

5 Renewable Energy Sources Fed the Grid in 2020

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Annual Report 2020
Annual General Meeting 23 April 2021

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Report from the SEV Board of Directors to its owners at the Annual General Meeting

In any review of SEV's business activity during 2020, one can hardly avoid mentioning the coronavirus pandemic and its global impact, both great and small.

On St. Gregory's Day (12 March) last year when the Faroe Islands closed down to protect the country and its people against the COVID-19 pandemic, SEV had already undertaken measures to protect the electricity system, thereby ensuring the distribution of electricity to each and all.

As one of the cornerstones of Faroese society and a provider of vital services, SEV takes its responsibility and obligation very seriously.

Thus, SEV not only followed the government recommendations and guidelines, but also undertook rigorous and stringent initiatives to secure the supply of electricity throughout the country and the entire staff without complaint worked hard to meet the challenges brought about by the pandemic.

The business activity of SEV since the last Annual General Meeting is described in detail in this report. Further, the Board of Directors has highlighted the issues that the Board believes would be of most interest to the owners of SEV. The report is submitted in accordance with Article 3, Paragraph 12 b, and Article 4, Paragraph 11a of SEV's Articles of Association.

NEW BOARD OF DIRECTORS

At SEV's Extraordinary General Meeting held on Friday, 19 February 2021, a new Board was elected: Kári Johansen, representing Tórshavn; Haraldur S. Hammer, North Streymoy; Sonni L. Petersen, Eysturoy; Sune Jacobsen, Vágoy; Oddmar Á Lakjuni, North Islands; Poul Klementsén, Sandoy; and Nílas Hentze, Suðuroy.

Subsequently, the Board elected Kári Johansen as chairperson and Haraldur S. Hammer as vice-chairperson.

It was further unanimously agreed that the structure of SEV as an electric utility company be reviewed and if deemed necessary detailed recommendations could be presented to amend the present corporate structure of SEV at a forthcoming Extraordinary General Meeting later in the year.

An evaluation group consisting of five mayors and the chairperson of SEV was formed, which shall itself outline its work mandate and avail itself of both outside and in-house expertise as necessary to facilitate generating the best results possible.

The evaluation group consists of Heðin Mortensen, Tórshavn Municipality; Karl H. Johansen, Klaksvík; Torbjørn Jacobsen, Runavík; Bjarni Prior, Vágur; Kristin Michelsen, Tvøroyri; and Kári Johansen, chairperson of the SEV Board of Directors.

POLITICAL TRENDS

The current political coalition has decided to review the Faroese electrical system. This decision was announced in their joint manifesto declared in September 2019.

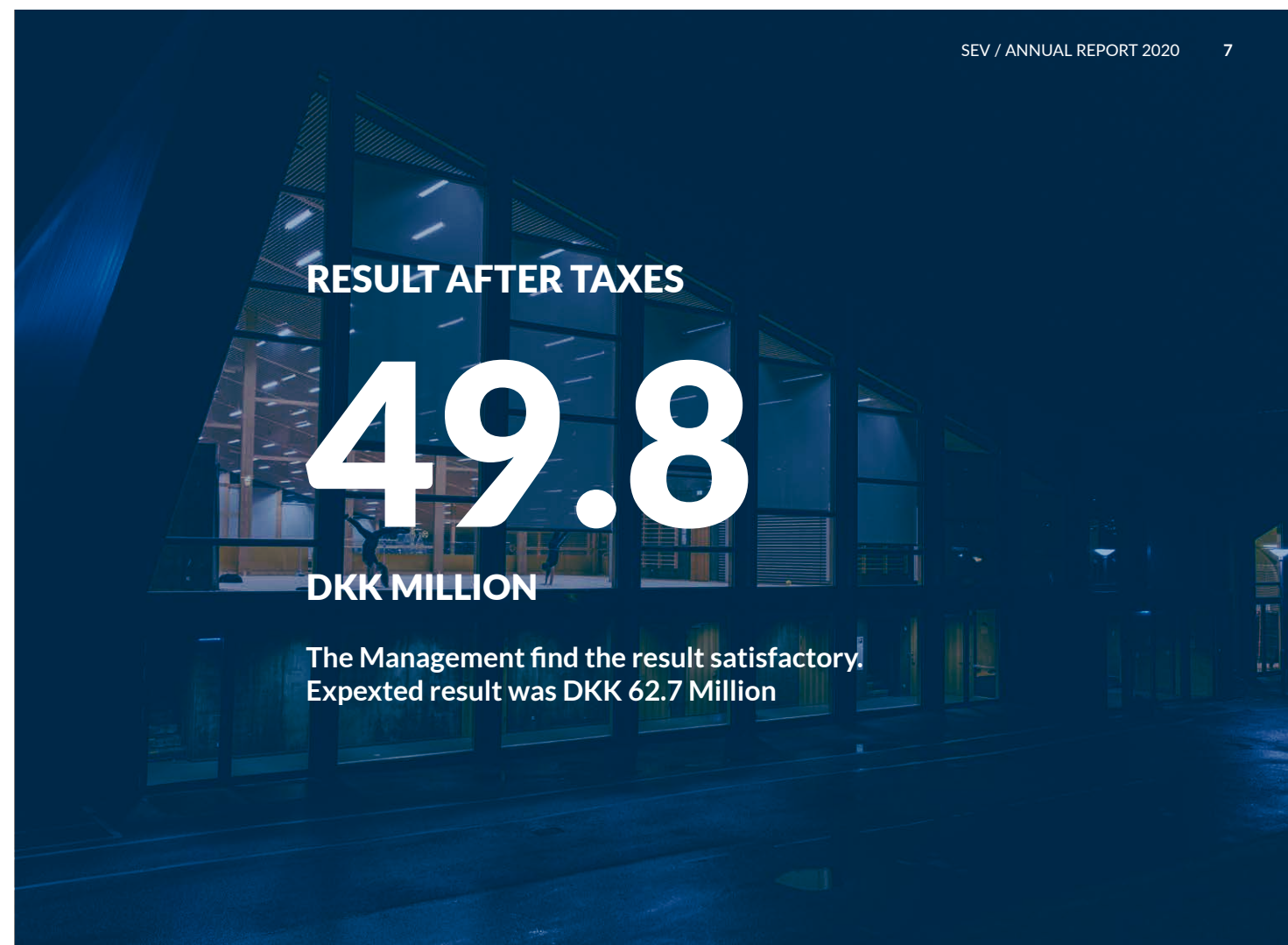
The Environment and Industry Minister Helgi Abrahamsen visited SEV on 24 February 2020 to participate in a theme day arranged by SEV to provide an overview of the Faroese electric system and the so-called "green course" toward the production of electricity from totally renewable energy resources. Also present were key persons from the ministry and the Environment Agency.

In July 2020, the Minister, together with a work group from the Ministry of the Environment and Industry (UVMR), presented a report to the municipalities and SEV on how the Faroese electric system should be organized, relative to the previous pronouncement of the coalition:

"In order to obtain full transparency regarding the operational costs of the grid, work should be undertaken to divest the grid from the other activities of SEV. Full transparency shall provide the basis under which private enterprises shall have the possibility of accessing the grid and to sell their respective electricity production to the grid."

The municipalities, all of which own SEV, immediately reviewed the situation and declared their dissatisfaction with the proposal. From their perspective, any possible changes should, overall, benefit consumers and advance the goal of green power. The Municipal Association and SEV met with the Prime

"As a society, the Faroe Islands is facing major environmental challenges, as well as the increasing price of oil. These challenges demand a re-evaluation and/ or a reorganization of the entire energy sector, not just the electricity system and grid"



Minister, Bárður Á Steig Nielsen, and Minister Helgi Abrahamsen on 17 September 2020 on what work should be done in the future.

Again on 24 September 2020, the Municipal Association and SEV met with Minister Helgi Abrahamsen to explore the mandate the work group received from the Ministry. It was agreed to broaden the mandate to also cover solutions based on SEV's current corporate structure with separate operational divisions.

Within the framework of the expanded mandate, SEV has discussed with the UVMR working group the electric power system, including the eventual problems, limitations, challenges, and benefits that exist in the current structure and how best to improve it.

The work on generating greater transparency in the provision of electric power by SEV is underway. Soon a decision can be taken on whether to introduce a new pricing structure. The idea has been discussed as to whether pricing, for example, could be structured

to change from day to day or from hour to hour relative to the exact cost of electricity production.

Such a system could very well stimulate consumers to use green or cheaper electric power, and, in addition, such a system could provide households and businesses greater transparency and choice relative to consumption and the cost of electric power. At the very least, such a system would enable SEV to make full use of its production facilities and thus diminish the need for more production power.

As a society, the Faroe Islands is facing major environmental challenges, as well as the increasing price of oil. These challenges demand a re-evaluation and/ or a reorganization of the entire energy sector, not just the electricity system and grid.

SEV is convinced that, in addition to a reassessment of the electricity system, focus should be placed on the reorganization of the entire energy sector in the Faroe Islands. It is extremely important to ensure that the electrical system of the Faroe Islands is always organized and managed to provide the greatest

benefit to the Faroese community as a whole, individual consumers, and the green course toward renewable energy resources.

THE CONSUMER

As otherwise noted, in order to implement and advance the green power shift, it is necessary that the commercial and government sectors, as well as the private consumer, whole-heartedly support sustainable energy solutions, especially within heating and transport. The latest figures indicate that the public initiatives of less VAT on heat pumps and electric vehicles, etc., together with lower electricity prices for these specific consumption groups, are having a positive effect.

The political arena has to be aware that the above-named support initiatives could very well create a new competitive reality for P/F Fjarhitafelagið, which already is a green home and business heating solution.

SEV believes that it is unfortunate that the coalition has expanded the VAT-free support system to also include the purchase of hybrid and plug-in hybrid vehicles. The original goal of the support system was to encourage the shift from gas-driven to electric vehicles – not to support car sales as a whole.

The pricing schedule for SEV's public charging stations came into effect on 5 October 2020. The prices are based on a mix of kWh pricing and a per-minute charge for use of the charging stations. There is a difference in day and night pricing in order to partly level out usage over a 24-hour period and to partly provide those who are unable to charge at home with a cheaper charging alternative.

SEV is keen on communicating with its customers and over the last few years SEV has become more active and provided more information on its webpage and other social platforms used by its customers. At the same time, SEV is encouraging that its customers communicate directly with SEV and receive quick replies via social media sites.

SEV's new webpage, which went online in December 2020, reflects this effort to better communicate with its customers. A feature of the new website is a "power portal", where consumers have the opportunity for close collaboration with SEV. On this "power portal", the consumer can monitor his or her power

"On this "power portal", the consumer can monitor his or her power usage and consumption patterns"

usage and consumption patterns. The portal is especially useful for commercial customers and government offices because it provides an excellent tool by which to gain a better overview of electricity consumption and management. It is possible for customers to log-in to this power portal via the public digital access systems, "Vangin" and "Samleikin".

AS SEV manages to diversify more and more the electricity pricing structure, the portal will become a very handy tool for both its private and business customers, as well as the public sector.

The electricity system of the country operates at its best when those that manage it do so in close collaboration with the consumers of electricity to enhance customer consumption behaviour thus avoiding unnecessary costly expansion of the system, which would in turn impact the cost of electricity.

WIND POWER

For the first time since the Húsahagi windfarm went operational in 2014, a new wind turbine park was erected in the Faroe Islands. Seven Enercon E44 wind turbines were installed at Porkerishagi on Suðuroy. The project went according to plan, both with regard to time and cost, and was turned over



Key Figures 2020



HYDRO POWER (GWh)

109

2019: 104 GWh



WIND POWER (GWh)

47

2019: 53 GWh



FOSSIL FUELS (GWh)

249

2019: 230 GWh



SOLAR POWER (KWh)

169

2019: 0.1



BIOGAS (GWh)

1.4

2019: 0



TIDAL ENERGY (KWh)

17.5

2019: 0



EV CHARGING STATIONS

12

2019: 12

formally to P/F Vindfelagið at Neshagi on 11 February 2021. Production trials were initiated in November 2020 and up to now the turbines are operating satisfactorily.

The windfarm, however, is only just one part of the total project, which also encompasses a battery system of 6 MW and a synchronous compensator in order to obtain the most of the unstable wind conditions. The power of the battery system is equal to the total power generated by the wind turbines. Thus, the battery system alone could provide comparable power for up to one-half hour, in the event that the wind turbines suddenly stopped producing electricity. This half-hour of coverage is extremely important, as it provides the time necessary to bring online other production facilities to generate the needed electricity. Overall, this new technology means that electricity production on Suðuroy can be essentially 100% green. Erection of the related coupling station has begun and should be completed according to current plans by the Spring. The entire system should be operational early in the coming year.

Such a system has never been tried before and this ground-breaking project has awakened interest internationally. For our part, we will learn from this project as well and will apply the learning in the central region of the country.

Work continues to advance the 18 MW windfarm project at Eiði. It was deemed necessary to change the location of the wind turbines. The agreement with the landowners is now as good as envisioned. What now remains is that the Eiði Municipality grants a building permit and the Nature Preservation Board [Yvirfriðingarnevnd] approves the project. The work to obtain all the necessary permits and approvals, however, has taken a long time and thus it is anticipated that the wind turbines will not be erected before the summer of 2022.

The current, government-mandated tender procedure that is used in connection with the tenders for wind turbines is not optimal. SEV is working closely with the government authorities to improve the procedures for future projects.

However, it is not only the tender procedures that are sub-optimal. The procedures that are stipulated in the Electricity Production Act are not always followed and this is perplexing.

One recent example of this is the Open-Door application for permission to produce wind power at Gelíngarkletti on Hoyvíkshagi near Torshavn that the Environment Agency received in January of this year. Rather than consulting with SEV on the application, the Agency decided to review the application without understanding the technical and financial conse-

INVESTMENTS

331

DKK MILLION

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

ENERCON appointed MEST to service their wind turbines in the Faroe Islands. SEV is especially pleased with this new arrangement, which will ensure that trained personnel are always available in the country to maintain the wind turbines on a regular basis and to attend to small breakdowns if they should occur. SEV is also pleased that the green course toward sustainable energy production is also now offering commercial spin-off benefit to the Faroese business community.

SEV is now studying the possibilities of a large offshore wind turbine park with a capacity of 96-120 MW with an estimated production of 420-520 GWh. By comparison, the windfarm at Húsahagi has a capacity of 12 MW.

The study undertaken by SEV will research the sea depth at this location, the sea floor conditions, the wave and wind reality, as well as the environmental impact of the project. An application to start this study has been submitted to the respective government authorities. SEV will also study the connections needed and the transport of the electricity generated by an offshore windfarm and the effects such an enterprise would have on the grid and the entire electrical system. The suggested cost is around DKK 2 billion. The plan is to finance the research project in collaboration with the Faroese commercial and private sectors.

quences of this project and then determined to open the wind power tender. This will have the effect of unnecessarily higher prices for consumers and also endanger the universal service obligation, as the entire electric system will be put under additional pressure.

SEV has warned against the danger of allowing more wind turbines access to the grid before the electric system is able to cope with it. Also, SEV has pointed out that such a process is not consistent with the provisions of the Electricity Production Act, but the Government Authorities have failed to respond.

SEV is responsible to the entire Faroese community relative to the secure delivery of quality electricity and pricing and we genuinely believe that the planned tender is irresponsible and that it is necessary to follow this issue closely, especially if the tender issue is not revised.

P/F Magn received permission to install six ENERCON E82 wind turbines at Flatnahagi. S/Pf Vindrøkt appealed against the P/F Magn project of 18 MW of wind power at Flatnahagi, but the Industrial Appeal Board approved it anyway.

At Neshagi, several of the wind turbines experienced failures as a result of short circuits in the generators, and as a consequence sat idle for an extended period of time. They all are now producing electricity, except one. Extensive reparations were required and will be needed in the future and SEV is negotiating with ENERCON at present as to how to avoid any similar breakdowns from occurring in the future.

In connection with the payments between P/F Vindfelagið at Húsahagi and SEV, which are regulated by a pricing agreement that was approved by Electricity Production Authority, SEV has pointed out the various errors in the wording of the pricing agreement that unfortunately do not reflect all of the financial underpinnings that were found in the initial agreement between the parties. SEV is now discussing the issue with the respective government authorities.

PUMPED STORAGE SYSTEM AT VESTMANNA

Even though SEV has not yet received a reply to the permit application for a pumping system in the Vestmanna area between Heygadal and Mýrarnar, SEV has steadily worked on this project.

Now a final operational proposal is ready. The next step is a project proposal to be undertaken as soon as permission from the government authorities is obtained. The project is indeed a considerably large and ground-breaking project that will be a key linch-



Board and Management,
Back row, from left:
Oddmar á Lakjuni (Norðoyggjar),
Sune Jacobsen (Vágar),
Heri Mortensen (Director)
Sonni L. Petersen (Eysturoy),
Poul Klementsén (Sandoy),
Niclas Hentze (Suðuroy).

Front row, from left:
Bogi Bendtsen (Director)
Hákon Djurhuus (CEO)
Kári Johansen (Chairman of the Board, Tórshavn)
Haraldur S. Hammer (Vice Chairman, Norðstreymoy)
Jón Nielsen (Director)

pin in the new green electricity system. This project is crucial to ensure more wind energy can be harvested into the electricity system.

Any delay in the pumped storage system can easily prove to be a bottleneck along the green course toward sustainable green energy resources. Therefore, it is advisable that the government authorities review and decide upon the application now without further delay.

OTHER GREEN INITIATIVES

Now, one year after the trial solar power project in Sumba went operational, we can report that the system is working well. The project is comprised of a 262 kW system located on the abandoned football pitch at Krossin in Sumba. It was not unexpected that production was considerably less during the autumn and winter months than during the summer months. The best results occurred in the months of May, June, and July. Total production from the Sumba solar power farm in 2020 was 170,000 kWh, which is equal to the annual average power consumption of around 35 households.

The tidal current project of the Swedish company, Minesto, continues in Vestmanna Sound. The “Havfrúgvín” [Mermaid], as the 100 kW Minesto flying dragon is called, has been tested several times in the Sound. Another ocean flying dragon is expected to come to the Faroe Islands in the first half of 2021, when additional operational testing and electricity production will occur.

Minesto and SEV, together with other partners, are planning a major tidal energy project comprised of four larger dragons for a total of 1.2 MW in Heyst Fjord. An application for funding has been submitted to the EU European Green Deal Investment Plan.

Tidal energy, in contrast to solar and wind energy, is a predictable source of energy. This makes tidal energy a remarkably interesting addition in the amalgam of green energy resources in the Faroe Islands.

The biogas power plant located at Skarðshjalla is now up and running. At the plant, a biogas-powered engine is producing electricity and supplies electricity to the biogas power plant, with the surplus being fed into the grid. In 2020, the biogas power plant produced 1.39 GW for the SEV grid. This is equal to 0.34% of total electricity production, which is

enough to supply the annual electricity consumption of 371 households.

P/F Fjarhitafelagið (Distant Heating Company), which is owned jointly by SEV and Tórshavn Municipality, is now installing over the next two years heat pipes between midtown and the western part of Tórshavn. This represents a major step forward in the income base of the Company.

"Any delay in the pumped storage system can easily prove to be a bottleneck along the green course toward sustainable green energy resources. Therefore, it is advisable that the government authorities review and decide upon the application now without further delay"

The subject of supplying electric power to the ships moored in the country's harbours has been discussed at several board meetings and SEV intended to arrange a public theme day to review this issue. However, because of COVID-19 restrictions, this theme day was postponed, and the plan now is to hold it in the Spring if possible.

In cooperation with the Faroese Environment Agency and Danish Energy, SEV is developing the economic/financial factors relative to small and large electrical production facilities operated by third parties, as well as especially the issues surrounding so-called “own use” of electric power by a third-party facility that is connected to an electric meter that

LIQUIDITY

527

DKK MILLION

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

measures electricity consumption. At present, SEV fiscal regulations do not allow this possibility and, therefore, this issue will need to be studied in more detail. The Environment Agency has approved “own-use” for third-party electricity producers with conditions that SEV cannot accept. As a consequence, therefore, SEV has appealed the decision to the Industrial Appeal Board.

SEV is also participating in a three-year Nordic study on surplus power and flex-usage, which the Environment Agency is co-ordinating for the Nordic Council of Ministers.

OTHER EXPANSION

The major Station 3 project at the Sund Power Plant is now completed. The work on the project went extremely well and a public event was planned for 29 April 2020 to celebrate the official take-over of the project from the contractor. The event was planned to allow the public the opportunity to visit the Sund Power Plant, but the coronavirus situation then did not allow for such a gathering and the event was cancelled. The total cost of the entire project was DKK 758 million. A new coupling station was installed as well at a cost of DKK 60 million. Thus, the entire project fell within the forecast cost projections. The new Station 3 is operating well, and the Faroe Islands has obtained a timely and much needed source of reliable power.

New regulations regarding fuel oil for ships that entered into effect on 1 January 2020 also are applicable to the type of oil SEV uses in the thermal production of electricity. However, SEV has been granted an exemption to the new regulations until 1 April 2021. A request to extend the exemption has been submitted to the applicable government authorities. The strict new regulations will place additional pressure on the price of electricity when they take effect. In Vestmanna, a new coupling station was installed and will become operational in the first quarter of 2021. Moreover, the new 20 kW coupling station at the Sund Power Plant was completed and taken into use in 2020.

The work of laying 60 kW cables from Strond to the coupling station below Fossá and further to the coupling station at Innan Eiði is progressing as planned. The cable laying from Strond through Klaksvík and from Innan Eiði through the Northern Islands tunnel is completed.

The work of laying 20 kW cables between Tvøroyri and Vágur is in progress. The plan is that the work would be completed in two years. The cable laying between Hvalba and Trongisvág is completed.

The work of laying cables and the erection of transformers in the Eysturoy tunnel is also completed. Altogether, eleven transformers were installed in the



tunnel, and 34 kilometres of cable were laid through the tunnel.

The renovation of SEV's headquarters at Landavegur 92 is now completed at a total cost of DKK 39 million. In addition to a total renovation, the building's heating system was connected to the distant heating system, solar panels were placed on the roof, and an emergency power back-up system was installed.

SEV regularly reviews its corporate structure and its operations, and it has been decided to update and make more effective the organizational structure of the production and grid divisions. Accordingly, the control centre located previously at the Fossá power plant in Vestmanna has been transferred to SEV's headquarters on Landavegur in Tórshavn. The staff at the Strond plant in Klaksvík has been transferred to the Fossá power plant and the Strond plant, apart from continuing to generate power, will also house a museum. The Fossá power plant will be the home-base for a new department: the department for green energy power plants, which will oversee all the hydropower and wind power facilities in the central region of the country.

THE GRID AND POWER FAILURES

The grid is continuously being updated and expanded. In addition to the expansion of the number of coupling stations, a major portion of the grid has been laid underground to enhance the supply and stability of electricity in the grid and to guard against power outages.

However, it is difficult to totally avoid power outages. During 2020, there were 18 large and small powers failures, including five so-called blackouts in the central region of the country in February and September and three in November. This is many more blackouts than we otherwise have experienced in recent times.

The last blackout was in connection with the bad weather occurring on 21 November 2020. The blackouts occurring on 4 and 16 November both originated at the coupling station at Váli in Vestmanna. The blackouts happening in February and September were caused by technical failures during the test operation of the Sund power plant and the human error of a SEV contractor.

As mentioned, a new coupling station in Vestmanna

"Tidal energy, in contrast to solar and wind energy, is a predictable source of energy. This makes tidal energy a remarkably interesting addition in the amalgam of green energy resources in the Faroe Islands"



will start operations during the first quarter of 2021 and will replace the old coupling station at Váli in Vestmanna.

The grid on Suðuroy is not attached to the central region grid, and thus is not affected by power cuts there. During 2020, there were four power outages on Suðuroy caused by one cable failure and three line failures, the latest during the bad weather on 21 November 2020.

