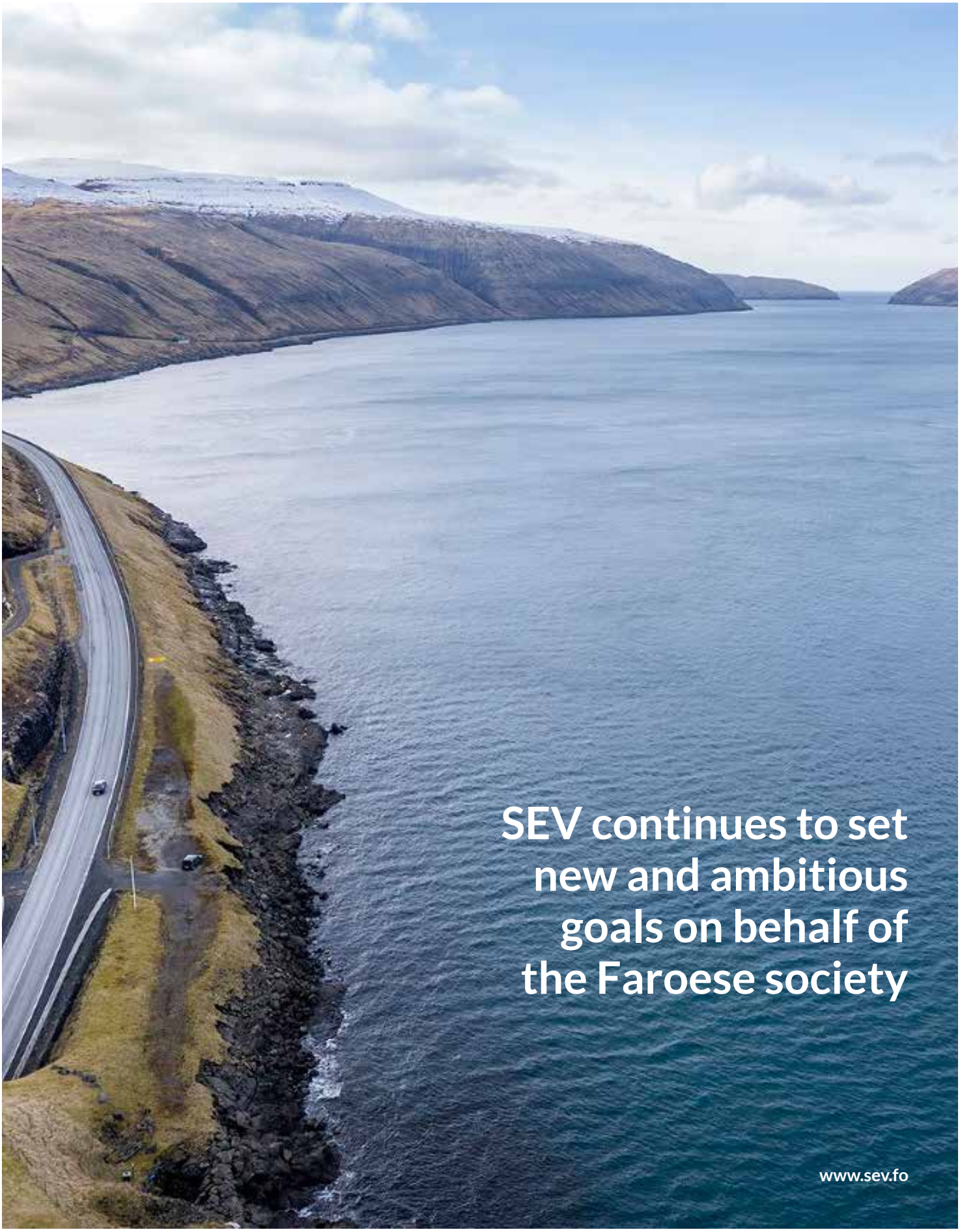
ANNUAL REPORT 2019



SEV continues to set new and ambitious goals on behalf of the Faroese society

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Content

Annual report 2019
General Meeting 24 April 2020

Photos: Alan Brockie, Klara Johannesen, Faroephoto, Pauli Djurholm, Minesto, Benjamin Rasmussen, Terji Nielsen, Eyðna Joensen, Kári Durhuus, Lbf., Jens Kr. Vang og Sunnvard Andreasen.

Layout: Sansir

Aerial view of the area around Vestmanna. On the right the Mýrarnar Dam and on the left the Heygadalur Dam

Report of the SEV Board of Directors presented to the owners at the Annual General Meeting 24 April 2020

"From our reservoir above Vestmanna, you can take a brisk hike up to the top of Sneis mountain. As you approach the peak, it becomes quite steep, and you have to be very careful not to misstep. Upon reaching the top on a clear day you can enjoy the excellent panorama view, and then later you can easily make your way down the mountain." Quite a parallel to our Green Course.

To continue with our "mountain" metaphor, over the past five years on our way to the mountain top, we have prepared ourselves well for a green future, and during this time we learned a great deal. Now we are ready to continue on the path ahead.

In the near future, three new windfarms will be erected, tripling the amount of wind power from 18 MW to 60 MW. The hydropower pumping systems are being prepared, and solar and tidal energy are both in a very interesting stage of development.

Our windfarms will provide us a greener and cheaper supply of electricity. In order to integrate our green energy production and to increase our overall output, more investment needs to be made. These investments are a necessary step toward a stable, inexpensive and green supply of electricity. When the wind turbines at Húsahagi came online in October 2014, we proclaimed the goal of "100% green electrical energy onshore by 2030". Two years later, the unique battery system at Húsahagi, designed especially for the Faroese grid, was linked into the electrical system.

Over these past five years, we have diligently explored the question of how we could integrate several fluctuating sources of energy into our electrical system, a system that lies isolated in the middle of the North Atlantic Ocean, while at the same time maintaining stability and equilibrium within the system. Highly complicated technical questions were answered, inspired by innovative, new thinking, which in the end enabled us to advance along our Green Course. Also we maintained a continual, prudent focus on the financial side to ensure the lowest possible cost of electricity. After a period of intensive research and preparation, we are ready to launch our unparalleled expansion into green energy. It is worth repeating that SEV has competent, skilled and dedicated employees, who will wisely take SEV into the green future. Indeed, this is no small task, but a grand plan designed to serve as the foundation for the advancement of the entire Faroese society to a new level of achievement. A society like no other.

The activity of SEV since the last Annual General Meeting is described in this report, wherein the Board highlights the goals the Board believes hold the greatest interest for the owners. The report is provided pursuant to Article 3, paragraph 12b and Article 4, paragraph 11a of the Company's Articles of Association.

THE CORE OF THE ELECTRICAL SYSTEM

As we engage in the massive expansion of our green energy resources, it is important also to focus on the core values of SEV, namely our obligation to continually provide electricity, based on prudent and fiscally responsible operations for the benefit of all our customers. Therefore, we continually operate, strengthen, and expand our grid to ensure a steady supply of high-quality power. These core values are today supported by our thermal and hydropower plants, however, when 2030 arrives and our thermal power plants are serving only as reserve power, our hydropower plants and their pumping systems, together with the grid, will be the core of the entire electrical system. It is of paramount importance that there is a secure and stable supply of electricity in the Faroe Islands, and that all the core elements are strongly united, irrespective of any possible political adjustments that might be desired in future relative to the electricity energy sector.

"It is of paramount importance that there is a secure and stable supply of electricity in the Faroe Islands, and that all the core elements are strongly united

THE POLITICAL SCENE

On 14 September 2019, the present political coalition took office. In their political cooperation agreement, they stated that the electrical supply system shall be revised. In the section entitled Energy Goal and the Environment, it was stated: "Work should be undertaken to separate SEV's grid from its other operational areas so that full transparency is achieved regarding the cost of operating the grid. Full transparency shall be the basis under which private enterprises shall have the possibility to lease and produce into the electric grid and thus sell [electricity]".

The wording of the above agenda is a without a doubt a continuation of parliamentary decision No. 075/2018, wherein the Parliament directed the Government to "submit a report to the Parliament on how SEV's grid could be separated from its other operational areas so that full transparency could be achieved regarding the cost of operating the grid". The Parliament at the same time requested the Government "to combine the report with other initiatives underway in the Government to accelerate the production of green energy and in this connection to ensure greater competition in the electricity production and sales sector for the benefit of consumers and thus assist in reaching the goal that by 2030 the Faroe Islands onshore runs on sustainable resources". The resolution was adopted 6 March 2019 with 27 "yes" votes and 1 "no" vote.

A total of DKK 1.9 million was set aside in the 2020 National Budget to finance the cost of investigating the possibility of separating the grid from production. SEV will freely and constructively cooperate in the study when the researchers deem there is a need for information and specialized knowledge from SEV. Our hope is that the study can help to stimulate discussion and provide factual reasons for and against a possible separation of the grid and production.

SEV will continue to dialogue with the political sector, the business community and our owners on this matter in order to facilitate a better understanding of the viewpoints of everyone involved. SEV welcomes sensible changes and SEV is also studying internally the advantages and challenges of the proposed changes to the electrical system. In the end, we trust that reasonable and sensible decisions will be taken that will ultimately benefit and advance Faroese society as a whole. It is important to remain focused on the necessity that all the core suppliers are bound together in a single strong entity, which bears the clear and unified responsibility and goal to guarantee electricity production security, stability and quality for all. The principle, overarching goal is to provide secure, inexpensive and green electrical power to private consumers, businesses, and the entirety of Faroese society.

The Board of Directors has decided that the Company shall prepare a report outlining an adaptive price structure that reflects all the cost areas in the provision of electricity, wherein the price could change, e.g., on a daily basis, relative to the actual costs of supplying electricity. Efforts are underway on this project and in this way we can help ensure full transparency regarding electricity costs.

THE CONSUMER

To support the vision of the Faroe Islands becoming 100% green onshore by 2030, it is necessary that our consumers adopt electric solutions, especially regarding heating and transport. The government VAT-free initiatives regarding the purchase of heat pumps and electric vehicles, etc. – together with lower electricity prices relative to these consumer groups – will make a difference.

The government as a whole, however, must realise that the above-referenced support initiatives impact the competitiveness of P/F Fjarhitafelagið, which already is a green heating solution.

A pricing structure for the electric charging stations located in public car parks around the country has been completed. The plan is to implement this pricing structure during the first half of 2020.

Our consumers must have the possibility of good access to SEV's customer service. Therefore, SEV will actively engage in today's social media outlets. We will strive to become a natural part of the daily life of our customers. With a simple touch, our consumers shall always be able to seek advice, guidance and information from SEV. A new website is under development that will provide a more collaborative, synergistic customer service.

The consumer shall be the focus of SEV, especially in these changing times when all kinds of interesting ideas are springing up.

WIND POWER TENDERS

SEV won three tenders offered by ORKA [Faroese Electricity Authority] for windfarms at Porkerishagi. This area is a challenging site relative to wind and it has taken a long time to obtain "site verification" from Enercon. SEV has entered into an agreement with suppliers and the goal is to erect the wind turbines in the autumn of 2020.

To obtain the full benefit of unstable wind energy, a synchronous compensator and a large 6 MW battery system will be integrated into the wind-farms. The power of the battery system is equal to the power of the wind turbines, meaning that the batteries could meet electricity demand for up to one-half hour if the wind turbines should abruptly stop. This half-hour will make all the difference, while other electricity production units are brought online to take over production to meet demand. All things considered, these technical innovations will in the main enable Suðuroy to be 100% green.

The fourth tender from ORKA with a deadline of 1 August 2019 was for a windfarm at Eiði with a capacity of 18 MW. SEV and P/F Magn submitted tenders. On 2 October 2019, SEV was promised a production licence. All the many permits have not yet been granted; thus the wind turbines are not expected to be erected until 2021.

The fifth windfarm tender was for 18 MW to be located in the central region of country. This was considered an "open door" tender for the Gellingar-kletti area at Hoyvíkshagi. In contrast to all the other wind energy tenders, ORKA did nothing to obtain the land for those interested in submitting a tender. SEV protested against this, as well as other issues SEV felt was not correctly managed. In the end, eight tenders were submitted: one from Vindrøkt, four from P/F Magn, and three from SEV. ORKA awarded Magn the production licence, which Vindrøkt appealed to the Industrial Appeals Board, which subsequently asked SEV if it wished to join the appeal and SEV submitted its comments on 13 January 2020. The commentary submitted to the Industrial Appeals Board by SEV was essentially that submitted previously to ORKA.

"We will strive to become a natural part of the daily life of our customers. With a simple touch, our consumers shall always be able to seek advice, guidance and information from SEV"

THE PUMPING SYSTEMS AT VESTMANNA

Work is underway to prepare a systemic proposal for a pumping system for the Vestmanna hydropower area. The goal is to complete the proposal by this summer. The project as envisioned is very large and comprehensive, which will in the end be the cornerstone of a new green electricity system. This project will not be completed in one day. This project will be decisive in determining how much wind power can be integrated into the entire electricity system. Time is of the essence in launching this project to make sure that the anticipated pumping system does not become a bottleneck along the Green Course.

At the same time as work is progressing on the above-referenced project, a study is underway to determine if it makes any sense to erect a pumping system on Suðuroy. There are three possibilities: 1) a pumping system in Vestmanna and a 60 KW undersea cable from Sandoy to Suðuroy; 2) pumping systems in Vestmanna and Suðuroy; 3) one pumping system in Vestmanna and one in Suðuroy and a 60 KW undersea cable from Sandoy to Suðuroy. Each shall be studied further in more detail so that a decision can be taken about what should be done.

Key figures 2019

HYDRO POWER (GWh)

104

2018: 108 GWh

WIND POWER (GWh)

53

2018: 64 GWh

FOSSIL FUELS (GWh)

230

2018: 180 GWh

SOLAR POWER (KWh)

135

2018: 0

EV CHARGING STATIONS

12

2018: 12

OTHER GREEN INITIATIVES

A solar panel trial initiative was erected in Sumba on Suðuroy. The facility is designed to produce 250 kW of electricity and fills half of a former football pitch leased by SEV from the Sumba municipality. To date, it has been operating satisfactorily.

The trials with two 100 kW tidal stream "dragons" from the Swedish company, Minesto, continue, and the plan is to set out two "dragons" in Vestmannasund this coming spring. The tidal stream "dragons" or kites are attached to the seafloor and circulate in the sea in a figure-eight loop. On each "dragon" is a turbine with an attached propeller that rotates as it moves through the water and produces electricity. To learn more about how the "dragon" works, visit SEV's website, www.sev.fo.

Now it is possible for others besides SEV to produce electricity and integrate it into the grid from solar, wind and hydropower systems. However, certain critique has arisen relative to technical and financial issues. SEV and ORKA have agreed that a detailed study on these issues will be forthcoming in 2020. The biogas plant at Skarðshjalla will start production soon. One biogas motor is located at the plant and will produce electricity and SEV will purchase any excess power.

P/F Fjarhitafelagið, the long-distance district heating company of which SEV owns half along with the municipality of Tórshavn, is expanding and over the next two years plans to lay main supply piping between midtown and the western part of Tórshavn. This will strengthen the income basis of the company considerably.

Onshore electricity provided to vessels in port has been debated at several general meetings of SEV. Substantial investment in the harbours and onboard the vessels is needed. To the degree that the vessels and the harbour authorities make these investments, SEV is prepared to supply electricity as usual. If there arises any discussion of how this might be facilitated by other means, SEV is very willing to engage in these discussions.

OTHER EXPANSION

The construction of Station 3 at the Sund Power Plant has gone very well. An official public celebration will be held on 29 April 2020 to commemorate

Board and Management, from left: *Jón Nielsen, Director, Jónsvein Hovgaard, Repr. of Suðuroy district, Heri Mortensen, Director, Marin Katrina Frýdal, Repr. of Municipality of Tórshavn, Kristian Eli Zachariasen, Repr. Northern islands, Hans Jákup Johannesen, Vice Chairman, Repr. of Eysturoy district. Front row: Sune Jacobsen, Repr. Vágoy, Bogi Bendtsen, Director, Hákun Djurhuus, CEO, John Zachariassen, Chairman of the Board, Repr. North Streymoy and Vinjard Tungá, Repr. Sandoy.*

INVESTMENTS

342

DKK MILLION

Investments in power production plants as well as in the distribution net

SEV formally taken possession of the expanded power plant. The total cost will be around DKK 750 million, including a new coupling station for DKK 60 million. The expansion of the Sund thermal power plant will increase the available power to somewhat more than the daily electricity demand of the central region of the country. The significant increase in electricity demand at present made it necessary for SEV to purchase and install an extra 8MW of reserve capacity at the Sund Power Plant last summer. This extra reserve capacity is actually a gasoil-fired motor outfitted in a container, which can be transported around the country to where it is needed or eventually sold.

New standards regarding maritime fuel oil, which entered into effect on 1 January 2020, are also applicable to the types of fuel oil used by SEV in the production of electricity. SEV, however, received an exemption from the new standards effective until 1 July 2020. In this regard, SEV shall submit a report to the Environment Agency outlining the various possibilities for oil consumption. The report is due in May 2020.

This transition to new oil-quality standards within the oil market is exactly the cause of the many oil supply challenges faced by both the Sund and Vágur power plants last summer. An agreement with the supplier to take back the oil was reached, and the supplier was also asked to cover the cost of the damages and disruptions that resulted.

The increasing electric power demand, especially from the pelagic fishing industry and salmon farming, has also led to substantial expansion of the grid. The new coupling stations in Runavík, innan Eið near Kambsdal, and north of Strond near Klaksvík are prime examples of this. Together with this expansion of the grid, new underground cables were installed. The major expansion in the aquaculture industry stems in the main from the companies keeping their smolt onshore longer to age more before they are released into the sea. SEV's expansion projects will continue for several more years. A new coupling station in Vestmanna is being built and it is expected that the station will come online this summer.

Last summer renovation work got underway at SEV's headquarters at Landavegur 92, which also includes the necessary upgrading to meet today's building codes. The roof, windows and siding will be replaced; the main entrance doors will be replaced, and a new customer reception area will be outfitted. The interior will also be updated. It is estimated that this renovation work will cost around DKK 29.9 million and the work should be completed in the autumn of 2020. The cost of solar panels, district heating and emergency power installations have not been included in the above-referenced cost assessment.

OTHER BOARD MATTERS

At the Annual General Meeting held during the autumn of 2016, the remuneration for board members was discussed. The Board considered the matter and it was anticipated that the Board would submit its decision to the Extraordinary General Meeting in November 2018. The government authority, which is the approving authority relative to such matters, is also considering the issue at present. Thus, it is advisable to await the conclusion of the government authority so that the Board may have this perspective in mind when the Board again takes up the issue of board compensation.
The Board has also worked on the question of how the board elections are carried out. The Board feels that the work of the Board will be strengthened if not all members stand for election at the same time. It has happened more than once that all seven members were newly elected, and this is unfortunate.

THE 2019 FINANCIAL RESULT

SEV's 2019 result after taxes will be some DKK 62 million. This is a satisfactory result, compared to the Company's activities. Financial results at this level are necessary when major investments continue to lie ahead with commensurate self-financing.

The cost of oil is still a major expenditure of SEV, totalling DKK 143.9 million during 2019. This reflects an increase of DKK 38.1 million, compared with 2018, and again a total increase of DKK 59.2 million, compared with 2017.

The key figures for debt compared to income (NIBD/EBITDA) is now a factor of 6.1, which is 0.1 above the highest internal "permitted" level agreed upon by SEV.

THE 2020 FISCAL BUDGET

Included in the 2020 fiscal budget is a price increase of DKK 0.05 / kWh excluding VAT for private customers and DKK 0.10 / kWh for "industrial customers", which should result in a surplus of DKK 41.5 million before taxes and DKK 34.0 million after taxes.

This is not a satisfactory result and the key figures (NIBD/EBITDA) will increase to a factor of 6.9. A price increase, which would ensure that the key figures do not exceed a factor of 6.0, would have to be so large that it would create major unrest in the whole of Faroese society. Therefore, the price increase will be carried out over a span of two years, which means a price increase of DKK 0.05 / kWh in 2021 for all customers. Discussions with the Electricity Production Commission covered this issue and the oversight Commission acknowledged the need as circumstances now stand. This issue shall be discussed further in more detail based upon then current circumstances.

At present, the result for 2021 is projected to be DKK 68 million after taxes, and the key figures (NIBD/EBITDA) will be a factor of 5.5.

The future results of SEV must also be at this high level, given the considerable investments required in future to guarantee supply stability and to meet our supply obligations and to continue along our Green Course, which also entails considerable self-financing.

"Political leaders, the business community and the general public have all acknowledged that there is only one way forward – the Green Course"

LIQUIDITY

690

DKK MILLION

New capital of DKK 350 Million has been procured for investments and operations in the coming years

SEV has obtained new financing in connection with the wind turbine tenders. The financing institutions have agreed to a minimum level of self-financing from 37.5% to 35.0% in connection with SEV winning the tender for the wind turbine project at Eiði.

COURAGE, DRIVE AND INNOVATIVE THINKING

The mountaintop is in sight and we soon will begin our journey down. This is an apt metaphor, given our difficult struggle to gather the experience, the technical skills, and the financial acumen to adequately lay the foundation for our expansion into green energy, which will become easier and easier as we traverse the path ahead.

Over the coming years, we will see our expansion into green energy making a difference both with regard to the environment and our finances. Wind power, pumping systems, solar and perhaps also tidal stream energy will provide much more green energy to the grid and oil expenses will decline considerably.

Thus, after five years of hard work and creative thinking, we now stand at the brink of a new and exciting chapter in Faroese power history. We have evolved the vision of 2030 into a concrete reality, so five years is a brief period all things considered, and we should all be proud of our accomplishments. For this, we thank our competent and collaborative employees who operate our electrical system, because it was here that "100% green electric power onshore in the Faroe Islands by 2030" began.

John Zachariassen, Chairman of the Board.

Over this five-year period, our political leaders, the business community and the general public have all acknowledged that there is only one way forward – the Green Course. We will continue our good relations and ongoing collaboration with the country's governmental authorities, private companies, and everyone who is keen to walk the future green course in a pragmatic and rational way – technically, environmentally and economically.

SEV will progress for the benefit of the entire Faroese society, and regardless of how the electrical energy sector is organized in future, Elfelagið SEV will remain an important key player in the world of Faroese electrical power. The Company has its roots in the local municipalities, who remain the principal governing authority, both to set the course into the future and to protect the "castle", if it ever becomes necessary.

We are indebted to our energetic, pioneering employees and our joint collective electrical system that we today own such a modern, well-functioning and stable electrical grid, which will underpin secure, inexpensive and green electrical power in the years to come, when double the energy demand will flow through the grid.

For more than 70 years, SEV has striven to be proactive and progressive and we shall continue to be a dynamic institution, able to adapt to new times while at the same time preserving our strong roots in the local municipalities.

