

Grid Accounts 2018



# The path towards green progress

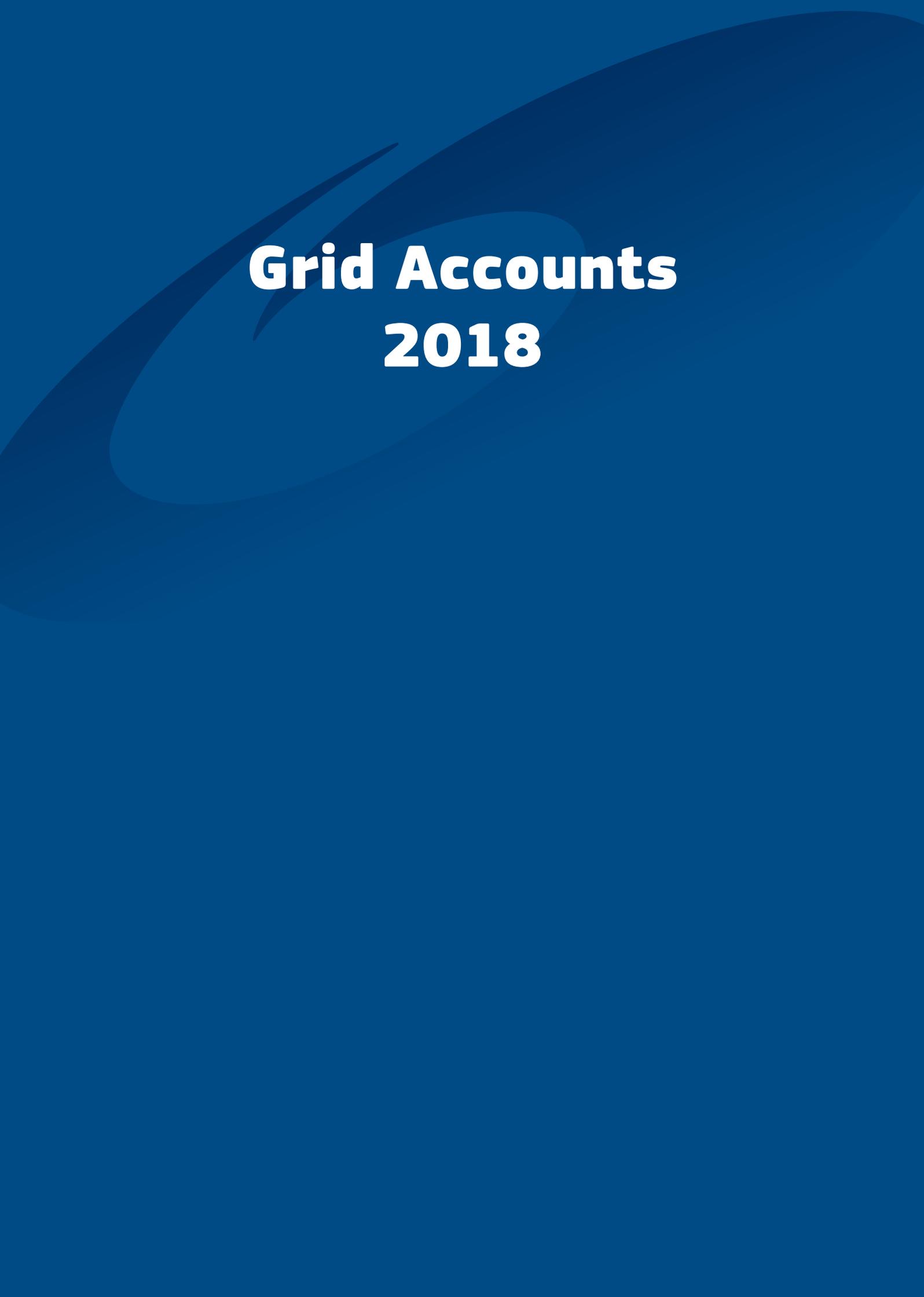


**Annual Report 2018**

Annual General Meeting 24 April 2019

Cover photo: Ólavur Frederiksen

Layout, printing, binding: Føroyaprent



# **Grid Accounts 2018**



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# Electricity Company SEV (Elfelagið SEV) Grid Accounts 2018

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## The Company

Elfelagið SEV  
Administration:  
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Telephone: +298 346800  
Website: [www.sev.fo](http://www.sev.fo)  
Email: [sev@sev.fo](mailto:sev@sev.fo)  
Registered office: Vestmanna  
Accounting year: 01,01-31,12  
Business Registration No.: 331538

## Board

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

## Auditor

JANUAR State Authorized Public Accountants P/F

# Management Report

The Board of Directors and Management hereby submit SEV's Annual Report and Accounts for fiscal year 1 January - 31 December 2018.

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

It is our opinion that the accounting methods used are suitable and that the Accounts give a true and fair view of the Company's assets, liabilities, financial position as at 31 December 2018 and the result of operations for fiscal year 1 January - 31 December 2018.

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

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

Tórshavn, 5 April 2019

## Management

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*Hákun Djurhuus*  
Managing Director, CEO

## Financial Management

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*Bogi Bendtsen*  
Director of Administration, CFO

## Board

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*John Zachariassen*  
Chairman

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*Hans Jákup Johannesen*  
Vice Chairman

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*Marin Katrina Frýdal*

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*Jónsvein Hovgaard*

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*Sune Jacobsen*

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*Vinjard Tungá*

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*Kristian Eli Zachariassen*

# Independent Auditor's Report

## To the management of Elfelagið SEV

### Opinion

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

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

### Basis of opinion

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

### Emphasis of matter in the grid accounts – accounting principles

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

This has not affected our opinion on the grid accounts.

### The management's responsibilities for the grid accounts

The management is responsible for the preparation of grid accounts in accordance with the accounting principles described in the grid accounts. The management is also responsible for such internal control as the management determines is necessary

to enable the preparation of grid accounts that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibilities for the audit of the grid accounts

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

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

- Identify and assess the risks of material misstatement in the grid accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding of internal control.
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls.
- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by the management.

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

Tórshavn, 5 April 2019

### **P/F Januar**

State-authorized Public Accountants P/F

Hans Laksá  
Stat. auth. auditor

Jógvan Amonsson  
Stat. auth. auditor

# Key Figures and Financial Ratios

Figures in tDKK	2018	2017	2016	2015	2014
<b>Income statement</b>					
Net Sales	429,648	434,900	421,436	417,605	411,888
Result before depreciation, amortization and impairment	102,611	90,602	90,739	125,810	70,502
EBIT	61,696	55,684	56,661	91,454	40,671
Financial items, net	-24,102	-21,348	-35,106	-13,609	-8,840
<b>Annual results</b>	<b>28,625</b>	<b>33,302</b>	<b>12,351</b>	<b>77,844</b>	<b>31,831</b>
<b>Balance sheet</b>					
Total assets	1,601,382	1,337,184	1,295,072	999,388	789,369
Equity	451,323	449,456	449,734	432,052	352,356
<b>Financial ratios*)</b>					
Return on equity	6.3%	7.4%	2.7%	19.8%	9.5 %
Assets turnover	0.27	0.33	0.33	0.42	0.52
Equity/assets ratio	28.2%	33.6%	34.7%	43.2%	44.6 %

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

# Management Review

## Main Activities

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

The accounts for the power grid activities of SEV are a part of the consolidated accounts of SEV. The report encompasses SEV's power grid activities, including administration, for the period 1 January 2018 to 31 December 2018.

