sev

Production Accounts 2023

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Pioneering technologies secure higher yield from wind power

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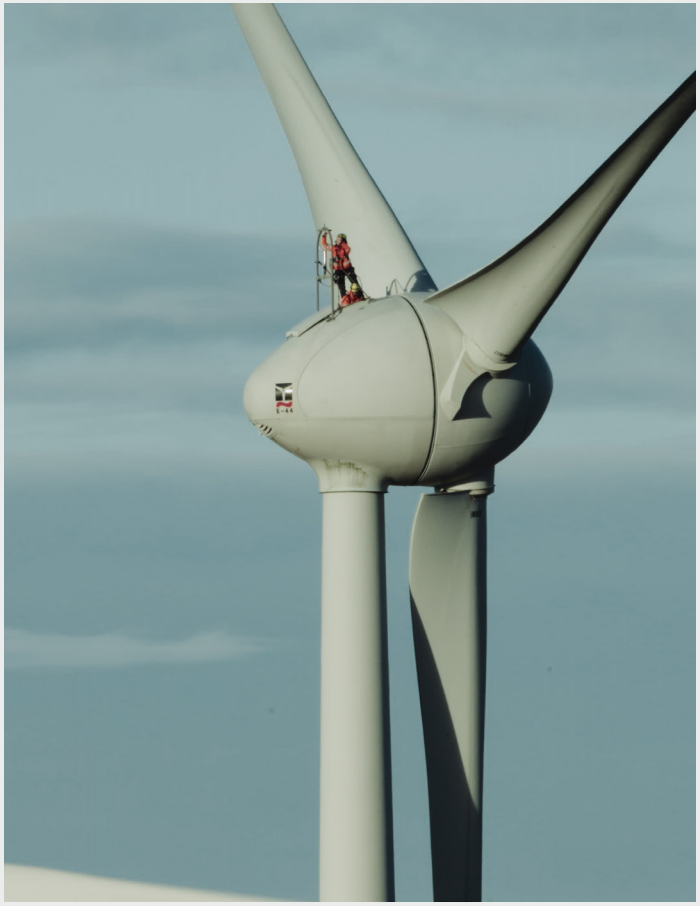

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Financial calendar: 01.01-31.12
Business Tax Registration No.: 331538

Management Report

The Board of Directors and Management hereby submit Sev's Production Annual Report and Accounts for fiscal year 1 January - 31 December 2023. 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 2023 and the result of operations and cash flow for fiscal year 1 January - 31 December 2023.

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

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

Tórshavn, 3 April 2024

Management

Hákun Djurhuus
Managing Director, CEO

Financial Management

Bogi Bendtsen
Director of Administration, CFO

Nevnd

Kári Johansen
Chairman

Haraldur S. Hammer
Vice Chairman

Oddmar á Lakjuni

Niclas Hentze

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 2023, 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 2023, which we have audited.

In our opinion, the production accounts for Elfelagið Sev for the financial year 1 January - 31 December 2023 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, 3 April 2024

P/F JANUAR
State Authorised Public Accountants

Hans Laksá
State Auth. Auditor

Key Figures 2019-2023

Amounts in 1,000 DKK	2023	2022	2021	2020	2019
Income Statement					
Net sales	441,220	433,768	408,450	358,659	328,266
EBITDA	145,025	134,362	158,736	128,312	118,514
Result before financial items	38,000	25,030	54,459	36,027	49,344
Financial items	-25,065	-14,705	-19,903	-18,434	-16,476
Annual result	**14,205**	**9,673**	**34,960**	**17,969**	**32,718**
Balance Sheet					
Total assets	1,849,837	1,898,199	1,714,619	1,755,214	1,696,153
Equity	920,492	890,940	870,798	838,307	817,531
Long-term debt	**899,019**	**818,725**	**827,932**	**724,439**	**733,250**

Management Review

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 2023 to 31 December 2023.

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 2023 was DKK 44.5 million, compared to DKK 43.5 million for 2022.

The total result for the Production Division was DKK 14.2 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 poor hydro power year

We used a record amount of electricity last year, and over half of it was generated by renewable energy sources. Never before was so much sustainable electric energy produced in the Faroe Islands, 230 GWh compared to 226 GWh in 2022. In Suðuroy, the energy production was 100% sustainable over a period of 128 days.

Total electricity production in 2023 increased by 5.3%, compared to last year, i.e. from 434 GWh up to 457.6 GWh. A good 230 GWh were produced from renewable energy resources, which equates to some 50.3%. This is the most annual electricity production in some time and

> “ In total, 58.1 days saw 80% of energy production in the central region of the country from green energy”

at the same time the most output ever from renewable energy for some time.

Renewable energy in 2023 was divided up thus: 100.2 GWh (21.9%) from hydro power; 125.6 GWh (27.4%) from wind energy; 4.0 GWh (0.9%) from biogas; and 0.18 GWh from solar. Sev and its subsidiaries stood for 79.4% of total production, while Vindrøkt II, Flatnahagi and biogas works Førka produced 20.6% of total electric energy. In total, 58.1 days saw 80% of energy production in the central region of the country from green energy, while the numbers for Suðuroy were even higher at 155.9 days.

Production from oil at the Sund power plant grew in 2023. 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 2023, the Sund power plant generated 202.7 GWh, compared to 182.5 GWh in 2022, corresponding to around 44% and 42% 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 electrical management services that ensures secure energy reserves, rolling reserves, regulation of the power supply, inertia power, and short-circuits of power.

Hydro power less than previous year

Production from hydro power did not go well in 2023 compared to production in 2022. In 2023, some 100.2 GWh were generated, compared to 131 GWh the previous year, which was the best year since the record year 2015, when production was 133 GWh from hydro power. What 2015 and 2022 have in common is that there was considerable rain. On the other hand, renovation work was carried out in 2023 on the dam at Heygadalur as well as the turbines at Eiðisverk did not produce for a period due to renovation work. These situations impacted the electricity production from hydro power the wrong way.

Wind energy production went well

Altogether, some 125.6 GWh was generated from wind and this is the most in some time. The wind turbines at Gellingarklettur produced 58.8 GWh, equalling 46.8% of total electricity production from wind. The wind turbines at Flatnahagi generated 27.0 GWh, equalling 21.5%. The wind turbines at Mýrunum generated 4.3 GWh, equalling 3.4%. However, it should be noted that production was from all the wind turbines, not just the wind energy that Sev took into the grid.

The wind turbines of the Sev subsidiaries altogether produced 35.4 GWh, equalling 28.2%. In Húsahaga, production was 19.7 GWh, compared to 31.8 GWh in 2022. In Neshaga, production was 0.7 GWh, compared to 11.4 GWh in 2022. In both case, the result was considerably worse than in 2022. The wind turbines at Porkeri produced 15.1 GWh in 2023, compared to 12.3 GWh in 2022. The problem is that the wind turbines in Neshaga and Porkeri did not produce in 2023. Work is underway to correct this and agreements are in place with the providers of the wind turbines for renovation of the turbines that shall be concluded in the summer or earlier in the autumn of the coming year.

