PRODUCTION ACCOUNTS 2021

Botnur hydro plant 100 years

www.sev.fo

Elfelagið SEV Production Accounts 2021

Table of Contents

Management Report

The Board of Directors and Management hereby submit SEV's Production Annual Report and Accounts for fiscal year 1 January - 31 December 2021. 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 2021 and the result of operations and cash flow for fiscal year 1 January - 31 December 2021.

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, 4 April 2022

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 Klementsen

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 2021, 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 2021, which we have audited.

In our opinion, the production accounts for Elfelagið SEV for the financial year 1 January - 31 December 2021 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, 4 April 2022

P/F JANUAR

State Authorised Public Accountants

Hans Laksá
State Auth. Auditor

Key Figures

Amounts in 1,000 DKK	2021	2020	2019	2018	2017
Income Statement					
Net sales	408,450	358,659	328,266	259,063	279,101
EBITDA	158,736	128,312	118,514	94,486	135,653
Result before financial items	54,459	36,027	49,344	20,265	67,830
Financial items	-19,903	-18,434	-16,476	-9,340	-9,488
Annual result	**34,960**	**17,969**	**32,718**	**10,650**	**57,784**
Balance Sheet					
Total assets	1,799,493	1,755,214	1,696,153	1,565,760	1,347,941
Equity	870,798	838,307	817,531	789,767	779,117
Long-term debt	**827,932**	**724,439**	**733,250**	**437,369**	**358,941**

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 its customers 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 2020 to 31 December 2021.

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 2021 was DKK 40.5 million, compared to DKK 39.4 million for 2020.

The total result for the Production Division was DKK 35.0 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, BUT A BAD YEAR FOR HYDROPOWER ENERGY

Total green electricity production in 2021 was some 161 GWh, which is 2.5% more than in 2020. Production was derived from, respectively, hydropower, wind, solar, and biogas. This was achieved even though the first two months and the third quarter of last year were not a good production time for green energy. Freezing weather was experienced during the first two months of the year as well as December, even though good weather prevailed during high summer. Hydropower production declined, while wind power production increased.

The distribution between renewable energy and thermal energy was 61.9% thermal and 38.1% renewable energy. Altogether, for some 17 days, 80% or more of electricity production was from sustainable resources.

The year 2021 was the second year that power derived from five different sustainable energy sources was fed into the electricity grid, i.e., respectively, hydropower, wind, solar, biogas, and tidal energy. Electricity production measured in GWh for 2021 was 424, compared to 407 GWh in 2020, or a growth of some 17 GWh, equalling a growth in production of 4.2%, much more than in 2020. Green energy production declined somewhat, just as occurred from 2019 to 2020, but slightly less, from 38.7% in 2020 down to 38.1% in 2021.

While wind power production increased by 15% compared to 2020, hydropower energy production declined by 8%. Hydropower production was 100 GWh, which is below average, and as noted was some 8% less than the year before. January, February, and December were so cold that hydropower production was not possible because of freezing conditions and less available water. Moreover, the summer of 2021 was drier than normal. July and August were especially dry and hydropower production amounted to only 2.4% and 4.5%, respectively, of total electricity production.

BETTER WIND ENERGY YEAR IN THE CENTRAL REGION OF THE COUNTRY

Production from wind was 15% or 7 GWh greater in 2021 than in 2020. The difference was derived, in the main, from the windfarm in Suðuroy, which came online in 2021 and produced 7.7 GWh.

Production from wind energy in the central region of the country, which was disappointingly bad in 2020, was also poor in 2021. The wind turbines at Neshagi and at Húsahagi were plagued with troubles in 2020, but repair of the wind turbines was carried out and production was 46 GWh in 2021, the same as the previous year.

Neshagi experienced major difficulties because of generator failures in three of the five wind turbines in 2020. Two of the three are now repaired. Thus, output was somewhat better in 2021. However, one wind turbine remains still and non-functional.

Wind energy production in Vestmanna by P/F Vindrøkt declined by 6.4%, compared to 2020.

WIND ENERGY ON SUÐUROY

SEV is delighted that it was able to get a new windfarm up and running in 2020. SEV's windfarm at Porkeri operated all of 2021 and produced 7.7 GWh in 2021. Distribution of energy production on Suðuroy was greatly altered because of this and, in 2021, 31% of electricity consumption on Suðuroy was generated by hydropower, wind energy and solar energy.

SUSTAINABLE ENERGY PRODUCTION ON SUÐUROY DOUBLES

When one considers Suðuroy by itself, it can be seen that green energy production on Suðuroy truly doubled in 2021, from 5.3 GWh to some 11.2 GWh. This occurred even though there was a major decline in hydropower production because of bad weather conditions for hydropower production.

Hydropower production at Botni declined by some 21%, compared to the year before, from some 4 GWh down to some 3 GWh, because there was hardly any rain during the previous summer and the excessive cold and snow disrupted production in January, February and December, respectively.

Table 1
SALES IN GWH

	2021	2020	Change 21-20 GWh	Change 21-20 %
Settled sales to customers	387.6	370.4	17.1	4.6
Grid loss	25.2	25.0	0.2	0.9
Own consumption	11.0	11.4	-0.4	-3.1
Total production	**423.8**	**406.8**	**17.0**	**4.2**
Of which thermal	262.4	249.4	13.0	5.2
Thermal %	*61.9*	*61.3*		
Of which hydro	100.3	108.7	-8.4	-7.7
Hydro %	*23.7*	*26.7*		
Of which wind	54.1	47.1	7.0	14.8
Wind %	12.8	11.6		
Of which BTS*	7.0	1.6	5.5	350.3
% BTS	*1.7*	*0.4*		
Total green energy production	**161.4**	**157.4**	**4.1**	**2.6**
Green energy %	***38.1***	***38.7***		

* BTS = Biogas, tidal, and solar

On the other hand, the windfarm at Porkeri was taken into use in February 2021. This first year was marred by trials and start-up challenges, but, however, the output from Porkeri contributed greatly to the total production of sustainable energy. Wind energy production on Suðuroy was, as stated, 7.7 GWh in 2021.

The windfarm company anticipates an increase in production in 2022, when the stabilizing technology comes online.

Even though the output during the first year was under half of the anticipated 20 GWh that could be derived from stable technology, the savings were well noted at the Vágur power plant. Production from oil at the Vágur power plant declined by some 5 GWh or some 17%, even though total production on Suðuroy increased. The savings in oil for 2021 was over 1600 tonnes. The Vágur power plant over the last several years has used around 6000 tonnes of oil per year.

The solar energy facility at Sumba has been operational for two years in a row. The solar energy trials at Sumba over the last two years have gone well and solar energy production at Sumba increased by 4.75% in 2021, from some 169 MWh to nearly 177 MWh, which is somewhat over the expected production. The production of 177,000 kWh equals the annual electricity consumption of 36 households. The best day was 22 May, when production at the solar energy facility reached 1,564 kWh.

