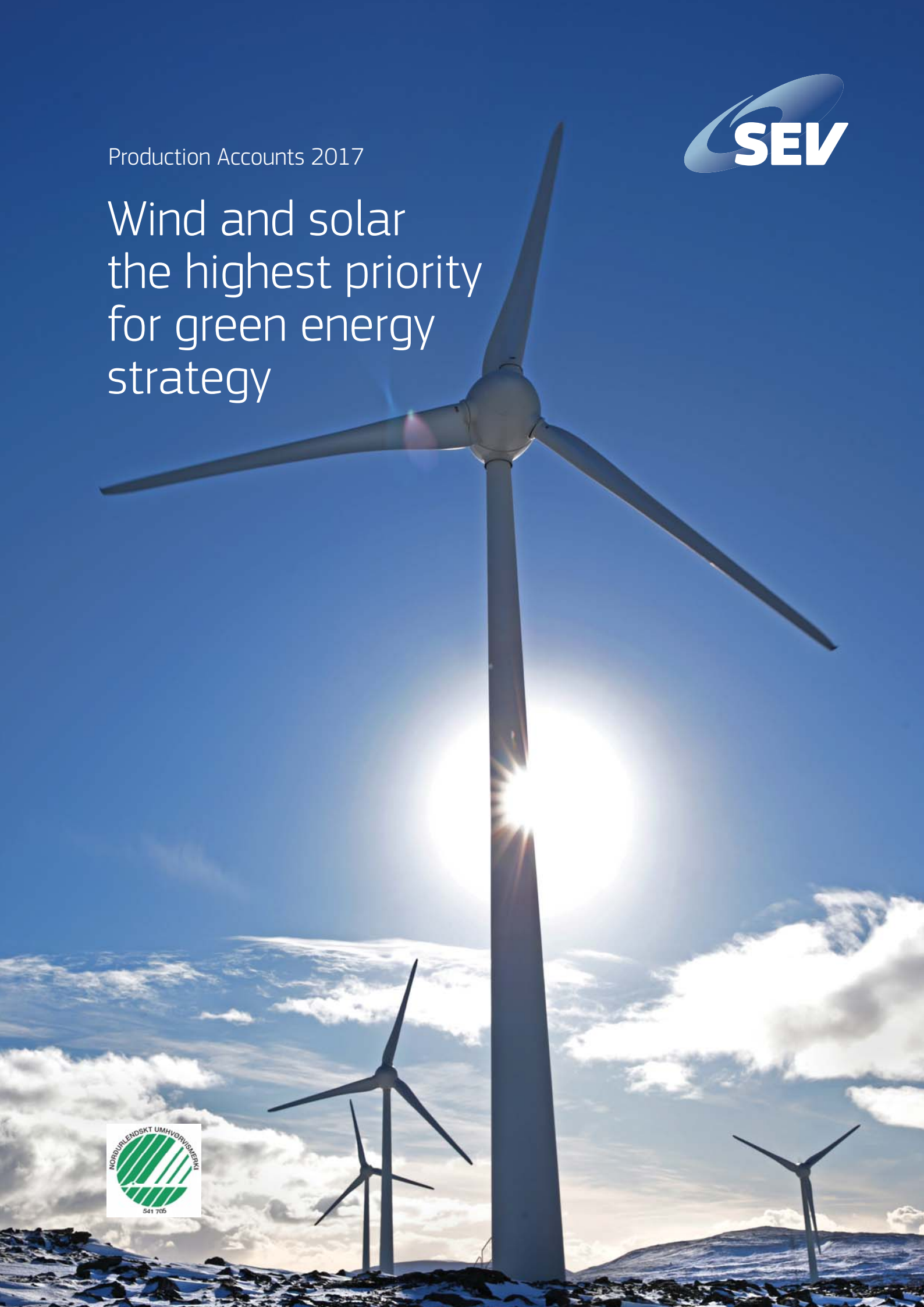
Production Accounts 2017

Wind and solar the highest priority for green energy strategy



NORÐURLENDSKT UMHVØRVISMERKI
541 705

Annual Report 2017
Annual General Meeting 24 April 2018
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Production Accounts 2017

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Electricity Company SEV (Elfelagið SEV) Production Accounts 2017

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The Company

Elfelagið SEV
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FO-110 Tórshavn
Telephone:+298346800
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
Óðinshædd 13, Postbox 30, FO-110 Tórshavn
Telephone: 31 47 00 Fax: 35 17 01
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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 2017. 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 2017 and the result of operations and cash flow for fiscal year 1 January - 31 December 2017.

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, 6 April 2018

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

The Production Accounts have been prepared as a supplement to the Consolidated Group Annual Report and Accounts of Elfelagið SEV.

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

Tórshavn, 6 April 2018

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	2017	2016	2015	2014	2013
Income Statement					
Net Sales	279,101	265,526	234,920	278,328	306,519
Result before depreciation, amortization and impairment	135,653	152,882	95,673	85,070	84,125
EBIT	667,830	93,722	36,443	37,704	41,820
Net financial items	-9,488	-12,116	-11,221	-11,773	-14,050
Annual Result	**57,784**	**81,466**	**25,222**	**25,931**	**27,770**
Balance Sheet					
Total Assets	1,347,941	1,187,159	1,049,924	997,612	887,638
Equity	**779,117**	**721,333**	**699,806**	**587,497**	**561,566**
Financial Ratios *)					
Return on equity	7.8%	11.3%	3.8%	4.5%	5.1%
Asset turnover	0.21	0.22	0.22	0.28	0.35
Equity/assets ratio	57.8%	60.8%	66.7%	58.9%	63.3%

*) 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 2017.

Business Activity Overview and Financial Status

Production and Revenue

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

Production was 334.3 GWh in 2017 versus 317.4 GWh in 2016, an increase of 17.0 GWh or 5.3% compared to 2016. Annual percentage growth from 2015 to 2016 was 1.0%.

Production increased by 8.1% in the main area and in Suðuroy production decreased by 18.7%. Maximum demand in the main area was 56.7 MV in 2017 compared to 50.2 in 2016, while peak demand fell from 7.7 MV in 2016 to 4.7 MV in 2017. The decrease in production and peak demand in Suðuroy is due to the fire at Varðin Pelagic in June 2017, and subsequent close of the plant.

In terms of large amounts of precipitation, 2014 was a good year, and so was the first half of 2015. The summer and autumn of 2015 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 lower production from wind and hydro.

51.1% of SEV's production in 2017 was from hydro and wind, with the thermal plants making up the remaining 48.9%. Hydro and wind production increased by 1.2 percentage points compared to 2016, while production over all increased by 5.2%.

The good weather conditions during the spring and summer fo 2017 reduced the "green" part of SEV's production to below average levels and much lower than in 2015. Maintenance at some hydro plants also affected production. The dams for the Fossá plant in Vestmanna and the Strond plant in Klaksvík were subject to maintenance works, so that Fossá was out of production from June to September, while Strond was out of production for the entire year. Long-term annual average hydro production is 114 GWh, and both 2016 and 2017 have fallen below average, although 2017 was an improvement on 2016.

The increase in wind production was 14.5% from 2016 to 2017 and the available wind energy is much better utilised now. The

Table 1. Sales in GWh	2012	2013	2014	2015	2016	2017	Change relative to 2016 in GWh	Change relative to 2016 in %
Settled sales to customers in GWh	261.4	274.4	283.8	288.1	291.4	306.5	15.1	5.2
Grid loss and own use in GWh	30.1	18.1	21.6	26.3	26.0	27.8	1.9	7.3
Total annual production in GWh	**291.6**	**292.5**	**305.4**	**314.4**	**317.4**	**334.3**	**17.0**	**5.3**
Of which thermal	181.0	180.1	150.2	125.5	158.9	163.4	4.5	2.8
Thermal %	*62.1*	*61.6*	*49.2*	*39.9*	*50.1*	*48.9*		
Of which hydro	99.8	90.6	120.7	133.1	106.3	111.2	4.9	4.6
Hydro %	*34.2*	*31.0*	*39.5*	*42.3*	*33.5*	*33.3*		
Of which wind	10.8	21.8	34.5	55.8	52.1	59.7	7.6	14.5
Wind %	*3.7*	*7.5*	*11.3*	*17.7*	*16.4*	*17.8*		
Total green energy production	110.5	112.4	155.2	188.9	158.4	170.9	12.5	7.9
Green energy %	*37.9*	*38.4*	*50.8*	*60.1*	*49.9*	*51.1*		

Figure 1: Electricity production for the entire country from 1954 til 2017.