The Board of Directors of SEV

John Zachariassen, Chairman
21 February 2020

Organisation

SEV is an inter-municipal community, which is owned by all the municipalities in the Faroe Islands. Representatives of the municipalities constitute the Board of Directors

The Board of Directors governs the company. On the general meeting every fourth year the Faroese municipalities elect seven members for the Board of Directors.

Hákun Djurhuus , SEV's Managing Direrctor, heads the daily running of the company. He forms part of the daily management together with two directors.

Bogi Bendtsen, Director of Administration, Heri Mortensen, Director of Production and Jon Nielsen, Director of Distribution.

The Managing Director and the Directors each have their areas of responsibility, they have to look after the running of the plants and that work is done in the most productive way. It is also their responsibility that the company follows the laws and regulations set by the public sector.

Hákun Djurhuus, CEO

SEV is the Faroese pioneer in electricity power production

“SEV has always been the front runner in electricity power production in the Faroe Islands. When looking back over the past 10 years, it is obvious that SEV has strengthened this position and our excellent teams deserve a lot of thanks and appreciation,” states the CEO of SEV.

When Hákun Djurhuus, the current CEO of SEV, assumed his position some ten years ago, it was with great appreciation for those pioneers who had worked so tirelessly over the decades to bring about country-wide electrical production.

“I was very aware that SEV is an inter-municipal entity, which had contributed greatly to making the Faroe Islands a modern and advanced society,” reflects Hákun Djurhuus, referring to the history of SEV and his own time as CEO.

Hákun Djurhuus was aware that he was not only responsible for the daily running of SEV, but also that the company in many ways was of paramount importance for Faroese society – its very lifeblood.

“It is extremely important that SEV continually strives to set new and expanding goals for the benefit of the entirety of Faroese society, while we also work to ensure at the same time that every household, business and government office in the country is supplied with a steady and stable supply of electricity all day, every day,” observes Hákun Djurhuus.

The CEO of SEV has no doubt that SEV will continue to play a major and pioneering role, whichever way the Faroese political system may in future organize the production of electricity in the Faroe Islands.

“We must always envisage the future – whether it is electricity demand, production stability or green energy. SEV is responsible for always “feeding” society with electrical power and thus a pioneering and progressive spirit is imbedded in the DNA of SEV, which will celebrate its 75th anniversary on 1 October 2021,” observes Hákun Djurhuus.

SETTING THE GREEN COURSE

The CEO of SEV notes that the Green Course and the onshore goal of 100% green power production by 2030 are the most ambitious and comprehensive goals ever adopted by SEV in recent history. The

Wind farm at Húsahagi

"We must always envisage the future – whether it is electricity demand, production stability or green energy. SEV is responsible for always "feeding" society with electrical power and thus a pioneering and progressive spirit is imbedded in the DNA of SEV, which will celebrate its 75th anniversary on 1 October 2021"

CEO himself took this step, in collaboration with the Board of Directors sitting in 2014, when the windfarm at Húsahagi went online on 9 October 2014.

"I was convinced that electricity power is the answer to the challenges of weather and climate in the Faroe Islands and that the Faroe Islands could be a very interesting test bed for electricity production. If we were to make any progress in this area, we had to formulate a highly progressive and focused target, which indeed could take the Faroe Islands forward into the future. It was very promising when the Government, the business sector and other key partners in the Faroe Islands endorsed this goal, even though we still debate how best to achieve this most ambitious goal," observes Hákun Djurhuus.

He believes that we have come a long way along the Green Course over the past five years, even though electricity production was only 40% green in 2019, which reflects a decline of 20%, compared to 2015 when 60% of electricity power was derived from wind and hydropower. The principal reasons for the decline are well-known: increased electricity demand throughout society and limited production expansion along the Green Course.

GREEN EXPANSION PROJECTS UNDERWAY

"On the other hand, since 2015, SEV has undertaken considerable preparatory work, including important research studies, and a comprehensive expansion project plan has been finalized. Now, three windfarms are under development by SEV, as well as preliminary work on a hydropower pumping system in Vestmanna. One could say that our green expansion efforts stagnated for a bit, but now great strides are evident, consistent with our detailed expansion plan," notes Hákun Djurhuus.

The year 2015 was also the year that SEV was awarded The Nordic Council Nature and Environmental Prize for innovation in the energy sector and the goal of 100% green energy in the Faroe Islands by 2030.

"It was a very special moment in Reykjavík on 27 October 2015 when SEV was awarded the Nordic prize, which was also a milestone in the history of the company. The battery back-up system at the Húsahagi windfarm is an example of the innovative thinking that was being recognized. The much larger battery system now being built in connection with the windfarm at Porkeri is a direct follow-up to the experimental battery system at Húsahagi," states Hákun Djurhuus.

Hákun Djurhuus also points out the pumping systems, tidal stream energy, and solar power, as other examples of innovative thinking along the Green Course that lies ahead. Furthermore, Hákun Djurhuus emphasizes that ground-breaking innovation and pioneering thinking, in close cooperation with Faroese and foreign specialists, is absolutely imperative to have on the path to a successful green future.

"All things considered, our most important resources are the many competent and skilful employees we have, together with our managers, the Board of Directors, and the inter-municipal ownership that have set the course for the power company for more than 70 years, combined with the confidence in a proficient and stable electrical system," observes Hákun Djurhuus, CEO at SEV.

IMPORTANT STEPS 2008-2019

The Faroese electrical system is an isolated system in a small, modern society that is obliged to deliver power according to the exact same standards as found in a larger society. Thus, the Faroe Islands and the Faroese electrical system is a very suitable and uniquely delimited area for ongoing research into and development of advanced technology, because it is easy to maintain the necessary oversight regarding innovation and research.

The electrical company's most important responsibility is to ensure high-quality production stability and transmission security to every corner of the Faroe Islands, all day, every day. Innovation within the electrical system, which flows from the continuous development work being undertaken by the company, represents one of the principal activities of the company. Every aspect of company operations must at all times remain in continuous interplay for the company to advance. These include, among others, green energy expansion, protection of the natural environment, wise economic planning and budgeting, and responses to an ever-growing demand for electricity.

The constant striving to reach the goal of total green energy production and the provision of a constant and reliable supply of power – in addition to an overall increase in electricity demand from Faroese society as a whole – have over the last few years increased SEV's annual investment from DKK 100 million per year in 2012 to DKK 300-400 million in the years 2018 and 2019.

THE TABLE BELOW SHOWS THE IMPORTANT MILESTONES OVER THE YEARS 2008 TO 2019

2008 SEV participated in the tidal stream energy project at the University of the Faroe Islands

2009 The Grana project together with Dong Energy

2010 The ISO 14001 environmental system implemented at the Sund Power Plant

2012 The Faroe Islands is the first country in the world to trial the Power Hub system designed by Dong Energy to prevent black out

2012 New wind turbines become operational at Neshagi

2013 The hydropower project on Eysturoy is completed and the Eiði Power Plant is updated and expanded

2014 The Húsahagi windfarm becomes operational

2015 SEV awarded the Nordic Council Nature and Environmental Award for energy innovation and establishing the goal of onshore 100% green energy production by 2030

2016 The expansion of the Vágs Power Plant is completed

2016 The battery system attached to the Húsahagi windfarm becomes operational

2018 The ISO 14001 environmental system implemented throughout SEV

2018 The ISO 45001 system for overall work environment implemented at the Sund Power Plant

2018 PhD project to ensure sustainability in the green energy system initiated

2018 The study, Energy Storage in the Faroe Islands, published

2018 The master plan for the Green Energy Course was revised and the framework finalized, based on the findings of the Energy Storage in the Faroe Islands study

2018 Preparations for the pumped storage system at Vestmanna initiated in earnest

2019 Together with the Swedish company Minesto, SEV launched a tidal stream energy project in Vestmanna Sound

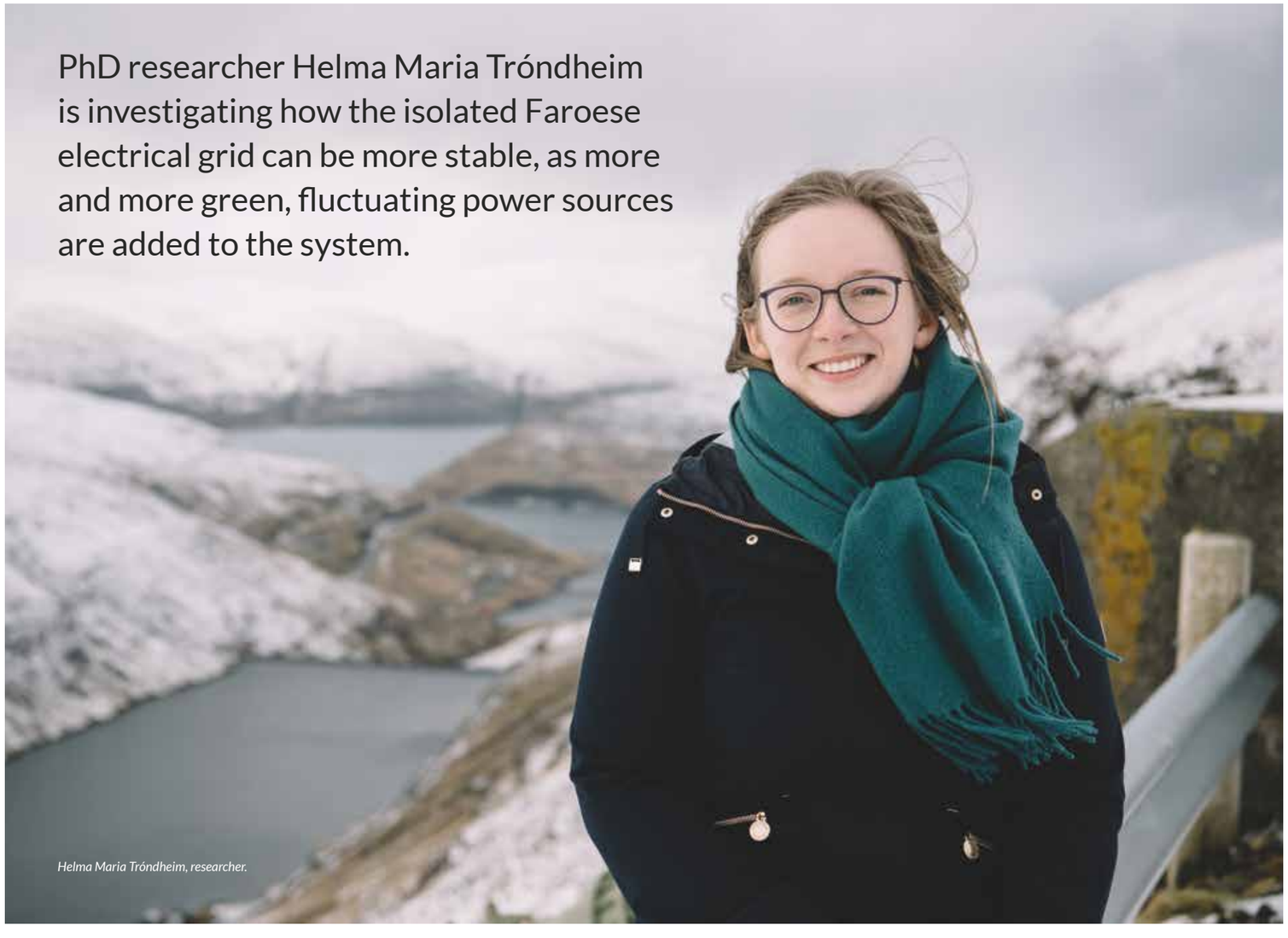
2019 SEV's tenders for the windfarms at Porkeri and Eiði accepted by the government

2019 Solar energy tests initiated at the village of Sumba

2019 The expansion of the Sund Power Plant and the erection of Station 3 is anticipated to be completed, which will be the foundation for a secure Faroese power grid and expansion into green energy production

PhD project to investigate stability of electrical grid

PhD researcher Helma Maria Tróndheim is investigating how the isolated Faroese electrical grid can be more stable, as more and more green, fluctuating power sources are added to the system.



Helma Maria Tróndheim, researcher.

Energy engineer and PhD researcher Helma Maria Tróndheim is working on a pioneering PhD project on the future stability of the land-based Faroese electrical system that will be comprised of 100% green energy by 2030. Today, the green energy resources available are generally unstable sources of power.

"It is not possible to conduct this type of research in other countries because comparable conditions simply do not exist. Therefore, other countries, in particular island communities, also have a great interest in our research," notes Helma Maria Tróndheim.

The Faroe Islands lies isolated in the heart of the North Atlantic Ocean and, therefore, is unable to purchase electrical power from any neighbouring countries when our own sustainable power sources, e.g. wind and solar, do not produce sufficient power. Other countries, such as those on the European continent, have the possibility to purchase power from their neighbours if needed. These countries, which are linked into a large communal grid, also sell power to each other. The Faroe Islands does not have this possibility. Thus, the Faroese grid must secure its own reserves (back-up) to ensure a continual balance between consumption and production every second of every day.

The isolation of the Faroe Islands makes the topic of the PhD project very relevant: How do we ensure a stable Faroese electrical grid when the majority of electricity production is derived from fluctuating renewable power sources?

"The aim of the project is not solely to determine how many power sources are needed, but also when and where it is most effective to make investments. In addition, we must consider the scenario that the best financial solution may not be technically feasible," observes Helma Maria Tróndheim, PhD researcher.

This research project is another concrete example of the comprehensive analysis that is the hallmark of the Green Energy Course toward the future charted by the people of the Faroe Islands.

"How do we ensure a stable Faroese electrical grid when the majority of electricity production is derived from fluctuating renewable power sources?"

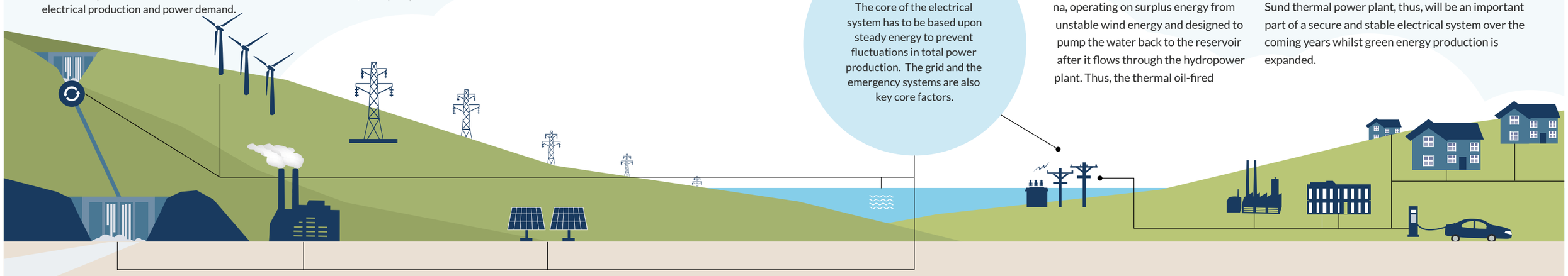
The balance in the electrical system

The Graph illustrates the daily challenge of SEV to meet its electrical supply obligation through the provision of a steady and reliable supply of electricity to each and every corner of the Faroe Islands all day every day throughout the year and underlines the mission statement of SEV to “to always have the ability to supply a steady flow of electricity to universally meet the demand from households, the business community, the public sector and others”.

THE PUMPING SYSTEM
The pumping station that is planned for Vestmanna shall be operated by surplus energy from the local wind turbines. Apart from reusing the flow of water through the hydropower system, the pumping station will also help ensure a balance between electrical production and power demand.

WIND POWER
Due to the uneven weather conditions in the Faroe Islands, wind power is a fluctuating and unsteady source of energy and has to be co-ordinated with a battery system and other steadier sources, like hydropower.

THE CORE
The core of the electrical system has to be based upon steady energy to prevent fluctuations in total power production. The grid and the emergency systems are also key core factors.



HYDROPOWER
Water is closely linked to the weather conditions, but with full reservoirs hydropower is a very steady and secure power source.

OIL
Oil is a reliable source that in the future will be a back-up reserve for the green electrical system in the Faroe Islands, which can be compared to the electrical cable connections between European countries.

SOLAR ENERGY
Solar energy is an unsteady power source related to both direct and indirect light rays. Most solar energy is available during the summer months when the Faroe Islands often is lacking both wind and rain.

TIDAL ENERGY
Tidal energy is a very steady and predictable energy source. It is estimated that we can obtain 150-200 MW from Faroese tidal energy when it becomes technically and financially viable.

THE MARKET
Our customers – e.g., private households, the business community and the public sector – should shift from consuming oil to electric vehicles and heat pumps, where wireless digital meters and electric charging stations are an integrated part of the overall electrical solution of the future.

The challenge in the Faroe Islands is especially great, because the country is an isolated island community and SEV must always have enough reserve power available in case of a breakdown, etc. in the production units, such as generators, hydropower turbines, wind turbines and thermal motors. As illustrated in the Graph, the backbone of the system is the reliable energy resources that are able to maintain a constant balance between production and demand. Thus, it is of paramount importance to have a secure core to the electrical system, based upon reliable and steady energy resources.

THE CORE OF THE ELECTRICAL SYSTEM
Oil-fired thermal power plants remain an important part of the core of the electrical system, because oil is a reliable energy source. But when production of the thermal power plants declines to almost nothing, of all the supply sources that are built up during the “green course” toward 100% onshore green power by 2030 in the Faroe Islands, the hydropower plants and the pumping station to be built at Vestmanna will become the core of the electrical system.

It is indeed of great importance that the core of the system is based on a steady supply of electrical energy to prevent fluctuations in production that in turn would impact the entire electrical system.

Hydropower is a steady energy source when ample quantities are at hand. To safeguard the ready supply of hydropower, a pump storage system will be built in Vestmanna, operating on surplus energy from unstable wind energy and designed to pump the water back to the reservoir after it flows through the hydropower plant. Thus, the thermal oil-fired power plants will become a reliable reserve system in case of breakdowns in green power production.

Also of importance is a strong grid. Cables are regularly being buried throughout the Faroe Islands to protect the grid against bad weather.

A FUTURE SCENARIO
The Graph also illustrates a future scenario of how the electrical system could be organized whereby private companies could participate on both sides of the important core of the electrical system. It remains of major importance that the core of the electrical system continues to be firmly and energetically managed.

With regard to power production, private companies are already allowed to produce and supply green energy into the grid, e.g. wind power, solar power, biogas, which are fluctuating sources of energy, and longer in the future also tidal current power. On the consumer side, private companies now are able to offer total electrical solutions within the areas of heat pumps and electrical vehicles.

The future role of the new Sund power plant and the other oil-fired thermal power plants in the Faroese electrical system correspond to the electrical cable connections between the countries on the European continent that enable them to purchase electric power from each other if they are not able to produce enough power to meet local demand. The Sund thermal power plant, thus, will be an important part of a secure and stable electrical system over the coming years whilst green energy production is expanded.

Power shall be produced and consumed in the same area

The PhD project on the stability of the Faroese electricity grid divides the islands into areas. Electrical production from renewable energy resources, the grid and consumption must be balanced in each area. This will result in less waste of electrical power since electricity will be transported over shorter distances.

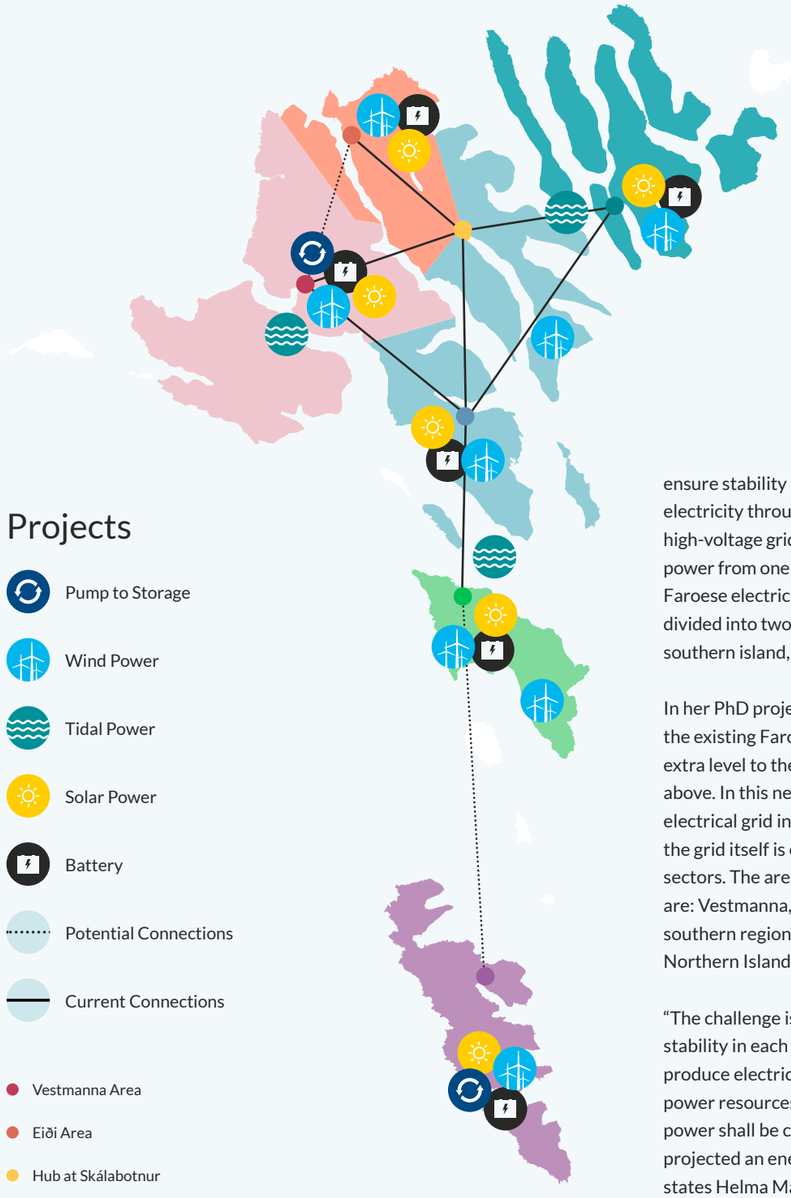
The PhD project on the stability of the Faroese electricity grid partially examines the grid with an eye to organizing power production from sustainable power sources to facilitate consumption as much as possible in the same area where it is produced. This will significantly reduce the loss of electrical power resulting from it being transported over a long distance.

“A part of the research is to understand the possibilities of getting as much electrical power as possible from the unstable power resources in a limited area, where the electrical power mainly is consumed. If the conditions to produce electrical power in these areas are sufficient to produce much more than required in the specific area, it is of the outmost importance to ensure that the grid can transport the extra electrical power to another area,” states Helma Maria Tróndheim, PhD researcher.

Ms. Tróndheim points out that in fact the project discusses the electrical grid as comprised of two levels with the main objective being to ensure stability and balance in the electrical system with many fluctuating green energy resources.

