



Annual Report and annual accounts 2010



Annual report and annual accounts 2010

Annual General Meeting 29 April 2011

Editor: Leivur Hansen, Public Relations Manager

Photos: SEV and others

Cover photo: 74-year-old Eivin Dam, retired lines man, was given the honour to cut down the last plug line in Tórshavn on 14 July. This is part of SEV's intentional effort to replace all overhead lines with underground cables.

Layout, design and printing: Føroyaprent

Contents

Report from the Board of Directors	2	Annual report	
The past year	5	and annual accounts 2010	33
What is sustainable energy?	6	Board statement	34
SEV and electric cars	7	Independent auditor's report	35
Drilling to Selatræð has commenced	8	Principal figures	36
The Third turbine to be set up next fall	9	Key figures	37
7,300 remote read meters are now in the Faroes	9	Annual report	38
SEV is the most affordable wind energy provider	10	Applied accounting principles	40
The Sund Plant is a trail blazer	11	Income Statement	42
SEV prioritises health, safety and the environment	12	Cash flow statement	43
Special guests at SEV	15	Balance sheet as per 31 December	
The low-voltage overhead power lines soon history	17	- ASSET	44
The Climate influences electricity production in 2010	18	Balance sheet as per 31 December	
27 faults on the high-voltage grid in 2010	19	- LIABILITIES	45
Fertilisation caused a short-cut	19	Equity report	46
Students from Vestmanna and Oyrabakki are best	20	Notes to the annual report	47
The Grana project garners international interest	21		
SEV's mission, vision and values statement	23		
Structure and Management	26		
Distribution grid	27		
Engine overview per 31/12 2010	28		
SEV investments, 1998-2010	28		
Oil consumption in tonnes, 1988-2010	29		
Maximum demand and power capacity			
- central region, 1954-2010	29		
Electricity generation for the entire country			
- power plant regions, 2010	30		
Electricity generation in Suðuroy, 1940-2009	30		
Electricity generation per capita, 1970-2010	31		
Electricity generation for the entire country, 1954-2010	31		
Daily Load, Central Region, 7 October 2010	32		
12 month generation for the whole country, 1985-2010	32		

Report from the Board of Directors

"You cannot escape the responsibility of tomorrow by evading it today." (Abraham Lincoln)

Last year the Faroese parliament passed the Faroese climate policy. The policy's unambiguous goal is to follow international agreements on reducing the emission of greenhouse gases with 20 % by 2020. The prime minister has recently confirmed the government's commitment to the policy.

For SEV, considering record high oil prices, this goal is more pressing today than ever before. At the same time, the challenges for the company have never been as daunting as now – in addition to the need for major new investments, the cost of operations has sky-rocketed.

As a direct consequence of the climate policy, SEV must commence on several major projects that are financially very demanding.

The company's finances

The largest expense by far has been the acquisition of oil. In 2010 the company spent approximately DKK 50 million more on oil than the previous year, from DKK 75 million to DKK 125 million. In the budget for 2011, which was adopted at an extraordinary general meeting on 21 December 2010, DKK 117 million were budgeted for the purchase of oil. However, considering the current price for oil, an additional DKK 30 million will be needed for 2011. This amounts to just under half of the budget for wages.

The fluctuation in the price of oil is difficult to predict and it disrupts the financial management of the company. Also, in the long term, it has serious implications for SEV's financial standings as the price of oil is set to increase steadily.

In order to curb expenditure, the board has decided to make cuts in the current budget amounting to DKK 5 million. This is not desirable but necessary, considering the board's responsibility for the company's financial standing. We are currently also trying to make cuts in investments. Depending on how the

situation develops, even more drastic measures might have to be taken.

One thing is certain, though, the current price for electricity must be raised, if the price of oil remains high and increases. It is simply impossible to continue to cut the cost of operations to offset the drastic increases in the oil market. We deem it our responsibility toward you, owners of the company, to note that if this situation continues, the company's cash-on-hand will be depleted, no matter how many cuts are made in the budget.

In addition, the board believes it is crucial for the company's financial stability that the credit burden of loans does not become too demanding in relation to the daily operations of the company. The goal of the company is to keep operational costs as low as possible without compromising safety.

On the other hand, we are grateful for help from above – seldom have wind and water supported operations as they have so far this year.

SEV has also begun a benchmarking process, in which the company is assessed in relation to other comparable companies. As was the case with the external safety examination, the benchmarking will be used as a tool to better examine the company's internal operations and to compare ourselves with others. An external foreign expert conducts the benchmarking, and we expect to receive the results in 4 months.

Development plans

The board has, since it was formed two years ago, attempted to map the possibilities for further development in renewable energy. Our goal is to present a revised development plan to the company's owners later this spring, in which focus will be set on several energy options.

After the extraordinary general meeting last December, the board and management were asked to make a long-term investment plan for the

company. This has been the topic of two meetings so far, and the board has informed the municipalities that this process will continue at another meeting in May.

The board regrets the division that emerged in the organisation over the proposed increase in electricity rates, and it is hoped that owners and board will rediscover their good working relationship in managing the company. Our common task is unquestionably daunting and the hands to complete it are not too many. It must also be recognised that the company's financial state would have been very critical, if the electricity rates were not raised.

Considering SEV's electricity supply guarantee, experience shows that the thermal and hydroelectric power plants are foundational, and we expect this to be the case for years to come. The basic engines at the Sund and Vágur Plant are worn down and ought to be replaced within 3 to 4 years. During the coming years, this is an unavoidable investment.

At the same time, however, we must lessen our oil usage as much as possible by reducing it and making it more efficient, and by developing renewable energy solutions. This will secure energy for our society in the future, and, at the same time, we, as a society, take international responsibility in reducing greenhouse gases.

We are privileged with the responsibility to protect and manage natural resources that are the common property of all. We must complete this task as well as possible in order to minimise the effect on our renewable resources.

The board believes SEV is a great asset in our society as an organisation based on solidarity, in which every citizen is guaranteed the same electricity rate regardless where they live or how much they use. In this way, we guarantee that all citizens get an equal share in our common resources.

This sentiment may seem a lone voice in today's world but we are committed to it.



SEV's Board of Directors. Back row, from the left: Pauli T. Petersen, Marin Katrína Frýdal and Niels Olaf Eyvindsson. Front row, from the left: Kári E. Jacobsen, Jákup Suni Lauritsen, Vice-Chairman, Páll á Reynatúgvu, Chairman, and Steinbjørn O. Jacobsen.

If the national authority chooses to change the current structure for energy production, it will be necessary to ensure that Faroese energy resources do not end in foreign hands. One of the purposes of becoming independent of fossil fuels is to gain control over our energy production and in this way safeguard a secure and sustainable foundation for our society. In this way, we make our contribution to guarantee that our society is supplied with energy and will be competitive in years to come.

SEV, together with Sendistovan (a marketing company), has begun an initiative to make the Faroese more aware of their electricity consumption. The aim is that the Faroese family and Faroese industry will prioritise energy saving solutions.

If we are able to reduce the consumption of electric energy, we also lessen the pressure on the development of new large projects, and, in addition, we reduce emissions of greenhouse gases.

The Ministry of Trade and Industry, which is responsible for electricity, has formed a working group to make a comprehensive plan for the electricity sector in the Faroes. The plan is to be presented this autumn. We at SEV welcome this initiative. The company has already met with the group several times, and we hope this comprehensive plan can become a guide for how every future development in the electricity sector may proceed in the coming years.

The board is of the opinion that at

the same time as renewable energy solutions must be exploited, it is crucial that new energy initiatives have as low an impact as possible on the diverse and fragile natural resources that are the country's common property.

During the last many years, the primary development in the energy sector has been in hydroelectric power. The drilling southward toward Selatræð is proceeding well. According to plans, this development will be put into operations in early 2013. At the same time, the Eiði Plant is being expanded to house a third turbine.

Research has been conducted in a possible hydroelectric power project at Víkarvatn in the north of Streymoy.

SEV will in 2011 also analyse and research other possible renewable energies, particularly a windmill system with a charging station in Hoyvíkshagi. SEV has also been in contact with Røkt about possible co-operation in developing a pumping system in Vestmanna.

The first tenders, which the Electric Authority of the Faroe Islands invited for setting up a 3 MW wind energy system, were announced in February. SEV had the lowest bids, but, as of now, the authority has not yet decided who will win the tender.

As for tidal energy, SEV has supported a project conducted by Knud Simonson, lecturer at the University of the Faroe Islands, which purpose is to map possible sites for utilising tidal energy in the Faroes. The preliminary results are very promising. SEV continues to monitor the technological progress in this field.

SEV's research into pump systems was completed last year. The conclusion, taking certain conditions into consideration, was that other options seem financially more feasible, such as the proposed windmill park and charging station in Hoyvíkshagi, which SEV hopes to develop as soon as possible.

However, we also deem it right to consider all aspects of a possible pump system, and therefore we have supported the workshop "Energilagring í vand" (Energy storage in water), held in the Nordic House on 28-29 September 2010.

The Grana co-operation with Dong Energy continues. At the moment, work is progressing along 4 paths: weather forecasts, windmill technology, control rooms and electric cars. This is high-level development, where we jointly search for future solutions for managing production and consumption units in order to increase the proportion of electricity production from renewable energies as much as possible.

We deeply regret that the wave plant ALDA, which our subsidiary company SeWave pioneered, has been closed down. The national authorities chose not to support the project and with that the EU support was withdrawn. The company is now in the process of being shut down. An opportunity for a Faroese breakthrough in the energy sector has been lost.

P/F Fjarhitafelagið, of which SEV owns 50 %, has plans to construct a reserve station in Hoyvík. The plan has met opposition. The Environmental Agency is currently examining and re-evaluating the construction permit they issued. Tórshavn Municipality, the construction authority and the Environmental Agency are currently discussing the issue.

Visits and co-operation

The American ambassador to Denmark, Laurie Fulton, visited SEV last spring.

Prince Henrik of Denmark also visited SEV's Mýru Plant last summer. Jørgen Niclasen, who was vice-prime minister at the time, accompanied him. A presentation was given on the company and SEV's role in meeting the goals set out in the country's climate policy.

The board organised a co-operative workshop last fall in Vestmanna on pump systems. In addition to the company's board and management, and Johan Dahl, minister of trade and industry, representatives from Sp/f Røkt, the Electric Authority, Jarðfeingi (the Faroese earth and energy directorate) and the Ministry of Trade and Industry participated.

Last summer SEV met with Sunda municipality about developments in hydroelectric power, including the Eiði 2 South project and a possible Víkavatr project.

Some owners have enquired into issues relating to companies, in which SEV is a part owner. They were referred to the report written by the company's lawyer, which was presented at a meeting of the board of representatives on 30 April 2008.

An agreement of co-operation has been made with Landsverk, the authority responsible for roads in the Faroes, on procedures for laying cables under country roads. The agreement includes both procedures for how this work is to be co-ordinated and the conditions for how various tasks are to be executed.

The Ministry of Trade and Industry has decided to update the legal framework for the high-voltage grid and for licensing electricians. Among the changes will be a shift in responsibilities; in the future, the Electricity Board, which is directly answerable to the minister, will be responsible for the whole area. SEV, together with the Electricity Board, has played an active and constructive role in this process. It is of great importance that the supervisory control in the current system is safeguarded and maintained.

The Ministry of Trade and Industry is currently overseeing conditions and procedures for buying and selling in

the public sector. As a member of the association of Faroese contractors, SEV has been an active participant in a work group involved in this process. This work group consults on constructions and plant systems.

The board has discussed the tendering of both concrete and consultative projects at SEV in order to ensure competition in every area possible.

Employees

On 6 June 2010 Kári Nielsen from Vestmanna had worked as a watch man at SEV's Fossá Plant for 50 years. For this achievement, he received a silver service medal from Her Majesty Queen Margretha of Denmark. The medal was handed to him at SEV's headquarters in Tórshavn.

SEV has worked on drafting a mission, vision and values statement for the company. Together with external consultants, the board, management and employees have all made their contributions to the statement. This has now been completed and has been published in a pamphlet, which discusses the statement and describes SEV as a workplace.

SEV is at the moment inviting applications for a new Administrative Director because John P. Danielsen, who has held the position for 25 years, has decided to move on per 1 July. The board wishes to thank him for his faithful and solid service.

Production and operation

The larger of the two turbines at the Fossá Plant had an engine failure in January 2010. This resulted in diminished production for 3 months and the repair cost was DKK 4 million. The pipes and turbines at the Fossá Plant were sandblasted last summer. The turbines have been overhauled as well. The total cost is about DKK 13 million.

SEV regrets the accident in Vágur on 14 May of last year when there was a spill in the day tank system. Approximately 15 m³ of gas oil spilled into the ocean. The incident was reported and the fire department in Vágur co-ordinated the cleaning operation. All the oil spilled was

recovered. The total cost for the operation was about DKK 300,000. A detailed incident report has been submitted and many corrective measures have been taken. On the occasion of the accident, the board granted DKK 1 million to corrective measures and research, including commissioning an external report on the company's safety measures.

The board is very unsatisfied with the repeated oil spills and has ordered the management to place a larger emphasis on preventative measures.

The environmental management system at the Sund Plant has been approved according to the ISO 14001 conditions. This is the first certification of this kind in the Faroes.

A variety of maintenance work has been made in the area surrounding the Mýru Plant in Vestmanna and the Botnur Plant in Suðuroy.

Disruptions in the electricity supply are not completely avoidable, and this leads at times to a black-out, i.e. the whole supply system shuts down. This happened on 5 November in the main region. The company does not think this is acceptable for a modern electricity provider as SEV.

At a crossroad

As an organisation, we are at a crossroad, where we experience strong head winds. Historically high and increasing oil prices are having a global impact. This, combined with the given demand for high production and very limited financial resources, places the company in a very challenging situation. However, we, as the Board of Managers, stand by our responsibility and do everything in our power to help SEV and our society to progress. But without the joint effort of the owners, this is impossible.

Perhaps it is when the pressure peaks that historical changes are made – into a new day with a new order.

Tomorrow belongs to those who are preparing today, says an African proverb.

*Páll á Reynatúgvu, Chairman
April 2011*

The past year





The UN head quarters in New York

What is **sustainable energy?**

People employ many different ideas in their daily communication; however, they may mean vastly different things by the terms they use. In other words, a message is not always sent on the same wavelength as it is received in.

This characterises at times the public discussion on energy. It is difficult to discern why this is so, but when notions as sustainable, carbon dioxide free and renewable energy are used, it is often frustratingly difficult to discern exactly what is meant by them.

We at SEV have been asked to define what we mean when using the concept “sustainable energy.” This made us realise that if the many interest groups in the energy sector use their own distinct or modified definition of the concept, then all communication is soon reduced to confusion. Then, the likelihood that we will understand each other’s arguments diminishes drastically.

Therefore, we want to point out that a common definition has been drafted for this notion.

In Bonn on 26 January 2009, the UN drafted and adopted a statute for the International Renewable Energy Agency (IRENA).

In this statute, the UN affirms its desire “to promote the widespread and increased adoption and use of renewable energy with a view to sustainable development.”

The objectives are stated in article 2. It notes that account must be taken of how renewable energy contributes to 1) “environmental preservation, through limiting pressure on natural resources and reducing deforestation, particularly tropical deforestation, desertification and biodiversity loss,” and to 2) climate protection and so on.

In article 3 the concept is defined thus: “In this Statute the term ‘renewable energy’ means all forms of energy produced from renewable

sources in a sustainable manner, which include, inter alia:

1. Bioenergy;
2. Geothermal energy;
3. Hydropower;
4. Ocean energy, including inter alia tidal, wave and ocean thermal energy;
5. Solar energy; and
6. Wind energy.”

The above Statute is promulgated in the Faroes by executive order on 7 July 2010 (Kunngerðarblað B, 2010, Vol. 20).

We at SEV have adopted this definition, and hope the above discussion may be a contribution to all parties working within the energy sector.



SEV and electric cars

One of the major challenges SEV faces is preparing for the coming need to provide green energy for electric cars.

This is part of the Grana co-operation between SEV and Dong Energy, which purpose is to increase the proportion of green energy in the electricity grid in the Faroes.

2010 was the year when electric cars made their appearance on the Faroese radar screen. Early in the year, the electric cars group at SEV organised test drives throughout the country. Modified electric cars were borrowed from Denmark, and city council members, business people and private citizens got the opportunity to try them.

NAHA (the North Atlantic Hydrogen Association), having received a grant from NORA (a Nordic Council organisation), has commenced an international research project in Iceland, Greenland and the Faroe Islands, which goal is to gain as much information as possible on how electric cars fare in this region. SEV is a member of NAHA.

The project commenced in Iceland last summer and will continue in the Faroes and Greenland in 2011. On completion of the project, a joint report will be written and submitted to the Nordic Council.

SEV has acquired an electric car, a Mitsubishi iMiEV. This and an identical

car from Iceland will be part of the NAHA event in the Faroes. Other interested parties may test drive the car by contacting SEV.

