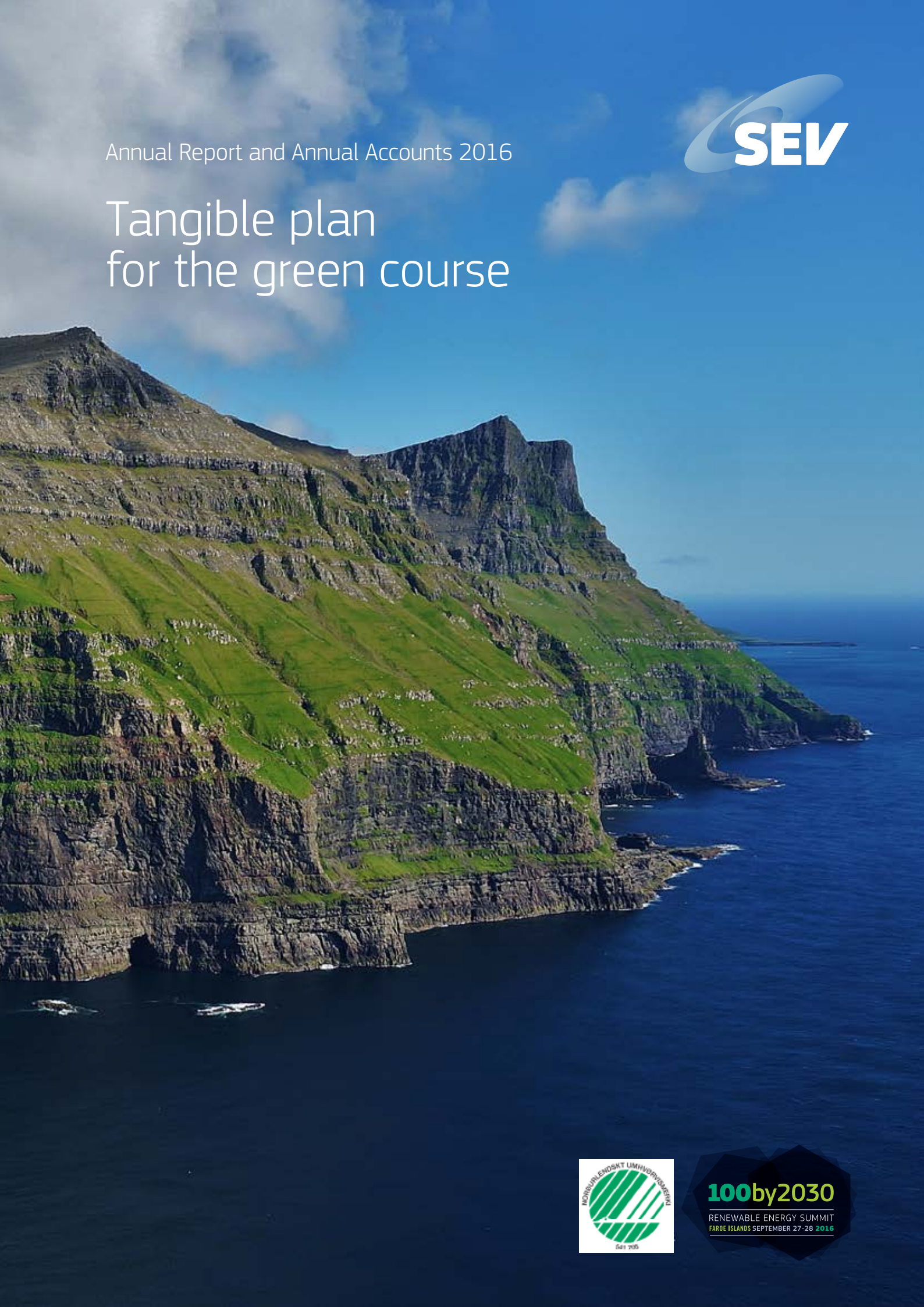
Annual Report and Annual Accounts 2016

# Tangible plan for the green course



100by2030
RENEWABLE ENERGY SUMMIT
FAROE ISLANDS SEPTEMBER 27-28 2016

**Annual Report and Annual Accounts 2016**
Annual General Meeting 21 April 2017
Photos: Finnur Justinussen/Fotostudio, Alan Brockie, Ólavur Frederiksen/Faroephoto,
Torkil Strøm, Andreas Mouritsen, OpenHydro, Magnus Fröderberg/norden.org,
Bogi Bendtsen, Eyðun Eliasen and SEV.

Layout, printing, binding: Føroyaprent

# Contents


Report from the Board of Directors ..... 2
Tangible plan for the green course ..... 6
Cost of electricity reduced at year-end ..... 13
Good weather caused decline in green energy production ..... 14
SEV focusing on a green future ..... 16
SEV CEO awarded the Nordic Council Environment Prize ..... 24
Financing for SEV ..... 27
Lighting up Húsahagi ..... 30
Enlargement of Vágur Thermal Power Plant completed 32
Entire country wireless metered ..... 34
A more secure IT system ..... 35
Apprentices are a most welcome gift at SEV ..... 36
A fascinating, different and cool workplace ..... 40
Christmas caroling ..... 44
Changes in SEV management ..... 46
All employees now online ..... 48
Our employees ..... 49
Health, safety and environment ..... 51

Annual Report and Annual Accounts 2015 ..... 57
Electricity Compagny SEV (Elfelagið SEV) Annual Accounts 2015 ..... 58
Management Report ..... 59
Independent Auditor's Report ..... 60
Key Figures and Financial Ratios ..... 61
Management Review ..... 62
Accounting Principles ..... 78
Income statement 1 January – 31 December ..... 82
Balance sheet 31 December ..... 83
Cash flow statement ..... 85
Distribution of activities, production and grid ..... 86
Operations – production and grid ..... 89
Notes ..... 91

*The new Board from the left: Kristian Eli Zachariasen representing the Northern Islands, Hans Jákup Johannesen, Vice Chairman, representing Eysturoy, Vinjard Tungá, representing Sandoy, Marin Katrina Frýdal, representing Tórshavn Municipality, Sune Jacobsen, representing Vágoy, John Zachariasen, Chairman, representing Northern Streymoy, and Jónsvein Hovgaard, representing Suðuroy*

# The Board's Report

**The Board and Management are very proud and pleased in being able to ascertain that SEV today is a financially strong company heading to fulfill the vision of 100% green energy on shore in the Faroe Islands in 2030. We are heading in the right direction and both speed and the course to the future will be maintained**

It is a testament to SEV's financial strength that the Company is able to reduce its sales price, while at the same time maintaining its ambitious investment plan. The Board's budget proposal for 2017 at the extraordinary annual general meeting in November 2016, included a price reduction of DKK 0.05 per kWh from 1 January 2017, and the budget shows a net profit of DKK 67.5 million. The group's result for 2016 of DKK 102 before tax and 93 million after tax is satisfactory.

The company's prime objectives are duty to supply, high quality and security of supply. These objectives are the guiding light for the Company's green expansion plans while protecting the environment in the quest to meet growing demand for electrical energy.

SEV is required to meet the demand for electricity, while also ushering in a radical change in energy usage. These are challenging times, and our employees are facing the challenges head on with SEV's core values in mind: Cooperation, passion, and respect.

Entrenched in our core values is a communicative approach. SEV strives for transparency and trust in its green course and operations as a whole through open and reliable communications. Effective communication is an important prerequisite for all cooperation.

A description of SEV's activities since last year's annual general meeting will be given in this report and the Board will furthermore describe the items of which the owners have a great interest in. This report is given in accordance to article 3, section 12b and article 4, section 11a in the Company's Articles of Association.

## Varied activities in the past year

A new Board of Directors was elected on an extraordinary annual general meeting on 24 February 2017 as a result of the municipal elections held in November 2016. The new members are Kristian Eli Zachariasen for the Northern Islands, Hans Jákup Johannesen for Eysturoy, John Zachariassen for Streymoy, Sune Jacobsen for Vágoy, Vinjard Tungá for Sandoy, Jónsvein Hovgaard for Suðuroy, and Marin Katrina Frýdal for Tórshavn Municipality. After the meeting, the Board elected amongst themselves John Zachariassen as Chairman and Hans Jákup Johannesen as Vice-Chairman.

Effective 9 December 2016, the Board appointed Mr. Jón Nielsen as Director of Grid Operations, when the previous Director, Mr. Finn Jacobsen, took up another job outside SEV. The Director of Production, Mr. Anders Nedergaard-Hansen, will retire on 1 March 2017, and the Board has appointed Mr. Heri Mortensen to succeed him. The Board has also approved the new Department of Development, headed by Mr. Terji Nielsen.

SEV has by letter dated 13 March 2017 from the Ministry of Health and the Interior received new licences for the Company's hydro plants. The letter and licences from the Ministry, along with SEV's proposed reply have been sent to the municipal owners prior to today's AGM, and the owners will be given the opportunity to discuss the matter and the proposed reply before SEV finally replies to the Ministry of Health and the Interior.

The wind operations have now been transferred to the two subsidiary companies P/F Vindfelagið í Neshaga and P/F Vindfelagið í Húsahaga. The annual reports of the two companies are available at this AGM.

The company has worked on a proposal to add more specialists as board members. After having discussed the proposal at the AGM on April 24, 2014, the company handed the proposal to the Ministry of Trade and Industry and the former Ministry of the Interior for their remarks. At the AGM on April 24, 2015, the issue was revisited and the AGM told, that the matter will be put before the AGM, when the authorities have replied. On 29

September, 2015, the company consulted the Ministry of Trade and Industry and the response was that the matter now was with the Ministry of Health and of the Interior. The matter was discussed at a meeting between the Company and the Ministry on March 4, 2016. A reminder was sent to the Ministry on August 12, 2016, but there is still no reply from the Ministry of Health and the Interior. A briefing on this matter was also given at the extraordinary AGM on 24 February, 2017.

To shed light on the vision of making the Faroe Islands 100 percent independent of fossil fuels in 2030, it is necessary that all the Faroese consumers by and large will choose green solutions. To indicate that SEV is a progressive and modern company, SEV arranged the international „100by2030" conference in the Nordic House on September 27 and 28, 2016. The main event of the conference was a presentation given by Mr Tony Seba, the American futurologist from Stanford University. The conference was very successful, attracting a capacity audience. The conference ended with a large reception at Østrøm celebrating SEV's 70 birthday on October 1, 2016.

An extraordinary annual general meeting on the 25 November 2016 allowed SEV to undertake a two-year trial with a reduction of the price for electricity to heat-pumps and electric cars. To proceed with the trial, changes are required in the Electricity Production Act, and the Ministry of Health and the Interior are working on the changes.

On 26 November, 2016, the Industrial Arbitration Board ruled on SEV's appeal on the conditional licences awarded to Sp/f Røkt and SEV on 1 July, 2015, to operate pumped-storage systems in the Vestmanna area. The ruling states that the awarding of the licences are not administrative valid decisions, and that the licences have not legal effect on Sp/f Røkt and SEV. The ruling and letter from SEV to ORKA, dated 21 April, 2017, have been sent to the owners for your information.

## Renewable energy investments

The battery system in Húsahagi was officially opened on 28 September, 2016 after a trial period. The system is running as planned and the results so far prove that the unstable wind energy is much more balanced onto the grid through the battery.

In July of this year, there will be a full year's worth of wind measurements from the wind measuring mast in Suðuroy. This provides the required material for producers to submit offers for the licence. SEV has worked together with ORKA to open a tender in Suðuroy this summer. The plan is for 12 wind turbines of 900 kW each, combined with a battery system, and a pumped-storage system and hydro turbine at Botni, which are required for the tender to go ahead. SEV's offer is conditional on approval by the Board and the owners. The detailed planning of the battery system and hydro plant at Botni is under way, so that the Board and owners can decide on the project in the autumn of 2017.

The Board, together with ORKA, has also worked on the issue

of further wind energy investments in the main area. SEV looks forward to the next tender of 12 MW, hopefully in 2018.

Electric vehicle chargers have been installed in Klaksvík, við Streymin, Tórshavn, Vestmanna and on Tvøroyri. SEV is also installing charging stations in Runavík, Sandoy and at the airport. These chargers should satisfy the immediate requirement.

SEV and the Municipality of Tórshavn are equal shareholders in P/F Fjarhitafelagið (district heating) and have held discussions on their position in the company and its activities. This resulted in a joint letter to the company in which the owners confirmed their point of views regarding the company's vision, operations and investment plan. Considerable investments in the district heating network lie ahead, and SEV is pleased that P/F Fjarhitafelagið succeeded in becoming a part of the heating of Glasir, the large new secondary school.

The work is ongoing with new technical conditions for connecting production units to the electrical system. A significant change in the new conditions is allowing and making it relatively easy for others to connect small production units to the electrical system. The financial conditions are yet to be finished, but hopefully this will be by mid-2017.

At a meeting with ORKA, SEV discussed a bio gas project which could solve farmers' and fish farmers' issue of waste products. Different topics have been discussed and how SEV could be involved in this project. Overall SEV has taken a positive attitude to this project.

## Other expansions

The addition of a new motor at the Vágur plant was finished last year and this was celebrated with a reception on 1 September 2016. SEV is satisfied with the work. The cost of the project was DKK 13 million over budget, costing a total of DKK 111 million. The higher costs are due to clearing old, buried explosives from the site, price increases and extensive consultancy costs. The Board has reviewed the project and noted the issues, and we refer the reader to the Management Report for more information.

At the extraordinary general meeting on 30 September, 2016, the owners agreed to expanding the Sund power plant with a new station – Station 3. Contracts have been entered into with contractors and suppliers, and negotiations with Tórshavn Municipality for the land are complete. Final approval is expected very shortly.

The updated and extended tank yard fence at the Sund plant was finished in 2016. The new day tank building was also finished, and now the final installing of technical equipment is underway. When this is complete, all smaller tanks including equipment are indoors and within the tank fence perimeter, where all processing and preparation of oil products will be safely handled. A tunnel for all the piping from the tank yard to the plant means all pipes are secure as well.

## Considerable financing requirements

The work to refinance of existing debt and secure financing for future investments was a success. The total amount raised is DKK 1.67 billion, with DKK 1 billion sourced from a US private placement of bonds to insurance and pensions companies, while the remainder is a revolving credit facility from BankNordik, EIK, Lív, Norðoya Sparikassi, and Skandinaviska Enskilda Banken.

It is a condition for the financing, that SEV maintains hedge agreements on oil purchases, currency transactions, and interest rates in accordance with the Company's stated risk strategy.

## Result for 2016

The group's profit for 2016 was DKK 102 million before tax, and DKK 93 million after tax. This is a sufficient and satisfactory result which indeed is of great importance considering the investments and subsequent increase in lending, which lie ahead.

## Budget for 2017

The Company budgets for a result before tax of DKK 67.5 million, when the DKK 0.05 per kWh price reduction is included. The Board is pleased the Company is able to reduce the price while maintaining a satisfactory result.

For further information, please refer to the report from SEV "The financial status 2016 and the operations, financial and investment plan for 2017" which describes the financial conditions for the budget. This report, presented to the extraordinary AGM on 25 November, 2016, is available on www.sev.fo.

## SEV is on the right course

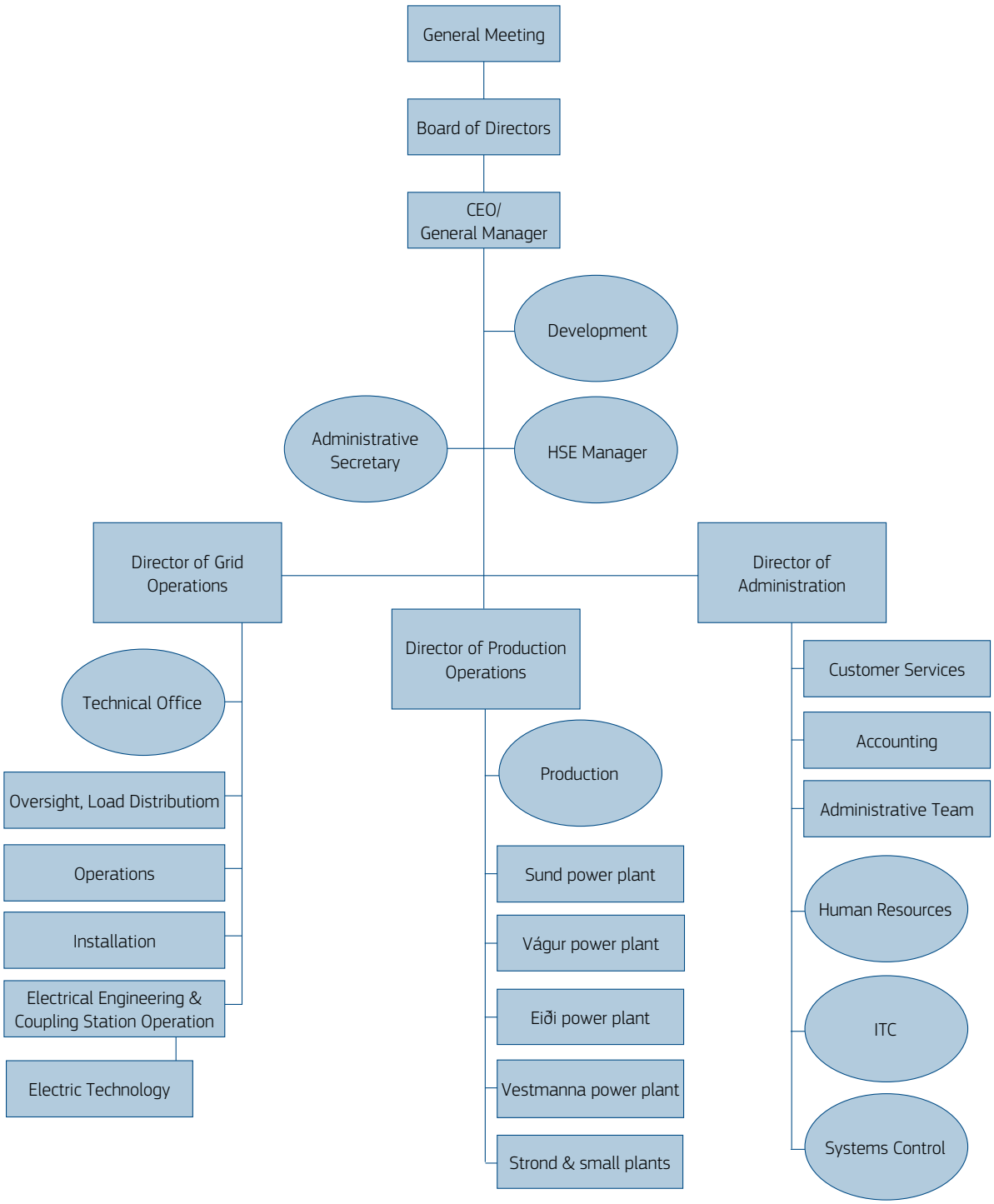
SEV is on the right course to make the Faroe Islands independent of fossil fuels in 2030. Innovative thinking is required and therefore the Company has set up a new Development Department to lead the way towards 100by2030. This new department will, along with the Board and Management, detail a master plan for reaching the goal in close cooperation with authorities and external advisors.

The plan is to change the way energy is used in the Faroe Islands before 2030, replacing fossil fuels with renewable energy sources. To succeed it is an absolute prerequisite that the Faroese people and businesses together with SEV, Government authorities and providers of energy solutions agree upon the green course and work in agreement with same.

The future is green – with the right attitude, we will succeed together.

**John Zachariassen, Chairman of the Board**
April 2017

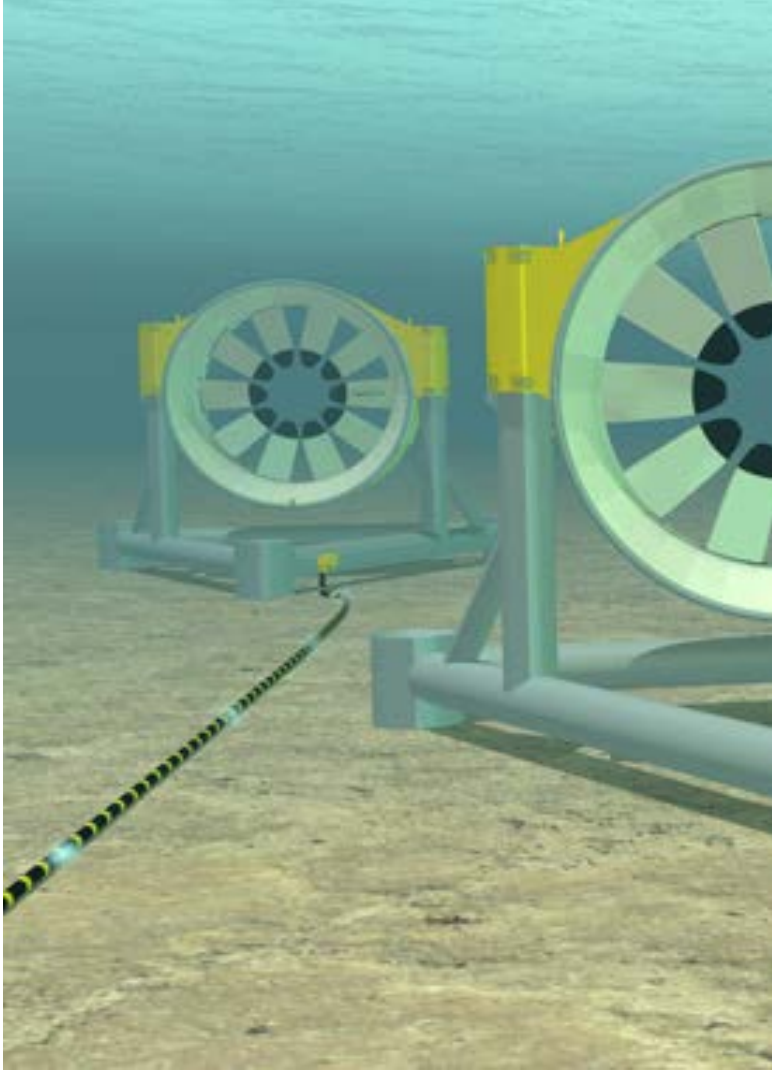
# Corporate Organization



# Tangible plan for the green course

After extensive preparation and studies, SEV is developing a tangible plan for the green course. It is a flexible plan that can be amended in the event of unexpected technological and financial developments on the way towards the ultimate goal of making the Faroe Islands 100% green by 2030

# Tangible green plan



SEV announced its plans to reach 100% green energy on shore in the Faroe Islands by 2030, when the company officially opened the Húsahagi wind farm on 9 October 2014.

The Government agreed with the green course in the coalition agreement in 2015, laying a very strong foundation for the green course for both SEV and the Faroe Islands as a whole. The prerequisites for embarking on the green course are hereby met.

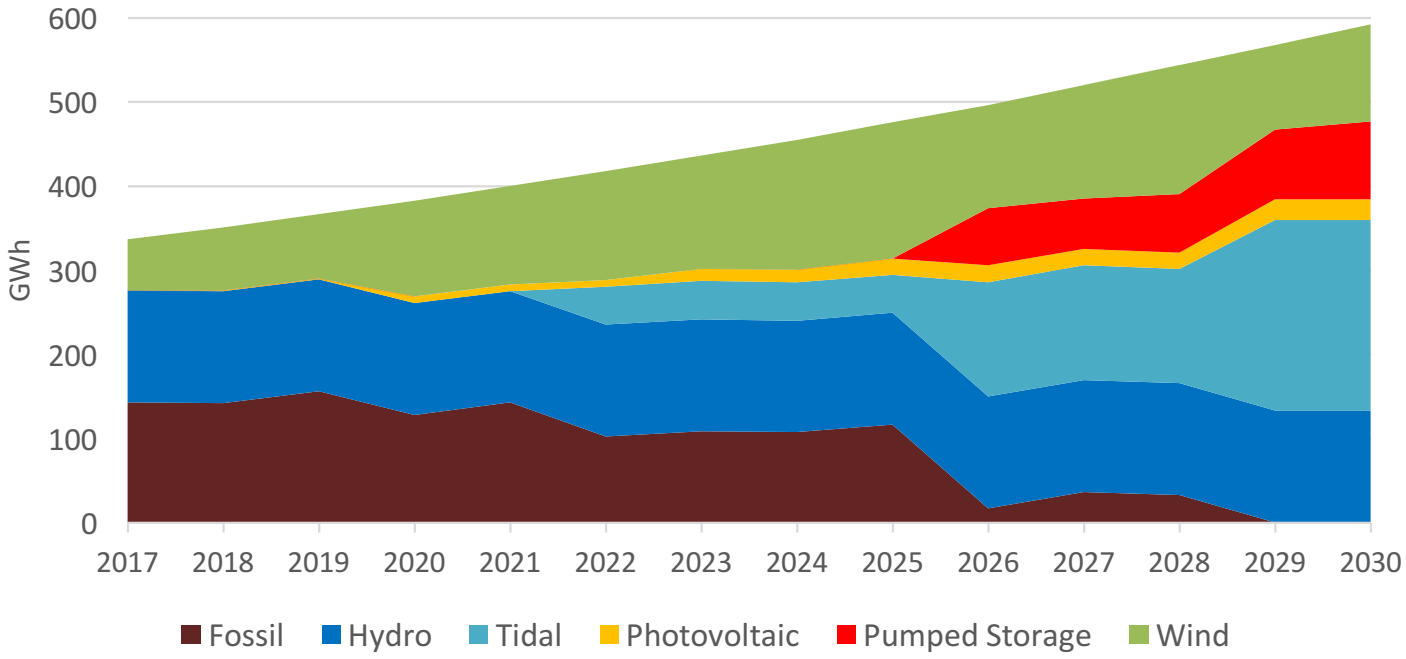
The wind farm at Húsahagi is, with its revolutionary battery system, which in terms of minutes and seconds balances the energy output to the grid, the first concrete step on the green course. The battery system enables higher yield from wind energy.

– This is breaking new ground in energy production and all effort will be put into finding the optimal technical solutions for sustainable energy sources in the Faroe Islands. Still, further ground-breaking solutions are required to reach the target, says Terji Nielsen, SEV's Manager of Development.

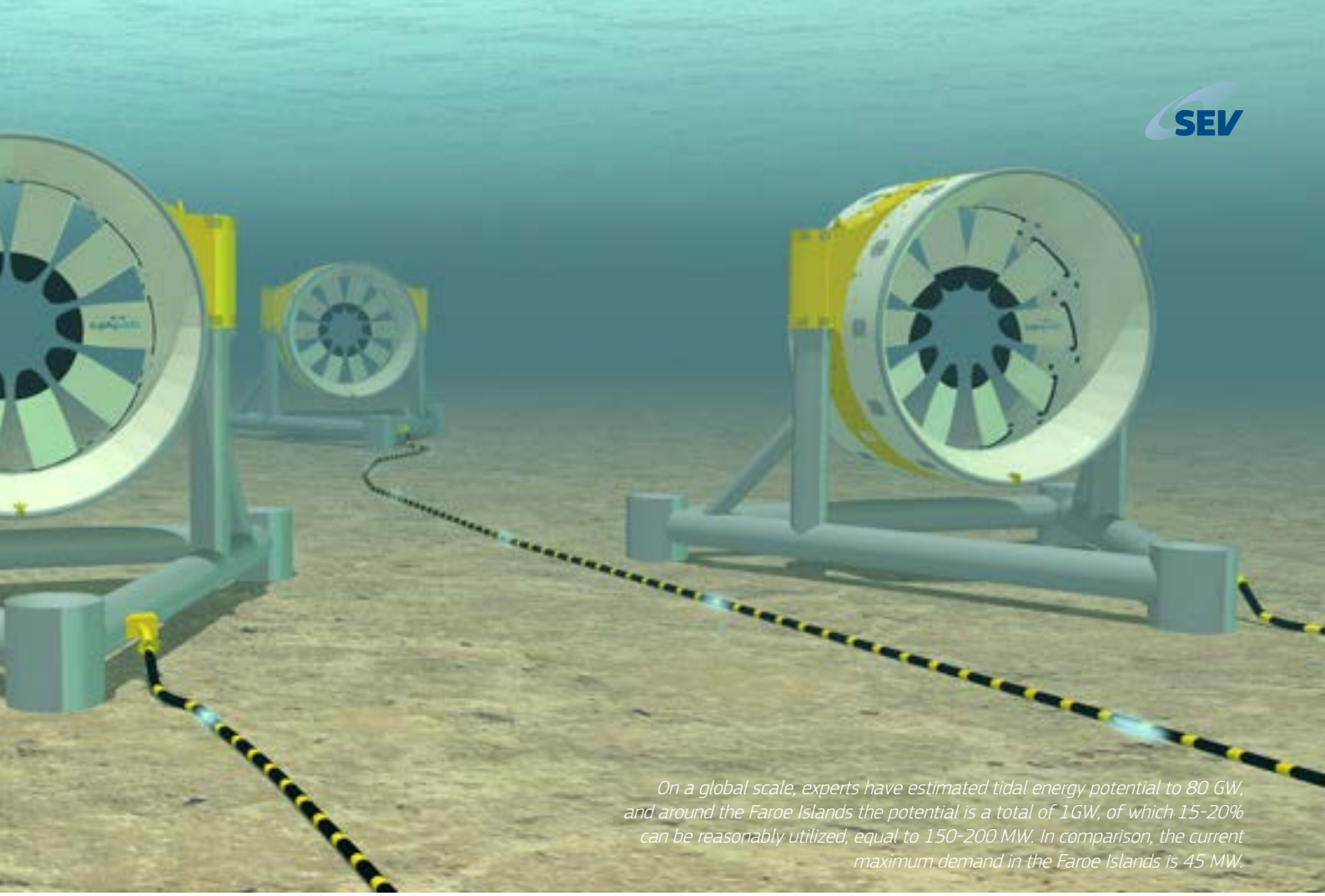
Terji Nielsen is leading the work to prepare a tangible plan for the green course, and the following details some aspects of the plan that Terji Nielsen and others are preparing.

