



**Pioneering technologies
secure higher yield
from wind power**

Elfelagið SEV Production Accounts 2022

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Management Report

The Board of Directors and Management hereby submit SEV's Production Annual Report and Accounts for fiscal year 1 January - 31 December 2022. The Production 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 2022 and the

result of operations and cash flow for fiscal year 1 January - 31 December 2022.

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, 31 March 2023

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 Klementsén

Sonni L. Petersen

Sune Jacobsen

Independent Auditor’s Report

TO THE MANAGEMENT OF ELFELAGIÐ SEV

OPINION

We have audited the production accounts of Elfelagið SEV for the financial year 1 January - 31 December 2022, which comprise Income Statement, Statement of Financial Position, cash flow statement, and notes. The amounts in the production accounts are part of the annual accounts for Elfelagið SEV for the financial year 1 January – 31 December 2022, which we have audited.

In our opinion, the production accounts for Elfelagið SEV for the financial year 1 January - 31 December 2022 in all material aspects are prepared in accordance with the accounting principles described in the production 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 production 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 PRODUCTION ACCOUNTS – ACCOUNTING PRINCIPLES

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

This has not affected our opinion on the production accounts.

THE MANAGEMENT’S RESPONSIBILITIES FOR THE PRODUCTION ACCOUNTS

The management is responsible for the preparation of production accounts in accordance with the accounting principles described in the production accounts. The management is also responsible for such internal control as the management determines is necessary to enable the preparation of production accounts that are free from material misstatement, whether due to fraud or error.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE PRODUCTION ACCOUNTS

Our objectives are to obtain reasonable assurance about whether the production 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 production 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, 31 March 2023

P/F JANUAR

State Authorised Public Accountants

Hans Laksá
State Auth. Auditor

Key Figures

Amounts in 1,000 DKK	2022	2021	2020	2019	2018
Income Statement					
Net sales	433,768	408,450	358,659	328,266	259,063
EBITDA	134,362	158,736	128,312	118,514	94,486
Result before financial items	25,030	54,459	36,027	49,344	20,265
Financial items	-14,705	-19,903	-18,434	-16,476	-9,340
Annual result	9,673	34,960	17,969	32,718	10,650
Balance Sheet					
Total assets	1,898,199	1,714,619	1,755,214	1,696,153	1,565,760
Equity	890,940	870,798	838,307	817,531	789,767
Long-term debt	818,725	827,932	724,439	733,250	437,369

Management Review

MISSION OBJECTIVE OF SEV

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

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. This accounting report for the production activities of SEV is a part of the consolidated accounts of SEV. This Management Review discusses SEV’s production activities for the period 1 January 2022 to 31 December 2022.

DISTRIBUTION OF OPERATIONAL PROFIT

The Production Division shall always cover all of its operational costs, including its portion of the costs related to management of the grid and the universal service obligation. In addition, the Production Division shall derive a profit corresponding to around 5% of opening balance equity. Calculated profit for 2022 was DKK 43.5 million, compared to DKK 40.5 million for 2021.

The total result for the Production Division was DKK 9.7 million. The reason that the result for the Production Division is lower than the calculated requirement is that the annual result for the Grid Division was adjusted so that the profit equalled the expenses incurred by the Grid Division, as well as its own financing of up to 25% of the annual average investment over the next five years for the Grid Division. For a more detailed discussion of the relevant procedures and practices to distribute operational profit between the Production Division and the Grid Division, please refer to Note 1.

BUSINESS ACTIVITY OVERVIEW AND FINANCIAL STATUS

THE YEAR WAS A GOOD WIND ENERGY YEAR AND AN EXCEPTIONAL HYDRO POWER YEAR

We used a record amount of electricity last year, but over half of it was generated by renewable energy sources. Never before was so much sustainable electric energy produced in the Faroe Islands, and in Suðuroy the energy production was 100% sustainable for a total of 56 days.

Total electricity production in 2022 increased by 2.4%, compared to last year, i.e. from nearly 424 GWh up to 434 GWh. 226 GWh were produced from renewable energy resources, which equated to some 52%. This is the highest annual electricity production ever and at the same time the most output from renewable energy ever.

Renewable energy in 2022 was divided up thus: 130.9 GWh (30.1%) from hydro power; 90 GWh (20.8%) from wind energy; 5.4 GWh (1.3%) from biogas; and 0.171 GWh from solar. SEV and its subsidiaries stood for 89.9% of total production, while Vindrøkt provided 8.8%, and biogas plant Förka produced 1.4% of total electric power. In total, 50 days saw in excess of 80% of energy production in the central region of the country from green energy, while the numbers for Suðuroy were even higher.

Production from oil at the Sund power plant declined in 2022. In the central region of the country, the Sund power plant is a major producer of electricity and produces the largest portion of electric energy. In 2022, the Sund power plant generated 186 GWh or nearly 43% of total electricity production in the central region of the country. Aside from the many GWh generated by the Sund power plant, the power plant also provides a significant amount of ancillary services that ensures secure energy reserves, rolling reserves, regulation of the power supply, inertia power, and short-circuit power.

Unique for 2022 was, however, that this was the first time since 2015 that production from the Sund power plant declined compared to the year before. Production at Sund was 21% less than in 2021.

There was proportionally greater production from hydro power and increased wind energy that resulted in lower production at the Sund power plant.

HYDRO POWER MADE THE DIFFERENCE

Production from hydro power went very well in 2022 generating 131 GWh, which was the best year since the record year of 2015, when production was 133 GWh from hydro power. What 2015 and 2022 have in common is that there was considerable rain. The measurement carried out at Vestmanna indicated a total of 2,573 mm for the year 2022. By comparison, the amount of rainfall in 2021 was some 1,904 mm. In 2015, it rained more and the total amount of precipitation was 2,680 mm.

What was unique for 2022 was that significant rainfall occurred in July and August. The production from hydro power achieved during these two months was around three times greater than the average production in these months. In 2022, the hydro power production plants in Vestmanna, Fossá, Mýra, and Heyga set a record with a total of 57.4 GWh. The Eiði hydro power plant, however, is much bigger and produced in 2022 some 65 GWh, or some 16% of total production in the central region of the country.

WIND ENERGY PROVING BETTER

The year 2022 was distinctive in the realm of wind energy, especially because both Sp/f Vindrøkt II and P/F Flatnahagi erected major wind farms and began production at Gellingarkletti and Flatnahagi above Tórshavn. Production by Flatnahagi was, however, only a trial, which was not seen in the total production. The wind turbines of Vindrøkt II entered into production in July and in 2022 produced 28.1 GWh, corresponding to 7% of total production in the central region of the country.

The wind farm subsidiaries of SEV did much better in 2022 than the previous year. Húsahagi produced 31.8 GWh and Neshagi generated 11.4 GWh; for both, they generated a better result than in 2021. Especially, the wind farm at Porkeri, which came online in 2021, generated 12.3 GWh, made a major contribution. There are still problems with the wind turbines at Neshagi and efforts are underway to correct this.

Table 1
SALES IN GWH

	2022	2021	Change 22-21 GWh	Change 22-21 %
Settled sales to customers	395,3	387,6	7,7	2,0
Grid loss	26,9	25,2	1,7	6,6
Own consumption	11,8	11,0	0,7	6,7
Total production	433,9	423,8	10,1	2,4
Of which thermal	207,4	262,4	-55,0	-21,0
Thermal %	47,8	61,9		
Of which hydro	130,9	100,3	30,6	30,5
Hydro %	30,2	23,7		
Of which wind	90,1	54,1	36,0	66,5
Wind %	20,8	12,8		
Of which BTS*	5,6	7,0	-1,4	-20,0
% BTS	1,3	1,7		
Total green energy production	226,6	161,4	65,2	40,4
Green energy %	52,2	38,1		

* BTS = Biogas, tidal, and solar

Wind energy production in Vestmanna by Sp/f Vindrøkt equalled some 6.4 GWh, a decrease of 8% over 2021.

Never before has electricity produced by renewable sources been so high and this is most pleasing. Hydro power still provides the highest share of renewable energy, but the prospect of more wind energy production in 2023, given that the grid will be able to receive much more wind energy from the turbines at Gellingarkletti later this year and also at Flatnahagi.

WIND ENERGY ON SUÐUROY

SEV’s wind farm in Porkeri was in production throughout 2021 and 2022 and generated in 2022 12.3 GWh, compared to 7.7 GWh in 2021. Energy distribution on Suðuroy was altered considerably because of this and in 2022 some 47% were generated by hydro power, wind energy and solar power compared to 31% of electricity consumption in 2021.

