An aerial photograph showing a winding asphalt road along a steep, grassy cliffside. The road curves towards the left, with a few small cars visible. Below the road is a dark, rocky shoreline meeting a vast, deep blue body of water, likely a fjord. In the background, steep, forested hills rise from the water's edge, with snow-capped peaks visible under a sky with scattered white clouds.

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

# Elfelagið SEV Grid Accounts 2019







# Management Report

The Board of Directors and Management hereby submit SEV's Grid Annual Report and Accounts for fiscal year 1 January - 31 December 2019. The Grid Accounts are also a part of the Group's Annual Report.

The Report is drawn up pursuant to the Faroese Financial Statements Act.

It is our opinion that the accounting methods used are suitable and that the Accounts give a true and fair view of the Company's assets, liabilities, financial position as at 31 December 2019 and the

result of operations and cash flow for fiscal year 1 January - 31 December 2019.

It also our opinion that the Management Review constitutes a true and fair report on the matters included in it.

The Annual Report is submitted to the Annual General Meeting with a recommendation for approval.

Tórshavn, 3 April 2020

## Management

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*Hákun Djurhuus*  
Managing Director, CEO

## Financial Management

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*Bogi Bendtsen*  
Director of Administration, CFO

## Board

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*John Zachariassen*  
Chairman

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*Hans Jákup Johannesen*  
Vice Chairman

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*Marin Katrina Frýdal*

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*Jónsvein Hovgaard*

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*Sune Jacobsen*

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*Vinjard Tungá*

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*Kristian Eli Zachariasen*

# Independent Auditor's Report

## TO THE MANAGEMENT OF ELFELAGIÐ SEV

### OPINION

We have audited the grid accounts of Elfelagið SEV for the financial year 1 January - 31 December 2019, which comprise Income Statement, Statement of Financial Position, cash flow statement, and notes. The amounts in the grid accounts are part of the annual accounts for Elfelagið SEV for the financial year 1 January – 31 December 2019, which we have audited.

In our opinion, the grid accounts for Elfelagið SEV for the financial year 1 January - 31 December 2019 in all material aspects are prepared in accordance with the accounting principles described in the grid accounts.

### BASIS OF OPINION

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in Faroe Islands. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the grid 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 Faroe Islands, and we have fulfilled our additional 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.

### EMPHASIS OF MATTER IN THE GRID ACCOUNTS – ACCOUNTING PRINCIPLES

We draw the attention to the introduction in this statement of which it appears that the grid accounts are prepared in accordance with the accounting principles described in the grid accounts.

This has not affected our opinion on the grid accounts.

### THE MANAGEMENT'S RESPONSIBILITIES FOR THE GRID ACCOUNTS

The management is responsible for the preparation of grid accounts in accordance with the accounting principles described in the grid accounts. The

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

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE GRID ACCOUNTS

Our objectives are to obtain reasonable assurance about whether the grid 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 on aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of these grid 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the grid 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 overriding of internal control.
- Obtain an understanding of the internal controls 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 company's internal controls.

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

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.

Tórshavn, 3 April 2020

P/F JANUAR

State Authorised Public Accountants

Hans Laksá  
State Auth. Auditor

Jógvan Amonsson  
State Auth. Auditor

## Key Figures

Amounts in 1,000 DKK	2019	2018	2017	2016	2015
<b>Income Statement</b>					
Net sales	511,096	429,648	434,900	421,436	417,605
EBITDA	107,697	102,611	90,602	90,739	125,810
Result before financial items	63,268	61,696	55,684	56,661	91,454
Financial items	-19,977	-24,102	-21,348	-35,106	-13,609
<b>Annual result</b>	<b>30,247</b>	<b>28,625</b>	<b>33,302</b>	<b>12,351</b>	<b>77,844</b>
<b>Balance Sheet</b>					
Total assets	1,458,891	1,601,382	1,337,184	1,295,072	999,388
<b>Equity</b>	<b>556,291</b>	<b>451,323</b>	<b>449,456</b>	<b>449,734</b>	<b>432,052</b>



# Management Review

## MAIN ACTIVITIES

Elfelagið SEV is an inter-municipal cooperative electricity utility company. The purpose of the Company is to generate electric power and distribute it to its customers in the participating municipalities. According to the Articles of Association, the Company is to carry out its purpose consistent with economically sound commercial principles with due regard for the environment.

The accounts for the power grid activities of SEV are a part of the consolidated accounts of SEV. This review encompasses SEV's power grid activities, including administration, for the period 1 January 2019 to 31 December 2019.

## INDEPENDENT ACCOUNTS

Beginning with fiscal year 2011, SEV began to maintain separate financial accounts for production and power grid activities. In this regard, SEV calculates production unit profit by using the same method as prescribed in the tender rounds for wind power.

The inclusion of profit is to provide a truer picture of the operations of the production unit, compared to the profit and asset appreciation of the production unit. Consequently, 2011 was the first time that profit from production activities was compared to power grid activities.

For the Production Division, this means that it shall cover all of its costs, including the costs for grid administration and security. Moreover, the Production Division shall have a profit corresponding to around 5% of equity capital at the beginning of the year. It is projected that profit in 2019 will be DKK 38.0 million, compared to DKK 37.5 million in 2018, equalling 5.0% of equity capital at the beginning of the year for the Production Division. SEV believes that a profit of 5% is a reasonable profit at present, compared to inflation and other investment possibilities.

According to the Electricity Production Act, Grid activities shall be financially self-sufficient, such that revenue is sufficient to cover operations and planned necessary investment in infrastructure. For the Grid Division, this means that it can have a revenue that covers Grid-related operational

expenses, as well as planned infrastructure investment.

## REQUIREMENT FOR SELF-FINANCING

Income for necessary investment is based on the need for self-financing. When infrastructure investment is needed, a portion of the investment required shall be self-funded, thus negating that the entire investment is financed by a loan facility. SEV has determined that self-financing of some 25% is sufficient and since 2016 the Production and Grid accounts reflect this expectation.

The decision regarding self-financing is based on the budgeted investment for both Production and Grid. Henceforward, the level of self-financing is set at 25%. This level shall be viewed in the context of budgeted investment over a rolling period of five years. The budget for 2020 reflects the investment for 2019-2023 for the Production Division of DKK 1,506 million. This corresponds to DKK 301 million annually on average. Thus, self-financing for 2019 was projected to be DKK 75 million.

For the Grid, investment is envisioned to be DKK 753 million, or DKK 151 million annually, of which self-financing would be DKK 38 million. It is advisable that self-financing should be at such a level that it can be derived from operational profit only.

Self-financing for each respective year shall be calculated thusly: operational cash flow less interest and repayment costs compared to the requirement of 25% self-financing of the annual average investment over the next five years.

For the Grid Division this means that the annual result should be adjusted such that the profit corresponds to the expenses of the Grid Division, as well as self-financing of 25% of the annual average investment over the next five years for the Grid Division.

