Annual report
and annual accounts 2009

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Report from the Board of Directors

Global solidarity and renewable energy

Demands for greater global solidarity in energy production and emissions are increasing. The Faroes should participate in binding international cooperation to this effect and SEV supports the Faroese authorities in recognizing international agreements in this area.

SEV wants to be an active partner in the Faroese government's efforts to make its targets reality. This great responsibility is a challenge. As by far the largest individual Faroese energy producer SEV, in supporting the government in internationally binding commitments, has prepared for potentially extensive and costly expansions in sustainable energy.

SEV expects the government to recognize and value its good will, and play its part in ensuring that national and local authorities together tackle the challenges ahead – in both words and deeds.

The target is renewables accounting for 75% of power production on land by 2020. An expansion of all sources of renewable energy will be required to reach this goal.

Management and staff

The Board is very pleased with the work SEV's management and staff are doing to secure a growing share of renewables for the people and industry of the Faroes. The Board has noted the high level of job satisfaction at SEV, and recognizes that a satisfied team of employees is a precondition for a sound company. The management deserves praise for its active and farsighted role in the efforts to further develop the company.

The management and Board have drafted both mission and vision statements for SEV. Currently everyone at the company is involved in defining SEV's values and these efforts are to be completed this summer.

Cooperation and connections

The Board strives to strengthen and maintain excellent cooperation with our partners, small and big. The basis for our existence as an organization is closely linked to our users and partners. Over the past year the Board has met and cooperate with a whole range of stakeholders: The Faroese Minister for Electricity Supply, Johan Dahl, on several occasions; The Faroese Minister for Energy, Annika Olsen; Føroya Náttúru- og Umhvørvisverndarfelag (Faroese Nature and Environment Conservation Society), represented by Kári Thomsen and Hanus Vang; the Administration for the Botnur outfield in Vágur; Vestmanna Municipality; DONG Energy Representatives; Representatives of the British Parliament; Íleggingargrunnurin fyri Føroyar (Investment Fund for the Faroes); the Faroese Parliament's Rules Committee; Knud Simonsen; the Electricity Production Oversight Board; Sp/f Røkt; and next on the agenda is a meeting with Sund Municipality. Laurie S. Fulton, US Ambassador to Denmark, has also visited SEV the meeting touched upon topics such as how SEV can participate in the efforts to solve the global climate problem.

Furthermore the Board has visited many of the company's production plants and found that care and diligence are SEV key words.

The Faroese Ministry of Industry has been working on updating legislation on heavy current equipment and licensing of electrical installers, and there have been hearings with parties such as SEV and the Electricity Production Oversight Board. The parties have cooperated constructively and aim to submit bills to the Faroese Parliament at the next Ólavsøka sitting (i.e. from July 29).

Electricity Production Act

Pursuant to the new Act, SEV was granted provisional licences for its production and network activities on December 30, 2008. These licences have since been extended; meanwhile, the Electricity Production Oversight Board and SEV continue talks about the final wording of conditions.

In connection with the 2010 budget, SEV requested permission to raise electricity prices by DKK 0.08/kWh. The request was, however, refused by the Electricity Production Oversight Board. Since then the parties have engaged in protracted and in-depth talks on how to interpret and organize the financial and administrative frameworks for developing power production. SEV's Board and management have repeated time and again that it is difficult to expand in accordance with Faroese climate policy, if it is not possible to establish an adequate financial framework for SEV's activities. The talks have focused on presenting the conditions the financial sector lays down for major expansions of power grids.

The Electricity Production Oversight Board is working on tendering an expansion of wind production and has consulted SEV on the matter. The phase 1 expansion can probably commence this autumn. SEV will decide on its arrangements for the upcoming wind production tender.

In accordance with the provisions and procedures of the Electricity Production Oversight Board, SEV has reviewed P/F Røkt's pumped storage project.

Subsidiaries and associate companies

P/F Fjarhitafelagið

SEV owns 50 % of this company; Tórshavn Municipality owns the other half. SEV has the following representatives on **the company Board**: Kári Jacobsen, Jákup Suni Lauritsen and Hákun Djurhuus. The Board has elected Kári Jacobsen its Chairman.

The company's objective is to supply heat, by transmitting waste heat, in the Municipality of Tórshavn as well as to trade and carry out other related activities. Plans are underway to expand the company as it must make supply available in new areas as they gradually come under construction in the Hoyvík outfield, a Tórshavn suburb. Studies are also underway to determine how more large-scale users can be connected to the system.

By reusing waste heat from the Hjalla waste incineration plant, and now also from the turbines at the Sund power plant, the Faroes avoid having to import a significant quantity of oil, thus the system also contributes to keeping our CO_2 emissions down. The tender for building a new boiler plant in the Hoyvík outfield has been launched.

P/F SeWave

SEV owns 100 % of this company and its Board is made up of: Páll á Reynatúgvu, Niels Olaf Eyvindsson, George Lane and Hákun Djurhuus. The Board has elected Páll á Reynatúgvu its Chairman.

The company's objective is to research, develop and generate wave power; this includes building and running wave power plants and any other activities related to wave power. The first step is to carry out a pilot project consisting in waves rolling through a hole in a cliff face to make a swinging column of seawater generate high and low pressure, which makes a turbine spin and generate electricity.

Two possible pilot plant locations have been discussed. An application has been submitted to the owners' association of the Nýpan outfield in Miðvágur for permission to construct in Nýpuberg in Vágar, and an application has also been submitted to the owners' association of the Miðjan outfield in Sandur to construct there. The owners in Vágar rejected the application, while the association in Sandur is willing to discuss such construction further. Sandur Municipality has also granted a construction permit, provided an agreement can be reached with the site owners.

The DKK 10.2 million EU grant is still available; however, it requires full support for the pilot project. Project costs will total around DKK 48 million. SEV has stated that it is willing to support the project with up to 20% of this amount, however, this support hinges on certain conditions, which include support from the Faroese Government matching SEV's financial support. Moreover the company itself has to obtain the remaining funding before the project can go ahead.

After a meeting between the company and the Faroese Government in October, a funding application was submitted. The pilot project's destiny is intimately linked to the Faroese Government's response to the application. On February 9 SeWave organized a Wave Power Day. It was quite a success, around 100 people participated.

P/F FDS

SEV owns 20 % of this company. SEV is represented on the Board by Finn Jakobsen, the current Chairman. The company's objective is to administer data such as maps and geographical indexes and to provide services for public and private entities, as well as to trade and carry out other related activities. The other shareholders are Føroya Tele, Landsverk (Faroese Office of Public Works), Umhvørvisstovan (Faroese Environment Agency), Tórshavn Municipality and Klaksvík Municipality.

Expanding hydroelectric power

The Building Committee for the Eiði 2 project is made up of Steinbjørn O. Jacobsen, Pauli T. Petersen, Marin Katrina Frýdal and Hákun Djurhuus. Steinbjørn O. Jacobsen chairs the Committee and Henning Jacobsen is its secretary.

The North section of the Eiði 2 project has been completed and is now in use. It cost around DKK 63 million. An agreement has been signed with the joint venture J. K. Petersen and M. T. Højgaard for the South section of the project, which is estimated to cost DKK 135 million. A third turbine is also to be installed at the plant, and is expected to cost around DKK 30 million.

These expansions are funded with a loan from the Íleggingargrunnurin fyri Føroyar totalling DKK 218 million.

Eiði 2's annual production will reach around 17 million kWh, and the whole

Eiði project will at completion generate around 60 million kWh every year.

SEV's Board has decided to further study expanding hydroelectric power at Víkarvatn, in order to analyse this project thoroughly. A budget allocation is therefore made for these studies in 2010.

Developing renewable sources of energy

On June 23 last year SEV and DONG Energy signed a joint venture agreement. We will work together to ensure the greatest possible share of renewables in Faroese energy production. This is simpler and cheaper in a small power grid like the Faroese one, which is not linked up to other grids. We will work towards better harnessing fluctuating energy sources, such as wind, tidal and wave, in power production.

Many different points of view have been expressed in the public sphere about feeding wind energy into a pump mechanism that would pump water up to high-lying storages from where it would be used to generate electricity. SEV felt that there was insufficient up-to-date knowledge in the area and therefore decided last summer to launch more in-depth studies. The aims are to find technical solutions and determine their economies, as well as mapping and ranking the most suitable locations for such systems. The results of these studies are now ready and these findings will be disseminated.

Last September SEV participated in the Nordic Climate Solutions Conference in Copenhagen. It was a very interesting opportunity to promote SEV and catch up on what others are doing. The Conference consisted of an exhibition and a series of lectures by important players in the field, who also participated in the panel discussions. Hákun Djurhuus, Managing Director, represented SEV on the panel.

Last December saw the UN COP 15 climate conference in Copenhagen. SEV participated and regrets the rather limited results of the conference. In preparing for the conference the Faroese Government decided to draw up a Faroese climate policy. As part of the preparations the Ministry of the Interior appointed a multidisciplinary working group to draft a report. SEV participated in the working group.

In this year's first quarter SEV rented three small electric cars, which were manufactured as test cars for COP 15. They were tested throughout the Faroes, all those interested were given a chance to try them and there was great demand. The aim of this initiative was mainly to make way for new modes of transport that follow in the wake of new and sustainable technology.

Exchange of real estate between SEV and Vestmanna Municipality

On November 12 last year the exchange of real estate with Vestmanna Municipality was finally confirmed. The Municipality now owns the lots registered as 266a and 266k in Vestmanna and the buildings on them, namely Winther's house, an office building, the old residential property á Fitjunum and the old warehouse. SEV now owns the lot registered as 216u, which is the plot under SEV's current storage and workshop buildings inni á Fjørð. Up until now SEV had rented this land. With the exchange Vestmanna Municipality now owns a protected historical building á Fitjunum. Hopefully these properties will be brought back to life, they are ideally suited for cultural activities or local history initiatives.

Production and operation

Power production remains unchanged at the moment. Total production is calculated at the end of every month. Power production levels and changes are interesting indicators of the socioeconomic climate.

The extensive task of completely transforming the control room system at the Sund plant has been completed.

The Sund plant oil tanks required more extensive repairs than initially estimated. The works are now finished and the total cost amounts to DKK 8.5 million. It also turned out to be necessary to repair the stacks at Station 2 at a total cost of DKK 0.8 million.

One of the turbine generators at the Fossá plant broke down in February. Repairs are underway and are expected to total DKK 3.00 million. The turbine will be ready for use again in August.

The pipes leading down to the Fossá plant have to be sandblasted and painted this summer. SEV has contracted a Norwegian company for the job.

Research fund for developing renewable energy

The Board has decided to draw up a statute governing a fund for developing renewables. The idea is to make financial support available through application to academic and professional capacity-building initiatives and concrete small-scale projects that contribute to developing renewables.

We must look to the future with courage and farsightedness. We know the 2020 climate and energy challenges, but we must look even further ahead and prepare thoroughly. We must prepare for a world in which electricity plays a much greater role than today. And, although it is an enormous challenge for all the segments in the Faroese power grid, we must aim for 100% renewable power production on land by 2040.

Cooperation and a common understanding between national and local authorities are vital prerequisites for the Faroes adding its grain of sand to completing this international task.

SEV will inexorably play a key role in reaching this challenging, but bright goal.

Páll á Reynatúgvu, Chairman of the Board of Directors

The past year

Representatives for Vestmanna Municipality and SEV ready to sign the real estate exchange agreement. In front Karl A. Olsen, Mayor, (left) and Páll á Reynatúgvu, SEV Chairman.

Exchange of real estate

between SEV and Vestmanna Municipality

SEV now owns the plot located Inni á Fjørð in Vestmanna, which the company so far had been leasing from Vestmanna Municipality for its activities in the area. In parallel SEV's real estate located á Fitjunum has been transferred to Vestmanna Municipality.

In November last year SEV and the Municipality signed the real estate exchange agreement in Vestmanna. The agreement finally settled the matter, which it has taken 23 years to resolve. The exchange came into force at New Year.

Pursuant to the agreement, SEV takes over an industrial area of 5,740 m² Inni á Fjørð, where SEV's power plant is located. Simultaneously Vestmanna Municipality takes over SEV's property á Fitjunum totalling 4,621 m². The Municipality needs part of this property to expand one of its roads, Niðari Vegur.

The agreement grants Vestmanna Municipality ordinary right of pre-emption to SEV's real estate Inni á Fjørð and to the buildings on it. The parties do not give each other any compensation other than the exchanged real estate.

Dwindling construction activity affects

number of new electricity meters

Last year 393 new electricity meters were installed, down 55 from 2008 when 448 new meters were deployed.

SEV's Installation Department believes the main reason for the reduction to be the decline in residential property construction.

In 2009, 136 new meters were installed in the Central Region (Tórshavn), compared to 146 in 2008. In Eysturoy 40 fewer meters were put up last year than the year before: 93 in 2009 versus 133 in 2008. In Vágar 28 meters were deployed last year as opposed to 39 in 2008, in Norðstreymur 34 compared to 40 and in Oyggjarnar 13 versus 20.

On the other hand, more new meters were installed in Norðoyggjar and Suðuroy in 2009 than in 2008. In Norðoyggjar there was an increase from 44 to 59 and in Suðuroy from 26 to 30.

The number of meters removed was also significantly higher throughout the Faroes last year than the year before: 96 in 2009 as compared to 77 in 2008.

Dwindling construction activity led to more than fifty fewer electricity meters being installed in the Faroes last year than the year before.

Last year a total of 2200 old meters were replaced with remote read meters. The preceding year 1715 meters were replaced.

Skúvoy

new tanks and turbine generator

The new tanks in Skúvoy have now been installed. Foto: Hans Jákup Petersen.

Everything went smoothly when a crew from SEV and the construction company Norðhús installed two new oil tanks and a new turbine generator in Skúvoy in late August.

It only took them an hour and a half to complete the task in the fine weather.

The new tanks have a capacity of 30,000 litres each. The old tanks from 1978 took 20,000 litres a piece.