Mitsubishi iMiEV is an electric car in general production. It has 67 horse powers and a 16 kWh lithium-ion battery. The car can drive up to 150 km on one charge. Acceleration from 0-100 km/h takes 15,9 seconds and the maximum speed is 130 km/h. The charge time, using a normal 220-v outlet, is 8 hours. Using a fast charger, the car can be charged 80 % in 30 minutes. The car weighs 1060 kg and has room for 4 people. Ivan Bilar is the Faroese dealership for the car.



Torben V. Johansen, project manager, hopes and expects the tunnel will be handed to SEV earlier than planned. According to the contract, the 8.4 km tunnel is to be completed by early March 2013.

Drilling to Selatræð has commenced

The Eiði 2 South project, an 8.4 km long water catchment tunnel between Norðskála and Selatræð, was commenced on 9 September 2010.

The tunnel will provide more water for the Eiði Plant and is a part of SEV's effort to provide more renewable energy.

This is also the company's major expansion project at the moment.

Completion by 2013

The Eiði 2 South consortium, consisting of two construction companies, MT Højgaard and J&K Petersen, are the operators of the project, which is to be completed by March 2013.

24 people work on-site in two shifts, six days a week. In average, 30 meters are drilled a day, although they have managed to drill up to 60 meters some days.

An addition 17 million kWh

The new catchment tunnel will provide 17 million kWh to Eiði Plant, which currently has a capacity of 40 million kWh.

The total cost for the water catchment tunnel, stream intake,

expansion of the Eiði Plant and a third turbine is estimated to approximately DKK 230 million. This includes Eiði 2 North.



Feed pipe for the third turbine.





SEV's newly renovated 25-year-old Robbins TBM tunnel boring machine is again put to work in Skálagjógv, above Norðskála. It was also the trusted workhorse when the other water catchment tunnels in the area were drilled.



The Third turbine

to be set up next fall

The Eiði Plant has currently two turbines but a third is on the way.

In connection with the Eiði 2 South project, the Eiði Plant is being expanded by 12 meters in a northerly direction in order to house another turbine.

The construction company MT Højgaard began constructing the expansion in August/September and expects to complete the building by next fall.

As the other two, the new turbine is purchased from Voith.

It is a 7.7 MW turbine, the other two being 6.7 MW each.

The turbine is expected to arrive in August 2011 and should be put into operation in January 2012.



The Eiði Plant is being expanded to house a third turbine.



7,300 remote

read meters are now in the Faroes

7,359 – the number of remote read meters installed in the country according to the newest statement from SEV's Installations Department.

In total, there are about 2,400 electricity meters in the Faroes. This means that almost a third of the meters are now read by SEV's remote reading system.

A ten year project

The effort to replace the old meters with the new and more advanced meters began in 2006 and SEV's plan

is that all meters will be read remotely by 2016.

Those who have received remote meters are able to see their electricity usage and its cost on SEV's homepage.

The individual customer receives a password, which gives access to his or her account on the homepage. In this way, customers can monitor their own electricity usage.



SEV is the most affordable wind energy provider



Representatives from SEV, Effo, Navia and Røkt wait expectantly for the announcement of tenders.



The meeting is over and participants are about to leave – some happier than others.

SEV can provide the most affordable wind energy in the Faroes.

This was evident when the tenders for producing wind energy in Neshagi or another suitable location were announced at the office of the Electricity Authority of the Faroe Island on 11 February 2011.

Seven tenders from three companies were submitted.

In addition to two tenders from SEV, sp/f Røkt, Vestmanna, submitted four tenders and Effo, Ltd. and sp/f Navia, Toftir, submitted one.

3 MW

The Electricity Authority prequalified five of six applicants in August 2010, but only three applicants submitted tenders.

The invitation to submit tenders comprised 3 MW.

SEV had both the lowest and second lowest bid. In one tender, SEV offered to sell electricity from three 900 KW windmills, located in Hoyvikshagin, for DKK 0.40 per kWh.

In the other, the company offered to sell electricity from three mills in Neshagi (where the company already operates four mills) for DKK 0.41 per kWh.

Effo and Navia are able to produce electricity from three mills in Neshagi for DKK 0.47 kWh over the first five years and for DKK 0.54 the next fifteen years.

The four tenders from Røkt included Neshagi, Norðihagi in Kvívík, Mittasta Reyn (close to the mills the company already operates at Mýranar, Vestmanna) and Mýranar.

The prices were DKK 0.51, 0.495, 0.53 and 0.54 respectively.

According to the director for the Electricity Authority, all the tenders were too high.

Or as he said:

– I had hoped they would have been on the right side of DKK 0.40, which is what Røkt now receives for its electricity production.

Close-reading the tenders

The Electricity Authority expected to

spend about a month examining and close-reading the submitted tenders with experts before deciding who will produce the 3 MW.

No decision was made by the time this article was written.

According to the conditions for the tender, the permit will be granted to the applicant that has submitted the tender with “the lowest price, which provides the best technical solution and which plan of operation is considered convincing and strong.”

The technical solution will be evaluated especially on whether the “plan results in high utilisation of wind energy, supply reliability and electricity quality.”

This is the first time the Electricity Authority invites tenders since it was established as an independent body under the Ministry of Trade and Industry in 2008 and was granted the authority to develop wind energy in the Faroes.



This is the first time the Electricity Authority has invited tenders for wind energy since it was granted the authority to develop wind energy in the Faroes. Ari Johannesen, consultant, and Jógvan Thomsen, director of the Electricity Authority, welcome the applicants before the tenders are announced. Among those present was the minister for trade and industry, Johan Dahl.



The Sund Plant is a trail blazer

SEV's Sund Plant is the first production company in the Faroes to receive an ISO 14001 certification.

On 22 September 2010, a representative for Det Norske Veritas handed the certification to the plant.

ISO 14001 is an administrative tool, the purpose of which is to help companies facilitate the process toward a more sustainable production.

The environment administration system at the Sund Plant included electricity production as well as the storage and bunkering of heavy oil.

good tool to identify and initiate improvements, which include cost-efficiency as part of solutions.

This means that the company – in addition to improving our understanding of sustainable production and of reducing pollution – also is able to improve internal efficiency and, with this, the cost of operations.

The Vágur Plant, according to plans, is the next to be ISO 14001 certified.



Part of an environmental initiative

– SEV aims to continually improve environmentally, and as part of this effort, we have intentionally worked for two years to get the Sund Plant ISO 14001 certified, said Annika F. Berg, HSE (Health, Safety and Environment) manager at SEV, during a celebration at the plant on the occasion of receiving this historic document.

– With this system SEV commits itself to continue to improve environmentally by constantly setting new goals and action plans, she added.

In addition to the manager of the HSE Department, Páll Hansen, mechanical engineer at the Sund Plant, and Janet Fríða Johannesen, consultant at Atlanticon, spearheaded this initiative, receiving solid support from all the employees at the Sund Plant.

The advantages of the system

The new management system helps the company gain oversight over the environmental impact of, for example, waste, wastewater, oil consumption, raw material consumption, water and electricity production.

Furthermore, the system is a



Dánjal Vang from Det Norske Veritas hands Jákup Sørensen, manager of the Sund Plant, the historic ISO 14001 certificate.



Annika F. Berg, health, safety and environment manager, Páll Hansen, mechanical engineer, and Janet F. Johannesen, consultant at Atlanticon.



<< About 30 people work at the Sund Plant, which produces about half of SEV's electricity. During the certification process, they all received training in the ISO 14001 system.



SEV prioritises health, safety and the environment

SEV published its health, safety and environment (HSE) policy on 17 December 2008. It is available on SEV's homepage (www.sef.fo) and is displayed at all worksites.

the Fossá Plant, the Sund Plant, the Strond Plant, in Skálabotnur and at the head quarters in Tórshavn. Employees have also been encouraged to report situations, which could have resulted in an accident or other misfortune.

Personal accidents

Although SEV works intentionally with safety measures and its vision is that no accidents occur, it is unavoidable that accidents happen. Below is a table of personal accidents, which have resulted in one or more sick days in addition to the day the accident occurred.

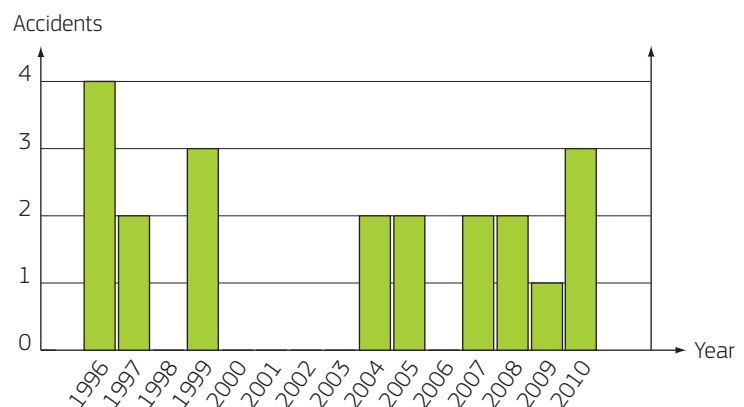
Safety

SEV is an advanced company that prioritises safety and the work environment, benefiting us all.

Safety measures

SEV's safety committee has in 2010 worked among other things on acquiring proper safety equipment and information on how to use it. Different courses have been organised, including courses in fire safety and first aid for all employees in the company. In conjunction with these courses, six defibrillators were purchased and have been set up at the Vágur Plant,

Personal accidents 1996-2010



This table shows the personal accidents that were reported to the Occupational Safety and Health Office.

The Environment

The table to the right shows the primary environmental impact of SEV's production of electricity:

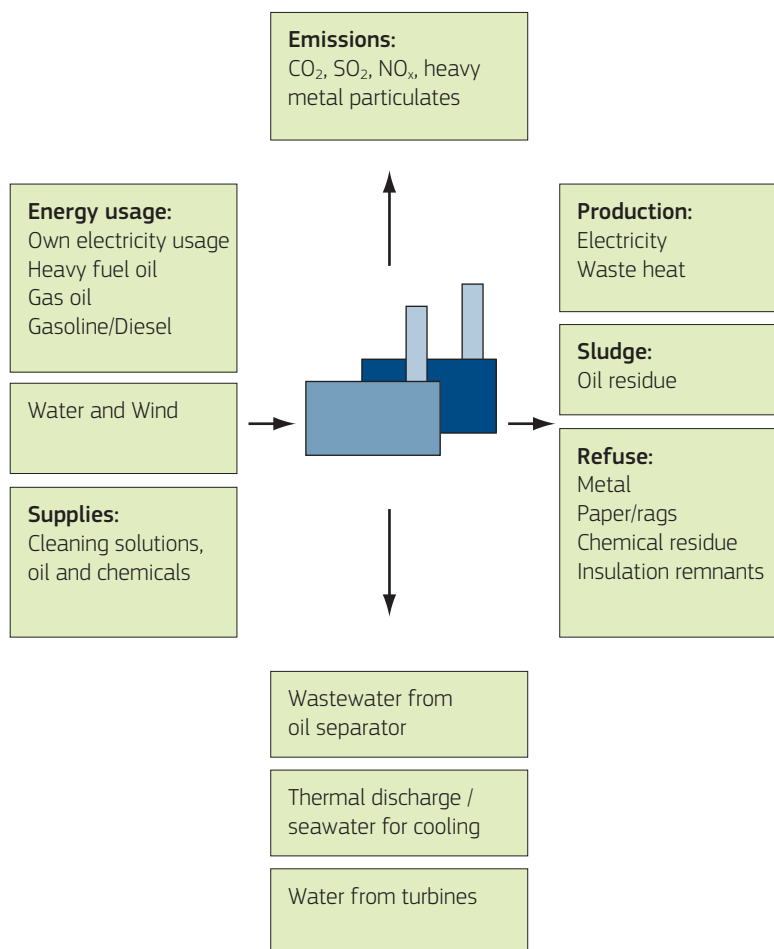
Regular electricity production takes place at 13 plants that produce on an on-need basis. Of these thirteen, three are large thermal power plants, the Strönd, Sund and Vágur Plant. SEV has six hydroelectric power plants: the Strönd, Eiði, Fossá, Mýru, Heyga and Botnur plants. In addition, there are five small plants, which produce for Fugloy, Mykines, Koltur, Skúvoy and Stóra Dímun.

SEV has also four windmills at Neshagi in Eysturoy. The company also purchases wind energy from sp/f Røkt, which has three windmills at Mýranar, Vestmanna.

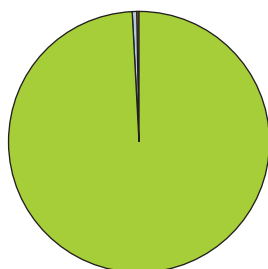
CO₂ emissions

Burning fossil fuels has a major impact on the environment. Most of SEV's CO₂ emissions stem from oil consumption in production. The second and third

Primary impact of SEV's operations on the environment



CO₂ emissions 2010



- Oil for heating (buildings and generators); 536 tonnes CO₂
- Oil for transport; 263 tonnes CO₂
- Oil for production; 131,116 tonnes CO₂

Total emissions: 131,915 tonnes CO₂
 Total production: 280,036 MWh
 CO₂ per kWh: 471 g/kWh

largest source of SEV's emissions is oil used in heating buildings and turbines, and oil used in transportation.

Provisions for district heating

The Sund Plant provided 5.99 GWh for district heating in 2009 and 8.97 GWh in 2010. Thus, efficiency improved in 2010 by approximately 0.5 % compared to 2009. Compared to 2008 the efficiency has improved 2.5 %.

Environmental approval

Environmental approval of the Sund Plant	Entry into force 11 March 2004
Environmental approval of the Sund bunkering system. Annex to the approval of the Sund Plant.	23 March 2006
Environmental approval of SEV's windmills in Neshagi	14 May 2004

SEV has applied for environmental approval of the Vágur Plant and for a renewal of the Sund Plant's environmental approval.



Images from the oil leakage in Vágur, 14 May 2010.

Waste

SEV's activities generate a great deal of waste. Much of this waste is buried and recycled. Some waste, including chemical residues, is sent for special processing.

Most of the waste recycled is used oil, which is handled by the Faroese waste disposal company IRF. Iron and metal also account for a large share of the waste.

An environmental accident

Unfortunately, there was an oil leakage at the Vágur Plant on 14 May when oil spilled into the fjord of Vágur.

The accident occurred because of a faulty indicator in the automated control system for the transfer of gas oil between tanks.

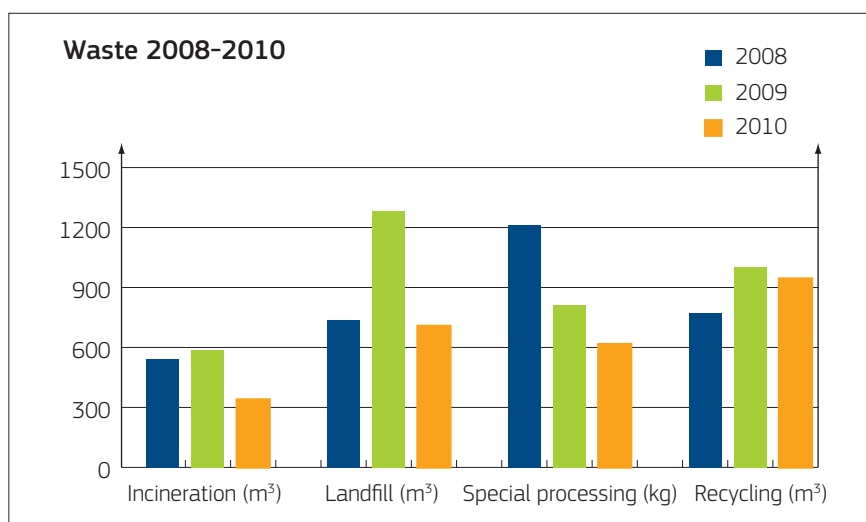
Measures were immediately taken to bring the spill under control.

SEV has since made significant improvements in order to make sure such accidents do not reoccur, including installing new secondary warning systems in the Vágur Plant and the Sund Plant.

