purpose consistent with economically sound commercial principles with due regard for the environment.

The operations permit granted to SEV for each individual production facility states that the accounts shall indicate whether each production facility operates at a profit or loss.

This accounting report for the production activities of SEV is a part of the consolidated accounts of SEV. This Management Review discusses SEV's production activities for the period 1 January to 31 December 2018.

Business Activity Overview and Financial Status

Production and Revenue

Table 1 shows the development in production for the past 5 years.

Production was 352.0 GWh in 2018 versus 334.3 GWh in 2017, or an increase of 17.7 GWh, corresponding to a growth in SEV's production in 2018 of 5.3% for the entire country, which is the same as in 2017.

Production increased by 5.1% in the central area of the country and in Suðuroy production increased by 8.0%. Maximum demand in the central area was 59.9 MV in 2018, compared to 56.7 MV in 2017, while peak demand in Suðuroy grew from 4.7 MV in 2017 to 8.3 MV in 2018. This growth in production and in demand is attributed, in the main, to the resumption of production by Varðin Pelagic following the fire that closed the facility in June 2017.

There was considerable rainfall in 2014 and this trend continued in 2015, which experienced especially large amounts of rainfall throughout spring and into summer. Throughout the summer and into the autumn of 2015, the rainfall was average, while the winter of 2015 was again above average. The weather was good during almost all of 2016 with less than average wind and rain, and this resulted in the lower production of electricity from wind and hydro.

Hydro-power production in 2017 was less than budgeted, yet higher than in 2016. The reasons were maintenance on the dams feeding the Fossá plant in Vestmanna and the dam at the Strond plant. Good weather conditions during the sping and summer also had an adverse effect on hydro-power production.

In 2018, 48.8% of SEV's electricity production was from hydro and wind, with the thermal plants making up the remaining 51.2%. Hydro and wind production decreased by 2.3 percentage points, while at the same time electricity consumption increased by 5.3% compared to 2017 and in terms of GWh green energy production increased 1.0, corresponding to 0.6%.

The good weather conditions during the spring and summer impacted the "green" part of SEV's production such that it was not as large as this part of production could be, especially when compared to the good year of 2015, when the weather greatly

Table 1. Sales in GWh	2014	2015	2016	2017	2018	Change relative to 2017 in GWh	Change relative to 2017 in %
Settled sales to customers in GWh	283.8	288.1	291.4	306.5	320.5	14.0	4.6
Grid loss and own use in GWh	21.6	26.3	26.0	27.8	31.5	3.7	13.2
Total annual production in GWh	**305.4**	**314.4**	**317.4**	**334.3**	**352.0**	**17.7**	**5.3**
Of which thermal	150.2	125.5	158.9	163.4	180.1	16.7	10.2
Thermal %	*49.2*	*39.9*	*50.1*	*48.9*	*51.2*		
Of which hydro	120.7	133.1	106.3	111.2	108.1	-3.2	-2.8
Hydro %	*39.5*	*42.3*	*33.5*	*33.3*	*30.7*		
Of which wind	34.5	55.8	52.1	59.7	63.8	4.1	6.9
Wind %	*11.3*	*17.7*	*16.4*	*17.8*	*18.1*		
Total green energy production	155.2	188.9	158.4	170.9	171.9	1.0	0.6
Green energy %	*50.8*	*60.1*	*49.9*	*51.1*	*48.8*		

Figure 1: Electricity production for the entire country from 1954 til 2018.

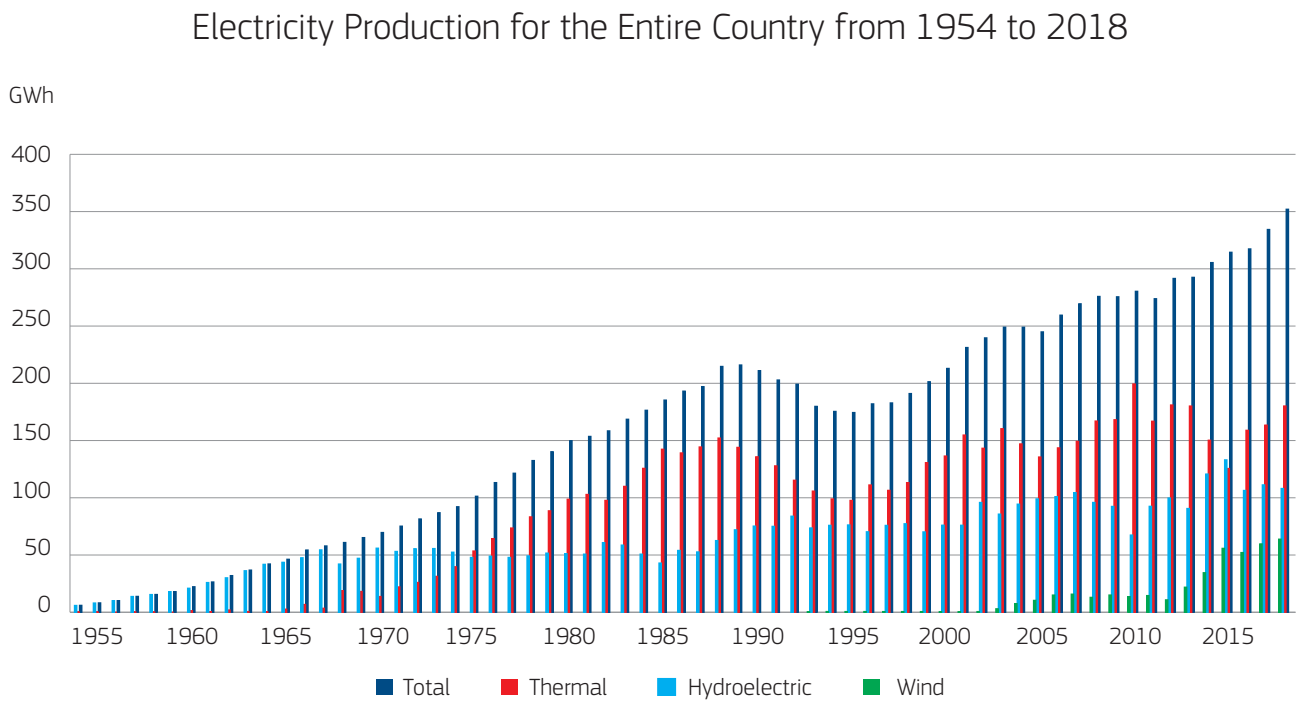


Figure 2: Total Monthly Electricity Production from 1987 through 2018.

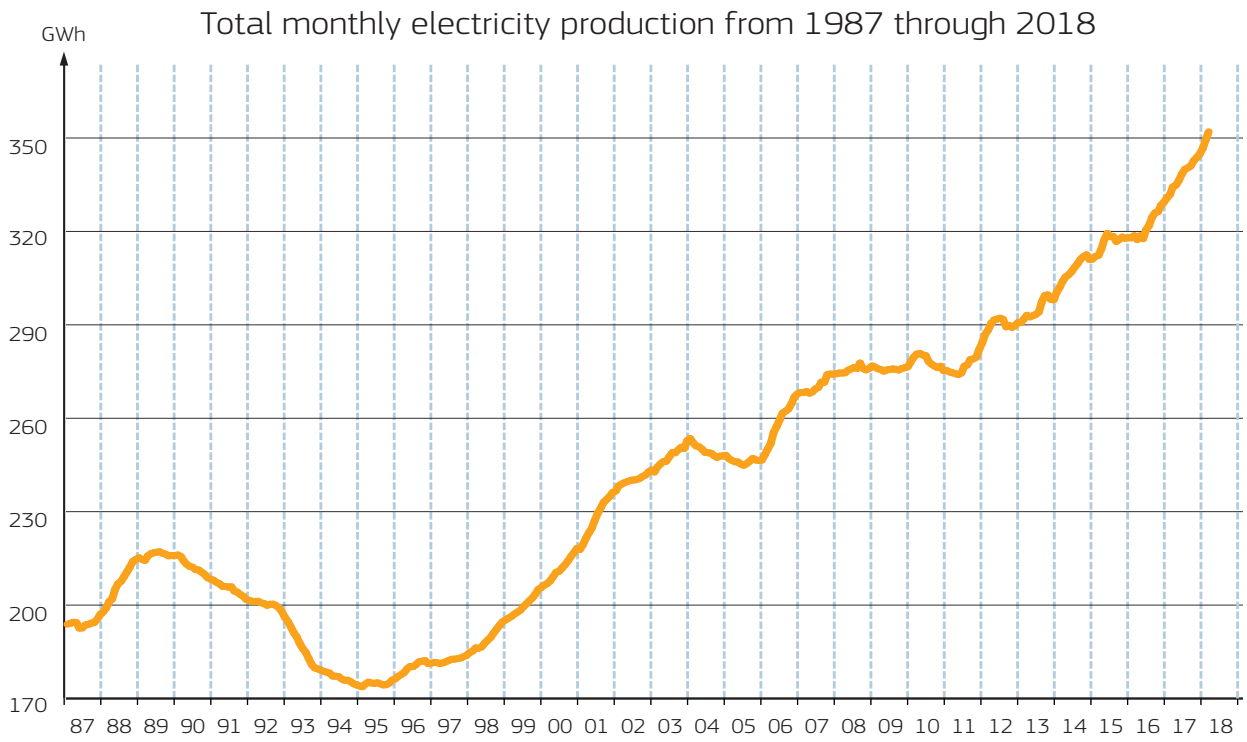
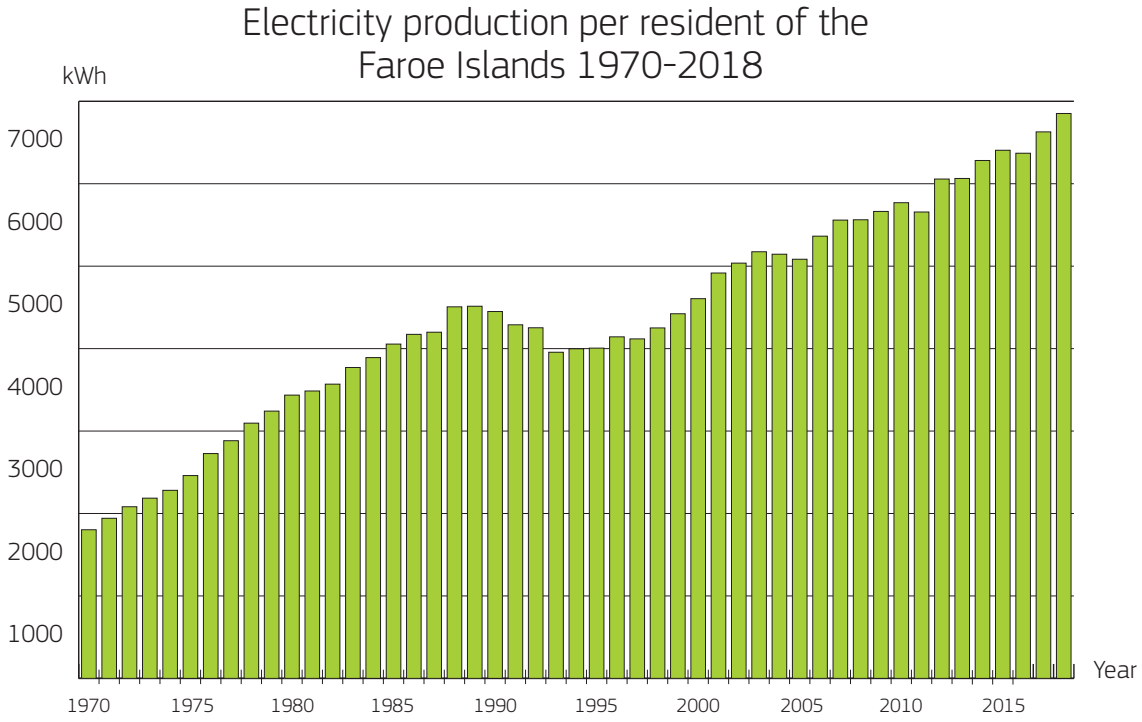