Figure 1: Electricity production for the entire country 1954 - 2021

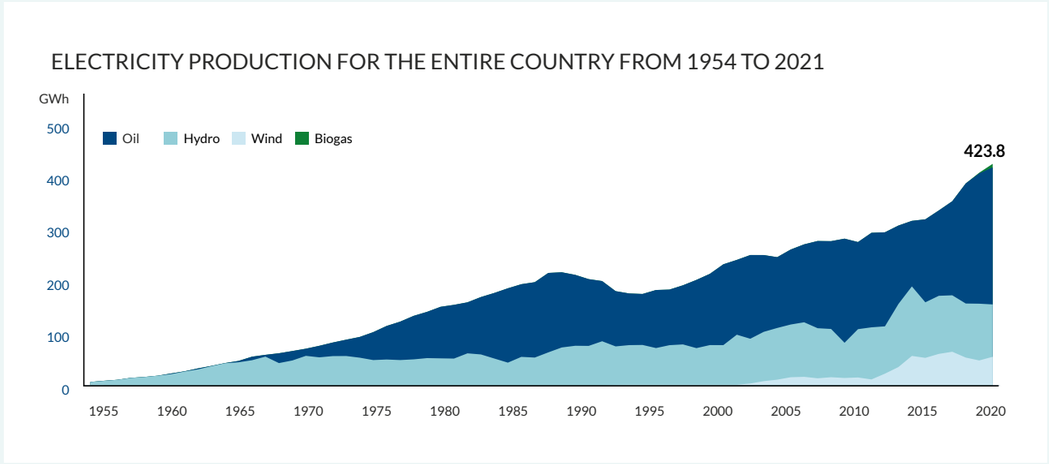
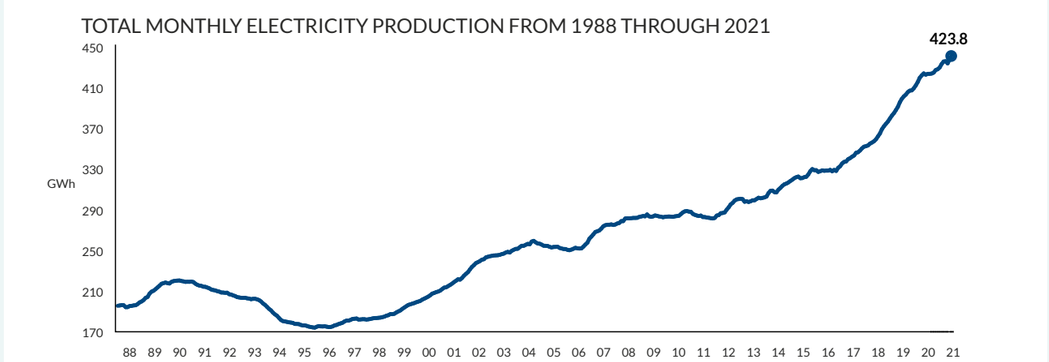


Figure 2: Total monthly electricity production 1988 - 2021



SUND POWER PLANT ACHIEVED RECORD-BREAKING PRODUCTION

Production at the thermal power plants in Vágur and Sund has gone well, but good weather last summer placed a severe load on the Sund power plant. In the central region of the country, sustainable energy provided only 10% of the electricity demand both in July and August. Thus, the rest of the electricity provided to our customers was generated at the Sund power plant. These two months saw growth in demand of 8.6% and 6.8%, respectively, and production at the Sund power plant increased by 20%, compared to 2020. In total, the Sund power plant produced last year 235 GWh, which is the most ever produced to date.

BIOGAS MAKES A DIFFERENCE

The biogas plant, Förka, was in production for its first entire year and it went well. Production was 6.8 GWh, which represents 1.6% of total electricity production. The production of the biogas plant eases or augments the production at the Sund power plant, and it has been estimated that the reduced consumption of oil, based on production

Figure 3: Electricity production per resident of the Faroe Islands 1970 - 2021

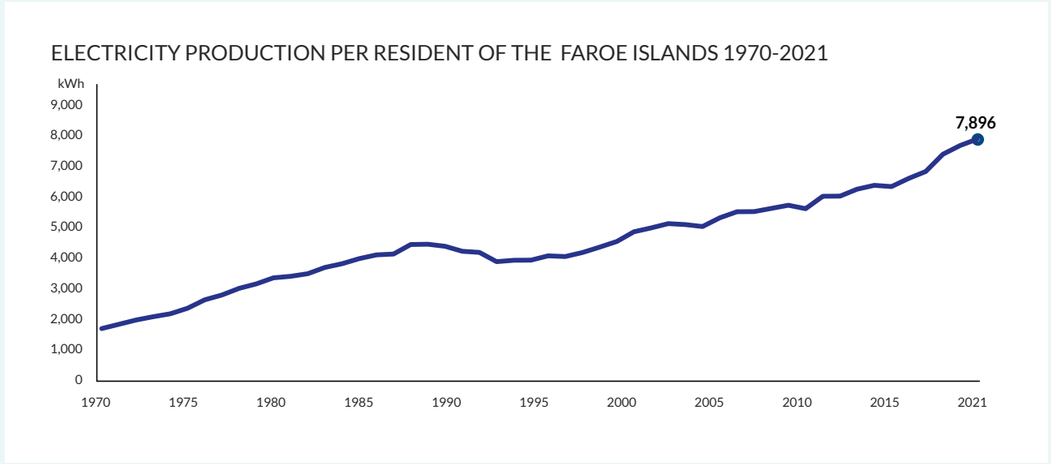
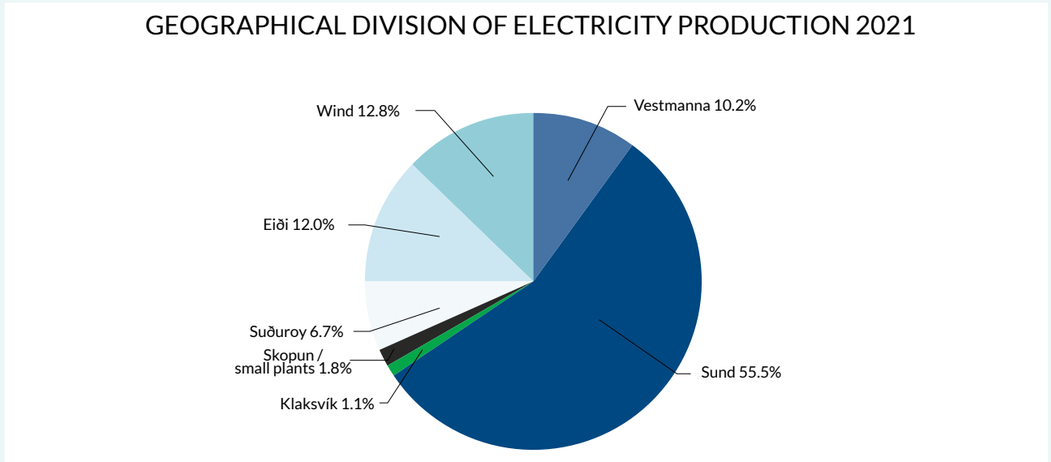


Figure 4: Geographical division of electricity production 2021



from the Förka power plant, is around 1,400 tonnes of oil.

Thus, the windfarms on Suðuroy and the biogas power plant have saved SEV some 3,000 tonnes of oil, which equates to about half the load of an oil tanker.