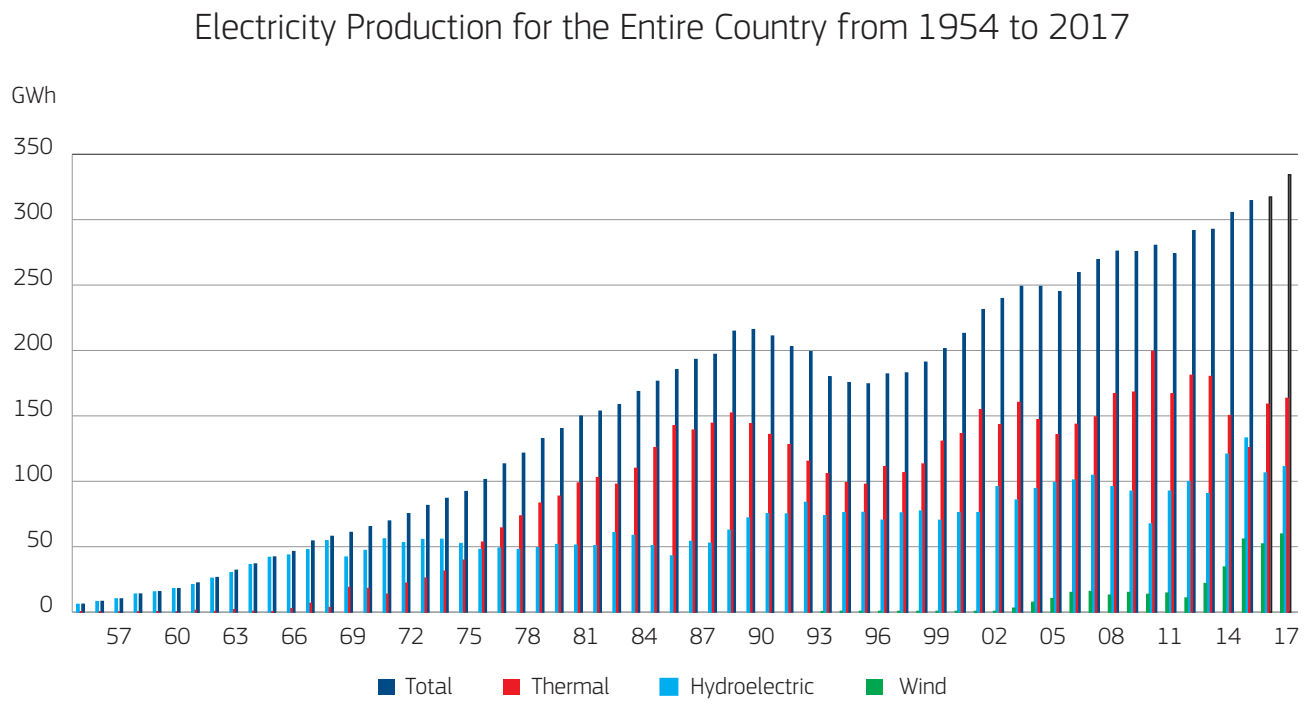


Figure 2: Total Monthly Electricity Production from 1986 through 2017.

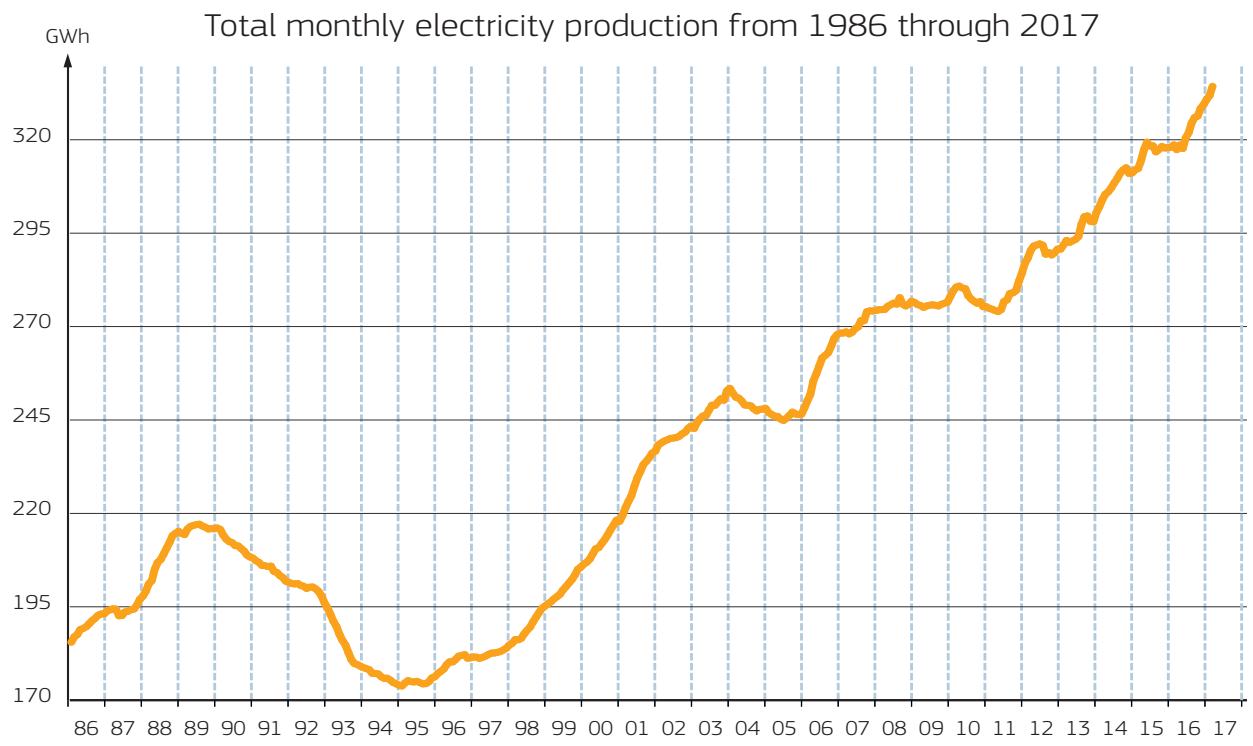
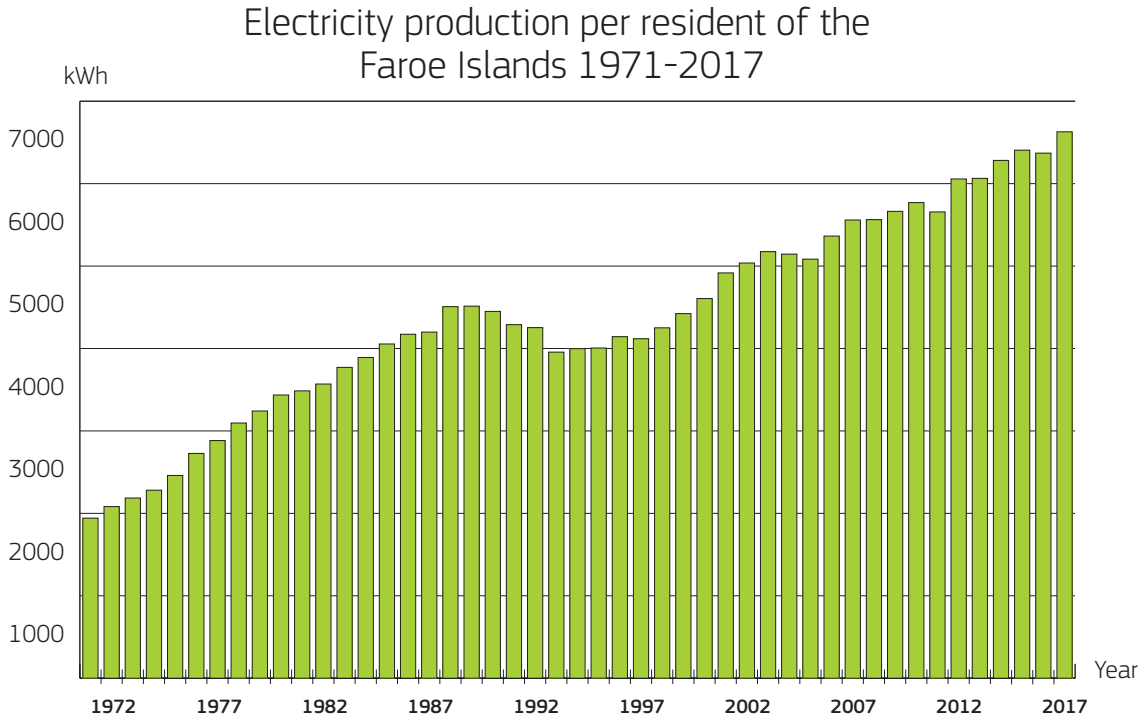


Figure 3: Electricity Production per Resident of the Faroe Islands 1971-2017.



Húsahagi wind farm utilised 94% of available wind energy during 2017, which was the first full year of operation of the battery system. Compared to 2015, which was the first full year of wind production at Húsahagi, but without the battery system, wind utilisation has increased by 16 percentage points since SEV started wind production at Húsahagi.

Electricity production has changed over the years, as shown in figure 1, where the production from 1954 to 2017 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 2017 of 334.3 GWh, which was 16.8 GWh greater than in 2016, which up to then had been the best year.

As can also be seen, hydro-power electricity production increased significantly by the end of the 1980s, following the opening of the new Eiði hydro-power plant. Hydro-power 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 hydro-power plant, which together with Eiði 2 South increased hydro-power electricity production by some 14 GWh annually. The tunnel project concluded at year-end 2013.

In November 2012, the wind farm at Neshagi went online, and on 9 October 2014 the new wind farm at Húsahagi also went online. SEV anticipates that these wind farms will produce considerable power and during the time they have been operational production has gone well. Further, the Company forecasts that wind energy production output will now increase after the new battery system at the Húsahagi wind farm became officially operational in 2016.

Figure 2 shows monthly electricity production from 1986 through and including December 2017. 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, and then continued to grow through 2014 to 2017, when annual growth was 5.3%.

Figure 3 shows electricity production in the Faroe Islands per inhabitant from 1971 to 2017. The graph indicates the same pattern as 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 and wind.

Figure 4: Geographical division of electricity production 2017.