Figure 3: Electricity Production per Resident of the Faroe Islands 1970-2018



benefited SEV. Maintenance at some hydropower plants also affected electricity production at these facilities. SEV carried out maintenance on the reservoir dams and the penstocks at the Fossá hydropower plant in Vestmanna in addition to the dam works at the Strond hydropower plant in Klaksvík where the hydro turbines were upgraded as well. The maintenance of the dam at Strond was completed in 2018. Generally, long-term annual average hydropower production is around 114 GWh, thus one can see that the hydropower electricity production over the last three years has been below SEV's average production projections. The production of electricity from hydropower declined in 2018 and therefore was not as high as desired.

Electricity production from wind energy increased 6.9% in 2018, compared to 2017 and the available wind energy is much better utilised now compared to 2017. The Húsahagi wind farm utilised 98.1% of available wind energy during 2018. The battery system at Húsahagi, which became operational in 2016, worked very well in 2018. Compared to 2015, which was the first full year of wind production at Húsahagi, but without the battery system, wind utilisation has increased significantly since SEV started wind energy production at Húsahagi.

Electricity production has changed over the years, as shown in Figure 1, where the production from 1954 to 2018 for the entire country is charted.

Figure 1 shows that there was a steady increase in the production of electricity since 1954 until the economic crisis of the early 1990s, when electricity production began to decline because of lower consumption. It was not until 1996 that production began to increase again, reaching the record-setting production in 2018 of 352.0 GWh, which was 17.7 GWh greater than in 2017, which up to then had been the best year.

As can also be seen, hydropower electricity production increased significantly by the end of the 1980s, following the opening of the new Eiði hydropower plant. Hydropower generation again increased from 2002 through 2007 because of the Eiði 3 power plant, and subsequently has remained quite stable.

During 2010 and 2011, a complete overhaul was carried out on the turbines and penstocks at the Fossá and Heyga power plants. Turbine 1 at the Eiði power plant was overhauled in 2012 and Turbine 2 was upgraded in 2013. This reconditioning is reflected in the production figures shown in the graph above, because production fell off during 2010 and 2011. It can also be seen that in 2010 and 2013 it rained very little compared to other years.

During the month of June 2012, SEV inaugurated the new Turbine 3 at the Eiði hydropower plant, which together with Eiði 2 South increased hydropower electricity production by some 14 GWh annually. The tunnel project was completed at year-end 2013.

In November 2012, the windfarm at Neshagi went online, and on 9 October 2014 the new windfarm at Húsahagi also came online. SEV anticipates that these windfarms will produce considerable power and during the time they have been operational production has gone well. Further, the Company forecasts that the output from wind energy production will continue to increase, especially

Figure 4: Geographical division of electricity production 2018.

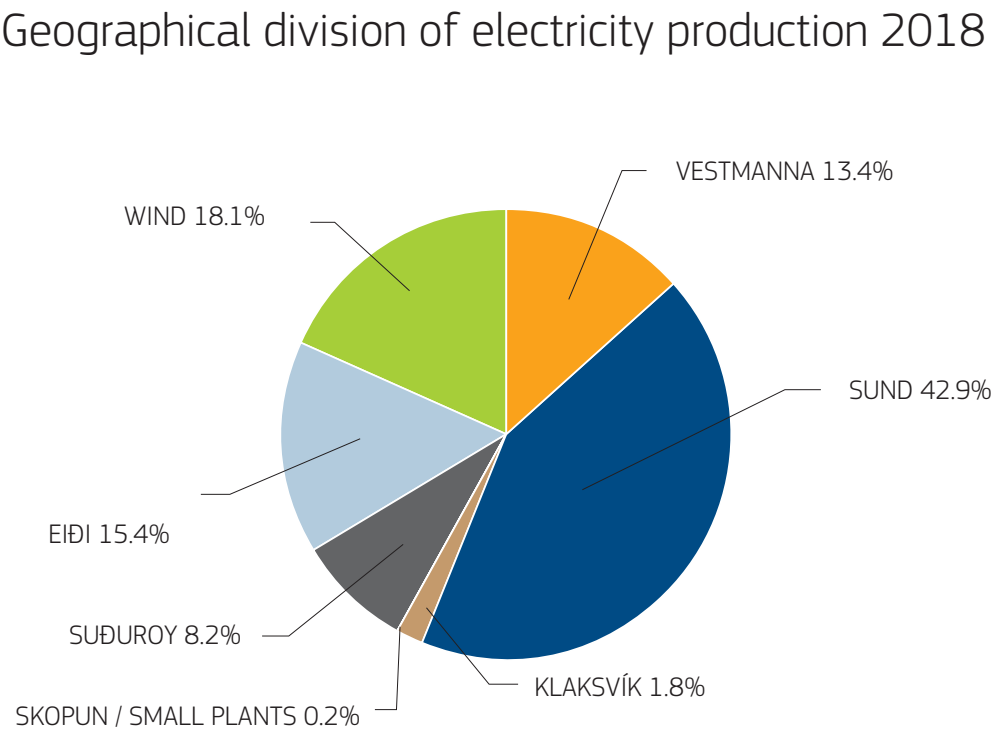


Figure 5: Electricity production by hydro-power plants in 2018 as a percentage of entire hydro-power production

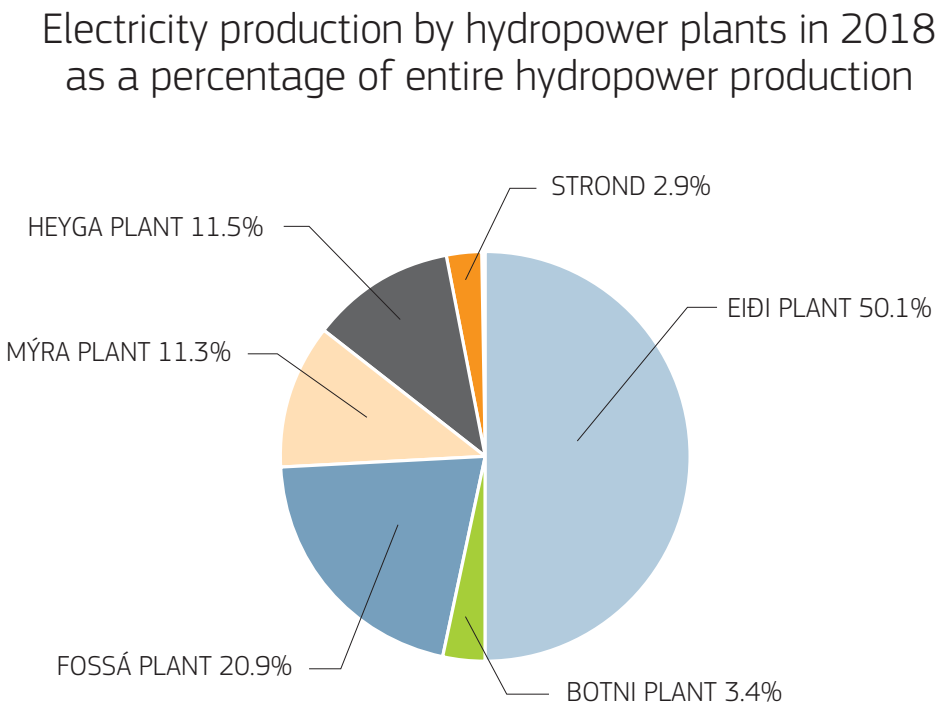
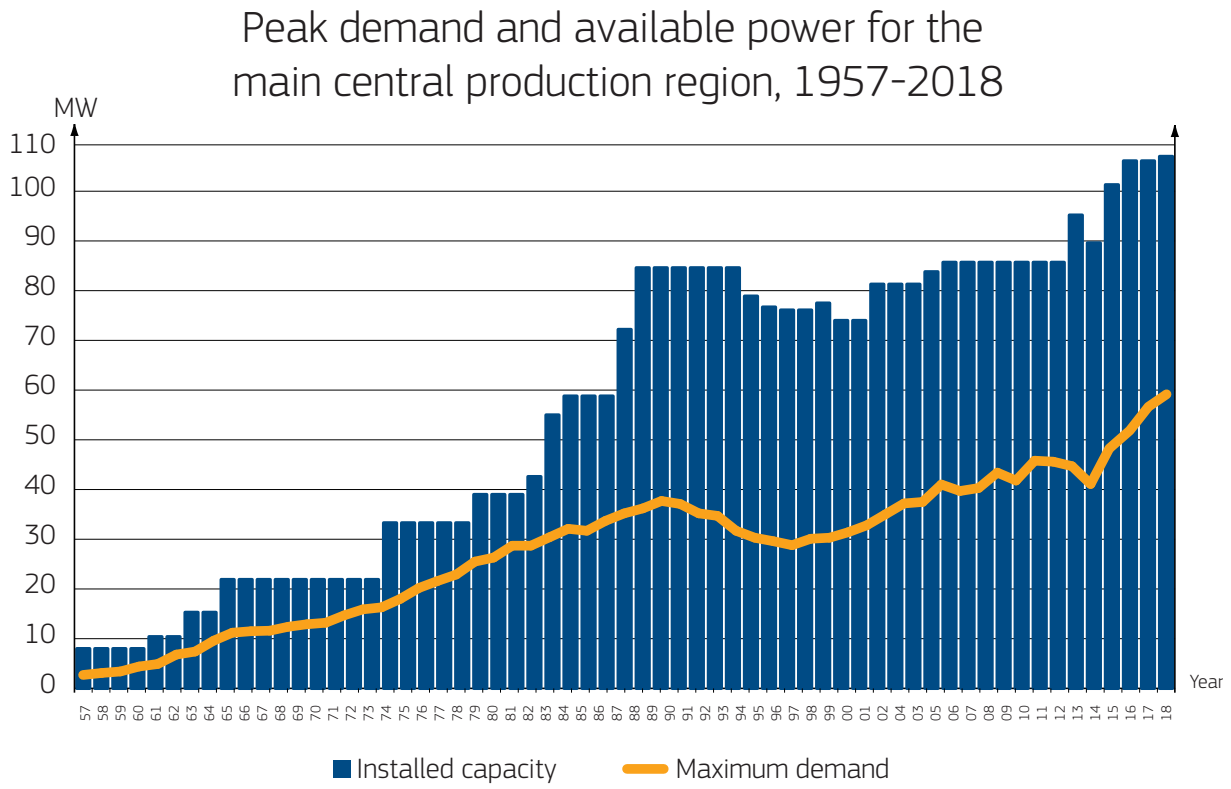


Figure 6: Peak demand and available power for the main central region 1957 –2018



after the new battery system at the Húsahagi windfarm became officially operational in 2016.

