

Grid Accounts 2016



Tangible plan for the green course



Annual Report and Annual Accounts 2016

Annual General Meeting 21 April 2017

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Electricity Company SEV (Elfelagið SEV) Grid Accounts 2016

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The Company

Elfelagið SEV
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FO-110 Tórshavn
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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 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 2016.

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 2016 and the result of operations for fiscal year 1 January - 31 December 2016.

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, the 31st of March 2017

Management

Hákon 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 H

Sune Jacobsen

Vinjard Tungá

Kristian Eli Zachariassen

Independent Auditor's Report

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

We have completed the audit of the Annual Accounts of Elfelagið SEV and it did not result in any qualifications or request for additional information. Please refer to page 52 in the Consolidated Group Annual Report and Accounts of Elfelagið SEV for the complete auditor's report.

Tórshavn, the 31st of 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
		t.DKK.	t.DKK.	t.DKK.	t.DKK.
Income statement					
Net Sales	421.436	417.605	411.888	386.045	354.896
Result before depreciation, amortization and impairment	90.739	125.810	70.502	19.789	-918
EBIT	56.661	91.454	40.671	-7.943	-26.860
Financial items, net	-35.106	-13.609	-8.840	-7.961	-6.944
Annual results	12.351	77.844	31.831	-15.904	-33.804
Balance sheet					
Total assets	1.295.072	999.388	789.369	609.783	597.491
Equity	449.734	432.052	352.356	320.525	336.429
Financial ratios*)					
Return on equity	2,7%	19,8%	9,5 %	-4,8 %	-9,6 %
Assets turnover	0,33	0,42	0,52	0,63	0,59
Equity/assets ratio	34,7%	43,2%	44,6 %	52,6 %	56,3 %

*) 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 2016 to 31 December 2016.

Business Activities

Upgrading and Refurbishment

The work to update the 10, 20, and 60 KV grid continues. The work was done in close cooperation with the relevant government authorities, the municipalities, the Faroese Public Works Department, and Faroese Telecom.

During 2016, the Company erected 14 new 10 and 20 KV transformer stations in different regions around the country. Moreover, it was necessary to replace some of the older transformer stations, as they have become obsolete and run-down.

Maintenance

Again in 2016, a good deal of maintenance work was carried out on the grid to ensure a stable supply of power to the customer.

Graph 1 shows how the number of faults has decreased over time. The Graph shows that the number of faults has declined from 1989 through 2016. 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 electricity system.

The 19 faults registered in 2016 are not all the type of faults that impact every customer simultaneously. Two faults were so extensive that everyone was impacted on Suđuroy.

Some faults impact only a very limited number of customers such as a cable disruption in a certain section of town, or a high voltage fuse that blows at a transformer station.

Faults in the high-tension grid in 2016

In the 2016, there were 19 faults in the high-voltage system.

Graph 2 shows what type of faults occurred and where they were located.

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, retail 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.

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.

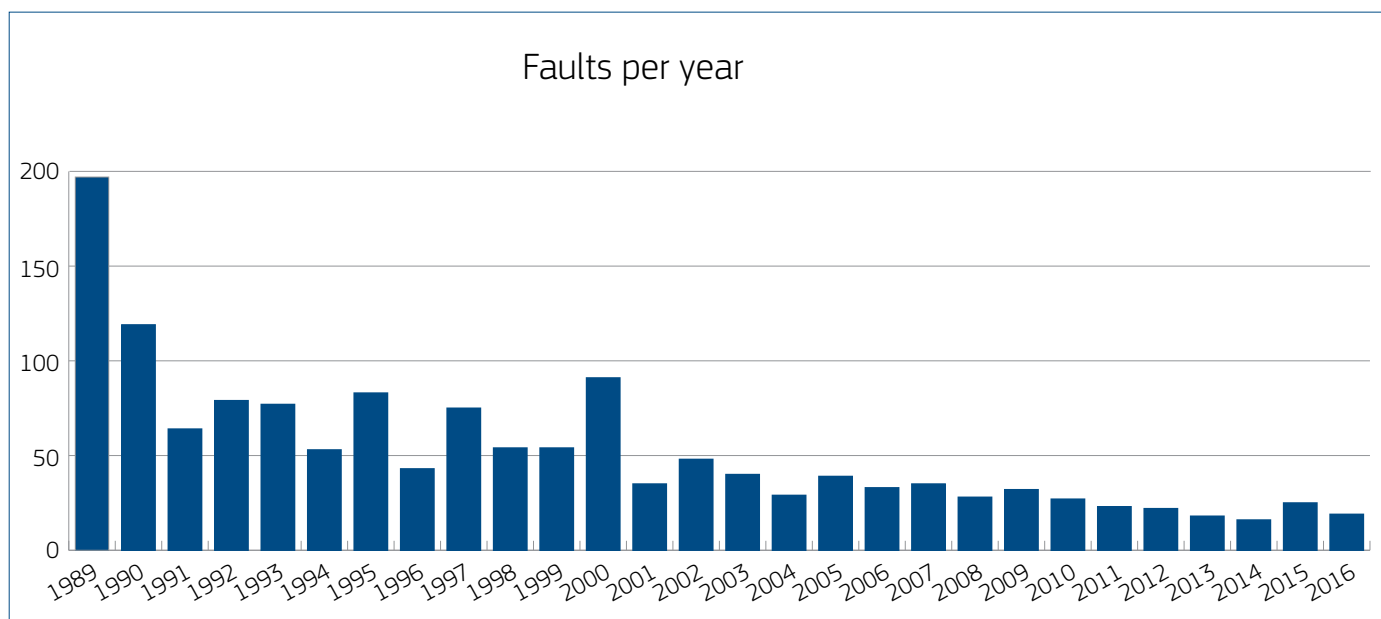
In addition, SEV increased the connection fee as of 1 January 2013 to ensure profitability within this activity area. This fee had not been indexed for many years and consequently the operational result within this area remained out of balance. With the increase, harmonization was achieved in the activity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

