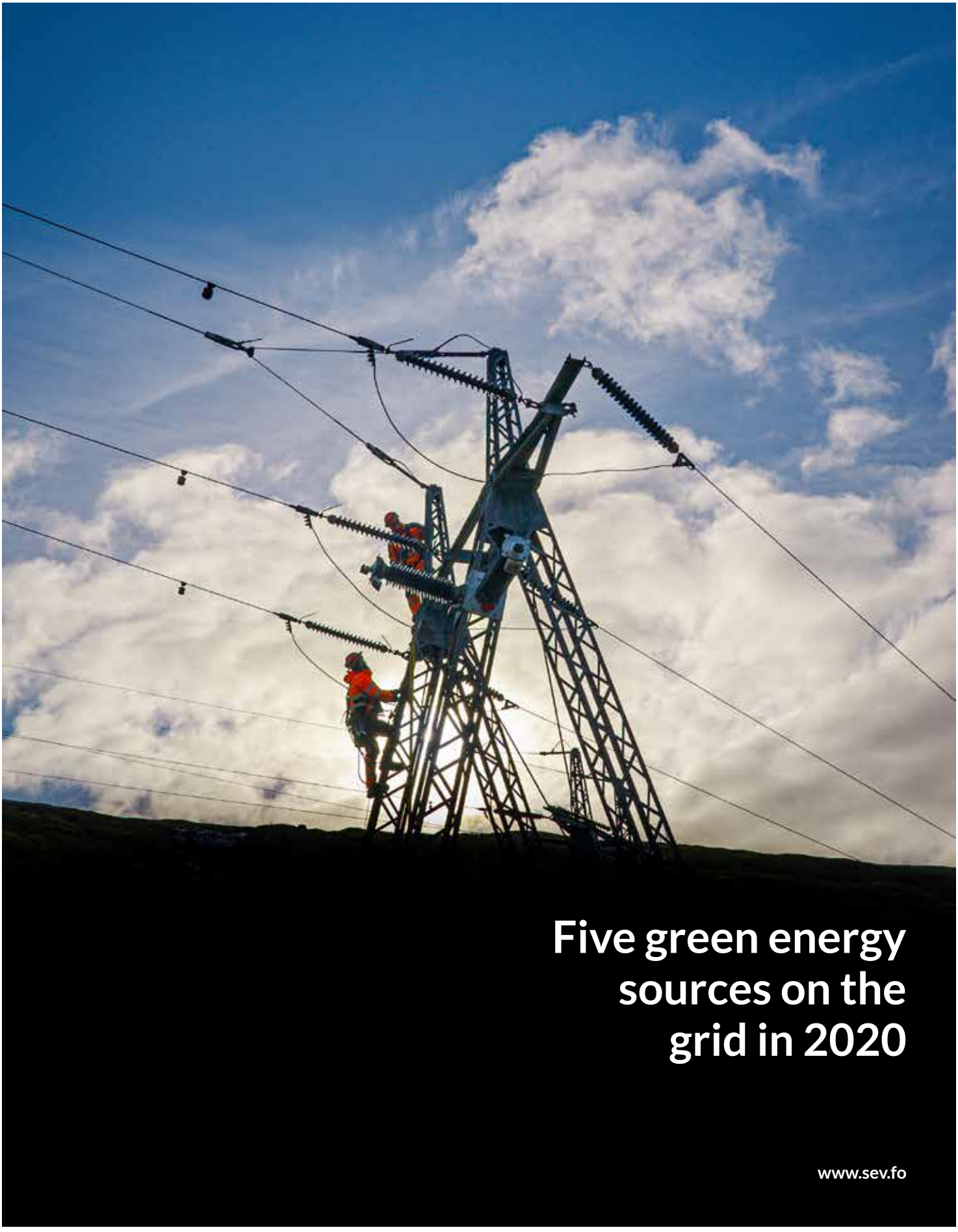
PRODUCTION ACCOUNTS 2020



Five green energy sources on the grid in 2020

www.sev.fo

Elfelagið SEV Production Accounts 2020

Management Report

The Board of Directors and Management hereby submit SEV's Production Annual Report and Accounts for fiscal year 1 January - 31 December 2020. 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 2020 and the result of operations and cash flow for fiscal year 1 January - 31 December 2020.

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, 19 March 2021

Management

Hákun Djurhuus
Managing Director, CEO

Financial Managment

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 2020, 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 2020, which we have audited.

In our opinion, the production accounts for Elfelagið SEV for the financial year 1 January - 31 December 2020 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, 19 March 2021

P/F JANUAR

State Authorised Public Accountants

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

Key Figures

Amounts in 1,000 DKK	2020	2019	2018	2017	2016
Income Statement					
Net sales	358,659	328,266	259,063	279,101	265,526
EBITDA	128,312	118,514	94,486	135,653	152,882
Result before financial items	36,027	49,344	20,265	67,830	93,722
Financial items	-18,434	-16,476	-9,340	-9,488	-12,116
Annual result	**17,969**	**32,718**	**10,650**	**57,784**	**81,466**
Balance Sheet					
Total assets	1,755,214	1,696,153	1,565,760	1,347,941	1,137,999
Equity	838,307	817,531	789,767	779,117	678,482
Long-term debt	**724,439**	**733,250**	**437,369**	**358,941**	**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 2020.

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 2020 was DKK 39.4 million, compared to DKK 38.0 million for 2019.

The total result for the Production Division was DKK 18.0 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 HYDROPOWER YEAR, BUT A BAD YEAR FOR WIND ENERGY

The year 2020 was the first year that power 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 2020 was 407, compared to 386 GWh in 2019, or a growth of some 21 GWh, equalling a growth in production of 5.4%, much more than in 2019. Green energy production declined from 40.4% in 2019 to 38.7% in 2020.

While hydropower production increased by 5% compared to 2019, wind energy production declined by 10%. Reduced power production from wind energy is, in the main, a result of several of the wind turbines at the Neshagi and Húsahagi windfarms were plagued with generator failures that required extensive repairs. This repair work was undertaken by a generator repair team from Enercon, which is based in Sweden. Unfortunately, the repair work was impacted partially by restrictions instituted in response to the coronavirus pandemic.

Biogas and solar are new sources of energy, which represents only some 0.4% of total production. The biogas plant, which came online in September 2020, has operated well. During the time period from when it went operational to year-end, production from biogas represents over 1% of total production.

The solar power facility in Sumba has been in operation throughout 2020 and has also operated well with production just over what had been projected, some 169,000 kWh, which corresponds to an annual electricity consumption of 35 households.

Hydropower production was better than in 2019, with 108.7 GWh in 2020, compared to 103.5 GWh in 2019, equalling an increase of 5%. However, production from hydropower on the whole was somewhat less than experienced in the two record-making years of 2014 and 2015.