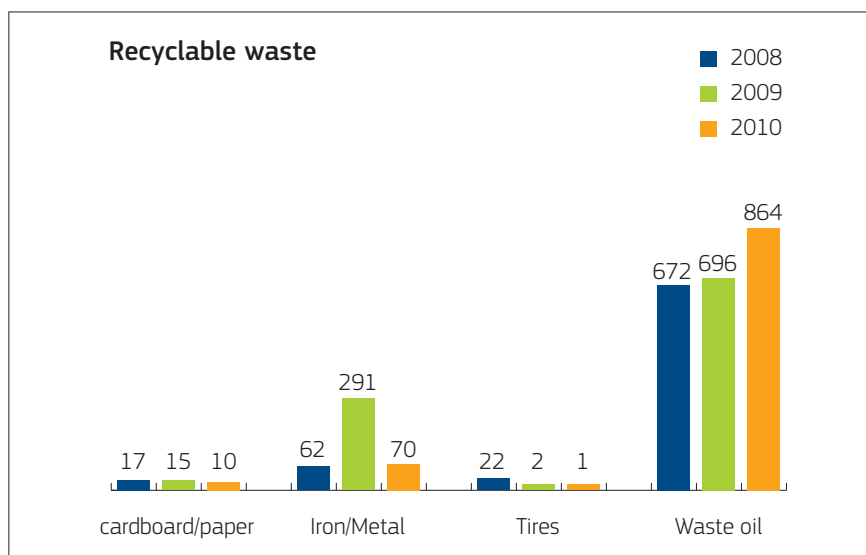
A risk assessment for all the thermal power plants at SEV has also been conducted.

Risk assessment

Between November 2010 and January 2011 COWI A/S and employees at SEV have made a report on the risk for oil leakage at SEV's thermal power plants. SEV is in the process of implementing COWI's recommendations in the



The table is a summary of waste between 2008 and 2010



The table is an overview of waste sent for recycling between 2008 and 2010. The figures are in m³.

plants' daily operations. A list of priorities is also being set up in order to continually reduce the risk of oil leakage.



Hákon Djurhuus explains the challenges facing the energy sector in the Faroes



Prince Henrik and Páll á Reynatúgvu

Special guests at SEV

During the summer SEV received several special guests.

In late June prince Henrik visited the Mýru Plant, Vestmanna, while he and the queen visited the Faroes.

The SEV board, led by Páll á Reynatúgvu, Chairman, Jákup Suni Lauritsen, Vice-Chairman, and Hákon Djurhuus, Managing Director, welcomed the prince.

The prince listened with interest to presentations on the Mýru Plant and on the challenges facing the energy sector in the Faroes. He was particularly fascinated by the fact that the Faroes are fifth in Europe in using renewable energy.



Finn Jakobsen introduces prince Henrik to the Mýru Plant.

Boing interested in co-operation

Representatives from Boing, the large American airplane company, visited SEV in June, seeking information about the company, the electricity grid in the Faroes and future plans in this sector.

Their interest stemmed from the Grana co-operation between SEV and Dong Energy, which commenced in the summer of 2009 and which goal is to increase the production of electricity from renewable energy in the Faroes.

In addition to working in aeronautics, Boing also conducts research in developing future energy systems. They find the Grana

co-operation very promising and interesting and would like to become a part of the project.

However, no agreement with Boing has yet been made.

Interest from Australia

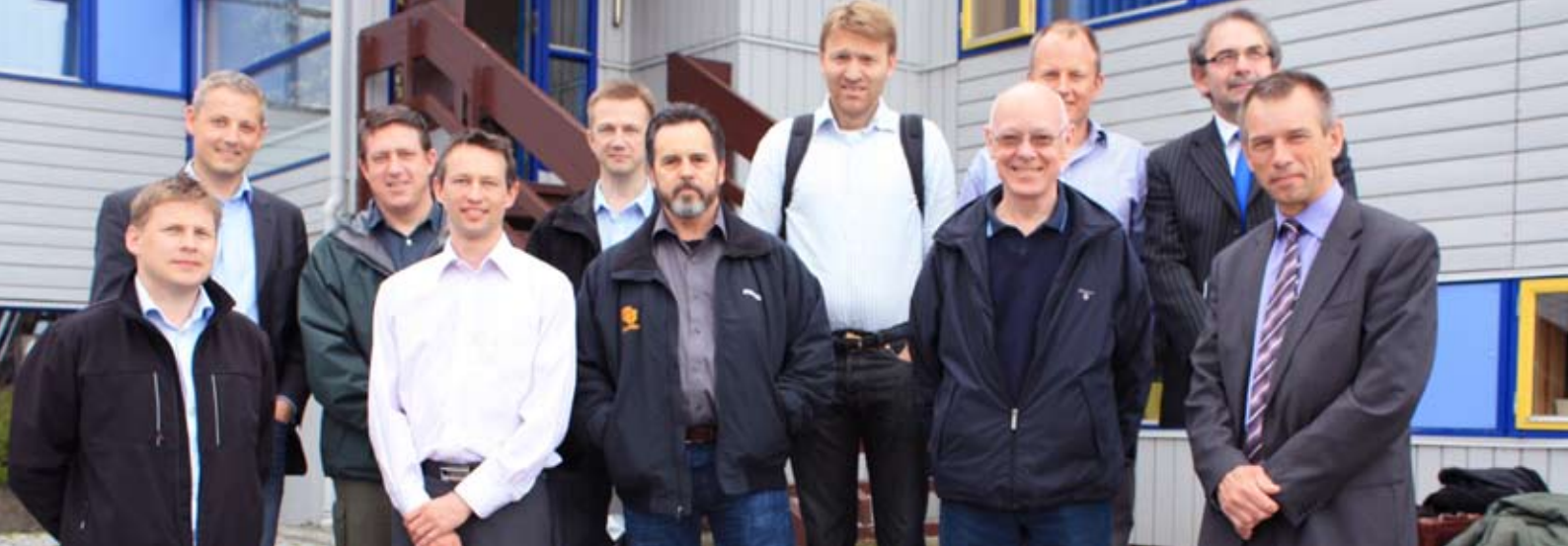
The Grana co-operation has also been noted in Australia after it had been discussed at a conference in the Canary Islands organised by the European electricity association Eurelectric. The conference theme was "Towards a Sustainable Energy Future for Island Energy Systems."

Representatives from the Australian power company PowerCorp visited the Faroes in June 2010 and offered to join the co-operation.

PowerCorp is highly involved in integrating wind energy in small island societies, where wind energy can account for a greater proportion of the electricity production.

The guests from Australia were surprised by how advanced the Faroese electricity system was compared to systems in other small island communities.

They returned home to consider how



they could be of concrete help in the plans to get more renewable energy on the Faroese electricity network.

The Danfoss owner visits.

During the last year, the SEV management was able to visit with the chairman and main shareholder of the Danish company Danfoss, Jørgen M. Clausen. Clausen has also been the director and chairman of Dansk Industri (the Confederation of Danish Industry).

The first visit was in late July, when the famed Danish businessman visited the Faroes with the American ambassador to Denmark, Laurie S. Fulton, both being guests of the minister of trade and industry, Johan Dahl. Among the activities prepared for this visit was an event at the Nordic House in Tórshavn, which purpose was to inspire entrepreneurs in the Faroes.

The second trip was in connection with the Day of Industry last fall, where Jørgen M. Clausen was one of the guest speakers.

Representatives from SEV met with him both in Tórshavn and in Bø to discuss various solutions in renewable energy. Among the companies Danfoss owns is the wave plant Sea Star in Hanstholm.

At the meeting in Bø, Terji Nielsen, project manager at SEV, presented the Grana co-operation, and Knud Simonsen, marine biologist at the faculty of science and technology at the University of the Faroe Islands, presented results from on-going



Alan Longworthy and Martin Baart from PowerCorp and Terji Nielsen, project manager at SEV.



Finn Jakobsen, Jørgen M. Clausen and Hákun Djurhuus.

research in using tidal energy for the production of electricity. The Faroese Research Council and SEV finance this research project.



In Tvøroyri a few low-voltage overhead power lines are left to be taken down



Preparations are made to take a plug line down at Hoyvíksvegur 43.



Eivin Dam cuts down the last plug line in Tórshavn

The low-voltage overhead power lines **soon history**

It will not be long before no low-voltage overhead power lines will be seen in the Faroese landscape.

Tvøroyri is one of the last places in the country that still has overhead power lines. Everywhere else the lines have been replaced by under ground cables.

According to SEV's time plan the last low-voltage overhead power line will be taken down in 2013.

The work began after the Christmas Storm

The work to replace the overhead lines with cables began in the 1980s and became high priority after the Christmas Storm of 1988.

The damage on both the low and high voltage lines was so extensive that it was necessary to renew a major part of the network.

Supply guarantee, personal safety and environmental factors have also contributed to the decision to use cables rather than building new overhead lines in towns and villages.

No plug lines left

The last plug line from an overhead line or main line to a residential house was taken down on 14 July 2010 at Hoyvíksvegur 43.



Linesmen at SEV, from the left: Rabah Benbakoura, Jón Nielsen, manager of SEV's Operations Department, Kristian Thorleifsson, Eivin Dam, retired linesman, and Trygvi Samuelsen.

The 74-year-old former linesman at SEV, Eivin Dam, was granted the honour to cut the line down. Scissors in hand, he was raised in a lift to perform the historic deed. Eivin worked for SEV for almost 45 years. He retired when he was 67.

When the plug line was taken down, the rest of the main line by Hoyvíksvegur road was removed. And with it the last overhead line in Tórshavn was history.

10 and 20 KV cables between villages

The work to place 10 and 20 KV high-voltage cables between villages is also progressing well. The aim is to complete this work in 6-7 years.

The placing of cables is done in close cooperation with state and municipal authorities in the areas, in which work is progressing.



The **Climate** influences electricity production in 2010

Exceptionally low precipitation and little wind, in conjunction with accidents and significant maintenance work, resulted in record high production and oil consumption at the thermal power plants.

The total power output in 2010 was 280.4 million kWh or 1.7 % up from 2009.

The production was up 2.2 % in the central region (Norðuroyggar, Eysturoy, Streymoy, Vágar and Sandoy) while the production in Suðuroy was down 2.3 %.

The production at the thermal power stations was record high, up 18.6 % compared to 2009.

Oil record

The Sund Plant produced



approximately 62.5 % of the total output compared to 45 % in 2007, which so far was the best year for renewable energy. This resulted in record-high oil consumption, 35,250 tonnes.

The output from the hydroelectric plants was 67 GWh in total – down 27.1 % compared with previous year.

The production from wind energy was down 9.5 % compared to 2009.

Several reasons

According to SEV's Production Department several reasons account for the decline in output from renewable energies.

First, 2010 was uncommonly dry, which, among other things, led to a reduction in output at the Botnur Plant in Suðuroy of 23.9 % compared to 2009.

Second, major generator damages

at the Fossá Plant resulted in significantly lower production.

In addition, because of major repairs and maintenance work at the Fossá Plant, the turbines at the plant were out of operation from 1 May to 21 December when Fossá 2 was put back into operation. The other turbine is expected to be ready by Easter 2011.

The turbines dismantled

The maintenance work included sandblasting and painting the large water pipes, which was conducted by the company Solid Vedlikehold from Bergen.

Voith oversaw the overhaul of the turbines.

They dismantled every single mechanical object in the turbine and sent it to a specialist factory in Norway before assembling them again. At this time, Fossá 2's old turbine regulator from 1955 was replaced by an electronic regulator.

Fossá 1's and 2's old safety penstock valves were also replaced and Fossá 2's generator was converted for static magnetism.



The Sund Plant accounted for 62.5 % of SEV's electricity production in 2010 and set a record in oil consumption.

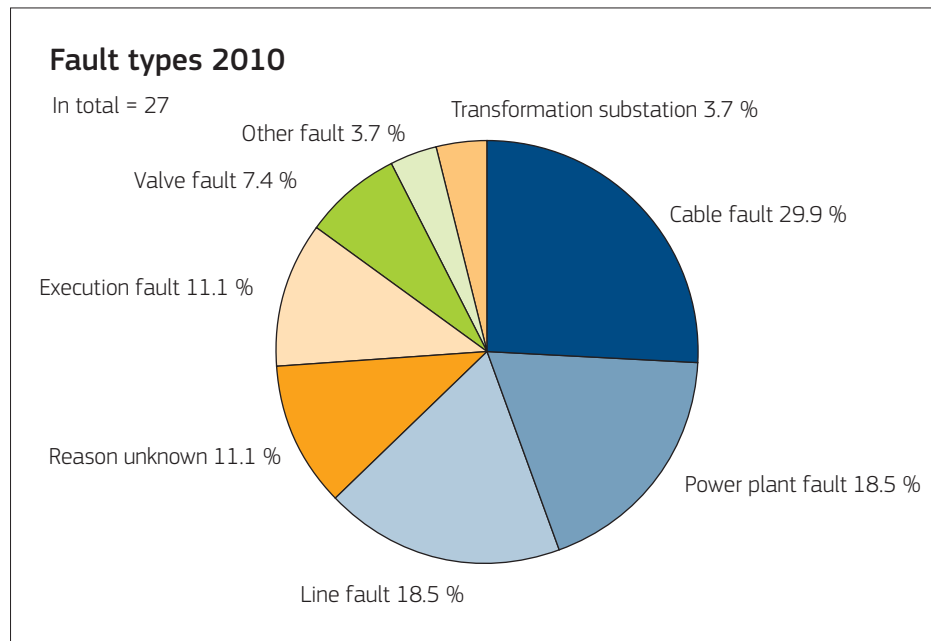
27 faults

on the high-voltage grid in 2010

There were 27 interruptions on the high-voltage grid in 2010. This is the lowest number of faults since SEV's Operations Department began recording faults on the high-voltage grid.

The reduction in faults is to be linked to major and systematic maintenance work over the last few years, which aim is to get as close to zero as possible.

The table shows the distribution of faults throughout the year



Fertilisation

caused a short-cut

As is evident from the above table, there are some common causes for interruptions on the electricity grid.

But, at times, the causes are rather unusual, as this little story exemplifies:

On a Saturday afternoon Kollafjørður, Norðadalur and Syðradalur blacked out suddenly.

SEV had to send people up into the mountains to look for the fault.

They discovered that a patch of land next to the road over Norðadalsskarð had been fertilised and that manure had been sprayed on the isolators and the lines.

This had caused a shortcut.



*A field is fertilised.
(Photo: Umhvørvisstovan)*

It was necessary to ask the Fire Department in Kvívík for help to clean the manure of the lines. And not before then, about an hour and a half later, people got their electricity back.

In situations like this, it is very

important that people notify SEV immediately, so the fault can be identified quickly and electricity can be restored as fast as possible.

Students from Vestmanna and Oyrabakki are best



Kristianna Rein hands Áki Olsen, representative for students from 9B at Oyrabakki School, a diploma for winning the exercise bike competition, 2011. Behind him is the proud homeroom teacher, Tanja Ejdesgaard.



9B at Oyrabakki School and Kristianna Rein, energy consultant.



9B in Vestmanna School and 9B in Oyrabakki School won the exercise bike competition in 2010 and 2011 respectively.

The competition is part of the electricity theme day for students at SEV. The day is organised by Kristianna Rein, energy consultant.

All the students get the chance to prove their stamina, competing to bike most kWhs on the bike barometer.

9B from Vestmanna biked at total of 0.231 kWh (0.0178 kWh in average per student) while 9B from Oyrabakki biked a total of 0.206 kWh (0.0137 kWh in average per student).

If the students had been paid the same rate for the energy they produced as customers pay for their electricity, the Vestmanna students would have received DKK 0.34 for their output and the Oyrabakki students DKK 0.23 for what they wound out of the bike.

The price both classes won was a

trip to Brasserie Hvonn in Tórshavn for pizza, soft drinks and ice cream.

Consultation

However, it is not only students who receive instruction from SEV during the winter months.

A class from the Faroese School of Health Studies visited SEV in September to listen to a lecture on energy consultancy and electric energy consumption in the home.

In October, a class of auto mechanics from the Technical School in Tórshavn came to listen to the same presentations, and in November the energy consultant visited the Technical School in Klaksvík.

During the same month a theme day on electric energy was organised for 20 schoolteachers from the whole country.

The energy consultant has also been asked to visit a few kindergartens this winter.

Consultation over the phone

Many people call the energy consultant in order to get good advice.

– It is especially in January and February that people call to ask about all manner of things, especially electricity consumption as the electricity bill is sent to customers in January, says Kristianna Rein, energy consultant.

About 50 people contacted the energy consultant in each of these months and around 30 people borrowed an electricity-measuring tool in January and February. This is a service SEV provides throughout the year, whenever the tools are available.

A large quantity of information has also been sent by post to people, who seek information, says Kristianna Rein.



9B from Vestmanna School with school management, teachers, SEV representatives and others.



From the international conference in Las Palmas

The Grana project

garners international interest

The EU should pay greater attention to the unique challenges facing small and remote island communities and should learn from their solutions, says the general secretary for Eurelectric, Hans ten Berge.

Representatives from SEV were at an international conference in Las Palmas, the Canary Islands, last May. The theme of the conference was "Towards a Sustainable Energy Future for Island Energy Systems."

This was the third conference of this kind, which the European energy association, Eurelectric, organised but the first time SEV attended. SEV is able to attend these conferences due to its associate membership in the association of Danish electricity companies, Dansk Energi.

The conference was organised in consultation with NESIS (Network of Experts on Small Island Systems),



Terji Nielsen, project manager at SEV, was one of two presenters of the Grana project.



Hans ten Berge, the general secretary of Eurelectric, was very interested in the Grana project.



which is a department under Eurelectric.