The choices to be made between the different technologies and solutions have to be based on environmental impact, economical viability, and security of supply.

One example of a road map is shown in Figure 1. The figure shows that total energy demand in the Faroe Islands increases both due to normal economic growth and due the changes in energy usage, which is envisaged within domestic transport and heating when the switch from oil and petrol to electric energy takes place in




***2030 example RoadMap.***
*Figure 1 is an example of how hydro, wind, tidal, photovoltaic, and pumped storage gradually are able to phase out fossil fuels from production.*



*On a global scale, experts have estimated tidal energy potential to 80 GW, and around the Faroe Islands the potential is a total of 1GW, of which 15-20% can be reasonably utilized, equal to 150-200 MW. In comparison, the current maximum demand in the Faroe Islands is 45 MW.*

years to come. Electric energy demand is expected to increase from around 350 GWh in 2017 to around 600 GWh by 2030.

The tangible long-term plan will be a combination of the available energy sources in the Faroe Islands and various energy storage options, yet will also have flexibility built in to adapt to changes in technology and financial circumstances.

One of SEV's greatest challenges in the future will be to ensure a balance between demand and production. The challenge grows with increasing production from unstable sustainable sources – such as wind, hydro, and solar. It is therefore important to develop systems to secure a balanced, sustainable production every hour of the day, all year round, while maintaining security of supply.

In the short term, the thermal plants – such as Sund power plant – will secure supply and balancing the grid, when supply from green sources is insufficient. With developments in technology, the green sources in conjunction with energy storage will be able to take over the security of supply from the thermal plants for longer periods of time, such as in the summer period.

## Wind energy

The Faroe Islands are surrounded by plentiful and unstable winds, and the average annual wind speed exceeds 10 m/s in several locations. Energy production from wind is unstable and closely correlated to the changeable weather patterns in the Faroe Islands. The challenge is that wind alone cannot be the sole source of supply, rather the wind needs to be coupled with more stable production sources, such as hydro.

Wind farms are easily and quickly built, as well as being an inexpensive form of production, and more energy from wind is certainly a part of the plan. This will most likely happen in conjunction with energy storage that can store excess wind energy, and then release the stored energy onto the grid, when wind production is low.

Aside from the fact that wind energy production is unstable in the very short term – minutes and seconds – there is also great variation across seasons – summer and winter. From experience we know that wind energy production in June and July is only a quarter of the production in December and January. The summer period is therefore a challenging time for wind production.

## Hydro

The Faroe Islands are also rainy. Ever since the first hydroelectric plant started production on 18 July 1921, hydro energy has been a very important part of Faroese energy production.

But like wind, hydro is dependant on the weather. Again our experience shows that there is a great difference between summer

and winter production, such that the production in a summer month can be as little as 15% of a winter month.

Despite the large seasonal variations in Faroese hydro production, hydro is still a very stable and secure production source when reservoirs are full. This type of production plant runs for many years after the initial investment in turbines, dams, and tunnels. Some of the hydro plants in the Faroe Islands are from the mid-fifties and the sixties, and with on-going maintenance they will continue to produce electricity for many more years.

The summer is, as earlier stated, a challenging time for hydro production. SEV aims to fill reservoirs before the summer period to provide backup production capacity in the event of a breakdown on one of the thermal plants.

### Solar

Solar power is not presently used in the Faroe Islands, but this will most likely change as the cost of solar plants has reached a level to make them interesting and viable for a small island community in the North Atlantic.

A solar plant in the Faroe Islands will naturally not measure up to the production from a plant in more sunnier climates, yet it is interesting to look at how such systems perform in the Faroe Islands with the limited sunlight available – and not least how such systems stand up to the harsh weather conditions on the islands.

There are two primary reasons for solar being an interesting option in the Faroe Islands. One reason is the steadily decreasing cost of solar technology, which has fallen by more than 75% since 2006. This decrease means that solar will in time be a less expensive form of production than thermal.

The other reason is the seasonal interaction between wind, hydro, and solar, whereby the greatest solar energy potential is during the summer, when less is available from hydro and wind, see figure 2 for an illustration. Another advantage with solar systems is that they are quick to build and come on-line, and there is very little maintenance once installed.

### Tidal

Tidal turbines are a new and exciting technology. There are several large enterprises around the world currently developing the technology. Commercial availability, though, is anticipated to take a further 5-10 years.

On a global scale, experts have estimated tidal energy potential to 80 GW, and around the Faroe Islands the potential is a total of 1GW, of which 15-20% can be reasonably utilized, equal to 150-200 MW. In comparison, the current maximum demand in the

*Every available sustainable energy sources must be utilized to fulfill the green vision.*

Faroe Islands is 45 MW. Although there are very large amounts of tidal energy flowing around the Faroe Islands, the drawback with tidal energy is its variability and direction of flow.

On the other hand, the major advantage is that tidal energy is available all year round, and the strength and direction of flows is entirely predictable.

The inherent stability of tidal energy is therefore a great advantage when compared to the instability and weather dependency of hydro, wind, and solar. An added advantage in the Faroe Islands is the time difference between peak flows in the different sounds, which means that by installing turbines at different locations, tidal energy is always available from at least one of them.

Tidal energy is not weather dependent, and is therefore an energy source available all year round.

## Interaction between energy sources

Precipitation and wind speeds decrease as we enter the summer period, but sunlight increases towards the month of May, which is the best month on average in terms of hours of sun. Tidal power is much more stable, and while the output is variable, it is available throughout the year.

The Faroe Islands are very well situated to take advantage of sustainable energy sources, and with well-planned and considered investments, these varied sources can be brought to interact through the seasons.

Wind and hydro can be the mainstay of winter production, and excess production stored by pumped-storage systems to fill reservoirs, which will supplement wind and hydro during the summer months.

Although tidal power is variable, it is predictable compared to the other sustainable sources, and it is not unthinkable that tidal energy will be an important part of total energy production as we near 2030. By employing a mix of the aforementioned sustainable sources along with storing energy in batteries and pumped-storage reservoirs, the Faroe Islands can become independent from oil in 2030.

## Energy storage

An electricity system in the Faroe Islands based on sustainable

sources which all are variable in time and strength, will entail a large excess production at times, such as a winter's day with rain, wind, and strong currents. At other times, such as on an overcast, dry, and calm day, the sustainable sources will be insufficient to meet demand.

The changing weather conditions therefore require an energy storage system, that can save energy from times of excess production for use in those periods when sustainable sources are not sufficient to produce green energy.

The requirement is for long-term storage with the ability to store significant amounts of energy to be used in periods, when production from hydro and wind is low – especially the summer months of May, June, and July.

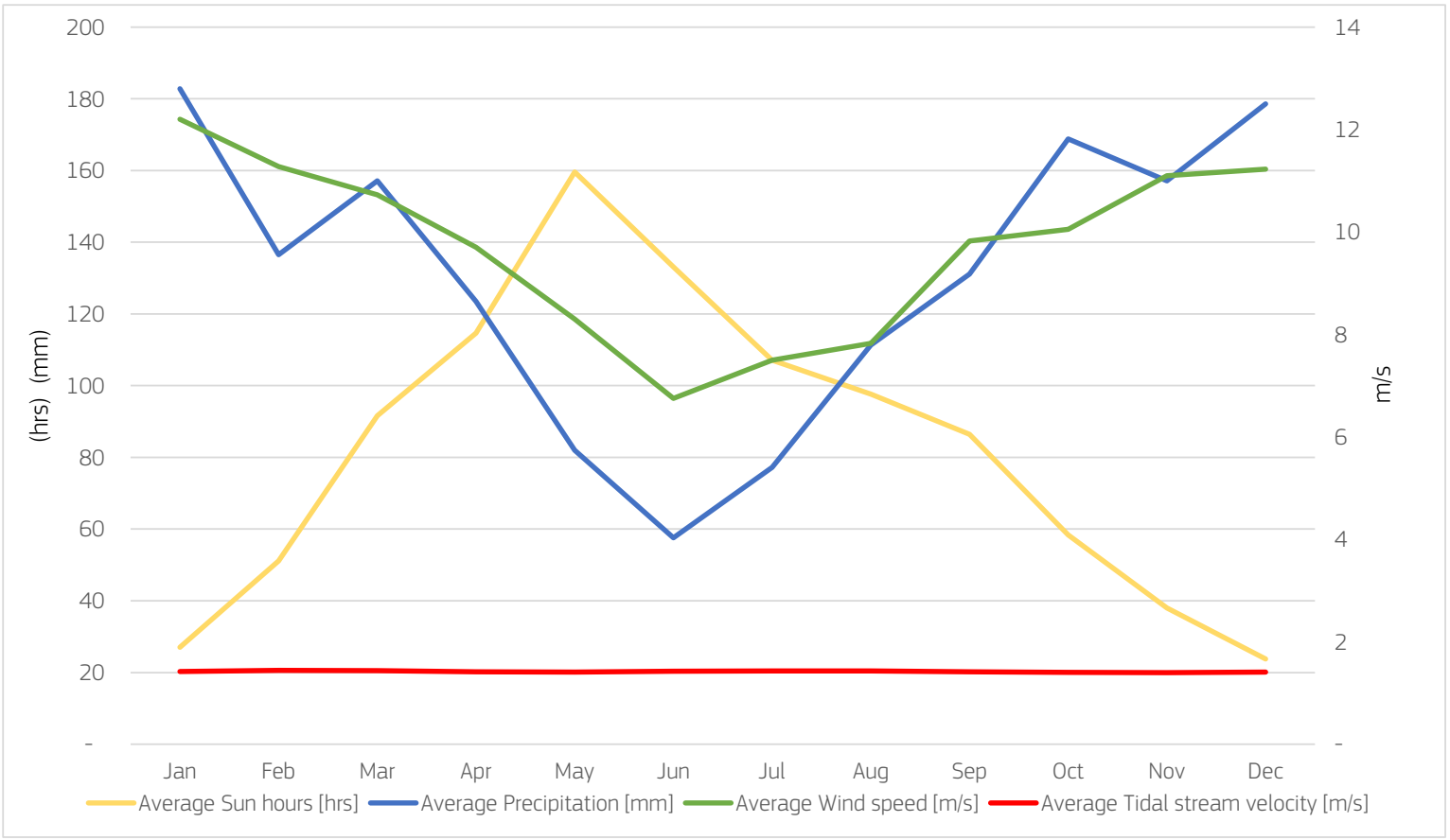
There are not many ways to store such large amounts of energy. The most obvious solution is a pumping system where fresh or seawater is pumped up into reservoirs using excess green energy. When the energy is required, the water will be released to a turbine, which will produce the necessary energy.

## Economy and technology

Regular review and adaptation of the tangible course are necessary to make use of advances in technology while also considering the economic viability going forward. Great advances have been made in solar energy production in recent years, with improvements in both yield and cost. As solar is a relatively new technology, care has to be taken to implement the best solution, but this is true also for other sustainable sources, such as with tidal.

The work to reach 100% green energy on shore in the Faroe Islands by 2030 is based on three main principles. First, the security of supply must be maintained unconditionally, and second, all investments must be financially viable, and third is the consideration for the environment. To make the right decisions at the right time is crucial on the green course.

The tangible plan for the green course is a flexible project with the aim to securely and with great care to select the best and least impacting green solutions for the Faroe Islands.




***Interaction between energy sources.***
*Figure 2 shows how the different energy sources interact.*

# Cost of electricity reduced at year-end

## The cost of electricity was reduced by DKK 0.05 per kWh at the close of the year. The economic progress of the Company allowed for a reasonable reduction, even though SEV has many development plans scheduled for the years ahead

On 1 January 2017, the cost of electricity was reduced by DKK 0.05 per kWh. The decision was made at SEV's Annual General Meeting on 25 November 2016, following a proposal from SEV's Board of Directors.

The reduction brings immediate benefits to SEV's customers and was made because of SEV's excellent economic condition.

"This reduction was a rational, obvious decision, even though SEV has many development initiatives planned for the coming years. If at all possible, we project a gradual reduction in the cost of electricity, subject to the Board's decision," stated Jákup Suni Lauritsen, Chairman of SEV, at the conclusion of the Annual General Meeting.

He also referred to the Power Supply Law, which stipulates that the cost of electricity should not be higher than necessary.

In addition, the Board considers it good, responsible management to give something back to its customers when it is financially reasonable and prudent.

SEV's profit after taxes was DKK 57.8 million in 2014, compared to DKK 103 million in 2015. The result after taxes for 2016 was DKK 92.8 million.

Bearing in mind the Power Supply Law, the overall green-energy strategy of SEV, the progressive shift to more renewable energy resources and the use of oil only as a reserve, it will be necessary to strengthen the electrical grid system in the years ahead, making it more secure and reliable, while at the same time accelerating the adoption of green energy consumption with its concomitant growth in electrical demand. The estimated investment for 2016-2020 is DKK 1.7 billion.

"Therefore, it is obvious that, even though the economic growth of SEV is satisfactory, the overall cost of electricity to the consumer must be wisely reduced over time. At the same time, SEV must strengthen the electrical system of the country as it embraces a robust green strategy that will help keep the cost of electricity at a reasonable level, thus ensuring that the price of electricity is never higher than necessary," observed Jákup Suni Lauritsen, Chairman of the SEV Board of Directors, upon the decision by the Annual General Meeting to lower the cost of electricity for the first time in 16 years.

# Good weather caused decline in green energy production

## In 2016, SEV produced 50% of its power from hydro and wind. Last year's good weather, however, resulted in a 10%-point decline in green energy production, compared to 2015

The good weather in 2016 is an excellent example of the challenges facing the green energy course being charted by SEV, the Government and the whole of Faroese society.

"It is exactly this type of challenge: how do we store renewable energy in anticipation of those calm weather days. That is now being explored in detail as part of the long-term strategic planning for green energy expansion between now and 2030, when we hopefully will be 100% green", observes Hákun Djurhuus, CEO of SEV.

In 2016, 50% of all electrical production was derived from wind and hydro-power, while the thermal power plants produced the other 50%.

*The first hydro-power plant in the Faroe Islands, at Botni.*

At the same time, the CEO of SEV also stressed that the battery system at Húsahaga made a big difference during the last six months of 2016, because it enabled the available wind energy to be much better utilized. For example, 16.4% of total electricity generation in 2016 came from SEV's wind turbines, which is only 1.4%-points lower than in 2015 when wind energy production equalled 17.8%.

"We can thank the battery system for our excellent wind power production in 2016. Therefore, we must continue to incorporate more battery and other storage systems into the electrical system, while at the same time taking advantage of new, innovative technology to further develop our green electricity production in the years ahead, incorporating, e.g., tidal and sun power", states Hákun Djurhuus, CEO of SEV.

Hydro-power provided 33.5% of the electricity produced in 2016, which reflects a decrease of 8.8%, compared to 2015 when hydro-power production was 42.3% of total electrical production.

"The apparent decline in hydro-power production in 2016 actually reflects that 2015 was in fact an exceptionally good hydro-power year with considerable rainfall and that 2016, on the other hand, was an unusually dry year," notes Anders Nedergaard-Hansen, Production Manager for SEV.

Generally, hydro-power production over the years swings up and down by some 10%-points. However, when the numbers for hydro-power production in 2015 and 2016 are studied in some detail, it becomes apparent that the difference between these two years is exceptionally large. Hydro-power production in 2015 was 14% higher than a normal average year, and in 2016 hydro-power production was 9% lower than an average year.

"The difference between the two years becomes quite obvious when the actual numbers are seen side-by-side in our historical production statistics," observes Anders Nedergaard-Hansen, Production Manager.

Thermal oil-fired power production increased by 26.6% in 2016, compared to 2015, when thermal production decreased by some 16% for the second year in a row. This increase in oil-fired production equates to a consumption of 6,600 tonnes more of heavy fuel oil at the Sund power plant than last year.

Electrical production was the highest ever in 2016. SEV produced 317.4 GWh in 2016, which is 0.94% more than in 2015, when electrical production equalled 314.4 GWh.

„100BY2030“ CONFERENCE
SEV 70 years 1 October 2016


# SEV focusing on a green future

**The world-renowned futurologist Tony Seba was the keynote speaker at the international conference, 100by2030, arranged by SEV in the Nordic House on 27-28 September 2016. Climate expert Jesper Theilgaard with Denmark Radio also offered a thought-provoking virtual lecture. In addition, various large international companies sent their representatives to the 100by2030 conference.**

Some 300-400 guests gathered in the Nordic House on 27-28 September 2016 for the international 100by2030 conference, hosted by SEV to spotlight “green” energy, innovation in the electric energy industry, new ideas, and climate change. The conference was held in connection with the 70th anniversary on 1 October 2016 of the founding of SEV.

The keynote speaker was the internationally-renowned and much-acclaimed futurologist, Tony Seba, from Stanford University in California, who believes that the technological advances in the years ahead will be so enormous that oil will not be used as a source of fuel for onshore transport by 2030. Besides teaching, consulting and lecturing, Tony Seba is an entrepreneur with connections to Silicon Valley.

The audience was especially spellbound by the picture drawn by Tony Seba of a green future with, e.g., self-driving, electric vehicles.

The audience also took a great interest in the virtual presentation on climate change given by Jesper Theilgaard, weather host and climate expert with Denmark Radio. Jesper Theilgaard took advantage of the special video and sound capabilities provided by the Nordic House to discuss climate change from both a global and local perspective, focusing on the Faroe Islands and other archipelagos.

In this connection, Jesper Theilgaard took part in a direct video exchange with Lia Cruz, weather host for the major news broadcast Aksyon on TV5 in the Philippines. Standing in her TV studio in the capital Manila, Lia Cruz, thanks to a very good Internet connection, was able to explore live with her audience in the Nordic House the challenges facing the Philippines regarding climate change and a green future.


*World-renowned futurologist Tony Seba was the keynote speaker at the 100by2030 conference organised by SEV*

# „100BY2030“ CONFERENCE

## SEV 70 years 1 October 2016

Hydro, wind, sun, tidal currents, and energy storage were also topics on the programme. Several international companies sent representatives to the 100by2030 conference to discuss future green power solutions. Among these, was the German producer of wind turbines, ENERCON, and the French producer of batteries, Saft Batteries. SEV and ORKA each offered a lecture as well, and Sirið Stenberg, the Faroese Minister of Energy, opened the conference, which was spiced with a variety of video and musical interludes.

“SEV is quite willing in the easiest and most interesting ways possible to share its green energy knowledge. The embracing of new ideas and innovation is critical if we are to reach our goal of 100% onshore green energy in the Faroe Island by 2030,” notes Terji Nielsen, SEV’s Development Manager.

At the end of the conference, the battery system at the Húsahaga wind farm was officially brought online, and the conference attendees were afforded the opportunity to visit the wind farm to familiarize themselves more deeply with the battery system and the new technology.

After the visit to the Húsahaga wind farm, a public celebration was held to commemorate the 70th anniversary of the founding of SEV. In addition, SEV invited students from the local 10th class to the Nordic House in the morning of 29 September for a reprise of the virtual lecture by climate expert Jesper Theilgaard.

“Overall, we were very satisfied with these days in September during which we celebrated our 70th anniversary via a first-class sharing of international energy knowledge,” observes Hákun Djurhuus, Managing Director and CEO of SEV.


*The conference opened with the youths asking what the world will look like, when they grow up.*

*Sirið Stenberg, Faroese Minister of Energy, opening the conference.*

*Høgni Hoydal, Deputy Prime Minister, bringing the Húsahagi battery system officcialy on-line.*

*Sirið Stenberg and Tony Seba.*

*Students took the opportunity to ask questions.*

*Danish climate expert Jesper Theilgaard explaining the consequences of climate change.*

*Jesper Theilgaard live interviewing a colleague on the Philippines, where the effects of climate change are being felt.*

# „100BY2030“ CONFERENCE

## SEV 70 years 1 October 2016




100by2030
RENEWABLE ENERGY SUMMIT
FAROE ISLANDS SEPTEMBER 27-28 2016
100by 2030


100by2030


100by2030


100by2030


ENERCON
ENERGY FOR THE WORLD

# „100BY2030“ CONFERENCE

## SEV 70 years 1 October 2016

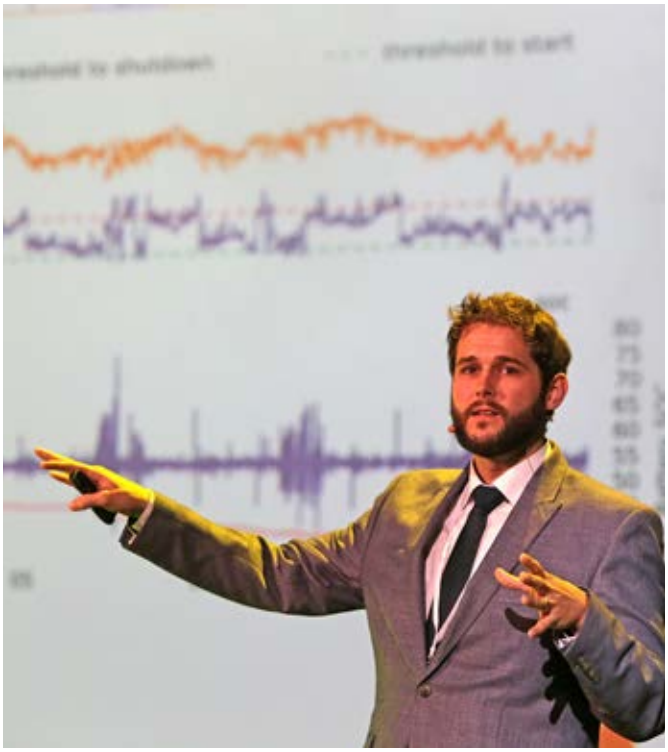




Photo: Magnus Fröderberg / norden.org

# SEV CEO awarded the Nordic Council Environment Prize

## The CEO of SEV presented the Danish company, TOO GOOD TO GO, the Nordic Council Environment Prize. The Prize was awarded for the app of the same name, which was developed to help reduce food waste

SEV had the honour of presenting the 2016 Nordic Council Environment Prize because SEV won the award in 2015.

The award ceremony took place in the DR Concert House on 1 November 2016. Hákun Djurhuus, the CEO of SEV, presented the Danish company, TOO GOOD TO GO, the Environment Prize for their app with the same name. The ceremony featured excellent music and entertainment, which helped create a special atmosphere in the Concert House.

The award recipient developed the app with the goal of helping to reduce food waste. Restaurants and the food processing industry can use the app to offer at a discounted price quality surplus food that otherwise would be thrown away.

The Adjudication Committee explained, among other things, that this is a new and innovative digital service, which, in a popular way, will help change the current attitude of consumers and the industry toward waste and the use of environmental resources.

There was a total of nine nominees for the 2016 Nordic Council Environment Prize. They were from Denmark, Iceland, Norway, Sweden and Finland.

SEV won the 2015 Nordic Council Environment Prize for innovation in the energy sector and for envisioning the goal of 100% green electricity in the Faroe Islands by 2030.

*Danish company Too Good To Go won the Nordic Council Environment Prize for 2016.*

*Hákun Djurhuus, CEO, Jákup Suni Lauritsen, former Chairman of the Board and Bogi Bendtsen, Director of Administration, in Boston, USA.*

# Financing for SEV

## In co-operation with local and international financial institutions SEV has succeeded in obtaining a long term financial arrangement with competitive rate of interest of an amount of DKK 1.668 billion intended for investments and refinancing of the company's debt

The period from 2009 to 2014 was an eventful time for SEV. Considerable investments were made in the grid, wind farms were built in Neshagi and Húsahagi, and the Eiði hydro-power plant was expanded as well as upgrades carried out at the hydro plants at Heygaverkið and Fossáverkið.

As a result of these investments, SEV's debt increased, and in the last two years efforts have been made to obtain a financial model for refinancing of the debt as existed mid-2015, and for financing future investments.

### A consortium reduced the cost

The initial stage to secure final long term financing of DKK 1.1 billion for SEV was made in November 2014.

An agreement was reached with BankNordic and Skandinaviska Enskilda Banken (SEB) to work together with SEV to arrange the long-term financing, and from January to June 2015 the work of formulating loan documents and other documentation took place.

A consortium of BankNordik, Eik Banki, The Investment Fund and SEB was set up, and the loan agreement was entered into at a lower rate of interest than the previous financing had. The agreement was formally signed on 15 June 2015 and the first phase of securing SEV's long term financing thus completed.

### Researching international funding sources

With the consortium loan agreement in place, the second phase was initiated and together with SEB, a number of meetings to ascertain loan possibilities were held during August 2015.

During this research of the available funding sources in the market, SEV was focusing on sufficient loan amounts, duration, loan terms, interest rates and fees. The flexibility and complexity of funding sources were also considered.

The options considered were normal bank financing, financing from institutions such as the Nordic Investment Bank (NIB), the European Investment Bank (EIB), export finance, listed/unlisted securities in Denmark, Danish pensions providers, and the US private placement market.

The conclusion of this research was to go for a combination of bank financing and US private placement financing to meet SEV's need to refinance existing debt and to finance future investments, such as the Sund power plant.

The arrangement sought was for DKK 670 million repayable in 5 years' time with an option to extend for a further 5 years, while DKK 1,000 million should be obtained on the US private placement market through a sale of bonds to the American investors. This arrangement fulfilled the demand of SEV for the correct loan amount, flexibility, good terms and a competitive rate of interest.

## Decision made

From August 2015 to January 2016, a number of meetings were held between SEV and SEB, and between SEV and various agents willing to aid SEV's effort to secure financing on the US private placement market.

On 8 February 2016 SEV hosted a two-day seminar in Tórshavn for the loan consortium, where SEV gave a detailed presentation of its operations, its investment plan, and what financing requirements SEV was seeking to fulfil. A tour was also made of several of the production plants.

The following day the presentations carried on with more details on SEV's investments and financials, attended by the Board and Management of SEV, representatives from the Electrical Supervisory Authority, the Finance Ministry and the Ministry of Health and Interior.

Also on this day, selected potential loan providers presented their ideas on how to structure the financing of SEV for the Faroese Authorities.

The Board of SEV reached its final decision towards the end of February, agreeing with the proposal that the financing should be a combination of bank loans and issue of bonds on the US private placement market. SEV appointed Citibank and SEB as co-arrangers to take care of the US investment market, which is primarily funded by insurance companies and pensions funds.

The Board also agreed with the proposal that SEB should arrange the bank financing.

## Time-consuming preparations

An issue of bonds on the US private placement market requires extensive documentation, and from March to October 2016 the documentation was prepared.

SEV's financial reports for the years 2014 and 2015 were adjusted to comply with IFRS guidelines, and this work was done with support from the accounting firms Ernst & Young in Copenhagen and the local firm Januar in Tórshavn. SEV also produced an Information Memorandum detailing all aspects of SEV, as well as an Investor Presentation.

With all the required documentation in place, SEV could start work on the loan documentation for the US and bank financing. At the same time, SEV communicated with the relevant Faroese authorities to obtain permission for the lending.

*American investors visiting the Sund power plant.*

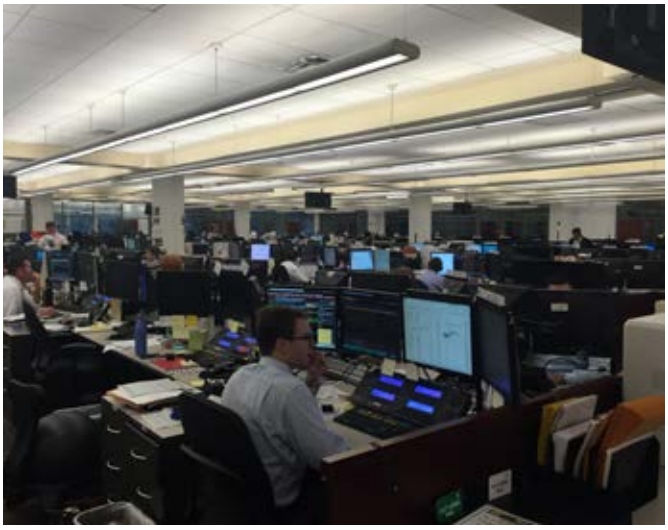
*The loan consortium consisting of BankNordik, Eik Bank, the Investment Fund, and SEB, meeting with SEV in BankNordik's offices in June 2015.*

In September 2016, the financial institutions participating in the bank consortium gave firm commitments to extend credit to SEV. The participating banks are BankNordik, Eik Banki, Lív, Norðoya Sparikassi, and SEB. SEV was also visited by some of the US investors around this time. An informal meeting with the owners of SEV was held on 23 September to inform them of the progress on the financing, and the extension of the Sund plant.

At an extra-ordinary general meeting on 30 September 2016, the Board formally approved the proposed financing, and instructed management to proceed with arranging financing for a total of DKK 1,670 million.

## Internationally competitive rate of interest

SEV was now ready to secure the best possible financing. On 13 October 2016, the bond issue was launched on the US private placement market, and less than a month later on 7 November 2016, SEV received committed bids for a total of DKK 1,042 million from American lenders. The interest rate was fixed on the morning of 8 November 2016, the same day the American people elected their new president.



*SEV expects much from its cooperation with the financial institutions and US private placement lenders in years to come.*

The US lenders visited SEV again in December 2016 to complete their due diligence. The due diligence entailed a tour of several of SEV's production plants, and a presentation of relevant information for the lenders. SEV finally completed the process of securing its long-term financing by receiving the funds on 19 December 2016.

With these agreements, SEV has received DKK 1,042 million from the US private placement market, and DKK 626 million in bank financing in the form of a revolving credit facility from Faroese and Swedish financial institutions. In total DKK 1,668 million at internationally competitive interest rates.