AN ELECTRICAL SYSTEM IN TWO LEVELS

The bottom level is the foundation of the electrical system itself. This foundation is comprised of all the various production units and the high voltage grid with its 60, 20 and 10kV cables and the 400V cables extending to SEV’s customers. In this level as well are all the sub-systems that are designed to ensure stability and balance in the production of electricity throughout the day. The purpose of the high-voltage grid is to quickly transport electrical power from one part of the country to another. The Faroese electrical system has previously been divided into two areas – Suðuroy, the most southern island, and the central area or mainland.



In her PhD project, Helma Maria Tróndheim studied the existing Faroese electrical system, but added an extra level to the traditional distribution referenced above. In this new level, Tróndheim divides the electrical grid into seven areas, based upon how the grid itself is currently divided into independent sectors. The areas organized by high-voltage grid are: Vestmanna, Eiði, Skálabotnur (hub), the southern regions of Streymoy and Eysturoy, the Northern Islands, Sandoy and Suðuroy.

“The challenge is basically to ensure balance and stability in each region, at the same time as we produce electrical power from unstable sustainable power resources in the same regions where the power shall be consumed. Relative to this, I have projected an energy demand for each region,” states Helma Maria Tróndheim.

The need for electrical power is based on historical data for a period of 10 years from all the electric meters around the Faroe Islands. In addition, the need is based on how many vehicles and households are in each region. The model developed by the project can be used to project the requisite investments in wind, solar and tidal power, pumping systems, battery systems and cables.

Tidal current can have a significant importance

Provisional research indicates that the tidal stream may be of significant importance for the Faroese electrical system when economically feasible.

ESTIMATED TIDAL ENERGY

150

MW

During periods of peak demand in the Faroe Islands, the total electricity production is around 60 MW.

If and when it becomes economically feasible to generate electricity from tidal currents, then tidal streams will become a significant energy resource in the future. This is the provisional result of studies made as a part of the PhD project on the stability of the Faroese electrical system, which in the years ahead will be based on proportionally many unstable renewable energy resources.

"Tidal power is only a minor piece of the PhD project, but so far the results indicate that tidal power may be of significant importance for the electrical system," states Helma Maria Tróndheim, PhD researcher.

"Tidal energy is by far the most constant source of sustainable power in the Faroe Islands, because it is always possible to predict precisely how strong the current will be around the islands"

Tidal energy is by far the most constant source of sustainable power in the Faroe Islands, because it is always possible to predict precisely how strong the current will be around the islands. The tidal current varies around the country; thus it would be necessary to spread tidal current generators around the country to ensure that tidal energy could be a reliable and stable source of power in the future.

Internationally renowned experts estimate that the total global tidal stream is the equivalent of 80 GW and that the total quantity of tidal stream energy around the Faroes equals 1 GW. Hopefully, it will be possible to utilize 15-20% of this total, which is equivalent to 150-200 MW. By way of comparison, during periods of peak demand in the Faroe Islands, the total electricity production is around 60 MW.

Together with the Swedish company, Minesto, which is among the leading developers of tidal power technology, SEV initiated a pilot project to tap the tidal power in Vestmanna Sound. The technology used is essentially a kite attached to a cable fastened to the sea floor that moves in a figure-eight pattern. A turbine attached to the kite produces electricity as the tidal current moves across the fans of the turbine.

Solar Energy Park Operational in Sumba

SEV has installed a Solar Energy System in Sumba on Suðuroy that will supply some 32 households with electricity. This is the first Faroese project designed to provide large quantities of solar energy to the grid.

PROJECTED PRODUCTION

160

MWh

The projected annual production corresponds to the annual electricity consumption of 32 households

In November 2019, the first large solar energy array system in the Faroe Islands was linked to the grid. The solar energy trial array, envisioned to produce some 246 kW of solar energy, is located in Sumba at Krossin, the former football pitch.

The system is projected to provide 160 MWh per year, which equates, in general, to the energy consumption of some 32 households. If solar energy on Suðuroy proves viable, combined with existing hydropower and the reserves of the Vágur thermal plant, solar energy can save the Vágur power plant about 35 tonnes of oil per year.

Solar array systems do not take much time to install and maintenance is limited. The foundation infrastructure for the system was laid during October and shortly thereafter the array was connected to a transformer station, which links the solar energy into the high-voltage grid.

Even if the amount of sun during the winter months is limited, nevertheless, the functioning trial energy system can produce vital information about potential sun energy during the dark winter months. The trial system is also designed to test the overall ability of the solar panels to withstand the rigors of Faroese weather and its associated strong winds. Connected into the system are also instruments to measure wind power, rainfall, wind direction, temperature and the amount of sunshine.

“A good summer supplement to the green course the Faroe Islands envisions”

A VERY WELCOME SUPPLY DURING THE SUMMER

During the summer months, the solar array system should prove to be very interesting. During summer months, the Faroe Islands receives a good deal of sunshine, plus often there is less rainfall and less wind to power the hydropower plants and wind farms.

“This is a most interesting project where it is possible to obtain 5-7% of our annual electricity production, estimated to be 600 GWh by 2030, from solar energy,” observes Terji Nielsen, SEV’s Technical Manager. “A good summer supplement to the green course the Faroe Islands envisions,” adds Terji Nielsen.

The solar array system in Sumba utilizes both direct and indirect solar energy and therefore is well-suited for the Faroe Islands, even if not all days are totally sunny ones. Of course, much more energy is extracted from the direct rays of the sun compared to cloudy days.

“Over the past several years, solar array systems have become much less expensive, with a reduction of some 75% since 2006, therefore, becoming much more interesting for a small society like the Faroe Islands. Of course, our arrays cannot compete with the output from solar array systems in more sunnier climes,” notes Terji Nielsen.

The cost of the Sumba solar power installation was DKK 3 million and was erected in co-operation with the Danish company, Solar Polaris, and the German company, BayWa. Articon prepared the foundation infrastructure, installed the fencing, and carried out all the related electrical work as well.

Sund power plant – security net for Faroese electricity supply

The extension of the Sund power plant – the so-called Station 3 – had progressed so well that at the end of 2019 the new motors were tested and found ready for trial production. Station 3 is an important part of production stability and thus also the very foundation of the expansion into green energy.

From the left: Jørgin Mørkøre, Sund Power Plant Manager, Heri Mortensen, Director of Production and Dávur Reinert Hansen, Project Manager.

The Station 3 construction reached full height in May 2019

SUND POWER PLANT
The plant has the total capacity of 82 MW. On an average day, the electricity demand in the central area is 50-55 MW. Highest electricity demand to date was recorded in November 2019 - 62 MW.

The Sund plant is the safety net, which enables the expansion with unstable sustainable energy

After being tested, the new Station 3 motors at the Sund power plant were ready for trial production at the turn of the year.

The Faroe Islands is an isolated island society and therefore Station 3 plays a major role in the security and stability of Faroese electricity production and the country itself. The Sund power plant will, for many years to come, be able to supply all of Faroese society with electricity, if there is a shortage of green energy production.

The future role of the Sund plant in the Faroe Islands is very similar to the cable connections found throughout the European mainland where countries are able to purchase electricity from each other should their own production prove insufficient to their needs.

The Sund power plant will be the stable power source in the Faroe Islands while the years ahead are devoted to expanding the production of green energy to meet the goal of 100% green electricity onshore by 2030.

"The Sund power plant will enable us to securely continue our green energy expansion with a stable power foundation. Thus, we are able to place all our efforts into green energy expansion and development of the grid in coming years," notes Heri Mortensen, SEV Production Manager.

"The future role of the Sund plant in the Faroe Islands is very similar to the cable connections found throughout the European mainland where countries are able to purchase electricity from each other should their own production prove insufficient to their needs"

TWO MONTHS OF TESTING

According to the construction plan, test production was to last two months and April 2020 is the date established for transfer of the project to SEV control.

During November 2019, all the motors at Station 3 were tested. The special test carried out at the end of the year incorporated this new production into the total electrical system of the country. The result was two new motors in a row generated electricity into the national grid.

This test production was an important part of the agreement with the supplier of the motors and needed to be accomplished before SEV could formally take over Station 3. During the night and over the weekend, the demand for electricity is much less than a normal day and consequently the waste of any green energy was minimized.

"Even though there was sufficient green energy available during this time, the windfarms and the hydropower plants were shut down during the testing to grant priority into the grid by the new motors, pursuant to our agreement with the supplier," observes Heri Mortensen.

THE NEED FOR STATION 3

The decision taken by SEV's Board of Directors in September 2016 to build Station 3 and thereby increase the production power at the Sund power plant was a necessary step on the road to total green energy production.

"At times when there is no wind and the water in the reservoirs is minimal, the thermal power plants are sufficient to meet the demand for electricity, with room for regular maintenance of the motors"

COURSE OF CONSTRUCTION DURING 2019

JANUARY
In January, the steel construction was erected in the central area. The 20 KW and 60 KW pads were placed in the coupling station area.

FEBRUARY
In February, the water-cooling system to Motor 5, which is one of the large motors in Station 3, was replaced with a new, seawater cooling system.

MARCH
During March, the transformers in the coupling station area were installed. The equipment in the eastern boiler room was installed and adjusted and the first smokestack sections were installed. Articon subcontractors started to lay the plumbing.

APRIL
In April, the motor suppliers, MAN, came to the worksite and adjusted the generators. The workshop was enclosed.

MAY
In May, the steel construction in the central area was in place and was celebrated with a party on the 16 May 2019. Articon started to build the gang ways in the central area. Cables were placed in the area around the power plant.

JUNE
In June, the cable-laying was completed, and the cementing of the pipe tunnel was completed.

JULY
In July, the smoke-stack was finished and the piping systems in the pipe tunnel were connected to the present pipe systems from the tank yard.

AUGUST
In August, the testing team from the BWSC (Burmeister & Wain Scandinavian Contractor A/S), provider of the technical equipment, arrived at the worksite and started the preparations for the testing.

SEPTEMBER
In September, the tests of the equipment started, and cables were placed in the access road.

OCTOBER
In October, the workshop was cemented.

NOVEMBER
In November, the middle area and the workshop were roofed over. All the motors were started for the first time and synchronised to the grid. Articon and PM Energy performed black-out tests of the lighting motors. The area around the power plant and the access road were covered with asphalt.

DECEMBER
In December, the testing of the motors and related equipment took place. The workshop was divided into work sections.

"Now it will be easier to more reasonably produce electricity from hydropower and wind. We are planning to supply electricity to the main region of the country for longer periods utilizing only hydropower and wind energy. The Sund power plant with its additional motors is now a permanent back up should there be a shortfall of green energy production," explains the SEV Production Manager.

The shortfall that Heri Mortensen is referencing occurs when there is high power demand and minimal green production during periods of constant good weather late in the summer with little rain and wind and during the winter months when there are cold temperatures and minimal wind, which puts the entire electrical supply system under stress.

"The Sund power plant will enable us to securely continue our green energy expansion with a stable power foundation"

"In these situations it has not been possible to shut down the large, oil-fired motors for required maintenance. Obviously, in these situations, break downs are not welcome either, but luckily we have avoided major technical problems while Station 3 has been under construction," notes Heri Mortensen.

Due to these circumstances, over the past several years SEV has endeavoured to maintain the water reservoirs at full capacity in case of technical problems at the oil-fired power plants. The reservoirs at Vestmanna and Eiði can produce power for some three weeks.

"Full reservoirs also mean that the water at times spills over and during 2019 we lost a total of some 5 GWh due to spillage. This equals about 1.4% of all electricity production in 2019. The reservoirs were not designed to receive all the runoff after major storms. To accommodate large amounts of rain, the reservoirs must be nearly empty when the storm arrives," observes Heri Mortensen.

SECURE ELECTRICAL SUPPLY

Station 3 at the Sund power plant will ensure a secure production of power well into the future. At times when there is no wind and the water in the reservoirs is minimal, the thermal power plants are sufficient to meet the demand for electricity, with room for regular maintenance of the motors.

Station 3 houses four new engines with a total output of 37 MW. Combined with the older sections of the Sund power plant, Stations 1 and 2 with an output of 45 MW, the total power output is 82 MW. By way of comparison, normal daily demand for electricity in the main central region of the country is generally around 50-55 MW. The highest peak demand for some time occurred in November 2019 when demand registered at 62 MW.

In the central region of the country, SEV has additional diesel motors available with a total output of about 17 MW, of which 11 MW is derived from reserve motors housed in containers that can be transported to where the need exists. In total, SEV has a total secure motor power output of 100 MW available in the central region of the country.

In addition, SEV has available the fluctuating power of hydro and wind, which is dependent upon the weather. The hydropower plants have a total output of 37 MW and the wind turbines have an output of 18 MW. Together with the secure thermal power of 100 MW, SEV has a total production output capacity in the central region of the country of 155 MW.

40% Green Electricity Produced in 2019

During 2019, it became very apparent that the Faroe Islands is very much in need of another windfarm. This is reflected as well in the increased demand for electricity of some 9.7%. Green electricity production, however, declined from an output in 2018 of 48.8 percent to a production of 40.4 in 2019

CENTRAL REGION

OVER

80% 17,2 DAYS

100% 5,9 DAYS

Average wind speed in 2019 was 8.1 metres per second at Húsahagi wind farm and 9.1 m/sec at Neshage wind farm, respectively. In 2018, the wind speed was 8.8 m/sec and 9.6 m/sec, respecitvely.

"40 percent green energy in 2019. The next windfarm cannot be installed fast enough" is the emphatic conclusion of Heri Mortensen, Division Manager for electricity production at SEV when commenting on the decreased green energy production in 2019.

Electricity production from sustainable energy sources declined from 171.9 GWh in 2018 to 156.1 GWh in 2019. This represents a decrease of 9.1% in only one year. At the same time, SEV experienced an increase in demand for electricity of 9.7% -- from 352 GWh in 2018 to 386.1 GWh in 2019. Both in 2017 and 2018, there was an increase in demand of 5.3%, compared with previous years when the green production in 2017 and 2018 was around 50%.

In 2019, 52.6 GWh came from wind energy and 103.5 GWh from hydropower; the balance was derived from the thermal power plants. This corresponds to 60% of the total production in 2019, which was a record production year equalling some 386.1 GWh, the highest ever.

THE REASON IS OBVIOUS

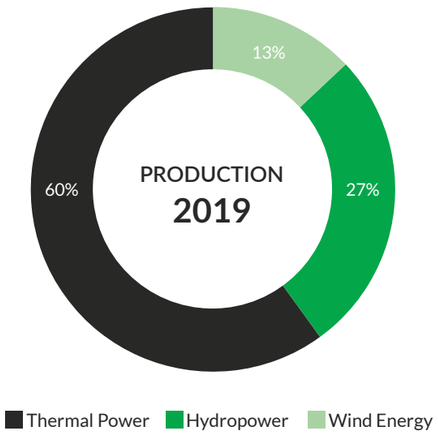
The reason for the considerable decrease in green energy numbers is mainly due to the fact that 2019 was the driest year in the Faroe Islands over the past five years. In addition, there was considerably less wind in 2019. Nevertheless, green electricity production in the main central region of the country exceeded 80% for 17.2 days last year and for 5.9 days SEV provided 100% green energy production.

"The numbers clearly indicate a need for more wind turbines. If we had, for example, another 18 MW turbine running throughout all of 2019, we could prudently estimate that our green electricity production would have been around 53%, even with the 9.7% increase in demand for electric power," notes Heri Mortensen.

"18 MW of wind power produces nearly the equivalent of one and a half oil tankers, or, in other words, a savings of some DKK 40 million"

Based on the data from 2019, Heri Mortensen observed that 18 MW of wind power produces nearly the equivalent of one and a half oil tankers, or, in other words, a savings of some DKK 40 million. Thus, he is quite pleased that planning is underway to install several more wind turbines in the years ahead.

SEV is planning to erect an 18 MW windfarm near the village of Eiði, following SEV's successful windfarm tender in the autumn of 2019. Further, SEV will erect a 6 MW windfarm at Porkeri in Suðuroy where SEV also submitted a successful tender in 2019. In addition, another 18 MW windfarm is planned for the central region of the country.



A small price increase in January 2020

Every household saw, on average, a DKK 30.00 increase per month in the price of electricity, following the decision by the Board of SEV to slightly raise the price of electricity.

In 2019, the price of electricity increased and became consistent with the price in 2014.

Accelerating oil costs and the urgently needed expansions of the electric grid over the past five years are the principal reasons the price of electricity increased by DKK 0.005/kWh for households and DKK 0.010/kWh for industrial customers on 1 January 2020. For an average household using some 6000 kWh, the price increased equals some DKK 30 per month or DKK 375 kroner per year, VAT included.

The 2021 financial projection indicates a price increase will also be needed of some DKK 0.005/kWh for all customers.

"It all depends on our financial situation after a year. We will take a very close look then at what will be needed," stated John Zachariassen, Chairman of the Board, at the extraordinary general meeting held on 29 November 2019, when the decision was taken to increase the price of electricity.

The price of electricity decreased DKK 0.005/kWh in 2017 and 2018, but in 2019 the price increased DKK 0.01/kWh, consistent with the price level in 2014. Thus, the price of electricity over the past five years has not been higher than the price in 2014.

"Our goal is to cause as little disruption as possible, but we must, of course, maintain a prudent and realistic economy while continually striving to ensure a steady flow of electricity to everyone and to incorporate more and more green energy into our production"

PRUDENT ECONOMY

"Our goal is to cause as little disruption as possible, but we must, of course, maintain a prudent and realistic economy while continually striving to ensure a steady flow of electricity to everyone and to incorporate more and more green energy into our production. Therefore, a cautious increase is necessary, but fortunately there is light at the end of the tunnel," observes John Zachariassen.

The Chairman of the Board points out that three, brand-new windfarms will be erected in the near future. As a result, wind power will be tripled from 18 MW to 60 MW. Moreover, preparations are underway for a hydropower pumping system, and solar power and tidal power are exciting areas of current development.

"One could say that SEV is nearing the top of the mountain. But, before we can walk downhill, we must ascend the last slope up the mountain bearing some extra oil costs and the necessary investments in electricity supply, e.g. investment in the grid, including the pumping system and the coupling stations," notes John Zachariassen.

The Chairman of the Board emphasizes that within a short period of time the expansion into green energy and the enhancement of the grid will have a positive and significant impact on SEV's budget, especially as oil costs decrease over the course of the next few years as more and more of the expansion projects are completed.

IT Awareness and SEV Staff

During 2019, the IT Department trained the entire SEV staff in IT security. The training stressed the critical importance and need for an increasingly high-level awareness of IT security for everyone at SEV.

"There should be no gap in the overall IT system, and observant, "IT Aware" staff are the key to preventing any gaps in our IT system"

Criminal IT hackers today are methodically targeting the staff of larger companies in their attempts to break into corporate IT systems.

SEV continuously strives to ensure that the entire staff remains vigilant and cautious at all times – to be "IT Aware". During 2019, everyone at SEV participated in a digital security test and training, arranged by the IT Department of SEV. In addition, the IT Department also arranged information meetings on the subject throughout the various SEV departments.

"A part of good IT security is to totally shut down your computer when leaving your workstation and in general to be on the alert and cautious when accessing the Internet or using any social media. Relative to IT security, inattentive staff, in fact, unknowingly enable major threats against the company," observes Niels Hansson, IT Manager of SEV.

"There should be no gap in the overall IT system, and observant, "IT Aware" staff are the key to preventing any gaps in our IT system," he further noted. Providing continuous information on IT security and diligently monitoring the IT ability of staff and their level of security awareness is called "Awareness" in the IT industry and is an internationally accepted process employed by IT managers worldwide.

"We maintain a close eye on our IT system at all times to detect any weaknesses and to strengthen and improve the integrity of our IT system," states Niels Hansson.

Niels Hansson, IT Manager

Over the past 20 years or so, the entire electrical system of SEV, encompassing both production and the grid itself, has become more and more integrated into the IT systems operated by SEV. Moreover, communications with vendors, clients and consumers have become more dependent on well-functioning IT systems. Also integrated into SEV's IT infrastructure are the wireless electric meters now installed throughout the country, as well as consumer self-service portals via the SEV webpage.

SEV's IT security systems are compliant with the ISO/IEC 27001 standard for information security management. Furthermore, SEV's IT security and activity is also compliant with Faroese legislation and the EU regulation on data protection called General Data Protection Regulation 2016/679 (GDPR).

SEV / ANNUAL REPORT 2019

The UN Sustainable Development Goals to become an inherent part of the activities of SEV

The 17 UN SDG's were adopted unanimously by the UN member states in 2015. The objective is for all member states to set goals on sustainable development in the coming 15 years and to work together towards a better world by 2030.

GOAL 7

Target

7.1: By 2030, ensure universal access to affordable, reliable and modern energy services

7.2: By 2030, increase substantially the share of renewable energy in the global energy mix

7.3: By 2030, double the global rate of improvement in energy efficiency

7.a: By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology

7.b: By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programmes of support

Each of the 17 sustainable development goals is defined by targets and indicators, necessary for reaching the goal.

The SDG's and environmental consideration are especially relevant as well as a critical challenge and responsibility of the world's power companies.

As far back as in 2014, the Board of Directors together with the management of SEV agreed to work towards 100 per cent sustainable on shore electricity production by 2030. Thus since 2014, SEV has actively worked in accordance with SDG 7 and 13, which concern affordable clean energy and climate action, respectively.

The main purpose of SEV is to provide the Faroe Islands with electricity. SEV is legally obliged to supply to all citizens, companies and organization with power supply 24-hours a day. SEV has sole responsibility for power quality and the power supply in the Faroe Islands.

Security of supply as well as our solidarity pricing system are in accordance with target 7.1, which states: By 2030, ensure universal access to affordable, reliable and modern energy services.

Furthermore, SEV has taken on an important role as a driver in the green transition of the Faroese society, especially pertaining to transport and heating. SEV has established an EV charging station infrastructure on the islands, with free charging in a trial period. SEV provides EV owners with the possibility to borrow home charging stations, and moreover offers reduced electricity prices for home EV charging and heat pumps.

RESEARCH AND COLLABORATION

The purposeful research and development that has been carried out in the last years is also aligned with the UN SDG's. These are e.g. research projects aimed at discovering new sustainable solutions, and collaboration projects with international providers regarding research and testing that may benefit electrical systems not only in the Faroe Islands, but in other island communities as well.