Figure 2 shows monthly electricity production from 1987 through and including December 2018. As can be seen, production declined in 2011, then steadily grew throughout the twelve months of 2012, only to decline and then grow a bit in 2013. It continued to grow from 2014 through 2018. In 2018 (as in 2017) growth equalled 5.3%.

Figure 3 shows electricity production in the Faroe Islands per inhabitant from 1970 to 2018.

The graph indicates the same pattern as seen in Figures 1 and 2 for total electricity production for the entire country.

Throughout the country, SEV has different types of production power plants installed, ranging from thermal, to hydro, to wind.

Figure 4 shows the geographical distribution of SEV's production in 2018.

As Figure 4 shows, the largest amount of electricity is produced by the Sund thermal power plant, while the next largest is produced by wind, which in 2018 was some 63.8 GWh. Total hydroelectric production equalled 108.1 GWh, while production at the Sund thermal power plant equalled 151.0 GWh.

Figure 5 shows the relative production of the hydropower plants in 2018.

As Figure 5 shows, the largest hydroelectric plant is located at Eiði, then comes the Fossá hydro-power plant in Vestmanna. The hydropower plant at í Botni produced 3.4% of total hydro electricity production.

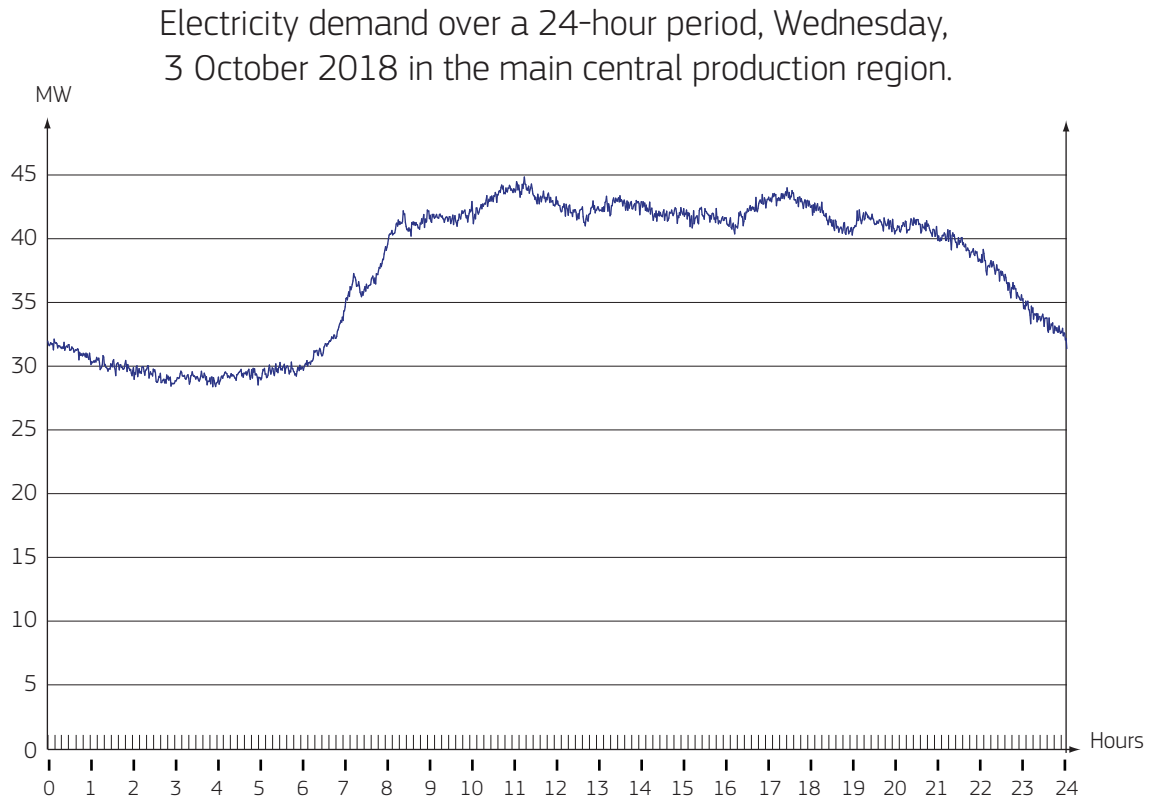
SEV is bound by a universal service obligation. This means that SEV shall always have sufficient power available to meet the demand for electricity.

Figure 6 shows the amount of available reserve power versus peak demand for the main central region from 1957 to 2018.

The Figure shows the amount of available reserve power maintained by SEV compared to peak demand. The reason for such a high amount of available reserve power is that a large portion of electricity production is derived from unstable energy resources, and thus it is necessary to ensure that an alternative energy supply is available.

The increase in available reserve power in 2012 is the result of the new turbine at the Eiði hydropower plant and the windfarm at Neshagi. The decline in 2013 of 5.3 MW reflects the fact that the M3 motor at the Sund thermal power plant was off-line. The increase in 2014 and 2015 reflects the installation of two new

Figure 7: Electricity demand over a 24-hour period, Wednesday, 30october 2018 in the main region.



motors at the Sund plant to replace the M3 motor generating some 4.8 MW, plus the windfarm at Húsahagi producing some 11.7 MW. In 2016, the new motor at the Vágur plant was completed and came online, adding 4.0 MW. For 2018, as in 2017, there was no increase in available reserve power.

Figure 7 shows demand over a 24-hour period on Wednesday, 3 October 2018 in the central main region. Thus, the Figure shows demand on a normal day in the Faroe Islands. As can be seen, demand is rather even from 9:00 in the morning to 20:00 in the evening. Over the last several years, average 24-hour demand has remained unchanged.

To meet the demand for electricity power, SEV has a diversified source of power that encompasses oil-fired thermal motors, hydropower turbines and wind turbines.

Revenues

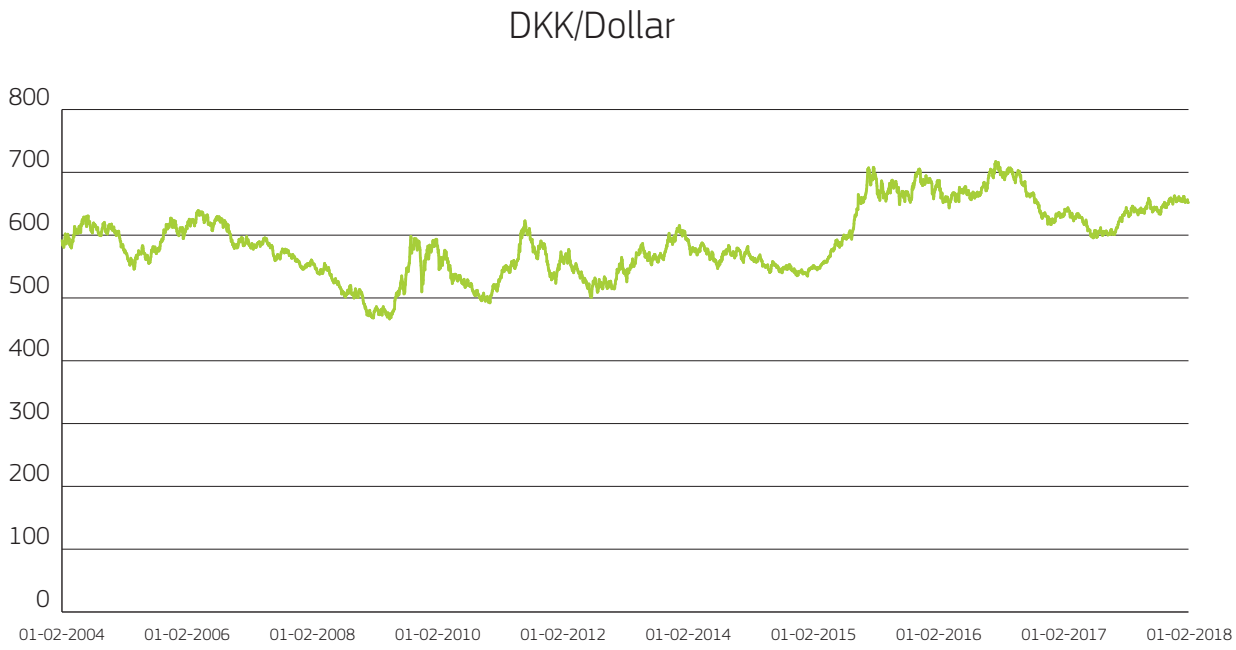
In 2011, SEV undertook to generate independent accounts for the Production Division and the Grid Division. In this regard, the Company determined to calculate earnings for the Production Division in the same manner as demanded for wind power tenders. Thus, this calculation of earnings affords an accurate picture of production operations, compared to the requirement for a profit and an adequate return on assets of the Production Division. Therefore, 2011 was the first time earnings were calculated for the Production Division against that of the Grid Division.

For the Production Division, this means that it shall always cover all of its costs, including its portion of the costs related to management of the grid and the universal service obligation related to the grid. In addition, the Production Division shall derive a profit corresponding to 4-5% of opening balance equity.

Table 2. Total Consumption of Heavy Fuel Oil in Metric Tonnes 2012-2018

2012	2013	2014	2015	2016	2017	2018	2018 Budget	Difference betwteen budget and actual 2018	Difference between actual 2017 and 2018
36,746	36,893	30,880	25,738	32,195	32,631	35,976	35,804	172	3,345

Figure 8. DKK/USD exchange rate 2004 to 2018.



Calculated profit for 2018 was DKK 37.5 million, compared to DKK 34.5 million in 2017, corresponding to 5.0% of the Production Division's opening balance equity. Earnings of 4-5% is believed by SEV to be a reasonable profit at present, compared to inflation and other investment possibilities.