OTHER WORK OF THE BOARD

During the Extraordinary General Meeting held in the Autumn of 2016, Board compensation was discussed. The Board worked on this issue and the plan was to address it at the Extraordinary General Meeting in November 2018. The Public Administration Office, which is the approval authority in this area, is currently working on the issue. Therefore, it is advisable to await the decision of this Office so that the Board of Directors can have this knowledge in hand when it again addresses the issue of Board compensation.

The previous Board has addressed the question of how to conduct the election of the Board. They believed that it would strengthen the work of the Board if not all members stood for election at the same time. It has happened on more than one occasion that all seven members were newly elected, and this was unfortunate.

In order to strengthen the work of the Board, the previous Board in consultation with an outside consultant reviewed and evaluated its work and its methods. In addition, the previous Board held strategic theme days and worked on the future structure of the electricity system.

FINANCIAL RESULT FOR 2020

SEV's financial result for 2020 was a profit of DKK 49.8 million after taxation. This represents a slightly lower result, compared with the overall activity of SEV during the year. However, the result is satisfactory, especially when considering the challenges of the coronavirus pandemic.

Oil continues to be a major expense of SEV, and total oil consumption was about DKK 165 million in 2020. Historically, this is a record figure in a year both in quantity and cost. The one-year delay in the expansion of green energy production, the under-average production from hydropower and wind, plus a major increase in the demand for electricity, altogether resulted in the increase in oil consumption.

The key figures relative to debt compared to earnings (in financial terms abbreviated as – NIBD/EBITDA), is a factor of 6.2, which is 0.2 above the “most allowed level” pursuant to SEV's internal guidelines, but well below the limit stipulated in the loan agreements. When the fiscal budget for 2020 was rendered, it was clear that SEV would exceed the internal allowed limit. However, SEV is working hard to keep within the internal limit for 2021. According to the 2021 budget, this seems to be obtainable.

THE 2021 BUDGET

The 2021 budget does not include any pricing changes. The budget projects a profit of DKK 61.7

million before taxes and DKK 50.6 million after taxes. The budget was not compiled to reflect increased costs associated with oil with a lower sulphur content than the oil presently used by SEV.

This is a satisfactory result, and the key figures (NIBD/EBITDA) will be a factor of 6.0.

Future results for SEV should be at this level, considering the major upcoming expansions to safeguard the supply of electricity to all under SEV's universal service obligation and the green course toward sustainable energy resources, as well as more self-financing of the intended expansion.

SEV obtained new financing to cover the wind turbine tenders. Pursuant to the agreements with the financing institutions, the minimal requirement for self-financing has been lowered from 37.5% to 35.0%, as a consequence of SEV winning the bid to erect the wind turbines at Eiði.

Refinancing of a large part of current financing debt and new project financing for the forthcoming pumped storage system shall be completed as soon as possible and efforts are underway to achieve this no later than the end of 2021.

NEW THINKING AND INNOVATION

The Board believes that there is every reason to continue on the green course with zeal. Now, 100 years after the first hydropower plant at Botni on Suðuroy went operational, and now 75 years since SEV was founded, the Faroese grid is now transporting electricity to its consumers produced by five different energy resources, of which four are sustainable – hydropower, wind, solar and biogas. The first kWhs are also coming from tidal current energy.

It must be clear at all times who bears the responsibility for the universal service obligation, the supply guarantee, and the quality of the electricity generated. The main goal of the electricity system ought to be secure, inexpensive, and sustainable electric power to households, the business community and all of Faroese society. The county as a whole and the municipalities must come together to find a way to move forward together toward the goal of 100% green electricity production onshore by 2030.

Kári Johansen,
Chairperson of the Board of Directors, 19 March 2021



Organisation

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

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

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

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

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



Five, green-energy sources fed the grid in 2020

The year 2020 was the first year in which five different green, sustainable energy sources produced power for the grid. Nevertheless, only 38.7% of total production was derived from these sustainable energy resources. The reason for this is related to extremely high electricity demand, delays in the unfoldment of the green energy course, and a below-average wind power year.



Wind Power



Hydro Power



Biogas



Tidal Energy



Solar Energy

On the whole, 2020 was a reasonably good hydro-power year, while wind power was below average due to several wind turbine malfunctions. At the same time, there is reason to celebrate for this was the first time that electrical power was produced from five different sustainable energy resources: hydro, wind, solar, biogas, and tidal energy. Nevertheless, green energy production only amounted to 38.7% of total electrical production.

"This illustrates very well how many different factors must be integrated to transform land-based Faroese energy consumption from oil to 100% green energy. In our highly complex system, one energy source may be functioning well, while at the same time another may not," observes Hákun Djurhuus, CEO of SEV.

He further notes that, over the past several years, it has been a major challenge to meet the increased demand for electricity, based on the increased activity throughout Faroese society and the delay in the expansion of green-energy production.

"It cannot be stressed enough how important it is for the Faroe Islands that the Faroese Government

quickly establishes a quality framework for the expansion of green-energy production in the foreseeable future with the goal of ensuring a speedy and secure integration of green energy into the Faroese electrical system," affirms Hákun Djurhuus.

Hákun Djurhuus is referring to the fact that the Faroese community again in 2021 missed the opportunity to expand green-energy production, even though both SEV and MAGN are prepared to initiate operations in Eiði and Flatnahaga. At both sites, the respective projects have been delayed by, among other factors, access to the sites and appeals to government authorities.

DISAPPOINTING GREEN-ENERGY NUMBERS

Back in 2015, 60% of total electricity production came from green energy resources and 40% from oil-fired thermal plants. To date, this was the best year for green energy production. Due to the increased demand for power over the last few years and delays in the plan to enhance green energy production, now five years later we see the numbers going in the wrong direction.



Sumba solar power plant

During these five years, electricity production increased 92.4 GWh – from 314.4 GWh in 2015 to 406.8 GWh in 2020. In just the last two years, electricity demand has increased by 55 GWh.

If the projected SEV windfarm at Eiði and the MAGN windfarm at Flatnahaga had been operative, they would have had a significant impact on green energy production. If both windfarms are erected in 2021 and enter into production in August of 2021, it is cautiously estimated that production from these two windfarms would equal around 50 GWh in the last half of the year. Production at the Sund Power Plant would be reduced by the same amount.

On the other hand, it has been a major benefit for Suðuroy – which is not connected to the main grid – that the windfarm at Porkeri is now operational with an estimated increase in green production of 21 GWh in 2021, again reducing the oil consumption at the Vágs Power Plant by 21 GWh.

Considering the 2020 data for the entire country, the distribution between green energy and thermal energy in 2021 could be 51% sustainable energy and 49% thermal energy, subject to the above-mentioned windfarms in the central region of the country becoming operational in the second half of 2021. This data suggests that with only a half-year of increased wind power production, Faroese society would save some 10,500 tonnes of heavy oil producing 50 GWh.



Færka biomass power plant

"In our highly complex system, one energy source may be functioning well, while at the same time another may not"

FACTS

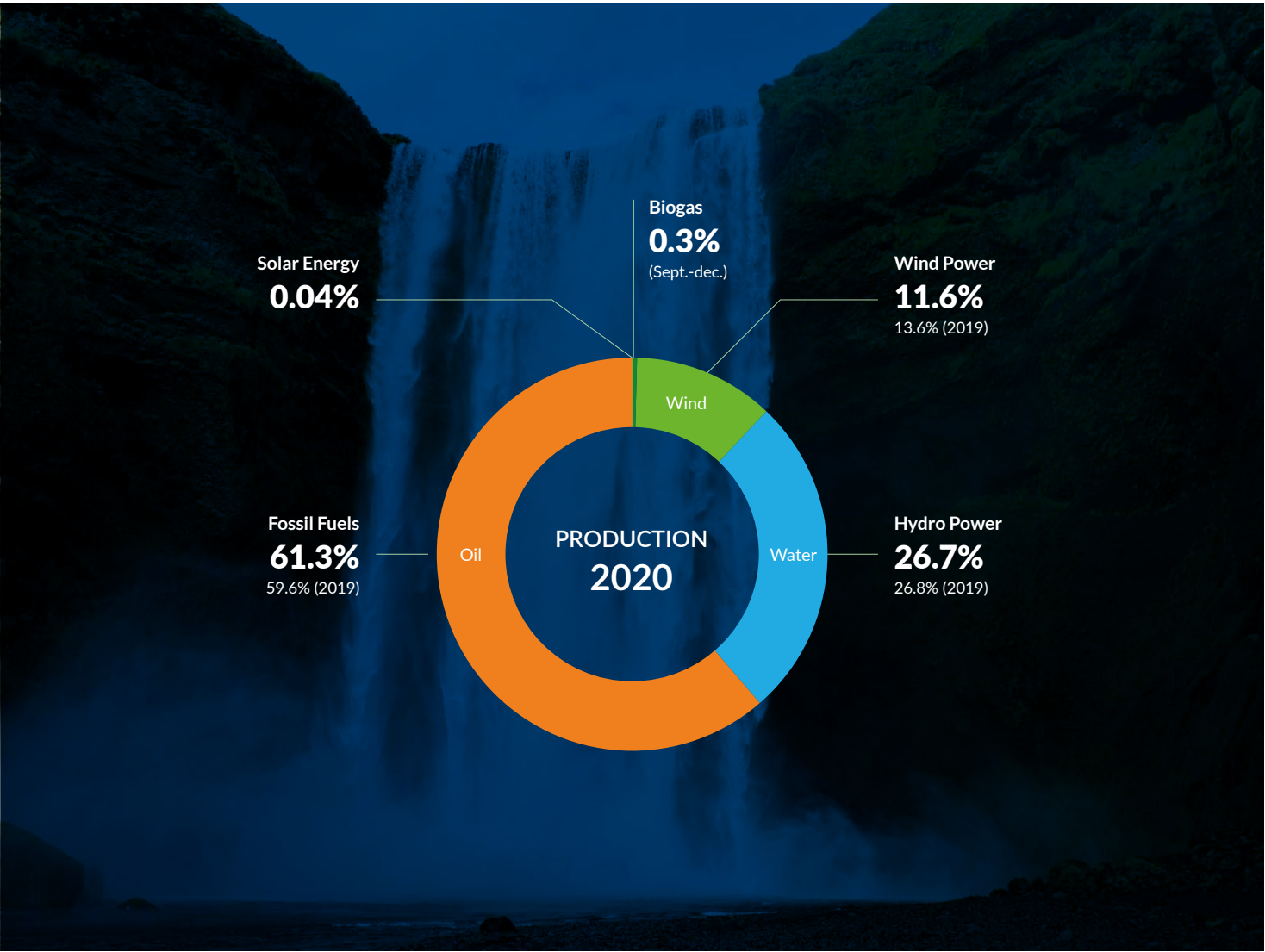
Sustainable energy resources were 38.7%, and the oil-fired thermal plants produced 61.3%.

Oil-fired production was 61.3% in 2020 and 59.6% in 2019.

Hydropower production was 26.7% in 2020 and 26.8% in 2019.

Wind power production was 11.6% in 2020 and 13.6% in 2019.

Biogas produced 0.3% in 2020 and solar power yielded 0.4 permille.



Total power production in 2020

Given that there will be no new green installations in the central region of the country in 2021, and that the growth in electricity demand will continue, electricity production from heavy oil at the Sund Power Plant during 2021 will be at the same level as in 2020. However, SEV expects a better result from both hydro and wind energy in 2021, because both of these energy resources performed relatively poorly in 2020. Thus, the estimate for electricity production at the Sund Power Plant will be around 215 GWh in 2021, compared with 218 GWh in 2020.

Altogether, including Suðuroy, total electricity production in 2021 is expected to be 45% sustainable energy and 55% thermal energy. This is the same as in 2005. "It is regrettable that we have not been able to move forward with our green expansion in the central region of the country," observes Heri Mortensen, SEV's Power Production Department Manager.

POWER PRODUCTION DURING 2020

In 2020, 38.7% of total electricity production was derived from sustainable energy resources, and the remaining 61.3% came from the oil-fired thermal power plants.

Whilst hydropower production increased 5% compared to 2019, wind power production declined by 10%, caused in the main by wind turbine generator breakdowns at Neshagi and Húsahagi, which required extensive repairs. A Swedish generator team from ENERCON is attending to repairs, but operations have been somewhat hampered by coronavirus restrictions.

New energy resources are biogas and solar energy. Færka, the biogas plant, which entered into production in September 2020, has been quite successful, contributing 1% of total electricity production, equal to the consumption of around 1,200 households.

"It cannot be stressed enough how important it is for the Faroe Islands that the Faroese Government quickly establishes a quality framework for the expansion of green-energy production in the foreseeable future with the goal of ensuring a speedy and secure integration of green energy into the Faroese electrical system"

The solar energy power plant at Sumba, which started operations towards the end of 2019, was in production throughout 2020. The plant has operated well, generating a little more than projected, some 170,000 kWh, similar to the consumption of 35 households.

Tidal energy is the fifth sustainable energy resource in 2020. The energy was produced during a trial of the Minesto tidal energy project in Vestmanna Sound [Vestmannsund], which was initiated toward the end of 2020, and the tidal energy flying "dragon" is still producing electricity directly into the grid.

HYDROPOWER AND WIND

Hydropower electricity production in 2020 was better than in 2019, generating some 108.6 GWh, compared to 103.5 GWh in 2019, an increase of 5%. However, hydropower production on the whole has been less, compared to the record years of 2014 and 2015.

During 2020, 26.7% of total energy production came from hydropower, compared with 26.8% in 2019.

Energy production from wind in the central region of the country in 2020 was less than satisfactory. Technical difficulties were encountered in both the Neshagi and Húsahagi windfarms. Production from Húsahagi was only 30.6 GWh, which is the lowest production since the wind turbines in the capitol area went operational in October 2014. The average production at Húsahagi during the years 2015 to 2019 was 34,9 KWh.

Three of the five wind turbines at Neshagi encountered generator breakdowns, which idled them for most of 2020. The result was that the windfarm only generated 60% of its average production in the years 2015-2019.

It must be mentioned, however, that the wind power production in Vestmanna by P/F Vindrøkt increased 8.3% during 2020, compared with 2019.



Prototype of DG100 power plant

A RECORD LEVEL OF DEMAND

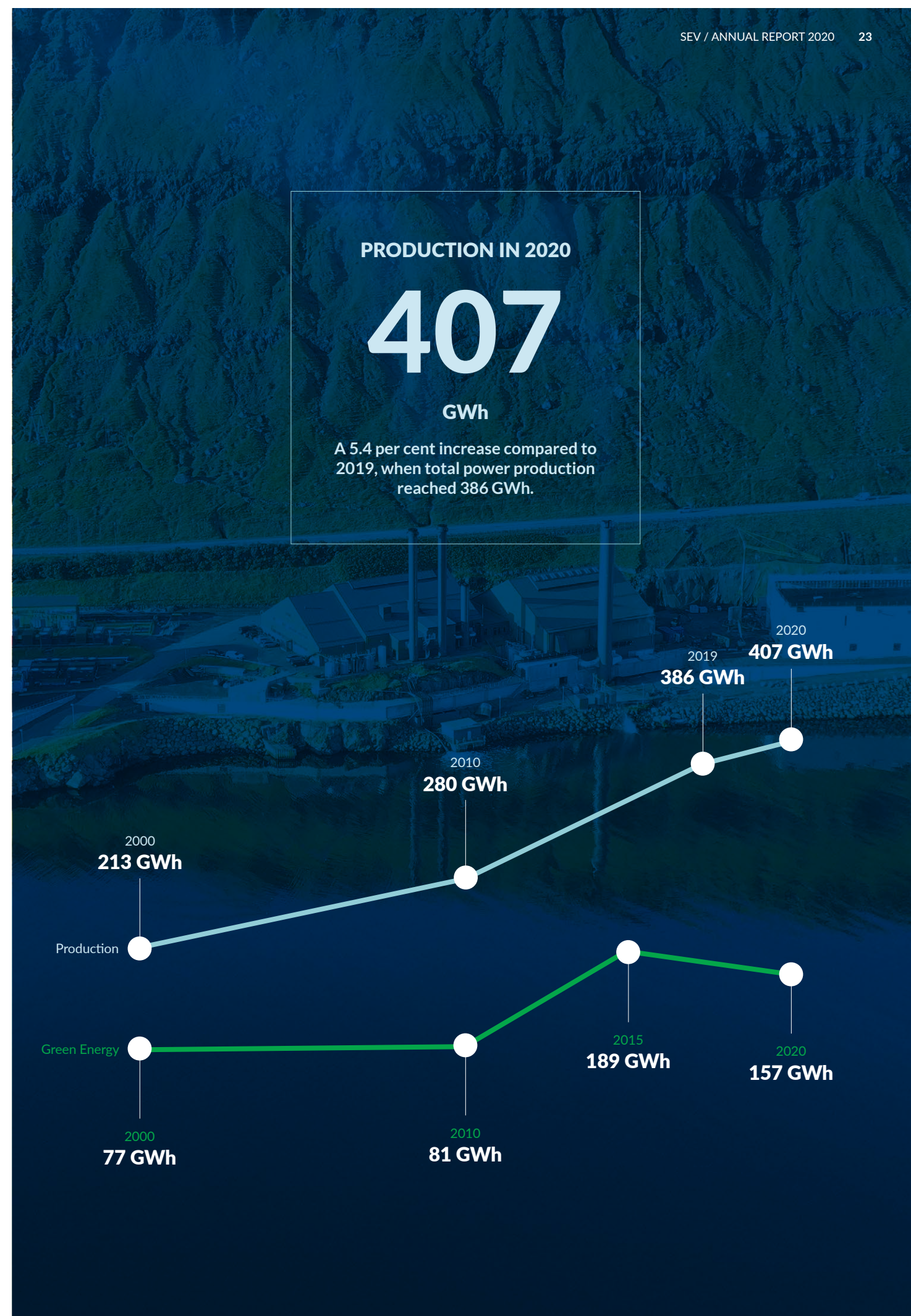
The Faroese community is consuming electricity as never before. Total electricity production for the first time exceeded 400 GWh in 2020, when total electricity production was 406.8 GWh, which reflects a growth of 5.4%, compared to 2019 when total electricity production was 386 GWh.

Over the last 20 years, electricity production has nearly doubled. In 2000, production was some 213 GWh, and in 2020 production was nearly 407 GWh. In 2010, production was 280 GWh.

When wind energy production declines and hydropower production is below average, while at the same time demand is extremely high, it is a considerable task for the Sund Power Plant to produce sufficient electricity to compensate for the power lost from sustainable energy resources.

In 2020, the Sund Power Plant generated for the first time more than 200 GWh, namely 218.5 GWh, which is 15% more than in 2019. The growth in production at the Sund Power Plant from 2018 to 2019 was 25% -- from 151 GWh to 189 GWh, an increase in production of almost 45% over the past two years.

Since 2018, when total electricity production was 352 GWh, and to the end of 2020, the increase in power consumption has been 55 GWh – or 15.6% in two years.



The Porkeri Windfarm, a major breakthrough

The seven new wind turbines at Porkeri on Suðuroy could soon produce nearly 60% of the total power demand on Suðuroy. The goal with this new technology is to approach nearly 100% of the electricity demand on the island.



Sune Jacobsen, Board member, Hans Jákup Johannesen, Vice-Chairman of the Board and John Zachariassen, Chairman of the Board.

"With our advanced technology, we expect that the new wind turbines at Porkeri, which already now in periods have produced some 60% of Suðuroy's power need, soon might be able to produce nearly 100% of the island's electricity demand," observed Heri Mortensen, SEV Production Manager.

The new technology, which encompasses a large battery system and a synchronous compensator that is able to store and balance the power going into the grid, will be installed during the Autumn of 2021. The battery system at Porkeri will be much larger than the one at Húsahagi, which balances the power entering the grid for some seconds and minutes. The power capacity of the battery system at Porkeri will be similar to the power potential of the entire Porkeri windfarm itself, thus making it essentially a back-up system capable of supplying electricity for about one-half hour at a time rather than relying on the oil-fired thermal motors at the Vágs Power Plant as back-up should the wind suddenly fade away. The entire system secures the supply guarantee of green power on Suðuroy.

"Just as the battery system at Húsahagi was a special solution, here again in Porkeri we are deploying a

new solution into the Faroese electricity system that reflects a development well beyond the battery system at Húsahagi. "I truly believe that this is a major breakthrough," comments Terji Nielsen, SEV Development Manager.

The Porkeri wind turbine park or windfarm increases the sustainable electricity production in Suðuroy considerably. The electricity power utilized by the people of Suðuroy is now produced from hydropower, wind, solar, and oil. The new wind turbines are expected to produce 2 GWh per year, assuming all production is utilized in the grid. This is equal to the average power consumption of 4,000 households; the oil consumption of the Vágs Power Plant is expected to be reduced by some 4,400 tonnes per year.

A CHALLENGING PROJECT

It was quite a challenge when SEV back in 2016 decided to look at the possibilities of placing a wind turbine park at Porkerishagi. The area is known for having strong winds and the first challenge was to study the wind conditions. The next step was to locate the right site in the area for the wind turbines and the third challenge was to undertake management of the project and to install the seven wind turbines.

"Until now, the results and the trials have been good. The wind turbines have operated well, but on the other hand it has been necessary to have the motors at the Vágs Power Plant be operational at the same time to compensate for fluctuations or swings in the production of electricity when so much wind power is fed into the grid at any one time"

The SEV Production Manager believes that altogether these three phases in the project of getting more green energy on Suðuroy generally went very well, especially taking into account the often harsh working conditions at Porkeri, where the weather can often hamper and delay a project.

After the initial trials of the wind turbines on Porkerishagi were conducted in November 2020, the turbines have produced during certain periods more than 60% of the demand on Suðuroy.

“Until now, the results and the trials have been good. The wind turbines have operated well, but on the other hand it has been necessary to have the motors at the Vágs Power Plant be operational at the same time to compensate for fluctuations or swings in the production of electricity when so much wind power is fed into the grid at any one time,” notes Heri Mortensen.

He further states that the Porkeri project is truly ground-breaking because the wind turbines are already generating more than 60% of the electricity demand and with the new technology it will be possible to reach nearly 100%.

“This has not been tried anywhere else yet. We hope and anticipate that the large battery system and an advanced control system will be ready in October 2021,” states Heri Mortensen, SEV Production Manager at SEV.

A FOREIGN COMPANY GAVE UP

Very early in the process it became clear that the erection of the windfarm at Porkeri would be quite a challenge. A company from abroad was delegated to erect the first wind turbine mast, but could not accomplish the task and the project came to a standstill. This meant that the specialized mast team from SEV was given the job. The mast itself had already arrived at the site, but it fell to the SEV team to become highly creative in erecting the mast.

This was also the tallest mast the SEV team had installed – some 60 metres high. The normal height of wind turbine masts is around 20-30 metres.



Wind measurement tower in Porkeri

“One of the biggest challenges was to find the right location for the windfarm and the result from the first wind turbine mast was not sufficient. Therefore, it was decided to erect another mast. We needed to learn more about the wind conditions in the area. The average wind speed at Porkerishagi is above 10 metres per second, which for wind turbines is quite a lot,” observed Brian Joensen, SEV Project Manager.

Preparation of the wind turbine sites by ARTICON got underway in January 2020 and the project timeline was maintained successfully.