POOR WIND ENERGY YEAR IN THE CENTRAL REGION OF THE COUNTRY

Production from wind in the central region of the country was disappointedly worse in 2020. The wind turbines at Neshagi and Húsahagi were plagued with troubles. The output from Húsahagi was 30.3 GWh and that was the lowest full year

since the wind turbines went operational in 2014. Average production for the years 2015 through 2019 was 34.9 GWh.

Neshagi experienced major difficulties because of generator failures in three of the five wind turbines, which stood still for most of 2020. The output was thus only 60% of average production experienced in the years 2015-2019.

However, wind energy production in Vestmanna by P/F Vindrøkt increased by 8.3%, compared to 2019.

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 was erected and enter into trials in November 2020. The windfarm has operated well and was officially taken into service on 11 February 2021. During the trial period, the distribution of energy production on Suðuroy was greatly altered, and to date over 70% of electricity consumption on Suðuroy was generated by hydropower, wind energy and solar energy.

DEMAND FOR ELECTRIC POWER REACHES NEW HIGHS

We consume electricity like never before. For the first time, total electricity production in the Faroe Islands exceeded 400 GWh. Total production in 2020 was 407 GWh, compared to 386 GWh in 2019, equalling a growth of 5.4%. Electricity production from sustainable energy resources was 156 GWh in 2019 and in 2020 it was 157 GWh, or nearly the same level as the previous year. However, given a much greater production of electricity overall in 2020 to meet demand resulted in that the production from the "green" resources declined, reflecting a decline of some 1.7%. In 2020, 47.1 GWh was derived from wind energy, and 108.7 GWh was derived from hydropower. Some 249.4 GWh came from the oil-fired thermal power plants. This represents 65% of the total electricity production in 2020 of 407 GWh, the highest electricity production in some time.

Over the last 20 years, electricity production has nearly doubled. In 2000, production was 213 GWh and in 2020 production was almost 407 GWh. In 2010, production stood at 406 GWh.

Table 1
SALES IN GWH

	2020	2019	Change 20-19 GWh	Change 20-19 %
Settled sales to customers	370.4	350.4	20.0	5.7
Grid loss	25.0	26.0	-1.0	-4.0
Own consumption	11.4	9.7	1.7	18.0
Total production	**406.8**	**386.1**	**20.7**	**5.4**
Of which thermal	249.4	230.0	19.5	8.5
Thermal %	*61.3*	*59.6*		
Of which hydro	108.7	103.5	5.2	5.0
Hydro %	*26.7*	*26.8*		
Of which wind	47.1	52.6	-5.5	-10.4
Wind %	*11.6*	*13.6*		
Of which BTS*	1.6	0.0	1.6	100.0
% BTS	*0.4*	*0.0*		
Total green energy production	**157.4**	**156.1**	**1.2**	**0.8**
Green energy %	***38.7***	***40.4***		

* BTS = Biogas, tidal, and solar

When wind energy production is weak and hydropower production is below average, while at the same time demand for electricity energy is especially high, the obvious result is that the Sund Power Plant must generate the power that the renewable resources cannot produce 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 last two years.

The numbers well demonstrate the need for more wind turbines. If one 18 MW windfarm would have been in operation for all of 2020, one could prudently estimate that green electricity production would be around 50%. An 18 MW windfarm equates to the oil carried by a 1½ tanker or in other words 30-40 million DKK saved in oil expenses. These numbers show that the need for the next windfarms is urgent. The windfarm operated by P/F Magn in the central region of the country is expected to become operational in the third quarter of 2022. At the same time, SEV anticipates that the windfarm at Eiði operated by P/F Vindfelagið í Neshaga will enter into production in the third or fourth quarter of 2022.

Production in the central region of the country grew by 5.9%, while production on Suðuroy declined by 0.2%. For the central region, the power load was set at 63.1 MW in 2019 and 62.8 MW in 2020. Production on Suðuroy declined from 8.9 MW in 2019 to 7.9 MW in 2020.

Electricity production over the years has fluctuated, as shown in Figure 1, which shows electricity production for the entire country from 1954 through 2020.

Figure 1: Electricity production for the entire country 1954 - 2020

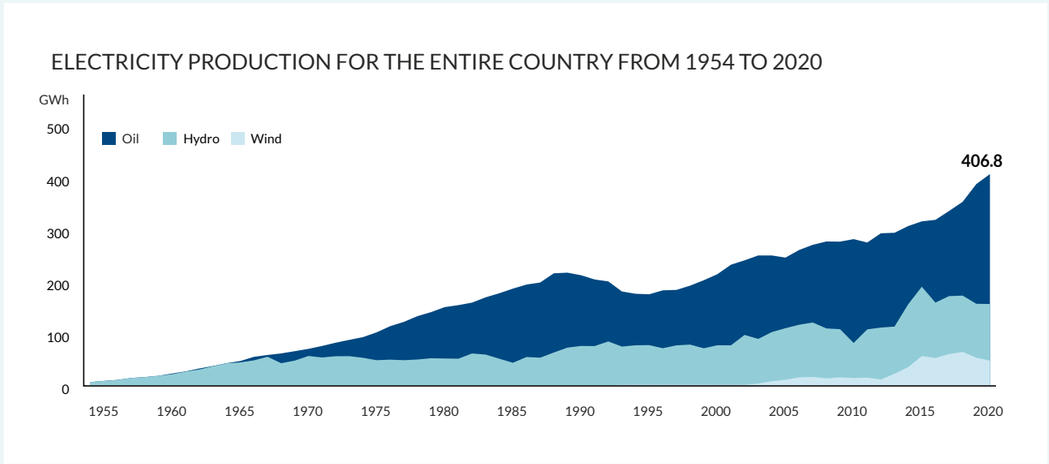
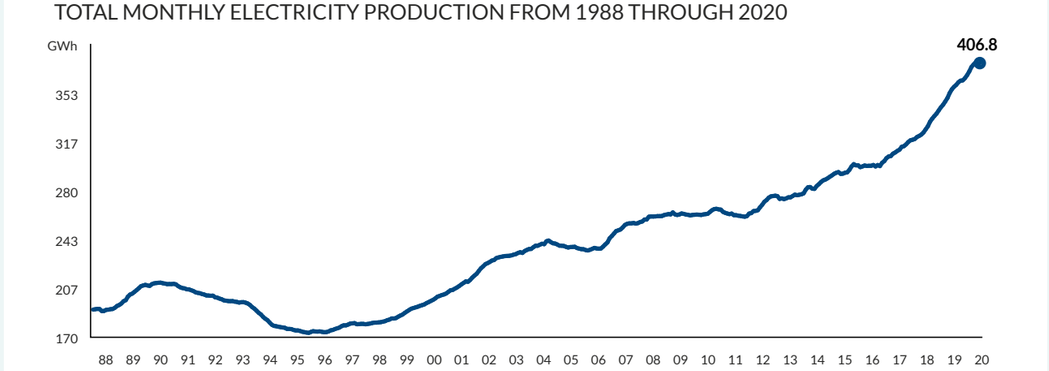