Total result for the Production Division was DKK 10.7 million, which reflects the requirement for self-financing.

According to the Electricity Production Act, Grid activities shall be financially self-sufficient, such that revenue is sufficient to cover operations and planned necessary investment in infrastructure. For the Grid Division, this means that it can have a revenue that covers grid-related operational expenses as well as planned infrastructure investment. Revenue for necessary investment is based on an expectation of self-financing.

When infrastructure investment is needed, a portion of the investment required shall be self-funded, thus negating that the entire investment be financed by a loan facility. SEV has determined that self-financing of some 25% is sufficient and the Production and Grid accounts for 2016, 2017 and 2018 reflect this expectation.

The amount of self-financing required is based on the budgeted investments in the Production and Grid Divisions.

Thus, going forward, self-financing is set at 25% in relation to an average rolling 5-year period of investment. SEV's budget for 2019 projects investment from 2018-2022 for Production to be DKK 1,420 million, equalling on average some DKK 284 million annually. The self-financing projected for 2019 is budgeted to be DKK 71 million.

For the Grid Division, projected investment for 2019 is set at DKK 797 million, of which self-financing equals DKK 40 million. It is advisable that self-financing is of a sufficient amount and this can be realized only from an operational profit.

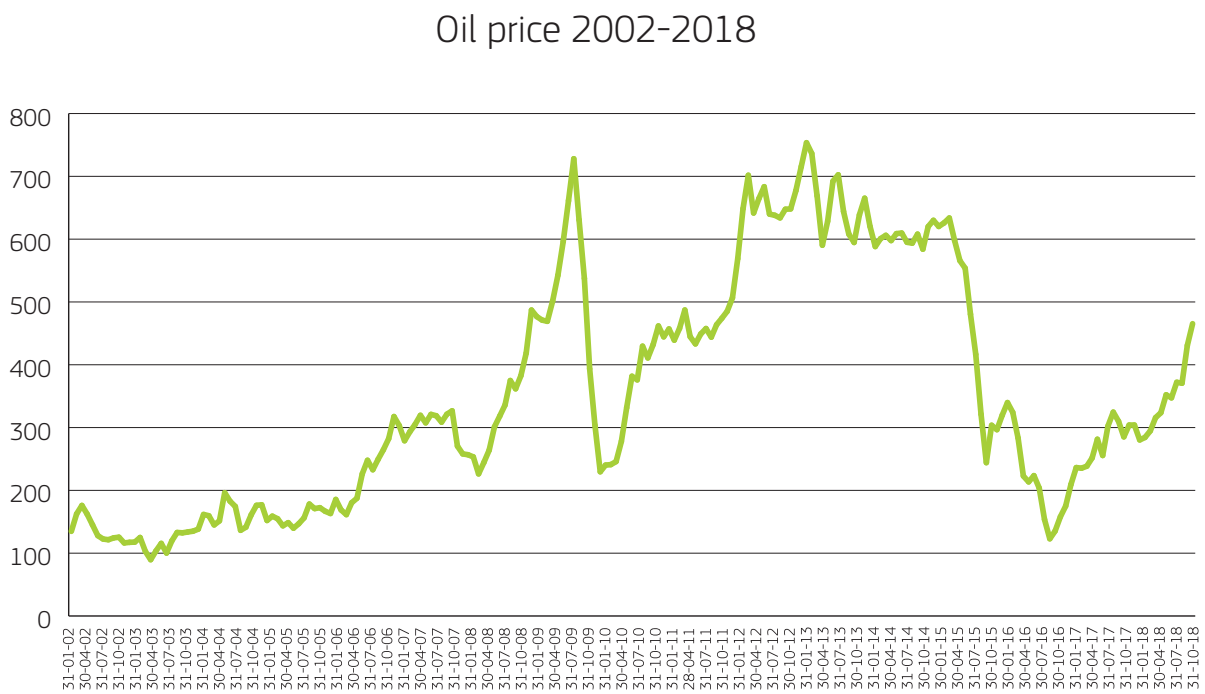
Self-financing for each respective year shall be calculated thusly: operational cash flow less interest and instalment repayment costs compared to the requirement of 25% self-financing of the annual average investment over the next five years.

For the Grid Division, this means that the annual result shall be adjusted such that the profit is equal to the expenses incurred by the Grid Division plus a self-financing requirement of 25% of the annual average investment in the grid over the next five years.

Distribution of profit between the Production Division and the Grid Division in previous years was based on an allocation to the Production Division that ensured that all costs were covered, including costs for its respective portion of grid administration and the grid's universal service obligation plus a 4-5% return on opening balance equity.

Going forward, it will be necessary to increase the revenue of the Production Division relative to the Grid Division such that said revenue corresponds to the increased debt burden borne by the

Figure 9: USD oil price per tonne heavy fuel oil 2002 - 2018.



Production Division stemming from the anticipated expansion of the production power plants.

If SEV's total consolidated result was larger than the calculated allotment for the Production Division, the remainder was transferred to the Grid Division. In 2016, this allocation was revised so that the Grid Division is now allotted an adjusted result and not the Production Division.

Total income for the Production Division in 2018 was DKK 259.1 million, compared to DKK 279.1 million in 2017. Of this income, the Sund thermal power plant generated DKK 132.3 million or 51.1% and the Vágur thermal power plant generated DKK 34.8 million, or 13.4%.

Thus, the two largest oil-fired thermal production power plants generated an income of DKK 167.1 million in 2018, corresponding to 64.5% against DKK 185.1 million or 66.3% in 2017. Thus, there was a lower production of thermal power in 2018 than in 2017.

The 2018 operational result posted a surplus of DKK 10.7 million, compared to DKK 57.8 million in 2017, when the requirement for self-financing was incorporated into the accounts.

The total result for the Production Division was DKK 20.3 million before interest costs. The interest costs of some DKK 9.3 million carried by the Production Division reflects the payments made on the loan facilities used for the construction at the Eiði hydro-power plant and the wind farm at Húsahagi, as well as expansion of the Sund thermal power plant.

Expenses

Total expenses for 2018 were DKK 248.4 million, while total expenses for 2017 were DKK 221.3 million, corresponding to an increase in expenses of DKK 27.1 million. Expenses are related to the purchase of oil, operational costs, depreciation, financial costs and taxes. A more detailed review of actual vs. budgeted expenses can be found in the Consolidated Annual Accounts available on the SEV website, www.sev.fo.

Operational costs are generally categorized into employee expenses, supplies and services. For the production power plants, oil expenses comprise a major part of overall expenses.

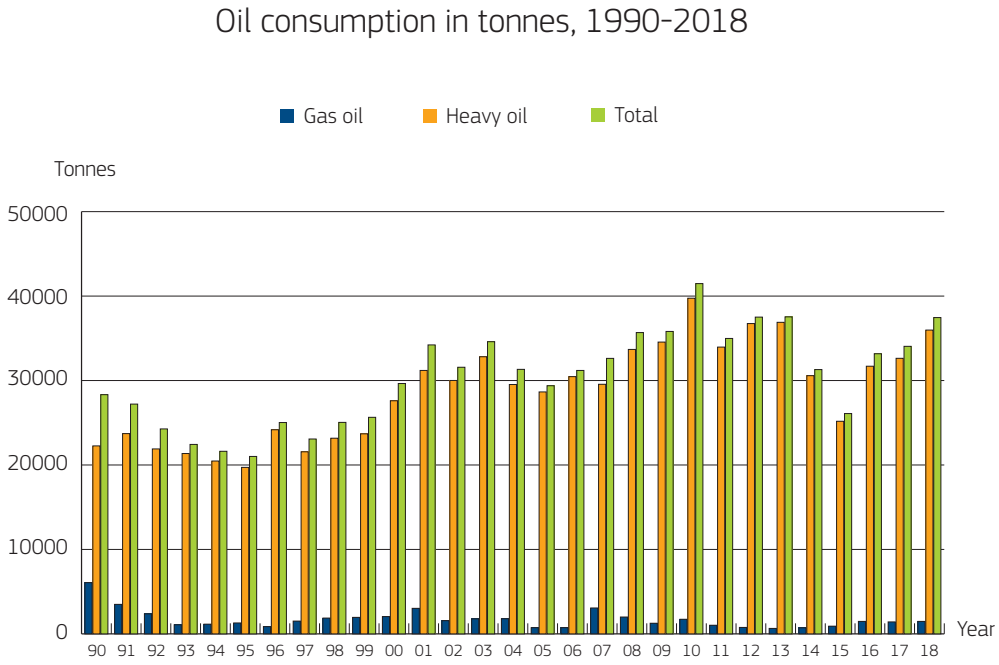
Oil Expenses

Grounded in the operational strategy the Company adopted to hold to the approved budget, the Company hedged its heavy oil purchase for 2018, which resulted in a cost lower than originally budgeted. A more detailed analysis of SEV's long-term risk management strategy is available in the Group's Consolidated Annual Accounts found at www.sev.fo.

Oil expenses were DKK 105.5 million in 2018, compared to DKK 84.5 million in 2017, thus the cost of oil was DKK 21.0 million more in 2018 than 2017. Expenses for goods and services and wages in 2018 were DKK 59.1 million, compared to DKK 58.9 million in 2017, such that these expenses in 2018 were DKK 0.2 million higher, equalling an increase of 0.2%.

Table 2 shows oil consumption in metric tonnes for 2012-2018.

Figure 10: Oil consumption in tonnes 1990 – 2018.



As mentioned earlier, total production in 2018 increased by 17.7 GWh and production by the thermal power plants grew by 16.7 GWh, corresponding to 10.2%, from 163.4 GWh in 2017 to 180.1 GWh in 2018. Hydro-power electricity production declined by 3.2 GWh, from 111.2 GWh to 108.1 GWh, or 2.8%. Electricity production from wind power increased by 4.1 GWh from 59.7 GWh to 63.8 GWh, or 6.9%.

The price SEV pays for oil is linked to the international oil market and the USD exchange rate. The average price for heavy oil in 2014 was USD 554.10 per tonne, for 2015 the price was USD 260.70, and in 2016 the price was USD 216.80. The average price per tonne of heavy oil in 2017 was USD 310.20, and in 2018 the average price was USD 398.1 per tonne of heavy oil.

Thus, it can be seen that the price of heavy oil fell from 2014 to 2016 and subsequently has risen through 2018.

Table 8 above shows the monthly fluctuation in the US dollar exchange rate from 2004 through 2018.