One distinctive aspect of energy production in 2022 on Suðuroy was the addition of the battery and synchronous compensator at the wind farm at Porkeri. Early in the fall, one could see significant changes in the production picture and in the last

Figure 1: Electricity production for the entire country 1954 - 2022

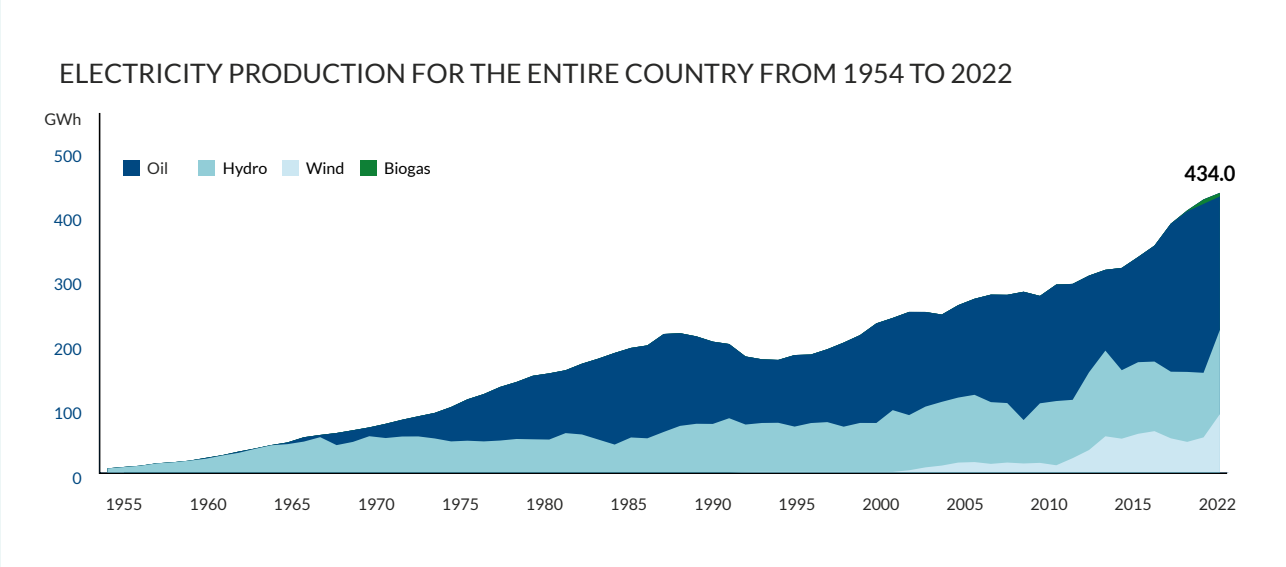
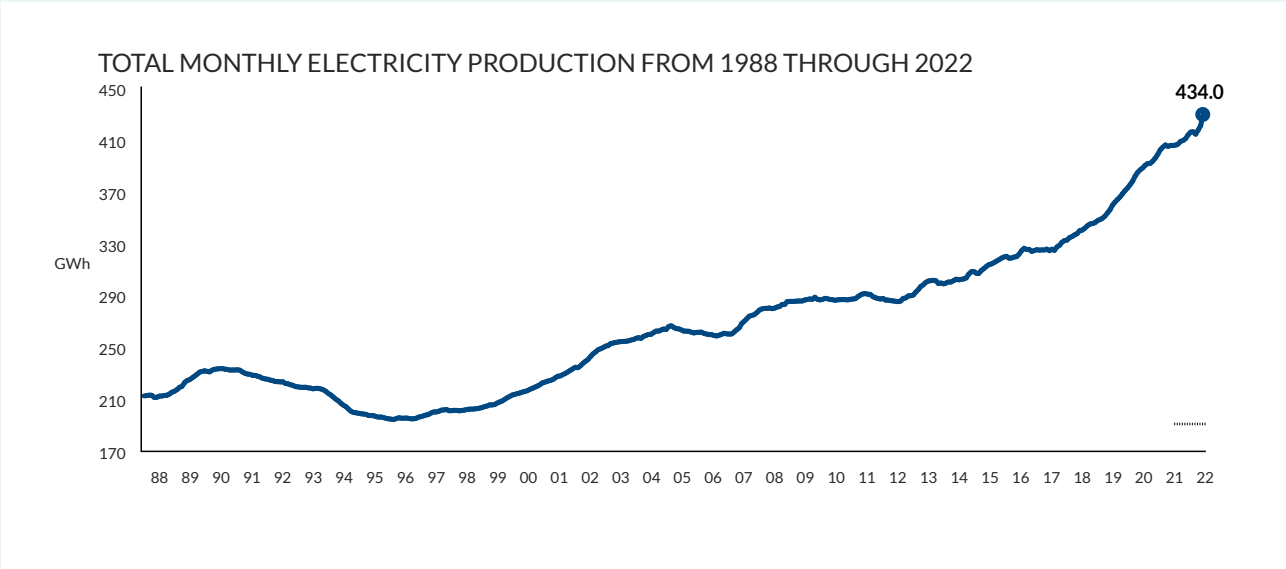


Figure 2: Total monthly electricity production 1988 - 2022



quarter production from renewable energy sources on Suðuroy equalled 74%, 55% from wind and 19% from hydro power.

The Vágur power plant, which over the past five years has produced around 10 GWh from oil in the last quarter of the year, in the last quarter of 2022 generated only 2.8 GWh. For much of the time, the power plant was idle, while wind, hydro power, solar, and battery and synchronous compensator have provided power to Suðuroy. For a total of 55.9 days, the people on Suðuroy had 100% renewable energy in their electrical outlets and for some 83 days the electricity generated was over 80% green.

DEMAND FOR ELECTRIC POWER SETS RECORD
We consume electricity like never before. We again set a record in 2022 for total Faroese electricity production. Total production in 2022 was nearly 434 GWh, compared to 424 GWh in 2021, equalling a growth of 2.4%, compared to 4.2% last year. This is the most that SEV has ever generated.

Electricity production from renewable energy sources was 226.7 GWh in 2022, compared to 161.4 GWh in 2021, corresponding to a growth of some 65.2 GWh, or 40.4%. In 2022, 90.2 GWh was derived from wind energy, and 130.9 GWh was derived from hydro power. Some 207.4 GWh came from the oil-fired thermal power plants. This

Figure 3: Electricity production per resident of the Faroe Islands 1970 - 2022

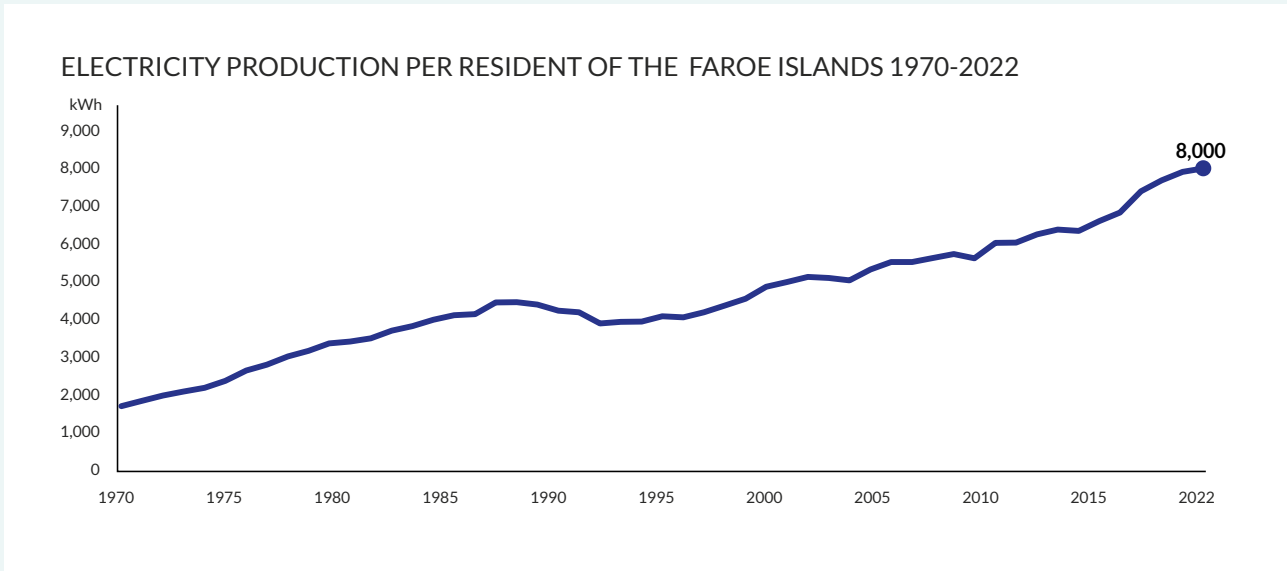
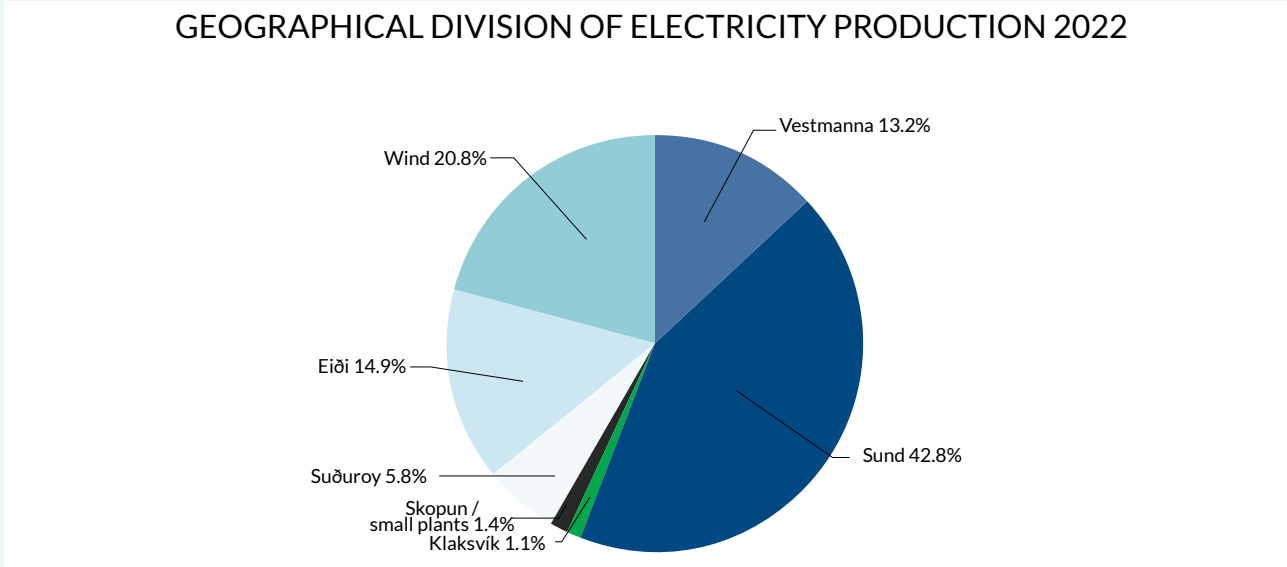