GOAL 13

Target

13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

13.2 Integrate climate change measures into national policies, strategies and planning

13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning

13.A Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly $100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible

13.B Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities

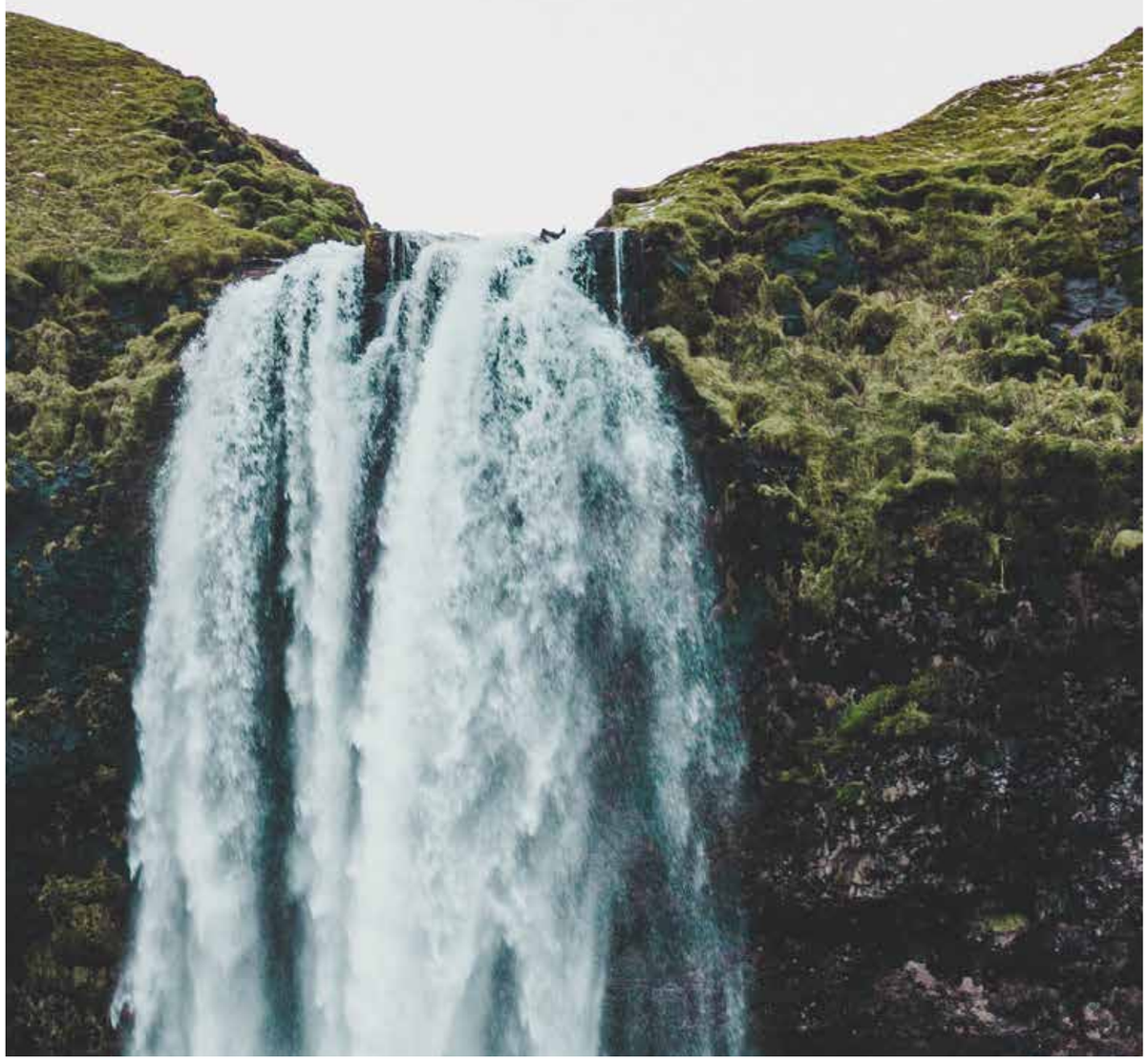
SUSTAINABLE DEVELOPMENT GOALS AN INHERENT PART OF THE DAILY ACTIVITIES

Acknowledging the effect of even small changes and adjustments in the daily activities that take into consideration sustainability and environmental protection, the management has decided to work in a more systematic manner with the UN sustainable development goals.

Meaning that not only will we strive to ensure that all on shore electricity generation is sustainable by 2030, but to implement sustainable solutions and decisions into all our activities.

Employees have attended courses in implementation of the SDG's, and consequently, a team has been assembled to work with the challenges of implementing the SDG's into daily operations.

Other News Stories



*New Month Days

SEV attends special Days of Torri*

Hákun Djurhuus, CEO, and Terji Nielsen, Development Manager, presented the green energy project at the exhibition hall, Spinnaríið, at the annual cultural week, Torradagar, held in Klaksvík.

On 23 February 2019, Hákun Djurhuus, CEO of SEV, and Terji Nielsen, SEV's Development Manager, explored the green energy strategy of SEV during the cultural week in the Northern Islands known as Torradagar. They described the green course ahead, based on the principles in the green energy master plan.

Among a multitude of interesting topics, the CEO and the Development Manager discussed the most feasible way forward to expand the green energy infrastructure of the Faroe Islands, including hydropower pumping systems, battery storage systems and energy storage. They also discussed the necessity of closely watching new advances in green technology, such as the significant potential of tidal current power.

Hákun Djurhuus and Terji Nielsen also reviewed how important it was to ensure that all the many steps along the green course are based on rational and sensible economic considerations. In addition, they stressed the importance of aiding consumers with the transition into a green energy future that utilizes green energy heating and transport solutions, such as heat pumps and electric vehicles.

SEV helps the occupants at Karla-magnusarbreyt youth resident home

Following a damaging electrical fault, SEV arranges for the occupants of Karlamagnusarbreyt 34 to receive brand new refrigerators and dishwashers.

In February 2019, an electrical fault damaged the white goods at the residential youth home on Karlamagnusarbreyt. The damage triggered an insurance claim that progressed slowly. Once SEV learned that the case was dragging out, SEV took steps to have new refrigerators and dishwashers delivered immediately to the home.

A defect in the electrical panel supplying the apartments at Karlamagnusarbreyt 34 with electricity caused damage to the white goods on 24 February 2019. The damage extended to eight refrigerators and eight dishwashers and the hope was that repairs would be covered by insurance.

Shortly after the fault was discovered, SEV hurried to the residential home with a multitude of staff who immediately began to repair the electrical problem. In addition, SEV staff helped the occupants of the apartments to safeguard their food in a common shared freezer and refrigerator and provided a hot meal for all as well.

SEV wins bid for the wind farm project in Porkeri

The Chairman of the SEV Board is enthusiastic about the opportunity to produce electrical power from wind on Suðuroy. In Spring 2019, SEV was the successful winner of the wind farm tender in competition with one other bidder.

"If we shall continue to ensure the lowest possible price for electricity for private Faroese consumers, as well as for the Faroese business community and the public sector, it is necessary to ensure competition for the production of electricity among as many candidates as possible. More tenders mean lower prices, benefitting the entire society," observed John Zachariassen, Chairman of the Board of SEV, when ORKA on 29 March 2019 announced that SEV had won the wind farm tender in Porkeri.

In the competition to erect wind turbines in the Porkeri area generating a total of 6.3 MW, two tenders were received by the Energy Authority. One tender was from EWT, the Dutch wind turbine producer, offering to produce electricity for DKK 0.34 per kWh. The other tender was from the SEV subsidiary in Neshagi, who offered DKK 0.3155 per kWh.

If everything goes as planned, the wind farm in Porkeri will produce electricity from wind energy in the autumn of 2020.

Lower electrical prices for electric vehicles and heat pumps

In 2019, owners of heat pumps and electric vehicles could purchase cheaper electricity for these green energy solutions.

A special price for electricity of DKK 1.39 per kWh including VAT became effective on 1 April 2019 for heat pumps and residential charging stations for electric vehicles. The purpose behind cheaper electricity for heat pumps and electric vehicles is to speed up the transition from oil-powered heating systems to more sustainable heating solutions, as well as encouraging the shift from diesel and petrol-powered vehicles to electric.

In order to obtain cheaper electricity for heat pumps, the heat pump itself must be an approved model consistent with the 2017 Building Code. With regard to the charging of electric vehicles, the special price is available only for those residential charging stations that are approved by SEV and that communicate with SEV's metering system.

To minimize the overall load on the electrical system, SEV must be able to control the charging of vehicles in both duration and effect. This is called smart charging. However, consumers have the option to choose quick-charging instead and in this way charge their vehicle at times other than those determined by SEV. The cost for this service is DKK 25, including VAT. It is also necessary to have separate electric meters and an independent electric panel so that SEV can calculate individually the electricity consumed by each heat pump and residential charging station.

Station 3 erected at Sund

The project to extend the Sund power plant with Station 3 began in 2017 and by May 2019 the project had progressed so well that SEV was invited to a topping out ceremony.

A topping out ceremony was held at Station 3, the brand-new building at the Sund power plant on Thursday, 16 May 2019 for all who had been involved with the project. Station 3 updates and expands the Sund power plant resulting in a clean and secure plant, which represents a bridge between a previous era of fossil fuel consumption and a green future with no oil.

SEV is continually striving to produce as much green power as possible. However, it is deemed prudent to expand the Sund power plant with Station 3, because oil remains a necessary back-up source of energy, even when land-based electricity production in the Faroe Islands becomes 100% green in 2030.

The primary purpose of the power plant is to ensure a continuous supply of power day and night, especially if the green energy resources of the future fail to deliver electricity due to a fault or other reasons. SEV expects to take over Station 3 in April 2020.

A young PhD researcher provides SEV with new information

A 25-year-old PhD researcher examines the stability of the Faroese electrical system and presents this information abroad and introduces new knowledge from SEV.

Her name is Helma Maria Tróndheim. She is 25 years old and holds a master's degree in Energy Engineering. In 2018, she began working on an innovative PhD research project on the stability of the future Faroese electrical system, which will be based on 100% green energy, mainly from unstable and fluctuating energy resources.

To date, Helma Maria Tróndheim has published two scientific articles. Both articles were presented at two different conferences– "Fourth Hybrid Power" on Crete in May 2019 and "Cigre Symposium" at Ålborg University in June 2019.

Helma Maria Tróndheim has also presented at the Arctic Circle Assembly in Reykjavík in October 2019. When the PhD project is completed in 2021, the young researcher will only be 27 years old and will then be entitled to be called "Doctor" Tróndheim.

New Minister meets with SEV representatives

The SEV Board of Directors and Management met with newly appointed Minister of Environment, Industry and Trade Helgi Abrahamsen shortly after the newly elected Faroese Government came into office.

At a strategy seminar held on 20 September 2019, the Board and Management of SEV discussed, among many topics, the extreme importance of how the energy sector and SEV in particular are viewed in the coalition co-operation document signed by the representatives of the newly-formed coalition on 14 September 2019.

In this connection, the Chairman of the Board invited the newly appointed Minister of Environment, Industry and Trade Helgi Abrahamsen for a breakfast meeting at Hotel Runavík.

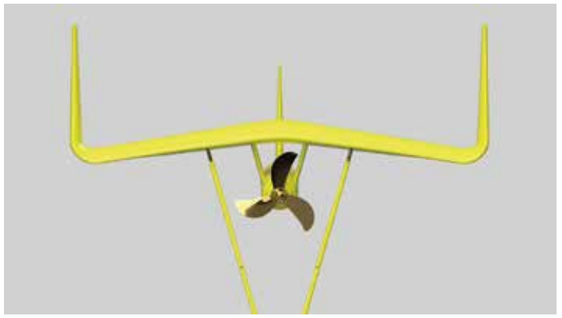
In addition, the Minister was provided a brief interpretation of the consumer survey on the energy sector made by Lóður on behalf of SEV in the first half of 2019. The survey reveals that 89% of the survey participants agree to making the Faroe Islands independent of fossil fuel, but that private individuals are hesitant to initiate measures in their own homes because they lack information and guidance on, e.g., electric vehicles and in particular heat pumps.

The Minister was pleased to gain insight into concrete statistics on the attitudes of consumers and the steps required to move ahead in this area. The Board and Management wished the Minister good luck and success in his new office and both parties agreed to foster open communication between the Ministry and SEV.

Tidal stream project receives grant from EU

In the summer of 2019, the pioneer tidal stream project in Vestmanna Sound, which is a collaboration between SEV and the Swedish company, Minesto, received a grant of € 2.5 million from the EU foundation, Horizon 2020.

"This is very good news for Minesto and our co-operation with SEV on the tidal stream project in the Faroe Islands. Once again, the EU has proven that they have great confidence in our ground-breaking technology and our goal of introducing new technology," states Dr. Martin Edlund, CEO of Minesto, when the news of the Horizon 2020 support arrived.



Minesto also received € 50,000 from the Horizon 2020 foundation in June 2019.

The project is a pilot project in Vestmanna Sound with so-called Deep Green kites. The kites are tethered to multiple anchors on the ocean floor and circle about in the water above in a figure-eight pattern. The turbines attached to the kites then produce electricity that is transported to shore via undersea cables. According to current plans, the kites will be launched in Vestmanna Sound in the spring of 2020.

Working contracts in connection with the project have been put out for tender internationally and there has been great interest from suppliers world-wide to participate in the project in the Faroe Islands.

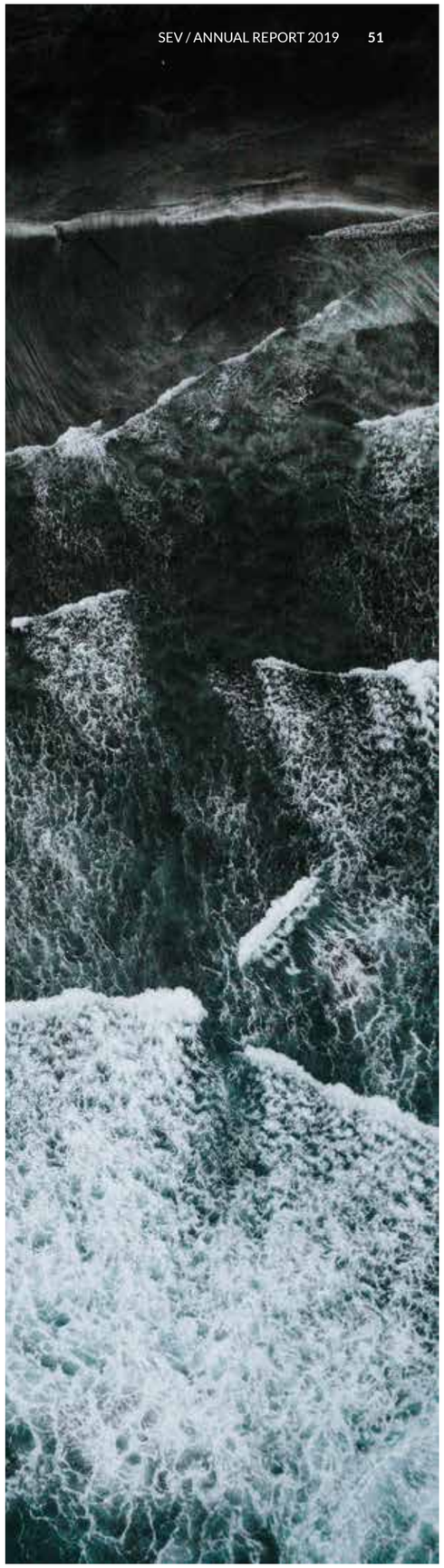
Visit of the Danish Prime Minister

During her visit to the Faroe Islands in November 2019, Danish Prime Minister Mette Fredriksen visited SEV, together with the Faroese Prime Minister Bárður á Steig Nielsen

During her official visit to the Faroe Islands in November 2019, the Danish Prime Minister paid a visit to Vestmanna. Mette Fredriksen, together with the Faroese Prime Minister, visited the Mýra power plant to observe electricity power production in the Vestmanna area.

During the visit to the Mýra power plant area, representatives from SEV described the forthcoming power development project and the long-term, future plans for the area. The next step in the project is to build a pumping system inside the mountain, which will pump water from the dam in Heygadal to the dam at Mýra, while at the same time also function as a new hydropower production unit.

Many journalists accompanied Mette Fredriksen on her trip to the Faroe Islands and on Thursday evening, November 7th, the Danish TV2 news media broadcast a news report from Vestmanna featuring, among other news items, SEV's future plan to build a new pumping system. During the TV2 broadcast, the Prime Minster herself stressed that the pumping system is a very exciting example of green energy. Mette Fredriksen also stated that, whilst other countries may discuss how to produce green power, we actually produce green power in the Scandinavian countries and within the Danish Kingdom.



MEST to maintain the wind turbines

SEV is pleased that ENERCON in 2019 made an agreement with MEST to maintain the wind turbines. It is of the utmost importance that maintenance is based in the Faroe Islands.

Wind farm at Neshagi

German wind turbine producer, ENERCON, and MEST signed an agreement in the Fall of 2019 on the inspection and maintenance of the German wind turbines in the Faroe Islands.

“We are pleased with the agreement between MEST and ENERCON. It is very important for the production of green energy in the Faroe Islands to have local experts who can immediately fix any possible breakdowns of the wind turbines. In that way, we are able to minimize the loss of any wind energy due to a wind turbine breakdown,” observes Hákun Djurhuus, CEO of SEV.

Since the wind farms at Húsahagi and in Neshagi were established, SEV had an agreement with ENERCON to provide maintenance of the wind turbines. These agreements meant that experts had to travel to the Faroe Islands from abroad to repair any breakdowns of the wind turbines.

“This agreement with MEST is a strong signal that ENERCON intends to maintain and strengthen its presence in the Faroe Islands,” notes Hákun Djurhuus.

HR - A good start to a new job is of great importance

It is of great importance for a person's well-being that the start of a new job is a good one, not least in good times when the demand for labour is great.

Cecilia Wigant Eysturdal, Apprentice and Elisabet M. J. Dalsgaard, Chief Engineer.

"You never get a second chance to make a first impression."

When Bergtóra Høgnadóttir, HR Manager at SEV, is asked about the importance of a good start in a new job, she refers to the above English saying. A good start is known as "onboarding" in international human resource parlance. A similar term in Faroese refers to "mustering" of a crew onboard a ship.

"As a worksite, SEV should do its utmost to welcome new staff. A person's first impression of SEV can be of great importance long-term," adds Bergtóra Høgnadóttir.

By way of explanation, she refers to the many international studies on the onboarding process. Data from the book, Onboarding, indicate that 25% of new employees quit their job within a year and 22% of these quit within 45 days. She stresses that these figures, however, do not apply to SEV.

"It is nevertheless good to have this data in mind because they shed light on how important good onboarding is for new employees. Especially during times of high demand for labour when employees frequently seek other opportunities," concludes Bergtóra Høgnadóttir.

A GOOD START

SEV is endeavouring to give new employees a good start so they feel comfortable and welcome. The job must be meaningful and new employees immediately shall feel that they are contributing to the success of SEV.

"If a newcomer is met with a non-caring attitude by the employer rather than a welcoming smile and well-wishes, the start can be doubtful. Motivation and a well-defined onboarding strategy are important factors," states Bergtóra Høgnadóttir.

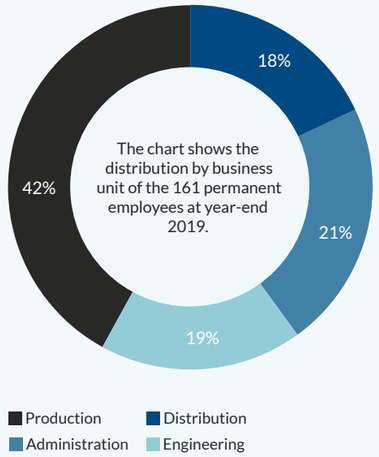
It is imperative that SEV informs all new employees about all the basic fundamentals and the goals of their work. For example, it is imperative to explain to all new employees that all electricity on land

"Everyone must feel that their contribution is critical and that each one is important to the mission of SEV"

Employees 2019

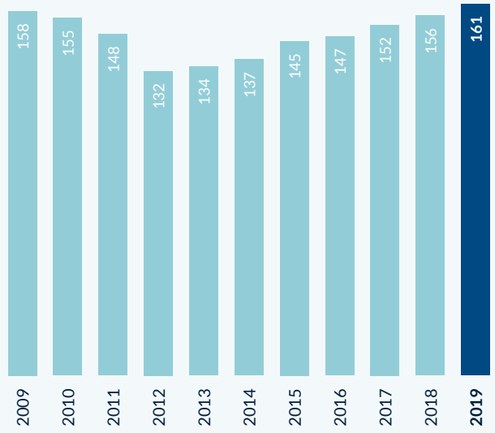
In 2019, SEV had 221 people on its payroll. Of these, 9 (11) have served on the Board of Directors, 4(4) received pension benefits, 47(54) were temporary staff, and 161(154) were full-time equivalent employees.

DISTRIBUTION OF EMPLOYEES



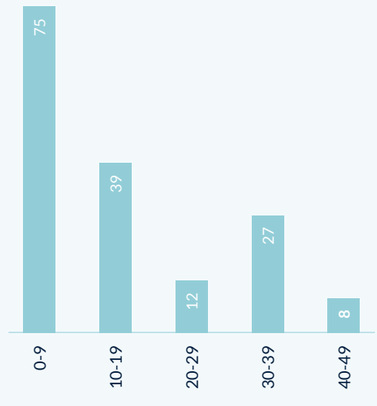
PERMANENT EMPLOYEES

The chart shows the number of permanent employees at year-end 2009-2019



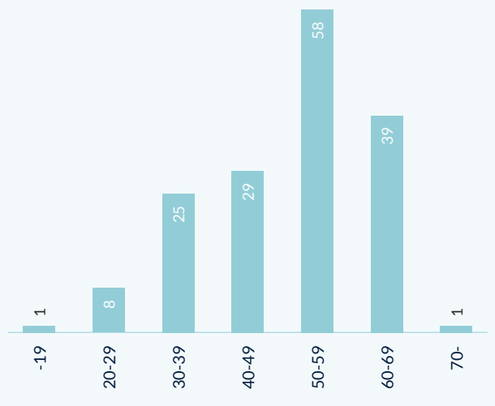
LENGTH OF SERVICE

The average length of employment is 14.6 years. In 2019, 40(37) employees or 25% of all employees have been employed with SEV for 25 years or more



AGE

Average age of employees is unchanged compared to 2018. At year-end 2019, 40(38) employees were aged 60 or older.



shall be produced from green energy by 2030 and how everyone at SEV is working together to realize this goal.

“Everyone must feel that their contribution is critical and that each one is important to the mission of SEV. This attitude shall be visible throughout SEV,” notes Bergtóra Høgnadóttir.

She states it is important that the new employee’s worksite is ready and that information about the new employee is available on the SEV intranet when the employee begins work – in brief some background on the new employee and his or her experience.

THE BEGINNING IS SIGNIFICANT FOR SEV

Normally, the respective branch manager and the HR manager meet with the new employee after two or three months on the job.

“The meeting is designed to uncover whether the job expectations from both sides are being realized.

During the meeting, we can explore together if any changes are in order. Of course, it is also important to express our mutual appreciation, especially so that the employee understands what he or she has done well,” states the HR Manager.

Bergtóra Høgnadóttir also observes that new employees arrive at SEV with fresh eyes and therefore they often can offer new insights and help SEV uncover relevant changes.

“It also true that when staff resign it can be costly for SEV and his or her colleagues that have to pick up the slack when someone leaves. Turnover is costly and demanding especially if it happens frequently,” notes Bergtóra Høgnadóttir.

In summoning up, the HR Manager observes that it is always a good idea to make sure that new employees experience a good start and SEV always strives to ensure this happens.

“In this connection, I would like to note that the average length of employment for our employees is quite high. We celebrate both 25-year and 40-year anniversaries. This is a clear indication that our employees are happy, which is consistent with our employee well-being survey,” states Bergtóra Høgnadóttir in closing.