The USD exchange rate has fluctuated significantly during the past 5 years. At the beginning of 2016, the rate was DKK 6.83 to the dollar, decreasing to DKK 6.43 in May, and then increasing to DKK 6.74 on US election day on 8 November. The exchange rate continued to increase, reaching DKK 7.05 per dollar at the end of 2016. Altogether, the dollar was stronger in 2016. In early 2017, the dollar exchange rate reached a level never seen since – DKK 7.17 per dollar. Then the exchange rate floated around DKK 7.00 per dollar or just under for the first quarter of 2017 and then declined during the second quarter and onward to the end of July to around DKK 6.30 per dollar. The exchange rate remained at this level for the remainder of the year until the end of the year when it equalled DKK 6.20 per dollar. The exchange rate trend for 2018 strengthened so that by the middle of the year it equalled DKK 6.39 per dollar and by year-end it had reached DKK 6.52 per dollar.

The DKK/USD exchange rate trend for 2018 is shown in Figure 11.

As noted above, oil expenses equalled DKK 105.5 million in 2018, compared to DKK 84.5 million in 2017, corresponding to a higher cost of DKK 21.0 million. Heavy fuel oil accounted for some DKK 85.8 million of total oil expenditure. Oil expenses include lubricating oil, gas oil, heavy fuel oil and urea, but the cost for heavy fuel oil is by far the largest portion.

The increase in oil expenses in 2018 relative to 2017 is due to increased oil prices and to a lesser extent higher oil consumption. Higher oil prices accounted for an increased heavy oil expenditure of some DKK 8.9 million of the total increased oil expenditure of DKK 21.0 million, while increased consumption of 3,345 tonnes compared to 2017 accounts for 8.0 million. According to current accounting principles, oil inventories must be valued at current market prices, and these market value adjustments have increased costs in 2018 by DKK 4.1 million because of the change in market prices.

The average cost per tonne of heavy fuel oil in 2018 was DKK 2,384, compared to DKK 2,123 per tonne in 2017. Thus, the cost per tonne of heavy fuel oil cost some DKK 261.00 more in 2018 compared to 2017.

The average cost per litre of gas oil was DKK 5.61 in 2018, compared to DKK 4.93 in 2017. The average cost was thus DKK 0.68 higher than in 2017.

Figure 11: DKK/USD exchange rate during 2018.

The power plants at Sund and Vágur accounted for almost all of the total DKK 105.5 million oil expense, with DKK 84.2 million and DKK 14.3 million, respectively, or 93.3% of total oil expenses. The Sund thermal power plant alone accounted for 84.0% of oil expenses.

Figure 9 shows the trend in oil prices from 2001 to the end of 2018.

The Figure shows that the price of oil increased steadily from 2001 to the autumn of 2006, at which time it progressively decreased until the beginning of 2007, when the price of heavy oil was approximately USD 220 per tonne. From then until the autumn of 2008, the price of heavy oil soared until topping out at well above USD 700 per tonne. Then the financial crisis broke, and the price of oil plunged to the same level seen at the beginning of 2007, around USD 220 per tonne of heavy oil.

Subsequently, the price of heavy oil steadily rose and by the end of 2013, the price of heavy oil was USD 608 per tonne, which is a very high level. The price of heavy oil declined in January 2014 to USD 584 per tonne, but subsequently rose to USD 633 in June and then fell precipitously to USD 321 per tonne in December 2014. The average price for heavy oil in January 2015 was USD 244 per tonne, and then the price continued to grow until May 2015 when it was USD 340 per tonne. Subsequently, the price of heavy oil began to fall until it reached USD 154 per tonne in December 2015. The average price of heavy oil during 2015 was USD 261 per tonne.

In January 2016, the average price per tonne of heavy oil was USD 122.90. It continued to rise through the year until October when it reached on average USD 281.40 per tonne of heavy oil. Subsequently, the price fell to USD 255.50 on average during November and then rose to USD 302.50 on average per tonne of heavy oil in December 2016. The average price per tonne of heavy oil during 2016 was USD 216.80.

During 2017, the price of oil continued to fluctuate. The lowest average price was in June when it reached USD 280.3, while the peak was in November at USD 352.20. The average price per tonne of heavy oil for 2017 was USD 310.50.

Oil expenses corresponded to 40.0% of total costs and depreciation for 2017 for the Production Division. Thus, the trends in the price of oil and the exchange rate of the US dollar have a major impact on the operational result.

The oil prices in 2018 fluctuated between both lows and highs. The price remained low from January through March and then rose to October. From October until December the price again declined. The lowest average price was in December when the price held at USD 337.00, while the highest price was in October when it reached USD 465.40. The average price per tonne of heavy oil for 2018 was USD 398.10.

Oil expenses correspond to 42.5% of the total costs plus depreciation of the Production Division. Therefore, the trends experienced in the price of oil and the dollar exchange rate have a major impact of the operational result of the Production Division.

Figure 10 shows an overview of oil consumption related to the production of electricity from 1989 to 2018, distributed among gas oil, heavy oil and total consumption.

Among other items of interest, it can be seen that the total amount of gas oil is 4.1% in 2018, compared to 4.2% in 2017. The Figure

shows also that the total amount of oil consumed in 2018 was higher than in 2017. This corresponds well with the other Figures seen above that show that electricity production from thermal energy was higher in 2018 than in 2017.

Goods and services

In 2018, power plant expenses for goods and services equalled DKK 22.4 million, against DKK 25.0 million in 2017. This equates to a decrease in consumption of DKK 2.7 million. For further details on costs for the last several years, confer the Group's Consolidated Annual Accounts at www.sev.fo.

In 2012, the Company changed its accounting procedures relative to the posting of extensive maintenance designed to prolong the useful life of production assets. Previously to 2012, the Company amortized these expenses as a lump sum for the fiscal year in which the maintenance took place. This particular accounting principle was re-evaluated. Now, expenses related to prolonging the useful life of production assets and associated equipment is amortized over the commensurate number of additional useful-life years.

In 2018, expenses for goods and services at the Sund thermal power plant amounted to DKK 9.5 million, against DKK 9.8 million in 2017, or 42.4% of total expenses for goods and services in 2018, compared to 39.2% in 2017. This reflects a decrease of DKK 0.3 million, or 3.0% for costs at the Sund thermal power plant. The Vágur thermal power plant contributed DKK 2.1 million toward total expenses in 2018, against DKK 3.0 million in 2017, corresponding to a decrease of DKK 0.9 million, or 30.0% of costs for the Vágur power plant.

Expenses related to the grid and SEV's universal service obligation

The total expenses incurred by the power plants reflect not only the cost of electricity production, but also a portion of the cost related to the universal service obligations of the Company relative to operation of the grid.

Total grid-related expenses can be subdivided into the expenses for managing the power grid, the cost of ensuring the stable delivery of electricity, rolling power, available power reserve, and other costs related to the grid and SEV's universal service obligation. The electricity production plants sell their power to the Grid Division. This payment by the Grid Division includes the price of electricity and a portion of the universal service obligation attributed to the production plants.

Expenses related to managing the power grid

The Suðuroy electricity grid is managed at the production plant in Vágur, while management of the power grid for the remainder of the country takes place at the Fossá power plant in Vestmanna.

The total expense of DKK 2.3 million for the management of the power grid at the Fossá power plant is calculated thusly: total employee expense at the Fossá power plant (DKK 3.0 million for a normal operational year) minus employee expenses related to the operation of the power plant itself per operational year (DKK 0.7 million). The cost to operate the power plant itself is deemed to be the same as the cost to run the Mýra and Heyga power plants combined, which corresponds to DKK 0.7 million for a normal operational year. The same cost for managing the power grid at the Fossá power plant is used as the basis for the cost of managing the power grid on Suðuroy, corresponding to DKK 2.3 million.

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

The expenses related to SEV's universal service obligation, rolling power and available power reserve

The expenses related to providing a continuous power supply, rolling power and an available power reserve are estimated to be 5% of total operational expenses, including depreciation, for the Sund and Vágur power plants, which equals DKK 5.6 million and DKK 3.9 million, respectively. This reflects a "best estimate" calculation.

The cost of the universal service obligation relative to the grid is, additionally, based on SEV's operational cost for its smaller power plants around the country that are deemed to be extra power plants or power reserves. The smaller plants receive a reimbursement for employee expenses and supplies relative to operations in return for a supply guarantee. The remaining costs are recovered via a "purchase of production" for resale. The Strond power plant receives reimbursement for its operational related employee expenses and supplies relative to the thermal production of electricity in return for a supply guarantee. The remaining costs are recovered via a purchase of production for resale.

Summary of Expenses related to SEV's universal service obligation

The total cost for managing the country-wide power grid is DKK 4.6 million. The cost for ensuring the power supply, rolling power and available power reserves at the Sund and Vágur power plants is stipulated at DKK 9.5 million. The cost to guarantee supply, etc. from the other power plants is DKK 7.3 million, equating to an estimated total cost for ensuring a stable power supply, and rolling and reserve power, plus management of the power grid of DKK 16.8 million.

Employee Expenses

Employee expenses relative to production were DKK 36.7 million in 2018, against DKK 33.9 million in 2017, which corresponds to a higher employee expense of DKK 2.8 million.

The Sund power plant had DKK 18.9 million, or 51.5%, of total employee expenses of DKK 36.7 million in 2018, which is DKK 1.7 million higher than in 2017, while the Vágur plant had DKK 5.7 million, or 15.5%, which is DKK 0.2 million higher than in 2017. In 2018, employee expense for the Fossá power plant was DKK 4.9 million, corresponding to 13.3%, against DKK 4.7 million or 13.9% in 2017. The reason for the increased employee expense for both the Fossá and Vágur power plants relative to the budget is based on the management and control of the power grid in the main region and on Suðuroy. The Grid Division reimburses these expenses to the production units, as explained above.

In conclusion, one can see that the employee expense at the thermal power plants accounts for the vast majority of this total expense. The hydro-power facilities and the wind farms only account for DKK 10.5 million or 28.6% of the total employee expense of DKK 36.7 million, of which only a part is the cost is of managing the grid.

Financial Expenses

Interest expenses were DKK 9.3 million in 2018 versus DKK 9.5 million in 2017, or DKK 0.2 million less. This reflects normal transactions for the year and also the fact that the Company did not refinance any of its existing debt, which occurred in 2016 when the Company refinanced its existing debt as part of obtaining new investment financing.

Confer the Group's Consolidated Annual Accounts for 2016 available at www.sev.fo for a more detailed discussion of the refinancing and new investment financing that occurred in 2016.

Depreciation

Total depreciation for 2018 was DKK 74.2 million against DKK 67.8 million in 2017, an increase of DKK 6.4 million.

For 2018, the assets at the Sund power plant were depreciated by DKK 23.3 million, against DKK 19.4 million in 2017, and the Eiði hydropower plant assets were depreciated DKK 19.8 million, against DKK 19.6 million in 2017, corresponding to total asset depreciation in 2018 for both production units of DKK 43.1 million, compared to 39.0 million in 2017. The depreciation in 2018 for these two power plants of DKK 43.1 million is 58.1% of the total depreciation of DKK 74.2 million.