Figure 4: Geographical division of electricity production 2022



represents 47.8% of the total electricity production in 2022, compared to 61.9% in 2021.

Over the last 20 years, electricity production has doubled. In 2000, production was 213 GWh and in 2022 it was nearly 434 GWh. In 2010, production was 280 GWh. In the central region of the country, production increased in 2022 by 2.3%, compared to 4.3% last year. On Suðuroy, production grew by 3.6% in 2022, compared to 2.7% last year. The greatest load in the central region was registered at 70.3 MW in 2022, compared to 66.1 MW in 2021, while the load in Suðuroy has grown from 8.7 MW in 2021 to 9.3 MW in 2022.

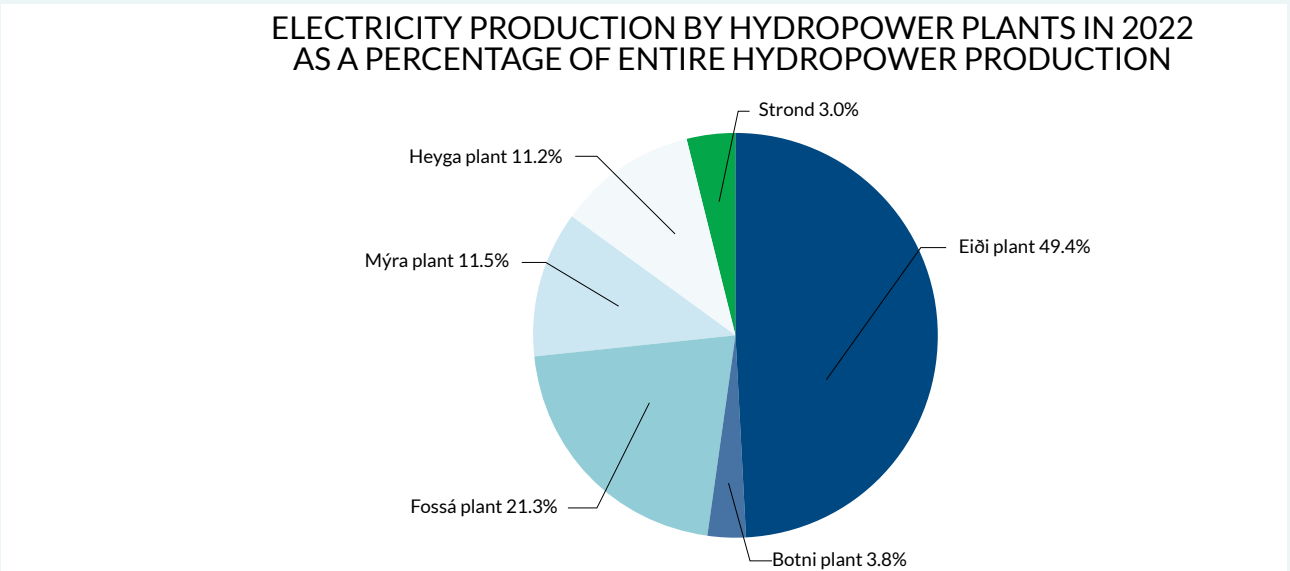
Electricity production over the years has fluctuated, as shown in Figure 1 showing the electricity

production for the entire country from 1954 to 2022.

As the Figure shows, there has been steady growth in electricity production since 1954 and onward to the financial crisis in the 1990s, when electricity production began to decline as a result of less demand. It was not until 1996 that electricity production began to grow again only to set a new record in 2022 of 434 GWh.

Also seen is that production of electricity from hydro power increased considerably at the end of the 1980s because of the new Eiði power plant that began production of electricity using hydro power. Hydro power production increased again from 2002 to 2007 because of the Eiði 3 power plant. In

Figure 5: Electricity production by hydro power plants 2022



2010 and in 2011, extensive overhaul was carried out on the turbines and piping at the Fossá and Heyga power plants, as well as turbine 1 at the Eiði power plant which was updated in 2012, while turbine 2 was updated in 2013. These overhauls can be seen in the production Table because production declined in 2010 and 2011. Moreover, it should be noted that in 2010 and 2013 it rained very little, compared to other years. In June 2012, SEV took into use the new turbine 3 at the Eiði power plant, which together with Eiði 2 south increased production of electricity from hydro power by around 14 GWh annually. The tunnel project was completed at the end of 2013.

In November of 2012, the wind farm at Neshagi entered into operation and on 9 October 2014 the new wind farm at Húsahagi came into production. The wind farm at Porkerishagi began to supply production into the grid in November 2020, and was formally handed over to SEV on 11 February 2021. The wind farm has supplied the grid with electricity throughout 2022. Also, the Table shows that production from wind energy increased considerably in 2022, when the wind farm of Vindrøkt II began to produce electricity for the grid in the month of July.

Figure 2 shows the monthly electricity production from 1988 through December 2022. As shown, production declined in 2011, while it grew steadily over the twelve months of 2012 only to decline and then grow again a little in 2013; growth continued

apace from 2014 through 2022. In 2022, growth was 2.4%.

Figure 3 shows electricity production in the Faroe Islands per resident from 1970 to 2022. The Figure shows the same picture as Figures 1 and 2 of the total electricity production for the entire country.

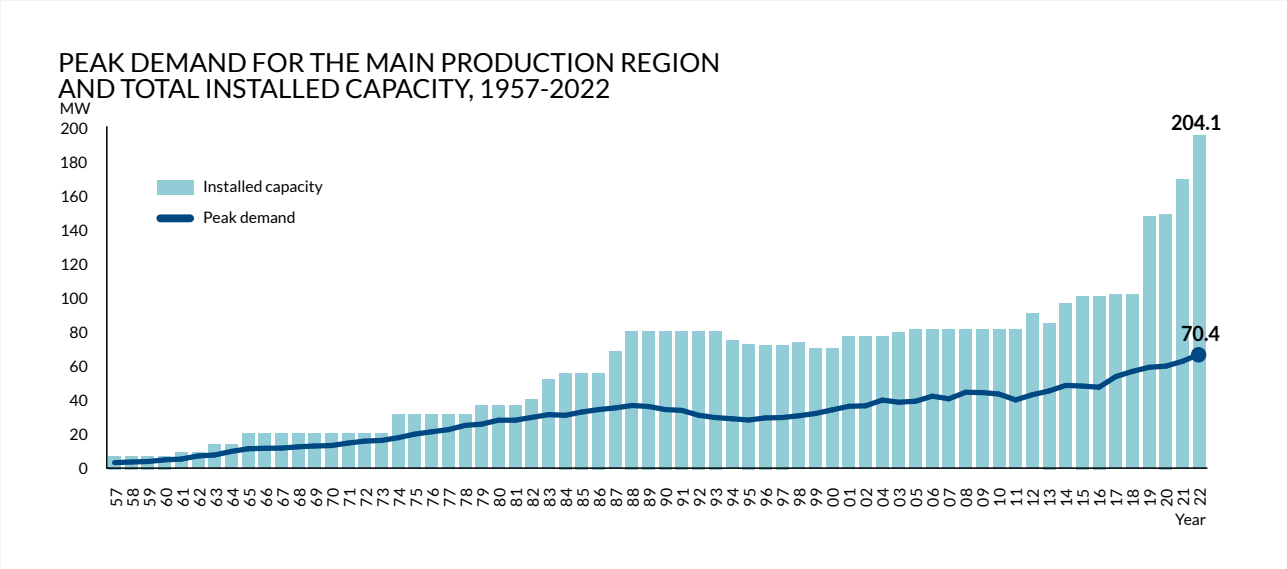
The Company has production facilities around the country, divided up into various energy production sources, i.e. thermal, hydro power, wind energy, and solar power. Moreover, the Company utilizes biogas from the Fórka plant and the wind farms of Vindrøkt II and Flatnahagi.