## Business Activities

### Upgrading and Refurbishment

The work to update the 10, 20, and 60 KV grid continues. The work is being done in close cooperation with the relevant government authorities, the municipalities, the Faroese Public Works Department (Landsverk), and Faroese Telecom (Føroya Tele). During 2018, the Company erected several new 10 and 20 KV transformer stations in different regions around the country. Moreover, SEV is in the process of erecting five new 60 KV coupling stations to be located at Innan Eið (near Varmakeldu), at Strond, at Sund in connection with the new construction at the Sund

power plant, and one at Vestmanna (this station will replace the one currently located at Válin). In addition, SEV has updated and expanded the station at Trongisvági.

## Maintenance

Again in 2018, a good deal of maintenance work was carried out on the grid to ensure a stable supply of power to the customer.

Figure 1 shows the number of faults over the past several years. The Figure shows that the number of faults has declined from 1989 through 2018. Systematic maintenance work, combined with the continued upgrading of the grid, is the reason that SEV today has fewer faults than ever before in the high voltage electricity grid.

The 12 faults registered in 2018 are not the type of faults that impact every customer simultaneously but were faults that impacted limited areas of the country. For example, they could have been faults resulting from a cable disruption in a particular village or section of town or a high-voltage circuit breaker that failed at a specific transformer station.

## Faults in the high-voltage grid in 2018

In the 2018, there were 12 faults in the high-voltage system. Figure 2 shows what type of faults occurred and where they were located.

Figure 1: Faults per year

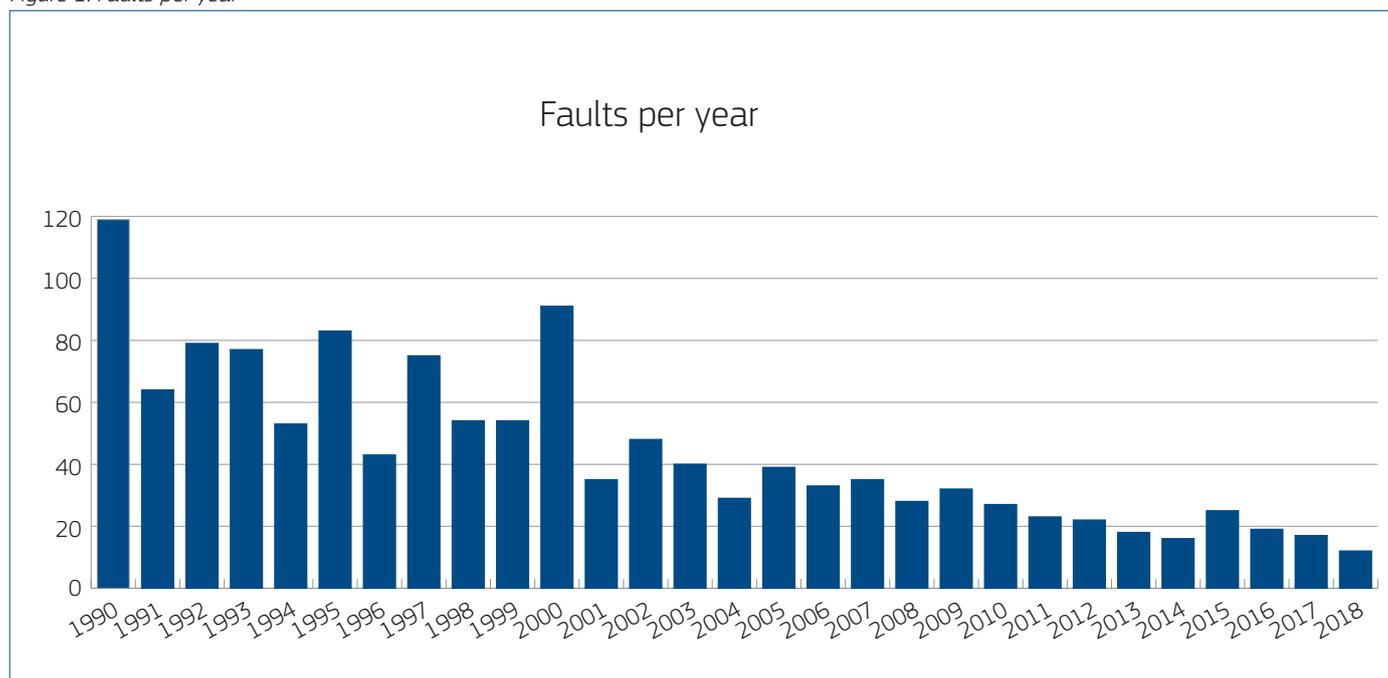
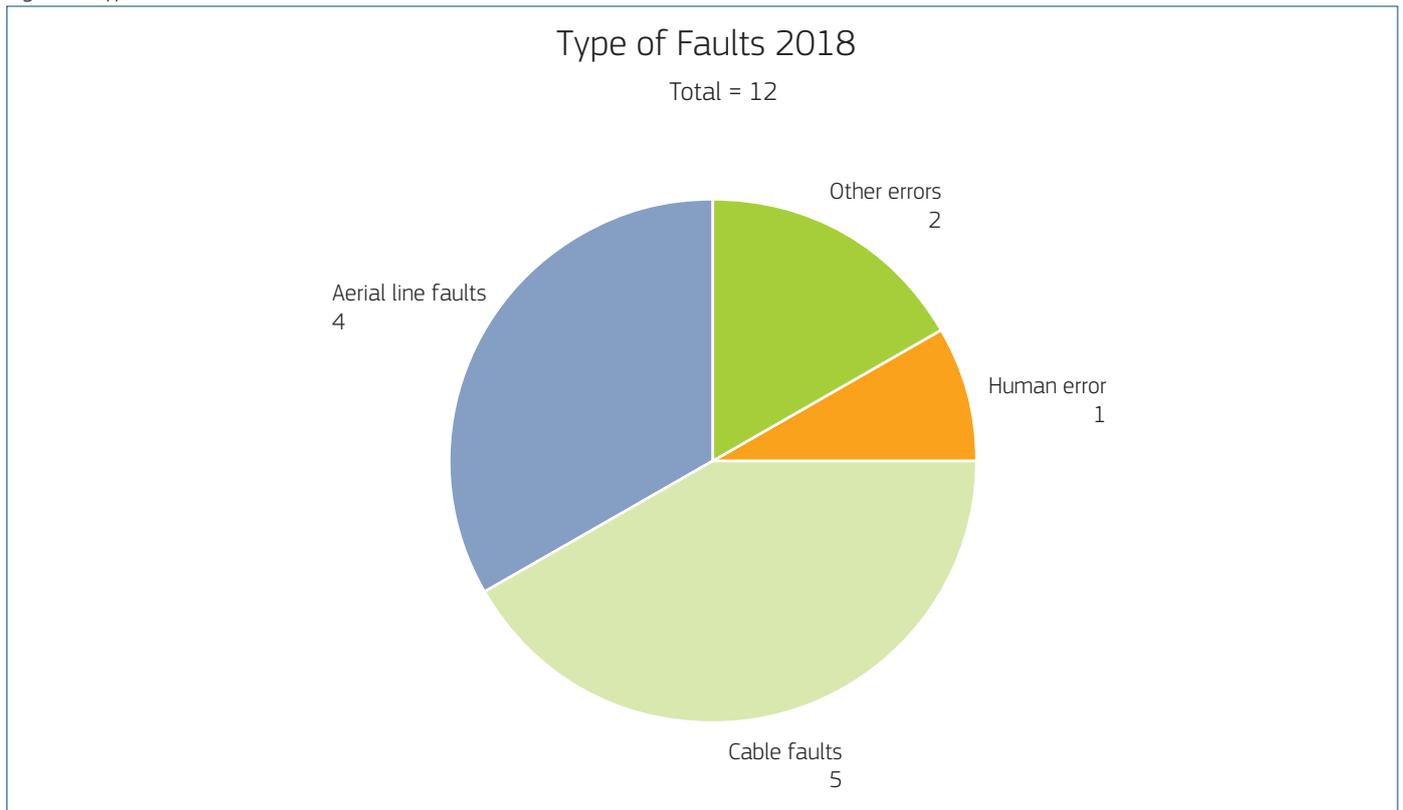


Figure 2: Type of faults 2018



## Financial Overview

### Revenue

There are three factors that impact SEV's principal income: changes in electricity prices, changes in overall electricity consumption, and shifts between the various customer price groups from year to year.