“We celebrate both 25-year and 40-year anniversaries. This is a clear indication that our employees are happy, which is consistent with our employee well-being survey”

The chart below shows what a worksite loses – both for employees and financially – when people leave their job

EFFECTS ON REMAINING STAFF

- More work to do until a new employee is found
- A knowledgeable sparring partner is lost
- Projects delayed and time consumed training new staff
- Delay in projects and planning
- Lack of motivation

FINANCIAL COSTS

- Cost of advertising the position
- Time dedicated to creating new adverts
- Time devoted to onboarding
- Rental of office space for interview to ensure new staff confidentiality
- Time spent on training
- Personality assessments

Kurt Andersen receives the Queen’s Medal of Merit for his 40 years of service at SEV

In October 2019, Kurt Andersen, leading fitter, received the Medal of Merit from her Majesty Queen Margrethe for 40 years of loyal service at SEV.

”It is a great honour to receive such recognition for one’s work, but it is a great honour for SEV as well that our employees thrive here and choose to remain with us for such a long time,” stated Hákun Djurhuus, CEO of SEV, in his speech honouring Kurt Andersen when he was awarded the Queen’s Medal of Merit for his 40 years of service at SEV.

For 40 years, Kurt Andersen has been building, maintaining and updating the Faroese electrical grid. At the age of fifteen, Kurt Andersen began working temporarily as a lineman and, as it turned out, he was directly sent into the mountains to erect electricity lines there. In this job, he travelled to every corner of the Faroe Islands.

“I don’t know exactly how many times I have clambered up a pole to repair the electric lines during Christmas. Now, most of the grid is comprised of underground cables, so it is very rare that a storm will impact the flow of electricity,” notes Kurt Andersen.

Kurt Andersen especially enjoyed working in the mountains, even though at times it was very demanding and exhausting, especially during bad weather when everyone else stayed indoors.
“I have always preferred hard, physical work, the quiet peace in the mountains and my fantastic colleagues,” states Kurt Andersen.

Health, safety and environment

Sustainability report

THE HEALTH, SAFETY AND ENVIRONMENTAL POLICY (HSE)

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

SAFETY

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

SAFETY WORK

In 2019 the focus has been on preparing an emergency plan for use of safety harnesses, and to introduce an audit system which will ensure that SEV has employees that are certified to carry out random checks to see, if safety is in order.

PERSONAL INJURIES

SEV works systematically and conscientiously throughout the Company to avoid accidents and injuries and our goal is that no one is ever injured. However, it is difficult to avoid injuries totally.

Figure 2 shows the number of personal injuries that resulted in a worker's disability for one or more days. In 2019, there were no instances of personal injury to report to the Occupational Safety & Health Administration

Figure 1. SEV's organisational safety structure.

SAFETY BOARD

Robert Joensen Safety rep.	**Vilhelm Hansen** Safety rep.	**Otto West** Work Leader	**Jørgin Mørkøre** Work Leader	**Annika F. Berg** HSE Manager	**Hákun Djurhuus** CEO
Jón Nielsen Director of Grid Operations	**Heri Mortensen** Director of Administration	**Bogi Bendtsen** Director of Administration			

SAFETY GROUPS

BÝTISVIRKIR SUÐURØKI	BÝTISVIRKIR MIÐØKI	BÝTISVIRKIR NORÐURØKI	SUNDSVERKIÐ	VERKINI Í SUÐUROY	VERKINI Í VESTMANNA
Otto West Work Leader	**Mads á Heyggi** Work Leader	**Henrik Eskildsen** Work Leader	**Jørgen Mørkøre** Work Leader	**Jóanes Norðberg** Work Leader	**Eyðbjørn F. Petersen** Work Leader
Poul Bech Safety rep.	**Elias Mikkelsen** Safety rep.	**Robert Joensen** Safety rep.	**Vilhelm Hansen** Safety rep.	**Poul Dan Kjærbo** Safety rep.	**Tróndur Emil við Á** Safety rep.

GRID DISTRIBUTION — PRODUCTION

STROND PLANT AND SMALL PLANTS	PRODUCTION - HYDRO AND WIND POWER	ADMINISTRATION	ENGINEERING	TECH AND WIND TURBINE MAINTENANCE	INSTALLATION
Sæmund Tausen Work Leader	**Heri Mortensen** Work Leader	**Bogi Bendtsen** Arbeiðsl Work Leader eiðari	**Høgni Hansen** Work Leader	**H. Brian Joensen** Work Leader	**Eirikur Norðberg** Work Leader
Rógvi Rasmussen Safety rep.	**Karl Martin Klein** Safety rep.	**Katrin Petersen** Safety rep.	**Eirikur Norðberg** Safety rep.	**Morten B. Hansen** Safety rep.	**Anna Vang** Safety rep.

PRODUCTION

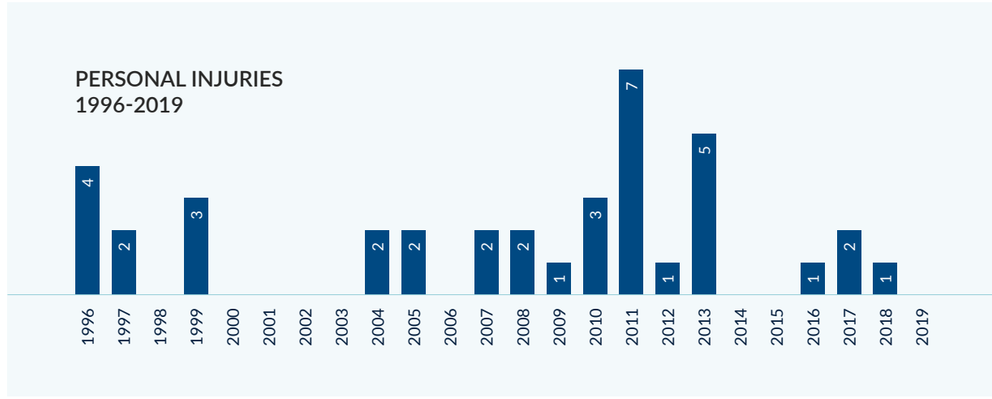


Figure 2. Number of personal injuries that resulted in a worker's disability for one or more days that were reported to the Occupational Safety & Health Administration.

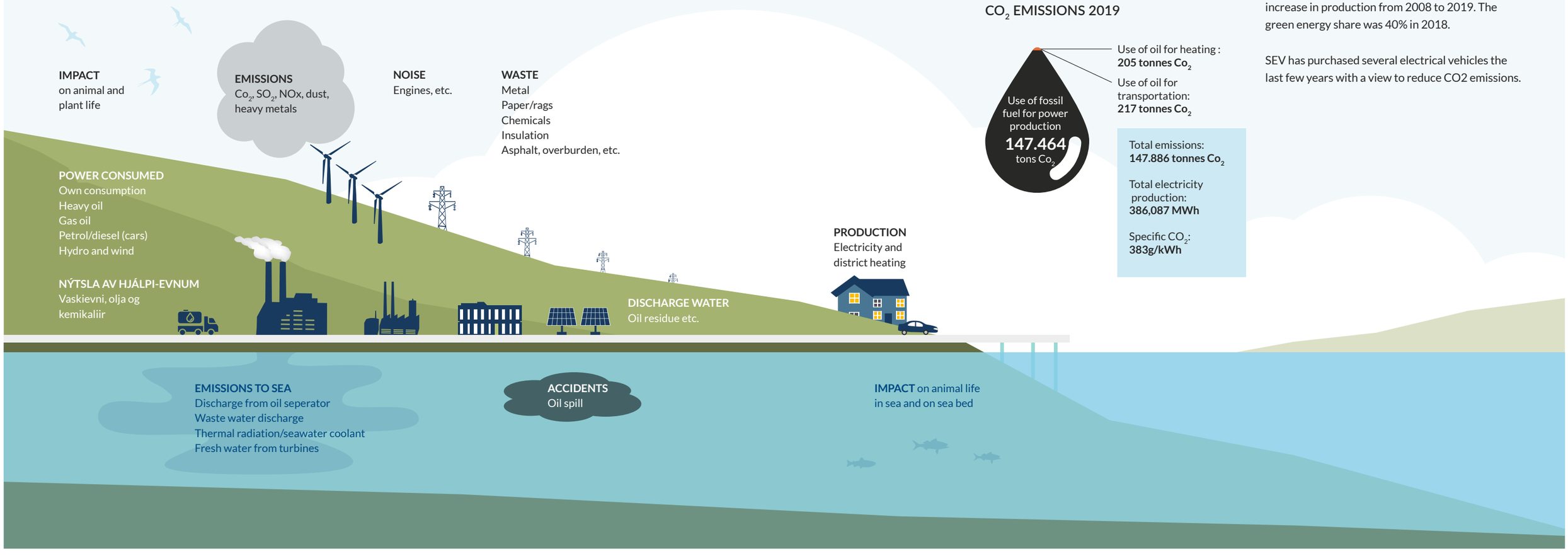
THE ENVIRONMENT

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

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

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

***Figure 3**. Main environmental impacts.*



Existing environmental permits	Valid from
Environmental permit of wind turbines in Neshagi	14.05.04
Environmental permit of Sund power plant	28.03.18
Environmental permit of wind farm in Neshagi	13.01.12
Environmental permit of Vágur power plant	18.11.15
Environmental permit of wind farm in Húsahagi	16.01.13

Environmental Permits

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

Figure 4

CO_2 EMISSIONS 2019

Carbon Dioxide emissions

One of SEV's largest environmental impacts stems from the burning of fossil fuels. The greatest portion of SEV's CO2 emissions originates from oil-fired electricity and heat production. Additionally, CO2 emissions originate from the use of oil for the heating of buildings and motors, as well as transport. Figures 4 and 5 show SEV's CO2 emissions for 2019 and CO2 emissions from 2008 to 2019, respectively.

SEV's main aim is to become 100% green energy producer by 2030. Figure 6 shows the proportion of thermal and green energy production and the increase in production from 2008 to 2019. The green energy share was 40% in 2018.

SEV has purchased several electrical vehicles the last few years with a view to reduce CO2 emissions.

Waste

SEV produces a considerable amount of waste. A large proportion of the waste is either incinerated or recycled, while some waste is sent for special processing, e.g. chemical waste.

In connection with construction activity there is much soil and rock delivered for landfill. This would ordinarily be considered as a burden for the environment, but since the soil and rock is not contaminated and can be recycled, these figures are not included here. It is also difficult to collect the relevant data, as SEV employs subcontractors for this type of work.

Figure 8 shows types of waste for recycling 2017-2019.

The majority of the waste is waste oil delivered to IRF. Metals are also a considerable part of the waste. The figure shows that more cables and batteries have been recycled than in previous years. The old power plant in Tórshavn has cleared out a lot of old cable, and so has the main warehouse in Vestmanna. The power plants and Sund and at Strond have also replaced old batteries. More waste oil in 2019 is due to the higher level of production in 2019, and also due to one delivery of heavy fuel oil during the summer, that had to be returned to the vendor.

Figure 5.

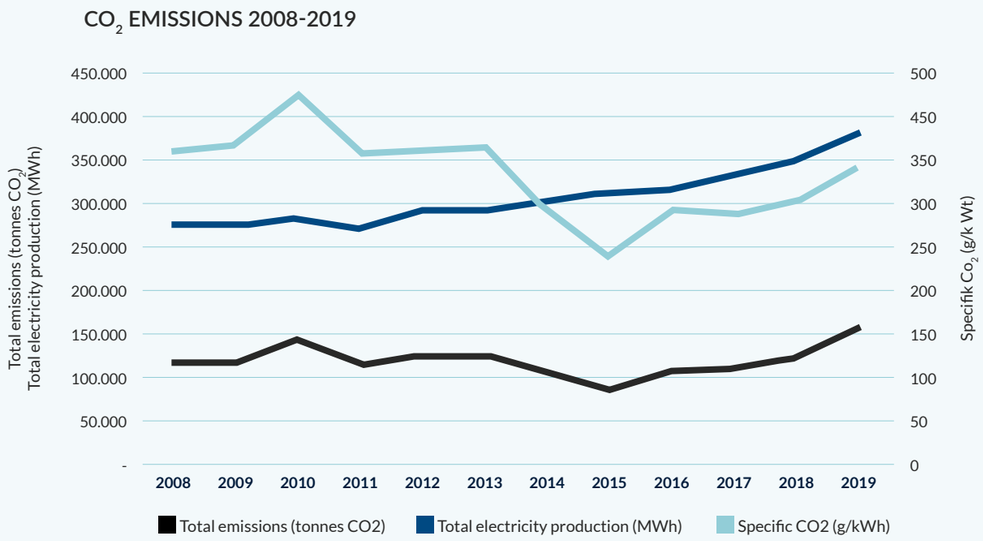


Figure 6.

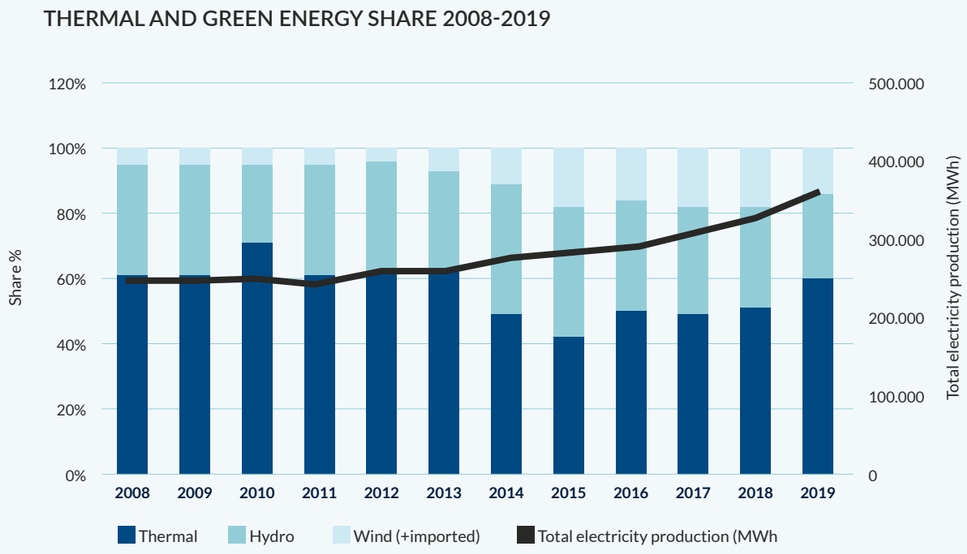


Figure 7

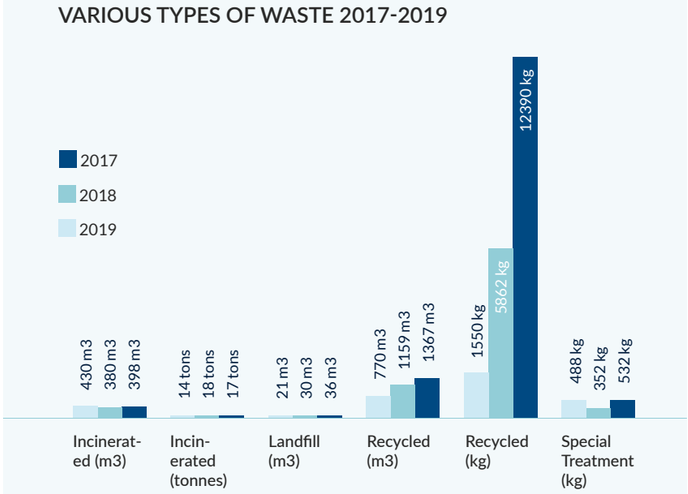
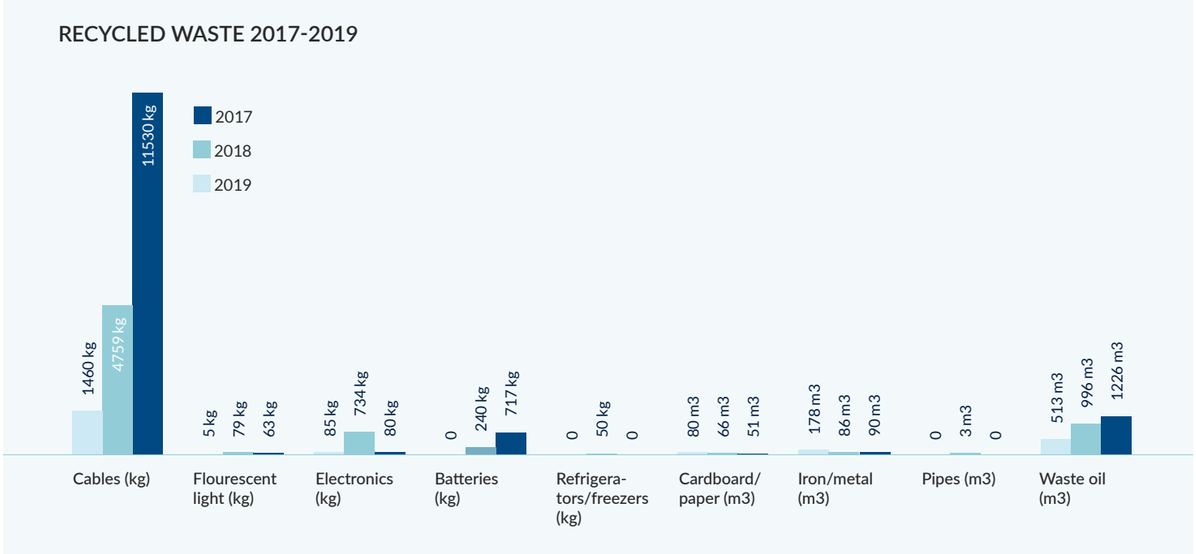


Figure 8



Annual Report & Annual Accounts 2019

Management Report

The board of directors and the management have today presented the annual report of Elfelagið SEV and the group for the financial year 1 January to 31 December 2019.

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

We consider the accounting policies used appropriate, and in our opinion, the consolidated annual accounts and the annual accounts provide a true and fair view of the assets, the liabilities and the financial position, consolidated and for the company respectively as on 31 December 2019 and of the results of the activities, consolidated and of the company respectively and of consolidated cash flows in the financial year 1 January to 31 December 2019.

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

Tórshavn, 3 April 2020

Management

Hákun Djurhuus
Managing Director, CEO

Financial Management

Bogi Bendtsen
Director of Administration, CFO

Board

John Zachariassen
Chairman

Hans Jákup Johannesen
Vice Chairman

Marin Katrina Frýdal

Jónsvein Hovgaard

Sune Jacobsen

Vinjard Tungá

Kristian Eli Zachariasen

The independent auditor's report

TO THE OWNERS OF ELFELAGIÐ SEV

OPINION

We have audited the consolidated annual accounts and the annual accounts of Elfelagið SEV for the financial year 1 January to 31 December 2019, which comprise accounting policies used, profit and loss account, balance sheet and notes, consolidated and for the company, respectively, and cash flow statement for the company. The consolidated annual accounts and the annual accounts are prepared in accordance with the Faroese Financial Statements Act.

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets, liabilities and financial position, consolidated and for the company respectively at 31 December 2019 and of the results of the company's operations, consolidated and for the company respectively and of the company's cash flows for the financial year 1 January to 31 December 2019 in accordance with the Faroese Financial Statements Act.

BASIS FOR OPINION

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

THE MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED ANNUAL ACCOUNTS AND THE ANNUAL ACCOUNTS

The management is responsible for the preparation of consolidated annual accounts and annual accounts that give a true and fair view in accordance with the Faroese Financial Statements Act.

The management is also responsible for such internal control as the management determines is necessary to enable the preparation of consolidated annual accounts and annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts and the annual accounts, the management is responsible for evaluating the group's and the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the consolidated annual accounts and the annual accounts, unless the management either intends to liquidate the group or the company or to cease operations, or if it has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED ANNUAL ACCOUNTS AND THE ANNUAL ACCOUNTS

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

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

- Identify and assess the risks of material misstatement in the consolidated annual accounts and the annual accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.

- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's preparation of the consolidated annual accounts and the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts and the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the consolidated annual accounts and the annual accounts, including the disclosures in the notes, and whether the consolidated annual accounts and the annual accounts reflect the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or the business activities within the group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

STATEMENT ON THE MANAGEMENT'S REVIEW

The management is responsible for the management's review.

Our opinion on the consolidated annual accounts and the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

In connection with our audit of the consolidated annual accounts and the annual accounts, our responsibility is to read the management's review and in that connection consider whether the management's review is materially inconsistent with the consolidated annual accounts and the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, it is our responsibility to consider whether the management's review provides the information required under the Faroese Financial Statements Act.

Based on the work we have performed, we believe that the management's review is in accordance with the consolidated annual accounts or the annual accounts and that it has been prepared in accordance with the requirements of the Faroese Financial Statement Acts. We did not find any material misstatement in the management's review.

Tórshavn, 3 April 2020

P/F JANUAR

State Authorised Public Accountants

Hans Laksá
State Auth. Auditor

Jógvan Amonsson
State Auth. Auditor

Key Figures and Financial Ratios

Amounts in 1,000 DKK	2019	2018	2017	2016	2015
Income Statement					
Net sales	508,788	427,460	432,277	420,270	421,952
EBITDA	226,211	197,097	226,255	243,621	221,483
Result before financial items	112,612	81,960	123,513	150,383	127,897
Financial items	-37,040	-34,634	-32,948	-48,286	-24,830
Annual result	**62,379**	**38,084**	**88,974**	**92,754**	**103,067**
Balance Sheet					
Total assets	2,918,099	2,722,020	2,447,178	2,303,961	1,960,373
Cash-on-hand	125,123	190,785	247,993	335,498	221,889
Equity	1,344,822	1,207,723	1,196,397	1,141,003	1,042,921
Long-term debt	**1,446,277**	**1,341,582**	**1,133,188**	**1,042,116**	**830,000**
Financial ratios *)					
Return on equity	4.40%	3.20%	7.60%	8.10%	10.4%
Return on assets	4.00%	3.20%	5.20%	7.10%	6.9%
Net debt/EBITDA	6.1	6.2	4.2	3.1	2.8
Asset turnover	0.17	0.16	0.18	0.18	0.22
Equity ratio	**46.10%**	**44.40%**	**48.90%**	**49.50%**	**53.2%**

*) The financial ratios are calculated in accordance with The Danish Finance Society (Den Danske Finansanalytikerforenings), *Recommendations and Financial Ratios 2010*.

CALCULATION OF FINANCIAL RATIOS

The financial ratios are calculated as follows:

Return on equity	Annual result x 100 / Average equity
Return on assets	Result of ordinary operations x 100 / Average assets
Net debt/EBITDA	Net liabilities (liabilities – cash-on-hand) / EBITDA
Asset turnover	Net sales / Total assets
Equity ratio	Equity at year-end x 100 / Total assets

2019 in brief

RESULT AFTER TAX

62.4 MM

MILLION DKK

Management is pleased with the result. The budgetted result was DKK 62.7 million.