It is very important for SEV that several domestic and international financial institutions and lenders on the US private placement market have provided financing. This strengthens SEV's position and future access to even more financial institutions all over the world.

SEV expects much from its cooperation with the financial institutions and US private placement lenders in years to come, because SEV sees this as the beginning of a long-term partnership, beneficial to all parties.

# Lighting up Húsahagi

**The wind turbines at Húsahaga are illumined by beautiful lights in the evenings, creating a special atmosphere throughout the wind farm**

*During daytime there is not much artificial light in the Húsahagi wind farm, as these three pictures show.*

SEV has installed special lights on some of the wind turbines at Húsahaga, creating a special atmosphere in the wind turbine park area. Initially, multi-coloured projectors will illumine three wind turbines.

This special illumination is undergoing a trial period to determine the eventual effect of the lights on the bird populations and the environment in general.

The coupling station at Húsahaga has also been architecturally adapted to blend into the landscape. In addition to its technical focus, the station also encompasses a classroom and showroom, designed specifically to facilitate observation of the wind turbines and the study and appreciation of green energy production.

SEV considers it an obligation to make improvements in areas where it might have somehow disturbed the environment. One important element of SEV's green strategy is to ensure that its operations have only a minimal impact on the natural environment.

SEV provided paved roads within the wind farm, and strategically placed benches, tables and a wind shelter in the area as well. The lower sections of the wind turbines were painted green to help the wind turbines blend into the surrounding landscape.

Architect Eyðun Eliasen oversaw the aesthetic work at both Húsahaga and Neshaga.

# Enlargement of Vágur Thermal Power Plant completed

## On 1 September 2016, a celebration was held at the Vágur thermal power plant to commemorate the installation of a new motor

At the same time, Varðin Pelagic revealed their plans for a new surimi processing facility at Tvøroyri on the island of Suðuroy. For SEV, the expansion of the Vágur power plant was critical to ensure a secure and uninterrupted delivery of electricity to the entire island of Suðuroy. The power demand of Varðin Pelagic alone is so high that it was necessary to increase the production at the Vágur thermal power plant.

Therefore, SEV prioritized a new motor for the Vágur power plant, postponing for a time the other expansion initiatives for the Vágur thermal power plant that SEV had previously planned.

### 4 MW from Wärtsilä

MEST in Tórshavn won the contract to supply and install the new M4 motor at the Vágur thermal power plant. At Ólavsøka 2015 (29 July), the new Wärtsilä motor arrived in the Faroes on the M/S Norrøna. The engineering company, ARTICON, had previously completed a new facility to house the new motor, which was offloaded into the facility and set into position by a very big mobile crane, ably demonstrating a combination of expert technical skill and very strong jacks.

The expansion of the Vágur thermal power plant went very well. The principal general contractors were MEST, ARTICON, RTS, Install and Tangavirkið in Vágur, who together succeeded in winning the largest construction contract in the history of SEV. Tangavirkið was given the assignment to build the day tank storage facility and to install the various HWS (heat, water, sanitary) infrastructure, as well as the related plumbing and ventilation systems for the new M4 motor. A newly updated coupling station was also constructed during the expansion of the power plant. The total cost for the expansion of the Vágur thermal power plant was DKK 100 million.

### Public celebration

When the extension of the Vágur thermal power plant was finally completed on 1 September 2016, SEV hosted a reception at the facility. It goes without saying that the Vágur power plant and its enlargement are of extreme importance to the people of Suðuroy, who turned up at the reception in large numbers.

*Mourits Mohr, Managing Director, and Kári Holm Petersen, mechanical engineer, of MEST.*

At the reception, Anders Nedergaard-Hansen, Division Manager for Electrical Production, discussed aspects of the project and its progress to completion. All things considered, he believed the work went quite well.

SEV's Vágur thermal power plant is the first Faroese power plant to be equipped with a so-called SCR-filter, which is designed to reduce the emissions of NOx gases significantly. Anders Nedergaard-Hansen pointed out that the NOx emission from the new Wärtsilä motor is less than a quarter of the NOx emission of older motors.

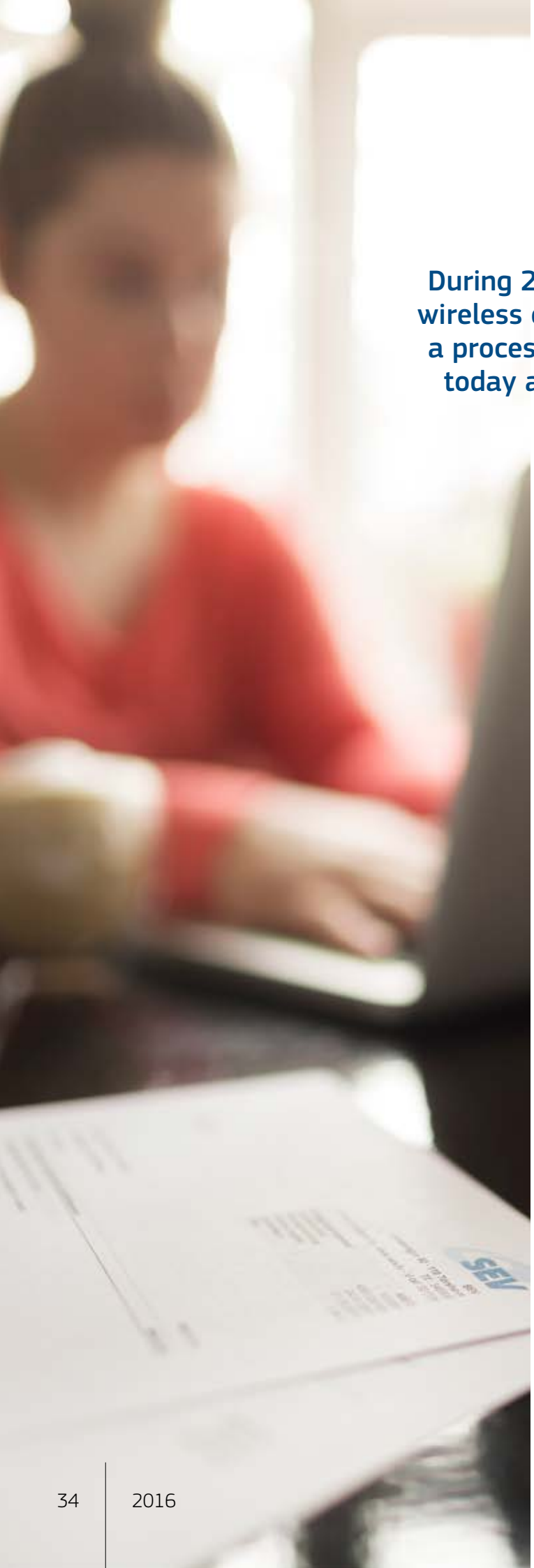
The new motor guarantees that Suðuroy will have enough power to meet future demand, especially the power needs of future potential commercial development. Minister of Energy Sirið Stenberg was accorded the honour of pushing the start button, officially activating the M4 motor on 1 September 2016.

*The audience listened with rapt attention.*

*Jóanes Norðberg, Plant Manager of the Vágur thermal power plant, bid the guests welcome at the public reception on 1 September 2016.*

*Hákun Djurhuus, CEO of SEV, and Dennis Holm, Mayor of Vágur.*

*Mortan Mortensen, Managing Director, and Poul Augustinussen, Project Manager, of Tangavirkið.*



# Entire country wireless metered

## During 2016, SEV completed the installation of wireless electric meters throughout the country, a process that began ten years ago. Customers today are now billed based upon actual usage

In 2006, SEV began the process of replacing the existing electric meters with wireless meters. It took some ten years to complete the process, and in 2016 SEV could announce that, in the main, all customers were connected to the wireless meter-reading system.

Only a very few of the 25,000 electric meters throughout the country are not connected to the wireless system. SEV personnel either have not yet replaced the old meters, or the placement of certain old meters makes it difficult to connect them to the wireless system.

The wireless meters are designed to be replaced after 15 years. This is the reason SEV decided to install the devices over a span of ten years so that they could be replaced gradually and not all at the same time. Thus, in five-year's time, SEV will commence the replacement of the initial wireless meters that were installed ten years ago. Moreover, instituting a ten-year installation plan enabled SEV to benefit from the ongoing technological advances occurring in wireless electric meter industry.

Aside from reducing the everyday work-load of SEV, the wireless meters are a boon to SEV's customers. Customers will neither pay too much nor too little over the course of the year. Thus, they will avoid receiving an extra bill or waiting to have their money refunded once their final usage for the year is calculated.

Large consumers of electricity will also be able to ascertain rather quickly what their electricity is used for and to set into motion energy saving initiatives where possible.

The old system with equal monthly payments was based on an estimate of projected annual usage. Now, each monthly bill is based on actual usage. Thus, in most instances, a customer will pay less for light and heat in those months when consumption is naturally lower, and somewhat more during the cold and dark period of the year, when electricity consumption often rises.

Via the SEV webpage, customers can enter their respective user name and password, which is printed on their individual bill, and easily monitor their own electricity usage. SEV has also developed an App for this purpose, which is especially useful for its business customers.

*Niels Hansson, IT Manager at SEV.*

Photo: Finnur Justinussen / Photostudio

# A more secure IT system

## SEV is underway to segregate the existing IT network into several independent networks to improve overall security

The fact that the Faroe Islands is now even more visible around the world is not entirely positive, at least not from the perspective of SEV's IT Manager, Niels Hansson. In recent years, computer hacking has increased exponentially around the world, and even the Faroe Islands is more exposed, compared to just a few years ago.

"The reason is simple. Over the last few years, we in the Faroes have done much to promote a good, highly-visible image worldwide. But regarding IT security, such outstanding publicity is not always a good thing," observes Niels Hansson.

"We have become known worldwide for various reasons, and computer hackers have also noticed the Faroe Islands. Our tourist industry has marketed the islands' extensively, and our vision of 100% onshore green energy by 2030 has also raised global interest in the Faroe Islands," notes Niels Hansson.

He attests that the Faroe Islands is unquestionably much more at risk of a cyberattack today than before.

There are very few IT security solutions for electricity production, arguably because there is such a limited demand for these systems. Therefore, SEV decided to split up its IT network consistent with ISO-approved procedures in co-operation with the international company, Siemens. SEV and Siemens already co-operate in several other areas.

Often, IT security is perceived by staff as an annoyance that disturbs workflow due to access restrictions and the demand that security procedures be followed. Thus, an important element in the redesign of the IT network is to minimize as much as possible any disturbance to staff and their workflow.

"For the employees who work directly with production, they will notice some few slight changes, but not much. For the rest of us, the redesign of the IT network will entail much more administration and management of the different segregated networks, and this means more training for staff in the updated IT systems," comments Niels Hansson.

# Apprentices are a most welcome gift at SEV

Currently, SEV is hosting two electrician trainees and the plan is soon to welcome mechanical trainees and administrative interns. It goes without saying, HR Manager Bergtóra Høgnadóttir notes, that SEV will take full responsibility for their continued education, but at the same time it is also a gift to have young people around at SEV, and, of course, SEV should strive to mirror our society

Photo: Finnur Justinussen / Photostudio

*Håkun Bláberg and Gunnhildur Øster Bech, trainees at SEV.*

# Apprentices are a most welcome gift at SEV

Two years ago, 45 people applied for SEV's electrician trainee positions. Gunnhildur Øster Bech and Hákun Bláberg were selected. Both had earlier achieved SIT 1 and SIT 2, so their on-the-job training will last only three years of which a half year will be spent with an outside certified electrician.

In the spring of 2017, Gunnhildur Øster Bech will join LM Electric, whilst Hákun Bláberg will apprentice with Thorfinn Nielsen.

## SEV's first electrician apprentices

SEV had not employed electrician apprentices before 2015 when the two new trainees signed their apprenticeship contracts. Everyone was excited to see exactly how this new program would work. All uncertainty quickly disappeared, as it soon became quite clear that everything was working just fine for the apprentices and for SEV as well because the new trainees contributed significantly to SEV operations.

"It is our understanding that the respective departments are pleased and have benefited greatly from the apprentices. We also appreciate that our trainees can learn a great deal here at SEV, knowledge that they cannot otherwise obtain anyplace else," observes Bergtóra Høgnadóttir, HR Manager.

Overall, staff are happy working at SEV and many have worked for the Company for many years. As one would expect over the years, the average age of the staff has risen, particularly now that the retirement age for the national pension has gone from 67 to 70. It is especially promising for a company when there is as much diversity, as well as depth of skill, among the employees as possible. Bergtóra Høgnadóttir considers this equally true for age diversity.

"The apprentices bring a new, young energy to SEV. They are easy-going and do not dread challenges. Also, the young help generate enthusiasm in the workplace and contribute greatly to the overall spirit at SEV," notes Bergtóra Høgnadóttir.

"We explored at some length how female apprentices might fit into our multi-faceted technical environment, most especially relative to the heavy work of the line staff, the mechanics and electricians, but any doubt soon evaporated. Thus, as a matter of course, we make no distinction relative to gender and welcome the enhanced dynamic diversity brings to the workplace," observes Bergtóra Høgnadóttir.

"The women in our technical workforce have proven themselves admirably and we are quite pleased with the overall satisfactory result," comments Bergtóra Høgnadóttir, HR Manager.

*A selfie with Bergtóra Høgnadóttir, HR Manager, Torkil Heinesen, mentor, and the trainees.*

## SEV shall show social responsibility

SEV is an interesting and stimulating teaching site for electricians, mechanics, and office clerical staff. According to Bergtóra Høgnadóttir, this reality gives rise to unique inter-municipal challenges and expectations. She quickly acknowledges that SEV will, of course and without hesitation, faithfully and completely meet these demands – with respect to both staff and management. The Human Resources Manager notes that soon SEV will be advertising for mechanic and clerical trainees.

"SEV shall model social responsibility. As a community, we want to make it possible to get a good education in the Faroe Islands, because, as we know, the longer you study abroad the less likely it will be that you will come back home," reflects Bergtóra Høgnadóttir.

It is not just by welcoming trainees that SEV attempts to model its social responsibility. People have undertaken training at SEV under the aegis of several government agencies, including the Office of Unemployment and the Social Services Department. Moreover, SEV employs and makes accommodations for individuals with handicaps. In addition, many young people participate in the


student internship programs sponsored by SEV in order to "sniff out" and explore SEV as a potential workplace.

## In good shape with a good education

Torkil Heinesen is the mentor for Gunnhildur and Hákun. Torkil is a certified electrician and electric power engineer. He joined SEV ten years ago, after working 16 years leading his own certified electrical installation company.

Torkil Heinesen observes that the daily tasks of an electrician at SEV are quite different from the tasks at an ordinary electrical installation company.

"I had to work many years before I felt secure in what I was doing. However, the tasks at SEV are considerably more complicated, where a little mistake, at worst, can plunge the country into darkness, and thus one must practice and practice," observes Torkil Heinesen.

He also notes that the apprentices at SEV gain a solid education and exceptional experience that will serve them in good stead if they wish to study further to pursue degrees in mechanical or electrical engineering, for example.

"They receive a good electrician education at SEV, so, if they head off to study more, it will serve them well. They have learned a technical skill, they know how electricity is generated from hydro, wind and oil, and they know how the electrical gird works, and how electrical energy gets all the way to the home," reflects Torkil Heinesen, commenting further:

"In the end, the apprentices gain an understanding and insight into a major industry while taking the initial steps into a highly technical field, which they can only acquire by standing side-by-side with the other skilled technicians at SEV."

But the advantages flow both ways. Torkil hastens to note that being a mentor has also been a unique challenge and placed demands on him to fine-tune his knowledge to be able to respond quickly and accurately to all the questions from the apprentices.

"It forced me to stay on top of my game; now and again I even had to look up something in my textbooks in order to answer a particular question or two from the apprentices," notes Torkil Heinesen in conclusion.

# A fascinating, different and cool workplace

**Both Hákun Bláberg and Gunnhildur Øster Bech are very happy working as apprentices at SEV. Even though the two are the youngest in the Company, they are thrilled with both their colleagues and the workplace**

*– Being a trainee at SEV is a thrill, says Hákun Bláberg.*

# A fascinating, different and “cool” workplace

*– The most interesting aspect is to work on a project from A to Z, says Gunnhildur Øster Bech.*

Gunnhildur Øster Bech has a good sense of humour and she laughed out loud when she saw an early draft of this article.

“They are actually pretty ‘cool’,” responds Gunnhildur with a smile when asked what it was like working in a company with colleagues much older than herself and Hákun Bláberg.

In fact, their whole experience at SEV, they would say, has been “pretty cool” even if everyone around them is older. When they started at SEV, they both reflected some about the fact that they were by far the youngest members of the staff. But once engaged in their work, they rarely thought about it.

As Hákun Bláberg offers, “Most of our co-workers are young at heart and easy going”.

## A fascinating workplace

It goes without saying that both Hákun and Gunnhildur take some measure of pride in being selected for an apprenticeship at SEV, even though they refer to their time with SEV as “different” and “fascinating”. Their life at SEV is indeed “different”, because the normal workday for Hákun and Gunnhildur is quite different, compared to other electrician apprenticeships in the Faroe Islands.

Hákun Bláberg urges everyone his age who dreams of becoming an electrician to apply for an apprenticeship with SEV.

“It is exciting work and, because the field of energy production is so big, immense even, you get exposed to so much,” explains Hákun Bláberg.

That fact is exactly what most attracted Gunnhildur and what she considers the most exciting aspect about her apprenticeship at SEV. The apprentices get a chance to dive deeply into every aspect of energy production and, in the process, learn a good deal about electricity, voltage and how the entire system works.

“What I believe has been the most exciting is that we got the opportunity to build a project from A to Z. One did not just come in and do some little thing and then leave,” reflects Gunnhildur Øster Bech.

Commenting further, she notes that because she has been a part of a team building a wind farm and several coupling stations, she is much more confident to try something new.

## Further education

Both Hákun Bláberg and Gunnhildur Øster Bech have plans to study further once they complete their current training. Hákun Bláberg is keen on a life at sea and a career as a marine engineer when he finishes his apprenticeship.

Gunnhildur Øster Bech, on the other hand, was studying marine engineering when she began as an apprentice at SEV. She has now decided not to return to that study programme.

“Now, I imagine myself studying electrical power engineering,” concludes Gunnhildur Øster Bech.

# Christmas caroling

**Like most Faroese, the staff at SEV are keen on music and singing and joyously welcomed Christmas with song at the traditional annual Christmas dinner. SEV's Christmas choir, under the direction of Sigrið Sivertsen, music teacher, rehearsed once a week for seven weeks in preparation for the annual Christmas dinner. Singing combats work fatigue and stress and is conducive to well-being and enhanced efficiency**

As part of the annual "Employee Day", SEV asked the well-known choir director, Sigrið Sivertsen, to lead a class on choral singing, and this practice effort ended quite well. The employees were so pleased with the initiative that the idea was immediately put forth to create a Christmas choir that would perform at the annual Christmas dinner.

"When the idea was brought up both Hákun Djurhuus and the staff immediately thought it was a good idea to have a Christmas choir," noted Bergtóra Høgnadóttir, Human Resources Manager.

Choir rehearsals took place every Monday morning between 8.30 and 9.30 beginning seven weeks before the scheduled Christmas dinner. Even though not everyone could meet for each rehearsal, some 12 – 15 would meet regularly for each rehearsal, both men and women.

## New connections and friendships created

SEV is a large company with staff spread all over the islands. Work groups and tasks are varied and individual staff members do not necessarily know each other equally well. Over the course of the weekly rehearsals, the Christmas choir members forged many new connections and friendships.

"Singing in and of itself is a good thing. But to sing together is both great fun and stimulating – which lasts well beyond the rehearsals. Staff unity and solidarity is also strengthened. It was quite pleasant, even in October, to hear people humming the Christmas carols they were rehearsing. People talked about the songs a great deal, what worked well and what didn't, which carol was the easiest, and which sounded the best," explained Bergtóra Høgnadóttir.

According to Bergtóra, the Christmas choir has indeed enhanced employee unity and connection. She noted that SEV staff who do not work in the same department or otherwise have regular contact with each other do not have the chance to get to know well the other members of the SEV team. But the Christmas choir was a real "ice breaker" that split apart many of the invisible boundaries within the company, observed Bergtóra.

"In fact, several of the choir members positively noted just that fact when we evaluated the choir project later," stated Bergtóra Høgnadóttir.

## A real energy kick in the morning

Not only has the Christmas choir enhanced connections and forged unity among the choir members, but it has also given them more energy throughout the day.

"I felt this myself and I also heard it from my colleagues. I felt much more energized to take on the tasks of the day. Of course, on the days we rehearsed, I felt a real energy boost after our mornings together, but what is truly interesting is that the co-

operation and the excitement generated by our signing together seemed to give us more energy throughout the week as well," observed Bergtóra Høgnadóttir.

There is a well-known saying that it is necessary to use energy to get more energy. The Christmas choir is a good case in point. The choir members used considerable energy in singing, both at home and at work. They practiced at home and sometimes meetings at SEV were postponed briefly so that they could rehearse properly. However, Bergtóra Høgnadóttir has no doubt that choral singing has benefited SEV.

"Looking back, we all have observed that we accomplished more during the work day during this particular time. Plus, we got to know each other better and had some good fun together. And it is a well-founded truism that it is easier to collaborate with people, the better you know each other," attests Bergtóra Høgnadóttir.

## Well-being and happiness on the job flows from many sources

Even though Bergtóra Høgnadóttir observes with a smile that singing has benefited both staff and SEV, staff will not be forced to sing during working hours. Of course, the HR Manager is always thinking about what creates a good work environment and well-satisfied employees.

Staff should feel secure and be engaged in meaningful tasks in a positive work environment. It goes without saying that within SEV there is an awareness about what inspires the employees and what is required to create an even better sense of well-being on the job.

"Some play football, others play cards. It is not so important what we have in common in the various departments, but it is important that we engage in something that is enjoyable, creative and challenging above and beyond our regular daily routine," notes Bergtóra Høgnadóttir.

"This strengthens the sense of community and solidarity within the Company and, as a result, we all work harder for the Company, comments Bergtóra Høgnadóttir, adding,

"We are quite pleased that here at SEV work many talented and creative people, who themselves devise what they individually or collectively believe will create well-being on the job, whether it be a game of pick-up football, an evening of cards, a night at the theatre, yoga, or a group horseback ride."

"As a consequence, we are enriched with a hearty, enjoyable and tangible enthusiasm that permeates all of SEV," explains Bergtóra Høgnadóttir.

# Changes in SEV management

## SEV has appointed new managers for Production and Grid Operations. One of the previous managers retired and the other took up a new position outside of SEV

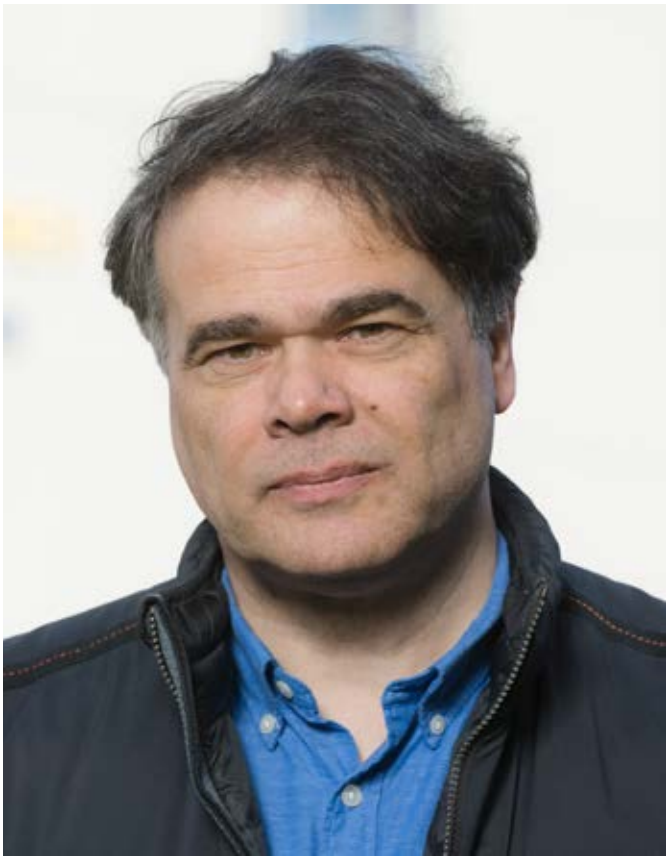
Two members of SEV's four-member management team are new. Jón A. Nielsen is the new Manager for Grid Operations, and Heri Mortensen is the new Production Manager. They both are engaged in the daily management of SEV in collaboration with Hákun Djurhuus, CEO, and Bogi Bendtsen, Administration Manager and Deputy CEO.

Jón A. Nielsen succeeded Finn Jakobsen as manager of Grid Operations, who left SEV for another position. Heri Mortensen, the new manager of SEV Production, replaced Anders Nedergaard-Hansen who retired.

### Manager of Grid Operations

Jón A. Nielsen has extensive experience and solid credentials, making him well-qualified to manage the Faroese grid. Beginning in February 1989, he has worked on SEV's grid, in the main responsible for the transformation of the above-ground grid to underground cables. Following the disastrous Christmas storm of 1988 that destroyed much of the above-ground electricity grid, SEV has worked steadily on placing the grid underground.

During his time with SEV, Jón A. Nielsen received special training in grid operations and the delivery of electric power. As a consequence, he has acquired both exceptional experience and rock-solid competency, enabling him to easily take on his new job as Manager of Grid Operations. For the past ten years, he



*Jón Nielsen, Manager for Grid Operations*

*Bogi Bendtsen, Hákun Djurhuus, Heri Mortensen and Jón Nielsen*

*Heri Mortensen, Production Manager*

was department leader of operations and previously for many years he was the cable and line manager.

Jón A. Nielsen completed his training as an electrician in 1984 and in 1987 graduated as a certified electrician before joining SEV two years later.

## Manager of Production

In July 2016, Heri Mortensen took on the role of project manager for SEV. Previously, he had worked as an engineer for SEV from 2005 to 2011.

Heri Mortensen has considerable experience and exceptional competency within the area of electricity production. In 1994, he graduated as an electrical engineer from Aarhus University School of Engineering.

After graduation, he worked as an electrical engineer in Denmark, and, from 1999 – 2005, he had his own electrical installation company in the Faroe Islands, primarily providing electrical services to industrial enterprises and other large companies.

From 2011 – 2016, Heri Mortensen worked in the Norwegian oil industry, during which time he also briefly served as the technical manager for the Vágur Municipality.

*Mads á Heyggi is online when checking SEV's systems.*

# All employees now online

## Every employee at SEV has been given a smartphone with worldwide access to all SEV's important systems

All day, every day throughout the year, employees of SEV are on the job and thus high-quality internal communication is vital. Not only is good telephone and email service a necessity, but also employees need access to the various internal data systems maintained by SEV.

One key reason underpinning the decision to provide all employees with a smartphone was the potential for them to have access in their pockets to Totalview. With Totalview in hand, staff would always be able to sign into Totalview and let their colleagues know their whereabouts and whether they were busy and when they might be available again for a meeting.

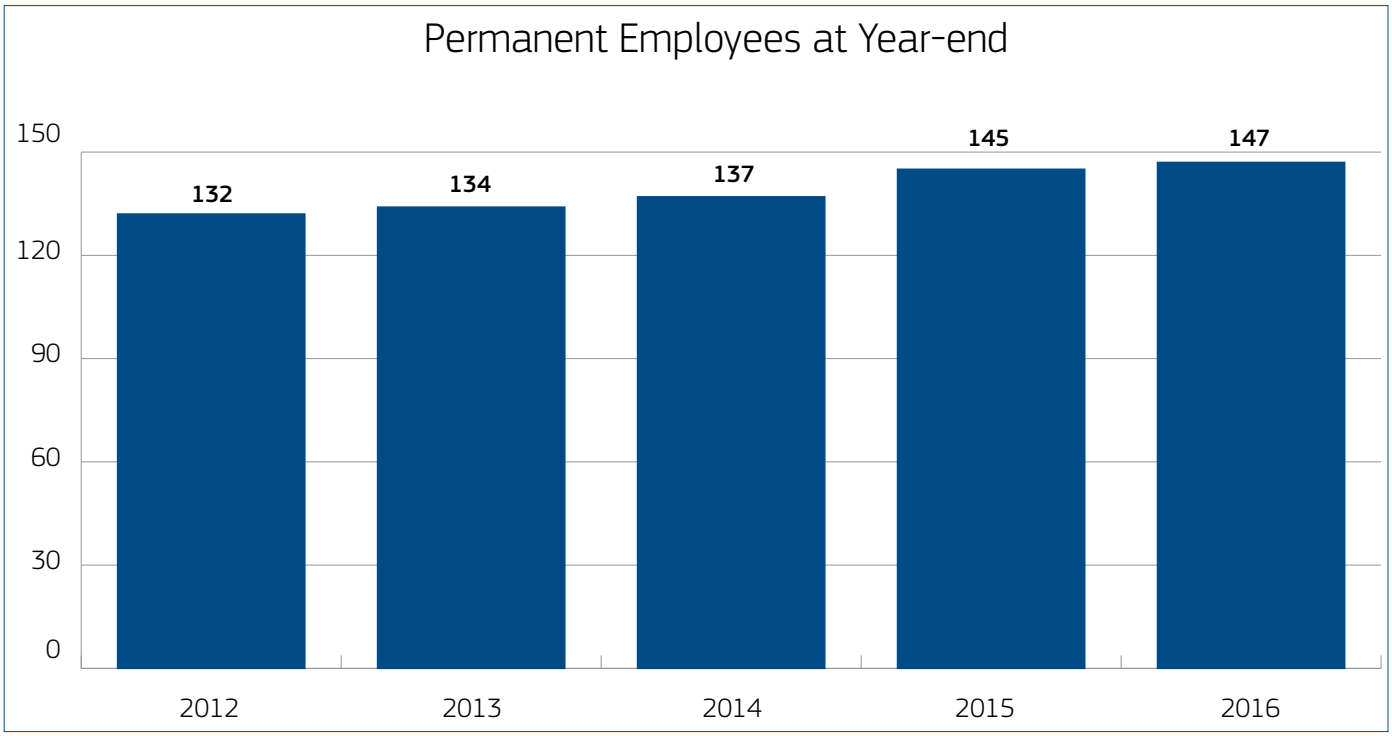
The newest versions of Totalview have made it much easier for staff to set up meeting times. This process, which before had to flow through several people and required linking to several systems, is now consolidated into a single system, making it possible for everyone who needs access to the information to get quick and easy access.