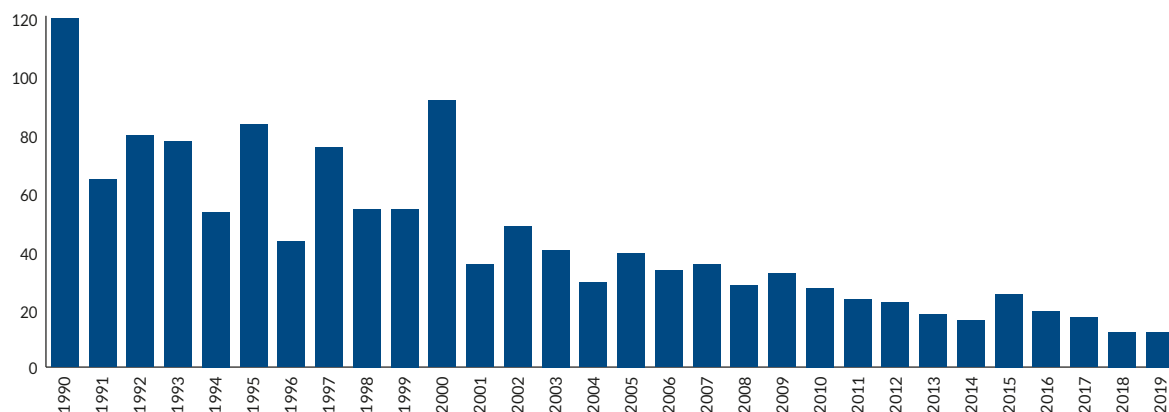
## TRENDS IN BUSINESS ACTIVITIES

### MODERNIZING AND REFURBISHMENT OF THE GRID

The work to update the 10, 20, and 60 KV grid continues. The work is being done in close

Figure 1: Faults per year 1990 - 2019

## FAULTS PER YEAR



cooperation with the relevant government authorities, the municipalities, the Faroese Public Works Department (Landsverk), and Faroese Telecom (Føroya Tele).

During 2019, the Company erected several new 10 and 20 kV transformer stations in different regions around the country. SEV is underway to upgrade the 60 kV station at Vestmanna and the 20 kV station at Sund. Moreover, SEV is in the process of erecting a new 60 kV coupling station at Sund in connection with the expansion at the Sund power plant.

#### MAINTENANCE

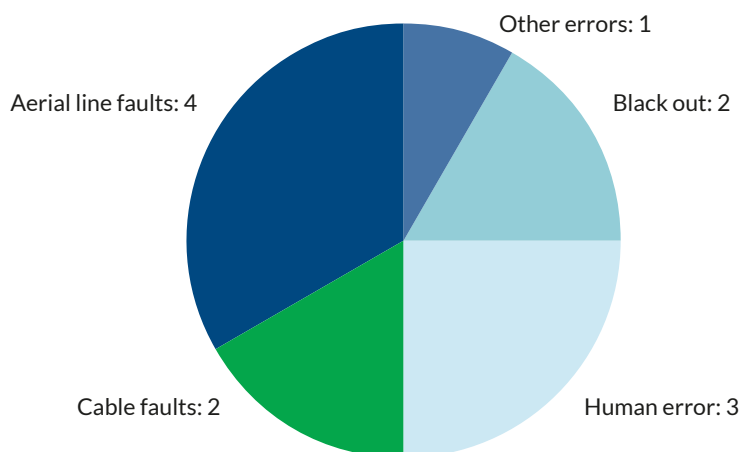
Again in 2019, a good deal of maintenance work was carried out on the Grid to ensure a stable and secure supply of power to our customers.

Figure 1 shows the number of faults over the past years. The Figure shows that the number of faults has declined from 1990 through 2019. Systematic maintenance work, combined with the continued upgrading of the Grid, is the reason that SEV today does not have many faults in the high voltage electricity grid.

Figure 2: Type of faults 2019

## TYPE OF FAULTS 2019

Total = 12



Ten of the 12 faults registered in 2019 are not the type of faults that impact every customer simultaneously but were faults that impacted limited areas of the country. For example, they could have been faults resulting from a cable disruption in a particular village or section of town or a high-voltage circuit breaker that failed at a specific transformer station. Two faults resulted in blackouts where all customers in the area lost power at the same time.

#### FAULTS IN THE HIGH-VOLTAGE GRID

In the 2019, there were 12 faults in the high-voltage system. Figure 2 shows what type of faults occurred and where they were located.

#### FINANCIAL OVERVIEW

##### TOTAL REVENUE

The total revenue for the Grid Division was DKK 30.2 million in 2019, and DKK 28.6 million in 2018.

##### INCOME

There are three factors that impact SEV's principal income: changes in electricity prices, changes in overall electricity consumption, and shifts between

the various customer price groups from year to year.

Power grid income is derived from the sale of electricity to commercial, private and public sector customers, including the municipalities. Further, income is derived from fixed base-rate payments, connection fees and other service fees from certain customers, etc.

As of 1 January 2019, SEV increased the price of electricity by DKK 0.10 per kWh for all customers to strengthen the fiscal economy of the Company.

#### NET REVENUE

Net revenue has now risen to nearly one-half billion DKK and sales have hit a new record of 350.4 GWh. The 2019 budget envisioned an increase of electricity sales of some 7%, while in reality it was nearly 9%. In total, net income is DKK 20.1 million more than budgeted, and this increase in income stems from higher kWh sales and connection fees than budgeted.

Income from kWh sales is DKK 470.0 million, which in the main was derived from increased sales to the

**Table 1**  
**CUSTOMER SEGMENTS IN GWH**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Change 18-19 GWh	Change 18-19 %
Agriculture, aquaculture, fisheries and other commodities	25.8	25.9	26.4	29.4	29.2	31.1	36.6	37.9	42.1	56.8	70.6	13.8	24.2
Manufacturing, production and construction	52.0	48.9	44.5	52.5	69.3	76.1	76.5	73.9	85.5	82.2	95.1	12.9	15.7
Retail, catering and lodging	22.6	22.5	22.4	21.6	22.7	24.7	23.1	24.4	24.4	24.9	25.1	0.1	0.6
Transport, postal and telecom services	24.4	28.7	31.8	34.7	25.1	25.7	24.9	25.6	24.3	24.3	24.3	0.0	0.0
Finance, insurance and other business services	4.5	4.2	4.2	3.9	4.0	4.0	3.9	3.9	3.6	3.7	3.7	0.0	0.7
Public and private services, churches, congregations, etc.	35.6	36.5	36.8	36.6	37.7	37.3	37.9	40.5	41.5	42.1	44.1	1.9	4.6
Street lighting	6.7	6.8	7.3	6.9	7.4	7.0	7.1	7.0	6.7	6.6	6.4	-0.2	-2.6
Residential housing, apartments, holiday homes and boathouses	80.5	81.3	81.4	75.7	78.9	78.0	78.0	78.1	78.2	79.9	81.2	1.3	1.6
<b>Total settlement</b>	<b>252.1</b>	<b>254.8</b>	<b>254.8</b>	<b>261.3</b>	<b>274.3</b>	<b>283.9</b>	<b>288.0</b>	<b>291.4</b>	<b>306.3</b>	<b>320.5</b>	<b>350.4</b>	<b>29.9</b>	<b>9.3</b>
Change in % by year	3.5	1.1	0.0	2.6	5.0	3.5	1.4	1.2	5.2	4.6	9.3		

fishing industry and the aquaculture industry and processing and construction activities. Moreover, sales to private customers increased. Income from connection fees is DKK 24.0 million, which is DKK 13 million higher than budgeted and reflects several major connections. The income from the fixed base-fee increased a little compared to the previous year.