Power grid income is derived from the sale of electricity to commercial, private and public sector customers, including the municipalities. Further, income is derived from fixed base-rate payments, connection fees and other service fees from certain customers, etc.

On 1 January 2011, SEV increased the price of electricity by DKK 0.15 per kWh, following the approval of the Faroese Electricity Production Commission. At the same time, both the Commission and SEV understood that, given the high price of oil and the need for the 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 retail customers, and DKK 0.11 per kWh for its industrial commercial customers, which are subject to a special pricing tariff for industrial companies, including fish farming, agriculture, the fishing industry and certain IT service providers with an annual usage above 20,000 kWh, now 30,000 kWh.

In addition, SEV increased the connection fee as of 1 January 2013 to ensure profitability within this activity area. This fee had not been indexed for many years and consequently the operational result within this area remained out of balance. With the increase, harmonization was achieved in the activity area.

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 amendments to the price schedule were undertaken in 2015 and 2016.

The Extraordinary General Meeting of 25 November 2016 approved a proposal from SEV's Board of Directors to reduce the price of electricity by DKK 0.05 per kWh for all of SEV's customers effective 1 January 2017. The price of electricity was again reduced by DKK 0.05 effective 1 January 2018 for all of SEV's customers, except for customers in the special pricing tariff for those consuming more than 30,000 kWh.

Beginning with fiscal year 2011, SEV began to maintain separate financial accounts for production and power grid activities. In this regard, SEV calculates production unit profit by using the same method as prescribed in the tender rounds for wind power. The

inclusion of profit is to provide a truer picture of the operations of the production unit, compared to the WACC of the Company and the asset appreciation of the production unit. Consequently, 2011 was the first time that profit from production activities was compared to power grid activities.

Therefore, production revenue shall cover all its expenses, including its respective costs for grid administration and security. Moreover, production shall achieve a WACC profit of around 4-5% of beginning-of-year equity.

Profit for 2018 was calculated to be DKK 37.5 million, compared to DKK 34.5 million in 2017, equating to around 5.0% of Production beginning-of-year equity. A profit of 4-5% is considered a reasonable result (WACC) at present, compared to inflation and other investment alternatives.

The total result for the Grid Division was DKK 28.6 million for 2018 and DKK 33.3 million in 2017, which is based on the requirement for the Grid Division to be self-financing.

According to the Electricity Production Act, Grid activities shall be financially self-sufficient, such that revenue is sufficient to cover operations and planned necessary investment in infrastructure.

For the Grid Division, this means that it can have a revenue that covers Grid-related expenses as well as planned infrastructure investment. Revenue for necessary investment is based on an expectation of self-financing.

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

The decision regarding self-financing is based on the budgeted investment for both Production and Grid.

Henceforward, the level of self-financing has been 25%. This level shall be viewed in the context of budgeted investment over a rolling

Table 1. Customer Segments in GWh	Agriculture, aquaculture, fisheries and other commodities	Manufacturing, production and construction	Retail, catering and lodging	Transport, postal and telecom services	Finance, insurance and other business services	Public and private services, churches, congregations, ect.	Street lighting	Residential housing, apartments, holiday homes and boathouses	Total settlement	Change in % by year
2008	23.1	53.8	22.9	25.1	4.2	36.2	7.0	81.5	245.4	4.5
2009	25.8	52.0	22.6	24.4	4.5	35.6	6.7	80.5	253.9	3.5
2010	25.9	48.9	22.5	28.7	4.2	36.5	6.8	81.3	251.9	-0.8
2011	26.4	44.5	22.4	31.8	4.2	36.8	7.3	81.4	255.0	1.2
2012	29.4	52.5	21.6	34.7	3.9	36.6	6.9	75.7	254.8	-0.1
2013	29.2	69.3	22.7	25.1	4.0	37.7	7.4	78.9	261.4	2.6
2014	31.1	76.1	24.7	25.7	4.0	37.3	7.0	78.0	274.4	5.0
2015	36.6	76.5	23.1	24.9	3.9	37.9	7.1	78.0	283.8	3.4
2016	37.9	73.9	24.4	25.6	3.9	40.5	7.0	78.1	291.4	2.7
2017	42.1	85.5	24.4	24.3	3.6	41.5	6.7	78.2	306.3	5.2
<b>2018</b>	<b>56.8</b>	<b>82.2</b>	<b>24.9</b>	<b>24.3</b>	<b>3.7</b>	<b>42.1</b>	<b>6.6</b>	<b>79.9</b>	<b>320.5</b>	<b>4.6</b>
Change 2017 - 2018 in GWh	14.7	-3.3	0.5	0.0	0.1	0.6	-0.1	1.7	14.2	
Change 2017 - 2018 in per cent	35.0	-3.9	2.2	0.1	2.3	1.5	-1.9	2.2	4.6	

period of five years. The budget for 2019 reflects the investment for 2018-2022 for the Production Division of DKK 1,420 million. This corresponds to DKK 284 million annually on average. Thus, self-financing for 2018 was projected to be DKK 71 million.

For the Grid Division, investment is projected to be DKK 797 million, which corresponds to DKK 159 million annually with self-financing budgeted at DKK 40 million. Thus, it is advisable that self-financing be maintained at a sufficient level and this can only be achieved through an operational profit.

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

Self-financing for the current year is calculated thusly: operational revenue less expenses related to interest and other instalment payments compared to the requirement of 25% for self-financing of the annual average investment over the next five-year period.

For the Grid Division, this means that the annual result shall be adjusted such that the profit is equal to the expenses incurred by

the Grid Division plus a self-financing requirement of 25% of the annual average investment in the grid over the next five years.

Distribution of profit between the Production and the Grid Divisions in previous years was based on an allocation to Production that ensured that all costs were covered, including costs for its respective portion of grid administration and security plus a 4-5% return on beginning-of-year equity. If SEV's total consolidated result was larger than this calculated allotment, the remainder was transferred to the Grid Division. This is now changed so that the Grid Division is allotted an adjusted result and not the Production Division.

The operational result for the Grid Division in 2018 was a profit of DKK 28.6 million, compared to a profit in 2017 of DKK 33.3 million, or a decline of DKK 13.2 million.