The purpose of NESIS is to research questions and solutions connected to smaller and remote electricity systems, which are not connected to mainland electricity grids.

The Grana project garnered interest

Of the many presentations in Las Palmas one was on the Faroese-Danish Grana project, which Terji Nielsen, project manager at SEV, and Mikkel Windof, project manager at DONG Energy, presented. The presentation was called "Faroe Island Project for High Penetration of Renewable Energy with Smart Grid Technologies."

The goal of the project, which SEV and DONG Energy commenced in 2009, is to develop and thereby increase the amount of renewable energy in the Faroese electricity grid. Another goal is that this co-operation will also prepare the way for future

international solutions in the electric energy sector.

The presentation of the Grana project received great attention among the 300 listeners. Several people commented on and were pleased to see that the project corresponds to Eurelectric's attempt to support sustainable energy solutions in small island communities in Europe and elsewhere in the world.

Need for dialogue

The general secretary of Eurelectric, Hans ten Berge, thought the conference went well and noted the need for dialogue between politicians and the authorities of island communities and those who shape EU policy:

- So far we have paid far too little attention to the unique challenges facing island communities and the interesting solutions they are developing, which may also benefit us, said Hans ten Berge in his speech.



The Faroese conference participants are seen dimly in the second row: Hákun Djurhuus, Managing Director, John P. Danielsen, Administrative Director, and Terji Nielsen, Project Manager.

Benchmark

The challenges in operating an electricity grid in remote island communities cannot be compared to large electricity grids; therefore, NESIS is currently works on a benchmark comparison between concordant societies.

SEV participates in this task, which will give us a picture of how we compare to societies like our with regard to supply guarantee, quality and cost per kWh.

SEV's mission, vision and values statement

Management and employees at SEV have jointly formulated the foundational mission, vision and values for the company's operations.

Hákon Djurhuus, Managing Director, initiated the process in a lecture at a staff meeting a little over a year ago. He said the work should commence immediately and should be completed by the summer holidays of 2010.

The work was finished in time, and to remind everyone of its content, each of the company's 150 employees received an attractive published version of the statement last autumn. A poster was also produced and placed at every work site SEV has throughout the country.

This is a management tool, it serves as a compass to guide us when interacting with fellow employees but certainly also when serving and maintaining our relationships with our customers. The mission states why we are here, the vision shows us where we want to go and the values encapsulate how we see ourselves and what is fundamental to our daily work.

SEV's mission is to secure

sustainably produced high quality and fairly priced electricity for our society.

SEV's vision states the company's desire to uphold its role as the main artery in our society. The company wants to pioneer the effort to develop a society, which is based on renewable energy resources. The most important values in SEV's daily operations are Co-operation, Enthusiasm and Respect (in Faroese Samstarv, Eldhugi and Virðing, abbreviated SEV).

SEV's board of directors, which also has participated in wording the statement, recognises that the formulation of a common identity, including employees, management and owners, is a prerequisite for good working conditions and further development at SEV.

Staff day, 4 June in Vágoy

Values must be nursed if we are to be grounded in what we want to characterise our work. This is accomplished, for example, through

various events that focus on our values. The first event of this kind was organised on a staff day, 4 June 2010, in co-operation with the company Coast Zone. We worked on several exercises and tasks, which all had their point of departure in the value statements. All in all, it was a wonderful day, filled with challenges and experiences.

Staff day, 30 November in Keldan, Skálabotnur

The annual staff day was held on 30 November at the roomy and well-equipped conference facilities at Keldan, Skálabotnur. During the staff day, the management informed staff



Rowing kayaks in the fjord of Sørvgur.

on matters as how the past year had fared and on future plans for the company.

On behalf of the management, Hákun Djurhuus, Managing Director, and Finn Jakobsen, technical director, reported on what had been achieved during the last year and on future developments. The budget for 2011 was also discussed.

The employee association

The employee association holds its annual meeting during the autumn staff day. The board informed the members on the activities during the last year and about future plans. The employee association's committee members are Otto West, Sjanna Hentze, Karstin Hansen and Anna Vang. During the past year, the employee association organised a Shrovetide party and a Christmas party.

Prizes 2010

Páll Hansen, mechanical engineer at the Sund Plant, received the employee award, "Ársins herðaklapp 2010." The reasons given for awarding him the honour were:

"Páll is an enthusiast. When he embarks on something, he is fully engaged, there are no half measures. A good example of this is his substantive and important effort in implementing the environmental management system ISO 14001 at the Sund Plant. It is crucial to have people like him in such work. Otherwise, nothing would have succeeded – or at least not succeeded well. Páll is a key player in that SEV – or the Sund Plant – is the first production plant in the Faroes that received this certification. This is in line with the mission and vision of SEV."

Robert Joensen and Bogi Wardum also received recognition for showing care and responsibility. This is an award system SEV's safety board has initiated to award safety reports, which may significantly improve safety issues at the company. Bogi



On 11 June Kári Nielsen, watch manager at the Fossá Plant, received a silver service medal from Queen Margretha of Denmark.

Wardum was rewarded for reporting a critical situation. Lots were also drawn between two submitted safety reports, and Robert Joensen won a gift certificate to a restaurant.

Lectures

Hákun Djurhuus gave a lecture on the Víkar project and Terji Nielsen, project manager, reported from the research conducted by a work group at SEV on the possibility for a pump energy system and the expansion of wind energy in the Faroes. The day concluded with a very lively and meaningful lecture delivered by an enthusiastic guest speaker from Klaksvík, Niklas Heri Jákupsson. He captured the audience's attention for about an hour and a half. The lecture was aptly called "joie de vivre" and the simple and to the point message was: "Be positive!"

Employees stay

Something suggests that SEV is a workplace where people thrive. That is what the statistics for length of service show. According to them, no less than 38 employees, or 24.5 % of the workforce has worked at SEV for more than 25 years. The average length of service in 2010 was just over 15 years.

Kári Nielsen receives service medal from the queen

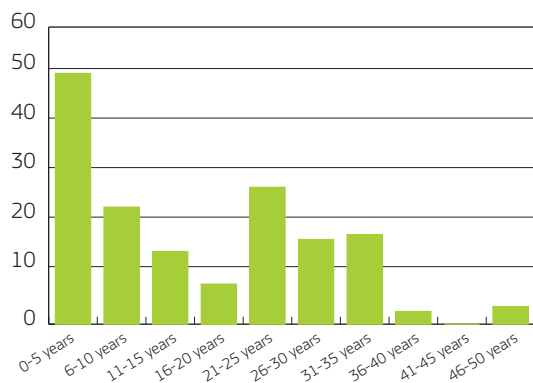
At a celebration at SEV's headquarters in Tórshavn on 11 June, Kári Nielsen, watch manager at the Fossá Plant in Vestmanna, received a silver service award from Queen Margretha of Denmark.

Hákun Djurhuus, Managing Director, handed the medal on behalf of the queen in honour of Kári having worked at the company for 50 years on 6 June 2010. In addition to the management,

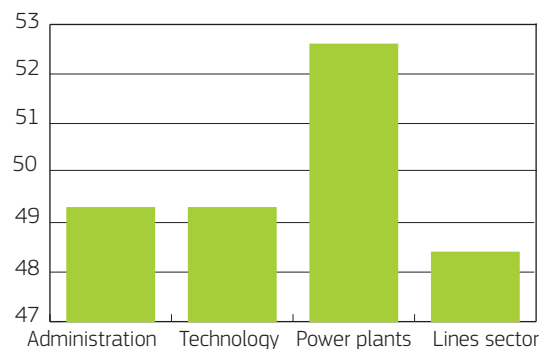
Special days in 2010

Petur Vitalis, line manager – 25-year anniversary, 3 June
Hjalmar N. Poulsen, mechanical engineer – 25-year anniversary, 1 September
Mannbjørn Vang, line manager – 25-year anniversary, 1 October
Bjarki Johannesen, engineer – 25-year anniversary, 1 October
Magnus við Streym, line manager – 30-year anniversary, 11 August
Kári Nielsen, engineman – 50-year anniversary, 6 June

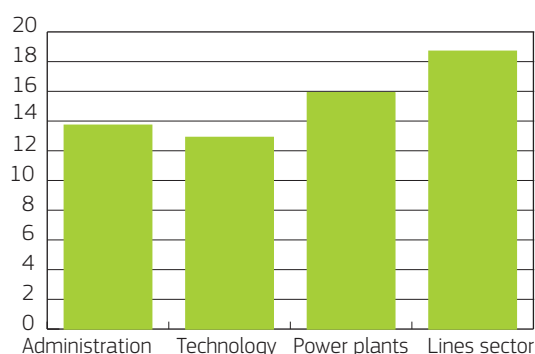
Length of service – all employees 2010



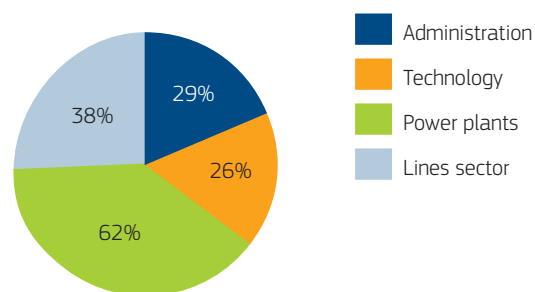
Average age of employees



Length of service – averages for various departments



Employees according to departments



board members, employees, family members and friends were present to honour the 68-year-old celebrant, who is the first to have worked at SEV for half a century.

The kind and helpful man from Vestmanna has worked, without interruption at the Fossá Plant since he, when 18 years old on 6 June 1960, was employed as a labourer. Later he became part of the watch system in the plant's control room, first as a substitute and then later permanently.

SEV bronze in running competition

SEV has many fit and fast runners, who, in their spare time, are devoted to the rigours of their chosen sport. This does not only benefit them but also their work place, which was evident in a running competition for companies organized by Bragdið, a sports club. The competition was held



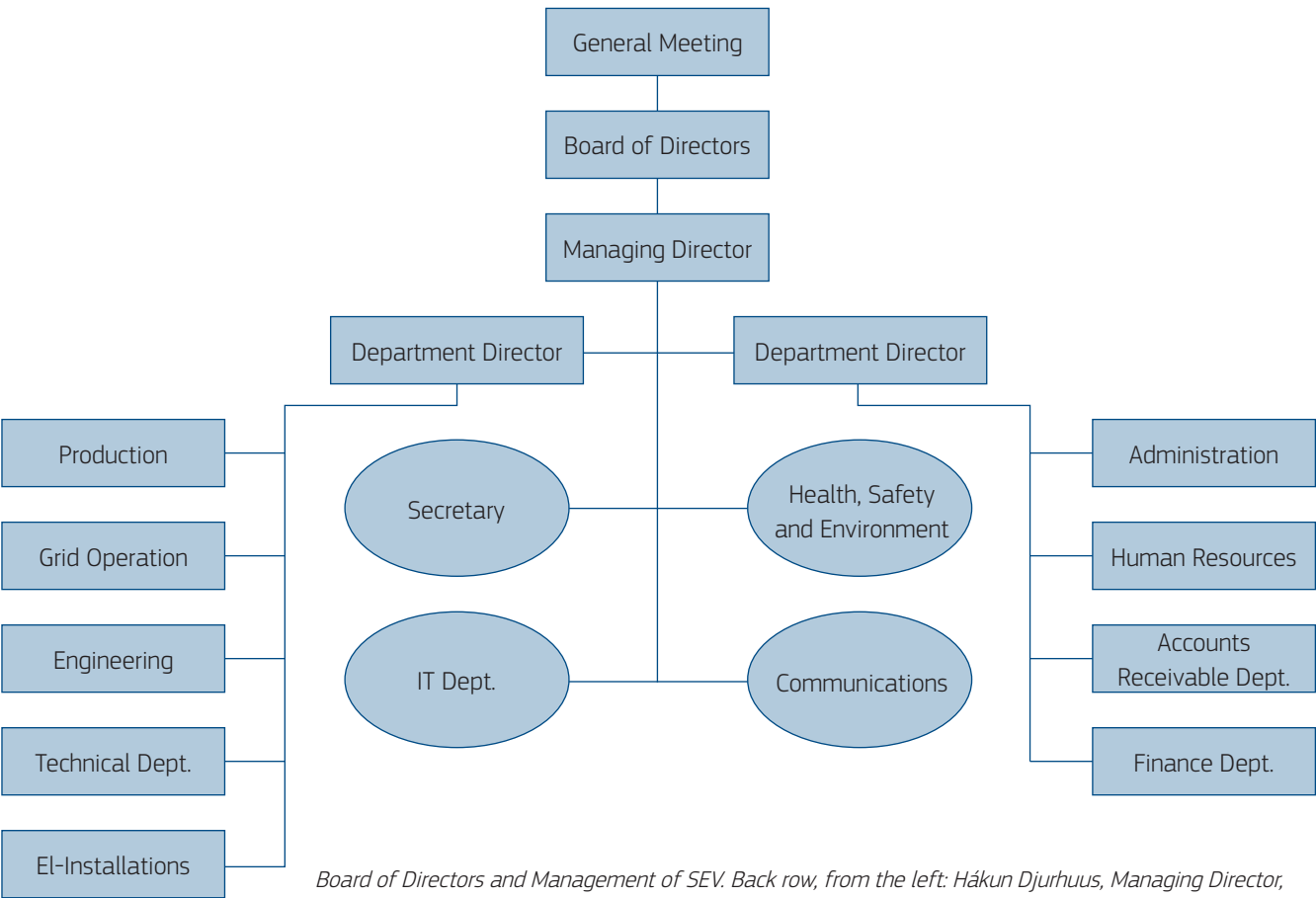
on a local holiday and some of our foremost runners competed. In the men's companies' competition, SEV came in third and received bronze. The four who represented SEV in this competition were Sam Vang, Niels Hansson, Teitur Magnusson and Magnus Magnussen. Sam Vang also won bronze in the men's competition for individuals. SEV was also represented in the women's competition.

Teitur Magnusson, Sam Vang, Niels Hansson and Magnus Magnussen

SEV employee Faroese champion in the 10 km distance

At SEV we can also brag of owning the Faroese champion in the 10 km distance for men in 2010. The champion is Sam Vang, who, when he is not running, is a mechanical engineer at the Sund Plant. The competition was held in Runavík on 22 June. The conditions were perfect. Sam has previously participated in this competition and has reached a second place, but this is the first time he has managed to win it.

Structure and Management



Board of Directors and Management of SEV. Back row, from the left: Hákun Djurhuus, Managing Director, Pauli T. Petersen, board member, Marin Katrína Frýdal, board member, Niels Olaf Eyvindsson, board member, and Finn Jakobsen, Technical Director. Front row, from the left: Kári E. Jacobsen, board member, John P. Danielsen, Administrative Director, Jákup Suni Lauritsen, Vice-Chairman, Páll á Reynatúgvu, Chairman, and Steinbjørn O. Jacobsen, board member.