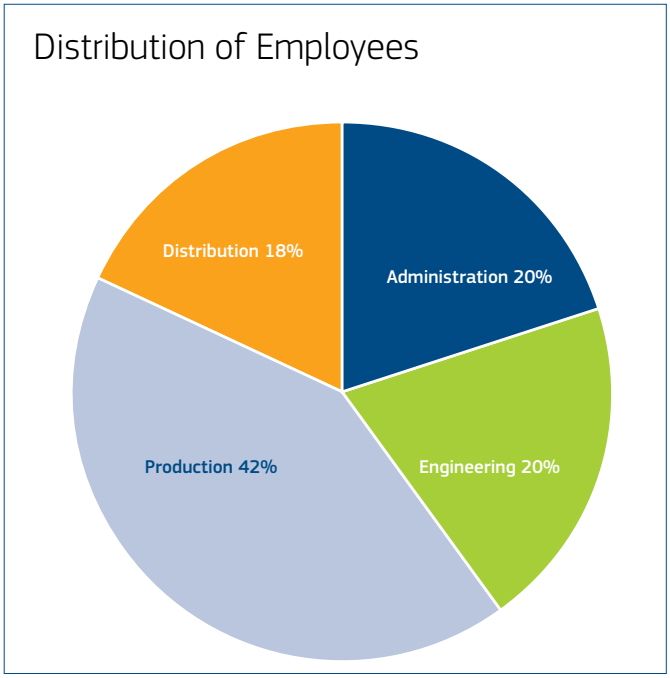
Going online has meant not only a higher level of efficiency, but also the switch is more economical for SEV, compared to the old systems.

"We avoid having to pay access fees and other costs to telephone network operators. Under the current agreement, SEV pays DKK 230 per telephone per month, and the employee pays any additional costs above that amount," states Niels Hansson, IT Manager for SEV.

# Our Employees

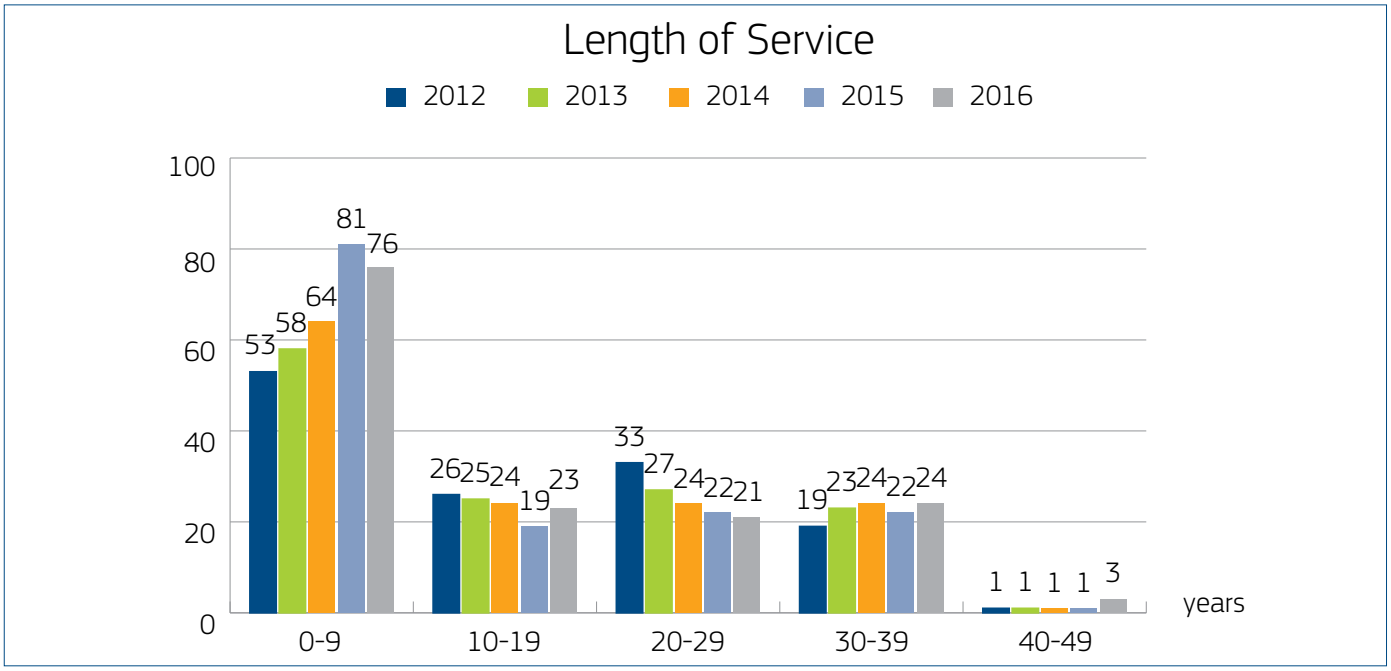
In 2016, SEV had 213 people on its payroll. Of these, 7 served on the Board of Directors, 4 received pension benefits, and 49 were temporary workers and 147 were full-time equivalent employees.



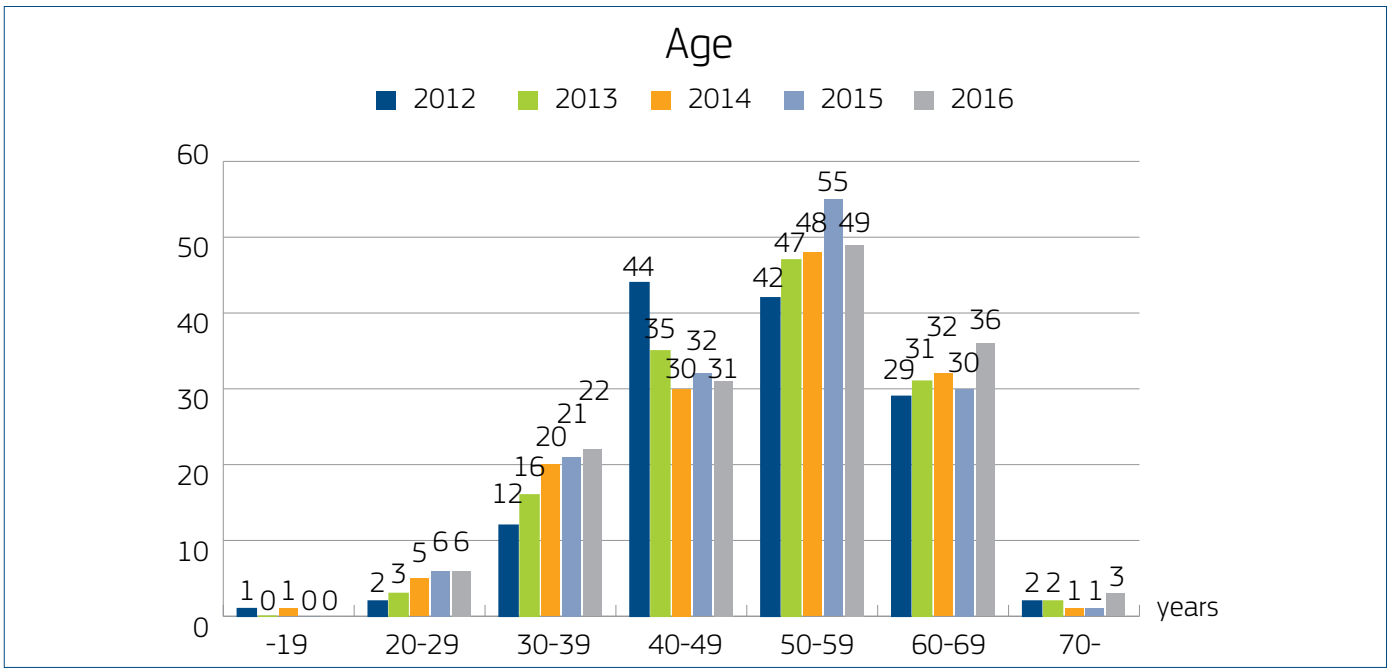

## Distribution of Employees

The chart below shows the distribution by business unit of the 147 regular job employees at year-end 2016.




## Years of Employment

The average number of employment years is 15. In 2016, 43 people or around 29% of all employees had been employed with SEV for 25 years or above. In 2015, the number was 42, or 29%.




## Average Age of Employees

The average age of our employees is slowly increasing. In 2013, the average age was a little over 51 years, and in 2014 and 2015 it was just under 50 years. In 2016, the average age was 51.5 years.

The chart above shows a slight increase in the number of employees within the age groups 30-39 and 60-69 years compared to 2015, while there is a slight reduction in the number of employees in the age groups 40-49 and 50-59 years. The largest increase was in the age group 60-69 years. By year-end 2016, there were 39 employees 60 years of age and older.

# Health, safety and environment

## The Health, Safety and Environmental Policy (HSE)

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

## Safety

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

## Safety Measures

In 2016, SEV's safety measures have, among others, focused on describing procedures for handling chemical agents and use of workwear. SEV has also arranged for fire training, and courses in first-aid and defibrillator for all of SEV's employees.

Figure 1 shows SEV's organizational safety structure.

## Personal Injuries

SEV works systematically and conscientiously throughout the Company to avoid accidents and injuries and our goal is that no one is ever injured. However, it is difficult to avoid injuries totally. Figure 2 shows the number of personal injuries that resulted in a worker's disability for one or more days. In 2016, one instance of personal injury was reported to the Occupational Safety & Health Administration (Arbeiðseftirlitið).

## The Environment

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

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

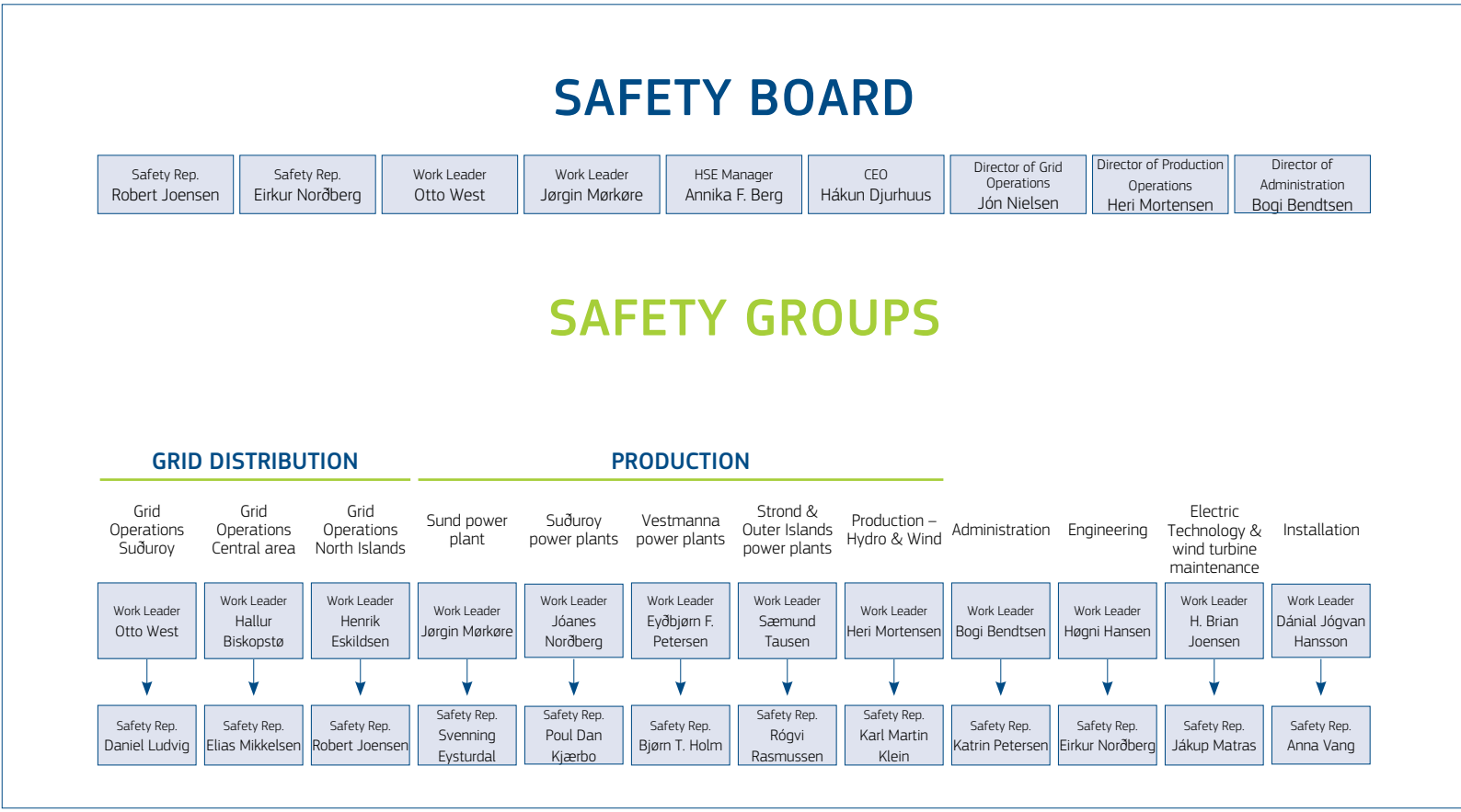



*Figure 1. The Safety Board of SEV.*

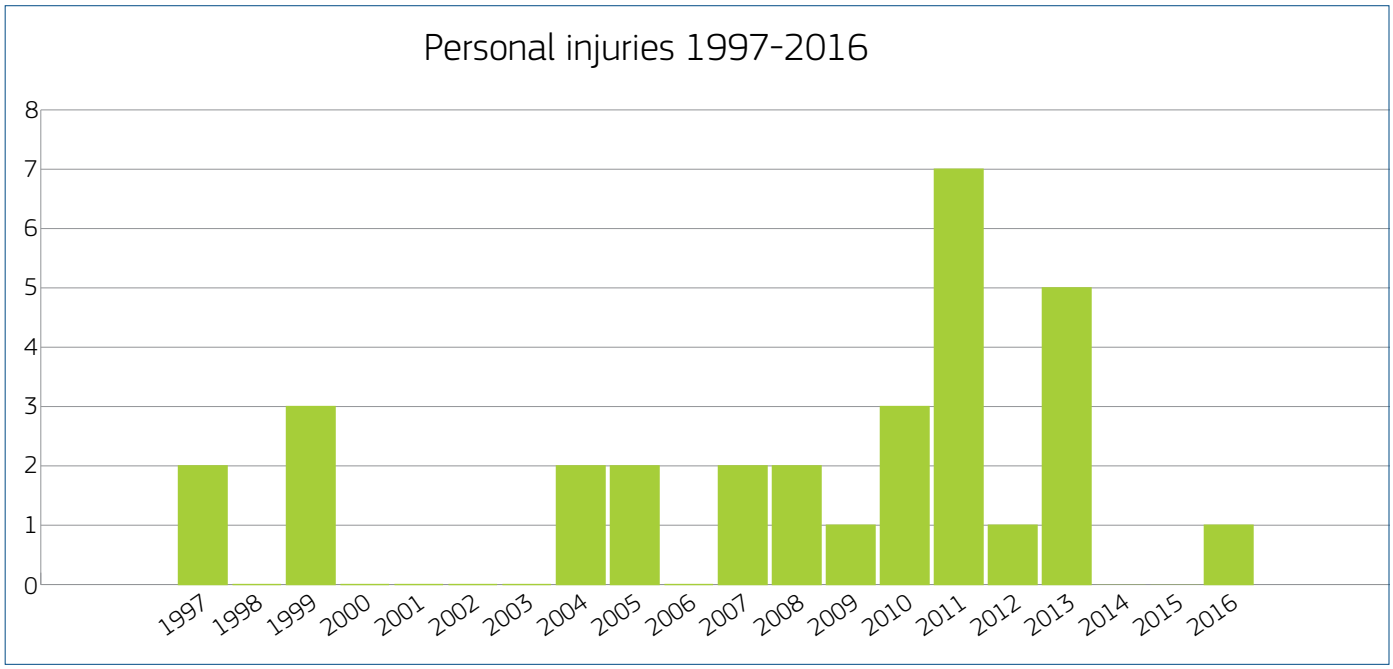



*Figure 2. Number of personal injuries that resulted in a worker's disability for one or more days for the period 1996 to 2016 that were reported to the Occupational Safety & Health Administration.*

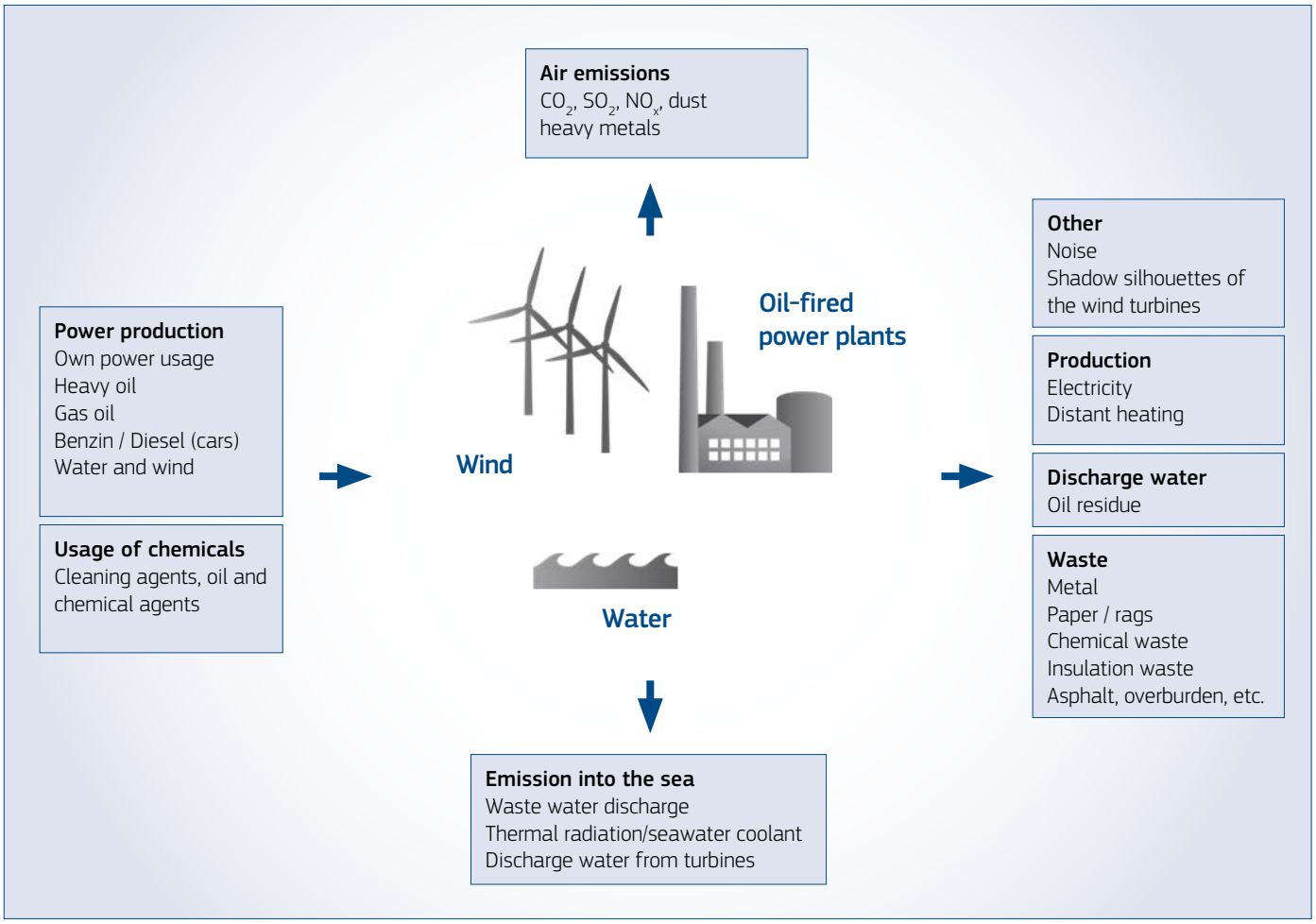



*Figure 3. Overview of the main impacts on the environment by the activities of SEV.*

| Valid Environmental Permits: | Valid as of: |
|---|---|
| Authorization for the wind turbines at Neshagi | 14.05.04 |
| Authorization for the power plant at Sund | 28.04.11 |
| Authorization for the wind turbines at Neshagi | 13.01.12 |
| Authorization for the wind turbines at Húsahagi | 16.01.13 |
| Authorization for the power plant at Vágur | 18.11.15 |

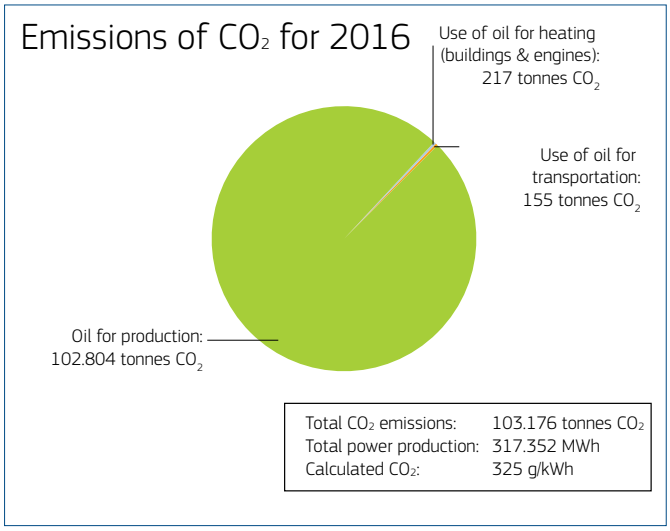



*Figure 4. Amount of $CO_2$ emissions for 2016.*

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

## Environmental Permits

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

## Carbon Dioxide emissions

One of SEV's largest environmental impacts stems from the burning of fossil fuels. The greatest portion of SEV's $CO_2$ emissions originates from oil-fired electricity and heat production. Additionally, $CO_2$ emissions originate from the use of oil for the

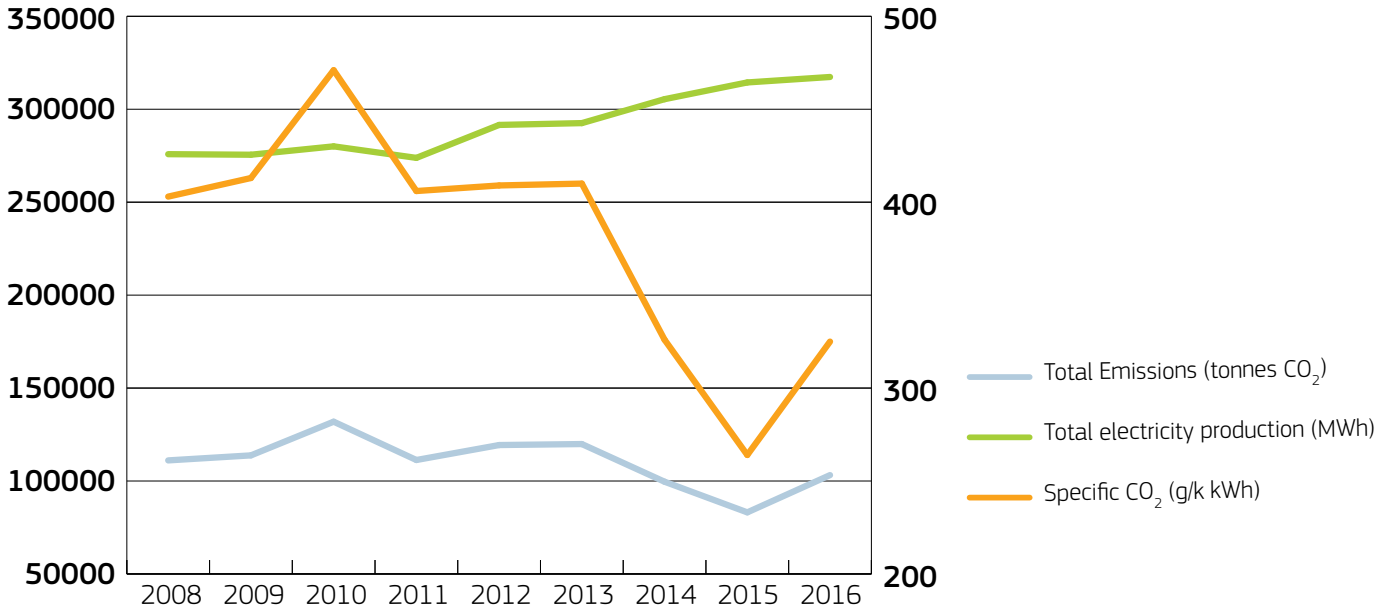



*Figure 5. $CO_2$ emissions, electricity production and specific $CO_2$ for the period 2008 to 2016.*

heating of buildings and motors, as well as transport. Figures 4 and 5 show SEV's $CO_2$ emissions for 2016 and $CO_2$ emissions from 2008 to 2016, respectively.

## District Heating

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

By year-end 2008, some of the excess heat produced at Sund was also linked to the Hoyvík district heating system. Today, 1,050 customers are connected to Fjarhitafelagið (the district heating company owned equally by SEV and Tórshavn Municipality). Figure 6 shows how much district heating SEV has provided over the last years.

Fjarhitafelagið produced 33.05 MWh in 2016, of which SEV provided 6.65 MWh. Figure 6 shows, that SEV's output for district heating has significantly decreased the last three years. Due to a shift towards more green energy sources in recent years, the Sund plant has produced less electricity. Another contributing factor was a fire in one of the boilers supplying the district heating company in 2014, reducing supply of energy for district heating.

## Waste

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

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

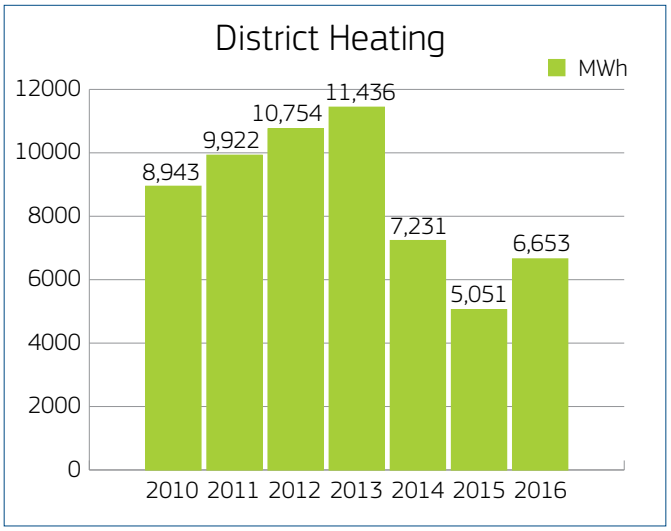



*Figure 6. Heat provided by SEV for Fjarhitafelagið in MWh.*

Figure 7 shows that the quantity of waste going through a special treatment increased significantly in 2015. The reason is that SEV removed a large number of old batteries when the storage room at the Sund power plant was cleared out. Furthermore, waste for landfill decreased significantly in 2016 compared to earlier years, as construction of the wind farm at Húsahagi was completed in 2015.

Figure 8 shows recycled waste from 2010 through 2016. In 2016, SEV recycled more iron and other metals due to a clear out of the storage facility at Vágur.