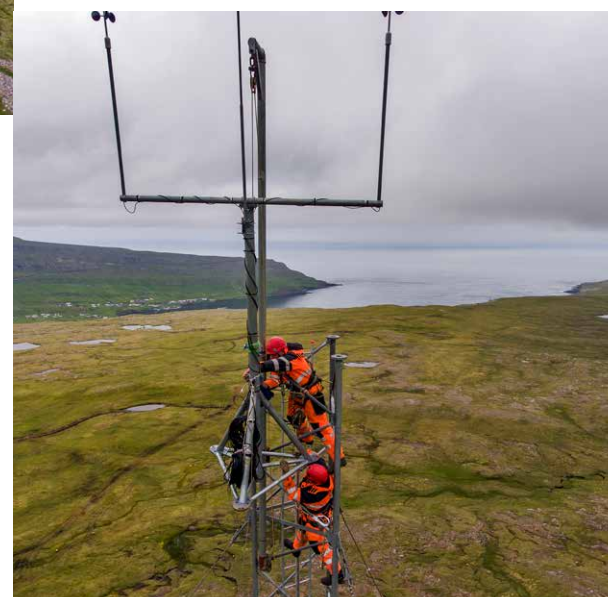
SUÐUROY, THE LEADING GREEN POWER ISLAND

The windfarm project at Porkeri will place Suðuroy at the head of the line in Faroese green energy. The harsh wind conditions are putting up a stiff challenge when green energy sources are being established. The average lifespan of a “normal” wind turbine is around 20 years, but because of the weather conditions at Porkerishagi, the lifespan will be some 18 years. These turbines will face a much stronger pressure from the wind than, for example, the wind turbines at Húsahagi.

Terji Nielsen, SEV Development Manager, is, however, quite satisfied with the Porkeri windfarm because the project is breaking new ground and yielding new knowledge very much needed by SEV on its “green” course.

“Today, we well understand wind turbine technology in general, and we also are aware that the wind energy in the Faroe Islands is very unstable. Therefore, we need to build out stabilising technology as well. Tech-

"This meant that the specialized mast team from SEV was given the job. The mast itself had already arrived at the site, but it fell to the SEV team to become highly creative in erecting the mast"



SEV linemen

44 metres

45 metres

100 tonnes of steel

900 cubic metres of concrete

nically, it is not prudent to erect several wind turbines in one go and thus say that the problem with green energy is solved, which we often hear people stating,” observes Terji Nielsen.

He further states that the constant challenge is to safeguard the Faroese electricity system against swings in power production when one has many fluctuating energy sources linked into the electric system.

We are forced to take one step at a time and to teach the system to know when we set up wind energy. There are always adjustments to be made, all depending on where we erect the wind turbines. This we had to do of course on Suðuroy. At the same time, we had to make adjustments in the central region of the country when we erected wind turbines there, so that they would operate as they should,” added Terji Nielsen, SEV Development Manager.

FACTS

The seven, ENERCON E-44 wind turbines at Porkerishagi can together produce 6.3 MW.

They are 45 metres high, and the span of the blades is 44 metres.

100 tonnes of steel and 900 cubic metres of concrete were used for the foundations.

The battery system and the synchronous compensator are included in the project and altogether the investment is some DKK 70 – 80 million.

Solar energy yields more than expected

The solar energy farm at Sumba had its first full year of operation in 2020. The solar energy farm generated somewhat more than anticipated into the Faroese electric system. Some 170,000 kWh were generated by the solar farm in 2020, which is essentially the power needs of 35 households.

Far to the south in the Faroe Islands is the village of Sumba and an abandoned football pitch, an echo of a time long gone. The football pitch was once the noisy gathering point of the Sumba villagers. However, over time the pitch became obsolete and covered in mud and the long-forgotten advertisements alongside the pitch were fading away like the forgotten dreams of yesterday. The football matches, which in the past were friendly competitions among the local villages, had long ago become "big business", and the youth, who before gathered at their local field in Sumba, are now members of a joint league who compete for the financial gains and standing in the so-called "Better" division.

The residents of Sumba soon came to realize that their football pitch was long gone, and it was time to let go and transform the old pitch into the first solar energy farm in all of the Faroe Islands. Working in collaboration with SEV, the football pitch was soon transformed. The solar panels at Sumba are now a contributing part of the green energy transition happening in the Faroe Islands.

HERE COMES THE SUN – WHEN WIND AND RAIN TAKE A BREAK

The principal goal of the solar energy project at Sumba was to test the possibilities of solar energy technology in the Faroe Islands to see if there was a link between theory and practice. The SEV statisticians have over the years



PRODUCTION

169

MWh

The annual production corresponds to the annual electricity consumption of 35 households



Solar power plant on the football pitch

shown that hydropower and wind energy are considerably less during summer months, with the result that power production during the summer is dependent upon the oil-fired thermal power plants.

Terji Nielsen, SEV Development Manager, suggested that, in theory, the solar energy of the Faroe Islands could be a potential green power source.

"Solar energy on the whole is an interesting power source, possibly yielding 5-7% of the total annual power production of 600 GWh by 2030. It could be an exceptionally good addition to the green course, especially during the summer months," commented Terji Nielsen, shortly after the solar energy farm at Sumba went operational.

Now that the first year is history and everything is running well, it is apparent that the link between theory and practice is holding. The solar energy farm at Sumba has been in operation throughout 2020, and it has operated well with a production of a little over what had been projected – some 170,000 kWh per year. This is equal to the annual electricity demand of 35 households.

A GREEN AND VIBRANT PUZZLE

During its first year of operation, the solar energy farm has linked theory and practice. However, it is much too early to draw any final conclusions on what can be expected on average from the solar energy farm over a period of several years. Thus, solar energy is consequently a part of the big green energy puzzle that SEV is working on that will need to be adjusted and revised before the puzzle is finally completed.

"The principal goal of the solar energy project at Sumba was to test the possibilities of solar energy technology in the Faroe Islands to see if there was a link between theory and practice"

Some years, the Faroe Islands experiences a record wind power production, other years more energy comes from hydropower production, and now in Vestmanna Sound turbine-carrying "dragons" are flying in figure-eight formation in the tidal currents, proving their value in producing electric power. More and more green and exciting energy sources are demonstrating their adaptability to Faroese nature.

"Even if we can control the wind, dam the water, and harvest the sun and the tides, we are highly dependent on the forces of mother nature on how much power we can realize. When our green energy sources are not enough, then oil must step in," observes Terji Nielsen.

He notes, however, that the more we add to the puzzle the better we can manage the green resources available to us and the 5-7% contribution of solar energy will definitely be important on those days when there is but little wind, the sky is clear, and we put out our lawn chairs on the terrace.

The advertisements at the Sumba football pitch it would seem have found a new life goal. Gone are the days when they called out to football fans around the Faroe Islands, now today they are witnessing the sun contributing to the Faroese goal of 100% green energy on land by 2030.

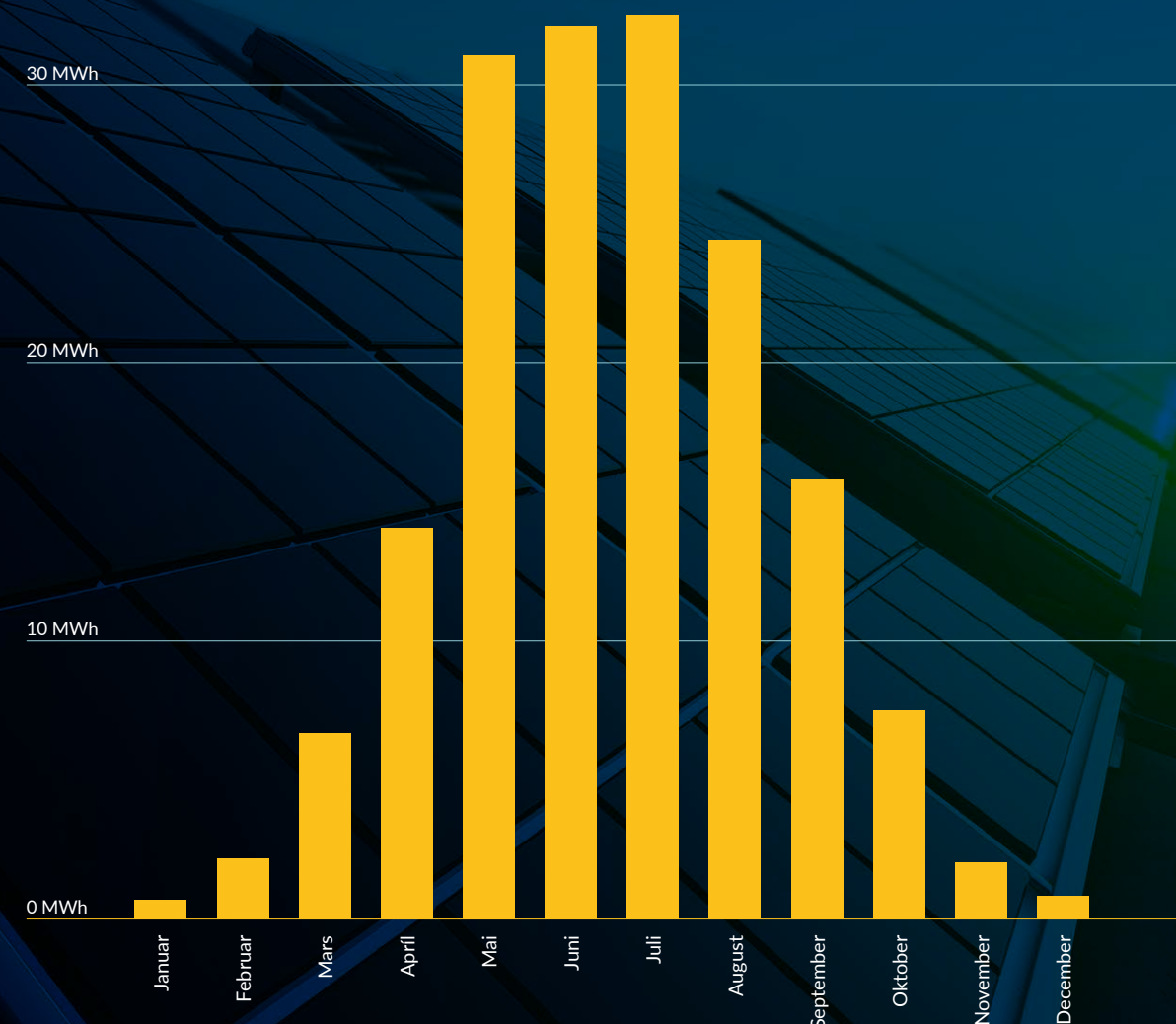


SOLAR ENERGY IN 2020

169

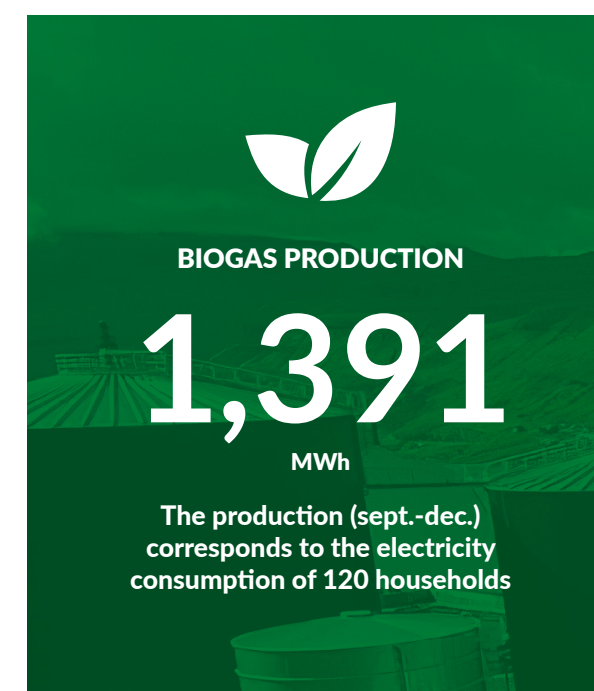
MWh

The annual production corresponds to the annual electricity consumption of 35 households



The Biogas Power Plant, a good addition to the Green Course

The new biogas power plant, known as FÖRKA, delivered electric power to SEV for the first time in 2020. The power generated during the last quarter of 2020 was equal to the power demand of 1200 households. The biogas power plant generated the equivalent of 1% of total electricity production during the fourth quarter of 2020.



FÖRKA, which is owned by Bakkafrost, has already had a significant impact on the green course toward sustainable energy production in the Faroe Islands. The power plant entered production in September 2020 and during the period from September through December 2020 produced 1357 MWh for SEV, which represents 1% of the total energy produced during that period or enough power for 1200 households. If FÖRKA's power generation were extrapolated to the entire year, the amount generated would equal 0.3% of SEV's total energy production.

Furthermore, Fjarhitafelagið (the distant heating company based in Tórshavn), which is owned partially by SEV and Tórshavn Municipality, also benefited from the new biogas company. FÖRKA supplied Fjarhitafelagið with 732 MWh during the last quarter of 2020, which is equal to the heating and hot water demand of around 122 households. The goal is that Fjarhitafelagið will receive 1.3 MWh of green energy every 24 hours from FÖRKA, thus supplying 400 households with heating and hot water.

FÖRKA generates heat and electricity from the processing of manure and the offal and waste from the processing of salmon. This organic material produces gas which is used to fire a motor designed to provide Fjarhitafelagið with heat for its hot water distant heating system and electricity for SEV.

"FÖRKA generates heat and electricity from the processing of manure and the offal and waste from the processing of salmon"

A GOOD START

The production of power from this organic surplus also generates fertilizer for agricultural use, which

means that the import of fertilizer into the Faroe Islands will decline in future.

"Starting up this power plant has gone even better than anticipated and we have taken in much more biomass than we originally had estimated. In the future, we will be able to receive delivery of much more varied organic waste, e.g. from breweries and bakeries, all of which can augment our power production," notes Fróði Mortensen, Director of FÖRKA.

Hákun Djurhuus, CEO of SEV, is delighted with the good beginning of FÖRKA, which is an excellent addition to the green course toward sustainable energy production.

"The more varied energy resources we can bring into our power production, the greater the number of legs our green society can stand on. And the quicker we can reach our goal of a 100% onshore green power production," observes Hákun Djurhuus.

Hans Christian Dam, Manager of Fjarhitafelagið, is also delighted to have the biogas power plant linked into the distant heating system.

"This is the first "green heat" that does not come from the incinerator facility at á Hjalla outside Tórshavn or the excess waste heat from the thermal motors at the Sund Power Plant. Our plan in the future is bring both wind and tidal energy into our system," notes Hans Christian Dam, Manager of Fjarhitafelagið.

The tidal energy project is now producing power

During the late Autumn of 2020, SEV and the Swedish high energy company, Minesto, reached an historic milestone when the first power from the tidal energy project at Vestmanna Sound was fed into the Faroese grid.

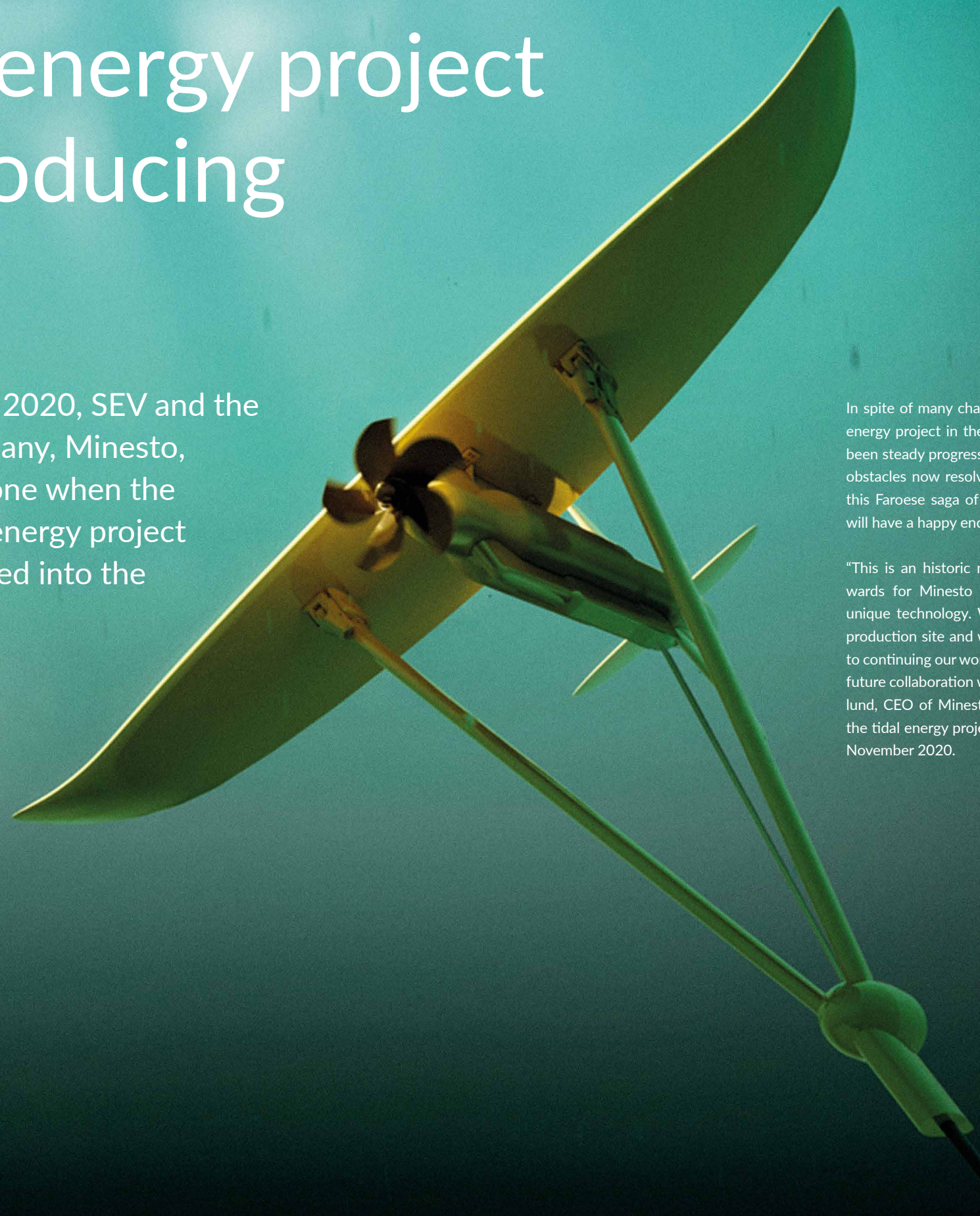


PROJECTED PRODUCTION

150

MW

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



In spite of many challenges in starting up the tidal energy project in the Vestmanna Sound, there has been steady progress forward. With many of these obstacles now resolved, there are many signs that this Faroese saga of renewable energy production will have a happy ending.

"This is an historic moment and a giant step forwards for Minesto and the development of our unique technology. We are very pleased with the production site and we are indeed looking forward to continuing our work in Vestmanna Sound and our future collaboration with SEV," noted Dr. Martin Edlund, CEO of Minesto, when the first power from the tidal energy project entered the Faroese grid in November 2020.

After the structural foundations were in place on the ocean floor and the undersea cables and the transformer station were installed, Minesto placed the so-called tidal "dragons" in the Sound and in late November 2020 trial electricity production started at the tidal energy production site. The so-called DG100 system is comprised of a flying "dragon", anchors and cables enabling the dragon with its attached turbines to fly around in the ocean in a figure-eight pattern.

The initial trial operation of the DG100 energy system means that Minesto with its Deep Green technology can now produce sustainable electricity power for the Faroese grid from tidal energy in Vestmanna Sound.

The chairperson of the Minesto board, Jonas Millqvist, is also satisfied with the result.

"This is an important step forward toward demonstrating the proven technology of Minesto in the sustainable energy industry at the same level as sea-based wind turbines. We are now in the process of moving from small units into clusters, in the same fashion as the wind turbine industry," noted the chairperson of the Swedish technology company.

TIDAL ENERGY IS CONSTANT ENERGY

Energy production from tidal energy is of particular interest. It is the most stable source of energy in our region of the world. In contrast to wind, hydropower, and solar energy, which are dependent on weather conditions and thus are unstable energy resources,



The tidal wave project is a two-year project



"In contrast to wind, hydropower, and solar energy, which are dependent on weather conditions and thus are unstable energy resources, one can always predict the tidal movements and their strength around the islands"

one can always predict the tidal movements and their strength around the islands. Thus, tidal energy is a major breakthrough in energy production.

Well-known, international scientists believe that the global potential of tidal energy is equal to 80 GW. The tidal energy potential in the Faroe Islands is estimated to be 1 GW. It is anticipated that it will be possible to tap some 15 - 20% of the Faroese tidal energy power, equalling some 150 - 200 MW. For comparison, it can be noted that the peak demand for electric power in the Faroe Islands is somewhat over 60 MW. When all is said and done, the potential of this power source is extremely great.

The tidal currents surrounding the Faroe Islands vary from region to region, thus the tidal current turbines need to spread around the islands to have tidal energy be a steady and reliable addition to the sustainable energy resources of the Faroe Islands in the future.

The first tidal project in Vestmanna Sound is called "Mermaid". It was Prime Minister Bárður Nielsen, who suggested the name after visiting the site in the summer of 2020. Both the Board of SEV and Minesto thought it was an excellent idea, because the name "Mermaid" was the name of the first four-man rowboat built for fishing in Vestmanna in 1906. Twenty years later, the folks of Vestmanna got their first five-man competitive rowboat, which also was christened, "Mermaid".

IMPORTANT SUBSIDY FROM THE EU

In 2019, the EU contributed 2.5 million Euros – some DKK 19 million – to support the tidal energy project in Vestmanna Sound.

"This is very good news both for Minesto and our collaboration with SEV on tidal energy in the Faroe Islands. The EU once again is demonstrating its trust in our ground-breaking technology and our plan to implement it," observed Dr. Martin Edlund, CEO of Minesto, when commenting on the grant on the webpage of SEV.



Minesto's first DG 100 kite system has been named 'Havfrúgvín' (the mermaid)

The 2.5 million Euro subsidy enabled the installation of two Deep Green dragons in Vestmanna Sound and to extract the energy from the tidal currents. Minesto and SEV have formally cooperated on this project since November 2018.

So far, everything looks good, and, depending on the ability of Minesto's technology to continue to produce electricity, tidal energy could very well become a valuable, inexpensive, and secure part of the energy resource infrastructure in the Faroe Islands in the future.

"This is an historic moment and a giant step forwards for Minesto and the development of our unique technology system"



FACTS

In 2018, SEV and Minesto, which is a leader in tidal energy technology, started to prepare the tidal current project in Vestmanna Sound.

Minesto was established in 2007 by Swedish aviation company, SAAB. Since then, the company has been closely involved in the development of its unique technology system, known as Deep Green Technology. Around 50 highly skilled people with proven experience in designing new technology are employed by Minesto. The Minesto team includes experienced engineers from a variety of highly technical backgrounds. They have experience in designing control systems, in hydrodynamics and the simulation and development of mechanical installations.