The total consolidated revenue of the Company (electricity consumption and fixed-fee) in 2018 was DKK 419.2 million, compared to DKK 409.8 million in 2017, equating to an increase of DKK 9.4 million for 2018. The Company sold 320.5 GWh to its customers, equalling an increase in sales of some 4.6%. Even though the Company lowered the price of electricity for a portion

Table 2. Private consumption per island	Total kWh per island 2018	Total kWh per island 2017	Total kWh per island 2016	Number of consumers 2018	Number of consumers 2017	Number of consumers 2016	Average consumption per consumer 2018	Average consumption per consumer 2017	Average consumption per consumer 2016
Borðoy	7,996,263	7,959,312	7,952,990	2,136	1,970	1,967	3,744	4,040	4,043
Eysturoy	17,696,238	17,300,523	17,305,600	4,507	4,214	4,182	3,926	4,105	4,138
Fugloy	36,898	44,208	36,396	13	13	13	2,838	3,401	2,800
Hestur	50,459	48,943	49,926	27	27	27	1,869	1,813	1,849
Kalsoy	161,664	172,852	188,169	81	80	80	1,996	2,161	2,352
Koltur	9,004	8,717	8,826	2	2	2	4,502	4,359	4,413
Kunoy	272,700	267,653	247,867	69	64	64	3,952	4,182	3,873
Mykines	72,148	70,296	58,766	41	41	41	1,760	1,715	1,433
Nólsoy	405,441	400,336	402,733	138	133	132	2,938	3,010	3,051
Sandoy	2,115,370	2,106,306	2,117,425	697	656	657	3,035	3,211	3,223
Skúvoy	81,220	80,402	82,773	40	40	40	2,031	2,010	2,069
Streyroy	36,645,044	35,828,288	35,702,344	9,987	9,141	9,073	3,669	3,920	3,935
Suðuroy	7,039,166	6,946,503	7,139,616	2,300	2,152	2,152	3,061	3,228	3,318
Svínoy	41,156	39,899	43,135	24	22	22	1,715	1,814	1,961
Vágoy	5,578,304	5,352,731	5,257,579	1,404	1,320	1,313	3,973	4,055	4,004
Viðoy	902,287	915,992	913,658	224	216	216	4,028	4,241	4,230
<b>Total</b>	<b>79,103,362</b>	<b>77,542,962</b>	<b>77,507,803</b>	<b>21,690</b>	<b>20,091</b>	<b>19,981</b>	<b>3,647</b>	<b>3,860</b>	<b>3,879</b>

of its customers, the sales in 2018 reflect an increase in the overall sale of electricity.

On the other hand, this reflects a decrease in connection fees of some DKK 18.2 million, compared to 2017 when this was, respectively, DKK 9.2 million and DKK 27.4 million. Other revenue for 2018 equalled DKK 1.2 million, compared to a loss of DKK 2.4 million in 2017, which represents an overall increase of DKK 3.6 million.

Total revenue in 2018 was DKK 429.6 million, compared to DKK 434.9 million in 2017, which equates to a decrease of some DKK 5.3 million or 1.2%.

Table 1 shows settled electricity sales in GWh to SEV's various customer segments.

Please refer to the various detailed financial analyses regarding sales in SEV's consolidated concern accounts, available at [www.sev.fo](http://www.sev.fo).

For several years in a row, revenue has grown, almost without exception, from increasing consumption of electricity. Annual changes in electricity consumption is shown in Table 1.

As the Table for settled electricity sales shows (Table 1), major increases in electricity sales have been experienced in the industrial tariff group "agriculture, fish farming, fishing industry, and the raw materials industry". The increases seen in this group reflect the overall good market conditions over the last few years relative to fish farming and the pelagic fisheries and the major expansion undertaken by this customer group and the concomitant growth in demand for electricity. On the other hand, a decline can be seen in "Work-in-progress, Production and Construction", most probably resulting from a decrease in the amount of fish being processed, especially in the pelagic fisheries.

Moreover, there is a decline in the sale of electricity for street lights. The municipalities around the country have expended considerable efforts to update street lights with more energy-saving bulbs and this can also be seen in demand for electric power, which has also decreased. The increase in the group "Retail stores, Restaurants and Hotels" is a result of a greater number of visitors. Furthermore, the sale of houses has increased, which is consistent with the increased demand for housing.

In total, sales have increased by 4.6% in 2018, compared to an increase in sales in 2017 of some 5.2%. Thus, the last two years have seen a growth in sales of nearly 10%, which equates to 29.1 GWh. If one considers sales in 2018 compared to the end of 2013, there has been an increase of 59.1 GWh, reflecting

an average annual increase of some 4.2%. Table 2 shows the electricity consumption of private retail consumers distributed among the islands.

According to Table 2, the customers on Koltur have the highest consumption, while the customers on Streymoy have an average consumption of 3,669 kWh. The average consumption for all islands is 3,647 kWh. Small areas such as Fugloy, Hester and Mykines, in the main, have fewer customers because some of the houses stand empty part of the year. This impacts the calculations for average consumption for each customer in such areas.

Please refer to the various detailed financial analyses regarding sales in SEV's consolidated concern accounts, available at [www.sev.fo](http://www.sev.fo).

## Expenses

Expenses in 2018 were DKK 392.1 million, whereof DKK 261.3 million was for the purchase of electricity production, grid security and grid administration, compared to DKK 400.6 million in 2017, whereof DKK 281.7 million was for the purchase of electricity production, etc.

### Expenses related to SEV's universal service obligation

Total expenses for the power grid division include the cost to produce electricity and the cost of transporting that electricity throughout the country to each and all.

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

### Expenses related to controlling the power grid

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

The cost of some DKK 2.3 million to manage the power grid from the Fossá power plant is calculated, thus: total employee expenses at the Fossá power plant (DKK 3.0 million for a normal operational year) minus employee expenses related to the operation of the power plant itself per operational year (DKK 0.7 million). The cost to operate the power plant itself is deemed to be the same as the cost to run the Mýra and Heyga power plants combined, which corresponds to DKK 0.7 million for a regular operational year. The cost for managing the power grid at the Fossá power

plant is used as the basis for the cost of managing the power grid on Suđuroy, corresponding to DKK 2.3 million.

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

The expenses related to SEV's power supply guarantee, rolling power and its power reserve are estimated to be 5.0% of total operational expenses, including depreciation, for the Sund and Vágs power plants, which equals DKK 6.8 million and DKK 1.6 million, respectively. This reflects a "best estimate" calculation.

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

### **Summary of Expenses related to SEV's universal service obligation**

The total cost for managing the country-wide power grid is DKK 4.6 million. The cost for ensuring the power supply, rolling power and power reserves at the Sund and Vágs power plants is DKK 8.4 million. The cost to guarantee supply, etc. from the other power plants is DKK 5.8 million, corresponding to an estimated total cost for ensuring a stable power supply, rolling and reserve power, plus the management of the power grid equalling DKK 18.8 million.

### **Employee Expenses**

SEV relies on a variety of technical expertise and complies with the various public wage agreements specific to these areas of expertise. In 2018, total employee expenses were DKK 37.5 million, against DKK 33.5 million in 2017, including administration, corresponding to an increase of DKK 4.0 million.

Employee expenses for power grid activities in 2018 were DKK 23.5 million, against DKK 21.0 million in 2017, representing an increase of DKK 2.5 million, or 11.7% higher, while employee expenses for administration were DKK 14.0 in 2018, against DKK 12.4 million in 2017, corresponding to an increase of DKK 1.6 million or 12.5% when harmonization of pension reserves is included.

Harmonization of pension reserves aside, employee expenses in 2018 were DKK 14.3 million, compared to DKK 13.8 million for 2017, which is DKK 0.5 million greater than the previous year.

### **Supplies and Services**

In 2018 total expenses for supplies and services were DKK 28.0 million, compared to DKK 28.9 million in 2017, and thus are DKK 0.9 million lower in 2018 than in 2017.

### **Power Grid Activities**

In 2018, expenses for supplies and services related to power grid activities were DKK 9.9 million, compared to DKK 10.4 million in 2017, corresponding to a decrease of DKK 0.5 million, based on consumption by SEV's operational division.

### **Administration**

Expenses for goods and services for administration in 2018 were DKK 18.1 million, compared to DKK 18.5 million in 2017, which reflects a decrease of DKK 0.4 million in 2018 against expenses incurred in 2017.

Please refer to the various detailed financial analyses regarding expenses for goods and services in SEV's consolidated concern accounts, available at [www.sev.fo](http://www.sev.fo).