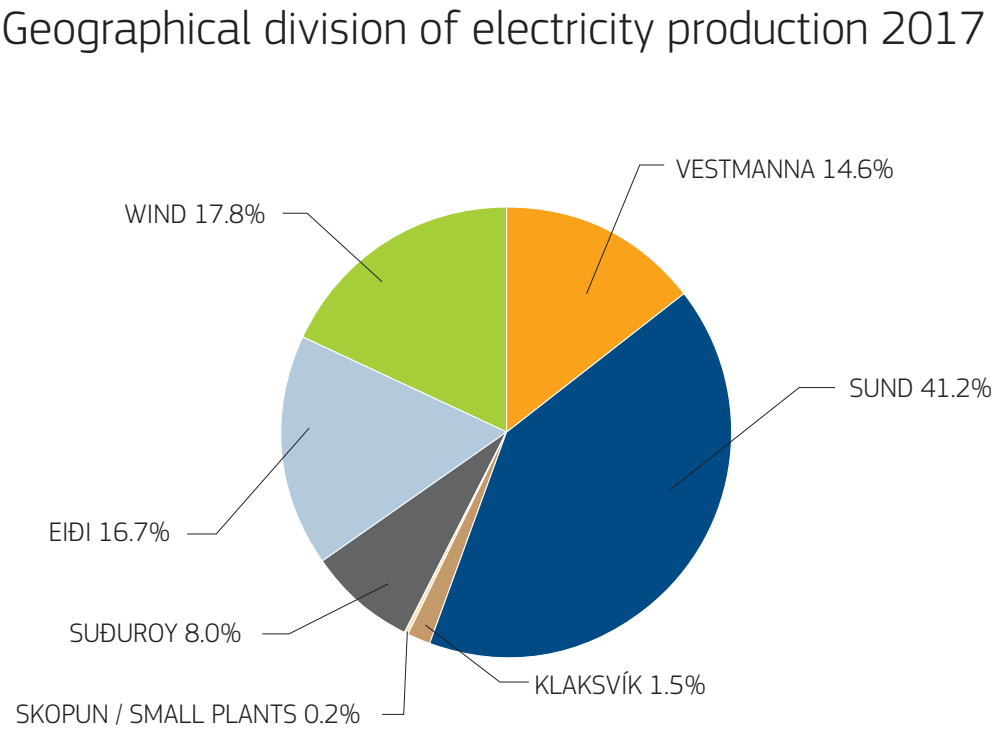


Figure 5: Electricity production by hydro-power plants in 2017 as a percentage of entire hydro-power production

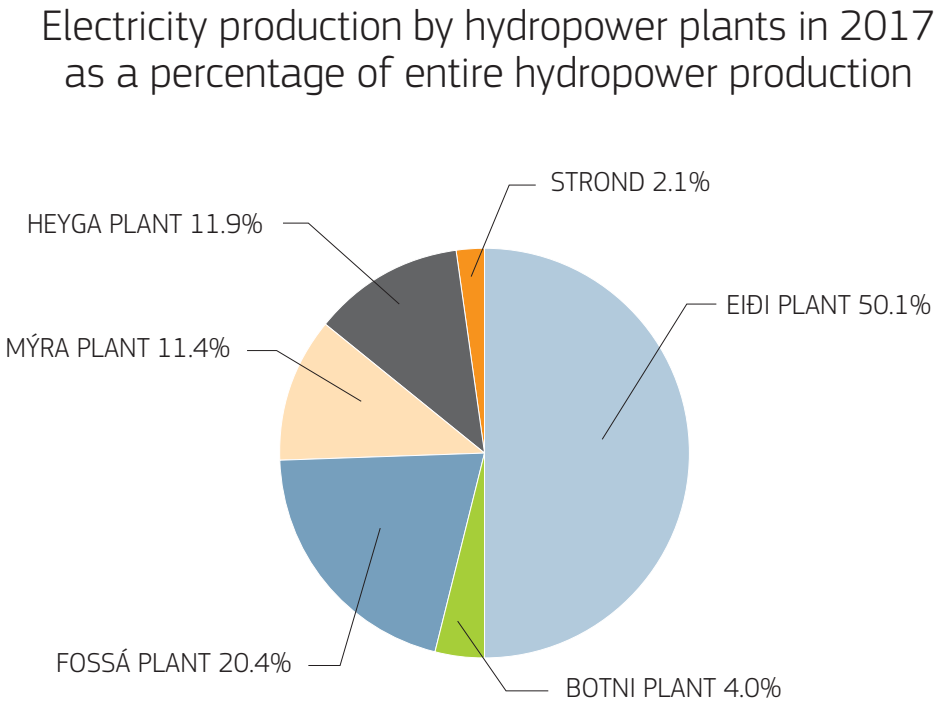


Figure 6: Peak demand and available power for the main central region 1956 –2017.

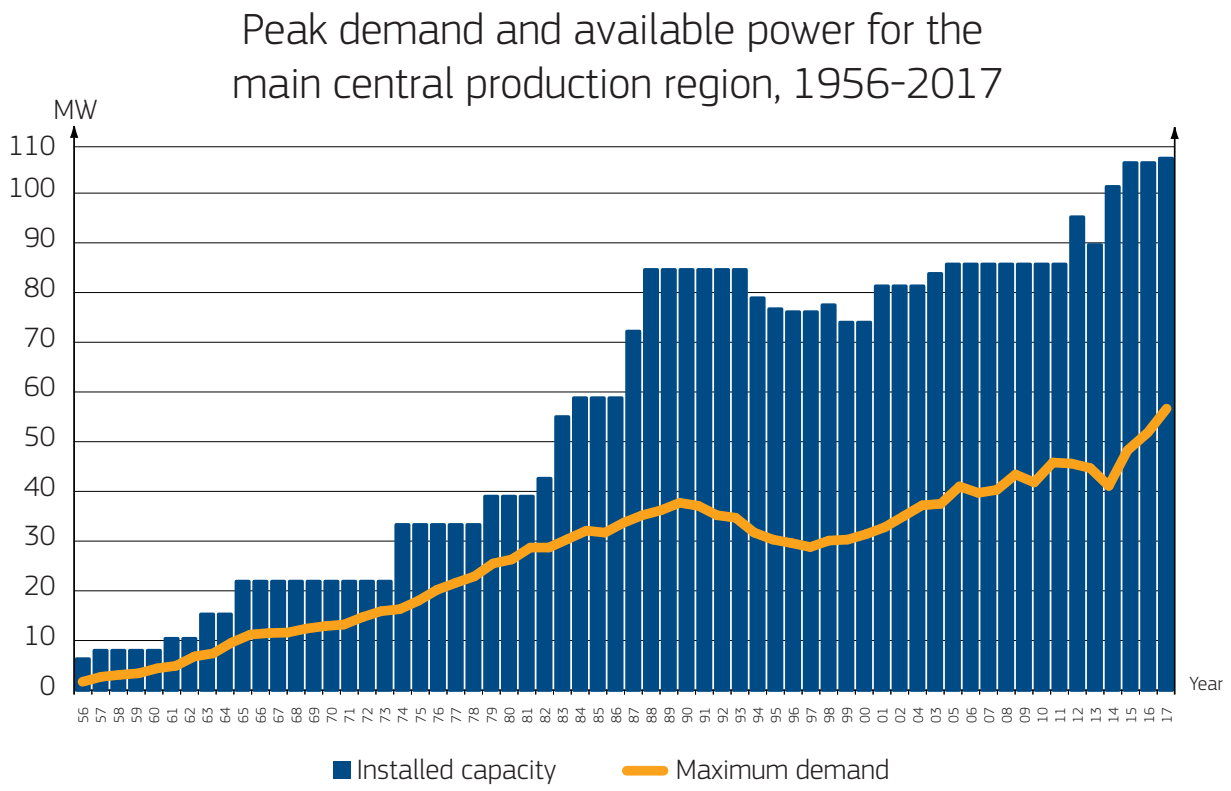


Figure 4 shows the geographical distribution of SEV's production in 2017. As Figure 4 shows, the largest amount of electricity is produced by the Sund thermal power plant, while the next largest is produced by wind. Total hydroelectric production equalled 111.2 GWh, while production at the Sund thermal power plant equalled 137.9 GWh.

Figure 5 shows the relative production of the hydro-power plants in 2017. As Figure 5 shows, the largest hydroelectric plant is located at Eiði, then comes the Fossá hydro-power plant in Vestmanna. The hydro-power plant at í Botni produces 4.0% of total 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 1956 to 2017. 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 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 hydro-power plant and the wind farm at Neshagi. The decline in 2013 of 5.3 MW reflects the fact that M3 motor at the Sund thermal power plant was off-line. The increase in 2014 and 2015 of some 4.8 MW reflects the installation of two new motors at the Sund plant to replace the M3 motor, plus the wind farm at Húsahagi for some 11.7 MW. In 2016, the new motor at the Vágur plant was complete, adding 4.0 MW- For 2017, there was no increase in available reserve power.