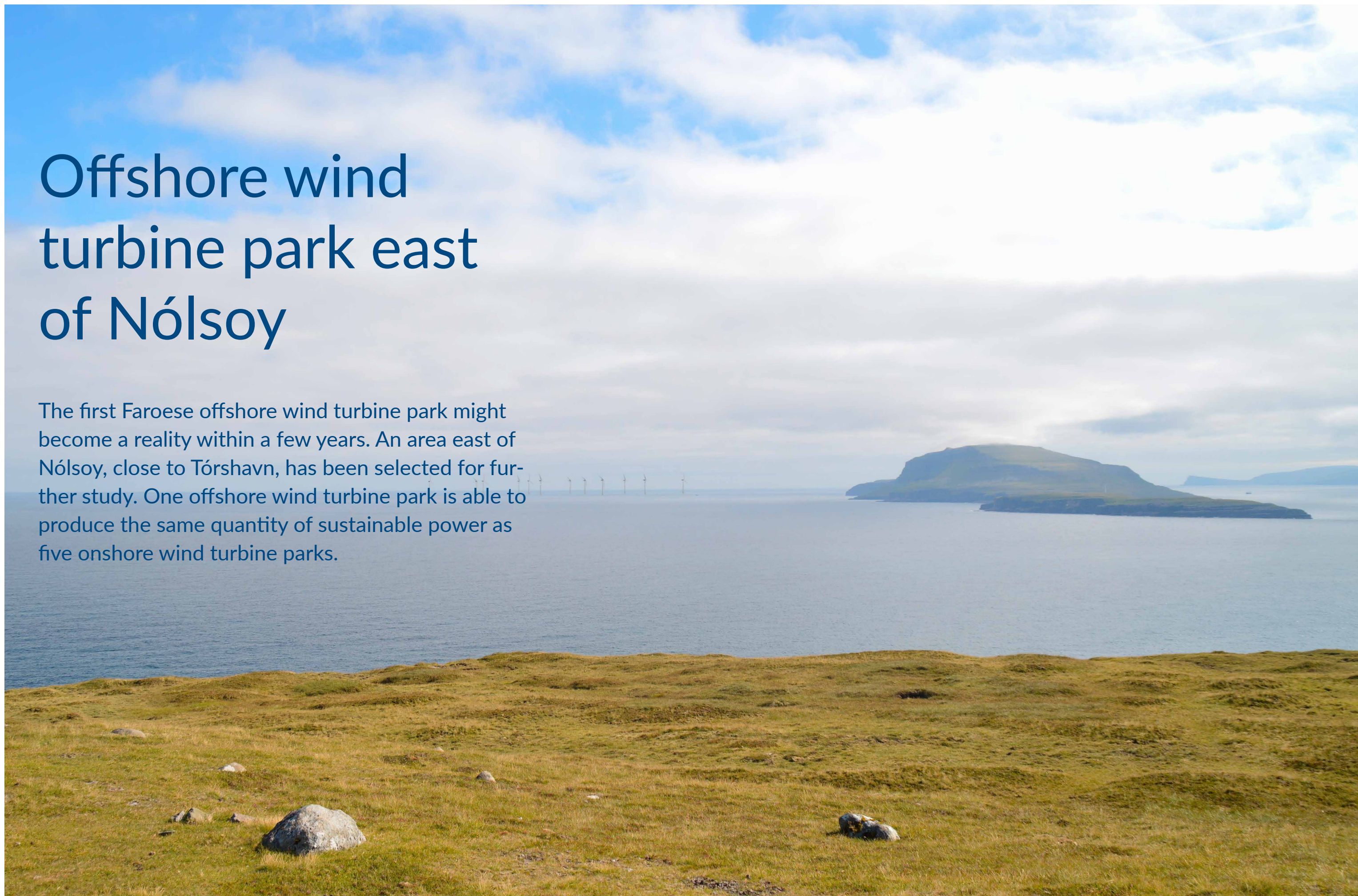
Among Minesto staff are people who have worked at high-tech companies, such as Saab Aircraft, Volvo Truck Corporation, and Bofors Missile Systems.

Minesto is in global co-operation with companies and research institutions with the best knowledge and advanced technology of all types.

Apart from Sweden, Minesto also has operations in Wales, Northern Ireland, and Taiwan. Its headquarters is located in the Swedish city of Göteborg. The principal owners of the company are BGA Invest and Midroc New Technology. Minesto is listed on the Nasdaq First North Growth Market in Stockholm.

Offshore wind turbine park east of Nólsoy

The first Faroese offshore wind turbine park might become a reality within a few years. An area east of Nólsoy, close to Tórshavn, has been selected for further study. One offshore wind turbine park is able to produce the same quantity of sustainable power as five onshore wind turbine parks.



SEV is now undertaking a study to possibly establish an offshore wind turbine park or windfarm with a total capacity of some 96-120 MWh with an expected output of 420-520 GWh. By way of comparison, the onshore windfarm at Húsahagi has a capacity of 12 MW.

"It is imperative to speed up the process of green energy development to enable us to be rid of oil by 2030. At present, there are challenges associated with the expansion of onshore windfarms, and thus we are now looking into the possibilities for wind power production offshore," notes Terji Nielsen, SEV Development Manager.

The current plan is to locate the first offshore windfarm in an area east of Nólsoy. A number of studies are being prepared to explore the depth of the ocean, the ocean floor, wave and wind conditions, and the environmental impact of such a windfarm. A formal request to undertake these studies has been submitted to the Government authorities. Also to be examined is the linking and transporting of the electric power from such an offshore wind turbine park and what initiatives need to be in place to safeguard the stability of the grid.

A LARGE INVESTMENT

Financing is, of course, a decisive condition for each and every project and the estimated cost at present for this offshore windfarm is in the area of DKK 1.4 to 1.9 billion.

Nearly DKK 2 billion is a major investment, but SEV believes that financing is possible through a broad collaboration among several Faroese companies, including current energy providers, other large companies, and investors.

Such a large, expansive project will have a lot of spin-off effects and collaboration on this project will benefit everybody involved.

"Nearly DKK 2 billion is a major investment, but SEV believes that financing is possible through a broad collaboration among several Faroese companies"



Simulated image: view from Hoyvík, Torshavn



"We know that wind energy is a successful sustainable power source in the Faroe Islands. However, over the last few years it has become more difficult to build out onshore windfarms around the country. An offshore windfarm may very well provide a good solution on our green course, as well as providing increased business opportunities," observes Terji Nielsen, SEV Development Manager.

Grid expansion and a pump storage

The pump storage system at the Vestmanna hydropower station will also benefit from this large off-



Simulated image: view from Nólsoy

"We know that wind energy is a successful sustainable power source in the Faroe Islands. However, over the last few years it has become more difficult to build out onshore windfarms around the country"

shore windfarm. The excess wind power that otherwise would be lost could be directed to operate the pumping station. In other words, the wind power that is not fed into the grid for a certain amount of time because of fluctuating wind conditions could be used to pump water from the dam in Heygadal up again to Mýrarnar. This is a system designed to store hydropower energy when, for example, there is insufficient wind energy to feed into the electric system.

Furthermore, such a pump storage system will be an important adjunct to hydropower in the future and will help to stabilize and ensure electricity production, which at present is provided by the Sund Power Plant and its oil-fired thermal motors. Further enhancements of the grid will be needed to accommodate this new source of power to the electric system. "We have great expectations for this system in our journey toward green energy, but to efficiently incorporate it into the country's electric system, we have to speed up the changes in heating and transportation in our society," observes Terji Nielsen.

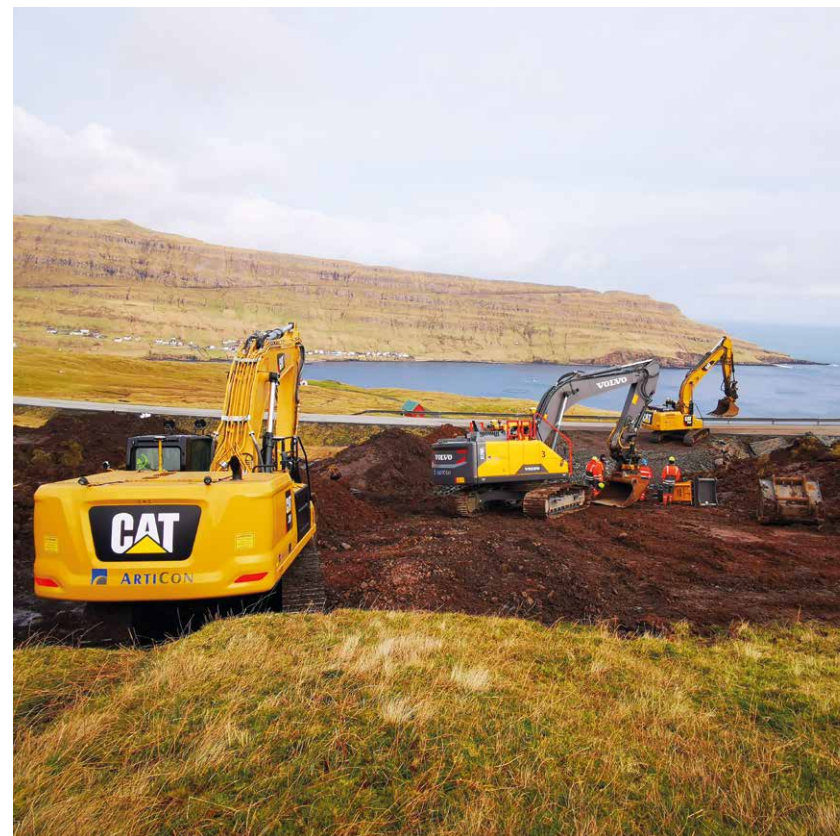
When all permits are in hand, the initial studies and investigations for the offshore wind turbine park can commence in 2021, with project planning taking place in 2022, installation and cable-laying occurring in 2023 and 2024, with possible electricity production from an offshore windfarm commencing in 2025.

2020 in Brief

Greenest January Ever

In terms of electrical power, January 2020 was the greenest beginning of a new year ever. Some 63% of electricity production was derived from renewable energy resources.

The mild weather and considerable rainfall in January 2020 meant that electricity production from hydropower reached record-breaking levels. Altogether, renewable energy resources accounted for some 63% of production, while 37% of electricity production was from oil. The distribution between hydropower and wind was 49% and 14%, respectively.



Windfarm at Porkeri on Suðuroy gets underway

Excavation work on the new wind turbine park began early in 2020.

The year 2020 began with excavators digging the access road to the new windfarm in Porkeri. The next step was to prepare the concrete foundations for the wind turbines. ARTICON is the contractor responsible for preparing the access road and making the land ready for installation of the wind turbines.

The windfarm will consist of seven turbines, producing some 6.3 MW in total. A battery system and a synchronous compensator are integrated into the windfarm and these systems will help balance and stabilize the electric power flowing into the grid from the wind turbine park.

The battery system at the Porkeri windfarm has considerable capacity, equal to the windfarm itself, and is the first of its kind in the Faroe Islands. The capacity of the battery system itself enables it to operate for a period as the back-up to the motors at the Vágs power plant.



Some 18 GW hours were produced by hydropower, and that was nearly half of the total electricity production. This is the most production from hydropower since January 2014, when some 17.5 GWh were produced from hydropower, and almost 90% more than in January 2019, when dry and cold weather diminished hydropower production.

Even if power production from renewable sources was at record highs, wind energy production was 7.3% less than in January 2019 because of extremely strong winds in January 2020. The protection devices built into the wind turbines shut down the turbines when windspeeds become too strong. When windspeed rises above 28 m/sec, the protection systems go on the alert, and, if windspeed exceeds 34 m/sec, the turbines are shut down. The average windspeed at Húsahagi in January 2020 was 14.4 m/sec and maximum windspeed was 57.4 m/sec.

COVID-19 found closed doors at SEV

When the coronavirus began to appear in the Faroe Islands in March 2020, SEV reacted quickly with various initiatives to safeguard the supply of electrical power to the country.

SEV literally closed its doors and immediately restricted access to its facilities when the coronavirus began to threaten the Faroe Islands in March 2020. Only those visitors and providers supplying important services for SEV gained access to SEV facilities.

In addition, the staff was asked to work from home as much as possible. In those cases where this was not an option, for instance, at the power plants, special staffing arrangements were implemented to safeguard personnel and the supply of electricity. SEV stopped all travel abroad and put a hold on all courses and seminars. The cantinas were closed as well. All staff meetings were conducted virtually over the net.

“SEV provides community-wide services, which provide the foundation for nearly all the activity in the country. The management of SEV takes its responsibility very seriously and thus we follow not only the Faroese Government directives, but also have instituted a number of strict initiatives for all of SEV, both in-house and beyond,” observed Hákun Djurhuus, CEO of SEV.



Niels Hansson, IT Manager

An effective IT system was quite useful under the threat of the coronavirus

The advanced and innovative IT system of SEV came in very handy during the height of the coronavirus threat.

The IT systems of SEV have undergone constant improvement over the last several years, both with regard to security and the potential for employees to work from home. This reality was especially useful when the coronavirus plagued the Faroe Islands and SEV employees were forced to work from home and had to repeatedly meet virtually over the net.

Several years ago, all of SEV's IT services were gathered together in a secure location at the Sund Power Plant. SEV has about 60 servers of various types set up in the secure location, which is guarded and monitored all day, every day. To enhance security, all data is copied and stored at a site outside of SEV. Thus, SEV always has a complete copy of all the data generated by the various systems. In addition, the Sund Power Plant has a highly effective and modern fire protection system.

Another aspect of SEV's enhanced IT security involves the training of all SEV staff in the intelligent and reasonable use of the Internet. No hole or breach can be tolerated in SEV's IT systems. Thus, all SEV employees are well trained and sensitized to IT security, thus creating the best protection against disruptions of the IT systems. SEV also utilizes the Awareness system, which is an internationally recognized program designed to continuously promote and provide information about the Company's IT system to all staff, thus safeguarding IT security and avoiding failures of any type.



Celebrating Earth Hour 2020

More Faroese than ever turned off their lights on 28 March 2020 to help celebrate the annual Earth Hour.

Over the past several years, SEV has noticed a slight reduction in the demand for power during the time when households and businesses turn off their lights and other electrical equipment and the municipalities turn off the streetlights in observance of Earth Hour.

In 2019, Earth Hour power production fell 1.65 MW between 20:30 and 21:30, but in 2020 production fell by 4.78 MW, which is comparable to the annual power consumption of one average household. Total power production during the 2020 Earth Hour was 36 MW, of which 86% was derived from renewable energy resources (79% hydropower and 7% wind energy). Thermal power contributed 14% of total production.

Originally, Earth Hour began as a reminder for people to pay attention to the environment and to try to reduce their power consumption to protect the environment. Since the start of Earth Hour back in 2007, electricity production globally has become more and more sustainable, nevertheless Earth Hour remains extremely important to increase awareness.

“Even when we reach the goal of 100% sustainable power production, it is still important to remind people to use electricity wisely in order to avoid unnecessary expansion of electricity production and in general to protect our environment,” noted Hákun Djurhuus, CEO of SEV.



Permits for the tidal energy project were quickly granted

During March 2020, all the necessary permits for starting the tidal energy trial in Vestmanna Sound were obtained.

When the Faroese Energy Authorities in March 2020 approved the report on the tidal energy trial in Vestmanna Sound, SEV and its Swedish partner, Minesto, quickly obtained all the permits needed to initiate the project.

Dr. Martin Edlund, CEO of Minesto, stated that “the Faroese Authorities and SEV have been most helpful in advancing this project. When one considers how comprehensive and time-consuming the process is in general to obtain the permits for energy projects, SEV has exerted tremendous effort to ensure that all the necessary permits for this first installation were obtained quickly and with the best possible result”.

SEV performed a year-long environmental impact assessment of the impact of the project on Vestmanna Sound and the eventual effect on the fish, seabirds, whales, and seals of the area. It was determined that the trial project would have minimal impact on fish and seabirds, whereas marine mammals could be affected, and the report recommended steps that could be taken to protect whales and seals.

The Environment Agency stipulated certain conditions relative to the approval of the project. For example, SEV shall monitor the movement of the whales and seals in Vestmanna Sound during the two-year timeframe of the project.



SEV takes control of Station 3 at the Sund Power Plant

On 31 March 2020, Station 3, one of the largest building projects in the Faroe Islands, was turned over to SEV.

The entire Station 3 project was carried out within budget and without significant delays. At a small gathering on 31 March 2020, with due regard to coronavirus social distancing and no handshakes, representatives from ARTICON and SEV signed the transfer documents whereby SEV formally received Station 3 from the contractor.



“We are delighted to arrive at this point and that the construction has gone so well. The work was carried out on time and well within the parameters of the budget,” attested John Zachariassen, the Chairperson of the SEV Board of Directors, when Station 3 was officially turned over to SEV.

The future role of the Sund Power Plant in the Faroese electricity system is remarkably similar to that of the cable systems linking the European countries, which enable them to purchase electricity from one another when one country is not able to produce sufficient power itself. The Sund Power Plant is thus able to provide reliable electric power during the years ahead when the focus will be on the expansion of green electricity production toward the goal of 100% green energy on land in the Faroe Islands by 2030.

Size of planned windfarm at Eiði reduced

During August 2020, it was decided to reduce the size of the intended windfarm at Eiði due to environmental concerns.

Following an appeal of the environmental impact assessment of the Eiði windfarm, work on the project was suspended. Together with Orka, the Environment Agency, SEV elected to reduce the number of wind turbines from six to four.

In the main, the appeal was focused on the placement of the two southernmost wind turbines. Therefore, SEV decided, with the approval of the Environment Agency (Orka), to amend and reduce the size of the initial project. The Environment Agency approved the revised project comprised of four wind turbines and a formal permit request for four E-82 ENERCON wind turbines was submitted to the government authorities.

“If we obtain all the permits and approvals within a reasonable time, we expect to install the four turbines during 2022, while another location will be found for the other two wind turbines”, noted Terji Nielsen, Development Manager of SEV.

He further stated that work continues on possible solutions for the two remaining wind turbines, but it will take some time. If all necessary permits are also obtained for these two wind turbines, it will also be possible to install these two wind turbines in the summer of 2022, either in Eiði or another suitable location.



Simulated image

Prices stipulated for public charging stations

After a 5-year free-charging trial period, the pricing structure for the public charging of electric vehicles entered into effect on 5 October 2020.

SEV's first public charging stations were installed in December 2015 and during the following five-year trial period SEV offered free electricity at the public charging stations for the Faroese owners of electric vehicles.

The trial period ended in the autumn of 2020, because on 5 October 2020 the new pricing structure entered into effect and it was no longer possible to charge an electric vehicle for free at SEV's public charging stations. From that point on, electric vehicle owners had to pay for electricity at a public charging station.



The price for each kWh is set at DKK 1.95 and is the same for DC fast charging stations and the more usual AC charging stations. In addition to the per kWh cost is a per-minute charge based on the amount of time the vehicle is connected to the charging station. The per-minute charge is levied to ensure that people do not let their vehicles remain connected to the charger longer than necessary, thus hindering others from connecting to the charging station.

“The public chargers are not deemed to be the first choice for charging electric vehicles. Charging should happen at home and the public chargers should only be used in times of emergency,” stated Hákun Djurhuus, CEO of SEV.

500 Faroese obtained cheaper electricity for heat pumps and electric vehicles

A report prepared in September 2020 showed that 488 green wireless electric meters were installed throughout the country to measure cheaper electricity for electric vehicles and heat pumps.

Following approval from the Faroese Parliament, SEV began in April 2019 to supply electric vehicles and approved heat pumps with cheaper electricity, namely DKK 0.50 cheaper for each kWh provided to heat pumps and electric vehicles.

Participation in this system requires, among other conditions, the installation of a special electric meter, a so-called “green meter”, to measure the flow of electricity to the heat pump and the electric vehicle. In September 2020, 488 Faroese had elected to take advantage of this special offer.

Most of the green meters were set up in Southern Streymoy where 256 meters were registered, 73 in Eysturoy, 54 in North Streymoy, 45 in Vágoy, 32 in the Northern Islands, 20 in Suðuroy, and 8 in Sandoy.

In the main, the use of a heat pump was the main reason to opt into the program and have a green meter installed. The number of home-based charging stations for electric vehicles registered throughout the country was 144 in September 2020.





Major work undertaken by SEV in the Eysturoy Tunnel

The electric installers of SEV work on the highest peaks and the deepest valleys. Over a period of four months in 2020, they worked constantly in the new Eysturoy Tunnel 180 metres below the surface of the ocean.

The electric installers at SEV travel widely throughout the country and, when the country's tunnels are dug, SEV is also there. In the new undersea Eysturoy tunnel, SEV installed 11 transformers and laid 34 kilometres of cable.

"The tunnel itself will use the same amount of electricity as an average, good-sized village. The tunnel is a good 11 km long and, besides the lighting in the tunnel, SEV also supplies power to the pumps that keep the tunnel dry and the fans that ensure good air quality in the tunnel," observed Henrik Eskildsen, cable and line master of SEV, when work on the tunnel was near completion in November 2020.

Apart from the electricity supplied specifically for tunnel operations, there is also an electric cable connection between the Sund Power Plant and the island of Eysturoy itself through the tunnel. This cable increases capacity and strengthens the connection between the power plant and Eysturoy. Up to now, power connection between the Sund Power Plant and the island of Eysturoy was via undersea cables and aerial lines.

Undersea cables have a limited lifespan and will be lifted from the ocean floor now that connection is via the tunnel. The aerial lines will eventually be taken down as well, but not immediately.

New power portal

In December 2020, SEV introduced a new homepage, including a power portal enabling customers to monitor their electricity usage.

Our customers shall have the opportunity for close co-operation with SEV, and the new webpage that premiered on the net in December 2020 is a part of this vision. Over the last several years, SEV has actively endeavoured to embrace many of the new social platforms used by its customers every day.

Via the new power portal, a customer can monitor his or her electricity usage. The customer can select a time period to compare electricity consumption in the year before. The customer can also see the level of green electricity produced and will be able to get a good overview of his or her billing.

SEV shall vigorously strive to be a natural, integral part of our customers' lives. Our customers shall always have quick and easy access to our services to get the advice, guidance, and information they need quickly from SEV.

SEV introduced its first active webpage on 1 November 2005 and since then SEV has monitored and routinely developed and updated its webpages reflecting the advances in technology.



MEST Shipyard into wind turbines

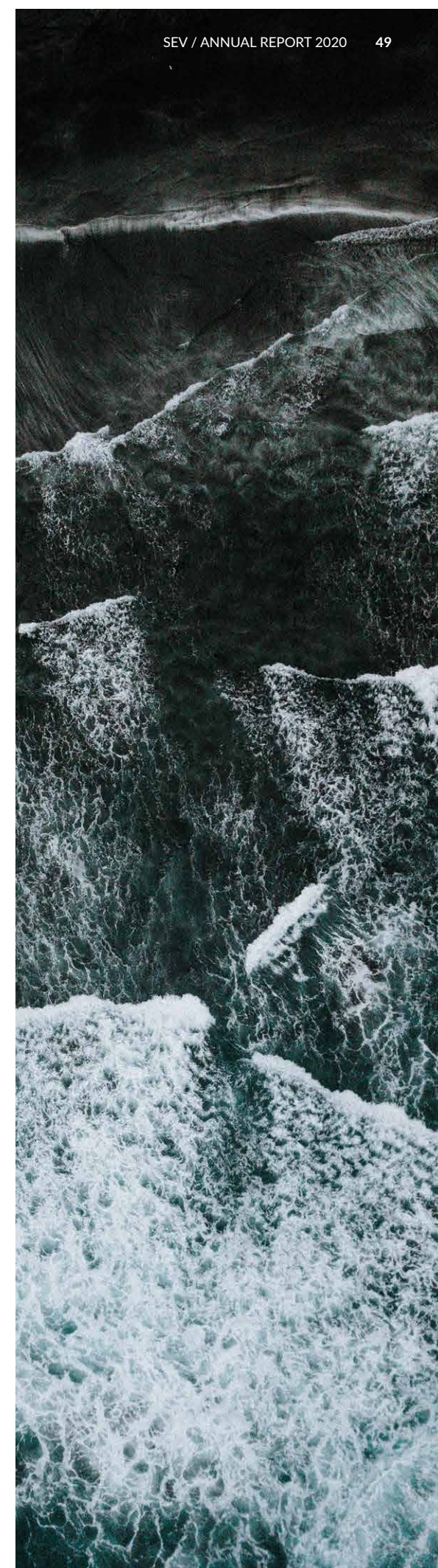
SEV is overjoyed that employees of the MEST shipyard are now trained to inspect and maintain the ENERCON wind turbines in the Faroe Islands.

SEV fegnaðist um avtaluna og útlitini til at hava serfrøðingar í landinum, sum við stuttum skotbrái kunnu traðka til, um brek er á myllunum.