The works on Skúvoy also include making a new tank farm with an oil separator and repairing the building housing the turbine generator.

The tank farm itself has been completed, but outstanding tasks include fitting a steel ladder to enable access to the tanks as well as the platform under them, and building a fence with a gate.

The power plant's roof and windows will be replaced and the area around the building tidied.

It will all be completed this summer.

Other modernizations

The power plants in Fugloy and Svínoy have also been modernized with new electrical panels and control systems. They are automatic, so it is possible to remote control them from the central region.

If there is a problem with a turbine generator or the line to Svínoy, the system automatically triggers another turbine generator. Customers will thus only notice a very brief interruption in power supply.

The plants send a warning to the staff on duty in the central region when a failure occurs.

SEV documentary

as teaching material

When the documentary "Ljósbrøgd" (Feats of Light) was released on DVD last spring, SEV's Board decided to present 50 copies to the Faroese National Centre for Teaching Materials.

The presentation was made at SEV's stand at Fish Expo Faroes 2009, which took place in Gundadalur in Tórshavn in May. Petur Simonsen, Centre director, received the documentaries and thanked SEV for the generous gift, which the Centre will use to teach secondary and upper secondary school students about electricity and energy.

The 35-minute documentary examines SEV's history, activities and future plans, but also the world's first attempts at generating hydroelectric power in the late 19th century.

Ólavur á Heygum's pioneering work in Vestmanna 100 years ago is of course also portrayed, along with the first Faroese power plants í Botni in Vágur and á Rundingi in Tórshavn, which were both built in 1921.

Hákun Djurhuus, SEV Managing Director, presents Petur S. Simonsen, National Centre Director, with the first of 50 copies of the SEV documentary "Ljósbrøgd", directed by journalists Kári Durhuus (middle) and Zacharias Hammer.

Finn Jakobsen, Technical Director, presents the new control room at the well-attended reception right before Christmas last year.

State-of-the-art
control room at the Sund plant

At SEV's largest oil-fired power plant, the Sund plant, extensive modernizations have been carried out both indoors and outdoors over the last year and a half. They have improved working conditions and job satisfaction considerably at this important workplace.

The extensive modernizations of the M4 and M5 turbine generators were completed in May, and a few additional and outstanding tasks were handled in September.

All electrical panels, many cables and other electrical equipment at Station 2 have now been replaced.

A state-of-the-art control system has been installed for controlling and monitoring the whole plant. M1 and M2, which were set up in 2001 and 2004, respectively, have also been fully integrated into the new system.

Tanks, roofs and stacks were overhauled. This also goes for the Vágur plant where the new tank farm was completed. Repairs and improvements are underway at the Strond, Eiði and Vestmanna plants.

The crowning glory

To cap it all off a new soundproof control room was inaugurated on December 1. This very room has been the plant's heart and soul since its installation 25 years ago, but now it has truly been given pride of place.

The room has been fully repaired and revamped. Moreover all the old equipment has been replaced with cutting-edge digital equipment.

The old control room brimmed with panels and switchboards and instruments. These have now all been transferred to six computer screens, while whole bundles of cables have been replaced by a few network cables.

Total makeover

The decision to give the control room this full facelift was made in the autumn of 2008, when SEV – along with the Danish company BWSC – began the challenging modernization of the technical equipment at the Sund plant.

SEV's Technical Director, Finn Jakobsen, said at the reception for the inauguration of the new control room; that the precondition for job satisfaction and wellbeing at work is that the physical working environment be as good as possible.

- You here at the Sund plant are the backbone of SEV's activities. You produce half of our output; in fact, people have you to thank for every other cup of coffee. So it is only reasonable that you be taken good care of, he jokingly stated.

New turbine hall in the pipeline

On the same occasion, he also announced that SEV will begin a new project at Sund as part of the company's efforts to satisfy future electricity demand. A new turbine hall is in the pipeline, it is scheduled for completion in about 4 – 5 years.

Fjarhitafelagið, the Faroese waste heat transmission company, has finally been connected to the Sund plant.

At present 28 people work at the Sund plant, most are mechanical engineers and there are a few unskilled workers. There are always two people on watch in the control room, and they are very happy with the new working environment. Jákup Sørensen is plant superintendent at Sund.

NCS

NORDIC CLIMATE SOLUTIONS: In September last year, SEV representatives and other representatives of industry participated in the third international trade conference, Nordic Climate Solutions, at the Bella Center in Copenhagen. Hákun Djurhuus, SEV Managing Director, was the only one to represent the Faroes out of the 70 conference speakers. His presentation was part of a panel discussion focusing on the framework conditions for energy supply and the conditions needed for renewable energy to become a major share of supply. In this context Hákun Djurhuus presented the framework conditions for generating and supplying electricity in a remote island society like the Faroes, as well as the GRANI joint venture with DONG Energy, which, for example, is intended to accelerate the electrification of the Faroese society. The members of the panel were (from left): Britta Thomsen, MEP for the Social Democrats, Hákun Djurhuus, SEV Managing Director, Jakob Bundgaard, lecturer at Copenhagen Business School, moderator, Jens Kirk, Chair of the Climate and Energy Policy Committee of the Danish Parliament, and Ulrik Stridbæk, Economist, DONG Energy.

The Eiði 2 South building contract was signed in November. From left: Ole Steen Christensen, MT Højgaard Føroyar, Steinbjørn O. Jacobsen, Building Committee Chair, Stein Olvur Petersen, J&K Petersen Contractors, and Hákun Djurhuus, SEV Managing Director and member of the Building Committee.

Drilling to Selatrað starts this summer

The construction companies MT Føroyar and J&K Petersen are now preparing to start drilling for the Eiði 2 South project. These two companies submitted the lowest tender for the project, which includes building an 8.4 km long water-catchment tunnel along with the stream intakes from Norðskáli south to beyond Veðranes.

The construction costs amount to DKK 76.4 million, roughly DKK 25 million less than the estimated DKK 102 million.

Eiði 2 South is the second and largest section of the Eiði 2 project. The northern section from Norðskáli to Svínáir was concluded by the same construction companies before Christmas, and cost DKK 62 million. The southern section is scheduled for completion in early 2013. Overall the Eiði 2 project will increase SEV's hydroelectric power production by around 16 million kilowatt-hours. As is the Eiði plant produces 40 million kWh.

The tunnel to Selatrað will be excavated with one of SEV's tunnel boring machines, which was recently prepared for the task and brought on site by a trailer. Excavations are expected to commence around July 1. The tunnel will reach a diameter of around 3 m.

Henning Jacobsen, architect and consultant, stays on as site manager.

Given the great increase in water volume generated by the Eiði 2 expansion, the Eiði plant will require an additional turbine, expected to cost around DKK 25 to 30 million. The plant is already equipped with two turbines.

<< *Year 9 pupils from the Vágur school at SEV's teaching facilities in Tórshavn.*

Energy Advice Service 2009

Kristiana Rein, SEV energy advisor:

2009 was similar to previous years at the Energy Advice Service, activities included:

Electricity project days for year 9 pupils (aged 15 to 16):
This activity has been running for around 10 years now, and in 2009 around 600 pupils from 28 forms visited SEV's head office at Landavegur 92. This activity commences when the school year starts in Aug/Sep and continues to early December, when there is a break. It starts up again in January and runs to Easter, by which time nearly all year 9 forms in the country have visited us.

Physics contest for year 7 pupils (aged 13 to 14):
For this contest SEV sought the advice and organizational help of a "support group", which was made up of four physics teachers from different parts of the country.

The contest was first held in 2008, when a form from the Ziskatrøð School won the main prize.

This contest runs for seven weeks and the forms are set physics and maths questions. They also have to calculate/measure the electricity different appliances use and make calculations. They are asked about energy saving advice and have to make suggestions. All forms that handed in the final creative project were given the opportunity to present at the Nordic House in Tórshavn. In 2009 the year 7 form from Velbastaður won the main prize – an April weekend trip to Iceland for the whole form.

All year 1 forms receive a letter from SEV:
When school starts all year 1 forms in the Faroes receive a letter from SEV with materials and drawings for the children. SEV wants to encourage children from the first day of school to switch off the lights when everybody leaves a room.

Lectures and energy advice at upper secondary schools:
We were invited to give lectures and advice at upper secondary schools six times. A few weeks before our visit we lend these students a class set of electricity gauges, which they use to measure electricity use at home and make calculations.

Technical schools:
The Technical School in Tórshavn visits SEV with its students on foundation courses in technology as well as apprentice electricians. The school visits every year and usually twice a year. Students receive a special lecture on what SEV's responsibilities are and good advice on electricity, which they, in turn, can convey to clients.

The Public Health School in Suðuroy and the Faroese College of Education:

Students from the Public Health School usually visit SEV once and are taught about electric power as well as using and saving electricity in ordinary households. This was also the case in 2009. A group of students from the Faroese College of Education also visited us for a lecture on using and saving electricity.

Student projects:
With the UN Climate Summit COP-15, in Copenhagen in December 2009, many students were doing projects on electricity use and CO_2 emissions in particular. This meant that many students came to SEV for materials and presentations about the subject.

Borrowing electricity gauges:
In late January, when SEV bills all its customers, there is a scramble to borrow electricity gauges from SEV. Customers can borrow them for free for one week each. Around 200 people take us up on the offer every year. At the same time they receive informational materials on how to cut household electricity use.

Advice over the phone:
In February and March the Energy Advice Service receives a great number of calls from people who seek advice on how to save electricity or make better use of the KWh they buy from SEV. Around 200 people phoned in for advice in 2009.

Home visits:
Occasionally something particular is going on, which a household simply does not understand. In these cases the energy adviser makes home visits, often to older people, to take measurements, explain how things add up and teach people in their own home. Eight home visits were made in 2009.

Energy advice for organizations:
We organized an energy advice evening at SEV for an organization. About 25 of its members attended and enjoyed this cosy get-together with good advice.

Conferences, sales conventions and exhibitions:

SEV attends exhibitions alone and with others – we also lend parts of our exhibition to others. We lent equipment for the Tórshavn City Council Environment Week in May, we visited the Nordic House with our exhibition on Women's Day, March 8, and again in August, when the well-known Danish life-style expert Kristine Feldthaus spoke there. We have also lent part of our exhibition to the Faroese Museum of Natural History during the autumn break, when the Faroese museum festival takes place. We also participated at the sales convention in Skála in the autumn, where 200 people stopped by for a chat about electricity and received materials on electricity use.

Many anniversaries at SEV

Last year was marked by many anniversaries at SEV. No fewer than seven employees celebrated between 25 and 45 years with the company!

They were (years of service in brackets):

Páll Hansen (35), Árni Nielsen (45), Daisy Petersen (25), Kurt K. Andersen (30), Jákup Sørensen (30), Páll Svartá (35) and Pól Joensen (25).

Congratulations to all seven of you!

Linesmen Páll Svartá in Saksun and Jákup Brekká in Hvalvík retire this year. Páll turned 70 on March 26 and Jákup will be the same age on August 21. Jákup and Páll have served as SEV linesmen for 38 and 36 years respectively. These two have certainly been part of the team that has carried SEV forward over all these years, and we thank them for that.

<< *The married couple Edith and Kristian F. Guttesen from Vestmanna.*

Edith Guttesen, who worked in SEV's bookkeeping for over 20 years, retired last year. Her husband, Kristian F. Guttesen, who has also served SEV for over 20 years, stepped down as storage supervisor Inni á Fjørð in Vestmanna at around the same time, however, he still works at the storage.

Jonsvein á Rógvu is the new storage supervisor.

Hákun Djurhuus, SEV Managing Director, and Charles Nielsen, DONG Energy Director of Development, shake hands after signing the joint venture agreement. Far left: Páll á Reynatúgvu, SEV Chairman, and far right: Johan Dahl, Faroese Minister for energy supply.

The SEV working group, which is studying the possibility of reusing hydroelectric power by using a pumping system. From left: Herluf Mortensen, Tove Brink, Terji Nielsen, Henning Jacobsen, Anders Nedergaard-Hansen and Magnus K. Magnussen.

This electric car added to the atmosphere at the official signing of the joint venture agreement between SEV and DONG Energy. Minister Johan Dahl became the first person to take the sleek and silent little Japanese car for a drive in the streets of Tórshavn.

SEV and DONG Energy

in a pioneering joint venture

The goal is to develop and increase the share of sustainable energy on the power grid. These experiences will also benefit other countries and parts of the world.

The most significant development for SEV since the last annual general meeting is probably the joint venture agreement between SEV and Denmark´s biggest energy company, DONG Energy, which will initially run to 2013.

The agreement known as GRANI was signed at a formal event in Müllers Pakkhús in Tórshavn on June 23, in the presence of representatives of the political system, public and private institutions, as well as both companies.

The legendary Grani

The joint venture is named after the legend of Sjúrður Sigmundarsson, who slew the Long Dragon at Glitraheiður. The dragon was watching over the treasure, which Sjúrður was destined to find.

GRANI was the clever grey steed who helped his master slay the dragon, so Sjúrður could win the treasure, which turned out to contain so much wisdom and make Sjúrður so omniscient that he even learned to understand birdsong.

- The agreement we have signed will also take us on a long challenging quest and we will have to wrestle the mighty forces of nature itself. Hopefully these challenges will makes us too wiser and more clear-sighted and bring us knowledge that will benefit coming generations, said SEV and DONG Energy in a joint statement when they signed the agreement.

Focus on sustainable energy

In the agreement SEV and DONG Energy commit to focusing on sustainable energy. The results of these efforts shall benefit both the Faroese and a continuous European power grid in the future.

The Faroes will become a laboratory for these trials, and will thus have an important role to play in the international pursuit to solve the world´s energy and climate problems.

SEV has decided to increase the share of sustainable energy, e.g., wind energy, in its power production, and with its know-how in the area, DONG Energy can contribute to accelerating this process.

DONG Energy, on the other hand, wants to conduct swift reliable trials of new technology and concepts and the remote isolated Faroese electric power system is practically tailored for the purpose.