### DISTRIBUTION OF SALES IN THE VARIOUS CUSTOMER GROUPS

Table 1 shows electricity sales in GWh to the Company's customers. Please refer to the various detailed financial analyses regarding sales in SEV's Group Accounts, available at [www.sev.fo](http://www.sev.fo).

### GROWING ELECTRICITY SALES

For several years in a row, revenue has grown, almost without exception, from increasing consumption of electricity. Annual changes in electricity consumption are shown in Table 1.

As Table 1 shows, major increases in electricity sales have been experienced in the industrial tariff group "agriculture, fish farming, fishing industry, and the raw materials industry". The increases seen in this group reflect the overall good market conditions over the last few years relative to fish farming and the pelagic fisheries and the major expansion undertaken by this customer group and the concomitant growth in demand for electricity. At the same time, there has been a major increase in electricity sales to the group "Work-in-progress, Production and Construction", reflecting the processing of a large quantity of fish, especially in the pelagic fisheries.

In total, sales have increased by 9.3% in 2019, compared to an increase in sales in 2018 of some 4.6%. Thus, the last two years have seen a growth in sales of nearly 14%, which equates to 44.1 GWh. If one considers sales in 2019 compared to the end of 2015, there has been an increase of 62.5 GWh, reflecting an average annual increase of some 12.5 GWh.

### DISTRIBUTION OF SALES TO PRIVATE CUSTOMERS BY ISLAND

Table 3 shows the consumption of private customers distributed by island.

**Table 2**

### ELECTRICITY SALES AND FIXED FEE BY CUSTOMER SEGMENTS IN DKK MILLION

	2018	2019	Change 18-19	Change 18-19 %
Agriculture, aquaculture, fisheries and other commodities	65.1	85.9	20.8	32.0
Manufacturing, production and construction	96.2	120.3	24.1	25.1
Retail, catering and lodging	33.5	36.2	2.7	8.0
Transport, postal and telecom services	31.0	33.6	2.6	8.3
Finance, insurance and other business services	4.8	5.2	0.4	8.7
Public and private services, churches, congregations, etc.	57.2	64.1	7.0	12.2
Street lighting	9.1	9.6	0.4	4.6
Residential housing, apartments, holiday homes and boathouses	122.3	132.5	10.1	8.3
<b>Total settlement</b>	<b>419.2</b>	<b>487.4</b>	<b>68.2</b>	<b>16.3</b>

As Table 3 shows, the private customers on Kunoy have the greatest average consumption, while the customers on Streymoy have an average consumption of some 3,683 kWh. The average consumption for all islands is 3,682 kWh. Small communities such as on Fugloy, Hestur, Skúvoy and Mykines have the least number of customers, because often homes stand empty part of the year. This impacts the average consumption for each customer in such locations.

Please refer to the various detailed financial analyses regarding sales in SEV's consolidated concern accounts, available at [www.sev.fo](http://www.sev.fo).

### EXPENSES

#### EXPENSES RELATED TO PURCHASE OF ELECTRICITY, GRID CONTROL AND SYSTEM SERVICES

Expenses in 2019 were DKK 467.8 million, of which DKK 330.6 million was for the purchase of electricity production, grid control and system services.

#### GRID CONTROL AND SYSTEM SERVICES

The total expenses incurred by the power plants reflect not only the cost of electricity production,

**Table 3**  
**PRIVATE CONSUMPTION BY ISLAND**

	kWh per island 2017	kWh per island 2018	kWh per island 2019	No. of customers 2017	No. of customers 2018	No. of customers 2019	Average per customer 2017	Average per customer 2018	Average per customer 2019
Borðoy	7,959,312	7,996,263	8,058,751	1,970	2,136	2,145	4,040	3,744	3,757
Eysturoy	17,300,523	17,696,238	18,101,953	4,214	4,507	4,472	4,105	3,926	4,048
Fugloy	44,208	36,898	35,103	13	13	13	3,401	2,838	2,700
Hestur	48,943	50,459	51,811	27	27	29	1,813	1,869	1,787
Kalsoy	172,852	161,664	160,243	80	81	85	2,161	1,996	1,885
Koltur	8,717	9,004	8,137	2	2	2	4,359	4,502	4,069
Kunoy	267,653	272,700	279,096	64	69	68	4,182	3,952	4,104
Mykines	70,296	72,148	71,992	41	41	42	1,715	1,760	1,714
Nólsoy	400,336	405,441	392,259	133	138	137	3,010	2,938	2,863
Sandoy	2,106,306	2,115,370	2,122,007	656	697	687	3,211	3,035	3,089
Skúvoy	80,402	81,220	78,916	40	40	43	2,010	2,031	1,835
Streymoy	35,828,288	36,645,044	37,243,087	9,141	9,987	10,113	3,920	3,669	3,683
Suðuroy	6,946,503	7,039,166	7,052,086	2,152	2,300	2,314	3,228	3,061	3,048
Svínoy	39,899	41,156	43,041	22	24	22	1,814	1,715	1,956
Vágoy	5,352,731	5,578,304	5,622,102	1,320	1,404	1,395	4,055	3,973	4,030
Viðoy	915,992	902,287	934,190	216	224	230	4,241	4,028	4,062
<b>Total</b>	<b>77,542,962</b>	<b>79,103,362</b>	<b>80,254,774</b>	<b>20,091</b>	<b>21,690</b>	<b>21,797</b>	<b>3,860</b>	<b>3,647</b>	<b>3,682</b>

but also a portion of the costs related to controlling the grid and system services.

System services include the planning and control of available generating power, spinning reserve, reactive reserve, regulating power and regulating frequency.

Total expenses can be subdivided into the expenses for planning and control of available generating power, spinning reserve, reactive reserve, regulating power and regulating frequency. The electricity production plants sell their power production to the Grid Division. This payment by the Grid Division includes the price of electricity and the system services attributed to the respective production plants.

#### EXPENSES RELATED TO MANAGING THE POWER GRID

The Suðuroy electricity grid is managed at the production plant in Vágur, while management of the power grid for the central region of the country takes place at the Fossá power plant in Vestmanna.

The total expense for the management of the power grid at the Fossá power plant of DKK 2.3 million is calculated thusly: total employee expense at the Fossá power plant (DKK 3.0 million for a normal operational year) minus employee expenses related to the operation of the power plant itself per operational year (DKK 0.7 million). The cost to operate the power plant itself is deemed to be the same as the cost to run the Mýra and Heyga power plants combined, which corresponds to DKK 0.7 million for a normal operational year. The same cost for managing the power grid at the Fossá power plant is used as the basis for the cost of managing the power grid on Suðuroy, corresponding to DKK 2.3 million.