Eftir hetta eru fólk hjá MEST blivin skúlaði í hesum viðlíkahaldsarbeiði. Tey hava fingið neyðuga førleikamenning, trygdarvenjing og góðkenning. Koronufarsóttin seinkaði tó hesi upplæring umleið eitt hált ár. 2020 hevur tí verið fyrsta árið, har fólk hjá MEST hava havt viðlíkahaldið um hendi.

"Vit eru fegin um, at tænanan er blivin betri", sigur Heri Mortensen, deildarstjóri fyri framleiðsluna hjá SEV. "Tað er heilt vist ein fyrimunur, at skúlaði fólk altíð eru í landinum, til reiðar at traðka til, eisini tá smábrek eru á myllunum. Áðrenn skuldu vit bíða eftir fólki at koma úr Svøríki og Týsklandi. Harumframt er tað jaligt, at grøna kósini á henda hátt hevur avleitt virksemini við sær til gagns fyri føroyskt vinnulív."

2020 hevur tó verið eitt vánaligt vindorkuár, við tað at fleiri av myllunum hava havt generatorbrek, sum krevja størri umvælingar, og sum eitt serligt generatortoymi hjá Enercon tekur sær av.



The effect of the coronavirus on the well-being and work performance of SEV staff was varied.

A questionnaire distributed in September 2020 revealed that the various recommendations and restrictions instituted by SEV during the outbreak of the coronavirus affected the well-being and the performance of the staff in a variety of ways.





“We felt it was important to explore the impact of the coronavirus on our staff and in particular their well-being and performance relative to the changes, prohibitions and recommendations imposed by SEV,” noted Bergtóra Høgnadóttir, SEV Human Resources Manager.

When the coronavirus started to spread in the Faroe Islands, SEV imposed several preventive measures, such as working from home and new shifts at the power plants to avoid unnecessary contact among employees on watch. The registry offices of SEV, as well as the canteens, were closed and Teams and similar computer programs were used to facilitate meetings of staff. Social distancing and similar recommendations were instituted, as well as the greater use of disinfectants became standard practice.

Some 54 out of 150 employees answered the questionnaire. Several offered that they had not responded to the questionnaire as they felt the questions were not sufficiently relevant, or they did not feel that the coronavirus on the whole had impacted their work life or their well-being significantly. Many employees noted that they did not experience any major disruptions to their workday.



WELL-BEING SLIGHTLY IMPACTED

The results of the questionnaire indicated that 22 employees believed that the coronavirus had impacted their well-being, 21 answered “no” and 25 stated they missed their colleagues. Below are some quotes from employees:

- “I have felt safe and secure during this time of the coronavirus because SEV took the situation seriously.”
- “It felt like living inside a cheese bell, where one was separated from one’s colleagues to avoid infecting one’s co-workers and forcing the closure of the worksite.”
- “In my case, my wife and I worked from home following the recommendation to do so by our employer. During this time, our children were also home. It was nearly impossible to organize the day.”

HALF OF THE STAFF FELT THEIR WORK PERFORMANCE AFFECTED

Some 29 out of the 54 that responded stated they did not believe that the changes to their workday were impacted by the coronavirus. They especially referenced that the reason for this was that there were fewer distractions and better conditions to concentrate. Several, however, stated that their work environment was impacted. Several examples are offered below:

- “With the children also at home, it was both pleasant and challenging. It was delightful to be together. But when everybody had to be on the internet at the same time, chaos often ensued and there was a lot of teeth gnashing.”
- “I was unable to access some of SEV’s offices and some work could not be done “remotely””
- “No, it has not directly impacted my workday, but it increased my work burden, especially the coordination of the installers from abroad demanded a lot of time.”
- “At times, there was a lot to do. I worked mostly on putting out “fires” or “here and now” tasks.”

BALANCE BETWEEN FAMILY LIFE AND WORK LIFE

The average age of SEV’s staff is around 50 years. However, several employees have very young or school-age children.

Several employees claimed that the coronavirus pandemic created a more intimate and close-knit home environment, whilst others complained of difficulties in managing a daily routine, noting that there was a lot to do, especially when the day-care centres and the schools were also closed.

EXCELLENT TEAMS MEETINGS

“Sometimes it is necessary to teach some women to spin”, goes the old Faroese proverb, meaning that difficult times necessitate being creative. A fast solution had to be found to facilitate staff meetings. The SEV IT Department quickly instructed everyone in the use of the computer program, TEAMS. During many of the staff meetings, the IT Department provided advice and a helping hand. All agreed that the coronavirus had enabled everyone to more quickly learn how to use this new system, because it was much needed. “It was a delight to experience the process,” observed Bergtóra Høgnadóttir.

Several employees believe that the meetings via TEAMS went well. The meetings were detailed, effective, short, and goal-driven with few disruptions and less small-talk. At the same time, several stated that they miss seeing each other face-to-face and that the TEAMS meetings were technically demanding. Many felt that some were hesitant to ask questions during the TEAMS meetings.

Many employees feel that TEAMS works well, especially with close colleagues. The employees also feel that TEAMS is an excellent “supplement” to normal face-to-face meetings, but it should not preclude such meetings.

WORKING AT HOME

There has been a lot of discussion both abroad and in the Faroe Islands on whether the possibility of working at home should be continued ... even into the future. Thus, this question was also included in the questionnaire where they could offer their thoughts on the feasibility of continuing to work from home into the future.



Some 16 employees stated that they did not believe it made any difference where they worked. Some 17 indicated that they had not taken advantage of such an offer, whilst a little majority of 21 employees stated they would be keen to continue working at home now and again.

It should be noted that a large portion of SEV’s staff work in oversight positions at the power plants. Others are installers who work around the country. These employees do not have the opportunity to work from home.

Those in favour of working at home are pleased with less transportation time, and being able to concentrate and not being disturbed. Others, on the other hand, feel that their workday is much better when they leave home and others believe that their work tools and equipment are not sufficient at home and therefore they would rather go to their normal work-site. They note that they are tired of sitting at home with just their laptop and sometimes just a table and chair is not sufficient.

DIFFERENT IMPACTS

Thus, in summary, the coronavirus has affected the well-being and the performance of SEV’s staff in multiple ways.

People and tasks are different and therefore there has been different personal experiences. Bergtóra Høgnadóttir states that it has been interesting to explore the varied responses and affects and to obtain a greater knowledge of the impact of the coronavirus rather than just guessing or speculating.

She learned from the SEV staff both face-to-face and via the questionnaire that the social life of the company has been cut to the bone. The canteens are closed, the collective chats enjoyed during the lunch break are gone, the Christmas celebrations, the singing in the choir, the road trips and staff events are all gone.

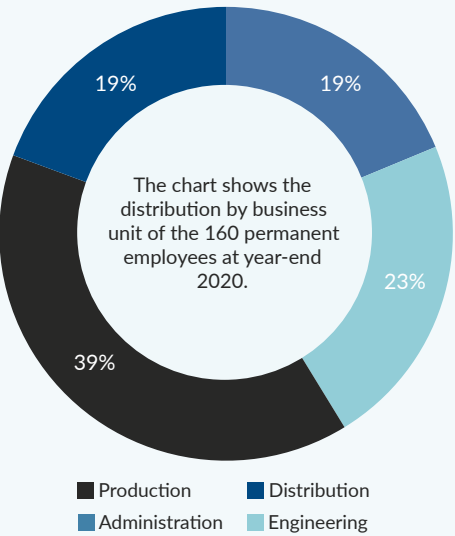
“The staff environment is quite shattered during the workday with the effect that the connections and conversations among the staff both at work and socially are lost. Also nine staff claimed in the questionnaire to feeling lonely during this time. “Good colleagues are a must,” observes Bergtóra Høgnadóttir, SEV HR Manager.

The HR Manager is, however, pleased that a normal daily life is beginning to appear again – now that spring is around the corner in many ways.

Employees 2020

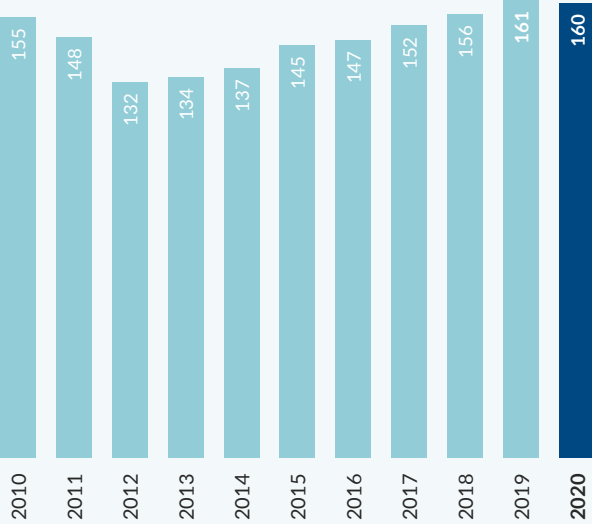
In 2020, SEV had 209 people on its payroll. Of these, 9 (9) have served on the Board of Directors, 4 (4) received pension benefits, 46 (47) were temporary staff, and 160 (161) were full-time equivalent employees.

DISTRIBUTION OF EMPLOYEES



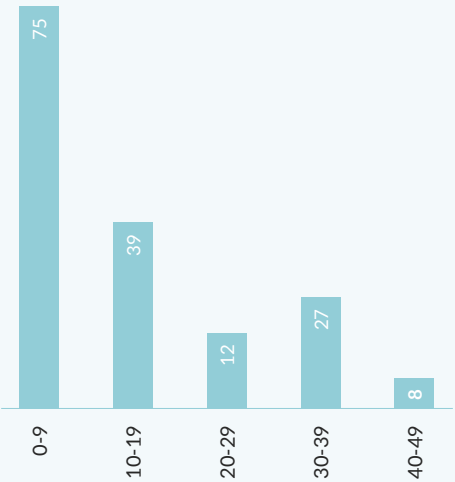
PERMANENT EMPLOYEES

The chart shows the number of permanent employees at year-end 2010 - 2020



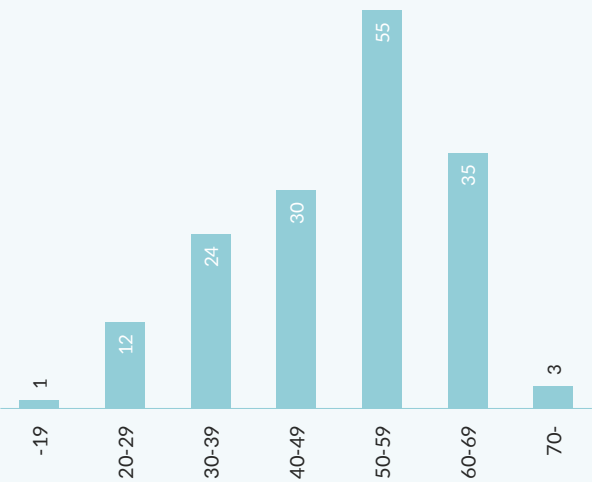
LENGTH OF SERVICE

The average length of employment is 13,9 years. In 2020, 40 (40) employees or 25% of all employees have been employed with SEV for 25 years or more



AGE

Average age of employees is unchanged compared to 2019. At year-end 2020, 38 (40) employees were aged 60 or older.





Health, safety and environment

Sustainability report





THE HEALTH, SAFETY AND ENVIRONMENTAL POLICY (HSE)

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

SAFETY

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

SAFETY WORK

In 2020, focus has been on implementing preventive measures related to the Corona virus. There was no case of employees contracting the Corona virus on the job.

PERSONAL INJURIES

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

Figure 2 shows the number of personal injuries that resulted in a worker's disability for one or more days. In 2020, there was one instance of personal injury to report to the Occupational Safety & Health Administration.

Figure 1. SEV's organisational safety structure.

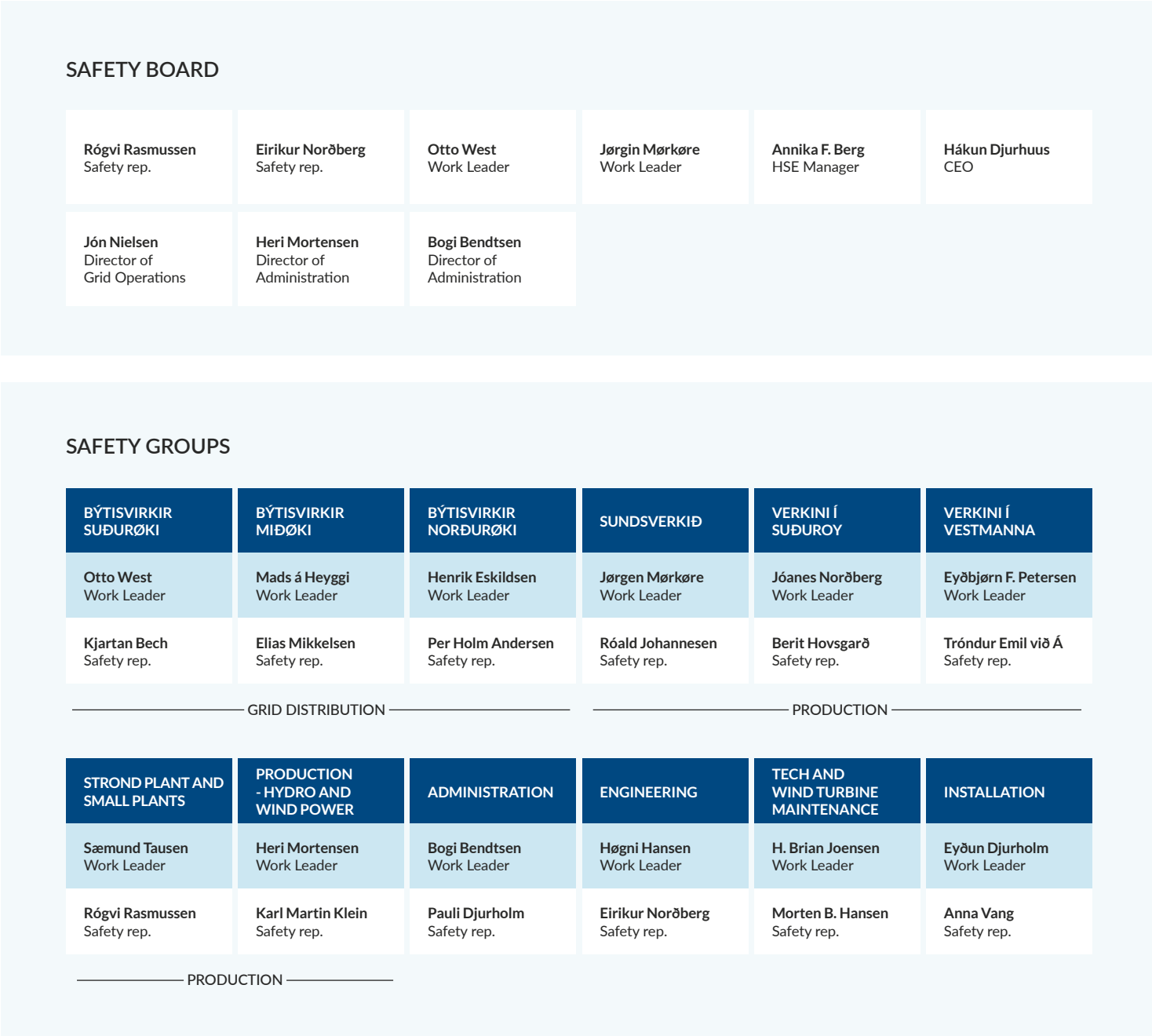
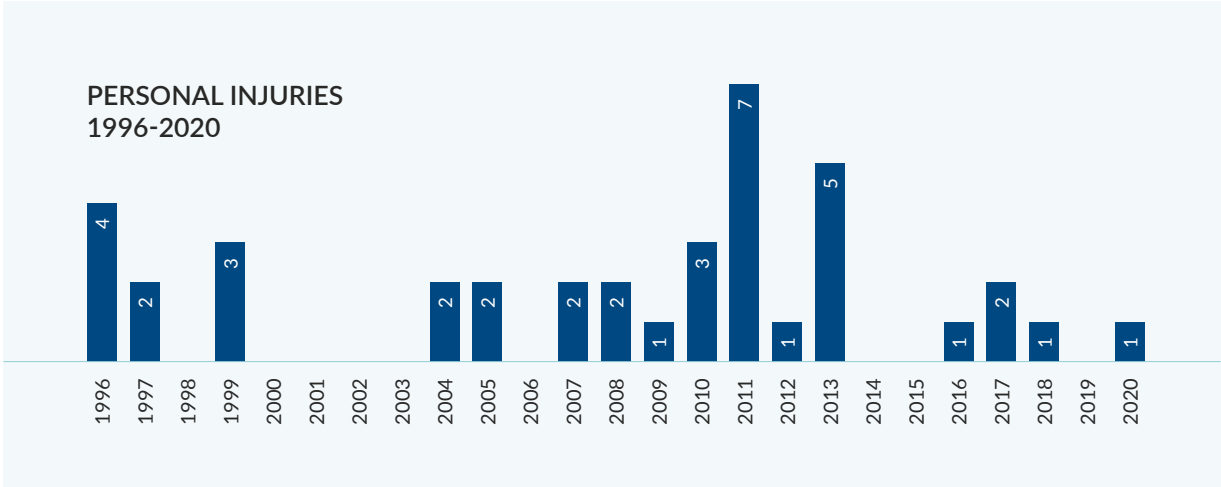


Figure 2. Number of personal injuries that resulted in a worker's disability for one or more days that were reported to the Occupational Safety & Health Administration.



THE ENVIRONMENT

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

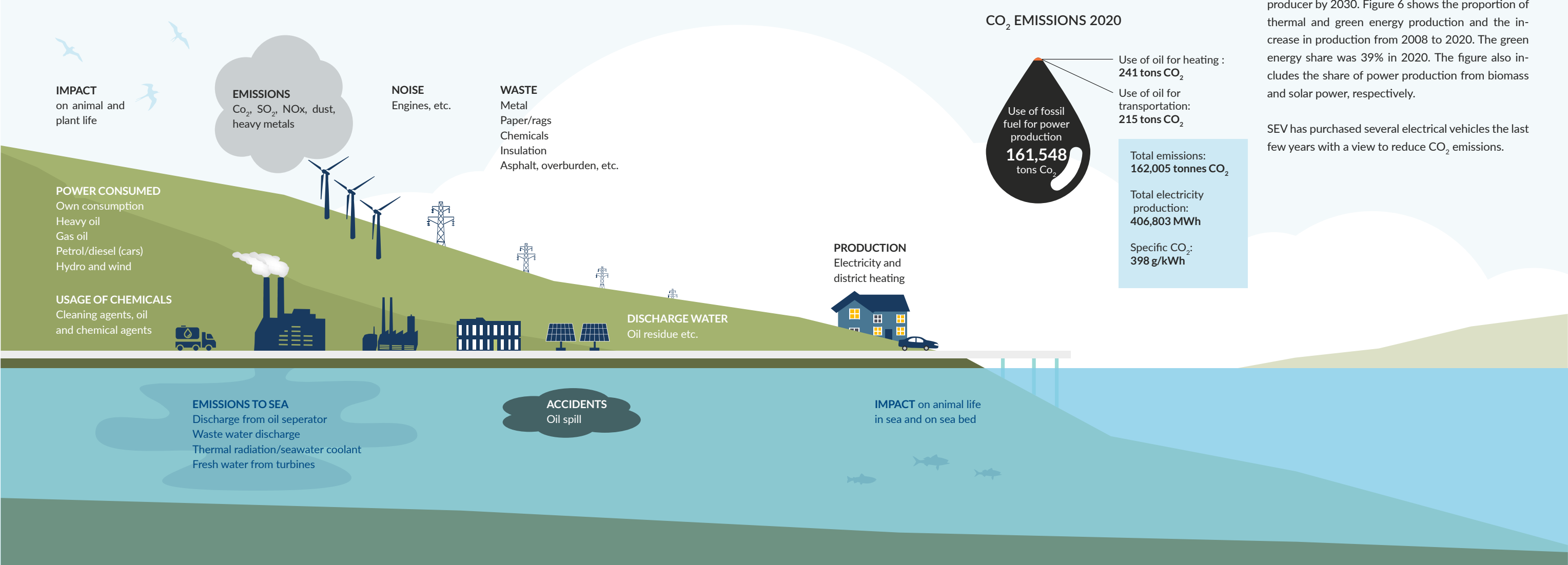
Strond, Eiði, Fossá, Mýra, Heyga and Botni. In addition, there are five small power plants providing electricity on the islands of Fugloy, Mykines, Koltur, Skúvoy and Stóra Dímun.

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

Electricity is produced by thirteen power plants scattered around the country. Three of the power plants are large oil-fired facilities located at Strond, Sund and Vágur. SEV operates six hydro-power plants –

Furthermore, SEV operates 7 wind turbines near Porkeri on the island of Suðuroy.

Figure 3. Main environmental impacts.



Existing environmental permits	Valid from
Environmental permit of wind turbines in Neshagi	14.05.04
Environmental permit of Sund power plant	28.03.18
Environmental permit of wind farm in Neshagi	13.01.12
Environmental permit of Vágur power plant	18.11.15
Environmental permit of wind farm in Húsahagi	16.01.13
Environmental permit of wind farm in Porkeri	05.05.20
Environmental permit of wind farm in Eiði	10.09.20

Environmental Permits

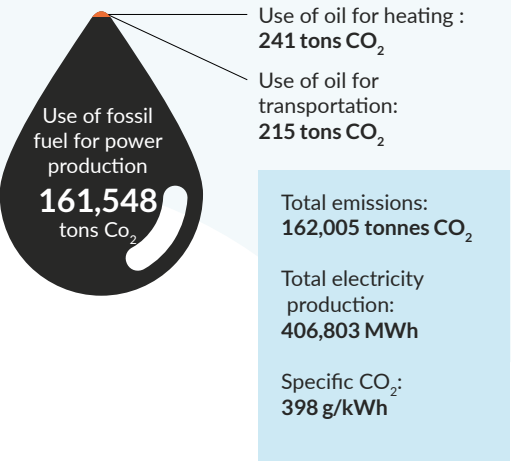
Companies, facilities and equipment listed in the Annex to the Faroese Environmental Protection Act (Løgtingslóg um umhvørvisvernd, No. 134) must obtain an Environmental Permit. SEV is required to have environmental permits for its production facilities at Sund and Vágur, and the wind turbines at Neshagi,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

Carbon Dioxide emissions

One of SEV’s largest environmental impacts stems from the burning of fossil fuels. The greatest portion of SEV’s CO_2 emissions originates from oil-fired electricity and heat production. Additionally, CO_2 emissions originate from the use of oil for the heating of buildings and motors, as well as transport. Figures 4 and 5 show SEV’s CO_2 emissions for 2020 and CO_2 emissions from 2008 to 2020, respectively.

Figure 4

CO_2 EMISSIONS 2020



SEV’s main aim is to become 100% green energy producer by 2030. Figure 6 shows the proportion of thermal and green energy production and the increase in production from 2008 to 2020. The green energy share was 39% in 2020. The figure also includes the share of power production from biomass and solar power, respectively.

SEV has purchased several electrical vehicles the last few years with a view to reduce CO_2 emissions.

Waste

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

In connection with construction activity there is much soil and rock delivered for landfill. This would ordinarily be considered as a burden for the environment, but

since the soil and rock is not contaminated and can be recycled, these figures are not included here. It is also difficult to collect the relevant data, as SEV employs subcontractors for this type of work.

Figure 8 shows types of waste for recycling 2017-2020.

The majority of the waste is waste oil delivered to IRF. Cables are also a considerable part of the waste. The figure shows that more electronic equipment have been recycled than in previous years. A considerable amount of electronic equipment such as computers and other electronics have been cleared out from the SEV headquarters and recycled.

Figure 5.