Figure 2: Total monthly electricity production 1988 - 2020



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, when in 2020 a new record was set at 407 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

Figure 3: Electricity production per resident of the Faroe Islands 1970 - 2020

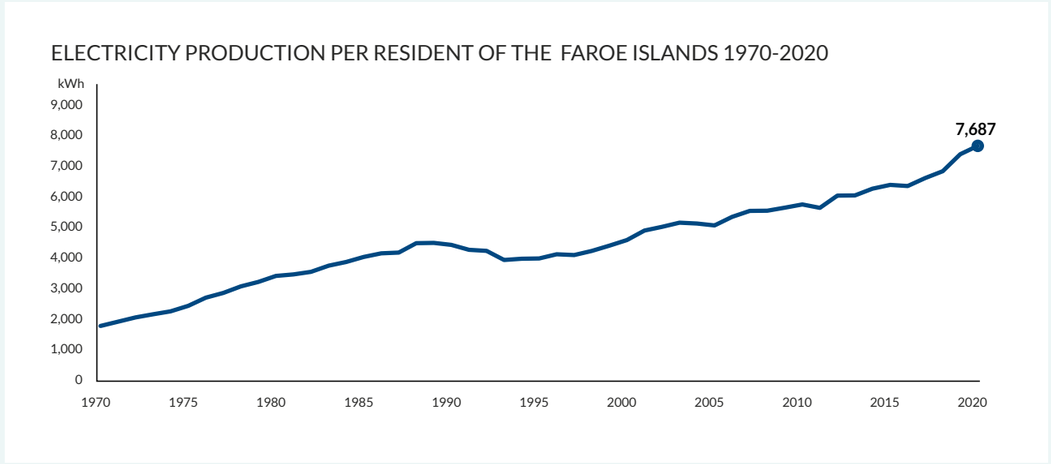
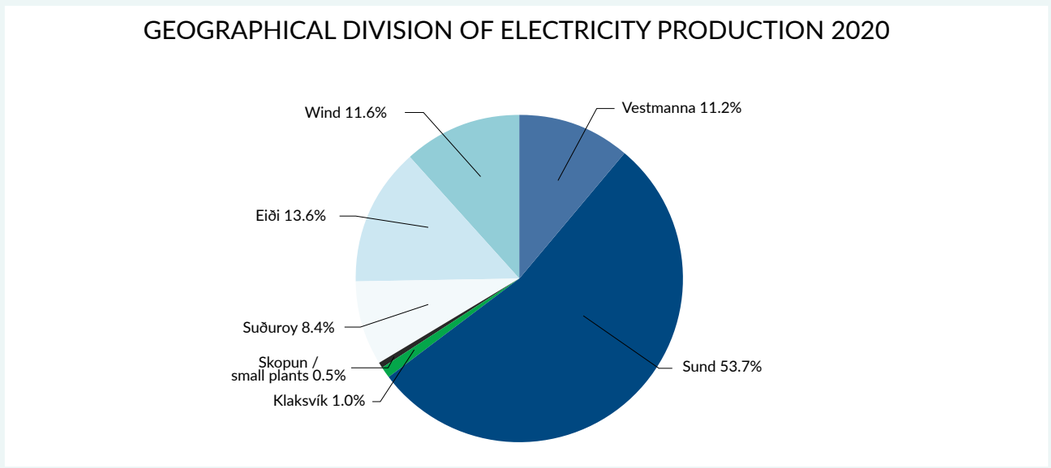


Figure 4: Geographical division of electricity production 2020



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 they occurred 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 Porkeri began to produce electricity for the grid in the month of November 2020 and officially went operational for SEV on 11 February 2021.

Figure 2 shows the monthly electricity production from 1988 through and including December 2020. 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 2020. In 2020, growth in production was 5.4%.

Figure 3 shows electricity production in the Faroe Islands per resident from 1970 through 2020. The

Figure 5: Electricity production by hydro power plants 2020

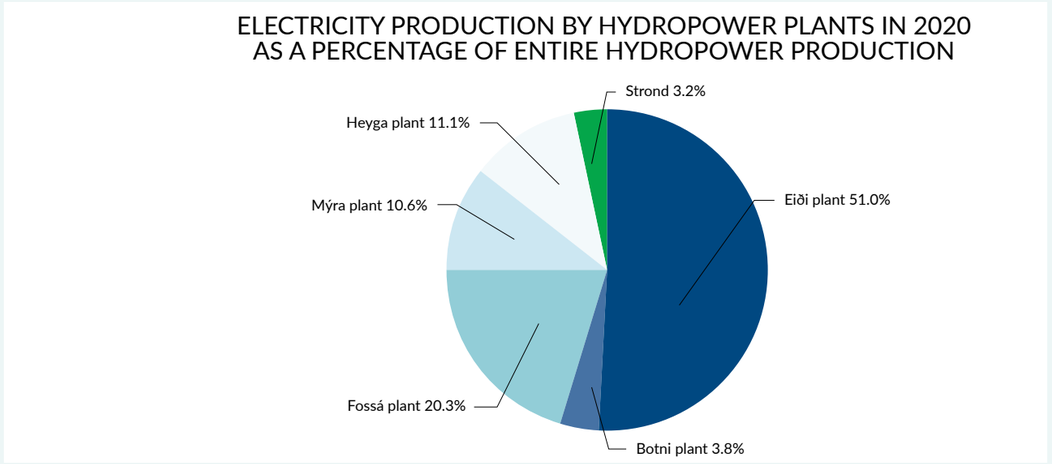


Figure reveals the same pattern as Figure 1 and 2, which show total electricity production for the entire country.

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 2020. 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 2020 was 49.6 GWh. Production from hydropower in total equals some 108.7 GWh, while production from the Sund Power Plant was 219 GWh.

Figure 5 shows production divided by hydropower facilities in 2020. 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 2020.