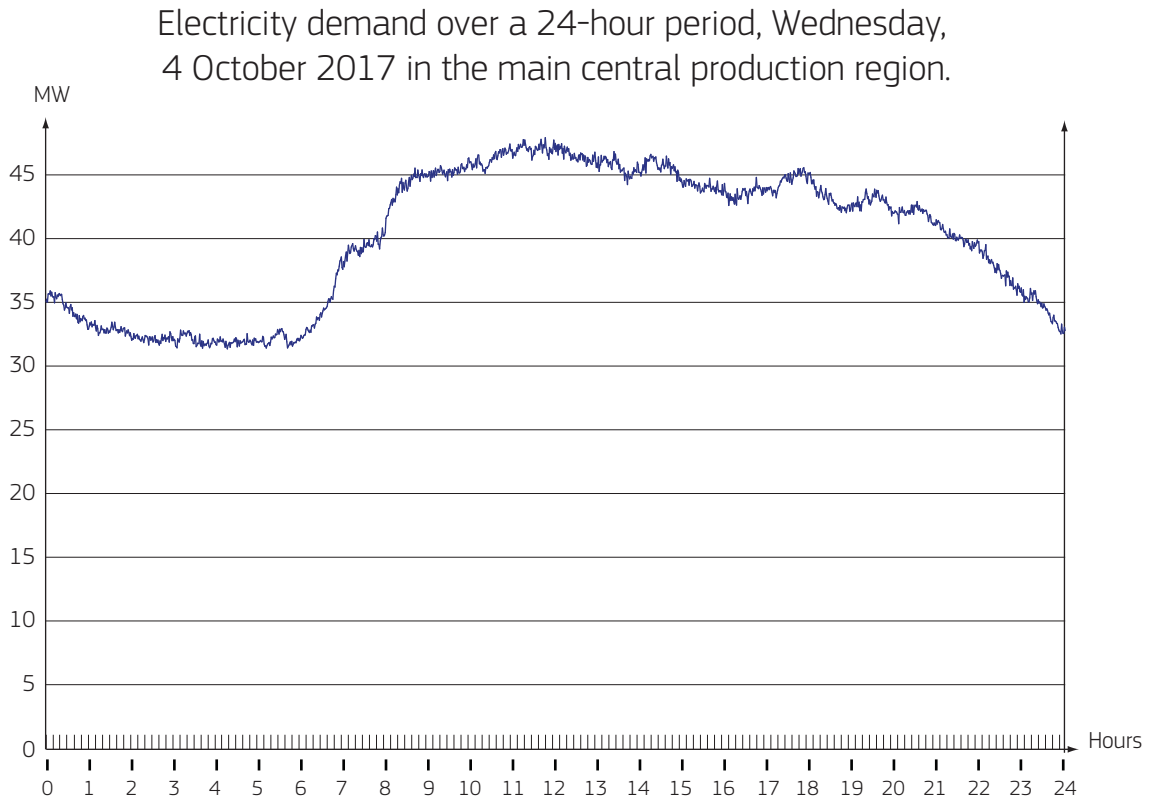
Figure 7 shows demand over a 24-hour period on Wednesday, 4 October 2017 in the central main region. As can be seen, demand is rather even from 9:00 in the morning to 20:00 in the evening. Over the last several years, average 24-hour demand has remained unchanged.

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

Figure 7: Electricity demand over a 24-hour period, Wednesday, 4 October 2017 in the main region.



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.

Calculated profit for 2017 was DKK 34.5 million, compared to DKK 30.5 million in 2016, corresponding to 5.0% and 4.2%, respectively, 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 57.8 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 own-financing.

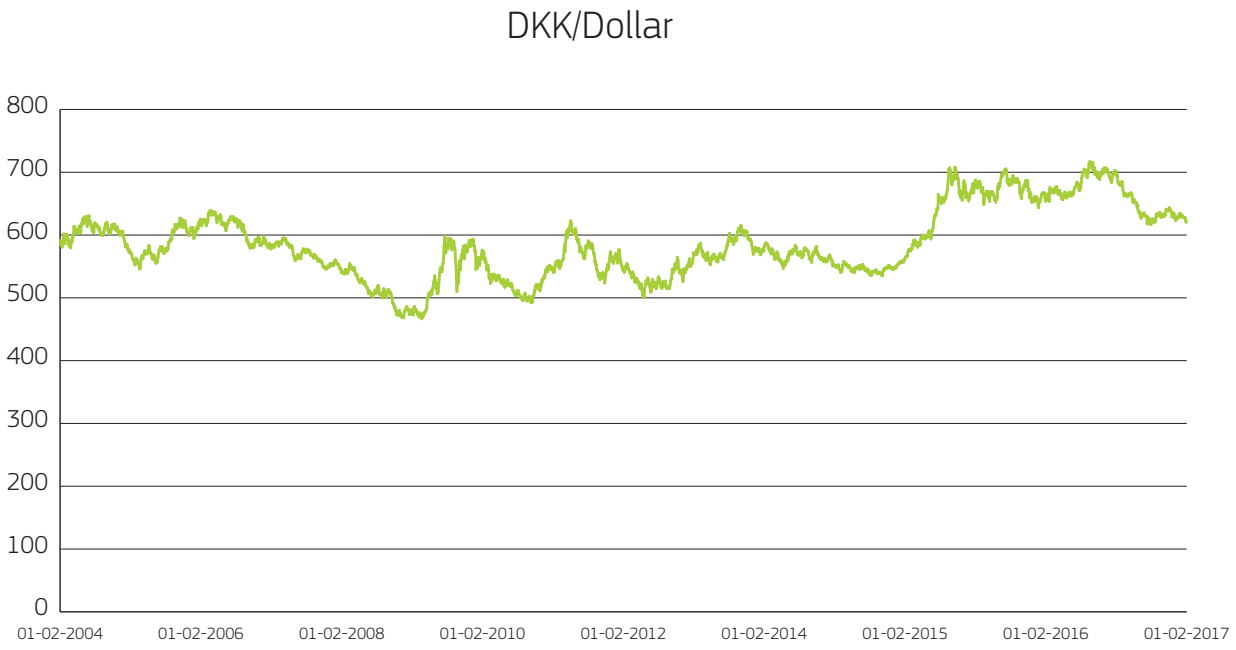
When infrastructure investment is needed, a portion of the investment required shall be self-funded, thus negating that the entire investment be financed by a loan facility. SEV has determined that self-financing of some 25% is sufficient and the Production and Grid accounts for 2016 and 2017 reflect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

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

Table 2. Total Consumption of Heavy Fuel Oil in Metric Tonnes 2011-2017

2011	2012	2013	2014	2015	2016	2017	2017 Budget	Difference betwteen budget and actual 2017	Difference between actual 2016 and 2017
33,961	36,746	36,893	30,880	25,738	32,195	32,631	31,570	1,061	436

Figure 8. DKK/USD exchange rate 2004 to 2017.



When SEV makes investments, it cannot rely solely on external loan financing, some self-financing is required. Depending on the type of business, it is normally said that self-financing in the range of 20-30% is an adequate level.

From now own, the self-financing is set at 25% in relation to average 5-year investments. SEV's budget for 2018 projects investment from 2017-2021 for Production to be DKK 1,288 million, equalling on average some DKK 258 million annually, of which a 25% self-financing would be DKK 64. For the Grid Division, projected investment is set at DKK 661 million, of which self-financing equals DKK 39 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 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 Production Division stemming from the anticipated expansion of the production power plants.

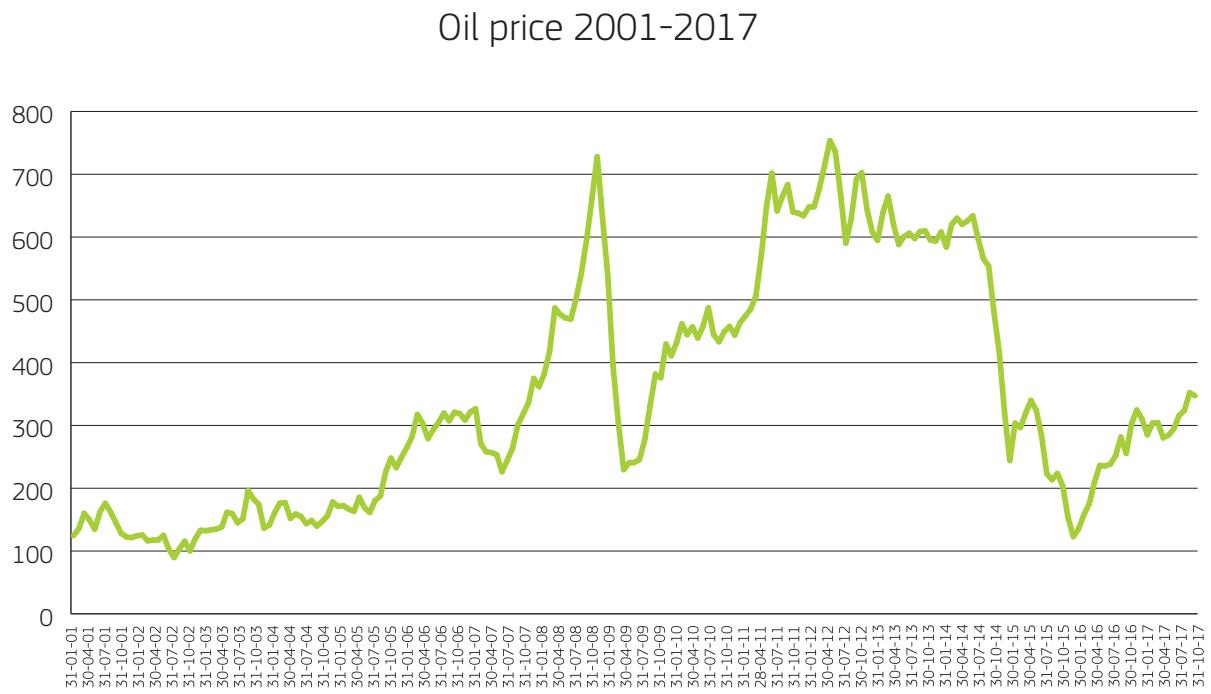
If SEV's total consolidated result was larger than the calculated allotment for the Production Division, the remainder was transferred to the Grid Division. This is now changed so that the Grid Division is allotted an adjusted result and not the Production Division.