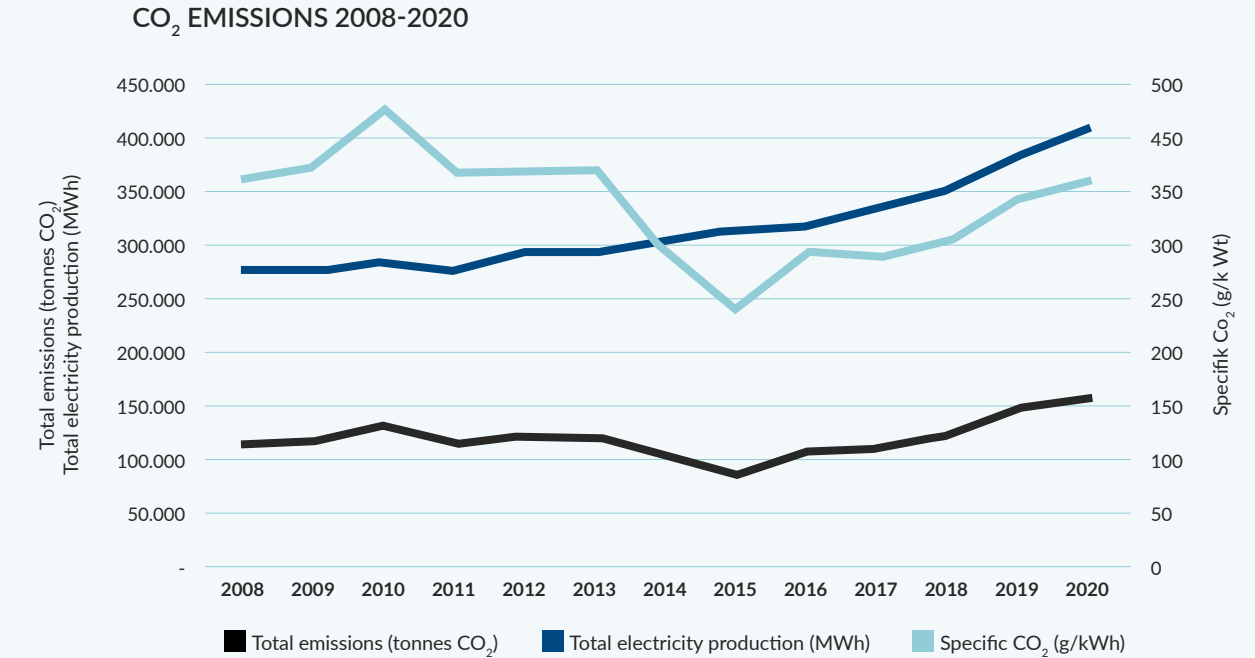


Figure 7

VARIOUS TYPES OF WASTE 2017-2020

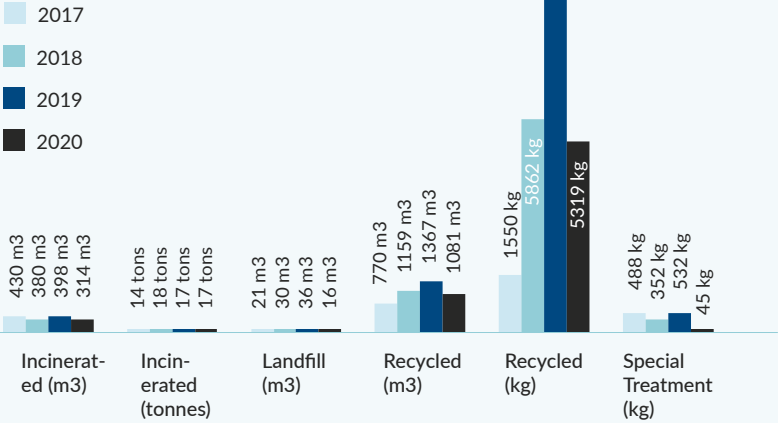


Figure 6.

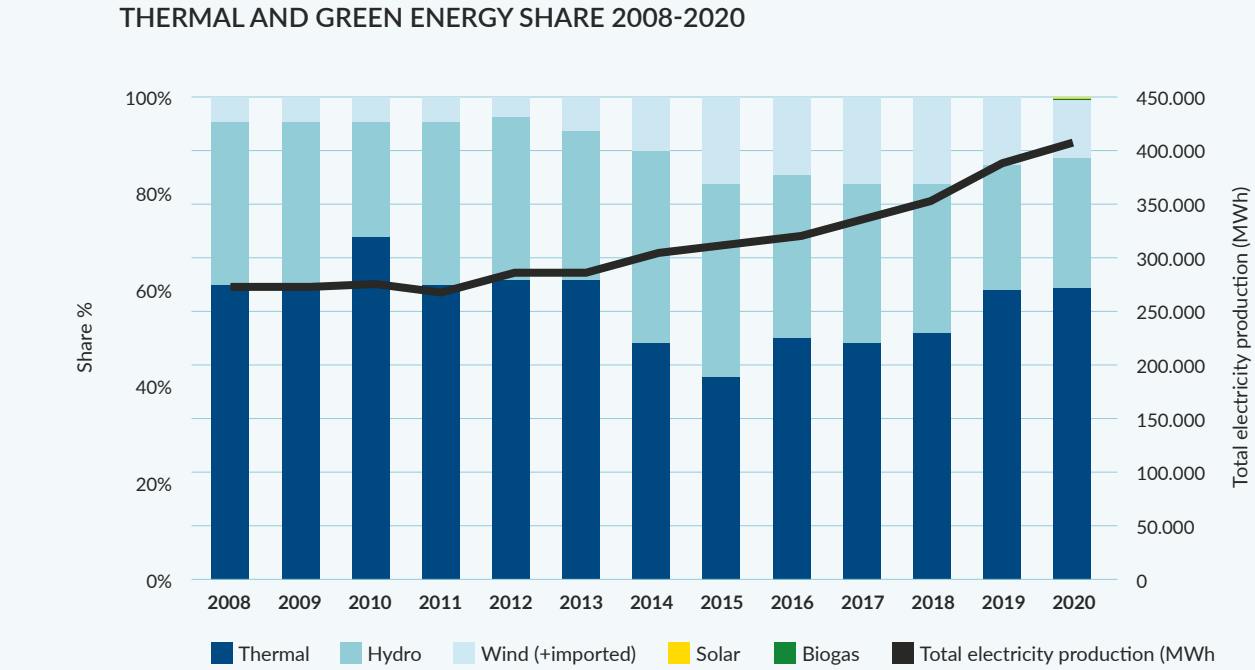
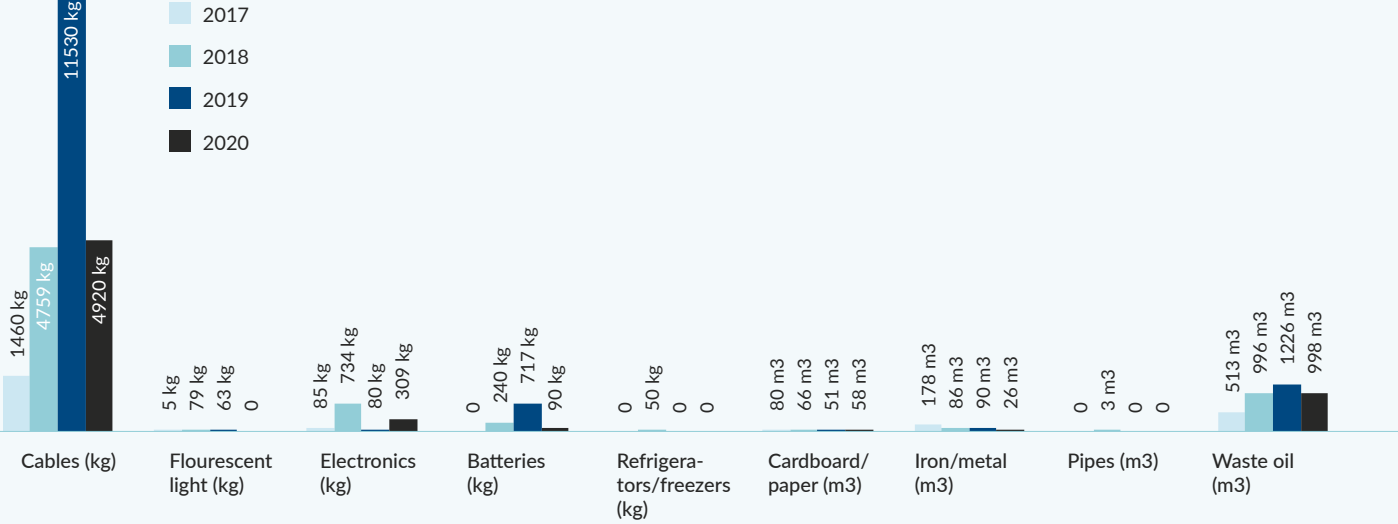


Figure 8

RECYCLED WASTE 2017-2020



Annual Report & Annual Accounts 2020

KAÐAL 1

FOSSÁ

KAÐAL 2

TRAFO
HEYGAVERKID

HEYGAVERKID
GKY LEDNINGSSKULJAM
STREYMUT

TRAFO
VALLUR NR 2
WIRTSCHAFTS



Management Report

The board of directors and the management have today presented the annual report of Elfelagið SEV and the group for the financial year 1 January to 31 December 2020.

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

We consider the accounting policies used appropriate, and in our opinion, the consolidated annual accounts and the annual accounts provide a true and fair view of the assets, the liabilities and the

financial position, consolidated and for the company respectively as on 31 December 2020 and of the results of the activities, consolidated and of the company respectively and of consolidated cash flows in the financial year 1 January to 31 December 2020.

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

Tórshavn, 19 March 2021

Management

Hákun Djurhuus
Managing Director, CEO

Financial Management

Bogi Bendtsen
Director of Administration, CFO

Board

Kári Johansen
Chairman

Haraldur S. Hammer
Vice Chairman

Niclas Hentze

Oddmar á Lakjuni

Poul Klementsens

Sonni L. Petersen

Sune Jacobsen

The independent auditor’s report

TO THE OWNERS OF ELFELAGIÐ SEV

OPINION

We have audited the consolidated annual accounts and the annual accounts of Elfelagið SEV for the financial year 1 January to 31 December 2020, which comprise accounting policies used, profit and loss account, balance sheet and notes, consolidated and for the company, respectively, and cash flow statement for the company. The consolidated annual accounts and the annual accounts are prepared in accordance with the Faroese Financial Statements Act.

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets, liabilities and financial position, consolidated and for the company respectively at 31 December 2020 and of the results of the company’s operations, consolidated and for the company respectively and of the company’s cash flows for the financial year 1 January to 31 December 2020 in accordance with the Faroese Financial Statements Act.

BASIS FOR OPINION

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

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

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

The management is also responsible for such internal

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

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

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

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

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

- Identify and assess the risks of material misstatement in the consolidated annual accounts and the annual accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material

misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or the business activities within the group to express an opinion on the consolidated annual accounts. We are

responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

STATEMENT ON THE MANAGEMENT’S REVIEW

The management is responsible for the management’s review.

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

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

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

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

Tórshavn, 19 March 2021

P/F JANUAR

State Authorised Public Accountants

Hans Laksá	Jógvan Amonsson
State Auth. Auditor	State Auth. Auditor

Key Figures and Financial Ratios

Amounts in 1,000 DKK	2020	2019	2018	2017	2016
Income Statement					
Net sales	550,432	508,788	427,460	432,277	420,270
EBITDA	242,796	226,211	197,097	226,255	243,621
Result before financial items	101,379	112,612	81,960	123,513	150,383
Financial items	-40,167	-37,040	-34,634	-32,948	-48,286
Annual result	49,809	62,379	38,084	88,974	92,754
Balance Sheet					
Total assets	3,207,960	2,918,099	2,722,020	2,447,178	2,303,961
Cash-on-hand	223,854	125,123	190,785	247,993	335,498
Equity	1,371,553	1,344,822	1,207,723	1,196,397	1,141,003
Long-term debt	1,638,143	1,446,277	1,341,582	1,133,188	1,042,116
Financial ratios *)					
Return on equity	3.67%	4.40%	3.20%	7.60%	8.10%
Return on assets	3.31%	4.00%	3.20%	5.20%	7.10%
Net debt/EBITDA	6.2	6.1	6.2	4.2	3.1
Asset turnover	0.17	0.17	0.16	0.18	0.18
Equity ratio	42.75%	46.10%	44.40%	48.90%	49.50%

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

CALCULATION OF FINANCIAL RATIOS

The financial ratios are calculated as follows:

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

2020 in brief

RESULT AFTER TAX

49.8MM

MILLION DKK

Management is pleased with the result. The budgetted result was DKK 34 million.

INVESTMENTS

331MM

MILLION DKK

Shared just about equally between grid and production divisions.

AVAILABLE CASH

527MM

MILLION DKK

The aim is to refinance part of the Company's debt before end of 2021, and not later than November 2022.

INCREASE NET SALES

11.0%

PERCENT

EQUITY RATIO

42.8%

PERCENT

INCREASE GWH SOLD

5.7%

PERCENT

NET DEBT TO EBITDA RATIO

6.2

TIMES

Ratio between net debt and EBITDA.

GREEN ENERGY

38.7%

PERCENT

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

Management Review 2020

MISSION OBJECTIVE OF SEV

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

COMMERCIAL PRINCIPLES

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

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

THE MUNICIPALITIES IN THE FAROE ISLANDS OWN SEV

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

INDEPENDENT SUBSIDIARIES

With effect as at 1 January 2016, SEV established independent subsidiaries to manage the windfarms at, respectively, Neshagi and Húsahagi. The Consolidated Concern Accounts of SEV indicate that the purchase of wind power will continue to increase, while at the same time the cost of supplies and wages, depreciation and interest will decline. The results of the subsidiaries are incorporated into the consolidated accounts via the capital equity

portion. The total result of SEV’s Consolidated Concern Accounts is not impacted by this. This report covers the total operations of the Company during the period 1 January 2020 – 31 December 2020.

FINANCIAL STATUS RELATIVE TO 2020 BUDGET

THE RESULT FOR 2020 IS DKK 50.0 MILLION.

The final result before taxes was DKK 61.2 million, compared to a budgeted DKK 41.5 million. The result after taxes was calculated to be DKK 49.8 million, compared to a budgeted DKK 34.0 million. Management is satisfied with this result.

NET REVENUE DKK 7.0 MILLION HIGHER THAN BUDGETED

In the month of March, when the coronavirus spread around the world and the Faroe Islands, various initiatives were undertaken with the goal of ensuring the income of the Company. These were fundamental for controlling operational costs and investment and various scenarios were developed and work focused on one of the scenarios throughout the year. Fortunately, the income of the Company is somewhat greater than budgeted and this greater income stems in the main from higher connection fees than budgeted. The income from the fixed fees is consistent with the budget.

KWh sales have set a record at 370.4 GWh and net sales were DKK 553.0 million. This represents an increase in electricity sales of 5.7%. Over the last several years, a major advance in sales has occurred among customers in the fishing industry and the aquaculture industry and 2020 also saw a major increase in sales, especially to customers in the fishing industry. This was anticipated and incorporated into the budget. The confirmed growth in sales to the private customers of the Company, including sales related the “green” meters, was not as great as budgeted.

OIL EXPENSES DKK 4 MILLION HIGHER THAN BUDGETED

Good weather in spring and summer, in addition to major growth in electricity demand, resulted in SEV using 7,000 tonnes more heavy oil than budgeted. On the other hand, some 1,400 fewer tonnes of gasoil were used in production than budgeted. In

addition, the value of the oil in storage, pursuant to accounting regulations, was adjusted to reflect the current market value at any given time. The financial budget did not include such value adjustments.

GOODS AND SERVICES DKK 1 MILLION HIGHER THAN BUDGETED

The increased costs are related to production, the grid and administration. Relative to production, especially the Sund Power Plant and the small production facilities had a greater consumption than budgeted. The challenges of the coronavirus pandemic also increased operational costs.

OPERATIONAL WAGE EXPENSES DKK 4 MILLION HIGHER THAN BUDGETED

In the financial budget, total wage expenses were budgeted to be DKK 88.8 million. Total wage expenses equalled DKK 90.1 million, of which operations accounted for DKK 83.3 million and investment accounted for DKK 7.0 million. In the operational budget, operational wages were forecast to be DKK 80.3 million, such that operational wages were booked at DKK 3.6 million more than budgeted. The production section especially had a greater booked cost than budgeted. In the main, the reason for this is increased production overall and production from multiple power sources. In addition, is an adjustment of DKK 0.7 million toward the debt maintained for

employee pensions. This is adjusted to reflect trends in market interest costs and the average lifespan of former employees. The grid section had a lower operational wage expense than budgeted.

EBITDA DKK 1.0 MILLION LOWER THAN BUDGETED

The higher revenue of the Company resulted in that the calculation of EBITDA was not as normally expected, given what the higher costs for oil, goods and wages would have indicated. Altogether, given that the EBITDA was but DKK 1.0 million lower than the amount budgeted and that the Company consciously refrained from investment during the coronavirus pandemic, the net debt compared to EBITDA was a factor of 6.2, compared to a budgeted factor of 6.9. Thus, the trends for the key figures are better than originally budgeted, but more in line with the cautions necessitated by the coronavirus pandemic.

INVESTMENT DKK 139 MILLION LOWER AND DEPRECIATION DKK 14 MILLION LOWER THAN BUDGETED

The budget stipulated an investment of DKK 477 million, but finally amounted to DKK 330 million or DKK 147 million less than budgeted. This resulted in less depreciation. The reasons for this are that the Company consciously withheld investment as a cautious response to the coronavirus pandemic and that the work on the windfarms in the central region of the country pursuant to the budget should be advanced during the year. This did not occur, however, and SEV intends to advance the construction of the Eiði windfarm, and this probably will not be completed until the coming year, two years later than originally planned.

INTEREST EXPENSES DKK 7.0 MILLION LESS THAN BUDGETED

Interest expense was much less than budgeted and the principal reason for this is that the cost for refinancing of the debt of the Company was included in the budget, but the refinancing was postponed until the coming year. The Company, therefore, only extended long-term bank financing for one year.

Table 1
PROFIT & LOSS ACCOUNT IN DKK MILLION

	2020	2019	Change DKK MM
Net sales	550.4	508.8	41.6
Oil expenses	164.5	143.9	20.7
Materials and services	59.9	57.5	2.5
Wages	83.2	81.3	1.9
Total expenses	307.6	282.6	25.1
EBITDA	242.8	226.2	16.6
Depreciation	141.4	113.6	27.8
Result before financial items	101.4	112.6	-11.2
Net interest expenses	40.2	37.0	3.1
Result before tax	61.2	75.6	-14.4
Tax	11.4	13.2	-1.8
Annual result	49.8	62.4	-12.6

ACCOUNTING TRENDS COMPARED TO 2020 PROJECTIONS

NOTICE TO OWNERS

Pursuant to § 3, paragraph 13b and § 4, paragraph 12b of the Company's Articles of Association, at the Extraordinary General Meeting in the Autumn of each year, the Company shall review the financial status of the Company since the Annual General Meeting, which in this case was held on 24 April 2020. Further review was conducted at the Extraordinary General Meeting held on 27 November 2020. For more detailed information, please refer to the report presented at the meeting entitled Financial Status 2020 available on the Company's website, www.sev.fo. The information presented is based on actual numbers as at the end of September plus projections and the budget for the remainder of the year.

FINANCIAL STATUS 2020

RESULT BEFORE TAXES FOR 2020 IS DKK 61.0 MILLION

The Company increased the price of electricity for all customers by DKK 0.05 per kWh, except the “industrial customers” where the price was increased by DKK 0.10 per kWh, to strengthen the fiscal economy of the Company. The operational result before taxes for the year is DKK 61.2 million, which is comparable to the previous year. The reason that the result was comparable to the previous year reflects a higher net sales, which is based on higher sales of electricity and a higher price of electricity, as well as increased connection fees, and thus offset the higher operational costs. In addition, depreciation and interest costs were lower than the previous year.

NET SALES DKK 42 MILLION HIGHER

Total net sales increased by DKK 41.6 million and income from the sale of electricity increased by DKK 52.8 million, while income from connection fees declined by DKK 12.8 million, compared to the previous year. Net sales are now approaching one-half billion kroner. The sale of electricity grew by nearly 6%.

The increase in revenue from the sale of electricity stems from the price increase and higher sales of

Table 2
RESULT FOR EACH KWH SOLD IN DKK

	2020	2019	Change DKK	Change %
Average income each kWh sold	1.50	1.46	0.04	2.6
Average expense each kWh sold	1.36	1.28	0.08	6.3
Result for each kWh sold	0.13	0.18	-0.04	-24.5

Table 3
NET SALES, DKK MILLION

	2020	2019	Change DKK	Change %
kWh sales	522.8	470.0	52.8	11.2
Subscription fee	18.0	17.4	0.7	3.8
Connection fee	11.2	24.0	-12.8	-53.4
Service fee, etc.	2.2	-0.3	2.4	-919.3
Income	554.2	511.1	43.1	8.4
Purchase wind and biogas	-3.8	-2.3	-1.5	62.7
Net sales	550.4	508.8	41.6	8.2

Table 4
MATERIALS AND SERVICES, DKK MILLION

	2020	2019	Broyting mio. kr.	Broyting %
Production	26.1	27.6	-1.5	-5.4
Grid	12.3	10.0	2.3	23.0
Administration	21.5	19.9	1.7	8.3
Total expenses	59.9	57.5	2.5	4.3

electricity of some 20 GWh, where the increase in sales to especially the fishing industry was great. A more detailed discussion of net sales can be found in Note 1 in the Consolidated Concern Accounts. Moreover, please refer to the Management Report on net accounts where the sales of kWh to the various customer groups is discussed in detail.

OIL EXPENSES DKK 21 MILLION HIGHER

The Company used some seven thousand tonnes more of heavy oil in production than the previous year. On the other hand, the Company used considerably less gasoil than the previous year. Altogether, the greater consumption of oil resulted

in higher oil costs compared to the previous year of some DKK 21 million. The reason for this was the good weather in the Spring and Summer and the greater demand for electricity that occurred throughout the year. Please refer to the Management Report on the production accounts.

GOODS AND SERVICES EXPENSES INCREASED BY SOME DKK 2 MILLION

Total costs increased by DKK 2.5 million, compared to the previous year. Production experienced a decrease in costs of some DKK 1.5 million, wherein it was especially the costs for research and advisory services that were lower, and which contributed to lower costs overall. The Grid section experienced an increase in its costs by some DKK 2.3 million and

Table 5
WAGES, DKK MILLION

	2020	2019	Broyting mio. kr.	Broyting %
Production	39.9	38.5	1.4	3.6
Grid	26.1	24.0	2.1	8.8
Administration	17.2	18.8	-1.6	-8.4
<i>Adjustment to pension benefits</i>	0.6	2.8	-2.2	
Total wages	83.2	81.3	1.9	2.3

Table 6
INVESTMENTS, DKK MILLION

	2020	2019
Production	152.9	207.3
Grid	152.5	120.3
Administration	25.7	14.1
Total investments	331.1	341.8

Table 7
INVESTMENTS, DKK MILLION

	2020	2019
Investment booked as work-in-progress	315.5	327.8
Investment booked directly as transition	15.6	14.0
Investments at year-end	331.1	341.8

overall the reason is that most cost areas were higher compared to the previous year. The cost situation for the Grid section has been low over the last three years and it was not unexpected that costs would increase during the year compared to the previous year.

Administration experienced an increase of DKK 1.7 million. The costs for research and advisory services are lower while the costs for administrative expenses and the loss relative to debtors increased based on the fact that the Company pursuant to its own procedures increased the set aside against the loss from debtors, especially because the number of debtors in the main increased consistent with increased sales. Please refer to the detailed discussion found in Note 3 of the Consolidated Concern Accounts.