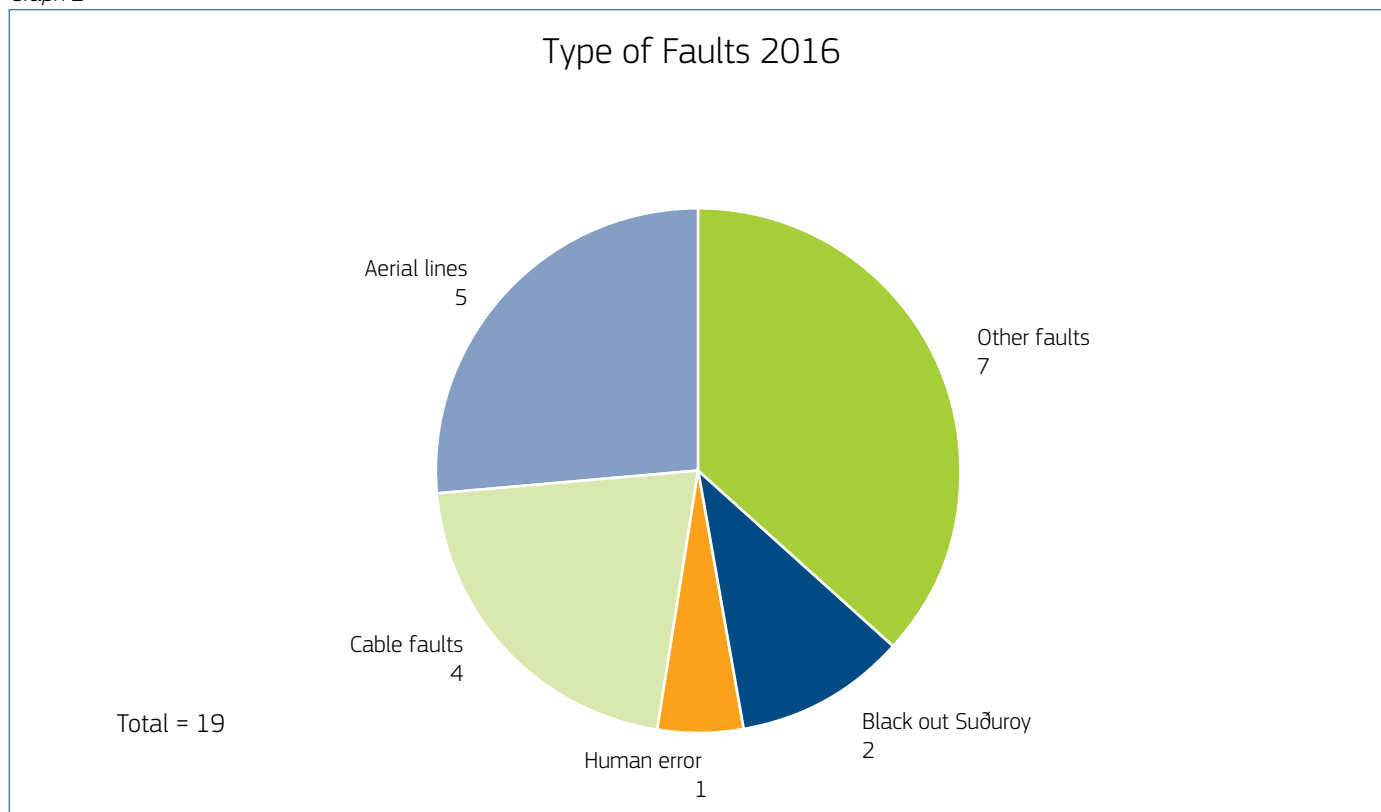
No amendments to the price schedule were undertaken in 2015 and 2016.

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 effective 1 January 2017, even

Graph 1



Graph 2



though considerable expansion lies ahead for the Company. The price reduction is effective for all customer tariff groups and is based on the exceptional financial position of the Company.

For many years in a row, revenue grew almost without exception due to increased electricity consumption. However, since 2009 through and including 2011, actual electricity usage remained essentially constant. In 2012, there was an increase of 2.6%, in 2013 the increase was 5.0%, in 2014 it was 3.4%, in 2015 growth was 1.5%, while in 2016 growth was 0.9%.

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

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 2016 was calculated to be DKK 30.5 million, compared to DKK 25.2 million in 2015, equating to around 5.0% and 4.2% 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.

Total result of the Grid Division was DKK 12.4 million, which reflects the requirement for self-financing.

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

For the Grid Department, 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 own-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 the Production and Grid accounts for 2016 reflect this expectation.

The decision regarding self-financing is based on the budgeted

investment for both Production and Grid. SEV's budget for 2017 projects investment from 2016-2020 for Production to be DKK 1,049 million, equalling some DKK 210 million annually, of which a 25% self-financing would be DKK 52 million or rounded to DKK 50 million.