Total income for the Production Division in 2017 was DKK 279.1 million, compared to DKK 265.5 million in 2016. Of this income, the Sund thermal power plant generated DKK 149.5 million or 53.6% and the Vágur thermal power plant generated DKK 35.6 million, or 12.8%.

Thus, the two largest oil-fired thermal production power plants generated an income of DKK 185.1 million in 2017, corresponding to 66.3% against DKK 163.2 million or 61.5% in 2017. Thus, there was a higher production of thermal power in 2017 than in 2016.

The 2017 operational result posted a surplus of DKK 57.8 million, compared to DKK 81.5 million in 2016, when the requirement for self-financing was first incorporated into the accounts.

Figure 9: USD oil price per tonne heavy fuel oil 2001 - 2017.



However, if one considers the operational result before deducting interest expenses, the total result was DKK 67.8 million. Production Division interest expense of some DKK 9.5 million stemmed in the main from the loan facilities for the construction undertaken at the Eiði hydro-power plant, the Húsahagi wind farm, and the expansion of the Sund plant.

Expenses

Total expenses for 2017 were DKK 220.8 million, while total expenses for 2016 were DKK 183.9million, corresponding to an increase in expenses of DKK 36.9 million. Expenses are related to the purchase of oil, operational and financial costs and depreciation. 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 2017, which resulted in a cost lower than originally budgeted. A more detailed analysis of SEV's risk management strategy is available in the Group's Consolidated Annual Accounts found at www.sev.fo.

Oil expenses were DKK 84.5 million in 2017, compared to DKK 50.7 million in 2016 thus the cost of oil was DKK 33.8 million more in 2017 than 2016. Expenses for goods and services and wages in 2017 were DKK 58,9 million, compared to DKK 62.0 million in 2016, such that these expenses in 2017 were DKK 3.1 million less, equalling a reduction of 5.0%.

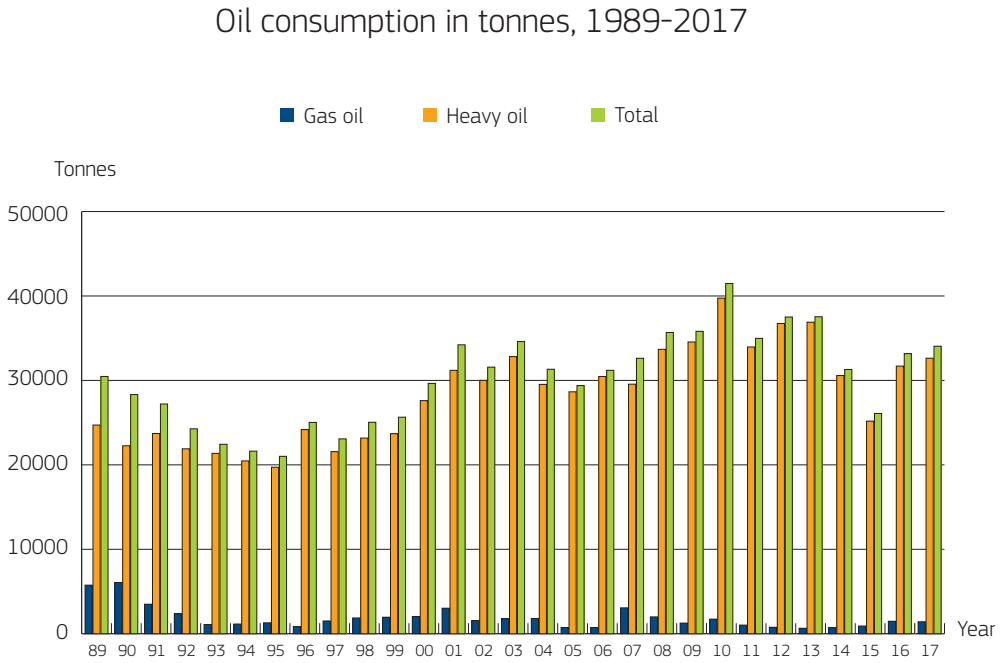
Table 2 shows oil consumption in metric tonnes for 2011-2017. As mentioned earlier, total production in 2017 increased by 17.0 GWh and production by the thermal power plants grew by 4.5 GWh, corresponding to 2.8%, from 158.9 GWh in 2016 to 163.4 GWh in 2017. Hydro-power electricity production increased by 4.9 GWh, from106.3 GWh to 111.2 GWh, or 4.6%. Electricity production from wind power increased by 7.6 GWh from 52.1 GWh to 59.7 GWh, or 14.5%. The reason was more wind in 2017 than in 2016, as well as better equipment to utilise the wind.

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 216.8. The average price per tonne of heavy oil in 2017 was USD 310.20. After a fall in the average oil price from 2014 to 2016, prices have increased again during 2017.

Table 8 above shows the monthly fluctuation in the US dollar exchange rate from 2004 through 2017.

The USD exchange rate has fluctuated during the past 5 years. At the beginning of 2016, the rate was DKK 6.83 to the dollar,

Figure 10: Oil consumption in tonnes 1989 – 2017.



decreasing to 6.43 in May, and then increasing to 6.74 on US election day on 8 November. The exchange rate continued to increase, reaching 7.05 at the end of 2016. In early 2017, the rate was at its highest in 2017, at 7.17. Then through the first quarter of 2017, the exchange rate decreased to a level around 7.00 and continuing the decline until late July, levelling off around 6.30, until a final decline late in the year to 6.20.

The development of the DKK/USD exchange rate for 2017 is shonw in Figure 10.

As noted above, oil expenses equalled DKK 84.5 million in 2017, compared to DKK 50.7 million in 2016, corresponding to a higher cost of DKK 33,8 million, of which heavy fuel oil accounted for an increase of DKK 33.0 million. Oil expenses includes lubricating oil, gas oil and heavy fuel oil, but the cost for heavy fuel oil is by far the biggest part.

The increase in oil expenses in 2017 relative to 2016 is due to increased oil prices and to a lesser extent higher oil consumption. Higher oil prices account for DKK 18.9 million of the heavy fuel oil expenditure increase of DKK 33.0 million, while the increased consumption of 436 tonnes accounts for 1.1 million. According to the accounting principles, oil inventories must be valued at market prices, and these market value adjustments have increased costs by DKK 13.0 million in 2017.

The average cost per tonne of heavy fuel oil in 2017 was DKK 2.123. The corresponding costs were DKK 1.139 and DK 2.859 in 2016 and 2015, respectively. The average cost for 2017 was DKK 984 higher than in 2016, yet DKK 736 lower than in 2015.

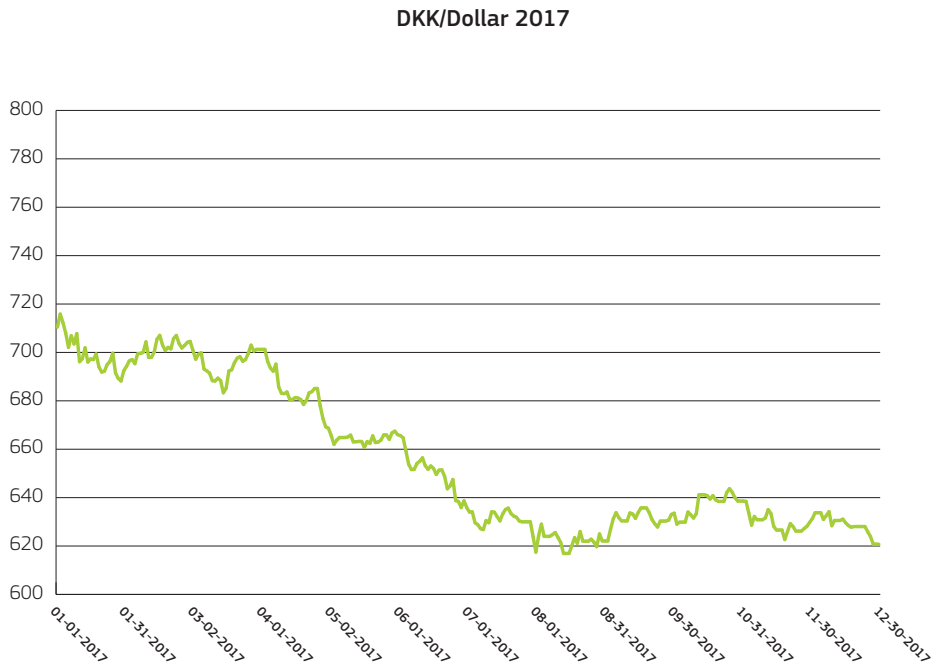
The average cost per litre of gas oil was DKK 4.93 in 2017. The corresponding cost for 2016 and 2015 were DKK 4.21 and 5.04, respectively. The average cost was DKK 0.72 higher than in 2016, but DKK 0.11 lower than in 2015.

The plant at Sund and Vágur accounted for almost all of the total DKK 84.5 million oil expenses, with DKK 64.9 million and DKK 14.5 million, respectively, or 94.0% of total oil expenses. The Sund plant alone accounted for 76.8% of oil expenses.