Distribution grid



	Fugloy	Svínoy	Víðoy	Borðoy	Kunoy	Kallsoy	Eysturoy	Streymoy	Vágoy	Mykines	Nólsoy	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suðuroy	Units in total
<i>TRANSMISSION SUBSTATIONS, NUMBER</i>																		
6kV Transmission substations	1			2														3
10kV Transmission substation		1	6	32	3	7		64			1			16			51	181
20kV Transmission substations				2			110	75	29				1					217
60kV Transmission substations				1			2	4										7
Areas total	1	1	6	37	3	7	112	143	29		1		1	16			51	408
<i>TRANSFORMERS, NUMBER</i>																		
6kV Transformers	2			4														6
10kV Transformers		1	6	38	3	7		74			1			17			60	207
20kV Transformers				5			128	105	33				1	3			3	278
60kV Transformers				1			3	12										16
Areas total	2	1	6	48	3	7	131	191	33		1		1	20			63	507
<i>CABLE DISTRIBUTION CABINETS, NUMBER</i>																		
0,4kV cable distribution cabinets	13	23	79	499	29	30	1564	2284	507	7	38		10	214	11		841	6149
<i>LINES AND CABLES</i>																		
60kV line				1,02			37,57	42,99										81,58 km.
60kV cable				0,09			13,68	14,81										28,58 km
20kV line							60,29	58,55	12,21								12,03	143,08 km
20kV cable				11,46			142,99	139,40	35,90				0,56	0,63			4,30	335,24 km
10kV line		3,23	16,31	13,84	11,59	6,44		5,31						13,92			49,71	120,35 km
10kV cable		0,55	3,96	29,86	0,16	11,15		67,42			1,47			28,21			58,57	201,34 km
6kV line	2,19			7,17														9,36 km
6kV cable	0,17			0,07				0,16										0,40 km
0.4kV line				0,32				0,04									2,70	3,06 km
0.4kV cable	1,10	3,86	11,34	60,60	2,64	2,96	195,03	279,03	56,76	0,55	3,38	0,38	0,90	28,45	0,88	0,05	94,13	742,04 km
<i>METERS</i>																		
Remote kWh meters	58	71	265	293	82	115	1855	2310	709	52	175		43	765	54	2	510	7359
Non-remote kWh meters	3	4	9	2211	2	6	3407	8119	853	1	3	2	0	46	0	2	2359	17027
Area kWh meters total	61	75	274	2504	84	121	5262	10429	1562	53	178	2	43	811	54	4	2869	24386
Increase 2010	0	0	2	5	2	1	55	95	15	0	-1	0	0	6	0	0	9	189

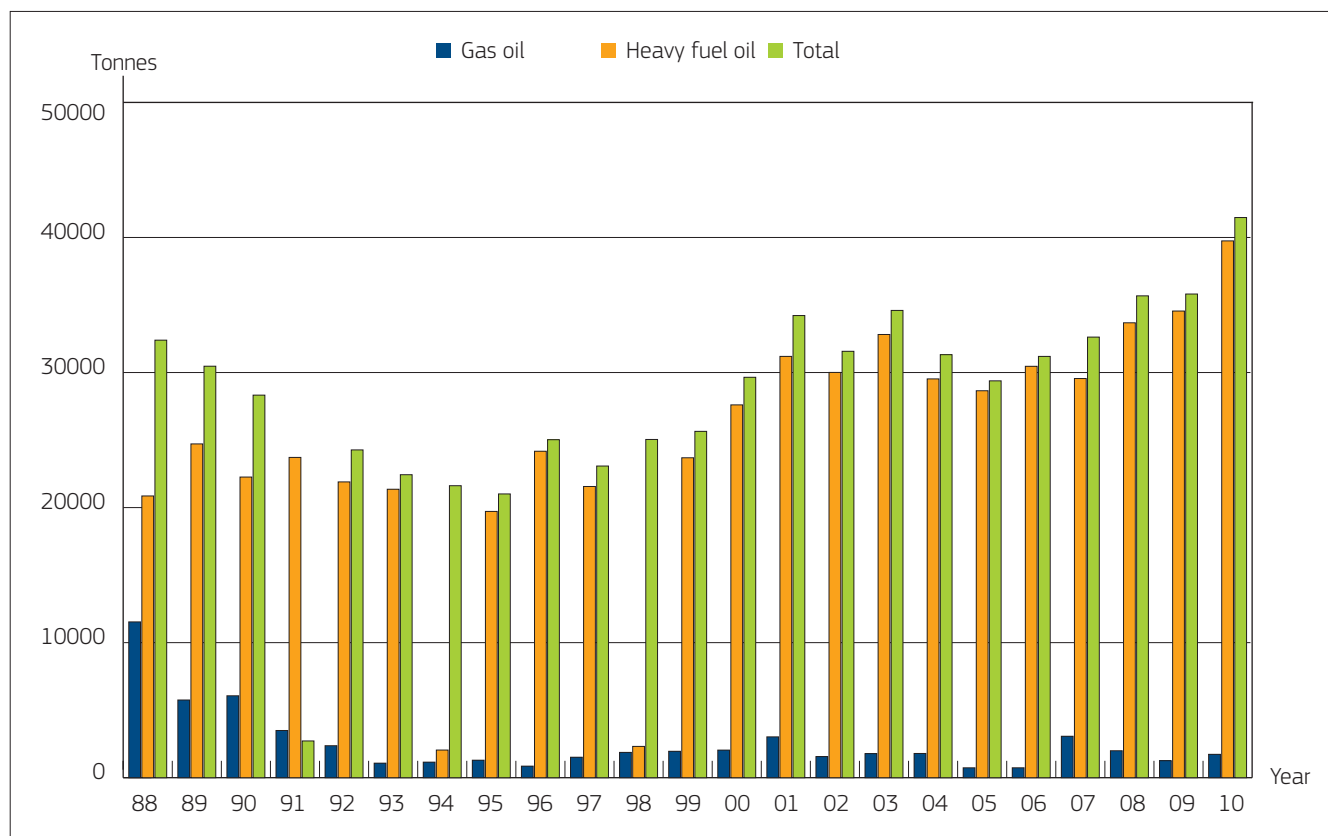
Engine overview per 31/12 2010

Location	Engine	MW	Hp	Engine type	Engine manufacturer	Powered by	Year	Age	Hours
Botnur Plant	T1	1	1,360	Pelton water turbine	Voith	Water	1965	45	176,980
Botnur Plant	T2	2	2,719	Francis water turbine	Voith	Water	1966	44	135,504
Eiði Plant	T1	6.7	9,109	Francis water turbine	Voith	Water	1987	23	86,012
Eiði Plant	T2	6.7	9,109	Francis water turbine	Voith	Water	1987	23	80,228
Neshagi	M1	0.15	204	Wind turbine (fixed pitch)	Nordtank	Wind	1993	17	107,958
Neshagi	M2	0.66	897	Wind turbine (variable pitch)	Vestas	Wind	2005	5	35,993
Neshagi	M3	0.66	897	Wind turbine (variable pitch)	Vestas	Wind	2005	5	37,435
Neshagi	M4	0.66	897	Wind turbine (variable pitch)	Vestas	Wind	2005	5	31,434
Skopun Plant	M1 – M3	1.826	2,483	4-T	Mercedes og Deutz	Gas oil	1984		
Small plants		1.7	2,311	4-T	Deutz, Mercedes, Perkins	Gas oil			
Strond Plant	M2	2.3	3,127	4-T KV 12 SS	Mirrleese Blackstone	Gas oil	1965	45	78,783
Strond Plant	M3	3.6	4,895	4-T 12 M 453 K	Krupp Mak	Gas oil	1982	28	44,717
Strond Plant	T1	1.4	1,903	Francis water turbine	Sulzer Hydro	Water	1998	12	39,440
Sund Plant	M1	7.85	11,013	4-T 9M43C	Caterpillar/MaK	Heavy oil	2001	9	36,715
Sund Plant	M2	7.85	11,013	4-T 9M43C	Caterpillar/MaK	Heavy oil	2004	6	31,511
Sund Plant	M3	5.7	7,750	4-T KV16MAJOR	Mirrleese Blackstone	Heavy oil	1978	32	69,151
Sund Plant	M4	12.4	16,859	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1983	27	147,898
Sund Plant	M5	12.4	16,859	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1988	22	121,391
Trongisvágur Plant	M1	2	2,719	4-T	Nohab	Gas oil	1973	37	81,520
Vágur Plant	M1	2.7	3,671	4-T 9 M 453	Krupp Mak	Heavy oil	1983	27	106,206
Vágur Plant	M2	2.7	3,671	4-T 9 M 453	Krupp Mak	Heavy oil	1983	27	108,176
Vágur Plant	M3	4.32	5,874	4-T 9M32C	Caterpillar/MaK	Heavy oil	2004	6	40,717
Vestmanna	Fossá 1	2.1	2,855	Pelton water turbine	Maier	Water	1953	57	201,878
Vestmanna	Fossá 2	4.2	5,710	Francis water turbine	Voith	Water	1956	54	312,340
Vestmanna	Heygav. 1	4.9	6,662	Francis water turbine	Voith	Water	1963	47	201,752
Vestmanna	Mýruv. 1	2.4	3,263	Francis water turbine	Voith	Water	1961	48	332,120
Total Power:		101 MW	137,833 Hp						

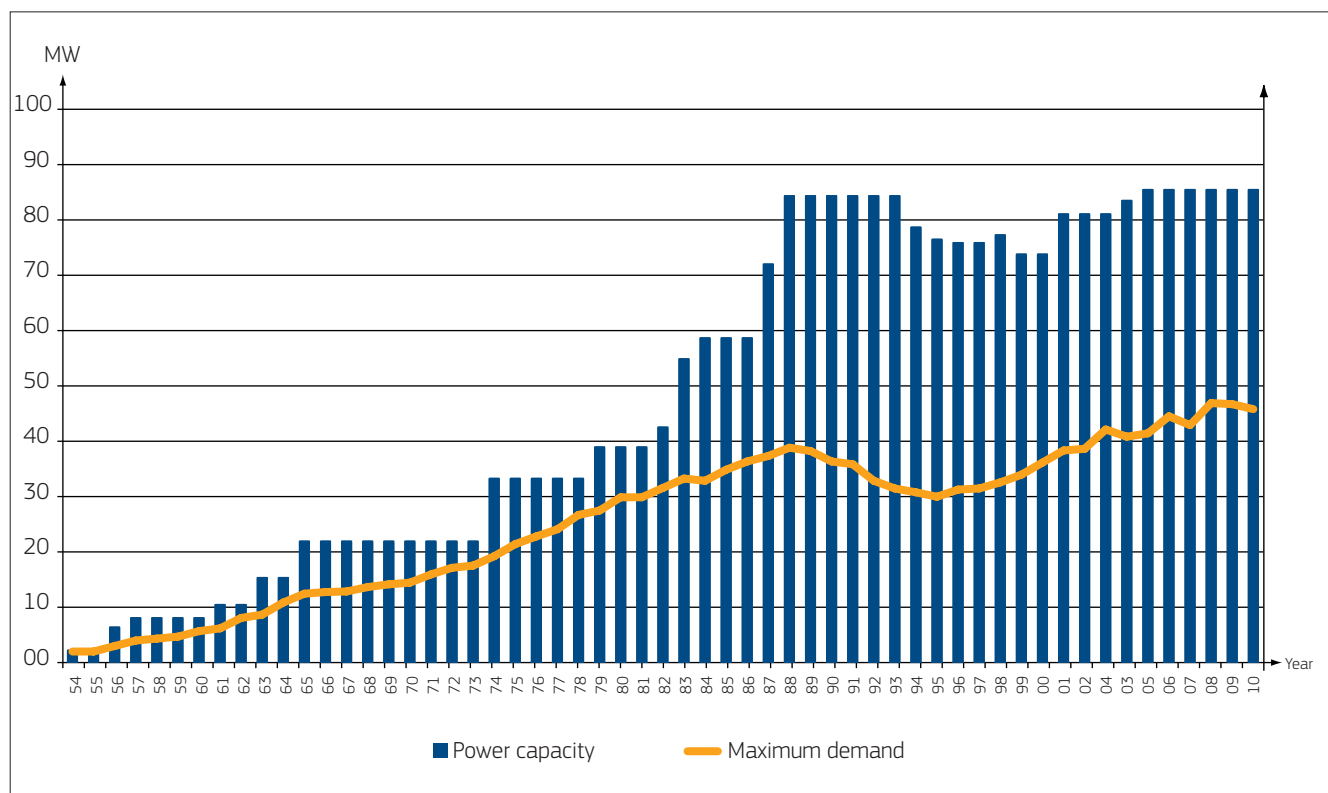
SEV investments, 1998-2010

Investments (DKK million)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Hydroelectric plants	35.1	43.3	13.7	8.6	8.6	0.0	0.3	0.3	0.5	4.0	27.4	41.7	46.6
Other production plants	0.1	1.1	5.8	30.4	18.1	52.0	18.0	20.0	2.3	2.8	5.0	3.1	2.7
Distribution plants	21.0	13.8	13.6	14.6	19.5	17.4	18.6	18.2	32.8	41.9	41.1	19.6	21.7
Joint property	0.1	1.8	0.7	0.1	0.0	0.1	0.8	0.0	0	0.8	0.0	0	0
Land	-	-	1.5	-4.8	0.0	0.0	0.0	0.0	0	0.0	0.0	0	0
Other production equipment	1.8	2.6	1.5	2.4	1.7	2.4	2.0	3.2	2.2	2.5	3.1	5.6	5.7
Total	58.1	62.6	36.8	51.3	47.9	71.9	39.7	41.7	37.8	52.0	76.6	70.0	76.7

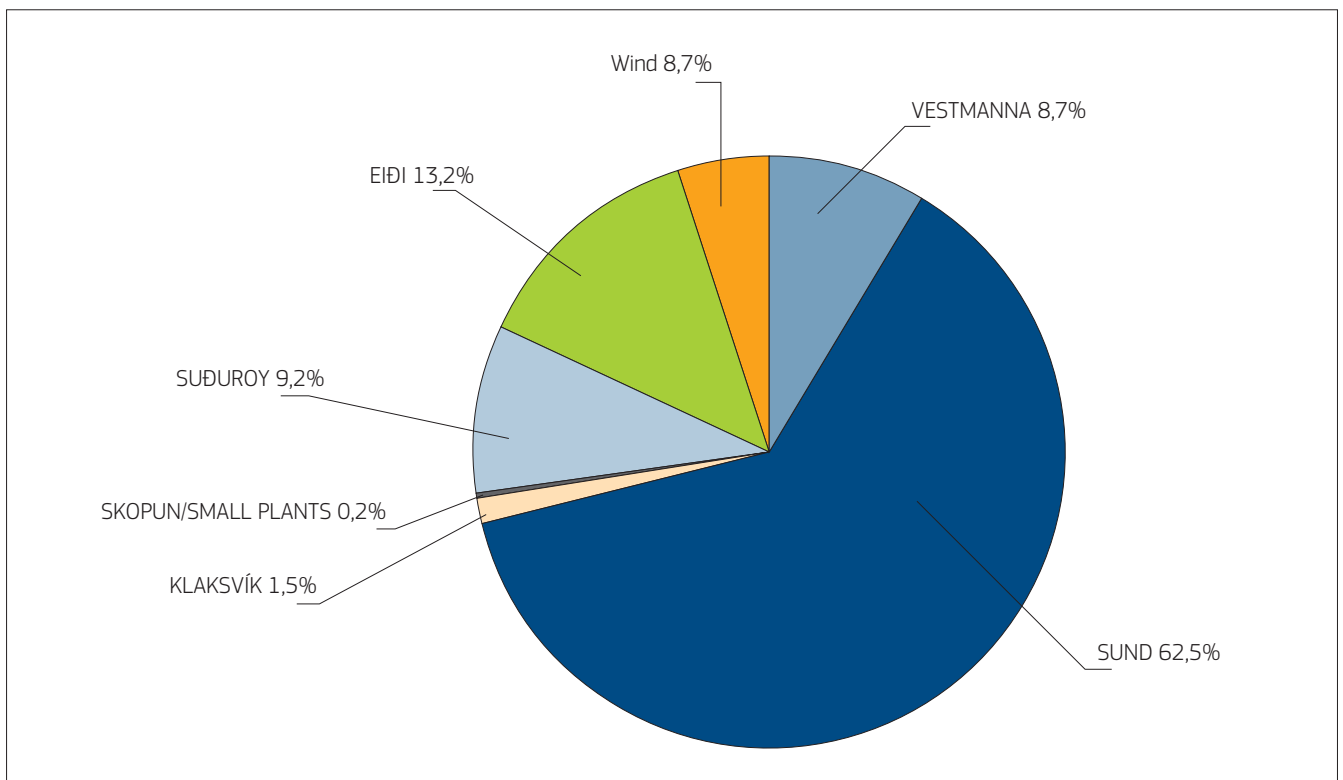
Oil consumption in tonnes, 1988-2010



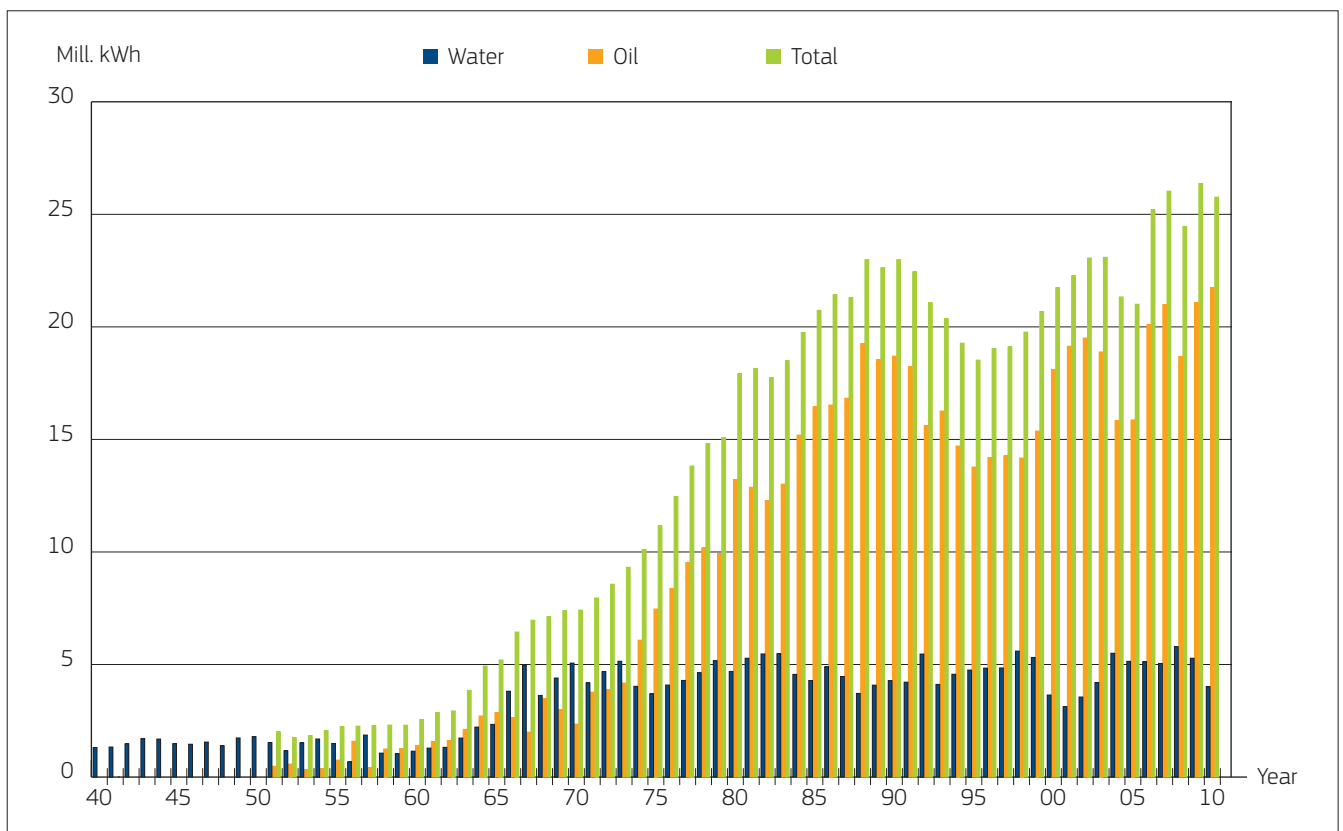
Maximum demand and power capacity – central region, 1954-2010