For the Grid, investment is envisioned to be DKK 547 million, or DKK 109 million annually, of which self-financing would be DKK 27 million, or rounded to DKK 30 million. It is advisable that self-financing should be at such a level that it can be derived from 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 year.

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

Distribution of profit between Production and the Grid 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 Department. This is now changed so that the Grid Department is allotted an adjusted result and not the Production Department.

The operational result for the Grid Department in 2016 was a profit of DKK 12.4 million, compared to a profit in 2015 of DKK 77.8 million, which can be compared to a profit in 2014 of DKK 31.8 million, which can again be compared to a loss in 2013 of DKK 15.9 million.

The total consolidated revenue of the Company in 2016 was DKK 421.4 million, compared to DKK 422.0 million in 2015, equating to a decline of DKK 0.6 million or 0.1%. By far the largest portion of revenue was derived from electricity consumption payments which equated to DKK 392.7 million, while DKK 28.8 million was revenue derived from fixed-fee charges and other income. This is consistent with the previous year.

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 Group accounts, available at www.sev.fo.

Electricity sales are increasing for agriculture, fish farming, fishing industry, and raw materials industry, retail stores and restaurants, transport, etc., public and private services, and housing. On the other hand, a decline can be seen in production, construction, and street lighting. Financial services, insurance, and other business services remain as before.

Electricity consumption for houses and apartments, etc. for 2016 saw a small advance, compared to 2015 and 2014. Electricity consumption for private retail customers was higher from 2008 to 2013 than today. It should be noted that there was a significant decline in electricity consumption for residential homes and apartments in 2012, compared to 2011. This is one indication that the marketing campaign “brúka minni” (“Use less”) has encouraged consumers to think more about their electricity consumption. In addition, there is a distinct trend to replace old, uneconomical electrical appliances for newer, more economical appliances that use less electricity. Also, regular light bulbs are being replaced with low-power bulbs or LED bulbs, which use significantly less power than older light bulbs.

Table 2 shows the electricity consumption of private retail consumers distributed among the islands.

According to Table 2, the consumers on Koltur have the highest consumption, while consumers on Streymoy have an average consumption of 3,935 kWh. The average usage for all islands is 3,879 kWh. Small areas like Fugloy, Hestur and Mykines have rather few consumers, and many homes stand empty part of the year. This influences the average individual consumption rates for these areas.

Please refer to the various detailed financial analyses regarding sales in SEV’s consolidated Group accounts, available at www.sev.fo.

Expenses

Expenses in 2016 were DKK 318.2 million, compared to DKK 318.9 million in 2015, corresponding to a reduction of DKK 0.7 million or 0.2%. Included in this amount is a profit of DKK 30.5 million in 2016 and DKK 25.2 million in 2015 for production facilities.

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
2006	19.3	53.8	21.0	21.8	3.9	34.1	5.6	75.6	234.9
2007	22.1	54.7	21.7	23.3	4.0	35.2	6.8	77.6	245.4
2008	23.1	53.8	22.9	25.1	4.2	36.2	7.0	81.5	253.9
2009	25.8	52.0	22.6	24.4	4.5	35.6	6.7	80.5	251.9
2010	25.9	48.9	22.5	28.7	4.2	36.5	6.8	81.3	255.0
2011	26.4	44.5	22.4	31.8	4.2	36.8	7.3	81.4	254.8
2012	29.4	52.5	21.6	34.7	3.9	36.6	6.9	75.7	261.4
2013	29.2	69.3	22.7	25.1	4.0	37.7	7.4	78.9	274.4
2014	31.1	76.1	24.7	25.7	4.0	37.3	7.0	78.0	283.8
2015	36.6	76.5	23.1	24.9	3.9	37.9	7.1	78.0	288.1
2016	37.9	73.9	24.4	25.6	3.9	40.5	7.0	78.1	291.4
Change 2015 - 2016 in GWh	1,30	-2,60	1,30	0,70	0,00	2,60	-0,10	0,10	3,30
Change 2015 - 2016 in percent	3,6	-3,4	5,6	2,8	0,0	6,9	-1,4	0,1	1,1

Table 2. Private consumption per island	Total kWh per island 2016	Total kWh per island 2015	Total kWh per island 2014	Number of consumers 2016	Number of consumers 2015	Number of consumers 2014	Average consumption per consumer 2016	Average consumption per consumer 2015	Average consumption per consumer 2014
Borðoy	7.952.990	8.148.458	8.279.490	1.967	1.964	1.956	4.043	4.149	4.233
Eysturoy	17.305.600	17.334.738	17.213.038	4.182	4.170	4.153	4.138	4.157	4.145
Fugloy	36.396	37.613	39.668	13	13	12	2.800	2.893	3.306
Hestur	49.926	48.849	49.465	27	27	27	1.849	1.809	1.832
Kalsoy	188.169	189.468	189.692	80	80	80	2.352	2.368	2.371
Kunoy	247.867	228.412	215.610	64	64	63	3.873	3.569	3.422
Mykines	58.766	56.721	52.821	41	41	41	1.433	1.383	1.288
Nólsoy	402.733	395.806	378.873	132	132	132	3.051	2.999	2.870
Sandoy	2.117.425	2.100.316	2.108.428	657	657	658	3.223	3.197	3.204
Skúvoy	82.773	85.383	82.908	40	40	40	2.069	2.135	2.073
Streymoy	35.702.344	35.682.249	35.455.756	9.073	9.025	8.991	3.935	3.954	3.943
Suðuroy	7.139.616	7.122.397	7.347.353	2.152	2.157	2.145	3.318	3.302	3.425
Svínoy	43.135	41.722	78.419	22	23	23	1.961	1.814	3.410
Vágoy	5.257.579	5.283.800	5.117.696	1.313	1.309	1.301	4.004	4.037	3.934
Viðoy	913.658	908.537	901.927	216	216	214	4.230	4.206	4.215
Total	77.507.803	77.664.469	77.511.144	19.981	19.918	19.836	3.879	3.899	3.908

Expenses for goods and services and wages were DKK 63.8 million, compared to DKK 61.0 million in 2015. Hence, these expenses were DKK 2.8 million higher in 2016 than in 2015.