The Vágur power plant was depreciated by DKK 8.5 million; the new wind turbines at Húsahagi were depreciated by DKK 7.3 million for 2018; the wind turbines at Neshagi were depreciated by DKK 3.1 million; and the hydropower plant in Vestmanna was depreciated by DKK 8.2 million.

In general, with regard to budgeting for the following year, a determination is made as to which investments would be expected to be completed and taken into service, thus making the completed asset subject to depreciation. The difference between the actual and forecast depreciation is based on these estimates and what was actually booked, plus the total amount of investment was somewhat lower than budgeted.

Special Risks

Please confer the Group's Consolidated Annual Report and Accounts for a detailed discussion of risk assessment and management, available at www.sev.fo.

Investments

As shown in Table 3, investment in tangible fixed assets for 2018 was DKK 282.2 million, compared to DKK 268.5 million in 2017.

Table 3. Investments fixed assets in DKK million	Budget 2018	Budget revisions	Revised budget 2018	Actual invest-ments 2018	Difference between revised budget and actual investments
	1	2	3=1+2	4	5=4-3
Fossá plant	2.6	0.0	2.6	0.4	-2.2
Heyga plant	0.8	0.0	0.8	0.1	-0.7
Mýru plant	4.5	0.0	4.5	1.8	-2.6
Eiði plant	6.1	0.3	6.3	2.6	-3.7
Botnur plant	9.4	0.0	9.4	4.7	-4.7
Vágur plant	7.5	0.0	7.5	6.7	-0.8
Sund plant	325.1	0.5	325.6	255.3	-70.3
Strond plant	9.1	0.0	9.1	5.4	-3.7
Smaller plants	8.3	0.3	8.6	2.9	-6.3
Wind farms main area	10.0	-0.1	9.9	0	-9.4
Wind farm Eiði	0.0	0.1	0.1	0	0.0
Wind farm Suðuroy	5.0	0.0	5.0	2.2	-2.8
Total investment in production plant	**388.3**	**1.1**	**389.4**	**282.2**	**-107.2**

In 2018, the investment figures are especially impacted by the extension of the Sund power plant with Station 3 and the new day tank building. Investment in the expansion of the Sund power plant with Station 3 equalled DKK 226.5 million. The work on Station 3 continues according to plan. The new motors arrived in the summer of 2018, and testing will commence in late spring of 2019. The current plan is for Station 3 to come online early in 2020. The total investment for Station 3 is budgeted for DKK 730 million, of which DKK 680 million is for the power plant itself, and the remaining DKK 60 million is for a new coupling station linked to the power plant.

Construction of the new tank yard and the day tank building has been underway since 2012. The project is now finished, and the day tank building was formally taken into use on 8 November 2018. For 2018, an investment of some DKK 25.0 million was made in the project. The total investment in the tank yard, the building, tanks, technical equipment and electrical work equalled DKK 143.4 million, which is DKK 6.0 million more than budgeted. SEV believes that it has received good value from the project and the extra money expended.

Table 4. Total investment	2018	2017
Investment booked to work-in-progress	277.3	262.2
Investment booked directly as transi-tion	4.9	5.5
Investment at year-end	**282.2**	**267.8**

The investment in the new tank yard significantly strengthens SEV's environmental security, because the tank yard is now able to hold 10,000 cubic meters of oil. This means that the yard will hold the contents of the largest oil tank, 8,000 cubic meters, with room to spare, should an accident happen.

The day tank building houses all the treatment of fuel oil, lubricating oil, and waste oil. Besides oil treatment, the storage of urea also takes place in the building, which is to be used for exhaust gas cleaning on the new Station 3.

At the Vágur plant, total investment of some DKK 6.7 million was undertaken, which included a new Scada system and a larger storage tank. The roadway to Mýra was asphalted and the total investment at the Mýra power plant was DKK 1.8 million. Some DKK 2.6 million was invested in the Eiði power plant, which included the asphalting of the roadway to the reservoir dam.

Table 5. Work-in-progres	2018	2017
Opening balance	363.0	159.4
Investment booked to work-in-progress	277.3	262.2
Work transferred to depreciation as transition	-126.2	-58.6
Closing balance	514.2	363.0
Changes to work-in-progress	**151.2**	**203.6**

Table 6. Transition to fixed assets	2018	2017
Work transferred to depreciation as transition	126.2	58.6
Investment booked directly to fixed assets	4.9	5.7
Transition as at year-end	**131.0**	**64.3**

At the Strond hydropower plant, the turbines were upgraded for DKK 2.7 million and work on the interior of the plant building at Strond continued for a total investment at Strond of DKK 5.4 million.

In 2018, asset transfers from work-in-progress and assets directly booked as a fixed asset (depreciation basis) amounted to DKK 131.0 million, compared to DKK 64.3 million in 2017. Confer the Work-in-progress accounts and Note 7 in the Consolidated Annual Accounts.

For a more detailed discussion regarding investment, refer to the Consolidated Annual Accounts at www.sev.fo.

Liquidity

Liquidity has not been divided between the Production Division and the Grid Division. SEV utilizes an internal transfer pricing mechanism to balance the accounts of the two divisions. Thus, the liquidity of the production units is set to DKK 0.00 million, while all the activities of the power plants are financed by payments from the Grid Division, thereby securing the necessary liquidity. The same is applicable to the wind farm companies that are also financed by the Grid Division.

At year-end 2018, SEV's total liquidity was DKK 190.8, against DKK 248.0 million in 2017. In addition, there are the unused drawing rights and line of credit provided by the credit loan facilities with financial institutions which equalled DKK 314.9 million.

Thus, total cash-on-hand, available credit and unused drawing rights equalled DKK 505.7 million in 2018, against DKK 768.0 million in 2017. Most of the available credit is to finance investments in the coming years. It is deemed necessary to have sufficient liquidity to cover daily operations of the Company.

The goal is to maintain sufficient liquidity so that SEV is always able to pay cash for an oil purchase or to cover the cost of any damage at the power plants or to the grid. Furthermore, it is deemed necessary to have sufficient liquidity to cover daily operations of the power plants and the grid. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets. Further details on the Company's liquidity are available in the Group's Consolidated Annual Accounts available on the Company's website, www.sev.fo.

Prospects for 2019

Based on the budget for 2019, the result before tax is projected to be around DKK 39.0 million. The final result can be expected to be higher than the budgeted result due to the way the Company allocates income to satisfy the 25% equity financing requirement on investments. This level of result is deemed satisfactory and must remain so in years to come.

Operating expenditure is budgeted at DKK 54.4 million in 2019, compared to 59.1 million in 2018, corresponding to a lower expenditure of DKK 4.7 million.

Oil expenditure is budgeted at DKK 116.1 million in 2019, compared to DKK 105.5 million in 2018, which is DKK 10.6 million higher. The Company's long-term risk management strategy is to hedge the oil purchase price at no higher than the budget price.

The Company hedged the purchase of oil for 2019 via agreements executed in 2016, 2017 and 2018. It is anticipated that the oil costs for 2019 will be somewhat lower than projected in the budget because the price levels stipulated in the hedging agreements were somewhat lower than projected in the budget. Moreover, market value adjustments on oil inventories will also affect the expense in 2019.

Depreciation is budgeted at DKK 72.3 million in 2019 versus DKK 74.2 million in 2018. Interest expenditure is expected to increase due to an increase in debt for financing the investments in the Sund power plant, coupling stations, and the grid. Interest expenditure is expected to be higher in 2019 than in 2018, which was DKK 9.3 million. The reason for the higher interest expense is the increased loan facilities required to finance projected investment in the Production Division.

With the budgeted result for 2019 at a satisfactory level, the production operations will provide sufficient self-financing for investments. It is necessary for production operations to provide its share of financing for future investments in existing plant and new investments in renewable energy sources.

More information for 2018 can be found in the Operational, Financial and Investment Budget Plan for 2019 available at www.sev.fo.

Events after the Closing of the Accounts

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

Accounting Principles

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

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

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

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

Basis for recognition and valuations

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

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

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

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

Translation of foreign currency

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

Receivables, liabilities and other financial booking in foreign currencies that are not translated as at the end of the fiscal year are translated using the exchange rates applicable as at the end of the fiscal year. The difference between the exchange rate as at the end of the fiscal year and the exchange rate current as at the date of the transaction are recognised in the Income Statement under financial items.

INCOME STATEMENT

Net Sales

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

Consumption of Goods and Services

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

Other External Expenses

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

Operational Distribution – Production and Grid

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

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

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

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

Other costs related to grid responsibility are based on the expenses of all the small power plants scattered around the country. Operating expenses for wages and supplies are reimbursed

to the small plants as compensation for the supply guarantee; remaining costs are their own production. Strond power plant receives a guarantee of supply reimbursement for the operating expenses of wages and supplies used in thermal production. Remaining expenses accrue from their own production.

According to the Electricity Production Act, the activities of the grid shall be self-supporting such that the income earned is sufficient to pay for operations and planned necessary investment.

For the Grid Division, this means that it shall derive an income that corresponds to the expenses that the grid department has such that the Grid Division can pay for its operations as well as derive sufficient income to pay for the planned necessary investment in the grid. The income set aside for necessary investment shall reflect the requirement for self-financing.

SEV has determined that self-financing of 25% is satisfactory and this decision is reflected in SEV's annual accounts and the accounts of both the Production and Grid Divisions.

The stipulated amount of self-financing is based on the anticipated investment for both production and the grid over a period of five years, which is the current year and the next four years. The self-financing for the current year is calculated thusly: cash-flow from operations less cost of interest and repayment of principle compared to the requirement for 25% self-financing of annual average investment over the next five years.

For the Grid Division, this means that the annual result will be adjusted such that the profit corresponds to the expenses of the grid plus the self-financing of 25% of the annual average investment in the grid over the next five years. If the total result for the SEV Group is greater than the result for the Grid Division, the remainder of the result will be transferred to the Production Division.

Employee Expenses

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

Depreciation and Write-offs

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

Financials

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

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

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

Results from equity in subsidiaries

After full elimination of intercompany profit, the equity investment in the group enterprise is recognised in the profit and loss account at a proportional share of the group enterprise's results after tax.

BALANCE SHEET

Tangible Assets

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

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

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

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

	Useful life	*Residual value*
Production and distribution plants	*10 - 50 years*	*0%*
Buildings	*50 years*	*0%*
Production equipment and furnishings	*3 - 5 years*	*0%*

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

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

Depreciation of Fixed Assets

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

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

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

Equity in subsidiaries

Equity in subsidiaries is recognised in the balance sheet at a proportional share under the equity method, the value being calculated on the basis of the accounting policies of the parent company by the deduction or addition of unrealised intercompany profits and losses, and with the addition or deduction of residual value of positive or negative goodwill measured by applying the acquisition method.