### **Financial Expenses**

Interest expense was DKK 25.3 million in 2018, compared to DKK 23.5 million in 2017, corresponding to higher financial expenses of DKK 1.8 million. This includes a profit of DKK 1.2 million from subsidiary companies.

Currently, the Company is carrying gross debt of DKK 1,342 million, with a fixed rate of interest secured by the issued bonds and the interest rate swap agreement now in place. More information regarding these expenses can be found in SEV's consolidated Group accounts, available at [www.sev.fo](http://www.sev.fo).

### **Depreciation**

In 2018, depreciation was DKK 40.9 million, against DKK 34.9 million in 2017, of which DKK 34.6 million is derived from power grid activities and DKK 6.3 million from administration.

When the budget is being developed for the following year, estimates are made as to which investments will be concluded during that particular year and thus become operational and then in turn booked as assets subject to depreciation.

### **Investment**

Investment in coupling stations and the grid was in total DKK 153.8 million in 2018, compared to DKK 120.7 million in 2017, as shown in Table 3.

Adjustments from work-in-progress and directly booked to fixed assets (adjustments to fixed assets — depreciation basis) were DKK 140.9 million in 2018, compared to DKK 47.1 million in

Table 3. Investment in DKK million	Investment budget 2018	Adjustments to investment budget 2018	Budget after adjustments	Investment according to annual accounts 2018	Difference between annual accounts and adjusted budget
	1	2	3=1+2	4	5=3-4
Coupling stations and power grid etc.	146.4	-1.1	145.3	138.6	-6.6
Administration building, tools, and IT equipment	20.0	0.0	20.0	15.1	-4.9
<b>Total</b>	<b>166.4</b>	<b>-1.1</b>	<b>165.3</b>	<b>153.8</b>	<b>-11.5</b>

2017. Also, please refer to the “work-in-progress” account and Note 7 in the annual accounts.

Major investment was placed in the grid, coupling stations, buildings and other items related to the grid over the last few years and in 2018, and significant investment lies ahead as well. The focus is especially on ensuring that the grid is stable and secure. Efforts to strengthen the grid will continue into the future to afford SEV the ongoing ability to accept more and more wind power and to supply the power that the Company’s customers demand.

Considerable investment was undertaken over the last few years in coupling stations and 2018 was no exception. Effort was expended to install those stations that are deemed the most important to ensure the transfer of electric power to each and every region of the country. In total, the investment in coupling stations was DKK 75.6 million, while investment in the grid, etc. was DKK 63.1 million.

Of the total investment in coupling stations, the investment in the coupling station at Eiði was DKK 5.6 million and this station came online in March 2018. Investment in the old electricity power plant at Trongisvági, which was demolished and rebuilt as a coupling station, equalled DKK 6.7 million. SEV has also undertaken to construct a new coupling station at Vestmanna. This coupling station will replace the old coupling station, which now has become out-dated.

Work on this project commenced at the end of 2018 and the investment will be DKK 6.7 million. This coupling station is expected

Table 4. Total investment	2018	2017
Investment booked to work-in-progress	143.5	107.5
Investment booked to work-in-progress	10.2	13.2
<b>Investment at year-end</b>	<b>153.8</b>	<b>120.7</b>

to be completed by mid-2020. Construction on the coupling station to the north of Strond is nearly complete and the investment in this station in 2018 was DKK 24.1 million. When this coupling station comes online and when the related cable work is completed, SEV will have garnered a greater and better potential to supply the electricity its customers demand in this region.

In connection with the expansion of the Sund thermal power plant to incorporate Station 3, a new coupling station was also constructed and the investment in this facility was DKK 28.8 million in 2018. The coupling station is expected to be completed in 2019. Other investment in coupling stations equalled DKK 3.7 million.

Investment in the wireless meters, tools and other technical equipment equalled DKK 8.2 million. Investment in the wireless meters, etc. equalled DKK 1.1 million, and DKK 5.2 million was invested into a new control system for the grid. Other investment equalled DKK 1.9 million.

In addition, much work has taken place around the country to strengthen the grid. Of some DKK 63.1 million invested in the grid, DKK 13.4 million was spent in the Northern Islands; DKK 10.5 million on Eysturoy; DKK 3.3 million on Vágoy; DKK 1.3 million in central Streymoy; DKK 11.4 million in Southern Streymoy; DKK 1.2 million on Sandoy; DKK 7.7 million on Suðuroy. In addition, some DKK 14.3 million was spent on miscellaneous investments in the grid.

Table 5. Work-in-progress	2018	2017
Opening balance	155.1	79.4
Investment booked to work-in-progress	143.5	107.5
Work transferred to depreciation as transition	-130.7	-31.8
<b>Closing balance</b>	<b>167.9</b>	<b>155.1</b>
Changes to work-in-progress	12.8	75.7

Table 6. Transition to fixed assets	2018	2017
Work transferred to depreciation as transition	130.7	31.8
Investment booked directly to fixed assets	10.2	15.4
<b>Transition as at year-end</b>	<b>140.9</b>	<b>47.1</b>

Please refer to the various detailed financial analyses regarding investments in SEV's consolidated concern accounts, available at [www.sev.fo](http://www.sev.fo).

### Liquidity

Liquidity has not been divided between production and the grid; a transfer pricing current account between the divisions has been utilized. Thus, the liquidity of the production division is set to DKK 0.00 million, while all the activities of the power plants are financed by payment from the power grid division, thereby securing the necessary liquidity. The same is applicable to the wind farm companies, who are also financed by payments from the grid division.

The liquidity of SEV at year-end 2018 was DKK 190.8 million, compared DKK 248.0 million in 2017. In addition, the unused drawing rights provided under the line of credit with the financial institutions are available, totalling DKK 314.9 million.

Thus, cash-on-hand, the credit facilities and the unused drawing rights equalled DKK 505.7 million in 2018, compared to DKK 768.0 million in 2017. The largest portion of the unused drawing rights shall be used to finance the investments planned for the years ahead.

The purpose of maintaining adequate liquidity is to ensure that SEV always has sufficient funds to pay for the purchase of oil and

the costs associated with an accident at one of the production plants or in the grid. Furthermore, it is deemed necessary to have sufficient liquidity to cover daily operations of the power plants and the grid. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets. Further details on the Company's liquidity are available in the Consolidated Group Annual Accounts available on the Company's website, [www.sev.fo](http://www.sev.fo).

### Special risks

The risks of the Company can be divided into the different groups shown on the next page

More information relating to the company's special risks can be found in SEV's Consolidated Group Annual Accounts available at [www.sev.fo](http://www.sev.fo).

### Prospects for 2019

Based on the proposed budget for 2019, the result before taxes will be a profit of approximately DKK 34.7 million. This is a satisfactory result, given that the results going forward must also provide a sufficient profit.

It will be necessary to undertake viable and sustainable initiatives relative to operations, including the setting of a suitable kWh price. Therefore, the Company has expended considerable effort to review the tariff structures to determine if the various individual prices are appropriate and correct. Originally, budget calculations were made using an average increase in the consumption of electrical power of 7.1% for 2019, compared to the actual usage increase of 4.6% in 2018.

This increase was based on the anticipated increase within several customer groups, each with different rates of consumption

Market risk	Credit and counter-party risk	Operational risk	Strategic and other risk
Interest rate	Receivables	Veitingartrygd	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

increase. Thus, it is anticipated there will be an increase in kWh sales.

Based on sales in 2017 and partially on sales in 2018, sales in 2019 are budgeted to be around 338.4 GWh or DKK 456.2 million. The fixed fee payments are anticipated to remain essentially unchanged at DKK 17.0 million. In addition, revenue is derived from connection fees, etc. totalling some DKK 12.0 million, thus yielding total budgeted revenue of some DKK 485.3 million for 2019, compared to DKK 429.6 million in 2018. This means that the Company will earn some DKK 55.7 million more in revenue compared to 2018.