#### EXPENSES RELATED TO SYSTEM SERVICES

The expenses related to providing the system services are estimated to be 5% of total operational expenses, including depreciation for the Sund and Vágs power plants, which equals DKK 9.5 million and DKK 1.6 million, respectively. This reflects a "best estimate" calculation.

The cost of the system services relative to the grid is, additionally, based on SEV's operational cost for its smaller power plants around the country that are deemed to be auxiliary power plants or reserve power. The smaller plants receive a reimbursement for employee expenses and supplies relative to operations in return for a supply guarantee. The remaining costs are recovered via a purchase of production for resale agreement. The Strond power plant receives reimbursement for its operational related employee expenses and supplies relative to the thermal production of electricity in return for a supply guarantee. The remaining costs are recovered via a purchase of production for resale agreement.

#### **TOTAL EXPENSES RELATED TO SEV'S GRID CONTROL AND SYSTEM SERVICES**

The total cost for managing the country-wide power grid is DKK 4.6 million. The cost for system services at the Sund and Vágs thermal power plants is stipulated at DKK 11.1 million. The cost of system services from the other power plants is DKK 5.1 million. The total cost grid control and system services is DKK 20.8 million.

#### **WAGE EXPENSES DKK 5.3 MILLION HIGHER**

SEV relies on a variety of technical expertise and complies with the various public wage agreements specific to these areas of expertise. In 2019, total employee expenses were DKK 42.8 million, against DKK 37.5 million in 2018, including administration, corresponding to an increase in expense of some DKK 5.3 million.

Employee expenses for power grid activities in 2019 were DKK 24.0 million, compared to DKK 23.5 million in 2018, representing an increase of DKK 0.5 million, while employee expenses for administration were DKK 18.8 million in 2019, against DKK 14.0 million in 2018, corresponding to an increase of DKK 4.8 million, when harmonization of pension reserves is included, equalling DKK 2.8 million.

Harmonization of pension reserves aside, employee expenses for administration in 2019 were DKK 16.0 million, compared to DKK 14.3 million for 2018, which is DKK 1.7 million greater than the previous year.

#### **MATERIALS AND SERVICES DKK 1.9 MILLION HIGHER**

In 2019, total expenses for materials and services were DKK 29.9 million, compared to DKK 28.0 million in 2018, and thus are DKK 1.9 million higher in 2019 than in 2018.

Costs can be subdivided into Grid activities and administration.

#### **POWER GRID ACTIVITIES**

In 2019, expenses for materials and services related to power grid activities were DKK 10.0 million, compared to DKK 9.9 million in 2018, corresponding to an increase of DKK 1.9 million in 2019 compared to 2018.

#### **ADMINISTRATION**

Expenses for materials and services for administration in 2019 were DKK 19.9 million, compared to DKK 18.1 million in 2018, which reflects an increase of DKK 1.8 million.

Please refer to the various detailed financial analyses regarding expenses for goods and services in SEV's consolidated concern accounts, available at [www.sev.fo](http://www.sev.fo).

#### **FINANCIAL EXPENSES**

Interest expense was DKK 20.6 million in 2019, compared to DKK 25.3 million in 2018, corresponding to lower financial expenses of DKK 4.7 million. Within the total amount of DKK 20.6 million is included capital gains of DKK 0.6 million from SEV's subsidiary companies.

At present, the Company has a total gross debt of DKK 1,447 million at a fixed rate of interest based on loan facilities bearing a fixed rate of interest and an interest rate transfer agreement. More information regarding these expenses can be found in SEV's consolidated concern accounts, available at [www.sev.fo](http://www.sev.fo).

#### **DEPRECIATION**

In 2019, depreciation was DKK 44.4 million, compared to DKK 40.9 million in 2018, of which DKK 38.0 million is derived from power grid activities and DKK 6.4 million from administration.

**Table 4**  
**INVESTMENTS, DKK MILLION**

	2018	2019
Coupling stations	75.6	61.2
Grid	63.1	59.2
Administration building, tools, and IT equipment	15.1	14.1
<b>Total</b>	<b>153.8</b>	<b>134.4</b>

When the budget is being developed for the following year, estimates are made as to which investments will be concluded during that particular year and thus become operational and then, in turn, be booked as assets subject to depreciation.

#### INVESTMENTS

Investment in coupling stations and the grid was in total DKK 134.4 million in 2019, compared to DKK 153.8 million in 2018, as shown in Table 4 below.

Transfers from work-in-progress and directly booked to fixed assets (adjustments to fixed assets – depreciation basis) are shown in the Table 5 below. Please refer to the work-in-progress account and Note 7 in the annual accounts.

Major investment was made in the grid, coupling stations, buildings and other items related to the grid over the past several years and in 2019, and significant investment lies ahead as well. The focus is especially on ensuring that the grid is stable and secure. Efforts to strengthen the grid will continue into the future to afford SEV the ongoing ability to accept more and more wind power and to supply the power that the Company's customers demand.

Considerable investment was undertaken over the past several years in new coupling stations and 2019 was no exception. Effort was expended to install those stations that are deemed the most important to ensure the transfer of electric power to each and every region of the country. In total, the investment in coupling stations was DKK 61.2 million, while investment in the grid, etc. was DKK 59.2 million.

SEV is also underway to erect a new coupling station in Vestmanna. This coupling station will replace the old station, which now is no longer serviceable. Work on this project began at the end of 2018 and it is expected the station will be completed mid-2020.

In connection with the expansion of the Sund thermal power plant to incorporate Station 3, a new coupling station was also constructed and the investment in this facility was DKK 59 million.

**Table 5**  
**INVESTMENTS, DKK MILLION**

	2018	2019
Investment booked as work-in-progress	143.5	122.9
Investment booked directly as transition	10.2	11.6
<b>Investments at year-end</b>	<b>153.8</b>	<b>134.4</b>

**Table 6**  
**WORK-IN-PROGRESS, DKK MILLION**

	2018	2019
Opening balance	155.1	167.9
Investment booked to work-in-progress	143.5	122.9
Work transferred to fixed assets	-130.7	-150.0
<b>Closing balance</b>	<b>167.9</b>	<b>140.8</b>
Changes to work-in-progress	12.8	-27.1

**Table 7**  
**TRANSFER TO FIXED ASSETS, DKK MILLION**

	2018	2019
Work transferred to fixed assets	130.7	150.0
Investments booked directly to fixed assets	10.2	11.6
<b>Transfers at year-end</b>	<b>140.9</b>	<b>161.5</b>

Please refer to the various detailed financial analyses regarding investments in SEV's consolidated concern accounts, available at [www.sev.fo](http://www.sev.fo).