To the extent the equity exceeds the cost, the net revaluation of equity in subsidiaries are transferred to the reserves under the equity for net revaluation as per the equity method. Dividends from the subsidiary that is expected to be decided before the approval of this annual report are not subject to a limitation of the revaluation reserves. The reserves are adjusted by other equity movements in the subsidiaries.

Newly taken over or newly established companies are recognised in the annual accounts as of the time of acquisition. Sold or liquidated companies are recognised at the time of cession.

Capital Investment in Associated Companies

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

Inventory

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

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

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

Receivables

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

Prepayments

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

Cash-on-hand

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

Current and Deferred Taxes

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

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

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

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

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

Other Provisions

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

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

Derivative Financial Instruments

The Company holds derivative financial instruments to hedge its foreign currency, fuel price exposures, and interest rate risk.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The Company holds no trading derivatives.

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

Cash Flow Hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly inequity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Liabilities

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

Debt to financial institutions is valued at amortised realised value, which corresponds to the residual debt of 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 instalment 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.

Cash Flow Statement

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

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

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

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

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

Key Figures

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

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

Return on equity	$\frac{\text{Result}}{\text{Average equity x 100}}$
Asset turnover	$\frac{\text{Net sales}}{\text{Total assets}}$
Equity/asset ratio	$\frac{\text{Equity year-end x 100}}{\text{Total assets}}$

Income Statement

	Note	2018 DKK	*2017* *t. DKK*
Net turnover	1	**259,063,153**	***279,101***
Cost of oil	2	-105,521,710	*-84,507*
Goods and services	3	-22,356,136	*-25,046*
Gross proceeds		**131,185,306**	***169,548***
Wages	4	-36,699,519	*-33,896*
Depreciation, amortization and impairment of fixed assets		-74,221,249	*-67,823*
EBITDA		**20,264,538**	***67,830***
Financial items	5	-9,339,987	*-9,488*
Result before tax		**10,924,551**	***58,342***
Tax on annual result	6	-274,080	*-558*
Annual result		**10,650,471**	***57,784***
Proposed distribution of result:			
Result carried forward		**10,650,471**	*57,784*
Total distribution		**10,650,471**	***57,784***

Balance Sheet 31 December

ASSETS	Note	31.12.18 DKK	*31.12.16* *t. DKK*
Power plants	7, 14	1,006,298,565	*949,800*
Buildings and land	7	4,616,586	*8,711*
Operating equipment	7	1,679,738	*1,299*
Work-in-progress		514,203,956	*363,016*
Total tangible fixed assets		**1,526,798,846**	***1,322,827***
Total fixed assets		**1,526,798,846**	***1,322,827***
			0
Oil inventory		24,183,568	*16,671*
Total inventories		**24,183,568**	***16,671***
Debtors		296,294	
Inter-company account - Grid		8,603,697	*8,202*
Tax asset	6	134,364	*7*
Prepayments and accruals		5,743,461	*234*
Total receivables		**14,777,816**	***8,444***
Total current assets		**38,961,385**	***25,114***
Total assets		**1,565,760,231**	***1,347,941***

Balance Sheet 31 December

LIABILITIES	Note	31.12.18 DKK	*31.12.17* *t. DKK*
Deposit	8	29,000,000	*29,000*
Result carried forward	8	760,767,040	*750,117*
Total equity		**789,767,040**	***779,117***
Deferred tax	6	1,105,431	*704*
Total provisions		**1,105,431**	***704***
Long-term debt	9	437,368,796	*445,800*
Total long-term debt		**437,368,796**	***445,800***
Current portion of long-term debt	9	8,431,280	*8,248*
Inter-company account - Grid		324,155,214	*110,665*
Other liabilities		4,932,470	*3,407*
Total short-term debt		**337,518,964**	***122,320***
Total debt		**774,887,760**	***568,120***
Total liabilities		**1,565,760,231**	***1,347,941***

Cash Flow Statement

	Note	2018 DKK	2017 t. DKK
Annual result		**10,650,471**	***57,784***
Adjustments	13	83,835,316	*77,869*
Changes in working capital:			
Inventories		-7,513,020	*-1,584*
Receivables		-423,611	*0*
Inter-company account - Grid		216,815,730	*145,452*
Other liabilities		-3,582,494	*5,772*
Operating cash flow before financial items		**299,782,391**	***285,293***
Interest paid and similar expenses		-9,339,987	*-9,488*
Cash flow from operations		**290,442,405**	***275,805***
Investment in tangible fixed assets		-131,006,891	*-64,111*
Changes to work-in-progress		-151,187,778	*-203,626*
Cash flow from investments		**-282,194,668**	***-267,737***
Repayments of long-term debt		-8,247,736	*-8,068*
Cash flow from financing		**-8,247,736**	***-8,068***
Total cash flow during the year		0	*0*
Opening cash-on-hand		0	*0*
Closing cash-on-hand		**0**	***0***

Notes

1. NET TURNOVER	2018 DKK	*2017 t. DKK*
Own production	239,722,725	*262,078*
Grid responsibility	18,836,387	*16,803*
Other sales	504,041	*221*
Total	**259,063,153**	***279,101***

2. OIL EXPENSES		
Gas oil	12,415,815	*8,035*
Heavy fuel oil	86,195,876	*70,138*
Lubricating oil	6,910,019	*6,334*
Total	**105,521,710**	***84,507***

3. GOODS AND SERVICES	2018 DKK	*2017 t. DKK*
Lines	42,276	*9*
Dams, pipelines and tunnels	21,641	*-22*
Tanks and environmental	246,740	*251*
Motors	8,831,914	*8,498*
Electric and technical	386,478	*383*
Buildings and land	696,338	*1,162*
General Meeting and Board	383,323	*186*
Studies and consultancy	4,258,920	*5,946*
IT	689,188	*780*
Management and office expenses	677,797	*530*
Other operating expenses	394,814	*327*
Other administrative expenses	5,726,706	*6,995*
Total	**22,356,136**	***25,046***

4. EMPLOYEE EXPENSES	2018 DKK	*2017 t. DKK*
Wages	32,581,810	*29,915*
Pensions	2,926,829	*2,876*
Contributions	1,190,880	*1,105*
Total	**36,699,519**	***33,896***

Employees with SEV as main source of personal income	57	*55*
Average number of employees	66	*64*

5. FINANCIAL EXPENSES

	2018 DKK	*2017 t. DKK*
Interest, loans and bank debt, etc.	9,339,987	*9,488*
Total	**9,339,987**	***9,488***

6. TAXES ON ANNUAL RESULT

Deferred tax	401,397	*565*
Tax asset	-127,317	*-7*
Total	**274,080**	***558***

7. TANGIBLE FIXED ASSETS

Amounts in DKK	Production plants	Distribution	Buildings	Equipment	Total 2018	*2017*
Acquisition value, opening balance	2,016,215,707	5,359,890	5,066,816	6,522,125	2,033,164,538	*1,969,053,209*
Additions during the year	136,569,828	0	18,762	1,598,785	138,187,375	*64,341,356*
Transferred to Grid	-681,138	-5,315,428	0	0	-5,996,566	*0*
Disposals during the year	-6,702,643	0	0	-477,841	-7,180,484	*-230,027*
Acquisition value year-end	**2,145,401,754**	**44,463**	**5,085,578**	**7,643,069**	**2,158,174,863**	***2,033,164,538***
Depreciation, amortization and impairment, opening balance	-1,066,415,644	-1,376,139	-339,091	-5,223,339	-1,073,354,214	*-1,005,531,045*
Depreciation, amortization and impairment during the year	-80,052,966	-1,035	-129,900	-1,217,832	-81,401,733	*-68,013,596*
Depreciation transferred to Grid	476,796	1,518,694	0	0	1,995,490	*0*
Reversal of prior years' depreciation on disposals	6,702,643	0	0	477,841	7,180,484	*190,427*
Depreciation, amortization and impairment, closing balance	-1,139,289,171	141,520	-468,992	-5,963,331	-1,145,579,973	*-1,073,354,214*
Carrying amount year-end	**1,006,112,583**	**185,983**	**4,616,586**	**1,679,738**	**1,012,594,890**	***959,810,324***
Carrying amount year-end 2017	*949,800,062*	*3,983,752*	*4,727,725*	*1,298,785*	*959,810,324*	

Work-in-progress	Framleiðsluvirki	Býtisvirki	Bygningar	Rakstrargøgn	Tils, 2018	*2017*
Work-in-progress opening balance	362,516,054	0	500,125	0	363,016,179	*159,390,674*
Investment booked to work-in-progress	277,325,525	6,563	10,960	0	277,343,048	*262,247,749*
Completed work transferred to depreciation	-126,155,271	0	0	0	-126,155,271	*-58,622,244*
Work-in-progress closing balance	**513,686,309**	**6,563**	**511,085**	**0**	**514,203,956**	***363,016,179***
Work-in-progress closing balance 2017	*362,516,054*	*0*	*500,125*	*0*	*363,016,179*	
Fixed assets at year-end	**1,519,798,892**	**192,546**	**5,127,671**	**1,679,738**	**1,526,798,846**	***1,322,826,503***
Fixed assets at year-end 2017	*1,312,316,116*	*3,983,752*	*5,227,850*	*1,298,785*	*1,322,826,503*	

8. EQUITY

Amounts in DKK	Share capital	Result carried forward	Total
Equity statement 01.01.17 - 31.12.17			
Opening balance 01.01.17	29,000,000	692,332,537	721,332,537
Annual result	0	57,784,032	57,784,032
Closing balance 31.12.17	29,000,000	750,116,569	779,116,569
Equity statement 01.01.18 - 31.12.18			
Opening balance 01.01.18	29,000,000	750,116,569	779,116,569
Annual result	0	10,650,471	10,650,471
Closing balance 31.12.18	29,000,000	760,767,040	789,767,040

9. DEBT

	Repayment next year ***DKK***	*Outstanding debt after 5 years* ***DKK***	*Total debt 31.12.18* ***DKK***	*Total debt 31.12.17 t.* ***DKK***
Debt to financial institutions	0	358,941,000	358,941,000	*358,941*
Debt to SEV	8,431,280	51,991,394	86,859,076	*95,107*
Total	**8,431,280**	**410,932,394**	**445,800,076**	***454,048***

On long-term debt to financial institutions, there is no repayment due next year and the current loan agreement is due and payable on average in 8.3 years. On debt due to the parent company SEV, the repayments due next year are calculated on the basis of annuity loans starting in 2016 repayable over 10 and 12 years, respectively.