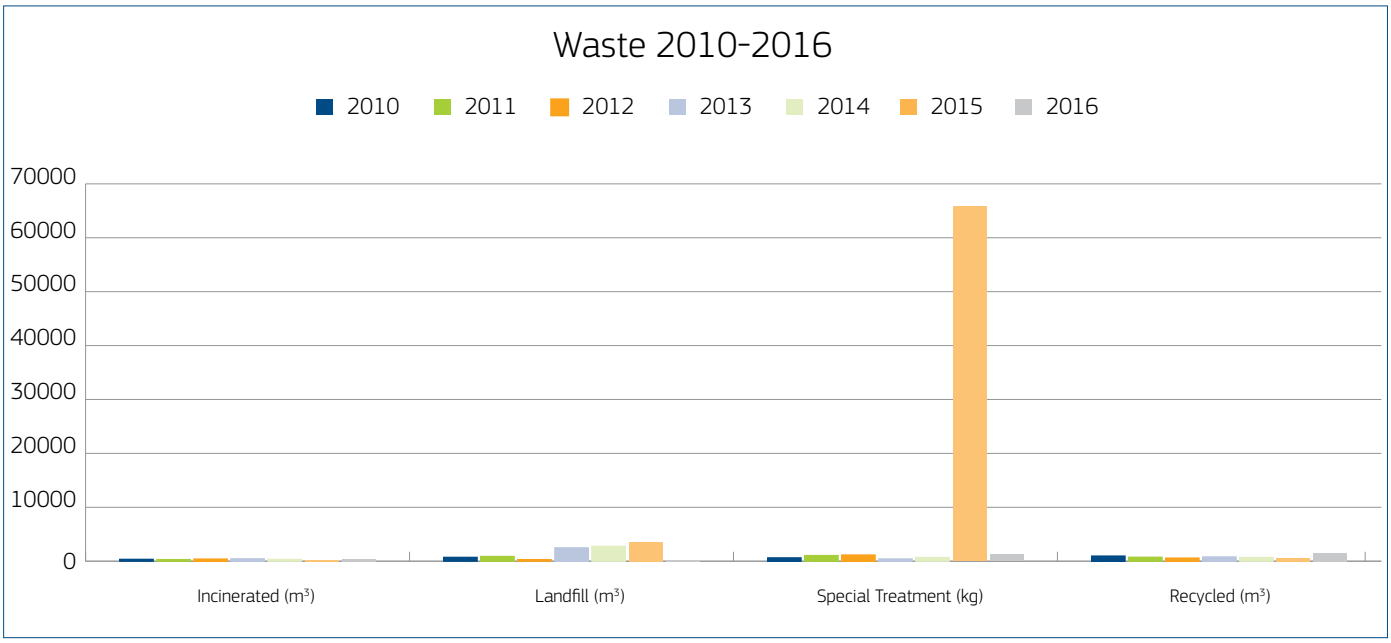



*Figure 7. Waste generated by SEV from 2010 to 2016.*

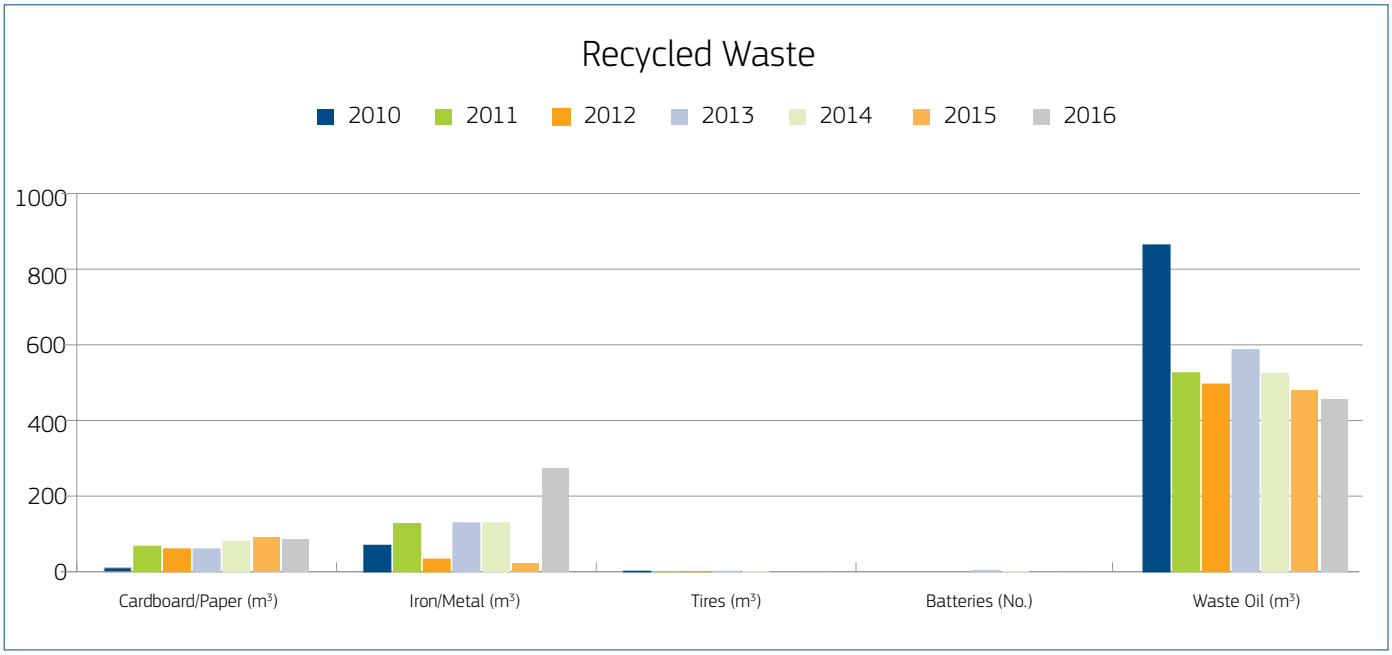



*Figure 8. Amount of recycled waste from 2010 to 2016.*

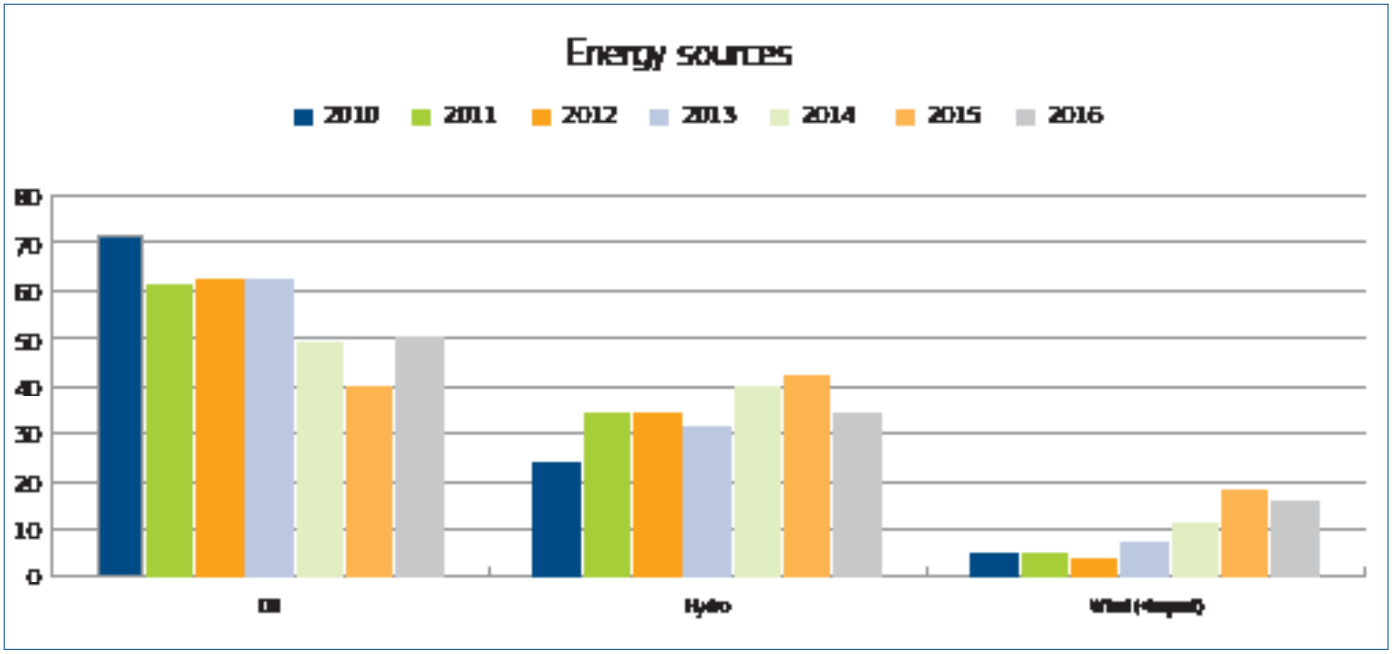



*Figure 9. Thermal and green energy share in percent from 2010 to 2016.*

# Annual Report and Annual Accounts 2016

# Electricity Company SEV (Elfelagið SEV) Annual Accounts 2016

## Contents


About the Company . . . . . 58
Management Report. . . . . 59
Independent Auditor's Report . . . . . 60
Key Figures and Financial Ratios . . . . . 61
Management Review . . . . . 62
Accounting Principles . . . . . 78
Income statement 1 January – 31 December . . . . . 82
Balance sheet 31 December . . . . . 83
Cash flow statement . . . . . 85
Distribution of activities, production and grid . . . . . 86
Operations – production and grid . . . . . 89
Notes . . . . . 91


## The Company

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

## Board

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

## Management

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

## Auditing

JANUAR State Authorized Public Accountants P/F

# Management Report

The board of directors and the management have today presented the annual report of Elfelagið SEV and the group for the financial year 1st January to 31th December 2016.

The annual report has been presented in accordance with the Faroese Financial Statements Act.

We consider the accounting policies used appropriate, and in our opinion, the consolidated annual accounts and the annual accounts provide a true and fair view of the assets, the liabilities and the financial position, consolidated and for the company respectively as on 31 December 2016, and of the results of the activities, consolidated and of the company respectively and of consolidated cash flows in the financial year 1 January to 31 December 2016.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

Tórshavn, 31 March 2017

**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 owners of Elfelagið SEV

### Report on the consolidated annual accounts and the annual accounts

We have audited the consolidated annual accounts and the annual accounts of Elfelagið SEV for the financial year 1st January to 31th December 2016, which comprise accounting policies used, profit and loss account, balance sheet and notes, consolidated and for the company respectively and consolidated cash flow statement. The consolidated annual accounts and the annual accounts are prepared in accordance with the Faroese Financial Statements Act.

### The management's responsibility for the consolidated annual accounts and the annual accounts

The management is responsible for the preparation of consolidated annual accounts and annual accounts that give a true and fair view in accordance with the Faroese Financial Statements Act. Furthermore, the management is responsible for such internal control as it determines necessary in order to prepare consolidated annual accounts and annual accounts that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated annual accounts and the annual accounts based on our audit. We conducted our audit in accordance with international standards on auditing and additional requirements under Faroese audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts and the annual accounts are free from material misstatements.

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

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

The audit has not resulted in any qualification.

### Opinion

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets, liabilities and financial position, consolidated and for the company respectively at 31 December 2016 and of the results of the company's operations, consolidated and for the company respectively and of consolidated cash flows for the financial year 1 January to 31 December 2016 in accordance with the Faroese Financial Statements Act.

### Statement on the Management's review

Pursuant to the Faroese Financial Statements Act, we have read the management's review. We have not performed any further procedures in addition to the audit of the consolidated annual accounts and the annual accounts. On this basis, it is our opinion that the information provided in the management's review is consistent with the annual accounts..

Tórshavn, 31 March 2017

**P/F Januar**
State Authorized Public Accountants P/F

*Hans Laksá*
*State auth. auditor*

# Key Figures and Financial Ratios

| Figures in tDKK | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | |
| Net Sales | 420,270 | 421,952 | 410,551 | *384,625* | *355,787* | *316,393* |
| Results before depreciation amortization and impairment | 243,621 | 221,483 | 155,573 | *103,914* | *76,041* | *36,310* |
| Result before financials | 150,383 | 127,897 | 78,376 | *33,877* | *8,265* | *-24,803* |
| Financial results | -48,286 | -24,830 | -20,613 | *-22,011* | *-20,535* | *-14,454* |
| Annual results | 92,754 | 103,067 | 57,763 | *11,866* | *-12,270* | *-39,257* |
| **Balance sheet** | | | | | | |
| Total assets | 2,303,961 | 1,960,373 | 1,742,038 | *1,475,209* | *1,411,000* | *1,286,519* |
| Cash-on-hand | 335,498 | 221,889 | 131,459 | *66,593* | *87,384* | *29,299* |
| Total Equity | 1,141,003 | 1,042,921 | 939,854 | *882,091* | *870,225* | *882,495* |
| Total long-term debt | 1,042,116 | 830,000 | 691,411 | *510,254* | *461,583* | *299,007* |
| **Financial ratios *)** | | | | | | |
| Return on equity | 8.1% | 10.4% | 6.3 % | *1.4 %* | *-1.4 %* | *-4.4 %* |
| Return on assets | 6.5% | 6.9% | 4.9 % | *2.3 %* | *0.6 %* | *-2.0 %* |
| Net liabitity | 3.1 | 2.8 | 3.6 | *4.3* | *4.9* | *7.4* |
| Asset turnover | 0.18 | 0.22 | 0.24 | *0.26* | *0.25* | *0.25* |
| Equity/asset ratio | 49.5% | 53.2% | 54.0 % | *59.8 %* | *61.7 %* | *68.8 %* |

## Calculation of financial ratios

*Return on equity* = $\frac{\textit{Result from operations before taxes x 100}}{\textit{Average equity}}$

*Return on assets* = $\frac{\textit{Result of ordinary operations x 100}}{\textit{Average value of operating assets}}$

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

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

*Equity/asset ratio* = $\frac{\textit{Equity year-end x 100}}{\textit{Total assets}}$

*) Financial ratios are calculated in accordance with the recommendations of the The Danish Society of Financial Analysts, *Recommendations and Financial Ratios 2011*.

# Management Review

## Main Activities

SEV is an inter-municipal cooperative electricity association with the objective of providing electric power and to distribute it amongst the residents of the participating municipalities. Pursuant to the Electricity Production Act, §3, paragraph 1, the Municipalities may participate in electricity production activities pursuant to § 1, paragraph 1 without regard to the provisions of §50, paragraph 1 of the Municipal Government Act. Thus, given that the electricity production sector has been partially liberalized, the Municipalities have secured the authority to produce electricity on a commercially viable basis.

According to SEV's Articles of Association, these objectives are to be promoted according to business principles based on an economically sound foundation with due regard simultaneously for the environment. According to the Electricity Production Act, SEV (including grid operations), is to be financially self-sufficient and viable, generating adequate revenues to pay for operations and necessary, planned investments. SEV's operational permit states that each production facility shall maintain accounts to determine profit or loss.

Every municipality in the Faroe Islands is a member of SEV. Until year-end 2008, the members were liable for any financial debt or possible operational loss of the firm. As of 1 January 2009, the municipalities only had responsibility for the Company's liabilities regarding employees. The review herein covers the total activities of the Company for the period 1 January – 31 December 2016.

## Realised compared to budget and forecast 2016

Pursuant to § 3, paragraph 13b and § 4, paragraph 12b of its Articles of Association, SEV shall inform the shareholders of the Company's financial status since the Annual General Meeting, which was held on 29 April 2016. The Extraordinary General Meeting was briefed on 25 November 2016 and reference was also made to the financial report published on the Company's website, www.sev.fo. The briefing was based on actual data as at the end of September and included forecasts and plans for the remainder of the year.

Table 1 shows a summary of the 2016 budget vs. actual figures.

| Table 1. Difference between budget, projections and actual in DKK million. | Financial Accounts 2012 | Financial Accounts 2013 | Financial Accounts 2014 | Financial Accounts 2015 | Financial Accounts 2016 | Difference between 2015 and 2016 | Budget 2016 | Difference between budget and financial accounts | Projection 2016 | Difference between projections and financial accounts |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Turnover | 355.8 | 384.6 | 410.6 | 422.0 | 420.3 | -1.7 | 425.2 | -4.9 | 421.1 | -0.8 |
| Oil Expense | 166.0 | 167.9 | 141.5 | 86.2 | 50.9 | -35.3 | 77.7 | -26.8 | 48.1 | 2.8 |
| Supplies | 53.5 | 54.1 | 49.8 | 49.9 | 59.3 | 9.4 | 68.8 | -9.5 | 56.5 | 2.8 |
| Wages | 60.2 | 58.7 | 63.6 | 64.3 | 66.5 | 2.2 | 72.4 | -5.9 | 68.5 | -2 |
| **Total Expenses** | **279.7** | **280.7** | **255.0** | **200.5** | **176.6** | **-23.9** | **218.9** | **-42.3** | **173.1** | **3.5** |
| **Earnings Before Depreciation and Amortisation (EBITDA)** | **76.0** | **103.9** | **155.6** | **221.5** | **243.6** | **22.1** | **206.3** | **37.3** | **248.0** | **-4.4** |
| Depreciation | 67.8 | 70.0 | 77.2 | 93.6 | 93.2 | -0.4 | 101.1 | -7.9 | 103.5 | -10.3 |
| **Earnings Before Interest** | **8.3** | **33.9** | **78.4** | **127.9** | **150.4** | **22.5** | **105.2** | **45.2** | **144.5** | **5.9** |
| Net Interest | 20.5 | 22.0 | 20.6 | 24.8 | 48.3 | 23.5 | 32.8 | 15.5 | 38.7 | 9.6 |
| **Earnings before Tax** | **-12.3** | **11.9** | **57.8** | **103.1** | **102.1** | **-1.0** | **72.5** | **29.6** | **105.8** | **-3.7** |
| Tax | 0 | 0 | 0 | 0 | 9.3 | 9.3 | 0 | 9.3 | 0 | 9.3 |
| **Annual Result** | **-12.3** | **11.9** | **57.8** | **103.1** | **92.8** | **10.3** | **72.5** | **20.3** | **105.8** | **-13.0** |

| Table 2. Income statement from sale of electricity power and fixed base rate from customer groups in DKK million | Accounts 2015 | Accounts 2016 | Difference between actual accounts in 2015 and 2016 | | Budget 2016 | Forecast 2016 | Difference between forecast and actual accounts 2015 | |
|---|---|---|---|---|---|---|---|---|
| | Total | Total | In DKK | % | Total | Total | In DKK | % |
| Agriculture, fish farming, fishing industry, and primary raw materials industry | 44.3 | 45.4 | 1.1 | 2.5 | 39.2 | 45.6 | -0.2 | -0.4 |
| Production and construction | 92.4 | 90.4 | -2.0 | -2.2 | 93.8 | 95.0 | -4.6 | -4.8 |
| Retail, restaurants and hotels | 32.6 | 35.3 | 2.7 | 8.3 | 36.7 | 32.6 | 2.7 | 8.3 |
| Transport, postal services and telecommunications | 33.8 | 34.6 | 0.8 | 2.4 | 35.0 | 33.8 | 0.8 | 2.4 |
| Financial services, insurance and other service industries | 5.5 | 5.4 | -0.1 | -1.8 | 5.5 | 5.5 | -0.1 | -1.8 |
| Public and private services, churches | 54.7 | 59.0 | 4.3 | 7.9 | 58.0 | 56.9 | 2.1 | 3.7 |
| Street lights | 10.4 | 10.5 | 0.1 | 1.0 | 11.0 | 10.7 | -0.2 | -1.9 |
| Single-family homes, apartments, vacation homes, and boathouses | 127.5 | 128.6 | 1.1 | 0.9 | 134.6 | 132.1 | -3.5 | -2.6 |
| **Total** | **401.2** | **409.3** | **8.1** | **2.0** | **413.8** | **412.2** | **-2.9** | **-0.7** |

## Realised vs. budget 2016

The Company originally budgeted for a result in 2016 of DKK 72.5 million, while the final result for 2016 was DKK 102.1 million before taxes or an overage compared to budget of DKK 29.6 million. The Company therefore had a larger advance than originally budgeted.

The reason for this advance is based on lower costs than budgeted in several areas, especially oil expenses. Based on the good result for 2016, taxes are incorporated into the accounts.

Net turnover is DKK 4.9 million less than budgeted based on lower sales, of which especially connection fees were much lower than budgeted by DKK 4.0 million and kWh sales by DKK 4.4 million. Several major connections that had been planned were postponed for the future. On the other hand, other income of DKK 3.9 million was higher than budgeted, while the fixed charges remained as budgeted.

Oil expenses were DKK 26.8 million lower based on lower oil prices, but some 32,195 tonnes of oil was used to produce electricity. An oil consumption of 28,969 tonnes of heavy oil had been budgeted, corresponding to a consumption of 3,226 tonnes more than budgeted. Compared to the budget in monetary terms, SEV used DKK 0.9 million more on lubrication oils, DKK 0.9 million less on urea, DKK 1.0 million more on gas oil, and DKK 27.8 million less on heavy fuel oil, all in all DKK 26.8 million less than budgeted. This had a major impact on the operational result, as the trend in the oil price and the dollar exchange rate was significant different than forecast in the budget. Given the strategy of the Company to remain faithful to the budget, the Company hedged the oil purchases for 2016 to a lower price than the budgeted purchase price in the budget. The reason for this was the decreasing price of oil over the last few years.

Oil consumption and associated costs are discussed in more detail in the production accounts, available at www.sev.fo.

The cost for supplies and services was DKK 9.5 million lower than budgeted. Production used DKK 0.9 million more than budgeted, while the Grid used DKK 3.0 million less than budgeted. Administration used DKK 7.4 million less than budgeted.

Wage expense was lower than budgeted by DKK 5.9 million, based especially on the fact that wage adjustments relative to investment were not included in the budget. This is included in the budget for 2017.

Depreciation was budgeted for DKK 101.1 million, but actual depreciation was DKK 93.2 million, corresponding to a decrease of DKK 7.9 million. This reflects lower investment than budgeted. Depreciation has increased over the last several years and an increase in depreciation reflects the investment and additions to the depreciation account undertaken by the Company in 2016. When the 2017 budget was being developed, projections were carried out to determine which investments would be expected

| Table 3. Heavy fuel oil consumption in tonnes | 2014 | 2015 | 2016 | 2016 Budget | 2016 Forecast | Difference between budget and actual accounts 2016 | Difference between forecast and actual accounts 2016 | Difference between 2015 and 2016 |
|---|---|---|---|---|---|---|---|---|
| Heavy fuel oil | 30,880 | 25,738 | 32,195 | 28,969 | 31,425 | 3,226 | 770 | 6,457 |

to be completed during the coming year and thereby taken into use and would thus become an asset subject to depreciation and amortization. The difference between actual and budgeted depreciation is based on this ongoing analysis and the fact that the actual amount booked and actual investment was somewhat lower than budgeted.

On the other hand, interest expense was DKK 48.3 million, which is considerably more than budgeted by some DKK 15.5 million. Actual interest expense was DKK 36.7 million, while the cost associated with the interest rate swap agreements was DKK 13.8 million in unrealized charges. Further, an unrealised exchange rate gain on derivatives improves the overall total somewhat.

In summary, the increase in the result of DKK 29.6 million over budget is based on four main operational areas, wherein oil especially makes the greatest difference.

## Realised vs. projections for 2016

Effective 1 January 2016, SEV established independent subsidiaries to operate the wind farms at Neshagi and Húsahagi, respectively. For the parent company accounts, this means that the purchase of wind energy will increase, while the cost for consumables and wages, depreciation and interest would decline. The results derived from the subsidiaries would be reflected in the parent company capital accounts. The total result reflected in the Group's accounts would not be impacted by this.

Net turnover was projected to be DKK 421.1 million, while actual net turnover was DKK 420.3 million, or DKK 0.8 million lower. The projected result for the Group before taxes was DKK 105.8 million, while actual result was DKK 102.1 million, or DKK 3.7 million less than projected.

Total sales in 2016 from the sale of electricity and the fixed base charge was projected to be DKK 412.3 million, while actual was DKK 409.3 million, which is DKK 3.0 million less than projected.

This difference stems in the main from a projected increase in sales to all the different customer groups, but the reality was otherwise and the Company experienced a decline in sales in the private sector, while the Company experienced an increase in sales to various business tariff groups.

Table 2 shows the projected and actual income of the Company from electricity sales and the fixed base charge in DKK million in the various customer tariff groups.

Further, income is derived from connection fees and other income streams, which were projected to be DKK 11.6 million, but in actuality were DKK 13.4 million, which was DKK 1.8 million more.

Oil expenses were projected to be DKK 48.1 million, while actual costs equalled DKK 50.9 million, which was DKK 2.8 million higher than projected. The reason for the higher oil expense stems from the good weather resulting in the fact that the Company had to use for heavy oil and gas oil than projected. The Company used 32,195 tonnes in 2016 for production, while comparative consumption in 2015 was 25,738 tonnes, corresponding to an increase of 6,457 tonnes.

Costs for goods and services were projected to be DKK 56.5 million, which actual costs were DKK 59.3 million, which is DKK 2.8 million higher. It is projected that the production plants would have a consumption equal to DKK 22.6 million, while costs were DKK 28.2 million, or DKK 5.6 million higher.

Grid consumption was projected to be DKK 11.7 million, but costs equalled DKK 12.4 million, or DKK 0.7 million higher than projected. The costs associated with administration were projected to be DKK 22.2 million, while actual was DKK 18.6 million, or DKK 3.6 million higher than projected.

Wage expense related to production activities was projected to be DKK 32.9 million, while actual costs were DKK 33.6 million, or DKK 0.7 million higher than projected. For grid-related activities, wage expense was DKK 22.1 million, compared to an actual cost of DKK 20.7 million, or DKK 1.4 million lower. The reason for the difference between the two divisions is, among others, that in the projection calculations there was insufficient focus on the actual cost distribution between the two divisions.

Wage expense for administration was projected to be DKK 13.4 million, against actual costs of DKK 12.0 million, or DKK 1.4 million less than projected.

The total cost for wages was projected to be DKK 68.5 million, while in actuality it was DKK 66.5 million, or DKK 2.0 million less than projected.

Depreciation is based on existing assets, as well as the addition and disposal of assets in 2016. Investment for 2016 was projected to be DKK 250.7 million, but was actually DKK 241.7 million, or DKK 9.0 million lower. Depreciation was projected to be DKK 103.5 million, while the actual amount was DKK 93.2 million, which is DKK 10.3 million lower than projected, based on lower investment and reduced addition of investment to depreciation than originally projected.

Net interest expense was projected to be DKK 38.7 million, while it proved to be DKK 48.3 million, or DKK 9.6 million more. Thus, the projections did not correctly account for the unrealised interest charge on derivatives of DKK 13.8 million, nor an unrealized

exchange rate gain of DKK 2.3 million, also on derivatives. Actual interest expense is 36.7 million, which is DKK 2.0 million less than projected.

The majority of the Company's loans for 2016 carried a fixed interest rate, consistent with the Company's interest policy.

## Business Activities and Financial Status of the Company

There were two special features relative to the financial status of the Company that defined 2016. They are 1) SEV secured financing for the refinancing of its current debt and the financing of future investment, and 2) the accounting result was especially good.

On 8 November 2016, SEV secured financing through the issuance of bonds to four American investors totalling DKK 1,042 million, of which DKK 840 million was provided in Danish kroner, while 30 million was provided in US dollars. In this connection, SEV entered into currency exchange agreement with Skandinaviska Enskilda Banken (SEB) relative to these USD 30 million, which were exchanged for DKK 202 million at variable interest, which, pursuant to the interest rate swap agreement, is essentially fixed. Thus, SEV has no exposure relative to currency exchange rates. The maturity dates for the bonds are between 7-12 years, wherein DKK 336 million is provided over 7 years, DKK 538 million over 10 years, and DKK 168 million over 12 years. The average maturity date is 9.3 years.

The interest relative to the financing SEV secured on 8 November 2016 is fixed over the period of the bond and the average interest rate is 1.87% and, utilizing the current interest rate swap agreement, amounts to 2.0%.

At the same time on 8 November 2016, SEV secured bank financing of DKK 626 million, of which DKK 297 million came from Faroese financial institutions and DKK 329 million came from SEB. The financing is in the form of a credit facility to which SEV has access for the next five years. The interest on these funds is the 3-month CIBOR plus a margin of 1.5%. The annual facility fee is 0.53%. Moreover, in this connection SEV entered into interest rate swap agreements for around one-half of the debt SEV anticipates to draw and stipulated a fixed rate of interest of 2.4% over 10 years. It is planned that the drawing rights debt will be refinanced after five years to pay down the debt.

The Company has used DKK 830 million of the referenced DKK 1,042 million to refinance current debt. In this connection, the Company has three interest rate swap agreements each for DKK 200 million that the Company used to lock-in a fixed rate of interest on the old bank financing. Two of these agreements were terminated in accordance with the Company's risk assessment policy, while the third was deemed necessary to fix the interest on the DKK 202 million from the American financing. This means that the average fixed interest rate for the DKK 1,042 million will be 2.0% until maturity.

Thus, the Company has secured financing for a total of DKK 1,668 million, of which DKK 1,042 million has a fixed rate of interest and around one-half of the remaining DKK 626 million is subject to fixed interest rate agreements. Thus, some 80-100% of the Company's total debt is subject to a fixed interest rate agreement, consistent with the Company's interest rate risk policy. Considering the Company's locked-in interest rate swap agreements and the interest the Company shall pay for the bonds and the bank financing, the fixed interest rate cost during the respective periods will be some 2.20% to 2.49%. Two of the conditions governing the loans are that 1) the ratio between net debt to EBITDA shall not be higher than 9 and 2) and that equity compared to total assets shall always be higher than 37.5%. For 2016, the ratio of net debt to EBITDA is 3.1 and equity to total assets is 49.5%.

The operational result after taxes for 2016 was a profit of DKK 92.8 million, compared to a profit of DKK 103.1 million in 2015.

| Table 4. Net turnover DKK million | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Difference compared to 2015 (DKK) | Difference compared to 2016 (%) |
|---|---|---|---|---|---|---|---|---|
| kWh payment | 296.4 | 335.0 | 362.4 | 379.2 | 385.0 | 392,7 | 7,6 | 2,0 |
| Base-rate payment | 16.5 | 16.4 | 16.6 | 16.5 | 16.4 | 16,6 | 0,2 | 1,0 |
| Connection fee | 1.3 | 2.3 | 6.9 | 14.7 | 16.2 | 8,0 | -8,1 | -50,3 |
| Service fee etc. | 5.0 | 4.7 | 1.3 | 2.7 | 6.7 | 5,3 | -1,4 | -20,2 |
| **Income** | **319.2** | **358.3** | **387.2** | **413.1** | **424.4** | **422,7** | **-1,7** | **-0,4** |
| Purchased wind energy | -2.8 | -2.5 | -2.6 | -2.5 | -2.4 | -2.4 | 0,0 | -0,3 |
| **Net turnover** | **316.4** | **355.8** | **384.6** | **410.6** | **422.0** | **420.3** | **-1,7** | **-0,4** |

The budget approved at the Extraordinary General Meeting on 27 November 2015 projected a profit of DKK 72.5 million for 2016.