Four working groups established

Since signing the agreement, the parties have established four working groups with 4-5 representatives from each company to study issues related to wind turbines, wind forecasts, conditions for electric cars and a new control room at SEV´s main power plant in Tórshavn.

The wind turbine group will try to adapt existing and future wind turbines and technology to the Faroese power grid and climate.

The weather forecast group will draw up a weather forecast system, which can contribute to optimizing production from wind and hydro energy.

The electric car group will study how to integrate electric cars into Faroese society and how they can contribute to increasing the share of sustainable energy. How, when and where to recharge the cars? How to charge for recharging?

The control room group will draw up a proposal for an up-to-date control room, which can control all production units, new as well as old, and also exercise a degree of control over customer appliances.

A board has been appointed to monitor this work, it has five members: Hákun Djurhuus and Finn Jakobsen (representing SEV) and Charles Nielsen, Tommy Mølbak and Leo Enrico Jensen (representing DONG Energy).

Project leaders have also been appointed: Terji Nielsen (SEV) and Charles Nielsen (DONG Energy).

New control system

The new control room project is underway and the aim is to have a concept ready in 2013.

This will be a modern control system capable of managing and controlling power production with both existing and new energy production methods, such as: wind, hydroelectric, wave, tidal, solar and hybrid wind/hydro with a pumping system.

The new control system must also be capable of interconnecting with appliances such as heat pumps and electric cars and optimizing output at the production units.

Smart Grid

The general project title is “Smart Grid” emphasizing intelligent control of the power system, which generates interplay between the different types of power production and use by households and industry.

Terji Nielsen, project leader and SEV engineer, states that the first set of preliminary results from the different studies will probably be available later this year.

From SEV's briefing last September about plans for electric cars and the conditions offered by the Faroes.

Industry and authorities
briefed on plans for electric cars

SEV and Dong Energy aim to – as part of the GRANI joint venture – encourage car manufacturers to use the Faroes as testing ground for developing electric cars. The Faroes are considered exceptionally well-suited due to their size and climate conditions.

SEV therefore organized an information session last autumn for the car company Akstovan, the Faroese Ministry of Trade and Industry and other invited guests. SEV presented these plans and the conditions required to the guests. At the same time car company representatives were asked to inform their partners abroad of these opportunities.

All parties at the meeting agreed that electric cars will gradually replace petrol and diesel cars, and that the authorities and other stakeholders must therefore prepare for the changeover. The parties agreed to meet regularly to brief each other about developments in the area.

A working group with SEV and DONG Energy representatives is currently studying how the electric car can become a natural feature of plans to increase production from sustainable energy in the Faroes. This, for example, requires a study of the power grid as well as determining how to charge for power used by electric cars.

The plan is to present the first preliminary results later this year.

Two of the converted Citroën C1-electric cars charging at the recharge point in SEV's yard at Landavegur in Tórshavn.

During the first quarter of this year, SEV conducted a trial in cooperation with institutions, companies, local authorities and private people. SEV tested three converted Citroën C1 electric cars, which it borrowed for the purpose from Danish rental company Sixt. SEV plans to repeat this as soon as the first real electric cars hit the market.

Hard-working website

There has been a surge in interest in SEV's website over the past year.

SEV's website has been bustling with activity over the past year. This has substantially increased interested in the page, while it is also quoted time and again by the press as well as other websites and news portals.

Since early January last year, the website has been updated several times a day with relevant domestic and foreign news about power supply, the climate and the environment. Great effort is also being put into informing people of SEV's ongoing works in the Faroes.

New services and options made available on the website over the last year have also contributed to making it more exciting and interesting. It is, for example, also available in English now.

In addition to SEV's history and organization, the English site also contains information about the power grid in the Faroes, including hydro, wind and diesel power plants, electrical installations and other relevant matters, such as the GRANI joint venture. Furthermore all annual reports dating back to 2001 are available on the website.

This enables our international partners and other foreigners interested in Faroese electric power issues to benefit from the website too.

Since late November last year, customers with remote meters have been able to monitor their energy use 24-7 on the website. Anyone interested can now also daily monitor the proportions of the different energy sources used to generate electricity. The pie chart on the front page of SEV's website is refreshed every 5 minutes.

SEV's IT Department maintains and manages the website.

Power production unchanged in 2009

Total power output last year was virtually the same as the previous year. When SEV´s Operations Department calculated total production at New Year, the result was a fraction under 2008 production at minus 0.1%. Last year's production in the central region was down 0.9% compared to 2008, whereas production in Suðuroy was up 7.8%.

Production totalled 275,527 MWh of which around 39% was generated from hydro and wind and roughly 61% from oil, compared to 39.5% and 60.5%, respectively, the year before.

Hydroelectric production fell 3.6% compared to 2008, especially because of the unusually dry summer.

Wind energy production jumped 15.7% for two reasons: the winds in 2009 were better than in 2008; and in 2008 Spf. Røkt´s production was unusually low due to different mishaps, which were remedied that same year. Røkt´s production last year totalled that of an average year.

Thermal production rose 0.7% in 2009.

Last summer´s prolonged drought led to a slight dip in power production from sustainable energy.

Inside the new substation.

The Trongisvági power station

New **substation** in Trongisvági

The new 20 KV substation was inaugurated at the Trongisvági plant on November 1. The station is the pivot of the power grid in northern Suðuroy.

The old switches dated back to the mid 60's and were in poor condition. Instead of simply replacing the old switches, SEV decided to build a new station – and this was a wise choice, says Heri Mortensen, engineer at the Production Department.

The new station was fully completed and tested before work began to transfer the high voltage lines to the new station. This made the move from the old to the new substation much easier than it would have been otherwise.

- There is no doubt that we will be following this same procedure in future, says Heri Mortensen.

One in four meters

now included in the remote reading system

The country-wide effort to replace all old meters is on schedule. To date (01/03/10) 5,500 meters have been replaced, i.e. roughly a quarter of all meters installed in the Faroes, according to SEV's Installation Department.

This system frees SEV from having to go out and read each individual meter.

The new digital meters are connected to a remote metering system, which enables SEV to calculate electricity use directly at its head office at Landavegur 92 in Tórshavn. Furthermore customers participating in the system can – as mentioned in another article – monitor their electricity use and bill on SEV's website.

SEV aims to read all Faroese meters remotely by 2010. Three people are dedicated to replacing old meters with remote reading enabled meters. Around 2,500 meters are replaced annually. This is a 10-year project, which began in 2006 and is estimated to cost around DKK 25 million in total.

SEV plans to read all Faroese meters remotely by 2016.

SEV supports the government's climate policy

SEV wants to be an active partner in the government's efforts to make its climate policy targets reality.

Demands for greater global solidarity in energy production and emissions are growing.

The Faroes should participate in such binding international cooperation and SEV supports the governments' recognition of international agreements in the area.

Páll á Reynatúgvu, SEV Chairman, clearly stated this at the extraordinary annual general meeting in November.

He emphasized that SEV has made it its objective to be an active partner in the government's efforts to make its climate policy targets reality.

Annika Olsen, Minister for climate and energy affairs, and Páll á Reynatúgvu, SEV Chairman, photographed last autumn after an information session at SEV about the Faroese climate policy.

Ready to take on great challenges

With this in mind, SEV has prepared for extensive and costly expansions in sustainable energy and therefore hopes and expects the government to recognize and value its good will, and play its part by making sure that national and local authorities together tackle the challenges ahead – in both words and deeds.

SEV's target is that renewables shall account for 75% of power production on land by 2020.

As part of the measures to achieve this, SEV aims to improve storage of energy from variable sources, such as wind, tidal and wave power in power provision.

The joint venture between SEV and DONG Energy is of vital importance to these efforts, because its objective is precisely to maximize the share of renewables in power production.

Partners in drawing up a climate policy

SEV's Managing Director was last year asked by the government to participate in the working group that drew up a draft climate policy for the Faroes, which the parliament later took up at a plenary session.

In October the Faroese Parliament unanimously passed a proposal from all parties in parliament, based on the climate policy, to cut Faroese CO_2 emissions by at least 20% by 2020 compared to emissions in 2005.

The parliamentary resolution also requires the government to take the necessary steps to draft a proposal on the legal framework required to carry out the will of the parliament.

Furthermore the resolution requires the minister for climate affairs to submit a report on progress towards the emission reduction targets every other year – starting from the 2011-2012 session of the Faroese Parliament.

In accordance with the parliamentary resolution the report shall also analyse the possibility for further increasing the domestic emission reduction targets.

The world's heads of state and government tried to the very end to cobble together a new climate agreement in Copenhagen, alas in vain. Photo: Susan Walsh/AP

SEV at COP15

Both SEV's board and management visited Copenhagen during the UN Climate Summit there in December.

SEV representatives along with Faroese government representatives met with the management of Denmark's top energy company, DONG Energy. They discussed common interests based on the GRANI joint venture, which the parties signed last June and which is discussed further in another article.

The SEV representatives also visited several interesting exhibitions put on in Copenhagen in connection with the COP15, in addition to the Bella Center itself, of course, where the actual talks about a new international climate agreement were underway.

Unfortunately no actual agreement was reached in the end. The parties simply issued a declaration called the "Copenhagen Accord", according to which each country shall individually try to prevent the average global temperature from rising by more than two degrees. However the Accord contains no binding demands for the next 10 (2020) or 40 (2050) years.

On the other hand, the Faroes did reach an agreement with Denmark about the explicit mention of Faroese climate targets in any new climate agreement, in line with demands made by both the Faroese Parliament and Government. A similar agreement was also reached between Denmark and Greenland.

The UN intends to make a fresh attempt to reach a politically and legally binding climate agreement in Mexico in December this year. The agreement is to succeed the Kyoto Protocol, which expires in 2012.

DONG Energy invited SEV and Faroese government representatives for a lunch meeting at the Nimb in Tivoli, where topics such as the GRANI joint venture as well as oil and gas explorations in the Faroes were discussed. From left: Arne Poulsen, Permanent Secretary of the Faroese Ministry of Trade and Industry, Páll á Reynatúgvu, SEV Chairman, Johan Dahl, Faroese Minister for electricity supply and oil affairs , Anders Eldrup, DONG Energy CEO, Hákun Djurhuus, SEV Managing Director, and Charles Nielsen, DONG Energy Director of R & D.

SEV and Faroese government representatives at DONG Energy's Avedøre plant. From left: Kári A. Jacobsen, Pauli T. Petersen, Steinbjørn O. Jacobsen, Johan Dahl, John P. Danielsen, Marin Katrina Frýdal, Terji Nielsen and the guide from DONG Energy.

Employee **Association,** employee **days** **and** employee **events**

Oluffa undir Kletti:

The members of the Employee Association Board are Anna Vang, Otto West, Karsten Hansen and Sjanna Hentze. The first event they organized in 2009 was a Shrovetide celebration at the Tórshavn plant and Shrove was also celebrated in Skálabotnur and Suðuroy.

Employee Day April 30 in Hósvík

The Employee Association, along with the HR Department, also organized the Employee Day at the Hósvík village hall on April 30. The activities included presenting the new working clothes to the employees. The Employee Association and HR Department had worked together to set up a new work clothes scheme, which was implemented after the summer holidays.

The Employee Day program also included a management briefing, and Diana Borgnýardóttir gave a presentation on communication.

<< *"Ársins herðaklapp 2009" award was handed to Jákup Brekká in Hvalvík. He has been a SEV linesman – and lines master for a time – for almost 40 years.*

Excursion to Koltur on June 4

The Employee Association arranged the annual employee excursion on June 4. We all met on the quay in Sørvágur, and sailed from there along the beautiful west flank of Vágoy out to Koltur, where we were given a guided tour of the island. Most employees scaled Høgakoltur, while some stayed behind to light the grill, so everyone could get a bite before the party headed home via Gamlarætt. The harmonica and guitar were of course present and spirits were high.

Employee Day November 27 in Tórshavn

At the Employee Day on November 27, which this time took place in the Tórshavn Theatre, the Employee Association general meeting was convened and it re-elected the Board.

The day's agenda also included a management briefing. Hákun Djurhuus, Managing Director, ended the day with a very interesting presentation on development in practice. Hákun mentioned how important mission, vision, strategy and values are and promised that these would be drafted for SEV before the 2010 summer break.

Employee award 2009

SEV has been recognizing employees who deserve special recognition with an employee award "Ársins herðaklapp" for a few years now. This is one of the highlights of the Employee Day, which the Employee Association – along with the HR Department – organize in November. This year it was celebrated at the Theatre in Tórshavn.

The 2009 award was handed to Jákup Brekká in Hvalvík. He has been a SEV linesman – and lines master for a time – for almost 40 years. Employee Association and management representatives decide together who is to receive the employee award. They choose from nominations submitted by employees.

When explaining why Jákup Brekká was awarded this honour it was said, that *„this man is a workforce, whom other employers can only dream of hiring. Jákup is always ready to give a hand when he is called upon, no matter what time of day or night. He is hard-working and enthusiastic. He is never afraid to face and tackle a new challenge. He is always the first person at work. If he has made an appointment, it will be kept. He is always kind and in a good mood, and to top it all off he is good company".*

Jákup Brekká was then called up to receive a gift, flowers and a certificate in recognition of the 2009 employee award.

Christmas celebration

On December 4, the Employee Association organized a Christmas dinner at the local football club premises in Argir. Robert McBirnie provided the entertainment, Santa Claus paid a visit and the Employee Association also prepared a fun quiz.

The 2009 children's Christmas party took place on Thursday December 10 at SEV's head office. As in previous years, head office employees arranged it. Santa Claus visited and the children received presents.

Hákun Djurhuus handed a fully equipped state-of-the-art bicycle to an excited Tummas Joensen. An award for crossing the Hvalvík mountain pass to and from work, a two-hour walk each way.

Health, safety and environmental issues

Annika F. Berg, health, safety and environment manager:

On December 17 SEV formulated a Health, Safety and Environment Policy (HSE), which is publicly available on SEV's website www.sev.fo and has been posted at all workplaces

Health

In 2009 SEV focused more on employee health. A workplace fruit scheme has been in place for a few years and it was expanded in 2008.