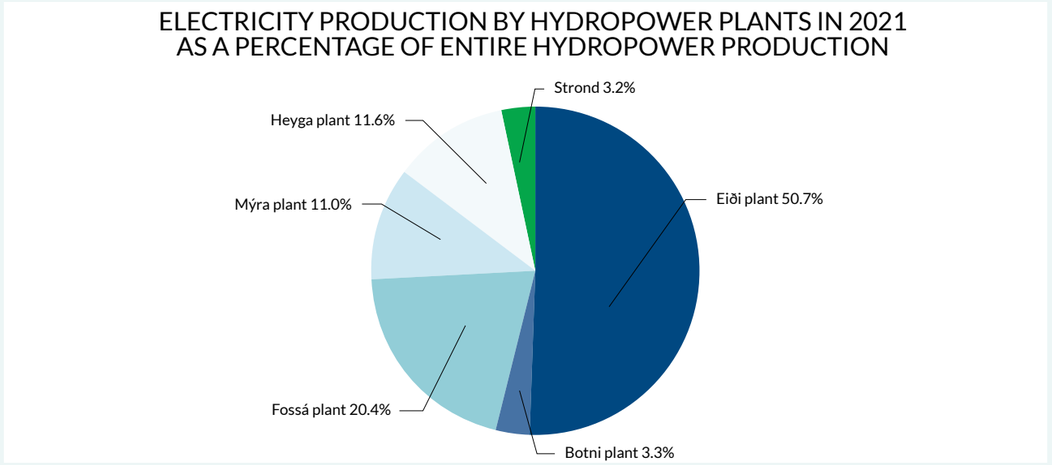
RECORD DEMAND FOR ELECTRIC POWER

We consume electricity like never before. We again set a record in 2021 for total Faroese electricity production. Total production in 2021 was nearly 424 GWh, compared to 407 GWh in 2020, equalling a growth of 4.2%. Electricity production from sustainable energy resources was 158 GWh in 2020 and in 2021 it was 161 GWh, slightly more than last year. However, given a much greater production of electricity overall in 2021 to meet demand resulted in that the production from the "green" resources declined, reflecting a decline of some 0.6%. In 2021, 54.1 GWh was derived from wind energy, and 100.3 GWh was derived from hydropower. Some 262.4 GWh came from the oil-fired thermal power plants. This represents 61.9% of the total electricity production in 2021 of 423.8 GWh, the highest electricity production ever.

Over the last 20 years, electricity production has nearly doubled. In 2000, production was 213 GWh and in 2021 production was some 424 GWh. In 2010, production stood at 280 GWh.

When electricity production from renewable energy sources does not grow proportionally to the

Figure 5: Electricity production by hydro power plants 2021



demand for electricity, which is growing quickly, the obvious result is that the Sund power plant must generate the power that the renewable resources cannot produce. This is especially true in the central region of the country.

In 2020, for the first time, the Sund power plant generated more than 200 GWh, reaching a level of 219 GWh, which equates to 15% more than in 2019. The growth in production from 2018 to 2019 was 25%, from 151 GWh to 189 GWh. This represents an increase of nearly 45% at the Sund power plant over the years 2018 through 2020. This increase has continued more or less. From 2020 through 2021, the growth was 16.6 GWh, corresponding to 7.6%.

Production in the central region of the country grew by 4.3%, while production on Suðuroy grew by 2.7%. For the central region, the power load was set at 63.1 MW in 2020 and 66.1 MW in 2021. Production on Suðuroy increased from a declining 7.9 MW in 2020 to 8.7 MW in 2021.

Electricity production over the years has fluctuated, as shown in Figure 1, which shows electricity production for the entire country from 1954 through 2021.

As the Figure shows, there has been a steady increase in electricity production since 1954 and onward until the economic crisis in the 1990s, when electricity production began to decline because of reduced demand. It was not until 1996 that electricity production began to increase again, until in 2021 a new record was set at 424 GWh.

Also shown is that production of electric power from hydropower increased considerably at the end of the 1980s, due to the new Eiði hydropower plant beginning to produce hydroelectric power. Hydropower production continued to increase again between 2002 and 2007 because of the Eiði 3 hydropower station coming online. Since then, production has been quite steady. In 2010 and 2011, major upgrades were performed on the turbines and pipes at the Fossá hydropower plant and at the Heyga power plant. Moreover, Turbine 1 at the Eiði power plant was updated in 2012, while Turbine 2 was upgraded in 2013. These upgrades can be seen in the Figure outlining production because production declined in 2010 and 2011. Also evident is that in 2010 and 2013 there was but little rain, compared to other years. In June 2012, a new Turbine 3 at the Eiði power plant went operational, which together with Eiði 2 South increased production of electricity from hydropower by around 14 GWh annually. The tunnel project was completed at the end of 2013.

In November 2012, the windfarm at Neshagi became operational, and, on 9 October 2014, the new windfarm at Húsahagi came online. The windfarm at Porkerihagi began to produce electricity for the grid in the month of November 2020 and officially went operational for SEV on 11 February 2021. It generated electricity into the grid throughout 2021.

Figure 6: Peak demand and available power for the main central region 1957 - 2021

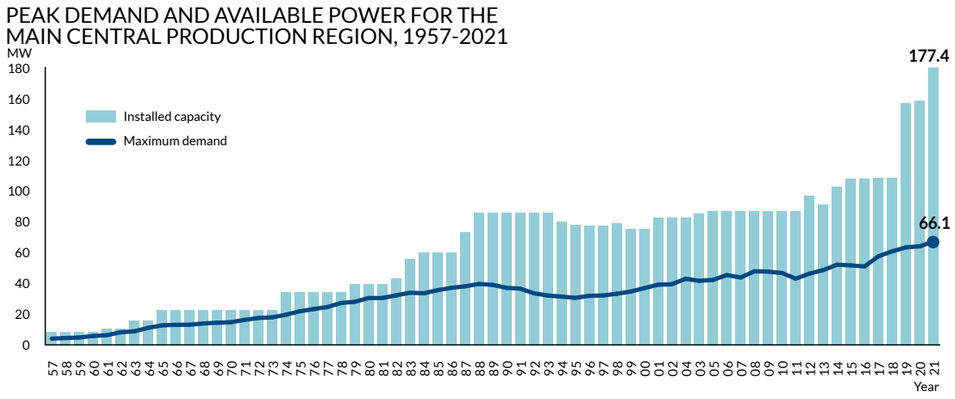


Figure 2 shows the monthly electricity production from 1987 through and including December 2021. As is evident, production declined in 2011, while it grew steadily during the twelve months of 2012 at which point it began to decline again only to grow a little bit in 2013, at which point growth continued in 2014 through 2021. In 2021, growth in production was 4.2%.

Figure 3 shows electricity production in the Faroe Islands per resident from 1970 through 2021. The Figure reveals the same pattern as Figures 1 and 2, which show total electricity production for the entire country.

SEV has electricity production facilities throughout the country, subdivided into various production sources, such as thermal, hydropower and wind energy.