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 Suðuroy, 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 4.0 million and DKK 1.1 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 5.1 million. The cost to guarantee supply, etc. from the other power plants is DKK 5.6 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 15.3 million.

Employee Expenses

In 2016, total employee expenses were DKK 32.7 million, against DKK 32.3 million in 2015, including administration, corresponding to an increase of DKK 0.4 million. Employee expenses for power grid activities in 2016 were DKK 20.7 million, against DKK 21.1 million in 2015, representing an decrease of DKK 0.4 million, or 1.9% higher.

In 2016, employee expenses for administration were DKK 12.0 million, against DKK 11.2 million in 2015, corresponding to a decrease of DKK 0.8 million or 7.1%. Employee expenses for administration have remained steady over the last five years at around DKK 10.0 million annually. In 2012, employee expenses increased by some DKK 1.9 million due to an increase in the pension reserves of the Company. The same was applicable for 2013, where the pension reserves were lowered by DKK 1.9 million, while reserves grew again by DKK 1.2 million in 2014 based on a harmonization of pension reserves. In 2015, the pension reserve obligation was reduced by DKK 0.7 and in 2016 the pension reserve declined by further 0.2 million.

Harmonization of pension reserves aside, employee expenses in 2016 were DKK 12.2 million, compared to DKK 11.9 million for 2015, which is DKK 0.3 million lower 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

In 2016, total expenses for supplies and services were DKK 31.1

million, compared to DKK 28.7 million in 2015, and thus are DKK 2.4 million higher in 2016 than in 2015.

Power Grid Activities

In 2016, expenses for supplies and services related to power grid activities were DKK 12.4 million, compared to DKK 11.8 million in 2015, corresponding to an increase of DKK 0.6 million, based on consumption by SEV's operational division. Storm damage during the winters of 2012/2013 and 2013/2014 also accelerated the level of expenses for supplies and services in 2013.

Administration

Expenses for goods and services for 2016 were DKK 18.6 million, compared to DKK 16.8 million in 2015, which reflects an increase of DKK 1.8 million in 2016 over that in 2015.

Please refer to the various detailed financial analyses regarding expenses for goods and services in SEV's consolidated Group accounts, available at www.sev.fo.

Financial Expenses

Interest expense was DKK 35.1 million in 2016, compared to DKK 13.6 million in 2015, corresponding to higher financial expense of DKK 21.5 million. The increase in costs is derived from the financing of current debt, as well as expenses associated with interest rate transfer agreements. At present, the Company has a total gross debt of DKK 1,042 million at a fixed rate of interest based on loan facilities bearing a fixed rate of interest and an interest rate transfer agreement. More information regarding these expenses can be found in SEV's consolidated Group accounts, available at www.sev.fo.

Depreciation

In 2016, depreciation was DKK 34.1 million, against DKK 34.4 million in 2015, of which DKK 29.4 million derives from power grid activities and DKK 4.7 million from administration.

When the budget is being developed for the following year, estimates are made as to which investments will be concluded

Table 3. Investment in DKK million	Investment budget 2016	Adjustments to investment budget 2016	Budget after adjustments	Investment according to annual accounts 2016	Difference between annual accounts and adjusted budget
	1	2	3=1+2	4	5=3-4
Coupling stations and power grid etc.	160,7	-0,6	160,1	92,4	67,7
Administration building, tools, and IT equipment	30,4	0,4	30,8	5,4	25,4
Total	191,1	-0,2	190,9	97,8	93,1

Table 4. Total Investment	2016	2015
Investment booked to work-in-progress	86,5	98,3
Investment booked directly as transition	11,3	12,1
Investment at year-end	97,8	110,4

Table 5. Work-in-progress	2016	2015
Opening balance	92,7	88,6
Investment booked to work-in-progress	86,5	98,3
Work transferred to depreciation as transition	-99,9	-94,1
Closing balance	79,4	92,7
Changes to work-in-progress	-13,0	4,1

Table 6. Transition to fixed assets	2016	2015
Work transferred to depreciation as transition	99,9	94,1
Investment booked directly to fixed assets	11,3	12,1
Transition as at year-end	111,2	106,3

during that particular year and thus become operational and then in turn booked as assets subject to depreciation. The resultant difference between actual and estimated depreciation is a consequence of such estimates. Thus, actual depreciation, as well as actual investment, turned out to be slightly lower than budgeted.

Investment

Investment in tangible fixed assets was DKK 97.8 million in 2016, compared to DKK 110.4 million in 2015, as shown in Table 4.

Compared to the 2016 budget, this is DKK 93.1 million less than projected. In 2015, the amount was DKK 93.1 million less than budgeted. Less investment was undertaken in the coupling stations and the grid than projected, some DKK 67.7 million, and the investment in the administrative building, an unexpected

expense that arose; tools and IT equipment were DKK 25.4 million less than budgeted.