Figure 9 shows the trend in oil prices from 2001 to the end of 2017. The figure shows that the price of heavy 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 heavy oil plunged to the same level as seen at the beginning of 2007, around USD 220 per tonne

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 of 2014 to USD 584 per tonne, but subsequently rose to USD 633 in June and then to fall 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 it 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

Figure 11: DKK/USD exchange rate during 2017.



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 302.5 on average per tonne of heavy oil in December 2016. The average price per tonne of heavy oil during 2016 was USD 216.80.

The oil price has been more stable in 2017 than in 2016. The lowest price was in June at USD 280.3, while the peak was in November at USD 352.2 The average price for the whole of 2017 was USD 310.5.

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.

Figure 10 shows an overview over oil consumption related to the production of electricity from 1989 to 2017, 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 4.2% in 2017, compared to 4.5% in 2016. The Figure shows also that the total amount of oil in 2017 was higher than in 2016. This corresponds well with the other Figures seen above that show that electricity production from thermal energy was higher in 2017 than in 2016.

Goods and services

In 2017, power plant expenses for goods and services equalled DKK 25.0 million, against DKK 28.2 million in 2016. This equates to a decrease of DKK 3.2 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 the 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 will be amortized over the commensurate number of additional useful-life years.

In 2017, expenses for goods and services at the Sund power plant amounted to DKK 9.8 million, against DKK 9.8 million in 2016, or 39.2% of total expenses for goods and services in 2017. This reflects a decrease of DKK 0.1 million, or 1.0% for costs at the Sund power plant. The Vágur power plant contributed DKK 3.0 million in 2017 toward total expenses, against DKK 3.4 million in 2016, corresponding to a decrease of DKK 0.4 million, or 11.8% 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.

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 33.9 million in 2017, against DKK 33.7 million in 2016 which corresponds to a higher employee expense of DKK 0.2 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 Sund plant had DKK 17.2 million, or 50.7%, of total employee expenses of DKK 33.9 million in 2017, while the Vágur plant had DKK 5.5 million, or 16.2%. The same figures for 2016 were DKK 16.7 million, or 49.6%, for the Sund plant, which means 2017 is DKK 0.5 million higher than 2016. At the Vágur plant, 2016 employee expenses were DKK 5.6 million, or 16.6%, which means 2017 employee expenses were lower than 2016.

In 2017, employee expense for the Fossá power plant was DKK 4.7 million, corresponding to 13.9%, against DKK 4.9 million or 14.5% in 2016. 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. Hydro-power and the wind turbines only account for DKK 9.6 million or 28.0% of the total employee expense of DKK 33.9 million, of which only a part is the cost of managing the grid.

Financial Expenses

Interest expenses were DKK 9.5 million in 2017 versus DKK 12.1 million in 2016, or DKK 2.6 million less. The Company refinanced its existing debt and also secured financing for investments from 2017 onward. The interest expenses for 2016 are influenced by establishment fees from these transactions, and swap fees were also higher in 2016 than in 2017. Confer the Group's Consolidated Annual Accounts available at www.sev.fo for a more detailed discussion.

Depreciation

Total depreciation for 2017 was DKK 67.8 million against DKK 59.2 million in 2016, an increase of DKK 8.6 million.

For 2017, the assets at the Sund power plant were depreciated by DKK 19.4 million, against DKK 14.2 million in 2016, and the Eiði hydro-power plant assets were depreciated DKK 19.6 million, against DKK 19.3 million in 2016, corresponding to total asset depreciation in 2017 for both production units of DKK 39.0 million, compared to 33.5 million in 2016. The depreciation in 2017 for these two power plants of DKK 39.0 million is 57.5% of the total depreciation of DKK 67.8 million.

The Vágur power plant was depreciated by DKK 7.6 million, the new wind turbines at Húsahagi were depreciated by DKK 7.3 million for 2017, the wind turbines at Neshagi were depreciated by DKK 3.1 million, and the hydro-power plant in Vestmanna were depreciated by DKK 8.1 million.

In general, with regard to budgeting for the following year, a

Table 3. Investments fixed assets in DKK million	Budget 2017	Budget revisions	Revised budget 2017	Actual investments 2017	Difference between revised budget and actual investments
	1	2	3=1+2	4	5=4-3
Fossá plant	4.8	0.0	4.8	3.4	1.3
Heyga plant	0.2	0.1	0.3	0.4	0.0
Mýru plant	3.7	-0.1	3.5	0.7	2.9
Eiði plant	3.3	0.0	3.3	3.0	0.3
Botnur plant	1.7	0.4	2.1	1.6	0.4
Vágur plant	12.1	0.8	12.8	13.2	-0.4
Trongisvágur plant	1.0	-0.9	0.2	0.1	0.0
Sund plant	470.3	-0.5	469.8	233.5	236.3
Strond plant	9.0	0.1	9.2	8.2	1.0
Smallar plants	4.1	0.8	4.8	3.7	1.1
Neshagi wind farm	0.3	0.0	0.3	0.0	0.3
Húsahagi wind farm	0.2	0.0	0.2	0.0	0.2
Suðuroy wind farm	50.0	0.0	50.0	0.7	49.3
Total investment in production plant	**560.4**	**0.7**	**561.1**	**268.5**	**292.7**

Table 4. Total investment	2017	2016
Investment booked to work-in-progress	262,2	143,1
Investment booked directly as transition	5,5	0,9
Investment at year-end	**267,8**	**143,9**

Table 5. Work-in-progres	2017	2016
Opening balance	159,2	131,7
Investment booked to work-in-progress	262,2	143,1
Work transferred to depreciation as transition	-58,6	-115,3
Closing balance	362,8	159,4
Changes to work-in-progress	**203,6**	**27,8**

Table 6. Transition to fixed assets	2017	2016
Work transferred to depreciation as transition	58,6	115,3
Investment booked directly to fixed assets	5,7	0,9
Transition as at year-end	**64,3**	**116,2**

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

nvestment in tangible fixed assets for 2017 was DKK 268.5 million, as shown in Table 3.

It is especially the extension of the Sund plant with Station 3 and the new tank building that show up in the investments for 2017. The work on Station 3 is going according to plan. The new motors arrive in the summer of 2018, and testing will commence in late spring of 2019, with handover and acceptance scheduled for September 2019. The total investment for Station 3 is budgeted for DKK 710 million, of which DKK 650 million are for the plant itself, and the remaining DKK 60 million for a new coupling station in connection with the plant.

The new day tank building is almost complete. The total investment in the project is DKK 134 million, of which DKK 34 million is for the tank yard, and DKK 100 million for the building itself, including tanks, equipment, and pipe tunnel between the building and the existing plant and the new Station 3. The new tank yard is a significant improvement on SEV's environmental security, being 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. The day tank building houses all the treatment of fuel oil, lubricating oil, and waste oil. Besides oil treatment, the storage of urea is also in the building, which is to be used for exhaust gas cleaning on the new Station 3.

The day tank building itself is also an environmental improvement, as the oil treatment facilities for Stations 1 and 2 were outdated. This means all oil treatment is contained in the new building, both increasing environmental security and operational efficiency.

At the Vágur plant, the investments are changes to electric technology systems related to the extension of the plant in 2016, and also new operating system for the motors. At the Fossá plant, the investments were DKK 3.4 million, mainly in emergency power and sluice gate. The interior of the plant building at Strond has been refurbished, forming part of total DKK 8.2 investment spend in 2017.

In 2017, transfers from work-in-progress to being directly booked as a fixed asset (depreciation basis) amounted to DKK 64.3 million, compared to DKK 116.2 million in 2016. Confer the Work-in-progress section in 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 2017, SEV's total liquidity was DKK 248.0 million, against DKK 335.5 million in 2016. In addition, there are the unused drawing rights provided by the credit loan facilities with the financial institutions which equalled DKK 520 million.

Thus, total cash-on-hand and available credit equalled DKK 768.0 million in 2017, against DKK 961.5 million in 2016. 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. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets.

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 2018

Based on the budget for 2018, the result before tax is DKK 37.3 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 satisfactory, and must remain so in years to come.

Operating expenditure is budgeted at DKK 52.2 million in 2018 compared to 58.9 million in 2017, lower by DKK 6.7 million or 11.4%.

Oil expenditure is budgeted at DKK 91.1 million in 2018 compared to DKK 87.4 million in 2017, which is DKK 3.7 million higher. The Company's long-term risk management strategy is to hedge the oil purchase price at no higher than the budget price. In January 2017, the company hedged 60% of the 2018 purchase, while the remaining 40% were hedged in February 2018. The volume hedged in January 2017 is reflected in the budget price, while the volume hedged in 2018 was somewhat dearer than the budget price, which means the cost of oil in 2018 will exceed the budgeted price, but the effect of the higher oil price is somewhat mitigated by a lower DKK/USD exchange rate. Market value adjustments on oil inventories will also affect the expense in 2018.

Depreciation is budgeted at DKK 64.5 million in 2018 versus DKK 67.6 million in 2017. Interest expenditure is expected to increase due to increase in debt for financing the investments in the Sund power plant, coupling stations, and the grid. Interest expenditure is budgeted at DKK 17.8 million versus 9.3 million in 2017, the increase is due to an increase in lending to finance investment in production assets, but also in the grid.

With the budgeted result for 2018 at a satisfactory level, the production operations provide sufficient equity financing for investments. It is necessary for the 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 2018 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.