SEV established independent subsidiaries to operate the windfarms at, respectively, Neshagi and Húsahagi. This means that the purchase of wind energy has increased, while at the same time the cost of materials and wages, depreciation and interest has decreased. The result from the subsidiaries is incorporated into the accounts via the capital investment section. The total result of SEV is thus not affected.

Operational expenses are estimated to be DKK 76.3 million in 2019, compared to DKK 65.8 million in 2018, corresponding to a higher expenditure of DKK 10.5 million. Budgeted depreciation

is set at DKK 50.7 million and interest expense is budgeted at DKK 11.6 million. The increase in interest expenses over the last few years reflects the increased debt carried by the Company to finance especially operations and partly investments.

With an estimated profit in 2019 that is deemed satisfactory, the operational share for the Grid Division will provide sufficient self-financing for investment. It is critical to earn a satisfactory result and thus have sufficient self-financing from operations to help finance the upcoming investment in coupling stations and ongoing maintenance of the current grid plus the requisite investment in enhancements of the grid that are needed to ensure that the grid is able to accept a growing amount of electricity generated by renewable power resources and distribute further this electricity to the Company's customers.

Further details on the Company's 2019 Operations, Financial and Investment Budget can be found on the Company's website, [www.sev.fo](http://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

## General

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

The Grid accounts were compiled in a manner similar to the accounts of a consolidated concern, without, however, any harmonization of internal postings for operations and adjustments. This was done to provide the reader with as much information as possible on all the various production activities of the entire SEV Concern. Otherwise, the annual accounts were compiled consistent with the same accounting principles as the previous year and are stated in DKK.

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 valuation adjustments of financial assets and liabilities. Included in the Income Statement are all expenses, including depreciation, amortisation, provisions, and impairment losses derived from 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.

Relative to 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 forecast 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 central 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 depreciation, for the Sund power plant and Vágs 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 concern 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-downs

The depreciation and amortisation of intangible and tangible fixed assets are based on an asset's projected 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 that are related to the production period are not included in the projected 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-downs. 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 projected useful life and the residual value of the asset:

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

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

## 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-downs.

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.

## FINANCIAL ASSETS

### 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 the 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 the 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 realised 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 applicable as at the end of the fiscal year.

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

### Other Provisions

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

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

### Derivative Financial Instruments

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

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

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

### Cash Flow Hedges

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

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

### Liabilities

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

Debt to financial institutions is valued at amortised realised value, which corresponds to the residual debt of a cash loan. Regarding the value of bonds, the amortised realised value is calculated as the cash value on the date the bond was issued, adjusted by the booked depreciation during the instalment period of the effective rate of interest at the time of contracting such debt.

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

### Cash Flow Statement

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

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

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

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

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

### Key Figures

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

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

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

# Income Statement 1 January – 31 December

	Note	2018 DKK	2017 t. DKK
<b>Net turnover</b>	1	<b>429,647,947</b>	<b>434,900</b>
Electricity purchased		-239,722,725	-262,078
Wind power purchased		-2,692,050	-2,844
Grid responsibility and management		-18,836,387	-16,803
Cost of oil	2	-249,595	-233
Supplies and services	3	-28,035,054	-28,856
<b>Gross earnings</b>		<b>140,112,137</b>	<b>124,086</b>
Wages	4	-37,501,387	-33,484
<b>Result before depreciation and amortisation</b>		<b>102,610,749</b>	<b>90,602</b>
Depreciation and amortisation of fixed assets		-40,915,163	-34,919
<b>Result before financials</b>		<b>61,695,586</b>	<b>55,684</b>
Financial expenses	5	-24,102,155	-21,348
<b>Result before tax</b>		<b>37,593,432</b>	<b>34,335</b>
Tax on annual result	6	-8,968,199	-1,033
<b>Annual result</b>		<b>28,625,233</b>	<b>33,302</b>
<b>Proposed distribution of results:</b>			
Result brought forward		27,433,125	31,190
Reserve for net revaluation as per the equity method		1,192,108	2,112
<b>Available</b>		<b>28,625,233</b>	<b>33,302</b>

# Balance Sheet 31 December

ASSETS	Note	31.12.18 DKK	31.12.17 t. DKK
Distribution grid	7, 18	613,372,525	506,444
Buidlings and land	7	33,012,554	34,196
Operating equipment	7	40,576,049	42,309
Investment work-in-progress	7	167,922,384	155,089
<b>Total tangible fixed assets</b>		<b>854,883,512</b>	<b>738,040</b>
Investment in Associated and Subsidiary Companies	8	36,117,267	34,925
Loans to subsidiary companies	9	86,859,076	95,107
Derivatives	10	3,043,212	20,532
<b>Total financial assets</b>		<b>126,019,554</b>	<b>150,564</b>
<b>Total fixed assets</b>		<b>980,903,066</b>	<b>888,604</b>
Inventory		19,809,583	18,956
<b>Total inventory</b>		<b>19,809,583</b>	<b>18,956</b>
Goods and services debtors	11	87,247,507	75,888
Inter-company account		315,551,517	102,463
Prepayments		7,084,460	3,282
<b>Total receivables</b>		<b>409,883,483</b>	<b>181,632</b>
Cash-on-hand		190,785,456	247,993
<b>Total current assets</b>		<b>620,478,522</b>	<b>448,581</b>
<b>Total assets</b>		<b>1,601,381,588</b>	<b>1,337,184</b>

# Balance Sheet 31 December

LIABILITIES	Note	31.12.18 DKK	31.12.17 t. DKK
Deposits	12	4,139,875	4,140
Hedge reserve	12	-53,839,512	-28,251
Reserve for revaluation as per the equity method	12	4,367,267	3,175
Results carried forward	12	496,655,538	470,392
<b>TOTAL EQUITY</b>		<b>451,323,167</b>	<b>449,456</b>
Provisions for pensions and equivalent liabilities		16,800,646	17,089
Other provisions		23,981,316	11,407
<b>Total provisions</b>		<b>40,781,962</b>	<b>28,496</b>
Long-term debt	13	982,641,000	773,377
<b>Total long-term debt</b>		<b>982,641,000</b>	<b>773,377</b>
Current portion of long-term debt	13	869,797	870
Bank debt		6,064	0
Prepayment received from customers		1,165,948	0
Trade creditors		55,125,961	22,240
Derivatives	10	59,284,937	56,739
Other creditors		10,182,751	6,005
<b>Total short-term debt</b>		<b>126,635,459</b>	<b>85,855</b>
<b>Total debt</b>		<b>1,109,276,459</b>	<b>859,232</b>
<b>Total liabilities</b>		<b>1,601,381,588</b>	<b>1,337,184</b>
Grid result by area	14		
Grid overview	15		
Mortgages and other liabilities	16		