INVESTMENTS

342 MM

MILLION DKK

Majority of investments within production division, but the grid is continually strengthened and expanded as well.

AVAILABLE CASH

690 MM

MILLION DKK

During the year, new financing of DKK 350 million has been secured to finance new investments and operations in years to come.

NET SALES

19.2 %

PERCENT

EQUITY RATIO

46.1 %

PERCENT

GWH SALES

9.3 %

PERCENT

NET DEBT TO EBITDA RATIO

6.1

TIMES

Ratio between net debt and EBITDA.

GREEN ENERGY

40.4 %

PERCENT

The proportion of green energy is less than in the previous year.

Management Review

MISSION OBJECTIVE OF SEV
Elfelagið SEV is an inter-municipal cooperative electricity utility company. The mission of the Company is to generate electric power and distribute it to residents in the participating municipalities.

COMMERCIAL PRINCIPLES
Pursuant to § 3, paragraph 1 of the Electricity Production Act, municipalities may participate in electricity production activities pursuant to § 1, paragraph 1 without regard to the stipulations set forth in § 50, paragraph 1 of the Municipal Administration Act. In connection with the partial liberalization of the electricity production sector, municipalities are granted the authority to operate electricity production on a commercial basis.

According to SEV's Articles of Association, the Company is to carry out its mission consistent with economically sound commercial principles with due regard for the natural environment. Pursuant to the Electricity Production Act, the grid operations of SEV shall be financially self-sufficient such that the revenue earned is sufficient to cover the cost of operations and any planned necessary investment. The operations permit granted to SEV for each individual production facility states that the accounts shall indicate whether each production facility operates at a profit or loss.

THE MUNICIPALITIES IN THE FAROE ISLANDS OWN SEV
All the municipalities in the Faroe Islands are participating members of SEV. Prior to the end of 2008, the members covered both the debt of the Company and possible operations deficits. As of 1 January 2009, the municipalities cover only the debt of the Company relative to its employees.

INDEPENDENT SUBSIDIARIES
With effect as at 1 January 2016, SEV established independent subsidiaries to manage the windfarms at, respectively, Neshagi and Húsahagi. The consolidated accounts of SEV indicate that the purchase of wind power will continue to increase, while at the same time the cost of supplies and wages, depreciation and interest will decline. The results of the subsidiaries are incorporated into the consolidated accounts via the capital equity portion. The total result of SEV's consolidated accounts are not impacted by this. This report covers the total operations of the Company during the period 1 January 2019 – 31 December 2019.

FINANCIAL STATUS RELATIVE TO 2019 BUDGET

THE RESULT FOR 2019 IS DKK 62.4 MILLION.
The final result before taxes was DKK 75.6 million, compared to a budgeted DKK 76.5 million. The result after taxes was calculated to be DKK 62.4 million, compared to DKK 62.7 million. Management is satisfied with this result.

NET REVENUE DKK 20 MILLION HIGHER THAN BUDGETED
Net turnover is now nearly one-half billion kroner and sales have reached a record 350.4 GWh. The budget envisioned an increase in electricity sales of around 7%, which in the end increased by nearly 9%. In total, net revenue is DKK 20.1 million more than budgeted, and this increased income over budget stems from higher kWh sales and connection fees.

Income from kWh sales is DKK 470.0 million and this, in the main, is derived from increased sales to the fishing and aquaculture industries and the production and construction industries. Sales to private customers also increased. Income derived from connection fees is DKK 24.0 million, which is DKK 13.0 million higher than budgeted and stems from several major connections. The income from the fixed fee increased a little over the previous year.

OIL EXPENSES DKK 23 MILLION HIGHER THAN BUDGETED
Good weather in spring and summer, in addition to major growth in electricity demand, resulted in SEV using much more oil than budgeted, especially gasoil, which represents the largest portion of increased costs. To meet demand, it was necessary to support the heavy-oil thermal motors by producing electricity from the motors that use gasoil, which is considerably more expensive.

GOODS AND SERVICES DKK 3 MILLION HIGHER THAN BUDGETED
The increased costs are related to production, especially the Sund Power Plant, which was required to operate throughout the spring and summer months to meet the increased demand for electrical power. In addition, the power plant was supplied with oil that proved not of the same quality as normal and thus created major challenges for the motors and the employees at both the Sund and Vágs power plants.

WAGE EXPENSES DKK 5 MILLION HIGHER THAN BUDGETED
In the main, this increased expense stems from two adjustments to the wage obligation. The first was an adjustment of some DKK 2.8 million of debt for employee pensions. This adjustment was necessitated by, among other factors, trends in market interest rates and the average life expectancy of people. The last adjustment was an adjustment of the debt relative to wage expenses, such as overtime and vacation pay, etc. for DKK 2.2 million.

EBITDA DKK 11 MILLION LOWER THAN BUDGETED
The higher revenue of the Company resulted in that the calculation of EBITDA was not as expected, given what the higher costs for oil, goods and wages would have indicated. Thus, EBITDA is not as budgeted and this stresses the fiscal economy of the Company, relative to debt instruments designed to advance the budgeted investment. The goal was that net debt compared to EBITDA should be a factor of 6.0, but this key figure ultimately was calculated to be 6.1, somewhat higher than planned.

To counter this, the Company can strive to control operational costs and the planned investment. In addition, the Company can estimate the need to adjust the price of electricity to be sold.

INVESTMENT DKK 139 MILLION LOWER AND DEPRECIATION DKK 11 MILLION LOWER THAN BUDGETED
The budget stipulated an investment of DKK 480 million, but finally amounted to DKK 341 million or DKK 139 million less than budgeted. This resulted in less depreciation. The reasons that the budget included this investment were grounded on the intent that the work on the windfarms in the central region of the country would be advanced in 2019 and that the windfarm on Suðuroy would come further along in 2019. These did not occur, and SEV was able to only advance the expansion at Eiði and not at Hoyvíkshagi, which means that the project is on hold. The expansion at Eiði will not be concluded until the coming year, one year later than originally planned. At the same time, investment in the production units of the Company has been delayed relative to the original plan. Investment in the grid is also somewhat less than budgeted. Moreover, the oldest part of the Sund Power Plant is no longer depreciated.

INTEREST EXPENSES CONSISTENT WITH THE BUDGET
Interest expense was calculated to be DKK 1 million higher than budgeted and is deemed consistent with the budget. In the main, the discrepancy stems from the payment of interest now on funds held in the financial institutions.

ACCOUNTING TRENDS COMPARED TO 2019 PROJECTIONS

NOTICE TO OWNERS
Pursuant to § 3, paragraph 13b and § 4, paragraph 12b of the Company's Articles of Association, at the Extraordinary General Meeting in the autumn of

Table 1
PROFIT & LOSS ACCOUNT IN DKK MILLION

	2018	2019	Change DKK MM
Net sales	427.5	508.8	81.3
Oil expenses	105.8	143.9	38.1
Materials and services	50.4	57.5	7.1
Wages	74.2	81.3	7.1
Total expenses	**230.4**	**282.6**	**52.2**
EBITDA	**197.1**	**226.2**	**29.1**
Depreciation	115.1	113.6	-1.5
Result before financial items	**82.0**	**112.6**	**30.7**
Net interest expenses	34.6	37.0	2.4
Result before tax	**47.3**	**75.6**	**28.2**
Tax	9.2	13.2	4.0
Annual result	**38.1**	**62.4**	**24.3**

each year, the Company shall review the financial status of the Company since the Annual General Meeting, which in this case was held on 24 April 2019. Further review was conducted at the Extraordinary General Meeting held on 29 November 2019. For more detailed information, please refer to the report presented at the meeting entitled Financial Status 2019 available on the Company's website, www.sev.fo. The information presented is based on actual numbers as at the end of September plus projections and the budget for the remainder of the year.

FINANCIAL STATUS 2019

RESULT FOR 2019 IS DKK 62.4 MILLION

The Company increased the price of electricity for all customers by DKK 0.10 per kWh to strengthen the fiscal economy of the Company and the operational result after tax for the year is DKK 62.4 million, which is much better than the previous year. The reason that the result was better than the previous year reflects a higher net revenue, which is based on higher sales of electricity and a higher price of electricity, as well as increased connection fees.

NET REVENUE DKK 82 MILLION HIGHER

Total net revenue increased by DKK 82 million and income from sales of electricity increased by DKK 68 million and income from connection fees increased by DKK 15 million, compared to the previous year. Net revenue is now approaching one-half billion kroner. The sale of electricity grew by nearly 9% and this is a record-breaking increase.

The increase in income from the sale of electricity stems from the price increase and higher sales of electricity of almost 30 GWh, where the advance in sales to the fishing industry, the aquaculture industry and the processing industry increased significantly. Growth was also seen in other sectors.

A more detailed discussion of net revenue is available in Note 1 in the Group Accounts. Moreover, please refer to the management report in the Grid Accounts.

Table 2
RESULT FOR EACH KWH SOLD IN DKK

	2018	2019	Change DKK	Change %
Average income each kWh sold	1.34	1.46	0.12	8.8
Average expense each kWh sold	1.22	1.27	0.05	4.0
Result for each kWh sold	**0.12**	**0.18**	**0.07**	**59.6**

Table 3
NET SALES, DKK MILLION

	2018	2019	Change DKK MM	Change %
kWh payment	402.2	470.0	67.8	16.9
Base rate payment	17.0	17.4	0.4	2.1
Connection fee	9.2	24.0	14.8	160.5
Service fee, etc.	1.4	-0.0	-1.7	-118.8
Income	**429.9**	**511.1**	**81.3**	**18.9**
Purchase of wind energy	-2.7	-2.3	0.4	-13.1
Net sales	**427.2**	**508.8**	**81.6**	**19.1**

Table 4
MATERIALS AND SERVICES, DKK MILLION

	2018	2019	Change DKK MM	Change %
Production	22.4	27.6	5.2	23.4
Grid	9.9	10.0	0.1	0.9
Administration	18.1	19.9	1.7	9.6
Total expenses	**50.4**	**57.5**	**7.1**	**14.0**

OIL EXPENSES DKK 38 MILLION HIGHER

The Company used some eight thousand tonnes more of heavy oil in production than the previous year. In addition, the Company used nearly three thousand tonnes more of gasoil, the cost of which is considerably higher than heavy oil. Together, this greater use of oil resulted in higher oil costs relative to the previous year of some DKK 38 million. The reason for this was the good weather in the spring and summer and the greater demand for electricity experienced throughout the entire year. Please refer to the management report in the Production Accounts.

GOODS AND SERVICES EXPENSES INCREASED BY NEARLY DKK 7 MILLION

Production experienced an increase in costs of some DKK 5 million, while Administration experienced an increase of nearly DKK 2 million. Costs relative to the Grid have remained consistent. With regard to Production, it is especially the oil-burning thermal power plants that experienced the increase in costs, especially the Sund and Vágs Power Plants. The reason for this is especially the oil challenges stemming from the quality of oil received by the power plants in the spring and summer, plus the increase in demand for electricity, which also increased overall costs. Please refer to the more detailed discussion of costs available in Note 3 in the Group Accounts.

WAGE EXPENSES INCREASE BY DKK 7 MILLION

Wage expenses grew by nearly DKK 7 million, of which Administration stands for nearly DKK 5 million because of adjustments that were made at year-end to pensions and the wage debt related to overtime, vacation, etc. for a total of DKK 4.9 million. The wage expense for production plants grew by nearly DKK 2 million, based on more activity overall as well as considerable overtime in connection with the supply of oil, which resulted in challenges. Moreover, wage expense increased as a result of increases in the wage agreements, which are applicable for various work areas. For more detailed discussion of wage expenses, please refer to Note 4 in the Group Accounts.

Table 5
WAGES, DKK MILLION

	2018	2019	Change DKK MM	Change %
Production	36.7	38.5	1.8	4.9
Grid	23.5	24.0	0.5	2.1
Administration	14.3	18.8	4.8	34.1
Adjustment to pension benefits	*-0.3*	*2.8*	*3.1*	
Total wages	**74.2**	**81.3**	**7.1**	**9.5**

Table 6
INVESTMENTS, DKK MILLION

	2018	2019
Production	276.2	207.3
Grid	144.6	120.3
Administration	15.1	14.1
Total investments	**436.0**	**341.8**

EBITDA DKK 29 MILLION HIGHER

The result before depreciation, interest and taxes is DKK 29 million greater than the previous year. Net debt during the same period grew by DKK 156million, such that net debt to EBITDA is now 6.1, compared to 6.2 in the previous year. The internal corporate mark is set at a factor of 6.0, while financial loan institutions permit companies to carry a net debt to EBITDA factor of 9.0. Thus, the Company is well within the requirement stipulated by the loan institutions, but the Company is focused on holding the internal mark.

DEPRECIATION DKK 2 MILLION LOWER

Depreciation is the next largest line item expense in the accounts after oil expenses. The reason that this expense has increased over the past few years stems from the investment undertaken by the Company these last few years. The depreciation basis is increased by DKK 81 million. For a more detailed discussion of this cost, please refer to Note 7 in the Group Accounts.

INTEREST EXPENSES INCREASED BY NEARLY DKK 3 MILLION

The increase in interest expense stems from the increase in loan facilities undertaken relative to the infrastructure investment being carried out by the Company. Total gross debt has a fixed rate of interest, based on loan facilities with a fixed rate, as well as the fact that a part of the debt is covered by interest rate hedging agreements. Interest expense encompasses unrealized costs and market exchange losses and gains on foreign currency exchanges. These costs are governed by interest rate hedging agreements and currency exchange tools that the Company utilizes to cover the risk in this area. For a more detailed discussion of this cost, please refer to Note 5 in the Group Accounts.

INVESTMENTS EQUALLED DKK 342 MILLION

Over the past year, the Company has made significant investment in both the grid and its

production facilities, equalling DKK 342 million. During the previous year, investment was somewhat higher at DKK 436 million.

The investment placed can be subdivided into production, grid and administration, as Table 6 shows.

Tables 7-9 show the development of investments, work-in-progress and work transferred to fixed assets.

Table 7
INVESTMENTS, DKK MILLION

	2018	2019
Investment booked as work-in-progress	420.9	327.8
Investment booked directly as transition	15.1	14.0
Investments at year-end	**436.0**	**341.8**

Table 8
WORK-IN-PROGRESS, DKK MILLION

	2018	2019
Opening balance	518.1	682.1
Investment booked to work-in-progress	420.9	327.8
Work transferred to fixed assets	-256.8	-180.4
Closing balance	**682.1**	**829.5**
Changes to work-in-progress	164.0	147.4

Table 9
TRANSFER TO FIXED ASSETS, DKK MILLION

	2018	2019
Work transferred to fixed assets	256.8	180.4
Investments booked directly to fixed assets	15.1	14.0
Transfers at year-end	**271.9**	**194.4**

LIQUIDITY IS GOOD

At the Extraordinary General Meeting in June 2019, the Company received permission to secure new financing to cover the investment and liquidity of the Company equal to some DKK 500 million. The Company undertook this financing as temporary financing, which shall be refinanced no later than 2021. At present, there is no need for all of the financing, because another company shall erect the windfarm on Hoyvíkshagi.

Company operational liquidity in 2019 was DKK 176 million, compared to DKK 179 million in 2018. Thus, self-financing for investment and instalment payments was positive. The loan facilities from finance institutions that the Company undertook in December 2016 stipulated that no instalments shall be paid, but that the debt shall be repaid in full when the loan period is fulfilled. The Company's cash-on-hand at year-end is DKK 125 million, compared to DKK 191 million in 2018. In addition, the unused drawing rights and credit lines in the banking institutions equals a total of DKK 565 million.

Thus, cash-on-hand, credit line and unused drawing rights equal DKK 690 million, compared to DKK 506 million in 2018. The greater portion of the unused drawing rights shall be used to finance investment over the coming years. It is critical to maintain a stable liquidity to meet the daily operations of the Company. It is also sensible to maintain a solid liquidity given the uncertainty in the financial markets around the world.

PROSPECTS FOR 2020

The budget anticipates a profit of DKK 42 million before taxes and DKK 34 million after taxes subsequent to the Company increasing the price of electricity by DKK 0.05 per kWh for all customer groups of the Company, except the "industrial customers" wherein the price of electricity was increased by DKK 0.10 per kWh.

Net revenue is anticipated to be DKK 543 million. This means that the Company will generate DKK 34 million more income than in 2019.

Oil expenses are projected to be at a high level at DKK 160 million, which is higher than costs experienced in 2019. SEV anticipates to use 44,042 tonnes of heavy oil in 2020, compared to 44,226 tonnes in 2019, or essentially the same amount. In addition, comes gasoil and lubricating oil. The reasoning for this is that it is anticipated that average weather conditions will prevail for the production of electricity from hydro power, while at the same time electricity production from wind is expected to increase in 2020.

The global marketplace is anticipating the new IMO2020 standards and the introduction of 0.5% sulphur fuel oil around the world. Along with the shipping industry, which uses heavy-oil as fuel, SEV therefore also will be impacted by the global changes, especially regarding heavy-oil, which are especially burdensome. It is believed that this is the biggest change that the shipping industry has experienced in quite some time, relative to fuel oil.

This will have comprehensive challenges for the entire oil market. HSFO will be markedly cheaper, given less demand, while the demand for LSFO [Low Sulphur Fuel Oil] and distillate (e.g. MGO/gasoil) will increase as a direct result of the new IMO2020 standard for lower sulphur content in oil. The market in the meantime is very unstable relative to the actual effect of the new standards in 2020 and it is difficult to estimate the overall impact. The fuel oil that SEV uses today is 1% LSFO.

It is anticipated that this particular product to a certain degree will be dragged into the IMO2020 challenges and will be used as a blending oil for 0.5% bunker oil and it is anticipated that the price for maximum 1% sulphur LSFO will increase due to increased demand for this particular oil.

It is anticipated that electricity sales will increase around 6.0% in 2020, especially sales to aquaculture and processing customers, and thus production will increase as well. Costs for goods and services is budgeted at DKK 59 million, which is the same level as in 2019.

Wage expenses will increase following normal enhancements to wages, individual reclassification, as well as several more employees are expected to join the Company. The budget stipulates wage expenses at DKK 80 million, which is somewhat lower than in 2019.

It is anticipated that the corona-virus pandemic, which has taken a firm grip on the entire world, will also impact SEV. In order to ensure electricity production, SEV has initiated various actions designed to reduce the chance of infection among its employees. These initiatives will no doubt increase operational costs. It is also possible that customers will demand less electricity for part of 2020 and this decline in demand may also impact revenue.

Depreciation is budgeted at DKK 155 million, compared to 114 million in 2019. The reason behind the increase in depreciation is the investment undertaken by the Company. Net interest expenses are budgeted at DKK 47 million, which is higher than in 2019. The increased interest expense reflects the increase in loan facilities for investment purposes undertaken by the Company, and the cost of refinancing of current debt and drawing rights. The costs related to undertaking new debt for investment over the coming years is not included. In the event that this investment is undertaken in 2020, this will impact the final result. There is no set-aside for the valuation adjustments of the financial tools that may be used.

It is anticipated that investment for DKK 477 million will be carried out. Furthermore, it is anticipated that some DKK 270 million in new loan facilities will be undertaken from existing drawing rights. It is anticipated that long-term debt will be DKK 1,718 million by year-end 2020.

Cash-on-hand is expected to be DKK 108 million at year-end 2020, plus access to drawing rights for some DKK 295 million from the various banking institutions, or in total DKK 403 million. Thus, the liquidity of the Company is good.

Equity capital compared to total assets is 40.3%. This means that SEV has fallen short of the top-most internal level for equity capital (42.5%), but well above the level stipulated by the financing institutions, which is now 35.0% (previously 37.5%).

Company management is not satisfied with the budgeted result for 2020 in and of itself and the confirmation that NIBD/EBITDA is not within the stipulated internal level. However, given the tangible steps the Company has implemented and is planning, all things considered, management is

satisfied with the financial status and the fiscal prospects for the Company.

If the Company is to continue to implement the necessary investment required to develop and maintain the grid and its production facilities, as well as to advance investment in renewable energy resources, it is critical that the Company maintains an adequate level of self-financing from operations. With an adequate level of self-financing, the Company will be able to maintain sufficient liquidity, which is a requirement to be granted financing from the various financial institutions for the major investments that lie ahead in the coming years.

It is budgeted that the financial key figures for net debt to EBITDA will be a factor of 6.9 and the equity capital basis will be 40.3%. More information for 2020 can be found in the Operational, Financial and Investment Budget Plan for 2020 available at www.sev.fo.

EVENTS AFTER THE CLOSING OF THE ACCOUNTS

From the closing date of the financial statements to date, nothing has occurred that would impact the assessment of the annual accounts of the Company.

SPECIAL RISKS

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

MARKET RISKS

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

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

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

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

INTEREST RATE RISKS

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

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

In connection with SEV's new loan facilities, SEV secured a fixed rate of interest on all of its gross debt as at year-end 2017 of DKK 1,042 million from a bond issue with an average repayment period of around 8.3 years. In addition, in December 2016, the Company executed interest rate swap agreements for the debt that would be assumed when and if the Company has need for bank financing as each new infrastructure investment is undertaken. This is consistent with the strategy to secure against interest rate risk. Thus, an increase in interest rates will, generally, not have an impact on the majority of the interest-bearing debt carried by SEV for the next eight years.