Income Statement

	Note	2017 DKK	*2016* *t. DKK*
Net turnover	1	**279,101,302**	***265,526***
Cost of oil	2	-84,507,353	*-50,691*
Goods and services	3	-25,045,731	*-28,210*
Gross proceeds		**169,548,218**	***186,626***
Wages	4	-33,895,521	*-33,744*
Depreciation, amortization and impairment of fixed assets		-67,823,169	*-59,160*
EBITDA		**67,829,528**	***93,722***
Financial items	5	-9,487,625	*-12,116*
Result before tax		**58,341,903**	***81,606***
Tax on annual result	6	-557,871	*-139*
Annual result		**57,784,032**	***81,466***
Proposed distribution of result:			
Result carried forward		**57,784,032**	*81,466*
Total distribution		**57,784,032**	***81,466***

Balance Sheet 31 December

ASSETS	Note	31.12.17 DKK	*31.12.16 t. DKK*
Power plants	7, 14	949,800,062	*958,271*
Buildings and land	7	8,711,477	*3,912*
Operating equipment	7	1,298,785	*1,340*
Work-in-progress		363,016,179	*159,391*
Total tangible fixed assets		**1,322,826,503**	***1,122,913***
Total fixed assets		**1,322,826,503**	***1,122,913***
Oil inventory		16,670,548	*15,086*
Total inventories		**16,670,548**	***15,086***
Inter-company account - Grid		8,202,491	*42,990*
Tax asset	6	7,047	*106*
Prepayments and accruals		234,275	*6,065*
Total receivables		**8,443,813**	***49,160***
Total current assets		**25,114,361**	***64,246***
Total assets		**1,347,940,864**	***1,187,159***

Balance Sheet 31 December

LIABILITIES	Note	31.12.17 DKK	*31.12.16 t. DKK*
Deposit	8	29,000,000	*29,000*
Result carried forward	8	750,116,569	*692,333*
Total equity		**779,116,569**	***721,333***
Deferred tax	6	704,034	*245*
Total provisions		**704,034**	***245***
Long-term debt	9	445,800,076	*453,960*
Total long-term debt		**445,800,076**	***453,960***
Current portion of long-term debt	9	8,247,736	*8,156*
Inter-company account - Grid		110,665,273	*0*
Other liabilities		3,407,176	*0*
Accruals		0	*3,466*
Total short-term debt		**122,320,185**	***11,622***
Total debt		**568,120,261**	***465,582***
Total liabilities		**1,347,940,864**	***1,187,159***

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Cash Flow Statement

	Note	2017 DKK	2016 t. DKK
Annual result		**57,784,032**	***81,466***
Adjustments	13	77,868,665	*71,276*
Changes in working capital:			
Inventories		-1,584,223	*-3,342*
Receivables		0	*-106*
Inter-company account - Grid		145,452,393	*-131,929*
Other liabilities		5,771,781	*-2,795*
Operating cash flow before financial items		**285,292,647**	***14,570***
Interest paid and similar expenses		-9,487,625	*-12,116*
Adjustments to prior years		0	*0*
Cash flow from operations		**275,805,022**	***2,454***
Investment in tangible fixed assets		-64,111,329	*-116,238*
Changes to work-in-progress		-203,625,504	*-27,656*
Cash flow from investments		**-267,736,834**	***-143,893***
Loan facilities		0	*462,116*
Repayments of long-term debt		-8,068,188	*-349,676*
Share capital		0	*29,000*
Cash flow from financing		**-8,068,188**	***141,440***
Total cash flow during the year		0	*0*
Opening cash-on-hand		0	*0*
Closing cash-on-hand		**0**	***0***

Notes

1. NET TURNOVER	2017 DKK	*2016 t. DKK*
Own production	262,077,691	*244,928*
Grid responsibility	16,802,676	*19,370*
Other sales	220,934	*1,228*
Total	**279,101,302**	***265,526***

2. OIL EXPENSES		
Gas oil	8,035,235	*7,571*
Heavy fuel oil	70,137,757	*37,140*
Lubricating oil	6,334,361	*5,980*
Total	**84,507,353**	***50,691***

3. GOODS AND SERVICES	2017 DKK	*2016 t. DKK*
Lines	8,829	*10*
Dams, pipelines and tunnels	-21,880	*438*
Tanks and environmental	250,579	*312*
Motors	8,497,803	*8,888*
Electric and technical	383,381	*469*
Buildings and land	1,162,143	*725*
General Meeting and Board	185,990	*106*
Studies and consultancy	5,945,911	*9,368*
IT	780,455	*498*
Management and office expenses	530,397	*762*
Other operating expenses	327,377	*596*
Other administrative expenses	6,994,746	*6,037*
Total	**25,045,731**	***28,210***

4. EMPLOYEE EXPENSES	2017 DKK	*2016 t. DKK*
Wages	29,915,421	*30,002*
Pensions	2,875,525	*2,773*
Contributions	1,104,575	*969*
Total	**33,895,521**	***33,744***

Employees with SEV as main source of personal income	55	*54*
Average number of employees	64	*63*

5. FINANCIAL EXPENSES	2017 DKK	*2016 t. DKK*
Interest, loans and bank debt, etc.	9,487,625	*12,116*
Total	**9,487,625**	***12,116***

6. TAXES ON ANNUAL RESULT		
Corporate tax	0	*0*
Deferred tax	564,918	*245*
Tax asset	-7,047	*-106*
Total	**557,871**	***139***

7. TANGIBLE FIXED ASSETS

Amounts in DKK	Production plants	Distribution	Buildings	Equipment	Total 2017	*2016*
Acquisition value, opening balance	1,953,696,475	5,358,336	4,128,542	5,869,856	1,969,053,209	*1,852,999,069*
Additions during the year	62,558,831	1,555	938,274	842,696	64,341,356	*116,054,140*
Disposals during the year	-39,600	0	0	-190,427	-230,027	
Acquisition value year-end	**2,016,215,707**	**5,359,890**	**5,066,816**	**6,522,125**	**2,033,164,538**	***1,969,053,209***
Depreciation, amortization and impairment, opening balance	-999,560,982	-1,223,234	-216,992	-4,529,837	-1,005,531,045	*-946,371,109*
Depreciation, amortization and impairment during the year	-66,854,663	-152,904	-122,099	-883,930	-68,013,596	*-59,159,936*
Reversal of prior years' depreciation on disposals	0	0	0	190,427	190,427	
Depreciation, amortization and impairment, closing balance	-1,066,415,644	-1,376,139	-339,091	-5,223,339	-1,073,354,214	*-1,005,531,045*
Carrying amount year-end	**949,800,062**	**3,983,752**	**4,727,725**	**1,298,785**	**959,810,324**	***963,522,164***
Carrying amount year-end 2016	*954,135,494*	*4,135,101*	*3,911,550*	*1,340,019*	*963,522,164*	

Work-in-progress	Production plants	Distribution	Buildings	Equipment	Total 2017	*2016*
Work-in-progress opening balance	158,513,736	4,488	872,451	0	159,390,674	*131,551,345*
Investment booked to work-in-progress	261,684,733	-2,933	565,948	0	262,247,749	*143,149,227*
Completed work transferred to depreciation	-57,682,415	-1,555	-938,274	0	-58,622,244	*-115,309,898*
Work-in-progress closing balance	**362,516,054**	**0**	**500,125**	**0**	**363,016,179**	***159,390,674***
Work-in-progress closing balance 2016	*158,330,235*	*4,488*	*872,451*	*183,501*	*159,390,674*	
Fixed assets at year-end	**1,312,316,116**	**3,983,752**	**5,227,850**	**1,298,785**	**1,322,826,503**	***1,122,912,838***
Fixed assets at year-end 2016	*1,112,465,729*	*4,139,589*	*4,784,001*	*1,523,520*	*1,122,912,838*	

8. EQUITY

Amounts in DKK	Share capital	Result carried forward	Total
Equity statement 01.01.16 - 31.12.16			
Opening balance 01.01.16	0	610,866,153	610,866,153
Paid up share capital in subsidiary companies	29,000,000	0	29,000,000
Annual result	0	81,466,384	81,466,384
Closing balance 31.12.16	29,000,000	692,332,537	721,332,537
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

9. DEBT

	Repayment next year ***DKK***	*Outstanding debt after 5 years* ***DKK***	*Total debt 31.12.17* ***DKK***	*Total debt 31.12.16 t.* ***DKK***
Debt to financial institutions	0	358,941,000	358,941,000	*358,941*
Debt to SEV	8,247,736	60,998,177	95,106,812	*95,019*
Total	**8,247,736**	**419,939,177**	**454,047,812**	***453,960***

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	149,458,346	-64,946,806	-9,831,236	-17,200,380	-19,359,653	-995,640	0	37,124,631
Vágur power plant	35,609,117	-14,525,137	-3,045,483	-5,542,973	-7,567,024	-1,626,668	0	3,301,833
Fossá power plant	13,605,507	0	-1,348,626	-4,746,868	-4,530,908	-730	0	2,978,374
Heyga power plant	4,754,408	-24,289	-621,001	-328,460	-2,126,365	0	0	1,654,294
Mýra power plant	3,927,344	0	-447,119	-339,401	-1,402,219	0	0	1,738,604
Eiði power plant	35,951,522	0	-3,006,145	-1,803,437	-19,574,626	-4,670,885	0	6,896,428
Botnur power plant	1,427,073	0	-214,511	-91,009	-506,304	0	0	615,249
Strond power plant	8,557,898	-3,254,144	-1,034,941	-2,194,719	-1,013,656	0	0	1,060,438
Wind power	20,483,689	0	-5,084,159	-137,009	-10,352,173	-2,193,694	-557,871	2,158,783
Small power plants	5,326,399	-1,756,978	-412,509	-1,511,264	-1,390,241	-9	0	255,397
Production result	**279,101,302**	**-84,507,353**	**-25,045,731**	**-33,895,521**	**-67,823,169**	**-9,487,625**	**-557,871**	**57,784,032**