Never before has there been so many different electric energy productions in the Faroe Islands and this is most pleasing. This year, it is not hydro power that stands for the most production, but actually wind energy production. Investment has been made in the battery stations and synchronous compensators that makes it possible for the grid to take on this increased amount of wind energy production from the turbines at Gellingarklettur, Flatnahagi and Porkeri.

Wind energy on Suðuroy

The wind turbines of Sev at Porkeri have been in production since 2021 and produced in 2023 15.1 GWh, compared to 12.3 GWh in 2022. The energy distribution on Suðuroy has changed considerably because of this,

and in 2023 some 55% compared to 47% of electricity consumption in 2022 was produced by hydro power, wind energy, and solar energy. Vágs power plant produced 16.0 GWh in 2023, compared to 19.9 GWh in 2022.

Altogether, the people of Suðuroy have enjoyed 100% green energy for 128 days , and for 156 days the energy has been 80% green.

Demand for electric power sets record

We consume electricity like never before. We again set a record in 2023 for total Faroese electricity production. Total production in 2023 was 457.6 GWh, compared to 434.0 GWh in 2022, equalling a growth of 5.3%, compared to 2.4% last year. This is the most that Sev has generated for quite some time.

Electricity production from sustainable energy resources was 230.0 GWh in 2023, compared to 226.7 GWh in 2022, corresponding to a growth of some 3.3 GWh, or 1.5%. In 2023, 125.6 GWh was derived from wind energy, and 100.2 GWh was derived from hydro power. Some 227.6 GWh came from the oil-fired thermal power plants. This represents 49.7% of the total electricity production in 2023, compared to 47.8% in 2022.

Over the last 20 years, electricity production has more than doubled. In 2000, production was 213 GWh and in 2023 it was nearly 458 GWh. In 2010, production was 280 GWh.
In the central region of the country, production increased in 2023 by 6.4%, compared to 2.3% last year. On Suðuroy, production declined by 4.7% in 2022, compared to a growth of 3.6% last year. The peak load in the central region was registered at 76.5 MW in 2023, compared to 70.3 MW in 2022, while the peak load in Suðuroy decreased from 9.3 MW in 2022 to 8.8 MW in 2023.

Electricity production over the years has fluctuated, as shown in Figure 1 showing the electricity production for the entire country from 1954 to 2023.

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 did electricity production begin to grow again only to set a new record in 2023 of 458 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

Table 1

Sales in GWh

	2023	2022	Change GWh	Change %
Settled sales to customers	415.6	395.3	20.3	5.1
Grid loss	26.6	27.0	-0.4	-1.4
Own consumption	15.4	11.8	3.6	30.9
Total production	**457.6**	**434.0**	**23.6**	**5.4**
Of which thermal	227.6	207.4	20.2	9.8
Thermal %	*49.7*	*47.8*		
Of which hydro	100.2	130.9	-30.7	-23.4
Hydro %	*21.9*	*30.1*		
Of which wind	125.6	90.2	35.4	39.2
Wind %	*27.4*	*20.8*		
Of which BTS*	4.2	5.6	-1.4	-24.5
% BTS	*0.9*	*1.3*		
Total green energy production	**230.0**	**226.7**	**3.3**	**1.5**
Green energy %	*50.3*	*52.2*		

* BTS = Biogas, tidal, and solar

production of electricity using hydro power. Hydro power production increased again from 2002 to 2007 because of the Eiði 3 power plant, which has remained rather steady. In 2010 and in 2011, extensive overhauling was carried out on the turbines and piping at the Fossá power plant and at the Heyga power plant, 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 turned over to Sev on 11 February 2021. The power plant 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 at Gellingarklettur began to produce electricity for the grid in the month of July.

Figure 2 shows the monthly electricity production from 1988 through December 2023. As shown, production declined in 2011, while it grew steadily over the twelve months of 2012 only to decline and then grow again a