On 1 January 2011, the Company increased its electricity prices by DKK 0.15 per kWh with the approval of the Faroese Electricity Production Commission. Simultaneously, both the Commission and SEV understood that, given the high price of oil and the need for expansion and upgrading of both the grid and the production facilities, higher prices in the future would be necessary. Therefore, as of 1 January 2012, SEV increased its prices by DKK 0.10 per kWh, and again on 1 January 2013 by DKK 0.05 per kWh for its private customers, and DKK 0.11 per kWh for its "industrial customers", which are subject to a special price tariff for industrial concerns, including fish farming, agriculture, the fishing industry and certain IT service providers with an annual usage above 20,000 kWh.

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

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

No changes to the tariffs was undertaken in 2015 and 2016.

SEV has established the long-term goal of ensuring that its debt to EBITDA shall not be greater than a factor of six. The Company is currently holding to this goal with an operational profit in 2016 of DKK 21.8 million and a debt to EBITDA in 2016 factor of 3.1.

The budgeted result for 2017 is a surplus of DKK 67.5 million before taxes, and the net debt to EBITDA factor is 5.5. SEV has lowered the price of electricity by DKK 0.05 per kWh for 2017 for all customer groups. The fixed base rate charge remains unchanged.

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

In order to meet these goals and to estimate the need for price harmonization, operational data were studied and calculations made as to anticipated costs and investment for the coming year. It is advisable that the budget be sustainable and be financially strong over the course of the coming year, especially given the major expansion project at the Sund power plant for around DKK 700 million, while investment in other areas will also increase.

Given the situation today with a satisfactory result of DKK 92.8 million after taxes for 2016, which is based in the main on increased kWh sales, the low price of oil and low rates of interest, and a large part of production stemming from wind and hydro-power, the conclusion of the above study indicates that it will not be necessary to adjust upwards the prices paid by SEV's customers in order to achieve the Company's goal that the result before depreciation and interest (NIBD/EBITDA) is not greater than a factor of 6. In order to achieve this goal for the entire period of 2016-2025, it is critical to continue to have a good result, which at the very least is on par with the forecast result for 2017.

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

### Revenue

SEV's revenue from its electricity consumption charges and the fixed base rate charge for 2016 was a total of DKK 409.3 million, compared to 2015 revenue of DKK 401.2 million. This is an increase in 2016 of DKK 8.1 million. This increase in the Company's revenue reflects an increase of DKK 7.7 million in kWh sales, while the fixed base rate revenue remained the same as in 2015. More detailed information regarding sales can be found in the Company's Grid accounts, available at www.sev.fo.

There are three factors that impact SEV's main revenue stream: changes in electricity prices, changes in overall electricity consumption, and shifts between the various customer price groups.

Total turnover for 2016 was DKK 422.7 million, compared to DKK 424.4 million in 2015, corresponding to a decline of DKK 1.7 million, or 0.4%. By far, the largest portion of SEV's income is derived from the electricity payments, equalling DKK 392.7 million, while DKK 29.9 million was derived from the fixed base rate charge and other income. This reflects the same pattern as the previous year. Table 5 shows the Company's net revenue over the last six years in DKK million.

As Table 5 shows, the Company's revenue has steadily grown from

| Table 5. Result for kWh sold DKK | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Difference compared to 2015 (DKK) | Difference compared to 2015 (%) |
|---|---|---|---|---|---|---|---|---|
| Average income per kWh sold | 1.25 | 1.37 | 1.41 | 1.46 | 1.47 | 1.45. | -0.02 | -1.5 |
| Average cost per kWh sold | 1.40 | 1.42 | 1.37 | 1.25 | 1.11 | 1.10 | -0.01 | -0.7 |
| Result for kWh sold | -0.15 | -0.05 | 0.04 | 0.21 | 0.37 | 0.35 | -0.02 | -4.1 |

2010 to 2015. This increase is due not only to an increase in kWh consumption, but also to the various tariff increases instituted over the last few years to counter the rising price of oil that SEV uses for production.

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

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

Table 7 shows that customer sales were constant except for 2011, after which sales grew to 2015. From 2009 to 2011, sales have been just above 250 GWh annually, while sales for the last few years have increased by, respectively, 2.6% in 2012, 5.0% in 2013, 3.4% in 2014 and 1.5% in 2015. For 2016, growth was up 1.1%.

Network loss and SEV's own consumption (of which the greater share is network loss) grew consistently over the last few years with the exception of 2011, when it decreased to 19 GWh, and then increased again to 30.1 GWh in 2012. In 2013, network loss and own consumption was 18.1 GWh, while for 2014 it equalled 21.6 GWh. For 2015, network loss was 26.3 GWh or 4.7 GWh higher. Network loss in 2016 was calculated to be 25.9 GWh, which is 0.4 GWh less than in 2015.

The large fluctuations stem from differences in the staggered measurement of network loss and own consumption from year to year. SEV works continuously on reducing network loss and its own consumption.

The up and down fluctuations in the environment from year to year directly impacts wind and hydro-power electricity production. Generally, electrical production from hydro-power is about 114 GWh annually.

The year 2013 was an especially dry year, even though there was considerable rain from the middle of November until year-end. In addition, the Heyga power plant did not operate at full capacity part of 2013, because of construction disruptions at the plant. For part of 2014, the Fossá power plant was not in operation because the control system for the turbines was being upgraded. Even though the Fossá power plant did not produce electricity for part of 2014, the end result was that for 2014 considerably more electricity was produced from hydro-power, thus 2014 was a good year for hydroelectricity production. There was considerable rainfall through to April, as well as the fall and winter experienced significant rainfall.

This significant rainfall continued into 2015, with substantial rain throughout the spring and into the summer months. For the summer and fall months, the amount of rainfall was deemed to be consistent with a normal year, while the winter again experienced significant rainfall. In the main, the weather in 2016 was good

| Table 6. Settled sales in GWh | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Part of Productions in % | Difference compared to 2015 (GWh) | Difference compared to 2015 (%) |
|---|---|---|---|---|---|---|---|---|---|
| Settled customer sales in GWh | 254.8 | 261.4 | 274.4 | 283.8 | 288.1 | 291.4 | 91.8 | 3.4 | 1.2 |
| Network loss and own consumption in GWh | 19.0 | 30.1 | 18.1 | 21.6 | 26.3 | 25.9 | 8.2 | 0.4 | -1.6 |
| **Total production in MWh per year** | **273.8** | **291.6** | **292.5** | **305.4** | **314.4** | **317.4** | **100.0** | **2.9** | **0.9** |
| Oil-fired | 166.8 | 181.0 | 180.1 | 150.2 | 125.5 | 158.9 | 50.1 | 33.4 | 26.9 |
| Hydro | 92.5 | 99.8 | 90.6 | 120.7 | 133.1 | 106.3 | 33.5 | -26.7 | -20.1 |
| Wind | 14.5 | 10.8 | 21.8 | 34.5 | 55.8 | 52.1 | 16.4 | -3.7 | -6.6 |

with but little wind and rain. This had a negative impact on the potential for electricity production from wind and hydro.

Electricity production from hydro-power in 2016 was 106.3 GWh, compared to 133.1 GWh in 2015, which is 33.5 GWh less than in 2015 or 26.7% less.

The first Vestas wind turbine at Neshagi was damaged in the beginning of January 2012, followed by a second turbine in March. This had a significant impact on the production of electricity from wind energy in 2012, as can be seen in Table 6. In 2013, there was a significant increase in the production of electricity from wind energy, because the new wind turbines on Neshagi were in operation throughout 2013. Again in 2014, wind production increased significantly because the new Húsahagi wind farm went operational on 9 October 2014. Production increased in 2014 by 12.7 GWh or 58.3%, compared to 2013. The Húsahagi wind farm has worked well and has been in operation throughout 2015 and 2016. Moreover, 2015 was a good "wind-year" with considerable wind, while 2016 was a "satisfactory wind-year" for electricity production from wind. Electricity production from wind was 52.1 GWh in 2016, compared to 55.8 GWh in 2015, or 3.7 GWh less, corresponding to 7.1%. Overall, 16.4% of electricity production was from wind. The Company anticipates that the output from wind production will increase, subsequent to the new battery system at Húsahagi coming online in September 2016.

For further details on production and its distribution among the various sources of power, please refer to SEV's production accounts, available at www.sev.fo.

## Expenses

Table 7 shows the distribution of SEV's total expenses from 2011 to 2016 in DKK million.

As the Table shows, there has been progress in expenditures over the last few years. Expenses decreased by DKK 0.7 million or 0.2%, compared to the previous year.

The expenses related to production stability, rolling power, available power and the cost of managing the power grid are noted in the accounts for production and the grid. These accounts are available on SEV's website, www.sev.fo.

## Oil Expenses

Table 7 shows that SEV's oil expenses are considerably less, compared to the previous year. For 2016, this expense was DKK 50.9 million, which is the lowest it has been in many years. Oil expenses equal 15.9% of total costs for 2016. The Company used 32,195 tonnes of heavy oil in 2016, compared to 25,738 tonnes in 2015, or 6,457 tonnes more in 2016 as a result of less rainfall and an increase in the production of electricity.

This expense is directly related to the price fluctuations on the world market as well as electricity consumption and fluctuations in the production of electricity from wind and hydro-power. Oil expenses for 2016 were DKK 50.9 million, compared to DKK 86.2 million in 2015, corresponding to a reduction of DKK 35.3 million. Oil expense encompasses the cost for heavy oil, gas oil and lubricating oil, but by far the largest portion is heavy oil.

For further, more detailed information on oil expenses and pricing, please refer to SEV's production accounts, available at www.sev.fo.

The operational expenses of the Company are generally divided between employee wages and goods and services. These expenses are again subdivided among production activities, grid activities and administration.

## Employee Expenses

Table 8 shows the trend in total employee expenses from 2011 to 2016 in DKK million.

| Table 7. Expenses DKK million | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Difference compared to 2015 | Difference compared to 2015 (%) | Expenses in 2016 (% of total) |
|---|---|---|---|---|---|---|---|---|---|
| Oil | 142.6 | 166.0 | 167.9 | 141.5 | 86.2 | 50.9 | -35.3 | -41.0 | 15.9 |
| Purchased power | 2.8 | 2.5 | 2.6 | 2.5 | 2.4 | 2.4 | 0 | 0.0 | 0.7 |
| Supplies and services | 74.9 | 53.5 | 54.1 | 49.8 | 49.9 | 59.3 | 9.4 | 18.8 | 18.5 |
| Employee expenses | 62.6 | 60.2 | 58.7 | 63.6 | 64.3 | 66.5 | 2.2 | 3.4 | 20.7 |
| Depreciation | 61.1 | 67.8 | 70.0 | 77.2 | 93.6 | 93.2 | -0.4 | -0.4 | 29.1 |
| Interest | 14.5 | 20.5 | 22.0 | 20.6 | 24.8 | 48.3 | 23.5 | 94.8 | 15.1 |
| **Total** | **358.5** | **370.6** | **375.4** | **355.3** | **321.3** | **320.6** | **-0.7** | **-0.2** | **100.0** |

| Table 8. Trend in employee expenses DKK million | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Difference compared to 2015 (DKK) | Difference compared to 2015 (%) |
|---|---|---|---|---|---|---|---|---|
| Production | 32.1 | 28.3 | 30.7 | 30.9 | 32.0 | 33.7 | 1.7 | 5.3 |
| Grid | 20.4 | 20.0 | 19.5 | 19.9 | 21.1 | 20.7 | -0.4 | -1.9 |
| Administration | 10.0 | 11.9 | 8.6 | 12.9 | 11.2 | 12.0 | 0.8 | 7.1 |
| **Total** | **62.6** | **60.2** | **58.7** | **63.6** | **64.3** | **66.5** | **2.2** | **3.4** |

Employee wage expense related to production activities was DKK 33.7 million in 2016, compared to DKK 32.0 million in 2015, reflecting an increase in wage expense of DKK 1.7 million, consistent with the trend in other industries.

The wage expense for grid activities has remained static over the last few years. Grid-related wage expenses for 2016 were DKK 20.7 million, compared to DKK 21.1 million in 2015, or a reduction of DKK 0.4 million.

Administrative employee expenses have remained steady for the last five years at around DKK 10 .0 million per annum. In 2012, employee expenses increased by DKK 1.9 million, based on an increase in pension benefit obligations. The same held true for 2013 during which the pension benefits were DKK 1.9 million lower, but in 2014 these costs rose by DKK 1.2 million, because of the adjustment of overall pension benefit obligations. In 2015, the pension obligations were lower by DKK 0.7 million, such that the total employee expense for administration was DKK 11.2 million, or DKK 1 .7 million less. The pension obligation for 2016 is adjusted by DKK 0.2 million.

Pension adjustment aside, employee wage expenses for 2016 equalled DKK 12.4 million, compared to DKK 11.9 million in 2015, which is DKK 0.5 million higher than the previous year. There are a number of union groups within the Company, and SEV follows the public wage agreements that are in effect for the different union groups.

## Supplies and Services

Table 9 shows the trend in total expenses for goods and services from 2011 to 2016 in DKK million.

Expenses related to goods and services for 2016 equalled DKK 59.3 million, compared to DKK 49.9 million in 2015, corresponding to a higher consumption of DKK 9.3 million.

## Financial Expenses

During 2016, the Company worked on the refinancing of existing debt of some DKK 830 million as well as locating financing for upcoming investment. On 15 December 2016, new financing finally closed. The new financing combines financing funded by bonds for DKK 1,042 million and bank financing, which is in the form of drawing rights totalling DKK 626 million, which by year-end had not been accessed. The total amount of financing acquired by SEV in December equalled DKK 1,668 million.

In this regard, the Company paid loan origination fees of DKK 8.3 million, plus interest on gross debt of DKK 830 million through December 2016, equalling DKK 36.7 million. Further, the Company has entered into interest rate swap agreements to cover interest rate risk and in this regard an unrealised expense of DKK 13.9 million was posted. This item fluctuates according to the changes in forward interest rates. In addition, there were unrealised exchange rate gains of DKK 2.3 million.

Net interest expense was DKK 48.3 million in 2016, compared to

| Table 9. Total expenses for supplies and services DKK million | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Difference compared to 2015 (DKK) | Difference compared to 2016 (%) |
|---|---|---|---|---|---|---|---|---|
| Production | 43.3 | 27.6 | 24.1 | 21.1 | 21.3 | 28.2 | 6.9 | 32.4 |
| Grid | 15.1 | 12.3 | 15.4 | 11.9 | 11.8 | 12.4 | 0.6 | 5.1 |
| Administration | 16.5 | 13.6 | 14.6 | 16.8 | 16.8 | 18.6 | 1.8 | 10.7 |
| **Total** | **74.9** | **53.5** | **54.1** | **49.8** | **49.9** | **59.3** | **9.3** | **18.6** |

DKK 24.8 million in 2015, corresponding to a increased expense of DKK 23.5 million.

Currently, the Company is carrying gross debt of DKK 1,042 million, with a fixed rate of interest secured by the issued bonds and the interest rate swap agreement now in place.

## Depreciation

Depreciation for 2016 amounted to DKK 93.2 million against DKK 93.6 million in 2015, corresponding to a decrease of DKK 0.4 million. This means that depreciation is now the largest expense item, corresponding to 29.2% of total costs. Previously, oil expenses were the largest expense. This change arose because of the Company's declining oil consumption, the declining price of oil on the international market and the increased investment undertaken by the Company resulting in greater depreciation.

The increased depreciation reflects the investment the Company made and associated addition to depreciation made during 2016. When a budget is being prepared for the upcoming year, a determination is made as to which investments will be completed during the coming year thus making the asset subject to depreciation. The difference between actual and budgeted depreciation has its basis in these determinations and the actual postings as well as the investments made was somewhat lower than budgeted.

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

However, this does not imply that the Company would be advised to decrease the price of electricity or refrain from increasing the price, because such actions would reduce the liquidity available to ensure the self-financing of anticipated investments. Company operations must stay balanced. A bottom-line with no self-financing is not advisable, especially if SEV intends to invest in new oil-fired power plants, and expand the grid, while at the same time investing in the expansion of renewable energy resources.

## Special Risks

The risks facing the Company can be subdivided into the following categories:

## Market risks

Over the last three years especially, SEV has undertaken significant investment in its production facilities and the grid, and SEV shall continue to make major investments in infrastructure, e.g., the expansion of the Sund thermal power plant for some DKK 700 million. Given all the investment that SEV has undertaken and will embrace in the future, it could be said that, to a certain degree, SEV is a project-based company, which necessitates a long-term view and the adoption of a budget that reflects this long-term vision. This means, consequently, that it is advisable to understand and be sensitive of critical cost factors, such as the cost of oil, currency exchange costs and interest costs.

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

In connection with the loan facilities taken out by SEV, the various financial institutions reviewed SEV's key financial indicators for the most critical business areas; the requirements relative to these figures are quite specific and not negotiable. In order to obtain competitive financing, it is necessary for SEV to meet the specific requirements stipulated by the financial institutions and consistent with what SEV itself considers financially prudent to address the most critical risks relative to increasing costs. SEV is an interesting customer to provide financing to, and, according to SEV's consultants, it can be considered an "investment grade" client. This affords SEV the possibility to secure excellent financing by any number of measures. In order for SEV to maintain this "ratings level", it is necessary to remain commercially viable with sufficient profit such that the key accounting figures are on a par with those of the companies against which SEV must compete for financing.

SEV, in conjunction with SEB, which is SEV's financial and hedging consultant, has developed a risk hedging strategy against oil, currency exchange and interest rate fluctuations. The hedging strategy is a part of the loan facility agreements that the Company undertook in December 2016.

| Market risk | Credit and counter-party 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 |

## Interest rate risks

SEV has evolved a strategy to secure a fixed rate of interest for up to 100% of its debt with a repayment period longer than 12 months. At the same time, the average repayment period for debt associated with a fixed rate of interest shall be between five and ten years. This will be done in such a manner so that SEV can achieve coverage of its interest rate risk within a range of 80% to 100% of total debt at any given time. The debt can either carry an agreed-upon fixed rate of interest, or a floating variable rate of interest that is governed by an interest rate swap agreement.

This hedging strategy or methodology requires that the fixed-rate debt shall be continually monitored such that when the fixed-rate portion of SEV's total debt falls below 80% or increases to over 100%, then the interest rate swap agreements should be activated. Consequently, this review might necessitate that certain interest rate swap agreements should be terminated to ensure, for example, that the percentage of fixed-rate interest loans does not exceed 100% of the total loans held by SEV. As a result of such a course of action, the value of the interest rate swap agreements will grow. A positive value decreases the financial needs of SEV, while a negative value increases the financial needs. SEV, in the main, books the positive value of the interest rate swap agreements with the assets of the Company. SEV strives to maintain a positive balance of its interest rate swap agreements over time, wherein the goal is to have an average fixed-rate interest term of between 5 and 10 years.

In connection with SEV's new loan facilities, SEV secured a fixed rate of interest on all of its gross debt as at year-end 2016 of DKK 1,042 million with an average repayment period of around nine years. In addition, in December 2016, the Company executed interest rate swap agreements for the debt that would be assumed when and if the Company has need for bank financing as each new infrastructure investment is undertaken. This is consistent with the strategy to secure against interest rate risk. Thus, an increase in interest rates will, generally, not have an impact on the majority of the interest-bearing debt carried by SEV for the next nine years.

## Oil price and exchange rate risks

One consequence of the investment budget for the coming years is that the current hedging strategy for oil and currency exchange has been expanded to cover an additional four years beyond the current year. This is the same time period during which the loan facilities of the Company are expected to increase by some DKK 700 – 800 million to around DKK 1,600 million.

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

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| Oil price hedge | 80% | 60% | 40% | 20% | 20% |

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

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

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

### Liquidity risk

SEV has established the protocol that before any specific project is undertaken the necessary financing must be in place for the project. This ensures that financing is always available for a specific project.

In addition, the Company shall always have at least DKK 100 million available in the bank, if the necessity should arise. In connection with the operation of the Company, this DKK 100 million is available to cover any exigencies for a period of six months in the event that the Company does not have any income. Moreover, SEV considers it desirable to have access to a line of credit that would support the liquidity of the Company, if necessary.

### Credit and counter-party risks

### Accounts receivable from customers

The Company carefully and continually monitors its customer accounts receivable. The Company has in place specific procedures for the follow-up on delinquent outstanding accounts. If an invoice is not paid by the deadline, the customer is sent a reminder and if again the customer does not pay by the stipulated due date, then a third reminder is sent and the electricity to the customer is cut-off. This procedure limits the risk relative to the Company's customers, however, the Company can be at risk from an individual large customer.

Available liquidity of the Company can be placed in bonds or loaned to banks.

### Cash-on-hand in banks

The Company continually takes steps to diversify its cash among several banks that are financially strong as to minimize the inherent risk.

### Bonds

One possibility relative to maintaining cash-on-hand is to purchase Danish treasury bonds or mortgage-backed bonds. In order to limit currency rate risk in this connection, only short-term bonds are considered.

### Insurance

In association with its insurance advisor, Sp/f Íti v/Ali Celebi (previously, Willis Føroyar), SEV actively works to cover its insurance risk, such that no individual damage claim or combination of damage claims would impact the overall operational result by more than DKK 10 million.

### Operational risks

It is quite clear that it is impossible to avoid all operational risks, but these risks can be minimized to an acceptable level through appropriate initiatives, procedures and oversight prescribed by the Board and Management.

### Production security

The purpose of the Electricity Production Act is, among other factors, to ensure that the provision of electricity throughout the Faroe Islands takes into consideration production stability, the economy of the country and the environment. The price of electricity shall not be higher than necessary to address these factors, as well as the other services/obligations that the Company has toward its customers. SEV shall always maintain a secure and effective operation that meets the stipulated goal of production stability and security. The Company thus continually strives to enhance its production stability and the quality of its electric power production.

At the same time, in connection with production stability, it is necessary to address the consequences of storms and other events. In this context, SEV, over many years, has worked to bury electric cables so that the danger of a negative impact in this area is minimized.

### IT and in-house procedures

Risk reduction efforts within SEV reflects the IT security policy and guidelines, etc., in effect, which extend to procedures, oversight, and the division of functions and functionality. Also, SEV continues to facilitate the education and development of its staff in this regard.

### Health and safety

The Company takes health and safety very seriously. The Company endorses a zero-tolerance policy, meaning that the goal is that no one shall suffer a work-related injury, nor shall there be any injury that results from other activity other than the work of the Company. In this connection, the Company has instituted the requisite policy and procedures.

### Environment

SEV uses heavy oil and gas oil in the production of electricity and the Company uses several dangerous chemicals for cleaning, etc. of the motors. The Company again takes the protection of the environment very seriously and the regulations and requirements in this area are always diligently followed.

### Strategic risks

In the main, the strategic risks of the Company are linked to how the Company organizes its activities, the political environment, and the competence of its employees, etc. Strategic risk can be reduced through the application of an effective project plan.

Work is underway to realize the plan to increase that part of production that is based on renewable energy resources, such as hydro-power, wind and tidal energy. This plan also extends to the new control system from Schneider Electric and the smart-grid solution. To continually ensure that the Company benefits from new ideas and new inspiration, the Company emphasizes candour, openness and honesty throughout its entire operations and dealings with others.

## New, disruptive technology

New, disruptive technology is continually evolving and impacting the world around us. Thus, SEV strives to follow and adapt the potential inherent in this evolving, disruptive technology.

## Projects

SEV is continually developing and upgrading its production capacity and the grid. In this connection, many projects have been undertaken. Thus, in this regard, it is necessary to closely monitor these projects and for major projects oversight committees are established along with the appointment of a project leader for each individual project

## Professional knowledge and development

The training and development of staff is the key to development of the Company and to limit strategic risk. The Company strives to ensure that the requisite knowledge and experience is in place in every area of the Company to the level deemed necessary and as a consequence the Company arranges for suitable training of staff. In addition, SEV arranges for continual leadership training to enhance and support their work for SEV.

## Investments

According to the 2016 budget, total investment was calculated to be DKK 377.4 million. Now that the year has run, it can be stated that the gross investment was DKK 241.7 million, which is DKK 135.7 million less than budgeted. Table 10 shows the distribution of the investment in DKK million.

The Table shows that the original budget for investment was DKK 377.4 million. In 2016, a re-prioritization of DKK 23.4 million was carried out within the approved framework for investment of DKK 377.4 million. Also, the investment projects that were carried out pursuant to the re-prioritization are compared to the 2016 budget.

Compared to the 2016 budget, net investment after re-prioritization of DKK 23.4 million was DKK 241.7 million, which is DKK 135.7 million less than budgeted. As Table 10 shows, this difference is derived from the greater investment in the Vágs power plant, but less investment in the Sund power plant than budgeted. Moreover, there was less investment in the coupling stations and the headquarters building than budgeted.

Investment in the Fossá power plant was DKK 0.6 million, of which DKK 0.5 million was spent on the new regulator, pump

| Table 10. Investment DKK million | Original investment budget 2016 | Revised investment budget 2016 | Budget after revision | Actual investment 2016 | Difference between actual vs. budget 2016 |
|---|---|---|---|---|---|
| | 1 | 2 | 3=1+2 | 4 | 5=3-4 |
| Fossá power plant | 2.3 | -1.7 | 0.6 | 0.6 | 0.0 |
| Heygar power plant | 0.4 | -0.1 | 0.3 | 0.2 | 0.1 |
| Mýra power plant | 2.7 | 1.5 | 4.2 | 3.5 | 0.7 |
| Eiði power plant | 1.8 | 0.5 | 2.3 | 1.5 | 0.7 |
| Botni power plant | 2.0 | 0 | 2.0 | 0.3 | 1.6 |
| Vágur power plant | 18.2 | 21.0 | 39.2 | 34.1 | 5.1 |
| Trongisvági power plant | 3.7 | 0 | 3.7 | 0.0 | 3.7 |
| Sund power plant | 142.8 | -20.8 | 122.0 | 97.4 | 24.6 |
| Strond power plant | 4.6 | 0 | 4.6 | 2.3 | 2.2 |
| Small power plants | 7.7 | -0.1 | 7.5 | 4.1 | -3.4 |
| Neshagi wind turbines | 0.2 | 0 | 0.2 | 0 | 0.2 |
| Húsahagi wind turbines | 0.2 | 0 | 0 | -0.2 | 0.2 |
| **Total investment in power production** | **183.6** | **0.2** | **186.5** | **143.9** | **42.6** |
| Coupling stations and power grid. etc. | 160.7 | -0.6 | 160.1 | 92.4 | 67.7 |
| Administrative offices, equipment and ITC | 30.4 | 0.4 | 30.8 | 5.4 | 25.4 |
| **Total** | **377.4** | **0.0** | **377.4** | **241.7** | **135.7** |

and coolant assembly for Turbine 2. Other investment equalled DKK 0.1 million.

The investment for the Heyga power plant was DKK 0.2 million.

Investment in the Mýra power plant was DKK 3.5 million, of which DKK 3.3 million was allocated to the renovation of the control gate and control gate house. Other investment equalled DKK 0.2 million.

Investment in the Eiðis power plant equalled DKK 1.5 million, of which DKK 0.9 million was spent on the emergency unit. Other investment totalled DKK 0.6 million.

The Vágs power plant extension is now completed and formally went online as of 1 September 2016. The investment in the Vágs power plant was DKK 34.1 million and altogether the power plant renovation cost DKK 111.2 million, against an expected DKK 98.4 million, or DKK 12.9 million more, corresponding to an increase of 13.1%. Certain special work relative to the power plant will be carried out in 2017, such as expansion of the tank yard with an oil separator, some carpentry work on the building and fire extinguishing equipment for a total of DKK 7.1 million. This work is expected to be completed in the summer. At which point, all the work on the renovation of the Vágs power plant will be completed.

The reason for the increased cost of DKK 12.9 million stems from the fact that SEV came under tremendous pressure relative to the Company's electricity supply obligation on Suðuroy and had to deal with a temporary critical need for electricity.

On short notice, Varðin Pelagic undertook to build a fish processing plant at Tvøroyri on Suðuroy in 2012. SEV succeeded in enhancing the grid such that fish processing could begin that summer, but it became obvious that the available power for Suðuroy was too little and that the electricity supply stability was considerably worse. Maximum power load grew suddenly from 4 MW to 8 MW. As a temporary fix, SEV set up three power generators of 1 MW each and entered into a supplemental agreement with the Ministry of Culture for access to their power supply at Akrabyrgi.

In 2014, SEV began to expand the Vágs power plant with Motor 4, and, from this time onward until work on the power plant was completed, SEV maintained a wait list for new customers to connect to the grid. Therefore, it was necessary to expand the power plant quickly so that the SEV could offer sufficient power to the people of Suðuroy as soon as possible.

The project planning relative to a power plant is to be sure a complicated and multi-faceted task and it is no less complicated when the renovation and upgrading of a power plant takes place while the power plant remains in full operation. The fore-planning and project development were undertaken simultaneously plus the project specifications were more comprehensive than first envisioned. SEV undertook some of the construction itself while the project was being initially programmed and laid out, which added to the challenge of project management, especially when old explosives were discovered during excavation work. Price control harmonization was also carried out. The total cost of this project eventually was DKK 12.9 million greater than projected.

Even though the Company was under intense deadline pressure, SEV was able to complete the expansion work without excessive delay, but at a higher cost than originally budgeted. That said, SEV believes that it has delivered a well-functioning power plant that will be able to supply Suðuroy its necessary electric power.