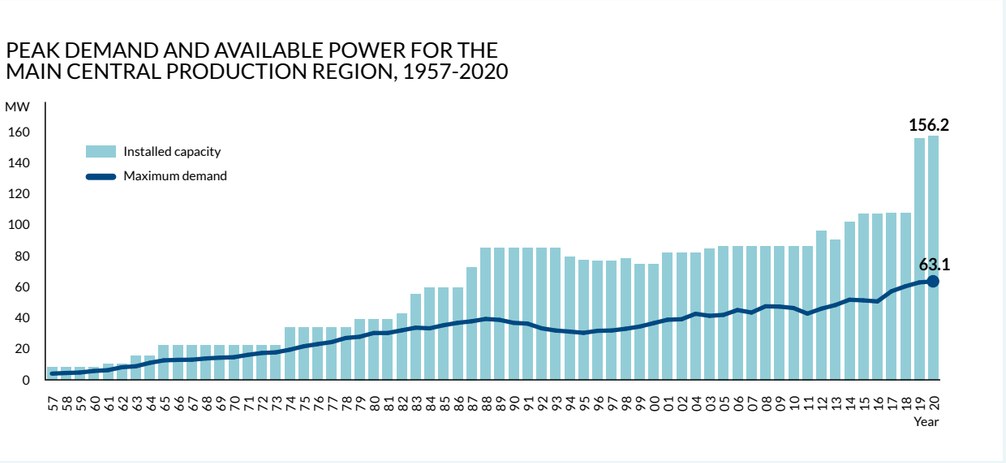
The Figure shows the amount of available reserve power maintained by SEV, compared to peak electricity consumption. The reason SEV has such a large amount of available reserve power is that a large portion of electricity production is derived from unstable energy resources. Thus, it is necessary to ensure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

At a small gathering on 31 March 2020, with the requisite social distancing because of the coronavirus and without handshakes, representatives of Articon and SEV signed the transfer documentation and Station 3 at the Sund Power Plant was officially transferred to SEV.

The work on the new power station went extremely well and technically the power plant is of the highest calibre, which steadily produces electric power for the Faroese community. The Sund Power Plant serves the same purpose for the people of the

Figure 6: Peak demand and available power for the main central region 1957 - 2020



Faroe Islands as does the cable connections among the countries of Europe. The expanded Sund Power Plant offers a secure and reliable foundation, as steps are taken to follow the "green path" toward the ever-greater utilization of renewable and sustainable energy sources.

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, plus the 8 MW of the reserve generator. 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 63 MW, which was in November 2019.

Considerable attention is focused on security and cleanliness 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.

The project took eight years, of which the first three years were devoted to outlining the technical details of the project itself, general project management efforts and project preparation.

Since construction began in 2017, no significant delays occurred, and the budget was maintained.

The budget framework from 2016 was DKK 800 million. Now that the construction project is now finished and Station 3 is now turned over to SEV, the total cost of the project, including unanticipated extra costs, was DKK 758 million.

Figure 7 shows the daily power load on Wednesday 7 October 2020 in the central region of the country. The Figure shows the daily power load on a normal day in 2020. 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, a solar power facility located at Sumba, which is a part of research project. Moreover, soon tidal current turbines will be set out in the Vestmanna Sound, which are also part of a research project.

Table 2
OIL CONSUMPTION, TONNES

	2020	2019	Change tons	Change %
Heavy fuel oil	51,121	44,226	6,894	15.6
Gas oil	420	4,374	-3,953	-90.4
Total	**51,541**	**48,600**	**2,941**	**6.1**

Table 3
OIL EXPENSE, DKK MILLION

	2020	2019	Change DKK MM	Change %
Heavy fuel oil	149.7	109.6	40.1	36.6
Gas oil	4.9	26.3	-21.4	-81.2
Lubricating oil, urea	9.7	7.7	2.0	25.4
Total	**164.4**	**143.7**	**20.7**	**14.4**

TOTAL INCOME
Total income for the Production Division in 2020 was DKK 358.7 million. Of this income, the Sund thermal power plant generated DKK 235.7 million, or 65.7% and the Vágs thermal power plant generated DKK 41.5 million or 11.6%.

Thus, the two largest oil-fired thermal production plants generated an income of nearly DKK 277.2 million in 2020, corresponding to 77.3% of total Production Division income. The operational result for the Production Division in 2020 yielded a surplus of some DKK 18.0 million, compared to DKK 32.7 million in 2019.

TOTAL EXPENSES
Total expenses in 2020 were DKK 340.7 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.

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 2020, however at a higher cost than planned in the budget. 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 Figure 3 reveals, costs were greater compared to the previous year by some DKK 21 million. In 2020, SEV consumed 6,894 tonnes more heavy oil, and the additional cost of heavy oil amounted to DKK 40 million, compared to the previous year. The consumption of gasoil declined considerably compared to the previous year by some 3,953 tonnes, equalling DKK 21 million. The Company also used lubricating oil and urea for a total cost of DKK 9.7 million, which is DKK 2 million more than the previous year. The average cost for each tonne of heavy oil was DKK 2,929 in 2020, compared to DKK 2,478 per tonne in 2019. Thus, in the end, the Company experienced a greater cost in 2020 of DKK 451 per tonne, compared to 2019.

The average cost for each litre of gasoil was DKK 11.8 in 2020, compared to DKK 6.06 in 2019. Thus, gasoil was DKK 5.74 higher in 2020 than in 2019. 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.

The price of oil has been lower through the month of May, at which point it began to increase toward year-end. At the beginning of the year, the average price was USD 424.00 for each tonne of heavy oil, while the price at the end of year was USD 321.00. The average cost for 2020 was USD 356.00.

For the Production Division, oil expenses amounted to 48.5% of all costs and depreciation for 2020. 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 2020, subdivided into gasoil and heavy oil.

GOODS AND SERVICES
In 2020, power plant expenses for goods and services equalled DKK 26.1 million, compared to

Figure 7: Electricity demand over a 24-hour period, Wednesday 7 October 2020 in the main region

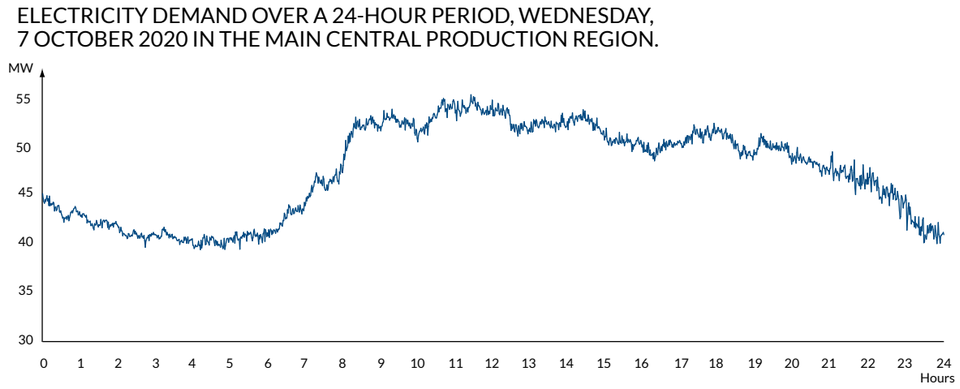
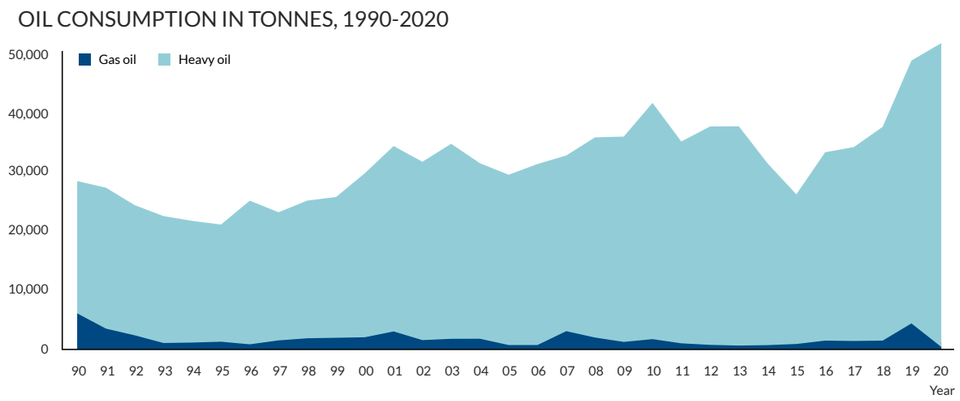