# Cash Flow Statement

	Nota	2018 DKK	2017 t. DKK
<b>Annual result</b>		<b>28,625,233</b>	<b>33,302</b>
Adjustments	17	73,985,517	41,415
Changes in working capital:			
Inventory		-853,959	1,351
Receivables		5,545,419	47,596
Trade creditors		32,885,536	-12,478
Inter-company accounts – Production		-216,815,730	-145,452
Other operating debt		16,926,993	10,429
Derivatives		-26,758,011	-33,580
<b>Operations cash flow before financials</b>		<b>-86,459,003</b>	<b>-57,417</b>
Interest expense paid and equivalent expenses		-25,294,262	-23,460
<b>Cash flow from operations</b>		<b>-111,753,265</b>	<b>-80,877</b>
Purchase of tangible fixed assets		-140,925,172	-44,976
Changes to work-in-progress		-12,832,903	-75,727
<b>Cash flow from investment</b>		<b>-153,758,076</b>	<b>-120,703</b>
Net loan facilities		200,000,000	106,000
Interest accrual		0	-53
Repayments of long-term debt		8,247,736	8,068
Increased draw on credit facility		56,529	59
<b>Cash flow from financing</b>		<b>208,304,265</b>	<b>114,074</b>
<b>Total cash flow during the year</b>		<b>-57,207,076</b>	<b>-87,506</b>
Opening cash-on-hand		247,992,531	335,498
<b>Closing cash-on-hand</b>		<b>190,785,456</b>	<b>247,993</b>

# Notes

<b>1. NET TURNOVER</b>	<b>2018 DKK</b>	<b>2017 t. DKK</b>
kWh charges etc.	402,198,899	393,086
Fixed charges	17,020,639	16,806
Connection fees	9,218,830	27,426
Other charges, past due charges and other sales	1,209,578	-2,418
<b>Total</b>	<b>429,647,947</b>	<b>434,900</b>

<b>2. COST OF OIL</b>		
Gas oil	249,595	233
<b>Total</b>	<b>249,595</b>	<b>233</b>

<b>3. SUPPLIES AND SERVICES</b>		
Aerial lines	3,055,041	2,578
Tanks and environment	51,740	2
Motors	6,504	0
Electric and technical	157,524	69
Buildings and land	1,526,959	1,210
Annual Meeting and Board	383,056	233
Studies and consultancy	3,446,647	6,001
IT	4,763,018	4,191
Management and office expenses	2,422,035	1,860
Loss on receivables	538,068	231
Other operating expenses	261,159	267
Other administrative expenses	11,423,303	12,214
<b>Total</b>	<b>28,035,054</b>	<b>28,856</b>

<b>4. EMPLOYEE EXPENSES</b>	<b>2018 DKK</b>	<b>2017 t. DKK</b>
Wages	30,986,187	27,384
Pensions	4,710,711	4,501
Contributions	1,804,490	1,600
<b>Total</b>	<b>37,501,387</b>	<b>33,484</b>

Employees with SEV as main source of personal income	88	86
Average number of employees	106	103

5. FINANCIAL EXPENSES	2018 DKK	2017 t. DKK
Result from subsidiary companies	-1,192,108	-2,112
Adjustment financial fixed assets	-49,335	0
Interest, loans and bank loans etc,	21,267,325	15,381
Establishment fees, commissions	2,294,240	3,538
Unrealised exchange rate gains and losses	8,868,924	-12,703
Unrealised adjustments on derivatives	-7,352,431	17,092
Other interest expenses	265,539	152
<b>Total</b>	<b>24,102,155</b>	<b>21,348</b>

6. TAXES ON ANNUAL RESULT		
Adjustment of deferred tax	8,968,199	1,033
<b>Total</b>	<b>8,968,199</b>	<b>1,033</b>

#### 7. TANGIBLE FIXED ASSETS

Amounts in DKK	Distribution grid	Buildings	Equipment	Total 2018	2017
Acquisition value, opening balance	1,000,931,508	67,470,158	191,279,884	1,259,681,550	1,214,705,334
Additions during the year	131,434,227	42,379	10,609,282	142,085,887	47,125,491
Additions from Production	5,996,566	0	0	5,996,566	0
Disposals during the year	0	0	-1,160,715	-1,160,715	-2,149,275
<b>Acquisition value year-end</b>	<b>1,138,362,300</b>	<b>67,512,537</b>	<b>200,728,451</b>	<b>1,406,603,288</b>	<b>1,259,681,550</b>
Depreciation, amortization and impairment, opening balance	-494,487,049	-33,273,827	-148,970,631	-676,731,507	-641,812,884
Depreciation, amortization and impairment during the year	-28,507,236	-1,226,156	-12,342,486	-42,075,878	-37,067,898
Depreciation added from Production	-1,995,490	0	0	-1,995,490	0
Depreciation reversed on disposals	0	0	1,160,715	1,160,715	2,149,275
Depreciation closing balance	-524,989,775	-34,499,983	-160,152,402	-719,642,160	-676,731,507
<b>Carrying amount year-end</b>	<b>613,372,525</b>	<b>33,012,554</b>	<b>40,576,049</b>	<b>686,961,128</b>	<b>582,950,043</b>
<i>Carrying amount year-end 2017</i>	<i>506,444,458</i>	<i>34,196,331</i>	<i>42,309,253</i>	<i>582,950,043</i>	
Work-in-progress opening balance	142,856,823	10,467,781	1,764,877	155,089,481	79,362,790
Investment booked to work-in-progress	131,747,115	9,937,815	1,830,921	143,515,850	107,478,769
Completed work transferred to depreciation	-130,392,864	0	-290,083	-130,682,947	-31,752,077
<b>Closing balance</b>	<b>144,211,074</b>	<b>20,405,596</b>	<b>3,305,714</b>	<b>167,922,384</b>	<b>155,089,481</b>
<i>Balance at year-end 2017</i>	<i>142,856,823</i>	<i>10,467,781</i>	<i>1,764,877</i>	<i>155,089,481</i>	
<b>Fixed assets at year-end</b>	<b>757,583,599</b>	<b>53,418,150</b>	<b>43,881,763</b>	<b>854,883,512</b>	<b>738,039,524</b>
<i>Fixed assets at year-end 2017</i>	<i>649,301,281</i>	<i>44,664,113</i>	<i>44,074,130</i>	<i>738,039,524</i>	

	31.12.18	31.12.17
8. INVESTMENTS IN ASSOCIATED AND SUBSIDIARY COMPANIES	DKK	t. DKK
Acquisition value opening balance	31,750,000	31,750
<b>Acquisition value closing balance</b>	<b>31,750,000</b>	<b>31,750</b>
Adjustments opening balance	3,175,159	1,063
Result from subsidiary companies	1,192,108	2,112
Adjustments closing balance	4,367,267	3,175
<b>Carrying amount year-end</b>	<b>36,117,267</b>	<b>34,925</b>

Associated and subsidiary companies

Name and registered office	Share	Equity	Annual result	Recognized value
P/F Fjarhitafelagið, Tórshavn	50%	61,187,011	418,775	2,750,000
P/F Vindfelagið í Húsahaga, Tórshavn	100%	21,331,415	-636,480	21,331,415
P/F Vindfelagið í Neshaga, Tórshavn	100%	12,035,852	1,828,587	12,035,852

The financial statement for P/F Fjarhitafelagið for the year 2018 is not available. The numbers shown are from 2017.

	Duration	Loan amount	Balance 31.12.18	Repayments next year	Balance in 5 years
<b>9. LOANS TO SUBSIDIARY COMPANIES</b>					
P/F Vindfelagið í Húsahaga	12 ár	75,000,000	63,834,201	5,769,944	39,972,511
P/F Vindfelagið í Neshaga	10 ár	28,175,000	23,024,875	2,661,335	12,018,883
<b>Total</b>		<b>103,175,000</b>	<b>86,859,076</b>	<b>8,431,280</b>	<b>51,991,394</b>

	Assets 31.12.18	Liabilities 31.12.18	Total 31.12.18	31.12.17 t. DKK
<b>10. DERIVATIVES</b>				
Oil-price hedge	0	-14,583,091	-14,583,091	20,532
Currency hedge	3,043,212	0	3,043,212	-27,115
Interest rate hedge	0	-44,701,846	-44,701,846	-29,624
<b>Total</b>	<b>3,043,212</b>	<b>-59,284,937</b>	<b>-56,241,726</b>	<b>-36,207</b>

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.