It can be difficult for employees who work shifts to exercise regularly. Therefore SEV has installed exercise equipment at workplaces, with shift work. In late 2008 regulations on sports and regular physical exercise came into force. In summary, they translate into SEV supporting its employees by paying for half of their expenses on sports and similar activities, up to a maximum of DKK 1000 per year. When these regulations entered into force, the employees were offered a group sign-up for a three to six month subscription at fitness centres in Tórshavn, Klaksvík orTvøroyri.

Walking group

The employees at the head office in Tórshavn took the initiative to go for walks after work once a week. They went on several walks along the so-called Horse Trail – between Hotel Føroyar and Norðasta Horn. They also walked to Gulin, old Hoyvík and other areas in and around Tórshavn.

SEV sponsorship

SEV has also sponsored employees, who have participated in the Faroese Flag Day Run and Public Health Run, for example by paying their registration fee.

Outdoor Week

In week 22 the Faroese Public Health Committee organized the Outdoor Week. The aim was to get people to leave their cars and walk to and from work. SEV fully supported the initiative and brought it to the employees' attention. In conjunction with the Outdoor Week SEV organized a competition. It ran from Monday morning to Friday, each time the employees walked to or from work they received one point, which was also a lottery ticket. The condition was that they had to walk for at least 15 minutes. When the competition ended at noon on May 29, all the lottery tickets were collected and in the afternoon eight prize-winners were drawn.

Kristian Thorleifsson, who is a linesman in Tórshavn, won the main prize, a bicycle.

Two hours – each way

One particular employee really stood out for his special participation in the Outdoor Week. This was 56-year-old Tummas Joensen in Skála. Every morning he would leave his car in Hvalvík and brave mountains and valleys to and from his workplace in Vestmanna, where he manages the Fossá plant. Crossing the Hvalvík mountain pass would take two hours – each way. SEV's management felt that this was such a great achievement, that it could not go unnoticed. Recognition came on the morning of June 12, when SEV's Managing Director arranged to meet Tummas in Kollafjørður. There Hákun Djurhuus handed an excited Tummas Joensen a bicycle fully equipped with all the latest gear. It was, of course, accompanied by a matching bicycle helmet.

Health checks

Last September company-wide health checks began. Malan Egholm from the Faroese Public Health Committee was in charge of the checks. She was also in charge of the country-wide health checks, which the authorities launched last year in order to determine the actual state of the Faroese population's health – and SEV's employees received the exact same checks. These were offered on a voluntary basis and 112 employees decided to participate. The aim was first and foremost to allow employees to get to know their own state of health.

At the Employee Day on November 27, Malan Egholm presented the results of the checks. In brief they indicated that two-thirds of the participants had acceptable levels of cholesterol. That 27% of the participants smoked, that the average BMI was slightly elevated and that the fat percentage was too high. Several people were also told that their blood pressure was too high and were asked to go see their doctor for further tests.

Presentations on diet and exercise

On the same Employee Day Jóhanna á Tjaldrarfløtti gave a presentation on healthy food habits and Magni Mohr gave a talk on exercise. These were very interesting and the management continues its efforts to offer the employees options, which can improve their health.

Safety

SEV is an advanced company, which prioritizes safety and the working environment highly to everyone's benefit.

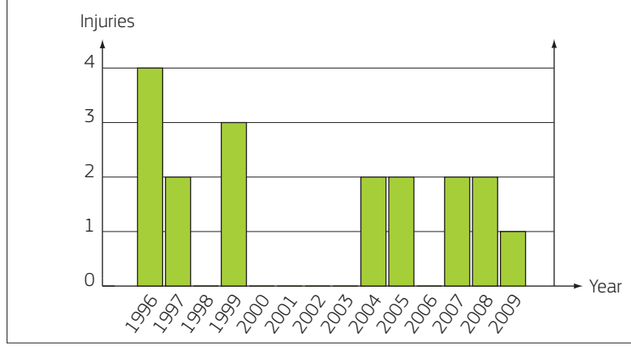
Safety initiatives

In 2009 SEV's Safety Committee has, among other things, worked on procuring adequate safety equipment and drafting a driving policy. The Committee has also worked on implementing a system for employees to report "near misses" in order to improve safety at the workplace. SEV "borrows" its employees from their families, and therefore wants them to return home in the same condition they were in when they left for work.

Personal injuries

Although SEV works systematically on safety, and SEV's vision is cero injuries, it is unavoidable that injuries can happen. Below is the number of injuries, which led to one or more days off work in addition to the day when they were sustained

Personal injuries 1996-2009



Environment

Below is an illustration of the main environmental impacts of SEV's power production activities:

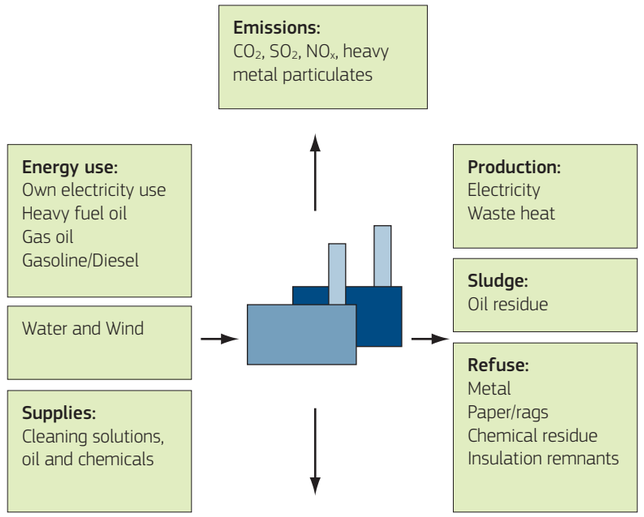
Regular electricity production takes place at thirteen plants generating according to demand. Of these thirteen, three are large thermal plants: the Strond, Sund and Vágur plant. SEV has six hydroelectric plants: the Strond, Eiði, Fossá, Mýra, Heygur and í Botni plants. It furthermore has five minor plants, which supply power to Fugloy, Mykines, Koltur, Skúvoy and Stóra Dímun.

Moreover SEV has four wind turbines in the Nes outfield on Eysturoy.

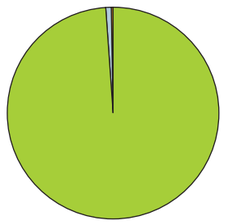
Emissions

Burning fossil fuels has one of the greatest impacts on the environment. Most of SEV's CO_2 emissions stem from oil consumption in production. The second largest source of SEV's emissions is oil consumption for heating old buildings and turbine generators, the third is oil consumption in transport.

The main impact SEV operations have on the environment



CO_2 emissions 2009



Total emissions:	113.787 tonnes CO_2
Total production:	275.527 MWh
CO_2 per kWh:	413 g/kWh

Environmental approval

	Entry into force
Environmental approval of the Sund power plant	March 11, 2004
Environmental approval of the Sund bunkering system. Annex to the approval of the Sund power plant.	March 23, 2006
Environmental approval of SEV's wind turbines in the Nes outfield	May 14, 2004

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

Photo 1: Tórshavn Municipality's equipment was used to skim the oil from the ocean surface and pump it into tanks.

Photo 2: Bark was spread over the oil, and then the oil-contaminated sand and bark were dug up and disposed of.

Waste

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

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

Environmental accident

On April 14, 2009 there was an oil leak at the Sund plant, which lead to oil spilling into Kaldbak fiord.

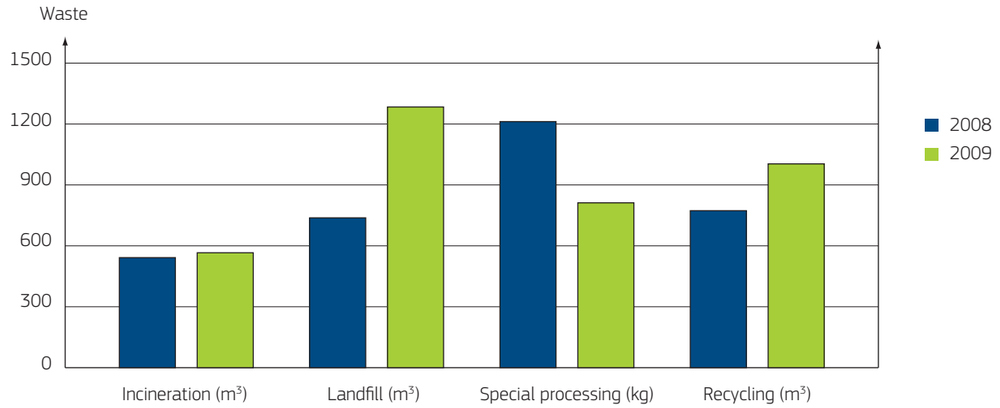
The accident occurred when diesel oil was being pumped from a storage tank into a day tank.

Measures were immediately put in place to tackle the spill. The cleanup went well, because the wind was blowing straight into Kaldbaksbotnur and gathered all the oil in one place.

Tórshavn Municipality was in charge of the recovery operation. SEV is very pleased that the cleanup was so successful that the spill left no traces.

Following the incident SEV has made significant improvements, in order to prevent any repeat. The measures include a new safety system to prevent over-pumping along with new alarms.

Waste 2008-2009



Laurie S. Fulton starts one of the water turbines at the Fossá plant, while Pól Joensen, Hákun Djurhuus and Páll á Reynatúgvu watch attentively.

Hákun Djurhuus presents Laurie S. Fulton with a gift from SEV – a glass tray, shaped as a klipfish.

The U.S. ambassador visits SEV

When the U.S. ambassador to Denmark, Laurie S. Fulton, visited the Faroes in March to familiarize herself with Faroese issues, she also paid a visit to SEV's Fossá plant in Vestmanna.

Following a guided tour of the plant, which included a chance for her to start one of the water turbines, SEV's management gave a presentation about the Faroese electric power system and future plans in the area. The ambassador was fascinated by the fact that the Faroes are among Europe's top five countries when it comes to generating power from renewable energy.

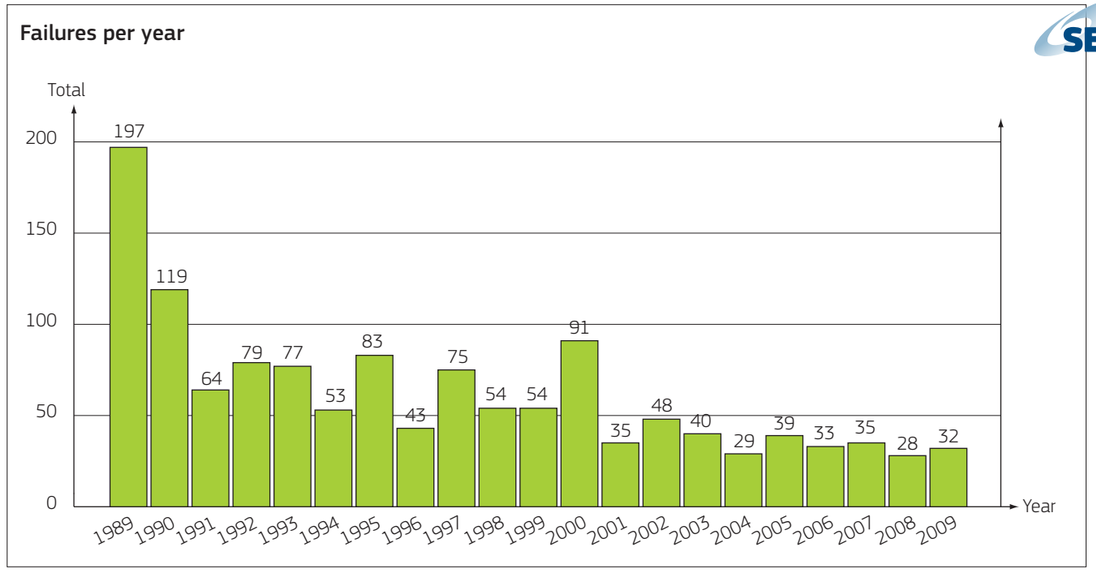
She also found the studies currently underway of the possibilities for a hybrid hydro-wind pump system as well as wave and tidal energy highly interesting. Moreover she welcomed the GRANI joint venture between SEV and DONG Energy, which, in addition to increasing the share of renewables on the Faroese power grid, is intended to support and develop global electric power systems.

In the control room at the Fossá plant. Emil við Á, mechanical engineer (far right), was on duty that day.

The Faroes serve as a laboratory for this research and Laurie S. Fulton also considered this an excellent idea, taking into account the country's size and location.

After staying for an hour and a half, much longer than planned, she happily thanked her hosts and hurried on with her busy agenda.

Pól Joensen, Fossá Plant Manager, Páll á Reynatúgvu, Chairman, Laurie S. Fulton, Ambassador, Hákun Djurhuus, Managing Director, and Finn Jakobsen, Technical Director.



32 interruptions on the high-voltage grid

In 2009 there were 32 failures on SEV's high voltage grid. However unlike other years there were only six failures on the overhead power lines.

This is because the winter went smoothly and also because many overhead power lines have been replaced by cables. The figures also reflect a systematic maintenances effort, says Jón Nielsen, director of SEV's Operations Department.

Work on running 0.4 KV cables instead of overhead power lines continues. The last overhead lines in Tvøroyri will be gone in three years.