Figure 4 shows electricity production subdivided by area in 2021. As the Figure shows, the major portion of electricity production was produced by the Sund power plant, while the next highest was produced from hydropower at the Eiði power plant, which in 2021 was 50.9 GWh. Production from hydropower in total equals some 100.3 GWh, while production from the Sund power plant was 235 GWh.

Figure 5 shows production divided by hydropower facilities in 2021. The Figure shows that Eiði is the largest hydropower producer, followed by the Fossá hydropower 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 versus peak demand for the central region of the country from 1957 through 2021.

The Figure shows the amount of available reserve power maintained by SEV, compared to peak electricity consumption. The reason SEV has such a large amount of available reserve power is that a large portion of electricity production is derived from unstable energy resources. Thus, it is necessary to ensure that alternative energy supplies are available.

The increase in available reserve power in 2012 is the result of the new turbines at the Eiði hydropower plant and the windfarm 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 windfarm 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 available reserve power, but in 2019 SEV purchased a reserve containerized motor with a total power of 8.0 MW.

Table 2
OIL CONSUMPTION, TONNES

	2021	2020	Change tons	Change %
Heavy fuel oil	51,436	51,121	316	0.6
Gas oil	2,593	420	2,173	516.9
Total	**54,030**	**51,541**	**2,489**	**4.8**

Table 3
OIL EXPENSE, DKK MILLION

	2021	2020	Change DKK MM	Change %
Heavy fuel oil	155.3	149.7	5.5	3.7
Gas oil	17.0	4.9	12.1	243.8
Lubricating oil, urea	11.4	9.7	1.7	17.3
Total	**183.7**	**164.4**	**19.3**	**11.7**

Station 3 at the Sund power plant , which was formally transferred to SEV on 31 March 2020, has functioned well and, from a technical perspective, it is of the highest standard, generating electricity steadily for the Faroese community. The Sund power plant is the equivalent for Faroese society as the cable connections between countries. The expanded Sund power plant offers a secure foundation of electric power, while the country continues along its course toward total renewable and sustainable green energy.

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 was recorded at 66.1 MW, and it was in December 2021.

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

Figure 7 shows the daily power load on Wednesday 6 October 2021 in the central region of the country. The Figure shows the daily power load on a normal day in 2021. 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, hydropower 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 2021 was DKK 408.4 million. Of this income, the Sund thermal power plant generated DKK 283.3 million, or 69.4% and the Vágur thermal power plant generated DKK 43.1 million or 10.5%.

Thus, the two largest oil-fired thermal production plants generated an income of nearly DKK 326.4 million in 2021, corresponding to 79.9% of total Production Division income. The operational result for the Production Division in 2021 yielded a surplus of some DKK 35.0 million, compared to DKK 18.0 million in 2020.

TOTAL EXPENSES

Total expenses in 2021 were DKK 373.5 million. 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 2021, oil expenses were DKK 183.7 million, which represents 49.2% of total expenses. In 2020, this was 48.2%.

OIL EXPENSES

Grounded in the operational strategy that the Company had adopted to strive to hold to the approved budget, the Company hedged its heavy oil purchase for 2021, however at a higher cost than planned in the budget. A more detailed analysis of SEV's long-term risk management strategy is

Figure 7: Electricity demand over a 24-hour period, Wednesday 6 October 2021 in the main region

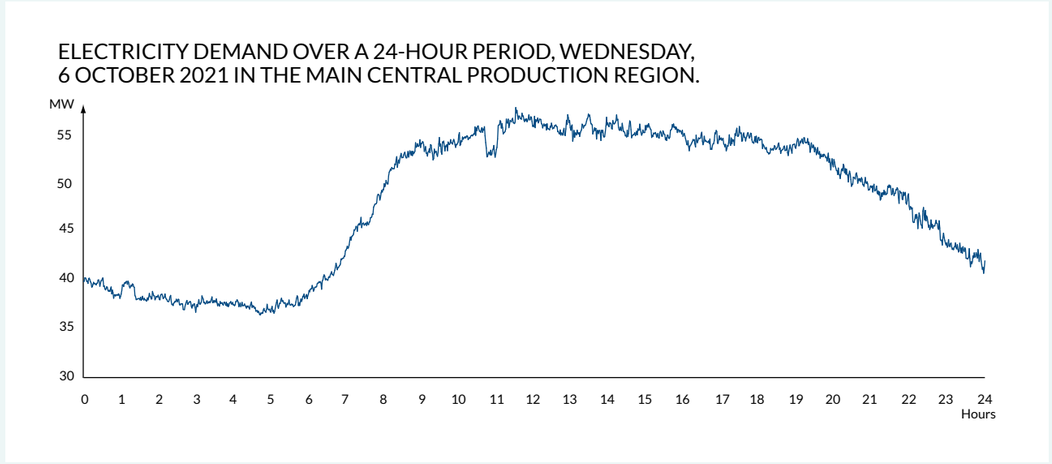
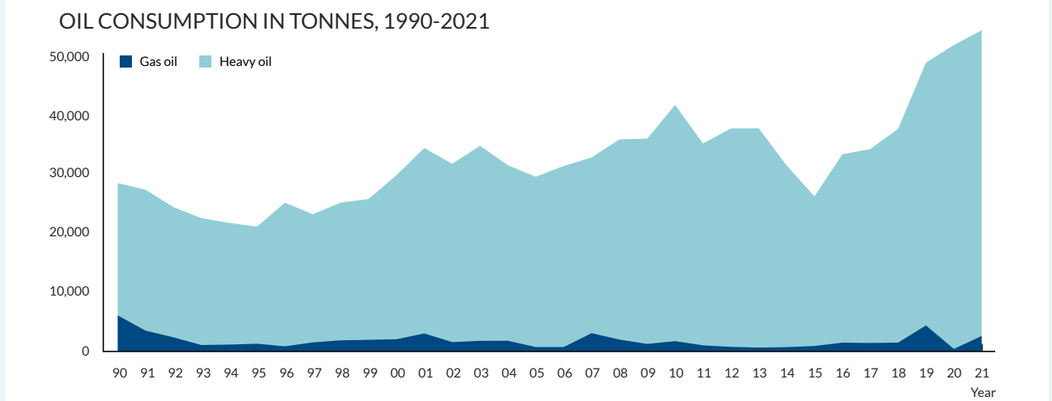


Figure 8: Oil consumption in tonnes 1990-2021



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 shows, costs were greater compared to the previous year by some DKK 19 million. In 2021, SEV consumed 316 tonnes more heavy oil, and the additional cost of heavy oil amounted to DKK 5.5 million, compared to the previous year. The consumption of gasoil declined considerably compared to the previous year by some 2,173 tonnes, equalling DKK 12.1 million. The Company also used lubricating oil and urea for a total cost of DKK 11.4 million, which is DKK 1.7 million more than the previous year.

The average cost for each tonne of heavy oil was DKK 3,018 in 2021, compared to DKK 2.929 per tonne in 2020. Thus, in the end, the Company experienced a greater cost in 2021 of DKK 90 per tonne, compared to 2020.