Figure 1

Electricity Production for the Entire Country from 1954 to 2023

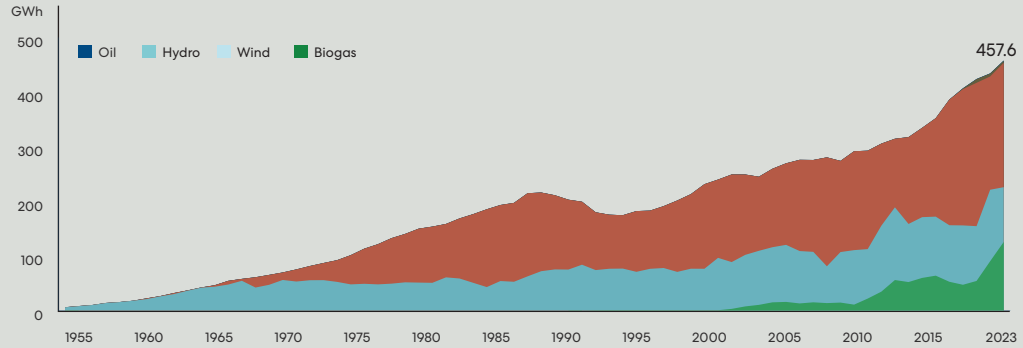


Figure 2

Total monthly electricity production from 1988 through 2023

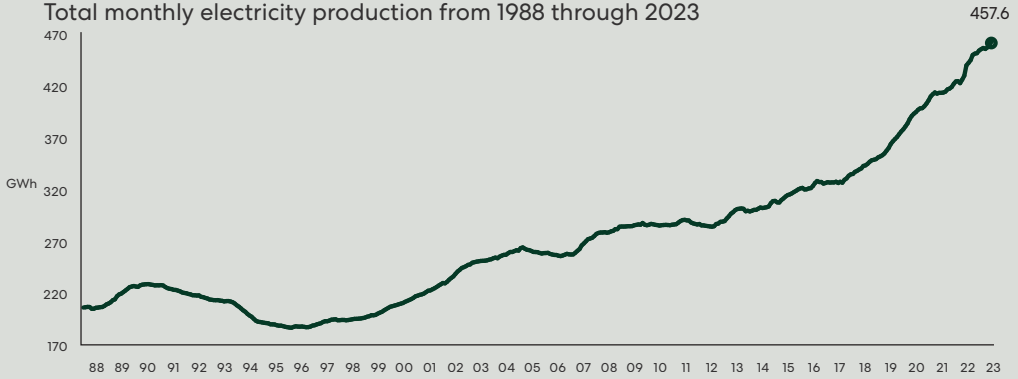


Figure 3

Electricity production per resident of the Faroe Islands 1970-2023

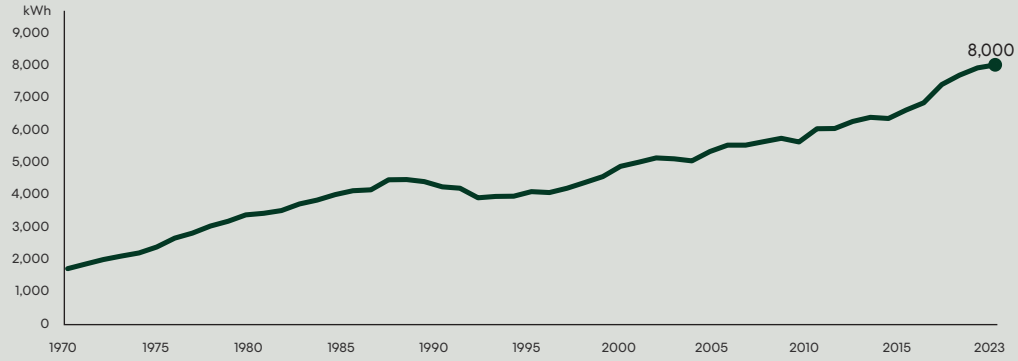


Figure 4

Geographical division of electricity production 2023

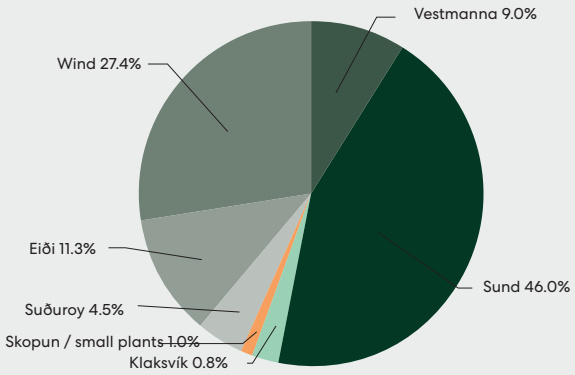
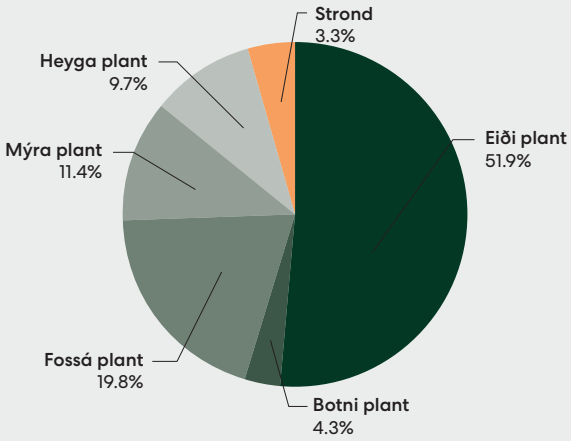
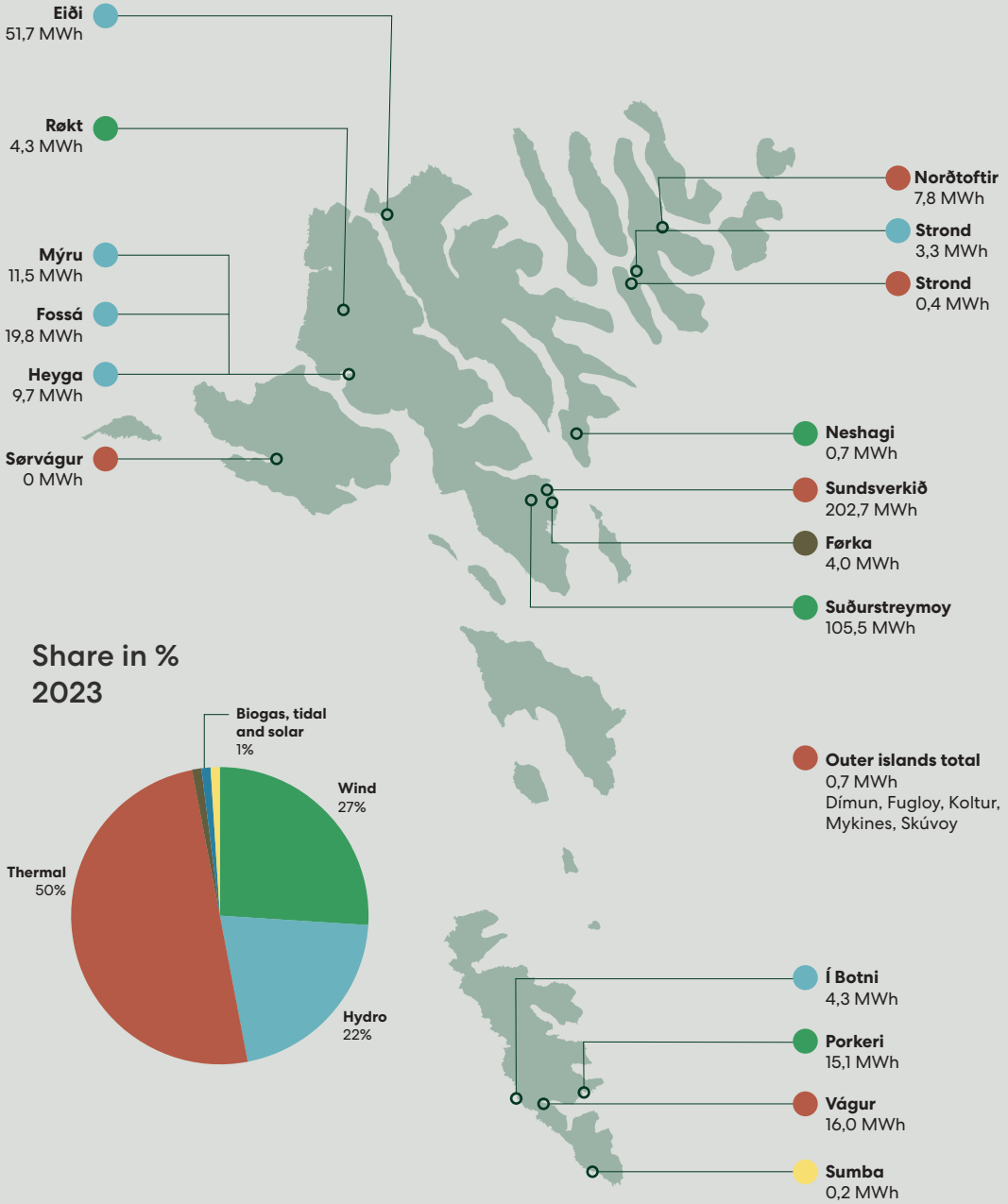


Figure 5

Electricity production by hydropower plants in 2023 as a percentage of entire hydropower production





Share in % 2023

little in 2013; growth continued apace from 2014 through 2023. In 2023, growth was 5.4%.

Figure 3 shows electricity production in the Faroe Islands per resident from 1970 to 2023. The Table 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 utilises biogas from the Førka plant and the wind farms of Vindrøkt II and Flatnahagi.

Figure 4 shows electricity production divided by area in 2023. 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 2023 generated 51.7 GWh. Production from hydro power equates to some 100.2 GWh, while production at the Sund power plant equals 210.5 GWh.