10. PRODUCTION RESULT PER PLANT IN DKK

	Revenue	Oil	Goods	Wages	Depreciation	Interest	Taxes	Total
Sund power plant	132,329,704	-84,205,025	-9,471,605	-18,897,149	-23,308,578	-1,026,398	0	-4,579,052
Vágur power plant	34,802,934	-14,284,194	-2,062,767	-5,670,423	-8,542,363	-1,624,656	0	2,618,531
Fossá power plant	13,154,940	0	-963,338	-4,881,221	-4,569,481	0	0	2,740,900
Heyga power plant	4,372,246	-25,168	-326,606	-342,268	-2,133,284	0	0	1,544,920
Mýra power plant	3,496,466	0	-426,428	-328,440	-1,465,272	0	0	1,276,326
Eiði power plant	34,905,410	0	-1,954,446	-1,837,002	-19,780,959	-4,670,885	0	6,662,118
Botnur power plant	1,171,337	0	-355,492	-157,547	-557,300	0	0	100,998
Strond power plant	9,833,923	-4,323,416	-974,392	-2,828,442	-1,518,143	-3,558	0	185,972
Wind power	19,645,649	0	-5,578,258	-128,013	-10,423,101	-2,014,490	-274,080	1,227,707
Small power plants	5,350,544	-2,683,906	-242,805	-1,629,015	-1,922,767	0	0	-1,127,949
Production result	**259,063,153**	**-105,521,710**	**-22,356,136**	**-36,699,519**	**-74,221,249**	**-9,339,987**	**-274,080**	**10,650,471**

11. POWER PLANT OVERVIEW AS AT 31 DECEMBER 2018

Location	Unit	MW	Unit type	Manufacturer	Powered by	Year	Age	Hours	Hours 2018
Botnur	T1	1.00	Pelton hydro turbine	Voith	Hydro	1965	54	202,429	2,632
Botnur	T2	2.00	Francis hydro turbine	Voith	Hydro	1966	53	160,495	2,609
Eiði	T1	7.00	Francis hydro turbine	Voith	Hydro	1987	32	112,394	3,350
Eiði	T2	7.00	Francis hydro turbine	Voith	Hydro	1987	32	112,919	4,496
Eiði	T3	7.70	Francis hydro turbine	Voith	Hydro	2012	7	39,798	6,961
Húsahagi	T1	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	33,639	7,892
Húsahagi	T2	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	32,978	7,821
Húsahagi	T3	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	32,799	7,362
Húsahagi	T4	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	32,898	7,750
Húsahagi	T5	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	32,855	7,876
Húsahagi	T6	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	32,597	7,835
Húsahagi	T7	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	32,073	7,553
Húsahagi	T8	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	32,306	7,611
Húsahagi	T9	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	33,314	7,645
Húsahagi	T10	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	33,364	7,668
Húsahagi	T11	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	33,268	7,870
Húsahagi	T12	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	32,696	7,585
Húsahagi	T13	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	5	33,596	7,346
Neshagi	V1	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	7	47,130	7,930
Neshagi	V2	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	7	47,478	7,969
Neshagi	V3	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	7	47,335	7,847
Neshagi	V4	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	7	47,377	7,639
Neshagi	V5	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	7	47,717	8,057
Neshagi	V6	0.15	Windmill (fixed pitch)	Nordtank	Wind	1993	26	125,900	-
Skopun	M1 – M3	1.83	4-T	Mercedes og Deutz	Gas oil	1984		-	-
Small plants		1.70	4-T	Deutz, Mercedes, Perkins	Gas oil			-	-
Strond	M3	3.60	4-T 12 M 453 K	Krupp Mak	Gas oil	1982	37	49,455	795
Strond	T1	1.40	Francis hydro turbine	Sulzer Hydro	Hydro	1998	21	66,647	4,391
Sund	M1	7.85	4-T 9M43C	Caterpillar/MaK	Heavy fuel oil	2001	18	69,957	3,977
Sund	M2	7.85	4-T 9M43C	Caterpillar/MaK	Heavy fuel oil	2004	15	65,235	4,169
Sund	M3A	2.40		MTU	Gas oil	2015	4	2,052	791
Sund	M3B	2.40		MTU	Gas oil	2015	4	1,977	775
Sund	M4	12.40	2-T 12 L55 GSCA	B&W Götaverken	Heavy fuel oil	1983	36	189,336	5,991
Sund	M5	12.40	2-T 12 L55 GSCA	B&W Götaverken	Heavy fuel oil	1988	31	166,848	6,495
Vágur	M1	2.70	4-T 9 M 453	Krupp Mak	Heavy fuel oil	1983	36	121,082	169
Vágur	M2	2.70	4-T 9 M 453	Krupp Mak	Heavy fuel oil	1983	36	121,689	1,053
Vágur	M3	4.20	4-T 9M32C	Caterpillar/MaK	Heavy fuel oil	2004	15	87,958	4,498
Vágur	M4	4.00	4-T 9L32	Wartsila	Heavy fuel oil	2016	3	14,778	3,954
Strond	M4-M6	3.00	4- T C1250 D2R (3 container gen sets)	Cummins Diesel	Gas oil	2014	5	1,302	4,065
Vestmanna	Fossá 1	2.10	Pelton hydro turbine	Maier	Hydro	1953	66	227,468	2,615
Vestmanna	Fossá 2	4.20	Francis hydro turbine	Voith	Hydro	1956	63	359,549	7,271
Vestmanna	Heygav. 1	4.90	Francis hydro turbine	Voith	Hydro	1963	56	238,999	5,257
Vestmanna	Mýruv. 1	2.40	Francis hydro turbine	Voith	Hydro	1961	58	387,090	7,765

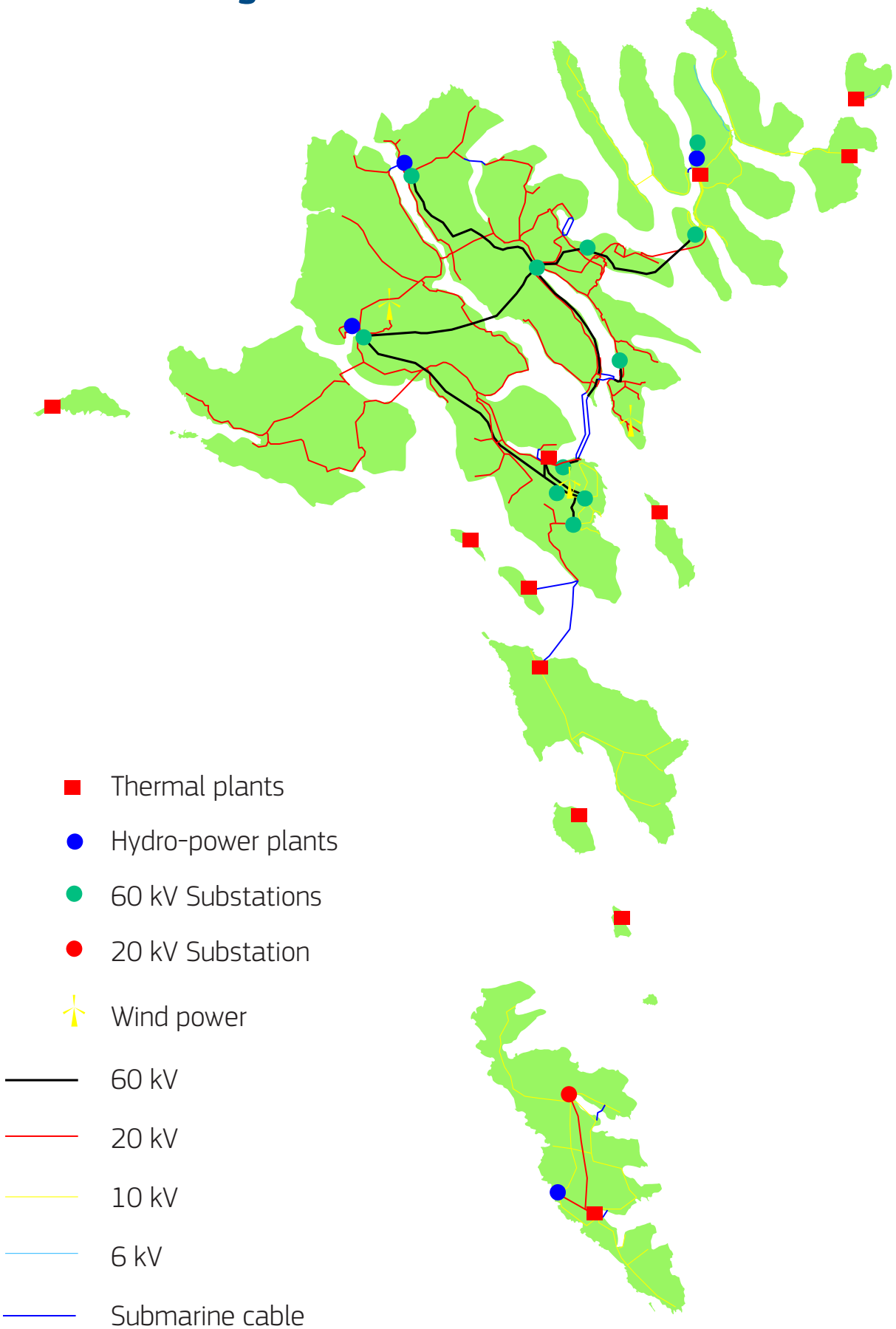
12. MORTGAGES AND OTHER OBLIGATIONS

Please refer to the Elfelagið SEV Consolidaled Group Annual Accounts for information relative to mortages, legal proceedings and other liabilities.

13. ADJUSTMENTS	2018	*2017 t.DKK*
Depreciation	74,221,249	67,823
Interest expense and similar expenses	9,339,987	9,488
Taxes	274,080	558
Total	**83,835,316**	**77,869**

14. ASSET VALUE OF PRODUCTION PLANT	2018	*2017 t.DKK*
Fossá	29,596,931	*33,474*
Heyga	21,476,234	*23,535*
Mýru	16,975,547	*17,078*
Eiði	478,645,608	*496,000*
Botnur	8,129,609	*8,334*
Vágur	134,061,903	*131,857*
Tvøroyri	68,114	*4,993*
Sund	187,181,104	*107,285*
Skopun	44,922	*48*
Strond	15,628,713	*7,666*
Wind farms	107,032,095	*116,490*
Smaller plant	144,475	*151*
Mobile gen sets	755,072	*944*
Fugloy	1,765,342	*1,820*
Svínoy	18,961	*77*
Mykines	874,070	*1,029*
Hestur	2,441,170	1,936
Koltur	323,673	9
Nólsoy	8,602	9
Skúvoy	612,904	*663*
Dímun	327,534	*385*
Power plants according to the Production Accounts	**1,006,112,583**	***953,784***
Grid equipment, etc. installed within power plants	136,228	*-3,984*
Power plants according to the Group Accounts	**1,006,248,811**	***949,800***

Power grid


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

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