Figure 8: Oil consumption in tonnes 1990 - 2020



DKK 27.6 million in 2019. This equates to a lower consumption of DKK 1.5 million.

In 2020, expenses for goods and services at the Sund thermal power plant amounted to DKK 11.3 million, compared to DKK 12.0 million in 2019, or 43.3% of total expenses for goods and services in 2020. The Vágs thermal power plant contributed DKK 3.3 million toward total expenses in 2020, compared to DKK 3.1 million in 2019. This corresponds to 12.8% 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 GRID 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 operation of the grid 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 by the Grid Division includes the price of electricity and a portion of the universal service obligation attributed to the production plants.

Table 4

DEPRECIATION, DKK MILLION

	2020	2019	Change DKK MM	Change %
Sund	40.3	17.9	22.4	124.9
Vágur	9.2	8.9	0.3	3.8
Fossá	4.1	4.8	-0.8	-15.6
Heyga	2.2	2.2	0.0	1.0
Mýru	1.6	1.7	-0.1	-6.6
Eiði	19.9	19.9	0.0	0.1
Botnur	0.6	0.6	0.0	0.0
Strond	1.9	1.6	0.3	20.7
Wind farms	10.4	10.4	0.0	0.0
Smaller plant	2.0	1.1	0.9	78.9
Total	**92.3**	**69.2**	**23.1**	**33.4**

Table 5

INVESTMENT BY PLANT, DKK MILLION

	2020	2019	Change DKK MM	Change %
Sund	75.0	193.1	-118.1	-61.2
Vágur	1.2	4.4	-3.2	-73.1
Fossá	0.4	0.7	-0.3	-37.6
Heyga	0.6	0.8	-0.2	-27.0
Mýru	0.4	0.4	0.1	21.9
Eiði	0.5	0.3	0.2	58.6
Botnur	0.2	0.8	-0.7	-79.6
Strond	1.2	1.7	-0.4	-26.3
Wind farms	70.0	1.8	68.2	3,786.0
Smaller plant	3.4	3.4	-0.1	-1.7
Total	**152.9**	**207.3**	**-54.5**	**-26.3**

Table 6

LARGEST INVESTMENTS 2020, DKK MILLION

	2020
Wind farm Porkeri	69.9
Sund, Station 3	60.7
Sund, refurbish M3	3.1
Plant Mykines	0.9
Wind farm Eiði	0.7
Total	**135.4**

COSTS ASSOCIATED WITH MANAGEMENT OF THE ELECTRIC SYSTEM

Management of the electric grid on Suðuroy takes place at the Vágs power production plant, while management of the grid in the central region of the country occurs at the Fossá power plant in Vestmanna.

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

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 Vágs power plants, which equals DKK 11.3 million and DKK 2.0 million, respectively. This reflects a "best estimate" calculation.

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 ELECTRIC SYSTEM AND THE UNIVERSAL SERVICE OBLIGATION

The total cost for managing the country-wide power grid is DKK 4.6 million. The cost for ensuring the power supply, rolling power and available power reserves at the Sund and Vágs thermal power plants is stipulated at DKK 13.3 million. The cost to guarantee supply, etc. from the other power plants is DKK 5.2 million, equating to an estimated total cost for ensuring a stable power supply, and rolling and reserve power, plus management of the power grid of DKK 23.1 million.

The Company at present is working on revising the costs associated with the management of the electric system and the universal service obligation. The revised result is conditional upon these costs being greater than the costs that are booked in the accounts.

WAGE EXPENSES

Wage expenses for the production facilities was DKK 39.9 million in 2020, compared to DKK 38.5 million in 2019, which equates to an increase of DKK 1.4 million.

In 2020, the Sund Power Plant accounted for DKK 22.2 million, or 55.6%, of total employee expenses. The Vágs Power Plant accounted for DKK 5.8 million, or 14.5% of total wage expenses. Employee expense for the Fossá power plant was DKK 5.4 million in 2020, corresponding to 13.5%. The reason for the increased employee expense for both the Fossá and Vágs power plants relative to production is based on the management and control of the power grid in the central region of the country and 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 only account for DKK 7.7 million or 19.3 % of the total employee expense, of which only a part is the cost of managing the grid.

Table 7
INVESTMENTS, DKK MILLION

	2020	2019
Investment booked as work-in-progress	151.9	204.9
Investment booked directly as transition	1.0	2.4
Investments at year-end	**152.9**	**207.3**

Table 8
WORK-IN-PROGRESS, DKK MILLION

	2020	2019
Opening balance	688.6	514.2
Investment booked to work-in-progress	151.9	204.9
Work transferred to fixed assets	-731.3	-30.5
Closing balance	**109.2**	**688.6**
Changes to work-in-progress	-579.5	174.4

Table 9
TRANSFER TO FIXED ASSETS, DKK MILLION

	2020	2019
Work transferred to fixed assets	731.3	30.5
Investments booked directly to fixed assets	1.0	2.4
Transfers at year-end	**732.4**	**32.9**

Table 10
LARGEST TRANSFERS TO FIXED ASSETS, DKK MILLION

	2020
Sund, Station 3	708.3
Vágur, new Scada system	4.7
Production admin, APIpro system	3.4
Sund, refurbish M2	3.1
Strandadalur dam	3.0
Tilsaman	**722.6**

FINANCIAL EXPENSES

Interest expense was DKK 18.4 million in 2020, compared to DKK 16.5 million in 2019.

DEPRECIATION

Depreciation for 2020 was DKK 92.3 million, compared to DKK 69.2 million in 2019, which is DKK 23.1 million higher.