## LIQUIDITY

Liquidity has not been divided between production and the grid; a transfer pricing current account between the divisions has been utilized. Thus, the liquidity of the Production Division is set to zero, while all the activities of the power plants are financed by payment from the power Grid Division, thereby securing the necessary liquidity. The same is applicable to the wind-farm subsidiaries, which are also financed by payments from the Grid Division.

SEV's cash-on-hand at year end was DKK 125 million, compared to DKK 191 million in 2018. In addition, the Company has available unused drawing rights and lines of credit at the financial institutions equalling DKK 565 million.

Thus, cash-on-hand, the credit facilities and the unused drawing rights equalled DKK 690 million in 2019, compared to DKK 506 million in 2018. The largest portion of the unused drawing rights shall be used to finance the investments planned in the coming years. It is deemed necessary to have sufficient liquidity to cover daily operations of the Company. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets.

The purpose of maintaining adequate liquidity is to ensure that SEV always has sufficient funds to pay for the purchase of oil and the costs associated with any damage at one of the production plants or in the grid. Furthermore, it is deemed necessary to have sufficient liquidity to cover daily operations of the power plants and the grid. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets. Further details on the Company's liquidity are available in the Consolidated Group Annual Accounts available on the Company's website, [www.sev.fo](http://www.sev.fo).

**Table 8**

### LARGEST INVESTMENTS IN COUPLING STATIONS AND GRID, DKK MILLION

	2019
Coupling station Vestmanna	24.5
60 kV coupling station Sund	20.9
60 and 20 kV cable Eysturoy Sub-sea Tunnel	11.3
60 and 20 kV cable Tórshavn - Sund	7.1
20 kV coupling station Sund	6.0
Solar project Sumba	3.1
Pump-to-storage Vestmanna	2.0
Remote control system	2.0
10 kV cable Tvøroyri	1.9
60 and 10 kV cable Klaksvík - Strond	1.7
<b>Total</b>	<b>80.6</b>

**Table 9**

### LARGEST TRANSFERS TO FIXED ASSETS, DKK MILLION

	2019
60 kV coupling station Sund	58.2
60 and 20 kV cable Tórshavn - Sund	35.6
60 and 20 kV cable Kambsdalur - Leirvík	13.6
Refurbishment building at Landavegur 92	12.8
Refurbishment building Havnarverkið	4.3
<b>Total</b>	<b>124.5</b>

**Table 10**

### CABLE AND GRID INVESTMENT BY AREA, DKK MILLION

	2019
Administration	5.6
Northern Isles	2.8
Eysturoy	16.7
Vágoy	2.0
North Streymoy	0.2
South Streymoy	17.1
Sandoy	1.2
Suðuroy	4.6
<b>Total</b>	<b>50.1</b>



**SPECIAL RISKS**

The risks of the Company can be divided into different groups. Further details on the Company's overall risks are available in the Consolidated Group Annual Accounts available on the Company's website, [www.sev.fo](http://www.sev.fo).

**PROSPECTS FOR OPERATIONS IN 2020**

Growth in electricity sales in 2019 was greater than at first projected and also in 2020 such large growth is also expected, equalling some 6.2% in kWh sales. In addition, increased income will flow from the price increases.

Based on sales in 2018 and partially on sales in 2019, sales in 2020 are budgeted to be around 371 GWh, yielding a net revenue of DKK 543 million. This suggests an increase in net revenue of around DKK 35 million.

SEV established independent subsidiaries to operate the wind-farms at, respectively, Neshagi and Húsahagi. This means that the purchase of wind energy has increased, while at the same time the cost of materials and wages, depreciation and interest has decreased. The result from the subsidiaries is incorporated into the accounts via the capital equity section. The total result of SEV is thus not affected.

Operational expenses are estimated to be DKK 79 million in 2020, compared to DKK 72.8 million in 2019, corresponding to a higher expenditure of DKK 6.2 million. Budgeted depreciation is set at DKK 61 million and interest expense is budgeted at DKK 34 million. The increase in depreciation and interest expenses reflects the increased investment undertaken by the Company and the loan facilities to finance this investment.

With an estimated profit in 2020 that, all things considered, is deemed satisfactory, the operational share for the Grid Division will provide sufficient self-financing for investment. It is critical to earn a satisfactory result and thus have sufficient self-financing from operations to help finance the upcoming investment in coupling stations and ongoing maintenance of the existing grid plus the requisite investment in enhancements of the grid that are needed to ensure that the grid is able to

accept a growing amount of electricity generated by renewable power resources and distribute further this electricity to the Company's customers.

Further details on 2020 can be found in the 2020 Operations, Financial and Investment Budget found on the Company's website, [www.sev.fo](http://www.sev.fo).

**EVENTS AFTER THE CLOSING OF THE ACCOUNTS**

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

# Accounting Principles

## GENERAL

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

The Grid accounts were compiled in a manner similar to the accounts of a consolidated concern, without, however, any harmonization of internal postings for operations and adjustments. This was done to provide the reader with as much information as possible on all the various production activities of the entire SEV Concern. Otherwise, the annual accounts were compiled consistent with the same accounting principles as the previous year and are stated in DKK.

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

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

## BASIS FOR RECOGNITION AND VALUATIONS

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

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

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

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

## TRANSLATION OF FOREIGN CURRENCY

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

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

## INCOME STATEMENT

### NET SALES

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

### CONSUMPTION OF MATERIALS AND SERVICES

Consumption of materials 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-DOWNS

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

## FINANCIALS

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

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

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

## 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-downs. Land is not depreciated.

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

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

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

	Useful life years	Residual value
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.

### DEPRECIATION OF FIXED ASSETS

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

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

The recoverable amount is either the net realisable or sale value or the capital value. Capital value is

calculated as the current value of the expected net revenues accruing from using an asset or asset group.

## FINANCIAL ASSETS

### CAPITAL INVESTMENT IN ASSOCIATED COMPANIES

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

### INVENTORY

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

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

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

### RECEIVABLES

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

### PREPAYMENTS

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

### CASH-ON-HAND

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

**CURRENT AND DEFERRED TAXES**

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

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

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

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

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

**OTHER PROVISIONS**

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

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

**DERIVATIVE FINANCIAL INSTRUMENTS**

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

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in

profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The Company holds no trading derivatives.

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

**CASH FLOW HEDGES**

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

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

**LIABILITIES**

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

Debt to financial institutions is valued at amortised realised value, which corresponds to the residual debt of a cash loan. Regarding the value of bonds, the amortised realised value is calculated as the cash value on the date the bond was issued,

adjusted by the booked depreciation during the instalment period of the effective rate of interest at the time of contracting such debt.