OIL PRICE AND EXCHANGE RATE RISKS

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

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

Year 1	Year 2	Year 3	Year 4	Year 5
80%	60%	40%	20%	20%

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

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

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

LIQUIDITY RISK

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

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

MARKET RISK	CREDIT & COUNTER-PARTY RISK	OPERATIONAL RISK	STRATEGIC AND OTHER RISKS
Interest rate	Receivables	Security of supply	The strategic risks are related to how the company organizes its operations, the political environment, image, etc.
Oil price	Bank deposits	IT	New disruptive technologies
Exchange rate	Bonds	Error in internal procedures	Projects
Liquidity	Insurance	Human error	Knowledge and development
		Health, safety, and environment	

CREDIT AND COUNTER-PARTY RISKS

ACCOUNTS RECEIVABLE FROM CUSTOMERS

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

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

CASH-ON-HAND IN BANKS

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

BONDS

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

INSURANCE

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

OPERATIONAL RISKS

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

PRODUCTION SECURITY

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

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

IT AND IN-HOUSE PROCEDURES

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

HEALTH AND SAFETY

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

ENVIRONMENT

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

STRATEGIC RISKS

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

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

NEW, DISRUPTIVE TECHNOLOGY

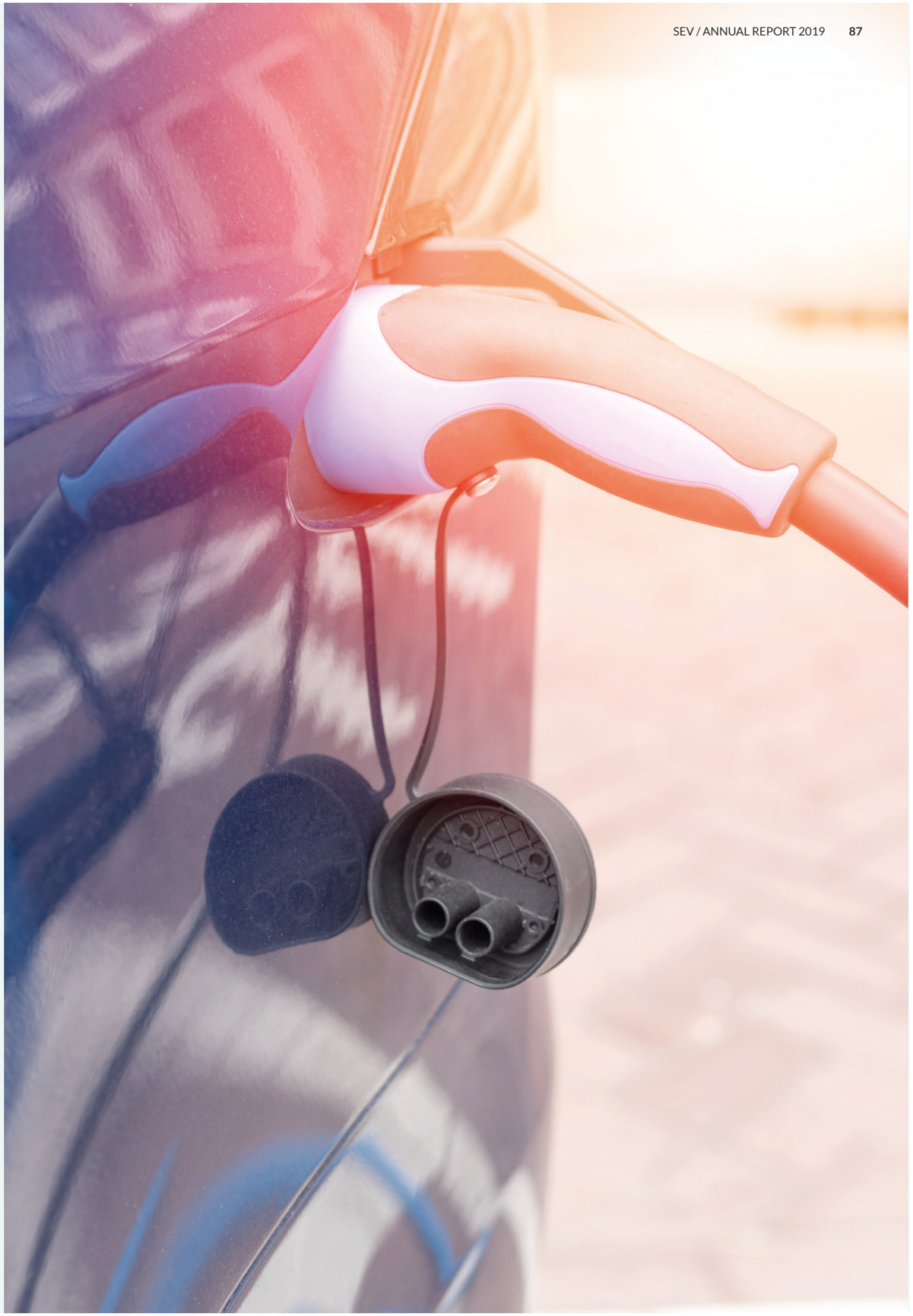
New, disruptive technology is continually evolving and impacting the world around us. Thus, SEV strives to follow and adapt the potential inherent in this evolving, disruptive technology.

PROJECTS

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

PROFESSIONAL KNOWLEDGE AND DEVELOPMENT

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



Accounting Principles

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

The Annual Accounts apply the same accounting principles as the previous year and are presented in Danish kroner.

Amounts in the Income Statement, Balance Sheet, Notes, etc. are rounded to whole thousands. As each number is rounded individually, rounding differences may occur between the numbers presented and the sum of the underlying numbers.

Where a Table in the financial statement shows numbers in DKK rounded to whole thousand or million, and the Table shows differences between periods, either in DKK or percent, the comparisons are calculated on the basis of the underlying numbers and then rounded off. As a result of this, small differences can occur between the rounded numbers shown in the Table and the calculated comparisons.

BASIS FOR RECOGNITION AND VALUATIONS
In the Income Statement, income is recognised as earned. The same pertains to value adjustments of financial assets and liabilities. Included in the Income Statement are all expenses, including depreciation, amortisation, provisions, and impairment losses derived of changes in the financial estimates of the amounts that otherwise have been recognised in the operational accounts.

Assets are recognised in the Balance Sheet when future economic benefits are likely to flow to the Company and the value of such assets can be measured reliably.

Liabilities are recognised in the Balance Sheet when they are reasonably likely to occur and can be measured reliably.

On recognition and valuation, due regard is given to foreseeable loss and risks arising before the time at which the Annual Report is presented, and relate to circumstances present as at the end of the fiscal year.

TRANSLATION OF FOREIGN CURRENCY
Foreign currency transactions are translated using the rate of exchange applicable as at the date of transaction. Realised and unrealised translation gains and losses are recognised in the Income Statement under financial items.

Receivables, liabilities and other financial booking in foreign currencies that are not translated as at the end of the fiscal year are translated using the exchange rates applicable as at the end of the fiscal year. The difference between the exchange rate as at the end of the fiscal year and the exchange rate current as at the date of the transaction are recognised in the Income Statement under financial items.

INCOME STATEMENT

NET SALES
Net sales are recognised in the Income Statement, provided that delivery has been effected and the risk has passed to the buyer by the end of the fiscal year and income is reliably pending and is expected to be received. Net sales exclude VAT, fees and rebates in connection with sales.

CONSUMPTION OF GOODS AND SERVICES
Consumption of goods and services includes costs for the purchase of raw materials and consumables less rebates and changes in inventory during the year.

OTHER EXTERNAL EXPENSES
This item comprises external costs related to the purchase of oil, supplies and other services, as well as other administrative costs.

SYSTEM SERVICES AND DISTRIBUTION OF INCOME
The cost of electricity production can be divided into actual production cost, and the cost of system services. System services include the planning and control of available generating power, spinning reserve, reactive reserve, regulating power and regulating frequency. The cost for the system services is an estimated share of the total operating cost of the Sund and Vágur power plants.

The cost for system services elsewhere in the country is based on the cost of operating the smaller power plants. Their operating cost for materials and wages are reimbursed as system services cost, the remaining cost as production cost. The Strond power plant is reimbursed for the materials and wages related to the thermal production as system services cost, and the remaining cost as production cost.

The income of the smaller power plants is equal to their total cost, and in addition they receive as income a percentage of their equity at the beginning of the year. This percentage is based on the yield of long-term bonds and the cost of maintaining assets.

GRID CONTROL
The cost of planning and controlling the grid in the main area is based on the total wage cost of the Fossá plant, less the wages required for the normal operation of the plant. The same method is used on Suðuroy, although there the basis are the wages on the Vágur power plant.

DISTRIBUTION OF INCOME
According to the Electricity Production Act, the grid activities shall be self-supporting such that the income earned is sufficient to pay for operations and planned necessary investment.

For the Grid Division, this means that it shall derive an income that corresponds to the expenses that the grid department has such that the Grid Division can pay for its operations as well as derive sufficient income to pay for the planned necessary investment in the grid. The income set aside for necessary investment shall reflect the requirement for self-financing.

SEV has determined that self-financing of 25% is satisfactory and this decision is reflected in SEV's annual accounts and the accounts of both the Production and Grid Divisions.

The stipulated amount of self-financing is based on the anticipated investment for both production and the grid over a period of five years, which is the current year and the next four years. The self-financing for the current year is calculated thusly: cash-flow from operations less cost of interest and repayment of principle compared to the requirement for 25% self-financing of annual average investment over the next five years.

For the Grid Division, this means that the annual result will be adjusted such that the profit corresponds to the expenses of the grid plus the self-financing of 25% of the annual average investment in the grid over the next five years. If the total result for the SEV Group is greater than the result for the Grid Division, the remainder of the result will be transferred to the Production Division.

EMPLOYEE EXPENSES
Employee expenses encompass wages plus vacation pay and pension benefits including other social benefits. Any compensation received from the government is deducted from employee expenses.

DEPRECIATION AND WRITE-OFFS
The depreciation and amortisation of intangible and tangible fixed assets are based on an asset's forecasted useful life.

FINANCIALS
Financials include interest receivable and interest payable, realised and unrealised capital gains and losses on financial assets and debt. Financial revenue and expense are booked at value for the relevant accounting year.

Dividends from equity investments in Associated Companies are recognised as revenues in the accounting year in which they are approved.

Interest expense and other loan costs to finance production of intangible and tangible fixed assets and are related to the production period are not included in the forecasted useful life of the asset.

RESULTS FROM EQUITY IN SUBSIDIARIES
After full elimination of intercompany profit, the equity investment in the group enterprise is recognised in the profit and loss account at a proportional share of the group enterprise's results after tax.

BALANCE SHEET

TANGIBLE ASSETS

Tangible assets are valued at acquisition cost less accumulated depreciation and write-offs. Land is not depreciated.

The depreciation basis includes the acquisition value less the expected residual value at the end of the asset's prescribed useful life.

Acquisition value includes the purchase price and costs directly accruing from the time of acquisition to the time when the asset is ready for use.

Depreciation is based on an asset's forecasted useful life and the residual value of the asset:

	Useful life years	Residual value
Production and distribution plant	10-50	0 %
Buildings	50	0 %
Production equipment, furnishings	3-5	0 %

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

Regarding own production assets the acquisition value includes the cost of supplies / consumables, parts, suppliers, direct wage expense and indirect production costs.

DEPRECIATION OF FIXED ASSETS

Every year the carrying amount of tangible fixed assets is appraised to obtain an indication of whether they have lost value or have been impaired. This is done in addition to general depreciation write-offs.

When a loss in value is indicated, impairment tests are carried out on each individual asset and each asset category. Assets with impaired value are written down to the recoverable amount, if this amount is lower than the carrying amount.

The recoverable amount is either the net realisable or sale value or the capital value. Capital value is calculated as the current value of the expected net revenues accruing from using an asset or asset group.

EQUITY IN SUBSIDIARIES

Equity in subsidiaries is recognised in the balance sheet at a proportional share under the equity method, the value being calculated on the basis of the accounting policies of the parent company by the deduction or addition of unrealised intercompany profits and losses, and with the addition or deduction of residual value of positive or negative goodwill measured by applying the acquisition method.

To the extent the equity exceeds the cost, the net revaluation of equity in subsidiaries are transferred to the reserves under the equity for net revaluation as per the equity method. Dividends from the subsidiary that is expected to be decided before the approval of this annual report are not subject to a limitation of the revaluation reserves. The reserves are adjusted by other equity movements in the subsidiaries.

Newly taken over or newly established companies are recognised in the annual accounts as of the time of acquisition. Sold or liquidated companies are recognised at the time of cession.

CAPITAL INVESTMENT IN ASSOCIATED COMPANIES

Investment in Associated Companies is recognised in the balance sheet at acquisition value. If the net realisable value is lower than the acquisition value, it is depreciated to the lower value.

INVENTORY

Inventory is measured at cost price according to FIFO principles. If the net realisable value of the inventory is lower than the acquisition value, it is depreciated to the lower value.

The acquisition value of goods for sale, including raw materials and consumables, is measured as the purchase price plus freight expenses.

The acquisition value of finished goods and goods-in-production is measured as acquisition value of the raw materials, consumables, direct labour costs and indirect production costs. Indirect production costs include indirect supplies and wages, plus maintenance and depreciation of machinery, buildings and equipment used in production. In addition, the booked costs include costs to manage and administer production, plus R&D costs relative to the goods.

RECEIVABLES

Receivables are valued at amortised acquisition cost, which generally corresponds to nominal value. To guard against possible loss, receivables are written-down to net realised value.

PREPAYMENTS

Prepayments that are included under assets include express costs attributable to the coming fiscal year.

CASH-ON-HAND

Cash-on-hand includes cash-on-hand and short-term (under 3 months) securities that could be readily converted to cash and where there is an insignificant risk for changes in valuation.

CURRENT AND DEFERRED TAXES

Current tax, payable and receivable, is recognised in the Balance Sheet as the tax computed on the basis of the taxable income for the year, adjusted for tax paid on account the previous year. Current tax payable and receivable tax are recognised based on the set off permitted by law and the booked amounts generally calculated at net or current.

Deferred tax is calculated on the basis of all temporary differences between the carrying amount and the tax base of assets and liabilities. This is recognised in the Balance Sheet based on intended use of the asset or how the debt is intended to be repaid.

Deferred tax assets, including tax deficits carried forward, are recognised at the anticipated realisable value, either by adjusting the tax on future income or by off-setting deferred tax within the same legal tax entity. Possible deferred net receivable tax is recognised at net realised value.

Deferred tax is valued consistent with the tax regulations and tax rates then applicable as at the end of the fiscal year.

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

OTHER PROVISIONS

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

CASH FLOW HEDGES

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

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the

hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

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

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

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

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

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

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

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

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

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

KEY FIGURES
The Key Figures are calculated consistent with The Danish Finance Society (Den Danske Finansanalytikerforenings), *Recommendations and Financial Ratios 2010*.

The financial ratios are calculated as follows:

Return on equity	$\frac{\text{Annual result x 100}}{\text{Average equity}}$
Return on assets	$\frac{\text{Result of ordinary operations x 100}}{\text{Average assets}}$
Net debt/EBITDA	$\frac{\text{Net liabilities (liabilities – cash-on-hand)}}{\text{EBITDA}}$
Asset turnover	$\frac{\text{Net sales}}{\text{Total assets}}$
Equity ratio	$\frac{\text{Equity at year-end x 100}}{\text{Total assets}}$

Income Statement 1 January – 31 December

Amounts in 1,000 DKK		GROUP		PARENT	
Note		2019	2018	2019	2018
1	Net sales	508,788	427,460	489,393	407,998
2	Oil expenses	-143,855	-105,771	-143,855	-105,771
3	Materials and services	-57,457	-50,391	-51,146	-44,893
	Gross proceeds	**307,476**	**271,297**	**294,392**	**257,333**
4	Wages	-81,265	-74,201	-81,180	-74,085
	EBITDA	**226,211**	**197,097**	**213,212**	**183,248**
	Depreciation	-113,599	-115,136	-103,232	-104,769
	Result before finacial items	**112,612**	**81,960**	**109,981**	**78,479**
5, 8	Result from subsidiary companies	0	0	587	1,192
5	Financial expenses	-37,040	-34,634	-35,146	-32,620
	Result before tax	**75,572**	**47,326**	**75,422**	**47,052**
6	Tax on annual result	-13,194	-9,242	-13,043	-8,968
	Annual result	**62,379**	**38,084**	**62,379**	**38,084**
	Proposed distribution of result				
	Results carried forward	62,379	38,084	62,379	38,084
	Total distribution	**62,379**	**38,084**	**62,379**	**38,084**

Balance Sheet 31 December

ASSETS in 1,000 DKK		GROUP		PARENT	
Nota		2019	2018	2019	2018
	Tangible fixed assets				
7	Power plants	970,181	1,006,249	873,867	899,567
7	Distribution stations	713,952	613,422	713,952	613,422
7	Buildings and land	52,661	37,629	52,661	37,629
7	Operating equipment	43,563	42,256	43,563	42,256
7	Investment work-in-progress	829,483	682,126	825,442	679,887
	Total tangible fixed assets	**2,609,839**	**2,381,682**	**2,509,484**	**2,272,762**
8	Investment in Associated and Subsidiary Companies	2,750	2,750	36,704	36,117
9	Loans to subsidiary companies	0	0	78,428	86,859
10	Derivatives	22,111	3,043	22,111	3,043
	Total financial assets	**24,861**	**5,793**	**137,243**	**126,020**
	Total fixed assets	**2,634,700**	**2,387,476**	**2,646,727**	**2,398,782**
	Current assets				
	Oil inventory	17,403	24,184	17,403	24,184
	Materials inventory	21,870	19,810	21,870	19,810
	Total inventory	**39,273**	**43,993**	**39,273**	**43,993**
11	Goods and service receivables	106,894	87,544	106,894	87,248
	Prepayments	12,109	12,828	9,133	9,451
	Total recievables	**119,003**	**100,506**	**116,027**	**96,698**
	Cash-on-hand	125,123	190,785	125,123	190,785
	Total current assets	**283,398**	**335,285**	**280,423**	**331,477**
	Total assets	**2,918,099**	**2,722,760**	**2,927,150**	**2,730,259**

Balance Sheet 31 December

LIABILITIES in 1,000 DKK		GROUP		PARENT	
Note		2019	2018	2019	2018
	Equity				
12	Deposits	4,140	4,140	4,140	4,140
	Hedge reserve	-21,240	-53,840	-21,240	-53,840
	Reserve for net revaluation as per the equity method	0	0	4,954	4,367
	Results carried forward	1,361,922	1,257,423	1,356,968	1,253,055
	Total equity	**1,344,822**	**1,207,723**	**1,344,822**	**1,207,72**
	Provisions				
	Provisions for pensions and equivalent liabilities	19,598	16,801	19,598	16,801
	Deferred tax	2,540	25,087	1,419	23,981
	Total provisions	**22,139**	**41,887**	**21,017**	**40,782**
	Liabilities				
13	Long-term debt	1,446,277	1,341,582	1,446,277	1,341,582
	Total long-term debt	**1,446,277**	**1,341,582**	**1,446,277**	**1,341,582**
13	Current portion of long-term debt	870	870	870	870
	Bank debt	7	6	7	6
	Prepayment received from customers	1,199	1,166	1,199	1,166
	Trade creditors	34,241	55,126	34,241	55,126
	Inter-company account	0	0	10,576	8,604
	Derivatives	42,160	59,285	42,160	59,285
	Other creditors	26,383	15,115	25,980	15,115
	Total short-term debt	**104,861**	**131,568**	**115,034**	**140,172**
	Total debt	**1,551,138**	**1,473,150**	**1,561,311**	**1,481,754**
	Total liabilities	**2,918,099**	**2,722,760**	**2,927,150**	**2,730,259**
14	**Mortgages and other obligations**				
15	**Contingencies**				

Cash Flow Statement

Note	Amounts in 1,000 DKK	GROUP 2019	GROUP 2018
	Annual result	**62,379**	**38,084**
16	Adjustments	163,833	159,013
	Changes in working capital:		
	Inventories	4,721	-8,367
	Receivables	-18,529	5,122
	Trade creditors	-20,884	32,886
	Other operating debt	13,998	13,344
	Derivatives	0	-26,758
	Operating cash flows before financials	**205,516**	**213,323**
	Interest expenses paid and equivalent expenses	-29,423	-34,634
	Cash flows from operations	**176,093**	**178,689**
	Purchase of tangible fixed assets	-194,399	-271,932
	Changes to work-in-progress	-147,357	-164,021
	Cash flow from investments	**-341,756**	**-435,953**
	Loan facilities	100,000	200,000
	Bank overdraft withdrawals	1	57
	Cash flow from financing	**100,001**	**200,057**
	Total cash flow during the year	**-65,662**	**-57,207**
	Opening cash-on-hand	190,785	247,993
	Closing cash-on-hand	**125,123**	**190,785**
	Lines of credit	564,913	314,913
	Total	**690,036**	**505,698**

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Notes

Notes 1–3

1. NET SALES	GROUP		PARENT	
Amounts in 1,000 DKK	**2019**	**2018**	**2019**	**2018**
kWh charges etc.	469,997	402,19	469,997	402,199
Fixed charges	17,381	17,021	17,381	17,021
Connection fees	24,014	9,219	24,014	9,219
Other charges, reminders and other sales	-266	1,714	-266	1,714
Purchase of wind power etc.	-2,338	-2,692	-21,733	-22,154
Total	**508,788**	**427,460**	**489,393**	**407,998**

2. OIL EXPENSES	GROUP		PARENT	
Amounts in 1,000 DKK	**2019**	**2018**	**2019**	**2018**
Gas oil	26,520	12,665	26,520	12,665
Heavy fuel oil	110,108	86,196	110,108	86,196
Lubricating oil	7,227	6,910	7,227	6,910
Total	**143,855**	**105,771**	**143,855**	**105,771**

3. MATERIALS AND SERVICES	GROUP		PARENT	
Amounts in 1,000 DKK	**2019**	**2018**	**2019**	**2018**
Lines	2,851	3,097	2,851	3,097
Dams, pipelines and tunnels	83	22	75	22
Tanks and environmental	206	298	206	298
Engines	10,481	8,838	5,482	4,536
Electric and technical	462	544	462	531
Buildings and land	2,533	2,223	2,350	1,970
General meeting and Board	501	766	501	766
Studies and consultancy	10,552	7,706	9,999	7,191
IT	7,370	5,452	7,370	5,452
Management and office expenses	2,664	3,100	2,664	3,100
Loss on unpaid debt	-538	538	-538	538
Other operating expenses	890	656	888	652
Other administrative expenses	19,403	17,150	18,837	16,739
Total	**57,457**	**50,391**	**51,146**	**44,893**

Notes 4–6

4. EMPLOYEE EXPENSES	GROUP		PARENT	
Amounts in 1,000 DKK	**2019**	**2018**	**2019**	**2018**
Wages	70,278	63,568	70,192	63,452
Pensions	7,681	7,638	7,681	7,637
Contributions	3,306	2,995	3,306	2,995
Total	**81,265**	**74,201**	**81,180**	**74,085**
Included in employee expenses are:				
Managment and Board of Directors	2,133	2,024	2,133	2,024
Total	**2,133**	**2,024**	**2,133**	**2,024**
Employees with SEV as main source of income	153	145	153	145
Average number of employees	**178**	**172**	**178**	**172**

5. FINANCIAL ITEMS	GROUP		PARENT	
Amounts in 1,000 DKK	**2019**	**2018**	**2019**	**2018**
Result from subsidiary companies	0	0	-587	-1,192
Adjustment financial fixed assets	0	-49	0	-49
Interest on loans	33,616	30,569	31,723	28,557
Establishment fees, commissions	2,090	2,294	2,090	2,294
Unrealised exchange rate gains or losses	127	8,868	127	8,868
Unrealised adjustments on derivatives	817	-7,352	817	-7,352
Other interest expenses	391	304	389	302
Total	**37,040**	**34,634**	**34,559**	**31,428**

6. TAXES ON ANNUAL RESULT	GROUP		PARENT	
Amounts in 1,000 DKK	**2019**	**2018**	**2019**	**2018**
Adjustment of deferred tax	13,194	9,242	13,043	8,968
Total	**13,194**	**9,242**	**13,043**	**8,968**