The reason for the higher depreciation expense in 2020 stems especially from the Sund Power Plant where significant investment was made in Station 3, which is now included in the depreciation basis for 2020.

INVESTMENT

Investment in material fixed assets was DKK 152.9 million in 2020, compared to DKK 207.3 million in 2019, 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 732.4 million in 2020, and DKK 32.9 million in 2019. 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 223.9 million, compared to DKK 125.1 million in 2019. In addition, the Company has access to unused drawing rights and overdraft facilities of some DKK 302.8 million in total.

Thus, the cash-on-hand, credit and unused drawing rights equals DKK 526.6 million, compared to DKK 690 million in 2019. 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's 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 2021

Based on the budget for 2021, 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 2021 and with the financial status and the economic prospects of the Company.

The operational expenses are estimated to be DKK 67.8 million for 2021, compared to DKK 66.0 million in 2020, equalling a greater expenditure of some DKK 1.8 million.

Oil expenses in the 2021 budget are estimated to be DKK 135.2 million, compared to DKK 165.8 million for 2020, which is DKK 30.6 million higher. 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 2021 via agreements executed in 2017, 2018, 2019, 2020 and 2021. It is anticipated that the oil costs for 2021 will be higher than projected in the budget because the price levels stipulated in the hedging agreements for 2021 were somewhat higher than projected in the budget. Moreover, market value adjustments on oil inventories are not included in the budget.

Depreciation is budgeted at DKK 96.8 million in 2021 versus DKK 92.3 million in 2020. 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 higher in 2021 than in 2020.

Given a satisfactory projected surplus in 2021, 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 2021 can be found in the Operational, Financial and Investment Budget Plan for 2021 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 is based on the total wage cost of the Fossá plant, less the wages required for the normal operation of the plant. The same method is used on Suðuroy, although there the basis are the wages on the Vágur power plant.

DISTRIBUTION OF INCOME
According to the Electricity Production Act, the grid activities shall be self-supporting such that the income earned is sufficient to pay for operations and planned necessary investment.

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

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

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

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

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

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

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

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

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

RESULTS FROM EQUITY IN SUBSIDIARIES
After full elimination of intercompany profit, the equity investment in the group enterprise is recognised in the profit and loss account at a

proportional share of the group enterprise's results after tax.

BALANCE SHEET

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

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

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

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

	Useful life years	Residual value
Production plant	10-50 ár	0 %
Buildings	50 ár	0 %
Production equipment, furnishings	3-5 ár	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		2020	2019
1	Net sales	358,659	328,266
2	Oil expenses	-164,377	-143,665
3	Materials and services	-26,104	-27,590
	Gross proceeds	**168,178**	**157,011**
4	Wages	-39,866	-38,497
	Depreciation, amortization and impairment of fixed assets	-92,284	-69,170
	EBITDA	**36,027**	**49,344**
5	Financial items	-18,434	-16,476
	Result before tax	**17,593**	**32,869**
6	Tax on annual result	376	-150
	Annual result	**17,969**	**32,718**
	Proposed distribution of result:		
	Result carried forward	17,969	32,718
	Total distribution	**17,969**	**32,718**

Balance Sheet 31 December

ASSETS in 1,000 DKK

Note		2020	2019
	Tangible fixed assets		
7, 14	Power plants	1,610,839	970,365
7	Buildings and land	4,538	4,486
7	Operating equipment	1,008	1,466
7	Investment work-in-progress	109,161	688,642
	Total tangible fixed assets	**1,725,546**	**1,664,960**
	Total fixed assets	**1,725,546**	**1,664,960**
	Current assets		
	Oil inventory	20,045	17,403
	Total inventory	**20,045**	**17,403**
	Goods and services receivables	0	0
	Inter-company account Grid	5,135	10,576
6	Tax asset	249	126
	Prepayments and accruals	4,238	3,089
	Total receivables	**9,622**	**13,790**
	Total current assets	**29,667**	**31,193**
	Total assets	**1,755,214**	**1,696,153**

Balance Sheet 31 December

LIABILITIES in 1,000 DKK

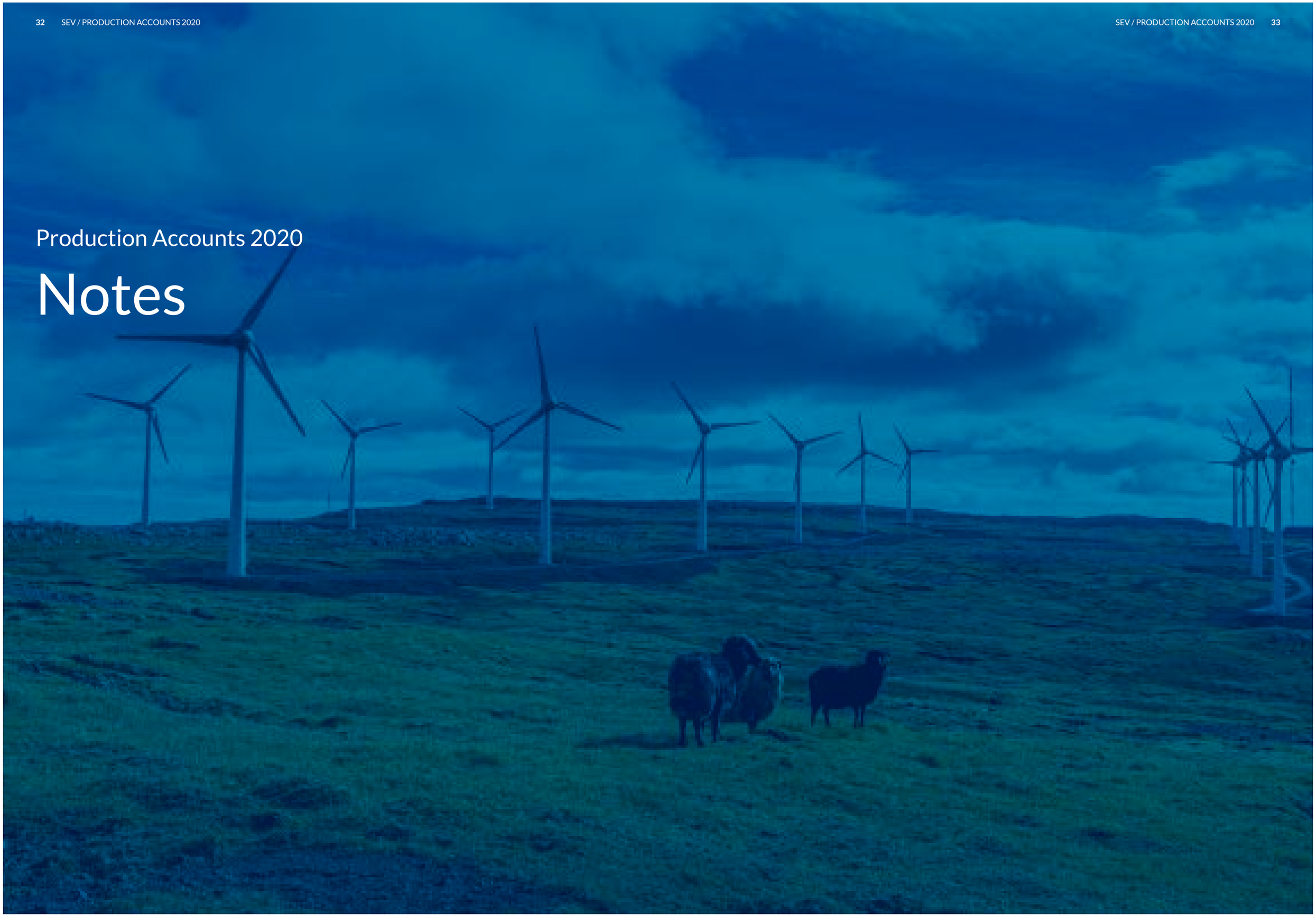
Note		2020	2019
	Equity		
8	Equity subsidiary companies	29,000	29,000
	Hedge reserve	-2,147	0
	Result carried forward	811,454	788,531
	Total equity	**838,307**	**817,531**
	Provisions		
6	Deferred tax	994	1,247
	Total provisions	**994**	**1,247**
	Debt		
9	Long-term debt	724,439	733,250
	Total long-term debt	**724,439**	**733,250**
9	Current portion of long-term debt	8,811	8,619
	Inter-company account Grid	169,044	129,392
	Derivatives	2,147	0
	Other liabilities	11,471	6,114
	Total short-term debt	**191,473**	**144,125**
	Total debt	**915,912**	**877,375**
	Total liabilities	**1,755,214**	**1,696,153**