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

### **CASH FLOW STATEMENT**

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

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

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

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

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

# Income Statement 1 January – 31 December

Amounts in 1,000 DKK

Note	2019	2018
1 Net turnover	511,096	429,648
Electricity purchased	-307,455	-239,723
Wind power purchased	-2,338	-2,692
System services	-20,781	-18,836
2 Cost of oil	-190	-250
3 Materials and services	-29,867	-28,035
<b>Gross earnings</b>	<b>150,466</b>	<b>140,112</b>
4 Wages	-42,768	-37,501
<b>EBITDA</b>	<b>107,697</b>	<b>102,611</b>
Depreciation and amortisation of fixed assets	-44,430	-40,915
<b>Result before financials</b>	<b>63,268</b>	<b>61,696</b>
5 Financial expenses	-19,977	-24,102
<b>Result before tax</b>	<b>43,291</b>	<b>37,593</b>
6 Tax on annual result	-13,043	-8,968
<b>Annual result</b>	<b>30,247</b>	<b>28,625</b>
<b>Proposed distribution of results:</b>		
Result brought forward	29,660	27,433
Reserve for net revaluation as per the equity method	587	1,192
<b>Total distribution</b>	<b>30,247</b>	<b>28,625</b>

## Balance Sheet 31 December

### ASSETS in 1,000 DKK

Note	2019	2018
<b>Tangible fixed assets</b>		
7, 18 Distribution grid	713,767	613,373
7 Buildings and land	48,175	33,013
7 Operating equipment	42,097	40,576
7 Investment work-in-progress	140,841	167,922
<b>Total tangible fixed assets</b>	<b>944,880</b>	<b>854,884</b>
8 Investment in Associated and Subsidiary Companies	36,704	36,117
9 Loans to subsidiary companies	78,428	86,859
10 Derivatives	22,111	3,043
<b>Total financial assets</b>	<b>137,243</b>	<b>126,020</b>
<b>Total fixed assets</b>	<b>1,082,122</b>	<b>980,903</b>
<b>Current assets</b>		
Inventory	21,870	19,810
<b>Total inventory</b>	<b>21,870</b>	<b>19,810</b>
11 Materials and services debtors	106,894	87,248
Inter-company account	113,862	315,552
Prepayments	9,020	7,084
<b>Total receivables</b>	<b>229,775</b>	<b>409,883</b>
Cash-on-hand	125,123	190,785
<b>Total current assets</b>	<b>376,769</b>	<b>620,479</b>
<b>Total assets</b>	<b>1,458,891</b>	<b>1,601,382</b>



# Balance Sheet 31 December

## LIABILITIES in 1,000 DKK

Note	2019	2018
<b>Equity</b>		
12 Deposits	4,140	4,140
Hedge reserve	-21,240	-53,840
Reserve for revaluation as per the equity method	4,954	4,367
Results carried forward	568,436	496,656
<b>Total equity</b>	<b>556,291</b>	<b>451,323</b>
<b>Provisions</b>		
Provisions for pensions and equivalent liabilities	19,598	16,801
Other provisions	1,419	23,981
<b>Total provisions</b>	<b>21,017</b>	<b>40,782</b>
<b>Debt</b>		
13 Long-term debt	782,836	982,641
<b>Total long-term debt</b>	<b>782,836</b>	<b>982,641</b>
13 Current portion of long-term debt	870	870
Bank debt	7	6
Prepayment received from customers	1,199	1,166
Trade creditors	34,241	55,126
10 Derivatives	42,160	59,285
Other creditors	20,269	10,183
<b>Total short-term debt</b>	<b>98,747</b>	<b>126,635</b>
<b>Total debt</b>	<b>881,583</b>	<b>1,109,276</b>
<b>Total liabilities</b>	<b>1,458,891</b>	<b>1,601,382</b>
14 Grid result by area		
15 Grid overview		
16 Mortgages and other liabilities		