Figure 4 shows electricity production divided by area in 2022. As the Figure shows, the largest portion of electricity production occurs at the Sund power plant, while the next largest portion is generated from hydro power at the Eiði power plant, which in 2022 generated 65 GWh. Production from hydro power equates to some 131 GWh, while production at the Sund power plant was 186 GWh.

Figure 5 shows production by hydro power plants in 2022. The Figure shows that Eiði is the largest hydro power plant, followed by the Fossá power plant in Vestmanna.

SEV is bound by a universal service obligation. This means that SEV shall always have sufficient power available to meet the demand for electricity. Figure 6 shows the amount of available reserve power

Figure 6: Peak demand in the main region and total installed capacity 1957 - 2022



versus peak demand for the central region of the country from 1957 through 2022.

The Figure shows how much generation capacity SEV has compared to peak demand. The reason that SEV has so much spare capacity is because the major portion of electricity production is generated by unstable energy resources.

The increase in available generation capacity in 2012 is the result of the new turbines at the Eiði hydro power plant and the wind farm at Neshagi. The decline in 2013 of 5.3 MW reflects the fact that the M3 motor at the Sund thermal power plant was off-line. The increase in 2014 and 2015 reflects the installation of two new motors at the Sund Power Plant to replace the M3 motor generating some 4.8 MW, plus the wind farm at Húsahagi producing some 11.7 MW. In 2016, the new motor at the Vágur thermal power plant came online, adding 4.0 MW. In 2017 and 2018, there was no increase in generation capacity, but in 2019 SEV purchased a reserve containerized motor with a total power of 8.0 MW.

Station 3 at the Sund power plant, which was formally taken over on 31 March 2020, is well equipped and technically is of a high standard, which provides steady electric power to the Faroese community. The Sund power plant provides the same for the Faroese community in the central region as the cable connections between countries. The expanded Sund power plant provides a secure foundation, while SEV continues with its expansion

of green energy resources to take advantage of renewable and sustainable energy resources.

Station 3, which is now a functioning part of the Sund Power Plant, houses four new motors with a total capacity of 37 MW. Together with the older section of the Sund Power Plant – Station 1 and 2 with a power load of 45 MW – the total power of the Sund Power Plant is 82 MW. For the sake of comparison, the demand for electricity in the central region of the country on a normal day lies around 50-55 MW, and the highest demand for electricity ever was registered at 70.3 MW in December 2022.

Considerable attention is focused on security and cleanliness at Station 3; the power plant has a pollution control system that removes the dangerous compound NO_x from the smoke and much is done in addition to muffle the sound of the motors. Also much is done to ensure that the power plant is operated and maintained at a very high level.

Table 2
OIL CONSUMPTION, TONNES

	2022	2021	Change tons	Change %
Heavy fuel oil	41,992	51,436	-9,444	-18.4
Gas oil	1,596	2,593	-997	-38.5
Total	43,588	54,030	-10,442	-19.3

Table 3
OIL EXPENSE, DKK MILLION

	2022	2021	Change DKK MM	Change %
Heavy fuel oil	192.7	155.3	37.5	24.1
Gas oil	17.2	17.0	0.2	1.2
Lubricating oil, urea	14.4	11.4	3.0	26.1
Total	224.3	183.7	40.7	22.1

Figure 7 shows the daily power load on Wednesday 5 October 2022 in the central region of the country. The Figure shows the daily power load on a normal day in 2022. The Figure shows that the load is fairly even from 9:00 in the morning to 20:00 hours in the evening. For most of the last few years, the daily power load has, in the main, remained unchanged.

In order to meet the demand for electric power, SEV has a highly diverse “machine park”, comprised of oil-fired motors, hydro power turbines, and wind turbines. In addition, SEV has a solar power facility located at Sumba, which is part of a research project, and tidal current turbines installed in Vestmanna Sound, which are also part of a research project.

TOTAL INCOME
Total income for the Production Division in 2022 was DKK 433.8 million, compared to DKK 408.4 million in 2021. Of this income, the Sund thermal power plant generated DKK 297.5 million in 2022 and DKK 283.3 million in 2021 or respectively 68.6% and 69.4%. The Vágur thermal power plant generated DKK 49.4 million in 2022 and DKK 43.1 million in 2021, or respectively 11.4% and 10.5%.

Thus, the two largest oil-fired thermal production plants generated an income of DKK 346.9 million in 2022, compared to DKK 326.4 million in 2021, corresponding to respectively 80.0% and 79.9% of total Production Division income. The operational result for the Production Division in 2022 yielded a surplus of some DKK 9.7 million, compared to DKK 35.0 million in 2021.

TOTAL EXPENSES
Total expenses in 2022 were DKK 424.1 million, compared to DKK 373.5 million in 2021. Expenses

encompass oil purchases, operating expenses, depreciation, finance costs and taxes. Operational expenses are generally subdivided into wages for employees, and goods and services. For the production power plants, oil expense is by far the greater part of total expenditures. In 2022, oil expenses were DKK 224.3 million, compared to DKK 183.7 million, which represents 52.9% of total expenses in 2022, compared to 49.2% in 2021.

OIL EXPENSES
Grounded in the operational strategy that the Company has adopted to strive to hold to the approved budget, the Company hedged its heavy fuel oil purchase for 2022. A more detailed analysis of SEV’s long-term risk management strategy is available in the Group’s Consolidated Annual Accounts found at www.sev.fo.

The oil price that SEV shall pay is dependent upon price quotes on the oil market and the USD currency exchange.

As Table 3 reveals, costs were greater compared to the previous year by some DKK 40.7 million. In 2022, SEV consumed 9,444 tonnes less heavy fuel oil, but the additional cost of heavy fuel oil amounted to DKK 37.5 million, compared to the previous year. The consumption of gas oil declined compared to the previous year by 997 tonnes, but the cost of gas oil increased by DKK 0.2 million. The Company also used lubricating oil and urea for a total cost of DKK 14.4 million, which is DKK 3.0 million more than the previous year.

The average cost for each tonne of heavy fuel oil was DKK 4,590 in 2022, compared to DKK 3,018 per tonne in 2021. Thus, in the end, the Company experienced a greater cost in 2022 of DKK 1,572 per tonne, compared to 2021. The reason for the increased expense was higher price, increased transport costs, and market value adjustment of oil stocks.