	31.12.18	31.12.17
11. GOODS AND SERVICE DEBTORS	DKK	t. DKK
Goods and service debtors	89,104,917	78,373
Other debtors	1,420,766	724
Receivables write-down	-2,981,882	-3,209
<b>Total</b>	<b>87,543,801</b>	<b>75,888</b>

## 12. EQUITY

Amounts in DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
Equity statement 01.01.17 - 31.12.17					
Balance 01.01.17	4,139,875	5,328,933	1,063,385	439,201,836	449,734,029
Change in adjustment to derivatives	0	-33,580,200	0	0	-33,580,200
Result from subsidiary companies	0	0	2,111,773	-2,111,773	0
Annual result	0	0	0	33,302,118	33,302,118
Balance 31.12.17	4,139,875	-28,251,267	3,175,159	470,392,179	449,455,946

## Equity statement 01.01.18 - 31.12.18

Balance 01.01.18	4,139,875	-28,251,267	3,175,159	470,392,179	449,455,946
Change in adjustment to derivatives	0	-25,588,245	0	-1,169,766	-26,758,011
Result from subsidiary companies	0	0	1,192,108	-1,192,108	0
Annual result	0	0	0	28,625,233	28,625,233
Balance 31.12.18	4,139,875	-53,839,512	4,367,267	496,655,538	451,323,167

13. DEBT	Repayment in the first year DKK	Outstanding debt after 5 years DKK	Total debt 31 Dec. 2018 DKK	Total debt 31 Dec. 2017 t. DKK
Debt to financial institutions	0	983,510,797	983,510,797	773,377
<b>Total</b>	<b>0</b>	<b>983,510,797</b>	<b>983,510,797</b>	<b>773,377</b>

There are no repayments in the next financial year, and the average maturity date is 7.3 years.

## 14. GRID RESULTS BY AREA

	Revenues	Oil	Supplies	Wages	Depreciation	Interest	Taxes	Total
Coupling stations	0	-1,456	-810,974	-171,980	-8,168,878	-11,434	0	-9,164,722
Distribution grid	-1,262,035	-236,101	-5,882,266	-13,002,537	-22,147,775	0	0	-42,530,713
Installations	10,147,757	0	-2,129,366	-4,880,643	-2,933,700	-82	0	203,967
Engineering	0	0	-550,788	-3,379,207	-946,292	0	0	-4,876,287
Technical	105,042	0	-553,417	-2,065,181	-422,517	0	0	-2,936,073
Grid without administration	<b>8,990,764</b>	<b>-237,557</b>	<b>-9,926,810</b>	<b>-23,499,547</b>	<b>-34,619,162</b>	<b>-11,516</b>	<b>0</b>	<b>-59,303,829</b>
Administration	159,406,021	-12,038	-18,108,244	-14,001,840	-6,296,001	-24,090,639	-8,968,199	87,929,061
<b>Grid results</b>	<b>168,396,785</b>	<b>-249,595</b>	<b>-28,035,054</b>	<b>-37,501,387</b>	<b>-40,915,163</b>	<b>-24,102,155</b>	<b>-8,968,199</b>	<b>28,625,233</b>

15. GRID ASSETS

	Fugloy	Svínoy	Víðoy	Borðoy	Kunoy	Kalsoy	Eysturoy	Streymoy	Vágoy	Mykines	Nólsoy	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suðuroy	Total		
<i>TRANSMISSION STATIONS</i>																				
6kV Transformer substations	1			1														2	pcs.	
10kV Transformer substations		1	9	41	4	8		88			1			17				60	229	pcs.
20kV Transformer substations				3			135	97	35				1						271	pcs.
60kV Transformer substations				2			4	5											11	pcs.
<b>Total per area</b>	<b>1</b>	<b>1</b>	<b>9</b>	<b>47</b>	<b>4</b>	<b>8</b>	<b>139</b>	<b>190</b>	<b>35</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>17</b>	<b>0</b>	<b>0</b>	<b>60</b>	<b>513</b>	<b>pcs.</b>	
<i>TRANSFORMERS</i>																				
6kV Transformers	2			2															4	pcs.
10kV Transformers		1	13	57	4	8		103			1			18				84	289	pcs.
20kV Transformers				4			179	126	52				1	3				4	369	pcs.
60kV Transformers				4			7	14											25	pcs.
<b>Total per area</b>	<b>2</b>	<b>1</b>	<b>13</b>	<b>67</b>	<b>4</b>	<b>8</b>	<b>186</b>	<b>243</b>	<b>52</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>21</b>	<b>0</b>	<b>0</b>	<b>88</b>	<b>687</b>	<b>pcs.</b>	
<i>CABLE DISTRIBUTION CABINETS</i>																				
0,4kV Cable cabinets	15	25	85	521	31	34	1,620	2,416	544	7	38	0	10	225	11	1	894	6,477	pcs.	
<i>AERIAL LINES AND CABLES</i>																				
60kV Aerial lines				1.05			37.84	43.2											82.09	km
60kV Cables				4.64			26.32	30.32											61.28	km
20kV Aerial lines							32.04	46.87	3.54									9.58	92.03	km
20kV Cables				11.57			238.68	166.65	57.35				0.56	0.64				9.44	484.89	km
10kV Aerial lines		3.08	9.99	11.02	5.4	0.32		1.1						3.26				21.84	56.01	km
10kV Cables		0.55	21.47	45.53	6.43	17.84		100.23			1.47			40.51				84.11	318.14	km
6kV Aerial lines	2.19			6.24															8.43	km
6kV Cables	0.18			0.04															0.22	km
0,4kV Aerial lines																			0.00	km
0,4kV Cables	1.10	4.22	11.72	63.65	3.44	3.76	210.69	308.34	67.21	0.55	3.38	0.38	0.9	29.57	0.88	0.14	106.95	816.88	km	
<i>METERS</i>																				
Wireless kWh meters	63	80	281	2,584	88	129	5,551	11,123	1,647	55	179	4	42	830	54	5	2,932	25,647	pcs.	
Non-wireless kWh meters	0	0	0	9	0	0	5	23	2	0	1	0	0	2	0	0	6	48	pcs.	
<b>Total kWh meters / area</b>	<b>63</b>	<b>80</b>	<b>281</b>	<b>2,593</b>	<b>88</b>	<b>129</b>	<b>5,556</b>	<b>11,146</b>	<b>1,649</b>	<b>55</b>	<b>180</b>	<b>4</b>	<b>42</b>	<b>832</b>	<b>54</b>	<b>5</b>	<b>2,938</b>	<b>25,695</b>	<b>pcs.</b>	
Growth 2018	1	1	-1	40	1	2	41	158	6	0	0	0	0	6	0	0	12	267	pcs.	

## 16. MORTGAGES AND OTHER OBLIGATIONS

Please refer to the Efelagið SEV Consolidated Group Annual Accounts for information relative to mortgages and other liabilities

	2018	2017
	DKK	t. DKK
<b>17. ADJUSTMENTS</b>		
Result from subsidiary companies	-1,192,108	-2,112
Interest expenses and equivalent expenses	23,777,769	19,071
Unrealized interest expenses	1,516,493	4,389
Depreciation	40,915,163	34,919
Exchange rate adjustment on USD loan	0	-15,885
Tax	8,968,199	1,033
<b>Total</b>	<b>73,985,517</b>	<b>41,415</b>

## 18. SPECIFICATION OF FIXED ASSETS INCLUDED IN DISTRIBUTION GRID

Coupling stations	237,865,148	141,490
Distribution grid	375,507,377	364,955
<b>Total</b>	<b>613,372,525</b>	<b>506,444</b>



# Power grid