Adjustments from work-in-progress and directly booked to fixed assets (adjustments to fixed assets – depreciation basis) was DKK 111.2 million in 2016, compared to DKK 106.3 million in 2015. Also, please refer to the “work-in-progress” account and Note 7 in the annual accounts.

Please refer to the various detailed financial analyses regarding investments in SEV’s consolidated Group accounts, available at www.sev.fo.

Special risks

The risks of the Company can be divided into the different groups shown below:

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

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 was DKK 335.5 million, compared to DKK 221.9 million in 2015. In addition, the unused drawing rights provided under the line of credit with the financial institutions are available, totalling DKK 626 million.

Thus, cash-on-hand and the credit facilities equalled DKK 961.5 million in 2016, compared to DKK 490.5 million in 2015. It is deemed necessary to have sufficient liquidity to cover daily operations of the Company. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets.

The 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.

Prospects for 2017

Based on the proposed budget for 2017, the result before taxes will be a profit of approximately DKK 35.4 million. It is anticipated that the profit will be lower than before, based on the adjustments to be made stemming from the newly-adopted accounting principles governing the distribution of the profit to the Grid Division and the incorporation of the requirement for self-financing of 25%. This is a satisfactory result, even though the result going forward must 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. In addition, the Company carried out cost-benefit analyses for the different customer categories and for individual customers in an effort to systematically improve profitability within each customer group.

Originally, budget calculations were made using an average increase in the consumption of electrical power of 2.6% for 2017, compared to an actual usage increase of 1.1% in 2016. The increase derives from growth within several customer groups, each with different rates of growth. Thus, it is anticipated that there will be an increase in kWh sales.

Based on 2015 sales, and partially on sales for 2016, the budget forecasts sales in 2017 of 303.4 GWh, or DKK 390.0 million. The fixed base-rate payment will essentially remain unchanged at DKK 16.7 million. In addition, income from connection fees, etc. will be DKK 15.2 million. Thus, the budget forecasts a total combined income of DKK 421.9 million for 2017, against DKK 421.4 million in 2016. This corresponds to an increase in income for the Company of DKK 0.5 million, compared to 2016.

SEV has established two independent subsidiaries to manage the wind farms at Neshagi and Húsahagi, respectively. This means that the purchase of wind power has increased, while at the same time costs for material and wages, depreciation and interest has decreased. The result from the subsidiaries will be incorporated into the Group's annual accounts under capital assets. The total result for SEV, thus, will not be impacted.

In 2017, operational costs are expected to be DKK 75.6 million, against DKK 64.0 million in 2016, corresponding to a cost increase of DKK 11.6 million, or 18%. Depreciation is budgeted to be DKK 45.6 million, and net interest expense is expected to be DKK 18.0 million. The increased interest expense in recent years derives from increased debt to finance especially operations and, partly, capital investments.

The estimated profit in 2017 is deemed satisfactory to cover the operations of the grid along with sufficient self-financing. It is critical to have a satisfactory result, including adequate self-financing of future investment, from operations that shall be used to finance the coming investment in coupling stations, ongoing maintenance of the current grid infrastructure, as well as investment in development of the grid to accommodate more and more electricity from renewable energy resources and to distribute this electricity further to the Company's customers.

Further details on the Company's 2017 Operations, Financial and Investment Budget found on the Company's website, 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.

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.

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-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:

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

Income Statement 1 January – 31 December

	Note	2016 DKK	2015 t. DKK
Net turnover	1	421,436,317	417,605
Electricity purchased		-244,928,492	-210,125
Wind power purchased		-2,394,391	-2,402
Grid responsibility and management		-19,370,242	-18,046
Cost of oil	2	-220,545	-251
Supplies and services	3	-31,061,411	-28,655
Gross earnings		123,461,236	158,126
Wages	4	-32,722,351	-32,316
Result before depreciation and amortisation		90,738,885	125,810
Depreciation and amortisation of fixed assets		-34,077,718	-34,356
Result before financials		56,661,167	91,454
Financial expenses	5	-35,106,443	-13,609
Result before tax		21,554,724	77,844
Tax on annual result	6	-9,204,020	0
Annual result		12,350,704	77,844
Proposed distribution of results:			
Result brought forward		427,914,516	348,217
Result for the year		12,350,704	77,844
Adjustment to prior years		0	1,853
Available		440,265,220	427,915
Proposed distribution:			
Results carried forward		440,265,220	427,195
Total		440,265,220	427,195

Balance Sheet 31 December

ASSETS	Note	31.12.16 DKK	31.12.15 t. DKK
Distribution grid	7, 18	501,646,056	425,251
Buidlings and land	7	34,993,471	36,302
Operating equipment	7	36,252,923	34,246
Investment work-in-progress	7	79,362,790	92,696
Total tangible fixed assets		652,255,240	588,496
Investment in Associated and Subsidiary Companies	8	32,813,385	2,850
Loans to subsidiary companies	9	103,175,000	0
Derivatives	10	50,657,737	0
Total financial assets		186,646,122	2,850
Total fixed assets		838,901,362	591,346
Inventory		20,307,082	15,293
Total inventory		20,307,082	15,293
Goods and services debtors	11	93,663,049	77,534
Inter-company account		0	88,940
Other debtors		0	0
Prepayments		6,701,774	4,387
Total receivables		100,364,823	170,861
Cash-on-hand		335,498,325	221,889
Total current assets		456,170,230	408,043
Total assets		1,295,071,592	999,389