Figure 5 shows production divided by hydro power plants in 2023. 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 back up generating

Figure 6

Peak demand for the main production region and total installed capacity, 1957-2023

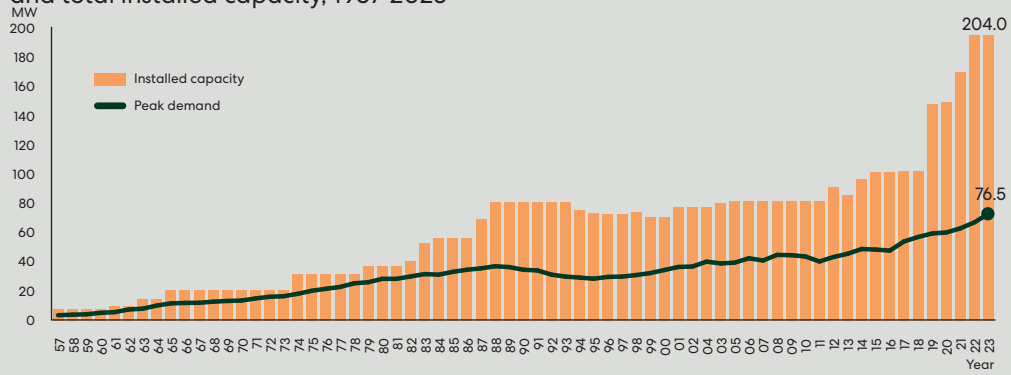


Figure 7

Electricity demand over a 24-hour period, Wednesday, 4 October 2023 in the main central production region.

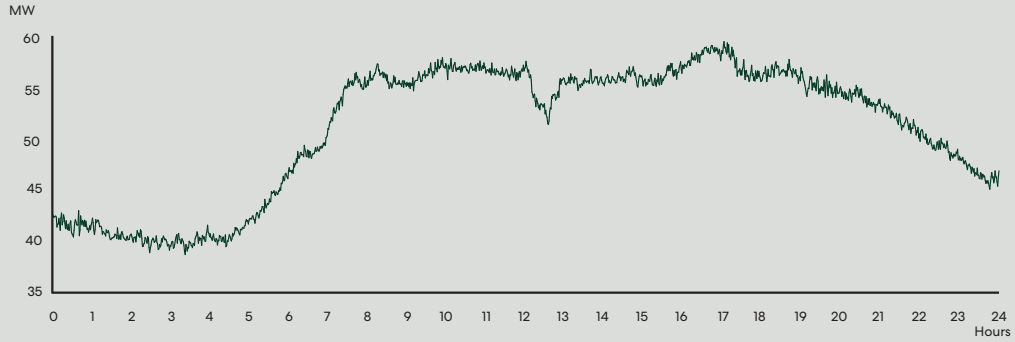
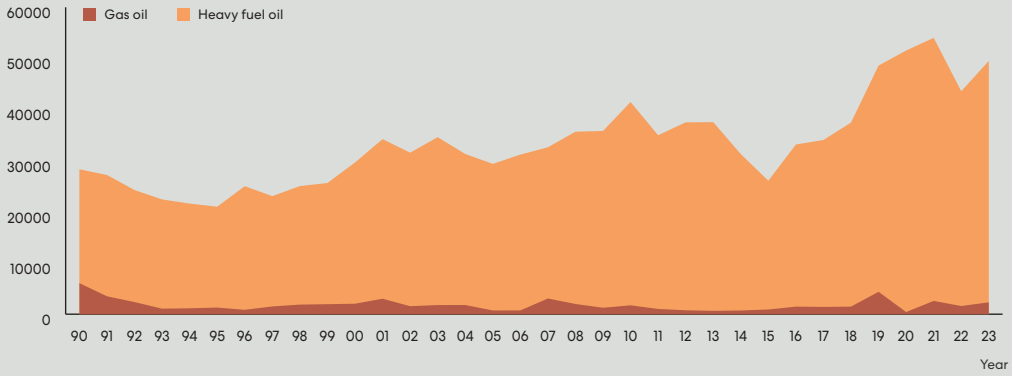


Figure 8

Oil consumption in tonnes, 1990-2023



capacity versus peak demand for the central region of the country from 1957 through 2023.

Figure 6 shows how much back up generating capacity Sev has compared to peak demand. The reason that Sev has so much back up capacity is because the major portion of electricity production is generated by unstable energy resources. Therefore, it is necessary to have back up capacity.

The increase in available back up generating 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 Vágs thermal power plant came online, adding 4.0 MW. In 2017 and 2018, there was no increase in available back up capacity, but in 2019 Sev purchased a back up 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 energy 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 75.6MW, which was on 19 December 2023.

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 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 4 October 2023 in the central region of the country. The Figure shows the daily power load on a normal day in

Table 2

Oil consumption, tonnes

	2023	2022	Change tonnes	Broyting %
Heavy fuel oil	44,881	41,992	2,889	6.9
Gas oil	2,316	1,596	720	45.1
Total	**47,197**	**43,588**	**3,609**	**8.3**

Table 3

Oil expense, DKK million

	2023	2022	Broyting mió. kr.	Broyting %
Heavy fuel oil	181.3	192.7	-11.4	-5.9
Gas oil	21.2	17.2	4.0	23.4
Lubricants, urea	14.6	14.4	0.2	1.3
Total	**217.1**	**224.3**	**-7.2**	**-3.2**

“ Total income for the Production Division in 2023 was DKK 441.2 million”

Table 4

Depreciation, DKK million

	2023	2022	Change DKK MM	Change %
Sund	53.0	51.4	1.6	3.0
Vágur	10.6	10.0	0.6	5.8
Fossá	3.1	3.5	-0.4	-12.7
Heyga	0.9	1.2	-0.3	-26.0
Mýru	1.6	1.5	0.1	8.1
Eiði	19.3	20.0	-0.7	-3.4
Botnur	0.7	0.8	-0.1	-14.7
Strond	2.3	2.1	0.3	12.5
Wind farms	14.3	16.1	-1.8	-11.5
Smaller plant	1.3	2.7	-1.4	-52.2
Total	**107.0**	**109.3**	**-2.3**	**-2.1**

2023. 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 2023 was DKK 441.2 million, compared to DKK 433.8 million in 2022. Of this income, the Sund thermal power plant generated DKK 318.1 million in 2023 and DKK 297.5 million in 2022 or respectively 72.1% and 68.6%. The Vágs thermal power plant generated DKK 37.3 million in 2023 and DKK 49.4 million in 2022, or respectively 8.5% and 11.4%.

Thus, the two largest oil-fired thermal production plants generated an income of nearly DKK 355.4 million in 2023, compared to DKK 346.9 million in 2022, corresponding to respectively 80.5% and 80.0% of total Production Division income. The operational result for the Production Division in 2023 yielded a surplus of some DKK 14.2 million, compared to DKK 9.7 million in 2022.

Total expenses

Total expenses in 2023 were DKK 427.0 million, compared to DKK 424.1 million in 2022. 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 2023, oil expenses were DKK 217.2 million, compared to DKK 224.3 million in 2022, which represents 50.9% of total expenses in 2023, compared to 52.9% in 2022.