The average cost for each litre of gas oil used was DKK 10.79 in 2022, compared to DKK 6.56 in 2021. Thus, gas oil was DKK 4.23 lower in 2021 than in 2022. The reason for this is the transport cost by ship and helicopter to the small power plants located in the outlying islands is included in the cost

Figure 7: Electricity demand over a 24-hour period, Wednesday 5 October 2022 in the main region

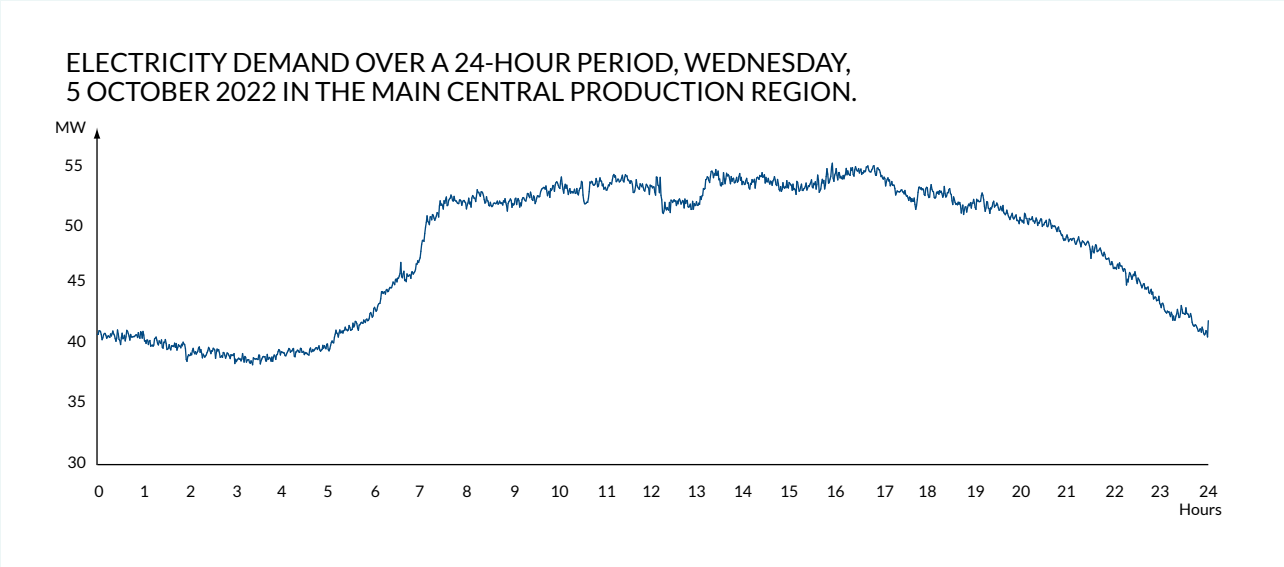
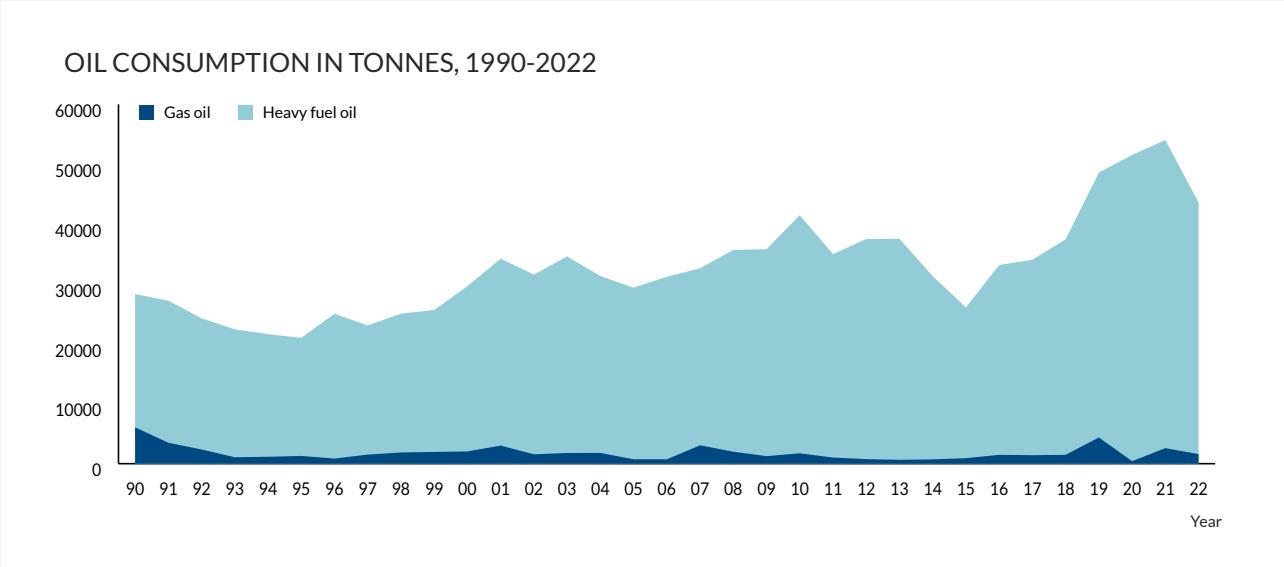


Figure 8: Oil consumption in tonnes 1990-2022



of gas oil and the purchase price for gas oil has risen considerably in 2022.

Oil expenses amounted to 52.9% of all costs and depreciation for 2022. Thus, the price of oil has a major impact on the operational result and is dependent on the international oil pricing trend and the exchange rate of the USD.

Figure 8 shows an overview of oil consumption in the production of electricity from 1990 through 2022, divided into gas oil and heavy fuel oil.

GOODS AND SERVICES

In 2022, power plant expenses for goods and services equalled DKK 36.5 million, compared to

DKK 29.3 million in 2021. This equates to a higher consumption of DKK 7.2 million.

In 2022, expenses for goods and services at the Sund thermal power plant amounted to DKK 18.9 million, compared to DKK 13.8 million in 2021, or 51.7% of total expenses for goods and services in 2022. The Vágur thermal power plant contributed DKK 3.6 million toward total expenses in 2022, compared to DKK 2.7 million in 2021. This corresponds to 9.7% of total costs.

For further details on costs for the last several years, please refer to the Group’s Consolidated Annual Accounts found at www.sev.fo.

Table 4
DEPRECIATION, DKK MILLION

	2022	2021	Change DKK MM	Change %
Sund	51.4	51.4	0.0	0.0
Vágur	10.0	9.5	0.6	5.9
Fossá	3.5	3.4	0.1	2.1
Heyga	1.2	1.0	0.2	20.3
Mýru	1.5	1.6	-0.2	-9.6
Eiði	20.0	20.0	0.0	0.2
Botnur	0.8	0.8	0.0	-0.2
Strond	2.1	2.0	0.1	5.9
Wind farms	16.1	13.9	2.2	16.1
Smaller plant	2.7	0.8	2.0	263.3
Total	109.3	104.3	5.1	4.8

EXPENSES RELATED TO THE MANAGEMENT OF THE ELECTRICITY GRID AND ANCILLARY SERVICES

The total expenses incurred by the power plants reflect not only the cost of electricity production, but also a portion of the cost related to the management of the electricity grid and ancillary services.

These expenses can be subdivided into the expenses for managing the available generating capacity, rolling reserve, reactive power, voltage and frequency regulation and management. The electricity production plants sell their production of electric power to the Grid Division. This payment from the Grid Division includes the price of electricity and the portion of the ancillary services attributed to the production plants.

The Company is presently working on the revision of the costs associated with management of the grid and ancillary services. The final result is linked to the fact that these costs are higher than the costs included in the budget and from 2023 the Company will include these costs as calculated in due course.

COSTS ASSOCIATED WITH MANAGEMENT OF THE ELECTRICITY GRID

Management of the electricity grid on Suðuroy takes place at the Vágur power production plant, while management of the grid in the central region of the country occurs at the control room located on Landavegur in Tórshavn.

The total expense for the management of the grid in the central region of the country is DKK 8.4 million and is calculated thusly: goods and services, wages and depreciation of the control room in the central region. The cost for management of the grid in Suðuroy is DKK 2.3 million.

COSTS ASSOCIATED WITH ANCILLARY SERVICES

In collaboration with the advisory company, Deloitte, based in Denmark, SEV has calculated the cost of the ancillary services in April 2021. The analysis basis was the numbers from 2019 and 2020. The conclusion was that the cost of ancillary services was around DKK 0.26 per sold kWh. This cost will change as the costs and the amount of sold

Table 5
INVESTMENT BY PLANT, DKK MILLION

	2022	2021	Change DKK MM	Change %
Sund	26.7	28.1	-1.4	-4.8
Vágur	4.9	3.8	1.1	29.4
Fossá	1.2	0.4	0.7	164.6
Heyga	0.8	0.1	0.7	565.2
Mýru	0.2	0.4	-0.2	-58.8
Mýru II	22.6	20.4	2.2	10.7
Eiði	1.1	1.0	0.1	12.2
Botnur	1.6	3.7	-2.1	-55.8
Strond	1.6	1.8	-0.3	-14.2
Wind farms	2.9	0.1	2.8	3,034.4
Smaller plant	5.6	4.2	1.4	32.7
Total	69.2	64.1	5.1	8.0

Table 6
LARGEST INVESTMENTS 2022, DKK MILLION

	2022
Mýru II, pumped storage Vestmanna	22.6
Sund, M5 new turbo chargers	4.6
Sund, M6 breakdown	2.9
Sund, electric boiler	2.8
Mykines, upgrade plant	2.3
Total	35.3

kWh changes, but SEV has elected to incorporate the cost of the ancillary services calculated in April 2021 into its planning.

For the previous year, the cost of the ancillary services was calculated to be 5% of the total operational expenses, including part of the depreciation of the Sund and Vágur power plants. If the old manner of calculating the cost of the universal service obligation is used so will the cost for 2022 be respectively, DKK 14.2 million and DKK 4.8 million or in total DKK 19.0 million. This reflects a “best estimate” calculation.