Balance Sheet 31 December

LIABILITIES	Note	31.12.16 DKK	31.12.15 t. DKK
Deposits	12	4,139,875	4,140
Results carried forward	12	445,594,154	418,899
TOTAL EQUITY		449,734,029	423,039
			0
Provisions for pensions and equivalent liabilities		18,450,559	18,845
Other provisions		10,373,786	0
Total provisions		28,824,345	18,845
			0
Bank debt	13	683,175,000	480,324
Total long-term debt		683,175,000	480,324
			0
Current portion of long-term debt	13	923,132	0
Bank debt		28,342	1,589
Prepayment received from customers		5,216,696	19,481
Trade creditors		34,718,640	32,111
Inter-company account		42,989,610	0
Derivatives	10	33,997,611	9,005
Other creditors		15,464,187	14,985
Total short-term debt		133,338,218	77,171
			0
Total debt		816,513,218	557,495
Total liabilities		1,295,071,592	999,389
Grid result by area	14		
Grid overview	15		
Mortgages and other liabilities	16		

Cash Flow Statement

	Note	2016 DKK	2015 t. DKK
Annual result		12,350,704	77,844
Adjustments	17	78,388,181	47,966
Changes in working capital:			
Inventory		-5,014,066	11,438
Receivables		-67,039,626	-10,533
Trade creditors		2,607,906	-18,981
Inter-company accounts – Production		131,929,383	-41,838
Other operating debt		27,931,150	-4,561
Derivatives		-3,676,267	0
Operations cash flow before financials		177,477,366	61,336
Interest expense paid and equivalent expenses		-36,110,110	-13,609
Adjustment to prior years		0	-306
Cash flow from operations		141,367,256	47,421
Purchase of tangible fixed assets		-111,170,899	-106,286
Changes to work-in-progress		13,333,563	-4,112
Changes to financial fixed assets		-28,959,719	0
Cash flow from investment		-126,797,055	-110,397
Net loan facilities		580,000,000	158,020
Interest accrual		923,132	0
Repayments of long-term debt		-480,323,506	-4,631
Increased draw on credit facility		-1,560,777	17
Cash flow from financing		99,038,848	153,406
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

Notes

1. NET TURNOVER	2016 DKK	2015 t. DKK
kWh charges etc.	392,683,622	385,050
Fixed charges	16,586,426	16,428
Connection fees	8,045,048	16,175
Other charges, past due charges and other sales	4,121,220	-48
Total	421,436,316	417,605

2. COST OF OIL	2016 DKK	2015 t. DKK
Gas oil	220,545	251
Total	220,545	251

3. SUPPLIES AND SERVICES	2016 DKK	2015 t. DKK
Aerial lines	3,810,110	3,611
Dam, pipelines and tunnels	0	1
Tanks and environment	4,142	0
Motors	0	51
Electric and technical	246,386	94
Buildings and land	1,326,643	1,487
Annual Meeting and Board	293,231	157
Studies and consultancy	4,204,591	5,347
IT	3,646,764	3,921
Loss on receivables	-144,006	-340
Management and office expenses	2,383,382	2,120
Other operating expenses	357,902	531
Other administrative expenses	14,932,266	11,676
Total	31,061,411	28,655

4. EMPLOYEE EXPENSES	2016 DKK	2015 t. DKK
Wages	26,662,714	26,864
Pensions	4,517,783	4,181
Additional burden	1,541,855	1,271
Total	32,722,351	32,316

Employees with SEV as main source of personal income	82	80
Average number of employees	99	98

5. FINANCIAL EXPENSES	2016 DKK	2015 t, DKK
Interest income	-19,828	-204
Result from subsidiary companies	-1,063,385	0
Adjustment financial fixed assets	59,719	0
Interest, loans and bank loans etc,	24,571,956	11,679
Market value adjustments	-2,313,222	2,134
Unrealised interest gains/losses	13,871,205	0
Total	35,106,443	13,609

6. TAXES ON ANNUAL RESULT

Corporate tax	0	0
Adjustment of deferred tax	9,204,020	0
Tilsamans	9,204,020	0

7. TANGIBLE FIXED ASSETS

Amount in DKK	Distribution grid	Buildings	Equipment	Total 2016	2015
Acquisition value, opening balance	870,179,631	67,332,291	166,022,514	1,103,534,436	997,248,834
Net annual addition	100,720,753	-291,149	10,741,295	111,170,898	106,285,602
Acquisition value year-end	970,900,384	67,041,142	176,763,808	1,214,705,334	1,103,534,436
Depreciation, amortization and impairment, opening balance	-444,928,139	-31,030,307	-131,776,720	-607,735,166	-573,378,771
Depreciation, amortization and impairment during the year	-24,326,189	-1,017,364	-8,734,165	-34,077,718	-34,356,396
Depreciation, amortization and impairment, closing balance	-469,254,328	-32,047,671	-140,510,885	-641,812,884	-607,735,166
Carrying amount year-end	501,646,056	34,993,471	36,252,923	572,892,450	495,799,269
<i>Carrying amount year-end 2015</i>	<i>425,251,492</i>	<i>36,301,984</i>	<i>34,245,794</i>	<i>495,799,269</i>	
Work-in-progress opening balance	86,688,234	1,459,383	4,548,735	92,696,352	88,584,840
Investment booked to work-in-progress	79,345,622	2,902,489	4,283,911	86,532,023	98,259,760
Completed work transferred to depreciation	-96,006,108	0	-3,859,478	-99,865,585	-94,148,248
Closing balance	70,027,749	4,361,872	4,973,168	79,362,790	92,696,352
<i>Balance at year-end 2015</i>	<i>86,688,234</i>	<i>1,459,383</i>	<i>4,548,735</i>	<i>92,696,352</i>	
Fixed assets at year-end	571,673,804	39,355,344	41,226,092	652,255,240	588,495,622
<i>Fixed assets at year-end 2015</i>	<i>511,939,726</i>	<i>37,761,368</i>	<i>38,794,529</i>	<i>588,495,622</i>	