BOOKED WAGE EXPENSES INCREASED BY DKK 2 MILLION

Operational wage expenses grew by nearly DKK 1.9 million. Total wages equalled DKK 90.1 million, of which DKK 7.0 million are related to investment. The previous year wage expenses equalled 89.3 million, of which DKK 8.0 million was related to investment, such that DKK 81.3 million was booked to operations in 2019. Wage expenses for production facilities grew by DKK 1.4 million, based on more activity overall. The costs for the Grid section grew by DKK 2.1 million and this too is a result of more activity throughout the country. Wages expenses for administration declined by DKK 1.6 million, even though DKK 0.7 million was set aside to balance the employee pension fund and the wage debt for overtime, vacation, etc. One reason is that employees left for other work and the replacement employees had not yet been brought on board. Also the wage expenses grew consistent with the increases in the employment agreements that are in effect for the various work areas. Please refer to the detailed discussion found in Note 4 of the Consolidated Concern Accounts.

EBITDA DKK 17 MILLION HIGHER

The result before depreciation, interest and taxes is DKK 16.6 million greater than the previous year. Net debt during the same period grew by DKK 148 million, such that net debt to EBITDA is now a factor of 6.2, compared to 6.1 in the previous year.

The internal corporate mark is set at a factor of 6.0, while financial loan institutions permit companies to carry a net debt to EBITDA factor of up to 9.0. Thus, the Company is well within the requirement stipulated by the loan institutions, but the Company is focused on holding the internal mark and it is anticipated that it will come down to a factor of 6.0 in the coming year.

DEPRECIATION DKK 28 MILLION HIGHER

Depreciation is the next largest line-item expense in the accounts after oil expenses. The reason that this expense has increased over the past few years stems from the investment undertaken by the Company these last few years. The depreciation basis has, among other things, increased because of the addition of the new Station 3 at the Sund Power Plant. For a more detailed discussion of this cost, please refer to Note 7 in the Consolidated Concern Accounts.

INTEREST EXPENSES INCREASED DKK 3 MILLION

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

INVESTMENTS EQUALLED DKK 331 MILLION

Over the past year, the Company has made significant investment in both the grid and its production facilities, as well as in administration, equalling DKK 331 million. During the previous year, investment was somewhat higher at DKK 342 million.

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

Table 8
WORK-IN-PROGRESS, DKK MILLION

	2020	2019
Opening balance	829.5	682.1
Investment booked to work-in-progress	315.5	327.8
Work transferred to fixed assets	-870.9	-180.4
Closing balance	274.1	829.5
Changes to work-in-progress	-555.3	147.4

Talva 9
TRANSFER TO FIXED ASSETS, DKK MILLION

	2020	2019
Work transferred to fixed assets	870.9	180.4
Investments booked directly to fixed assets	15.6	14.0
Transfers at year-end	886.4	194.4

Tables 7 – 9 show the trend in investment, work-in-progress, and additions to fixed assets.

Please refer to the Grid and Production Accounts for further detailed information about investment in 2020.

LIQUIDITY IS GOOD

At the Extraordinary General Meeting in November 2020, the Company received permission to lengthen existing bank financing by up to one year, such that this financing shall be refinanced no later than November 2022.

Company operational liquidity was DKK 219 million, compared to DKK 176 million the previous year. Thus, self-financing for investment and instalment payments was positive. The loan facilities from finance institutions that the Company undertook in December 2016 and November 2019 stipulated that no instalments shall be paid, but that the debt shall be repaid in full when the loan period is fulfilled. The Company's cash-on-hand at year-end is DKK 224 million, compared to DKK 125 million the previous year. In addition, the unused drawing rights and credit lines in the banking institutions equal a total of DKK 303 million.

Thus, the cash-on-hand, credit lines and unused drawing rights equal DKK 527 million, compared to DKK 690 million the previous year. The largest portion of the unused drawing rights shall be used to finance investment in the coming years. It is critical to maintain stable liquidity for daily operations of the Company, as well as it is deemed important to have sufficient liquidity available, given the uncertainty of the financial markets around the world as well as the uncertainty arising from the coronavirus pandemic around the world.

PROSPECTS FOR OPERATIONAL YEAR 2021

No pricing changes are planned for 2021. The Company anticipates an operational profit in 2021 of around DKK 61.7 million before taxes. After taxes, the result is expected to be DKK 50.6 million. The prerequisites for a good profit in 2021 are 1) that the coronavirus pandemic does not significantly impact the production and export of fish products by the customers of the Company and 2) that the coronavirus pandemic otherwise does not lead to a major economic downturn in the Faroe Islands.

Electricity sales are expected to increase in 2021 by around 2.0% and thus production will also increase. Net revenue is expected to be DKK 548.8 million.

The new IMO2020 requirements have entered into effect. Besides the shipping industry, which uses heavy oil as fuel, SEV as well will be impacted by these global changes, especially regarding heavy oil, which are very severe. This is a major change relative to fuel oil.

These changes will have wide-ranging consequences for the entire oil market. The market at present is especially unstable as the real consequences of the new requirements are absorbed. The impact of the coronavirus is also contributing to this instability. Thus, it is difficult to evaluate the overall impact of these new circumstances. The fuel that SEV uses today is 1% LSFO [Low Sulphur Fuel Oil]. The Company has obtained a temporary waiver from the Faroese Environment Agency that enables the Company to shift over to 0.5% LSFO by the middle of 2021, but SEV is in dialogue with the government authorities

on the issue. It might be possible to shift over later in 2021 or 2022. Such a shift in fuel oil will contribute to increased oil expenses.

Oil expenses are at a high level at DKK 135.2 million, which, however, is lower than the costs seen in 2020. SEV expects to use some 46,933 tonnes of heavy oil in 2021, compared to 51,121 tonnes in 2020, which was lower than the previous year. In addition, comes gasoil and lubricating oil. The reason for this lower level of expense is that the Company anticipates an average production year from hydropower, plus it is expected that electricity production from wind will increase in 2021.

Expenses related to goods and services are expected to be some DKK 62.8 million, which is higher than the 2020 expense. Wage expenses will increase through normal wage increases, individual unique reorganization, and new employees expected to be placed in newly created positions. The budget outlines an operational cost for wages of DKK 80.7 million, which is somewhat lower than the costs experienced in 2020.

Depreciation is budgeted at DKK 157.8 million, compared to DKK 141.4 million in 2020. The reason behind the increase in depreciation is the investment undertaken by the Company. Net interest expenses are budgeted at DKK 50.6 million, which is higher than the costs in 2020. The increased interest expense reflects the increase in loan facilities for investment purposes undertaken by the Company, and the cost of refinancing of current debt and drawing rights. The costs of refinancing bank loan facilities are included in the financial costs for 2021, while the costs related to undertaking new debt for investment over the coming years is not included. The reason for this is the uncertainty relative to the timeline for planned projects. In the event that this work is completed in 2021, this will impact the final financial result. There is no set aside for the valuation adjustments relative to the financial tools that may be used.

It is anticipated that investment will be placed for DKK 307.2 million. Moreover, it is calculated that there will be an increase in loan facilities of DKK 90.0 million from current drawing rights. Long-term debt is expected to be DKK 1,688 million by

year-end 2021.

Cash-on-hand is expected to be DKK 112.3 million at year-end 2021 plus access to drawing rights for some DKK 342.8 million from the various banking institutions, or in total DKK 455.0 million. Thus, the liquidity of the Company is good.

It is budgeted that the financial key figures for net debt to EBITDA will be a factor of 6.0 and the equity capital basis will be 43.8%. More information about what SEV intends to do in this area can be found in the Operational, Financial and Investment Budget Plan for 2021 available at www.sev.fo.

EVENTS AFTER THE CLOSING OF THE ACCOUNTS

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

SPECIAL RISKS

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

MARKET RISKS

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

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

In connection with the loan facilities taken out by SEV, the various financial institutions reviewed SEV's key financial indicators for the most critical business areas; the requirements relative to these figures are quite specific and not negotiable. In order to obtain competitive financing, it is necessary for SEV to meet the specific requirements stipulated by the financial institutions and consistent with what SEV itself considers financially prudent to address the most critical risks relative to increasing costs. SEV is an interesting customer to provide financing to, and, according to SEV's consultants, it can be considered an "investment grade" client. This affords SEV the

possibility to secure excellent financing by any number of measures. In order for SEV to maintain this "ratings level", it is necessary to remain commercially viable with sufficient profit such that the key accounting figures are on a par with those of the companies against which SEV must compete for financing.

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

INTEREST RATE RISKS

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

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

In connection with SEV’s new loan facilities, SEV secured a fixed rate of interest on all of its gross debt as at year-end 2016 of DKK 1,042 million from a bond issue with an average repayment period of around 9.3 years. In addition, in December 2016, the Company executed interest rate swap agreements for the debt that would be assumed when and if the Company has need for bank financing as each new infrastructure investment is undertaken. This is consistent with the strategy to secure against interest rate risk. Thus, an increase in interest rates will, generally, not have an impact on the majority of the interest-bearing debt carried by SEV for the next eight years.

OIL PRICE AND EXCHANGE RATE RISKS

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

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

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

This benchmarking strategy is designed such that the hedging coverage is undertaken the initial year for a specific operational year. In year two, the respective hedging coverage is increased to cover a period of five years. This template ensures a

step-wise creation of secure hedging at a level that ensures an average pricing position during those various years. SEV has covered the risk with a fixed price hedge.

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

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

LIQUIDITY RISK

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

In addition, the Company shall always have at least DKK 100 million available in the bank, if the necessity should arise. In connection with the operation of the Company, this DKK 100 million is available to cover any exigencies for a period of 3-6 months in the event that the Company does not have any income. Moreover, SEV considers it desirable to have access to a line of credit that would support the liquidity of the Company, if necessary.

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

CREDIT AND COUNTER-PARTY RISKS

ACCOUNTS RECEIVABLE FROM CUSTOMERS

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

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

CASH-ON-HAND IN BANKS

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

BONDS

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

INSURANCE

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

OPERATIONAL RISKS

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

PRODUCTION SECURITY

The purpose of the Electricity Production Act is, among other factors, to ensure that the provision of electricity throughout the Faroe Islands takes into consideration production stability, the economy of

the country and the environment. The price of electricity shall not be higher than necessary to address these factors, as well as the other services/ obligations that the Company has toward its customers. SEV shall always maintain a secure and effective operation that meets the stipulated goal of production stability and security. The Company thus continually strives to enhance its production stability and the quality of its electric power production.

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

IT AND IN-HOUSE PROCEDURES

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

HEALTH AND SAFETY

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

ENVIRONMENT

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

STRATEGIC RISKS

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

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

NEW, DISRUPTIVE TECHNOLOGY

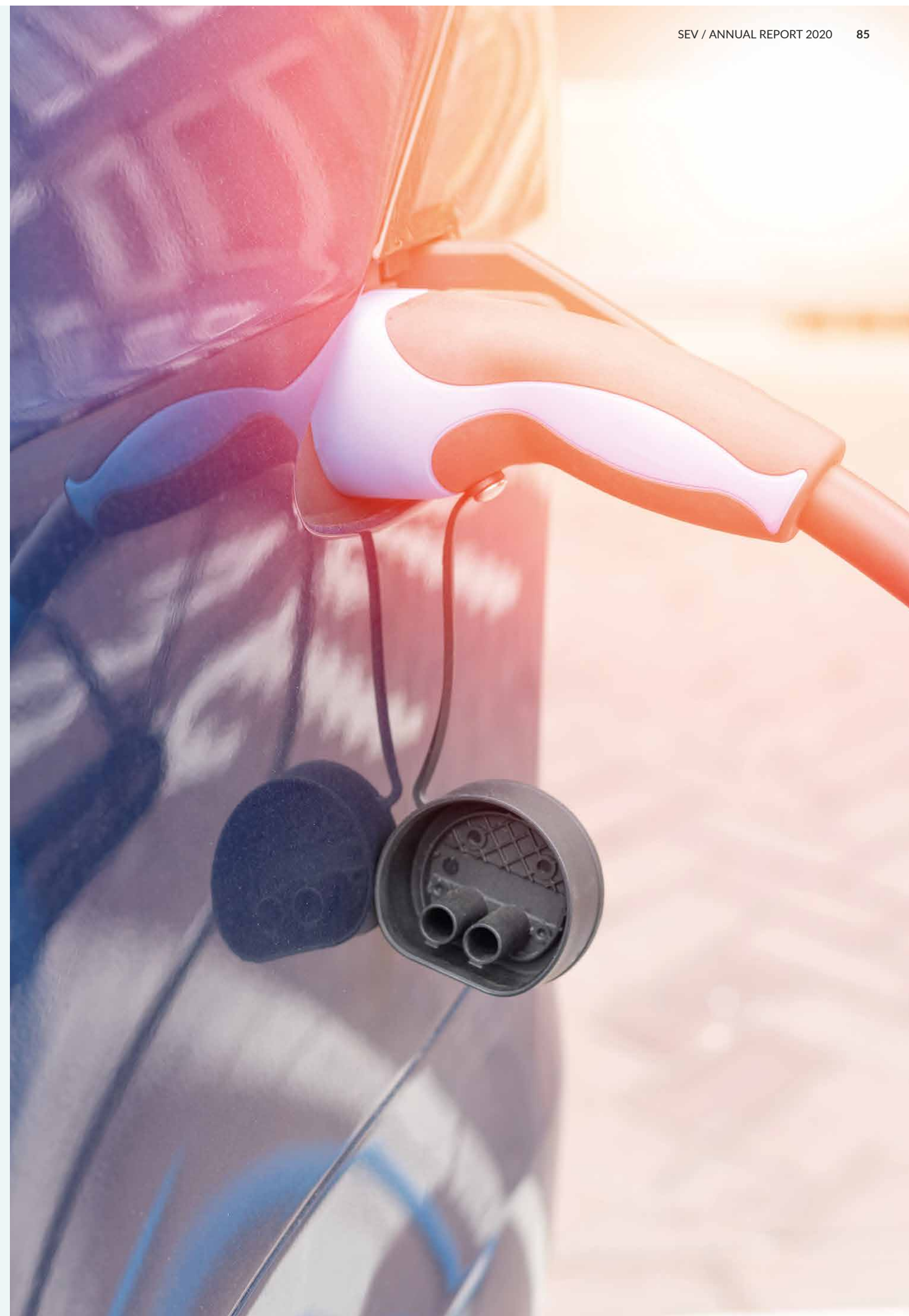
New, disruptive technology is continually evolving and impacting the world around us. Thus, SEV strives to follow and adapt the potential inherent in this evolving, disruptive technology.

PROJECTS

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

PROFESSIONAL KNOWLEDGE AND DEVELOPMENT

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



Accounting Principles

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

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

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

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

BASIS FOR RECOGNITION AND VALUATIONS

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

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

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

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

TRANSLATION OF FOREIGN CURRENCY

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

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

THE GROUP ACCOUNTS

The Group accounts comprise the parent company Elfelagið SEV and related companies where Elfelagið SEV directly or indirectly owns more than 50% of the voting rights, or by other means has controlling influence. Companies, where the Group owns between 20 and 50% of the voting rights and has substantial, but not controlling influence, are deemed associated companies, see the Group overview.

Through consolidation, all income and expenses, shareholdings, internal assets and liabilities, and dividends are eliminated. Realised and unrealised gains and losses from transaction between the consolidated companies are also eliminated.

Equity in subsidiary companies is adjusted by the proportionate share of the market value of the net assets and liabilities of the subsidiary companies on the acquisition date.

INCOME STATEMENT

NET SALES

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

CONSUMPTION OF GOODS AND SERVICES

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

OTHER EXTERNAL EXPENSES

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

SYSTEM SERVICES AND DISTRIBUTION OF INCOME

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

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

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

GRID CONTROL

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

DISTRIBUTION OF INCOME

According to the Electricity Production Act, the grid activities shall be self-supporting such that the

income earned is sufficient to pay for operations and planned necessary investment.

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

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

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

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

EMPLOYEE EXPENSES

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

DEPRECIATION AND WRITE-OFFS

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

FINANCIALS

Financials include interest receivable and interest payable, realised and unrealised capital gains and

losses on financial assets and debt. Financial revenue and expense are booked at value for the relevant accounting year.

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

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

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

BALANCE SHEET

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

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

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

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

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

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

Regarding own production assets the acquisition value includes the cost of supplies / consumables,

parts, suppliers, direct wage expense and indirect production costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

CURRENT AND DEFERRED TAXES
Current tax, payable and receivable, is recognised in the Balance Sheet as the tax computed on the basis of the taxable income for the year, adjusted for tax paid on account the previous year. Current tax payable and receivable tax are recognised based on

the set off permitted by law and the booked amounts generally calculated at net or current.

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

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

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

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

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

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

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

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

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

CASH FLOW HEDGES

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

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

LIABILITIES

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

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

Other debt is also measured at the amortised

realised value, which usually corresponds to the nominal value.

PREPAYMENTS

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

CASH FLOW STATEMENT

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

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

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

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

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

KEY FIGURES

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

The financial ratios are calculated as follows:	
Return on equity	<div>Annual result x 100</div> <div>Average equity</div>
Return on assets	<div>Result of ordinary operations x 100</div> <div>Average assets</div>
Net debt/EBITDA	<div>Net liabilities (liabilities – cash-on-hand)</div> <div>EBITDA</div>
Asset turnover	<div>Net sales</div> <div>Total assets</div>
Equity ratio	<div>Equity at year-end x 100</div> <div>Total assets</div>

Income Statement 1 January – 31 December

Amounts in 1,000 DKK		GROUP		PARENT	
Note		2020	2019	2020	2019
1	Net sales	550,432	508,788	534,187	489,393
2	Oil expenses	-164,546	-143,855	-164,546	-143,855
3, 5	Materials and services	-59,922	-57,457	-53,939	-51,146
	Gross proceeds	325,963	307,476	315,702	294,392
4	Wages	-83,167	-81,265	-83,074	-81,180
	EBITDA	242,796	226,211	232,628	213,212
	Depreciation	-141,418	-113,599	-131,050	-103,232
	Result before financial items	101,379	112,612	101,577	109,981
6, 9	Result from subsidiary companies	0	0	-1,557	587
6	Financial expenses	-40,167	-37,040	-38,433	-35,146
	Result before tax	61,212	75,572	61,587	75,422
7	Tax on annual result	-11,403	-13,194	-11,779	-13,043
	Annual result	49,809	62,379	49,809	62,379
Proposed distribution of result					
	Results carried forward	49,809	62,379	49,809	62,379
	Total distribution	49,809	62,379	49,809	62,379

Balance Sheet 31 December

ASSETS in 1,000 DKK		GROUP		PARENT	
Note		2020	2019	2020	2019
Tangible fixed assets					
8	Power plants	1,610,655	970,181	1,524,708	873,867
8	Distribution stations	790,530	713,952	790,530	713,952
8	Buildings and land	84,247	52,661	84,247	52,661
8	Operating equipment	39,938	43,563	39,938	43,563
8	Investment work-in-progress	274,141	829,483	200,071	825,442
Total tangible fixed assets		2,799,510	2,609,839	2,639,494	2,509,484
9	Investment in Associated and Subsidiary Companies	2,750	2,750	33,000	36,704
10	Loans to subsidiary companies	0	0	69,809	78,428
11	Derivatives	14,989	22,111	14,989	22,111
Total financial assets		17,739	24,861	117,798	137,243
Total fixed assets		2,817,250	2,634,700	2,757,292	2,646,727
Current assets					
Oil inventory					
		20,045	17,403	20,045	17,403
Materials inventory					
		17,087	21,870	17,087	21,870
Total inventory		37,133	39,273	37,133	39,273
12 Goods and services receivables					
		109,222	106,894	109,222	106,894
Inter-company account					
		0	0	58,405	0
Prepayments					
		20,503	12,109	16,538	9,133
Total recievables		129,724	119,003	184,164	116,027
Cash-on-hand					
		223,854	125,123	223,854	125,123
Total current assets		390,711	283,398	445,150	280,423
Total assets		3,207,960	2,918,099	3,202,443	2,927,150

Balance Sheet 31 December

LIABILITIES in 1,000 DKK		GROUP		PARENT	
Note		2020	2019	2020	2019
Equity					
13	Deposits	4,140	4,140	4,140	4,140
Hedge reserve					
		-44,317	-21,240	-42,170	-21,240
Reserve for net revaluation as per the equity method					
		0	0	1,250	4,954
Results carried forward		1,411,730	1,361,922	1,408,333	1,356,968
Total equity		1,371,553	1,344,822	1,371,553	1,344,822
Provisions					
Provisions for pensions and equivalent liabilities					
		20,155	19,598	20,155	19,598
7	Deferred tax	3,480	2,540	2,734	1,419
Total provisions		23,635	22,139	22,890	21,017
Liabilities					
14 Long-term debt					
		1,638,143	1,446,277	1,638,143	1,446,277
Total long-term debt		1,638,143	1,446,277	1,638,143	1,446,277
14 Current portion of long-term debt					
		870	870	870	870
Bank debt					
		0	7	0	7
Prepayments received from customers					
		1,239	1,199	1,239	1,199
Trade creditors					
		47,415	34,241	47,415	34,241
Inter-company account					
		0	0	0	10,576
11 Derivatives					
		93,167	42,160	91,020	42,160
Other creditors					
		31,938	26,383	29,313	25,980
Total short-term debt		174,629	104,861	169,857	115,034
Total debt		1,812,772	1,551,138	1,808,000	1,561,311
Total liabilities		3,207,960	2,918,099	3,202,443	2,927,150
15	Mortgages and other obligations				
16	Contingencies				

Cash Flow Statement

Note	Amounts in 1,000 DKK	GROUP 2020	GROUP 2019
	Annual result	49,809	62,379
17	Adjustments	192,988	163,833
	Changes in working capital:		
	Inventories	2,140	4,721
	Receivables	-10,722	-18,529
	Trade creditors	13,174	-20,884
	Other operating debt	6,151	13,998
	Operating cash flows before financials	253,540	205,516
	Interest expenses paid and equivalent expenses	-34,128	-29,423
	Cash flows from operations	219,411	176,093
	Purchase of tangible fixed assets	-886,431	-194,399
	Changes to work-in-progress	555,342	-147,357
	Cash flow from investments	-331,089	-341,756
	Loan facilities	210,415	100,000
	Bank overdraft withdrawals	-7	1
	Cash flow from financing	210,408	100,001
	Total cash flow during the year	98,731	-65,662
	Opening cash-on-hand	125,123	190,785
	Closing cash-on-hand	223,854	125,123
	Lines of credit	302,758	564,913
	Total	526,612	690,036



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Notes



Notes 1–3

1. NET SALES

Amounts in 1,000 DKK	GROUP		PARENT	
	2020	2019	2020	2019
kWh charges etc.	522,833	469,997	522,833	469,997
Fixed charges	18,039	17,381	18,039	17,381
Connection fees	11,187	24,014	11,187	24,014
Other charges, reminders and other sales	2,178	-266	1,328	-266
Purchase of wind power etc.	-3,805	-2,338	-19,199	-21,733
Total	550,432	508,788	534,187	489,393

2. OIL EXPENSES

Amounts in 1,000 DKK	GROUP		PARENT	
	2020	2019	2020	2019
Gas oil	5,117	26,520	5,117	26,520
Heavy fuel oil	149,710	109,585	149,710	109,585
Lubricating oil	9,720	7,749	9,720	7,749
Total	164,546	143,855	164,546	143,855

3. MATERIALS AND SERVICES

Amounts in 1,000 DKK	GROUP		PARENT	
	2020	2019	2020	2019
Lines	3,561	2,851	3,561	2,851
Dams, pipelines and tunnels	219	83	219	75
Tanks and environmental	710	206	710	206
Engines	10,125	10,481	5,289	5,482
Electric and technical	663	462	663	462
Buildings and land	2,541	2,533	2,295	2,350
General meeting and Board	294	501	294	501
Studies and consultancy	4,839	10,552	4,778	9,999
IT	8,699	7,370	8,699	7,370
Management and office expenses	2,922	2,664	2,922	2,664
Loss on unpaid debt	1,237	-538	1,237	-538
Other operating expenses	1,669	890	1,666	888
Other administrative expenses	22,445	19,403	21,608	18,837
Total	59,922	57,457	53,939	51,146