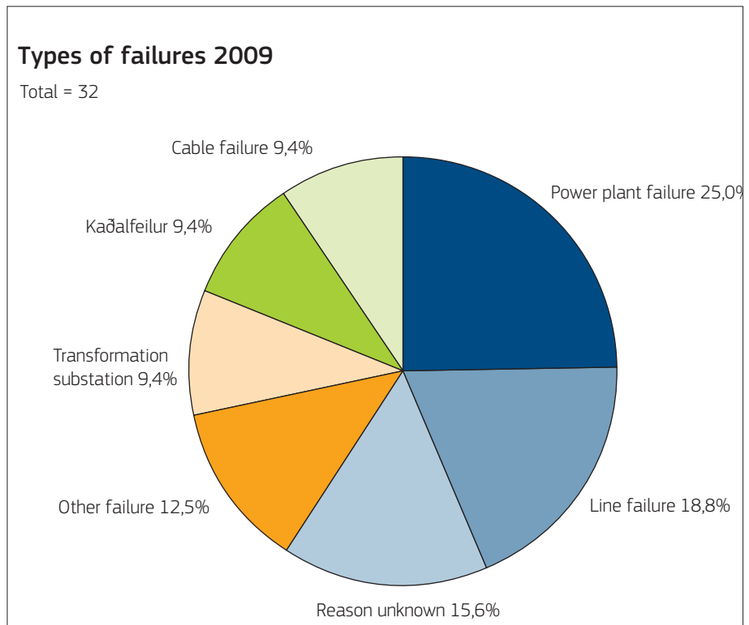
Work on running 10 and 20 KV cables between villages is also progressing as scheduled.

- In Sandoy and Vágar cabling is so advanced that you will not see any overhead lines there in a few years either, states Jón Nielsen.

He also says that the fall in construction activity on the Faroes has meant more time for maintenance, which will also be needed over the coming years.

Several pylons on the 60 KV power line stretch between Vestmanna and Tórshavn have been replaced. The old pylons, which were put up in the mid 60's, were severely weathered.

The stretch of overhead lines between Vestmanna and Skálabotnur was put in place around the same time as that between Vestmanna and Tórshavn, so several of those pylons will also have to be replaced over the coming years.



Distribution grid

	Fugloy	Svínoy	Viðoy	Borðoy	Kunoy	Kalsoy	Eysturoy	Streymoy	Vágoy	Mykines	Nólsoy	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suðuroy	Total number
6kV Transmission substations	1			2														3 stk.
10kV Transmission substations		1	6	32	3	7		64			1			16			50	180 stk.
20kV Transmission substations				2			109	74	28				1					214 stk.
60kV Transmission substations				1			2	4										7 stk.
Total areas	**1**	**1**	**6**	**37**	**3**	**7**	**111**	**142**	**28**		**1**		**1**	**16**			**50**	**404 stk.**
6kV Transformers	2			4														6 stk.
10kV Transformers		1	6	38	3	7		74			1			17			57	204 stk.
20kV Transformers				4			127	96	32				1	3			3	266 stk.
60kV Transformers				1			3	12										16 stk.
Total areas	**2**	**1**	**6**	**47**	**3**	**7**	**130**	**182**	**32**		**1**		**1**	**20**			**60**	**492 stk.**
0,4kV cable distribution cabinets	13	20	78	492	29	29	1558	2275	504	7	38		10	214	11		827	6105 stk.
60kV line				1,02			38,09	42,99										82,10 km.
60kV cable				0,09			13,61	14,81										28,50 km
20kV line							66,48	60,04	12,21								12,03	150,75 km
20kV cable				11,46			132,91	138,22	34,90				0,56	0,63			4,30	322,98 km
10kV line		3,53	17,36	13,84	11,59	9,58		7,87						17,33			53,26	134,35 km
10kV cable		0,52	3,47	30,74	0,16	7,23		67,26			1,47			28,11			56,39	195,35 km
6kV line	2,19			7,17														9,36 km
6kV cable	0,17			0,07				0,16										0,40 km
0,4kV line				0,76			1,20	0,90									4,13	6,99 km
0,4kV cable	1,10	3,62	11,56	60,15	2,75	3,00	198,19	275,45	55,57	0,55	3,45	0,38	1,76	28,84	0,94		94,71	742,00 km
Remote kWh meters	59	66	112	115	80	114	1307	1997	742	52	172			151	54	2	488	5511 stk.
kWh meters without remote reading	3	9	162	2388	2	6	3932	8412	858	1	6	2	43	721		2	2422	18969 stk.
Total kWh meters/area	**62**	**75**	**274**	**2503**	**82**	**120**	**5239**	**10409**	**1600**	**53**	**178**	**2**	**43**	**872**	**54**	**4**	**2910**	**24480 stk.**

Engine overview at 31/12 2009

Location	Engine	MW	Hk	Engine type	Engine manufacturer	Powered by	Year	Age	Hours
Botnur	T1	1	1.360	Pelton water turbine	Voith	Water	1965	44	173.211
Botnur	T2	2	2.719	Francis water turbine	Voith	Water	1966	43	132.904
Eiðisverkið	T1	6,7	9.109	Francis water turbine	Voith	Water	1987	22	80.332
Eiðisverkið	T2	6,7	9.109	Francis water turbine	Voith	Water	1987	22	74.818
Neshagi	M1	0,15	204	Wind turbine (fixed pitch)	Nordtank	Wind	1993	16	101.961
Neshagi	M2	0,66	897	Wind turbine (variable pitch)	Vestas	Wind	2005	4	28.364
Neshagi	M3	0,66	897	Wind turbine (variable pitch)	Vestas	Wind	2005	4	29.637
Neshagi	M4	0,66	897	Wind turbine (variable pitch)	Vestas	Wind	2005	4	23.491
Skopunarverkið	M1 – M3	1,826	2.483	4-T	Mercedes og Deutz	Diesel	1984		
Smáverk		1,7	2.311	4-T	Deutz, Mercedes, Perkins	Diesel			
Strond	M2	2,3	3.127	4-T KV 12 SS	Mirrleese Blackstone	Diesel	1965	44	78.756
Strond	M3	3,6	4.895	4-T 12 M 453 K	Krupp Mak	Diesel	1982	27	43.804
Strond	T1	1,4	1.903	Francis water turbine	Sulzer Hydro	Water	1998	11	36.263
Sundsverkið	M1	8,1	11.013	4-T 9M43C	Caterpillar/MaK	Heavy oil	2001	8	30.639
Sundsverkið	M2	8,1	11.013	4-T 9M43C	Caterpillar/MaK	Heavy oil	2004	5	25.277
Sundsverkið	M3	5,7	7.750	4-T KV16MAJOR	Mirrleese Blackstone	Heavy oil	1978	31	78.360
Sundsverkið	M4	12,4	16.859	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1983	26	141.365
Sundsverkið	M5	12,4	16.859	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1988	21	114.492
Tvøroyri	M1	2	2.719	4-T	Nohab	Diesel	1973	36	85.928
Vágsverkið	M1	2,7	3.671	4-T 9 M 453	Krupp Mak	Heavy oil	1983	26	105.267
Vágsverkið	M2	2,7	3.671	4-T 9 M 453	Krupp Mak	Heavy oil	1983	26	106.568
Vágsverkið	M3	4,32	5.874	4-T 9M32C	Caterpillar/MaK	Heavy oil	2004	5	34.173
Vestmanna	Fossá 1	2,1	2.855	Pelton water turbine	Maier	Water	1953	56	198.972
Vestmanna	Fossá 2	4,2	5.710	Francis water turbine	Voith	Water	1956	53	310.694
Vestmanna	Heygav. 1	4,9	6.662	Francis water turbine	Voith	Water	1963	46	196.146
Vestmanna	Mýruv. 1	2,4	3.263	Francis water turbine	Voith	Water	1961	48	324.101

Total power:	**101 MW**
	137.833 Hk

Invoiced electricity sales 2005-2009 in MWh

Consumer sectors	Total 2005	Total 2006	Total 2007	Total 2008	Total 2009	Change 2008-2009
1. Agriculture, aquaculture, fishing and raw materials industry	17.154	19.403	23.364	23.228	27.194	17,1
2. Production and construction industries	52.284	57.184	58.845	58.775	57.170	-2,7
3. Retail stores, restaurants and hotels	19.336	20.451	22.124	22.804	22.462	-1,5
4. Transport, postal services and telecos	20.155	22.518	23.144	28.681	31:053	8;3
5. Financial services, insurance and other service industries	3.806	3.984	4.075	4.161	4.141	-0,5
6. Public and private services, churches, religious organizations, ect.	34.483	34.885	39.745	41.195	39.779	-3,4
7. Street lighting	6.193	6.588	6.739	6.967	6.695	-3,9
8. Houses, apartments, summer homes, small boat storage	75.734	76.585	78.761	77.387	80.309	3,8
Invoiced Electricity Sales, Total	**229.145**	**241.598**	**256.797**	**263:198**	**268:803**	**2,1**
Electricity generation, calender year	**244.877**	**259.478**	**269.416**	**275.829**	**275.527**	**-0,1**

Note: Innvoiced electricity sales do not follow exactly the calendar year, while calculation of electricity generation is based on data available at the close of each year.

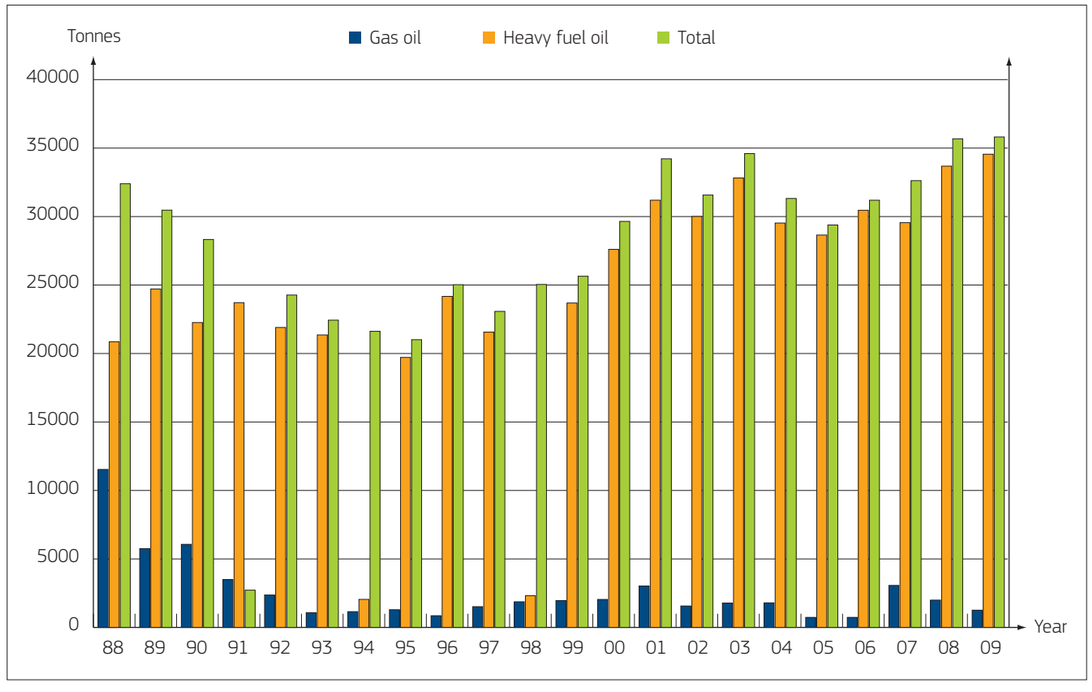
The difference between invoiced electricity sales and calculated production stems from line and transformer loss plus SEV's own consumption and certain deferred consumption.

Included in electricity generation is electricity purchased from other producers.

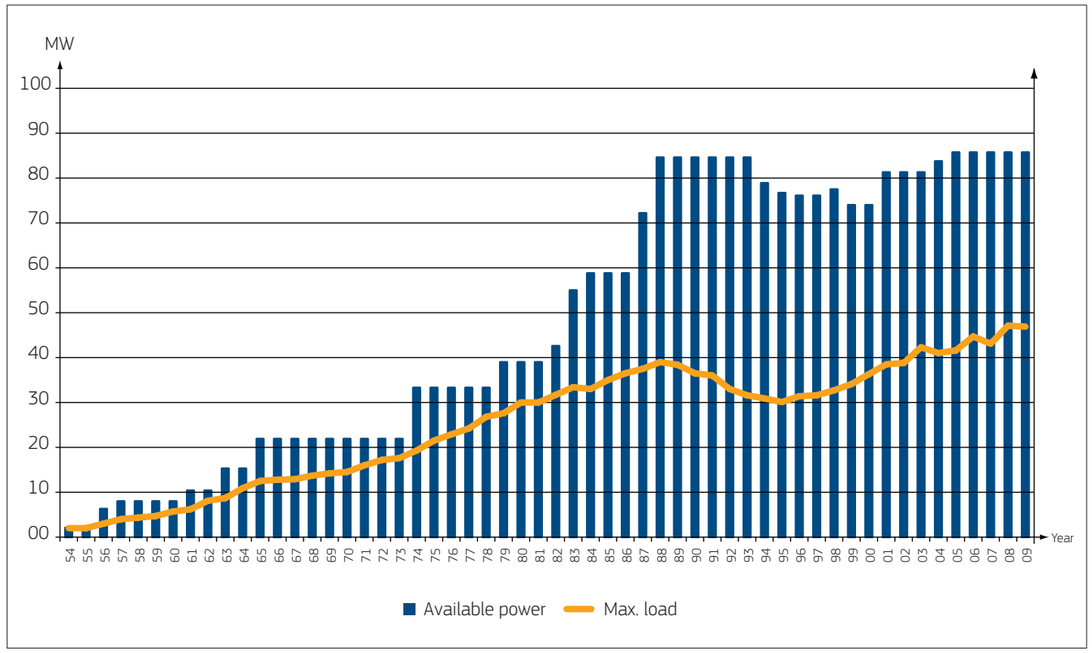
SEV investments 1997 - 2009

Investments (DKK million)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Hydroelectric plant	30,7	35,1	43,3	13,7	8,6	8,6	0,0	0,3	0,3	0,5	4,0	27,4	43,0
Other power plants	0,1	0,1	1,1	5,8	30,4	18,1	52,0	18,0	20,0	2,3	2,8	5,0	3,1
Distribution plants	12,5	21,0	13,8	13,6	14,6	19,5	17,4	18,6	18,2	32,8	41,9	41,1	19,6
Joint property	0,5	0,1	1,8	0,7	0,1	0,0	0,1	0,8	0,0	0	0,8	0,0	0
Land	-	-	-	1,5	-4,8	0,0	0,0	0,0	0,0	0	0,0	0,0	0
Other production equipment	2,1	1,8	2,6	1,5	2,4	1,7	2,4	2,0	3,2	2,2	2,5	3,1	5,6
Total	**45,9**	**58,1**	**62,6**	**36,8**	**51,3**	**47,9**	**71,9**	**39,7**	**41,7**	**37,8**	**52,0**	**76,6**	**71,8**