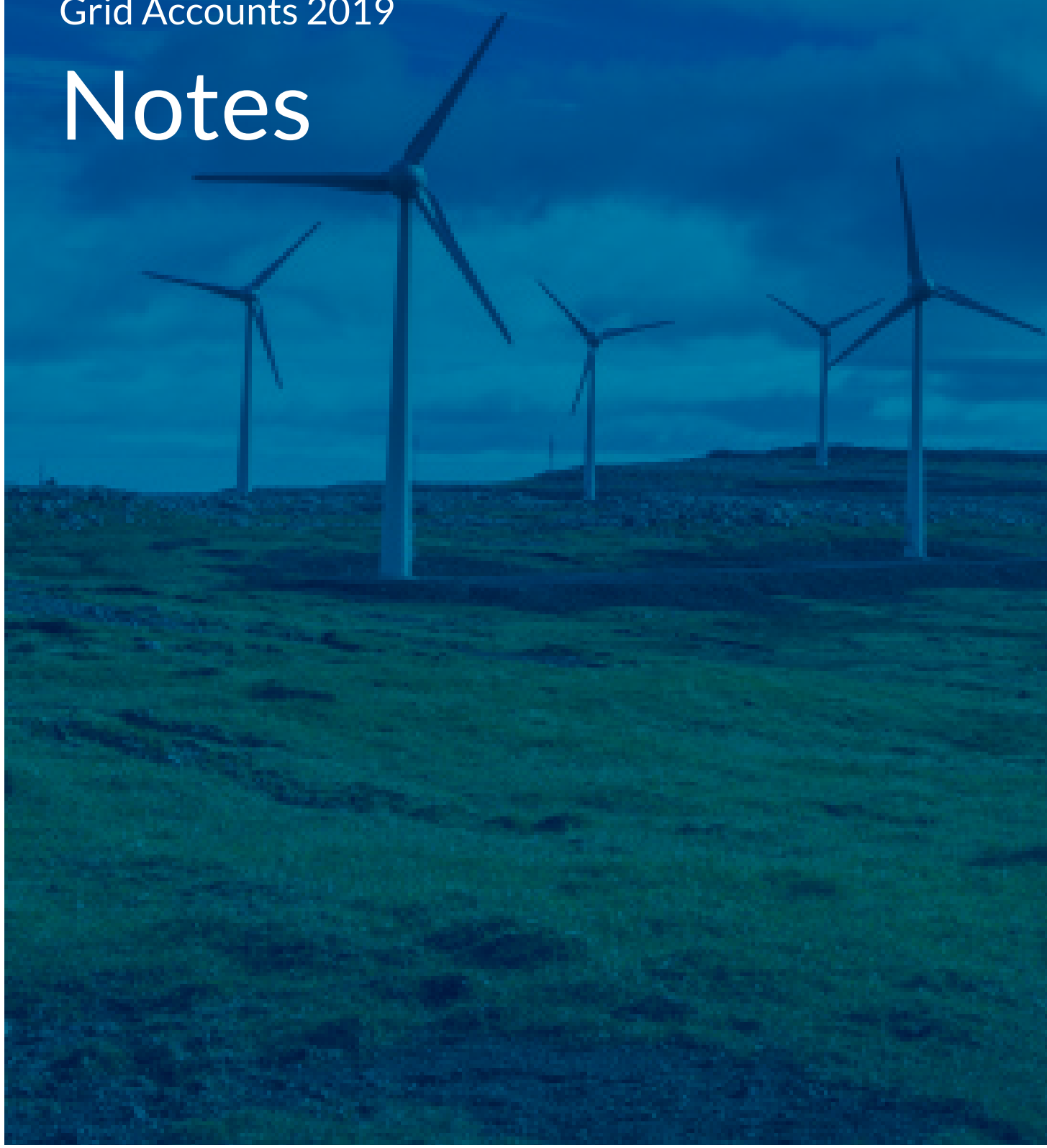
## Cash Flow Statement

Note	Amounts in 1,000 DKK	2019	2018
	<b>Annual result</b>	<b>30,247</b>	<b>28,625</b>
16	Adjustments	77,450	73,986
	<b>Changes in working capital:</b>		
	Inventory	-2,060	-854
	Receivables	-21,480	5,545
	Trade creditors	-20,884	32,886
	Inter-company accounts – Production	-102,810	-216,816
	Other operating debt	12,816	16,927
	Derivatives	0	-26,758
	<b>Operations cash flow before financials</b>	<b>-26,722</b>	<b>-86,459</b>
	Interest expense paid and equivalent expenses	-20,564	-25,294
	Adjustment for non-cash items in interest expense	7,617	0
	<b>Cash flow from operations</b>	<b>-39,669</b>	<b>-111,753</b>
	Purchase of tangible fixed assets	-161,507	-140,925
	Changes to work-in-progress	27,081	-12,833
	<b>Cash flow from investment</b>	<b>-134,426</b>	<b>-153,758</b>
	Net loan facilities	100,000	200,000
	Interest accrual	1	0
	Repayments of long-term debt	8,431	8,248
	Increased draw on credit facility	0	57
	<b>Cash flow from financing</b>	<b>108,433</b>	<b>208,304</b>
	<b>Total cash flow during the year</b>	<b>-65,662</b>	<b>-57,207</b>
	Opening cash-on-hand	190,785	247,993
	<b>Closing cash-on-hand</b>	<b>125,123</b>	<b>190,785</b>



Grid Accounts 2019

# Notes





## Notes 1–3

### 1. NET SALES

Amounts in 1,000 DKK	2019	2018
kWh charges etc.	469,997	402,199
Fixed charges	17,381	17,021
Connection fees	24,014	9,219
Other charges, past due charges and other sales	-295	1,210
<b>Total</b>	<b>511,096</b>	<b>429,648</b>

### 2. OIL EXPENSES

Amounts in 1,000 DKK	2019	2018
Gas oil	190	250
<b>Total</b>	<b>190</b>	<b>250</b>

### 3. MATERIALS AND SERVICES

Amounts in 1,000 DKK	2019	2018
Cable and lines	2,837	3,055
Dams, pipes and tunnels	13	0
Tanks and environment	99	52
Motors	1	7
Electric and technical	48	158
Buildings and land	1,788	1,527
Annual Meeting and Board	262	383
Studies and consultancy	4,639	3,447
IT	6,514	4,763
Management and office expenses	2,093	2,422
Loss on receivables	-538	538
Other operating expenses	205	261
Other administrative expenses	11,906	11,423
<b>Total</b>	<b>29,867</b>	<b>28,035</b>

## Notes 4–6

### 4. EMPLOYEE EXPENSES

Amounts in 1,000 DKK	2019	2018
Wages	36,295	30,986
Pensions	4,493	4,711
Contributions	1,979	1,804
<b>Total</b>	<b>42,768</b>	<b>37,501</b>
Employees with SEV as main source of personal income	90	88
<b>Average number of employees</b>	<b>101</b>	<b>106</b>

### 5. FINANCIAL EXPENSES

Amounts in 1,000 DKK	2019	2018
Result from subsidiary companies	-587	-1,192
Adjustment financial fixed assets	0	-49
Interest, loans and bank loans etc,	17,147	21,267
Establishment fees, commissions	1,805	2,294
Unrealised exchange rate gains and losses	393	8,869
Unrealised adjustments on derivatives	817	-7,352
Other interest expenses	402	266
<b>Total</b>	<b>19,977</b>	<b>24,102</b>

### 6. TAXES ON ANNUAL RESULT

Amounts in 1,000 DKK	2019	2018
Adjustment of deferred tax	13,043	8,968
<b>Total</b>	<b>13,043</b>	<b>8,968</b>

## Note 7

### 7. TANGIBLE FIXED ASSETS

Amounts in 1,000 DKK	Grid	Buildings	Equipment	Total 2019	2018
Acquisition value, opening balance	1.138.362	67.513	200.728	1.406.603	1.259.682
Additions during the year	132.131	17.057	12.880	162.069	142.086
Additions from Production	0	0	0	0	5.997
Disposals during the year	0	0	-562	-562	-1.161
<b>Acquisition value year-end</b>	<b>1.270.493</b>	<b>84.570</b>	<b>213.047</b>	<b>1.568.110</b>	<b>1.406.603</b>
Depreciation opening balance	-524.990	-34.500	-160.152	-719.642	-676.732
Depreciation during the year	-31.737	-1.895	-11.360	-44.991	-42.076
Depreciation added from Production	0	0	0	0	-1.995
Depreciation reversed on disposals	0	0	562	562	1.161
<b>Depreciation closing balance</b>	<b>-556.726</b>	<b>-36.395</b>	<b>-170.950</b>	<b>-764.072</b>	<b>-719.642</b>
<b>Book value year-end</b>	<b>713.767</b>	<b>48.175</b>	<b>42.097</b>	<b>804.039</b>	<b>686.961</b>
Book value year-end 2018	613.373	33.013	40.576	686.961	
Work-in-progress opening balance	144.211	20.406	3.306	167.922	155.089
Investment booked to work-in-progress	106.467	9.507	6.897	122.871	143.516
Completed work transferred to depreciation	-128.202	-17.057	-4.693	-149.952	-130.683
<b>Closing balance</b>	<b>122.476</b>	<b>12.855</b>	<b>5.510</b>	<b>140.841</b>	<b>167.922</b>
Balance at year-end 2018	144.211	20.406	3.306	167.922	
<b>Fixed assets at year-end</b>	<b>836.243</b>	<b>61.030</b>	<b>47.607</b>	<b>944.880</b>	<b>854.884</b>
Fixed assets at year-end 2018	757.584	53.418	43.882	854.884	



## Notes 8–11

### 8. INVESTMENTS IN ASSOCIATED AND SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	31.12.19	31.12.18
Acquisition value opening balance	31.750	31.750
<b>Acquisition value closing balance</b>	<b>31.750</b>	<b>31.750</b>
Subsidiary companies' result opening balance	4.367	3.175
Result from subsidiary companies	587	1.192
Subsidiary companies' result closing balance	4.954	4.367
<b>Carrying amount year-end</b>	<b>36.704</b>	<b>36.117</b>

#### ASSOCIATED AND SUBSIDIARY COMPANIES:

Amounts in 1,000 DKK	Share	Equity	Annual result	Recognized value
P/F Fjarhitafelagið, Tórshavn	50%	62.482	1.295	2.750
P/F Vindfelagið í Húsahaga	100%	21.273	-58	21.273
P/F Vindfelagið í Neshaga	100%	12.681	645	12.681