11. POWER PLANT OVERVIEW AS AT 31 DECEMBER 2017

Location	Unit	MW	Unit type	Manufacturer	Powered by	Year	Age	Hours	Hours 2017
Botnur	T1	1.00	Pelton hydro turbine	Voith	Hydro	1965	52	199,797	2,597
Botnur	T2	2.00	Francis hydro turbine	Voith	Hydro	1966	51	157,886	3,139
Eiði	T1	7.00	Francis hydro turbine	Voith	Hydro	1987	30	109,044	3,368
Eiði	T2	7.00	Francis hydro turbine	Voith	Hydro	1987	30	108,423	4,812
Eiði	T3	7.70	Francis hydro turbine	Voith	Hydro	2012	5	32,837	6,422
Húsahagi	T1	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	25,747	7,758
Húsahagi	T2	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	25,157	7,715
Húsahagi	T3	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	25,437	7,737
Húsahagi	T4	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	25,148	7,406
Húsahagi	T5	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	24,979	7,382
Húsahagi	T6	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	24,762	7,484
Húsahagi	T7	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	24,520	7,193
Húsahagi	T8	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	24,695	7,541
Húsahagi	T9	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	25,669	7,678
Húsahagi	T10	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	25,696	7,590
Húsahagi	T11	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	25,398	6,711
Húsahagi	T12	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	25,111	7,033
Húsahagi	T13	0.90	Windmill (pitch reg.)	ENERCON	Wind	2014	3	26,250	7,562
Neshagi	V1	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	5	39,200	7,862
Neshagi	V2	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	5	39,509	7,598
Neshagi	V3	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	5	39,488	7,655
Neshagi	V4	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	5	39,738	7,978
Neshagi	V5	0.90	Windmill (pitch reg.)	ENERCON	Wind	2012	5	39,660	7,838
Neshagi	V6	0.15	Windmill (fixed pitch)	Nordtank	Wind	1993	24	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	35	48,660	859
Strond	T1	1.40	Francis hydro turbine	Sulzer Hydro	Hydro	1998	19	62,256	2,810
Sund	M1	7.85	4-T 9M43C	Caterpillar/MaK	Heavy fuel oil	2001	16	65,980	4,478
Sund	M2	7.85	4-T 9M43C	Caterpillar/MaK	Heavy fuel oil	2004	13	61,066	4,706
Sund	M3A	2.40		MTU	Gas oil	2015	2	1,261	514
Sund	M3B	2.40		MTU	Gas oil	2015	2	1,202	457
Sund	M4	12.40	2-T 12 L55 GSCA	B&W Götaverken	Heavy fuel oil	1983	34	183,345	5,088
Sund	M5	12.40	2-T 12 L55 GSCA	B&W Götaverken	Heavy fuel oil	1988	29	160,353	5,917
Vágur	M1	2.70	4-T 9 M 453	Krupp Mak	Heavy fuel oil	1983	34	120,913	216
Vágur	M2	2.70	4-T 9 M 453	Krupp Mak	Heavy fuel oil	1983	34	120,636	873
Vágur	M3	4.20	4-T 9M32C	Caterpillar/MaK	Heavy fuel oil	2004	13	83,460	1,797
Vágur	M4	4.00	4-T 9L32	Wartsila	Heavy fuel oil	2016	1	10,824	6,928
Strond	M4-M6	3.00	4- T C1250 D2R (3 container gen sets)	Cummins Diesel	Gas oil	2014	3	2,763	2,389
Vestmanna	Fossá 1	2.10	Pelton hydro turbine	Maier	Hydro	1953	64	224,910	3,735
Vestmanna	Fossá 2	4.20	Francis hydro turbine	Voith	Hydro	1956	61	352,268	5,841
Vestmanna	Heygav. 1	4.90	Francis hydro turbine	Voith	Hydro	1963	54	233,830	5,370
Vestmanna	Mýruv. 1	2.40	Francis hydro turbine	Voith	Hydro	1961	56	379,381	7,972

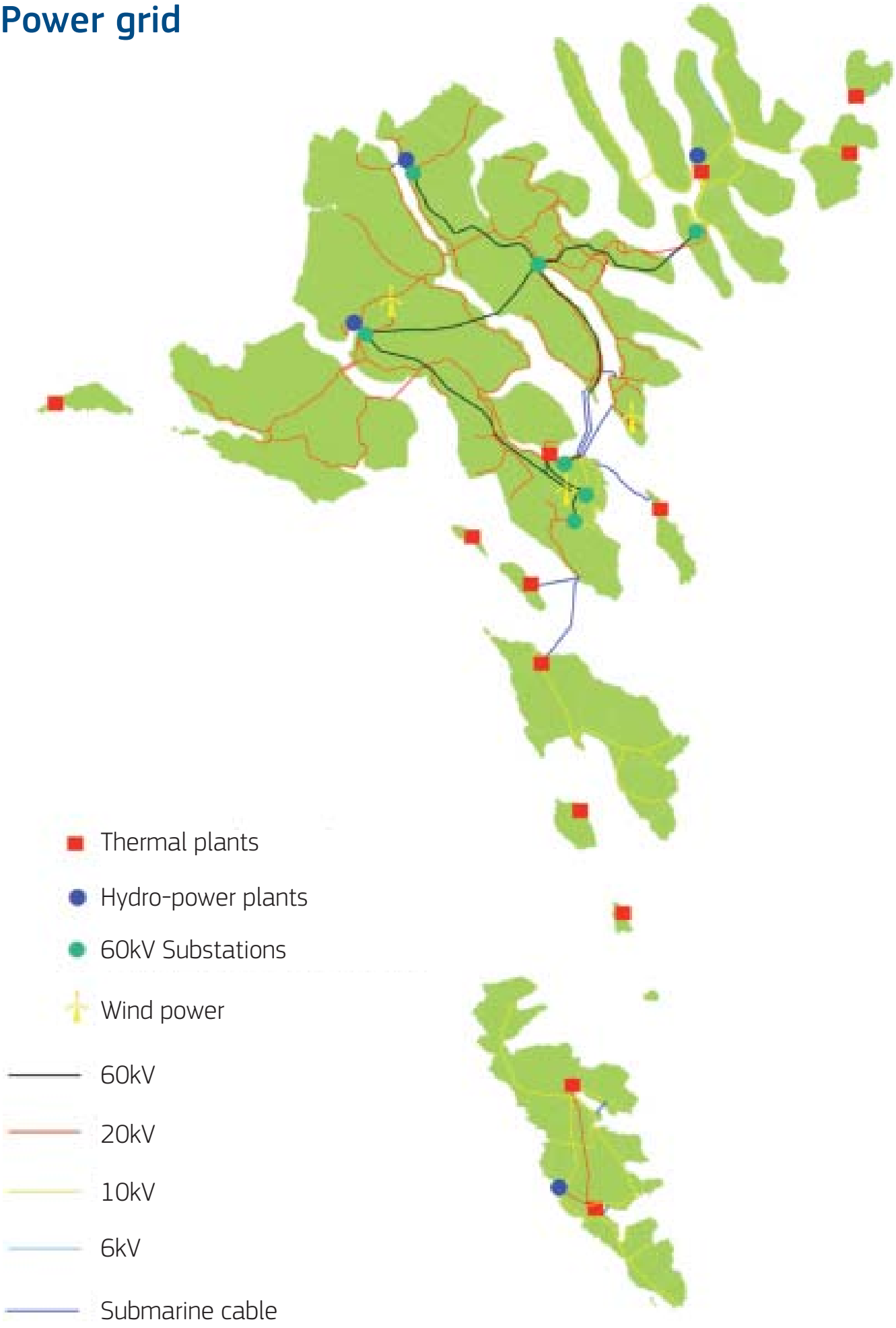
12. MORTGAGES AND OTHER OBLIGATIONS

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

13. ADJUSTMENTS	2017	*2016 t.DKK*
Depreciation	67,823,169	59,160
Interest expense and similar expenses	9,487,625	12,116
Taxes	557,871	0
Total	**77,868,665**	**71,276**

14. ASSET VALUE OF PRODUCTION PLANT	2017	*2016 t.DKK*
Fossá	33,473,513	*37,224*
Heyga	23,535,171	*25,232*
Mýru	17,077,620	*18,220*
Eiði	496,000,135	*511,255*
Botnur	8,334,180	*8,160*
Vágur	131,857,083	*133,309*
Tvøroyri	4,993,333	*5,218*
Sund	107,284,684	*79,476*
Skopun	48,377	*0*
Strond	7,666,431	*8,019*
Wind farms	116,489,712	*126,802*
Smaller plant	151,042	*158*
Mobile gen sets	943,840	*1,133*
Fugloy	1,820,323	*1,462*
Svínoy	76,965	*116*
Mykines	1,029,332	*1,185*
Hestur	1,935,520	0
Koltur	9,263	0
Nólsoy	9,263	0
Skúvoy	663,142	*869*
Dímun	384,884	*433*
Power plants according to the Production Accounts	**953,783,814**	***958,271***
Grid equipment, etc. installed within power plants	-3,983,752	*-4,135*
Power plants according to the Group Accounts	**949,800,062**	***954,135***

Power grid


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

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