The average cost for each litre of gasoil was DKK 6.56 in 2021, compared to DKK 11.77 in 2020. Thus, gasoil was DKK 5.21 lower in 2021 than in 2020. Compared to the purchase price of gasoil, which in 2020 was around DKK 4.00 per litre, the cost of gasoil was thus higher. 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 of gasoil and a valuation adjustment of the gasoil in storage is booked at year-end 2020. Compared to the purchase price of gasoil, which in 2021 was around DKK 6.40 per litre, the cost of gasoil is consistent with the market price.

The price of oil increased through March and then held steady – a little fluctuation both ways – through June when it again began to increase onward toward year-end. At the beginning of the year, the average price was USD 322 for each tonne of heavy oil, while the price at the end of year was USD 470. The average cost for 2021 was USD 463.

For the Production Division, oil expenses amounted to 51.9% of all costs and depreciation for 2021. 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 connection with the production of electricity from 1990 through 2021, subdivided into gasoil and heavy oil.

Table 4
DEPRECIATION, DKK MILLION

	2021	2020	Change DKK MM	Change %
Sund	51.4	40.3	11.1	27.6
Vágur	9.5	9.2	0.2	2.5
Fossá	3.4	4.1	-0.6	-15.8
Heyga	1.0	2.2	-1.2	-55.1
Mýru	1.6	1.6	0.0	0.9
Eiði	20.0	19.9	0.1	0.4
Botnur	0.8	0.6	0.1	22.9
Strond	2.0	1.9	0.0	1.1
Wind farms	13.9	10.4	3.5	33.3
Smaller plant	0.8	2.0	-1.2	-62.0
Total	**104.3**	**92.3**	**12.0**	**13.0**

Table 5
INVESTMENT BY PLANT, DKK MILLION

	2021	2020	Change DKK MM	Change %
Sund	28.1	75.0	-46.9	-62.5
Vágur	3.8	1.2	2.6	218.6
Fossá	0.4	0.4	0.0	-2.5
Heyga	0.1	0.6	-0.5	-78.3
Mýru	0.4	0.4	0.0	-7.5
Mýru II	20.4	0.0	20.4	100.0
Eiði	1.0	0.5	0.5	106.9
Botnur	3.7	0.2	3.5	2.115.9
Strond	1.8	1.2	0.6	48.8
Wind farms	0.1	70.0	-69.9	-99.9
Smaller plant	4.2	3.4	0.8	25.2
Total	**64.1**	**152.9**	**-88.8**	**-58.1**

Table 6
LARGEST INVESTMENTS 2021, DKK MILLION

	2021
Mýru II, pumped storage Vestmanna	10.0
Mýru II: balance from Grid division 2019-20	10.4
Sund, storm damage repair February 2020	7.6
Sund, earth works	6.8
Asphalt road to Botn	3.2
Sund, cooling Station 3	2.2
Total	**40.2**

GOODS AND SERVICES

In 2021, power plant expenses for goods and services equalled DKK 29.3 million, compared to DKK 26.1 million in 2020. This equates to a higher consumption of DKK 3.2 million.

In 2021, expenses for goods and services at the Sund thermal power plant amounted to DKK 13.8 million, compared to DKK 11.3 million in 2020, or 47.2% of total expenses for goods and services in 2021. The Vágur thermal power plant contributed DKK 2.7 million toward total expenses in 2021, compared to DKK 3.3 million in 2020. This corresponds to 9.3% 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.

EXPENSES RELATED TO THE MANAGEMENT OF THE ELECTRICAL SYSTEM AND SEV'S UNIVERSAL SERVICE OBLIGATION

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 electrical system and the universal service obligations of the Company.

These expenses can be subdivided into the expenses for managing the available power reserve, rolling power, 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 a portion of the universal service obligation attributed to the production plants.

The Company at present is working on revising the costs associated with the management of the electric system and the universal service obligation. Preliminary results indicate a higher level of cost than previously indicated, and the Company will incorporate the revised cost base in the annual accounts. accounts.

COSTS ASSOCIATED WITH MANAGEMENT OF THE ELECTRICAL SYSTEM

Management of the electrical system on Suðuroy takes place at the Vágur power production plant, while management of the electrical system in the central region of the country occurs at the control room for the central region.

The total operiating expense for the management of the electrical system in the central region of the country is DKK 6.5 million. The cost of managing the electrical system on Suðuroy is DKK 2.3 million.

COSTS ASSOCIATED WITH THE UNIVERSAL SERVICE OBLIGATION

The expenses related to SEV's universal service obligation are deemed to be 5% of total operational expenses, including the partial depreciation of the Sund and Vágur power plants, which equals DKK 12.7 million and DKK 2.0 million, respectively. This reflects a "best estimate" calculation.

Table 7
INVESTMENTS, DKK MILLION

	2021	2020
Investment booked as work-in-progress	60.7	151.9
Investment booked directly as transition	3.4	1.0
Investments at year-end	**64.1**	**152.9**

Table 8
WORK-IN-PROGRESS, DKK MILLION

	2021	2020
Opening balance	109.2	688.6
Investment booked to work-in-progress	60.7	151.9
Work transferred to fixed assets	-92.0	-731.3
Closing balance	**77.8**	**109.2**
Changes to work-in-progress	-31.3	-579.5

Table 9
TRANSFER TO FIXED ASSETS, DKK MILLION

	2021	2020
Work transferred to fixed assets	92.0	731.3
Investments booked directly to fixed assets	3.4	1.0
Transfers at year-end	**95.4**	**732.4**

Table 10
LARGEST TRANSFERS TO FIXED ASSETS, DKK MILLION

	2021
Wind farm Porkeri	71.4
Sund, earth works	6.8
Asphalt road to Botn	3.2
Sund, tank building	1.7
Sund, cooling water return	1.6
Total	**84.7**

The cost of the universal service obligation relative to 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. 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 ELECTRICAL SYSTEM AND THE UNIVERSAL SERVICE OBLIGATION

The total cost for managing the country-wide power system is DKK 8.8 million. The cost for ensuring the power supply, rolling power and available power reserves at the Sund and Vágur thermal power plants is stipulated at DKK 14.7 million. The cost to guarantee supply, etc. from the other power plants is DKK 4.8 million, equating to an estimated total cost for ensuring a stable power supply, and rolling and reserve power, plus management of the power system of DKK 26.1 million.

WAGE EXPENSES

Wage expenses for the production facilities were DKK 36.8 million in 2021, compared to DKK 39.9 million in 2020, which equates to a decrease of DKK 3.1 million.

In 2021, the Sund power plant accounted for DKK 22.8 million, or 62.0%, of total employee expenses. The Vágur power plant accounted for DKK 6.1 million, or 16.6% of total wage expenses. The reason for the increased employee expense at the Vágur power plants relative to production is based on the management and control of the power system on Suðuroy. The Grid Division reimburses these expenses to the production units, 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 hydropower facilities and the windfarms account for only DKK 3.5 million or 9.5 % of the total employee expense.

FINANCIAL EXPENSES

Interest expense was DKK 19.9 million in 2021, compared to DKK 18.4 million in 2020.

DEPRECIATION

Depreciation for 2021 was DKK 104.4 million, compared to DKK 92.3 million in 2020, which is DKK 12.1 million higher.