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

### 9. LOANS TO SUBSIDIARY COMPANIES

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

### 10. DERIVATIVES

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

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

### 11. MATERIALS AND SERVICES DEBTORS

Amounts in 1,000 DKK	31.12.19	31.12.18
Goods and services debtors	100,317	89,105
Other debtors	3,299	1,421
Receivables write-down	-2,353	-2,982
<b>Total</b>	<b>101,264</b>	<b>87,544</b>

## Notes 12–14

### 12. EQUITY

Amounts in 1,000 DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
Equity statement 01.01.18 - 31.12.18					
Balance 01.01.18	4,140	-28,251	3,175	470,392	449,456
Adjustment to derivatives	0	-25,588	0	-1,170	-26,758
Result from subsidiary companies	0	0	1,192	-1,192	0
<b>Annual result</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>28,625</b>	<b>28,625</b>
<b>Balance 31.12.18</b>	<b>4,140</b>	<b>-53,840</b>	<b>4,367</b>	<b>496,656</b>	<b>451,323</b>
Equity statement 01.01.19 - 31.12.19					
Balance 01.01.19	4,140	-53,840	4,367	496,656	451,323
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
<b>Annual result</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30,247</b>	<b>30,247</b>
<b>Balance 31.12.19</b>	<b>4,140</b>	<b>-21,240</b>	<b>4,954</b>	<b>568,436</b>	<b>556,291</b>

\* 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. LONG-TERM DEBT

Amounts in 1,000 DKK	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.19	Total debt 31.12.18
Debt to financial institutions	0	447,706	783,706	983,511
<b>Total</b>	<b>0</b>	<b>447,706</b>	<b>783,706</b>	<b>983,511</b>

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

### 14. GRID RESULT BY DEPARTMENT

Amounts in 1,000 DKK	Revenue	Oil	Materials	Wages	Depreciation	Interest	Taxes	Total
Coupling stations	0	0	-1,119	-84	-10,202	-22	0	-11,427
Distribution grid	-594	-190	-5,965	-12,977	-23,295	-1	0	-43,022
Installations	6,536	0	-1,964	-5,153	-3,108	0	0	-3,689
Engineering	72	0	-555	-3,539	-1,011	0	0	-5,033
Technical	80	0	-408	-2,243	-367	0	0	-2,939
<b>Grid without administration</b>	<b>6,094</b>	<b>-190</b>	<b>-10,013</b>	<b>-23,996</b>	<b>-37,983</b>	<b>-23</b>	<b>0</b>	<b>-66,111</b>
Administration	174,428	0	-19,854	-18,772	-6,447	-19,954	-13,043	96,358
<b>Grid result</b>	<b>180,522</b>	<b>-190</b>	<b>-29,867</b>	<b>-42,768</b>	<b>-44,430</b>	<b>-19,977</b>	<b>-13,043</b>	<b>30,247</b>

## Note 15

### 15. GRID ASSETS

	Fugloy	Svínoy	Víðoy	Borðoy	Kunoy	Kalsoy	Eysturoy	Streymoy	Vágoy	Mykines	Nólsoy	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suðuroy	Total
<b>TRANSFORMER STATIONS</b>																		
6kV	1			1														2 pcs.
10kV		1	9	40	4	8		86			1			24			64	237 pcs.
20kV				3			130	106	35				1					275 pcs.
60kV				2			4	6										12 pcs.
<b>Total</b>	<b>1</b>	<b>1</b>	<b>9</b>	<b>46</b>	<b>4</b>	<b>8</b>	<b>134</b>	<b>198</b>	<b>35</b>		<b>1</b>		<b>1</b>	<b>24</b>			<b>64</b>	<b>526 pcs.</b>
<b>TRANSFORMERS</b>																		
6kV	2			2														4 pcs.
10kV		1	13	57	4	8		106			1			27			90	307 pcs.
20kV				4			175	139	52				1	3			5	379 pcs.
60kV				4			6	15										25 pcs.
<b>Total</b>	<b>2</b>	<b>1</b>	<b>13</b>	<b>67</b>	<b>4</b>	<b>8</b>	<b>181</b>	<b>260</b>	<b>52</b>		<b>1</b>		<b>1</b>	<b>30</b>			<b>95</b>	<b>715 pcs.</b>
<b>CABLE CABINETS</b>																		
0,4kV	15	25	86	523	31	34	1,639	2,452	546	7	38		10	227	11	1	895	6,540 pcs.
<b>AERIAL LINES AND CABLES</b>																		
60kV line				1.1			37.8	43.2										82.1 km
60kV cable				6.5			30.4	36.3										73.2 km
20kV line							32.1	46.7	0.6								9.6	89.0 km
20kV cable				11.6			245.3	172.6	57.2				0.6	0.6			9.4	497.3 km
10kV line		3.1	10.0	11.0	5.4	0.3		1.1									20.1	51.0 km
10kV cable		0.6	21.5	47.5	6.4	17.8		104.0			1.5			46.4			92.8	338.6 km
6kV line	2.2			6.2														8.4 km
6kV cable	0.2			0.0														0.2 km
0,4kV line																		0.0 km
0,4kV cable	1.1	4.2	11.8	65.1	3.5	3.9	214.0	313.8	66.8	0.6	3.4	0.4	0.9	29.5	0.9	0.1	107.0	826.9 km
<b>METERS</b>																		
Wireless meters	63	80	289	2,591	88	131	5,583	11,285	1,655	56	179	4	43	839	54	5	2,932	25,877 pcs.
Manual meters	0	0	0	6	0	0	7	26	3	0	0	0	0	2	0	0	10	54 pcs.
<b>Total</b>	<b>63</b>	<b>80</b>	<b>289</b>	<b>2,597</b>	<b>88</b>	<b>131</b>	<b>5,590</b>	<b>11,311</b>	<b>1,658</b>	<b>56</b>	<b>179</b>	<b>4</b>	<b>43</b>	<b>841</b>	<b>54</b>	<b>5</b>	<b>2,942</b>	<b>25,931 pcs.</b>
Change 2019	0	0	8	4	0	2	34	165	9	1	-1	0	1	9	0	0	4	236 pcs.

## Notes 16–18

### 16. MORTGAGES AND OTHER OBLIGATIONS

Please refer to the Elfelagið SEV Group Annual Accounts for information relative to mortgages, legal proceedings and other liabilities.

### 17. ADJUSTMENTS

Amounts in 1,000 DKK	2019	2018
Result from subsidiary companies	-587	-1,192
Interest expenses and equivalent expenses	19,620	23,778
Unrealized interest expenses	944	1,516
Depreciation	44,430	40,915
Tax	13,043	8,968
<b>Total</b>	<b>77,450</b>	<b>73,986</b>

### 18. SPECIFICATION OF FIXED ASSETS INCLUDED IN GRID

Amounts in 1,000 DKK	2019	2018
Coupling stations	289,337	237,865
Distribution grid	424,430	375,507
<b>Total</b>	<b>713,767</b>	<b>613,373</b>





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