Notes 4–7

4. EMPLOYEE EXPENSES

Amounts in 1,000 DKK	GROUP		PARENT	
	2020	2019	2020	2019
Wages	71,255	70,278	71,163	70,192
Pensions	8,362	7,681	8,362	7,681
Contributions	3,550	3,306	3,550	3,306
Total	83,167	81,265	83,074	81,180
Included in employee expenses are:				
Management and Board of Directors	2,147	2,133	2,147	2,133
Total	2,147	2,133	2,147	2,133
Full-time equivalent employees	160	161	160	161
Average number of employees	174	178	174	178

5. AUDITOR'S REMUNERATION

Amounts in 1,000 DKK	GROUP		PARENT	
	2020	2019	2020	2019
Auditing	414	480	352	420
Other certification	132	131	106	105
Other services and advisory	75	312	75	312
Total	621	922	533	836

6. FINANCIAL ITEMS

Amounts in 1,000 DKK	GROUP		PARENT	
	2020	2019	2020	2019
Result from subsidiary companies	0	0	1,557	-587
Interest on loans	35,820	33,616	34,089	31,723
Establishment fees, commissions	3,311	2,090	3,311	2,090
Unrealised exchange rate gains or losses	-19,644	127	-19,644	127
Unrealised adjustments on derivatives	21,636	817	21,636	817
Other interest expenses	-955	391	-957	389
Total	40,167	37,040	39,990	34,559

7. TAXES ON ANNUAL RESULT

Amounts in 1,000 DKK	GROUP		PARENT	
	2020	2019	2020	2019
Adjustment of deferred tax	-11,403	-13,194	-11,779	-13,043
Tax during the year according to profit and loss account	-11,403	-13,194	-11,779	-13,043
Provision deferred tax opening balance 1 January	-2,540	-25,087	-1,419	-23,981
Adjustment to prior years	0	23,981	0	23,846
Adjustment of deferred tax from profit and loss account	-11,403	-13,194	-11,779	-13,043
Adjustment of deferred tax in equity due to derivatives	10,463	11,759	10,463	11,759
Provision deferred tax closing balance 31 December	-3,480	-2,540	-2,735	-1,419

Note 8

8. TANGIBLE FIXED ASSETS, GROUP						
Amounts in 1,000 DKK	Production	Grid	Buildings	Equipment	Total 2020	2019
Acquisition value opening balance	2,177,879	1,270,538	89,656	221,105	3,759,178	3,564,778
Additions during the year	732,163	111,288	34,337	10,375	888,164	194,961
Disposals during the year	0	0	0	-1,732	-1,732	-562
Acquisition value closing balance	2,910,042	1,381,826	123,993	229,748	4,645,609	3,759,178
Depreciation opening balance	-1,207,698	-556,586	-36,995	-177,542	-1,978,821	-1,865,222
Depreciation for the year	-91,689	-34,710	-2,751	-14,000	-143,150	-114,161
Depreciation reversed on disposals	0	0	0	1,732	1,732	562
Depreciation closing balance	-1,299,387	-591,296	-39,746	-189,810	-2,120,239	-1,978,821
Book value year-end	1,610,655	790,530	84,247	39,938	2,525,370	1,780,356
Book value year-end 2019	970,181	713,952	52,661	43,563	1,780,356	
Work-in-progress						
Opening balance	691,859	118,718	13,396	5,510	829,483	682,126
Investment booked to work-in-progress	163,449	128,175	20,963	2,924	315,511	327,784
Completed work transferred to depreciation	-731,143	-103,976	-34,007	-1,727	-870,853	-180,428
Closing balance	124,165	142,917	352	6,707	274,141	829,483
Closing balance year-end 2019	692,604	117,973	13,396	5,510	829,483	
Fixed assets year-end	1,734,820	933,447	84,599	46,644	2,799,510	2,609,839
Fixed assets year-end 2019	1,662,784	831,925	66,057	49,073	2,609,839	

Note 8

8. TANGIBLE FIXED ASSETS, PARENT						
Amounts in 1,000 DKK	Production	Grid	Buildings	Equipment	Total 2020	2019
Acquisition value opening balance	2,040,181	1,270,538	89,656	221,105	3,621,479	3,427,080
Additions during the year	732,163	111,288	34,337	10,375	888,164	194,961
Disposals during the year	0	0	0	-1,732	-1,732	-562
Acquisition value closing balance	2,772,344	1,381,826	123,993	229,748	4,507,910	3,621,479
Depreciation opening balance	-1,166,314	-556,586	-36,995	-177,542	-1,937,437	-1,834,205
Depreciation for the year	-81,321	-34,710	-2,751	-14,000	-132,783	-103,793
Depreciation reversed on disposals	0	0	0	1,732	1,732	562
Depreciation closing balance	-1,247,635	-591,296	-39,746	-189,810	-2,068,487	-1,937,437
Book value year-end	1,524,708	790,530	84,247	39,938	2,439,423	1,684,042
Book value year-end 2019	873,867	713,952	52,661	43,563	1,684,042	
Work-in-progress						
Opening balance	687,818	118,718	13,396	5,510	825,442	679,887
Investment booked to work-in-progress	93,420	128,175	20,963	2,924	245,482	325,982
Completed work transferred to depreciation	-731,143	-103,976	-34,007	-1,727	-870,853	-180,428
Closing balance	50,095	142,917	352	6,707	200,071	825,442
Closing balance year-end 2019	687,818	118,718	13,396	5,510	825,442	
Fixed assets year-end	1,574,804	933,447	84,599	46,644	2,639,494	2,509,484
Fixed assets year-end 2019	1,561,684	832,670	66,057	49,073	2,509,484	

Notes 9–12

9. INVESTMENTS IN ASSOCIATED AND SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	31.12.20	31.12.19
Acquisition value opening balance	31,750	31,750
Acquisition value closing balance	31,750	31,750
Subsidiary companies' result opening balance	4,954	4,367
Result from subsidiary companies	-1,557	587
Adjustment derivatives	-2,147	0
Subsidiary companies' result closing balance	1,250	4,954
Carrying amount year-end	33,000	36,704

ASSOCIATED AND SUBSIDIARY COMPANIES:

Amounts in 1,000 DKK	Share	Equity	Annual result	Recognized value
P/F Fjarhitafelagið, Tórshavn	50%	62,949	467	2,750
P/F Vindfelagið í Húshaga	100%	20,867	-406	20,867
P/F Vindfelagið í Neshaga	100%	9,383	-3,298	9,383

The financial statement for P/F Fjarhitafelagið for the year 2020 is not available. The numbers shown are from 2019.

10. LOANS TO SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	Duration	Loan amount	Balance 31.12.20	Repayment next year	Balance in 5 years
P/F Vindfelagið í Húshaga	12 ár	75,000	52,166	6,030	27,230
P/F Vindfelagið í Neshaga	10 ár	28,175	17,643	2,781	6,142
Total		103,175	69,809	8,811	33,372

11. DERIVATIVES, GROUP

Amounts in 1,000 DKK	Assets 31.12.20	Liabilities 31.12.20	Total 31.12.20	31.12.19
Oil-price hedge	0	-17,318	-17,318	13,407
Currency hedge	0	-35,879	-35,879	7,117
Interest rate hedge	14,989	-39,970	-24,981	-40,573
Total	14,989	-93,167	-78,178	-20,049

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

12. GOODS AND SERVICES DEBTORS

Amounts in 1,000 DKK	31.12.20	31.12.19
Goods and services debtors	110,044	105,948
Other debtors	2,515	3,299
Receivables write-down	-3,338	-2,353
Total	109,222	106,894

Note 13

13. EQUITY, GROUP

Amounts in 1,000 DKK	Deposit	Derivatives reserve	Result carried over	Total
Equity statement 01.01.19 - 31.12.19				
Opening balance 01.01.19	4,140	-53,840	1,257,423	1,207,723
Adjustment to derivatives	0	32,600	0	32,600
Correction to prior years' deferred tax *	0	0	42,120	42,120
Annual result	0	0	62,379	62,379
Closing balance 31.12.19	4,140	-21,240	1,361,922	1,344,822

Equity statement 01.01.20 - 31.12.20				
Opening balance 01.01.20	4,140	-21,240	1,361,922	1,344,822
Adjustment to derivatives	0	-23,078	0	-23,078
Annual result	0	0	49,809	49,809
Closing balance 31.12.20	4,140	-44,317	1,411,730	1,371,553

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

13. EQUITY, PARENT

Amounts in 1,000 DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
Equity statement 01.01.19 - 31.12.19					
Opening balance 01.01.19	4,140	-53,840	4,367	1,253,055	1,207,723
Adjustment to derivatives	0	32,600	0	0	32,600
Correction to prior years' deferred tax *	0	0	0	42,120	42,120
Result from subsidiary companies	0	0	587	-587	0
Annual result	0	0	0	62,379	62,379
Closing balance 31.12.19	4,140	-21,240	4,954	1,356,968	1,344,822

Equity statement 01.01.20 - 31.12.20					
Opening balance 01.01.20	4,140	-21,240	4,954	1,356,968	1,344,822
Adjustment to derivatives	0	-20,930	-2,147	0	-23,078
Result from subsidiary companies	0	0	-1,557	1,557	0
Annual result	0	0	0	49,809	49,809
Closing balance 31.12.20	4,140	-42,170	1,250	1,408,333	1,371,553

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

Notes 14–17

14. LONG-TERM DEBT					
Amounts in 1,000 DKK	Interest due	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.20	Total debt 31.12.19
Debt to financial institutions	870	0	1,638,143	1,638,143	1,446,277
Total	870	0	1,638,143	1,638,143	1,446,277
Eingin avdráttur er fyrsta árið, og verandi lániavtala fellur til gjaldingar innan í miðal 6,3 ár.					

15. MORTGAGES AND OTHER OBLIGATIONS 31.12.20	
As security for import duty credit, a guarantee of DKK 1.4 million has been issued to TAKS, and as security for credit cards, the company is liable for guarantees of DKK 3.7 million. A payment guarantee for purchase of motors of DKK 5.1 million has been issued. Total obligations DKK 10.2 million.	

16. CONTINGENCIES	
The group has a contingency of DKK 4.1 million for 2021 due to operations and rental agreements of subsidiary companies.	

17. ADJUSTMENTS		
Amounts in 1,000 DKK	2020	2019
Interest expensed and equivalent expenses	38,175	36,097
Unrealised interest expenses	1,992	943
Depreciation	141,418	113,599
Tax	11,403	13,194
Total	192,988	163,833

Note 18

18. EQUITY DISTRIBUTION				
Amounts in 1,000 DKK	Municipal contribution	Equity 2020	Equity % 2020	Equity 2019
Eiðis	78.6	19,904	1.5	19,599
Eysturkommuna	146.5	57,157	4.2	55,455
Fámjins	23.1	2,220	0.2	2,135
Fuglafjarðar	136.3	40,609	3.0	40,896
Fugloyar	17.5	1,058	0.1	977
Hovs	22.9	2,504	0.2	2,546
Húsavíkar	25.1	2,866	0.2	2,958
Hvalbiar	103.6	17,323	1.3	17,465
Hvannasunds	36.4	10,765	0.8	10,700
Klaksvíkar	537.8	138,040	10.1	135,035
Kunoyar	12.6	3,640	0.3	4,012
Kvívíkar	59.1	16,187	1.2	15,355
Nes / Runavíkar	332.1	145,088	10.6	141,543
Porkeris	51.0	8,235	0.6	8,179
Sands	72.3	13,889	1.0	13,709
Sjóvar	92.9	28,708	2.1	28,010
Skálavíkar	30.8	3,743	0.3	3,704
Skopunar	71.0	11,772	0.9	11,317
Skúvoyar	17.9	1,110	0.1	1,029
Sørvágs	127.5	9,036	0.7	9,208
Sumbiar	81.4	46,831	3.4	46,581
Sunda	177.4	31,496	2.3	31,817
Tórshavnar	1,092.5	577,537	42.2	564,010
Tvøroyrar	255.3	45,153	3.3	44,137
Vága kommuna	169.6	55,247	4.0	54,786
Vágs	218.4	35,910	2.6	34,595
Vestmanna	125.3	32,245	2.4	31,997
Víðareiðis	25.3	9,139	0.7	8,925
Tilsamans	4,139.9	1,367,413	100.0	1,340,682

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Group Activity by Division



Group / Profit & Loss

Production and Grid

PROFIT & LOSS				2020			2019		
Amounts in 1,000 DKK	Production	Grid	Total	Production	Grid	Total	Production	Grid	Total
Revenues	358,659	191,773	550,432	328,266	180,522	508,788			
Oil expenses	-164,377	-169	-164,546	-143,665	-190	-143,855			
Materials and services	-26,104	-33,818	-59,922	-27,590	-29,867	-57,457			
Wages	-39,866	-43,301	-83,167	-38,497	-42,768	-81,265			
Result of ordinary operations	128,312	114,484	242,796	118,514	107,697	226,211			
Depreciation	-92,284	-49,133	-141,418	-69,170	-44,430	-113,599			
Result before financial items	36,027	65,351	101,379	49,344	63,268	112,612			
Net financial items	-18,434	-21,733	-40,167	-16,476	-20,564	-37,040			
Result before tax	17,593	43,618	61,212	32,869	42,704	75,572			
Tax	376	-11,779	-11,403	-150	-13,043	-13,194			
Annual result	17,969	31,839	49,809	32,718	29,660	62,379			

Parent / Profit & Loss

Production and Grid

PROFIT & LOSS				2020			2019		
Amounts in 1,000 DKK	Production	Grid	Total	Production	Grid	Total	Production	Grid	Total
Revenues	342,415	191,773	534,187	308,871	180,522	489,393			
Oil expenses	-164,377	-169	-164,546	-143,665	-190	-143,855			
Materials and services	-20,121	-33,818	-53,939	-21,279	-29,867	-51,146			
Wages	-39,773	-43,301	-83,074	-38,412	-42,768	-81,180			
Result of ordinary operations	118,143	114,484	232,628	105,515	107,697	213,212			
Depreciation	-81,917	-49,133	-131,050	-58,802	-44,430	-103,232			
Result before financial items	36,226	65,351	101,577	46,713	63,268	109,981			
Net financial items	-16,700	-23,290	-39,990	-14,581	-19,977	-34,559			
Result before tax	19,526	42,061	61,587	32,131	43,291	75,422			
Tax	0	-11,779	-11,779	0	-13,043	-13,043			
Annual result	19,526	30,283	49,809	32,131	30,247	62,379			

Group / Assets

Production and Grid

ASSETS				2020			2019		
Amounts in 1,000 DKK	Production	Grid	Total	Production	Grid	Total	Production	Grid	Total
Real estate, power plants, etc.	1,616,386	908,984	2,525,370	976,318	804,039	1,780,356			
Investment work-in-progress	109,161	164,980	274,141	688,642	140,841	829,483			
Fixed assets	1,725,546	1,073,964	2,799,510	1,664,960	944,880	2,609,839			
Share equity	0	2,750	2,750	0	2,750	2,750			
Derivatives	0	14,989	14,989	0	22,111	22,111			
Financial fixed assets	0	17,739	17,739	0	24,861	24,861			
Total fixed assets	1,725,546	1,091,704	2,817,250	1,664,960	969,740	2,634,700			
Oil inventory	20,045	0	20,045	17,403	0	17,403			
Materials inventory	0	17,087	17,087	0	21,870	21,870			
Total inventory	20,045	17,087	37,133	17,403	21,870	39,273			
Electricity debtors	0	109,222	109,222	0	106,894	106,894			
Other debtors/tax asset	249	0	249	126	0	126			
Inter-company account	5,135	194,159	199,294	10,576	147,816	158,392			
Other receivables/accruals	4,238	18,306	22,544	3,089	11,061	14,150			
Total receivables	9,622	321,686	331,308	13,790	265,771	279,561			
Cash-on-hand	0	223,854	223,854	0	125,123	125,123			
Total current assets	29,667	562,627	592,295	31,193	412,764	443,957			
Total assets	1,755,214	1,654,331	3,409,544	1,696,153	1,382,505	3,078,657			

Included in Inter-company account Grid is share capital DKK 29 million in subsidiary companies, as well as their total result from inception in 2016 of DKK 1,250 thousand.

Parent / Assets

Production and Grid

ASSETS				2020			2019		
Amounts in 1,000 DKK	Production	Grid	Total	Production	Grid	Total	Production	Grid	Total
Real estate, power plants, etc.	1,530,439	908,984	2,439,423	880,004	804,039	1,684,042			
Investment work-in-progress	35,091	164,980	200,071	684,601	140,841	825,442			
Fixed assets	1,565,530	1,073,964	2,639,494	1,564,605	944,880	2,509,484			
Share equity	0	33,000	33,000	0	36,704	36,704			
Loans to subsidiary companies	0	69,809	69,809	0	78,428	78,428			
Derivatives	0	14,989	14,989	0	22,111	22,111			
Financial fixed assets	0	117,798	117,798	0	137,243	137,243			
Total fixed assets	1,565,530	1,191,762	2,757,292	1,564,605	1,082,122	2,646,727			
Oil inventory	20,045	0	20,045	17,403	0	17,403			
Materials inventory	0	17,087	17,087	0	21,870	21,870			
Total inventory	20,045	17,087	37,133	17,403	21,870	39,273			
Electricity debtors	0	109,222	109,222	0	106,894	106,894			
Inter-company account	0	163,909	163,909	0	113,862	113,862			
Other receivables/accruals	273	16,264	16,538	113	9,020	9,133			
Total receivables	273	289,395	289,668	113	229,775	229,889			
Cash-on-hand	0	223,854	223,854	0	125,123	125,123			
Total current assets	20,318	530,336	550,654	17,516	376,769	394,284			
Total assets	1,585,849	1,722,098	3,307,947	1,582,121	1,458,891	3,041,012			

Group / Liabilities

Production and Grid

LIABILITIES				2020			2019		
Amounts in 1,000 DKK	Production	Grid	Total	Production	Grid	Total	Production	Grid	Total
Deposit	29,000	4,140	4,140	29,000	4,140	4,140			
Capital account	809,307	558,106	1,367,413	788,531	552,151	1,340,682			
Total equity	838,307	562,246	1,371,553	817,531	556,291	1,344,822			
Pensions	0	20,155	20,155	0	19,598	19,598			
Deferrec tax	994	2,734	3,729	1,247	1,419	2,666			
Total provisions	994	22,890	23,884	1,247	21,017	22,264			
Long-term debt	724,439	904,893	1,629,333	733,250	704,408	1,437,658			
Current portion of long-term debt	8,811	870	9,681	8,619	870	9,489			
Bank loans	0	0	0	0	7	7			
Prepayments	0	1,166	1,166	0	1,199	1,199			
Inter-company account	169,044	1,250	199,294	129,392	0	158,392			
Other creditors/accruals	11,471	22,582	34,053	6,114	22,311	28,425			
Trade creditors	0	47,415	47,415	0	34,241	34,241			
Derivatives	2,147	91,020	93,167	0	42,160	42,160			
Total debt	915,912	1,069,196	2,014,108	877,375	805,197	1,711,571			
Total liabilities	1,755,214	1,654,331	3,409,544	1,696,153	1,382,505	3,078,657			

Included in Inter-company account Grid is share capital DKK 29 million in subsidiary companies, as well as their total result from inception in 2016 of DKK 1,250 thousand.

Parent / Liabilities

Production and Grid

LIABILITIES				2020			2019		
Amounts in 1,000 DKK	Production	Grid	Total	Production	Grid	Total	Production	Grid	Total
Deposit	0	4,140	4,140	0	4,140	4,140			
Capital account	808,057	559,356	1,367,413	788,531	552,151	1,340,682			
Total equity	808,057	563,496	1,371,553	788,531	556,291	1,344,822			
Pensions	0	20,155	20,155	0	19,598	19,598			
Deferrec tax	0	2,734	2,734	0	1,419	1,419			
Total provisions	0	22,890	22,890	0	21,017	21,017			
Long-term debt	663,441	974,702	1,638,143	663,441	782,836	1,446,277			
Current portion of long-term debt	0	870	870	0	870	870			
Bank loans	0	0	0	0	7	7			
Prepayments	0	1,166	1,166	0	1,199	1,199			
Inter-company account	105,504	0	105,504	124,438	0	124,438			
Other creditors/accruals	8,846	20,540	29,386	5,711	20,269	25,980			
Trade creditors	0	47,415	47,415	0	34,241	34,241			
Derivatives	0	91,020	91,020	0	42,160	42,160			
Total debt	777,792	1,135,713	1,913,504	793,590	881,583	1,675,172			
Total liabilities	1,585,849	1,722,098	3,307,947	1,582,121	1,458,891	3,041,012			

Group / Profit & Loss

Production and Grid by departments

DISTRIBUTION OF REVENUE					
Amounts in 1,000 DKK	Production		Grid	Total 2020	2019
Sales	830		553,407	554,236	511,126
Own production and purchased electricity	334,759		-338,564	-3,805	-2,338
Grid responsibility and grid management	23,070		-23,070	0	0
Total revenue	358,659		191,773	550,432	508,788
PRODUCTION	Thermal	Hydro	Wind	Total 2020	2019
Revenue	282,089	60,129	16,441	358,659	328,266
Oil expenses	-163,460	-917	0	-164,377	-143,665
Material and services	-15,010	-4,990	-6,104	-26,104	-27,590
Wages	-29,680	-10,090	-97	-39,866	-38,497
Depreciation	-51,548	-30,313	-10,423	-92,284	-69,170
Interest	-11,549	-5,151	-1,734	-18,434	-16,476
Tax			376	376	-150
Production result	10,843	8,667	-1,541	17,969	32,718
GRID	Grid excl. Management	Management		Total 2020	2019
Revenue	-985	192,758		191,773	180,522
Oil expenses	-169	0		-169	-190
Material and services	-12,311	-21,507		-33,818	-29,867
Wages	-26,114	-17,187		-43,301	-42,768
Depreciation	-41,607	-7,526		-49,133	-44,430
Interest	0	-21,733		-21,733	-20,564
Tax	0	-11,779		-11,779	-13,043
Grid result	-81,186	113,026		31,839	29,660

Parent / Profit & Loss

Production and Grid by departments

DISTRIBUTION OF REVENUE					
Amounts in 1,000 DKK	Production		Grid	Total 2020	2019
Sales	-20		553,407	553,386	511,126
Own production and purchased electricity	319,365		-338,564	-19,199	-21,733
Grid responsibility and grid management	23,070		-23,070	0	0
Total revenue	342,415		191,773	534,187	489,393
PRODUCTION	Thermal	Hydro	Wind	Total 2020	2019
Revenue	282,089	60,129	197	342,415	308,871
Oil expenses	-163,460	-917	0	-164,377	-143,665
Material and services	-15,010	-4,990	-121	-20,121	-21,279
Wages	-29,680	-10,090	-4	-39,773	-38,412
Depreciation	-51,548	-30,313	-56	-81,917	-58,802
Interest	-11,549	-5,151	0	-16,700	-14,581
Production result	10,843	8,667	16	19,526	32,131
GRID	Grid excl. Management	Management		Total 2020	2019
Revenue	-985	192,758		191,773	180,522
Oil expenses	-169	0		-169	-190
Material and services	-12,311	-21,507		-33,818	-29,867
Wages	-26,114	-17,187		-43,301	-42,768
Depreciation	-41,607	-7,526		-49,133	-44,430
Interest	0	-23,290		-23,290	-19,977
Tax	0	-11,779		-11,779	-13,043
Grid result	-81,186	111,469		30,283	30,247



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