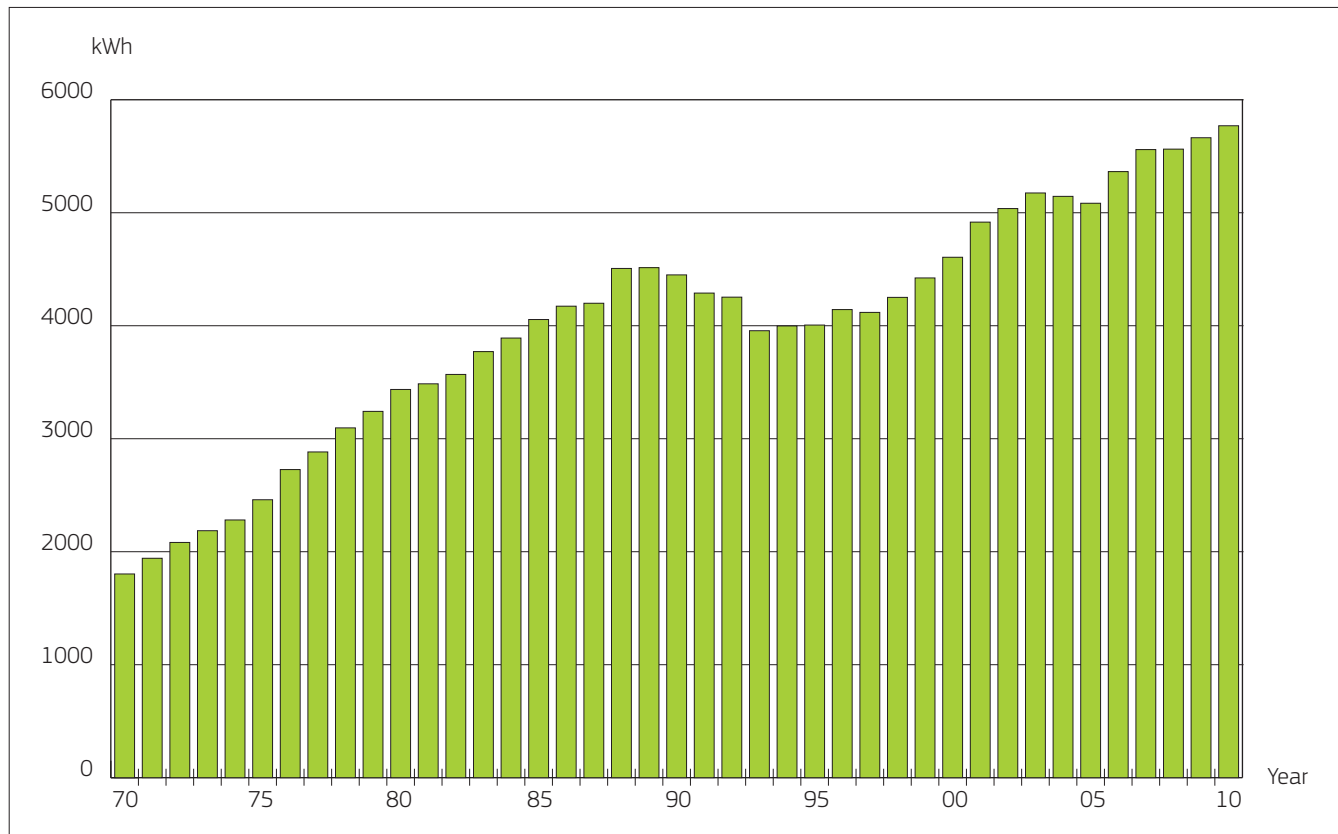
Electricity generation for the entire country – power plant regions, 2010



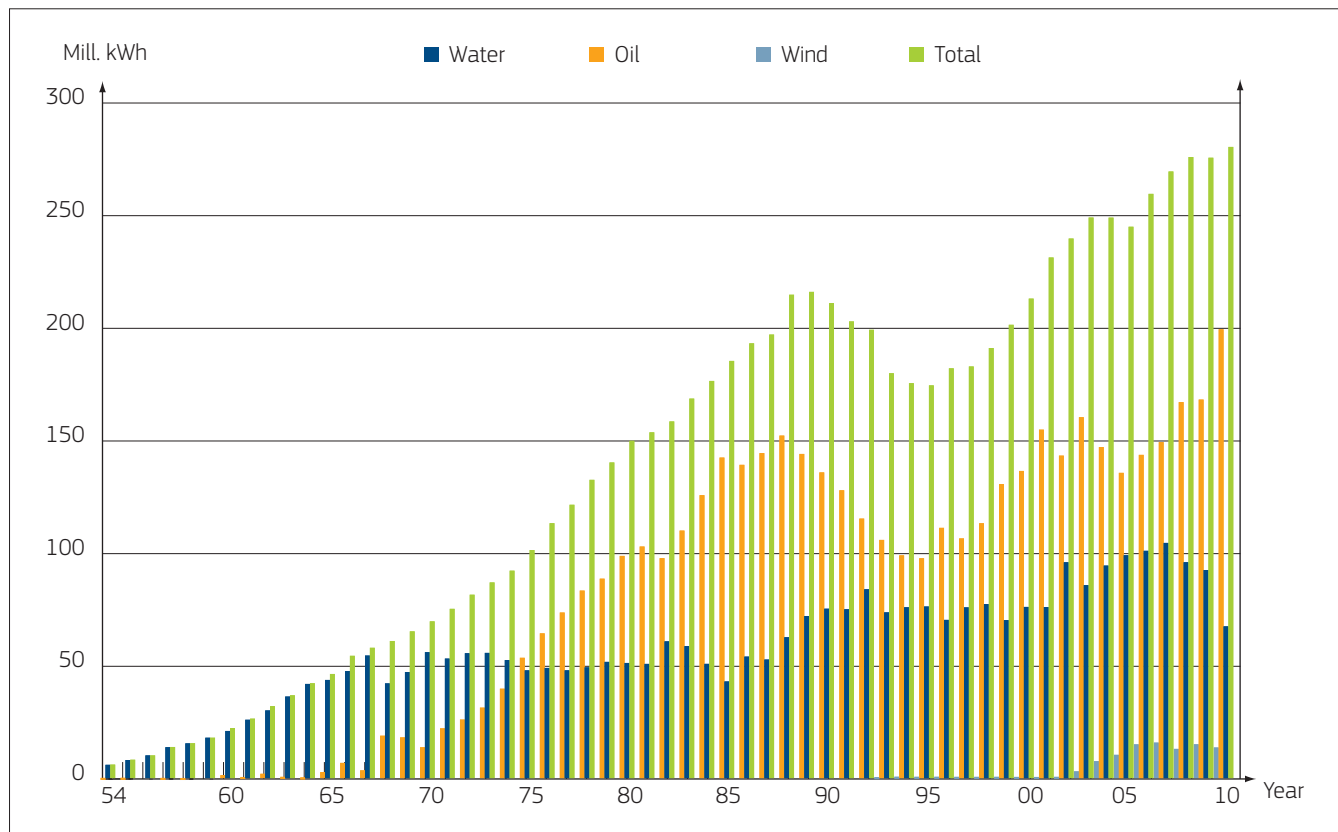
Electricity generation in Suðuroy, 1940-2009



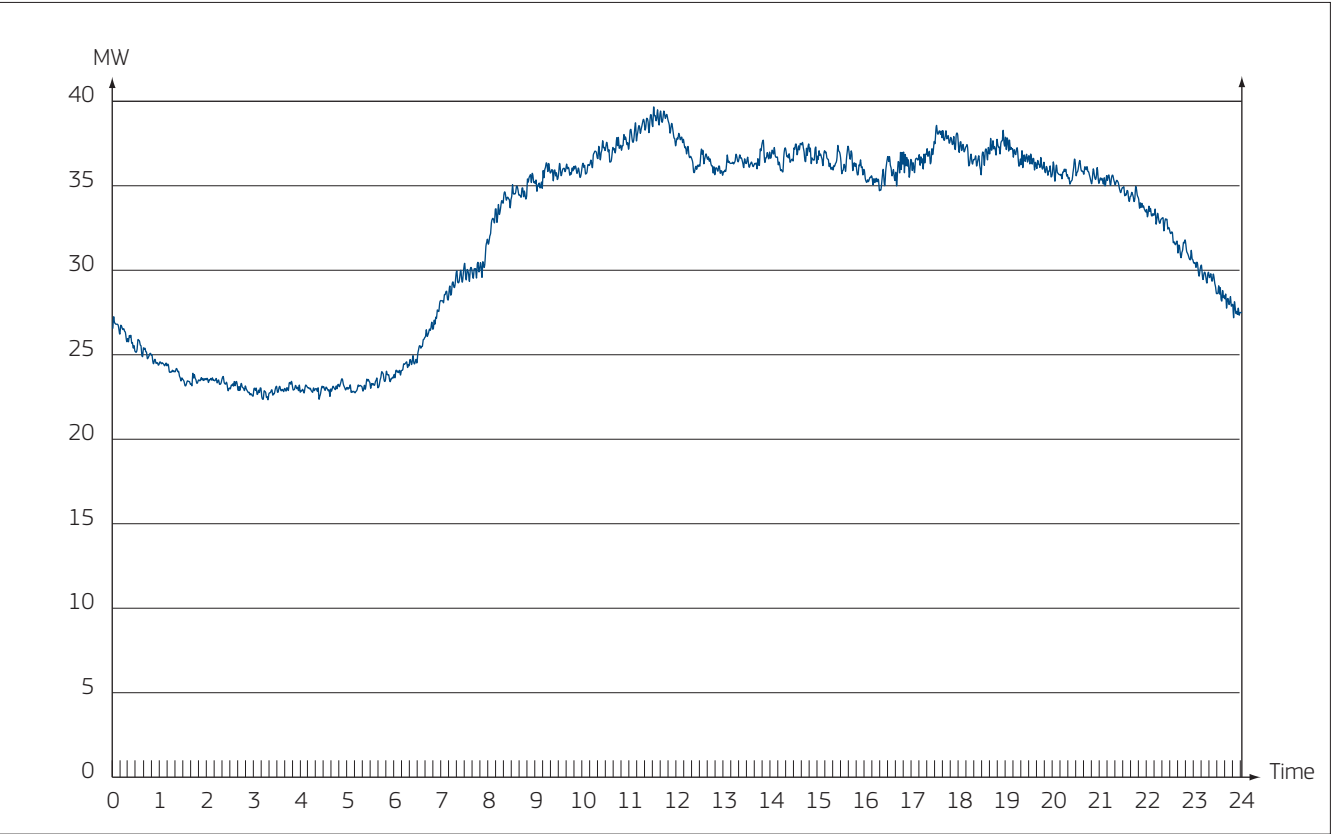
Electricity generation per capita, 1970-2010



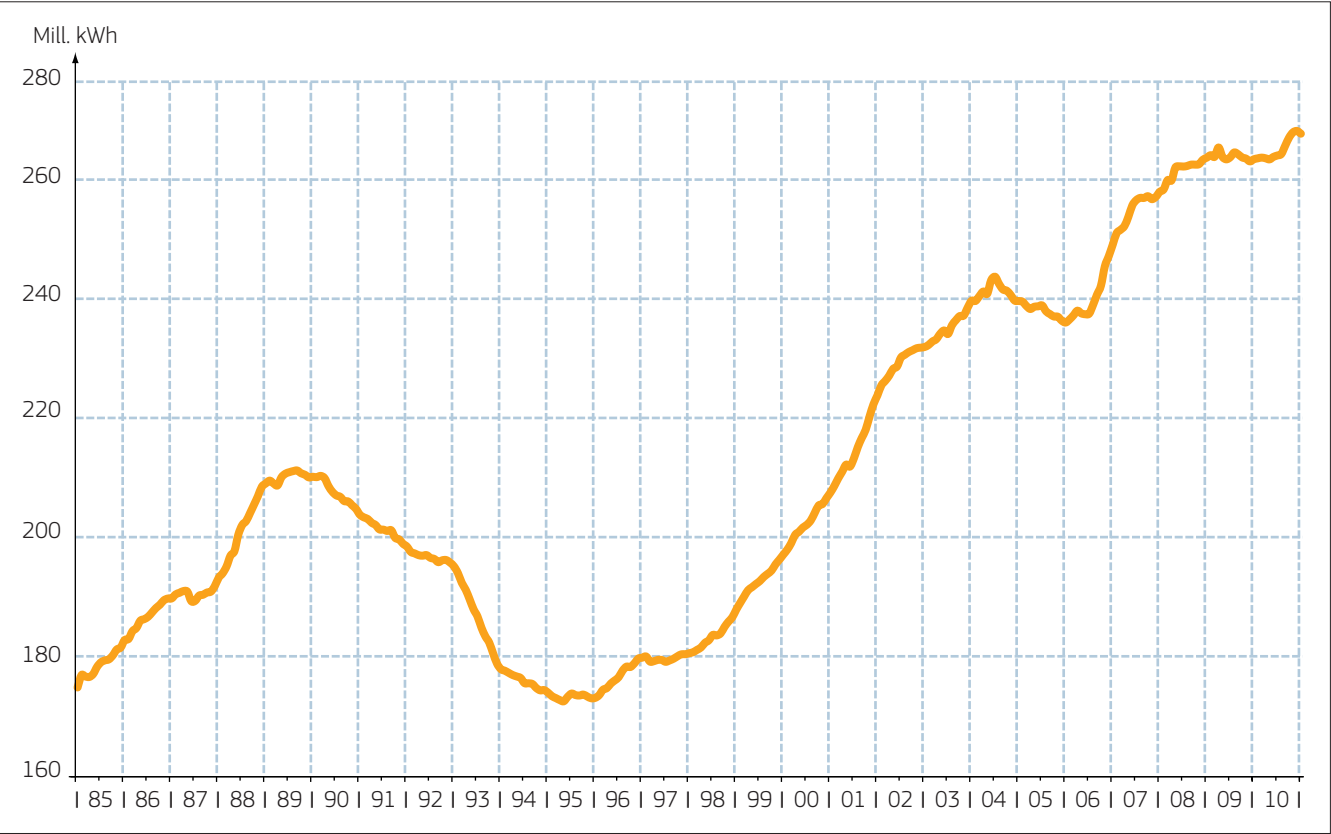
Electricity generation for the entire country, 1954-2010



Daily Load, Central Region, 7 October 2010



12 month generation for the whole country, 1985-2010



The background is a solid dark blue color. Overlaid on this are several large, overlapping, organic shapes in lighter shades of blue, creating a sense of movement and depth. These shapes resemble stylized waves or flowing liquid.

Annual report and annual accounts 2010

Board statement

We hereby present SEV's 2010 Annual Report and Accounts. The Annual Report and Accounts have been drawn up pursuant to the provisions in the Faroese Accounts Act and the Company Statutes.

It is our opinion that the accounting method used is adequate and ensures that the Annual Report and Accounts give a true and fair view

of the company's assets, liabilities and financial position, as well as the results of the company's operations and its cash flow.