The cost of the ancillary services for the remainder of the country is based on SEV’s operational cost for its smaller power plants around the country that are deemed to be extra power plants or power reserves. For 2022, this reflects a cost of some DKK 6.7 million, if this is calculated based on the data from the year before. 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 COSTS FOR MANAGEMENT OF THE ELECTRICITY GRID AND ANCILLARY SERVICES
The total cost for managing the country-wide grid is DKK 10.7 million, while the cost of ancillary services from the thermal and hydro power plants is DKK 87.8 million. The cost to guarantee supply, etc. from the other power plants is DKK 6.7 million. The total costs for management of the electricity grid and the ancillary services is DKK 105.2 million in 2022, and in 2021 the corresponding cost was DKK 107.7 million.

WAGE EXPENSES
Wage expenses for the production facilities were DKK 38.6 million in 2022, compared to DKK 36.8 million in 2021, which equates to a increase of DKK 1.8 million.

Table 7
INVESTMENTS, DKK MILLION

	2022	2021
Investment booked as work-in-progress	66.8	60.7
Investment booked directly as transition	2.3	3.4
Investments at year-end	69.2	64.1

Table 8
WORK-IN-PROGRESS, DKK MILLION

	2022	2021
Opening balance	77.8	109.2
Investment booked to work-in-progress	66.8	60.7
Work transferred to fixed assets	-46.3	-92.0
Closing balance	98.4	77.8
Changes to work-in-progress	20.6	-31.3

Table 9
TRANSFER TO FIXED ASSETS, DKK MILLION

	2022	2021
Work transferred to fixed assets	46.3	92.0
Investments booked directly to fixed assets	2.3	3.4
Transfers at year-end	48.6	95.4

Table 10
LARGEST TRANSFERS TO FIXED ASSETS, DKK MILLION

	2022
Sund, storm damage repair February 2020	16.4
Sund, earth works	3.8
Asphalt road to Botn	2.8
Sund, tank building revision	2.5
Sund, cooling water return	1.9
Total	27.5

In 2022, the Sund Power Plant accounted for DKK 26.0 million, compared to 22.8 million or respectively 67.5% and 62.0%. In 2022, the Vágur Power Plant accounted for DKK 6.7 million, compared to DKK 6.1 million in 2021,

corresponding to respectively 17.2% and 16.6%. The reason for the increased employee expense for the Vágur power plant relative to production is based on the management and control of the power grid on Suðuroy. The Grid Division reimburses these expenses to the Vágur power plant, as explained above.

In conclusion, one can see that the employee expense at the thermal power plants accounts for the vast majority of this total expense. The hydro power facilities and the wind farms account for only DKK 4.0 million or 10.5 % of the total employee expense.

FINANCIAL EXPENSES
Interest expense was DKK 14.7 million in 2022, compared to DKK 19.9 million in 2021.

DEPRECIATION
Depreciation for 2022 was DKK 109.3 million, compared to DKK 104.4 million in 2021, which is DKK 4.9 million higher.

The higher depreciation expense in 2022 stems especially from the Sund power plant, which was depreciated by DKK 51 million, while the increase in the main comes from the increase in the depreciation basis in 2022 relative to the storm damage in February 2020 at the Sund power plant, the earth works at the Sund power plant, renovation of the tank house, and the cooling system, and the roadway to the plant at Botnur was asphalted.

INVESTMENT
Investment in material fixed assets was DKK 69.2 million in 2022, compared to DKK 64.1 million in 2021, as Table 5 shows.

The major investments in the Production Division are shown in Table 6.

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

Additions from work-in-progress and direct booking to fixed assets (the depreciation basis) was DKK 48.6 million in 2022, and DKK 95.4 million in

2021. Please note as well the work-in-progress and Note 7 in the accounts.

The major investments undertaken by the Production Division, which were added to the basis, are shown in Table 10.

Please refer to the detailed discussion on investments in the Consolidated Concern Accounts, available at www.sev.fo.

LIQUIDITY
Liquidity has not been divided between the Production Division and the Grid Division. SEV utilizes an internal transfer pricing mechanism to balance the accounts of the two divisions. Thus, the liquidity of the production units is set to DKK 0.00 million, while all the activities of the power plants are financed by payments from the Grid Division, thereby securing the necessary liquidity. The same is applicable to the wind farm companies that are also financed by the Grid Division.

At year-end, the Company’s cash-on-hand was DKK 367.3 million, compared to DKK 144.2 million in 2021. In addition, the Company has access to unused drawing rights and overdraft facilities of some DKK 850.0 million in total.

Thus, the cash-on-hand, credit and unused drawing rights equals DKK 1,217.3 million, compared to DKK 564.2 million in 2021. The greatest portion of the unused drawing rights shall be used to finance investment in the coming years. It is deemed necessary to have sufficient liquidity to cover the daily operations of the Company. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets.

The goal is to maintain sufficient liquidity so that SEV is always able to pay cash for an oil purchase or to cover the cost of any damage at the power plants or to the grid. Furthermore, it is deemed necessary to have sufficient liquidity to cover daily operations of the power plants and the grid. Further details on the Company’s liquidity are available in the Group Consolidated Annual Accounts available on the Company’s website, www.sev.fo.

SPECIAL RISKS

Please confer the Group Consolidated Annual Accounts for a detailed discussion of risk assessment and management, available at www.sev.fo.

PROSPECTS FOR OPERATIONAL YEAR 2023

Based on the budget for 2023, and an evaluation of the distribution of the result compared to the requirements of equity capital, the result before taxes is projected to be around DKK 30 million. The management of SEV is satisfied with the projected result for 2023 and with the financial status and the economic prospects of the Company.

The operational expenses are estimated to be DKK 72.2 million for 2023, compared to DKK 75.1 million in 2022, equalling a lower expenditure of some DKK 2.9 million.

Oil expenses in the 2023 budget are estimated to be DKK 180.6 million, compared to DKK 224.3 million for 2022, which is DKK 43.7 million lower. The Company has a long-term plan to hedge its oil purchases for the year equal to that projected in the respective budget. The Company has hedged its oil purchases for 2023 pursuant to agreements entered into last year. Moreover, the Company has endeavoured to balance its oil storage with the market value, which for 2023 is included in the budget.

The oil markets are unstable at present because of the war between Russia and Ukraine and this impacts the cost of oil. Even though heavy fuel oil purchases in 2023 are hedged, it is anticipated that increasing or high oil prices can impact the total cost of oil and thus impact the result the wrong way.

Depreciation is budgeted at DKK 107.5 million in 2023 versus DKK 109.3 million in 2022. Interest expenditure is expected to increase due to an increase in debt for financing investments. Interest expenditure is expected to be higher in 2023 than in 2022. For the year 2023, it is expected that interest expenses will be DKK 34.9 million. In 2022, this cost was calculated to be DKK 14.7 million, which was impacted by the market value adjustments on derivative instruments.

Given a projected surplus in 2023, the production operations share will provide sufficient self-financing for investments. It is critical for production operations to provide its share of financing for future investments in existing power plants and new investments in renewable energy sources.

More information for 2023 can be found in the Operational, Financial and Investment Budget Plan for 2023 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 Production unit.

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 Production Accounts are prepared in the same manner as the Group Accounts, albeit without the consolidation and elimination of internal postings in the income statement and balance sheet. This is done in order to give the reader the best possible insight into all the production activity of the SEV group. The Annual Accounts apply the same accounting principles as the previous year and are presented in Danish kroner.

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

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

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

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

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

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

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

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

INCOME STATEMENT

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

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

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

ANCILLARY SERVICES
The cost of electricity production can be divided into actual production cost, and the cost of ancillary services. Ancillary services include the planning and control of available generating power, spinning

reserve, reactive reserve, regulating power and regulating frequency.

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.

GRID CONTROL
The cost of planning and controlling the grid in the main area comprises the total operating the cost of the control room. The cost of planning and controlling the grid on Suðuroy is based on wages at 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.

The income of the 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.