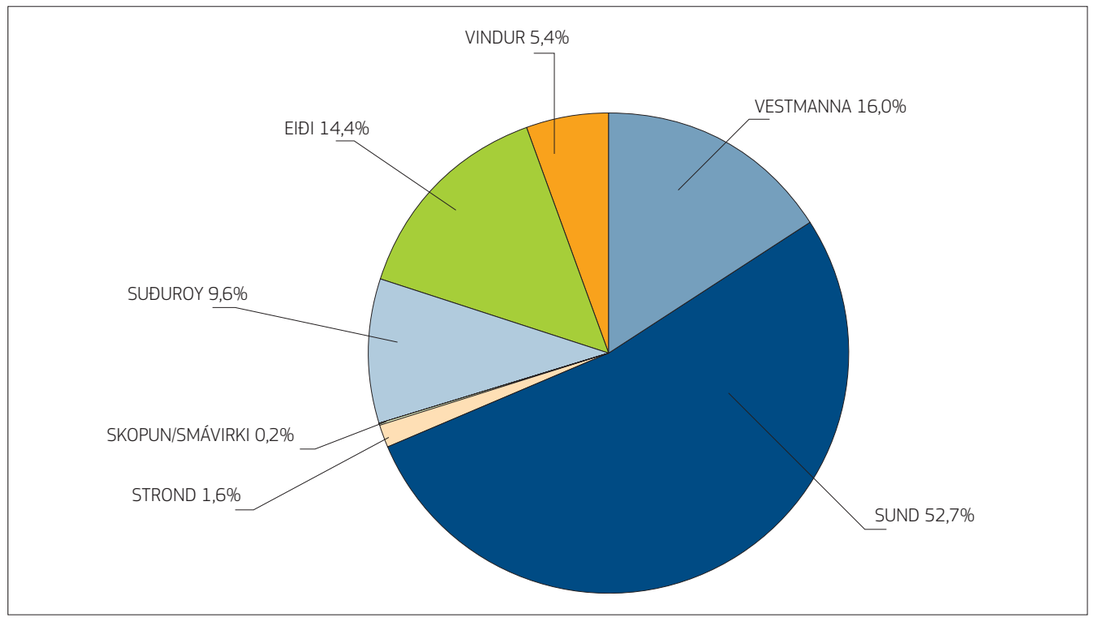
Oil consumption in tonnes 1988-2009



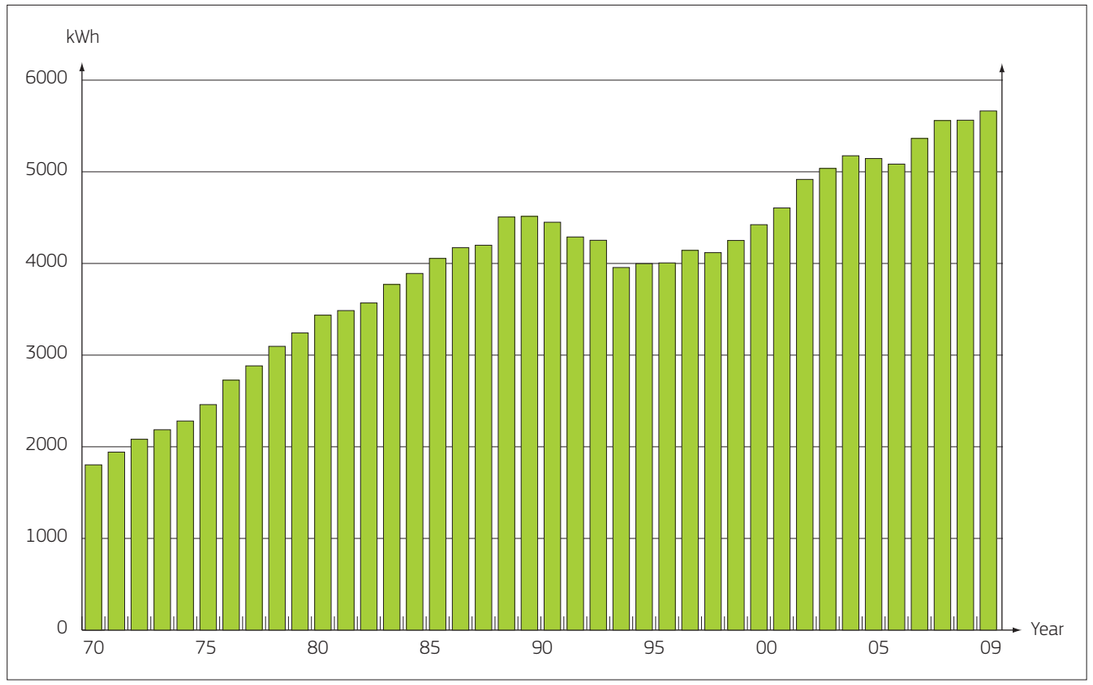
Maximum load and available power - Central region 1954-2009



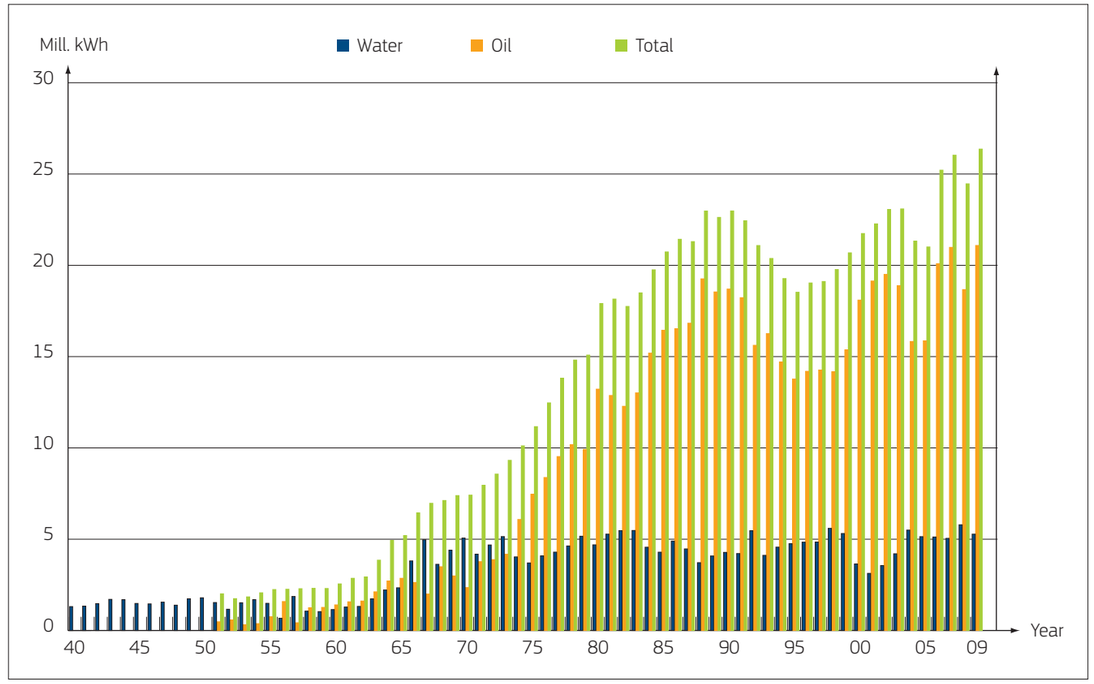
Electricity generation for the entire country by power plant, 2009



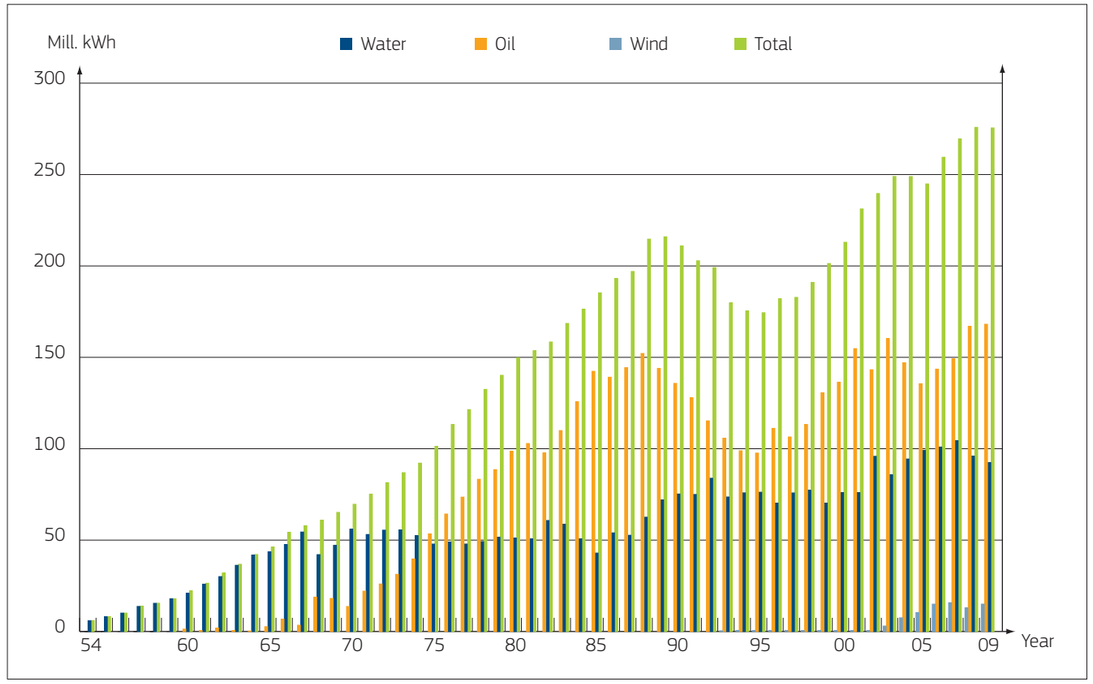
Electricity generation per capita 1970-2009



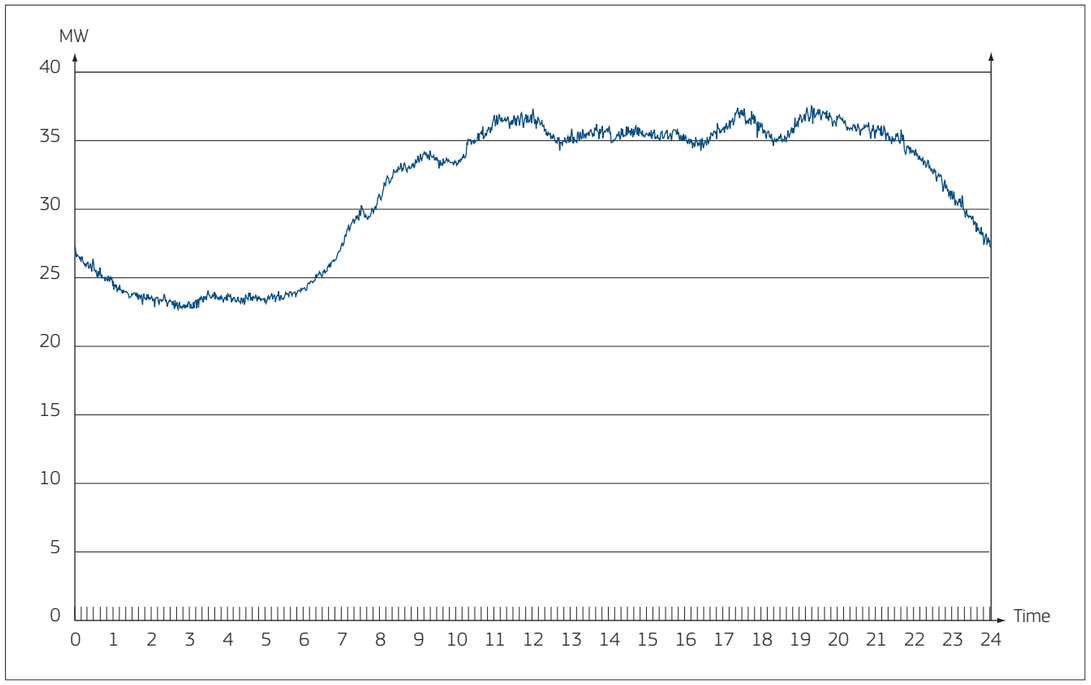
Electricity generation on Suðuroy 1940-2009



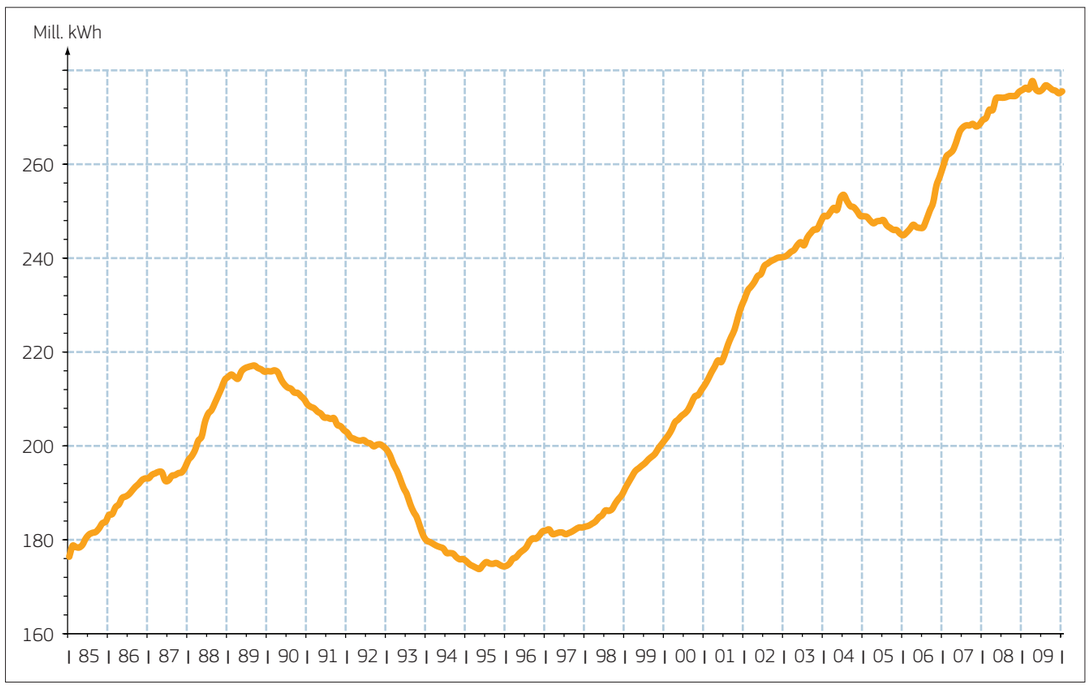
Electricity generation for the entire country 1954-2009



Daily Load 7 October 2009



Total SEV annual 12-month generation (1985-2009)



Annual report and annual accounts 2009

Board statement

We hereby present SEV's 2009 Annual Report and Accounts. The Annual Report and Accounts have been drawn up pursuant to the provisions in the Faroese Accounts Act and the Company statutes.