The Annual Report and Accounts are submitted to the General Meeting and the Board recommends their approval

Tórshavn, 14 April 2011

Board:

Páll á Reynatúgvu, Chairman

Jákup Suni Lauritsen, Vice Chairman

Marin Katrina Frýdal

Steinbjørn O. Jacobsen

Kári E. Jacobsen

Niels Olaf Eyvindsson

Pauli T. Petersen

Management:

Hákon Djurhuus

Financial Management:

John P. Danielsen

Independent auditor's report

To the owners of Elfelagið SEV

We have audited the Annual Report of Elfelagið SEV for the fiscal year 1 January – 31 December 2010, which comprises the management statement, accounting principles applied, income statement, balance sheet, equity report, cash flow statement and relevant notes. The Annual Report has been prepared in accordance with the Faroese Accounts Act.

Management's responsibility for the Annual Report

Management is responsible for preparing an Annual Account that gives a true and fair view in accordance with the Faroese Accounts Act. This responsibility extends to designing, implementing and maintaining internal control relevant to the preparation and fair and accurate presentation of an Annual Account that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting principles; and making accounting estimates that are reasonable under the given circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the Annual Account based

on our audit. We conducted our audit in accordance with applicable Faroese auditing standards and regulations, which require that we uphold ethical standards, and plan and conduct the audit to obtain reasonable assurance that the Annual Account is free from material misstatement.

An audit involves performing procedures to obtain audit evidence concerning the amounts and disclosures in the Annual Account. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the Annual Account, whether due to fraud or error. In making said risk assessments, the auditor considers the internal controls in place relevant to the preparation and fair and true presentation of the Annual Account in order to design audit procedures that are appropriate under the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. The audit also includes evaluating the appropriateness of the accounting principles applied by management, evaluating whether the accounting estimates, made by the management, are reasonable, as well as evaluating the overall presentation of the Annual Report.

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

Our audit did not result in any qualifications.

Conclusion

It is our opinion that the Annual Account gives a true and fair view of the company's assets, liabilities, and financial position as of 31 December 2010, and of the results of the company's operations and cash flow for the fiscal year, 1 January – 31 December 2010 pursuant to the Faroese Accounts Act.

Review of the Annual Report

The management has the responsibility to write a reliable annual report in accordance with the Faroese Accounts Act. We have not audited the annual report but have, as is required by the law, read the annual report. We have not taken any additional action in this matter, when auditing the annual account. Considering the above statement, it is our opinion that the information in the annual report corresponds to the Annual Account.

Tórshavn, 14 April 2011

NOTA

A certified public accounting firm

Hans Laksá
Chartered Public Accountant

Jóannes Olsen
Registered Accountant

Principal figures

All figures provided in tDKK

	2010	2009	2008	2007	2006
Income statement					
Net sales	280,816	279,870	276,860	249,105	238,359
Result of ordinary operations	8,021	69,282	20,752	63,795	81,992
Result of financial items	-10,139	-5,210	-3,533	-2,293	-5,847
Result of extraordinary operations	0	0	0	0	0
Annual result	-57,783	9,257	-31,138	12,036	16,217
Balance sheet					
Total assets	1,200,554	1,151,024	484,126	539,325	523,545
Carried over to basis for depreciation	28,123	102,706	47,315	70,350	26,046
Equity	889,131	945,563	325,987	357,125	345,089
Cash flows					
Net cash flows from					
Operations	10,821	44,164	19,332	71,535	74,062
Investments	-78,826	-71,856	-76,613	-52,038	-38,410
Financials	73,376	40,158	-18,018	-18,930	-21,030
Annual cash flow	5,371	12,466	-75,299	567	14,622

Key figures

	2010	2009	2008	2007	2006
Profitability					
Return of equity	-6.3%	1.0%	-9.1%	3.4%	4.8%
Return on assets	0.7%	6.0%	4.3%	11.8%	15.7%
Profit margin	2.9%	24.8%	7.5%	25.6%	34.4%
Asset turnover	0.23	0.24	0.57	0.46	0.46
Solvency					
Equity/asset ratio	74.1%	82.1%	67.3%	66.2%	65.9%
Other					
Average number of employees	146	153	148	145	145

Calculation of key figures

Key figures have been calculated in accordance with recommendations by *The Danish Society of Financial Analysts*

Return on equity	$\frac{\text{Annual result} \times 100}{\text{Average equity}}$
Return on assets	$\frac{\text{Result of ordinary operations} \times 100}{\text{Total assets}}$
Profit margin	$\frac{\text{Result of ordinary operations} \times 100}{\text{Net sales}}$
Asset turnover	$\frac{\text{Net sales}}{\text{Total assets}}$
Equity/asset ratio	$\frac{\text{Equity closing balance} \times 100}{\text{Total assets}}$

Annual report

Main activities

Elfelagið SEV (SEV electricity utility) is an inter-municipal corporate enterprise. Its purpose is to produce electric power and to distribute said electricity among resident of the participating municipalities. Pursuant to the statutes, the company shall advance its business purpose according to the principles of commerce on a commercially sound basis and with due regard for the environment. Pursuant to the Electricity Production Act, SEV's network activities shall be financially sustainable, so that revenues suffice to pay for operations and necessary investment.

All municipalities in the Faroes are members of SEV. To yearend 2008 the members bore the responsibility for any company debt and possible losses. As of 1 January 2009 the municipalities shall only be liable for employee expenses.

This report includes company activities from 01.01.10 to 31.12.10

Development of company activities and financial situation

The operational result for 2010 was a deficit of DKK 57.8 million compared to a DKK 9.3 million surplus the previous year. The budget ratified by the Annual Meeting in November 2009 calculated with a DKK 6.6 million deficit. However, when the relevant authority did not authorise the company's planned DKK 0.08 rate increase, a revised budget was ratified

at a general meeting in April 2010. The budget calculated with a deficit of DKK 36.6 million.

Revenues totalled DKK 280.8 million, roughly DKK 1 million more than the previous year and DKK 4.5 million more than budgeted. Electricity sales in kWh remain virtually unchanged compared to the previous year. Nearly all revenues accrued from electricity sales.

Expenses before depreciation totalled DKK 282.9 million or DKK 26 million more than budgeted.

Oil expenses, in particular, account for most of the increase in expenses. Average 2010 oil prices were far higher than expected when the revised budget was ratified in April 2010. According to the budget oil would cost SEV DKK 106.5 million. However, the final cost skyrocketed to DKK 125.3 million. Production at SEV's thermal plants rose 18.6 %. Therefore, the increase in oil usage has also had an impact.

Other operational expenses accrued on materials and services were about DKK 8 million over budget. This increase is primarily due to unexpected renovation costs in the major overhaul of the Fossá Plant. Wages were approximately as budgeted.

Financial items netted DKK 10.1 million, DKK 0.5 million over budget. Interest expenses on loans were below expectation because loans were

taken later in the year than expected. Additional financial expenses of DKK 2.1 million were accrued when the company decided to close a subsidiary company down.

Depreciations. The method changed as of 1 January 2009 on orders by the Electricity Authority of the Faroe Island. Property values have changed significantly as of 1 January 2009, and, at the same time, depreciation periods have lengthened considerably for most properties. At first this will not change total depreciations much; however, it will gradually lead to significant changes. Based on these changes total depreciation in 2010 is around DKK 55.7 million.

Investments

Investments in fixed assets amounted to DKK 78.8 million. This is DKK 29.5 million less than budgeted but DKK 8.2 million more than the previous year. The difference between investments planned and investments implemented is mainly due to the later than planned commencement of investments in hydroelectric power and to the non-implementation of planned investments in wind energy.

Special risks

The company has limited individual customer risk, and constantly monitors customers' debt to the company.

The company is, to a certain extent, exposed to changes in the interest rate level but has chosen not to use interest rate positions or similar

measures to hedge against interest rate risk. Existing loans are all fixed-rate, including the construction loans for "Eiði 2", which will be due for interest rate review by the end of 2013.

Environment

The company prioritizes the environment and therefore greatly emphasizes full compliance at all times with environmental requirements, regulations and standards.

Knowledge resources

It is very important for the company that adequate knowledge and experience are available in all areas of activity. To the extent considered necessary, arrangements are made for suitable staff training.

Development

The company continuously works on developing safety, security and quality of supply. Plans are underway

to increase the production share of renewable energy sources, such as hydroelectricity, water, wave and tidal power.

Prospects for the fiscal year 2011

Operations in 2011 may balance before depreciations. After depreciations there will be a significant loss.

Revenues, which mostly accrue from the amount and price of electricity sold, will be about DKK 39 million more than the previous year due to the rate increase of DKK 0.15 kWh. However, operational expenses are likely to increase significantly. Oil expenses in particular look set to be much higher than the previous year.

As for expenses, based on the oil price level through the first quarter of 2011, oil expenses are expected to total around DKK 140 million, around DKK 15 million more than the previous year.

With reservations for any oil price changes, unexpected damages or other unexpected operational expenses, we can conclude that the result of operations in 2011 will be at about the same low level as in 2010. This also means that without further rate increases there will be no operational cash flow profits. This means that there will be no self-financing of planned investments. And, moreover, loans must be taken to pay instalments of existing loans. A result with no self-financing is inadequate, if SEV, in addition to investing in renewing diesel plants and expanding the network, is to invest further in renewable energy sources.

Events after the close of the fiscal year

From the closing date of the financial statements to date, nothing has occurred that would impact the true and fair assessment of the company set forth in the Annual Report.

Applied accounting principles

General

The Annual Report was prepared in accordance with the provisions in the Faroese Annual Accounts Act for Class C medium-sized companies. The applied accounting principles are unchanged compared to the previous year.

Amounts in the income sheet, balance sheet, notes, etc. are rounded to whole figures without decimals. As each figure is rounded individually, there may be rounding differences between the additions presented and the sum of the underlying figures.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when they are reasonably likely to occur and can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the time at which the annual report is presented

and proving or disproving matters arising on or before the balance sheet date.

FOREIGN CURRENCY AND HEDGING TRANSACTIONS

The annual report is presented in Danish kroner (DKK).

During the year, foreign currency transactions are translated into Danish kroner using the rate of exchange applicable at the date of transaction. Receivables and liabilities and other items in foreign currencies are translated into Danish kroner using the exchange rates applicable at the balance sheet date. Realised and unrealised translation gains and losses are recognised in the income statement under financial items.

INCOME STATEMENT

Net sales

Revenues from the sale of goods and services are included in the income statement, provided that delivery has been effected and the risk has passed to the buyer by the end of the financial year. Net sales are measured without VAT.

Expenses

This item comprises costs related to purchasing wind power, oil, materials and other services, as well as other administrative costs.

Depreciation

Depreciation and amortization of fixed assets are arranged as systematic depreciation over the assets' expected useful lives. Fixed assets are included

at cost price and the depreciation is linear. The depreciation period ranges from 3 to 50 years.

Financial items

Financial items include interest receivable and interest payable, realised and unrealised capital gains and losses on securities, debt and transfers in foreign currencies, amortization of financial assets and liabilities in addition to interest expenses. Financial revenues and financial costs are recognized according to the amounts belonging to the account year.

Taxes

The current and changed deferred taxes for the period are recognised in the income statement as taxes for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity. Tax in the income statement is classified as either tax on ordinary operations or tax on extraordinary events.

Changes in deferred taxes due to changed tax rate are included in the income sheet.

BALANCE SHEET

Tangible Assets

Tangible assets are measured in the balance sheet at cost price less accumulated depreciation or, when the latter is lower, at the recoverable amount. The recoverable amount is the value of the asset in connection with continued use or sale.

Cost price includes direct and indirect material and labour costs.

When the new Electricity Production Act entered into force on 1 January 2009, the Electricity Authority of the Faroe Islands demanded significant changes to the depreciation period for assets, and that these changes should be retroactively dated back to the original year of acquisition. This means that fixed assets have been adjusted to DKK 629,049,604 as per 1 January 2009.

Inventories

Inventories are measured at the lower of cost according to the FIFO principle and net realisable value.

The cost of raw materials and consumables as well as goods for resale is measured as purchase prices plus expenses incurred directly in connection with the purchase.

The cost of produced goods and of goods in production is measured as the amount of direct and indirect material and labour costs.

Receivables

Receivables are measured at nominal value less assessed risks of bad debts computed on the bases of individual assessments.

Financial assets

Financial assets are recognised at their acquisition value.

Securities (cash equivalents)

Bonds are recognised at exchange-rate-adjusted value.

Deferred taxes

Deferred tax is calculated on the

bases of all temporary differences between the carrying amount and tax base of assets and liabilities and is recognised in the balance sheet at the tax regulations and rates applicable. Deferred tax assets, including tax deficits carried-over, are recognised at the expected realisable value.

Current taxes

Current tax payable and receivable is recognised in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Liabilities other than provisions

Long-term liabilities other than provisions are measured at cost at the time of contracting such liabilities. Liabilities other than provisions are subsequently measured at amortised cost, where capital losses and loan expenses are distributed over the term of the liabilities on the basis of the calculated, effective rate of interest at the time of contracting such liabilities.

Short-term liabilities other than provisions are also measured at amortised cost, which usually corresponds to the nominal value of the debt.

Pension liabilities

Provisions are made for pension liabilities in accordance with actuarial calculations.

Equity

Elfelagið SEV is an inter-municipal corporate enterprise, in which all Faroese municipalities hold shares. Each individual municipality's equity is calculated at yearend on the basis of its number of inhabitants.

KEY FIGURES

Key figures are calculated in accordance with the recommendations by The Danish Society of Financial Analysts.

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities as well as changes in cash-on-hand at the beginning and end of the year.

Cash flows from operating activities comprise results of operations for the year, adjusted for non-cash operating items, income tax paid and changes in working capital.

Cash flows from investing activities comprise the acquisition and disposal of intangible assets and tangible assets as well as acquisition and disposal of companies.

Cash flows from financing activities comprise financing from and dividend paid to shareholders as well as the arrangement and repayment of long-term liabilities other than provisions.

Cash at the beginning and end of the year comprise cash and short-term investments with no significant price risk, which can easily be exchanged for cash. This refers to securities, which value fluctuation is very limited.

Income Statement

	Note	2010	tDKK 2009
Revenues	1.2	280,815,837	279,870
Purchased wind energy	2-4	-2,552,822	-2,700
Cost of oil	2-4	-125,258,030	-75,854
Materials and services	2-4	-79,922,232	-69,757
Wages	2-6	-65,061,358	-62,277
Total expenses		-272,794,442	-210,587
Result of ordinary operations		8,021,395	69,282
Depreciations	2-5.9	-55,665,481	-54,815
Results before financial items and taxes		-47,644,086	14,467
Financial items, net	8	-10,138,601	-5,210
Results before taxes		-57,782,687	9,257
Taxes	7	0	0
Annual result		-57,782,687	9,257
Dividends			
Result carried over		941,423,298	321,847
Opening adjustment		1,350,545	610,319
Annual result		-57,782,687	9,257
Total		884,991,156	941,423
Proposed dividends			
Result carried over		884,991,156	941,423
Total		884,991,156	941,423

Cash flow statement

(DKK 1,000)	2010	2009
Annual result	-57,783	9,257
Other items	2,082	0
Depreciation	55,665	54,815
Change in liquidity (operations)	-36	64,072
Change in debt	-2,533	359
Change in short-term debt	33,938	-9,144
Change in oil inventory	-19,928	-10,086
Change in materials inventory	-620	-1,038
	10,821	44,163
Fixed assets, alteration of work in progress	-78,826	-71,856
Shares	0	0
Instalment payments	72,025	40,158
Opening adjustment	1,351	0
Changes in liquidity	5,371	12,465
Opening balance cash-on-hand	36,765	24,268
Opening balance bonds	7	39
Closing balance liquidity	42,143	36,772
Closing balance liquidity		
Cash-on-hand	42,143	36,765
Bonds	0	7
	42,143	36,772

Balance sheet as per 31 December

ASSETS	Note	2010	tDKK 2009
Real estate, power plants, etc.	2.3.4.5.9	993,144,757	1,021,504
Investment works in progress		64,383,602	12,822
Fixed assets		1,057,528,359	1,034,326
Share equity		2,850,000	4,975
Financial assets		2,850,000	4,975
TOTAL ASSETS		1,060,378,359	1,039,301
Oil inventory		38,483,020	18,555
Materials inventory		11,714,441	10,937
Contract work in progress		19,250	176
Total inventory		50,216,711	29,668
Electricity debtors	10	32,144,433	32,724
Other debtors		4,227,267	3,745
Other accounts receivable		11,443,840	8,813
Total debt		47,815,540	45,282
Bonds		312	7
Securities		312	7
Cash-on-hand		42,143,305	36,765
TOTAL CURRENT ASSETS		140,175,868	111,722
TOTAL ASSETS		1,200,554,227	1,151,024