The higher depreciation expense in 2021 stems especially from the Sund power plant, which was depreciated by DKK 50 million, while the increase in the main comes from the Porkeri wind farm, earth works, tank farm, and HFO separator at the Sund power plant plus the asphalting of the road to Botn, which is now included in the depreciation basis for 2021.

INVESTMENT

Investment in material fixed assets was DKK 64.1 million in 2021, compared to DKK 152.9 million in 2020, 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 95.4 million in 2021, and DKK 732.4 million in 2020. 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 windfarm companies that are also financed by the Grid Division.

At year-end, the Company's cash-on-hand was DKK 144.2 million, compared to DKK 223.9 million in 2020. In addition, the Company has access to unused drawing rights and overdraft facilities of some DKK 420.0 million in total.

Thus, the cash-on-hand, credit and unused drawing rights equals DKK 564.2 million, compared to DKK 526.6 million in 2020. 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 2022

Based on the budget for 2022, 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 10-20 million. The management of SEV is satisfied with the projected result for 2022 and with the financial status and the economic prospects of the Company.

The operational expenses are estimated to be DKK 60.2 million for 2022, compared to DKK 66,0 million in 2021, equalling a lower expenditure of some DKK 5.8 million.

Oil expenses in the 2022 budget are estimated to be DKK 159.7 million, compared to DKK 183.7 million for 2021, which is DKK 24.0 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 hedged the purchase of oil for 2022 via agreements executed in 2018, 2019, 2020, 2021 and 2022. It is anticipated that the oil costs for 2022 will be higher than projected in the budget because the price levels stipulated in the hedging agreements for 2022 were somewhat higher than projected in the budget. Moreover, market value adjustments on oil inventories are not included in the budget.

The oil markets are unstable at present because of war between Russia and Ukraine and this impacts the cost of oil. It is anticipated that oil costs will be significant, but the reason that oil purchases are hedged is to ensure that the cost of oil will not be overly impacted in 2022, but it is anticipated that oil costs in the coming years after 2022 will be greatly impacted.

Depreciation is budgeted at DKK 94.7 million in 2022 versus DKK 104.3 million in 2021. Interest expenditure is expected to increase due to an increase in debt for financing the investments in the Sund thermal power plant. Interest expenditure is expected to be lower in 2022 than in 2021. For the year 2022, it is expected that interest expenses will be DKK 19.5 million. In 2021, this cost was DKK 19.9 million.

Given a satisfactory projected surplus in 2022, 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 2022 can be found in the Operational, Financial and Investment Budget Plan for 2022 available at www.sev.fo.

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.

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 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.

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		2021	2020
1	Net sales	408,450	358,659
2	Oil expenses	-183,669	-164,377
3	Materials and services	-29,275	-26,104
	Gross proceeds	**195,505**	**168,178**
4	Wages	-36,769	-39,866
	Depreciation, amortization and impairment of fixed assets	-104,278	-92,284
	EBITDA	**54,459**	**36,027**
5	Financial items	-19,903	-18,434
	Result before tax	**34,555**	**17,593**
6	Tax on annual result	405	376
	Annual result	**34,960**	**17,969**
	Proposed distribution of result:		
	Result carried forward	34,960	17,969
	Total distribution	**34,960**	**17,969**

Balance Sheet 31 December

ASSETS in 1,000 DKK

Note		2021	2020
	Tangible fixed assets		
7, 14	Power plants	1,601,749	1,610,839
7	Buildings and land	4,401	4,538
7	Operating equipment	1,328	1,008
7	Investment work-in-progress	77,842	109,161
	Total tangible fixed assets	**1,685,320**	**1,725,546**
	Derivatives	450	0
	Total financial fixed assets	**450**	**0**
	Total fixed assets	**1,685,770**	**1,725,546**
	Current assets		
	Oil inventory	23,389	20,045
	Total inventory	**23,389**	**20,045**
	Goods and services receivables	1,052	0
	Inter-company account Grid	84,873	5,135
6	Tax asset	1,686	249
	Prepayments and accruals	2,722	4,238
	Total receivables	**90,334**	**9,622**
	Total current assets	**113,723**	**29,667**
	Total assets	**1,799,493**	**1,755,214**

Balance Sheet 31 December

LIABILITIES in 1,000 DKK

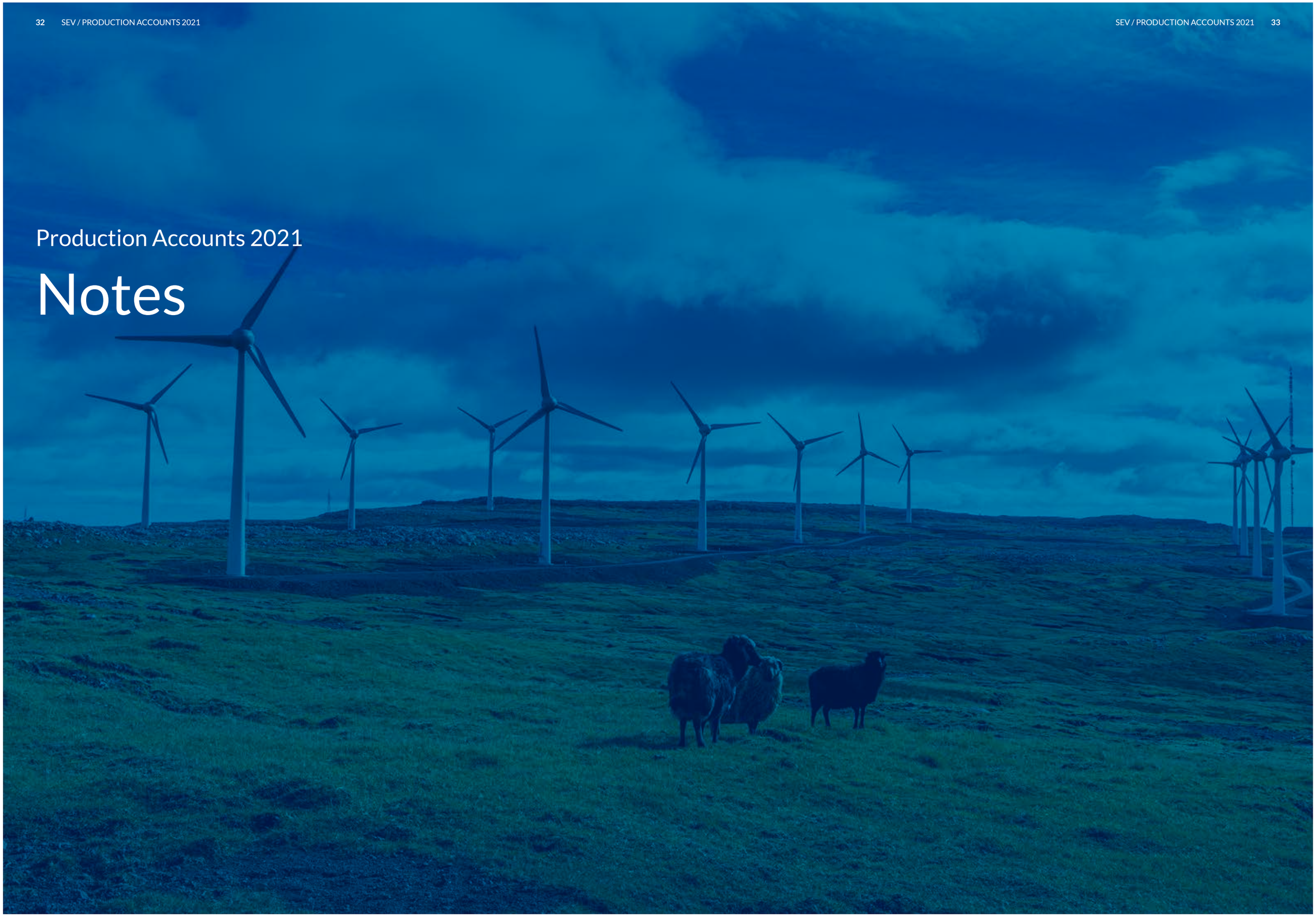
Note		2021	2020
	Equity		
8	Equity subsidiary companies	29,000	29,000
	Hedge reserve	450	-2,147
	Result carried forward	841,349	811,454
	Total equity	**870,798**	**838,307**
	Provisions		
6	Deferred tax	914	994
	Total provisions	**914**	**994**
	Debt		
9	Long-term debt	827,932	724,439
	Total long-term debt	**827,932**	**724,439**
9	Current portion of long-term debt	9,007	8,811
	Creditors	19,632	0
	Inter-company account Grid	61,648	169,044
	Derivatives	0	2,147
	Other liabilities	9,561	11,471
	Total short-term debt	**99,848**	**191,473**
	Total debt	**927,781**	**915,912**
	Total liabilities	**1,799,493**	**1,755,214**