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 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 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	2022	2021
1 Net sales	433,768	408,450
2 Oil expenses	-224,327	-183,669
3 Materials and services	-36,490	-29,275
Gross proceeds	172,951	195,505
4 Wages	-38,590	-36,769
Depreciation, amortization and impairment of fixed assets	-109,331	-104,278
EBITDA	25,030	54,459
5 Financial items	-14,705	-19,903
Result before tax	10,325	34,555
6 Tax on annual result	-652	405
Annual result	9,673	34,960
Proposed distribution of result:		
Result carried forward	9,673	34,960
Total distribution	9,673	34,960

Balance Sheet 31 December

ASSETS in 1,000 DKK			
Note	2022	2021	
Tangible fixed assets			
7, 14 Power plants	1,540,641	1,601,749	
Buildings and land	4,264	4,401	
Operating equipment	2,292	1,328	
Investment work-in-progress	98,421	77,842	
Total tangible fixed assets	1,645,619	1,685,320	
Financial fixed assets			
Derivatives	10,918	450	
Total financial fixed assets	10,918	450	
Total fixed assets	1,656,537	1,685,770	
Current assets			
Oil inventory	29,426	23,389	
Total inventory	29,426	23,389	
Receivables			
Goods and services receivables	0	1,052	
Inter-company account Grid	210,005	0	
6 Tax asset	1,705	1,686	
Prepayments and accruals	525	2,722	
Total receivables	212,236	5,460	
Total current assets	241,662	28,849	
Total assets	1,898,199	1,714,619	

Balance Sheet 31 December

LIABILITIES in 1,000 DKK			
Note	2022	2021	
Equity			
8 Equity subsidiary companies	0	0	
Hedge reserve	10,918	450	
Result carried forward	851,021	841,349	
Total equity	861,940	841,798	
Provisions			
6 Deferred tax	1,585	914	
Total provisions	1,585	914	
Debt			
9 Long-term debt	818,725	827,932	
Total long-term debt	818,725	827,932	
Short-term debt			
9 Current portion of long-term debt	170,340	9,007	
Creditors	35,524	19,632	
Inter-company account Grid	0	5,774	
Other liabilities	10,084	9,561	
Total short-term debt	215,949	43,975	
Total debt	1,034,674	871,907	
Total liabilities	1,898,199	1,714,619	
Other liabilities			
10 Production result by plant			
11 Overview of production units			
12 Mortgages and other liabilities			

Cash Flow Statement

Note	Amounts in 1,000 DKK	2022	2021
	Annual result	9,673	34,960
13	Adjustments	124,689	123,776
	Changes in working capital:		
	Inventories	-6,037	-3,344
	Receivables	3,198	423
	Creditors	15,892	19,632
	Inter-company account Grid	-215,780	-193,314
	Other liabilities	573	-1,868
	Operating cash flow before financial items	-67,792	-19,734
	Interest paid and similar expenses	-14,705	-19,903
	Cash flow from operations	-82,497	-39,637
	Investment in tangible fixed assets	-49,050	-95,371
	Changes to work-in-progress	-20,579	31,319
	Cash flow from investments	-69,629	-64,052
	Repayments of long-term debt	152,126	103,689
	Cash flow from financing	152,126	103,689
	Total cash flow during the year	0	0
	Opening cash-on-hand	0	0
	Closing cash-on-hand	0	0



Production Accounts 2022

Notes



Note 1

1. NET SALES

Amounts in 1,000 DKK	2022	2021
Own production	350,472	316,145
Own consumption	-12,779	-8,795
Grid control	2,300	2,300
Ancillary services	94,462	98,958
Other sales	-687	-159
Total	433,768	408,450

Since 2011, SEV has published independent accounts for the Production Division and the Grid Division. In this regard, the Company determined to calculate earnings for the Production Division in the same manner as demanded for wind power tenders. Thus, this calculation of earnings affords an accurate picture of production operations, compared to the requirement for a profit and an adequate return on assets of the Production Division. For the Production Division, this means that it shall always cover all of its costs, including its portion of the costs related to management of the grid and SEV’s universal service obligation. In addition, the Production Division shall derive a profit corresponding to around 5% of opening balance equity. Calculated profit for 2022 was DKK 43.5 million, corresponding to 5.0% of the Production Division’s opening balance equity. SEV believes this is a reasonable profit at present, compared to inflation and other investment possibilities. The total result for the Production Division was DKK 9.7 million.

According to the Electricity Production Act, Grid activities shall be financially self-sufficient, such that revenue is sufficient to cover operations, as well as planned necessary investment in infrastructure. For the Grid Division, this means that it shall have a revenue that covers grid-related operational expenses, as well as planned infrastructure investment. Revenue for necessary investment is based on an expectation of self-financing. In the event that investment related to Vision 2030 shall be carried out before other planned investment, it may be necessary to increase the demand for self-financing up to 25%.

When infrastructure investment is needed, a portion of the investment required shall be self-funded, thus negating that the entire investment be financed by a loan facility. SEV has determined that self-financing of some 25% is sufficient and the Production and Grid accounts for 2016-2022 reflect this expectation. The level of self-financing required is based on the budgeted investments in the Production and Grid Divisions. Hitherto, the Company has maintained a high equity ratio, but in step with decreasing equity ratios, the requirement is for increasing self-financing from 25% to 42.5%, which is the internal target for long-term equity ratio. The equity ratio required by loan agreements is 35% (previously 37.5%).

The level shall be viewed in the context of budgeted investment for a rolling 5-year period. SEV’s 2022 budget projects investment for 2022-2026 for the Production Division to be DKK 1,426 million, equalling on average some DKK 285 million annually. The self-financing projected for 2022 is budgeted to be DKK 71 million. For the Grid Division, projected investment is set at DKK 670 million, of which self-financing equals DKK 34 million for 2022. It is advisable that self-financing is of a sufficient amount and this can be realized only from an operational profit.

Self-financing for each respective year shall be calculated thusly: operational cash flow less interest and instalment 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 shall be adjusted such that the profit is equal to the expenses incurred by the Grid Division plus a self-financing requirement of 25% of the annual average investment in the grid over the next five years. Distribution of profit between the Production Division and the Grid Division in previous years was based on an allocation to the Production Division that ensured that all costs were covered, including costs for its respective portion of grid administration and the grid’s universal service obligation plus a 5% return on opening balance equity.

Going forward, it will be necessary to increase the revenue of the Production Division relative to the Grid Division such that said revenue corresponds to the increased debt burden borne by the Production Division stemming from the anticipated expansion of the production power plants.

If SEV’s total consolidated result was larger than the calculated allotment for the Production Division, the remainder was transferred to the Grid Division. In 2016, this allocation was revised so that the Grid Division is now allotted an adjusted result and not the Production Division.

Notes 2-5

2. OIL EXPENSES

Amounts in 1,000 DKK	2022	2021
Gas oil	17,216	17,011
Heavy fuel oil	192,727	155,255
Lubricating oils, urea	14,384	11,403
Total	224,327	183,669

3. MATERIALS AND SERVICES

Amounts in 1,000 DKK	2022	2021
Dams, pipelines and tunnels	109	167
Tanks and environmental	442	569
Motors	13,607	12,214
Electric and technical	303	766
Buildings and land	1,504	1,645
General Meeting and Board *	622	65
Studies and consultancy	2,346	1,292
IT *	3,720	1,305
Management and office expenses *	1,590	391
Other operating expenses	2,785	722
Other administrative expenses	9,463	10,139
Total	36,490	29,275

* Expenses in these categories are grouped differently in 2022 compared to 2021, and a direct comparison is not possible between the two years.

4. EMPLOYEE EXPENSES

Amounts in 1,000 DKK	2022	2021
Wages	33,714	32,238
Pensions	3,314	3,154
Contributions	1,561	1,376
Total	38,590	36,769
Full-time equivalent	68	60

5. FINANCIAL EXPENSES

Amounts in 1,000 DKK	2022	2021
Interest, loans and bank debt, etc.	14,705	19,903
Total	14,705	19,903

Notes 6-7

6. TAXES ON ANNUAL RESULT		
Amounts in 1,000 DKK	2022	2021
Tax for the year according to P&L	-652	405
Tax asset P/F Vindfelagið í Húshaga 1 January	1,686	249
Adjustment to tax asset opening balance	0	1,113
Change in tax asset during the year	19	325
Tax asset P/F Vindfelagið í Húshaga 31 December	1,705	1,686
Deferred tax liability P/F Vindfelagið í Neshaga 1 January	-914	-994
Change in tax liability during the year	-671	80
Deferred tax liability P/F Vindfelagið í Neshaga 31 December	-1,585	-914

7. TANGIBLE FIXED ASSETS						
Amounts in 1,000 DKK	Production	Grid	Buildings	Equipment	Total 2022	2021
Acquisition value, opening balance	2,952,954	36	5,275	7,343	2,965,608	2,895,420
Adjustment to opening balance	0	0	0	0	0	-21,112
Additions during the year	47,503	0	0	1,547	49,050	95,371
Disposals during the year	0	0	0	-472	-472	-4,070
Acquisition value year-end	3,000,457	36	5,275	8,419	3,014,187	2,965,608
Depreciation opening balance	-1,351,227	-13	-873	-6,015	-1,358,130	-1,279,034
Adjustment to opening balance	0	0	0	0	0	21,112
Depreciation for the year	-108,611	-1	-137	-583	-109,331	-104,278
Reversal on disposals for the year	0	0	0	472	472	4,070
Depreciation closing balance	-1,459,838	-14	-1,010	-6,127	-1,466,989	-1,358,130
Book value year-end	1,540,619	22	4,264	2,292	1,547,198	1,607,478
Book value year-end 2021	1,601,727	23	4,401	1,328	1,607,478	
Work-in-progress						
Opening balance	71,213	0	4,731	1,898	77,842	109,161
Investment during the year	65,626	0	0	1,213	66,838	60,661
Transferred to depreciation	-46,259	0	0	0	-46,259	-91,979
Closing balance	90,580	0	4,731	3,111	98,421	77,842
Closing balance year-end 2021	71,213	0	4,731	1,898	77,842	
Fixed assets year-end	1,450,039	22	8,995	5,403	1,645,619	1,685,320
Fixed assets year-end 2021	1,530,513	23	9,132	3,226	1,685,320	