Table 5

Investment by plant, DKK million

	2023	2022	Change DKK MM	Change %
Sund	10.5	26.7	-16.2	-60.8
Vágur	3.0	4.9	-1.8	-37.5
Fossá	3.8	1.2	2.7	231.8
Heyga	21.0	0.8	20.1	2,429.6
Mýru	0.5	0.2	0.4	218.2
Mýru II	7.2	22.6	-15.4	-68.2
Eiði	1.0	1.1	-0.1	-8.2
Botnur	5.5	1.6	3.9	235.2
Strond	0.4	1.6	-1.2	-77.2
Wind farms	5.8	2.9	2.9	101.5
Smaller plant	3.9	5.6	-1.7	-29.8
Total	**62.6**	**69.2**	**-6.5**	**-9.4**

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 oil purchase for 2023. 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 less compared to the previous year by some DKK 7.2 million. In 2023, Sev consumed 2,889 tonnes more heavy oil, but the cost of heavy oil amounted to DKK 11.4 million less, compared to the previous year. The consumption of gasoil increased compared to the previous year by some 720 tonnes, but the cost of gasoil increased by DKK 4.0 million. The Company also used lubricating oil and urea for a total cost of DKK 14.6 million, which is DKK 0.2 million more than the previous year.

The average cost for each tonne of heavy oil was DKK 4,040 in 2023, compared to DKK 4,590 per tonne in 2022. Thus, in the end, the Company experienced a decreased cost in 2023 of DKK 550 per tonne, compared to 2022. The reason for the decreased price was decreased oil costs and the decreased market value adjustment of the oil inventory. On the other hand, the price of oil is at a high level otherwise.

The average cost for each litre of gasoil used was DKK 9.17 in 2023, compared to DKK 10.79 in 2022. Thus, gasoil was DKK 1.62 lower than in 2022. The price continues high. 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 the purchase price for gasoil has risen considerably over the last few years.

For the Production Division, oil expenses amounted to 50.9% of all costs and depreciation for 2023. 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 2023, subdivided into gasoil and heavy oil.

Goods and services

In 2023, power plant expenses for goods and services equalled DKK 36.8 million, compared to DKK 36.5 million in 2022. This equates to a higher consumption of DKK 0.3 million.

In 2023, expenses for goods and services at the Sund thermal power plant amounted to DKK 16.8 million, compared to DKK 18.9 million in 2022, or 45.5% of total

expenses for goods and services in 2023. The Vágs thermal power plant contributed DKK 3.4 million toward total expenses in 2023, compared to DKK 3.6 million in 2022. This corresponds to 9.1% 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, spinning 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 a portion of the universal service obligation attributed to the production plants.

The Company is presently working on the revision of the costs associated with management of the electricity system and the universal service obligation. 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.

Table 6

Largest investments 2023, DKK million

	2023
Heyga, flood hatch in dam	18.8
Mýru II, pumped storage Vestmanna	7.2
Sund, 18,000 hour inspection engines Station 3	5.2
Botnur, turbines 1 & 2	4.6
Vind turbines Vørðan retrofit	4.4
Total	**40.2**

Table 7

Investments, DKK million

	2023	2022
Investment booked as work-in-progress	76.7	66.8
Investment booked directly as transition	-14.1	2.3
Investment booked directly as transition	**62.6**	**69.2**

Table 8

Work-in-progress, DKK million

	2023	2022
Opening balance	98.4	77.8
Investment booked to work-in-progress	76.7	66.8
Work transferred to fixed assets	-34.0	-46.3
Closing balance	**141.1**	**98.4**
Changes to work-in-progress	42.7	20.6

Costs associated with management of the electrical system

Management of the electrical system on Suðuroy takes place at the Vágs power production plant, while management of the electrical system 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 electrical system in the central region of the country is DKK 8.9 million and is calculated thus: goods and services, wages and depreciation of the control room in the central region. The cost for management of the electrical system in Suðuroy is DKK 2.3 million.

Costs associated with the universal service obligation

In collaboration with the advisory company, Deloitte, based in Denmark, Sev calculated the cost of the universal service obligation in 2021. The analysis basis was the numbers from 2019 and 2020. The conclusion was that the cost for universal service obligation was around DKK 0.26 per sold kWh. This cost will change as the costs and the amount of sold kWh changes. Based on the system developed with Deloitte, the cost of the universal service obligation for 2023 was DKK 0.34 per sold kWh, which is higher than the cost in 2022, which was stipulated to be DKK 0.26 per kWh, based on the research from 2021.

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 11.2 million. The cost for ensuring the power

Table 9

Transfer to fixed assets, DKK million

	2023	2022
Work transferred to fixed assets	34.0	46.3
Investments booked directly to fixed assets	-14.1	2.3
Transfers at year-end	**19.9**	**48.6**

Table 10

Largest transfers to fixed assets, DKK million

	2023
Sund, M5 new turbochargers	6.3
Sund, replace generator guard	4.0
Sund, breakdown M6	3.2
Sund, new access control system	2.1
Sund, replace chimney for M1	2.0
Total	**17.5**

supply at the thermal and hydro power plants was DKK 134.6 million. The cost for the universal service obligation for the other power plants was DKK 6.0 million. The total costs for management of the electricity system and the universal service obligation after new calculations is estimated to be DKK 151.8 million in 2023 and in 2022 the cost was DKK 105.2 million.

Wage expenses

Wage expenses for the production facilities were DKK 42.2 million in 2023, compared to DKK 38.8 million in 2022, which equates to an increase of DKK 3.7 million.

In 2023, the Sund Power Plant accounted for DKK 29.4 million, compared to 26.0 million in 2022, or respectively 69.7% and 67.5%. In 2023, the Vágs Power Plant accounted for DKK 6.8 million, compared to DKK 6.7 million in 2022, corresponding to respectively 16.1% and 17.2%. The reason for the increased employee expense for the Vágs power plant relative to production is based on the management and control of the power system on Suðuroy. The Grid Division reimburses these expenses to the Vágs 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 4.5 million or 10.7 % of the total employee expense.

Financial expenses

Interest expense was DKK 25.1 million in 2023, compared to DKK 14.7 million in 2022.

Depreciation
Depreciation for 2023 was DKK 107.0 million, compared to DKK 109.3 million in 2022, which is DKK 2.3 million lower. The Sund power plant, which was depreciated by DKK 53 million, has the largest share of depreciation. The decrease in depreciation, which is the next largest expense after oil costs, is based on the many investments that were made there.

Investment
Investment in material fixed assets was DKK 62.6 million in 2023, compared to DKK 69.2 million in 2022, 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 19.9 million in 2023, and DKK 48.6 million in 2022. 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 180.9 million, compared to DKK 367.3 million in 2022. In addition, the Company has access to unused drawing rights and overdraft facilities of some DKK 850.0 million in total. Moreover, there is sufficient financing available from NIB for DKK 250 million to be used for the pumping system project at Vestmanna.