Cash Flow Statement

Note	Amounts in 1,000 DKK	2021	2020
	Annual result	**34,960**	**17,969**
13	Adjustments	123,776	110,343
	Changes in working capital:		
	Inventories	-3,344	-2,643
	Receivables	423	-1,149
	Creditors	19,632	
	Inter-company account Grid	-193,314	50,047
	Other liabilities	-1,868	5,357
	Operating cash flow before financial items	**-19,734**	**179,924**
	Interest paid and similar expenses	-19,903	-18,434
	Cash flow from operations	**-39,637**	**161,490**
	Investment in tangible fixed assets	-95,371	-734,729
	Changes to work-in-progress	31,319	581,859
	Cash flow from investments	**-64,052**	**-152,871**
	Repayments of long-term debt	103,689	-8,619
	Cash flow from financing	**103,689**	**-8,619**
	Total cash flow during the year	**0**	**0**
	Opening cash-on-hand	0	0
	Closing cash-on-hand	**0**	**0**

Production Accounts 2021

Notes



Note 1

1. NET SALES

Amounts in 1,000 DKK	2021	2020
Own production	395,505	346,502
Own consumption	-8,795	-11,743
System services	21,899	23,070
Other sales	-159	830
Total	**408,450**	**358,659**

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 2021 was DKK 40.5 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 35.0 million, which reflects the requirement for self-financing.

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 2016-2021 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 2021 budget projects investment for 2021-2025 for the Production Division to be DKK 1,188 million, equalling on average some DKK 238 million annually. The self-financing projected for 2021 is budgeted to be DKK 59 million. For the Grid Division, projected investment is set at DKK 747 million, of which self-financing equals DKK 37 million for 2021. 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	2021	2020
Gas oil	17,011	4,948
Heavy fuel oil	155,255	149,710
Lubricating oils, urea	11,403	9,720
Total	**183,669**	**164,377**

3. MATERIALS AND SERVICES

Amounts in 1,000 DKK	2021	2020
Cables and lines	0	45
Dams, pipelines and tunnels	167	217
Tanks and environmental	569	595
Motors	12,214	10,125
Electric and technical	766	410
Buildings and land	1,645	756
General Meeting and Board	65	145
Studies and consultancy	1,292	2,514
IT	1,305	1,053
Management and office expenses	391	658
Other operating expenses	722	1,297
Other administrative expenses	10,139	8,289
Total	**29,275**	**26,104**

4. EMPLOYEE EXPENSES

Amounts in 1,000 DKK	2021	2020
Wages	32,238	34,914
Pensions	3,154	3,446
Contributions	1,376	1,505
Total	**36,769**	**39,866**
Number of employees	57	63
Full-time equivalent	**64**	**72**

5. FINANCIAL EXPENSES

Amounts in 1,000 DKK	2021	2020
Interest, loans and bank debt, etc.	19,903	18,434
Total	**19,903**	**18,434**

Notes 6-7

6. TAXES ON ANNUAL RESULT

Amounts in 1,000 DKK	2021	2020
Tax for the year according to P&L	405	376
Tax asset P/F Vindfelagið í Húsahaga 1 January	249	126
Adjustment to tax asset opening balance	1,113	0
Change in tax asset during the year	325	123
Tax asset P/F Vindfelagið í Húsahaga 31 December	**1,686**	**249**
Deferred tax liability P/F Vindfelagið í Neshaga 1 January	-994	-1,247
Change in tax liability during the year	80	253
Deferred tax liability P/F Vindfelagið í Neshaga 31 December	**-914**	**-994**

7. TANGIBLE FIXED ASSETS

Amounts in 1,000 DKK	Production	Grid	Buildings	Equipment	Total 2021	2020
Acquisition value, opening balance	2,883,477	44	5,275	6,623	2,895,420	2,191,067
Adjustment to opening balance	-21,112	0	0	0	-21,112	0
Additions during the year	94,659	-8	0	720	95,371	732,352
Disposals during the year	-4,070	0	0	0	-4,070	0
Acquisition value year-end	**2,952,954**	**36**	**5,275**	**7,343**	**2,965,608**	**2,923,419**
Depreciation opening balance	-1,272,822	139	-736	-5,615	-1,279,034	-1,214,749
Adjustment to opening balance	21,112	0	0	0	21,112	0
Depreciation for the year	-103,588	-153	-137	-400	-104,278	-92,284
Reversal on disposals for the year	4,070	0	0	0	4,070	0
Depreciation closing balance	**-1,351,227**	**-13**	**-873**	**-6,015**	**-1,358,130**	**-1,307,034**
Book value year-end	**1,601,727**	**23**	**4,401**	**1,328**	**1,607,478**	**1,616,386**
Book value year-end 2020	1,610,655	184	4,538	1,008	1,616,386	
Work-in-progress						
Opening balance	108,640	23	352	146	109,161	688,642
Investment during the year	54,467	-23	4,379	1,838	60,661	151,851
Transferred to depreciation	-91,893	0	0	-86	-91,979	-731,332
Closing balance	**71,213**	**0**	**4,731**	**1,898**	**77,842**	**109,161**
Closing balance year-end 2020	108,640	23	352	146	109,161	
Fixed assets year-end	**1,530,513**	**23**	**9,132**	**3,226**	**1,685,320**	**1,725,546**
Fixed assets year-end 2020	1,719,295	207	4,890	1,154	1,725,546	