Note 7

7. TANGIBLE FIXED ASSET, GROUP

Amounts in 1,000 DKK	Production	Grid	Buildings	Equipment	Total 2019	2018
Acquisition value opening balance	2,146,083	1,137,726	72,598	208,372	3,564,778	3,292,846
Additions during the year	32,477	132,131	17,057	13,296	194,961	280,273
Transferred during the year	-681	681	0	0	0	0
Disposals during the year	0	0	0	-562	-562	-8,341
Acquisition value closing balance	**2,177,879**	**1,270,538**	**89,656**	**221,105**	**3,759,178**	**3,564,778**
Depreciation opening balance	-1,139,834	-524,303	-34,969	-166,116	-1,865,222	-1,750,086
Depreciation for the year	-68,409	-31,738	-2,026	-11,988	-114,161	-123,478
Transferred during the year	545	-545	0	0	0	0
Depreciation reversed on disposals	0	0	0	562	562	8,341
Depreciation closing balance	**-1,207,698**	**-556,586**	**-36,995**	**-177,542**	**-1,978,821**	**-1,865,222**
Book value year-end	**970,181**	**713,952**	**52,661**	**43,563**	**1,780,356**	**1,699,556**
Book value year-end 2018	1,006,249	613,422	37,629	42,256	1,699,556	
Work-in-progress						
Opening balance	516,668	141,236	20,917	3,306	682,126	518,106
Investment booked to work-in-progress	205,666	105,684	9,537	6,897	327,784	420,859
Transferred during the year	745	-745	0	0	0	0
Completed work transferred to depreciation	-30,475	-128,202	-17,057	-4,693	-180,428	-256,838
Closing balance	**692,604**	**117,973**	**13,396**	**5,510**	**829,483**	**682,126**
Closing balance year-end 2018	515,924	141,980	20,917	3,306	682,126	
Fixed assets year-end	**1,662,784**	**831,925**	**66,057**	**49,073**	**2,609,839**	**2,381,682**
Fixed assets year-end 2018	1,522,172	755,403	58,546	45,562	2,381,682	

Note 7

7. TANGIBLE FIXED ASSETS, PARENT

Amounts in 1,000 DKK	Production	Grid	Buildings	Equipment	Total 2019	2018
Acquisition value opening balance	2,008,385	1,137,726	72,598	208,372	3,427,080	3,155,615
Additions during the year	32,477	132,131	17,057	13,296	194,961	279,806
Transferred during the year	-681	681	0	0	0	0
Disposals during the year	0	0	0	-562	-562	-8,341
Acquisition value closing balance	**2,040,181**	**1,270,538**	**89,656**	**221,105**	**3,621,479**	**3,427,080**
Depreciation opening balance	-1,108,817	-524,303	-34,969	-166,116	-1,834,205	-1,729,436
Depreciation for the year	-58,042	-31,738	-2,026	-11,988	-103,793	-113,110
Transferred during the year	545	-545	0	0	0	0
Depreciation reversed on disposals	0	0	0	562	562	8,341
Depreciation closing balance	**-1,166,314**	**-556,586**	**-36,995**	**-177,542**	**-1,937,437**	**-1,834,205**
Book value year-end	**873,867**	**713,952**	**52,661**	**43,563**	**1,684,042**	**1,592,875**
Book value year-end 2018	899,567	613,422	37,629	42,256	1,592,875	
Work-in-progress						
Opening balance	514,430	141,236	20,917	3,306	679,887	517,638
Investment booked to work-in-progress	203,864	105,684	9,537	6,897	325,982	418,620
Completed work transferred to depreciation	-30,475	-128,202	-17,057	-4,693	-180,428	-256,371
Closing balance	**687,818**	**118,718**	**13,396**	**5,510**	**825,442**	**679,887**
Closing balance year-end 2018	514,430	141,236	20,917	3,306	679,887	
Fixed assets year-end	**1,561,684**	**832,670**	**66,057**	**49,073**	**2,509,484**	**2,272,762**
Fixed assets year-end 2018	1,413,997	754,658	58,546	45,562	2,272,762	

Notes 8–11

8. INVESTMENTS IN ASSOCIATED AND SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	31.12.19	31.12.18
Acquisition value opening balance	31,750	31,750
Acquisition value closing balance	**31,750**	**31,750**
Subsidiary companies' result opening balance	4,367	3,175
Result from subsidiary companies	587	1,192
Subsidiary companies' result closing balance	4,954	4,367
Carrying amount year-end	**36,704**	**36,117**

ASSOCIATED AND SUBSIDIARY COMPANIES:

Amounts in 1,000 DKK	Share	Equity	Annual result	Recognized value
P/F Fjarhitafelagið, Tórshavn	50%	62,482	1,295	2,750
P/F Vindfelagið í Húsahaga	100%	21,273	-58	21,273
P/F Vindfelagið í Neshaga	100%	12,681	645	12,681

The financial statement for P/F Fjarhitafelagið for the year 2019 is not available. The numbers shown are from 2018.

9. LOANS TO SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	Duration	Loan amount	Balance 31.12.19	Repayment next year	Balance in 5 years
P/F Vindfelagið í Húsahaga	12 ár	75,000	58,064	5,898	33,672
P/F Vindfelagið í Neshaga	10 ár	28,175	20,364	2,721	9,113
Total		**103,175**	**78,428**	**8,619**	**42,784**

10. DERIVATIVES

Amounts in 1,000 DKK	Assets 31.12.19	Liabilities 31.12.19	Total 31.12.19	31.12.18
Oil-price hedge	13,407	0	13,407	-14,583
Currency hedge	8,704	-1,586	7,117	3,043
Interest rate hedge	0	-40,573	-40,573	-44,702
Total	**22,111**	**-42,160**	**-20,049**	**-56,242**

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

11. GOODS AND SERVICES DEBTORS

Amounts in 1,000 DKK	31.12.19	31.12.18
Goods and services debtors	105,948	89,105
Other debtors	3,299	1,421
Receivables write-down	-2,353	-2,982
Total	**106,894**	**87,544**

Note 12

12. EQUITY, GROUP

Amounts in 1,000 DKK	Deposit	Derivatives reserve	Result carried over	Total
Equity statement 01.01.18 - 31.12.18				
Balance 01.01.18	4,140	-28,251	1,220,509	1,196,397
Adjustment to derivatives	0	-25,588	-1,170	-26,758
Annual result	**0**	**0**	**38,084**	**38,084**
Balance 31.12.18	**4,140**	**-53,840**	**1,257,423**	**1,207,723**
Equity statement 01.01.19 - 31.12.19				
Balance 01.01.19	4,140	-53,840	1,257,423	1,207,723
Adjustment to derivatives	0	32,600	0	32,600
Correction to prior years' deferred tax *	0	0	42,120	42,120
Annual result	**0**	**0**	**62,379**	**62,379**
Balance 31.12.19	**4,140**	**-21,240**	**1,361,922**	**1,344,822**

* It is necessary to correct deferred tax for the period prior to 31.12.2018 due to a reclassification of tax balances between equipment and buildings. This is done by posting a correction within equity of DKK 42.1 million in 2019.

12. EQUITY, PARENT

Amounts in 1,000 DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
Equity statement 01.01.18 - 31.12.18					
Balance 01.01.18	4,140	-28,251	3,175	1,217,334	1,196,397
Adjustment to derivatives	0	-25,588	0	-1,170	-26,758
Result from subsidiary companies	0	0	1,192	-1,192	0
Annual result	**0**	**0**	**0**	**38,084**	**38,084**
Balance 31.12.18	**4,140**	**-53,840**	**4,367**	**1,253,055**	**1,207,723**
Equity statement 01.01.19 - 31.12.19					
Balance 01.01.19	4,140	-53,840	4,367	1,253,055	1,207,723
Adjustment to derivatives	0	32,600	0	0	32,600
Correction to prior years' deferred tax *	0	0	0	42,120	42,120
Result from subsidiary companies	0	0	587	-587	0
Annual result	**0**	**0**	**0**	**62,379**	**62,379**
Balance 31.12.19	**4,140**	**-21,240**	**4,954**	**1,356,968**	**1,344,822**

* It is necessary to correct deferred tax for the period prior to 31.12.2018 due to a reclassification of tax balances between equipment and buildings. This is done by posting a correction within equity of DKK 42.1 million in 2019.

Notes 13–16

13. LONG-TERM DEBT

Amounts in 1,000 DKK	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.19	Total debt 31.12.18
Debt to financial institutions	0	1,110,277	1,446,277	1,342,452
Total	**0**	**1,110,277**	**1,446,277**	**1,133,188**

There are no repayments in the next financial year, and the average maturity date is 6.3 years.

14. MORTGAGES AND OTHER OBLIGATIONS 31.12.19

As security for import duty credit, a guarantee of DKK 1.4 million has been issued to TAKS, and as security for credit cards, the company is liable for guarantees of DKK 3.7 million. A payment guarantee for purchase of motors of DKK 5.1 million has been issued. Total obligations DKK 10.2 million.

15. CONTINGENCIES

The group has a contingency of DKK 4.5 million for 2020 due to operations and rental agreements of subsidiary companies.

16. ADJUSTMENTS

Amounts in 1,000 DKK	2019	2018
Adjustment financial fixed assets	0	-49
Interest expensed and equivalent expenses	36,096	33,168
Unrealised interest expenses	944	1,516
Depreciation	113,599	115,136
Tax	13,194	9,242
Total	**163,833**	**159,013**

Note 17

17. EQUITY DISTRIBUTION

Amounts in 1,000 DKK	Municipal contribution	Equity 2019	Equity % 2019	Equity 2018
Eiðis	78.6	19,599	1.46	16,963
Eysturkommuna	146.5	55,455	4.14	49,647
Fámjins	23.1	2,135	0.16	1,851
Fuglafjarðar	136.3	40,896	3.05	36,409
Fugloyar	17.5	977	0.07	867
Hovs	22.9	2,546	0.19	2,366
Húsavíkar	25.1	2,958	0.22	2,577
Hvalbiar	103.6	17,465	1.30	15,815
Hvannasunds	36.4	10,700	0.80	9,723
Klaksvíkar	537.8	135,035	10.07	121,645
Kunoyar	12.6	4,012	0.30	3,421
Kvívíkar	59.1	15,355	1.15	13,870
Nes / Runavíkar	332.1	141,543	10.56	125,885
Porkeris	51.0	8,179	0.61	7,474
Sands	72.3	13,709	1.02	12,207
Sjóvar	92.9	28,010	2.09	24,929
Skálavíkar	30.8	3,704	0.28	3,257
Skopunar	71.0	11,317	0.84	10,801
Skúvoyar	17.9	1,029	0.08	984
Sørvágs	127.5	9,208	0.69	28,162
Sumbiar	81.4	46,581	3.47	8,505
Sunda	177.4	31,817	2.37	42,079
Tórshavnar	1,092.5	564,010	42.07	506,259
Tvøroyrar	255.3	44,137	3.29	40,158
Vága kommuna	169.6	54,786	4.09	48,873
Vágs	218.4	34,595	2.58	31,442
Vestmanna	125.3	31,997	2.39	28,959
Viðareiðis	25.3	8,925	0.67	8,458
Total	**4,139.9**	**1,340,682**	**100.00**	**1,203,583**

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Group Activity by Division

Group / Profit & Loss

Production and Grid

PROFIT & LOSS		2019			2018	
Amounts in 1,000 DKK	Production	Grid	Total	Production	Grid	Total
Revenues	**328,266**	**180,522**	**508,788**	**259,063**	**168,397**	**427,460**
Oil expenses	-143,665	-190	-143,855	-105,522	-250	-105,771
Materials and services	-27,590	-29,867	-57,457	-22,356	-28,035	-50,391
Wages	-38,497	-42,768	-81,265	-36,700	-37,501	-74,201
Result of ordinary operations	**118,514**	**107,697**	**226,211**	**94,486**	**102,611**	**197,097**
Depreciation	-69,170	-44,430	-113,599	-74,221	-40,915	-115,136
Result before financial items	**49,344**	**63,268**	**112,612**	**20,265**	**61,696**	**81,960**
Net financial items	-16,476	-20,564	-37,040	-9,340	-25,294	-34,634
Result before tax	**32,869**	**42,704**	**75,572**	**10,925**	**36,401**	**47,326**
Tax	-150	-13,043	-13,194	-274	-8,968	-9,242
Annual result	**32.718**	**29.660**	**62.379**	**10.650**	**27.433**	**38.084**

Parent / Profit & Loss

Production and Grid

PROFIT & LOSS		2019			2018	
Amounts in 1,000 DKK	Production	Grid	Total	Production	Grid	Total
Revenues	**308,871**	**180,522**	**489,393**	**239,601**	**168,397**	**407,998**
Oil expenses	-143,665	-190	-143,855	-105,522	-250	-105,771
Materials and services	-21,279	-29,867	-51,146	-16,858	-28,035	-44,893
Wages	-38,412	-42,768	-81,180	-36,583	-37,501	-74,085
Result of ordinary operations	**105,515**	**107,697**	**213,212**	**80,638**	**102,611**	**183,248**
Depreciation	-58,802	-44,430	-103,232	-63,854	-40,915	-104,769
Result before financial items	**46,713**	**63,268**	**109,981**	**16,784**	**61,696**	**78,479**
Net financial items	-14,581	-19,977	-34,559	-7,325	-24,102	-31,428
Result before tax	**32,131**	**43,291**	**75,422**	**9,458**	**37,593**	**47,052**
Tax	0	-13,043	-13,043	0	-8,968	-8,968
Annual result	**32.131**	**30.247**	**62.379**	**9.458**	**28.625**	**38.084**

Group / Assets

Production and Grid

ASSETS		2019			2018	
Amounts in 1,000 DKK	**Production**	**Grid**	**Total**	**Production**	**Grid**	**Total**
Real estate, power plants, etc.	976,318	804,039	1,780,356	1,012,595	686,961	1,699,556
Investment work-in-progress	688,642	140,841	829,483	514,204	167,922	682,126
Fixed assets	**1,664,960**	**944,880**	**2,609,839**	**1,526,799**	**854,884**	**2,381,682**
Share equity	0	2,750	2,750	0	2,750	2,750
Derivatives	0	22,111	22,111	0	3,043	3,043
Financial fixed assets	**0**	**24,861**	**24,861**	**0**	**5,793**	**5,793**
Total fixed assets	**1,664,960**	**969,740**	**2,634,700**	**1,526,799**	**860,677**	**2,387,476**
Oil inventory	17,403	0	17,403	24,184	0	24,184
Materials inventory	0	21,870	21,870	0	19,810	19,810
Total inventory	**17,403**	**21,870**	**39,273**	**24,184**	**19,810**	**43,993**
Electricity debtors	0	106,894	106,894	0	87,248	87,248
Other debtors/tax asset	126	0	126	431	0	431
Inter-company account	10,576	147,816	158,392	8,604	348,919	357,522
Other receivables/accruals	3,089	11,061	14,150	5,743	9,126	14,870
Total receivables	**13,790**	**265,771**	**279,561**	**14,778**	**445,292**	**460,070**
Cash-on-hand	0	125,123	125,123	0	190,785	190,785
Total current assets	**31,193**	**412,764**	**443,957**	**38,961**	**655,887**	**694,849**
Total assets	**1,696,153**	**1,382,505**	**3,078,657**	**1,565,760**	**1,516,564**	**3,082,324**

Included in Inter-company account Grid is share capital DKK 29 million in subsidiary companies, as well as their total result from inception in 2016 of DKK 4.954 million.

Parent / Assets

Production and Grid

ASSETS		2019			2018	
Amounts in 1,000 DKK	**Production**	**Grid**	**Total**	**Production**	**Grid**	**Total**
Real estate, power plants, etc.	880,004	804,039	1,684,042	905,913	686,961	1,592,875
Investment work-in-progress	684,601	140,841	825,442	511,965	167,922	679,887
Fixed assets	**1,564,605**	**944,880**	**2,509,484**	**1,417,879**	**854,884**	**2,272,762**
Share equity	0	36,704	36,704	0	36,117	36,117
Loans to subsidiary companies	0	78,428	78,428	0	86,859	86,859
Derivatives	0	22,111	22,111	0	3,043	3,043
Financial fixed assets	**0**	**137,243**	**137,243**	**0**	**126,020**	**126,020**
Total fixed assets	**1,564,605**	**1,082,122**	**2,646,727**	**1,417,879**	**980,903**	**2,398,782**
Oil inventory	17,403	0	17,403	24,184	0	24,184
Materials inventory	0	21,870	21,870	0	19,810	19,810
Total inventory	**17,403**	**21,870**	**39,273**	**24,184**	**19,810**	**43,993**
Electricity debtors	0	106,894	106,894	0	87,248	87,248
Inter-company account	0	113,862	113,862	0	315,552	315,552
Other receivables/accruals	113	9,020	9,133	2,366	7,084	9,451
Total receivables	**113**	**229,775**	**229,889**	**2,366**	**409,883**	**412,250**
Cash-on-hand	0	125,123	125,123	0	190,785	190,785
Total current assets	**17,516**	**376,769**	**394,284**	**26,550**	**620,479**	**647,028**
Total assets	**1,582,121**	**1,458,891**	**3,041,012**	**1,444,428**	**1,601,382**	**3,045,810**

Group / Liabilities

Production and Grid

LIABILITIES		2019			2018	
Amounts in 1,000 DKK	**Production**	**Grid**	**Total**	**Production**	**Grid**	**Total**
Deposit	0	4,140	4,140	0	4,140	4,140
Capital account	788,531	552,151	1,340,682	756,400	447,183	1,203,583
Total equity	**788,531**	**556,291**	**1,344,822**	**756,400**	**451,323**	**1,207,723**
Pensions	0	19,598	19,598	0	16,801	16,801
Deferrec tax	1,247	1,419	2,666	1,105	23,981	25,087
Total provisions	**1,247**	**21,017**	**22,264**	**1,105**	**40,782**	**41,887**
Long-term debt	**733,250**	**704,408**	**1,437,658**	**437,369**	**895,782**	**1,333,151**
Current portion of long-term debt	8,619	870	9,489	8,431	870	9,301
Bank loans	0	7	7	0	6	6
Prepayments	0	1,199	1,199	0	1,166	1,166
Inter-company account	158,392	0	158,392	357,522	0	357,522
Other creditors/accruals	6,114	22,311	28,425	4,932	12,224	17,157
Trade creditors	0	34,241	34,241	0	55,126	55,126
Derivatives	0	42,160	42,160	0	59,285	59,285
Total debt	**906,375**	**805,197**	**1,711,571**	**808,255**	**1,024,459**	**1,832,714**
Total liabilities	**1,696,153**	**1,382,505**	**3,078,657**	**1,565,760**	**1,516,564**	**3,082,324**

Included in Inter-company account Production is share capital DKK 29 million in subsidiary companies, as well as their total result from inception in 2016 of DKK 4.954 million.

Parent / Liabilities

Production and Grid

LIABILITIES		2019			2018	
Amounts in 1,000 DKK	**Production**	**Grid**	**Total**	**Production**	**Grid**	**Total**
Deposit	0	4,140	4,140	0	4,140	4,140
Capital account	788,531	552,151	1,340,682	756,400	447,183	1,203,583
Total equity	**788,531**	**556,291**	**1,344,822**	**756,400**	**451,323**	**1,207,723**
Pensions	0	19,598	19,598	0	16,801	16,801
Deferrec tax	0	1,419	1,419	0	23,981	23,981
Total provisions	**0**	**21,017**	**21,017**	**0**	**40,782**	**40,782**
Long-term debt	**663,441**	**782,836**	**1,446,277**	**358,941**	**982,641**	**1,341,582**
Current portion of long-term debt	0	870	870	0	870	870
Bank loans	0	7	7	0	6	6
Prepayments	0	1,199	1,199	0	1,166	1,166
Inter-company account	124,438	0	124,438	324,155	0	324,155
Other creditors/accruals	5,711	20,269	25,980	4,932	10,183	15,115
Trade creditors	0	34,241	34,241	0	55,126	55,126
Derivatives	0	42,160	42,160	0	59,285	59,285
Total debt	**793,590**	**881,583**	**1,675,172**	**688,029**	**1,109,276**	**1,797,305**
Total liabilities	**1,582,121**	**1,458,891**	**3,041,012**	**1,444,428**	**1,601,382**	**3,045,810**

Group / Profit & Loss

Production and Grid by departments

DISTRIBUTION OF REVENUE

Amounts in 1,000 DKK	**Production**	**Grid**	**Total 2019**	**2018**
Sales	29	511,096	511,126	430,152
Own production and purchased electricity	307,456	-309,794	-2,338	-2,692
Grid responsibility and grid management	20,781	-20,781	0	0
Total revenue	**328,266**	**180,522**	**508,788**	**427,460**

PRODUCTION	**Thermal**	**Hydro**	**Wind**	**Total 2019**	**2018**
Revenue	231,577	77,151	19,537	328,266	259,063
Oil expenses	-131,352	-12,313	0	-143,665	-105,522
Material and services	-15,505	-5,732	-6,353	-27,590	-22,356
Wages	-28,084	-10,320	-93	-38,497	-36,700
Depreciation	-27,934	-30,812	-10,423	-69,170	-74,221
Interest	-9,444	-5,137	-1,894	-16,476	-9,340
Tax	0	0	-150	-150	-274
Production result	**19,258**	**12,836**	**624**	**32,718**	**10,650**

GRID	**Grid excl. management**	**Management**	**Total 2019**	**2018**
Revenue	6,094	174,428	180,522	168,397
Oil expenses	-190	0	-190	-250
Material and services	-10,013	-19,854	-29,867	-28,035
Wages	-23,996	-18,772	-42,768	-37,501
Depreciation	-37,983	-6,447	-44,430	-40,915
Interest	-23	-20,541	-20,564	-25,294
Tax	0	-13,043	-13,043	-8,968
Grid result	**-66,111**	**95,771**	**29,660**	**27,433**

Parent / Profit & Loss

Production and Grid by departments

DISTRIBUTION OF REVENUE

Amounts in 1,000 DKK	**Production**	**Grid**	**Total 2019**	**2018**
Sales	29	511,096	511,126	430,152
Own production and purchased electricity	288,061	-309,794	-21,733	-22,154
Grid responsibility and grid management	20,781	-20,781	0	0
Total revenue	**308,871**	**180,522**	**489,393**	**407,998**

PRODUCTION	**Thermal**	**Hydro**	**Wind**	**Total 2019**	**2018**
Revenue	231,577	77,151	142	308,871	239,601
Oil expenses	-131,352	-12,313	0	-143,665	-105,522
Material and services	-15,505	-5,732	-42	-21,279	-16,858
Wages	-28,084	-10,320	-8	-38,412	-36,583
Depreciation	-27,934	-30,812	-56	-58,802	-63,854
Interest	-9,444	-5,137	0	-14,581	-7,325
Production result	**19,258**	**12,836**	**37**	**32,131**	**9,458**

GRID	**Grid excl. management**	**Management**	**Total 2019**	**2018)**
Revenue	6,094	174,428	180,522	168,397
Oil expenses	-190	0	-190	-250
Material and services	-10,013	-19,854	-29,867	-28,035
Wages	-23,996	-18,772	-42,768	-37,501
Depreciation	-37,983	-6,447	-44,430	-40,915
Interest	-23	-19,954	-19,977	-24,102
Tax	0	-13,043	-13,043	-8,968
Grid result	**-66,111**	**96,358**	**30,247**	**28,625**

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