Thus, the cash-on-hand, credit and unused drawing rights equals DKK 1,030.9 million, compared to DKK 1,217.3 million in 2022. 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 2024
The result before taxes in 2024 is projected to be a small amount based on the proposed budget for 2024 and after an evaluation of the distribution of the result compared to the demand for the Company's needs for funds.

The management of Sev is not satisfied with the projected result for 2024 because it is considerably lower compared to the major investment projects that lie ahead. The Board and Management are, however, satisfied with the intended financial status at the end of 2024.

The operational expenses are estimated to be DKK 72.8 million for 2024, compared to DKK 79.0 million in 2023, equalling a higher expenditure of some DKK 6.2 million.

Oil expenses in the 2024 budget are estimated to be DKK 218.6 million, compared to DKK 217.2 million for 2023, which is about the same or DKK 1.4 million higher. The Faroese Parliament has increased the environmental impact fee for the heavy oil that Sev uses in its electricity production effective in 2024 and into the future. This means an increase in the cost of oil for Sev and this means that the price of electricity for 2024 will increase.

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 2024 pursuant to agreements entered into last year. Moreover, the Company has endeavoured to revalue its oil storage with the market value, which for 2024 is included in the budget.

The oil markets are unstable at present because of the war between Russia and Ukraine and the insecurity otherwise that is present in the Middle East and this impacts the cost of oil. Even though heavy oil purchases in 2024 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 138.1 million in 2024 versus DKK 107.3 million in 2023. Included in this figure is the devaluation of the wind turbines at Neshagi for DKK 14 million. This is in connection with the renovation to be carried out in 2024 to insure continued production of electricity into the Grid of Sev. On the other hand, this means a lower depreciation of DKK 14 million compared to first estimates.
Interest expenditure is expected to increase due to an increase in debt for financing the investments. Interest expenditure is expected to be higher in 2024 than in 2023. For the year 2024, it is expected that interest

expenses will be DKK 33.6 million. In 2023, this cost was calculated to be DKK 25.1 million.

Given a projected decline in 2024, the production operations share will not 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 2024 can be found in the Operational, Financial and Investment Budget Plan for 2024 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.

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Production Accounts 2023

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.

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.

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		2023	2022
1	Net sales	441,220	433,768
2	Oil expenses	-217,150	-224,327
3	Materials and services	-36,797	-36,490
	Gross proceeds	172,951	172,951
4	Wages	-42,248	-38,590
	Depreciation, amortization and impairment of fixed assets	-107,025	-109,331
	EBITDA	38,000	25,030
5	Financial items	-25,065	-14,705
	Result before tax	12,935	10,325
6	Tax on annual result	1,270	-652
	Annual result	**14,205**	**9,673**
	Proposed distribution of result:		
	Result carried forward	14,205	9,673
	Total distribution	**14,205**	**9,673**

Balance Sheet, Assets

31 December

Assets in 1,000 DKK

Nota		2023	2022
	Tangible fixed assets		
7, 14	Power plants	1,453,975	1,540,641
	Buildings and land	4,128	4,264
	Operating equipment	3,127	2,292
	Investment work-in-progress	141,126	98,421
	Total tangible fixed assets	**1,602,355**	**1,645,619**
	Derivatives	8,265	10,918
	Total financial fixed assets	8,265	10,918
	Total fixed assets	**1,610,620**	**1,656,537**
	Current assets		
	Oil inventory	42,999	29,426
	Total inventory	**42,999**	**29,426**
6	Goods and services receivables	2,087	0
	Inter-company account Grid	190,132	210,005
	Tax asset	2,061	1,705
	Prepayments and accruals	1,936	525
	Total receivables	196,217	212,236
	Total current assets	239,216	241,662
	Total assets	**1,849,837**	**1,898,199**

Balance Sheet, Liabilities

31 December

Liabilities in 1,000 DKK

Note		2023	2022
	Equity		
8	Equity subsidiary companies	0	0
	Hedge reserve	8,265	10,918
	Result carried forward	865,227	851,021
	Total equity	**873,492**	**861,940**
	Provisions		
6	Deferred tax	671	1,585
	Total provisions	**671**	**1,585**
	Debt		
9	Long-term debt	899,019	818,725
	Total long-term debt	**899,019**	**818,725**
9	Current portion of long-term debt	12,316	170,340
	Creditors	61,428	35,524
	Other liabilities	2,910	10,084
	Total short-term debt	76,654	215,949
	Total debt	975,674	1,034,674
	Total liabilities	**1,849,837**	**1,898,199**
10	Production result by plant		
11	Overview of production units		
12	Mortgages and other obligations		

Cash Flow Statement

Note	Amounts in 1,000 DKK	2023	2022
	Annual result	14,205	9,673
13	Adjustments	130,820	124,689
	Changes in working capital:		
	Inventories	-13,573	-6,037
	Receivables	-10,934	3,198
	Creditors	25,904	15,892
	Inter-company account Grid	1,873	-215,780
	Other liabilities	262	573
	Operating cash flow before financial items	148,557	-67,792
	Interest paid and similar expenses	-25,065	-14,705
	Cash flow from operations	123,492	-82,497
	Investment in tangible fixed assets	-21,057	-49,050
	Changes to work-in-progress	-42,704	-20,579
	Cash flow from investments	-63,762	-69,629
	Repayments of long-term debt	-77,730	152,126
	Cash flow from financing	-59,730	152,126
	Total cash flow during the year	0	0
	Opening cash-on-hand	0	0
	Closing cash-on-hand	**0**	**0**

Notes

Production Accounts 2023

Note 1

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 2023 was DKK 44.5 million compared to DKK 43.5 million in 2022, 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 14.2 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 2016-2023 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 40%, which is the internal target for long-term equity ratio. The equity ratio required by loan agreements is 35%.

The level shall be viewed in the context of budgeted investment for a rolling 5-year period. Sev's 2023 budget projects investment for 2023-2027 for the Production Division to be DKK 1,293 million, equalling on average some DKK 259 million annually. The self-financing projected for 2023 is budgeted to be DKK 65 million.

For the Grid Division, projected investment is set at DKK 898 million, of which self-financing equals DKK 45 million for 2023. 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.