Notur 8–10

8. EQUITY				
Amounts in 1,000 DKK	Share capital	Hedge reserve	Result carried forward	Total
Equity statement 01.01.21 - 31.12.21				
Opening balance 01.01.21	0	-2,147	811,454	809,307
Adjustment to prior years' result	0	0	-5,066	-5,066
Adjustment derivatives	0	2,597	0	2,597
Annual result	0	0	34,960	34,960
Closing balance 31.12.21	0	450	841,349	841,798
Equity statement 01.01.22 - 31.12.22				
Opening balance 01.01.22	0	450	841,349	841,798
Adjustment derivatives	0	10,469	0	10,469
Annual result	0	0	9,673	9,673
Closing balance 31.12.22	0	10,918	851,021	861,940

9. LIABILITIES				
Amounts in 1,000 DKK	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.22	Total debt 31.12.21
Debt to financial institutions	161,133	419,194	937,074	782,105
Subsidiaries' debt to parent company	9,207	7,034	51,991	54,834
Total	170,340	426,228	989,066	836,939
DKK 161 million are due in 2023 on the loan agreements from 2016. The average maturity of the loans from 2016 is 3.3 years.				
There is no repayment due in 2023 on the loan agreements from 2022, and these loans have an average maturity of 9.3 years. The average maturity of the whole loan portfolio is 6.1 years.				
On subsidiary debt due to the parent company SEV, the repayments due next year are calculated on the basis of annuity loans starting in 2016 repayable over 10 and 12 years, respectively.				

10. PRODUCTION RESULT BY PLANT								
Amounts in 1,000 DKK	Revenue	Oil	Materials	Wages	Depreciation	Interest	Taxes	Total
Sund power plant	297,517	-182,845	-18,852	-26,047	-51,434	-4,721	0	13,619
Vágur power plant	49,408	-27,815	-3,556	-6,656	-10,024	-2,011	0	-654
Fossá power plant	7,962	0	-1,478	-808	-3,452	-4	0	2,220
Heyga power plant	3,102	-20	-921	-400	-1,183	5	0	583
Mýra power plant	4,028	0	-550	-460	-1,461	0	0	1,557
Eiði power plant	36,730	-5	-3,032	-2,240	-20,006	-5,136	0	6,312
Botnur power plant	-3,661	0	-290	-134	-764	0	0	-4,849
Strond power plant	12,433	-9,719	-939	-234	-2,074	-1	0	-534
Wind power	27,215	0	-6,132	-10	-16,124	-2,835	-652	1,462
Small power plants	-968	-3,923	-739	-1,601	-2,810	-2	0	-10,043
Production result	433,768	-224,327	-36,490	-38,590	-109,331	-14,705	-652	9,673

Note 11

11. POWER PLANT OVERVIEW AS AT 31 DECEMBER 2022

Location	Unit	MW	Unit type	Manufacturer	Powered by	Year	Age	Total hours	Hours 2022
Botnur	T1	1.0	Pelton hydro turbine	Voith	Hydro	1965	58	214,342	3,259
Botnur	T2	2.0	Francis hydro turbine	Voith	Hydro	1966	57	175,085	4,506
Eiði	T1	7.0	Francis hydro turbine	Voith	Hydro	1987	36	124,337	3,633
Eiði	T2	7.0	Francis hydro turbine	Voith	Hydro	1987	36	127,727	4,571
Eiði	T3	7.7	Francis hydro turbine	Voith	Hydro	2012	11	63,740	7,201
Húsahagi *	V1-V13	11.7	Vindmill (pitch reg.)	Enercon	Wind	2014	9	789,922	92,090
Neshagi *	V1-V5	4.5	Vindmill (pitch reg.)	Enercon	Wind	2012	11	395,054	29,648
Neshagi †	V6	0.15	Vindmill (fixed pitch)	Nordtank	Wind	1993	30	132,549	0
Porkeri *	V1-V7	6.3	Vindmill (pitch reg.)	Enercon	Wind	2021	0	98,412	54,945
Skopun	M1-M3	1.83	4-T	Mercedes and Deutz	Gas oil	1984	39		0
Smaller plant		1.7	4-T	Deutz, Mercedes, Perkins	Gas oil				0
Strond	M3	3.6	4-T 12 M 453 K	Krupp Mak	Gas oil	1982	41	51,566	106
Strond	T1	1.4	Francis hydro turbine	Sulzer Hydro	Hydro	1998	25	81,531	3,604
Sund	M1	7.85	4-T 9M43C	Caterpillar/MaK	Heavy oil	2001	22	84,139	1,241
Sund	M2	7.85	4-T 9M43C	Caterpillar/MaK	Heavy oil	2004	19	78,318	2,316
Sund	M3A	2.4		MTU	Gas oil	2015	8	4,432	48
Sund	M3B	2.4		MTU	Gas oil	2015	8	4,299	18
Sund	M4	12.4	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1983	40	204,963	1,092
Sund	M5	12.4	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1988	35	186,590	3,913
Sund	M6	9.25	9L 51/60	MAN	Heavy oil	2020	3	15,558	6,459
Sund	M7	9.25	9L 51/60	MAN	Heavy oil	2020	3	13,648	3,210
Sund	M8	9.25	9L 51/60	MAN	Heavy oil	2020	3	17,590	5,759
Sund	M9	9.25	9L 51/60	MAN	Heavy oil	2020	3	17,536	5,916
Sund	B4-C2	8.8	KTA50G3	Cummins Diesel	Gas oil	2019	4	3,809	0
Vág	M1	2.7	4-T 9 M 453	Krupp Mak	Heavy oil	1983	40	126,614	1,080
Vág	M2	2.7	4-T 9 M 453	Krupp Mak	Heavy oil	1983	40	125,888	1,826
Vág	M3	4.2	4-T 9M32C	Caterpillar/MaK	Heavy oil	2004	19	107,233	4,426
Vág	M4	4.0	4-T 9L32	Wartsila	Heavy oil	2016	7	33,176	2,847
Sumba	G1	0.261	Solar panel	Solar Polaris	Solar	2019	4	347	0
Strond	M4-M6	3.0	4- T C1250 D2R	Cummins Diesel	Gas oil	2014	9	19,185	8,468
Vestmanna	Fossá 1	2.1	Pelton hydro turbine	Maier	Hydro	1953	70	240,645	5,128
Vestmanna	Fossá 2	4.2	Francis hydro turbine	Voith	Hydro	1956	67	383,205	6,679
Vestmanna	Heyga 1	4.9	Francis hydro turbine	Voith	Hydro	1963	60	256,400	5,086
Vestmanna	Mýru 1	2.4	Francis hydro turbine	Voith	Hydro	1961	62	414,589	7,623

* See the annual reports for P/F Vindfelagið í Húsahaga and P/F Vindfelagið í Neshaga for a breakdown of production hours by unit.

† This wind turbine was destroyed by lightning on 9 November 2021 and will not be replaced.

Notes 12–14

12. MORTGAGES AND OTHER OBLIGATIONS

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

13. ADJUSTMENTS

Amounts in 1,000 DKK	2022	2021
Depreciation	109,331	104,278
Interest expense and similar expenses	14,705	19,903
Taxes	652	-405
Total	124,689	123,776

14. BOOK VALUE OF PRODUCTION PLANT

Amounts in 1,000 DKK	2022	2021
Production admin	2,643	1,935
Fossá	20,231	23,192
Heyga	16,746	17,737
Mýru	11,766	13,136
Eiði	401,127	420,819
Botnur	10,109	10,459
Vágur	117,183	123,061
Tvøroyri	0	0
Sund	811,660	829,400
Skopun	31	35
Strond	18,596	17,377
Wind farms	128,906	143,486
Smaller plant	454	152
Mobile generation sets	0	189
Fugloy	1,545	1,600
Svínoy	66	72
Mykines	1,396	704
Hestur	2,121	2,224
Koltur	961	283
Nólsoy	61	64
Skúvoy	482	476
Dímun	1,111	1,076
Total	1,547,198	1,607,478



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Financial Calendar: 01.01-31.12
Business Tax Registration No.: 331538