It is our opinion that the accounting method used is adequate and ensures that the Annual Report and Accounts give a true and fair view of the Company's assets, liabilities and financial position, as well as the results of the Company's operations and its cash flow.

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

Tórshavn April 9, 2010

Board:

Páll á Reynatúgvu, Chair

Jákup Suni Lauritsen, Deputy Chair

Marin Katrina Frýdal

Steinbjørn O. Jacobsen

Kári E. Jacobsen

Niels Olaf Eyvindsson

Pauli T. Petersen

Management:

Hákun Djurhuus

Financial Management:

John P. Danielsen

Independent auditor's report

To the owners of elfelagið sev

Certification of the Annual Report
We have audited the Annual Report of Elfelagið SEV for the fiscal year 1 January – 31 December 2009, which comprises the management statement, management report, accounting principles applied, income statement, balance sheet, equity report, cash flow statement and relevant notes. The Annual Report has been prepared in accordance with the Faroese Accounts Act.

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

Auditor responsibility
Our responsibility is to express an opinion on the Annual Report based on our audit. We conducted our audit in accordance with applicable Faroese auditing standards and regulations, which require that we uphold ethical standards, and plan and conduct the audit to obtain reasonable assurance that the Annual Report is free from material misstatement.

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

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

Our audit did not result in any qualification.

Opinion
It is our opinion that the Annual Report gives a true and fair view of the Company's assets, liabilities, and financial position as at 31 December 2009, and of the results of the Company's operations and cash flow for the fiscal year 1 January – 31 December 2009 pursuant to the Faroese Accounts Act.

Tórshavn April 9, 2010

NOTA
A certified public accounting firm

Hans Laksá
Chartered Public Accountant

Jóannes Olsen
Registered Accountant

Key figures

All figures provided in tDKK

	2009	2008	2007	2006	2005
Income statement					
Net sales	279.870	276.860	249.105	238.359	226.072
Result of ordinary operations	69.282	20.752	63.795	81.992	89.391
Result of financial items	-5.210	-3.533	-2.293	-5.847	-7.574
Result of extraordinary operations	0	0	0	0	0
Annual result	9.257	-31.138	12.036	16.217	22.256
Balance sheet					
Total assets	1.151.024	484.126	539.325	523.545	520.241
Carried over to basis for depreciation	102.706	47.315	70.350	26.046	37.458
Equity	945.563	325.987	357.125	345.089	328.872
Cash flows					
Net cash flows from					
Operations	44.164	19.332	71.535	74.062	80.602
Investments	-71.856	-76.613	-52.038	-38.410	-44.177
Financials	40.158	-18.018	-18.930	-21.030	-28.629
Annual cash flows	**12.466**	**-75.299**	**567**	**14.622**	**7.796**

Key figures

	2009	2008	2007	2006	2005
Profitability					
Return on equity	1,0%	-9,1%	3,4%	4,8%	13,5%
Return on assets	6,0%	4,3%	11,8%	15,7%	17,2%
Profit margin	24,8%	7,5%	25,6%	34,4%	39,5%
Asset turnover	0,24	0,57	0,46	0,46	0,43
Solvency					
Equity/asset ratio	82,1%	67,3%	66,2%	65,9%	63,2%
Other					
Average number of employees	153	140	145	145	145

Calculation of key figures

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

Return on equity = Annual result x 100 / Average equity

Return on assets = Result of ordinary operations x 100 / Total assets

Profit margin = Result of ordinary operations x 100 / Net sales

Asset turnover = Net sales / Total assets

Equity/asset ratio = Equity closing balance x 100 / Total assets

Annual report

Main activities

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

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

This report includes Company activities from 01.01.09 to 31.12.09.

Development of Company activities and financial situation

The operational result for 2009 was a surplus of DKK 9.3 million compared to a DKK 31.1 million deficit the previous year. Based on the 2009 budget, approved in November 2008, a DKK 7.9 million surplus was forecast.

Revenues totalled DKK 279.9 million. Roughly DKK 3 million more than the previous year, but DKK 7.1 million less than budgeted for 2009. The main reason is that the required permission to raise the price of electricity by DKK 0.04/kWh was not granted by the authorities. Electricity sales in kWh remained virtually unchanged.

Practically all revenues accrued from electricity sales.

Expenses before depreciation totalled DKK 215.8 million, DKK 13.3 million less than budgeted.

Oil expenses, in particular, have reduced total expenses. Average 2009 oil prices were far below estimated when the budget was approved in November 2008. According to budget oil would cost SEV DKK 97.3 million; however, the final cost only amounted to DKK 75.9 million. Production at SEV's thermal plants only rose by 0.7%. The impact of the increase in oil used is therefore very limited.

Other operational expenses accrued on wages, materials and services totalled DKK 10 million over budget.

Interest expenses netted DKK 5.2 million, DKK 1.7 million under budget, due to the fact that a planned loan for the hydroelectric expansion was taken out later in the year than initially planned.

Depreciations, the method changed as of January 1, 2009 on orders by the Electricity Production Oversight Board. Property values have changed significantly as of January 1, 2009, in parallel, depreciation periods have lengthened considerably for most properties. At first this will not change total depreciations much; however, it will gradually lead to significant changes. Based on these changes total depreciation in 2009 is around DKK 54.8 million.

Investments

Investments in fixed assets amounted to DKK 70.6 million. This means DKK 35.6 million less than budgeted and DKK 6 million less than the previous year. The difference between investments planned and investments executed is mainly due to the investments in hydroelectric and wind power. DKK 14.7 million less than planned were invested in hydroelectricity, mainly because the investment works commenced later than planned. The DKK 9 million allocated to wind power were not spent.

Special risks

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

The Company is, to a certain extent, exposed to changes in the interest rate level, but has chosen not to use interest rate positions or similar measures to hedge against interest rate risk. Existing loans are all fixed-rate, including the construction loans for "Eiði 2", which will be due for interest rate review by the end of 2013.

Environment

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

Knowledge resources

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

Development

The Company continuously works on developing safety, security and quality of supply. Plans are underway to increase the production share of renewables, such as hydroelectricity, water, wave and tidal power. This is done as part of the effort to reach the national targets set for developing renewables and cutting CO_2 emissions.

Prospects for the fiscal year 2010

Operations in 2010 are likely to yield a lower profit before depreciations. After depreciations there will be a significant loss.

Revenues, which mostly accrue from the amount and price of electricity sold, will probably remain the same as in 2009, whereas operational expenses will increase significantly. Oil expenses in particular look set to be much higher than the previous year.

We can conclude that SEV will not be granted permission from the authorities to raise the price of electricity, and therefore revenues will probably be DKK 20 million lower than planned.

As for expenses, based on the oil price level through most of the first quarter of 2010, oil expenses can be expected to total around DKK 106 million, around DKK 30 million more than the previous year. Damage to a generator at the Fossá plant, which was sustained in February 2010, will probably cost roughly DKK 3 million.

With reservations for any oil price changes, unexpected damages or other unexpected operational expenses, we can conclude that the result of operations in 2010 is likely to be considerably worse than in previous years.

This also means that, without the requested authorization to raise electricity prices, operational cash flow profits will probably not suffice to pay the loan instalments required under existing loan agreements. This means that there will be no self-financing of planned investments worth over DKK 100 million. A result with so little self-financing is inadequate, if SEV, in addition to investing in renewing diesel plants and expanding the grid, is also to expand renewables in order to meet the targets set out in the climate report, adopted by the Faroese Government and Parliament.

Events after the close of the fiscal year

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

Applied accounting principles

General
The Annual Report was prepared in accordance with the provisions in the Faroese Annual Accounts Act for Class C medium-sized companies. The Company now sets aside allocations for pensions due in the accounts. Notwithstanding the above mentioned, the accounting principles remain unchanged from the previous year.

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

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

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

On recognition and measurement, account is taken of foreseeable losses and risks arising before the time at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

FOREIGN CURRENCY AND HEDGING TRANSACTIONS
The annual report is presented in Danish kroner (DKK).

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

INCOME STATEMENT

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

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

Depreciation
Depreciation and amortization of fixed assets are arranged as systematic depreciation over the assets' expected useful lives. Fixed assets are included at cost price and the depreciation is linear. The depreciation period ranges from 3 to 50 years.

Financial items
Financial items include interest receivable and interest payable, realised and unrealised capital gains and losses on securities, debt and transfers in foreign currencies, amortization of financial assets and liabilities in addition to interest expenses. Financial revenues and financial costs are recognized on an ongoing basis.

Extraordinary items
Extraordinary items comprise income and expenses from events or carry-overs, which clearly deviate from the Company's results of ordinary operations, and are therefore not likely to be recurrent.

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

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

BALANCE SHEET

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

Cost price includes direct and indirect material and labour costs.

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

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

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

The cost of manufactured goods and work in progress is measured as the amount of direct and indirect material and labour costs.

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

Financial assets
Financial assets are recognized at their acquisition value.

Securities (cash equivalents)
Bonds are recognized at exchange-rate-adjusted value.

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

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

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

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

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

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

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

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

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

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

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

Cash at the beginning and end of the year comprise cash and short-term investments with no significant price risk, which can easily be exchanged for cash.

Income statement

	Note	2009	*tDKK 2008*
Revenues	1	***279.869.614***	***276.860***
Purchased wind energy	2,3,4	-2.699.562	*-2.185*
Cost of oil	2,3,4	-75.853.709	*-119.923*
Materials and services	2,3,4	-69.757.144	*-78.545*
Wages	2,3,4,5	-62.276.848	*-55.454*
Total expenses		**-210.587.263**	***-256.107***
Result of ordinary operations		**69.282.351**	**20.753**
Depreciations	2,3,4,8	-54.814.967	*-48.357*
Result before financial items and taxes		**14.467.384**	***-27.604***
Financial items, net	7	-5.210.104	*-3.534*
Result before taxes		**9.257.280**	***-31.138***
Taxes	6	0	*0*
Annual result		**9.257.280**	***-31.138***
Dividends			
Result carried over		321.846.965	*352.985*
Opening adjustment		610.319.053	*0*
Annual result		9.257.280	*-31.138*
Total		**941.423.298**	***321.847***
Proposed dividends			
Result carried over		941.423.298	*321.847*
Total		**941.423.298**	***321.847***

Balance sheet as per 31 december

ASSETS	Note	2009	*tDKK Opening balance 01.01.09*	*tDKK 2008*
Real estate, power plants etc.	2,3,4,8	1.021.503.935	*973.613*	*344.563*
Investment works in progress		12.822.210	*46.070*	*46.070*
Fixed assets		**1.034.326.145**	***1.019.683***	***390.633***
Share equity		4.975.168	*4.975*	*4.975*
Financial assets		**4.975.168**	***4.975***	***4.975***
TOTAL ASSETS		**1.039.301.313**	**1.024.658**	**395.608**
Oil inventory		18.554.895	*8.469*	*8.469*
Materials inventory		10.936.942	*9.452*	*9.452*
Contract work in progress		176.250	*623*	*623*
Total inventory		**29.668.087**	***18.544***	***18.544***
Electricity debtors	9	32.724.333	*35.794*	*35.794*
Other debtors		3.744.617	*4.868*	*4.868*
Other accounts receivable		8.813.139	*5.004*	*5.004*
Total debt		**45.282.089**	***45.666***	***45.666***
Bonds		7.348	*40*	*40*
Securities		**7.348**	***40***	***40***
Cash-on-hand		**36.764.845**	***24.268***	***24.268***
TOTAL CURRENT ASSETS		**111.722.369**	***88.518***	***88.518***
TOTAL ASSETS		**1.151.023.682**	***1.113.176***	***484.126***

Balance sheet as per 31 december

LIABILITIES	Note	2009	*tDKK Opening balance 01.01.09*	*tDKK 2008*
Deposit		4.139.875	*4.140*	*4.140*
Capital account		941.423.298	*935.896*	*321.847*
TOTAL EQUITY	**10**	**945.563.173**	***940.036***	***325.987***
Provisions for pension liability		18.730.552	*15.000*	*0*
Deferred tax	6	0	*0*	*0*
Total provisions		**18.730.552**	***15.000***	***0***
Loans	11	145.954.641	*105.797*	*105.797*
Long-term debt		**145.954.641**	***105.797***	***105.797***
Electricity creditors	12	18.682.759	*18.667*	*18.667*
Other creditors		19.472.018	*31.476*	*31.476*
Holiday pay due		2.620.539	*2.199*	*2.199*
Short-term debt		**40.775.316**	***52.342***	***52.342***
TOTAL DEBT		**186.729.957**	***158.139***	***158.139***
TOTAL LIABILITIES		**1.151.023.682**	***1.113.176***	***484.126***
Mortgage surety interest	13			