1. Net sales

Amounts in 1,000 DKK	2023	2022
Own production	312,684	350,472
Own consumption	-15,063	-12,779
Grid control	2,300	2,300
Ancillary services	140,570	94,462
Other sales	730	-687
Total	**441,220**	**433,768**

Notes 2-4

2. Oil expenses

Amounts in 1,000 DKK	2023	2022
Gas oil	21,249	17,216
Heavy fuel oil	181,327	192,727
Lubricating oils, urea	14,574	14,384
Total	**217,150**	**224,327**

3. Materials and services

Amounts in 1,000 DKK	2023	2022
Dams, pipelines and tunnels	144	109
Tanks and environmental	381	442
Motors	17,333	13,607
Electric and technical	355	303
Buildings and land	1,477	1,504
General Meeting and Board	141	622
Studies and consultancy	762	2,346
IT	2,338	3,720
Management and office expenses	2,704	1,590
Other operating expenses	3,051	2,785
Other administrative expenses	8,111	9,463
Total	**36,797**	**36,490**

4. Employee expenses

Amounts in 1,000 DKK	2023	2022
Wages	37,299	33,714
Pensions	3,360	3,314
Contributions	1,589	1,561
Total	**42,248**	**38,590**
Full-time equivalent	**64**	**68**

Notes 5-6

5. Financial expenses

Amounts in 1,000 DKK	2023	2022
Interest, loans and bank debt, etc.	25,065	14,705
Total	**25,065**	**14,705**

6. Taxes on annual result

Amounts in 1,000 DKK	2023	2022
Tax for the year according to P&L	**1,270**	**-652**
Tax asset P/F Vindfelagið í Húsahaga 1 January	1,705	1,686
Change in tax asset during the year	356	19
Tax asset P/F Vindfelagið í Húsahaga 31 December	**2,061**	**1,705**
Deferred tax liability P/F Vindfelagið í Neshaga og Porkeri 1 January	-1,585	-914
Change in tax liability during the year	914	-671
Deferred tax liability P/F Vindfelagið í Neshaga og Porkeri 31 December	**-671**	**-1,585**

Note 7

7. Tangible fixed assets

Amounts in 1,000 DKK	Production	Grid	Buildings	Equipment	Total 2023	2022
Acquisition value, opening balance	3,000,457	36	5,275	8,419	3,014,187	2,965,608
Additions during the year	19,415	0	0	1,643	21,057	49,050
Disposals during the year	0	0	0	-1,126	-1,126	-472
Acquisition value year-end	**3,019,872**	**36**	**5,275**	**8,936**	**3,034,119**	**3,014,187**
Depreciation opening balance	-1,459,838	-14	-1,010	-6,127	-1,466,989	-1,358,130
Depreciation for the year	-106,079	-1	-137	-808	-107,025	-109,331
Reversal on disposals for the year	0	0	0	1,126	1,126	472
Depreciation closing balance	**-1,565,917**	**-16**	**-1,147**	**-5,809**	**-1,572,889**	**-1,466,989**
Book value year-end	**1,453,954**	**21**	**4,128**	**3,127**	**1,461,229**	**1,547,198**
Book value year-end 2022	1,540,619	22	4,264	2,292	1,547,198	
Work-in-progress						
Opening balance	90,580	0	4,731	3,111	98,421	77,842
Investment during the year	76,812	0	0	-79	76,733	66,838
Transferred to depreciation	-34,029	0	0	0	-34,029	-46,259
Closing balance	**133,364**	**0**	**4,731**	**3,031**	**141,126**	**98,421**
Closing balance year-end 2022	90,580	0	4,731	3,111	98,421	
Fixed assets year-end	**1,320,591**	**21**	**8,858**	**6,158**	**1,602,355**	**1,645,619**
Fixed assets year-end 2022	1,450,039	22	8,995	5,403	1,645,619	

Notes 8-9

8. Equity

Amounts in 1,000 DKK	Share capital	Hedge reserve	Result carried forward	Total
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**
Equity statement 01.01.23 - 31.12.23				
Opening balance 01.01.23	0	10,918	851,021	861,940
Adjustment derivatives	0	-2,653	0	-2,653
Annual result	0	0	14,205	14,205
Closing balance 31.12.23	**0**	**8,265**	**865,227**	**873,492**

9. Liabilities

Amounts in 1,000 DKK	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.23	Total debt 31.12.22
Debt to financial institutions	0	322,798	823,941	937,074
Subsidiaries' debt to parent company	12,316	29,667	87,394	51,991
Total	**12,316**	**352,465**	**911,335**	**989,066**

The average maturity of the loans from 2016 is 3.4 years. The average maturity of the loans from 2022 is 6.8 years. The average maturity of the whole loan portfolio is 6.3 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, and as a serial loan starting in 2021 repayable over 18 years.

Note 10

10. Production result by plant

Amounts in 1,000 DKK	Revenue	Oil	Materials	Wages	Depreciation	Interest	Taxes	Total
Sund power plant	318,055	-187,139	-16,754	-29,369	-53,001	-14,285	0	17,507
Vágur power plant	37,320	-11,775	-3,364	-6,794	-10,607	-2,204	0	2,575
Fossá power plant	4,276	-52	-892	-740	-2,770	-2	0	-180
Heyga power plant	-1,643	-27	-342	-317	-875	88	0	-3,115
Mýra power plant	2,809	0	-741	-397	-1,579	12	0	103
Eiði power plant	37,856	0	-3,635	-2,583	-19,321	-6,400	0	5,916
Botnur power plant	-81	0	-424	-149	-652	-10	0	-1,316
Strond power plant	18,247	-15,299	-827	-195	-2,334	0	0	-408
Wind power	18,835	0	-9,266	-93	-14,275	-2,259	1,270	-5,788
Small power plants	5,547	-2,858	-552	-1,610	-1,612	-3	0	-1,089
Production result	**441,220**	**-217,150**	**-36,797**	**-42,248**	**-107,025**	**-25,065**	**1,270**	**14,205**

Note 11

11. Power plant overview as at 31 December 2023

Location	Unit	MW	Unit type	Manufacturer	Powered by	Year	Age	Total hours	Hours 2023
Botnur	T1	1	Pelton hydro turbine	Voith	Hydro	1965	59	216,772	2,430
Botnur	T2	2	Francis hydro turbine	Voith	Hydro	1966	58	177,659	2,574
Eiði	T1	7	Francis hydro turbine	Voith	Hydro	1987	37	128,486	4,149
Eiði	T2	7	Francis hydro turbine	Voith	Hydro	1987	37	131,867	4,140
Eiði	T3	7.7	Francis hydro turbine	Voith	Hydro	2012	12	68,978	5,238
Húsahagi *	V1-V13	11.7	Windmill (pitch reg.)	Enercon	Wind	2014	10	875,532	85,610
Neshagi *	V1-V5	4.5	Windmill (pitch reg.)	Enercon	Wind	2012	12	353,268	1,681
Porkeri *	V1-V7	6.3	Windmill (pitch reg.)	Enercon	Wind	2021	3	149,518	51,106
Skopun	M1-M3	1.83	4-T	Mercedes and Deutz	Gas oil	1984	40	0	0
Smaller plant		1.7	4-T	Deutz, Mercedes, Perkins	Gas oil		0	0	0
Strond	M3	3.6	4-T 12 M 453 K	Krupp Mak	Gas oil	1982	42	51,635	69
Strond	T1	1.4	Francis hydro turbine	Sulzer Hydro	Hydro	1998	26	84,994	3,463
Sund	M1	7.85	4-T 9M43C	Caterpillar/MaK	Heavy oil	2001	23	86,529	2,390
Sund	M2	7.85	4-T 9M43C	Caterpillar/MaK	Heavy oil	2004	20	79,401	1,083
Sund	M3A	2.4		MTU	Gas oil	2015	9	4,608	176
Sund	M3B	2.4		MTU	Gas oil	2015	9	4,471	172
Sund	M4	12.4	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1983	41	208,016	3,053
Sund	M5	12.4	2-T 12 L55 GSCA	B&W Götaverken	Heavy oil	1988	36	190,975	4,385
Sund	M6	9.25	9L 51/60	MAN	Heavy oil	2020	4	23,192	7,634
Sund	M7	9.25	9L 51/60	MAN	Heavy oil	2020	4	20,946	7,298
Sund	M8	9.25	9L 51/60	MAN	Heavy oil	2020	4	20,778	3,188
Sund	M9	9.25	9L 51/60	MAN	Heavy oil	2020	4	21,615	4,079
Sund	B4-C2	8.8	KTA50G3	Cummins Diesel	Gas oil	2019	5	3,809	0