Notes 8–10

8. EQUITY

Amounts in 1,000 DKK	Share capital	Hedge reserve	Result carried forward	Total
Equity statement 01.01.20 - 31.12.20				
Opening balance 01.01.20	29,000	0	793,485	822,485
Adjustment derivatives	0	-2,147	0	-2,147
Annual result	**0**	**0**	**17,969**	**17,969**
Closing balance 31.12.20	**29,000**	**-2,147**	**811,454**	**838,307**
Equity statement 01.01.21 - 31.12.21				
Opening balance 01.01.21	29,000	-2,147	811,454	838,307
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	**29,000**	**450**	**841,349**	**870,798**

9. LIABILITIES

Amounts in 1,000 DKK	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.21	Total debt 31.12.20
Debt to financial institutions	0	775,941	775,941	663,441
Subsidiaries debt to parent company	9,007	13,915	60,998	69,809
Total	**9,007**	**789,856**	**836,939**	**733,250**

On long-term debt to financial institutions, there is no repayment due next year and the current loan agreement is due and payable on average in 5.3 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	283,306	-158,326	-13,804	-22,803	-50,011	-9,913	0	28,449
Vágur power plant	43,090	-20,174	-2,737	-6,081	-9,461	-1,787	0	2,850
Fossá power plant	7,388	-19	-891	-860	-3,439	0	0	2,179
Heyga power plant	3,193	-13	-657	-266	-983	0	0	1,274
Mýra power plant	3,500	0	-520	-230	-1,616	0	0	1,134
Eiði power plant	33,703	0	-1,796	-1,555	-19,960	-5,137	0	5,255
Botnur power plant	1,549	0	-170	-60	-766	0	0	553
Strond power plant	6,799	-3,244	-438	-440	-1,957	0	0	720
Wind power	21,685	0	-6,956	-89	-13,834	-3,066	405	-1,855
Small power plants	4,236	-1,894	-1,306	-4,384	-2,251	0	0	-5,599
Production result	**408,450**	**-183,669**	**-29,275**	**-36,769**	**-104,278**	**-19,903**	**405**	**34,960**

Note 11

11. POWER PLANT OVERVIEW AS AT 31 DECEMBER 2021

Location	Unit	MW	Unit type	Manufacturer	Powered by	Year	Age	Total hours	Hours 2021
Botnur	T1	1.0	Pelton hydro turbine	Voith	Hydro	1965	57	211,083	2,658
Botnur	T2	2.0	Francis hydro turbine	Voith	Hydro	1966	56	170,579	3,786
Eiði	T1	7.0	Francis hydro turbine	Voith	Hydro	1987	35	120,704	2,491
Eiði	T2	7.0	Francis hydro turbine	Voith	Hydro	1987	35	123,156	3,119
Eiði	T3	7.7	Francis hydro turbine	Voith	Hydro	2012	10	56,539	5,426
Húsahagi *	V1-V13	11.7	Vindmill (pitch reg.)	Enercon	Wind	2014	8	697,832	88,075
Neshagi *	V1-V5	4.5	Vindmill (pitch reg.)	Enercon	Wind	2012	10	321,939	27,708
Neshagi †	V6	0.15	Vindmill (fixed pitch)	Nordtank	Wind	1993	28	132,549	1,549
Porkeri *	V1-V7	6.3	Vindmill (pitch reg.)	Enercon	Wind	2021	1	43,467	43,467
Skopun	M1-M3	1.83	4-T	Mercedes and Deutz	Gas oil	1984	38		
Smaller plant		1.7	4-T	Deutz, Mercedes, Perkins	Gas oil				
Strond	M3	3.6	4-T 12 M 453 K	Krupp Mak	Gas oil	1982	40	51,460	683
Strond	T1	1.4	Francis hydro turbine	Sulzer Hydro	Hydro	1998	24	77,927	2,440
Sund	M1	7.85	4-T 9M43C	Caterpillar/MaK	Heavy oil	2001	21	82,898	3,459
Sund	M2	7.85	4-T 9M43C	Caterpillar/MaK	Heavy oil	2004	18	76,002	2,248
Sund	M3A	2.4		MTU	Gas oil	2015	7	4,384	17
Sund	M3B	2.4		MTU	Gas oil	2015	7	4,281	28
Sund	M4	12.4	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1983	39	203,871	3,149
Sund	M5	12.4	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1988	34	182,677	4,507
Sund	M6	9.25	9L 51/60	MAN	Heavy oil	2020	2	9,099	5,564
Sund	M7	9.25	9L 51/60	MAN	Heavy oil	2020	2	10,438	5,700
Sund	M8	9.25	9L 51/60	MAN	Heavy oil	2020	2	11,831	6,537
Sund	M9	9.25	9L 51/60	MAN	Heavy oil	2020	2	11,620	6,075
Sund	B4-C2	8.8	KTA50G3	Cummins Diesel	Gas oil	2019	3	3,809	923
Vág	M1	2.7	4-T 9 M 453	Krupp Mak	Heavy oil	1983	39	125,534	2,664
Vág	M2	2.7	4-T 9 M 453	Krupp Mak	Heavy oil	1983	39	124,062	1,521
Vág	M3	4.2	4-T 9M32C	Caterpillar/MaK	Heavy oil	2004	18	102,807	3,937
Vág	M4	4.0	4-T 9L32	Wartsila	Heavy oil	2016	6	30,329	5,281
Sumba	G1	0.261	Solar panel	Solar Polaris	Solar	2019	3	347	347
Strond	M4-M6	3.0	4- T C1250 D2R	Cummins Diesel	Gas oil	2014	8	10,717	1,289
Vestmanna	Fossá 1	2.1	Pelton hydro turbine	Maier	Hydro	1953	69	235,517	2,911
Vestmanna	Fossá 2	4.2	Francis hydro turbine	Voith	Hydro	1956	66	376,526	5,273
Vestmanna	Heyga 1	4.9	Francis hydro turbine	Voith	Hydro	1963	59	251,314	3,827
Vestmanna	Mýru 1	2.4	Francis hydro turbine	Voith	Hydro	1961	61	406,966	5,850

* 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 mortages, legal proceedings and other liabilities.

13. ADJUSTMENTS

Amounts in 1,000 DKK	2021	2020
Depreciation	104,278	92,284
Interest expense and similar expenses	19,903	18,434
Taxes	-405	-376
Total	**123,776**	**110,343**

14. BOOK VALUE OF PRODUCTION PLANT

Amounts in 1,000 DKK	2021	2020
Production admin	1,935	2,283
Fossá	23,192	25,731
Heyga	17,737	18,131
Mýru	13,136	14,497
Eiði	420,819	439,337
Botnur	10,459	6,945
Vágur	123,061	127,259
Tvøroyri	0	220
Sund	829,400	864,843
Skopun	35	38
Strond	17,377	18,832
Wind farms	143,486	86,186
Smaller plant	152	162
Mobile generation sets	189	378
Fugloy	1,600	1,655
Svínoy	72	78
Mykines	704	882
Hestur	2,224	2,234
Koltur	283	297
Nólsoy	64	7
Skúvoy	476	555
Dímun	1,076	289
Total	**1,607,478**	**1,610,839**

www.sansir.fo

SEV
Landavegur 92
Postbox 319
FO-110 Tórshavn

+298 34 68 00
www.sev.fo
sev@sev.fo

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