Cash Flow Statement

Note	Amounts in 1,000 DKK	2020	2019
	Annual result	**17,969**	**32,718**
16	Adjustments	110,343	85,796
	Changes in working capital:		
	Inventories	-2,643	6,781
	Receivables	-1,149	2,951
	Inter-company account Grid	50,047	102,810
	Other liabilities	5,357	1,182
	Operating cash flow before financial items	**179,924**	**232,238**
	Interest paid and similar expenses	-18,434	-16,476
	Cash flow from operations	**161,490**	**215,762**
	Investment in tangible fixed assets	-734,729	-30,515
	Changes to work-in-progress	581,859	-176,815
	Cash flow from investments	**-152,871**	**-207,330**
	Repayments of long-term debt	-8,619	-8,431
	Cash flow from financing	**-8,619**	**-8,431**
	Total cash flow during the year	**0**	**0**
	Opening cash-on-hand	0	0
	Closing cash-on-hand	**0**	**0**

Production Accounts 2020

Notes



Note 1

1. NET SALES

Amounts in 1,000 DKK	2020	2019
Own production	346,502	307,456
Own consumption	-11,743	0
System services	23,070	20,781
Other sales	830	29
Total	**358,659**	**328,266**

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 2020 was DKK 39.4 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 18.0 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 2016-2020 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 2020 budget projects investment for 2020-2024 for the Production Division to be DKK 1,146 million, equalling on average some DKK 229 million annually. The self-financing projected for 2020 is budgeted to be DKK 57 million. For the Grid Division, projected investment is set at DKK 1,079 million, of which self-financing equals DKK 54 million for 2020. 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	2020	2019
Gas oil	4,948	26,330
Heavy fuel oil	149,710	109,585
Lubricating oils, urea	9,720	7,749
Total	**164,377**	**143,665**

3. MATERIALS AND SERVICES

Amounts in 1,000 DKK	2020	2019
Lines	45	14
Dams, pipelines and tunnels	217	70
Tanks and environmental	595	107
Motors	10,125	10,480
Electric and technical	410	413
Buildings and land	756	745
General Meeting and Board	145	239
Studies and consultancy	2,514	5,913
IT	1,053	857
Management and office expenses	658	570
Other operating expenses	1,297	686
Other administrative expenses	8,289	7,497
Total	**26,104**	**27,590**

4. EMPLOYEE EXPENSES

Amounts in 1,000 DKK	2020	2019
Wages	34,914	33,983
Pensions	3,446	3,188
Contributions	1,505	1,327
Total	**39,866**	**38,497**
Number of employees	63	63
Full-time equivalent	**72**	**77**

5. FINANCIAL EXPENSES

Amounts in 1,000 DKK	2020	2019
Interest, loans and bank debt, etc.	18,434	16,476
Total	**18,434**	**16,476**

Notes 6-7

6. TAXES ON ANNUAL RESULT

Amounts in 1,000 DKK	2020	2019
Tax for the year according to P&L	376	-150
Tax asset P/F Vindfelagið í Húsahaga 1 January	126	134
Change in tax asset during the year	123	-9
Tax asset P/F Vindfelagið í Húsahaga 31 December	**249**	**126**
Deferred tax liability P/F Vindfelagið í Neshaga 1 January	-1,247	-1,105
Change in tax liability during the year	253	-142
Deferred tax liability P/F Vindfelagið í Neshaga 31 December	**-994**	**-1,247**

7. TANGIBLE FIXED ASSETS

Amounts in 1,000 DKK	Production	Grid	Buildings	Equipment	Total 2020	2019
Acquisition value, opening balance	2,177,879	44	5,086	8,058	2,191,067	2,158,175
Additions during the year	732,163	0	189	0	732,352	32,892
Acquisition value year-end	**2,910,042**	**44**	**5,275**	**8,058**	**2,923,419**	**2,191,067**
Depreciation opening balance	-1,207,698	140	-600	-6,592	-1,214,749	-1,145,580
Depreciation for the year	-91,689	-1	-137	-458	-92,284	-69,170
Depreciation closing balance	**-1,299,387**	**139**	**-736**	**-7,050**	**-1,307,034**	**-1,214,749**
Book value year-end	**1,610,655**	**184**	**4,538**	**1,008**	**1,616,386**	**976,318**
Book value year-end 2019	970,181	185	4,486	1,466	976,318	
Work-in-progress						
Opening balance	688,087	14	541	0	688,642	514,204
Investment booked to work-in-progress	151,695	9	0	146	151,851	204,913
Completed work transferred to depreciation	-731,143	0	-189	0	-731,332	-30,475
Closing balance	**108,640**	**23**	**352**	**146**	**109,161**	**688,642**
Closing balance year-end 2019	688,087	14	541	0	688,642	
Fixed assets year-end	**1,719,295**	**207**	**4,890**	**1,154**	**1,725,546**	**1,664,960**
Fixed assets year-end 2019	1,658,268	199	5,027	1,466	1,664,960	