Note 11, continued

Location	Unit	MW	Unit type	Manufacturer	Powered by	Year	Age	Total hours	Hours 2023
Vág	M1	2.7	4-T 9 M 453	Krupp Mak	Heavy oil	1983	41	127,281	667
Vág	M2	2.7	4-T 9 M 453	Krupp Mak	Heavy oil	1983	41	126,231	343
Vág	M3	4.2	4-T 9M32C	Caterpillar/MaK	Heavy oil	2004	20	110,017	2,784
Vág	M4	4	4-T 9L32	Wartsila	Heavy oil	2016	8	35,945	2,769
Sumba	G1	0.261	Sólpanel	Solar Polaris	Solar	2019	5	347	0
Strond	M4-M6	3	4- T C1250 D2R	Cummins Diesel	Gas oil	2014	10	33,460	14,275
Vestmanna	Fossá 1	2.1	Pelton vatnturbina	Maier	Hydro	1953	71	244,046	3,401
Vestmanna	Fossá 2	4.2	Francis vatnturbina	Voith	Hydro	1956	68	388,994	5,789
Vestmanna	Heygav. 1	4.9	Francis vatnturbina	Voith	Hydro	1963	61	260,114	3,714
Vestmanna	Mýruv. 1	2.4	Francis vatnturbina	Voith	Hydro	1961	63	420,621	6,032

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

Notes 12-13

12. Mortgages and other obligations

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

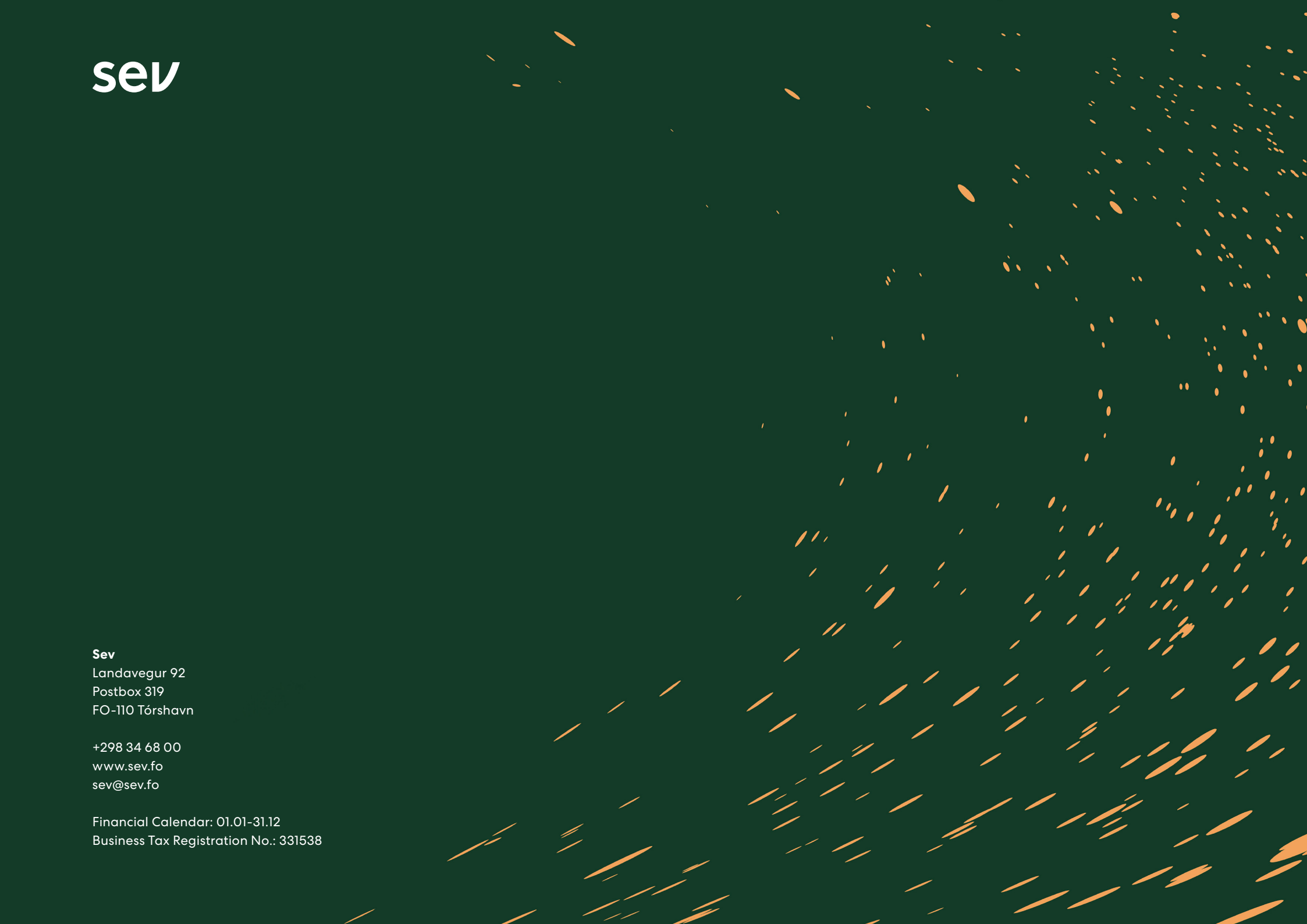
13. Adjustments

Amounts in 1,000 DKK	2023	2022
Depreciation	107,025	109,331
Interest expense and similar expenses	25,065	14,705
Taxes	-1,270	652
Total	**130,820**	**124,689**

Note 14

14. Book value of production plant

Amounts in 1,000 DKK	2023	2022
Production admin	2,192	2,643
Fossá	18,328	20,231
Heyga	16,096	16,746
Mýru	11,399	11,766
Eiði	382,825	401,127
Botnur	9,701	10,109
Vágur	112,227	117,183
Sund	765,932	811,660
Skopun	28	31
Strond	18,052	18,596
Wind farms	114,768	128,906
Smaller plant	537	454
Mobile generation sets	0	0
Fugloy	1,514	1,545
Svínoy	128	66
Mykines	1,406	1,396
Hestur	2,018	2,121
Koltur	898	961
Nólsoy	58	61
Skúvoy	2,070	482
Dímun	1,053	1,111
Total	**1,461,229**	**1,547,198**



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