The total investment for the Sund power plant in 2016 was DKK 97.4 million, but this is less than budgeted. The construction of the new tank farm is completed and is now being used. The investment in 2016 for the day tank storage area was DKK 1.7 million. The work on the day tank storage building is delayed, but construction is expected to be completed in 2017. The investment in the day tank storage building was DKK 31.7 million. The investment in Building 3 in 2016 was DKK 57.0 million, which essentially went toward the planning work on the project, down payment for the motor and the connection of the motor into the grid. The updating of the control system for the motors was postponed for a year, but now this got underway in 2016. Other investment equalled DKK 7.0 million.

| Table 11. Investment DKK million | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Hydro-power plants | 4.0 | 27.4 | 41.7 | 62.8 | 82.0 | 58.5 | 72.4 | 29.4 | 13.4 | 8.5 |
| Other electrical power plants | 2.8 | 20.2 | 13.4 | 3.3 | 0.8 | 60.0 | 34.7 | 149.5 | 108.3 | 135.4 |
| Distribution facilities | 41.9 | 41.1 | 19.6 | 21.7 | 9.1 | 31.2 | 43.8 | 88.1 | 95.9 | 86.7 |
| Joint assets | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Land assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other operational assets | 2.5 | 3.1 | 5.6 | 5.7 | 3.9 | 3.1 | 4.1 | 8.2 | 14.5 | 11.2 |
| **Total** | **52.0** | **91.8** | **80.3** | **93.5** | **95.8** | **153.8** | **155.0** | **275.2** | **232.1** | **241.7** |

Investment in the Strond power plant was DKK 2.3 million, for which DKK 0.7 million was for the motor building. In the main, the investment was for small projects.

The investment in the coupling stations and the grid equalled a total of DKK 92.4 million. Investment in the coupling stations was DKK 33.5 million, while investment in the grid, etc. was DKK 45.4 million. Investment in the wireless meters, engineering and technical equipment was DKK 13.6 million, of which the wireless meters, etc. equalled DKK 2.6 million, DKK 5.4 million was for the battery system for Húsahagi, DKK 0.6 million for the new grid control system, DKK 1.2 million for the wind-measuring mast and equipment on Suðuroy and DKK 1.8 million for the electric vehicle charging stations. Other investment equalled DKK 2.0 million.

The investment in the coupling stations can be subdivided thusly: innan Eið, DKK 7.5 million; Havnadali, DKK 2.6 million; at Strond, DKK 2.9 million, and Runavík, DKK 19.3 million. Other coupling station investment equalled DKK 1.3 million.

Of the DKK 45.4 million that was invested in the grid, the investment can be subdivided thusly: DKK 16.6 million in the Northern Islands, DKK 16.2 million on Eysturoy, DKK 1.9 million on Vágoy, DKK 0.1 million in mid-Streymoy, DKK 4.3 million in South Streymoy, DKK 1.0 million on Sandoy, and DKK 5.3 million on Suðuroy. In addition, there was some DKK 0.1 million other investment in the grid.

Investment relative to the headquarters building, tools, IT equipment, etc. was considerably less than budgeted, especially because the upgrading of the headquarters building on Landavegur was temporarily postponed until 2022. Total investment equalled DKK 5.7 million, of which DKK 2.2 million was for office furnishings for the headquarters building, DKK 2.7 million for IT equipment and software, etc., and DKK 0.8 million for vehicles.

Table 11 shows the total gross investment of SEV from 2007 to 2016 in DKK million.

Since 2006 and onward to today, SEV has invested DKK 1,509 million, corresponding to DKK 137.2 million per year for the last 11 years.

Tables 12 – 14 show the trend of investment, work-in-progress, and additions to fixed assets during 2016 and 2015.

Investment for DKK 241.7 million is detailed in Table 10.

Table 12 shows the work-in-progress investment. The investment in 2016 was DKK 229.7 million, compared to DKK 217.3 million in 2015. In 2016, DKK 229.7 million, compared to DKK 135.1

| Table 12. Total Investment DKK million | 2015 | 2016 |
|---|---|---|
| Investment booked to work-in-progress | 217.3 | 229.7 |
| Investment booked directly as transition | 14.8 | 12.0 |
| Investment at year-end | 232.1 | 241.7 |

| Table 13. Work-in-progress DKK million | 2015 | 2016 |
|---|---|---|
| Opening balance | 142.3 | 224.2 |
| Investment booked to work-in-progress | 217.3 | 229.7 |
| Work transferred to depreciation as transition | -135.1 | -215.2 |
| Closing balance | 224.4 | 238.8 |
| Changes to work-in-progress | 82.2 | 14.5 |

| Table 14. Transition to fixed assets DKK million | 2015 | 2016 |
|---|---|---|
| Work transferred to depreciation as transition | 135.1 | 215,2 |
| Investment booked directly to fixed assets | 14.8 | 12.0 |
| **Transition as at year-end** | **149.9** | **227.2** |

million in 2015, was posted and transferred to the depreciation basis as an addition to fixed assets.

With respect to the year-end balance for 2016 of DKK 238.8 million, compared DKK 224.4 million in 2015, the production portion amounted to DKK 159.4 million and the grid portion was DKK 79.4 million. The production portion of DKK 159.4 million can be further divided into the following: Vágs power plant, DKK 3.4 million; Sund power plant, DKK 146.2 million; other, DKK 9.8 million.

For the grid portion of DKK 79.4 million, DKK 18.4 million is attributed to coupling stations; the grid DKK 46.0 million; the control system, etc. DKK 23 million. In summary, it can be noted that work-in-progress in 2016 increased by DKK 14.4 million, compared to an increase of DKK 82.2 million for 2015.

Table 14 shows that the additions to fixed assets for 2016 amounted to DKK 227.2 million, compared to DKK 149.9 million in 2015.

The single largest project that was transferred as an addition to fixed assets at year-end was the Vágs power plant for DKK 105.7 million. In addition, the Runavík coupling station equalled DKK

38.4 million; the battery system at Húsahagi, DKK 16.3 million; and cable laying in Runavík, DKK 10.2 million.

Please refer to work-in-progress and Note 7 in the annual accounts.

## Liquidity

The 2016 budget projected loan facilities equalling DKK 270 million. The Company in 2016 increased its loan debt by DKK 212.1 million.

The change in liquidity in 2016 from operations was DKK 143.8 million, against DKK 183.9 million for 2015. Thus, the self-financing relative to investment and repayment was positive. The loan facility agreements with financial investors that the Company entered into in December 2016 stipulate that no instalment payments shall be paid, but that the debt shall be paid in its entirety when the term of the facility is reached. In 2015, the instalment payments paid by the Company equalled DKK 19.4 million.

The liquidity of the Company at year-end 2016 was DKK 335.5 million, compared to DKK 221.9 million in 2015. In addition, the Company has access to drawing and overdraft rights in various banks equalling DKK 626 million.

Thus, the available cash-on-hand, credit, and available drawing rights equals DKK 961.5 million in 2016, compared to DKK 490.5 million in 2015. A major portion of the available drawing rights shall be used to finance upcoming investment in the years ahead.

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

## Prospects for 2017

From 2008 through and including 2012, the Company accumulated a total deficit of DKK 98.6 million. This deficit is a result of electricity prices that were too low. In 2013, the Company realized a surplus after taxes of DKK 11.9 million, hence demonstrating that the negative trend in operations was reversed in 2013. This positive development has continued over the last three years, witnessed by a profit in 2014 of DKK 57.8 million; DKK 103.1 million in 2015; and in 2016, a profit of DKK 92.8 million after taxed. Altogether since 2008 through 2016, the Company has earned a total net profit of DKK 167 million, or a profit on average of DKK 18.5 million per year.

Even though the Company has lowered the price of electricity by DKK 0.05 per kWh for all customer groups, it is anticipated that this positive profit trend will continue in 2017 as well, where the result is budgeted to be DKK 67.5 million before taxes.

Operating at a deficit as the Company has over the last several years since 2012 is not sustainable long-term. Therefore, the advancement of viable and sound operational solutions is critical. One such solution is to ensure sufficient pricing for each kWh. Consequently, considerable effort was dedicated to reviewing the pricing schedule and tariffs to determine if the various individual prices were adequate. In addition, the Company carried out cost-benefit analyses for the different customer groups and for individual customers in an effort to systematically improve profitability in each customer group. This effort will continue in 2017.

Initially, budget calculations for 2017 were made using an average increase in the usage of electrical power of 2.6% for, compared to an actual usage increase of 1.1% in 2016. The increase derives from envisioned growth within several customer groups, each with different rates of growth. Thus, an increase in the sale of kWhrs is projected.

Based on 2015 sales, and partially on sales for 2016, the budget projects sales in 2017 of 303.4 GWh, equating to DKK 390.0 million. Fixed base rate income will remain essentially unchanged at DKK 16.7 million. In addition, income from connection fees, etc. is projected to be DKK 15.2 million. Thus, the budget forecasts a total combined revenue of DKK 421.9 million for 2017, against DKK 422.7 million in 2016. This corresponds to a decrease in income of DKK 0.8 million, compared to 2016.

For 2017, oil expenses are budgeted at DKK 69.0 million, compared to DKK 50.9 million in 2016. In January 2016, the Company hedged part of its oil purchase for 2017 at a lower cost-basis than the current market price. On the other hand, the Company hedge the remainder of it projected oil purchases for 2017 at a somewhat higher price than budgeted because the price of oil increased when the hedging was effected compared to the budgeted price. Thus, it is anticipated that the final result will be somewhat less than budgeted.

Operational expenses are projected to be DKK 132.3 million in 2017, compared to DKK 125.8 million in 2016, corresponding to a reduction in costs of DKK 6.5 million or 4.9%.

The result from normal operations is budgeted to be DKK 217.9 million. Depreciation is budgeted to be DKK 113.2 million and net interest expense is budgeted to be DKK 37.1 million. Increased interest expense is derived from increased investment and carried debt of the Company to finance operations and investment.

Given a budgeted profit of DKK 67.5 million for 2017, the change to liquidity from operations is budgeted to be DKK 225.9 million. Liquidity at year-end 2017 is budgeted to be DKK 124.1 million.

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

With sufficient self-financing in place, the Company will be able to maintain satisfactory liquidity, which is a prerequisite to obtain loan financing for the major investments that stand before the Company in the coming years.

More information for 2017 can be found in the Operational, Financial and Investment Budget Plan for 2017 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 to 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 describedbelow. 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 hegded 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, thenhedge 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 for a cash loan. Regarding the value of bonds, the amortised realised value is calculated as the cash value on the date the bond was issued, adjusted by the booked depreciation during the installment period of the effective rate of interest at the time of contracting such debt.

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

## Prepayments

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

## CASH FLOW STATEMENT

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

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

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

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

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

## Key Figures

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

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

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

# Income statement 1 January – 31 December

| Notes | | Group | | Parent | |
|---|---|---|---|---|---|
| | | 2016 DKK | 2015 t. DKK | 2016 DKK | 2015 t. DKK |
| 1 | Net Sales | 420,269,555 | *421,952* | 399,558,989 | *421,952* |
| 2 | Cost of oil | -50,911,154 | *-86,196* | -50,911,154 | *-86,196* |
| 3 | Materials and services | -59,271,466 | *-49,936* | -53,895,758 | *-49,936* |
| | **Gross proceeds** | **310,086,936** | ***285,821*** | **294,752,078** | ***285,821*** |
| 4 | Wages | -66,466,311 | *-64,338* | -66,369,026 | *-64,338* |
| | **Result before depreciation, amortization and impairment** | **243,620,625** | ***221,483*** | **228,383,051** | ***221,483*** |
| | Depreciation, amortization and impairment of fixed assets | -93,237,654 | *-93,587* | -82,932,747 | *-93,587* |
| | **Result before financials** | **150,382,971** | ***127,897*** | **145,450,304** | ***127,897*** |
| | Result from subsidiary companies | 0 | *0* | 1,063,385 | *0* |
| | Financial income | 19,828 | *204* | 19,828 | *204* |
| 5 | Financial expenses | -48,305,961 | *-25,034* | -44,575,795 | *-25,034* |
| | **Result before tax** | **102,096,838** | ***103,067*** | **101,957,722** | ***103,067*** |
| 6 | Tax on annual result | -9,343,136 | *0* | -9,204,020 | *0* |
| | **Annual result** | **92,753,702** | ***103,067*** | **92,753,702** | ***103,067*** |
| | | | | | |
| | **Proposed distribution of result** | | | | |
| | Results carried forward | 92,753,702 | *103,067* | 92,753,702 | *103,067* |
| | **Total distribution** | **92,753,702** | ***103,067*** | **92,753,702** | ***103,067*** |

# Balance sheet 31 December

| Notes | ASSETS | Group 2016 DKK | Group 2015 t. DKK | Parent 2016 DKK | Parent 2015 t. DKK |
|---|---|---|---|---|---|
| | **Assets** | | | | |
| 7 | Power plants | 954,135,494 | *897,628* | 827,249,375 | *897,628* |
| 7 | Distribution stations | 505,781,157 | *429,540* | 505,781,157 | *429,540* |
| 7 | Buildings and land | 38,905,021 | *39,232* | 38,905,021 | *39,232* |
| 7 | Operating equipment | 37,592,942 | *35,844* | 37,592,942 | *35,844* |
| 7 | Investment work-in-progress | 238,753,464 | *224,431* | 238,287,823 | *224,431* |
| | **Total tangible fixed assets** | **1,775,168,078** | ***1,626,675*** | **1,647,816,318** | ***1,626,675*** |
| 8 | Investment in Associated and Subsidiary Companies | 2,750,000 | *2,850* | 32,813,385 | *2,850* |
| 9 | Loans to subsidiary companies | 0 | *0* | 103,175,000 | *0* |
| 10 | Derivatives | 50,657,737 | *0* | 50,657,737 | *0* |
| | **Total financial assets** | **53,407,737** | ***2,850*** | **186,646,122** | ***2,850*** |
| | **Total fixed assets** | **1,828,575,814** | ***1,629,525*** | **1,834,462,440** | ***1,629,525*** |
| | **Current assets** | | | | |
| | Oil inventory | 15,086,325 | *11,744* | 15,086,325 | *11,744* |
| | Materials inventory | 20,307,082 | *15,293* | 20,307,082 | *15,293* |
| | **Total inventory** | **35,393,407** | ***27,037*** | **35,393,407** | ***27,037*** |
| 11 | Goods and service receivables | 93,663,049 | *77,534* | 93,663,049 | *77,534* |
| | Inter-company account | 0 | *0* | 0 | *0* |
| | Tax asset | 105,767 | *0* | 0 | *0* |
| | Prepayments | 10,724,892 | *4,387* | 7,867,463 | *4,387* |
| | **Total recievables** | **104,493,708** | ***81,921*** | **101,530,512** | ***81,921*** |
| | **Cash-on-hand** | **335,498,325** | ***221,889*** | **335,498,325** | ***221,889*** |
| | **Total current assets** | **475,385,440** | ***330,848*** | **472,422,243** | ***330,848*** |
| | **Total assets** | **2,303,961,254** | ***1,960,373*** | **2,306,884,684** | ***1,960,373*** |

# Balance sheet 31 December

| Notes | | Group 2016 DKK | Group 2015 t. DKK | Parent 2016 DKK | Parent 2015 t. DKK |
|---|---|---|---|---|---|
| | **Equity** | | | | |
| 12 | Deposits | 4,139,875 | *4,140* | 4,139,875 | *4,140* |
| | Results carried forward | 1,136,863,305 | *1,029,776* | 1,136,863,305 | *1,029,776* |
| | **Total equity** | **1,141,003,180** | ***1,033,916*** | **1,141,003,180** | ***1,033,916*** |
| | **Provisions** | | | | |
| | Provisions for pensions and equivalent liabilities | 18,450,559 | *18,845* | 18,450,559 | *18,845* |
| | Deferred tax | 10,618,669 | *0* | 10,373,786 | *0* |
| | **Total provisions** | **29,069,228** | ***18,845*** | **28,824,345** | ***18,845*** |
| | **Liabilites** | | | | |
| 13 | Bank debt | 1,042,116,000 | *830,000* | 1,042,116,000 | *830,000* |
| | **Total long-term debt** | **1,042,116,000** | ***830,000*** | **1,042,116,000** | ***830,000*** |
| | Current portion of long-term debt | 923,132 | *0* | 923,132 | *0* |
| | Bank debt | 28,342 | *1,589* | 28,342 | *1,589* |
| | Prepayment received from customers | 5,216,696 | *19,481* | 5,216,696 | *19,481* |
| | Trade creditors | 34,718,640 | *32,111* | 34,718,640 | *32,111* |
| | Inter-company account | 0 | *0* | 3,168,312 | *0* |
| 10 | Derivatives | 33,997,611 | *9,005* | 33,997,611 | *9,005* |
| | Other creditors | 16,888,426 | *15,426* | 16,888,426 | *15,426* |
| | **Total short-term debt** | **91,772,846** | ***77,612*** | **94,941,159** | ***77,612*** |
| | **Total debt** | **1,133,888,846** | ***907,612*** | **1,137,057,159** | ***907,612*** |
| | **Total liabilities** | **2,303,961,254** | ***1,960,373*** | **2,306,884,684** | ***1,960,373*** |
| **14** | **Mortgages and other obligations** | | | | |
| **15** | **Contingencies** | | | | |

# Cash flow statement

| Notes | | Group 2016 DKK | Group 2015 t. DKK |
|---|---|---|---|
| | **Annual result** | **92.753.702** | ***103.067*** |
| 16 | Adjustments | 150.866.923 | *118.416* |
| | Changes in working capital | | |
| | Inventories | -8.356.036 | *19.467* |
| | Receivables | -70.313.705 | *-8.878* |
| | Trade creditors | 2.607.906 | *-18.981* |
| | Other operating debt | 28.165.109 | *-4.358* |
| | Adjustment to opening balance derivatives | -9.005.200 | *0* |
| | Derivatives | 5.328.933 | *0* |
| | **Operating cash flows before financials** | **192.047.632** | ***208.734*** |
| | Interest income received and equivalent revenues | 19.828 | *204* |
| | Interest expenses paid and equivalent expenses | -48.246.242 | *-25.034* |
| | **Cash flows from operations** | **143.821.218** | ***183.904*** |
| | Purchase of tangible fixed assets | -227.408.539 | *-149.924* |
| | Changes to work-in-progress | -14.322.265 | *-82.156* |
| | Changes to financial fixed assets | 40.281 | |
| | **Cash flow from investments** | **-241.690.523** | ***-232.080*** |
| | Loan facilities | 1.042.116.000 | *158.020* |
| | Repayments on long-term debt | -830.000.000 | *-19.432* |
| | Bank overdraft withdrawals | -637.646 | *17* |
| | **Cash flow from financing** | **211.478.354** | ***138.606*** |
| | **Total cash flow during the year** | **113.609.049** | ***90.430*** |
| | Opening cash-on-hand | 221.889.276 | *131.459* |
| | **Closing cash-on-hand** | **335.498.325** | ***221.889*** |
| | Lines of credit | 626.000.000 | *268.600* |
| | **Total** | **961.498.325** | ***490.489*** |

# Group activities by production and grid

| OPERATIONS | 2016 | | | *2015 (t DKK)* | | |
|---|---|---|---|---|---|---|
| | Production | Grid | Total | *Production* | *Grid* | *Total* |
| **Revenues** | **265,526,363** | **154,743,192** | **420,269,555** | ***234,920*** | ***187,032*** | ***421,952*** |
| Cost of oil | -50,690,609 | -220,545 | -50,911,154 | *-85,945* | *-251* | *-86,196* |
| Supplies and services | -28,210,055 | -31,061,411 | -59,271,466 | *-21,280* | *-28,655* | *-49,936* |
| Wages | -33,743,959 | -32,722,351 | -66,466,311 | *-32,022* | *-32,316* | *-64,338* |
| **Result of ordinary operations** | **152,881,740** | **90,738,885** | **243,620,625** | ***95,673*** | ***125,810*** | ***221,483*** |
| Depreciation | -59,159,936 | -34,077,718 | -93,237,654 | *-59,230* | *-34,356* | *-93,587* |
| **Result before financials** | **93,721,804** | **56,661,167** | **150,382,971** | ***36,443*** | ***91,454*** | ***127,897*** |
| Net financials | -12,116,304 | -36,169,829 | -48,286,133 | *-11,221* | *-13,609* | *-24,830* |
| **Result before tax** | **81,605,500** | **20,491,339** | **102,096,838** | ***25,222*** | ***77,844*** | ***103,067*** |
| Tax | -139,116 | -9,204,020 | -9,343,136 | - | - | - |
| **Annual result** | **81,466,384** | **11,287,319** | **92,753,702** | ***25,222*** | ***77,844*** | ***103,067*** |

# Parent company activities by production and grid

| OPERATIONS | 2016 | | | *2015 (t. DKK)* | | |
|---|---|---|---|---|---|---|
| | Production | Grid | Total | *Production* | *Grid* | *Total* |
| **Revenue** | **244,815,797** | **154,743,192** | **399,558,989** | ***234,920*** | ***187,032*** | ***421,952*** |
| Cost of oil | -50,690,609 | -220,545 | -50,911,154 | -85,945 | -251 | -86,196 |
| Supplies and services | -22,834,347 | -31,061,411 | -53,895,758 | *-21,280* | *-28,655* | *-49,936* |
| Wages | -33,646,675 | -32,722,351 | -66,369,026 | *-32,022* | *-32,316* | *-64,338* |
| **Result of ordinary operations** | **137,644,166** | **90,738,885** | **228,383,051** | ***95,673*** | ***125,810*** | ***221,483*** |
| Depreciation | -48,855,030 | -34,077,718 | -82,932,747 | *-59,230* | *-34,356* | *-93,587* |
| **Result before financials** | **88,789,136** | **56,661,167** | **145,450,304** | ***36,443*** | ***91,454*** | ***127,897*** |
| Net financials | -8,386,138 | -35,106,443 | -43,492,581 | *-11,221* | *-13,609* | *-24,830* |
| **Result before tax** | **80,402,998** | **21,554,724** | **101,957,722** | ***25,222*** | ***77,844*** | ***103,067*** |
| Tax | 0 | -9,204,020 | -9,204,020 | - | - | - |
| **Annual result** | **80,402,998** | **12,350,704** | **92,753,702** | ***25,222*** | ***77,844*** | ***103,067*** |

# Group balance sheet by production and grid

| BALANCE SHEET | 2016 | | | 2015 (t. DKK) | | |
|---|---|---|---|---|---|---|
| | Produciton | Grid | Total | Production | Grid | Total |
| **Assets** | | | | | | |
| Real estate, power plants, etc. | 963,522,164 | 572,892,450 | 1,536,414,614 | *906,444* | *495,799* | *1,402,244* |
| Investment work-in-progress | 159,390,674 | 79,362,790 | 238,753,464 | *131,735* | *92,696* | *224,431* |
| **Fixed assets** | **1,122,912,838** | **652,255,240** | **1,775,168,078** | ***1,038,179*** | ***588,496*** | ***1,626,675*** |
| Share equity | - | 2,750,000 | 2,750,000 | – | *2,850* | *2,850* |
| Loans to subsidiary companies | - | - | - | - | - | - |
| Derivatives | - | 50,657,737 | 50,657,737 | - | - | - |
| **Financial fixed assets** | **-** | **53,407,737** | **53,407,737** | **–** | ***2,850*** | ***2,850*** |
| **Total fixed assets** | **1,122,912,838** | **705,662,977** | **1,828,575,814** | ***1,038,179*** | ***591,346*** | ***1,629,525*** |
| Oil inventory | 15,086,325 | | 15,086,325 | *11,744* | - | *11,744* |
| Materials inventory | - | 20,307,082 | 20,307,082 | - | *15,293* | *15,293* |
| **Total inventory** | **15,086,325** | **20,307,082** | **35,393,407** | ***11,744*** | ***15,293*** | ***27,037*** |
| Electricity debtors | | 93,663,049 | 93,663,049 | - | *74,201* | *74,201* |
| Other debtors/tax asset | 105,767 | | 105,767 | - | *3,333* | *3,333* |
| Inter-company account | 42,989,610 | 30,063,385 | 73,052,996 | - | *88,940* | *88,940* |
| Other receivables | 6,064,704 | 6,701,774 | 12,766,478 | - | *4,387* | *4,387* |
| **Total receivables** | **49,160,081** | **130,428,208** | **179,588,290** | **-** | ***170,861*** | ***170,861*** |
| **Cash-on-hand** | | **335,498,325** | **335,498,325** | **-** | ***221,889*** | ***221,889*** |
| **Total current assets** | **64,246,406** | **486,233,615** | **550,480,021** | ***11,744*** | ***408,043*** | ***419,788*** |
| **Total assets** | **1,187,159,244** | **1,191,896,592** | **2,379,055,836** | ***1,049,924*** | ***999,389*** | ***2,049,312*** |

*The amount 30,063,385 shown in Inter-company account Grid relates to share equity DKK 29,000,000 in subsidiary companies and their result for the year 2016 of DKK 1,063,385.*

# Parent company balance sheet by production and grid

| BALANCE SHEET | 2016 | | | 2015 (t. DKK) | | |
|---|---|---|---|---|---|---|
| | Production | Grid | Total | Production | Grid | Total |
| **Assets** | | | | | | |
| Real estate, power plants, etc. | 836,636,045 | 572,892,450 | 1,409,528,495 | *906,444* | *495,799* | *1,402,244* |
| Investment work-in-progress | 158,925,033 | 79,362,790 | 238,287,823 | *131,735* | *92,696* | *224,431* |
| **Fixed assets** | **995,561,078** | **652,255,240** | **1,647,816,318** | ***1,038,179*** | ***588,496*** | ***1,626,675*** |
| Share equity | | 32,813,385 | 32,813,385 | – | *2,850* | *2,850* |
| Loans to subsidiary companies | | 103,175,000 | 103,175,000 | - | - | - |
| Derivatives | | 50,657,737 | 50,657,737 | - | - | - |
| **Financial fixed assets** | | **186,646,122** | **186,646,122** | **–** | ***2,850*** | ***2,850*** |
| **Total fixed assets** | **995,561,078** | **838,901,362** | **1,834,462,440** | ***1,038,179*** | ***591,346*** | ***1,629,525*** |
| Oil inventory | 15,086,325 | | 15,086,325 | *11,744* | - | *11,744* |
| Materials inventory | - | 20,307,082 | 20,307,082 | - | *15,293* | *15,293* |
| **Total inventory** | **15,086,325** | **20,307,082** | **35,393,407** | ***11,744*** | ***15,293*** | ***27,037*** |
| Electricity debtors | | 93,663,049 | 93,663,049 | - | *74,201* | *74,201* |
| Other debtors/tax asset | | | | - | *3,333* | *3,333* |
| Inter-company account | 39,821,298 | | 39,821,298 | - | *88,940* | *88,940* |
| Other receivables | 3,207,274 | 6,701,774 | 9,909,048 | - | *4,387* | *4,387* |
| **Total receivables** | **43,028,572** | **100,364,823** | **143,393,395** | **-** | ***170,861*** | ***170,861*** |
| **Cash-on-hand** | | **335,498,325** | **335,498,325** | **-** | ***221,889*** | ***221,889*** |
| **Total current assets** | **58,114,897** | **456,170,230** | **514,285,127** | ***11,744*** | ***408,043*** | ***419,788*** |
| **Total assets** | **1,053,675,975** | **1,295,071,592** | **2,348,747,567** | ***1,049,924*** | ***999,389*** | ***2,049,312*** |

# Group balance sheet by production and grid

| BALANCE SHEET | 2016 | | | *2015 (t. DKK)* | | |
|---|---|---|---|---|---|---|
| | **Production** | **Grid** | **Total** | ***Production*** | ***Grid*** | ***Total*** |
| **Liabilities** | | | | | | |
| Deposit | | 4,139,875 | 4,139,875 | | *4,140* | *4,140* |
| Capital account | 691,269,151 | 445,594,154 | 1,136,863,305 | *610,866* | *427,915* | *1,038,781* |
| **Total equity** | **691,269,151** | **449,734,029** | **1,141,003,180** | ***610,866*** | ***432,054*** | ***1,042,921*** |
| | | | | | | |
| Pensions | | 18,450,559 | 18,450,559 | | *18,845* | *18,845* |
| Deferred tax | 244,883 | 10,373,786 | 10,618,669 | - | - | - |
| **Total provisions** | **244,883** | **28,824,345** | **29,069,228** | **-** | ***18,845*** | ***18,845*** |
| | | | | | | |
| **Long-term debt** | **453,960,187** | **580,000,000** | **1,033,960,187** | ***349,676*** | ***480,324*** | ***830,000*** |
| | | | | | | |
| Current portion of long-term debt | 8,155,813 | 923,132 | 9,078,945 | - | - | - |
| Bank loans | | 28,342 | 28,342 | | *1,589* | *1,589* |
| Prepayments | | 5,216,696 | 5,216,696 | - | *19,481* | *19,481* |
| Inter-company account | 30,063,385 | 42,989,610 | 73,052,996 | *88,940* | | *88,940* |
| Other creditors | 3,465,824 | 15,464,187 | 18,930,011 | *441* | *47,096* | *47,537* |
| Trade creditors | | 34,718,640 | 34,718,640 | *89,381* | *68,166* | *157,547* |
| Derivatives | | 33,997,611 | 33,997,611 | | | |
| **Total debt** | **495,645,209** | **713,338,218** | **1,208,983,428** | ***439,058*** | ***548,489*** | ***987,547*** |
| | | | | | | |
| **Total liabilities** | **1,187,159,244** | **1,191,896,592** | **2,379,055,836** | ***1,049,924*** | ***999,389*** | ***2,049,312*** |

*The amount 30,063,385 shown in Inter-company account Grid relates to share equity DKK 29,000,000 in subsidiary companies and their result for the year 2016 of DKK 1,063,385.*