	31.12.16	31.12.15
8. INVESTMENTS IN ASSOCIATED AND SUBSIDIARY COMPANIES	DKK	t DKK
Acquisition value opening balance	2,750,000	2,850
Addition equity P/F Vindfelagið í Húshaga	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 Húshaga, 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 Fjarhitafelagið for the year 2016 is not available. The numbers shown are from 2015.

	Duration	Loan amount	Balance 31.12.16	Repayments next year	Balance in 5 years
9. LOANS TO SUBSIDIARY COMPANIES					
P/F Vindfelagið í Húshaga	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

	Assets 31.12.16	Liabilities 31.12.16	Total 31.12.16
10. DERIVATIVES			
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

	31.12.16	31.12.15
11. GOODS AND SERVICE DEBTORS	DKK	tDKK
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

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	348,216,584	352,356,459
Adjustment to derivatives	0	-9,005,200	0	0	-9,005,200
Adjustment to prior years	0	0	0	1,853,446	1,843,446
Annual result	0	0	0	77,844,487	77,844,487
Balance 31.12.15	4,139,875	-9,005,200	0	427,914,517	423,039,192

Equity statement 01.01.16 - 31.12.16

Balance 01.01.16	4,139,875	-9,005,200	0	427,914,517	423,039,192
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	12,350,704	12,350,704
Balance 31.12.16	4,139,875	5,328,933	1,063,385	439,201,836	449,724,029

13. DEBT

	Repayment in the first year DKK	Outstanding debt after 5 years DKK	Total debt 31 Dec. 2016 DKK	Total debt 31 Dec. 2015 tDKK
Debt to financial institutions	0	683,175,000	683,175,000	480,324
Total	0	683,175,000	683,175,000	480,324

During the year, the Company took out loans totaling DKK 212.1 million. Long-term debt was refinanced in December 2016 via the USPP market through which bonds for a total of DKK 1,042,116 were sold. There is no repayment for the first year and the current loan agreement is due and payable on average in 9.3 years.

14. GRID RESULTS BY AREA

	Revenues	Oil	Supplies	Wages	Depreciation	Interest	Taxes	Total
Coupling stations			-855,437	-622,100	-5,021,670			-6,499,207
Distribution grid	-1,643,635	-196,074	-7,695,429	-11,416,059	-20,650,951			-41,602,148
Installations	8,418,298		-2,354,928	-4,588,559	-2,555,473			-1,080,661
Engineering			-1,028,420	-2,615,514	-743,936			-4,387,870
Technical	80,000		-504,392	-1,471,361	-453,990			-2,349,743
Grid without administration	6,854,663	-196,074	-12,438,606	-20,713,593	-29,426,020	-	-	-55,919,630
Administration	147,888,529	-24,471	-18,622,805	-12,008,758	-4,651,697	-35,106,443	-9,204,020	68,270,334
Grid results	154,743,192	-220,545	-31,061,411	-32,722,351	-34,077,718	-35,106,443	-9,204,020	12,350,704

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	8	33	4	8		75			1			17				64	211	pcs
20kV Transformer substations				2			123	93	32				1						251	pcs
60kV Transformer substations				1			3	5											9	pcs
Total per area	1	1	8	37	4	8	126	173	32		1		1	17			64	473	pcs	
<i>TRANSFORMERS</i>																				
6kV Transformers	2			2															4	pcs
10kV Transformers		1	12	41	4	8		89			1			18				84	258	pcs
20kV Transformers				4			156	120	41				1	3				4	329	pcs
60kV Transformers				1			6	15											22	pcs
Total per area	2	1	12	48	4	8	162	224	41		1		1	21			88	613	pcs	
<i>CABLE DISTRIBUTION CABINETS</i>																				
0.4kV Cable cabinets	14	25	85	515	31	34	1,605	2,362	527	7	38		10	223	11	1	889	6,377	pcs	
<i>AERIAL LINES AND CABLES</i>																				
60kV Aerial lines				1.05			37.98	43.20											82.23	km
60kV Cables				0.09			20.87	23.62											44.58	km
20kV Aerial lines							35.67	48.37	9.27									9.58	102.89	km
20kV Cables				11.46			211.90	164.55	41.62				0.56	0.64				6.34	437.07	km
10kV Aerial lines		3.23	9.51	11.37	5.42	0.43		1.10						4.45				29.44	64.95	km
10kV Cables		0.55	21.30	31.64	6.43	17.79		88.68			1.47			36.06				75.39	279.31	km
6kV Aerial lines	2.19			6.24															8.43	km
6kV Cables	0.17			0.02															0.19	km
0.4kV Aerial lines								0.00											0.00	km
0.4kV Cables	1.10	4.22	11.71	63.42	3.44	3.76	206.55	299.45	60.84	0.55	3.38	0.38	0.90	29.14	0.88	0.14	106.38	796.24	km	
<i>METERS</i>																				
Wireless kWh meters	61	79	279	2,529	87	126	5,449	10,849	1,616	54	180	4	42	822	54	4	2,909	25,144	pcs	
Non-wireless kWh meters	0	0	2	15	0	0	14	48	6	0	0	0	0	3	0	1	15	104	pcs	
Total kWh meters / area	61	79	281	2,544	87	126	5,463	10,897	1,622	54	180	4	42	825	54	5	2,924	25,248	pcs	
Growth 2016	1	0	3	12	0	0	43	87	5	0	0	0	0	1	0	1	20	173	pcs	