Balance sheet as per 31 December

LIABILITIES	Note	2010	tDKK 2009
Deposit		4,139,875	4,140
Capital account		884,991,156	941,423
TOTAL EQUITY	11	889,131,031	945,563
Provisions for pension liability		18,730,552	18,731
Deferred tax	7	0	0
Total provisions		18,730,552	18,731
Loans	12	217,979,636	145,955
Long-term debt		217,979,636	145,955
Electricity creditors	13	20,271,361	18,683
Other creditors		48,484,281	19,472
Other debt		5,957,366	2,621
Short-term debt		74,713,008	40,775
TOTAL DEBT		292,692,644	186,730
TOTAL LIABILITIES		1,200,554,227	1,151,024
Mortgage surety interest	14		

Equity report

All figures provided in tDKK	Deposit	Profit carried over	Total
Equity 01.01.2009	4,140	321,847	325,987
Opening adjustment	0	610,319	610,319
Opening balance adjusted equity	4,140	932,166	936,306
Annual result	0	9,257	9,257
Equity 31.12.2009	4,140	941,423	945,563
Equity 01.01.2010	4,140	941,423	945,563
Opening adjustment	0	1,351	1,351
Opening balance adjusted equity	4,140	942,774	946,914
Annual result	0	-57,783	-57,783
Equity 31.12.2010	4,140	884,991	889,131

Changes in deposits – break-down	2010	2009	2008	2007	2006
Beginning of year deposit balance	4,140	4,140	4,140	4,140	4,140
Increased deposit	0	0	0	0	0
Total	4,140	4,140	4,140	4,140	4,140

1. Revenue	2010	tDKK. 2009
kWh charge, etc.	261,844,700	260,278
Fixed payments	16,105,115	16,380
Connection fees	1,579,190	2,094
Other revenues	1,286,832	1,118
	280,815,837	279,870

2. Distribution of Operations

Operations tDKK	2010 Production	2010 Network	2010 Total	2009 Production	2009 Network	2009 Total
Income	-	280,816	280,816	-	279,870	279,870
Production distribution	2 38,266	-238,266	-	184,825	-184,825	-
Purchased wind energy	-	-2,553	-2,553	-	-2,700	-2,700
Cost of oil	-124,731	-527	-125,258	-75,624	-229	-75,853
Materials and services	-46,416	-33,507	-79,923	-40,495	-29,262	-69,757
Wages	-31,103	-33,958	-65,061	-32,878	-29,399	-62,277
Results of ordinary operations	36,016	-27,995	8,021	35,828	33,455	69,283
Depreciations	-31,306	-24,359	-55,665	-30,771	-24,044	-54,815
Results before financial items and taxes	4,710	-52,354	-47,644	5,057	9,411	14,468
Financial items, net	-4,710	-5,429	-10,139	-5,057	-154	-5,211
Result before taxes	-	-57,783	-57,783	-	9,257	9,257
Taxes	-	-	-	-	-	-
Annual result	-	-57,783	-57,783	-	9,257	9,257

Notes to the annual report

ASSETS tDKK	Production	Network	2010 Total	Production	Network	2009 Total
Real estate, power plants, etc.	574,157	418,988	993,145	596,153	425,351	1,021,504
Investment, works in progress	54,384	10,000	64,384	11,347	1,475	12,822
Fixed assets	628,541	428,988	1,057,529	607,500	426,826	1,034,326
Share equity	-	2,850	2,850	-	4,975	4,975
Financial assets	-	2,850	2,850	-	4,975	4,975
TOTAL ASSETS	628,541	431,838	1,060,379	607,500	431,801	1,039,301
Oil inventory	-	38,483	38,483	-	18,555	18,555
Materials inventory	-	11,714	11,714	-	10,937	10,937
Contract work in progress	-	19	19	-	176	176
Total inventory	-	50,216	50,216	-	29,668	29,668
Electricity debtors	-	32,144	32,144	-	32,724	32,724
Other debtors	-	4,228	4,228	-	3,745	3,745
Other accounts receivable	-	11,444	11,444	-	8,813	8,813
Total debt	-	47,816	47,816	-	45,282	45,282
Bonds	-	-	-	-	7	7
Securities	-	-	-	-	7	7
Cash-on-hand	-	42,143	42,143	-	36,765	36,765
TOTAL CURRENT ASSETS	-	140,175	140,175	-	111,722	111,722
TOTAL ASSETS	628,541	572,013	1,200,554	607,500	543,523	1,151,023
LIABILITIES						
Deposit	-	4,140	4,140	-	4,140	4,140
Capital account	410,561	474,430	884,991	467,932	473,491	941,423
Total equity	410,561	478,570	889,131	467,932	477,631	945,563
Provisions for pension liability	-	18,731	18,731	-	18,730	18,730
Deferred tax	-	-	-	-	-	-
Total provisions	-	18,731	18,731	-	18,730	18,730
Loans	217,980	-	217,980	139,568	6,388	145,956
Electricity creditors	-	20,271	20,271	-	18,682	18,682
Other creditors	-	48,484	48,484	-	19,472	19,472
Other debt	-	5,957	5,957	-	2,620	2,620
Total debt	217,980	74,712	292,692	139,568	47,162	186,730
TOTAL LIABILITIES	628,541	572,013	1,200,554	607,500	543,523	1,151,023

3. Production

tDKK	Own production distribution	Oil expenses	Materials	Wages	Financial items	Depreciation
Fossá Plant	22,274	-40	-18,874	-2,978	-	-381
Heyga Plant	845	-	-276	-271	-	-298
Mýru Plant	3,450	-	-2,590	-470	-	-389
Eiði Plant	21,335	-	-3,020	-1,250	-4,710	-12,356
Botnur Plant	1,203	-10	-534	-330	-	-330
Vágur Plant	23,275	-11,911	-3,356	-5,689	-	-2,319
Trongisvágur Plant	513	-	-238	-111	-	-165
Sund Plant	151,581	-108,825	-14,622	-15,599	-	-12,536
Skopun	721	-86	-240	-145	-	-251
KG Plant	4,970	-2,409	-557	-1,539	-	-465
Wind mill 150 kW	93	-	-32	-61	-	-
Wind mill 750 kW	1,821	-	-494	-170	-	-1,156
Wind energy technology	135	-	-86	-49	-	-
Small plants (joint work. KG)	82	-	-52	-30	-	-
Mobile aggregate	399	-25	-89	-190	-	-95
Fugloy	1,604	-472	-446	-529	-	-156
Svínoy	715	-22	-90	-406	-	-196
Mykines	959	-284	-199	-464	-	-11
Hestur	78	-	-2	-76	-	-
Koltur	367	-124	-131	-112	-	-
Nólsoy	86	-	-6	-80	-	-
Skúvoy	1,163	-383	-218	-438	-	-124
Dímun	597	-140	-262	-116	-	-78
Production results	238,266	-124,731	-46,414	-31,103	-4,710	-31,306

4. Network activities

tDKK	Income	Own prod.distr.	Wind energy	Oil exp.	Materials	Wages	Fin. items	Deprec.	Total
Sales	280,816	-238,266	-	-	-	-	-	-	42,550
Substations	-	-	-	-	-786	-448	-	-2,673	-3,907
Distribution stations	-	-	-	-369	-14,129	-15,057	-	-17,701	-47,256
Installation	-	-	-	-	-903	-3,389	-	-863	-5,155
Engineering	-	-	-	-	-1,977	-3,347	-	-32	-5,356
Technical	-	-	-	-	-675	-1,287	-	-55	-2,017
Administration	-	-	-2,553	-158	-19,328	-12,617	-5,429	-3,035	-43,120
Network total	280,816	-238,266	-2,553	-527	-37,798	-36,145	-5,429	-24,359	-64,261
Materials distributed	-	-	-	-	4,292	-	-	-	4,292
Wages distributed	-	-	-	-	-	2,187	-	-	2,187
Network distrib. total	280,816	-238,266	-2,553	-527	-33,506	-33,958	-5,429	-24,359	-57,782

Notes to the annual report

5. Administration

tDKK	Wind energy	Oil exp.	Materials	Wages	Fin. items	Deprec.	Total
Annual Meeting and Board	-	-	253	945	-	-	1,198
Employer workers' benefits contribution	-	-	-	-	-	-	-
Studies and consultancy	-	-	3,963	106	-	-	4,069
IT	-	-	3,041	-	-	24	3,065
Management and office expenses	-	-	1,798	9,172	-	11	10,981
Energy advice service	-	-	47	367	-	-	414
Public servants' pensions	-	-	-	781	-	-	781
Loss on unpaid debt	-	-	4,553	-	-	-	4,553
Other administrative expenses	2,553	158	5,673	1,245	5,429	3,001	18,059
Administration total	2,553	158	19,328	12,616	5,429	3,036	43,120
Materials distributed	-	-	-4,292	-	-	-	-4,292
Wages distributed	-	-	-	-2,573	-	-	-2,573
Administration distributed total	2,553	158	15,036	10,043	5,429	3,036	36,255

6. Employee expenses

	Production	Network	total 2010	tDKK 2009
Wages	28,093,458	29,026,618	57,120,076	59,088
Pensions	2,221,016	3,788,525	6,009,541	5,718
Public sector fees	788,785	1,142,957	1,931,742	1,446
Total	31,103,259	33,958,100	65,061,358	66,252
Board and management remuneration			2,038,718	1,871
Average number of employees			146	153

7. Taxes

	2010	tDKK 2009
Current taxes	0	0
Deferred taxes	0	0
Total taxes	0	0
Deferred taxes		
Opening balance provisions	0	0
Changes in deferred tax over the year	0	0
Provisions at yearend	0	0

8. Financial items

	2010	tDKK 2009
Interest payable	8,699,429	5,682
Devaluation of shares in subsidiary company	2,125,168	0
Interest receivable	-685,996	-472
	10,138,601	5,210

9. Real estate and depreciation

tDKK	Production plants	Buildings and land	Distribution stations	Equipment
Acquisition value at the beginning of the year	1,269,230	65,320	686,070	117,730
Addition, net	9,311	0	13,095	4,900
Acquisition value at yearend	1,278,541	65,320	699,165	122,630
Depreciation at the beginning of the year	-673,078	-23,513	-315,510	-104,746
Depreciation over the year	-31,306	-1,221	-19,976	-3,162
Depreciation at yearend	-704,384	-24,734	-335,486	-107,908
Booked value at yearend	574,157	40,586	363,679	14,722

10. Electricity debtors

	2010	tDKK 2009
Payments during fiscal year:		
Ordinary customers	746,024	2,992
Max. customers	3,046,545	2,453
	3,792,569	5,445
Unpaid balances:		
Ordinary customers	19,283,412	23,556
Max. customers	11,218,452	4,924
	30,501,864	28,479
Provisions for loss from unpaid electricity customer debt	-2,150,000	-1,200
Total electricity customer debt	32,144,433	32,724

11. Distribution of equity

	MUNICIPAL DEPOSITS	OWNER EQUITY 31.12.2010	OWNER EQUITY 31.12.2009
Hvannasund	36,375	7,796,024	8,417,659
Klaksvík	520,250	88,135,331	93,697,258
Fugloy	17,500	695,420	735,336
Viðareiði	25,250	6,368,583	6,869,584
Kunoy	12,625	2,562,074	2,941,343
Húsar	17,500	988,228	1,103,004
Eiði	78,625	12,279,653	12,887,727
Sunda	177,367	30,378,872	31,948,404
Fuglafjørður	136,250	27,999,804	29,723,046
Eystur	146,500	36,180,139	37,966,547
Nes/Runavík	332,133	93,277,778	97,993,167
Sjógv	92,875	17,568,504	19,447,696
Kvívík	59,125	10,724,108	11,494,459
Vestmanna	125,250	22,033,833	23,008,269
Vága	169,625	35,503,019	37,598,879
Sørvágur	127,500	20,624,692	22,079,424
Sandur	72,250	10,193,393	10,797,825
Skopun	71,000	8,601,247	9,404,558
Skálavík	30,750	2,964,685	3,173,554
Húsavík	25,125	2,287,566	2,438,219
Skúvoy	17,875	823,524	986,898
Hvalba	103,625	13,029,974	13,990,731
Tvøroyri	255,250	31,586,707	33,728,691
Fámjin	23,125	1,976,457	2,089,902
Hov	22,875	2,196,063	2,341,464
Porkeri	51,000	5,746,365	6,347,109
Vágur	218,375	25,218,124	26,394,684
Sumba	81,375	6,643,091	7,295,305
Tórshavn	1,092,500	364,747,773	384,522,556
	4,139,875	889,131,031	941,423,298

12. Loans

The company's debt becomes due for payment as follows:

	tDKK 2010
Within 1 year	15.859
Between 1 and 5 years	41.857
After 5 years	10.263

A DKK 150 million loan from the Investment Fund of the Faroes for the Eiði 2 South project and the 3. turbine at the Eiði Plant has been granted. These projects are on-going and the loan will be raised to DKK 178 million in 2010 and to DKK 218 million in 2012. According to the contract with the Investment Fund, the repayment period will be 14 years and will commence in 2014.

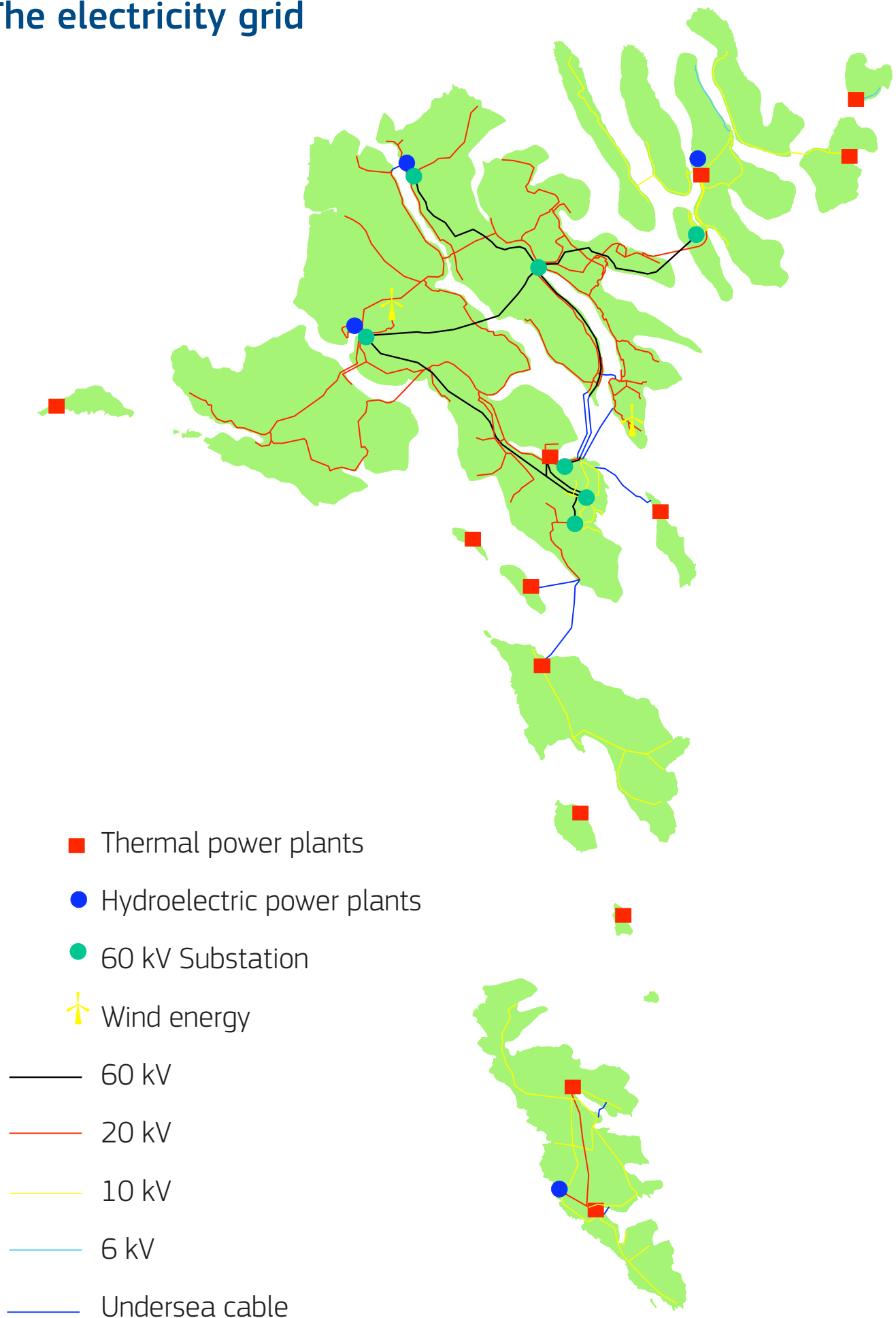
13. Electricity creditors DKK 20,271,361

This is debt owed to customers who have used less electricity than they paid for, and therefore have credit with SEV.

14. Mortgages

The total mortgage on the company's assets is DKK 218 million.

The electricity grid





Elfelagið SEV · P.O. Box 319 · FO 110 Tórshavn
Phone: +298 34 68 00 · Fax: +298 34 68 01
sev@sev.fo · www.sev.fo