# Parent company balance sheet by production and grid

| BALANCE SHEET | 2016 | | | *2015 (t. DKK* | | |
|---|---|---|---|---|---|---|
| | **Production** | **Grid** | **Total** | ***Production*** | ***Grid*** | ***Total*** |
| **Liabilities** | | | | | | |
| Deposit | | 4,139,875 | 4,139,875 | | *4,140* | *4,140* |
| Capital account | 691,269,151 | 445,594,154 | 1,136,863,305 | *610,866* | *427,915* | *1,038,781* |
| **Total equity** | **691,269,151** | **449,734,029** | **1,141,003,180** | ***610,866*** | ***432,054*** | ***1,042,921*** |
| | | | | | | |
| Pensions | | 18,450,559 | 18,450,559 | | *18,845* | *18,845* |
| Deferred tax | | 10,373,786 | 10,618,669 | - | - | - |
| **Total provisions** | | **28,824,345** | **29,069,228** | **-** | ***18,845*** | ***18,845*** |
| | | | | | | |
| **Long-term debt** | **358,941,000** | **683,175,000** | **1,042,116,000** | ***349,676*** | ***480,324*** | ***830,000*** |
| | | | | | | |
| Current portion of long-term debt | | 923,132 | 923,132 | - | - | - |
| Bank loans | | 28,342 | 28,342 | | *1,589* | *1,589* |
| Prepayments | | 5,216,696 | 5,216,696 | - | *19,481* | *19,481* |
| Inter-company account | | 42,989,610 | 42,989,610 | *88,940* | | *88,940* |
| Other creditors | 3,465,824 | 15,464,187 | 18,930,011 | *441* | *47,096* | *47,537* |
| Trade creditors | | 34,718,640 | 34,718,640 | *89,381* | *68,166* | *157,547* |
| Derivatives | | 33,997,611 | 33,997,611 | | | |
| **Total debt** | **362,406,824** | **816,513,218** | **1,178,920,042** | ***439,058*** | ***548,489*** | ***987,547*** |
| | | | | | | |
| **Total liabilities** | **1,053,675,975** | **1,295,071,592** | **2,348,747,567** | ***1,049,924*** | ***999,389*** | ***2,049,312*** |

# Group operations by production and grid

DISTRIBUTION OF REVENUE

| | Production | Grid | Total 2016 | 2015 (t. DKK) |
|---|---|---|---|---|
| Sales | 1,227,629 | 421,436,317 | 422,663,946 | *424,354* |
| Own production and purchased electricity | 249,000,376 | -247,322,883 | 1,677,493 | *-2,402* |
| Grid responsibility and grid management | 15,298,358 | -19,370,242 | -4,071,884 | – |
| **Production result** | **265,526,363** | **154,743,192** | **420,269,555** | ***421,952*** |

| **PRODUCTION** | **Thermal** | **Hydro** | **Wind** | **Total 2016** | ***2015 (tkr)*** |
|---|---|---|---|---|---|
| Revenues | 171,384,319 | 73,319,889 | 20,822,155 | 265,526,363 | *234,920* |
| Oil | -48,283,127 | -2,407,482 | | -50,690,609 | *-85,945* |
| Supplies | -13,910,680 | -8,895,444 | -5,403,931 | -28,210,055 | *-21280* |
| Wages | -23,849,424 | -9,781,472 | -113,063 | -33,743,959 | *-32,022* |
| Depreciation | -20,359,556 | -28,487,807 | -10,312,573 | -59,159,936 | *-59,230* |
| Interest | -121,960 | -8,264,178 | -3,730,166 | -12,116,304 | *-11,221* |
| Tax | | | -139,116 | -11,220,652 | *0* |
| **Production result** | **64,859,571** | **15,483,507** | **1,123,306** | **81,466,384** | ***25,222*** |

**GRID**

| | Grid excluding management | Management | Total 2016 | ***2015 (tkr)*** |
|---|---|---|---|---|
| Revenues | 6,854,663 | 147,888,529 | 154,743,192 | *187,032* |
| Oil | -196,074 | -24,471 | -220,545 | *-251* |
| Supplies | -12,438,606 | -18,622,805 | -31,061,411 | *-28,655* |
| Wages | -20,713,593 | -12,008,758 | -32,722,351 | *-32,316* |
| Depreciation | -29,426,020 | -4,651,697 | -34,077,718 | *-34,356* |
| Interest | | -36,169,829 | -36,169,829 | *-13,609* |
| Tax | | -9,204,020 | -9,204,020 | *0* |
| **Grid result** | **-55,919,630** | **67,206,949** | **11,287,319** | ***77,844*** |

# Parent company operations by production and grid

**DISTRIBUTION OF REVENUE**

| | Production | Grid | Total 2016 | *2015 (t. DKK)* |
|---|---|---|---|---|
| Sales | 1,227,629 | 421,436,317 | 422,663,946 | *424,354* |
| Own production and purchased electricity | 228,289,810 | -247,322,883 | -19,033,073 | *-2,402* |
| Grid responsibility and grid management | 15,298,358 | -19,370,242 | -4,071,884 | – |
| **Inntøka tilsamans** | **244,815,797** | **154,743,192** | **399,558,989** | ***421,952*** |

**PRODUCTION**

| | Termisk | Vatn | Vind | Tilsamans 2016 | *2015 (t. DKK)* |
|---|---|---|---|---|---|
| Revenues | 171,384,319 | 73,319,889 | 111,589 | 244,815,797 | *234,920* |
| Oil | -48,283,127 | -2,407,482 | | -50,690,609 | *-85,945* |
| Supplies | -13,910,680 | -8,895,444 | -28,223 | -22,834,347 | *-21280* |
| Wages | -23,849,424 | -9,781,472 | -15,779 | -33,646,675 | *-32,022* |
| Depreciation | -20,359,556 | -28,487,807 | -7,667 | -48,855,030 | *-59,230* |
| Interest | -121,960 | -8,264,178 | | -8,386,138 | *-11,221* |
| Tax | | | - | | *0* |
| **Production result** | **64,859,571** | **15,483,507** | **59,920** | **80,402,998** | ***25,222*** |

**GRID**

| | Net uttan fyrisiting | Fyrisiting | Tilsamans 2016 | *2015 (t. DKK)* |
|---|---|---|---|---|
| Revenues | 6,854,663 | 147,888,529 | 154,743,192 | *187,032* |
| Oil | -196,074 | -24,471 | -220,545 | *-251* |
| Supplies | -12,438,606 | -18,622,805 | -31,061,411 | *-28,655* |
| Wages | -20,713,593 | -12,008,758 | -32,722,351 | *-32,316* |
| Depreciation | -29,426,020 | -4,651,697 | -34,077,718 | *-34,356* |
| Interest | | -35,106,443 | -35,106,443 | *-13,609* |
| Tax | | -9,204,020 | -9,204,020 | *0* |
| **Grid result** | **-55,919,630** | **68,270,334** | **12,350,704** | ***77,844*** |

# Notes

| | Group | | Parent | |
|---|---|---|---|---|
| **1. NET TURNOVER** | **2016** | ***2015 t. DKK*** | **2016** | ***2015 t. DKK*** |
| kWh charges etc. | 392,683,622 | *385,050* | 392,683,622 | *385,050* |
| Fixed charges | 16,586,426 | *16,428* | 16,586,426 | *16,428* |
| Connection fees | 8,045,048 | *16,175* | 8,045,048 | *16,175* |
| Other charges, reminders and other sales | 5,348,849 | *6,701* | 5,348,849 | *6,701* |
| Purchase of wind power etc. | -2,394,391 | *-2,402* | -23,104,957 | *-2,402* |
| **Total** | **420,269,555** | ***421,952*** | **399,558,989** | ***421,952*** |
| **2. COST OF OIL** | | | | |
| Gas oil | 7,791,719 | *7,786* | 7,791,719 | *7,786* |
| Heavy fuel oil | 37,139,605 | *73,584* | 37,139,605 | *73,584* |
| Lubricating oil | 5,979,830 | *4,826* | 5,979,830 | *4,826* |
| **Total** | **50,911,154** | ***86,196*** | **50,911,154** | ***86,196*** |
| **3. MATERIALS AND SERVICES** | | | | |
| Lines | 3,820,291 | *3,694* | 3,820,291 | *3,694* |
| Dams, pipelines and tunnels | 438,301 | *264* | 402,985 | *264* |
| Tanks and environmental | 316,010 | *275* | 310,700 | *275* |
| Engines | 8,888,167 | *8,635* | 4,791,699 | *8,635* |
| Electric and technical | 714,920 | *993* | 713,837 | *993* |
| Buildings and land | 2,051,456 | *2,097* | 1,940,981 | *2,097* |
| General meeting and Board | 399,431 | *314* | 399,431 | *314* |
| Studies and consultancy | 13,572,975 | *10,530* | 13,536,074 | *10,530* |
| IT | 4,144,922 | *4,423* | 4,144,922 | *4,423* |
| Management and office expenses | 3,145,582 | *2,751* | 3,120,582 | *2,751* |
| Loss on unpaid debt | -144,006 | *-340* | -144,006 | *-340* |
| Other operating expenses | 953,980 | *1,037* | 688,137 | *1,037* |
| Other administrative expenses | 20,969,437 | *15,263* | 20,170,126 | *15,263* |
| **Total** | **59,271,466** | ***49,936*** | **53,895,758** | ***49,936*** |
| **4. EMPLOYEE EXPENSES** | **2016 DKK** | ***2015 t. DKK*** | **2016 DKK** | ***2015 t. DKK*** |
| Wages | 56,664,810 | *55,415* | 56,567,804 | *55,415* |
| Pensions | 7,290,875 | *6,783* | 7,290,765 | *6,783* |
| Contributions | 2,510,626 | *2,139* | 2,510,458 | *2,139* |
| **Total** | **66,466,311** | ***64,338*** | **66,369,026** | ***64,338*** |
| Included in employee expenses are the following: | | | | |
| Management and board | 1,892,493 | *2,192* | 1,892,493 | *2,192* |
| **Total** | **1,892,493** | ***2,192*** | **1,892,493** | ***2,192*** |
| Employees with SEV as main source of personal income | 136 | *134* | 136 | *134* |
| Average number of employees | 162 | *161* | 162 | *161* |

| 5. FINANCIAL EXPENSES | 2016 | *2015 t. DKK* | 2016 | *2015 t. DKK* |
|---|---|---|---|---|
| Interest income | -19,828 | *-204* | -19,828 | *-204* |
| Result from subsidiary companies | 0 | *0* | -1,063,385 | *0* |
| Adjustment financial fixed assets | 59,719 | *0* | 59,719 | *0* |
| Interest, loans and bank loans etc. | 36,688,260 | *25,034* | 32,958,094 | *25,034* |
| Market value adjustments | -2,313,222 | *0* | -2,313,222 | *0* |
| Unrealised interest gains/losses | 13,871,205 | *0* | 13,871,205 | *0* |
| **Total** | **48,286,133** | ***24,830*** | **43,492,581** | ***24,830*** |

| 6. TAXES ON ANNUAL RESULTS | 2016 DKK | *2015 t. DKK* | 2016 DKK | *2015 t. DKK* |
|---|---|---|---|---|
| Corporate tax | 0 | *0* | 0 | *0* |
| Tax asset | -105,767 | *0* | 0 | *0* |
| Adjustment of deferred tax | 9,482,252 | *0* | 9,204,020 | *0* |
| **Total** | **9,343,136** | ***0*** | **9,204,020** | ***0*** |

**7. TANGIBLE FIXED ASSETS, GROUP**

| Amounts in DKK | Production plants | Distribution stations | Buildings | Equipment | Total 2016 | *2015* |
|---|---|---|---|---|---|---|
| *Acquisition value opening balance* | 1,838,908,965 | 875,537,966 | 70,380,719 | 171,522,353 | 2,956,350,005 | *2,806,425,950* |
| *Additions during the year* | 114,787,510 | 100,720,753 | 788,965 | 11,111,311 | 227,408,539 | *149,924,055* |
| **Acquisition value closing balance** | **1,953,696,475** | **976,258,719** | **71,169,685** | **182,633,664** | **3,183,758,543** | ***2,956,350,005*** |
| Depreciation, opening balance | -941,280,631 | -445,998,469 | -31,148,935 | -135,678,240 | -1,554,106,276 | *-1,460,519,717* |
| *Depreciation during the year* | -58,280,351 | -24,479,093 | -1,115,728 | -9,362,481 | -93,237,654 | *-93,586,559* |
| *Depreciation, closing balance* | -999,560,982 | -470,477,562 | -32,264,663 | -145,040,722 | -1,647,343,929 | *-1,554,106,276* |
| **Book value year-end** | **954,135,494** | **505,781,157** | **38,905,021** | **37,592,942** | **1,536,414,614** | ***1,402,243,729*** |
| *Book value year-end 2015* | *897,628,335* | *429,539,497* | *39,231,784* | *35,844,113* | *1,402,243,729* | |
| Work-in-progress | | | | | | |
| Opening balance | 131,238,230 | 86,689,789 | 1,587,443 | 4,732,236 | 224,247,698 | *142,275,019* |
| Investment booked to work-in-progress | 141,438,788 | 79,348,555 | 4,609,995 | 4,283,911 | 229,681,249 | *217,289,827* |
| Completed work transferred to depreciation | -114,163,283 | -96,006,108 | -963,114 | -4,042,978 | -215,175,483 | *-135,133,648* |
| **Closing balance** | **158,513,736** | **70,032,236** | **5,234,323** | **4,973,168** | **238,753,464** | ***224,431,198*** |
| *Closing balance year-end 2015* | *131,605,232* | *86,689,789* | *1,587,443* | *4,548,735* | *224,431,198* | |
| **Fixed assets at year-end** | **1,112,649,230** | **575,813,393** | **44,139,344** | **42,566,111** | **1,775,168,078** | ***1,626,674,927*** |
| Fixed assets at year-end 2015 | *1.029.233.567* | *516.229.286* | *40.819.227* | *40.392.848* | *1.626.674.927* | |

## 7. TANGIBLE FIXED ASSETS, PARENT COMPANY

| Amounts in DKK | Production plants | Distribution stations | Buildings | Equipment | Total 2016 | *2015* |
|---|---|---|---|---|---|---|
| Acquisition value, opening balance | 1,838,908,965 | 875,537,966 | 70,380,719 | 171,522,353 | 2,956,350,005 | *2,806,425,950* |
| Additions during the year | 115,436,652 | 100,720,753 | 788,965 | 11,111,311 | 228,057,680 | *149,924,055* |
| Disposals during the year | -176,299,432 | 0 | 0 | 0 | -176,299,432 | *0* |
| **Acquisition value, closing balance** | **1,778,046,185** | **976,258,719** | **71,169,685** | **182,633,664** | **3,008,108,252** | ***2,956,350,005*** |
| Depreciation, opening balance | -941,280,631 | -445,998,469 | -31,148,935 | -135,678,240 | -1,554,106,276 | *-1,460,519,717* |
| Depreciation during the year | -47,975,445 | -24,479,093 | -1,115,728 | -9,362,481 | -82,932,747 | *-93,586,559* |
| Accumulated depreciation on disposals | 38,459,266 | 0 | 0 | 0 | 38,459,266 | *0* |
| Depreciation, closing balance | -950,796,809 | -470,477,562 | -32,264,663 | -145,040,722 | -1,598,579,757 | *-1,554,106,276* |
| **Book value year-end** | **827,249,375** | **505,781,157** | **38,905,021** | **37,592,942** | **1,409,528,495** | ***1,402,243,729*** |
| *Book value year end 2015* | *897,628,335* | *429,539,497* | *39,231,784* | *35,844,113* | *1,402,243,729* | |
| Work-in-progress | | | | | | |
| Opening balance | 131,421,731 | 86,689,789 | 1,587,443 | 4,732,236 | 224,431,198 | *142,275,019* |
| Investment booked to work-in-progress | 141,438,788 | 79,348,555 | 4,609,995 | 4,283,911 | 229,681,249 | *217,289,827* |
| Disposals during the year | -649,142 | 0 | 0 | 0 | -649,142 | *0* |
| Completed work transferred to depreciation | -114,163,283 | -96,006,108 | -963,114 | -4,042,978 | -215,175,483 | *-135,133,648* |
| **Closing balance** | **158,048,095** | **70,032,236** | **5,234,323** | **4,973,168** | **238,287,823** | ***224,431,198*** |
| *Closing balance year-end 2015* | *131,605,232* | *86,689,789* | *1,587,443* | *4,548,735* | *224,431,198* | |
| **Fixed assets at year-end** | **985,297,470** | **575,813,393** | **44,139,344** | **42,566,111** | **1,647,816,318** | ***1,626,674,927*** |
| *Fixed assets at year-end 2015* | *1,029,233,567* | *516,229,286* | *40,819,227* | *40,392,848* | *1,626,674,927* | |

| 8. INVESTMENTS IN ASSOCIATED AND SUBSIDIARY COMPANIES | 31.12.16<br>DKK | *31.12.15*<br>*t. DKK* |
|---|---|---|
| Acquisition value opening balance | 2,750,000 | *2,850* |
| Addition equity P/F Vindfelagið í Húsahaga | 22,000,000 | *0* |
| Addition equity P/F Vindfelagið í Neshaga | 7,000,000 | *0* |
| **Acquisition value closing balance** | **31,750,000** | ***2,850*** |
| Adjustments opening balance | 0 | *0* |
| Result from subsidiary companies | 1,063,385 | *0* |
| Adjustments closing balance | 1,063,385 | *0* |
| **Carrying amount year-end** | **32,813,385** | ***2,850*** |

Associated and subsidiary companies

| Name and registered office | Share | Equity | Annual result | Recognized value |
|---|---|---|---|---|
| P/F Fjarhitafelagið, Tórshavn | 50% | 59,618,808 | 2,173,872 | 2,750,000 |
| P/F Vindfelagið í Húsahaga, Tórshavn | 100% | 21,518,171 | -481,829 | 21,518,171 |
| P/F Vindfelagið í Neshaga, Tórshavn | 100% | 8,545,214 | 1,545,214 | 8,545,214 |

The financial statement for P/F Fjarhitafelagnum for the year 2016 is not available. The numbers shown are from 2015.

| 9. LOANS TO SUBSIDIARY COMPANIES | Duration | Loan amount | Balance 31.12.16 | Repayments next year | Balance in 5 years |
|---|---|---|---|---|---|
| P/F Vindfelagið í Húsahaga | 12 years | 75,000,000 | 75,000,000 | 5,585,215 | *51,972,536* |
| P/F Vindfelagið í Neshaga | 10 years | 28,175,000 | 28,175,000 | 2,570,598 | *17,576,599* |
| **Total** | | **103,175,000** | **103,175,000** | **8,155,813** | **69,549,135** |

| 10. DERIVATIVES | Assets<br>31.12.16 | Liabilities<br>31.12.16 | Total<br>31.12.16 |
|---|---|---|---|
| Oil-price hedge | 26,604,442 | | 26,604,442 |
| Currency hedge | 24,053,295 | | 24,053,295 |
| Interest rate hedge | | -33,997,611 | -33,997,611 |
| **Total** | **50,657,737** | **-33,997,611** | **16,660,126** |

Derivatives are used to fix interest rates and exchange rates on loans, as well as the price and the exchange rate used for oil purchases. The values shown are the differences between market value on the balance sheet date compared to the future value of the instruments.

| 11. GOODS AND SERVICES DEBTORS | *31.12.16*<br>*DKK* | *31.12.15*<br>*t. DKK* |
|---|---|---|
| Goods and service debtors | 90,781,586 | *77,951* |
| Other debtors | 6,090,463 | *3,683* |
| Receivables write-down | -3,209,000 | *-4,100* |
| **Total** | **93,663,049** | ***77,534*** |

## 12. EQUITY, GROUP

| Amounts in DKK | Deposit | Derivatives reserve | Result carried over | Total |
|---|---|---|---|---|
| Equity statement 01.01.15 - 31.12.15 | | | | |
| Balance 01.01.15 | 4,139,875 | 0 | 935,713,841 | 939,853,716 |
| Adjustment to derivatives | 0 | -9,005,200 | 0 | -9,005,200 |
| Annual result | 0 | 0 | 103,066,828 | 103,066,828 |
| Balance 31.12.15 | 4,139,875 | -9,005,200 | 1,038,780,669 | 1,033,915,345 |
| Equity statement 01.01.16 - 31.12.16 | | | | |
| Balance 01.01.16 | 4,139,875 | -9,005,200 | 1,038,780,669 | 1,033,915,345 |
| Change in adjustment to derivatives | 0 | 14,334,133 | 0 | 14,334,133 |
| Annual result | 0 | 0 | 92,753,702 | 92,753,702 |
| Balance 31.12.16 | 4,139,875 | 5,328,933 | 1,131,534,371 | 1,141,003,180 |

## 12. EQUITY, PARENT COMPANY

| Amounts in DKK | Deposit | Derivatives reserve | Inner value adjustment reserve | Result carried over | Total |
|---|---|---|---|---|---|
| Equity statement 01.01.15 - 31.12.15 | | | | | |
| Balance 01.01.15 | 4,139,875 | 0 | 0 | 935,713,841 | 939,853,716 |
| Adjustment to derivatives | 0 | -9,005,200 | 0 | 0 | -9,005,200 |
| Annual result | 0 | 0 | 0 | 103,066,828 | 103,066,828 |
| Balance 31.12.15 | 4,139,875 | -9,005,200 | 0 | 1,038,780,669 | 1,033,915,345 |
| Equity statement 01.01.16 - 31.12.16 | | | | | |
| Balance 01.01.16 | 4,139,875 | -9,005,200 | 0 | 1,038,780,669 | 1,033,915,345 |
| Change in adjustment to derivatives | 0 | 14,334,133 | 0 | 0 | 14,334,133 |
| Result from subsidiary companies | 0 | 0 | 1,063,385 | -1,063,385 | 0 |
| Annual result | 0 | 0 | 0 | 92,753,702 | 92,753,702 |
| Balance 31.12.16 | 4,139,875 | 5,328,933 | 1,063,385 | 1,131,534,371 | 1,141,003,180 |

## 13. DEBT

| | *DKK* | *DKK* | *DKK* | *t.DKK* |
|---|---|---|---|---|
| | *Repayment in the first year* | *Outstanding debt after 5 years* | *Total debt 31 Dec. 2016* | *Total debt 31 Dec. 2015* |
| Debt to financial institutions | 0 | 1,042,116,000 | 1,042,116,000 | *830,000* |
| **Total** | **0** | **1,042,116,000** | **1,042,116,000** | ***830,000*** |

The company has increased lending by DKK 212.1 million during the year. The company's long-term debt was refinanced in December 2016 through a DKK 1,042,116,000 bond issue on the USPP market. There are no repayments in the next financial year, and the average maturity date is 9.3 years.

## 14. MORTGAGES AND OTHER OBLIGATIONS

As security for import duty credit, a guarantee of DKK 1.4 million has been issued to TAKS, and as security for credit cards, the company is liable for guarantees of DKK 1.3 million. Total obligations DKK 2.7 million.

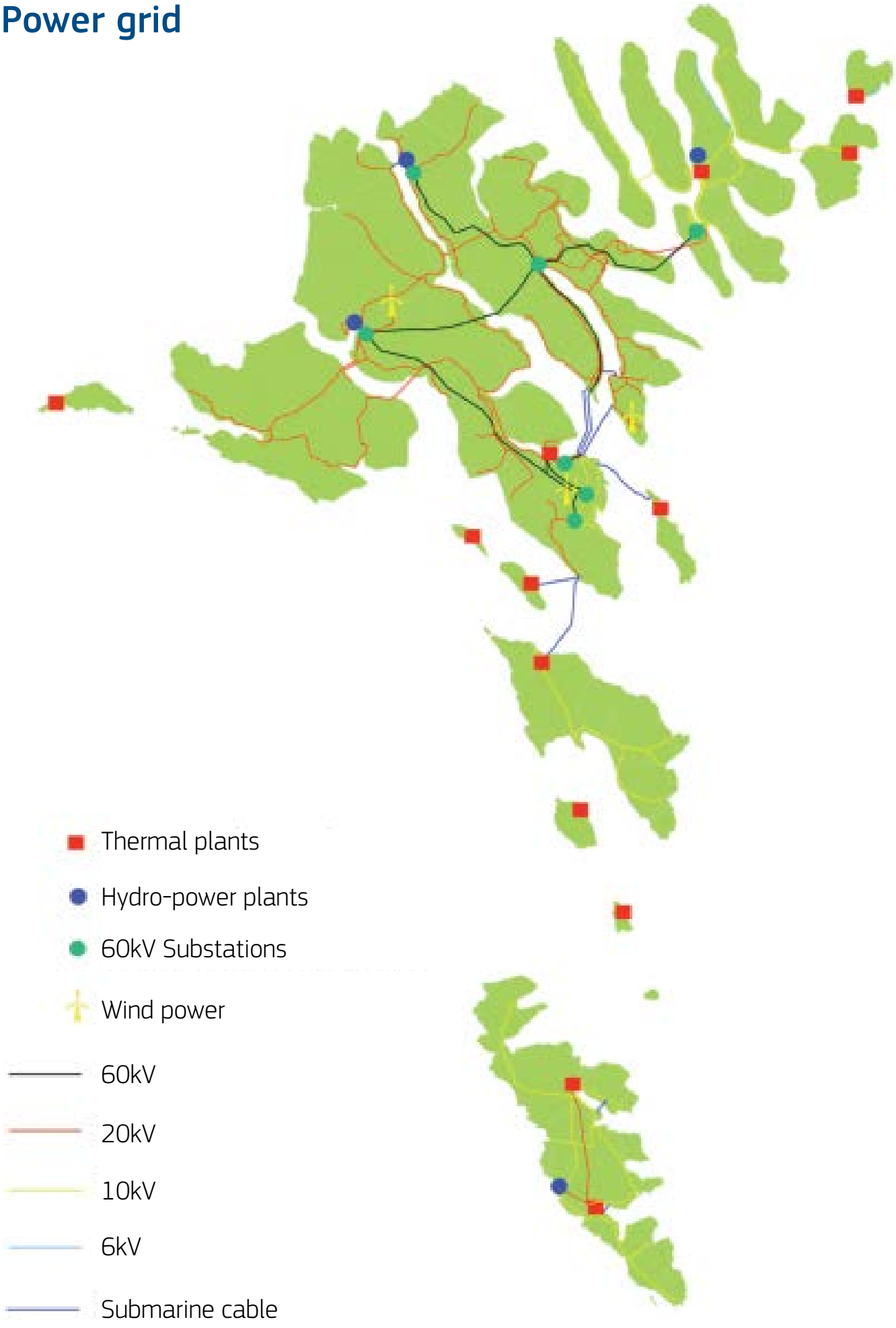
## 15. CONTINGENCIES

The group has a contingency of DKK 4.1 million due to operations and rental agreements of subsidiary companies.

| | 2016 | *2015* |
|---|---|---|
| **16. ADJUSTMENTS** | **DKK** | ***t. DKK*** |
| Interest income and equilavent income | -19,828 | *-204* |
| Adjustment financial fixed assets | 59,719 | *0* |
| Interest expenses and equivalent expenses | 34,375,037 | *25,034* |
| Unrealized interest expenses | 13,871,205 | *0* |
| Depreciation | 93,237,654 | *93,587* |
| Tax | 9,343,136 | *0* |
| **Total** | **150,866,923** | ***118,416*** |

| 17. Equity distribution | *Municipal contribution* | *Equity 2016* | *Equity 2016* | *Equity 2015* |
|---|---|---|---|---|
| | ***DKK*** | ***DKK*** | **%** | ***t. DKK*** |
| Eiði | 78,625 | 15,822,700 | 1.39 | *14,382* |
| Eysturkommuna | 146,500 | 46,966,517 | 4.13 | *42,265* |
| Fámjins | 23,125 | 1,915,139 | 0.17 | *1,821* |
| Fuglafjørður | 136,250 | 34,677,705 | 3.05 | *31,401* |
| Fugloyar | 17,500 | 1,025,968 | 0.09 | *837* |
| Hovs | 22,875 | 2,348,326 | 0.21 | *2,303* |
| Húsa | 17,500 | 889,172 | 0.08 | *879* |
| Húsavíkar | 25,125 | 2,667,516 | 0.23 | *2,449* |
| Hvalbiar | 103,625 | 15,799,901 | 1.39 | *14,884* |
| Hvannasunds | 36,375 | 9,256,508 | 0.81 | *8,332* |
| Klaksvíkar | 520,250 | 114,269,992 | 10.05 | *103,832* |
| Kunoyar | 12,625 | 3,146,301 | 0.28 | *2,826* |
| Kvívík | 59,125 | 13,679,568 | 1.20 | *12,183* |
| Nes / Runavíkar | 332,133 | 118,009,074 | 10.38 | *107,767* |
| Porkeris | 51,000 | 6,725,788 | 0.59 | *6,448* |
| Sands | 72,250 | 12,060,819 | 1.06 | *11,032* |
| Sjóvar | 92,875 | 22,229,298 | 1.96 | *19,845* |
| Skálavíkar | 30,750 | 3,305,896 | 0.29 | *2,763* |
| Skopunar | 71,000 | 10,350,873 | 0.91 | *9,295* |
| Skúvoyar | 17,875 | 957,570 | 0.08 | *900* |
| Sørvágs | 127,500 | 25,717,588 | 2.26 | *23,320* |
| Sumbiar | 81,375 | 8,002,547 | 0.70 | *7,264* |
| Sunda | 177,367 | 38,872,773 | 3.42 | *35,357* |
| Tórshavn | 1,092,500 | 476,162,966 | 41.88 | *429,541* |
| Tvøroyrar | 255,250 | 39,419,955 | 3.47 | *35,483* |
| Vága kommuna | 169,625 | 46,191,341 | 4.06 | *41,679* |
| Vágs | 218,375 | 30,915,824 | 2.72 | *27,863* |
| Vestmanna | 125,250 | 27,450,333 | 2.41 | *25,414* |
| Viðareiðis | 25,250 | 8,025,347 | 0.71 | *7,411* |
| **Total** | **4,139,875** | **1,136,863,305** | **100.00** | ***1,029,775*** |

# Power grid


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


Elfelagið SEV · P.O. Box 319 · FO-110 Tórshavn · Tlf. +298 34 68 00 · sev@sev.fo · www.sev.fo