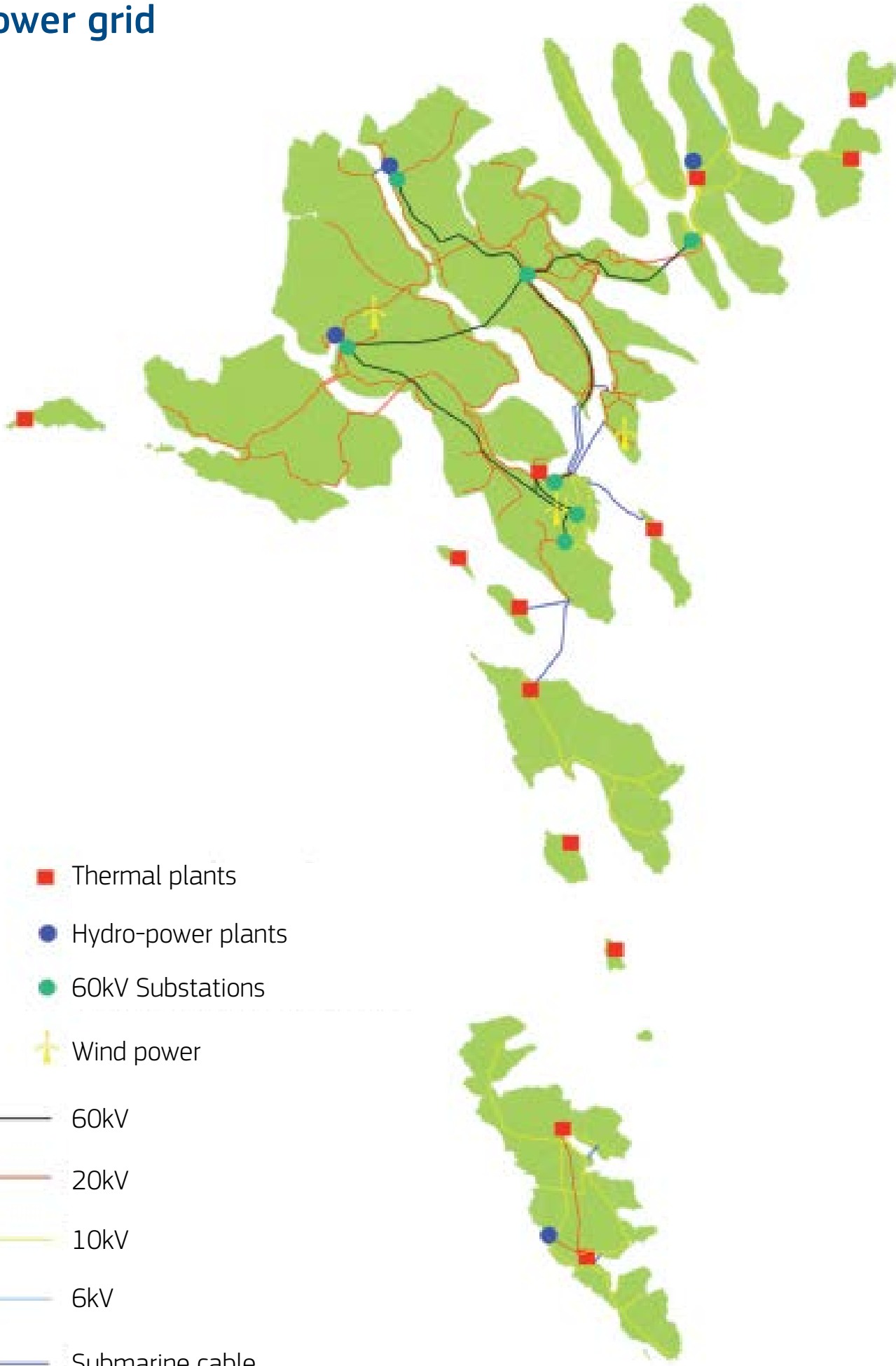
16. MORTGAGES AND OTHER OBLIGATIONS

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

	2016	2015
	DKK	t. DKK
17. ADJUSTMENTS		
Result from subsidiary companies	-1,063,385	0
Interest income and equivalent income	-19,828	-204
Adjustment financial fixed assets	59,719	0
Interest expenses and equivalent expenses	22,258,733	13,813
Unrealized interest expenses	13,871,205	0
Depreciation	34,077,718	34,356
Tax	9,204,020	0
Total	78,388,181	47,966

18. SPECIFICATION OF FIXED ASSETS INCLUDED IN DISTRIBUTION GRID	2016 DKK	2015 t. DKK
Coupling stations	138,916,384	104,061
Distribution grid	362,729,672	321,458
Total	501,646,056	425,519

Power grid



■ Thermal plants

● Hydro-power plants

● 60kV Substations

✚ Wind power

— 60kV

— 20kV

— 10kV

— 6kV

— Submarine cable