Cash flow statement

(1,000 DKK)	2009	*2008*
Annual result	9.257	*-31.138*
Depreciation	54.815	*48.357*
Change in liquidity (operations)	**64.072**	***17.219***
Change in debt	359	*-5.497*
Change in short-term debt	-9.144	*-6.044*
Change in oil inventory	-10.086	*11.650*
Change in materials inventory	-1.038	*2.004*
	44.163	*19.332*
Investment: fixed assets, change in work in progress	-71.856	*-76.613*
Shares	0	*0*
Instalment payments	40.158	*-18.018*
Changes in liquidity	**12.465**	***-75.299***
Opening balance cash-on-hand	24.268	*99.526*
Opening balance bonds	39	*80*
Closing balance liquidity	**36.772**	***24.307***
Closing balance liquidity:		
Cash-on-hand	36.765	*24.268*
Bonds	7	*39*
	36.772	***24.307***

Equity report

All figures provided in tDKK	Deposit	Profit carried over	Total
Equity 01.01.2008	4.140	352.985	357.125
Opening adjustment	0	0	0
Opening balance adjusted equity	4.140	352.985	357.125
Annual result	0	-31.138	-31.138
Equity 31.12.2008	**4.140**	**321.847**	**325.987**
Equity 01.01.2009	4.140	321.847	325.987
Opening adjustment	0	610.319	610.319
Opening balance adjusted equity	4.140	932.166	936.306
Annual result	0	9.257	9.257
Equity 31.12.2009	**4.140**	**941.423**	**945.563**

Changes in deposits – break-down	2009	2008	2007	2006	2005
Beginning of year deposit balance	4.140	4.140	4.140	4.140	4.140
Increased deposit	0	0	0	0	0
Total	**4.140**	**4.140**	**4.140**	**4.140**	**4.140**

Notes to the annual report

1. Revenue	2009	tDKK 2008
kWh charge	260.277.858	*255.881*
Fixed payments	16.380.022	*15.970*
Connection fees	2.094.100	*3.254*
Other revenues	1.117.634	*1.755*
Total revenue	**279.869.614**	***276.860***

2. Expenditure per plant	Oil 2009	Materials 2009	Wages 2009	Depreciation 2009	Total 2009	tDKK Total 2008
Turbine department	0	422.033	1.114.882	-56.100	1.480.815	1.608
Fossa plant	0	1.561.563	4.409.252	439.959	6.410.774	4.719
Heyga plant	0	238.820	279.897	301.889	820.605	386
Mýru plant	0	967.482	510.456	392.233	1.870.171	774
Eiði plant	20.471	1.748.294	1.346.823	12.331.100	15.446.688	10.333
Botnur plant	0	401.504	175.923	331.832	909.259	608
Vág plant	8.829.662	4.359.595	5.740.184	1.961.041	20.890.481	28.926
Tvøroyri plant	0	1.097.403	105.437	164.623	1.367.463	2.997
Sund plant	64.106.458	25.142.857	15.992.771	12.538.916	117.781.002	138.408
Skopun	0	36.600	73.989	250.563	361.152	7.320
KG plant	1.542.529	2.534.760	1.367.487	457.694	5.902.470	5.201
150 kW wind turbine	0	31.507	19.496	79	51.081	143
750 kW wind turbine	0	556.625	144.623	1.158.082	1.859.330	2.108
Wind power technology	0	0	0	0	0	0
Small plants (KG joint work)	0	21.156	14.787	128	36.071	16
Mobile aggregate	4.056	-7.888	110.247	49.549	155.964	300
Fugloy	242.529	287.083	458.336	178.151	1.166.098	1.571
Svínoy	6.639	48.825	163.617	193.368	412.449	106
Mykines	313.981	167.524	295.157	0	776.663	774
Hestur	1.751	9.453	26.861	0	38.066	27
Koltur	102.460	112.408	50.447	0	265.315	287
Nólsoy	1.143	25.652	29.738	0	56.534	103
Skúvoy	375.234	577.969	382.243	0	1.335.446	841
Dímun	77.502	153.894	65.130	78.205	374.731	799
Production activities	**75.624.416**	**40.495.119**	**32.877.783**	**30.771.312**	**179.768.630**	**208.355**
Wind power purchase					**2.699.562**	**2.185**
Interest					**5.210.104**	**3.533**
Other grid activities	**229.293**	**29.262.025**	**29.399.065**	**24.043.655**	**82.934.038**	**93.924**
Total activities	**75.853.709**	**69.757.144**	**62.276.848**	**54.814.967**	**270.612.334**	**307.997**

3. Network activities and administration	Oil 2009	Materials 2009	Wages 2009	Depreciation 2009	Total 2009	tDKK total 2008
Substations		699.795	275.463	2.673.035	3.648.293	5.561
Distribution stations	122.981	13.392.746	14.757.272	17.054.475	45.327.474	50.321
Installation		1.096.905	3.144.900	734.256	4.976.061	4.756
Engineering		1.069.670	3.914.439	-85.371	4.898.738	1.860
Technical		739.669	1.124.596	92.964	1.957.229	2.654
	122.981	16.998.784	23.216.671	20.469.359	60.807.795	65.152
Administration	106.312	16.287.674	12.691.322	3.574.296	32.659.604	28.772
Network activities	**229.293**	**33.286.458**	**35.907.993**	**24.043.655**	**93.467.399**	**93.924**
Share distributed to production plants		4.024.432	6.508.928		10.533.360	
Net network activities	229.293	29.262.026	29.399.065	24.043.655	82.934.039	93.924

4. Administration	Oil 2009	Materials 2009	Wages 2009	Depreciation 2009	Total 2009	tDKK total 2008
General meeting and board		358.488	1.166.816		1.525.303	1.649
Employer workers' benefits contributions		1.445.789	-177		1.445.612	1.795
Electricity Production Oversight		1.671.374			1.671.374	967
Studies and consultancy		1.564.126			1.564.126	2.316
IT		2.212.674	3.167		2.215.841	1.937
Management and office expenses		2.055.864	9.222.717		11.278.581	8.093
Energy advice service		247.360	320.708		568.067	12
Public servants' pensions		0	750.656		750.656	757
Loss on unpaid debt		644.064			644.064	496
Other administrative expenses	106.312	6.087.935	1.227.436	3.574.296	10.995.980	10.749
	106.312	**16.287.674**	**12.691.322**	**3.574.296**	**32.659.604**	**28.772**
Share distributed to production plants		3.602.400	2.618.500		6.220.900	
Network activities administration	**106.312**	**12.685.274**	**10.072.822**	**3.574.296**	**26.438.704**	**28.772**

5. Employee expenses	2009	*tDKK 2008*
Wages	59.087.801	*52.957*
Pensions	5.718.668	*4.369*
Employer's contributions to worker benefits	1.445.789	*1.795*
Total	**66.252.258**	***59.121***
Board and management wages	1.870.854	*1.731*
Average number of employees	153	*140*

6. Taxes	2009	*tDKK 2008*
Current taxes	0	*0*
Deferred taxes	0	*0*
Total taxes	**0**	***0***
Deferred taxes		
Opening balance provisions	0	*0*
Changes in deferred tax over the year	0	*0*
Provisions at yearend	**0**	***0***

7. Financial items		
Interest payable	5.681.900	*6.777*
Interest receivable	-471.796	*-3.243*
	5.210.104	***3.534***

8. Real estate and depreciations (tDKK 1.000)

	Production plants	Buildings and land	Distribution stations	Equipment
Acquisition value beginning year	1.198.961	65.320	658.433	112.930
Addition	70.269	0	27.637	4.800
Acquisition value yearend	**1.269.230**	**65.320**	**686.070**	**117.730**
Depreciations beginning year	-642.362	-22.292	-295.908	-101.469
Depreciations over year	-30.716	-1.221	-19.602	-3.277
Depreciations yearend	**-673.078**	**-23.513**	**-315.510**	**-104.746**
Booked value yearend	**596.152**	**41.807**	**370.560**	**12.984**

Notes to the annual report

9. Electricity debtors	2009	tDKK 2008
Payments during fiscal year:		
Ordinary customers	2.991.645	3.595
Max. customers	2.453.232	4.665
	5.444.877	**8.260**
Unpaid balances:		
Ordinary customers	23.555.622	22.774
Max. customers	4.923.833	5.760
	28.479.455	**28.534**
Provisions for loss from unpaid electricity customer debt	**-1.200.000**	**-1.000**
Total electricity customer debt	**32.724.333**	**35.794**

10. Distribution of equity	MUNICIPAL DEPOSITS	EGINOGN 31.12.2009
Hvannasund	36.375	8.417.659
Klaksvík	520.250	93.697.258
Fugloy	17.500	735.336
Viðareiði	25.250	6.869.584
Kunoy	12.625	2.941.343
Húsar	17.500	1.103.004
Eiði	78.625	12.887.727
Sunda	177.367	31.948.404
Fuglafjørður	136.250	29.723.046
Eystur	146.500	37.966.547
Nes/Runavík	332.133	97.993.167
Sjógv	92.875	19.447.696
Kvívík	59.125	11.494.459
Vestmanna	125.250	23.008.269
Vága	169.625	37.598.879
Sørvágur	127.500	22.079.424
Sandur	72.250	10.797.825
Skopun	71.000	9.404.558
Skálavík	30.750	3.173.554
Húsavík	25.125	2.438.219
Skúvoy	17.875	986.898
Hvalba	103.625	13.990.731
Tvøroyri	255.250	33.728.691
Fámjin	23.125	2.089.902
Hov	22.875	2.341.464
Porkeri	51.000	6.347.109
Vágur	218.375	26.394.684
Sumba	81.375	7.295.305
Tórshavn	1.092.500	384.522.556
	4.139.875	**941.423.298**

Notes to the annual report

11. Loans

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

	2009
Within 1 year	14.974
Between 1 and 5 years	55.265
After 5 years	75.716

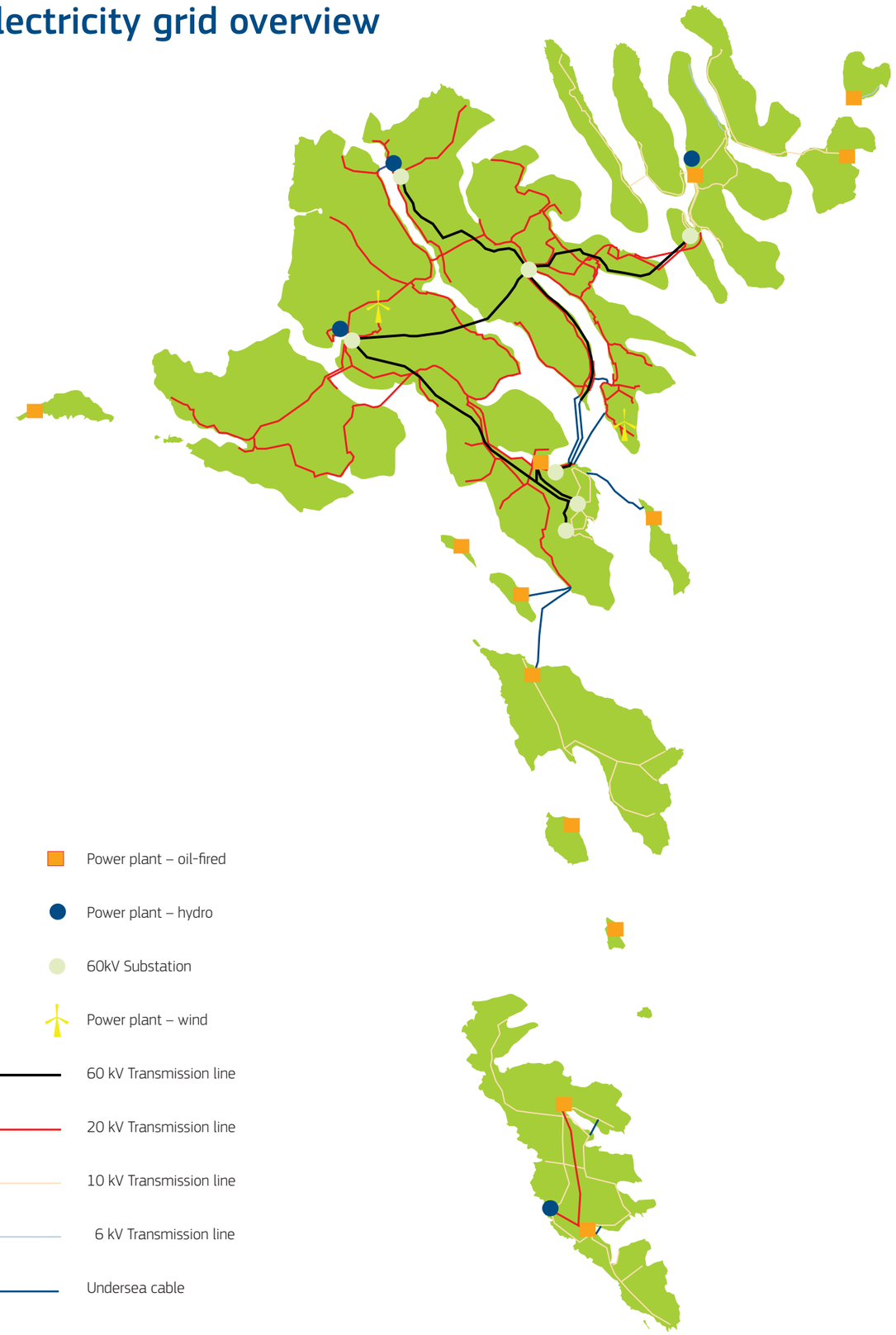
12. Electricity creditors DKK 18,682,759

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

13. Mortgages

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

Electricity grid overview



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