Notes 8–10

8. EQUITY

Amounts in 1,000 DKK	Share capital	Hedge reserve	Result carried forward	Total
Equity statement 01.01.19 - 31.12.19				
Opening balance 01.01.19	29,000	0	760,767	789,767
Annual result	**0**	**0**	**32,718**	**32,718**
Closing balance 31.12.19	**29,000**	**0**	**793,485**	**822,485**
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**

9. SKYLDUR

Amounts in 1,000 DKK	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.20	Total debt 31.12.19
Debt to financial institutions	0	663,441	663,441	663,441
Debt to parent company	8,811	33,372	69,809	78,428
Total	**8,811**	**696,813**	**733,250**	**741,869**

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 6.3 years. On 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	235,718	-141,982	-11,306	-22,168	-40,330	-9,757	0	10,175
Vágur power plant	41,472	-19,107	-3,339	-5,768	-9,228	-1,792	0	2,238
Fossá power plant	12,456	0	-1,063	-5,395	-4,089	0	0	1,909
Heyga power plant	3,657	-6	-363	-215	-2,191	0	0	882
Mýra power plant	3,055	0	-443	-210	-1,601	0	0	801
Eiði power plant	33,490	0	-2,105	-1,713	-19,873	-5,151	0	4,648
Botnur power plant	1,204	0	-279	-75	-623	0	0	227
Strond power plant	6,267	-911	-737	-2,481	-1,937	0	0	201
Wind power	16,441	0	-6,104	-97	-10,423	-1,734	376	-1,541
Small power plants	4,899	-2,372	-364	-1,743	-1,990	0	0	-1,570
Production result	**358,659**	**-164,377**	**-26,104**	**-39,866**	**-92,284**	**-18,434**	**376**	**17,969**

Note 11

11. POWER PLANT OVERVIEW AS AT 31 DECEMBER 2020

Location	Unit	MW	Unit type	Manufacturer	Powered by	Year	Age	Hours	Hours 2020
Botnur	T1	1.0	Pelton hydro turbine	Voith	Hydro	1965	56	208,425	3,022
Botnur	T2	2.0	Francis hydro turbine	Voith	Hydro	1966	55	166,793	3,322
Eiði	T1	7.0	Francis hydro turbine	Voith	Hydro	1987	34	118,213	2,988
Eiði	T2	7.0	Francis hydro turbine	Voith	Hydro	1987	34	120,037	3,460
Eiði	T3	7.7	Francis hydro turbine	Voith	Hydro	2012	9	51,113	5,494
Húsahagi *	V1-V13	11.7	Windmill (pitch reg.)	Enercon	Wind	2014	7	609,757	84,797
Neshagi *	V1-V5	0.9	Windmill (pitch reg.)	Enercon	Wind	2012	9	294,231	21,977
Neshagi	V6	0.15	Windmill (fixed pitch)	Nordtank	Wind	1993	28	132,549	1,549
Skopun	M1-M3	1.83	4-T	Mercedes and Deutz	Gas oil	1984	37		
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	39	50,777	84
Strond	T1	1.4	Francis hydro turbine	Sulzer Hydro	Wind	1998	23	75,487	3,609
Sund	M1	7.85	4-T 9M43C	Caterpillar/MaK	Heavy fuel oil	2001	20	79,439	2,644
Sund	M2	7.85	4-T 9M43C	Caterpillar/MaK	Heavy fuel oil	2004	17	73,754	2,354
Sund	M3A	2.4		MTU	Gas oil	2015	6	4,367	88
Sund	M3B	2.4		MTU	Gas oil	2015	6	4,253	86
Sund	M4	12.4	2-T 12 L55 GSCA	B&W Götaverken	Heavy fuel oil	1983	38	200,722	3,997
Sund	M5	12.4	2-T 12 L55 GSCA	B&W Götaverken	Heavy fuel oil	1988	33	178,170	5,140
Sund	M6	9.25	9L 51/60	MAN	Heavy fuel oil	2020	1	3,535	3,535
Sund	M7	9.25	9L 51/60	MAN	Heavy fuel oil	2020	1	4,738	4,738
Sund	M8	9.25	9L 51/60	MAN	Heavy fuel oil	2020	1	5,294	5,294
Sund	M9	9.25	9L 51/60	MAN	Heavy fuel oil	2020	1	5,545	5,545
Sund	B4-C2	8.8	KTA50G3	Cummins Diesel	Gas oil	2019	2	2,886	585
Vág	M1	2.7	4-T 9 M 453	Krupp Mak	Heavy fuel oil	1983	38	122,870	751
Vág	M2	2.7	4-T 9 M 453	Krupp Mak	Heavy fuel oil	1983	38	122,541	485
Vág	M3	4.2	4-T 9M32C	Caterpillar/MaK	Heavy fuel oil	2004	17	98,870	5,125
Vág	M4	4.0	4-T 9L32	Wartsila	Heavy fuel oil	2016	5	25,048	5,408
Sumba	G1	0.261	Solar panel	Solar Polaris	Solar	2019	2		
Strond	M4-M6	3.0	4- T C1250 D2R	Cummins Diesel	Gas oil	2014	7	9,428	517
Vestmanna	Fossá 1	2.1	Pelton hydro turbine	Maier	Hydro	1953	68	232,606	3,100
Vestmanna	Fossá 2	4.2	Francis hydro turbine	Voith	Hydro	1956	65	371,253	5,671
Vestmanna	Heygav. 1	4.9	Francis hydro turbine	Voith	Hydro	1963	58	247,487	4,224
Vestmanna	Mýruv. 1	2.4	Francis hydro turbine	Voith	Hydro	1961	60	401,116	6,839

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

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	2020	2019
Depreciation	92,284	69,170
Interest expense and similar expenses	18,434	16,476
Taxes	-376	150
Total	**110,343**	**85,796**

14. BOOK VALUE OF PRODUCTION PLANT

Amounts in 1,000 DKK	2020	2019
Production admin	2,283	0
Fossá	25,731	29,587
Heyga	18,131	19,972
Mýru	14,497	15,904
Eiði	439,337	458,998
Botnur	6,945	7,539
Vágur	127,259	129,940
Tvøroyri	220	220
Sund	864,843	189,629
Skopun	38	41
Strond	18,832	14,997
Wind farms	86,186	96,609
Smaller plant	162	172
Mobile generation sets	378	566
Fugloy	1,655	1,710
Svínoy	78	84
Mykines	882	719
Hestur	2,234	2,338
Koltur	297	311
Nólsoy	7	8
Skúvoy	555	666
Dímun	289	355
Total	**1,610,839**	**970,365**

www.sansir.fo

SEV
Landavegur 92
Postbox 319
FO-110 Tórshavn

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

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